



Yardi® Matrix

# Orange County: A Tale of Contrast

Multifamily Report Summer 2018

**RBN-Lifestyle Rent Growth Gap Widens**

**High Cost of Owning Boosts Rental Demand**

**Developers Target Most Expensive Submarkets**

## Market Analysis

Summer 2018

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## New Supply Matches Lifestyle Demand

Household formation, along with job and population gains, underpin multifamily demand in Orange County, where expensive single-family homes remain unattainable for many working families.

Education and health services (9,000 jobs) led job growth in the 12 months ending in May, followed by professional and business services (8,900) and leisure and hospitality (3,000). A strong economic engine has brought the county near full employment, but the high cost of housing is burdening middle-class workers, some of whom choose to commute. Not surprisingly, the only group expected to grow as a percentage of the county's population over the next 20 years consists of residents age 65 and over.

Last year's supply reached a cycle peak, with more than 5,400 apartments delivered. Another 2,400 were delivered this year through July, moderating rent growth, especially for the Lifestyle asset class, where the bulk of new construction falls. New supply has put pressure on occupancy, which nevertheless remains above its historical average. Developers are focusing on expensive submarkets, including West Irvine and Anaheim-Central, while transaction activity is slowing in the context of rising property values. As the RBN-Lifestyle rent growth spread is likely to persist, we expect the metro's average rent increase to remain at 1.7% for the whole of 2018.

## Recent Orange County Transactions

Surf at 39



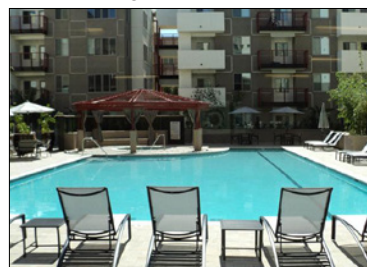
City: Huntington Beach, Calif.  
Buyer: Interstate Equities Corp.  
Purchase Price: \$134 MM  
Price per Unit: \$335,000

Stadium House



City: Anaheim, Calif.  
Buyer: Advanced Real Estate  
Purchase Price: \$112 MM  
Price per Unit: \$444,622

The Crossing



City: Anaheim, Calif.  
Buyer: RedHill Realty Investments  
Purchase Price: \$106 MM  
Price per Unit: \$339,744

Pacific Shores

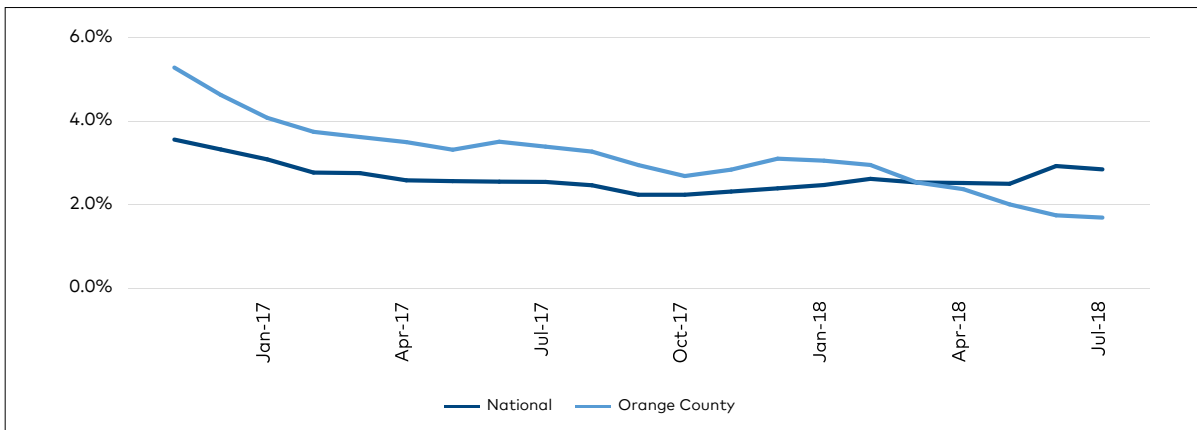


City: Huntington Beach, Calif.  
Buyer: TruAmerica Multifamily  
Purchase Price: \$91 MM  
Price per Unit: \$344,106

