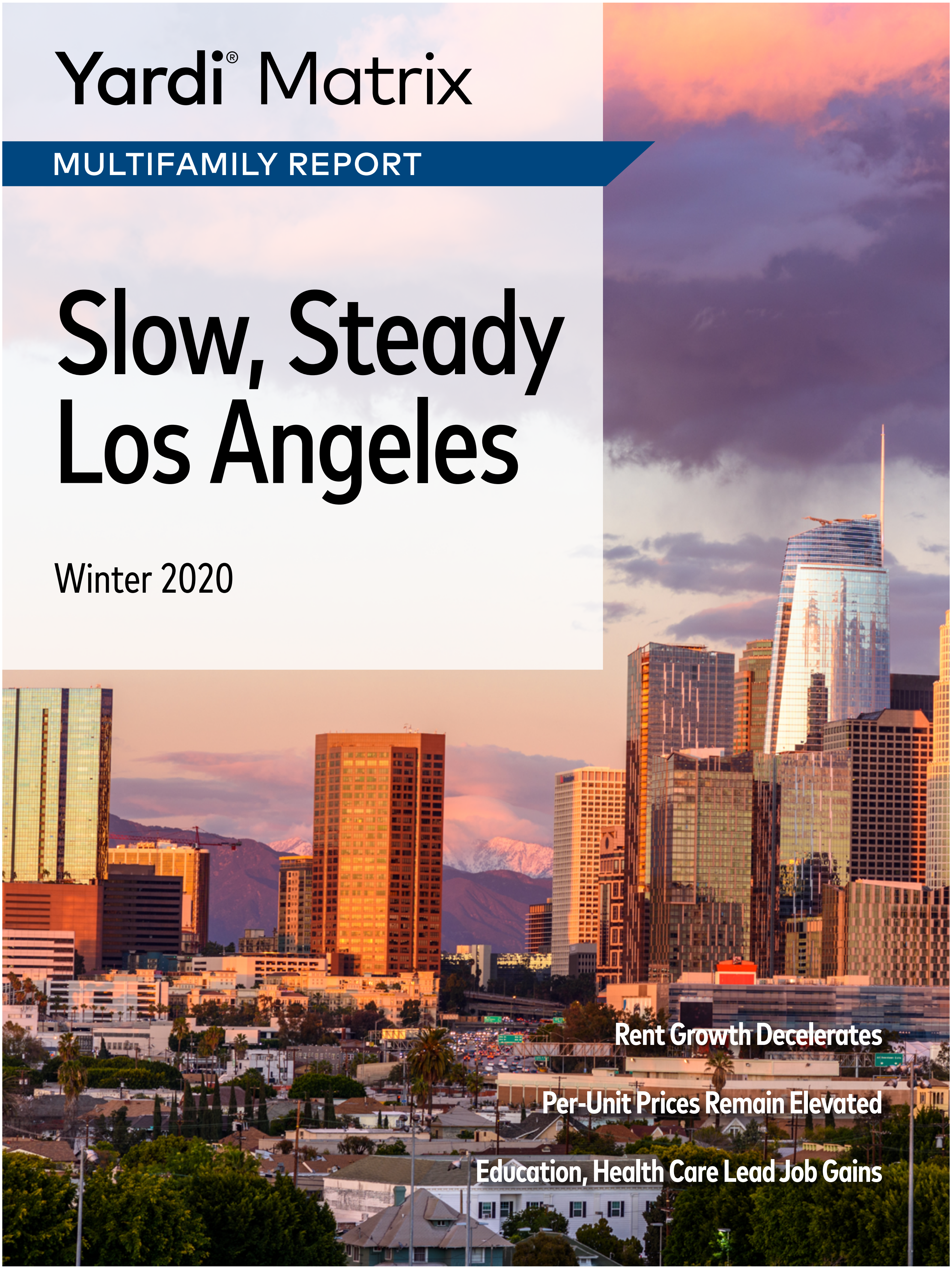
Yardi® Matrix

MULTIFAMILY REPORT

Slow, Steady Los Angeles

Winter 2020



Rent Growth Decelerates

Per-Unit Prices Remain Elevated

Education, Health Care Lead Job Gains

LOS ANGELES MULTIFAMILY

Yardi® Matrix

Demand Continues To Outpace Supply

Rental demand has remained strong across metro Los Angeles this year, bolstered by household creation and employment gains in the context of a high barrier to homeownership. Despite a steady pipeline over the past four years, occupancy in stabilized properties remained above 96.0%—one of the highest rates in the U.S.—underpinning steady rent growth.

