COMPREHENSIVE HOUSING MARKET ANALYSIS

Los Angeles Metropolitan Division Series Focus on: Central Los Angeles, California

U.S. Department of Housing and Urban Development | Office of Policy Development and Research | As of June 1, 2018

Housing Market Area

The Central Los Angeles Housing Market Area (HMA) is part of Los Angeles County, which is coterminous with the Los Angeles-Long Beach-Glendale, CA Metropolitan Division (hereafter, Los Angeles division). The HMA is 13 miles from the Pacific Ocean and encompasses approximately 200 square miles of the center of Los Angeles County. Downtown Los Angeles (DTLA) and Hollywood are in the HMA and are respective hubs for financial and professional services and tourism in the southern California region, a 10-county area that stretches from San Luis Obispo to the Mexican border.

Summary

Economy

The Los Angeles division economy has grown more than 7 consecutive years following the Great Recession. The economic expansion has slowed recently, however, similar to the trends in the southern California region and the nation. Nonfarm payrolls in the division increased by 59,400 jobs, or 1.3 percent, to 4.46 million jobs during the 12 months ending May 2018. An estimated 17 percent of total jobs in the division are in the Central Los Angeles HMA, up from 15 percent in 2000 because of significant redevelopment in DTLA. During the 3-year forecast period, nonfarm payrolls in the division are expected to increase an average of 1.4 percent a year, partly supported by expansions in the HMA.

Sales Market

Sales housing market conditions in the HMA are balanced, with an estimated 1.8-percent vacancy rate, down from 2.7 percent in 2010. During the next 3 years, demand is estimated for 5,175 new homes (Table 1), accounting for 24 percent of the total estimated demand in the Los Angeles division. Demand is expected to increase slightly in the second and third years of the forecast period because of increased net in-migration. The 2,650 homes under construction and the 61 condominium units in planning in the HMA will satisfy some of the forecast demand.

Rental Market

Rental housing market conditions in the HMA are balanced, and the vacancy rate is estimated at 4.5 percent, down from 5.8 percent in 2010. An increase in renter households since 2010 contributed to the absorption of excess vacant rental units. During the forecast period, demand in the HMA is expected for 12,000 new market-rate rental units (Table 1), accounting for 40 percent of demand in the Los Angeles division. The 6,025 rental units currently under construction and 528 units in planning will meet all the demand in the first year and part of the demand in the second year of the forecast period.

Market Details

Table 1. Housing Demand in the Los Angeles Division* and Central Los Angeles HMA During the Forecast Period

	Los Angeles Division*		Central Los Angeles HMA	
	Sales Units	Rental Units	Sales Units	Rental Units
Total demand	21,925	29,850	5,175	12,000
Under construction	4,600	18,725	2,650	6,025

** Los Angeles-Long Beach-Glendale, CA Metropolitan Division.*

Notes: Total demand represents estimated production necessary to achieve a balanced market at the end of the forecast period. Units under construction as of June 1, 2018. The forecast period is June 1, 2018, to June 1, 2021.

Source: Estimates by analyst

Economic Conditions

The Central Los Angeles HMA is an economic hub in the southern California region, known for its financial and professional services, higher education, and tourism industries. The DTLA area of the HMA has represented a center for financial and professional services in the Los Angeles division since the late 1800s. Today, the 34 skyscrapers and high-rise buildings that form the iconic Los Angeles skyline contain 18 percent of total office space in the division (Beacon Economics), or more than 30 million square feet, and have a capacity for nearly 50,000 professional workers. Companies in DTLA include Bank of America Corporation, City National Bank, and Wells Fargo & Company, with approximately 4,450 employees combined that account for 19 percent of all HMA jobs in the financial activities sector. Approximately 3 miles west of DTLA, in South Central Los Angeles, is the largest private employer in the HMA, the University of Southern California (USC), with 28,150 employees (Table 2). Founded in 1880, USC is the oldest private research university in California, with an annual economic impact of $8 billion on California (USC). USC directly and indirectly supports 42,300 jobs in the division and 53,425 jobs throughout California. The HMA is also home to the Los Angeles Convention Center, which receives 2 million visitors annually and generates $781 million in economic impact on the division (2018 Los Angeles Convention Center). Hollywood landmarks, including the Hollywood Walk of Fame and TCL Chinese Theater, also supports tourism in the HMA. In total, the HMA receives 19 million visitors annually, which accounts for 39 percent of all visitors to the Los Angeles division (2018 Los Angeles Tourism and Convention Board).

Table 2. Major Employers in the Los Angeles Division*

Name of Employer	Nonfarm Payroll Sector	Number of Employees
City of Los Angeles	Government	49,500
University of California, Los Angeles	Government	47,600
Kaiser Permanente®	Education & health services	37,000
University of Southern California	Education & health services	28,150
Northrop Grumman Corporation	Manufacturing	16,600
Target Brands Inc.	Wholesale & retail trade	15,000
The Kroger Company	Wholesale & retail trade	13,500
The Boeing Company	Manufacturing	13,300
Providence Health Systems	Education & health services	13,000
Bank of America Corporation	Financial activities	13,000

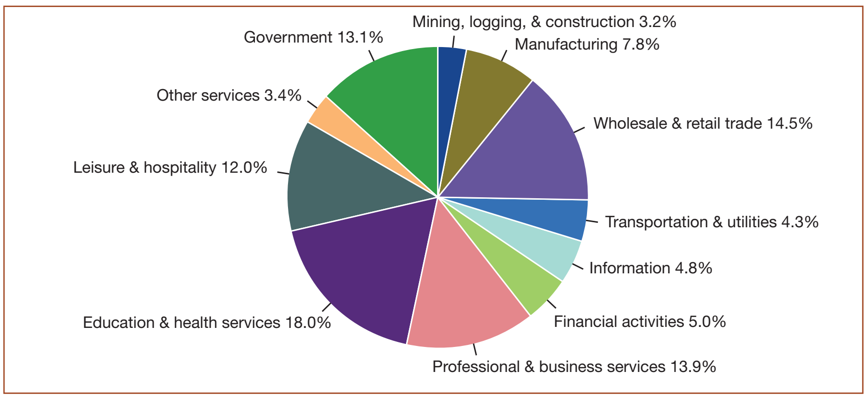
** Los Angeles-Long Beach-Glendale, CA Metropolitan Division.*

Note: Excludes local school districts.

