YARDI® Matrix

Investment Flies High in L.A.

Multifamily Winter Report 2017

Well-Paying Jobs Fuel Rent Growth

Development Hits Cycle Peak

Transactions Reach $2.4B

Market Analysis

Winter 2017

Contacts

Paul Fiorilla

Associate Director of Research

Paul.Fiorilla@Yardi.com

(800) 866-1124 x5764

Jack Kern

Director of Research and Publications

Jack.Kern@Yardi.com

(800) 866-1124 x2444

Author

Alex Girda

Senior Editor

Lack of Affordability Looms Large

Fueled by strong housing demand and continued gains across employment sectors, the Los Angeles economy is well positioned to grow. Investors have taken a liking to the metro's apartments, pushing sales volumes and per-unit prices to cyclical highs. However, widespread rent growth is pricing residents out of the urban core, leading to significant growth in the eastern regions of Los Angeles County and the Inland Empire.

The influx of startup firms and the upcoming Snap initial public offering have driven the metro's tech sector to new heights. Widely known for its entertainment industry, the metro took a major step in the sports arena as the National Football League's Rams returned in 2016, and the Chargers are set to move to Inglewood's new City of Champions stadium in 2017. The development will reshape Inglewood, as multiple apartment complexes along with retail and outdoor recreation facilities are currently under construction.

Underpinned by rising demand, development activity is at its highest point this cycle. The pipeline consists of more than 70,000 units, which will produce continued inventory expansion for years. Despite the significant new development, the rate of expansion is in line with the national average, meaning that rent pressure will continue in 2017. As a result, we expect rents to increase 5.5% this year.

Recent Los Angeles Transactions

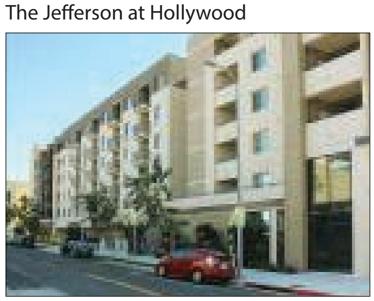
Runway at Playa Vista

City: Playa Vista, Calif.
Buyer: Invesco Real Estate
Purchase Price: $472 MM
Price per Unit: $1,124,011

Trio

City: Pasadena, Calif.
Buyer: Panda Restaurant Group
Purchase Price: $154 MM
Price per Unit: $506,579

The Jefferson at Hollywood



City: Hollywood, Calif.
Buyer: Redwood Partners
Purchase Price: $133 MM
Price per Unit: $490,741

Rubix Hollywood

City: Hollywood, Calif.
Buyer: New York Life Real Estate Investors
Purchase Price: $109 MM
Price per Unit: $500,000

