Market Insights

Greater Los Angeles Multifamily 3Q 2021

Northmarq

Construction Activity

21,650
Units under construction

2,692
Units delivered (YTD)

Market Fundamentals

4.1%
Vacancy

-10bps | Year over year change

$2,106
Asking Rent

+4.6% | Year over year change

Transaction Activity

$285,200
Median sales price per unit (YTD)

3.9% | Cap rates (YTD)

Rents Spike and Vacancies Tighten as Economic Growth Accelerates

Highlights

- The multifamily market in Los Angeles turned a corner during the third quarter. After nearly one year of mixed property performance, vacancies tightened throughout the region and rents rose at a rapid pace. Further improvement is likely as the local labor market continues to add workers.
- Vacancy in Los Angeles fell 40 basis points during the third quarter, reaching 4.1 percent. The rate had held steady in the first half of the year. Year over year, vacancy is down 10 basis points.
- Following a few quarters of mixed performance, rents posted strong gains in the third quarter. Asking rents rose to $2,106 per month, up 4.6 percent from one year earlier. Continued rent increases are forecast for the next few quarters.
- Sales of multifamily properties slowed somewhat during the third quarter. The median price in sales thus far in 2021 is $285,200 per unit, up slightly from 2020 levels. Cap rates have compressed to an average of 3.9 percent.

Greater Los Angeles Multifamily Market Overview

The Los Angeles multifamily market gained momentum during the third quarter as average asking rents surged to an all-time high and the vacancy rate tightened. The local labor market in Los Angeles posted robust job growth during the third quarter, supplying a boost to the local economy and fueling renter demand in the region. Absorption levels spiked in recent months as more than 4,200 units were absorbed during the third quarter, nearly doubling the total that was recorded in the first half of the year.

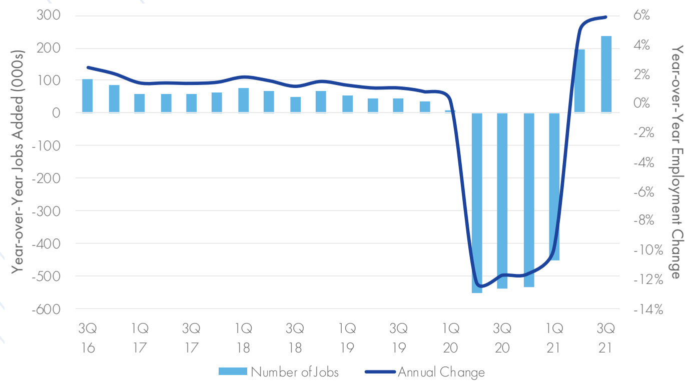
The local investment market is bouncing back, but sales velocity dipped somewhat during the third quarter. There has been an uptick in the number of Class A properties changing hands thus far in 2021, however, after just a handful of newer buildings sold during 2020. This has resulted in a significant increase in the number of sales at the high-end of the pricing spectrum. About 20 percent of the properties that have been sold in 2021 have traded for more than $500,000 per unit, nearly doubling the figure from last year. Cap rates have generally been compressing during the past decade, with average rates currently at 3.9 percent.

Employment

- The local labor market in Los Angeles continues to recover as more than 77,000 jobs were added during the third quarter. Total employment has expanded nearly 5.9 percent year over year with the addition of roughly 236,000 jobs.
- Education and health services has been one of the strongest recovering industries during the past year. Total employment in this sector is down less than 2 percent from its pre-pandemic highs. This industry has added more than 34,000 jobs in the last 12 months, a growth rate of 4.2 percent.
- Los Angeles continues to maintain a robust talent pool attracting high-profile technology companies. Apple recently announced plans to create a 550,000-square-foot regional headquarters in Culver City. The new office complex will add more than 3,000 employees to the region by 2026.
- **Forecast:** Employment in Los Angeles County is forecast to continue to expand, following the recovery of the California economy. Employers are expected to add approximately 225,000 jobs in 2021, a 5.6 percent growth rate.

> More than 77,000 jobs were added during the third quarter.

