The Real Estate Picture in Los Angeles

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Economic Outlook

United States of America

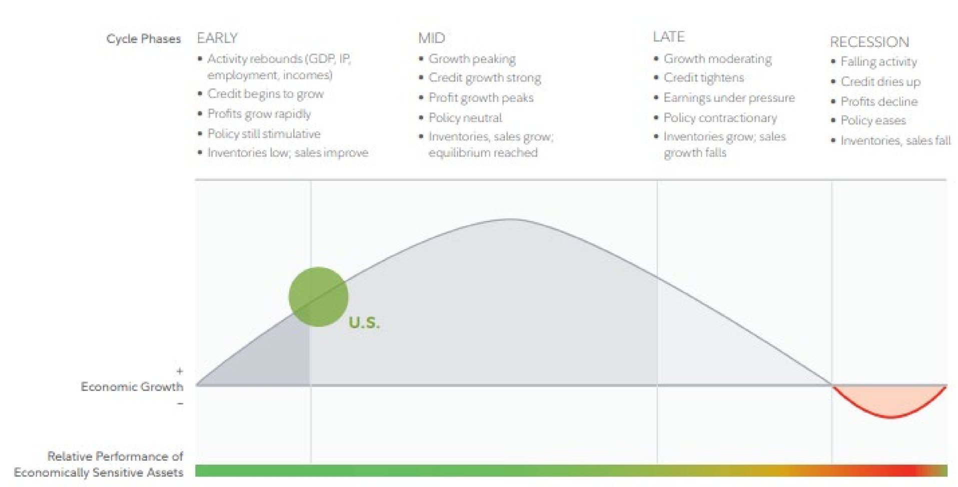
Consensus	2021E	2022E	2023E
GDP Growth Rate	5.8	4.1	2.4
CPI %	4.6	3.1	2.5
10 Year T-Note Yield	1.7	2.1	2.4
Unemployment Rate	5.0	3.8	3.4

Sources: Bloomberg, U.S. Federal Reserve, Intl. Monetary Fund, E.U. Commission

Last updated: November 6, 2021

Economic Cycle Studies

Sector	Early Rebounds	Mid Peaks	Late Moderates	Recession Contracts
Financials	+			– –
Real Estate	++	–	+	– –
Consumer Discretionary	+/		– –	+
Technology	+	+	–	– –
Industrials	++			– –
Materials	+	– –		
Consumer Staples		–	+	++
Health Care	– –			++
Energy	– –		++	
Communication Services		+		–
Utilities	– –	–	+	++
	Economically sensitive sectors may tend to outperform, while more defensive sectors have tended to underperform.	Making marginal portfolio allocation changes to manage drawdown risk with sectors may enhance risk-adjusted returns during this cycle.	Defensive and inflation-resistant sectors tend to perform better, while more cyclical sectors underperform.	Since performance is generally negative in recessions, investors should focus on the most defensive, historically stable sectors.

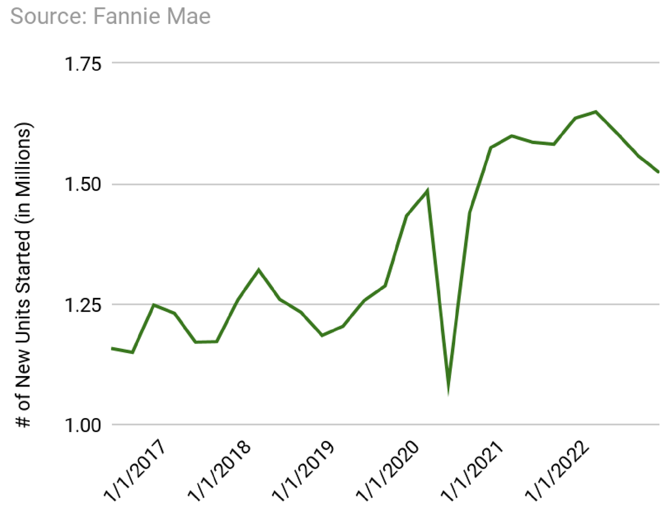


Source: Fidelity Investments research.

