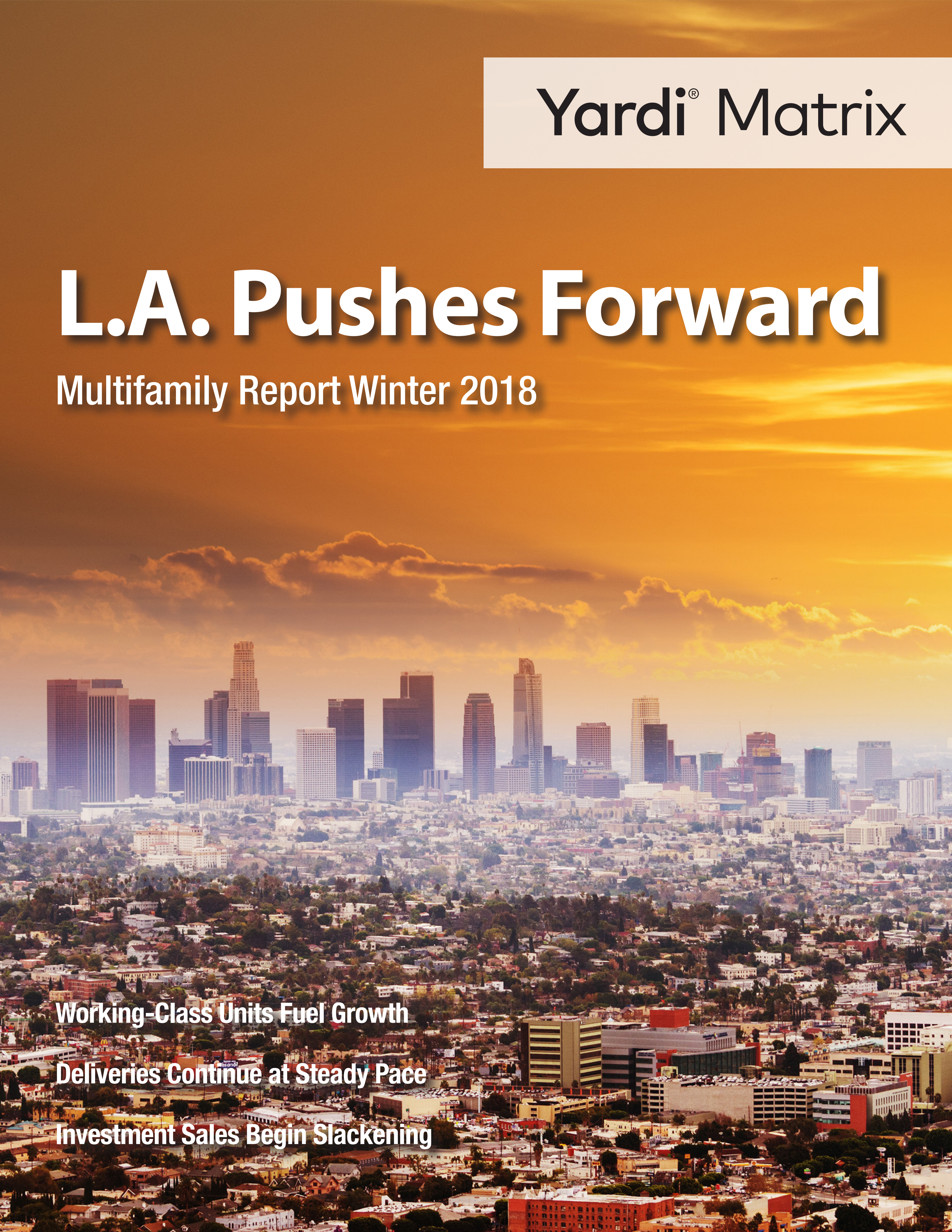
Yardi® Matrix

L.A. Pushes Forward

Multifamily Report Winter 2018



Working-Class Units Fuel Growth

Deliveries Continue at Steady Pace

Investment Sales Begin Slackening

Market Analysis

Winter 2018

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

To Subscribe

Hollie Zepke
Audience Development Specialist
Hollie.Zepke@Yardi.com
(800) 866-1124 x5389

Interest Stays High in L.A.

