MARKET REPORT | 1Q/2020

Greater Los Angeles Multifamily

NORTHMARQ

Conditions Were Stable Prior to COVID-19

Highlights

- The multifamily market in Greater Los Angeles was showing steady performance in the first quarter when the coronavirus pandemic put the market on pause. As the economy reopens, apartment conditions will likely return to something close to normal.
- Vacancy in Los Angeles County increased 10 basis points from the previous quarter to 3.9 percent; the rate is up 30 basis points year over year.
- Local asking rents finished the first quarter of 2020 at $2,086 per month, up 2.8 percent from one year earlier.
- After a strong fourth quarter in 2019 the investment market slowed slightly in the beginning of the year before the COVID-19 outbreak stalled activity. The median price rose to $317,000 per unit, and cap rates averaged approximately 4 percent.

Q1 Snapshot	Los Angeles Market
Market Fundamentals	
Vacancy	**3.9%**
- Year Over Year Change	**+30 bps**
Asking Rent	**$2,086**
- Year Over Year Change	**+2.8%**
Transaction Activity	
Median Sales Price Per Unit (YTD)	**$317,000**
Cap Rates (Avg YTD)	**4.0%**
Construction Activity	
Units Under Construction	**18,200**
Units Delivered YTD	**1,557**

Greater Los Angeles Multifamily Market Overview

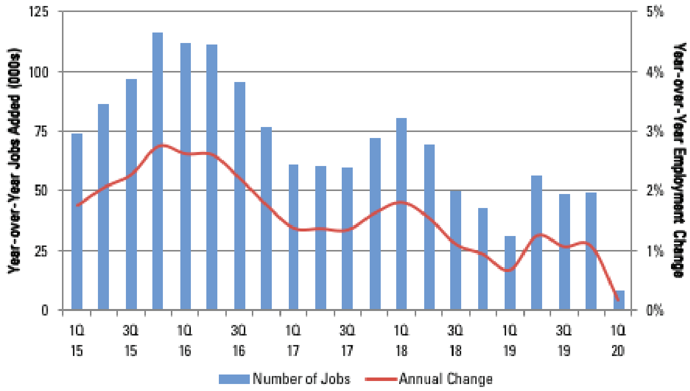
The Greater Los Angeles multifamily market was off to a very steady start prior to the onset of the COVID-19 outbreak. The vacancy rate inched higher to start 2020 and is a bit higher than the figure from one year earlier. Vacancy rates are generally low throughout Los Angeles County, with properties in the San Fernando Valley posting particularly tight operating conditions. The only area with any significant vacancy at the end of the first quarter was Downtown, where developers have delivered more than 9,000 new units since the beginning of 2018.

The local investment market was generally performing smoothly at the beginning of 2020. Transaction levels had slowed from the pace recorded at the end of last year but were pretty consistent with quarterly averages from the past few years. Prices rose and cap rates compressed slightly, reflecting the healthy investor demand for local properties before the coronavirus disrupted transaction activity. Sales velocity will likely drop off in the coming quarters, but activity is expected to resume by the end of the year. Cap rates are not expected to post any kind of significant increase.

Employment

- In the 12 months ending in March, employers in Greater Los Angeles added 8,600 new jobs, an annual gain of 0.2 percent. Losses were recorded late in the first quarter, as employers shed 36,200 net jobs during the first three months of 2020.
- The education and health services sector has been outperforming other industries in the Los Angeles economy. Year over year, employment in the sector has grown by 2.3 percent, adding 19,300 new jobs.
- Employment in leisure and hospitality services felt the most significant impact from the pandemic, consistent with markets across the country. The industry's local job losses totaled 29,000 in the first quarter, a decline of 3.7 percent from the same period last year. The leisure and hospitality sector employs nearly 12 percent of the total workforce in Greater Los Angeles.
- **Forecast:** Employment across the country was disrupted by the COVID-19 outbreak beginning in late March and continuing into April. Most major markets, including Greater Los Angeles, are forecast to add back approximately half of the jobs lost during the shutdown by the end of 2020.

