Yardi® Matrix

L.A. Tests Its Limits

Multifamily Report Spring 2019

Downtown Building Boom Endures

Rent Growth Outpaces U.S. Average

Investment Sales Hit Strong Cycle Peak

Market Analysis

Spring 2019

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

Adriana Pop
Senior Associate Editor

LA Construction Surge Continues

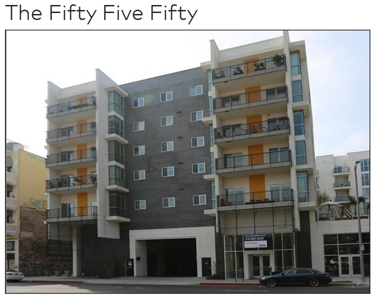
Multifamily demand has stayed strong in Los Angeles, sustained by steady employment growth and household formation. A spate of new supply over the past three years has put a damper on rent growth, which nonetheless remains above the national average, while occupancy saw a slight decrease.

Leisure and hospitality led employment growth in 2018, adding 25,500 jobs, as the metro's tourism sector is booming. Last year, Los Angeles welcomed 50 million visitors, an all-time peak. This trend is set to continue with upcoming attractions, including the $2.6 billion Inglewood NFL stadium going up at the site of the former Hollywood Park racetrack. Boosted by company expansions across several sectors, professional and business services gained 18,400 jobs. Education and health services, which added 16,600 jobs, is set to continue expanding as new projects move forward, including the $215 million Dignity Health hospital in downtown Los Angeles and the $188 million Presbyterian Medical Center addition in Hollywood.

Multifamily investment sales reached a new cycle peak this year, with more than $5.1 billion in assets changing hands. The high barrier to homeownership is bound to continue sustaining robust rental demand across the metro. Yardi Matrix expects the average Los Angeles rent to advance 4.0% in 2019.

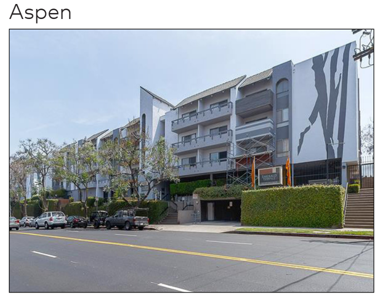
Recent Los Angeles Transactions

The Fifty Five Fifty



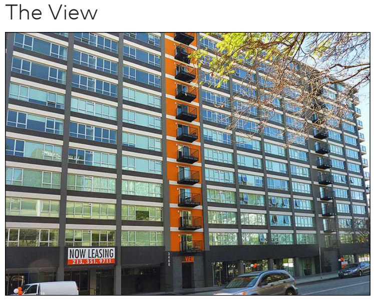
City: Los Angeles
Buyer: Vanbarton Group
Purchase Price: $148 MM
Price per Unit: $528,571

Aspen



City: Los Angeles
Buyer: CityView
Purchase Price: $90 MM
Price per Unit: $298,013

The View



City: Los Angeles
Buyer: MWest Holdings
Purchase Price: $73 MM
Price per Unit: $436,310

The Landing at Long Beach

City: Long Beach, Calif.
Buyer: Silver Star Real Estate
Purchase Price: $72 MM
Price per Unit: $349,515

