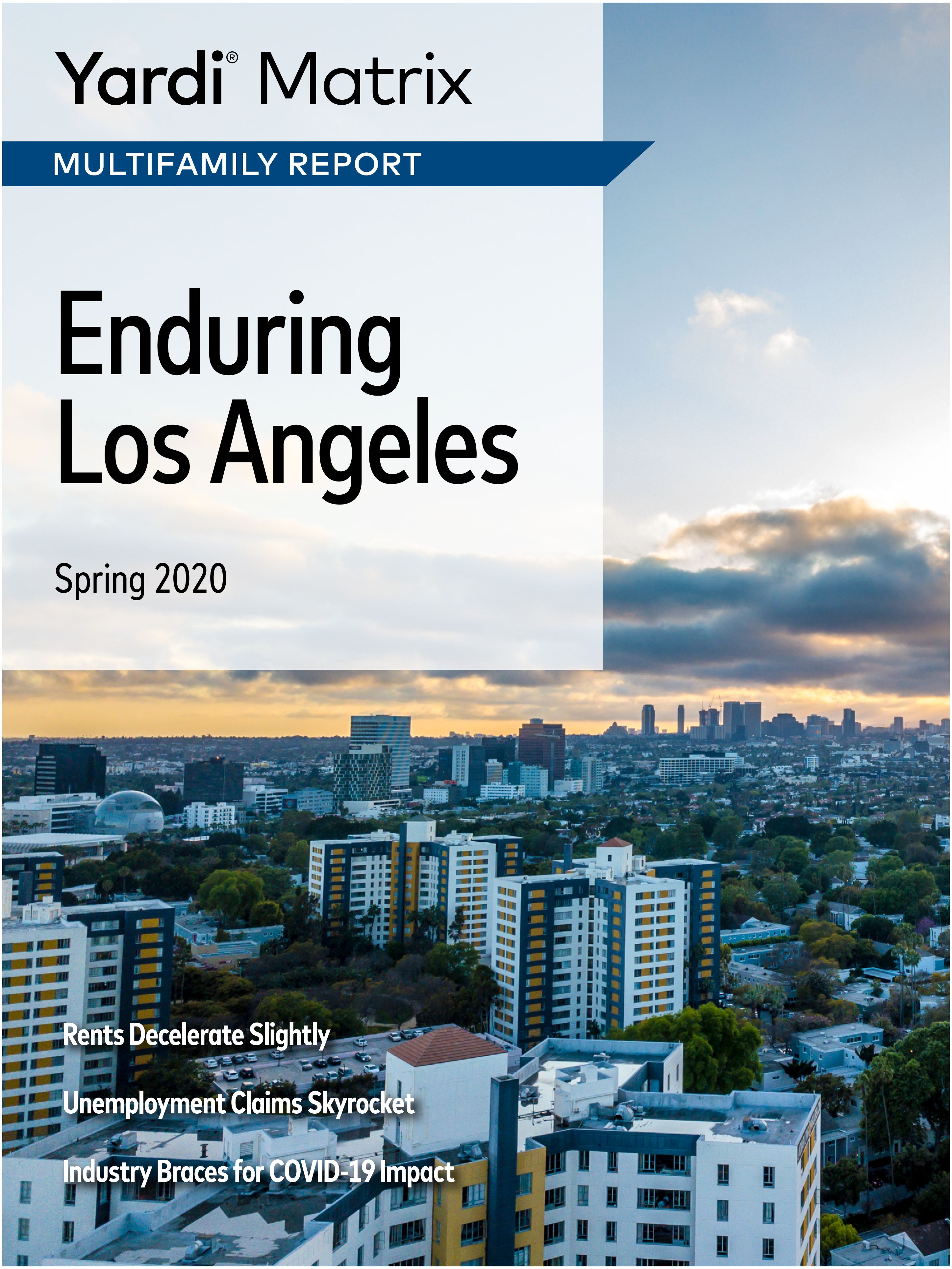
Yardi® Matrix

MULTIFAMILY REPORT

Enduring Los Angeles

Spring 2020



Rents Decelerate Slightly

Unemployment Claims Skyrocket

Industry Braces for COVID-19 Impact

LOS ANGELES MULTIFAMILY

Yardi® Matrix

Pandemic Brings LA To Arrested Development

Less than a month after California's shelter-in-place order went into effect, Los Angeles multifamily data started showing early signs of headwinds. The average rent contracted by 10 basis points on a trailing three-month basis as of March, with the upscale Lifestyle segment recording a 0.4% drop.