Employment Overview



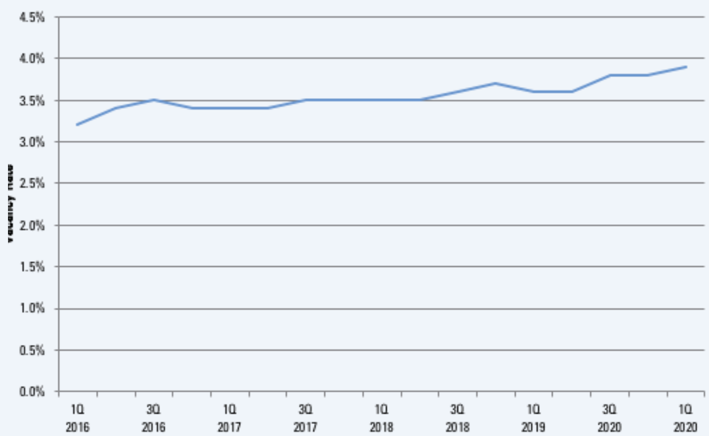
Sources: NorthMarq, Bureau of Labor Statistics

The education and health services sector has been outperforming other industries in the economy

Vacancy

- Vacancy in Greater Los Angeles inched higher in the first quarter, increasing 10 basis points to 3.9 percent. The rate was 3.6 percent one year ago.
- The San Fernando Valley area has generated consistent renter demand, and vacancy rates have held steady at 2.9 percent over the past three quarters.
- In recent years, much of the multifamily construction in Greater Los Angeles has taken place Downtown. With new supply entering the submarket, vacancy Downtown has been rising at a higher clip than other submarkets, and the rate is currently 6.6 percent, up 60 basis points from the previous year.
- **Forecast:** Vacancy in Los Angeles County is expected to end 2020 at approximately 5 percent, up 120 basis points from the end of last year.

Vacancy Trends



Sources: NorthMarq, Reis

Vacancy inched higher in the first quarter, increasing 10 basis points to 3.9 percent

Rents

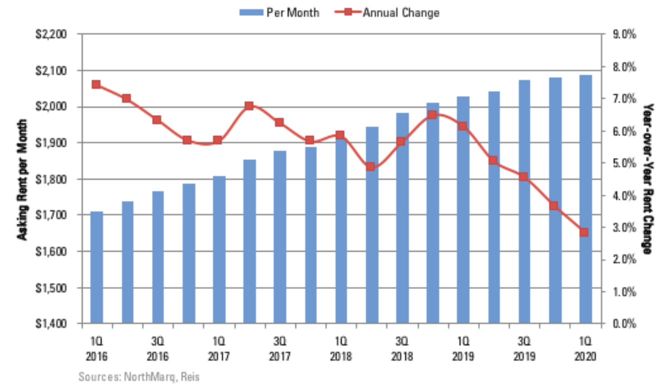
> Asking rents rose marginally from the fourth quarter to the first quarter, ending the period at $2,086 per month. The quarterly change of 0.2 percent represents some of the slowest quarterly rent growth for Greater Los Angeles in the past decade.

> Asking rents in Greater Los Angeles increased by 2.8 percent in the 12 months preceding the first quarter. Annual rent growth has been losing momentum since late 2018, where rent growth reached as high as 6.5 percent.

> During the first quarter, Class A buildings reported no change in rents, and Class B and Class C buildings grew by just 0.2 percent. With economic conditions strained, rents in Greater Los Angeles may have reached their near-term peak.

> **Forecast:** This year, asking rents in Greater Los Angeles are expected to remain essentially flat. While there will likely be greater concessions issued during the months where the quarantine results in lower demand, asking rents will likely record little change.

Rent Trends



Sources: NorthMarq, Reis

During the first quarter, Class A buildings reported no change in rents

Development and Permitting

> Multifamily completions accelerated during the first quarter. Approximately 1,500 apartment units were delivered, more than double the number reported in the fourth quarter.

