



YARDI[®] Matrix

L.A.: Affordable Housing Wanted

Multifamily Report Spring 2017

Working-Class Property Deficit Drives Up Rents

Downtown Leads Construction Spree

High Prices Produce Low Yields

Market Analysis

Spring 2017

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Lack of Affordability Rears Ugly Head

Rent growth in Los Angeles is continuing at a rate double the national average, largely due to solid gains in a few key employment sectors and renter interest pivoting toward the area's suburbs. Although rents averaged \$1,947 as of April, among the highest in the nation, new stock is focused on the upscale segment and affordability issues are deepening.

Los Angeles enjoys a deep pool of highly skilled professionals and a thriving economy. Overall cargo volume at its two ports grew by 1.8% in 2016, keeping trade transportation and utilities as the area's economic backbone. Health and education added 31,000 jobs in the 12 months ending in February, accounting for nearly half of job growth. Following the passing of Senate Bill 1 by the California Legislature, infrastructure funding will be supplemented by a gas tax increase and the introduction of new vehicle fees. Meanwhile, the National Football League's Chargers confirmed their relocation from San Diego, the second major sports franchise to do so in less than a year.

Multifamily inventory increased by 2.6% in 2016, a cycle high. The pipeline consists of nearly 100,000 units in all phases of development, pointing to further expansion in coming years. With the bulk of units aimed at the Lifestyle segment and occupancy in working-class assets rising steadily, we expect rent growth to be driven by Renter-by-Necessity assets in 2017.

Recent Los Angeles Transactions

Trio



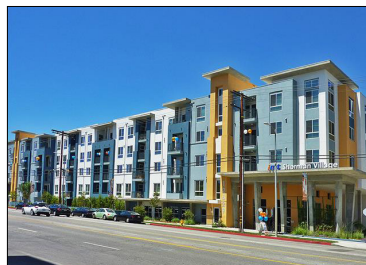
City: Pasadena, Calif.
Buyer: Panda Restaurant Group
Purchase Price: \$154 MM
Price per Unit: \$506,579

1724 Highland



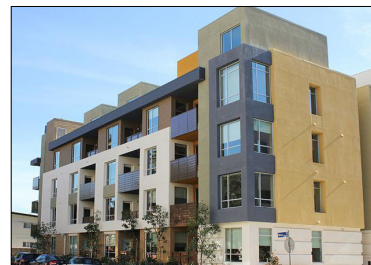
City: Hollywood, Calif.
Buyer: Redwood Partners
Purchase Price: \$133 MM
Price per Unit: \$490,741

Ashton Sherman Village



City: Valley Village, Calif.
Buyer: Essex Property Trust
Purchase Price: \$118 MM
Price per Unit: \$446,970