Entertainment and tourism were some of the first industries hit by social distancing measures, alongside other parts of leisure and hospitality, and retail. Large employers, including Disney World in Orange County and Universal Studios Hollywood, remain closed, resulting in tens of thousands of furloughs, job cuts and pay cuts. The movie industry is reeling, with production halted on a vast number of projects, and release dates pushed beyond the second half of 2020. Meanwhile, California recorded 2.8 million initial unemployment claims in the four weeks ending on April 11, leading the nation by far. Even so, LA remains relatively well positioned in the longer run, due to its diverse employment base when compared to more leisure- or energy-heavy Sun Belt markets.

Roughly 660 units came online and $485 million in multifamily assets traded in metro LA in the first quarter of 2020, a visible slowdown from 2019. And with the current health crisis unfolding, we expect the second quarter to further soften overall investor appetite and slacken the development pipeline.

Market Analysis | Spring 2020

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Recent Los Angeles Transactions

Wakaba LA

City: Los Angeles
Buyer: JPMorgan Asset Management
Purchase Price: $116 MM
Price per Unit: $482,292

Hobart Garden

City: Los Angeles
Buyer: Reiner Communities
Purchase Price: $48 MM
Price per Unit: $338,028

South Hills

City: West Covina, Calif.
Buyer: Grankol
Purchase Price: $32 MM
Price per Unit: $375,882

The Seville

City: Whittier, Calif.
Buyer: Sirott Investments
Purchase Price: $20 MM
Price per Unit: $261,039

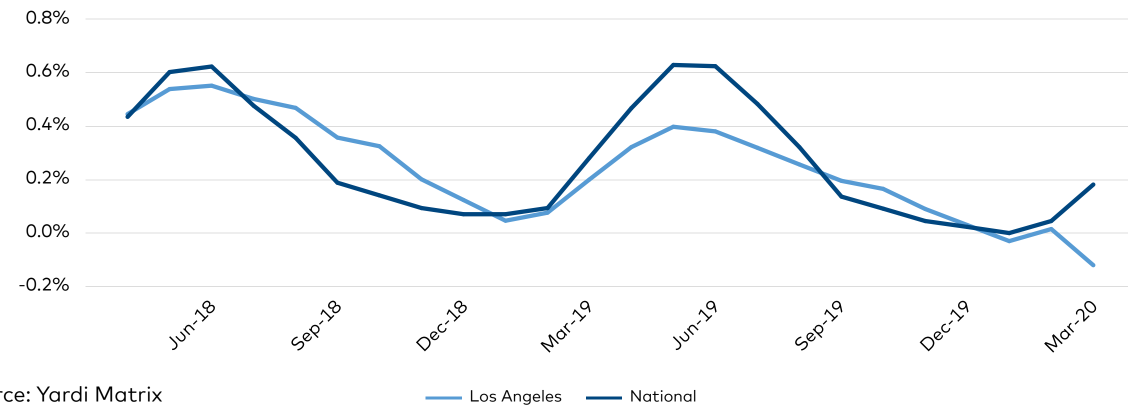
RENT TRENDS

- Metro Los Angeles rents were down by 0.1% on a trailing three-month (T-3) basis, as of March, offering a first glimpse at shelter-in-place and social distancing effects. T-3 rent growth, which compares the last three months to the previous three, offers a more immediate quantifier than year-over-year indicators, while also being more prone to reflecting short-term fluctuations. The average metro LA rent was $2,213 as of March, above the $1,474 U.S. figure.

