NorthMarq

Greater Los Angeles Multifamily

Stable Apartment Performance, Despite Economic Volatility

Highlights

- The Los Angeles multifamily market maintained healthy operating performance during the second quarter, even during a period of economic turbulence. Large, mature markets that are less reliant on population growth are generally better positioned to absorb large economic shocks than regions reliant on growth.
- In Los Angeles County, vacancy increased 10 basis points from the previous quarter to 4 percent; the rate is up 40 basis points year over year.
- Local asking rents declined 0.9 percent in the second quarter and finished the period at $2,067 per month. Annual rent growth remained positive, and asking rents advanced 1.2 percent during the past 12 months.
- Sales prices advanced during the first half, even as transaction activity slowed. The median price for deals closed in the first six months of the year is up 10 percent from the same period in 2019, while cap rates have averaged 4.2 percent.

Q2 Snapshot	Los Angeles Market
Market Fundamentals	
Vacancy	**4.0%**
- Year Over Year Change	**+40 bps**
Asking Rent	**$2,067**
- Year Over Year Change	**+1.2%**
Transaction Activity	
Median Sales Price Per Unit (YTD)	**$288,900**
Cap Rates (Avg YTD)	**4.2%**
Construction Activity	
Units Under Construction	**19,200**
Units Delivered YTD	**2,970**

Greater Los Angeles Multifamily Market Overview

The first half of 2020 proved to be a particularly volatile period in the national economy, but the Los Angeles multifamily market recorded fairly stable performance. Significant job cuts were recorded in Los Angeles, but employers have already begun to rebuild payrolls. Apartment vacancy has crept up 10 basis points in both the first and second quarters, and the rate is up 40 basis points year over year. One reason for the vacancy increase has been inventory growth; Los Angeles County was one of few markets in the country where apartment deliveries are ahead of last year's pace.

Investment activity in Los Angeles County slowed in the second quarter, mirroring trends recorded across nearly every major market in the country. The decline in activity was most significant in transactions larger than $50 million during the second quarter, while smaller deals typically favored by private capital investors continued to execute. Investor sentiment for local multifamily assets remains favorable. Thus far in 2020, properties have traded at higher per-unit prices than in 2019, while cap rates have averaged just 4 percent. With financing rates low, cap rates are expected to remain near current ranges.

Employment

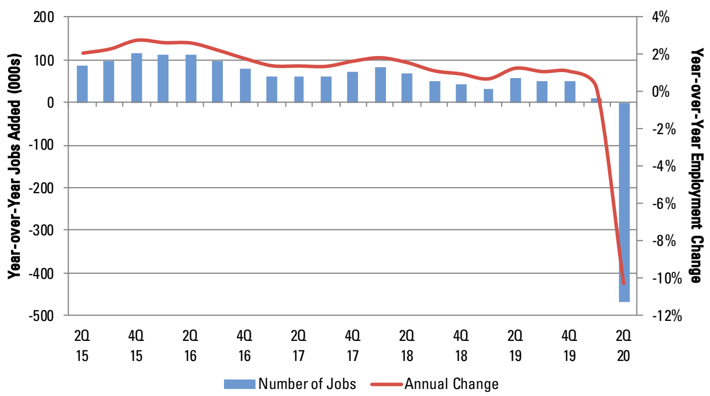
> In the 12 months ending in June, employers in Greater Los Angeles shed 468,600 jobs, an annual decline of 10.3 percent. The greatest job losses occurred during the shutdown in April, as nearly 660,000 workers lost their position during the month. Employers added back 190,000 jobs in the final two months of the quarter, or more than 25 percent of pandemic-related cuts.

> While no sector has been immune to the pandemic's contraction, the financial sector has outperformed other industries in the Greater Los Angeles economy. Year over year, employment in the sector is down just 2.8 percent.

> Employment in leisure and hospitality recorded the most significant job losses, consistent with markets across the country. The industry's local job losses totaled 136,200 during the second quarter, a decline of more than 30 percent. The leisure and hospitality sector employs nearly 12 percent of the total workforce in Greater Los Angeles.

