



Yardi® Matrix

Investors Seek To Surf L.A.

Multifamily Report Summer 2018

Investment Intensifies

Demand Keeps Up With New Supply

Home Prices, Rents Outpace Income Growth

Market Analysis

Summer 2018

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Investors Boost Deal Flow

Investors are drawn to the Los Angeles multifamily market's stability, high occupancy and rising rents, as job and population gains underpin rental demand in the context of a high barrier to homeownership.

Employment growth was led by leisure and hospitality (26,800 jobs), a trend which will likely continue as 37 hotels with 5,631 guestrooms were underway as of June, according to Atlas Hospitality Group's midyear report. Professional and business services, which gained 17,000 jobs, and education and health services (16,200 jobs) also display high growth potential in the foreseeable future, supporting demand for high-end apartments.

The strong fundamentals of the Los Angeles multifamily market attracted a large number of investors in the first seven months of 2018, when transactions rose to \$2.9 billion, surpassing the annual sales volume recorded in 2017. Despite a surge in construction in 2016 and 2017, occupancy has stayed high, indicating a rapid absorption of new inventory. By the end of 2018, developers are expected to add more than 10,000 apartments to the metro's stock, most set to cater to Lifestyle renters. Nevertheless, multifamily demand is expected to exceed supply, and although affordability is tempering growth, we anticipate the metro's average rent to rise 4.3% for the whole of 2018.

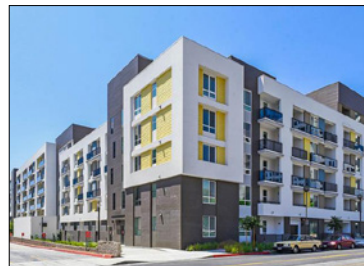
Recent Los Angeles Transactions

Eighth & Grand



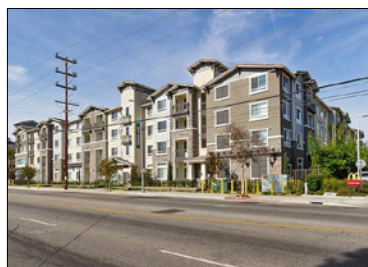
City: Los Angeles
Buyer: Brookfield Properties
Purchase Price: \$393 MM
Price per Unit: \$561,714

Altana



City: Glendale, Calif.
Buyer: Brookfield Properties
Purchase Price: \$239 MM
Price per Unit: \$471,598

Alder



City: Northridge, Calif.
Buyer: Brookfield Properties
Purchase Price: \$159 MM
Price per Unit: \$471,598

Bell South Bay

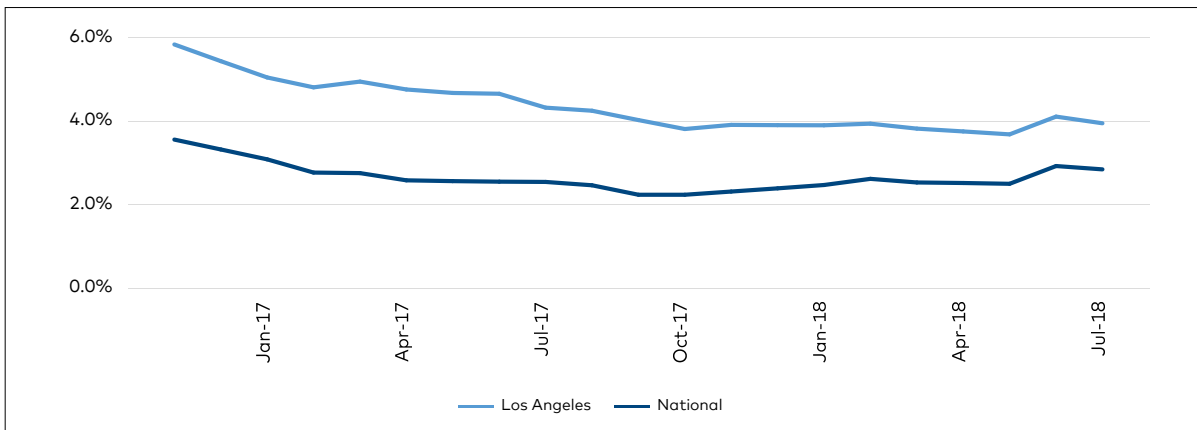


City: Inglewood, Calif.
Buyer: Bell Partners
Purchase Price: \$123 MM
Price per Unit: \$465,909