Following a strong showing in 2016, rents in Los Angeles continued to grow this year, albeit at a more moderate pace. At the end of October, the 3.6% year-over-year improvement rate was still well above the 2.3% national average. The bulk of growth results from demand for workforce and affordable units, but limited deliveries in that area have pushed up rent gains in the Renter-by-Necessity segment—at 5.0% year-over-year through October. Low acquisition yields and some investor reticence have slowed down transaction activity to cycle averages.

Employment growth is heavily driven by health care and education, where 36,000 jobs were added in the 12 months ending in September. Construction jobs continued to be an important part of the city's labor landscape. A robust development pipeline in multifamily and commercial properties continues to push growth, even as labor shortages hamper progress across most U.S. metros. Having been named host of the 2028 Summer Olympics, Los Angeles intends to leverage its extensive stock of athletic facilities, which should help the metro turn a profit, as it did in both 1932 and 1984. Municipal officials also hope that preparations will result in the addition of a modern transit system, which the city direly needs.

Although roughly 25,000 units were underway at the end of October, indicating strong demand, rent growth continues to derive from a disconnect between growing supply in the Lifestyle segment and demand for workforce properties.

Recent Los Angeles Transactions

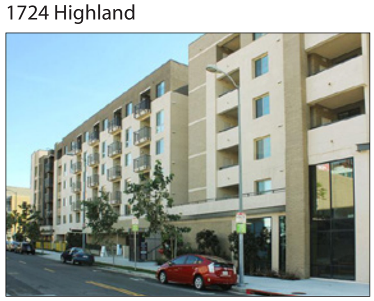
Trio

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

The Current

City: Long Beach, Calif.
Buyer: Alan Singer
Purchase Price: $133 MM
Price per Unit: $595,740

1724 Highland



City: Los Angeles
Buyer: Redwood Partners
Purchase Price: $133 MM
Price per Unit: $490,741

Ashton Sherman Village

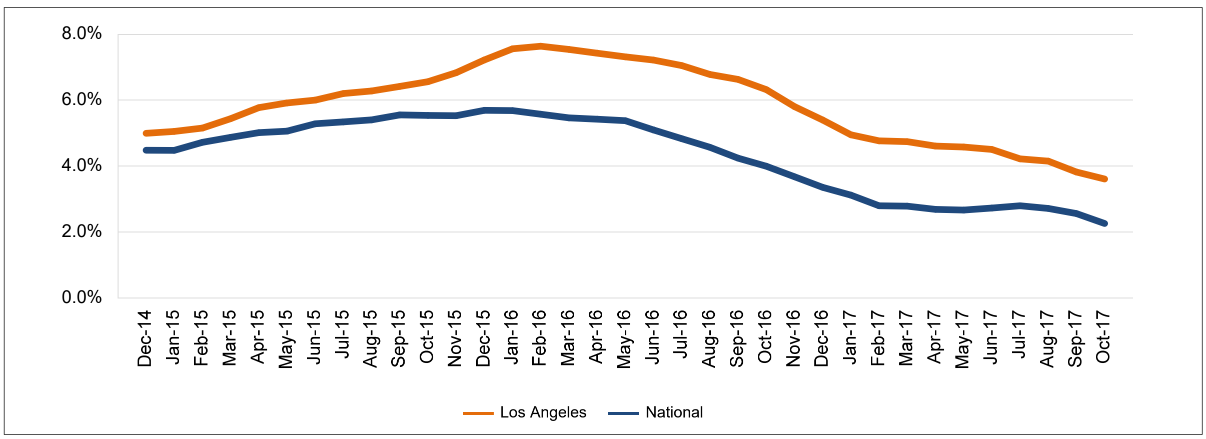
City: Los Angeles
Buyer: Essex Property Trust
Purchase Price: $118 MM
Price per Unit: $446,970

