Northmarq

MARKET INSIGHTS

Sales activity picks up to start 2023

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	21,235
UNITS DELIVERED	1,694

MARKET FUNDAMENTALS

VACANCY RATE	3.8%
YEAR-OVER-YEAR CHANGE	-10bps
ASKING RENTS	$2,400
YEAR-OVER-YEAR CHANGE	+7.3%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$303,500

Los Angeles Multifamily
1Q 2023

HIGHLIGHTS

- The Los Angeles multifamily market softened in the first few months of 2023, as renter demand continued to ease. The vacancy rate rose in recent months while asking rents declined. Following limited supply growth in recent years, developers brought new projects online during the first quarter and will ramp up completions in the remainder of the year.
- The local vacancy rate pushed higher during the first quarter, rising 30 basis points to 3.8 percent. Year over year, the rate improved by 10 basis points. The long-term average vacancy rate in Los Angeles County is 3.9 percent.
- After surging in recent years, rents fell in the last three months. Asking rents dropped 2.3 percent during the first quarter to $2,400 per month. The market has recorded strong gains during the past year; however, with asking rents rising 7.3 percent in that time.
- Multifamily sales activity gained momentum in the early months of the year but still trailed levels recorded in the first few months of 2022. The median sales price year to date is $303,500 per unit, down 7 percent from last year's figure. Cap rates averaged around 4.6 percent in the first quarter.

GREATER LOS ANGELES MULTIFAMILY MARKET OVERVIEW

Renter demand for apartments in Los Angeles got off to a slower start to 2023, at a time when the pace of deliveries gained momentum. The local vacancy rate rose in the last three months, as net absorption totaled only a few hundred units, about one-fifth of the average first-quarter sum. With fewer leases being signed, operators pulled back on recent rent hikes, and asking rents declined for the first time in two years. Nonetheless, overall property performance metrics are still relatively strong, and the recent cooling can be seen as a return to normalization in the local multifamily market. Employment conditions in Los Angeles remain healthy and continue to provide a solid footing for the area's economy. The local labor market has nearly recovered all the jobs that were lost during 2020 and added back positions at a rapid clip at the start of this year.

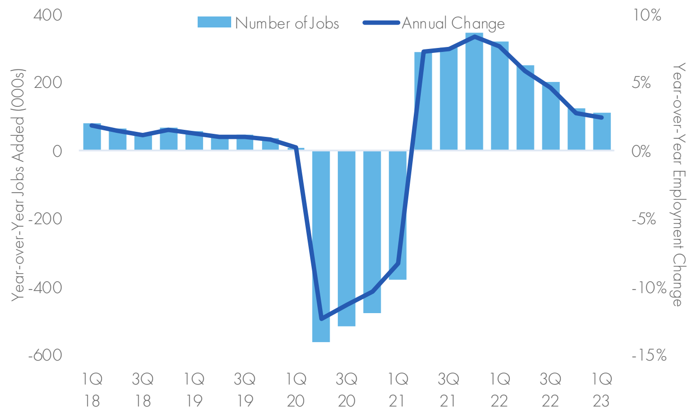
The Los Angeles multifamily investment market gained some momentum in the first three months of this year, after recording a slowdown in deals in the second half of 2022. Some of the uptick in activity was likely investors attempting to sell before an onerous tax on sales of properties in excess of $5 million took effect on April 1. This urgency may also be reflected in per-unit pricing trends; the median sales price to this point in the year is $303,500 per unit, down 7 percent from the 2022 figure. While transactions occurred throughout the region in the last three months, investors were most active in Downtown Los Angeles, Hollywood, and Koreatown. Cap rates have crept higher, averaging approximately 4.6 percent in the first quarter, up 60 basis points from the second half of last year.

EMPLOYMENT

- Employers in Los Angeles have continued to add to payrolls for the past several quarters. During the past 12 months, total employment has expanded by 2.5 percent with the addition of 110,800 workers. The market showed signs of accelerating momentum during the first quarter.
- The education and health services sector in Los Angeles continues to be a major driver for the local employment market. Employment in the sector expanded by 5.6 percent in the past 12 months and grew by 48,100 jobs.
- Stockdale Capital Partners plans to break ground on a new, 12-story medical office building within the Brentwood/Westwood/Beverly Hills submarket later this year. The 145,000-square-foot facility will accommodate surgery and other outpatient services and feature ground-floor retail.
- **FORECAST:** After a strong start to the year, the pace of employment growth will cool somewhat through the end of 2023. Total area employment is projected to expand by 1.7 percent in 2023 with the addition of roughly 75,000 positions.

