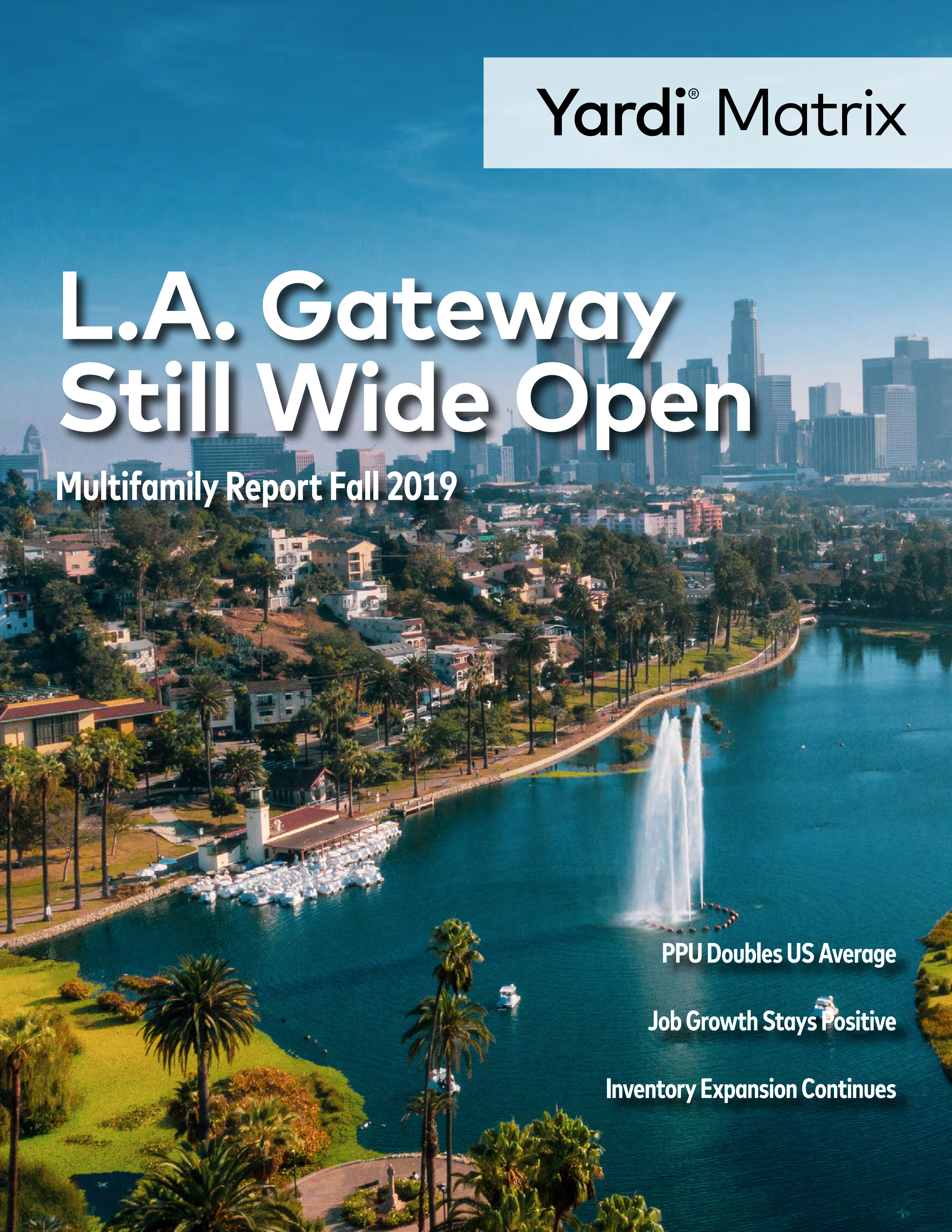
Yardi® Matrix



L.A. Gateway Still Wide Open

Multifamily Report Fall 2019

PPU Doubles US Average

Job Growth Stays Positive

Inventory Expansion Continues

Market Analysis
Fall 2019

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Navigating Uncharted Territory

As the current economic cycle stretches past most initial expectations, the multifamily market continues to test its limits. Los Angeles' rental market remained strong through 2019's last quarter, despite several economic and demographic headwinds, as investors and developers continued to pour their resources into the market and seek significant cash flows at the price of compressed acquisition yields.

The market's employment gains have bounced back to 1.2% year-over-year as of September, following a lengthy sub-1.0% interval during the year's first half. Education and health services continued to be L.A.'s economic cornerstone, having gained some 30,000 jobs in the 12 months ending in September. While the public sector was down 15,500 jobs and trade, transportation and utilities stagnated, long-term initiatives such as the prospect of the 2028 Olympic Games and the city's Green New Deal plan offer significant job growth potential in the long run.