> **Forecast:** After steep losses in the spring, employers in Greater Los Angeles are not expected to completely re-staff payrolls in 2020. Approximately half of the jobs that were shed during the shutdown are expected to be added back by the end of the year.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

Employers added back 190,000 jobs in the final two months of the second quarter

Vacancy

> Vacancy in Los Angeles County ticked higher in the second quarter, increasing 10 basis points to 4 percent. The rate is up 40 basis points from one year earlier.

> The San Fernando Valley area continues to generate consistent renter demand, and vacancy rates are the lowest of all submarkets in Greater Los Angeles at 3 percent.

> A considerable share of the multifamily construction in Greater Los Angeles has taken place Downtown in recent years. With new supply entering the submarket, vacancy Downtown has been rising at a higher clip than other submarkets. The rate is currently 6.7 percent, up 110 basis points from the previous year.

> **Forecast:** Vacancy in Los Angeles County will likely trend higher in the second half, particularly as new developments come online. The rate is forecast to rise 90 basis points for the year, ending 2020 at 4.7 percent.

Vacancy Trends

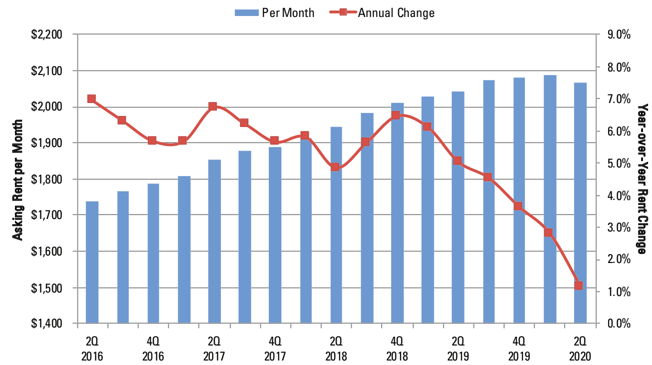
Sources: NorthMarq, Reis

Vacancy ticked higher in the second quarter, increasing 10 basis points to 4 percent

Rents

- Asking rents pulled back in the second quarter, ending the period at $2,067 per month. This marked the first quarterly decline in local asking rents since the second quarter of 2010.
- During the second quarter, asking rents retracted approximately 1 percent across all property classes. Prior to the contraction in the second quarter, Class A buildings had been posting more rapid rent gains.
- Despite the rent decline recorded during the second quarter, rents are higher than one year ago. Year over year through the second quarter, asking rents in Greater Los Angeles expanded 1.2 percent. Rent growth has been softening since late 2018, where annual rent growth reached as high as 6.5 percent.
- **Forecast:** Asking rents in Greater Los Angeles will likely end 2020 at approximately $2,050 per month, an annual decline of nearly 2 percent.

Rent Trends



Sources: NorthMarq, Reis

Asking rents ended the second quarter at $2,067 per month

Development and Permitting

- Multifamily completions remained steady in the second quarter, and approximately 1,400 apartment units were brought online throughout Los Angeles County. With nearly 3,000 units coming online in the first half of this year, deliveries were up 10 percent compared to one year earlier.
- Permitting dipped by roughly 40 percent in the second quarter, and developers in Greater Los Angeles pulled permits for approximately 2,100 multifamily units during the period.
- Approximately 19,200 apartment units are currently under construction in Greater Los Angeles, and projects totaling nearly 5,000 units are scheduled to deliver by the end of the year.
- **Forecast:** The coronavirus outbreak has slowed the pace of development and interrupted supply chains. Developers are expected to deliver projects totaling approximately 8,000 units in 2020, lower than the total that was originally forecast.

