Yardi® Matrix

Orange County's Tight Market

Multifamily Report Summer 2019

Rent Growth Trails National Average

Developers Target Anaheim, South Irvine

Investment Activity Stays Above $1B

Market Analysis
Summer 2019

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High-Paying Jobs Boost Demand

Steady employment and population growth in the context of a high barrier to homeownership underpin apartment demand in Orange County, which continues to attract multifamily developers and investors alike. As construction activity has yet to catch up with demand, the occupancy rate in stabilized properties remained high over the past 12 months, at 95.9% as of March, despite the delivery of 4,789 units in 2018.

The metro recorded an increase in higher-paying jobs in recent years, particularly in middle and highly skilled industries in professional and business services, which gained 8,300 positions in the 12 months ending in March, as well as in education and health services, which added 4,400 jobs. The leisure and hospitality sector gained 4,100 positions, boosted by the 50 million visitors spending more than $13 billion last year, according to the Orange County Visitors Association.

Multifamily investors are drawn to the market's stability and lucrative assets, having pushed sales volumes above the $1 billion mark every year since 2015. Last year, a limited inventory of large for-sale properties steered buyers toward older suburban Class C assets of less than 100 units, with acquisition yields possibly reaching 8.0%. We expect the average Orange County rent to advance 2.4% in 2019.

Recent Orange County Transactions

Seacrest

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

Fusion

City: Irvine, Calif.
Buyer: Olympus Property
Purchase Price: $119 MM
Price per Unit: $423,214

Idyllwillow

City: Mission Viejo, Calif.
Buyer: A & M Properties
Purchase Price: $76 MM
Price per Unit: $190,000

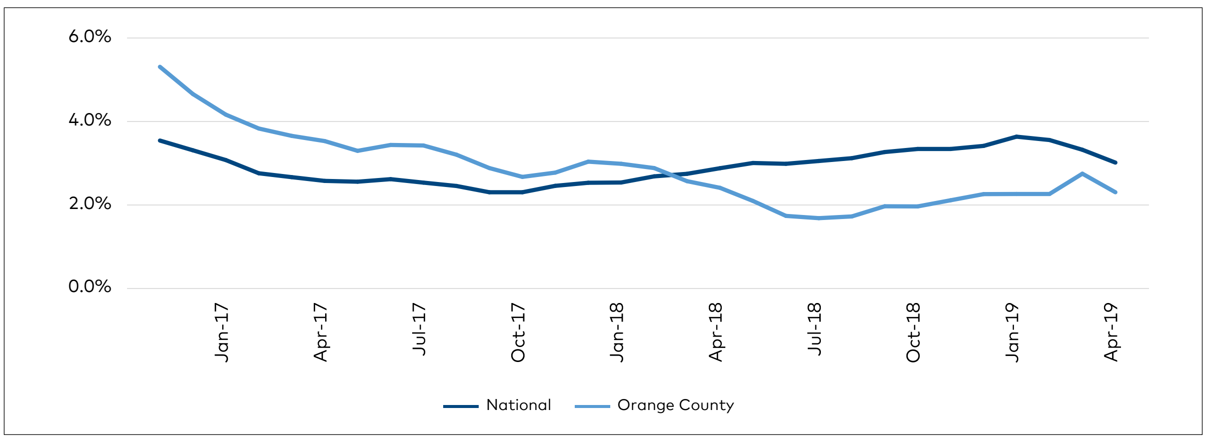
Cypress Village

City: Buena Park, Calif.
Buyer: Priya Living
Purchase Price: $29 MM
Price per Unit: $327,841

