MARKET REPORT

Marcus & Millichap

MULTIFAMILY

Los Angeles County

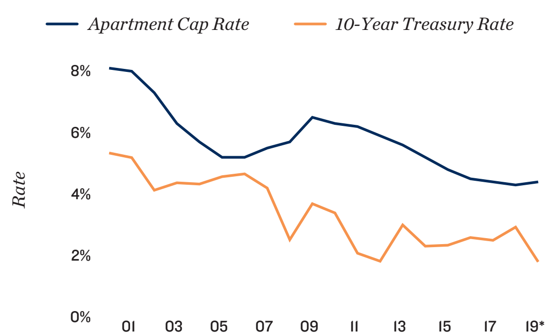
Q4/19

Metro Well Positioned for Upcoming Delivery Wave; Buyer Pool Swells in Southern Submarkets

Luxury units in high demand. Out-of-reach home prices continue to limit housing options for most Los Angeles County residents, even as the metro's median household income nears $70,000. Rising earnings, driven by diverse job creation, generated increased demand for the more than 8,000 Class A rentals finalized over the past 12 months ending in September. Leasing velocity at these properties and slightly older luxury apartments enabled availability in the rental segment to fall below 4 percent, the lowest rate since 2006. Cycle-low vacancy in the Class A segment has occurred at an opportune time, as delivery volume is slated to double next year, nearing 18,000 units.

California's multifamily sector grapples with regulatory changes. In early October, Assembly Bill 1482 was signed into law by Gov. Newsom, making California the third state to implement statewide rent control. Effective January 2020, the legislation will limit rent increases at pre-2005-built properties to 5 percent plus inflation or 10 percent, whichever is lower. While average rent growth in seven of the state's eight major metros was at or below 5 percent during the past 12 months ending in September, it is probable each market's stock of lower-cost apartments could be impacted by the implications. Spanning the past year, Class C rent in the eight-metro group rose an average of 8 percent. Limited rate increases at these properties moving forward could increase the appeal to renters of an already limited stock of vacant units. Though tight conditions tend to increase investor interest, rent control could alter returns on some investments, particularly properties that still have value-add potential.

Local Apartment Yield Trends



** Cap rate trailing 12-month average through 3Q; Treasury rate as of Sept. 30*

Sources: CoStar Group, Inc.; Real Capital Analytics

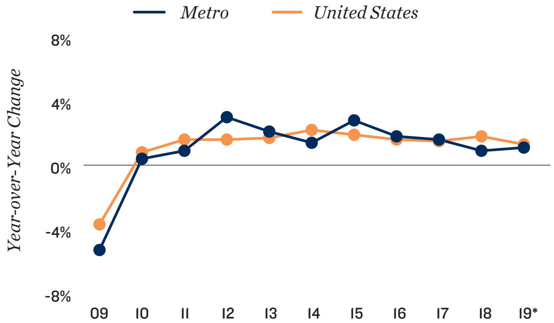
Multifamily 2019 Forecast

Metro	Vacancy	Y-O-Y Basis Point Change	Effective Rent	Y-O-Y Change
Greater Downtown Los Angeles	3.4%	-30	$2,487	3.8%
Westside Cities	3.6%	80	$3,260	3.4%
San Fernando Valley/Tri-Cities	2.8%	-50	$2,173	3.8%
South Bay/ Long Beach	3.4%	-20	$2,340	3.2%
Overall Metro	**3.4%**	**-10**	**$2,310**	**4.1%**

