Yardi® Matrix

LA's Housing Boom Endures

Multifamily Report Spring 2018

Rent Gains Outpace Income Growth

Builders Target Luxury Segment

Rising Asset Values Dampen Sales

Market Analysis
Spring 2018

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Fundamentals Flourish in City of Angels

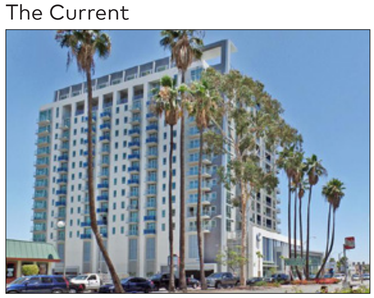
Amid a supply surge that began in 2016 and continued through 2017, rent growth has been decelerating in Los Angeles, in line with the national trend. Demand continues to be strong across the metro, sustained by robust hiring and population gains.

Job growth in 2017 was highest in education and health services, information, and professional and business services. The tech industry, which has been one of the main drivers of the metro's economic growth in recent years, has contributed to job creation in other sectors, most notably office-using industries. Employment in these segments generated a boom in office developments, with completions reaching a post-recession high of 2.3 million square feet in 2017. Multifamily construction is also up, pushing job gains further while nudging occupancy down to 96.7% as of January 2018.

Increased investor interest in area communities is driving property values to new highs, while keeping acquisition yields at nationwide lows. This year, more than 12,000 units are scheduled to come online in and around the city core. And since most of these units cater to Lifestyle renters while single-family homes remain out of reach for many residents, demand for workforce apartments should stay high, contributing to an overall rent hike of 4.7% in 2018.

Recent Los Angeles Transactions

The Current

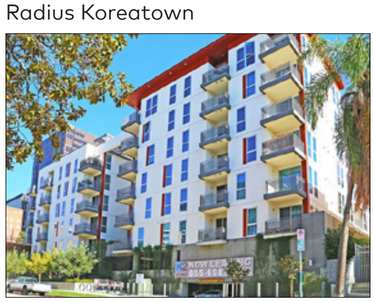


City: Long Beach, Calif.
Buyer: Alan Singer
Purchase Price: $133 MM
Price per Unit: $595,740

Bell South Bay

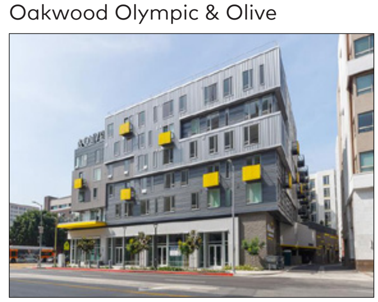
City: Inglewood, Calif.
Buyer: Bell Partners
Purchase Price: $123 MM
Price per Unit: $465,909

Radius Koreatown



City: Los Angeles
Buyer: Equity Residential
Purchase Price: $117 MM
Price per Unit: $388,704

Oakwood Olympic & Olive



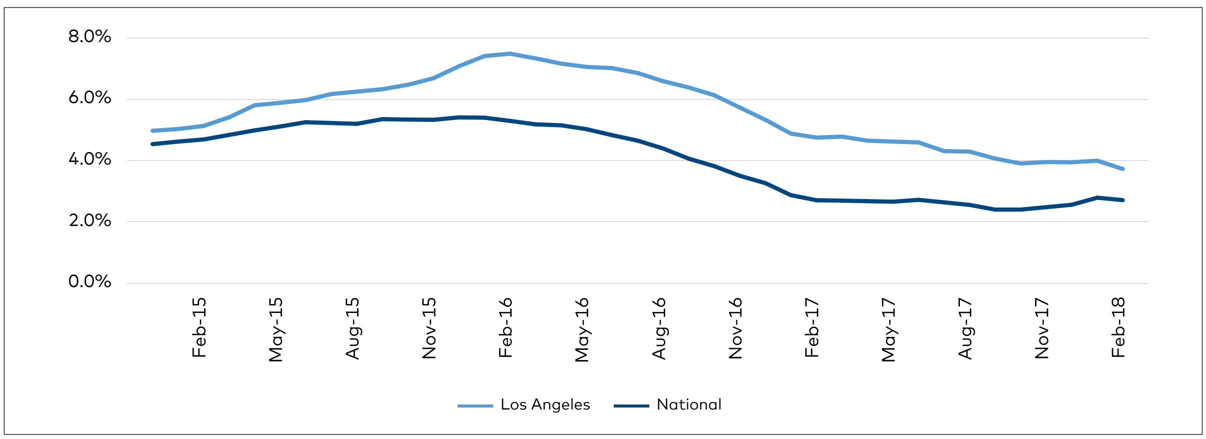
City: Los Angeles
Buyer: Oakwood Worldwide
Purchase Price: $110 MM
Price per Unit: $547,264