Rent Trends

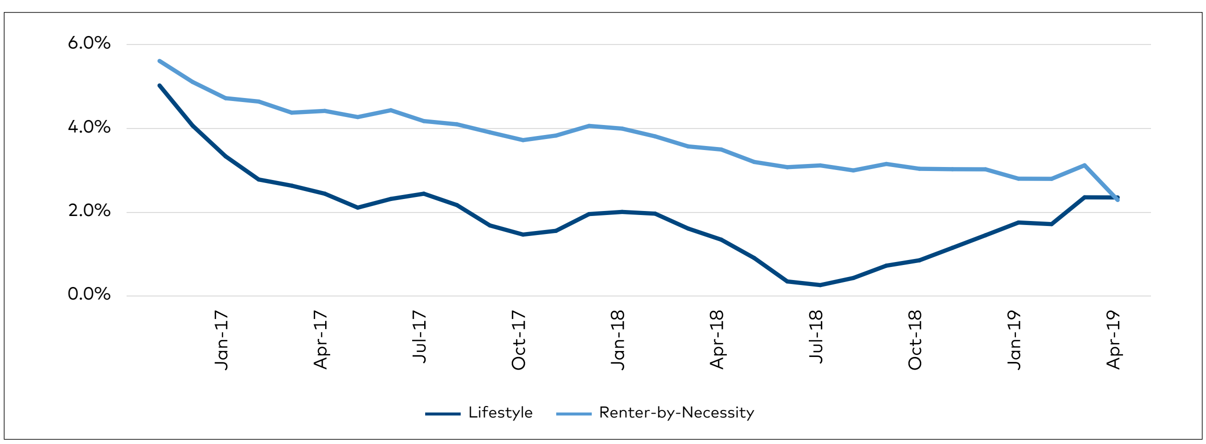
- Rents in Orange County rose 2.3% year-over-year through April, trailing the 3.0% national rate. The metro's average rent stood at $2,089, well above the $1,436 U.S. average. Despite the delivery of more than 4,700 units in 2018, occupancy in stabilized properties remained high, at 95.9% as of March, unchanged over 12 months and above the 94.8% national figure.
- Rents in the working-class Renter-by-Necessity segment rose 2.3% to $1,876, while Lifestyle rates went up 2.4%, to $2,395. Demand is strong across asset classes, boosted by an ongoing uptick in higher-paying jobs, particularly in middle- and high-skilled industries in professional and business services and health care. Another factor is the metro's high barrier to homeownership, as only 12%—or 54,970 households—of Orange County renters have the financial wherewithal to buy a home, according to the California Association of Realtors. Going forward, we expect rent growth to remain moderate, with the average rate advancing 2.4% in 2019.
- Growth was highest in Fullerton–South, a Millennial magnet with a median age of 35, where rents rose 4.7% year-over-year to an average of $1,795. Huntington Beach came in second (4.1%), followed by Yorba Linda (3.9%), Mission Viejo–Lake Forest (3.6%) and Buena Park–Cypress (3.4%). The priciest submarkets were Newport Beach (1.7% to $2,770) and South Irvine (-0.1% to $2,524).

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)

