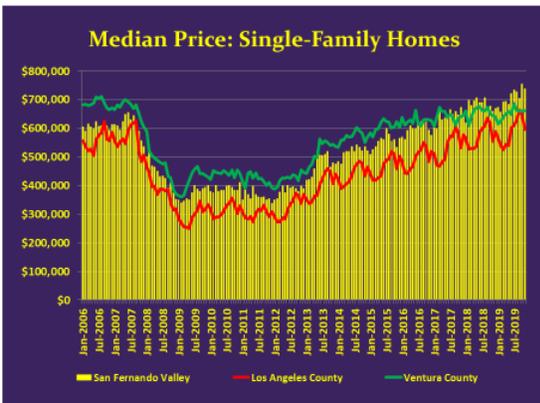


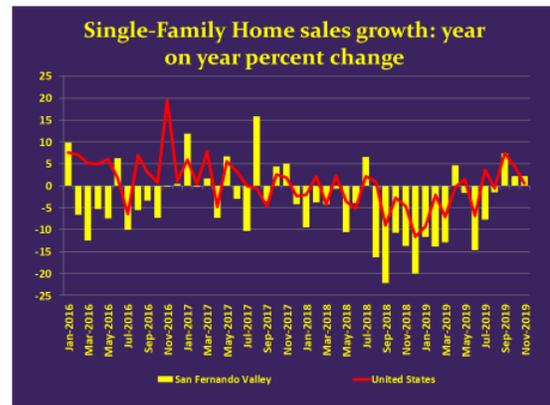
Dan Hamilton  
January 10, 2020

## Residential Real Estate

The San Fernando Valley’s housing market continues to become more expensive. Ventura County’s existing single-family home price growth has slowed a bit and levels average \$660 thousand in the past three months of data. Los Angeles County’s levels are about \$635 thousand, while the Valley’s levels in the same time period are over \$730 thousand.



As in many places, the valley’s home sales growth slowed substantially during the Winter of 2018 to 2019. The declines were double-digit from August 2018 through March of 2019. Typical high season sales rates of 600 homes a month subsided to a bit under 500 homes per month and the valley experienced a 36-year historical low sales rate of only 266 homes in February of 2019. A recovery began starting April 2019, but it has been weak. Our estimate of 5,166 closed escrows for 2019 is still 200-units off the 2018 rate. Using sales as a metric, this is still a weak housing market, locally and nationally.



The recent sales recovery in the Valley’s condominium market is much stronger than that for single-family homes, up 23 percent using the last three months of data. This is to be expected as prices for those housing units, in the \$440 thousand range, imply a \$1,900 monthly mortgage payment at 3.92 percent, while the single-family home prices imply a \$3,100 monthly mortgage payment.

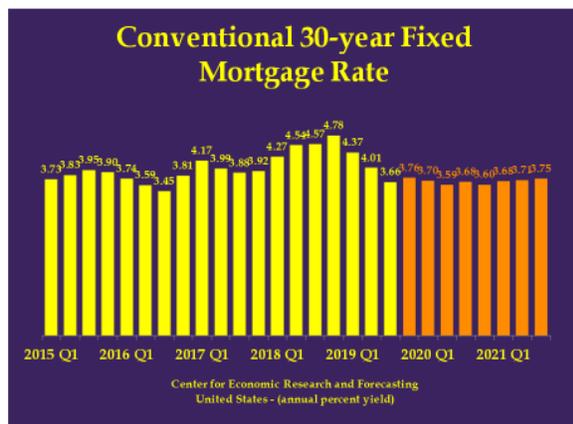
What are the prospects for future interest rates? They will stay low. The FED has pursued extraordinary monetary policy since late 2008. They are convinced that the large-institution liquidity benefits and short-rate control benefits the Fed accrues from a large balance sheet outweigh the negatives of reduced financial intermediation, investment, and slower growth. CERF disagrees strongly, but there is no mistaking the commitment behind this massive and fundamental policy shift that has occurred at the central bank of the United States.

