



Yardi® Matrix

# LA's Record Investment

Multifamily Report Winter 2019

**Rent Growth Stays Strong**

**Developers Target Downtown LA**

**Sales, Property Values Reach Cycle Peak**



## Market Analysis

Winter 2019

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## Landlord's Market Draws Investors

Steady employment growth fueled by a large and diversified economy underpins a robust multifamily demand in Los Angeles, which is experiencing a housing shortage as single-family home prices have risen to their highest value over the last decade. Despite a surge in rental construction, the average occupancy rate has remained high, at 96.6% as of October.

Job growth was led by leisure and hospitality, which gained 28,000 jobs. The metro's thriving tourism supports infrastructure investments, such as the \$4.9 billion electric tramway that will connect the city's airport terminals to parking, car rentals and transit by 2023. The metro is experiencing record-setting visitor numbers, a trend that is set to continue with the addition of new attractions, including the \$1.5 billion Lucas Museum of Narrative Art and the 2028 Olympic Games. Professional and business services added 14,100 jobs, boosted by the expansion of entertainment, tech and media-related companies, while education and health services gained 13,000 jobs.

Drawn by the multifamily market's stability, investors pushed up sales to a cycle high of \$4.5 billion year-over-year as of November. Downtown is seeing intense construction, with 5,110 of the more than 30,350 units underway across the metro. The tight market is well positioned to absorb new supply, while giving property owners leverage to lift rents.

## Recent Los Angeles Transactions

### IMT Stevenson Ranch



City: Stevenson Ranch, Calif.

Buyer: IMT Capital

Purchase Price: \$167 MM

Price per Unit: \$327,059

### Triana



City: Woodland Hills, Calif.

Buyer: LaSalle Investment Management

Purchase Price: \$157 MM

Price per Unit: \$433,702

### Gallery421



City: Long Beach, Calif.

Buyer: IMT Capital

Purchase Price: \$124 MM

Price per Unit: \$427,148

### Crescent Park at Playa Vista



City: Playa Vista, Calif.