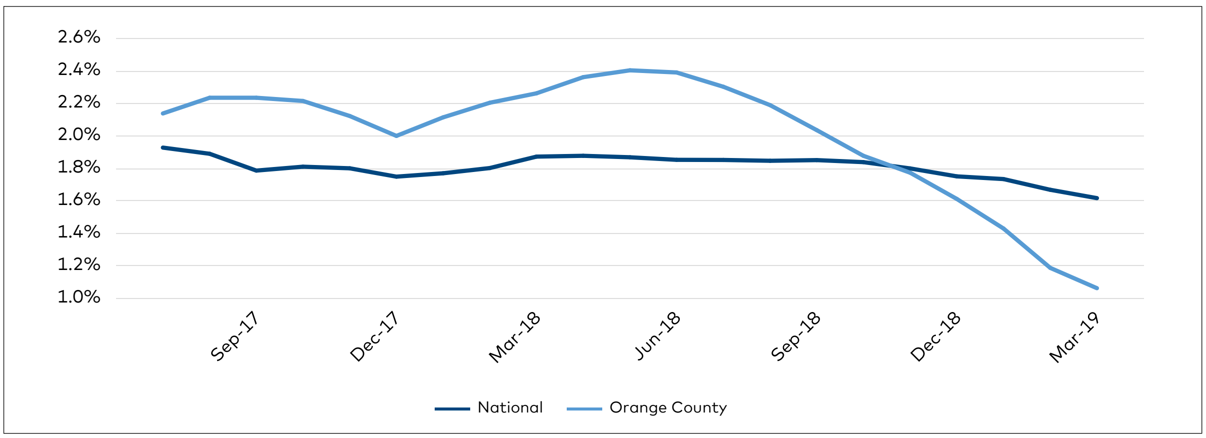


Source: YardiMatrix

Economic Snapshot

- Orange County gained 14,200 jobs in the 12 months ending in March for a 1.1% uptick, trailing the 1.6% national average after decelerating over the past three quarters. In line with nationwide trends, the metro's unemployment rate has been dropping in recent years, standing at 3.0% as of February.
- Professional and business services led growth, with the addition of 8,300 jobs. The metro's overall office-using jobs exceeded 28% of total employment as of April, its highest level in recent years. Orange County's highly skilled labor force continued to attract employers in the technology, media and marketing industries, including startups, especially around John Wayne Airport and Irvine Spectrum. The metro is also seeing increased coworking leasing activity coming from companies such as WeWork, BizHaus, Spaces, Work Well Win and Hera Hub.
- Education and health services gained 4,400 jobs, a trend that is set to continue as the region's senior population rises while every other age group declines. Leisure and hospitality employment rose by 4,100 jobs, boosted by the metro's 50 million visitors in 2018; they spent more than $13 billion at restaurants, stores and other businesses, according to the Orange County Visitors Association. The high number of tourists, drawn to the area's beaches and theme parks, represented a 1.6% increase over the previous year and included 4.6 million international travelers.

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	%
60	Professional and Business Services	321	19.4%	8,300	2.7%
65	Education and Health Services	229	13.8%	4,400	2.0%
70	Leisure and Hospitality	224	13.5%	4,100	1.9%
40	Trade, Transportation and Utilities	260	15.7%	1,000	0.4%
50	Information	27	1.6%	200	0.8%
90	Government	165	10.0%	200	0.1%
30	Manufacturing	159	9.6%	-100	-0.1%
80	Other Services	50	3.0%	-600	-1.2%
55	Financial Activities	118	7.1%	-1,300	-1.1%
15	Mining, Logging and Construction	103	6.2%	-2,000	-1.9%

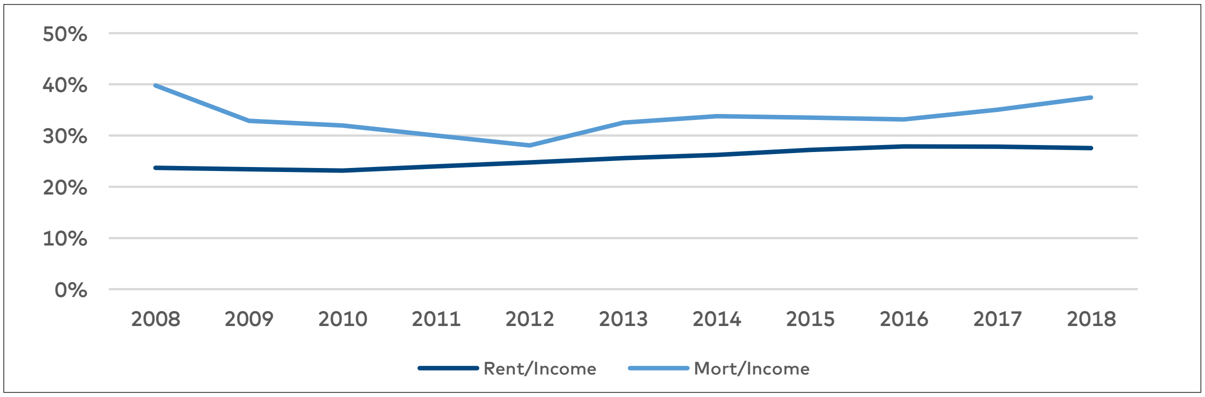
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