Development Trends

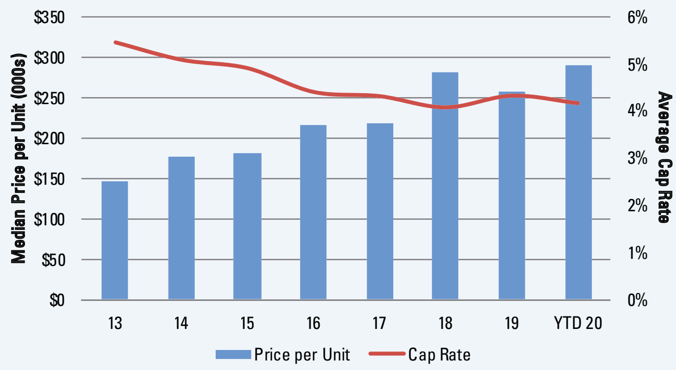
Sources: NorthMarq, Reis

Approximately 1,400 apartment units were brought online in the second quarter

Multifamily Sales

- Sales velocity in Greater Los Angeles softened in the second quarter, and fewer than a dozen significant properties changed hands during the period. In the first half of the year, transaction activity is lagging levels from the same span last year by more than 20 percent.
- Prices rose even as activity softened. The median price for transactions closed in the first half reached $288,900 per unit, up more than 10 percent from the figure recorded in 2019.
- Cap rates compressed slightly in the first half of 2020, averaging approximately 4.2 percent. In 2019, cap rates had an annual average of 4.3 percent.

Investment Trends



Sources: NorthMarq, CoStar

The median price in the first half reached $288,900 per unit, up more than 10 percent from 2019

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

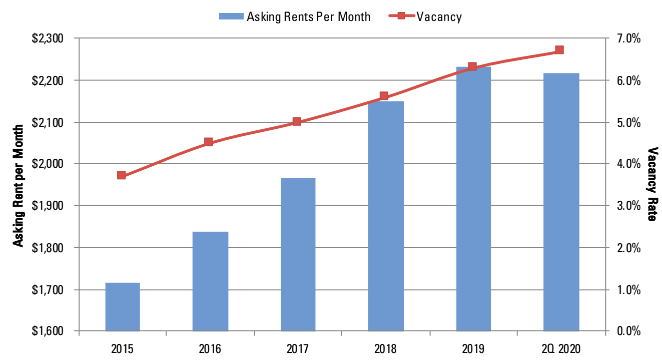
Property Name	Street Address	Units	Sales Price	Price/Unit
Washington Court	1717 E 103rd St., Los Angeles	102	$33,500,000	$328,431
La Rue Apartments	8721 Imperial Hwy., Downey	100	$27,100,000	$271,000
Valerio Village Apartments	14420-14432 Valerio St., Van Nuys	96	$19,232,375	$200,337
Sunny Gardens	13712 Sunkist Dr., La Puente	96	$17,900,000	$186,458
Le Cornette	10700 Downey Ave., Downey	53	$13,800,000	$260,377

Downtown

Construction/Vacancy/Rents

- After nearly 1,000 multifamily units were delivered in the Downtown area during the first quarter, approximately 320 units came online in the second quarter. Year to date, completions are down 12 percent from levels in the first half of 2019. Projects totaling 7,200 units are currently under construction and scheduled to come online over the next several years.
- As apartment construction in Downtown has gained momentum in recent years, vacancy has crept higher. The rate rose 10 basis points in the second quarter, reaching 6.7 percent. Year over year, the rate has increased 110 basis points.
- Rents in Downtown Los Angeles ticked lower in the second quarter and are essentially flat over the past 12 months, ending the second quarter at $2,216 per month. One year ago, rents were on a steep upswing, rising 9.3 percent.
- **Forecast:** Projects totaling approximately 1,500 units are forecast to come online in Downtown Los Angeles in 2020, although nearly all of the inventory growth for this year has already occurred. The vacancy rate is expected to end the year around 7 percent, and rents will likely end 2020 near current levels.