> Developers in Greater Los Angeles pulled permits for 3,500 units during the first quarter, a 10 percent increase from one year earlier.

> Approximately 18,200 apartment units are currently under construction in Greater Los Angeles, up 4 percent compared to one year earlier.

> **Forecast:** Developers were on pace to deliver approximately 12,000 new units in 2020, although construction could be slowed in response to disrupted supply chains.

Development Trends

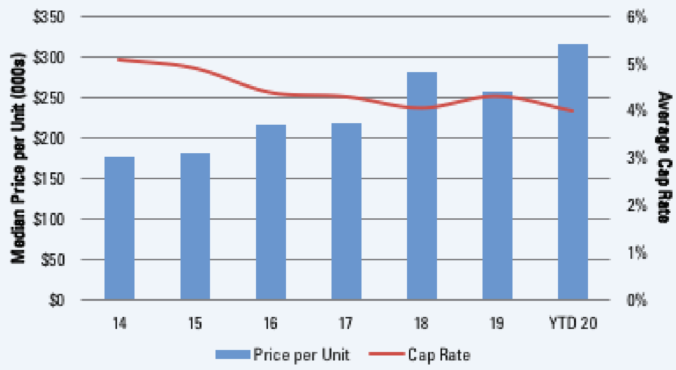
Sources: NorthMarq, Reis

Approximately 18,200 apartment units are currently under construction

Multifamily Sales

- After an active end to last year, sales velocity slowed by nearly 30 percent in the first quarter of 2020. Transaction levels from the first quarter were pretty consistent when compared with the beginnings of recent years.
- The median price in transactions closed during the first quarter reached $317,000 per unit, 23 percent higher than the figure for all of 2019. A healthy investor appetite for local properties has pushed prices higher.
- Cap rates compressed slightly in the first quarter, decreasing to approximately 4 percent. In 2019, cap rates had an annual average of 4.3 percent.

Investment Trends



Sources: NorthMarq, CoStar

Transaction levels from the first quarter were consistent when compared with the beginnings of recent years

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

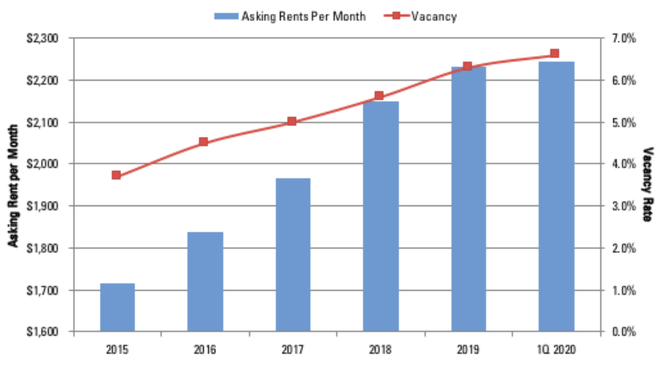
Property Name	Street Address	Units	Sales Price	Price/Unit
One Santa Fe	300 S Santa Fe Ave	438	$175,500,000	$400,684
Wilshire Vermont	3183 Wilshire Blvd	449	$135,120,000	$300,946
The Preston Miracle Mile	630 Masselin Ave	169	$86,776,000	$513,467
Vio Cerritos	18427 Studebaker Rd	150	$48,600,000	$324,000
Valerio Village Apartments	14420-14432 Valerio St	96	$19,232,375	$200,337

Downtown

Construction/Vacancy/Rents

- Construction remained active in the Downtown submarket, with approximately 1,000 units coming online in the first quarter. Completions this quarter closely tracked the amount recorded in the same period last year. Projects totaling 7,200 units are currently under construction Downtown.
- Apartment vacancy Downtown rose by 30 basis points from the fourth quarter to the first quarter, reaching 6.6 percent. Year over year, the rate has increased by 60 points.
- Rents in Downtown Los Angeles are up 3.3 percent over the past 12 months, ending the first quarter at $2,245 per month. Annual rent growth in the region was 9.3 percent one year earlier.
- **Forecast:** The Downtown area is slated to have nearly 1,500 units of new construction delivered this year, although the bulk of the units have already come online. Vacancy in the area could top 7 percent in 2020, while asking rents should be essentially flat.