The metro gained 81,900 jobs in the 12 months ending in November 2019, representing a 1.4% increase. Growth was led by education and health services (35,700 jobs)—a trend that is set to continue, boosted by the region's growing number of senior citizens. Professional and business services added 14,700 jobs—thanks to a booming tech scene and an ever-growing entertainment industry—followed by leisure and hospitality (14,000 jobs).

Nearly $4.8 billion in multifamily assets traded in Los Angeles in 2019, at an average per-unit price of $343,941, almost on par with the 2018 cycle high. With the state's AB 1482 rent-control law in effect since January, acquisition yields for older stock is expected to shift, as the new legislation limits rent increases for properties older than 15 years. Meanwhile, construction activity is strong across the metro, as more than 29,300 units were underway as of January, with a strong focus on the urban core.

Market Analysis | Winter 2020

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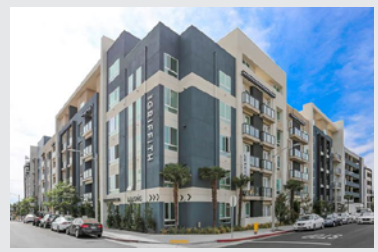
On the cover: Photo by choness/iStockphoto.com

Recent Los Angeles Transactions

The CitiZen South Bay on Anza

City: Torrance, Calif.
Buyer: Clarion Partners
Purchase Price: $126 MM
Price per Unit: $470,896

The Griffith



City: Glendale, Calif.
Buyer: Greystar
Purchase Price: $119 MM
Price per Unit: $538,636

The Enclave

City: Paramount, Calif.
Buyer: MWest Holdings
Purchase Price: $99 MM
Price per Unit: $324,592

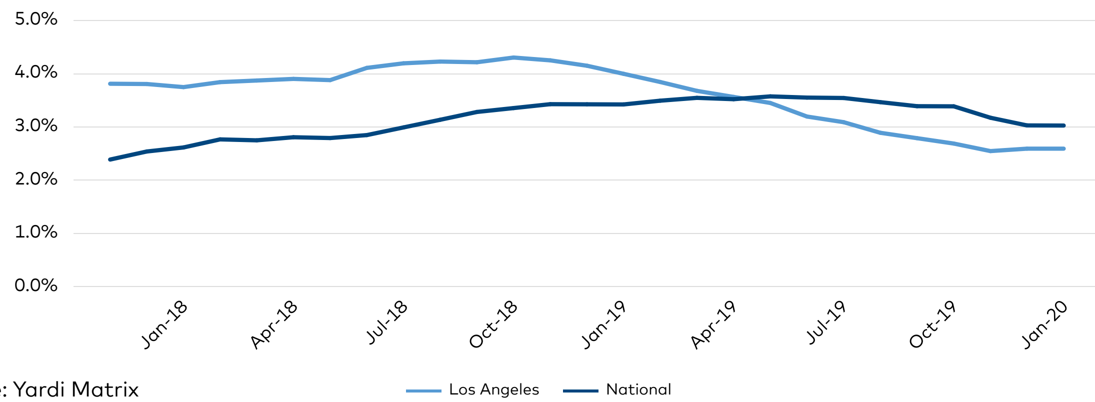
Monterra Ridge

City: Canyon Country, Calif.
Buyer: ABRA Management
Purchase Price: $63 MM
Price per Unit: $269,397

