

USC Lusk

*Casden Real Estate
Economics Forecast*

2017 Multifamily Forecast Report



USC LUSK CENTER FOR REAL ESTATE
CASDEN REAL ESTATE ECONOMICS FORECAST
2017 MULTIFAMILY REPORT

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USC LUSK CENTER FOR REAL ESTATE

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CURRENT VIEW OF THE ECONOMY

The National Housing Picture—and how it is reflected in California

Renting has become expensive. This is especially true in California, but it has also become true throughout the country. It was not always thus—40 years ago, nearly every city in the United States could provide decent housing that the middle of the rental income distribution could afford. As we shall see, this is no longer true.

The events of the past 15 years have arguably been particularly traumatic for the housing market. We therefore will take a look backward to try to get a better understanding of why we are where we are, and where we might be going forward.

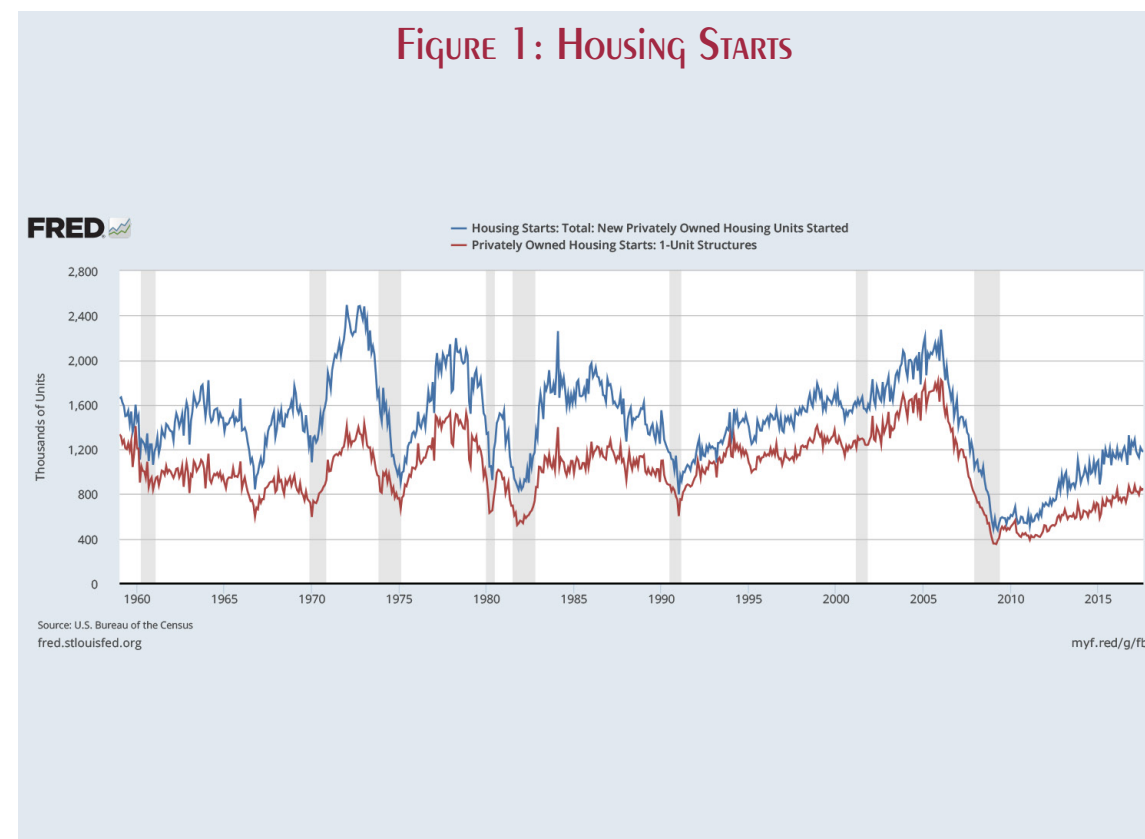
Housing Starts and House Prices

Lets' start by looking at two basic building blocks of the housing market: new construction and prices. If we look back to the 1960s, we can see that in an average year, about 1.4 million houses have been built in the United States, and also that we almost never observe an average year. The housing market is highly cyclical, and very much a leading indicator of economic activity. Indeed, since 1960, the only US recession that was not preceded by a decline in new construction was the recession of 2000-01, which was preceded by the dot-com bust (Figure 1).

Yet here we are, seven years into an economic recovery, and we still do not see new residential construction returning to normal levels. Over the period September 2016-August 2017, the last full year for which we have national data, the US had 1.2 million housing starts, or 16 percent lower than the long-term average. Single family starts are still 18 percent lower than the long-term average, and even multifamily starts are 11 percent below average. Laurie Goodman at the Urban Institute calculates that we are currently building 300,000¹ fewer units per year than needed to keep up with the demand arising from new households and replacement of old stock, and that, after nine years of stagnant construction, we are three million units short of where we need to be to have a housing supply adequate to meet demand. In a world where employment and wages are, thankfully, rising, the inability of supply to meet new demand means that rents and house prices will be forced up, as they have indeed been.

¹Goodman, Laurie S., remarks at Housing Renaissance Conference, San Diego, August 4, 2017.

FIGURE 1: HOUSING STARTS



So why, then, are we building so few houses. The answer likely is the result of two forces: homeowner equity, and regulation. Figure 2 depicts the Federal Housing Finance Agency Purchase Only Index for how house prices moved from 2007 to the trough of the housing bust, and from 2007 until now. It is still the case that in 44 out of 100 of the largest US MSAs, house prices have yet to return to 2007 levels, and in another 17 cities, prices, while higher, are only 10 percent higher or less than they were in 2007.

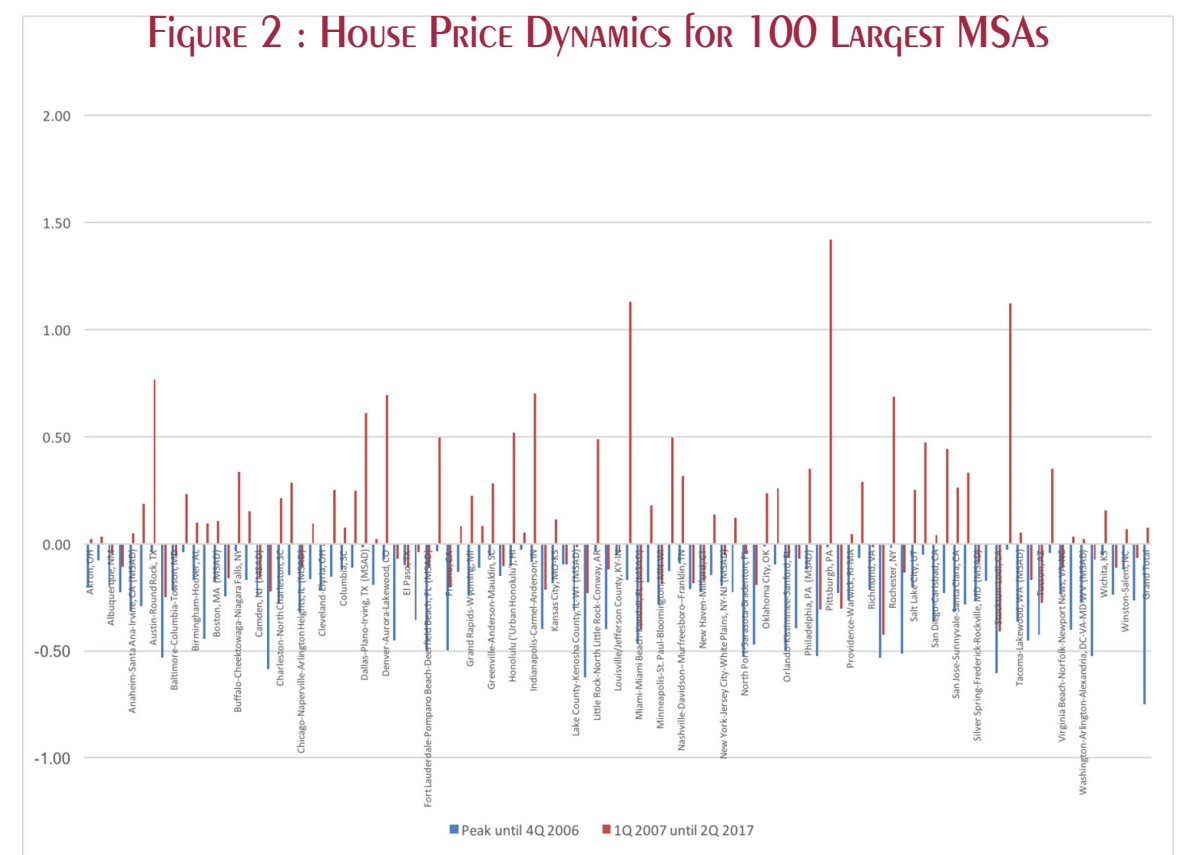
To understand why this matters to new construction so much, consider the fact that most buyers of new homes are “trade-up” buyers: people who are moving out of a starter homes and into a newer, upgraded home. Between the end of World War II and the early 2000s, a typical first time homeowner could build equity by simply staying in their appreciating house, and then using that equity to buy up to a new home. But over the past ten years, many first time homeowners either lost equity, or built relatively little, meaning that they didn’t develop the wherewithal for a downpayment on a new house. This slowed the demand for new housing, even in a market where the overall demand for housing was increasing.

Fundamentals of owner occupied housing

While certainly the relative cost of owning and renting influence whether people become owners or renters, there are some regularities about the relationship between demographic characteristics and household arrangements, on the one hand, and tenure choice (i.e., the choice between owning and renting), on the other.

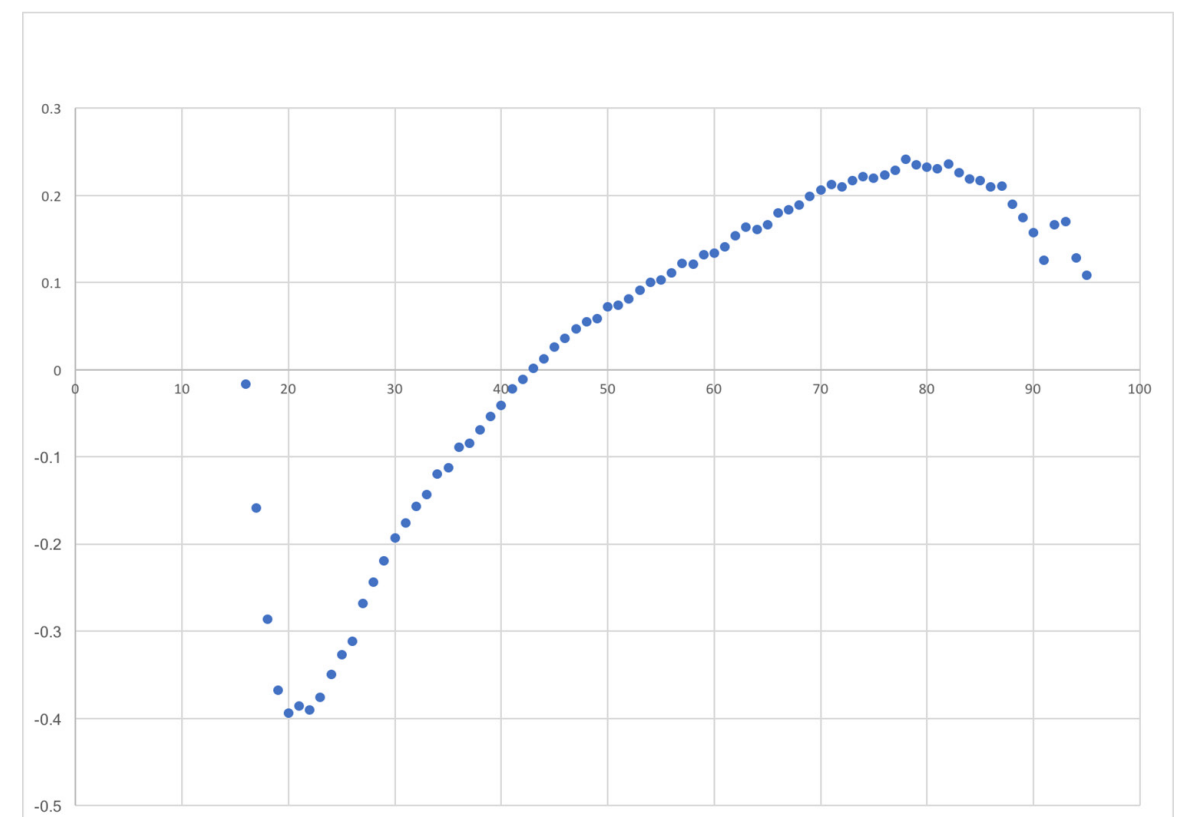
The first regularity is that as people get older, they are more likely to be owners, and this propensity for ownership remains in place for the average person well into the 80s. Figure 3 shows how, in Southern California, the age of household head contributes to the likelihood of owning, after controlling for income, marital status, race, and sex. California is, like everyplace else, aging, albeit at a slower rate than the country as a whole, meaning that the changing age distribution of the population is tending to push up the demand for owner occupied housing.

The changing distributions of racial/ethnic makeup, as well as marital status are, however, reducing the demand for owner housing nationally. First, while the country is becoming more ethnically diverse, we find that after controlling for age, marital status, income, and educational attainment, members of ethnic and racial minorities are far less likely to be homeowners than non-Hispanic whites. There are a variety of reasons for this, among them being that parents’



FHFA Purchase Only House Price Index and USC Lusk Center

FIGURE 3: PROBABILITY OF BEING A HOMEOWNER AT VARIOUS AGES, RELATIVE TO AVERAGE (AFTER CONTROLS)



USC Lusk Center Analysis of IPUMS International Data, 2015 American Community Survey

homeownership is a large predictor of children's homeownership (see Bond and Eriksen).² Housing finance programs, such as FHA and Rural Housing, once explicitly discriminated against ethnic and racial minorities, and the impact of this legacy continues until this day. We should note that after controlling for income, education, marital status and demographics, people of Mexican decent in California are as likely to be homeowners as non Hispanic whites. Nevertheless, over the nation, homeownership rates are about 17 percentage points lower for African-Americans, 11 percentage points lower for Mexican-Americans, and 8 percentage points lower than for non-Hispanic whites, after controls for income, age, educational attainment and marital status. These are the fastest growing population groups in America, and unless we address the issue of the differences in ownership rates that cannot be explained by non-racial demographics, household arrangements, and income, the homeownership rate will continue to fall, placing continuing pressure on the rental market.

Simultaneously, marriage is on the decline, and marriage, by itself, is a strong predictor of homeowning—married couples are about 22 percentage points more likely than single people to be homeowners. The marriage rate has been falling for 50 years now; according to Pew, the marriage rate among adults under the age of 35 is a little more than 1/3 of what it was 50 years ago, and is about one-half what it was for their parents' generation. If marriage rates continue to fall, pressure will continue to rise in the rental market, which in turn will continue to place upward pressure on rents.

Beyond all of this, however, the decline in home-owning cannot be predicted by demographics alone. Based on historic data, we estimate that the national homeownership rate is 3 percentage points lower than demographic and economic variables would predict (and we base this finding on data from before the run-up in homeownership in the 1990s and early-to-mid 2000s. The reason for this is almost certainly housing finance: many households who lost their houses during the global financial crisis cannot now get a mortgage (although this may change dramatically in the years ahead), and housing finance is, in general, harder to

come by. Laurie Goodman at the Urban Institute estimates that the US is missing a million mortgages a year—that is, based on the underwriting standards of the later 1990s and very early 2000s, we are seeing a million fewer mortgages per year advanced to borrowers now relative to 15 years ago.³

All of this is putting pressure on rental markets everywhere. Let's consider the following experiment—suppose we put the median income renter in the median income unit. In 2000, the median unit was affordable (i.e., cost less than 30 percent of income) in more than 90 percent of the largest metropolitan areas in the US (US IPUMS data). In 2015, the most recent year for which we have American Community Survey Data, that number had declined to less than one-third. So while it has long been the case that Southern California Markets have been among the least affordable for some time, the problem of increasing rental costs is arising in nearly every part of the US now.

Figure 4 shows how much a median income household would have paid in 2000 had it lived in the median rental unit in its MSA. Note that in the vast majority of MSAs, such a household would have spent less than 30 percent of income on rent. Now let's fast forward to 2015 (Figure 5), and we can see that the opposite is now true—in a strong majority of MSAs, median income rental households would spend more than 30 percent of their incomes on median rent.

The upshot of this is that after median rent is subtracted from median income, disposable income for median renters has fallen in the vast majority of MSAs around the country (Figure 6). This helps explain two things: (1) why people or so dissatisfied with the state of the nation and (2) why homeowning is dragging. As households spend more and more income on rent, the challenge of saving for even a 3 percent FHA downpayment is getting larger.

That said, because rents have risen so much, homeowning has become relatively attractive in many parts of the US. Indeed, groups that have traditionally been denied access to homeowning in decades past have once again been unable to buy houses at a time when it was most financially desirable to do so. Until we solve this issue, we expect pressures on rents to continue.

²Bond, Shaun A., and Michael D. Eriksen. "The role of parents on the home ownership experience of their children: evidence from the Health and Retirement Study." (2017).

³Goodman, Laurie S., Jun Zhu, and Taz George. "Where have all the loans gone? The impact of credit availability on mortgage volume." *The Journal of Structured Finance* 20.2 (2014): 45-53.

Figure 4: Median Rent to Median Renter Income 2000

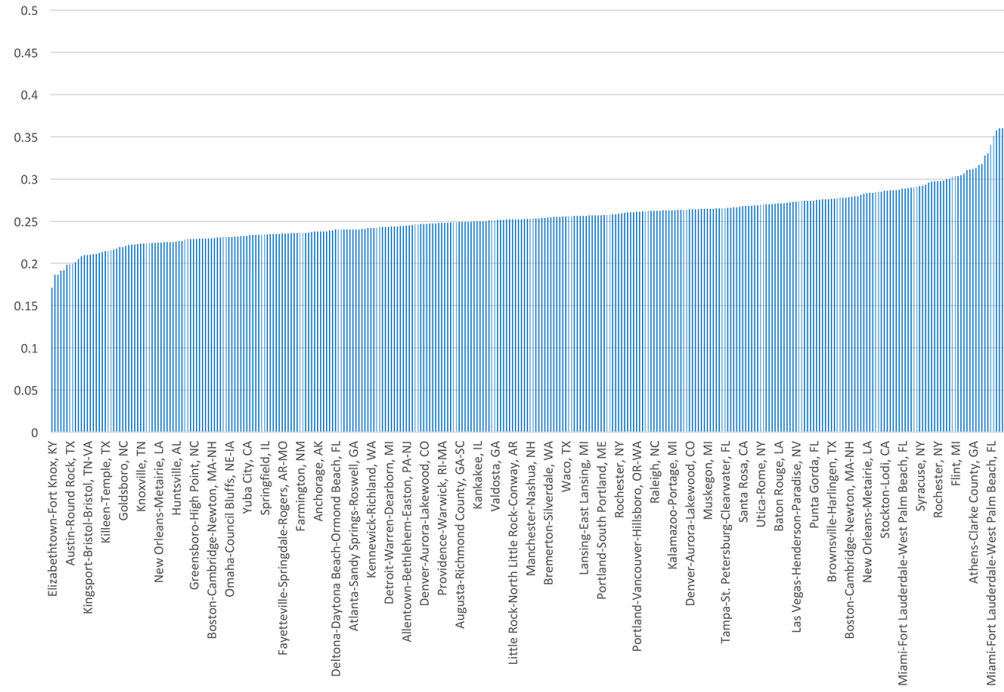
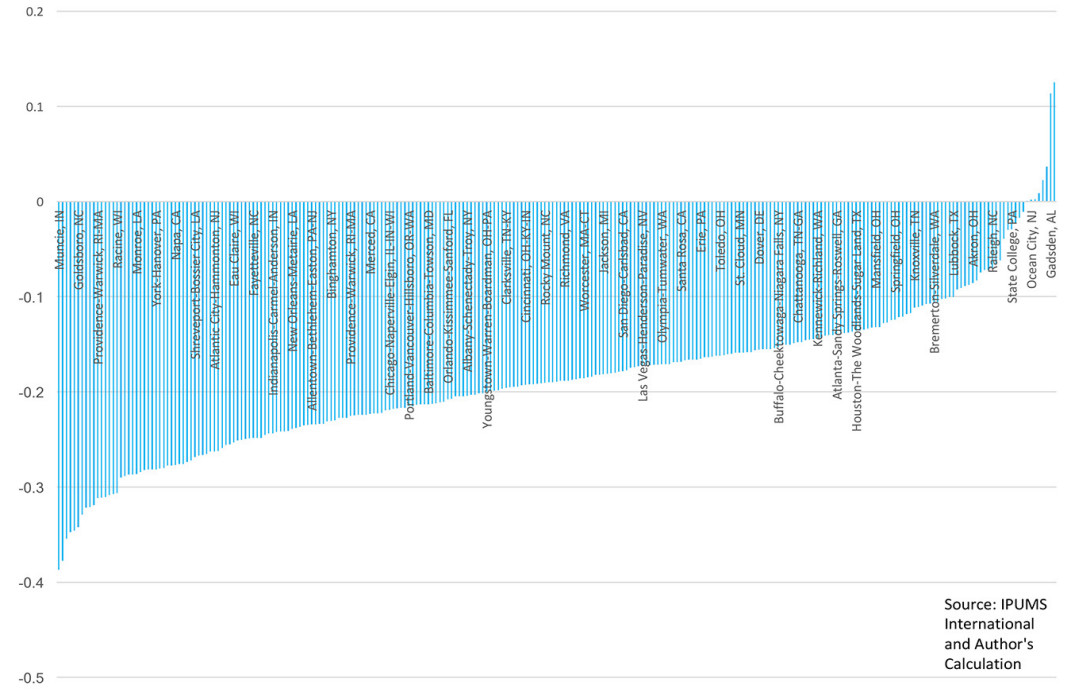


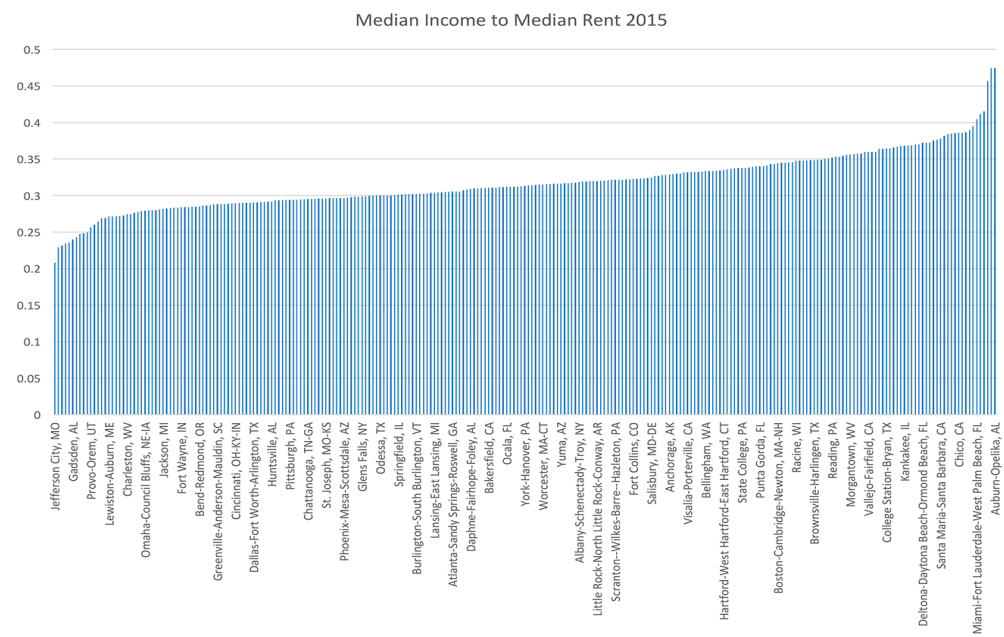
Figure 6: Change in Income less Change in Rent 2000-2015



Source: IPUMS International and Author's Calculation

USC Lusk Center Calculation of American Community Survey and IPUMS 2000

Figure 5: Median Rent to Median Rent 2015



USC Lusk Center Calculation of American Community Survey and IPUMS 2015

Demographics, Moving, and the Cost of Housing in Southern California

Southern California is famous for its racial and ethnic diversity. Non-Hispanics whites make up 44 percent of the population in Los Angeles, Orange, San Diego, Ventura, San Bernardino and Riverside Counties, and each one of these counties has a non-immigrant population of at least 20 percent. This contrasts with the US as a whole, which is 61 percent non-Hispanic white and 13 percent immigrants. (US Census).

Beyond the fact that Southern California is demographically different, it is also changing. In particular, as demographer Dowell Myers notes, it has become more a place of native born people—the majority of Californians now were born in California, something that has not been true since the gold rush.

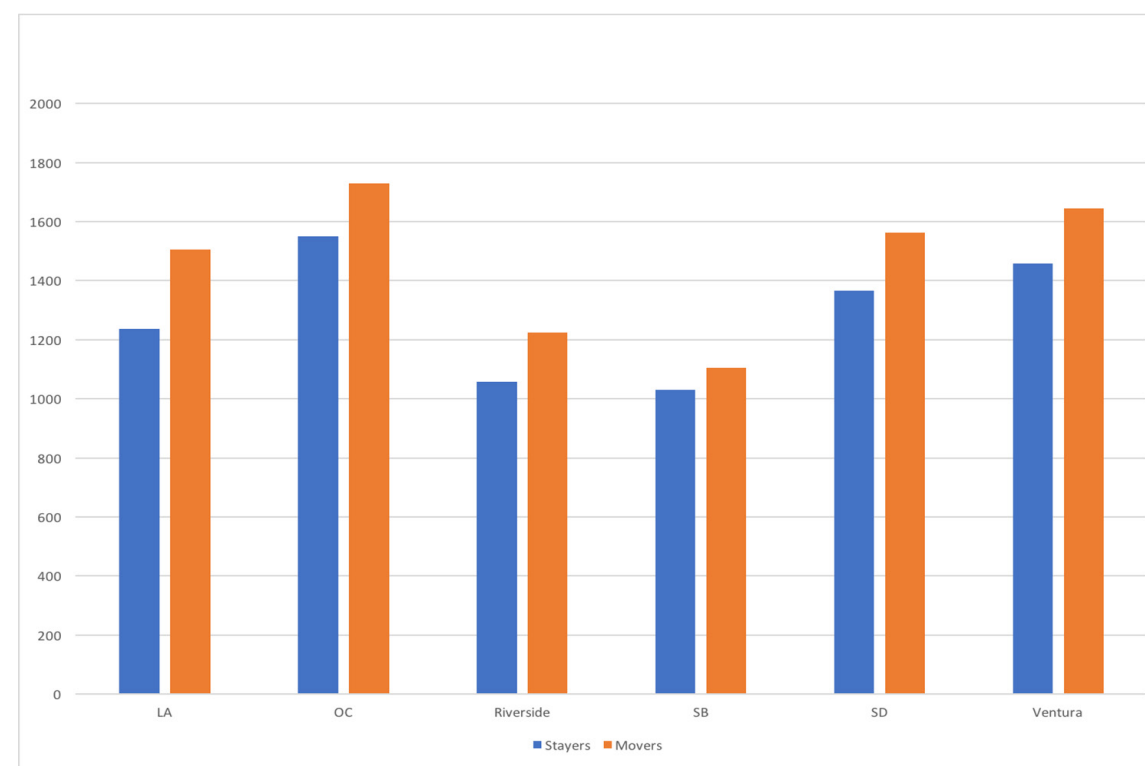
It is therefore interesting to see how demographics have changed the demand for rental housing over the previous decade. We shall use American Community Survey Data for the years 2005 until 2015 to examine how much changing demographics explain change in rent in Southern California, and how much they don't.

