MARKET REPORT

Multifamily

Los Angeles Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

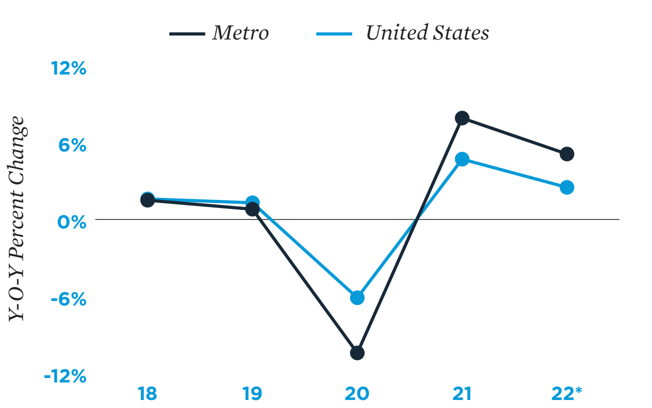
2Q/22

Economic Recovery and Dispersal of New Units a Boon for Metro's Largest Regions

Vacancy historically low in downtown and Silicon Beach. Apartment demand in two of Los Angeles County's largest employment hubs is strong, prior to the full-scale return of professionals to in-office operations, suggesting further improvement in rental performance may be on the horizon. Over the past year ending in March, Greater Downtown Los Angeles and the Westside Cities region each noted vacancy compression of at least 350 basis points, reductions that placed local availability below 3 percent. Sparse vacancy warrants supply additions; however, Greater Downtown will record a decline in completions this year, with Santa Monica the only Westside locale to add more than 500 units. Moderate completion volumes in both regions, coupled with higher-paying job growth, will ensure new units are well received and tight conditions preserved this year.

Suburban appeal reaches record level. Double-digit rent growth and out-of-reach home prices are steering more households to areas with inventories of lower cost apartments that provide residents with quick access to employment hubs. Complexes in the San Fernando Valley and South Bay-Long Beach areas are benefiting. As of April, vacancy in the two locales sat at 1.8 percent and 2.0 percent, respectively. Responding to limited availability, developers will complete roughly 3,400 units across the two regions this year; however, Inglewood is the only city slated to add more than 500 apartments.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2022 Outlook

225,000 JOBS
will be created

EMPLOYMENT:

Diverse job creation in 2022 translates to employment growth of 5.1 percent, a rate more than double the national pace of increase. Los Angeles County's year-end headcount is expected to surpass its pre-pandemic peak by nearly 1.0 percent.

10,100 UNITS
will be completed

CONSTRUCTION:

For a third consecutive year, developers finalize more than 10,000 apartments, raising the county's rental inventory by 0.9 percent. Approximately 40 percent of this year's supply additions are spread among projects in the city of Los Angeles.

40 BASIS POINT
decrease in vacancy

VACANCY:

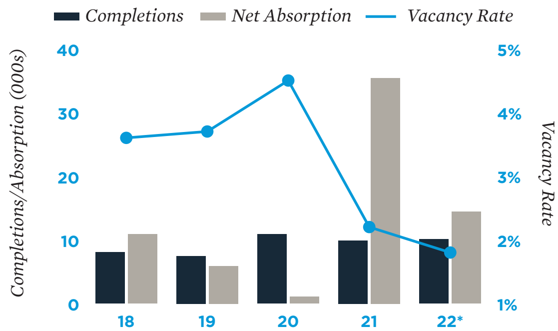
Following last year's 230-basis-point decline, Los Angeles County registers another year of robust apartment demand, as renters absorb more than 14,000 units. This activity compresses vacancy to 1.8 percent, a record-low mark for the metro.

7.4% INCREASE
in effective rent

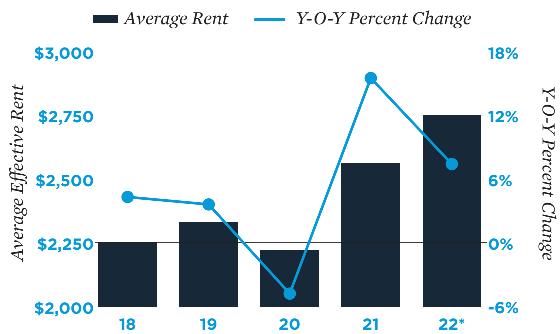
RENT:

Limited vacancy across submarkets positions renter demand to exceed supply additions during 2022. This supports a second straight year of historically strong rent growth that elevates the county's average effective rate to $2,753 per month.

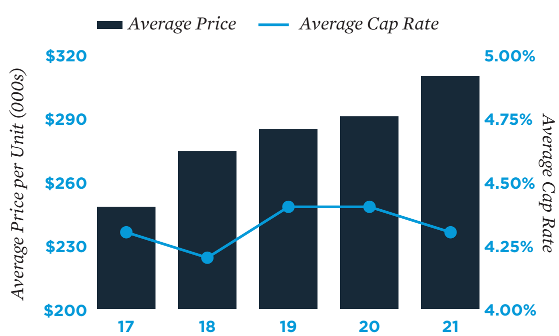
Supply and Demand



Rent Trends



Sales Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

1Q 2022 - 12-Month Period

CONSTRUCTION

10,018 units completed

- Developers expanded the metro's apartment stock by 0.9 percent over the past year ending in March. Projects in Greater Downtown Los Angeles accounted for more than 30 percent of recent supply additions.
- After finalizing more than 22,000 rentals over the last eight quarters, builders report ongoing construction totaling some 16,500 units.

VACANCY

270 basis point decrease in vacancy Y-O-Y

- Renters absorbed nearly 40,100 units during the past four quarters, reducing vacancy to 2.0 percent. Compression was widespread, with unit availability slashed by at least 150 basis points in 18 of 20 submarkets.
- During the last 12 months, Class A vacancy fell 340 basis points to 2.7 percent, the most pronounced compression among rental sectors.

RENT

17.3% increase in the average effective rent Y-O-Y

- Tightening conditions supported sizable rent gains across all submarkets, lifting the average effective rate to $2,629 per month.
- Class B vacancy fell to a 20-year low during the past 12 months, coinciding with a 17.1 percent increase in rent. Entering April, the gap between average mid-tier and Class C rent was $575 per month.

Investment Highlights

- Confident in Los Angeles' long-term apartment fundamentals, investors were increasingly active during 2021, translating to a 25 percent boost in annual deal flow. Heightened competition for available listings and strong rent growth throughout submarkets pushed the metro's average price point up 7 percent to $310,000 per unit. Still, the mean cap rate held in the low-4 percent range for a sixth straight year.
- Record-low Class C vacancy is attracting buyers to the asset class, with many pursuing complexes in Long Beach, Southeast Los Angeles and other areas where lower-tier rent averages below $2,000 per month. Investors seeking 5 percent-plus yields target Koreatown and Greater Inglewood, where per-unit prices below $250,000 are frequent.
- Class B/C closings accounted for the lion's share of recent sales; however, Class A trading doubled last year, highlighted by transactions involving newer built properties in the San Fernando Valley region.
- A competitive bidding environment for post-1980-built assets is emerging in Los Angeles, Santa Monica and West Hollywood, as complexes of this vintage are not subject to local rent control restrictions.

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Price: $250