Source: Los Angeles Business Journal Book of Lists, *2017-2018; Los Angeles City Controller, 2017*

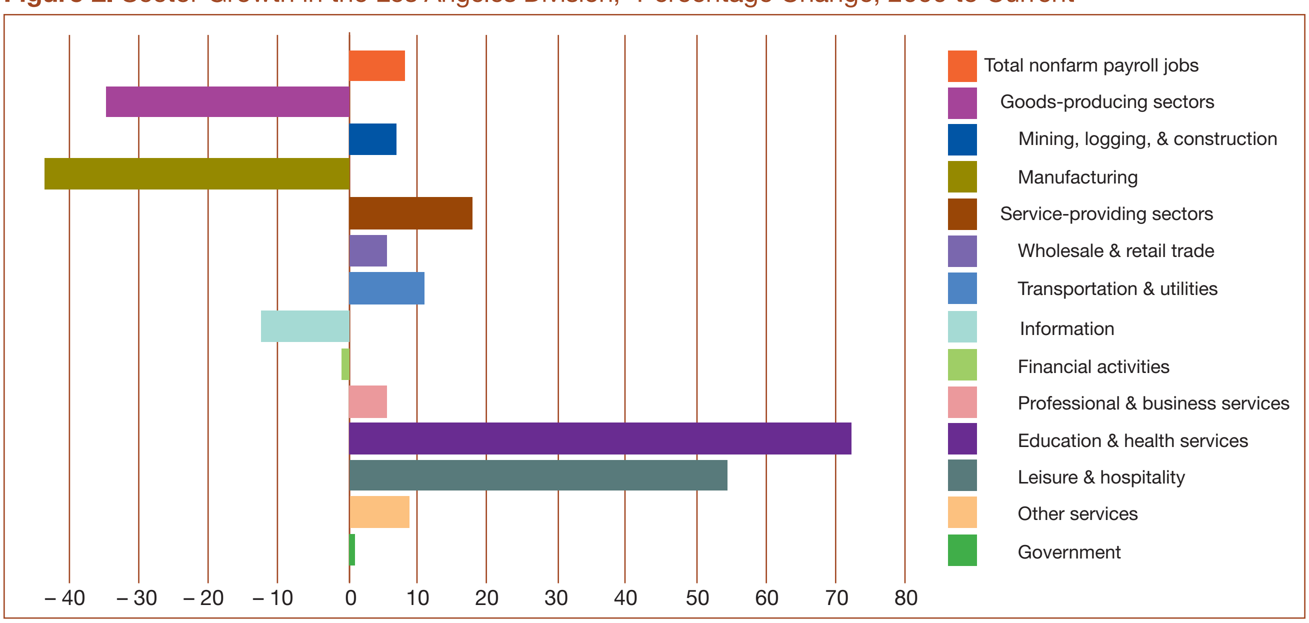
The leisure and hospitality sector is currently the fourth largest sector in the division (Figure 1) and the second largest source of job growth since 2000 (Figure 2). Approximately 20 percent of leisure and hospitality jobs in the division are in the HMA. Overall, total nonfarm payrolls in the HMA account for an estimated 17 percent of jobs in the division, up from 15 percent in 2000. The gain in the proportion since 2000 is partly attributed to revitalization efforts in DTLA that contributed to HMA growth in the education and health services; the leisure and hospitality; the mining, logging, and construction; and the professional and business services sectors. Combined, these sectors added an estimated 137,700 jobs and accounted for 41 percent of the net growth in nonfarm payrolls in the division since 2000. Redevelopment efforts have also contributed to a greater proportion of the Division's labor force and resident workers living in the HMA. Approximately 18 and 17 percent, respectively, of the labor force and resident workers in the division currently live in the HMA, up from 16 and 15 percent in 2000. Economic trends in the Central Los Angeles HMA have also been influenced by growth in the greater Los Angeles division, for which annual data are readily available.

Figure 1. Current Nonfarm Payroll Jobs in the Los Angeles Division* by Sector



** Los Angeles-Long Beach-Glendale, CA Metropolitan Division.*
Note: Based on 12-month averages through May 2018.
Source: U.S. Bureau of Labor Statistics

Figure 2. Sector Growth in the Los Angeles Division,* Percentage Change, 2000 to Current



** Los Angeles-Long Beach-Glendale, CA Metropolitan Division.*
Note: Current is based on 12-month averages through May 2018.
Source: U.S. Bureau of Labor Statistics

Since 2000, the Los Angeles division economy has expanded by an average of 19,400 jobs, or 0.5 percent, a year. Overall job growth during the period was limited by two periods of contraction, however. The first contraction occurred from 2002 through 2003, when nonfarm payrolls declined by an average of 34,000 jobs, or 0.8 percent, a year to nearly 4.07 million, in response to the national downturn in the technology industry. Approximately 40 percent of the net decline in payrolls resulted from layoffs at companies involved in high-tech production, in which industries lost a combined 13,500 jobs, or 7.5 percent, a year. By 2004, the economy began to strengthen, and payroll growth was up by an average of 45,300 jobs, or 1.1 percent, annually from 2004 through 2007. Approximately 88 percent of the entire net gain occurred in the education and health services, the professional and business services, and the wholesale and retail trade sectors, up respectively by 19,400, 10,000, and 10,400 jobs, or 3.4, 1.7, and 1.7 percent, annually. The mining, logging, and construction sector had the largest percentage gain, up an average of 3.9 percent, or by 5,700 jobs, annually, entirely because of gains in the construction subsector. Greater residential building activity from strong sales housing market conditions during most of the period partly contributed to the gain in the subsector. Overall, job growth in the division increased at the same rate as the nation during the period but was below the rate of growth in the southern California region, which expanded by an average of 1.6 percent a year.

By the end of 2007, the Great Recession began, and payrolls in the division declined by an average of 109,600 jobs, or 2.7 percent, a year from 2008 through 2010 to 3.92 million. Approximately 82 percent of the net losses occurred in the manufacturing; the mining, logging, and construction; the professional and business services; and the wholesale and retail trade sectors. A 15,500-job reduction in apparel manufacturing caused by company relocations accounted for 62 percent of the decline in the manufacturing sector. Three-fourths of the loss in the mining, logging, and construction sector resulted from reductions in the construction subsector in response to reduced housing development. Overall, the rate of job loss in the division was much more severe than in the southern California region and the nation during the period, which were down averages of 1.8 and 1.1 percent, respectively, a year.

Following the economic contraction, nonfarm payrolls in the division expanded by an average of 77,800 jobs, or 1.9 percent, annually from 2011 through 2016 to nearly 4.39 million, which was faster than growth during the previous decade. This pace led to nonfarm payrolls in the division surpassing prerecessionary levels by the end of 2015. The rate of job growth in the Los Angeles division was faster than the 1.7-percent rate for the nation from 2011 through 2016 but was below the pace of growth in the southern California region, which was 2.2 percent a year. The education and health services, the leisure and hospitality, and the professional and business sectors, combined, accounted for nearly two-thirds of the total job gain in the division during the period. The $500 million expansion of the Universal Studios Hollywood theme park in 2016 added 2,000 jobs, a portion of which were in the leisure and hospitality sector, contributing to overall gains.