To some extent, we can reveal the impact in supply conditions in California on rental costs by examining the composition of households. Specifically, we can look at how various household characteristics—age of household head, marital status, educational attainment, race, ethnicity, household income and labor force participation each explain the amount spent on rent in 2005, and then use the explanatory power of each of these characteristics to predict spending on rent in 2015.⁴ In markets where supply always meets new demand, we should observe flat rents—such markets are rare. But to the extent that rents prove to be more expensive than changes in demographic and economic condition would predict, we have evidence of an absence of much of a supply response.

We separate our exercises on the impact of demographics into rents paid into two—we look at movers and non-movers, and we look, overall, at how well 2005 demographics predict 2015 rent. We expect non-movers to pay lower rents—particularly in Southern California -- for two reasons. First, much of the housing stock built before 1978 in Los Angeles County is rent controlled, which gives people

⁴The method we use for doing this is regression analysis. We explain the gross rent paid by each household we observe in the 2005 American Community Survey by doing a reduced form regression where the right hand side variables are those listed above. From this, we use estimated coefficients to predict rents in 2015. The regression tables are available upon request.

FIGURE 7: AVERAGE RENT PAID by MOVERS AND STAYERS



American Community Survey 2005 and IPUMS 2015

an incentive to stay put, and prevents landlords from raising rents much when tenants do stay put. Second, because vacancy is costly, landlords will often not raise rents on tenants in place as much as they would expect to get from new tenants. One month of vacancy reduces rental income by more than eight percent for a year, so avoiding the possibility of that more than compensates for keeping rents one or two percent lower than conjectured market rent.

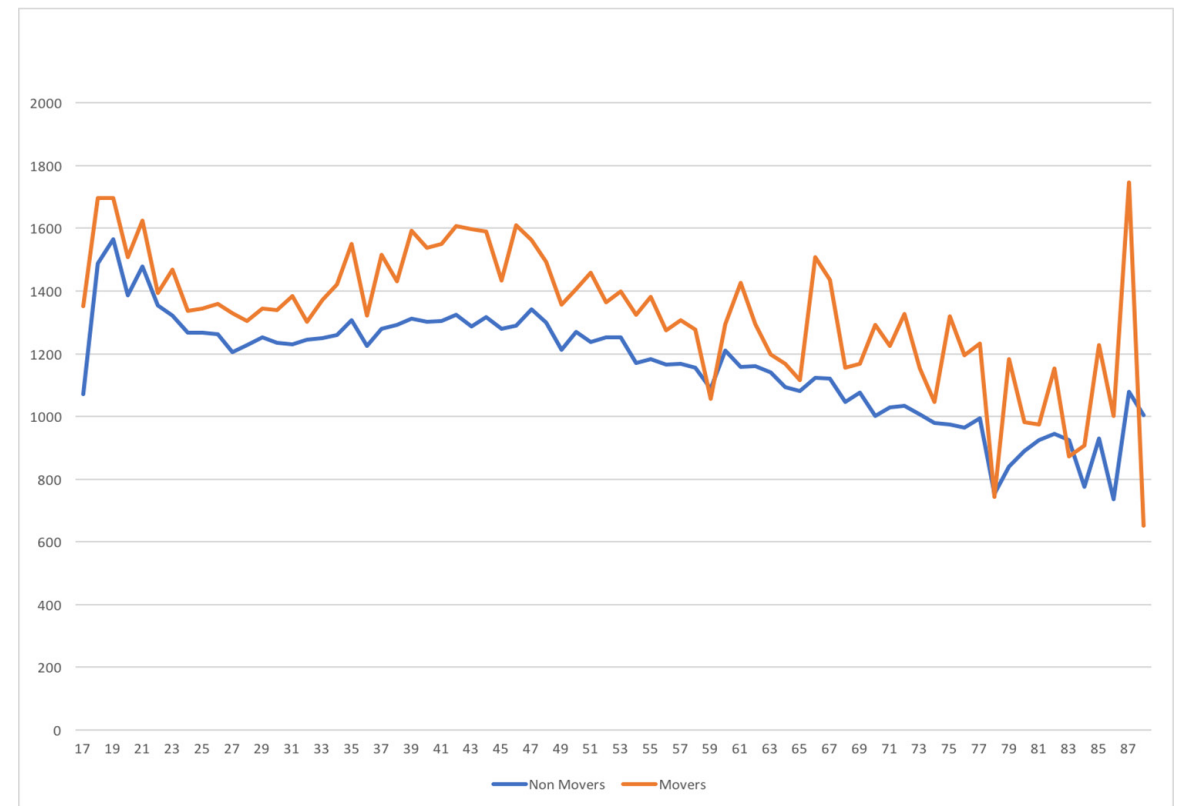
We find that it is indeed the case that movers pay higher rent than owners. Figure 7 shows that across all six counties covered in our forecast, intrastate California movers pay more in rent than stayers.

This is not an artifact of the demographics and income characteristics of stayers being different from movers. Figure 8 gives an example of how one demographic—age—has different impacts on predicted rents for stayers and movers. To investigate the impact of demographics more systematically, we analyze how the demographics of renters predicts their rents, and use that analysis to predict the rents movers would pay had they stayed. Interestingly, we find that after taking into account demographics, intrastate movers pay about \$124 more than stayers. Out of state movers pay even more than that—their demographics imply that if they were stayers, they would pay \$200 less in rent per month.

All of this implies that our measures of affordability, which rely on rents paid (as opposed to market rents available to those who move) understate the cost of housing issue. It also may imply that labor markets in California aren't as smooth as they should be, as move-induced changes in housing costs could discourage people from moving to take on new jobs.

Let's return to our exercise where we forecast rents in 2015 based on the relationship between demographics, income, moving and rents in 2005. We find that for all renters, we would expect real rents in 2015 to be \$1102 per month (this is for all of Southern California), or 3 percent more than they were in 2005 (which was also a period of strong employment growth). Instead, renters are paying an average of \$1445 per month, or 35 percent more than in 2005. CPI growth over this period was 22 percent, so part of the 32 percent gap can be explained by CPI growth over that time. Real rents rose by about 13 percent, instead of the three percent predicted by changes in demographics and real income (which for median renters in Southern California increased by about 5 percent over that time). This might not seem alarming, but real rent growth that is outpacing real income growth is not sustainable. Needless to say, this growth had happened relative to a year—2005—that was itself quite expensive for renters.

**FIGURE 8: RENTAL PAYMENT by AGE AFTER CONTROLS
MOVERS AND NON-MOVERS**



Los Angeles

LOS ANGELES COUNTY

The Los Angeles County economy has advanced at a subdued pace over the last year as it is effectively at full employment. Nonfarm employment growth is showing signs of slowing. From July 2016 to July 2017, the county added 50,000 jobs, approximately half as large as a year earlier. The largest job gains (in absolute terms) occurred in Health Care, Leisure & Hospitality, Government, and Natural Resource/Construction, while Other Services and Education experienced moderate increases. On the other hand, Retail Trade and Logistics both saw job losses year-over-year, although the decreases were negligible. All in all, Los Angeles enjoys a lower unemployment rate than the state as a whole. Los Angeles County's unemployment rate fell to 4.5%, which is slightly below the 4.8% unemployment rate for the state, and is expected to show further improvement this year and next. In turn, the housing market will continue to ramp up, with notable increases in rents, home sales, and prices over the past year.

Los Angeles County has been like California in that its homeownership rate has declined over time. In 2015, there were 1.78 million renter households in Los Angeles, up 6.2% compared 1.0%. Los Angeles County has one of the lowest homeownership rates in California, at just 45.1% in 2015, down from 46.9% in 2010. As renter households continue to grow faster than homeowner households, renters will increasingly face rising rents and shortages in rental supply relative to demand.

The Los Angeles County multifamily market has been quite active in recent years, with rents on the rise and vacancy rates generally tightening. The average rent per multifamily unit in 2017 was \$2,237 per month, rising 1.1% from one year earlier. The average vacancy rate ticked up marginally from 3.89% in the second quarter of 2016 to 3.94%. After years of consecutive increase, for the first time since the Great Recession, multifamily construction permits in the County dipped 8% in 2016, compared to 2015. Despite a surge in multifamily construction over the last few years, Los Angeles County still has, when compared with other MSAs in Southern California, the largest share of housing built before 1970 (at almost 60%). This is not good news for renters, since the rental market is already very tight currently.

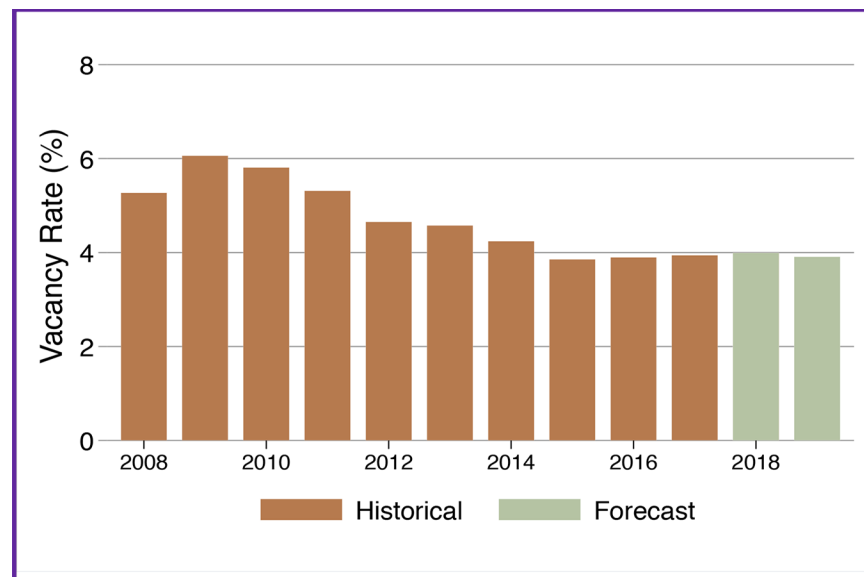
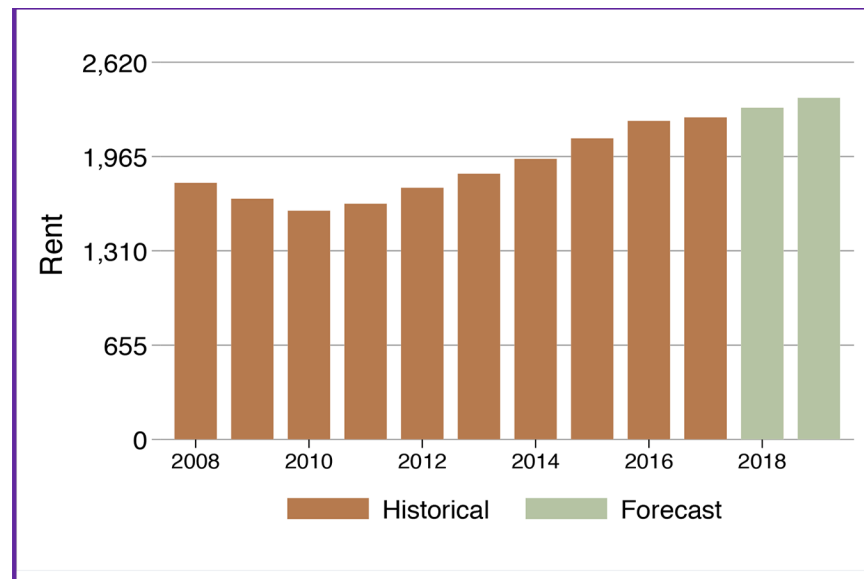
The Coastal Communities-Beverly Hills submarket led Los Angeles County's submarkets with the highest monthly rent this year (\$2,950 per month), followed by Burbank-Glendale (\$2,477 per month). The East San Gabriel Valley saw the lowest rent at \$1,634 per month, followed by the Southeast Los Angeles submarket (\$1,660 per month), and Palmdale-Lancaster (\$1,690 per month). Rents increased most quickly in the Koreatown-Mid City submarket (+5.1%) and Palmdale-Lancaster (4.4%). Surprisingly, the average rental rates in Long Beach-South Bay (\$2,064 per month in 2017) was higher than nearby Seal Beach-Huntington Beach (\$1,870 per month) in Orange County, while the vacancy rate is roughly the same in Long Beach-South Bay (3.8%) as in Seal Beach-Huntington Beach (3.8%). Overall, rents increased 1.1% in Los Angeles County in 2017, which is far more modest compared to the income growth of renter households (6.1%) in the County from 2015 to 2016.

Vacancy rates were generally quite low among the County's submarkets. The lowest average vacancy rate was in Inglewood-Gardena-Hawthorne at 2.3% (which also had one of the lowest rents), followed by the Southeast Los Angeles at 3.3% and West San Gabriel Valley submarket at 3.8%. Changes in vacancy rates were mixed last year, with decreases in three of Los Angeles County's 12 submarkets and increases in the remaining submarkets, except for Coastal Communities-Beverly Hills submarket, which was unchanged. Nevertheless, vacancy rates remained sufficiently low to push up rents, and we expect this pattern to continue.

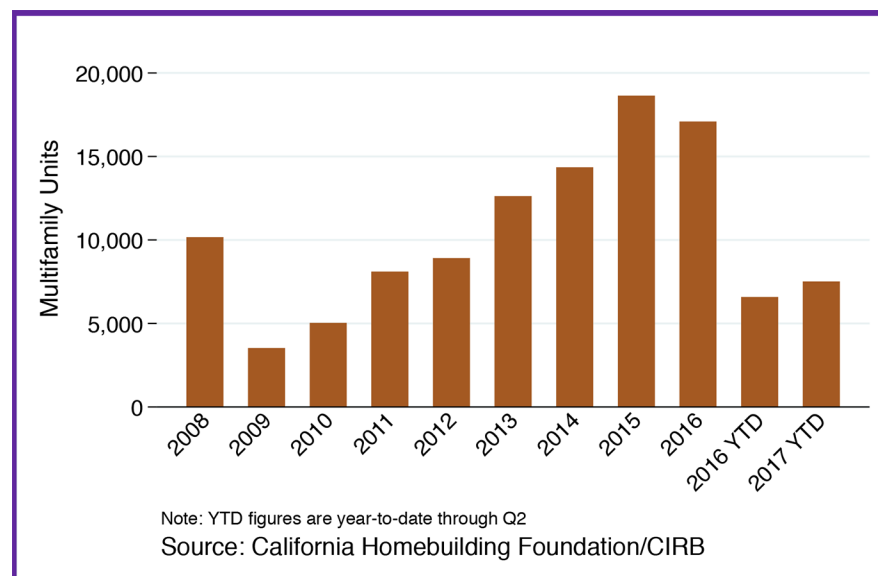
Population increases in Los Angeles County will fuel demand over the next few years, and with more Millennials entering their late twenties and early thirties, demand for multifamily property should be particularly strong – given that homeownership rates continue to remain low.¹ Builders have responded to demographic forces in recent years, pushing new multifamily construction to pre-recession levels. Much of the growth in multifamily construction has been centered in select locations with moderate to high-income renters.

¹ According to a recent study titled "American's Rental Housing: Expanding Options for Diverse and Growing Demand" by the Joint Center for Housing Studies of Harvard University, based on current national homeownership rates, the number of Millennial renters preferring multifamily options would double by 2025. While the study was conducted at the national level, as the beginning of this report shows, this is also applicable to the Los Angeles market.

LOS ANGELES COUNTY RENTS/VACANCY



MULTIFAMILY PERMIT ACTIVITY LOS ANGELES



Los Angeles County Renter Household Statistics

PERCENT WITH CHILDREN	35.1%
AVERAGE HOUSEHOLD SIZE	2.65
MEDIAN HOUSEHOLD INCOME	\$41,527
RACE (%):	
White	30.6%
Black	11.7%
Asian	12.5%
Hispanic (all races)	41.5%
All Other Races	3.7%
EDUCATION (%):	
Less than HS	22.7%
HS Diploma	47.3%
Bachelor's Degree	20.7%
Graduate Degree	9.4%
HOUSING BURDEN/SHARE OF INCOME	53.6%

Los Angeles County Rental Units By Size of Structure

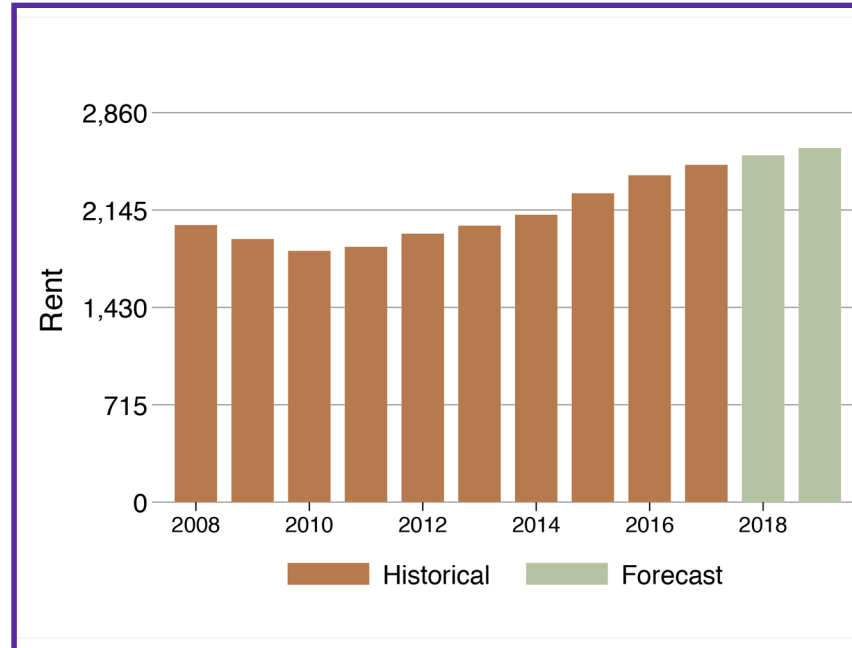
SINGLE FAMILY (Detached & Attached)	28.0%
2-4 UNITS	14.0%
5-9 UNITS	13.3%
10-19 UNITS	13.5%
20 UNITS+	31.2%

Los Angeles County Rental Units

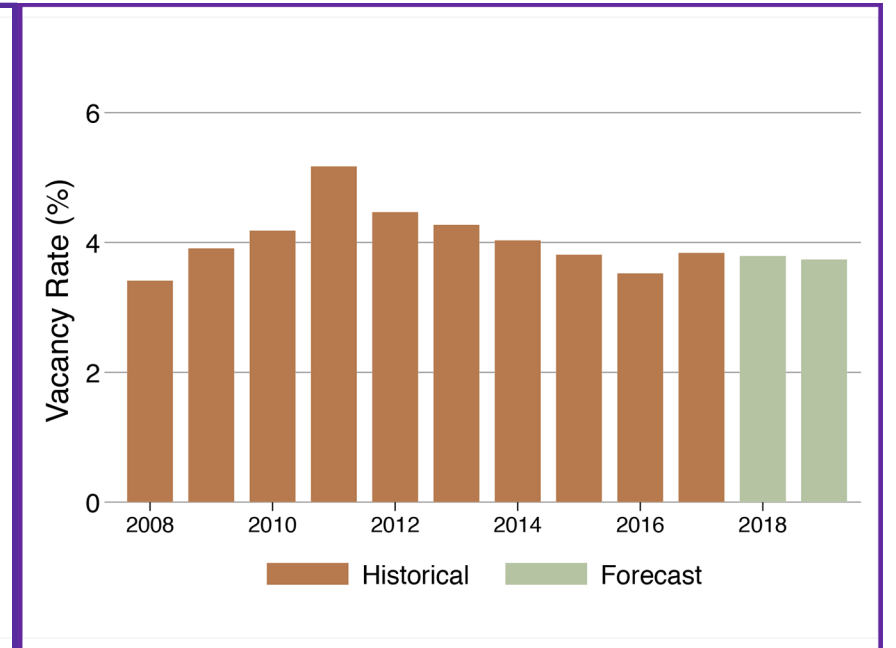
BEFORE 1970	57.8%
1970-1999	35.2%
2000-2015	6.9%

Source: American Community Survey (2015)

Burbank-Glendale Market
Los Angeles County, 2008 to 2019

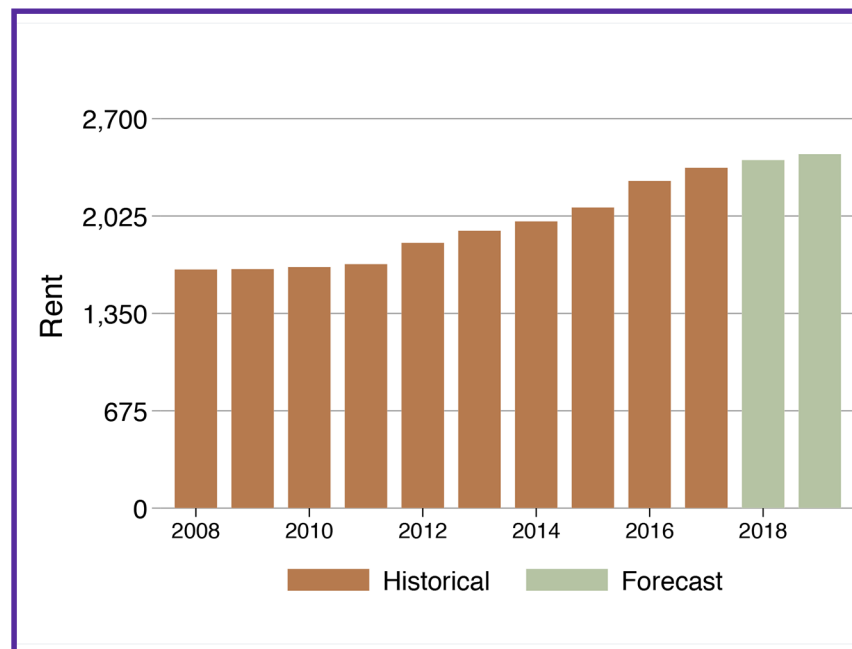


Source: Axiometrics and Beacon Economics

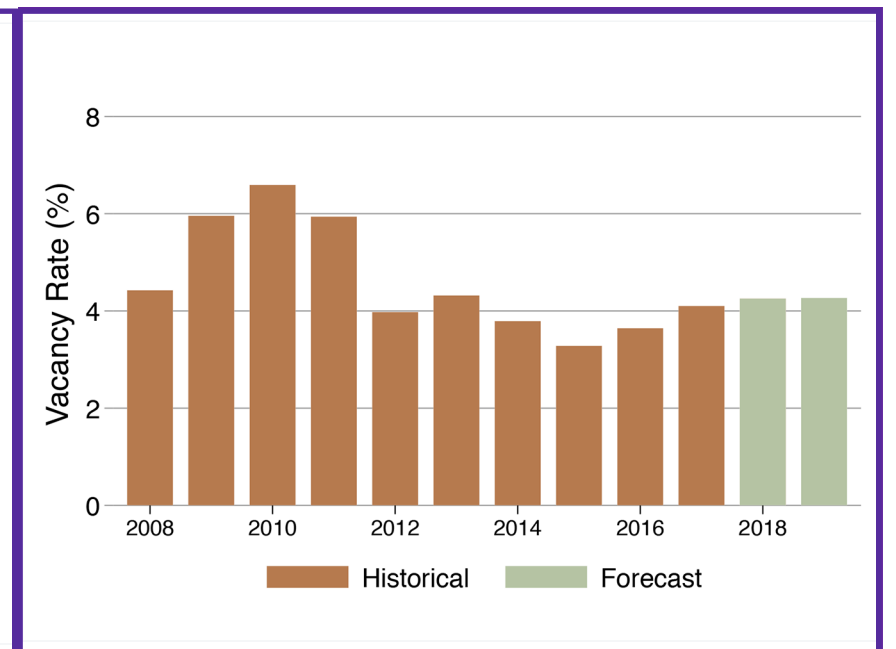


Source: Axiometrics and Beacon Economics

Downtown Market
Los Angeles County, 2008 to 2019

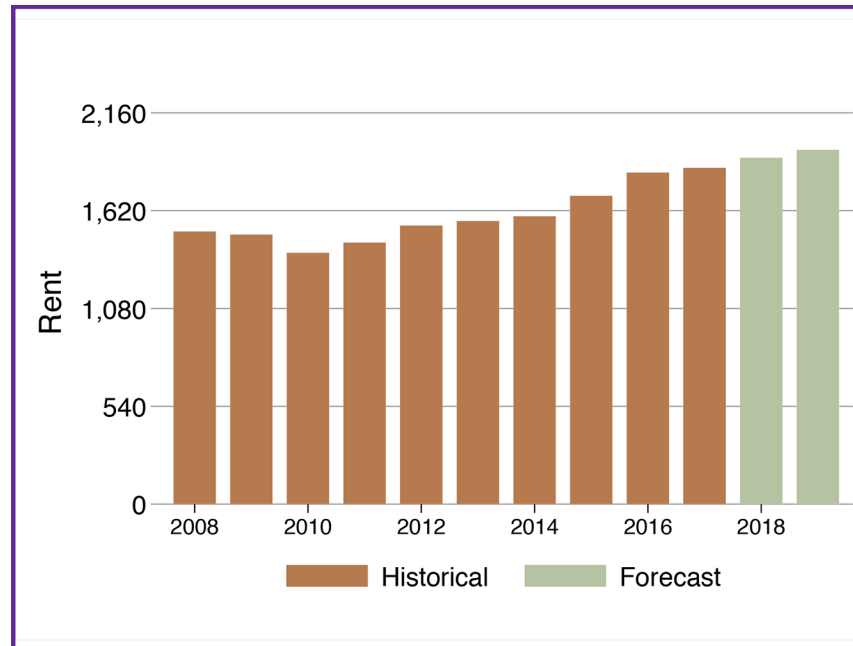


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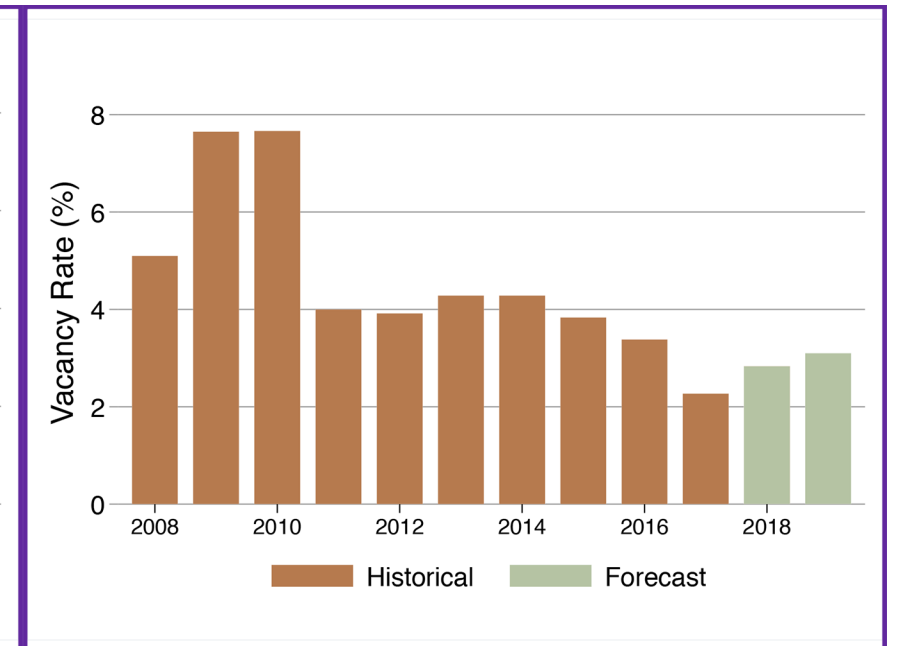