US Real Estate Market

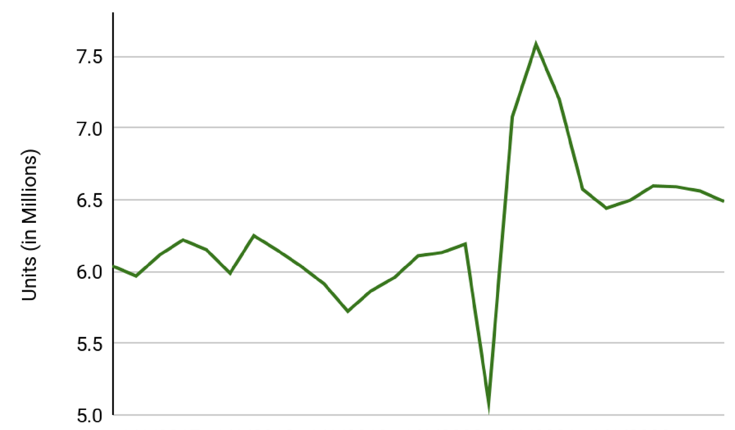
U.S. Fannie Mae Housing Starts

Source: Fannie Mae



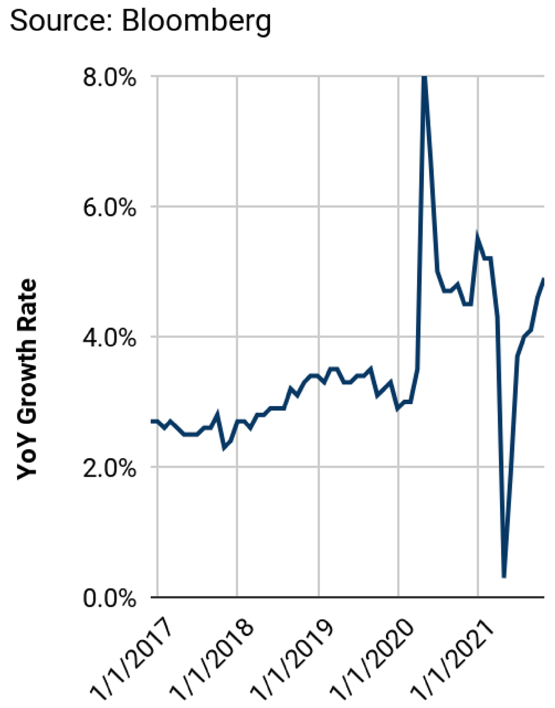
U.S. Total Home Sales New and Existing SAAR