Since 2016, nonfarm payrolls in the division have continued to expand but at a slower pace. Payrolls were up by 59,400 jobs, or 1.3 percent, to 4.46 million jobs during the 12 months ending May 2018 compared with the previous 12-month period (Table 3). Overall, growth in the division was lower than both the rate of growth the southern California region, 1.6 percent, and the nation, 1.5 percent. Continued losses in the manufacturing sector and a contraction in the information sector contributed the most to the slowed growth in the division. Further contractions in the apparel manufacturing industry, which was down by 4,500 jobs, or 12.8 percent, led declines in manufacturing payrolls of 5,700 jobs, or 1.6 percent, during the past 12 months. The closure of American Apparel, Inc. and BCBG Max Azria Group, LLC led to a combined 2,250 layoffs and contributed to the decrease in the industry. The information sector was down by 8,100 jobs, or 3.6 percent, because of a 9,200-job, or a 6.6-percent, decrease in the motion picture and sound recording industries. Warner Music, Inc. and Deluxe Entertainment Services Group Inc. had a combined 100 layoffs since June 2017, contributing to the reduction. Growth in the broadcasting industry partly offset some of the decline, which was up by 1,300 jobs, or 5.7 percent. Notable gains also occurred in the education and health services, the leisure and hospitality, and the professional and business services sectors, which were up by 24,200, 17,100, and 13,800 jobs, or 3.1, 3.3, and 2.3 percent, respectively, contributing to overall payroll growth in the division. Part of the growth in the education and health services sector was attributed to the opening of the $700 million USC Village in the fall of 2017 in the HMA, with a portion of the expected 8,000 permanent jobs already filled.

In the leisure and hospitality sector, 14 hotels at a cost of nearly $1.2 billion have opened in the division since June 2017, accounting for one-fourth of all hotel openings in California and adding more than 800 jobs. Three of these hotels, with a total of 1,330 rooms, opened in DTLA. Hotel construction had been supported by an increase in the number of visitors to the division, peaking at 48.3 million visitors in 2017, while visitor spending increased to a record $22.0 billion (Los Angeles Tourism & Convention Board). Recent openings include the 889-room InterContinental Los Angeles Downtown hotel in the Wilshire Grand Center in June 2017; a portion of the total anticipated

Table 3. 12-Month Average Nonfarm Payroll Jobs in the Los Angeles Division* by Sector

	12 Months Ending		Absolute Change	Percent Change
	May 2017	May 2018		
Total nonfarm payroll jobs	4,403,400	4,462,800	59,400	1.3
Goods-producing sectors	492,600	492,300	-300	– 0.1
Mining, logging, & construction	137,300	142,600	5,300	3.9
Manufacturing	355,300	349,600	– 5,700	– 1.6
Service-providing sectors	3,910,800	3,970,600	59,800	1.5
Wholesale & retail trade	646,700	646,100	– 600	– 0.1
Transportation & utilities	186,400	193,900	7,500	4.0
Information	222,200	214,100	– 8,100	– 3.6
Financial activities	220,100	221,700	1,600	0.7
Professional & business services	605,900	619,700	13,800	2.3
Education & health services	778,500	802,700	24,200	3.1
Leisure & hospitality	516,300	533,400	17,100	3.3
Other services	154,100	153,100	– 1,000	– 0.6
Government	580,700	585,800	5,100	0.9

** Los Angeles-Long Beach-Glendale, CA Metropolitan Division.*

Notes: Numbers may not add to totals because of rounding. Based on 12-month averages through May 2017 and May 2018.

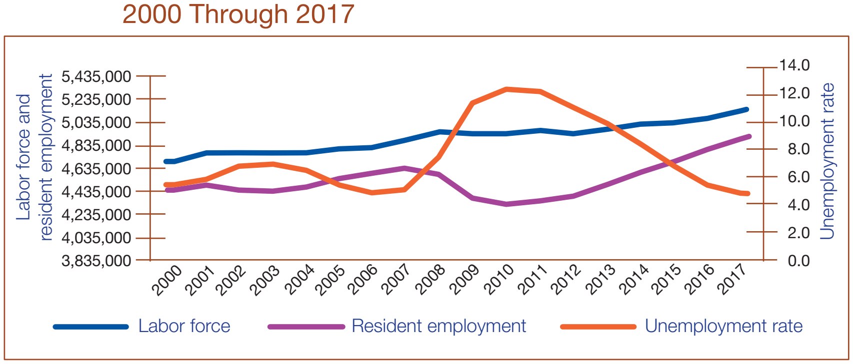
Source: U.S. Bureau of Labor Statistics

1,750 permanent jobs has already been added. The Wilshire Grand Center currently stands as the tallest building in California, 10th largest in the nation, and includes more than 350,000 square feet of office space on floors below the hotel, with a capacity for approximately 1,950 professional workers. In the professional and business services sector, the addition of 6,900 jobs, or 2.7 percent, in the administrative and support services industry accounted for one-half of the job gain in the sector. Professional staffing agencies, including Robert Half International Inc. and Randstad USA, have added nearly 1,800 jobs throughout the division since mid-2017 in response to greater demand for professional services (State of California Employment Development Department).

As the economy of the Los Angeles division continued to expand during the 12 months ending May 2018, the average unemployment rate decreased to 4.5 percent, down from 5.0 percent a year earlier. The current unemployment rate is above the 4.3-percent rate for the southern California region and the 4.1-percent rate for the nation. The unemployment rate in the division decreased because of higher growth in resident employment relative to the labor force. Figure 3 shows trends in the labor force, resident employment, and the average unemployment rate in the division from 2000 through 2017.

During the 3-year forecast period, nonfarm payrolls in the division are expected to increase by an average of 62,200 jobs, or 1.4 percent, annually, slightly higher than the recent growth rate because of reduced losses in manufacturing. Expansions in the education and health services and the leisure and hospitality sectors are anticipated to contribute to overall payroll gains during the next 3 years. USC is expected to continue filling the 8,000 permanent jobs planned in the HMA at USC Village through the forecast period and beyond. In the leisure and hospitality sector, 31 hotels are under construction throughout the division at a cost of nearly $1.2 billion, which are expected to add approximately 10,000 jobs when complete by the end of 2019. Of the hotels underway, 5 of them will be in DTLA, which will add more than 280 jobs when complete. In addition, a $1.2 billion expansion of the Los Angeles Convention Center that is planned to start in 2019 is expected to add 350,000 square feet of convention space and a 40-story hotel tower, adding approximately 6,000 construction jobs during buildout and 200 permanent jobs when complete. Current hotel construction has resulted from anticipated growth in tourism, which is partly supported by the upcoming 2020 Major League Baseball All-Star Game and the 2022 Super Bowl, both of which will be hosted in the HMA.

