

# Greater Los Angeles Multifamily




## Despite Rent Dip, More Properties Trade at Higher Prices

### Highlights

- > The Los Angeles multifamily market recorded mixed performance during the third quarter. Vacancy ticked higher but remained low and consistent with recent levels. While vacancy is fairly tight, rents posted a sharp decline with the most expensive submarkets generally recording the most significant cuts.
- > Vacancy rose 10 basis points during the third quarter, ticking up to 4.1 percent. The current vacancy rate is 30 basis points higher than the figure one year ago.
- > Local asking rents retreated 2.6 percent to \$2,014 per month during the third quarter. The market recorded its first year-over-year decline in nearly a decade; asking rents are 2.9 percent lower than they were one year ago.
- > The investment market gained some momentum in recent months. Activity picked up slightly, and the median price rose. Cap rates held steady and have averaged 4.2 percent this year.

### Greater Los Angeles Multifamily Market Overview

The Greater Los Angeles apartment market began to show some signs of softening demand in recent months. Quarterly vacancy increases have been limited to this point in 2020, but rents contracted sharply to start the second half of the year and additional softening is expected in the near term. Market conditions are being impacted by a supply/demand imbalance. New deliveries in the first three quarters of this year nearly matched the total for all of 2019, and additional projects are in the development pipeline. With the local economy still not fully reopened, the market's demand drivers will likely lag the supply growth in the coming quarters.

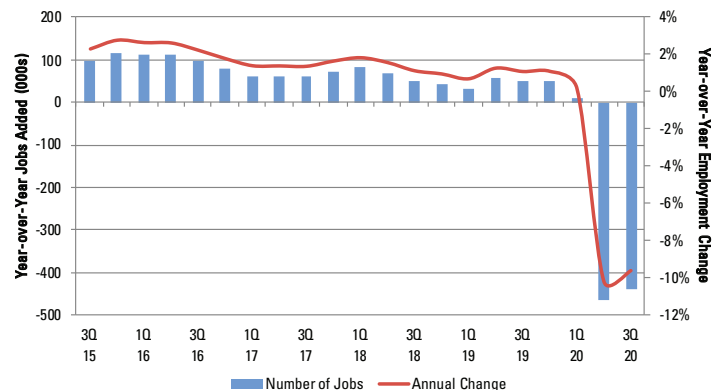
Q3 Snapshot	Los Angeles Market
	<b>Market Fundamentals</b>
	Vacancy ..... <b>4.1%</b>
	- Year Over Year Change..... <b>+30 bps</b>
	Asking Rent..... <b>\$2,014</b>
	- Year Over Year Change..... <b>-2.9%</b>
	<b>Transaction Activity</b>
	Median Sales Price Per Unit (YTD)..... <b>\$292,800</b>
	Cap Rates (Avg YTD)..... <b>4.2%</b>
	<b>Construction Activity</b>
	Units Under Construction..... <b>19,452</b>
	Units Delivered YTD..... <b>5,543</b>

The local multifamily market has proven fairly resilient to this point in 2020. The number of properties changing hands has declined and is lagging levels from previous years. However, cap rates have remained essentially unchanged, and the median price is higher than in recent years. During the third quarter, sales velocity accelerated, following a period of inactivity in the preceding three months. The bulk of the activity during the third quarter was concentrated in transactions of 100 units or fewer, with transactions generally closing between \$20 million and \$35 million.

## Employment

- > Los Angeles has been one of the hardest-hit job markets in the country due to its significant presence in tourism and entertainment-related businesses, which were virtually shut down during the peak of the pandemic. The labor force has been recovering since May, but hiring has begun to slow. Employers added back 40,000 positions in the third quarter after regaining 190,000 positions in May and June.
- > In the 12 months ending in September, employment in Los Angeles is down 9.6 percent, with the loss of roughly 440,000 jobs. After the severe losses from the coronavirus, total employment figures have been set back to levels similar to the end of 2013.
- > In anticipation of the holiday season, the retail trade sector in Los Angeles accounted for a significant share of the new jobs added during the third quarter. Employment in the industry grew by nearly 18,000 jobs in the period. This trend will likely continue into the fourth quarter.
- > **Forecast:** The labor market in Los Angeles County will take several more quarters to fully recover. Net job losses should result in an annual contraction of local payrolls totaling approximately 9 percent. A more widespread economic reopening will be required for the employment market to completely rebound.

## Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

*Employers added back 40,000 positions in the third quarter*

## Vacancy

- > Apartment vacancy in Greater Los Angeles has been slowly creeping higher in 2020. The rate has ticked up 10 basis points in each of the first three quarters of the year. The vacancy rate in Los Angeles County ended the third quarter at 4.1 percent.
- > While job losses have been significant in the area, the local multifamily vacancy rate has recorded only modest softening. Year over year, local vacancy has increased by 30 basis points.
- > Vacancy in lower-tier properties is consistently low in Los Angeles. The combined vacancy rate in Class B and Class C properties sits at just 2.7 percent, up just 20 basis points year over year.
- > **Forecast:** Apartment vacancy in Los Angeles County is expected to end the year at 4.4 percent with the rate likely creeping higher as new units are delivered in the final few months of 2020.

## Vacancy Trends



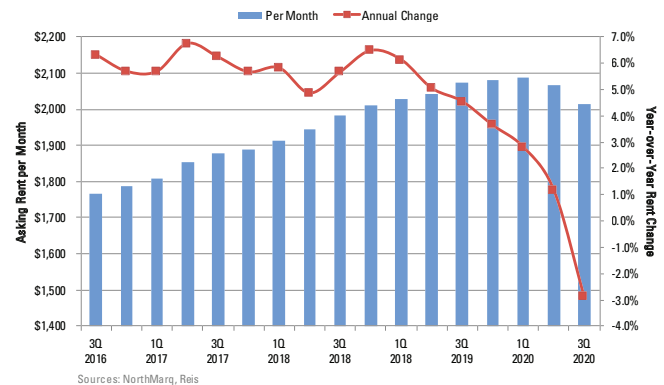
Sources: NorthMarq, Reis

*Year over year, local vacancy has increased by 30 basis points*

## Rents

- > Rents in the Los Angeles metro recorded their first notable decline in response to the uncertain economic conditions during the third quarter. Local asking rents dipped 2.6 percent from the second quarter, falling to \$2,014 per month.
- > Year over year, asking rents are down 2.9 percent with nearly the entire contraction occurring in the most recent quarter. Rental gains were already beginning to slow before the pandemic struck, following several years of rapid expansion. From 2015 to 2019, annual rent growth averaged roughly 5.8 percent.
- > While steady demand for Class B and Class C units has supported rents in the lower tiers, rents at the top of the market have been contracting. Class A asking rents fell 3.5 percent in the third quarter, dipping to \$2,619 per month.
- > **Forecast:** Asking rents in Greater Los Angeles will likely end 2020 at approximately \$2,000 per month, an annual decline of approximately 3.5 percent.

## Rent Trends



*Class A asking rents fell 3.5 percent in the third quarter, dipping to \$2,619 per month*

## Development and Permitting

- > Developers remained active during the third quarter, and approximately 1,500 apartment units came online during the period. More than 5,500 multifamily units have been delivered during the first three quarters of the year, nearly matching the total from all of 2019.
- > Permitting increased by more than 20 percent from the second quarter to the third quarter, and developers pulled permits for about 2,500 units. However, multifamily permitting is on pace for its slowest year since 2012.
- > Approximately 19,500 apartment units are currently under construction in Los Angeles County, with roughly 65 percent of the units in the development pipeline located in either the Downtown area or in the San Fernando Valley.
- > **Forecast:** Developers are forecast to deliver projects totaling approximately 8,500 apartment units in Los Angeles County in 2020. This total represents an increase of nearly 55 percent from the 2019 new construction level but is only modestly higher than the market's five-year average.

