Yardi® Matrix

L.A. Lives

Multifamily Report Summer 2019

Rent Growth Decelerates

DTLA, Silicon Beach Lure Developers

Investment Sales Hit New High

Market Analysis

Summer 2019

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A Landlord's Market

Supply has yet to catch up with demand in the Los Angeles multifamily market, boosted by ongoing household formation and steady hiring, all in the context of a high barrier to homeownership.

The metro's business-friendly environment and well-educated, specialized labor force are drawing more companies to the region, while placing the local economy at the top of the most productive large U.S. cities for GDP growth. Education and health services led employment gains year-over-year as of May with the addition of 18,600 jobs, followed by professional and business services (13,600 jobs) and leisure and hospitality (12,700 jobs). The construction industry is also thriving (9,300 jobs), sustained by large-scale projects underway, including the $2.6 billion NFL stadium in Inglewood, the $4.9 billion people mover tram at Los Angeles International Airport and the $1.5 billion Lucas Museum of Narrative Art.

Investors seeking market stability and property value appreciation pushed the multifamily transaction volume to a cycle peak in 2018, when more than $5.4 billion in assets traded. In the first half of 2019, nearly $1.2 billion in properties traded, both Lifestyle and RBN. Meanwhile, development activity remained strong, with more than 26,500 units underway as of June. Absorption is expected to keep up, leading to 3.5% rent growth in 2019.

Recent Los Angeles Transactions

The Glendon at Westwood Village

City: Los Angeles
Buyer: Douglas Emmett & Co.
Purchase Price: $365 MM
Price per Unit: $1,042,857

Park Western Estates

City: San Pedro, Calif.
Buyer: SDG Housing Partners
Purchase Price: $63 MM
Price per Unit: $291,204

Avalon Cerritos

City: Cerritos, Calif.
Buyer: AvalonBay Communities
Purchase Price: $61 MM
Price per Unit: $458,333

Sierra Canyon

City: Santa Clarita, Calif.
Buyer: Compass Acquisition Partners
Purchase Price: $60 MM
Price per Unit: $258,621

On the cover: Photo by choness/iStockphoto.com

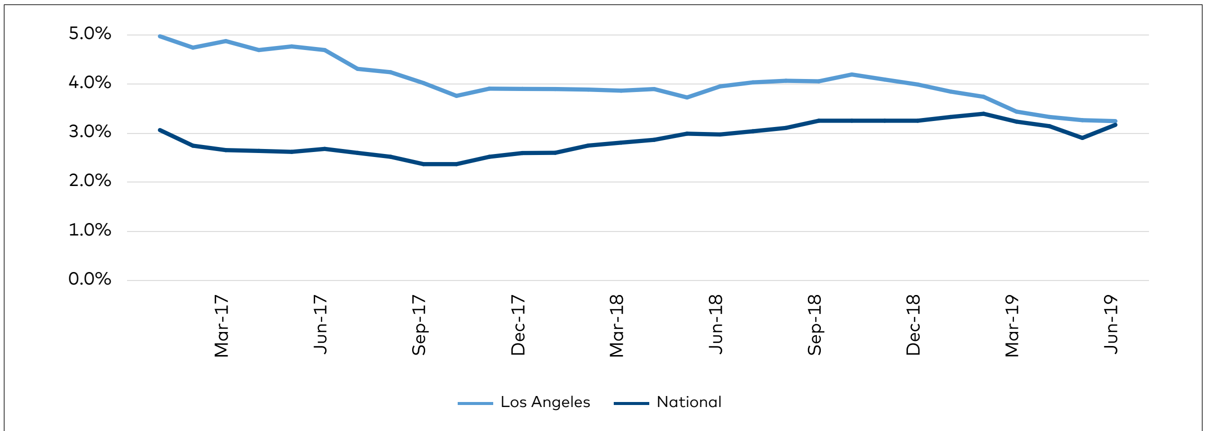
Rent Trends

- Rents in Los Angeles rose 3.2% year-over-year through June, just under the 3.3% national growth rate. The metro's average rent stood at $2,226, well above the $1,465 U.S. figure. Los Angeles' overall occupancy rate was 96.4% as of May, down 30 basis points year-over-year. The occupancy rates in stabilized assets for metro L.A. and the San Fernando Valley, as both had a high number of new units delivered in 2018, have been dwindling in recent years, reaching 96.1% and 96.6%. However, occupancy in Eastern Los Angeles County has stabilized, holding at 96.6% throughout the year.

