

City of Los Angeles, 2013: A Comparative Analysis



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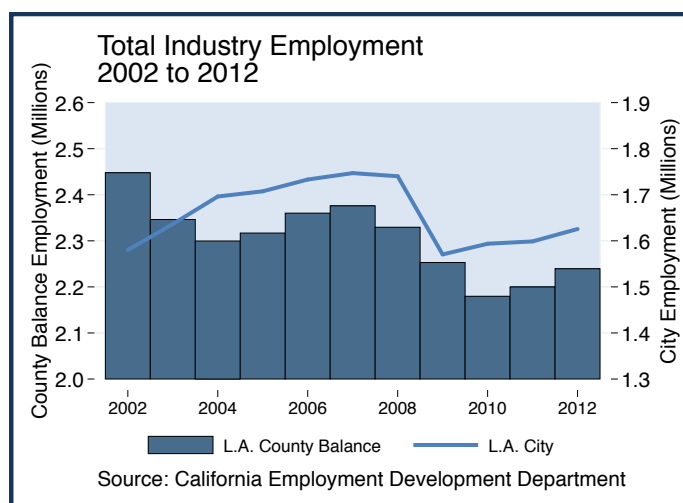
Employment

The labor markets in both the City of Los Angeles and the balance of Los Angeles County saw positive total employment growth from 2011 to 2012, with employment increasing slightly faster in the balance of L.A. County (1.8%) than in the City of L.A. (1.7%). The momentum in job growth seemed to favor the City of L.A. in the latter months of the year, as year-over-year employment growth steadily increased from 0.3% (from January 2011 to January 2012) to 2.9% (from December 2011 to December 2012). Meanwhile, employment growth for the rest of L.A. County increased from 1.3% (from January to January) to 2.4% (from June to June), but tapered to 1.8% (from December to December) to end the year. Thus when we consider the overall employment picture, employment growth in the City of Los Angeles and the balance of L.A. County, as measured by annual average employment, hardly varies, and it is hence important to consider momentum—where the City of L.A. clearly has the upper hand.

Employment growth by sector tends to favor the City of Los Angeles over the year for most sectors when compared with the rest of Los Angeles County. Public sector employment, which is the largest sector in the City of L.A., accounting for a quarter of jobs, declined by 1.1% in the city, compared with a 3.2% decline in the balance of L.A. County. Job prospects throughout the public sector will remain sparse as governments work to balance their operational budgets. In the City of L.A., the new mayor will have the task of fixing the looming pension problems. The Los Angeles Unified School District (LAUSD), meanwhile, will have to replace the 300 or so teachers recently dismissed or allowed to resign for misconduct. For the City of Los

Angeles, and specifically for the downtown area, which has a cluster of state and federal offices that perform a wide range of services, the effects of the federal sequester will take their toll throughout 2013. How the legislature reacts to department cuts remains to be seen. In their first known predicament—airport passenger delays experienced at Los Angeles International Airport among other airports—legislators responded rather quickly, but only after a public backlash. Ensuing incidences may not have the same media coverage and response time, which might further dampen the employment outlook for the public sector in the City of Los Angeles.

Private sector employment, meanwhile, picked up the slack, growing by 4.2% in the City of Los Angeles year over year to December 2012, compared with the 2.2% growth in the balance of L.A. County. Health Care, the largest private sector in the city, grew by 5.5% year over year to December 2012, compared with 1.1% in the rest of the county. This bodes well for the workforce in the City of L.A., as wages in this sector are 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—Finance and Insurance (4.4% L.A. City/0.8% L.A. County balance), Information (4.2%/0.8%), and Professional, Scientific, and Technical Services (5.2%/2.9%).



Yet a glance at average annual wage growth shows that wages in the balance of L.A. County grew more over the year (3.3%) than they did in the City of Los Angeles (2.9%). There are two explanations for the relative divergence between average wage growth and employment growth in higher-wage sectors in the two areas. First, the City of L.A.'s average annual wages are 11.5% to 12% higher than average annual wages in the rest of L.A. County, and thus new hiring in these sectors has a smaller effect on average annual wage growth. Second, job growth in the city in several lower-than-average wage industries also outperformed job growth in the balance of L.A. County, including industries such as Arts and Entertainment (5.7% L.A. City/-2.5% L.A. County balance), Manufacturing (0.4%/-0.3%), and Retail Trade (1.6%/0.6%). Since these sectors have lower-than-average wages, the increased employment in these sectors in the City of L.A. reduces the average annual wage. Total payrolls increased by 5.5% over the year in the balance of L.A. County, to \$120.9 billion in 2012, outperforming total payrolls in the City of Los Angeles, which increased by 4.6% to \$99.3 billion in 2012.

The City of Los Angeles and the balance of L.A. County remain 6.9% and 5.7% below their respective pre-recession peaks in employment in 2007. At last year's pace of employment growth, the City of L.A. would take four more years to return to its peak employment level while the balance of L.A. County would recover in less than 3.5 years. Yet there are various reasons to expect both regions to recover much sooner, as discussed throughout this report.

Business Activity

Taxable sales growth in the City of Los Angeles and in the balance of L.A. County tracked each other fairly well prior to the recession. In the early 2000s, taxable sales in each region steadily grew to peak level in the first quarter of 2007: \$10.2 billion in the city and \$24.8 billion in the rest of L.A. County. After reaching their respective peaks, taxable sales began to fall during the recession in both areas—as was the case in most regions nationwide—consistently dropping

Employment by Industry

City of Los Angeles and Balance of Los Angeles County Percentage Change, December 2011 to December 2012

Industry	L.A. City (%)	L.A. County Balance (%)
Accommodation and Food	6.3	7.5
Admin. Support	5.7	4.9
Arts and Entertainment	5.7	-2.5
Construction	7.2	7.5
Educational Services	4.7	2.9
Finance and Insurance	4.7	0.8
Government	-1.1	-3.2
Health Care	5.5	1.1
Information	4.2	1.8
Management	1.1	0.3
Manufacturing	0.4	-0.3
NR/Mining	-0.1	0.2
Other Services	0.9	0.0
Prof. Sci. and Tech.	5.2	2.9
Real Estate	4.6	-1.5
Retail Trade	1.6	0.6
Transport/Warehouse	3.9	1.6
Utilities	3.5	2.3
Wholesale Trade	4.7	2.8
Total Nonfarm	2.9	1.8

