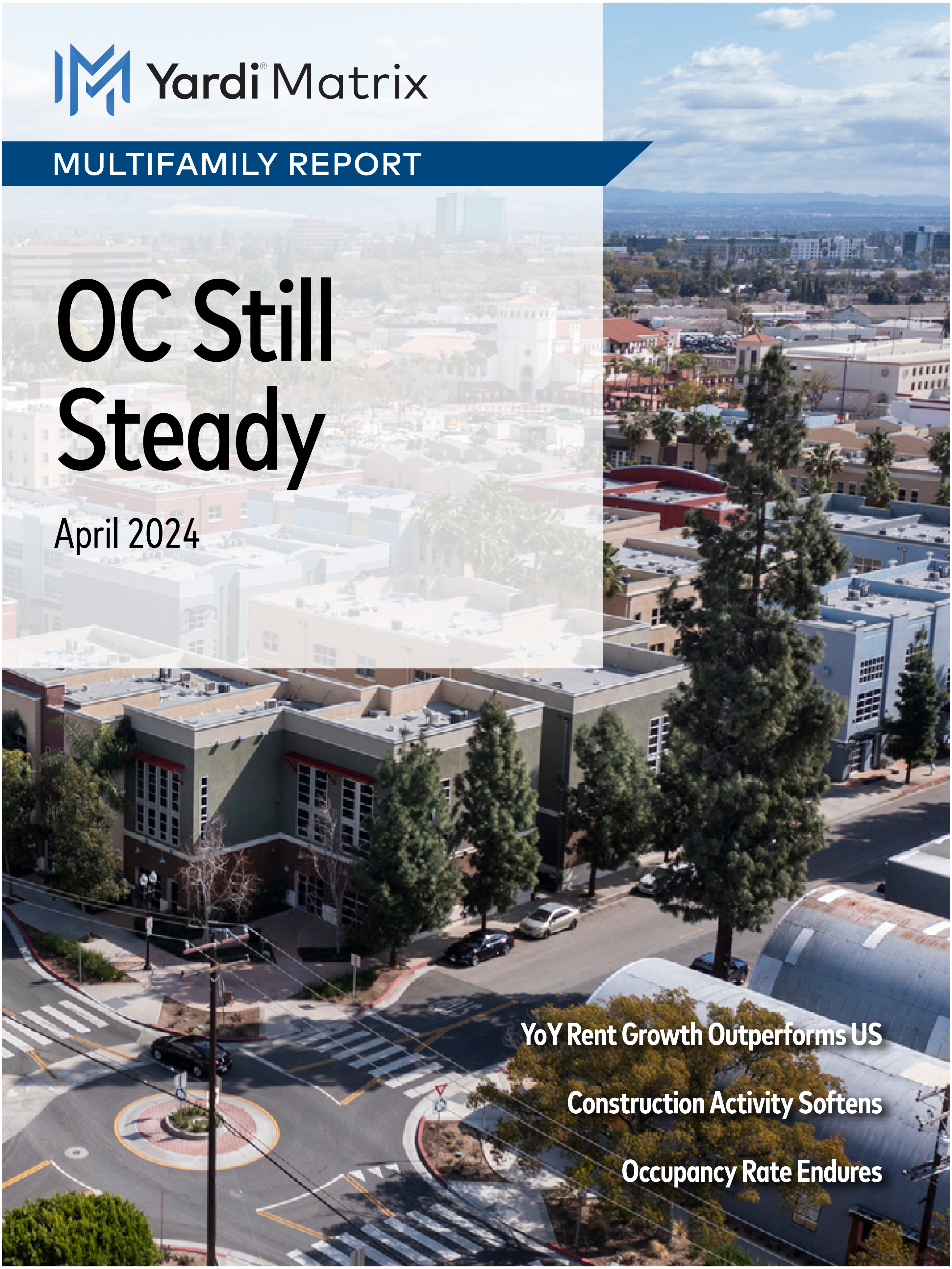
Yardi Matrix

MULTIFAMILY REPORT

OC Still Steady

April 2024



YoY Rent Growth Outperforms US

Construction Activity Softens

Occupancy Rate Endures

Yardi Matrix

Rents, Occupancy Show Positive Signs

Orange County multifamily fundamentals remained healthy thanks to steady demand, even as Southern California's affordability problems persist. And while short-term rent movement turned negative at the start of 2024, down 0.2% on a trailing three-month basis through February, it remained positive year-over-year, up 2.2% to $2,750. Meanwhile, the U.S. rate declined 0.1% on a T3 basis through February, to $1,713. Occupancy remained flat in the 12 months ending in February, at 96.5%, placing the metro among the tightest and most stable rental U.S. markets.