## Rent Trends

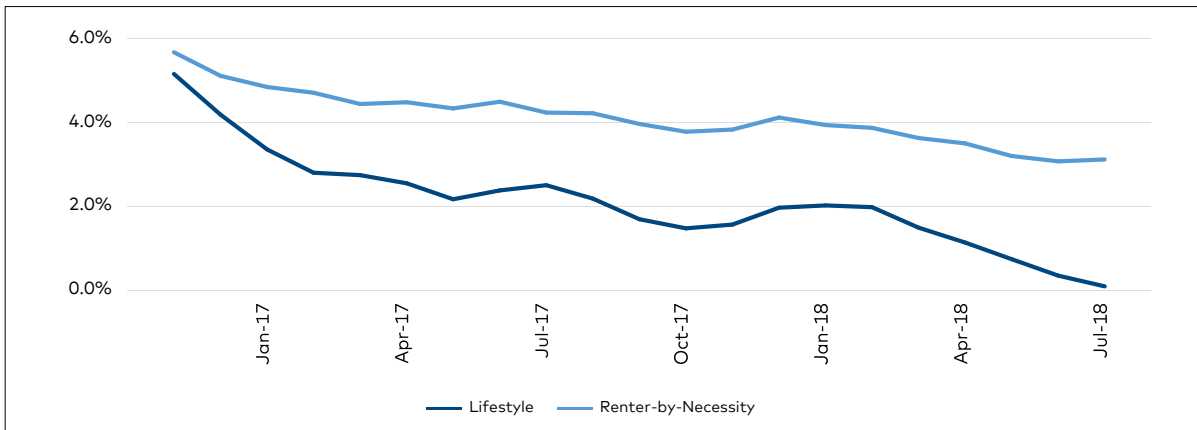
- Rents in Orange County rose 1.7% year-over-year through July, trailing the 2.8% U.S. rate. The metro's average rent stood at \$2,046, well above the \$1,409 national figure. Following a construction surge in 2017, which continued during the first half of 2018, occupancy in stabilized properties dropped by nearly 90 basis points year-over-year, to 95.7% as of June, but remained above its historical average.
- Rents in the working-class Renter-by-Necessity segment rose 3.1% to \$1,850, while Lifestyle rates increased by only 0.1%, to \$2,335. As the metro's rental demand remains strong in the context of a high barrier to homeownership, last year's generous supply of more than 5,400 apartments, followed by another 2,400 deliveries this year through July, moderated rent growth, especially for the higher end of the spectrum, where the bulk of new construction falls. As most of the units scheduled to come online this year are luxury, we expect the RBN-Lifestyle rent growth spread to advance, maintaining the metro's average rent increase at 1.7% for the whole of 2018.
- The list of submarkets leading growth included Fountain Valley (5.2%), Santa Ana (4.5%), Placentia (4.4%) and Newport Beach (3.8%), the latter also commanding the highest rate (\$2,735). Rates remained flat in West Irvine—which saw the largest number of completions as of February—and decreased in Yorba Linda (-0.2%), Anaheim Hills (-0.8%) and North Irvine (-1.6%).