Rent Trends

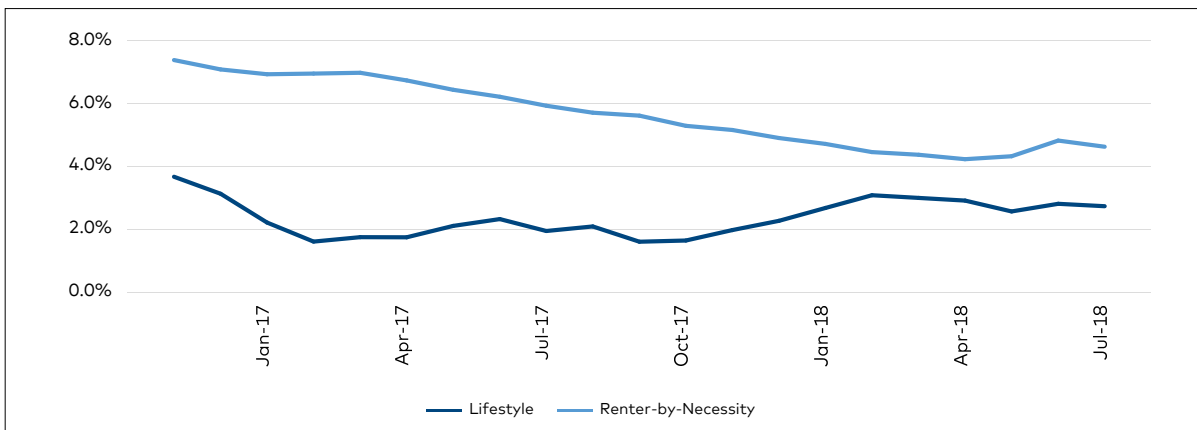
- Rents in Los Angeles rose 4.0% year-over-year through July, outpacing the 2.8% national rate. The metro's average rent stood at \$2,131, well above the \$1,409 national figure. Amid a spate of new deliveries, rent growth began to decelerate as of mid- 2017, while occupancy remained in a relatively tight band, dropping by less than 30 basis points year-over-year, to 96.6% as of June.
- Rents in the working-class Renter-by-Necessity segment rose by 4.6% to \$1,830, while Lifestyle rates increased by only 2.7% to \$2,858. Rental demand remains strong across both asset classes, as single-family home prices continue to soar—leaving middle-income residents with few options—while giving landlords the pricing power. Moreover, as the new federal tax law comes into play, homeowners will no longer be able to deduct the entirety of their non-federal taxes. This year, we expect demand for apartments to exceed supply, and although affordability issues are tempering growth, we anticipate the metro's average rent to rise 4.3% in 2018.
- Submarkets that saw the highest rent growth were also among the metro's least expensive, as the most significant rent growth occurred in submarkets located in Eastern Los Angeles County—Compton (10.7%), East Los Angeles North (8.7%)—and in the San Fernando Valley—Lancaster (9.9%) and Palmdale (9.6%). Venice (up 9.2% to \$3,073) was the only upscale submarket to make the top 10.

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)