- Rents in the working-class Renter-by-Necessity segment rose 4.3% to $1,907, while Lifestyle rates increased by 1.8%, to $2,927. Multifamily demand is strong for both asset classes, bolstered by steady household creation and job gains in high-paying industries, while single-family home prices remain unaffordable for many average earners. We expect the metro's average rent to rise 3.5% in 2019.

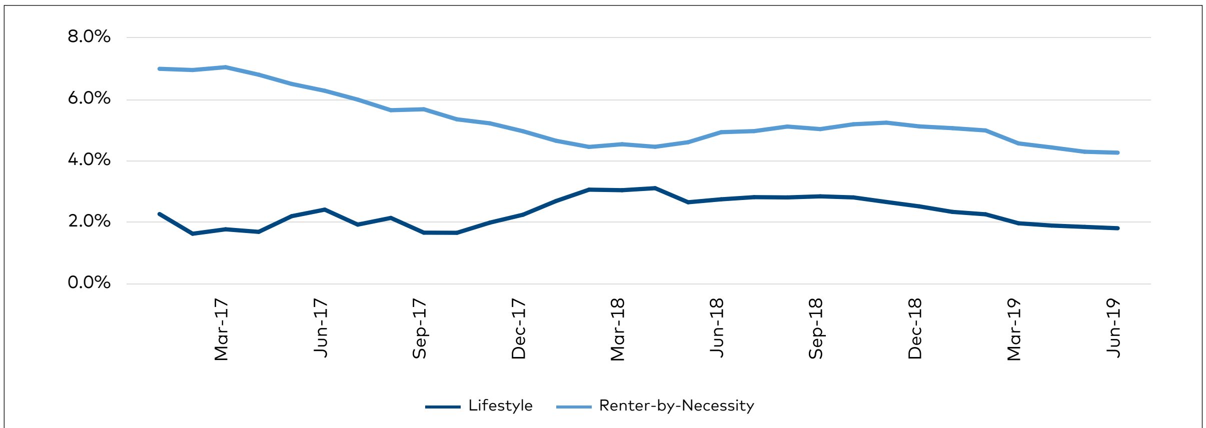
- Most of the submarkets that saw the highest rent growth year-over-year were in Eastern Los Angeles County, with West Long Beach topping the list (up 9.2% to $1,716), followed by Azusa/Monrovia (up 8.5% to $1,902) and Rowland Heights (up 7.5% to $1,743). The submarket with the fastest growth in San Fernando Valley-Ventura County was Calabasas, where the average rent rose 9.0% to $2,516, while in Los Angeles, the average rent in Beach Cities saw the quickest growth (up 6.7% to $2,430).

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)

