

Greater Los Angeles Multifamily

Vacancy Low, Rents Rising as Development Gains Momentum

Highlights

- > Multifamily properties performed well in Greater Los Angeles during the second quarter. The market benefitted from a healthy pace of job growth and a dip in the delivery of new units.
- > Vacancy in Los Angeles County held steady at 3.6 percent during the second quarter; the rate is up just 10 basis points year over year.
- > Local asking rents closed the first half of the year at \$2,043 per month, up 5 percent from one year earlier. Some of the strongest growth is being recorded in Downtown Los Angeles.
- > The investment market strengthened in the second quarter with transaction activity ticking up, prices rising, and cap rates compressing. Cap rates have averaged 4.4 percent thus far in 2019, but rates dipped to 4.25 percent during the second quarter.

Greater Los Angeles Multifamily Market Overview

The second quarter was a period of operational stability throughout much of the Greater Los Angeles multifamily market. Renter demand for units was supported by an accelerating pace of employment growth, while the pace of deliveries slowed from levels in recent quarters. This kept vacancy steady and allowed for modest rent increases. The development pipeline is rather full, with more than 19,000 apartment units currently under construction. Downtown and the San Fernando Valley are scheduled to receive the bulk of the inventory growth in the next 12-24 months.

Q2 Snapshot

Los Angeles Market



Market Fundamentals

Vacancy	3.6%
- Year Over Year Change	+10 bps
Asking Rent	\$2,043
- Year Over Year Change	+5.0%



Transaction Activity

Median Sales Price Per Unit (YTD)	\$232,600
Cap Rates (Avg YTD)	4.4%



Construction Activity

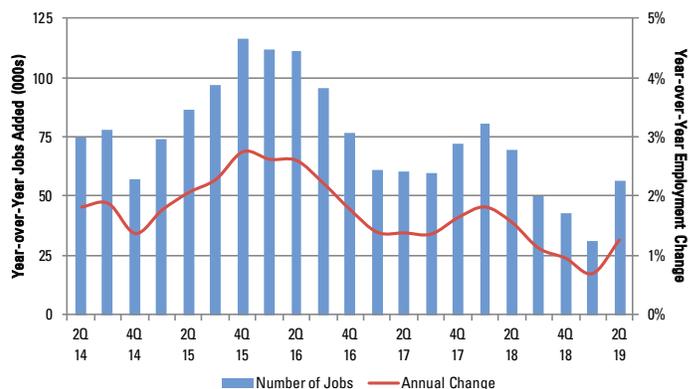
Units Under Construction	19,520
Units Delivered YTD	2,506

The local investment market recorded strong performance in the second quarter. Transaction activity accelerated, per-unit prices rose, and cap rates compressed on average. The San Fernando Valley was one of the top spots for transaction activity, accounting for approximately one-third of the total number of transactions during the second quarter. Sales in the South Bay also accelerated during the second quarter. Cap rates have averaged approximately 4.4 percent thus far in 2019, but the average ticked lower in the second quarter and some additional compression could occur in the second half of the year.

Employment

- > In the 12-month period ending in the second quarter, employers in Greater Los Angeles expanded payrolls by 56,200 new jobs, an increase of 1.3 percent. The pace of employment growth accelerated in the first half of this year after slowing late in 2018.
- > Gains in the healthcare and social assistance sector accounted for approximately 40 percent of all new positions added in Los Angeles County in the past year. The sector has added 22,500 jobs in the past year, a 3.3 percent growth rate.
- > The construction sector has been expanding at a rapid pace. Year over year through the second quarter, construction employment grew 7.7 percent with the addition of 11,400 net new jobs.
- > **Forecast:** Employment in Greater Los Angeles is forecast to expand by 1.3 percent in 2019 with the addition of approximately 60,000 new jobs. Growth topped 70,000 jobs per year in both 2016 and 2017 before dipping to approximately 43,000 new jobs in 2018.