Investment has stayed strong across the metro, with $3.4 billion in assets trading through the year's first 10 months. Although three-quarters of deals were for Renter-by-Necessity properties, the average per-unit price was $340,400, showcasing the market's enduring appeal.

Recent Los Angeles Transactions

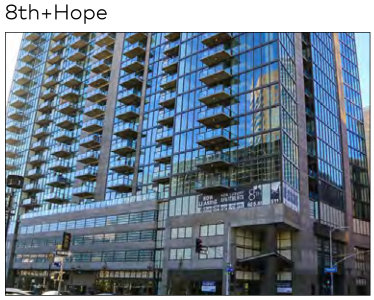
The Glendon

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

Sofia

City: Los Angeles
Buyer: The Carlyle Group
Purchase Price: $273 MM
Price per Unit: $449,670

8th+Hope



City: Los Angeles
Buyer: Cheng, Bin F.
Purchase Price: $220 MM
Price per Unit: $758,621

The Grace on Spring

City: Los Angeles
Buyer: daydream apartments
Purchase Price: $204 MM
Price per Unit: $678,333

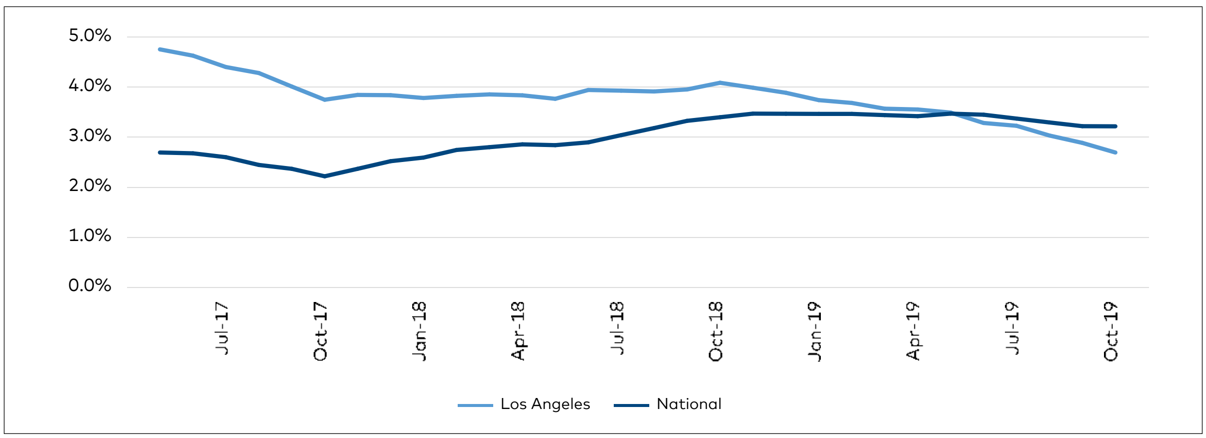
Rent Trends

- Metro L.A. rents rose 2.7% year-over-year through October, 50 basis points below the national figure. An overall average rate of $2,249, one of the highest in the nation, means that residents continue to be priced out of the market. Nearby Southern California markets such as the Inland Empire as well as states including Nevada, Arizona and Texas are seeing an influx of Californians looking for cheaper housing opportunities as employment there swells. In the longer run, concerns over the long-term effects of recent statewide rent regulations may yield further changes to the metro's rental environment.

- The average occupancy rate in stabilized properties stood at 96.4% as of September, as deliveries have had little impact on strong rental demand. The working-class Renter-by-Necessity segment, where new inventory has been extremely limited, saw its occupancy hold at 96.9% as of September. The sector has been at this for the better part of 2019, down 10 basis points over 12 months. The Lifestyle segment recorded a more significant inventory increase, leading occupancy down 20 basis points, to 95.3%.

