

Los Angeles Regional Multi-Family Market Topics & Trends – Q2 2021

Multi-Family Market Trends

This report analyzes the trends in market fundamentals and investment sales in the Los Angeles-Long Beach, CA Regional multi-family market.

FEATURE: COVID-19 and its Impact on the Market

In Mid-March 2020, the Global COVID-19 Pandemic brought much of the world to a halt. The spread of the virus was so rapid, that nations, states, and local municipalities were forced to take drastic measures. Conditions improved in the summer months, but a second surge in the winter brought about new restrictions and further economic hardship for individuals and businesses alike. On the forefront as we enter Q3 2021 is the spread of the Delta Variant and the short and long-term effects this has on the performance of different asset classes.

Short Term Impact

A bright spot for investors in the Los Angeles regional multi-family market is that vacancy levels have dipped back below 5% and asking rents continue to increase despite the Covid-19 Pandemic. Also, after a brief dip in Q4 2020, new construction starts have been strong in 2021. The market has begun to deliver on some of these projects, and there remains a substantial amount of space under construction.

Long Term Impact

The Los Angeles Regional multi-family market has witnessed some of the devastating effects that have besieged other asset classes during COVID. While the city of Los Angeles has always been a beacon for investment, we have seen suburban areas outside the city become more popular due to remote working, along with a shift in preference to less congested environments.

New cases per day in the U.S.
Daily case counts have waned since April.



Source: NBC News

MARKET FUNDAMENTALS: Average Asking Rents & Vacancy

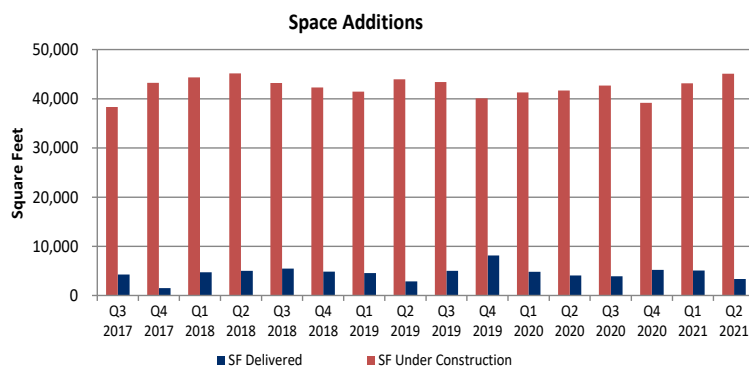
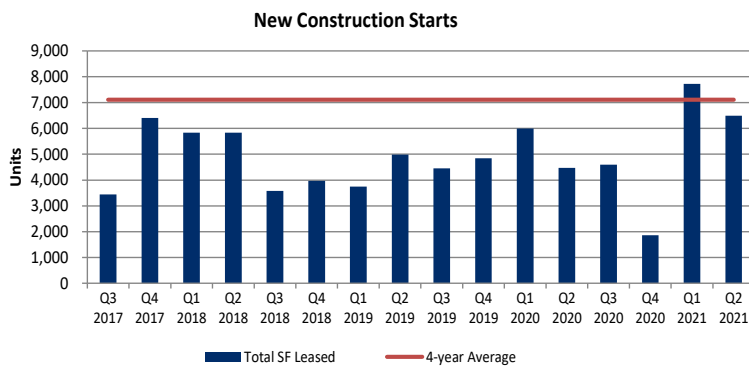
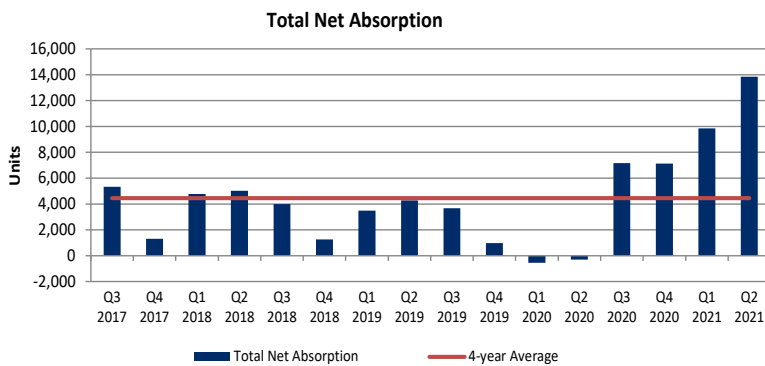
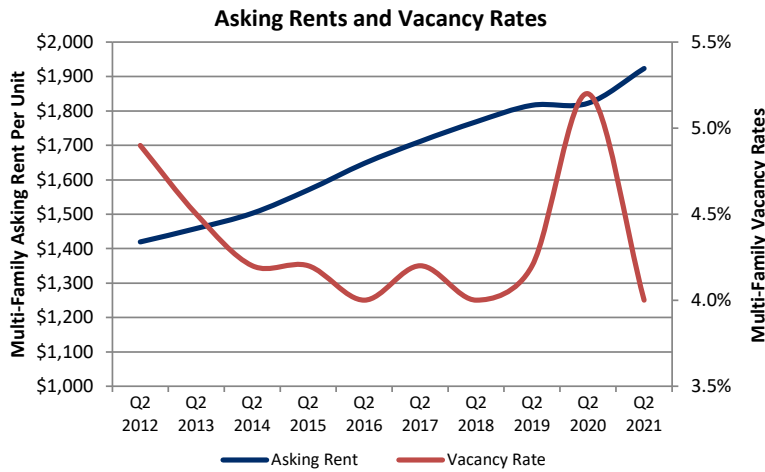
From Q2 2012 to Q2 2021, vacancy rates fluctuated between 4.0% (Q2 2016 & Q2 2021) and 5.2% (Q2 2020). Q2 2021 marks a drastic decrease (4.0%) from its highest point in the analysis period in Q2 2020. Over the analysis period, asking rents ranged from \$1,420 (Q2 2012) to \$1,924 (Q2 2021) representing a consistent year over year increase.

