Northmarq

MARKET INSIGHTS

Construction picking up, following two slow years

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	**19,506**
UNITS DELIVERED	**4,935**

MARKET FUNDAMENTALS

VACANCY RATE	**4.0%**
YEAR-OVER-YEAR CHANGE	**+40bps**
ASKING RENTS	**$2,449**
YEAR-OVER-YEAR CHANGE	**+4.1%**

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	**$303,500**

Los Angeles Multifamily
2Q 2023

HIGHLIGHTS

- The Los Angeles multifamily market recorded a mixed performance during the second quarter with vacancy inching higher, while rents rose. Apartment development activity is ramping up with a steady flow of new projects expected to come online in the remainder of the year.
- The local vacancy rate ticked higher during the second quarter, rising 20 basis points to 4 percent. Year over year, the rate increased by 40 basis points.
- Local asking rents rose 2 percent during the second quarter to $2,449 per month, and are up 4.1 percent year over year. The strongest rent gains have been recorded in Class B and Class C properties.
- The multifamily investment market cooled in recent months as deal volume fell more than 50 percent from the first quarter to the second quarter. The median sales price year to date is $303,500 per unit while cap rates were averaging around 4.8 percent.

GREATER LOS ANGELES MULTIFAMILY MARKET OVERVIEW

Despite a recent rise in asking rents, the Los Angeles multifamily market faces operational challenges heading into the second half of 2023. Net absorption in the first half fell to its lowest level in more than a decade, even as the local employment market continued to recover. As such, the vacancy rate rose, ending the second quarter slightly higher than the region's five-year average. Multifamily developers are active throughout the region with projects totaling more than 19,500 units currently under construction. With new inventory coming online during a period of softer demand, operators have begun to increase the use of concessions to attract and retain tenants. These conditions, along with rising insurance costs, could begin to drag on NOI going forward.

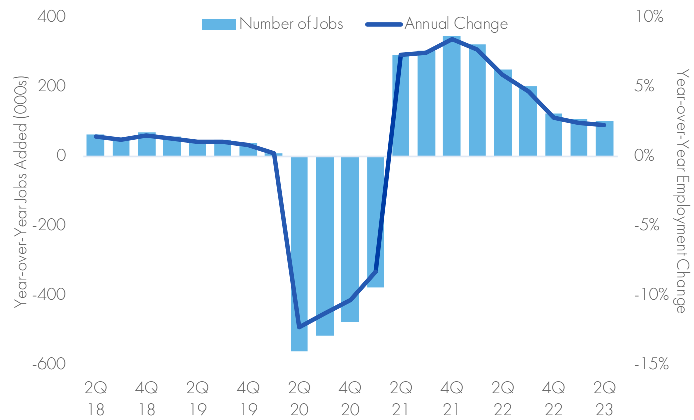
Increasing interest rates continue to impact multifamily transaction activity in Los Angeles. Sales volume fell significantly in recent months, as the number of deals during the latest quarter fell to its lowest level since the second quarter of 2020. Many buyers and sellers have different expectations for pricing, making it difficult for deals to close in the current interest rate environment. While investors are challenged by elevated borrowing costs, an additional transfer tax imposed on property transactions above $5 million began in April in the City of Los Angeles. These additional costs could continue to suppress sales activity in the near term and influence pricing as owners account for an additional expense when closing a transaction.

EMPLOYMENT

- Total employment in Los Angeles reached an all-time high during the second quarter and fully recovered all of the jobs lost during 2020. Year over year, the local labor market grew by 103,000 workers, a gain of 2.3 percent, with 18,000 jobs added in the second quarter. Unemployment in the region rose to 4.9 percent at midyear, 130 basis points higher than the national average.
- The local education and health services sector continues to add jobs at a strong pace. Year over year, this industry advanced by 41,700 positions and grew by 5.6 percent. Traditionally, gains in this sector are closely linked to population growth, suggesting that there could be some leveling off in future years.
- More than 50 million visitors are forecasted to travel to the region this year, closely tracking levels recorded in 2019. With tourism returning to past peaks, the leisure and hospitality sector is recording rapid growth. During the past 12 months, this industry added 35,700 jobs and expanded by nearly 7 percent.
- **FORECAST:** After a strong start to the year, the pace of employment growth will continue to taper off in the second half of 2023. Total employment in Los Angeles is projected to expand by 1.5 percent in 2023, with the addition of roughly 70,000 positions.

