INVESTMENT FORECAST

Multifamily

Los Angeles

IPA INSTITUTIONAL PROPERTY ADVISORS

2022

Lowest Vacancy in Two Decades; Pipeline Moderation Propels Institutional Activity

Robust leasing velocity widespread for a second consecutive year. Los Angeles County renters absorbed more than 30,000 units last year, slashing apartment vacancy to a 20-year low. Conditions that supported stout multifamily demand will extend through 2022, further compressing unit availability. Organizations are expected to push the metro's total job count to a tally slightly below the pre-pandemic mark this year, supporting the formation of more than 30,000 new households. For many of these residents, dwelling options will be limited as the county's median home price surpasses $800,000. Suburban submarkets, neighborhoods south of Downtown Los Angeles and Silicon Beach should all benefit as more households seek areas of regionally lower rent or proximity to tech hubs. Additionally, demand for rentals in the San Fernando Valley, South Bay and Westside Cities will coincide with a moderation in each region's construction pipeline. Year-over-year declines in delivery volumes will direct more renters to existing properties, enabling regional vacancies to hold at historically low levels.

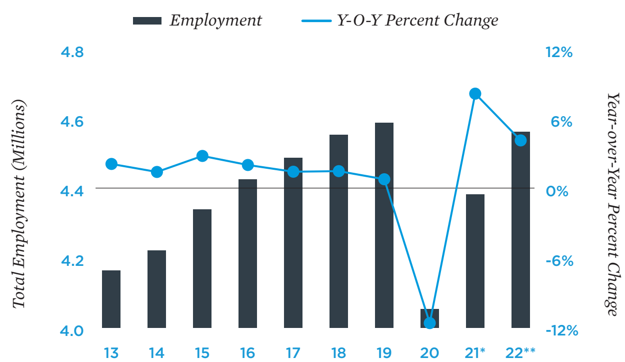
Historically strong luxury fundamentals broaden upper-tier buyer pool. Los Angeles County enters this year with its lowest Class A vacancy rate since 2005. This is heightening institutional competition for luxury listings at a time when cap rates for these assets hover in the 3 percent range. The significant increase in suburban absorption during the second half of last year is generating institutional demand for larger, high-quality properties in the San Fernando Valley. Here, Class A vacancy is below 3 percent for the first time since 2000. Additionally, the region is recording a pace of luxury rent growth that notably exceeds its historical average. Together, these factors are garnering the attention of both California and out-of-state investors willing to deploy more than $500,000 per unit. Similar commentary can be applied to the Westside Cities market, where the in-office returns of major tech companies are poised to sustain strong renter demand for upper-tier apartments. Further enhancing the appeal of relatively newer assets in this area, pre-1980-built properties in Santa Monica, West Hollywood and Los Angeles are subject to rent control. Similar restrictions exist in Beverly Hills and Culver City, only these mandates apply to properties built prior to 1995. For institutions with construction experience, smaller Class C properties positioned for teardown and redevelopment could represent another attractive investment strategy.

23.1% *2021 share of local population between 20 and 34 years old*

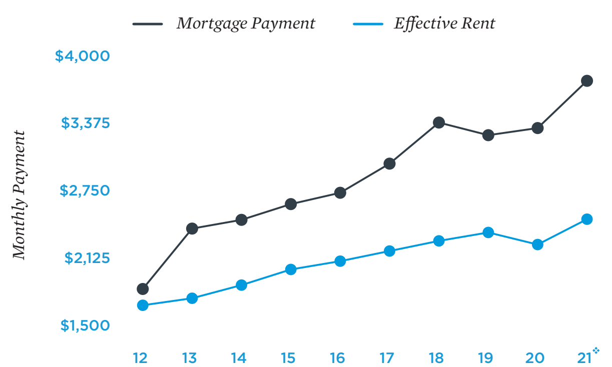
29.7% *of local population hold bachelor's degree or higher*✣