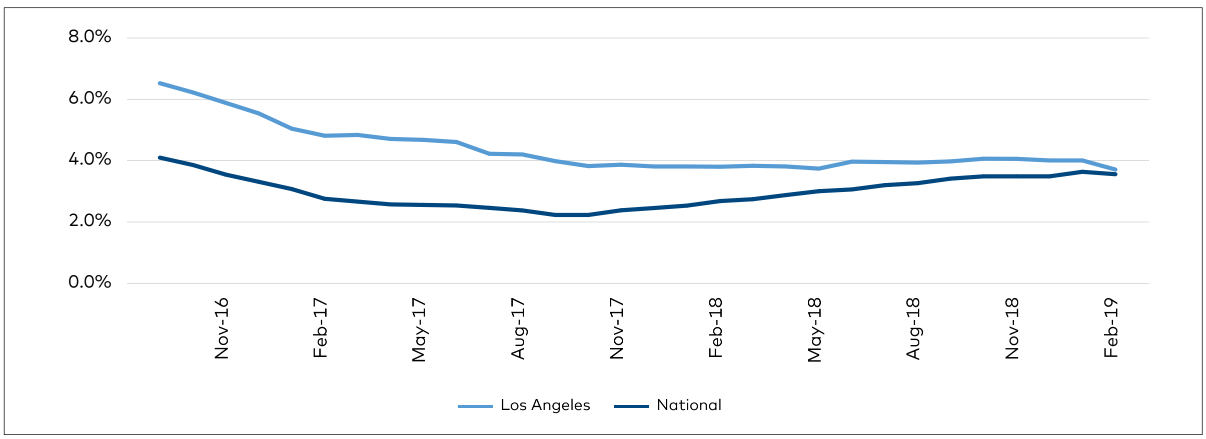
Rent Trends

- Rents in Los Angeles rose 3.7% year-over-year through February, outpacing the 3.6% national rate. The metro's average rent stood at $2,180, well above the $1,426 U.S. figure. A supply surge, which began in 2016 and continued through 2018, dampened rent growth. Meanwhile, occupancy recorded a slight decrease, standing at 96.5% as of January, down 10 basis points over 12 months but above the 94.9% national average.

- Rents in the working-class Renter-by-Necessity segment rose 4.9% to $1,868, while Lifestyle rates increased only 2.2%, to $2,883. Household formation and steady employment growth in the context of a high barrier to homeownership sustain demand across asset classes. In 2019, we expect the average Los Angeles rent to rise 4.0%.

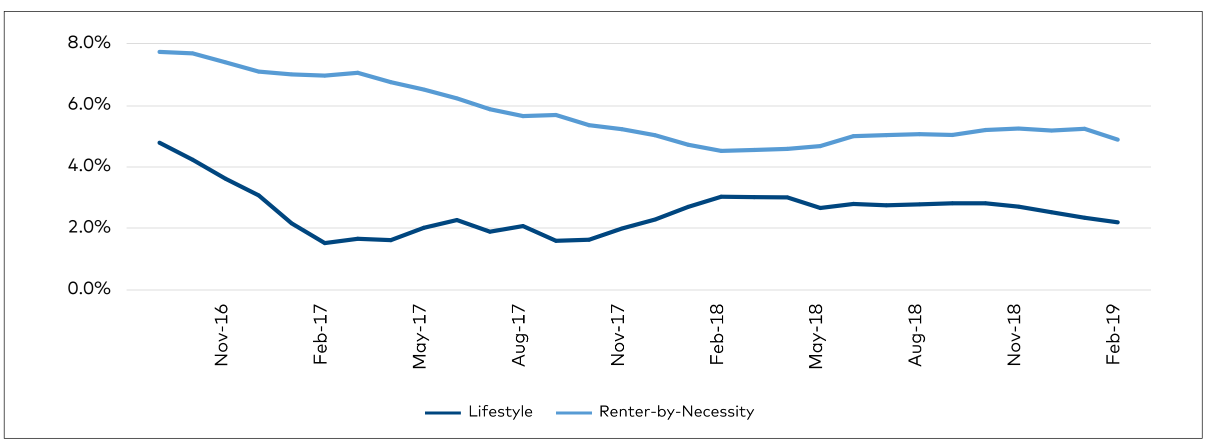
- In the 12 months ending in February, rates were up significantly in West Long Beach (10.2% to $1,691) as well as in Azusa/Monrovia (9.0% to $1,882) and Beach Cities (8.6% to $2,401). The average rent in downtown Los Angeles, the metro's largest multifamily submarket with more than 75,000 units, rose 2.0% to $2,809. Meanwhile, rents dropped in Walnut/Diamond Bar (-4.0% to $1,976) and Central Hollywood (-0.1% to $2,990).