Source: Axiometrics and Beacon Economics

Inglewood-Gardena-Hawthorne Market
Los Angeles County, 2008 to 2019

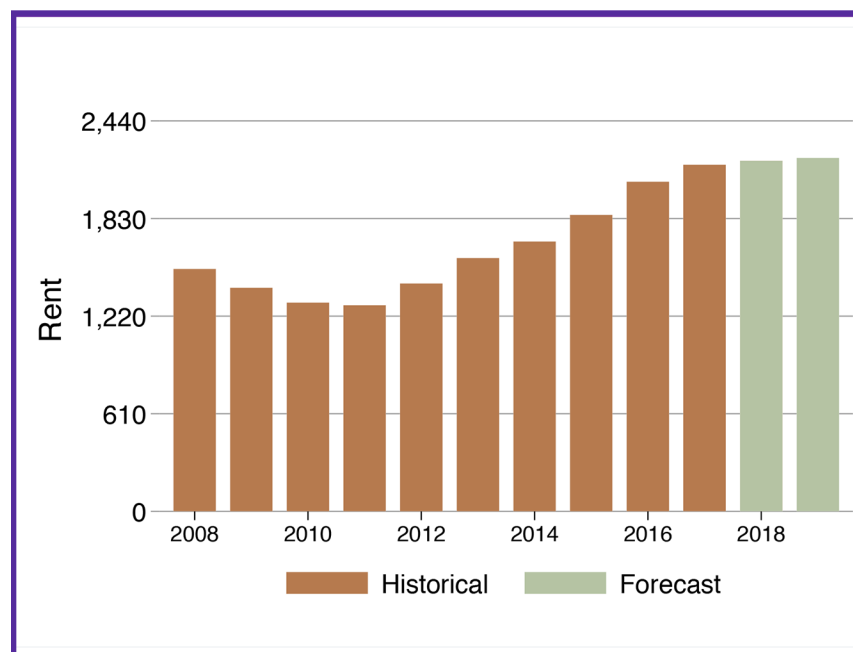


Source: Axiometrics and Beacon Economics

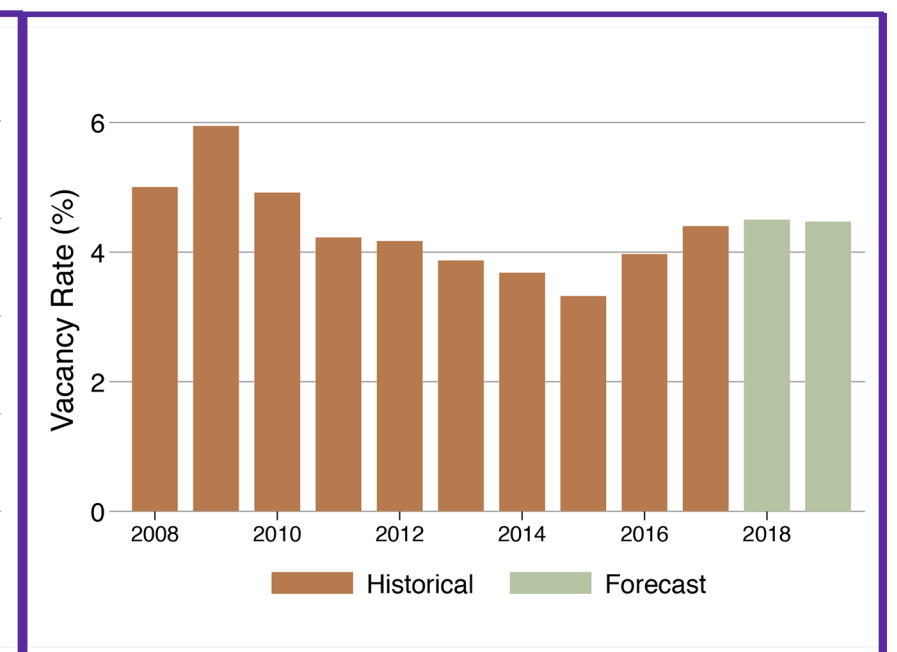


Source: Axiometrics and Beacon Economics

Korea Town-Mid-City Market
Los Angeles County, 2008 to 2019

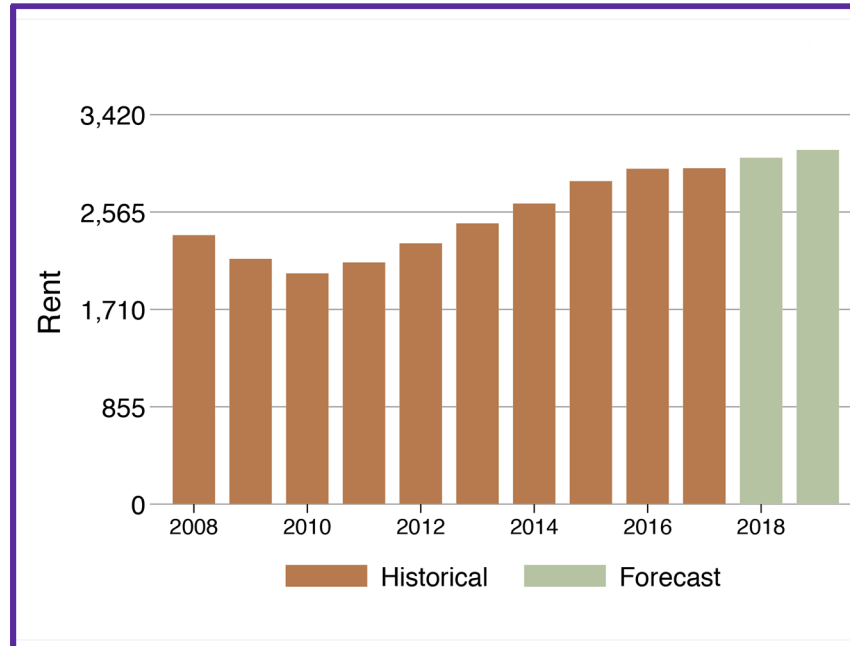


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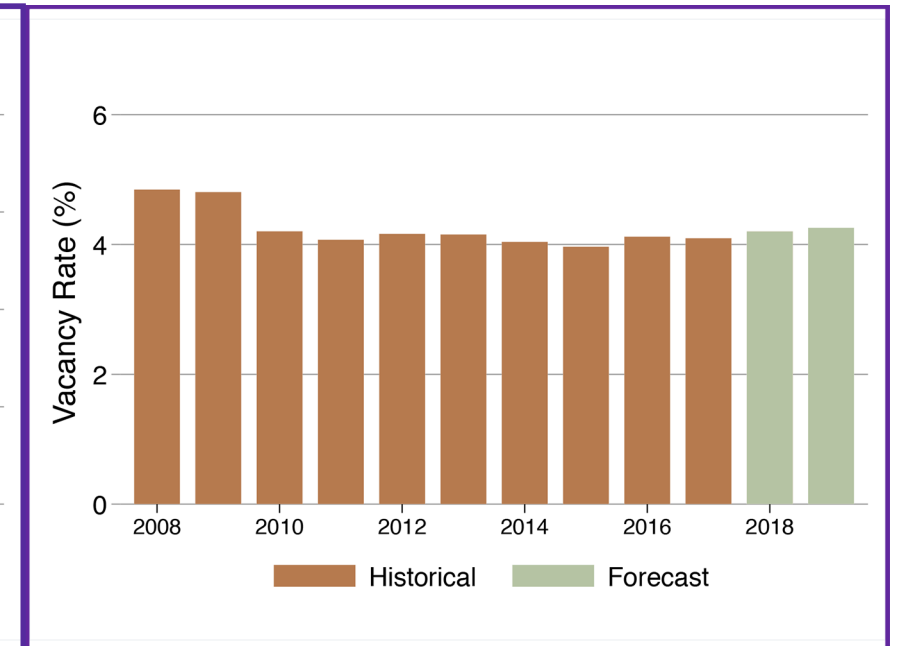


Source: Axiometrics and Beacon Economics

Coastal Communities-Beverly Hills Market
Los Angeles County, 2008 to 2019

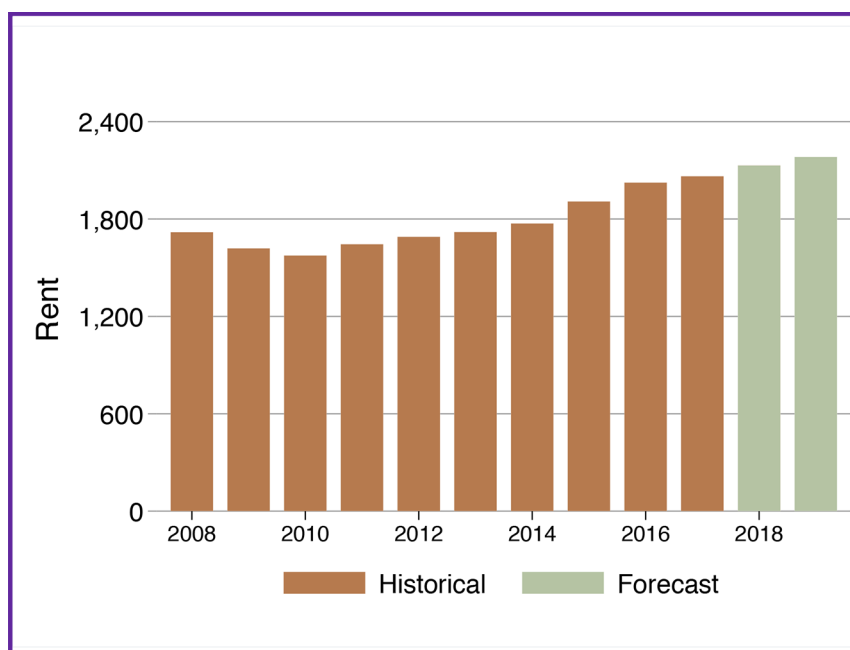


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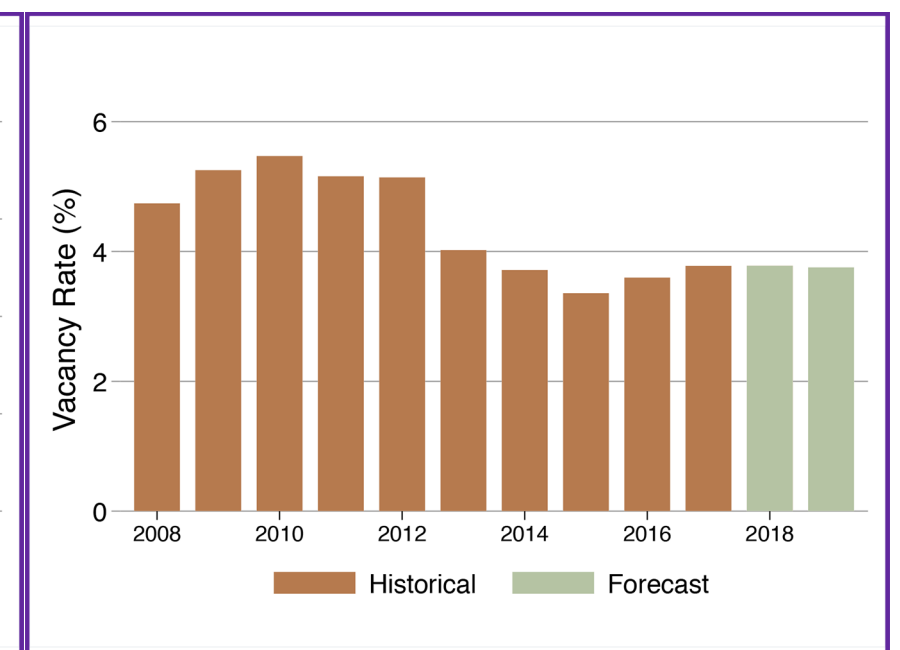


Source: Axiometrics and Beacon Economics

Long Beach-South Bay Market
Los Angeles County, 2008 to 2019

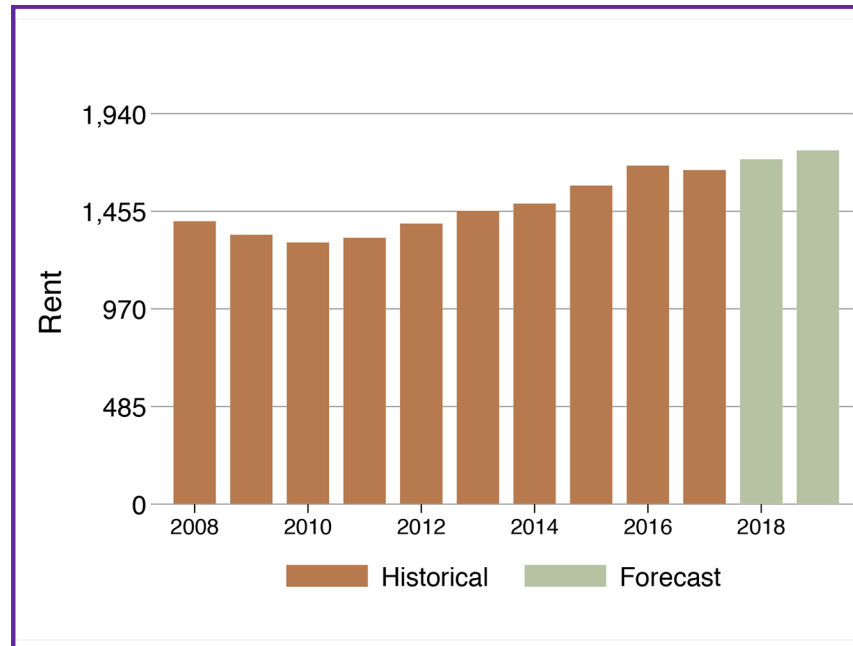


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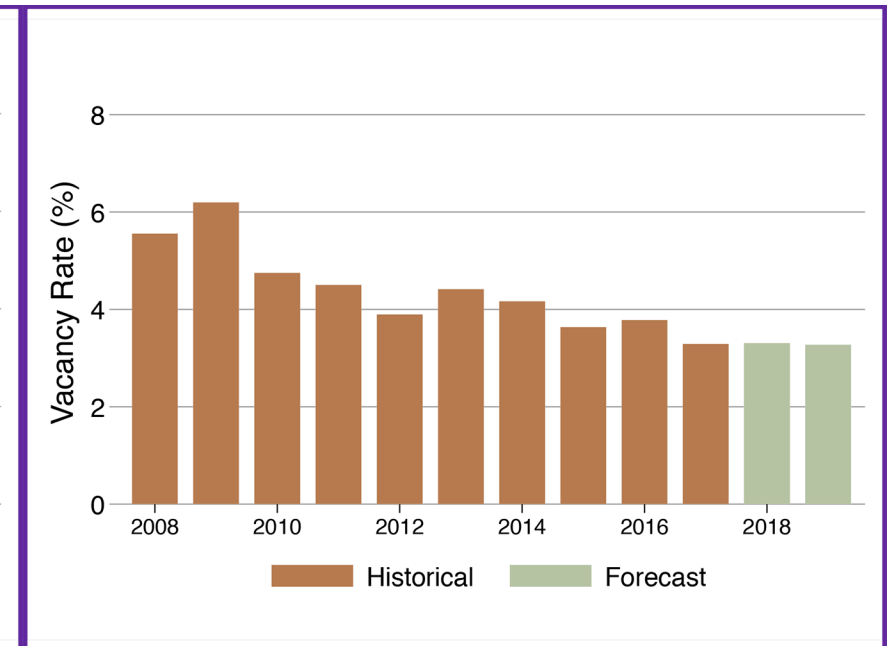