## Development Trends

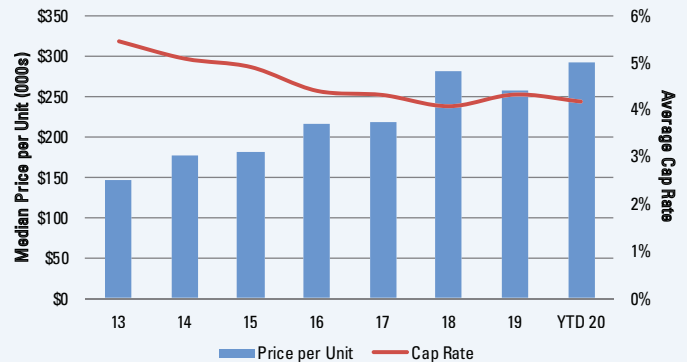


*Approximately 19,500 apartment units are currently under construction in Los Angeles County*

## Multifamily Sales

- > Sales velocity picked up slightly during the third quarter, but deal flow has not returned to levels seen at the beginning of the year. Year-to-date transaction activity trails the pace from the same period in 2019 by more than 30 percent.
- > While the number of properties selling has been modest, prices are rising. In sales that closed during the third quarter, the median price spiked to \$338,000 per unit. Year to date, the median price has reached \$292,800 per unit, an increase of 10 percent from the median in 2019.
- > Average cap rates have been mostly stable for the past several years as financing costs have remained low and investor demand has been strong. The average cap rate in deals that have taken place this year is 4.2 percent, 10 basis points below the cap rate in 2019.

## Investment Trends



Sources: NorthMarq, CoStar

*In sales that closed during the third quarter, the median price spiked to \$338,000 per unit*

## Recent Transactions in the Market

### MULTIFAMILY SALES ACTIVITY

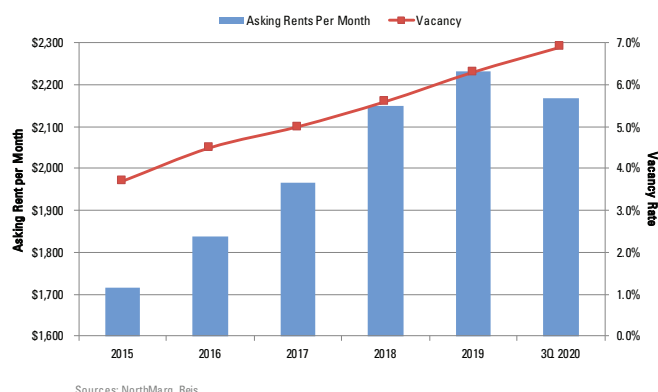
Property Name	Street Address	Units	Sales Price	Price/Unit
Venice on Rose	512 Rose Ave., Venice	70	\$65,000,000	\$928,571
Kenmore View Apartments	1840 N Kenmore Ave., Los Angeles	72	\$37,625,000	\$522,569
Maya	535-547 S Kingsley Dr., Los Angeles	72	\$32,400,000	\$450,000
Mountain View Manor Apartments	21700-21734 Septo St., Chatsworth	97	\$26,400,000	\$272,165
Dracena Palms	2031 Dracena Dr., Los Angeles	60	\$24,000,000	\$400,000

# Downtown

## Construction/Vacancy/Rents

- > Developers continued to bring new projects into the Downtown area in recent months. Approximately 575 apartment units came online in the third quarter and more than 2,700 units have delivered year to date. Projects totaling 8,900 units are currently under construction Downtown, accounting for roughly 45 percent of the total construction in Los Angeles County.
- > Vacancy has pushed higher in response to the influx of new supply and a slowdown in demand in response to the coronavirus shutdown. The vacancy rate in Downtown Los Angeles rose 20 basis points in the third quarter to 6.9 percent. Year over year, vacancy is up 80 basis points.
- > Rents in Downtown Los Angeles declined for the second consecutive quarter, turning annual gains negative. Asking rents finished the third quarter at \$2,167 per month, down 2.9 percent from one year earlier.
- > **Forecast:** Supply increases from new construction will result in higher vacancy rates in Downtown submarkets. The average vacancy rate Downtown is expected to end 2020 at approximately 7.3 percent, 100 basis points higher than at the end of 2019. Asking rents should end the year at nearly \$2,150 per month.

