

MARKET REPORT

MULTIFAMILY

Los Angeles Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

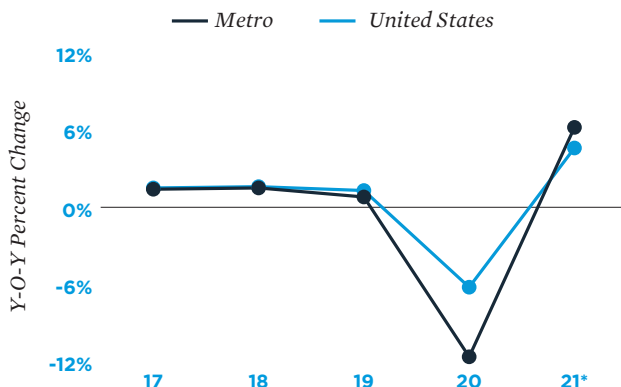
3Q/21

Job Creation Lifts Rental Demand; Los Angeles Fundamentals Returning to Pre-Pandemic Levels

Leasing activity elevates to 15-year high. After the initial months of the health crisis, Los Angeles County has consistently registered positive renter demand. Fueled by the addition of 89,000 jobs during the second quarter, nearly 9,700 units were absorbed, highlighting recent performance. The diverse job creation that occurred from April through June improved property vacancy across all apartment tiers with each rental segment recording compression. These declines lowered overall vacancy to 4 percent and boosted the average rent by roughly 3 percent. With the county adding 37,800 households over the past year and strong job creation expected in the second half, vacancy is positioned to return to a pre-pandemic rate in the near term.

Luxury performance warrants inventory growth. Apartment deliveries in 2021 surpass the 10,000-unit mark for a second straight year. Nevertheless, only one of the metro's four primary regions will register an annual increase, minimizing the potential impact of supply additions. Furthermore, Class A vacancy compressed across each of these locales during the past 12 months, an indication upcoming rentals should be well received. Greater Downtown Los Angeles represents the primary region slated for a year-over-year rise in completions, with most units in Mid-Wilshire and Hollywood. Elsewhere, the Westside Cities, San Fernando Valley and South Bay-Long Beach regions will each record 10 percent to 35 percent annual declines in delivery volume.

Employment Trends



* Forecast

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

Multifamily 2021 Outlook



**250,000
JOBS**

will be created

EMPLOYMENT:

Los Angeles County's rate of employment growth surpasses the national increase in 2021 as the metro recaptures nearly half of the 543,300 positions lost last year. Still, local unemployment will remain substantially higher than most major markets.



**10,500
UNITS**

will be completed

CONSTRUCTION:

Deliveries decline on an annual basis, yet the number of units added in 2021 surpasses the prior five-year average by more than 2,000 rentals. Submarkets adjacent to Downtown Los Angeles account for 40 percent of the apartments completed this year.



**60
BASIS POINT**

decrease in vacancy

VACANCY:

Renter demand exceeds deliveries, supporting the absorption of 16,800 units in 2021. This leasing velocity returns vacancy to a pre-pandemic rate of 3.9 percent and extends a seven-year stretch of positive absorption.



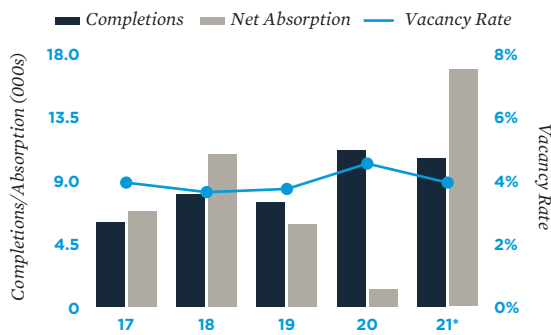
**5.5%
INCREASE**

in effective rent

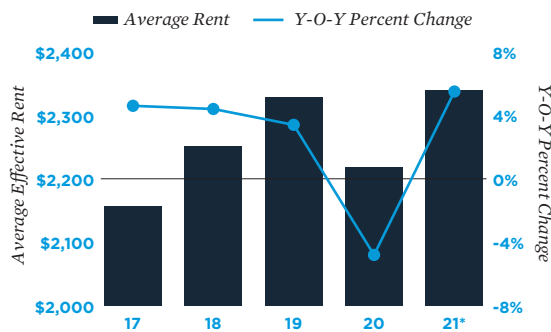
RENT:

Record absorption eases concession usage across apartment tiers, supporting an annual rate of rent growth that negates the 4.8 percent decline noted last year. At \$2,340 per month, the year-end average rent will represent a new high for the metro.

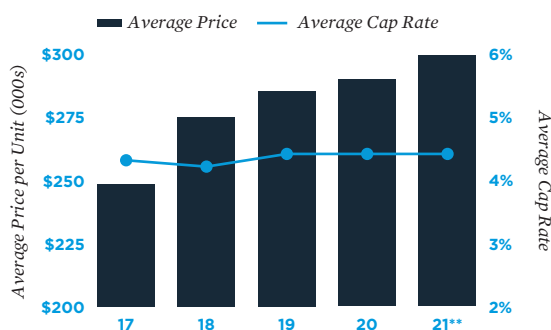
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

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

IPA Multifamily
Richard Matricaria

Executive Vice President of Brokerage Operations
Tel: (818) 212-2250 | rmatricaria@ipausa.com

For information on national multifamily trends, contact:

John Chang

Senior Vice President, National Director | Research Services
Tel: (602) 707-9700 | jchang@ipausa.com

Price: \$250

2Q21 – 12-Month Period

CONSTRUCTION
9,913 units completed

- Los Angeles County’s rental inventory grew by 0.9 percent over the past year ended in June. Recent completions were concentrated in Greater Downtown Los Angeles and the San Fernando Valley.
- Entering July, construction was underway on more than 31,000 units with delivery dates extending into late 2023.

VACANCY
80 basis point decrease in vacancy Y-O-Y

- Renters absorbed nearly 18,000 apartments over the past 12 months, compressing metro vacancy to 4.0 percent.
- The San Fernando Valley and South Bay-Long Beach each recorded vacancy reductions across all apartment tiers, supporting net absorption of 4,500 and 2,580 units, respectively.

RENT
1.2% increase in the average effective rent Y-O-Y

- Vacancy compression supported a moderate rise in rent that lifted the metro’s average effective rate to \$2,300 per month.
- At 3.4 percent, South Bay-Long Beach noted the largest rent gain among major regions. Concession usage and Class C vacancy increases lowered rates in Greater Downtown Los Angeles and Westside Cities.

Investment Highlights

- Impacted by a notable decline in \$1 million to \$10 million Class B/C transactions, overall sales activity in Los Angeles County fell by nearly 25 percent on a year-over-year basis ended in June. Deal flow, however, showed signs of improvement during the second quarter of 2021. More than 30 percent of the trades closed over the past 12 months were executed between April and June. Amid the slowdown in property trades, the metro’s average price point rose 4 percent to \$298,800 per unit, while the mean cap rate was unchanged at 4.4 percent.
- More than one-third of recent deal flow was split among Southeast Los Angeles, Greater Inglewood and Long Beach as buyers sought locales with tight Class C vacancy and regionally lower rents. Over the past year the mean return in each submarket was in the high-4 percent range, with pricing \$50,000 to \$80,000 per unit below the metro average. Investors seeking similar yields for lower-tier urban assets targeted Koreatown, where sub-\$250,000 per door pricing is available.
- Mid-tier deals were most frequent in Westside Cities, Greater Downtown Los Angeles and San Fernando Valley. Here, minimum returns in the 3 percent band and pricing beyond \$400,000 per unit is common.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Note: Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: IPA Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.
© Marcus & Millichap 2021 | www.ipausa.com