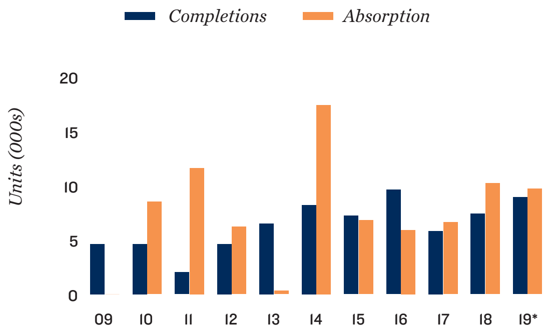
Investment Trends

- Continued employment growth, declining or unchanged vacancy in nearly every submarket and extremely limited Class C vacancy throughout continued to fuel investor demand for Los Angeles County assets over the past 12 months. While transactions in Downtown Los Angeles, Westside Cities and northern suburbs often receive the headlines, a mix of 1031-exchange buyers and local value-add investors focused on submarkets in the southern portion of the metro, equating to increased or steady deal flow in these locales.
- Spanning the past four quarters, closings in Greater Inglewood, Southeast Los Angeles and Long Beach/Ports accounted for 30 percent of the metro's total sales activity. Most transactions in these submarkets involved smaller Class C properties, a percentage of which featured significant deferred maintenance or vacancy issues. In each of the three locales, 5 to high-6 percent first-year returns were readily available for these complexes along with select Class B listings, with pricing frequently below $200,000 per unit.
- Redevelopment opportunities in revitalized submarkets are attracting more buyers, as the volume of these listings has begun to decline.

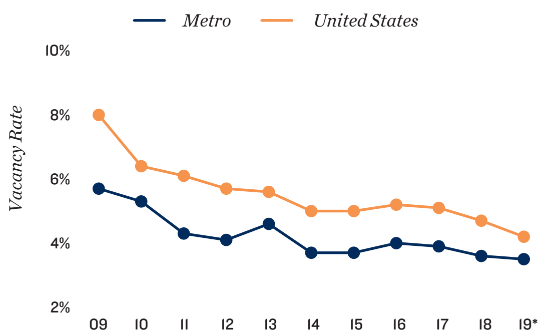
Employment Trends



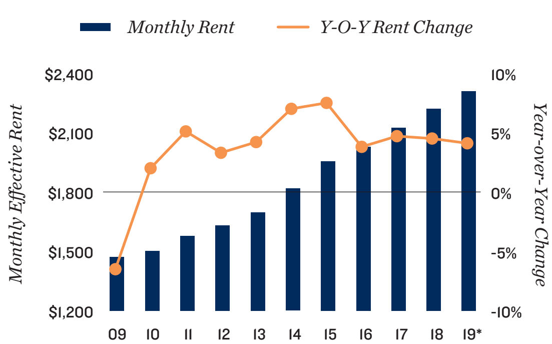
Completions and Absorption



Vacancy Rate Trends



Rent Trends



**Forecast*

Sources: Marcus & Millichap Research Services; RealPage, Inc.

3Q19 – 12-Month Period

EMPLOYMENT

1.1% increase in total employment Y-O-Y

- Los Angeles County organizations created 51,600 positions over the past four quarters ended in September, lowering metro unemployment 20 basis points to 4.4 percent.
- The number of education and health-related positions climbed by 30,600 over the past year, driving overall employment gains in the metro while offsetting a notable decline in the number of government employees.

CONSTRUCTION

8,400 units completed Y-O-Y

- The delivery of 5,000 rentals in Greater Downtown Los Angeles supported a rise in overall completions during the past year. Outside of downtown, more than 1,000 units were finalized in both San Fernando Valley/Tri-Cities and South Bay/Long Beach.
- Developers are underway on nearly 29,000 apartments, with three-fourths of these units located in either Greater Downtown Los Angeles, San Fernando Valley/Tri-Cities or Westside Cities.

VACANCY

10 basis point decrease in vacancy Y-O-Y

- The absorption of nearly 8,300 units over the past year coupled with the removal of 1,000 apartments from the rental stock translated to a slight decline in unit availability, with vacancy reaching 3.3 percent in September.
- Renter demand was strong for both lower cost and higher-priced apartments, as Class A and C vacancy rates declined by 40 and 20 basis points, respectively.

RENT

3.3% increase in the average effective rent Y-O-Y

- After rising an average of 4.6 percent during the previous three years, the metro's average effective rent rose by 3.3 percent to $2,290 per month over the past 12 months. Among larger submarkets, the most pronounced rent growth was noted in Van Nuys/Northeast San Fernando Valley, up 6.0 percent.
- A lack of vacant Class C units throughout the county increased monthly rates in this rental segment by 9.9 percent over the past year to an average of $1,659 per month.