## Vacancy and Rent Trends

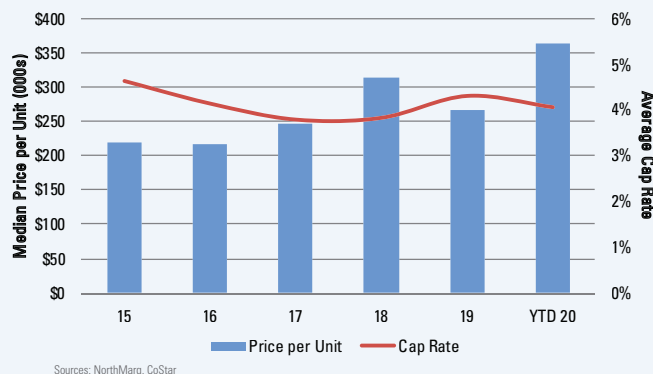


*More than 2,700 units have delivered in Downtown year to date*

## Multifamily Sales

- > Sales velocity in Downtown Los Angeles picked up slightly in the third quarter, but the bulk of this year's activity occurred at the beginning of the year. Transaction activity through the first three quarters of this year trails the 2019 pace by nearly 30 percent.
- > In the sales that did occur, prices rose during the third quarter. The median price in transactions from the third quarter reached \$425,000 per unit, bringing the year-to-date median price up to \$363,300 per unit. Prices are up approximately 35 percent from the median price in 2019.
- > Cap rates compressed in the third quarter and have averaged 4.1 percent in 2020, down 20 basis points from the average in 2019.

## Sales Trends



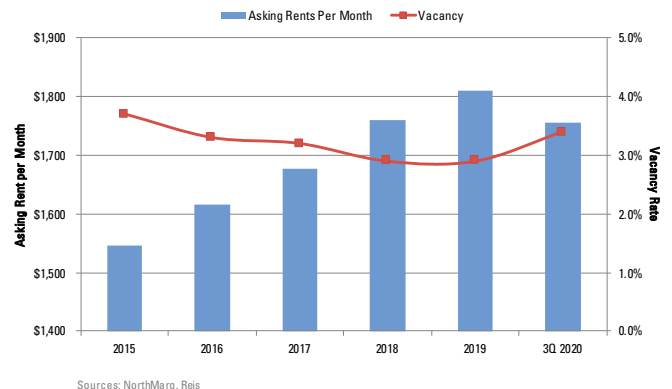
*Cap rates compressed in the third quarter and have averaged 4.1 percent in 2020*

# San Fernando Valley

## Construction/Vacancy/Rents

- > Completions of apartment units ramped up in the San Fernando Valley in recent months. In the third quarter, approximately 740 apartment units were completed, bringing year-to-date delivery totals to nearly 1,300 units. More than 3,600 apartment units are currently under construction in the region.
- > The vacancy rate in the San Fernando Valley trended higher in the third quarter, due in part to the increase in supply outpacing demand growth. Vacancy increased 30 basis points in the third quarter, reaching 3.4 percent.
- > Asking rents in the San Fernando Valley retreated 2.8 percent in the third quarter, falling to \$1,755 per month. Year over year, asking rents have declined by 2.6 percent. With a vacancy rate below 2 percent, the Van Nuys/North Hollywood submarket has held up better than the overall market in Los Angeles. Current asking rents in the submarket are \$1,516 per month, down just 1 percent from last year.
- > **Forecast:** Nearly 1,000 apartment units are forecast to be delivered in the San Fernando Valley during the fourth quarter. Vacancy is expected to tick above 3.5 percent by the end of the year, while rents will likely end 2020 at approximately \$1,750 per month.

