YARDI® Matrix

Demand Takes The Wheel in L.A.

Multifamily Fall Report 2016

Port-Driven Growth Fuels Housing Demand

Completions to Top 10,000 Units

Investors Eye Suburbs for Repositioning Options

Market Analysis

Fall 2016

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City of Angels Continues to Soar

The Los Angeles multifamily market is in the sweet spot of the cycle, producing strong rent growth as robust investor interest and solid employment gains drive up demand across asset classes. However, the high cost of housing is effectively pricing out residents, and the market will have to brace for a robust multifamily development pipeline in the coming years.

With both ports operating at some of the highest levels ever recorded, wholesale trade and warehousing have been on the rise in the metro, adding jobs that in turn are fueling demand for Renter-by-Necessity units. Meanwhile, development projects are having an immediate impact: The Los Angeles Rams' new City of Champions stadium project, for instance, has driven up submarket rents by more than 10% since the original announcement. Meanwhile, the city is doing slightly better at attracting major tech companies to the area known as Silicon Beach.

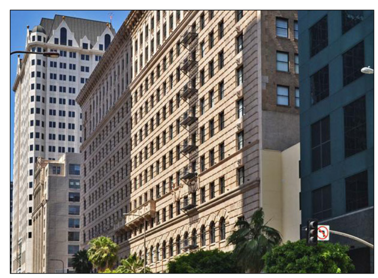
Investment continues to be high in Los Angeles, although strong demand and high occupancy have made property owners reluctant to sell while their assets rise in value. L.A. cap rates are among the lowest in the entire country, as the metro is a favored target for institutional and foreign investors. As completions finally start catching up to demand, the impact of the supply pipeline will slowly become visible. Yardi Matrix is forecasting that rent growth will decelerate toward the end of the year, which will keep rent appreciation to 7.1% for 2016.

Recent Los Angeles Transactions

Runway at Playa Vista

City: Playa Vista, Calif.
Buyer: Invesco Real Estate
Purchase Price: $472 MM
Price per Unit: $1,124,011

Roosevelt Lofts



City: Los Angeles
Buyer: LivCor
Purchase Price: $135 MM
Price per Unit: $612,647

Avana Rancho Palos Verdes

City: Rancho Palos Verdes, Calif.
Buyer: Greystar
Purchase Price: $106 MM
Price per Unit: $490,698

Vantage at Hollywood Hills

City: Los Angeles
Buyer: Equity Residential
Purchase Price: $98 MM
Price per Unit: $328,859