Vacancy and Rent Trends



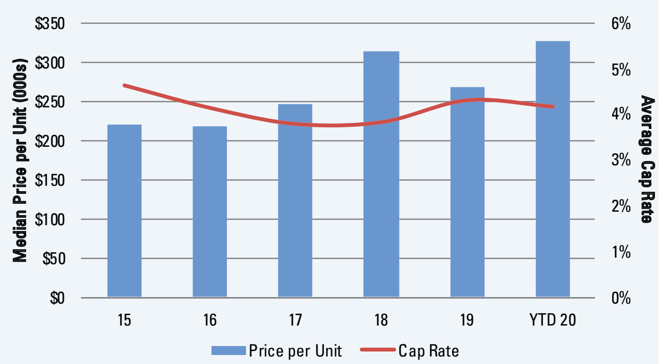
Sources: NorthMarq, Reis

Projects totaling 7,200 units are currently under construction

Multifamily Sales

- After activity surged at the beginning of the year, sales velocity in Downtown Los Angeles slowed 70 percent in the second quarter. The combined number of transactions recorded in the first half of the year was down just 13 percent from the same period last year.
- In the first half of 2020, the median price for deals Downtown was approximately $328,000 per unit, up more than 20 percent from the median price in 2019.
- Cap rates averaged 4.2 percent in the first half of 2020, down 10 basis points from the average in 2019.

Sales Trends



Sources: NorthMarq, CoStar

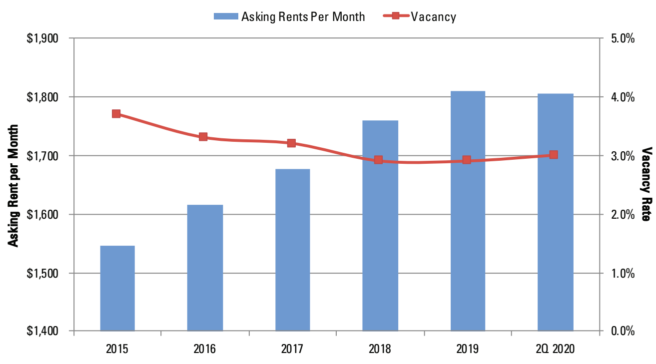
In the first half, the median price for deals Downtown was approximately $328,000 per unit

San Fernando Valley

Construction/Vacancy/Rents

- After a pause in recent quarters, construction picked up in the San Fernando Valley in the second quarter. Approximately 300 apartment units were delivered in the second quarter, representing a minimal increase to inventory. Approximately 4,500 units are currently under construction in the San Fernando Valley.
- Vacancy ticked higher in the second quarter, rising 10 basis points to a still-tight 3 percent. The vacancy rate in the San Fernando Valley remains the lowest of the major geographic areas in Los Angeles County.
- Asking rents in the San Fernando Valley pulled back during the second quarter, dipping 0.8 percent and finishing the quarter at $1,805 per month. Despite the quarterly decline, asking rents are 1 percent higher than levels from one year ago.
- **Forecast:** While construction in the San Fernando Valley has been limited to this point in the year, deliveries should gain momentum in the second half. For the full year, approximately 2,000 apartment units are expected to come online. Vacancy is forecast to end the year at 3.7 percent, while rents could inch higher, although the use of concessions is also likely to increase.

Vacancy and Rent Trends



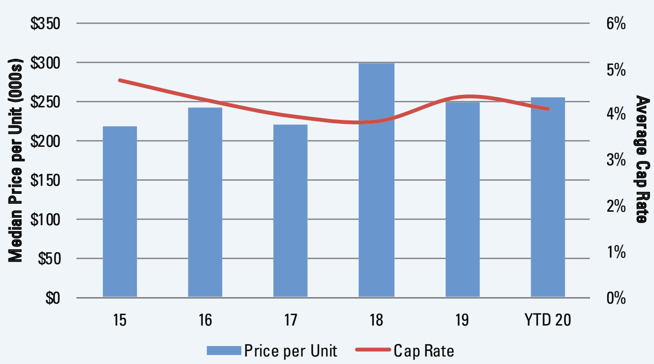
Sources: NorthMarq, Reis

The vacancy rate in the San Fernando Valley remains the lowest in Los Angeles County

