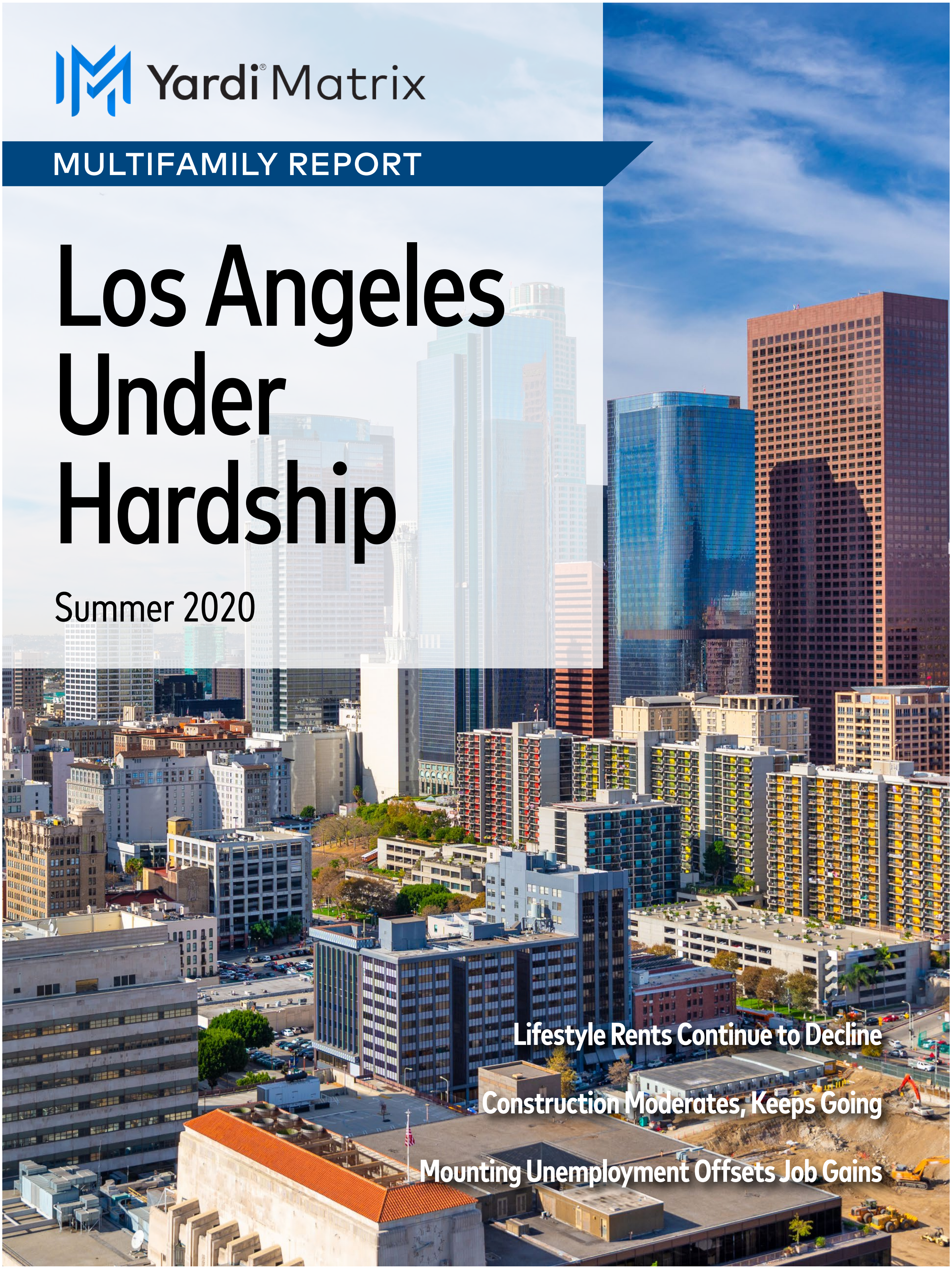
Yardi Matrix

MULTIFAMILY REPORT

Los Angeles Under Hardship

Summer 2020



Lifestyle Rents Continue to Decline

Construction Moderates, Keeps Going

Mounting Unemployment Offsets Job Gains

LOS ANGELES MULTIFAMILY

Yardi Matrix

Ongoing Health Crisis Delays Recovery

More than four months into the global health crisis and amid a series of methodical steps taken toward recovery, Los Angeles multifamily fundamentals are feeling the pinch of the ongoing economic disruption. As of July, metro Los Angeles rents were down 0.4% on a trailing three-month basis, 30 basis points below the U.S. rate, with the average $2,159, however, well above the $1,469 U.S. figure.

As of June, metro Los Angeles unemployment rate stood at 18.1%, the largest jobless rate among the country's 30 largest metros and well above the 10.2% national figure. Los Angeles unemployment rate surpassed even the hardest-hit, leisure-driven economies such as Las Vegas (18.0%) and Orlando (16.5%). The resurgence of coronavirus cases across California is hindering recovery efforts, keeping restrictions in place and furthering economic uncertainty. More than 9 million unemployment claims have been processed in California since March, with $55 billion in benefits paid out already.