On the cover: Photo by Ron and Patty Thomas/iStockphoto.com

Rent Trends

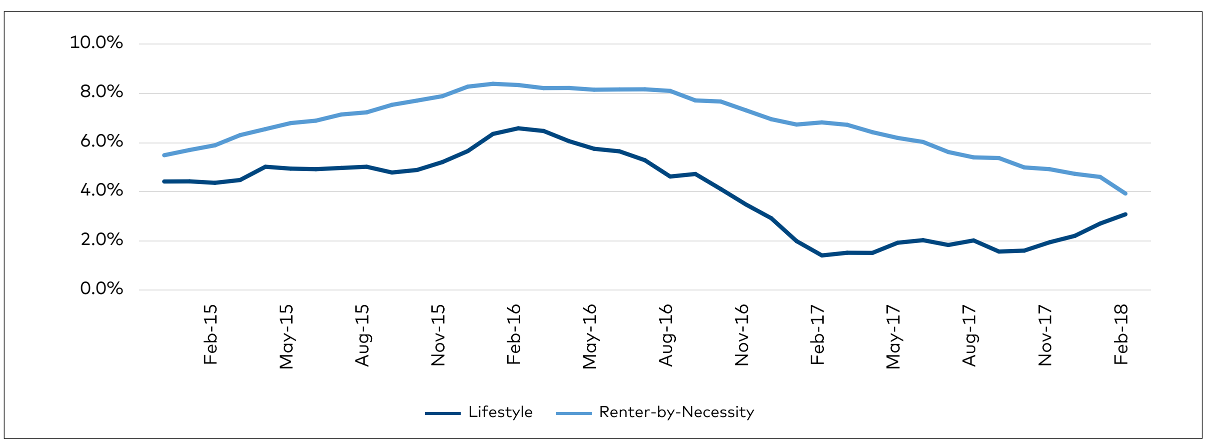
- Rents in metro L.A. rose 3.7% year-over-year through February, outpacing the 2.7% national rate. The average rent stood at $2,059, well above the $1,364 U.S. figure. Amid a spate of new deliveries that began in 2016 and continued through 2017, rent growth began to decelerate across the metro. Meanwhile, occupancy in stabilized properties dropped 40 basis points in 12 months, reaching 96.7% as of January, which still indicates a rather rapid absorption of new units.
- Rents in the working-class Renter-by-Necessity segment rose 3.9% to $1,775, while Lifestyle rates increased 3.1% to $2,746. Sustained job gains, along with the steady increase in single-family home prices throughout 2017, have strengthened demand for workforce rental units while builders continue to focus on high-end projects. In turn, this has led to strong competition for reasonably priced Los Angeles apartments, giving landlords bargaining power.
- Not surprisingly, lower-priced submarkets saw the highest rent gains year-over-year as of February, led by Sunland (14.5% to $1,422), Lawndale (12.5% to $1,395), Palmdale (12.3% to $1,205), East Los Angeles North (11.6% to $1,663) and Compton (11.5% to $1,135). Most of the inventory scheduled to come online this year is at the upper end of the quality spectrum, but the metro continues to add jobs across sectors. As overall demand should remain strong, we expect rent growth to reach 4.7% in 2018.