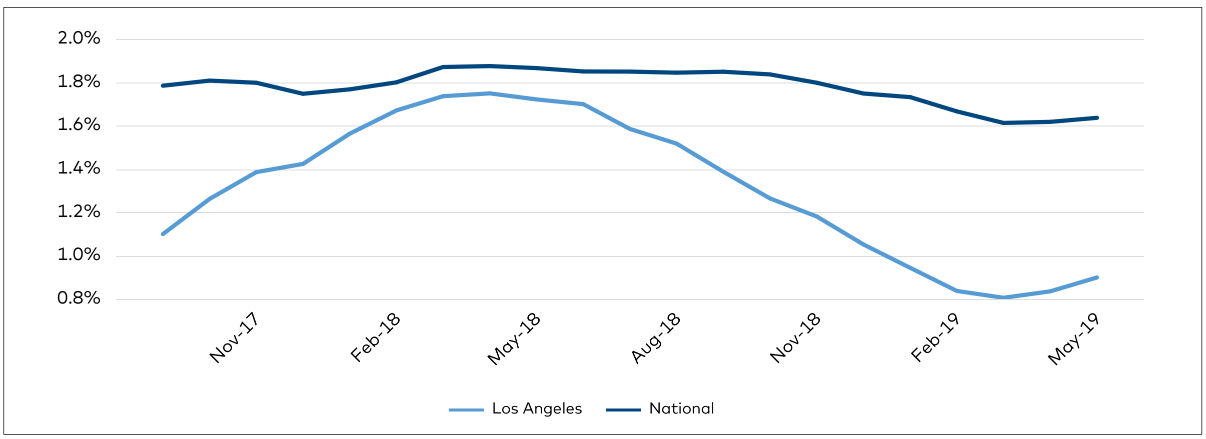


Source: YardiMatrix

Economic Snapshot

- Los Angeles gained 58,900 jobs in the 12 months ending in May, up 0.9% year-over-year, trailing the 1.6% national average. The unemployment rate dropped to a record low of 4.0% in April, but remains higher than the 3.6% U.S. figure. The metro's economy also ranks as the most productive of the five biggest U.S. cities, according to the most recent GDP data from the Bureau of Economic Analysis.
- Education and health services saw the addition of 18,600 jobs, a reflection of increased federal money to promote college access among low-income students and new health-care projects coming online, including Good Samaritan Hospital's $100 million outpatient facility in Westlake. Dignity Health California Hospital Medical Center is also building a $215 million expansion of its downtown campus.
- Professional and business services gained 13,600 jobs, boosted by the metro's thriving tech scene, as more companies expand to Silicon Beach, including Snap, Google, HBO, Apple and Amazon Studios. Los Angeles is home to the fourth-largest tech talent pool in the country, with more than 110,000 computer and software jobs, trailing only New York City, Washington, D.C., and San Jose, according to a recent JLL study. Leisure and hospitality gained 12,700 jobs, following a record of 50 million visitors in 2018, while construction added 9,300 jobs, as new attractions are underway, including the $2.6 billion NFL stadium in Inglewood and the $1.5 billion Lucas Museum of Narrative Art.

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)

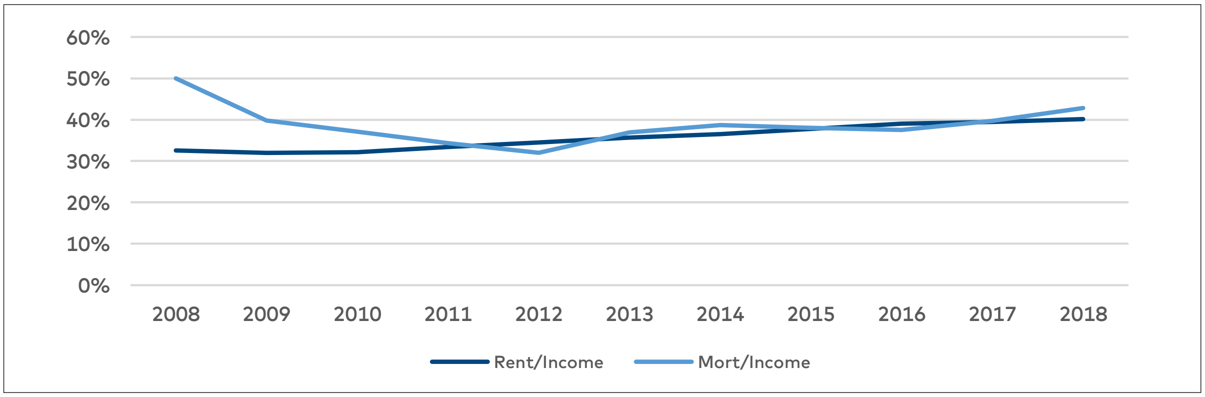
		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
65	Education and Health Services	844	18.5%	18,600	2.3%
60	Professional and Business Services	627	13.8%	13,600	2.2%
70	Leisure and Hospitality	552	12.1%	12,700	2.4%
15	Mining, Logging and Construction	156	3.4%	9,300	6.3%
90	Government	604	13.2%	5,200	0.9%
80	Other Services	164	3.6%	4,000	2.5%
40	Trade, Transportation and Utilities	844	18.5%	1,000	0.1%
50	Information	207	4.5%	-200	-0.1%
30	Manufacturing	343	7.5%	-1,900	-0.6%
55	Financial Activities	220	4.8%	-3,400	-1.5%

