

Market Outlook for Orange County

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Pictures of Orange County, pre-pandemic

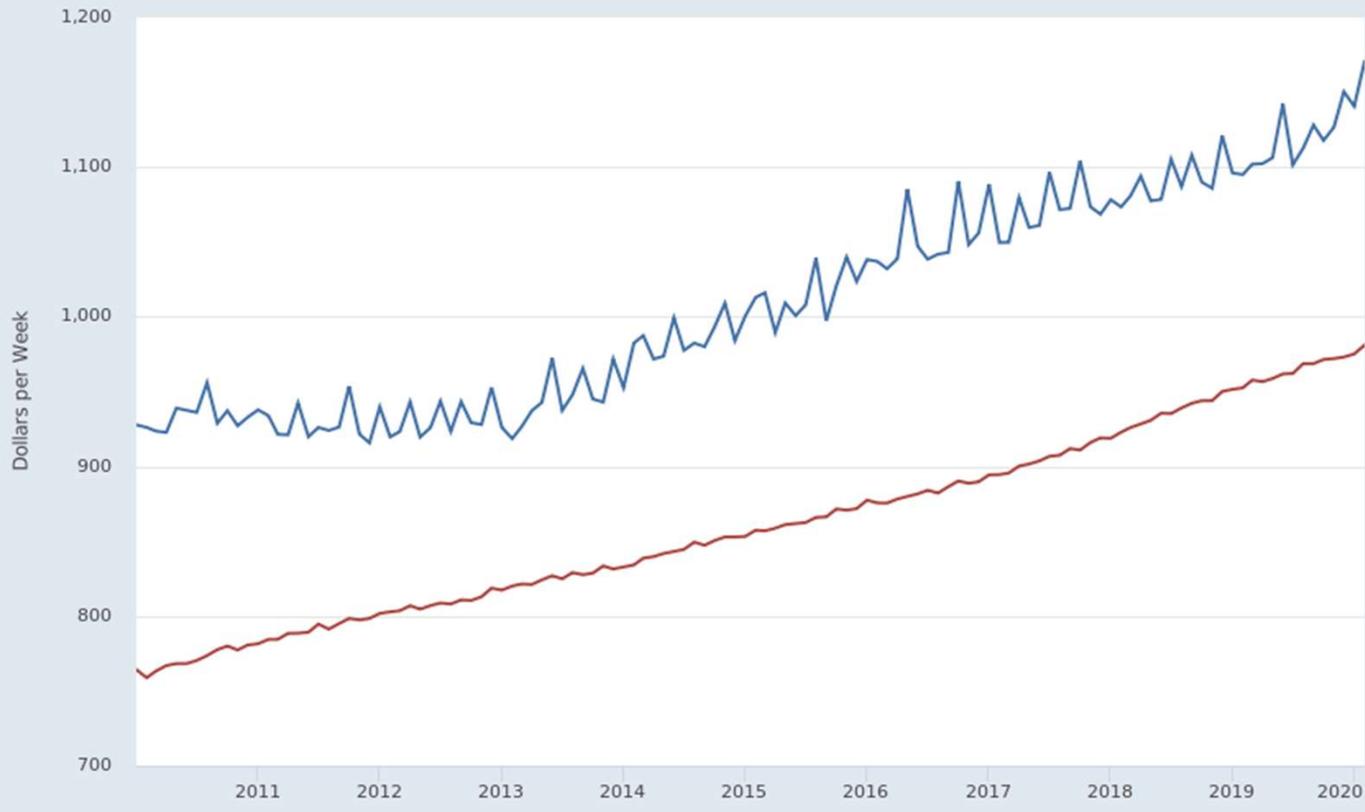
- Vigorous economy, but one reaching its constraints
 - High wages
 - Low unemployment
 - But slowing growth (in employment numbers)
 - Rising home prices
 - Slow growth in housing
 - Data source: Federal Reserve Economic Database (fred.stlouisfed.org) unless otherwise noted



