Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	21,171
UNITS DELIVERED	9,577

MARKET FUNDAMENTALS

VACANCY RATE	4.1%
YEAR-OVER-YEAR CHANGE	+60bps
ASKING RENTS	$2,393
YEAR-OVER-YEAR CHANGE	-3.1%

TRANSACTION ACTIVITY

MEDIAN PRICE PER UNIT	$319,200

Los Angeles Multifamily
4Q 2023

MARKET INSIGHTS

Cap rates rise to close the year

HIGHLIGHTS

- The Los Angeles multifamily market closed out a soft year with some mixed performance in the fourth quarter. Rents continued to dip, but vacancy rates showed a slight improvement in the final few months of 2023. Transaction activity inched higher, but lagged historical levels.
- Vacancy rose 60 basis points in Los Angeles County in 2023, but the rate inched lower during the fourth quarter. Vacancy ended the year at 4.1 percent. The vacancy increase in 2023 followed two consecutive years where the rate tightened.
- Asking rents ended the year on a downward trend, decreasing by 2.6 percent in 2023 to $2,393 per month. Rent declines were recorded across most of the county's major submarkets in 2023.
- While multifamily transaction activity in Los Angeles bounced off of earlier lows in the fourth quarter, annual sales were down more than 40 percent from levels recorded in 2022. Cap rates have pushed higher, averaging between 5.5 percent and 6 percent in the fourth quarter.

GREATER LOS ANGELES MULTIFAMILY MARKET OVERVIEW

Operating conditions in the Los Angeles multifamily market softened in 2023 modestly after strong property performance in recent years. The pace of development has gradually accelerated in recent years, after deliveries reached a cyclical low in 2021. Projects totaling nearly 9,600 units were delivered in 2023, including more than 1,800 units that came online in the fourth quarter. While the pace of deliveries has increased, completions in 2023 represented an increase to area inventory of only about 1 percent, and overall rental housing conditions remain tight. Further, construction is concentrated in a few regions, led by Downtown, which accounted for more than half of the units that came online in 2023 and about 40 percent of all projects in the construction pipeline.

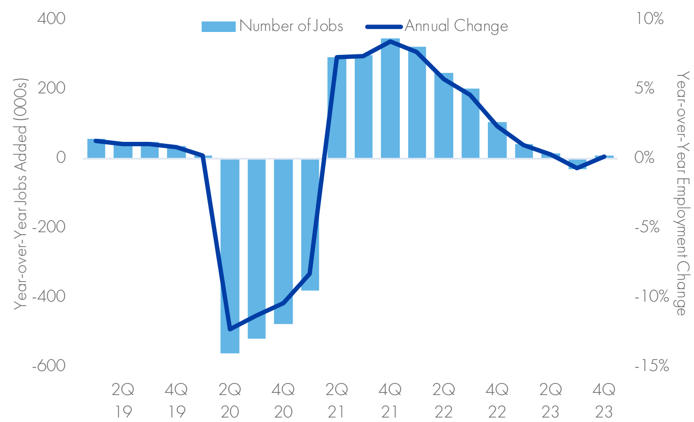
Following two consecutive quarters of minimal activity, the Los Angeles multifamily investment market picked up modestly at the end of 2023. Sales velocity for the full year was down about 40 percent from 2022 levels, as investors had to account for a new real estate transfer tax, higher interest rates, and softer property fundamentals when underwriting transactions during the past year. After a handful of newer properties sold during the beginning of the year, the bulk of the transaction mix in 2023 consisted of Class B and Class C properties of around 100 units. This resulted in a sharp decline in the average transaction size. Sales velocity in deals of $100 million or more dropped 85 percent from 2022 to 2023, and transactions between $50 million to $100 million were down 55 percent.

