



MULTIFAMILY REPORT

LA's Balancing Act

Winter 2021

Infrastructure Projects Help Unemployment

Development Continues to Power Through

Investment Sales Down, Values Hold

LOS ANGELES MULTIFAMILY



Flight to Cheaper Areas Depletes Demand

Gateway markets struggled to hold on to residents and rent values in 2020 and Los Angeles was no different, as rates were down 0.1% on a trailing three-month basis as of December. Overall, figures in the metro fell by 3.0% in 2020, to an average of \$2,157. A flight from expensive markets to nearby cheaper options such as the Inland Empire has pushed rent expansion in those areas while rates and occupancies in major urban centers continues to slide.

Despite a significant drop in employment—down 9.1% year-over-year as of November 2020—some sectors have made progress in curbing the drop. Trade, transportation and utilities and construction have benefited from major ongoing infrastructure projects related to urban mobility. Two notable projects are the light rail extension connecting the Expo and Green Lines and the land access improvement project at the Los Angeles International Airport.

Even with lockdown measures, development powered through in LA last year, with 9,458 rental units delivered. Another 27,000 units were under construction as of December, pointing to continued inventory expansion in the short and medium term. Meanwhile, transactions took a significant dip, as economic volatility dampened deal flow—\$1.5 billion in multifamily sales were recorded last year, less than a third of 2019's volume. We expect LA rent movement to be positive in 2021, at a moderate 0.3% rate.

Market Analysis | Winter 2021

Contacts

Jeff Adler

Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(303) 615-3676

Jack Kern

Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Ron Brock, Jr.

Industry Principal, Matrix
JR.Brock@Yardi.com
(480) 663-1149 x2404

Author

Alex Girda

Senior Editor

Recent Los Angeles Transactions

Las Positas



City: Camarillo, Calif.
Buyer: MG Properties Group
Purchase Price: \$96 MM
Price per Unit: \$449,531

Venice on Rose



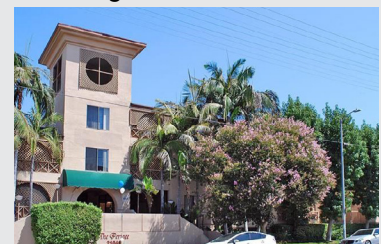
City: Venice, Calif.
Buyer: TA Realty
Purchase Price: \$65 MM
Price per Unit: \$928,571

416 on Broadway



City: Glendale, Calif.
Buyer: Fairmont Management
Purchase Price: \$60 MM
Price per Unit: \$521,739

The Perigee

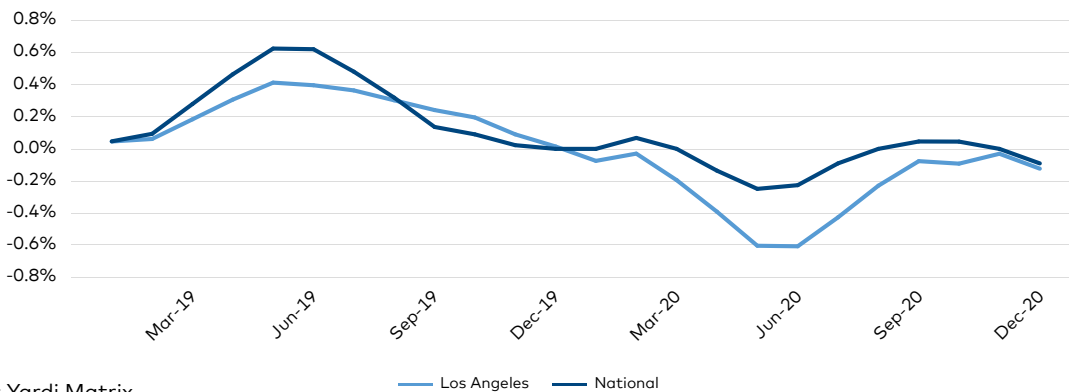


City: Canoga Park, Calif.
Buyer: Raintree Partners
Purchase Price: \$53 MM
Price per Unit: \$262,500