Buyer: Clarion Partners

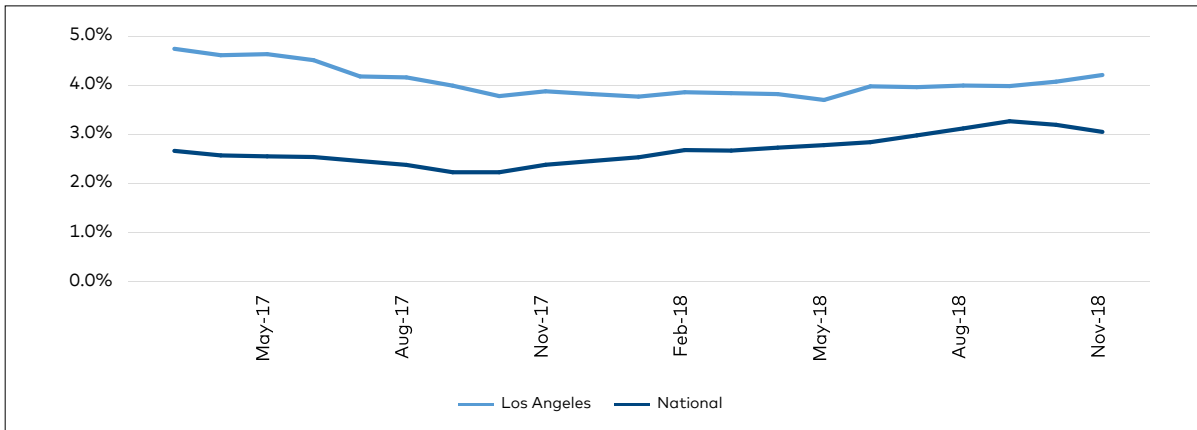
Purchase Price: \$118 MM

Price per Unit: \$549,065

## Rent Trends

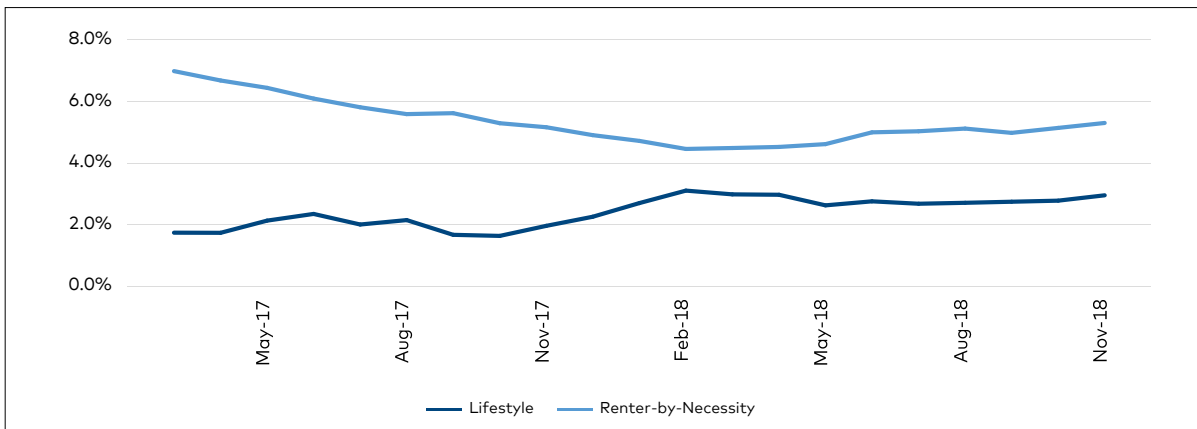
- Rents in Los Angeles rose 4.2% year-over-year through November, outpacing the 3.1% national rate. The metro's average rent stood at \$2,178, above the \$1,419 U.S. figure. A supply surge, which saw a peak in 2016 and continued through 2017 and 2018, moderated rent growth, while the occupancy rate in stabilized properties remained high, at 96.6% as of October, above the 95.4% national average and down only 10 basis points year-over-year, indicating solid absorption.
- Rents in the working-class Renter-by-Necessity segment rose 5.3% to \$1,866, while Lifestyle rates increased 3.0% to \$2,894. The metro's steady employment growth coupled with its housing shortage and high barrier to homeownership maintain robust rental demand for both asset classes, hindered only by a limited affordability. Occupancy in stabilized RBN properties stood at 97.0% as of October, while occupancy in stabilized Lifestyle assets was 95.5%.
- Rent growth was highest in the metro's more affordable submarkets, including Hyde Park (up 9.9% year-over-year to \$1,725), Ladera Heights (up 9.7% to \$2,486) and Lancaster in the San Fernando Valley (up 9.3% to \$1,294). Rents in Century City, which commanded the highest rates, decreased (down 3.3% to \$6,611), while rents in other expensive submarkets increased: Marina Del Rey (up 4.8% to \$3,550), Santa Monica-Brentwood (up 2.2% to \$3,366), Westwood (up 5.9% to \$3,426) and Bel Air (up 3.3% to \$3,160).