Demographic Highlights

3Q19 Median Household Income
Metro $69,673
U.S. Median $65,205

3Q19 Affordability Gap
Renting is $751 *Per Month Lower*
*Average Effective Rent vs. Mortgage Payment**

Multifamily (5+ Units) Permits❖
14,075 *1H 2019*
11% *Compared with 1H 2016-2018*

3Q19 Median Home Price
Metro $594,457
U.S. Median $272,227

Five-Year Household Growth**
144,000 *or* 0.8% *Annual Growth*
U.S. 1.0% *Annual Growth*

Single-Family Permits❖
5,733 *1H 2019*
1% *Compared with 1H 2016-2018*

**Mortgage payments based on quarterly median home price with a 30-year fixed-rate conventional mortgage, 90% LTV, taxes, insurance and PMI. **2019-2024 ❖ Annualized Rate*

SUBMARKET TRENDS

Lowest Vacancy Rates 3Q19**

Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Y-O-Y Basis Point Change	Y-O-Y % Change
South Los Angeles	1.8%	0	$1,673	0.7%
Van Nuys/Northeast San Fernando Valley	2.2%	-20	$1,798	6.0%
Southeast Los Angeles	2.5%	-10	$1,824	5.5%
East Los Angeles	2.6%	-10	$1,651	5.8%
Palms/Mar Vista	2.8%	10	$2,737	2.6%
Mid-Wilshire	2.9%	-10	$2,371	5.0%
Northridge/Northwest San Fernando Valley	2.9%	0	$1,967	4.0%
Sherman Oaks/North Hollywood/Encino	3.0%	-80	$2,352	2.8%
South Bay	3.1%	-70	$2,663	1.6%
Burbank/Glendale/Pasadena	3.3%	-10	$2,423	2.8%
Santa Monica/Marina del Rey	3.4%	-40	$3,454	2.0%
Overall Metro	**3.3%**	**-10**	**$2,290**	**3.3%**

*** Includes submarkets with more than 20,000 units of inventory*

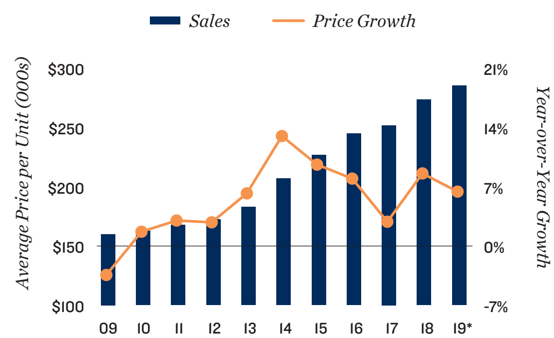
SALES TRENDS

In-County Buyers Pursue Higher-Yielding Assets in Southern Submarkets

- Class C transactions accounted for nearly 90 percent of total deal flow during the past 12 months ended in September, with nine submarkets recording more than 100 such closings.
- The metro's average pricing climbed 6.4 percent over the past year, reaching $285,000 per unit. Rising assets values minimally impacted cap rates as the county's average return remained in the low-4 band.

Outlook: A sparse number of Class A and 100-unit-plus listings will curb institutional buyer activity, as opportunities to deploy $10 million to more than $20 million are limited.