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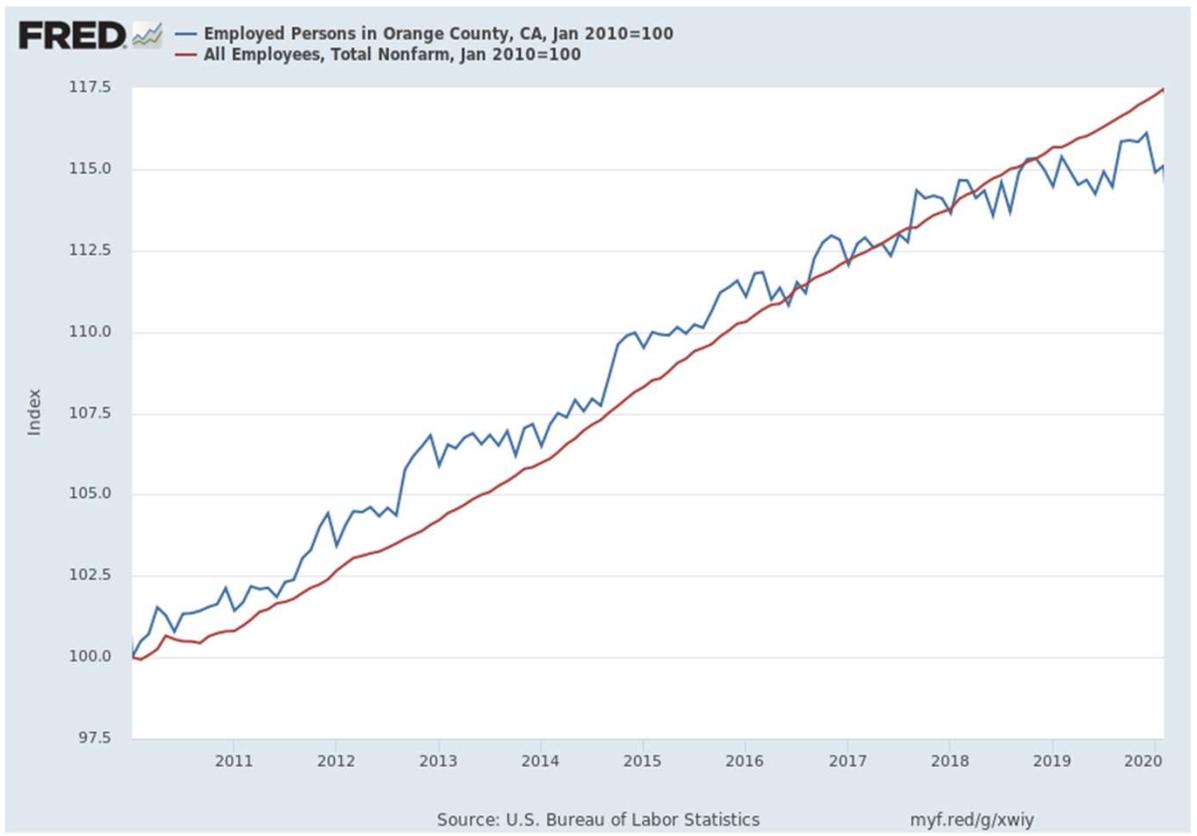


— Average Weekly Earnings of All Employees: Total Private in Anaheim-Santa Ana-Irvine, CA (MD)
— Average Weekly Earnings of All Employees, Total Private



