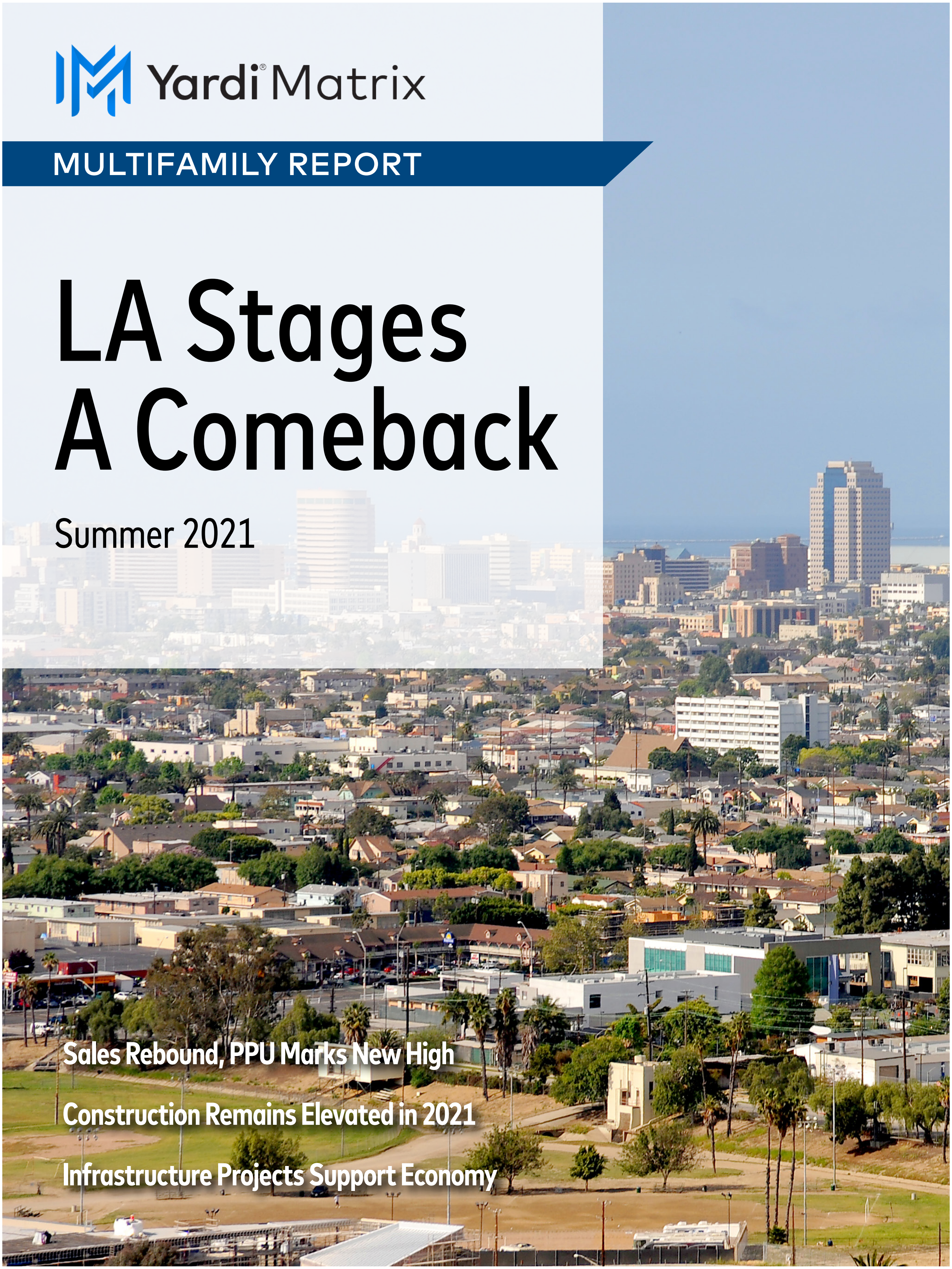
MULTIFAMILY REPORT

# LA Stages A Comeback

Summer 2021



**Sales Rebound, PPU Marks New High**

**Construction Remains Elevated in 2021**

**Infrastructure Projects Support Economy**

# LOS ANGELES MULTIFAMILY

Yardi Matrix

## Strong Stock Expansion Dents Occupancy

April marked the start of recovery for Los Angeles' multifamily market, with rents rising by 0.1% on a trailing three-month basis, to $2,166. Still, last year's robust deliveries, coupled with out-migration to neighboring metros, have pushed down the occupancy rate by 100 basis points, to 94.6%.

