Market Insights

Greater Los Angeles Multifamily 2Q 2022

Northmarq

Construction Activity

22,570
Units under construction

2,294
Units delivered (YTD)

Market Fundamentals

3.6%
Vacancy

-90bps | Year over year change

$2,352
Asking Rent

+17.7% | Year over year change

Transaction Activity

$350,000
Median sales price per unit (YTD)

Vacancy Tightens for Fourth Straight Quarter

Highlights

- The Los Angeles multifamily market performed well in the first six months of 2022. Occupancy reached its highest level in more than three years, which helped fuel rapid rent increases. The investment market has remained active and competitive to this point, despite rising interest rates. Additionally, per-unit pricing has trended higher thus far in 2022.
- Area vacancy tightened for its fourth consecutive period, dropping 30 basis points in the second quarter to 3.6 percent. Year over year, the rate improved by 90 basis points.
- Asking rents continued to rise at an accelerating rate in recent months. During the second quarter, apartment rents rose 5.2 percent to $2,352 per month. Year over year, local rents are up 17.7 percent.
- The investment market has been in a strong position through the first half of this year. The median price through the second quarter is $350,000 per unit, up 20 percent from the 2021 figure. Cap rates have remained low, averaging around 3.8 percent in the last three months.

Greater Los Angeles Multifamily Market Overview

The Los Angeles multifamily market finished the first half of 2022 on an upswing. During the second quarter, asking rents continued to climb at a rapid pace, advancing by more than 5 percent. Rent growth is being supported, in part, by continued tightening of the local vacancy rates throughout Los Angeles County. Vacancy has contracted in each of the past four quarters, reaching its lowest figure in more than three years. The improving conditions can be attributed to an expanding local economy, with Los Angeles likely to be one of the top markets in the country for total job additions in 2022.

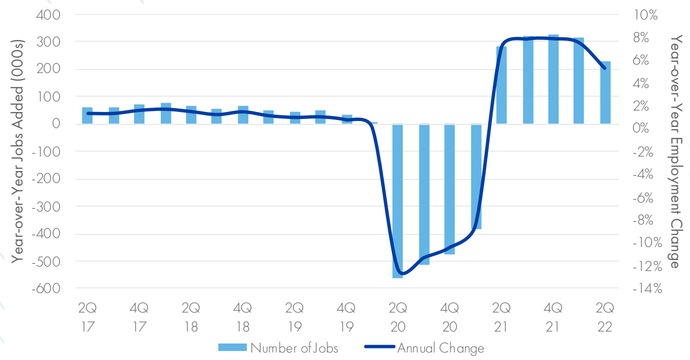
The multifamily investment market gained momentum in the first half of 2022 with more properties changing hands than in prior years. Extremely tight vacancy rates—particularly in lower-tier assets—continue to attract investors, and Class C properties have accounted for the bulk of recent sales. Transaction activity during the second quarter occurred in most submarkets throughout the county, with a handful of deals trading in the Downtown area and the neighboring submarkets of MacArthur Park and Rampart Village. Per-unit pricing has trended higher to this point in the year, while cap rates have been stable in recent periods, averaging around 3.8 percent during the second quarter.

Employment

- The Los Angeles labor market continued to expand in the second quarter, although the pace of growth tapered off from recent periods. Area employers added 20,300 jobs in the last three months. Year over year, total employment advanced 5.3 percent with the addition of 227,100 positions.
- The professional and business services sector outperformed most other industries in the region. Year over year, this sector added 36,600 workers, an expansion of nearly 6 percent.
- Amazon is significantly expanding its white-collar presence across Southern California in markets including Greater Los Angeles, Irvine, and San Diego. The company recently signed a lease for a 200,000-square-foot office space in Santa Monica, which will create more than 1,000 jobs in the coming years.
- **Forecast:** Local employers will continue to add workers to payrolls for the remainder of the year. Total employment is forecast to grow by roughly 110,000 jobs in 2022, a 2.5 percent annual gain.

> Year over year, total employment advanced 5.3 percent.