RENT TRENDS

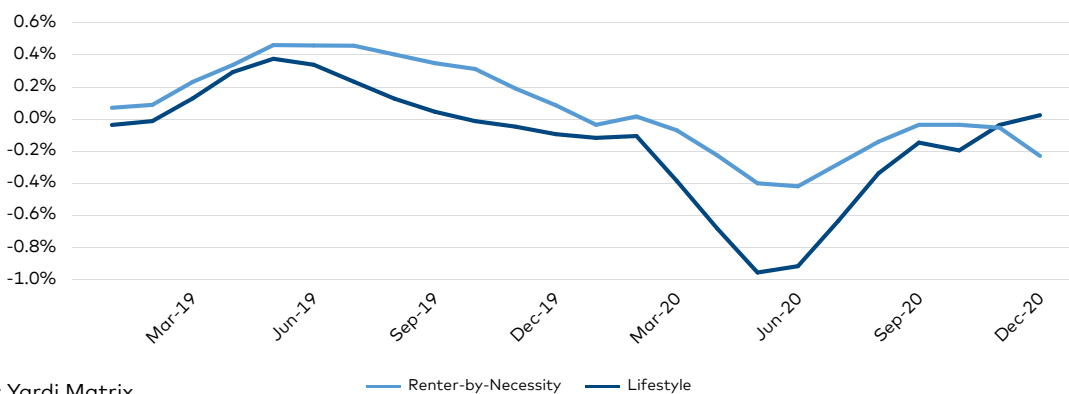
- ▶ LA rents were down 0.1% on a trailing three-month basis as of December, in line with the national trend. The average overall rate stood at \$2,157, well above the \$1,462 U.S. figure.
- ▶ While prices in the upscale Lifestyle segment stayed flat on a T3 basis—at an average of \$2,742—it was the working-class Renter-by-Necessity rates that saw further drops—down 0.2% to \$1,885. In the longer term, a supply imbalance coupled with the health crisis and ensuing lockdown measures has affected Lifestyle rents slightly more than the Renter-by-Necessity segment, where availability issues have kept rate movement slightly steadier.
- ▶ LA rent woes strongly contrast the neighboring, lower-priced Inland Empire, where rates moved up a strong 7.3% in 2020, while the LA average decreased by 3.0%.
- ▶ East Torrance led gains on a year-over-year basis—at 8.6%—to an average of \$2,117 as of December. East Torrance is the only submarket to see growth; the submarket’s inventory mostly consists of workforce housing. All other areas that have seen improvement are in the San Fernando Valley-Ventura and Eastern Los Angeles counties.
- ▶ We expect LA rents to slightly rebound through 2021, at 0.3%.

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

- ▶ The LA employment market has taken a serious hit, with losses recorded across the board in the 12 months ending in November, at -386,100 jobs through the interval. Employment was down 9.1% year-over-year, well below the national rate of 7.3%. No sectors remained insulated, but activity in trade, transportation and utilities and construction managed to somewhat curb losses. Meanwhile, financial activities, down 1,000 jobs or 0.4%, saw the smallest change.
- ▶ The trade, transportation and utilities and construction sectors lost a combined 37,000 jobs, but significant development and infrastructure projects are still very much underway. The \$5.5 billion LAX Landside Access Modernization Program is meant to improve ground access at the airport, following more than a decade of planning. Public transit projects such as the Metro Crenshaw/LAX Transit Project—meant to extend light rail access from the Expo Line’s Crenshaw station to the Green Line’s LAX station—are nearly complete.
- ▶ Since the start of state lockdowns in March 2020, California has processed some 19 million unemployment claims, paying out \$114 billion in benefits. LA’s unemployment rate has been as high as 21.0% over the past year, but recent numbers put the rate closer to the 10.0% mark.

Los Angeles Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
55	Financial Activities	224	5.3%
15	Mining, Logging and Construction	149	3.5%
30	Manufacturing	313	7.4%
90	Government	576	13.5%
80	Other Services	127	3.0%
40	Trade, Transportation and Utilities	839	19.7%
50	Information	191	4.5%
65	Education and Health Services	825	19.4%
60	Professional and Business Services	605	14.2%
70	Leisure and Hospitality	408	9.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Following decades of population growth, LA is facing an uphill battle to retain residents, with lower-cost options such as the Inland Empire and other Sun Belt markets attracting LA dwellers.
- ▶ Metro LA has lost more than 80,000 residents since 2016.