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)

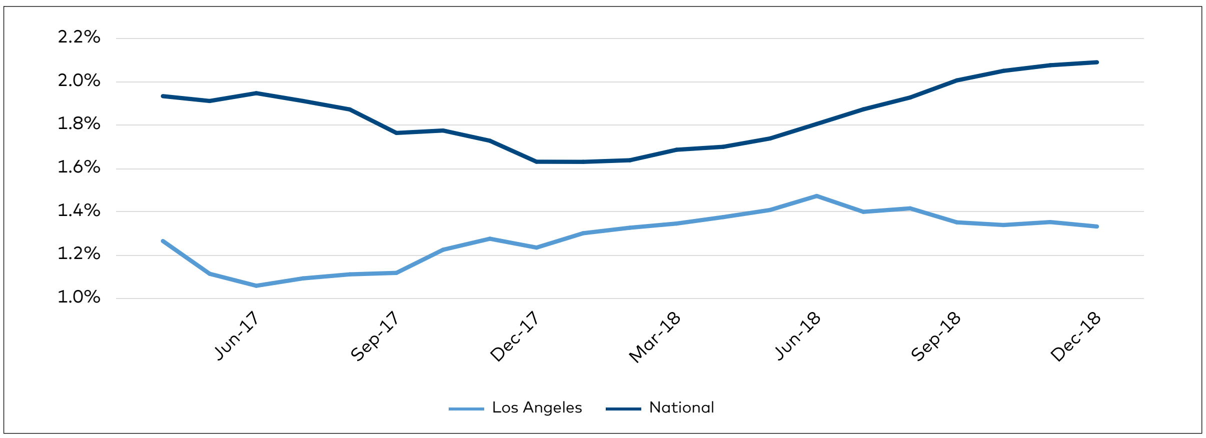


Source: YardiMatrix

Economic Snapshot

- Los Angeles added 66,200 jobs in 2018, up 1.3% year-over-year, trailing the 2.1% U.S. rate. Following nationwide trends, the metro's unemployment rate dropped over the past three years to record lows, standing at 4.6% as of December 2018.
- Growth was led by leisure and hospitality, which gained 25,500 jobs. In 2018, Los Angeles welcomed 50 million visitors, 1.5 million people higher than the 2017 figure and marking the eighth consecutive year of tourism growth for the metro. L.A. Tourism's global campaign has pushed for an increase in the influx of visitors by highlighting the addition of new attractions, including the $2.6 billion NFL stadium going up at the site of the legendary Hollywood Park racetrack in Inglewood. Upon completion in 2020, the nearly 3 million-square-foot football stadium is set to become the largest in the country.
- Technology, media and entertainment companies, along with biotech and life sciences firms, are also boosting employment growth, especially in the professional and business services sector, which added 18,400 jobs. Education and health services added 16,600 jobs as new health-care projects move forward, including the $215 million Dignity Health California Hospital Medical Center in downtown Los Angeles and the $188 million Presbyterian Medical Center addition Skanska is building in Hollywood.

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	%
70	Leisure and Hospitality	595	12.2%	25,500	4.5%
60	Professional and Business Services	681	13.9%	18,400	2.8%
65	Education and Health Services	872	17.8%	16,600	1.9%
80	Other Services	167	3.4%	5,100	3.2%
15	Mining, Logging and Construction	160	3.3%	2,500	1.6%
30	Manufacturing	382	7.8%	1,800	0.5%
50	Information	224	4.6%	300	0.1%
55	Financial Activities	242	4.9%	100	0%
40	Trade, Transportation and Utilities	927	19.0%	-1,500	-0.2%
90	Government	641	13.1%	-2,600	-0.4%