**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)

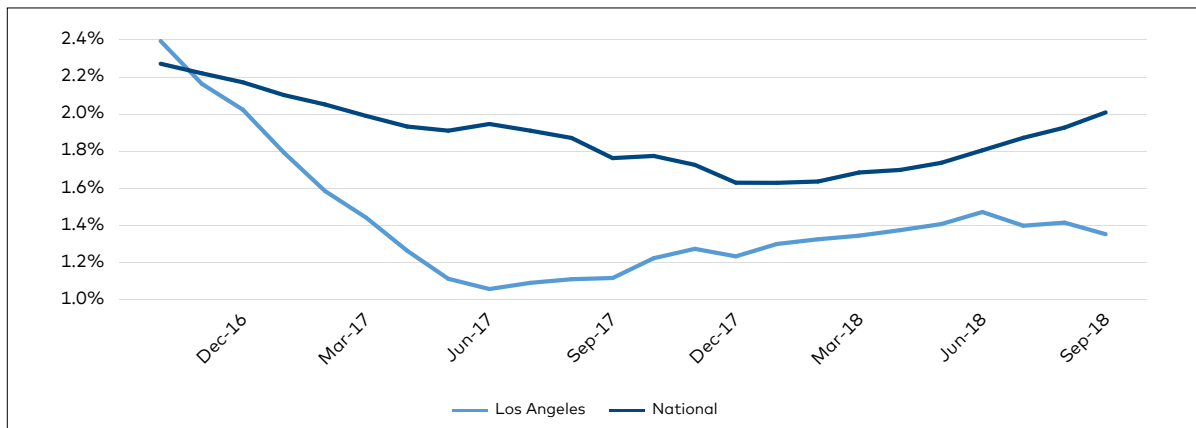


Source: YardiMatrix

## Economic Snapshot

- Los Angeles added 55,000 jobs as of September, up 1.4% year-over-year, trailing the 2.0% U.S. rate. Unemployment stood at 4.8%, higher than California's 4.1% and well above the 3.7% national average.
- Growth was led by leisure and hospitality, which gained 28,000 jobs. The metro has been experiencing record-setting visitor numbers in recent years. Its thriving tourism is driving the economy forward, supporting more than half a million jobs as well as infrastructure investments, such as the \$4.9 billion driverless electric tramway project that will connect the city's airport terminals to parking, car rentals and transit by 2023. This trend is set to continue with the addition of attractions including the \$1.5 billion Lucas Museum of Narrative Art, which broke ground in March and is scheduled to open in 2021.
- Professional and business services added 14,100 jobs, boosted by the expansion of entertainment, technology and media companies. In October, Netflix signed a full-building lease for the 13-story EPIC tower that Hudson Pacific Properties is developing on Sunset Boulevard in Hollywood. One block away, the streaming giant will also occupy the 355,000-square-foot office component of Academy on Vine, a mixed-use project Kilroy Realty Corp. is building on a 3.5-acre site. Education and health gained 13,000 jobs, and growth is poised to continue as more international students choose L.A. and new health-care projects come online, including the \$291 million addition to Hollywood Presbyterian Medical Center.

### 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	592	12.3%	28,000	5.0%
60	Professional and Business Services	674	14.0%	14,100	2.1%
65	Education and Health Services	858	17.8%	13,000	1.5%
55	Financial Activities	241	5.0%	3,100	1.3%
30	Manufacturing	382	7.9%	3,100	0.8%
50	Information	224	4.7%	2,000	0.9%
15	Mining, Logging and Construction	162	3.4%	1,300	0.8%
80	Other Services	164	3.4%	-700	-0.4%
90	Government	621	12.9%	-3,700	-0.6%
40	Trade, Transportation and Utilities	892	18.5%	-5,200	-0.6%

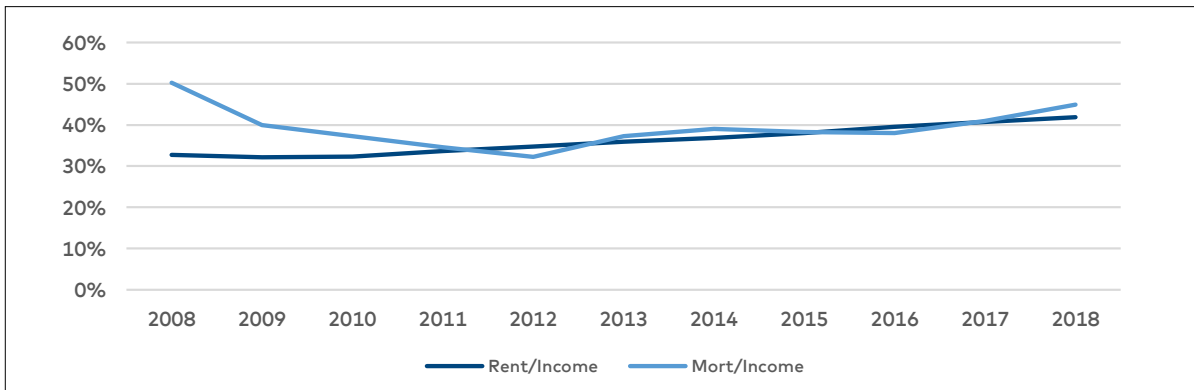
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

