MARKET REPORT | 1Q/2021

Greater Los Angeles Multifamily

NorthMarq

Sales Activity Concentrated Around Larger Transactions to Start 2021

Highlights

- The Los Angeles multifamily market is returning to normal after a volatile 2020. Businesses are reopening, resulting in an active pace of hiring. Apartment vacancy at the beginning of the year was steady, and rents contracted only a few dollars after sharper declines last year. As the economy strengthens, apartment conditions should improve.
- Vacancy in Greater Los Angeles was flat during the first quarter, holding steady at 4.5 percent. The rate has increased 50 basis points year over year.
- Asking rents in Greater Los Angeles ended the first quarter at $1,968 per month, 6 percent lower than one year ago but down only slightly year to date. The most expensive areas of Greater Los Angeles are the submarkets where rents have contracted the most. Meanwhile, rents have largely held steady in more affordable parts of the county.
- The investment market at the start of 2021 was similar to conditions at the end of last year. Sales velocity declined slightly while prices and cap rates closely tracked 2020 levels.

Q1 Snapshot	Los Angeles Market
Market Fundamentals	
Vacancy	**4.5%**
- Year Over Year Change	**+50 bps**
Asking Rent	**$1,968**
- Year Over Year Change	**-6.0%**
Transaction Activity	
Median Sales Price Per Unit (YTD)	**$278,600**
Cap Rates (Avg YTD)	**4.1%**
Construction Activity	
Units Under Construction	**21,195**
Units Delivered YTD	**804**

Greater Los Angeles Multifamily Market Overview

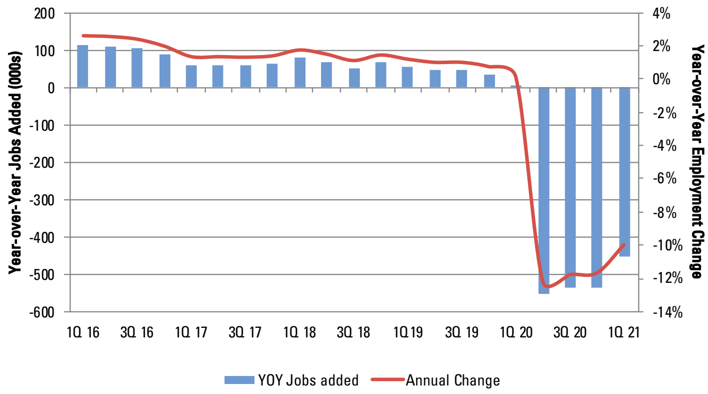
The Los Angeles multifamily market recorded mostly stable conditions at the start of 2021, and improvement is likely in the coming quarters as the local economy gains momentum. After creeping higher throughout much of 2020, the vacancy rate remained flat in the first quarter. Rents ticked lower by a few dollars during the quarter, but rents throughout much of Greater Los Angeles are not dramatically different than a few quarters ago. Part of the stability in the market at the start of the year was a function of a slowing pace of deliveries; only about 800 units were completed in the first quarter, down 70 percent when compared to the same period in 2020. Construction activity is forecast to accelerate throughout the remainder of the year.

Sales activity at the start of 2021 was similar to levels recorded in 2020, but the mix of transactions was different, with a significant increase in the pace of larger transactions. Nearly as many transactions of $100 million or more closed during the first few months of this year as sold in all of 2020. Nearly one-third of all sales transactions that closed in the beginning of 2021 involved Class A properties that had been built within the past 10 years, including a few newer properties in the Glendale and Long Beach areas. The median price in these newer properties topped $530,000 per unit, nearly doubling the median price for all transactions. Cap rates in newer buildings averaged about 3.5 percent compared to 4.1 percent for all classes.