Figure 3. Trends in Labor Force, Resident Employment, and Unemployment Rate in the Los Angeles Division,* 2000 Through 2017



* *Los Angeles-Long Beach-Glendale, CA Metropolitan Division.*
Source: U.S. Bureau of Labor Statistics

Population and Households

The population of the Central Los Angeles HMA is estimated at 1.93 million as of June 1, 2018. Overall, the HMA accounts for approximately 19 percent of the population in the Los Angeles division, which has a current population estimated at 10.3 million (Table DP-1 at the end of this report). The city of Los Angeles, which is partly contained in the HMA, is the largest city in the Los Angeles division, with 4.05 million residents as of January 2018 (California Department of Finance). The city includes the HMA neighborhoods of DTLA, Hollywood, and areas in both East and South Central Los Angeles. An estimated 45 percent of the city of Los Angeles population, or 1.82 million, reside in the HMA. The city of Compton, in South Central Los Angeles, is the only city entirely contained in the HMA, with 99,900 residents.

During most of the period since 2000, economic conditions, mortgage lending standards, and housing prices have influenced trends in migration and overall population growth in both the HMA and the greater Los Angeles division. Generally, population growth in the HMA and the division has been supported by net natural increase (resident births minus resident deaths) because of year-over-year net out-migration during most of the period since 2000. Students attending USC have helped to offset some of the net out-migration from the HMA, where approximately 57 percent of new students come from outside California and the nation (USC data). During the 2000s, 2,850 students came from outside California and the nation to attend USC, a number that has increased to 6,700 students since 2010. Extensive redevelopment in DTLA, including the conversion of office space to residential use, has made the neighborhood more attractive to residents and positively impacted migration to the HMA.

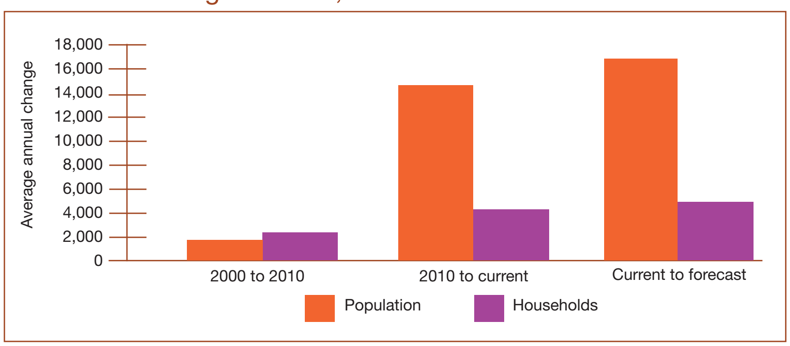
During the early 2000s, a period that includes an economic contraction, population growth in the HMA averaged 6,425 people, or 0.4 percent, a year from 2000 to 2004, while net out-migration from the HMA averaged 15,350 people a year. By the end of 2004, lenient mortgage-lending standards and strong economic conditions contributed to increased homebuying and a surge in residents moving away from the HMA and the Los Angeles division. Residents previously in the East and South Central Los Angeles areas of the HMA moved to Riverside and San Bernardino Counties (Internal Revenue Service migration data), where new homes and neighborhoods were being developed at prices that averaged $124,000 less than in the HMA. From 2004 to 2007, net out-migration surged to an average of 26,200 people a year, leading to an average annual population decline of 4,625, or 0.3 percent, annually, the only period of population decline since 2000. By the end of 2008, the draw of residents away from the HMA to purchase homes elsewhere slowed slightly as the economy and housing markets in parts of the southern California region began to weaken. Net out-migration slowed from 2007 to 2010 to an average of 18,500 people annually, and population growth averaged 1,925 people, or 0.1 percent, a year.

As economic conditions began to improve by the end of 2010 and greater redevelopment of DTLA began to draw residents to the HMA or influence them to stay, net out-migration slowed to the lowest levels since 2000. From 2010 to 2016, net out-migration averaged 2,450 people a year, and population growth averaged 14,100 people, or 0.8 percent. Population growth would expand further since 2016, as economic conditions, redevelopment in DTLA, and a greater number of students attending USC would support net in-migration for the first time since 2000. Net in-migration to the HMA has averaged 2,650 people a year since 2016, while population growth has averaged 16,850 people, or 0.9 percent, the highest level of growth since 2000.

During the next 3 years, the population of the HMA is expected to increase by an average of 17,000, or 0.9 percent, a year (Figure 4), reflecting continued net in-migration. The population of the HMA is estimated to reach 1.98 million by the end of the 3-year forecast period and account for nearly 19 percent of the total population of the Los Angeles division. Figure 5 shows components of population change in the HMA from 2000 to the forecast date.

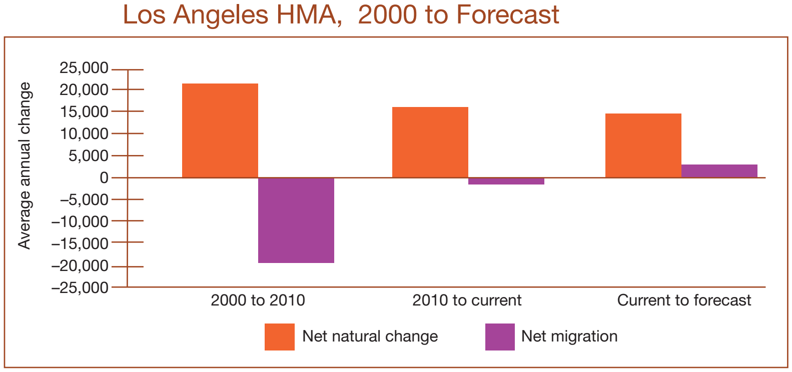
Improved migration into the HMA since 2010 has also contributed to greater household growth compared with the 2000s. The number of households in the HMA is currently estimated at 579,600, up an average of 4,250, or 0.8 percent, annually since 2010 compared with an average increase of 2,300, or 0.4 percent, annually, during the 2000s. The HMA currently accounts for 17.1 percent of total households in the Los Angeles division, up from 16.7 percent in 2000. The proportion of renter households in the HMA rose to 71.9 percent, up from 70.5 percent in 2010, partly because higher home sales prices and tighter lending requirements have made homeownership more difficult, leading to greater renter household growth. The number of renter households has increased by an average of 4,000 a year since 2010, compared with an average