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

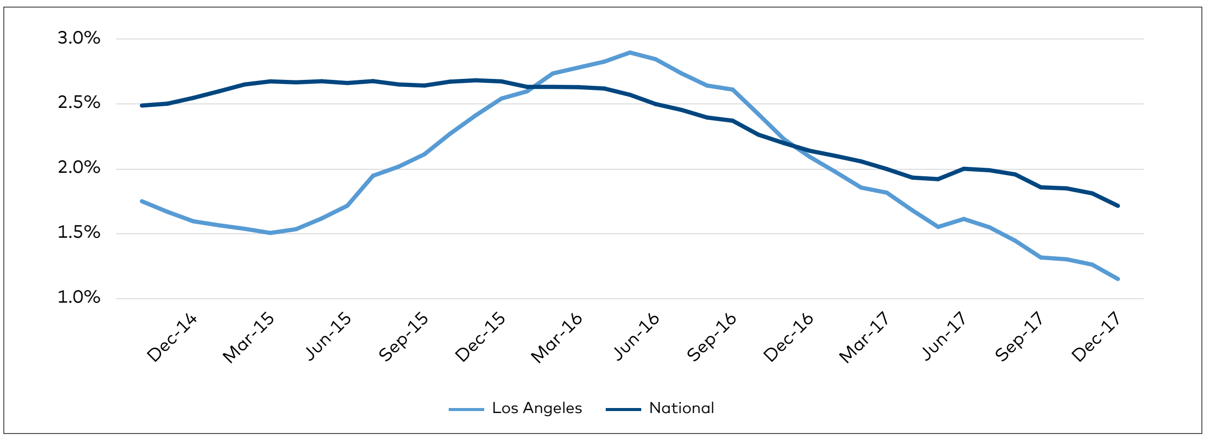
Economic Snapshot

- Los Angeles added 60,400 jobs in 2017, marking a 1.2% increase but trailing the 1.7% national average. The metro's unemployment rate dropped to 4.1% as of December, marking a new record low. This trend is likely to push up wages in the foreseeable future.

- Growth was strongest in education and health services, which gained 29,700 jobs. To accommodate the increasing undergraduate population, UCLA is planning the construction of a 20-story student housing tower, as well as eight mid-rise structures, at its Westwood campus by 2025. Information, which encompasses entertainment and digital media, is also expanding, boosted by the presence of Google, YouTube, Amazon and Facebook, as well as numerous startups. Another important factor is the fact that the wealth technology is creating continues to drive job growth in other sectors as well.

- The expansion of the professional and business services sector is spurring demand for more office developments, which reached a post-recession high of 2.3 million square feet in 2017, outpacing the previous year's total completions by more than 53%. Los Angeles added almost 23,000 office jobs during the 12 months ending in November 2017, bringing office-using employment to 1.1 million, or approximately 24% of the metro's entire labor pool.

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	811	17.9%	26,800	3.4%
50	Information	240	5.3%	12,500	5.5%
60	Professional and Business Services	621	13.7%	9,800	1.6%
55	Financial Activities	229	5.1%	7,700	3.5%
15	Mining, Logging and Construction	142	3.1%	6,200	4.6%
80	Other Services	160	3.5%	3,700	2.4%
70	Leisure and Hospitality	522	11.6%	2,800	0.5%
30	Manufacturing	356	7.9%	-2,200	-0.6%
40	Trade, Transportation and Utilities	856	18.9%	-5,300	-0.6%
90	Government	583	12.9%	-7,300	-1.2%