Vacancy and Rent Trends



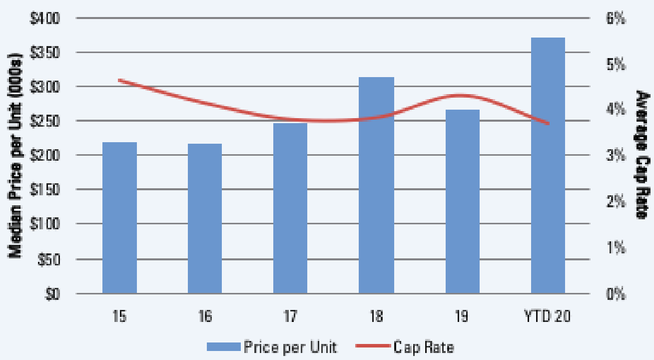
Sources: NorthMarq, Reis

Apartment vacancy Downtown rose by 30 basis points from the fourth quarter to the first quarter

Multifamily Sales

- Sales velocity in Downtown Los Angeles picked up in the first quarter as deal volume increased by more than 40 percent from the previous quarter. Transaction activity recorded in the first quarter matched the volume from the same period last year.
- The median price in the first quarter was $372,000 per unit, up nearly 40 percent from the median price reported in the full year of 2019.
- After creeping higher to 4.3 percent in 2019, cap rates compressed, averaging 3.7 percent in the first quarter of 2020.

Sales Trends



Sources: NorthMarq, CoStar

Transaction activity recorded in the first quarter matched the volume from the same period last year

San Fernando Valley

Construction/Vacancy/Rents

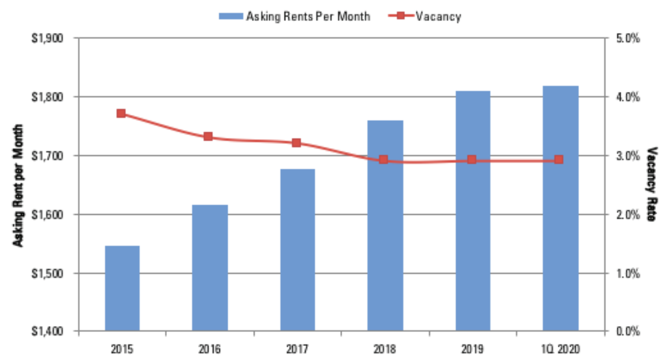
> Apartment deliveries paused for a few quarters in the San Fernando Valley area. No significant projects have been brought online in the past two quarters. During 2019, more than 1,100 apartment units were brought to the market, with all completions taking place in the first three quarters of the year. Approximately 4,100 units are currently under construction in the region.

> Multifamily properties have been performing well in the San Fernando Valley, and the vacancy rate remains the lowest of the major geographic areas in Los Angeles County. Vacancy finished the first quarter at 2.9 percent, up 20 basis points from the same period last year.

> Asking rents in the San Fernando Valley are 2.3 percent higher than one year ago, ending the first quarter at $1,818 per month. Annual rent growth 12 months earlier was 5.3 percent.

> **Forecast:** Despite a pause to start the year, apartment construction in the San Fernando Valley is forecast to top 2,000 units in 2020. This will likely put upward pressure on the local vacancy rate, which could approach or top 4 percent. Asking rents are likely to remain flat or might even tick higher with newer, more expensive units coming to the market, although concessions will likely increase.

