MARKET REPORT

Multifamily

Los Angeles Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

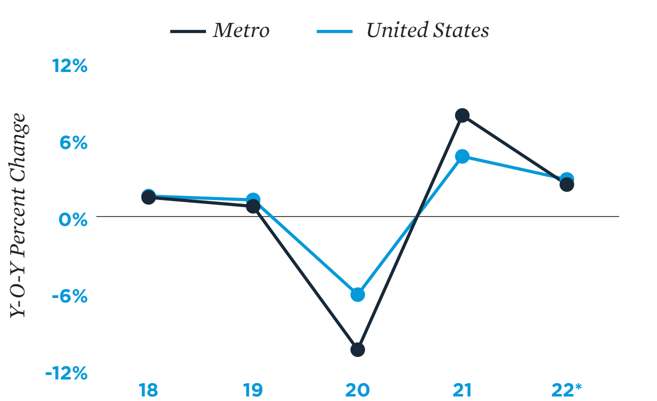
3Q/22

Demand at Both Ends of the Cost Spectrum Supported by Divergent Renter Preferences

Office returns reboot demand in tech hub. Firms returning to some form of in-person operations has lifted multifamily leasing in the metro's most expensive locale. Since reaching 6.5 percent in the first quarter of 2021, vacancy in Westside Cities has fallen 340 basis points, with renters absorbing 6,400 units during the 15-month period ended in June 2022. This activity coincided with traditional office-using companies absorbing 1.7 million square feet of space. Together, this data indicates more professionals are leasing units proximate to their place of employment, despite many working hybrid schedules. Looking ahead, the interplay between rental demand and office usage suggests positive multifamily absorption may continue if tech firms bolster staffs and require more in-office workdays.

Conditions unlikely to shift in lower-cost areas. Vacancy is tight in all locales, with an average rent at least $450 per month below the metro's mean effective rate. The two submarkets that comprise the San Gabriel Valley boasted a mere 740 available units in June, translating to a collective vacancy of 1.8 percent. The area's limited construction pipeline and high proportion of lower-tier rentals suggest tight conditions will be preserved, especially as more households attempt to reduce their living expenses. The same can be said of Southeast, South and East Los Angeles, locales of mid-1 percent vacancy. Across these neighborhoods, the City of Los Angeles' Eviction Moratorium applies to low-income residents through the remainder of 2022, thwarting the possibility of notable availability increases.

Employment Trends



* Forecast

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

Multifamily 2022 Outlook

110,000 JOBS
will be created

EMPLOYMENT:

Organizations added 43,500 positions in the first two months of 2022 and an additional 25,500 roles in the subsequent four months. Still, Los Angeles will have to wait until at least 2023 to secure a full employment recovery.

11,300 UNITS
will be completed

CONSTRUCTION:

For the second time in the past three years, more than 10,000 units are finalized — the largest volume among West Coast markets. Projects slated for second half delivery comprise an average of 120 rentals apiece.

160 BASIS POINT
increase in vacancy

VACANCY:

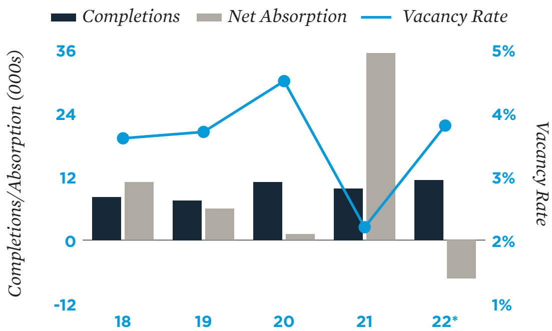
An influx of near-term completions plays a significant role in vacancy rising to 3.8 percent by year-end. This rate is the highest mark in the past five years. However, it is also 20 basis points below the long-term mean.

7.7% INCREASE
in effective rent

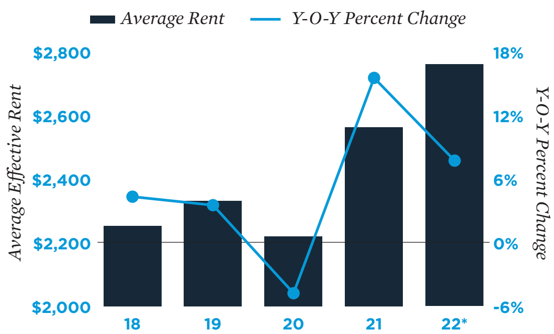
RENT:

The average rent rose by 5.2 percent in the first six months of 2022. Impacted by a rise in concession usage, the pace of growth will moderate in the second half, placing the mean effective rate at $2,760 per month by year-end.

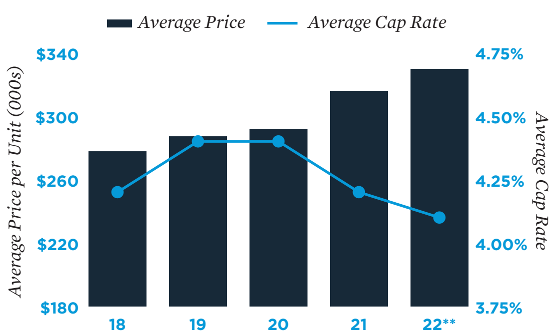
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

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

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Price: $250

2Q 2022 - 12-Month Period

CONSTRUCTION

9,405 units completed

- Supply additions in Greater Downtown Los Angeles accounted for 40 percent of countywide completions over the yearlong interval ended in June.
- Greater Downtown Los Angeles remains the epicenter of local development, as more than 15,400 rentals were underway at the onset of July. These apartments account for half of the metro's active pipeline.

VACANCY

150 basis point decrease in vacancy Y-O-Y

- Availability compressed by triple-digit basis points in 11 of 17 submarkets and across all property classes during the recent 12-month span, lowering metro vacancy to 2.6 percent in June.
- Renters absorbed 9,350 units in Greater Downtown Los Angeles over the last four quarters, reducing local availability to 3.2 percent.

RENT

17.0% increase in the average effective rent Y-O-Y

- The average effective rent rose by nearly $400 over the past year, climbing to a mean of $2,695 per month. Submarkets with rates below $2,000 per month include Antelope Valley and East and South Los Angeles.
- Coinciding with a 220-basis-point drop in vacancy, Greater Downtown Los Angeles' average monthly rent rose 20.5 percent to $2,856.

Investment Highlights

- Transactions in Los Angeles County accounted for more than one-fourth of all sales recorded across primary U.S. markets during the 12-month period ended in June, as local deal flow rose by 16 percent. Institutions are a major player in the Los Angeles investment market, with trading of assets priced at $20 million or above doubling relative to the the prior yearlong span.
- The rise in deal flow, and ultimately buyer competition for Los Angeles multifamily assets, pushed the average sale price up to $329,800 per unit. This measure is about 9 percent higher than the recording in the prior yearlong period ended in June 2021. Meanwhile, the mean cap rate fell 10 basis points to 4.1 percent, but upper- and mid-tier properties typically trade with returns significantly below that mark, especially in the urbanized and coastal portions of Los Angeles County.
- A high volume of Class B trades involve sub-20-unit complexes, with these properties trading at a low-4 percent average rate of return. Institutions pursuing these smaller-scale mid-tier apartment communities, to bolster and diversify their Los Angeles portfolios, are most active in San Fernando Valley cities, including Glendale and North Hollywood. Mean pricing for these type of assets is near $400,000 per door in these areas.