MARKET REPORT | 1Q/2019

Greater Los Angeles Multifamily

NORTHMARQ

Steady Renter Demand Fuels Tightening Vacancy and Rising Rents

Highlights

- The Greater Los Angeles apartment market benefitted from steady renter demand and a slowdown in supply growth during the first quarter. Deliveries slowed, but the development pipeline is quite full, and developers are likely to bring thousands of new units to the market by the end of this year.
- The vacancy rate in Los Angeles County has remained in a very tight range for the past several years and stability is likely to persist in the coming quarters. The rate fell 10 basis points in the first quarter reaching 3.6 percent. Year over year, vacancy is up 10 basis points.
- The local multifamily market continues to record rent increases. Asking rents rose 6.1 percent in the 12-month period ending in the first quarter, reaching $2,029 per month.
- Investment activity slowed to start 2019, following a strong 2018. A drop in the number of Class A property sales was the primary driver of the sales dip. The median price in the first quarter was $225,000 per unit, while cap rates averaged 4.5 percent.

Greater Los Angeles Multifamily Market Overview

The Greater Los Angeles multifamily market posted strong performance during the first quarter, with vacancy dipping and rents rising. Renter demand for apartments has remained fairly steady over the past several years, and that trend continued during the first quarter. With demand consistent, rises and falls in the local vacancy rate are generally being fueled by construction activity. During the first quarter, deliveries slowed, but the development pipeline is quite full and deliveries should accelerate in the coming quarters. Several areas in Greater Los Angeles have projects under construction, but the bulk of the activity is concentrated in the Downtown area and in the San Fernando Valley.

Market Indicators

Quarterly Changes	1Q/2019
Vacancy	↓
Rents	↑
Transaction Activity	↓
Price Per Unit	↓
Cap Rates	↑

Summary Statistics — Los Angeles Market

Vacancy Rate	3.6%
- Change from 1Q 2018 (bps)	+10
Asking Rents (per month)	$2,029
- Change from 1Q 2018	+6.1%
Median Sales Price (per unit YTD)	$225,000
Average Cap Rate (YTD)	4.5%

Greater Los Angeles Multifamily Market Overview (cont.)

The local investment market had a peak year in 2018, with robust activity and the median price posting a spike of more than 25 percent. During the first quarter of this year, sales velocity returned to more normal levels, and prices and cap rates also came closer in line to figures from 2015 to 2017. It is important to note that the regions in Greater Los Angeles are not moving in lockstep. While areas such as the San Fernando Valley recorded sales activity that tracked the market as a whole, other areas, such as the South Bay, recorded modest increases in activity and pricing levels during the first quarter.

