City of Los Angeles: A Comparative Analysis and Forecast

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Employment

The labor markets in both the City of Los Angeles and the balance of Los Angeles County saw positive total employment growth from 2012 to 2013, with employment increasing faster in the balance of Los Angeles County (3.4%) than it had in the City of Los Angeles (1.6%). The momentum in job growth seemed to favor the City of Los Angeles in the latter months of 2013, as year-over-year employment only fell slightly from 2.2% (from January 2012 to January 2013) to 2.1% (from December 2012 to December 2013). Meanwhile, employment growth for the rest of Los Angeles County declined from 3.9% (from January 2012 to January 2013) to 1.8% (from December 2012 to December 2013) to end the year. Thus, when we consider recent momentum, employment growth in the City of Los Angeles appears to have the upper hand at the end of 2013, while still falling behind the balance of Los Angeles County in average annual employment growth for the year.

The City of Los Angeles may have seen slower growth in total employment from 2012 to 2013 but on a sector-by-sector basis the City has seen more favorable growth for most sectors when compared with the rest of Los Angeles County from December 2012 to December 2013. Construction was the fastest growing sector in the City of Los Angeles over the year, growing by 10.0% from December 2012 to December 2013, compared to 7.8% in the balance of Los Angeles County. Health Care, the largest private sector in the city, grew by 3.9% from December 2012 to December 2013, compared with 3.6% in the rest of the county. This bodes well for the workforce in the City of Los Angeles as wages in the Health Care sector are slightly higher than the average wages for private sector jobs overall. A few other sectors in the City of Los Angeles that also have higher-than-average wages significantly outperformed the growth in these sectors in the rest of the county—Management (3.6% L.A. City/2.9% L.A. County balance), Information (1.9%/0.6%), and Professional, Scientific, and Technical Services (5.2%/2.9%). On top of this, the Finance and Insurance sector declined at a slower rate over the year (-1.6%) in the City of Los Angeles than it had in the rest of Los Angeles County (-3.6%). In sum, private sector employment grew by 2.6% in the City of Los Angeles from December 2012 to December 2013, compared with the 2.0% growth in the balance of Los Angeles County.

Meanwhile, public sector employment, which is the largest sector in the City of Los Angeles, increased by 0.5% in the city, compared with a 2.7% decline in the balance of Los Angeles County. While this is below the average growth seen in the private sector, job prospects throughout the public sector should improve this year with government balance sheets on the mend. Indeed, the Los Angeles Unified School District (LAUSD) plans on hiring over 1,300 teachers in 2014, and the 2014-2015 fiscal year budgets currently working their way through City Hall are focused on restoring core services in the City of Los Angeles. Moreover, in 2013 all of Los Angeles County, and specifically the downtown area that has a cluster of Federal offices, was bogged down by policy-oriented Federal challenges, which have for the time being been resolved.

A glance at average annual wage growth shows that wages in the City of Los Angeles declined at a slower rate from 2012 to 2013 (-1.1%) than they had in the rest of Los Angeles County (-4.9%). Wages in the City of Los Angeles and the rest of Los Angeles County fell primarily because lower-than-average wage industries saw significant growth in both the City of Los Angeles and the rest of the county—Accommodation and Food (5.2% L.A. City/5.3% L.A. County balance), Other Services (3.0% L.A. City/2.2% L.A. County balance), and Administrative Support (2.8% L.A. City/4.6% L.A. County balance). Since these sectors have lower-than-average wages, the increased employment in these sectors reduces the average annual wage in both the City of Los Angeles and the balance of Los Angeles County. Furthermore, the relatively faster pace of growth in these lower-than-average wage industries in the rest of Los Angeles County, particularly in Administrative Support, coupled with the weaker growth in the higher-than-average wage sectors noted above, caused wages in the rest of the county to dip by a greater rate than they had in the City of Los Angeles. Despite the decline in average annual wages, however, total payrolls increased by 2.3% over the year in the balance of Los Angeles County, to $122.9 billion in 2013, outperforming total payrolls in the City of Los Angeles, which increased by 0.4% to $99.5 billion in 2013.

The City of Los Angeles and the balance of Los Angeles County remain 5.7% and 0.6% below their respective pre-recession peak employment levels in 2007. At last year's pace of employment growth, the City of Los Angeles would take three more years to return to its peak employment level while the balance of Los Angeles County would recover next year.

Employment by Industry
City of Los Angeles and Balance of Los Angeles County
Percentage Change, December 2012 to December 2013

Industry	L.A. City (%)	L.A. County Balance (%)
Accommodation and Food	5.2	5.3
Admin Support	2.8	4.6
Arts and Entertainment	1.6	-6.1
Construction	10.0	7.8
Educational Services	4.2	2.5
Finance and Insurance	-1.6	-3.6
Government	0.5	-2.7
Health Care	3.9	3.6
Information	1.9	0.6
Management	3.6	2.9
Manufacturing	-0.7	-2.4
NR/Mining	9.2	9.9
Other Services	3.0	2.2
Prof Sci and Tech	2.5	1.4
Real Estate	2.8	1.3
Retail Trade	1.8	1.2
Transport/Warehouse	3.1	2.9
Utilities	-8.7	-7.3
Wholesale Trade	2.8	1.0
Total Nonfarm	2.1	1.8

Source: California Employment Development Department

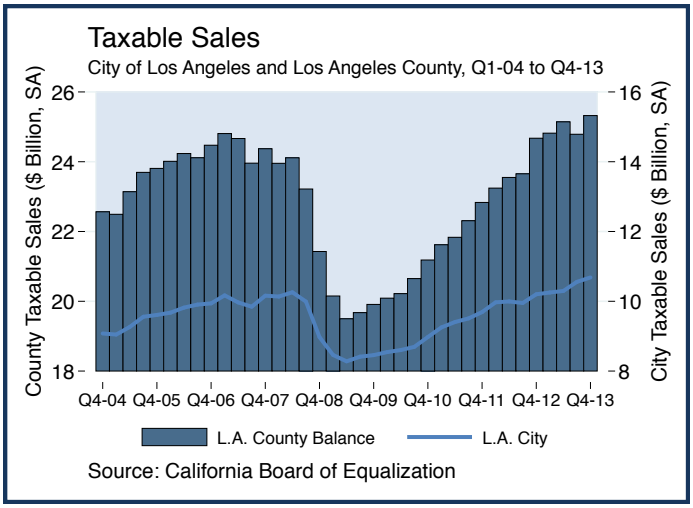
Average Annual Wages
City of Los Angeles and Balance of Los Angeles County
2012 and 2013

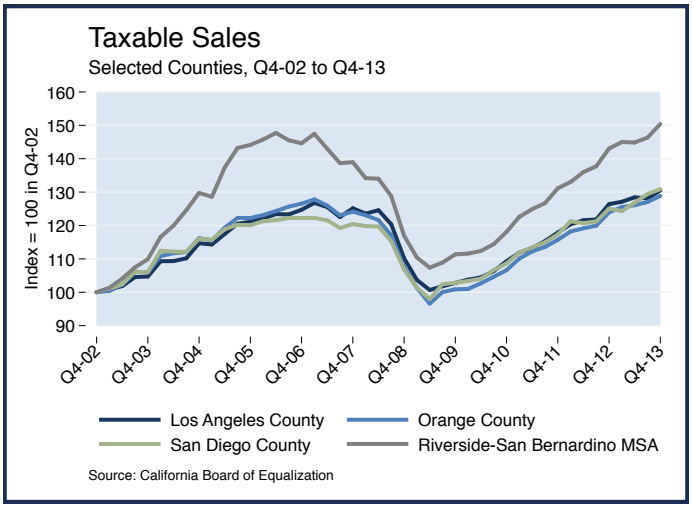
Location	2012 ($)	2013 ($)	Annual Change (%)
L.A. City	61,279	60,593	-1.1
L.A. County Balance	54,320	51,647	-4.9

Source: California Employment Development Department

Business Activity

As measured by taxable sales growth, consumer spending in the City of Los Angeles has increased more quickly than it has in the balance of Los Angeles County from 2012 to 2013. Taxable sales increased by 4.7% from the fourth quarter of 2012 to the fourth quarter of 2013, compared to 2.6% in the balance of Los Angeles County in the same time period. Since reaching a low in the second quarter of 2009, taxable sales in the City of Los Angeles and the balance of Los Angeles County have increased at roughly the same pace—29.0% and 29.9%, respectively. Consumer spending in the City of Los Angeles was slower to recover, but the past year proved a strong one for the city.





Taxable sales have increased almost consistently since the end of the Great Recession. With growth in the housing market encouraging retail and wholesale spending and employment growth helping to increase personal income for the residents of Los Angeles County, expect taxable sales to continue to grow in both the City of Los Angeles and the balance of Los Angeles County.