Figure 4. Population and Household Growth in the Central Los Angeles HMA, 2000 to Forecast



Notes: The current date is June 1, 2018. The forecast date is June 1, 2021.
Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by analyst

Figure 5. Components of Population Change in the Central Los Angeles HMA, 2000 to Forecast

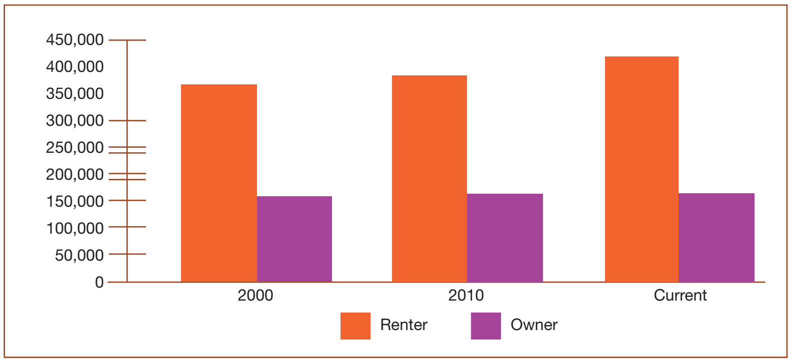


Notes: The current date is June 1, 2018. The forecast date is June 1, 2021.
Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by analyst

of 1,975 a year during the 2000s. Student household growth, partly from increased enrollment at USC, also contributed to the increased proportion of renter households since 2010. An estimated 18 percent of renter household growth in the HMA since 2010 has been attributed to student households, compared with 3 percent during the 2000s. Despite the share of growth, student households only account for approximately 5 percent of total renter households in the HMA. Figure 6 shows the number of households by tenure in the HMA since 2000.

During the forecast period, the number of households in the HMA is expected to grow by an average of 4,800, or 0.8 percent, annually to 594,000, accounting for 17.3 percent of total households in the Los Angeles division. Renter households are expected to increase to 72.2 percent of total households in the HMA by the end of the forecast period and continue to account for 23 percent of all renter households in the Los Angeles division. Student household growth in the HMA is expected to account for approximately 12 percent of renter household growth during the next 3 years, a lower proportion than since 2010 because USC dormitory completions are expected to reduce growth in student-rental housing demand during the forecast.

Figure 6. Number of Households by Tenure in the Central Los Angeles HMA, 2000 to Current



Note: The current date is June 1, 2018.
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

Housing Market Trends

Sales Market

The Central Los Angeles HMA sales housing market is balanced, improving every year since the sales market contraction that occurred from the end of 2007 through 2011. The estimated sales vacancy rate is currently 1.8 percent, down from 2.7 percent in 2010 and 3.4 percent in 2000 (Table DP-2); most of the 2000s was a period with high net out-migration and no redevelopment to attract or sustain households. A 52-percent reduction in the inventory of homes for sale, from a peak of 8,050 during 2008, when the market was weakest, to 3,825 during the 12 months ending May 2018 (CoreLogic, Inc.), contributed to the decline in the vacancy rate. Lower inventory levels resulted from growth in both the number of owner households and investor purchases of homes for sale that more than offset higher development levels since 2010.

As sales market conditions improved, the number of months homes remained on the market has declined to an average of 2.3 months during the 12 months ending May 2018, compared with a high of 4.6 months during 2008. Despite improved sales market conditions, the homeownership rate is currently 28.1 percent, down from 29.5 percent in 2010 because of greater renter household growth.

An average of 8,550 new and existing single-family homes, townhomes, and condominiums were sold annually in the HMA during the sales market contraction from 2007 through 2011 (CoreLogic, Inc., with adjustments by the analyst). The number of homes sold was down 44 percent from an average of 15,350 homes sold annually from 2000 through 2006, which was the highest average since 2000 despite greater levels of net out-migration during most of the period. Higher sales levels resulted from lenient mortgage lending standards that allowed a larger proportion of households to purchase homes during the early to mid-2000s. As lending standards tightened and the economy contracted by the end of the 2000s, home sales from 2007 through 2011 declined, and regular resales reduced by 9,450, or 67 percent. New home sales declined from a peak of 1,350 in 2006 to 640 by the end of 2011, or 52 percent. Growth in real estate owned (REO) home sales, which rose from an average of 680 sold annually from 2000 through 2006 to an average of 3,100 sold annually from 2007 through 2011, offset this reduction. Part of the gain in REO sales was attributed to an increasing share of investor purchases, which rose from 11 percent in 2000 to 18 percent by the end of 2011.

The sales market began to improve by 2012, following nearly 2 years of significantly lower net out-migration and stronger economic growth. From 2012 through 2016, new and existing home sales rose to an average of 9,625. An average annual gain of 680 regular resales, or 10 percent, supported the increase entirely, offsetting an average annual reduction in REO sales of 570, or 31 percent, while new home sales remained relatively unchanged. Since 2016, home sales have continued to increase, and during the 12 months ending May 2018, 10,000 homes sold, up 3 percent from the 12 months ending May 2017. The entire gain was attributed to a 610-home, or 7-percent, increase in regular resales that offset a 250-home, or 53-percent, decline in REO sales.

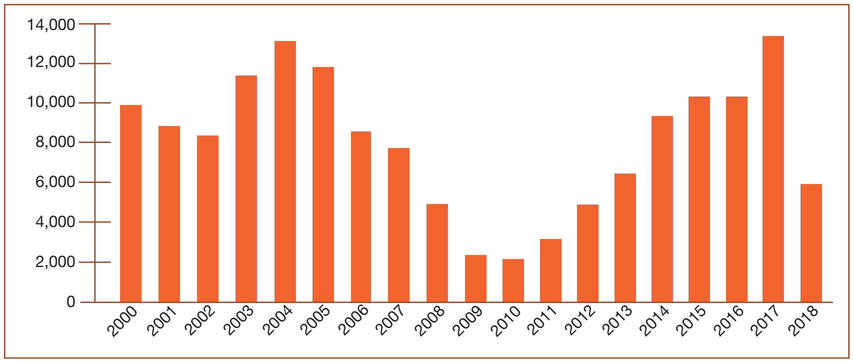
Approximately 86 percent of all home sales in the HMA since the mid-2000s have been either single-family or townhomes, with condominium sales accounting for the remaining 14 percent (Metrostudy, A Hanley Wood Company). With respect to new home sales, however, condominiums have accounted for 84 percent of new home sales in the HMA because redevelopment has supported higher-density residential construction, which has comprised a significant part of recent new construction. Currently, new condominium sales totaled 250 during the 12 months ending May 2018, with 90 percent of these sales occurring in DTLA. The number of new condominium sales was down 9 percent from the previous 12 months, due in part to strong price growth. After increasing by an average of 10 percent a year from 2012 through 2016, the average sales price for new condominiums reached a high of $933,000 during the 12 months ending May 2018, up 6 percent from $882,800 during the previous 12 months. In DTLA, new condominium prices are among the highest in the HMA, averaging nearly $1.1 million, up 8 percent from $973,200 a year ago because of a greater number of luxury condominiums being completed in the area. Despite sharply increasing prices, the current number of new condominiums sold in the HMA is nearly double the average of 130 condominiums sold annually from 2012 through 2016.

