Market Insights

Greater Los Angeles Multifamily 4Q 2021

Northmarq

Construction Activity

20,925

Units under construction

3,792

Units delivered (YTD)

Market Fundamentals

4.0%

Vacancy

-50bps | Year over year change

$2,136

Asking Rent

+8.2% | Year over year change

Transaction Activity

$290,400

Median sales price per unit (YTD)

Vacancy Tightens as Labor Market Rebounds

Highlights

- Multifamily operating conditions improved in Los Angeles during the fourth quarter. Rents continued to climb in recent months and vacancy tightened. Continued recovery in the local employment market should support renter demand in the coming quarters.
- Vacancy in Los Angeles dipped 10 basis points during the fourth quarter, building upon a 40 basis point compression during the prior quarter. The rate declined 50 basis points during 2021, reaching 4 percent.
- Asking rents pushed higher during the final quarter, following a significant spike in the third quarter. Year over year, rents advanced 8.2 percent, ending 2021 at $2,136 per month.
- Multifamily sales velocity accelerated in the last few months of the year. The median price in 2021 reached approximately $290,400 per unit, up 5 percent from the median price in 2020. Cap rates averaged 3.7 percent in the fourth quarter.

Greater Los Angeles Multifamily Market Overview

The Los Angeles multifamily market closed out 2021 on an upswing with rents reaching a new high and vacancy tightening. Fueled by elevated absorption levels and limited supply growth, asking rents pushed higher, with the most robust gains occurring in many of the region's most expensive submarkets. Local employers added back jobs at a rapid pace in recent quarters, providing the demand to drive the vacancy rate lower, following its pandemic-related uptick. The pace of new development is expected to accelerate in 2022, which should bring supply and renter demand closer to equilibrium.

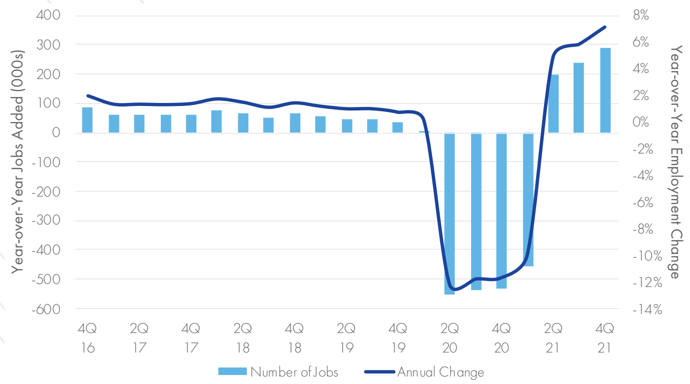
The local multifamily investment market gained momentum in the final months of 2021. Transaction activity surged during the fourth quarter, pointing toward a return to normalcy in the Los Angeles investment market. Sales occurred across the entire quality spectrum in recent quarters with a significant number of newer, more expensive properties changing hands. During the final quarter, more than one-fourth of the transactions sold for more than $400,000 per unit. Cap rates continue to compress in the region with average rates reaching 3.7 percent during the fourth quarter, reflecting an increasingly competitive investment market.

Employment

- Local employers in Los Angeles added back workers at an aggressive pace in 2021 with the continued growth of 78,000 jobs in the fourth quarter. Total employment has advanced 7.1 percent during the year with the addition of approximately 290,000 jobs.
- White-collar jobs in Los Angeles posted a strong rebound in recent quarters. The professional and business services sector added more than 33,000 jobs during 2021 and expanded by roughly 5.6 percent. Despite the recent advancements, total employment in this industry is still down nearly 5 percent from its pre-pandemic high.
- Bank of America recently announced plans to grow its footprint in the Los Angeles region. The bank plans to hire more than 500 additional wealth advisors, business bankers, and other professionals within the next three years.
- **Forecast:** The local labor market is expected to continue to recover in 2022 as the California economy returns to more normal conditions. Total employment in Los Angeles is forecast to expand by approximately 150,000 jobs in the year ahead, a 3.5 percent growth rate.