L.A.'s unemployment stood at 11.0% in April, trailing the 6.1% U.S. average, while the employment market posted an 11.5% decline in the 12 months ending in February, faring worse than the -7.5% national rate. Still, even though all sectors lost jobs during the period, some signs point to a faster recovery: Amazon's $8.5 billion acquisition of MGM will likely bolster the entertainment industry, while SoFo Stadium has started filling positions. Moreover, significant infrastructure projects are nearly complete and the office sector has 8.7 million square feet of space under construction, with almost half slated to come online in 2021.

Developers marked a record year in deliveries in 2020, and the trend continued this year: Through April, 3,675 units came online and another 28,596 were underway. Meanwhile, transaction activity amounted to $1.1 billion, and the per-unit price rose 30% to $428,607. We expect the positive momentum to persist and rents to appreciate by 1.6% by year-end.

### Market Analysis | Summer 2021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### Recent Los Angeles Transactions

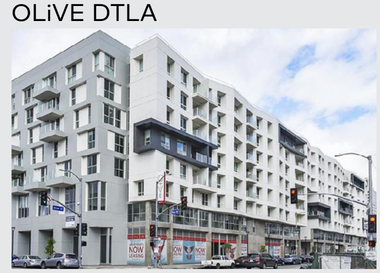
Altana

City: Glendale, Calif.
Buyer: Waterford Property Co.
Purchase Price: $300 MM
Price per Unit: $591,716

NEXT on Lex


City: Glendale, Calif.
Buyer: California Community Housing Agency
Purchase Price: $290 MM
Price per Unit: $587,045

OLiVE DTLA



City: Los Angeles
Buyer: Waterton
Purchase Price: $121 MM
Price per Unit: $412,969

Hidden Valley

City: Simi Valley, Calif.
Buyer: Tom Redfern & Associates
Purchase Price: $105 MM
Price per Unit: $324,147

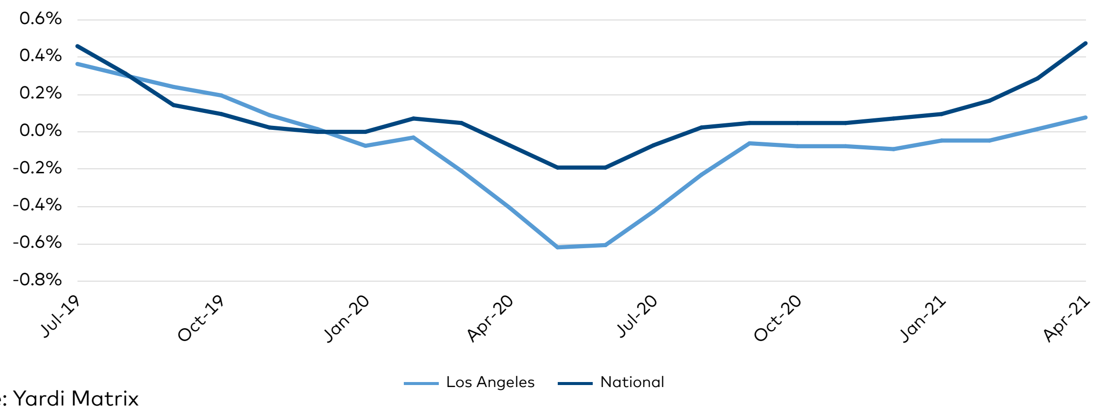
## RENT TRENDS

- L.A.'s average rent outperformed other gateway markets, marking a 0.1% increase on a trailing three-month (T3) basis through April, to $2,166. On a month-over-month basis, Los Angeles trailed all gateway markets. During the first quarter, the average rate remained flat, following 12 months of negative performance. Meanwhile, the national rent rose 0.5%, to $1,417.

