Yardi® Matrix

Orange County's e-Volution

Multifamily Report Winter 2019

Net Absorption Remains Strong

Unemployment Drops to Record Lows

Developers Target South Irvine, Anaheim

Market Analysis
Winter 2019

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Working-Class Demand Outpaces Supply

Multifamily investment remains a smart play in Orange County, where demand for apartments is solid, sustained by steady employment and population gains. A high barrier to homeownership and a chronic shortage of workforce housing are driving rent growth, while keeping occupancy in stabilized properties above the national average.

Thanks to its highly educated workforce, Orange County has long been an economic powerhouse for Southern California, accounting for 24 percent of the region's GDP in 2017. Employment growth during the 12 months ending in November was led by education and health services, which gained 8,000 jobs, a trend that is set to continue as the region's senior population expands. Leisure and hospitality added 6,500 positions, boosted by the ongoing increase in tourism-related spending. On the other side of the spectrum, many low-wage jobs were lost to technology and automation.

Multifamily investors traded $1 billion in assets in the first 10 months of 2018. Following the rejection of Proposition 10, which would have allowed local governments to expand rent control, investments could accelerate in the foreseeable future. Developers have also been active, as more than 4,800 units were under construction as of November. Absorption is set to stay solid, giving property owners leverage to further hike up rents.

Recent Orange County Transactions

Seacrest

City: San Clemente, Calif.
Buyer: TA Realty
Purchase Price: $138 MM
Price per Unit: $374,266

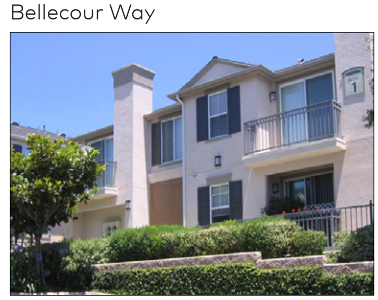
Aspect

City: Fullerton, Calif.
Buyer: JP Morgan Asset Management
Purchase Price: $131 MM
Price per Unit: $405,574

Corte Bella

City: Fountain Valley, Calif.
Buyer: TruAmerica Multifamily
Purchase Price: $86 MM
Price per Unit: $341,633

Bellecour Way



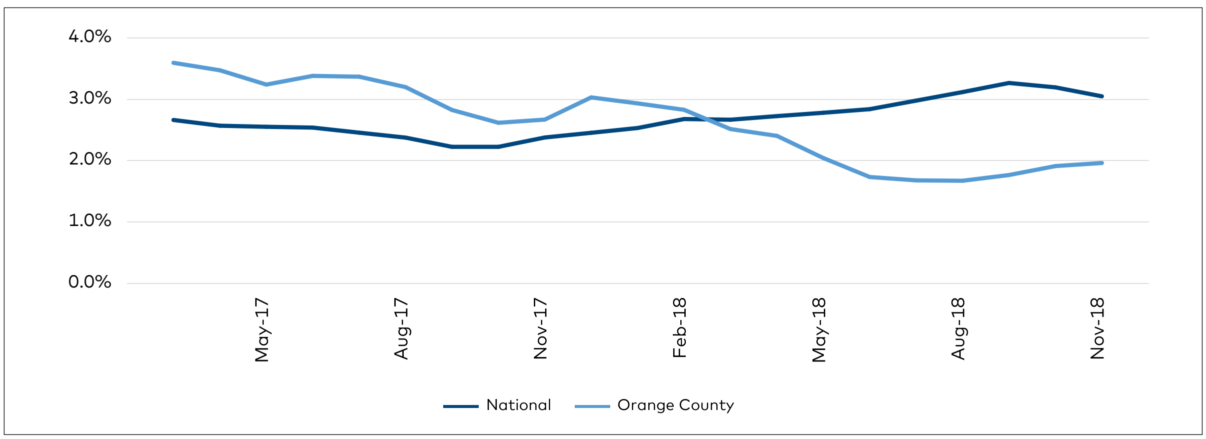
City: Lake Forest, Calif.
Buyer: Western National Investments
Purchase Price: $56 MM
Price per Unit: $429,389