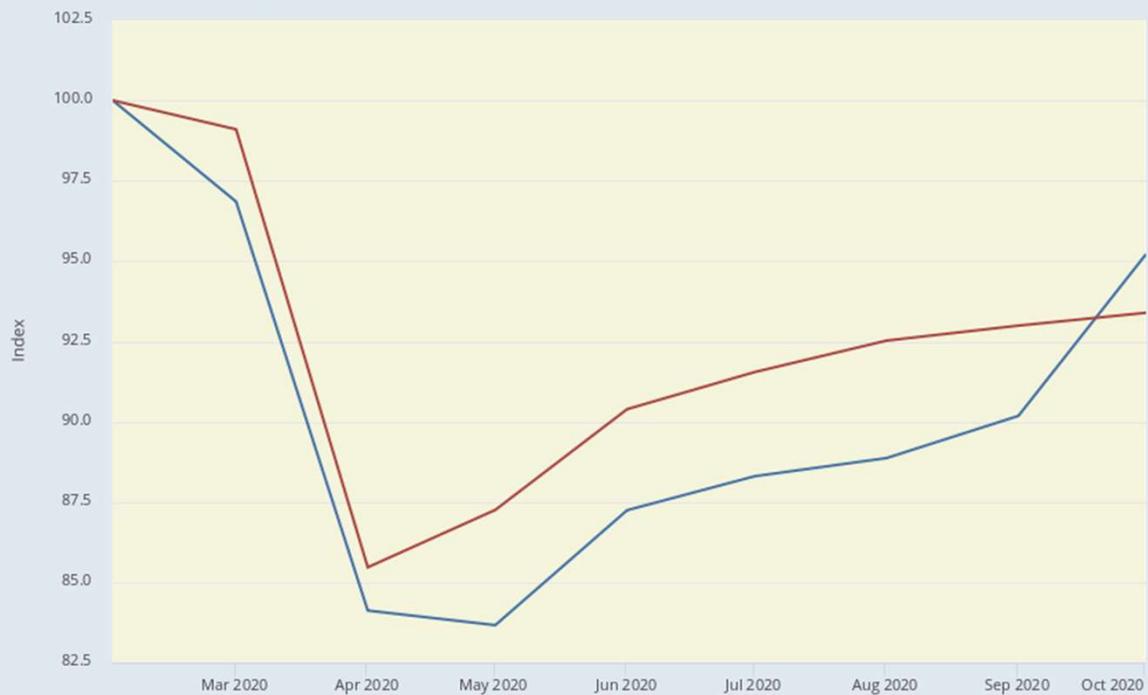
Sources: BLS, St. Louis Fed

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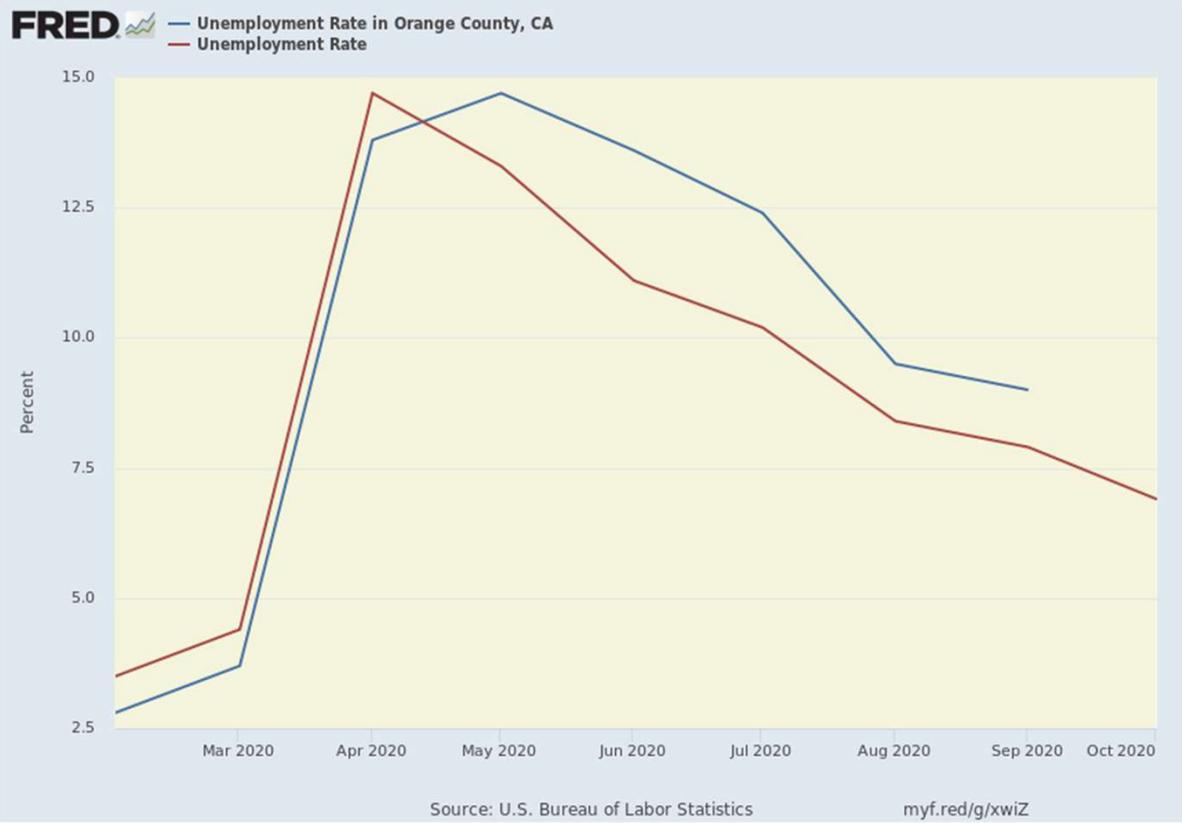
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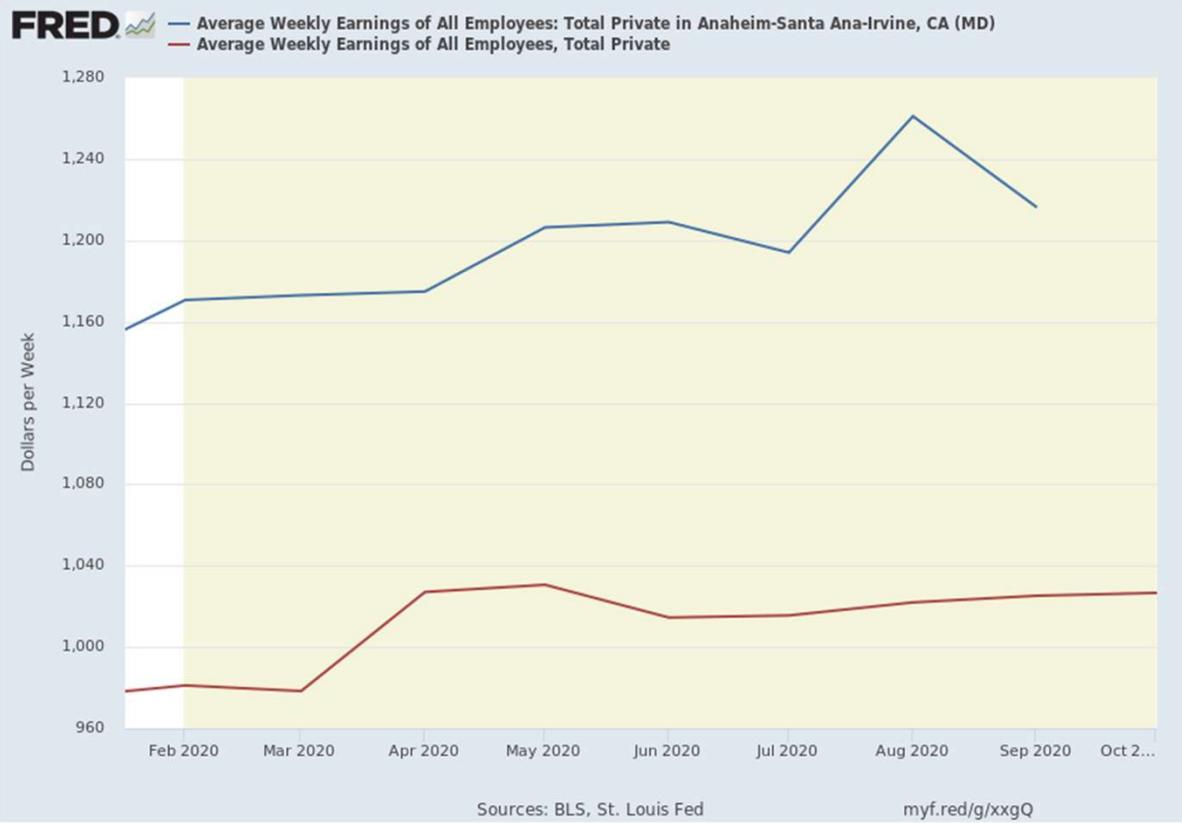
— Employed Persons in Orange County, CA, Feb 2020=100
— All Employees, Total Nonfarm, Feb 2020=100