Source: Axiometrics and Beacon Economics

Southeast Los Angeles Market
Los Angeles County, 2008 to 2019

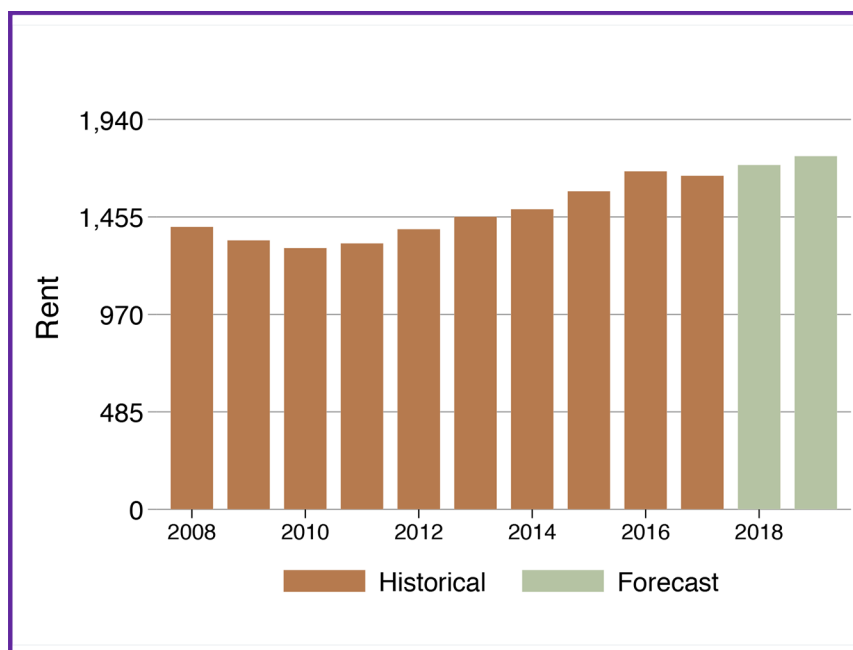


Source: Axiometrics and Beacon Economics

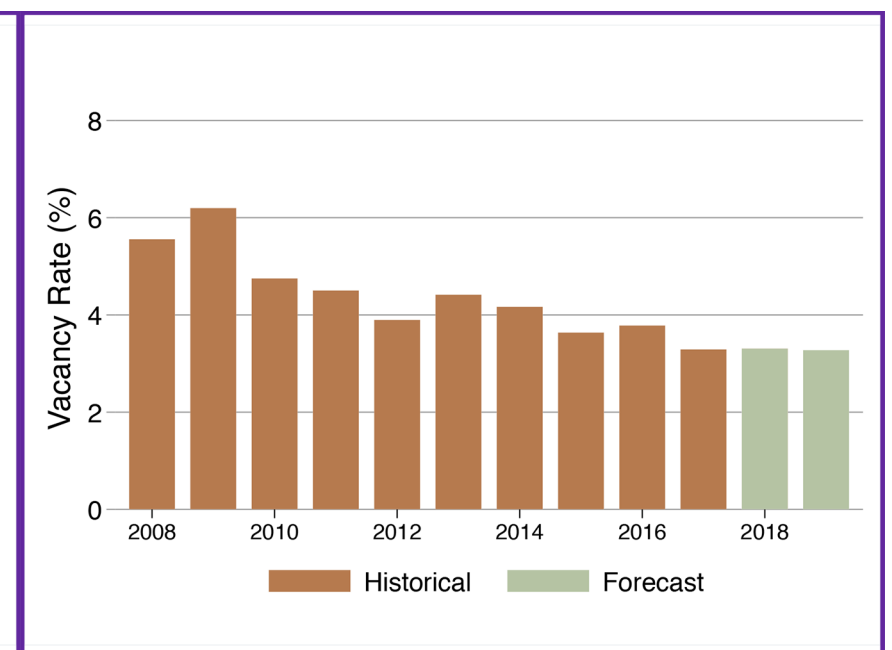


Source: Axiometrics and Beacon Economics

South Los Angeles Market
Los Angeles County, 2008 to 2019

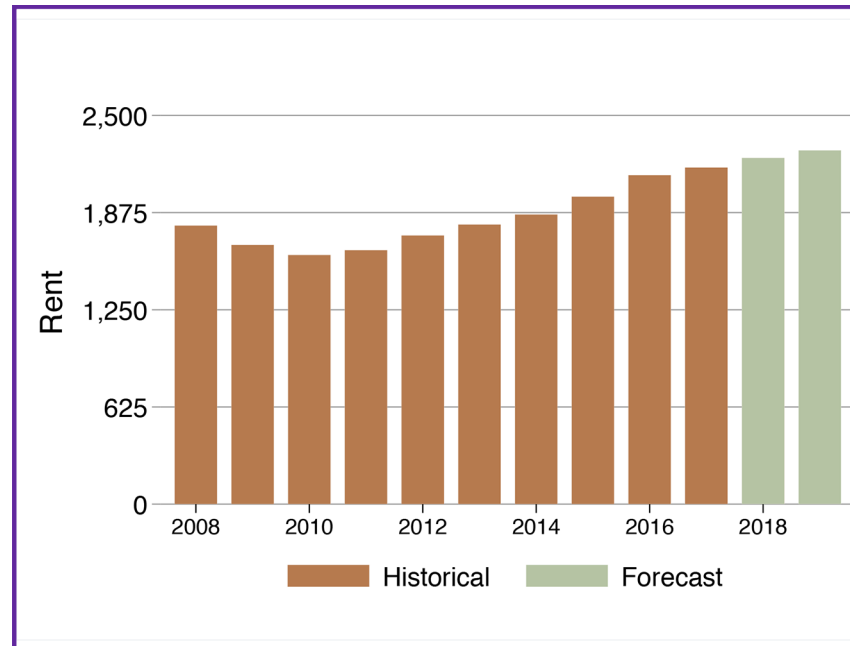


Source: Axiometrics and Beacon Economics

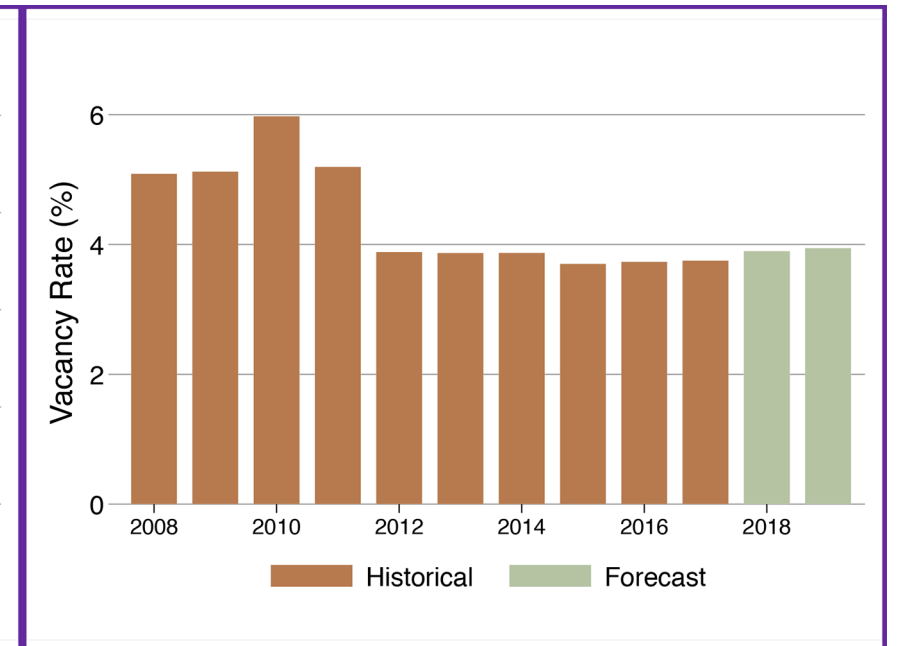


Source: Axiometrics and Beacon Economics

West San Gabriel Valley Market
Los Angeles County, 2008 to 2019

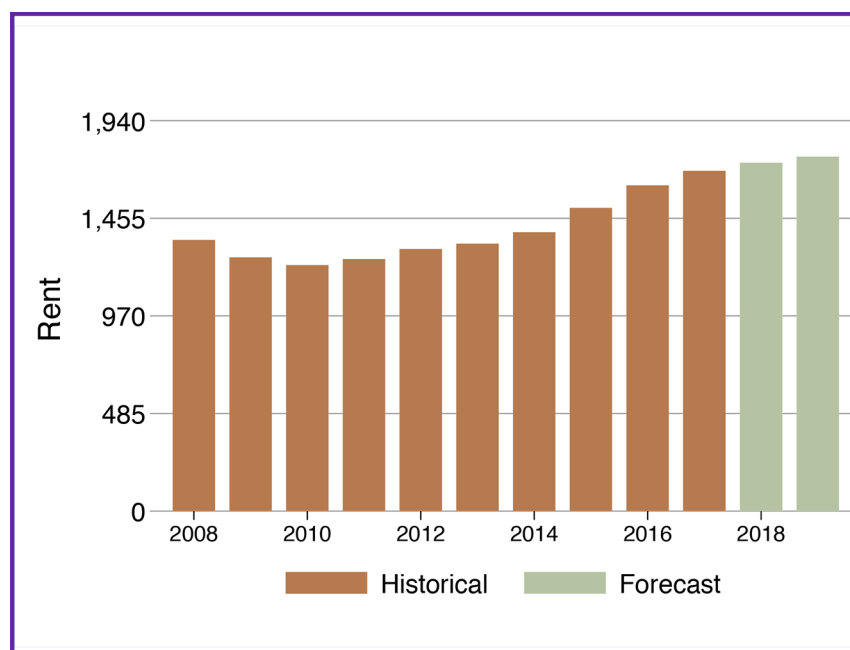


Source: Axiometrics and Beacon Economics

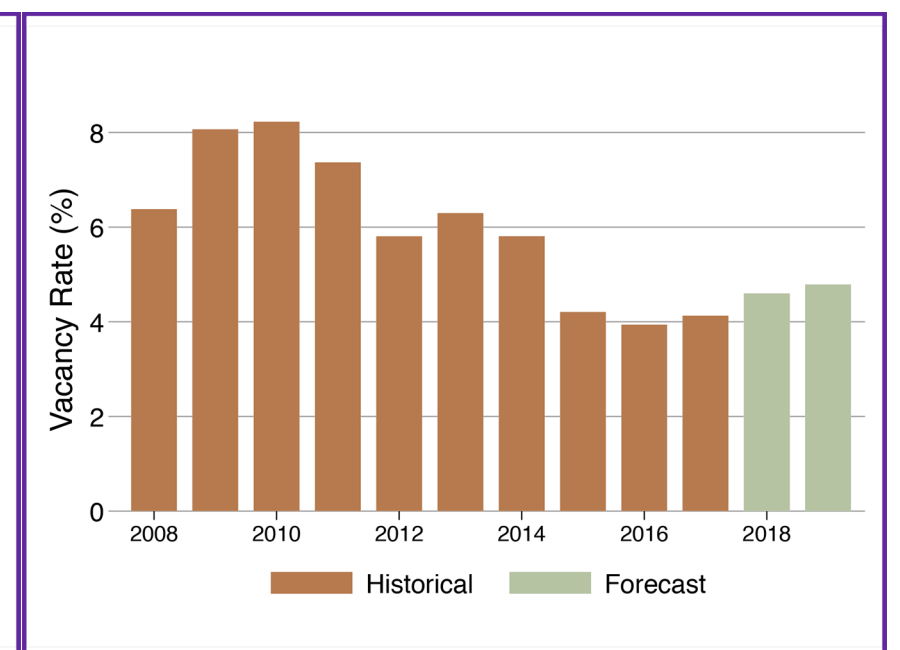


Source: Axiometrics and Beacon Economics

Palmdale-Lancaster Market
Los Angeles County, 2008 to 2019

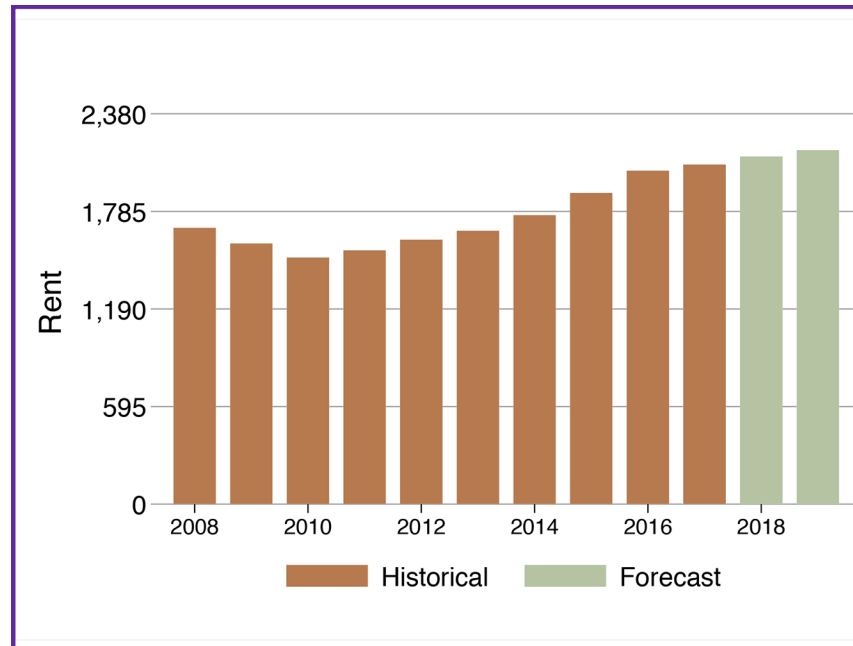


Source: Axiometrics and Beacon Economics

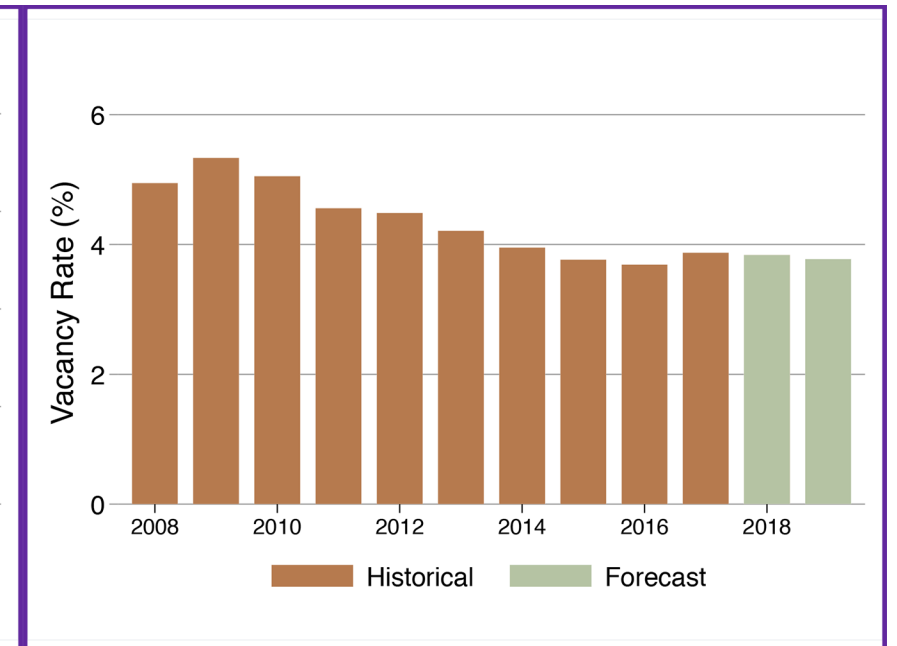


Source: Axiometrics and Beacon Economics

San Fernando Valley Market
Los Angeles County, 2008 to 2019

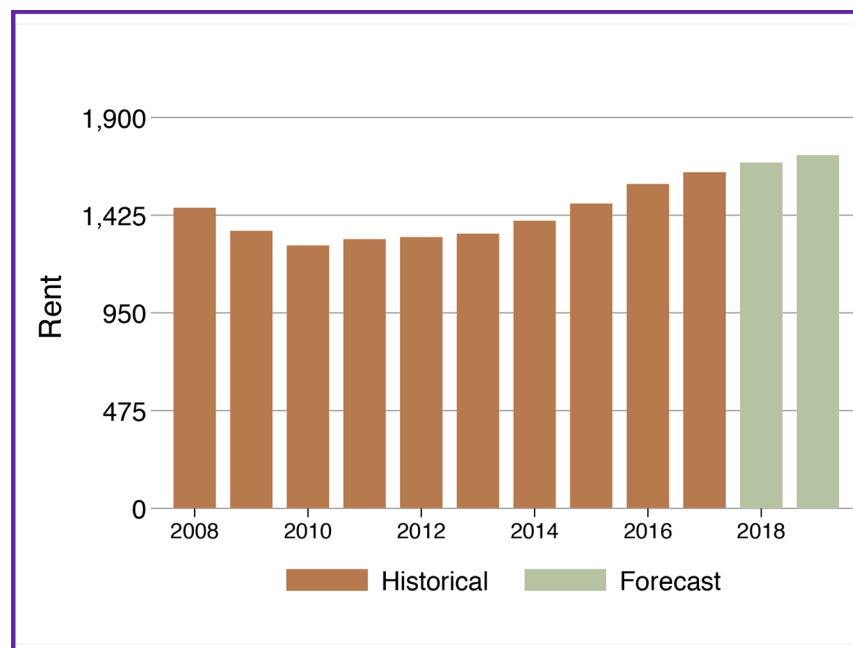


Source: Axiometrics and Beacon Economics

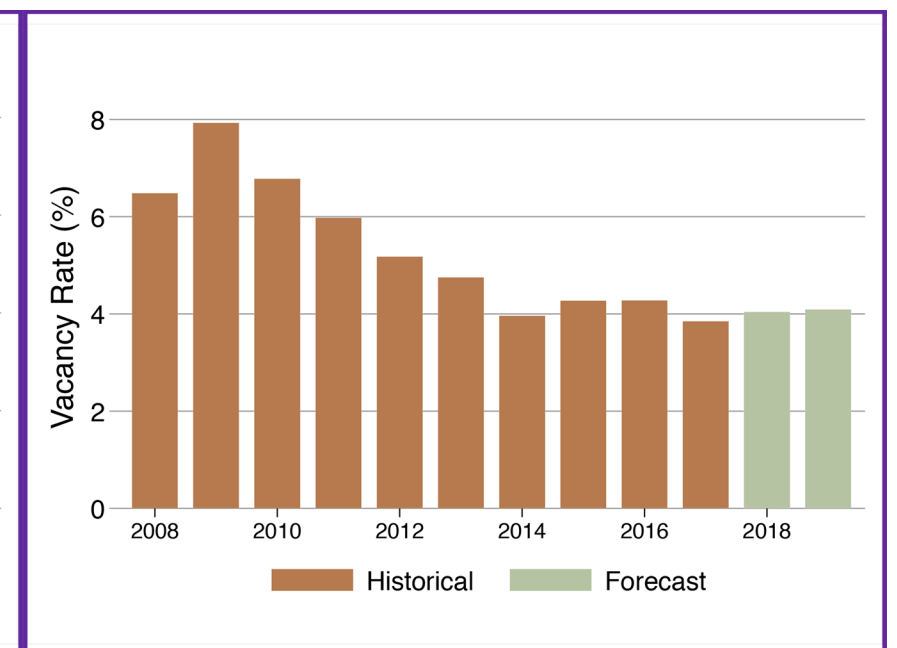


Source: Axiometrics and Beacon Economics

East San Gabriel Valley Market
Los Angeles County, 2008 to 2019



Source: Axiometrics and Beacon Economics



Source: Axiometrics and Beacon Economics

Burbank/Glendale Renter Household Statistics

PERCENT WITH CHILDREN	30.1%
AVERAGE HOUSEHOLD SIZE	2.42
MEDIAN HOUSEHOLD INCOME	\$43,864
RACE (%):	
White	58.5%
Black	3.4%
Asian	11.7%
Hispanic (all races)	23.7%
All Other Races	2.6%
EDUCATION (%):	
Less than HS	16.3%
HS Diploma	53.3%
Bachelor's Degree	21.4%
Graduate Degree	9.0%
HOUSING BURDEN/SHARE OF INCOME	55.4%

Burbank/Glendale Rental Units By Size of Structure

SINGLE FAMILY (Detached & Attached)	19.6%
2-4 UNITS	13.1%
5-9 UNITS	20.1%
10-19 UNITS	17.2%
20 UNITS+	30.0%

Burbank/Glendale Rental Units By Year Built

BEFORE 1970	53.5%
1970-1999	38.0%
2000-2015	8.5%

Source: American Community Survey (2015)

Downtown Renter Household Statistics

PERCENT WITH CHILDREN	30.1%
AVERAGE HOUSEHOLD SIZE	2.44
MEDIAN HOUSEHOLD INCOME	\$32,343
RACE (%):	
White	21.2%
Black	7.2%
Asian	17.5%
Hispanic (all races)	49.5%
All Other Races	4.7%
EDUCATION (%):	
Less than HS	33.1%
HS Diploma	37.0%
Bachelor's Degree	22.2%
Graduate Degree	7.7%
HOUSING BURDEN/SHARE OF INCOME	54.3%

Downtown Rental Units By Size of Structure

SINGLE FAMILY (Detached & Attached)	18.6%
2-4 UNITS	10.7%
5-9 UNITS	9.4%
10-19 UNITS	10.7%
20 UNITS+	50.6%

Downtown Rental Units By Year Built

BEFORE 1970	64.1%
1970-1999	23.1%
2000-2015	12.8%

Source: American Community Survey (2015)

Inglewood/Gardena/Hawthorne Renter Household Statistics

PERCENT WITH CHILDREN	43.5%
AVERAGE HOUSEHOLD SIZE	2.74
MEDIAN HOUSEHOLD INCOME	\$36,890
RACE (%):	
White	6.1%
Black	37.1%
Asian	7.7%
Hispanic (all races)	45.3%
All Other Races	3.7%
EDUCATION (%):	
Less than HS	23.6%
HS Diploma	61.4%
Bachelor's Degree	11.5%
Graduate Degree	3.5%
HOUSING BURDEN/SHARE OF INCOME	61.0%

Inglewood/Gardena/Hawthorne Rental Units By Size of Structure

SINGLE FAMILY (Detached & Attached)	
2-4 UNITS	29.0%
5-9 UNITS	16.6%
10-19 UNITS	16.10%
20 UNITS+	14.4%
2400.0%	

Inglewood/Gardena/Hawthorne Rental Units By Year Built

BEFORE 1970	60.2%
1970-1999	35.4%
2000-2015	4.4%

Source: American Community Survey (2015)

Koreatown/Midcity Renter Household Statistics

PERCENT WITH CHILDREN	28.6%
AVERAGE HOUSEHOLD SIZE	2.41
MEDIAN HOUSEHOLD INCOME	\$31,909
RACE (%):	
White	8.5%
Black	29.4%
Asian	19.2%
Hispanic (all races)	40.3%
All Other Races	2.6%
EDUCATION (%):	
Less than HS	26.7%
HS Diploma	48.6%
Bachelor's Degree	18.9%
Graduate Degree	5.7%
HOUSING BURDEN/SHARE OF INCOME	58.2%

Koreatown/Midcity Rental Units By Size of Structure

SINGLE FAMILY (Detached & Attached)	14.8%
2-4 UNITS	15.4%
5-9 UNITS	12.5%
10-19 UNITS	17.7%
20 UNITS+	39.6%

Koreatown/Midcity Rental Units By Year Built

BEFORE 1970	69.5%
1970-1999	25.4%
2000-2015	5.1%

Source: American Community Survey (2015)

Coastal Communities/Beverly Hills Renter Household Statistics

PERCENT WITH CHILDREN	17.2%
AVERAGE HOUSEHOLD SIZE	1.97
MEDIAN HOUSEHOLD INCOME	\$60,142
RACE (%):	
White	59.7%
Black	7.3%
Asian	11.7%
Hispanic (all races)	16.5%
All Other Races	4.9%
EDUCATION (%):	
Less than HS	7.0%
HS Diploma	35.6%
Bachelor's Degree	37.2%
Graduate Degree	20.2%
HOUSING BURDEN/SHARE OF INCOME	47.5%

Coastal Communities/Beverly Hills Rental Units By Size of Structure

SINGLE FAMILY (Detached & Attached)	12.8%
2-4 UNITS	13.8%
5-9 UNITS	17.7%
10-19 UNITS	17.9%
20 UNITS+	37.8%

Coastal Communities/Beverly Hills Rental Units By Year Built

BEFORE 1970	54.1%
1970-1999	37.4%
2000-2015	8.6%

Source: American Community Survey (2015)

Long Beach/South Bay Renter Household Statistics

PERCENT WITH CHILDREN	37.4%
AVERAGE HOUSEHOLD SIZE	2.64
MEDIAN HOUSEHOLD INCOME	\$45,321
RACE (%):	
White	28.9%
Black	3.8%
Asian	15.6%
Hispanic (all races)	36.7%
All Other Races	5.1%
EDUCATION (%):	
Less than HS	21.2%
HS Diploma	51.2%
Bachelor's Degree	19.5%
Graduate Degree	8.1%
HOUSING BURDEN/SHARE OF INCOME	52.5%

Long Beach/South Bay Rental Units By Size of Structure

SINGLE FAMILY (Detached & Attached)	27.6%
2-4 UNITS	21.1%
5-9 UNITS	12.7%
10-19 UNITS	15.4%
20 UNITS+	23.2%

Long Beach/South Bay Rental Units By Year Built

BEFORE 1970	65.2%
1970-1999	31.9%
2000-2015	2.9%

Source: American Community Survey (2015)

Southeast Los Angeles Renter Household Statistics

PERCENT WITH CHILDREN	43.7%
AVERAGE HOUSEHOLD SIZE	3.09
MEDIAN HOUSEHOLD INCOME	\$43,026
RACE (%):	
White	13.1%
Black	8.8%
Asian	8.1%
Hispanic (all races)	67.2%
All Other Races	2.7%
EDUCATION (%):	
Less than HS	25.9%
HS Diploma	60.3%
Bachelor's Degree	9.6%
Graduate Degree	4.2%
HOUSING BURDEN/SHARE OF INCOME	53.2%

Southeast Los Angeles Rental Units By Size of Structure

SINGLE FAMILY (Detached & Attached)	32.9%
2-4 UNITS	9.7%
5-9 UNITS	10.5%
10-19 UNITS	12.1%
20 UNITS+	34.7%

Southeast Los Angeles Rental Units By Year Built

BEFORE 1970	61.2%
1970-1999	35.1%
2000-2015	3.7%

Source: American Community Survey (2015)

West San Gabriel Valley Renter Household Statistics

PERCENT WITH CHILDREN	39.3%
AVERAGE HOUSEHOLD SIZE	2.82
MEDIAN HOUSEHOLD INCOME	\$43,605
RACE (%):	
White	21.8%
Black	5.0%
Asian	24.2%
Hispanic (all races)	45.3%
All Other Races	3.6%
EDUCATION (%):	
Less than HS	24.7%
HS Diploma	44.6%
Bachelor's Degree	19.7%
Graduate Degree	11.0%
HOUSING BURDEN/SHARE OF INCOME	51.8%

West San Gabriel Valley Rental Units By Size of Structure

SINGLE FAMILY (Detached & Attached)	39.2%
2-4 UNITS	17.9%
5-9 UNITS	13.1%
10-19 UNITS	11.6%
20 UNITS+	18.2%

West San Gabriel Valley Rental Units By Year Built

BEFORE 1970	67.4%
1970-1999	28.3%
2000-2015	4.3%

Source: American Community Survey (2015)

Palmdale/Landcaster Renter Household Statistics

PERCENT WITH CHILDREN	47.6%
AVERAGE HOUSEHOLD SIZE	2.97
MEDIAN HOUSEHOLD INCOME	\$42,481
RACE (%):	
White	39.6%
Black	20.9%
Asian	5.0%
Hispanic (all races)	30.7%
All Other Races	3.8%
EDUCATION (%):	
Less than HS	16.7%
HS Diploma	66.8%
Bachelor's Degree	10.7%
Graduate Degree	5.8%
HOUSING BURDEN/SHARE OF INCOME	52.2%

Palmdale/Landcaster Rental Units By Size of Structure

SINGLE FAMILY (Detached & Attached)	49.2%
2-4 UNITS	10.6%
5-9 UNITS	15.3%
10-19 UNITS	8.5%
20 UNITS+	16.5%

Palmdale/Landcaster Rental Units By Year Built

BEFORE 1970	17.3%
1970-1999	69.3%
2000-2015	13.4%

Source: American Community Survey (2015)

San Fernando Valley Renter Household Statistics

PERCENT WITH CHILDREN	36.1%
AVERAGE HOUSEHOLD SIZE	2.69
MEDIAN HOUSEHOLD INCOME	\$40,893
RACE (%):	
White	34.9%
Black	6.5%
Asian	9.6%
Hispanic (all races)	45.8%
All Other Races	3.1%
EDUCATION (%):	
Less than HS	21.9%
HS Diploma	49.3%
Bachelor's Degree	21.2%
Graduate Degree	7.6%
HOUSING BURDEN/SHARE OF INCOME	55.3%

San Fernando Valley Rental Units By Size of Structure

SINGLE FAMILY (Detached & Attached)	21.4%
2-4 UNITS	5.4%
5-9 UNITS	9.1%
10-19 UNITS	13.1%
20 UNITS+	51.1%

San Fernando Valley Rental Units By Year Built

BEFORE 1970	43.9%
1970-1999	46.5%
2000-2015	9.5%

Source: American Community Survey (2015)

East San Gabriel Valley Renter Household Statistics

PERCENT WITH CHILDREN	44.9%
AVERAGE HOUSEHOLD SIZE	3.21
MEDIAN HOUSEHOLD INCOME	\$43,696
RACE (%):	
White	18.2%
Black	3.7%
Asian	16.1%
Hispanic (all races)	58.5%
All Other Races	3.6%
EDUCATION (%):	
Less than HS	26.5%
HS Diploma	53.3%
Bachelor's Degree	14.5%
Graduate Degree	5.7%
HOUSING BURDEN/SHARE OF INCOME	54.7%

East San Gabriel Valley Rental Units By Size of Structure

SINGLE FAMILY (Detached & Attached)	52.3%
2-4 UNITS	10.1%
5-9 UNITS	8.8%
10-19 UNITS	8.1%
20 UNITS+	20.7%

East San Gabriel Valley Rental Units By Year Built

BEFORE 1970	54.5%
1970-1999	40.2%
2000-2015	5.2%

Source: American Community Survey (2015)

ORANGE COUNTY

ORANGE COUNTY

Orange County's economy is routinely among the best performing economies in Southern California. The county's unemployment rate dropped to 3.8% as of July 2017, well below the state average of 4.8% and lower than the nation as a whole. With little slack in the labor market and insufficient new housing coming online to temper rising prices, nonfarm job gains have slowed considerably compared to the last two years, when the county posted yearly gains of 2 or even three percent. Education services had the largest job gains on a proportional basis, with a 7.3% year-over-year increase, followed by Construction, Leisure & Hospitality, Administrative Support, and Government. Growing Construction employment has been driven by the relatively robust activity in the housing market occurring in Orange County and across the state (although neither place is yet building sufficient housing to absorb new demand). Owing to the already low unemployment rate, we believe the county will have incremental job growth over the next two years. Meanwhile, single-family home prices have already surpassed pre-recession levels (nominally), and affordability concerns are mounting.

Throughout Southern California, more households are renting than ever, and this trend is especially pronounced in Orange County. In 2015, there were 443,500 renter households in Orange County, up 10.4% compared to 2010. During the same period, the number of owner households decreased by 0.9%. Although the homeownership rate has historically been higher in Orange County than in nearby Los Angeles County and San Diego County, it has been trending downward. In 2015, the homeownership rate in Orange County was 56.6%, down from 59.2% in 2010.

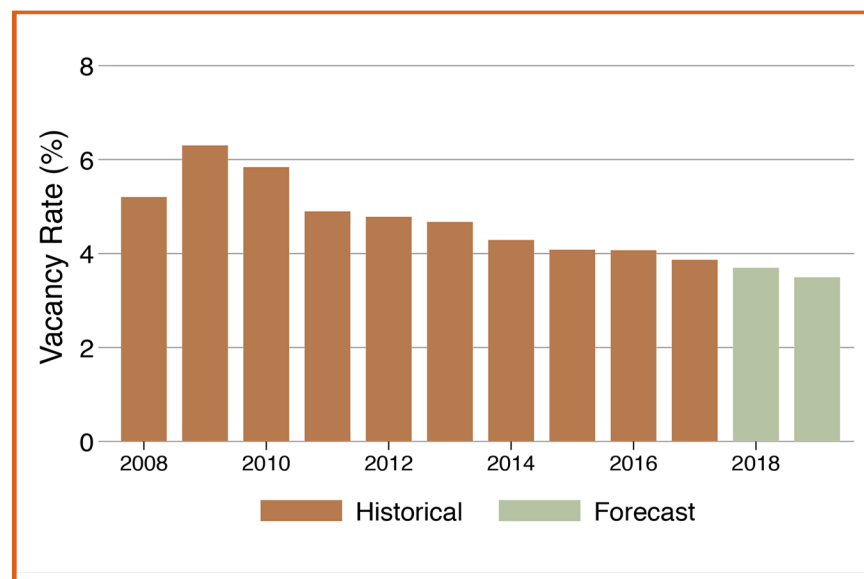
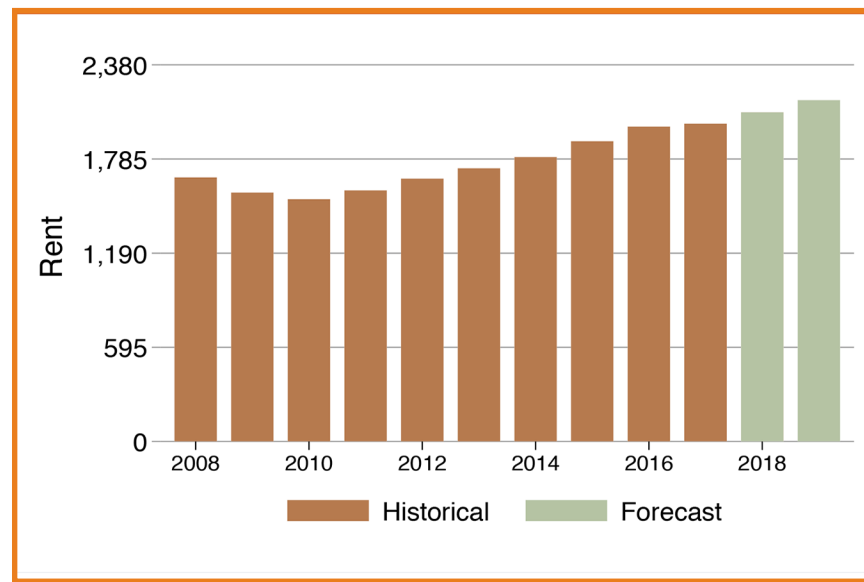
Multifamily construction in Orange County surged in the first few post-recession years, but this growth has decelerated according to the most recent permit data. Between 2015 and 2016, the number of new multifamily building permits grew by only 0.7%. Furthermore, the 2017 year-to-date (January through July) permit numbers reveal that the number of permits issued fell by a steep 40.5% compared to the same period in 2016. As a result of slower growth in new multifamily construction, the Orange County multifamily housing market remains one of the tightest in Southern California, with rising rents and low vacancy rates. The average apartment rent in 2017 was \$2,008 per month, the second-highest monthly rent in Southern California. The vacancy rate for apartments decreased slightly from 4.1% to 3.9% in 2017.

The Newport Beach-Laguna Niguel submarket led Orange County with the highest effective rent in 2017 (\$2,246 per month), followed by Irvine-Mission Viejo-Foothill Ranch (\$2,172 per month) and Anaheim-Orange-Santa Ana (\$1,873 per month). Compared to coastal Los Angeles (the Coastal Communities-Beverly Hills submarket), the average rental rates in coastal Orange County (the Newport Beach-Laguna Niguel submarket) were more than 20% lower per month (\$2,942 per month for coastal Los Angeles versus \$2,246 per month for coastal Orange County). Northern Orange County submarkets tend to have the lowest rents. The submarket with the lowest rent was La Habra-Fullerton-Yorba Linda, at \$1,749 per month, followed by Seal Beach-Huntington Beach at \$1,870 per month. Compared to the second quarter of 2016, we are seeing divergence in rents: submarkets with above metro-average rents showed higher growth in rental rates than submarkets with below metro-average rents. Although Orange County has some of the highest rental rates in the region, income growth averaged 9.8% in 2016, which far outpaced rent growth (0.9%).

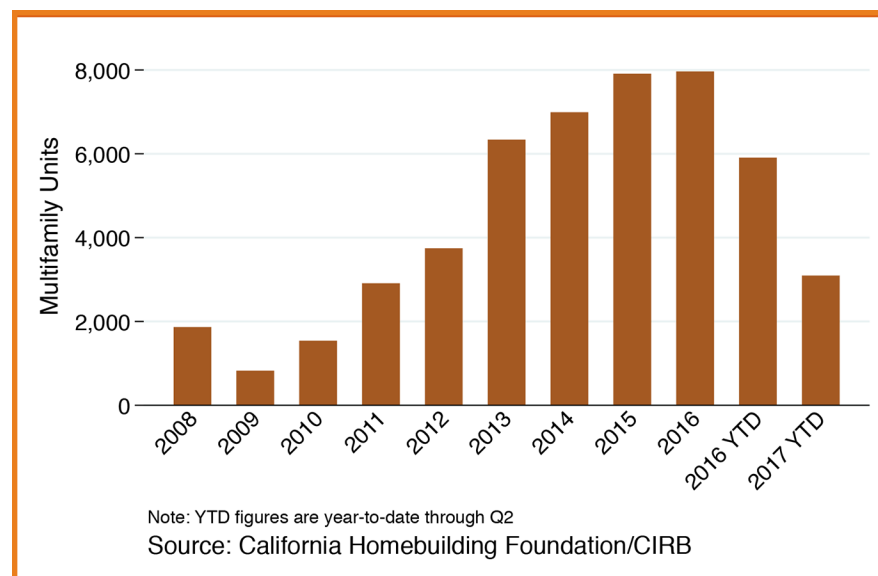
Apartment vacancy rates were generally quite low among Orange County's submarkets. The lowest average vacancy rate was in the densely-populated Anaheim-Orange-Santa Ana submarket, at 3.3%, followed by La Habra-Fullerton-Yorba Linda at 3.5%. Vacancy rates remained almost unchanged for all submarkets. The Newport Beach-Laguna Niguel and Irvine-Mission Viejo-Foothill Ranch submarkets, which had the highest rents among Orange County submarkets, had the second- and fifth-highest vacancy rates at 4.7% and 4.2%, respectively, among all Southern California submarkets in this report. (South Los Angeles had the highest vacancy rate in the second quarter of 2017 at 5.3%)

Over the past year, Orange County's total stock of housing increased, but most of that increase came in the form of multifamily units, both rentals and owner-occupied. Steady increases in Orange County's population will drive up housing demand and absorption of newly build units. However, because it is a relatively high-priced market, more and more new arrivals will opt for one type of multifamily living arrangement or another. Accordingly, Orange County will continue to add to its stock of multifamily units over the next two years.

