Market Insights

Greater Los Angeles Multifamily 3Q 2022

Northmarq

Construction Activity

21,330

Units under construction

4,094

Units delivered (YTD)

Market Fundamentals

3.5%

Vacancy

-60bps | Year over year change

$2,358

Asking Rent

+11.9% | Year over year change

Transaction Activity

$330,800

Median sales price per unit (YTD)

Vacancy Tightens for Fifth Consecutive Quarter

Highlights

- The Los Angeles multifamily market continued to post a healthy performance during the third quarter. Local vacancy tightened again in the last three months while asking rents throughout the county crept higher at a modest rate.
- Local vacancy continued to inch lower in recent months, dipping 10 basis points during the third quarter to 3.5 percent. Year over year, vacancy is down 60 basis points. Vacancy has declined in each of the last five quarters.
- Following steep increases, the pace of rent growth slowed in the last three months. Asking rents rose less than 1 percent during the third quarter to $2,358 per month. Year over year, rents are up nearly 12 percent.
- While the pace of deals slowed in the third quarter, sales prices remain elevated. The median sales price to this point in the year is $330,800 per unit, up 14 percent from the median price in 2021. Cap rates inched higher in recent months, with most properties trading between 4 percent and 4.5 percent during the third quarter.

Greater Los Angeles Multifamily Market Overview

Multifamily operating conditions remain strong throughout Los Angeles, fueled by an ongoing recovery in the local labor market. Local employers have added back nearly 450,000 jobs since the beginning of 2021, and current employment levels are only 1 percent below early 2020 levels. This rebound in the economy is likely to be sustained in the coming quarters and should continue to support renter demand for apartments. Demand has remained consistently strong throughout economic cycles in Class B and Class C units, where the average vacancy rate has remained below 2 percent throughout 2022, and rents have been spiking at faster paces than the market as a whole. The countywide vacancy rate continued to inch lower during the third quarter, reaching its lowest vacancy figure in four years. New construction has been fairly light, but deliveries will accelerate beginning in the fourth quarter.

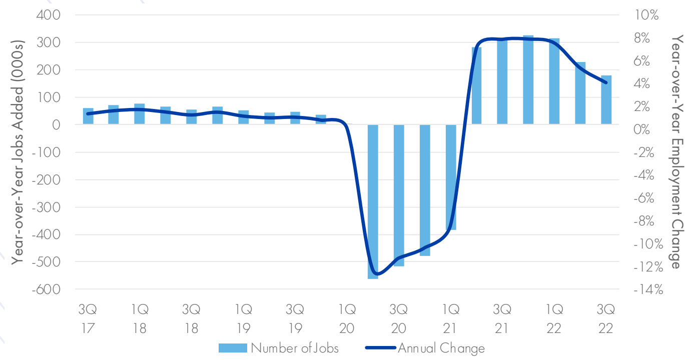
Multifamily investment activity slowed during the third quarter, but investors are still acquiring properties at elevated per-unit prices. While sales velocity in the third quarter lagged levels from the first half of the year, there was sufficient activity for price discovery, and buyers and sellers appeared to narrow the expectations gap as the quarter progressed. During the second half of the quarter, investment activity gained some momentum, and cap rates appeared to settle in between 4 percent and 4.5 percent. While the pace of sales slowed in the third quarter, transaction volume year to date is outpacing the same period in 2021. Deals occurred throughout the county in the last three months with a concentration of activity in central Los Angeles and around the city center.

Employment

- The pace of job growth accelerated in Los Angeles during the third quarter with the addition of more than 45,000 jobs in the last three months. Year over year, total employment expanded by 178,700 positions, advancing 4.1 percent.
- The health care and social assistance sector continues to add jobs at a more rapid pace than the market as a whole. During the past 12 months, this industry expanded payrolls by 31,100 workers and grew by roughly 4.4 percent.
- The leisure and hospitality sector is adding back thousands of jobs after steep losses in 2020. In the last year, the industry added 34,600 jobs, a 7.3 percent expansion. This will be a continued source of growth in the coming quarters; current employment totals in the sector are down about 53,000 jobs—or 10 percent—from the pre-COVID peak.
- **Forecast:** Area employers are projected to continue to add jobs to the local economy in the final months of the year. The labor market in Los Angeles is forecast to advance nearly 3.2 percent in 2022 with an increase of 140,000 jobs. In 2021, the market recovered 325,000 jobs.