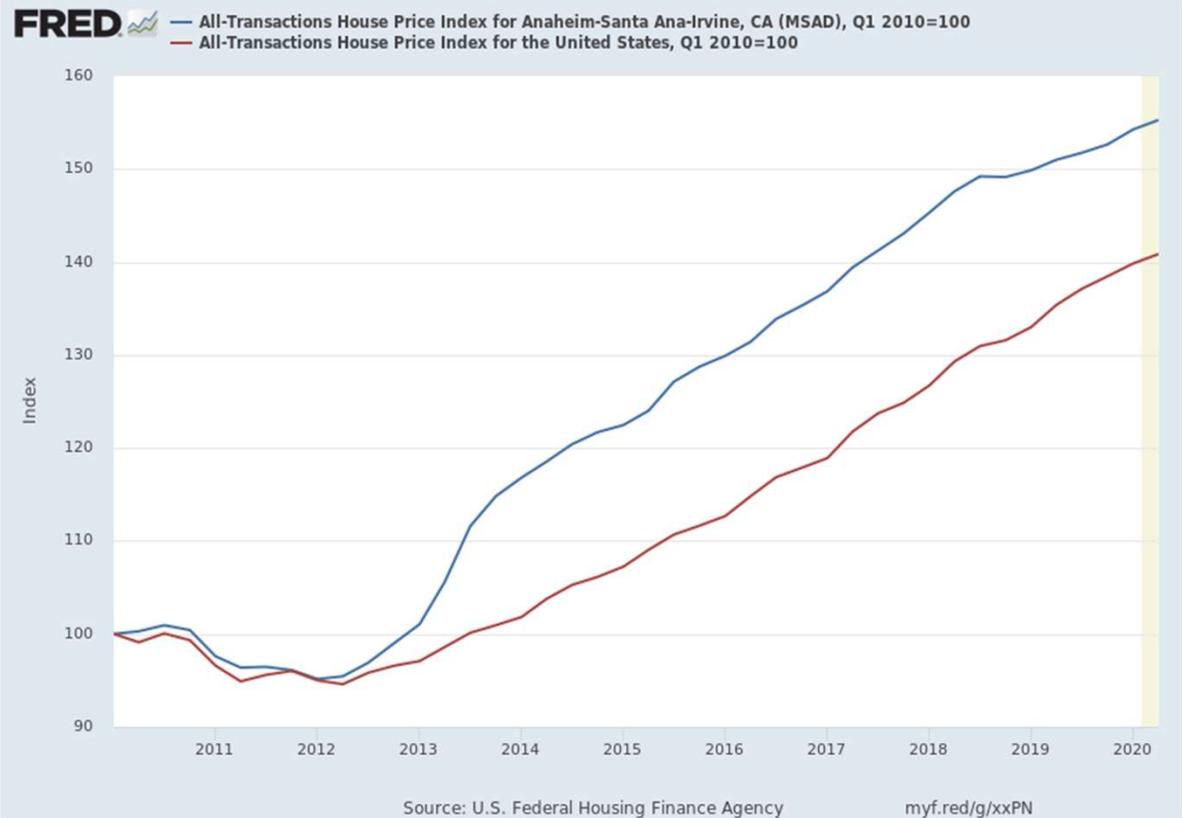


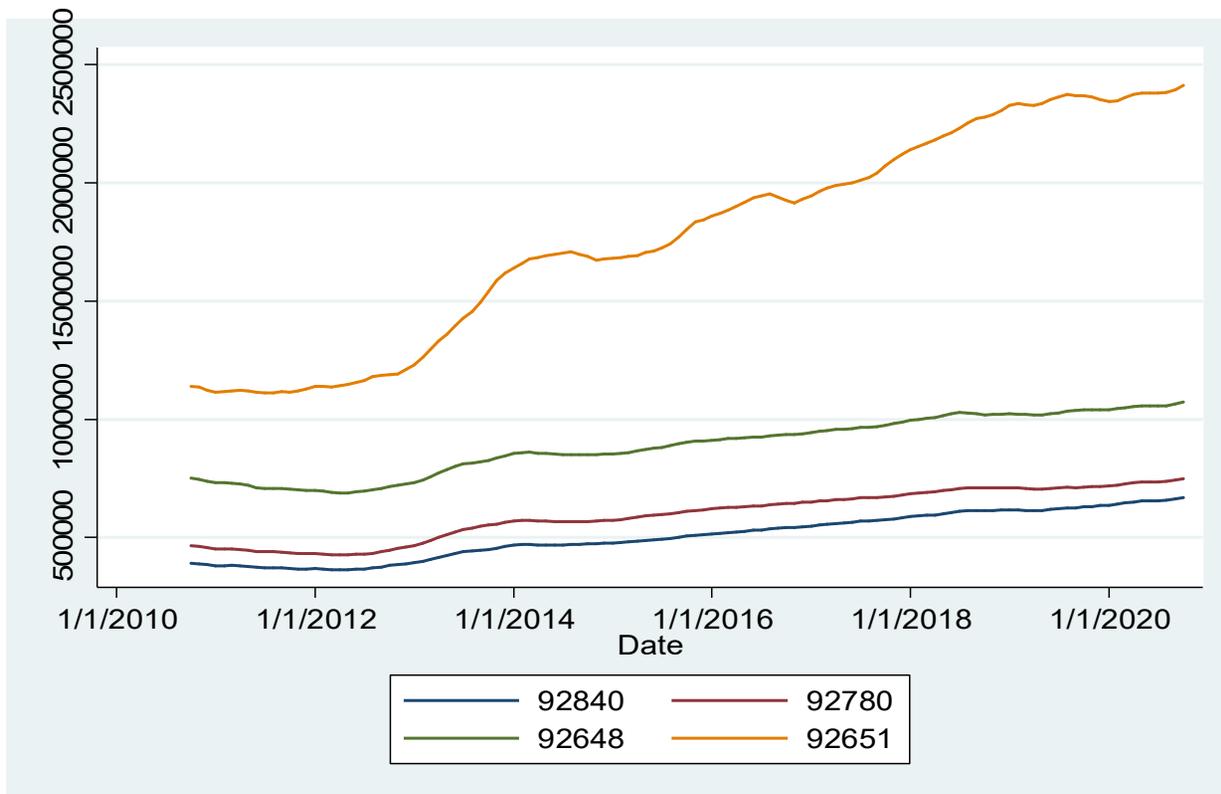
Source: U.S. Bureau of Labor Statistics

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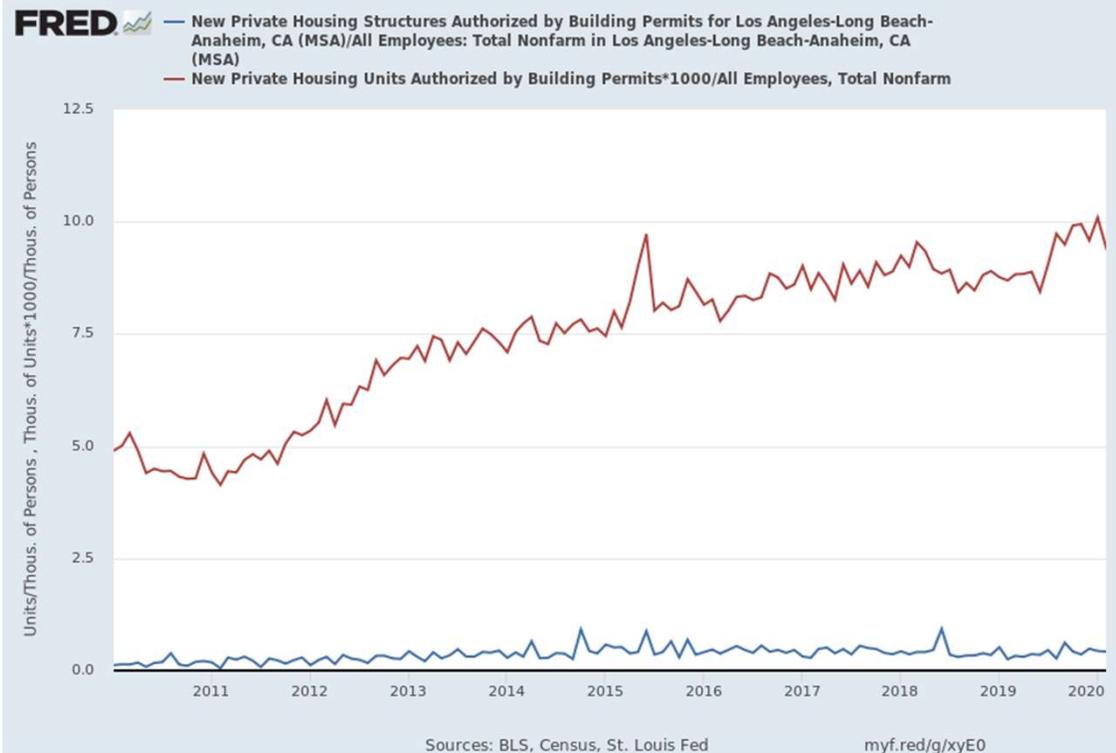