The local labor market grew by 103,000 workers.

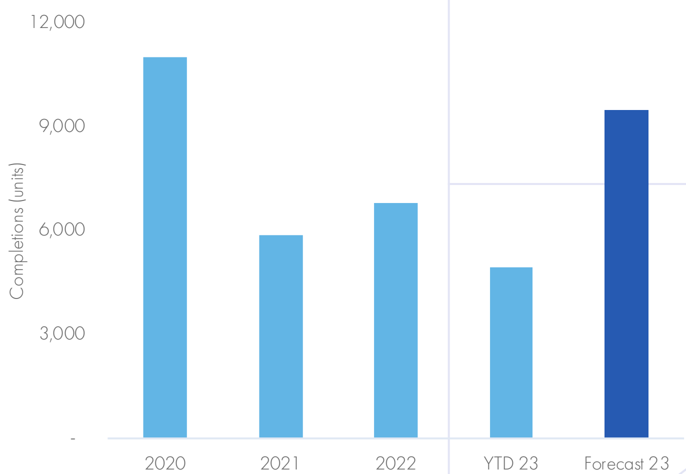
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Projects totaling 4,935 units have come online.

DEVELOPMENT TRENDS



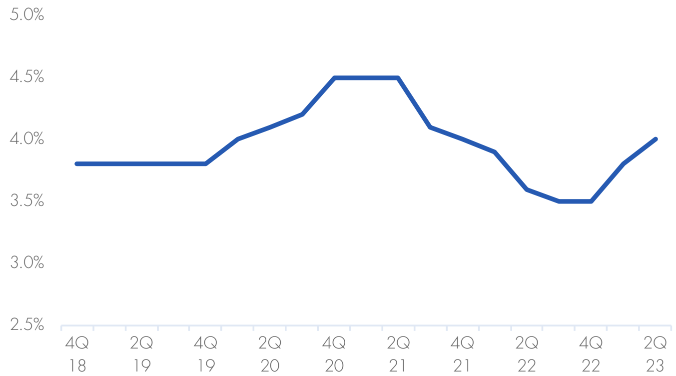
Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

- Apartment deliveries ramped up during the second quarter, with the completion of more than 3,200 units. Projects totaling 4,935 units have come online to this point in the year, about double the number of units that were delivered in the first half of 2022.
- More than 19,500 apartment units are currently under construction throughout Los Angeles County, 13 percent lower than the total from one year ago. While most areas have some projects under construction, the Downtown area accounts for nearly 45 percent of the total development pipeline.
- During the first half, developers pulled permits for approximately 6,250 multifamily units, down 15 percent from levels recorded in the second half of 2022. Permitting was stronger in the second quarter than in the first three months of the year.
- **FORECAST:** Projects totaling roughly 9,500 units are scheduled to come online in 2023, outpacing the average annual delivery totals in the previous two years by about 50 percent.

Most submarkets are recording vacancy rates around 4 percent or lower.