Employment Overview



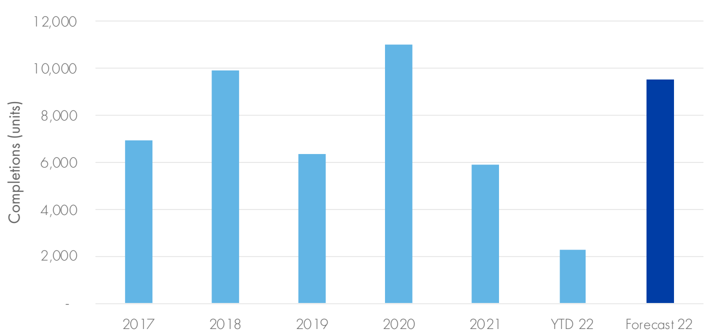
Sources: Northmarq, Bureau of Labor Statistics

Development and Permitting

- The pace of development has slowed in recent years, but deliveries began to accelerate in recent months. Developers completed more than 1,800 units in the second quarter; year to date, nearly 2,300 units have come online.
- Projects totaling roughly 22,600 units are currently under construction across Greater Los Angeles. The Downtown area is the most concentrated region for new development with more than 11,000 units under construction. Several of these projects have extended development cycles and will be delivered over a period of a few years.
- Permitting activity accelerated in the second quarter, as developers pulled permits for approximately 4,600 multifamily units, up 90 percent from the beginning of the year.
- **Forecast:** Apartment completions will pick up in the coming quarters with projects totaling nearly 9,500 units scheduled to be delivered in 2022, up 21 percent from the average annual completion total from 2015 to 2019. In 2021, fewer than 6,000 units were delivered.

> Projects totaling roughly 22,600 units are currently under construction.

Development Trends



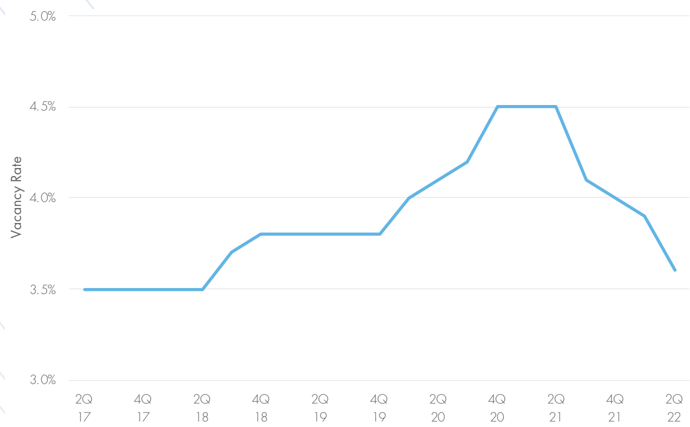
Sources: Northmarq, Reis

Vacancy

- Vacancy in Los Angeles trended lower for a fourth consecutive quarter. The rate dropped 30 basis points in the last three months to 3.6 percent as net absorption increased 66 percent from the first quarter to the second quarter.
- The steady vacancy declines have pushed the rate down 90 basis points year over year across Greater Los Angeles. Several areas are recording some tightening, but the most significant improvement is being recorded in areas where rents are the highest, including West Los Angeles and Downtown.
- The vacancy rate has tightened significantly across all asset classes during the past 12 months. In the Class A segment, vacancy dropped 110 basis points in the last year to 6.6 percent. During the past decade, Class A vacancy has averaged approximately 5.5 percent, which allows for the prospect of additional tightening in the years ahead.
- **Forecast:** Local vacancy is projected to hold fairly steady in the second half of the year as new supply growth and net absorption become more closely aligned. The rate is forecast to end 2022 at 3.7 percent, slightly higher than the current rate, but 30 basis points lower than at the end of 2021.

> Vacancy dropped 30 basis points to 3.6 percent.