> “ Year over year, total employment expanded by 4.1 percent.

Employment Overview



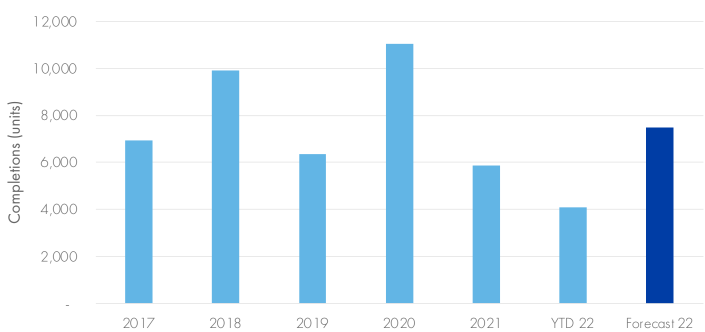
Sources: Northmarq, Bureau of Labor Statistics

Development and Permitting

> “ Year to date, roughly 4,100 multifamily units have been delivered.

- Apartment development activity remains strong across Greater Los Angeles as projects totaling nearly 1,800 units came online during the third quarter. Year to date, roughly 4,100 multifamily units have been delivered.
- Projects totaling 21,330 units are currently under construction throughout the region, a figure that is down just 2 percent from one year earlier. The most active areas for new development include Downtown and Koreatown.
- Permitting activity in the last three months has slowed down after a spike in the second quarter. Multifamily developers pulled permits for nearly 4,050 units during the third quarter, a 12 percent decline from the previous period.
- **Forecast:** The pace of apartment completions is expected to pick up in the final few months of the year. Multifamily developers are projected to complete nearly 7,500 units in 2022, up from fewer than 6,000 units delivered last year.

Development Trends



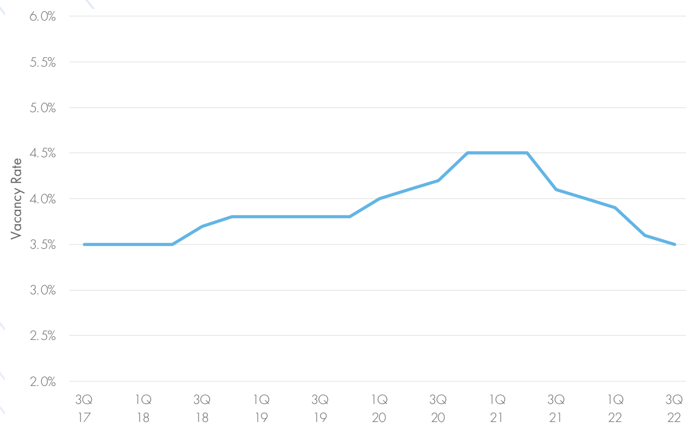
Sources: Northmarq, Reis, CoStar

Vacancy

- Area vacancy inched lower in recent months, marking the fifth consecutive quarter of vacancy decline. The rate dropped 10 basis points in the third quarter to 3.5 percent. Area vacancy has tightened by 100 basis points since the middle of last year.
- During the past 12 months, vacancy in Los Angeles County has improved by 60 basis points. Vacancy rates in West Los Angeles and the San Fernando Valley are low and have been recording significant declines in recent quarters.
- While average vacancy rates in Class B and Class C units have remained below 2 percent in each of the first three quarters of this year, the vacancy rate in Class A properties is elevated. The Class A vacancy rate ended the third quarter at 6.8 percent, 40 basis points higher than one year ago. Class A vacancies have been above 6 percent since mid-2018.
- **Forecast:** The vacancy rate is projected to inch higher at the end of this year as the pace of deliveries accelerates. Vacancy is on pace to end 2022 at 3.7 percent, 20 basis points higher than the current level, but 30 basis points lower than at the end of 2021.

> The vacancy rate dropped 10 basis points in the third quarter.