- The slight uptick in average rent came from the Lifestyle segment, up by 0.1% on a T3 basis through April to $2,748, while Renter-by-Necessity figures remained flat for the second-consecutive month, at $1,894. The occupancy rate in stabilized properties marked a 100-basis-point decline in the 12 months ending in March, to 94.6%. Accounting for a dwindling population and the robust supply delivered in 2020—which marked the best year of the decade—Yardi Matrix forecast that it would take at least three years to get back to pre-pandemic (1Q20) occupancy levels.

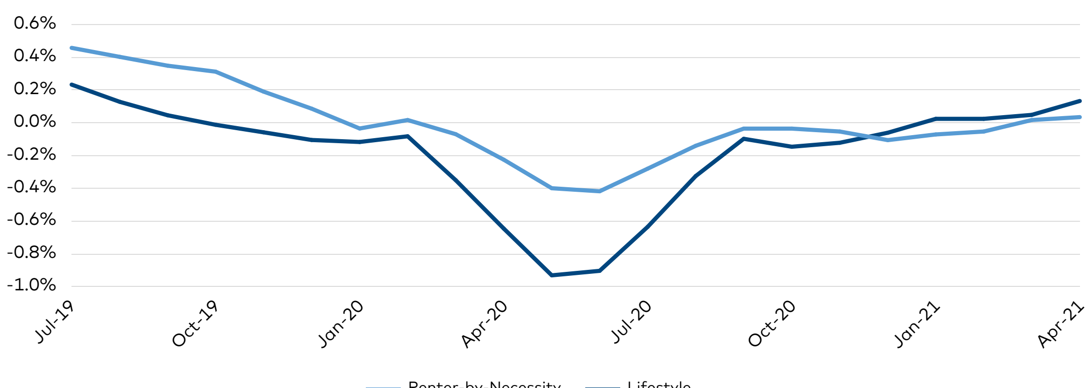
- Nearly half of Los Angeles' submarkets posted rent gains year-over-year through April, led by East Los Angeles South in East L.A. (12.1% to $2,999), East Torrance in Metro L.A. (11.5% to $2,287) and Ventura in the San Fernando Valley County (7.1% to $2,105). Many of the submarkets that posted declines during the period were in Metro L.A., with Ladera Heights posting the poorest performance. Rates there declined 9.2% to $2,236. We expect L.A. rents to rise 1.6% by year-end.

**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 unemployment rate in Los Angeles stood at 11.0% in April—nearly double the 6.1% U.S. rate—according to preliminary BLS data. Despite the gap, the metro has made significant advances from the 18.8% registered last May.

- The employment market contracted 11.5% in the 12 months ending in February, placing Los Angeles on the penultimate rank among major metros in the country, and well behind the -7.5% national rate. The pandemic slammed the entertainment industry, which lost 48.0% of local TV and film productions in 2020, according to FilmLA. However, declining virus cases point to an economic resurgence: SoFi Stadium has started filling positions, while new developments promise to sustain the recovery. Projects include the $1.8 billion Inglewood Basketball and Entertainment Center for the LA Clippers, expected to open in 2024.

- Professional and business services, down 9.8%, is bound for recovery: The metro had 8.7 million square feet of office space underway, according to CommercialEdge data, 43% of which is slated to come online this year. Trade, transportation and utilities (-5.9%) held up well, supported by significant infrastructure projects such as the $5.5 billion LAX Landside Access Modernization Program and the Metro Crenshaw/LAX Transit Project. Both projects are near completion.

### Los Angeles Employment Share by Sector

| | | Current Employment | |
|---|---|---|---|
| Code | Employment Sector | (000) | % Share |
| 15 | Mining, Logging and Construction | 147 | 3.6% |
| 55 | Financial Activities | 209 | 5.1% |
| 30 | Manufacturing | 302 | 7.4% |
| 65 | Education and Health Services | 824 | 20.3% |
| 80 | Other Services | 115 | 2.8% |
| 40 | Trade, Transportation and Utilities | 795 | 19.6% |
| 90 | Government | 545 | 13.4% |
| 60 | Professional and Business Services | 584 | 14.4% |
| 50 | Information | 175 | 4.3% |
| 70 | Leisure and Hospitality | 367 | 9.0% |

Sources: Yardi Matrix, Bureau of Labor Statistics

## Population

- Los Angeles posted positive demographic trends during the first part of the decade, gaining some 300,000 residents between 2010 and 2016.

