MARKET REPORT | 4Q/2020

Greater Los Angeles Multifamily

Sales Activity Picks Up in Larger Transactions to Close 2020

Highlights

- After holding fairly steady in the first half of the year, conditions in the Los Angeles multifamily market cooled in the second half. As the economy gains momentum, renter demand should pick up and absorption of area apartments should accelerate.
- Apartment vacancy in Los Angeles rose 70 basis points in 2020, reaching 4.5 percent. Most of the increase occurred in the fourth quarter when the vacancy rate surged 40 basis points.
- Apartment rents in Los Angeles recorded their first annual decline since 2009. In 2020, local asking rents retreated 5.2 percent, finishing the year at $1,973 per month.
- Transaction activity in the fourth quarter closely tracked levels from the previous quarter. There was a sharp increase in the sales of larger properties at the end of the year. Prices rose and cap rates compressed in 2020.

Q4 Snapshot	Los Angeles Market
Market Fundamentals	
Vacancy	**4.5%**
- *Year Over Year Change*	**+70 bps**
Asking Rent	**$1,973**
- *Year Over Year Change*	**-5.2%**
Transaction Activity	
Median Sales Price Per Unit (YTD)	**$288,900**
Cap Rates (Avg YTD)	**4.1%**
Construction Activity	
Units Under Construction	**19,536**
Units Delivered YTD	**8,347**

Greater Los Angeles Multifamily Market Overview

Supply and demand diverged in the Los Angeles multifamily market in 2020, with steep pandemic-related job losses dragging down demand while apartment deliveries accelerated. Vacancies rose and rents contracted in 2020, but conditions are forecast to stabilize in the coming quarters. In 2020, not all areas of the local multifamily market were impacted equally. For the most part, Class B and Class C properties and less expensive submarkets fared better during the past year, while the most expensive regions recorded the sharpest rent declines. These areas should recover as the economy gains momentum.

While the apartment market recorded some softening, the local investment market was relatively sturdy throughout much of 2020. Sales velocity lagged levels from the previous two years, but investment fundamentals strengthened. The median price rose more than 10 percent for the year, and prices continued to push higher in deals that closed in the final few months of the year. Cap rates compressed in 2020, closely tracking declines in interest rates. Investors appear to have adjusted to the current market conditions.

Employment

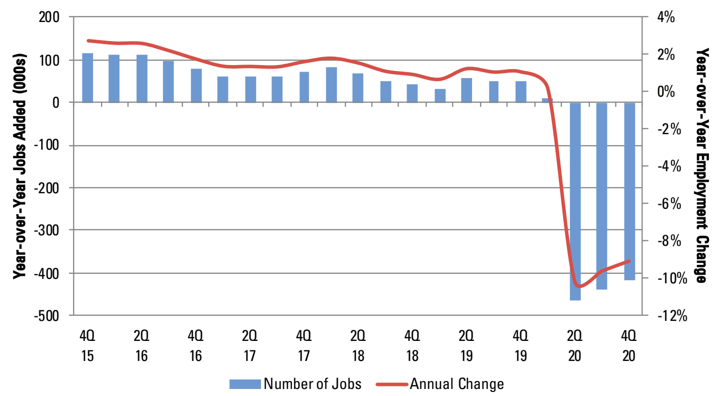
> The labor market in Los Angeles recovered at a slower pace during the fourth quarter compared with the third quarter. Employers added nearly 22,000 net jobs in the fourth quarter, after 66,000 jobs were brought back to the market in the third quarter. In 2020, employment contracted by 9.1 percent, with the loss of approximately 417,500 net jobs.

> Transportation and logistics, the largest employment sector in Los Angeles, has been recovering at a consistent pace for the past several months and ended the year with momentum that is likely to carry over into 2021. Employers in the trade, transportation, and utilities sector added back nearly 50,000 net jobs in the fourth quarter.

> The area's large leisure and hospitality sector has recorded steep losses through the coronavirus shutdown. Employment in the sector contracted by approximately 32 percent in 2020, losing nearly 175,000 jobs. As the economy reopens, the sector should add back a significant number of jobs in 2021.