To Subscribe

Hollie Zepke

Audience Development Specialist

Hollie.Zepke@Yardi.com

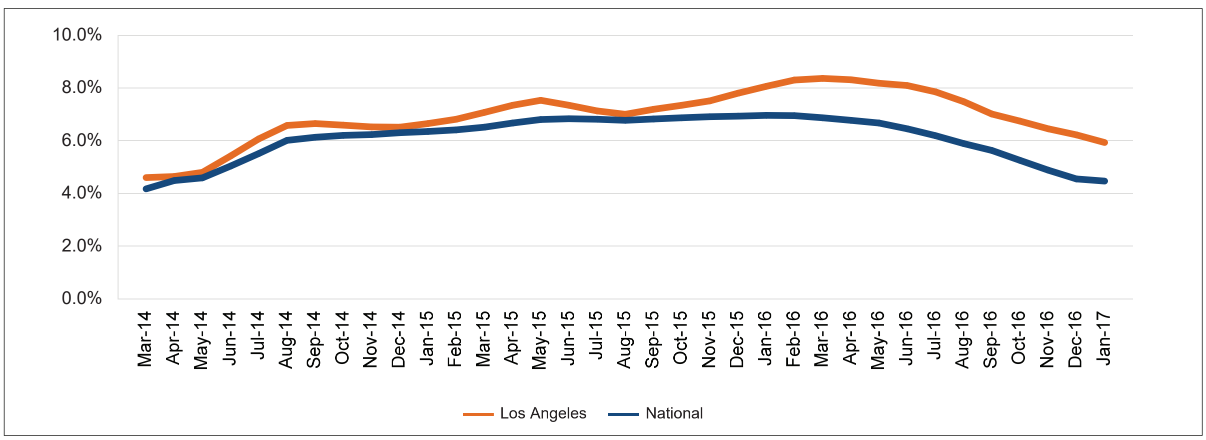
(800) 866-1124 x5389

On the cover: Photo by photoquest7/iStockphoto.com

Rent Trends

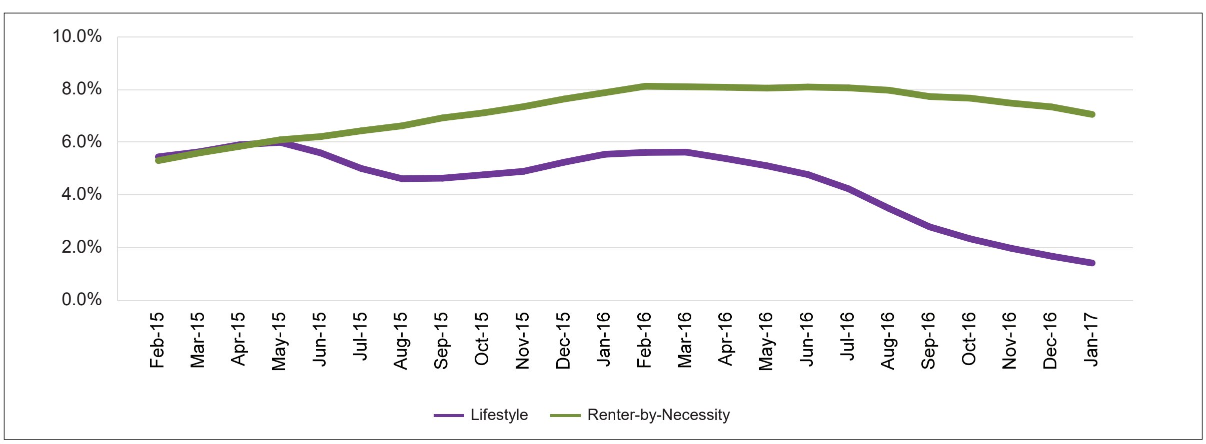
- Average Los Angeles rents were up 5.9% year-over-year in January, 150 basis points above the national growth rate. According to the most recent Yardi Matrix survey, rents reached $2,054, nearly $700 above the national average of $1,315. Ballooning home prices have made homeownership more difficult, and in turn put downward pressure on apartment vacancy rates. Income growth is slower than rent growth, which has led local authorities to push for new affordable housing measures.
- Rents in the working-class Renter-by-Necessity (RBN) segment increased 7.1% in January, as the bulk of renter interest was directed at workforce housing. RBN rents averaged $1,755. Meanwhile, upscale Lifestyle rents grew at a far more moderate rate of 1.4% year-over-year, to $2,874.
- Rent growth occurred across the metro, in urban core submarkets such as Koreatown (13.1%), Baldwin Park (13.5%) and Silverlake (14.1%), as well as on the fringes in Artesia (17.8%) and SW Long Beach (10.8%). Rents grew 10.1% in Compton, the only submarket where average rents were under $1,000.
- Despite the issues with affordability and the growing amount of Lifestyle supply, we expect continued strong demand will enable rents to keep rising, by 5.5% in 2017.

