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MEMORANDUM

To:	Richard Rojas, City of Carson
From:	HR&A Advisors, Inc.
Date:	August 31, 2017 Revised: September 15, 2017 Revised: September 28, 2017
Re:	Multifamily Residential Demand Analysis

Introduction and Summary

This memorandum summarizes a 10-year multifamily residential demand analysis prepared by HR&A Advisors, Inc. ("HR&A") for the City of Carson (the "City" or "Carson"), in response to the City's need to understand how likely it is that 2,047 new units currently under construction, approved, and planned (i.e. the "Development Pipeline") will be absorbed by the real estate market. This is a large number of units and would almost double the existing multifamily housing stock in the City,[1] which hovers around 2,800 units. For comparison, only 205 multifamily units were built in the City between 2010 and 2017.[2]

As explained in the analysis presented below, HR&A concludes that demand for new residential development in the City over the next decade is sufficient to accommodate all apartments and condominiums in the Development Pipeline, and would still leave residual demand for another 5,195-7,609 new multifamily units, primarily for apartments. It is important to note that this estimated range of market-supportable multifamily units is not a projection of what will be built over the next 10 years. "Market demand" is only one component of the factors that determine actual housing production. Other factors include the health of the economy, project-specific financial feasibility, planned development capacity, development regulations, and community preferences. However, estimated market demand serves as an order-of-magnitude indicator of the City's opportunity to capture new multifamily units, and can help guide planning efforts to leverage favorable conditions, such as the City's advantageous location near major freeways and job centers, and the number of vacant and underutilized single-owner sites.

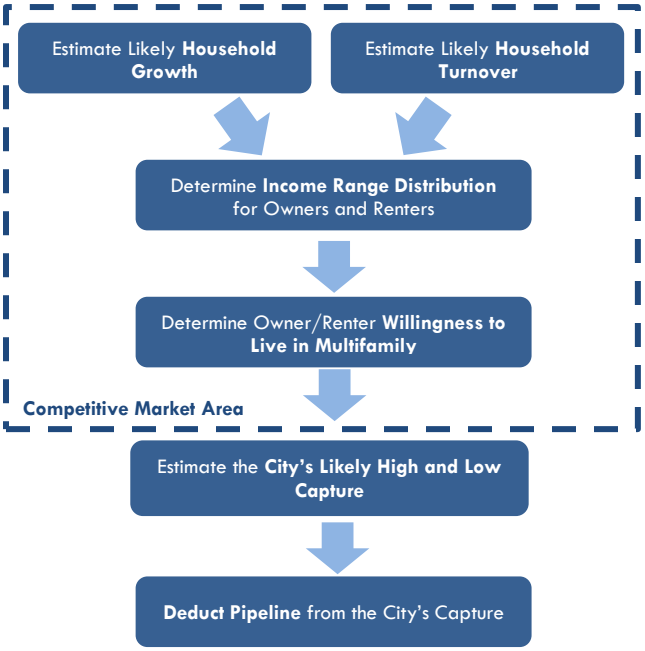
This is the first of two HR&A memoranda on the potential municipal impacts of the Development Pipeline. The second memorandum will analyze the net fiscal impacts of the Development Pipeline on the City's General Fund.

[1] Source: U.S. Census Bureau's 2011-2015 American Community Survey.
[2] Source: State of California Department of Finance E-5 Population and Housing Estimates for Cities, Counties, and the State, 2011-2017 with 2010 Census Benchmark.

Methodology

HR&A estimated future residential demand over the next 10 years based on the City's ability to capture: (1) existing households seeking a new dwelling unit (i.e. "turnover") within a Competitive Market Area" around Carson; and (2) future household growth within that Competitive Market Area; and (3) a share of turnover and new households within the Competitive Market Area which are "income-qualified" (i.e. those that can afford to rent or buy a new multifamily residential unit at prevailing prices). HR&A then compared the City's likely capture of multifamily residential market demand with the number of multifamily residential units in the Development Pipeline to determine the degree to which the Development Pipeline could be successfully absorbed by the market. HR&A's residential demand methodology is illustrated in Figure 1, and an explanation of each analytic step in the methodology is presented below.