Sources: YardiMatrix, Bureau of Labor Statistics

Demographics
Affordability

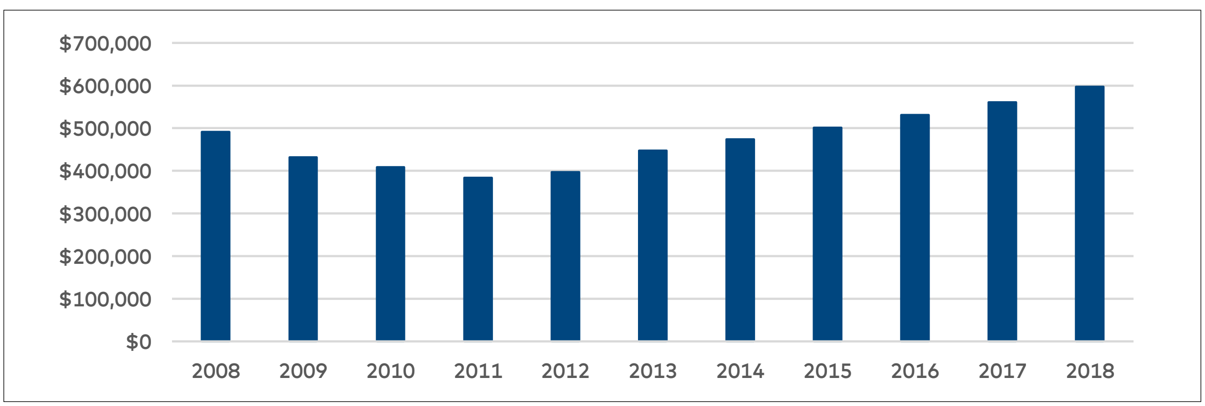
- The median home price in Los Angeles climbed to $597,421 in 2018, up 6.4% over 2017 and 55.6% above 2011 levels. The average mortgage payment accounted for 43% of the area median income, while the average rent equated to 40%.
- In line with a statewide trend, Los Angeles is experiencing a housing affordability crisis. To address this, authorities are seeking solutions, such as the recently shelved Senate Bill 50 that would have required cities to allow four- to five-story apartment projects near rail stations and four or more homes on land zoned only for single-family homes across Los Angeles, San Francisco and Silicon Valley, among others.

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, significantly trailing the 0.7% U.S. figure.
- The metro added 144,903 residents between 2013 and 2017 for a 1.5% expansion, below the 3.0% national rate.

Los Angeles vs. National Population

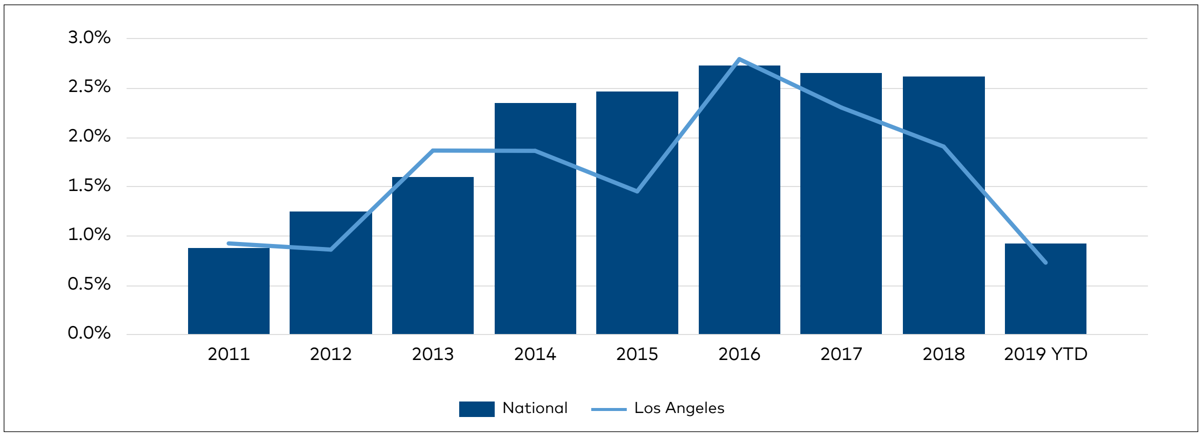
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Los Angeles Metro	10,018,604	10,072,695	10,123,248	10,150,558	10,163,507