Vacancy Trends



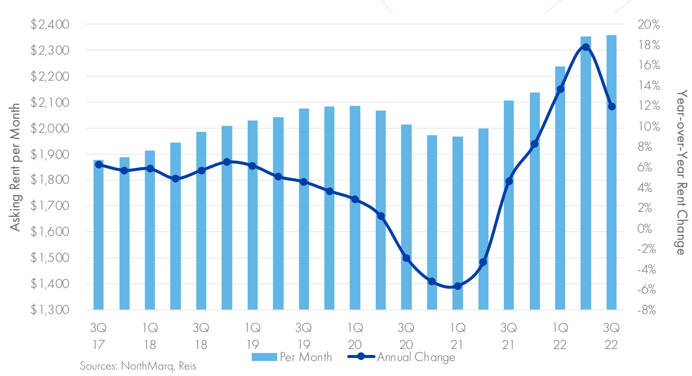
Sources: NorthMarq, Reis

Rents

- Rent growth cooled during the last three months, following record gains in recent quarters. Asking rents inched higher in the third quarter, rising less than 1 percent to $2,358 per month.
- Year over year, apartment rents jumped nearly 12 percent. While asking rents spiked in many neighborhoods throughout Los Angeles, some of the strongest gains occurred in submarkets that record rents below the metro average. Asking rents in the Mid-City/West Adams/Pico Heights submarket spiked 15.7 percent in the past year to $1,683 per month.
- With vacancies tight and housing options limited, Class B and Class C properties continue to post significant rent growth throughout Greater Los Angeles. Combined asking rents in mid-tier and lower-tier units rose 15 percent in the last 12 months to $1,992 per month.
- **Forecast:** Average rents are forecast to inch higher in the coming months, building on rapid gains through the first half of the year. Asking rents are projected to rise 11 percent in 2022 to $2,370 per month.

> Year over year, apartment rents jumped nearly 12 percent.

Rent Trends



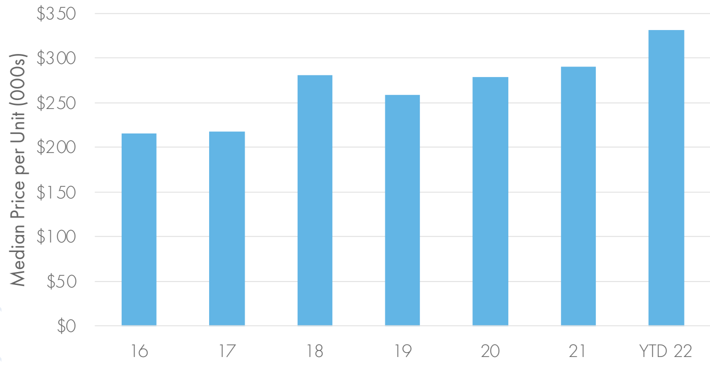
Sources: NorthMarq, Reis

Multifamily Sales

- Multifamily sales activity continued to slow during the third quarter as the number of closed deals declined 27 percent from the previous period. Despite the recent cooling, transaction volume year to date has increased nearly 20 percent from the same period in 2021.
- The median sales price through the third quarter remains well above last year's figure. The median price in transactions to this point in the year is roughly $330,800 per unit, up 14 percent from the 2021 figure.
- Cap rates inched higher during the third quarter. After starting the year at around 3.8 percent, most properties changed hands with cap rates between 4 percent and 4.5 percent during the third quarter.

> "The median price is up 14 percent from the 2021 figure.

Investment Trends



Sources: NorthMarq, CoStar

Recent Transactions

Multifamily Sales Activity

Property Name	Street Address	Units	Sales Price	Price/Unit
Baldwin Village	4220 Santa Rosalia Dr. and 4318 Santo Tomas Dr., Los Angeles	669	$220,000,000	$328,849
Haven Del Mar Station	265-275 S Arroyo Pky., Pasadena	347	$172,300,000	$496,542
The Lexington	30856 Agoura Rd., Agoura Hills	178	$87,300,000	$490,449
Iris Gardens	341-385 N Rockvale Ave., Azusa	119	$31,300,000	$263,025
South Pointe Apartments	1408-1430 N Citrus Ave., Covina	130	$25,566,500	$196,665