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

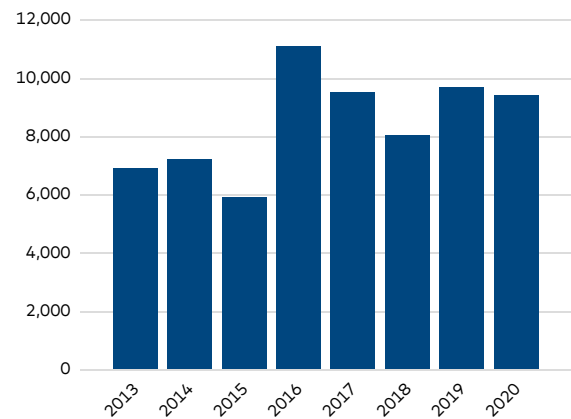
SUPPLY

- ▶ Developers had 26,865 units underway at the end of 2020 as multifamily construction powered through. Another 160,000 units were in the planning and permitting stages across the metro at the end of 2020.
- ▶ Deliveries in 2020 were largely unfazed by restrictions, with 9,458 units completed. That's slightly above the four-year average, highlighting continued rental demand for the metro, despite a significant trend of residents fleeing expensive gateway markets amid economic uncertainty.
- ▶ The average overall occupancy rate in stabilized properties was 94.2% as of November. Despite significant out-migration to other Sun Belt markets, LA's occupancy rate remained relatively high, even despite a 140-basis point drop since the onset of the health crisis in March 2020. Occupancy in the Renter-by-Necessity segment was 94.8%, while the upscale segment saw the rate dip to 92.8%.
- ▶ Koreatown (2,648 units underway), East Hollywood (1,819), Westlake North (1,757),

Downtown Los Angeles (1,715) and Hyde Park (1,313) led development activity in the metro.

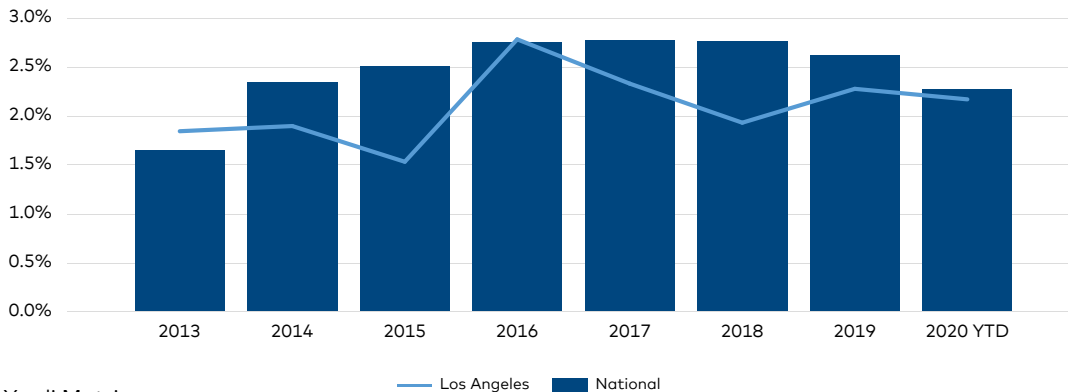
- ▶ Metro LA proper accounted for most of the inventory underway at the end of 2020, while San Fernando Valley-Ventura County and East LA County combined accounted for only about half of the overall pipeline.

Los Angeles Completions (as of December 2020)



Source: Yardi Matrix

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



Source: Yardi Matrix

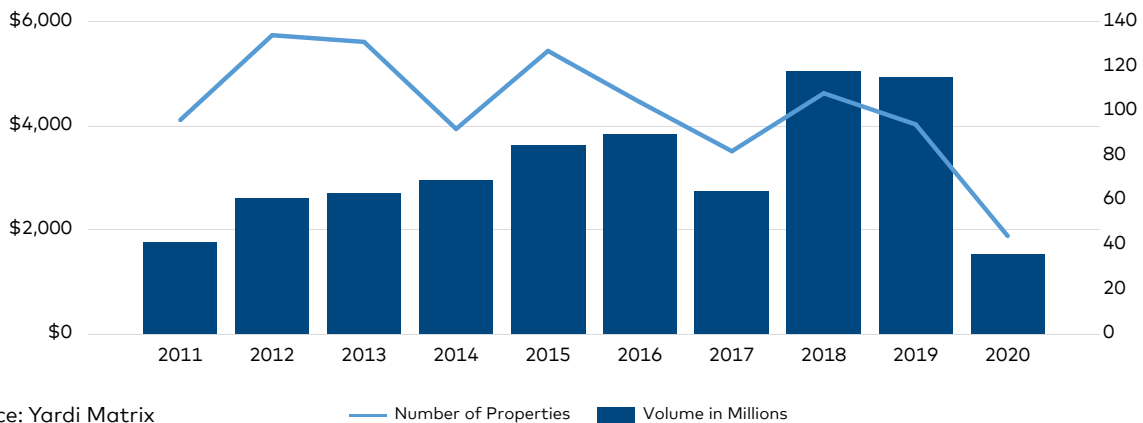
TRANSACTIONS

- ▶ Investment sales topped out at \$1.5 billion in LA in 2020, as the effects of the health crisis and ensuing lockdowns tempered investor interest across gateway markets. High prices amid economic volatility have diverted investor interest to smaller markets with higher yield potential.
- ▶ Despite tepid transaction volumes, property values have oscillated only slightly, as per-unit prices dropped from 4.7% in 2019 to an average of \$327,948 in 2020. That relative consistency

is also mirrored by acquisition yields for LA multifamily assets, which remained compressed, in the 4.0%-4.5% range for Class A assets in urban areas.