Last year, Orange County employment expanded 2.3%, or 36,300 net jobs, ahead of the 2.0% U.S. rate. Meanwhile, unemployment rose to 4.2% in January, surpassing the 4.0% mark for the first time since January 2022, according to data from the Bureau of Labor Statistics. While it trailed the 3.7% U.S. rate, it outperformed the state (5.2%) and all other major California areas. Three sectors lost 5,800 jobs combined last year—financial activities, manufacturing and information—while gains were led by leisure and hospitality (10,800 jobs) and education and health services (10,200 jobs).

Deliveries through February amounted to 309 units, with another 6,849 units underway. However, construction starts are decelerating. Meanwhile, sales totaled $241 million through February, for a price per unit that rose 14% over last year, to $369,632.

Market Analysis | April 2024

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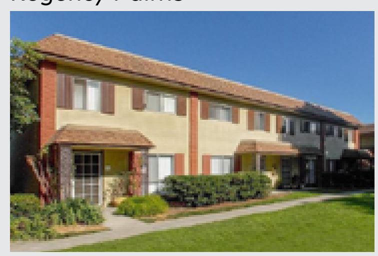
Recent Orange County Transactions

The Grand Costa Mesa

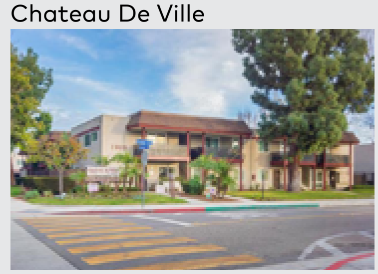
City: Costa Mesa, Calif.
Buyer: Advanced Real Estate Services
Purchase Price: $232 MM
Price per Unit: $324,930

Regency Palms



City: Huntington Beach, Calif.
Buyer: A & M Properties
Purchase Price: $127 MM
Price per Unit: $409,677

Chateau De Ville



City: Anaheim, Calif.
Buyer: Palos Verdes Investments
Purchase Price: $79 MM
Price per Unit: $311,024

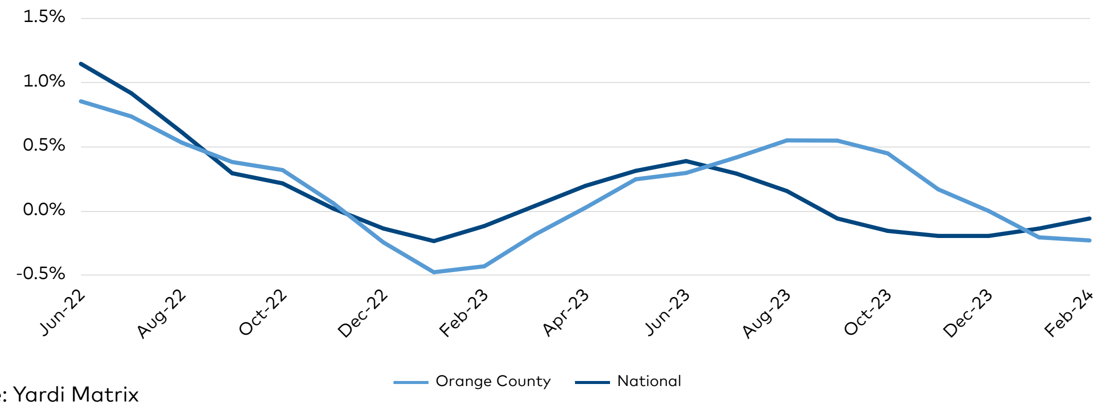
Eden on Lincoln

City: Buena Park, Calif.
Buyer: Cordia Capital Management
Purchase Price: $35 MM
Price per Unit: $397,727

