LOS ANGELES

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While development is sparse, there are big exceptions in the big city. Meanwhile, statistics indicate market stabilization.

Multifamily

2011 is shaping up to be very transitional in the Los Angeles multifamily market. 2010 saw a dramatic increase in transactions versus 2009. And thanks to the low interest rate environment and lenders beginning to increase leverage, the view here is that velocity will continue to increase and deals will be getting done.

The economy continues gaining traction, and while there may be very little rent growth, concessions are starting to burn off, and vacancy is on the decline. Specifics point to various markets like west Los Angeles, which has always been strong for young college graduates and new families. At the height of the recession, this submarket saw vacancies increase to 10 percent, with asking rents dropping at times almost 20 percent according to some clients, which operate small- to- mid-size Class B product in the submarket. Many tenants coupled up, and some young singles moved back home with parents. As has been echoed by many prominent analysts, the uncoupling of families and roommates is helping drive occupancy.

The recession has bottomed out, and consumer spending has been on the rise the past 4 months. Global events and demand are driving the increase in fuel and food costs, which may lead to weakness later in the year.

Surveys indicate that the South Bay area is leading the way with positive net absorption and a 5.9 percent increase in average rents to $1,637 per month in 2010. West Los Angeles rents increased 1 percent to $2,110 per month; while the Tri Cities area (Burbank, Glendale, Pasadena) had a 9.2 percent decline in rents to $1,522 per month. Downtown L.A. experienced negative net absorption of 4 percent, however average rents rose 6.8 percent to $1,767 per month. Hollywood's negative net absorption was 1.4 percent, and average rents rose only 0.6 percent to $1,629 per month. Finally, the San Fernando Valley saw only slight positive absorption, with a 2.7 percent increase on average rents to $1,387 per month.

On the development side, more than 5,200 units were completed in 2010. Only 2,175 units are scheduled to come on-line in 2011. That is reflective of the recession and available debt; anticipate that the annual addition of new units to the market will trend back to the 5,000 level. Some of the prominent developers that will deliver product this year include G.H. Palmer Associates with the 335-unit Piero II downtown; The Avenue, a 180-unit development in Hollywood by Resmark Equity Partners; and IMT Residential delivering 144 units in Valley Village on the former Stevenson Nursery site.

A bifurcated market persists where Class A and B product will trade at historical low cap rates, while Class C and distressed deals are attracting only the investors who are able to realize year one yields of 14 percent or more. Expect to see increased foreclosure activity that will bring more product to market, but there should be no downward pressure on values as a result. Conversely, there should be increased competition for the product.

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