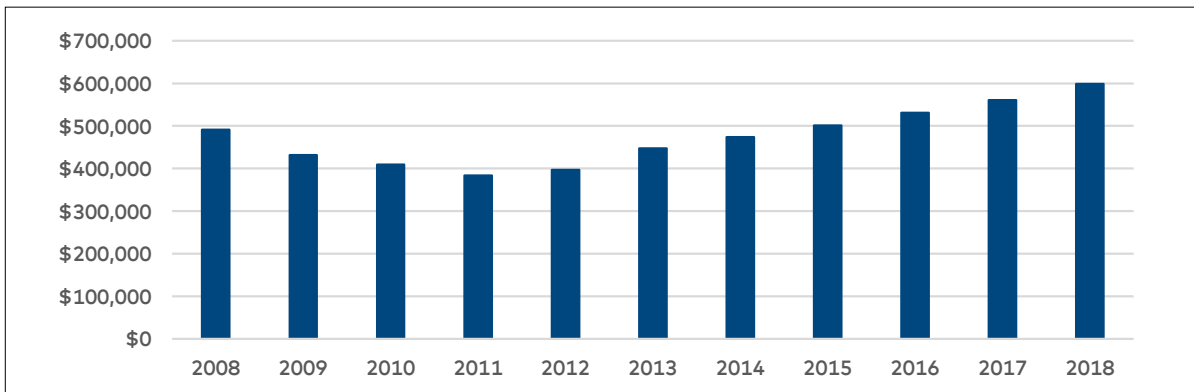
- The median home price in Los Angeles rose to a cycle peak of \$599,171 in 2018, up 6.8% since 2017 and 56.0% above the 2011 level. The average mortgage payment accounted for 45% of the area's median income, while the average rent equated to 42%.
- Available land for single-family developments is scarce across the metro, putting upward pressure on construction costs and keeping for-sale inventory tight. Buying a home has become out of reach for three quarters of LA County residents, according to the California Association of Realtors. As home values climb faster than wages, many would-be homeowners turn into long-term renters.

### 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 gained 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

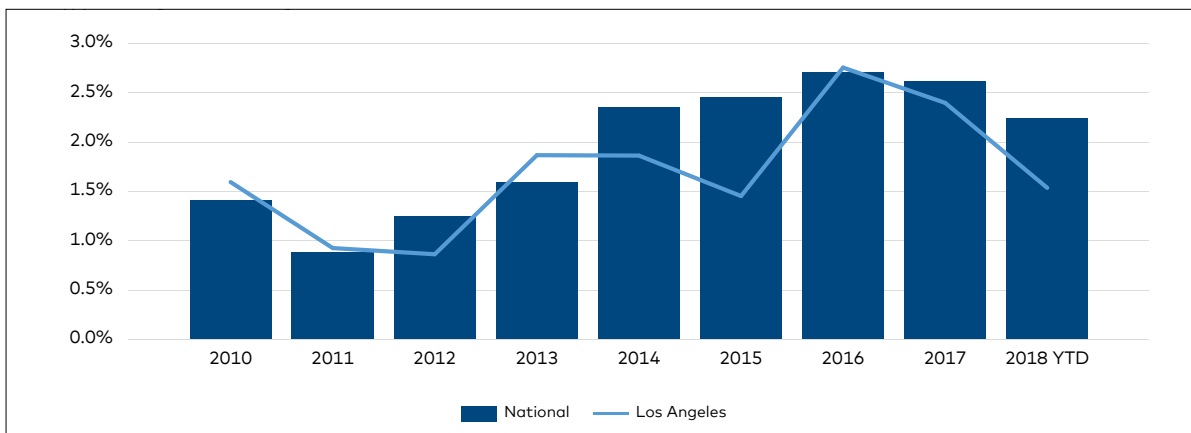
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Los Angeles Metro	10,018,604	10,072,695	10,123,248	10,150,558	10,163,507

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

## Supply

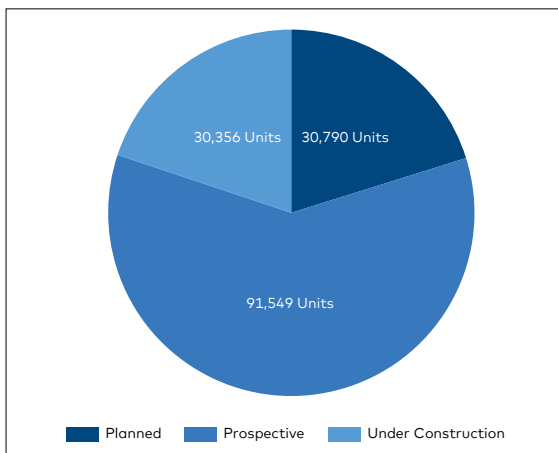
- Some 6,269 units came online in Los Angeles in 2018 through November, representing 1.5% of total stock, below the 2.3% national average. The steep cost of building apartments has steered many developers toward luxury projects that command the highest rents and are more cost effective.
- More than 30,350 units were under construction as of November, while another 122,000 units were in the planning and permitting stages. Steady job growth, fueled by a diversified economy, along with a high occupancy rate—at 96.6% as of October—should enable the market to absorb incoming supply.
- Downtown Los Angeles is seeing the most intense construction activity, with 5,110 units underway as of November. Developers are also focusing on East Hollywood (1,717 units), Hyde Park (1,282 units), SW Long Beach (1,203 units), Santa Monica–Brentwood (1,201 units) and Marina Del Rey (1,111 units), which command some of the highest rents across the metro.
- Carmel Partners' Cumulus Transit in Hyde Park ranked as the largest multifamily project underway. Plans call for 1,218 apartments, 100,000 square feet of retail, open space, plazas and office space.

