

2014 USC CASDEN MULTIFAMILY FORECAST



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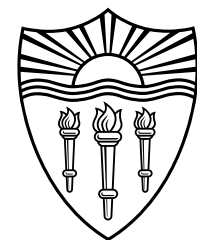
CASDEN MULTIFAMILY REPORT AUTHORS

RICHARD K. GREEN | DIRECTOR | USC LUSK CENTER FOR REAL ESTATE

VINCENT REINA | RESEARCH ASSOCIATE | USC CASDEN REAL ESTATE ECONOMICS FORECAST

SELMA HEPP, PH.D. | SENIOR ECONOMIST | CALIFORNIA ASSOCIATION OF REALTORS

USC LUSK CENTER FOR REAL ESTATE
CASDEN REAL ESTATE ECONOMICS FORECAST
2014 MULTIFAMILY REPORT



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USC CASDEN FORECAST 2014

MULTIFAMILY REPORT

The Casden Real Estate Economics Forecast is pleased to present its 2014 report on the Southern California multifamily real estate markets. The Casden Forecast is dedicated to analyzing fundamental trends and forecasting real estate market activity in Southern California. In this report we analyze changes in the region's multifamily real estate markets during the past year and provide insight as to what might be expected in the near future.

As in previous years, the report first provides an overview of the United States and regional economies, which serve as the foundation for the analysis of the Southern California real estate markets. A comprehensive summary of the fundamental trends in the multifamily markets for Los Angeles County, Orange County, the Inland Empire and San Diego County as well as individual submarkets makes up the main body of the report. We provide concise summaries of recent movements in quarterly rents, vacancy rates, and completions for each county and its submarkets. This year we added a new feature, which is our "High and Low" section, where we highlight which submarkets in each county witnessed the most change over the past year. At the end of each market section we present our two-year forecast for rents and vacancy rates for the submarkets within that county.

A report of this magnitude is only possible through the contributions from many individuals. We thank Marilyn Ellis for her help in graphic design of the report. We are also grateful to the Lusk Center staff for their work.

We would like to thank Marcus & Millichap for providing the data analyzed in this report. Finally, we gratefully acknowledge our sponsors: California Association of Realtors, Greystar, Heffernan Insurance Brokers, Mack Urban, LLC, NNC Apartment Ventures, and R.W. Selby & Company, Inc.



EXECUTIVE SUMMARY

Demand for multifamily rental housing increased across Southern California, with positive net absorption and increased occupancy rates in the four metro areas: Los Angeles, Orange County, the Inland Empire, and San Diego. Between the second quarters of 2013 and 2014, almost 13,000 multifamily rental units were completed across these four markets, with the most units completed in Los Angeles County. This represents a three percent decrease in completions from the same time in the previous year. The only county where there was an increase in units completed was Los Angeles, but despite this increase the scale of absorptions meant that the vacancy rate fell in Los Angeles County as it did in the other three counties analyzed.

The vacancy rate decreased in all four markets between 2013Q2 and 2014Q2. San Diego County had the lowest vacancy rate in 2014Q2, 3.2 percent, followed by Los Angeles at 3.3 percent, Orange County at 3.6 percent, and the Inland Empire at 3.8 percent. The Inland Empire had the largest decrease in vacancy rate in the past year, a 30 percent decrease, followed by Orange County with a 14 percent decrease, Los Angeles with a 10.8 percent decrease, and San Diego with a 2.8 percent decrease. Vacancies in San Diego are so low, however, that it would be essentially impossible for them to go any lower.

In this report we analyze 52 submarkets within these four larger markets and find that over the past year, the vacancy rate decreased in 36 of these submarkets. Eleven submarkets had vacancy of less than 3 percent, while Victorville had the highest vacancy rate at 8.0 percent. Vacancies rose in San Bernardino, South Los Angeles and Santa Monica by one percentage point, and declined by more than one percentage point in Van Nuys, North Irvine, Newport Beach, Tustin, East Anaheim, Chula Vista, Escondido, El Cajon, and more than half the markets in the Inland Empire.

The average rents in all four markets also increased between the second quarters of 2013 and 2014. Los Angeles County had the highest average rent in 2014Q2, at \$1,716, followed by Orange County at \$1,663, San Diego County at \$1,498, and the Inland Empire at \$1,134. The Inland Empire, however, was the market with highest growth in the past year, with the average rent increasing by 4.1 percent, followed by Los Angeles County at 3.9 percent, Orange County at 3.2 percent and San Diego County at 2.8 percent. The submarket with the lowest rent was Victorville at \$797, while the submarket with the highest rent was Santa Monica at \$2,618. The Palms area of Los Angeles had the highest rent increase, at 11 percent. The outlier on the downside was South Los Angeles, where rent fell by 10 percent.

Our forecast shows rising rents for all four metro areas over the next two years. We believe that the growth rates for rents will continue much as they have for the past year in all four markets. We expect vacancy rates will decrease slightly in Los Angeles and Orange County, and increase a bit in the Inland Empire and San Diego, but still basically remain flat. One caveat—if affordability conditions continue to worsen, owing to stagnating income among renters, we may see doubling up, producing higher vacancies and lower rents than forecast here.



CURRENT VIEW OF THE ECONOMY

U.S. Economy

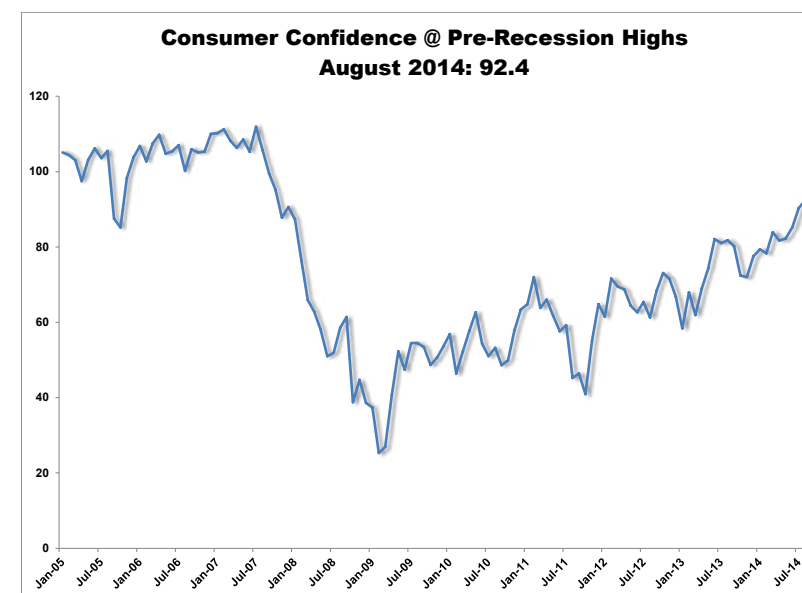
U.S. economic growth has finally kicked into a higher gear. On average, real GDP increased 2.4 percent over the past four quarters, following a 2.1 percent average rate during the first four years of economic recovery. Notably, recent growth has generally been broad based and previous drags from federal, state and local governments ceased to weigh on the economy. While GDP growth in the first quarter of 2014 was disappointing, much of the recent volatility in quarterly GDP estimates resulted from wide fluctuations in inventories and international trade. However, despite the noise, there is a lot of evidence that the U.S. economy is stronger and growth is broader. In fact, many economic indicators are reaching pre-recession peaks and optimism is back among consumers and business.

The labor market recovery also appears to be on a strong footing, with more than 200,000 jobs added per month for six consecutive months, a strength not seen since 1997. Hiring remained widespread across industries. Nevertheless, the housing recovery that was underway in the first half of 2013 slowed materially following a jump in mortgage interest rates and months of consecutive double digit year-over-year home price appreciation. While home price appreciation helped many homeowners regain equity in their homes, higher housing costs eroded affordability for traditional buyers. The consequent slowdown in home sales activity reinforced trends underway prior to the housing bust and economic recession, including falling homeownership and mobility rates.

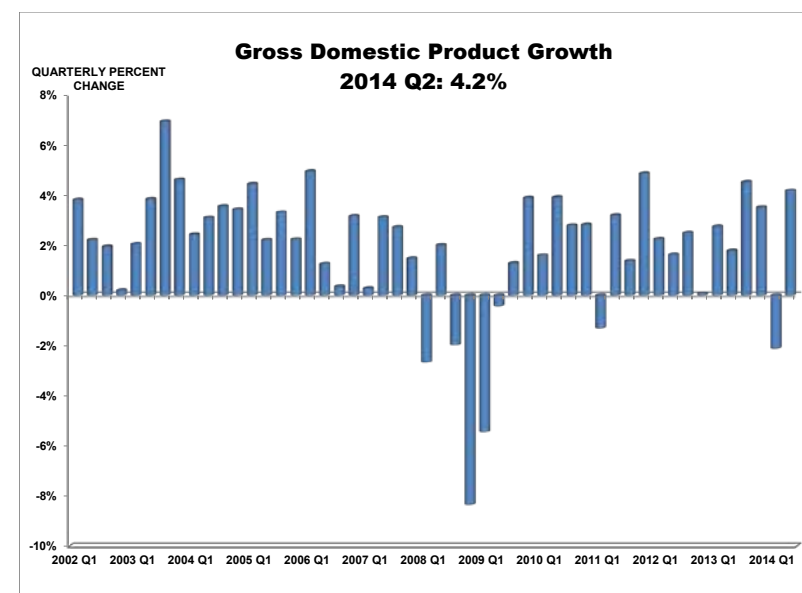
GDP in the second quarter grew at unexpected rate of 4.2 percent, completely reversing the anemic start to 2014. Most GDP components are showing strength. Positive contributions to economic growth came from personal consumption expenditures, private inventory investment, exports, nonresidential fixed investment, state and local government spending, and residential fixed investment. Importantly, the lack of government spending ceased hindering growth. In fact, state and local governments, after being a large drag on the economy, have made positive contributions to the GDP for five of the last six quarters. After four years of layoffs in state and local government jobs, such as teachers and police officers, the state and local governments have finally started adding jobs this summer. Lastly, residential and especially non-residential investment also picked up some speed. Instead of being large drags on the economy, as they were between 2006 and 2012, construction and state and local governments have returned to make positive contributions to the growth.

Employment finally reached an important milestone this summer, returning to its pre-recession peak of 138 million jobs. All of the 8.9 million jobs lost during the recession have been recovered. If the pace of job growth in the second half of 2014 matches the pace of the first half of the year, 2014 is going to be the best year for both total and private job growth since 1999. Today there are 895,000 more private sector jobs, and total employment is now 415,000 above the pre-recession peak. Even the long-suffering manufacturing sector has rebounded in the last year.

The other labor market indicators, in general, show strengthening as well, and optimism is perking among job seekers. Improvement in new filings for unemployment claims, new job openings, regional manufacturing surveys and consumer confidence all suggest employment growth in the second half of the year will not just match the first half, but will accelerate in the second half of 2014. The unemployment rate has fallen to 6.2 percent, while the broader measure of unemployment, which includes involuntary part-time workers and workers marginally attached to the labor force, has also fallen near a post-recession low. Until this point, the rapidly declining unemployment rate has been as much the result of a drop in the labor force participation rate as an increase in new jobs. Thankfully, the labor force participation rate has stopped dropping.



SERIES: Consumer Confidence
SOURCE: The Conference Board



SERIES: Gross Domestic Product
SOURCE: US Dept. of Commerce, Bureau of Economic Analysis

Despite employment growth, income growth is not broad based. Middle class incomes are not higher than they were 25 years ago. The lack of income growth will inhibit the ability of landlords to increase their rents, or homeowners to expect robust house price appreciation. In response to the firming of the economy, the Federal Reserve did start tapering their asset purchases at the end of last year. The Fed is expected to end the process, by buying no more long-term bonds, by October of 2014. Policymakers have also held short interest rates near zero for more than five years after the recession officially ended, to help nurse the scarred economy. The September statement from the Federal Open Market Committee (FOMC) showed the majority of FOMC members believe that short term interest rates should be raised in the middle of 2015¹. With recent strengthening of the economy and growing inflation fears in some quarters, anticipation continues to build that the Fed's are going to raise short-term interest rates sooner rather than later. The Fed *has* noted, however, that considerable slack in the employment market remains. There is debate within the Fed as to whether the continuing slack in the labor market is the result of the skills mismatch problem or an aggregate demand problem.

External Risks

While the U.S. economy seems to have returned to a solid footing, its strengths could be undermined by geopolitical risks. For example, the Russian-Ukrainian crisis could adversely affect economic growth in Western Europe, because it depends on Russian energy exports. As Europe weakens, so too does its demand for trade with the US, and the size of its capital flows going to the US. The impact may not be large, but it is not trivial, either.

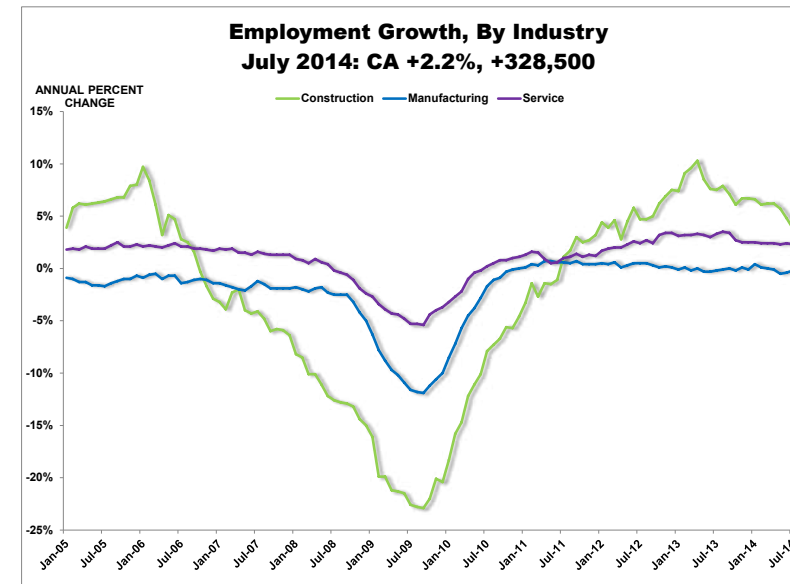
Perhaps more important, weaknesses in Europe have led the European Central Bank to lower short-term interest rates and begin a quantitative easing program of its own. The upshot of Europe's monetary policy could be a strengthening of the U.S. dollar, as returns on investments become relatively attractive. This would put *downward* pressure on inflation in the U.S., which in turn could cause its long-term interest rates to fall, regardless of the FOMC policy.

On the other hand, Chinese growth appears to be stabilizing, though there are concerns about increased public financial leverage, much of which has occurred in the real estate sector. Real GDP growth in China has been in large part driven by government investment spending in residential construction and plant and equipment. Since the spending has been financed by the sale of government-owned land, the threat of declining land values could destabilize local government finance in China. In turn, that could impede on Chinese investment flow to the rest of the world, and produce concomitant recessionary pressures. The absence of Chinese capital could put upward pressure on returns and consequent downward pressure on real estate prices in the rest of the world. Finally, China has been trying to figure out how to move from being an investment-led economy to a consumption-led economy.

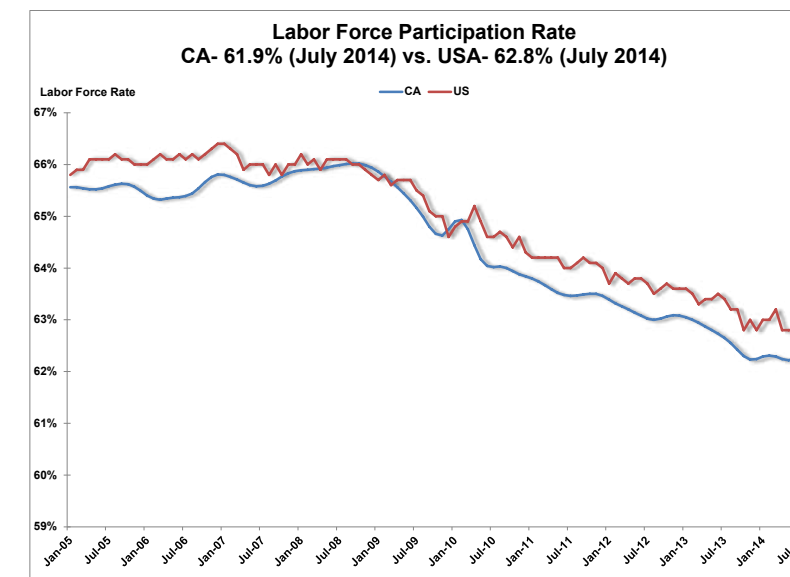
In contrast, domestic risks have eased. The main debate centers on timing of Fed's rate increase. Markets, however, seem to have adjusted to the new forward policy guidance and are reacting with less volatility. Meanwhile, the debate on GSE reform took a back seat as we are entering election season. In the absence of the GSE reform, it will be difficult for private capital to resume its necessary presence in the multi-family market.

Forecast

Economic forecasters are finally a bit more optimistic about the future growth. The Philadelphia Federal Reserve Bank Survey of Professional Forecasters projected real GDP to average 2.1 percent in 2014, with 3.0 percent annual rate forecast for the third quarter and 3.1 percent for the fourth quarter. Real GDP is expected to increase at a healthier rate in 2015, at 3.1 percent. Healthier conditions in the labor market lead to an expected 6.2 percent unemployment rate for the remainder of 2014, and a decrease to 5.7 percent in 2015. Similarly, nonfarm payroll employment growth was revised upward to a rate of 228,600 jobs added per month this quarter and 211,200 jobs per month added next quarter. The forecasters' projections for the annual-average level of nonfarm payroll employment suggest job gains at a monthly rate of 204,800 in 2014 and 214,000 in 2015².



SERIES: Total Nonfarm Employment By Industry
Source: CA Employment Development Division



SERIES: Labor Force Participation Rate
Source: BLS, Data Buffet

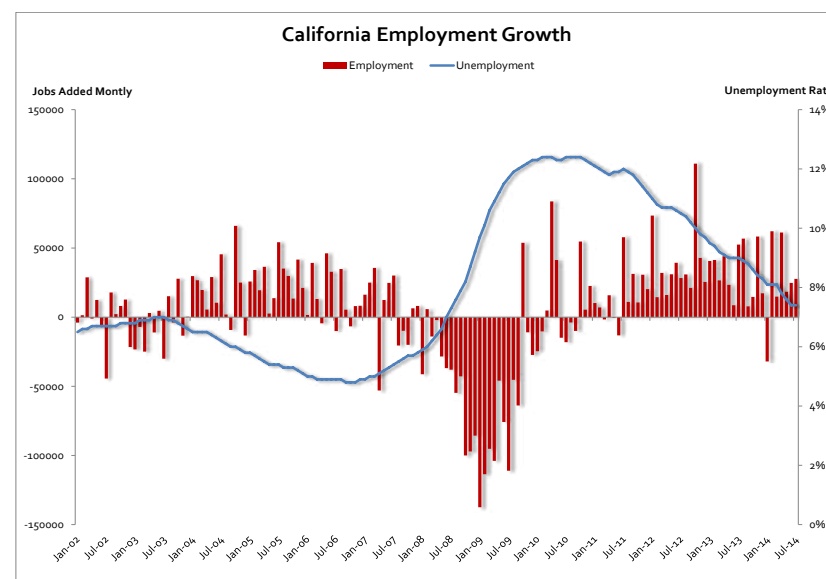
California

Economic growth in California maintained strong momentum over the last year. While the state's GDP rose 2 percent in 2013, California economic growth only lagged states with increased contribution from mining and extraction. Although mining was not a meaningful contributor to real GDP growth for the nation, it did play a key role in several states. This industry was a large contributor in five of the fastest growing states: North Dakota, Wyoming, West Virginia, Oklahoma, and Colorado. In North Dakota, the fastest growing state in 2013, mining contributed 3.61 percentage points to the state's 9.7 percent growth in real GDP.

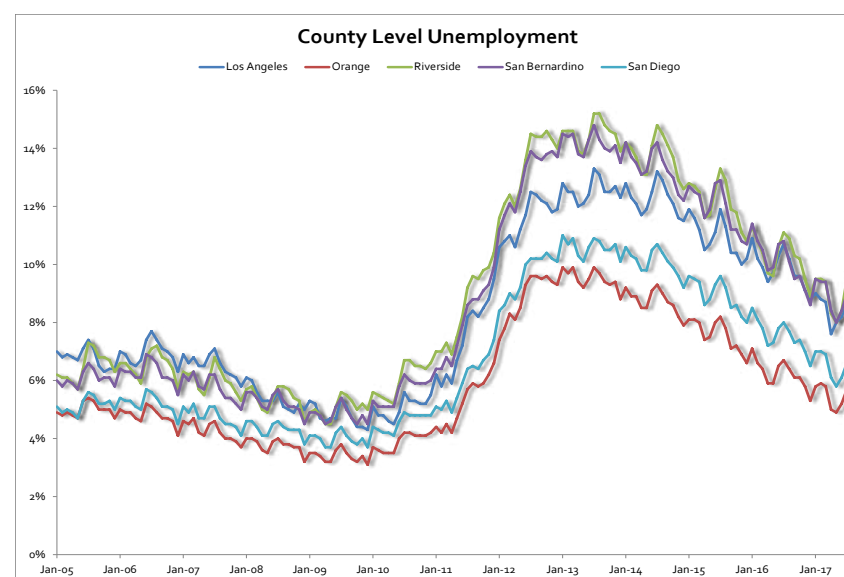
As of June 2014, California's unemployment rate was 7.4 percent, down from 8.5 percent in June 2013. Employment growth across the state has expanded to all regions and across more sectors. Over the past year, nonfarm employment has increased 2.4 percent, producing a net gain of 356,400 jobs. This figure does not include farm and household jobs which are a relatively larger share of the workforce in California. Nonfarm employment has finally surpassed its pre-recession peak of July 2007. Contrary to the previous cycle, the current cycle has largely been driven by the technology boom, which has most directly benefited the San Francisco Bay area. Other coastal areas have also improved, aided by rebounds in international trade, tourism and housing. Despite some unpredictability over the last few months, the construction sector has shown strong gains over the last year, increasing about 6 percent. Construction was a sector that suffered the largest losses following the housing decline. Other growth sectors included education & healthcare, and trade, transportation & utilities. The information and professional and business services sectors improved as well.

San Francisco continues to lead California in job creation, but a few signs have emerged suggesting that hiring may be slowing, particularly among the tech hardware manufacturers. The Inland Empire finally posted its largest gains since the recession ended, led by additions in the region's transportation and warehousing sector. Employment in Southern California is growing steadily. Job creations in Southern California is focused in professional and technical services, healthcare, tourism and construction.

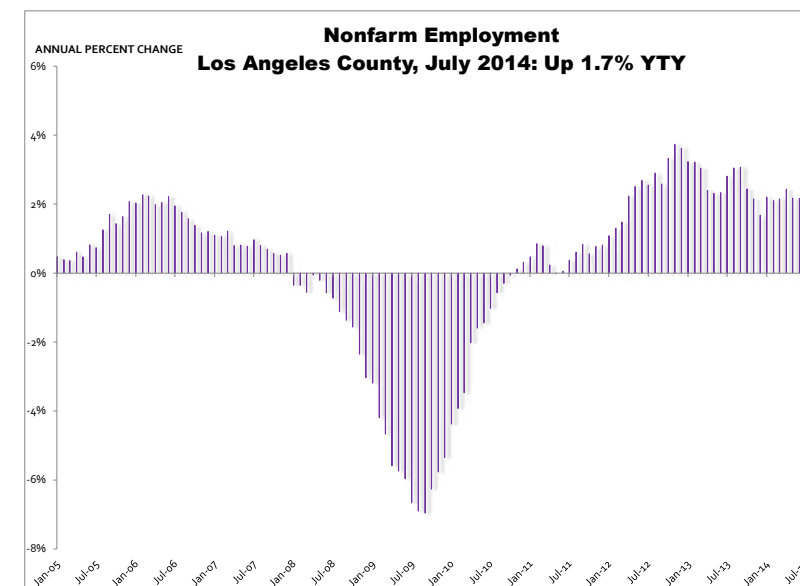
While a drop in California's unemployment rate over the past year was mostly driven by stronger job growth, the labor force participation rate in the State is a full percentage point below the comparable national rate. Lower participation reflects an increase in an baby boom retirements, lower workforce participation among the younger population, and persistence in long-term unemployment. The challenge for maintaining labor force participation is relatively greater in California as the state's larger and slightly older workforce retires at a faster rate than elsewhere in the nation, and many large long-time employers and industries have restructured or left the state³.



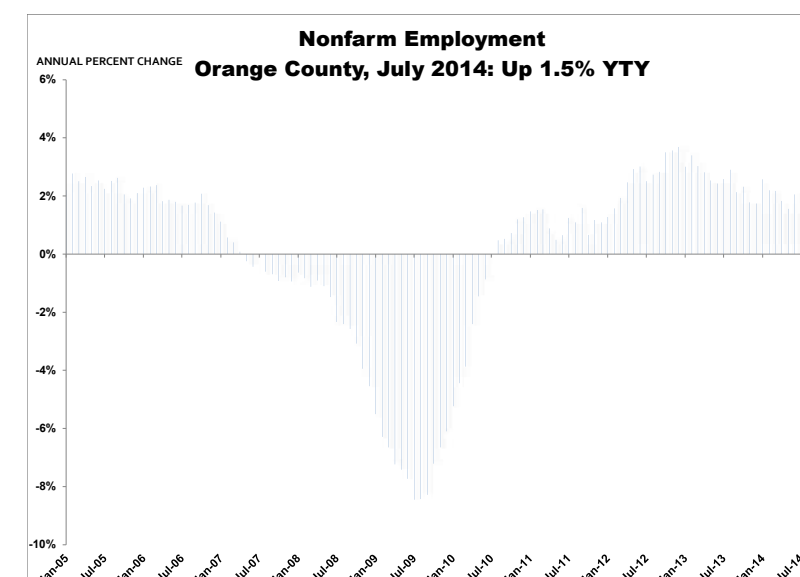
SERIES: Total Nonfarm Employment
SOURCE: California, July 2014: 27,700 Jobs Added



SERIES: Unemployment Rate



SERIES: Total Nonfarm Employment
SOURCE: Los Angeles County, July 2014: Up 1.7% YTY



SERIES: Total Nonfarm Employment
SOURCE: Orange County, July 2014: Up 1.5% YTY

Unfortunately, housing remains an uncertain sector of the economy. Following a bustling beginning to 2013, the housing recovery came to a screeching halt after the Fed's announcement of tapering plans in July of 2013. Mortgage interest rates jumped 100 basis points. With home prices surging at double digit year-over-year rates, a lack of housing affordability again constrains many traditional and especially first-time buyers.

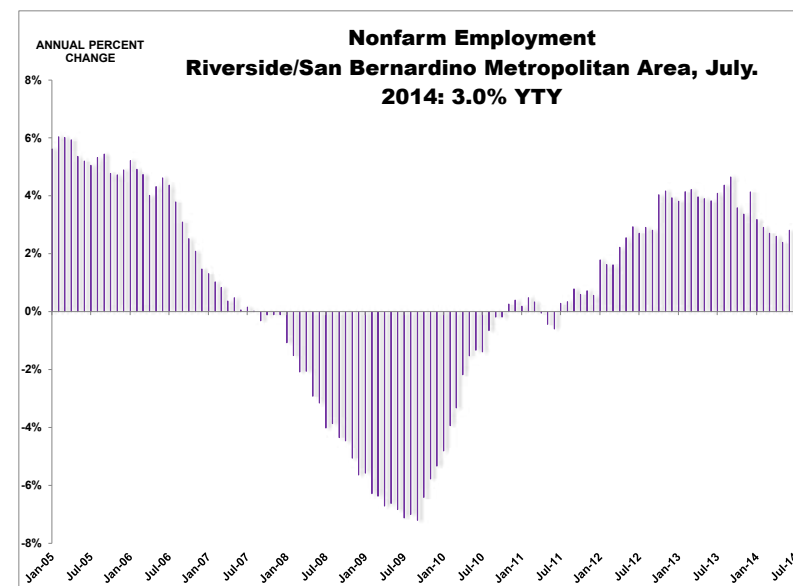
Although inventories of homes available for sale increased over the last year, the California Association of Realtors recorded that sales of existing single-family detached homes for the first half of 2014 fell about 10 percent compared to the previous year. Home price appreciation has begun to moderate since the beginning of 2014. According to the July 2014 S&P/Case-Shiller Home Price Index, prices are up 7.4 percent year over year nationally. California metropolitan areas are still posting healthier gains of 10 to 12 percent over the last year, however monthly gains have started to decline. The Index has been slowing in the Los Angeles, San Francisco and San Diego metropolitan areas since April of this year. The median single-family house price in California stood at \$464,750 in July, 90 percent above the cyclical bottom of \$245,230 reached in February 2009. Some housing markets in the State, where inventory shortages were severe and demand was high, have already reached and surpassed the previous peak.

Weak demand for housing has started raising questions around the sustainability of the housing recovery. Factors contributing to a strong rebound in 2013, including large numbers of investors and international buyers in the single family market have mostly waned. With expectations of a return of traditional buyers unfulfilled, troubling trends underway prior to the Great Recession, such as falling homeownership rates, decreased mobility, and stagnant income growth, are now more apparent.

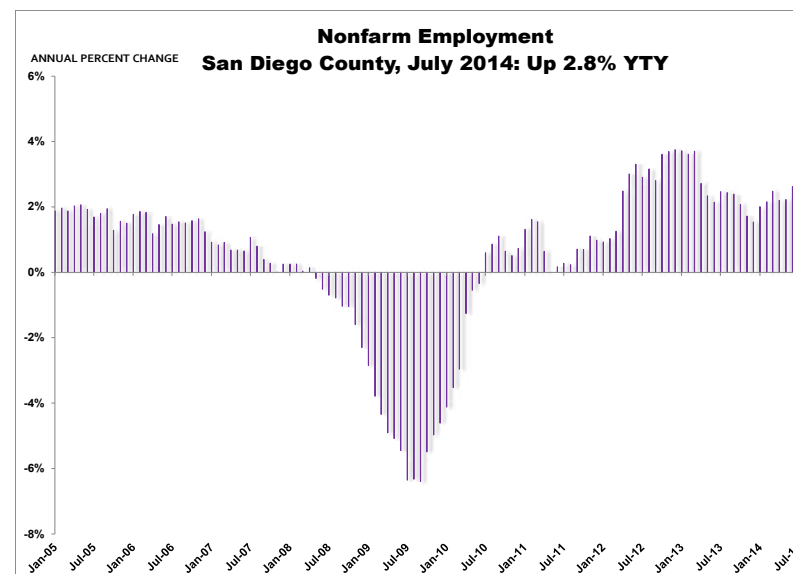
One potential major risk to the California economy is the ongoing drought, which could cause economic losses, especially in the agricultural sector. The overall economic impact of the drought to the State is likely going to be small though, and may lead to a 0.2 percent reduction in the State's employment growth rate for the next couple of years.

Endnotes

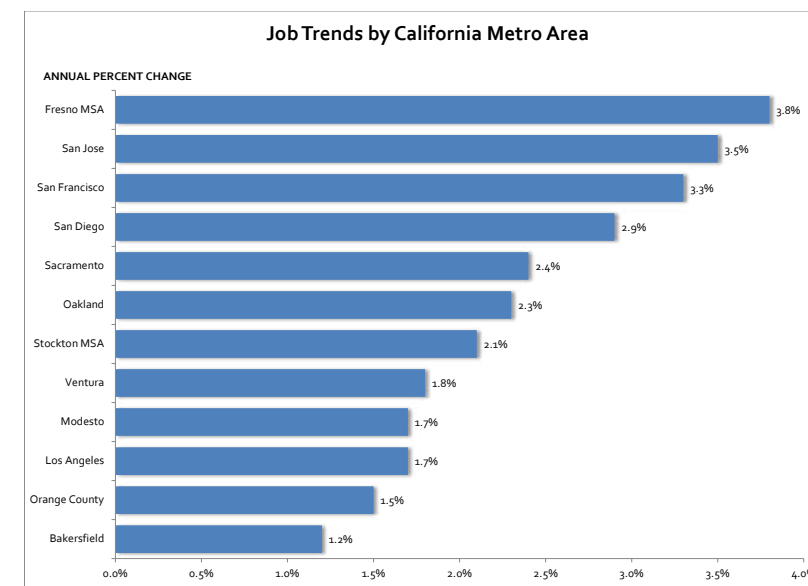
1. Economic Projections of Federal Reserve Board Members and Federal Reserve Bank Presidents, September 2014.
2. Third Quarter 2014 Survey of Professional Forecasters, August 25, 2014
3. https://www08.wellsfargomedia.com/downloads/pdf/com/insights/economics/regional-reports/CaliforniaEmploymentReport_July_2014.pdf
4. Howitt, R.E., Medellin-Azuara, J., MacEwan, D., Lund, J.R. and Sumner, D.A. (2014). Economic Analysis of the 2014 Drought for California Agriculture. Center for Watershed Sciences, University of California, Davis, California



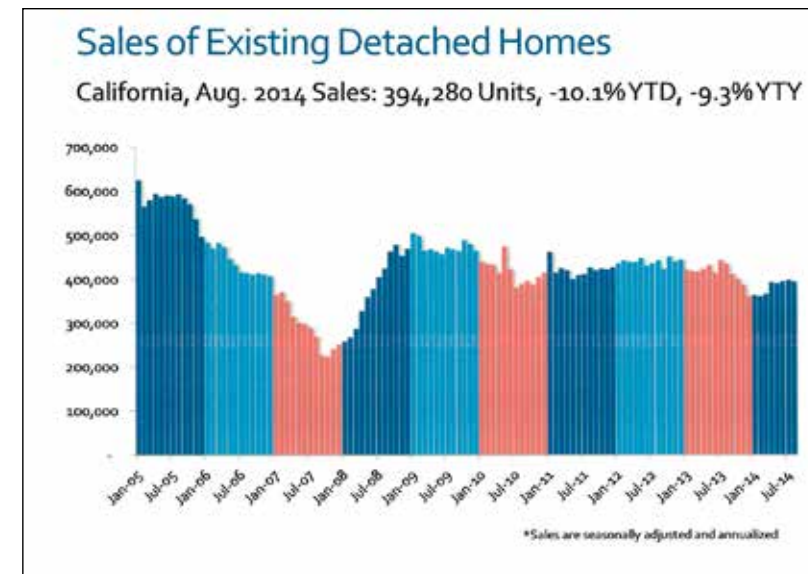
SERIES: Total Nonfarm Employment
SOURCE: Riverside/San Bernardino Metropolitan Area, July 2014: Up 3.0% YTY



SERIES: Total Nonfarm Employment
SOURCE: San Diego, July 2014: Up 2.8% YTY



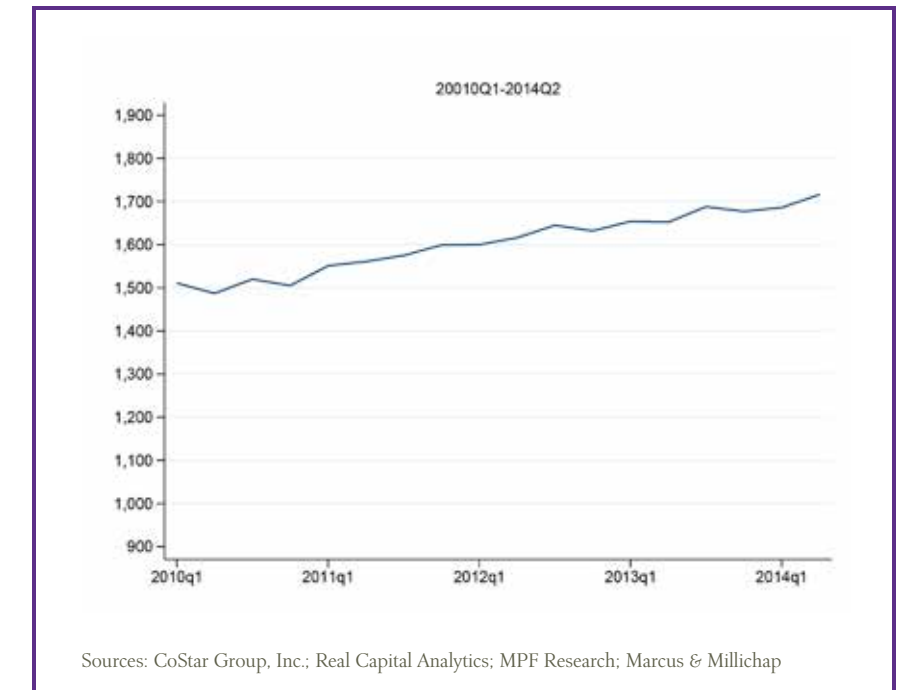
SERIES: Total Nonfarm Employment
SOURCE: July 2014: CA + 2.2%, +328,500



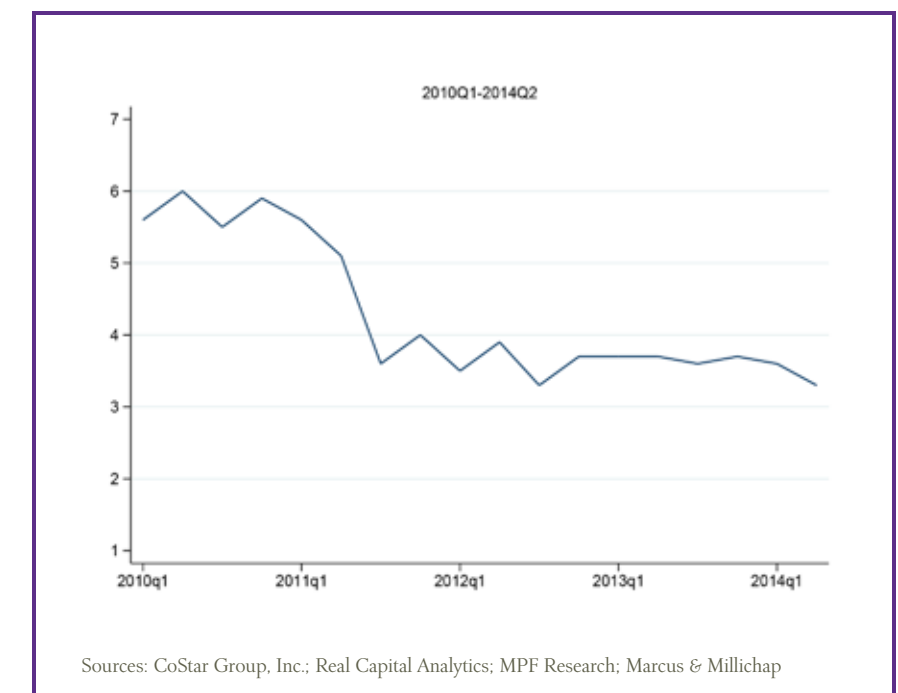
SERIES: Sales of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®



Effective Rent in \$ for: Los Angeles County



Percent Vacant for: Los Angeles County



Los Angeles County

The average annual rent in Los Angeles County has increased for four straight years. As of 2014Q2, the average rent in the County was \$1,716. This reflects an almost 3.9 percent increase from the average rent at the same time in the previous year, and is the highest annual rent growth for the County in four years. The highest average rent in the County was in the Santa Monica/Marina del Rey submarket, which also had the highest average rent of every submarket in the four counties analyzed in this report (Table 1). The lowest rent in the County was in Antelope Valley, with an average rent of \$829. Antelope Valley was also the only submarket in Los Angeles County with an average rent below \$1,000 (Table 2).