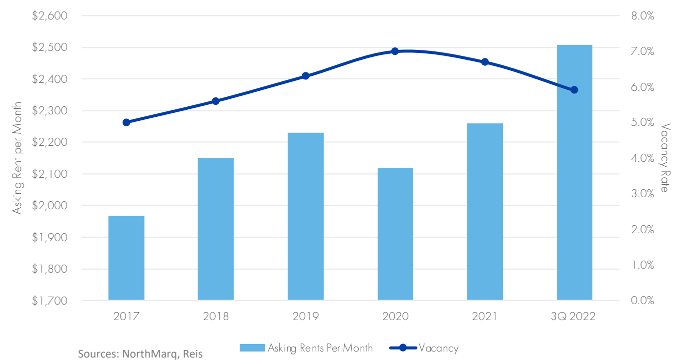
Downtown

Construction/Vacancy/Rents

- Multifamily developers remained active throughout the Downtown area as more than 500 apartment units were delivered during the third quarter. Year to date, roughly 1,575 multifamily units have come online. Projects totaling nearly 10,500 units are currently under construction Downtown, reflecting the healthy development activity throughout the region.
- After falling to a four-year low in the previous period, area vacancy ticked higher in recent months. During the third quarter, the vacancy rate in the Downtown submarkets rose 40 basis points to 5.9 percent. Despite the recent increase, the rate is down 100 basis points from one year ago.
- Asking rents continued to trend higher in the last three months but at a more modest pace than in recent quarters. During the third quarter, average rents in the Downtown area rose 1 percent to $2,507 per month; year over year, rents have spiked 12.6 percent higher.
- **Forecast:** Projects totaling approximately 2,400 units are slated to come online in 2022, and vacancies in Downtown are forecast to close the year at 6 percent. This year will be a particularly strong one for rent growth; asking rents are on pace to rise nearly 12 percent this year, reaching approximately $2,530 per month.

> Projects totaling nearly 10,500 units are under construction Downtown.

Vacancy and Rent Trends



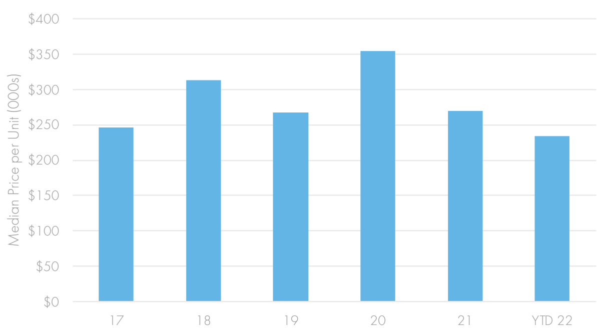
Sources: NorthMarq, Reis

Multifamily Sales

- Multifamily sales activity slowed significantly during the third quarter. The number of properties that traded declined 65 percent from the second quarter. While activity levels dropped in recent months, transaction volume year to date is down only 10 percent from the same period last year.
- As fewer properties are changing hands, sales prices have come down from the last few years. The median sales price to this point in 2022 is nearly $234,100 per unit, down 13 percent from the median price in 2021.
- While interest rates have trended higher, cap rates have held fairly steady to this point in the cycle. Most properties that sold in the third quarter had cap rates between 3.5 percent and 4.5 percent.

> The median sales price in 2022 is nearly $234,100 per unit.

Sales Trends



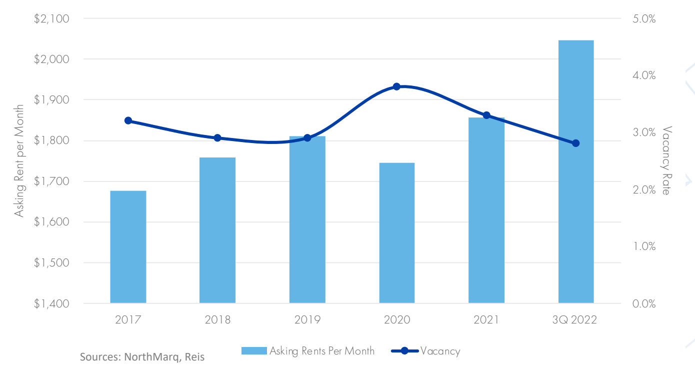
San Fernando Valley

Construction/Vacancy/Rents

- After no significant projects came online in the first half of the year, construction activity picked up during the third quarter as more than 430 multifamily units were delivered. Additional development is likely; projects totaling 2,230 units are currently under construction throughout the San Fernando Valley.
- Local vacancy continued to creep lower during the third quarter, dropping 30 basis points in the last three months to 2.8 percent. The current vacancy rate is at its lowest figure since the start of 2019. Year over year, vacancy in the San Fernando Valley declined 70 basis points.
- Area apartment rents were mostly stable in recent months, following robust increases in the first half of the year. Local asking rents finished the third quarter at $2,047 per month, nearly identical to the figure from the previous period. Year over year, average rents in the San Fernando Valley climbed 11.5 percent.
- **Forecast:** Multifamily developers are projected to complete projects totaling more than 1,200 units in 2022. With construction activity on the rise, local vacancy will likely inch higher, reaching 3 percent during the fourth quarter. Area asking rents are expected to post an 11 percent spike in 2022, rising to $2,060 per month.