After peaking in 2016 at 11,108 units, deliveries in the metro moderated slightly. Developers added 3,138 units to inventory year-to-date through July, a number that's already almost on par with the decade's cycle low in 2012, when 3,274 units came online. The pandemic has also dampened transaction activity—some $965 million in assets sold through July, a 56% drop compared to the same interval last year.

Market Analysis | Summer 2020

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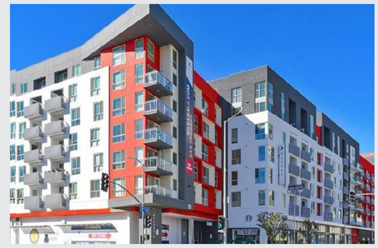
Recent Los Angeles Transactions

Wakaba LA



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

The Artisan at East Village

City: Oxnard, Calif.
Buyer: Reuven Gradon Acquisitions
Purchase Price: $93 MM
Price per Unit: $339,154

The Preston Miracle Mile

City: Los Angeles
Buyer: Sares-Regis Group
Purchase Price: $87 MM
Price per Unit: $513,467

Golden West Towers

City: Torrance, Calif.
Buyer: WNC & Associates
Purchase Price: $74 MM
Price per Unit: $412,000

RENT TRENDS

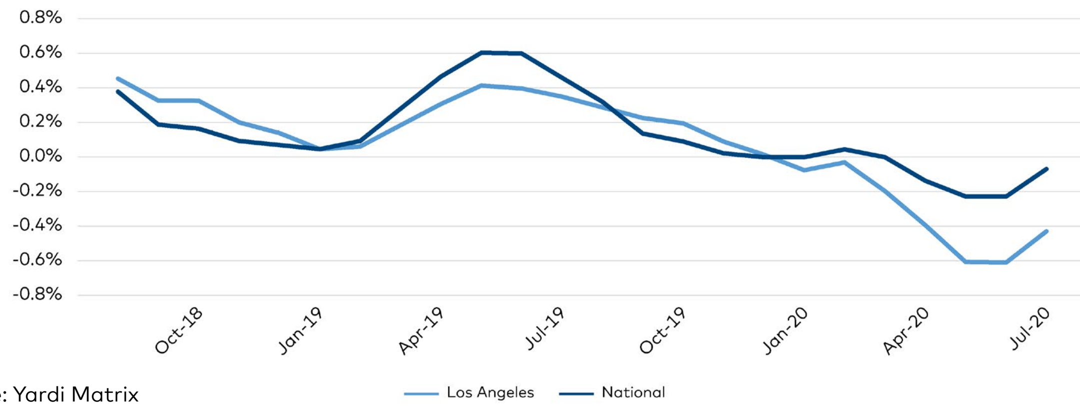
- Metro Los Angeles rents were down 0.4% on a trailing three-month basis as of July, while the national average slid by 0.1%. The metro's average rate clocked in at $2,159, well above the $1,469 U.S. figure. Los Angeles, where rents were very high to begin with, is among large coastal markets that experienced the deepest declines in rent growth nationwide, including New York, San Francisco and Silicon Valley.