Sales Trends

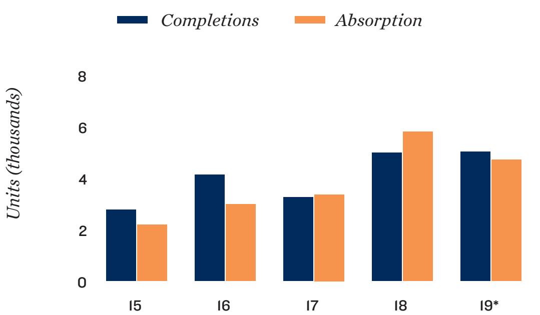


** Trailing 12 months through 3Q19*
Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

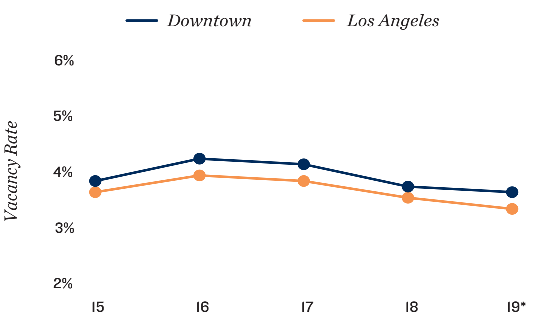
Investment Highlights

- Greater Downtown Los Angeles' rental stock increased by nearly 9,000 units over the past two years ended in September. These new apartments were well received, as regional vacancy declined by 50 basis points during the 24-month stretch. With a lack of deliveries slated for the fourth quarter of 2019, recently completed properties still in lease-up should fill additional units prior to the end of the year. Absorption at these complexes coupled with strong renter demand for Class B and C apartments will place year-end vacancy at its lowest point since 2007. Tight conditions bode well for the market prior to the wave of deliveries slated for next year, when more than 2,500 units are finalized in each of the region's three submarkets.
- A collection of in-county investors, 1031-exchange buyers and redevelopers were active in Greater Downtown Los Angeles over the past 12 months, largely acquiring smaller Class C properties at a low-4 percent average cap rate. Extremely limited vacancy and an abundance of sub-$200,000 per unit pricing generated robust competition for complexes in Koreatown, where 5 percent-plus returns are available. In Hollywood and Mid-Wilshire, yields beyond the mid-4 percent band have become harder to obtain as Class B and C asset values continue to rise amid tight conditions. In these locales, listings priced below $300,000 per unit are a rarity.

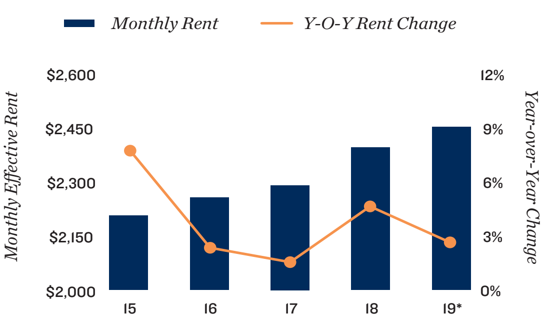
Completions and Absorption



Vacancy Rate Trends



Rent Trends



** Trailing 12 months through 3Q*

Sources: Marcus & Millichap Research Services; RealPage, Inc.

3Q19 – 12-Month Period

CONSTRUCTION

5,020 units completed Y-O-Y

- The addition of nearly 3,500 units in Downtown Los Angeles and nearly 1,000 apartments in Mid-Wilshire supported an uptick in regional delivery volume over the past four quarters.
- Construction is underway on 12,700 apartments with completion dates extending into late 2021. More than 5,000 of these units are being built in Mid-Wilshire, with an additional 3,500 rentals under construction in Hollywood.

VACANCY

no change in vacancy Y-O-Y

- The third quarter of this year witnessed robust leasing velocity, translating to the absorption of nearly 2,700 units during the three-month window. Entering the fourth quarter, vacancy in Greater Downtown Los Angeles sat at 3.6 percent.
- Mid-Wilshire and Hollywood both witnessed vacancy compression of 10 basis points over the past year, lowering unit availability to 2.9 percent and 3.7 percent, respectively.

RENT

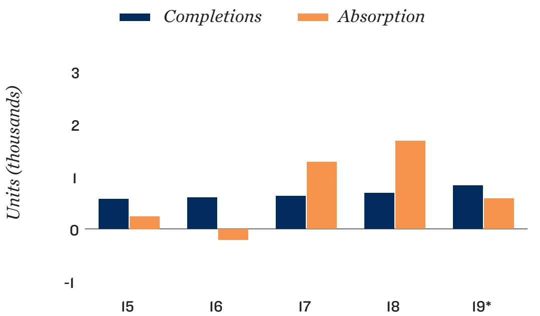
2.6% increase in the average effective rent Y-O-Y

- The region's average effective rate reached $2,451 per month in September, after rising 4.4 percent during the previous 12-month span.
- Sub-3 percent vacancy in Mid-Wilshire allowed the submarket's average effective rent to rise 5.0 percent to $2,371 per month, the most pronounced rate growth recorded in the region.