Total employment in the past 12 months has expanded by 2.5 percent.

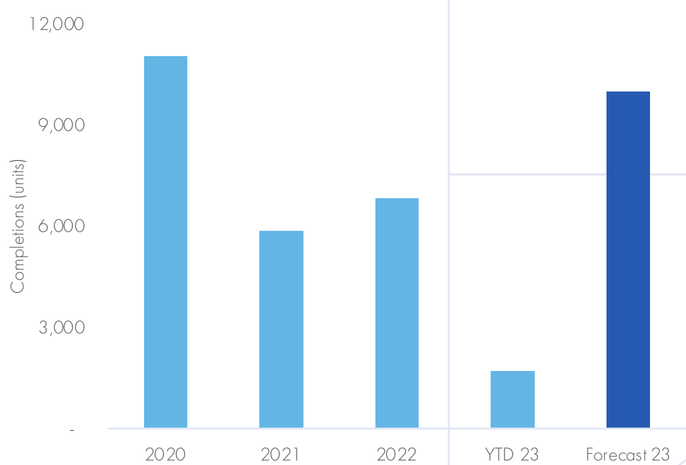
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Projects totaling 21,235 units are under construction.

DEVELOPMENT TRENDS



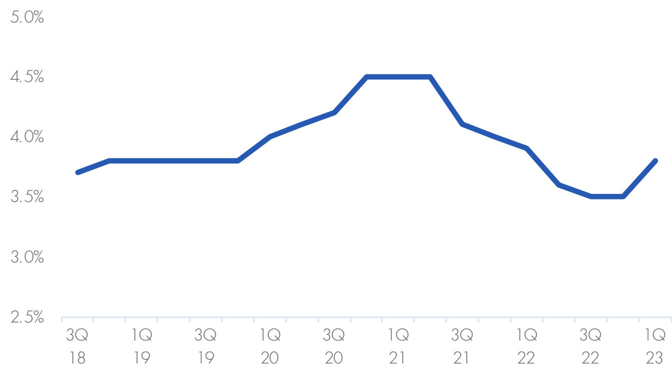
Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

- Deliveries in the first quarter were ahead of the pace recorded at the start of 2022. Developments consisting of nearly 1,700 units were completed during the first quarter, more than doubling levels from one year earlier. Downtown and the San Fernando Valley were the most active regions for completions at the beginning of 2023.
- Projects totaling 21,235 units are currently under construction in Los Angeles, down 10 percent from one year ago. While most areas have some projects under construction, the Downtown area accounts for nearly 45 percent of the total pipeline.
- Multifamily permitting slowed in recent months, as developers pulled permits for approximately 2,550 units in the first quarter, down 18 percent from the previous period. Permitting activity in 2023 is projected to lag levels recorded in recent years.
- **FORECAST:** Apartment completions are expected to ramp up in the coming quarters with projects totaling approximately 10,000 units slated to come online in 2023.

Local vacancy rose 30 basis points during the first quarter.