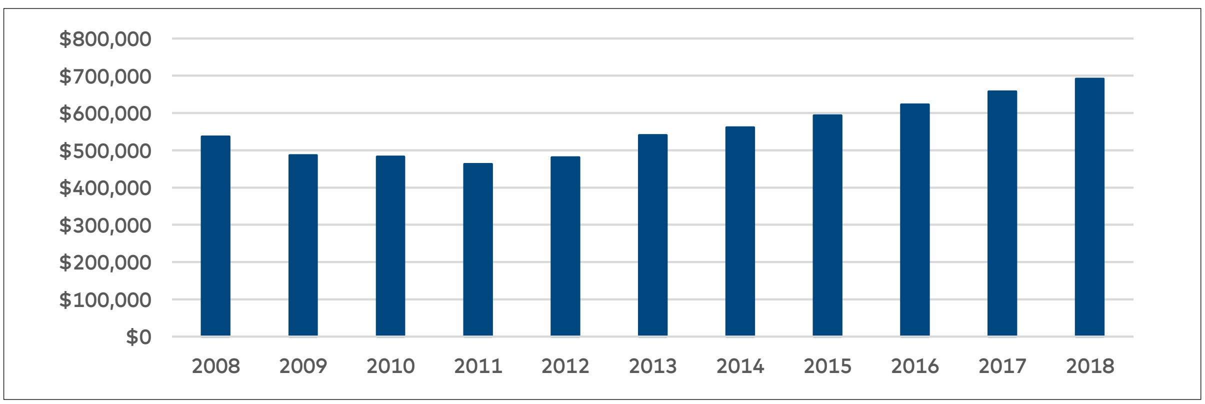
- The median home price in Orange County rose to a cycle peak of $692,269 in 2018, up 5.3% since 2017 and 49.5% above the 2011 level. The average rent accounted for 28% of the area median income, while the average mortgage payment equated to 37%.
- Orange County is the least affordable housing market in Southern California, due to its chronic shortage of affordable workforce housing. At the beginning of 2019, California launched the Multifamily Mixed-Income Program, the state's first to incentivize affordable housing developments aimed at residents with a mix of incomes between 30 and 120 percent of the area median income.

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.
- Between 2013 and 2017, the population rose by 76,751 residents, a 2.5% expansion, below 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

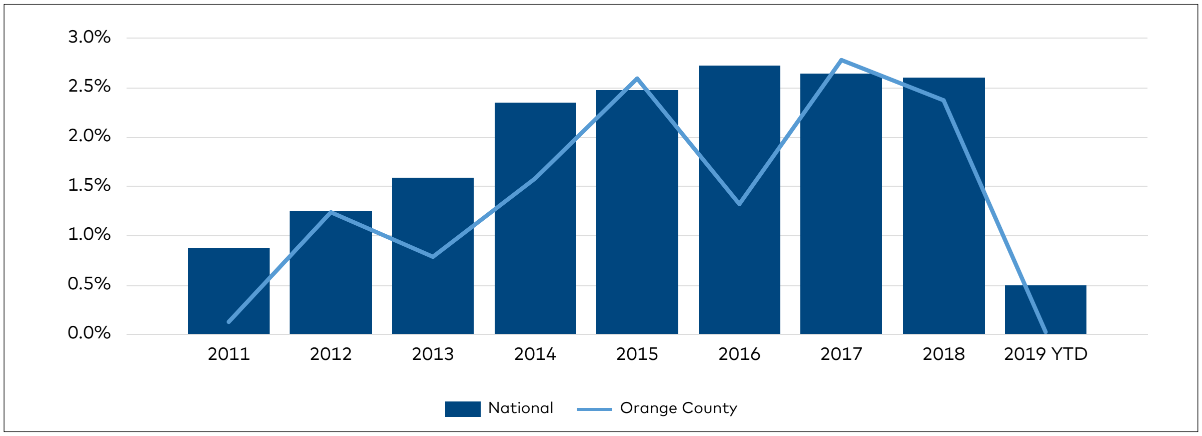
Supply

- Development activity relative to demand remains limited across Orange County, which had 5,295 apartments under construction as of April. In 2018, 4,789 units came online, representing 2.4% of total stock, slightly below the 2.6% national average. Nearly 80% of the units delivered last year cater to Lifestyle renters, a trend that is more than apparent across the country during this cycle. Of the nearly 21,800 units that came online in Orange County since the beginning of 2015, more than three-quarters are in Class A or B+ communities.

- As apartment demand continues to be strong, absorption is expected to keep up with supply. Despite last year's delivery wave, occupancy in stabilized properties remained flat over 12 months, at 95.9% as of March, higher than the 94.8% national average. Orange County's multifamily pipeline also included 19,152 units in the planning and permitting stages.