RENT TRENDS

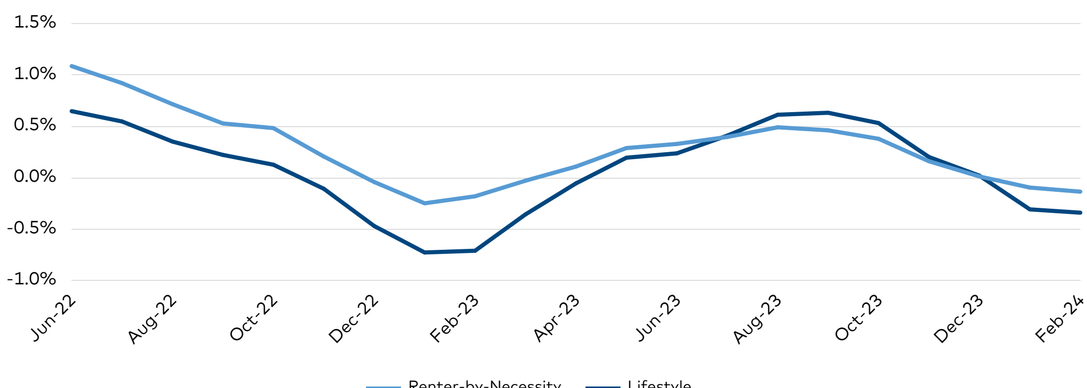
- The average asking rent in Orange County decreased 0.2% on a trailing three-month (T3) basis through February, to $2,750, 10 basis points lower than the U.S. rate. While rent movement marked the second straight month of T3 contractions, rates appreciated 2.2% year-over-year, outperforming the U.S. rate. The national rate advanced just 0.6%, to $1,713.
- Rent contractions were steeper in the Lifestyle segment, down 0.3% on a T3 basis through February, to $3,124. However, last year between August and October, growth in the segment outperformed working-class figures. Meanwhile, Renter-by-Necessity rates slid 0.1% on a T3 basis through February, to $2,470.
- The occupancy rate in stabilized properties remained flat in the 12 months ending in February, at a tight 96.5%, reflecting strong demand. The pressure was slightly higher in the RBN segment, with occupancy at 96.9%. Lifestyle occupancy also came in high, at 96.1%.
- The top five most expensive submarkets in Orange County had rents above the $3,000 mark, with all of them also recording yearly rises. Newport Beach (5.7% to $3,627) topped the list, followed by South Irvine (3.4% to $3,237) and West Irvine (3.0% to $3,132). No submarket had average rents below $2,000.
- The SFR segment surpassed multifamily performance in Orange County. Rents rose 9.6% year-over-year through February, and occupancy improved 130 basis points, to 97.5%.

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 rose to 4.2% in January, the first time in 24 months that the rate surpassed 4.0%. It trailed the U.S. (3.7%) but outperformed the state (5.2%). In addition, Orange County led all major California metros: Los Angeles (5.5%), Sacramento (5.2%), San Diego (4.7%), San Francisco (4.5%) and San Jose (4.4%).

- Last year, the metro's employment market expanded 2.3%, or 36,300 jobs, maintaining a 30-basis-point advantage over the U.S. rate. In 2023, three sectors lost jobs: financial activities (-2,600 jobs), manufacturing (-2,500 jobs) and information (-700 jobs).

- Leisure and hospitality (10,800 jobs) and education and health services (10,200 jobs) led job gains. Both sectors are poised for further expansion. The former should benefit from an expansion plan of DisneylandForward, recently approved by the local planning commission. With limited details available, the project reportedly entails a minimum investment of $1.9 billion over the next decade. This is expected to encompass the development of the theme park, along with lodging, entertainment, shopping and dining facilities. The approval includes the relaxing of zoning rules to give Disney flexibility to construct new rides, hotels and stores. Meanwhile, construction advanced at UCI Health's $1.3 billion medical complex in Irvine, with one facility scheduled for completion in 2024 and another three in 2025.

Orange County Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	235	13.5%
65	Education and Health Services	268	15.4%
60	Professional and Business Services	343	19.7%
40	Trade, Transportation and Utilities	273	15.7%
15	Mining, Logging and Construction	112	6.4%
90	Government	166	9.5%
80	Other Services	55	3.2%
50	Information	25	1.4%
30	Manufacturing	155	8.9%
55	Financial Activities	112	6.4%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Orange County lost 7,696 residents in 2022, for a 0.2% downtick. This marked the county's first population drop since 2010.

- However, the county gained more than 200,000 people between 2010 and 2022, for a 7.1% demographic growth rate.

