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Reviving Multifamily Housing Development: Hurdles and Opportunities

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Multifamily Housing Development: Trends and Opportunities

Robert J. Gardner, Managing Director, RCLCO

2000 – 2009: THE REGIONAL RECAP

- **Population**
  - Los Angeles County: 10.2 million in 2009, up 9% over 2000 pop. of 9.3 million
  - Region : 21.7 million, up 13% over the 2000 pop. of 19.2 million

- **Employment -- December 2009 versus January 2000**
  - Los Angeles County: 3.9 million jobs; now below January 2000 totals
  - Region: 8.2 million jobs; slightly above January 2000

- **Per Capita Personal Income (adjusted for inflation)**
  - Los Angeles County: virtually no change since 2000
  - Region:
    - 2008 per capita income ranged from a high of $49,000 in OC to a low of $28,000 in IE
    - 2008 per capita income in Inland Empire now below 2000 levels

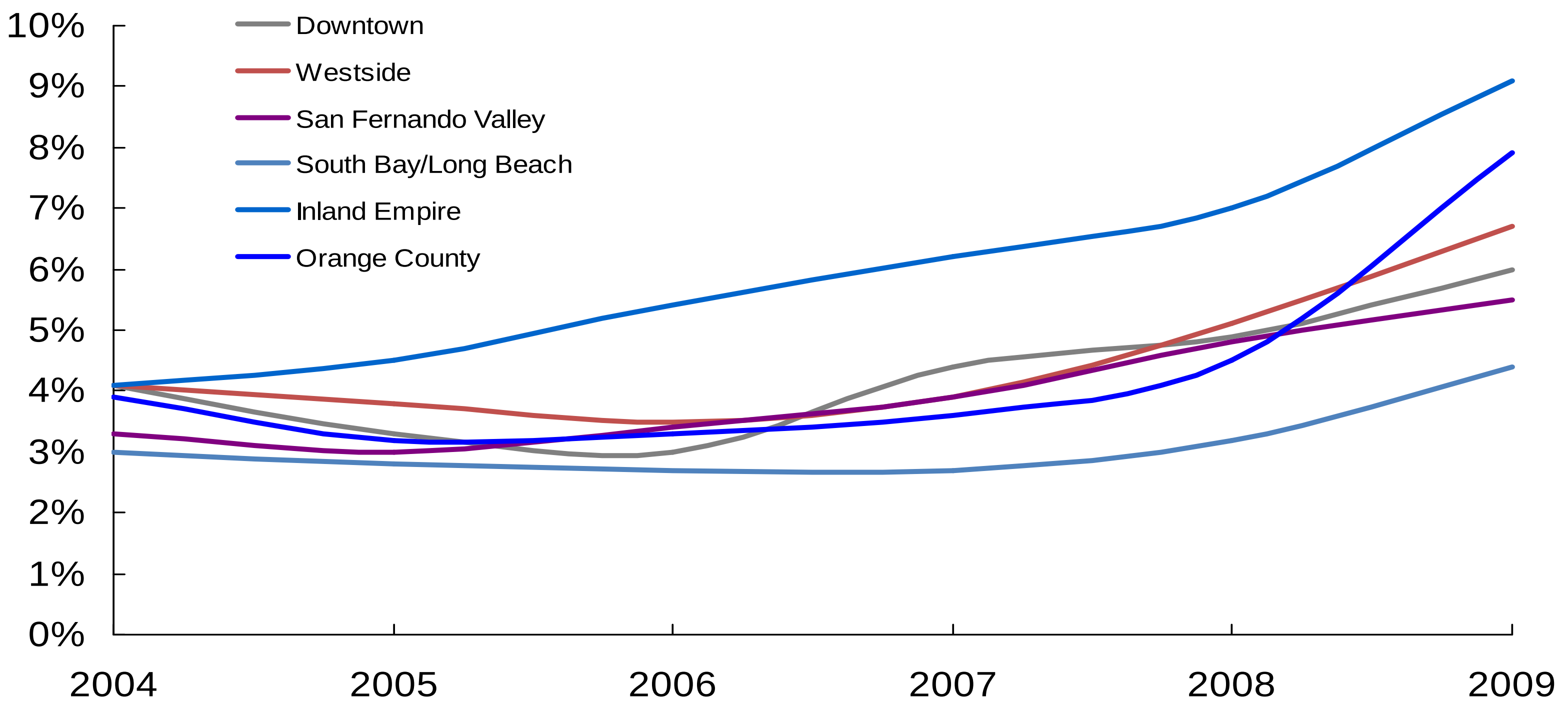
2000 – 2009: THE REGIONAL RECAP

	LA County	Region
Residential Permits		
Total Residential Permits:	194,000	735,000
Total multifamily permits:	112,000	265,000
	58% of total	36% of total
For-Sale Residential Prices (net percentage change, adjusted for inflation)		
All Housing (New and Existing):	27%	4%
Condominiums (Existing):	58%	25%
Apartment Rents (net percentage change, adjusted for inflation)		
	12%	8%