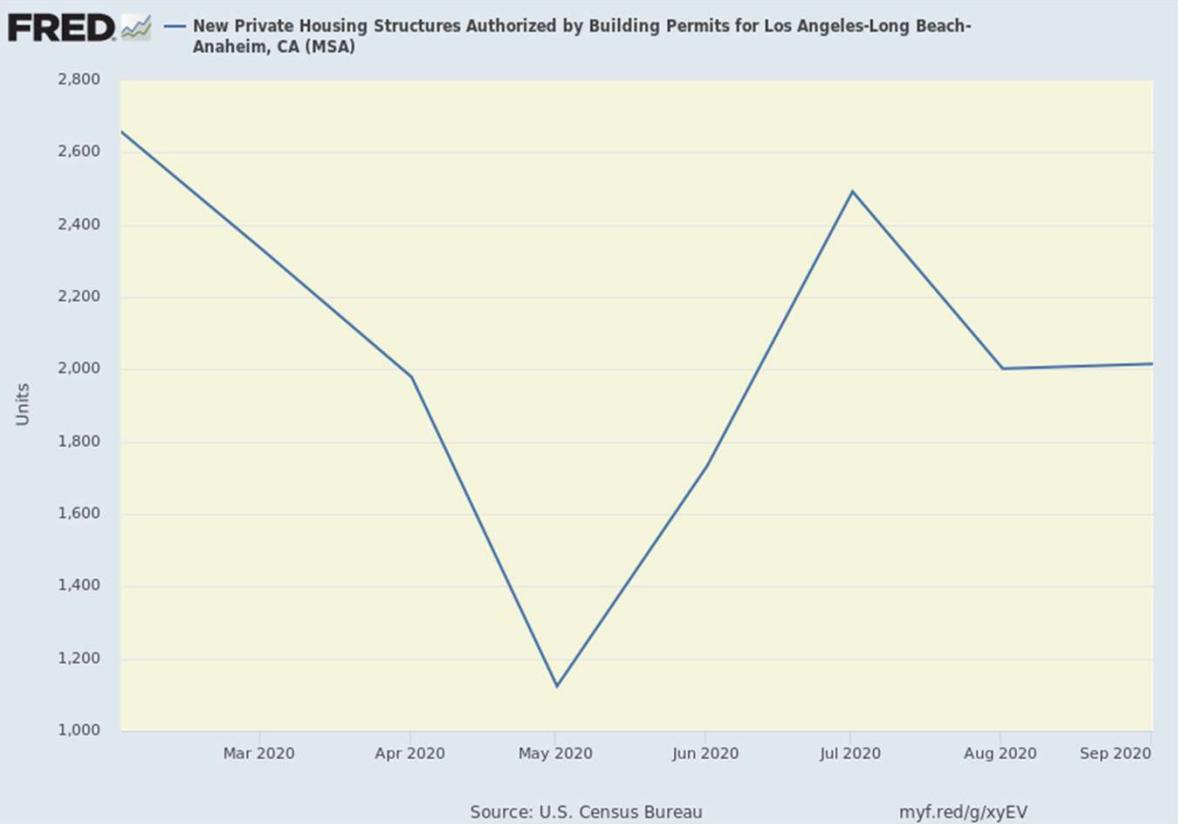






Source: Zillow.com





The outlook

- The pandemic is not a recession
- It's a natural disaster – the important thing is resilience
- What is the economic response to a natural disaster?
 - Relief for those hardest hit
 - Mitigation in shelter markets



Economic diversification and the resiliency hypothesis: Evidence from the impact of natural disasters on regional housing values



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ARTICLE INFO

JEL classification:
O5
R23

Keywords:
Resiliency
Natural disasters
Housing prices

ABSTRACT

We estimate the effect regional economic diversification has on the resiliency of the U.S. housing market, treating the spatial and temporal variation in natural disasters as exogenous shocks to regional economies. Our study demonstrates that diversity dampens both the magnitude and the duration of the effects of a disaster on local real estate values. Implications of our findings for the potential benefits of diversification in regional economies are discussed.