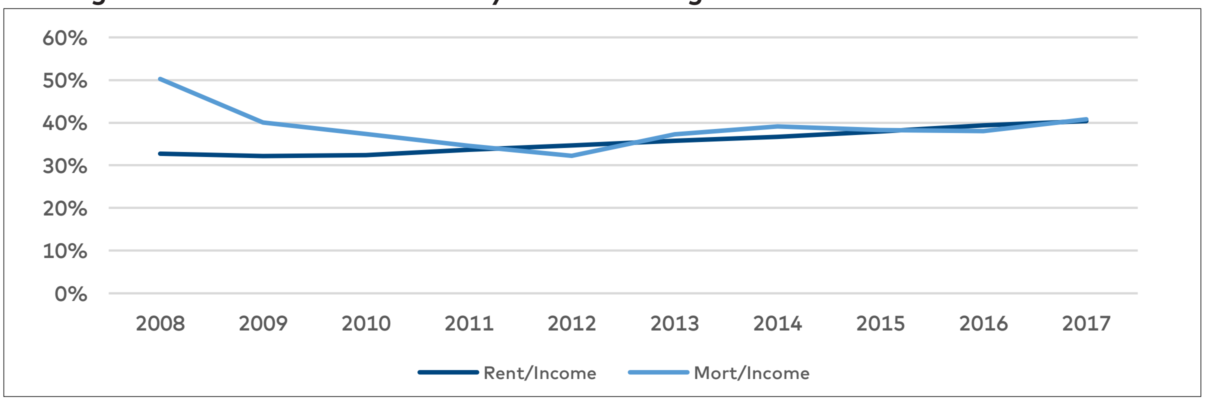
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

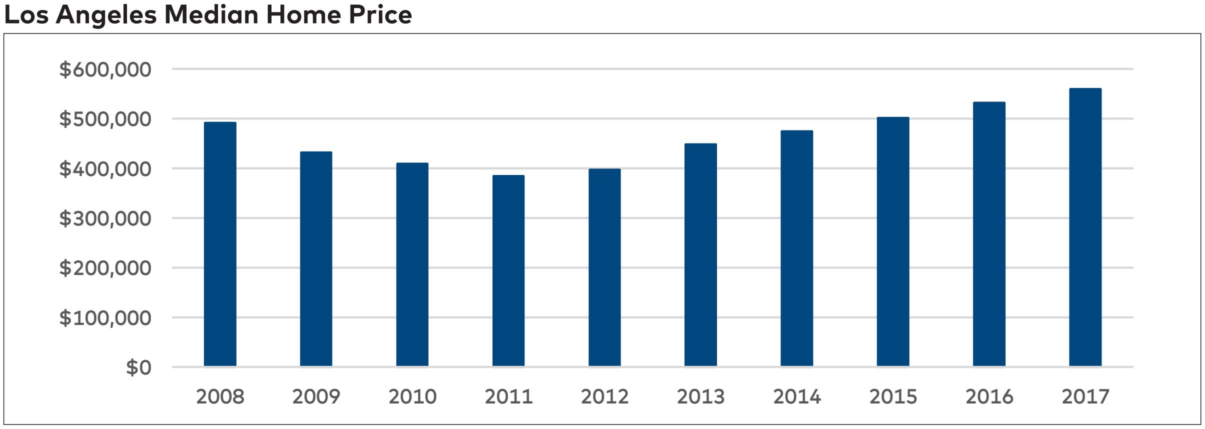
- The median home price in Los Angeles rose to $559,648, a post-recession high. The average mortgage payment accounted for 41% of the area's median income, while the average rent comprised 40%. The city's housing market is one of the least affordable in the country, as both rent growth and the rise in home prices outpace income growth, causing renters to be unable to save enough for a down payment.
- To spur development of affordable housing and ensure that builders rely on local labor, Los Angeles voters approved Measure JJJ, which requires developers seeking zoning exemptions to put aside a certain percentage of condos and apartments in new residential buildings for low-income tenants.

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%, with the addition of 25,660 residents, well below the 0.7% national rate.
- Affordability continues to hinder population growth in Los Angeles.