Source: California Employment Development Department

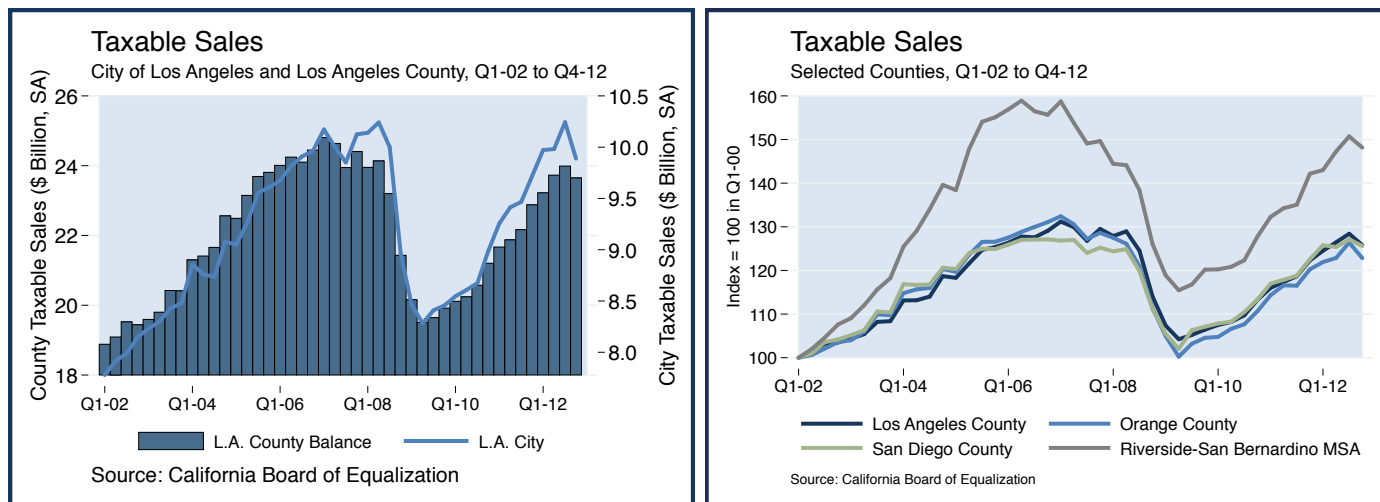
Average Annual Wages

City of Los Angeles and Balance of Los Angeles County 2011 and 2012

Location	2011 (\$)	2012 (\$)	Annual Change (%)
L.A. City	59,398	61,092	2.9
L.A. County Balance	53,010	54,756	3.3

Source: California Employment Development Department

until bottoming out in the second quarter of 2009. Taxable sales in the balance of L.A. County declined slightly more steeply, at 21.4% peak to trough, compared with 18.6% in the City of L.A. over that time frame.



Since hitting rock bottom in 2009, however, the recovery in taxable sales for the City of Los Angeles has slightly underperformed the recovery in the balance of L.A. County. Taxable sales in the City of L.A. and in the balance of L.A. County grew by 19.4% and 21.2%, respectively, from their troughs to reach their current levels—\$9.9 billion for the city and \$23.6 billion for the rest of the county. In general, both have been consistently trending upward, posting positive gains every consecutive quarter up until the fourth quarter of 2012. Even as taxable sales declined in the fourth quarter for both regions, year-over-year taxable sales growth was up from a year ago in the city (1.7%) and in the balance of the county (3.4%).

Year-over-year taxable sales growth has been less than stellar for many of the city's largest neighbors, as most of these cities saw growth equal to or less than the growth in the City of L.A. One exception is the City of Glendale, which over the past year saw taxable sales grow by 3.4%, twice the rate of growth of the City of Los Angeles. On the other hand, various cities had declines in their quarterly taxable sales, with the City of Long Beach suffering the steepest decline over the year (7.0%).

The 2.9% growth in taxable sales in L.A. County over the past year kept pace with the upticks in most other Southern California counties but was well short of the increase in the state overall: taxable sales in California grew by 3.5%. Taxable sales growth in the Riverside-San Bernardino metropolitan statistical area¹ led growth in Southern California, improving by 4.2% from the fourth quarter of 2011 to the fourth quarter of 2012, while San Diego County (2.5%) and Orange County (2.1%) lagged behind.

Taxable receipts in Los Angeles County, meanwhile, grew by 7.0% from fourth quarter of 2011 to the fourth quarter of 2012. By category, Autos and Transportation led total growth in taxable receipts, with receipts from this category increasing by 11.7% over the same period. Business and Industry posted the next-highest gains (7.6%), a turnaround from the previous year when it was the only sector registering a year-over-year decline. The Restaurants and Hotels category also made major contributions (6.2%), showing that tourism throughout Los Angeles County is in high demand.

¹The Riverside-San Bernardino metropolitan statistical area comprises Riverside and San Bernardino counties.

Taxable Sales by Region

Los Angeles County Cities, Selected Counties, and California, Q4-11 to Q4-12

Region	Quarterly Taxable Sales			Quarterly Taxable Sales Per Capita		
	Q4-11	Q4-12	Change	Q4-11	Q4-12	Change
City	in \$ millions		(%)	in \$		(%)
Los Angeles	9,719.1	9,888.2	1.7	2,553	2,584	1.2
Long Beach	1,350.5	1,255.4	-7.0	2,914	2,700	-7.3
Torrance	882.0	866.1	-1.8	6,051	5,924	-2.1
Pasadena	696.9	691.3	-0.8	5,022	4,963	-1.2
Santa Clarita	671.6	682.5	1.6	3,799	3,844	1.2
Glendale	650.8	672.8	3.4	3,385	3,491	3.1
Lancaster	380.2	377.5	-0.7	2,412	2,391	-0.9
Downey	325.3	330.9	1.7	2,905	2,948	1.5
Palmdale	338.7	330.4	-2.5	2,211	2,149	-2.8
Pomona	285.1	289.7	1.6	1,908	1,931	1.2
County	in \$ millions		(%)	in \$		(%)
Los Angeles	32,597.6	33,536.8	2.9	3,310	3,391	2.4
Orange	13,312.6	13,596.7	2.1	4,395	4,446	1.2
San Diego	11,576.7	11,866.0	2.5	3,715	3,793	2.1
Riverside-San Bernardino	13,840.9	14,424.6	4.2	3,255	3,359	3.2
California	135,251.3	139,940.2	3.5	3,614	3,715	2.8