On the cover: Photo by Sean Pavone/iStockphoto.com

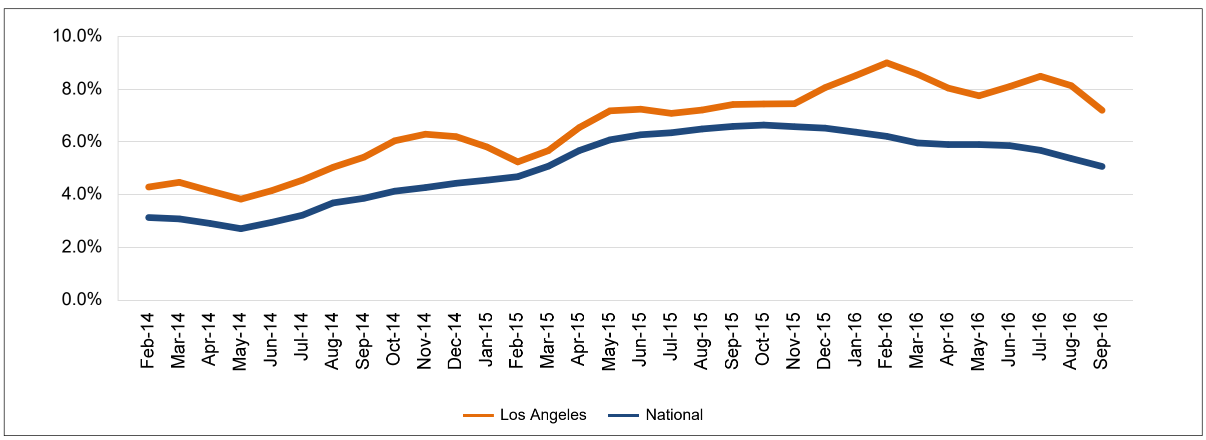
Rent Trends

- Although up 7.1% year-over-year through September, considerably over the 4.7% national rate, the overarching trend of rents in Los Angeles mirrors the national pattern of deceleration. Demand is high due to a strengthening job market, with wages projected to increase, while the long-lasting appeal of Los Angeles continues to drive mild population growth. Occupancy is trending toward 97%, one of the highest rates in the country, despite the more than 12,000 units that have come online in the past three years.

- Average Los Angeles rents ended the year's third quarter at $1,836, the first month-over-month dip since November 2014. Continued rent appreciation has effectively priced out a large number of residents, leading rents in the suburban Eastern Los Angeles County to grow nearly twice as fast as the urban areas of Los Angeles. Completions and prohibitive rent rates will moderate appreciation to 7.1% for the year.

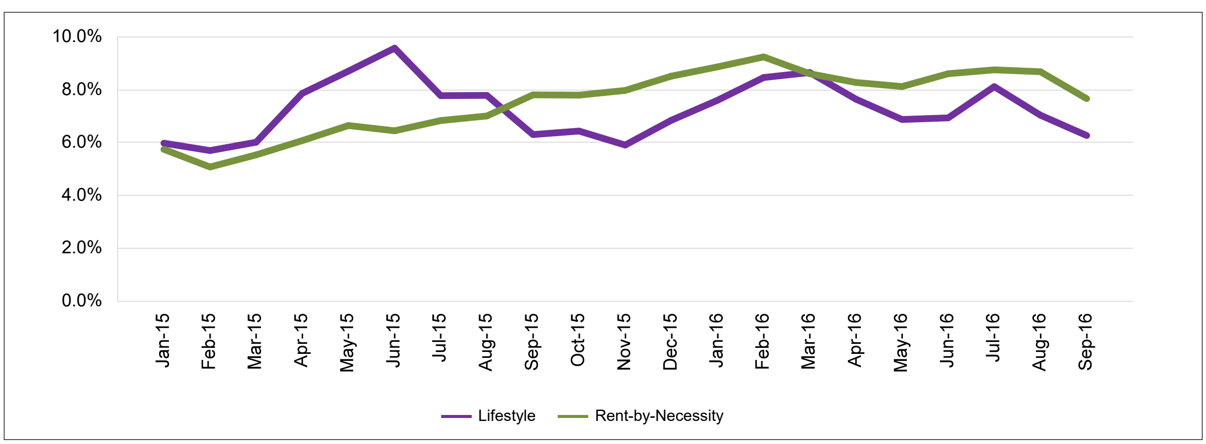
- Rents grew at the fastest rates both in traditionally lower-priced submarkets such as Gardena (17.1%) and Baldwin Park/Monrovia (16.3%) as well as in the city's core, as Downtown Los Angeles rents grew by 10.4%, crossing the $2,000 mark in the process. Following the news that the National Football League's St. Louis Rams franchise is relocating to the City of Champions stadium in Inglewood, property values skyrocketed, drawing average rents in the submarket to $1,224, up 11.6% year-over-year.

