GREATER LA APARTMENT SECTOR STAYS STRONG AFTER RECORD 2018

The City of Los Angeles checks all the boxes for an excellent apartment owner environment. This includes a booming economy, expensive housing, meaningful job growth, and an abundance of Millennials and professionals. Los Angeles enjoys an immense and fast-growing high-tech industry, especially within the media, tech, aerospace and advanced transportation industry with the likes of Netflix, Google, SpaceX and Northrop Grumman. Los Angeles County houses the nation's largest international trade industry, the nation's largest manufacturing base, and an increasing amount of venture capital investment startups. A growing economy is almost always paired with escalating housing costs, and Los Angeles is no exception. More than ever, residents are driven to rental housing as homeownership is prohibitively expensive and not conducive to job mobility and flexibility.

Last year was a banner year for region's apartment sector. The average market rent in the Los Angeles MSA has seen extremely impressive growth, increasing an average of 5.3 percent annually since the turn of the century, according to Axiometrics. This remarkable trajectory has been spurred by the extremely tight rental market, with annual occupancies averaging between 94 percent and 97 percent. Such indicators allow landlords to be extremely discerning when vetting tenants, which, in turn, provides safer income streams.

The Santa Monica/Marina Del Rey submarket continues to rank first in the highest average market rent within the Los Angeles MSA, which currently stands at $3,503 (AXIOMetrics, Q1 2019), with the Beverly Hills/Brentwood submarket a close second at $3,398. Both areas have witnessed impressive annual growth since 2010, averaging 5.3 percent and 5.7 percent, respectively. While annual rental growth in each submarket was at least 3.3 percent (Burbank/Glendale), several other regions saw an increase of more than 7 percent. This includes the San Fernando Valley, South Los Angeles, Palms/Mar Vista, Hollywood and the Antelope Valley. While growth rates for all submarkets will lessen going forward, forecasts still call for average increases of 2.5 percent to 4 percent. Historically speaking, these are still fantastic investment indicators.

The slowing rent growth has had little effect on multifamily investor interest as both domestic and international capital continues to flood the Los Angeles market. Last year

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was marked by record sales volume, as well as average per-unit and per-square-foot pricing. The total volume of sales in Los Angeles County topped $10 billion for the first time ever, with a record average price per unit of $285,000. This was more than double that same indicator of 2009, according to industry data.

Once a rare occurrence, there were several trades that topped $50 million in 2018 in San Fernando Valley markets, Santa Clarita, Glendale and Pasadena, to name a few. Well-located, Class A properties, such as 8th+Hope in Downtown, performed particularly well. This asset traded this past December for nearly $760,000 per unit and $733 per square foot. Similarly, the Highland in Hollywood sold for about $685,000 per unit and $763 per square foot. Given the continued strength of the region and the resulting demand, we expect this pace and acceleration to continue in 2019 and 2020.