VACANCY TRENDS



Sources: Northmarq, REIS

VACANCY

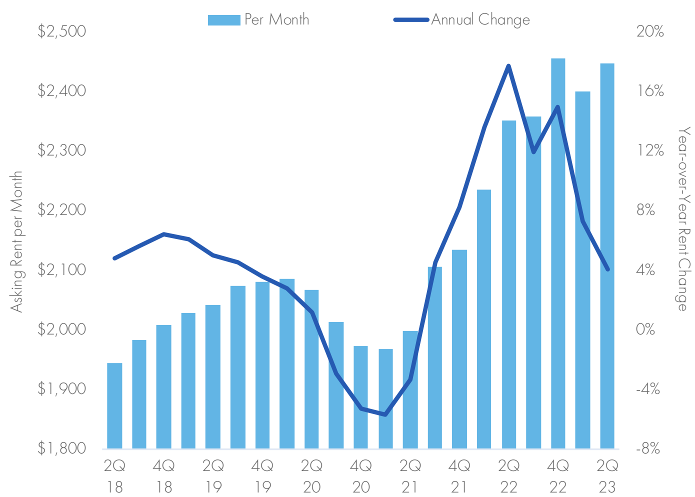
- The vacancy rate in Los Angeles ticked higher for a second consecutive quarter, rising 20 basis points in the last three months to 4 percent. Year over year, the rate increased by 40 basis points.
- Most submarkets are recording vacancy rates around 4 percent or lower throughout the county. Downtown has proven to be an exception. Elevated levels of construction in Downtown in recent years have pushed the rate up to 6.6 percent.
- The Sherman Oaks/Studio City/North Hollywood submarket posted a large improvement in vacancy conditions in recent quarters. Vacancy in this submarket dropped 110 basis points during the past year to 2.7 percent.
- **FORECAST:** After two straight years of tightening, local vacancy is forecast to trend higher in 2023. The rate is on pace to finish the year at 4.3 percent, 80 basis points higher than the year-end 2022 figure.

RENTS

- Asking rents in Los Angeles advanced during the second quarter, after ticking lower at the beginning of the year. Asking rents rose 2 percent in the last three months to $2,449 per month. Concessions have increased in each of the first two quarters of 2023, and current effective rents are lower than levels from the beginning of the year.
- After peaking during much of 2021 and 2022, the pace of rent growth tapered off in recent quarters. Year over year, average rents in Los Angeles rose 4.1 percent; growth has averaged 5.9 percent since 2015.
- While local rents rose across all asset classes during the past year, the largest gains were concentrated in mid-tier and lower-tier units. Combined asking rents in Class B and Class C properties increased 5.6 percent during the past 12 months to $2,082 per month.
- **FORECAST:** Apartment rents in Los Angeles should trend higher at a modest pace for the remainder of the year. Local rents are expected to rise roughly 2 percent in 2023, topping $2,500 per month.

Asking rents rose 2 percent in the last three months.

RENT TRENDS



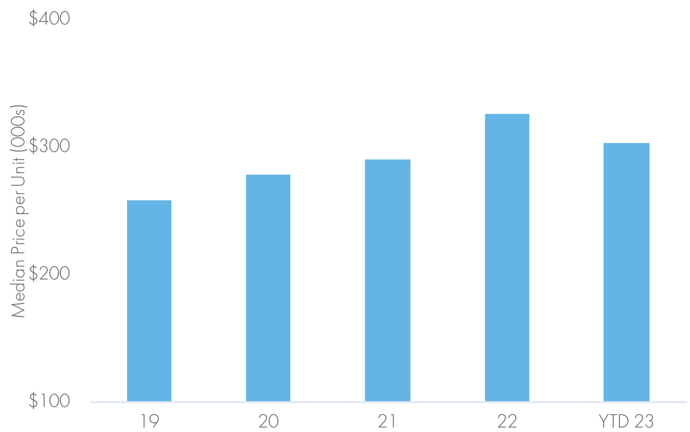
Sources: Northmarq, REIS

MULTIFAMILY SALES

- Multifamily sales activity continued to cool in Los Angeles in recent months, dropping 57 percent from the first quarter to the second quarter. In addition, the number of transactions through the first half of 2023 fell nearly 50 percent from the same period last year.
- With fewer properties trading and cap rates rising, sales prices inched lower thus far in 2023. The median sales price to this point in the year is $303,500 per unit, down 7 percent from the median price in 2022.
- Cap rates continue to tick higher throughout Los Angeles. Cap rates averaged 4.8 percent during the second quarter, up 50 basis points from the start of the year.