Vacancy Trends



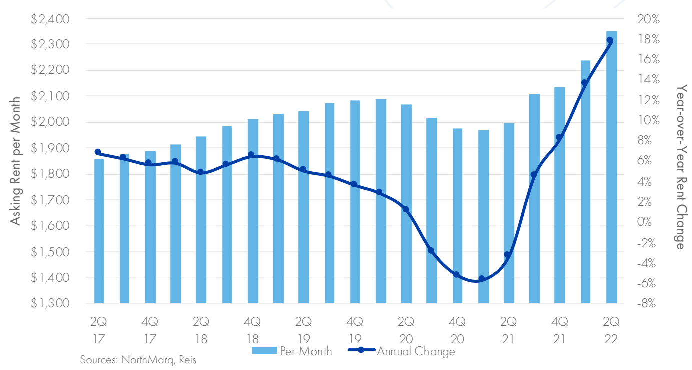
Sources: NorthMarq, Reis

Rents

- Asking rents spiked in Los Angeles during the most recent three-month period, building on strong gains recorded at the beginning of the year. Local rents rose 5.2 percent in the second quarter to $2,352 per month.
- Year over year through the second quarter, rents jumped 17.7 percent. The Beverly Hills/West Hollywood/Park La Brea submarket posted some of the most rapid annual rent increases, rising 24 percent to $3,231 per month.
- Mid-tier and lower-tier multifamily properties have recorded strong growth that outpaced long-term averages by wide margins. Year over year, combined average asking rents in Class B and Class C properties rose more than 18 percent to $1,964 per month.
- **Forecast:** Rents will continue to trend higher in the remainder of the year. Asking rents are forecast to rise 12 percent in 2022 to nearly $2,400 per month.

> Local rents rose 5.2 percent in the second quarter.

Rent Trends



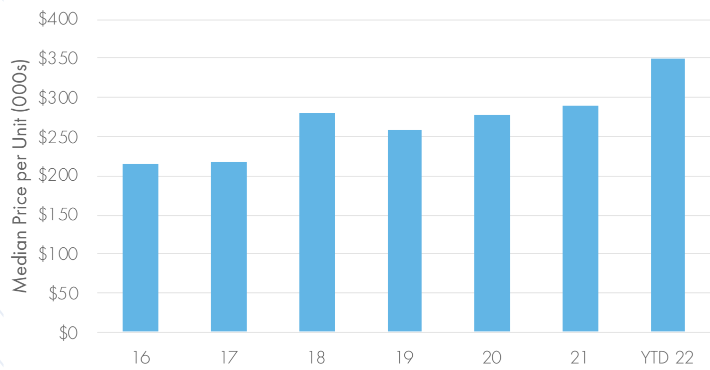
Sources: NorthMarq, Reis

Multifamily Sales

- Multifamily sales activity slowed in recent months, as the number of deals that closed during the second quarter dipped 9 percent from the levels at the start of the year. Transaction volume year to date has increased nearly 30 percent from the same period in 2021.
- The median sales price to this point in the year is $350,000 per unit, a 20 percent increase from the median price in 2021. The surge in per-unit pricing is largely due to strong rent growth and overall improving property performance metrics thus far in 2022.
- Cap rates have been fairly stable during the past several periods. In the second quarter, cap rates averaged around 3.8 percent.

> The median sales price in 2022 is $350,000 per unit.

Investment Trends



Sources: NorthMarq, CoStar

Recent Transactions

Multifamily Sales Activity

Property Name	Street Address	Units	Sales Price	Price/Unit
Baldwin Village	4220 Santa Rosalia Dr. and 4318 Santo Tomas Dr., Los Angeles	669	$220,000,000	$328,849
Evolve South Bay	285 E Del Amo Blvd., Carson	300	$171,000,000	$570,000
The Villas at Woodland Hills	5807 Topanga Canyon Blvd., Woodland Hills	324	$134,500,000	$415,123
Langdon Park at Hollywood Studios	5640 Santa Monica Blvd., Los Angeles	177	$31,200,000	$176,271
Wescove Apartments	801 Wescove Plz., West Covina	56	$21,000,000	$375,000