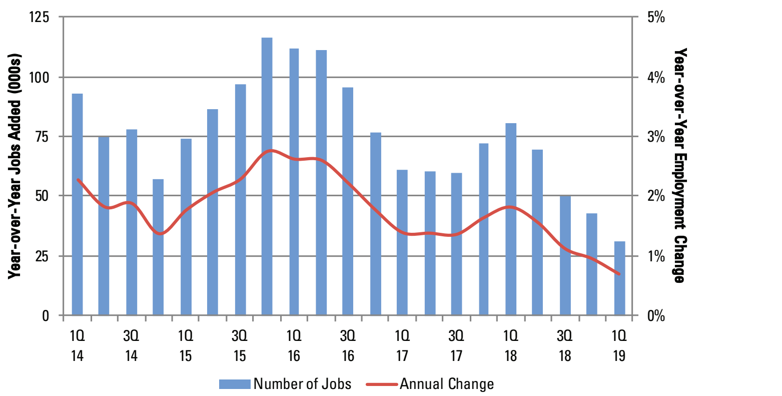
Submarket Statistics

Submarket Name	1Q 2019 Vacancy	1Q 2018 Vacancy	Annual Vacancy Change (BPS)	1Q 2019 Rents	1Q 2018 Rents
DOWNTOWN					
Downtown	11.1%	6.4%	470	$3,295	$2,640
Hollywood/Silver Lake	5.0%	4.4%	60	$2,385	$2,268
Mid-City/West Adams/Pico Heights	2.5%	2.5%	-	$1,446	$1,364
Wilshire/Westlake	5.2%	5.1%	10	$1,713	$1,652
Downtown Combined	**5.7%**	**4.7%**	**100**	**$2,178**	**$1,987**
SAN FERNANDO VALLEY					
Burbank/North Glendale	4.3%	4.5%	(20)	$1,975	$1,924
Chatsworth/Canoga Park	2.5%	2.8%	(30)	$1,607	$1,547
Granada Hills/Northridge/Reseda	2.3%	2.5%	(20)	$1,674	$1,625
Panorama Hills/San Fernando/Pacoima	1.1%	1.9%	(80)	$1,396	$1,344
Sherman Oaks/Studio City/N Hollywood	3.1%	3.0%	10	$1,983	$1,859
South Glendale/Highland Park	3.2%	5.1%	(190)	$1,873	$1,717
Tujunga/La Crescenta/Montrose	2.3%	2.3%	-	$1,634	$1,588
Van Nuys/North Hollywood	1.7%	2.2%	(50)	$1,514	$1,438
Woodland Hills/Tarzana/101 West	3.2%	3.7%	(50)	$2,013	$1,934
San Fernando Valley Combined	**2.7%**	**3.2%**	**(50)**	**$1,777**	**$1,688**
SOUTH BAY					
Carson/San Pedro/E Torrance/Lomita	3.0%	3.0%	-	$1,604	$1,505
East Long Beach/Los Altos	3.0%	3.1%	(10)	$1,717	$1,615
El Segundo/Hermosa Beach/Redondo Beach	4.1%	4.6%	(50)	$2,259	$2,185
Hawthorne/North Torrance	1.2%	1.3%	(10)	$1,337	$1,283
Inglewood/Crenshaw	2.1%	2.0%	10	$1,610	$1,467
N Long Beach/Lakewood/Artesia	4.5%	4.7%	(20)	$1,562	$1,479
West Long Beach/Signal Hill	5.1%	5.5%	(40)	$2,221	$2,122
West Torrance/Ranchos Palos Verdes	2.1%	2.4%	(30)	$1,885	$1,814
South Bay Combined	**3.1%**	**3.3%**	**(20)**	**$1,775**	**$1,682**
WEST LA					
Beverly Hills/W Hollywood/Park La Brea	2.9%	2.4%	50	$2,806	$2,581
Marina Del Rey/Venice/Westchester	6.4%	6.6%	(20)	$3,407	$3,310
Santa Monica	3.7%	3.5%	20	$3,135	$3,003
West LA/Westwood/Brentwood	3.2%	3.4%	(20)	$3,078	$2,919
West LA Combined	**3.9%**	**3.8%**	**10**	**$3,074**	**$2,912**

Employment

- During the past 12 months, employers in Greater Los Angeles have expanded payrolls by 31,100 new jobs, a 0.7 percent increase. The current pace of expansion is less rapid than in recent periods; one year ago, employment had grown by 1.8 percent.
- The construction sector continues to expand. In the past year, construction employment has grown 4 percent with the addition of 5,700 net new positions.
- Employment in white-collar sectors has been inconsistent. The professional and business services sector recorded healthy growth, expanding 2.4 percent year over year with the addition of 14,800 new jobs. The additions were offset by losses in the information and financial activities sectors, which shed a combined 16,200 jobs during the past 12 months.
- **Forecast:** Employment in Greater Los Angeles is forecast to grow by 1 percent in 2019 with the addition of approximately 45,000 new jobs. Growth has averaged 1.4 percent annually during the past three years.

Employment Overview



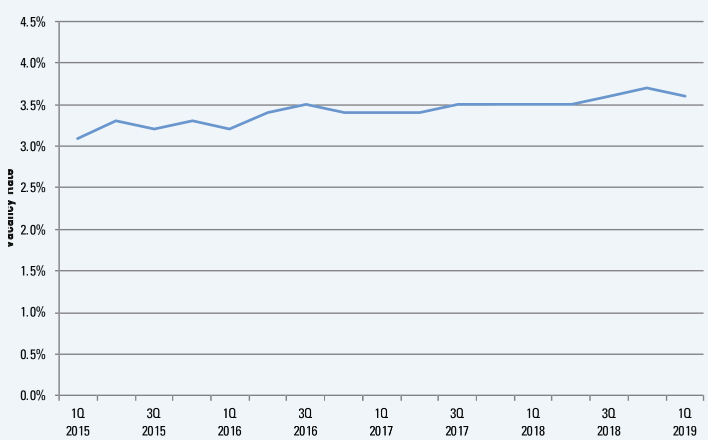
Sources: NorthMarq, Bureau of Labor Statistics