Los Angeles vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: YardiMatrix

Los Angeles Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)



Source: YardiMatrix

Economic Snapshot

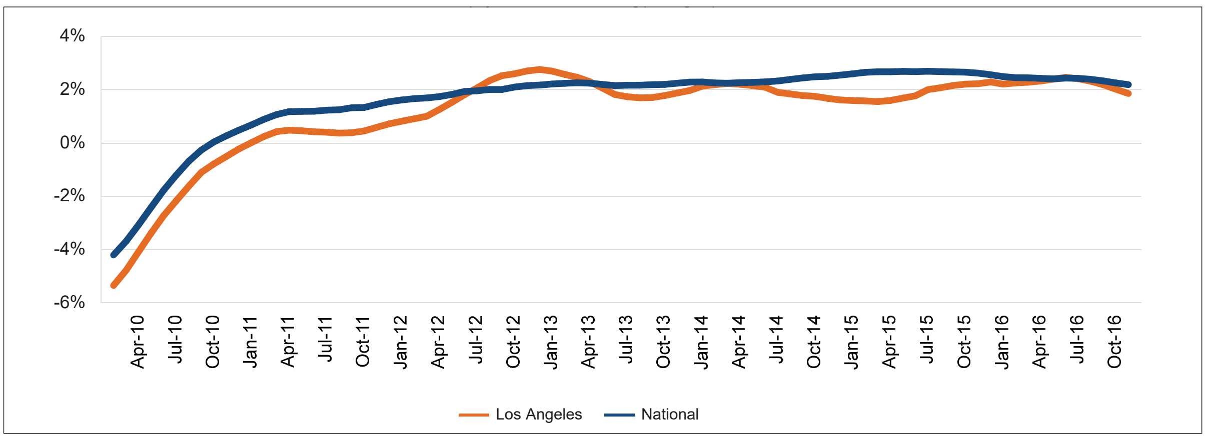
- Los Angeles added 65,300 jobs in the 12 months ending in November—led by the education, health care and leisure sectors, which accounted for more than half of the metro's job gains. Employment increased 1.9% year-over-year, slightly below the 2.2% national rate. Government and financial activities also contributed to the metro's employment growth, as each sector increased its labor force by 2.3%.

- Technology is one of the fastest-growing employment sectors in the metro, adding 5,100 jobs. Apartments in the "Silicon Beach" area are poised to reap the benefits, as demand for housing grows. The upcoming Snap IPO, with a projected valuation of roughly $20 billion, will be a milestone for the Los Angeles tech community. There is hope that the slate of spinoffs and startups will continue to drive employment growth.

- Office-using employment sectors all performed well. Like the metro's multifamily market, L.A.'s office real estate market is off to another year of solid growth, as prices and total investment volume are at all-time highs.

- The only employment sectors to decline over the past year were manufacturing and construction, which lost a combined 9,100 jobs. The increasing pipeline of both office and multifamily projects is likely to help the sector rebound from the recent slide in employment, which has chopped 3.7% off its total workforce.

Los Angeles vs. National Employment Growth (Year-Over-Year)



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

Los Angeles Employment Growth by Sector (Year-Over-Year)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
65	Education and Health Services	786	17.8%	21,200	2.8%
70	Leisure and Hospitality	510	11.5%	17,300	3.5%
90	Government	590	13.4%	13,500	2.3%
60	Professional and Business Services	620	14.0%	6,600	1.1%
50	Information	211	4.8%	5,100	2.5%
55	Financial Activities	221	5.0%	4,900	2.3%
40	Trade, Transportation and Utilities	846	19.1%	4,700	0.6%
80	Other Services	155	3.5%	1,100	0.7%
30	Manufacturing	353	8.0%	-4,200	-1.2%
15	Mining, Logging and Construction	127	2.9%	-4,900	-3.7%