Over the past year, the average rent increased in 16 of the 20 submarkets in Los Angeles County analyzed in this report. Average rent in the Palms/Mar Vista submarket increased by over 11 percent between 2013Q2 and 2014Q2, which, was the largest increase for a submarket in the County (Table 3). This was also the largest increase of the submarkets in all of the regions analyzed in this report. In three submarkets - Long Beach, Santa Monica/Marina del Rey, and Brentwood/Westwood/Beverly Hills- average rents decreased slightly (Table 4). However, in South Los Angeles there was a rather large 10 percent decrease in the average rent, the largest decrease of all the submarkets in regions analyzed in this report.

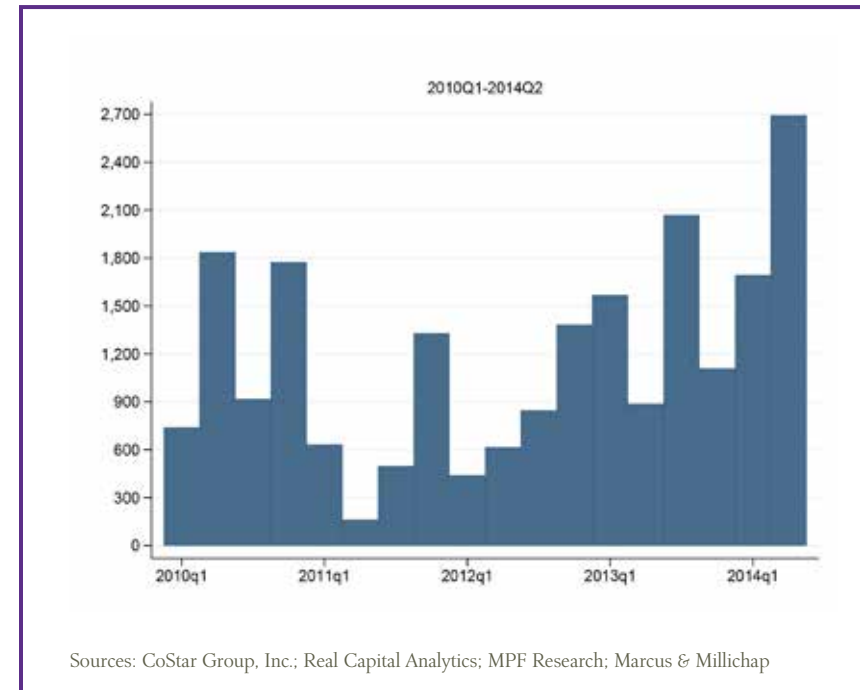
Between 2013Q2 and 2014Q2, over 7,500 new units of multifamily housing were completed in Los Angeles County. This was an almost 62 percent increase from the number of units completed during the

previous year, and the most units completed in the past four years. Despite an increase in the number of units completed, the vacancy rate in Los Angeles County decreased to 3.3 percent as of 2014Q2. This represents a 10.8 percent decrease in vacancy rate from the previous year, and a 45 percent decrease from a vacancy rate of six percent in 2010Q2.

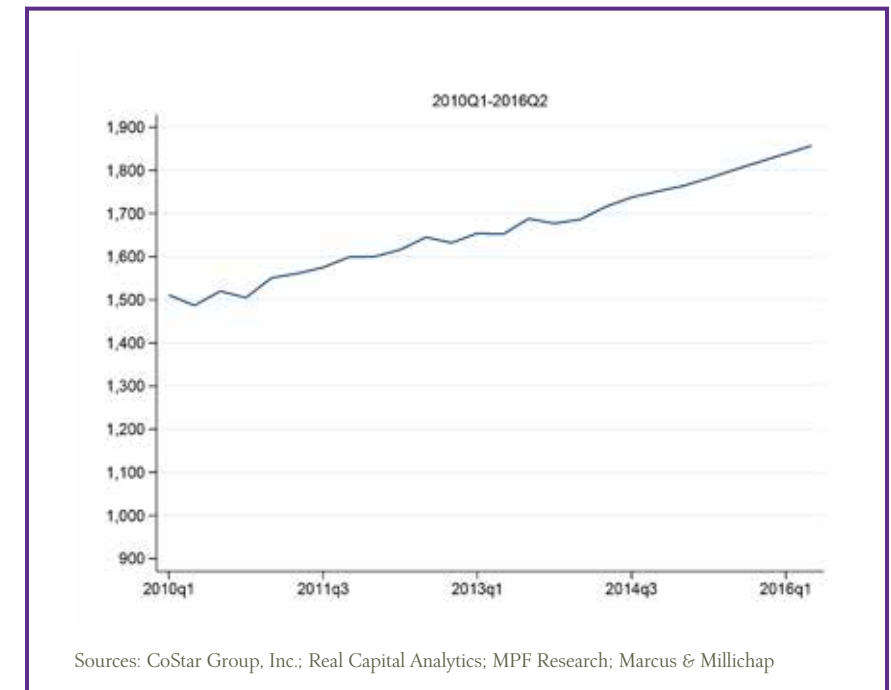
The highest vacancy rate in the County was in Antelope Valley (Table 5). The lowest vacancy rate in the County was in Van Nuys/Northeast San Fernando Valley at 2.3 percent (Table 6). Over the past year, vacancy rates increased in seven of the 20 submarkets in Los Angeles. The highest increases were in Santa Monica/Marina del Rey and South Los Angeles, where vacancy rates increased by 100 basis points (Table 7). Despite this increase, the vacancy rate in both submarkets remained low, at 4.4 and 3.4 percent respectively. In contrast, vacancy rates decreased in eight of the 20 submarkets in Los Angeles County between 2013Q2 and 2014Q2. The submarket with the highest basis point decrease in vacancy rate was Van Nuys/Northeast San Fernando Valley, where there was a 110 basis point decrease in vacancy rate between 2013Q2 and 2014Q2 (Table 8).

We project that over the next two years, the average rent in Los Angeles will increase every quarter, for a total growth of 8.2 percent between 2014Q2 and 2016Q2. At the same time we project that vacancy rates will continue to decrease but not as steeply as they have for the past four years, with a decrease of 6 percent between 2014Q2 and 2015Q2 and a decrease of 6.8 percent between 2015Q2 and 2016Q2.

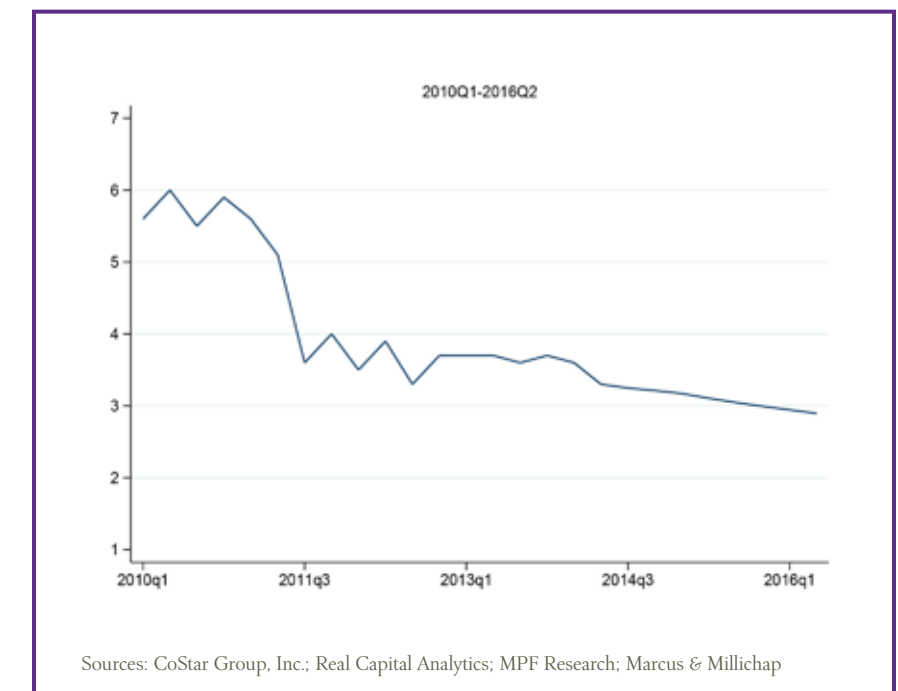
Units Completed in: Los Angeles County



Forecast Average Rent in \$ for: Los Angeles County



Forecast % Vacant in: Los Angeles County





Highest Average Effective Rent in Los Angeles County 2014Q2 • Table 1

Rank	Submarket	Rent
1	Santa Monica/Marina del Rey	\$2,618
2	Downtown Los Angeles	\$2,051
3	Hollywood	\$2,006
4	Palms/Mar Vista	\$1,984
5	Mid-Wilshire	\$1,909

Lowest Average Effective Rent in Los Angeles County 2014Q2 • Table 2

Rank	Submarket	Rent
1	Antelope Valley	\$829
2	East Los Angeles	\$1,197
3	Van Nuys/Northeast San Fernando Vall	\$1,213
4	South Los Angeles	\$1,234
5	North San Gabriel Valley	\$1,287

Highest Percent Change in Rent from Previous Year in Los Angeles County 2014Q2 • Table 3

Rank	Submarket	Percent Change
1	Palms/Mar Vista	11.10%
2	Burbank/Glendale/Pasadena	7.70%
3	Hollywood	7.00%
4	Northridge/Northwest San Fernando	6.90%
5	East Los Angeles	5.90%

Lowest Percent Change in Rent from Previous Year in Los Angeles County 2014Q2 • Table 4

Rank	Submarket	Percent Change
1	South Los Angeles	-10.10%
2	Long Beach	-1.50%
3	Santa Monica/Marina del Rey	-1.10%
4	Brentwood/Westwood/Beverly Hills	-1.00%
5	Mid-Wilshire	0.50%

Highest Vacancy Rate in Los Angeles County 2014Q2 • Table 5

Rank	Submarket	Vacancy Rate
1	Antelope Valley	7.40%
2	Santa Clarita Valley	4.50%
3	Santa Monica/Marina del Rey	4.40%
4	Woodland Hills	4.00%
4	Downtown Los Angeles	4.00%

Lowest Vacancy Rate in Los Angeles County 2014Q2 • Table 6

Rank	Submarket	Vacancy Rate
1	Van Nuys/Northeast San Fernando Vall	2.30%
2	Palms/Mar Vista	2.60%
3	Brentwood/Westwood/Beverly Hills	2.60%
4	North San Gabriel Valley	3.00%
4	Mid-Wilshire	3.00%

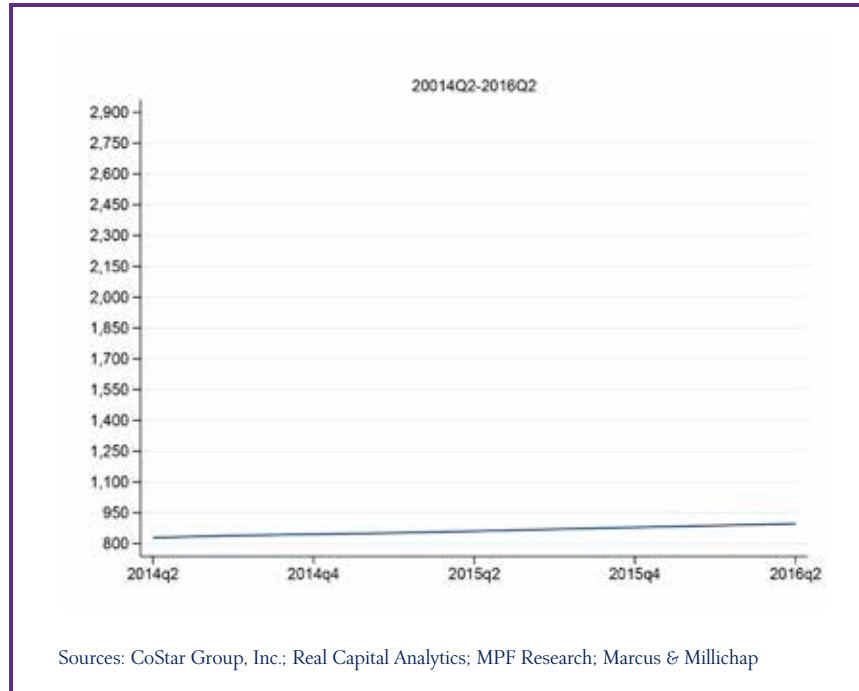
Largest Basis Point Increase in Vacancy Rate from Previous Year in Los Angeles County 2014Q2 • Table 7

Rank	Submarket	Basis Point Change
1	Santa Monica/Marina del Rey	100
1	South Los Angeles	100
3	Hollywood	90
4	East Los Angeles	70
5	Northridge/Northwest San Fernando	50

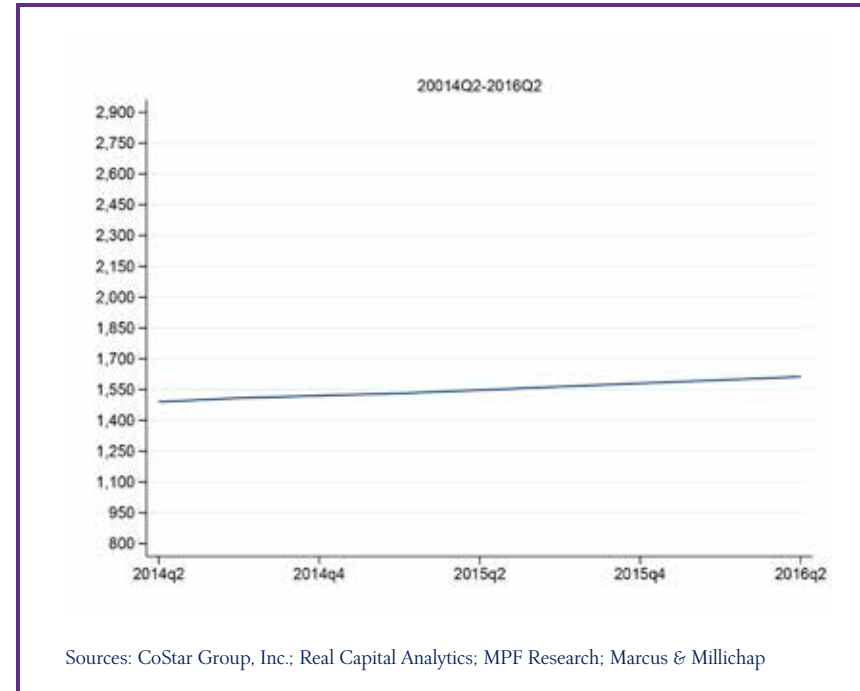
Largest Basis Point Decrease in Vacancy Rate from Previous Year in Los Angeles County 2014Q2 • Table 8

Rank	Submarket	Basis Point Change
1	Van Nuys/Northeast San Fernando Vall	-110
2	Santa Clarita Valley	-80
2	North San Gabriel Valley	-80
4	Southeast Los Angeles	-70
4	Long Beach	-70

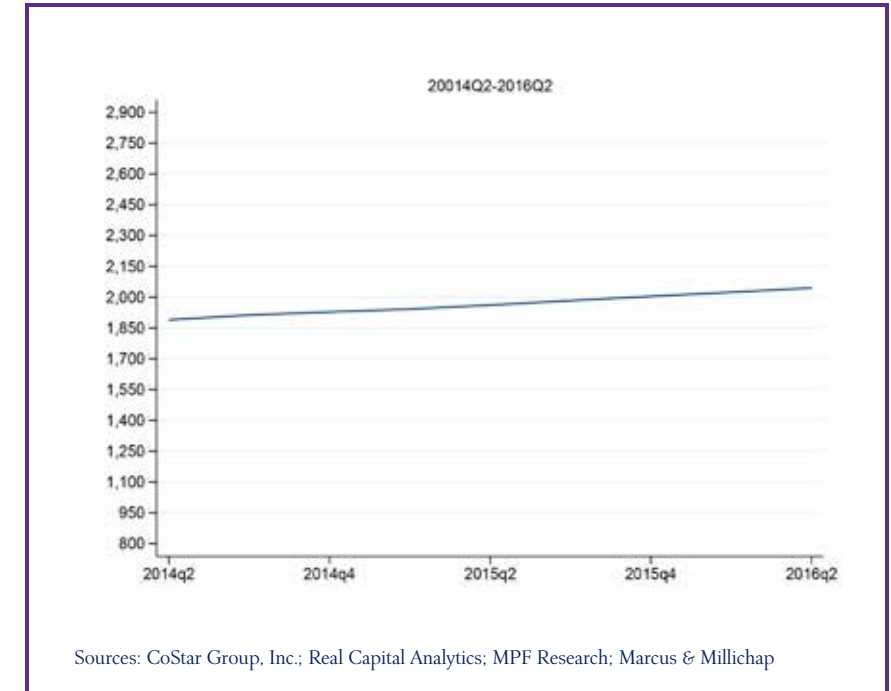
Forecast Effective Rent in \$ for: Antelope Valley



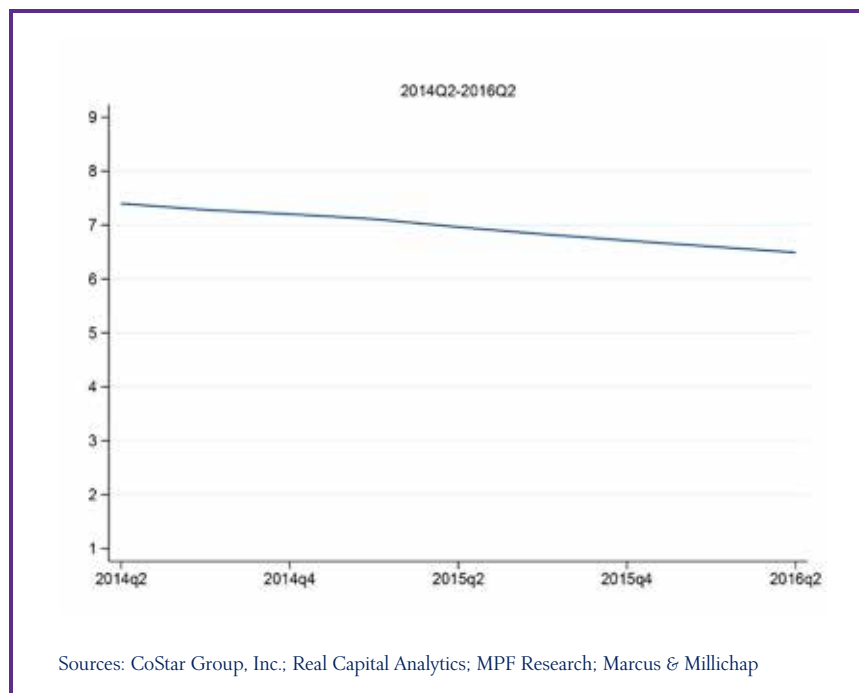
Forecast Effective Rent in \$ for: Brentwood – Westwood – Beverly Hills



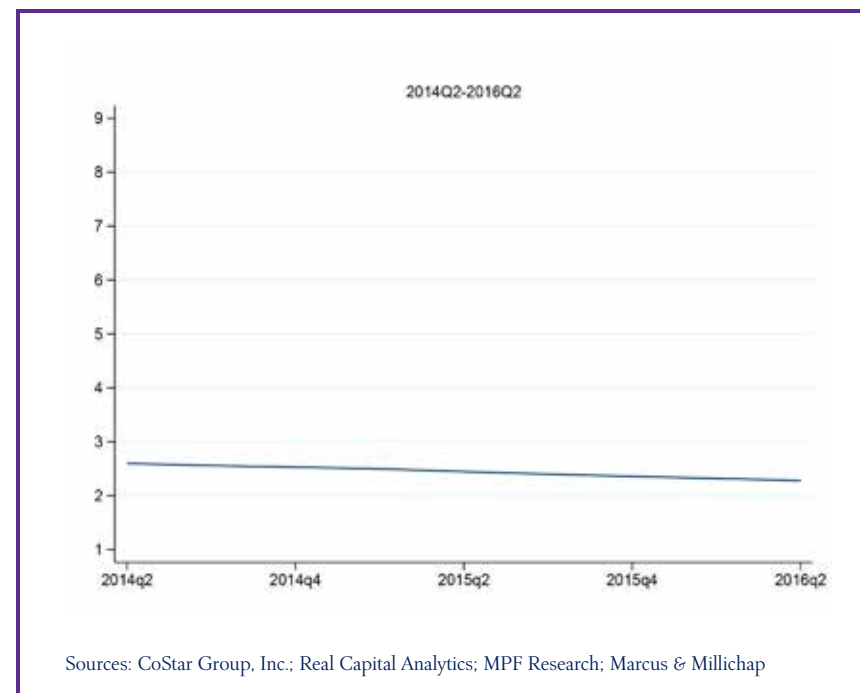
Forecast Effective Rent in \$ for: Burbank – Glendale – Pasadena



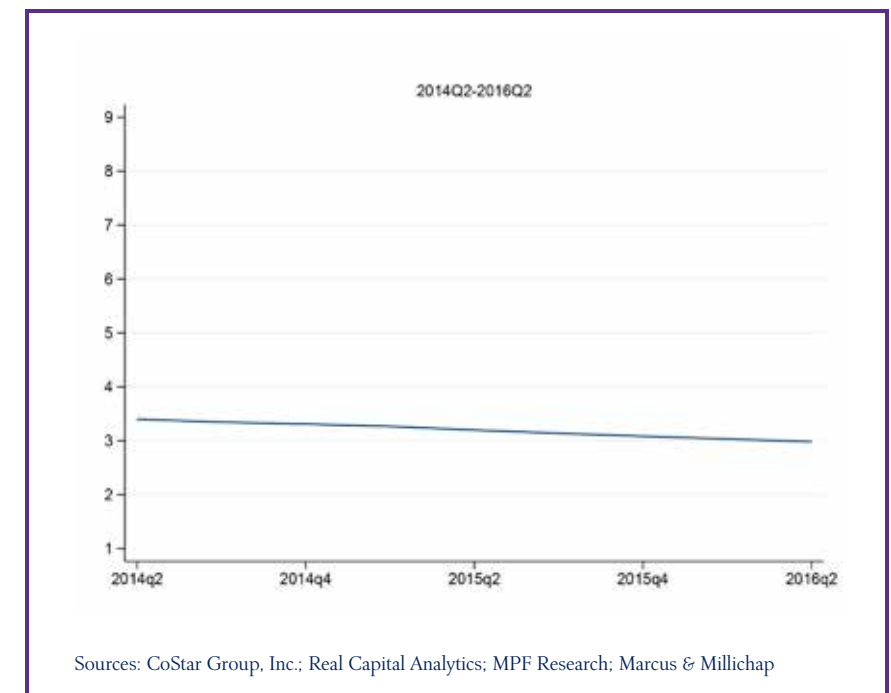
Forecast Percent Vacant for: Antelope Valley



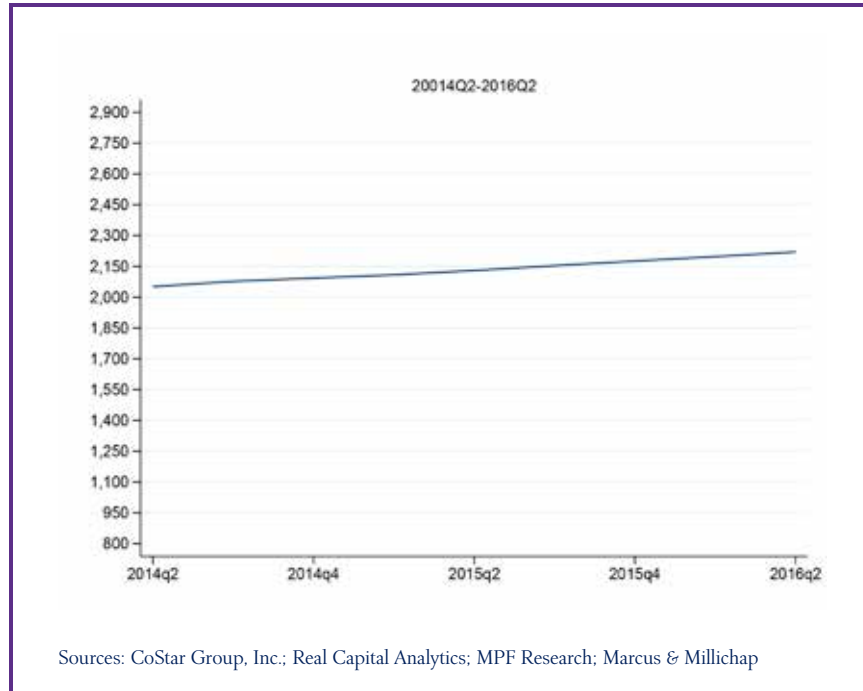
Forecast Percent Vacant for: Brentwood – Westwood – Beverly Hills



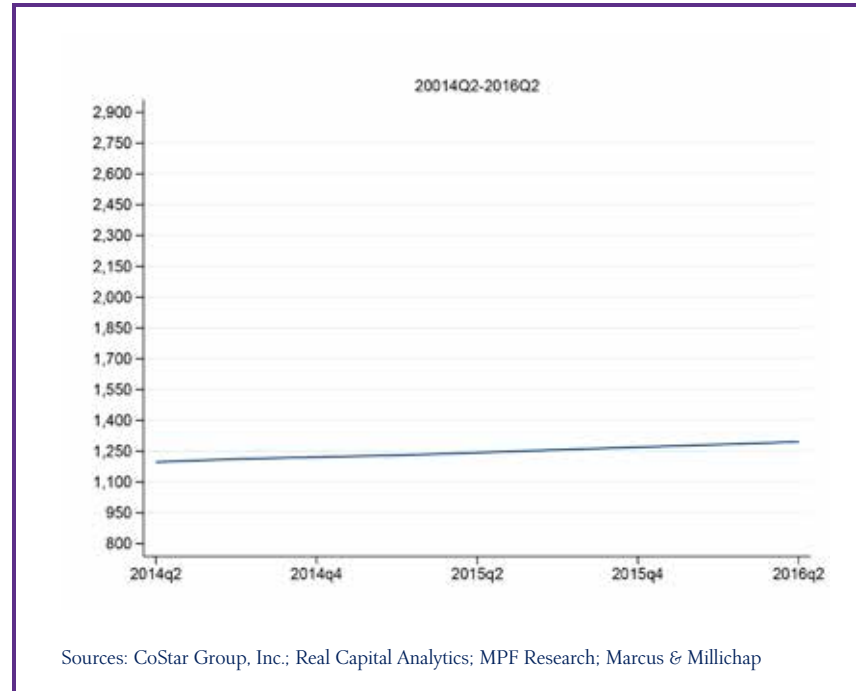
Forecast Percent Vacant for: Burbank – Glendale – Pasadena



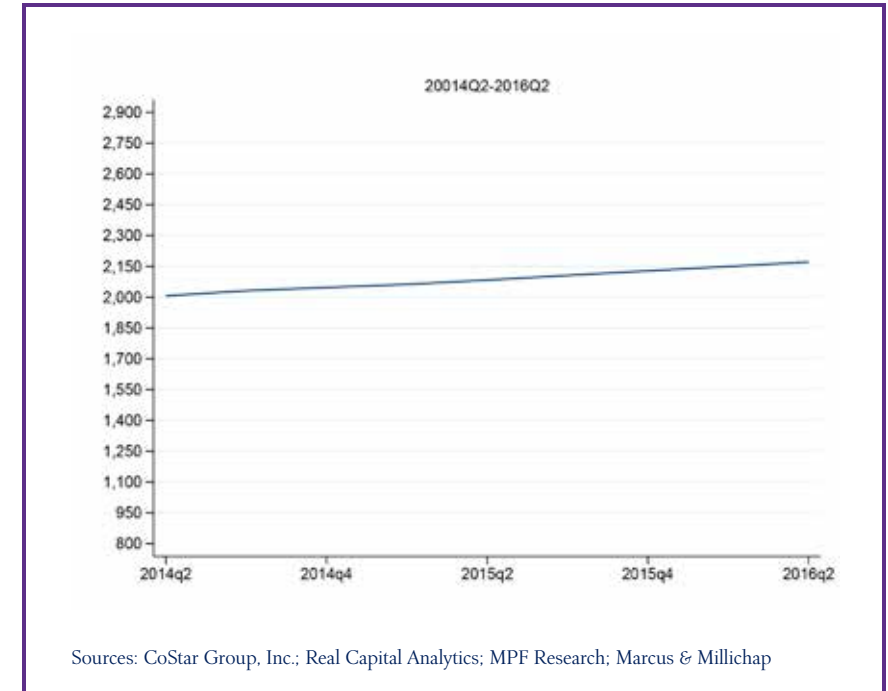
Forecast Effective Rent in \$ for: Downtown Los Angeles



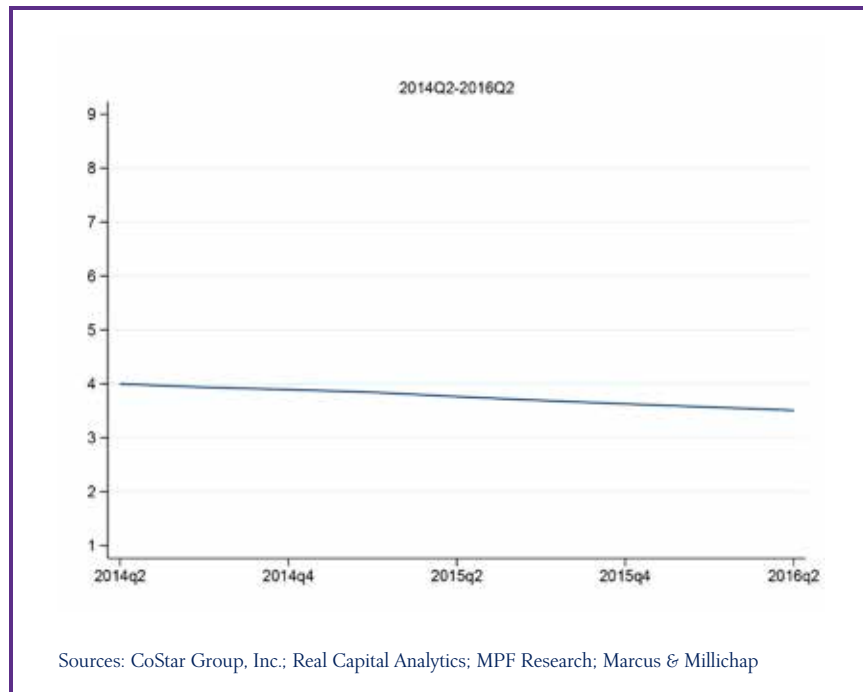
Forecast Effective Rent in \$ for: East Los Angeles



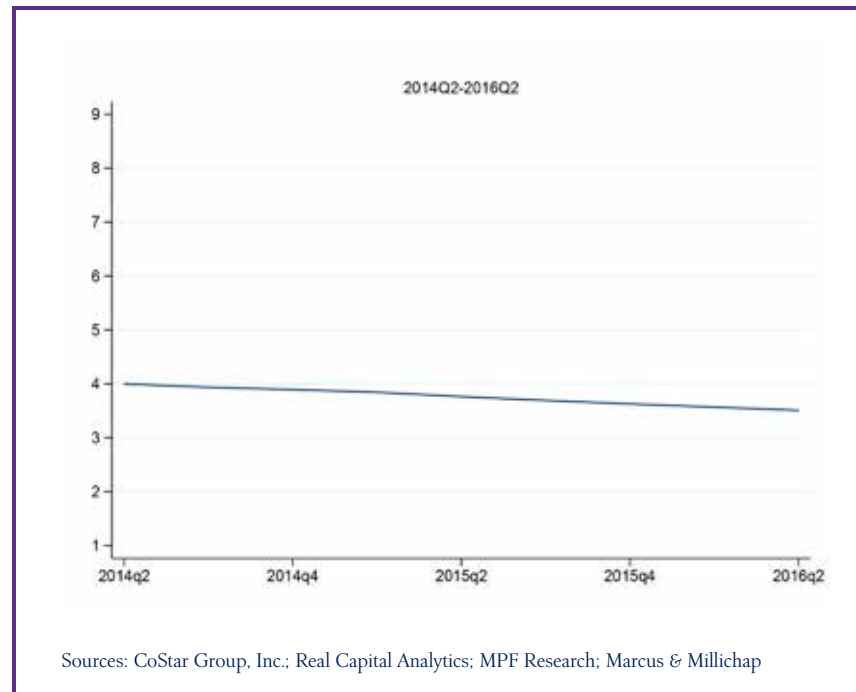
Forecast Effective Rent in \$ for: Hollywood



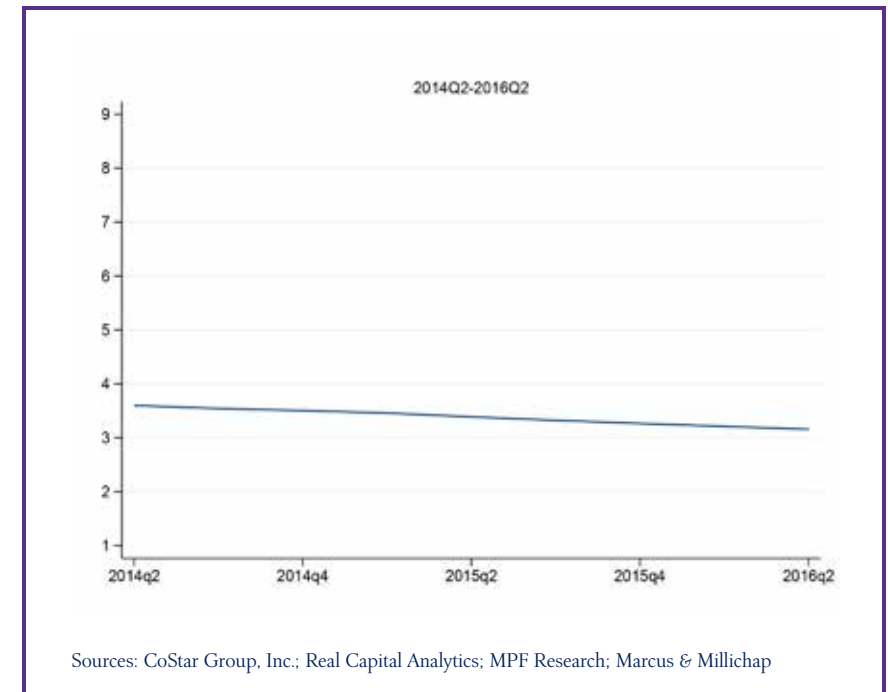
Forecast Percent Vacant for: Downtown Los Angeles



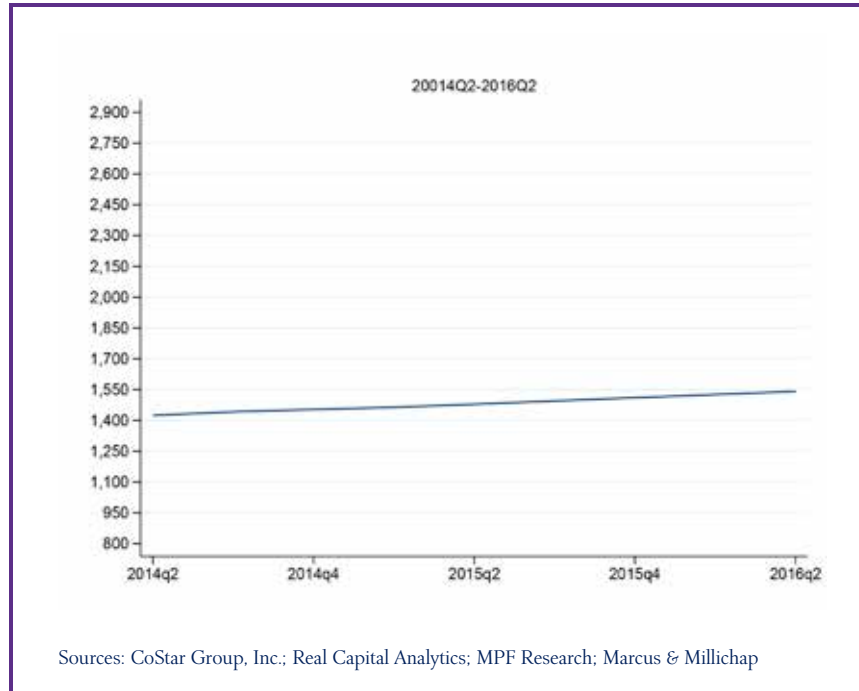
Forecast Percent Vacant for: East Los Angeles