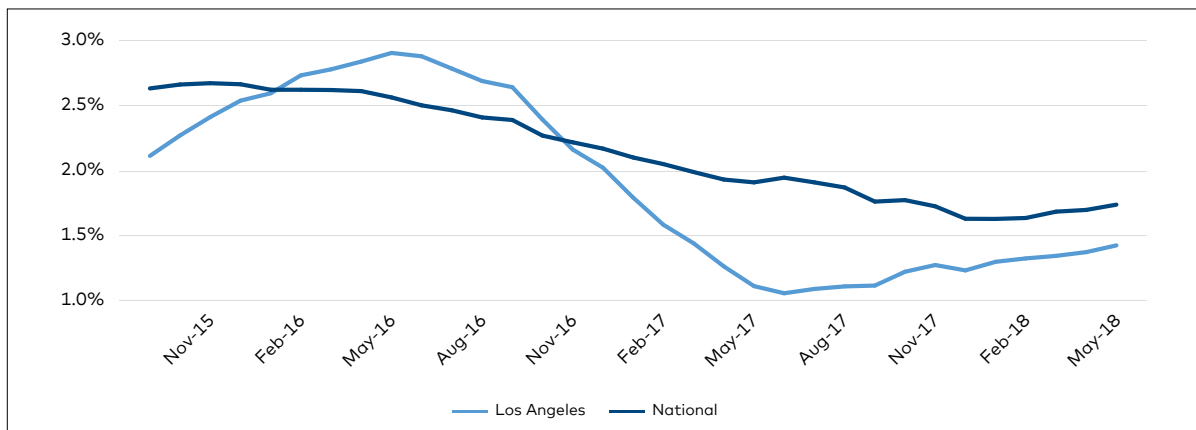


Source: YardiMatrix

Economic Snapshot

- Los Angeles added 67,800 jobs through May, up 1.4% year-over-year, trailing the 1.7% national rate. Unemployment stood at 4.1%, one of its lowest levels in modern state records, dating back to 1990.
- Growth was led by leisure and hospitality, which gained 26,800 jobs. In the first half of 2018, four new hotels offering a combined 727 guestrooms were delivered in Los Angeles County, while another 37 hotels with 5,631 guestrooms were underway, according to Atlas Hospitality Group's midyear report.
- Professional and business services added 17,000 jobs. Sustained in part by a rapid expansion of administrative services, employment in this sector is expected to grow at 1.5% annually until 2021, according to the most recent People, Industry and Jobs report released by the Los Angeles Economic Development Corp. Health-care jobs also show high growth potential in the foreseeable future, given the current demographic trend. At the other end, trade-related employment decreased due to the rise of e-commerce, while land availability is pushing companies into the Inland Empire.
- More than 3 million square feet of office space is scheduled for delivery in 2018, most of it taking shape downtown. Cerberus Capital Management's \$196 million acquisition of the 21-story, 473,000-square-foot Wedbush Center was the metro's largest office deal this year through July.

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)

| Code | Employment Sector | Current Employment | | Year Change | |
|------|-------------------------------------|--------------------|---------|-------------|-------|
| | | (000) | % Share | Employment | % |
| 70 | Leisure and Hospitality | 552 | 12.3% | 24,600 | 4.7% |
| 60 | Professional and Business Services | 623 | 13.9% | 17,300 | 2.9% |
| 65 | Education and Health Services | 811 | 18.0% | 16,200 | 2.0% |
| 50 | Information | 218 | 4.8% | 7,800 | 3.7% |
| 15 | Mining, Logging and Construction | 144 | 3.2% | 4,000 | 2.9% |
| 30 | Manufacturing | 353 | 7.8% | 2,200 | 0.6% |
| 55 | Financial Activities | 221 | 4.9% | 200 | 0.1% |
| 90 | Government | 596 | 13.3% | - | 0.0% |
| 80 | Other Services | 152 | 3.4% | -3,000 | -1.9% |
| 40 | Trade, Transportation and Utilities | 827 | 18.4% | -5,400 | -0.6% |

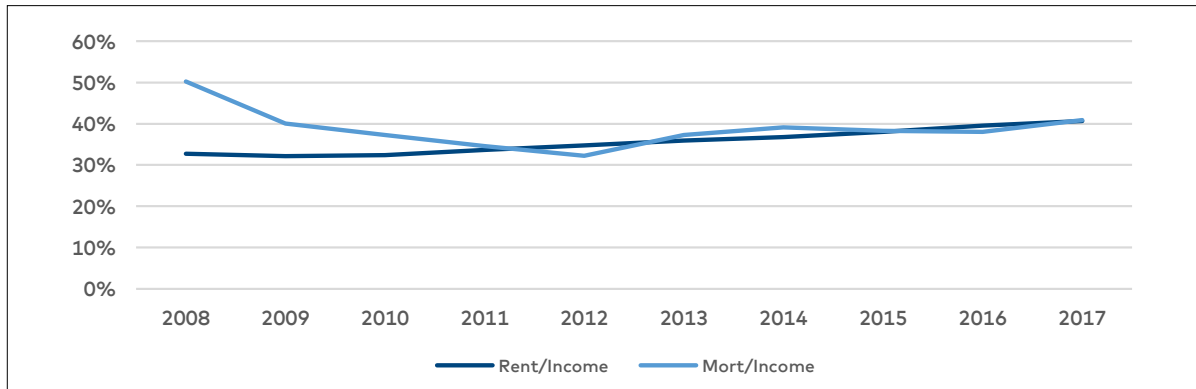
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