Employment Overview

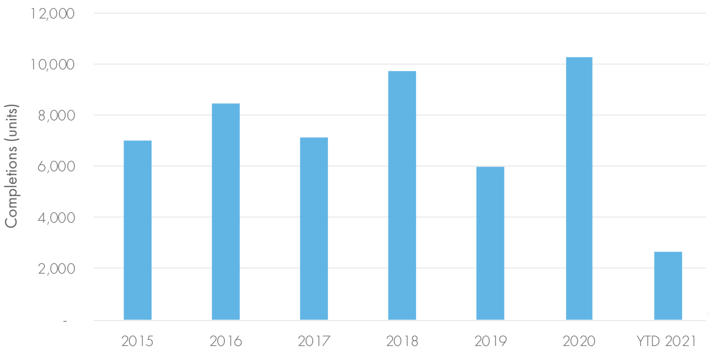


Sources: Northmarq, Bureau of Labor Statistics

Development and Permitting

> Projects totaling 21,650 units are under construction in Los Angeles County.

Development Trends



Sources: Northmarq, Reis

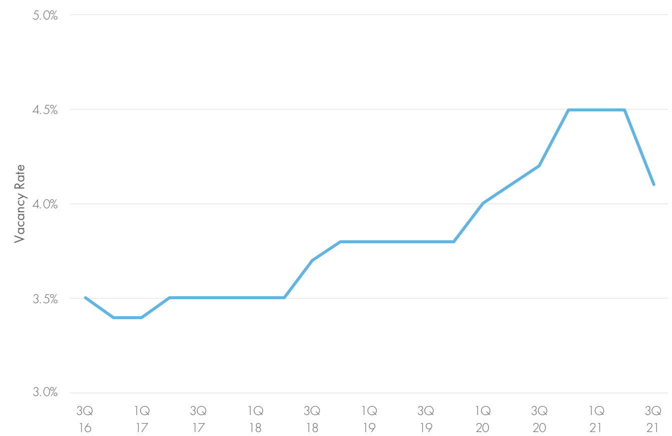
- After a spike in construction activity during 2020, the pace of apartment deliveries slowed in the first nine months of this year. Nearly 2,700 units have been delivered year to date, down more than 60 percent from the same period one year ago.
- As the pace of deliveries tapered off, multifamily permitting in Los Angeles County accelerated through the third quarter of 2021. Year to date, developers pulled permits for more than 10,900 multifamily units, up 31 percent from the same period last year. Permits for more than 3,700 units were pulled during the third quarter.
- Projects totaling 21,650 units are under construction in Los Angeles County, up 11 percent from the number of units that were under way one year ago. Although new construction is taking place in most areas throughout Los Angeles County, some of the busier submarkets for apartment construction include Hollywood/Silver Lake, Wilshire/Westlake, and Mid-City/West Adams/Pico Heights.
- **Forecast:** While delivieries have been limited in recent quarters, the development pipeline includes several projects that are scheduled to deliver in the fourth quarter, and the increase in permitting will likely result in an active period of new construction in the coming years. Approxiamtely 7,000 units are forecast to be delivered this year.

Vacancy

- After holding steady in each of the past three quarters, the local multifamily vacancy rate declined 40 basis points during the third quarter to 4.1 percent. The drop in vacancy in recent months was fueled by a substantial uptick in net absorption; more than 4,200 units were absorbed in the third quarter.
- Year over year, vacancy in Los Angeles dipped 10 basis points. The county's cyclical low vacancy rate was 3.1 percent in 2014, and the rate has slowly crept higher in recent years.
- The largest decline in vacancy in Los Angeles County occurred in Class A properties. Vacancy in Class A units ended the third quarter at 6.7 percent, down 90 basis points from just three months earlier. Approximately 85 percent of the total absorption during the third quarter occurred in Class A units.
- **Forecast:** Multifamily vacancy in the Los Angeles area is expected to dip slightly in the remainder of the year. The vacancy rate is forecast to drop 50 basis points in 2021, finishing the year at 4 percent.