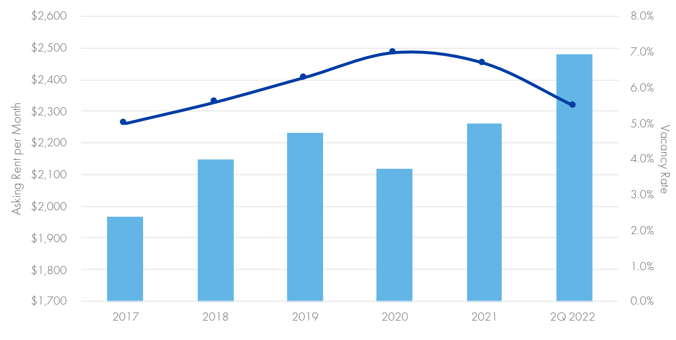
Downtown

Construction/Vacancy/Rents

- Multifamily construction activity in the Downtown area accelerated in recent months as approximately 720 units were delivered during the second quarter, more than double the number of completions from the first three months of the year. Projects totaling more than 11,000 units are currently under construction Downtown, setting the stage for continued development in the coming years.
- The vacancy rate continued to tighten in the second quarter as absorption levels jumped nearly 40 percent from the start of the year. Vacancy in Downtown dropped 70 basis points in the last three months to 5.5 percent. During the past 12 months, the rate has tightened by 140 basis points.
- The momentum gained at the beginning of the year carried over into the second quarter as Downtown asking rents increased 4.7 percent in the last three months to $2,481 per month. Average rents in the area are up 18.3 percent from one year ago.
- **Forecast:** The pace of apartment deliveries should ramp up in the second half of the year as projects totaling more than 4,000 units are scheduled to come online in 2022. Vacancy is expected to finish the year at around 5.8 percent, higher than the current rate, but 90 basis points lower than at the end of 2021. Asking rents will continue to trend higher, ending 2022 at around $2,525 per month.

> “ Average rents Downtown are up 18.3 percent from one year ago.

Vacancy and Rent Trends



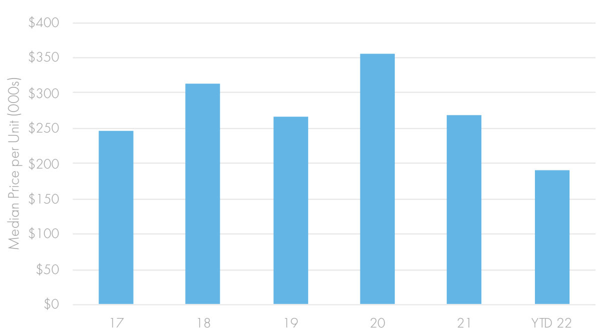
Sources: NorthMarq, Reis

Multifamily Sales

- Multifamily sales velocity in the area accelerated in the last three months, as transaction volume increased nearly 30 percent from the start of the year. The number of deals in the second quarter has also grown approximately 30 percent from one year ago.
- Through the first half of the year, the median sales price was nearly $191,300 per unit, a 29 percent decline from the median price in 2021. Older, Class C assets have accounted for the bulk of the recent deals as roughly half of the apartment buildings that traded during the second quarter were built before 1930.
- Cap rates have inched slightly higher in connection with the older property mix. Cap rates averaged approximately 4.6 percent during the first half of this year.

> “ Through the first half, the median sales price was $191,300 per unit.

Sales Trends



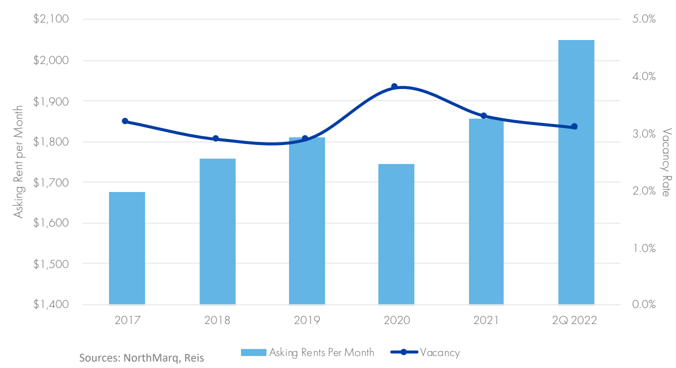
San Fernando Valley

Construction/Vacancy/Rents

- No significant multifamily projects have come online in the San Fernando Valley to this point in the year, following the delivery of a handful of apartment complexes in the first half of 2021. Construction activity should accelerate in the remainder of 2022 as projects totaling approximately 2,650 units are currently under construction in the area.
- With supply-side pressures minimal, the vacancy rate improved during the second quarter. Vacancy dropped 20 basis points in the last three months to 3.1 percent; the rate is down 80 basis points from one year ago.
- Local asking rents climbed at a rapid pace in recent months. Apartment rents in the San Fernando Valley rose 5.5 percent during the second quarter to $2,048 per month; year over year, average rents jumped 17.5 percent.
- **Forecast:** Multifamily deliveries will pick up in the second half of the year with projects totaling around 1,100 units slated to come online. The vacancy rate is expected to hold fairly steady in the coming periods, ending the year at around 3 percent. Asking rents should continue to push higher, although the pace of growth will not repeat the spikes in the first half of the year. Average rents are forecast to reach about $2,100 per month by the end of 2022.