Note: Figures shown for 2000 thru Q3 2009

APARTMENT MARKETS WEAKENED FURTHER
RENTAL RATE DECLINES ACCOMPANY RISING VACANCY

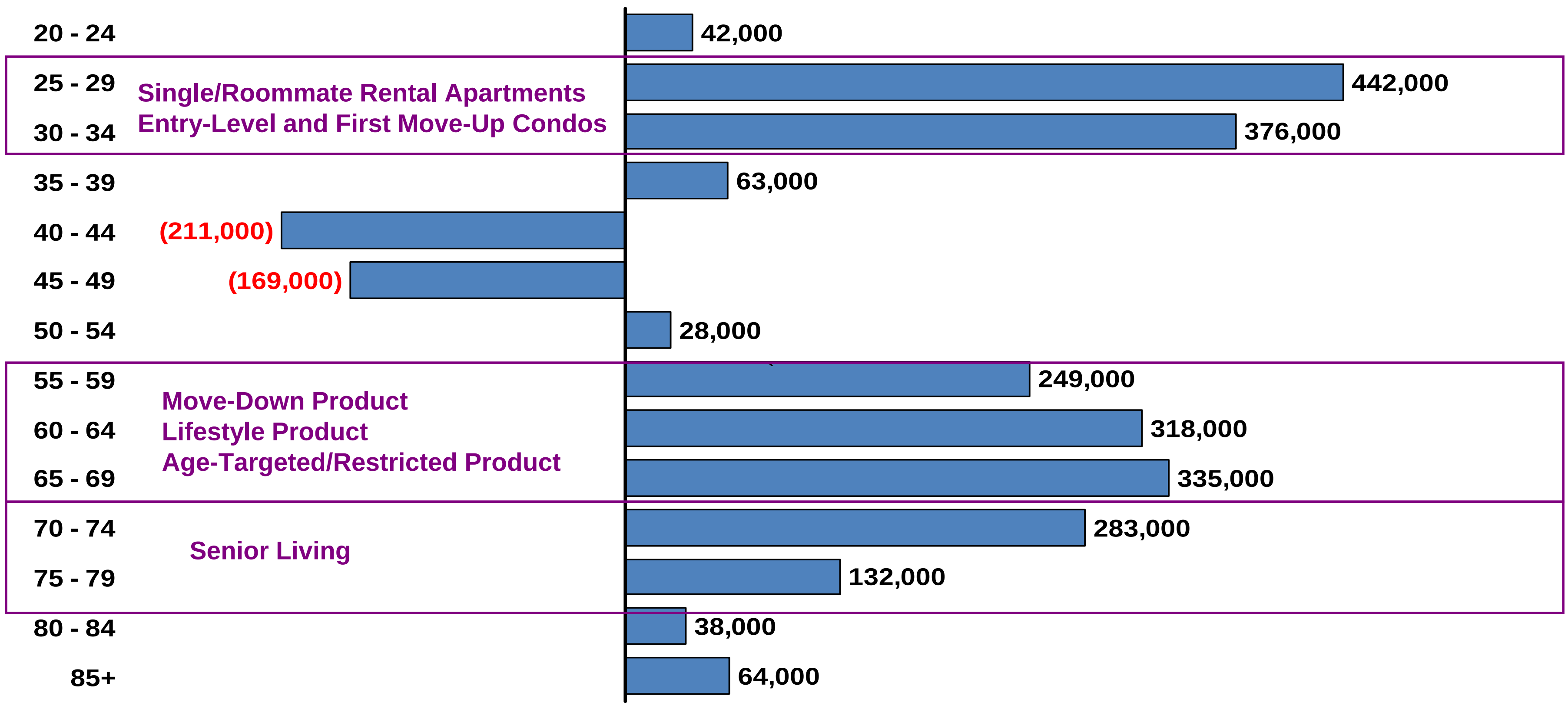
Apartment Vacancy Rate
Southern California (by market)



FUELING RECOVERY – SOCAL POP EXPANSION

CURRENT POP. OF 19 MILLION TO GROW BY 2+ MILLION

Projected Total Population Growth Rate by Age
Southern California, 2010-2020



DEMOGRAPHIC TRENDS

GENERATION Y – DEEP DEMAND WITH URBAN TASTES

Generation	Born	2010 Age	Percent Nation	U.S. Pop.
Eisenhowers	Before 1946	64+	17%	51M
Baby Boomers	1946 – 1964	46 – 64	27%	78M
Gen X	1965 – 1980	30 – 45	18%	52M
Gen Y (Echo/Millennials)	1981 – 1999	11 – 29	27%	80M
Gen Z (?)	2000 and After	0 – 10	10%	30M

DEMOGRAPHIC TRENDS

GEN Y AND BOOMERS INFLUENCE ON MULTIFAMILY DEVELOPMENT

- **Gen Y will be the key demographic to focus on for multifamily over the next 10 years**
  - Large number entering the rental market starting in 2009 and thereafter
  - Becoming first-time homebuyers in 2012 and thereafter
- **Baby Boomers are larger in numbers than Gen Ys but reduced turnover with age diminishes demand; major force for upscale condo living**
  - Have more options (in terms of product, location, and setting) than Gen Y; Multifamily is only one of their many options
  - Demonstrated interest in condo living – product has to have a marketing hook to heighten interest

DEMOGRAPHIC TRENDS – URBAN RESHAPING
FAVORABLE IMPLICATIONS FOR MULTIFAMILY

- **Intown areas and inner suburbs** will remain on an upward trajectory
  - Diversity, walkability and proximity to 24/7 places will be keys to site selection and premiums
  - Renters will represent a steady stream of demand
  - Gen Y will shift toward homeownership in 2018
  - Product types -- smaller and affordable and should have focus on design over size
- **Suburbs** will need to evolve to remain attractive to Gen Y
  - More walkable areas, including new and existing town centers – urbanizing suburban commercial nodes
  - Master-planned communities with greater variety of product and higher connectivity

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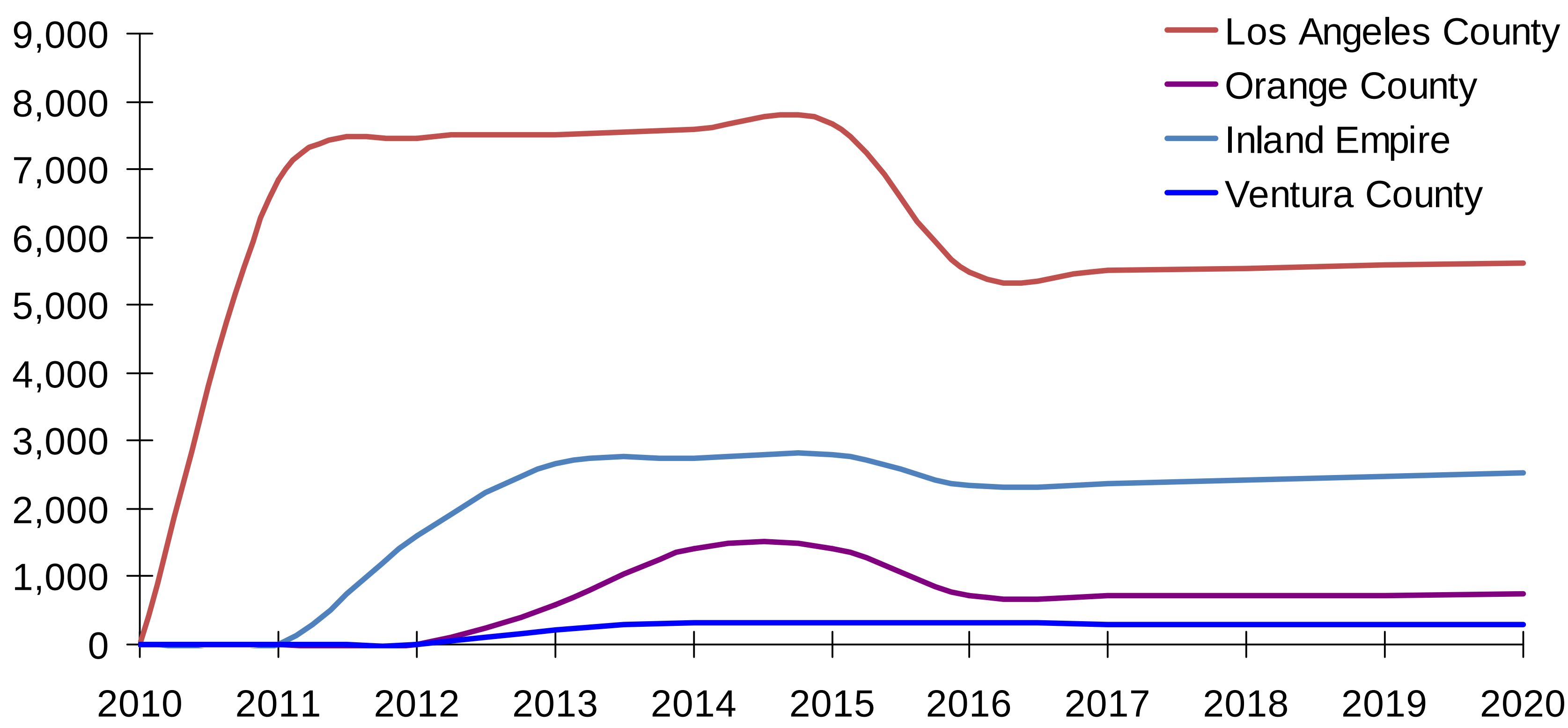
NEW APARTMENTS - IN PLACE BEGINNING 2011/12

