Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	38,255
UNITS DELIVERED	2,971

MARKET FUNDAMENTALS

VACANCY RATE	3.6%
YEAR-OVER-YEAR CHANGE	-10bps
ASKING RENTS	$2,342
YEAR-OVER-YEAR CHANGE	+6.1%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$259,200

Southern California Multifamily
1Q 2023

MARKET INSIGHTS

Tight conditions persist, despite a slow start to 2023

HIGHLIGHTS

- Multifamily fundamentals in Southern California cooled slightly at the opening of 2023. Vacancies inched higher, while rents dipped. Developers remain active with projects totaling 38,255 units currently under construction throughout the region.
- Vacancy across Southern California increased 20 basis points during the first quarter to 3.6 percent. Despite the recent uptick, the vacancy rate has tightened by 10 basis points year over year. Vacancy in Southern California typically operates in a fairly tight range in the low- to mid-3 percent range.
- Asking rents trended lower at the start of the year, dropping 1.5 percent during the first quarter to $2,342 per month. Despite the recent dip, the region maintains some of the most expensive rents in the country. Average rents throughout Southern California have risen 6.1 percent during the past 12 months.
- Multifamily sales activity continued to slow during the first quarter. The number of deals in the last three months dropped 14 percent from levels recorded at the end of 2022. The median sales price to this point in the year is $259,200 per unit, down 22 percent from last year's figure.

SOUTHERN CALIFORNIA MULTIFAMILY MARKET OVERVIEW

The multifamily market in Southern California remains strong but did show some signs of softening during the first quarter. The vacancy rate in Southern California ticked higher by 20 basis points during the first quarter to 3.6 percent. In addition, asking rents crept lower at the start of the year, dropping 1.5 percent in the last three months. Despite the recent decline, apartment rents in Southern California have increased 6.1 percent from one year ago, with Los Angeles and Orange County posting the strongest gains. Although property fundamentals are cooling, developers have stepped up activity levels. Projects totaling nearly 3,000 units were completed during the first quarter with another 38,255 units currently under construction.

Multifamily transaction activity in Southern California continued to slow at the onset of 2023, largely due to the heightened cost of capital and overall economic uncertainty. The number of properties that traded during the first quarter fell 14 percent from the previous period and is down 36 percent from the start of 2022. As fewer properties are changing hands across the region, per-unit pricing also trended lower. The median sales price to this point in the year is $259,200 per unit, a 22 percent drop from the median price in 2022. Cap rates have inched higher, following recent interest rate trends. Cap rates in Southern California averaged around 4.25 percent during the first quarter, a 40-basis point increase from the same period one year ago.

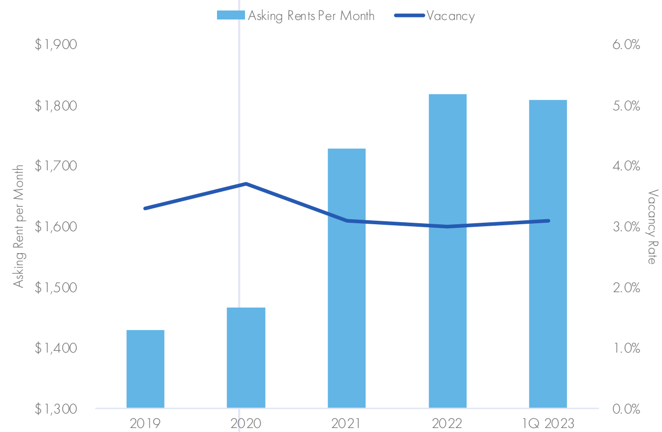
INLAND EMPIRE

CONSTRUCTION/VACANCY/RENTS

- Developers in the Inland Empire continue to bring new apartment projects online as roughly 440 units were completed during the first quarter. Projects totaling 6,461 units are currently under construction throughout the region, up nearly 45 percent from the same period last year.
- Local vacancy inched higher in recent months, rising 10 basis points during the first quarter to 3.1 percent. Year over year, the local vacancy rate increased by just 10 basis points. Generally, vacancy in the Inland Empire operates in an extremely tight range between 3 percent and 3.5 percent.
- Following robust growth in recent years, asking rents have now inched lower for the second straight quarter. Rents in the Inland Empire dipped 0.5 percent at the start of 2023 to $1,809 per month. Current rents are up just $2 per month from one year ago.
- **FORECAST:** Apartment construction activity is set to gain momentum with projects totaling nearly 2,500 units slated to come online in 2023. As construction activity picks up, area vacancy is expected to rise to 3.3 percent. Rents in the Inland Empire are projected to increase 1.5 percent this year, reaching $1,845 per month.