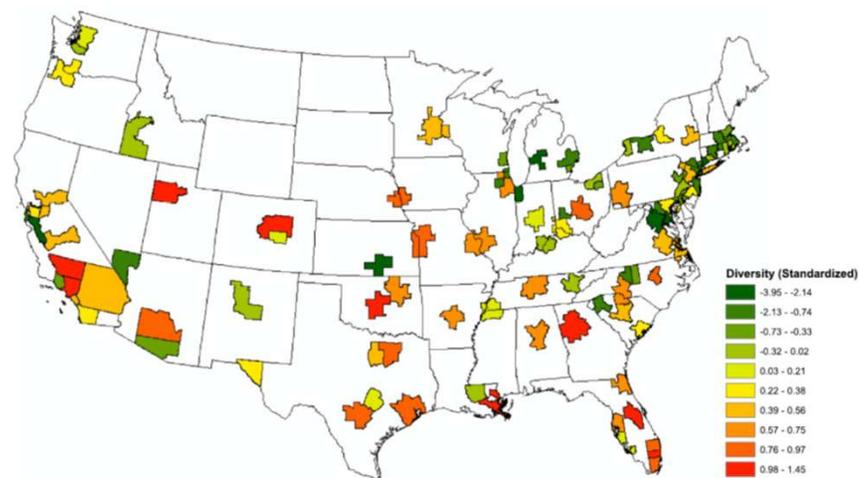
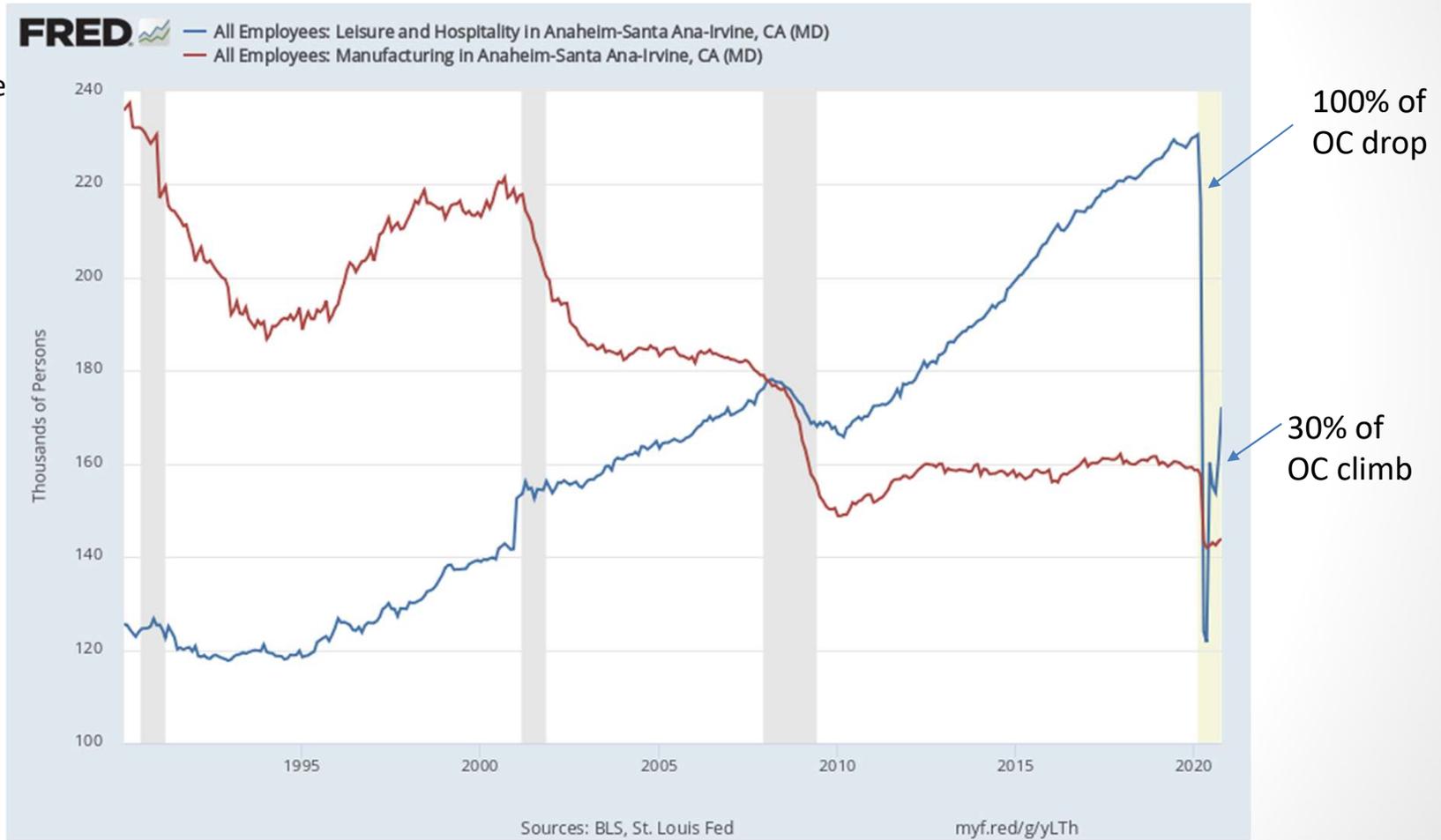


Fig. 1. Study Area. Notes: This figure presents a graphical illustration differences in economic diversification across MSAs in our sample by plotting the standardized (e.g. mean zero standard deviation one) diversity index for each MSA averaged over time within each MSA. Positive (negative) values of the standardized diversity index indicate that the MSA is, on average, more (less) diverse than the average MSA in the sample. The