The median sales price is $303,500 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Cathay Manor Apartments	600 N Broadway., Los Angeles	273	$97,000,000	$355,311
The Edison	100 Long Beach Blvd., Long Beach	156	$58,000,000	$371,795
Carson Gardens	21811 Main St., Carson	101	$33,000,000	$326,733
Normandie Lofts	167 S Normandie., Los Angeles	50	$7,575,000	$151,500

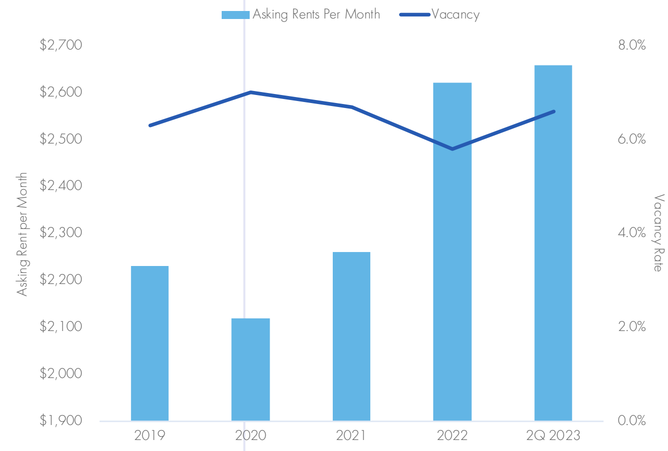
DOWNTOWN

PROPERTY PERFORMANCE METRICS

- Multifamily construction activity in the Downtown area picked up in recent months after a slow start to the year. Projects totaling roughly 1,740 units came online during the second quarter, bringing the year-to-date total to nearly 2,300 units. Additional development is on the way, with more than 8,350 units currently under construction throughout the city center.
- The vacancy rate in Downtown Los Angeles rose for its second consecutive quarter, increasing 30 basis points to 6.6 percent. Year over year, the rate is up 110 basis points.
- Area rents pushed higher in recent months, after retreating at the start of the year. Asking rents Downtown rose 3.4 percent during the second quarter to $2,659 per month. Rents are up 7.1 percent from one year ago.
- **FORECAST:** This year will be an active one for multifamily completions Downtown, with projects totaling more than 3,500 units slated for delivery in 2023. Vacancy is expected to continue ticking higher, finishing the year at around 7 percent, up 120 basis points for the full year. Asking rents are projected to increase by 2 percent in 2023 to roughly $2,675 per month.

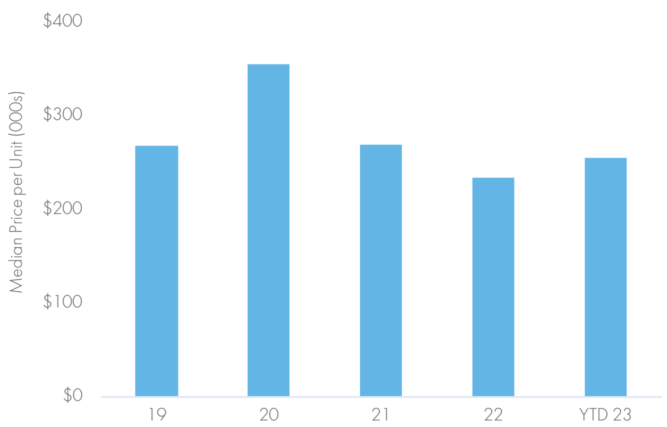
Projects totaling more than 8,350 units are under construction.

VACANCY & RENT TRENDS



Sources: Northmarq, Reis

SALES TRENDS



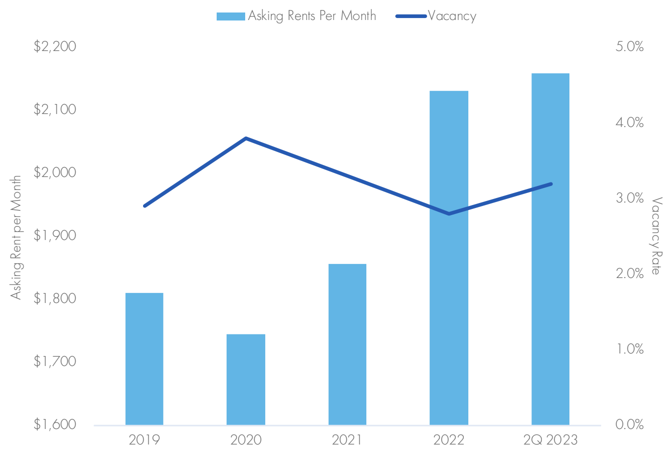
MULTIFAMILY SALES

- Apartment sales activity Downtown cooled in recent months as deal volume declined 64 percent from the first quarter to the second quarter. Despite the recent slowing, the number of transactions year to date is closely tracking levels recorded in the first half of 2022.
- The median sales price thus far in 2023 is $255,000 per unit, up 9 percent from last year's figure. The few properties that did trade in the Downtown area during the second quarter were located in Koreatown, Chinatown, and East Hollywood.
- Cap rates Downtown ticked higher in recent months, averaging around 4.6 percent during the second quarter, up 20 basis points from the start of the year.