Employment

- Employment in Los Angeles is slowly recovering as more than 50,000 jobs were added in the first quarter. Total employment is still down nearly 10 percent from one year ago but has been improving from previous quarters.
- Health care and social assistance, one of the largest industries in Los Angeles, has been the most stable employment sector in the economy in recent periods. Employment in the sector is down just 2.6 percent year over year.
- Los Angeles remains at the center of the aerospace industry. The U.S. Space Force recently announced that one of its major command bases will be located at the Los Angeles Air Force Base in El Segundo. The U.S. Space Force is expected to add thousands of jobs to the Los Angeles area in the coming months.
- **Forecast:** Employment in Los Angeles is expected to continue to recover over the next several quarters, as the California economy moves toward a full reopening. Total employment is forecast to grow by nearly 4 percent in 2021, adding about 160,000 jobs.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

Total employment is forecast to grow by nearly 4 percent in 2021

Vacancy

- Multifamily operating conditions in Los Angeles County stabilized during the first quarter. Vacancy remained steady throughout the first quarter, matching last quarter's 4.5 percent.
- Year over year, vacancy is up 50 basis points. The rate in Los Angeles has been trending upward since its decade-low 3.1 percent vacancy in the first half of 2014.
- Vacancy in Class A units ended the first quarter at 7.2 percent, rising 80 basis points from one year ago. Absorption in Class A properties slowed during the first three months of the year but totaled nearly 750 units by the end of the quarter.
- **Forecast:** Apartment vacancy in Los Angeles is forecast to rise 30 basis points in 2021, with the rate reaching 4.8 percent by the end of the year.

Vacancy Trends

Sources: NorthMarq, Reis

Vacancy remained steady throughout the first quarter at 4.5 percent

Rents

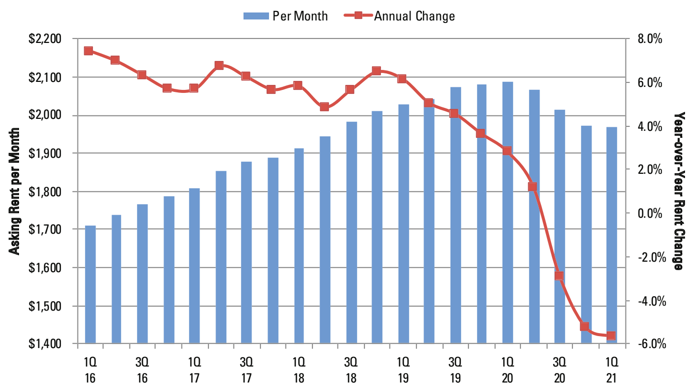
> Area rents ticked lower in the first quarter, inching down 0.3 percent from the end of last year. Asking rents in Greater Los Angeles ended the first quarter at $1,968 per month.

> Rents in Los Angeles are down 6 percent year over year. Asking rents peaked one year ago at nearly $2,100 per month.

> Rent declines have been most pronounced in Class A units, particularly in the county's most expensive submarkets. Class A asking rents are down 7.4 percent year over year, reaching $2,545 per month as of the first quarter. The pace of declines has slowed in recent quarters, and top-tier rents should stabilize by the end of the year.

> **Forecast:** Rents in Los Angeles will likely continue to dip during the next quarter or two before leveling off. Asking rents are forecast to end 2021 at approximately $1,950 per month, down 1.2 percent for the year.

Rent Trends



Sources: NorthMarq, Reis

Asking rents in Greater Los Angeles ended the first quarter at $1,968 per month

Development and Permitting

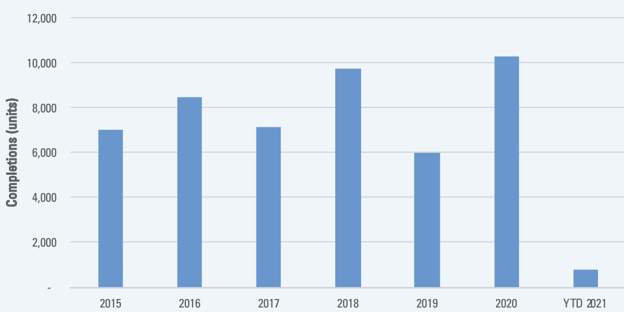
> Following a strong year for apartment deliveries during 2020, the pace of completions slowed at the beginning of this year. Projects totaling 804 units came online during the first three months of 2021, after nearly 2,800 units were delivered one year earlier.

> Multifamily permitting accelerated sharply during the first quarter as developers pulled permits for around 5,600 units, the highest quarterly total recorded in the past five years.

> There are roughly 21,200 units under construction in the Los Angeles area, up from 19,500 units last quarter. With permitting activity on the rise, the number of projects in the construction pipeline will likely increase in the coming quarters.