EMPLOYMENT

- The recovery in the local labor market slowed in 2023, as employers added fewer than 10,000 jobs for the year, after more than 100,000 positions were created in 2022. Growth in area payrolls totaled just 0.2 percent in 2023.
- While the job market as a whole posted slow gains, there were pockets of strength. The education and health services sector added nearly 50,000 jobs in 2023, a 5.5 percent expansion, and by far the fastest growth in Los Angeles County.
- Apple is currently constructing a new campus in Los Angeles. Located near the Culver City Station, the facility include 536,000 square feet of office and production space. The first phase of this development is scheduled for completion in late 2024, with the final phase delivering in either 2025 or 2026. This facility will double Apple's footprint in the region and will employ 3,000 people.
- **FORECAST:** Area employment should post faster gains across a broader range of industries in 2024. Businesses are expected to add approximately 35,000 net new jobs in the coming year, a 0.8 percent increase.

Growth in area payrolls totaled just 0.2 percent in 2023.

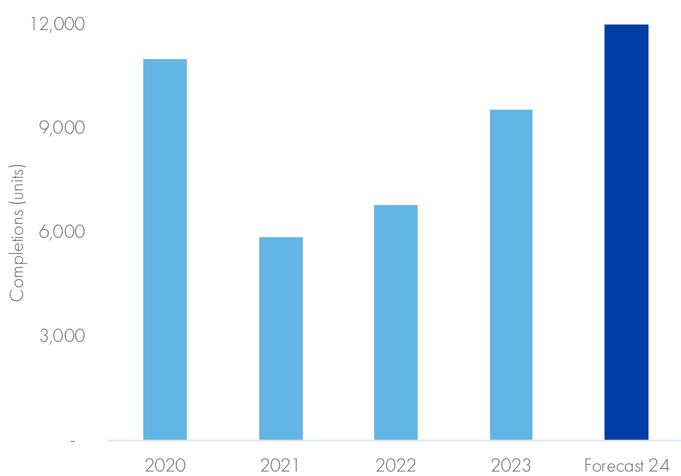
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Projects totaling 9,577 units came online in 2023.

DEVELOPMENT TRENDS



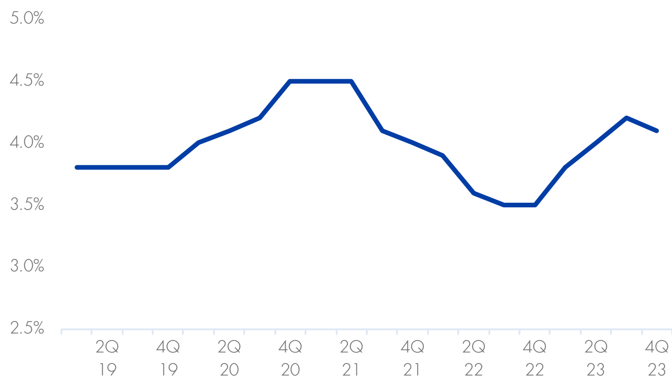
Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

- Developers in Los Angeles maintained an active pace of new multifamily completions through the end of the year, delivering more than 1,800 units in the fourth quarter. Projects totaling 9,577 units came online in 2023, outpacing the five-year average by about 20 percent. Deliveries slowed in 2021 and 2022 after pandemic-related development delays.
- Construction in the area has picked up in recent months with more than 21,100 units currently under way. Many parts of Los Angeles County have at least one project in the development pipeline, but the Downtown area has the largest concentration of new units, a trend that has been in place for the past several years.
- Permitting in Los Angeles has decelerated in recent months as permits for approximately 2,500 multifamily units were pulled in the fourth quarter. Activity declined by 13 percent from 2022 to 2023, with permits for fewer than 13,000 units issued over the course of the year.
- **FORECAST:** While construction starts are expected to slow in 2024, developers will continue to deliver properties that have already broken ground. New apartment communities totaling more than 12,500 units are expected to come online in 2024, the highest single-year total in more than a decade.

Class A vacancies fell 40 basis points in 2023.