> The current vacancy rate is at its lowest figure since 2019.

Vacancy and Rent Trends



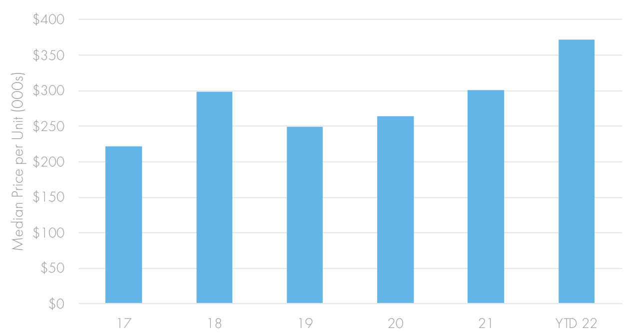
Sources: NorthMarq, Reis

Multifamily Sales

- Multifamily transaction activity increased slightly during the third quarter but trailed the number of deals from the start of the year. Sales volume in the last three months rose about 15 percent from the previous period. Year to date, the number of properties that changed hands is down 8 percent from the same period in 2021.
- Sales prices have trended higher in 2022. The median price year to date reached nearly $372,200 per unit, up 24 percent from last year's figure. Transaction activity through the third quarter was most concentrated on the western side of town in Canoga Park and Woodland Hills.
- Cap rates trended higher in the most recent three-month period after compressing in the previous quarter. Cap rates averaged around 4.2 percent during the third quarter.

> The median price year to date reached nearly $372,200 per unit.

Sales Trends



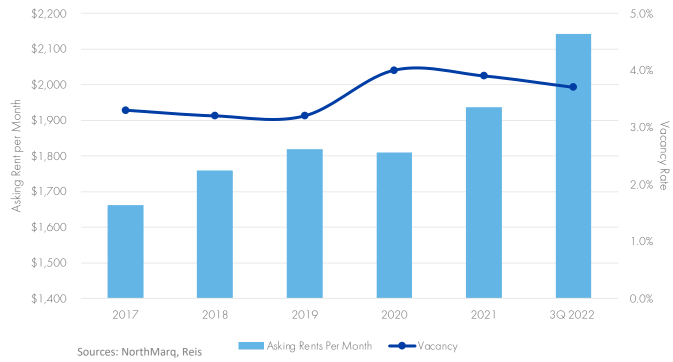
South Bay

Construction/Vacancy/Rents

- Apartment developers delivered nearly 170 units during the third quarter and have completed approximately 420 multifamily units in the South Bay year to date. The pace of construction is gaining momentum, with projects totaling roughly 2,150 units currently under construction throughout the South Bay, with a concentration of development activity in Downtown Long Beach.
- Absorption levels in the South Bay closely tracked the pace of deliveries in the last three months, keeping the vacancy rate steady. Local vacancy remained at 3.7 percent in the third quarter and has inched up 10 basis points in the past year.
- Following strong rent increases in recent periods, the pace of growth leveled off during the third quarter. Asking rents finished the period at $2,142 per month, up only $1 per month from the second quarter. Despite little growth in recent months, average rents are up 12 percent year over year.
- **Forecast:** Apartment projects totaling nearly 650 units are scheduled to come online in 2022, and the vacancy rate in the South Bay is projected to end the year at 3.8 percent. Asking rents will likely inch higher in the fourth quarter, reaching more than $2,150 per month by the end of 2022, an annual gain of 11 percent.

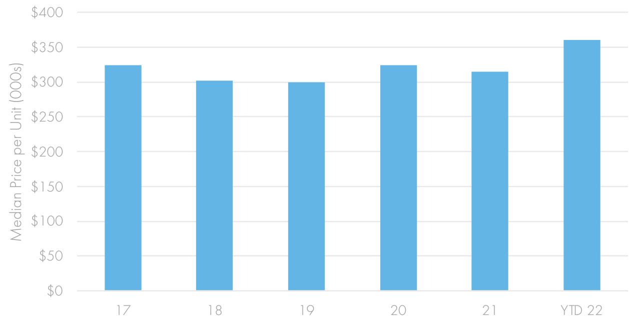
> Average rents are up 12 percent year over year.