CONSTANT 5% MARKET VACANCY



SOURCE: Marcus & Millichap (builds on projected 2009 vacancy) ; modified SCAG population projections

PRODUCT OPPORTUNITIES
CAPITALIZING ON THE MULTIFAMILY TRENDS

- **Urban Place-Driven Rental Housing**
  - Reduced unit sizes, amenity rich
  - Higher rent per sq. ft.; lower absolute rents
  - Broader market appeal
- **Ultra-Luxury Apartments and Condos**
  - High-finish, high-service product with views
  - Only for 100%, A+ locations, offering 24/7 living
- **Family-Targeted Condos and Apartments**
  - Gen X having kids, nearly as urban as Gen Y
  - Balance need for more living area with desire to maintain urban lifestyle
  - Need improved urban school districts to enable – *big challenge but big market!*

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Los Angeles Department of City Planning

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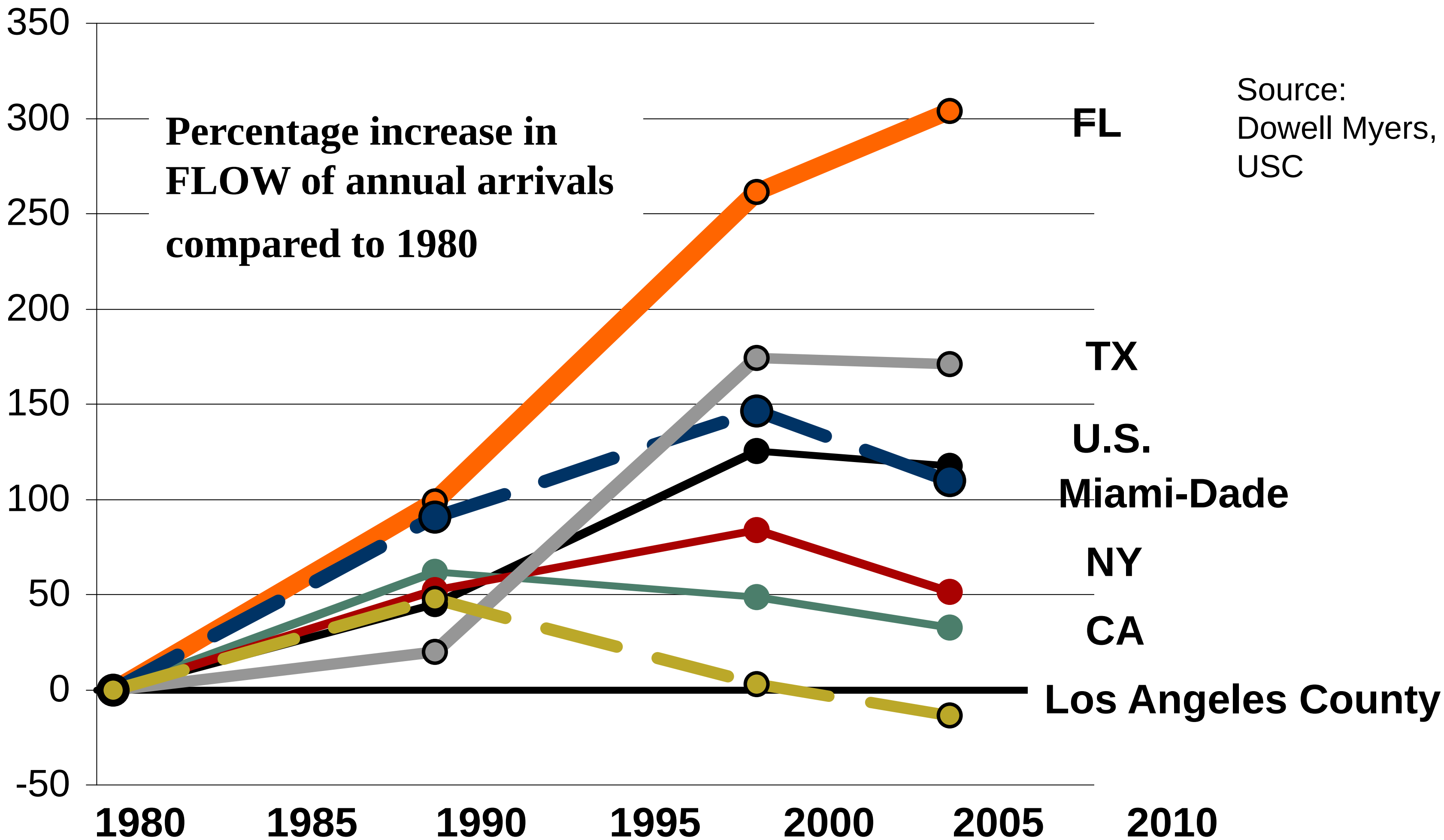
Annual Immigration Declining in Traditional Major Gateways



