MARKET REPORT

Multifamily

Los Angeles Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

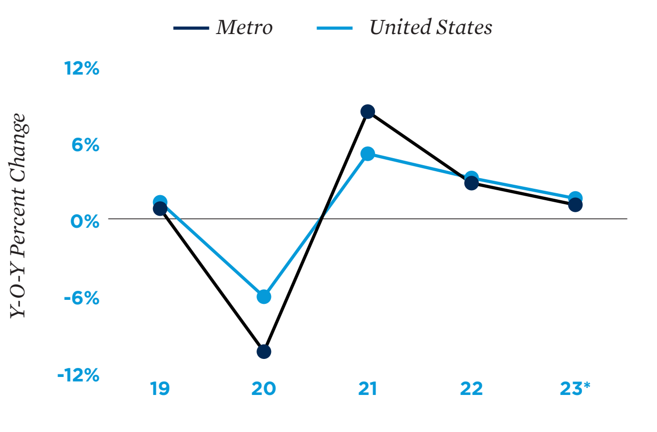
3Q/23

Rental Activity in Los Angeles' Two Largest Zones Has Positive Implications for Fundamentals

CBD supply additions slated to slow. Following three consecutive quarters of negative net absorption, apartment demand in Greater Downtown Los Angeles is exhibiting signs of improvement. During the first half of 2023, renters absorbed a net of 600 units here, an area that accounts for one-fourth of the metro's rental stock and comprises the Downtown Los Angeles, Mid-Wilshire and Hollywood submarkets. A potential pullback in deliveries over the near-term has the ability to steer more renters to existing available units, which could have a positive impact on local vacancy. Entering the second half, a combined 1,750 apartments were underway across the three submarkets, with active projects averaging just 60 units in scope. This pipeline contrasts the more than 4,000 units that were completed over the past 12 months ending in June.

Lower cost suburban rentals remain in high demand. Among Los Angeles' four largest multifamily zones, Greater San Fernando Valley registered the least fluctuation in demand over the past year ending in June. Here, vacancy is 90 to 130 basis points below that of Greater Downtown Los Angeles, Westside Cities and South Bay-Long Beach. An average rent that is $250 to $1,000 per month lower than these aforementioned areas is largely to credit, as is the performance of Van Nuys-Northeast San Fernando Valley. Apart from New York City neighborhoods, the area is home to the lowest vacancy among U.S. submarkets with at least 40,000 units of inventory.

Employment Trends



* Forecast

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

Multifamily 2023 Outlook

50,000 JOBS
will be created

EMPLOYMENT:

Los Angeles' job count reached a new all-time high in April of this year and has since continued to ascend. Led by health services-related hiring, the metro is expected to notch a 1.1 percent annual rate of employment growth across the duration of 2023.

10,300 UNITS
will be completed

CONSTRUCTION:

For the 18th time in the past 20 years, rental inventory expands by less than 1 percent. Still, Los Angeles' annual delivery volume on a total-unit basis is the largest count among major West Coast markets.

110 BASIS POINT
increase in vacancy

VACANCY:

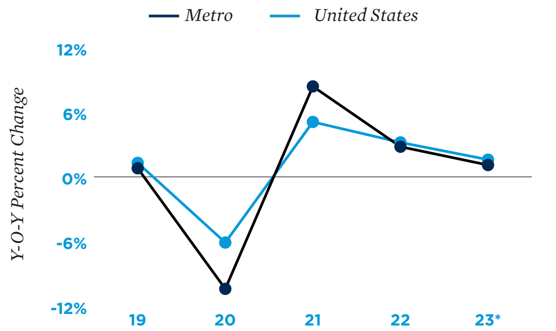
After rising by 60 basis points in the first six months of 2023, the pace of vacancy increase moderates slightly during the second half. This places the year-end rate at 5.0 percent, which is 70 basis points below the U.S. mark.

1.2% INCREASE
in effective rent

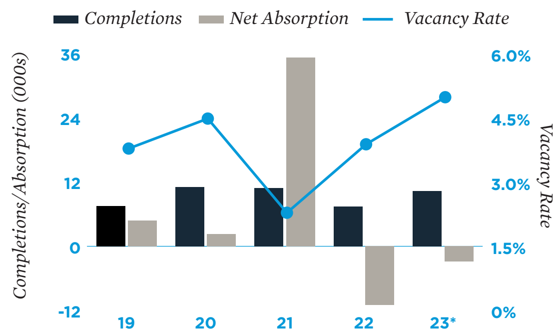
RENT:

Los Angeles notches a third straight year of rent growth, albeit modest. At $2,820 per month, the metro ranks as the nation's sixth most expensive apartment market. Two years ago, it ranked fourth. This change may enable more locals to remain in the area.

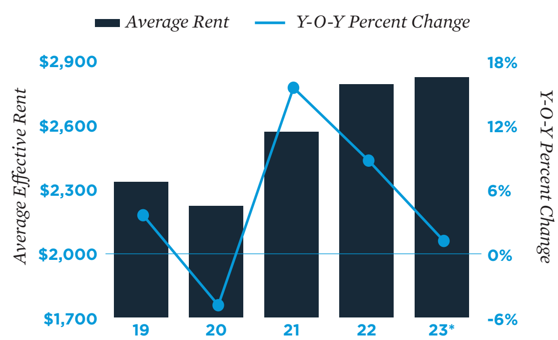
Employment Trends



Supply and Demand



Rent Trends



** Forecast ** Through 2Q*

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

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2Q 2023 - 12-Month Period

CONSTRUCTION

9,175 units completed

- Developers added nearly 3,000 units countywide from April through June of this year, the highest quarterly total since late 2021.
- Over the past six quarters, a combined 12,700 apartments were completed. As of August, the active pipeline slightly exceeded this total, with approximately 45 percent of the units underway located in Los Angeles proper.

VACANCY

180 basis point increase in vacancy Y-O-Y

- Los Angeles' vacant stock expanded by more than 20,000 units during the past four quarters, placing the metro's rate at 4.5 percent in June.
- Eight of 20 submarkets noted vacancy spikes larger than 200 basis points over the past year. Still, just two areas entered July with rates above 5 percent — Brentwood-Westwood-Beverly Hills and Downtown Los Angeles.

RENT

3.9% increase in the average effective rent Y-O-Y

- Rent growth was widespread over the past 12 months, with 19 areas noting gains. This lifted the metro's average effective rate to $2,803 per month.
- Class A and Class B rent each rose by 4.5 percent over the past year, while the Class C rate elevated by 12.6 percent. Entering the second half, the gap between mean luxury and mid-tier rent was a record $880 per month.

Investment Highlights

- Deal flow across the metro during the 12-month period ending in June fell by a slightly smaller margin than in adjacent metros. Still, a 45 percent decline was noted year-over-year. Decreases, however, were not equal across price tranches, as trading in the $10 to $20 million band slowed by just 20 percent, with deals above the $10 million threshold accounting for 11 percent of total trading versus 9 percent in the prior yearlong stretch.
- The enaction of Measure ULA, which placed new taxes on all real estate transactions in Los Angeles proper above $5 million, is adversely impacting deal flow. From April through July of this year, transactions exceeding this threshold accounted for less than 5 percent of total sales across the city. During the prior four-month interval, closings above $5 million represented roughly one-third of all trades. Investors looking to avoid the new taxation appear to be targeting properties in South Bay and San Gabriel cities with locally lower rents and minimal construction pipelines.
- Class A properties built within the past 10 years traded for an average of roughly $530,000 per unit over the past four quarters, with cap rates falling in the 4 percent range.