### Orange County vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: YardiMatrix

### Orange County Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)

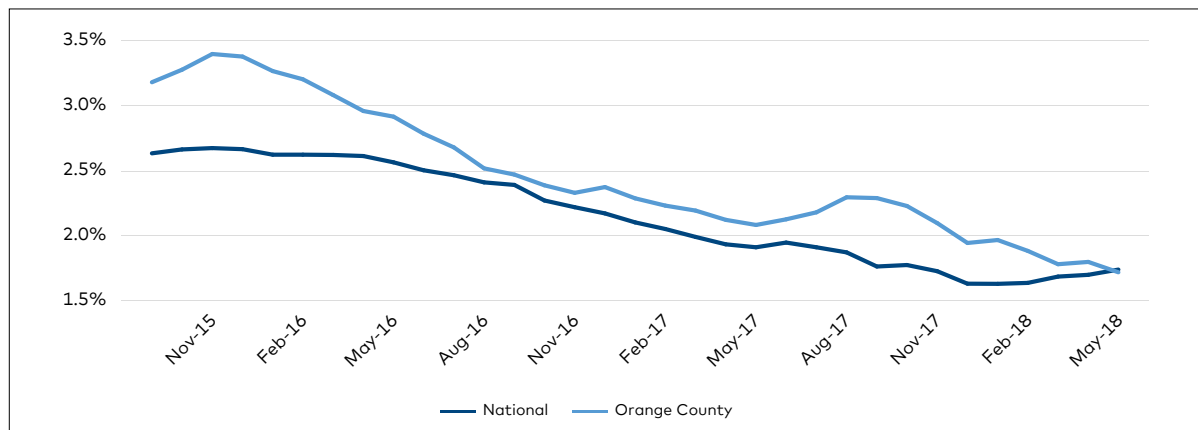


Source: YardiMatrix

## Economic Snapshot

- Orange County gained 17,300 jobs through May, a 1.7% year-over-year increase on par with the national growth rate. The slight deceleration of the past three years can be, at least in part, attributed to a plummeting unemployment rate, at 2.6% as of May, a nearly two-decade low.
- Growth was led by education and health services, which added 9,000 jobs. As per Orange County Community Indicators 2017, STEM education grew substantially in recent years, driven by an increase in courses related to information technology. Meanwhile, a growing senior demographic is supporting the expansion of health care. Professional and business services gained 8,900 jobs, followed by leisure and hospitality, which added 3,000 positions. Tourism employment is set to get a boost, with nine hotels totaling 2,400 keys underway as of July, the largest being the Westin Anaheim Resort. In the first half of 2018, three hotels came online: The 164-key Hampton Inn & Suites in Irvine, the 151-key Waterfront Hilton Beach Resort in Huntington Beach and the 130-key Lido House in Newport Beach.
- As office rent growth is escalating, 10 projects comprising 1.3 million square feet are set to come online this year, while another seven assets totaling 1 million square feet are scheduled for delivery in 2019. KBS Realty Advisors' \$147.3 million acquisition of City Tower, a 431,000-square-foot Class A building at 333 City Blvd. W., ranked as the metro's largest office deal in the first half of 2018.

### Orange County vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

### Orange County Employment Growth by Sector (Year-Over-Year)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
65	Education and Health Services	225	13.8%	9,000	4.2%
60	Professional and Business Services	307	18.8%	8,900	3.0%
70	Leisure and Hospitality	222	13.6%	3,000	1.4%
15	Mining, Logging and Construction	104	6.4%	2,100	2.1%
90	Government	166	10.2%	400	0.2%
50	Information	27	1.7%	100	0.4%
80	Other Services	50	3.1%	-800	-1.6%
40	Trade, Transportation and Utilities	260	15.9%	-1,100	-0.4%
55	Financial Activities	118	7.2%	-1,200	-1.0%
30	Manufacturing	156	9.5%	-3,100	-2.0%