Vacancy and Rent Trends



> The median sales price in the third quarter was $360,900 per unit.

Sales Trends



Multifamily Sales

- After a strong first half of the year for sales activity, the multifamily investment market was quiet during the third quarter with only a few properties changing hands. Despite the recent slowdown, transaction volume to this point in the year is up more than 50 percent from the same period in 2021.
- The median sales price through the third quarter was $360,900 per unit, a 15 percent increase from the median price in 2021. While properties traded throughout the South Bay, more than one-third of the transactions to this point in the year have occurred in the Downtown Long Beach submarket.
- Cap rates typically maintain a fairly tight range in the South Bay with most properties selling with cap rates between 3.25 and 3.75 percent. While interest rates have trended higher, cap rates have not yet recorded a corresponding increase.

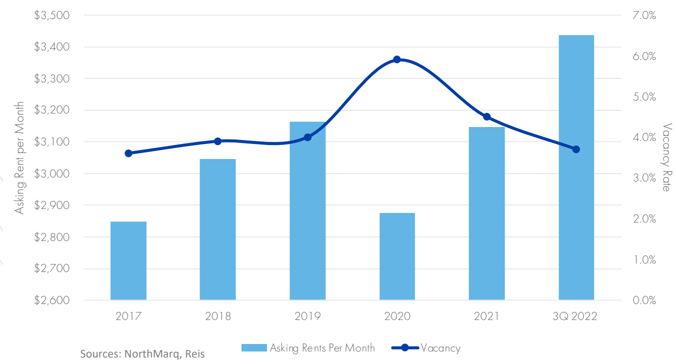
West Los Angeles

Construction/Vacancy/Rents

- No significant projects were delivered during the third quarter, after roughly 640 units were delivered in the first half of the year. Projects totaling approximately 1,160 units are currently under construction throughout West Los Angeles.
- With supply growth limited, local vacancy has ticked lower in recent quarters. The vacancy rate dropped 20 basis points during the third quarter to 3.7 percent. Year over year, the rate improved by 110 basis points.
- Apartment rent growth cooled in West Los Angeles in the last three months, following pronounced growth in recent periods. Area rents finished the third quarter at $3,437 per month, nearly matching last quarter's figure. Year over year, asking rents are up 10.5 percent.
- **Forecast:** No significant projects are slated to be delivered in the final months of 2022, keeping the annual delivery total at approximately 640 units. Area vacancy will likely hold steady, finishing the year at 3.7 percent. Local apartment rents are projected to rise roughly 11 percent in 2022, reaching $3,460 per month by year end.

The vacancy rate dropped 20 basis points during the third quarter.

Vacancy and Rent Trends



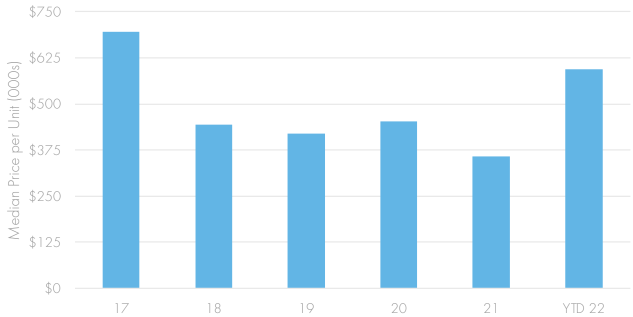
Sources: NorthMarq, Reis

Multifamily Sales

- Typically, only a handful of properties trade in West Los Angeles in a given year. While no significant properties changed hands during the third quarter, transaction volume year to date is closely tracking last year's pace.
- Sales prices have remained elevated in the few transactions that have closed to this point in the year. The median sales price thus far in 2022 is $593,500 per unit. This would mark the region's highest median price since 2017.
- Multifamily transactions in West Los Angeles typically record some of the lowest cap rates in the region. Cap rates are averaging in the low 3-percent range to this point in the year.

The median sales price thus far in 2022 is $593,500 per unit.