Employment Overview



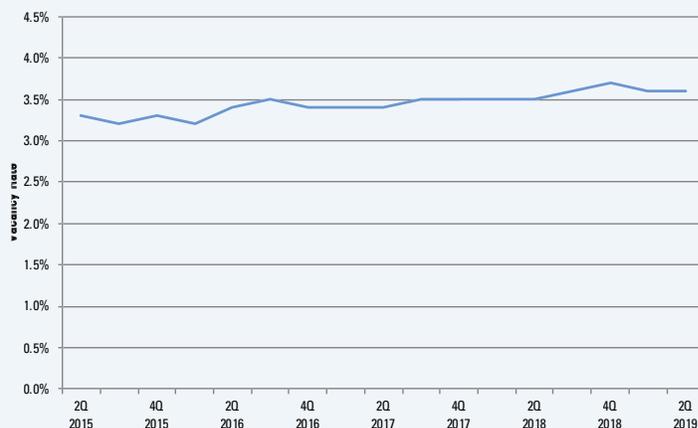
Sources: NorthMarq, Bureau of Labor Statistics

In the 12-month period ending in the second quarter, employers expanded payrolls by 56,200 new jobs

Vacancy

- > Vacancy has been very stable during the past several quarters. After dipping 10 basis points in the first quarter, the vacancy rate held steady at 3.6 percent in the second quarter. Year over year, vacancy is up 10 basis points.
- > The San Fernando Valley is an area with one of the largest concentrations of apartment units in Los Angeles County. Vacancy in the San Fernando Valley averaged 2.8 percent in the second quarter, down 40 basis points from one year ago.
- > One area in Greater Los Angeles that has been impacted by new construction is Downtown. Multifamily vacancy Downtown is up 100 basis points year over year at 5.6 percent as of the second quarter.
- > **Forecast:** Vacancy in Los Angeles County is expected to end the year at 3.8 percent, up just 10 basis points from the year-end 2018 figure. The accelerating pace of new apartment construction will likely drive the modest vacancy uptick.

Vacancy Trends



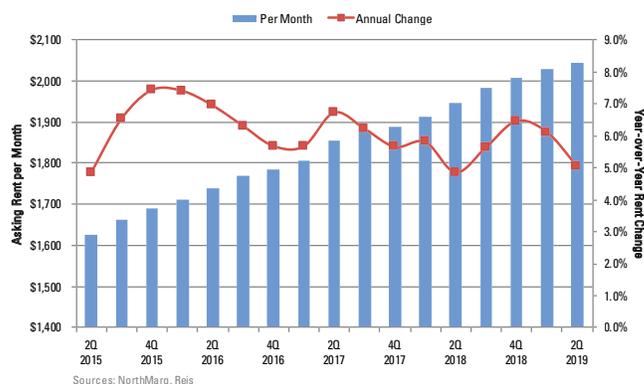
Sources: NorthMarq, Reis

Year over year, vacancy is up 10 basis points at 3.6 percent

Rents

- > Asking rents increased 1.7 percent in the first half of this year, ending the second quarter at \$2,043 per month. The pace of rent growth has been more restrained than during the same period last year; in the first half of 2018, asking rents rose 3.1 percent.
- > Asking rents in Greater Los Angeles rose 5 percent in the 12-month period ending in the second quarter. A year ago at this time, growth was nearly identical, at 4.9 percent.
- > The delivery of thousands of new high-end apartment units to the Downtown area has fueled rapid rent growth. Asking rents in Downtown have spiked 9.6 percent in the past year.
- > **Forecast:** Asking rents in Greater Los Angeles are forecast to end 2019 a few dollars over \$2,100 per month, reflecting an increase for the year of nearly 5 percent.

