



COMPASS

Trend Analysis - LA Market

What Will Happen When This is Over?

LA will likely have a less active market both in transactions and appreciation, for about 2 years - area dependent. This is based on the IMF's most recent predictions for the Global Economy and is analogous to the bottom of the last downturn from 2009 to 2011.

Once we are through this, the areas that will see the quickest return to normal demand and price appreciation **will be the "entry luxury" i.e SFR's between \$1M and \$2.5M.**

I.e Sherman Oaks, Westwood excluding Little Holmby, Culver City, Studio City, most of Hollywood Hills

What will the immediate "return" look like?

Initial inventory growth in listings due to pent up seller plans, needs for owners to sell and older owners deciding that this is the time to sell.

Buyers with cash reserves seeking deals and pursuing a perceived "opportunity" to buy.

What will be happening in my areas when things return to the "new normal"?

- A. A lot more baby boomers retiring, a short period of distressed sellers, followed by steady appreciation after a 5-15% decrease in value.

What should my message be to my clients and friends in the short term?

- A. **Better to sell now vs when the oncoming recession drags down the market i.e it was better to sell in 2009 than in 2011**
- B. **A lot of neighborhoods (Bel Air, Beverly Hills) over-appreciated during the last upswing and will not see similar gains, so better sell now.**
- C. **For buyers, whoever has cash is king.**
- D. **For sellers, we have virtual technology (Matterport) which easily lets thousands of would-be-buyers walk through your home without having to actually be there. (screenshot below), Link here - <https://my.matterport.com/show/?m=WRcFZv5agvB>**

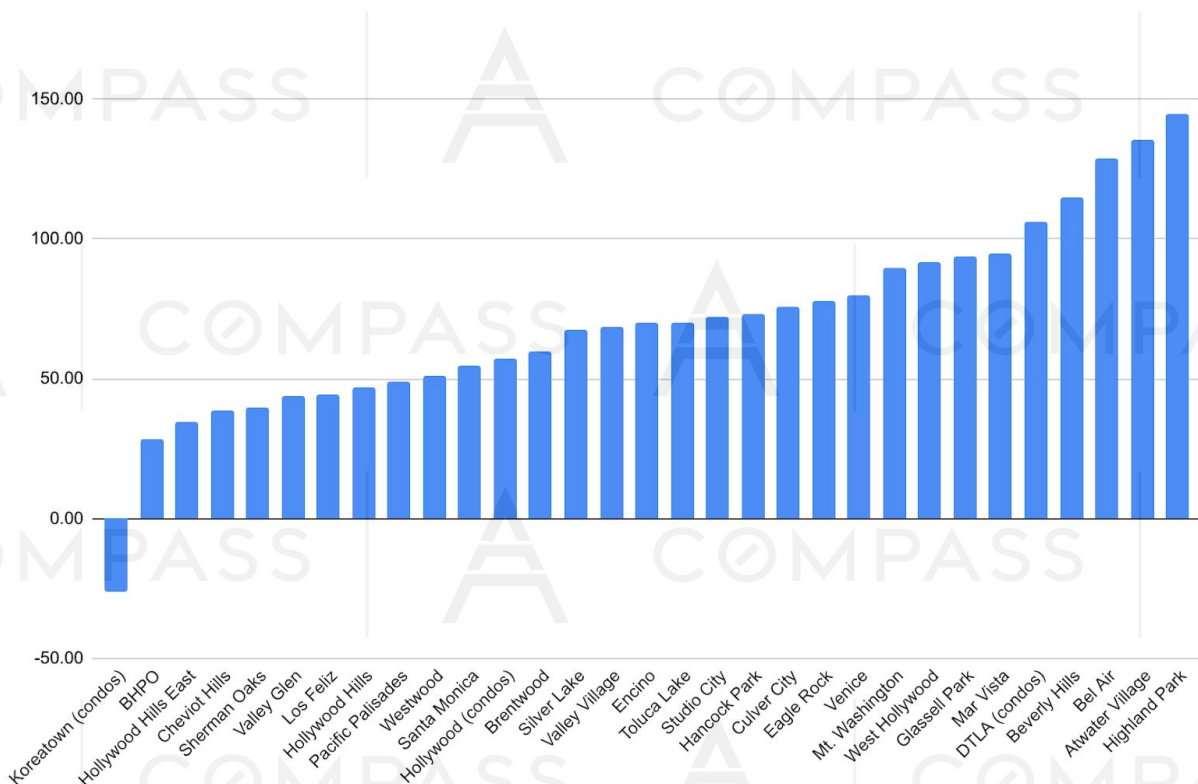


Overview:

The last downturn was triggered by the housing market, this time it's a black swan event completely unrelated to real estate. As a result we will not see the dramatic collapse in values ('09 - '12) and the subsequent re-appreciation ('13 - '19) in the years to come.