Rubix Hollywood

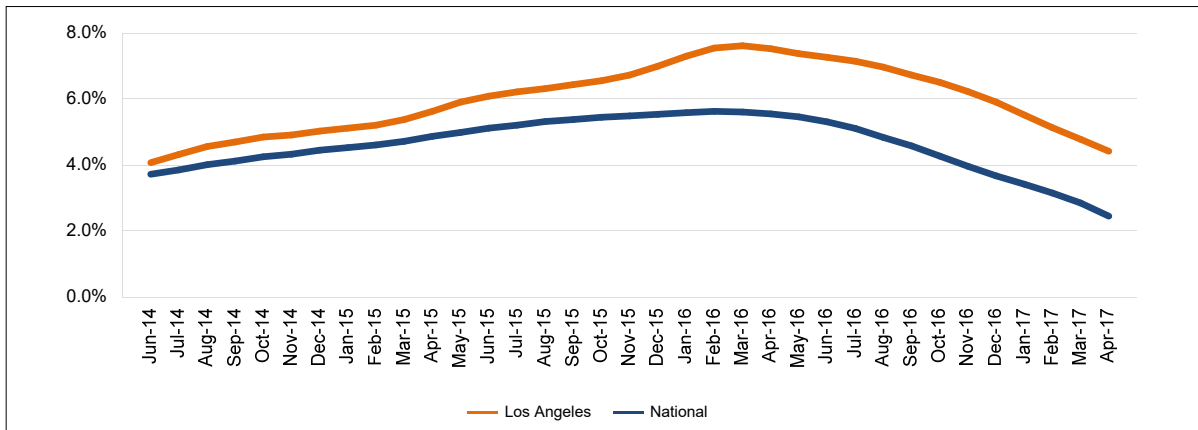


City: Hollywood, Calif.
Buyer: New York Life Real Estate Investors
Purchase Price: \$109 MM
Price per Unit: \$500,000

Rent Trends

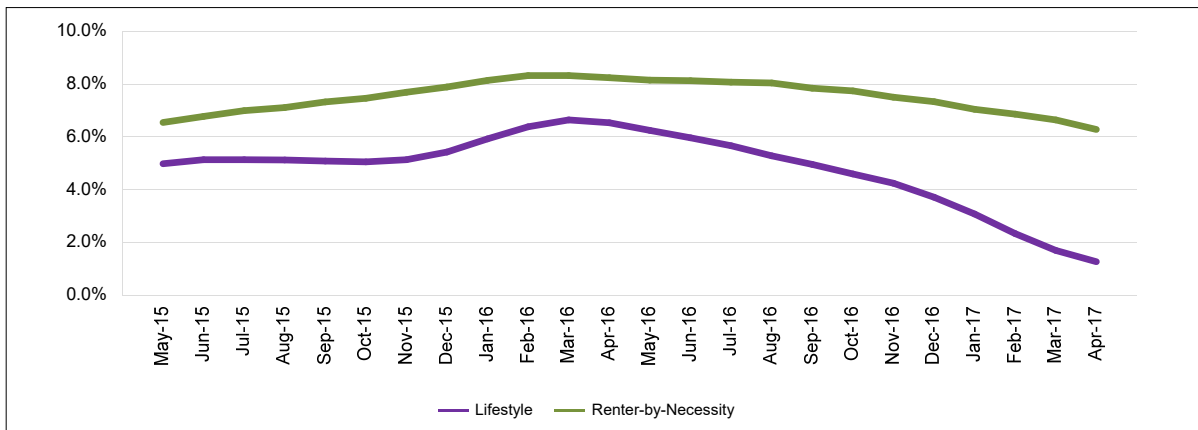
- Rents in Los Angeles rose 4.4% year-over-year through April, more than double the national rate of 2.0%. Continued improvement in the area's job market and a steady influx of household creation in rentals continued to push rates at a time when the national average cooled significantly.
- Rents in the working-class Renter-by-Necessity segment were up 6.3%, reaching an average of \$1,707. The market suffers from a disconnect between new inventory and demand, as the bulk of new units added are in the upscale Lifestyle segment. As a result, Los Angeles trails only Houston in its difference between RBN (6.3%) and Lifestyle (1.3%) rent growth. Occupancy rates mirror that trend, with RBN assets at 96.8%, 210 basis points above Lifestyle assets.
- The fastest rent growth occurred in fringe submarkets in the San Fernando and San Gabriel valleys, where rents are considerably lower: Sunland (23.3%), East Los Angeles South (22.8%), Maywood/Bell/Montebello (18.5%) and Moorpark (13.4%).
- Although affordability continues to be a problem, growth in outer-rim submarkets will continue to maintain overall rent appreciation at high levels. We expect rents to increase by 5.5% in 2017.