On the cover: Photo by Gabriele Maltinti/iStockphoto.com

Rent Trends

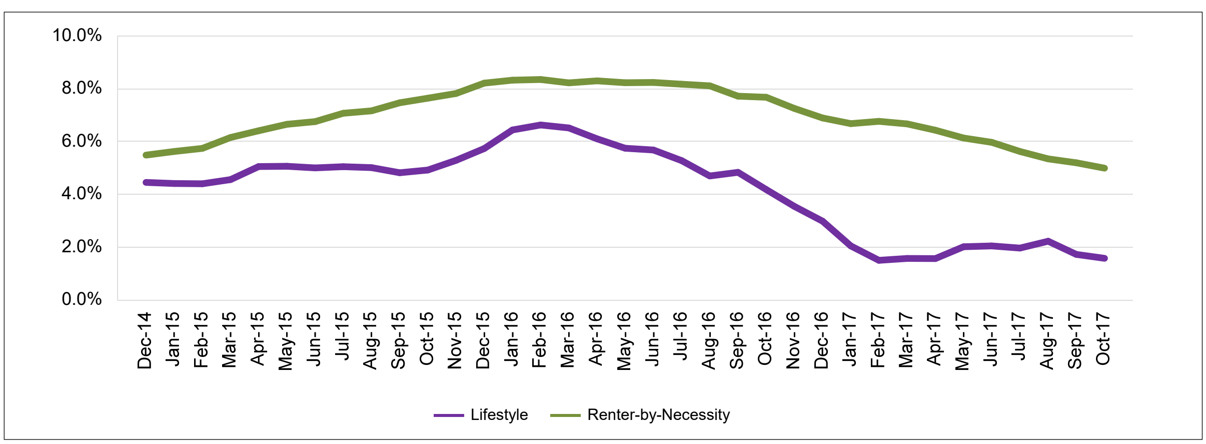
- Los Angeles rents rose 3.6% year-over-year through October, 130 basis points above the national rate. While rent gains remain below the 2016 growth rate, the market's strong appeal continues to drive housing demand across the metro, pushing the development pipeline forward.
- Growth in the working-class Renter-by-Necessity segment was up 5.0% year-over-year. Affordability issues are creating housing demand in lower-priced housing units, where supply is lagging behind. As the bulk of deliveries in metro Los Angeles is in Lifestyle assets, the disconnect between supply and demand has tempered upscale rent growth, which was up 1.6% year-over-year to $2,710.
- East L.A. County submarkets with inventory consisting mostly of fully affordable communities recorded some of the highest rent hikes: Maywood/Bell/Montebello (22.5%) and East Los Angeles South (11.5%). Units in the San Fernando Valley submarkets of Lancaster (up 12.0% year-over-year), Palmdale (10.3%) and Lawndale (9.5%), where rents are roughly $1,000 below L.A.'s average, have seen rents rise at some of the highest rates.
- As deliveries are bound to continue at a strong rate, we expect rent growth to top out at 3.9% for the year. Demand for RBN units will continue to be high as the city's affordability issues are likely to persist.