Vacancy and Rent Trends



Sources: NorthMarq, Reis

No significant projects have been brought online in the past two quarters

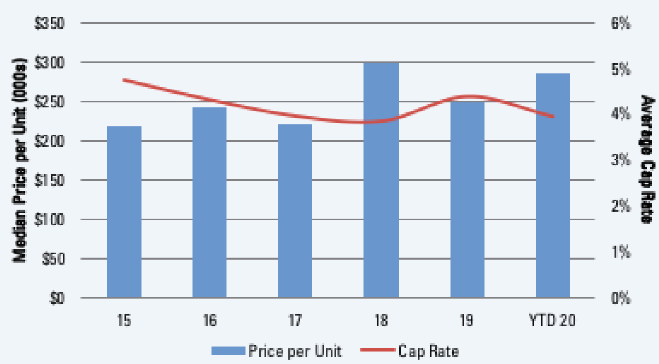
Multifamily Sales

> Sales velocity in the San Fernando Valley slowed during the first quarter with transaction volume down roughly 35 percent from the previous quarter. Despite a quarterly decline, transaction activity nearly doubled the amount recorded in the first quarter last year.

> The median price during the first quarter was $285,000 per unit, up 15 percent from the median in the full year of 2019.

> Cap rates compressed for deals closed in the first quarter, averaging approximately 4.0 percent. The average cap rate during 2019 was 4.4 percent.

Sales Trends



Sources: NorthMarq, CoStar

The median price during the first quarter was $285,000 per unit, up 15 percent from the median price in 2019

South Bay

Construction/Vacancy/Rents

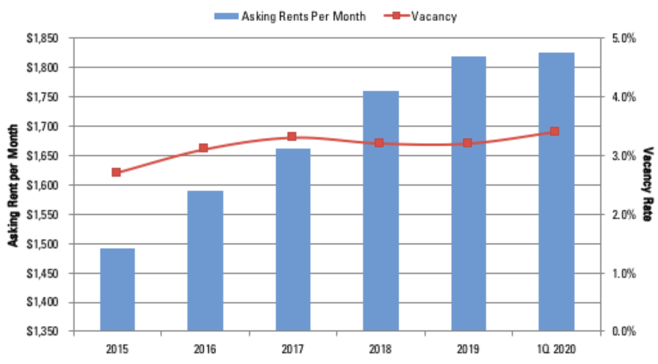
> After no new units came online in the South Bay submarket during the fourth quarter of 2019, approximately 100 apartment units delivered in the first quarter of this year. The development pipeline has been filling, and projects totaling nearly 2,000 units are currently underway.

> Vacancy in the South Bay submarket rose by 20 basis points, finishing the first quarter at 3.4 percent. The rate has increased by 70 basis points in the past 12 months.

> Asking rents ticked higher in the first quarter, reaching $1,826 per month. Year over year, asking rents in the South Bay have grown by roughly 2.9 percent.

> **Forecast:** The South Bay region will likely be impacted by new construction in 2020. More than 500 units are scheduled to be delivered this year, causing the vacancy rate to push up to nearly 5 percent. Rents will likely remain essentially flat.

Vacancy and Rent Trends



Sources: NorthMarq, Reis

Projects totaling nearly 2,000 units are currently underway

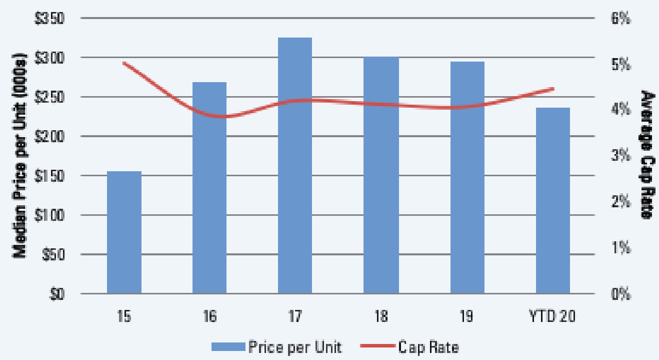
Multifamily Sales

> Transaction activity in the South Bay submarket was unchanged from the fourth quarter of 2019 to the first quarter of this year. More properties sold in the first quarter of 2020 than during the same period one year ago, putting sales velocity ahead of the 2019 pace.

> The median sales price dipped in the first quarter to approximately $235,000 per unit. The median price in 2019 was $295,000 per unit, a bit lower than in previous years.

