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In 2009, Sperry Van Ness merged with another company. Uncertain of the outcome, Stepp decided to make another transition. He moved to Berkadia, which was called Hendricks & Partners at the time. The company specialized in institutional sales, which includes any building with more than 100 units. "It was considered the lead brokerage firm," Stepp said. "If you worked there, you thought you had made it."

> "Long Beach [apartment ownership] has been very mom-and-pop, so investors have been concerned about spending that kind of capital on their units. But we've found that the new renter in Long Beach really enjoys that type of product and will pay for it."
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> **Robert Stepp, President and Founder, Stepp Commercial**

It was at Hendricks & Partners that Stepp learned strategies he would later apply to his own company. He said the president chose his brokers carefully, leaving job openings empty for several years until he found the right candidates. "Eighty percent of the business is done by 20% of the brokers," Stepp said. "The big companies don't spend enough on marketing. They spend it on [hiring too many] brokers [who don't perform]." This made an impression on him as he chose three brokers for his own team which took him a year to hire.

Hendricks & Partners taught Stepp the importance of quality marketing, another factor he credits for his success. "[Hendricks & Partners] sells private capital, but also institutional. They bring institutional quality marketing to the private capital world. The marketing they produced for a 200-unit building, I would produce for a 10-unit building. That building owner was thrilled to have that quality of marketing."

Stepp carried this practice over to his own firm, where he regularly sends out postcards of properties that were recently sold or listed. He also has professional photos taken of all of his properties, an extra step that he said his competitors did not take until recently. "Up until a couple of years ago, they were taking pictures on an iPhone," he said. "When you do that inside a unit, it comes out really dark."

Stepp continued at Hendricks & Partners until 2013, when business magnate Warren Buffett decided to buy the company. "On the first day, I told my partner, 'I'm starting my own thing,'" Stepp said. "I had learned what I needed to. I got my college education working there, but it was time to spread my wings."

Hendricks & Partners allowed Stepp to take his listings, of which he had 15. "That helped get the word out," he said. Focusing solely on the Long Beach market helped Stepp build a reputation of knowledge and credibility.

"When you do the same thing over and over, it's hard for others to compete against you," he commented. "We know the rents, values, sales, appraisers and lenders. Most brokers don't just work one market, they work where the money is. Working just one market helped clients and buyers feel comfortable that they're going to get good information." In 2015, Stepp's wife, who he described as the "Queen of Santa Monica," came aboard as another principal.

According to Stepp, Long Beach is still one of the more affordable coastal cities, with rents at 70% or 80% less than those in Santa Monica and Venice. In his view, Long Beach is a developing market with potential for clients to get a high return on their investment.

"We have a lot of velocity; there are lots of properties for sale, more so than in other markets," he explained. "Long Beach has long been a stepchild of Southern California. We finally have some legs [under] us where we have a lot of developments in the city. I see Long Beach as a multi-family market with a lot of growth potential. There are others that have been saturated that are more stagnant. We have a lot of jobs here. That's what sets it apart, too."

According to Stepp, the city is attracting new demographics who might not have considered Long Beach previously. One of his clients, a professional skateboarder, said the city is becoming more of a skating community. And with the addition of more restaurants and retail options, Long Beach is transforming into a hotspot that's still affordable.

To accommodate the new market, Stepp said investors are pouring more money into building upgrades. "Investors used to spend about $10,000 to improve a unit in Long Beach, and now they're spending around $30,000 per unit and making them modern and cool," he said. "Long Beach [apartment ownership] has been very mom-and-pop, so investors have been concerned about spending that kind of capital on their units. But we've found that the new renter in Long Beach really enjoys that type of product and will pay for it."

Although Stepp noted that interest rates are low, and that he considers the market "frothy," inventory is increasing, which could indicate that the market is slowing. "Some of that is because the market is scared of rent control and properties are staying on the market longer," he explained.

Stepp said he tracks legislation related to the real estate industry, including a possible rent control ordinance in Long Beach. Rather than instating rent control, he proposes giving tenants more advance notice for evictions, and increasing incentives for builders to construct more affordable units. "If the city would incentivize more developers to build affordable units, that can ease some of what we have here," he said.

Regarding goals for the future, Stepp said he would like to grow his market share even more, which means possibly expanding into the I-605 corridor. He also mentioned putting together larger deals involving properties with more than 100 units, as well as adding another agent.

"What makes me proud is not how much business we do, but the kind of business we do," Stepp said. "My team all loves each other. We have a really good bond. . . . People don't want a boss, they want a leader, and that's what I've always tried to be. I wake up at 5 a.m. and I'm so energized about the business. . . . We're always kidding around. We just have a good time. That's what everyone wants to come and work for." ■

Housing Crisis Creating Dysfunctional Economic Environment In California

■ By **Samantha Mehlinger**
Editor

The high cost of housing in California has been linked to a migration of low- and middle-income residents to other states in a series of new reports prepared by Beacon Economics for the nonprofit thinktank Next 10.

The reports, which analyzed trends in income, employment, migration and the housing market, found that while many economic indicators in the state are strong, the housing crisis is creating a dysfunctional economy in California.

From 2006 to 2016, 1,090,600 more people migrated out of the state than migrated to it, according to one report, "Growth and Dysfunction: An Analysis of Trends in Housing, Migration and Employment." Large metropolitan regions such as the Greater Los Angeles Area and the Inland Empire have also experienced more people moving out of state than moving in. The Bay Area, on the other hand, has had positive net migration since 2014, according to Beacon's analysis.

More than 20% of the out-migration (migration out of the state) that occurred in the past decade took place in 2006, when home prices were at an all-time high, according to Beacon's report, "California Migration: A Comparative Analysis." This trend slowed during the recession but increased in subsequent years as housing costs rose.

Californians over the age of 25 who did not possess a bachelor's degree or higher accounted for more than 752,600 migrants who left the state in the past decade, according to the migration report. Most of those who left the state earned less than $30,000 per year. Analyzing migration of people with bachelor's degrees or higher, California gained a net 43,200 people. Beacon's assessment indicated that the state tends to attract migrants who have high-income occupations.

Out-migration was the highest among low-income earners over the last decade, according to the "Growth and Dysfunction" report. Low wage employment has increased from 25% of the state's labor force in 2001 to 30% in 2016. At the same time, the median price of single-family homes in the state has grown to double that of the nation as a whole.

A longer report, "Current State of the California Housing Market: A Comparative Analysis," revealed that California ranks second to last in homeownership of all the states, with about 53.6% of homes occupied by their owners in 2016 – a figure unchanged since 2014. California ranks 48th for rental housing affordability, with about a one-third of renters' incomes going toward their rent payments.

Rental rates in California were about 40.2% higher than the national average in 2016, according to the housing report. Low-income households were found much more likely to be burdened by the cost of housing than other income-level earners.

The housing report indicated that the supply of residences in the state has remained relatively stagnant since 2008, "exacerbating affordability issues and driving increased out-migration and homelessness." Although 2017 saw an increased number of construction permits issued for residential housing, it was roughly the same number of permits issued in 1997, the report noted. Beacon's analysis attributed inadequate housing construction to regulatory burdens such as the California Environmental Quality Act, as well as local zoning restrictions and fees.

The group of reports concluded that the high cost of housing in California has made it an "increasingly difficult place for lower-income residents with less education to maintain their quality of life, while many middle-income residents are having trouble moving from renting to home ownership." Higher earners, however, "continue to find the state an attractive place to live." ■