## Vacancy and Rent Trends

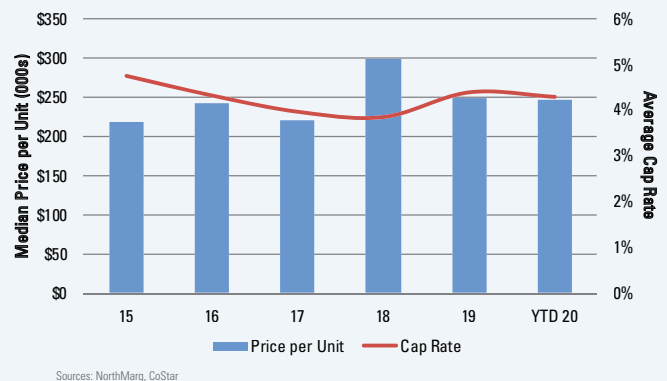


*Vacancy increased 30 basis points in the third quarter, reaching 3.4 percent*

## Multifamily Sales

- > The investment market in the San Fernando Valley gained steam in the third quarter, and sales velocity returned closer to levels seen at the beginning of the year. While activity picked up during the third quarter, year-to-date transaction levels still trail 2019 figures by nearly 20 percent.
- > The median price for properties sold in the San Fernando Valley through the first three quarters of 2020 is \$244,400 per unit, closely tracking the figure from 2019.
- > Cap rates have been very consistent in the San Fernando Valley in both 2019 and thus far in 2020. Year to date, the average cap rate in the region has been 4.3 percent, 10 basis points lower than the average in 2019.

## Sales Trends



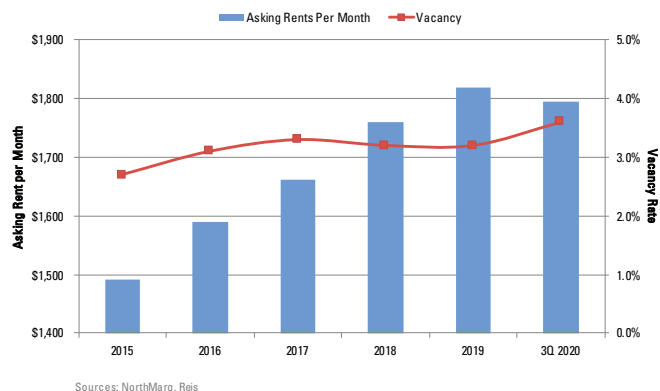
*The median price through the first three quarters of 2020 is \$244,400 per unit*

# South Bay

## Construction/Vacancy/Rents

- > Following a surge in development activity in the second quarter, apartment construction in the South Bay leveled off during the third quarter, and no significant projects were completed. Approximately 770 apartment units have delivered this year, and projects totaling 1,200 units are currently under construction.
- > Vacancy inched lower in the South Bay, dipping 10 basis points to 3.6 percent in the third quarter. Year over year, the vacancy rate has increased by 20 basis points. The rate in the Inglewood/Crenshaw submarket has held steady at 2.1 percent for the past several quarters. The submarket is home to the new SoFi Stadium and future plans to develop the new Los Angeles Clippers stadium.
- > Apartment rents in the South Bay contracted during the third quarter, but at a less severe clip than other major geographical regions in Los Angeles. In the third quarter, asking rents fell 1.2 percent, finishing the period at \$1,795 per month.
- > **Forecast:** The vacancy rate in the South Bay is expected to hold steady during the fourth quarter with the rate likely to end the year at 3.6 percent. Rents may record another modest dip; asking rents are forecast to end 2020 at approximately \$1,785 per month.

## Vacancy and Rent Trends

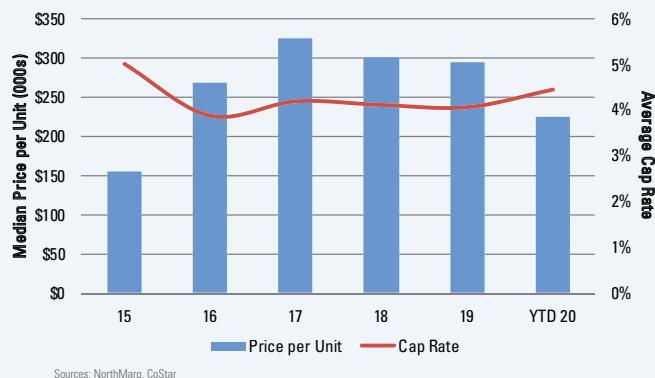


*Vacancy inched lower in the South Bay, dipping 10 basis points to 3.6 percent in the third quarter*

## Multifamily Sales

- > Sales activity in the South Bay has been modest this year, and only one significant transaction occurred during the third quarter. Year-to-date sales velocity is down approximately 35 percent from the same timeframe last year.
- > The median price was approximately \$224,900 per unit through the first three quarters, down roughly 25 percent from the median price last year. There has been a fairly wide dispersion in per-unit prices in the South Bay thus far in 2020. A few smaller properties have traded at lower prices, while some larger properties have traded at prices topping \$300,000 per unit.
- > The wide range in pricing has also resulted in some disparities in cap rates. Year to date, cap rates have averaged 4.4 percent, but a few properties have changed hands with cap rates below 4 percent.