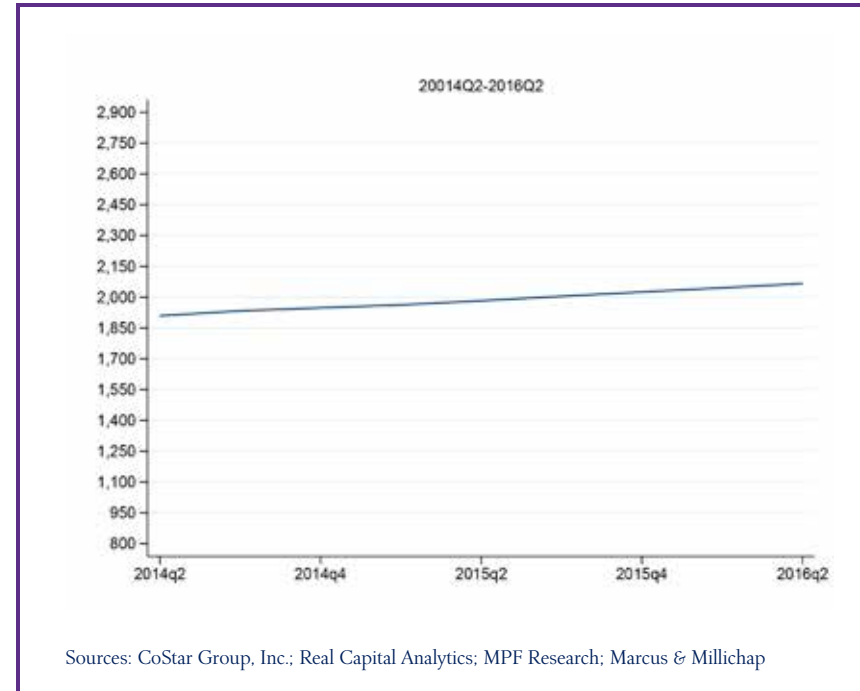
Forecast Percent Vacant for: Hollywood



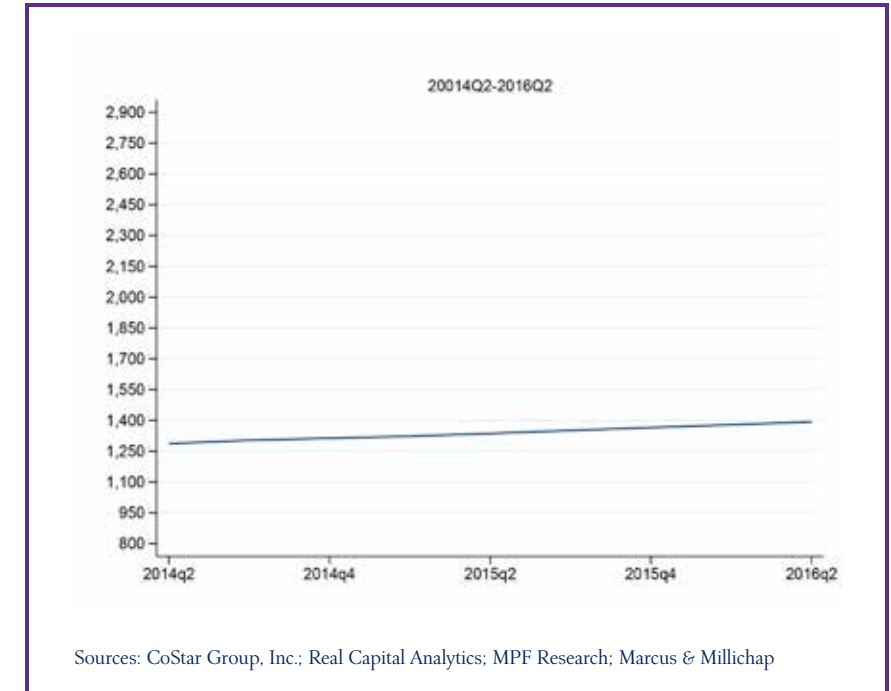
Forecast Effective Rent in \$ for: Long Beach



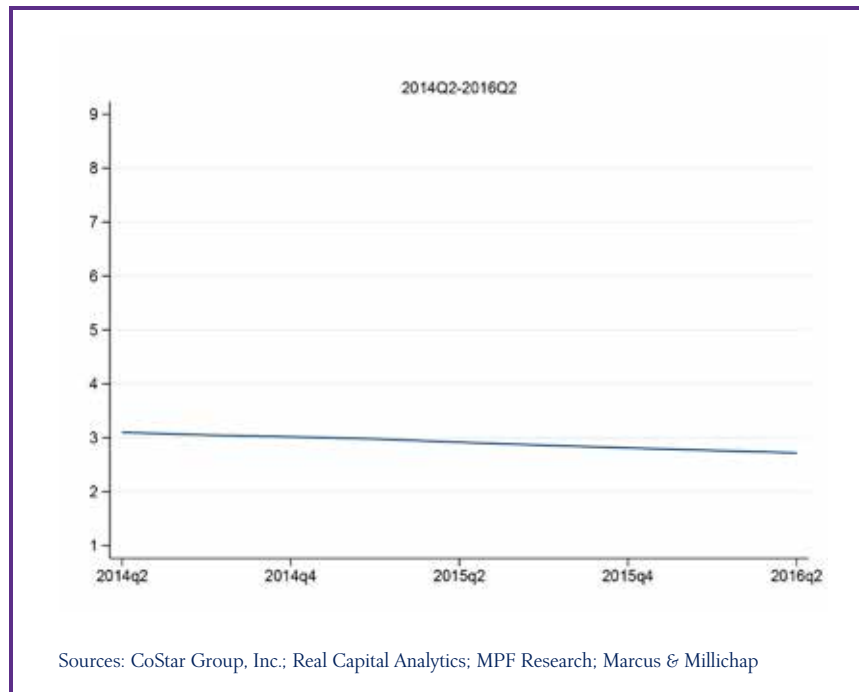
Forecast Effective Rent in \$ for: Mid-Wilshire



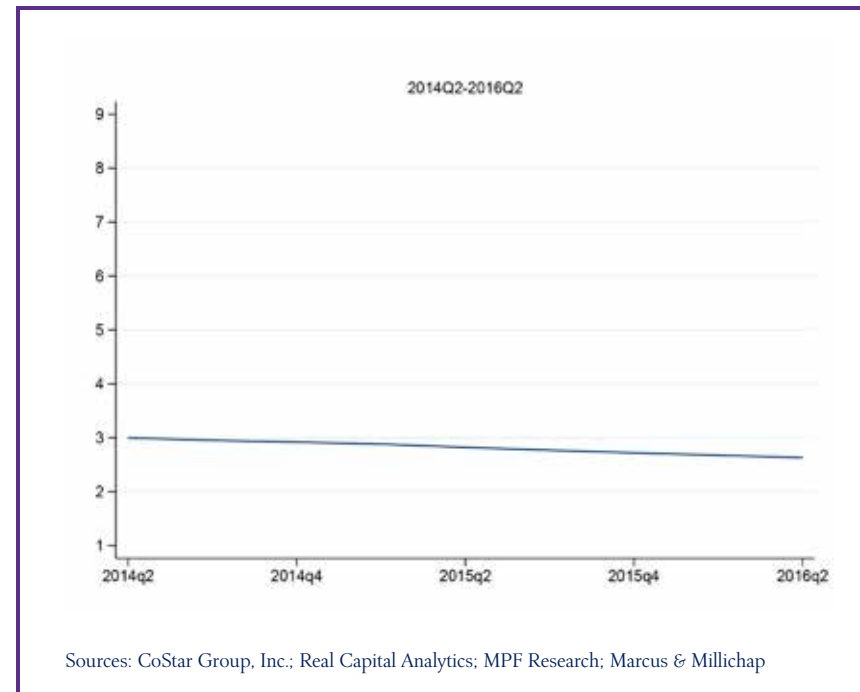
Forecast Effective Rent in \$ for: North San Gabriel Valley



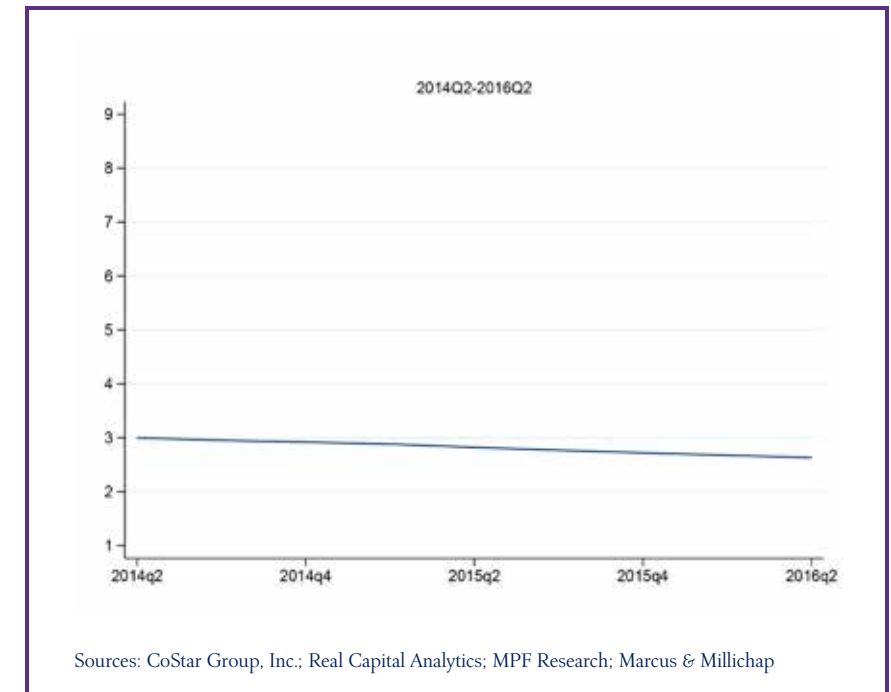
Forecast Percent Vacant for: Long Beach



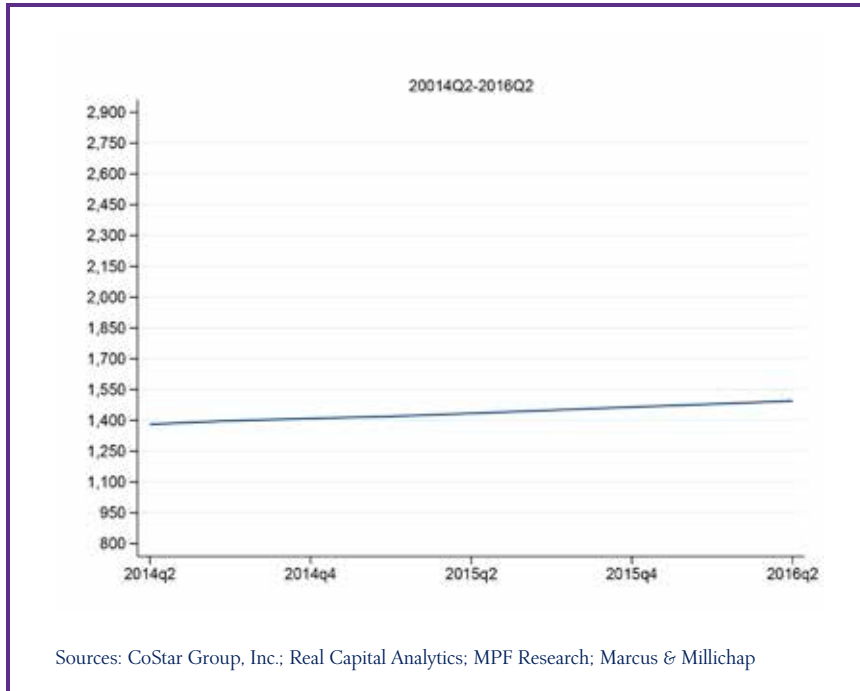
Forecast Percent Vacant for: Mid-Wilshire



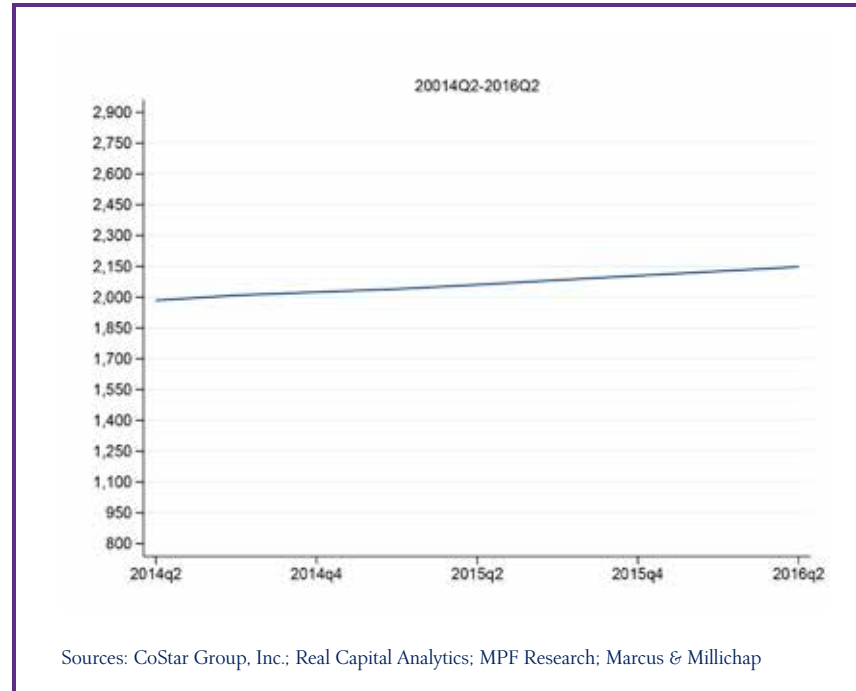
Forecast Percent Vacant for: North San Gabriel Valley



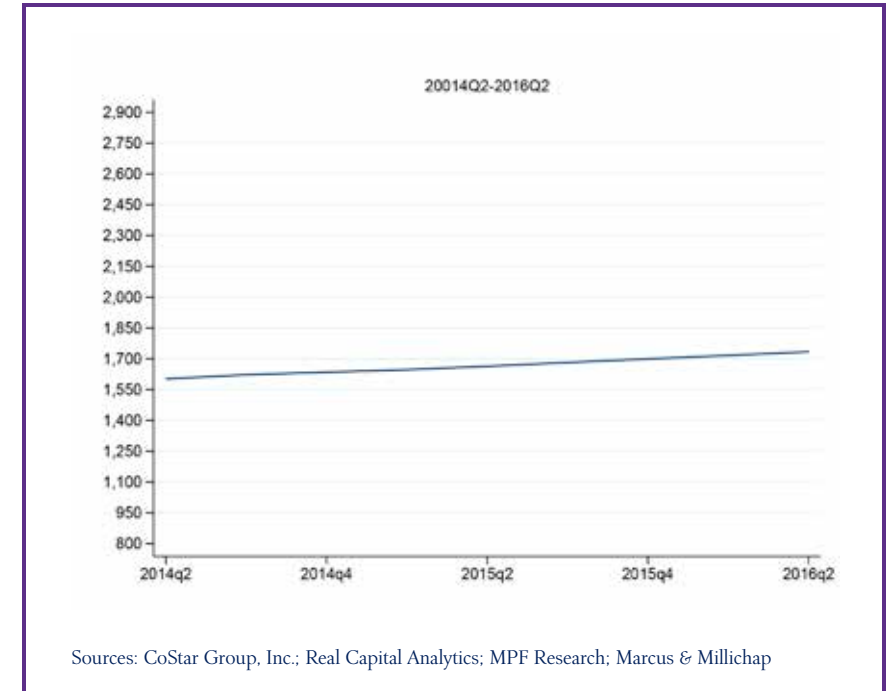
Forecast Effective Rent in \$ for: Northridge – Northwest San Fernando



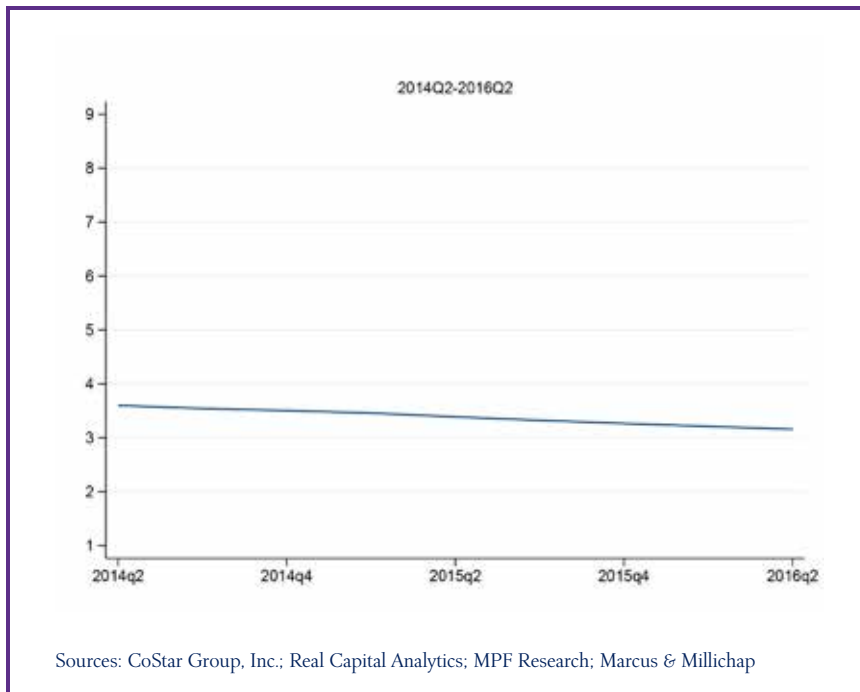
Forecast Effective Rent in \$ for: Palms – Mar Vista



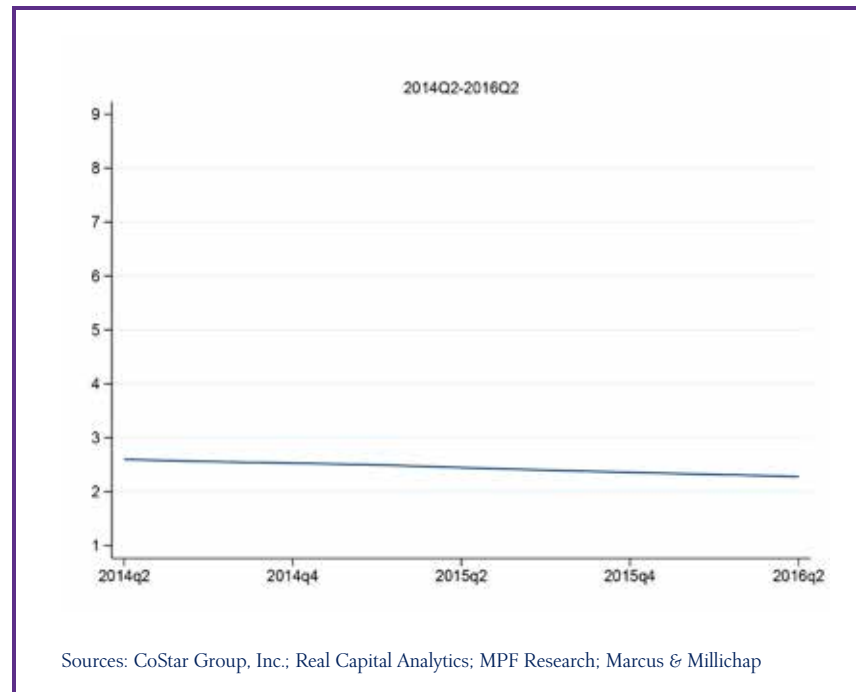
Forecast Effective Rent in \$ for: Santa Clarita Valley



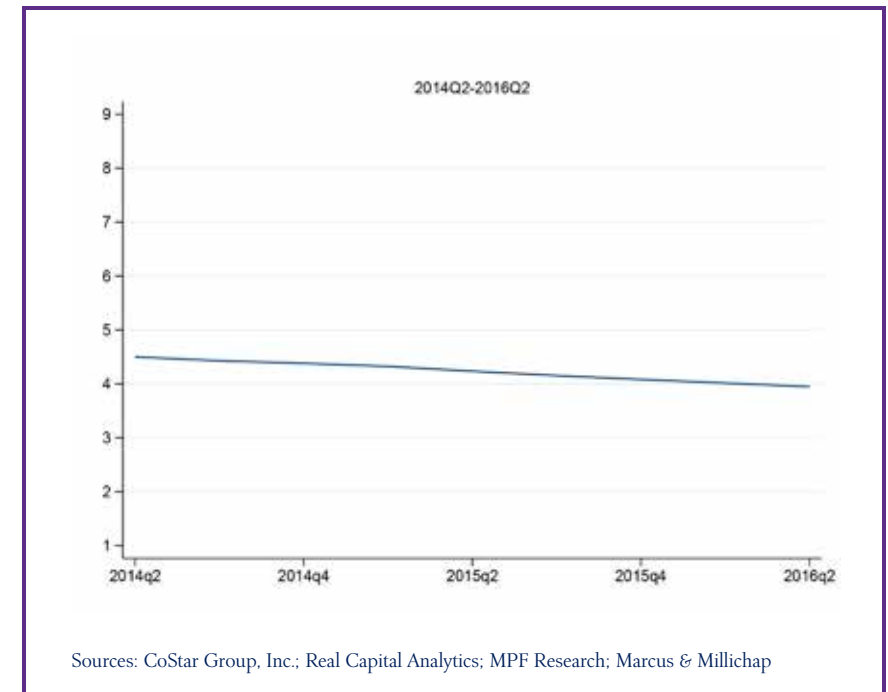
Forecast Percent Vacant for: Northridge – Northwest San Fernando



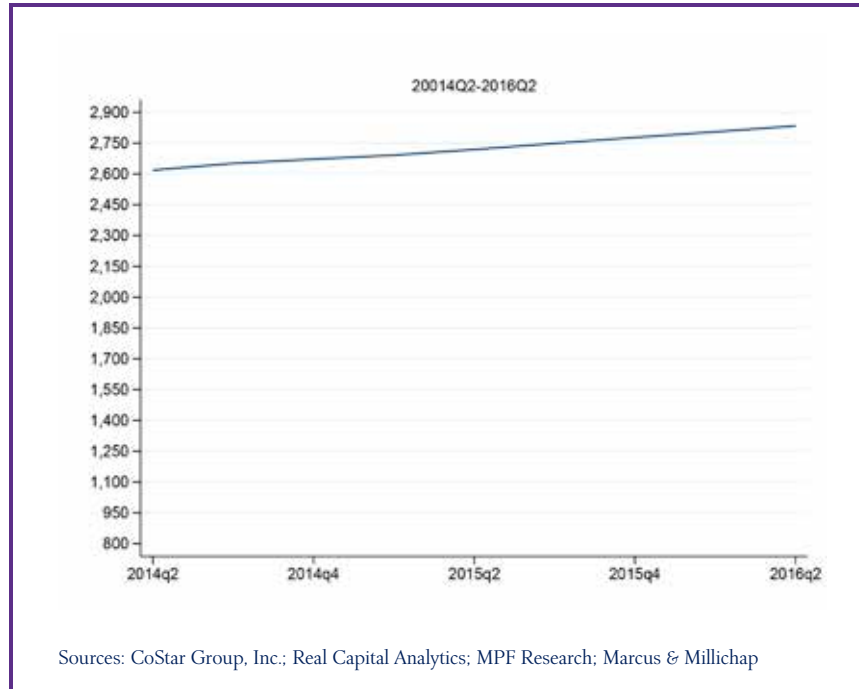
Forecast Percent Vacant for: Palms – Mar Vista



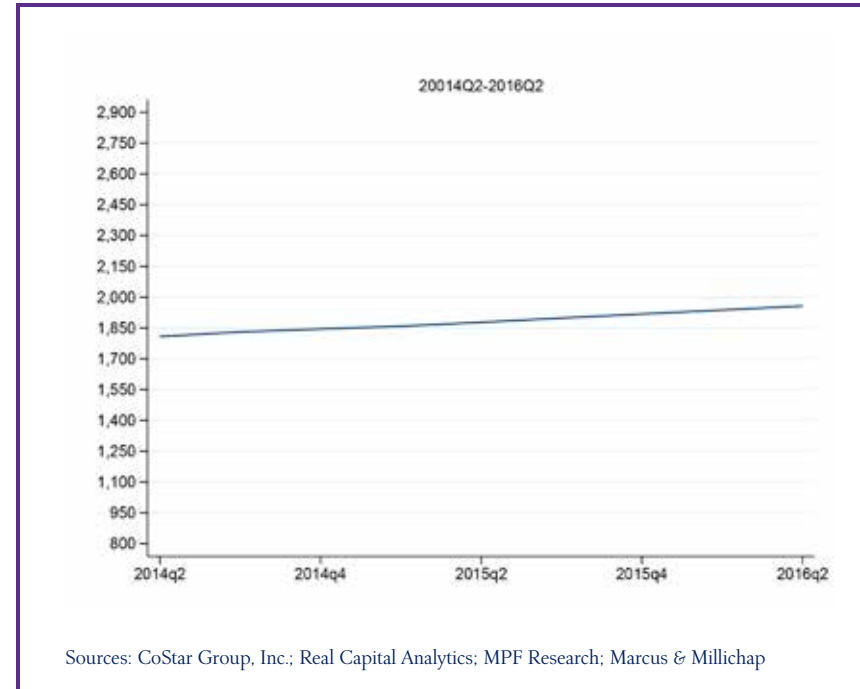
Forecast Percent Vacant for: Santa Clarita Valley



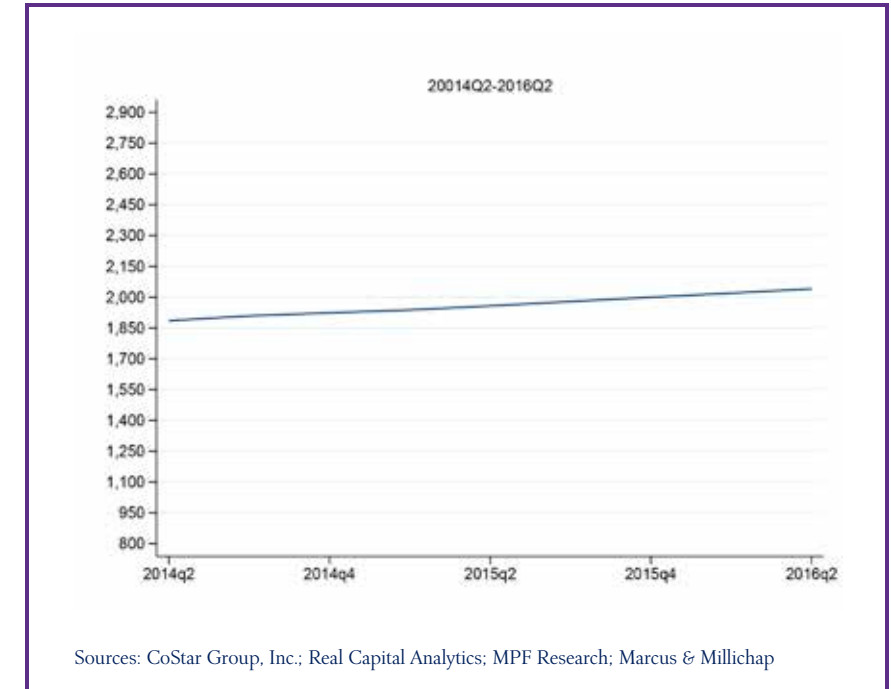
Forecast Effective Rent in \$ for: Santa Monica – Marina del Rey



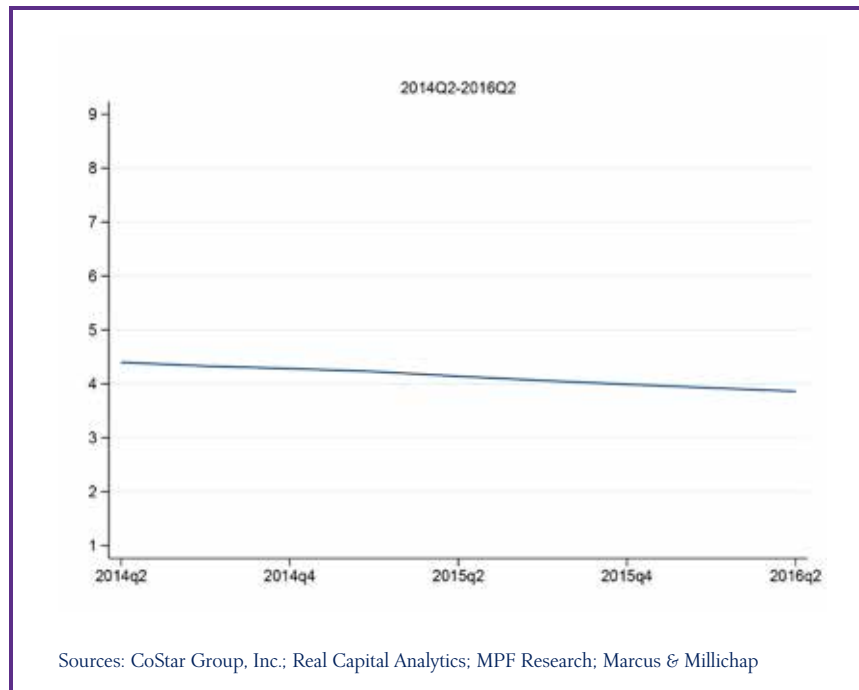
Forecast Effective Rent in \$ for: Sherman Oaks – North Hollywood – Encino



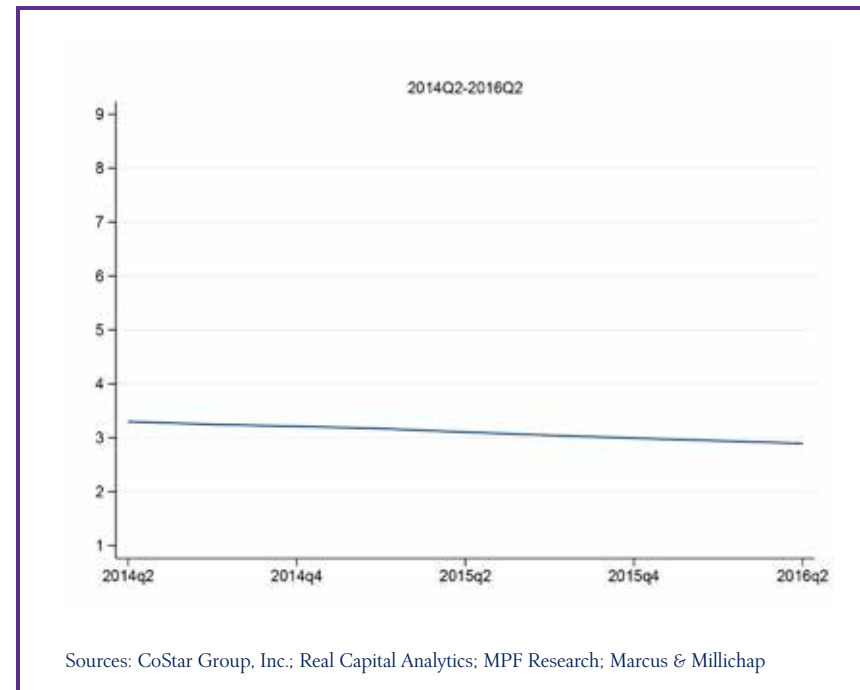
Forecast Effective Rent in \$ for: South Bay



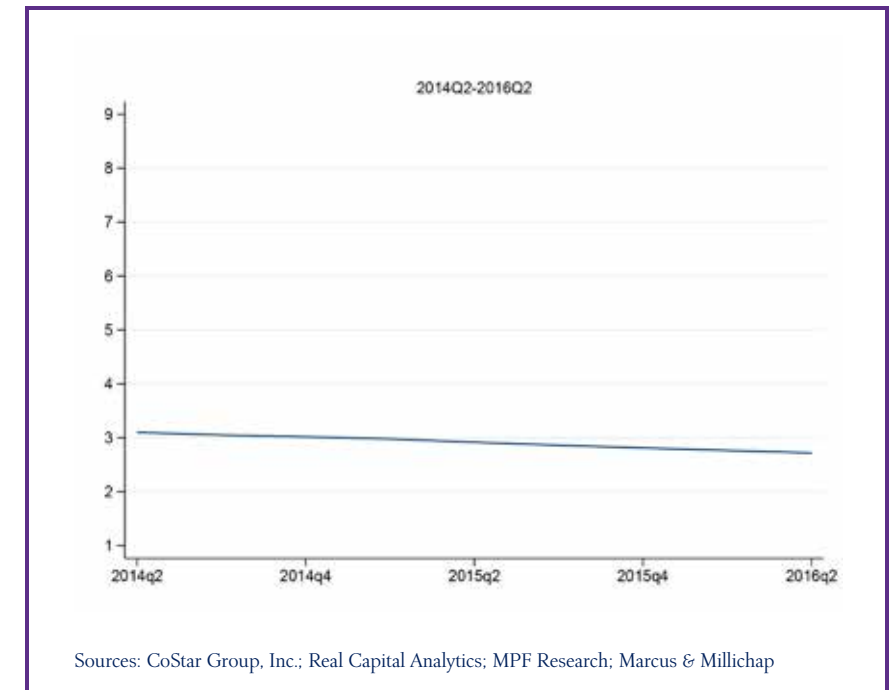
Forecast Percent Vacant for: Santa Monica – Marina del Rey



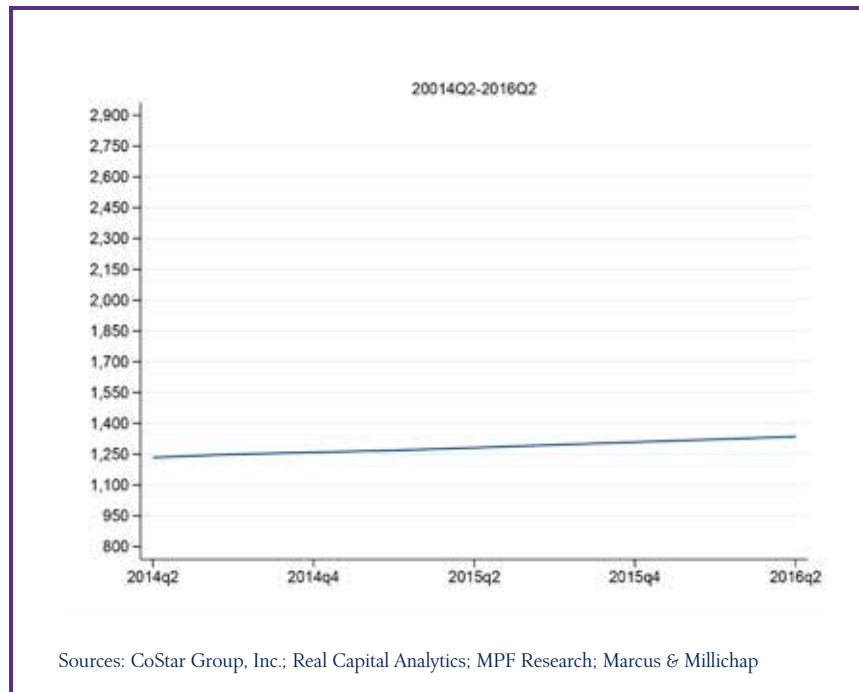
Forecast Percent Vacant for: Sherman Oaks – North Hollywood – Encino



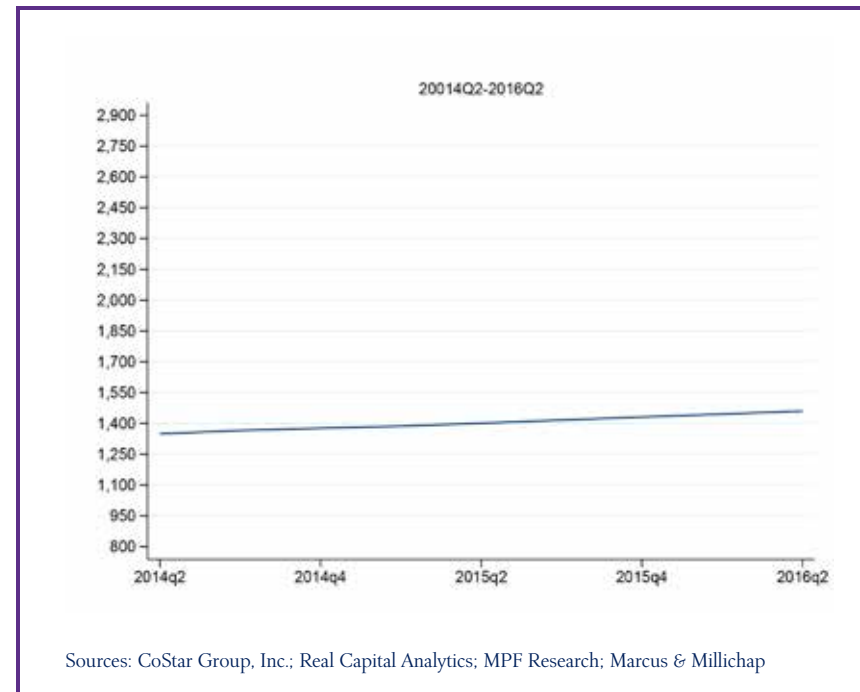
Forecast Percent Vacant for: South Bay



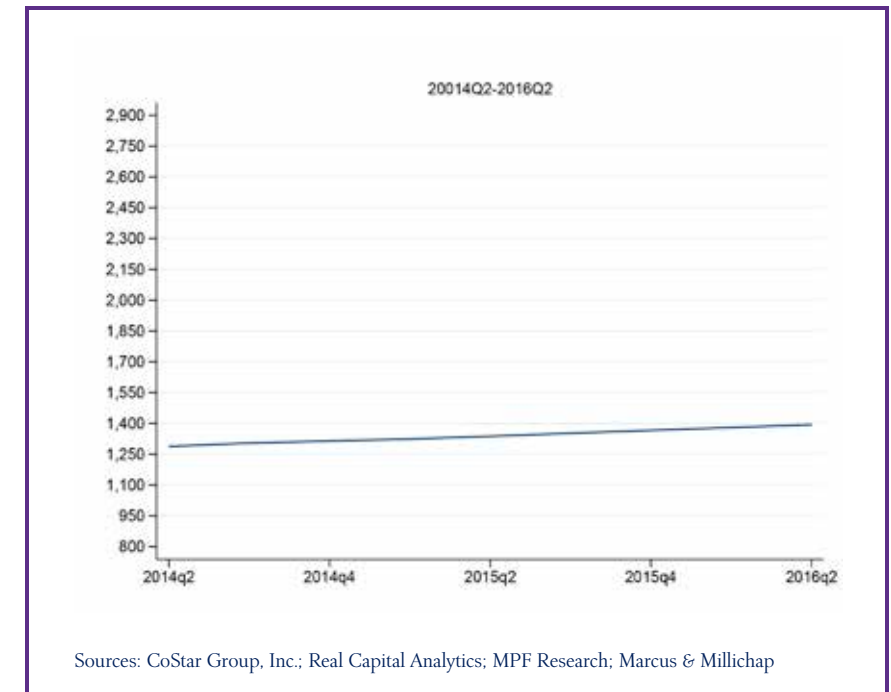
Forecast Effective Rent in \$ for: South Los Angeles