Overall, prices for new and existing homes followed trends similar to new condominiums, rising 10 percent during the 12 months ending May 2018 to $668,900, following 6 consecutive years of price growth that averaged 12 percent, annually. Home prices averaged $376,100 during the housing downturn from 2007 through 2011, down from an average of $456,400 from 2004 through 2006 because REO home sales, which were priced 41 percent below regular resales, accounted for a greater share, at 36 percent, of sales during the period. Home sales prices began increasing each year starting in 2012, and surpassed the prerecessionary peak of $566,000 by 2016, as the share of REO home sales declined from 28 percent in 2012 to 6 percent by 2016 as the market improved. Although overall home prices in the HMA are 81 percent higher compared with San Bernardino and Riverside Counties, the HMA is one of the more affordable housing markets in the Los Angeles division, with an average sales price that is 13 percent lower than average prices in the Los Angeles division.

The overall improvement in sales housing market conditions in the HMA since 2012 has led to a reduction in the rate of seriously delinquent home loans (loans that are 90 or more days delinquent or in foreclosure) and REO properties. As of May 2018, 1.5 percent of home loans in the HMA was seriously delinquent or had transitioned into REO status, down from 2.0 percent in May 2017 and a peak of 17.6 percent in February 2010 (CoreLogic, Inc.). The current rate is above the 0.9-percent rate for both the Los Angeles division and California and is the below the 2.0-percent rate for the nation.

Single-family home construction in the HMA is generally concentrated in the areas surrounding DTLA, including East and South Central Los Angeles, where there is available infill land for lower-density residential construction. Single-family building activity, as measured by the number of single-family homes permitted, in the HMA has accounted for only 13 percent of all single-family construction in the Los Angeles division since 2000. During the early 2000s, an average of 900 homes were permitted annually from 2000 through 2002 before increasing to an average of 1,200 homes a year from 2003 through 2005, a period during the housing boom. Single-family building activity slowed by 2006 to 850 homes despite relatively strong sales market conditions that year, before declining by an average of 160 homes, annually, to a low of 210 by 2010. Recently, homebuilding activity has increased to higher levels, similar to the early-to-mid 2000s (Figure 7), because redevelopment in DTLA has caused greater sales housing demand in the surrounding areas of the HMA, where new homes are an average of $81,150 less than in DTLA. Permitting has increased almost every year since 2010, up by an average of 160 homes, or 30 percent, annually, reaching 1,325 homes in 2017. During the 12 months ending May 2018, 1,150 homes were permitted compared with 1,375 homes permitted during the same period a year earlier (preliminary data; estimates by the analyst).

Figure 7. Single-Family Homes Permitted in the Central Los Angeles HMA, 2000 to Current



Notes: Includes townhomes. Current includes data through May 2018.

Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Consistent with recent trends, notable single-family developments currently under construction are concentrated in relatively low-density parts of the HMA, particularly locations with convenient access to the commuter rail lines that facilitate access to jobs in DTLA. Magnolia Walk in South Central Los Angeles is planned for 94 single-family homes at buildout, with 3 homes complete and 28 units under construction. Thirty homes will be reserved for those with low-to-moderate incomes with prices that start in the mid $200,000s for three-bedroom homes, while the remaining market-rate homes will start in the low $500,000s for three-bedroom homes. RiverPark, north of DTLA, is planned for 95 homes at buildout, with 41 homes that have been completed and with prices that start at $739,000 for three-bedroom homes. Additional for-sale housing includes condominium developments in both Hollywood and DTLA. Cahuenga 18, in Hollywood, has 18 units planned at buildout and is expected to be complete later in 2018. Prices will start in the $700,000s for two-bedroom units. In DTLA, the 38-story tower Metropolis Los Angeles was completed earlier in 2018, with 310 condominiums starting at $600,000 for studio units and $900,000 for one-bedroom units.

During the next 3 years, demand is estimated for 5,175 new homes in the HMA (Table 1), accounting for 24 percent of total demand in the Los Angeles division. Demand is expected to increase in the second and third years of the 3-year forecast period in response to greater net in-migration. The 2,650 homes currently under construction and the 61 condominium units in planning will meet all the demand during the first year and a portion of demand in the second year. Table 4 shows estimated demand by price range.

Table 4. Estimated Demand for New Market-Rate Sales Housing in the Central Los Angeles HMA During the Forecast Period

Price Range ($)		Units of Demand	Percent of Total
From	To		
480,000	579,999	1,550	30.0
580,000	679,999	1,025	20.0
680,000	779,999	1,025	20.0
780,000	879,999	770	15.0
880,000	and higher	770	15.0

Notes: Numbers may not add to totals because of rounding. The 2,650 homes currently under construction in the submarket will likely satisfy some of the forecast demand.

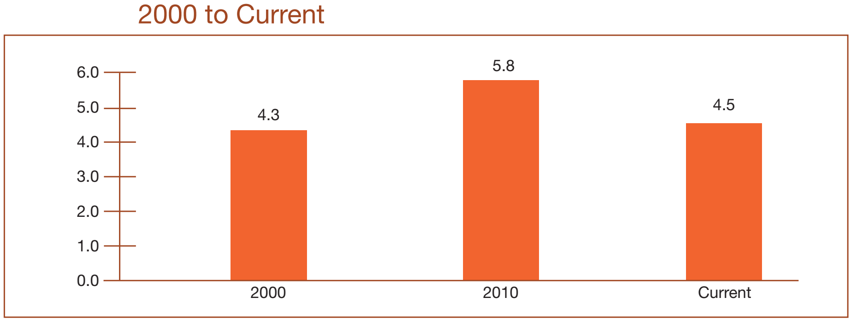
Source: Estimates by analyst

Rental Market

The rental housing market in the Central Los Angeles HMA is balanced. The overall rental vacancy rate currently is estimated at 4.5 percent, down from 5.8 percent in 2010 (Figure 8). Despite significant levels of apartment construction and conversion of nonresidential buildings to residential use in DTLA, the vacancy rate declined because renter household growth exceeded growth in the rental inventory, leading to the absorption of excess rental units. Some of the rental inventory growth, however, was partly offset by a decline in single-family homes available for rent, which occurred as sales market conditions improved.