ORANGE COUNTY RENTS/VACANCY



MULTIFAMILY PERMIT ACTIVITY ORANGE COUNTY



Orange County Renter Household Statistics

PERCENT WITH CHILDREN	39.1%
AVERAGE HOUSEHOLD SIZE	2.89
MEDIAN HOUSEHOLD INCOME	\$54,809
RACE (%):	
White	42.4%
Black	2.4%
Asian	16.9%
Hispanic (all races)	34.0%
All Other Races	4.4%
EDUCATION (%):	
Less than HS	17.4%
HS Diploma	49.8%
Bachelor's Degree	22.6%
Graduate Degree	10.3%
HOUSING BURDEN/SHARE OF INCOME	53.7%

Orange County Rental Units By Size of Structure

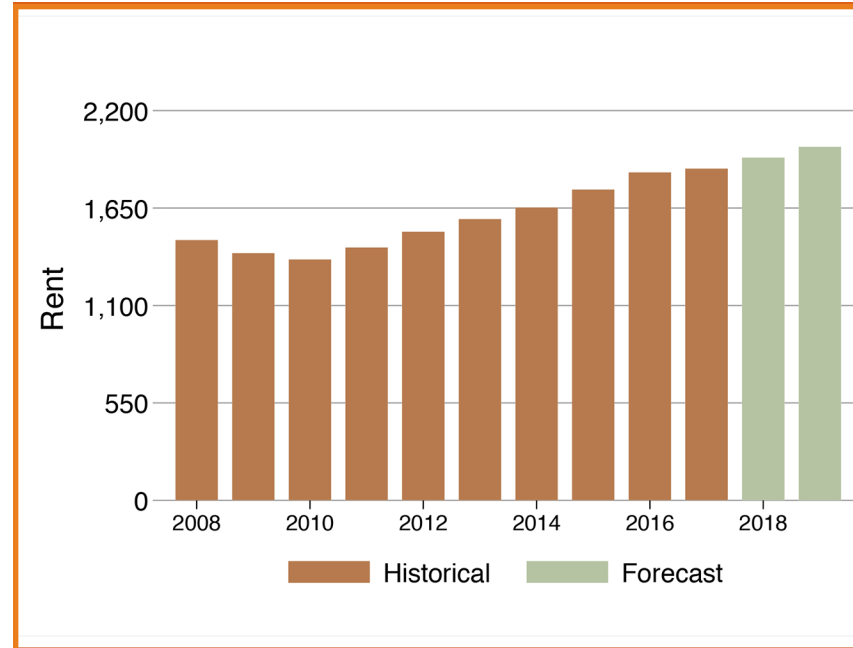
SINGLE FAMILY (Detached & Attached)	27.8%
2-4 UNITS	18.4%
5-9 UNITS	12.8%
10-19 UNITS	11.4%
20 UNITS+	29.7%

Orange County Rental Units By Year Built

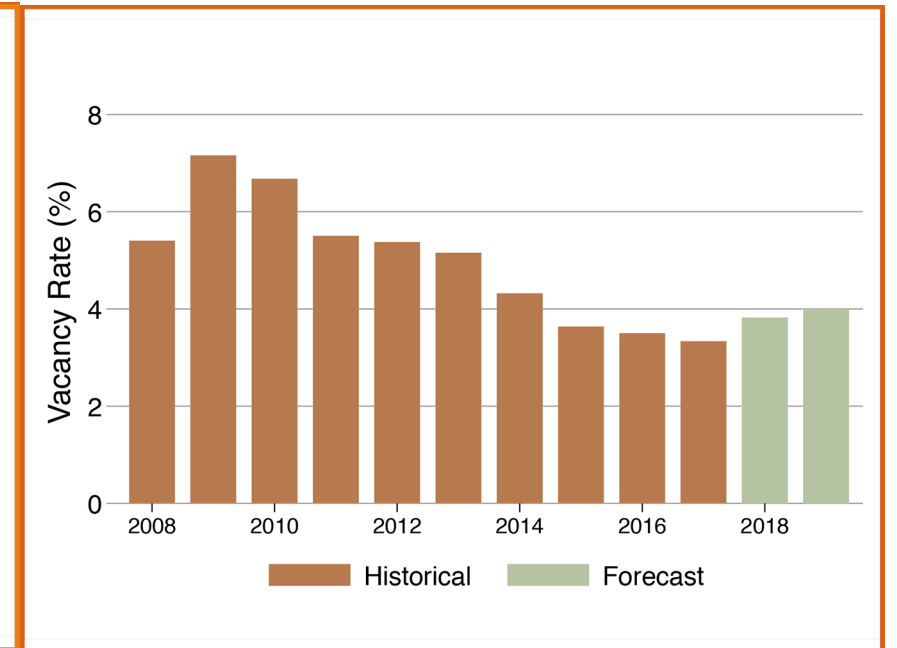
BEFORE 1970	35.8%
1970-1999	52.8%
2000-2015	11.3%

Source: American Community Survey (2015)

Anaheim/Orange/Santa Ana Market
Orange County, 2008 to 2019

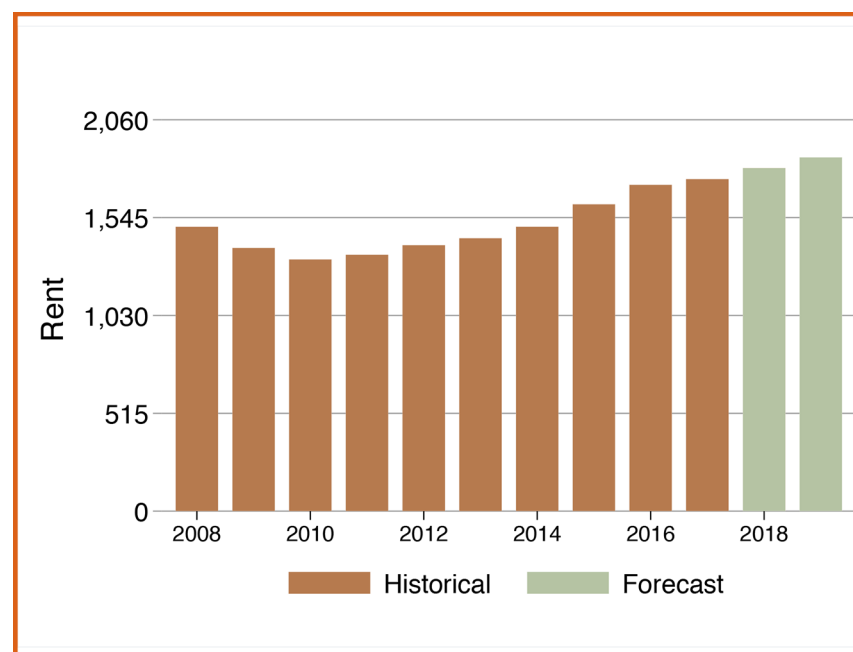


Source: Axiometrics and Beacon Economics

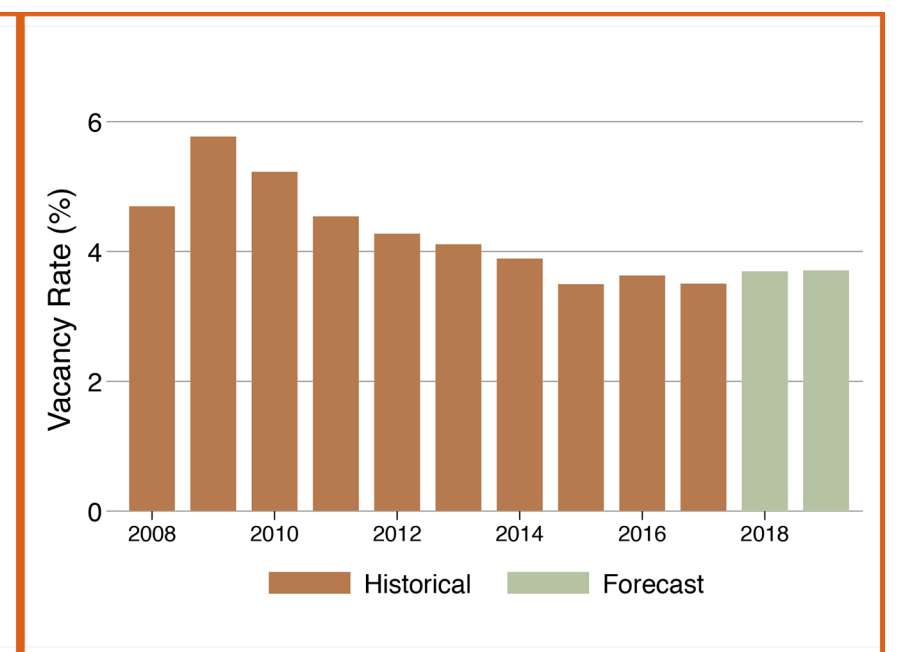


Source: Axiometrics and Beacon Economics

La Habra/Fullerton/Yorba Linda Market
Orange County, 2008 to 2019

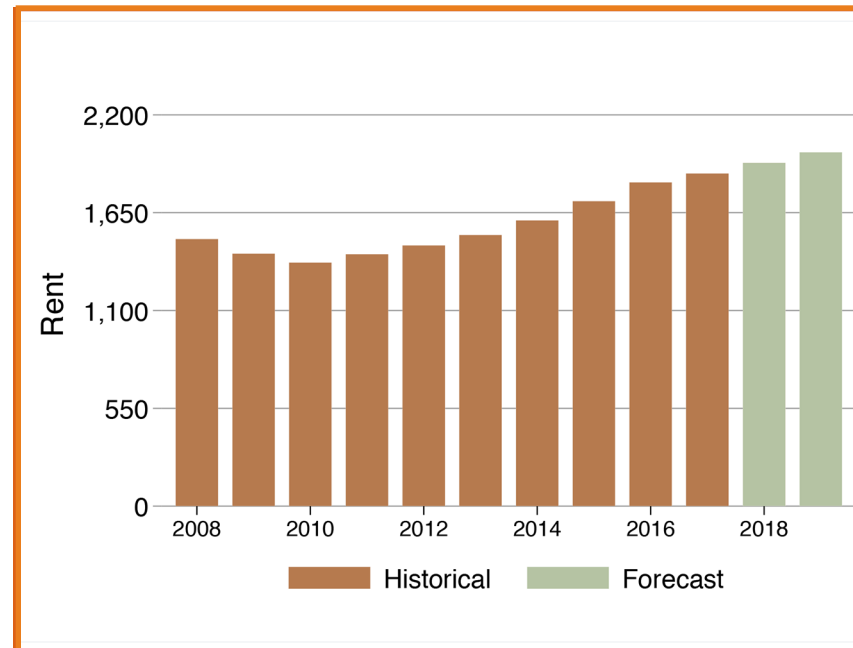


Source: Axiometrics and Beacon Economics

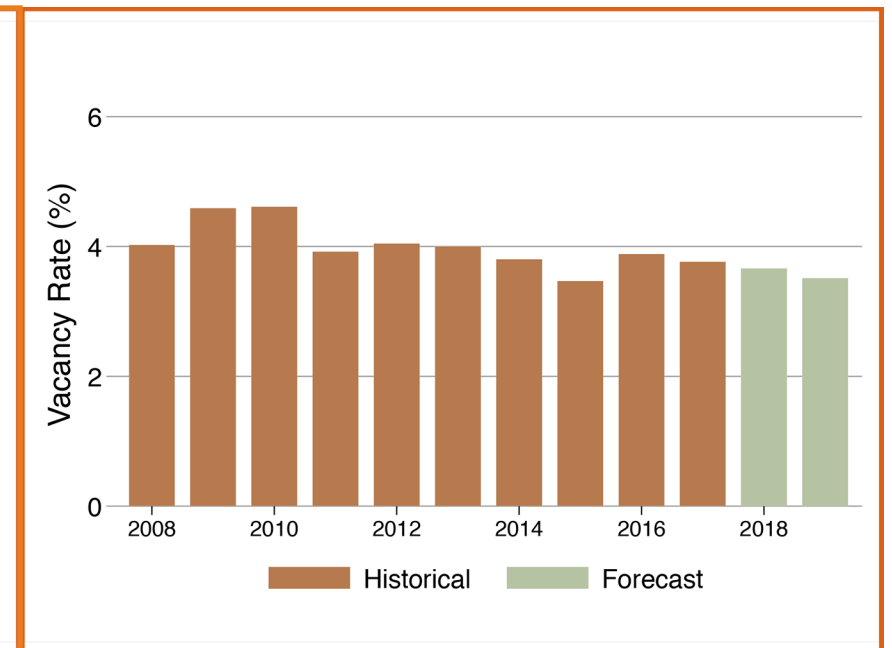


Source: Axiometrics and Beacon Economics

Seal Beach/Huntington Beach Market
Orange County, 2008 to 2019

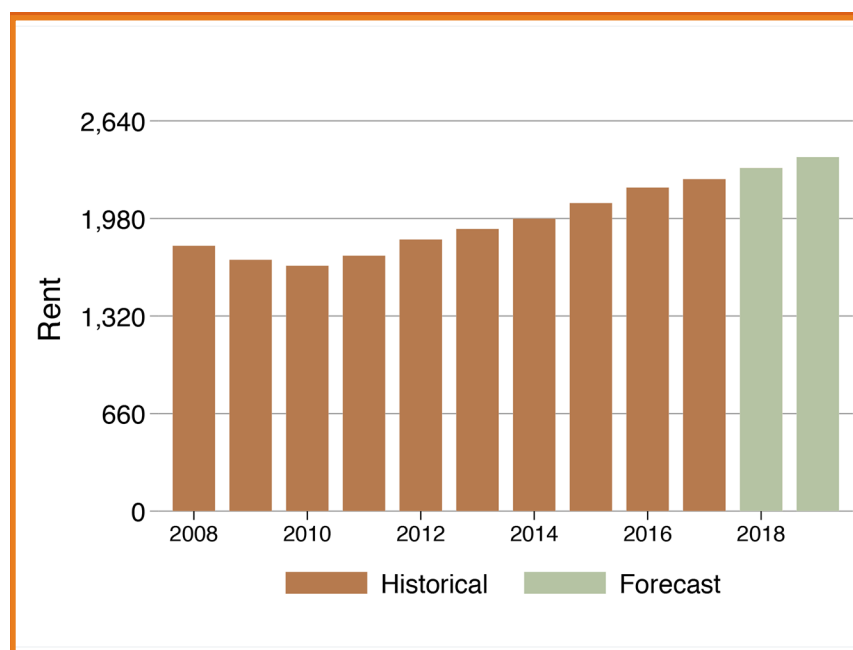


Source: Axiometrics and Beacon Economics

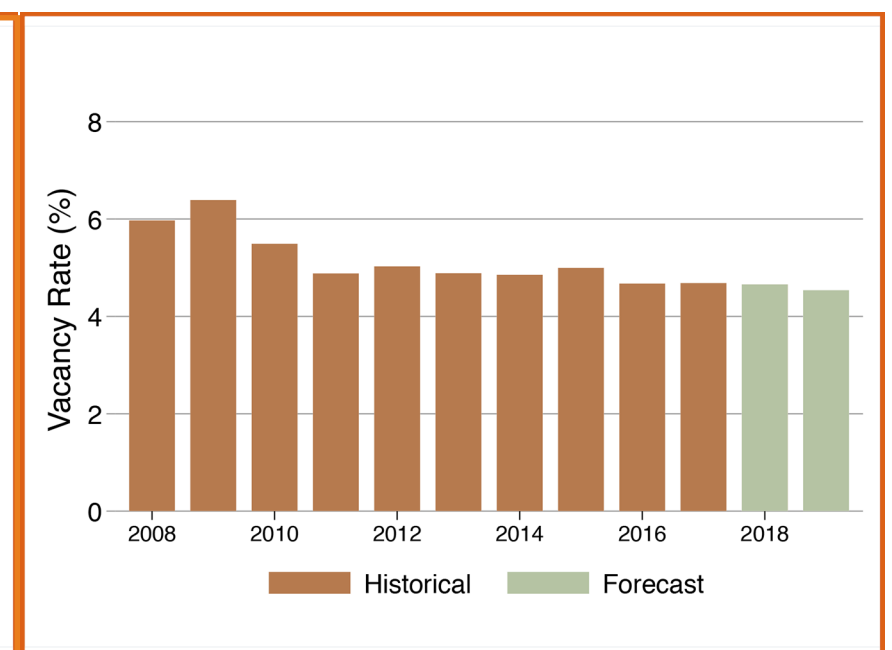


Source: Axiometrics and Beacon Economics

Newport Beach/Laguna Niguel Market
Orange County, 2008 to 2019

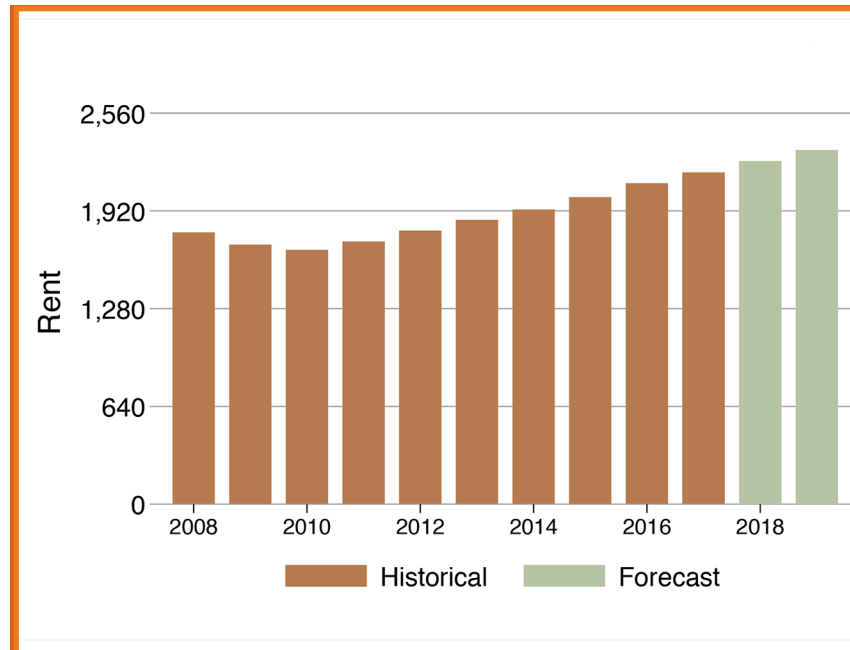


Source: Axiometrics and Beacon Economics

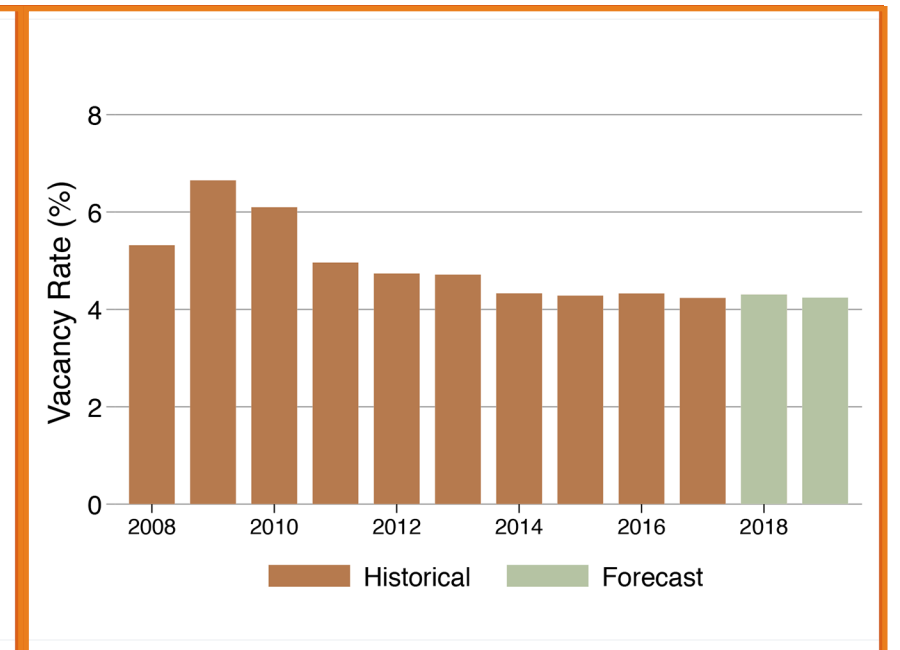


Source: Axiometrics and Beacon Economics

Irvine/Mission Viejo/Foothill Ranch Market
Orange County, 2008 to 2019



Source: Axiometrics and Beacon Economics



Source: Axiometrics and Beacon Economics

Anaheim/Orange/Santa Ana Renter Household Statistics

PERCENT WITH CHILDREN	48.5%
AVERAGE HOUSEHOLD SIZE	3.42
MEDIAN HOUSEHOLD INCOME	\$44,130
RACE (%):	
White	21.5%
Black	2.4%
Asian	16.5%
Hispanic (all races)	56.6%
All Other Races	3.1%
EDUCATION (%):	
Less than HS	33.4%
HS Diploma	50.1%
Bachelor's Degree	12.1%
Graduate Degree	4.4%
HOUSING BURDEN/SHARE OF INCOME	56.1%

Irvine/Mission Viejo/Foothill Ranch Renter Household Statistics

PERCENT WITH CHILDREN	35.8%
AVERAGE HOUSEHOLD SIZE	2.63
MEDIAN HOUSEHOLD INCOME	\$65,606
RACE (%):	
White	50.0%
Black	2.8%
Asian	24.7%
Hispanic (all races)	16.8%
All Other Races	5.7%
EDUCATION (%):	
Less than HS	7.7%
HS Diploma	42.6%
Bachelor's Degree	30.9%
Graduate Degree	18.8%
HOUSING BURDEN/SHARE OF INCOME	51.4%

Anaheim/Orange/Santa Ana Rental Units By Size of Structure

SINGLE FAMILY (Detached & Attached)	27.0%
2-4 UNITS	18.0%
5-9 UNITS	11.9%
10-19 UNITS	11.4%
20 UNITS+	31.8%

Irvine/Mission Viejo/Foothill Ranch Rental Units By Size of Structure

SINGLE FAMILY (Detached & Attached)	24.6%
2-4 UNITS	12.9%
5-9 UNITS	14.5%
10-19 UNITS	14.3%
20 UNITS+	33.6%

Anaheim/Orange/Santa Ana Rental Units By Year Built

BEFORE 1970	47.5%
1970-1999	44.2%
2000-2015	8.3%

Source: American Community Survey (2015)

Irvine/Mission Viejo/Foothill Ranch Rental Units By Year Built

BEFORE 1970	9.6%
1970-1999	62.9%
2000-2015	27.5%

Source: American Community Survey (2015)

La Habra/Fullerton/Yorba Linda Renter Household Statistics

PERCENT WITH CHILDREN	42.3%
AVERAGE HOUSEHOLD SIZE	2.97
MEDIAN HOUSEHOLD INCOME	\$54,663
RACE (%):	
White	36.6%
Black	3.2%
Asian	13.5%
Hispanic (all races)	41.5%
All Other Races	5.2%
EDUCATION (%):	
Less than HS	14.9%
HS Diploma	55.6%
Bachelor's Degree	22.5%
Graduate Degree	7.0%
HOUSING BURDEN/SHARE OF INCOME	47.6%

La Habra/Fullerton/Yorba Linda Rental Units By Size of Structure

SINGLE FAMILY (Detached & Attached)	28.0%
2-4 UNITS	15.1%
5-9 UNITS	14.2%
10-19 UNITS	11.0%
20 UNITS+	31.6%

La Habra/Fullerton/Yorba Linda Rental Units By Year Built

BEFORE 1970	45.8%
1970-1999	48.2%
2000-2015	6.0%

Source: American Community Survey (2015)

Newport Beach/Laguna Niguel Renter Household Statistics

PERCENT WITH CHILDREN	25.8%
AVERAGE HOUSEHOLD SIZE	2.25
MEDIAN HOUSEHOLD INCOME	\$71,132
RACE (%):	
White	69.0%
Black	1.2%
Asian	6.7%
Hispanic (all races)	17.6%
All Other Races	5.5%
EDUCATION (%):	
Less than HS	5.3%
HS Diploma	49.0%
Bachelor's Degree	28.7%
Graduate Degree	16.9%
HOUSING BURDEN/SHARE OF INCOME	55.1%

Newport Beach/Laguna Niguel Rental Units By Size of Structure

SINGLE FAMILY (Detached & Attached)	30.3%
2-4 UNITS	20.1%
5-9 UNITS	16.5%
10-19 UNITS	12.3%
20 UNITS+	20.8%

Newport Beach/Laguna Niguel Rental Units By Year Built

BEFORE 1970	23.7%
1970-1999	65.5%
2000-2015	10.7%

Source: American Community Survey (2015)

Seal Beach/Huntington Beach Renter Household Statistics

PERCENT WITH CHILDREN	36.2%
AVERAGE HOUSEHOLD SIZE	2.74
MEDIAN HOUSEHOLD INCOME	\$56,556
RACE (%):	
White	49.7%
Black	2.3%
Asian	17.8%
Hispanic (all races)	26.2%
All Other Races	3.9%
EDUCATION (%):	
Less than HS	13.4%
HS Diploma	52.8%
Bachelor's Degree	25.3%
Graduate Degree	8.5%
HOUSING BURDEN/SHARE OF INCOME	54.5%

Seal Beach/Huntington Beach Rental Units By Size of Structure

SINGLE FAMILY (Detached & Attached)	30.0%
2-4 UNITS	23.9%
5-9 UNITS	9.7%
10-19 UNITS	8.7%
20 UNITS+	27.8%

Seal Beach/Huntington Beach Rental Units By Year Built

BEFORE 1970	46.2%
1970-1999	49.8%
2000-2015	4.0%

Source: American Community Survey (2015)

INLAND EMPIRE

INLAND EMPIRE

The economy of the Inland Empire has rallied over the last few years, with significant job growth that has outpaced the state, and pushed the region's unemployment rate to its lowest level since 2006. Aided by a 2.4% increase in nonfarm jobs, the Inland Empire's unemployment rate dropped to 5.5% as of July 2017, down from 6.0% in July 2016. Construction had the largest absolute job gains year over year, which can be partly attributed to the booming residential permitting activities in 2017 year-to-date, followed by Transportation and Logistics¹ (a crucial, growing industry in the Inland Empire), Leisure & Hospitality, and Government. Jobs in the Professional, Scientific, and Technical Services industry, a high-wage industry in the Inland Empire and elsewhere, increased 2.8% year over year. Job and population growth in the Inland Empire will continue over the next two years, driving up rents along with home sales and prices, as Southern California residents once again turn to the region for more affordable housing.

Homeownership rates in the Inland Empire have been declining in recent years—a reflection of state and national trends in homeownership, as a growing proportion of individuals rent rather than own their residences. In 2015, the number of renter households in the Inland Empire exceeded half a million for the first time and grew by 21.2% from 2010, while the number of homeowner households fell by only 1.6%. As a result, homeownership rates in Riverside County fell from 68.4% in 2010 to 64.0% in 2015. During the same time period, in San Bernardino County homeownership rates fell from 62.6% to 57.2%.