The median sales price in 2023 is $255,000 per unit.

SAN FERNANDO VALLEY

VACANCY & RENT TRENDS



Sources: Northmarq, Reis

During the second quarter, local rents rose 1.5 percent.

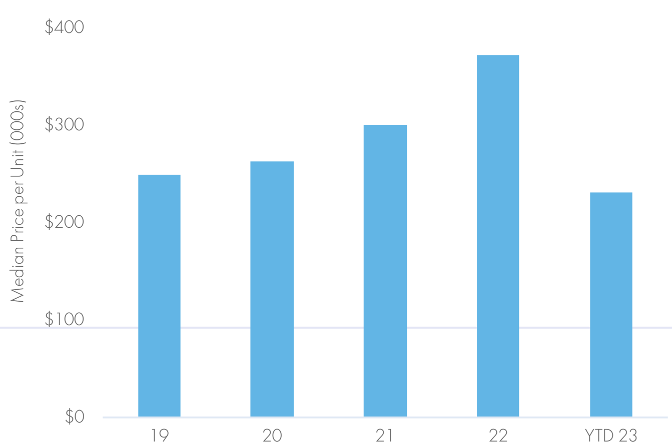
PROPERTY PERFORMANCE METRICS

- After roughly 730 units were completed at the start of the year, multifamily deliveries stalled in recent months with no significant projects coming online during the second quarter. Projects totaling nearly 2,750 units are currently under construction throughout the San Fernando Valley.
- The local vacancy rate ticked higher in recent months, rising 30 basis points during the second quarter to 3.2 percent. Year over year, the rate is up just 10 basis points. The tightest conditions are being recorded in the Panorama Hills/San Fernando/Pacoima submarket, where the rate finished the second quarter at just 1.2 percent.
- Apartment rents in the San Fernando Valley pushed higher after ticking lower in the opening period. During the second quarter, local rents rose 1.5 percent to $2,159 per month. Year over year, asking rents advanced by 5.4 percent.
- **FORECAST:** Supply growth is expected to be fairly limited in the remainder of the year with more than 1,000 units scheduled to come online in 2023. The vacancy rate is forecast to hold mostly steady in the coming periods, finishing the year at around 3.1 percent. Rents are projected to end 2023 at $2,175 per month, a 2 percent gain.

MULTIFAMILY SALES

- After a handful of properties changed hands during the first quarter, sales activity was limited in the San Fernando Valley during the last three months. Through the first half of this year, sales velocity was down 60 percent from the same period in 2022.
- The few properties that changed hands to this point in the year recorded prices well below last year's peak. The median sales price year to date is $231,700 per unit, down more than 35 percent from the 2022 figure. Current pricing is more consistent with levels recorded from 2015 to 2019.
- Cap rates held fairly steady in the San Fernando Valley in recent months, averaging between 4.25 percent and 5 percent during the second quarter.

SALES TRENDS



The median sales price year to date is $231,700 per unit.