Sources: YardiMatrix, Bureau of Labor Statistics

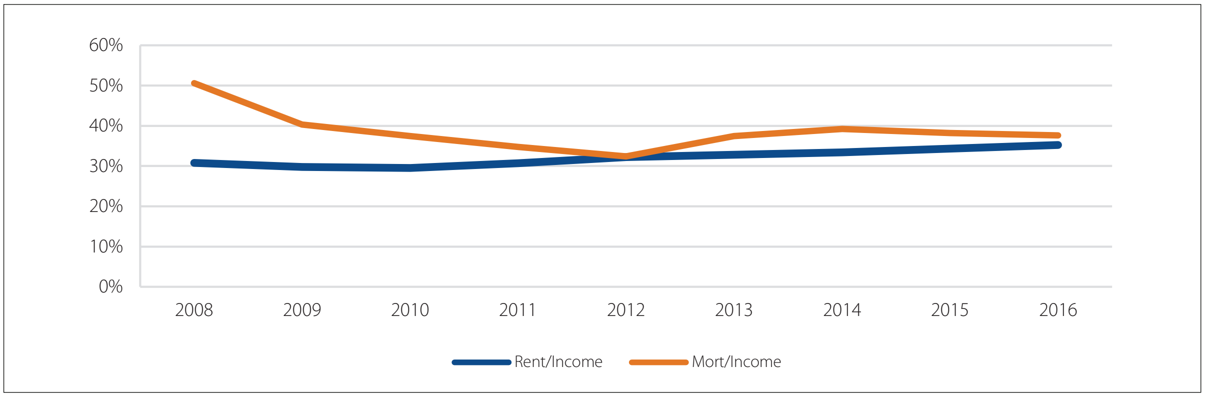
Demographics

Affordability

- Despite strong employment gains, many of which were high-paying, affordability remains an issue. The median home price is now well above its pre-recession levels. In 2016, the median home price reached $532,553, a 39% increase from the cycle trough in 2011.

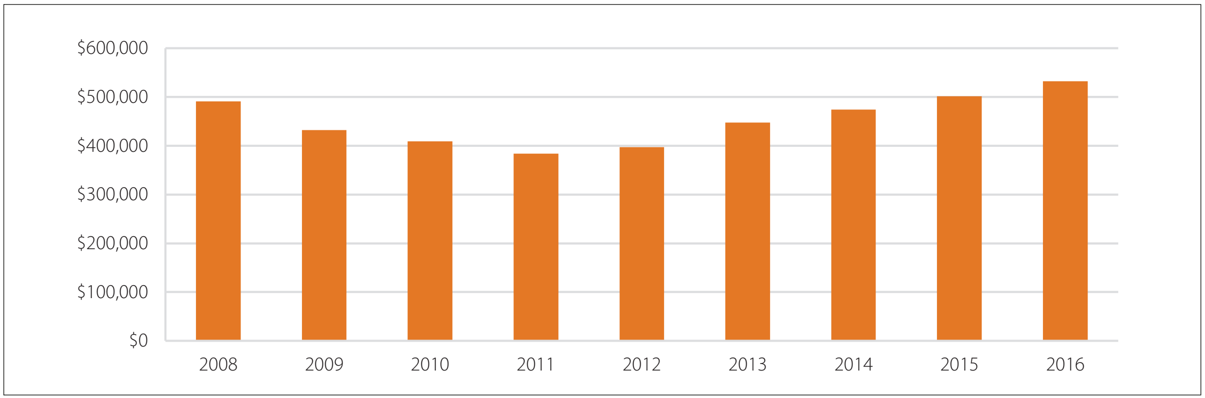
- As a result of rising property values, both renting and owning account for more than a third of the metro's median income. Significant home price appreciation has forced many households to remain as renters, thus driving demand for apartments and additional rent growth. With an average rent of $2,054, L.A. is one of the most expensive metros in the U.S.

Los Angeles Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Los Angeles Median Home Price



Source: Moody's Analytics

Population

- Between 2011 and 2015, L.A. added nearly 400,000 new residents, a growth rate of 2.9% during that interval.

- L.A. has grown at a rate of 0.7% year-over-year, roughly 10 basis points slower than the U.S.