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)

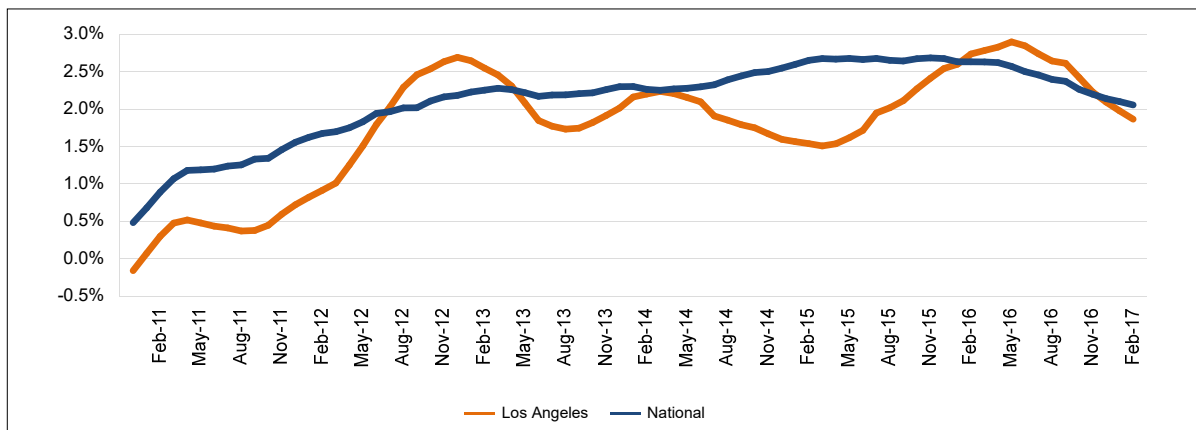


Source: YardiMatrix

Economic Snapshot

- Los Angeles added 70,800 jobs in the 12 months ending in February, up 1.9% year-over-year and 20 basis points below the national rate. This is only the second time the rate has dipped below the 2.0% mark since June 2015. Employment gains were led by education and health services, which added 31,300 jobs. Hollywood Presbyterian Medical Center's proposed \$200 million expansion project points toward further growth. The increased number of charter schools also provides a steady influx of jobs in education.
- The industrial sector remains a key driver, as cargo volume at the Port of Los Angeles rose by 8.3% in 2016. Trade, transportation and utilities added 8,700 positions as heightened port activity again provided consistent growth in East Los Angeles County and Inland Empire industrial space. The industrial market is experiencing lower vacancy rates, higher rents and improved net absorption.
- Sony's recent exit from Sony Pictures Plaza contributed to negative net absorption in the office market in the first quarter, although the overarching occupancy trend is upwards. The bulk of vacant office space is in the market's most expensive submarkets, with roughly a third of vacancies in West Los Angeles and downtown. The average asking rate is now over \$3 per square foot.

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)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
65	Education and Health Services	793	17.9%	31,300	4.1%
70	Leisure and Hospitality	509	11.5%	13,100	2.6%
60	Professional and Business Services	610	13.8%	9,000	1.5%
40	Trade, Transportation and Utilities	826	18.7%	8,700	1.1%
90	Government	587	13.3%	8,700	1.5%
80	Other Services	158	3.6%	6,600	4.4%
55	Financial Activities	221	5.0%	2,800	1.3%
15	Mining, Logging and Construction	136	3.1%	900	0.7%
50	Information	229	5.2%	(1,600)	-0.7%
30	Manufacturing	356	8.0%	(8,700)	-2.4%

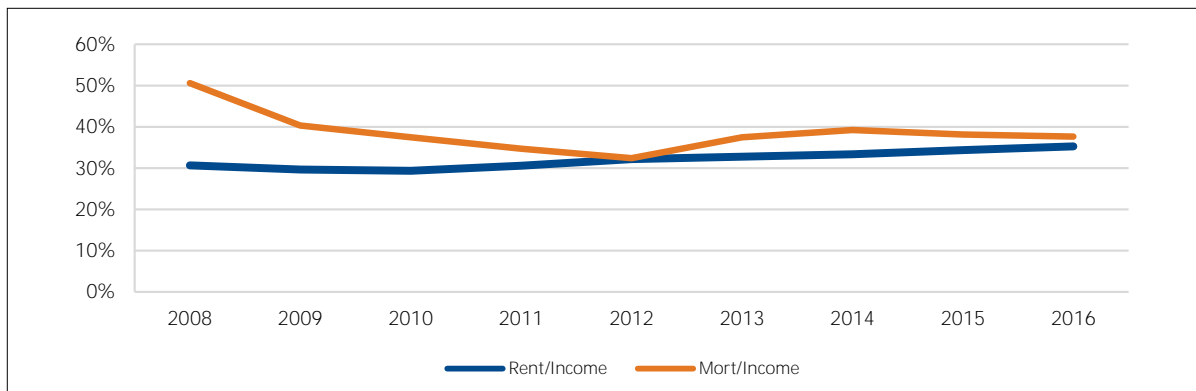
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