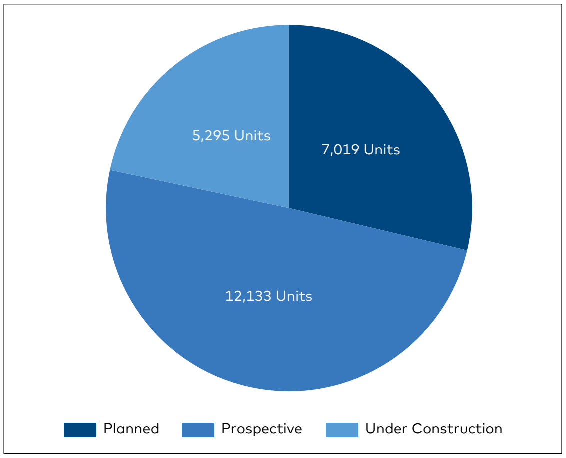
- Developers particularly targeted Anaheim–Central, where the median age was 34.3, according to the latest census data, and where 1,299 units were under construction as of April.

Orange County vs. National Completions as a Percentage of Total Stock (as of April 2019)



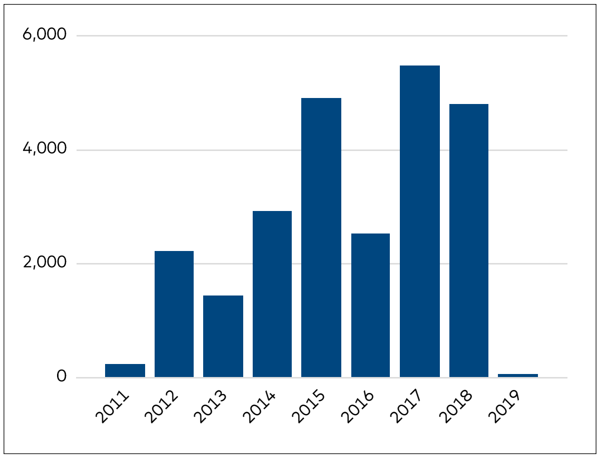
Source: YardiMatrix

Development Pipeline (as of April 2019)



Source: YardiMatrix

Orange County Completions (as of April 2019)

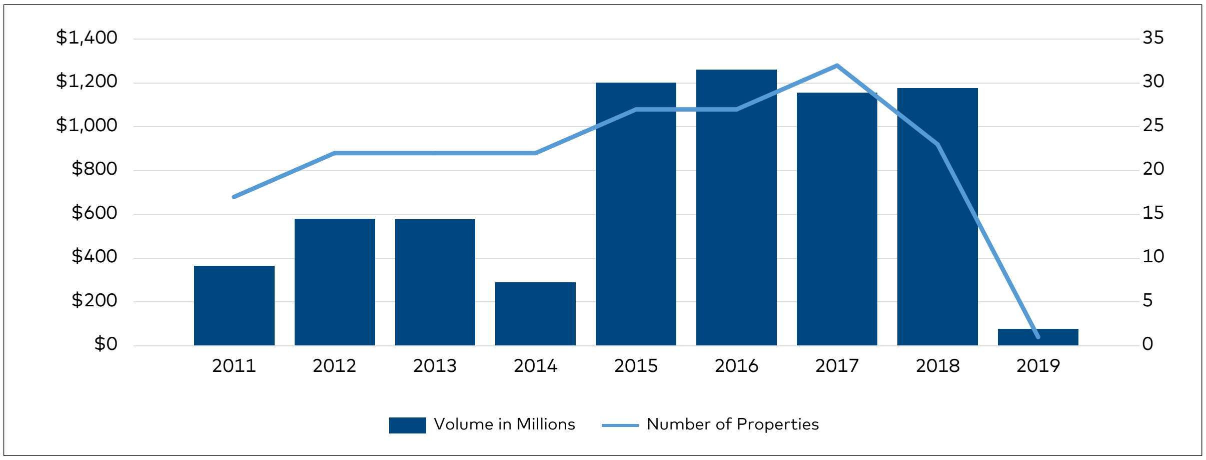


Source: YardiMatrix

Transactions

- Multifamily transaction volumes in Orange County surpassed the $1 billion mark every year since 2015. As investors compete for the metro's stable and lucrative assets, this trend is likely to continue, despite a slowdown in the first quarter of 2019, when a single property of 50 or more units traded. A & M Properties acquired ReNew at the Shops, a 400-unit community in Mission Viejo, and rebranded it as Idyllwillow. The company paid $76 million, or $190,000 per unit, to buy the property from FPA Multifamily. In 2018, $1.2 billion in assets traded at an average per-unit price of $347,513, well above the $153,880 national average.
- A limited inventory of new for-sale properties of more than 100 units steered investors toward older suburban Class C assets that present value-add opportunities, with acquisition yields going as high as 8.0%.