Rent Trends

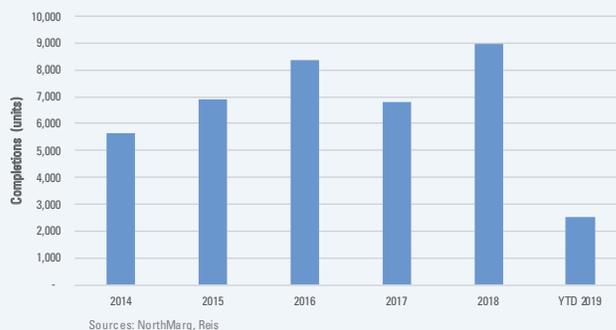


The delivery of thousands of new high-end apartment units to the Downtown area has fueled rapid rent growth in the city core

Development and Permitting

- > Approximately 1,000 apartment units were delivered during the second quarter, down approximately 35 percent from the number of units completed in the first quarter.
- > Projects totaling more than 2,500 units were delivered in the first half of 2019, after more than 3,500 units came online in the first half of last year. Construction is expected to accelerate in the second half of the year.
- > Approximately 19,500 apartment units are currently under construction. Projects totaling nearly 10,000 units are slated to come online before the end of this year.
- > **Forecast:** Apartment construction should accelerate in 2019. Following the delivery of nearly 9,000 units in 2018, developers are expected to complete approximately 12,000 units this year.

Development Trends



Projects totaling nearly 10,000 units are slated to come online in the second half of 2019

Multifamily Sales

- > Sales activity rose 10 percent from the first quarter to the second quarter, with the largest increase occurring in transactions between \$15 million and \$25 million. Sales velocity in the first half of 2019 was down approximately 15 percent compared to the same period from last year.
- > After inching lower at the beginning of the year, the median price rose in the second quarter. The median price during the second quarter was nearly \$260,000 per unit, up from \$225,000 per unit in the first quarter. Through the first half of the year, the median price was \$232,600 per unit.
- > Cap rates compressed slightly during the second quarter, dipping to 4.25 percent from 4.5 percent in the first quarter. The average cap rate in deals closed during the first half of the year was approximately 4.4 percent.

Investment Trends



Sources: NorthMarq, CoStar

Sales velocity in the first half of 2019 was down approximately 15 percent compared to the same period from last year

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

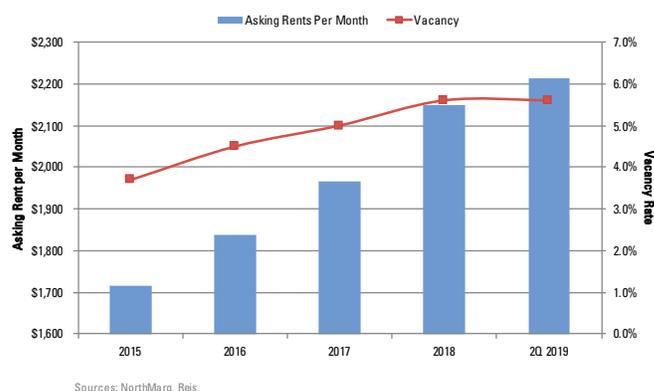
Property Name	Street Address	Units	Sales Price	Price/Unit
Colony at the Lakes	301 S Glendora Ave., West Covina	450	\$171,500,000	\$381,111
Avalon Cerritos	12651 Artesia Blvd., Cerritos	132	\$60,500,000	\$458,333
The Gershwin	5533 Hollywood Blvd., Los Angeles	172	\$46,000,000	\$267,442
MetWest	5837 W Sunset Blvd., Los Angeles	79	\$38,000,000	\$481,013
The Terraces	5919-5931 Reseda Blvd., Tarzana	112	\$25,750,000	\$229,911

Downtown

Construction/Vacancy/Rents

- > After more than 1,000 apartment units were delivered in Downtown during the first quarter, projects totaling nearly 500 units came online in the second quarter. Completions in the first half of 2019 were down 15 percent from the same period in 2018. The development pipeline includes approximately 7,000 units currently under construction.
- > Vacancy in the Downtown area inched down 10 basis points from the first quarter, reaching 5.6 percent as of the second quarter. Despite the modest improvement during the second quarter, the rate is up 100 basis points year over year.
- > Rents in Downtown Los Angeles have been rising at one of the fastest rates in the country. Asking rents in Downtown have advanced 9.6 percent in the past 12 months, ending the second quarter at \$2,213 per month.
- > **Forecast:** Downtown Los Angeles will continue to be impacted by the delivery of new apartment units. The vacancy rate in the area will likely remain near the mid-year figure, while rents are expected to continue to trend higher.