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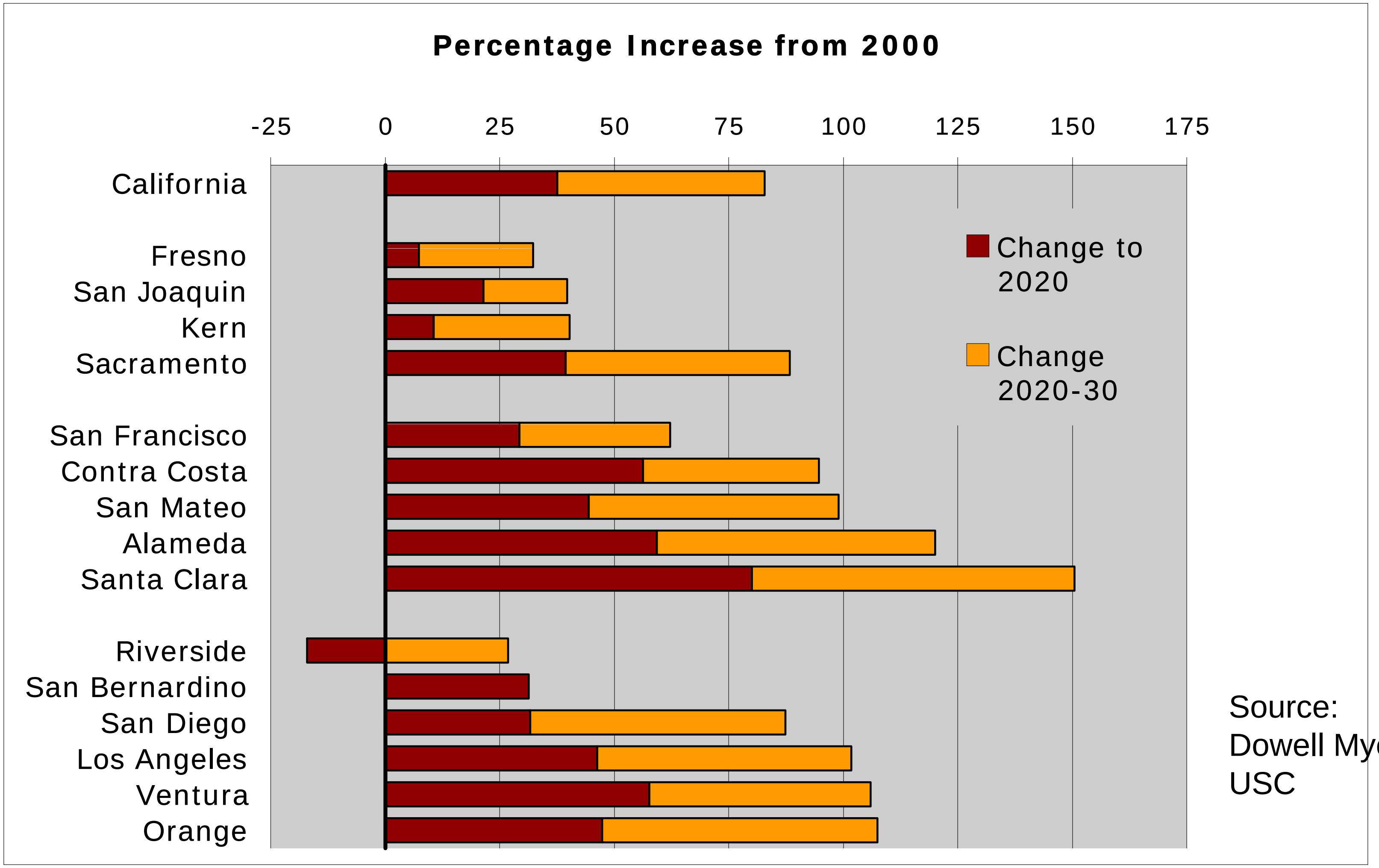
Percent Change in Senior Ratio to 2030



Source: Dowell Myers USC

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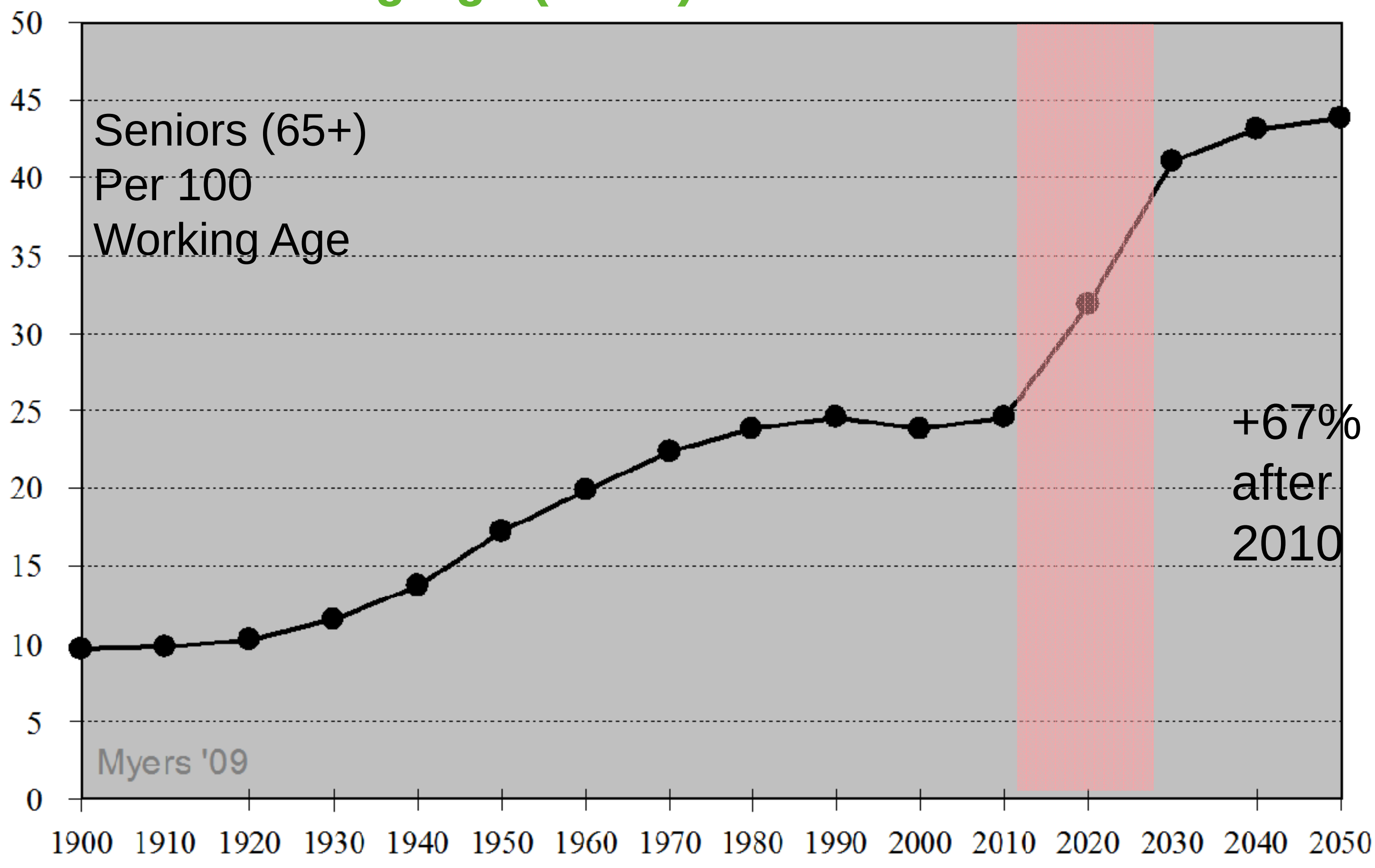
Ratio of Seniors per 100
Working Age (25-64) Residents in the U.S.