On the cover: Photo by Matt Gush/iStockphoto.com

Rent Trends

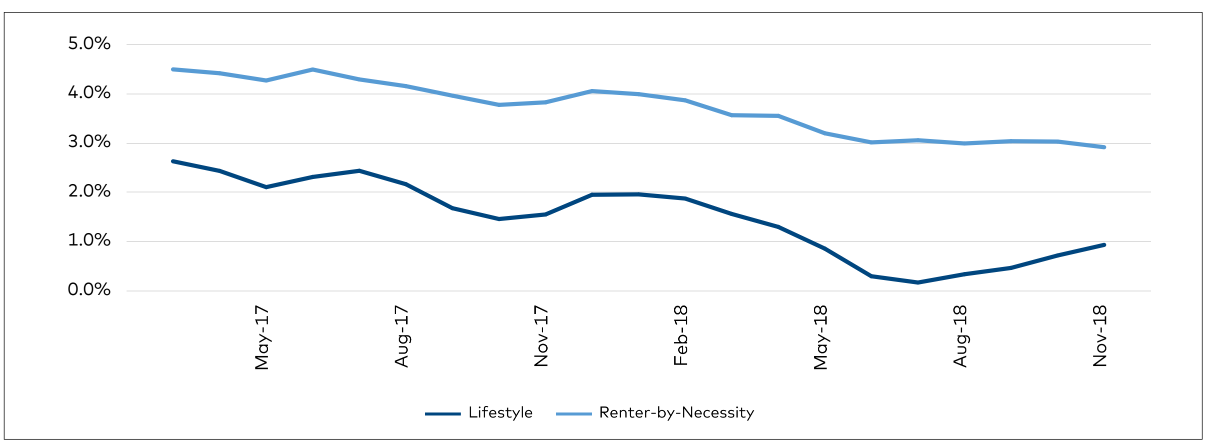
- Rents in Orange County rose 2.0% year-over-year through November, trailing the 3.1% national rate of growth. The metro's average rent stood at $2,078, above the $1,419 U.S. figure. Despite a supply surge in 2017, which continued at a more moderate pace through 2018, demand remained strong, maintaining year-over-year occupancy in stabilized properties at 96.0% as of October, higher than the 95.4% national rate.
- Rents in the working-class Renter-by-Necessity segment rose 2.9% to $1,869, while Lifestyle rates increased by 0.9%, to $2,377. As single-family home prices continue to rise, many would-be homeowners become long-term renters, boosting demand for RBN units, giving property owners leverage to lift rents. Meanwhile, most of the new apartments under construction cater to Lifestyle renters, maintaining the segment's rent growth in a tight band.
- Rent growth was stronger in submarkets with predominantly workforce housing, including Seal Beach (up 8.2% year-over-year to $2,212), Placentia (5.3% to $1,860), Fullerton–South (4.8% to $1,773), Fullerton–North (4.6% to $1,982), Buena Park–Cypress (4.1% to $1,789) and Anaheim–Central (3.9% to $1,919). South Irvine, which had the highest number of units underway as of November, is the only submarket that saw a drop in the average monthly rate—down 0.4% to $2,533.

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)