> The vacancy rate declined 40 basis points in the third quarter to 4.1 percent.

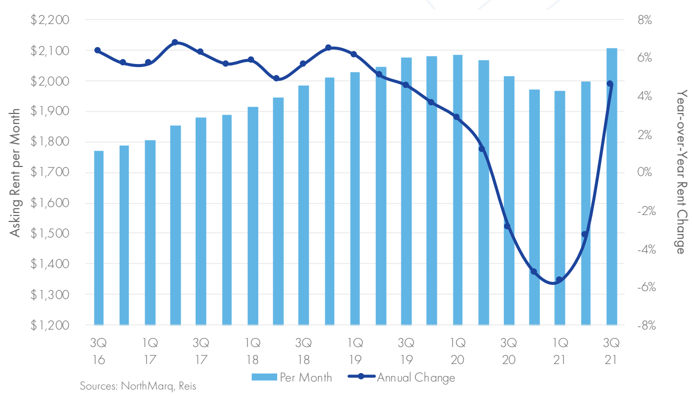
Vacancy Trends



Sources: NorthMarq, Reis

> Asking rents rose 5.4 percent in the third quarter, reaching $2,106 per month.

Rent Trends



Sources: NorthMarq, Reis

Rents

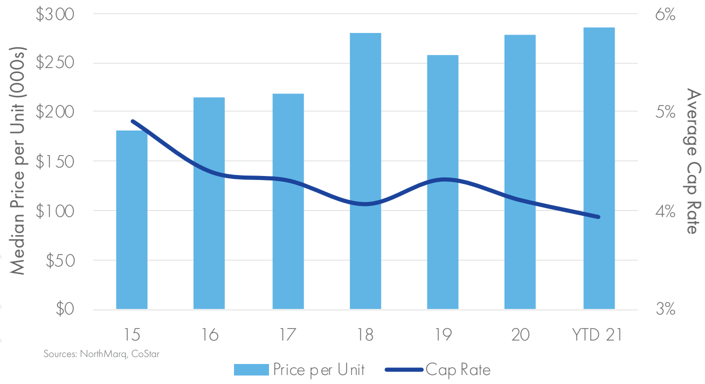
- Asking rents in Los Angeles jumped during the third quarter, rising 5.4 percent to $2,106 per month. Current rents have surpassed their pre-pandemic levels and reached an all-time high in the third quarter.
- Year over year, asking rents have grown 4.6 percent in the region. The most expensive submarkets in Los Angeles County include Downtown, Satna Monica, and Marina Del Rey/Venice/Westchester all with rents above $3,300 per month.
- Rents in Class A properties spiked during the third quarter, expanding 7.5 percent to $2,759 per month. Rent growth in the Class A segment totaled nearly $200 per month during the third quarter, after rents in premium units had fallen nearly that much since early 2020.
- **Forecast:** With economic growth ramping up, rents in Los Angeles are expected to continue to trend higher in the coming months. For the full year, asking rents are forecast to rise 9.5 percent, reaching approximately $2,160 per month.

Multifamily Sales

- Multifamily sales velocity in Los Angeles County slowed slightly from the second quarter to the third quarter. Transaction activity was down 7 percent during the third quarter. Despite a modest decline in recent months, transaction activity to this point in 2021 has outpaced levels recorded during the same period in 2020 by 43 percent.
- The median sales price has inched higher during the first three quarters of 2021, rising approximately 2.5 percent to roughly $285,200 per unit. While the overall median price has only ticked higher, there has been a sharp increase in the number of properies selling for more than $500,000 per unit.
- On average, cap rates have declined approximately 20 basis points to 3.9 percent in 2021. Cap rates have typically ranged between 4 to 4.4 percent during the last five years.

On average, cap rates have declined approximately 20 basis points.