- Rents in the Lifestyle segment recorded a 0.4% contraction on a T-3 basis, the largest such downtick across the top 30 U.S. markets listed in Yardi Matrix data. The average Lifestyle rate clocked in at $2,847. With nearly all new stock being upscale, in the context of decelerating absorption, the upper end of the quality spectrum is slated for additional rent contractions, as landlords could be pressured to level rents or offer concessions for both renewals and new leases. Meanwhile, rates in the working-class Renter-by-Necessity segment remained virtually flat on a T-3 basis, at $1,937 as of March.

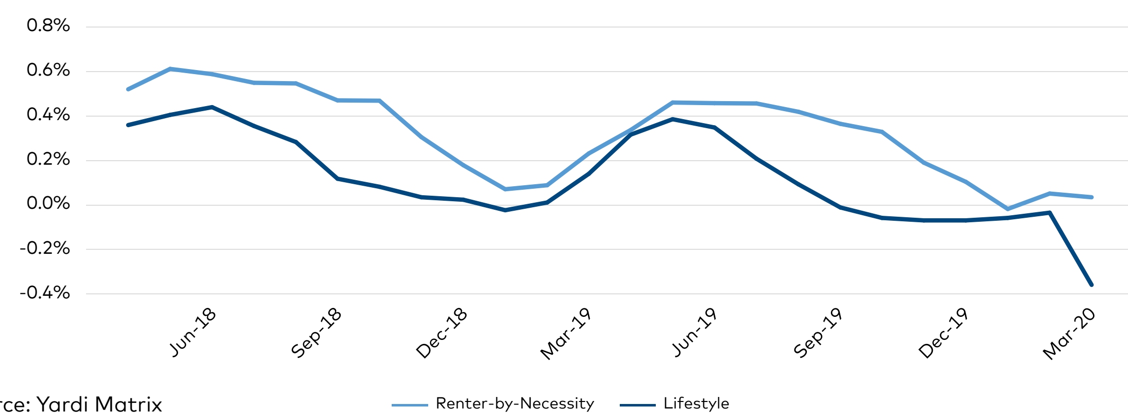
- In response to the health crisis, the city of Los Angeles enacted a ban on rent increases in late March. The ban applies to roughly 620,000 rent-controlled units and will be in place for 60 days after the state of emergency ends. The city also went beyond the statewide eviction moratorium, offering additional tenant protections and including a temporary ban on no-fault evictions.

Los Angeles vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

Los Angeles Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- With more than 1.3 million positions in leisure and hospitality, retail and wholesale trade and construction, metro LA had the third-highest number of U.S. jobs in at-risk sectors due to the COVID-19 pandemic—following New York (1.9 million) and Chicago (1.4 million). Looking beyond absolute numbers, LA is relatively better positioned than other metros, due to its diversified economy. Las Vegas and Orlando, for example, had more than 40% of their workforce in at-risk sectors, compared to LA's less than 30%.

- The metro's exposure is also mirrored by California's overall number of initial unemployment claims. The country's largest state recorded a total of more than 2.8 million claims in the four weeks ending on April 11, topping the national list by far.

- Leisure and hospitality, which accounted for 11.7% of the metro's employment at the start of 2020, took an immediate hit from social distancing measures. California Governor Gavin Newsom was the first to impose a statewide stay-at-home order, enacted on March 19. This pushed some of the area's largest employers to the sidelines, including Universal Studios Hollywood and nearby Disney World, resulting in tens of thousands of furloughs, job cuts and pay cuts.