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



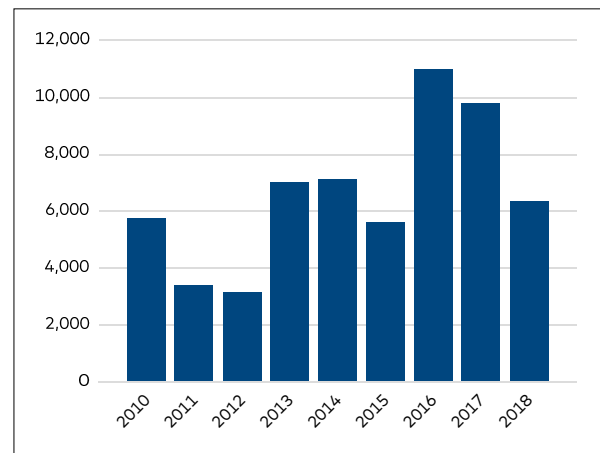
Source: YardiMatrix

**Development Pipeline** (as of November 2018)



Source: YardiMatrix

**Los Angeles Completions** (as of November 2018)

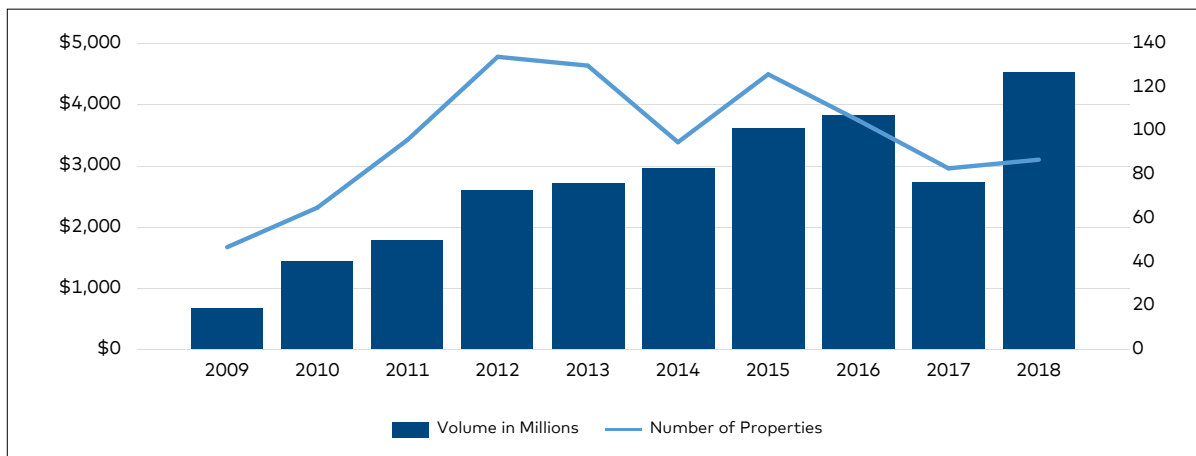


Source: YardiMatrix

## Transactions

- More than \$4.5 billion in assets changed hands in metro Los Angeles and San Fernando Valley–Ventura County in 2018 through November, marking a cycle peak. Overall, 87 properties were sold at an average price per unit of \$361,779, a record high, well above the \$152,601 national figure. Per-unit prices in Los Angeles averaged \$432,365, while Eastern Los Angeles County units sold for \$353,037.
- The market’s stability, high occupancy rate and rising property values are drawing many investors. Acquisition yields for stabilized properties start in the 4% range for Class A assets in infill locations and can go as high as 6% for Class C.
- Investors targeted multifamily assets in downtown Los Angeles, where \$568 million in properties changed hands. Sales in Canoga Park (\$509 million) and Santa Clarita (\$434 million) rounded out the top three.