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

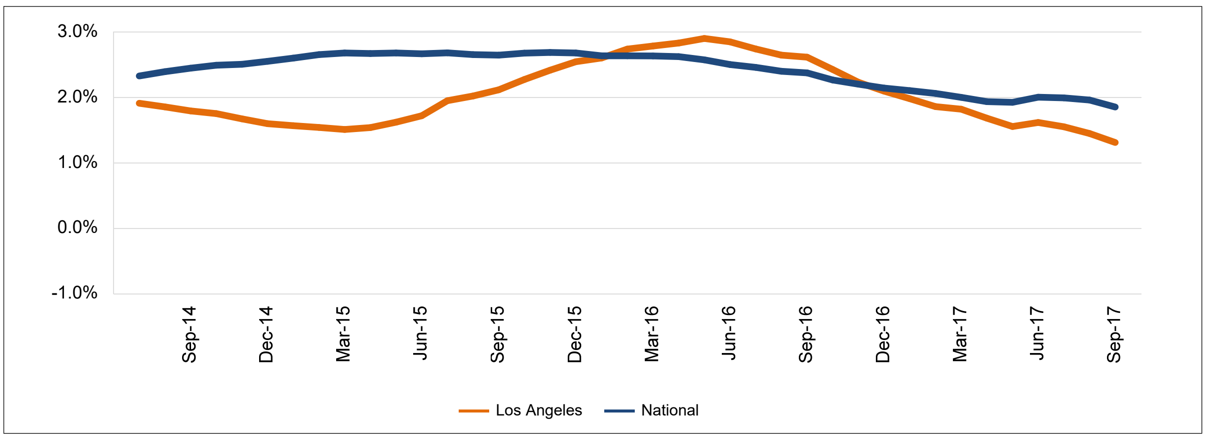
- Los Angeles added roughly 60,000 jobs in the 12 months ending in September, an employment growth rate of 1.3% year-over-year, 60 basis points below the national rate. The 35,900 positions added by education and health services, combined with a hiring stall in trade, transportation and utilities, is bridging the gap between the two as the metro's largest employment sectors. A case in point is Kaiser Permanente's latest Baldwin Hills–Crenshaw Medical Offices facility opening as the company further expands in the Los Angeles metro.

- Despite the current labor shortage in the construction sector, the city's extensive development pipeline has pushed employment to 7,200 new positions. Roughly 6,700 units are now under construction in downtown L.A. alone. Meanwhile, a bustling office development pipeline and nearly 90,000 units in the planning and permitting stages point to further employment growth.

- Office market fundamentals continued their strong run during the year's first three quarters, with vacancy still trending below the 15% mark, while rents continued their hike. Leasing activity continued to be high as absorption remained positive.

- The manufacturing and government sectors both contracted, jointly losing roughly 10,000 jobs since September 2016.

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	799	18.0%	30,500	4.0%
80	Other Services	163	3.7%	8,700	5.6%
15	Mining, Logging and Construction	145	3.3%	6,200	4.5%
60	Professional and Business Services	619	13.9%	6,100	1.0%
70	Leisure and Hospitality	521	11.7%	5,400	1.0%
50	Information	230	5.2%	2,600	1.1%
55	Financial Activities	221	5.0%	1,200	0.5%
40	Trade, Transportation and Utilities	830	18.7%	400	0.0%
30	Manufacturing	354	8.0%	-4,600	-1.3%
90	Government	566	12.7%	-5,700	-1.0%