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

Supply

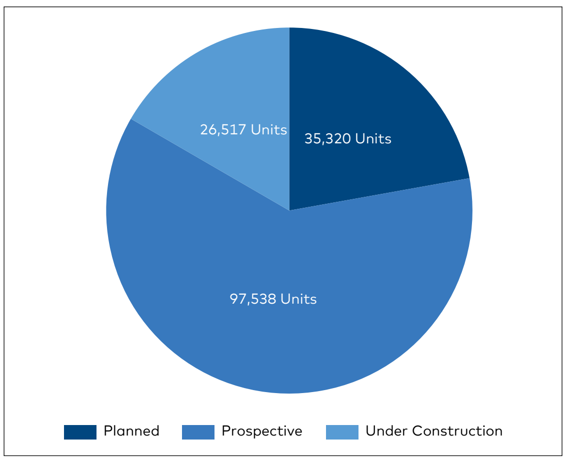
- Some 26,500 units were under construction across the metro as of June, mostly targeting the Lifestyle segment. In the first half of 2019, 13 projects totaling 3,065 units came online—nine in Los Angeles, three in Los Angeles-Eastern County and one in San Fernando Valley-Ventura County—representing 0.7% of total stock.
- The metro's multifamily pipeline consisted of more than 130,000 units in the planning and permitting stages as of June. By the end of 2019, we anticipate total deliveries to reach 10,435 units. Absorption is expected to keep up, as strong demand for apartments endures in the market, propping up additional rent growth.
- Downtown Los Angeles had the highest number of apartments under construction as of June (3,635 units), followed by East Hollywood (1,768 units). In Silicon Beach, Santa Monica–Brentwood and Marina Del Rey had a combined 2,398 units underway. In San Fernando Valley-Ventura County, developers are targeting Canoga Park (1,334 units) and North Hollywood S (1,067 units), whereas in Los Angeles-Eastern County, SW Long Beach topped the list with 1,108 apartments underway.

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



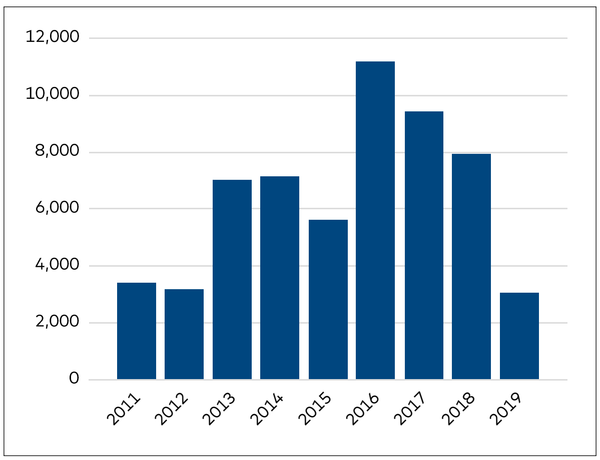
Source: YardiMatrix

Development Pipeline (as of June 2019)



Source: YardiMatrix

Los Angeles Completions (as of June 2019)