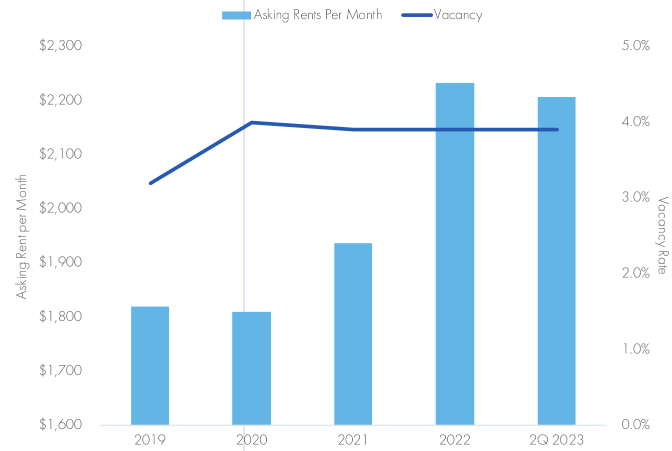
SOUTH BAY

PROPERTY PERFORMANCE METRICS

- Apartment deliveries picked up slightly during the second quarter with more than 460 units coming online in the last three months. Year to date, developers completed roughly 710 multifamily units in the South Bay. Projects totaling approximately 1,760 units are currently under construction throughout the South Bay.
- The vacancy rate inched lower in recent months, dipping 20 basis points during the second quarter to 3.9 percent. Year over year, the rate increased by 20 basis points. Vacancy in the South Bay generally maintains a consistently tight level; the rate has averaged 3.6 percent during the past five years.
- After falling at the start of the year, apartment rents ticked higher in recent months. Asking rents rose 1 percent during the second quarter to $2,206 per month. Year over year, rents increased by 3 percent.
- **FORECAST:** Developers are on track to deliver roughly 900 units in the South Bay in 2023. Vacancy conditions are expected to hold mostly steady in the remainder of the year, finishing 2023 at around 4 percent. Asking rents are projected to advance 0.5 percent this year to roughly $2,245 per month.

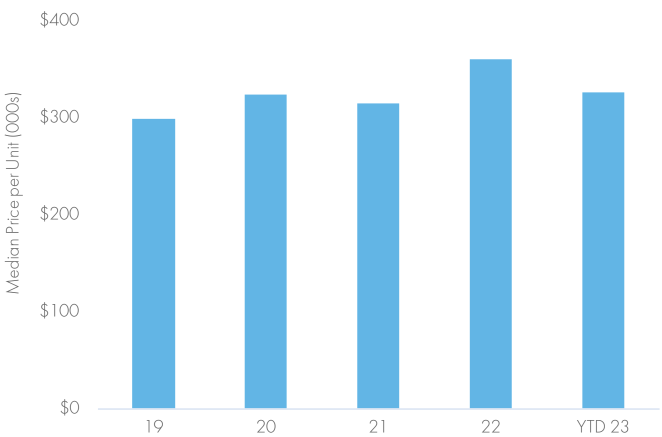
Year to date, developers completed roughly 710 multifamily units.

VACANCY & RENT TRENDS



Sources: Northmarq, Reis

SALES TRENDS



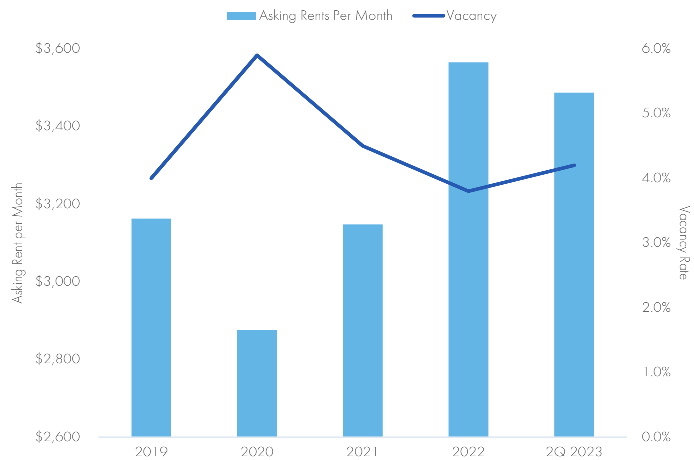
The median sales price year to date is $326,700 per unit.

MULTIFAMILY SALES

- Very few properties are trading in the South Bay with just a handful of deals in the first half of 2023. Multifamily transaction activity to this point in the year has declined nearly 70 percent from the same period in 2022.
- The median sales price year to date is $326,700 per unit, down 10 percent from the median price in 2022.
- Cap rates have trended slightly higher to this point in the year. Most properties are trading with cap rates between 4 percent to 4.5 percent.