> Cap rates in the South Bay averaged 4.4 percent in the first quarter, up roughly 40 basis points from the 2019 average.

Sales Trends



Sources: NorthMarq, CoStar

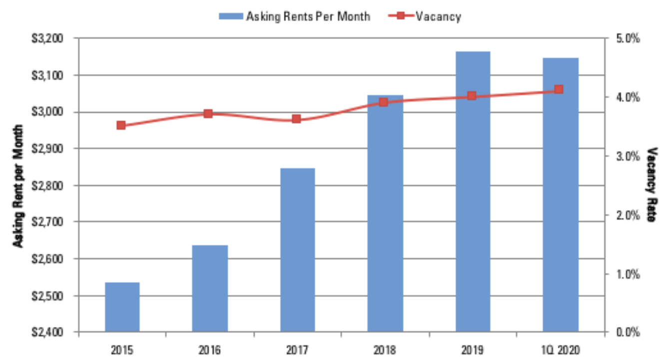
More properties sold in the first quarter of 2020 than during the same period one year ago

West Los Angeles

Construction/Vacancy/Rents

- After 80 apartment units were completed in West Los Angeles during the fourth quarter, no significant projects delivered in the first quarter. That trend will likely reverse in the coming years; projects totaling approximately 2,300 units are currently under construction.
- Vacancy inched higher in the first quarter, increasing 10 basis points to 4.1 percent. Year over year, the rate is up 20 basis points.
- Asking rents pulled back slightly in the first quarter to $3,146 per month, down 0.5 percent from the year-end 2019 figure. Year over year, rents are up nearly 2 percent, following a 6 percent increase from 2018 to 2019.
- **Forecast:** Demand in West Los Angeles is generally very consistent, which often keeps vacancy low and steady. The rate will likely inch up approximately 50 basis points in 2020, ending the year at nearly 4.5 percent. There could be some modest downward pressure on asking rents in the coming quarters.

Vacancy and Rent Trends



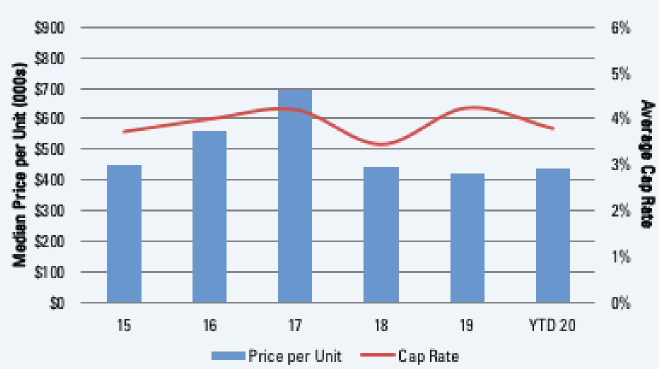
Sources: NorthMarq, Reis

Vacancy inched higher in the first quarter, increasing 10 basis points to 4.1 percent

Multifamily Sales

- Transaction activity has been minimal in the West Los Angeles region during recent years, and only a few properties changed hands in the first quarter.
- The median price in the first quarter was $435,000 per unit, up approximately 5 percent from the median price recorded in the full year of 2019.
- While only a handful of properties have changed hands, cap rates in West Los Angeles are typically at the lower end of the range in Los Angeles County. During the past 12 months, cap rates have averaged 3.8 percent.