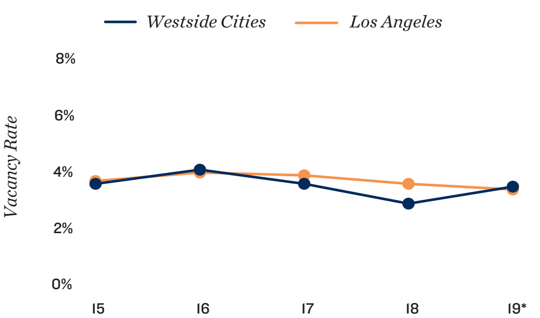
Investment Highlights

- The region's abundance of tech employment centers continues to generate significant demand for nearby apartments. Entering 2019, vacancy in the Westside was below 3 percent, supported by a two-year span in which net absorption exceeded delivery volume. During the first three quarters of this year, unit availability increased moderately, yet vacancy in each of the region's three submarkets held below 4 percent. While more than 900 units are slated for finalization during the fourth quarter of this year, only Marina del Rey witnesses a sizable volume of supply additions as the 585-rental AMLI Marina del Rey is brought online. Elsewhere, deliveries are minimal or smaller in unit count, lessening these projects' impact on regional vacancy.
- Local private investors and 1031-exchange buyers remained focused on Class C listings in Santa Monica and West Hollywood over the past 12 months, often acquiring pre-1970s-built properties for more than $500,000 per unit. Rising assets values have compressed returns, with first-year cap rates in the low-2 to 3 percent band. Buyers seeking higher quality complexes in Silicon Beach target the Westwood and Wilshire Montana neighborhoods for Class B complexes.
- Smaller properties in West Hollywood and Palms/Mar Vista continue to attract value-add investors seeking below-average price points and returns in the 3 to mid-4 percent range.

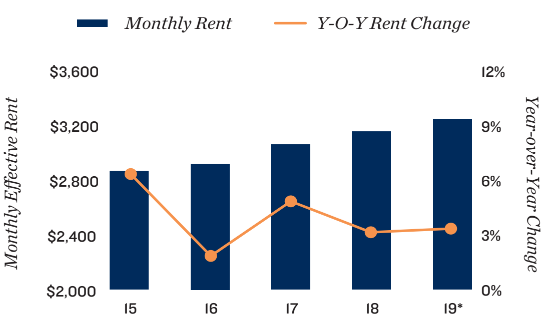
Completions and Absorption



Vacancy Rate Trends



Rent Trends



3Q19 – 12-Month Period

CONSTRUCTION

830 units completed Y-O-Y

- Supply additions in Santa Monica/Marina del Rey accounted for more than half of the Westside's overall delivery volume during the past year.
- At least 10 apartment projects are underway in Santa Monica/Marina del Rey and Palms/Mar Vista with completions planned into the first quarter of 2021. These properties comprise nearly 80 percent of the 4,700 units currently being built.

VACANCY

10 basis point increase in vacancy Y-O-Y

- Vacancy rose moderately over the past year to 3.4 percent in September. Amid the overall increase in unit availability, Class B vacancy declined in Santa Monica/Marina del Rey and Brentwood/Westwood/Beverly Hills.
- Santa Monica/Marina del Rey recorded compression of 40 basis points over the past 12 months lowering unit availability to 3.4 percent. With a vacancy rate of 2.8 percent, Palms/Mar Vista remains the tightest submarket in the region.

RENT

3.3% increase in the average effective rent Y-O-Y

- The pace of rent growth improved on a year-over-year basis, pushing the average effective rate to $3,243 per month. During the prior 12-month period, an uptick of 2.0 percent was noted.
- Rate gains were most pronounced in Brentwood/Westwood/Beverly Hills, where the average effective rent rose 4.8 percent to $3,453 per month. Tight vacancy in Palms/Mar Vista allowed the average rent to climb 2.6 percent to $2,737 per month.