In the past year, construction employment has grown 4 percent

Vacancy

- Vacancy fell 10 basis points during the first quarter, dipping to 3.6 percent. The rate is up 10 basis points from one year ago.
- Vacancy in Greater Los Angeles has remained in a very tight range over the past several years. The rate has not topped 4 percent or dipped below 3 percent since 2011.
- The one segment of the market where there is some above-average vacancy is in Class A properties, where the vacancy rate is 6.7 percent, up 110 basis points from one year ago. In lower-cost Class B and Class C units, the combined vacancy rate is approximately 2 percent.
- **Forecast:** With deliveries of new apartments on pace to accelerate, the local vacancy rate is forecast to rise 20 basis points in 2019, ending the year at 3.9 percent.

Vacancy Trends



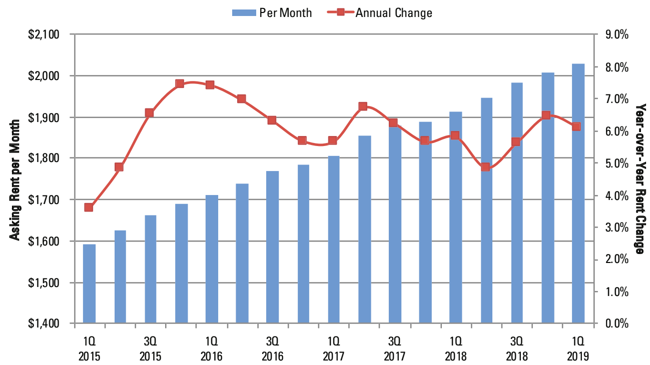
Sources: NorthMarq, Reis

Vacancy in Greater Los Angeles has remained in a very tight range over the past several years

Rents

- After topping $2,000 per month at the end of 2018, asking rents increased again during the first quarter, reaching $2,029 per month. Asking rents are 6.1 percent higher than one year ago.
- Rent growth in Greater Los Angeles has been very consistent since the second half of 2015, with annual gains averaging 6.2 percent in that time.
- Asking rents in Class A apartments increased 6 percent year over year, reaching $2,665 per month. If the current rate of increase continues, asking rents in the Class A segment would approach $2,800 per month by year-end 2019. Rents in Class A buildings could accelerate as more new construction delivers in the second half of this year.
- **Forecast:** Asking rents are expected to have another strong year of rent growth in 2019. Asking rents are forecast to rise 5.5 percent this year, reaching $2,120 per month.

Rent Trends



Sources: NorthMarq, Reis

Asking rents are 6.1 percent higher than one year ago

Development and Permitting

- More than 1,400 apartment units were added to the local inventory during the first quarter, nearly identical to the total number of units delivered during the same period one year ago. During the past four quarters, developers have been active, completing nearly 9,000 rental units.
- With the local economy strong and apartment vacancy tight, development is gaining momentum. Approximately 17,500 units are currently under construction, with projects slated to come online in the next 24-36 months.
- Multifamily permitting accelerated during the first quarter. Developers pulled permits for more than 3,200 multifamily units during the first quarter, up more than 15 percent from the same period one year ago.
- **Forecast:** After nearly 9,000 apartment units were delivered in 2018, construction is forecast to ramp up this year. Developers are expected to complete approximately 12,000 units this year.