- The metro's high cost of living and affordability issues led to a population loss of 81,500 residents between 2017 and 2019.

### 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 28,596 units under construction as of April, with the majority targeting the Lifestyle segment, and nearly 15%—or roughly 4,200 units—consisting of fully affordable projects. Another 157,000 units were in the planning and permitting stages.

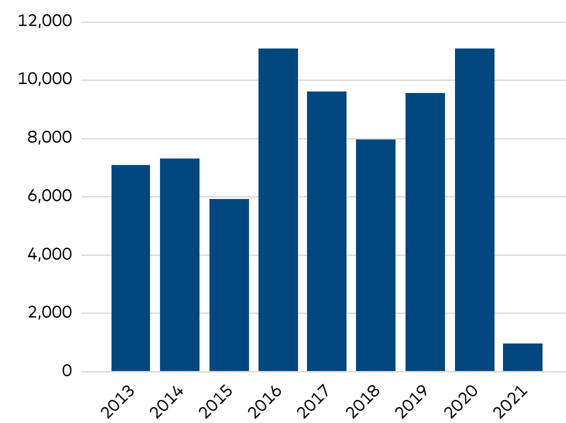
- With construction in California deemed an essential service following the pandemic lockdown, developers maintained activity throughout 2020, which led to an elevated level of deliveries. The rental housing inventory expanded by 11,114 units, or 2.5% of total stock, 20 basis points above the U.S. rate.

- The trend continued in 2021, with developers bringing 3,675 units or 0.8% of total stock online through April, maintaining the 20 basis-point lead over the national rate. Just like the construction pipeline, recent deliveries targeted high-income renters and included 383 units in fully affordable communities.

- Metro L.A. held the lead in both recent deliveries (3,087 units) and units underway (17,625 units). In East Los Angeles County, developers brought 436 units online and had 5,341 under construction, and in San Fernando Valley-Ventura County deliveries totaled just 156 units, with another 5,630 underway.

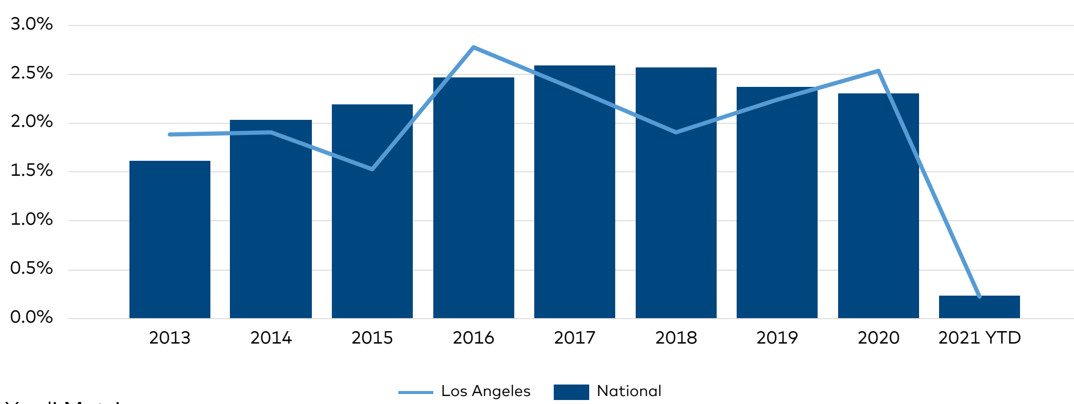
- The largest project delivered in 2021 through April was the partially affordable 695-unit AVA Hollywood at La Pietra Place in Metro LA, owned by AvalonBay Communities and completed in February.