Los Angeles vs. National Population

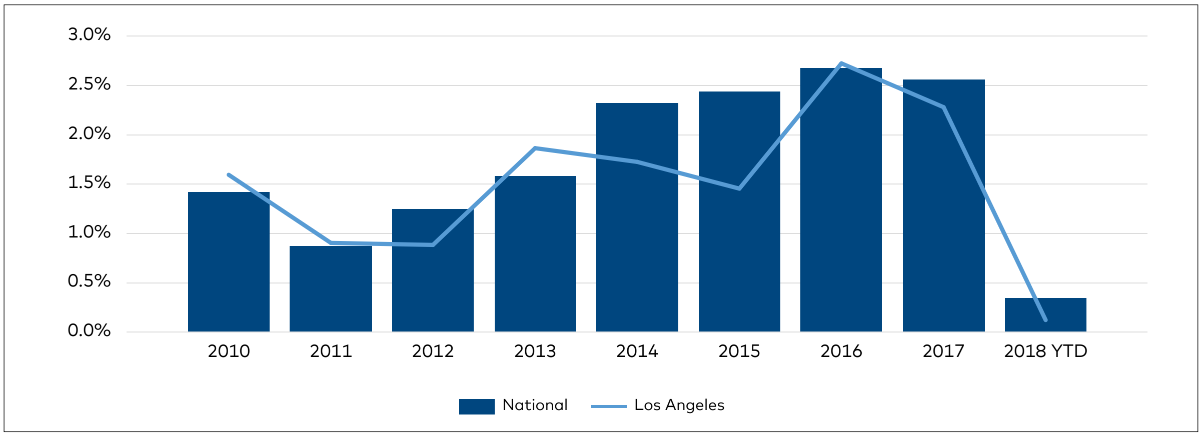
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Los Angeles Metro	9,953,555	10,015,436	10,066,615	10,112,255	10,137,915

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

Supply

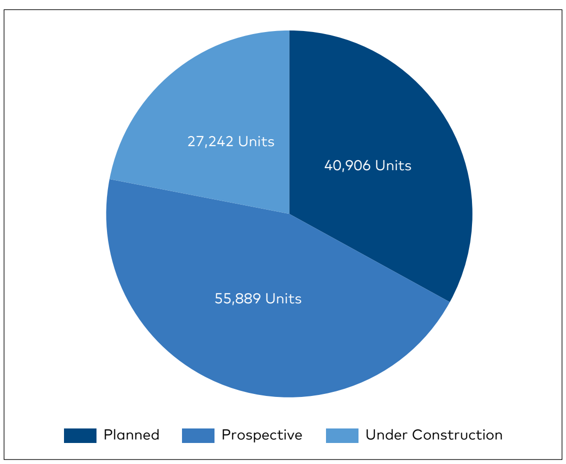
- Nearly 500 units were delivered in the first two months of 2018, in addition to the 9,307 apartments that came online in 2017. Following the supply surge of 2016, when more than 10,000 units came online, rent growth began to decelerate. However, occupancy remained in a relatively tight band, indicating that absorption is keeping up.
- More than 27,000 units were underway as of February, while another 96,675 units were on the drawing board. We estimate that roughly 12,500 units will come online in the metro this year.
- Development is concentrated in downtown Los Angeles (6,624 units), Hollywood Hills East (1,450), Koreatown (1,409), Marina Del Rey (1,111), Glendale (1,071) and Southwest Long Beach (1,010). These top five submarkets account for nearly 50% of all units under construction in Los Angeles.
- Onni Group's 730 units at 1212 S. Flower St. ranks as the largest multifamily project underway as of February. Downtown's housing boom also prompted Crescent Heights to propose a 70-story tower with 794 units at 1045 S. Olive St., which would become California's tallest residential building by 2020.

Los Angeles vs. National Completions as a Percentage of Total Stock (as of February 2018)



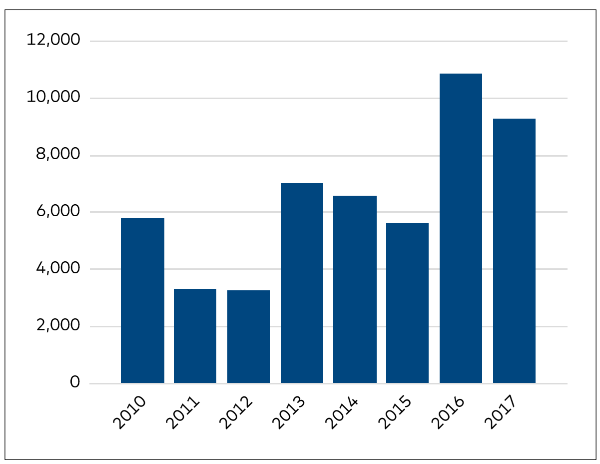
Source: YardiMatrix

Development Pipeline (as of February 2018)