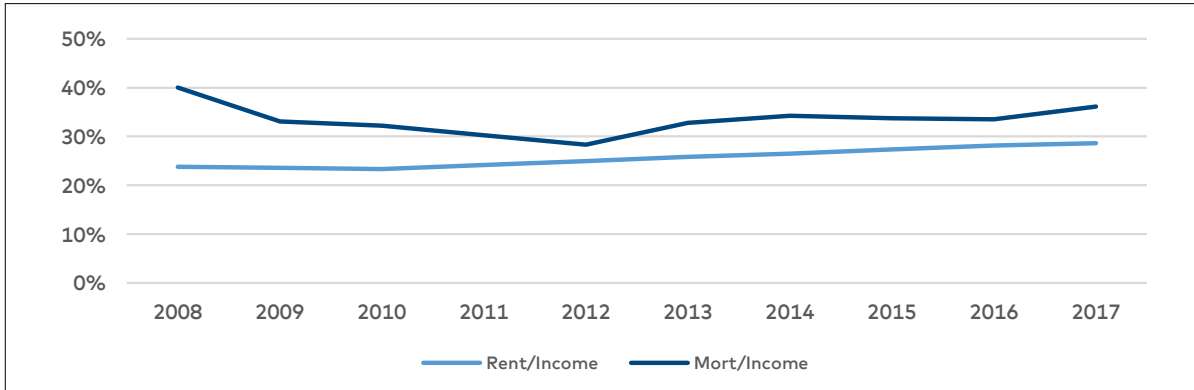
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

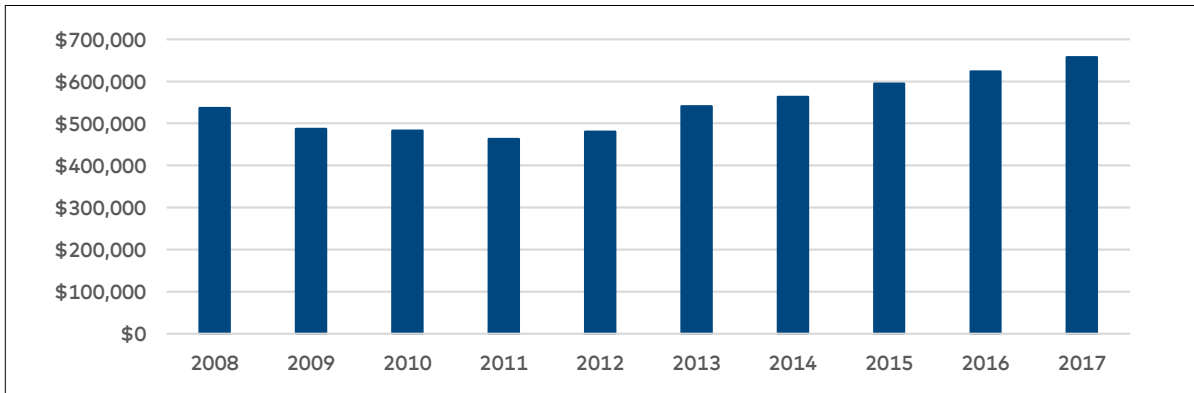
- The median home price in Orange County rose to \$657,738 in 2017, a new cycle high, but remained below the \$700,000 historic peak recorded in 2007. The average mortgage payment accounted for 36% of the area median income, while the average rent comprised 29%.
- The skyrocketing cost of housing is driving up the area's income limits. The most recent HUD data shows that a family of four with an annual income of \$84,450 or less qualifies as low income in Orange County. Not surprisingly, working families are fleeing, and the only group expected to grow as a percentage of the county's population over the next 20 years consists of residents age 65 and over.

### Orange County Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

### Orange County Median Home Price



Source: Moody's Analytics

### Population

- Orange County gained nearly 12,700 residents in 2017, a 0.4% increase, trailing the 0.7% national rate.
- The metro added 76,751 residents between 2013 and 2017 for a 2.5% expansion, 0.5% below the U.S. average.