Orange County vs. National Population

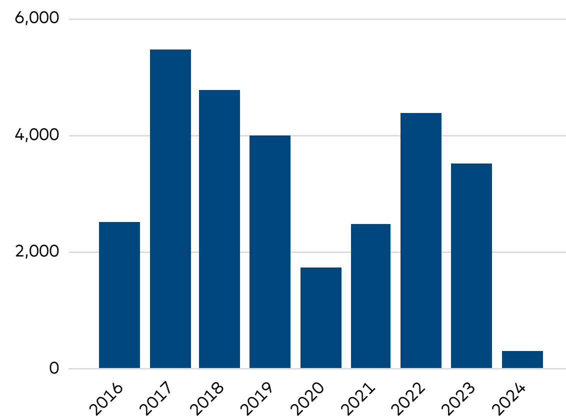
	2019	2020	2021	2022
National	324,697,795	326,569,308	329,725,481	331,097,593
Orange County	3,168,044	3,170,345	3,182,923	3,175,227

Source: U.S. Census

SUPPLY

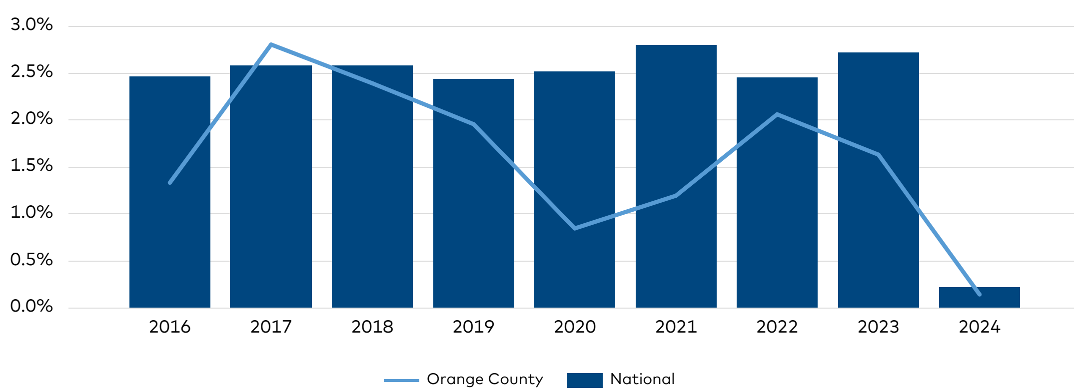
- This year through February, one 309-unit Lifestyle asset came online in Orange County, the equivalent of 0.1% of existing stock, trailing the 0.2% national average. Last year, developers delivered 3,532 units, or 1.6% of total stock, in line with the metro's typical annual growth rate.
- Last year's deliveries consisted of roughly two-thirds Lifestyle units, almost one-third fully affordable apartments and a very small number of regular RBN units.
- The construction pipeline as of February encompassed 6,849 units underway and another 30,000 apartments in the planning and permitting stages. The pipeline composition differed from recent deliveries, with the Lifestyle share increasing to some 76% of all units under construction, followed by 16% units in fully affordable projects and 8% of RBN units.
- Orange County construction activity is softening. No projects were recorded breaking ground in 2024 through February, and last year 1,800 units across 11 properties started construction. In 2022, developers broke ground on 12 properties totaling a significantly higher 2,968 units.
- Developers had the most units under construction in South Irvine (1,475 units underway) and Tustin (1,100 units).
- Tustin has only one project under construction, Greystar's 1,100-unit Warner Redhill. The property includes 80,000 square feet of retail and is slated for completion in late 2024. For this development, the owner took out a $187.8 million construction loan in 2022, issued by Bank of America.

Orange County Completions (as of February 2024)



Source: Yardi Matrix

Orange County vs. National Completions as a Percentage of Total Stock (as of February 2024)

