Yardi Matrix

OC Rents Pick Up

October 2023

Rate Growth Outperforms US

Transactions, Deliveries Tepid

Occupancy Above 96.0%

⋈ Yardi Matrix

Tight Rental Market Boosts Rents

During the third quarter, Orange County's multifamily market displayed healthy fundamentals, with rent growth picking up and supply expanding steadily without significantly impacting the metro's occupancy. The average rent rose 0.7% on a trailing three-month basis, to $2,759, while the U.S. rate increased 0.2%, to $1,728. The occupancy rate stood at 96.6% as of July, following a 60-basis-point year-over-year decrease, earning it a spot among the five tightest major multifamily markets in the U.S.

Orange County unemployment stood at 3.6% in July, slightly behind the 3.5% U.S. figure and well ahead of the state (4.6%) and all other major California metros, except San Jose, which also clocked in at 3.6%. The market expanded 2.7% year-over-year as of June, having added 40,200 positions. Of all sectors, only financial activities lost jobs (500 positions). Education and health services (11,600 jobs) and leisure and hospitality (9,200 jobs) led gains. The former is poised for sustained expansion via massive projects underway, which will trigger regional growth, from housing to local schools.

Developers delivered 801 units in 2023 through August and had 10,287 units under construction. By the end of the year, Yardi Matrix expects another 2,264 units to come online. Meanwhile, investment activity remained tepid, with just $216 million in multifamily assets trading in 2023 through August. The price per unit dropped to $224,371, leading the $186,926 U.S. rate.

Market Analysis | October 2023

Contacts

Jeff Adler
Vice President & General
Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(303) 615-3676

Ron Brock, Jr.
Industry Principal, Matrix
JR.Brock@Yardi.com
(480) 663-1149 x2404

Doug Ressler
Media Contact
Doug.Ressler@Yardi.com
(480) 695-3365

Author

Anca Gagiuc
Senior Associate Editor

Recent Orange County Transactions

St. Moritz

City: Aliso Viejo, Calif.
Buyer: Prado Group
Purchase Price: $111 MM
Price per Unit: $163,951

Newport Palms

City: Costa Mesa, Calif.
Buyer: MIG Real Estate
Purchase Price: $61 MM
Price per Unit: $442,754

## RENT TRENDS

➤ Orange County rent growth picked up, rising 0.7% on a trailing three-month (T3) basis through August, while the U.S. average inched up just 0.2%. On a year-over-year basis, rates in the metro were up 1.6%, 10 basis points ahead of the national figure. The average asking rent in Orange County was $2,759, well above the $1,728 U.S. figure.

➤ Rent growth was equal across property segments, up 0.7% on a T3 basis through August in both asset classes. The average Renter-by-Necessity rate in the metro was $2,480, while Lifestyle figures rose to $3,133.

➤ Orange County posted one of the tightest multifamily rental markets in the U.S., at 96.6% in July, marking a 40-basis-point year-over-year decline.

The drop was higher in the RBN segment—60 basis points, to 96.9%—while Lifestyle rents slid just 14 basis points, to 96.3%.

➤ Of the 26 submarkets tracked by Yardi Matrix, rents declined in eight, with the largest drop in Mission Viejo-Lake Forest (-2.2% year-over-year to $2,741). Anaheim-West posted the best rent performance, rising 6.4%, to $2,257. The most expensive submarket—Newport Beach—saw rents inch up 0.1%, to $3,559. The next submarkets by value of the average rent were the eight that saw rent contractions.

➤ The single-family rental segment remained steady, with rents rising 2.4% year-over-year through August, and occupancy dropping 190 basis points year-over-year through July.

Orange County vs. National Rent Growth (Trailing 3 Months)
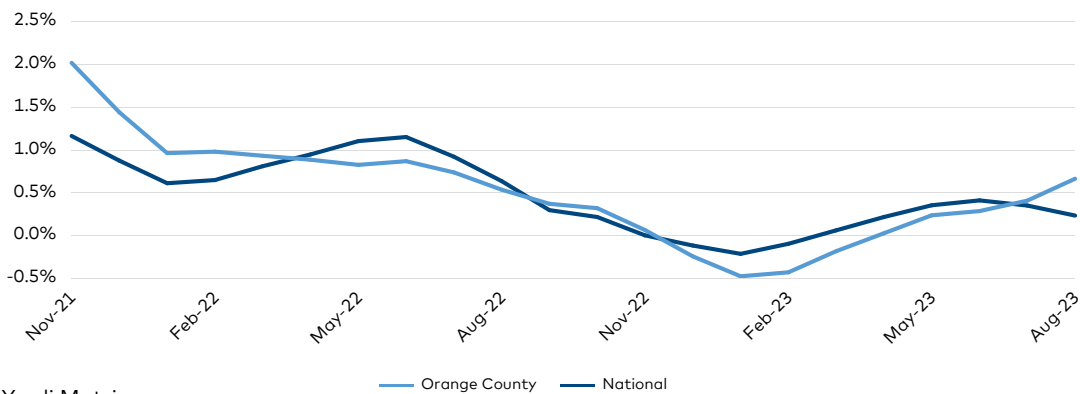
Source: Yardi Matrix