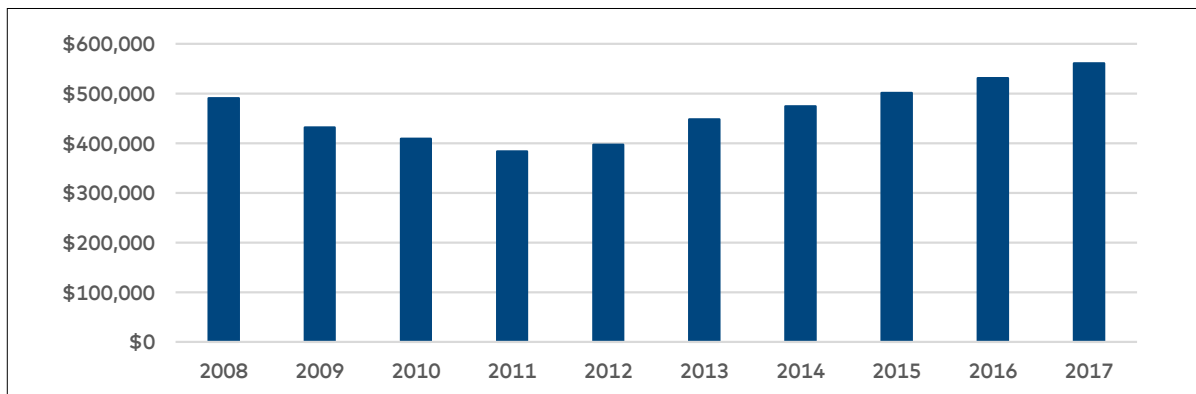
- The median home price in Los Angeles rose to \$560,775 in 2017, a new cycle high. With both the average mortgage payment and the average rent accounting for 41% of the area's median income, Los Angeles ranks as one of the most expensive housing markets in the country.
- Historic figures show that affordability has dropped substantially in recent years. In 2012, an income of \$53,780 was required to comfortably afford a mortgage for a median-priced home in the Greater Los Angeles area, compared to \$100,210 today, according to a report from the California Association of Realtors, which concluded that buying a home is out of reach for 75% of LA County residents.

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

- Metro Los Angeles added 13,000 residents in 2017, a 0.1% increase, trailing the 0.7% national rate.
- Between 2013 and 2017, the metro added 144,903 residents, representing a 1.5% population increase.

Los Angeles vs. National Population

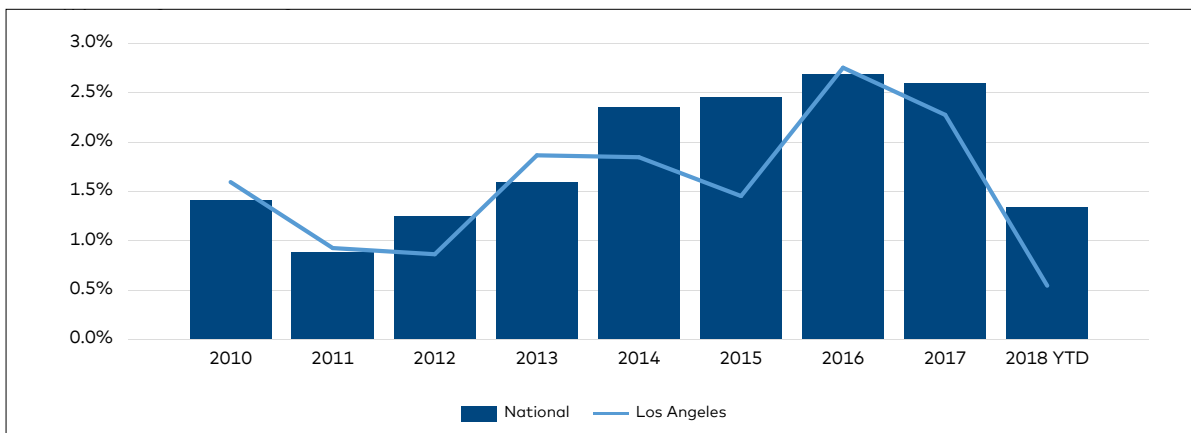
| | 2013 | 2014 | 2015 | 2016 | 2017 |
|-------------------|-------------|-------------|-------------|-------------|-------------|
| National | 316,234,505 | 318,622,525 | 321,039,839 | 323,405,935 | 325,719,178 |
| Los Angeles Metro | 10,018,604 | 10,072,695 | 10,123,248 | 10,150,558 | 10,163,507 |