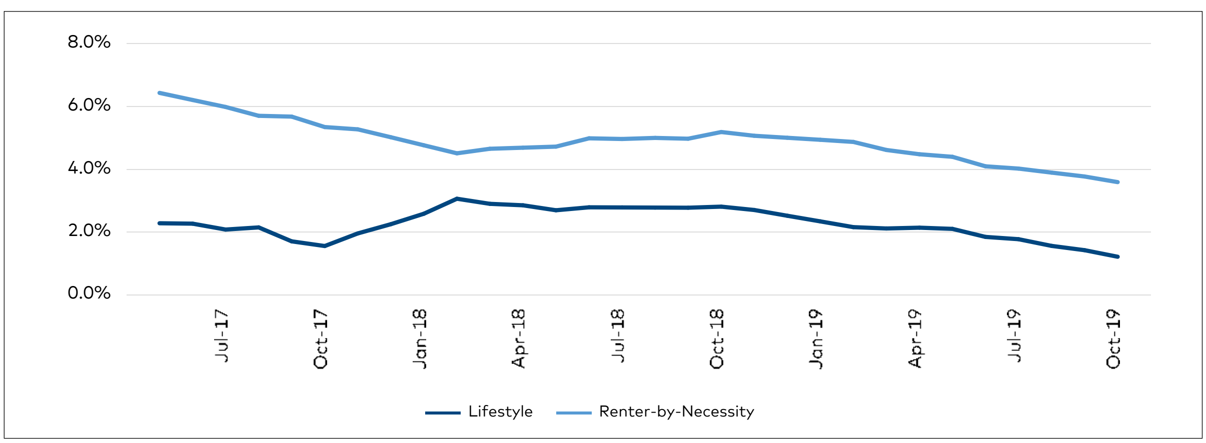
- Submarkets including Sunland (average rent up 11.8% year-over-year), Compton (up 9.9%), Beach Cities (up 8.3%), Adams-Normandie–Hoover (up 8.1%) and Ojai (up 7.9%) recorded the strongest rent hikes. Overall, residents are looking for cheaper havens in the Eastern Los Angeles County submarkets or the nearby Inland Empire, where average rents are significantly lower.

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)

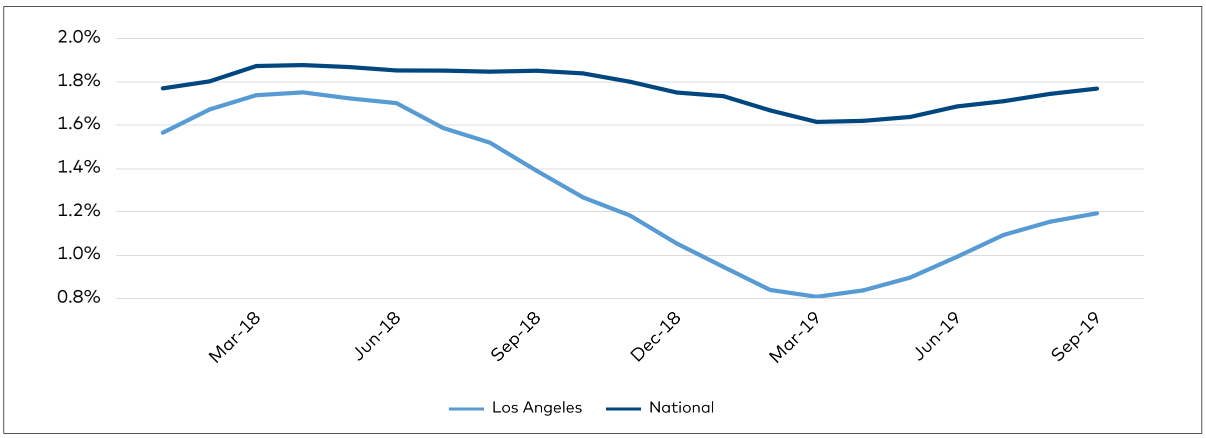


Source: YardiMatrix

Economic Snapshot

- L.A. gained 50,500 jobs in the 12 months ending in September, with employment growth at 1.2% year-over-year. Although it was 60 basis points below the national figure, the metro's rate of employment growth has essentially bounced back by 40 basis points compared to spring 2019 levels, marking a resurgence.
- Education and health services remained the metro's economic cornerstone, having gained 30,300 jobs through the interval, up 3.7% year-over-year to 856,000 positions.
- A strong development pipeline has bolstered construction employment, with the metro gaining 10,600 jobs through the interval, up 7.1% year-over-year. With the 2028 Olympic Games already looming, construction is likely to surge, as the necessary sports venues and infrastructure projects associated with the city's bid to host the event will start going up soon.
- Despite its current stagnation, the city's trade, transportation and utilities sector is also poised for growth, should Mayor Garcetti's Green New Deal be implemented for electric grid changes, while infrastructure improvements are slated to boost investment in new mobility solutions.