> Total employment expanded by approximately 290,000 jobs in 2021.

Employment Overview



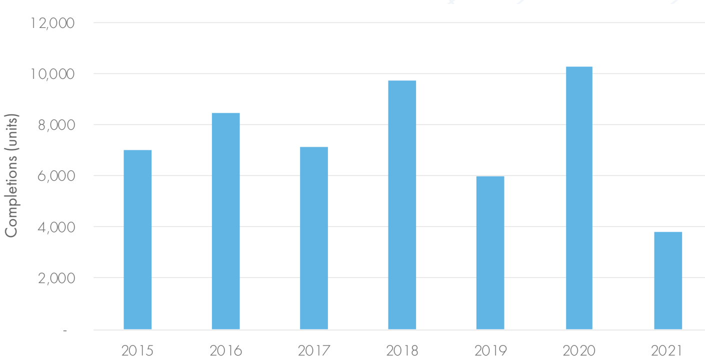
Sources: Northmarq, Bureau of Labor Statistics

Development and Permitting

- The pace of apartment completions slowed in the second half of 2021 with just 320 units coming online in the final quarter. For the full year, projects totaling nearly 3,800 units were delivered, the lowest level of annual completions since 2012.
- Permitting activity remained fairly steady during the past five years, ranging between roughly 12,000 to 14,000 permits pulled annually. Developers pulled permits for nearly 14,000 multifamily units during 2021, up 15 percent from 2020 totals.
- More than 20,900 units are currently under construction in Los Angeles, a 7 percent increase from one year ago. Although apartment construction activity persists throughout the entire Los Angeles area, some of the busier submarkets for new construction include Hollywood/Silver Lake and Wilshire/Westlake.
- **Forecast:** While supply growth has been limited during the past year, there is more than enough activity in the construction pipeline to spur a boost in deliveries in 2022. Approximately 10,400 units are forecast to be delivered by the end of the year.

> More than 20,900 units are currently under construction in Los Angeles.

Development Trends



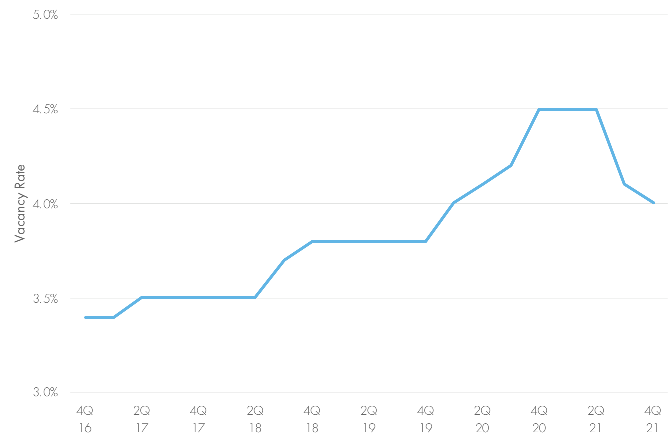
Sources: Northmarq, Reis

Vacancy

- Multifamily vacancy continued to inch lower in the last few months of the year, dipping 10 basis points to end 2021 at 4 percent. The current rate is at its lowest level since the beginning of 2020.
- Year over year, vacancy in Los Angeles dropped 50 basis points. Absorption more than doubled the number of new units delivered in 2021, allowing vacancy to tighten across the region. The most active submarket for absorption during the past year was Marina Del Rey/Venice/Westchester, accounting for more than 25 percent of the net absorption in Los Angeles County.
- Although the rate tightened across all asset classes, the largest declines occurred in newer, Class A properties. Vacancy in Class A units dropped 110 basis points during the past year, finishing 2021 at 6.4 percent.
- **Forecast:** With an uptick in new apartment construction in the year ahead, vacancy is expected to inch higher. The rate is forecast to rise 10 basis points during 2022 to end the year at 4.1 percent.