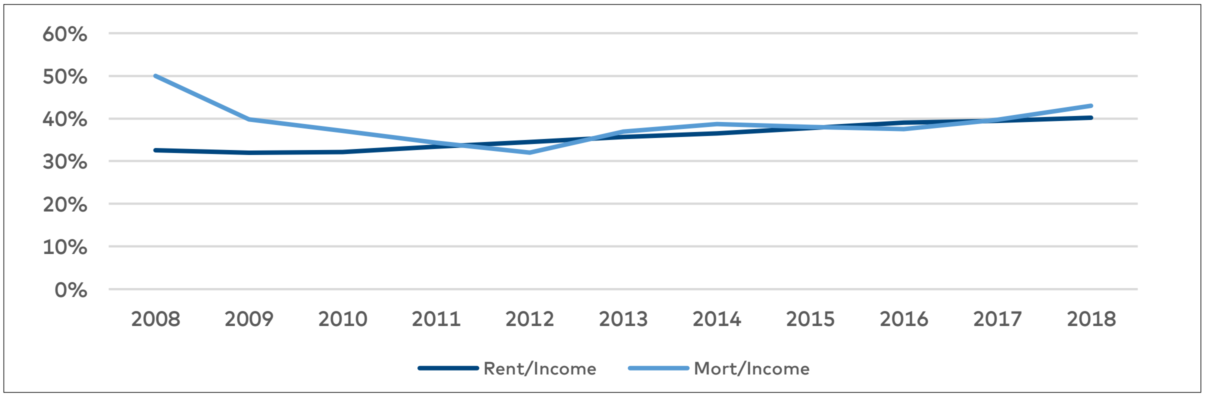
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

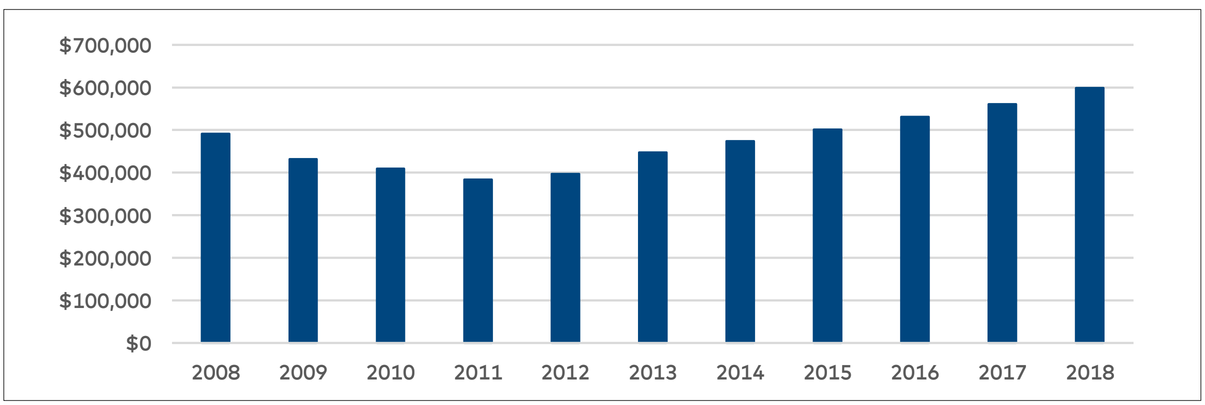
- The median home price rose to a cycle peak of $598,488 in 2018, up 7% since 2017 and 56% above the 2011 level. The average mortgage payment accounted for 43% of the area median income, while the average rent equated to 40%.
- As new luxury apartments are being offered at rates that are prohibitive for many residents, the California Housing Partnership estimates that Los Angeles County needs more than 560,000 affordable rental homes, calling on the state to invest $1 billion in permanently affordable rental housing and another $1 billion for supportive housing for the homeless.

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% uptick and trailing the 0.7% U.S. rate.
- The metro added 144,903 residents between 2013 and 2017 for a 1.5% expansion.

