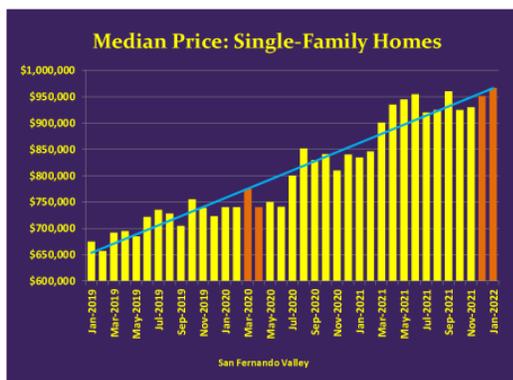


Dan Hamilton
February 28, 2022

Residential Real Estate

The COVID-19 Pandemic did not seem to slow the steady rise of housing prices in the San Fernando Valley. The average of the median single-family home prices in April and May of 2020, a period of dramatic economic contraction brought about by the pandemic, was \$745,000. While this is down from the March 2020 value of \$775 thousand, it is up from the December 2019 value of \$723 thousand, and it is eight percent higher than the April/May 2019 average of only \$690,000.



The average of December and January, the 2 most recent months for which we have data, is just under \$960 thousand. The latest figures represent a 30 percent increase since the trough of the pandemic recession. Using round numbers, we see that the Valley’s average monthly change in the median home price, from the depths of the Pandemic until recently, was a stunning \$10,000 per month for 20 months.

The latest reading of \$967,000 places the Valley in the company of just a few places in

California. Only a few communities in the Bay Area and Orange county are higher. This price level, only \$33,000 from the one million dollar mark, is not the price level for fancy or nice homes, but for the median home. Median condominium prices, which were \$200,000 in February 2012, are now at a value of \$570,000.

The Valley’s single-family home prices imply a \$4,150 monthly mortgage payment, which is a clear indication of a housing affordability problem in the Valley. The median condominium price also indicates an affordability problem. Though certainly less extreme, it is still unattainable for many families with an implied monthly mortgage payment of \$2,440.

The San Fernando Valley’s single-family home median multiple, the home price divided by median household income, is 11.8 based on 2021 data. The Valley has the highest home prices relative to income in our region.

Household Income and Home Prices - 2021			
	Housing Prices	Median Household Income	Median Multiple †
San Fernando Valley	\$918,983	\$77,805	11.8
Los Angeles County	\$776,675	\$75,379	10.3
Ventura County	\$819,900	\$90,994	9.0
California	\$786,275	\$82,053	9.6
United States	\$350,200	\$67,086	5.2

Sources: National, California, & Southland Regional Realtors, Claritas Demographics
† Home prices divided by median income.

The prices in many California areas, including the Valley, are driven by a fundamental demand/supply imbalance. There are not enough houses available, new or existing, in the San Fernando Valley. The Valley also has a dynamic that some coastal California communities do not have, which is a robust

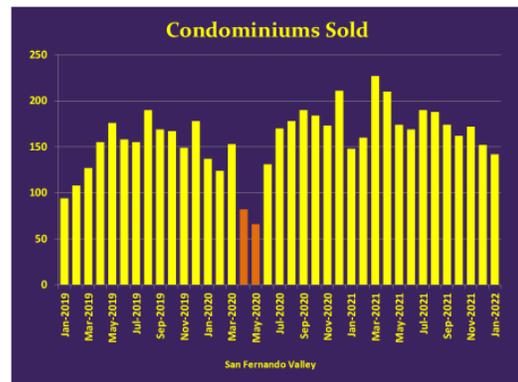
economy. This job and income generation adds to demand. The resulting affordability problem has impacts, especially on net domestic migration.

Families who cannot afford the home prices will migrate to another region in the U.S. when they can, typically experiencing a positive boost to their household wealth. While this is financially good for those who can leave, it is not good for the Valley's economy. The out-migration slows population growth as is the case across most of California's communities. Population growth and economic growth are well-known to have a consistent, strong, positive correlation. Net out migration and slow population growth potentially indicate a slowing of the Valley's economy over the next decade.