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



Source: YardiMatrix

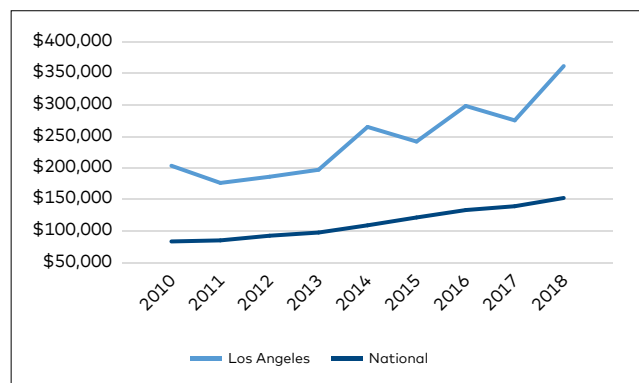
**Top Submarkets for Transaction Volume<sup>1</sup>**

Submarket	Volume (\$MM)
Downtown Los Angeles	568
Canoga Park	509
Santa Clarita	434
Glendale	344
SW Long Beach	274
Ventura	174
Hawthorne	165
Pasadena/Arcadia	163

Source: YardiMatrix

<sup>1</sup> From November 2017 to October 2018

**Los Angeles vs. National Sales Price per Unit**



Source: YardiMatrix



# News in the Metro

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### Phoenix Group Acquires \$45M Hollywood Community

Institutional Property Advisors represented the seller in its disposition of Vue Hollywood, a 92-unit property that features amenities such as a fitness center and a swimming pool.



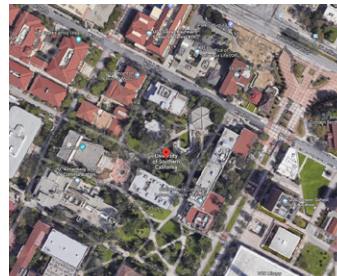
### LA Community Lands \$41M Loan

Panoptic Development's 154-unit community is in the Canoga Park section of the San Fernando Valley. NorthMarq Capital arranged the construction financing for the property.



### Berkadia Completes \$31M Sale Of SoCal Property

The Enclave at Town Square is situated halfway between freeways 60 and 90, providing easy access to major employers in the Inland Empire and downtown Chino.



### HFF Lands \$27M Refi for LA Student Housing Assets

The portfolio comprises 19 communities totaling more than 81,000 square feet near the University of Southern California.



### CIM Group Breaks Ground on Final Phase of LA Mixed-Use

Upon completion, the project will offer a total of 338 units—32 of which will be designated as affordable—and 58,300 square feet of retail space.



### LA Luxury Community Receives \$153M Financing

Walker & Dunlop structured the loan for the development of a 364-unit property in Koreatown, just off Wilshire Boulevard and roughly four miles from downtown Los Angeles.





## Gearing Up for Successful Multifamily Operations

By Jeff Hamann

With a presence in California, Nevada and Arizona, Sunrise Management oversees a portfolio of approximately 10,000 multifamily units, according to Yardi Matrix data. Most of the company's operations are focused on Class B and C communities, which have significant value-add potential.

The firm's president & CEO, Joe Greenblatt, spoke with Multi-Housing News about the role of technology in property management and how owners nationwide can stand out against competition.

*How have the expectations of renters changed in recent years?*

Renters increasingly expect to take care of their housing-related transactions and home management online. Across generational lines, they expect to communicate across a range of channels—social media, chat, text, e-mail, telephone or in person. There is an increasing service expectation in a Web 2.0 world that holds investors and managers responsible for their conduct.

*How do you see the role of property managers shifting over the next five years?*

Property managers will need to continue to adjust their priorities and processes to be customer-centric. At the same time, they will have to recognize the ascendant importance of their internal customers and develop talent strategies to allow them to serve their other customer constituencies.

*What role does technology play in property management and how do you see this trend evolving?*



Technology is inextricably woven into the expectations of residents, prospective residents, team members, prospective team members, clients, investors and vendor-partners.

As technology evolves faster and faster, we will have to master change at an increasing pace and grow the ability to apply new technology quickly and effectively.