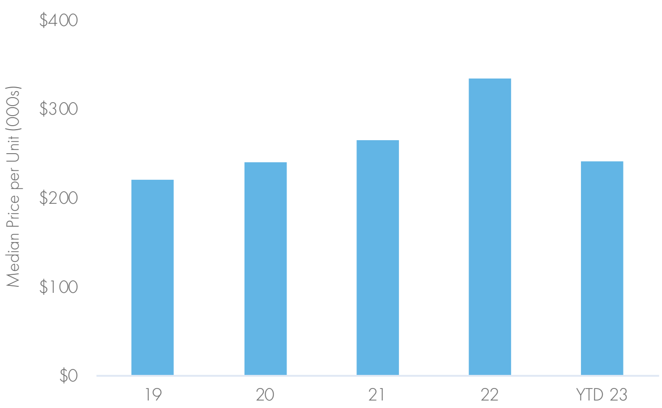
Year over year, local vacancy increased by just 10 basis points.

VACANCY & RENT TRENDS



Sources: Northmarq, Reis

SALES TRENDS



Cap rates averaged 4.1 percent during the first quarter.

MULTIFAMILY SALES

- Multifamily sales activity continues to be fairly limited to this point in 2023. Only a handful of properties changed hands in the Inland Empire during the first quarter, similar to levels recorded at the end of last year.
- The median sales price in the small number of deals during the first quarter was $240,600 per unit, after prices topped $330,000 per unit in 2022. Class C properties accounted for nearly all of the sales at the beginning of the year, which dragged on pricing.
- Cap rates in the Inland Empire continued to tick higher in recent months, averaging 4.1 percent during the first quarter. Cap rates are up roughly 35 basis points from the end of last year.

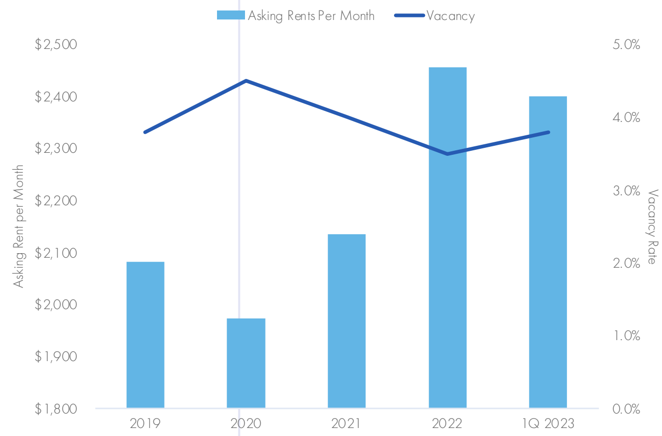
LOS ANGELES

CONSTRUCTION/VACANCY/RENTS

- Multifamily developers completed nearly 1,700 units during the first quarter, more than doubling levels recorded at the start of 2022. Downtown and the San Fernando Valley were the most active areas for completions in recent months. Throughout Los Angeles County, projects totaling 21,235 units are currently under construction, down 10 percent from one year ago.
- The vacancy rate trended higher throughout Los Angeles to start 2023, after falling to a cyclical low in 2022. Local vacancy rose 30 basis points during the first quarter to 3.8 percent. Despite the recent uptick, the rate has tightened by 10 basis points year over year.
- Apartment rents in Los Angeles retreated during the first quarter, following two straight years of rapid gains. Asking rents dropped 2.3 percent in the last three months to $2,400 per month. Year over year, average rents are up 7.3 percent.
- **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. With new construction on the rise, local vacancy is forecast to finish 2023 at 4 percent, up 50 basis points for the full year. Apartment rents in Los Angeles are projected to reach $2,515 per month.