Development Trends

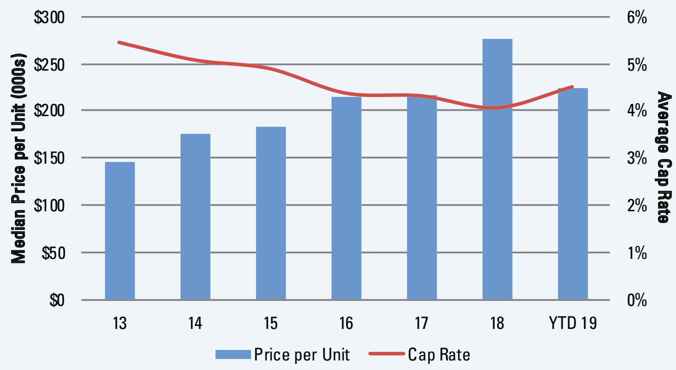
Sources: NorthMarq, Reis

Approximately 17,500 units are currently under construction

Multifamily Sales

- After local investment activity hit a cyclical high in 2018, sales velocity slowed slightly to start 2019. Apartment sales in first-quarter 2019 dropped 13 percent from levels recorded at the end of last year. Transaction activity in the first quarter was down approximately 30 percent from the same period one year ago.
- The median price spiked by more than 25 percent from 2017 to 2018, but prices returned closer to the long-term trend during the first quarter. The median price during the first quarter was $225,000 per unit. Approximately 20 percent of the transactions that closed during the first quarter traded at more than $300,000 per unit.
- Cap rates averaged 4.5 percent during the first quarter, up 40 basis points from the average in 2018. Part of the rise in cap rates can be attributed to a dip in the sale of Class A complexes. In 2018, Class A buildings accounted for nearly 20 percent of all sales, but during the first quarter, Class A sales activity was modest.

Investment Trends



Sources: NorthMarq, CoStar, Real Capital Analytics

Approximately 20 percent of the transactions that closed during the first quarter traded at more than $300,000 per unit

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

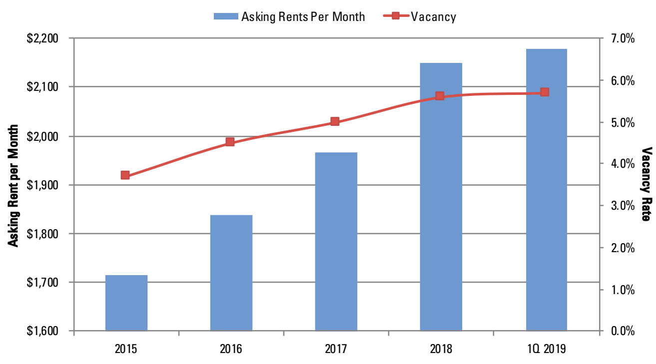
Property Name	Street Address	Units	Sales Price	Price/Unit
WREN	1230 S Olive St., Los Angeles	362	$180,100,000	$497,514
Landing at Long Beach	1613 Ximeno Ave., Long Beach	206	$72,000,000	$349,515
The Lennox	249-269 S LaFayette Park Pl., Los Angeles	268	$71,566,000	$267,037
The Parker	4608-4640 Arden Way, El Monte	177	$40,500,000	$228,813
Apple Tree	9229 Sepulveda Blvd., North Hills	125	$23,500,000	$188,000
El Sereno	4601-4689 Grey Dr., Los Angeles	98	$18,600,000	$189,796

Downtown

Construction/Vacancy/Rents

- Construction has been picking up in the Downtown area with more than 1,000 apartment units delivered during the first quarter and more than 6,000 units have been delivered in the past year. Approximately 5,500 apartment units are currently under construction.
- Vacancy in the Downtown area inched up 10 basis points during the first quarter, rising to 5.7 percent. The rate is 100 basis points higher than one year ago. Renter demand remains strong, but the rise in construction has put upward pressure on vacancy.
- Rents in the Downtown area have spiked as new, expensive units have been delivered. The average asking rent reached $2,178 per month in the first quarter, 9.6 percent higher than one year earlier.
- **Forecast:** The Downtown area will be impacted by new development again in 2019, which should cause vacancy to rise for the fourth consecutive year. Rents should also record gains, although the pace of asking rent increases will likely be closer to 6 percent after average increases of 8 percent in recent years.