> The vacancy rate declined 50 basis points during 2021.

Vacancy Trends



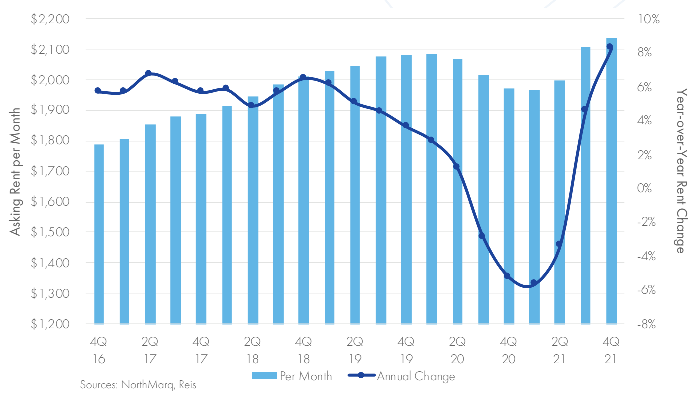
Sources: NorthMarq, Reis

Rents

- Rents continued to climb during the last few months of the year, though the pace of growth slowed from the third quarter. Local asking rents rose 1.4 percent in the fourth quarter to $2,136 per month.
- Average rents in the Los Angeles area advanced 8.2 percent during 2021, the largest annual growth rate in the county in the last 20 years. The steepest rent gains during the past year occurred in the Beverly Hills/West Hollywood and Marina Del Rey/Venice submarkets, both with annual growth rates above 13.5 percent.
- The Los Angeles area reported healthy rent gains across all asset classes in recent quarters. Asking rents in Class A properties jumped 7.9 percent in 2021, finishing the year at $2,779 per month.
- **Forecast:** With the local economy gaining momentum and absorption levels increasing across the region, asking rents are forecast to push higher in 2022. Rents are forecast to rise 4 percent in the year ahead, reaching approximately $2,220 per month.

> Asking rents rose 8.2 percent in 2021, reaching $2,136 per month.

Rent Trends



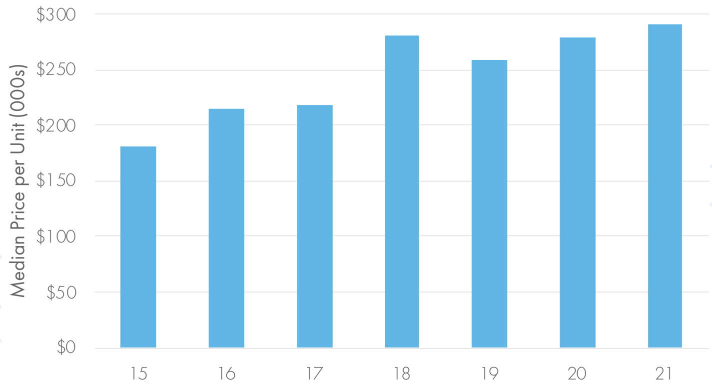
Sources: NorthMarq, Reis

Multifamily Sales

- The local investment market gained momentum in the final months of 2021, after remaining fairly steady in the first three quarters of the year. Multifamily sales velocity increased 52 percent from the third quarter to the fourth quarter. Total sales for the year advanced 62 percent from 2020 levels.
- As transaction activity accelerated, sales prices trended higher. The median sales price through the end of 2021 reached $290,400 per unit, up 5 percent from the median price in 2020.
- As rents increased and investor demand returned to more normal levels, cap rates compressed in the Los Angeles area. During the fourth quarter, cap rates averaged 3.7 percent, 40 basis points lower than the average cap rate in 2020.

> The median sales price reached $290,400 per unit in 2021.