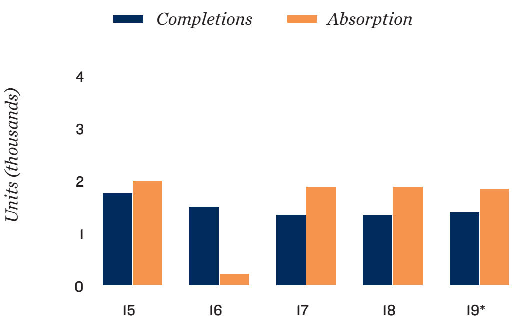
** Trailing 12 months through 3Q*

Sources: Marcus & Millichap Research Services; RealPage, Inc.

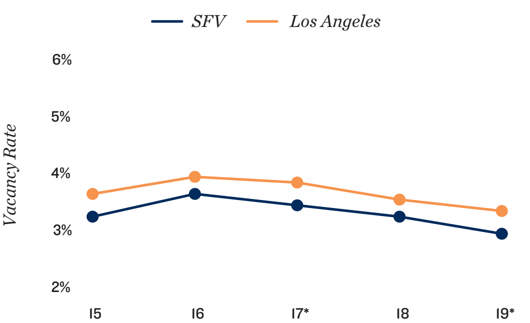
Investment Highlights

- Monthly rent in San Fernando Valley/Tri-Cities continued to trail the county's average rate over the past year, heightening local demand for available apartments. Strong leasing velocity was apparent across all asset classes, with each of the region's submarkets recording a decline in Class B vacancy and all but one home to sub-2 percent Class C availability. Responding to pent-up demand, developers have ramped up construction activity, namely in the San Fernando Valley, yet most projects will not be finalized this year.
- Targeting above-average returns and assets with upside potential, buyers were active in the San Fernando Valley over the past four quarters, with two-thirds of deal flow occurring in Studio City/North Hollywood, Sherman Oaks and Van Nuys. Class C listings in the three submarkets traded at a mid-4 percent average cap rate, with sub-$300,000 per unit pricing still frequent. Studio City/North Hollywood was the top submarket for Class B trades over the past year, with 4 percent-plus returns obtainable.
- Similar to the Valley, Class C trades steered sales activity in the Tri-Cities. Over the past year, investors often obtained high-3 to 4 percent returns for these assets, with strong buyer competition lifting average asset value beyond $325,000 per unit.

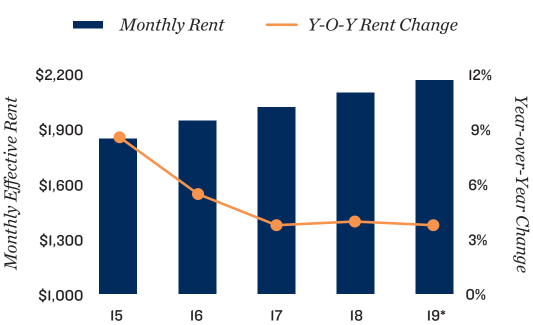
Completions and Absorption



Vacancy Rate Trends



Rent Trends



** Trailing 12 months through 3Q*

Sources: Marcus & Millichap Research Services; RealPage, Inc.

3Q19 – 12-Month Period

CONSTRUCTION

1,400 units completed Y-O-Y

- Supported by the finalization of 800 units in Burbank/Glendale/Pasadena, delivery volume in the region rose slightly over the past four quarters ended in September.
- The region's development pipeline consists of at least 5,000 apartments underway. Woodland Hills and Northridge/Northwest San Fernando Valley are centers of construction activity, with a combined 3,300 units being built.

VACANCY

20 basis point decrease in vacancy Y-O-Y

- The third quarter of 2019 represented a strong three-month stretch for rental demand as 1,300 units were absorbed, lowering regional vacancy to 2.9 percent in September.
- Vacancy compressed or was unchanged in each of the region's five submarkets over the past 12 months. The largest decline was recorded in Sherman Oaks/North Hollywood/Encino, where unit availability dropped 80 basis points to 3.0 percent.