Sources: California Board of Equalization, California Department of Finance

Taxable Receipts by Major Categories

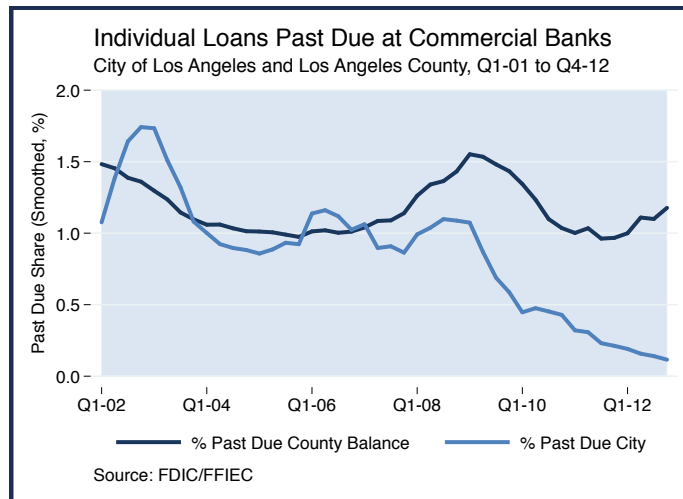
Los Angeles County, Q4-11 to Q4-12

Category	Q4-11 (\$ millions)	Q4-12 (\$ millions)	Change (%)	Share of Taxable Receipts
Autos and Transportation	44.8	50.1	11.7	14.4
Business and Industry	43.9	47.2	7.6	13.6
Restaurants and Hotels	42.6	45.3	6.2	13.0
Building and Construction	19.4	20.1	4.0	5.8
General Consumer Goods	80.2	83.1	3.7	24.0
Fuel and Service Stations	41.2	42.7	3.7	12.3
Food and Drugs	18.9	19.1	1.0	5.5
Total	324.3	346.9	7.0	100.0

Source: The HdL Companies

Consumer Lending

Consumers in the City of L.A. and in the balance of L.A. County, much like consumers in the rest of the nation, were forced to deleverage during the recession. Instead of spending, they began to save again. Indeed, according to data gathered by the Federal Deposit Insurance Corporation, delinquencies on individual loans granted in the City of L.A. and in the balance of L.A. County have declined from their pre-recession levels in the second half of 2008. Over the past year, however, delinquencies in the balance of L.A. County ticked up again. With households once again feeling comfortable spending, and with taxable sales in the region reaching their highest levels since 2008, there is reason to be optimistic about the positive growth in consumer spending. The optimism, however, should be tempered: it is best if consumers do not entirely embrace their pre-recession consumer spending patterns, so as to avoid becoming overleveraged again.



Tourism

Tourists continue to choose Los Angeles as a travel destination as they have for over 125 years. Although tourism in Southern California suffered setbacks during the recession, various economic indicators suggest that the tourism industry is healthy again.

The first set of indicators is related to the hotel market. The economic downturn took its toll on tourism throughout the country, and both the City of Los Angeles and the balance of L.A. County saw their hotel occupancy rates and average daily rates drop as a result.² Leading up to the recession, occupancy rates and average daily rates were on the rise in both the city and the county. Occupancy rates peaked at a higher level in the balance of the county (78.5% in 2006) prior to the recession than in the City of Los Angeles (75.2% in 2007), yet both bottomed out in 2009 at roughly the same occupancy rate (68.2% in the balance of the county and 68.0% in the city).

Move forward to 2012: the City of L.A.'s occupancy rate has fully recovered and is 0.4 percentage points above its pre-recession peak. The balance of the county, which demonstrated more rapid improvement early in its recovery, has reached its precession peak but has not moved beyond. Nevertheless, the occupancy rate in the balance of L.A. County (78.5%) is still higher than in the City of Los Angeles (75.6%) in 2012.

²Hotel activity in the City of L.A. refers to the average hotel activity across various regions in the city, including the downtown area, Hollywood, the San Fernando Valley, and West Los Angeles. The hotel activity in the balance of L.A. County refers to the average hotel activity across various regions in the county, including Pasadena, the San Gabriel Valley, Santa Monica, LAX, Marina Del Rey, the South Bay, Long Beach, Beverly Hills, West Hollywood, the I-5 Corridor/Whittier, and Santa Clarita.

An even more impressive sign that the hotel industry has recovered is found in average daily rates. The City of L.A. has posted an average daily rate 5.2% higher than the rate observed at its pre-recession peak, while the balance of L.A. County has seen an average daily rate 2.2% below its pre-recession peak.

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

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	175.46	5.9	176.40	4.2

Source: PKF Consulting

Airplane passenger traffic flows are another gauge of tourism activity in the region. If we look at recent trends in airport traffic at Los Angeles International Airport (LAX), we can see that the Los Angeles area has had an influx of domestic passengers. International passengers have also trended upward, but travel declined in the latter half of 2012. Total passenger traffic through LAX increased by 3.0% from 2011 to 2012; domestic traffic increased by 3.1%, while international traffic increased by 2.5%.

Unfortunately, the data on passenger travel cannot distinguish passengers destined for the City of Los Angeles from passengers traveling to the rest of L.A. County. Even though the airports located in Burbank and Long Beach are located outside of city limits, passengers choose between LAX and these competing airports for factors unrelated to specific travel destination, placing a larger emphasis on the price variations. LAX did not experience as much growth as San Francisco International Airport (SFO), though volumes for LAX are higher in comparison. SFO, California's second-largest airport after LAX in terms of traffic volume, saw total passenger traffic increase by 8.4% from 2011 to 2012; domestic traffic increased by 9.4%, while international traffic increased by 5.9%.



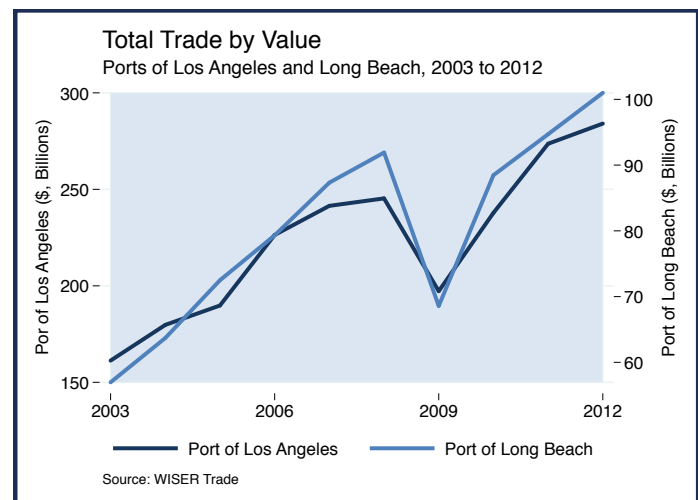
As an alternative form of transportation, Amtrak, and more specifically Amtrak ridership, is another indicator of health in the tourism industry. Union Station in Los Angeles handles more passengers than any other station in the state—1.66 million passengers boarded trains at the station in fiscal year 2012, a 3.2% increase from the previous fiscal year. For comparison, the Sacramento station, the second-busiest Amtrak station in California, handled 1.19 million passengers, which is a 1.0% increase from the previous year. The San Diego Amtrak station is the third-busiest station in California, boarding 0.71 million passengers in fiscal year 2012, a 5.9% decline from the previous year. The growth in ridership in Los Angeles is especially noteworthy when considering that total ridership throughout the state declined by 0.1% over the same period.