VACANCY TRENDS



Sources: Northmarq, REIS

VACANCY

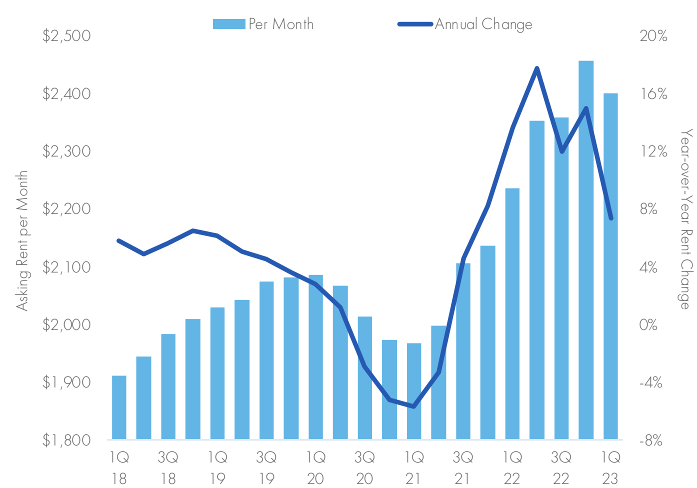
- The vacancy rate trended higher throughout Los Angeles in recent months, after falling to a cyclical low in 2022. Local vacancy rose 30 basis points during the first quarter, reaching 3.8 percent. Despite the recent uptick, area vacancy tightened by 10 basis points year over year.
- The Sherman Oaks/Studio City/North Hollywood submarket posted one of the largest vacancy improvements in recent quarters. Vacancy in this submarket fell 150 basis points during the past 12 months to 2.6 percent.
- While the vacancy rate remains highest in Class A properties, conditions improved in the top tier during the past year. Year over year, the Class A vacancy rate declined 60 basis points to 6.7 percent.
- **FORECAST:** Vacancy conditions should continue to soften slightly in the coming periods as inventory growth picks up. Local vacancy is expected to finish 2023 at 4 percent, up 50 basis points for the full year.

RENTS

- Asking rents retreated during the first quarter, following two straight years of rapid gains. Apartment rents in Los Angeles dropped 2.3 percent in the last three months to $2,400 per month.
- Despite trending lower to this point in the year, rent hikes recorded during earlier quarters have resulted in significant annual gains. Current asking rents are up 7.3 percent from one year ago.
- Year-over-year rent gains have generally been strongest in submarkets with below-average rents, tight vacancy conditions, and limited development activity. Average rents in the Arcadia/Duarte/El Monte and Claremont/Pomona/La Verne submarkets increased by more than 12 percent in the past year.
- **FORECAST:** Asking rents should begin ticking higher at a moderate pace in the remainder of the year. Apartment rents in Los Angeles are projected to rise nearly 2.5 percent in 2023 to $2,515 per month.

Asking rents are up 7.3 percent from one year ago.

RENT TRENDS



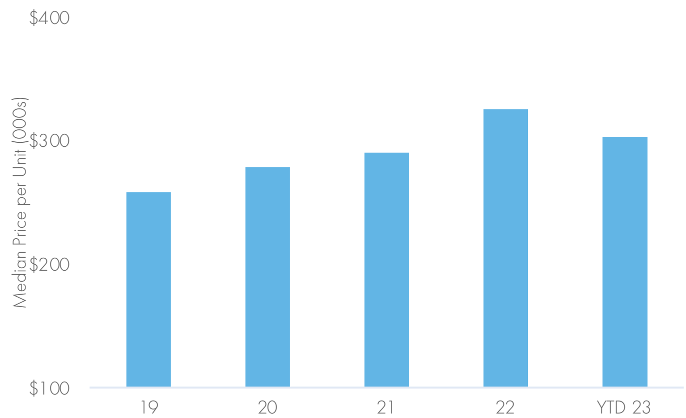
Sources: Northmarq, REIS

MULTIFAMILY SALES

- Multifamily transaction activity picked up at the start of the year, as the number of sales in the first quarter increased roughly 55 percent from the previous period. Despite the recent rise, sales volume in the last three months is down nearly 30 percent from the same period last year.
- While transaction activity accelerated in Los Angeles in recent months, pricing trended lower. The median sales price thus far in 2023 is $303,500 per unit, down 7 percent from the median price last year.
- As per-unit pricing inched lower, cap rates ticked higher. Cap rates averaged approximately 4.6 percent during the first quarter, after averaging closer to 4 percent during the second half of last year.