VACANCY TRENDS



Sources: Northmarq, REIS, Yardi, CoStar

VACANCY

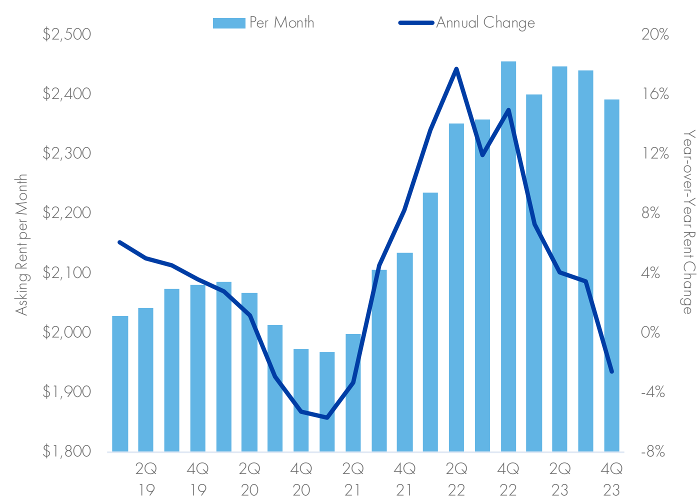
- Area vacancies in Los Angeles County inched lower in the fourth quarter, falling 10 basis points to 4.1 percent. The modest improvement recorded in the last three months of the year did not offset the larger regional trend of rising vacancies. For the full year, the local vacancy rate increased by 60 basis points. After ticking higher in 2022, average concessions rose again in 2023, reaching more than two weeks of free rent on a 12-month lease.
- While vacancies have generally trended higher throughout the region, there are parts of the County that are outperforming. Vacancies in the South Bay/Long Beach area have remained essentially unchanged for the past few years, while conditions have tightened in West Los Angeles after vacancy levels peaked in late 2020 and early 2021.
- Vacancy trends across classes have diverged in recent years. After peaking at about 8.5 percent a few years ago, Class A vacancies have tightened, falling 40 basis points in 2023 to 5.6 percent. In the lower tiers, vacancy rates have gradually trended higher, rising 70 basis points during the past 12 months.
- **FORECAST:** The area vacancy rate is forecast to rise for a second consecutive year in 2024, pushed higher, in part, by an increase in deliveries. The average vacancy rate is expected to end the year at 4.5 percent, 40 basis points higher than in 2023.

RENTS

- After spiking in 2022, rents dipped throughout the second half of 2023. Asking rents in Los Angeles declined by 1.9 percent during the fourth quarter, finishing the year at $2,393 per month. Rents dipped in three of the four quarters in 2023.
- Local rents declined by 2.6 percent in 2023. This followed a 15 percent spike in the prior year and an increase of more than 8 percent in 2021. During the past decade, rent growth in Greater Los Angeles has averaged 4.5 percent per year.
- While most submarkets recorded rent decreases in 2023, the area's most expensive submarket, Marina Del Rey/Venice, posted strong rent gains. Asking rents in this submarket rose 4.9 percent during the past year, reaching nearly $4,100 per month.
- **FORECAST:** Apartment rents in Los Angeles will likely record little movement in the next year. Area asking rents are forecast to tick up approximately 0.5 percent in 2024 to $2,405 per month.

Asking rents finished the year at $2,393 per month.

RENT TRENDS



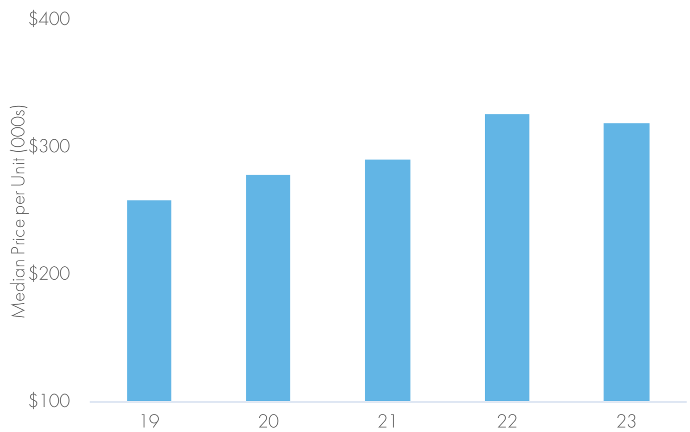
Sources: Northmarq, REIS

MULTIFAMILY SALES

- Multifamily investment activity was slow throughout much of 2023, with the lowest volume of transactions occurring in the third quarter. The pace picked up somewhat during the final three months of the year, but the number of properties sold in 2023 was down more than 40 percent from levels recorded in 2022.
- Per-unit prices were down slightly compared to 2022 levels. The median price in Los Angeles County was $319,200 per unit in 2023, 2 percent lower than the median price in the preceding year. During the fourth quarter, the median price was $285,700 per unit, as the transaction mix was split fairly evenly between 1960s-vintage Class C properties and 1990s-vintage Class B assets.
- Cap rates generally ranged between 5.5 percent and 6 percent during the fourth quarter, the highest level recorded in Los Angeles County since 2012 and 2013.