- Lifestyle asset rents dropped by 0.6%, to $2,742, but rent expansion has been negative in the segment for the past nine months. Even prior to COVID-19, high rates and an undeniable housing shortage had deepened the growing demand for affordable housing options. Renter-by-Necessity asset rates dipped by 0.3% to $1,902.

- In August, Los Angeles County officials approved $100 million in coronavirus relief funds to provide rental assistance for tenants impacted by the health crisis. The program is open to Los Angeles County residents, and excludes the City of Los Angeles, which launched its own $103 million emergency rent relief program in July.

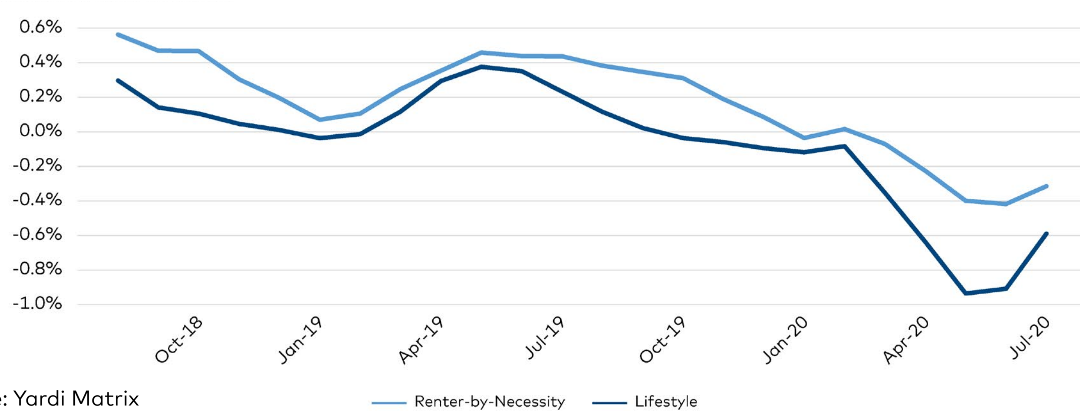
- In the 12 months ending in July, submarkets with substantial workforce-level inventory led rent expansion, including East Torrance, where the average rate rose 10.1% to $2,124, Lancaster (up 5.9% to $1,405) and Sepulveda (up 5.2% to $1,623). Westwood was the priciest submarket as of July ($3,319), followed by Marina del Ray ($3,279) and Santa Monica-Brentwood ($3,276).

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

- As of June, unemployment in metro Los Angeles stood at 18.1%, the largest rate among the country's 30 largest metros and well above the U.S. figure, based on preliminary data by the Bureau of Labor Statistics. The metro surpassed even those leisure-focused markets that were directly impacted by the pandemic: Las Vegas (18.0%) and Orlando (16.5%).

- Los Angeles County's unemployment stood at 19.4% in June, down 170 basis points in May, according to the California Employment Development Department. The county gained 147,000 positions in June, following the addition of 36,600 jobs in May. The combined total accounted for 25.6% of the total losses over March and April. As of June, leisure and hospitality led employment gains (68,200), up 21.8% from May, followed by trade, transportation and utilities (34,700), manufacturing (14,700) and education and health services (11,700).

- In California, 9.3 million unemployment claims were processed between March and July. The EDD has paid out $55.1 billion in benefits. After federal unemployment relief expired at the end of July, California switched to the Federal-State Extended Duration program, which extended benefits for 20 weeks. FED-ED relies on federal funds and has paid out $31 million since its launch.

Los Angeles Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
55	Financial Activities	218	5.5%
15	Mining, Logging and Construction	145	3.7%
90	Government	585	14.8%
50	Information	174	4.4%
30	Manufacturing	307	7.8%
80	Other Services	114	2.9%
65	Education and Health Services	781	19.8%
60	Professional and Business Services	574	14.5%
40	Trade, Transportation and Utilities	742	18.8%
70	Leisure and Hospitality	309	7.8%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Los Angeles gained nearly 300,000 residents between 2010 and 2016 for a 3.0% uptick, but population growth turned negative in 2017.