Los Angeles Employment Share by Sector

Code	Employment Sector	Current Employment (000)	Current Employment % Share
65	Education and Health Services	873	18.8%
15	Mining, Logging, and Construction	161	3.5%
60	Professional and Business Services	640	13.8%
70	Leisure and Hospitality	546	11.7%
40	Trade, Transportation, and Utilities	885	19%
90	Government	603	13%
55	Financial Activities	225	4.8%
80	Other Services	163	3.5%
30	Manufacturing	343	7.4%
50	Information	214	4.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Metro LA gained nearly 300,000 residents between 2010 and 2016—a 3.0% uptick, followed by two years of slight contractions.

- Like other gateway metros, immigration and natural population growth offset losses in domestic migration throughout the cycle.

Los Angeles vs. National Population

	2015	2016	2017	2018
National	320,742,673	323,071,342	325,147,121	327,167,434
Los Angeles Metro	10,097,037	10,120,540	10,118,759	10,105,518

Sources: U.S. Census, Moody's Analytics

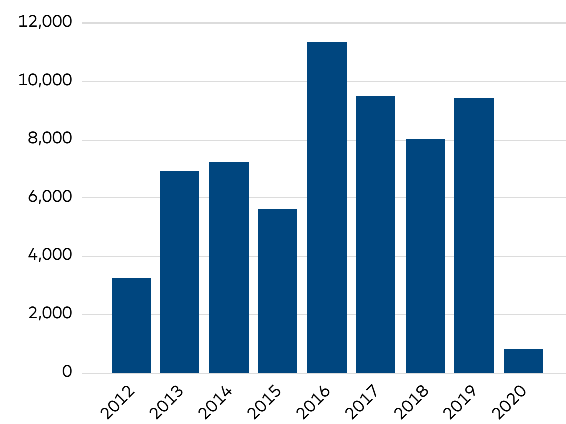
SUPPLY

- Roughly 660 rental units were delivered across metro Los Angeles in the first quarter, which came on the heels of 2019's total of 9,411 new apartments. During the past five quarters, nearly 90% of delivered units were in upscale communities, a trend that remained apparent throughout most of the U.S. during this cycle.

- Although some restrictions were put in place, both California and the city of Los Angeles have deemed construction essential, and some developments are continuing almost according to schedule. However, projects continue to face delays, due to both existing and novel issues. Prior to the COVID-19 pandemic, developers were already facing headwinds such as rising construction costs, strict zoning regulations and a stringent labor shortage. On top of that, short-circuited supply chains are now bringing additional challenges. According to a National Multifamily Housing Council survey in late March, 55% of construction firms were recording delays across the U.S. At the same time, one in four were impacted by a lack of materials and 41% had an issue with labor availability.

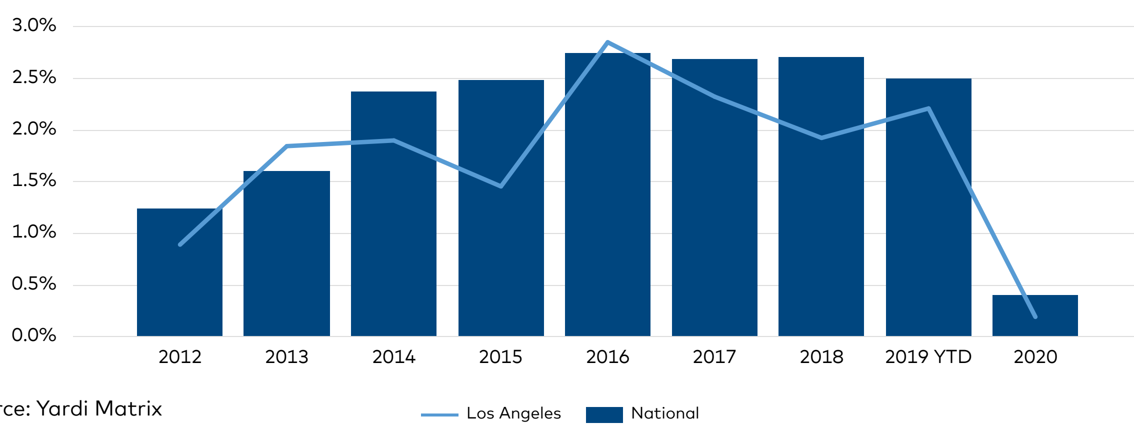
- Metro LA had more than 30,000 apartments underway as of March. Our latest national seasonal outlook, published in January, included a forecast of 8,439 units completed in 2020 across the metro. However, as we now expect average delays in the three-to-six-month range nationwide, Los Angeles' pipeline is slated to move significantly slower than previously expected.