Consumer spending growth in Los Angeles County has been solid over the long run, but this is true of all counties in Southern California. From the fourth quarter of 2002 to the fourth quarter of 2013, taxable sales in Los Angeles County increased by 30.5% (3.2% growth over the course of 2013). In comparison, from the fourth quarter of 2002 to the fourth quarter of 2013, taxable sales increased 28.9% in Orange County (4.0% growth in 2013), 30.9% in San Diego County (4.6% growth in 2013), 50.4% in the Inland Empire (5.1% growth in 2013), and 35.7% in the State of California overall (5.2% growth in 2013).

From the fourth quarter of 2012 to the fourth quarter of 2013, taxable sales growth in the City of Los Angeles was stronger than it had been in most major cities in Los Angeles County. Only the City of Santa Clarita (5.1%), the City of Pomona (26.9%), and the City of Downey (4.8%) showed faster taxable sales growth in that time, but each of these cities had much smaller total taxable sales. Taxable sales growth is more volatile in smaller communities. The economic recovery has been particularly beneficial to consumer spending in the City of Los Angeles relative to that of its neighbors.

Taxable Sales by Region
Los Angeles County Cities, Selected Counties, and California, Q4-12 to Q4-13

Region	Quarterly Taxable Sales			Quarterly Taxable Sales Per Capita		
	Q4-12	Q4-13	Change	Q4-12	Q4-13	Change
City	in $ millions		(%)	in $		(%)
Los Angeles	10,200.3	10,683.2	4.7	2,665	2,763	3.7
Long Beach	1,280.9	1,271.6	−0.7	2,755	2,718	−1.4
Torrance	949.9	926.0	−2.5	6,498	6,301	−3.0
Santa Clarita	710.9	747.4	5.1	4,004	3,645	−9.0
Pasadena	709.6	727.3	2.5	5,095	5,192	1.9
Glendale	681.7	707.0	3.7	3,537	3,648	3.2
Lancaster	398.7	398.9	0.1	2,525	2,513	−0.5
Pomona	299.6	380.2	26.9	1,997	2,518	26.1
Palmdale	354.3	364.6	2.9	2,304	2,358	2.3
Downey	345.8	362.4	4.8	3,080	3,212	4.3
County	in $ millions		(%)	in $		(%)
Los Angeles	34,874.0	36,004.7	3.2	3,526	3,614	2.5
Orange	14,207.9	14,774.0	4.0	4,646	4,789	3.1
San Diego	12,292.0	12,862.4	4.6	3,929	4,077	3.8
Riverside-San Bernardino	14,986.0	15,755.9	5.1	3,490	3,644	4.4
California	143,921.5	151,463.2	5.2	3,821	3,988	4.4

Sources: California Board of Equalization, California Department of Finance

Taxable Receipts by Major Categories
Los Angeles County, Q4-12 to Q4-13

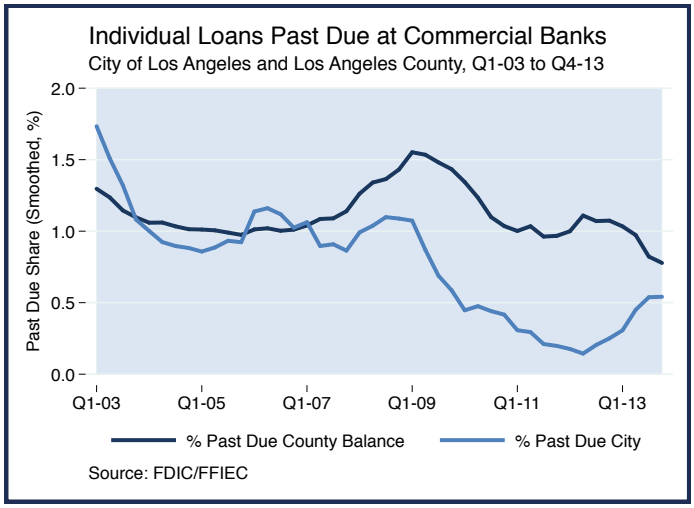
Category	Q4-12 ($ millions)	Q4-13 ($ millions)	Change (%)	Share of Taxable Receipts
Building and Construction	20.2	21.7	7.9	6.1
Restaurants and Hotels	45.4	48.7	7.4	13.6
Autos and Transportation	50.5	54.0	7.0	15.1
Food and Drugs	19.0	19.7	3.8	5.5
General Consumer Goods	83.5	85.3	2.2	23.9
Business and Industry	48.9	45.3	−7.4	12.7
Fuel and Service Stations	43.2	39.7	−8.1	11.1
Total	350.8	356.9	1.7	100.0

Source: The HdL Companies

Taxable receipts data for Los Angeles County show that from the fourth quarter of 2012 to the fourth quarter of 2013, spending on Building and Construction (7.9%), Restaurants and Hotels (7.4%), and Autos and Transportation (7.0%) was significantly stronger than spending in any other categories. The largest category of consumer spending, General Consumer Goods, showed moderate growth of 2.2%. Business and Industry spending struggled (-7.4%), as it has in many other parts of California. However, growth in employment and commercial real estate has led us to believe that the business sector remains healthy in Los Angeles.

Consumer Lending

With consumers feeling more confident relative to how they have felt over recent years, borrowing from banks for mortgages, business and industrial investments, and general consumer loans has been on the rise. For banks located in the City of Los Angeles, this has led to an increase in the percentage of debt outstanding that was past due—from a very low 0.2% in the fourth quarter of 2012 to a modest 0.5% in the fourth quarter of 2013. This change reflects slightly looser lending policies in 2013 compared to past years, rather than a signal that consumers are spending beyond their means. Banks located in the rest of Los Angeles County, meanwhile, have less debt outstanding that is past due than they had a year ago (0.8% compared to 1.1%), but their debt nevertheless is greater than that of the banks located in the City of Los Angeles.



Tourism

Hotel data suggest that tourism and business travel are growing steadily in both the City of Los Angeles and the rest of Los Angeles County. From 2012 to 2013, the annual average daily hotel room rate in the City of Los Angeles increased by 3.8% to roughly $179, with especially strong growth in West Los Angeles (5.5%) and downtown (4.1%). The rate for the balance of Los Angeles County increased just as fast, at 4.6%, with some of the strongest growth in Marina del Rey (7.4%) and Santa Monica (6.0%). From 2012 to 2013, the annual average hotel occupancy rate increased by 2.0 percentage points in the City of Los Angeles to 77.9%, with strong growth in downtown (4.2 percentage points). In comparison, the annual average hotel occupancy rate increased by 1.7 percentage points in the balance of Los Angeles County, with strong growth in West Hollywood (3.4 percentage points) and the South Bay (3.3 percentage points).

Occupancy Rate

Year	L.A. City		L.A. County Balance	
	Rate (%)	Y-o-Y Change	Rate (%)	Y-o-Y Change
2006	74.1	-	78.5	-
2007	75.2	1.1	78.1	-0.5
2008	74.4	-0.9	74.3	-3.8
2009	68.0	-6.4	68.2	-6.1
2010	69.7	1.7	72.6	4.4
2011	71.5	1.8	76.0	3.4
2012	75.6	4.1	78.5	2.4
2013	77.9	2.0	80.2	1.7

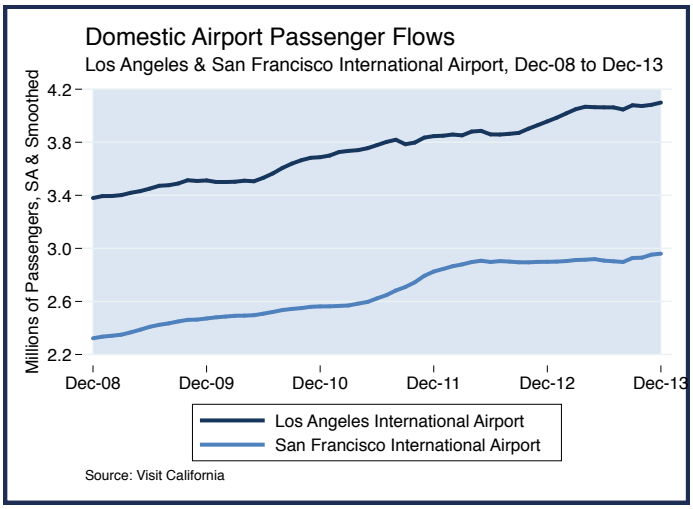
Source: PKF Consulting

Average Daily Rate

Year	L.A. City		L.A. County Balance	
	Rate ($)	Y-o-Y Change	Rate ($)	Y-o-Y Change
2006	154.79	-	161.57	-
2007	165.11	6.7	174.00	7.7
2008	166.79	1.0	180.46	3.7
2009	146.65	-12.1	156.41	-13.3
2010	147.90	0.9	158.84	1.6
2011	165.68	12.0	169.23	6.5
2012	172.26	4.0	178.24	4.6
2013	178.85	3.8	186.46	4.6

Source: PKF Consulting

As shown above, leisure and hospitality spending is on the rise in Los Angeles County, as well, with taxable receipts up 7.4% from the fourth quarter of 2012 to the fourth quarter of 2013. This is the kind of growth we should expect for Los Angeles County as the economy continues to improve.