The median sales price thus far in 2023 is $303,500 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Angelene Apartments	915 N La Brea Ave., West Hollywood	179	$112,500,000	$628,492
Westside Villas Apartments	2245 S Beverly Glen Blvd., Los Angeles	113	$66,100,000	$584,956
Haven Warner Center	6530 Independence Ave., Canoga Park	205	$54,000,000	$263,415
Alivia	11201 Carmenita Rd., Whittier	128	$49,625,000	$387,695
Picasso Brentwood	12035 Wilshire Blvd., Los Angeles	81	$41,500,000	$512,346
Mountain View Manor Apartments	12960 Dronfield Ave., Sylmar	200	$39,500,000	$197,500

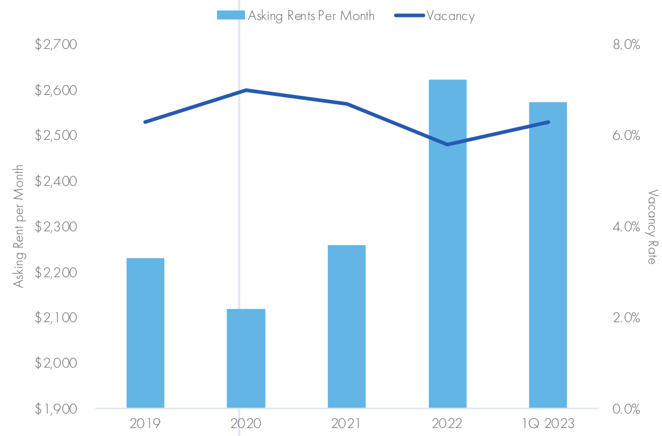
DOWNTOWN

PROPERTY PERFORMANCE METRICS

- Multifamily construction activity slowed during the first quarter after gaining momentum at the end of last year. Developers completed roughly 550 units in the last three months, down 67 percent from the previous period. Projects totaling approximately 9,750 units are currently under construction throughout Downtown.
- The vacancy rate in the Downtown submarkets trended higher in the early months of 2023, as absorption levels were minimal during the first quarter. Vacancy rose 50 basis points in the first three months of the year to 6.3 percent. Year over year, the rate is up just 10 basis points.
- Asking rents in Downtown retreated in recent months, marking the first quarterly decline in two years. Apartment rents fell 1.9 percent during the first quarter to $2,573 per month. Despite the recent decline, Downtown rents are up 8.6 percent in the past 12 months.
- **FORECAST:** Multifamily development will gain momentum in the coming periods with more than 3,500 units slated to come online in 2023. As construction activity ramps up, vacancy will push higher; the rate is forecast to rise 70 basis points in 2023 to 6.5 percent. Asking rents are projected to increase 1.5 percent to roughly $2,660 per month.

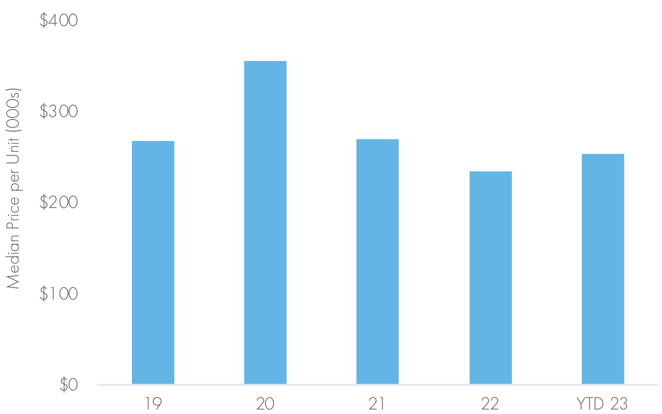
Developers completed roughly 550 units in the first quarter.

VACANCY & RENT TRENDS



Sources: Northmarq, Reis

SALES TRENDS



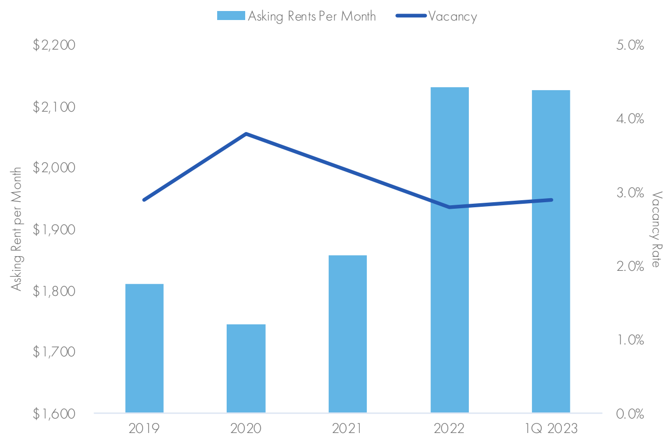
The median sales price thus far in 2023 is $252,900 per unit.