*What are some of Sunrise's operations or processes that give you an advantage across your portfolio?*

First and foremost, we communicate with residents, ask for their feedback

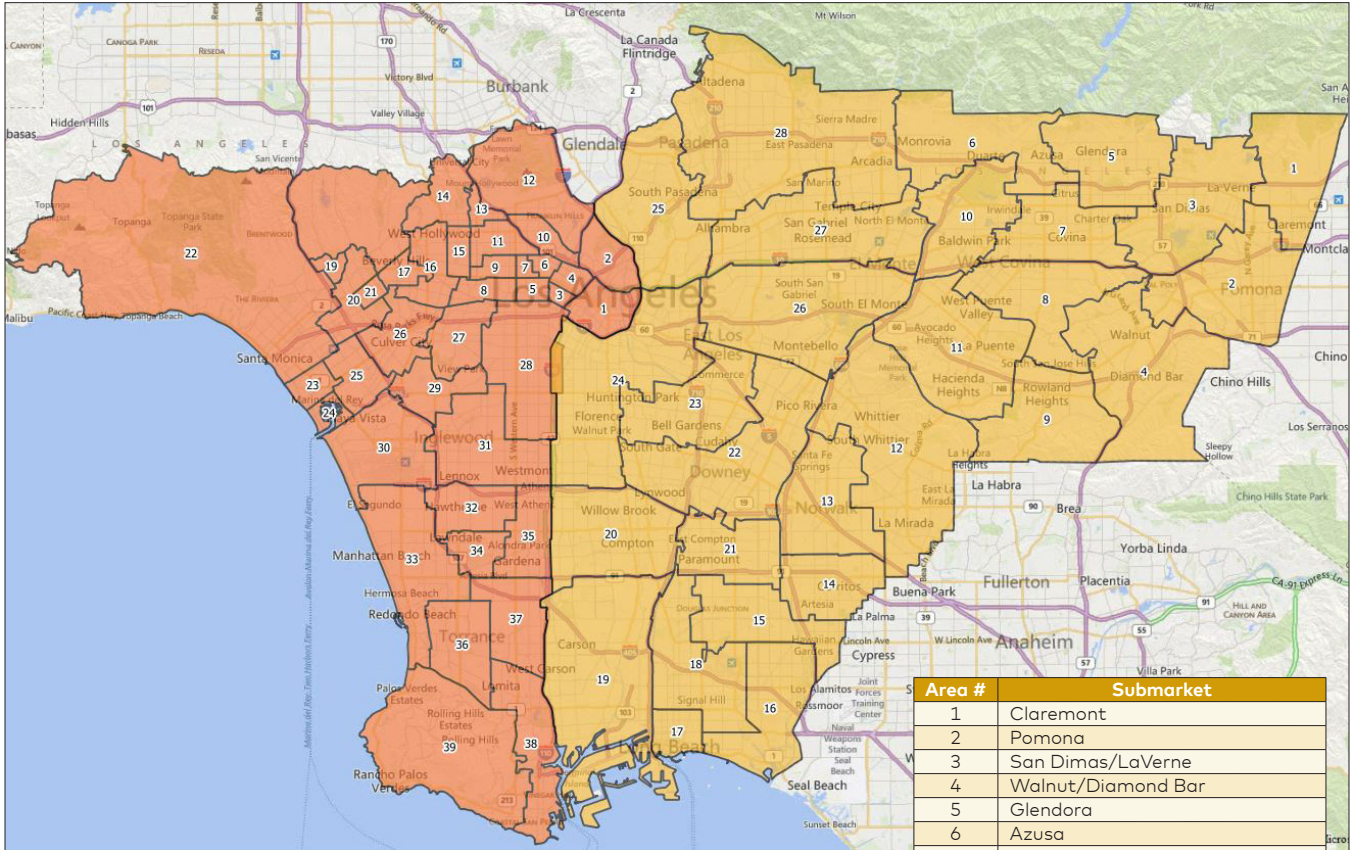
and respond to their concerns. At Sunrise, we give a lot of attention to listening to our team members and our residents. We have built internal processes to promote that inner dialogue and actively promote social media feedback, positive and negative, through our dedicated customer experience specialist.

*How has Sunrise Management observed the shifting demand across its portfolio over the past five years? How has this impacted your management strategy?*

A larger renter population is increasingly discerning about their homes' features and aware of their rental housing options.

We, in turn, are doing more analysis and partnering with our clients and investors to identify just what strategies, services and upgrades are most appropriate to a given community.

# Los Angeles Submarkets



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

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

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## 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](http://www.yardimatrix.com) or call Ron Brock, Jr., at 480-663-1149 x2404.

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