### Orange County vs. National Population

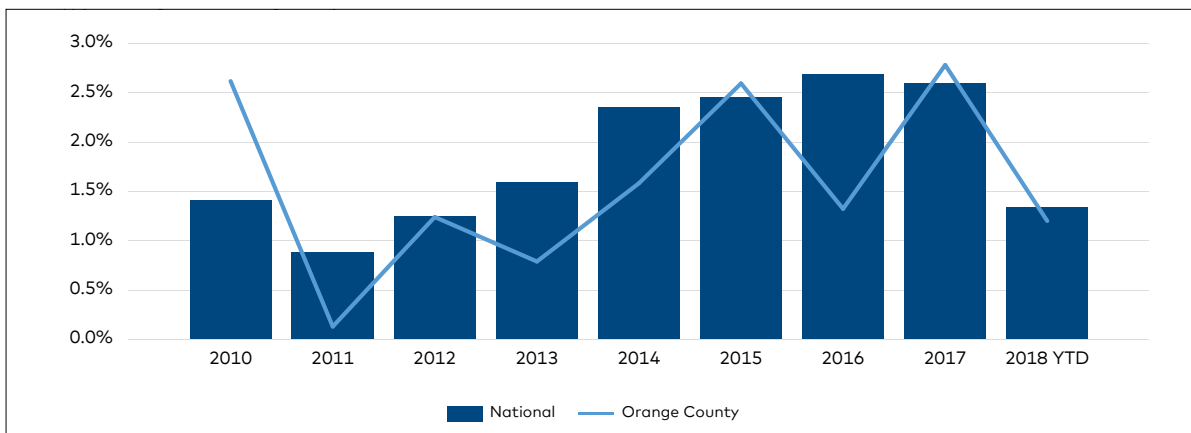
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Orange County Metro	3,113,649	3,136,750	3,160,576	3,177,703	3,190,400

Sources: U.S. Census, Moody's Analytics

## Supply

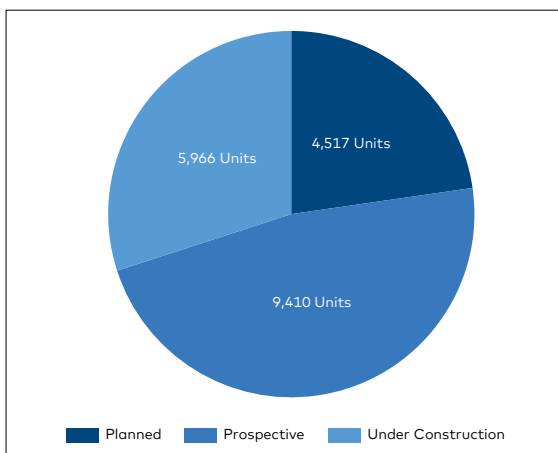
- Twelve multifamily properties totaling 2,391 units came online this year through July, in addition to the 5,480 apartments delivered in 2017, marking a cycle peak. Some 3,600 units are scheduled for completion for the whole of 2018, most catering to Lifestyle renters.
- Nearly 6,000 units were underway as of July, while another 14,000 were in the planning and permitting stages. As the area's cost of housing remains high, many employees choose to live outside the county and commute. As of July, a quarter of the 21 properties under construction had an affordable component—adding up to roughly 300 affordable units—with another three fully affordable communities slated to bring an additional 165 units to the market. In May, the California Housing Partnership Corp., a statewide advocacy group, estimated that the county would need an extra 92,000 affordable rental units to meet demand.
- Some of the metro's most expensive submarkets are seeing intense construction activity, including West Irvine with 1,295 units underway as of July, followed by Anaheim–Central (1,267 units), South Irvine (884 units), Santa Ana (546 units) and Huntington Beach (510 units).