Los Angeles vs. National Population

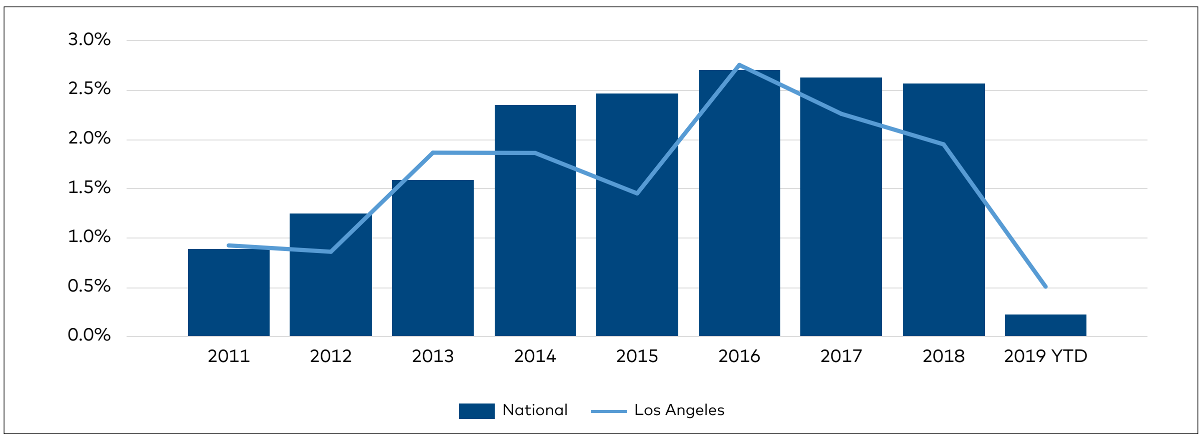
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Los Angeles Metro	10,018,604	10,072,695	10,123,248	10,150,558	10,163,507

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

Supply

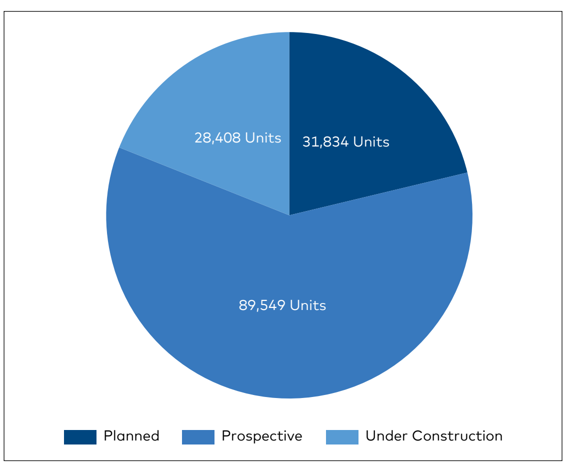
- Developers added 8,015 units in 2018, representing 2.0% of total stock, below the 2.6% U.S. figure. In line with nationwide trends, nearly all new units catered to Lifestyle renters. We expect development to continue at a steady pace, with 10,980 units slated to come online in metro L.A. this year.
- A total of 28,408 apartments were under construction across the metro as of February, while another 121,000 units were in the planning and permitting stages. Robust demand is expected to keep up with incoming supply, giving property owners leverage to further lift rents this year.
- The downtown L.A. construction boom lingers, with 3,992 apartments underway as of February. The area's transformation includes office, retail, hotel and mixed-use developments as well as civic projects such as the $1.8 billion Metro Regional Connector, a 1.9-mile light-rail extension, and the $482 million replacement of the arched Sixth Street Viaduct. Multifamily construction activity also remained intense in East Hollywood (1,717 units), Santa Monica–Brentwood (1,287) and Hyde Park (1,282). In the San Fernando Valley, developers focused on Canoga Park (1,328 units), North Hollywood South (1,011), Glendale (906) and North Hollywood North (742).

Los Angeles vs. National Completions as a Percentage of Total Stock (as of February 2019)



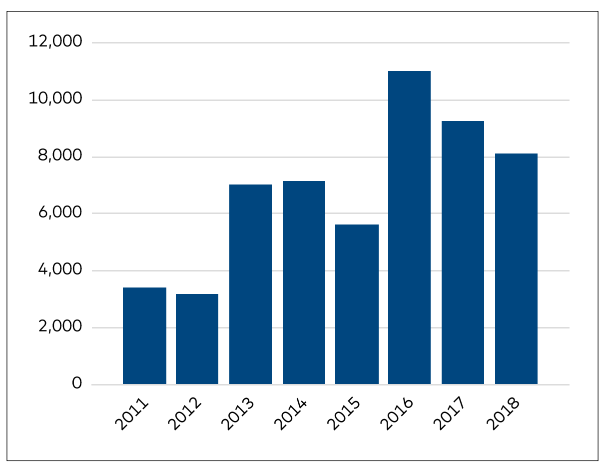
Source: YardiMatrix

Development Pipeline (as of February 2019)