Having established that tourism in both the City of L.A. and the balance of L.A. County is growing, we can rest assured that various attractions in the region will help bring even more tourists. Numerous conferences, conventions, and events make their way to the Los Angeles region every year. These events, many of which are growing, bring in a variety of domestic and international companies and tourists; this influx in turn generates revenue from hotel charges, spending at local restaurants, and other travel expenses. The Los Angeles Marathon, for example, grew from 22,260 participants in 2012 to 23,018 runners in 2013. Moreover, 12% of the marathoners in 2013 were from out of state.³ Also, the plethora of museums, professional and college division sports teams, movie premieres, music concerts, plays, and music festivals will continue to attract travelers, especially as the national and global economies expand.

Port Activity

Los Angeles serves as a hub for international trade between the United States and East Asian countries. For example, 30% of goods traded with China, Japan, and South Korea clear customs at either the Port of Los Angeles (POLA) or the Port of Long Beach (POLB), an amount that totaled \$270 billion in 2012.⁴ Although the Port of Los Angeles is located in the City of Los Angeles and Port of Long Beach is located in the broader county, the effects of trade at the two ports are hardly exclusive to their respective areas. Businesses with ties to trade often work through both ports.

In 2009, during the recent recession, two-way trade in the combined ports of Los Angeles and Long Beach declined by 21.2%. The drop stemmed from declines in both imports and exports, as the United States demanded fewer goods from overseas and the world demanded fewer goods from the United States. Two-way trade recovered the following year, growing by over 22.7%. Growth in two-way trade continued in 2011, but at a more moderate pace of 12.9%.



³www.lamarathon.com

⁴WISERTrade. Note that imports reflect port of unloading, not port of entry. China includes Hong Kong and Macao.

In 2012, two-way trade increased by “only” 4.5%. Even though a large portion of the two-way trade flowing through POLA and POLB is either destined for or arriving from East Asian countries, trade growth slowed because of troubles in Europe. European countries import many goods that are made in East Asia, but East Asia imports many inputs to production that are made in the United States, such as machinery and raw materials.⁵ The value of goods exports at the combined twin ports did not grow in 2012, while the value of imports increased by 5.8%. Troubles in Europe continue to dampen the outlook for many trade-related businesses in the City of Los Angeles and the county. Nevertheless, developing countries, such as those in East Asia, are the fastest-growing countries in the world. Increased demand for American-made goods from these countries may soon have a larger impact on local production than a euro-area recession.

The Southern California ports tend to export higher concentrations of manufactured goods—both durable and nondurable—whereas their Central and Northern California counterparts tend to export more agricultural goods. Based on 2012 data, in terms of dollar value, the top-grossing exports from the ports of Los Angeles and Long Beach are industrial machinery, plastics, and vehicles. The destinations of these exports indicate which countries bought American goods in 2012. In terms of dollar value, the top recipients of POLA exports were China, Japan, and Korea, while the top recipients of POLB exports were China, Japan, and Australia.

Exports by Port

Year	Port of Los Angeles		Port of Long Beach	
	Exports (\$ Bill.)	Change (%)	Exports (\$ Bill.)	Change (%)
2004	20.0	5.7	15.2	6.6
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	29.8	34.8	9.6
2012	42.8	-2.3	35.7	2.5

Source: WISER Trade

Imports by Port

Year	Port of Los Angeles		Port of Long Beach	
	Imports (\$ Bill.)	Change (%)	Imports (\$ Bill.)	Change (%)
2004	159.7	12.3	48.5	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	229.9	12.7	59.9	5.6
2012	241.3	4.9	65.3	9.1

Source: WISER Trade

⁵Exports of raw materials often go unnoticed in trade statistics measured by value, but they are a leading type of exported good leaving POLA and POLB when measured in TEUs (20-foot equivalent units).

Top 10 Commodity Exports

Port of Los Angeles, 2012

Commodity	2011 (\$ billions)	2012 (\$ billions)	Change (%)	2012 Share (%)
Industrial Machinery/Computers	5.2	5.8	25.7	13.6
Plastics	4.5	3.8	25.3	8.9
Vehicles/Transport Equipment	2.4	2.6	44.5	6.2
Cotton	2.9	2.3	54.7	5.4
Electric Machinery	1.7	2.0	28.1	4.6
Organic Chemicals	1.9	1.7	17.7	3.9
Iron and Steel (Raw)	2.2	1.6	63.8	3.7
Misc. Chemical Products	1.5	1.6	23.7	3.7
Meat	1.6	1.6	48.2	3.6
Inorganic Chemicals	1.3	1.4	29.7	3.2
Total All Commodities	43.8	42.8	29.8	100.0

Source: WISER Trade

Top 10 Commodity Exports

Port of Long Beach, 2012

Commodity	2011 (\$ billions)	2012 (\$ billions)	Change (%)	2012 Share (%)
Industrial Machinery/Computers	5.1	5.5	2.9	15.4
Plastics	2.6	2.7	-3.3	7.5
Vehicles/Transport Equipment	3.0	2.4	21.2	6.8
Electric Machinery	2.3	2.3	29.0	6.3
Edible Fruits/Nuts	1.2	1.4	6.2	3.9
Coal/Oil	1.9	1.4	54.8	3.8
Copper	1.1	1.3	22.3	3.6
Misc. Chemical Products	0.8	1.1	-10.6	3.1
Cotton	1.4	1.0	29.0	2.8
Optic/Photo/Medical Equipment	0.8	1.0	-10.3	2.7
Total All Commodities	34.8	35.7	9.7	100.0

Source: WISER Trade

Top 10 Trade Partners (Exports)

Port of Los Angeles, 2012

Commodity	2011 (\$ billions)	2012 (\$ billions)	Change (%)	2012 Share (%)
China	13.3	12.7	-5.1	29.6
Japan	6.6	6.5	-2.1	15.2
Korea	5.5	5.3	-3.1	12.4
Taiwan	3.1	2.6	-14.9	6.1
Australia	1.3	2.3	82.4	5.4
Singapore	2.3	2.0	-9.6	4.8
Hong Kong	1.7	1.4	-15.6	3.4
Thailand	1.5	1.3	-9.7	3.1
Vietnam	1.1	0.8	-21.8	2.0
Indonesia	1.2	0.8	-27.2	2.0
Total All Partner Countries	43.8	42.8	-2.3	100.0

Source: WISER Trade

Top 10 Trade Partners (Exports)