**Orange County vs. National Completions as a Percentage of Total Stock** (as of July 2018)



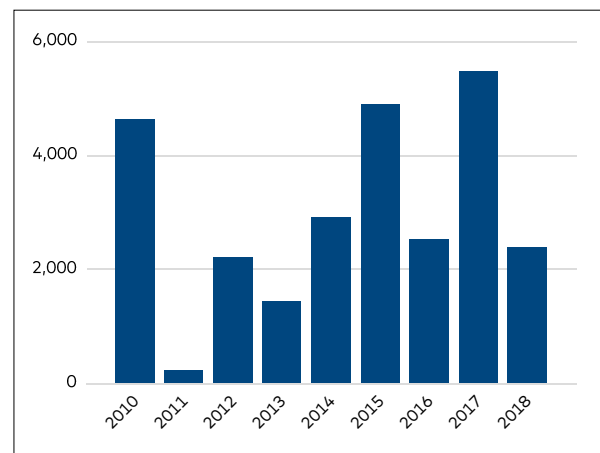
Source: YardiMatrix

**Development Pipeline** (as of July 2018)



Source: YardiMatrix

**Orange County Completions** (as of July 2018)

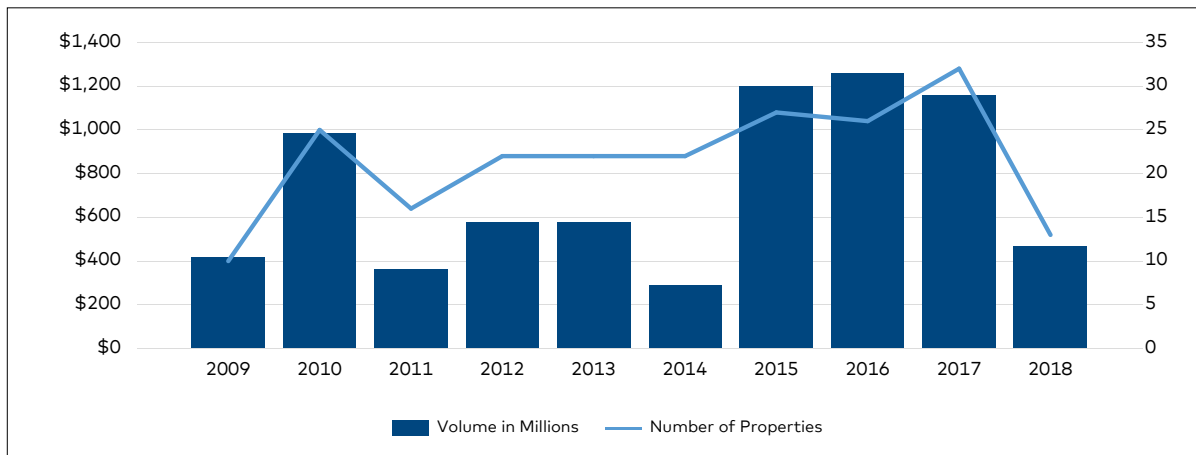


Source: YardiMatrix

## Transactions

- Thirteen assets worth a combined \$470 million traded this year through July—10 were Renter-by-Necessity and sold at an average price per unit of \$316,492. In 2017, nearly \$1.2 billion in properties changed hands at an average per-unit price of \$259,705, well above the \$139,541 national figure.
- Investors mostly targeted assets with a value-add component in Anaheim and Santa Ana, with acquisition yields ranging between 6% and 7.2% for Class B, and going as high as 7.7% for Class C.
- Interstate Equities Corp. paid \$134 million, or \$335,000 per unit, to buy the 400-unit Surf at 39 in Huntington Beach in December 2017, marking the metro’s largest multifamily deal of the 12 months ending in June, followed by Advanced Real Estate Services’ more recent purchase of Stadium House, a 251-unit mixed-use property in Anaheim–Central, for \$112 million, or \$444,622 per unit.

**Orange County Sales Volume and Number of Properties Sold** (as of July 2018)



Source: YardiMatrix

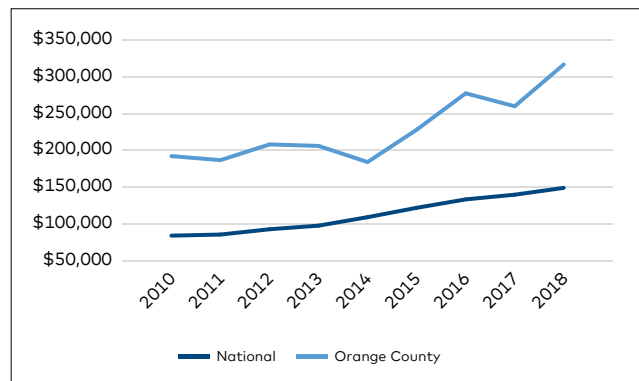
**Top Submarkets for Transaction Volume<sup>1</sup>**