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	856	18.8%	30,300	3.7%
70	Leisure and Hospitality	548	12.0%	12,600	2.4%
60	Professional and Business Services	636	14.0%	10,700	1.7%
15	Mining, Logging and Construction	160	3.5%	10,600	7.1%
80	Other Services	162	3.6%	2,500	1.6%
30	Manufacturing	344	7.5%	600	0.2%
40	Trade, Transportation and Utilities	849	18.6%	-	0.0%
55	Financial Activities	222	4.9%	-500	-0.2%
50	Information	215	4.7%	-800)	-0.4%
90	Government	566	12.4%	-15,500	-2.7%

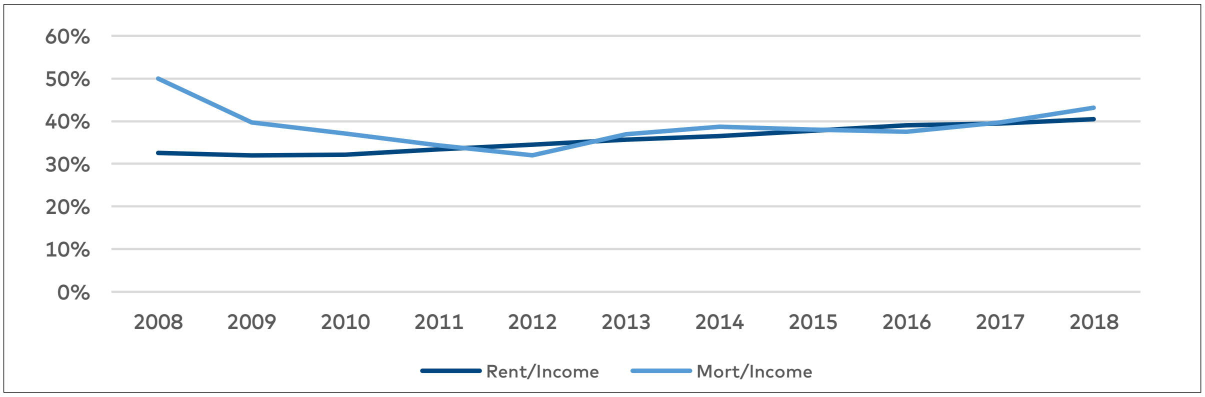
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

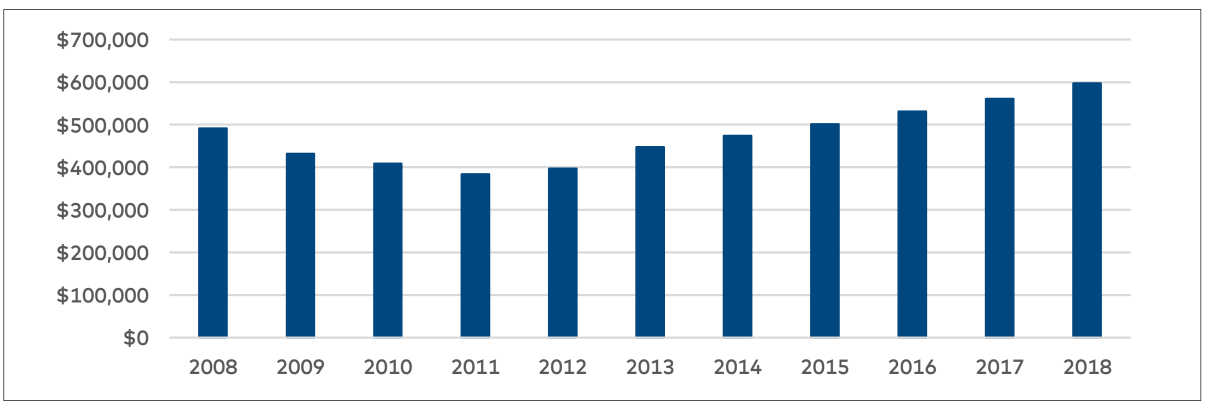
- With the average L.A. rent now well past the $2,200 mark, pressure on renters has increased further. In 2018, rents accounted for 40% of incomes, the highest level this cycle. Since the bulk of rental units coming online has been upscale, affordability issues have increased, putting further strain on already burdened residents and contributing to the rise of rent-control measures.
- The market's median home price rose to $597,402, roughly $36,000 higher than in 2017 and more than $200,000 over the 2011 level, when the market bottomed out. Mortgages accounted for 43% of incomes.

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 L.A. lost some 13,000 residents in 2018, as people are slowly being priced out of the market and pressured into moving to more affordable SoCal and Sun Belt markets.
- L.A.'s population continues to be propped up by immigration.