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

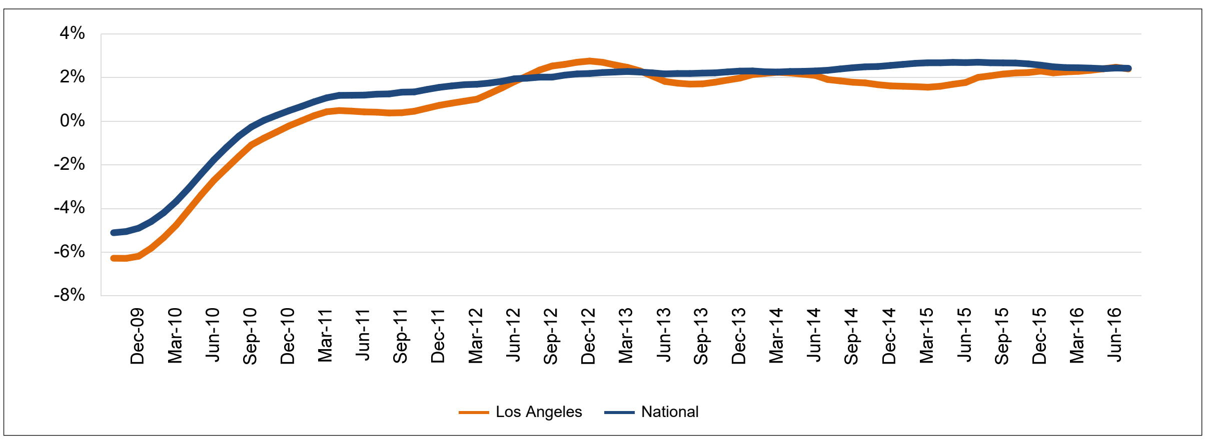
Economic Snapshot

- The metro added 75,900 jobs in the 12 months ending in July, up 2.4% and largely in line with the national rate. Employment has been consistently solid in L.A., with the rate last dipping below 2% in June 2015, leading employment to record highs. Unemployment is now around 6.5% in Los Angeles County, its lowest post-recession rate. All signs point toward continued improvements, albeit at a slower rate.

- Leading the way is the education and health services sector, which added 30,800 jobs, a 4.2% uptick. With the University of California system carrying out its plans to boost enrollment from within the state of California across its campuses, the need for new staff and faculty will continue to push the amount of jobs in education to record highs, while the growing senior demographic is stimulating the need for more healthcare and social assistance positions. The ports of Los Angeles and Long Beach are coming off a very strong year, while the high demand for industrial space continues to energize wholesale trade in metro L.A. and the nearby Inland Empire. The leisure and hospitality sector added 14,600 jobs on the back of strong performances by the area's hotels and convention centers, as well as the addition of the Los Angeles Rams franchise.

- The information sector rebounded from a 7,300-job slide in 2015, generating 4,500 jobs, led by expansions at Netflix and Google. LA's "Silicon Beach" is attempting to lure companies as an alternative to Silicon Valley.

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	761	17.6%	30,800	4.2%
60	Professional and Business Services	615	14.2%	15,300	2.6%
70	Leisure and Hospitality	512	11.9%	14,600	2.9%
40	Trade, Transportation and Utilities	826	19.1%	9,600	1.2%
50	Information	203	4.7%	4,500	2.3%
55	Financial Activities	220	5.1%	4,400	2.0%
80	Other Services	155	3.6%	2,100	1.4%
15	Mining, Logging and Construction	134	3.1%	1,100	0.8%
90	Government	534	12.4%	-1,800	-0.3%
30	Manufacturing	358	8.3%	-4,700	-1.3%