> “ Vacancy dropped 20 basis points in the last three months to 3.1 percent.

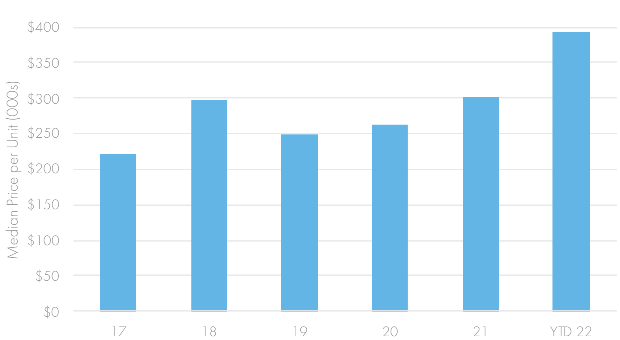
Vacancy and Rent Trends



Sources: NorthMarq, Reis

> “ Cap rates averaged 3.5 percent during the second quarter.

Sales Trends



Multifamily Sales

- Following a spike in deal volume in the first quarter, multifamily transaction activity slowed in recent months. The number of deals during the second quarter declined 33 percent from the start of the year. Despite the recent slowing, the pace of sales to this point in 2022 is more than 20 percent higher from the same period one year ago.
- The median sales price continued to trend higher, reaching $392,400 per unit through the first half of the year, a 30 percent increase from the median price in 2021. The rapid spike in rents and continued tightening in vacancy are supporting price increases.
- As prices pushed upwards, cap rates tightened from the beginning of the year. Cap rates in the San Fernando Valley averaged 3.5 percent during the second quarter, down from around 4 percent in the first few months of the year.

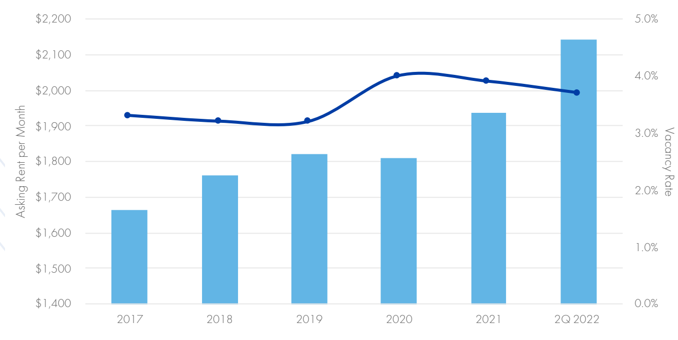
South Bay

Construction/Vacancy/Rents

- Multifamily development in the South Bay gained momentum in recent months with approximately 250 units coming online in the second quarter, following no completions in the prior period. The pace of deliveries should accelerate in the coming quarters as projects totaling more than 2,350 units are currently under construction.
- Local vacancy tightened by 40 basis points in the second quarter, reaching 3.7 percent. The current vacancy rate is identical to the figure from one year ago.
- Asking rents continued to rise at an accelerating rate in the South Bay, fueled by improving operating conditions. Average rents rose 5.6 percent in the last three months to $2,141 per month. During the past year, apartment rents in the South Bay have spiked 18.6 percent.
- **Forecast:** Multifamily construction will accelerate in the remainder of the year as projects totaling nearly 1,000 units are scheduled to be delivered in 2022. Net absorption and new supply growth are expected to closely track each other in the coming quarters, keeping the vacancy rate mostly steady. Vacancy in the South Bay is forecast to finish the year at around 3.8 percent. Asking rents are on pace to end the year at about $2,170 per month.

> “ Vacancy tightened by 40 basis points during the second quarter.

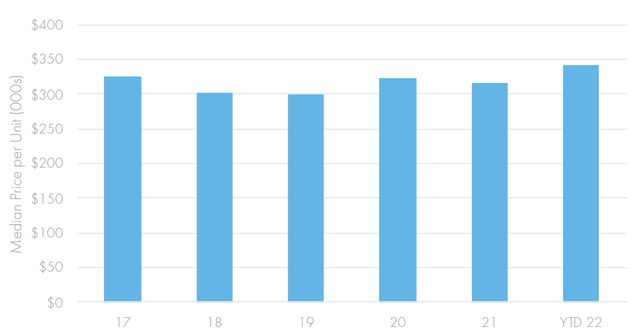
Vacancy and Rent Trends



Sources: NorthMarq, Reis

> “ Cap rates averaged 3.3 percent during the second quarter.