An estimated 30 percent of occupied single-family homes in the HMA were rentals in 2016, down from 33 percent in 2010, representing a decline of 1,625 rental homes during the period. Stronger sales market conditions contributed to the reduction in the number of single-family homes for rental use during the period, and the rental market for single-family homes is currently tight. Vacancy rates for single-family rental homes during April 2018 ranged from 1.5 percent for a four-bedroom home to 1.6 percent for a one-bedroom home (CoreLogic, Inc.). Vacancy rates declined in all bedroom categories by 0.1 percentage point from a year earlier except for four-bedroom homes, where the vacancy rate remained unchanged. Average rents for one-, two-, and three-bedroom single-family homes rose from 2 to 7 percent, compared with rents during the previous 12 months, and ranged from $2,400 for a one-bedroom home to $3,125 for a three-bedroom home. Average rents for four-bedroom homes declined 1 percent from a year earlier, however, to $3,500.

Figure 8. Rental Vacancy Rates in the Central Los Angeles HMA, 2000 to Current



Note: The current date is June 1, 2018.
Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by analyst

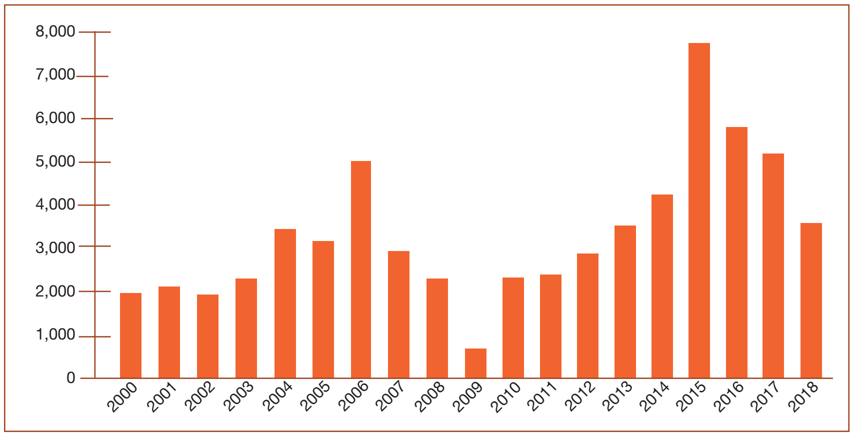
An estimated 69 percent of all rental housing in 2016 was apartments. As of May 2018, the apartment vacancy rate for properties with 20 or more units was 4.2 percent, up from 3.9 percent a year ago but down from 4.8 percent in 2010 (Reis, Inc.). Renter household growth has generally outpaced apartment completions since 2010, causing the apartment vacancy rate to trend downwards and contributing to rising rents. The average rent rose 6 percent in May 2018 to $1,875, from $1,775 a year earlier, and was up an average of 6 percent a year from 2010 through 2017. Rents were highest in the Reis-defined Downtown market area, with an average rent of $2,668, up 3 percent from a year earlier. The vacancy rate in the market area declined to 7.6 percent, down from 9.9 percent a year earlier, but has been the highest in the HMA since 2014 partly because of an 8,050-unit increase in the apartment inventory in DTLA since the early 2010s. That increase in inventory includes 1,025 apartment completions in the past year. The tightest segment of the HMA was the South-Central LA market area, which had a vacancy rate of 1.0 percent during May 2018, unchanged from a year earlier. The South-Central LA market area remains the most affordable in the HMA despite the average rent increasing 4 percent to $1,107 from $1,069 a year ago. In the Hollywood-Silver Lake market area, the vacancy rate increased to 4.6 percent, up from 4.1 percent a year earlier, while the average rent was up 5 percent to $2,299, the second highest rent in the HMA.

Of the 11 colleges and universities in the HMA, the most significant in terms of rental market impact is USC. Approximately 57 percent of the 45,500 USC students come from outside of the state of California and the nation (2018, USC). USC has 51 residence halls, suites, and student-oriented apartments comprising nearly 16,000 campus-owned beds that meet a portion of student housing needs, although housing has fallen short of student enrollment growth. Student renter households currently account for an estimated 5 percent of total renter households in the HMA. Student enrollment has increased each year by an average of 3 percent since 2012 and is expected to continue to increase at this rate during the next 3 years, or by 1,400 students annually. Currently, USC plans to add 3,750 beds as part of the $700 million USC Village to meet student housing demand. Completion is expected to occur in three phases, with additional student housing becoming available from 2020 through 2024.

Since 2000, the HMA has accounted for approximately 29 percent of all multifamily building activity, as measured by the number of multifamily units permitted, in the Los Angeles division. Multifamily permitting activity has recently surpassed higher levels of development that prevailed during the mid-2000s (Figure 9), with nearly all the development since 2010 occurring in DTLA. From 2000 through 2005, multifamily permitting averaged 2,475 units a year before reaching 5,025 units in 2006 because of strong sales market that contributed to an increase in multifamily construction. Condominiums accounted for 37 percent of multifamily units permitted during 2006, up from only 15 percent from 2000 through 2005. By 2007, the sales housing market contracted, followed by the Great Recession, and the number of units permitted declined to 2,950 before reaching a decade low of 650 units by 2009. The share of condominium development during this period declined to 12 percent of multifamily development. As economic conditions began to improve along with greater household growth, the number of multifamily units permitted has increased since 2010. An average of 2,550 units were permitted a year from 2010 through 2012 before rising each year by an average of 1,625 units from 2013 through 2015, when 7,750 units were permitted, the height of multifamily development construction in the DTLA. The proportion of condominiums has risen to 16 percent of all multifamily development since 2010, still below the figure in 2006 because high prices and relatively strict lending requirements have been barriers to homeownership. Multifamily development has remained at relatively higher levels since 2015 compared with the 2000s but has slowed recently because of several new apartments in DTLA that are in lease-up. During the 12 months ending May 2018, approximately 5,575 multifamily units were permitted in the HMA compared with 6,625 units permitted during the previous year (CBRE Group Inc.; U.S. Census Bureau; local planning offices).