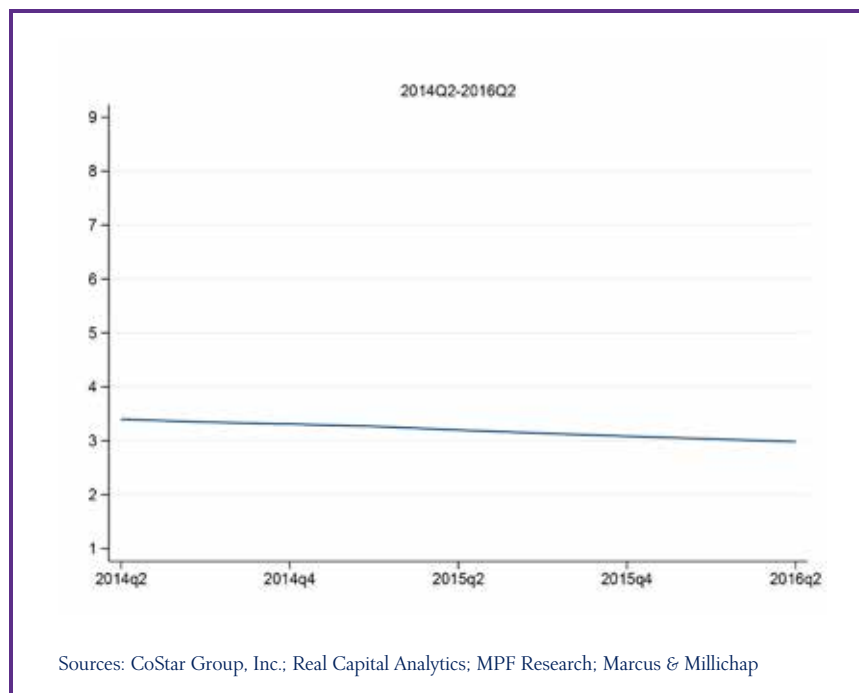
Forecast Effective Rent in \$ for: South San Gabriel Valley



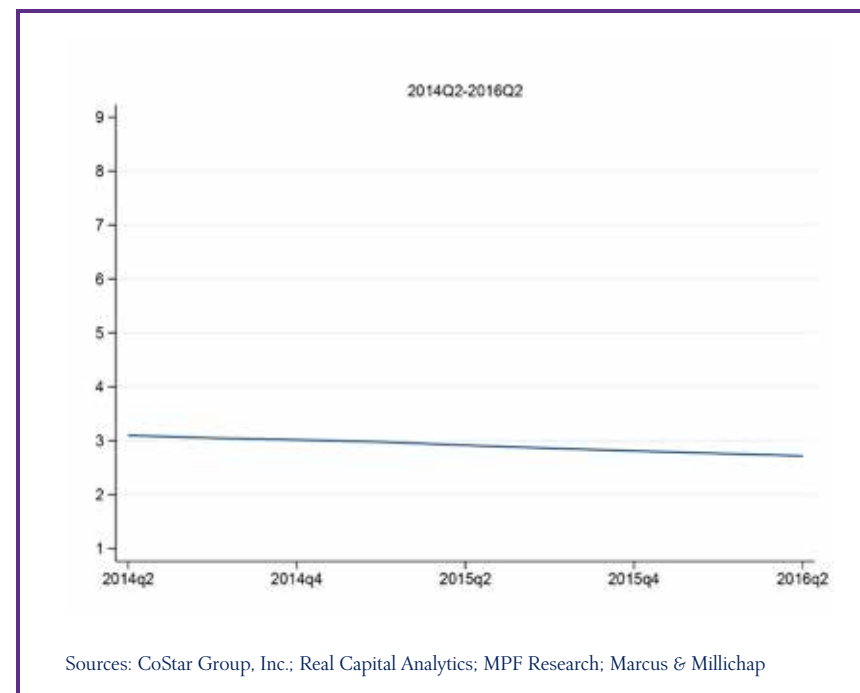
Forecast Effective Rent in \$ for: Southeast Los Angeles



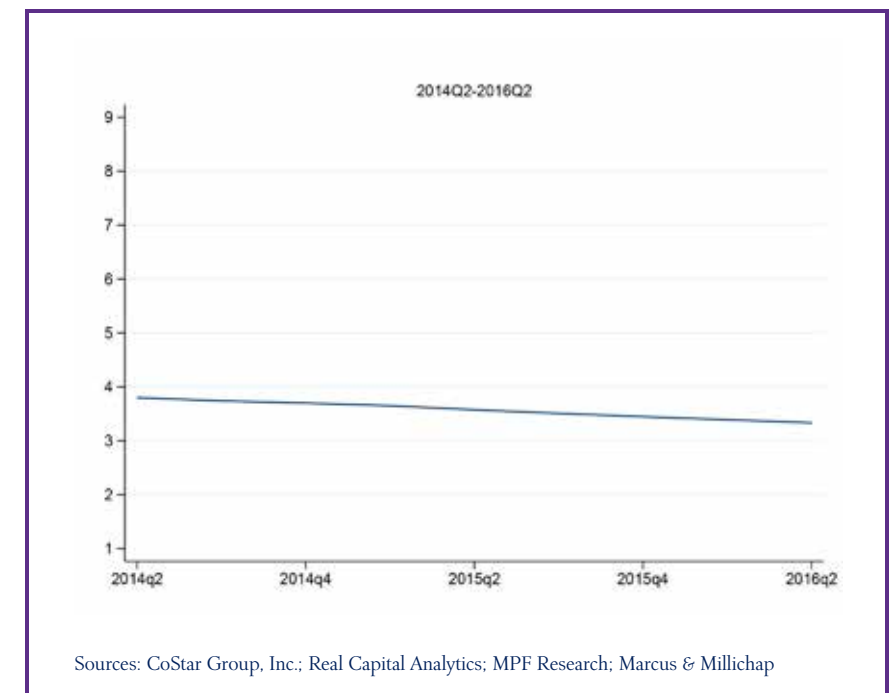
Forecast Percent Vacant for: South Los Angeles



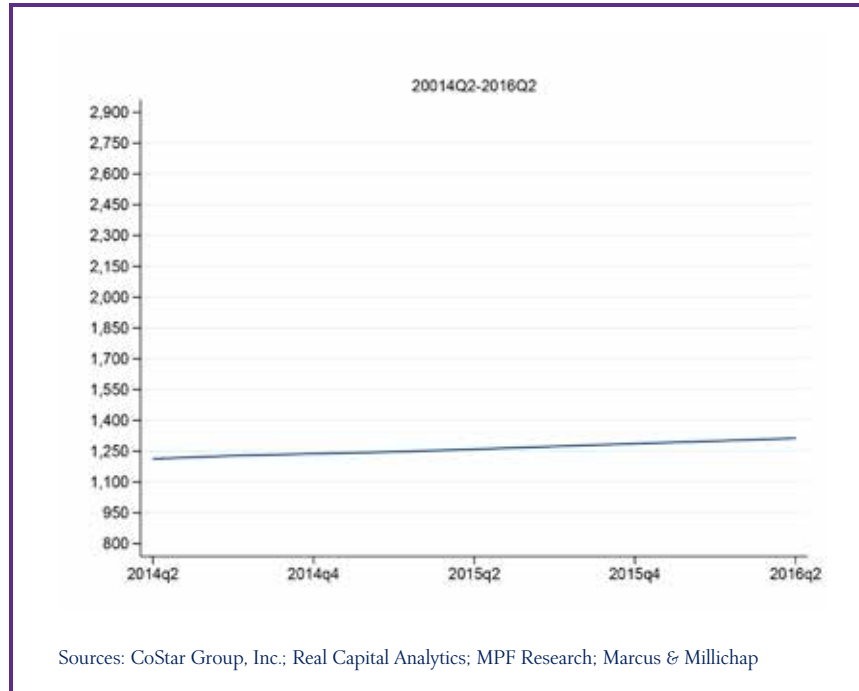
Forecast Percent Vacant for: South San Gabriel Valley



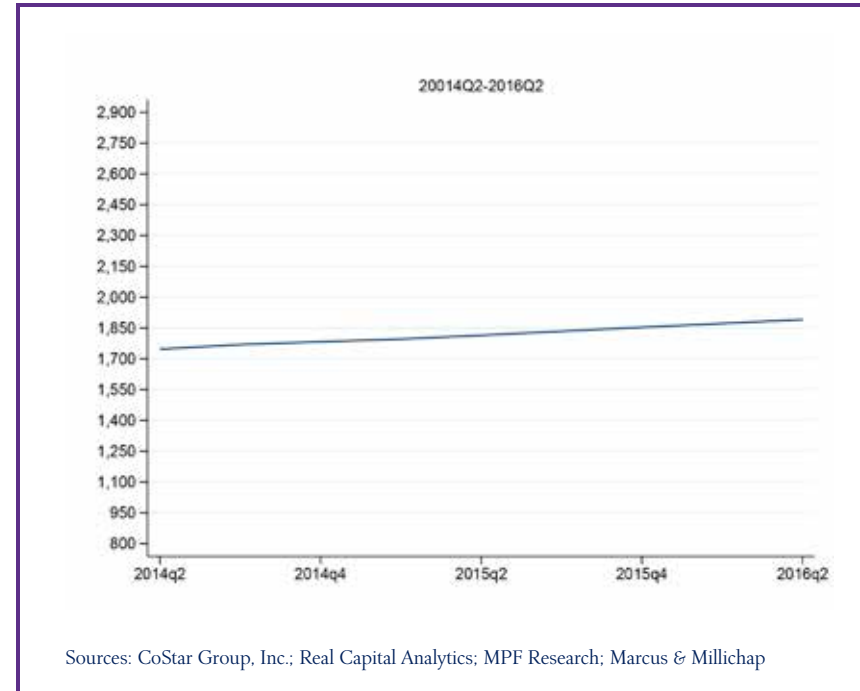
Forecast Percent Vacant for: Southeast Los Angeles



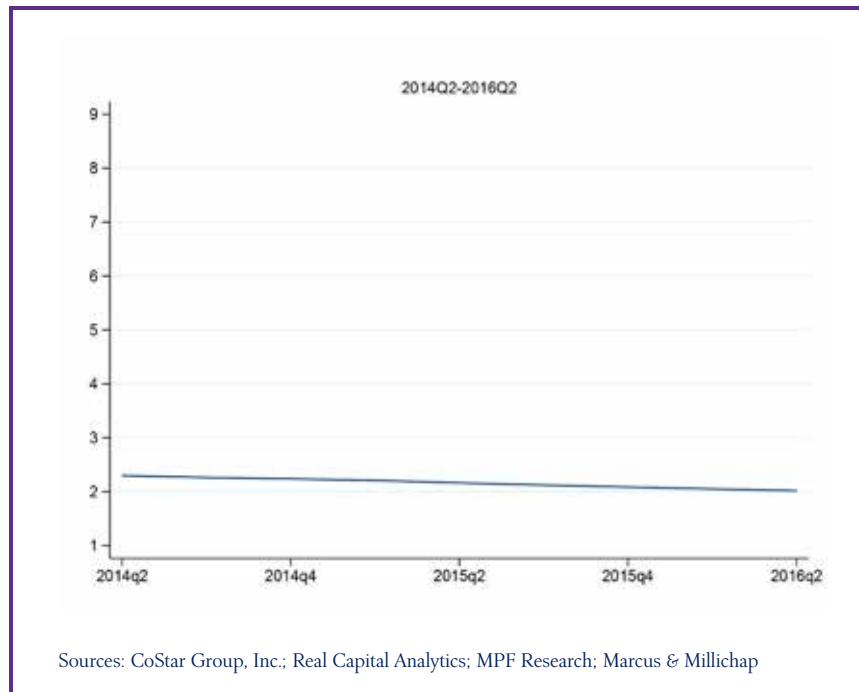
Forecast Effective Rent in \$ for: Van Nuys – Northeast San Fernando Valley



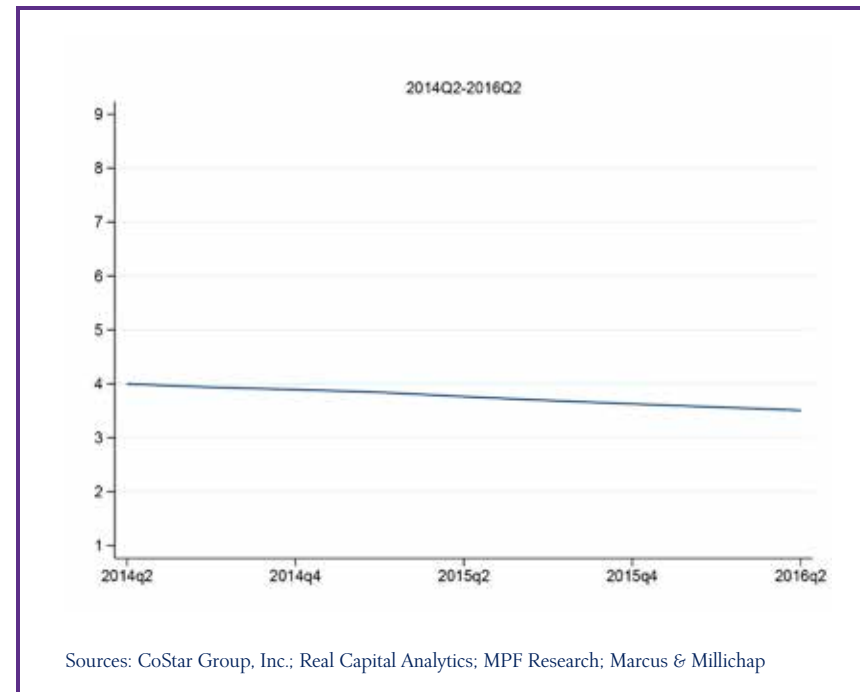
Forecast Effective Rent in \$ for: Woodland Hills



Forecast Percent Vacant for: Van Nuys – Northeast San Fernando Valley



Forecast Percent Vacant for: Woodland Hills

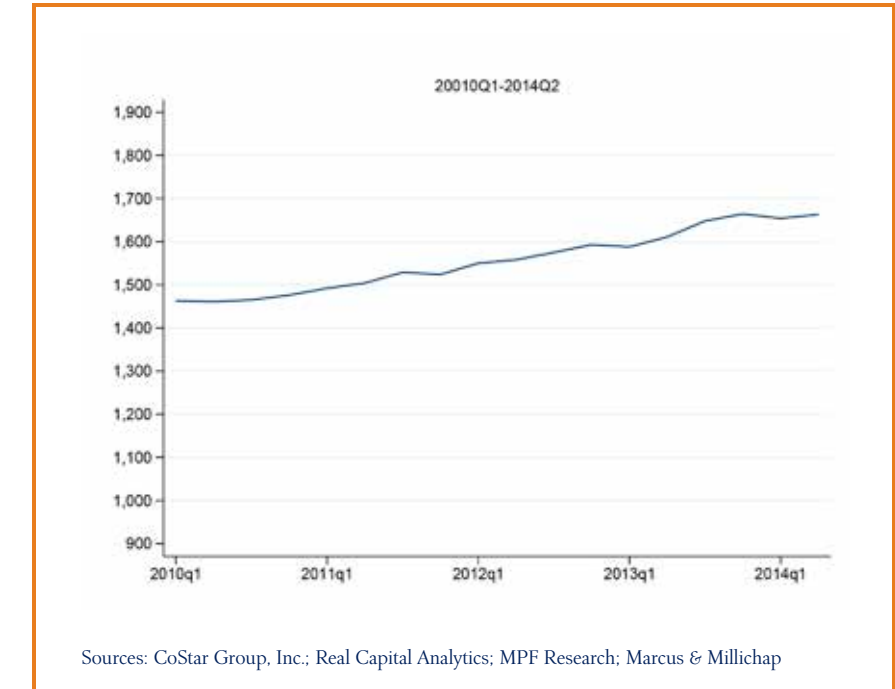




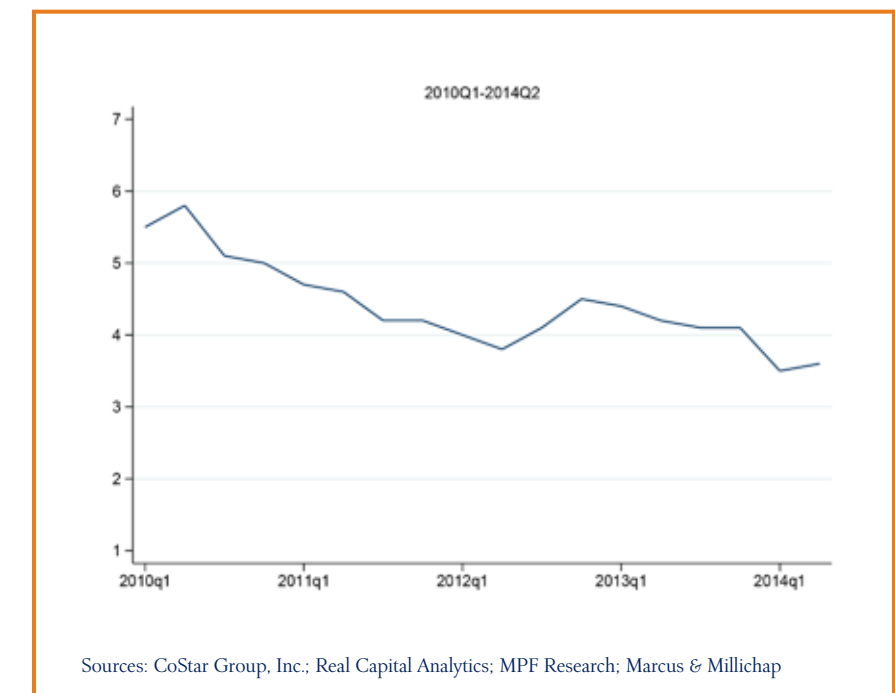
Orange County

Like other submarkets in this report, the average annual rent in Orange County increased for four straight years. As of 2014Q2, the average rent in the County was \$1,663. This reflects an almost 3.2 percent increase in the average rent from the same time in the previous year, and is only slightly less than the annual rent increases in the previous two years. As we see in table 1, the highest average rent in the County was in the Newport Beach submarket, with rents at \$2,223. The lowest rent in the County was in West Anaheim, with an average rent of \$1,300 (Table 2). Over the past year, the average rent increased in all 10 submarkets in Orange County. The highest growth in rent between 2013Q2 and 2014Q2 was in South Irvine, with a 9.0 percent increase, and the lowest was in East Anaheim/Orange, with a 2.4 percent increase (Tables 3 and 4).

Effective Rent in \$ for: Orange County



Percent Vacant for: Orange County

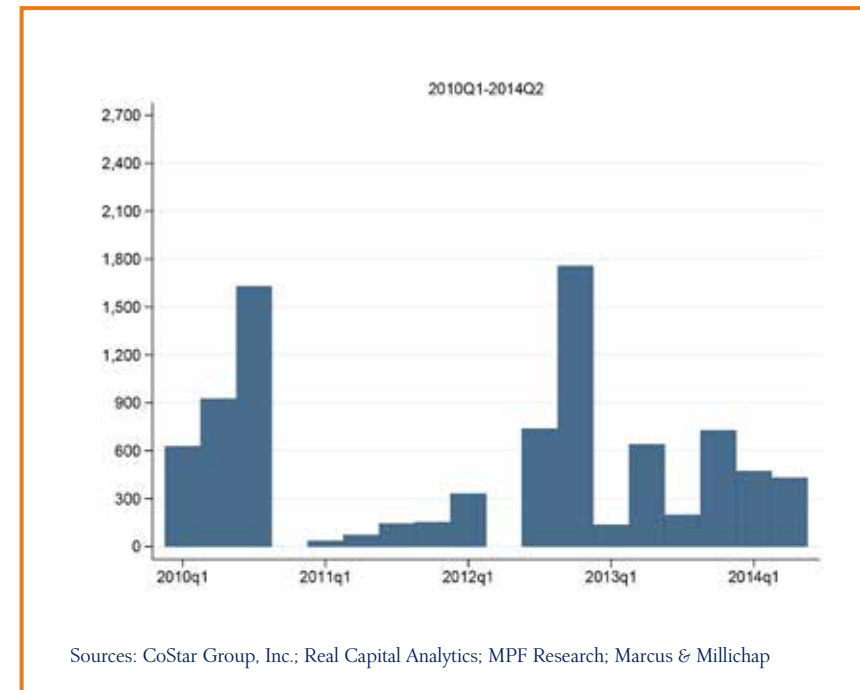


Between 2013Q2 and 2014Q2, over 1,800 new units of multifamily housing were completed in Orange County. This was a 44 percent decrease from the number of units completed during the previous year. Despite adding units to the market, the vacancy rate in Orange County decreased to 3.6 percent as of 2014Q2. This represents a 14 percent decrease in the vacancy rate from the previous year, and a 38 percent decrease from a vacancy rate of 5.8 percent in 2010Q2. The highest vacancy rate in the County was in North Orange County at 3.6 percent (Table 5.) The lowest vacancy rate in the County was in Buena Park/Cypress at 2.2 percent (Table 6). One interesting note is that Orange County had the smallest variation in vacancy rates across submarkets of all the counties analyzed in this report.

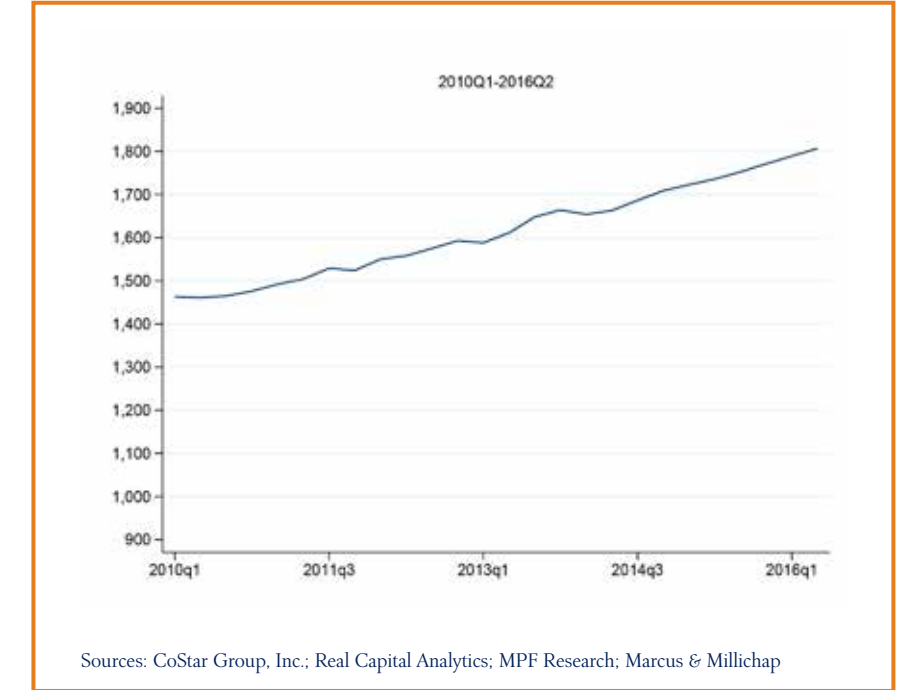
Over the past year, the vacancy rate decreased in all 10 submarkets in Orange County, making it the only county in Southern California where vacancy went down countywide. The smallest basis point decrease was in North Orange County, where the average vacancy rate decreased by 10 basis points (Table 7). The largest decrease was in North Irvine, where the vacancy rate dropped by 310 basis points (Table 8).

We project that over the next two years, the average rent in Orange County will increase every quarter, for a total growth of 8.6 percent between 2014Q2 and 2016Q2. This means that Orange County has the largest projected rent growth over the next two years out of the four markets analyzed in this report. We also project that the countywide vacancy rate will continue to decrease over the next two years by 56 basis points, or 15.5 percent, if there is not a considerable increase in the number of new units completed in Orange County.

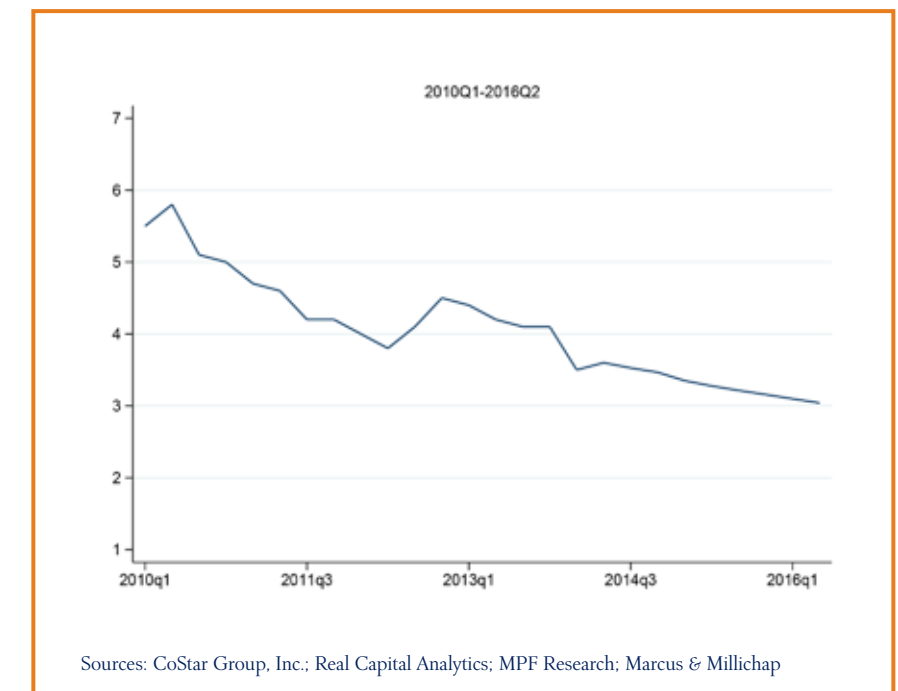
Units Completed in: Orange County



Forecast Average Rent in \$ for: Orange County



Forecast % Vacant in: Orange County





Highest Average Effective Rent in Orange County 2014Q2 • Table 1

Rank	Submarket	Rent
1	Newport Beach	\$2,223
2	South Irvine	\$2,091
3	North Irvine	\$1,945
4	Huntington Beach	\$1,585
5	East Anaheim/Orange	\$1,577

Lowest Average Effective Rent in Orange County 2014Q2 • Table 2

Rank	Submarket	Rent
1	West Anaheim	\$1,300
2	Buena Park/Cypress	\$1,416
3	North Orange County	\$1,484
4	Tustin/West Santa Ana	\$1,517
5	Santa Ana	\$1,561

Highest Percent Change in Rent from Previous Year in Orange County 2014Q2 • Table 3

Rank	Submarket	Percent Change
1	South Irvine	9.00%
2	Newport Beach	8.70%
3	Huntington Beach	4.80%
4	Tustin/West Santa Ana	4.50%
5	Santa Ana	3.80%

Lowest Percent Change in Rent from Previous Year in Orange County 2014Q2 • Table 4

Rank	Submarket	Percent Change
1	East Anaheim/Orange	2.40%
2	West Anaheim	2.90%
3	Buena Park/Cypress	3.20%
4	North Orange County	3.30%
5	North Irvine	3.60%

Highest Vacancy Rate in Orange County 2014Q2 • Table 5

Rank	Submarket	Vacancy Rate
1	North Orange County	3.60%
2	Santa Ana	3.50%
3	East Anaheim/Orange	3.40%
3	Newport Beach	3.40%
5	Huntington Beach	3.30%

Lowest Vacancy Rate in Orange County 2014Q2 • Table 6

Rank	Submarket	Vacancy Rate
1	Buena Park/Cypress	2.20%
2	South Irvine	2.80%
3	Tustin/West Santa Ana	3.00%
4	West Anaheim	3.10%
4	North Irvine	3.10%***

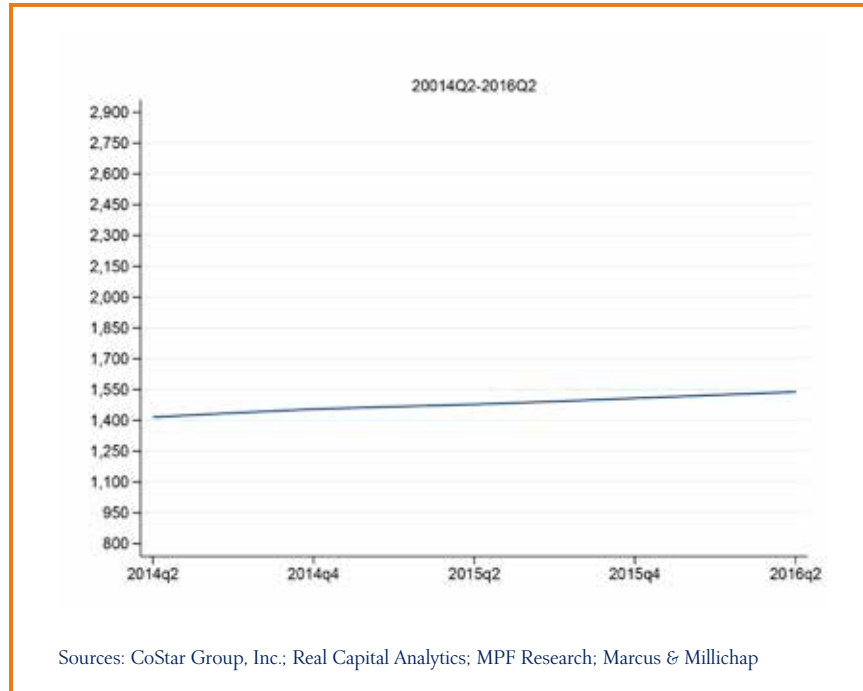
Smallest Basis Point Decrease in Vacancy Rate from Previous Year in Orange County 2014Q • Table 7

Rank	Submarket	Basis Point Change
1	North Orange County	-10
2	Santa Ana	-30
3	Buena Park/Cypress	-50
3	West Anaheim	-50
5	Huntington Beach	-60

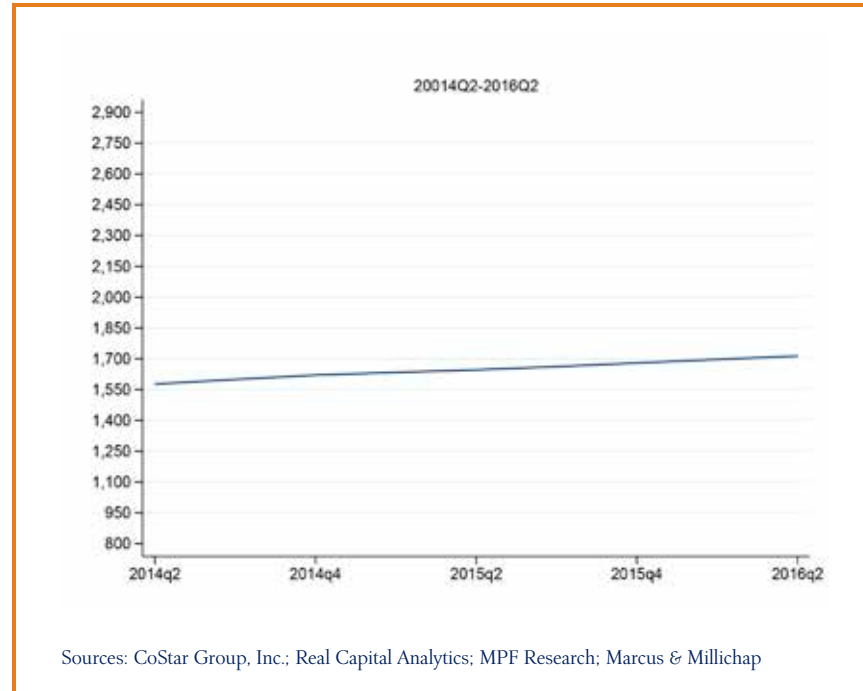
Largest Basis Point Decrease in Vacancy Rate from Previous Year in Orange County 2014Q • Table 8

Rank	Submarket	Basis Point Change
1	North Irvine	-310
2	Newport Beach	-210
3	Tustin/West Santa Ana	-120
4	East Anaheim/Orange	-100
5	South Irvine	-70

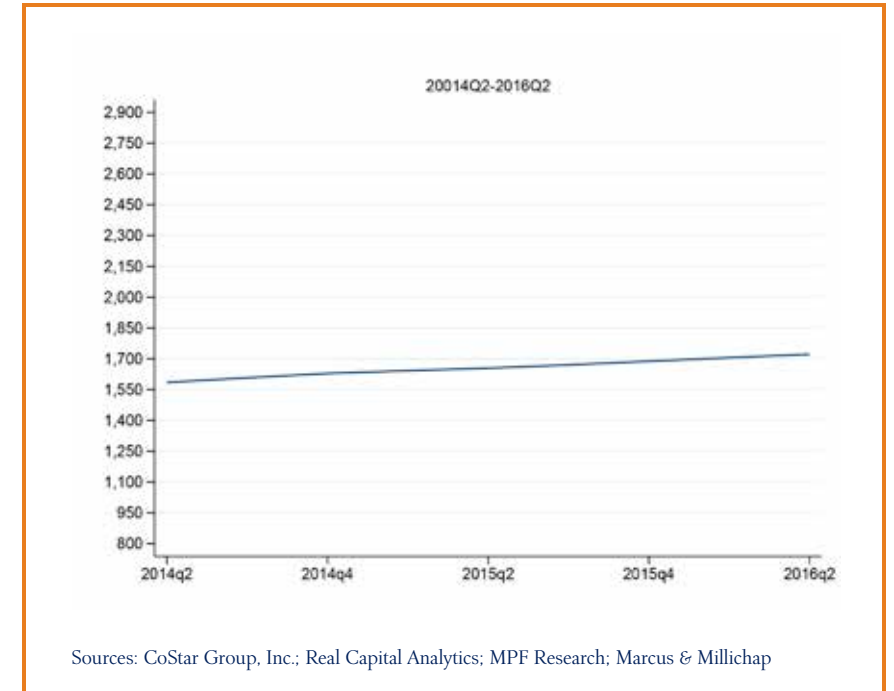
Forecast Effective Rent in \$ for: Buena Park/Cypress



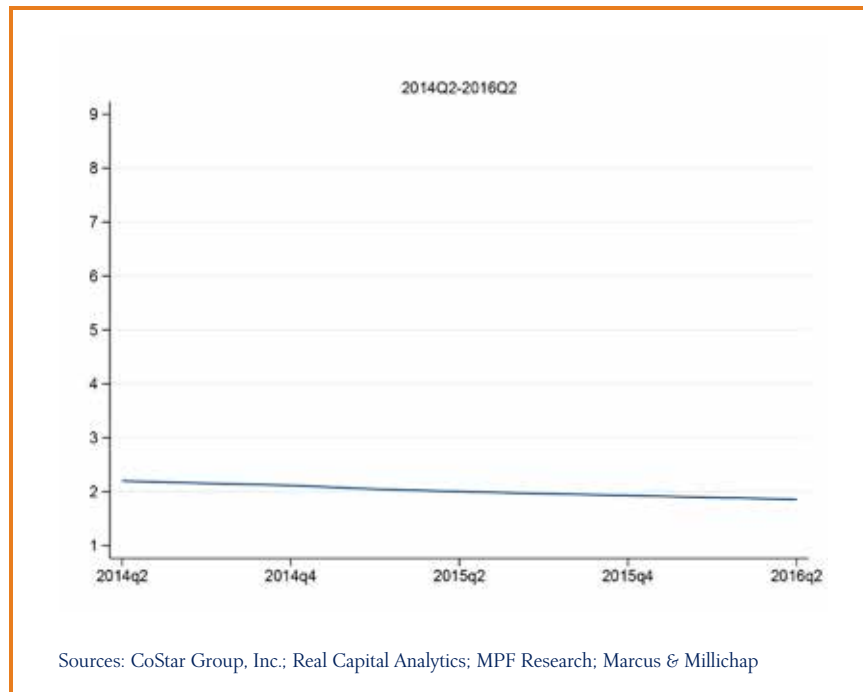
Forecast Effective Rent in \$ for: East Anaheim/Orange



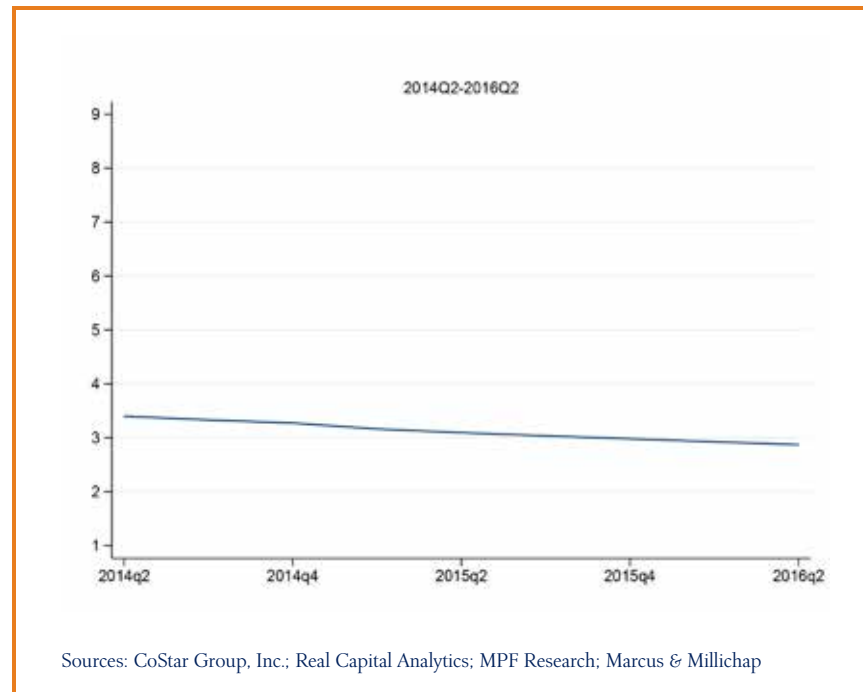
Forecast Effective Rent in \$ for: Huntington Beach