The FED will maintain a large presence in the mortgage-backed securities market for at least the next few years, which implies that the existing downward pressure on mortgage rates will continue.

Table 1: Current Housing Trends

Current Year Housing Trends			
San Fernando Valley, the Region, and the United States			
	Sep-Nov 2018	Sep-Nov 2019	Change
<b>San Fernando Valley</b>			
Existing Single-Family unit sales	1,288	1,338	3.9
Existing Single-Family median price	669,333	733,000	9.5
Existing Condominium unit sales	395	485	22.8
Existing Condominium median price	432,167	441,667	2.2
<b>Los Angeles County</b>			
Existing Single-Family Median Price	601,040	635,283	5.7
<b>Ventura County</b>			
Existing Single-Family Median Price	655,830	659,750	0.6
<b>California</b>			
Existing Single-Family Median Price	568,537	600,243	5.6
<b>United States</b>			
Existing Single-Family Median Price	217,567	214,167	-1.6

Sources: National Association of Realtors, California Association of Realtors, Southland Regional Association of Realtors



generation. In the San Fernando Valley, prices are driven by supply constraints, and as well by a combination of wealth and income accumulation, which in turn is driven by economic activity. As shown in Table 2, the Valley’s median household income is only 12 percent greater than the U.S., while its median home price is 242 percent greater than that of the U.S!

Table 2: Current Housing Trends

Household Income and Home Prices - 2019			
	Housing Prices ‡	Median Household Income	Median Multiple †
San Fernando Valley	\$733,000	\$70,501	10.4
Los Angeles County	\$635,283	\$67,655	9.4
Ventura County	\$659,750	\$86,683	7.6
California	\$600,243	\$74,605	8.0
United States	\$214,167	\$63,174	3.4

Sources: National, California, & Southland Regional Realtors, Claritas  
‡ Sep to Nov. † Home prices divided by median income.

Do the low rates help home buyers? Not much. Prices are high enough that the prospect of buying a modest home, not even a large or fancy residence, in the San Fernando Valley creates a *principle* problem for the buyer, not a *rate* problem. The prices are so high that low rates cannot overcome the affordability problem.

In smaller beach counties such as Ventura County, price growth is often a result of supply constraints rather than income

The vitality of the Valley’s economy, documented nearby in the *San Fernando Valley Economy & Forecast* essay, is partly responsible for the home prices.

The robust economy is not the only factor. CERF has repeatedly documented that the post-2008 new home building rate in the U.S. has set a *historically low* standard for building in an expansionary economy. We have also documented that California’s building rate is about *half* the U.S. rate. Given the San Fernando Valley’s location in California, we can deduce the Valley’s home building rate is less than that of the U.S.

Most regions in California do not build enough homes, and the economy loses vitality as a result. A rational economic development policy includes a rational real estate development policy, and most communities, including the San Fernando Valley, do not have either.

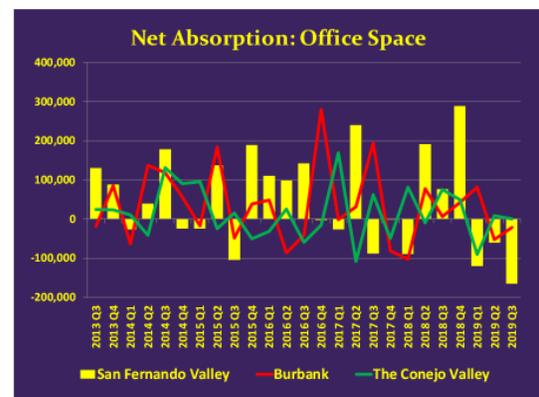
## Commercial Real Estate

Our review of San Fernando Valley commercial real estate activity includes data through third quarter of 2019. The office marketplace appears to have been impacted by a change in the type of space available for lease in 2019. The industrial marketplace was impacted by a lack of inventory for the most recent measurement period. As we argue for residential real estate above, we call for greater development of industrial space in the San Fernando Valley. We applaud the renaissance in hotel development, as this will

benefit future business development activities in the San Fernando Valley.