Los Angeles vs. National Population

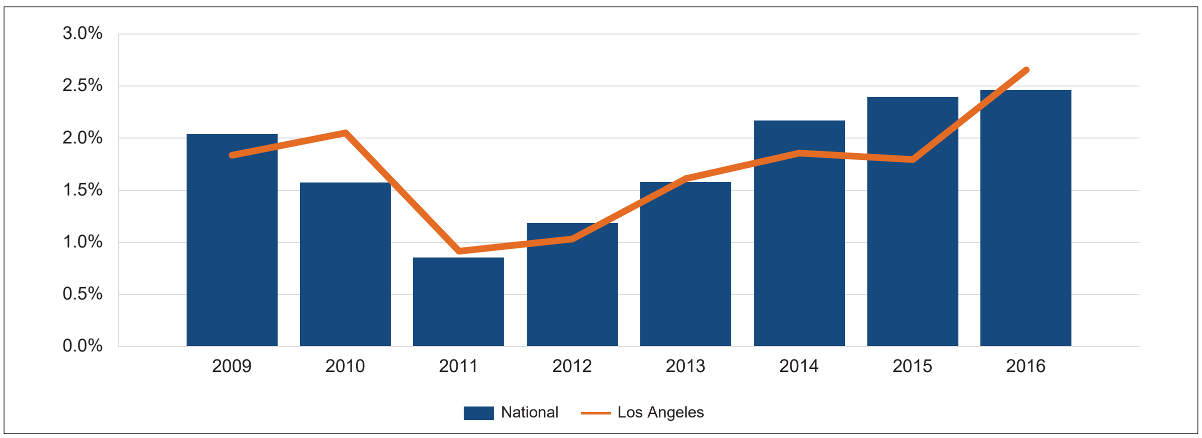
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Los Angeles-Long Beach-Glendale, Calif., Metropolitan Division	12,952,686	13,059,779	13,165,355	13,254,397	13,340,068

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

Supply

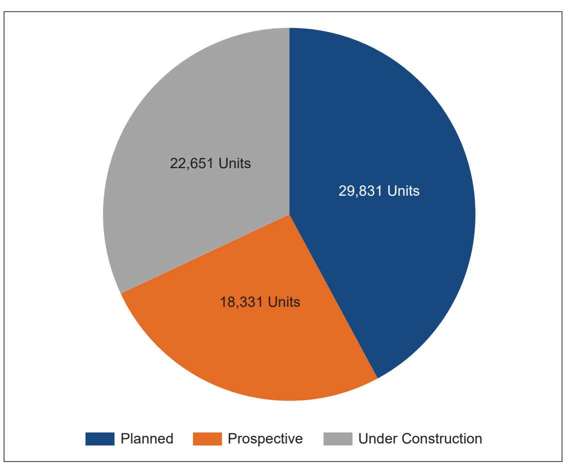
- Approximately 6,800 units came online in 2016, the most to be delivered in a year this cycle. The corresponding 2.7% housing inventory expansion rate is the most significant in years, highlighting intensified development activity due to high demand. Despite the growing amount of supply, the average occupancy rate of stabilized properties, which was 96.8% at the end of 2016, remains stable.
- The multifamily pipeline consists of more than 70,000 units in various phases of development. Projects that were underway as of January account for about a third of the pipeline. Another 30,000 units were entitled, pointing toward further stock expansion, as demand remains very high.
- Developers are focusing their efforts on downtown Los Angeles, where more than 7,000 units are underway. Projects totaling some 3,000 units are under construction just north and south of Los Angeles International Airport, as the rise of "Silicon Beach" has attracted a large amount of new development due to high-income jobs in the area.
- Sausalito at Villas at Playa Vista is the largest property to come online in 2017, with the project adding 732 units to the El Segundo - Playa del Rey submarket.