Orange County Rent Growth by Asset Class (Trailing 3 Months)
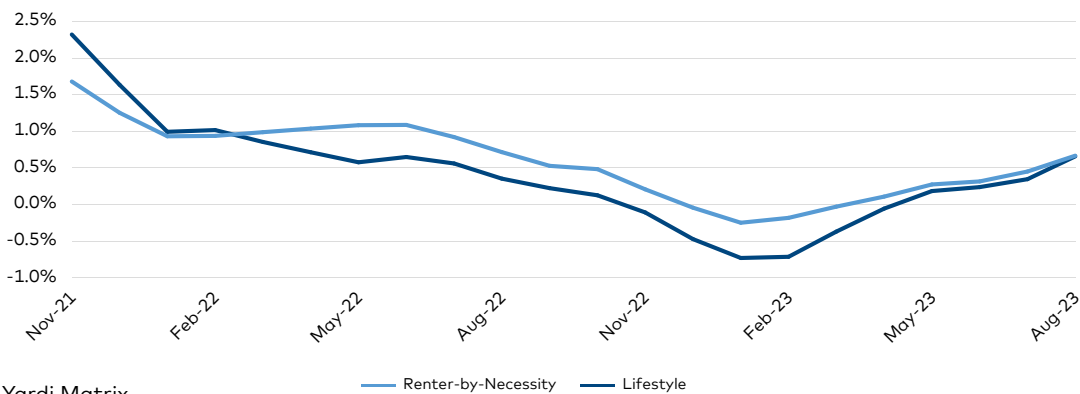
Source: Yardi Matrix

ECONOMIC SNAPSHOT

➤ Orange County unemployment stood at 3.6% in July, a 10-basis-point improvement from June and 20 basis points higher than in January, according to Bureau of Labor Statistics data. The rate placed it on par with San Jose and just behind the U.S. (3.8%), leading the state (4.6%), and all other major California metros—Los Angeles (5.0%), San Diego (3.9%) and San Francisco (3.9%).

➤ The employment market softened steadily to a 2.7% expansion in the 12 months ending in June, the equivalent of 40,200 new jobs. The rate also marked the eighth consecutive month where performance was on par with the U.S. average. Of all sectors, just financial activities lost jobs, down 500 positions. Education and

health services (11,600 jobs) and leisure and hospitality (9,200 jobs) led gains.

➤ Education and health services has good prospects for continued growth, as several health care brands have facilities under construction in Irvine, including UC Irvine, a $1.3 billion complex with 144 beds, expected to add 2,500 professional positions; Hoag Hospital Irvine, a $1 billion expansion of the existing facility; and City of Hope, a $1 billion cancer hospital. Providence also announced a $712 million investment in two new multispecialty medical centers in San Clemente and Rancho Mission Viejo. These projects will not only create high-paying jobs but will also initiate long-term regional boosts, including housing.

Orange County Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
65	Education and Health Services	258	15.1%
70	Leisure and Hospitality	231	13.5%
40	Trade, Transportation and Utilities	260	15.2%
15	Mining, Logging and Construction	111	6.5%
60	Professional and Business Services	337	19.7%
30	Manufacturing	158	9.2%
90	Government	165	9.6%
80	Other Services	55	3.2%
50	Information	26	1.5%
55	Financial Activities	113	6.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

➤ Orange County lost 16,292 residents in 2021, down 0.5%, while the U.S. population inched up 0.1%. This marks the second demographic contraction since the 2010 Census. Overall, the metro's population expanded 5.0% during the period, trailing the 7.3% national figure.

Orange County vs. National Population

|	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Orange County	3,175,579	3,170,851	3,184,101	3,167,809

Source: U.S. Census

➤ Developers delivered 801 units in three properties in 2023 through August, 0.4% of existing stock and about a third of the 1.2% national rate. Nearly 61% of the recent deliveries were units in fully affordable communities, a composition rarely seen during the past decade, when developers focused their efforts on expanding the Lifestyle segment.