The average apartment rent in the Inland Empire in 2017 was \$1,449 per month, increasing 1.1% from one year earlier. Chino-Rancho Cucamonga led the region's submarkets with the highest average rent in 2016 (\$1,626 per month), followed by West Riverside County (\$1,420 per month). \$1,275. The Palm Springs-Indio submarket had the lowest average rent in 2016 at \$1,144 per month, followed by the Redlands-Fontana-High Desert submarket (\$1,275 per month). From 2016 to 2017, West Riverside County had the fastest growth in rental rates

at 4.8%, followed by the Chino-Rancho Cucamonga submarket at 3.5%. The average rent in the Chino-Rancho Cucamonga submarket was significantly higher than the rest of the Inland Empire, owing to its proximity to the East San Gabriel Valley area; the difference in average rents for these two submarkets were less than \$50 per month in 2017 (\$1,633 per month for East San Gabriel Valley versus \$1,682 per month for Chino-Rancho Cucamonga).

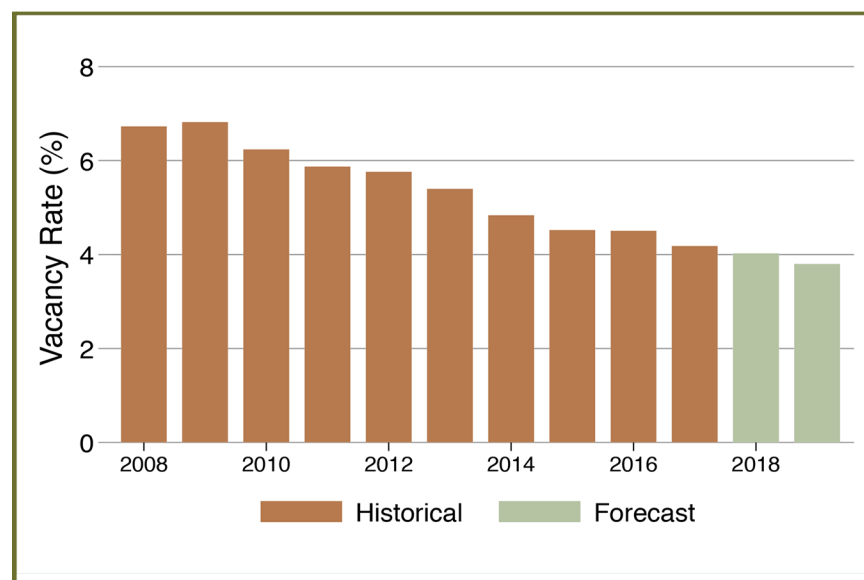
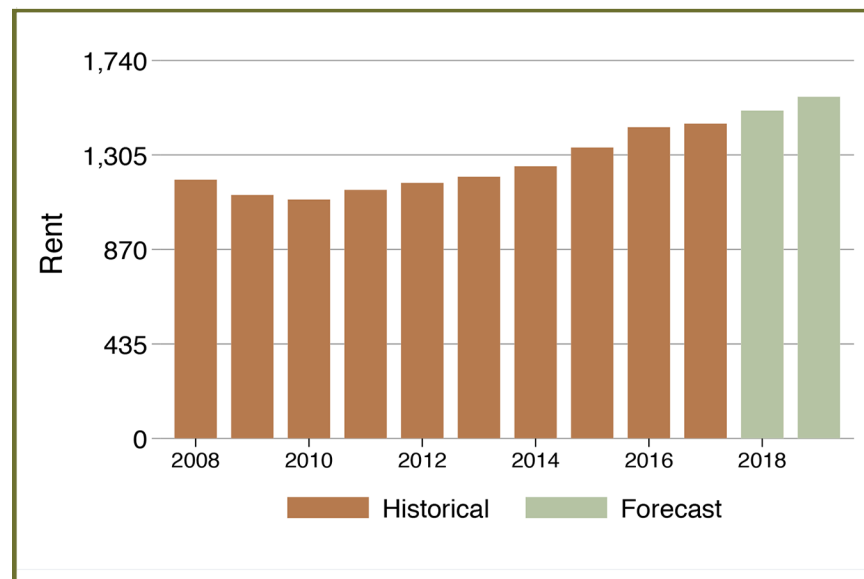
The Inland Empire multifamily market has over the past few years experienced rising rents and falling vacancy rates. Historically, compared to the other Southern California metro areas in this report, the Inland Empire had the highest average vacancy rate. Higher vacancy rates in the Inland Empire can be attributed to the ongoing surplus in the multi-family market left over from the recession. The Inland Empire has the largest share of rental housing stock built after 2000 (22%) among Southern California's regions. In recent years, however, increasingly higher rental rates in nearby metro areas have driven many renters to seek more affordable housing options in the Inland Empire. In 2017, the average vacancy rate in Inland Empire (4.2%) was higher than the other Southern California metro areas in this report, which ranged from 3.7% to 3.9%, but still well below the vacancy rate at which we expect rents to stabilize.

Among the Inland Empire submarkets, San Bernardino County submarkets had lower vacancy rates than Riverside County submarkets. The lowest average vacancy rate was in the Redlands-Fontana-High Desert submarket, at 3.7%, followed by the Chino-Rancho Cucamonga submarket, at 4.0%. On the other hand, the West Riverside County submarket had the highest vacancy rates of all submarkets in the region at 4.5%, which is similar to the nearby Irvine-Mission Viejo-Foothill Ranch submarket (4.2%). The Palm Springs-Indio submarket had a vacancy rate of 4.1% in 2017.

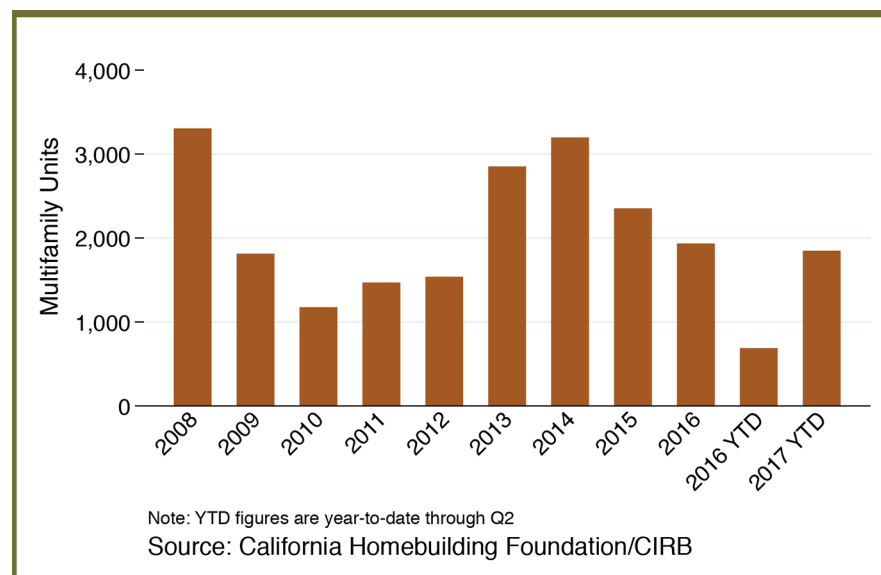
The Inland Empire region may be known more for its single-family owner-occupied stock, but the multifamily segment grew in importance in recent years. Going forward, rising housing costs in Los Angeles County and Orange County will cause population growth in the Inland Empire to accelerate. This will increase housing demand in the Inland Empire in general, resulting in higher rents in multifamily properties, as well as single-family rentals.

¹ Defined here as the Transportation & Warehousing industry along with Wholesale Trade.

INLAND EMPIRE RENT & VACANCY RATE



MULTIFAMILY PERMIT ACTIVITY INLAND EMPIRE



Inland Empire Renter Household Statistics

PERCENT WITH CHILDREN	48.0%
AVERAGE HOUSEHOLD SIZE	3.03
MEDIAN HOUSEHOLD INCOME	\$37,647
RACE (%):	
White	34.0%
Black	12.2%
Asian	4.4%
Hispanic (all races)	45.1%
All Other Races	4.3%
EDUCATION (%):	
Less than HS	21.3%
HS Diploma	63.4%
Bachelor's Degree	10.2%
Graduate Degree	5.1%
HOUSING BURDEN/SHARE OF INCOME	51.6%

Inland Empire Rental Units By Size of Structure

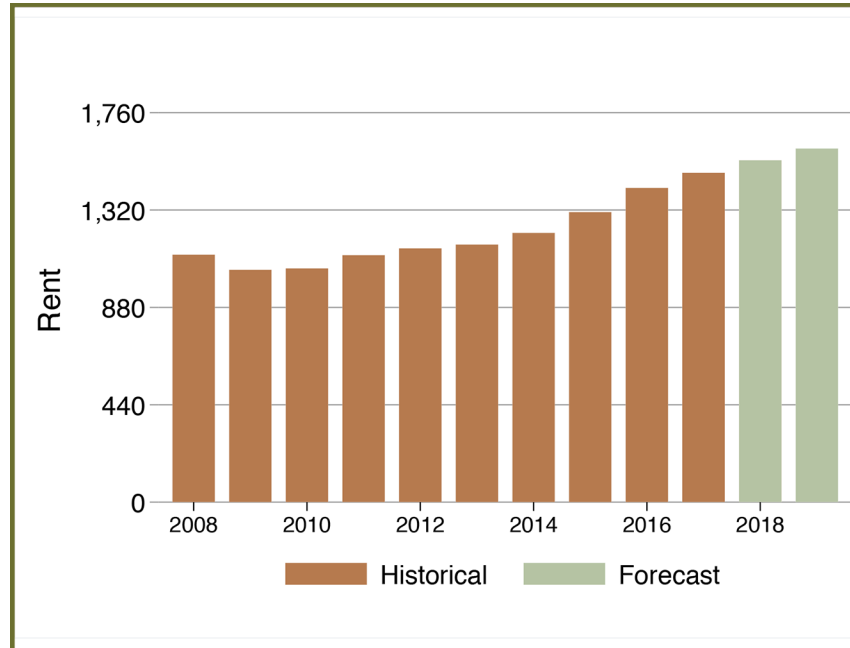
SINGLE FAMILY (Detached & Attached)	49.7%
2-4 UNITS	14.0%
5-9 UNITS	11.9%
10-19 UNITS	10.4%
20 UNITS+	14.0%

Inland Empire Rental Units By Year Built

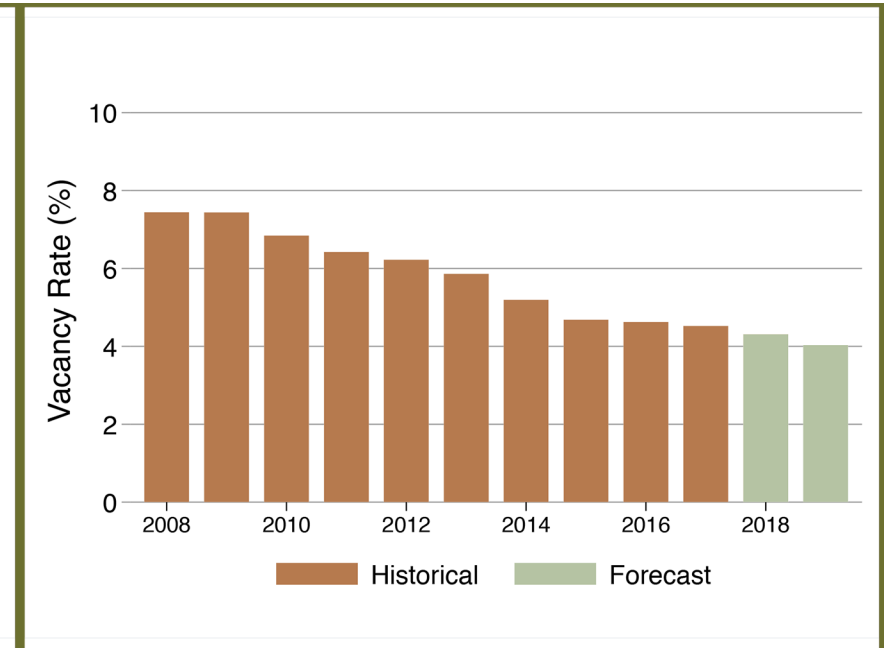
BEFORE 1970	23.4%
1970-1999	54.6%
2000-2015	22.0%

Source: American Community Survey (2015)

**WEST RIVERSIDE COUNTY MARKET
INLAND EMPIRE, 2008 TO 2019**

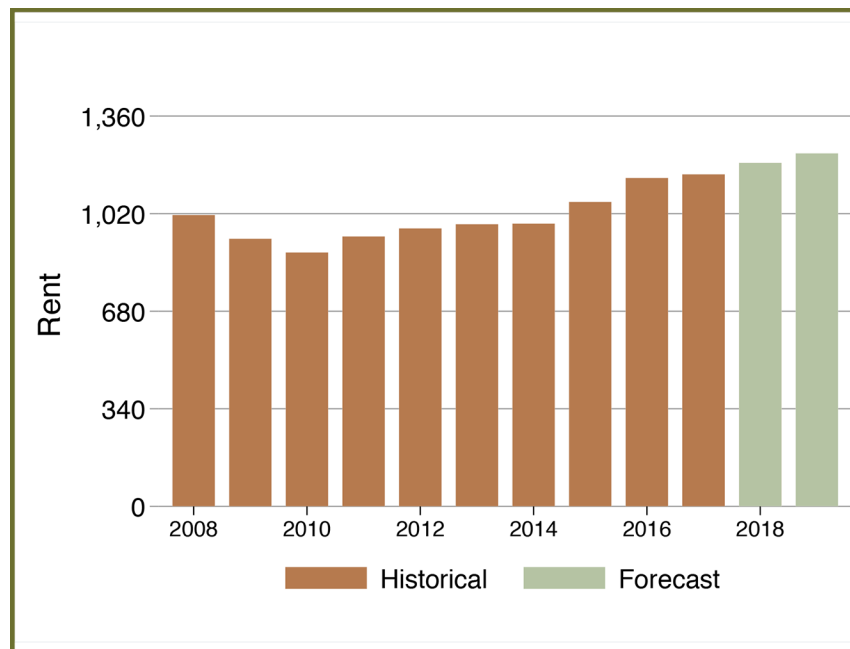


Source: Axiometrics and Beacon Economics

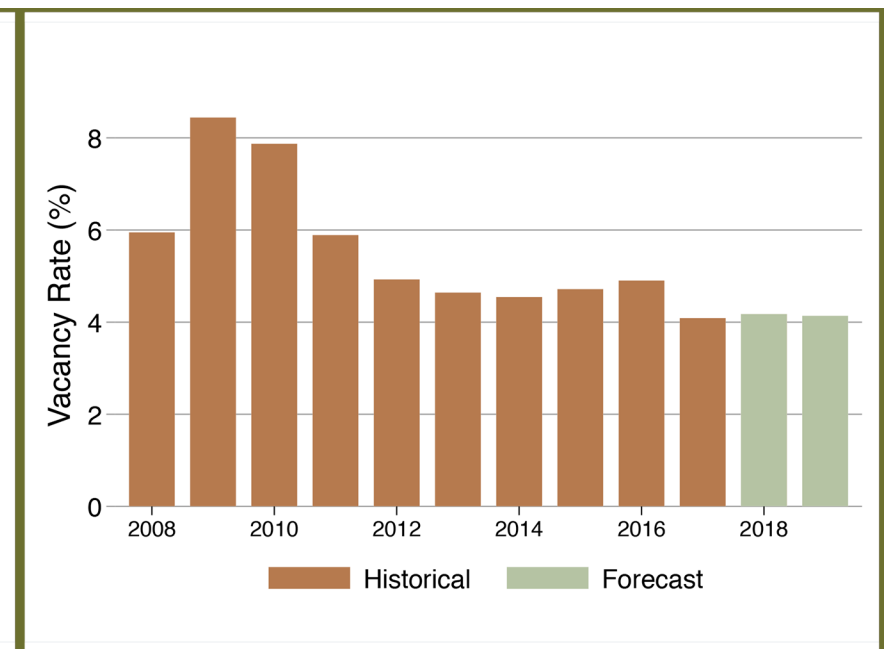


Source: Axiometrics and Beacon Economics

**PALM SPRINGS-INDIO MARKET
INLAND EMPIRE, 2008 TO 2019**

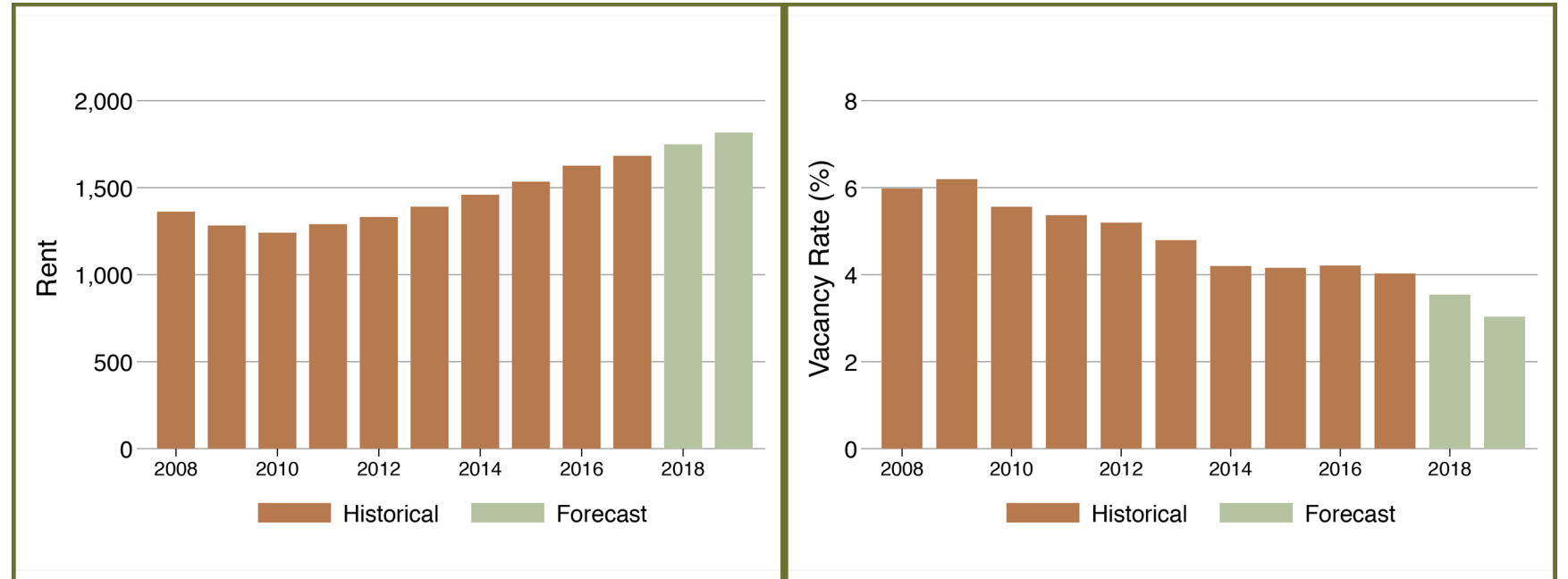


Source: Axiometrics and Beacon Economics



Source: Axiometrics and Beacon Economics

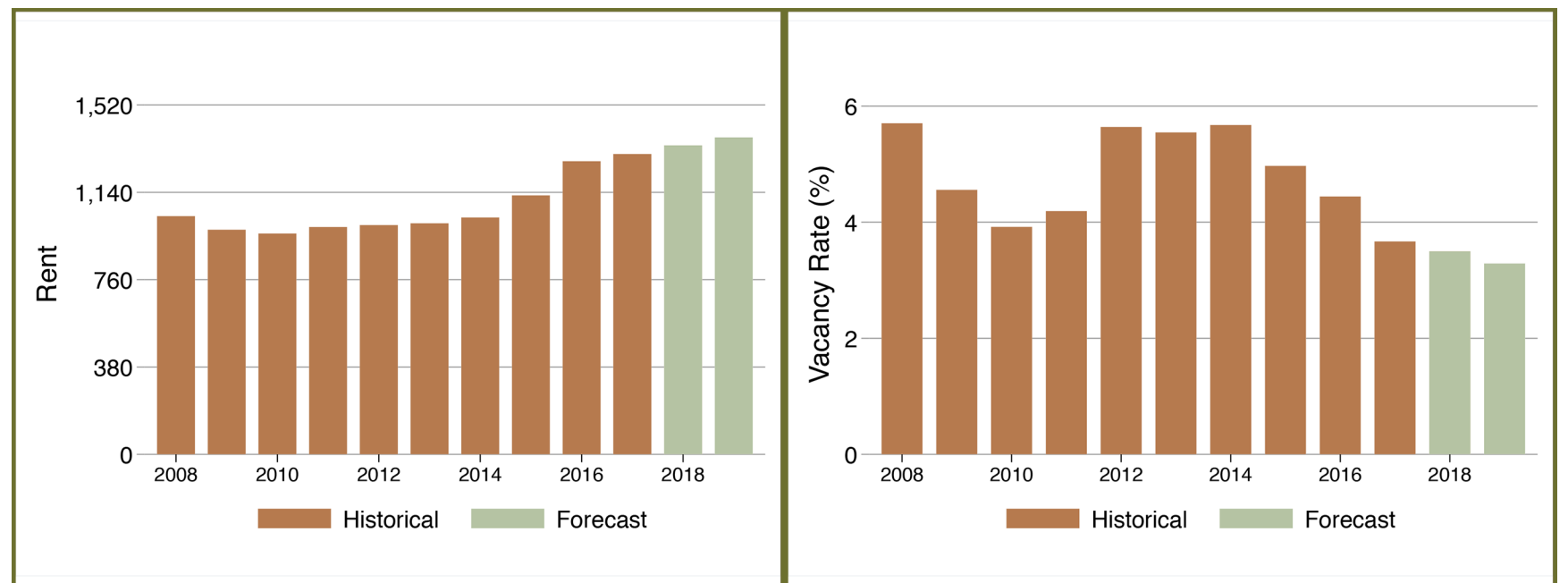
CHINO-RANCHO CUCAMONGA MARKET
INLAND EMPIRE, 2008 TO 2019



Source: Axiometrics and Beacon Economics

Source: Axiometrics and Beacon Economics

REDLANDS-FONTANA-HIGH DESERT MARKET
INLAND EMPIRE, 2008 TO 2019



Source: Axiometrics and Beacon Economics

Source: Axiometrics and Beacon Economics

West Riverside County Renter Household Statistics

PERCENT WITH CHILDREN	47.3%
AVERAGE HOUSEHOLD SIZE	3.06
MEDIAN HOUSEHOLD INCOME	\$41,519
RACE (%):	
White	38.1%
Black	11.8%
Asian	3.9%
Hispanic (all races)	41.5%
All Other Races	4.6%
EDUCATION (%):	
Less than HS	20.2%
HS Diploma	64.3%
Bachelor's Degree	10.4%
Graduate Degree	5.1%
HOUSING BURDEN/SHARE OF INCOME	51.8%

West Riverside County Rental Units By Size of Structure

SINGLE FAMILY (Detached & Attached)	50.9%
2-4 UNITS	9.8%
5-9 UNITS	11.5%
10-19 UNITS	13.5%
20 UNITS+	14.3%

West Riverside County Rental Units By Year Built

BEFORE 1970	19.6%
1970-1999	51.2%
2000-2015	29.2%

Source: American Community Survey (2015)

Palm Springs/Indo Renter Household Statistics

PERCENT WITH CHILDREN	40.4%
AVERAGE HOUSEHOLD SIZE	2.73
MEDIAN HOUSEHOLD INCOME	\$33,257
RACE (%):	
White	38.4%
Black	4.7%
Asian	3.5%
Hispanic (all races)	51.9%
All Other Races	1.6%
EDUCATION (%):	
Less than HS	27.7%
HS Diploma	57.0%
Bachelor's Degree	9.6%
Graduate Degree	5.7%
HOUSING BURDEN/SHARE OF INCOME	45.1%

Palm Springs/Indo Rental Units By Size of Structure

SINGLE FAMILY (Detached & Attached)	42.2%
2-4 UNITS	21.6%
5-9 UNITS	16.9%
10-19 UNITS	7.3%
20 UNITS+	12.0%

Palm Springs/Indo Rental Units By Year Built

BEFORE 1970	19.5%
1970-1999	56.6%
2000-2015	23.9%

Source: American Community Survey (2015)

Chino/Rancho Cucamonga Renter Household Statistics

PERCENT WITH CHILDREN	46.9%
AVERAGE HOUSEHOLD SIZE	2.97
MEDIAN HOUSEHOLD INCOME	\$49,377
RACE (%):	
White	25.3%
Black	12.4%
Asian	7.4%
Hispanic (all races)	49.1%
All Other Races	5.8%
EDUCATION (%):	
Less than HS	17.7%
HS Diploma	62.2%
Bachelor's Degree	13.5%
Graduate Degree	6.7%
HOUSING BURDEN/SHARE OF INCOME	52.1%

Chino/Rancho Cucamonga Rental Units By Size of Structure

SINGLE FAMILY (Detached & Attached)	37.2%
2-4 UNITS	14.5%
5-9 UNITS	16.4%
10-19 UNITS	12.7%
20 UNITS+	19.2%

Chino/Rancho Cucamonga Rental Units By Year Built

BEFORE 1970	22.5%
1970-1999	58.7%
2000-2015	18.8%

Source: American Community Survey (2015)

Redlands/Fontana/High Dessert Renter Household Statistics

PERCENT WITH CHILDREN	53.1%
AVERAGE HOUSEHOLD SIZE	3.21
MEDIAN HOUSEHOLD INCOME	\$32,592
RACE (%):	
White	29.5%
Black	16.1%
Asian	4.4%
Hispanic (all races)	46.4%
All Other Races	3.6%
EDUCATION (%):	
Less than HS	22.6%
HS Diploma	64.1%
Bachelor's Degree	8.8%
Graduate Degree	4.5%
HOUSING BURDEN/SHARE OF INCOME	53.7%

Redlands/Fontana/High Dessert Rental Units By Size of Structure

SINGLE FAMILY (Detached & Attached)	55.8%
2-4 UNITS	14.1%
5-9 UNITS	8.9%
10-19 UNITS	8.2%
20 UNITS+	13.1%

Redlands/Fontana/High Dessert Rental Units By Year Built

BEFORE 1970	28.4%
1970-1999	56.9%
2000-2015	14.7%

Source: American Community Survey (2015)



SAN DIEGO COUNTY

San Diego County has been one of the stronger economies in Southern California in recent years, as gauged by its labor market. The County unemployment rate fell to 4.3% in July 2017, a 0.4% decline from the year before. Improving unemployment rates have been associated with steady gains in nonfarm employment, which grew by 1.2% year-to-year (growth above one percent per year is strong). The roughly 17,200 new jobs added between July 2016 and July 2017 were concentrated in the Government, Other Services, Health Care, and Construction industries. Notably, employment in the Other Services sector grew by 8.6% year-over-year, making it the second fastest growing sector in San Diego. Growing Construction sector employment is another sign of the robust housing market in San Diego and across the State. San Diego's economy is expected to expand in the next two years, and as a result, prices, sales, and rents will continue their upward trend.

San Diego County, like the rest of Southern California, is experiencing an ongoing decline in homeownership as more households choose to rent. Between 2010 and 2015, the number of renter households in San Diego grew by 9.3% while the number of owner households increased by only 1.2%. As a result, homeownership rates in San Diego County have dropped from 53.9% in 2010 to 52.0% in 2015. These changes have been attributed to prohibitively high housing costs and delayed home buying by the millennial generation, which has also delayed marriage.

The San Diego County multifamily market has rising rents and falling vacancy rates over the past year. For 2017, the average effective multifamily rent for the County was \$1,926/month, a 2.1% increase year over year. Average effective rent in San Diego County is higher than the Inland Empire but slightly lower than Los Angeles County, Orange County and Ventura County.