Sources: YardiMatrix, Bureau of Labor Statistics

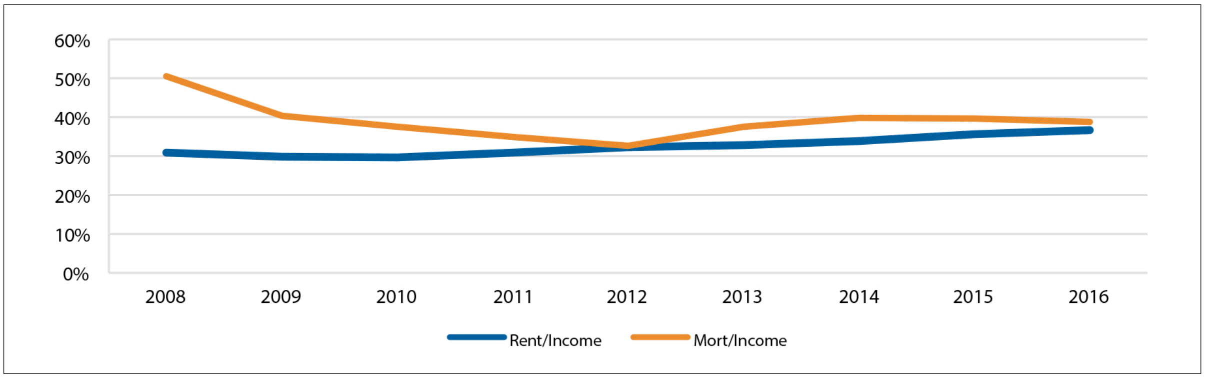
Demographics

Affordability

- Home prices in Los Angeles have continued to increase during the cycle, amid broad-based employment growth and continued population increases. Median home values hit $525,695 in 2016, a new cycle high that is up 36.9% from the 2011 trough. The continued increase in home prices is steering residents toward renting, which, due to very high demand levels, is rapidly becoming as unaffordable as owning.

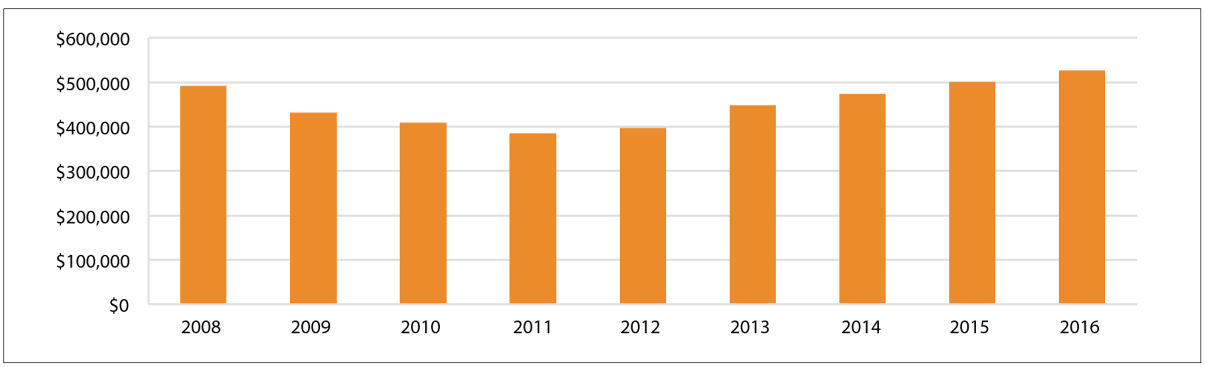
- Affordability is a hot-button issue for local government, as Mayor Eric Garcetti rolled out a plan to build 100,000 new affordable housing units after taking office. The initiative will use funding from a variety of sources, including California's Affordable Housing and Sustainable Communities program.

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 grew by 85,671 residents in 2015, a rate of 0.6%, slightly under the national rate of 0.8%.

- Affordability issues are pricing residents out of Los Angeles.

Los Angeles vs. National Population

	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Los Angeles-Long Beach-Glendale, CA Metropolitan Division	12,952,686	13,059,779	13,165,355	13,254,397	13,340,068