Los Angeles vs. National Completions as a Percentage of Total Stock (as of January 2017)



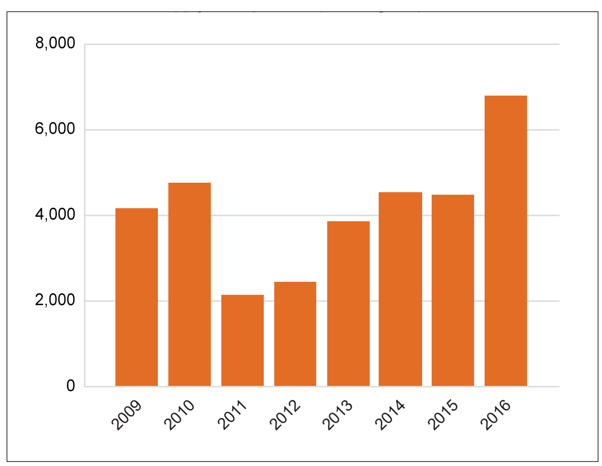
Source: YardiMatrix

Development Pipeline (as of January 2017)



Source: YardiMatrix

Los Angeles Completions (as of January 2017)

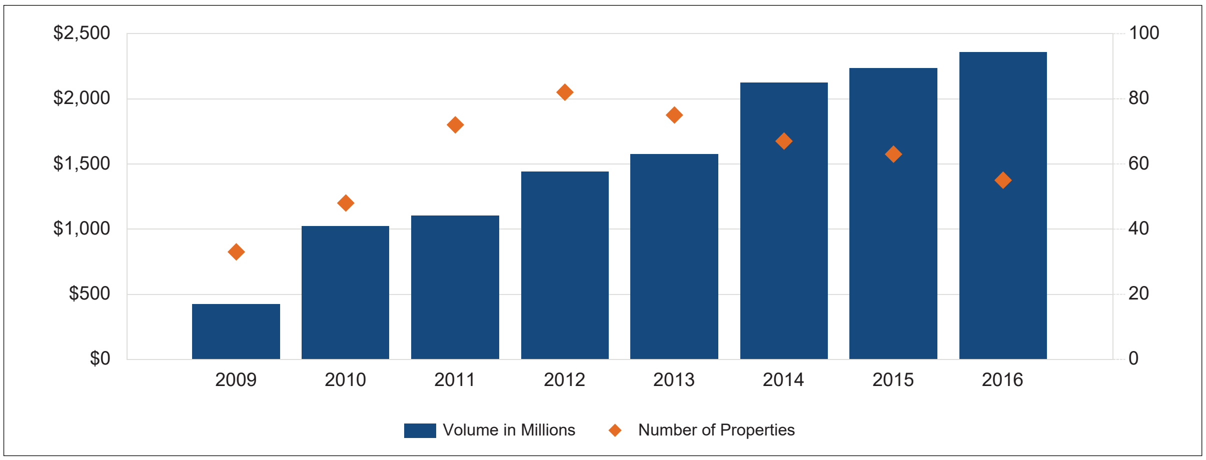


Source: YardiMatrix

Transactions

- Total transaction volume continued to grow in 2016, ending the year at $2.4 billion, a new cyclical high for multifamily investment sales. Los Angeles remains one of the most sought-after markets for both domestic and international investment, and as a result, acquisition yields are among the lowest in the country.
- Per-unit prices have escalated during the cycle, reaching $289,901 for 2016, roughly 77% over the 2009 level and more than double the national average.
- Invesco's $472 million purchase of Runway at Playa Vista was the largest transaction in the market in 2016. The company paid Alcion Ventures more than $1.1 million per unit for the four-story Class A property in the El Segundo-Playa del Rey submarket. Other investment hotspots were located around the Hollywood Hills, where $371 million in multifamily assets traded over the 12 months ending in January.