Source: YardiMatrix

Los Angeles Completions (as of February 2019)

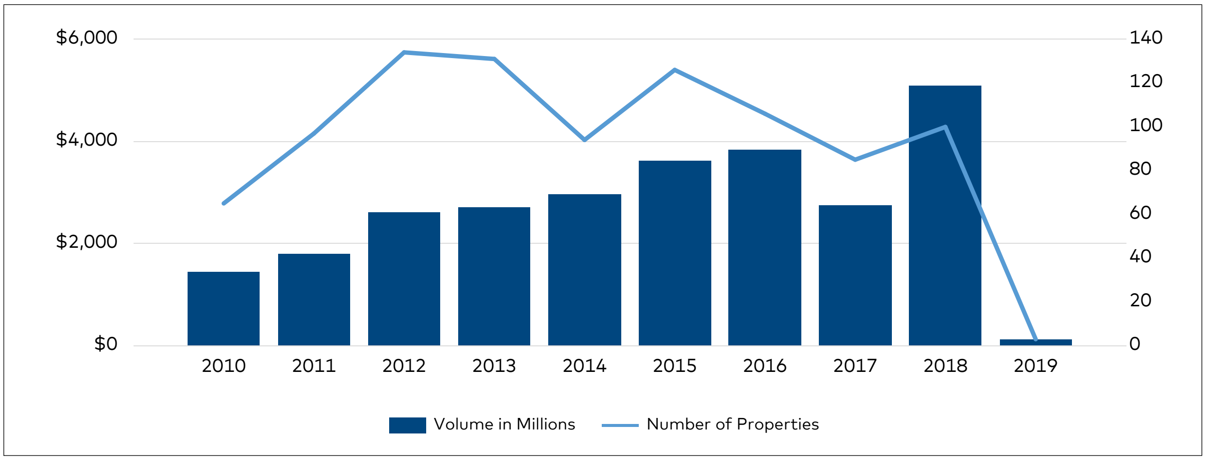


Source: YardiMatrix

Transactions

- Roughly $5.1 billion in assets traded in the metro in 2018, a new cycle high. One hundred properties traded at an average per-unit price of $355,753, more than double the $154,305 U.S. average.
- Drawn by the metro's gateway market status, investors targeted both core Class A assets and value-add properties. Acquisition yields are in the 4 to 4.5% range for stabilized Class A properties in infill locations and can go above 7.0% for Class C communities with a value-add component in both urban and suburban locations.
- Vanbarton Group's $148 million acquisition of The Fifty Five Fifty, a 280-unit community in Silverlake, ranked as the metro's largest transaction in the fourth quarter of 2018. The New York-based developer bought the Class A property for $528,571 per unit from Wood Partners.

Los Angeles Sales Volume and Number of Properties Sold (as of February 2019)



Source: YardiMatrix

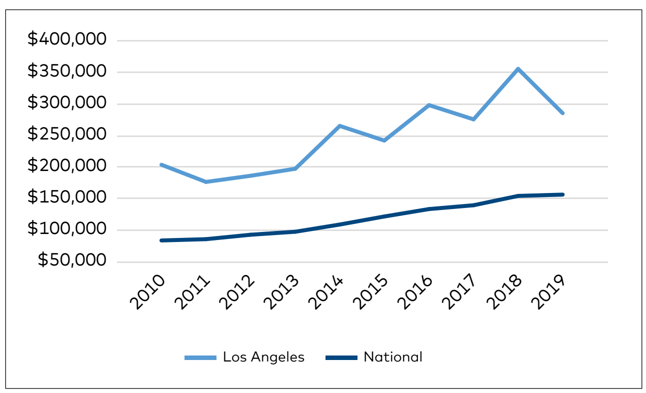
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Canoga Park	543
Downtown Los Angeles	491
Santa Clarita	389
Glendale	325
SW Long Beach	209
Los Feliz–Griffith Park	163
Pasadena/Arcadia	163
Silverlake	163