Sources: YardiMatrix, Bureau of Labor Statistics

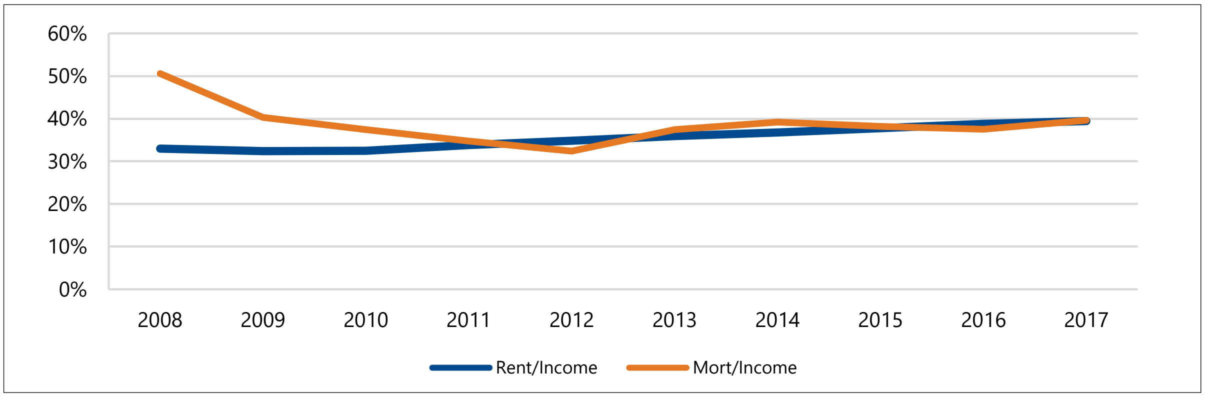
Demographics

Affordability

- Property values continued to rise in 2017, pushing the median home value to $553,910, 44% more than it was in 2011, when the market hit its lowest point this cycle. This steady and consistent rise has led the market to the point where median income earners struggle to afford the houses currently on the market.

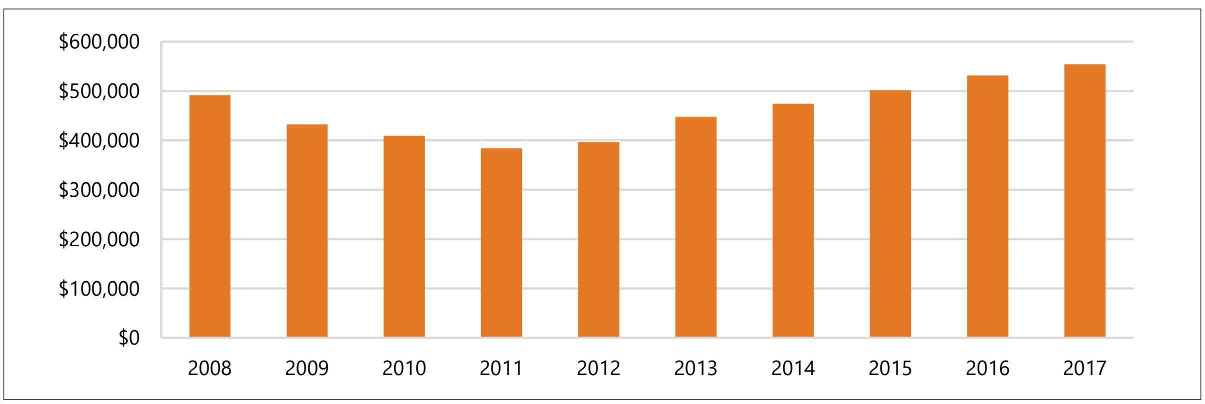
- Rents have steadily grown throughout the cycle, to an average of $2,040 as of October. Home prices have driven household creation in rentals, leading rents to take up roughly the same amount as the average mortgage payment. The result is more pressure on L.A. residents, who now need to seek more affordable options outside of the metro, leading to growing demand in the San Fernando Valley and the Inland Empire.

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

- Population growth continued to slow down in 2016, up only 0.3%, at less than half the 0.7% national rate.

- Affordability continues to be a significant hindrance to Los Angeles' population growth.

Los Angeles vs. National Population

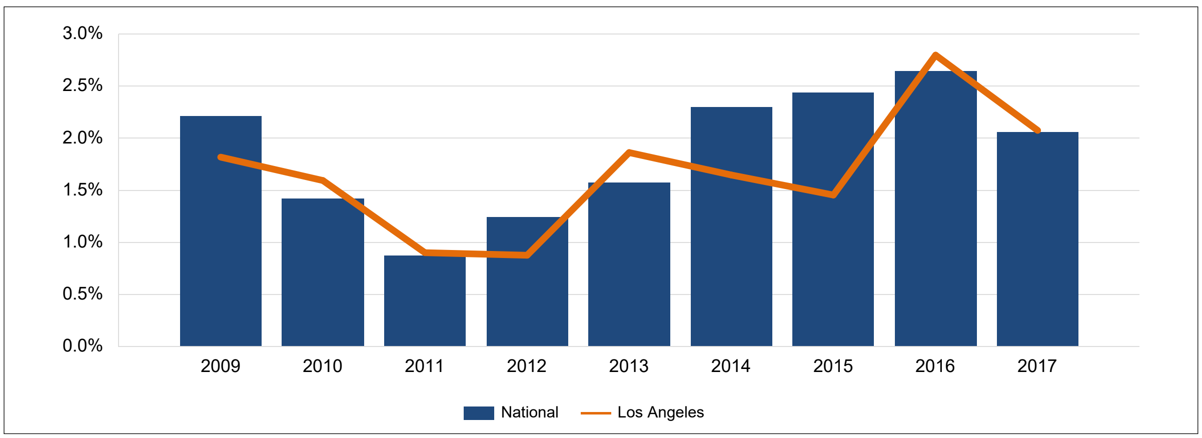
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Los Angeles Metro	9,953,555	10,015,436	10,066,615	10,112,255	10,137,915