Multifamily Sales

- Sales velocity in the San Fernando Valley area lost momentum during the second quarter, and transaction volume dipped roughly 70 percent from levels recorded in the first quarter. While the coronavirus greatly disrupted sales velocity during the past three months, transaction activity through the first half of 2020 is down just 25 percent from the figure recorded in the same period last year.
- After a spike in the first quarter, the median price returned closer to historical norms in recent months. The median price through the first half of this year is $255,000 per unit, nearly identical to the median price during the full year of 2019.
- Cap rates tightened in the first half of 2020, averaging approximately 4.1 percent. The average cap rate during 2019 was 4.4 percent.

Sales Trends



Sources: NorthMarq, CoStar

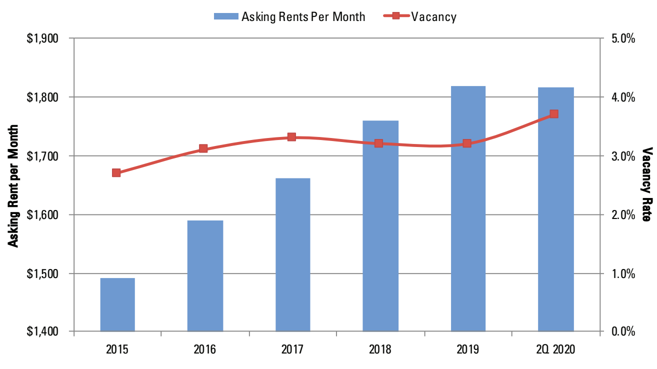
Cap rates tightened in the first half of 2020, averaging approximately 4.1 percent

South Bay

Construction/Vacancy/Rents

- Developers in the South Bay had an active second quarter, and projects totaling approximately 660 units were completed during the period. In the submarket, more units delivered in the second quarter than in all of 2019. The development pipeline has thinned after the strong quarter, and projects totaling nearly 1,200 units are currently underway.
- Vacancy in the South Bay rose 30 basis points, finishing the second quarter at 3.7 percent. The rate has increased 70 basis points year over year.
- Asking rents took a step back in the second quarter and finished at $1,826 per month. In the 12-month period ending in June, asking rents in the South Bay were up 1.4 percent.
- **Forecast:** Projects totaling approximately 1,200 units are scheduled to be delivered in the South Bay region in 2020. Assuming all projects come online on time, this would mark the most significant year of new construction in the area in more than five years. Vacancy will likely tick up above 4.5 percent by the end of the year. Asking rents could edge higher in response to an influx of newer more expensive units entering the region.

Vacancy and Rent Trends



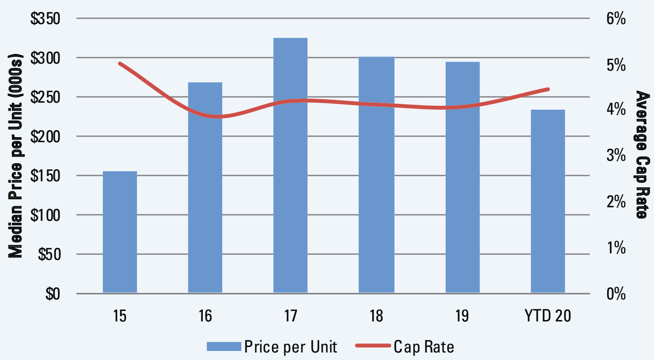
Sources: NorthMarq, Reis

Vacancy in the South Bay rose 30 basis points, finishing the second quarter at 3.7 percent

Multifamily Sales

- Transaction activity in the South Bay slowed following a fairly active first quarter, and no significant deals occurred in the second quarter. Sales volume in the first half of the year closely tracked levels recorded in the same period of last year.
- Through the first half of the year, the median price was approximately $235,000 per unit, down about 20 percent from the median price in the full year of 2019.
- Cap rates averaged 4.4 percent in the first half of 2020, up roughly 40 basis points from the 2019 average.