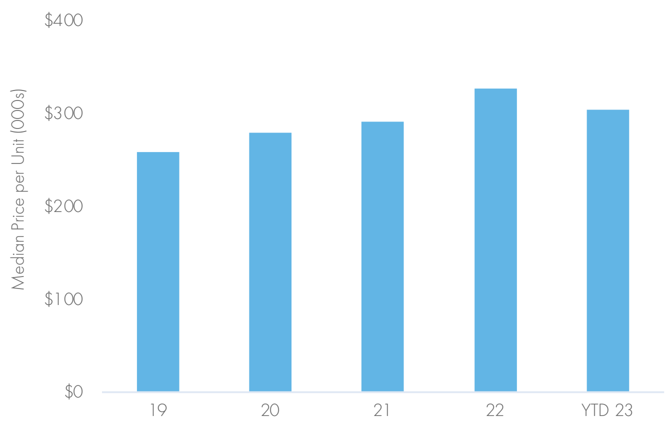
Year over year, average rents are up 7.3 percent.

VACANCY & RENT TRENDS



Sources: Northmarq, Reis

SALES TRENDS



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

MULTIFAMILY SALES

- The Los Angeles investment market picked up at the start of the year, after slowing in the second half of 2022. The number of deals during the first quarter increased by 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 gained momentum 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 rose. Cap rates averaged approximately 4.6 percent during the first quarter, after remaining closer to 4 percent in recent periods.

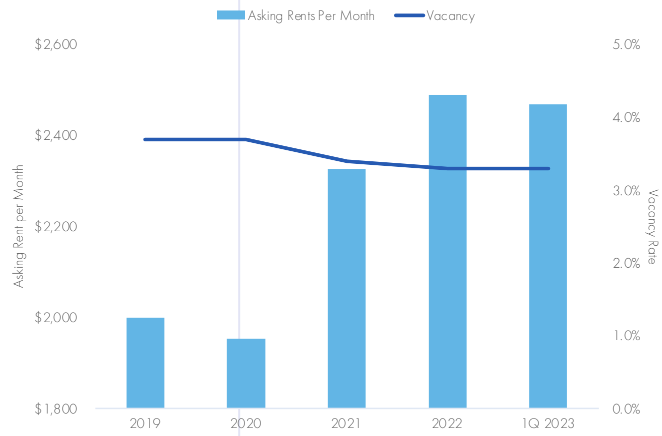
ORANGE COUNTY

CONSTRUCTION/VACANCY/RENTS

- Multifamily construction activity slowed slightly in recent months as developers completed one major project totaling 603 units during the first quarter. Nearly 5,840 units are currently under construction throughout Orange County, a 38 percent increase from one year ago.
- Vacancy conditions in Orange County continue to operate in a fairly tight range. The vacancy rate ended the first quarter at 3.3 percent, matching the year-end 2022 level. During the past 12 months, vacancy inched lower by 10 basis points.
- Apartment rents in Orange County dipped lower for the second consecutive quarter, following healthy gains during much of 2021 and 2022. Asking rents fell 0.9 percent during the first three months of 2023 to $2,468 per month. Despite recent declines, average rents are up 5.7 percent year over year.
- **FORECAST:** Projects totaling nearly 3,000 units are slated to come online in 2023, nearly doubling levels from the previous year. As construction activity ramps up, the vacancy rate is forecast to rise 20 basis points to 3.5 percent. Apartment rents are expected to advance 1.5 percent in 2023, ending the year at around $2,525 per month.

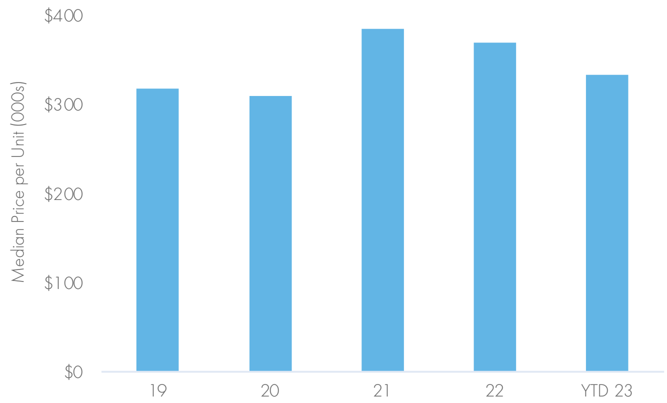
Projects totaling nearly 5,840 units are currently under construction.