Source:
Dowell Myers
USC

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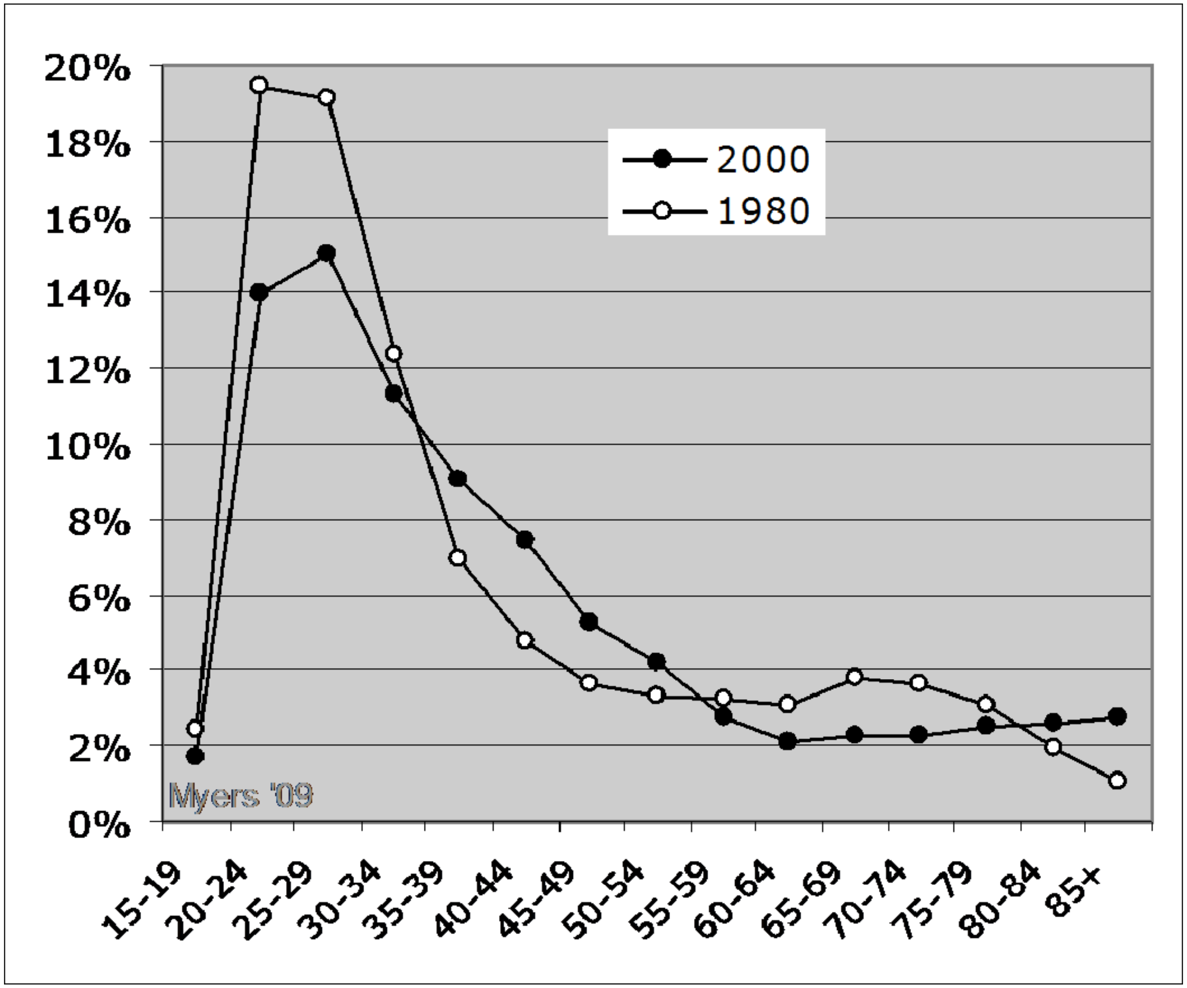
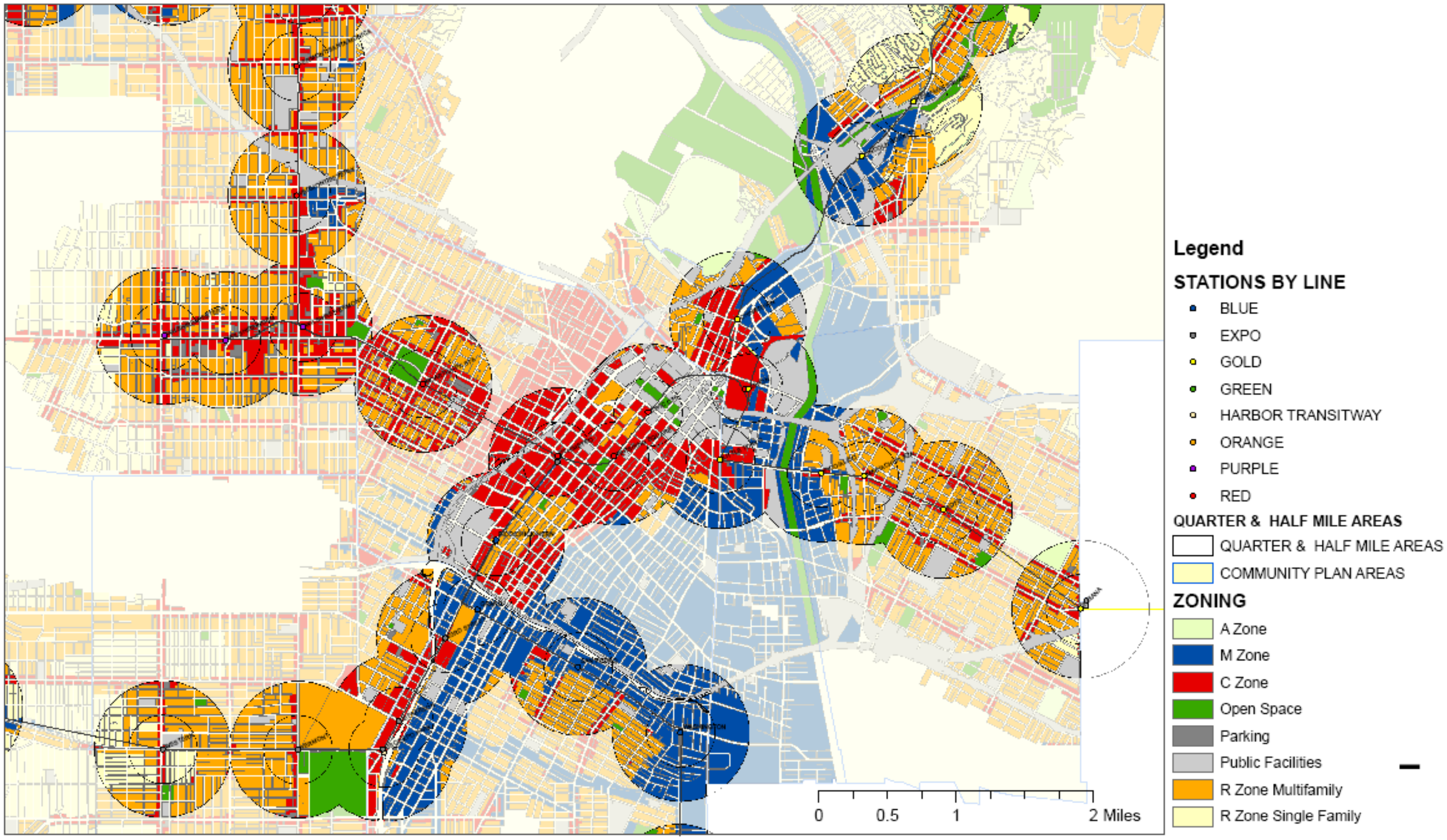
Age Profile of Tenants in Recently Built Apartments