## Office Space

The San Fernando Valley’s net absorption, an important indicator of market activity, turned a corner for the worse for the first three quarters in 2019. On the face of it, this is not congruent with our analysis of the Valley’s jobs and GDP data, which have continued to exhibit strength.<sup>1</sup> However, office specialist brokers in the San Fernando Valley assure me that the Valley’s office market is doing well despite certain shifts in the data presented here.



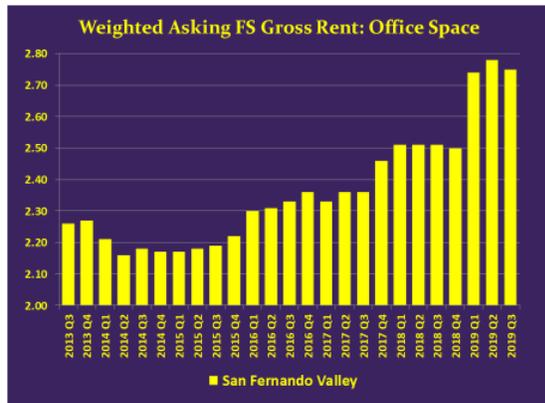
This downturn was accompanied by a jump in the Valley’s office space lease rates. In the same quarters as the absorption slowdown, 2019 quarters 1, 2, and 3, the Valley’s lease rates jumped ten percent from the prior year.

The type of space that has become available can impact these data. If there was office space that came open for leasing that was not absorbed, this would push net absorption down. And, if this newly available space was

or Glendale. This data includes the Office and Industrial space market segments.

<sup>1</sup> This data comes from Collier’s International by way of the San Fernando Valley Business Journal and is a definition that does not include Burbank

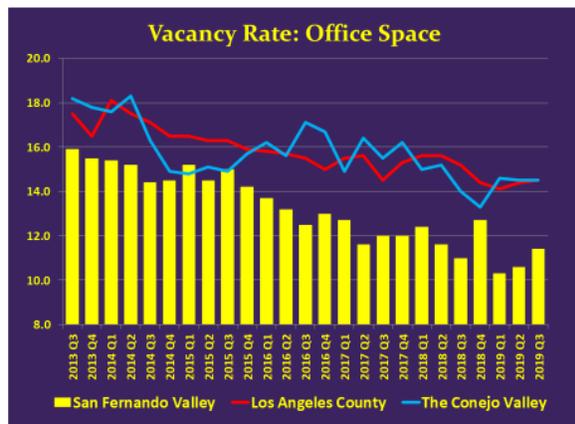
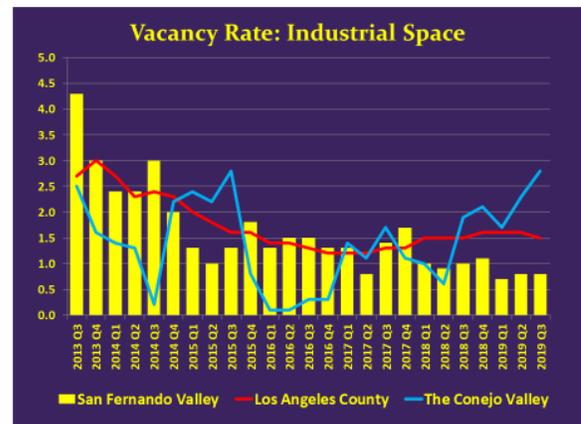
expensive relative to the other space open for lease, then we would see a bump in the asking rates as mentioned above.



uncommon for a rate like this falls to less than one percent and then stay at that level, given the time it takes for establishments to make the decisions necessary to leave, move, or enter new space.