Multifamily residential construction in San Diego County has fallen from previous levels. For the first half of 2017, 3,123 multifamily residential permits were pulled. Permits issued year-to-date were down by 33.1% from the same period in 2016.¹ Slower growth in the supply of new units have contributed to low vacancy rates in the county (3.9%).

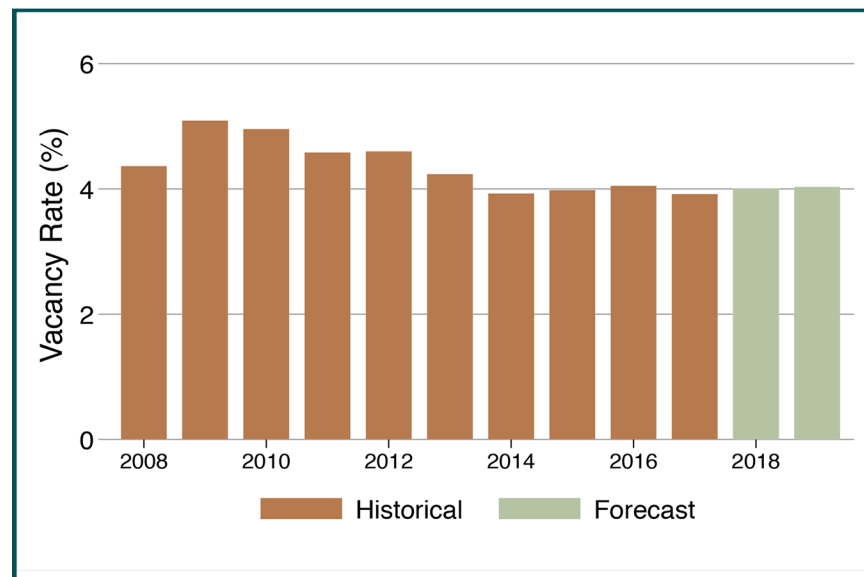
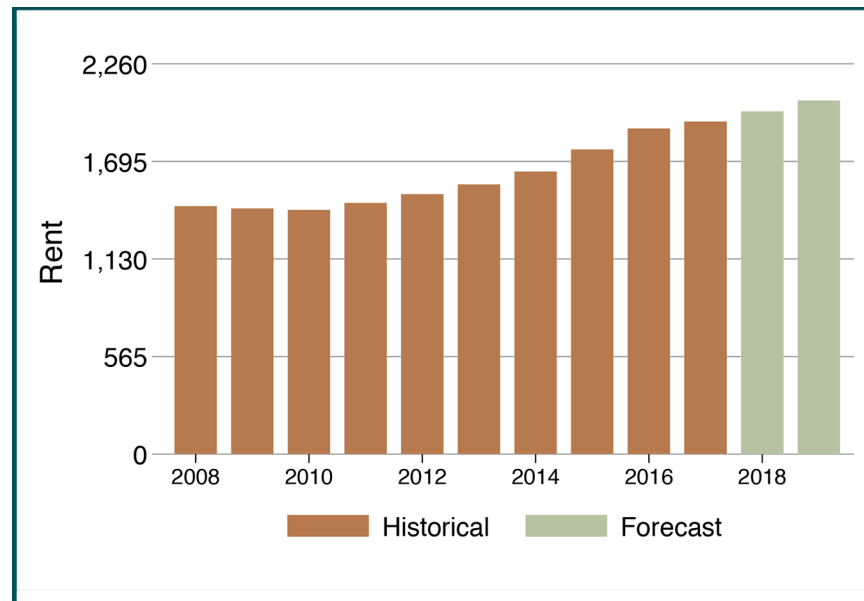
The City of San Diego-Coastal area led the County's submarkets with the highest average monthly rent in the second quarter of 2017 (\$2,251/month), followed by City of San Diego-Inland (\$1,888/month), North County (\$1,868 /month), and lastly Chula Vista-National City (\$1,708/month). Rental growth rates were between 1.5% and 3.5% across submarkets in San Diego County. The North County submarket had the fastest growth (3.5%), followed by City of San Diego-Inland (3.4%), City of San Diego-Coastal (1.8%) and lastly Chula Vista-National City (1.6%). Between the coastal submarkets in Southern California, the average monthly rent in the City of San Diego-Coastal community is significantly lower than Coastal Communities-Beverly Hills in Los Angeles County (\$2,942/month) but higher than Seal Beach-Huntington Beach in Orange County (\$1,870/month).

¹ Figures are not seasonally adjusted.

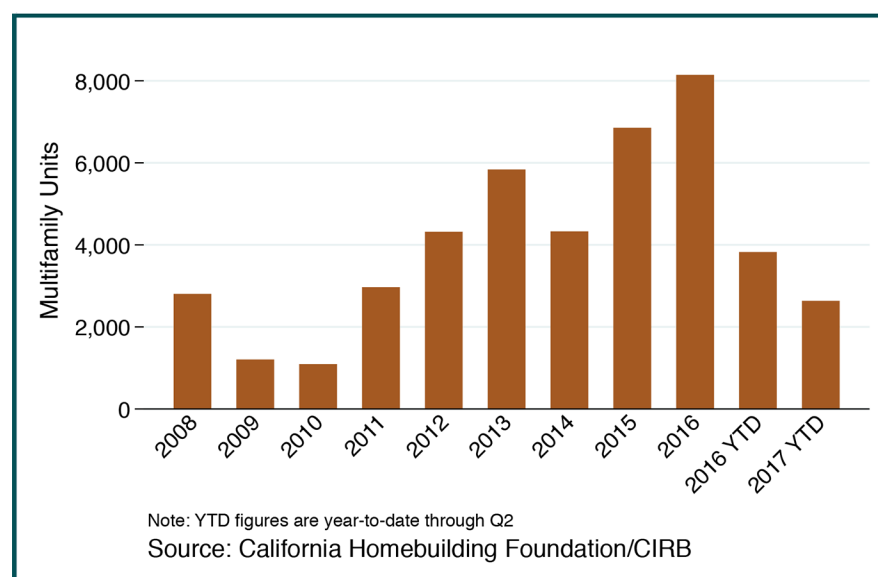
Vacancy rates have been relatively low across all submarkets in San Diego County. Overall, in 2016, San Diego County had a 3.9% rental vacancy rate. While there was some variation in vacancy rates across the county's submarkets, however, all of them are very low compared to other Southern California submarkets. For instance, vacancy rates ranged from 3.7% in North County, to a high of 4.4% in the City of San Diego-Coastal submarket, which was lower than the Inland Empire's average vacancy rate (4.5%).

Over the past year, San Diego's housing stock increased. A strong economy and population growth has driven housing demand in both the rental and single-family owner occupied markets. Between 2015 and 2017, the County's population increased by 1.5%, to 3.3 million residents. In the next two years, the stock of multifamily units in San Diego will continue to rise, albeit slowly." Additionally, rents and occupancies will continue to increase as supply, while growing, will be insufficient to catch up with local demand.

SAN DIEGO RENTS/VACANCY



MULTIFAMILY PERMIT ACTIVITY SAN DIEGO



San Diego Renter Household Statistics

PERCENT WITH CHILDREN	37.8%
AVERAGE HOUSEHOLD SIZE	2.68
MEDIAN HOUSEHOLD INCOME	\$48,353
RACE (%):	
White	46.1%
Black	7.3%
Asian	9.6%
Hispanic (all races)	32.1%
All Other Races	4.9%
EDUCATION (%):	
Less than HS	14.6%
HS Diploma	50.2%
Bachelor's Degree	22.7%
Graduate Degree	12.5%
HOUSING BURDEN/SHARE OF INCOME	51.8%

San Diego Rental Units By Size of Structure

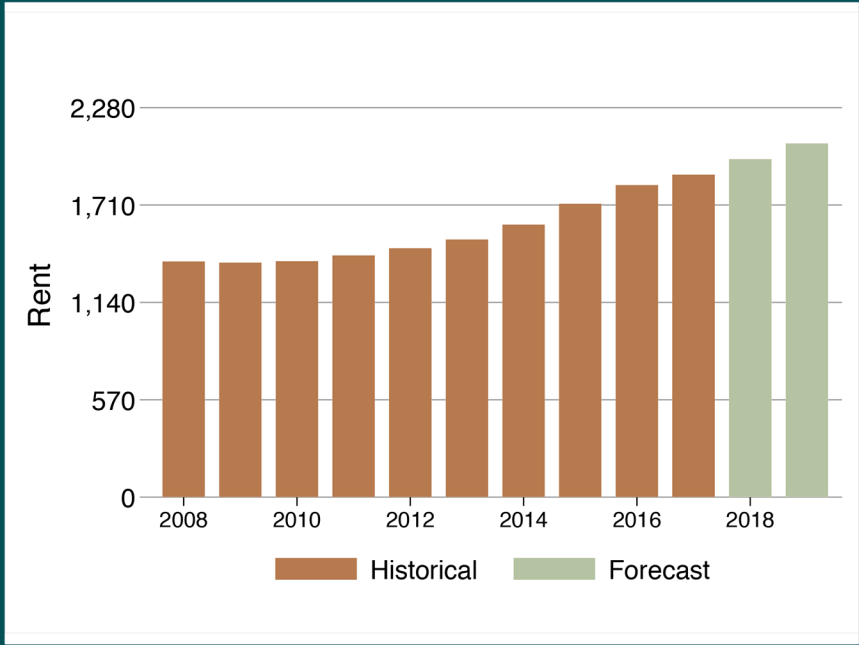
SINGLE FAMILY (Detached & Attached)	33.4%
2-4 UNITS	13.0%
5-9 UNITS	14.3%
10-19 UNITS	13.5%
20 UNITS+	25.7%

San Diego Rental Units By Year Built

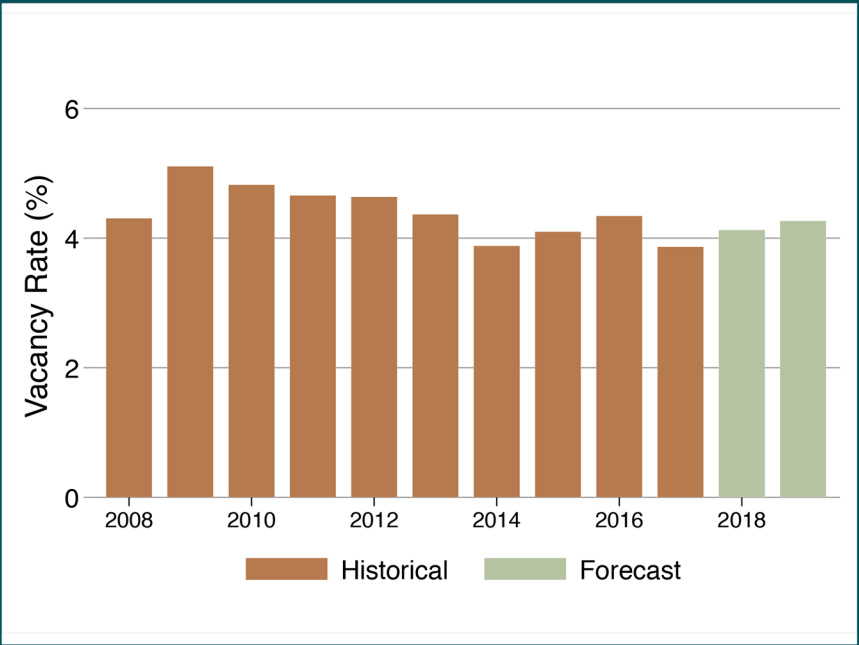
BEFORE 1970	30.5%
1970-1999	56.9%
2000-2015	12.6%

Source: American Community Survey (2015)

GREATER SAN DIEGO – INLAND MARKET
SAN DIEGO COUNTY, 2008 TO 2019

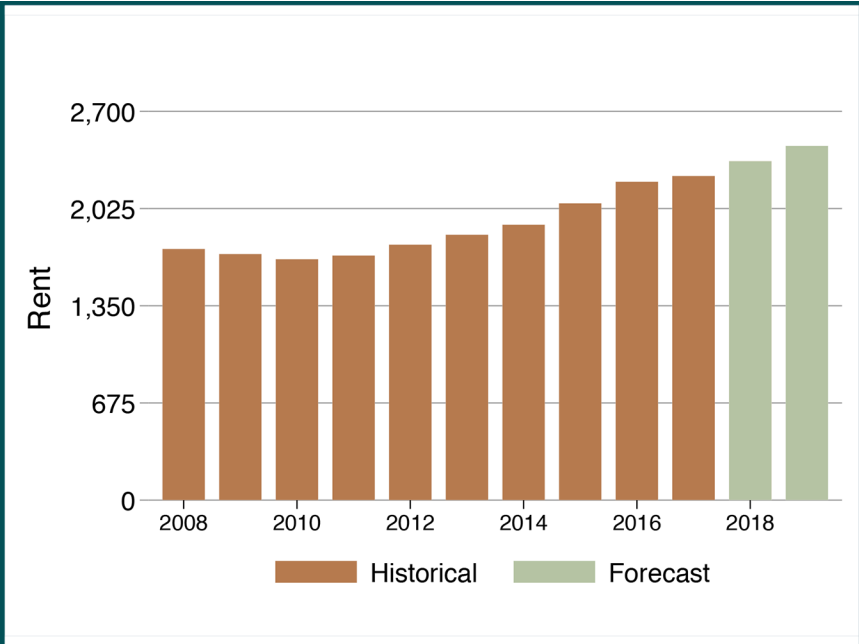


Source: Axiometrics and Beacon Economics

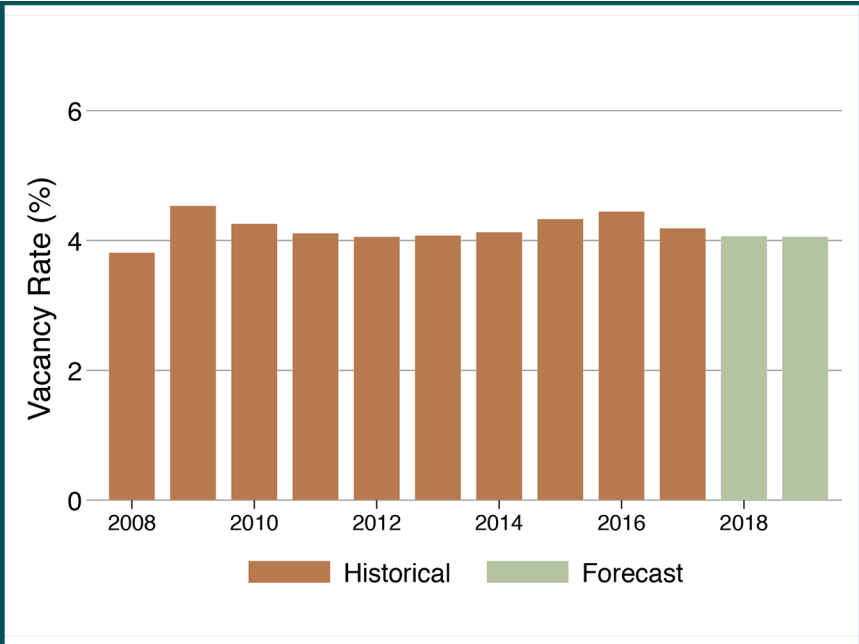


Source: Axiometrics and Beacon Economics

GREATER SAN DIEGO - COASTAL MARKET
SAN DIEGO COUNTY, 2008 TO 2019

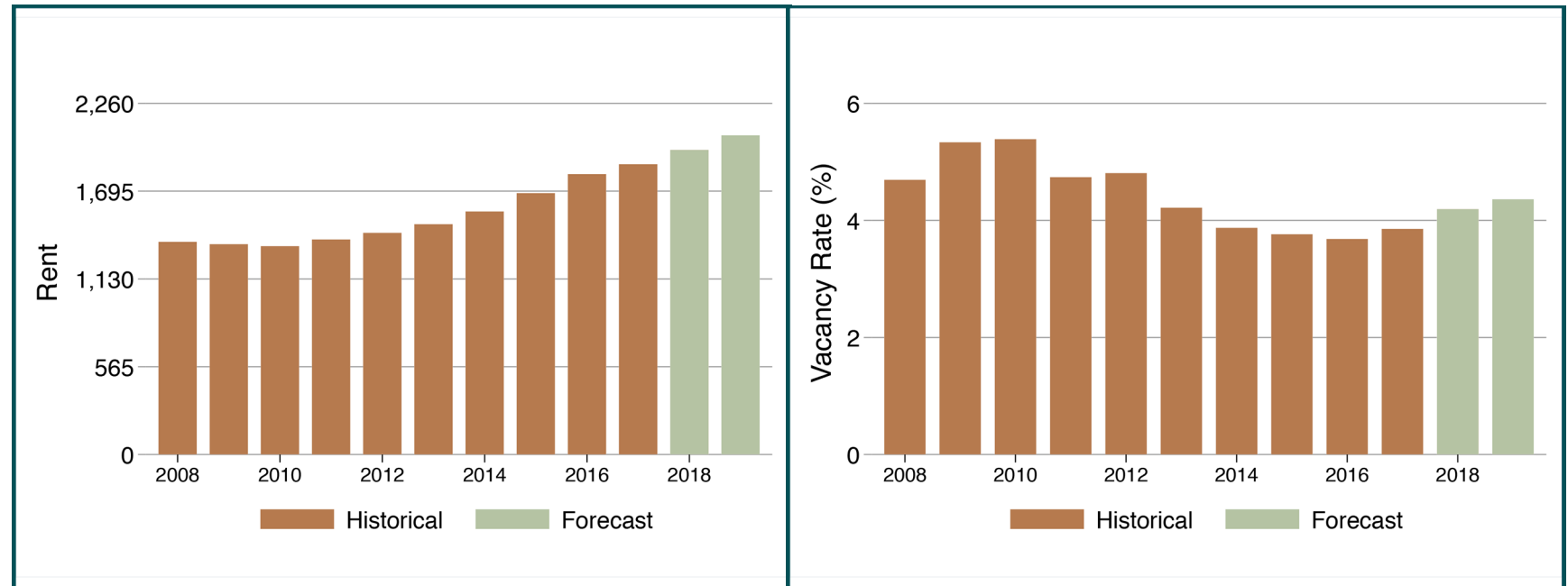


Source: Axiometrics and Beacon Economics



Source: Axiometrics and Beacon Economics

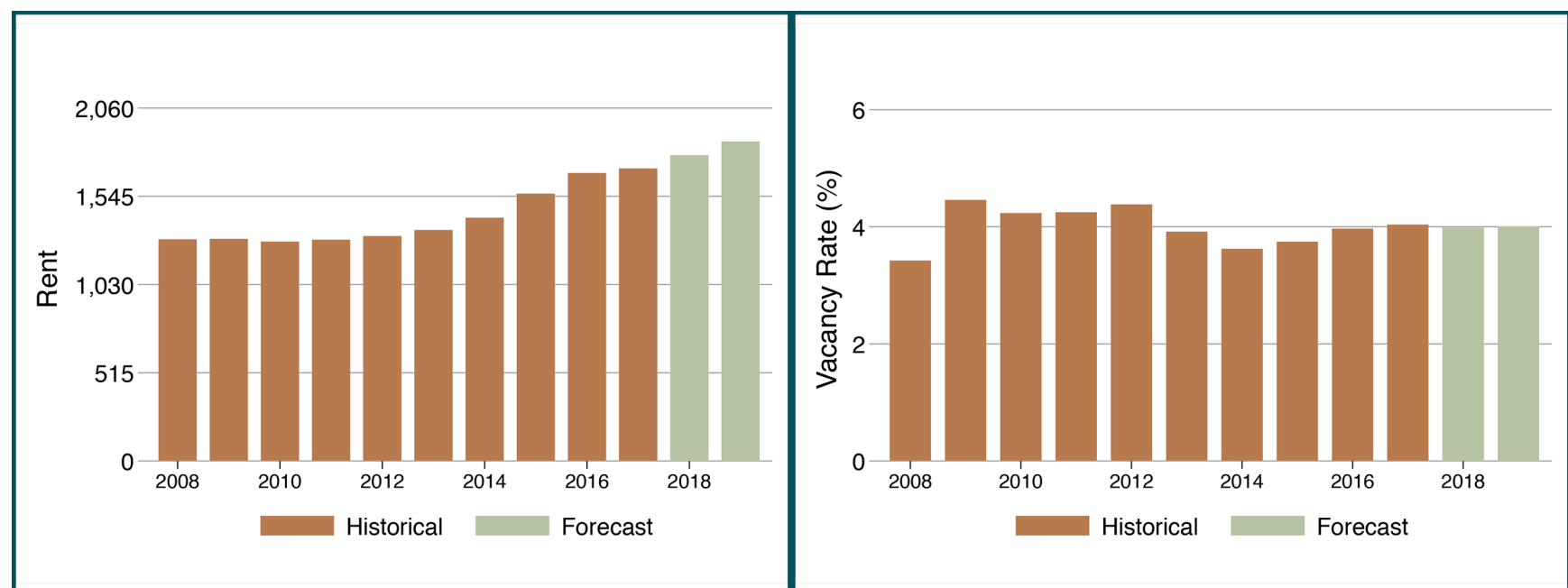
NORTH SAN DIEGO (NORTH COUNTY)
SAN DIEGO COUNTY, 2008 TO 2019



Source: Axiometrics and Beacon Economics

Source: Axiometrics and Beacon Economics

CHULA VISTA-NATIONAL CITY MARKET
SAN DIEGO COUNTY, 2008 TO 2019



Source: Axiometrics and Beacon Economics

Source: Axiometrics and Beacon Economics

Greater City Of San Diego – Inland Renter Household Statistics

PERCENT WITH CHILDREN	34.7%
AVERAGE HOUSEHOLD SIZE	2.64
MEDIAN HOUSEHOLD INCOME	\$48,299
RACE (%):	
White	45.5%
Black	9.7%
Asian	15.1%
Hispanic (all races)	23.5%
All Other Races	6.2%
EDUCATION (%):	
Less than HS	12.4%
HS Diploma	49.7%
Bachelor’s Degree	23.4%
Graduate Degree	14.5%
HOUSING BURDEN/SHARE OF INCOME	51.9%

Greater City Of San Diego – Inland Rental Units By Size of Structure

SINGLE FAMILY (Detached & Attached)	28.7%
2-4 UNITS	11.1%
5-9 UNITS	18.3%
10-19 UNITS	12.0%
20 UNITS+	29.8%

Greater City Of San Diego – Inland Rental Units By Year Built

BEFORE 1970	27.7%
1970-1999	60.7%
2000-2015	11.6%

Source: American Community Survey (2015)

Greater City Of San Diego – Coastal Renter Household Statistics

PERCENT WITH CHILDREN	18.4%
AVERAGE HOUSEHOLD SIZE	1.92
MEDIAN HOUSEHOLD INCOME	\$54,922
RACE (%):	
White	60.9%
Black	6.9%
Asian	5.5%
Hispanic (all races)	22.1%
All Other Races	4.6%
EDUCATION (%):	
Less than HS	7.1%
HS Diploma	38.0%
Bachelor’s Degree	33.6%
Graduate Degree	21.3%
HOUSING BURDEN/SHARE OF INCOME	47.0%

Greater City Of San Diego – Coastal Rental Units By Size of Structure

SINGLE FAMILY (Detached & Attached)	29.9%
2-4 UNITS	13.5%
5-9 UNITS	13.0%
10-19 UNITS	13.7%
20 UNITS+	29.9%

Greater City Of San Diego – Coastal Rental Units By Year Built

BEFORE 1970	45.6%
1970-1999	40.0%
2000-2015	14.4%

Source: American Community Survey (2015)

North County Renter Household Statistics

PERCENT WITH CHILDREN	43.7%
AVERAGE HOUSEHOLD SIZE	2.84
MEDIAN HOUSEHOLD INCOME	\$52,258
RACE (%):	
White	57.2%
Black	3.8%
Asian	6.7%
Hispanic (all races)	27.9%
All Other Races	4.3%
EDUCATION (%):	
Less than HS	13.2%
HS Diploma	53.2%
Bachelor's Degree	22.1%
Graduate Degree	11.4%
HOUSING BURDEN/SHARE OF INCOME	51.6%

North County Rental Units By Size of Structure

SINGLE FAMILY (Detached & Attached)	38.5%
2-4 UNITS	14.3%
5-9 UNITS	11.5%
10-19 UNITS	15.5%
20 UNITS+	20.1%

North County Rental Units By Year Built

BEFORE 1970	17.9%
1970-1999	67.5%
2000-2015	14.6%

Source: American Community Survey (2015)

Chula Vista/National City Renter Household Statistics

PERCENT WITH CHILDREN	52.8%
AVERAGE HOUSEHOLD SIZE	3.29
MEDIAN HOUSEHOLD INCOME	\$38,463
RACE (%):	
White	12.4%
Black	7.4%
Asian	11.4%
Hispanic (all races)	65.5%
All Other Races	3.3%
EDUCATION (%):	
Less than HS	28.3%
HS Diploma	55.0%
Bachelor's Degree	13.7%
Graduate Degree	2.9%
HOUSING BURDEN/SHARE OF INCOME	58.9%

Chula Vista/National City Rental Units By Size of Structure

SINGLE FAMILY (Detached & Attached)	38.8%
2-4 UNITS	13.3%
5-9 UNITS	11.5%
10-19 UNITS	11.7%
20 UNITS+	24.7%

Chula Vista/National City Rental Units By Year Built

BEFORE 1970	39.3%
1970-1999	51.5%
2000-2015	9.2%

Source: American Community Survey (2015)



VENTURA COUNTY

Ventura County's economy has shown relatively slow growth compared other parts of Southern California in recent years. The county's unemployment rate for July 2017 was 4.7%, a 0.5% decline from the year before. This figure was slightly lower than the state's 4.8% unemployment rate in July and higher than all Southern California metro areas except for the Inland Empire. Driving this decline in the unemployment rate was steady increase in jobs. Still, Ventura County's overall employment has taken longer to recover from the recession than its neighbors. As of July 2017, Ventura County's non-farm employment was up from its pre-recession peak of 300,900 jobs by less than 10,000 jobs. In comparison, employment in other counties across Southern California have achieved levels far in excess of their pre-recession peaks.

Ventura's homeownership rate in 2015 was 63.3%, the second-highest rate among the counties in Southern California. The county's high homeownership rates reflect the affluence of its residents and the suburban nature of its housing market. Nevertheless, Ventura County's homeownership rate has declined over time like other counties in Southern California. For instance, between 2010 and 2015, homeownership rates fell from 64.0% to 63.3%. During this time, the number of renter households grew faster than homeowner households. Between 2010 and 2015, homeowner households increased by 0.3%, while renter households grew by 3.3%, but homeownership fell because there was a much larger absolute increase in the number of renting households.