MULTIFAMILY SALES

- The investment market in Downtown Los Angeles gained momentum at the start of the year, as the number of deals in the first quarter outpaced levels from the end of 2022. Further, transaction activity to start 2023 was up more than 40 percent from the same period last year.
- As deal volume picked up, pricing trended higher. The median sales price thus far in 2023 is $252,900 per unit, up 8 percent from last year's figure. Transactions closed throughout the Downtown submarkets in recent months, including a handful of deals in the Hollywood area.
- Cap rates have remained steady in recent months, averaging 4.9 percent in the first quarter, about 50 basis points higher than levels at the end of last year.

SAN FERNANDO VALLEY

VACANCY & RENT TRENDS



Sources: Northmarq, Reis

Average rents jumped 9.6 percent from one year ago.

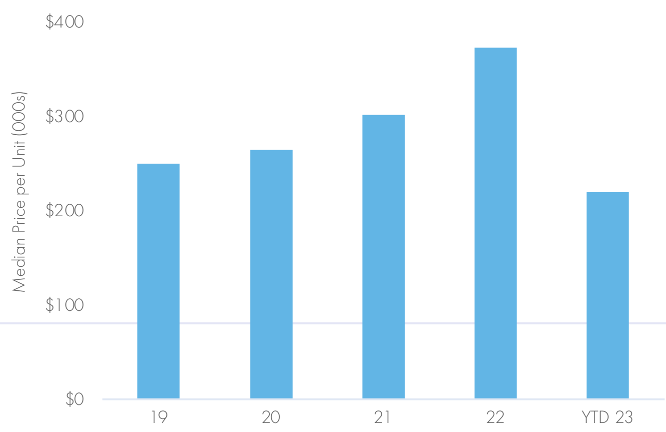
PROPERTY PERFORMANCE METRICS

- Completions spiked during the first quarter after supply growth was limited in 2022. Projects totaling nearly 730 units were delivered in the San Fernando Valley in the last three months. Developers will continue to bring new projects online in the remainder of the year with nearly 2,700 apartment units in the construction pipeline.
- Local vacancy inched higher in the last three months, rising 10 basis points during the first quarter to 2.9 percent. Despite the recent uptick, the rate improved by 40 basis points during the past 12 months. The Panorama Hills/San Fernando/Pacoima submarket is recording the tightest vacancy rate in the region, finishing the first quarter at 1.1 percent.
- Asking rents in the San Fernando Valley inched lower during the first quarter, dipping 0.2 percent to $2,127 per month. Rent growth was strong during much of 2022 as average rents jumped 9.6 percent from one year ago.
- **FORECAST:** The pace of inventory growth should level off in the coming periods, following an acceleration in completions at the start of the year. Projects totaling nearly 1,500 units are scheduled to come online in 2023. The vacancy rate is forecast to rise 20 basis points this year to 3 percent. Rents are forecast to end 2023 at $2,175 per month, a 2 percent gain.

MULTIFAMILY SALES

- Sales activity in the San Fernando Valley picked up in the last three months, bouncing off a low at the end of last year. Despite the recent uptick, the number of transactions in the first quarter was down 44 percent from the same period in 2022.
- Pricing declined in the handful of properties that traded in recent months. The median sales price to this point in the year is $219,400 per unit, down 41 percent from the median price in 2022.
- Cap rates held fairly steady in the San Fernando Valley, averaging around 4.4 percent during the first quarter. Several of these transactions involved assumable financing.

SALES TRENDS



The median sales price to this point in the year is $219,400 per unit.