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

Supply

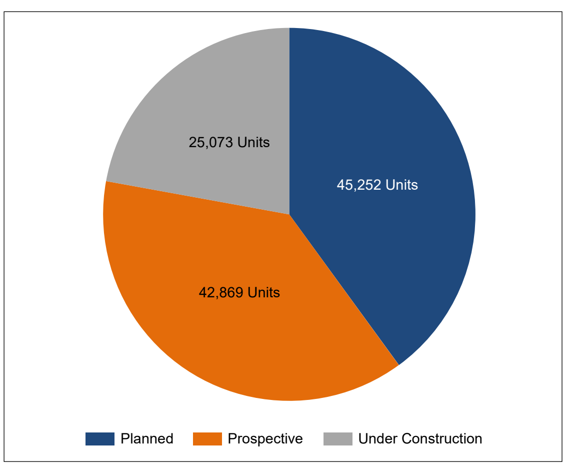
- Roughly 7,300 units were added during the year's first 10 months, the inventory expansion rate largely keeping in line with the national trend. Although demand remains very high, the labor shortage in the construction sector has resulted in a slowdown compared to 2016, when 11,100 units were delivered.
- More than 25,000 units are underway in Los Angeles, while another 88,000 units are in the planning and permitting stages. With the occupancy rate in stabilized properties at 96.4%, development will continue to remain high as housing demand can still quickly absorb new completions.
- Developers continue to focus on the city's downtown, where more than 6,700 units are being built. Submarkets in Hollywood also have an extensive pipeline: East Hollywood (1,433 units under construction), Hollywood Hills East (1,250), North Hollywood S (411) and West Hollywood (371). Although it has an occupancy rate of 96.3%, East Los Angeles is significantly lagging behind, with a total of only 2,259 units underway.
- Onni Group's 1212 South Flower community in downtown Los Angeles is the metro's largest project underway. Completion of the 730-unit development is estimated for 2020.

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



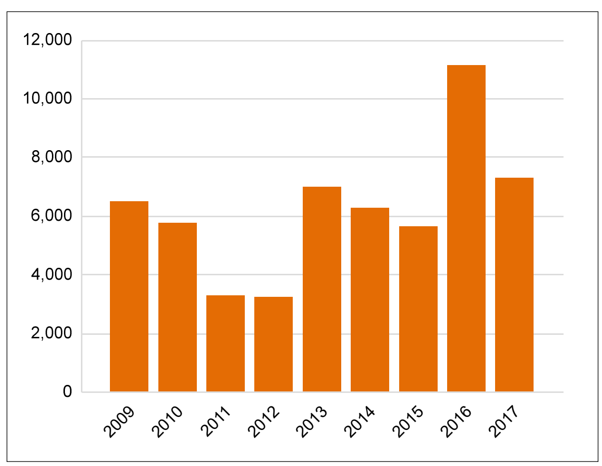
Source: YardiMatrix

Development Pipeline (as of October 2017)



Source: YardiMatrix

Los Angeles Completions (as of October 2017)