Passenger traffic out of Los Angeles International Airport (LAX) shows that more tourists and business travelers, both domestic and foreign, are traveling to the City of Los Angeles each year. In total, 48.9 million domestic passengers traveled through LAX in 2013, an increase of 5.0% from 2012 and 8.4% from 2011. In comparison, 35.2 million domestic passengers traveled through San Francisco International Airport (SFO) in 2013, an increase of 1.3% from 2012 and 10.7% from 2011. A total of 17.8 million international passengers traveled through LAX in 2013, up 3.9% from 2012 and 6.6% from 2011. In comparison, a total of 9.7 million passengers traveled through SFO in 2013, up 2.1% from 2012 and 8.0% from 2011.

The data cannot separate domestic and international passengers traveling to the City of Los Angeles from passengers traveling to other parts of Los Angeles County, but it seems likely based on these relatively high levels of passenger traffic growth at LAX that 2013 brought an increase in travelers to both the City of Los Angeles and the balance of Los Angeles County. Not only was the total volume of both domestic and international passenger traffic significantly higher at LAX than at the largest comparable West Coast airport, SFO, but passenger traffic growth from 2012 to 2013 was stronger at LAX, as well.

Amtrak ridership out of Union Station in Los Angeles, the busiest Amtrak station in California and fifth busiest in the United States, remained virtually flat from 2012 to 2013, down -0.8% to 1,644,000 riders. In comparison, ridership out of downtown Sacramento, the second busiest Amtrak station in California and seventh busiest in the United States, fell 4.6% to 1,133,000 riders, and ridership out of downtown San Diego, the third busiest Amtrak station in California and thirteenth busiest in the United States, fell 3.1% to 687,000.[1] Granted, many riders travel between the City of Los Angeles and the other two destinations, so it is difficult to draw conclusions about growth in one city relative to growth in the others. However, the lack of any significant drop-off in ridership at Union Station suggests that tourism and business travel via rail remains strong in the City of Los Angeles.

[1] "Amtrak Fact Sheet, Fiscal Years 2012 and 2013, State of California." *Amtrak*. http://www.amtrak.com/pdf/factsheets/CALIFORNIA12.pdf; http://www.amtrak.com/pdf/factsheets/CALIFORNIA13.pdf.

Tourism and business travel should continue to be strong in the coming year. Employment and income growth in Los Angeles and in other areas leads to more spending on leisure goods and services like tourism, and Los Angeles continues to be one of the top U.S. destinations for both American and international tourists, not only due to its great weather but its culture, nightlife, and natural beauty. The more the U.S. economy continues to grow, the more it will benefit tourism in Los Angeles in the coming years. At the same time, business growth encourages business travel, and with Los Angeles having one of the country's most vibrant business communities, with a high concentration of firms in real estate, banking, and television, film, and music production, among other industries, business travel to Los Angeles will continue to grow, to the benefit of local hotels and restaurants, especially.

Port Activity

Over the last year the Port of Los Angeles and the Port of Long Beach have seen steady gains in trade activity, with increases in the value of both exports and imports flowing through the ports. The total value of exports departing from both ports in 2013 was $80.5 billion, a 2.6% increase over 2012 values. The annual increase was driven entirely by a 10.7% increase in the value of exports at the Port of Long Beach, which offset the 4.1% annual decline in export values at the Port of Los Angeles.

Once we take price changes into account the gains were slightly higher. Due to a decline in the Bureau of Labor Statistics export price index the 2013, export values were actually 3.1% higher than the previous year, showing that the increased export activity was due to an increase in the quantity of goods as opposed to just higher prices. Imports followed the same general trend and were up by 2.7% in nominal terms and 3.8% after taking into account the change in the average price for imports over the year. The total value of two-way trade in 2013 increased by 2.7% over 2012 levels.

The first quarter of 2014 saw a continuation of the increased trade activity at the Port of Los Angeles and the Port of Long Beach. The value of exports from both ports was up by 2.1% over the first quarter of 2013, and the value of imports was up by 3.3% over the same time period. Average prices for both imports and exports were down during this time period, yielding a real increase in the quantity of goods traded during the first quarter. Two-way trade in the first quarter of 2014 was 3.0% higher than in the first quarter of 2013.

Most of the top five commodities exported from both the Port of Los Angeles and the Port of Long Beach saw increases in value over the last year. Exports of industrial machinery, including computers, remained the top commodity in 2013 and saw values increase by 3.3%. These gains were offset, however, by a 4.7% decline in export values of plastics, the second ranking commodity. Vehicles and parts, electric machinery and sound equipment, and meat rounded out the top five export commodities and saw values increase by 0.9%, 0.03%, and 14.7%, respectively.

Exports by Port

Year	Port of Los Angeles		Port of Long Beach	
	Exports ($ Bill.)	Change (%)	Exports ($ Bill.)	Change (%)
2004	19.0	5.7	14.3	13.6
2005	20.7	3.2	19.4	27.8
2006	26.3	27.0	21.6	11.3
2007	30.2	15.1	26.7	23.5
2008	34.8	15.0	31.9	19.5
2009	28.0	-19.5	24.2	-24.2
2010	33.7	20.5	31.8	31.3
2011	43.8	29.9	34.8	9.6
2012	42.7	-2.5	35.8	2.6
2013	40.9	-4.1	39.6	10.7

Source: WISERTrade

Imports by Port

Year	Port of Los Angeles		Port of Long Beach	
	Imports ($ Bill.)	Change (%)	Imports ($ Bill.)	Change (%)
2004	142.3	12.2	42.7	13.6
2005	169.1	5.9	53.0	9.4
2006	200.1	18.3	57.7	8.7
2007	211.2	5.6	60.6	5.1
2008	210.5	-0.3	60.0	-1.0
2009	169.2	-19.6	44.4	-26.0
2010	204.0	20.5	56.7	27.7
2011	230.0	12.7	59.9	5.6
2012	241.3	4.9	65.3	9.1
2013	245.2	1.6	69.8	6.8

Source: WISERTrade

The top five commodities imported through both ports share the same general categories, however, the difference is that many exports tend to be inputs to production whereas imports tend to be finished goods. Industrial machinery, including computers, was also the top commodity for imports, and the value of these goods coming into the ports increased by 3.0% from 2012 to 2013. Electric machinery and sound equipment as well as apparel and accessories, the second and fourth ranked commodities, saw import values increase by 0.04% and 9.4%, respectively. The top five imported commodities in 2013 were rounded out by vehicles/vehicle parts and oil, which saw declines by 2.3% and 1.2%, respectively.

Asian countries remain the largest trading partners for both imports and exports, however, imports continue to make up the bulk of trading activity. In 2013, China was the top trading partner by far with two-way trade at both ports totaling $191.2 billion for the year, a 5.1% increase over 2012 trade values. Japan comes in an easy second, but saw the value of two-way trade decrease by 6.7%. South Korea, the third ranked trading partner in the region, also saw the value of two-way trade decline (-1.7%). Two-way trade with Taiwan and Vietnam, the fourth and fifth ranked trading partners, increased by 3.8% and 17.9%, respectively.

Top 10 Commodity Exports
Port of Los Angeles, 2013

Commodity	2012 ($ billions)	2013 ($ billions)	Change (%)	2013 Share (%)
Industrial Machinery/Computers	5.8	6.3	8.4	15.4
Plastics	3.8	3.2	-15.6	7.9
Vehicles/Parts	2.6	2.5	-6.2	6.1
Electric Machinery/Sound Equipment	2.0	2.1	8.3	5.2
Meat	1.6	1.7	8.5	4.1
Cotton/Fabric	2.3	1.5	-32.8	3.8
Misc. Chemicals	1.5	1.5	-1.9	3.6
Optic/Photo/Medical Equipment	1.2	1.3	9.6	3.2
Organic Chemicals	1.7	1.3	-22.7	3.1
Iron And Steel	1.6	1.3	-18.7	3.1
Total All Commodities	42.7	40.9	-4.1	100.0

Source: WISERTrade

Top 10 Commodity Exports
Port of Long Beach, 2013

Commodity	2012 ($ billions)	2013 ($ billions)	Change (%)	2013 Share (%)
Industrial Machinery/Computers	5.5	5.4	-2.0	13.6
Plastics	2.7	3.0	11.0	7.6
Vehicles/Parts	2.4	2.6	8.8	6.6
Electric Machinery/Sound Equipment	2.3	2.1	-7.1	5.3
Edible Fruits/Nuts	1.4	1.7	18.5	4.2
Fuel/Oil	1.4	1.6	15.5	4.0
Misc. Chemicals	1.1	1.3	19.4	3.3
Copper	1.3	1.2	-3.5	3.1
Aircraft/Spacecraft/Parts	0.7	1.1	61.4	2.9
Meat	0.9	1.1	25.2	2.9
Total All Commodities	35.8	39.6	10.7	100.0