Investment Trends



Recent Transactions

Multifamily Sales Activity

Property Name	Street Address	Units	Sales Price	Price/Unit
Marlton Villas	4180 Marlton Ave., Los Angeles	57	$15,300,000	$268,421
Eton Warner	6701-6733 Eton Ave., Woodland Hills	298	$112,000,000	$375,839
Hollywood Tower	6200 Franklin Ave., Hollywood	52	$20,100,000	$386,538
Shoemaker Court Apartments	14121 Shoemaker Ave., Norwalk	59	$22,500,000	$381,356

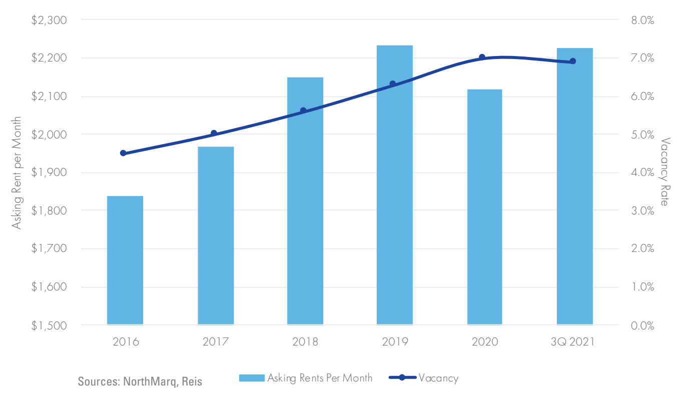
Downtown

Construction/Vacancy/Rents

- Construction activity in the Downtown submarkets slowed as approximately 140 units were delivered in the third quarter, down more than 30 percent from last quarter. Year to date, more than 600 units have come online in the region. Despite a slow start, apartment deliveries are expected to accelerate at the end of this year and into 2022, as more than 9,600 units are currently under construction in the Downtown area.
- Vacancy in Downtown Los Angeles ended the third quarter at 6.9 percent, 10 basis points lower than the end of 2020. Year over year, the vacancy rate in Downtown rose 30 basis points.
- Asking rents in Downtown spiked during the third quarter, reaching $2,226 per month, up more than 6 percent from last quarter. Rents in Downtown peaked during the start of 2020 at $2,267 per month.
- **Forecast:** More than 2,300 units are expected to be delivered by the end of this year following the delivery of nearly 4,500 units that came online last year. Vacancy is forecast to inch slightly lower during the final few months of the year, ending 2021 at 6.8 percent. Asking rents are expected to continue to push higher, reaching $2,290 per month by year end.

> Asking rents spiked during the third quarter, reaching $2,226 per month.

Vacancy and Rent Trends

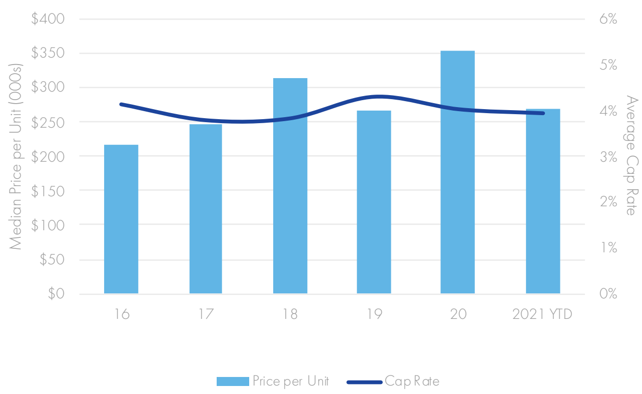


Multifamily Sales

- Multifamily sales in the Downtown area slowed slightly in recent months. Transaction activity was down 14 percent from the second quarter to the third quarter.
- Sales prices dipped lower to this point in 2021, following a spike in prices during 2020. The median sales price thus far in 2021 reached $269,350 per unit, down 24 percent from the median price in 2020.
- Despite a decline in sales prices during 2021, cap rates in Downtown Los Angeles have remained consistently low. Cap rates have averaged 3.9 percent in 2021, 10 basis points below the average in 2020.

> The median sales price thus far in 2021 reached $269,350 per unit.