Market-rate apartments that were recently completed or under construction in the HMA are concentrated in DTLA, where approximately 2,675 units were

Figure 9. Multifamily Units Permitted in the Central Los Angeles HMA, 2000 to Current



Notes: Excludes townhomes. Current includes data through May 2018.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

completed since June 2017. Recently completed developments include the 159-unit Topaz that opened in early 2018. Rents for studio, one-, two-, and three-bedroom units start at $1,850, $2,250, $3,275, and $4,100 respectively. Atelier, with 363 units, opened in late 2017, with rents for studio, one-, and two-bedroom units starting at $2,475, $2,675, and $4,100, respectively. Developments under construction include 825 South Hill, with 498 units in a 53-story tower, and 888 at Grand Hope Park, with 525 units in a 43-story tower, both with completion expected later in 2018. In addition, four nonresidential properties are being converted to apartments, all in DTLA, with 469 units that also will be added later in 2018. Rents at these properties underway have yet to be announced. Overall, rents for newly completed market-rate units in the HMA average $1,600, $2,000, $3,000, and $4,000 for studio, one-, two-, and three-bedroom units, respectively.

During the forecast period, demand is estimated for 12,000 new market-rate rental units in the HMA (Table 1), accounting for 40 percent of demand in the Los Angeles division. Demand is expected to increase slightly in the second and the third year of the forecast, from increased migration. The 6,025 units currently under construction in the HMA represents 32 percent of all rental units underway in the division. The number of units under construction and the 528 units in planning will satisfy all the demand in the first year and a portion of rental housing demand during the second year of the forecast period. Table 5 shows estimated demand for new market-rate rental housing in the HMA by rent level and number of bedrooms.

Table 5. Estimated Demand for New Market-Rate Rental Housing in the Central Los Angeles HMA During the Forecast Period

Zero Bedrooms		One Bedroom		Two Bedrooms		Three or More Bedrooms	
Monthly Rent ($)	Units of Demand	Monthly Rent ($)	Units of Demand	Monthly Rent ($)	Units of Demand	Monthly Rent ($)	Units of Demand
1,600 to 1,799	2,400	2,000 to 2,199	3,350	3,000 to 3,199	2,875	4,000 to 4,199	960
1,800 or more	600	2,200 or more	840	3,200 or more	720	4,200 or more	240
Total	3,000	Total	4,200	Total	3,600	Total	1,200

Notes: Numbers may not add to totals because of rounding. Monthly rent does not include utilities or concessions. The 6,025 units currently under construction will likely satisfy some of the estimated demand. The forecast period is June 1, 2018, to June 1, 2021.
Source: Estimates by analyst

Data Profiles

Table DP-1. Los Angeles Division* Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%) 2000 to 2010	Average Annual Change (%) 2010 to Current
Total resident employment	4,425,623	4,302,274	4,908,000	-0.3	1.8
Unemployment rate	5.4	12.5	4.5		
Nonfarm payroll jobs	4,124,300	3,918,600	4,463,000	-0.5	1.8
Total population	9,519,338	9,818,605	10,323,000	0.3	0.6
Total households	3,133,774	3,241,204	3,384,000	0.3	0.5
Owner households	1,499,744	1,544,749	1,539,000	0.3	0.0
Percent owner	47.9%	47.7%	45.5%		
Renter households	1,634,030	1,696,455	1,845,000	0.4	1.0
Percent renter	52.1%	52.3%	54.5%		
Total housing units	3,270,909	3,445,076	3,555,000	0.5	0.4
Owner vacancy rate	1.6%	1.7%	1.1%		
Rental vacancy rate	3.3%	5.8%	3.7%		
Median family income	$51,300	$62,100	$62,400	1.9	0.1

** Los Angeles-Long Beach-Glendale, CA Metropolitan Division.*

Notes: Numbers may not add to totals because of rounding. Employment data represent annual averages for 2000, 2010, and the 12 months through May 2018. The current date is June 1, 2018.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Table DP-2. Central Los Angeles HMA Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%) 2000 to 2010	Average Annual Change (%) 2010 to Current
Total population	1,792,854	1,811,532	1,932,000	0.1	0.8
Total households	521,932	544,939	579,600	0.4	0.8
Owner households	157,550	160,798	162,700	0.2	0.1
Percent owner	30.2%	29.5%	28.1%		
Renter households	364,382	384,141	416,900	0.5	1.0
Percent renter	69.8%	70.5%	71.9%		
Total housing units	557,024	586,636	617,900	0.5	0.6
Owner vacancy rate	3.4%	2.7%	1.8%		
Rental vacancy rate	4.3%	5.8%	4.5%		

Notes: Numbers may not add to totals because of rounding. The current date is June 1, 2018.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Data Definitions and Sources

2000: 4/1/2000—U.S. Decennial Census
2010: 4/1/2010—U.S. Decennial Census
Current date: 6/1/2018—Estimates by the analyst
Forecast period: 6/1/2018–6/1/2021—Estimates by the analyst

The metropolitan division definition in this report is based on the delineations established by the Office of Management and Budget (OMB) in the OMB Bulletin dated February 28, 2013.

Demand: The demand estimates in the analysis are not a forecast of building activity. They are the estimates of the total housing production needed to achieve a balanced market at the end of the 3-year forecast period given conditions on the as-of date of the analysis, growth, losses, and excess vacancies. The estimates do not account for units currently under construction or units in the development pipeline.

Other Vacant Units: In this analysis conducted by the U.S. Department of Housing and Urban Development (HUD), other vacant units include all vacant units that are not available for sale or for rent. The term therefore includes units rented or sold but not occupied; held for seasonal, recreational, or occasional use; used by migrant workers; and the category specified as "other" vacant by the Census Bureau.

Building Permits: Building permits do not necessarily reflect all residential building activity that occurs in an HMA. Some units are constructed or created without a building permit or are issued a different type of building permit. For example, some units classified as commercial structures are not reflected in the residential building permits. As a result, the analyst, through diligent fieldwork, makes an estimate of this additional construction activity. Some of these estimates are included in the discussions of single-family and multifamily building permits.

For additional data pertaining to the housing market for this HMA, go to huduser.gov/publications/pdf/CMARtables_CentralLosAngelesCA_18.pdf.

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This analysis has been prepared for the assistance and guidance of HUD in its operations. The factual information, findings, and conclusions may also be useful to builders, mortgagees, and others concerned with local housing market conditions and trends. The analysis does not purport to make determinations regarding the acceptability of any mortgage insurance proposals that may be under consideration by the Department.

The factual framework for this analysis follows the guidelines and methods developed by the Economic and Market Analysis Division within HUD. The analysis and findings are as thorough and current as possible based on information available on the as-of date from local and national sources. As such, findings or conclusions may be modified by subsequent developments. HUD expresses its appreciation to those industry sources and state and local government officials who provided data and information on local economic and housing market conditions.

For additional reports on other market areas, please go to huduser.gov/portal/ushmc/chma_archive.html.