Source: WISERTrade

Top 10 Trade Partners (Exports)
Port of Los Angeles, 2013

Commodity	2012 ($ billions)	2013 ($ billions)	Change (%)	2013 Share (%)
China	12.7	10.4	-18.0	25.4
Japan	6.4	5.3	-17.1	13.0
South Korea	5.3	5.2	-2.0	12.7
Australia	2.3	4.1	75.9	9.9
Taiwan	2.6	2.4	-9.4	5.8
Singapore	2.0	1.7	-18.1	4.1
Hong Kong	1.4	1.5	3.2	3.6
Thailand	1.3	0.9	-29.2	2.3
Vietnam	0.8	0.9	1.6	2.1
Indonesia	0.8	0.8	-3.0	2.0
Total All Partner Countries	42.7	40.9	-4.1	100

Source: WISERTrade

Top 10 Trade Partners (Exports)
Port of Long Beach, 2013

Commodity	2012 ($ billions)	2013 ($ billions)	Change (%)	2013 Share (%)
China	10.0	12.8	27.5	32.3
Japan	4.6	5.1	11.7	12.9
South Korea	2.9	3.5	22.3	8.8
Taiwan	2.1	3.1	43.4	7.8
Hong Kong	2.4	3.1	24.7	7.7
Australia	4.0	1.9	-53.0	4.8
Singapore	1.5	1.8	16.6	4.6
Indonesia	1.0	1.1	11.5	2.7
Thailand	0.7	0.9	22.9	2.3
Philippines	0.7	0.9	16.2	2.2
Total All Partner Countries	35.8	39.6	10.7	100.0

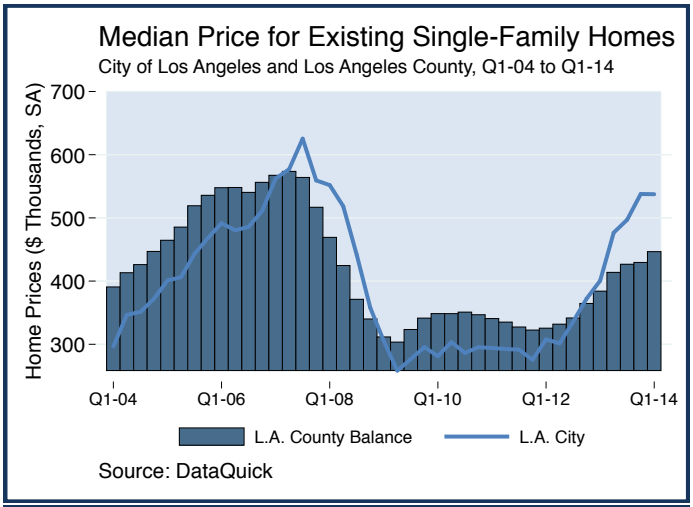
Source: WISERTrade

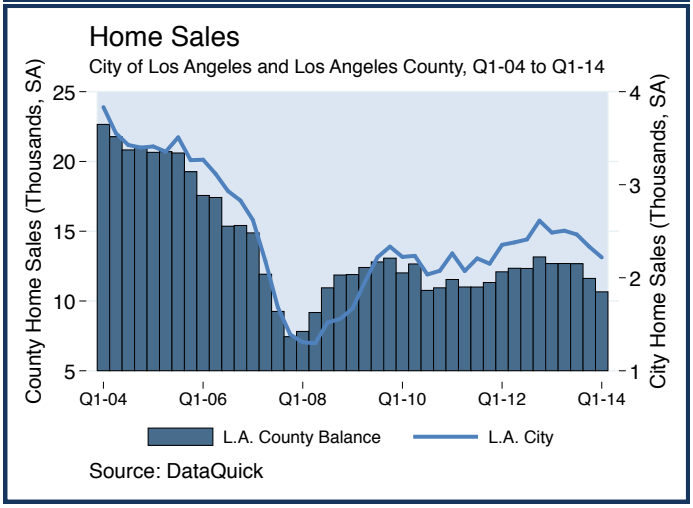
Residential Real Estate

Over the last year the City of Los Angeles has seen spectacular home price appreciation. The median price for an existing single-family residence in the City was a seasonally adjusted $537,450 in the first quarter of 2014, a 34.2% increase over the median price in the first quarter of 2013. In contrast, the remainder of Los Angeles County saw home prices increase by 19.5% over the same period of time although a very respectable rate of increase in of itself, a markedly slower rate of appreciation compared to the City of Los Angeles.

In terms of making up lost ground, the City of Los Angeles has seen an overall faster recovery when compared to the balance of Los Angeles County. The median home price in the City is now 14.1% below the pre-recession peak from the third quarter of 2007, whereas the median home price in the rest of the County is 19.5% below its pre-recession peak from the third quarter of 2007. The City has come a long way since last year. Indeed, as noted in our 2013 edition of this report, the median home price in the City last year was 38.0% below its pre-recession peak from the third quarter of 2007.

On a regional basis the City of Los Angeles has also outpaced other large cities in nearby counties from the first quarter of 2013 to the first quarter of 2014. While these other cities have each seen median prices increase by double digits in that period, none of them have come close to the 34.2% price appreciation in the City of Los Angeles. The City of Long Beach has come the closest, increasing by 19.9% from the first quarter of 2013 to the first quarter of 2014, and the cities of Riverside and San Diego grew by 17.0% and 16.5% respectively. The major cities in Orange County grew slightly slower over the past year; home prices appreciated in Anaheim 12.8% and in Santa Ana 12.1%.





Southern California is not the only area in the state to see strong price appreciation over the last year, and some in the media have questioned whether or not we are seeing the beginning of another housing bubble. We don't think so. With credit tight, it is hard to argue that speculation is driving the market. One of the big reasons both the City and County have seen such strong appreciation is that the housing market has such a tight supply in those areas. Indeed, according to the California Association of Realtors the current supply of homes on the market in Los Angeles County will be exhausted in three and a half months at the current pace of sales.

The tight supply of homes on the market is reflected in recent home sales volumes over the last few quarters. For example, in the first quarter of 2014 there were 2,220 sales of existing homes in the City of Los Angeles on a seasonally adjusted basis, a 10.7% decrease from sales volumes in the first quarter of 2013, and was the third consecutive quarter of declining sales. This trend is not unique to the City. The remainder of Los Angeles County has also seen declining sales volumes – and by a larger magnitude. From the first quarter of 2013 to the first quarter of 2014, sales of existing homes in the balance of the County were down 15.1%.

Another factor driving home price appreciation is the continued decline in the number of distressed properties on the market. Defaults and foreclosures in the City of Los Angeles were down by 48.7% and 57.5% respectively in 2013 from the prior year. The remainder of Los Angeles County saw similar reductions in distressed properties, with defaults and foreclosures down 53.2% and 57.6% respectively from 2012 to 2013. With fewer distressed properties in the sales mix there is less downward pressure on the median sales price, which has contributed significantly to the price increases we have seen over the last year.

In the first quarter of 2014, the most recent quarter of activity, the City's real estate market has deviated somewhat from the trend in previous quarters. The median home price declined by 0.1% from the fourth quarter of 2013 to first quarter of 2014, yet, after such strong price appreciation over the last year this comes as no surprise. We do not, however, see this as the start of a new downward trend in home prices, but rather a temporary blip as home prices start to grow in line with incomes in the region. We also saw a 0.8% increase in defaults over the same time period, but again, just because of this one quarter's worth of data we do not see this as the start of a new trend. In the first quarter of 2014 there were 678 defaults on a seasonally adjusted basis, a far cry from the 3,635 we saw in the first quarter of 2009 in the wake of the housing bubble.

Existing Home Prices and Sales
City of Los Angeles and Los Angeles County Balance

Location and Metric	Q1-13 to to Q1-14 (%)	Q4-13 to to Q1-14 (%)
L.A. City Home Prices	34.2	-0.1
L.A. County Balance Prices	16.3	4.0
L.A. City Home Sales	-10.7	-4.9
L.A. County Balance Sales	-16.0	-8.3

Source: DataQuick

Defaults and Foreclosures
City of Los Angeles and Los Angeles County Balance

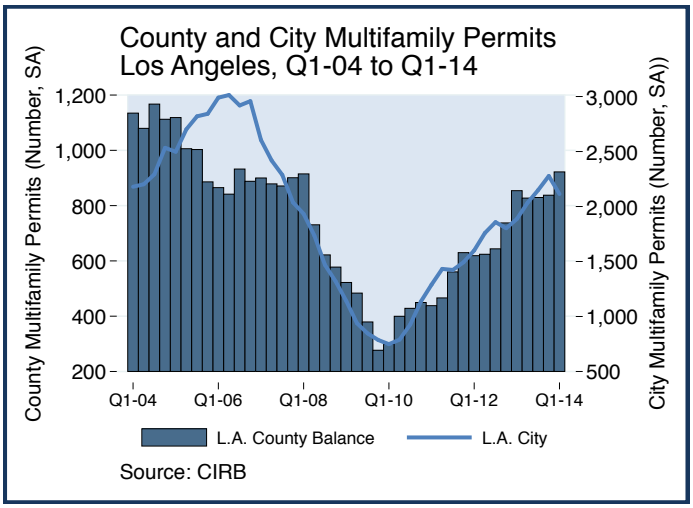
Location and Metric	Q1-13 to to Q1-14 (%)	Q4-13 to to Q1-14 (%)
L.A. City Defaults	5.6	0.8
L.A. County Balance Defaults	7.7	2.4
L.A. City Foreclosures	-36.2	-0.0
L.A. County Balance Forclosures	-46.9	-4.0