RENT

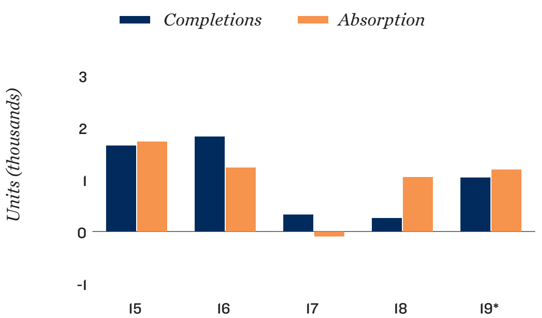
3.7% increase in the average effective rent Y-O-Y

- Of the county's four primary regions, San Fernando Valley/Tri-Cities recorded the largest rent gain over the past year, pushing the average effective rate to $2,161 per month.
- Home to the region's tightest vacancy, Van Nuys/Northeast San Fernando Valley recorded a 6.0 percent boost in rent over the past 12 months, lifting its average rate to $1,798 per month.

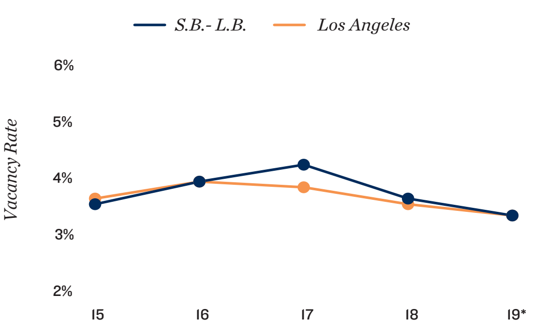
Investment Highlights

- A stretch of elevated apartment deliveries commenced during the past six months, as 1,000 rentals were finalized in South Bay/Long Beach following a two-year window when 500 units came online. The recent uptick in completions was met with strong renter demand, lowering regional vacancy to a cycle-low level in September. An additional 800 apartments are slated for delivery during the fourth quarter of 2019, highlighted by Seacrest, a 352-door property in Torrance. This community and two mid-rise projects in Downtown Long Beach will further test demand for luxury units; however, robust demand for lower-cost Class B and C apartments will hold overall vacancy in the low- to mid-3 percent band in the near term.
- Extremely tight Class C vacancy in both the South Bay and Long Beach submarkets has supported exaggerated rent growth in the segment, with average monthly rates rising 9.4 percent and 7.5 percent, respectively, over the past year. Sub-2 percent vacancy and robust rent gains have supported hearty investor demand for smaller communities with value-add potential. Pricing below $200,000 per unit remains frequent in Long Beach and Greater Inglewood, with assets in beach cities commanding the highest values. Overall, transactions in the $1 million to $3 million price tranche continue to dictate overall deal flow, with buildings trading at a mid-4 percent average cap rate.

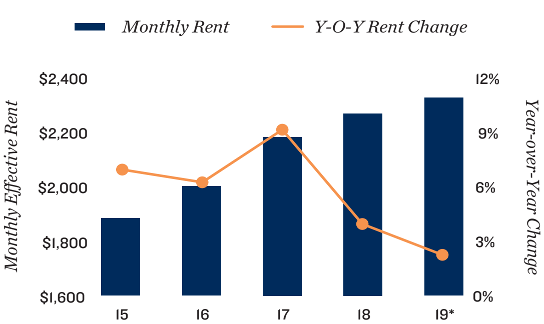
Completions and Absorption



Vacancy Rate Trends



Rent Trends



3Q19 – 12-Month Period

CONSTRUCTION

1,030 units completed Y-O-Y

- The completion of 700 apartments during the third quarter of this year supported an increase in year-over-year delivery volume. Two-thirds of the rentals finalized over the past 12 months ended in September were in Long Beach.
- Developers are underway on 3,700 units with completion dates extending into early 2021. A 375-door property in San Pedro, dubbed 550 Harborfront, is the largest project being built.