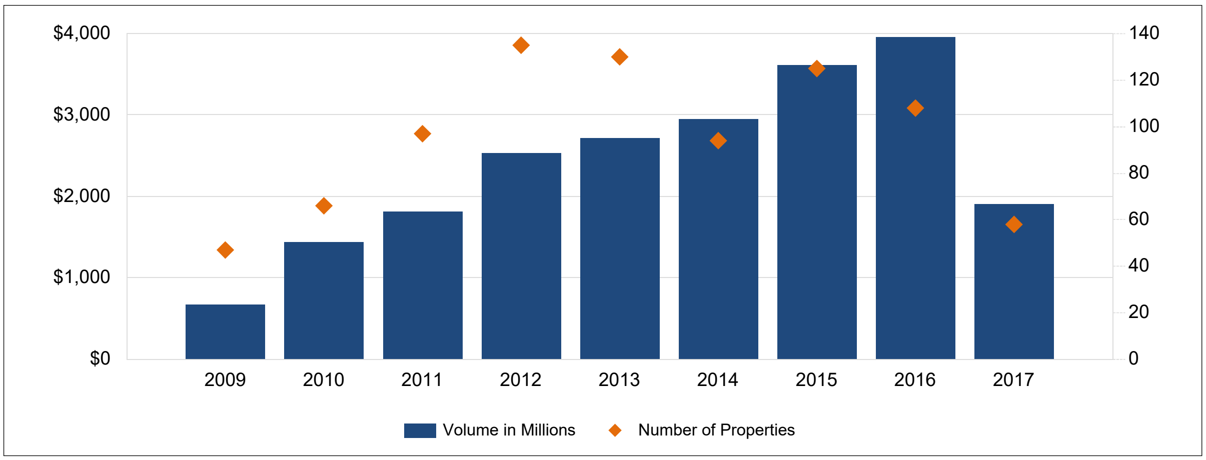


Source: YardiMatrix

Transactions

- While investors stayed active during the year's first 10 months, transaction volumes fell below the $2 billion mark. The market is currently on track to match 2012-2013 levels, when investment sales were in the $2.5 billion range. This would put 2017 right around the cycle average.
- As investors focus on acquiring in-demand workforce housing, the average per-unit price slid to $257,890 through October, $34,000 less than it was in 2016. More than two-thirds of property sales recorded through October are in the Renter-by-Necessity segment, further moderating the average per-unit price. Value-add Class B properties claim acquisition yields in the 4.8%-5.5% range, highlighting these assets' appeal.
- Transaction volumes were highest in Santa Monica–Brentwood ($445 million), Southwest Long Beach ($221 million) and North Hollywood South ($192 million).

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



Source: YardiMatrix

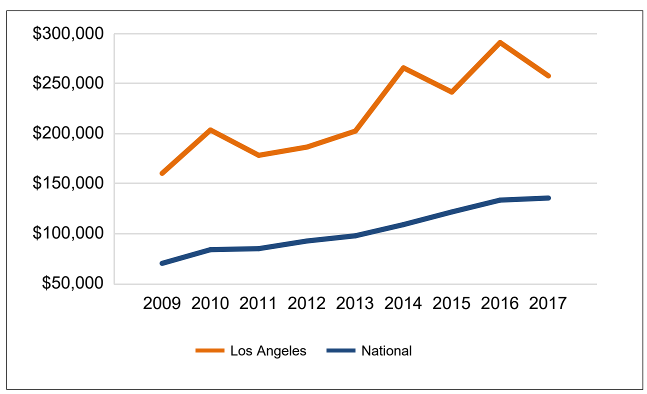
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Santa Monica–Brentwood	445
Southwest Long Beach	221
North Hollywood South	192
Downtown Los Angeles	180
Pasadena/Arcadia	165
West Torrance	158
Hollywood Hills East	144
Sherman Oaks	143