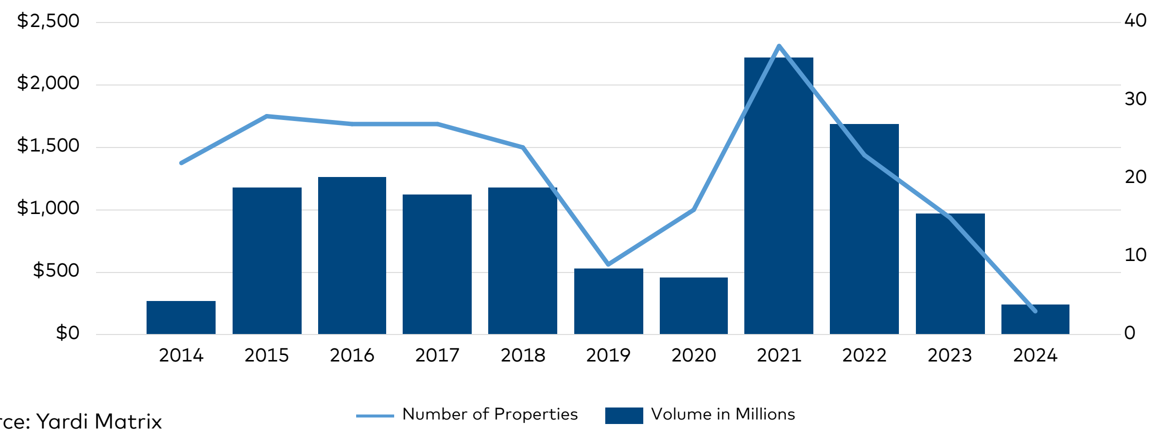


Source: Yardi Matrix

TRANSACTIONS

- Orange County investment sales were off to a good start in 2024, with $241 million in multifamily assets trading in January and February. For context, last year's total transaction volume reached $968 million.
- The three properties of more than 50 units that changed hands during the first two months of the year were all value-add plays. Even so, the average per-unit price marked a 14% increase over last year, to $369,632. Meanwhile, the U.S. figure clocked in at $199,517 in January and February 2024.
- The highest sale price recorded in 2024 through February was for the acquisition of the 310-unit Regency Palms in Huntington Beach. A&M Properties paid Equity Residential $127 million, or $409,677 per unit, with aid from a $68.7 million CMBS loan originated by Bellwether Enterprise Real Estate Capital. The former owner had owned the asset since 1996.

Orange County Sales Volume and Number of Properties Sold (as of February 2024)



Source: Yardi Matrix

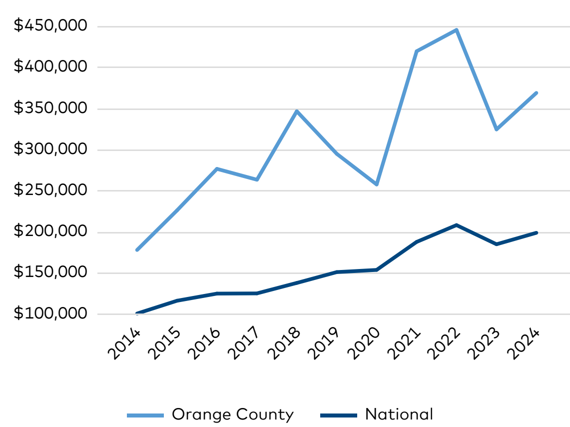
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Costa Mesa	293
South Orange County	264
Huntington Beach	260
Santa Ana	140
Anaheim–West	79
Placentia	63
Buena Park–Cypress	35