> **Forecast:** The severe job losses from 2020 will likely take a few years to fully recover. Still, the Los Angeles employment market is expected to outperform in 2021 once the economy undergoes a more extensive reopening. Total employment is forecast to expand 3.6 percent in 2021, with the addition of about 150,000 net jobs.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

Employers added nearly 22,000 net jobs in the fourth quarter

Vacancy

> Vacancy in Los Angeles County gradually rose throughout 2020, with a steeper increase recorded during the fourth quarter. The local vacancy rate rose 40 basis points in the fourth quarter, reaching 4.5 percent.

> For the full year, vacancy rose 70 basis points. This followed a five-year stretch of minimal annual vacancy increases. Prior to 2020, vacancy had ticked up an average of 15 basis points per year since 2015.

> The vacancy rate rose in Los Angeles County despite positive absorption during the year. Net absorption totaled approximately 2,700 units in 2020, down from nearly 5,000 units in the previous year. Absorption was strongest in the first half of the year before tailing off in the second half.

> **Forecast:** Renter demand for apartments is forecast to accelerate in the coming quarters, but the market is expected to continue to record significant increases to new supply. New supply should outpace demand, pushing the vacancy rate up an estimated 30 basis points to 4.8 percent.

Vacancy Trends

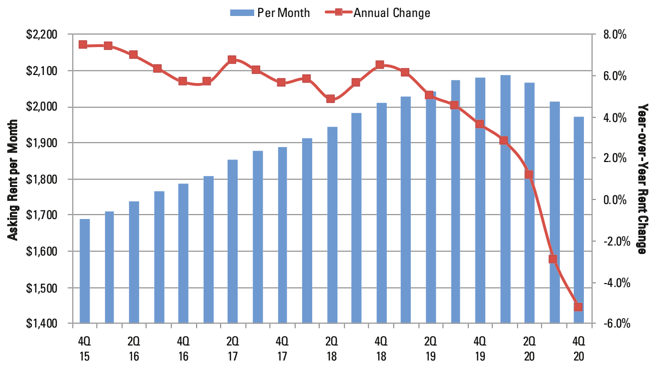
Sources: NorthMarq, Reis

Net absorption totaled approximately 2,700 units in 2020, down from nearly 5,000 units in the previous year

Rents

- Average asking rents dipped 2 percent in the fourth quarter, falling below $2,000 per month for the first time since the middle of 2018. Local asking rents ended the year at $1,973 per month.
- Asking rents declined 5.2 percent in 2020, with nearly all of the drop recorded during the second half of the year. As the local labor market gains momentum, demand for apartments should pick up, stabilizing rents.
- Rents in Class A properties fell more sharply than rents in less expensive units in 2020. Class A asking rents declined 7 percent in 2020, ending the year at $2,548 per month. Combined rents in Class B and Class C units dropped approximately 4.5 percent.
- **Forecast:** Rents will likely trend lower for a few more quarters before stabilizing in the second half of the year. Average asking rents in Los Angeles are forecast to dip approximately 1.5 percent in 2021.

Rent Trends



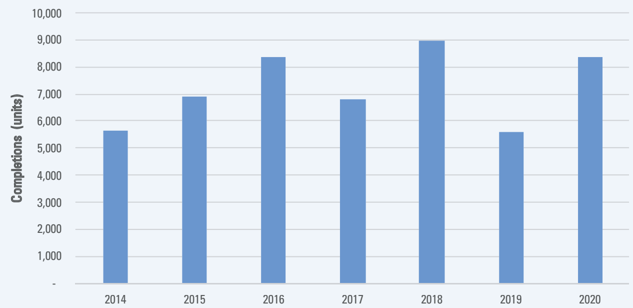
Sources: NorthMarq, Reis

Local asking rents ended the year at $1,973 per month

Development and Permitting

- Apartment construction was very active during 2020, and total deliveries approached the cyclical high recorded in 2018. Developers brought approximately 8,350 units to market in 2020, compared to fewer than 5,600 units in 2019.
- Multifamily permitting accelerated in the fourth quarter, as developers pulled permits for about 3,800 units, the highest quarterly total of the year. Even with the strong finish, the 12,150 multifamily permits pulled during 2020 was the lowest figure since 2012. From 2014 to 2019, multifamily permitting averaged more than 15,000 units per year.
- Projects totaling more than 19,500 apartment units are currently under construction in Greater Los Angeles. The Downtown area accounts for nearly half of the total number of units that are under way.
- **Forecast:** The year ahead should be another active period for new apartment construction. Developers are forecast to deliver approximately 8,500 new units in 2021, a slight acceleration from 2020 levels.