- Almost 81,500 people left the metro between 2017 and 2019 due to a combination of housing affordability issues and overall cost of living.

Los Angeles vs. National Population

	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Los Angeles Metro	10,120,540	10,118,759	10,105,518	10,039,107

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

SUPPLY

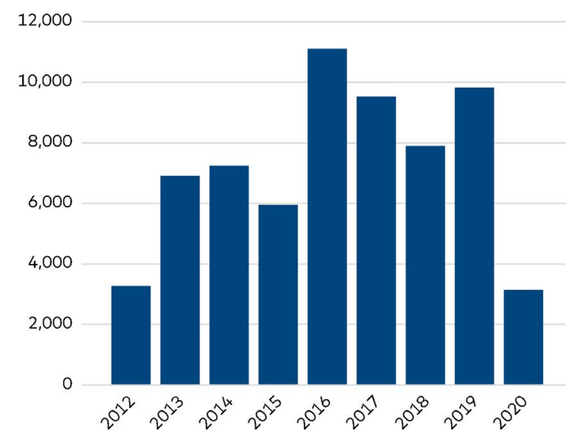
- Los Angeles had 30,077 units under construction as of July, with more than 80% of those geared toward high-income earners. A little over 60% of the developments underway are slated to come online by year-end, but delays are likely to occur due to pandemic-driven implications, which are bound to impact some 154,000 units in the planning and permitting stages, as well.

- After peaking in 2016 at 11,108 units, deliveries in the metro moderated slightly, with an average 9,000 units completed each year over the past three years. Developers added 3,138 units to inventory year-to-date through July, 1.0% of total stock and 30 basis points below the U.S. figure. One-third of new deliveries year-to-date were in the Lifestyle segment.

- Although construction in California was deemed an essential service once lockdown measures were imposed and developers were allowed to keep working, this year's completions were almost on par with the decade's cycle low in 2012, when 3,274 units came online. Adding to the metro's high land costs and housing shortage woes, the COVID-19 crisis came the same year as the defeat of Senate Bill 50, which would have allowed denser housing development around public transportation nodes.

- As of July, Downtown Los Angeles led development activity, with 3,195 units underway. Koreatown (2,648), East Hollywood (1,819), Westlake North (1,713) and Santa Monica-Brentwood (1,594) rounded out the top five.

Los Angeles Completions (as of July 2020)