Source: YardiMatrix

[1] From November 2016 to October 2017

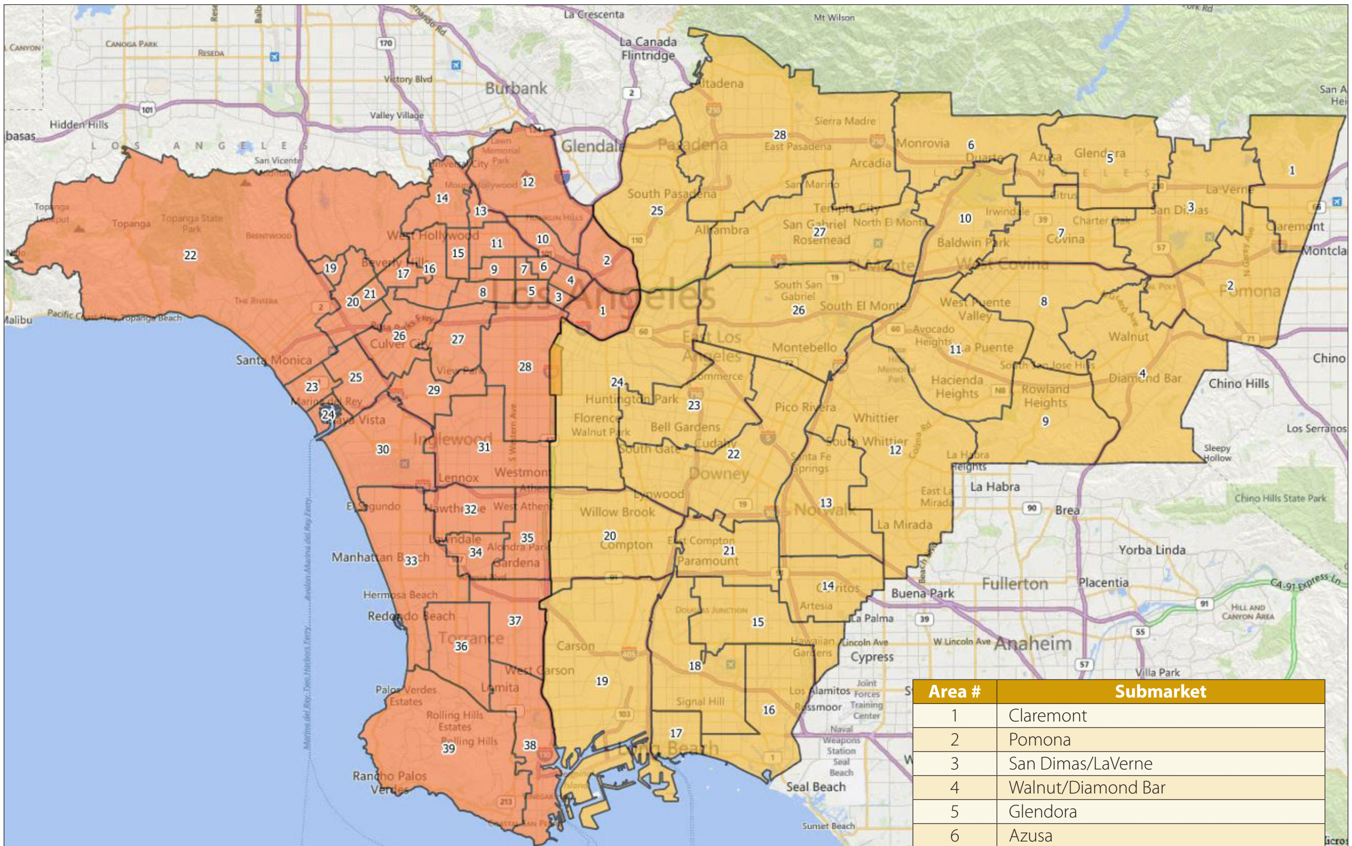
Los Angeles vs. National Sales Price per Unit



Source: YardiMatrix

Photo by Chris Hepburn/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**.