Source:
Dowell Myers
USC

Transit Oriented Districts

City of Los Angeles
Transit Oriented District Planning Areas - Central City and Adjacent Community Plan Areas



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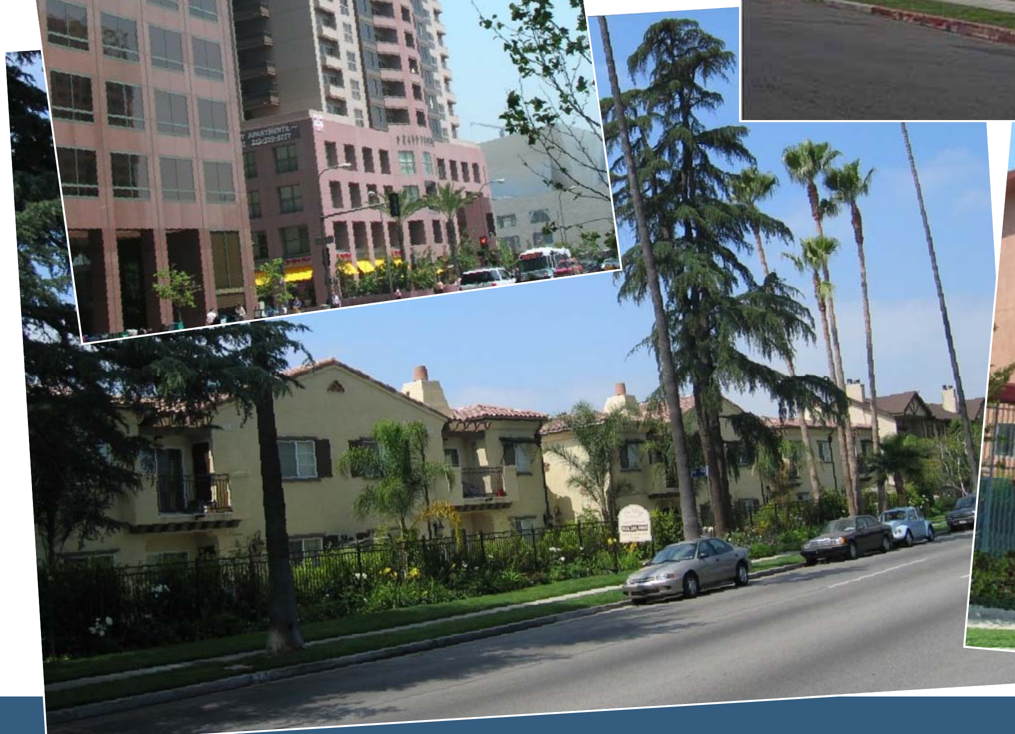
Density Bonus



