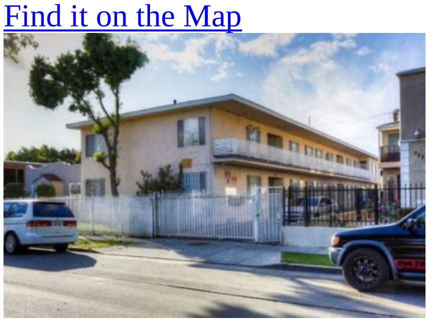
Featured New Development:
Density Continues Along Olympic From K-Town into Westlake
- 138 units planned near Olympic & Hoover.
- Olympic is a major East/West thoroughfare that sits between Wilshire Blvd & the 10 Freeway.
- Wilshire, Olympic, Pico, Venice, Washington, 10-Freeway is the street order North to South.
- Meaningful multifamily density is being built up along Wilshire Blvd, 7th & 8th Streets, particularly by Dr. David Lee, founder of Jamison Services, a prolific long-term private owner of mostly office buildings in K-Town. His daughter has taken the reigns of the business and moved significantly into multifamily development and redevelopment.
- The K-Town development boom continues to expand South onto Olympic Blvd and East into Westlake.
Find it on the Map

Featured Leasing Update:
Video doorbell maker Ring is close to completing its new HQ in Hawthorne
- 62,000 SF office campus.
- Company was purchased by Amazon for $1bn.
- Location is just South of SpaceEx HQ.
- Hawthorne is a neighborhood inland from the South Bay beach cities of El Segundo, Manhattan Beach & Hermosa Beach. It has become popular given how pricey these beach neighborhoods have become.
Find it on the Map


Featured RE Trade:
A 9-Unit multifamily property at 2239 S. Marvin Ave in Mid City went under contract / non-contingent at $2.425mm, or $269k / unit, $331 PSF. It will trade for a 12.9x GRM or a 4.8% cap rate. All units are small 2 BRs and none have been significantly renovated. There were many offers above the asking price of $2.35mm and at least 1 was non-contingent, meaning no inspection period. This deal was very strong from a cash-flow perspective (cap rate & GRM), however, it begins to push the upper limit on Price Per Square Foot for an unrenovated building in this area.
Find it on the Map


Local Politics:

City Councilmember Wants More Affordable Housing in TOC Projects.

Last week I talked about how LA has a measure in place called Transit Oriented Communities, which allows developers to increase density near transit stops if they include affordable units. From October 2017 through mid-2019 3,863 affordable units were approved and a total of 19,928 units were approved. 20% of the units were in South LA and 15% were on the Westside. This is a major success for LA – increased supply, more affordable units, and investment in areas that haven't had as much historically.

BUT, there are anecdotes of projects where for example, a 28-unit rent controlled building was demolished and only 20 affordable units were included in the new 100+ unit building. While the program on a whole is successfully increasing affordable housing and supply generally, much of it in underserved areas, a politician finding and pointing to a one-off situation is enough to undermine its success.

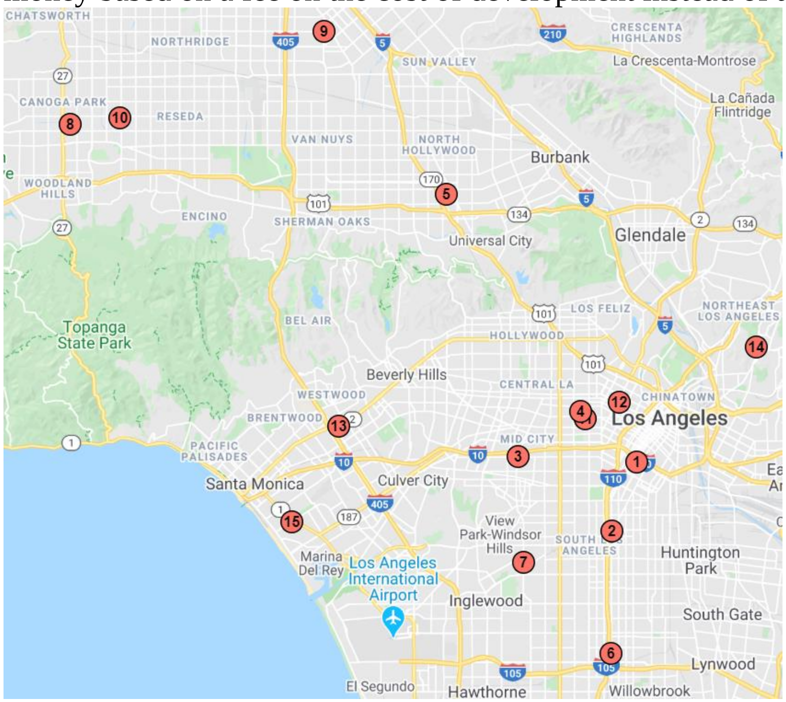
The Councilmember's solution? Higher fees on developments in wealthier areas. Jose Huiz's quote: "This is bringing it up a little bit more in those high demand areas, where they could probably absorb more of a fee than other areas, because you want to encourage more development in low-income areas and those areas that don't have much development, but where there's such a huge demand and people's portfolios are working out, they could absorb this a lot easier."

As an investor, the problem I have with this statement is that an investor must pay much more for land in a higher demand area. To simply say "there's such a huge demand and people's portfolios are working out…" is quite the simplification. Higher fees will increase the developers' costs, which will be passed to the renter in the form of higher rent. The higher fees will reduce supply, which will push up the market rent, allowing him to find renters at this higher price. And with these types of policies, the LA housing crisis carries on and on and on…

Celebrity RE Update:

Bezos buys David Geffen's Beverly Hills estate for a new LA record: $165mm.

Weekly Long-Read Suggestion:
[Mapping 15 Affordable Housing Projects in LA]
Affordable housing development is a completely different ball-game than market rate. Developers battle for public funds through applications, presentations, etc. They make their money based on a fee on the cost of development instead of an outsized share of the profit.



Quote of the Week: "The most important single thing is to focus obsessively on the customer. Our goal is to be earth's most customer-centric company." – Jeff Bezos

LA Restaurant Feature of the Week:
None at the top of my mind this week. Anyone have any suggestions?

Real Estate Term of the Week:
GRM – Gross Rent Multiplier. Purchase or Asking Price / Annual Gross Rental Revenue. This is one of the simplest real estate calculations. I always ask for this number first as an initial screen when a broker brings me a deal. It's not always wise to ask for Cap Rate right away because you don't know what a broker or seller is using for expenses. Whereas Asking Price and Gross Rent are much harder to fudge. In 4Q'19 the median & average GRM in LA was 14.6x and 13.6x respectively. This excludes South LA or The Valley, where GRMs are lower and the Westside, where GRMs are higher. We've purchased properties in the 11-15x GRM range.

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