Investment Trends



Sources: NorthMarq, CoStar

Recent Transactions

Multifamily Sales Activity

Property Name	Street Address	Units	Sales Price	Price/Unit
Array Vista Canyon	17350 Humphreys Pky., Santa Clarita	480	$230,250,000	$479,688
Monterey Station	180 E Monterey Ave., Pomona	349	$130,000,000	$372,493
Waterstone Apartments	9901 Lurline Ave., Chatsworth	354	$101,750,000	$287,429
Gower Gardens	1201 N Gower St., Los Angeles	72	$21,000,000	$291,667

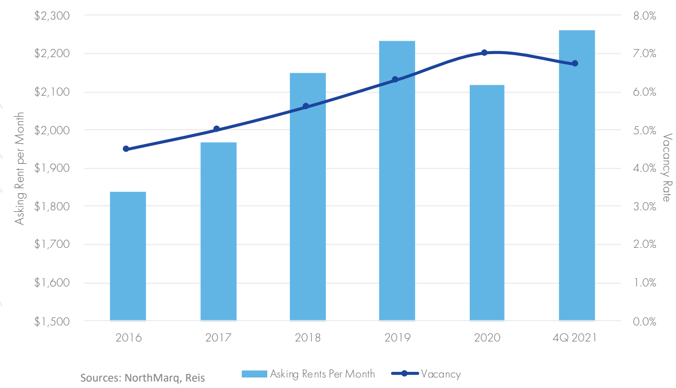
Downtown

Construction/Vacancy/Rents

- Multifamily construction activity slowed in the final months of the year, as no significant projects came online during the fourth quarter. More than 600 units were delivered in the Downtown submarkets during 2021, down 86 percent from the prior year. Apartment completions are on pace to accelerate in the year ahead, as nearly 10,000 units are currently under construction in the Downtown area.
- Vacancy tightened in 2021 as supply growth was outpaced by absorption during the year. The vacancy rate in Downtown Los Angeles dropped 20 basis points during the fourth quarter, ending the year at 6.7 percent. The rate declined 30 basis points for the full year.
- Asking rents in the Downtown area continued to rise in the last few months of 2021, although the pace of growth slowed from the previous quarter. Average rents rose 1.5 percent during the fourth quarter, reaching $2,260 per month; this marks a 6.6 percent increase from the end of 2020.
- **Forecast:** More than 4,000 apartment units are forecast to come online in 2022, following a drop in development activity in the second half of last year. As supply growth accelerates, vacancy is expected to rise 20 basis points in 2022 to end the year at 6.9 percent. Asking rents are forecast to trend higher, finishing 2022 at $2,360 per month.

> Nearly 10,000 units are currently under construction in the Downtown area.

Vacancy and Rent Trends



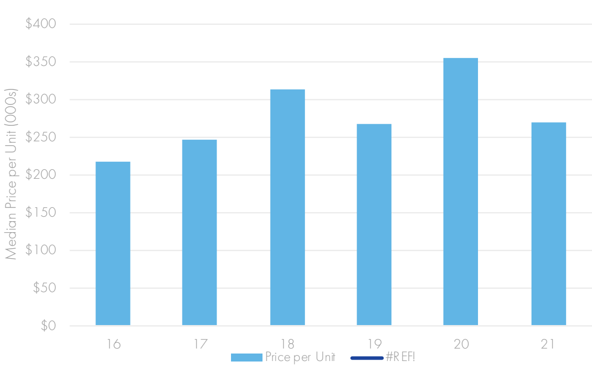
Sources: NorthMarq, Reis

Multifamily Sales

- Sales velocity in the Downtown area accelerated at the end of 2021, as the number of transactions increased by more than 60 percent from the third quarter to the fourth quarter.
- Despite the uptick in transaction volume, sales prices crept lower in 2021, following a spike in prices in the previous year. The median sales price through the end of the year reached $269,350 per unit, down 24 percent from the median price in 2020. Fewer new Class A projects sold in recent quarters compared to last year.
- Despite a decline in sales prices during 2021, cap rates continue to compress. Cap rates averaged approximately 3.7 percent during the fourth quarter.