## Sales Trends



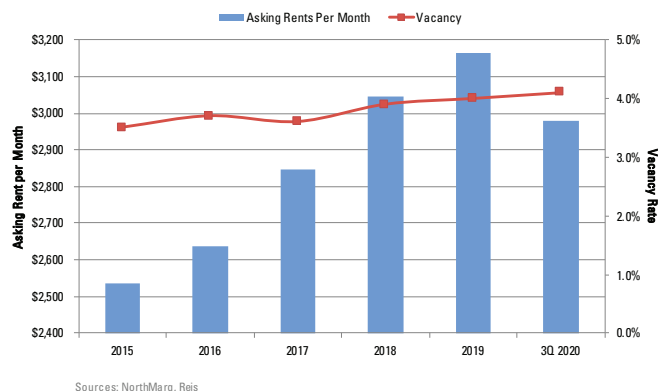
*There has been a fairly wide dispersion in per-unit prices in the South Bay thus far in 2020*

# West Los Angeles

## Construction/Vacancy/Rents

- > After developers brought approximately 355 apartment units online during the first half of 2020, no significant projects were completed in the third quarter. Projects totaling nearly 2,000 units are currently under construction in the West Los Angeles area.
- > Vacancy inched lower during the third quarter, tightening 10 basis points to 4.1 percent. The current vacancy rate in West Los Angeles is identical to the number from 12 months earlier. The bulk of the largest submarkets in West Los Angeles have current vacancy rates below 4 percent, while vacancy in the Marina Del Rey/Venice/Westchester submarket sits at 6.8 percent.
- > Apartment rents in the upscale West Los Angeles area reported a sizeable decline in the third quarter, even as vacancy tightened. In the current period, rents fell 4.5 percent, ending at \$2,979 per month. This follows a national trend where rent contractions have been most severe in the higher-cost areas of major markets.
- > **Forecast:** Apartment deliveries are forecast to reach approximately 650 units in the West Los Angeles region in 2020, but the area's vacancy rate is expected to remain in the low-4-percent range. Rents are on pace to end the year at approximately \$2,950 per month.

## Vacancy and Rent Trends

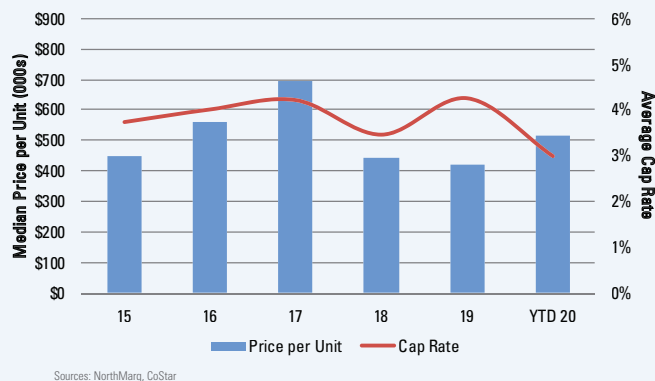


*Vacancy inched lower during the third quarter, tightening 10 basis points to 4.1 percent*

## Multifamily Sales

- > Sales velocity in the West Los Angeles area is generally limited to only a handful of deals in most years. After two deals closed in the first half of 2020, only one significant property sold during the third quarter.
- > The significant property that sold in the third quarter traded for nearly \$930,000 per unit, bringing the year-to-date median price up to \$516,500 per unit, an increase of roughly 25 percent from the median price last year.
- > With its prime location, cap rates in West Los Angeles have consistently been the lowest in the market. In the few deals that have taken place this year, cap rates have averaged just 3 percent.