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

Supply

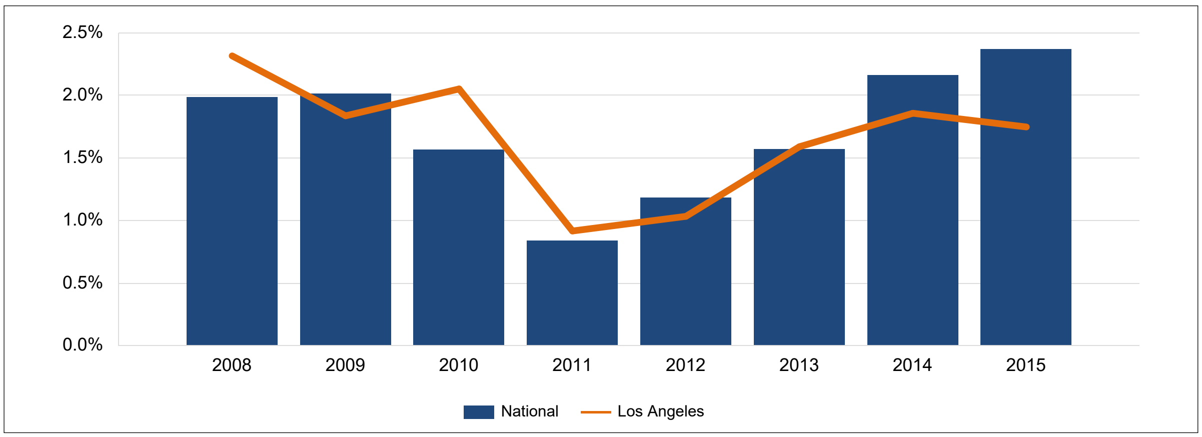
- A spate of new units are slated to come online in coming months, which will most likely push 2016 completions over the 10,000-unit mark for the first time this cycle. This follows 2015 inventory expansion of 4,344 units, up 1.8% and below the 2.4% national rate.

- Development is expected to accelerate, as nearly 68,000 units are in various stages of development, with more than 25,000 now under construction. Developer interest is high across the board, as the number of prospective units has grown by about 50% since last winter.

- Between the rejuvenated Downtown Los Angeles and El Segundo-Playa del Rey alone, there are nearly 11,000 units under construction, spurred by high demand due to a growing tech sector and steadily heightening interest in the metro's core and oceanfront submarkets. Developers are also looking to capitalize on investment activity, as the two submarkets also lead in transaction volume.

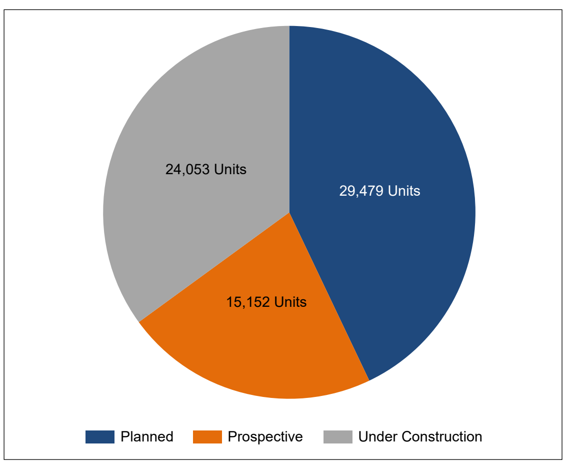
- As units are projected to come online at a faster pace, rent growth is likely to flatten. The Lifestyle segment in particular could struggle, since development is largely focused on luxury apartments.

Los Angeles vs. National Completions as a Percentage of Total Stock (as of September 2016)



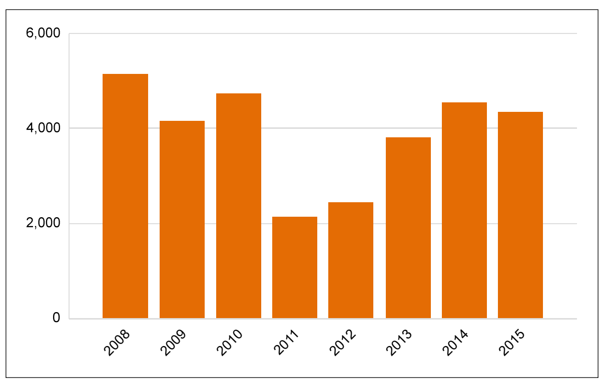
Source: YardiMatrix

Development Pipeline (as of September 2016)



Source: YardiMatrix

Los Angeles Completions (as of Sept. 2016)