➤ The construction pipeline encompassed 10,287 units under construction and another 31,531 in the planning and permitting stages. The bulk of the volume underway, 73.8%, comprised units in the upscale Lifestyle segment. Just 15% were units in fully affordable communities.

➤ Construction starts in 2023 through August amounted to 1,329 units across eight properties, fewer than the 2,606 units that broke ground during the same period last year. However, Yardi Matrix forecasts total supply expansion for all of 2023 will be 3,065 units, which would place this year among the top five best years for deliveries of the past decade.

➤ Development was uneven across the board, with 15 of the 26 submarkets tracked by Yardi Matrix having at least 50 units underway. Construction activity was highest in Santa Ana, where 2,168 units were underway, followed closely by South Orange County, with 1,931 units. Another two submarkets had more than 1,000 units under construction—South Irvine (1,475 units) and Tustin (1,100 units).

➤ The largest project delivered in 2023 through August was Garden Brook Senior Village, a 394-unit, age-restricted, fully affordable community owned by The Pacific Cos. and AMG. The property includes 13,000 square feet of retail space.

Orange County Completions (as of August 2023).
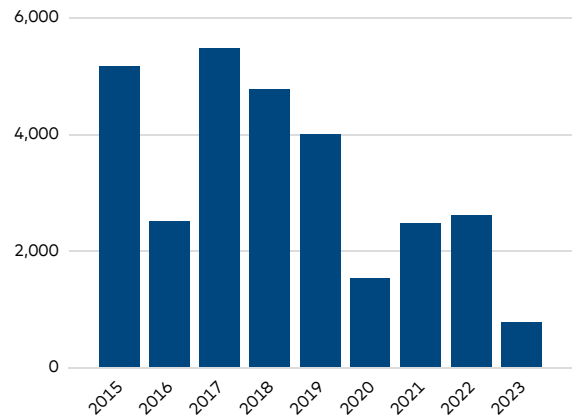
Source: Yardi Matrix

Orange County vs. National Completions as a Percentage of Total Stock (as of August 2023)


Orange County   National
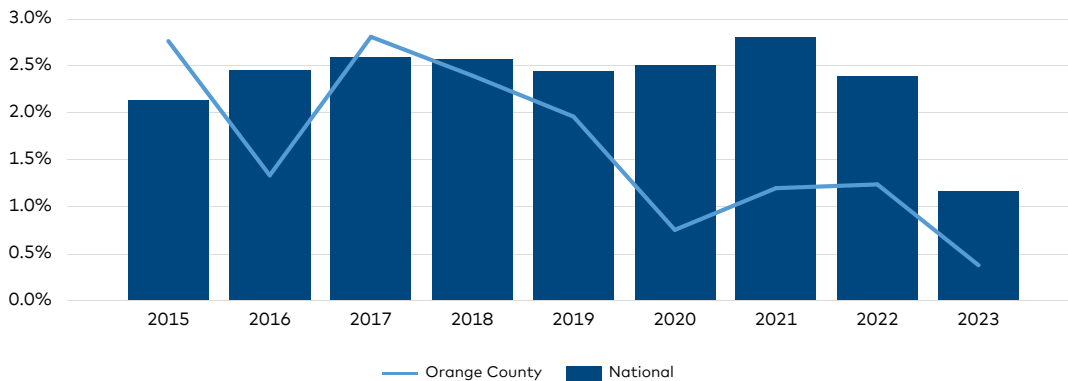
Source: Yardi Matrix

➤ Orange County multifamily investment amounted to just $216 million in 2023 through August, heavily affected by the elevated cost of capital. Although interest-rate hikes started in the second quarter of 2022, investor confidence in Orange County rentals remained solid, with last year's multifamily transaction volume at $1.5 billion, the second-highest volume of the past decade.

➤ Even though four of the six transactions were Lifestyle assets, the price per-unit marked a steep 48% drop from December 2022, to $224,371 in August. Meanwhile, the U.S. average per-unit price declined to $186,926.

➤ The largest transaction recorded through August was the sale of St. Moritz, a 675-unit asset in South Orange County. Prado Group acquired it from Wilsey Properties for $111 million, or $163,951 per unit, in a sale that was a double escrow. Wilsey Properties took out an $83 million loan originated by JPMorgan Chase.