> **Forecast:** The remainder of 2021 should continue to be a strong year for new construction. Developers are forecast to deliver approximately 8,500 new units by the end of the year, a slight increase from 2020.

Development Trends



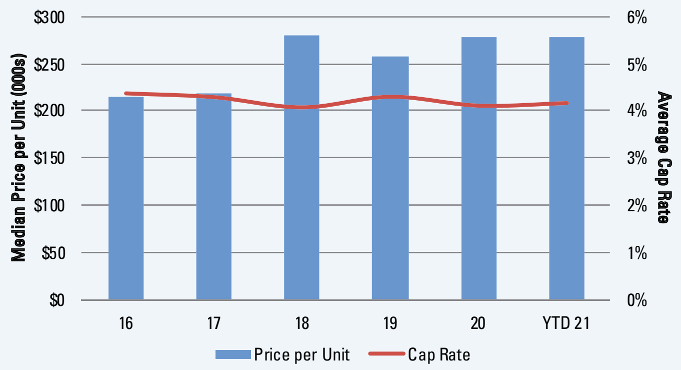
Sources: NorthMarq, Reis

There are currently around 21,200 units under construction in the Los Angeles area

Multifamily Sales

- Multifamily sales velocity in Greater Los Angeles started off the year slightly slower than at the beginning of 2020. Total sales activity was down 7 percent in the first quarter when compared to one year ago.
- The median sales price in Los Angeles County during the first quarter stayed steady from last year's number. Multifamily sales during the first quarter reached a median price of $278,600 per unit, nearly identical to the median price recorded in 2020.
- Cap rates remained steady, averaging 4.1 percent to finish the first quarter. Cap rates thus far in 2021 have closely tracked levels recorded throughout much of last year.

Investment Trends



Sources: NorthMarq, CoStar

Multifamily sales during the first quarter reached a median price of $278,600 per unit

Recent Transactions in the Market

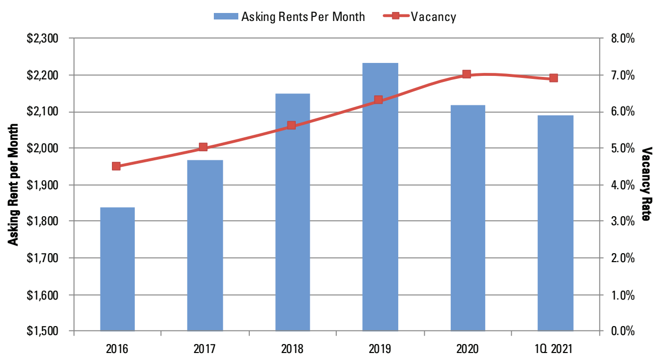
MULTIFAMILY SALES ACTIVITY				
Property Name	**Street Address**	**Units**	**Sales Price**	**Price/Unit**
Next on Lex	275 W Lexington Dr., Glendale	494	$290,000,000	$587,045
Oceanaire	150 W Ocean Blvd., Long Beach	216	$120,000,000	$555,556
The Hollywood Regency	1635-1639 N Martel Ave., Hollywood	60	$21,300,000	$355,000
Haddon Hacienda	10560 Haddon Ave., North San Fernando Valley	85	$16,250,000	$191,176
Baldwin Hills Apartments	4070 Ursula Ave., Inglewood	59	$9,600,000	$162,712

Downtown

Construction/Vacancy/Rents

- The pace of multifamily completions cooled during the start of 2021, as approximately 270 units were delivered in the first quarter, down from around 1,300 units during the final quarter of last year. Despite the slow start, apartment deliveries are expected to accelerate, as more than 9,300 units are currently under construction in the Downtown area.
- Vacancy in Downtown Los Angeles dipped 10 basis points from its peak at the end of 2020, falling to 6.9 percent to end the first quarter. Year over year, the vacancy rate is up just 10 basis points.
- Rents in Downtown have been dropping in recent quarters, as the influx of new units has increased competition in the area. Asking rents finished the first quarter at $2,090 per month, down 1.4 percent from the end of 2020.
- **Forecast:** Multifamily construction levels are expected to slow from last year's numbers, retreating to around 2,800 units to be delivered by the end of the year. Vacancy rates are forecast to dip slightly to finish off the year at 6.8 percent. Asking rents will likely drop 2.5 percent to around $2,040 per month by the end of 2021.