- ▶ Sales volume in Camarillo and Downtown Los Angeles crossed the \$100 million mark—\$124 million and \$116 million. Canoga Park rounded out the top 3 last year, with \$98 million in investment sales.

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



Source: Yardi Matrix

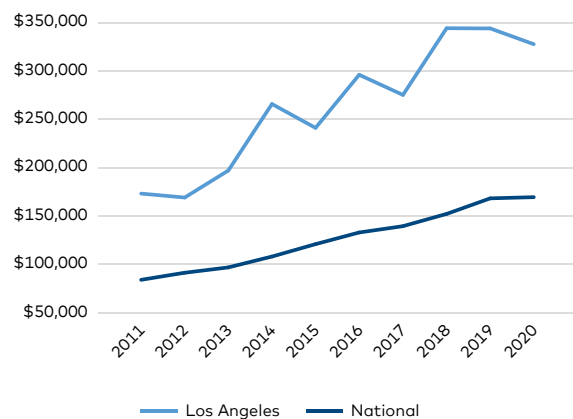
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Camarillo	124
Downtown Los Angeles	116
Canoga Park	98
Los Feliz-Griffith Park	94
Oxnard	92
Glendale	88
Central Hollywood	87

Source: Yardi Matrix

¹ From January 2020 to December 2020

Los Angeles vs. National Sales Price per Unit



Source: Yardi Matrix



How to Build Against Wildfires

By Evelyn Jozsa

The wildfire season has been tough on California in 2020: More than 4 million acres burned across the state and more than 10,000 structures were damaged or destroyed, according to the California Department of Forestry and Fire Protection. RAAM Construction Vice President of Field Operations Nick Wilson talks about the impacts of the wildfires in Southern California and unveils some techniques used to build defensively against wildfires.

How have the wildfires impacted the multifamily sector in Southern California?

With infill sites for multifamily development becoming rarer and with technology making remote work easier, many developers are moving farther out from the core to build multifamily developments. This often places them closer to forested areas that are highly prone to wildfires, and it raises the question of how to build apartment communities in a way that protects them from wildfire risk.

What are some of the construction techniques and best practices used to safeguard a building from wildfires?

Before developing a multifamily community, it's critical to assess a site's wildfire risk from "fuel"—that is, chaparral, brush and dense forests that can burn and spread quickly to nearby areas.

The installation of fire-suppression systems is the number one defense against any type of fire and wildfire combustion. Systems



such as fire sprinklers will help prevent fires from spreading throughout a building and are a standard component of the multifamily projects that RAAM constructs.

What construction materials are safest to use in wildfire risk zones?

While wood is clearly the most likely material to burn in a wildfire, concrete structures have been long thought of as the safest form of construction to withstand fires. Another option that can be used in zones where wildfire risk is high is steel stud framing. Although this type of framing is more commonly used in midrise and high-rise construction, low-rise structures of