Orange County Sales Volume and Number of Properties Sold (as of April 2019)



Source: YardiMatrix

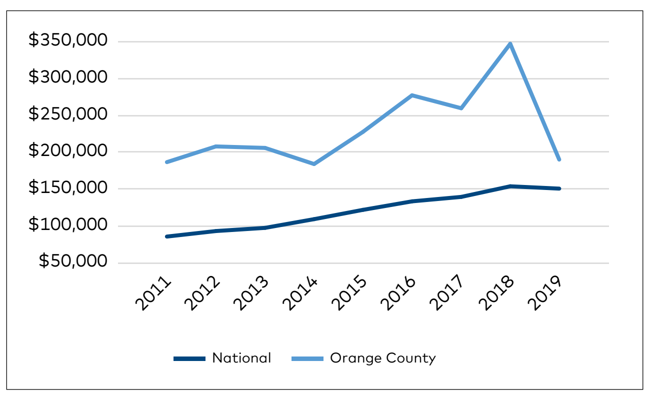
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
South Orange County	230
Mission Viejo–Lake Forest	132
Fullerton–South	131
Anaheim–Central	124
West Irvine	119
Fountain Valley	86
Buena Park–Cypress	55
Costa Mesa	44

Source: YardiMatrix

[1] From May 2018 to April 2019

Orange County vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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CBRE Brokers Orange County Sales

Senior Vice President Dan Blackwell facilitated the $14 million deal encompassing 44 units across two communities. Both assets represent value-add opportunities.

Walker & Dunlop Adds OC Vice President

Christine Pratt has more than 15 years of experience in affordable housing financing, having previously served as a member of Freddie Mac's small balance loan team.

Berkadia Completes Sale of OC-Area Property for $76M

The company worked on behalf of A & M Properties in the acquisition of ReNew at the Shops, a garden-style apartment community situated in a tight multifamily market.

CA Sues Huntington Beach Over Lack Of Affordable Housing

Gov. Gavin Newsom directed the state's attorney general to file the first-of-its kind litigation, claiming the city's non-compliance with state housing law is contributing to the housing crisis.

Bertram Partners Lands $72M Refi For CA Properties

The Freddie Mac loan, which was arranged by HFF, will be used to refinance the debt on three communities in Orange County.

JV Secures $26M In Financing for CA Community

The new owners will upgrade apartment interiors, exteriors and communal areas at the 88-unit community located in Buena Park.

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MULTI-HOUSING NEWS

Standing Out in Orange County

By Jeff Hamann

As single-family home prices have risen consistently over the past decade, apartment living in Orange County continues to thrive. According to Yardi Matrix, the market comprises upwards of 200,000 units spread across more than 1,000 assets, the bulk of which are either workforce or mid-range.

Multi-Housing News interviewed Scott Wickman, regional vice president of Western National Property Management, to uncover what a community's management team can do to make an asset stand out from the rest. The firm oversees operations at nearly 15,000 units across the county.

Considering the current trends in Orange County's multifamily sector, how can a property manager make a community stand out?

Today's residents are demanding unique amenities, everyday conveniences and quality service. For a community to stand out, they need to offer all three. In terms of convenience, residents are demanding amenities such as dry cleaning pick-up and drop-off, automated lockers for packages, easy access for food delivery and ride sharing apps, Wi-Fi-operated fitness equipment or other tech features that make everyday life more convenient.

Beyond amenities, on-site property managers need to be thoroughly trained on providing superior service. In today's competitive landscape, property managers need to ensure their team is equipped with the tools to address residents' needs and make their community stand out among the competition.

What are the biggest challenges on the horizon for Orange County's multifamily sector?

One of the biggest challenges or concerns for many property owners as we get ready to close out the first quarter is whether we will see a softening in rent growth this year. Orange County has historically been a very dynamic market that continues to have exceptionally strong demand. The average rental rates in the region have increased for 33 consecutive quarters.