Los Angeles Completions (as of March 2020)



Source: Yardi Matrix

Los Angeles vs. National Completions as a Percentage of Total Stock (as of March 2020)



Source: Yardi Matrix

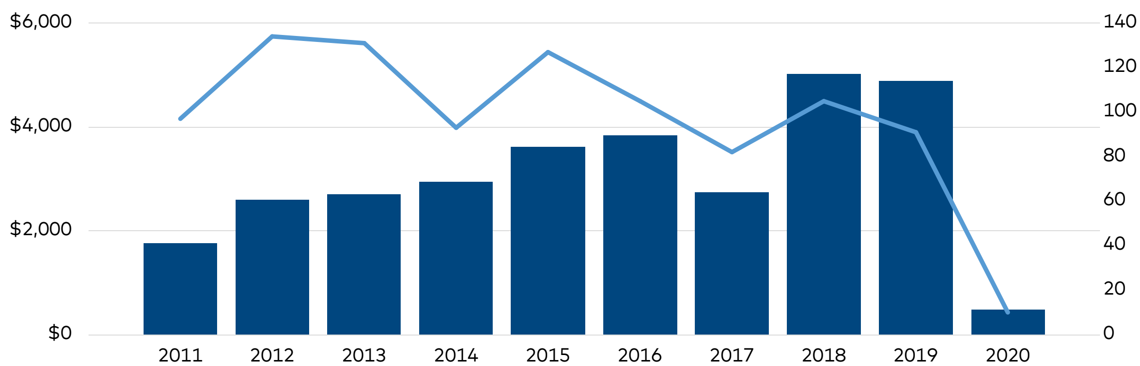
TRANSACTIONS

- In the first quarter of 2020, 10 multifamily properties with more than 50 units each traded in metro LA for a total of $485 million, or $405,740 per unit. And while the per-unit average rose from the previous year, total transaction activity was declining even before the market faced the first effects of the novel coronavirus pandemic.

- LA remains a top U.S. destination for both institutional and more speculative capital, and a safe haven in the long run during market volatility. This was well illustrated by 2019's activity—although new statewide rent regulations pushed many investors to reevaluate their balance sheets, metro LA still recorded $4.9 billion in multifamily sales last year, close to the 2018 cycle peak.

- JPMorgan Asset Management's acquisition of the 240-unit Wakaba LA in downtown Los Angeles marked the largest transaction of the first quarter. Sares Regis Group sold the 2016-built asset for $115.8 million, or $482,292 per unit.

Los Angeles Sales Volume and Number of Properties Sold (as of March 2020)



Source: Yardi Matrix

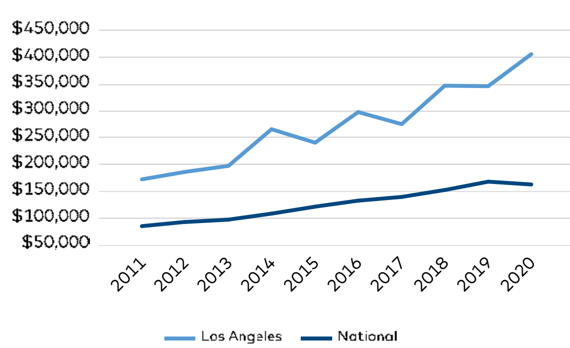
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Downtown Los Angeles	624
Bel Air	405
Westlake North	359
West Torrance	296
Glendale	225
Santa Clarita	224
West Covina	224
Central Hollywood	190