Source: Yardi Matrix

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

Source: Yardi Matrix

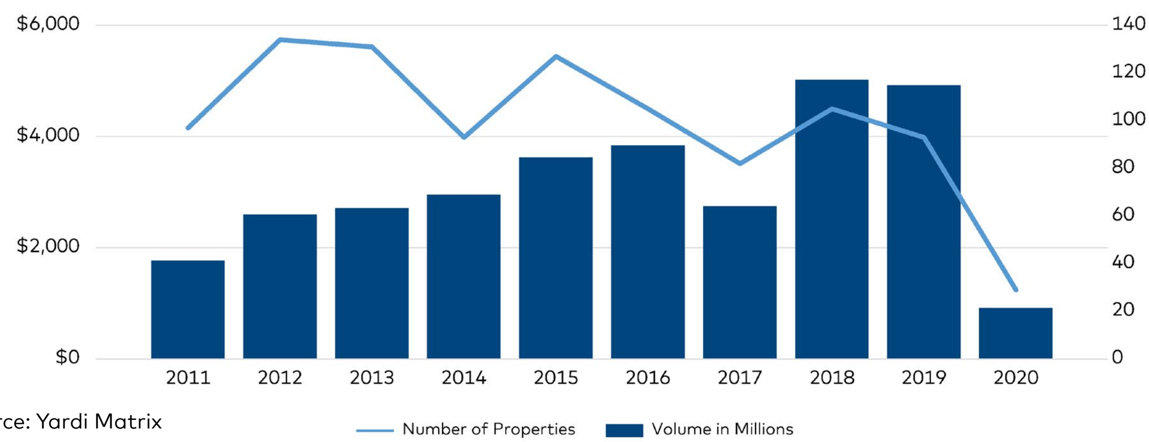
TRANSACTIONS

- Some $965 million in multifamily assets traded in 2020 through July—a 56% decline compared to the same interval last year. Following years of robust sales activity, with dollar volume peaking at $5 billion in 2018, the ongoing health crisis has clearly dented deal flow in metro Los Angeles.

- A total of 3,097 units sold in 2020 through July at an average per-unit price of $324,360, slightly below last year's average of $345,293, but significantly above the $164,991 national figure. Of the 29 properties that traded, only six were Lifestyle assets, as growing demand for the Renter-by-Necessity segment was further amplified by the pandemic-induced economic disruption.

- One of the most notable deals was JPMorgan Asset Management's $115.8 million purchase of Wakaba LA in February. While deal flow decelerated due to COVID-19, capital still moved around despite restrictions. Investors traded some $297 million in assets between April and July.

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



Source: Yardi Matrix

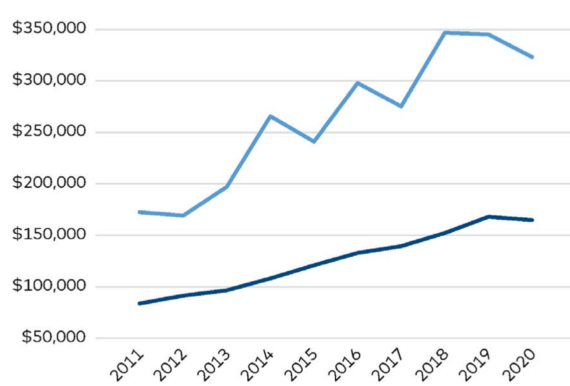
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Westlake North	359
West Torrance	296
Mid-Wilshire East	200
Central Hollywood	190
Canoga Park	185
Glendale	179
Santa Clarita	164

Source: Yardi Matrix

[1] From August 2019 to July 2020

Los Angeles vs. National Sales Price per Unit



Source: Yardi Matrix

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MULTI-HOUSING NEWS

Will the Pandemic Trigger Additional OZ Investments?

By Laura Calugar

The Los Angeles multifamily rental market began to show the first signs of softening at the end of March, but Joan Kramer, partner at Mountain Pacific Opportunity Partners, is convinced the metro's historically strong fundamentals will support its rebound. Kramer provided her insights on how coronavirus-mandated housing demand is likely to generate more interest in Los Angeles Opportunity Zones.

How is the Los Angeles multifamily market navigating the COVID-19 outbreak?

The good news about the Los Angeles multifamily market is that it has been historically undersupplied. While we have seen flattening of rents in the Los Angeles basin, we are seeing heavier use of concessions, which should allow a quicker return to previous revenue levels as the impacts of COVID-19 abate.

Tell us a few details about your most important Opportunity Zone project in the Los Angeles area.

One project we are working on right now is a multifamily project in San Pedro, Calif. This is a well-located project in a market that has seen steady growth and redevelopment over the past few years, and we expect that trend to continue.

Why did you decide to focus on Opportunity Zone projects?

When we look at any project, we make sure the deal works on its own merits and then we look at

the Opportunity Zone benefits as an add-on. If this is your baseline, Opportunity Zone investments do the following: They allow you to place just the gain portion of your proceeds in a new investment versus all proceeds in a 1031, and they create a vehicle to get off the 1031 train as you are able to defer or decrease taxes on current gains and have no taxable gains on the Opportunity Zone investment.

Do you think more developers will want to take advantage of this economic stimulus program?

Opportunity Zone development deals have a longer runway, and that means more time for the market to recover. If the current pandemic does not ease in the near term, difficulty in finding 1031 exchanges should drive additional Opportunity Zone investment.