What we do know is certain areas have priced themselves out of significant future gains i.e Bel Air, Beverly Hills, OR have undergone much of the gentrification cycle so that they are no longer incredible bargains i.e Eagle Rock, Highland Park, Atwater Village etc. This will be true even if there's a price correction between 5% - 15%.

Interestingly, several consistently in-demand neighborhoods saw relatively low appreciation in relation to their buyer demand. Those areas were Koreatown, BHPO, Cheviot Hills, Sherman Oaks and Hollywood Hills East.



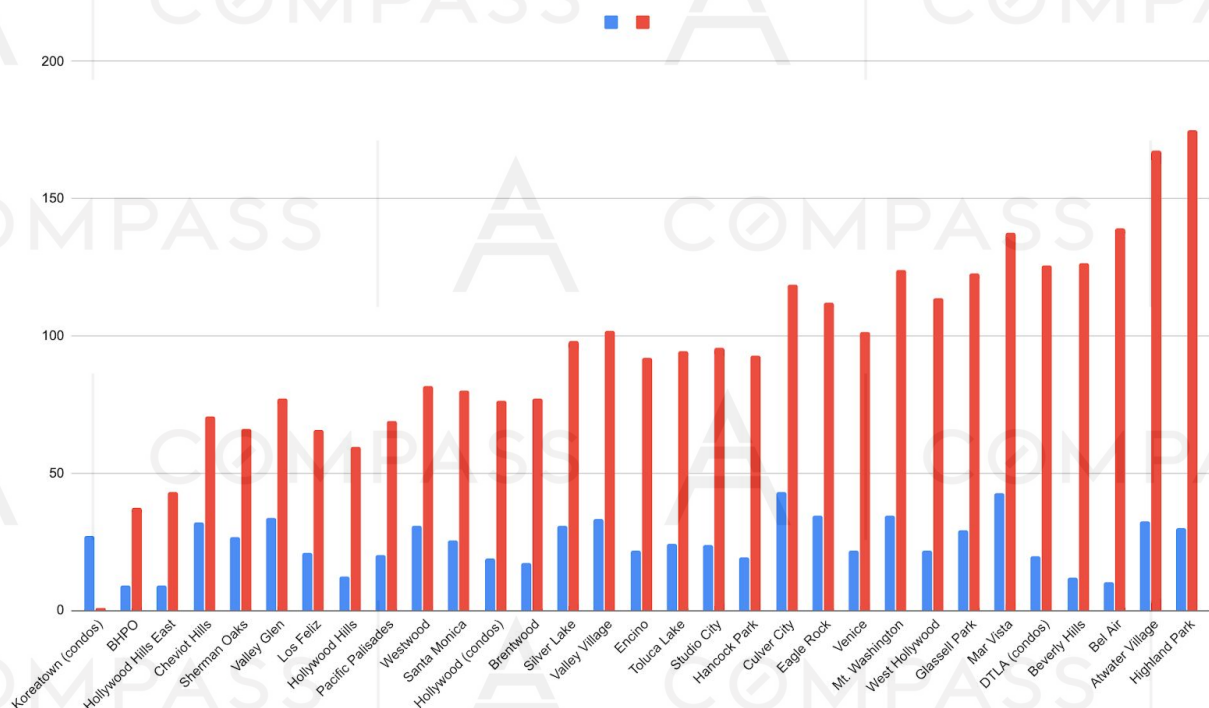
We've developed a formula which takes into account appreciation from '09 - '19 AND buyer demand.

The formula is **Change in Purchase Price from '09 - '19 minus (Likelihood of sale * 100)**

Neighborhoods on the left have decent buyer demand AND room to appreciation in the coming economic recovery.