Submarket	Volume (\$MM)
Huntington Beach	276
Anaheim–Central	171
Anaheim Hills	106
Mission Viejo–Lake Forest	98
Anaheim–West	84
Costa Mesa	61
Santa Ana	46
Newport Beach	42

Source: YardiMatrix

<sup>1</sup> From July 2017 to June 2018

**Orange County vs. National Sales Price per Unit**



Source: YardiMatrix

## News in The Metro

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### OC Community Trades In 1031 Exchange

An Avison Young team brokered the sale of Sundance West Apartment Homes. The buyer assumed an existing loan with Chase Bank.



### NorthMarq Arranges Refi for OC Property

The Sares-Regis-owned Aliso Creek Apartments in Aliso Viejo includes 535 units, three spas, 866 parking spaces and a cyber cafe.



### Orange County Asset Sells for \$28M

Marcus & Millichap arranged the sale on behalf of Stellko Properties, a 1031 exchange buyer. A \$14.7 million acquisition loan financed the deal.



### CBRE Brokers Sale of 2 CA Properties

The properties are in the Inland Empire and Orange County. Local investors acquired the assets in separate transactions for a total of \$10.8 million.



### OC Value-Add Community Changes Hands

Sleepy Hollow Apartments is a 25-unit infill property in Anaheim Hills, Calif. The Bascom Group purchased the asset for \$7.5 million.



### OC Development Opens Its Doors

Kam Sang Co. funded the 180-unit first phase of Brookhurst Place in Garden Grove, Calif., with a nearly \$38 million construction loan.

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# Top 10 Multifamily Completions in Orange County



By Roxana Baiceanu

data by  
**Yardi Matrix**

After hitting a cycle peak this year with more than 5,400 delivered units, supply in the area’s multifamily sector is expected to temper. Rental stock should gain some 2,400 units by year-end.

While Orange County is recognized for its strong economy—with unemployment having reached its lowest point of the cycle this spring—it is also well known for its skyrocketing prices for single-family homes. As they remain almost unattainable for middle-class working families, demographic increases have been putting pressure on the multifamily sector.