VACANCY

30 basis point decrease in vacancy Y-O-Y

- Driven by the absorption of 1,200 apartments, the region's vacancy rate compressed slightly for a second consecutive 12-month period, reaching 3.3 percent in September. During the prior yearlong span, vacancy dipped 10 basis points.
- The South Bay recorded a 70-basis-point drop in vacancy over the past year, as the absorption of nearly 600 units lowered unit availability to 3.1 percent. Vacancy in Long Beach was unchanged over the same period, holding at 3.5 percent.

RENT

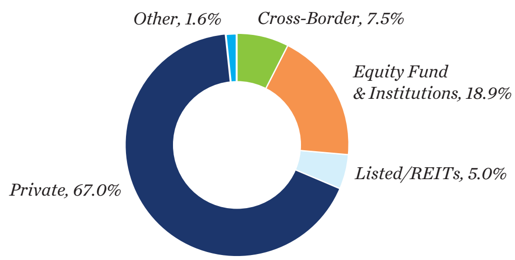
2.2% increase in the average effective rent Y-O-Y

- The pace of rent growth moderated over the past year following the 5.4 percent gain registered during the prior four-quarter stretch. As of September, the region's average monthly rate was $2,324 per month.
- Class C rent elevated 7.5 percent in Long Beach, lifting the submarket's overall average rate 3.0 percent to $2,024 per month.

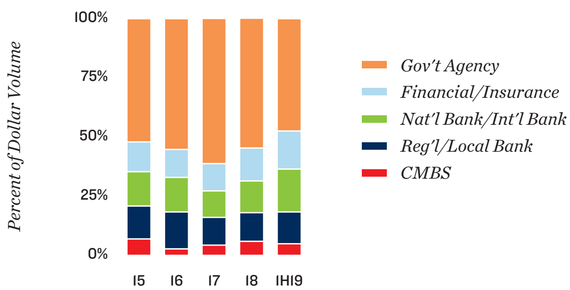
** Trailing 12 months through 3Q*

Sources: Marcus & Millichap Research Services; RealPage, Inc.

1H19 Apartment Acquisitions By Buyer Type



Apartment Mortgage Originations By Lender



Includes sales $2.5 million and greater
Sources: CoStar Group, Inc.; Real Capital Analytics

CAPITAL MARKETS

By DAVID G. SHILLINGTON, President, Marcus & Millichap Capital Corporation

- **Fed cuts rate again, while balancing assortment of factors.** The Federal Reserve cut the overnight rate by 25 basis points at the end of October, the third reduction in less than 100 days in an attempt to lengthen the economic runway. Muted inflationary pressure and continued trade negotiations have boosted the probability for an additional rate cut in December as it is anticipated by some domestic and foreign markets. However, at the end of October, the U.S. and China were in talks for finalizing the first phase of a trade deal, potentially erasing the need for another rate reduction if the preliminary agreement quickly comes to fruition. This, along with positive economic indicators like strong wage growth, sustained job creation and a rising 10-year Treasury, will continue to make future decisions difficult for Fed members as they balance the array of forces tugging at both ends of possible outcomes. Global developments including slowing European economies as well as the progression of Brexit and its potential aftermath will also help determine future Fed decisions. Though recession risks remain, the economy's solid foundation has softened it in recent months, signaling continued domestic growth in the near future.
- **Abundant liquidity balances conservative underwriting.** Debt financing for apartment assets remains strong, supported by a variety of lenders. Fannie Mae and Freddie Mac, two mainstay apartment capital sources, were recently given increased lending caps, allowing the two Government Sponsored Enterprises to purchase $100 billion in loans during a yearlong period that started at the beginning of the fourth quarter 2019. A wide range of local, regional and national banks; pension funds; insurance companies and CMBS sources will also remain active. All have responded to the falling interest rate climate by reducing mortgage rates, but lender spreads have widened as the 10-year Treasury rate remains near cycle lows. Given the downward pressure on interest rates, lender caution has risen, particularly for construction loans. Though lending is still available for these types of projects, investors may need to blend mezzanine debt with other capital sources until they prove out their concepts and substantially fill units. For stabilized existing assets in most major markets, financing remains plentiful.

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Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Experian; National Association of Realtors; Moody's Analytics; Real Capital Analytics; RealPage, Inc.; TWR/Dodge Pipeline; U.S. Census Bureau