RENT TRENDS

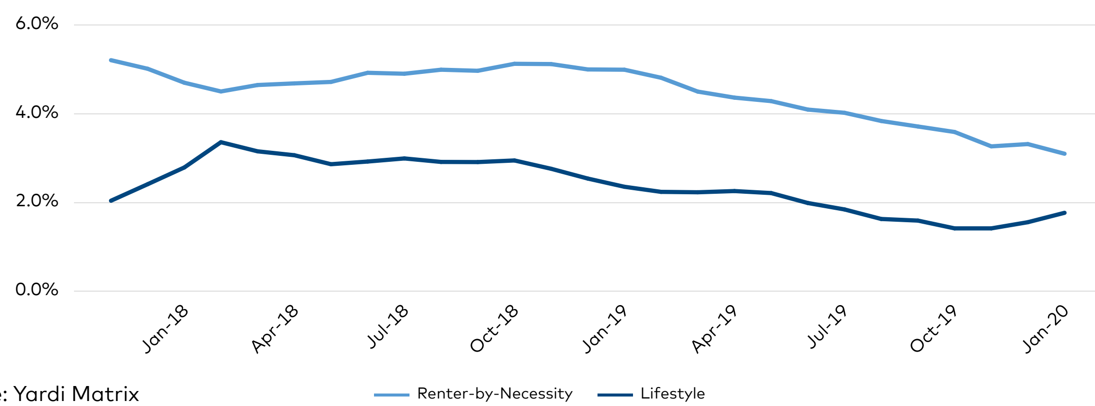
- Metro Los Angeles rents rose by 2.6% year-over-year through January, trailing the 3.0% national rate. The metro's average rent stood at $2,215, notably higher than the $1,463 national figure. Following the more than 9,400 units delivered last year, the occupancy rate in stabilized properties dropped 30 basis points over 12 months, to 96.1% as of December.
- Rents in the working-class Renter-by-Necessity segment rose by 3.1% to $2,879, while Lifestyle rates increased by 1.8%, to $1,930. Household creation, employment growth and a high barrier to homeownership continue to bolster demand across the quality spectrum.
- Submarkets within or close to the city core led gains, with West Hollywood's rates rising by 10.5% to $3,051, followed by Adams–Normandie–Hoover (9.9% to $2,694), Silverlake (8.0% to $2,001), Central Hollywood (7.2% to $3,216) and Koreatown (7.1% to $2,037). Rents in Century City, the metro's most expensive multifamily submarket, dropped 4.5% to $6,905 in the 12 months ending in January.
- With developers slated to bring close to 8,500 units online this year, the area's already high cost of living and the recent rent regulations, we expect growth to dampen slightly in the foreseeable future. Yardi Matrix data predicts that the average Los Angeles rent will advance just 1.8% this year.

Los Angeles vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: Yardi Matrix

Los Angeles Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)



Source: Yardi Matrix

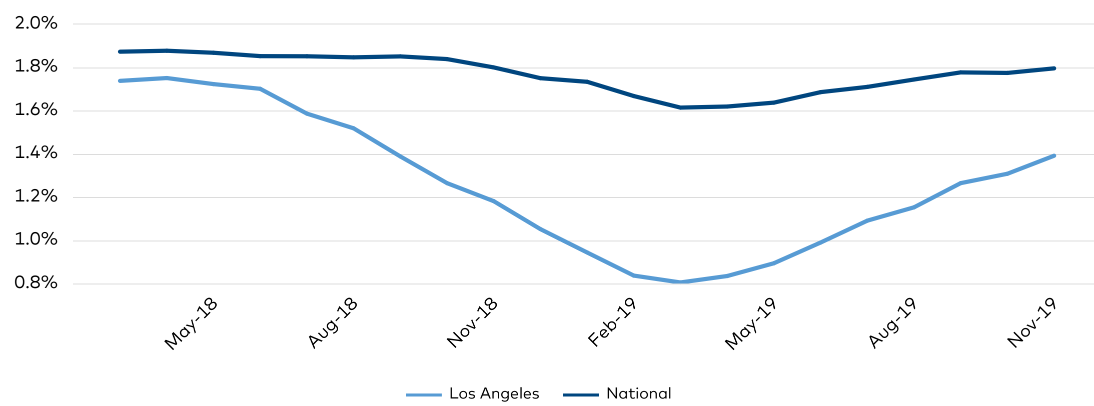
ECONOMIC SNAPSHOT

- Los Angeles gained 81,900 jobs in the 12 months ending in November, representing a 1.4% year-over-year increase and trailing the 1.8% national average. The metro's unemployment rate during the same period stood at 4.2%, above California's 3.9% and the nation's 3.5% figure.