## Sales Trends



*In the few deals that have taken place this year, cap rates have averaged just 3 percent*

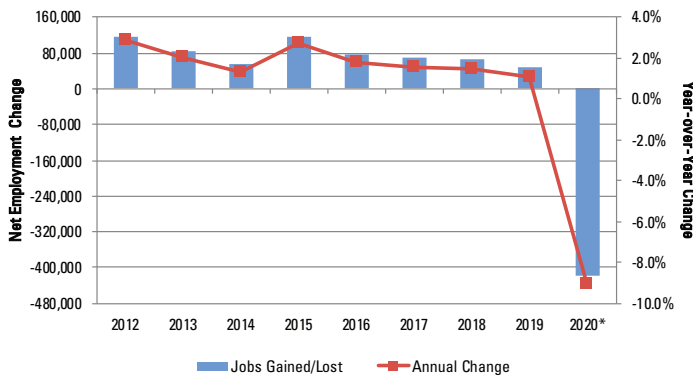


## Looking Ahead

Despite steep job losses, property fundamentals in the Los Angeles multifamily market have largely held steady to this point in 2020. Vacancy has crept higher but is expected to increase for a few more quarters as new units are delivered to the market. Rents recorded the first significant decline during the third quarter, and there will likely be additional declines until demand regains momentum. Renter demand for units is traditionally linked to job growth, and there remains continued uncertainty surrounding the local labor market. While some jobs have returned, the local economy has not fully reopened, and in late November local officials tightened pandemic safeguards, delaying a recovery in the local labor market.

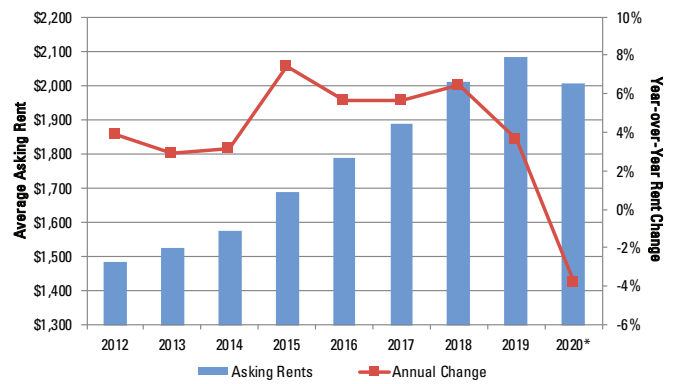
Sales velocity in Los Angeles County is lagging historical levels, but activity accelerated from recent lows during the third quarter and the investment market is forecast to gain additional momentum to close 2020. Investor sentiment is still fairly favorable, although the current conditions add uncertainty in the short term and create challenges in closing transactions. Cap rates have remained essentially unchanged for the past five years and have even compressed slightly in 2020. Looking forward, cap rates are expected to remain near their current ranges.

### Employment Forecast



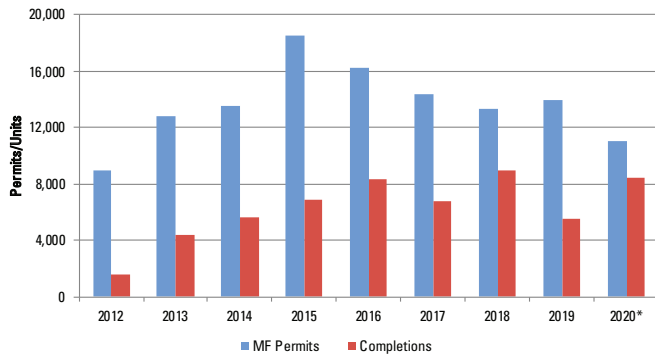
\* Year End Forecast  
Sources: NorthMarq, Bureau of Labor Statistics

### Rent Forecast



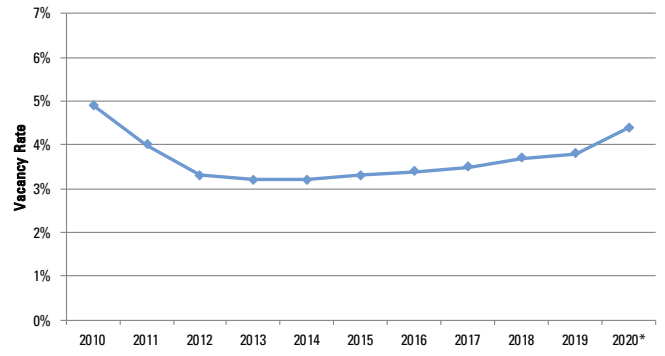
\* Year End Forecast  
Sources: NorthMarq, Reis

### 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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