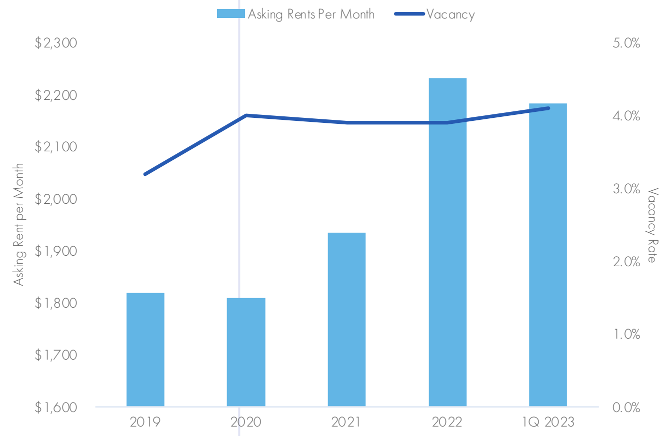
SOUTH BAY

PROPERTY PERFORMANCE METRICS

- Apartment developers completed nearly 245 units during the first quarter, with projects totaling approximately 1,960 units currently under construction throughout the South Bay.
- The vacancy rate ticked higher in the first quarter, rising 20 basis points to 4.1 percent. The current rate matches the figure from one year ago but is higher than the long-term average. Vacancy in the South Bay has averaged 3.6 percent during the past five years.
- Apartment rents in the region dropped in recent months after increasing for two straight years. Asking rents fell 2.2 percent during the first quarter to $2,183 per month. This marked the reversal of a sharp upward trajectory in rents; year over year, asking rents are up 7.7 percent.
- **FORECAST:** Developers are forecast to deliver roughly 800 units in the South Bay in 2023. The vacancy rate is expected to rise slightly to 4.2 percent, while asking rents are projected to advance 2 percent this year to roughly $2,275 per month.

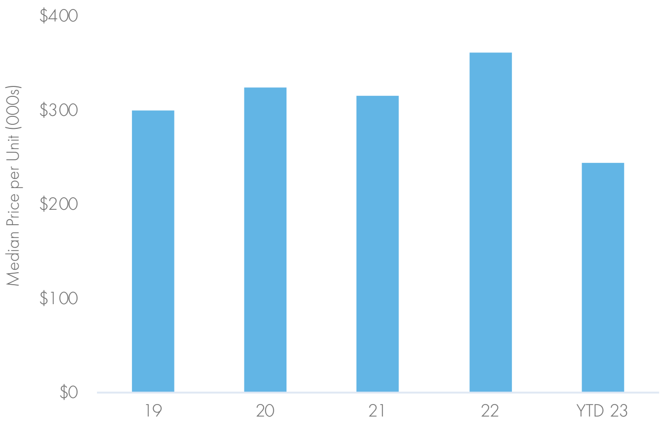
Year over year, asking rents are up 7.7 percent.

VACANCY & RENT TRENDS



Sources: Northmarq, Reis

SALES TRENDS



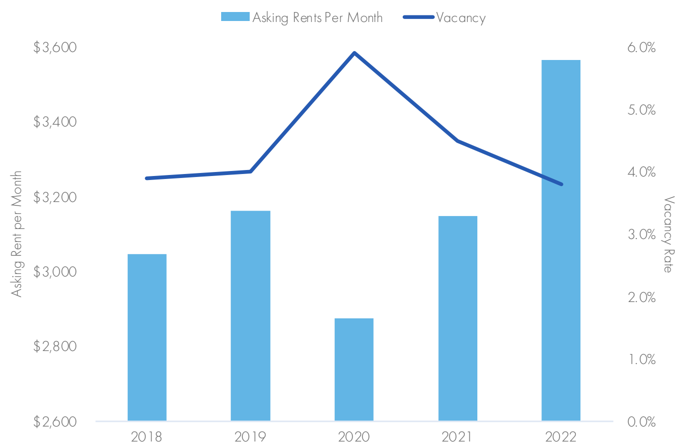
Cap rates averaged around 4.9 percent during the first quarter.

MULTIFAMILY SALES

- After sales activity stalled at the end of last year, a handful of properties sold in the South Bay during the first quarter. Transaction activity may continue to gain momentum in the coming periods.
- Older, Class C assets accounted for nearly all the transactions in the last three months, which brought pricing lower. The median sales price in the first quarter was $243,300 per unit, 33 percent lower than the median price in 2022.
- Cap rates in the South Bay pushed higher in recent months as pricing trended lower. Cap rates averaged around 4.9 percent after averaging in the mid-3 percent to low-4 percent range during most of last year.

WEST LOS ANGELES

VACANCY & RENT TRENDS



Sources: Northmarq, Reis

The vacancy rate improved by 50 basis points year over year.