Source: Fannie Mae



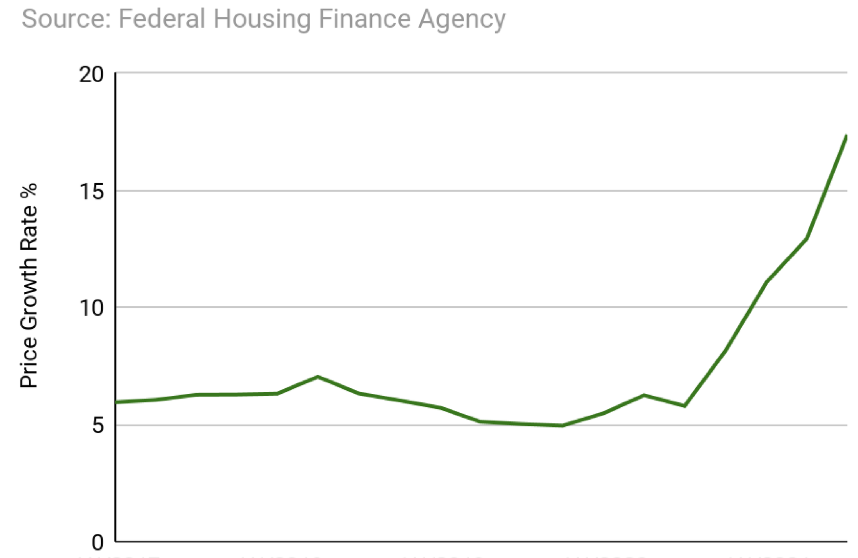
U.S. Avg. Hourly Earnings

Source: Bloomberg



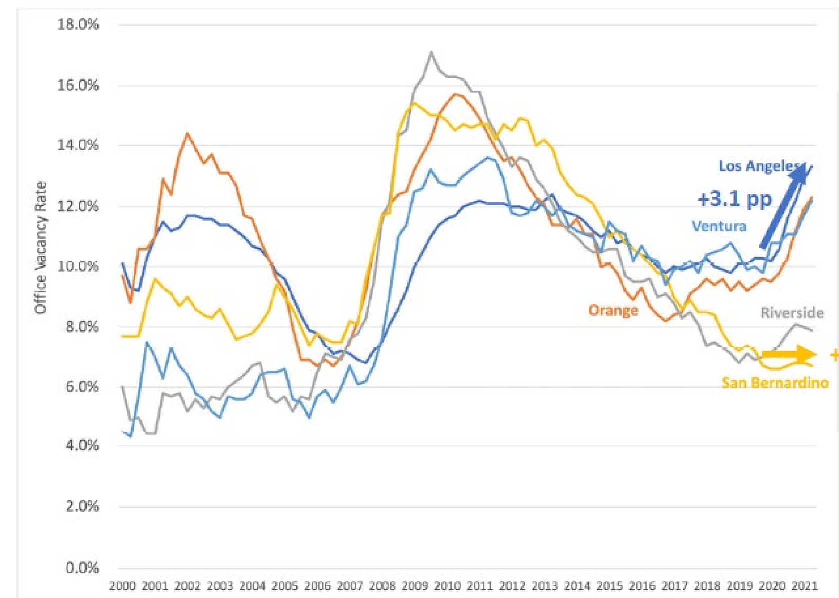
U.S. House Price Index YoY

Source: Federal Housing Finance Agency

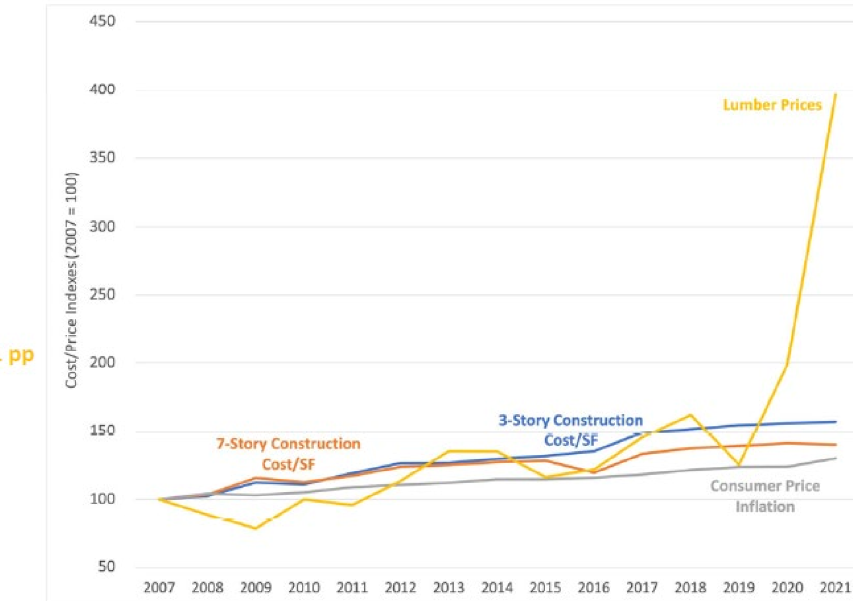


Los Angeles Real Estate

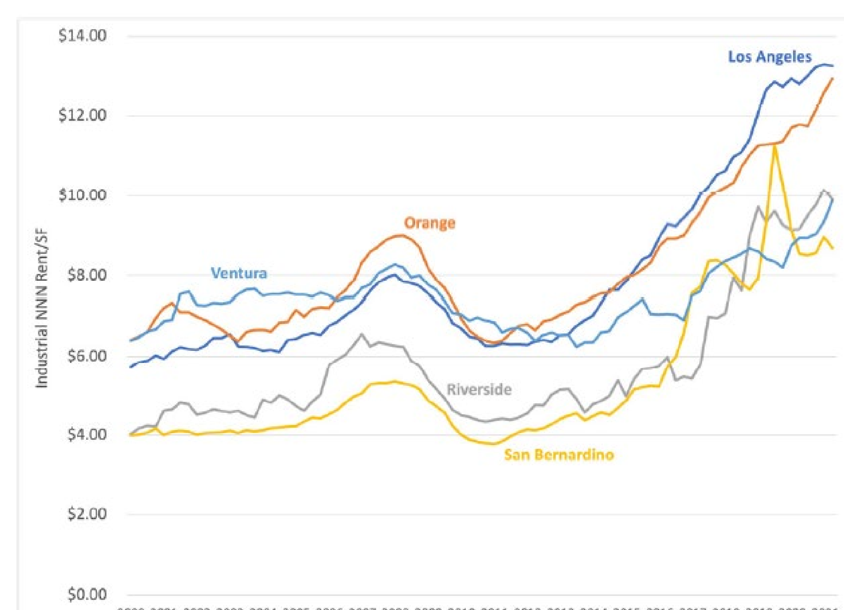
Office Vacancy Rate



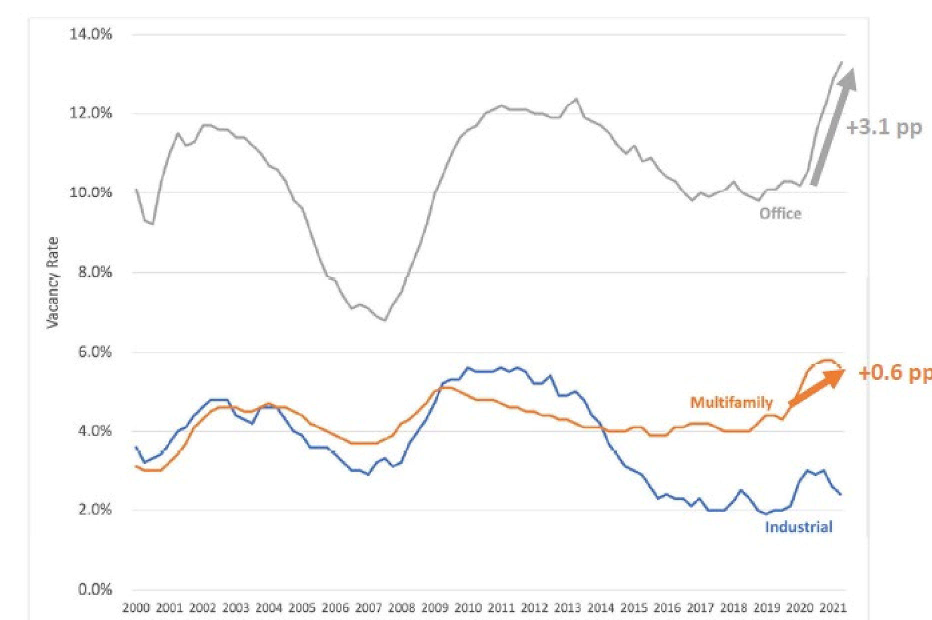
Construction Costs



Industrial Rents



Industrial Vacancy Rate



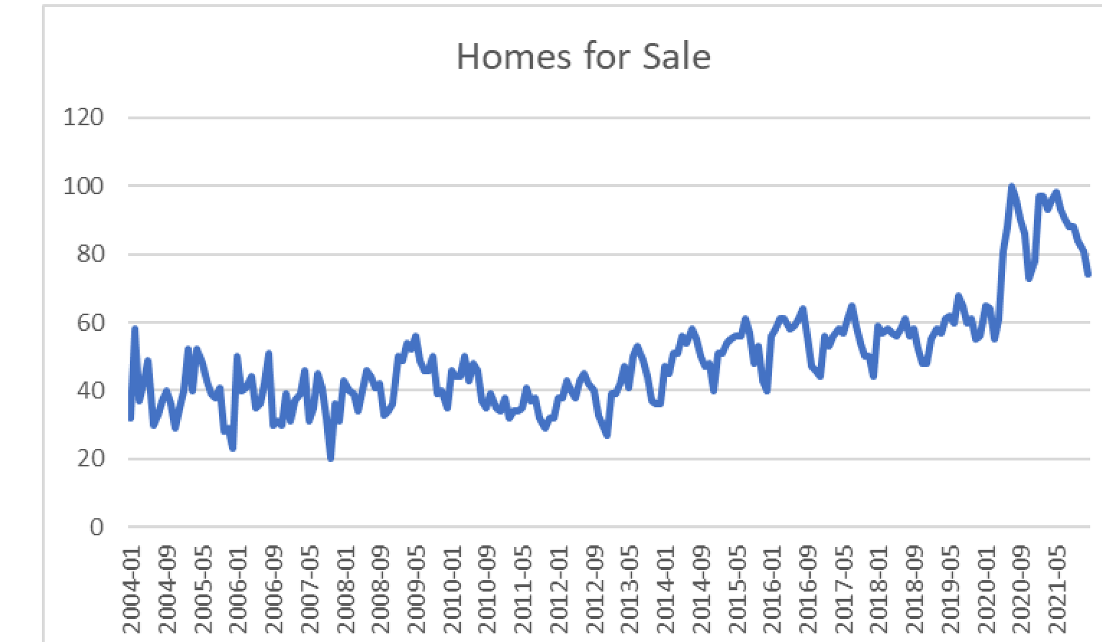