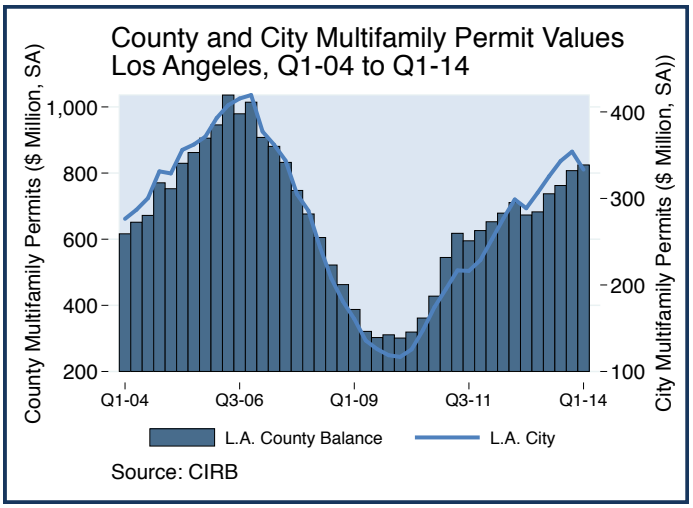
Source: DataQuick

Residential Construction

The tight housing supply in the City of Los Angeles as well as the rest of Los Angeles County has brought builders back into the market, particularly for multi-family properties. The number of permits for multi-family housing units in the City was up 18.9% in 2013 from the prior year, and as of the first quarter of 2014 multi-family permitting was up 182% from its recessionary low and was 30% below the pre-recession peak . The remainder of Los Angeles County has followed much the same trend and saw the number of permits for multi-family units increase by 27.6% in 2013 overall.

Not to be outdone, permitting activity for single-family residences in the City of Los Angeles has made solid progress since the recession and has outpaced the County balance. In 2013 there were 38.4% more single-family permits in the City than there had been in 2012, whereas single-family permitting in the remainder of Los Angeles County was up 20.4% over the same time period.





Single-family permitting in the City of Los Angeles may be showing stronger growth rates than multi-family properties, but single-family properties were much slower to turn around after the recession. As of the first quarter of 2014, single-family permitting in the City was still 45% below the pre-recession peak . Additionally, multi-family construction makes up a larger portion of new residential units. In the first quarter of 2014 there were 317 single-family units permitted on a seasonally adjusted basis versus 3,035 multi-family units.

In addition to new construction, property owners in the City have steadily made improvements to the current inventory of housing over the last year. The value of new permits for alterations and additions to existing structures in 2013 increased by 7.2% over 2012 levels. In contrast, permits for alterations in the remainder of Los Angeles County were down 4.0% over the same time period.

Rental Market

Demand for multi-family rental housing has remained strong from the first quarter of 2013 to the first quarter of 2014, as indicated by the increasing number of construction permits issued for these properties, and the vacancy rate for apartments in the City is at a historic low. As of the first quarter of 2014 the apartment vacancy rate was 3.0%, the lowest level since 2006. The balance of Los Angeles County has trended much the same over the last year and has a vacancy rate of 3.1%, also the lowest since 2006.

As previously mentioned, the City of Los Angeles, as well as the remainder of Los Angeles County and much of the state of California, has a very tight housing supply – and the historically low vacancy rates for apartments is a clear reflection of this phenomenon. Landlords have taken advantage of this situation and continue to increase rents in the City and County balance. As of the first quarter of 2014 the average asking rent for apartments in the City was $1,540, a 2.7% increase over the same quarter the previous year, and the rental rate in the County balance was $1,456, up 1.9% over the same time period.

Vacancy and Rental Rates for Apartments
City of Los Angeles and Los Angeles County Balance, Q1-14

Location	Vacancy (%)	Q1-13 to Q1-14 (pp)	Rent ($)	Q1-13 to Q1-14 (%)
L.A. City	3.0	-0.1	1,540	2.7
L.A. County Balance	3.1	-0.3	1,456	1.9

Source: REIS

Commercial Real Estate

As the economic recovery continues to take course, the demand for local rental space has been improving in the City of Los Angeles and the rest of Los Angeles County. Compared to 2012, when vacancy rates were improving across all types of properties while rental rates remained flat, 2013 marked a year when rental rates also began to grow.

The demand for retail space in particular remains solid throughout many parts of the City of Los Angeles and the rest of Los Angeles County. Since the recessionary trough in the second quarter of 2011, the City of Los Angeles has experienced vast improvements with respect to its retail store vacancy rate, which has declined from 7.0% to 4.8% in the first quarter of 2014. This trend continued over the last year, with the vacancy rate improving by 20 basis points since the first quarter of 2013. Meanwhile, the rest of Los Angeles County has experienced more moderate improvements in its retail vacancy rate —down 60 basis points from its peak in the first quarter of 2012 to 6.0%. However, retail store rental rates in the rest of Los Angeles County have been growing precipitously by an average annual rate of 1.3% since the second quarter of 2011, while retail store rental rates in the City of Los Angeles have grown by 0.6%.

The demand for offices remains stronger in Los Angeles County than in the City of Los Angeles, but that trend is beginning to subside. Over the last year, the office vacancy rate in the City of Los Angeles declined by 50 basis points, to 16.3% in the first quarter of 2014, while the vacancy rate in the rest of Los Angeles County declined by 30 basis points, to 14.0%. Similarly, the average rental rate increased by 2.3% in the City of Los Angeles and 1.8% in the rest of Los Angeles County, but the average rental rate in the City of Los Angeles remained 5.5% lower than the rest of Los Angeles County.

Vacancy Rates for Commercial Property (%)
L.A. City and L.A. County Balance; Q1-14

Location	Retail	Office	Warehouse	R&D
L.A. City	4.8	16.3	6.6	5.3
L.A. County Balance	6.0	14.0	7.5	4.6

Note: Location determined by geographic descriptions.
Source: REIS

Rental Rates for Commercial Property ($)
L.A. City and L.A. County Balance; Q1-14

Location	Retail	Office	Warehouse	R&D
L.A. City	27.20	32.42	6.54	13.15
L.A. County Balance	29.91	34.30	6.12	10.09

Note: Location determined by geographic descriptions.
Source: REIS

Industrial properties, for a third consecutive year, demonstrated a big improvement from 2012 to 2013. The vacancy rate for Warehouses and Distribution Centers in the City of Los Angeles declined from 7.3% to 6.6% from the first quarter of 2013 to the first quarter of 2014, similar to the drop from 7.8% to 7.5% seen in the rest of Los Angeles County. Rent prices grew by 2.2% in the city and by 2.3% in the rest of the county. For Flex/R&D facilities, however, the trend is less definitive. The vacancy rate for Flex/R&D facilities increased from 4.5% to 5.3% in the City of Los Angeles, though

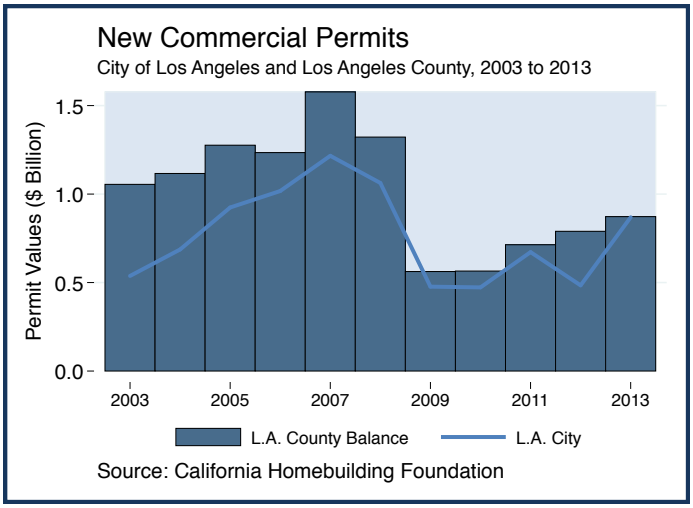
vacancy remains well below the 11.1% rate experienced just three-and-half years ago (third quarter of 2010). In the rest of the county, the vacancy rate declined from 5.5% to 4.6% over the same period.