WEST LOS ANGELES

VACANCY & RENT TRENDS



Sources: Northmarq, Reis

During the past 12 months, rents have increased by 1.4 percent.

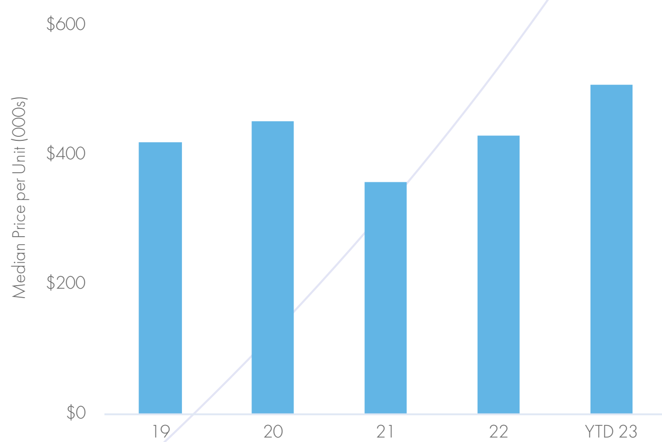
PROPERTY PERFORMANCE METRICS

- Multifamily development in West Los Angeles gained momentum in recent months with the delivery of more than 640 units during the second quarter. Deliveries should pick up again beginning in 2024, with approximately 1,700 units currently under construction.
- Year over year, the vacancy rate increased by 30 basis points to 4.2 percent. The lowest vacancies are being recorded in the region's largest submarket, Beverly Hills/West Hollywood/Park La Brea, where the rate fell 110 basis points in the past year to just 3.1 percent.
- After a significant decline in the first few months of the year, asking rents recorded healthy growth during the second quarter. Apartment rents in West Los Angeles rose 2.3 percent in the last three months to $3,487 per month. During the past 12 months, rents have increased by 1.4 percent.
- **FORECAST:** Apartment projects totaling approximately 850 units are scheduled to come online in 2023. Vacancy in West Los Angeles will likely hold fairly steady for the remainder of the year, finishing 2023 in the low-4 percent range. Asking rents are forecast for modest growth in the second half of the year but will end 2023 below last year's peak. Rents are expected to reach roughly $3,555 per month.

MULTIFAMILY SALES

- After the pace of deals spiked at the beginning of the year, multifamily transaction activity in West Los Angeles trailed off in recent months. Due to the strong start to 2023, sales volume in the last six months has already matched the average annual sales total in recent years.
- Sales prices strengthened in the transactions thus far in 2023. The median sales price to this point in the year is $508,100 per unit, up 18 percent from the median price in 2022.
- Cap rates in the region averaged around 4.3 percent in the last six months. Cap rates in West Los Angeles generally have a wider range than Los Angeles County as a whole, with properties trading with cap rates between 3 percent and 5.5 percent.

SALES TRENDS



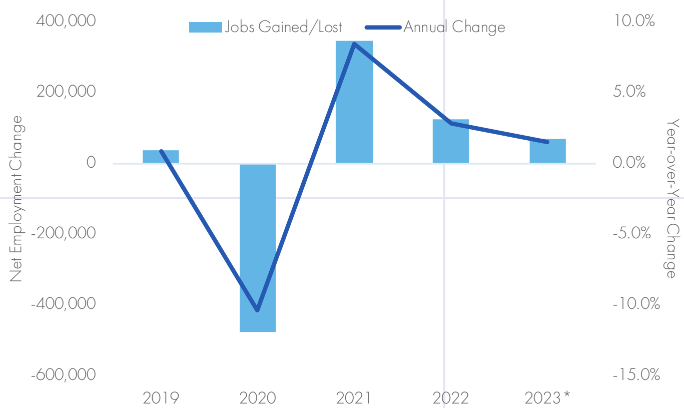
The median sales price to this point in the year is $508,100 per unit.