Los Angeles vs. National Population

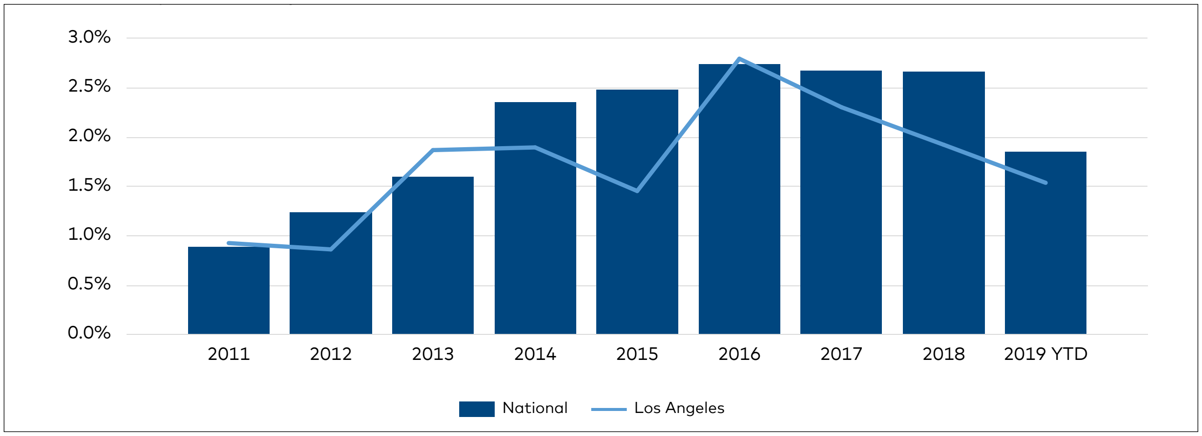
	2014	2015	2016	2017	2018
National	318,386,421	320,742,673	323,071,342	325,147,121	327,167,434
Los Angeles Metro	10,048,408	10,097,037	10,120,540	10,118,759	10,105,518

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

Supply

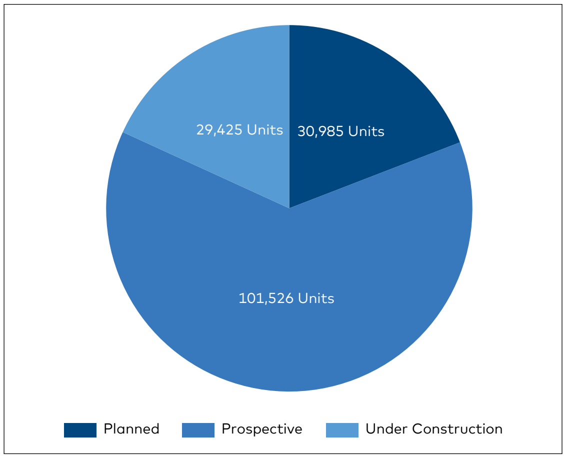
- Developers added 6,502 units to the metro's rental stock in 2019 through October, pointing to yet another solid year for deliveries. High construction costs and land availability issues have done little to dent construction activity throughout the second half of the cycle, as more than 40,000 units came online since 2015 across the market.
- There were 29,425 units underway in L.A. as of October, while another 132,000 units were in the planning and permitting stages. Only four of the 29 properties that were completed in L.A. through the year's first 10 months were in the Renter-by-Necessity segment, totaling 371 units.
- Despite the large swath of units being added to the market's rental inventory, L.A.'s average occupancy rate in stabilized assets stood at 96.4% as of September, well above the 95.1% national figure.
- The largest project to come online during 2019's third quarter was AVEN, a 536-unit community in Downtown Los Angeles. Mack Real Estate Development built the property at 1120 S. Grand Ave.

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



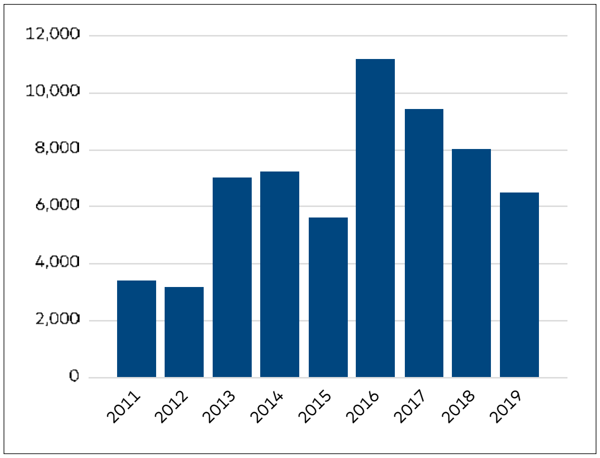
Source: YardiMatrix

Development Pipeline (as of October 2019)



Source: YardiMatrix

Los Angeles Completions (as of October 2019)