Sales Trends



Sources: NorthMarq, CoStar

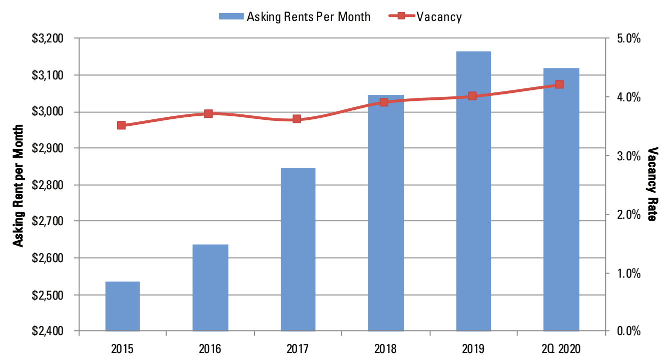
Cap rates averaged 4.4 percent in the first half of 2020

West Los Angeles

Construction/Vacancy/Rents

- After no projects delivered in West Los Angeles to start the year, 125 apartment units were completed in the second quarter. In the first half of 2019, 270 apartment units were completed. Projects totaling approximately 2,100 units are currently under construction.
- Vacancy inched higher in the second quarter, ticking up 10 basis points to 4.2 percent. During the past 12 months, vacancy in the West Los Angeles area is up 20 basis points.
- Asking rents in West Los Angeles dipped for the second consecutive quarter, ending the period at $3,120 per month. West Los Angeles, which has the highest rental rates in the county, has recorded a slight year-over-year rent decline. Local asking rents have declined by roughly 1.2 percent over the last 12 months.
- **Forecast:** Renter demand for apartments in the West Los Angeles area is generally very consistent, and supply growth is often limited. Apartment construction is forecast to total nearly 600 units in 2020, which could push vacancy up to approximately 4.5 percent. Rents may dip slightly.

Vacancy and Rent Trends



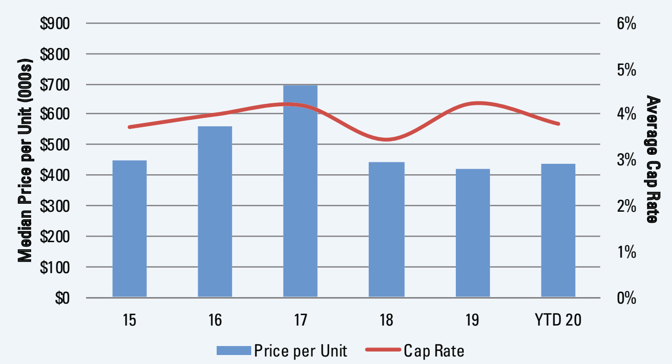
Sources: NorthMarq, Reis

Vacancy inched higher in the second quarter, ticking up 10 basis points to 4.2 percent

Multifamily Sales

- Transaction activity has been minimal in the West Los Angeles region during recent years, and no properties changed hands in the second quarter. Two deals of 50 units or more closed in the first half of the year.
- The median price in the first half was $435,000 per unit, up approximately 5 percent from the median price recorded in the full year of 2019.
- Investors routinely pay premium prices for the few properties that trade in West Los Angeles, and cap rates are low. In the few transactions that have closed since the beginning of 2019, area cap rates have averaged just 3.8 percent.