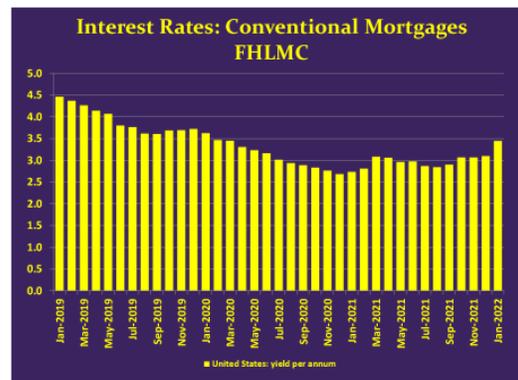


Housing turnover, or sales, impact the vitality of the housing industry and the broader economy more than prices do. An increase in transactions provides benefits not just to real estate brokers, but also to industries including inspection, repair, interior decoration, and insurance (homeowners and title). It further boosts purchases of furnishings and appliances.

The pandemic impact on San Fernando Valley housing sales was brief and limited to the months of April and May of 2020. For both single-family homes and for condominiums, the rest of 2020 and 2021 sales were a bit stronger than they were for 2019. The Valley's single-family home sales for 2021 was 5,800 units compared with 5,170 in 2019. 2021 condo sales were 2,210 units compared with 2019 sales of 1,820.



Conventional 30-year fixed mortgage rates have risen a bit lately but are historically low, even compared with history as recent as early 2019.



I expect that rates will stay low relative to history. As I wrote a couple of years ago, but this is worth repeating, the FED is 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.

It is true that the Fed’s policies have created an over-shoot of inflation, and that the policy arm of the Fed feels required to raise rates to fight inflation. I am convinced the Fed is worried about raising rates, as a substantial rate hike will be followed by a stock market drop. The Fed will watch for an excuse to not raise rates substantially. Vladimir Putin’s invasion of the Ukraine might just be the excuse the Fed will utilize.

The low rates do not help home buyers. Prices are high enough that the prospect of buying a home in the San Fernando Valley creates a *principle* problem for the buyer, not a *rate* problem. Low rates cannot overcome the affordability problem.

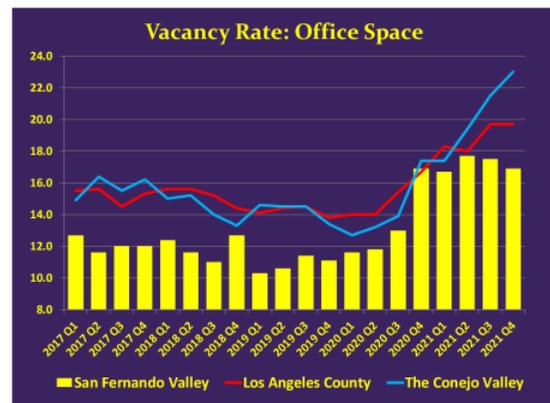
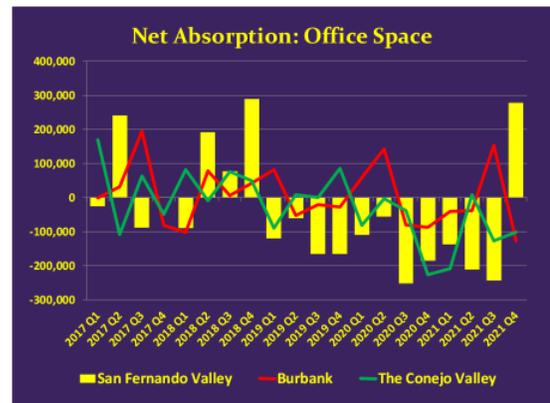
Commercial Real Estate

The latest information on San Fernando Valley commercial real estate activity includes data through the fourth quarter of 2021. The Valley’s office market has softened a bit, which is unsurprising due to the Pandemic, while the industrial market has strengthened noticeably since our last report. 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 or Glendale.

Office Space

The San Fernando Valley’s net absorption, an important indicator of market activity, turned positive in the last quarter of 2021. This is great news for the Valley, although we note that gross absorption, which includes vacated space during that time frame, was probably

positive in many more quarters in which net absorption was negative. It is noteworthy that net absorption was positive in 2021 Q4 given the Pandemic’s impact on office space. Numerous companies are finding it difficult to require their workforce back to the office.