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

Supply

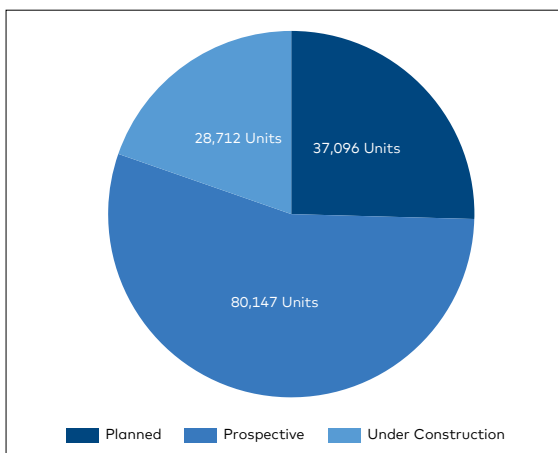
- Eighteen properties offering a combined 2,402 units were delivered this year through July, 0.5% of total stock. Developers delivered 9,307 units in 2017. By the end of 2018, the metro's inventory is expected to add more than 11,000 rental units, most of which will cater to Lifestyle renters.
- More than 28,700 units were underway as of July, while 117,243 units were in the planning and permitting stages. This year's new inventory is expected to include 56 properties with 10,479 units in metro L.A.—453 units will be in five fully affordable communities—and 11 projects with 1,288 units in East L.A. County, including five fully affordable communities offering 450 units.
- Downtown is the most active submarket, with 6,701 units under construction. Developers are also targeting East Hollywood (1,633 units), Hollywood Hills East (1,478 units), Hyde Park (1,268 units), Koreatown (1,216 units), Glendale (1,126 units), Marina Del Rey (1,111) and SW Long Beach (1,105).
- Cumulus Transit, a 30-story tower by Carmel Partners, was the largest multifamily project underway as of July. The development is set to bring 1,218 new units to Hyde Park by 2020.

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



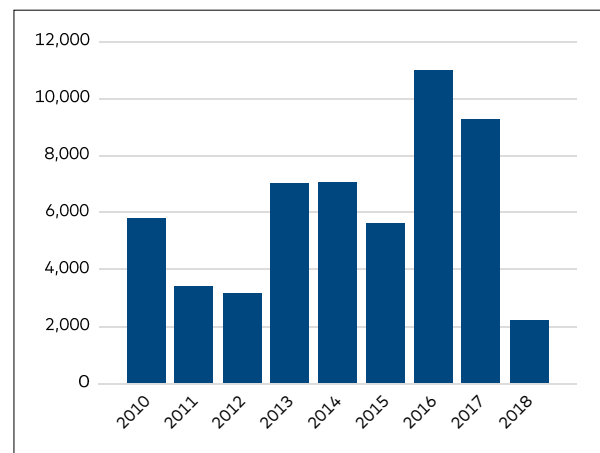
Source: YardiMatrix

Development Pipeline (as of July 2018)



Source: YardiMatrix

Los Angeles Completions (as of July 2018)