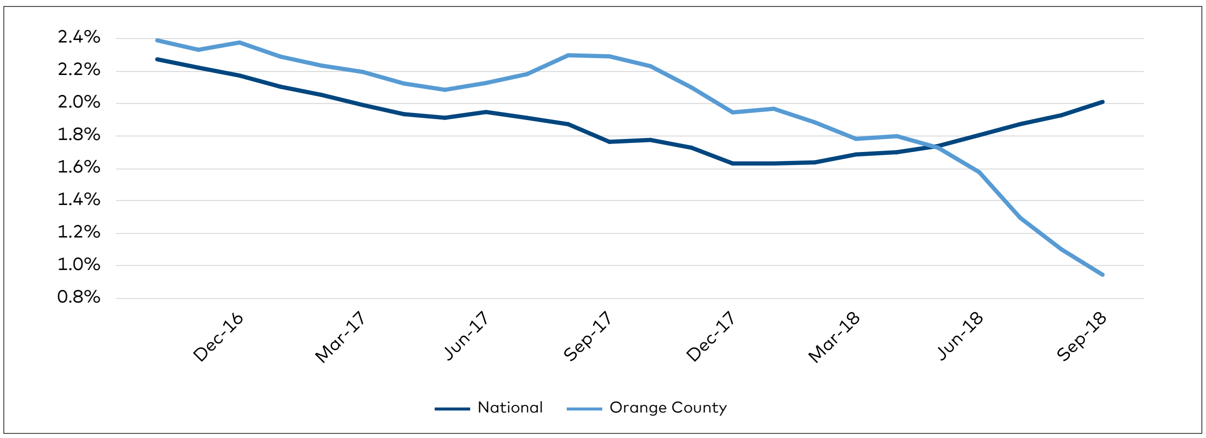


Source: YardiMatrix

Economic Snapshot

- Orange County netted an additional 9,600 jobs in the 12 months ending in September, a 1.0% year-over-year job growth, trailing the 2.0% U.S. rate. Following nationwide trends, the metro's unemployment dropped to record lows throughout 2018, standing at 2.8% as of September, well below the state's 4.1% and the nation's 3.7% rate.
- Education and health services led growth, with the addition of 8,000 jobs. This trend will likely continue, as the region's senior population is expected to rise in the foreseeable future. Leisure and hospitality gained 6,500 positions, boosted by the ongoing increase in tourism-related spending.
- Thanks to its highly educated workforce and business-friendly environment, Orange County accounted for 24% of Southern California's 2017 GDP, which rose to $1.26 trillion from $992 billion in 2012, according to a report prepared for the Southern California Association of Governments. The metro's industry clusters attracted startups as well as $816 million in venture capital investments.
- About 5,700 manufacturing jobs were lost, as technology and automation displaced many workers in low-wage jobs. As the county's working-age population is shrinking and the number of retirees is rising, filling new positions is becoming difficult.

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)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
65	Education and Health Services	225	13.8%	8,000	3.7%
70	Leisure and Hospitality	226	13.8%	6,500	3.0%
60	Professional and Business Services	311	19.1%	3,700	1.2%
15	Mining, Logging and Construction	108	6.6%	2,100	2.0%
50	Information	27	1.7%	-100	-0.4%
40	Trade, Transportation and Utilities	262	16.1%	-500	-0.2%
90	Government	156	9.6%	-600	-0.4%
80	Other Services	49	3.0%	-1,100	-2.2%
55	Financial Activities	116	7.1%	-2,700	-2.3%
30	Manufacturing	153	9.4%	-5,700	-3.6%

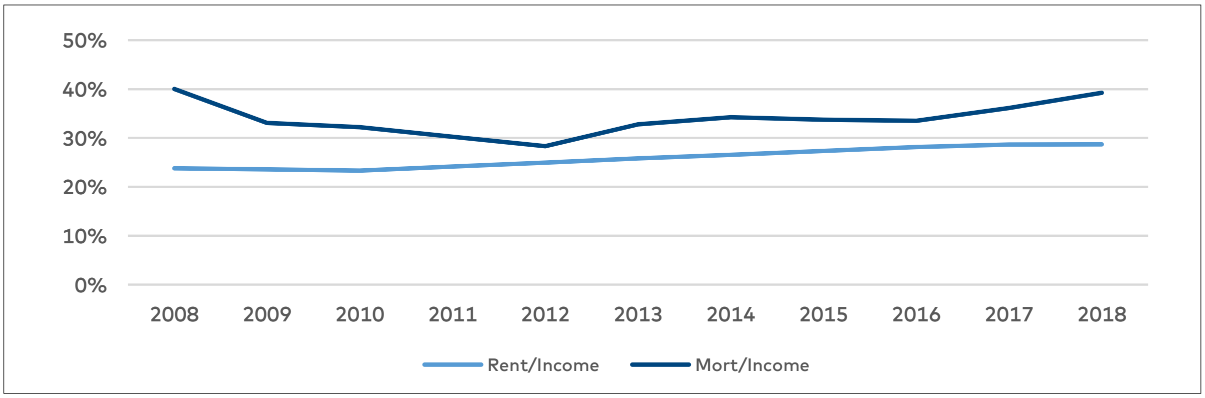
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