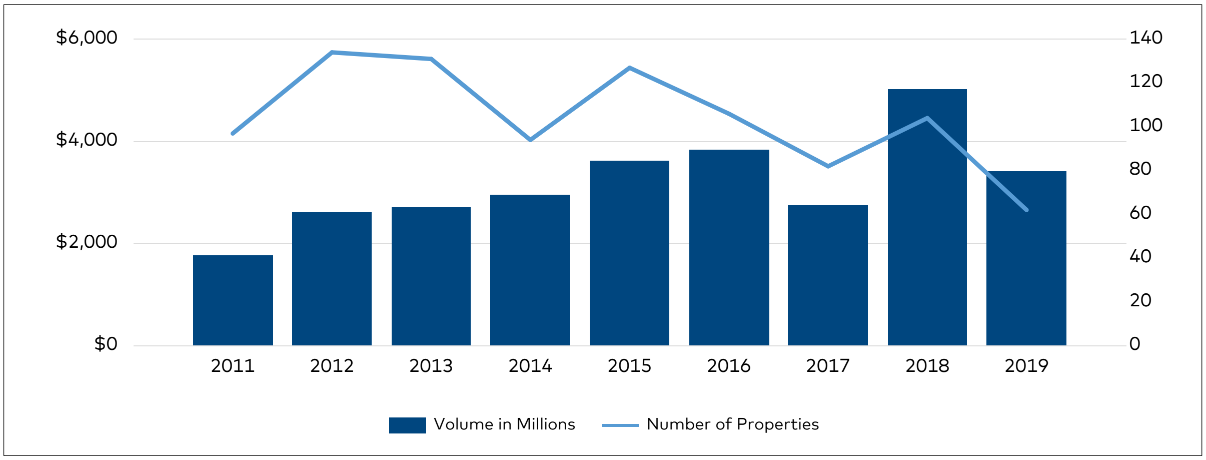


Source: YardiMatrix

Transactions

- Some $3.4 billion in Los Angeles multifamily assets traded in 2019 through October. That's already in line with the average yearly investment volume since 2013, showcasing continued interest despite ever-growing prices and compressed acquisition yields. L.A. assets saw yields hold in the 4.0%-5.0% range for Class A assets, roughly in line with other gateway markets.
- The average price per unit slid $8,000 in the first 10 months of 2019 to an average of $340,400, still more than double the national figure, which stood at $162,889.
- Submarkets within or close to the city core recorded the largest volumes in the 12 months ending in October: downtown Los Angeles ($623 million), Bel Air ($365 million), Mid Wilshire East ($360 million) and Westlake North ($321 million).

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



Source: YardiMatrix

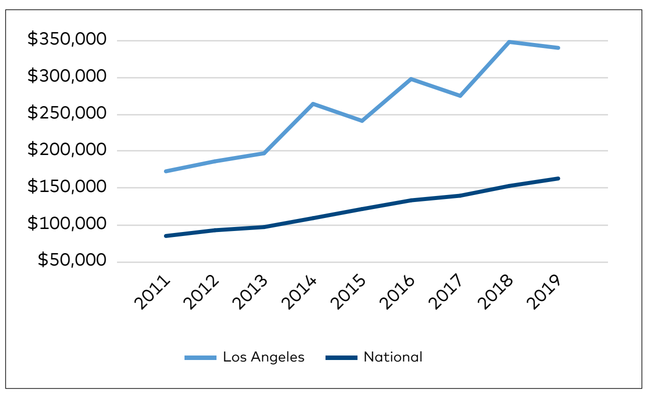
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Downtown Los Angeles	623
Bel Air	365
Mid Wilshire East	360
Westlake North	321
West Covina	224
Silverlake	163
Santa Clarita	162
NW Long Beach	157

Source: YardiMatrix

[1] From November 2018 to October 2019

Los Angeles vs. National Sales Price per Unit



Source: YardiMatrix

Executive Insight

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MULTI-HOUSING NEWS

Affordable Housing Can Be a Top Performer

By Laura Calugar

New housing supply is concentrated in the luxury segment, but the largest demand comes from workforce households. Still, developers tend to avoid affordable multifamily projects. Pembrook Capital Management CEO Stuart Boesky explains how the private debt market could step up and fill the gap between supply and demand, even in primary markets.

For example, Pembrook provided a preferred equity investment of up to $50 million to Prana Investments. The Prana fund owns 435 units in Los Angeles and 806 units in New York City.

How serious is the affordable housing shortage in coastal metros?