Los Angeles Sales Volume and Number of Properties Sold (as of January 2017)



Source: YardiMatrix

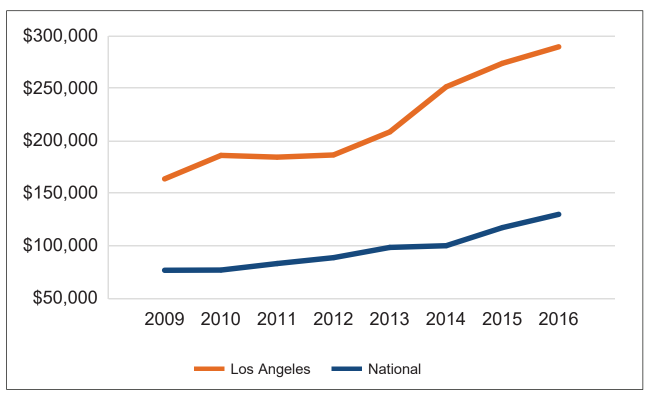
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
El Segundo - Playa del Rey	472
Hollywood Hills East	242
Santa Monica - Brentwood	168
Pasadena/Arcadia	154
Rolling Hills - Palos Verdes	146
Hollywood Hills West	129
Santa Fe Springs/Norwalk	119
West Covina	93

Source: YardiMatrix

[1] From February 2016 to January 2017

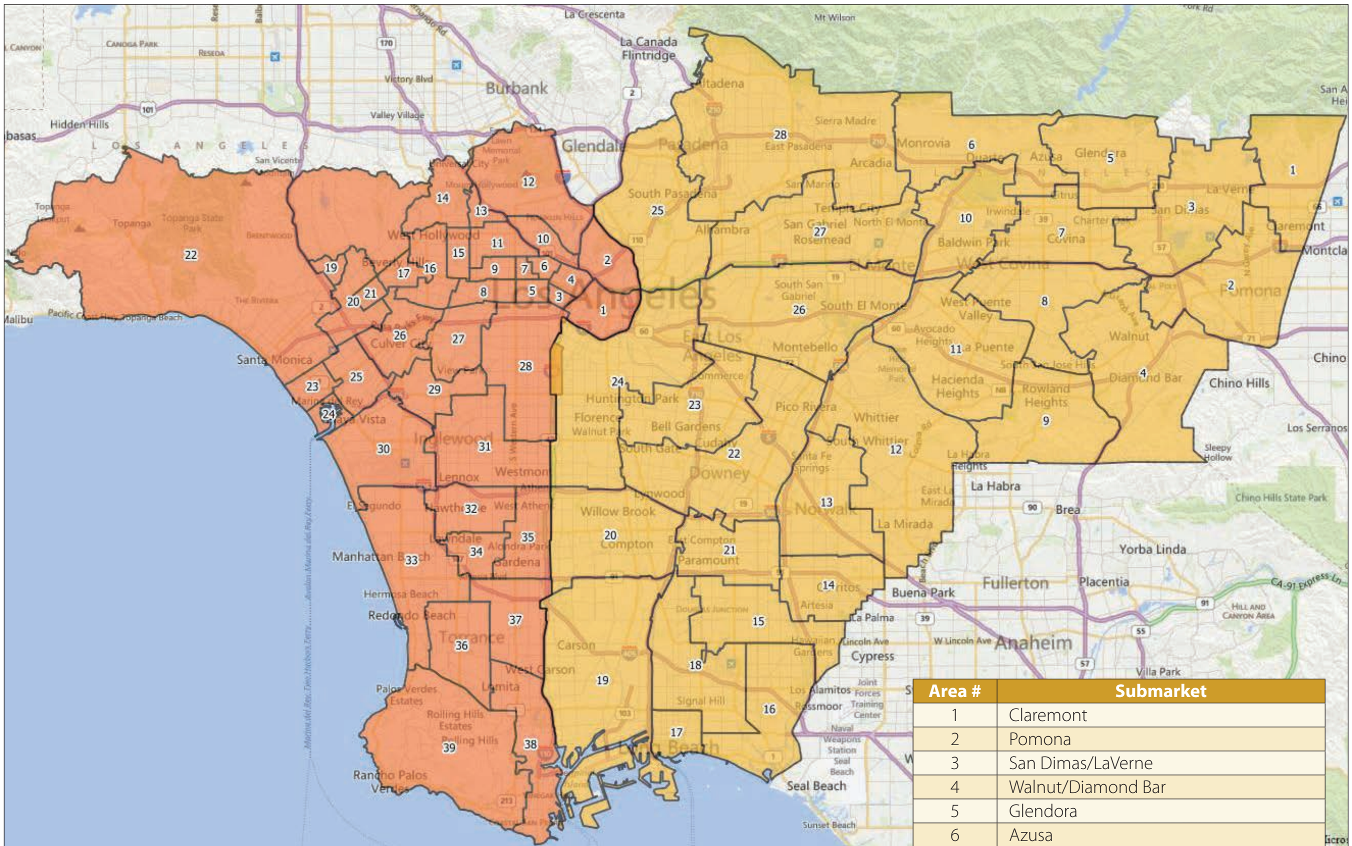
Los Angeles vs. National Sales Price per Unit