Vacancy and Rent Trends

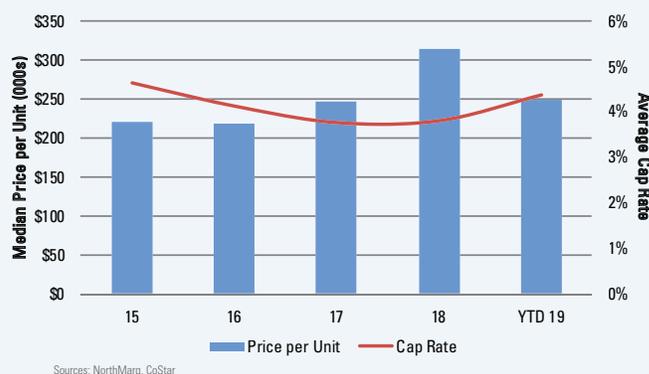


Rents in Downtown Los Angeles have been rising at one of the fastest rates in the country

Multifamily Sales

- > Sales velocity in Downtown Los Angeles slowed from the first quarter to the second quarter. Despite the quarterly dip, the number of transactions in the first half of 2019 was up nearly 10 percent from the same period last year.
- > The median price during the second quarter was more than \$282,000 per unit, up nearly 30 percent from the median price in the first quarter. In transactions during the first half, the median price reached nearly \$250,000 per unit. A few properties have sold for more than \$400,000 per unit in 2019.
- > After creeping higher during the first quarter, cap rates dipped in the second quarter, averaging less than 4 percent. Thus far in 2019, the average cap rate in sales of Downtown apartment properties is approximately 4.3 percent.

Sales Trends



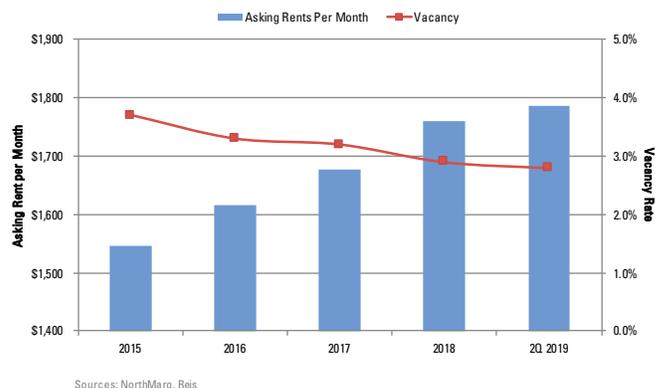
The median price during the second quarter was more than \$282,000 per unit

San Fernando Valley

Construction/Vacancy/Rents

- > Apartment construction in the San Fernando Valley picked up during the second quarter, with nearly 400 units coming online. During the past year, more than 800 units have been delivered in the San Fernando Valley, and projects totaling more than 4,100 units are currently under construction.
- > The vacancy rate in the San Fernando Valley is the lowest of the major geographic areas in Los Angeles County. Vacancy in the San Fernando Valley ended the second quarter at 2.8 percent, down 40 basis points in the past year.
- > Asking rents in the San Fernando Valley are up 4.5 percent from one year ago, ending the second quarter at \$1,787 per month. Rents in the Sherman Oaks/Studio City area have spiked by more than \$100 per month in the past year, reaching nearly \$2,000 per month.
- > **Forecast:** Apartment deliveries are forecast to pick up in the second half of 2019, which will likely result in a modest vacancy uptick to approximately 3 percent by year end. Rents are expected to continue on their steady upward climb, with gains in the 4 percent to 5 percent range.