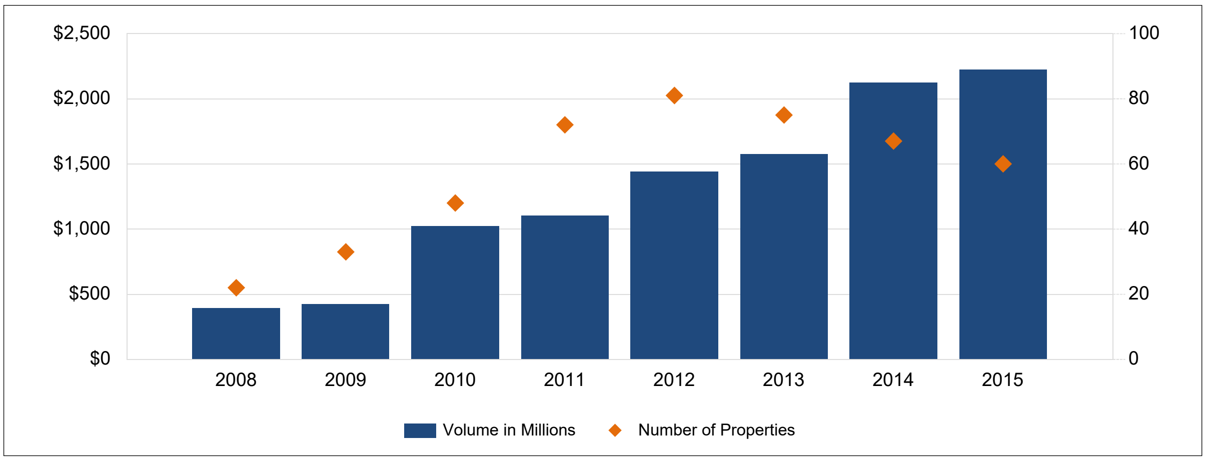


Source: YardiMatrix

Transactions

- Investor appetite has continued to grow in L.A. over the past few years, with roughly $1.9 billion worth of multifamily assets trading hands year-to-date through September. With renters flocking to more affordable options, value-add investors are looking to older suburban stock that can be repositioned with higher rents. As a result, the investment volume for the full year should see another significant bump, and is poised to exceed the $2.2 billion it posted in 2015. Meanwhile, large investors remain somewhat conservative, focusing on core assets, where cap rates are at some of the lowest levels in the U.S. but provide stability and capital appreciation.
- Per-unit prices in metro Los Angeles ended the third quarter of 2016 just under the $400,000 mark, while Eastern Los Angeles County units claimed around $210,000 on average, 13.5% more than in 2015. Both are considerably above the national average, showing that investors continue to direct capital to L.A.-area assets.

Los Angeles Sales Volume and Number of Properties Sold (as of September 2016)



Source: YardiMatrix

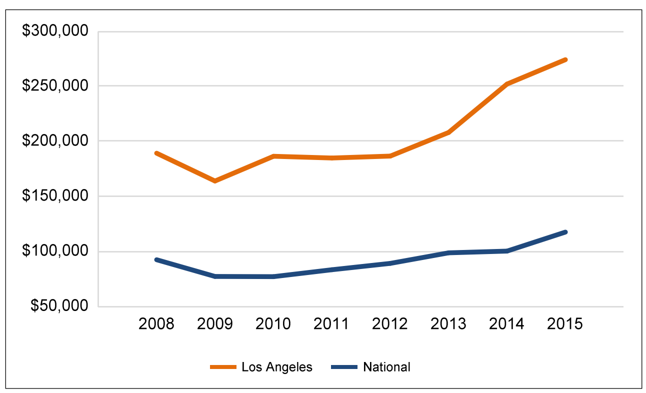
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
El Segundo - Playa del Rey	472
Downtown Los Angeles	173
Hollywood Hills West	147
Rolling Hills- Palos Verdes	146
Adams-Normandie-Hoover	128
City of Industry/Hacienda Heights	100
Mid-Wilshire East	90
Santa Fe Springs/Norwalk	89