units of the standardized diversity index indicate how many standard deviations above or below any particular MSA is relative to the average MSA with respect to said MSAs level of economic diversity.

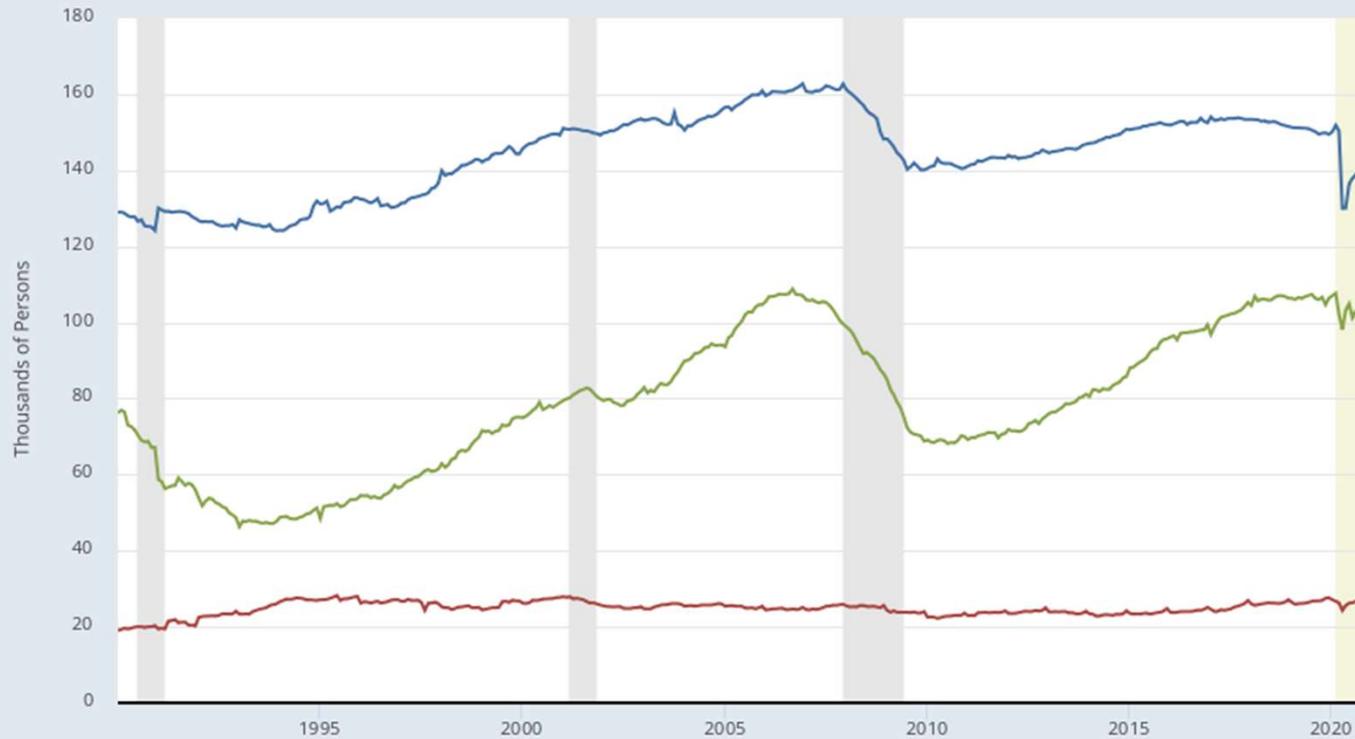
- Orange County has a relatively diversified industrial base (not *super-diversified*, but above average).
- And yet it did slightly worse than average in the first few months
- Possible explanations should rest on basic (export) sectors:
 - Leisure/hospitality
 - Manufacturing