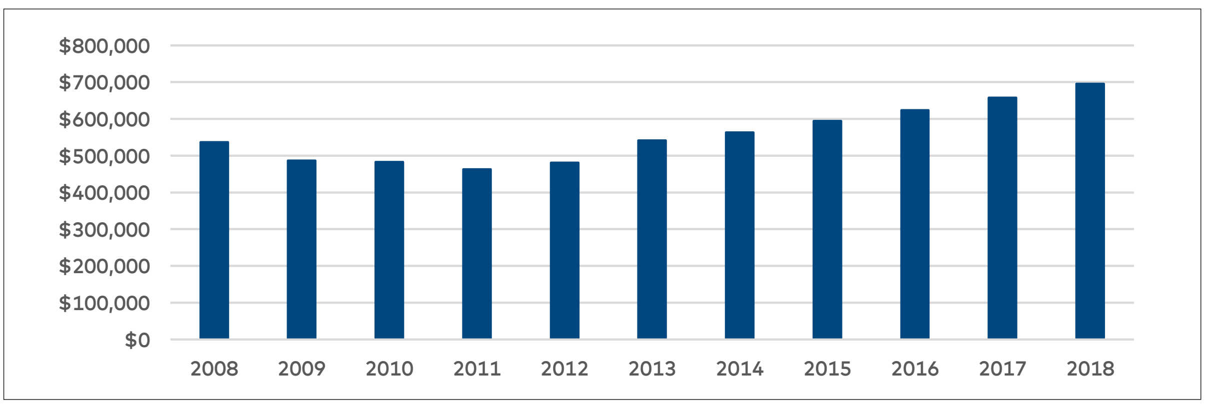
- The median home price in Orange County rose to $695,414 in 2018, a new cycle high, approaching the $700,000 historic peak recorded in 2007. The average mortgage payment accounted for 39% of the area median income, while the average rent comprised 29%.
- A study released at the Southern California Economic Summit at the end of 2018 showed that only 20% of the metro's households could afford a median-priced home, as prospective homeowners need a minimum income of $175,930 for a median mortgage. The metro is the least affordable housing market in Southern California, because of its chronic shortage of affordable workforce housing.

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, below the 0.7% national rate.
- Between 2013 and 2017, the metro added 76,751 residents for a 2.5% expansion, trailing the 3.0% U.S. average.

Orange County vs. National Population

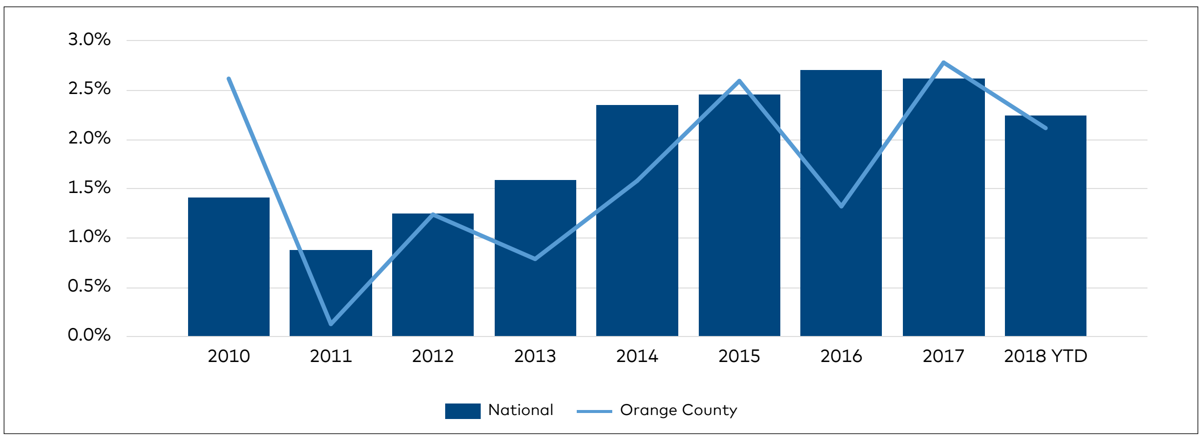
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Orange County Metro	3,113,649	3,136,750	3,160,576	3,177,703	3,190,400

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

Supply

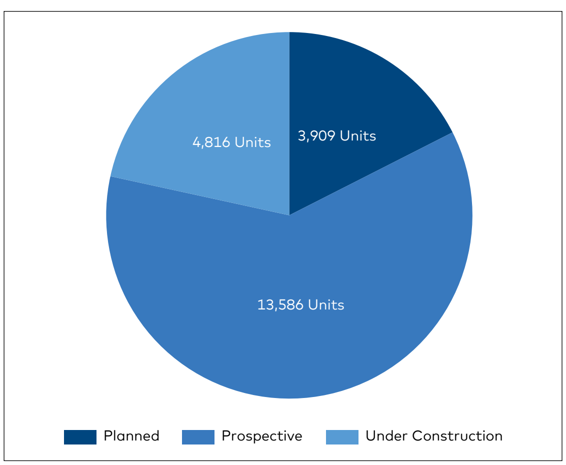
- Eighteen properties totaling 4,259 units came online in 2018 through November, representing 2.1% of total stock, 20 basis points below the U.S. average. Most of the new apartments are within Class A communities. In 2017, the market gained a cycle peak of 5,480 new units, or 2.8% of stock.
- More than 4,800 units were under construction as of November, while another 17,500 apartments were in the planning and permitting stages. Demand has kept up with new supply, maintaining occupancy in stabilized properties above the 96.0% mark, significantly above the national rate, which indicates strong absorption throughout the second half of the cycle.
- South Irvine had the largest number of apartments under construction as of November (884 units), followed by Anaheim–Central (867 units), West Irvine (838 units), Huntington Beach (510 units) and Newport Beach (462 units). The multi-phase Jefferson Stadium Park community, with 647 units underway as of November, was the largest multifamily development in the metro. JPI partnered with the Grand China Fund, a Beijing-based private equity real estate fund, to build the project in the city's fast-rising Platinum Triangle in Anaheim–Central.