Vacancy and Rent Trends



Asking rents in the San Fernando Valley are up 4.5 percent from one year ago

Multifamily Sales

- > Sales velocity in the San Fernando Valley accelerated during the second quarter, spiking more than 50 percent from the number of transactions during the first quarter, the largest increase across Greater Los Angeles. Despite the surge in sales during the second quarter, transaction activity in the San Fernando Valley in the first half of 2019 was down nearly 20 percent from the first half of 2018.
- > With activity picking up, prices also ticked higher in the second quarter. The median price in transactions during the second quarter was nearly \$240,000 per unit, up 5 percent from the first quarter. The median price in the San Fernando Valley through the first half of 2019 is approximately \$232,600 per unit.
- > Cap rates inched higher in second-quarter sales, averaging approximately 4.5 percent. The average cap rate in closed sales through the first half of the year was 4.4 percent, about 40 basis points higher than recent annual averages.

Sales Trends



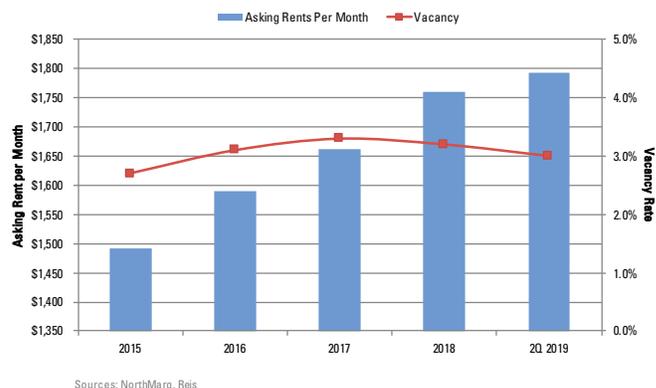
Sales velocity spiked more than 50 percent from the number of transactions during the first quarter

South Bay

Construction/Vacancy/Rents

- > Construction in the South Bay has been light but increased modestly in recent months. Approximately 100 new apartment units were delivered in the South Bay area in the second quarter. The pace of deliveries should pick up in the coming quarters as there are projects totaling more than 1,900 units currently under construction.
- > Apartment vacancy in the South Bay fell 10 basis points in the second quarter, matching the dip that was recorded in the first three months of the year. The rate is down to 3 percent, 30 basis points lower than one year ago.
- > Rents rose more than 1 percent in the second quarter, reflecting steady renter demand in the area. At \$1,793 per month, average asking rents in the South Bay are up 5 percent from one year ago.
- > **Forecast:** The South Bay region of Los Angeles County is going to be impacted by new construction far more in 2019 and 2020 than in recent years. Inventory growth has averaged less than 300 units per year, but that number will more than double in 2019. Vacancy will likely inch higher, but rent growth should persist at its current pace.

Vacancy and Rent Trends

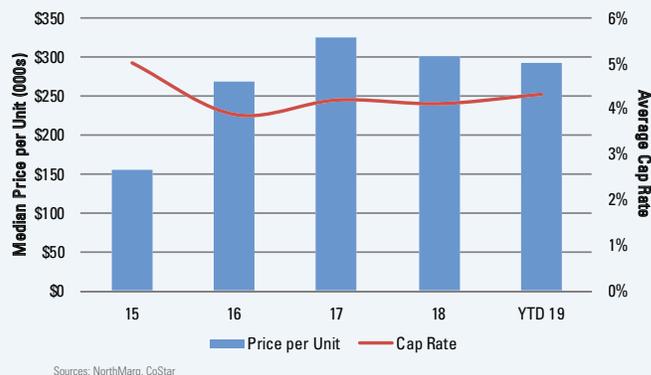


Average asking rents are up 5 percent from one year ago at \$1,793 per month

Multifamily Sales

- > Transaction activity in the South Bay ticked higher from the first quarter to the second quarter, and sales velocity levels from the first half of this year are nearly identical to the figures from the same period in 2018.
- > The median price in sales from the second quarter dipped slightly from the first quarter. The median price in the second quarter was approximately \$275,000 per unit, after the figure had topped \$300,000 per unit in recent periods. Year to date, the median price in the South Bay is more than \$290,000 per unit.
- > Cap rates averaged 4.25 percent in the second quarter and have averaged 4.3 percent through the first half of the year. Nearly all properties are changing hands with cap rates below 5 percent.