Port of Long Beach, 2012

Commodity	2011 (\$ billions)	2012 (\$ billions)	Change (%)	2012 Share (%)
China	9.1	10.0	9.9	28.1
Japan	4.0	4.6	15.0	12.9
Australia	4.6	4.1	-11.4	11.5
Korea	3.0	2.9	-4.5	8.0
Hong Kong	2.2	2.4	10.5	6.8
Taiwan	2.1	2.2	2.3	6.0
Singapore	1.6	1.5	-5.4	4.3
Indonesia	0.8	1.0	14.4	2.7
Thailand	0.5	0.7	60.1	2.1
Philippines	0.6	0.7	20.8	2.1
Total All Partner Countries	34.8	35.7	2.5	100.0

Source: WISER Trade

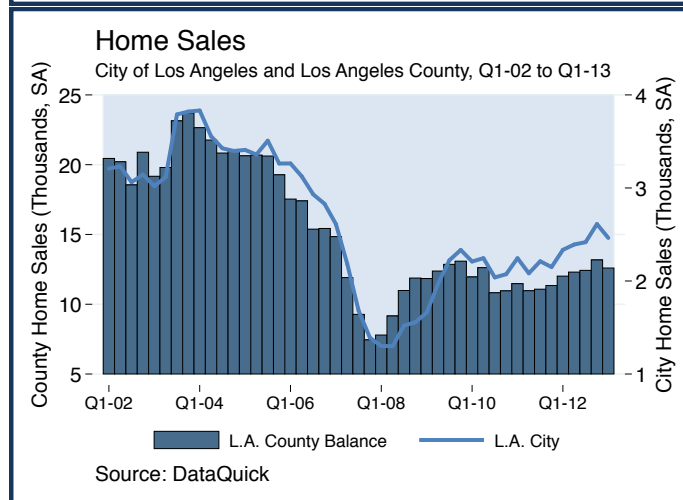
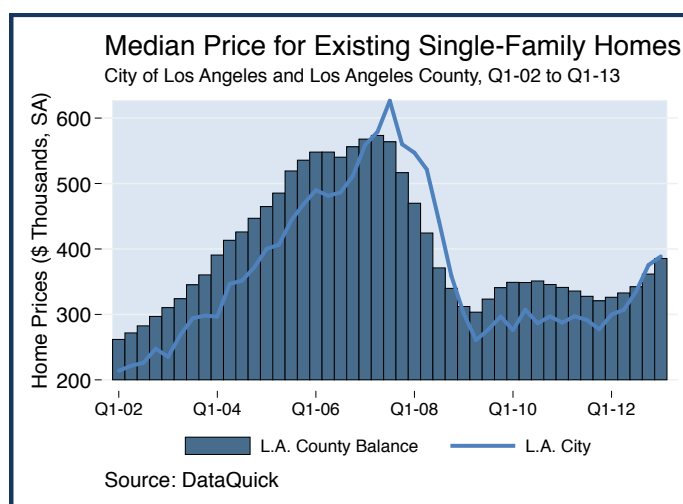
Residential Real Estate

Home prices in the City of Los Angeles and in L.A. County, much like in the rest of the state, trended upward throughout 2012 and reached four-year highs in the first quarter of 2013. Compared to a year and a half ago, home appreciation is now contributing to the economic recovery. The boost in prices has allowed some homeowners to refinance at historically low interest rates, establish home equity lines of credit, or relocate. Over the year, the median home price for a single-family home in the City of Los Angeles increased by 29.6%, to \$388,600 in the first quarter of 2013, while in the rest of L.A. County the median price increased by 18.2%, to \$385,500.

Yet compared to pre-recession levels, home prices in the City of L.A. remain 38.0% below the pre-recession peak of \$626,500 in the third quarter of 2007. Meanwhile, the median home price in the balance of L.A. County remains 32.8% below the pre-recession peak of \$573,500 in the second quarter of 2007. Although home prices may have been irrationally priced during the housing bubble, rising incomes will make those prices practical within a few years.

Alternative measurements of appreciation show that while home prices in the region may not have increased by as much as the year-over-year growth in the median price suggests, they still increased by a remarkable amount. The Case-Schiller Home Price Index for the Los Angeles Metropolitan Statistical Area (MSA) estimates that home prices increased by 14.3% from the first quarter of 2012 to the first quarter of 2013. Trulia's Asking Price Index, also for the Los Angeles MSA, shows that home prices increased by 9.2% over the same period.⁶ The Federal Housing Finance Agency's Home Price Index, which only accounts for homes purchased with conforming home loans, estimates that home prices in the Los Angeles MSA increased by 17.1% over the same period.

Home sales for the City of Los Angeles and for the balance of L.A. County also increased quarter-after-quarter throughout 2012, but dipped in the first quarter of 2013. From the first quarter of 2012 to the first quarter of 2013, home sales were down by 5.7% in the City of L.A. and by 4.4% in the rest of the county. Low inventories have contributed to the recent decline in home sales. Los Angeles County's home sales inventory reached a 2.6 months' supply of sales in April 2013, less than half of the 10-year average for home sales inventory (a 6 months' supply of sales).



⁶Both the Case-Shiller Home Price Index and the Trulia Asking Price Index are based on the average year-over-year growth in January, February, and March 2013.

The downturn in the number of distressed properties is one reason that inventories are so low. In the City of L.A., foreclosures fell by 54.5% from the first quarter of 2012 to the first quarter of 2013, whereas in the balance of L.A. County, foreclosures dropped by 51.0%. From their respective peaks in 2008/2009, foreclosures have plummeted by 80% in both the city and the balance of the county. Furthermore, foreclosures should continue to decline as notices of default, a leading economic indicator for foreclosure activity, have also subsided from their respective peaks in 2008/2009, dropping by 82% in the City of L.A. and by 85% in the balance of L.A. County, to 638 and 3,345 in the first quarter of 2013, respectively. From a year ago, the decline in defaults has been especially strong—61.8% in the City of Los Angeles and 65.3% in the rest of the county.