Sales Trends



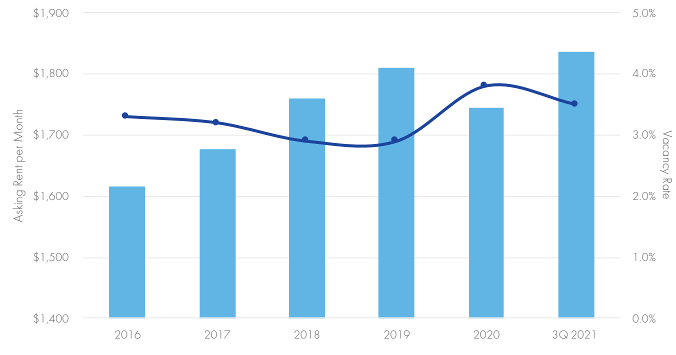
San Fernando Valley

Construction/Vacancy/Rents

- Multifamily construction activity in the San Fernando Valley remained slow in recent months with no significant projects coming online for the second consecutive quarter. Nearly 210 units were delivered in the first quarter. Apartment deliveries are expected to accelerate in the final months of the year as more than 2,600 units are currently under construction in the area.
- With supply growth limited to this point, the vacancy rate in the San Fernando Valley tightened during the third quarter. The rate reached 3.5 percent, down 40 basis points from the previous quarter. The current vacancy rate is down 10 basis points from one year earlier.
- After holding steady during the past several months, asking rents jumped during the third quarter. Rents in the San Fernando Valley rose 5.3 percent in July through September, reaching $1,836 per month.
- **Forecast:** Multifamily developers in the San Fernando Valley are forecast to deliver nearly 1,200 units by the end of the year, down nearly 55 percent from last year's deliveries. Vacancy is expected to level off by year end, reaching 3.4 percent by the end of 2021. Asking rents should continue to rise and are forecast to end 2021 at $1,880 per month.

> Asking rents jumped during the third quarter, reaching $1,836 per month.

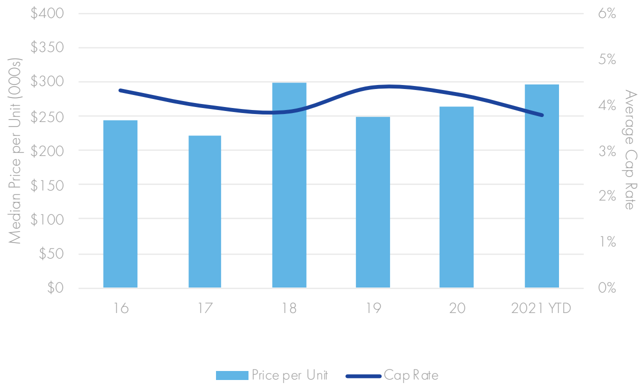
Vacancy and Rent Trends



Sources: NorthMarq, Reis

> Cap rates have averaged 3.8 percent thus far in 2021.

Sales Trends



Multifamily Sales

- Sales activity in the San Fernando Valley has been uneven to this point in 2021. Multifamily property sales started the year on an upswing before activity cooled in the second quarter. During the third quarter, sales velocity bounced off earlier lows, accelerating 60 percent from the second quarter total. Sales year to date have already exceeded 2020 levels by more than 30 percent.
- The median price of transactions that closed in the first nine months of this year was approximately $297,000 per unit, up nearly 15 percent from the median price in 2020.
- As prices trended higher in the San Fernando Valley, cap rates fell approximately 40 basis points during the first three quarters of the year. Cap rates have averaged 3.8 percent thus far in 2021.