The median price in Los Angeles County was $319,200 per unit in 2023.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Sunset Square Apartments	745 N Sunset Ave., West Covina	140	$40,000,000	$285,714
Indie Fairview	321 E Fairview Ave., Glendale	108	$35,000,000	$324,074
Terramonte Apartment Homes	150 W Foothill Blvd., Pomona	138	$35,500,000	$257,246
Summerset Village	11450 N Poema Pl., Chatsworth	280	$106,650,000	$380,893

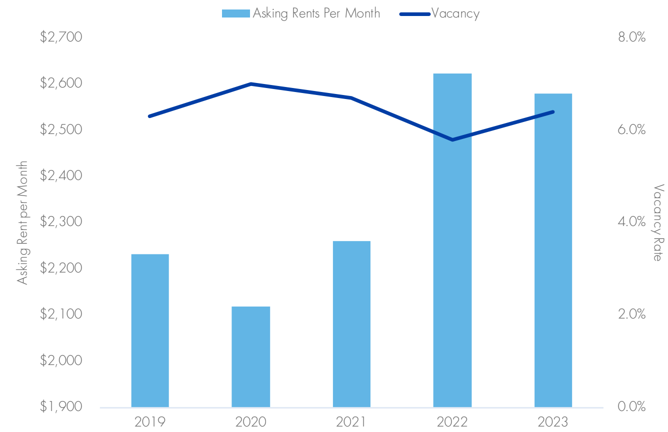
DOWNTOWN

CONSTRUCTION/VACANCY/RENTS

- Multifamily construction in Downtown Los Angeles slowed in recent months, as about 250 units came online during the fourth quarter. Despite slowing late in 2023, annual deliveries were up significantly from 2022 levels. Projects totaling roughly 5,200 units were delivered during the past 12 months. Approximately 8,000 units were under construction at the end of 2023.
- Local vacancy was elevated throughout the year due to the increased pace of deliveries in the area. The vacancy rate rose 60 basis points in 2023, closing the year at 6.4 percent.
- After posting healthy gains in earlier quarters, asking rents retreated in the closing months of 2023. Apartment rents decreased by 1.6 percent for the full year, reaching $2,580 per month.
- **FORECAST:** Developers will continue to deliver new projects at an elevated pace in Downtown Los Angeles through 2024. Projects totaling more than 4,500 units are forecast to be delivered in the coming year. Continued additions to inventory will result in another vacancy increase, with the rate expected to end 2024 at approximately 7 percent. Local rents should remain in their current range, reaching about $2,600 per month.

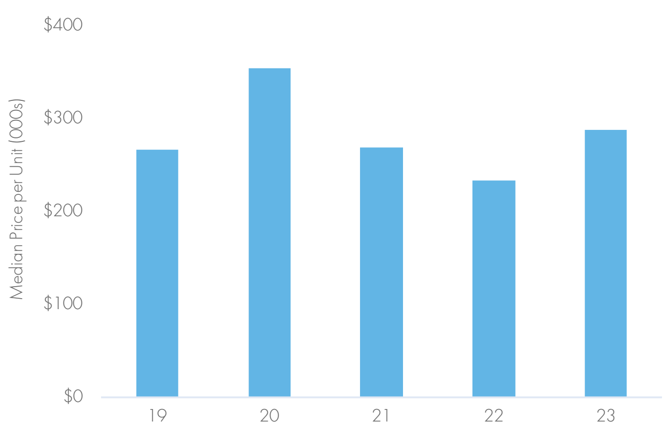
Approximately 8,000 units are under construction.