Existing Home Prices and Sales

City of Los Angeles and Los Angeles County Balance

Location and Metric	Q4-11 to to Q4-12 (%)	Q3-12 to to Q4-12 (%)
L.A. City Home Prices	29.6	3.5
L.A. County Balance Prices	18.2	6.6
L.A. City Home Sales	5.5	-5.7
L.A. County Balance Sales	4.8	-4.4

Source: DataQuick

Defaults and Foreclosures

City of Los Angeles and Los Angeles County Balance

Location and Metric	Q4-11 to to Q4-12 (%)	Q3-12 to to Q4-12 (%)
L.A. City Defaults	-61.8	-36.8
L.A. County Balance Defaults	-65.3	-44.7
L.A. City Foreclosures	-54.5	-39.6
L.A. County Balance Foreclosures	-51.0	-32.7

Source: DataQuick

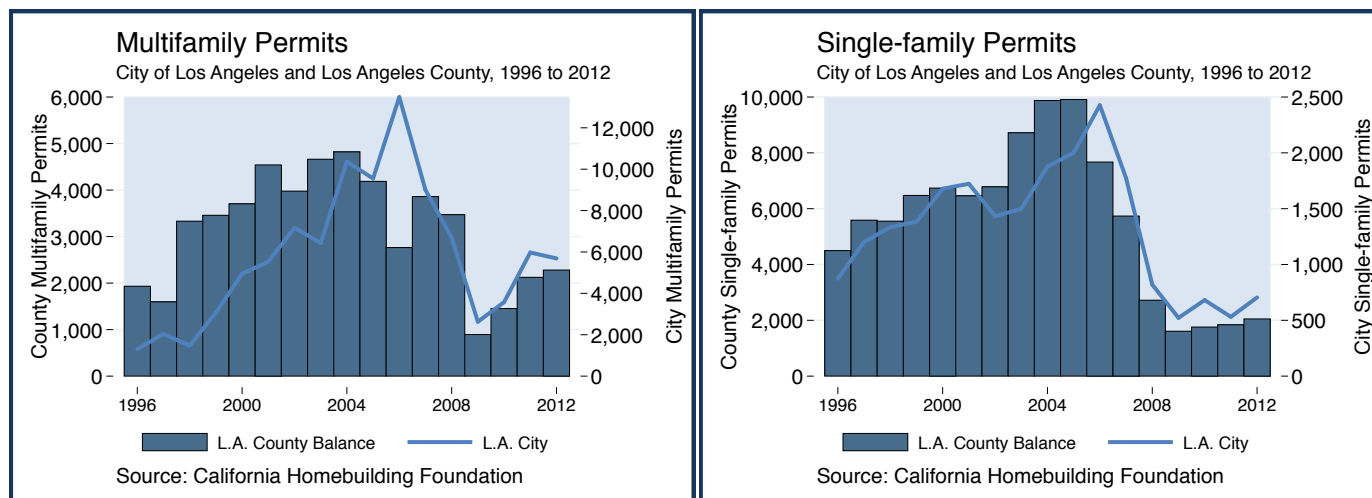
Residential Construction

Residential building permits for single-family and multifamily housing declined quite steeply from their respective peaks in both the city and overall county. Both single-family and multifamily permits in the City of L.A. and the balance of L.A. County declined by roughly the same amount from peak to trough:

- Single-family permits in the City of Los Angeles declined by 78.5% from 2006 to 2009.
- Single-family permits in the balance of L.A. County declined by 83.8% from 2005 to 2009.
- Multifamily permits in the City of Los Angeles declined by 80.5% from 2006 to 2009.
- Multifamily permits in the balance of L.A. County declined by 81.5% from 2004 to 2009.⁷

Much of the excess residential construction from the housing bubble came at the cost of later construction, which has played a large part in the stagnant growth in new construction, as measured by the building permits issued. As the inventories of distressed properties clear the market and home prices continue to rise, new residential construction should rise.

⁷Data from the Construction Industry Research Board and California Homebuilder Foundation.



The pace of growth for single-family permits began to increase in 2012 in both the city and the county. In the City of Los Angeles, single-family permits increased by 32.8% over the year, to 705 permits, while in the balance of L.A. County they increased by 11.4%, to 2,049 permits. Nevertheless, single-family permits are still well below norms, as the pre-bubble averages from 1996 to 2004 were 1,450 permits in the City of L.A. and 6,750 permits in the rest of the county.

The multifamily sector, meanwhile, which had demonstrated ample growth in 2011, slowed in 2012. In the City of Los Angeles, multifamily permits declined by 4.8% in 2012, to 5,688 permits, while in the balance of the county they increased by 7.3%, to 2,280 permits.

Rental Market

The demand for apartment units has been increasing since the second quarter of 2010, when vacancy rates were as high as 5.5% in the City of Los Angeles and 5.6% in the balance of the county. The vacancy rates in both areas declined by approximately 1 percent the following year, and by slightly less than 1 percent in 2012. By the first quarter of 2013, vacancy rates had declined by 0.5% from a year ago in both the City of L.A. and the rest of L.A. County, to 3.1% and 3.3%, respectively.

Average rental rates followed a similar pattern, as apartment managers were quick to react to the bump in demand. From the first quarter of 2010 to the first quarter of 2013, the average rent increased by 5.4% in the City of Los Angeles and by 4.4% in the rest of L.A. County. In both areas, average rents are higher than they were before the recession.

Vacancy and Rental Rates for Apartments

City of Los Angeles and Los Angeles County Balance, Q1-13

Location	Vacancy (%)	Chg. Vacancy from Q1-12 (%)	Rent (\$)	Chg. Rent from Q1-12 (%)
L.A. City	3.1	-0.5	1,499	2.7
L.A. County Balance	3.3	-0.5	1,428	2.8

Note: See Appendix A for location descriptions.

Source: REIS

Commercial Real Estate

In the past decade, demand for rental space has varied across property type in the city and in the overall county, but during the run-up to the housing bubble and after the subsequent collapse of the housing market, the City of Los Angeles outperformed the balance of L.A. County in various respects.

In the retail sector, the vacancy rate in the City of Los Angeles declined consistently throughout 2012. From the first quarter of 2012 to the first quarter of 2013, the vacancy rate fell from 6.8% to 5.0%—the lowest rate in four years. Over the same period, the comparable vacancy rate in the rest of the county only declined from 6.6% to 6.2%. One explanation for the slower improvement in the balance of L.A. County was the rise in rent prices, an uptick of 1.3%. This may seem minimal, but prices in the City of Los Angeles increased by less than half a percent (0.4%).

The demand for office properties seems to have weakened over the year in the City of Los Angeles, while the demand in the rest of L.A. County was hardly improved. The office vacancy rate in the city increased from 16.5% in the first quarter of 2012 to 16.8% in the first quarter of 2013, whereas in the rest of L.A. County it remained at 14.5%. Rent prices did, however, increase over the same period—by 1.5% in the city and by 1.3% in the balance of the county. In general, when rent prices increase at the expense of higher vacancy rates, property managers are signaling that they are willing to take a loss rather than settle for a lower priced contract that would hurt their bottom line down the road. While this scenario does not indicate that demand for offices is growing, it does indicate that property managers expect demand to grow in the near future.