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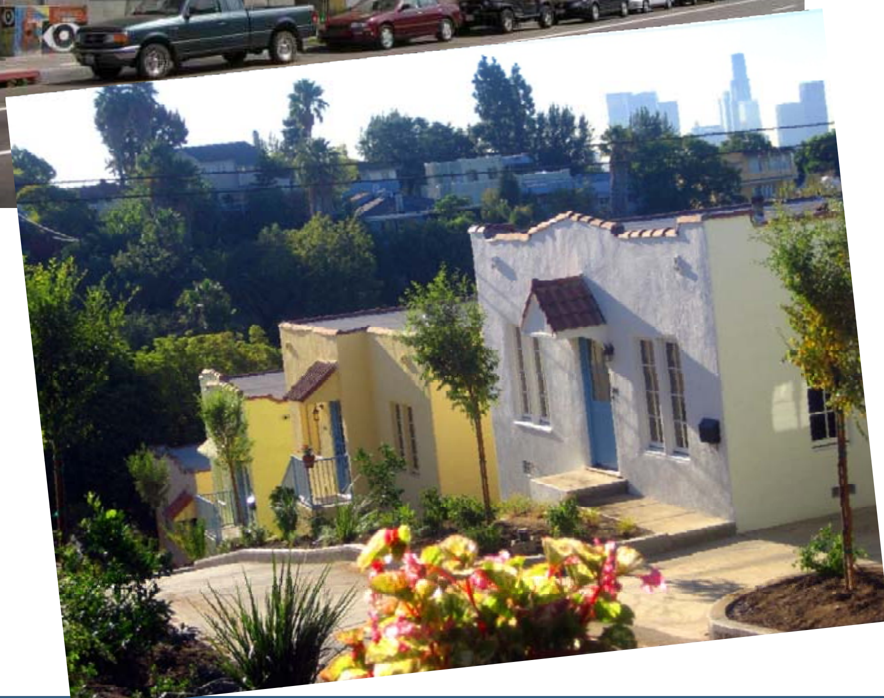
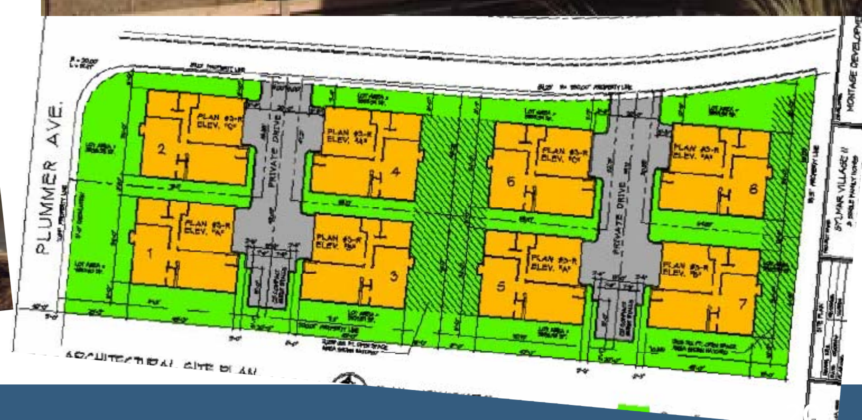
Small Lot Ordinance





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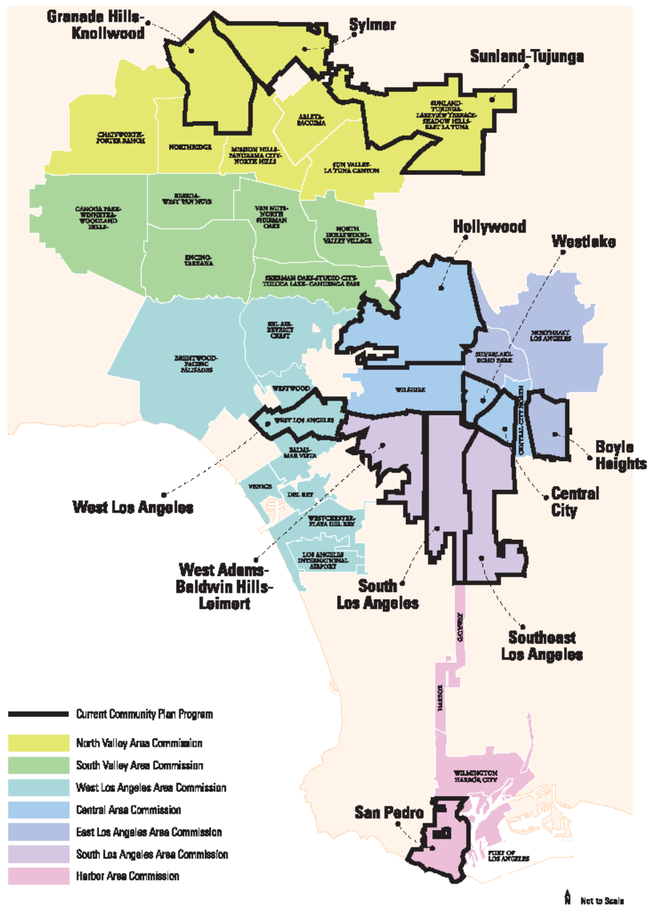
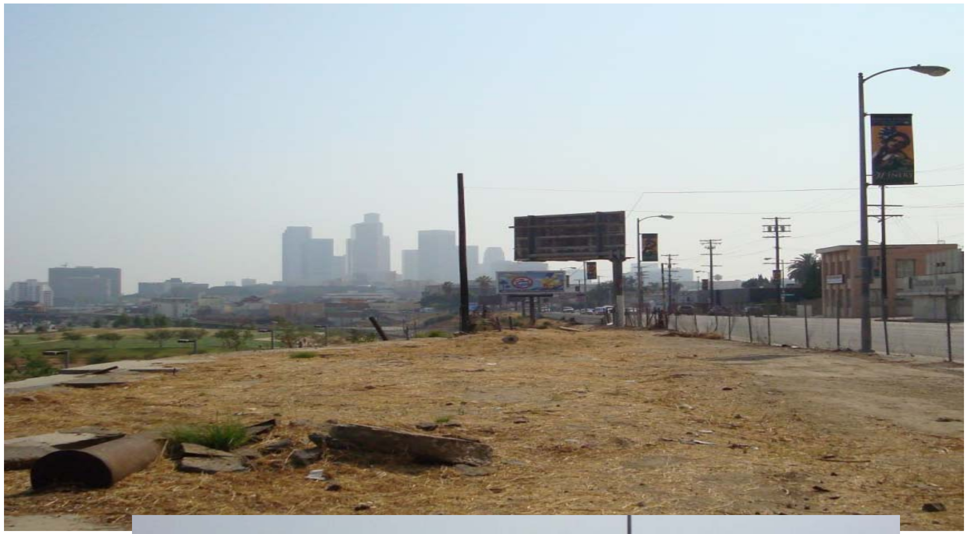
New Community Plans