Source: YardiMatrix

[1] From March 2018 to February 2019

Los Angeles vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

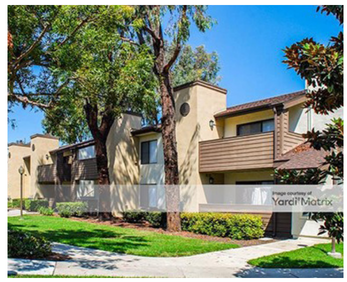
Brought to you by:

MULTI-HOUSING NEWS

Get the latest in local real estate news on Multi-HousingNews.com

Luxury Community Opens in LA

Strategic Legacy Investment Group's development is located in the Ladera Heights neighborhood, about four miles from Los Angeles International Airport and 13 miles from the city's downtown.

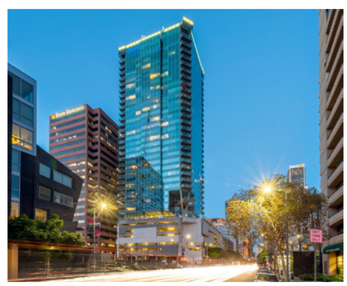


Long Beach Property Sells for $72M

Berkadia arranged the disposition of The Landing at Long Beach on behalf of the seller. The new owners plan to invest $28,000 per unit in upgrades.

$300M Residential Tower Breaks Ground In Los Angeles

Developed by Hankey Investment Co. and Jamison Properties, the 25-story high-rise will bring 644 apartment units and 15,000 square feet of ground-floor retail space to the coveted Koreatown.



$95M Loan Secured For LA Luxury Tower

The financing, provided by Helaba on behalf of ASB Allegiance Real Estate Fund, will go toward the 35-story WaterMarke Tower in the city's financial district.

$190M Secured For LA-Area Luxury Community

JPI will use the financing to develop a 480-unit Class A property situated within Vista Canyon, a 185-acre mixed-use master-planned development in Santa Clarita.

LA's Largest Co-Living Project Reaches Completion

California Landmark Group has completed construction of C1, a rental building featuring 51 market-rate apartments and 17 co-living units.

Executive Insight

Brought to you by:

Building on LA's Strong Demand

By Keith Loria

DEELS Properties has emerged as a leader in operating and developing apartment communities in the Los Angeles area, and it's up to Senior Vice President Noam Hameiri to keep the portfolio strong. At DEELS, Hameiri oversees real estate management operations and is responsible for the portfolio's overall performance.

The company currently owns and manages 10 multifamily communities as well as commercial space, and it has another 3 million square feet under construction or entitlement.

How would you characterize 2018 and the growth the company experienced?

The Los Angeles market has showed a strong upward trend since the recession, so 2018 was a great year for us. We took advantage of the market conditions to grow the company by adding improvements, services and amenities to our existing communities. We also strategically planned and are excitedly preparing for the opening of the upcoming The Q projects.

What is the company's development strategy for 2019? What's on your radar and why?

Shawn Evenhaim recognized an exceptional opportunity in the Warner Center area of Woodland Hills, Calif. Per his vision and execution, we have broken ground on two Class A mixed-use communities, with a total of 600 apartments. We have three additional mixed-use developments in the pipeline, totaling 1,000 apartments. These projects allow us to create a new brand, The