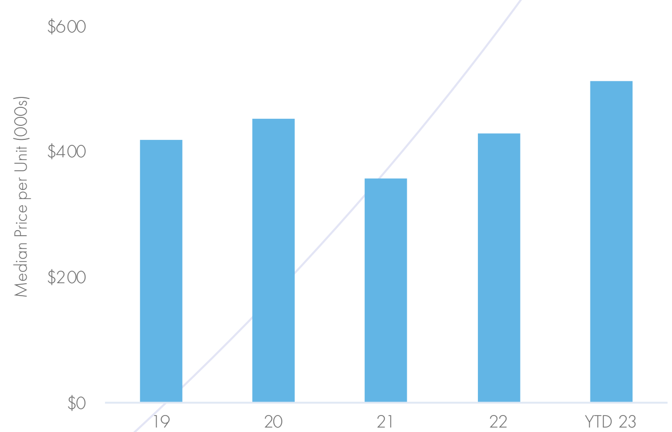
PROPERTY PERFORMANCE METRICS

- Construction activity slowed in recent months with the completion of approximately 50 multifamily units in the first quarter. New development should pick up in the coming periods, with projects totaling roughly 2,130 units currently under construction in West Los Angeles.
- The vacancy rate recorded a minimal increase at the outset of 2023, rising 10 basis points in the first quarter to 3.9 percent. Despite the recent uptick, the rate improved by 50 basis points year over year. The Marina Del Rey/Venice/Westchester submarket is recording the tightest vacancy conditions in West Los Angeles, ending the first quarter at 3 percent.
- Apartment rents retreated substantially in the first quarter, falling 4.3 percent to $3,409 per month. West Los Angeles continues to record some of the most expensive rents in Southern California, which contributes to some of the submarket's pricing volatility. During the past 12 months, rents rose 4 percent.
- **FORECAST:** Projects totaling approximately 700 units are scheduled to come online in 2023, a slightly slower pace of deliveries than in recent years. Vacancy in West Los Angeles is projected to end 2023 at roughly 4 percent, while rents are on track to reach $3,565 per month.

MULTIFAMILY SALES

- Multifamily transaction activity in West Los Angeles is typically limited to a handful of transactions per year, but sales volume surged at the end of the first quarter. The total number of sales that closed in the first three months of 2023 is close to the total number of transactions that occur in a typical year.
- As sales activity gained momentum in recent months, pricing spiked. The median sales price reached $512,400 per unit in the first quarter, up 19 percent from the median price in 2022. Multifamily investors were most active in the Beverly Hills/ Century City/UCLA submarket in recent months.
- Cap rates ticked higher to start the year. Cap rates reached 4 percent during the first quarter after averaging 3.2 percent during 2022. Cap rates in West Los Angeles generally have a wider range than the County as a whole, with properties often trading at some of the lowest cap rates in the region.

SALES TRENDS



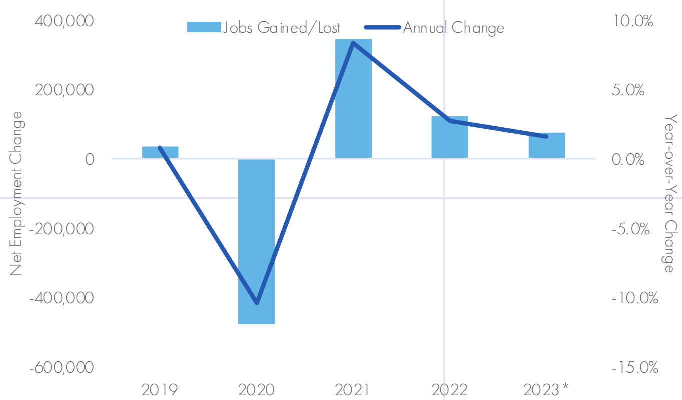
The median sales price in the first quarter reached $512,400 per unit.