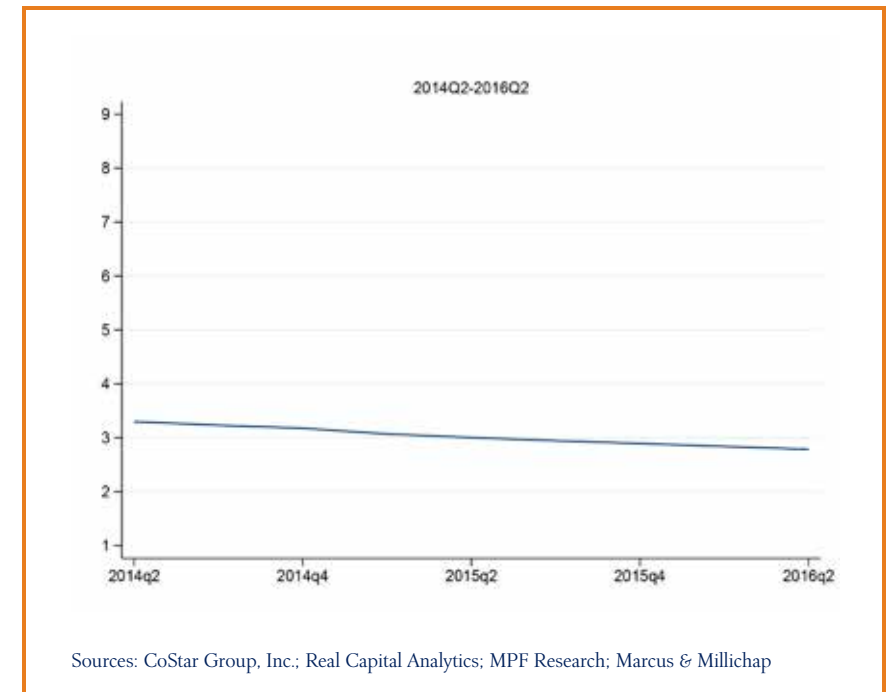
Forecast Percent Vacant for: Buena Park/Cypress



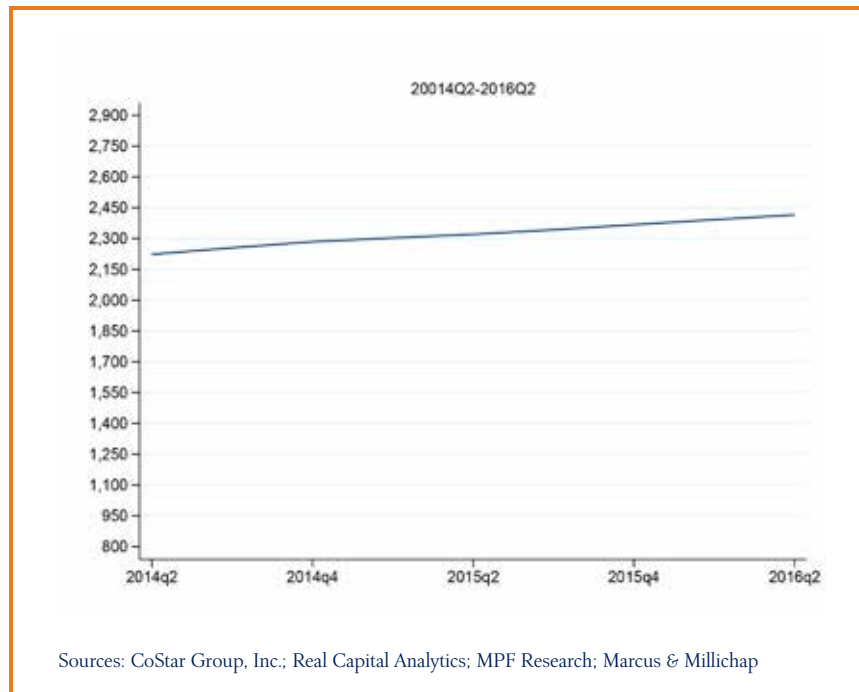
Forecast Percent Vacant for: East Anaheim/Orange



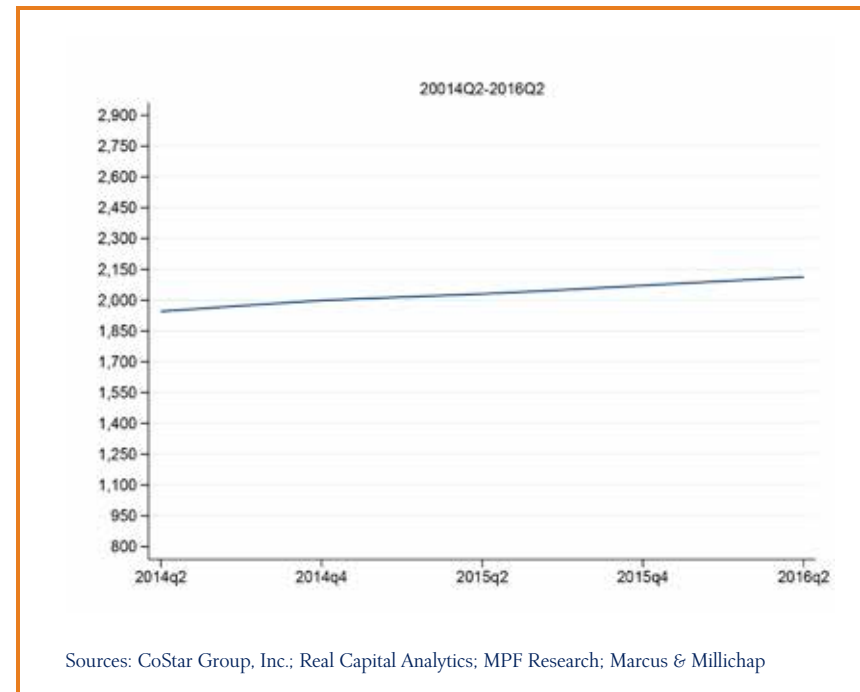
Forecast Percent Vacant for: Huntington Beach



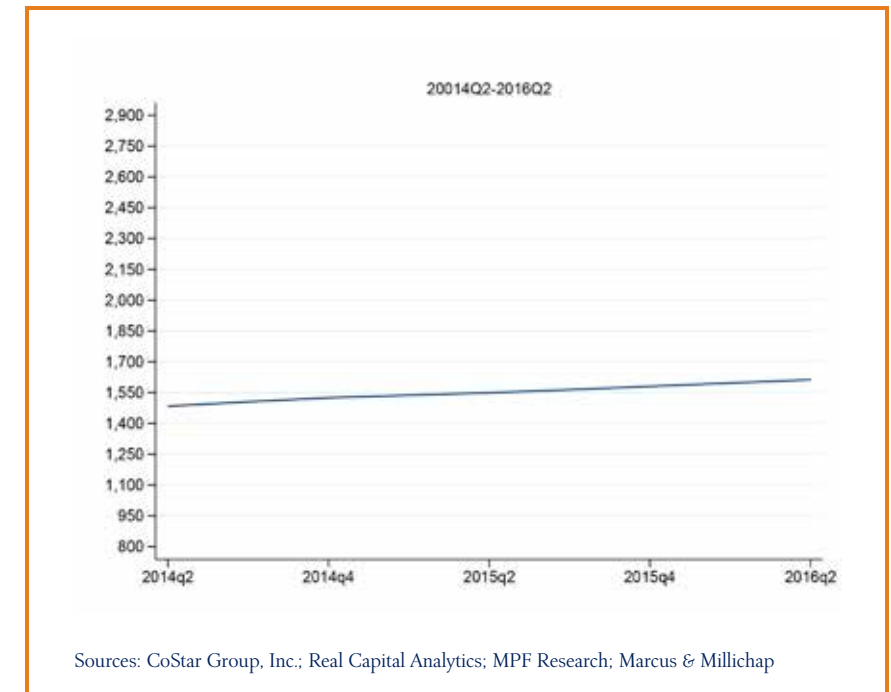
Forecast Effective Rent in \$ for: Newport Beach



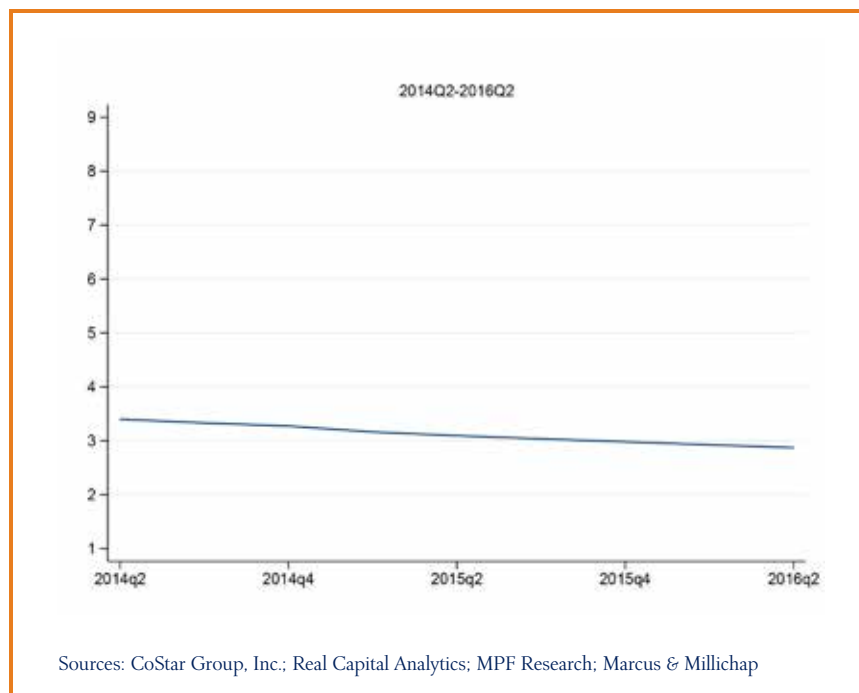
Forecast Effective Rent in \$ for: North Irvine



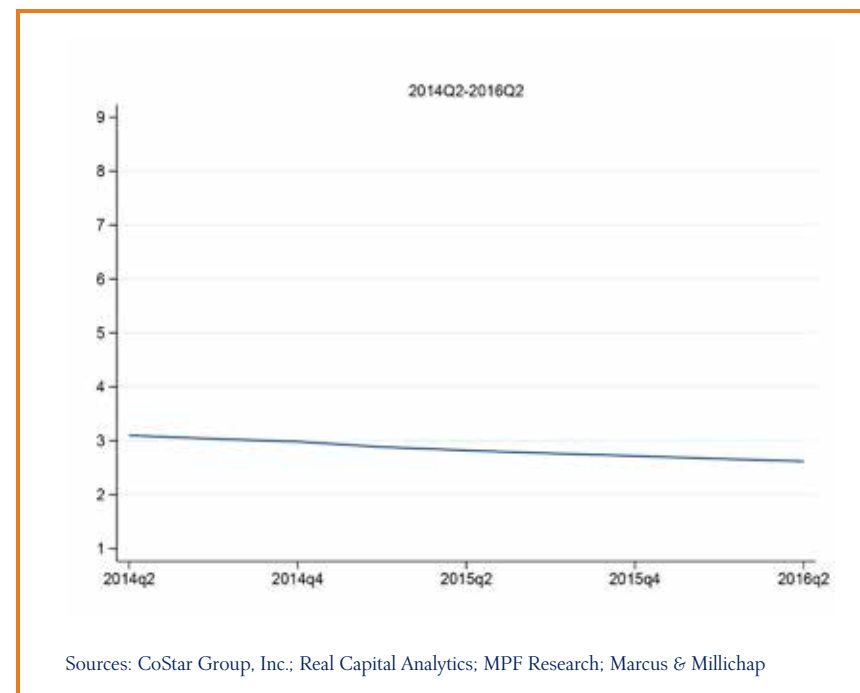
Forecast Effective Rent in \$ for: North Orange County



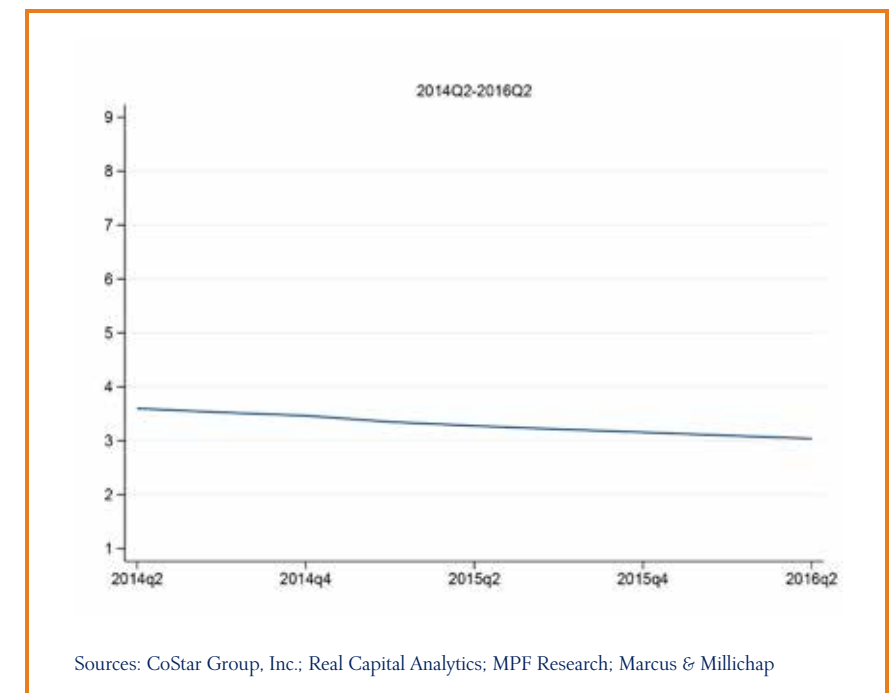
Forecast Percent Vacant for: Newport Beach



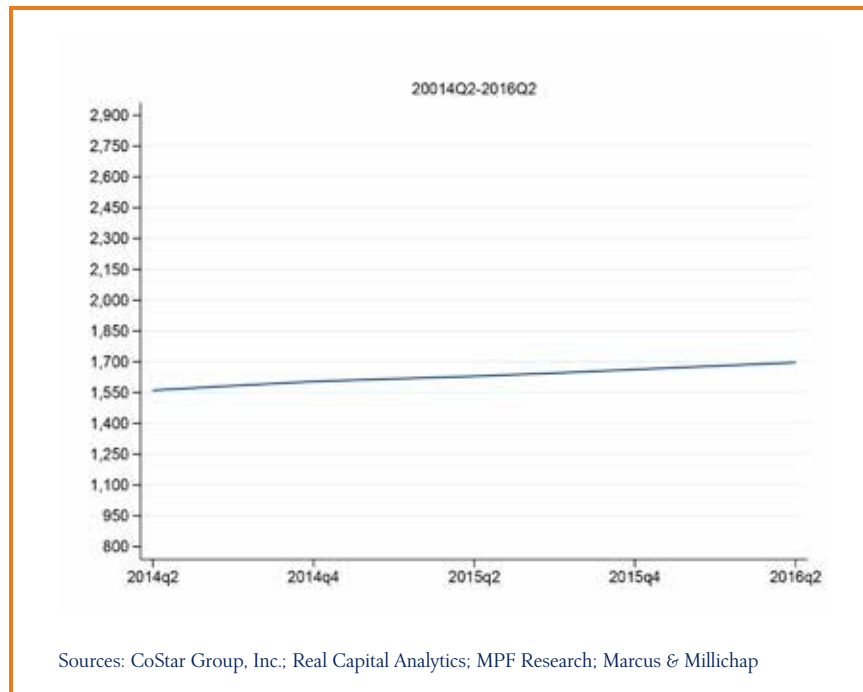
Forecast Percent Vacant for: North Irvine



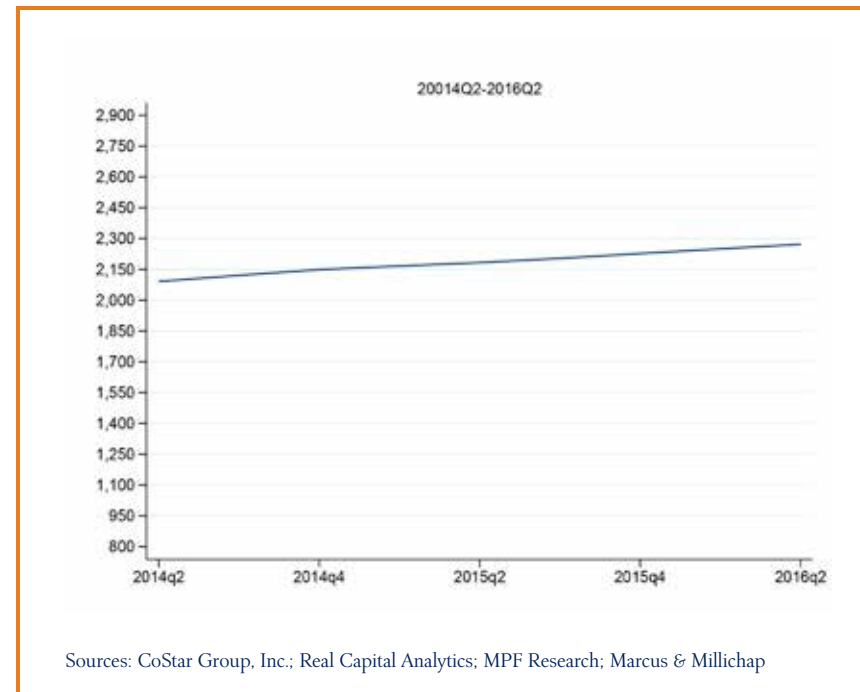
Forecast Percent Vacant for: North Orange County



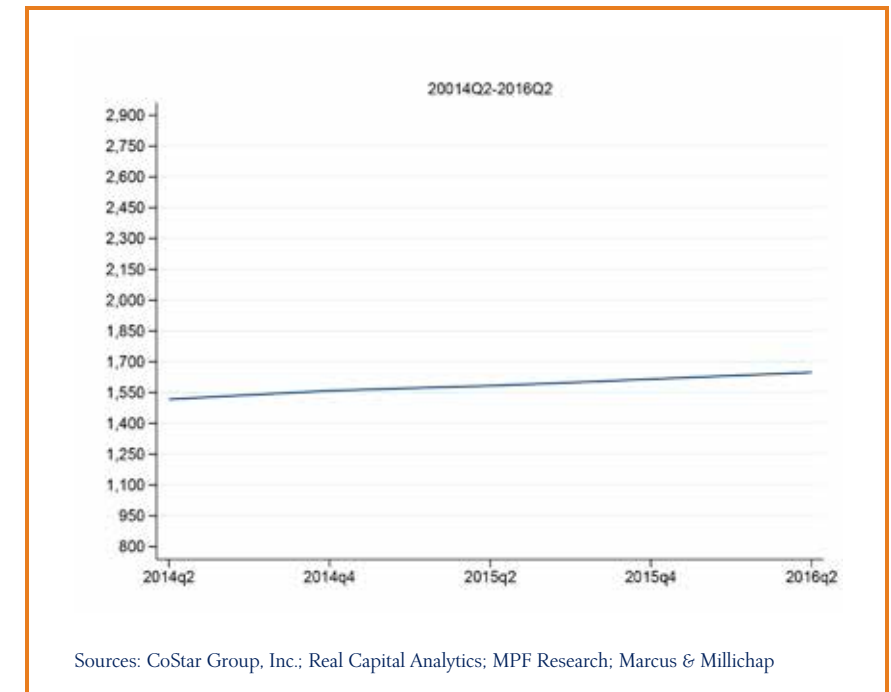
Forecast Effective Rent in \$ for: Santa Ana



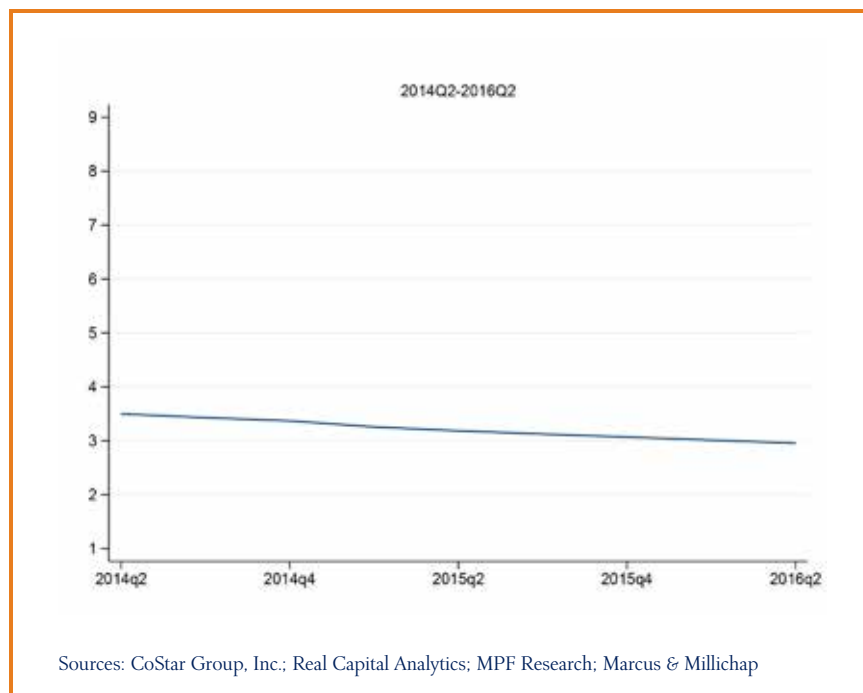
Forecast Effective Rent in \$ for: South Irvine



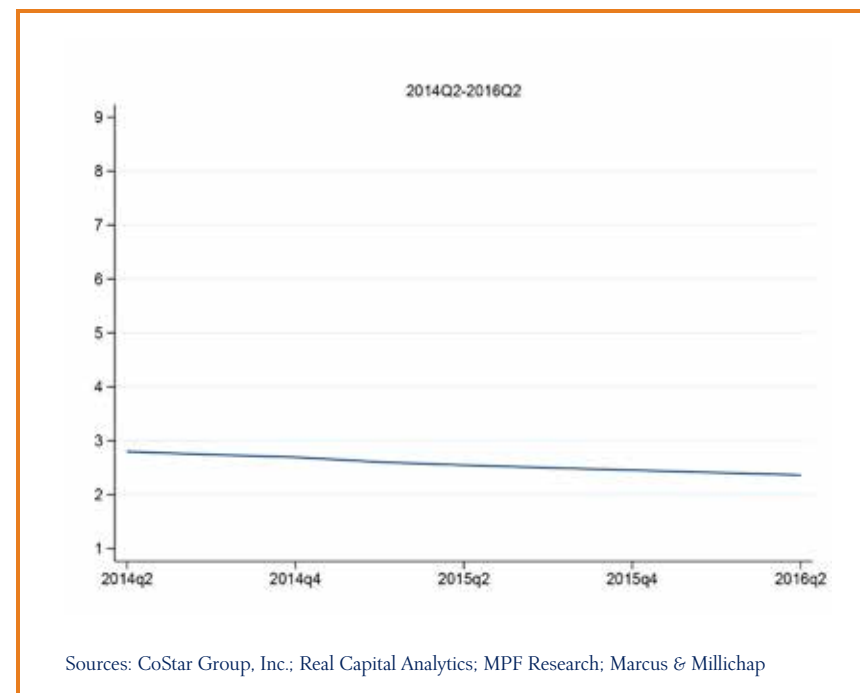
Forecast Effective Rent in \$ for: Tustin/West Santa Ana



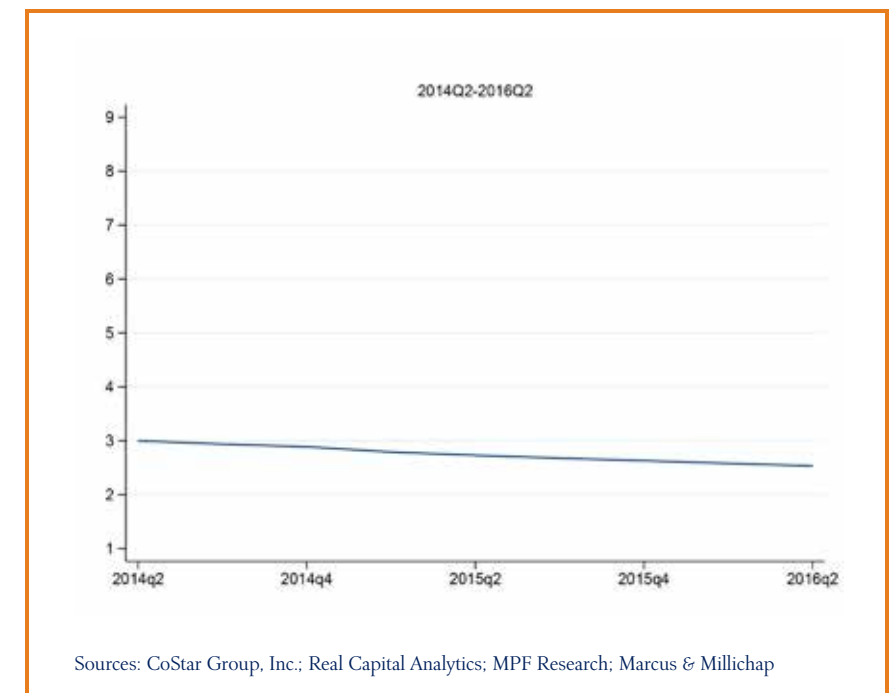
Forecast Percent Vacant for: Santa Ana



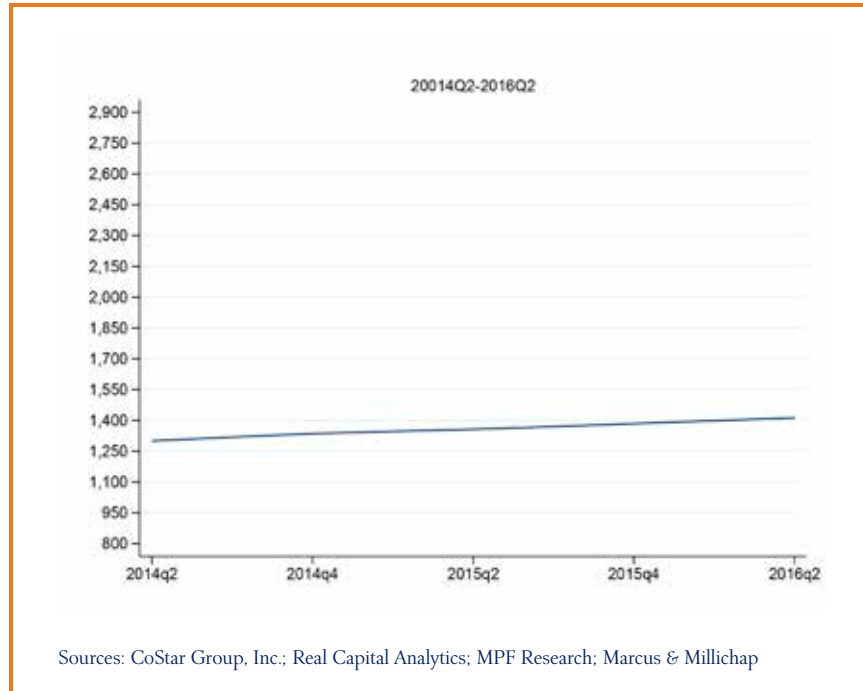
Forecast Percent Vacant for: South Irvine



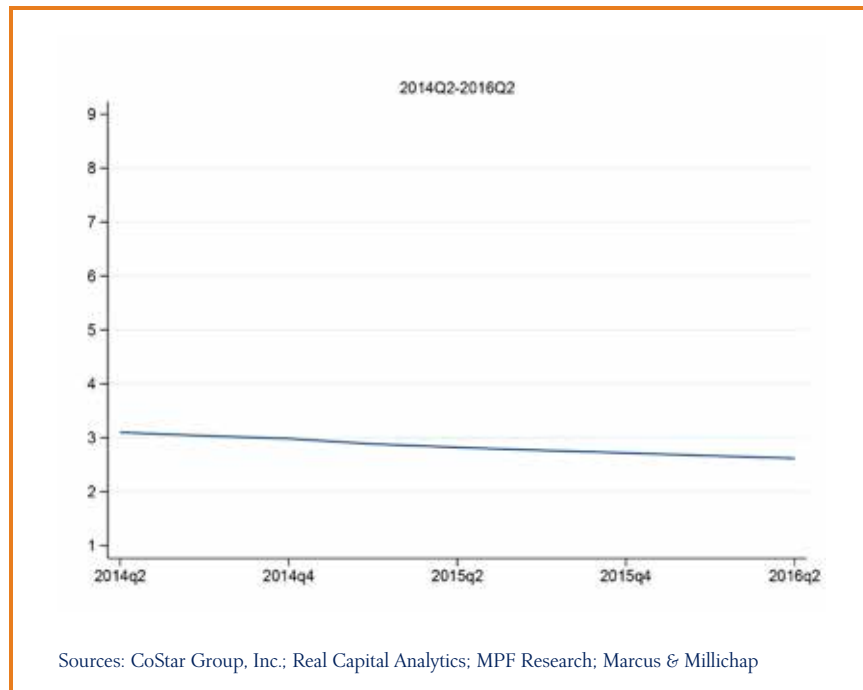
Forecast Percent Vacant for: Tustin/West Santa Ana



Forecast Effective Rent in \$ for: West Anaheim



Forecast Percent Vacant for: West Anaheim

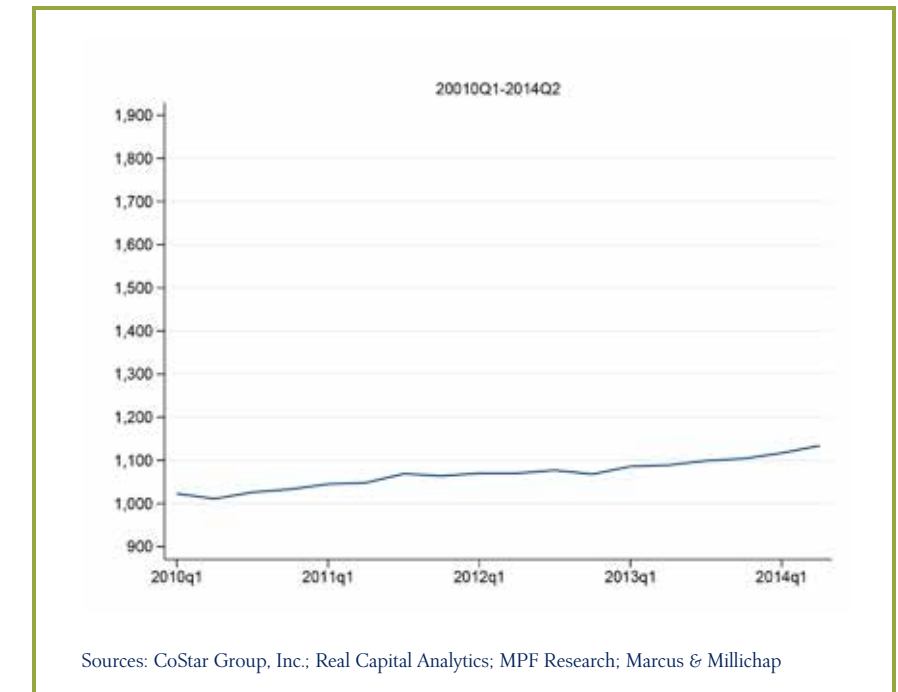




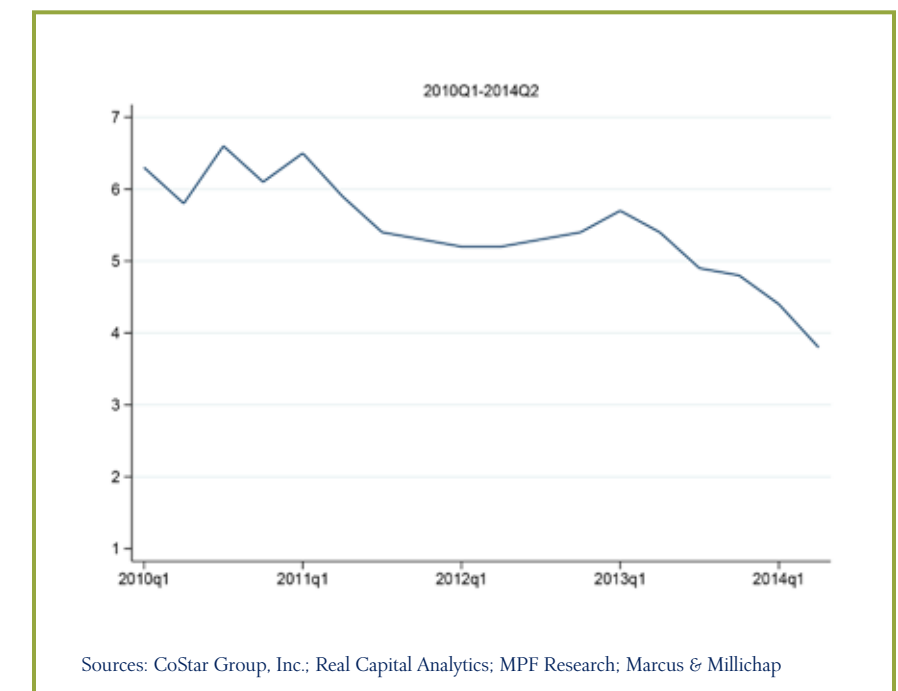
The Inland Empire

Between 2013Q2 and 2014Q2, the average rent in the Inland Empire increased by 4.1 percent to \$1,134, the highest rent growth of the four counties analyzed in this report. The highest average rent in the County was in the Rancho Cucamonga/Upland submarket, with an average rent of \$1,384 (Table 1). The lowest rent in the County was in Victorville/Outer San Bernardino, with an average rent of \$797 (Table 2). This was also the lowest rent of any submarket in Southern California. Over the past year, the average rent increased in 11 of the 12 submarkets in the Inland Empire. The highest growth in rent between 2013Q2 and 2014Q2 was in Corona, with an 8.2 percent increase (Table 3). The only submarket in the Inland Empire where the average rent decreased was in Victorville/Outer San Bernardino, where it decreased by 0.1 percent.

EFFECTIVE RENT IN \$ FOR: INLAND EMPIRE



PERCENT VACANT FOR: INLAND EMPIRE

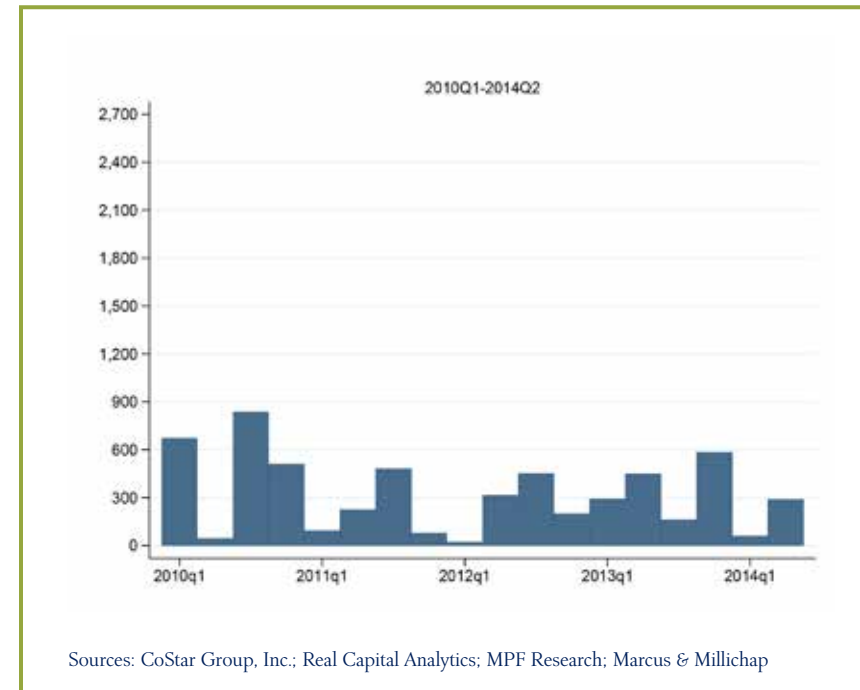


Between 2013Q2 and 2014Q2, almost 1,100 new units of multifamily housing were completed in the Inland Empire. This was a 21 percent decrease from the number of units completed during the previous year. During this time, the average vacancy rate in the Inland Empire decreased to 3.8 percent. This represents an almost 30 percent decrease from the vacancy rate at the same time in the previous year, the largest decrease over the past year of the counties analyzed in this report. The highest vacancy rate in the County was in Victorville/Outer San Bernardino at 8 percent (Table 5). This submarket also had the highest vacancy rate of any submarket in a county that was analyzed in this report. The lowest vacancy rate in the County was in the Rancho Cucamonga/Upland submarket with a 3.3 percent vacancy rate (Table 6).

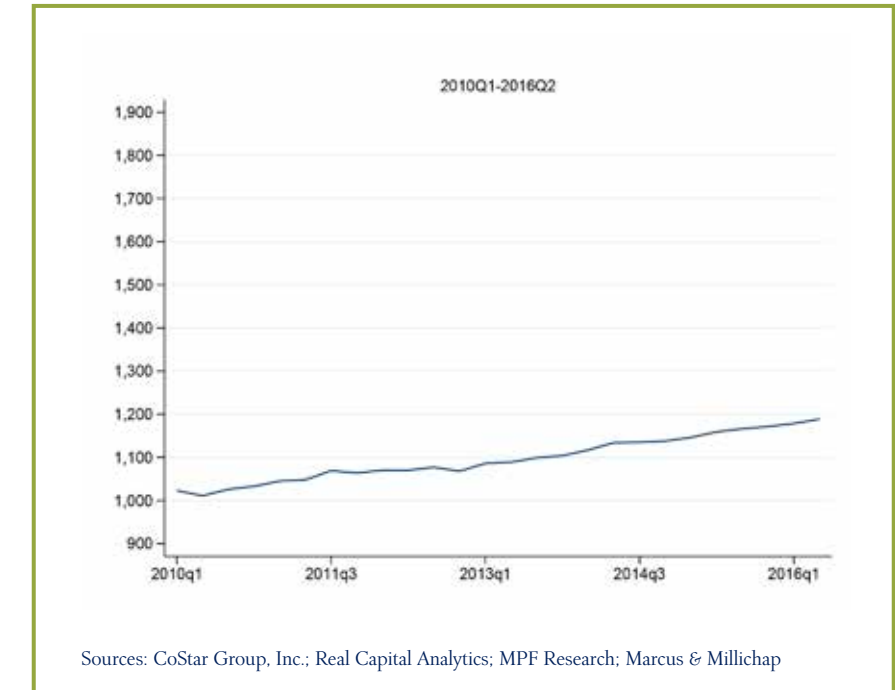
Over the past year, the vacancy rate decreased in 10 of the 12 submarkets in the Inland Empire, The San Bernardino and Redlands submarkets are the only two in the Inland Empire where vacancy rates increased (Table 7). The decrease in the County was in Universal City/Moreno Valley, where the vacancy rate decreased by 340 basis points over the last year (Table 8). This submarket had the largest basis point decrease in vacancy rate of any submarket in Southern California.