Industrial properties demonstrated the biggest improvement over the year. The vacancy rate for Warehouses and Distribution Centers in the City of Los Angeles declined from 8.7% to 7.3% from the first quarter of 2012 to the first quarter of 2013, similar to the drop from 9.0% to 7.8% seen in the balance of L.A. County. Rent prices grew by 1.3% in the city and by 2.0% in the rest of the county. For Flex/R&D facilities, however, there is a significant disparity in the progress made in the City of Los Angeles and in the rest of the county. The vacancy rate for Flex/R&D facilities declined from 8.1% to 4.5% in the City of L.A. In the rest of the county, however, the vacancy rate declined from 5.8% to 5.5% over the same period. There was little change in rent prices at Flex/R&D properties—prices were up by 0.4% in the city and up by 0.8% in the rest of the county.

Vacancy Rates for Commercial Property (%)

L.A. City and L.A. County Balance; Q1-13

Location	Retail	Office	Warehouse	R&D
L.A. City	5.0	16.8	7.3	4.5
L.A. County Balance	6.2	14.5	7.8	5.5

Note: See Appendix A for location descriptions.

Source: REIS

Rental Rates for Commercial Property (\$)

L.A. City and L.A. County Balance; Q1-13

Location	Retail	Office	Warehouse	R&D
L.A. City	27.16	31.69	6.39	13.03
L.A. County Balance	29.44	33.67	5.99	10.00

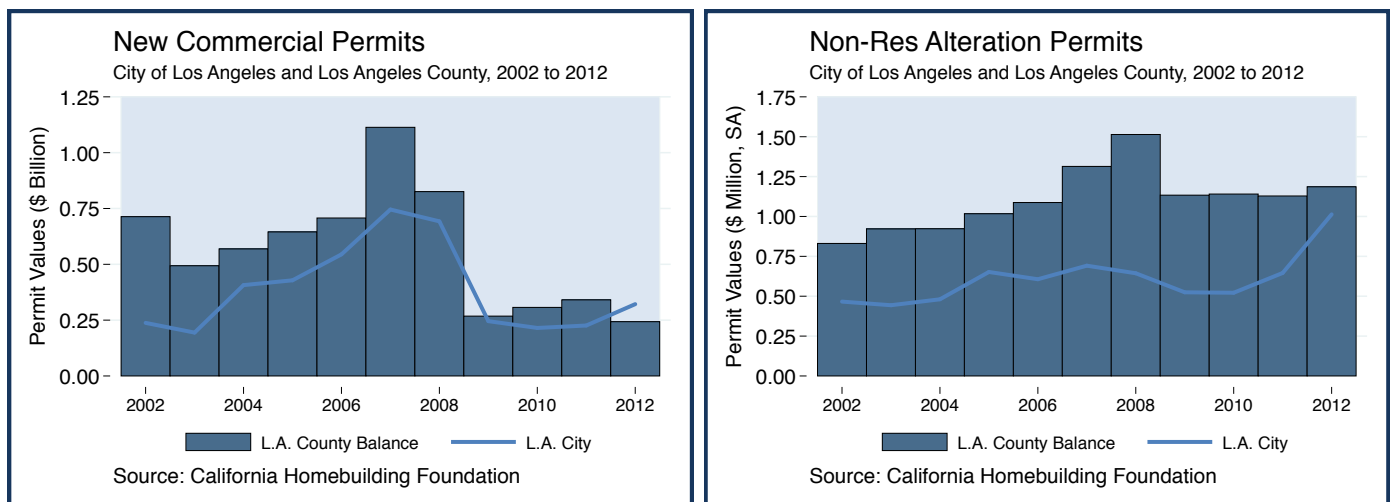
Note: Units are gross \$ per square foot per year

Source: REIS

Non-residential Construction

On the construction side of the commercial real estate market, the City of Los Angeles has recovered faster from the recession than the balance of L.A. County. As measured by permits for new commercial construction, as well as by permits for alterations to existing commercial structures, construction in the rest of L.A. County has hardly recovered at all.

Nonresidential construction in the City of Los Angeles began to recover in 2011, as new commercial permit values increased by 5.1% from the previous year. In 2012, new commercial permits increased by an additional 42.4%. Even though new commercial permits values in the balance of L.A. County also increased in 2011 (11.0%), permits declined in 2012 (-28.7%). When examining permit values for alterations to existing commercial structures, the story is much the same. After reaching a trough in 2010, permit values for alterations in the City of Los Angeles increased by 23.4% in 2011 and by an additional 56.9% in 2012. In the rest of the county, however, permit values for alterations decreased by 1.1% in 2011 before subsequently increasing by 5.1% in 2012. Simply put, the City of Los Angeles has much more going for it than does the rest of L.A. County. From its world class museums to its reinvigorated downtown area, the city's commercial real estate and construction industries have risen from the ashes of the recession and are poised to lead Southern California's economic recovery in the years ahead.

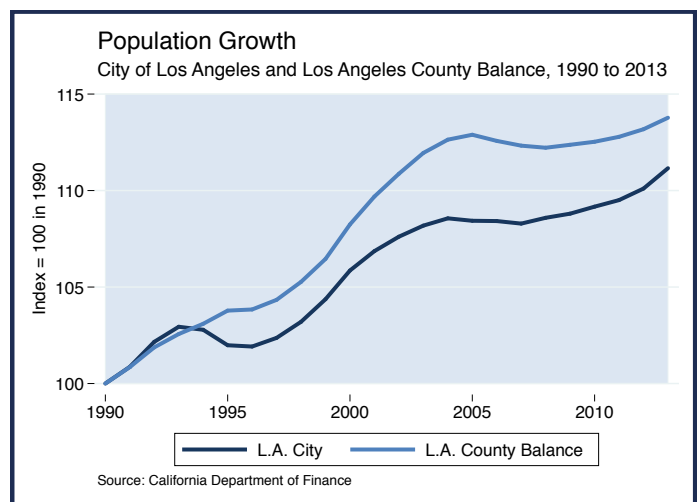


Demographics

Population

The City of Los Angeles is the second largest city in the United States, home to 3.86 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 28.9% of Los Angeles residents are non-Hispanic white, compared to 64% of U.S. residents, according to the 2010 U.S. Census.

Over the past 20 years, population growth for the City of Los Angeles and the balance of L.A. 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 3.86 million residents, while the balance of L.A. County is home to 6.09 million residents. Since 2008, the city has grown by 2.4% whereas the rest of the county has grown by 1.4%.