Development Trends



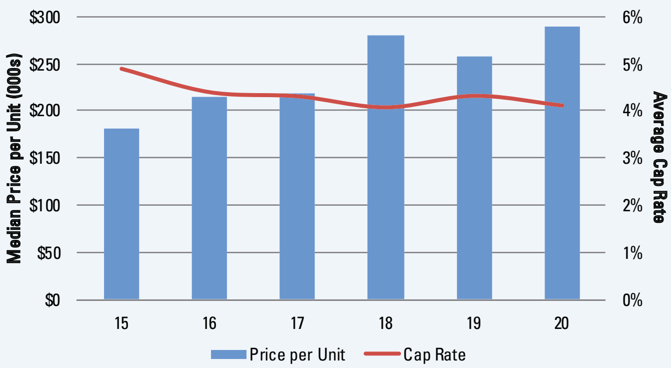
Sources: NorthMarq, Reis

Projects totaling more than 19,500 apartment units are currently under construction

Multifamily Sales

- Transaction activity in the fourth quarter closely tracked levels from the third quarter, although dollar volume picked up as there was a spike in sales greater than $75 million. Total sales velocity for the year was down approximately 45 percent from 2019 levels.
- Despite a decline in the number of properties that sold, prices pushed higher in 2020. The median price reached $288,900 per unit, up 12 percent from the median price in 2019. The median price in sales that closed in the fourth quarter was nearly $330,000 per unit.
- Cap rates compressed in 2020, averaging 4.1 percent, down 20 basis points from 2019. In recent years, average cap rates have hovered in a tight range, falling between 4 percent and 4.5 percent since 2016.

Investment Trends



Sources: NorthMarq, CoStar

While the number of sales declined, investor appetite for multifamily complexes remained strong

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

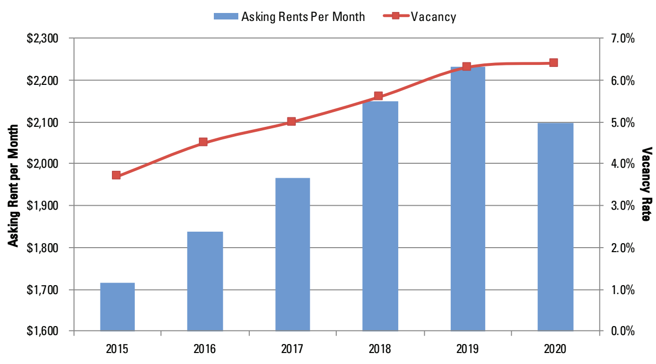
Property Name	Street Address	Units	Sales Price	Price/Unit
Angelene	915 N La Brea Ave., Los Angeles	179	$124,650,000	$696,369
Nola624	600-656 S Glendora Ave., West Covina	259	$95,800,000	$369,884
Renaissance at City Center	21800 Avalon Blvd., Carson	150	$66,000,000	$440,000
416 on Broadway	416 E Broadway, Glendale	115	$60,000,000	$521,739
Villa Raymond	445 N Raymond Ave., Pasadena	61	$21,000,000	$344,262
Selworth Apartments	7941 Selma Ave., Los Angeles	35	$13,600,000	$388,571

Downtown

Construction/Vacancy/Rents

- Apartment construction in the Downtown area cooled during the fourth quarter, as developers brought 160 multifamily units online. Despite the slowdown in the fourth quarter, 2020 was an active year for apartment construction Downtown. Projects totaling approximately 3,100 units were completed in 2020, up 16 percent from 2019. Apartment construction Downtown will continue to account for a significant share of the county's future development; there are currently 8,700 units under construction in the area.
- Vacancy in Downtown Los Angeles peaked during the first quarter of 2020 and has slowly improved in the subsequent quarters. The rate dipped 10 basis points from the third quarter to the fourth quarter. Vacancy in Downtown submarkets ended the year at 6.4 percent, just 10 basis points higher than the rate one year earlier.
- Rents pulled back in Downtown in each of the final three quarters of the year. Asking rents finished 2020 at $2,097 per month, down 6 percent from a year earlier.
- **Forecast:** Multifamily construction levels are anticipated to remain elevated, putting some upward pressure on local vacancy. The vacancy rate is forecast to climb 20 basis points, reaching 6.6 percent by the end of 2021. Asking rents in the Downtown area are expected to retreat modestly in the next few quarters before stabilizing.