- Education and health services led growth, with the addition of 35,700 jobs. This trend is set to endure, as the region's senior population continues to expand at a fast pace. The Center for a Competitive Workforce estimates that the Los Angeles Basin, which includes Los Angeles and Orange counties, will see 125,000 job openings in health care by 2022. New L.A. projects expected to come online this year include a 175,000-square-foot acute-care building that Skanska is constructing at Hollywood Presbyterian Medical Center in Hollywood. Dignity Health-California Hospital Medical Center will also complete a $215 million expansion of its downtown campus this year, with occupancy expected in 2021.

- Professional and business services gained 14,700 jobs, thanks to the metro's booming tech scene along with a growing entertainment industry, as Netflix, Amazon, Disney and Apple are increasing their focus on original content.

Los Angeles vs. National Employment Growth (Year-Over-Year)



Sources: Yardi Matrix, 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	871	18.7%	35,700	4.3%
60	Professional and Business Services	645	13.9%	14,700	2.3%
70	Leisure and Hospitality	549	11.8%	14,000	2.6%
15	Mining, Logging and Construction	160	3.4%	7,200	4.7%
40	Trade, Transportation and Utilities	877	18.8%	6,100	0.7%
90	Government	604	13.0%	4,200	0.7%
30	Manufacturing	344	7.4%	2,000	0.6%
55	Financial Activities	224	4.8%	400	0.2%
50	Information	223	4.8%	-1,000	-0.4%
80	Other Services	162	3.5%	-1,400	-0.9%

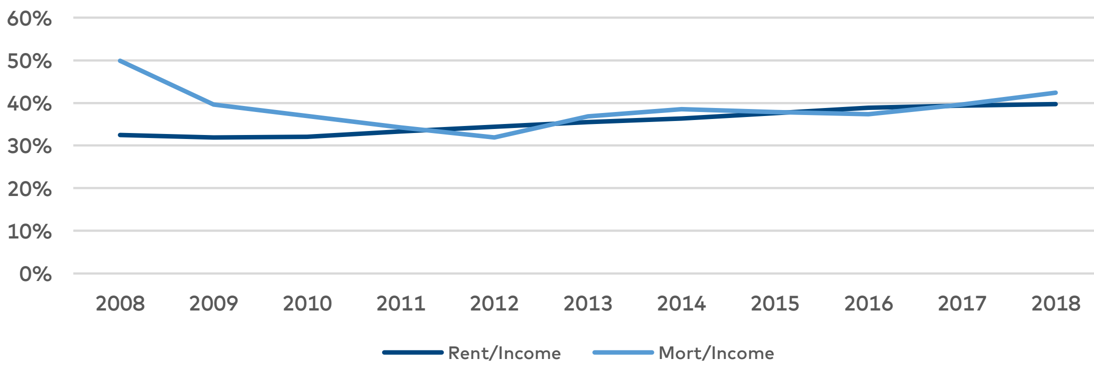
Sources: Yardi Matrix, Bureau of Labor Statistics