Orange County Sales Volume and Number of Properties Sold (as of August 2023)
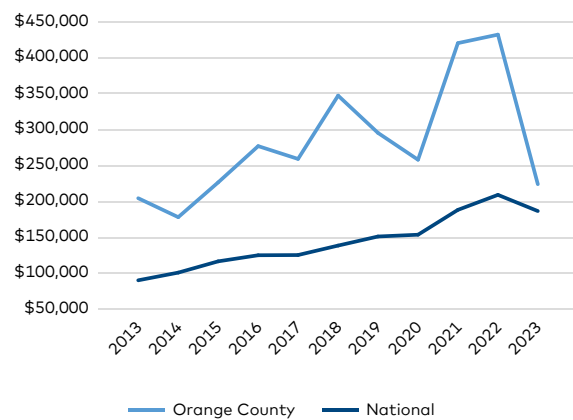

Source: Yardi Matrix

Number of Properties — Volume in Millions
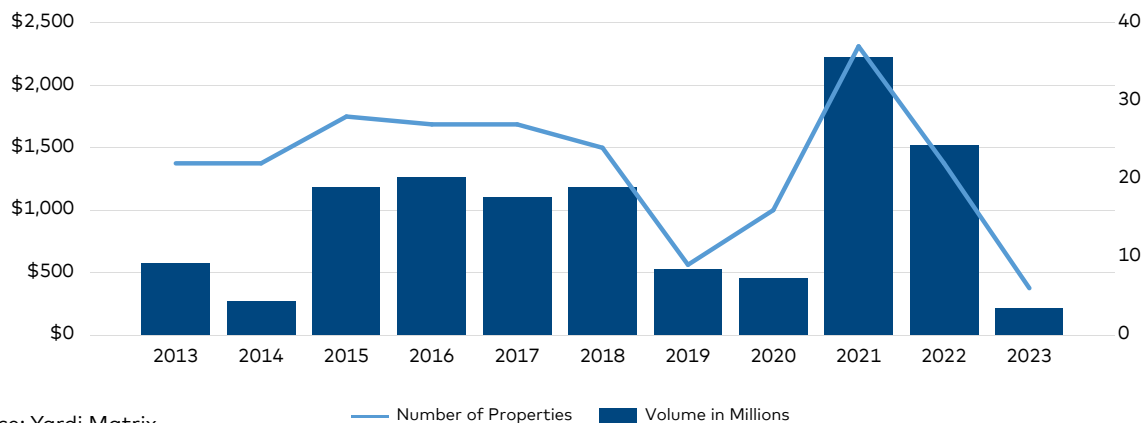
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
West Irvine	190
South Orange County	111
Costa Mesa	61
Garden Grove	45
Orange	42
Brea	27
Huntington Beach	25