> The median sales price reached $269,350 per unit in 2021.

Sales Trends



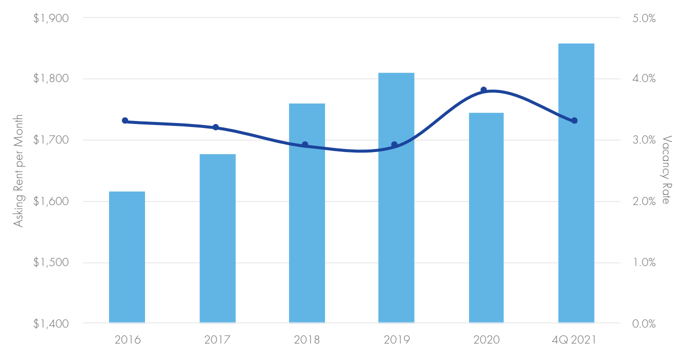
San Fernando Valley

Construction/Vacancy/Rents

- Multifamily development activity in the San Fernando Valley slowed in 2021 with few significant projects coming online during the course of the year. Projects totaling approximately 210 units were completed in 2021, down 92 percent from 2020 levels. More than 6,600 units have been delivered in the San Fernando Valley since 2017.
- After ticking higher during 2020, the area vacancy rate dropped 50 basis points to 3.3 percent in 2021. With limited supply growth in recent quarters, the vacancy rate returned closer to its historical average in the low-3 percent range.
- Asking rents continued to climb in the final months of 2021. Year over year, rents in the San Fernando Valley rose 6.4 percent, finishing 2021 at $1,857 per month.
- **Forecast:** Apartment deliveries are expected to accelerate in the year ahead with more than 2,300 units currently under construction in the area; projects totaling approximately 1,000 units are on pace to be delivered in 2022. With more projects slated to be delivered in the coming quarters, vacancy is expected to inch higher, rising 20 basis points in 2022 to end the year at 3.5 percent. Asking rents are forecast to reach $1,920 per month at the end of next year.

> Vacancy in the San Fernando Valley dropped 50 basis points in 2021.

Vacancy and Rent Trends



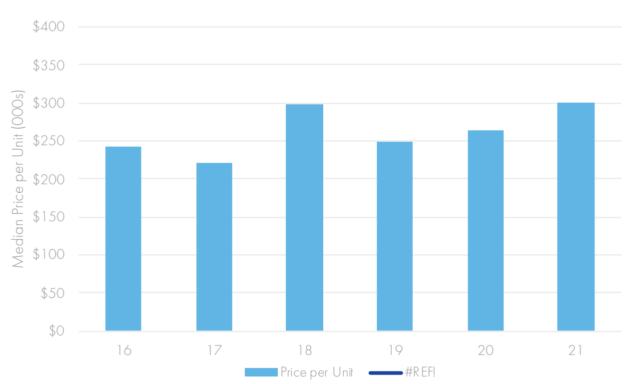
Sources: NorthMarq, Reis

Multifamily Sales

- Sales velocity remained steady during the fourth quarter, matching the pace of transactions from the prior period. Apartment property sales in 2021 accelerated by more than 75 percent from the number of transactions in 2020.
- The median sales price through the end of 2021 rose to roughly $301,150 per unit, up approximately 15 percent from the median price in 2020.
- As prices pushed higher, cap rates compressed in the San Fernando Valley. Cap rates during the final quarter averaged approximately 3.5 percent.

> The median sales price in 2021 reached $301,150 per unit.