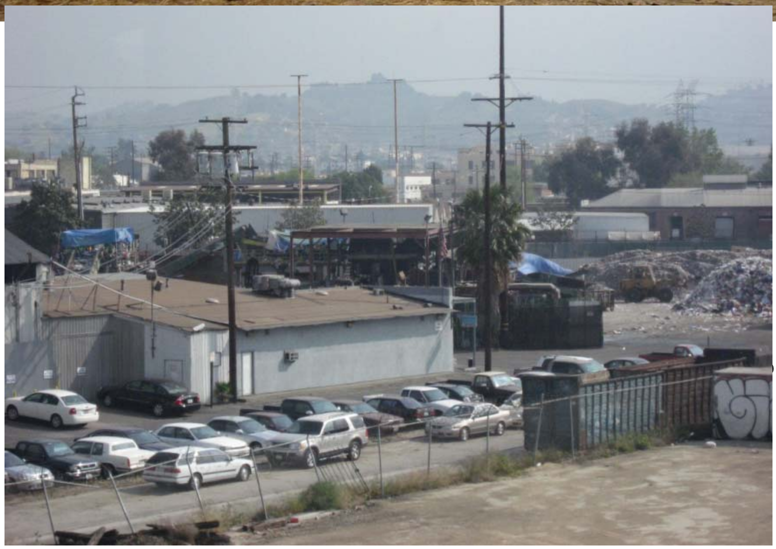


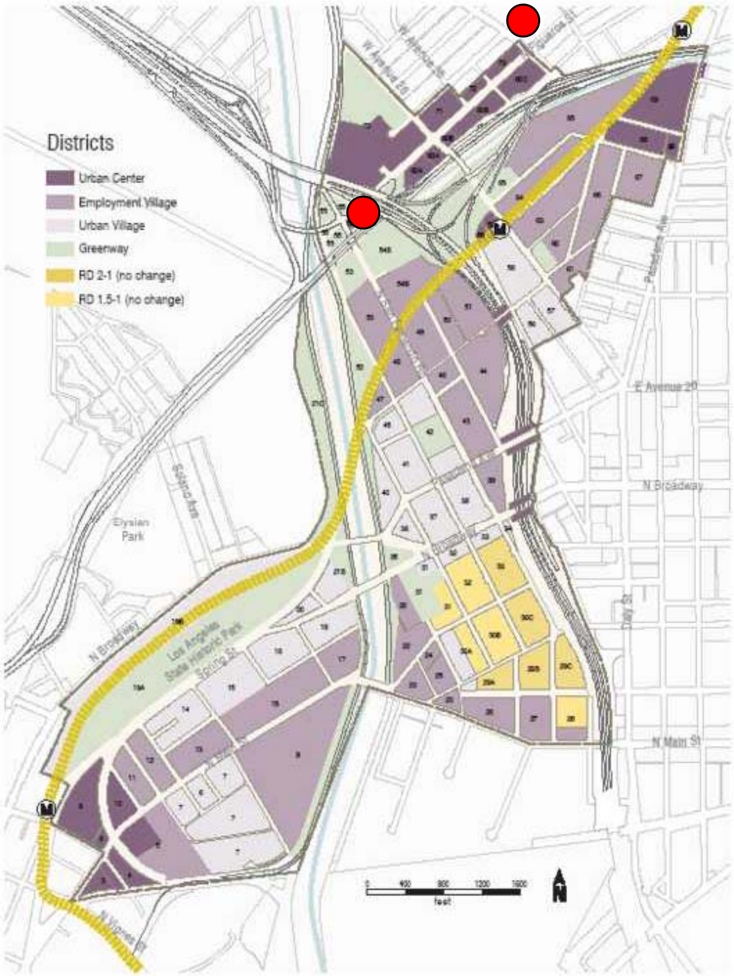
Development Reform

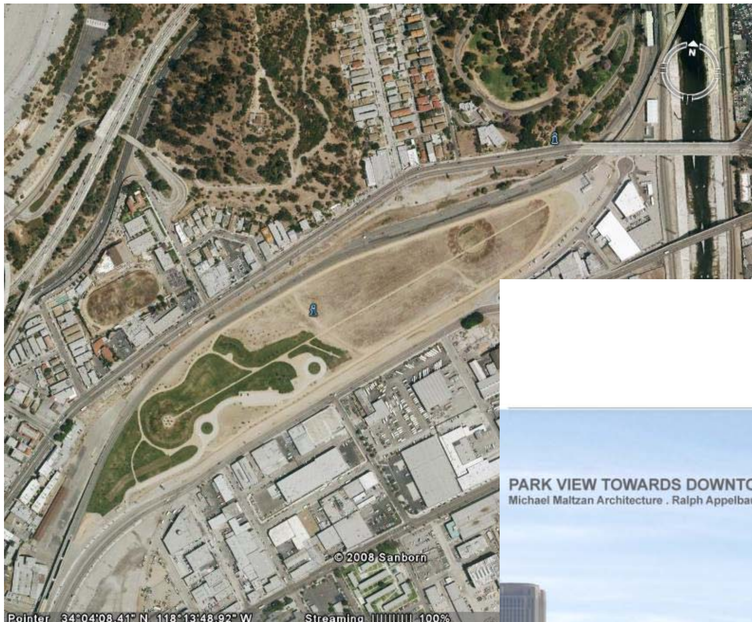
- NEW COMMUNITY PLANS → REDUCE CASES
- CODE REFORM → STREAMLINE; SIMPLIFY
- EFFICIENT DEPARTMENT → EXPEDITE ENTITLEMENTS
- 12 TO 2 → REDUCE NUMBER OF DEPARTMENTS

Cornfield/Arroyo Seco Specific Plan





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LOS ANGELES STATE HISTORIC PARK
SEPTEMBER 25, 2008
HARGREAVES ASSOCIATES
PARK VIEW TOWARDS DOWNTOWN
Michael Maltzan Architecture . Ralph Appelbaum Associates . Sherwood Design Engineers . Katherine Spitz Associates . Buro Happold . Arthur Golding and Associates

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Multifamily Housing Development Trends and Opportunities: A Developer's Perspective

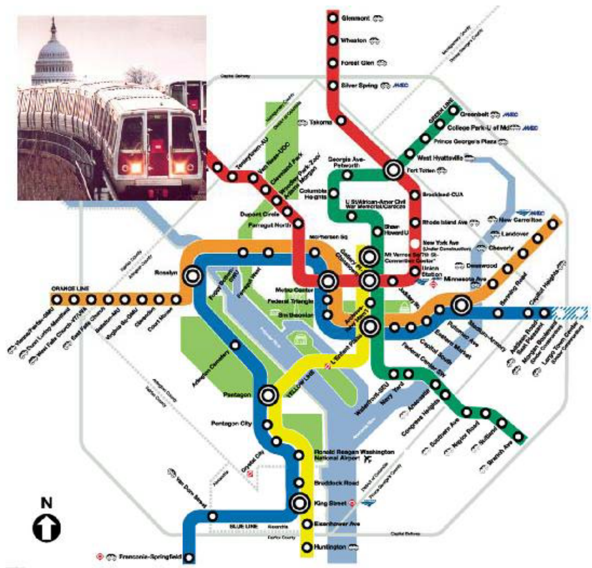
Renata Simril, Senior Vice President

Forest City Development - West Coast

CHALLENGES

Multi-family Rental rates

OPPORTUNITIES



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