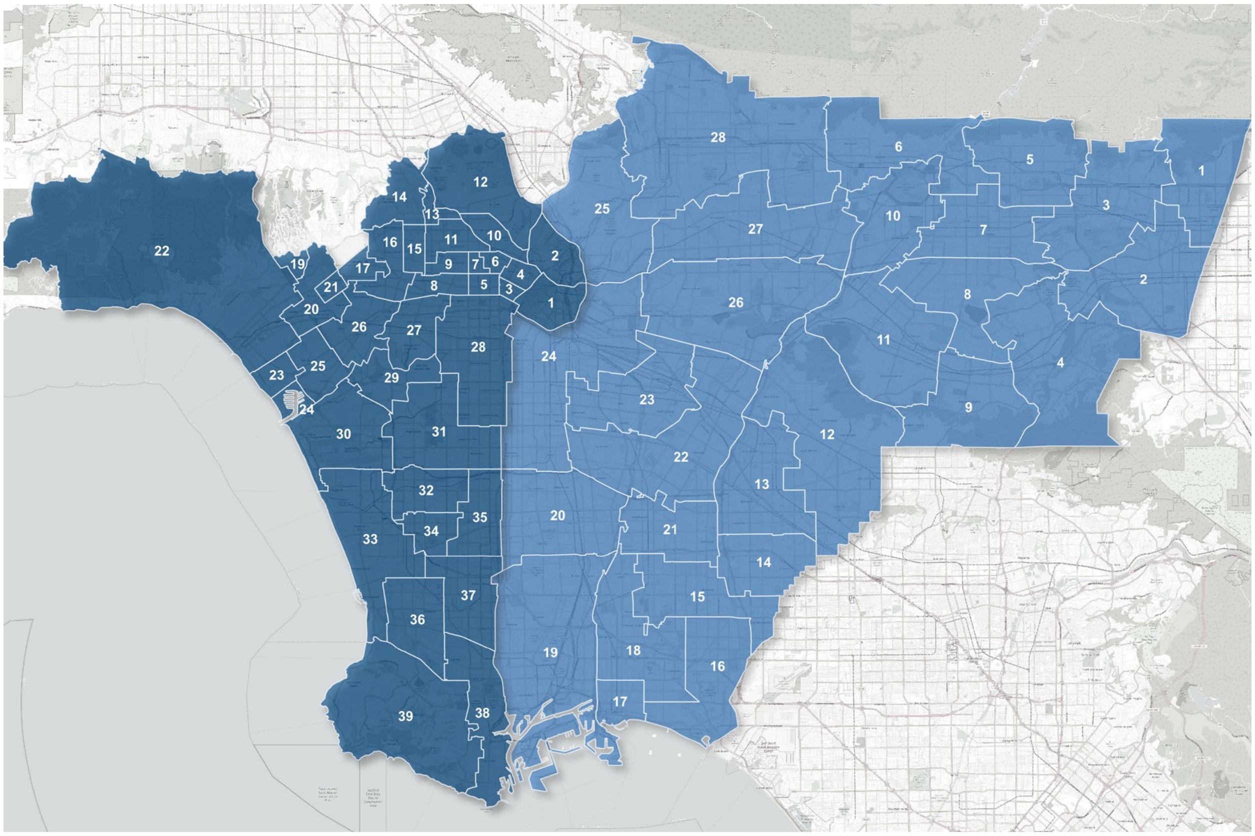
Do you expect the COVID-19 situation to trigger some relief from high construction costs?

We do, particularly in the areas of labor and framing. We are looking at all of our projects, working to reduce pricing and rebidding those that do not have signed guaranteed maximum price contracts.

How do you expect unemployment to impact the Los Angeles multifamily market going forward?

Unemployment has been very high in Los Angeles, as in other cities, and while it has started to improve with reopening, there is a long road ahead. It goes back to the fundamentals—if you are building the right product in a market that has been historically undersupplied, the development should be successful in the long term.

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 July 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 July 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, July 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.