Vacancy and Rent Trends



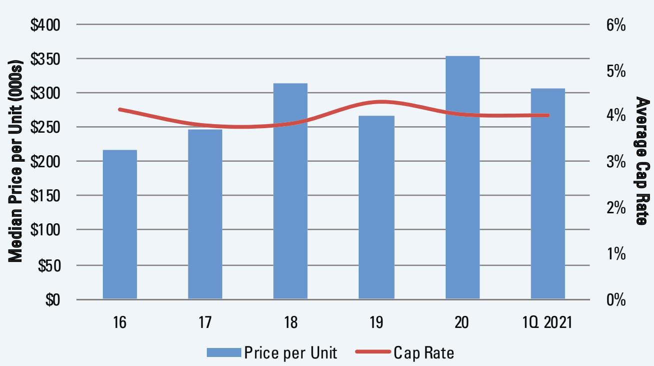
Sources: NorthMarq, Reis

Vacancy in Downtown Los Angeles dipped 10 basis points from its peak at the end of 2020 to 6.9 percent

Multifamily Sales

- Investment sales in Downtown Los Angeles had a strong start during the first quarter, doubling the number of transactions from the previous quarter.
- Per-unit pricing trends have been inconsistent in Downtown Los Angeles. After the median price spiked by more than 30 percent in 2020, prices have cooled a bit to start this year. The median price in the first quarter of 2021 was approximately $306,000 per unit.
- Cap rates in Downtown Los Angeles have remained consistent throughout the past several years. During the first quarter, cap rates averaged approximately 4 percent, nearly identical to the average in 2020.

Sales Trends



Sources: NorthMarq, CoStar

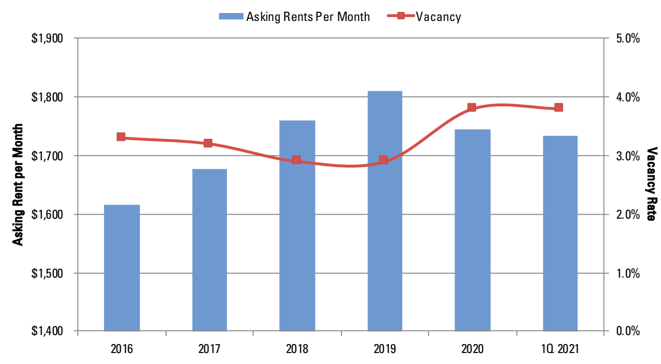
Cap rates in Downtown Los Angeles have remained consistent throughout the past several years

San Fernando Valley

Construction/Vacancy/Rents

- Apartment deliveries in the San Fernando Valley slowed in the first quarter of this year to roughly 210 completed units. This is down from more than 750 units brought online at the end of 2020. More units will be delivered during the next few quarters, as 3,300 units are currently under construction in this area.
- Vacancy in the San Fernando Valley stayed steady throughout the first quarter, matching last quarter's 3.8 percent rate. The vacancy rate in the San Fernando Valley had dipped below 3 percent in 2018 and 2019, but has leveled off below 4 percent.
- Asking rents in the San Fernando Valley crept lower in the first quarter, reaching $1,734 per month. First-quarter rents dipped 0.6 percent from the end of last quarter.
- **Forecast:** Apartment developers in the San Fernando Valley are forecast to deliver approximately 1,900 units in 2021, after 2,300 units came online last year. The vacancy rate is expected to end the year at 3.6 percent, 20 basis points lower than the rate at the beginning of the year. Asking rents are forecast to inch up about 1 percent, finishing the year at $1,750 per month.