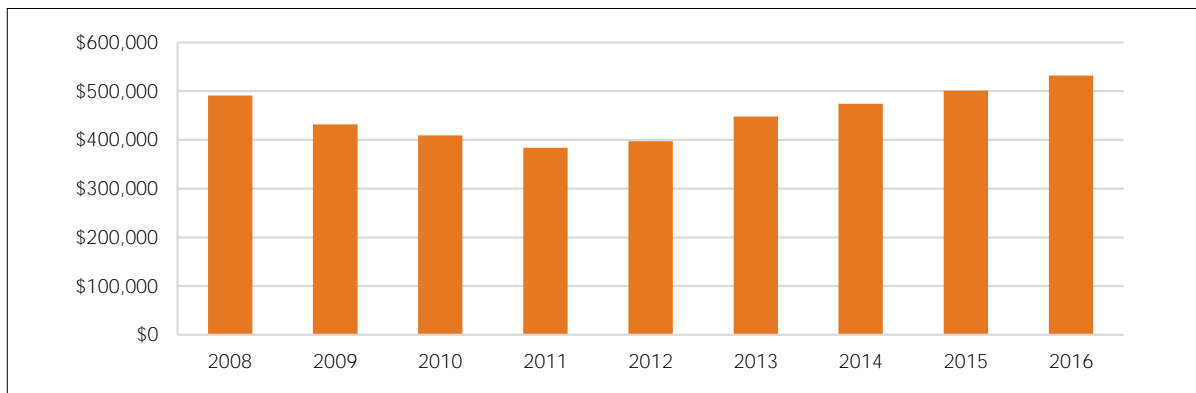
- Home prices reached a second consecutive cycle high in 2016, while rents continued to grow at nearly double the national rate over the past 12 months and at \$1,947 in April. With homeownership rates at their lowest since the 1940s and housing production faltering, the bulk of household creation has moved into rentals. Furthermore, a recent Harvard Joint Center for Housing Studies report shows that more than half of area renters are cost burdened.
- In an effort to create more affordable housing stock, Mayor Garcetti recently signed Executive Directive 19. The legislation strengthens collaboration between local departments and the Metropolitan Transit Authority to increase the efficiency of developing affordable housing and infrastructure in the city.

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

- Los Angeles added residents at a rate of 0.3% in 2016, which is less than half the national rate of 0.7%.
- Affordability issues are pricing residents out of the market, leading to dampened growth.

Los Angeles vs. National Population

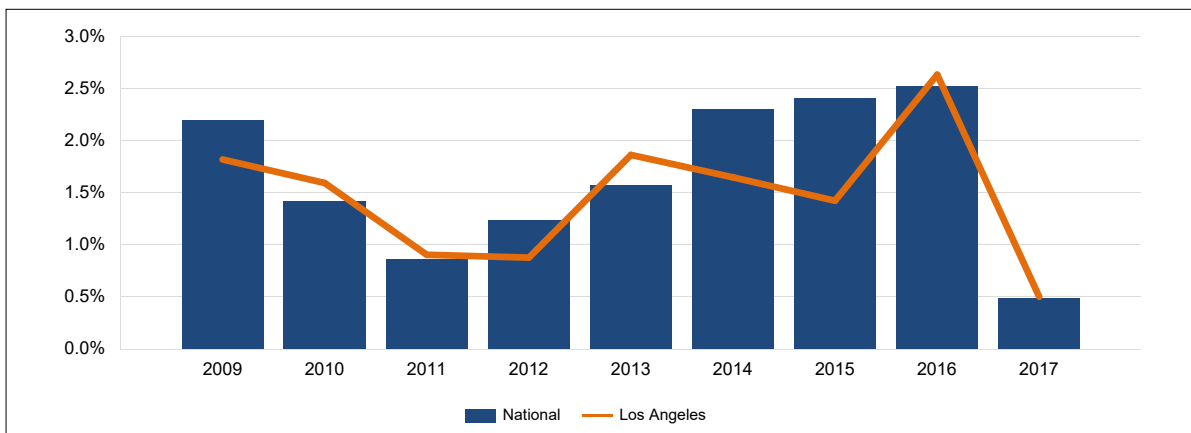
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Los Angeles-Long Beach-Glendale, Calif., Metropolitan Division	9,953,555	10,015,436	10,066,615	10,112,255	10,137,915

