

LaTerra Southern California Market Guidance

LOS ANGELES – November 9, 2017 - Driven by record low unemployment and healthy fundamentals, Los Angeles is now the largest market in the nation by total deal volume (\$13B in direct investment during the first half of 2017), according to a new report from CBRE. In line with this activity, investor sentiment for private real estate funds remains positive, with 95 percent of investors indicating that their real estate investments have met or exceeded their expectations over the past 12 months. Fund raising has also remained strong as is evidenced by the record levels of dry powder available, according to data provider Preqin. As fund managers look to put capital to use, macroeconomic factors and banking regulations continue to validate the consideration of multifamily properties.

For 2018, LaTerra is forecasting market rent growth of 3.5-4.5%. That reflects the fact that supply for all housing in LaTerra's core markets - both rental and for sale - is expected to increase just .5%, while Southern California job growth continues to expand and personal incomes have been on the rise as well.

"There remains in our markets, very significant supply-demand imbalance," says LaTerra CEO Charles Tourtellotte, noting that it has been several years in a row that housing demand has exceeded supply.

"Los Angeles, like many Southern California cities hasn't built enough houses to keep up with population growth", and therefore, Tourtellotte says, "Supply-demand dynamics should remain favorable for LaTerra, so there's some nice runway ahead for our apartment development business. We talk almost every day about how escalating new home prices with stringent, down payment and credit requirements, continue to price out would-be home buyers. In addition, pending income tax law changes could reduce or eliminate the mortgage interest deduction, as well as state income and property tax deductions, further increasing the after-tax cost of home ownership, particularly in California. We believe that housing overall is becoming less affordable, and renting is the more affordable of the two options."

Contributing to the constrained housing supply are state and local governmental policies restricting development. A report from California's Legislative Analyst's Office (LAO) states that "community resistance to housing, environmental policies, lack of fiscal incentives for local governments to approve housing and limited land" are working to constrain new housing construction in the state. The LAO says that while the number of new housing units California needs to build is uncertain, "the general magnitude is enormous."

With low supply pushing up rents in Southern California's major metropolitan markets, excess demand is spilling over into the suburbs,

Tourtellotte says. However, LaTerra is focused only on commutable suburban markets in light of the gridlock problems in Southern California, making access to transit a key in these markets.

Indeed, LaTerra's focus on transit-oriented markets is in line with a change in direction within the Southern California urban areas, regarding the future of transportation, where according to Tourtellotte, "There is a tremendous effort underway to improve transit systems."

To underscore this, Tourtellotte points out that cities are attempting to focus on and incentivize development of housing in proximity to jobs and retail venues that create walkable communities and that are accessible by public transit systems. Tourtellotte says he expects this new way of thinking to dominate housing development in LaTerra's core urban markets for several more years at least.

"In Southern California, we think we are somewhere in the midzone of the economic cycle, so it seems prudent for us to have a significant development presence," he says. "LaTerra approaches its development platform in a strategic and disciplined manner, balancing the risk and reward of taking on development opportunities. We will look to scale back our Southern California project pipeline as we approach what we perceive to be the top of the economic and market cycle."

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About LaTerra Development

LaTerra is a privately owned real estate investment and development company focused on urban mixed-use infill projects in California that provide positive fiscal impacts to communities and incorporate smart growth planning and green building practices. LaTerra currently has more than 10 multifamily and mixed-use properties underway in the following submarkets: Santa Monica, Silverlake, Hollywood, West Hollywood, Burbank, Los Feliz, Santa Ana, and Chula Vista.