**Los Angeles Completions** (as of April 2021)




Source: Yardi Matrix

**Los Angeles vs. National Completions as a Percentage of Total Stock** (as of April 2021)

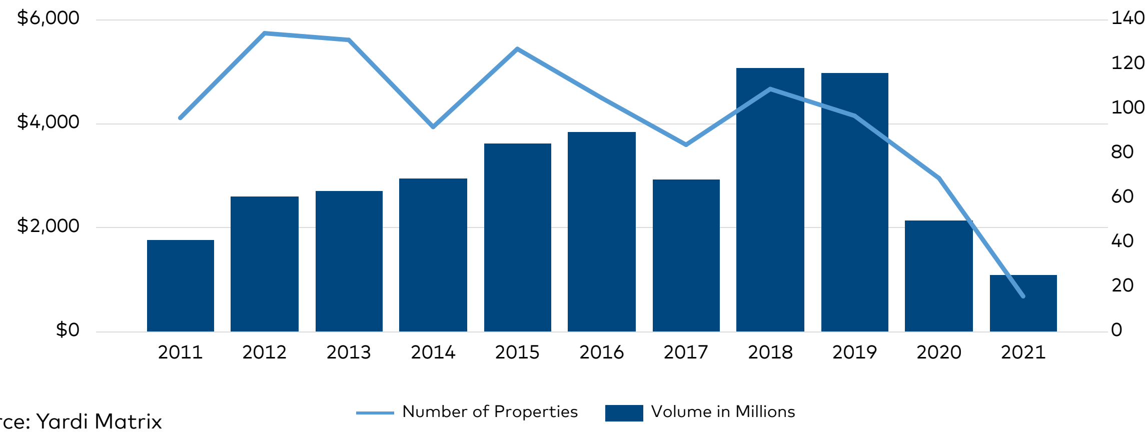



Source: Yardi Matrix

## TRANSACTIONS

- Regained confidence in the metro's multifamily market boosted sales to $1.1 billion in 2021 through April, with about two-thirds of the assets involving Renter-by-Necessity properties. Even so, the price per unit marked a hefty 30% year-over-year increase, to $428,607. To put that in perspective, the $170,513 U.S. average accounts for 40% of this amount.
- Multifamily sales in Los Angeles tapered in 2020, especially during the second and third quarters, for a combined $506 million. In the final quarter, investor caution tempered and transactions resumed activity, with sales amounting to $956 million.
- The largest transaction so far in 2021 was Brookfield Properties' sale of Altana in San Fernando Valley-Ventura County. Waterford Property Co. and California Statewide Communities Development Authority paid $300 million, or $591,716 per unit, for the 507-unit asset.

**Los Angeles Sales Volume and Number of Properties Sold** (as of April 2021)




Source: Yardi Matrix

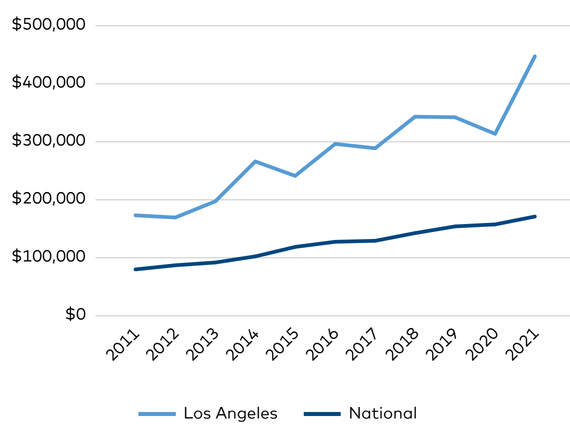
### Top Submarkets for Transaction Volume[1]

| Submarket | Volume ($MM) |
|---|---|
| Glendale | 741 |
| Lancaster | 295 |
| Central Hollywood | 125 |
| Camarillo | 124 |
| Downtown Los Angeles | 121 |
| Simi Valley | 105 |
| West Corvina | 96 |