LOOKING AHEAD

As apartment demand begins to gain momentum, property fundamentals in the Los Angeles multifamily market should stabilize in the second half of the year. While rent growth will be modest for the next few months, future rent gains should trend closer to pre-pandemic norms, beginning in late 2023. The pace of apartment completions is expected to ramp up in the second quarter as the annual delivery total for 2023 is set to outpace recent years. While new development will be heavily concentrated in the Downtown submarkets, projects will continue to be completed throughout the region. Vacancy is forecast to tick higher, but the rate routinely stays within a very tight range between 3.5 percent and 4.5 percent. In the past five years, the rate has averaged 3.9 percent, and only once in the last decade has vacancy ended a year above 4 percent.

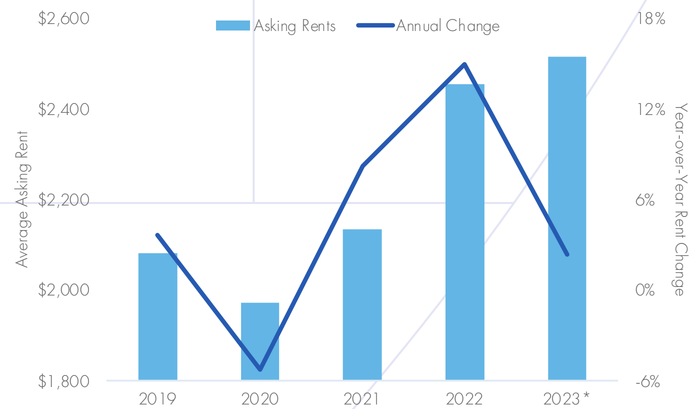
Amid heightened debt costs and some concerns of economic slowing, the cities of Los Angeles and Santa Monica recently passed measures to add taxes to the sale of residential or commercial properties, which will likely impact transaction activity in the coming years. Nearly every significant multifamily property sale in Los Angeles or Santa Monica will face a transaction tax of around 5.5 percent. These measures likely supported an uptick in transactions in the first quarter but should have a cooling effect on sales velocity through much of the remainder of this year as owners assess how the prospect of added costs at the end of a holding period influences investment decisions. Despite these added transaction costs, the underlying property fundamentals in Los Angeles are expected to remain healthy, which should ultimately support investor demand over the long term.

EMPLOYMENT FORECAST



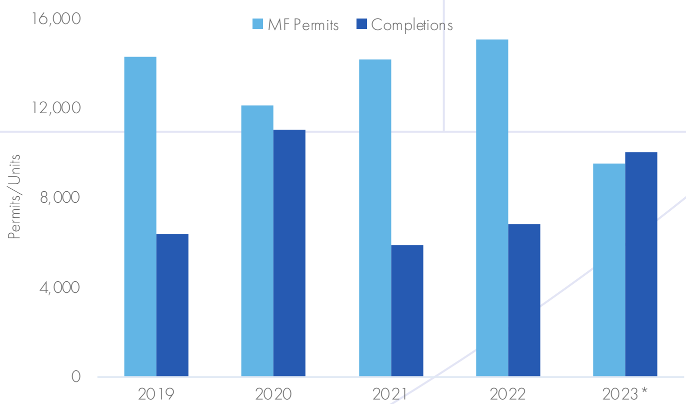
* *Year End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



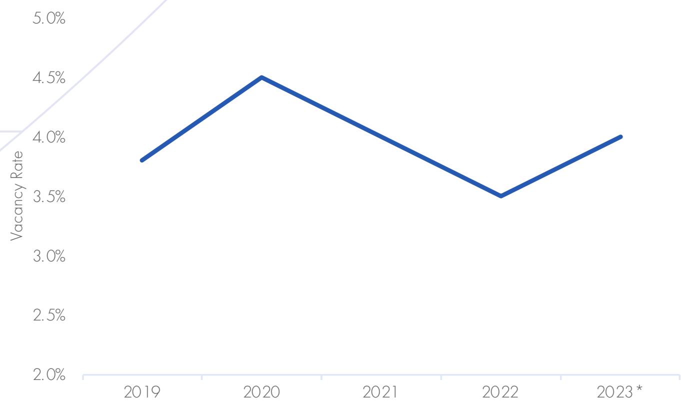
* *Year End Forecast*
Sources: Northmarq, REIS

CONSTRUCTION & PERMITTING FORECAST



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

VACANCY FORECAST



* *Year End Forecast*
Sources: Northmarq, REIS

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