Source: Yardi Matrix

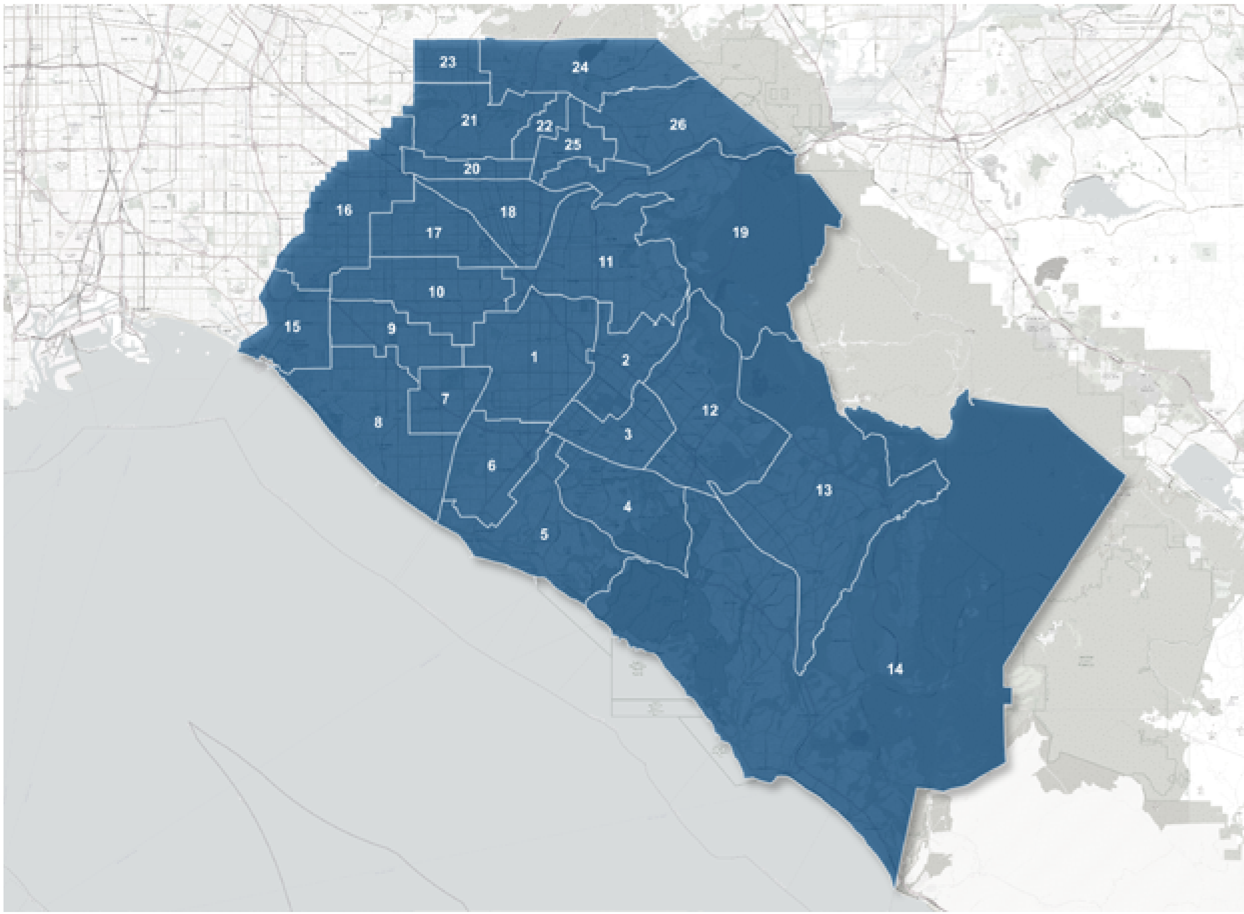
[1] From March 2023 to February 2024

Orange County vs. National Sales Price per Unit



Source: Yardi Matrix

ORANGE COUNTY SUBMARKETS



Area No.	Submarket	Area No.	Submarket
1	Santa Ana	14	South Orange County
2	Tustin	15	Seal Beach
3	Central Irvine	16	Buena Park–Cypress
4	South Irvine	17	Anaheim–West
5	Newport Beach	18	Anaheim–Central
6	Costa Mesa	19	Anaheim Hills
7	Fountain Valley	20	Fullerton–South
8	Huntington Beach	21	Fullerton–North
9	Westminster	22	Fullerton–University
10	Garden Grove	23	La Habra
11	Orange	24	Brea
12	West Irvine	25	Placentia
13	Mission Viejo–Lake Forest	26	Yorba Linda

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 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.

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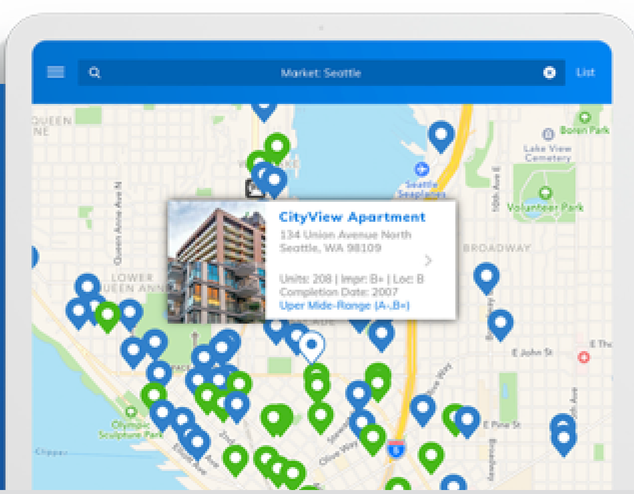
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



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

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