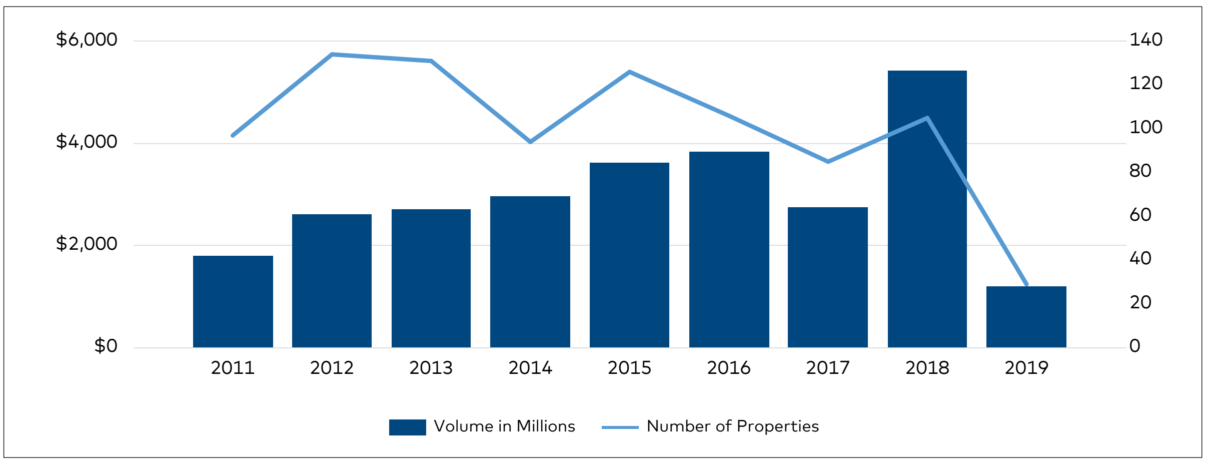


Source: YardiMatrix

Transactions

- Nearly $1.2 billion in multifamily assets traded in the metro in the first half of 2019, at an average per-unit price of $359,117, a new high and well above the $157,028 national average. In 2018, more than $5.4 billion in properties traded at an average price of $358,406, besting the market's 2016 cycle peak.
- Investors seeking stability and property value appreciation targeted stabilized Class A assets—acquisition yields for this property type can go as low as 4.0%—as well as Class C properties with a value-add component, for which first-year returns can even reach 7.3%.
- Douglas Emmett Co.'s acquisition of The Glendon at Westwood Village, a 350-unit community with 50,000 square feet of ground-floor retail in Bel Air, ranked as the metro's largest multifamily deal in the first half of 2019. Clarion Partners sold the 4.3-acre property for $365 million, or $1,042,857 per unit.

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



Source: YardiMatrix

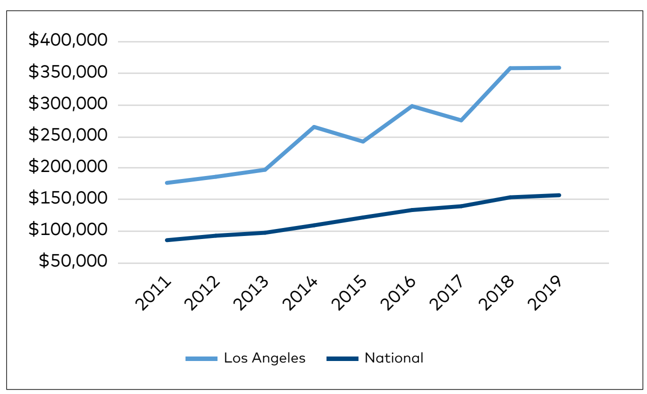
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Santa Clarita	392
Canoga Park	384
Bel Air	365
Downtown Los Angeles	249
Los Feliz–Griffith Park	191
SW Long Beach	173
Mid Wilshire East	171
Silverlake	163

Source: YardiMatrix

[1] From July 2018 to June 2019

Los Angeles vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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Metro LA Community Changes Ownership In $21M Deal

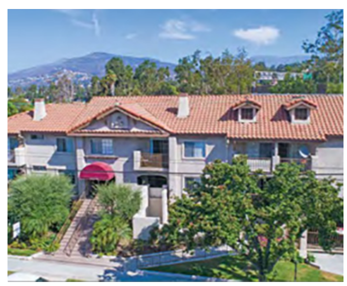
MWest Holdings financed the acquisition of Harbor Terrace with a $15.8 million loan held by Prime Finance Partners. The new owner will renovate and rebrand the asset.