Vacancy and Rent Trends



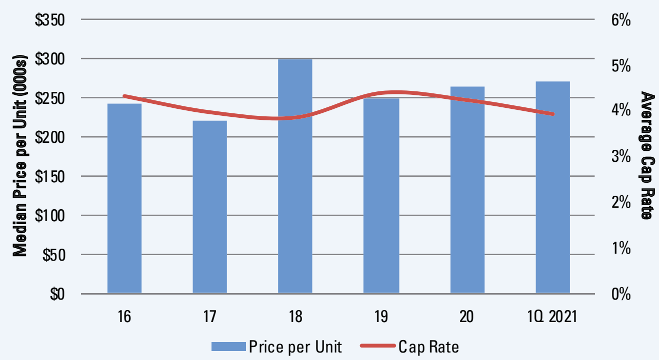
Sources: NorthMarq, Reis

Vacancy in the San Fernando Valley stayed steady throughout the first quarter at 3.8 percent

Multifamily Sales

- Sales activity in the San Fernando Valley got off to a stronger start in 2021 than in 2020. Transaction activity in the first quarter more than doubled last year's pace. Several projects ranging from 50 to 100 units and trading for between $12 million and $25 million sold during the first quarter.
- Prices ticked higher in the first quarter, with the median price rising 3 percent to $269,400 per unit. A few larger, Class A properties traded during the first quarter; the median price in these transactions was approximately $550,000 per unit.
- As prices inched higher, cap rates fell slightly in the San Fernando Valley. Cap rates averaged 3.9 percent during the first quarter, down 30 basis points from last year's average.

Sales Trends



Sources: NorthMarq, CoStar

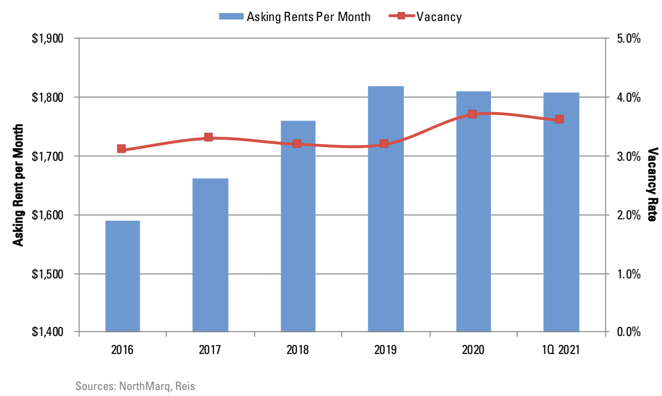
Cap rates averaged 3.9 percent during the first quarter

South Bay

Construction/Vacancy/Rents

- Multifamily construction in the South Bay slowed during the first quarter, as no significant apartments were delivered. The pace of apartment deliveries will likely accelerate, as more than 2,000 units are currently under construction in the area. Most of the new construction is being built in the West Long Beach/Signal Hill and Inglewood/Crenshaw submarkets.
- Vacancy in the South Bay dipped slightly during the first quarter, falling to 3.6 percent. The rate is down 10 basis points from last year's average.
- Asking rents in the South Bay stayed fairly steady during the first quarter, inching down just $3 per month from the end of 2020. Apartment rents finished the first quarter at $1,807 per month.
- **Forecast:** Developers are forecast to bring projects totaling approximately 650 units online in the South Bay in 2021. Vacancy is expected to inch 10 basis points lower, finishing the year at 3.5 percent. The low vacancy rate should support modest rent growth; asking rents will likely see a rise of about 2 percent in the area, reaching around $1,845 per month.

Vacancy and Rent Trends



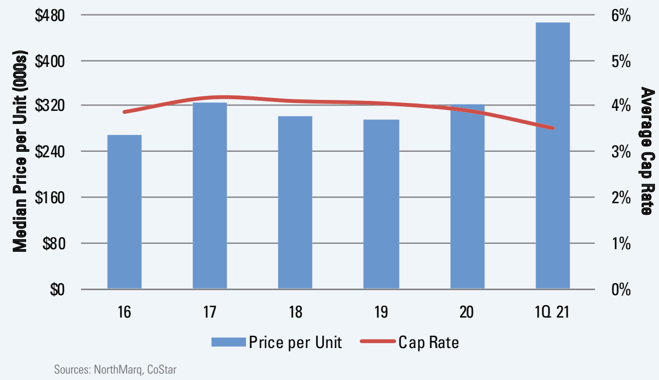
Sources: NorthMarq, Reis

Vacancy in the South Bay dipped slightly during the first quarter, falling to 3.6 percent

Multifamily Sales

- Only a handful of transactions closed during the first quarter, and sales velocity was down when compared to the same period in 2020. The projects that did trade were at the top of the quality spectrum. Two properties sold in excess of $120 million each.
- With Class A properties accounting for the bulk of the sales transactions, prices spiked. The median price reached approximately $466,800 per unit.
- In the transactions that closed during the first quarter, the average cap rate in the South Bay was 3.5 percent, down 40 basis points from the 2020 average.