Sales Trends



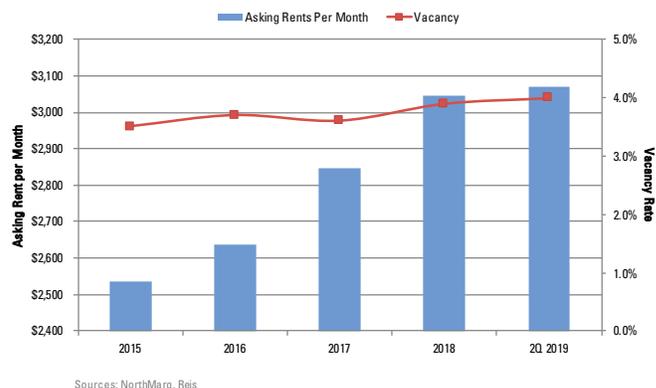
The median price in the second quarter was approximately \$275,000 per unit

West Los Angeles

Construction/Vacancy/Rents

- > After approximately 275 apartment units were delivered in the West Los Angeles region in the first quarter, no significant projects came online during the second quarter. The pace of development is scheduled to pick up, with projects totaling approximately 2,300 units currently under construction.
- > After holding steady at the start of the year, vacancy in the West Los Angeles area inched up 10 basis points during the second quarter, reaching 4 percent. The rate is also up 10 basis points from one year ago.
- > Asking rents in West Los Angeles were essentially flat during the second quarter, ending the period at \$3,071 per month. Rents are up 2.9 percent year over year, following a 7 percent spike in 2018.
- > **Forecast:** With new construction on pace to exceed 1,000 units in 2019, there could be some modest upward pressure on vacancy in the coming quarters. Rent growth has been particularly strong in recent years but could level off as the new inventory enters the West Los Angeles area.

Vacancy and Rent Trends



Rents are up 2.9 percent year over year, following a 7 percent spike in 2018

Multifamily Sales

- > Transaction activity in the West Los Angeles area has remained limited through the first half of 2019, although there has been one significant sale. In a typical year, only a handful of properties in the area change hands.
- > The significant project that sold during the second quarter traded for nearly \$900,000 per unit. Pricing in the area is volatile from year to year, but the median price over the past five years is approximately \$510,000 per unit.
- > Cap rates in the West Los Angeles region are generally the lowest in the market, often averaging in the low- to mid-3-percent range.

Sales Trends



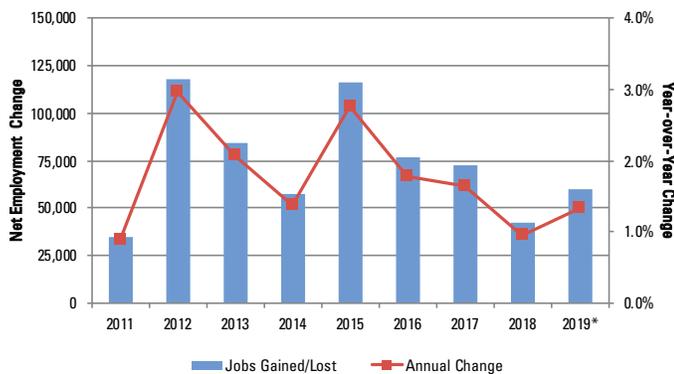
The significant project that sold during the second quarter traded for nearly \$900,000 per unit

Looking Ahead

After several periods of sustained consistent performance, there could be some changes coming to the Greater Los Angeles multifamily market in the coming quarters. Construction of new units is accelerating. The Downtown area has been a hot spot for new construction for the past few years, but development is picking up in the surrounding areas. Still, the Los Angeles market is one of the largest in the country, vacancy is low, and demand is strong enough that the new units should be absorbed fairly quickly.