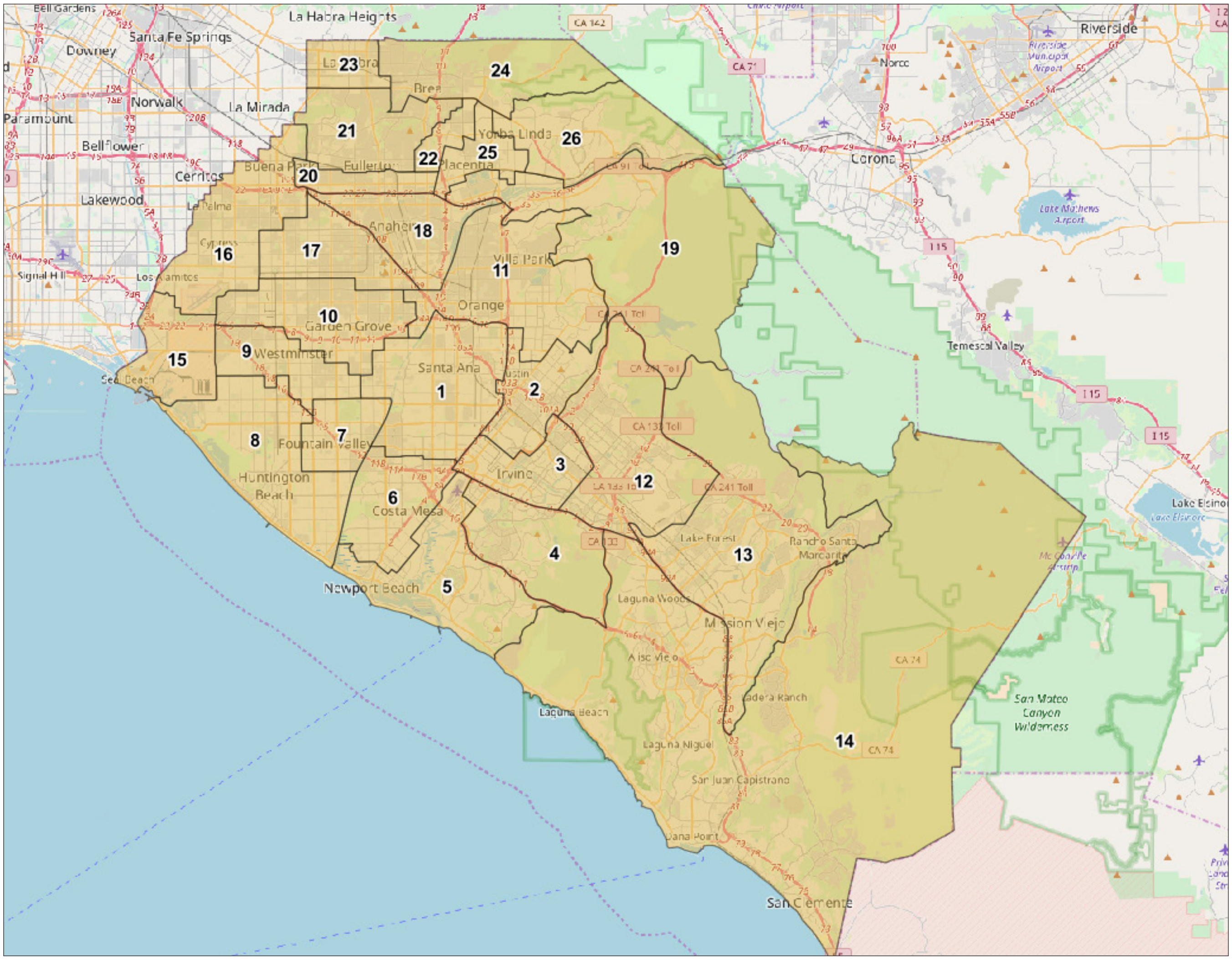
What can a property manager do to boost tenant retention rates?

Increasing touchpoints with residents on a regular basis is one way to boost retention rates. Property managers can do this by engaging with residents through social media. Our community managers share updates, information, contests or details regarding community events, among other items residents might view as useful. This activity on social media can build personal connections among residents and management, which ultimately results in stronger brand loyalty and retention. In addition to regular communication with residents, managers will want to aid in creating environments that build a sense of community.

What role can technology play in an effective management strategy?

We've integrated software systems that allow residents to pay rent, submit maintenance requests and contact their managers, all through an online portal. This provides residents with the convenience of addressing concerns from anywhere and provides a simpler process for property managers to address items more quickly.

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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