Sales Trends



Sources: NorthMarq, CoStar

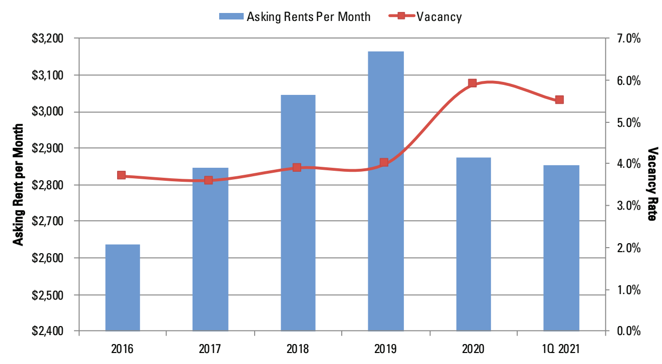
The average cap rate in the South Bay was 3.5 percent

West Los Angeles

Construction/Vacancy/Rents

- Construction activity in West Los Angeles slowed significantly during the first quarter, with only 25 units coming online. Last quarter, more than 400 units were delivered in the area. Apartment deliveries are on pace to accelerate in the coming quarters, as more than 2,200 units are under construction in the West Los Angeles area.
- Vacancy in West Los Angeles dropped 40 basis points from the end of last year, finishing the first quarter at 5.5 percent. Vacancies in the West Los Angeles area spiked to nearly 6 percent in 2020, after averaging less than 4 percent from 2016 to 2019.
- Asking rents in the area continue to drop, ending the first quarter at $2,852 per month. Apartment rents peaked at the end of 2019 and have been on a downward trend in subsequent quarters. Rents are approximately 0.8 percent lower from the end of last year.
- **Forecast:** The delivery of new units is forecast to total approximately 675 units, after more than 1,500 units were delivered in 2020. The vacancy rate in the area is forecast to end the year at 5.3 percent. Meanwhile, rents will likely inch up around 1.5 percent, and end the year at roughly $2,900 per month.

Vacancy and Rent Trends



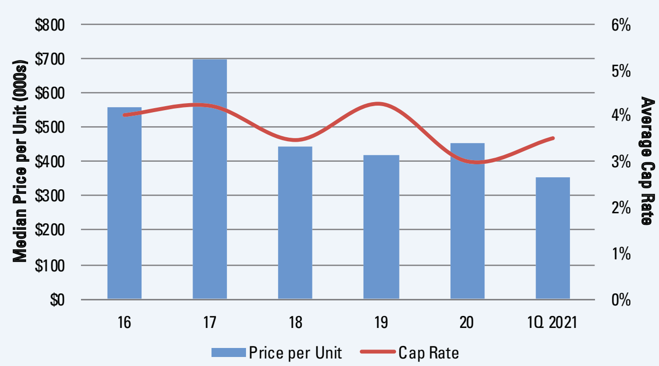
Sources: NorthMarq, Reis

Vacancy in West Los Angeles dropped 40 basis points from the end of last year

Multifamily Sales

- Sales velocity in West Los Angeles started the year at a similar pace to past quarters. Typically, only a handful of apartments change hands during a year in this area.
- Although there were only a couple of transactions in the first quarter, the median sales price per unit dropped from last year's number. The median sales price during the first quarter was approximately $354,000 per unit, down from $452,000 per unit in 2020.
- Properties in West Los Angeles typically maintain a lower cap rate, as the demand in this area is consistently high. Cap rates for the first quarter were similar to previous quarters, averaging between 3 percent and 4 percent.