Vacancy and Rent Trends



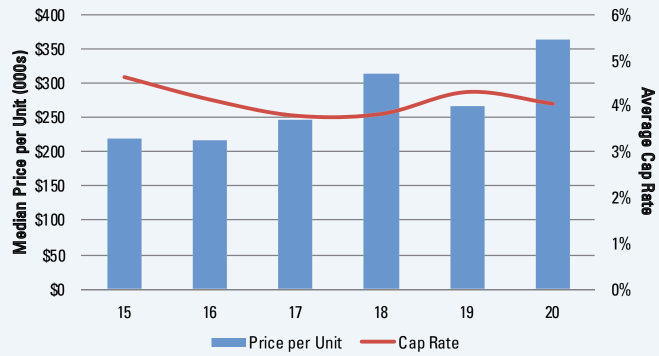
Sources: NorthMarq, Reis

Projects totaling approximately 3,100 units were completed in 2020, up 16 percent from 2019

Multifamily Sales

- Investment activity was modest throughout much of the year, a trend that continued during the fourth quarter as only a few significant properties changed hands. Transaction activity in 2020 fell nearly 40 percent from levels recorded in 2019.
- Despite the dip in investment activity, sales prices of multifamily properties in the Downtown area appreciated at a rapid clip. The median price in transactions occurring during 2020 was $363,300 per unit, a 36 percent increase from the median price in 2019. Some of the projects that have delivered in recent years have begun to trade, pushing prices higher.
- With prices rising, cap rates compressed. The average cap rate in 2020 was 4 percent, down 30 basis points from the figure in 2019.

Sales Trends



Sources: NorthMarq, CoStar

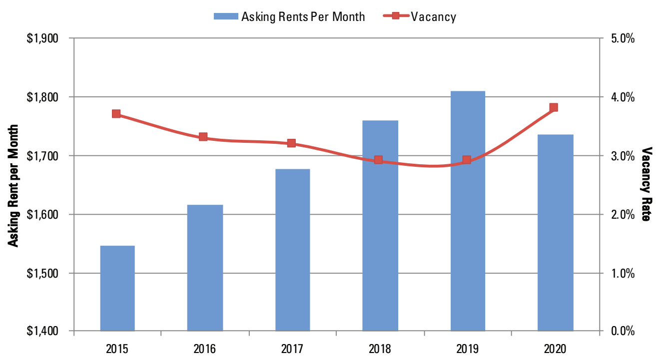
The average cap rate in 2020 was 4 percent, down 30 basis points from 2019

San Fernando Valley

Construction/Vacancy/Rents

- Apartment deliveries in the San Fernando Valley accelerated in the second half. Following an active third quarter, developers brought an additional 710 multifamily units online in the fourth quarter. There were roughly 2,300 units completed during 2020, nearly double the amount from 2019. There were approximately 3,400 units under construction in the San Fernando Valley at year end.
- Vacancy in the San Fernando Valley rose 90 basis points in 2020, reaching 3.8 percent. The rate crept up 70 basis points in the second half, including a 20-basis point uptick in the fourth quarter. Some of the rise was related to supply growth as new inventory additions were at their highest level since 2015. The vacancy rate remains the lowest figure of the major geographical areas in Los Angeles.
- Asking rents in the San Fernando Valley declined in 2020, but at a slower pace than the Los Angeles market as a whole. Local apartment rents dipped 4.2 percent in 2020, ending the year at $1,735 per month.
- **Forecast:** Apartment development in the San Fernando Valley was active in 2020, and development is on pace to level off in 2021. With supply-side pressures easing, vacancy is forecast to tighten 20 basis points to roughly 3.6 percent. Rents are projected to return to moderate growth, reaching around $1,770 per month by the end of 2021.