Sales Trends



Multifamily Sales

- Multifamily deal volume dipped slightly in recent months as the number of properties that traded in the second quarter was down 12 percent from the start of the year. Transaction activity through the first half of 2022 has already surpassed the total for the full year in 2021.
- The median price through the second quarter was more than $341,800 per unit, up 8 percent from the median price in 2021. Roughly 65 percent of the deals thus far in 2022 included Class C properties.
- Cap rates remained extremely tight in the South Bay, even as interest rates push higher. Cap rates averaged 3.3 percent during the second quarter, down 70 basis points from the 2021 average.

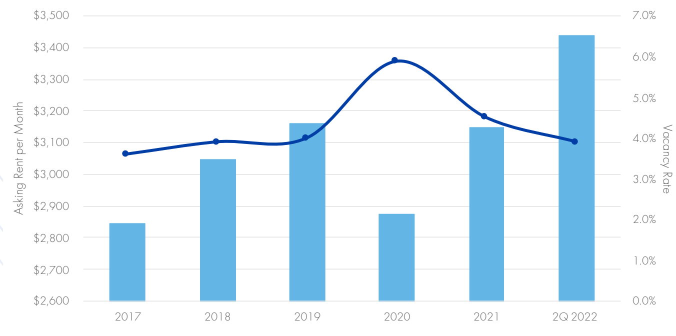
West Los Angeles

Construction/Vacancy/Rents

- Projects totaling nearly 640 units have been delivered to this point in 2022, including two large-scale apartment complexes in Santa Monica and Brentwood. Approximately 1,100 multifamily units are currently under construction in the West Los Angeles area.
- Absorption levels improved in recent months, allowing for the vacancy rate to decline. Vacancy dropped 50 basis points in the second quarter, finishing the period at 3.9 percent. During the past 12 months, the rate tightened by 140 basis points, one of the strongest improvements in Greater Los Angeles.
- West Los Angeles is the most expensive region in the county, and rents continue to push higher. Area apartment rents jumped 4.9 percent in the second quarter to $3,438 per month. Year over year, asking rents spiked more than 20 percent.
- **Forecast:** Apartment construction activity should slow in the coming quarters as roughly 900 apartment units are forecast to be delivered in 2022. New leases could trail the delivery of units in the second half of the year, resulting in a slight uptick in the vacancy rate. Local vacancy is expected to finish the year at around 4 percent. Average rents should continue to climb, reaching more than $3,525 per month by year end.

> Vacancy dropped 50 basis points in the second quarter.

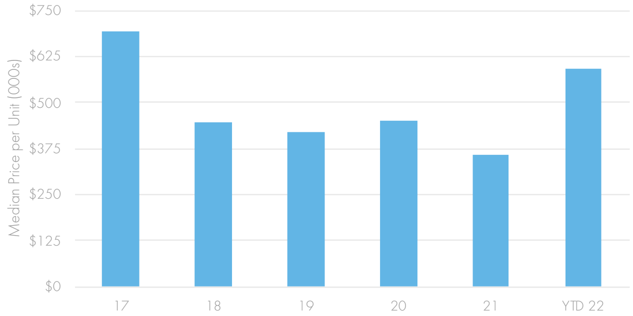
Vacancy and Rent Trends



Sources: NorthMarq, Reis

> The median sales price through the first half reached $593,500 per unit.

Sales Trends



Multifamily Sales

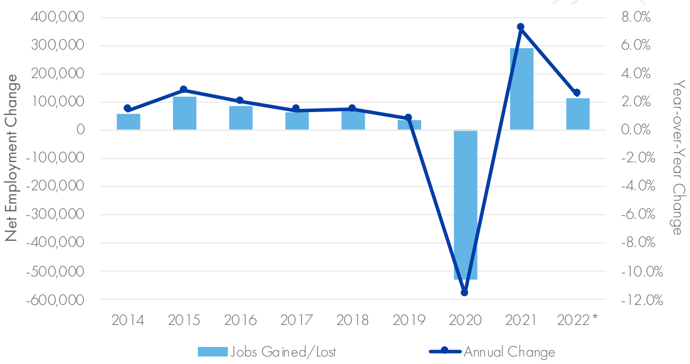
- Multifamily sales activity was steady from the first quarter to the second quarter with the same number of properties changing hands in each period. West Los Angeles is typically one of the slower areas for deal volume in the region, a trend that continued in the first half of this year.
- The median sales price year to date reached $593,500 per unit, up 65 percent from the median price in 2021. The largest sale in the last three months was a recently remodeled, Class A apartment building in Santa Monica that sold for $330 million, or $2.75 million per unit.
- Cap rates averaged in the low-3 percent range in the first six months of the year, similar to levels recorded in 2021.