Sales Trends



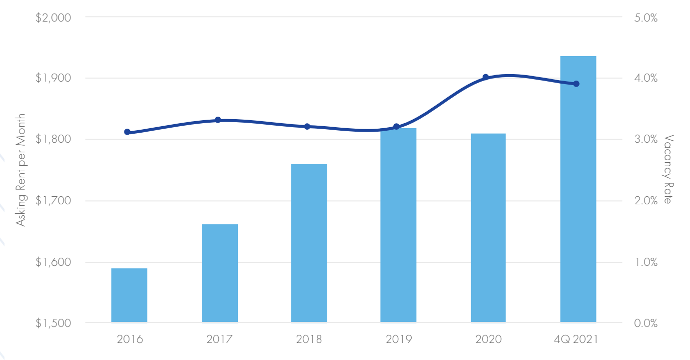
South Bay

Construction/Vacancy/Rents

- During the fourth quarter, developers brought more than 320 units online, concentrated in the Hawthorne/North Torrance submarket. For the full year, approximately 880 units were delivered, down 26 percent from the 2020 total but outpacing levels recorded in 2015 through 2019. Projects totaling approximately 2,050 units are currently under construction in the South Bay.
- Vacancy in the South Bay rose 30 basis points during the fourth quarter, ending the period at 3.9 percent. Despite the uptick at the end of the year, vacancy still inched lower in 2021, dipping 10 basis points from the end of 2020.
- After a slight decline in the first half, asking rents advanced in the second half of the year. Average rents in the South Bay reached $1,936 per month at the end of the fourth quarter, up nearly 7 percent from the end of 2020.
- **Forecast:** Multifamily developers are expected to remain active in the year ahead with approximately 1,000 units projected to come online in 2022. Vacancy in the South Bay is forecast to drop 20 basis points to end next year at 3.7 percent. With vacancy tightening, asking rents will trend higher. Average rents are forecast to rise 3.6 percent in 2022, reaching more than $2,000 per month.

> Asking rents in the South Bay ended 2021 at $1,936 per month.

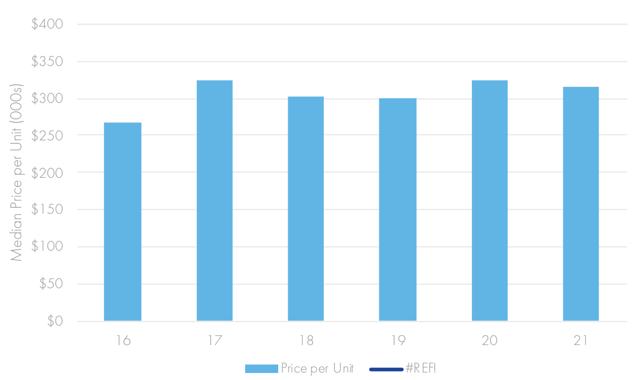
Vacancy and Rent Trends



Sources: NorthMarq, Reis

> Total sales volume in 2021 advanced 55 percent from 2020 levels.

Sales Trends



Multifamily Sales

- Sales velocity accelerated in the final months of the year. The number of properties that changed hands during the fourth quarter accounted for more than half of the total sales for the year. Total transaction volume in 2021 increased more than 55 percent from 2020 but closely tracked levels recorded in 2018 and 2019.
- The median sales price through 2021 reached nearly $315,000 per unit, down 2.7 percent from the median price in 2020. Despite a slight decline, current prices are still in line with historical levels in the South Bay.
- As sales prices inched lower, cap rates rose slightly. Cap rates during the fourth quarter averaged approximately 4 percent.