Although the city's population has grown faster than that of the rest of L.A. 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 L.A. is more built 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 third, fifth, and sixth largest cities in Los Angeles County, respectively, based on population size. Santa Clarita is home to 205,000 residents, Lancaster has a population base of 159,000, and Palmdale boasts a population of 155,000. Since 2008, the populations of these cities have grown by 17.5%, 4.9%, and 6.0%, 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)	5-Yr. Growth (%)	10-Yr. Growth (%)	20-Yr. Growth (%)
City of L.A.	3,864	2.4	2.8	8.0
L.A. County Balance	6,094	1.4	1.6	10.9
Long Beach	468	0.9	-0.4	6.4
Santa Clarita	205	17.5	26.7	65.4
Glendale	194	0.4	-1.9	4.1
Lancaster	159	4.9	23.6	51.7
Palmdale	155	6.0	22.0	75.2
Pomona	151	0.1	-0.5	9.4
Torrance	147	1.8	3.0	10.6
Pasadena	140	3.5	1.9	6.2
El Monte	114	-0.4	-2.8	4.6
Downey	113	1.7	2.0	18.7
L.A. County Total	9,958	1.8	2.1	9.8

Source: California Department of Finance

Education

The City of L.A. 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 L.A. County has 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 2011, 30.8% of the city's residents aged 25 years and over possessed a bachelor's degree or higher, compared with 28.3% 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 L.A. County has had a larger share of residents with at least a high school diploma. In 2011, 77.5% of residents in the rest of the county had at least a high school diploma, compared with 74.3% of the city's population. This attainment gap has lingered at around 4 to 5 percentage points since 2007.

Four out of the ten most populated cities in the balance of L.A. County had higher percentages with a bachelor's degree or higher than seen in the city overall in 2011—Santa Clarita (30.7%), Glendale (35.9%), Torrance (40.7%), and Pasadena (49.0%). Of the other six cities, Lancaster (14.4%) and El Monte (10.3%) had the lowest percentages of residents with a bachelor's degree or higher.

Educational Attainment, 2011
% of Population

Location	Less Than High School Diploma	High School Diploma	Some College	Bachelor's Degree	Graduate or Professional Degree
City of L.A.	25.7	19.8	23.8	20.4	10.4
L.A. County Balance	22.5	21.4	27.9	18.3	10.0
Long Beach	20.9	19.2	31.2	19.1	9.7
Santa Clarita	14.0	17.9	37.4	21.4	9.3
Glendale	17.1	19.1	28.0	24.7	11.2
Lancaster	18.9	30.1	36.5	9.2	5.2
Palmdale	24.5	27.9	31.9	10.6	5.2
Pomona	36.3	23.6	23.5	11.2	5.3
Torrance	7.4	19.3	32.6	26.9	13.8
Pasadena	12.4	16.0	22.5	23.2	25.8
El Monte	44.6	27.2	17.9	8.6	1.7
Downey	23.5	28.8	28.6	14.6	4.5
L.A. County Total	23.7	20.7	26.3	19.1	10.1

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

Income

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 2011, the median household income in Los Angeles County was \$52,280, while the median household income in the City of Los Angeles was \$46,148. Median household income has been decreasing every year since 2008—by 5.6% in the City of L.A. and by 5.8% in Los Angeles County.

Median Household Income (\$)

Location	2007	2008	2009	2010	2011
L.A. City	47,781	48,882	48,617	47,031	46,148
L.A. County	53,573	55,499	54,467	52,684	52,280

Source: U.S. Census Bureau

Despite these drops in median household income, a sizeable proportion of residents of both the City of Los Angeles and the rest of the county have high incomes. Though 29.2% of households in the City of Los Angeles earn less than \$25,000, 21.1% of households earn \$100,000 or more. In the rest of the county, 25.8% of households earn at least \$100,000. Among the 10 largest cities in Los Angeles County, Pasadena holds 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.

Household Income, 2011

% of Population

Income Bracket (\$)	L.A. City	L.A. County Balance	L.A. County Total		
< 25K	29.2	21.7	24.8		
25K-50K	23.6	22.6	23.0		
50K-100K	26.0	29.9	28.3		
100K-200K	15.6	19.8	18.1		
> 200K	5.5	6.0	5.8		
	Long Beach	Santa Clarita	Glendale	Lancaster	Palmdale
< 25K	25.8	10.6	28.0	28.5	24.9
25K-50K	22.8	19.3	24.3	22.8	24.7
50K-100K	30.1	33.4	24.8	31.6	30.0
100K-200K	16.9	29.9	16.9	15.0	19.1
> 200K	4.3	6.8	6.0	2.1	1.3
	Pomona	Torrance	Pasadena	El Monte	Downey
< 25K	25.8	17.4	19.2	34.9	19.1
25K-50K	24.8	16.4	17.5	30.2	27.1
50K-100K	34.8	33.1	27.9	25.1	33.7
100K-200K	12.5	26.9	24.4	8.2	16.2
> 200K	2.1	6.2	11.0	1.6	3.8

Source: U.S. Census Bureau

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 19.2% and 8.8% of jobs for City of Los Angeles residents, respectively, and 19.1% and 9.1% of jobs for the balance of the county residents, respectively. Traditionally, these occupations offer relatively lower wages than the regions' other occupations. Personal care and service represent the third-largest occupational category in the city and the fourth-largest category in the rest of the county. Management occupations represent the third-largest occupational category in the balance of L.A. County but are fifth 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 L.A., this category constitutes 5.0% of occupations, compared with only 1.6% 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.

Another difference lies in the distribution of occupations related to the health industry. Whereas the City of Los Angeles has a higher share of health care support occupations than the rest of the county (4.4% versus 3.0%), the City of L.A. has lower shares of health diagnosing and treating practitioners (2.6% versus 4.2%) and lower shares of health technologists and technicians (2.3% versus 3.1%).

2011 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	19.2	19.1	42.2
Sales and related	8.8	9.1	41.3
Personal care and service	7.8	6.5	46.7
Education, training, and library	6.9	6.0	45.4
Management	6.0	8.3	34.7
Business and financial operations	5.8	5.5	43.6
Fire fighting and protective services workers	5.1	3.7	50.5
Arts, design, entertainment, sports, and media	5.0	1.6	70.1
Transportation	4.9	5.3	40.5
Healthcare support	4.4	3.0	51.6
Food preparation and serving related	4.2	3.1	49.7
Building and grounds cleaning and maintenance	3.2	3.0	43.7
Community and social service	3.2	4.0	36.3
Health diagnosing and treating practitioners	2.6	4.2	30.9
Health technologists and technicians	2.3	3.1	35.0
Construction and extraction	2.0	2.1	40.5
Production	1.9	2.5	35.8
Material moving	1.6	2.5	32.4
Installation, maintenance, and repair	1.5	1.7	39.0
Computer and mathematical	1.1	1.4	35.9
Legal	0.8	0.7	45.8
Architecture and engineering	0.6	1.5	23.1
Law enforcement workers including supervisors	0.5	2.0	15.7
Life, physical, and social science	0.4	0.2	58.4
Farming, fishing, and forestry	0.2	0.0	100.0
Total	100.0	100.0	42.2

Source: U.S. Census Bureau

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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