Vacancy and Rent Trends



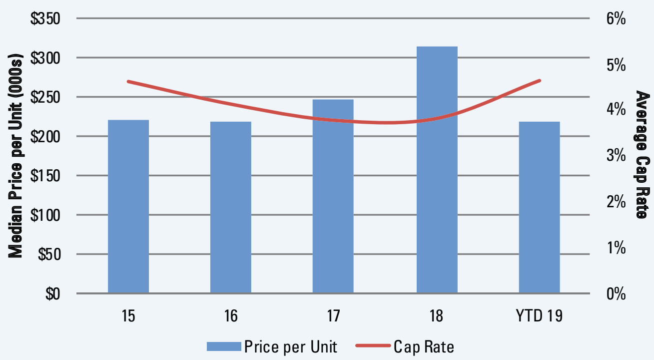
Sources: NorthMarq, Reis

Rents in the Downtown area have spiked as new, expensive units have been delivered

Multifamily Sales

- After peaking late last year, sales velocity dipped 9 percent from fourth-quarter 2018 to first-quarter 2019. Transaction activity year to date in the Downtown area is ahead of the pace recorded at the beginning of 2018.
- The median price in first-quarter sales was approximately $217,400 per unit. The median price spiked to more than $300,000 per unit in 2018, after being slightly higher than $200,000 per unit from 2015 to 2017.
- Cap rates averaged approximately 4.6 percent during the first quarter, up from approximately 3.8 percent in 2018. More than half of the sales that closed during the first quarter were Class C properties. Cap rates for Class A or Class B properties are often between 3.5 percent and 4 percent.

Sales Trends



Sources: NorthMarq, CoStar

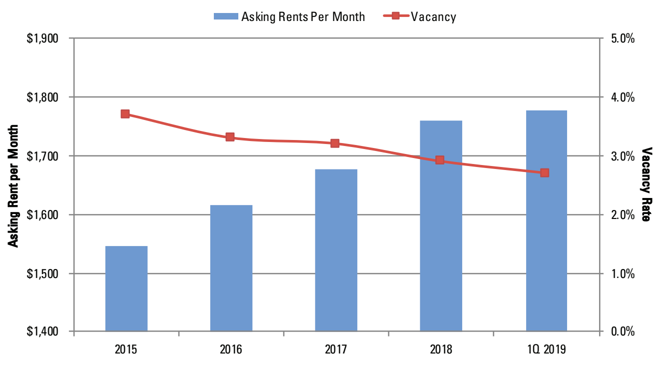
Sales velocity dipped 9 percent from fourth-quarter 2018 to first-quarter 2019

San Fernando Valley

Construction/Vacancy/Rents

- Construction in the San Fernando Valley slowed during the first quarter, with approximately 125 units coming online. The slowdown will be short-lived as there are approximately 5,200 units currently under construction and completions are forecast to accelerate during the next few quarters.
- Vacancy in the San Fernando Valley tightened in the first quarter, dipping 20 basis points to 2.7 percent. The rate was nearly 4 percent in 2015 but has been slowly trending lower over the past few years.
- Asking rents in the San Fernando Valley rose 1 percent in the first quarter, and at $1,777 per month, are 5.3 percent higher than one year ago. Rents in the San Fernando Valley have been posting steady increases of roughly 4 percent to 5 percent annually for the past few years.
- **Forecast:** Approximately 4,000 apartment units are forecast to come online in 2019, up from about 1,300 units one year ago. This will result in modest upward pressure on the vacancy rate, which will likely tick up to about 3 percent. Rent increases should once again approach 5 percent.

Vacancy and Rent Trends



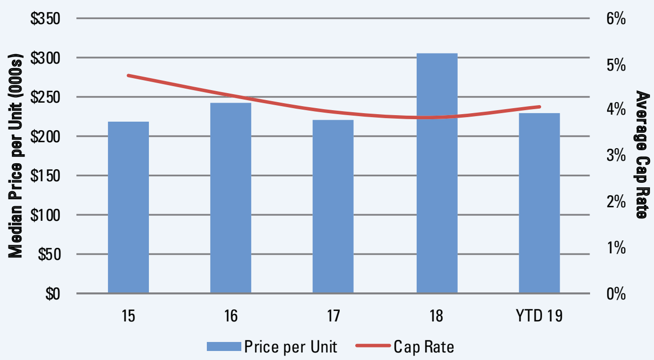
Sources: NorthMarq, Reis

Vacancy in the San Fernando Valley tightened in the first quarter.