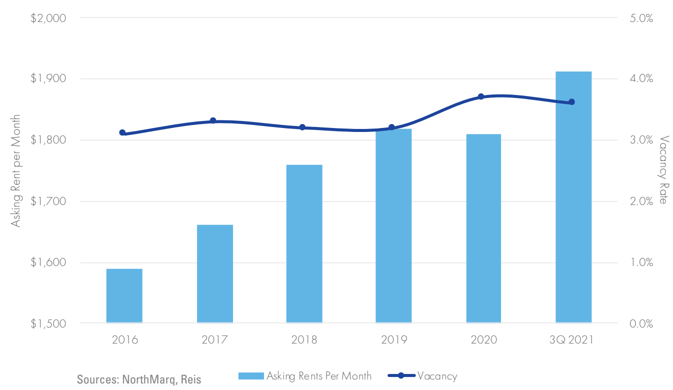
South Bay

Construction/Vacancy/Rents

- Multifamily construction activity in the South Bay remained active during the third quarter as projects totaling more than 260 units were delivered. The development pipeline remains fairly full with several new projects. Developers currently have more than 2,400 units under construction in the South Bay.
- Vacancy conditions in the South Bay remained tight during the third quarter, with the rate dropping 10 basis points to 3.6 percent. The current rate is identical to the figure from the third quarter of last year.
- Rents advanced during the third quarter, rising nearly 6 percent from the previous period. Asking rents in the South Bay ended the third quarter at $1,912 per month.
- **Forecast:** Apartment developers in the South Bay are expected to deliver roughly 1,000 units by the end of 2021, down about 15 percent from 2020 levels. Vacancy is forecast to end the year at 3.5 percent. With vacancy remaining tight, there should be additional room for rent increases; asking rents are on pace to end the year at $1,960 per month.

> Asking rents in the South Bay ended the third quarter at $1,912 per month.

Vacancy and Rent Trends

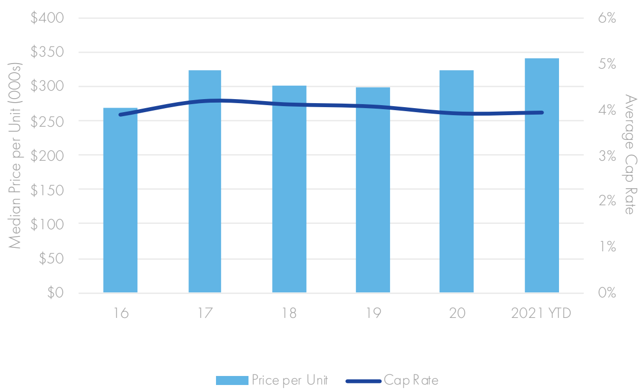


Multifamily Sales

- While several multifamily property sales closed during the second quarter, there was limited transaction activity in the South Bay in the third quarter. In a typical year, about 8-10 significant transactions occur in the South Bay and the region is on pace to exceed that total this year.
- The median price in sales has pushed higher to this point in 2021. Year to date, the median price in the South Bay is nearly $341,900 per unit, up 5 percent from the median price in 2020.
- As prices ticked higher, cap rates remained fairly steady in the first nine months of 2021. The average cap rate through the first three quarters of this year was approximately 3.9 percent, nearly identical to the average recorded in 2020.

> Year to date, the median price in the South Bay is $341,900 per unit.