We project that over the next two years the average rent in the Inland Empire will increase every quarter, for a total growth of 9.9 percent between 2014Q2 and 2016Q2. This means that the Inland Empire has the largest projected rent growth of the counties analyzed in this report. We project that the countywide vacancy rate will likely increase slightly between 2014Q2 and 2015Q1, then decrease through 2015Q3 and increase slightly again through 2016Q2.

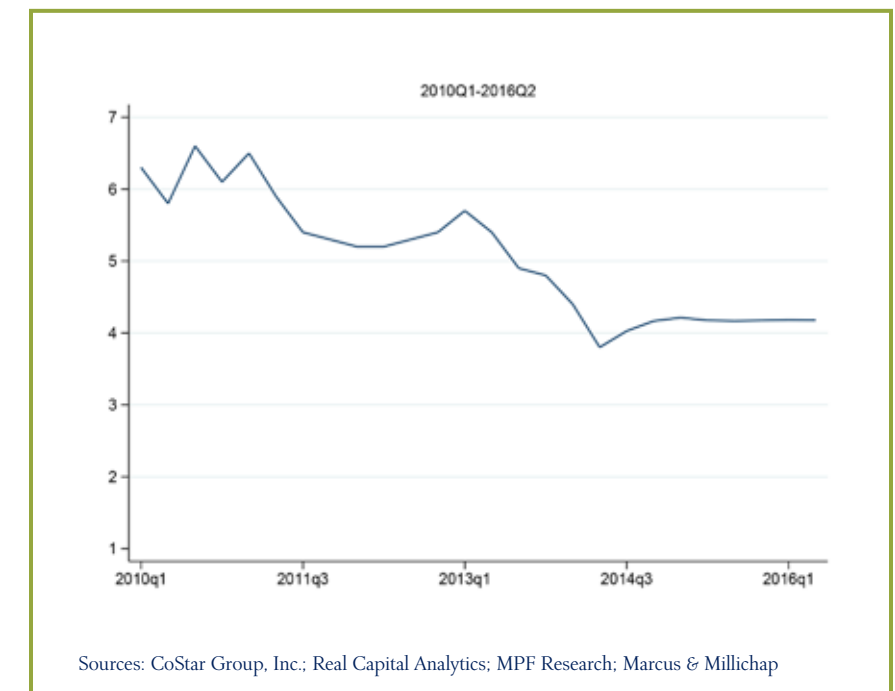
UNITS COMPLETED IN: INLAND EMPIRE



FORECAST AVERAGE RENT IN \$ FOR: INLAND EMPIRE



FORECAST % VACANT IN: INLAND EMPIRE





Highest Average Effective Rent in the Inland Empire 2014Q2 • Table 1

Rank	Submarket	Rent
1	Rancho Cucamonga/Upland	\$1,384
2	Ontario/Chino	\$1,310
3	Corona	\$1,280
4	Temecula/Murrieta	\$1,217
5	University City/Moreno Valley	\$1,124

Lowest Average Effective Rent in the Inland Empire 2014Q2 • Table 2

Rank	Submarket	Rent
1	Victorville/Outer San Bernardino	\$797
2	San Bernardino	\$856
3	Coachella Valley	\$909
4	Fontana/Rialto/Colton	\$932
5	Hemet/Perris/Lake Elsinore	\$958

Highest Percent Change in Rent from Previous Year in the Inland Empire 2014Q2 • Table 3

Rank	Submarket	Percent Change
1	Corona	8.20%
2	Fontana/Rialto/Colton	4.60%
3	Rancho Cucamonga/Upland	3.80%
4	Ontario/Chino	3.20%
5	Riverside	2.80%

Lowest Percent Change in Rent from Previous Year in the Inland Empire 2014Q2 • Table 4

Rank	Submarket	Percent Change
1	Victorville/Outer San Bernardino	-0.10%
2	Coachella Valley	0.40%
3	University City/Moreno Valley	0.70%
4	Hemet/Perris/Lake Elsinore	1.20%
5	Redlands	1.60%

Highest Vacancy Rate in the Inland Empire 2014Q2 • Table 5

Rank	Submarket	Vacancy Rate
1	Victorville/Outer San Bernardino	8.00%
2	San Bernardino	6.70%
3	University City/Moreno Valley	4.90%
3	Hemet/Perris/Lake Elsinore	4.90%
5	Fontana/Rialto/Colton	4.80%

Lowest Vacancy Rate in the Inland Empire 2014Q2 • Table 6

Rank	Submarket	Vacancy Rate
1	Rancho Cucamonga/Upland	3.30%
2	Corona	3.40%
3	Coachella Valley	3.60%
3	Redlands	3.60%
3	Ontario/Chino	3.60%

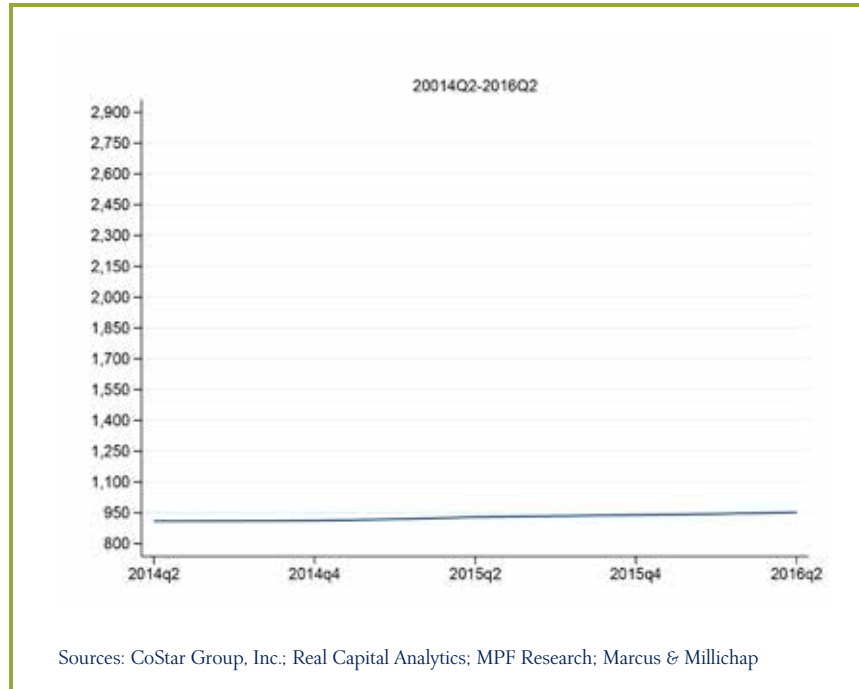
Smallest Basis Point Decrease in Vacancy Rate from Previous Year in the Inland Empire 2014Q • Table 7

Rank	Submarket	Basis Point Change
1	San Bernardino	100
2	Redlands	10
3	Coachella Valley	-40
4	Victorville/Outer San Bernardino	-90
5	Riverside	-11

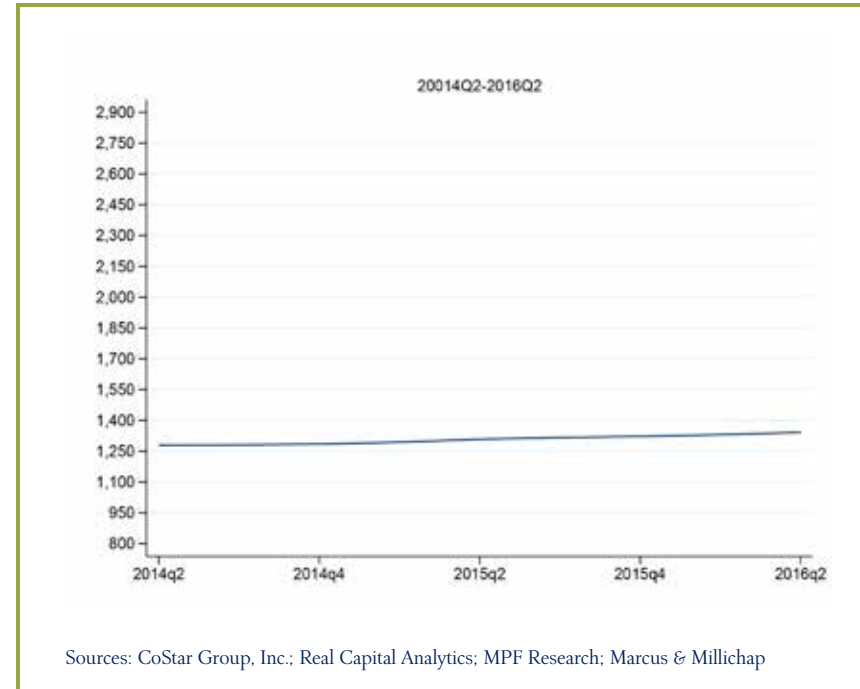
Largest Basis Point Decrease in Vacancy Rate from Previous Year in the Inland Empire 2014Q • Table 8

Rank	Submarket	Basis Point Change
1	University City/Moreno Valley	-340
2	Hemet/Perris/Lake Elsinore	-180
3	Rancho Cucamonga/Upland	-170
3	Corona	-170
5	Temecula/Murrieta	-140

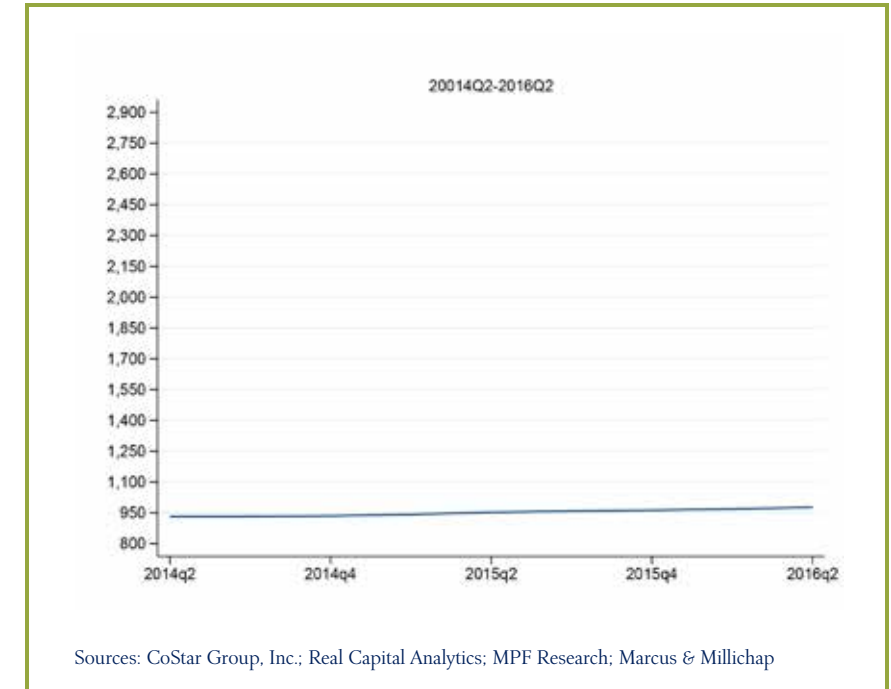
FORECAST EFFECTIVE RENT IN \$ FOR: COACHELLA VALLEY



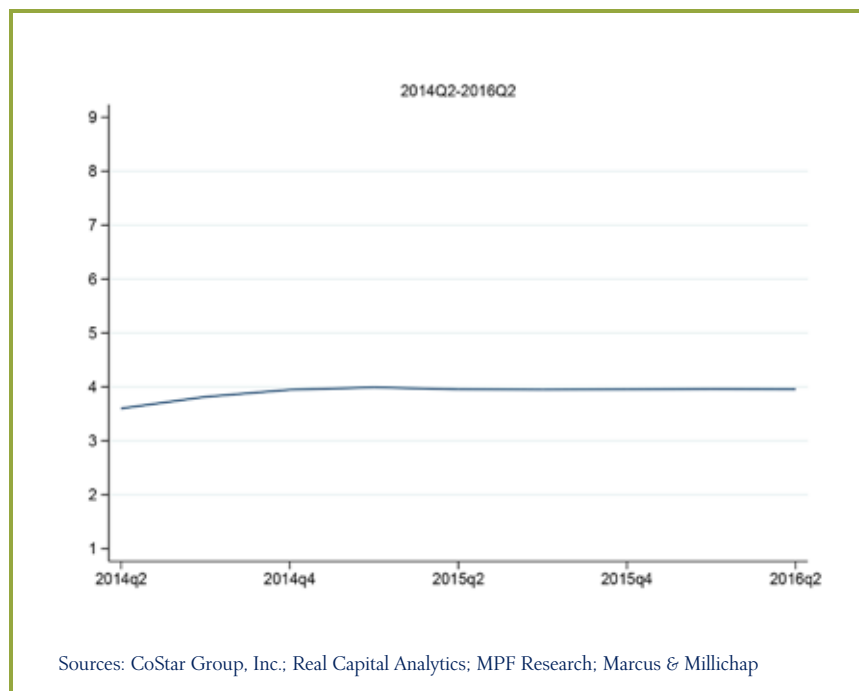
FORECAST EFFECTIVE RENT IN \$ FOR: CORONA



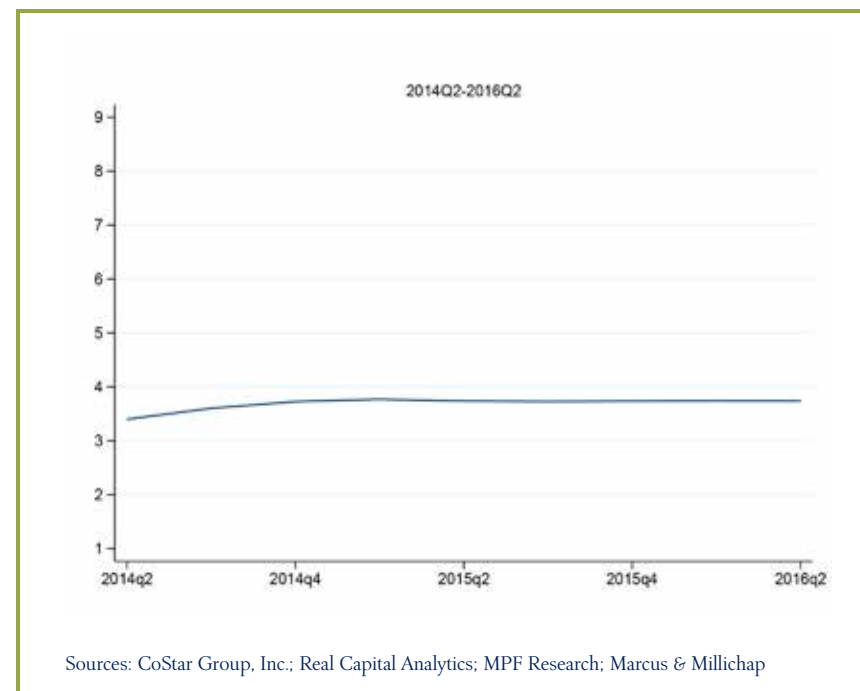
FORECAST EFFECTIVE RENT IN \$ FOR: FONTANA/RIALTO/COLTON



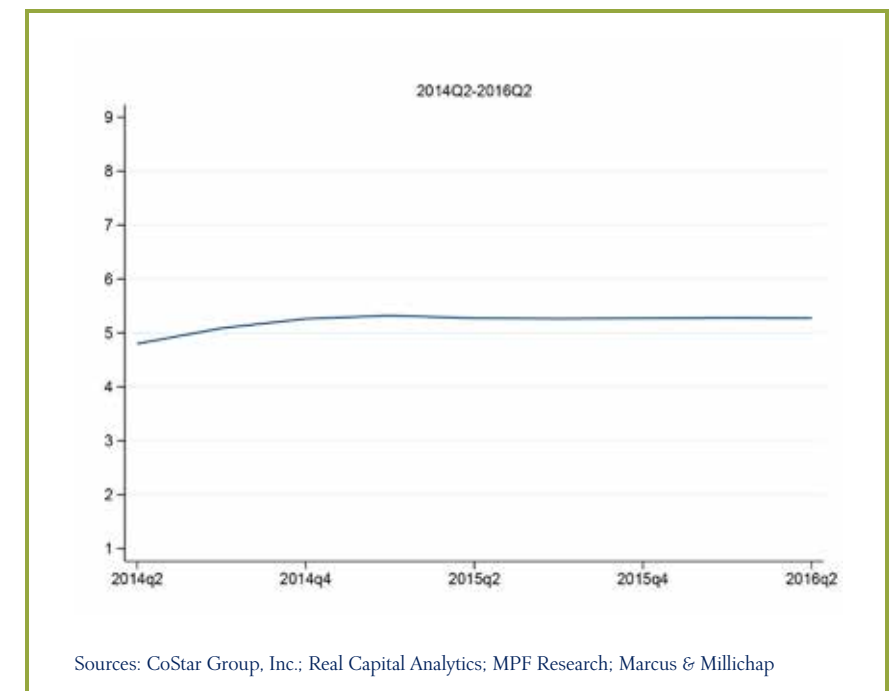
FORECAST PERCENT VACANT FOR: COACHELLA VALLEY



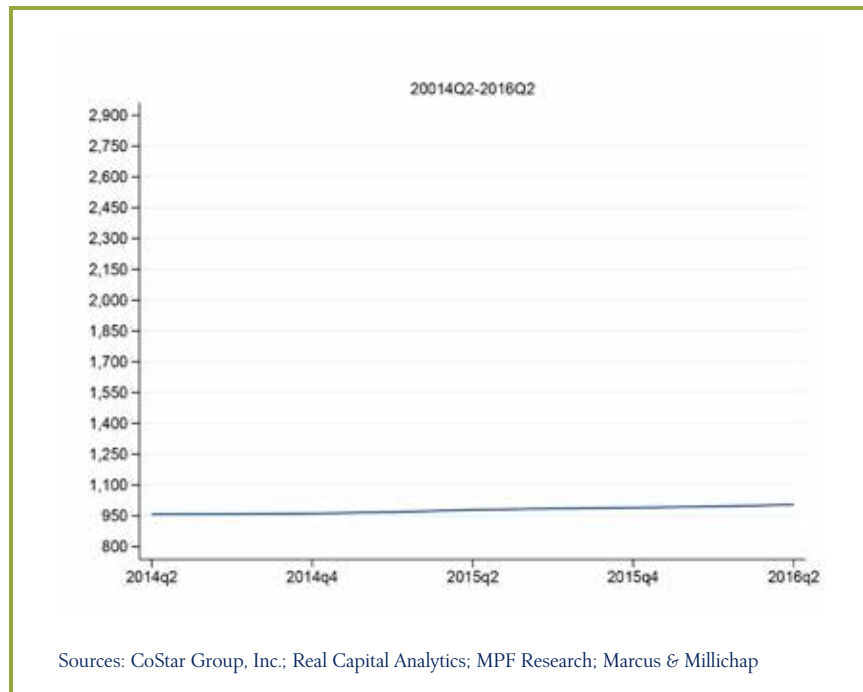
FORECAST PERCENT VACANT FOR: CORONA



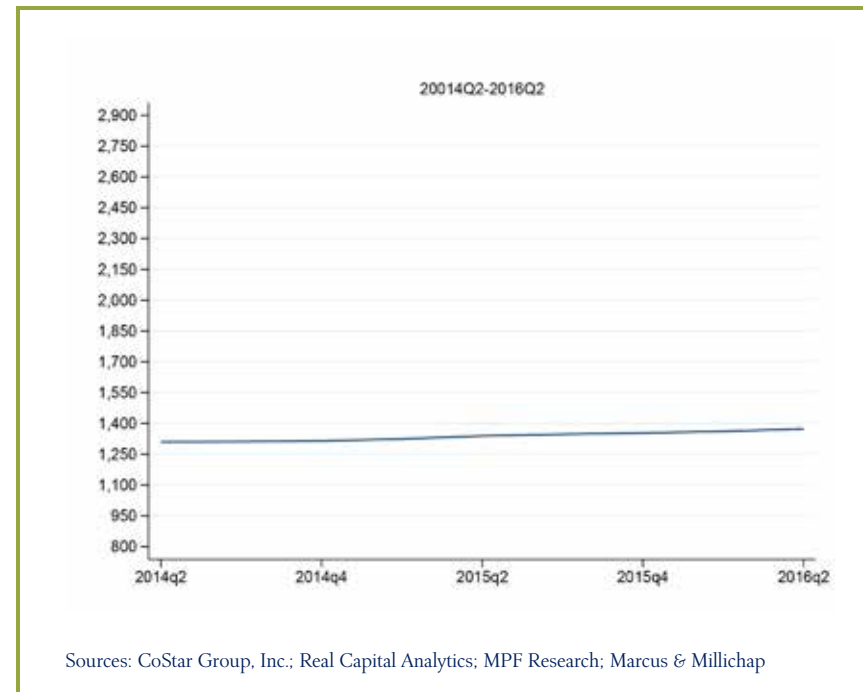
FORECAST PERCENT VACANT FOR: FONTANA/RIALTO/COLTON



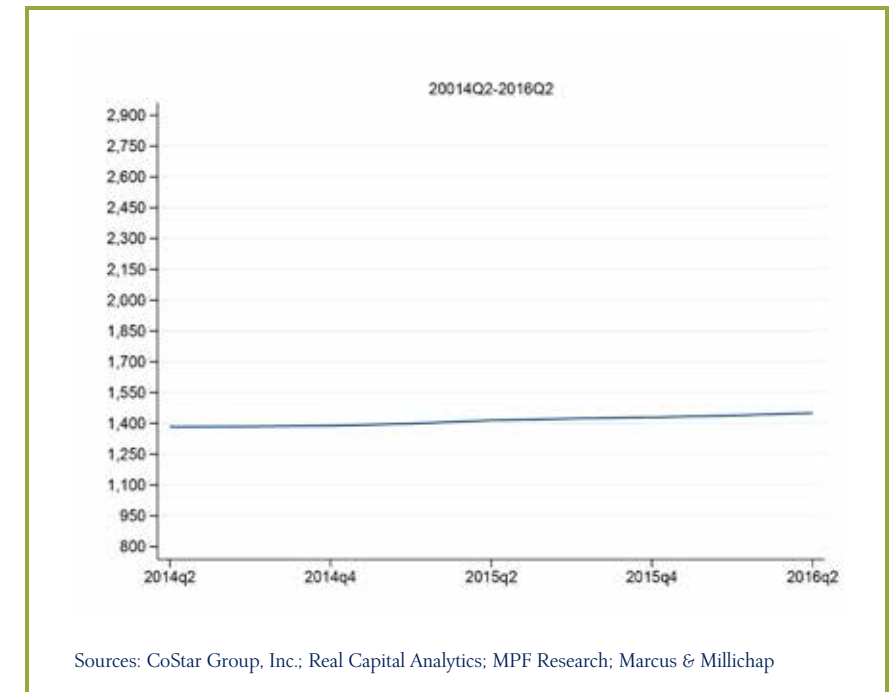
FORECAST EFFECTIVE RENT IN \$ FOR: HEMET/PERRIS/LAKE ELSINORE



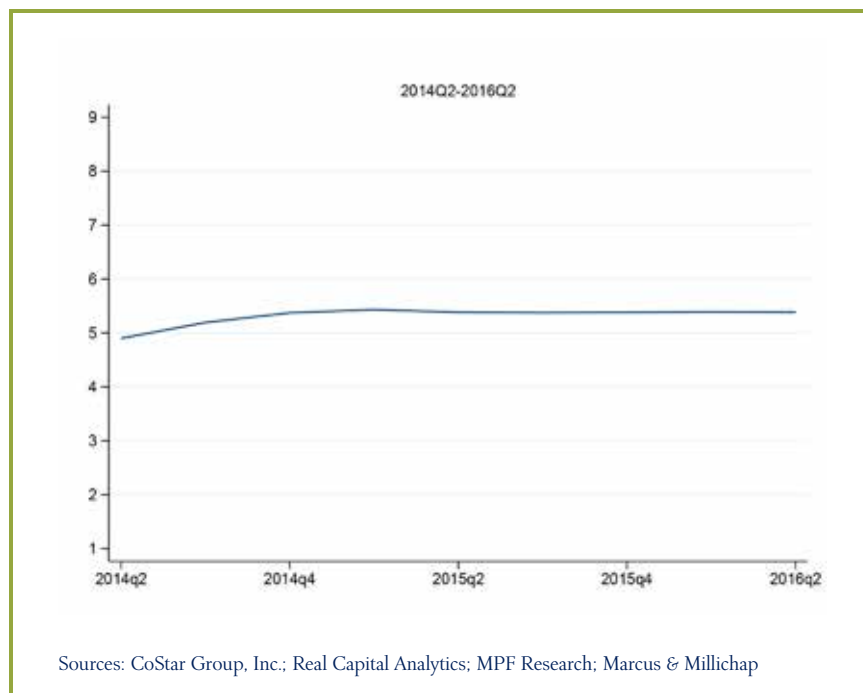
FORECAST EFFECTIVE RENT IN \$ FOR: ONTARIO/CHINO



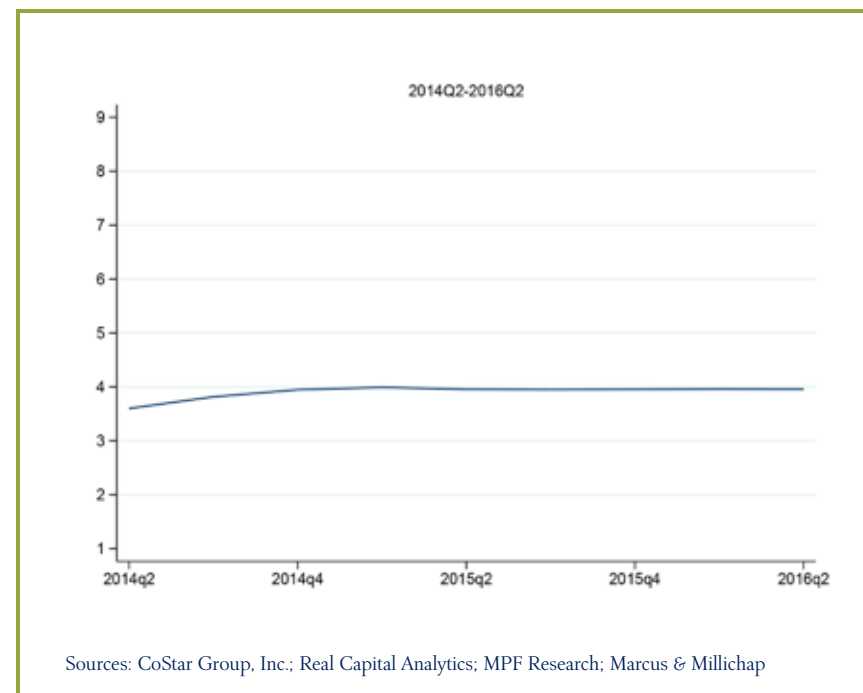
FORECAST EFFECTIVE RENT IN \$ FOR: RANCHO CUCAMONGA/UPLAND



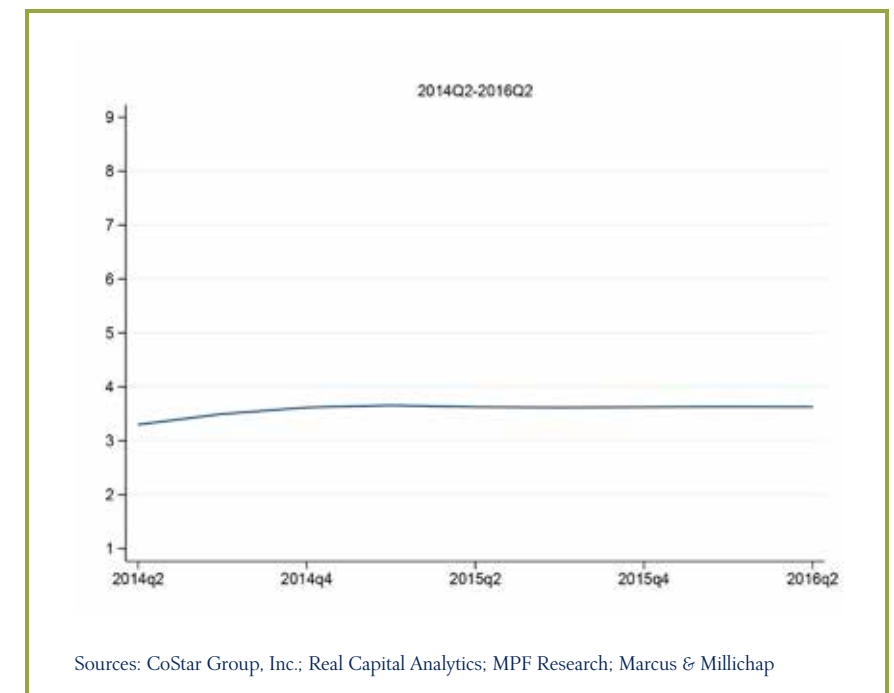
FORECAST PERCENT VACANT FOR: HEMET/PERRIS/LAKE ELSINORE



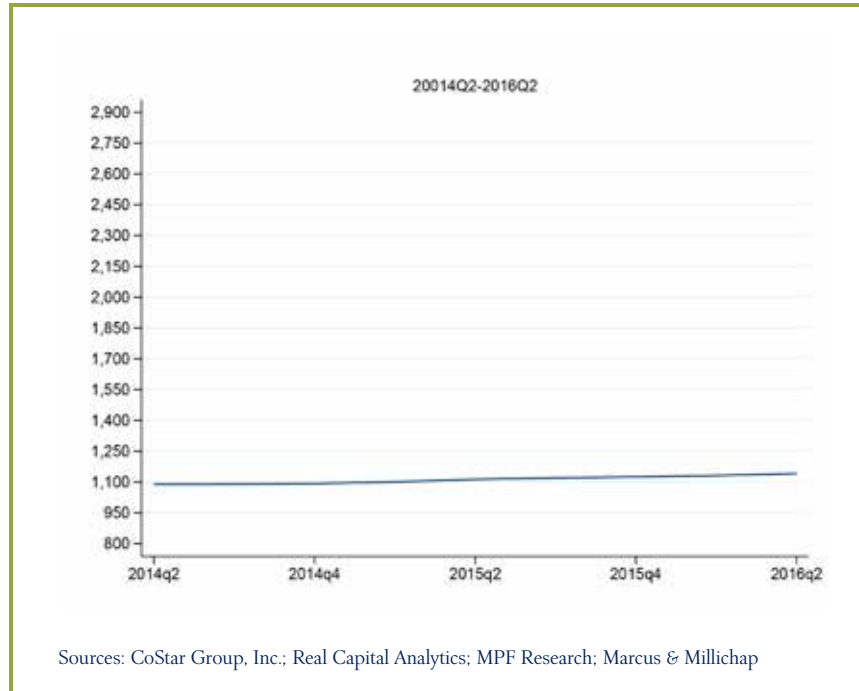
FORECAST PERCENT VACANT FOR: ONTARIO/CHINO



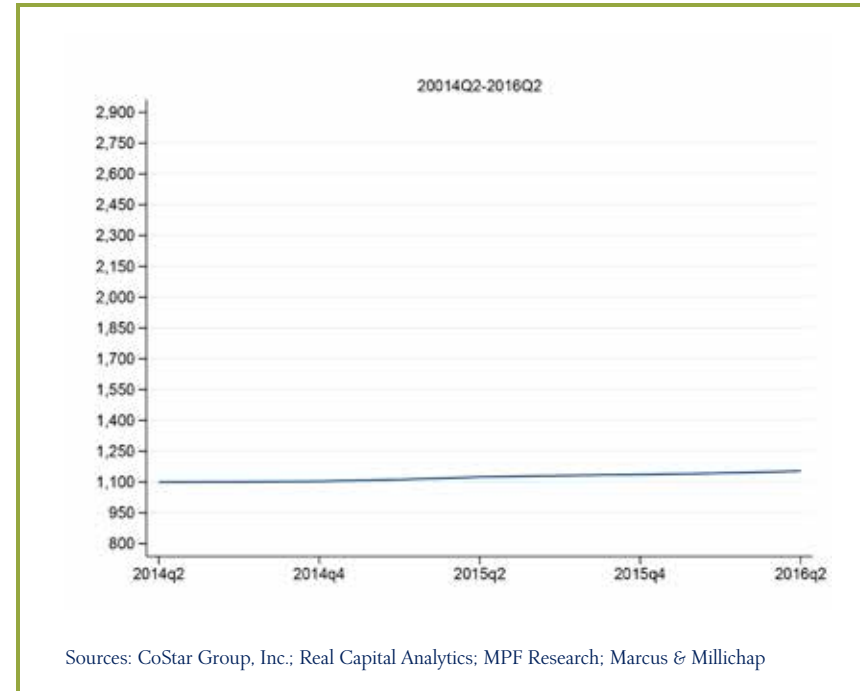
FORECAST PERCENT VACANT FOR: RANCHO CUCAMONGA/UPLAND



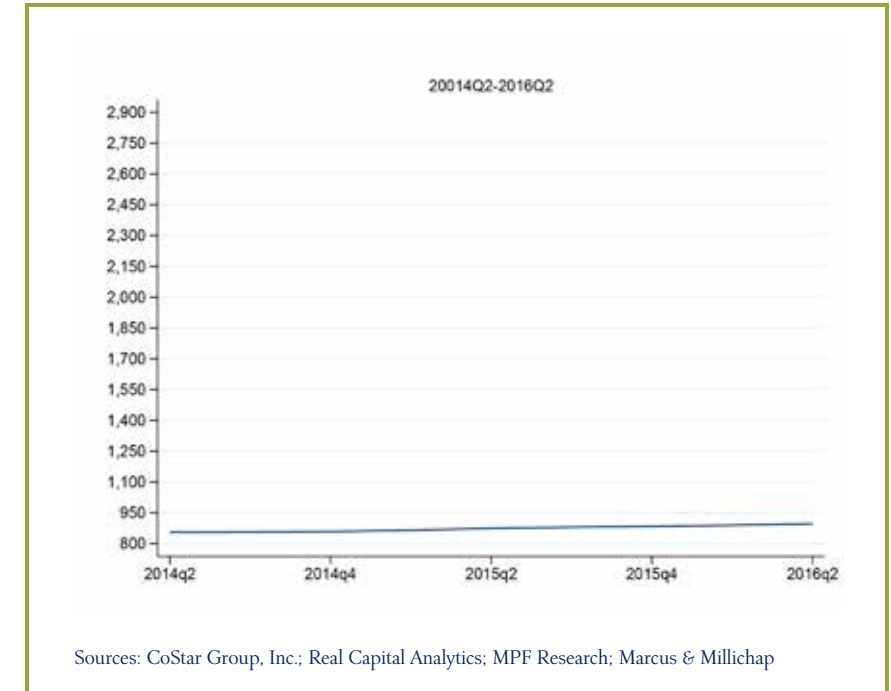
FORECAST EFFECTIVE RENT IN \$ FOR: REDLANDS



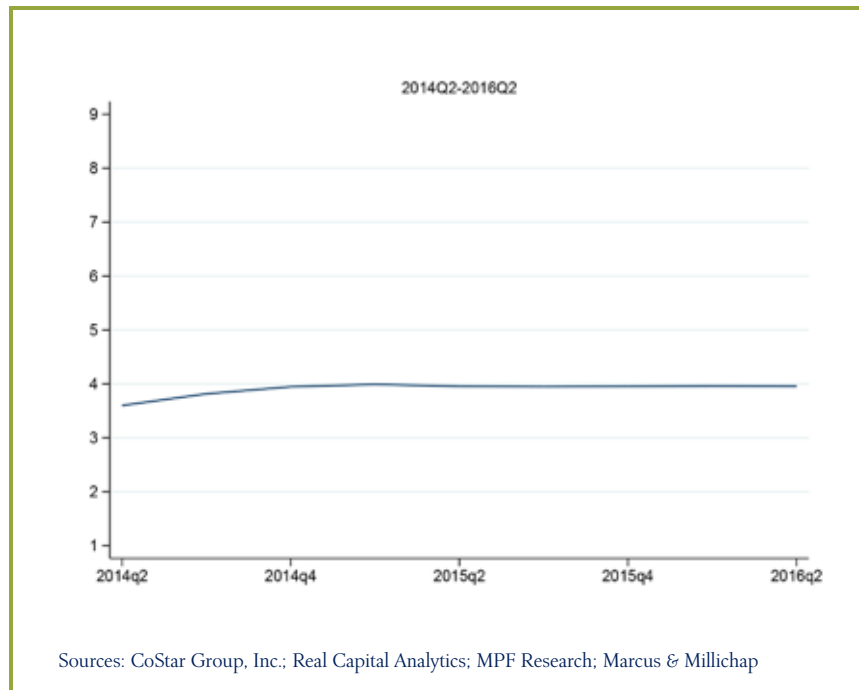
FORECAST EFFECTIVE RENT IN \$ FOR: RIVERSIDE