Net Absorption

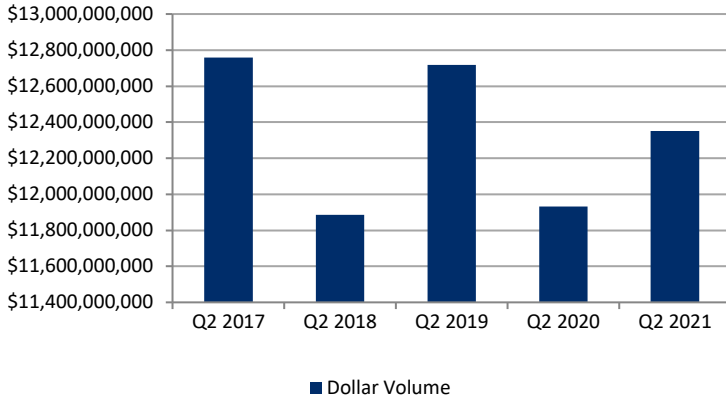
Total net absorption in the Los Angeles regional market has been well above the 4-year average for the past four quarters. While Q1 2020 and Q2 2020 dipped into net negative units absorbed, Q3 2020 marked the beginning of a strong rebound with Q2 2021 recording the highest level of net absorption in the analysis period.

New Construction and Space Additions

The number of new construction starts has fluctuated over time, but slowed noticeably in Q4 2020 due to the COVID-19 Pandemic. Q1 2021 and Q2 2021 marked the highest and second highest number of new construction starts in the analysis period, respectively. There is still a substantial amount of space under construction that is waiting to be delivered, indicating an active construction pipeline. Developers will look to profit on these projects over the upcoming quarters, so long as they remain financially feasible.



LOS ANGELES-LONG BEACH, CA
MULTI-FAMILY BUILDING DOLLAR VOLUME



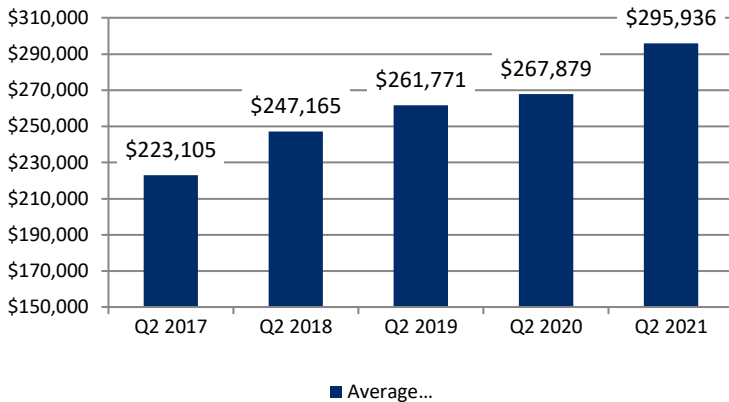
SALES (5 YEAR TREND – YE Q2): Volume

Total dollar volume for investment sales of multi-family assets in the Los Angeles Region has fluctuated from Year End Q2 2017 to Year End Q2 2021, ranging from \$11.8 billion to \$12.7 billion. Year End Q2 2021 represented a slight increase in dollar volume (\$12.3 billion) from the prior year (\$11.9 billion).

Average Pricing Per Unit (YE Q2)

Average pricing increased from \$223,105 per unit in Year End Q2 2017 to \$295,936 per unit in Year End Q2 2021. Pricing per unit has continued to grow despite rising vacancy and cap rates. Market participants will be watching this metric carefully in 2021.

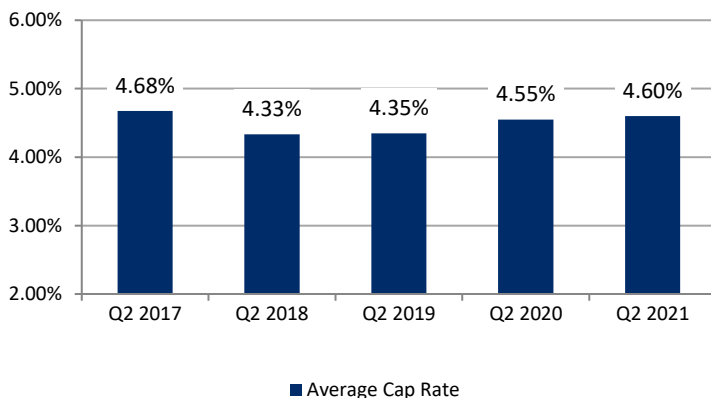
LOS ANGELES-LONG BEACH, CA
MULTI-FAMILY AVERAGE \$/UNIT



Capitalization Rates (YE Q2)

The average cap rate in FYE Q2 2021 was 4.60%, indicating a 5 basis point increase from the prior year. Cap rates in the Los Angeles region have exhibited a slow increase since Year End Q2 2018 and changing market fundamentals in the COVID-19 era only continued that trend. However, it is important to note that over the 5-year study period, cap rates have remained below 4.75%, which is impressive. This is a sign of a very healthy, mature and consistent market.

LOS ANGELES-LONG BEACH, CA
MULTI-FAMILY BUILDING AVERAGE CAP RATE



SOURCE: CoStar and Marshall & Stevens



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