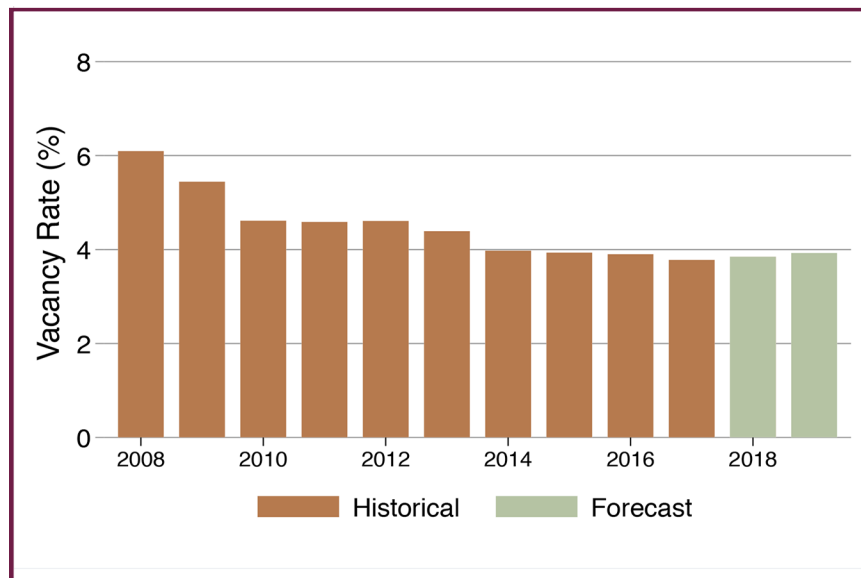
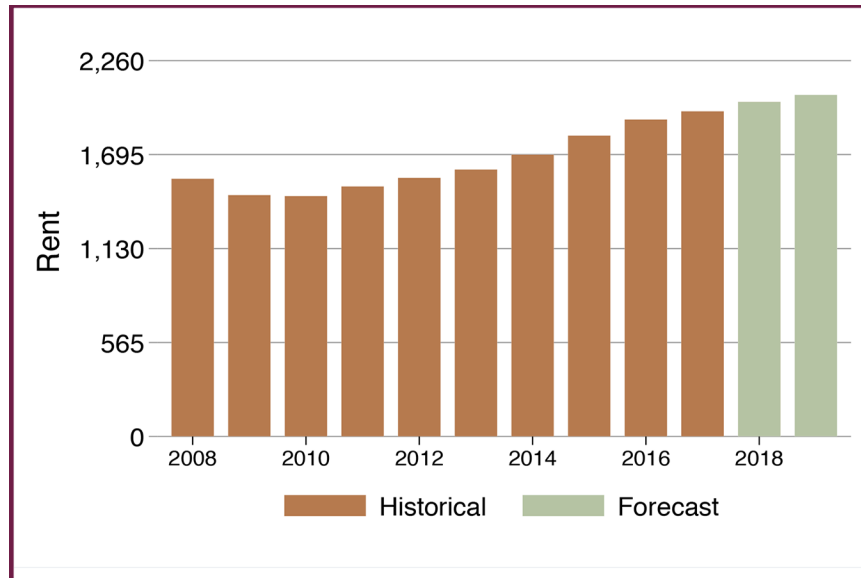
Multifamily construction has recently accelerated in Ventura County. In 2016, the number of multifamily building permits was 1,215, an increase of 732 permits from 2015. Permits issued for the 2017 year-to-date (January through July) were 63% higher (899 units in total) than in the same period in 2016. While growth has accelerated, the number of multifamily construction permits issued in Ventura County is still much lower than in other Southern California counties. However, the county's incremental ratio of multifamily units to population growth (1 unit for every 5 persons) matched much larger Los Angeles County, was 5 times better than the Inland Empire (1 to 25), but not as favorable as Orange County (1 to 4) and San Diego County (1 to 3).

Recent acceleration in multifamily construction has followed substantial increases in Ventura's rental rates. 2017's average apartment rent in the county was \$1,956 per month, a 2.6% increase from 2016 and a 25.7% increase from 2012. While rents have steadily increased, vacancy rates have remained low. In 2017, the apartment vacancy rate in Ventura County was 3.8%, a slight decrease from 3.9% in 2016.

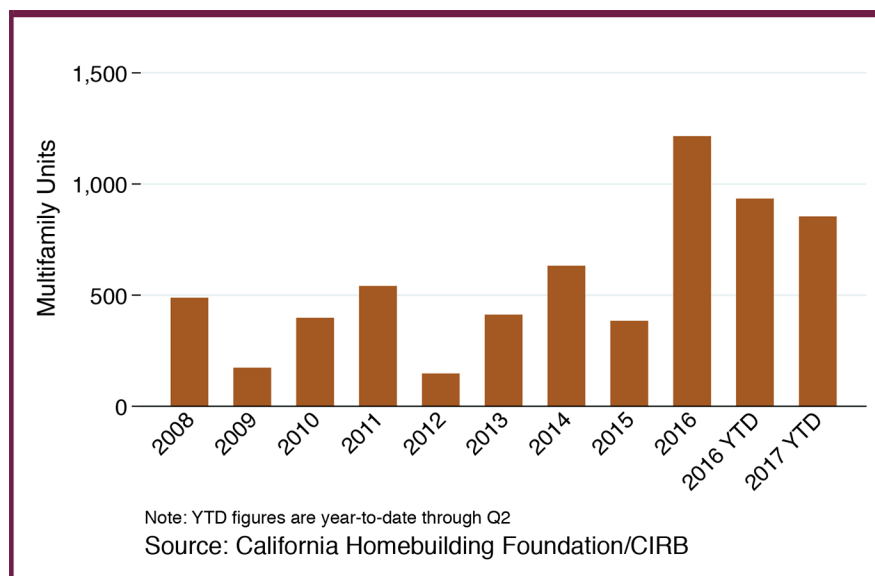
Of Ventura County's two submarkets, Simi Valley had a higher effective rent in 2016 (\$2,008 per month) than Oxnard (\$1,855 per month). From 2016 to 2017, rents increased 1.5% in Oxnard and 2.6% in Simi Valley. Both submarkets' average rental growth was modest and in line with the countywide rent increases. Ventura County's rental prices are comparable to the average rent in San Fernando Valley submarket (\$2,071 per month), which is its most proximate Southern Californian submarket. Additionally, Simi Valley had the highest vacancy rate in Ventura County (4.1%) while Oxnard had the lowest (3.5%). Low vacancy rates in Ventura County have placed upward pressure on rental prices in the region.

Ventura County's population has grown much slower than the rest of the state and other Southern Californian counties. Between 2015 and 2017, the County's population increased by 0.7% to 857,000 residents. Furthermore, its yearly population growth rate has been below 1% since 2004. Low population growth and limited development are in part by design, as the local government has made it a priority to stymie growth.

VENTURA RENTS/VACANCY



MULTIFAMILY PERMIT ACTIVITY VENTURA



Ventura County Renter Household Statistics

PERCENT WITH CHILDREN	43.4%
AVERAGE HOUSEHOLD SIZE	2.98
MEDIAN HOUSEHOLD INCOME	\$52,944
RACE (%):	
White	45.1%
Black	1.9%
Asian	8.3%
Hispanic (all races)	41.2%
All Other Races	3.5%
EDUCATION (%):	
Less than HS	16.8%
HS Diploma	55.6%
Bachelor's Degree	19.2%
Graduate Degree	8.4%
HOUSING BURDEN/SHARE OF INCOME	51.0%

Ventura County Rental Units By Size of Structure

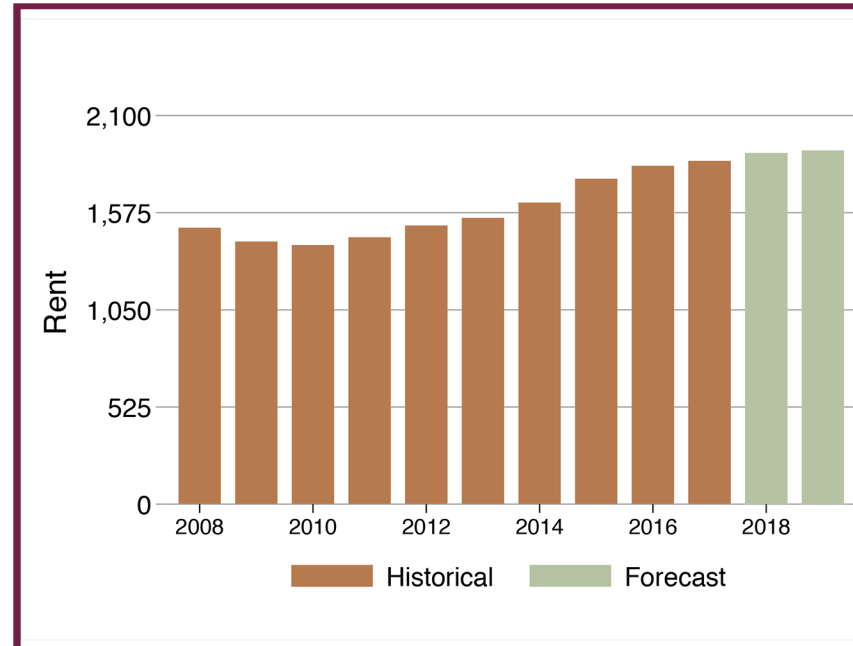
SINGLE FAMILY (Detached & Attached)	41.3%
2-4 UNITS	15.0%
5-9 UNITS	12.9%
10-19 UNITS	13.1%
20 UNITS+	17.8%

Ventura County Rental Units By Year Built

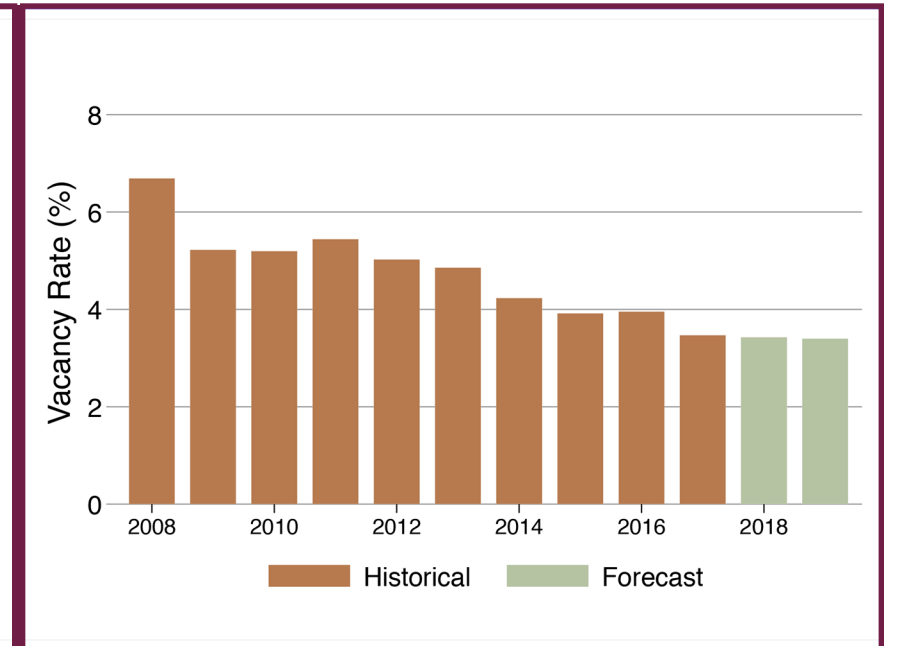
BEFORE 1970	37.5%
1970-1999	53.2%
2000-2015	9.3%

Source: American Community Survey (2015)

OXNARD-SAN BUENAVENTURA MARKET
VENTURA COUNTY, 2008 TO 2019

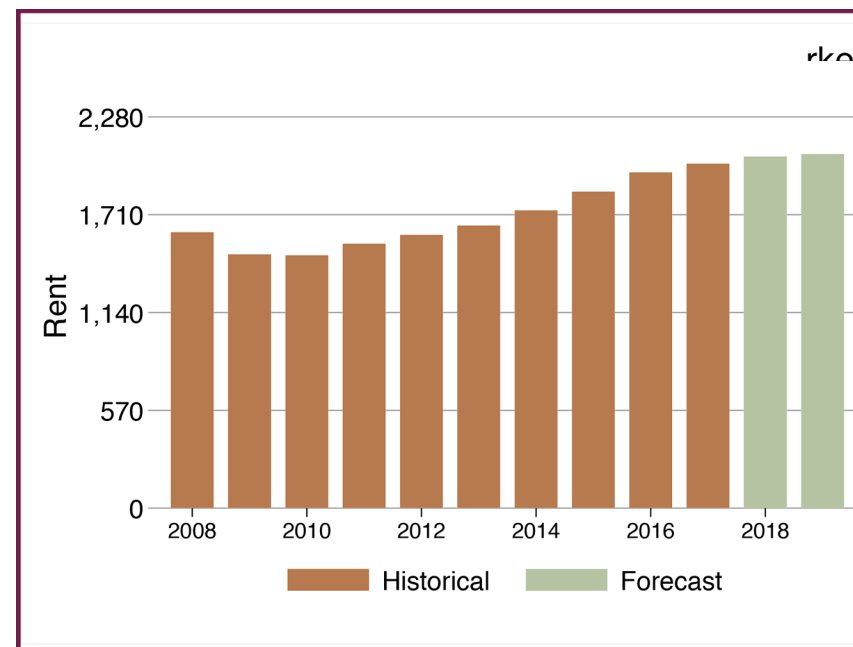


Source: Axiometrics and Beacon Economics

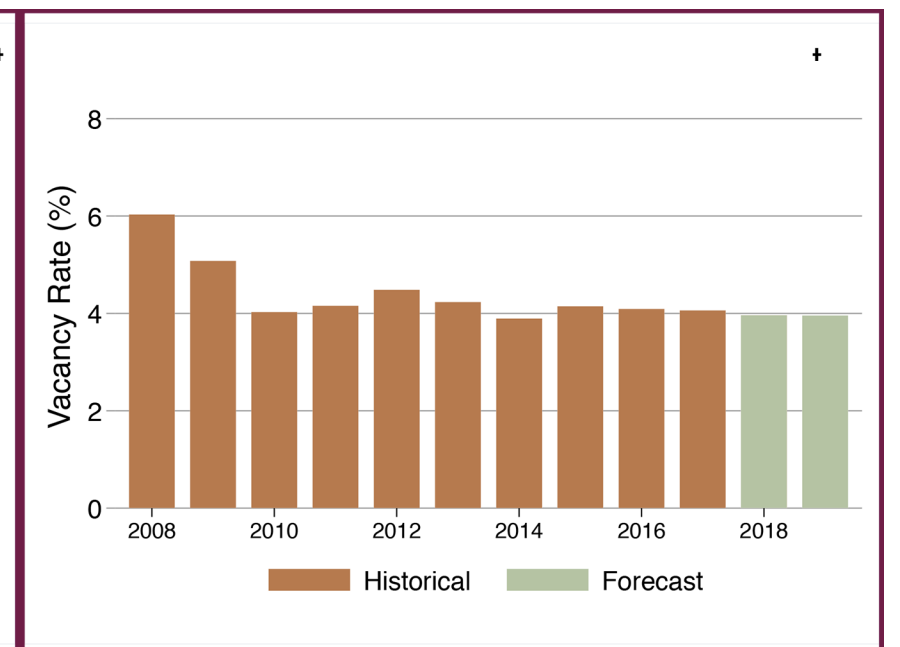


Source: Axiometrics and Beacon Economics

SIMI VALLEY-MOORPARK-THOUSAND OAKS MARKET
VENTURA COUNTY, 2008 TO 2019



Source: Axiometrics and Beacon Economics



Source: Axiometrics and Beacon Economics

Oxnard-San Buenaventura Renter Household Statistics

PERCENT WITH CHILDREN	44.3%
AVERAGE HOUSEHOLD SIZE	3.15
MEDIAN HOUSEHOLD INCOME	\$47,410
RACE (%):	
White	37.1%
Black	2.0%
Asian	6.7%
Hispanic (all races)	50.4%
All Other Races	3.9%
EDUCATION (%):	
Less than HS	20.6%
HS Diploma	58.7%
Bachelor's Degree	14.3%
Graduate Degree	6.5%
HOUSING BURDEN/SHARE OF INCOME	57.0%

Oxnard-San Buenaventura Rental Units By Size of Structure

SINGLE FAMILY (Detached & Attached)	39.8%
2-4 UNITS	15.4%
5-9 UNITS	13.8%
10-19 UNITS	12.5%
20 UNITS+	18.5%

Oxnard-San Buenaventura Rental Units By Year Built

BEFORE 1970	46.3%
1970-1999	45.1%
2000-2015	8.6%

Source: American Community Survey (2015)

Simi Valley-Moorpark-Thousand Oaks Renter Household Statistics

PERCENT WITH CHILDREN	41.8%
AVERAGE HOUSEHOLD SIZE	2.67
MEDIAN HOUSEHOLD INCOME	\$72,496
RACE (%):	
White	59.9%
Black	1.8%
Asian	11.3%
Hispanic (all races)	24.3%
All Other Races	2.7%
EDUCATION (%):	
Less than HS	9.9%
HS Diploma	50.0%
Bachelor's Degree	28.3%
Graduate Degree	11.9%
HOUSING BURDEN/SHARE OF INCOME	40.1%

Simi Valley-Moorpark-Thousand Oaks Rental Units By Size of Structure

SINGLE FAMILY (Detached & Attached)	44.0%
2-4 UNITS	14.3%
5-9 UNITS	11.0%
10-19 UNITS	14.2%
20 UNITS+	16.5%

Simi Valley-Moorpark-Thousand Oaks Rental Units By Year Built

BEFORE 1970	20.8%
1970-1999	68.6%
2000-2015	10.5%

Source: American Community Survey (2015)

THE FIX IS NOT IN: WHY WE WILL HAVE TO LOOK MUCH DEEPER TO SOLVE OUR HOUSING CRISIS

BY: MOTT SMITH | PRINCIPAL | CIVIC ENTERPRISE

In March 2008, then-Mayor Antonio Villaraigosa announced a bold plan to fix L.A.'s byzantine development regulation system. Reeling from recession, business and labor groups worried that L.A.'s formidable bureaucracy would deal the death blow to a struggling development economy. And the two front-line departments that regulate building – the Department of City Planning and Department of Building & Safety – had large payrolls that needed fee revenues from project applications to sustain them.

The impact of onerous zoning rules on project costs was already well established. Parking and open space requirements, for example, clearly add significant costs and hurt feasibility, especially with respect to smaller and lower-priced projects. Parking requirements of two spaces per unit (not uncommon in LA) can add \$30-40,000, and sometimes more, per dwelling. And even in 2008, school fees, parks fees and other impact fees (which have since increased) could add \$20-30,000, or more per dwelling. But recognition was growing that the approvals process itself – irrespective of zoning and fees – was a barrier to development.

The problem appeared to be the sheer number of city departments developers had to deal with, many of whom did not communicate with each other. The Mayor's plan, shaped by advice from many, including this author, sought to eliminate red tape by simplifying developers' interactions with the 12-plus agencies² that review development projects.

Called "12 to 2," the plan put Planning and Building & Safety

¹ Any required parking at all can render small and irregular parcels unbuildable absent land assembly.

² City Planning, Building & Safety, Sanitation, LADWP, Bureau of Engineering, Street Services, Urban Forestry, Information Technology, Fire, Street Lighting, Housing & Community Investment, among others.

in front, coordinating the work of the other departments behind the scenes. This way, the thinking went, developers would have clear, consistent dealings with the city rather than the incoherent jumble they often complained about.

The Mayor issued a press release saying, "Designed with maximum efficiency in mind, '12 to 2' will also increase transparency and accountability while protecting the Community Plans³ in each neighborhood."

The last part of the Mayor's statement was significant. City officials recognized that unwieldy project approvals not only hurt the business of development but also undermined public trust in the city and its plans.

The public and developers alike found the approval process alienating, both because of the overwhelming amount of paperwork associated with projects, as well as the inscrutable way in which individual departments review and "approve" projects. Generally speaking, each department that reviews a project is free to apply its own standards, irrespective of our general or community plans. And each issues its own "conditions of approval," that a developer must satisfy before pulling building permits or finalizing occupancy. These conditions are often open-ended (e.g., 'provide sewer upgrades to the satisfaction of the City Engineer'), redundant, or contradictory (e.g., one agency requires the developer to maintain the existing street trees while another requires street-widening, necessitating removal of those very same trees). No one at the city evaluates and prioritizes the conditions as a whole, or in the context of our plans. It's up to the developer to resolve interdepartmental conflicts.

³ The zoning-based land-use plans for L.A.'s 35 geographic planning areas.

This problem highlights the failure of zoning-based planning as practiced in Los Angeles, and, in truth, much of the U.S. City plans are the product of extensive analysis, outreach and negotiation among public and private stakeholders. They promise to balance optimally the needs of all parties. And if developers would just follow them, the myth goes, we'd experience harmonious growth and manageable change.

We imagined that 12 to 2, by clarifying the city's internal organization, would solve these problems. We were wrong.

Just two years after announcing his plan to coax more efficiency and transparency from his various departments, Mayor Villaraigosa officially abandoned 12 to 2. Quoted in the *Los Angeles Downtown News*, Building & Safety General Manager Bud Ovrom offered a polite *post mortem*: "I don't think we'll ever say 12-to-2 was a failure. But I think we will say that it didn't live up to our expectations and the mayor is disappointed that it didn't result in more meaningful development reform."

L.A. Chamber of Commerce CEO Gary Toebben told the *Downtown News*, "The best we can surmise from outside City Hall is that the internal department heads weren't able to make it work for whatever reason, or didn't choose to make it work."

Why did "12 to 2" fall apart? We can find some insight in NYU sociologist Richard Sennett's 1970 book, *The Uses of Disorder*, which says that city planning, as practiced, is essentially designed to fail. City plans, he notes, are often not really "plans" *per se*. Rather, they are documents whose main purpose is to paint a coherent picture of the future in order to comfort people who are anxious about change. And while city plans may succeed in calming people's nerves for a time, they set us up for more intense struggles down

the road. The reason being, this sort of “planning” frames the innovation we need to meet unforeseen challenges as “deviation” and the inevitable conflicts that always arise around real projects as technical or, worse, moral failures.

A neighborhood plan may call for “preserving the natural environment” while also “promoting mobility.” No argument there. But these goals are as vague as they are agreeable, and no planner can imagine every possible way to attain them, or how attaining one might conflict with the other, at every possible site that may be developed. So when a real project is presented and one department says “save the trees” while another says “widen the street,” the plan cannot help resolve the conflict. This means that many projects must be approved outside normal channels, via a formal “discretionary” process.

The Department of City Planning estimates that almost two-thirds of its annual budget is devoted to processing such discretionary approvals. Note that when a discretionary approval succeeds, at least one goal of a community plan is almost always sacrificed (e.g., the road is widened or the trees are removed). Further, the project is now characterized by its “deviation,” its violation of the community plan. This in turn makes it an attractive target for community watchdogs who appeal or sue projects that don’t fit squarely in the box of our zoning rules⁴.

The result of such a system is that in place of a real conversation about legitimate but sometimes conflicting priorities, we end up fighting vociferously over often trivial issues. Nervous neighbors angrily (and somewhat understandably) wonder how we strayed so far from the coherent future they were promised. Ashamed city officials promise to plan better in the future. And developers demand a system that solves its own problems internally, one that doesn’t force them to bear the cost of reconciling the city’s and society’s conflicting priorities with their own business imperatives.

Seen in this context, 12 to 2’s failure isn’t surprising. 12 to 2 amounted to a doubling-down on the idea that if we *just plan right* or administer our plans judiciously, then we won’t

⁴ According to the Los Angeles Department of City Planning, 64% of its annual budget is spent processing project-level discretionary approvals.

experience tough conflicts at the project level. And because we’ve thought things through, we can simply say “no thank you” to a potentially disruptive design innovation. 12 to 2 didn’t get to the core issue, namely that we begin our public conversation about unexpected turns and unavoidable conflicts with a sense that something has gone terribly wrong, that we failed to plan or that we allowed human nature to get the better of us.

Too often, our response to this sense of failure is to prescribe solutions that, like 12 to 2, shove the hard questions into the shadows and commit us to policy outcomes that cannot be achieved. State laws like SB 375, for instance, appear to move the ball by requiring expedited city review for “good” projects that support improved air quality outcomes. But inevitably, “good projects” are subject to a definition so specific and fantastical that barely any real projects could ever qualify. The city of L.A.’s recent “re:code” project to revise the zoning code could easily fall into this trap as well, succeeding in making the code more transparent but failing to make it flexible enough to tolerate site-specific reality or the innovation we will surely need if we are ever to resolve our housing crisis.

By contrast, the solutions we need must recognize--in fact, advertise--their own limits. If we acknowledge that zoning plans are only really good for keeping certain land uses apart from each other, and not terribly effective at creating specific built outcomes, for instance, we could talk about project disputes in a much less polarizing way. No longer would developer creativity and innovation be cast inevitably as “lawlessness.” Nor would understandable neighbor concerns about community character be dismissed so easily as exclusionary NIMBYism.

Our current laws and the way we administer them makes this tough, though. Today, for example, it’s customary for planners and developers operating under the California Environmental Quality Act to feel compelled to convey a false certainty about the potential impacts of their projects. Genuinely concerned stakeholders can smell the insincerity and move into a fighting stance. And because CEQA challenges can be so devastating, developers respond with justifiable defensiveness. The interaction thus escalates into

desperation. And polarization occupies the space where human engagement could otherwise forge real solutions.

The alternative, for developers and planners to answer a nervous neighbor’s question about impacts with an honest “I don’t know” and for stakeholders to accept, even grudgingly, that things will happen that are unpredictable, would change the quality of the conversation markedly.

Thus, instead of programs like 12 to 2, which overpromise and fail to short-circuit the playing-out of conflicts, we would do much better to start with an honest conversation about the future, and all the competing priorities we can and cannot imagine.

We must instead acknowledge that every change in our social and built environment will bring winners and losers. We must admit that our policies do a poor job of picking winners or losers. We must accept that, especially in a built-out city like L.A., managing development is at best a marginal way to influence big issues like housing affordability, mobility, social equity, or environmental quality. We must recognize that the most effective way to influence any of these areas as a public will be direct action – by funding, building, innovating, improving.

Even more to the point, the best hope may lie in the human beings, themselves, who are part of development teams, public agencies and community groups, and who ignore their lawyers’ advice and engage with each other openly, honestly and as true advocates for their positions. These are conversations that best happen informally, person-to-person. They must rely on human experience for the sort of moral guidance that no plans or laws could ever comprehensively provide. They’re thus hard to have in the high-stakes, formal environments of public hearings or courtrooms.

If we are lucky enough to see people engage in this way more, we may be less seduced by a dysfunctional land-use regime or last-ditch legal system, and be more open to the solutions we need to make Los Angeles more open, affordable, livable, and sustainable – solutions that will undoubtedly come from developer innovations that happen one project at a time, in ways we couldn’t possibly imagine just yet.

TECHNICAL NOTES

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Overall Disclaimer

Some of the data in this report was gathered from third party sources and was not independently verified. Neither Beacon Economics nor the Casden Forecast make any warranties or representations as to the completeness or accuracy thereof.

METHODOLOGY

Statistics reported in this year's USC Casden Forecast are based on data provided by the U.S. Census and RP Axiometrics LLC. Multifamily housing statistics reflect data for structures with 5 or more units, unless otherwise noted.

Beacon Economics utilized the Public Use Microdata Sample of the 2000 U.S. Census Decennial and the Public Use Microdata Sample of the Census U.S. Census American Community Survey 1-Year estimates from 2007 to 2015. Historic trends for every metropolitan area and for every submarket are derived by incorporating the corresponding statistics as estimated by RP Axiometrics LLC.

Beacon Economics used regression models to estimate the number of multifamily renter housing units, rents, and vacancy rates.

The forecast presented in this report uses standard time-series econometric techniques based on historical correlations and forecasts of future economic trends. Beacon Economics used a dynamic panel econometric regional model for each metropolitan area in Southern California using macro trends to create a local forecast that delivers a broad outlook for the region including rents and vacancy rates for multifamily renter-occupied housing units.

USC Lusk
*Casden Real Estate
Economics Forecast*