Tuvia Multifamily Memo

What is in store for Los Angeles multifamily in 2021?

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Market Strength

Since the beginning of the third quarter, transactions returned to levels that us apartment brokers have been more accustomed to seeing over the past few years. From July 1st through the end of the year, there have been 687 multifamily transactions of 5+ units in Los Angeles County. Over 75% of those transactions were in the 5 – 15 unit range as more private capital investors had an easier time raising capital and putting their money back to work. Additionally, inventory for larger buildings was virtually non-existent as institutions were employing more of a “wait and see” approach.

Where are all of the distressed multifamily deals?

Since the beginning of the pandemic, investors continued to ask me about distressed opportunities, which so far have not panned out. As the market began to normalize during the summer, fewer investors were seeking distressed opportunities and were instead looking for "bread and butter" deals. Investors are still pricing in lower rents than they were at the beginning of the year, but the cap rate they are expecting has not increased much. Some landlords are still taking advantage of having their loans in forbearance, which may assist the landlords that would be having a tough time making their mortgage payments. Currently, there are almost $600 million in multifamily agency loans in forbearance in the greater Los Angeles market, which is just a small fraction of the multifamily loans currently in forbearance in New York City. Many of these smaller landlords will figure out a way to catch up as lenders are much more flexible than in past recessions and have limited foreclosure options for the time being. This fact, coupled with historically low rates and easy access to bank debt, makes a wave of foreclosures unlikely for local multi-family.

Most of the distressed opportunities we are expecting to see are in the Class A sector, as Class A rents have fallen the most and there are still a flood of units coming online over the next 18 months. So far, rents have declined six percent (6%) in Los Angeles since the beginning of the pandemic, with Class A rents dropping around ten (10%). As Class A has been affected the most as a result of the pandemic, the most re-pricing we have seen has been on land.

In all of 2020, there were only 175 multifamily land transactions in comparison to 434 transactions in the previous year in Los Angeles County. Land development has shown the biggest disconnect between buyer's and seller's expectations. In core Los Angeles, the average price per square foot of land was $161.46 in 2020 versus $185.10 per square foot in 2019, a 12.7% drop. In 2021, I expect the trend to continue with land pricing having a tougher time recovering versus "bread-and-butter" apartment buildings.

Which submarkets are showing the most strength in Los Angeles?

Certain submarkets are holding up better than others with two-bedroom and three-bedroom units leasing at much higher rates, regardless of the submarket. The submarkets that are not seeing over-development have seen the fewest declines in rent and concessions. Below are a few averages to provide some perspective on affordability in areas where you can buy at a lower price per unit relative to the rent.

Downtown Santa Monica - $3,955
Beverly Grove - $3,505
Pico/Robertson - $3,413
Mar Vista - $2,603
West Adams - $2,503
Mid-Wilshire - $2,457

Hollywood - $2,341
Echo Park - $2,079
Silver Lake - $2,013
Boyle Heights - $1,959
Koreatown - $1,894
Lincoln Heights - $1,704

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