Source: Yardi Matrix

[1] From April 2019 to March 2020

Los Angeles vs. National Sales Price per Unit



Source: Yardi Matrix

TOP 5 MULTIFAMILY DELIVERIES IN LOS ANGELES

MHN MULTI-HOUSING **NEWS**

data by Yardi® Matrix

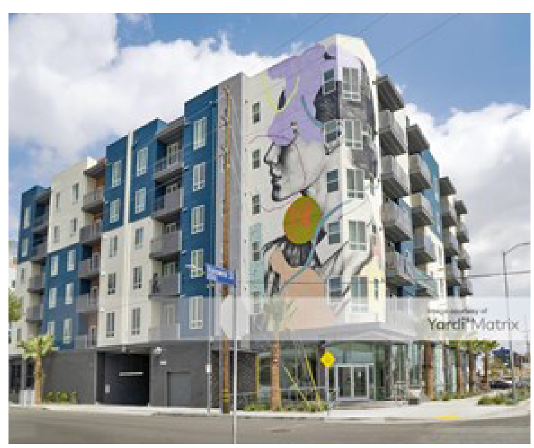
By Razvan Cimpean

Although Los Angeles wasn't among the top 5 markets for multifamily deliveries in 2019, developers were expected to complete a record number of units this year, according to Yardi Matrix data. But as California remains under lockdown, uncertainty defines development activity in this West Coast state. However, before the coronavirus outbreak hit the U.S., developers had delivered just five communities totaling 666 units in the first quarter, a significant decrease compared to the 1,860 apartments that came online in the first quarter of 2019.

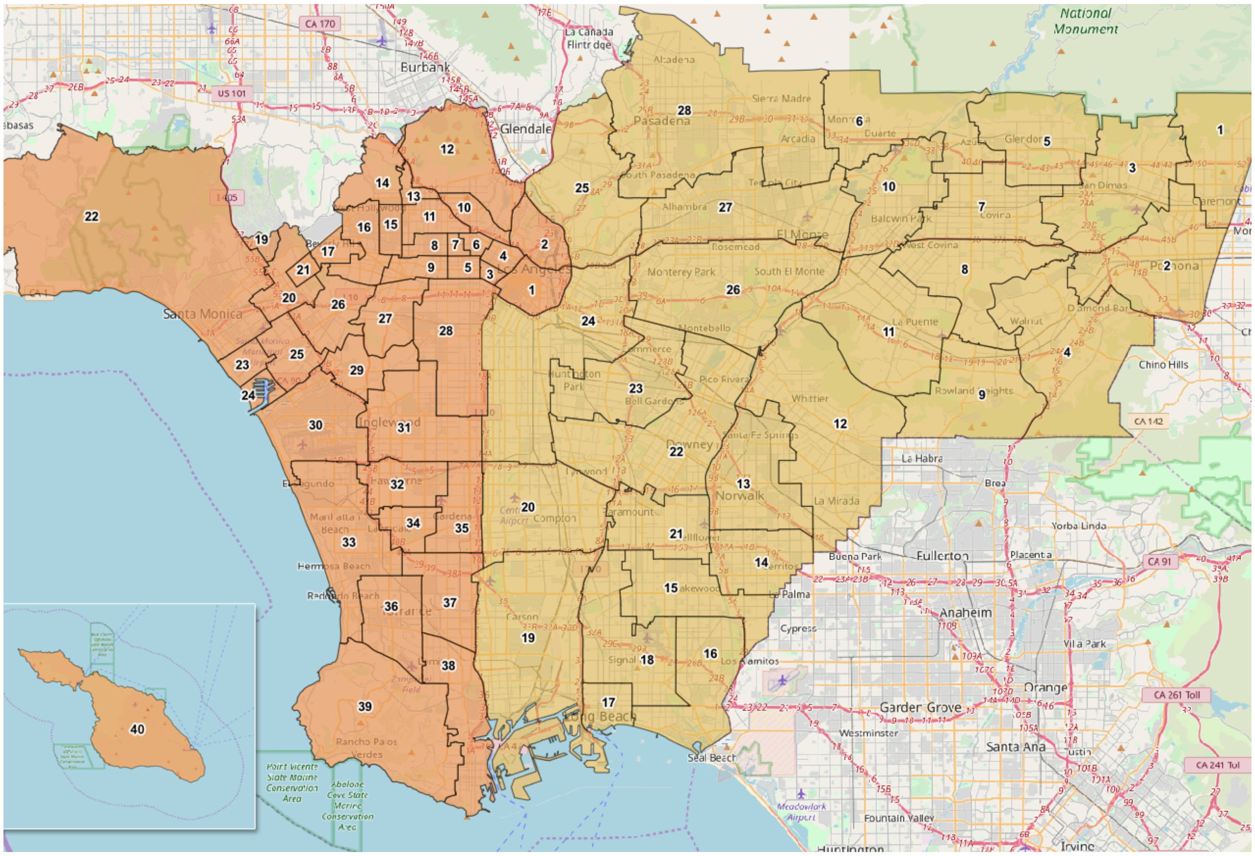
Rank	Property Name	City	Submarket	Units
1	Las Positas	Camarillo	Camarillo	213
2	Mira	Canoga Park	Canoga Park	174
3	4252 Crenshaw	Los Angeles	Adams-Normandie-Hoover	111
4	Westmore Linden	Los Angeles	Koreatown	93
5	Imagine Village	Lancaster	Lancaster	75