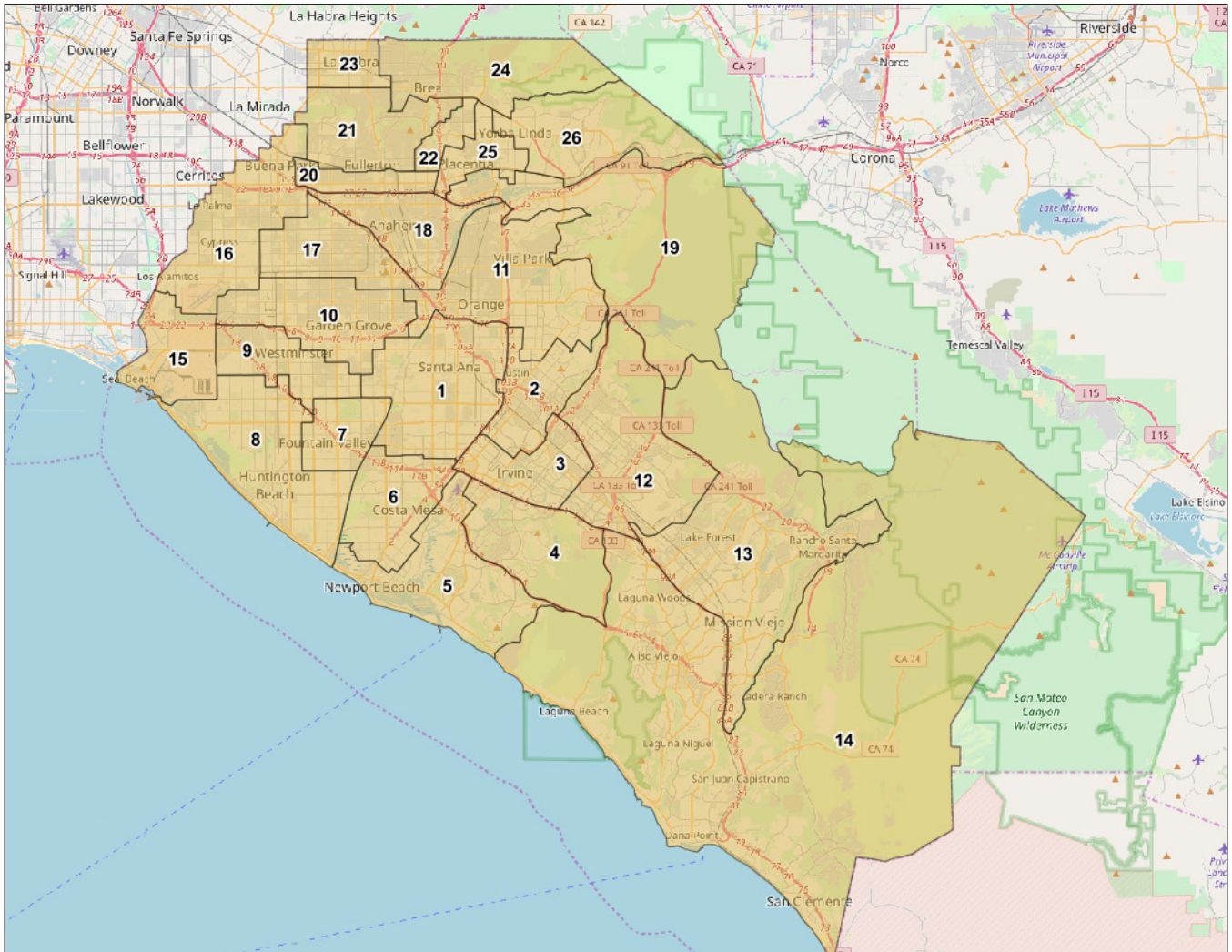
Rank	Property Name	City	Owner	Unit Count	Submarket
1	Westviews	Irvine	Irvine Co.	583	North Irvine
2	Vantis	Aliso Viejo	Shea Properties	435	South Orange County
3	Jefferson Platinum Triangle	Anaheim	TDI Real Estate	400	Anaheim–Central
4	Parallel	Anaheim	The Wolff Co.	386	Anaheim–Central
5	Rize Irvine	Irvine	Fairfield Residential	363	West Irvine
6	Broadstone Cavora	Laguna Niguel	Alliance Residential Co.	348	South Orange County
7	The George	Anaheim	Lyon Capital Ventures	340	Anaheim–Central
8	Valentia	La Habra	Fairfield Residential	335	La Habra
9	Anton Portola	Irvine	St. Anton and Hurley	256	North Irvine
10	Baker Block	Costa Mesa	Red Oak Investments	240	Costa Mesa

## WESTVIEW

The largest property completed during the last four quarters is the 583-unit Westview. The Class A community is located at 21100 Spectrum in Irvine and is part of Irvine Co.’s portfolio. Its unit mix comprises one- and two-bedroom apartments ranging from 700 to 1,300 square feet. Adjacent to the San Diego Creek Trail, Westview provides residents with access to both outdoor activities and amenities including saltwater pools, lounge areas, a clubroom with demonstration kitchen, a fitness center, collaborative workspaces and a dog park. At the end of last year, Westview received a \$172.2 million Fannie Mae loan.



## Orange County Submarkets



Area #	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 #	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

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## Definitions

**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 may 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 may 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, may 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.

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