Multifamily Sales

- The San Fernando Valley is generally one of the more active regions for investment sales in Los Angeles County. During the first quarter, sales velocity in the San Fernando Valley lagged levels from the same period in 2018 by approximately 40 percent.
- The median price in the San Fernando Valley during the first quarter was approximately $230,000 per unit, significantly lower than the median price of $300,000 per unit in 2018. The pricing recorded in the first quarter of this year is much closer to historical trends.
- During the first quarter, cap rates averaged approximately 4.1 percent, 20 basis points higher than the average from last year. Average cap rates in the San Fernando Valley have been close to 4 percent since 2016.

Sales Trends



Sources: NorthMarq, CoStar

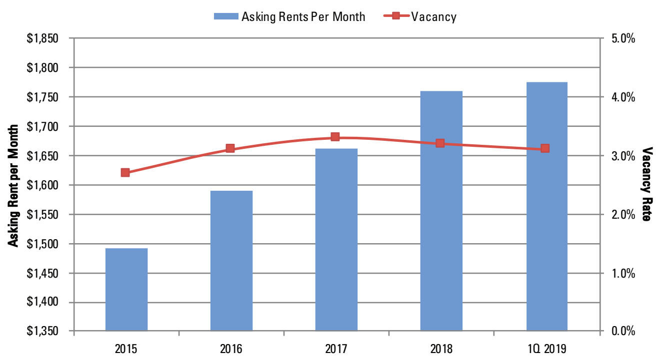
The median price during the first quarter was approximately $230,000 per unit

South Bay

Construction/Vacancy/Rents

- No new apartment units were delivered in the South Bay area during the first quarter, and fewer than 100 units have been delivered in the area during the past year. Construction is picking up, however, as projects totaling more than 1,700 units are currently under construction. The bulk of the projects are slated to come online in the second and third quarters of this year.
- Vacancy in the South Bay area dipped 10 basis points to 3.1 percent during the first quarter. The rate has fallen 20 basis points year over year. During the past few years, vacancy has remained in the high-2-percent to mid-3-percent range.
- Rents in the South Bay area remain on an upswing, increasing 5.5 percent in the past year to $1,775 per month. Rent growth in the South Bay has averaged 5 percent per year since 2015. The Carson/San Pedro/East Torrance area has posted the strongest rental increase year over year, rising nearly 7 percent.
- **Forecast:** With deliveries of apartments forecast to ramp up by the end of 2019, vacancy will likely tick higher. The projects under construction are primarily located in the West Long Beach/Signal Hill submarket. Rent growth is forecast to total approximately 5 percent again in 2019.

Vacancy and Rent Trends



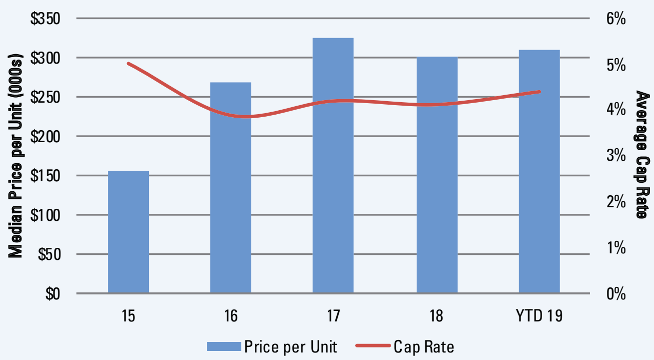
Sources: NorthMarq, Reis

Rents in the South Bay remain on an upswing, increasing 5.5 percent in the past year

Multifamily Sales

- Transaction activity in the South Bay area during the first quarter outpaced levels from the fourth quarter of last year and was nearly identical to the number of properties that sold one year earlier. Sales velocity in the South Bay area has been particularly active during the past three years.
- The median price in sales closed during the first quarter was approximately $309,500 per unit, up 3 percent from the median price in 2018. The median price in the South Bay area topped $300,000 per unit in both 2017 and 2018.
- Cap rates averaged approximately 4.4 percent during the first quarter, up from 4.1 percent in 2018. Most properties are changing hands with cap rates somewhere between 3.5 percent and 4.75 percent.