$778,900 *2021 median home price*

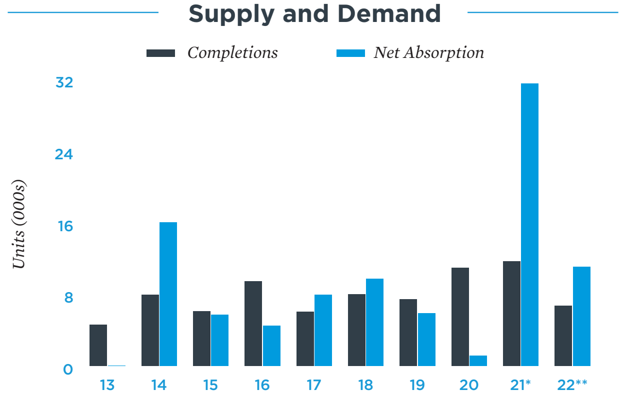
Employment Trends



Housing Affordability Gap



Supply and Demand



* Estimate ** Forecast ✣ Through 3Q

✣2021: 25+ years old

Sources: Marcus & Millichap Research Services; BLS; Freddie Mac; National Association of Realtors; RealPage, Inc.

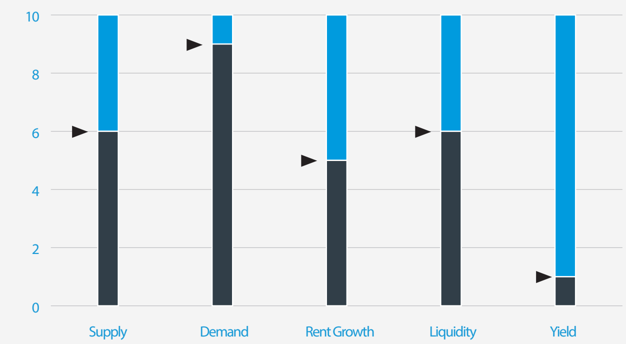
2022 Investment Outlook

The development pipeline is notably smaller than it has been in recent years, resulting in a relatively high supply score of 6 in 2022. At the same time, jobs are being recovered after the pandemic disruption, which is fueling demand for apartment units and lifting that segment of the Index.

Los Angeles has one of the lowest average cap rates in the nation, and as a result scores a 1 on the yield section of the Key Performance Index. Assets remain desirable to an array of investors despite modest first-year returns, keeping liquidity strong.

Note: The Key Performance Index provides a metro-level relational benchmark scaled from 1-10 for five key metrics.

Key Performance Index



2022 Market Forecast

Employment
180,000 jobs
Metro **4.1%**
U.S. **2.5%**

Construction
as % of inventory[v]
Metro **0.6%**
U.S. **2.2%**

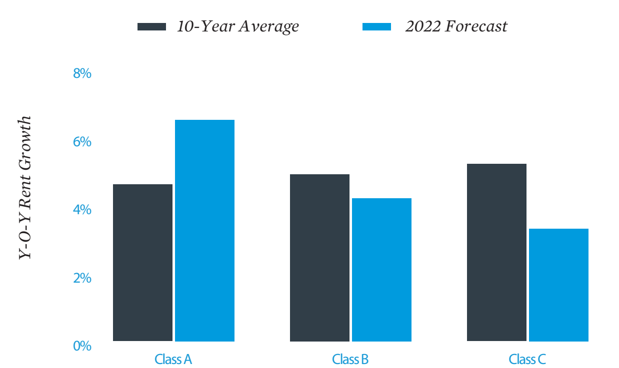
Class A Vacancy
Down 40 bps
Metro **3.0%**
U.S. **3.6%**

Class A Rent
$3,509 per month
Metro **6.5%**
U.S. **7.5%**

Investment
3-yr. avg. activity $20+ million
Deals: **48**
Volume: **$3.2 Billion**

Vacancy By Class

Rent Growth By Class



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** Estimate ** Forecast*
[v] Arrow reflects completions trend compared with 2021
Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; RealPage, Inc.; Real Capital Analytics