The Valley’s office segment vacancy rate rose during 2020 as the Pandemic implied fewer workers in offices and has hovered in the 17 to 18 percent range the past few quarters. It is slowly subsiding as workers for certain companies move back into their offices.

Office space vacancies in Los Angeles County and in the Conejo Valley also rose during the Pandemic, but in contrast with the Valley, their vacancies have continued to rise during the past few quarters.

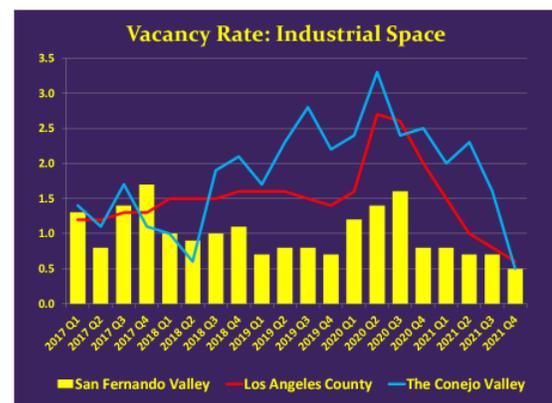
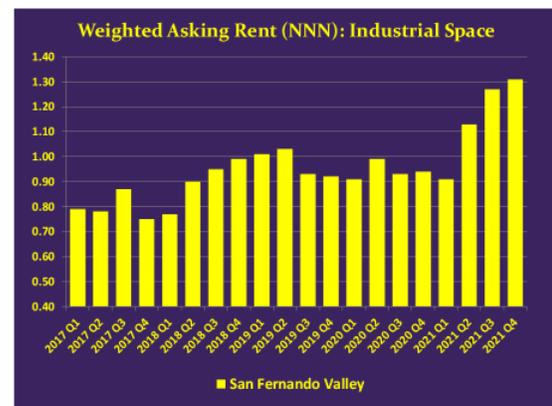


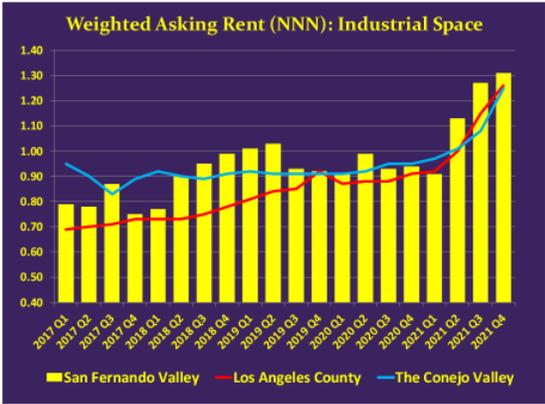
The Valley’s office segment asking gross rents have been remarkably stable, remaining in the range of \$2.60 to \$2.80 per square foot for twelve quarters ending in 2021 Q4. The Conejo Valley’s asking rents have also been in this same range since 2019 Q3. Asking gross rents for Los Angeles County are a full dollar higher than either of the San Fernando or Conejo Valleys, indicating that, for Office space, Los Angeles is a different market. Its rents are at a 37 percent premium relative to the San Fernando or Conejo Valleys. This could be due to the type of product being very different in central areas of Los Angeles, such as downtown and Century City. LA’s asking rents did soften just a bit during the Pandemic but have strengthened in Q2 of 2021.

We might suspect that with vacancy rates like that, rents would be rising. They have indeed jumped more than thirty percent in the last year, rising from about 90 cents per square foot, triple net, in 2021 Q1 to \$1.30 in 2021 Q4. The tight vacancies and the growth in rents is echoed in Los Angeles County and in the Conejo Valley as well.

Industrial Space

San Fernando Valley industrial space has become very tight, with leasable space vacancy rates at only a half of a percent. Vacancy rates for space like this are ordinarily considered tight at levels less than 2 percent, however, the Valley’s market has been tighter than that for at least five years now.





The appendix is on the next page.

Appendix

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