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



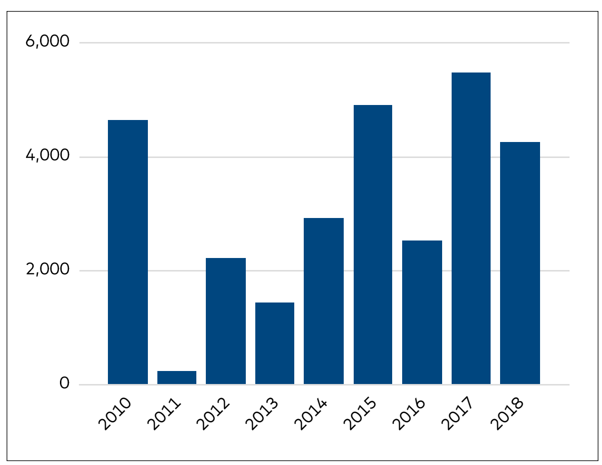
Source: YardiMatrix

Development Pipeline (as of November 2018)



Source: YardiMatrix

Orange County Completions (as of November 2018)

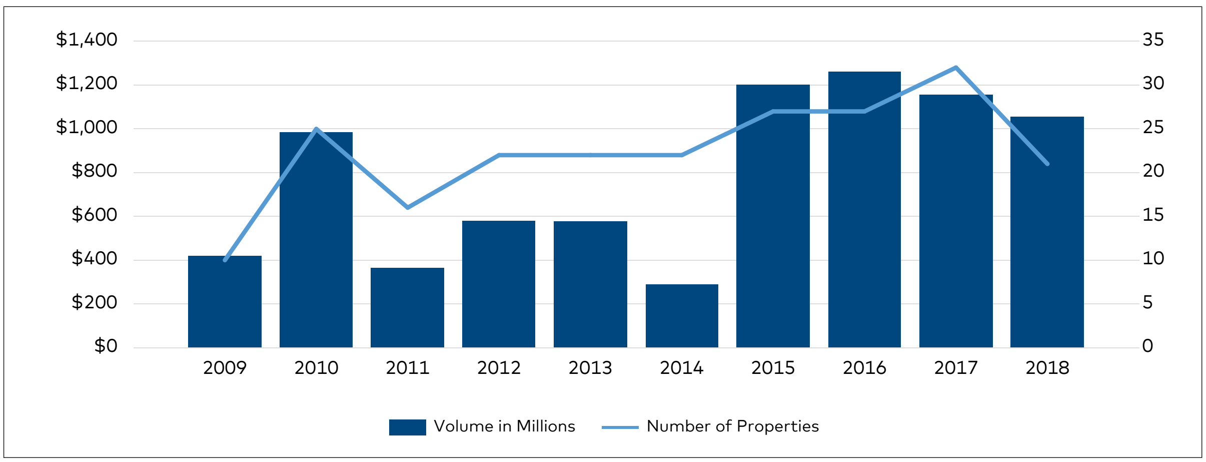


Source: YardiMatrix

Transactions

- More than $1 billion in assets traded in the first 10 months of 2018, at an average per-unit price of $346,236, well above the $152,601 national figure. Following the rejection of Proposition 10, which would have allowed local governments to expand rent control, transactions are expected to pick up.
- Investors primarily focused on the Renter-by-Necessity segment, as only six of the 21 properties that traded were Lifestyle assets. Acquisition yields for stabilized Class C assets can reach 5.3% and can go as high as 7.8% for value-add assets.
- The largest transaction was TA Realty's acquisition of the 368-unit Seacrest in the San Clemente submarket. Western National Group sold the property for $137.7 million, or $374,266 per unit. San Clemente has only four properties with 100+ rental units and no new apartment developments.