VACANCY & RENT TRENDS



Sources: Northmarq, Reis

SALES TRENDS



MULTIFAMILY SALES

- Multifamily transaction activity in Orange County continued to taper off at the beginning of 2023. Sales volume during the first quarter declined 25 percent from the previous period and is down 50 percent when compared to the first quarter of last year.
- Sales prices in Orange County trended lower in recent months after peaking in the previous two years. The median sales price during the first quarter was $333,300 per unit, down nearly 10 percent from the median price in 2022.
- Cap rates remained low in recent months, despite a decline in prices. Most of the transactions that closed during the first quarter traded with cap rates ranging between 3.5 percent and 4.5 percent.

The median sales price during the first quarter was $333,300 per unit.

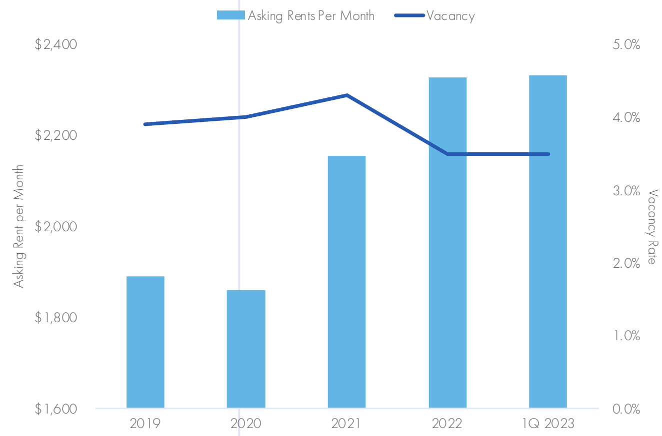
SAN DIEGO

CONSTRUCTION/VACANCY/RENTS

- Multifamily construction slowed at the start of 2023 as developers completed 235 units in the first quarter, the lowest quarterly total in two years. Projects totaling more than 4,700 units are currently under construction throughout San Diego, down 20 percent from one year ago.
- The local vacancy rate finished the first quarter at 3.5 percent, matching the year-end 2022 figure. Vacancy improved by 50 basis points year over year. The submarkets in San Diego that record rents below the market average generally have the tightest vacancy conditions.
- Rents in San Diego rose just 0.2 percent in the first quarter to $2,333 per month. Year over year, asking rents climbed 4.8 percent. Recent increases are a bit stronger than the market's longer-term trajectory; annual rent growth averaged 3.8 percent from 2015 to 2020, before rents spiked in 2021 and 2022.
- **FORECAST:** After a sluggish start, the pace of deliveries should gain momentum in the coming periods with projects totaling approximately 3,000 units slated to come online in 2023. Vacancy is expected to increase 20 basis points to 3.7 percent, while asking rents are forecast to rise 3 percent to $2,400 per month.

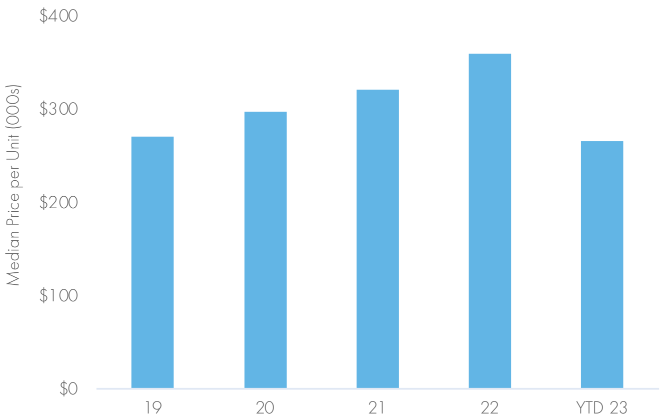
Vacancy improved 50 basis points year over year.

VACANCY & RENT TRENDS



Sources: Northmarq, Reis

SALES TRENDS



MULTIFAMILY SALES

- Transaction activity slowed significantly in recent months, as the number of deals during the first quarter fell nearly 70 percent from levels at the end of 2022 and declined 50 percent from the same period last year.
- As fewer properties changed hands, prices also trended lower at the start of the year. The median sales price thus far in 2023 is $265,100 per unit, down 26 percent from the median price in 2022.
- Cap rates continued to drift higher during the last three months. Cap rates averaged around 4.25 percent in the first quarter, up roughly 125 basis points from one year ago.

The median sales price thus far in 2023 is $265,100 per unit.

Northmarq

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