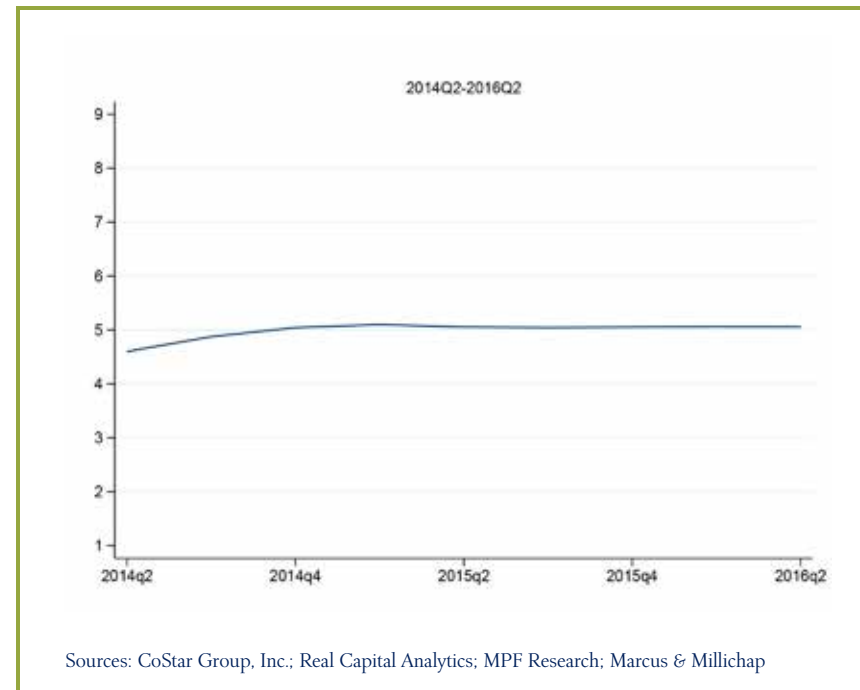
FORECAST EFFECTIVE RENT IN \$ FOR: SAN BERNARDINO



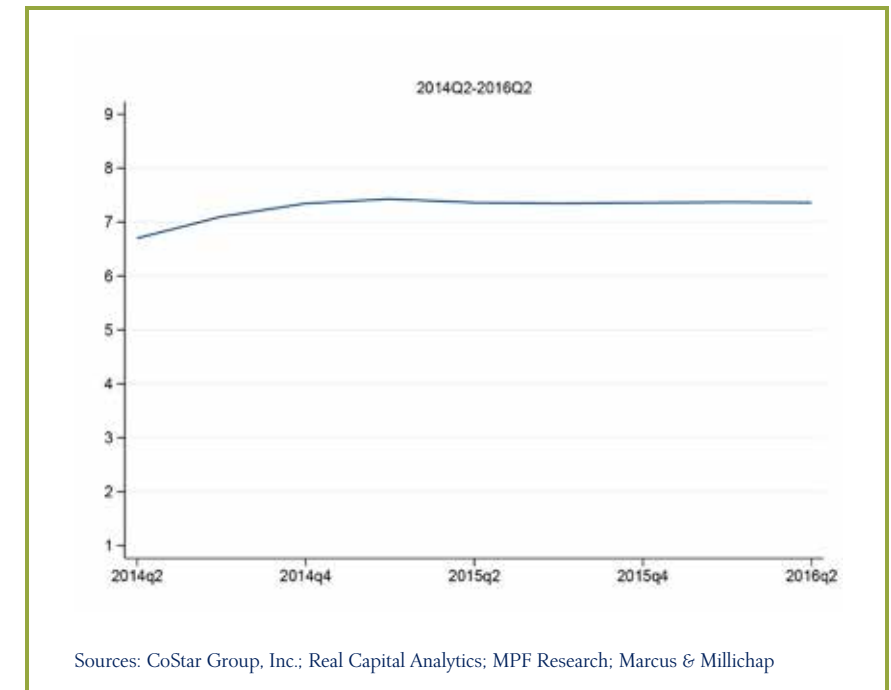
FORECAST PERCENT VACANT FOR: REDLANDS



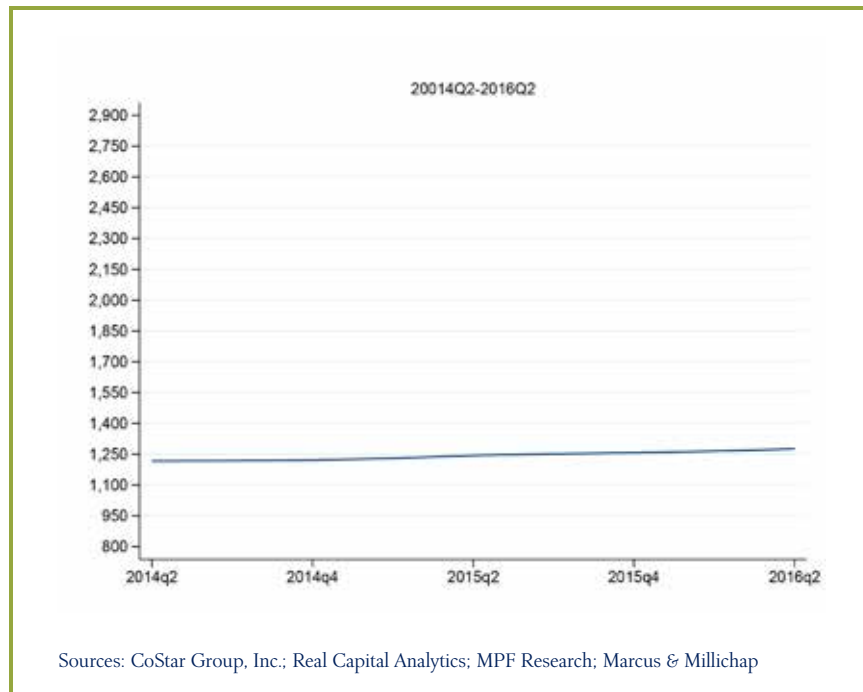
FORECAST PERCENT VACANT FOR: RIVERSIDE



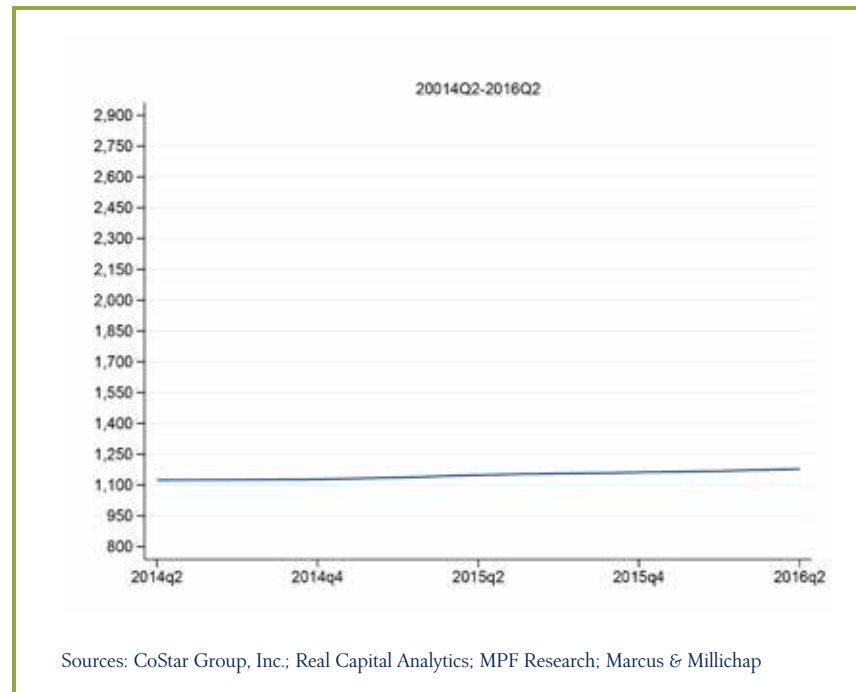
FORECAST PERCENT VACANT FOR: SAN BERNARDINO



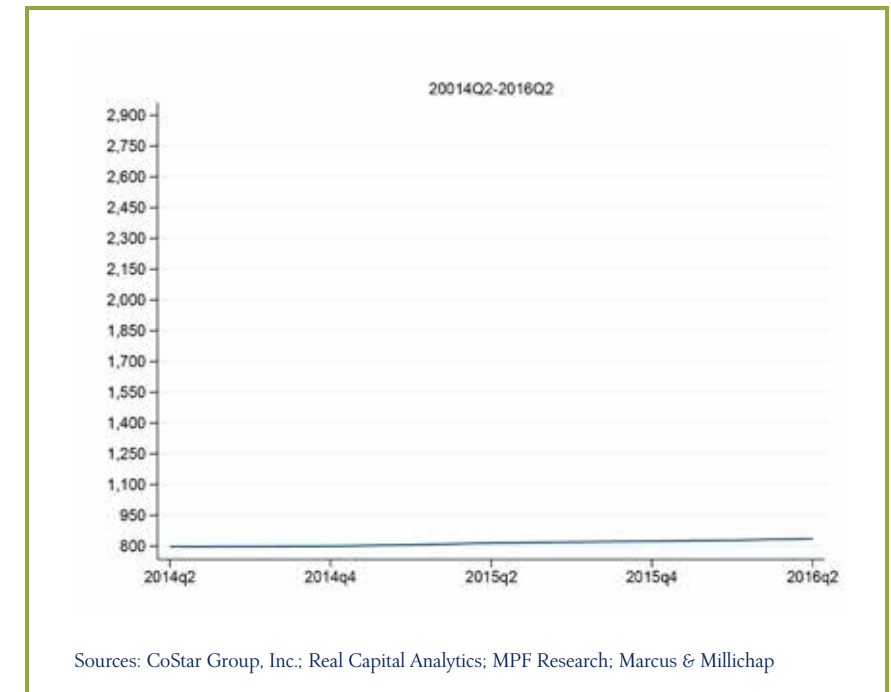
FORECAST EFFECTIVE RENT IN \$ FOR: TEMECULA/MURRIETA



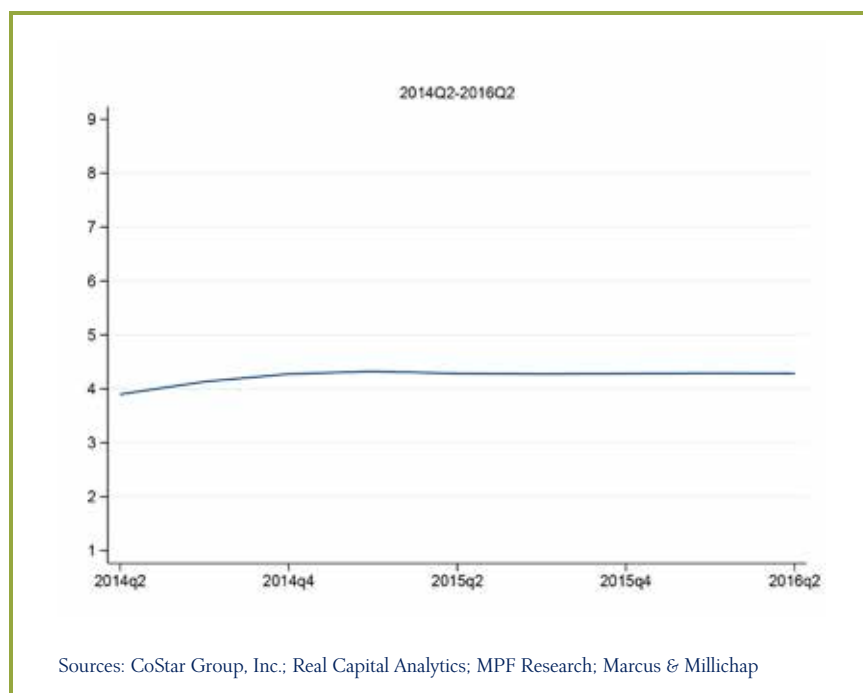
FORECAST EFFECTIVE RENT IN \$ FOR: UNIVERSITY CITY/MORENO VALLEY



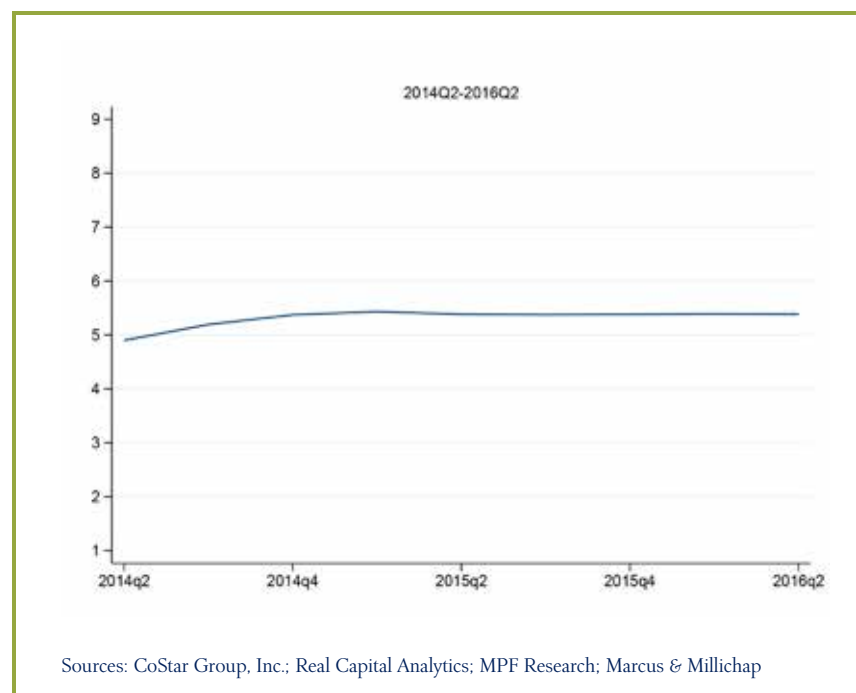
FORECAST EFFECTIVE RENT IN \$ FOR: VICTORVILLE/OUTER SAN BERNARDINO



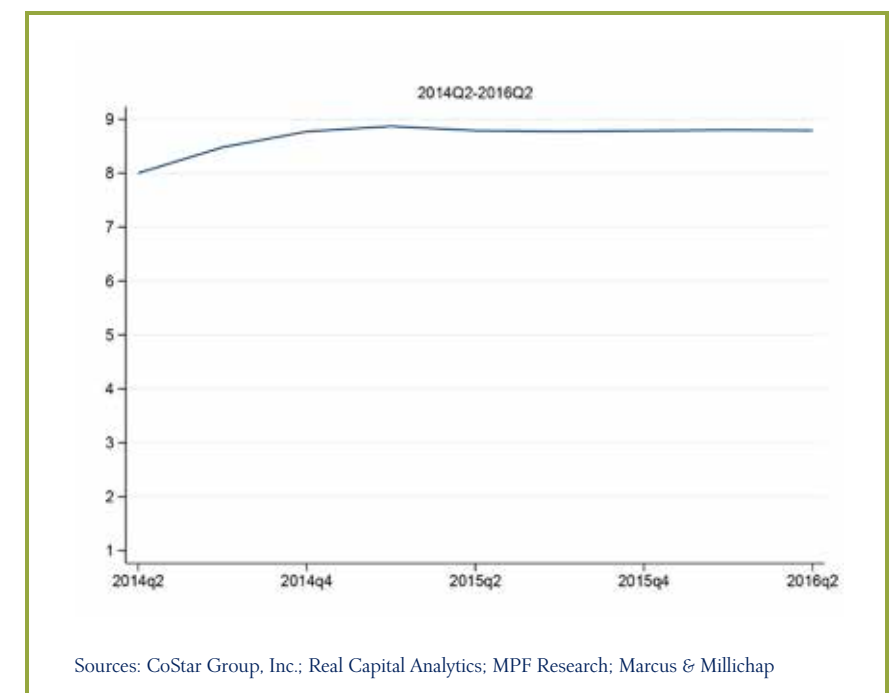
FORECAST PERCENT VACANT FOR: TEMECULA/MURRIETA



FORECAST PERCENT VACANT FOR: UNIVERSITY CITY/MORENO VALLEY



FORECAST PERCENT VACANT FOR: VICTORVILLE/OUTER SAN BERNARDINO

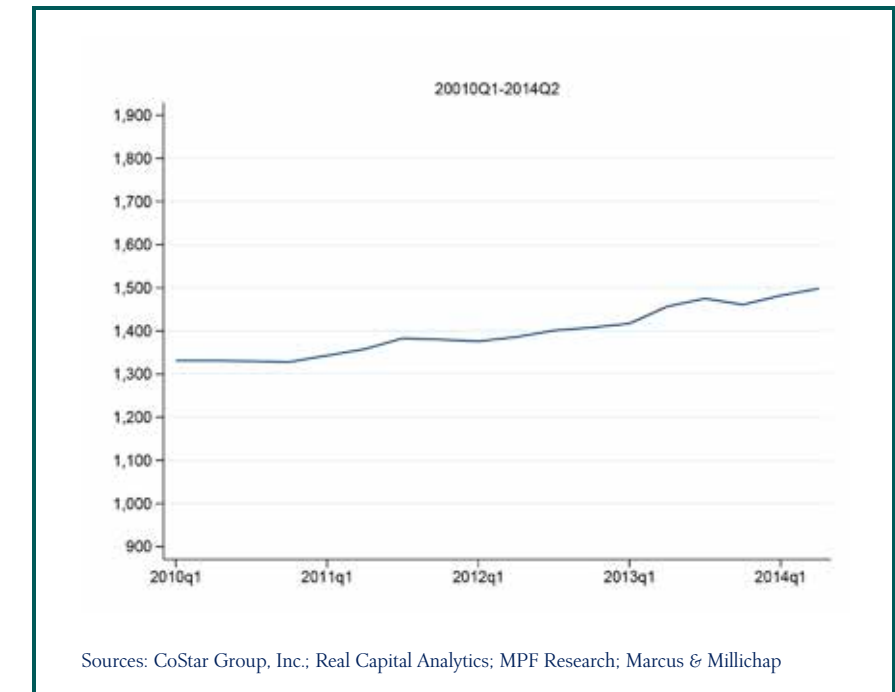




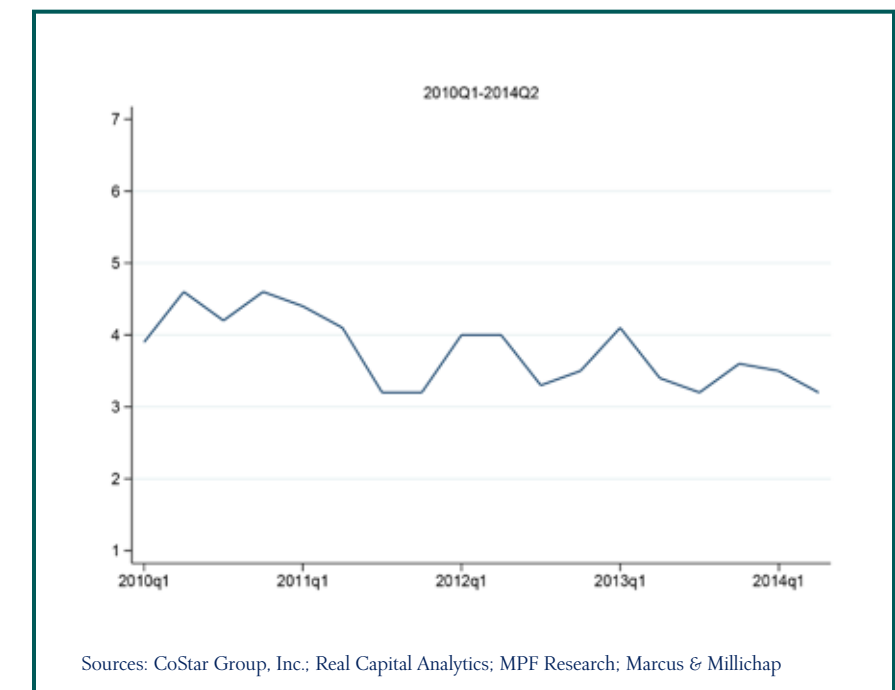
San Diego County

Between 2013Q2 and 2014Q2 the average rent in San Diego County increased by 2.8 percent to \$1,498. San Diego County thus had the lowest level of rent growth of the four areas analyzed in this report. But like the other three regions covered in this report, San Diego County has now had rent growth for four consecutive years. The highest average rents in the County were in the Carlsbad/ Encinitas/Del Mar and the La Jolla/University City submarkets with an average rent of \$1,843 in both areas (Table 1). The lowest rent in the County was in Escondido, with an average rent of \$1,119 (Table 2). Over the past year, the average rent increased in all 10 submarkets in San Diego County. The highest growth in rent between 2013Q2 and 2014Q2 was in Mid City/National City, with a 6.6 percent increase, and the lowest was in Northwest San Diego, with a 2.9 percent increase (Tables 3 and 4).

EFFECTIVE RENT IN \$ FOR: SAN DIEGO COUNTY



PERCENT VACANT FOR: SAN DIEGO COUNTY

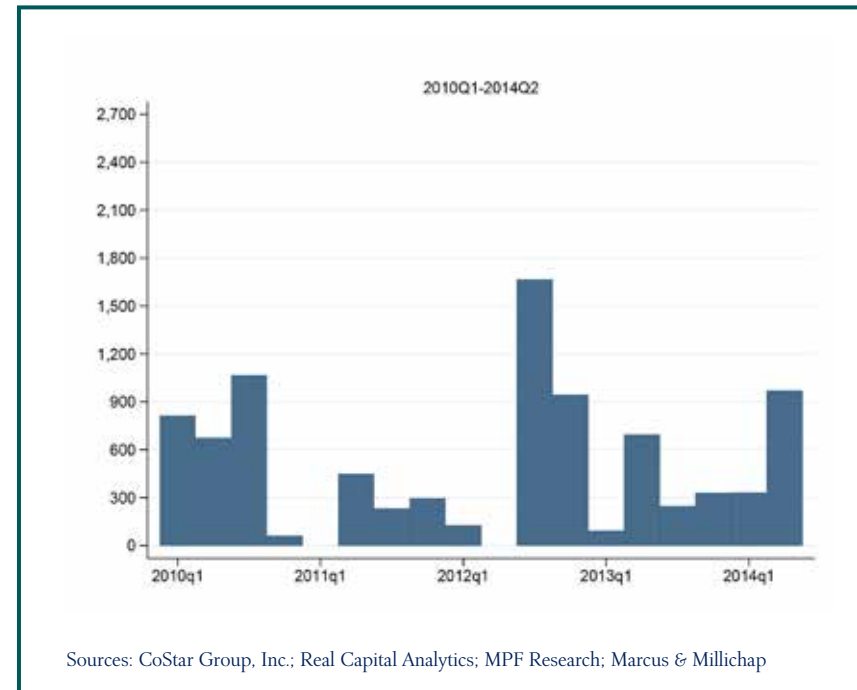


Between 2013Q2 and 2014Q2, almost 1,900 new units of multifamily housing were completed in San Diego County. This was a 45 percent decrease from the number of units completed during the previous year. Despite adding units to the market, the vacancy rate in San Diego County decreased to 3.2 percent as of 2014Q2. This represents only a 2.8 percent decrease in vacancy rate from the previous year, the lowest decrease over the past year in Southern California. This small decrease likely reflects the fact that San Diego's vacancy rate was already so low. A more telling statistic is that the average vacancy rate in the County decreased by 30 percent between 2010Q2 and 2014Q2. The highest vacancy rates in the County were in Far North San Diego and La Jolla/University City, where it was 4 percent (Table 5). The lowest vacancy rate in the County was in the Mid City/National City submarket with a 2.1 percent vacancy rate (Table 6). This submarket also had the lowest vacancy rate of any submarket in Southern California.

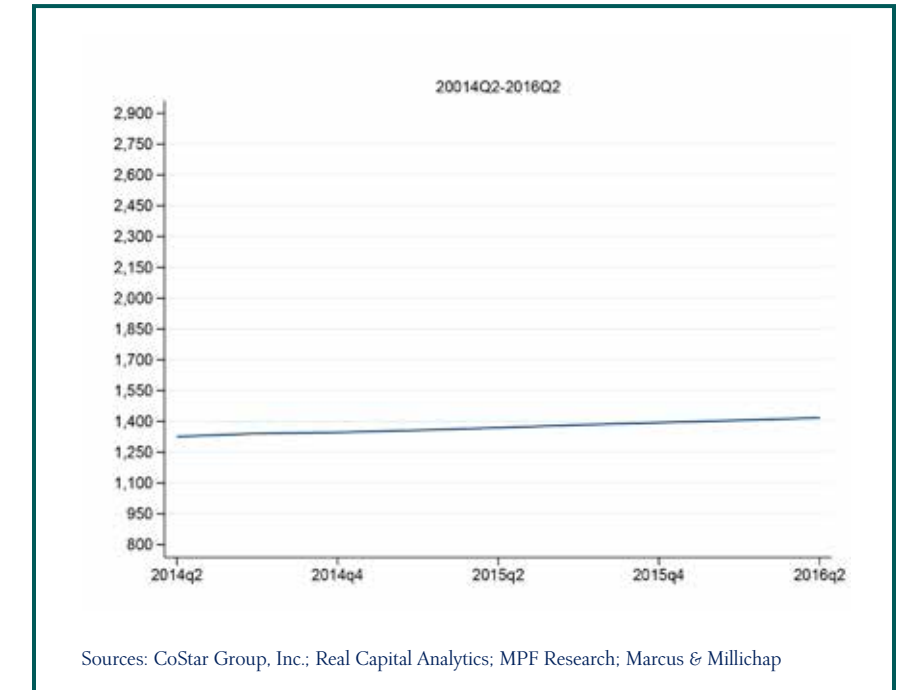
Over the past year, the vacancy rate decreased in 8 of the 10 submarkets in San Diego County. The Far North San Diego and the Carlsbad/Encinitas/Del Mar submarkets are the only two in San Diego County where vacancy rates increased (Table 7). The largest basis point decrease in vacancy rate in the County was in Chula Vista/Imperial beach where the vacancy rate decreased by 180 basis points over the last year (Table 8).

We project that over the next two years the average rent in San Diego County will increase every quarter, for a total growth of 6.9 percent between 2014Q2 and 2016Q2. The countywide vacancy rate will likely increase slightly between 2014Q2 and 2015Q1, and then decrease from there but remain 2.9 percent above the current vacancy rates.

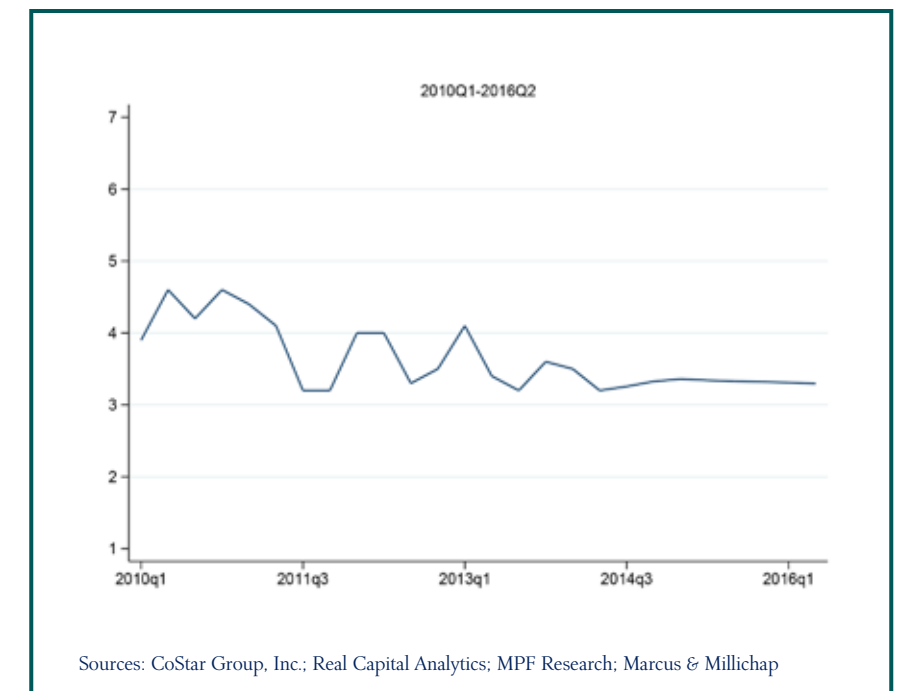
UNITS COMPLETED IN: SAN DIEGO COUNTY



FORECAST AVERAGE RENT IN \$ FOR: SAN DIEGO COUNTY



FORECAST % VACANT IN: SAN DIEGO COUNTY





Highest Average Effective Rent in San Diego County 2014Q2 • Table 1

Rank	Submarket	Rent
1	Carlsbad/Encinitas/Del Mar	\$1,843
1	La Jolla/University City	\$1,843
3	Far North San Diego	\$1,536
4	Northwest San Diego	\$1,456
5	Chula Vista/Imperial Beach	\$1,388

Lowest Average Effective Rent in San Diego County 2014Q2 • Table 2

Rank	Submarket	Rent
1	Escondido	\$1,119
2	Mid-City/National City	\$1,160
3	El Cajon/Santee/Lakeside	\$1,181
4	La Mesa/Spring Valley	\$1,313
5	Oceanside	\$1,326

Highest Percent Change in Rent from Previous Year in San Diego County 2014Q2 • Table 3

Rank	Submarket	Percent Change
1	Mid-City/National City	6.60%
2	El Cajon/Santee/Lakeside	5.70%
3	Chula Vista/Imperial Beach	4.80%
4	Far North San Diego	3.90%
5	La Mesa/Spring Valley	3.60%

Lowest Percent Change in Rent from Previous Year in San Diego County 2014Q2 • Table 4

Rank	Submarket	Percent Change
1	Northwest San Diego	2.90%
2	Oceanside	3.20%
3	Carlsbad/Encinitas/Del Mar	3.20%
4	Escondido	3.40%
4	La Jolla/University City	3.40%

Highest Vacancy Rate in San Diego County 2014Q2 • Table 5

Rank	Submarket	Vacancy Rate
1	Far North San Diego	4.00%
1	La Jolla/University City	4.00%
3	Carlsbad/Encinitas/Del Mar	3.90%
4	Oceanside	3.20%
5	Chula Vista/Imperial Beach	2.90%

Lowest Vacancy Rate in San Diego County 2014Q2 • Table 6

Rank	Submarket	Vacancy Rate
1	Mid-City/National City	2.10%
2	El Cajon/Santee/Lakeside	2.30%
2	Escondido	2.30%
4	Chula Vista/Imperial Beach	2.90%
4	La Mesa/Spring Valley	2.90%

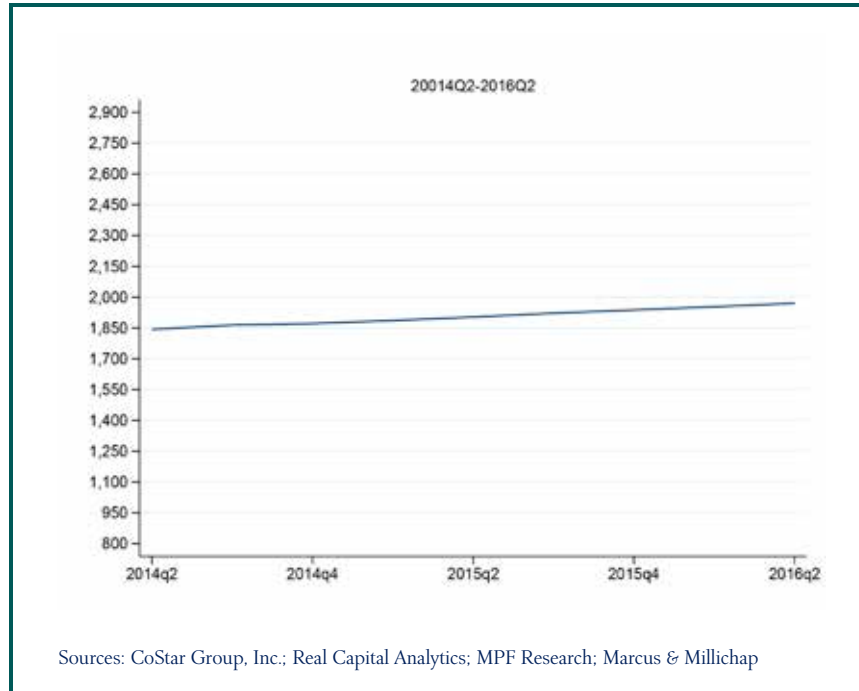
Smallest Basis Point Decrease in Vacancy Rate from Previous Year in San Diego County 2014Q2 • Table 7

Rank	Submarket	Basis Point Change
1	Far North San Diego	20
2	Carlsbad/Encinitas/Del Mar	10
2	Oceanside	-10
2	La Jolla/University City	-10
5	Northwest San Diego	-40

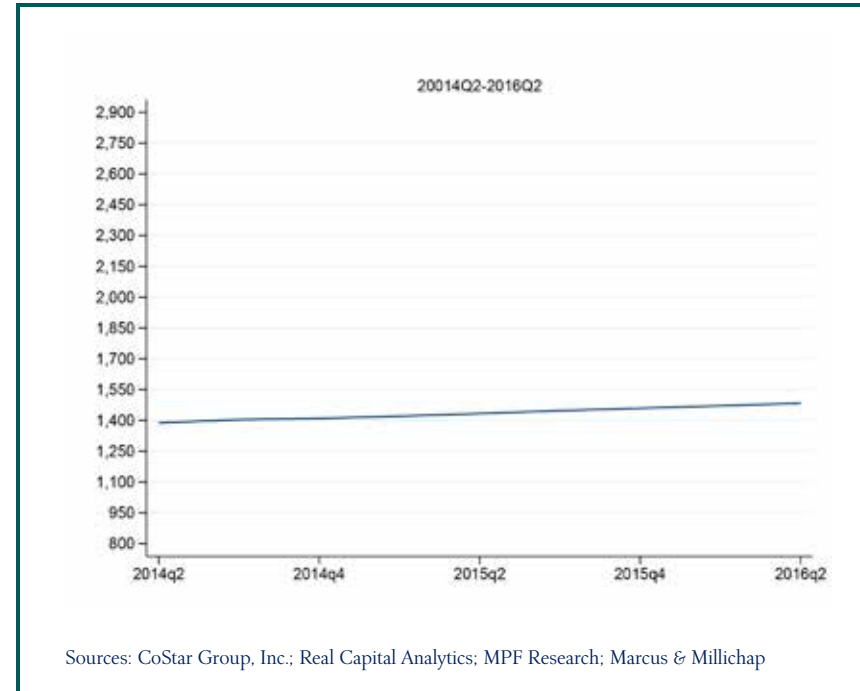
Largest Basis Point Decrease in Vacancy Rate from Previous Year in San Diego County 2014Q2 • Table 8

Rank	Submarket	Basis Point Change
1	Chula Vista/Imperial Beach	-180
2	Escondido	-120
3	El Cajon/Santee/Lakeside	-110
4	Mid-City/National City	-70
5	La Mesa/Spring Valley	-60

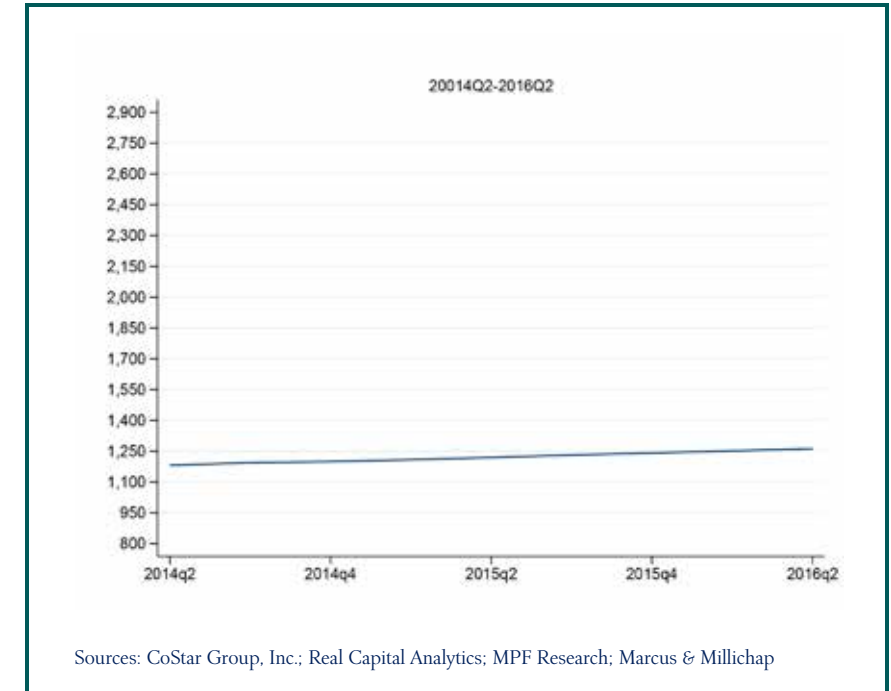
FORECAST EFFECTIVE RENT IN \$ FOR: CARLSBAD/ENCINITAS/DEL MAR



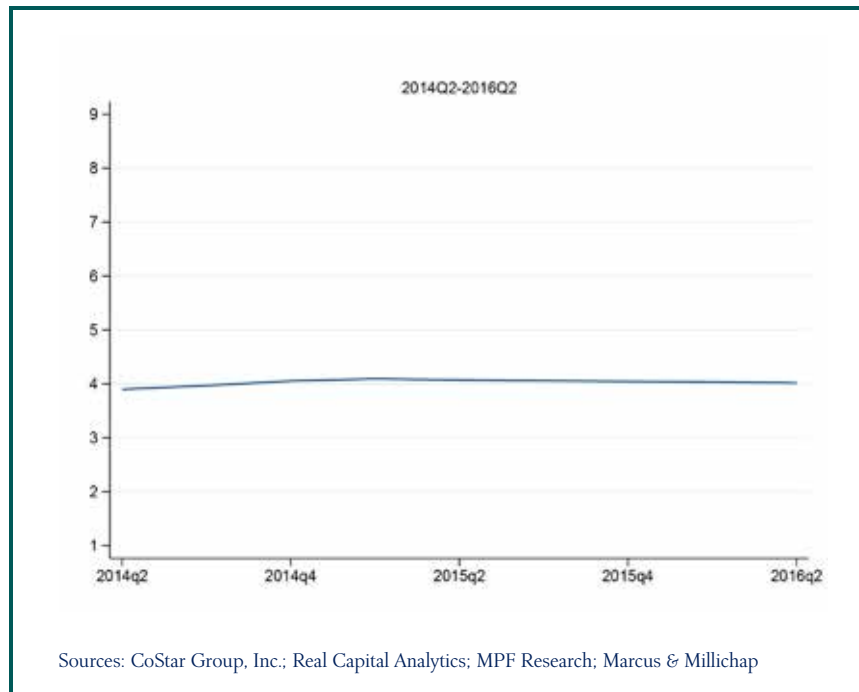
FORECAST EFFECTIVE RENT IN \$ FOR: CHULA VISTA/IMPERIAL BEACH