Sales Trends



Sources: NorthMarq, CoStar

The median sales price in the South Bay was $309,500 per unit during the first quarter

West Los Angeles

Construction/Vacancy/Rents

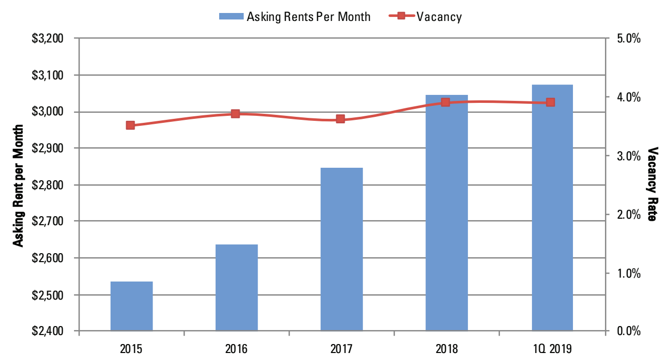
> Approximately 275 apartment units were delivered in the West Los Angeles region, and nearly 750 units have come online in the past four quarters. Complexes totaling approximately 2,350 apartment units are currently under construction, including significant projects in Santa Monica and Marina del Rey.

> Vacancy in the West Los Angeles area was even during the first quarter, holding steady at 3.9 percent. The rate has ticked up just 10 basis points year over year, and vacancy has generally averaged in the mid- to high-3-percent range for the past few years.

> Asking rents in West Los Angeles ended the first quarter at $3,074 per month, 5.5 percent higher than one year ago. Gains are being recorded across the region, with the strongest spikes occurring in the Beverly Hills/West Hollywood submarket, where rents rose by nearly 9 percent in the past year.

> **Forecast:** Complexes totaling approximately 1,300 units are forecast to be delivered in 2019, after more than 1,000 units came online in 2018. Renter demand in the area is likely to remain healthy, keeping vacancy in line with the current figure. Rents are expected to post another increase of approximately 5 percent.

Vacancy and Rent Trends



Sources: NorthMarq, Reis

Asking rents in West Los Angeles ended the first quarter at $3,074 per month

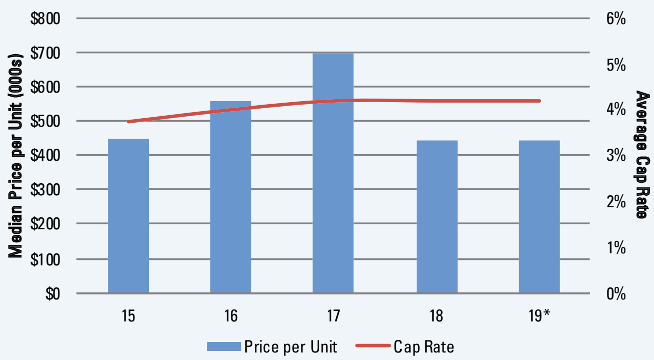
Multifamily Sales

> Transaction activity in the West Los Angeles area is often minimal, and there were no significant sales during the first quarter. Transaction activity in West Los Angeles was strongest from 2015-2017 but has slowed considerably since the beginning of 2018.

> With no transactions having closed year to date, pricing is limited. During the past 12 months, the median price is approximately $445,000 per unit. The median price over the past several years has been approximately $500,000 per unit, although there are annual fluctuations based on the properties that come to market.

> Cap rates in the West Los Angeles region are generally the lowest in the market, averaging in the mid-3-percent to the low-4-percent range.

Sales Trends



Sources: NorthMarq, CoStar
*Sales Past 12 Months

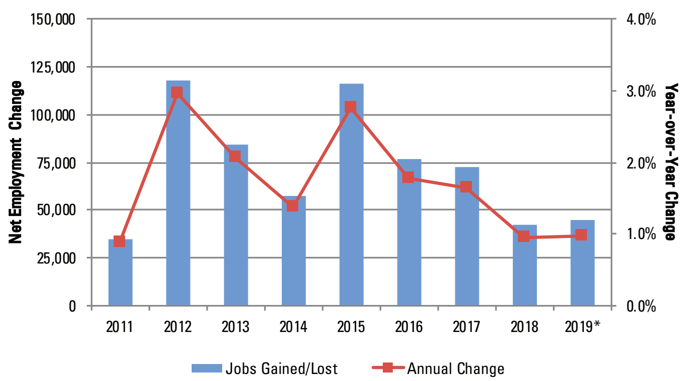
Transaction activity has slowed considerably since the beginning of 2018