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

Supply

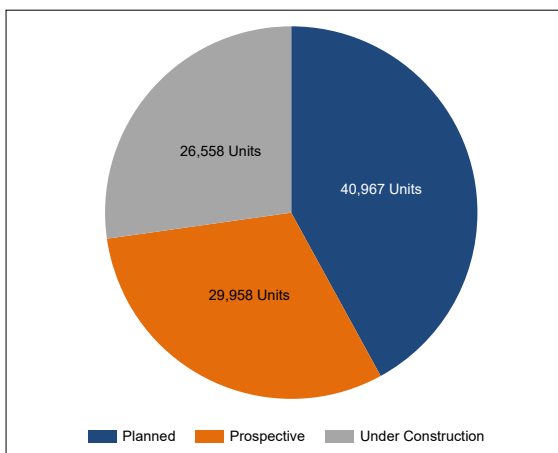
- Developers added roughly 10,000 units in 2016, an inventory expansion rate of 2.6%, a new cycle high. Supply growth looks to remain high, as nearly 25,000 units are under construction and the pipeline consists of roughly 100,000 units in all phases.
- With occupancy in stabilized properties rising by 10 basis points month-over-month to 96.2% in March, demand is more than keeping up with the heightened rate of development. San Fernando Valley assets have an average occupancy of 96.5%, highlighting the appeal of the area's lower rents, roughly \$500 below Metro Los Angeles averages.
- Construction activity is high in both core submarkets and suburban areas, with downtown Los Angeles leading the way with 7,104 units under construction, while Glendale (1,742 units), Westlake North (1,261), Hollywood Hills East (1,250) and Koreatown (1,057) round out the top five.
- There are more than 35 multifamily properties under construction in the 50-to-100-unit range in Los Angeles, Eastern Los Angeles County and the San Fernando Valley. High returns and very strong demand have bolstered development activity throughout the Los Angeles Basin.

Los Angeles vs. National Completions as a Percentage of Total Stock (as of April 2017)



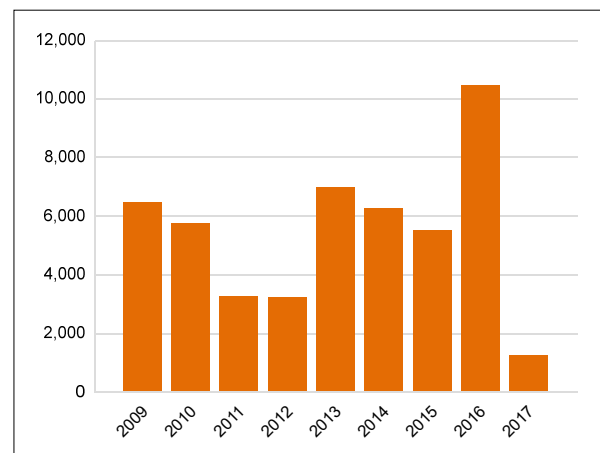
Source: YardiMatrix

Development Pipeline (as of April 2017)



Source: YardiMatrix

Los Angeles Completions (as of April 2017)