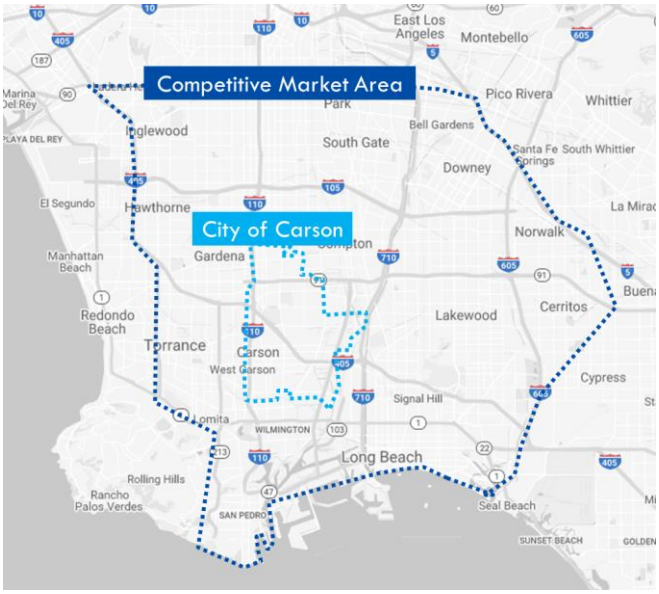
Figure 1: Conceptual Demand Analysis Structure



Competitive Market Area

The first step was to define the "Competitive Market Area," or the area that is most likely to generate the pool of households that would seek to rent Development Pipeline units in Carson. Based on a review of employee commuting patterns, well-recognized community and natural boundaries, and jurisdictional lines, HR&A defined the Competitive Market Area as roughly bounded by Slauson Avenue to the north; the 405 Freeway and Hawthorne Blvd to the West; the border of LA County to the south and southeast; and the 5 Freeway to the northeast, as shown in Figure 2.

Figure 2: Map of the Competitive Market Area and the City of Carson



Residential Turnover by Tenure

Residential demand in general comes from two sources: (1) those already living in the Competitive Market Area, but seeking new housing (i.e., "turnover"); and (2) household growth. To estimate the likely number of households within the Competitive Market seeking a new residential unit each year, HR&A calculated residential turnover based on householder migration by tenure (i.e., rented vs. owned housing) data from the U.S. Census Bureau's 2011-2015 American Community Survey ("ACS") for the Competitive Market Area.[3] Approximately 54,900 of 1.2 million, or four percent, of homeowners in the Competitive

[3] Based on a best-fit correspondence between ZIP Codes and the Competitive Market Area boundaries.

Market Area, and approximately 186,000 of 1.3 million, or 15 percent, of renters in the Competitive Market Area, moved within Los Angeles County in the past year.

Household Growth

The Southern California Association of Governments ("SCAG") projects that households in the Competitive Market Area[4] will grow at an annual rate of 0.51 percent between 2012 and 2020, and 0.25 percent between 2020 and 2035. SCAG also projects that the City will add new households at an annual rate of 1.00 percent and 0.56 percent over the same time periods, respectively. Using these projected growth rates, which are based on existing land use plans, HR&A interpolated the number of projected households in the Competitive Market Area and the City in years 2017, 2022, and 2027 to estimate household growth over the next 10 years, and computed the City's projected share of household growth within the broader Competitive Market Area. As such, the City is projected to grow by 1,140 households between 2017 and 2022, and 770 households between 2022 and 2027, as compared with approximately 15,130 and 9,340 households in the Competitive Market Area over the same two five-year periods. Accordingly, the City is projected to account for approximately eight percent of the Competitive Market Area's household growth over the next ten years (i.e., 1,910 City households divided by 24,470 households in the Competitive Market Area).

Income Qualification

HR&A then examined rents and sale prices for a representative group of recently built apartment and condominium projects in the City and immediate surrounding areas[5] to use in determining necessary household income levels to afford new, market-rate multifamily residential units in the Development Pipeline. The rent and sale price data for these representative projects was derived from Costar and Redfin, well-recognized and widely used third-party real estate data sources.

Representative apartments rent for between $1,900 and $3,100 per unit per month, with an average of approximately $2,500 per unit per month. Assuming the average household spends 35 percent of income on rent, the applicable Census-aligned annual household income bracket range is between $50,000 to $149,000. HR&A assumed that half of the $50,000 to $75,000 household income bracket and 100 percent of the $75,000 to $149,000 brackets can afford a new apartment at this average price. As a result, income-qualified renters who can afford new market rate apartments make up 25 percent of all renters in the Competitive Market Area.

Representative condominiums have recently sold for between $430,000 and $785,000 per unit, and for an average of approximately $635,000. Assuming households must make at least a 15 percent down payment, take out a mortgage with a 4.50 percent interest rate, and spend 30 percent of their income on mortgage debt service, the applicable Census-aligned annual household income bracket range is $75,000 to $149,000. Income-qualified homeowners represent 35 percent of all homeowners in the Competitive Market Area.

Willingness to Live in Multifamily Units

In the next step, HR&A estimated the percentages of owners and renters in the Competitive Market Area that would be willing to live in multifamily units (as opposed to single-family homes or other forms of housing), based on examining the shares of multifamily owners and renters in the cities of Inglewood and Torrance, which are similarly scaled, nearby cities that have a greater mix of multifamily and single-family units than the City, and therefore serve as reasonable indicators of housing preferences in Carson over the next decade. Approximately 15 percent of homeowners and 78 percent of renters in Inglewood live in multifamily units, and eight percent of homeowners and 75 percent of renters in Torrance live in multifamily units. For

[4] Based on best-fit correspondence with Tier 2 Transportation Analysis Zones ("TAZs"), which are geographical boundaries employed by SCAG to project regional and local population, employment, and household growth.
[5] The applicable apartments and condominiums projects used in this analysis are included as Attachment A.

this analysis, HR&A assumed 15 percent of homeowners and 75 percent of renters in the Competitive Market Area would be willing to live in multifamily units.