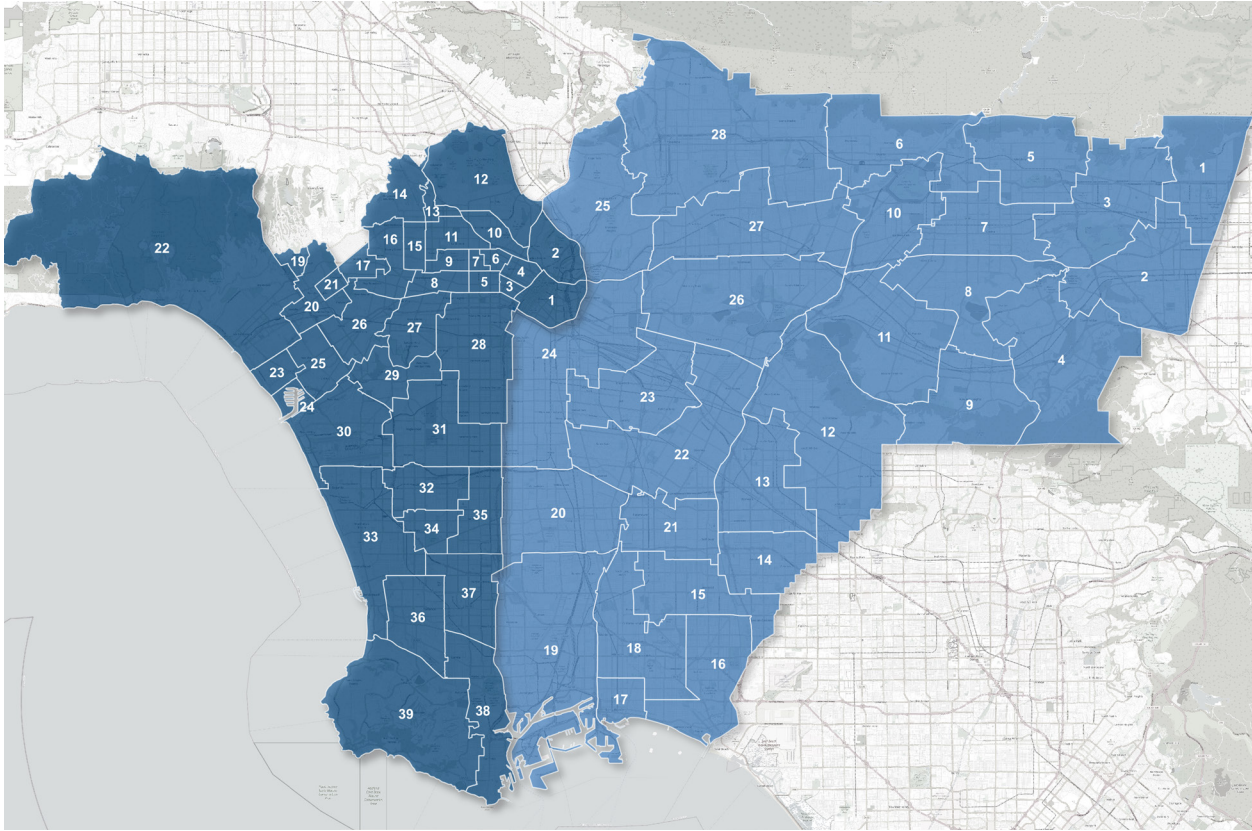
two-to-four stories are beginning to convert from wood timber framing to all-steel stud framing in these high-risk zones.

What are some sustainability features that you are implementing in your projects?

We have recently completed construction on Marengo Townhomes, a collection of luxury market-rate townhomes in Pasadena, Calif., featuring such amenities as Nest thermostats and increased natural light, which reduce energy use. And in 2019 we completed construction on Decker Court & Gill Court, a two-building community in Pasadena consisting of affordable townhomes. This property was built to CALGreen standards, which included solar panels and electrical vehicle charging stations. These are some of the sustainability features that multifamily developers, investors and renters are demanding, and they will become more prevalent in the years to come.

(Read the complete interview on multihousingnews.com.)

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/La Verne
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 December 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 December 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, December 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.

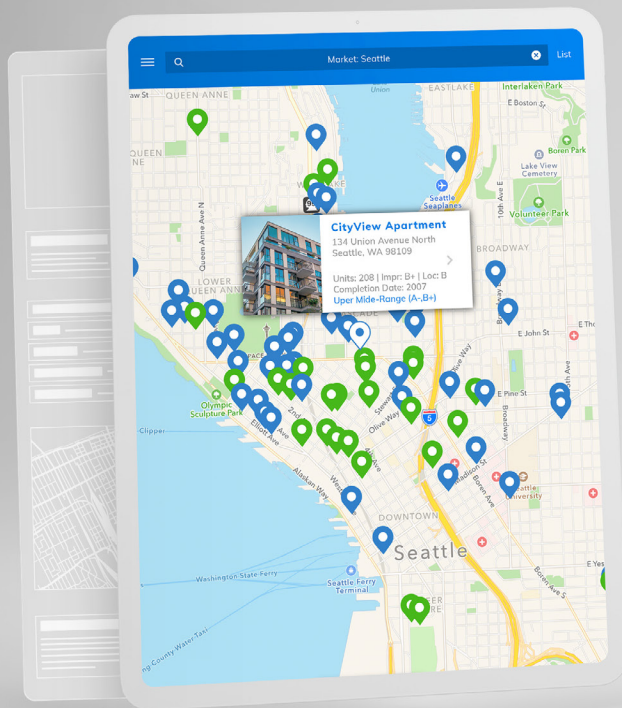
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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