JV Buys $365M Community in LA

The 350-unit property in the Westwood neighborhood also features 50,000 square feet of retail space. The acquisition was financed through a $160 million loan.

CIM Group Completes 2 LA Communities

The firm has finished the development of a 50-unit property in Silver Lake near East Hollywood. The developer also delivered Elevate, the second phase of a three-phase development in West Los Angeles.



Glendale Portfolio Commands $79M

Raintree Partners has purchased seven multifamily properties and added 231 units to its growing portfolio of smaller residential assets in urban California locations.

Los Angeles Community Gets $121M Financing

The 566-unit property is owned by GHP and is the third phase of Orsini, a 1,072-unit property built between 2003 and 2010.

LA Property Sells for $24M

Lion Real Estate Group purchased the 100-unit asset in 2015 for $15.5 million and sold it after renovating more than half of the community.

5 LEED-ing Multifamily Projects in CA

MHN MULTI-HOUSING NEWS

data by Yardi® Matrix

By Anca Gagiuc

Green building is no longer a novelty. The U.S. Green Building Council's Leadership in Energy and Environmental Design rating system has been around for more than two decades and is globally recognized as a symbol of sustainability achievement. While LEED certification positively impacts the health and well-being of people as well as the planet, it's a valuable feature for investors, as it translates to faster lease-up rates and higher resale value.

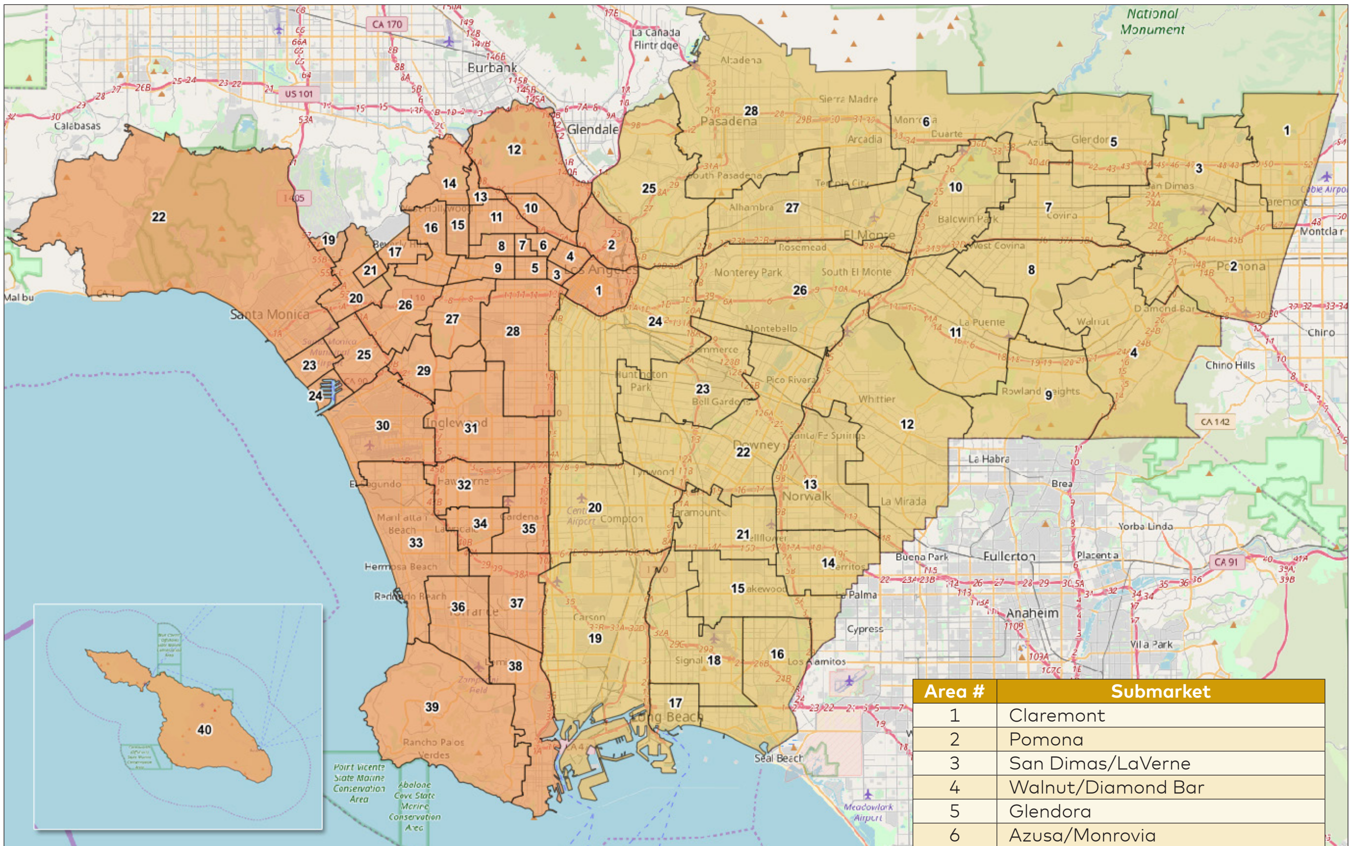
Property Name	City	No. of Units	Completion Date	LEED Status
Coronel	Los Angeles	54	6/18/2019	LEED Platinum Proposed
Oakcrest Heights	Yorba Linda	54	1/31/2019	LEED Platinum Certified
Springville Senior	Camarillo	104	1/30/2019	LEED Gold Certified
Hana Gardens	El Cerrito	63	12/31/2018	LEED Certification in Progress
855 Brannan	San Francisco	449	12/31/2018	LEED Platinum Certified