VACANCY & RENT TRENDS



Sources: Northmarq, Reis

SALES TRENDS



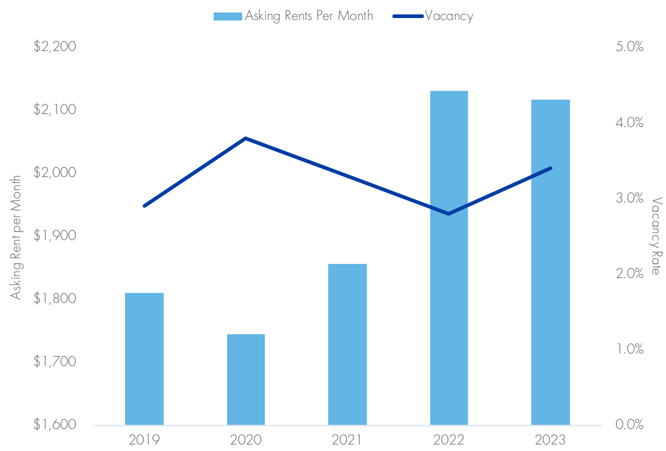
The median price in Downtown was $287,800 per unit.

MULTIFAMILY SALES

- After a pause in transaction activity recorded in the third quarter, sales velocity picked up somewhat in the final three months of the year. Annual sales in 2023 were down 19 percent from levels recorded in 2022.
- While total transaction activity was down, per-unit prices gained ground in 2023. The median price during the past 12 months was $287,800 per unit, up 23 percent from one year ago.
- Cap rates averaged about 4.5 percent in 2022 and rose by nearly 100 basis points by the end of 2023. Most properties that changed hands in the second half featured cap rates close to 5.5 percent.

SAN FERNANDO VALLEY

VACANCY & RENT TRENDS



Sources: Northmarq, Reis

CONSTRUCTION/VACANCY/RENTS

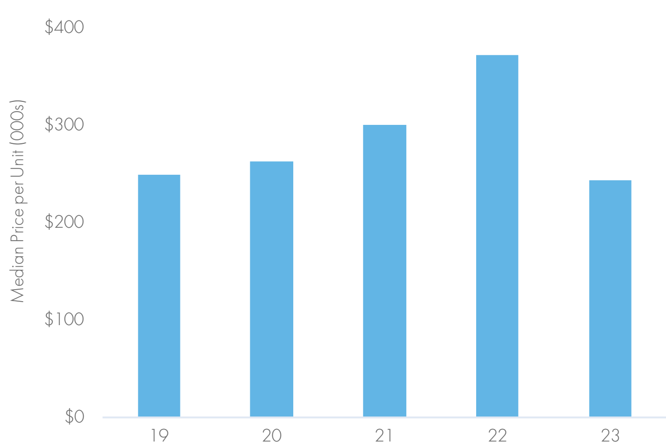
- Construction activity in the San Fernando Valley accelerated in 2023, following limited inventory growth in the prior two years. Completions totaled approximately 1,000 units during the past 12 months, including the 150 units that came online in the fourth quarter. An additional 2,600 units are currently under construction, which will support deliveries in the next two years.
- Area vacancy inched higher by 10 basis points in the fourth quarter to 3.4 percent, and the rate rose 60 basis points during the course of the year. Vacancy in the San Fernando Valley has recorded consistently tight conditions for the past several years, ranging between 2.8 percent and 3.8 percent since 2017.
- While vacancy has generally remained tight, rents in the San Fernando Valley softened in 2023, reversing recent trends. Asking rents dipped 0.7 percent for the year, including a 1.3 percent reduction in the fourth quarter to $2,117 per month. Despite the recent drop, area rents ended 2023 nearly 15 percent higher than they were in 2021.
- **FORECAST:** Deliveries in 2024 are forecast to nearly double the 2023 total with approximately 2,000 units scheduled to be completed. Area vacancy should trend toward the high-end of the historical range, rising 40 basis points to 3.8 percent. Rents may inch lower and will likely end the year near $2,100 per month.

Vacancy inched higher by 10 basis points in the fourth quarter.