Source: Yardi Matrix
[1] From September 2022 to August 2023

Orange County vs. National Sales Price per Unit

Orange County — National

Source: Yardi Matrix
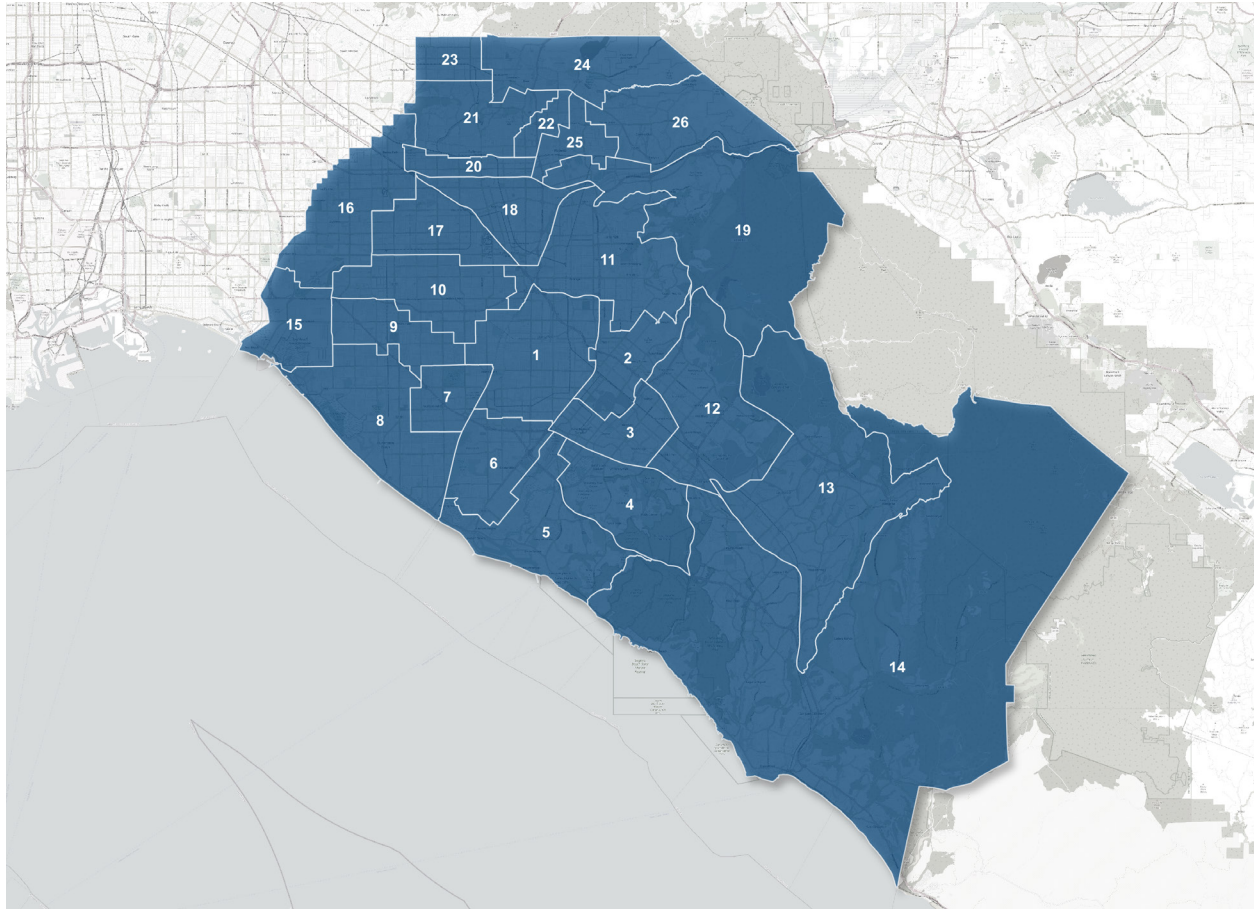
Area No.	Submarket
1	Santa Ana
2	Tustin
3	Central Irvine
4	South Irvine
5	Newport Beach
6	Costa Mesa
7	Fountain Valley
8	Huntington Beach
9	Westminster
10	Garden Grove
11	Orange
12	West Irvine
13	Mission Viejo–Lake Forest

Area No.	Submarket
14	South Orange County
15	Seal Beach
16	Buena Park–Cypress
17	Anaheim–West
18	Anaheim–Central
19	Anaheim Hills
20	Fullerton–South
21	Fullerton–North
22	Fullerton–University
23	La Habra
24	Brea
25	Placentia
26	Yorba Linda

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

➤ *A young-professional*, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;

➤ *Students,* who also span a range of income capability, extending from affluent to barely getting by;

➤ *Lower-middle-income ("gray-collar") households,* composed of office workers, policemen, firemen, technical workers, teachers, etc.;

➤ *Blue-collar households,* which barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;

➤ *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, extend to middle-income households in some high-cost markets, such as New York City;

➤ *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.
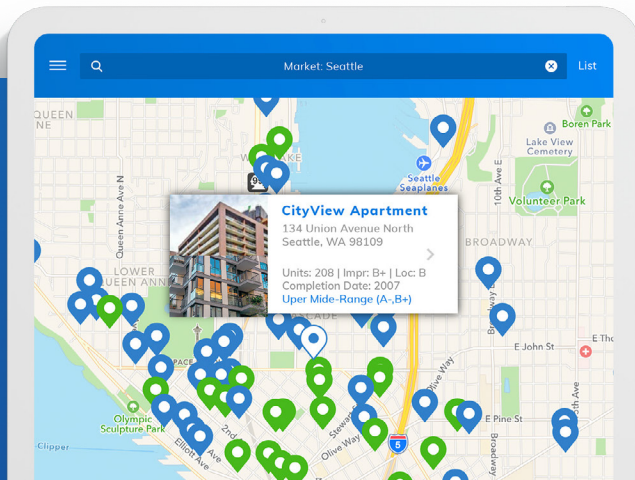
Yardi® Matrix

Power your business with the industry's leading data provider

MULTIFAMILY KEY FEATURES

- Pierce the LLC every time with true ownership and contact details
- Leverage improvement and location ratings, unit mix, occupancy and manager info

- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps

Yardi Matrix Multifamily provides accurate data on **19.7+ million units,** covering over **92% of the U.S. population.**

YARDI

(800) 866-1144
Learn more at yardimatrix.com/**multifamily**

Contact us