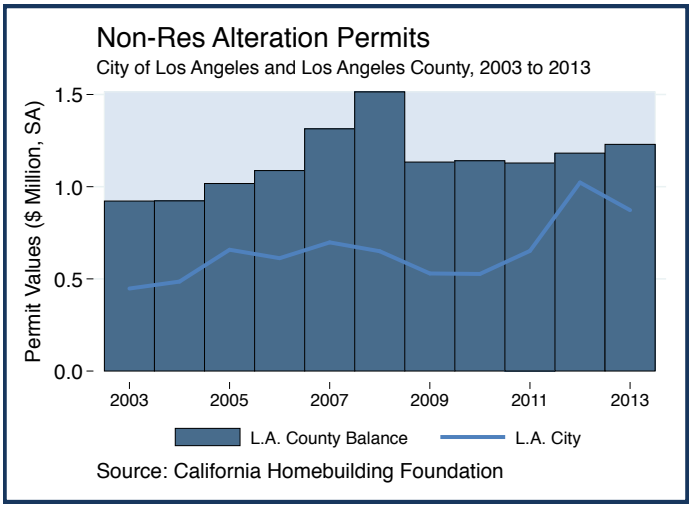
Non-residential Construction

Nonresidential construction in Los Angeles County grew robustly in 2013, returning to levels last seen in 2005 and 2006. A total of $3.8 billion in nonresidential construction permits were filed countywide in 2013 and a larger share of construction permits were categorized as new structures (45%) than there had been in over five years (since 2008).

The City of Los Angeles has benefited greatly from the resurgence of its downtown area. Construction permits for new structures filed in the City of Los Angeles totaled $826 million in 2013, up 79.4% from the $460 million filed in 2012. Construction permits filed in the rest of Los Angeles County totaled $873 million in 2013, up by 10.5% from 2012.

The majority of nonresidential construction projects throughout Los Angeles County are still composed of alterations and renovations, as businesses upgrade their facilities to obtain the newest technologies and attract high-skilled workers. Also, Los Angeles County is relatively sprawled out, when compared to the less-densely populated areas in Inland California. While alteration and renovation construction permits in the City of Los Angeles declined by 14.7% over the year, from $1.01 billion in 2012 to $865 million in 2013, they amounted to more construction activity than any of the previous nine years (2003 to 2011) in the City. In the rest of Los Angeles County, meanwhile, nonresidential alteration and renovations permits increased from $1.18 billion to $1.23 billion.



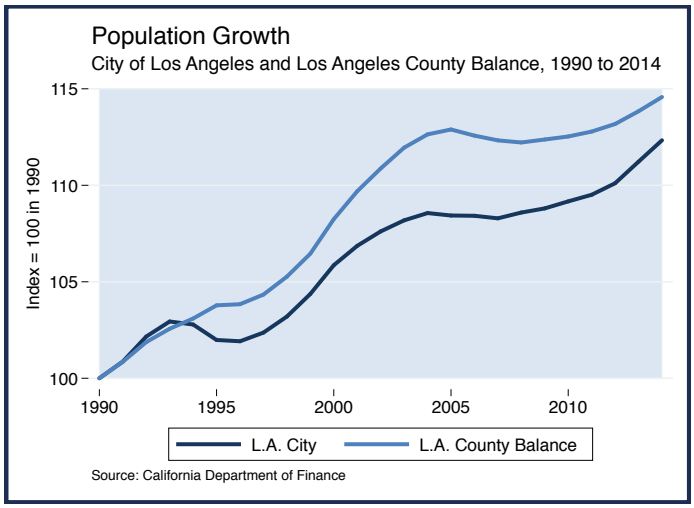


Demographics

Population

The City of Los Angeles is the second largest city in the United States, home to 3.91 million residents from a multitude of ethnic and national backgrounds. Its racial and ethnic make-up is unique among large cities. It was recently reported that minority births have surpassed those of whites in the United States. That trend has existed in Los Angeles for some time, such that only 28.4% of Los Angeles residents are non-Hispanic white, compared to 62.8% of U.S. residents, according to the 2012 U.S. Census American Community Survey.

Over the past 20 years, population growth for the City of Los Angeles and the balance of Los Angeles County has been generally positive and steady. The bulk of the population growth over the last two decades occurred during the 1990s, but the growth rate began to decrease in the mid-2000s. As the recession hit, and the coastal regions of California became less affordable relative to the inland regions, population growth slowed even further and actually declined somewhat in the late 2000s. Now that the ill effects of the economic downturn have subsided, population growth is once again picking up in the city and in the county overall.



According to the California Department of Finance, as of 2013, the City of Los Angeles has a population of 3.91 million residents, while the balance of Los Angeles County is home to 6.14 million residents. Looking at population growth over the last five years, the city has grown on average by 0.6% whereas the rest of the county has grown by 0.4%.

Although the city's population has grown faster than that of the rest of Los Angeles County in the past five years, it has grown more slowly than the rest of the county in the long run. Disregarding any recessionary effects, this is due in part to the fact that the City of Los Angeles is more sprawled out than the balance of the county. Relative to the cities on the northern end of the county, such as Palmdale, Lancaster, and Santa Clarita, where there is an abundance of open land for expansion, the City of Los Angeles has much less free space. The cities of Santa Clarita, Lancaster, and Palmdale represent the second, fourth, and fifth largest cities in Los Angeles County, respectively, based on population size. Santa Clarita is home to 209,000 residents, Lancaster has a population base of 160,000, and Palmdale boasts a population of 156,000. Since 2008, the populations of these cities have seen their annual population grow on average by 3.6%, 0.8%, and 0.6%, respectively, although much of the growth in Santa Clarita came from various annexations of surrounding areas into city limits. Housing in these areas is cheaper than in Los Angeles, and there is abundant room to build, so residents of Los Angeles and other areas have migrated to these cities in droves in recent years. Those cities' populations are booming as a result.

Population, 2013

Location	Population (000s)	Average Growth (%) 5-Yr.	10-Yr.	20-Yr.
City of L.A.	3,905	0.6	0.3	0.4
L.A. County Balance	6,137	0.4	0.2	0.5
Long Beach	470	0.3	−0.0	0.4
Santa Clarita	209	3.6	2.5	2.4
Glendale	196	0.4	−0.1	0.2
Lancaster	160	0.8	1.9	1.8
Palmdale	156	0.6	1.8	2.4
Pomona	152	0.2	−0.0	0.4
Torrance	148	0.4	0.3	0.5
Pasadena	141	0.6	0.2	0.4
El Monte	115	0.1	−0.2	0.3
Downey	113	0.4	0.2	0.8
L.A. County Total	10,042	0.5	0.2	0.5

Source: California Department of Finance

Education

The City of Los Angeles is home to some of the largest and most prestigious schools and universities in the country. With the University of California, Los Angeles and the University of Southern California in its borders, the City of Los Angeles is home to brilliant students and faculty who are continually producing innovative and vital research on many of the nation's biggest issues. Although these universities may be more famous throughout the nation, the balance of Los Angeles County is home to five California State University campuses: Dominguez Hills, Long Beach, Los Angeles, Northridge, and Pomona; as well as the renowned California Institute of Technology (Cal Tech).

For the past several years, more residents in the City of Los Angeles have achieved higher educational attainment levels than their counterparts in the rest of the county. The most recent data from the U.S. Census Bureau indicate that the proportion of the population with a bachelor's degree or higher in the city continues to exceed the share in the balance of the county. In 2012, 31.4% of the city's residents aged 25 years and over possessed a bachelor's degree or higher, compared with 29.1% of the residents in the rest of the county.

Even though the City of Los Angeles historically has had a larger proportion of residents with a bachelor's degree or higher, the balance of Los Angeles County has had a larger share of residents with at least a high school diploma. In 2012, 78.5% of residents in the rest of the county had at least a high school diploma, compared to 75.2% of the city's population. This attainment gap has lingered at around 3 to 5 percentage points since 2007.

Four out of the ten most populated cities in the balance of Los Angeles County had higher percentages with a bachelor's degree or higher than seen in the city overall in 2012—Santa Clarita (32.9%), Glendale (37.2%), Torrance (43.6%), and Pasadena (53.9%). Of the other six cities, Lancaster (14.1%), Palmdale (14.1%), and El Monte (12.3%) had the lowest percentages of residents with a bachelor's degree or higher.

Educational Attainment, 2012
% of Population

Location	Less Than High School Diploma	High School Diploma	Some College	Bachelor's Degree	Graduate or Professional Degree
City of L.A.	24.7	19.8	24.0	21.0	10.4
L.A. County Balance	21.5	21.2	28.2	19.0	10.1
Long Beach	21.3	17.7	31.6	18.9	10.5
Santa Clarita	11.5	19.0	36.6	22.4	10.5
Glendale	17.4	19.8	25.7	25.7	11.5
Lancaster	21.1	27.4	37.4	8.9	5.2
Palmdale	28.9	24.0	33.0	9.4	4.7
Pomona	31.5	26.6	25.9	12.0	4.0
Torrance	6.0	19.2	31.2	29.5	14.1
Pasadena	11.1	11.6	23.3	30.5	23.4
El Monte	39.6	27.8	20.3	10.3	2.0
Downey	21.6	24.4	30.6	16.6	6.8
L.A. County Total	22.8	20.7	26.5	19.8	10.3

Source: U.S. Census Bureau, American Community Survey

Income

Median Household Income ($)

Location	2008	2009	2010	2011	2012
L.A. City	48,882	48,617	47,031	46,148	46,803
L.A. County	55,499	54,467	52,684	52,280	53,001

Source: U.S. Census Bureau

Unlike average annual wages (a measure of wages by place of employment rather than residency), median household income in Los Angeles County continues to exceed that of the city. In 2012, the median household income in Los Angeles County was $53,001, while the median household income in the City of Los Angeles was $46,803. It appears, however, that median household income is beginning to trend in the opposite direction than what was previously observed over the previous four years. For the first time since 2008, median household income in both the City and County of Los Angeles saw year-over-year positive growth from 2011 to 2012. Though median household income at the city and county level is still below its peak experienced in 2012, the positive year-over-year growth is a sign of improving economic conditions in the area.