- (Over)re



FRED

- All Employees: Retail Trade In Anaheim-Santa Ana-Irvine, CA (MD)
- All Employees: Transportation and Utilities: Transportation and Warehousing In Anaheim-Santa Ana-Irvine, CA (MD)
- All Employees: Construction In Anaheim-Santa Ana-Irvine, CA (MD)



Sources: BLS, St. Louis Fed

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- Though many sectors were affected, Leisure/Hospitality more than accounts for steep drop in OC employment
- Especially when multiplier effect is considered (transportation, retail, etc.)
- Recovery is not complete until Disneyland opens up.

The long run is secure, even if Elon moves to Texas

- OC has a lot going for it that other places don't
- Most obvious one is amenities
 - Climate
 - Shoreline
 - Man-made amenities
- Will always be an attractor for enterprise, people
- Supply constraints need not constrain as much as in the past
- Don't worry about property values

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



Orange County industrial sector (source: Cushman and Wakefield)

- The outlook of the industrial sector:
 - Robust, continued demand for logistics space
 - In OC the constraint is availability

Amazon buys old register printing plant for...
20/10/29/amazon-buys-old-register-printing-plant-for-63-2-million/
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THE OCR Amazon buys old Register printing plant for...

BUSINESS · News

Amazon buys old Register printing plant for \$63.2 million

The online retailer plans to demolish the old printing plant warehouse and build a 112,485-sq-ft distribution center serving Orange County.



SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



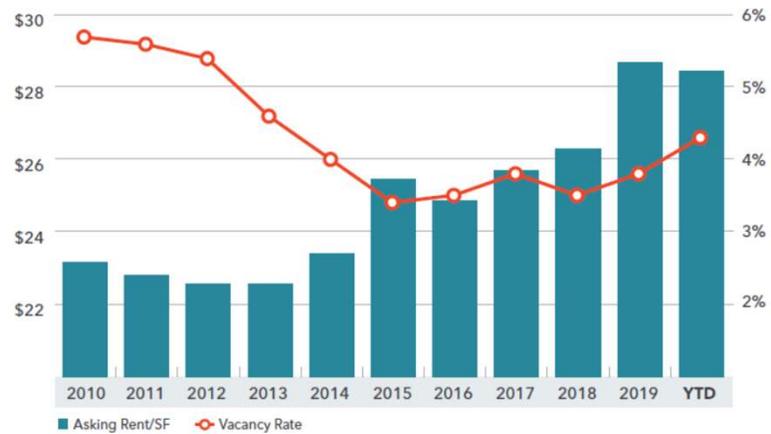
Orange County office sector (source: Cushman and Wakefield)

- The outlook for the office sector:
 - Cloudy with a chance of heavy weather
 - Remote work is more possible than previously realized
 - But will never be universal
 - In person meetings are still productive
 - Data security
 - Face time with the boss
 - But adjustments will be made
 - HVAC/ Cleanliness
 - IT
 - Green tech/Sustainability
 - Office layouts will be different
 - In OC, a fair amount of slack in the system, so even after economic return, could still be soft

NEW RETAIL CONSTRUCTION & ABSORPTION



AVERAGE ASKING RENT/SF & VACANCY RATE



- Orange County retail sector (source: Kidder Matthews)

- The outlook for the retail sector
- Also murky
 - Online retail will carry on as before
 - Personal services were carrying the flag for retail health, but this was the most affected by pandemic restrictions
- In the OC
 - Retail suffers but not to the extent as national trends
 - Outdoor vs. indoor shopping
 - Income and density of population => retail will be fine in the long run, though with lower rental rates

Outlook for OC

- Orange County has fared slightly worse than average in the months following the onset of the pandemic/curtailment of economic activity
- This is possibly due to its slightly higher-than-average reliance on tourism, which was one of the most impacted sectors in the curtailment
- But it's not a typical "recession":
 - "Recovery" can be swifter if virus mitigation takes hold.
 - The slightly higher-than-average diversity may mean a slightly quicker recovery...
 - ... particularly given its assets.