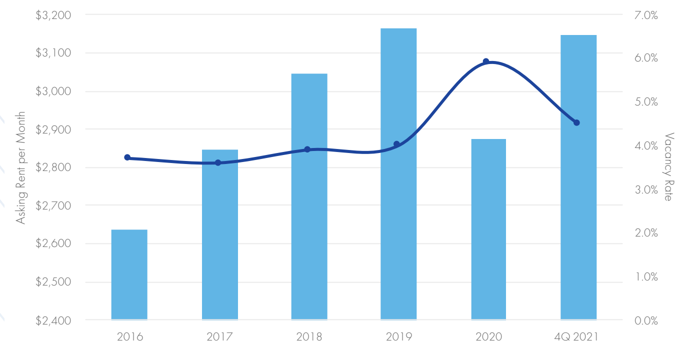
West Los Angeles

Construction/Vacancy/Rents

- Apartment construction activity in the West Los Angeles area slowed during 2021 with projects totaling 310 units completed during the year; the year-end completion total declined 80 percent from 2020 levels. With nearly 1,700 units currently under construction in the area, apartment deliveries will likely accelerate in the next several quarters.
- Operating conditions continued to tighten during the final months of 2021 with vacancy dropping 30 basis points in the fourth quarter. Year over year, the rate declined 140 basis points to 4.5 percent.
- After dipping lower in the first half of 2021, average rents trended higher in the second half of the year. Asking rents in the West Los Angeles area jumped nearly 10 percent during 2021, finishing the year at $3,148 per month.
- **Forecast:** Multifamily development is expected to accelerate in the year ahead with approximately 850 units forecast to come online by the end of 2022. With an uptick in supply, the vacancy rate is expected to inch higher, reaching 4.7 percent. Asking rents are forecast to rise roughly 5.5 percent to $3,325 per month.

“ Asking rents jumped nearly 10 percent during 2021 to $3,148 per month.

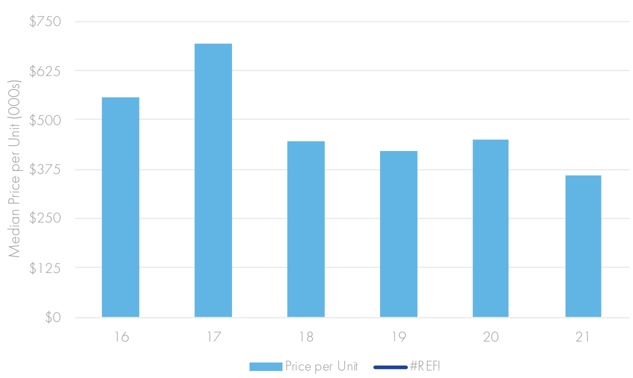
Vacancy and Rent Trends



Sources: NorthMarq, Reis

“ Cap rates averaged around 3 percent throughout 2021.

Sales Trends



Multifamily Sales

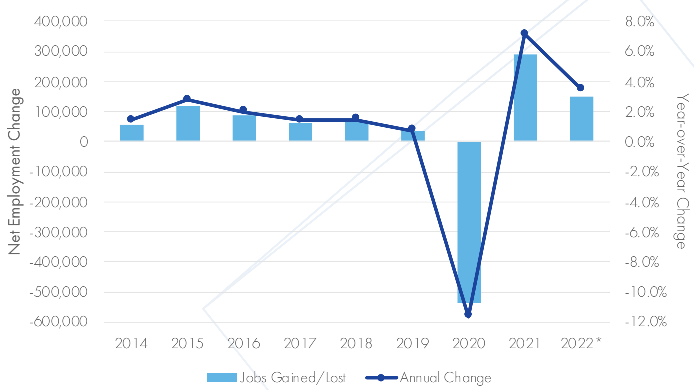
- Multifamily sales activity is often limited in the West Los Angeles region. During the fourth quarter, two properties sold, after just one significant sale in the prior quarter.
- With transaction activity limited, the mix of assets that changes hands influences pricing. In 2021, the bulk of properties that sold consisted almost entirely of Class C buildings. The median sales price in 2021 was nearly $357,700 per unit, down 20 percent from the median price in 2020.
- While sales prices inched lower in recent quarters, cap rates mostly held steady. Cap rates averaged around 3 percent throughout 2021, closely tracking levels from recent years.