Multifamily Residential Pipeline

The final step in the analysis involved comparing the estimated 10-year demand resulting from all the previous steps with the number of apartment units in the Development Pipeline. The unit count for each project in the Development Pipeline is based on information provided by the City and a review of CoStar data. As shown in Figure 3, there are currently five projects in the Development Pipeline totaling 2,047 units, 177 of which are for-sale condominiums and the remainder are apartments. HR&A assumed that 100 percent of units under construction, 75 percent of approved units, and 25 percent of proposed units will be built and absorbed between 2017 and 2022, and the remaining 25 percent of approved units and 75 percent of proposed units will be built and absorbed between 2022 and 2027.

Figure 3: Multifamily Residential Development Pipeline

Project Name	Address	Status	For Sale/For Rent	Housing Units
Del Amo	20330 Main St	Approved	For Rent	300
157		Proposed	For Rent	1,200
	17900 Central Ave	Proposed	For Sale	177
Union South Bay	21601 Avalon Blvd	Under construction	For Rent	357
	21721 Moneta Ave	Under Construction	For Rent	13
Total				**2,047**

Source: City of Carson; CoStar

Findings and Conclusions

Using the methodology described above, and assuming the City can capture up to the regional fair share of households projected by SCAG (i.e. eight percent) and a slightly lower amount (i.e. six percent) of residential turnover and growth in the number of income-qualified households in the Competitive Market Area, HR&A found that the City could capture between approximately 7,250 and 9,670 multifamily residential units over the next 10 years, as shown in Figure 4 on the next page. Assuming all 2,047 multifamily residential units in the Development Pipeline are built and absorbed over the next 10 years, there will still likely be residual demand for between 5,195 and 7,609 total multifamily residential units in the City, most of which are apartments, as also summarized in Figure 4.

Figure 4: Carson Gross and Net Capture of Multifamily Growth and Turnover within the Competitive Market Area

Capture of Multifamily Growth and Turnover within the Competitive Market Area						
	For Sale		For Rent		Average Annual Unit Absorption	Total Absorption 2017-2027
	2017-2022	2022-2027	2017-2022	2022-2027		
Carson Gross Capture of Turnover and Growth						
Low -- 6%	160	141	3,488	3,453	**724**	**7,242**
High -- 8%	214	188	4,650	4,604	**966**	**9,656**
Less Development Pipeline Units	*(44)*	*(133)*	*(895)*	*(975)*		*(1,870)*
Carson Net Capture of Turnover and Growth						
Low -- 6%	116	8	2,593	2,478	**520**	**5,195**
High -- 8%	169	55	3,755	3,629	**761**	**7,609**

ATTACHMENT A

Apartment Rents per Unit in Representative New Apartment Projects

Address	City	Year Built	Average Rent per Unit
21800 Avalon Blvd	Carson	2013	**$2,705**
431 E 6th St	Long Beach	2015	**$1,893**
4200 E Anaheim St	Long Beach	2013	**$2,490**
100 Long Beach Blvd	Long Beach	2016	**$2,742**
1081 Long Beach Blvd	Long Beach	2015	**$2,031**
707 E Ocean Blvd	Long Beach	2016	**$3,076**
255 W 5th St	Los Angeles (San Pedro)	2008	**$2,724**
407 W 7th St	Los Angeles (San Pedro)	2007	**$2,204**
28000 S Western Ave	Los Angeles (San Pedro)	2008	**$2,461**
1500 W Pacific Coast Hwy	Los Angeles (Wilmington)	2016	**$2,656**
Average			**$2,498**
Low			$1,893
High			$3,076

Source: CoStar

Condominium Sale Prices per Unit in Representative New Condo Projects

Address	City	Year Built	Average Sale Price per Unit
552 E Carson	Carson	2015	**$430,000**
764 Colorado Cir	Carson	2014	**$478,225**
1613 W 224th St	Torrance	2011	**$490,000**
22748 Meyler St	Torrance	2016	**$649,995**
22760 Meyler St	Torrance	2016	**$669,885**
22762 Meyler St	Torrance	2017	**$660,727**
22764 Meyler St	Torrance	2016	**$699,990**
22766 Meyler St	Torrance	2015	**$724,500**
22770 Meyler St	Torrance	2016	**$785,000**
2303 Jefferson St	Torrance	2011	**$750,000**
Average			**$633,832**
Low			$430,000
High			$785,000

Source: Redfin