Vacancy and Rent Trends



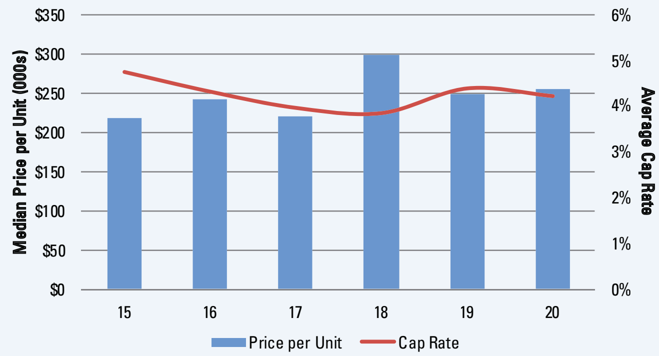
Sources: NorthMarq, Reis

There were roughly 2,300 units completed during 2020, nearly double the amount from 2019

Multifamily Sales

- After a strong start to the year, the San Fernando Valley investment market was reasonably modest for the remainder of the year. Total transaction activity in 2020 declined 45 percent from the figure recorded in 2019.
- Despite a drop in sales velocity, prices remained near earlier levels. In deals closed during 2020, the median price was $255,100 per unit, up slightly from the 2019 median price. Only a few newer properties sold in the San Fernando Valley during 2020, but they generated substantial prices; the median price for complexes built after 2000 was more than $500,000 per unit.
- Cap rates in the San Fernando Valley averaged 4.2 percent in 2020, down 20 basis points from the average in 2019.

Sales Trends



Sources: NorthMarq, CoStar

Cap rates in the San Fernando Valley averaged 4.2 percent in 2020

South Bay

Construction/Vacancy/Rents

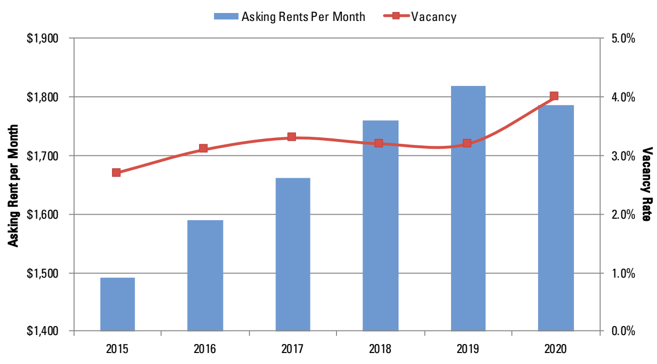
> Multifamily construction picked up in the South Bay during the fourth quarter, and 380 units were completed. In 2020, developers brought approximately 1,200 apartment units online, more than doubling the total deliveries from the preceding year. Additional construction is coming, with projects totaling nearly 1,700 units underway. The West Long Beach/Signal Hill submarket is expected to account for the bulk of the South Bay's construction in the coming years, with more than 900 units under construction in the area.

> Vacancy spiked in response to the rise in new development. The vacancy rate increased 80 basis points year over year, reaching 4 percent at the end of 2020. Most of the new construction was completed in the Carson/San Pedro submarket, where the vacancy rate shot up from 3 percent to 7.5 percent in 2020.

> Apartment rents in the South Bay contracted by the least amount of the major geographical regions in Greater Los Angeles. In 2020, the area's asking rents fell 1.9 percent, finishing at $1,785 per month.

> **Forecast:** Operating conditions in the South Bay region are likely to remain fairly stable in 2021. With additional construction in the development pipeline, the local vacancy rate is forecast to remain near the current figure of 4 percent. Following modest losses in 2020, asking rents are forecast to rise 2.5 percent to $1,830 per month.

Vacancy and Rent Trends



Sources: NorthMarq, Reis

Asking rents are forecast to rise 2.5 percent to $1,830 per month

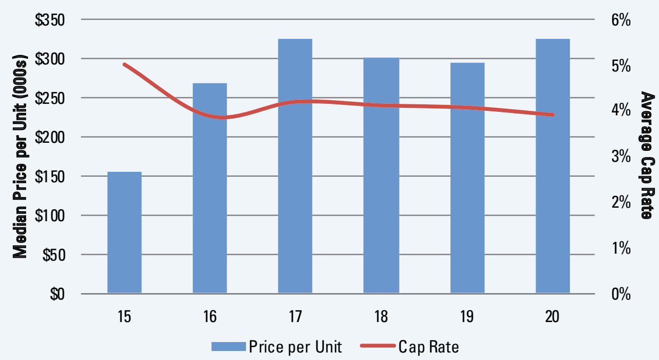
Multifamily Sales

> After a period of limited activity from April to November, multifamily sales returned in the final month of the year, with several significant properties trading. Sales velocity in 2020 declined approximately 35 percent from levels in 2019.