Sales Trends



Sources: NorthMarq, CoStar

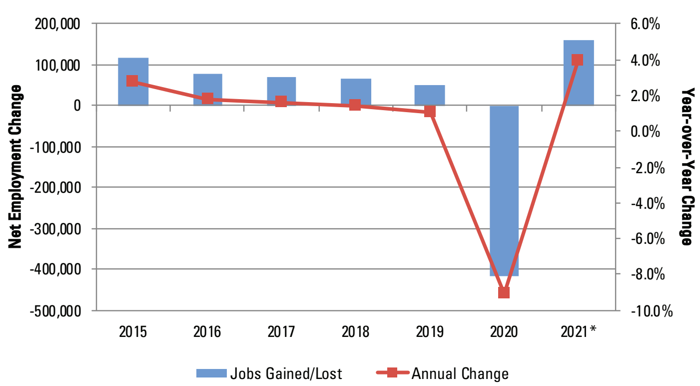
The median sales price during the first quarter was approximately $354,000 per unit

Looking Ahead

The Greater Los Angeles multifamily market is expected to gradually round into form in the second half of this year. At this point in the cycle, operating conditions have been influenced by a supply-demand imbalance. Apartment construction has been active, averaging nearly 7,500 new units each year since 2015, while the pace of demand growth cooled in response to a slowing rate of in-migration and economic uncertainty due to COVID-19. The pressures on the demand side should ease as the economy fully reopens in the second half of 2021. Vacancy rates and asking rents will likely stabilize as the economy strengthens.

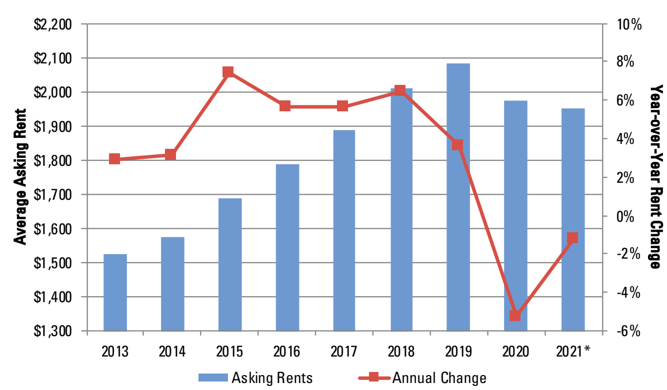
The investment market in Los Angeles is forecast to gain momentum in the second half of this year. Transaction activity was slowed by economic uncertainty and logistical challenges in closing deals. The current climate is much more favorable, with the California economy fully reopening and employers bringing back workers. Investor demand is forecast to accelerate, particularly in the second half of the year. Cap rates have remained low, averaging a tick above 4 percent, and there are no significant factors in the market that should result in a rise in cap rates in the immediate future. Investors will respond favorably when rent growth turns positive, likely at the end of this year.

Employment Forecast



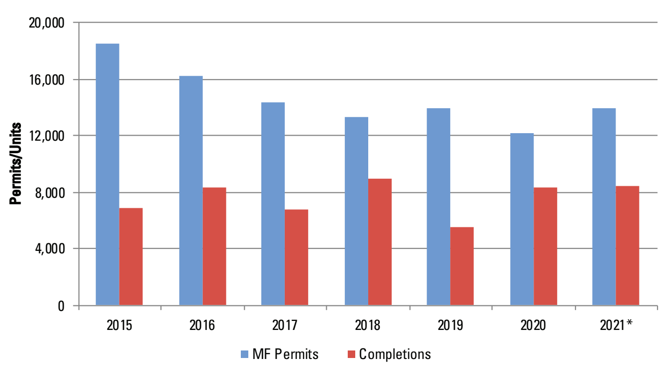
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



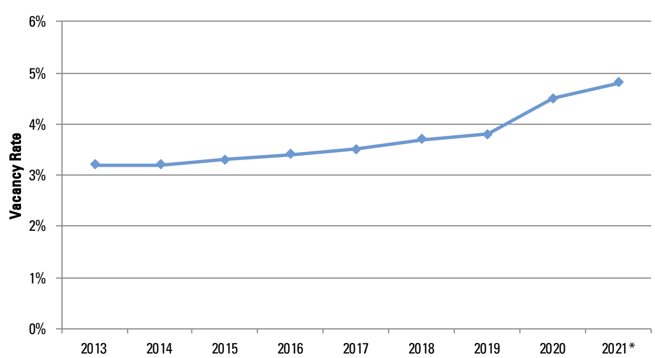
* Year End Forecast
Sources: NorthMarq, Reis

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 more than $16 billion, loan servicing portfolio of more than $65 billion and the multi-year tenure of our nearly 600 people.

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