Source: YardiMatrix

Los Angeles Completions (as of February 2018)

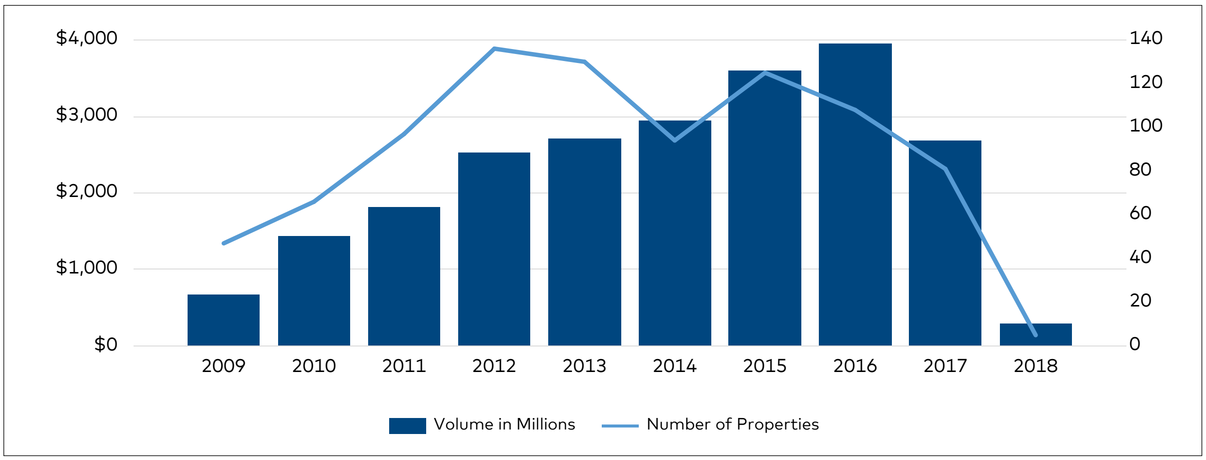


Source: YardiMatrix

Transactions

- Five properties worth a combined $296 million traded in Los Angeles in the first two months of 2018, at an average price per unit of $351,873, representing a post-recession high at more than double the $151,681 national average. In 2017, nearly $2.7 billion in multifamily assets changed hands, at an average per-unit price of $272,149.
- Competition for multifamily properties continues to be intense in Los Angeles, maintaining high market liquidity and pushing acquisition yields to nationwide lows. Institutional buyers and foreign investors focus on recently built core assets, while private investors are mostly targeting value-add suburban stock.
- Alan Singer's $133 million purchase of The Current, a 17-story, 223-unit tower in downtown Long Beach, ranks as the metro's largest multifamily deal in the 12 months ending in February.

Los Angeles Sales Volume and Number of Properties Sold (as of February 2018)



Source: YardiMatrix

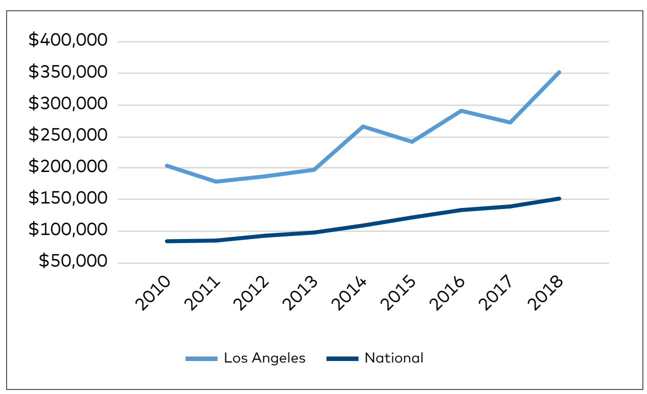
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Southwest Long Beach	278
Downtown Los Angeles	257
Koreatown	200
West Torrance	158
Hawthorne	136
Sante Fe Springs/Norwalk	135
Simi Valley	128
Westlake North	111