DEMOGRAPHICS

Affordability

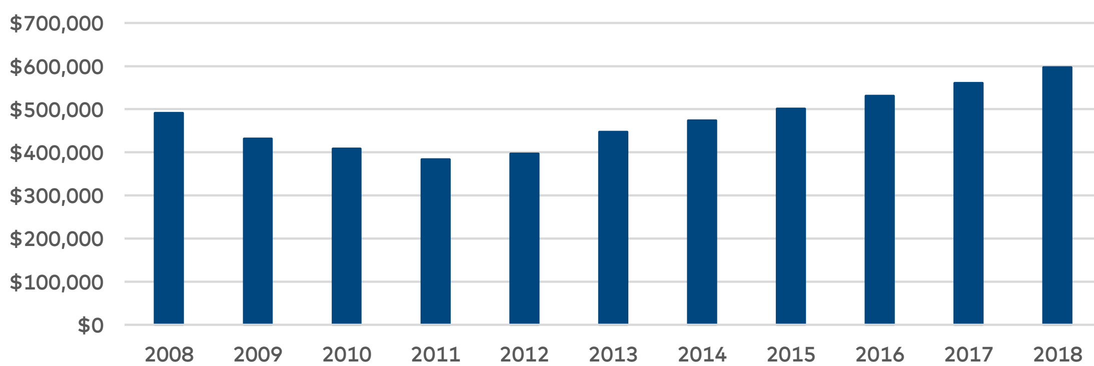
- The median home price in Los Angeles climbed to $597,463 in 2018, up by 6.5% over 2017 and 55.6% above the 2011 level, when the market bottomed out. The average mortgage payment accounted for 42% of the area median income, while the average rent equated to 40%.
- Los Angeles ranks as the nation's least affordable housing market, according to the National Association of Home Builders and the Wells Fargo Housing Opportunity Index. In Los Angeles–Long Beach–Glendale only 11.3% of homes sold during the fourth quarter of 2019 were affordable to families earning the $73,100 area median income.

Los Angeles Rent vs. Own Affordability as a Percentage of Income



Sources: Yardi Matrix, Moody's Analytics

Los Angeles Median Home Price



Source: Moody's Analytics

Population

- The metro's population dropped by 13,241 residents in 2018, representing a 0.1% decrease.
- The metro gained 57,100 residents between 2014 and 2018, marking a 0.6% population increase.

Los Angeles vs. National Population

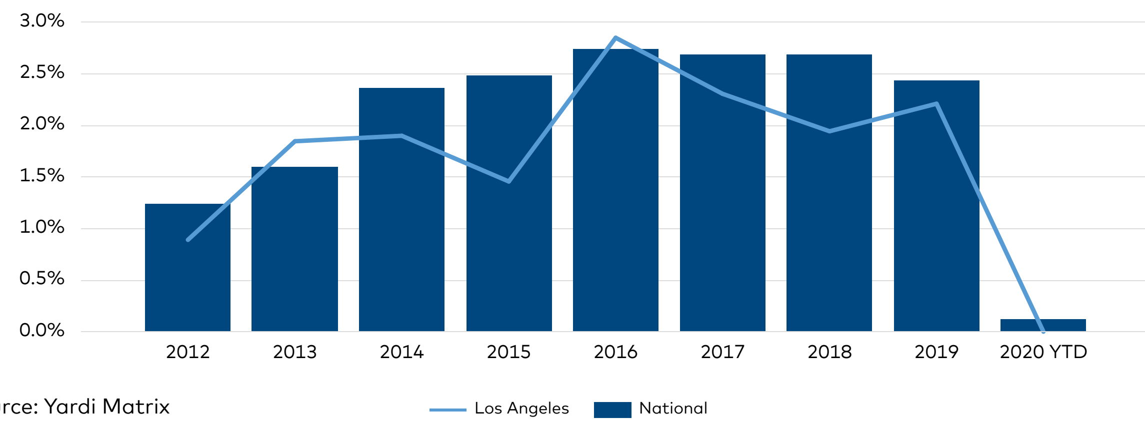
	2015	2016	2017	2018
National	320,742,673	323,071,342	325,147,121	327,167,434
Los Angeles Metro	2,749,827	2,807,211	2,851,848	2,888,227