Cities were spending to ignite a revival from the stagnation happening in downtown centers by improving transit, security, and affordable housing. This movement from cities was stopped in its tracks by the pandemic as people were forced to stay at home. This was a major dilemma for cities as their main attraction for living in them was taken away. This caused many to think if they really need or want to live in the downtown city environment when none of the perceived benefits were available, while alternatives for the needs quickly filled its place. COVID-19 has shaken the trends of real estate and has become much more unpredictable as the flexibility increases greatly as online and digital work continues to grow in popularity.

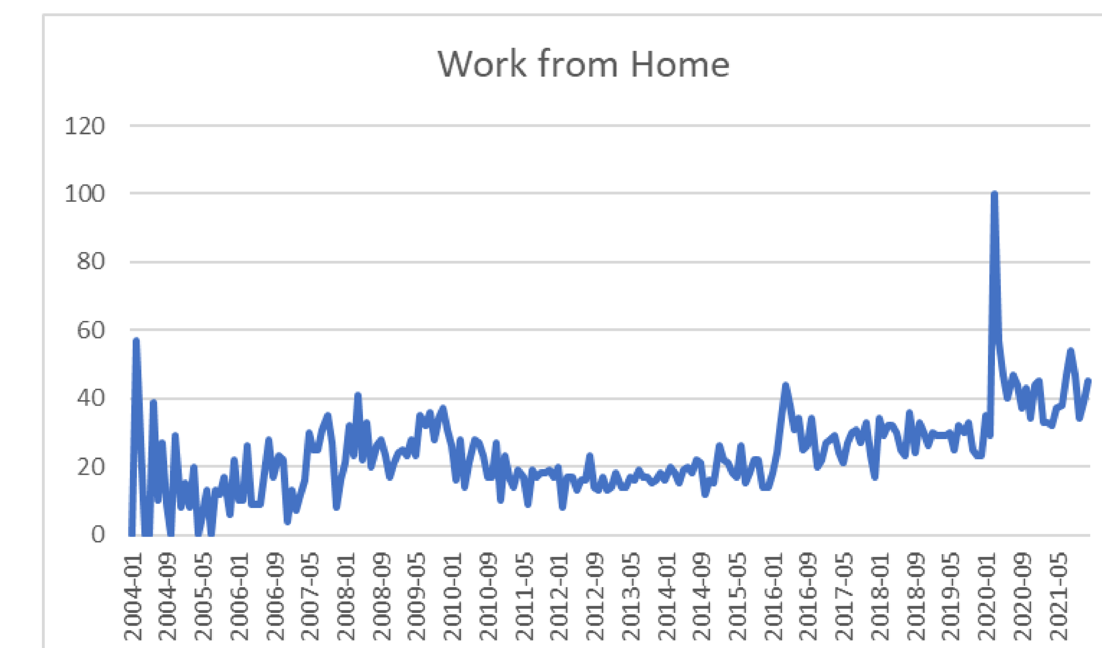
Conclusions

The Los Angeles real estate market has been a dominant force in investing as one of the biggest markets. As a big market, many factors will drive the future of what is successful and what declines in popularity. COVID-19 was the biggest of those factors as it changed the trajectory of market trends as everyone adapted to the change in lifestyle.