MIRA

Development activity has picked up significantly in the Canoga Park submarket, as some 380 apartments came online last year, following two years of stagnation. This year, Virtu Investments completed the 174-unit Mira, which comprises one- and two-bedroom units. The owner acquired the development in late 2019 from Cityview for $70.5 million, and selected Greystar to provide management and leasing services. The six-story project was developed with the help of a $36.8 million construction loan from Comerica Bank.



LOS ANGELES SUBMARKETS



Area No.	Submarket
1	Downtown Los Angeles
2	Chinatown
3	Westlake South
4	Westlake North
5	Koreatown
6	Mid Wilshire East
7	Mid Wilshire West
8	Park La Brea South
9	Park La Brea North
10	Silverlake
11	East Hollywood
12	Los Feliz–Griffith Park
13	Hollywood Hills East
14	Hollywood Hills West
15	Central Hollywood
16	West Hollywood
17	Beverly Hills South
19	Bel Air
20	Westwood
21	Century City
22	Santa Monica–Brentwood

Area No.	Submarket
23	Venice
24	Marina Del Ray
25	Mar Vista
26	Culver City
27	Hyde Park
28	Adams-Normandie–Hoover
29	Ladera Heights
30	El Segundo–Playa del Rey
31	Inglewood
32	Hawthorne
33	Beach Cities
34	Lawndale
35	Gardena
36	West Torrance
37	East Torrance
38	San Pedro
39	Rolling Hills–Palos Verdes
40	Catalina Island

Area No.	Submarket
1	Claremont
2	Pomona
3	San Dimas/LaVerne
4	Walnut/Diamond Bar
5	Glendora
6	Azusa/Monrovia
7	Covina
8	West Covina
9	Rowland Heights
10	Baldwin Park
11	City of Industry/Hacienda Heights
12	Whittier/La Mirada
13	Sante Fe Springs/Norwalk
14	Artesia
15	Lakewood/Hawaiian Gardens
16	East Long Beach
17	SW Long Beach
18	NW Long Beach
19	West Long Beach
20	Compton
21	Bellflower/Paramount
22	Downey/Southgate
23	Maywood/Bell/Montebello
24	East Los Angeles South
25	East Los Angeles North
26	S El Monte/Rosemead
27	Alhambra/San Gabriel/El Monte
28	Pasadena/Arcadia

DEFINITIONS

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

- *A young-professional*, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;
- *Students,* who also may span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income ("gray-collar") households,* composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households,* which may barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, may extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.