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

SUPPLY

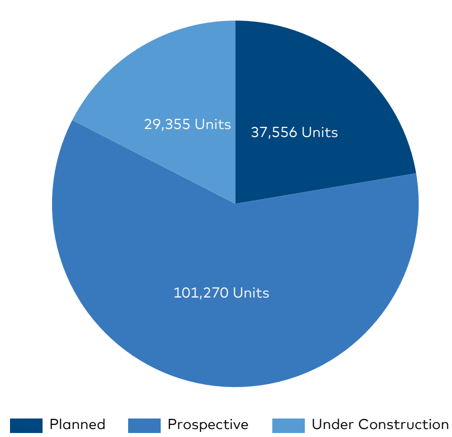
- More than 29,300 units were under construction in the metro as of January, with the vast majority catering to Lifestyle renters. Last year 9,411 new units—2.2% of the total stock—came online, slightly behind the 2.4% national average.
- Supply growth in Los Angeles has been consistent since 2016, when it reached a cycle peak of 11,364 units. Absorption has also been strong, maintaining occupancy in stabilized properties above 96.0% throughout the same period. As of December, the rate stood at 96.1%, beating the 94.8% national average. The metro's pipeline as of January also included 138,826 units in the planning and permitting stages.
- Core areas continued to dominate the pipeline. Downtown Los Angeles had 2,730 units under construction as of January, followed by Koreatown (2,507 units), Westlake North (2,108 units) and East Hollywood (1,749 units). Elsewhere, development was most intense in Canoga Park (1,450 units) and Southwest Long Beach (1,276 units).
- Ferrante, a 1,500-unit mixed-use project near the Harbor Freeway, ranked as the metro's largest project underway as of January. Developed by G.H. Palmer Associates, it benefited from a $335 million construction loan originated by Goldman Sachs in 2018 and is scheduled for completion by the end of 2020.

Los Angeles vs. National Completions as a Percentage of Total Stock (as of January 2020)



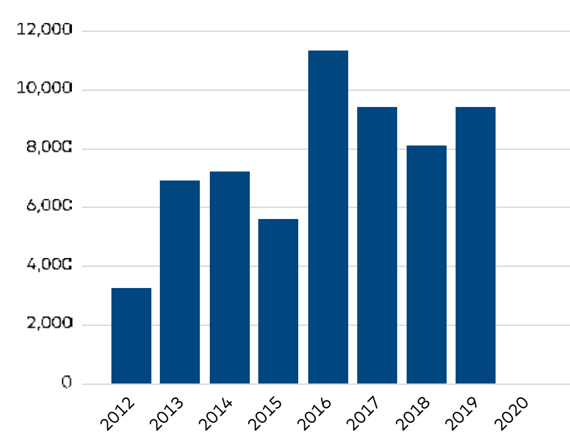
Source: Yardi Matrix

Development Pipeline (as of January 2020)



Source: Yardi Matrix

Los Angeles Completions (as of January 2020)



Source: Yardi Matrix

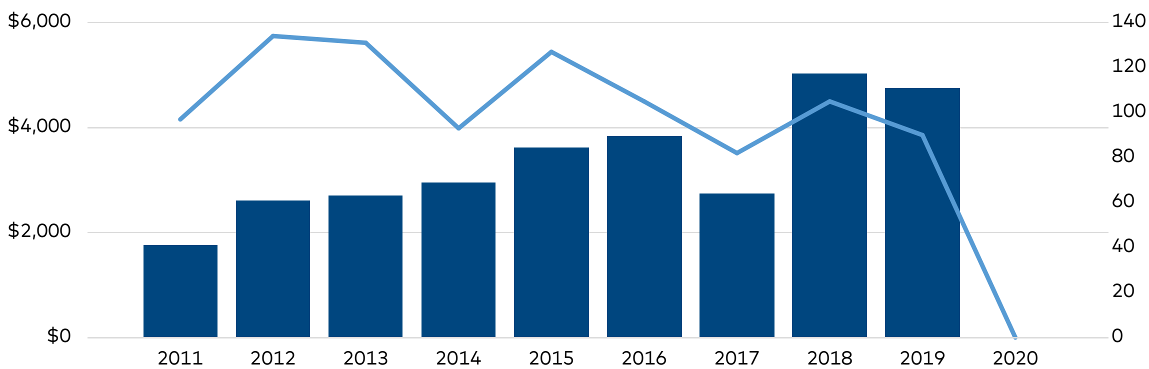
TRANSACTIONS

- Nearly $4.8 billion in assets traded in Los Angeles in 2019, at an average price per unit of $343,941. That number was near last year's $346,974 per-unit average and significantly higher than the $168,177 national figure.

- Investors were active across the quality spectrum, targeting stabilized Class A properties—for which acquisition yields can go as low as 4.0%—and Class C value-add opportunities that offered first-year returns in the 6.5% to 7.0% range.

- Douglas Emmett's $365 million acquisition of The Glendon was the metro's largest multifamily deal of 2019, also marking the highest price per unit for the year—$1,042,857. The 350-unit, 2008-built asset previously traded in 2014, when Clarion Partners acquired it from Casden Properties for $300 million.