Source: YardiMatrix

[1] From March 2017 to February 2018

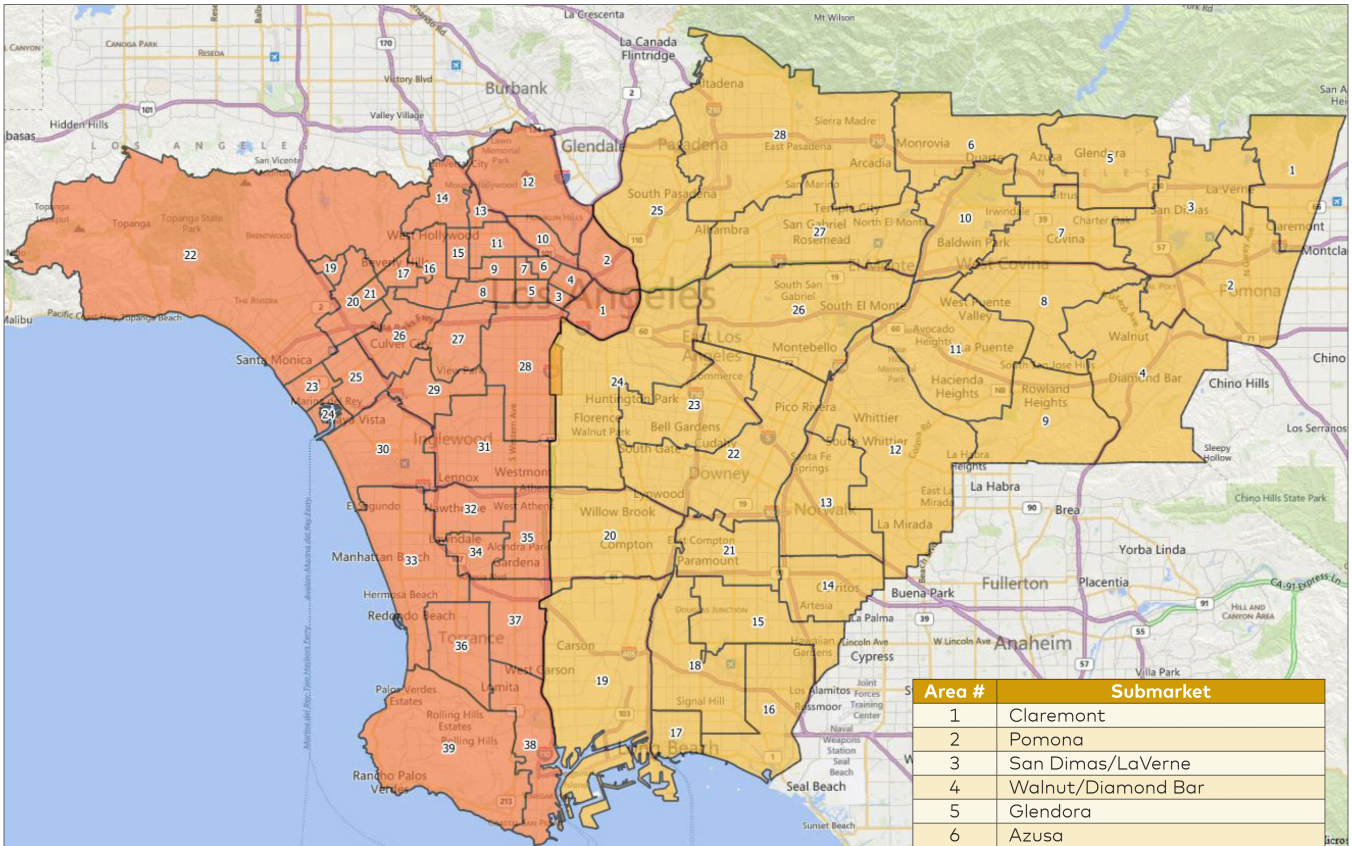
Los Angeles vs. National Sales Price per Unit



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.