> Prices surged in the fourth quarter, and the median price in deals closed during December was $362,000 per unit. The median sales price for the full year was $325,800 per unit, up 10 percent from the median in 2019.

> In the properties that sold in 2020, the average cap rate in the South Bay was 3.9 percent, down 20 basis points from 2019.

Sales Trends



Sources: NorthMarq, CoStar

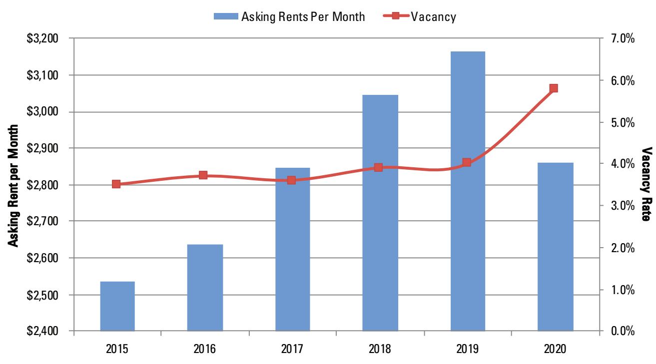
The median sales price in 2020 was $325,800 per unit, up 10 percent from 2019

West Los Angeles

Construction/Vacancy/Rents

- Construction activity gained momentum in West Los Angeles in 2020. Developers brought 380 apartment units online in the fourth quarter, bringing the total for the entire year to more than 1,300 units. This was a spike of 33 percent from deliveries in 2019. There are nearly 2,000 multifamily units currently under construction in the area. Projects totaling approximately 650 units are under construction in the Westwood/Brentwood submarket.
- Vacancy in the West Los Angeles region rose 180 basis points in 2020, ending the year at 5.8 percent, including a spike of 120 basis points in the fourth quarter. Nearly 500 units were delivered in Santa Monica, where the vacancy rate rose 220 basis points in 2020 to 5.9 percent.
- Rent contraction was generally most significant in the most expensive regions of West Los Angeles in 2020. Local asking rents contracted 9.6 percent in the past year, finishing 2020 at $2,859 per month.
- **Forecast:** Operating conditions in West Los Angeles will likely need a few more quarters to fully stabilize. Rents are expected to inch lower in the first half of the year before leveling off later in the year. Local vacancy is expected to tighten a bit in 2021, falling below 5.5 percent by the end of the year.

Vacancy and Rent Trends



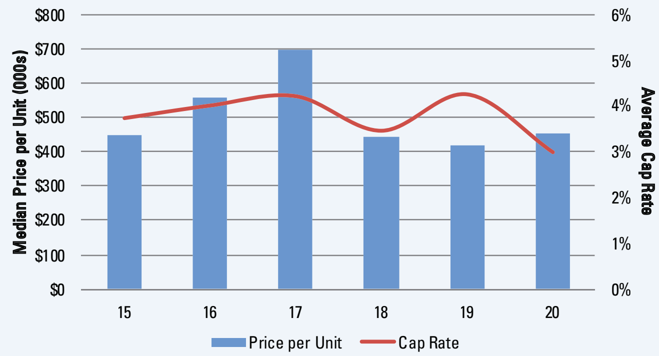
Sources: NorthMarq, Reis

Local asking rents contracted 9.6 percent during 2020

Multifamily Sales

- Only a handful of significant sales transactions occur in West Los Angeles during the course of a typical year. Sales velocity in 2020 closely tracked levels from recent years.
- While properties rarely go on the market in West Los Angeles, they command robust prices. After declining in 2018 and 2019, prices went back to strengthening. In transactions closed during 2020, the median price was $452,000 per unit, up 8 percent from 2019.
- Investment properties in the West Los Angeles area are highly sought after, and cap rates have been consistently low. In the few deals that traded during 2020, cap rates averaged just 3 percent.