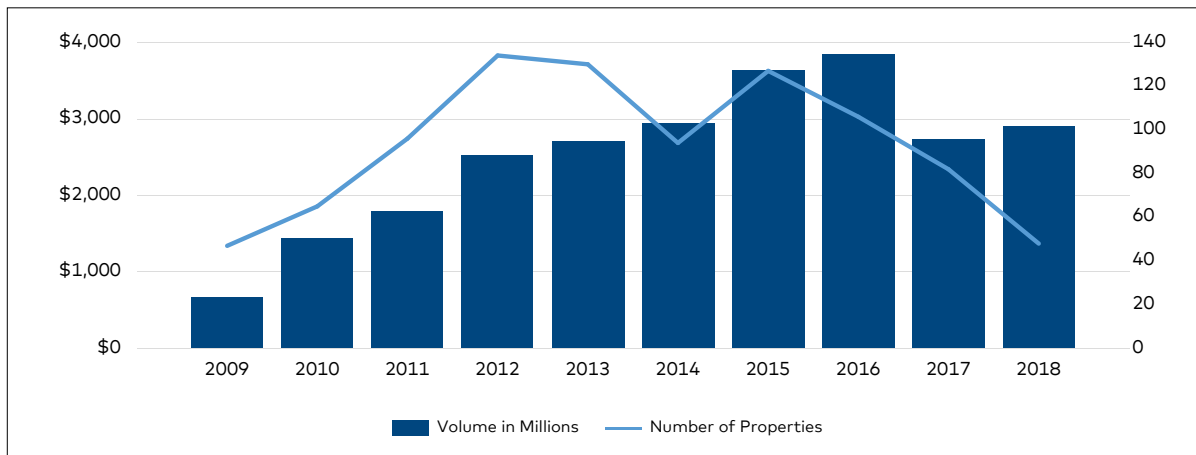


Source: YardiMatrix

Transactions

- Investors traded 48 properties in Los Angeles this year through June, for a combined \$2.9 billion, at an average price per unit of \$393,243—another cycle high, well above the \$148,902 national figure. In 2017, about \$2.7 billion in assets changed hands overall, at an average price per unit of \$275,747.
- Despite low acquisition yields compared to the rest of the country, competition for the metro's assets has intensified in 2018. Investors are drawn to the market's stability, high occupancy and rising rents.
- Brookfield Properties' \$393 million acquisition of Eighth & Grand, a 700-unit community in downtown Los Angeles, ranks as the largest multifamily purchase this year through June. The company bought the property from Carmel Partners, as part of a \$1.9 billion portfolio deal that included other L.A. assets: Atelier (\$203 million, 363 units), Alder (\$159 million, 338 units) and Altana (\$239 million, 507 units).

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



Source: YardiMatrix

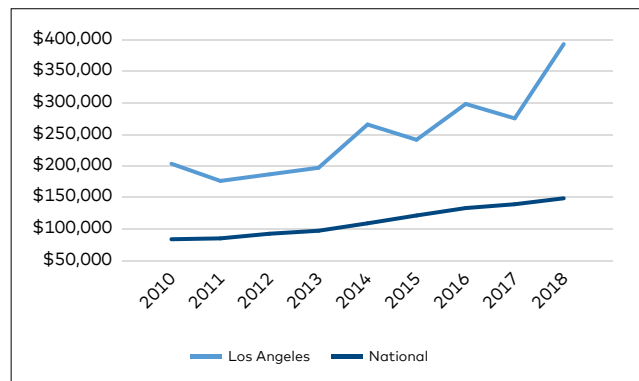
Top Submarkets for Transaction Volume¹

| Submarket | Volume (\$MM) |
|----------------------|---------------|
| Downtown Los Angeles | 743 |
| SW Long Beach | 362 |
| Glendale | 278 |
| Pasadena / Arcadia | 221 |
| Koreatown | 200 |
| Westlake North | 200 |
| Van Nuys W | 198 |
| Canoga Park | 190 |

Source: YardiMatrix

¹ From July 2017 to June 2018

Los Angeles vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

Brought to you by:



LA-Area Community Sells for \$79M

The Korda Group acquired the 288-unit Trails at San Dimas from Stockbridge Capital Group and CNS Focused Investment.



LA Development Receives \$22M Financing

George Smith Partners secured the loan for the development of a 51-unit workforce community in the Koreatown district.



Bell Partners Buys Pasadena Asset

Cushman & Wakefield arranged Hines' sale of The Ellington, a 212-unit, transit-oriented community that includes 25 affordable residences.



Universe Holdings, Hanover Financial Buy \$100M CA Community

The companies purchased Capes at Ventura, a 400-unit asset in Ventura, and plan on investing \$6.5 million in upgrades.



KeyBank Arranges \$248M for LA Student Housing

G.H. Palmer Associates' Lorenzo serves students attending the University of Southern California, Loyola Law School and the Fashion Institute of Design and Merchandising.