Source: YardiMatrix

[1] From October 2015 to September 2016

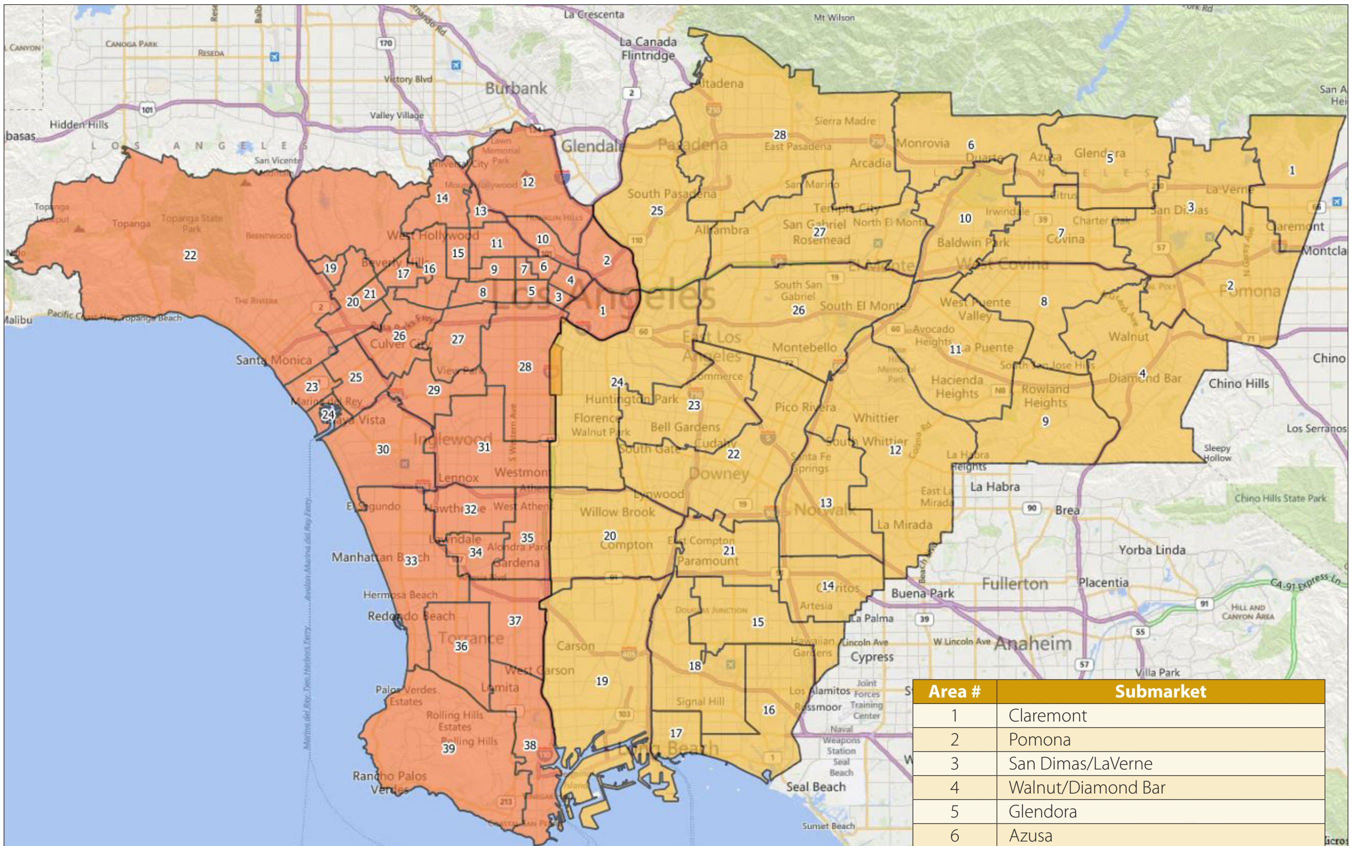
Los Angeles vs. National Sales Price per Unit



Source: YardiMatrix

Los Angeles photo by Predrag Vuckovic/iStockphoto.com

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.

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