What we've observed for many years and clearly detailed in studies conducted by, for example, Harvard University, the National Multifamily Housing Council and the National Apartment Association is a shortage of affordable rental housing (ARH) in our major cities. The seriousness varies by location and can pose significant challenges. Simply put, there is an overwhelming demand and need for affordable units. Building and preserving these units is essential. And there's a real opportunity to do so. The capital markets frequently overlook the fact that affordable rental housing can be a top-performing investment on a risk-adjusted basis. In my opinion, affordable rental housing is not and should not be a "second-class" asset class.

What are the main factors that cause investors to overlook ARH?

A large reason for the relative lack of investment into ARH is simply perception. Many investors simply do

not see affordable rental housing as a financially accretive investment. Not only does affordable rental housing have potential to perform well in terms of returns but it can also be a well-performing asset in poor economic environments.

How has the process of financing affordable housing evolved?

We recently provided financing in the form of a revolving preferred equity facility for an affordable housing developer, which is backed by over 1,100 affordable housing units in New York and Los Angeles.

In the past, that same developer might instead have secured a bank line of credit secured by their portfolio in order to fund new acquisitions as well as rehab of existing properties. We've seen that source of financing retrench since the financial crisis. The private debt market has the opportunity to step up and effectively fill that gap.

How do you expect the affordable housing market to evolve?

We see a good pipeline of potential deals in New York City and Los Angeles and are optimistic about the affordable housing market moving forward. We believe that real estate credit will be the strongest it has been post-financial crisis as underwriting has become more conservative.

(Read the complete interview on multihousingnews.com.)

News in the Metro

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Two Communities Trade for $17M

The neighboring communities in Azusa, built in the '60s, comprise 72 units that will be upgraded by the new owner.

HGI Funds Luxury Project

The five-story, Class A community will be located near large employers including Google, Facebook and Amazon.

Berkadia Closes $30M Sale

The 78-unit community known as Villa Grande Townhomes had a 92.3 percent occupancy rate as of September.

Community Trades For $29M

NNC Apartment Ventures and Bailard Inc. sold the 88-unit Cambridge Apartments after 15 years of ownership.

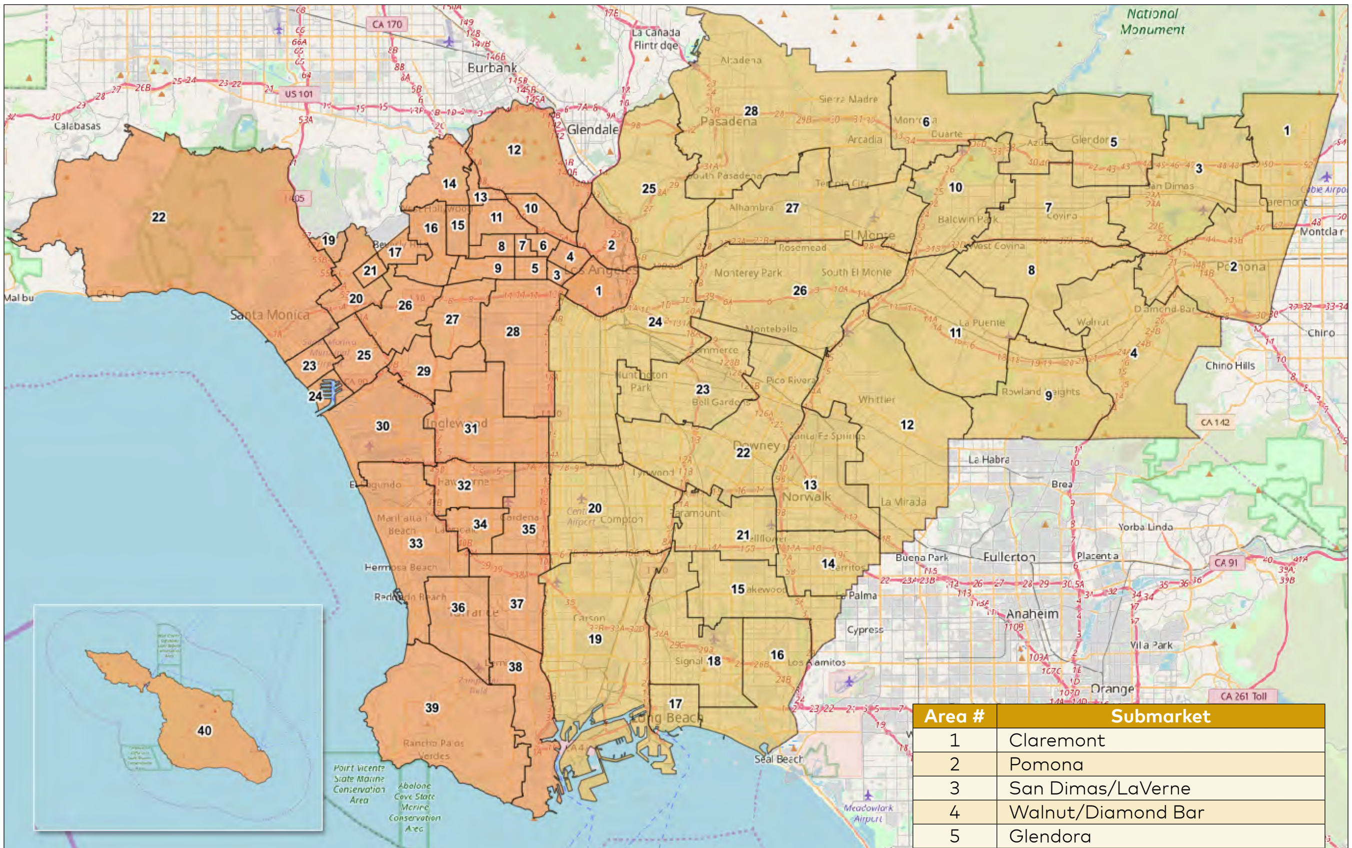
Compass Acquisition Partners Welcomes New CEO