Household Income, 2012

% of Population

Income Bracket ($)	L.A. City	L.A. County Balance	L.A. County Total		
< 25K	28.9	21.3	24.4		
25K-50K	23.5	22.2	22.7		
50K-100K	26.1	29.6	28.1		
100K-200K	15.4	20.5	18.4		
> 200K	6.1	6.4	6.3		
	Long Beach	Santa Clarita	Glendale	Lancaster	Palmdale
< 25K	27.0	14.1	25.6	27.2	24.7
25K-50K	24.7	15.4	22.8	26.7	26.8
50K-100K	27.5	33.3	26.2	30.0	28.6
100K-200K	16.6	28.8	20.0	13.9	17.6
> 200K	4.2	8.5	5.4	2.0	2.4
	Pomona	Torrance	Pasadena	El Monte	Downey
< 25K	25.6	16.5	21.6	30.6	20.3
25K-50K	29.2	18.7	18.8	29.8	22.3
50K-100K	30.7	31.9	27.2	29.4	34.9
100K-200K	12.6	26.5	21.2	9.0	19.2
> 200K	1.9	6.5	11.2	1.2	3.3

Source: U.S. Census Bureau

In addition to the improvement of median household incomes, we notice that a sizable proportion of residents of both the City of Los Angeles and the rest of the county have high incomes. Though 28.9% of households in the City of Los Angeles earn less than $25,000, 21.5% of households earn $100,000 or more. In the rest of the county, 24.7% of households earn at least $100,000. Among the 10 largest cities in Los Angeles County, Santa Clarita and Pasadena hold the highest percentage of households earning $100,000 or more. This is to be expected, as residents in Pasadena possess higher levels of educational attainment on average than residents of any of the other largest cities. Santa Clarita, on the other hand, is a relatively affordable city to live in, which attracts many high income households to take up residence in the city. This is evident in the high median household income ($ 78,894) that Santa Clarita has, when compared to the City of Los Angeles and the Los Angeles County balance.

Occupations

The latest occupational outlook for the City of Los Angeles and the rest of Los Angeles County shows that residents' occupations in those areas are quite similar. In both the city and the rest of the county, office/administrative support and sales occupations are the largest occupational categories by proportion of total employment. They constitute 12.1% and 11.2% of jobs for City of Los Angeles residents, respectively, and 14.6% and 11.3% of jobs for the balance of the county residents, respectively. Traditionally, these occupations offer relatively lower wages than the regions' other occupations. Management occupations represent the third-largest occupational category in the city and county. Production occupations represent the fourth-largest occupational category in the balance of Los Angeles County, but are sixth in the city.

After these categories, the City of Los Angeles and the balance of Los Angeles County begin to differ in terms of their occupational structures, though not by a wide margin. A key difference is the share of residents in arts, design, entertainment, sports, and media occupations. In the City of Los Angeles, this category constitutes 6.4% of occupations, compared with only 3.1% of occupations in the rest of the county. This comes as no surprise, as the City of Los Angeles is a well-known leader in the television and movie industry.

While 2011 saw differences in the distribution of occupations related to the health industry, we do not notice any significant differences in occupational distributions between the city and county. We do, however, notice significant changes in the rankings of occupational categories in the City of Los Angeles between 2011 and 2012.

2012 Employment by Occupation
Share of Total Employment, Share of L.A. City to L.A. County

Occupation	L.A. City (%)	L.A. County Balance(%)	Share in L.A. City (%)
Office and administrative support	12.1	14.6	35.2
Sales and related	11.2	11.3	39.7
Management	8.5	9.4	37.4
Arts, design, entertainment, sports, and media	6.4	3.1	58.1
Food preparation and serving related	6.2	5.1	44.6
Production	6.2	6.5	38.7
Building and grounds cleaning and maintenance	6.0	3.8	51.0
Construction and extraction	5.2	4.5	43.0
Personal care and service	5.1	4.8	41.3
Business and financial operations	4.9	4.6	41.3
Education, training, and library	4.7	5.5	36.1
Transportation	3.1	3.7	35.5
Health diagnosing and treating practitioners	3.0	3.3	37.2
Material moving	2.6	3.4	33.7
Installation, maintenance, and repair	2.5	2.8	36.5
Healthcare support	2.0	2.2	37.6
Computer and mathematical	2.0	2.0	39.5
Legal	1.7	1.2	47.9
Fire fighting and protective services workers	1.4	1.5	38.3
Community and social services	1.3	1.5	36.7
Health technologists and technicians	1.3	1.4	37.3
Architecture and engineering	1.2	2.0	28.7
Life, physical, and social science	0.8	0.7	43.4
Farming, fishing, and forestry	0.3	0.3	41.0
Law enforcement workers including supervisors	0.3	0.7	20.1
Total	100.0	100.0	39.8

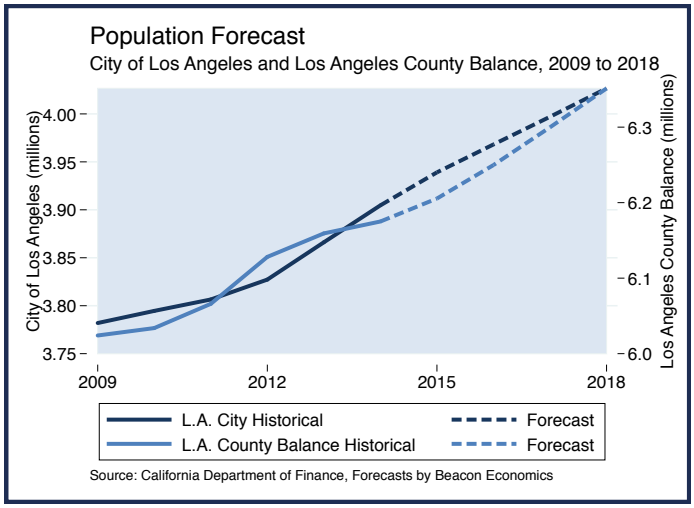
Source: U.S. Census Bureau

For instance we notice that in 2011, food preparation and serving-related occupations consisted of only 4.2% of city-level occupations (ranked 11th). In 2012, we see a significant improvement in this occupational category, improving its ranking to 5th in the city, with 6.2% working in this occupational category. As Los Angeles City's construction activity continues to grow, especially in the Downtown area, it is no coincidence that the construction and extraction occupational category was marked with considerable improvement from 2011 to 2012. We notice that the share of those working in this occupational category increased from 3.2% in 2011 to 5.2% in 2012.

Economic Forecast

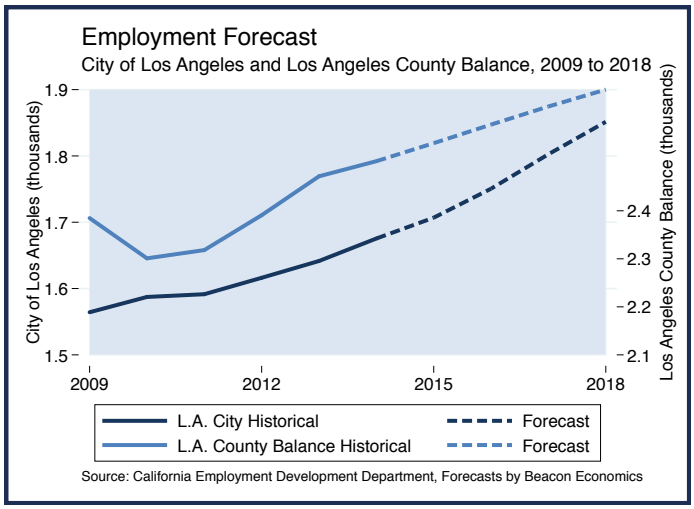
Population

With a population of over 3.9 million residents, the City of Los Angeles remains the second-largest city in the United States and by far the largest city in Los Angeles County, which has 88 cities and a population of over 10.0 million. By population count, the City has marginally outgrown the rest of the Los Angeles County in recent years. Beacon Economics projects this trend to continue in 2015, with the city's population growing by 0.88% and the rest of Los Angeles County growing by 0.50% over the next year – partly based on the robust amounts of construction activity taking place throughout the city. Over the subsequent four years, we project this trend to reverse because there is more developable land outside of the city, in places like Santa Clarita and the San Gabriel Valley, for new residential and nonresidential units. From 2016 to 2019, the city's population is projected to grow by 0.73% annually while the rest of Los Angeles County grows by 0.78% annually.