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



Source: YardiMatrix

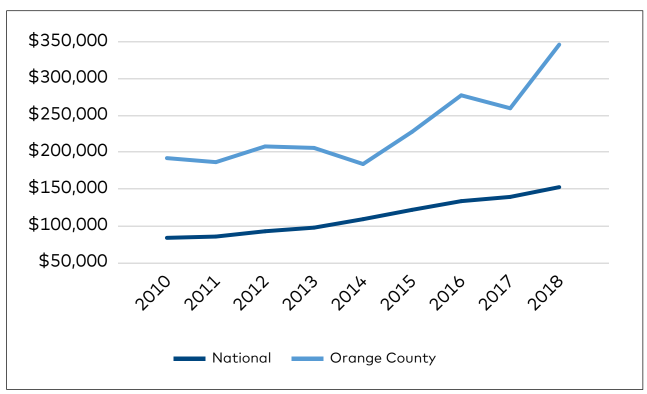
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Huntington Beach	225
Anaheim–Central	184
South Orange County	138
Fullerton–South	131
Anaheim Hills	106
Fountain Valley	86
Costa Mesa	78
Mission Viejo–Lake Forest	71

Source: YardiMatrix

[1] From November 2017 to October 2018

Orange County vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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TA Realty Pays $138M for Orange County Asset

Seacrest is one of only four properties with more than 100 units in San Clemente, Calif. The asset changed hands with help from CBRE.

NAI Capital Completes OC Ground Lease

The 99-year ground lease valued at $287 million includes three parcels located in Santa Ana, Calif. The tenants plan to develop more than 500 affordable housing units.

Sequoia Equities Secures $100M Refi In Orange County

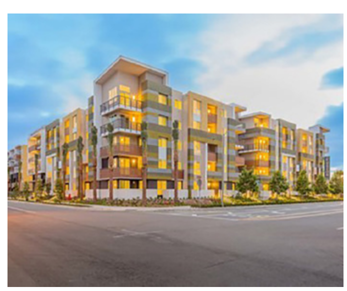
The owner acquired the 484-unit luxury community in 2009. The new financing package retires $60 million in debt.

South OC Community Trades For $93M

TH Real Estate is the new owner of Avana San Clemente, a 250-unit property. The 17-building asset last traded three years ago.

OC Senior Living Facility to Undergo $30M Renovation

R.D. Olson Construction has begun work on the Atria Senior Living property in Newport Beach, Calif. Plans call for a new south wing and a fully renovated north building.



Olympus Property Adds OC Community To Its Portfolio

360 Residential sold the recently completed 280-unit, boutique-style luxury development in Irvine, Calif., approximately three miles from John Wayne International Airport.

Executive Insight

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Gearing Up for Successful Multifamily Operations

By Jeff Hamann

With a presence in California, Nevada and Arizona, Sunrise Management oversees a portfolio of approximately 10,000 multifamily units, according to Yardi Matrix data. Most of the company's operations are focused on Class B and C communities, which have significant value-add potential.

The firm's president & CEO, Joe Greenblatt, spoke with Multi-Housing News about how the role of property managers is changing and how digital tools and communication can help make communities more attractive for renters.

How have the expectations of renters changed in recent years?

Renters increasingly expect to take care of their housing-related transactions and home management online. Across generational lines, they expect to communicate across a range of channels: social media, chat, text, e-mail, telephone or in person. There is an increasing service expectation in a Web 2.0 world that holds investors and managers responsible for their conduct.

How do you see the role of property managers shifting over the next five years?

Property managers will need to continue to adjust their priorities and processes to be customer-centric. At the same time, they will have to recognize the ascendant importance of their internal customers and develop talent strategies to allow them to serve their other customer constituencies.

What role does technology play in property management and how do you see this trend evolving?

Technology is inextricably woven into the expectations of residents, prospective residents, team members, prospective team members, clients, investors and vendor-partners. As technology evolves faster and faster, we will have to master change at an increasing pace and grow the ability to apply new technology quickly and effectively.

How has Sunrise Management observed the shifting demand across its portfolio over the past five years? How has this impacted your management strategy?