Sales Trends



Sources: NorthMarq, CoStar

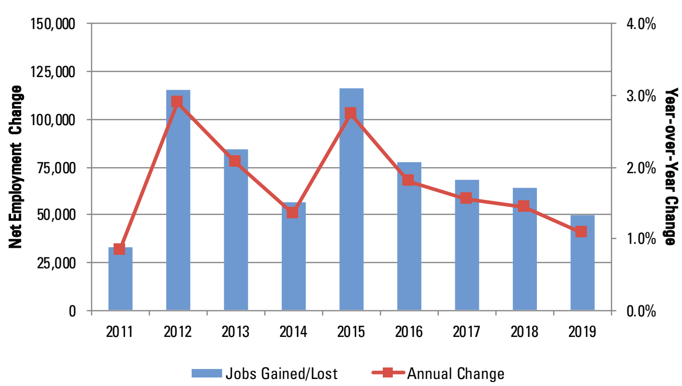
The median price in the first half was $435,000 per unit

Looking Ahead

While the first half of 2020 was marked by significant disruptions brought about by the COVID-19 outbreak, the second half of the year is expected to be a story about the pace of economic recovery. Los Angeles County is on pace to record net job losses in 2020, but the bottom has already been reached and employers have resumed payroll expansion. The outlook for the Greater Los Angeles multifamily market is generally favorable, as the region has more built-in demand drivers than most other markets. Vacancy is forecast to rise, but areas outside of the Downtown core are expected to outperform.

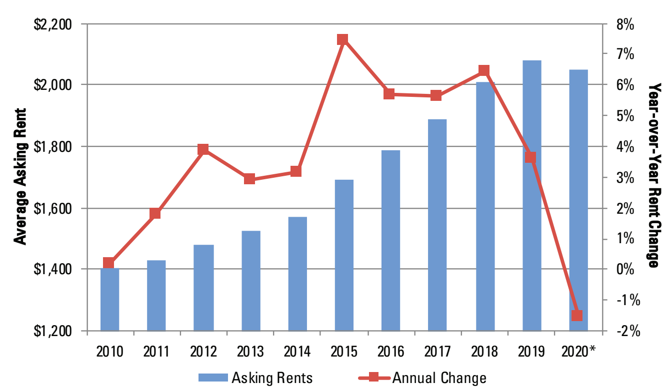
After a brief pause during the second quarter, the local investment market is poised to rebound in the second half of 2020. In the first few weeks of July, sales velocity had already begun to ramp back up, setting the stage for an active period in the remainder of the year. Investor demand is expected to gain momentum, as long as property performance does not dip dramatically. Rent collections have been strong to this point, but with government stimulus measures expiring, there could be some disruption to property cash flows as the labor market recovers.

Employment Forecast



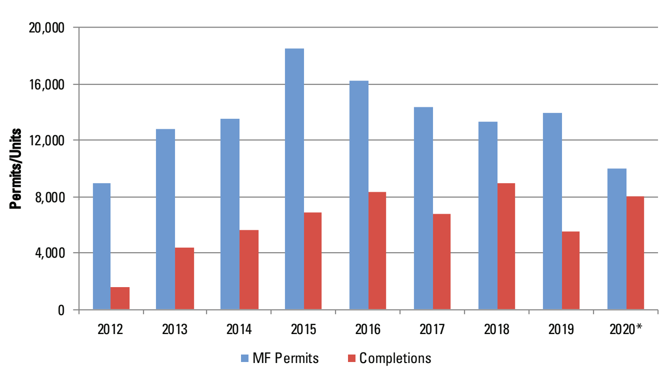
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



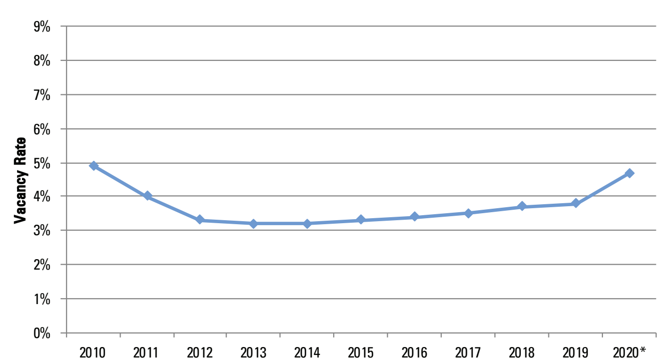
* Year End Forecast
Sources: NorthMarq, Reis

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

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