Looking Ahead

The Greater Los Angeles multifamily market should continue to record healthy property performance in 2019. While population growth in Los Angeles County has been slowing, employers continue to expand payrolls at a pace that is supporting renter demand for apartments. This year, multifamily supply growth will be one of the primary forces in the market. Apartment deliveries in 2019 are forecast to total approximately 12,000 units, the highest annual total in more than 20 years. The increase in construction will likely push the vacancy rate higher in 2019, but the rise should be fairly modest.

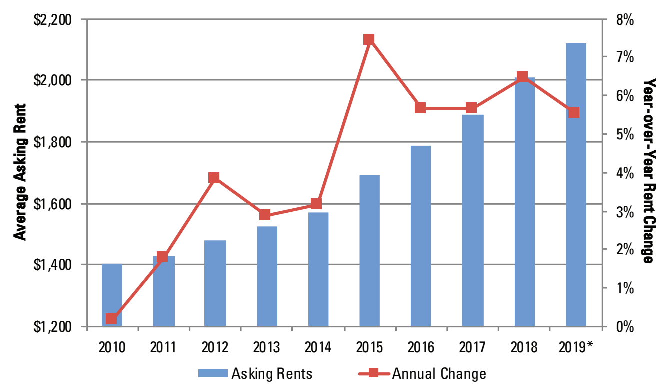
In recent years, multifamily investment activity in Greater Los Angeles has followed a pattern of increases in one year, followed by less activity in the next year. In 2018, there was a surge in activity, suggesting 2019 could be a year of more modest sales velocity. Through the first quarter of this year, the total number of sale transactions is behind the pace established in 2018, with the greatest drop-off in activity occurring in the Class A segment. Assuming sales activity in Class A buildings picks up, prices will likely tick higher and there could be some cap rate compression.

Employee Forecast



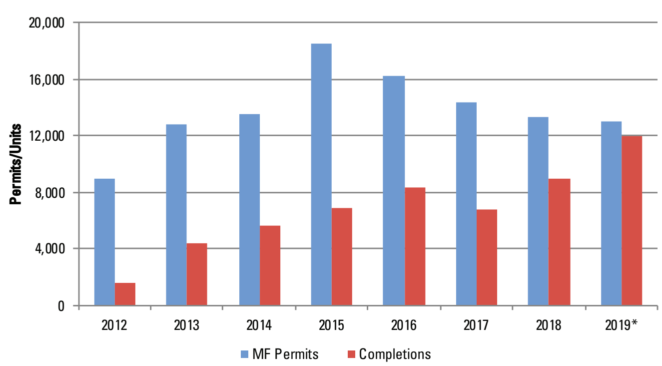
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



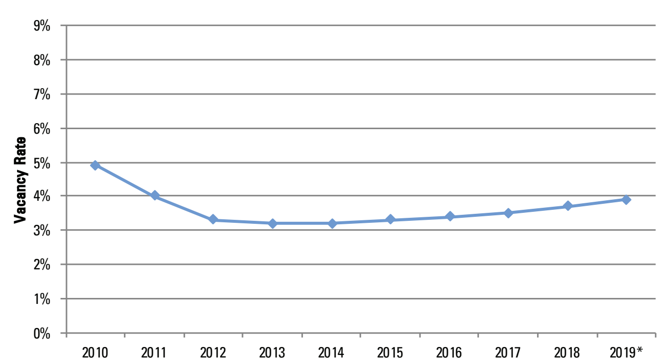
* Year End Forecast
Sources: NorthMarq, Reis

Construction & Permitting Forecast



* Year End Forecast
Sources: NorthMarq, Census Bureau, Reis

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Reis

About NorthMarq

As a capital markets leader, NorthMarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of $13 billion, loan servicing portfolio of more than $55 billion and the multi-year tenure of our more than 500 people.

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