- Investing in residential and industrial sectors as they are set to capture the new demand as new cultural norms are established
- Recommend these investments more to long-term investors as there is volatility and Los Angeles is a premium market that has shown historically strong growth for many years
- Real estate also makes a great investment now as a hedge to high inflation as we see inflation becoming less transitory
- In the residential sector specifically, I would recommend for personal ownership of a property single-family homes over multi-family. This is due to Multi-family homes facing regulatory pressure and falling under an ordinance that could hinder profits in a heavy regulatory state.

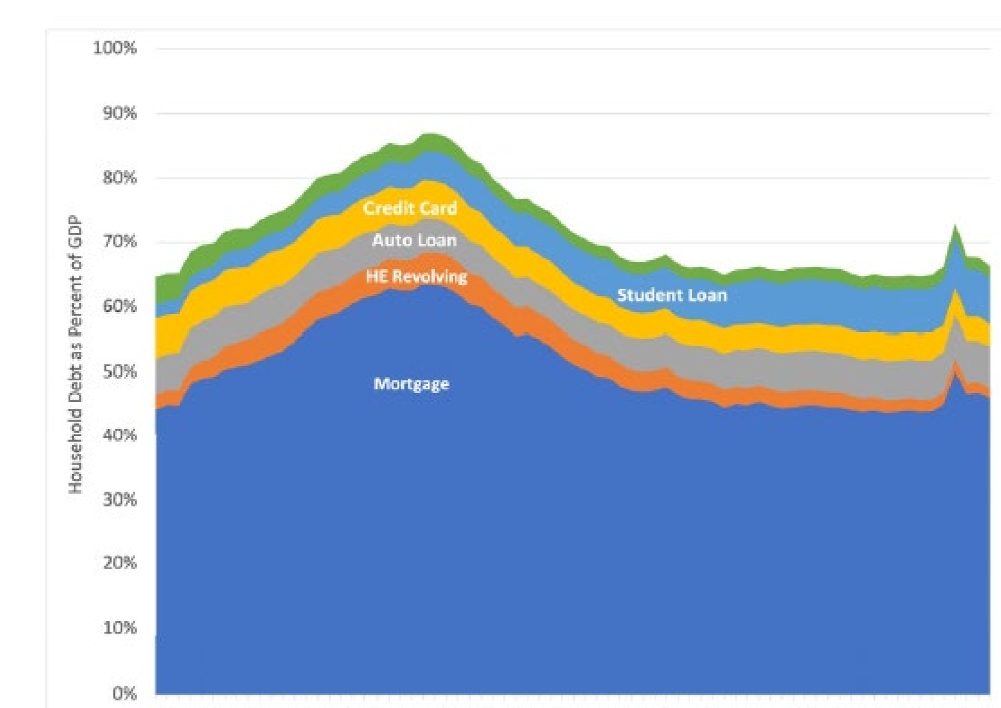
Google Trends Research





Google trends provide a time-series index based on the number of searches of a specific search entered into Google. This data can also be separated into different geographic locations and normalized to a number between 100 and 0 to show the relative popularity of the query. This data has been tested on its effectiveness in forecasting and predictiveness and it was found that "Simple seasonal AR models that include relevant Google Trends variables tend to outperform models that exclude these predictors by 5% to 20%."

Housing Bubble



The 2008 real estate market crash was driven by predatory lending as banks took advantage of less creditworthy individuals. This was accompanied by mortgage debt being very high as people bought very expensive homes with banks giving out predatory loans. (see below) Although the percent of mortgages as debt has decreased student loans have increased, but levels of debt remain much lower than in the last crash.