Source: YardiMatrix

Photo by narvikk/iStockphoto.com

Los Angeles Submarkets



Area #	Submarket
1	CBD
2	Chinatown
3	Westlake South (Pico)
4	Westlake North
5	Koreatown
6	Mid-Wilshire East
7	Mid-Wilshire West
8	Park La Brea South
9	Park La Brea North
10	Northeast Los Angeles
11	East Hollywood
12	Griffith Park
13	Hollywood Hills East
14	Hollywood Hills West
15	Central Hollywood
16	West Hollywood
17	Beverly Hills South
19	Bel-Air
20	Westwood

Area #	Submarket
21	Century City
22	Santa Monica
23	Venice
24	Marina del Rey
25	Mar Vista
26	Culver City
27	Hyde Park
28	Adams/Normandie/Hoover
29	Ladera Heights
30	El Segundo
31	Inglewood
32	Hawthorne
33	Beach Cities
34	Lawndale
35	Gardena
36	West Torrance
37	East Torrance
38	San Pedro
39	Rolling Hills/Palos Verdes

Area #	Submarket
1	Claremont
2	Pomona
3	San Dimas/LaVerne
4	Walnut/Diamond Bar
5	Glendora
6	Azusa
7	Covina
8	West Covina
9	Rowland Heights
10	Baldwin Park/Monrovia
11	La Puente/Hacienda Heights
12	Whittier/La Mirada
13	Santa Fe Springs
14	Artesia
15	Lakewood
16	East Long Beach
17	Southwest Long Beach
18	Northwest Long Beach
19	West Long Beach
20	Compton
21	Bellflower/Paramount
22	Downey/South Gate
23	Maywood/Bell
24	Southeast Los Angeles
25	Northeast Los Angeles
26	South El Monte/Rosemead
27	Alhambra/El Monte
28	Pasadena/Arcadia

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.

What's the best choice for CRE news & views?

With so much information out there, selecting the best source can be daunting. Keep it simple. *Commercial Property Executive* and *Multi-Housing News* will keep you up-to-date on real estate news, data, trends and analysis—daily, weekly or monthly. Trust the leading integrated industry information resource to help you make informed decisions and achieve your business goals.

COMMERCIAL PROPERTY EXECUTIVE™

cpexecutive.com

MHN MULTI-HOUSING NEWS

multi-housingnews.com

Visit our websites and sign up for our free emailed newsletters at **cpexecutive.com/subscribe** and **multi-housingnews.com/subscribe**.

DISCLAIMER

ALTHOUGH EVERY EFFORT IS MADE TO ENSURE THE ACCURACY, TIMELINESS AND COMPLETENESS OF THE INFORMATION PROVIDED IN THIS PUBLICATION, THE INFORMATION IS PROVIDED "AS IS" AND YARDI MATRIX DOES NOT GUARANTEE, WARRANT, REPRESENT OR UNDERTAKE THAT THE INFORMATION PROVIDED IS CORRECT, ACCURATE, CURRENT OR COMPLETE. YARDI MATRIX IS NOT LIABLE FOR ANY LOSS, CLAIM, OR DEMAND ARISING DIRECTLY OR INDIRECTLY FROM ANY USE OR RELIANCE UPON THE INFORMATION CONTAINED HEREIN.