Employment

Employment growth in the City of Los Angeles kept pace with the rest of the county from the fourth quarter of 2012 to the fourth quarter of 2014, as payrolls in each region grew by 2.1%. In comparison, employment growth the previous year favored the rest of Los Angeles County —4.3% for the rest of the county versus 2.3% for the city —as many of the city's federal and state government agencies dealt with budget cuts and reduced staff. Hiring in the city's private

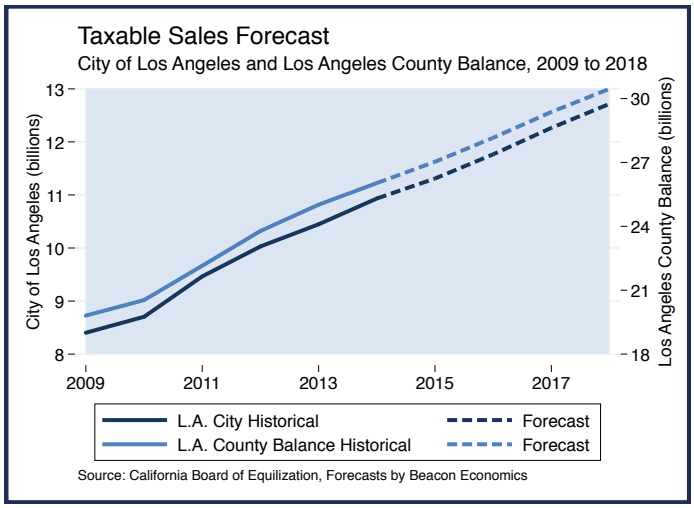


sector is expected to provide a boost over the next year. By the fourth quarter of 2014, Beacon Economics projects that payrolls in the City of Los Angeles will increase by 2.0% on a year over year basis, to 1.72 million jobs. The rest of Los Angeles County, meanwhile, is projected to grow by 1.6%.

Our longer-term forecast relies more heavily on other factors that have affected the City of Los Angeles and the rest of Los Angeles County. Both regions have experienced below-average population growth when compared to their respective long-run averages because the demand for unskilled workers in the manufacturing and construction industries, jobs that were appealing to many immigrants from the 1980s to the early 2000s, have dwindled. Furthermore, the lack of affordable housing has posed a problem to many former residents that have since moved inland or to other states. Yet even as the population is projected to grow at less than 1% annually over the next five years, Beacon Economics projects that employment in the City of Los Angeles will grow by 2.5% annually from 2015 to 2019, as many local residents still remain unemployed throughout Los Angeles County and the Inland Empire. Meanwhile, employment in the rest of Los Angeles County is projected to grow by 1.9% annually.

Taxable Sales

As mentioned in the previous section, taxable sales in the City of Los Angeles began to recover from the recession later in the economic cycle than it had in the rest of Los Angeles County, but consumers in the city helped taxable sales grow more robustly in 2013. Beacon Economics projects that taxable sales in 2014 will grow slightly more in the City of Los Angeles than in the rest of Los Angeles County because of the expected population and employment growth in the city, much of which is a result of improved amounts of residential and nonresidential construction currently in place. We project taxable sales in 2014 to increase by 4.7% in the City of Los Angeles, compared to 4.1% in the rest of Los Angeles County.



Our two-to-five year projections slightly favor the rest of Los Angeles County for similar reasons: population, employment, business formation, and construction growth in the rest of Los Angeles County, where developable land is more abundant, will guide taxable sales to new highs. Still, our projections for taxable sales in the City of Los Angeles are not far off from the rest of Los Angeles County because the City of Los Angeles has been successful in attracting migration of many young professionals and attracting more international tourists, primarily into the downtown region. We expect taxable sales from 2014 to 2018 in the City of Los Angeles to increase by 3.8% annually, while taxable sales in the rest of Los Angeles County grow by 3.9%.

Real Estate

A year ago, Beacon Economics' projections for home appreciation in 2013 for the City of Los Angeles seemed overly-optimistic, but was guided by a fundamental factor in that home prices as a share of household income were far too low. It turns out that the median home price in the City of Los Angeles grew by 45% from 2012 to 2013 —twice the

rate we had expected and more than any other year since 1990 (when our data series begins). In the entire county, the median home price grew by 25% over the same period.

Real home appreciation may not have been as robust as the median-price has demonstrated because the mix of homes that has been sold has changed over the course of the year, which as distorted the median-price metric. For example, as mentioned in the previous section, mortgage distress levels declined and a lower number of homes entered foreclosure than they had for numerous years. The California Association of Realtors estimates that 12% of home sales in Los Angeles County in April 2014 were distressed sales, compared to 24% a year before, which skews the median sales price because distressed sales are heavily discounted. The Case-Shiller Home Price index, which considers this type of fluctuation in its calculation of home appreciation, estimates that home prices in the Los Angeles area grew by a more-modest 19% from 2012 to 2013.

In 2014, we project that the median price for single family homes sold in the City of Los Angeles will grow by 21%, to $571,200. Home prices in the City are expected to become much less affordable than the rest of the county, as the county's median price grows by 11%, to $469,200. We expect that home appreciation by 2016 will return closer to its historical rate of growth in both the City of Los Angeles and Los Angeles County, at 4-6% annually.

While distressed levels inflated home appreciation last year, our projections for 2014 are partially inflated by the lack of homes available for sale, as mentioned in the previous chapter. New construction activity will help ease the tight real estate market, with single-family construction permits in the City of Los Angeles projected to grow by 19% in 2014, while permitting in the rest of Los Angeles County grows by 15%. Simultaneously, multifamily permitting is projected to grow by 13% in the City of Los Angeles and by 11% in the rest of Los Angeles County.

Existing Single-family Home Price Forecast
City of Los Angeles and Los Angeles County

Location	2013	2014	2018	1-Year	5-Year
	($Thousands)			Change (%)	
L.A. County	423.4	469.2	563.9	10.8	33.2
L.A. City	478.0	571.2	732.5	19.5	53.2

Source: DataQuick, Forecasts by Beacon Economics

Our longer-term projections for both single-family and multifamily construction show similar growth in permitting as we project for 2014 because of the massive under-supply of housing countywide. From 2015 to 2019, single-family construction permits are projected to grow at an annual rate of 8.6% in the City of Los Angeles, while they grow by 20.3% in the rest of Los Angeles County, where there is more room for growth and, in particular, more room to develop affordable housing.

Commercial Real Estate

Commercial vacancy rates and rental rates have improved in both the City of Los Angeles and in the rest of Los Angeles County over the last year. Construction activity for new structures was especially strong in the City of Los Angeles over the course of 2013. For the following year, we project that the value of permits for new commercial buildings will increase by an additional 23%, from $724 million to $892 million. In the following four years, however, permits for new commercial construction in the City of Los Angeles are expected to grow by a moderate 7.5% per year. Meanwhile, in the rest of the county, the value of permits for new commercial construction is expected to increase by 81%, though this growth will come from a lower base of $300 million in 2013. In the following four years, permits for new commercial construction in the rest of Los Angeles County are expected to grow by a still impressive 27% per year.

Commercial alterations, the second component of commercial construction, will likely appear fairly similar in the City of Los Angeles and the rest of Los Angeles County over the next few years —as both regions have experienced significant amounts of activity in these types of permits. We project that the value of permit alterations in 2014 in the city will increase by 1.4%, from $784 million to $795 million. Over the next four years, commercial alteration permits in the City of Los Angeles are expected to remain below $1 billion per year. In the rest of Los Angeles County, meanwhile, the value of permitted alterations is expected to increase by 3.8%, from $1.36 billion to $1.41 billion. Permit growth in alterations in the rest of the county will grow by 23.6% by 2017, similar to growth projected for similar permits in the City of Los Angeles.

Commercial Construction Permit Values Forecast
City of Los Angeles and Los Angeles County

Location	2013	2014	2018	1-Year	5-Year
		($Millions)		Change (%)	
L.A. City New Construction	723.5	891.5	1,157.0	23.2	59.9
L.A. County New Construction	299.5	542.9	1,134.7	81.3	278.8
L.A. City Alterarions	783.8	795.2	968.5	1.4	23.6
L.A. County Alterations	1,361.6	1,413.1	1,682.4	3.8	23.6

Source: CHF, Forecasts by Beacon Economics

About Beacon Economics

Beacon Economics is an independent economic research and consulting firm with offices in Los Angeles and the San Francisco Bay Area. We deliver economic analysis and data sites that help our clients make informed, strategic decisions about investment, growth, revenue, policy, and other critical economic and financial issues. Our nationally recognized forecasters were among the first to predict the collapse of the housing market and foretell the onset and depth of the economic downturn that followed. Our core areas of expertise include economic and revenue forecasting, market and industry analysis, economic impact studies, economic policy analysis, and international trade analysis.

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