Sales Trends



Sources: NorthMarq, CoStar

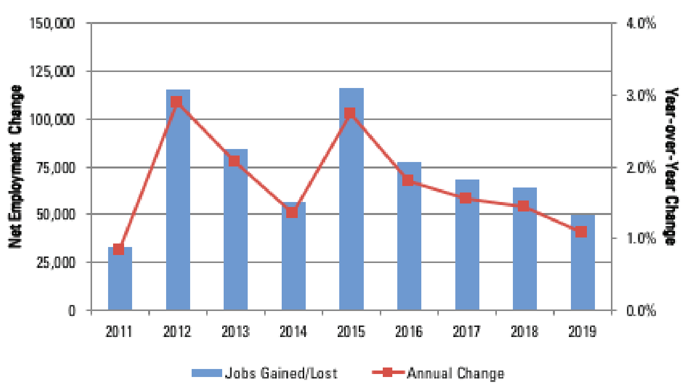
The median price in the first quarter was $435,000 per unit

Looking Ahead

The Greater Los Angeles multifamily market will be impacted by the job losses brought on by the COVID-19 outbreak, but conditions in Los Angeles County will likely be less impacted than many other markets due to the nature of both supply and demand in the area. On the supply side, while deliveries of new units will be elevated, scheduled completions for this year are only expected to increase the overall local inventory by approximately 1.5 percent, and overall vacancies should remain fairly low. From a demand standpoint, there will likely be some contraction due to the weak economy, but without an excess of available units, turnover should be reasonable through the remainder of the year.

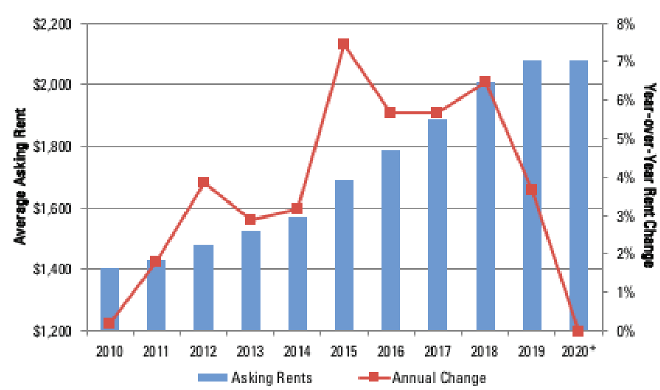
The uncertainty in the market will likely slow the pace of multifamily property sales during the next few months, but this is expected to result in pent-up demand as the market returns to normal. Nationally, cap rates in deals that have closed since mid-March have increased only 25 basis points on average, and significant increases are unlikely, particularly with interest rates declining in recent months and expected to remain low for several more quarters. Investors will want to gauge the operational strength of properties before making acquisitions, but there will be significant demand for performing assets.

Employment Forecast



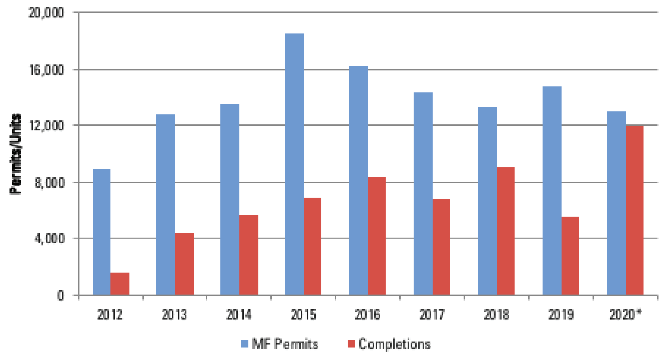
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



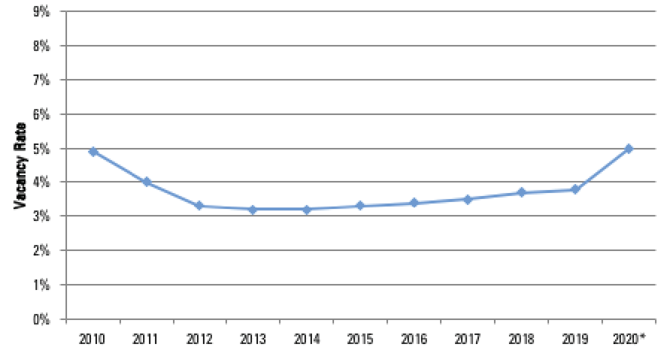
* Year End Forecast
Sources: NorthMarq, Reis

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 $14 billion, loan servicing portfolio of more than $61 billion and the multi-year tenure of our nearly 600 people.

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