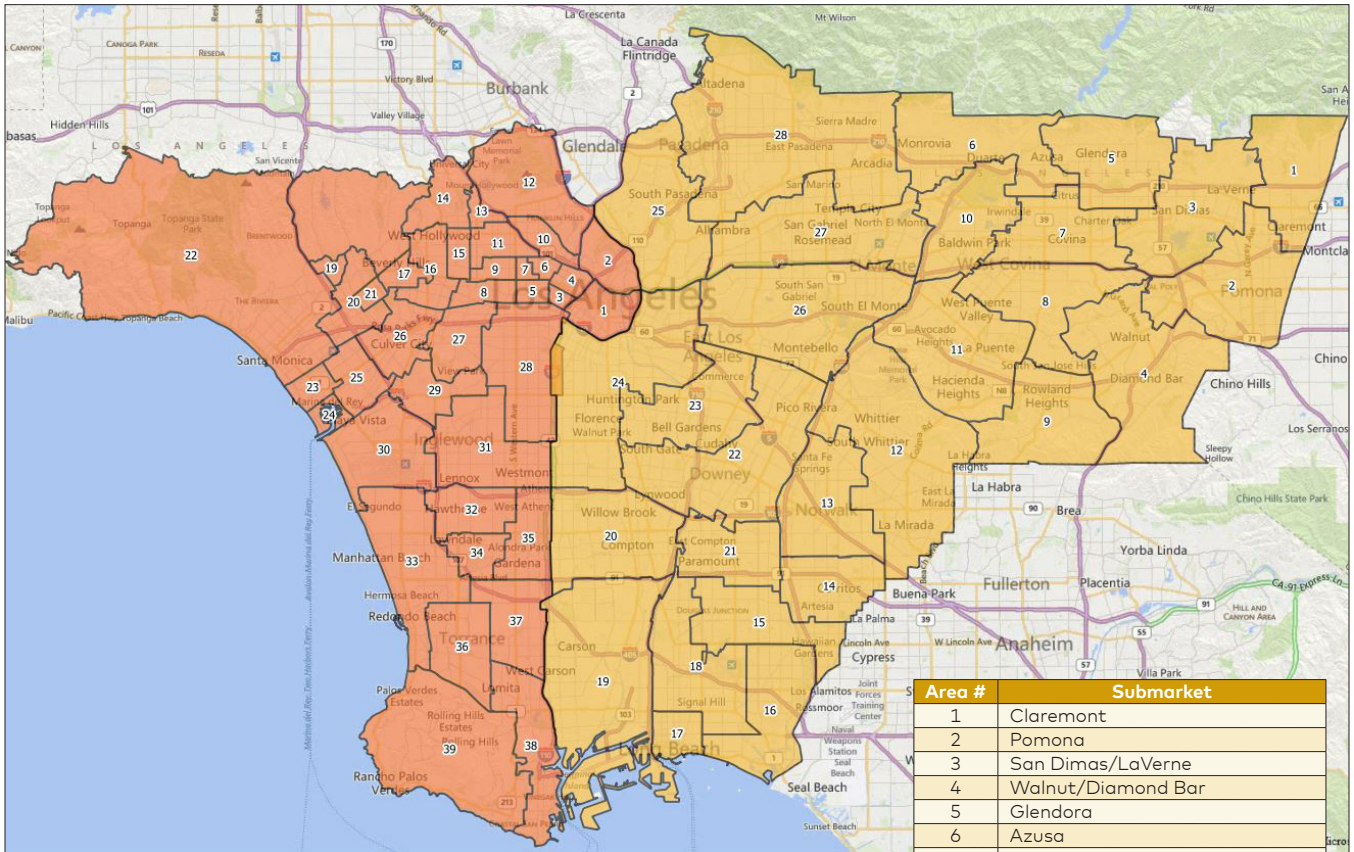


2 CA Properties Obtain \$125M in Financing

KeyBank Real Estate Capital originated the loans for the 385-unit Paseos Apartment Homes in Montclair and the 225-unit Pier in Los Angeles.

Log on to Multi-HousingNews.com to get the latest metro-specific news.

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.

Fogelman drives deals with Yardi® Matrix



"Yardi Matrix is a major contributor to our profitable investments and informed property management."

Mark Fogelman
President
Fogelman Properties

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