Buyers:

We will be entering the best buying opportunity in at least a decade in the coming months/years. In addition to those selling for economic reasons, the Baby Boomers who own a disproportionate amount of property are now 11 years older than they were in 2009, and closer to retirement age. This means a lot will be selling/needing to sell and moving to cheaper destinations.

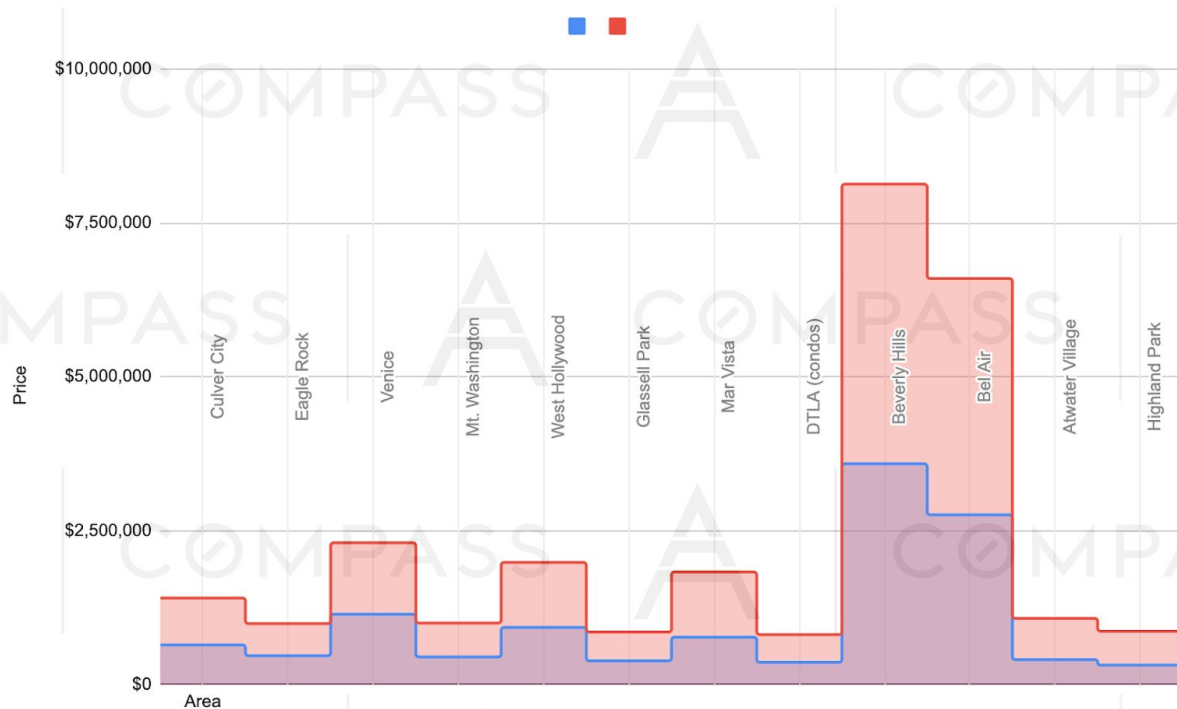


The graph above shows two things - the overall sale rate and the change in sale price from '09 - '19. As you can see the blue lines are fairly consistent whereas the red lines vary more.

The neighborhoods on the left of the chart i.e Koreatown, BHPO, Hollywood Hills East, Culver City etc show similar buyer demand but with less overall appreciation meaning they have more room to appreciate in the future.

Sellers:

Some areas have more than doubled their 2009 sales price avg, which are shown below. Those neighborhoods are Culver City, Eagle Rock, Venice Beach, Mt. Washington, West Hollywood, Glassell Park, Mar Vista, DTLA, Beverly Hills, Bel Air, Atwater Village and Highland Park.



These areas are also unlikely to experience the same degree of price appreciation that they did before. There are three reasons for this:

- 1.) Simply less room to grow.
- 2.) The wave of High Net Worth Individuals from overseas has already come and parked their money here.
- 3.) As more baby boomers retire and move, there won't be enough replacement buyers and will depress the values and the areas that had appreciated the most, the most.
- 4.) The other areas that saw appreciation during the last 10 years might now present more competition as a choice for buyers.

It also took a couple years for the market to truly bottom last time, so it is better to sell now vs in a couple years i.e it was better to sell in '09 than in '11.

Sale Price vs. Year in Atwater Village