Industry veteran Lynn Owen joined the company after almost five years at TruAmerica Multifamily.

ACC, UC Riverside Break Ground On Student Project

The first phase of the multiphase North District community in Riverside will deliver about 1,500 student beds by 2021.

Los Angeles Submarkets



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

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 South
9	Park La Brea North
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

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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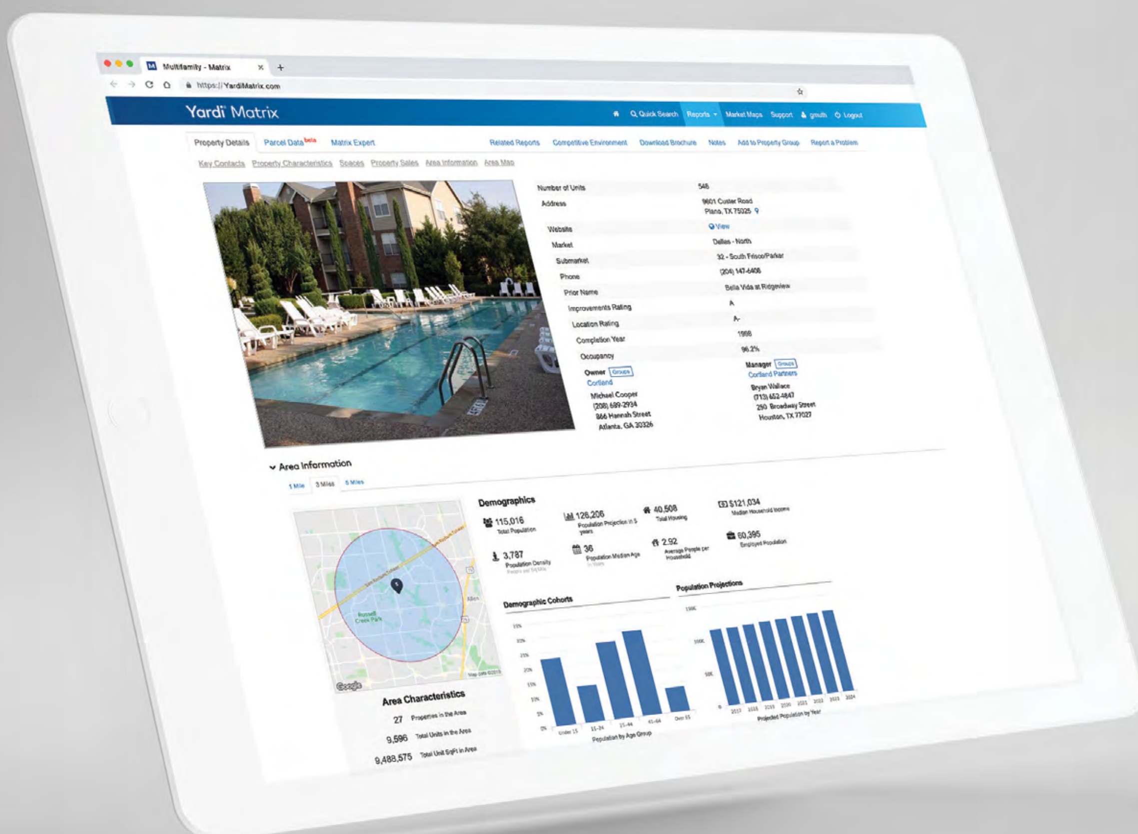

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