Coronel – LEED Platinum Proposed

Occupying less than an acre at 1607 N. Hobart Blvd. in L.A.'s East Hollywood submarket, Coronel Apartments is a fully affordable 54-unit community available to households earning at or below 60 percent of the area's median income. Six units are reserved for extremely low-income households earning at or below 30 percent of AMI. The unit mix comprises one- to three-bedroom floorplans with high ceilings and private balconies/patios.

The property is owned by Hollywood Community Housing and was built with two construction loans totaling more than $19 million: Some $14 million was funded by Bank of America and nearly $5 million was funded by HCHC.

Los Angeles Submarkets



Area #	Submarket
1	Downtown Los Angeles
2	Chinatown
3	Westlake South
4	Westlake North
5	Koreatown
6	Mid Wilshire East
7	Mid Wilshire West
8	Park La Brea North
9	Park La Brea South
10	Silverlake
11	East Hollywood
12	Los Feliz–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
21	Century City

Area #	Submarket
22	Santa Monica–Brentwood
23	Venice
24	Marina Del Ray
25	Mar Vista
26	Culver City
27	Hyde Park
28	Adams-Normandie–Hoover
29	Ladera Heights
30	El Segundo–Playa del Rey
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
40	Catalina Island

Area #	Submarket
1	Claremont
2	Pomona
3	San Dimas/LaVerne
4	Walnut/Diamond Bar
5	Glendora
6	Azusa/Monrovia
7	Covina
8	West Covina
9	Rowland Heights
10	Baldwin Park
11	City of Industry/Hacienda Heights
12	Whittier/La Mirada
13	Sante Fe Springs/Norwalk
14	Artesia
15	Lakewood/Hawaiian Gardens
16	East Long Beach
17	SW Long Beach
18	NW Long Beach
19	West Long Beach
20	Compton
21	Bellflower/Paramount
22	Downey/Southgate
23	Maywood/Bell/Montebello
24	East Los Angeles South
25	East Los Angeles North
26	S El Monte/Rosemead
27	Alhambra/San Gabriel/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.

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