LA County's vacancy rate is double the San Fernando Valley's rate. The Conejo Valley's rate has consistently risen for more than a year now, and was almost 3 percent by 2019 quarter 3. A market this tight calls for the development of new industrial space.

The Valley's office-space vacancy rate continues to tighten relative to its neighbors. While LA and the Conejo Valley vacancies stayed in the 14 to 15 percent range during 2018 and 2019, the San Fernando Valley's rate fell from a 12 percent average in 2018 to an average of 10.8 percent thus far in 2019.



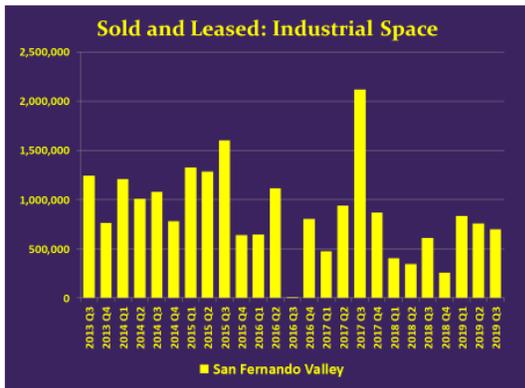
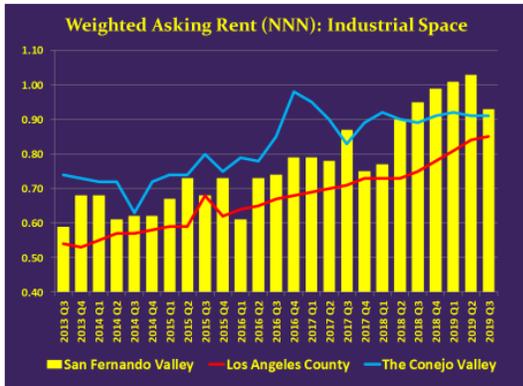
As we have pointed out before, it is not just traditional industrial space users in these buildings, but also various non-traditional entities. Examples include Cross-Fit gyms, indoor rock-climbing facilities, wine tasting rooms, and more. These companies can get into industrial space for a per square foot cost that is less than half the available office space cost.

## Industrial Space

The San Fernando Valley's 2019 industrial vacancy rate fell yet again, which is remarkable given that it was already very tight in 2018. The 2019 three quarter average was 0.8 percent. It is very

Lease rates for industrial space have continued to rise during most of 2019, relative to 2018, with asking rates well over one dollar per square foot in the second quarter of 2019. 2019 sales and leases picked up to 2.3 million square feet, in the first three quarters, up from 1.2 million for all four quarters of 2018. These data are a testament

to the ongoing vitality of the Valley's economy.



construction than any other California county, ending 2019 with 3,166 rooms.

### *A Brief Comment on Woodland Hills Retail*

The owner of the Westfield Topanga complex plans to redevelop the former Sears store into a dining and entertainment complex in Woodland Hills to be called the Westfield Topanga & The Village Shopping Center. Old and dormant retail spaces that have fallen out of favor with the market are found all across the state, and are detrimental to their communities. The projected completion date of late 2021 is great news for Woodland Hills and the San Fernando Valley, and is logically coherent with the forecast of robust economic activity for the Valley that is presented in this publication.

The appendix is on the next page.

### *Hotel Space*

The Valley is set for a hotel building boom in the next few years. There are five properties in the planning stage near the Warner Center, and a Home2 Suites is already under construction nearby. Sherman Oaks has two hotels in planning stages, and Glendale has eight new hotels in early development planning. Burbank has seven hotels in planning stages, and the AC Hotel Burbank is already under construction.

The broader region is set to be a new hotel space leader in 2020, with Los Angeles County having more hotel rooms under

Appendix

Figure 1: Southland Regional Association of Realtors San Fernando Valley Map