MULTIFAMILY SALES

- Sales activity closed the year on a stronger note, but transaction volume was limited throughout 2023. Annual sales volume fell by roughly 50 percent from 2022. Properties that sold during the fourth quarter were generally priced between $25 million and $40 million, after some smaller deals closed in the middle part of the year.
- The median sales price in 2023 was $244,000 per unit, down 34 percent year over year. The transaction mix in 2023 was made up almost entirely of Class B and Class C properties, while several newer properties sold for $500,000 per unit or higher in 2022.
- Cap rates in the second half of 2023 ranged between 4.75 percent and 5.5 percent. Cap rates in 2022 averaged closer to 4 percent, and several properties closed in the first half of the year around 3.75 percent before interest rates recorded a sharp increase.

SALES TRENDS



The median sales price in 2023 was $244,000 per unit.

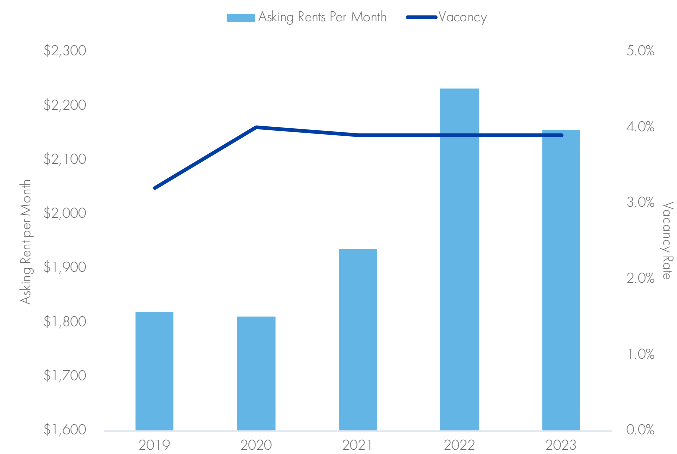
SOUTH BAY

CONSTRUCTION/VACANCY/RENTS

- Completions in the South Bay/Long Beach area totaled approximately 220 units in the fourth quarter. This brought the total deliveries for the full year to more than 1,000 units; roughly 1,800 units were under construction at year end.
- Vacancy in the South Bay inched lower by 10 basis points in the fourth quarter. The rate has ended each of the past three years at 3.9 percent.
- Rents in the South Bay fell 1.7 percent from the third quarter to the fourth quarter, ending the year at $2,156 per month. Year over year, rents are down 3.4 percent from peak levels in 2022. The Hawthorn/North Torrance submarket was the only submarket in the area that did record a rent decline in the fourth quarter.
- **FORECAST:** Developers are on track to deliver over 1,100 units in the South Bay in 2024, slightly higher than in the prior year. After a few years of stability, vacancy is forecast to rise 20 basis points in 2024, with the rate reaching 4.1 percent. Rents are expected to inch lower by less than 1 percent and end the year at about $2,150 per month.

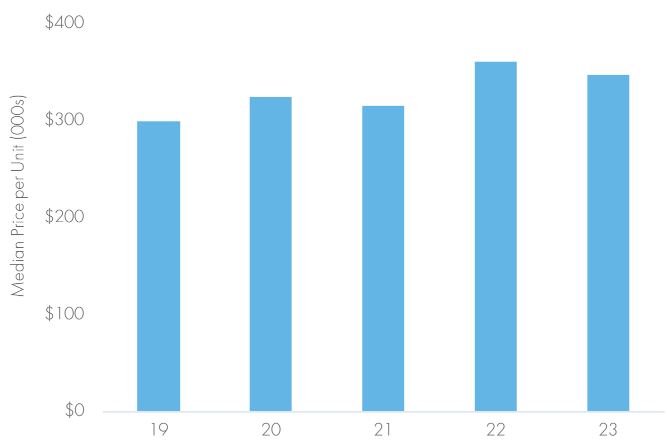
The vacancy rate ended the fourth quarter at 3.9 percent.