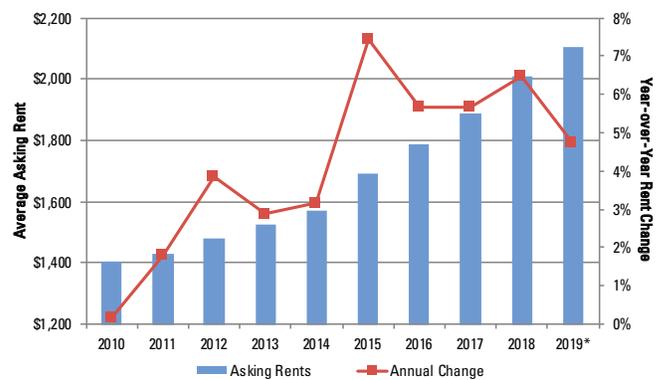
With property fundamentals strong, the biggest uncertainty on the local investment market will be the impact of statewide rent cap legislation that is scheduled to be signed before the end of the year. The bill is scheduled to go into effect at the beginning of 2020, capping rent increases to 5 percent plus inflation on units that were built at least 15 years ago. The impact on investment and financing trends will be worth monitoring. The legislation does allow for rent increases that—after inflation—have closely tracked the area’s long-term average.

Employment Forecast



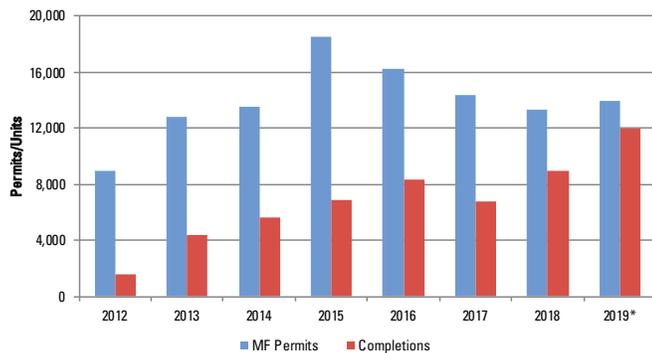
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



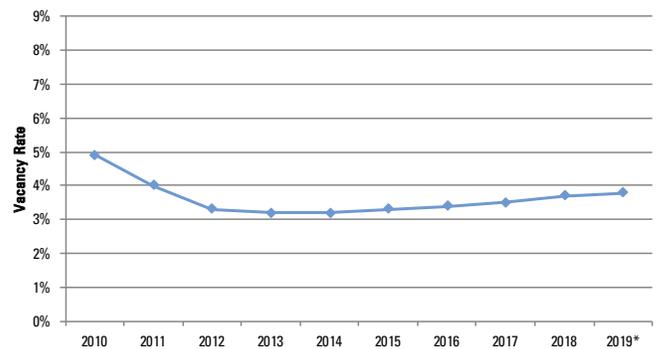
* Year End Forecast
Sources: NorthMarq, Reis

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.

For more information, contact:

Shane Shafer

SVP, MANAGING DIRECTOR – INVESTMENT SALES
949.270.3690
sshaffer@northmarq.com

Michael Elmore

SVP, MANAGING DIRECTOR – DEBT & EQUITY
949.717.5213
melmore@northmarq.com

Kyle Pinkalla

MANAGING DIRECTOR – INVESTMENT SALES
858.675.7865
kpinkalla@northmarq.com

Trevor Koskovich

PRESIDENT – INVESTMENT SALES
T 602.952.4040
tkoskovich@northmarq.com

Pete O'Neil

DIRECTOR OF RESEARCH
602.508.2212
poneil@northmarq.com

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