LOOKING AHEAD

The Greater Los Angeles multifamily market is expected to record a more modest pace of renter demand growth this year, at a time when deliveries will accelerate. Completions in recent years have been minimal, with projects moving through the construction pipeline at a fairly sluggish pace, but new units will come online at a faster clip in the second half. Developers are expected to complete approximately 9,500 rental units this year, after annual delivery totals averaged roughly 7,300 units per year during the past decade. The combination of accelerating inventory growth and below-trend absorption levels will put some additional upward pressure on the local vacancy rate. Vacancy is projected to finish the year in the low-to-mid 4 percent range, its highest figure since 2020.

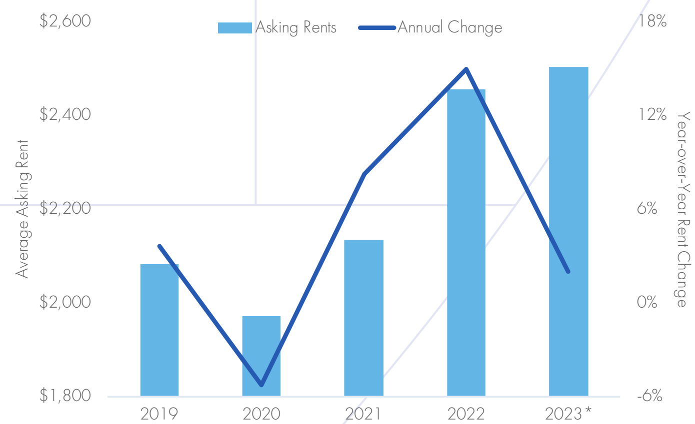
The Los Angeles multifamily investment market recorded a significant drop in sales volume during the second quarter, largely due to higher debt costs and a new transfer tax within the city of Los Angeles. Going forward, these elevated costs could continue to drag on transaction activity and pressure pricing as investors adjust to the new market environment. While some sellers are still seeking elevated prices, most buyers now require a discount to achieve targeted investment returns. Current cap rates remain in the high-4 percent range on average, but there could be a rise to around 5 percent or higher by the end of the year. Historically, area cap rates have not trended much higher than 5 percent, even in periods where interest rates were near current levels.

EMPLOYMENT FORECAST



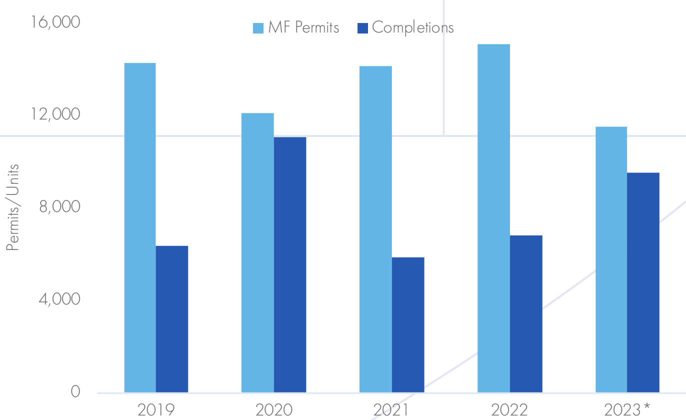
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



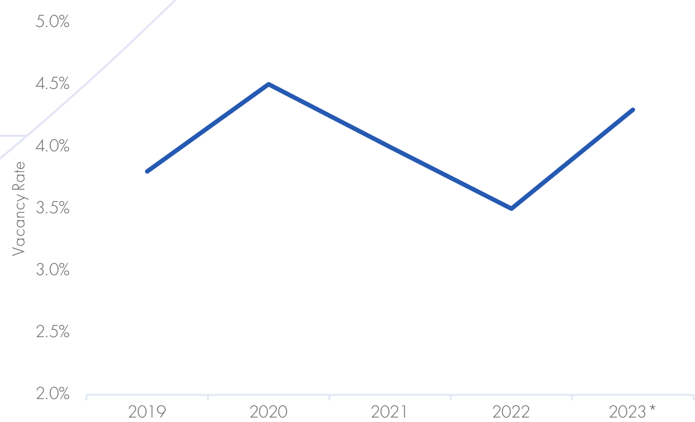
* Year End Forecast
Sources: Northmarq, REIS

CONSTRUCTION & PERMITTING FORECAST



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

VACANCY FORECAST



* Year End Forecast
Sources: Northmarq, REIS

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