Source: Yardi Matrix

[1] From May 2020 to April 2021

### Los Angeles vs. National Sales Price per Unit




Source: Yardi Matrix

LISTICLE

data by

# Top California Markets for Multifamily Deliveries

ByLucia Morosanu

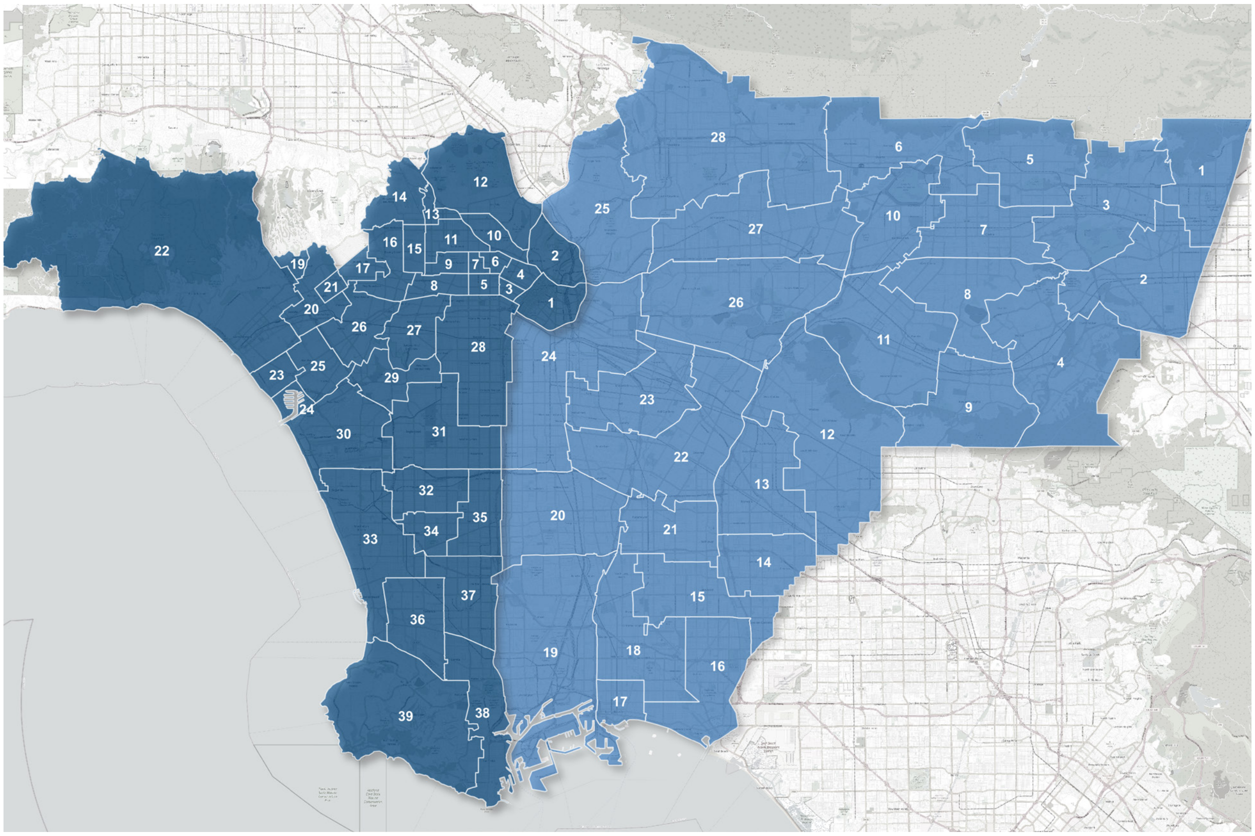
Construction in 2020 struggled, as stay-at-home orders imposed at the beginning of the year to help slow the spread of COVID-19 have generated delays in construction starts and permitting. Additionally, this year California had to deal with the flight from more expensive metros of many big companies such as Oracle, Tesla, Hewlett Packard Enterprise and Palantir.

| Rank | Metro | Units Completed | Projects Completed | Percentage of Stock |
|---|---|---|---|---|
| 1 | Metro Los Angeles | 3,287 | 13 | 1.7% |
| 2 | Bay Area–South Bay | 2,052 | 6 | 1.6% |
| 3 | Bay Area–East Bay | 1,524 | 8 | 1.1% |
| 4 | Orange County | 1,103 | 5 | 0.5% |
| 5 | San Diego | 740 | 2 | 0.4% |
| 6 | San Fernando Valley–Ventura County | 452 | 3 | 0.3% |
| 7 | Eastern Los Angeles County | 436 | 2 | 0.4% |
| 8 | Central Valley | 333 | 2 | 0.3% |
| 9 | San Francisco–Peninsula | 317 | 2 | 0.3% |
| 10 | Inland Empire | 136 | 1 | 0.1% |

## METRO LOS ANGELES

In the top spot with a sizable lead was Metro Los Angeles with 3,287 units added to the stock across 13 projects. This represents 1.7 percent of the metro's total inventory, the highest percentage on the list. Metro Los Angeles is expected to deliver another almost 10,500 units in 67 properties by year-end. This marks a significant growth from last year, when almost 6,000 units in 27 communities came online.

## 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 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.

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