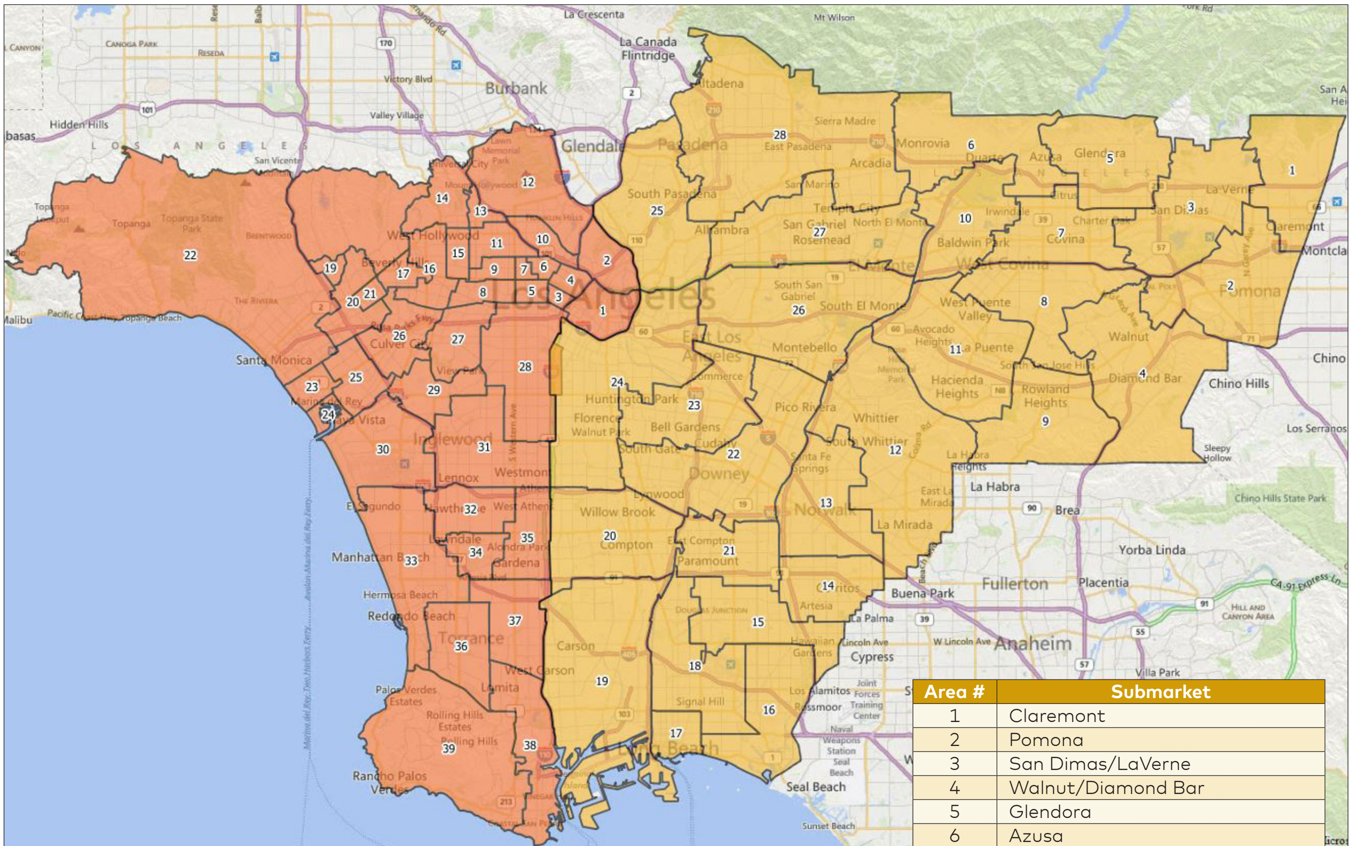
Q, and to spearhead a new market segment by offering a unique, upscale lifestyle to residents, in a resort-like ambiance. The Q projects will offer a high level of services and amenities to residents including exceptional common-area spaces, smart-home systems, live-work units, concierge and valet services, and a large fitness area and spa.

How do you see the California landscape and why does your company focus on it?

The Los Angeles metropolitan area is one of the biggest in the country and it is characterized by a shortage of housing coupled with a great and stable demand for housing. Notably, in conjunction with the shortage of housing, the area is characterized by a serious affordability crisis in which many people are rent-burdened and spend well over 30 percent of their income on housing. In my opinion, the fastest way to solve this crisis is to remove regulatory barriers in the industry and allow builders to bring the supply that this market so desperately needs.

Our new projects are in the Warner Center area because of the Warner Center Specific Plan. This plan allows for development without zone changes, offering unlimited height and high-density limits and a programmatic EIR (environmental impact report). This area has seen a large influx of development projects since its inception in 2013 and is a great example of how, when development restrictions are loosened, the market will truly thrive.

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.

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.