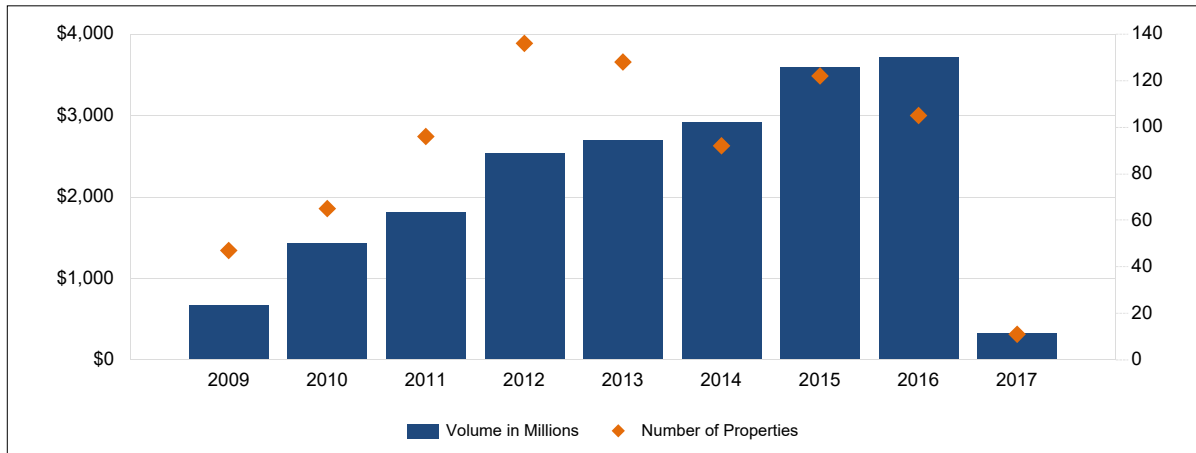


Source: YardiMatrix

Transactions

- More than \$4 billion in multifamily properties changed hands since the start of last year. Although Los Angeles remains one of the most liquid markets, given its location and position as one of the nation's core metro areas, first quarter volume was slow, reflecting a national trend as the market adjusts to the new administration and higher interest rates.
- Nevertheless, investor appetite remains high enough to produce an average per-unit price of \$300,660. As a result, acquisition yields are among the lowest in the U.S.—even in suburban areas, where returns for Class B assets are in the 4.5% to 5.5% range. Only assets in Silicon Valley, Orange County and San Francisco have lower average acquisition yields. There were 30 transactions completed for a price of less than \$20 million over the past 12 months, highlighting increased interest in smaller, lower-rated communities, where rent growth is very high.

Los Angeles Sales Volume and Number of Properties Sold (as of April 2017)



Source: YardiMatrix

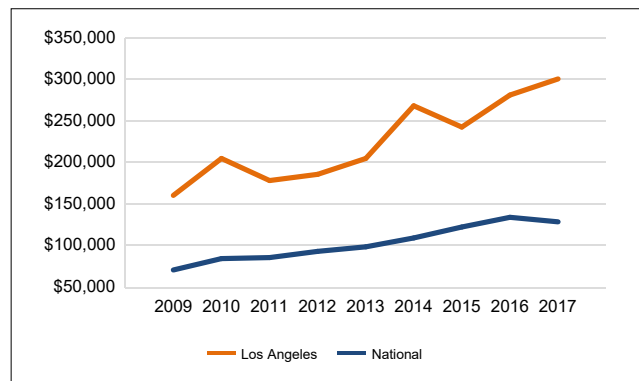
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Santa Monica - Brentwood	388
Hollywood Hills East	242
North Hollywood South	192
Pasadena/Arcadia	165
Thousand Oaks	155
Rolling Hills - Palos Verdes	146
San Pedro	143
Sylmar	131

Source: YardiMatrix

¹ From May 2016 to April 2017

Los Angeles vs. National Sales Price per Unit



Source: YardiMatrix


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Park Hyatt's First LA Location**