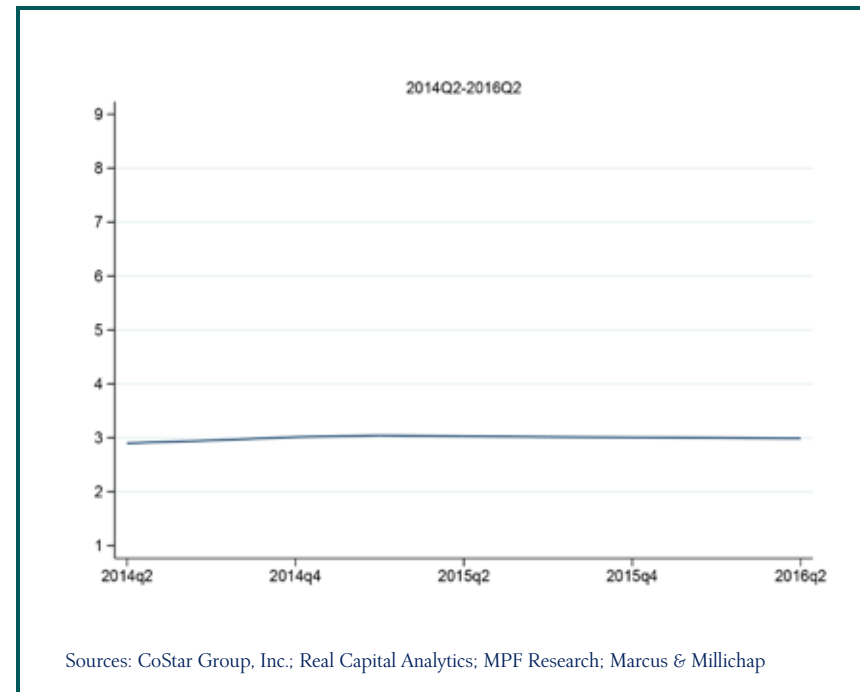
FORECAST EFFECTIVE RENT IN \$ FOR: EL CAJON/SANTEE/LAKESIDE



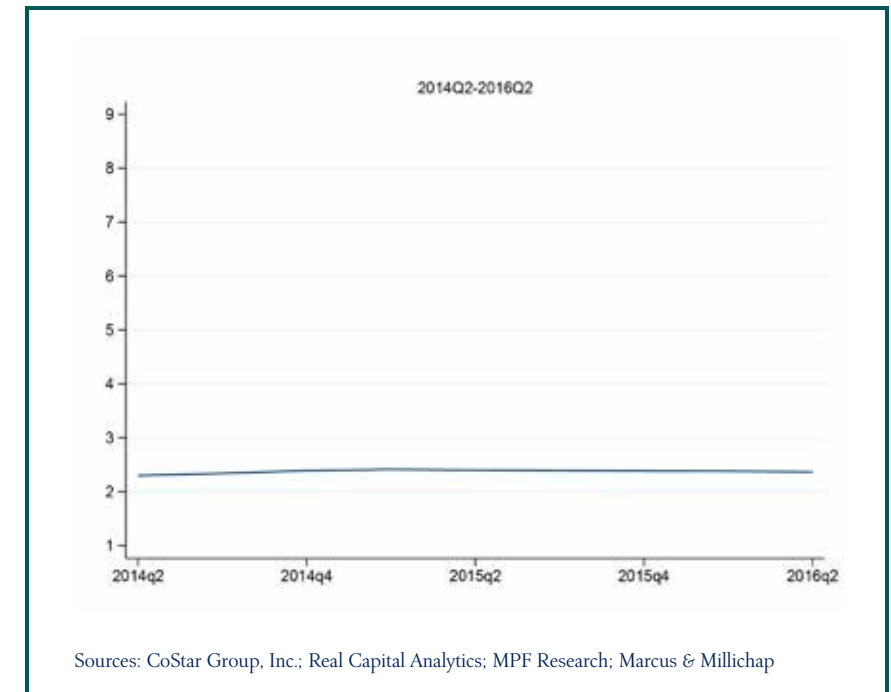
FORECAST PERCENT VACANT FOR: CARLSBAD/ENCINITAS/DEL MAR



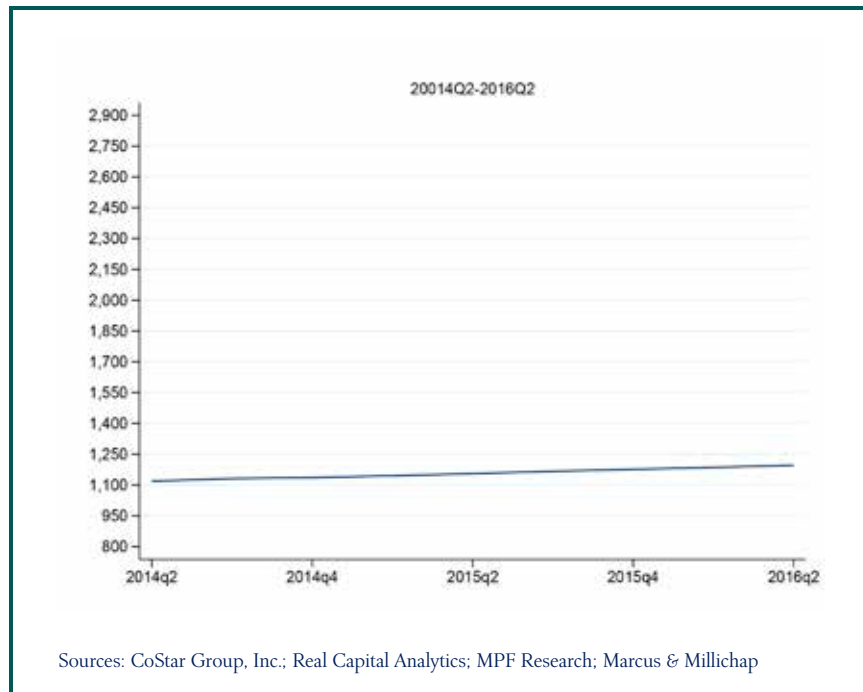
FORECAST PERCENT VACANT FOR: CHULA VISTA/IMPERIAL BEACH



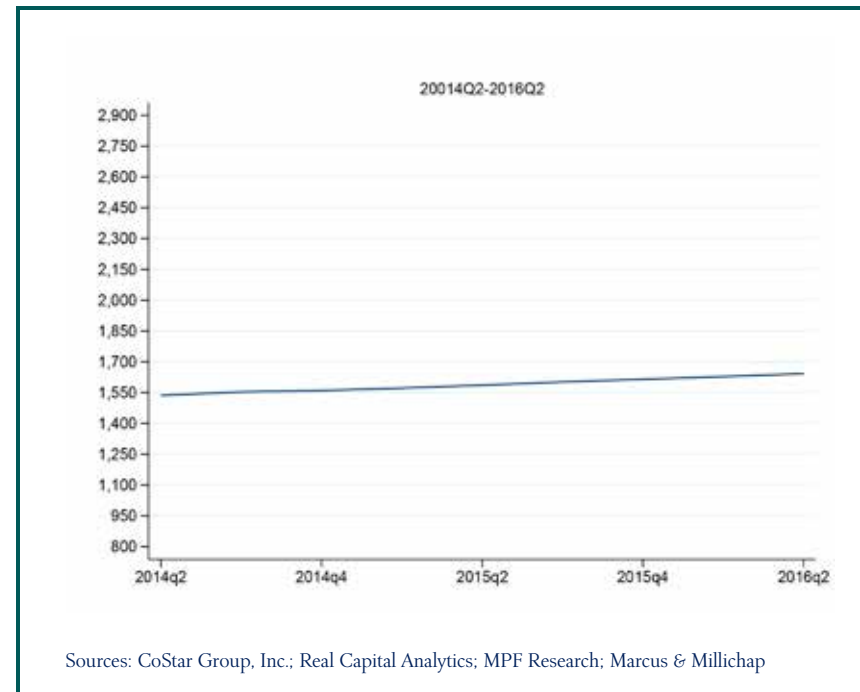
FORECAST PERCENT VACANT FOR: EL CAJON/SANTEE/LAKESIDE



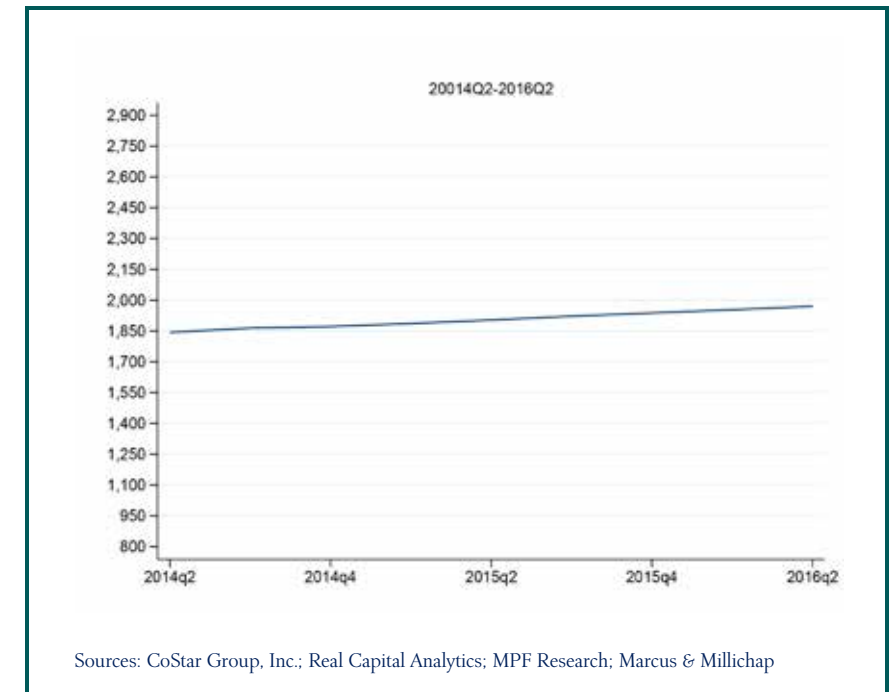
FORECAST EFFECTIVE RENT IN \$ FOR: ESCONDIDO



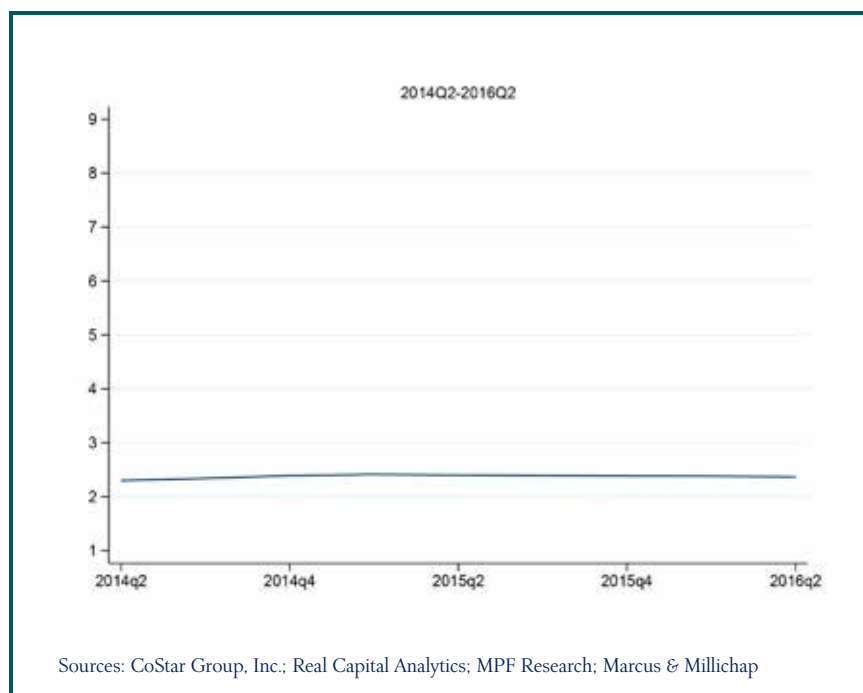
FORECAST EFFECTIVE RENT IN \$ FOR: FAR NORTH SAN DIEGO



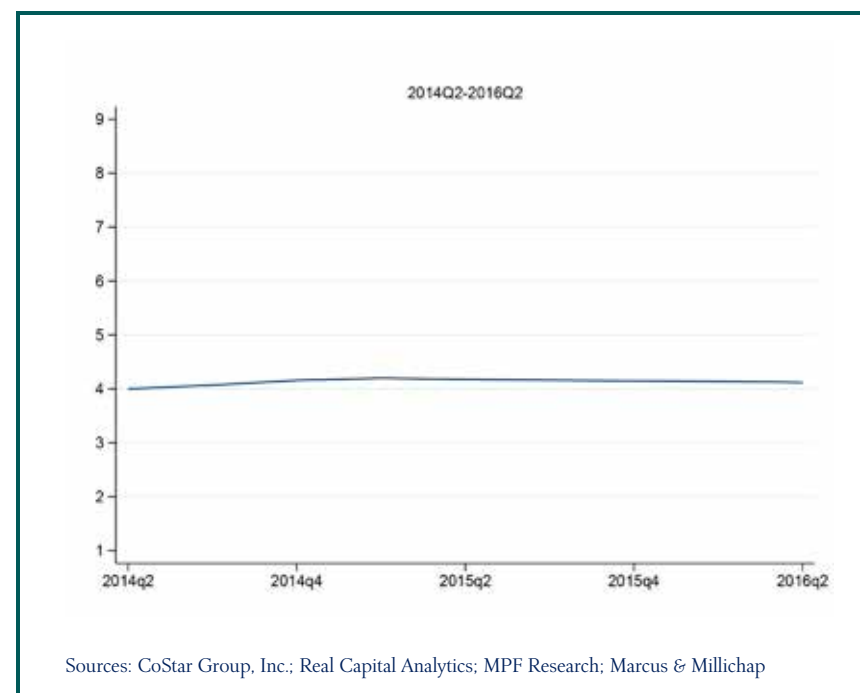
FORECAST EFFECTIVE RENT IN \$ FOR: LA JOLLA/UNIVERSITY CITY



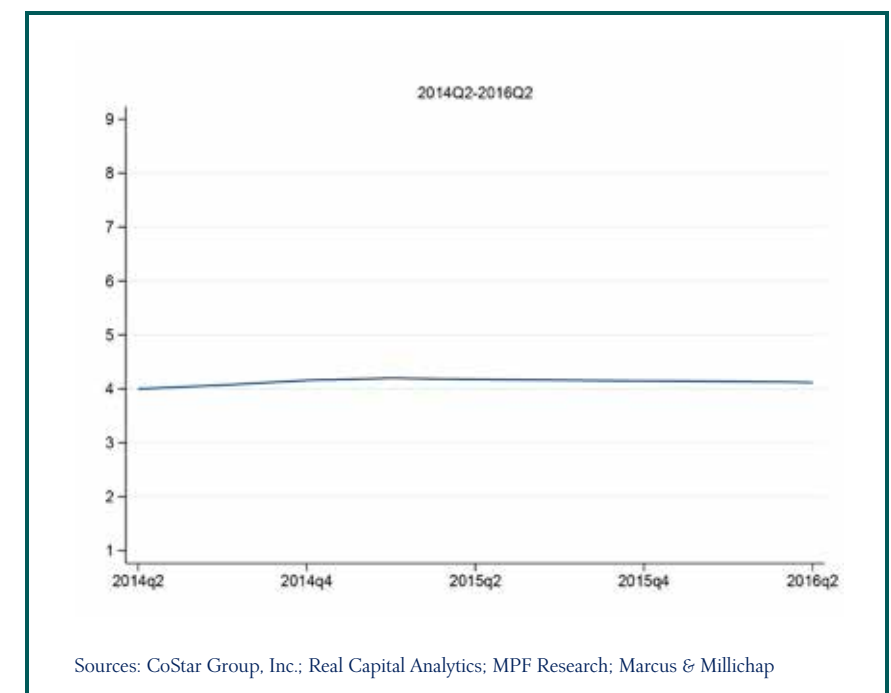
FORECAST PERCENT VACANT FOR: ESCONDIDO



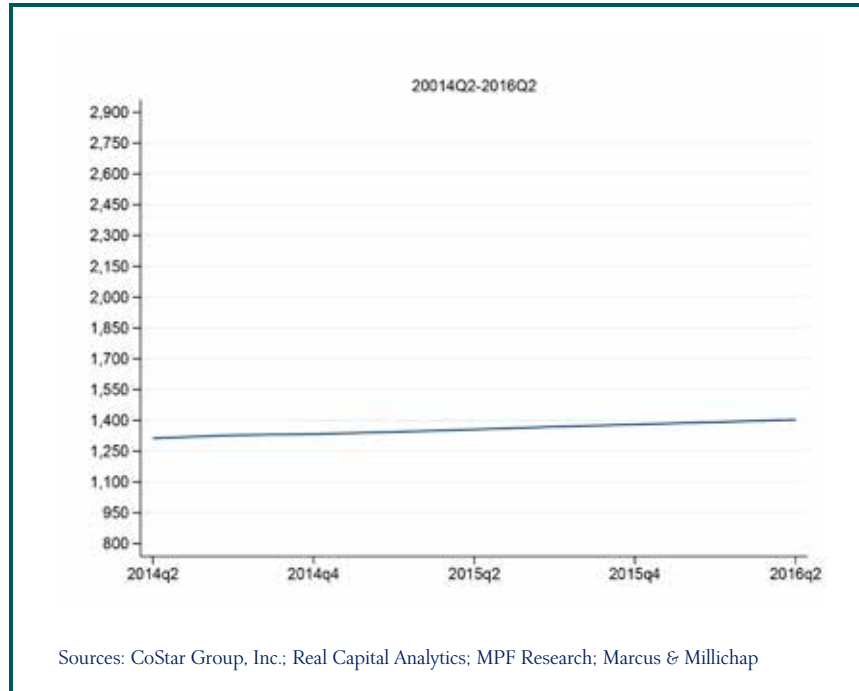
FORECAST PERCENT VACANT FOR: FAR NORTH SAN DIEGO



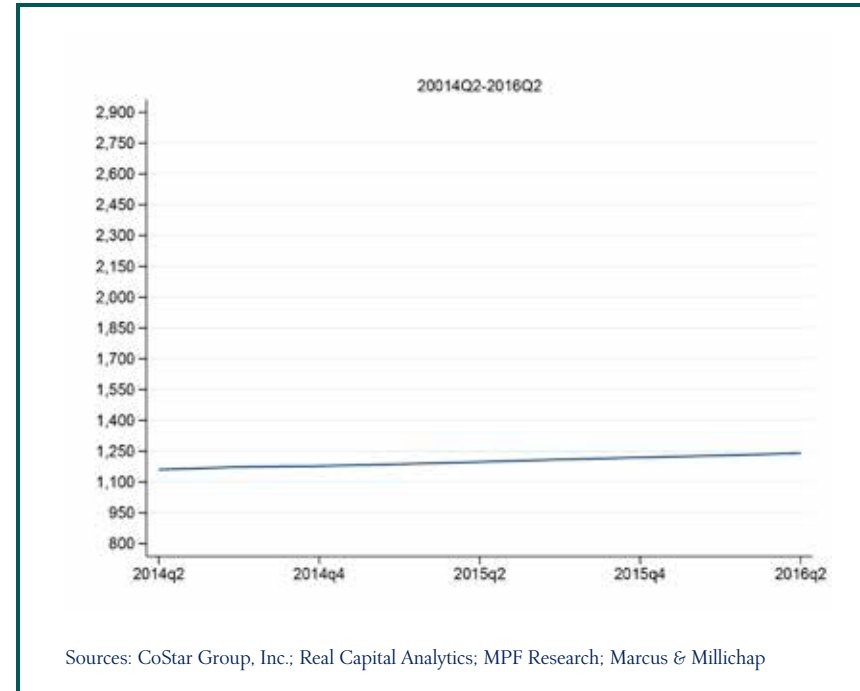
FORECAST PERCENT VACANT FOR: LA JOLLA/UNIVERSITY CITY



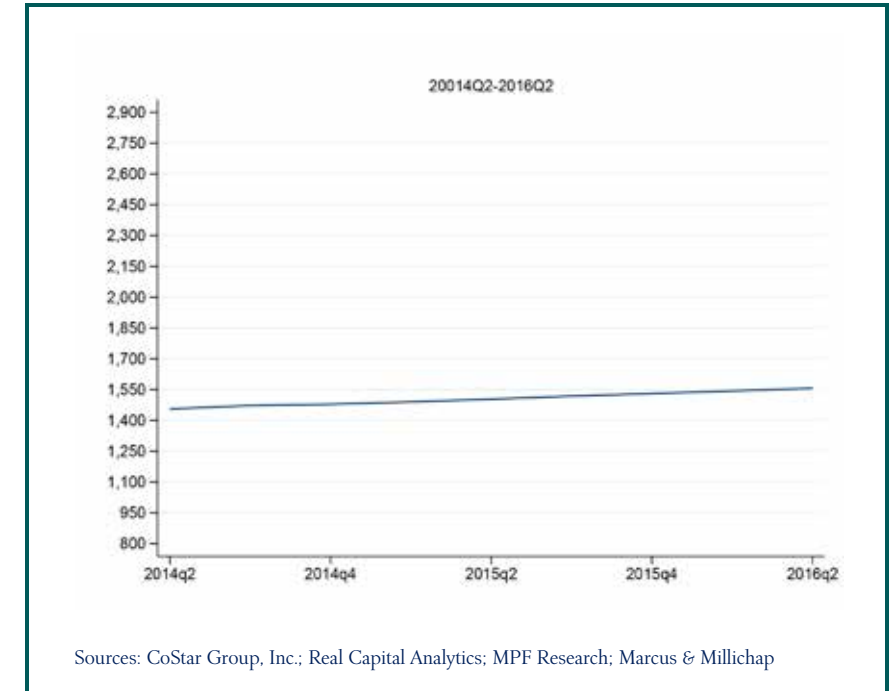
FORECAST EFFECTIVE RENT IN \$ FOR: LA MESA/SPRING VALLEY



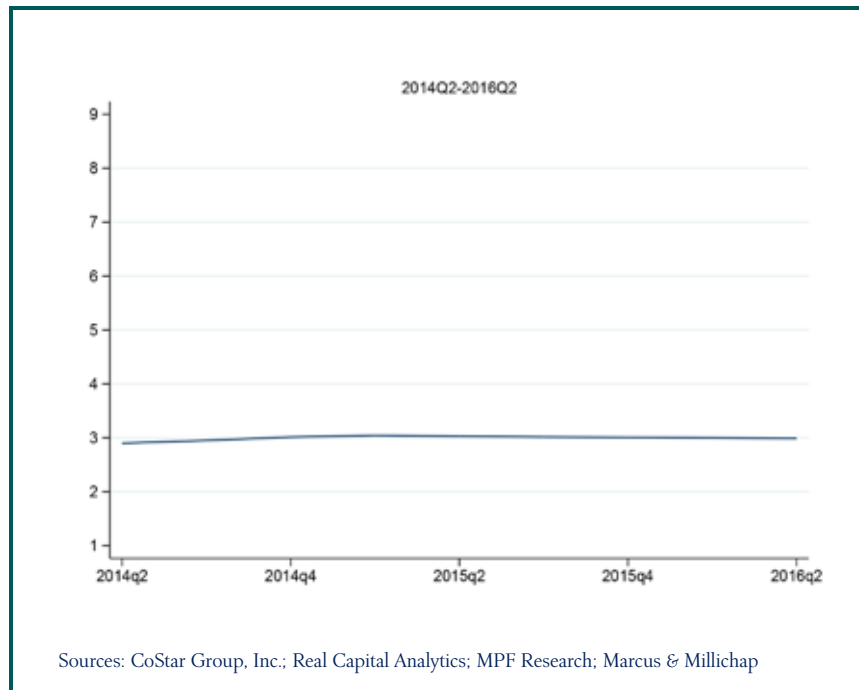
FORECAST EFFECTIVE RENT IN \$ FOR: MID-CITY/NATIONAL CITY



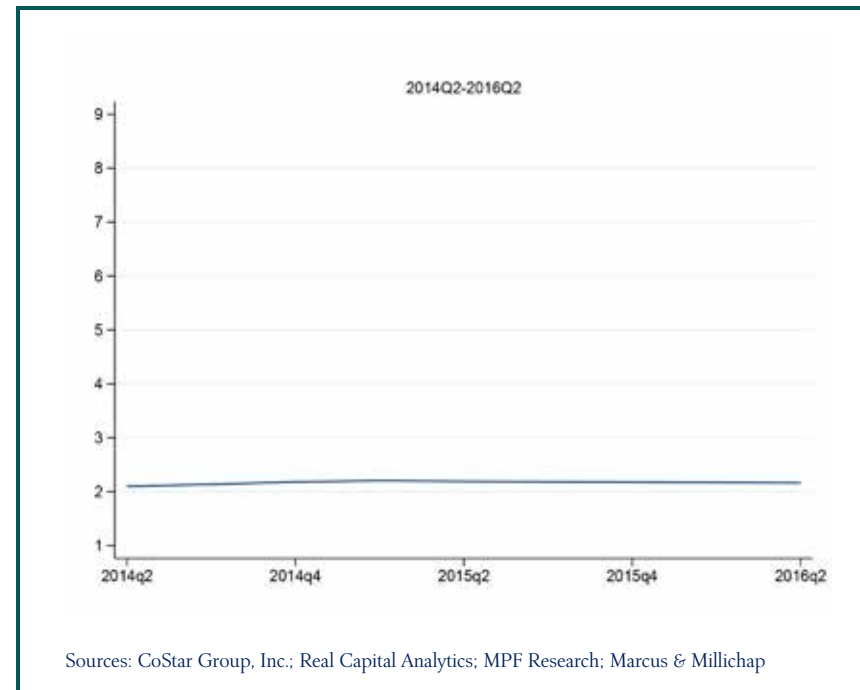
FORECAST EFFECTIVE RENT IN \$ FOR: NORTHWEST SAN DIEGO



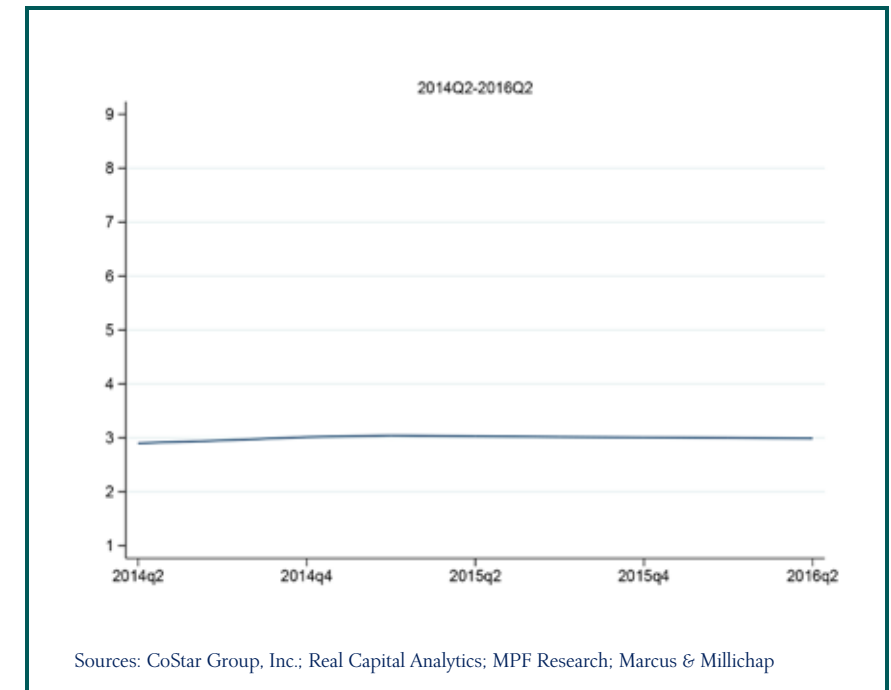
FORECAST PERCENT VACANT FOR: LA MESA/SPRING VALLEY



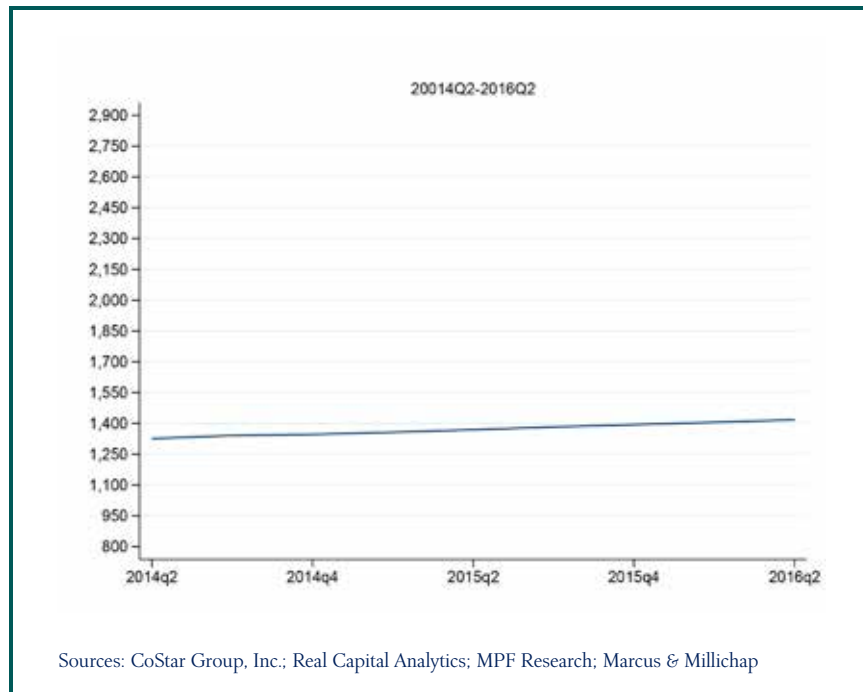
FORECAST PERCENT VACANT FOR: MID-CITY/NATIONAL CITY



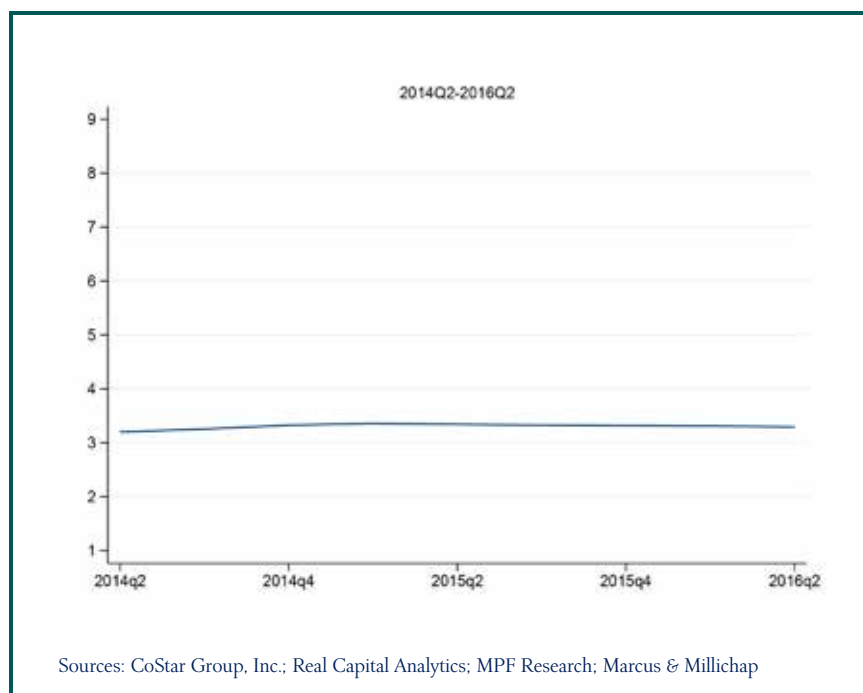
FORECAST PERCENT VACANT FOR: NORTHWEST SAN DIEGO



FORECAST EFFECTIVE RENT IN \$ FOR: OCEANSIDE



FORECAST PERCENT VACANT FOR: OCEANSIDE



RESEARCH REPORT: “CITIES IN A SMARTPHONE WORLD”

Most Americans now carry the equivalent of a networked supercomputer in their pocket. This has changed our lives in many ways. We network and socialize more easily than ever. But how has this changed how we work? How has it changed our cities? How will it change our cities? There are not yet clear answers. When new capabilities come along, there is always the question whether they become substitutes or complements with respect to our old capabilities. As we network more easily via new electronic gadgets, do we engage in less of traditional face-to-face meeting? Or do we cultivate more contacts which lead to more old-fashioned face-to-face get-togethers? Will firms continue to follow their workers into the suburbs or will they prefer to be in clusters of business where they are most likely to keep up with the buzz of new thinking and ideas? Twenty years ago, there were speculations about the “death of distance” and the “end of geography.” Recent reports note that U.S. per capita vehicle miles traveled has been falling since 2007. Hotel occupancy rates are, however, at historic highs.

Kyle Cassara, a senior at the Bronx High School of Science, is looking at some of the questions posed by these trends in his entry to the 2014 Intel Science Talent Search competition. USC Emeritus Professor Peter Gordon is his academic advisor and the Lusk Center has provided support.

The data conventionally used to study cities are not easily amenable to answering the research questions. Essays in a recent issue of *Cityscape* (vol. 15, no. 3) included discussions of why U.S. cities will become more dense in the next 40 years. The reasons cited include rising incomes which mean a higher opportunity cost of commuting time (along with a low income elasticity of the demand for space), more gentrification, more working lower-fertility women, better urban quality of life, etc. But 2000–2010 data for the 50 largest U.S. urbanized areas present a mixed picture. Thirteen urbanized areas became more dense (some just slightly) while 37 continued long-term trends towards lower average densities. A recent Brookings Institution study (“From Traditional to Reformed: A Review of Land Use Regulations in the Nation’s 50 largest Metropolitan Areas” 2006) itemized the many

types of measures that U.S. planners have adopted, mostly with the goal of reversing old trends and prompting higher densities of development. These were expected to make better use of scarce land and also promote more “sustainable” modes of growth. But a look at recent U.S. urbanized area settlement trends, including where densities have gone up or down, reveals no connection between policy types and outcomes. Do old trends prevail? Are local policies to control development inadequate? What are the effects when a smartphone-enabled population is added to the mix?

In light of the limitations of available data, Kyle and Peter used Lusk Center support to purchase the survey capabilities and services of Rand’s American Life Panel. Rand professionals assisted developing and pre-testing survey questions. Fourteen questions re how respondents live and work now vs. three years ago were developed. Five-hundred survey responses, most of them usable, were returned.

Preliminary results (one-way and two-way analysis of variance) show that self-reported improved productivity at work is positively and significantly associated with more work done via electronics from the home -- as well as relocation further from work (of those who reported having moved in the last three years). These results are somewhat corroborated if higher salary (instead of greater productivity) is to be explained – as it should since pay and productivity measure the



same thing. Occupation does have an effect when interacting with more work via electronics from the home when explaining greater productivity. Statistical associations like these are only suggestive. Determining causation is another matter.

Early results then suggest that the dominant tendency is for people to exploit electronic interactions capabilities by living further from work. The net effect on vehicle miles traveled is unclear; they may be driving longer distances but doing so fewer days of the week. They are apparently finding socializing and shopping opportunities in the more far-flung locations as well as via their electronic devices.

A recent obituary for the urban geographer and planner Sir Peter Hall (The Economist, Aug 9, 2014) concluded as follows: “He soon changed his mind. Wherever that approach [top-down rational] was tried—in Birmingham, or Glasgow, or around the elevated Westway in north-west London—it caused exactly the sort of ugliness and alienation he had hoped to banish. In the 1970s he began arguing that one way to deal with urban decay might be a bonfire of regulations; the idea, he said, was to ‘recreate the Hong Kong of the 1950s and 1960s inside inner Liverpool or inner Glasgow’. That sort of fertile chaos, he came to believe, was exactly what made cities so important, and such exciting places to live. He was an early advocate of the view—these days the received wisdom—that by allowing people to form connections with like-minded colleagues, cities are the engines of a country’s economic, cultural and artistic life.”

It is plausible that people are forging complex links and connections by managing and trading off the many networking opportunities they now have. This apparently affects their choice of residential locations vis a vis the workplace; they are less tied to the workplace and they enjoy a greater range of choice. Job accessibility will be continue to be available over a larger space and choice set; the big cities will be able to maintain their competitiveness. Big cities have much to offer; it helps greatly if the negatives associated with bigness can be mitigated.

GREATER PRODUCTIVITY, GREATER PAY CO-VARIATES; ANALYSIS OF VARIANCE RESULTS

F-Values (with probabilities that results were obtained by chance)

Greater Productivity Greater Pay

ONE-WAY ANOVA

More work electronically from home	4.247 (0.040)*	0.105 (0.746)
Type of occupation	1.559 (0.213)	0.806 (0.370)
Greater teamwork	1.008 (0.316)	1.640 (0.201)
Closer to work	0.294 (0.588)	0.473 (0.492)
Further from work	3.888 (0.050)*	3.955 (0.048)*

TWO-WAY ANOVA

Type of Occupation by more work electronically from home	2.284 (0.080)**	0.617 (0.605)
Type of occupation by greater teamwork	0.745 (0.562)	0.901 (0.464)
Type of occupation by closer to work	0.295 (0.881)	1.729 (0.144)
Type of occupation by further from work	0.269 (0.898)	0.414 (0.799)

*Significant at 0.05 level or better

** Significant at 0.10 level or better

N= 288 (number of respondents who answered all questions in this test)

TECHNICAL NOTE

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Our model assumes a two percent annual increase in the CPI and any deviation from that assumption would affect our forecast. Some of the data in this report was gathered from third party sources and was not independently verified. The Casden Forecast does not make any warranties or representations as to the completeness or accuracy thereof. Sources: CoStar Group, Inc.; Real Capital Analytics; MPF Research; Marcus & Millichap