Sales Trends



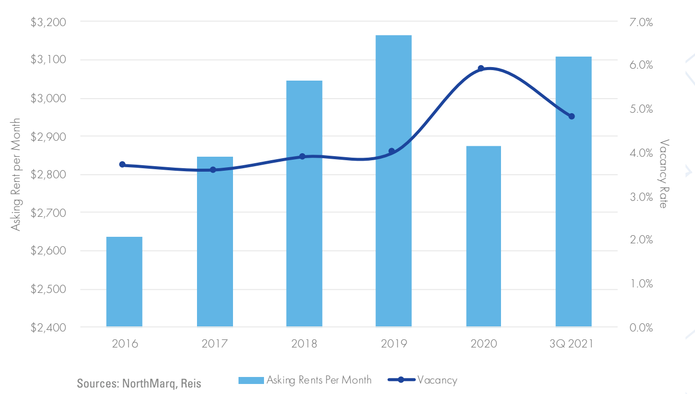
West Los Angeles

Construction/Vacancy/Rents

- Multifamily construction activity gained momentum during the third quarter following a slow first half of the year. Approximately 285 units came online in the West Los Angeles area during the third quarter. The pace of future development activity is likely to acceletae as there are projects totaling nearly 1,500 units currently under construction in the West Los Angeles submarkets.
- Conditions continued to tighten through the third quarter of 2021, with vacancy ending the period at 4.8 percent. The rate in West Los Angeles peaked in the final quarter of 2020 and has since dropped 110 basis points to the current rate.
- Asking rents in the West Los Angeles area pushed higher during the third quarter, rising more than 9 percent to $3,109 per month.
- **Forecast:** Multifamily developers in West Los Angeles are expected to finish the year bringing approximately 700 units to the area by the end of 2021, following the completion of nearly 1,550 units in 2020. The vacancy rate is expected to tick lower, reaching 4.7 percent. Asking rents are on pace to rise to $3,240 by the end of the year.

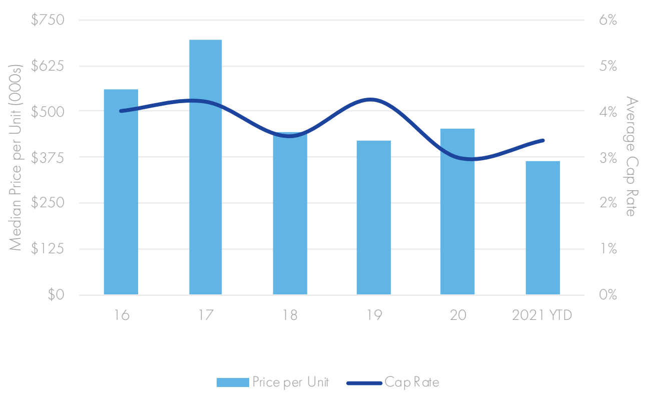
> Asking rents rose more than 9 percent to $3,109 per month.

Vacancy and Rent Trends



> Cap rates averaged around 3.4 percent during the first three quarters of 2021.

Sales Trends



Multifamily Sales

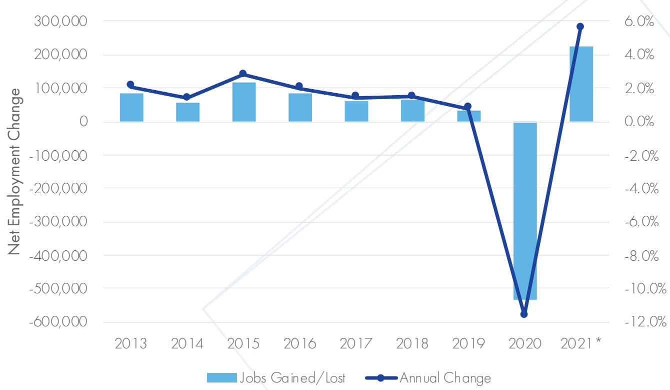
- Transaction activity in West Los Angeles during the third quarter was limited to just one significant transaction, after a handful of projects traded in the first half of the year. This pace is common in the area; an average of about five sales of 50 units or more change hands each year in West Los Angeles.
- Pricing in the West Los Angeles area can vary significantly based on the individual assets that transact. During the course of this year, properties have generally traded between $350,000 per unit to $750,000 per unit. The median price in transactions that have closed to this point in 2021 is $365,400 per unit.
- Cap rates averaged around 3.4 percent during the first three quarters 2021. Cap rates in West Los Angeles are consistently among the lowest in the county.

Looking Ahead

The Greater Los Angeles multifamily market went through a period of stabilizing in the first half of this year, followed by a significant strengthening during the third quarter. This sharp rebound in demand and operating fundamentals have put the market on a path for continued improvement for the remainder of this year and into 2022. While demand is picking up, deliveries of new units are not keeping pace, even in regions of the market where supply growth is generally fairly active, including the San Fernando Valley. These conditions should allow for further tightening in the local vacancy rate, which will likely approach the market's long-term average of about 3.5 percent by the first half of next year.