Looking Ahead

The Los Angeles multifamily market has been undergoing a period of healthy improvement for more than a year. During the second half of 2022, conditions are most likely to level off and operating fundamentals will remain near current ranges. This will be most evident in the region's vacancy trends. Vacancies throughout Los Angeles County have tightened in the past few quarters, in response to healthy demand and modest deliveries of new supply. Development of new units is picking up, and the second half will be a period of more rapid supply growth. As such, the vacancy rate is expected to stabilize and could inch a bit higher in parts of the market where new deliveries are concentrated. Rents are expected to continue to trend higher, but at a more modest pace than has been recorded during the past several quarters.

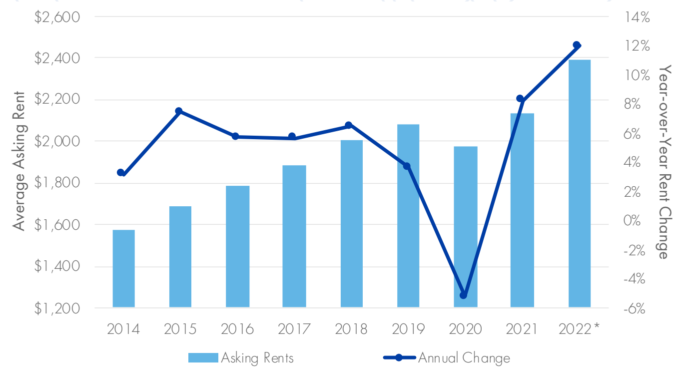
Healthy property performance should support the local investment market in the second half of the year, and increasingly attractive operating income statements should keep the acquisitions climate competitive. The rising costs of capital could impact a traditionally low cap rate market such as Los Angeles, as borrowing costs are rising at faster paces than cap rates. This friction in the market will likely result in a moderating pace of activity in the near term, until buyers and sellers adjust to the new market conditions. Although the sale of older, Class C assets should continue to make up the largest share of the transaction mix, activity is expected to pick up in the sale of Class A properties as newly delivered projects enter the investment market.

Employment Forecast



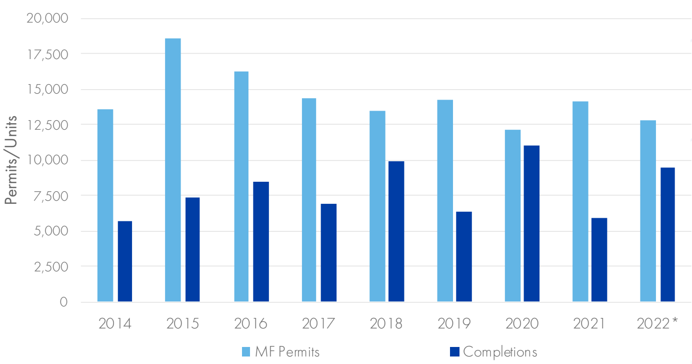
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



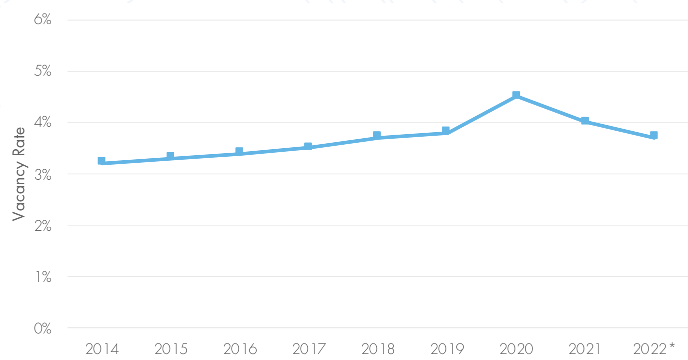
* Year End Forecast
Sources: Northmarq, Reis

Construction & Permitting Forecast



* Year End Forecast
Sources: Northmarq, Census Bureau, Reis

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Reis

Northmarq

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