Sales Trends



Sources: NorthMarq, CoStar

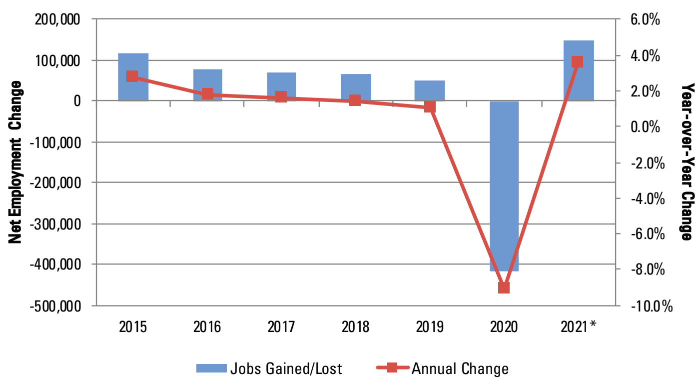
In the few deals that traded during 2020, cap rates averaged just 3 percent

Looking Ahead

The Greater Los Angeles multifamily market will likely post another quarter or two of softer conditions to start 2021 before property performance stabilizes in the second half of the year. The local economy has been impacted by the coronavirus more than most major markets, particularly in the hospitality and retail sectors. As vaccinations become more widely distributed in the coming months, there should be a release of pent-up demand for recreational travel, which will support the local employment outlook. Renter demand should gain momentum as the economy strengthens, but multifamily developers are forecast to be active again in 2021, and the vacancy rate will likely creep higher.

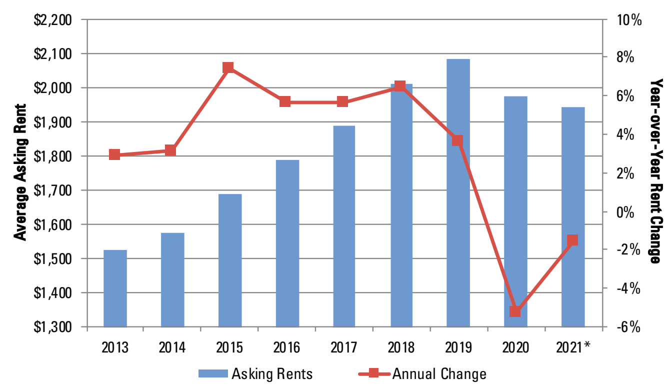
Investment activity in Los Angeles County is forecast to gain momentum in 2021. Transaction activity slowed in 2020, but the market showed signs of stabilizing at the end of the year. Deal flow picked up at the end of 2020, particularly in larger, newer complexes. During the first few weeks of 2021, properties have continued to change hands, a sign that the market has adjusted to the current conditions. Cap rates have remained in the low-4 percent range for the past several years and are unlikely to move significantly in the coming quarters.

Employment Forecast



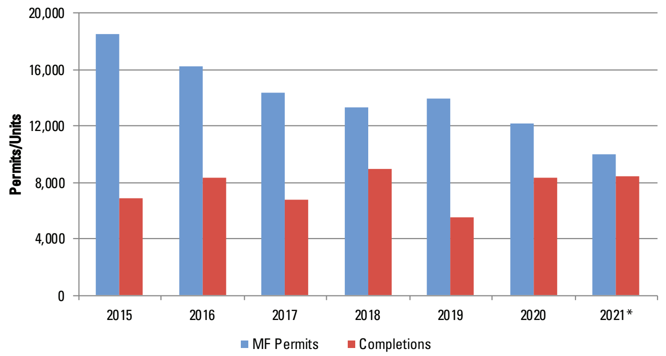
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



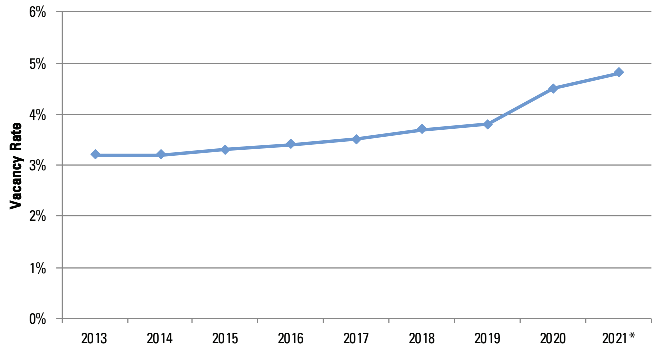
* Year End Forecast
Sources: NorthMarq, Reis

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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