Los Angeles Sales Volume and Number of Properties Sold (as of January 2020)



Source: Yardi Matrix

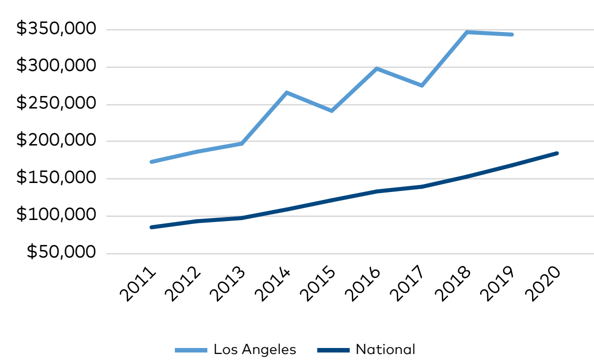
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Downtown Los Angeles	508
Bel Air	405
Westlake North	359
Mid Wilshire East	261
Glendale	225
Santa Clarita	224
West Covina	224
West Torrance	222

Source: Yardi Matrix

[1] From February 2019 to January 2020

Los Angeles vs. National Sales Price per Unit



Source: Yardi Matrix

TOP 5 LA SUBMARKETS FOR DEVELOPMENT BY NO. OF UNITS

MULTI-HOUSING NEWS

data by Yardi® Matrix

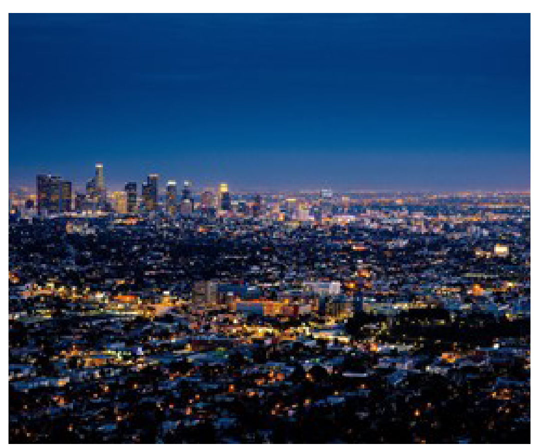
By Timea-Erika Papp

As the economy continues its slow yet sustained growth, the multifamily industry was off to a steady start in 2020. Meanwhile a slight decline in national deliveries is expected to emerge, according to the latest Yardi Matrix national multifamily report. Contributing factors include a five-year low for construction loan originations and the increased cost of labor and materials.

Rank	Submarket	No. of Units
1	Downtown Los Angeles	2,730
2	Koreatown	2,412
3	Westlake North	2,162
4	East Hollywood	1,746
5	Santa Monica–Brentwood	1,433

DOWNTOWN LOS ANGELES

Topping our list with 2,730 units underway as of January, downtown Los Angeles was one of the most development-centered submarkets in metro L.A. Last year, a total of 3,504 units were added to the area's inventory, accounting for a whopping 54 percent of the metro's total stock delivered in 2019. According to Yardi Matrix data, some 21,400 units were in the planning and permitting stages as of January. Officials have been making efforts to relieve the housing-strapped city—last October, the L.A. Department of City Planning unveiled its draft of DTLA 2040.



NEWS IN THE METRO

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Community Sells For $49M

The 11-building property in Cerritos traded for $324,000 per unit. CBRE negotiated on the seller's behalf, while the buyer was self-represented.

PCCP Extends $76M Loan

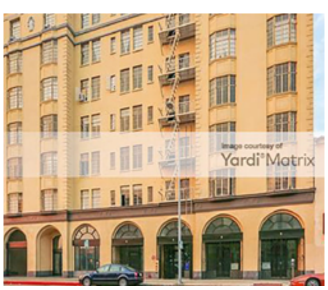
Bridge Investment Group sold the 306-unit community in Paramount, Calif., to a joint venture. The property was built in 1991 and sits on 4.9 acres.

Historic Community Sells for $38M

MWest Holdings sold the 170-unit asset shortly after closing another deal. Previous ownership made capital improvements to the property in past years.