Looking Ahead

The Los Angeles multifamily market is set for further improvements in the year ahead. After a modest decline in property fundamentals during 2020 and into 2021, the market began to rebound and normalize in the second half of the year. Renter demand is expected to accelerate in 2022, fueled by a rapid recovery of the labor market and an expanding California economy. The year ahead is expected to be particularly active for both supply growth and increasing renter demand for units. The result should be a fairly steady vacancy rate over the next several quarters. The submarkets where construction is more concentrated, including Hollywood/Silver Lake and Wilshire/Westlake, may see vacancy inch higher. Rents should increase throughout Los Angeles County in 2022.

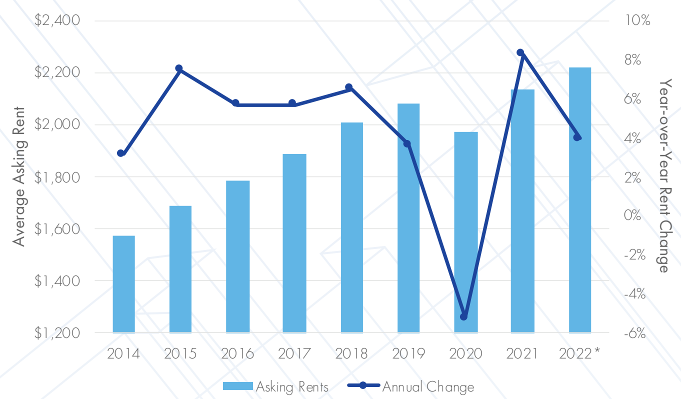
Multifamily investment activity in Los Angeles increased in the last few months of 2021, pointing toward a return to normalcy in the year ahead. As the California economy gained momentum in recent months and net absorption in 2021 reached its highest annual total in the past decade, investors have a reason to be confident in the Los Angeles market in the coming quarters. Sales prices will likely trend higher in 2022, staying in line with an increase in asking rents across the region. With projects totaling nearly 21,000 units currently under construction, there should be even more opportunity for investors as new properties enter the market in the year ahead.

Employment Forecast



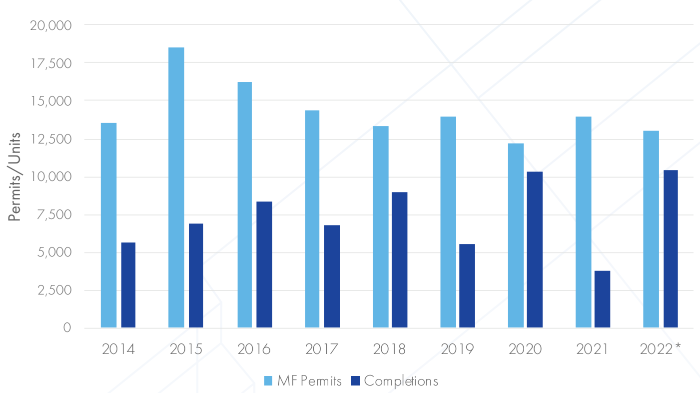
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



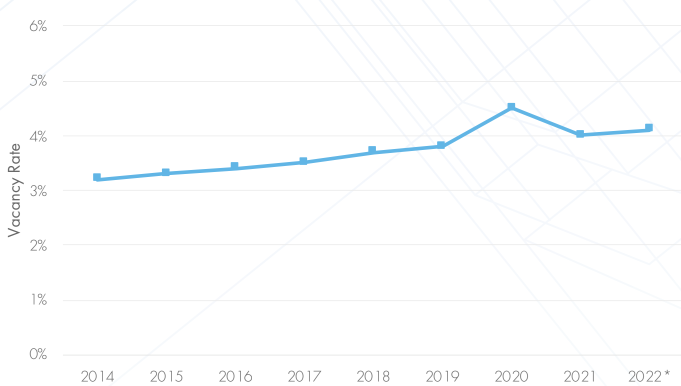
* Year End Forecast
Sources: Northmarq, Reis

Construction & Permitting Forecast



* Year End Forecast
Sources: Northmarq, Census Bureau, Reis

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Reis

Northmarq

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About Northmarq

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