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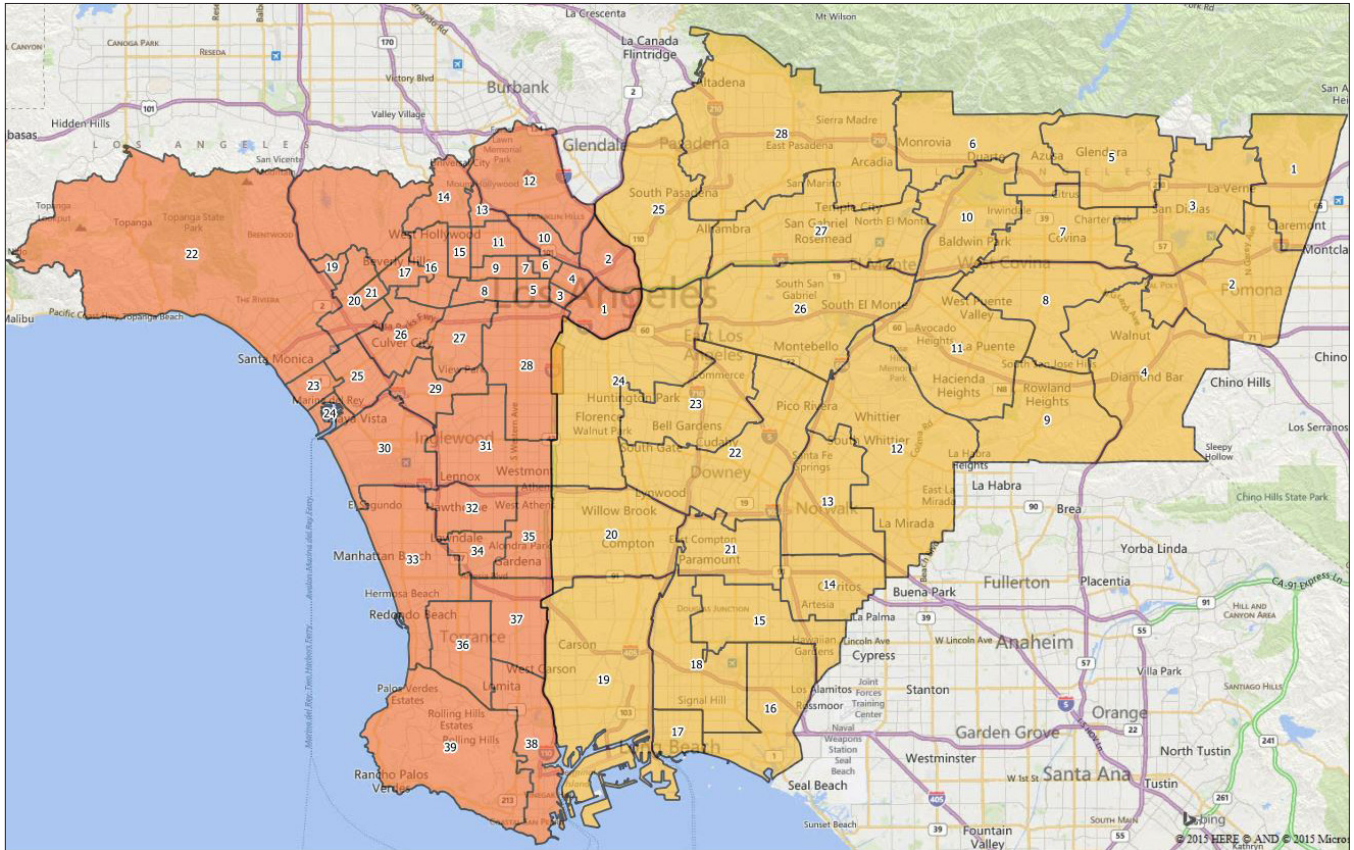


**LA-Area AT&T Data Center
Trades for \$80M**

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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

Area #	Submarket
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
23	Venice
24	Marina del Rey
25	Mar Vista
26	Culver City
27	Hyde Park

Area #	Submarket
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

Area #	Submarket
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

Area #	Submarket
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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