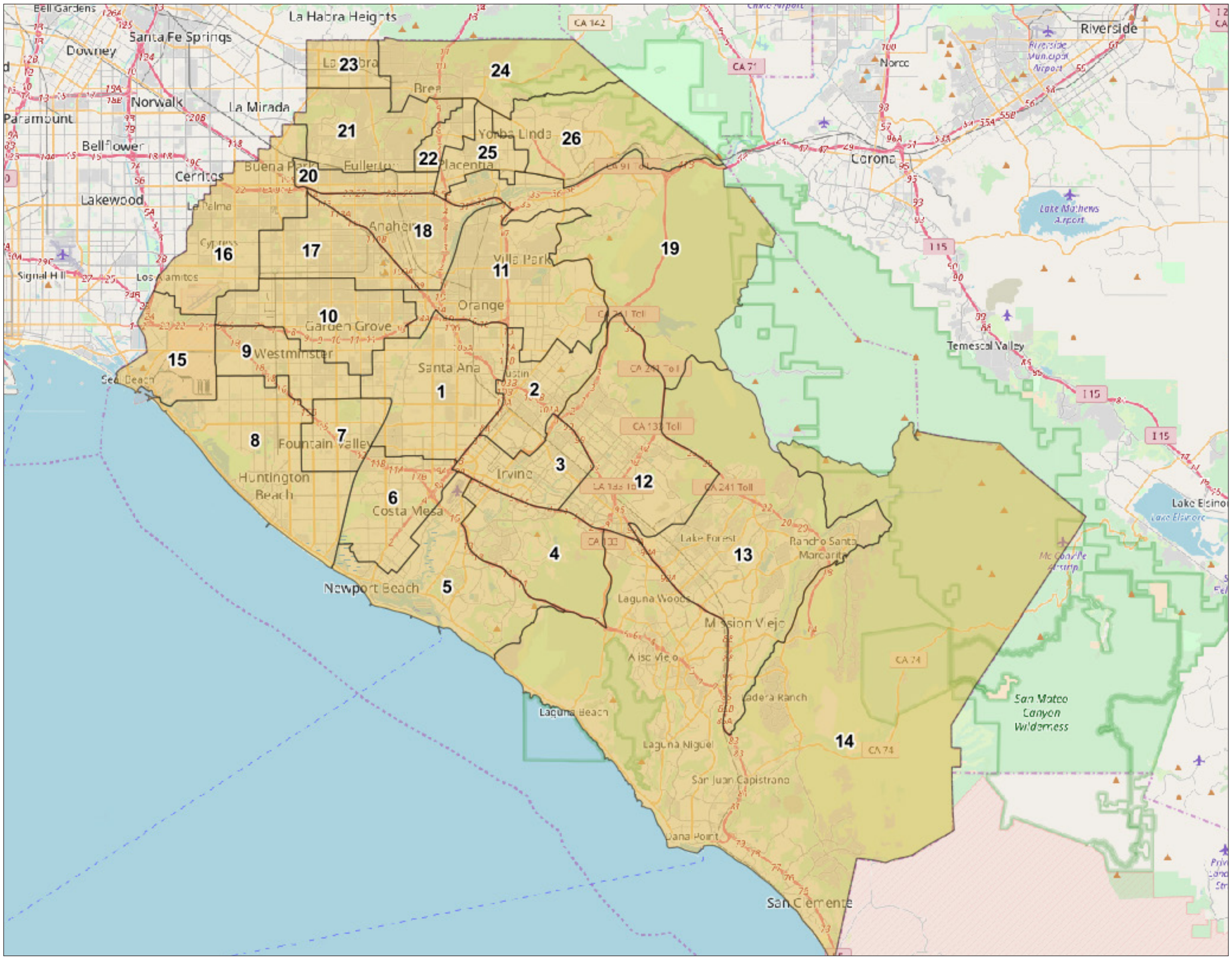
A larger renter population is increasingly discerning about their homes' features and aware of their rental housing options. We, in turn, are doing more analysis and partnering with our clients and investors to identify just what strategies, services and upgrades are most appropriate to a given community.

What are some of Sunrise's operations or processes that give you an advantage across your portfolio?

First and foremost, we communicate with residents, ask for their feedback and respond to their concerns. At Sunrise, we give a lot of attention to listening to our team members and our residents.

We have built internal processes to promote that inner dialogue and actively promote social media feedback, positive and negative, through our dedicated customer experience specialist.

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

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.

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

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