Sales Trends

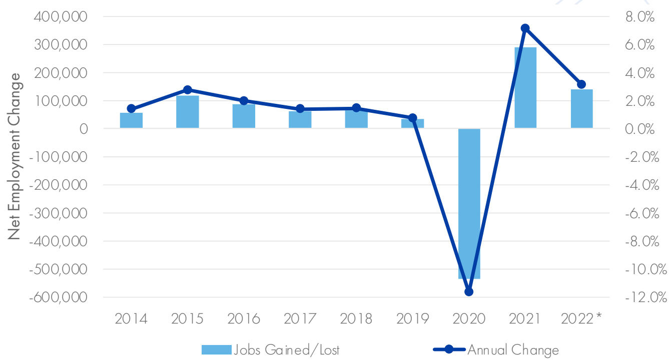


Looking Ahead

After rapid growth at the end of 2021 and during the first half of this year, apartment rents in Los Angeles only inched higher in the third quarter. In the next 12 to 18 months, the pace of rent growth will likely level off and return closer to historical annual averages between 3.5 percent and 5.5 percent. There are several factors that will support this steadier pace of expansion, led by vacancy conditions that are forecast to remain tight through the remainder of this year and into 2023. While many smaller markets have development pipelines bulging with dozens of new projects, natural impediments to new construction throughout Greater Los Angeles will limit any significant supply-side pressures over both the near-term and long-term.

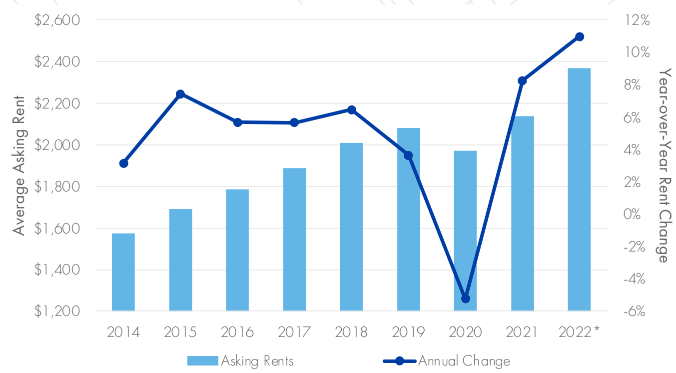
The Los Angeles multifamily investment market will likely record modest improvements in the final months of 2022. After gaining momentum in the final few weeks of the third quarter, sales activity will likely continue at a healthy pace to close the year. While there is generally consistent demand for smaller, older assets in Los Angeles, the first few weeks of the fourth quarter included a handful of large deals of $200 million or more. This occurred as investors seek to allocate capital into supply-constrained markets as a defensive measure if overall economic growth slows. Cap rates appear to have settled into the low- to mid-4 percent range and are not expected to rise significantly, since the bulk of the interest rate increases have likely already occurred.

Employment Forecast



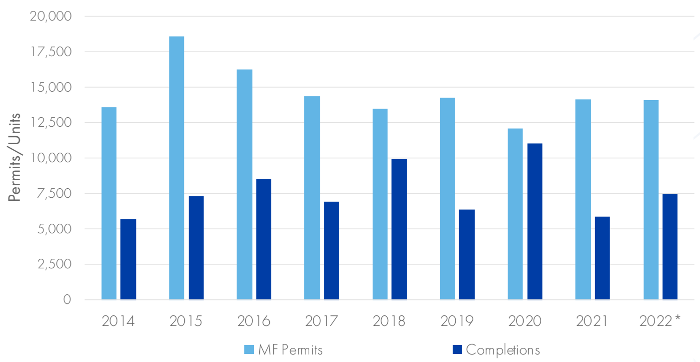
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



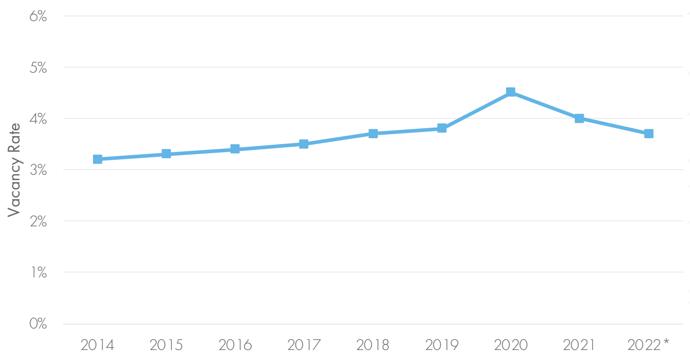
* Year End Forecast
Sources: Northmarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Reis

Northmarq

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