Hines JV Breaks Ground

The eight-story West Edge will include 600 luxury apartments, offices, a full-service natural supermarket and restaurants.



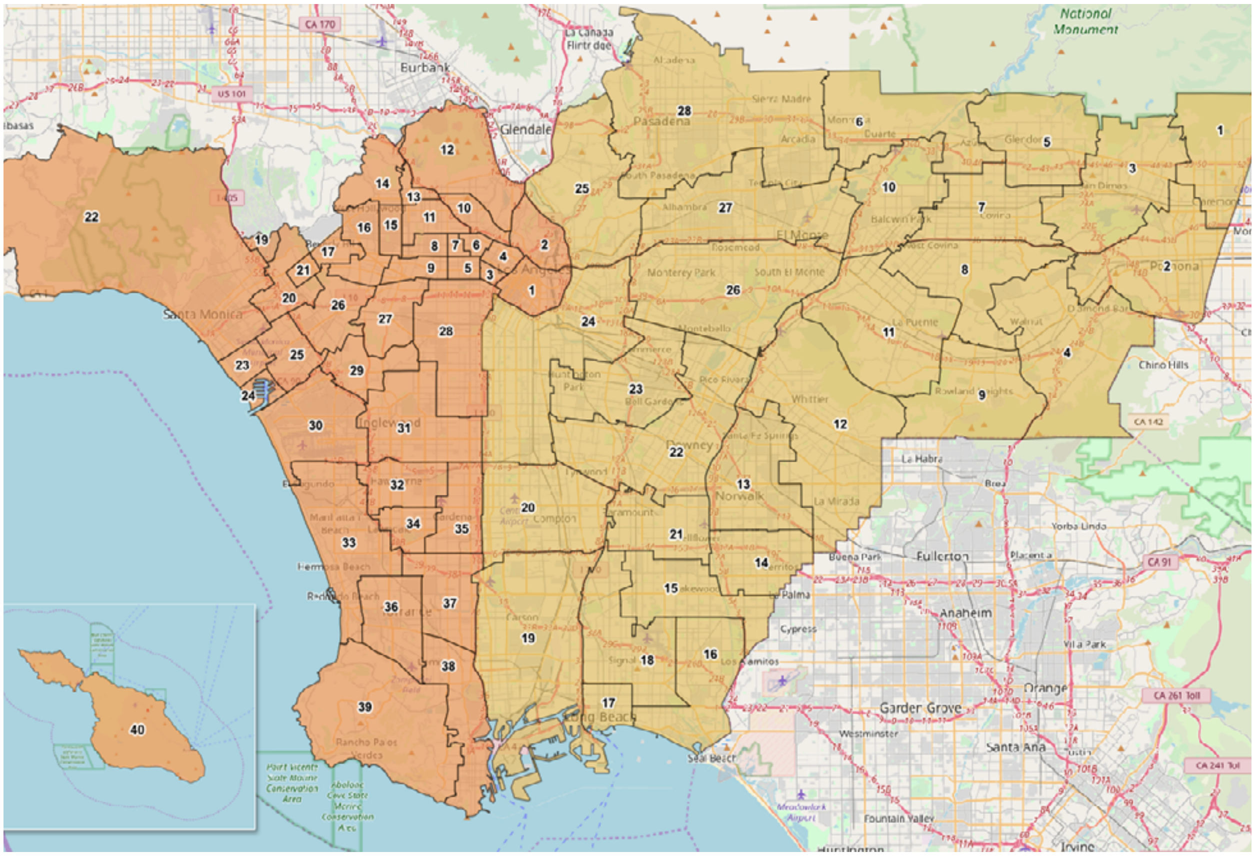
MWest Holdings Sells Property

The firm traded the building for more than $26 million, after seven years of ownership. MWest also restored and upgraded the asset's interior and exterior.

Greenland USA Completes $1B DTLA Development

The 6.3-acre project's final component, a 685-unit luxury tower, is expected to open its doors to residents this winter.

LOS ANGELES SUBMARKETS



Area No.	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
22	Santa Monica–Brentwood

Area No.	Submarket
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 No.	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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YARDI

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