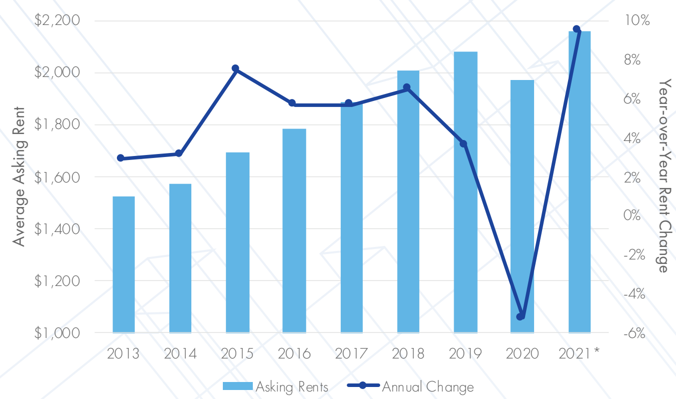
The local investment market is expected to benefit from the improving property fundamentals in the coming quarters. A broader mix of properties sold in 2021, with investors ramping up acquisition activity among newer Class A assets. This trend will likely continue in the coming quarters, as a few hundred projects totaling nearly 50,000 new units have been delivered since 2015. The primary driver of investment activity in 2022 is likely to be the lifting of the uncertainty that has hung over the market for the past few years. With conditions likely to return to normal in 2022, investors are expected to continue to acquire multifamily assets.

Employment Forecast



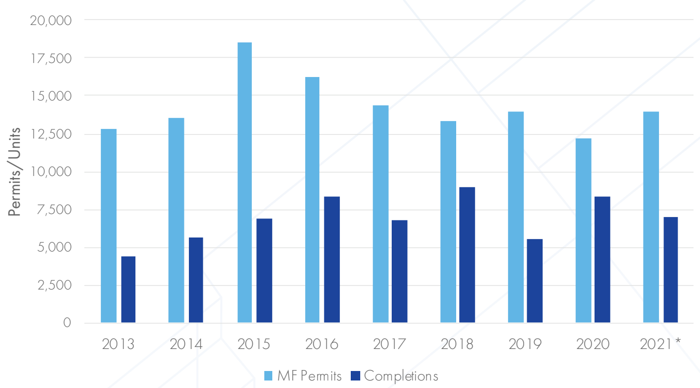
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



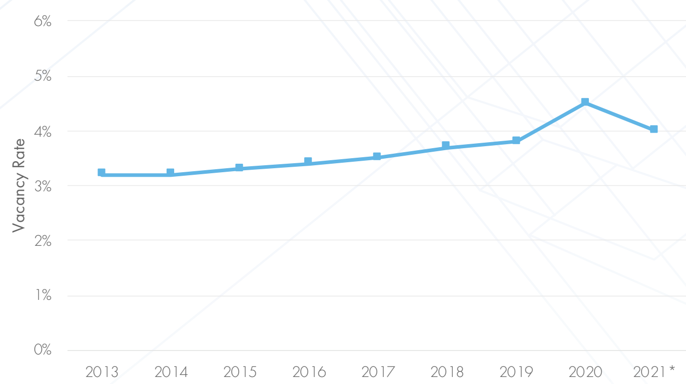
* Year End Forecast
Sources: Northmarq, Reis

Construction & Permitting Forecast



* Year End Forecast
Sources: Northmarq, Census Bureau, Reis

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Reis

Northmarq

For more information, please contact:

Bryan Schellinger
Managing Director—Investment Sales
424.422.0905
bschellinger@northmarq.com

Vince Norris
Managing Director—Investment Sales
424.334.7021
vnorris@northmarq.com

Jim Fisher
Managing Director—Investment Sales
424.334.7022
jfisher@northmarq.com

Mike Smith
Managing Director—Investment Sales
424.334.7025
msmith@northmarq.com

Ory Schwartz
SVP, Managing Director—Debt & Equity
424.422.0901
oschwartz@northmarq.com

Trevor Koskovich
President—Investment Sales
602.952.4040
tkoskovich@northmarq.com

Pete O'Neil
Director of Research
602.508.2212
poneil@northmarq.com

About Northmarq

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