VACANCY & RENT TRENDS



Sources: Northmarq, Reis

SALES TRENDS



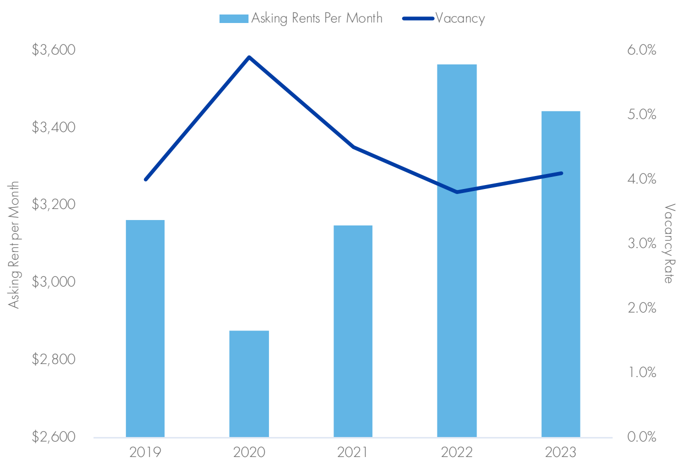
The median price in 2023 was $347,200 per unit.

MULTIFAMILY SALES

- Sales activity in the South Bay was light throughout much of the year. Transaction counts in 2023 were down 50 percent from the prior year. Transaction activity in the fourth quarter was slightly higher than in the preceding periods, but only a handful of properties changed hands in 2023.
- In the transactions that did close, prices closely tracked trends from the previous two years. The median price in 2023 transactions was $347,200 per unit, down just 4 percent from the 2022 median price. While a few smaller, older properties have traded priced around $250,000 per unit since 2022, most properties consisting of 150 units or more have sold for $375,000 per unit or higher.
- Cap rates have been rising in the South Bay over the past 12 months, but appear to not have pushed as high as in other parts of Los Angeles County. This may be one factor restricting deal flow. The average cap in rate in 2023 was between 4 percent and 4.25 percent, after ranging from 3 percent to 3.5 percent in 2022.

WEST LOS ANGELES

VACANCY & RENT TRENDS



Sources: Northmarq, Reis

Rents finished the fourth quarter at $3,443 per month.

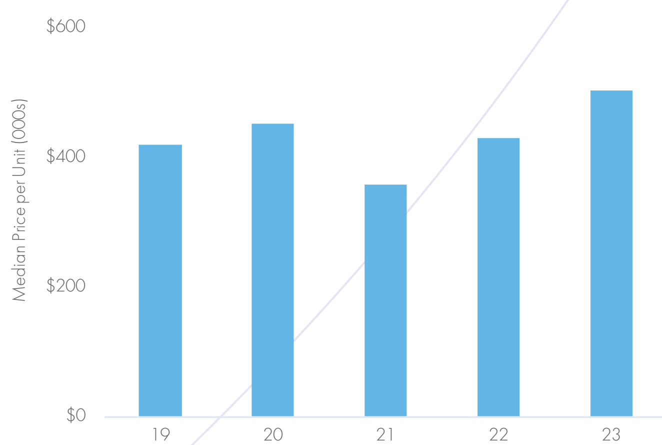
CONSTRUCTION/VACANCY/RENTS

- Multifamily projects totaling more than 750 units were delivered in West Los Angeles in 2023, and the current pipeline has 1,960 units under construction. Nearly all of the projects that are under way are expected to be completed over the next 24 months.
- Area vacancy in West Los Angeles went unchanged in the fourth quarter, remaining at 4.1 percent. Year over year, the vacancy rate increased by 30 basis points.
- Apartment rents finished the fourth quarter at $3,443 per month, falling 3.4 percent annually. While rents retreated from earlier highs recorded in the area in 2022, current asking rents in the area are up nearly 10 percent from the end of 2021.
- **FORECAST:** Deliveries in West Los Angeles will gain momentum with more than 1,100 units scheduled to come online in 2024. Vacancy is on track to tick higher as new completions come online, likely rising 30 basis points in 2024 to 4.4 percent. Rents, which remain the highest in Los Angeles County, are expected to record a modest increase of nearly 2 percent.

MULTIFAMILY SALES

- West Los Angeles was the region's only major submarket to record an uptick in sales activity during the past 12 months. Property sales in West Los Angeles in 2023 were 50 percent higher than 2022 levels and reached the highest annual total in nearly a decade.
- Pricing increased along with transaction volume in 2023. The median sales price for the full year was $503,900 per unit, up 17 percent annually. Properties in and around the UCLA and Brentwood areas changed hands between $500,000 per unit and $600,000 per unit.
- After remaining below 4 percent on average throughout all of 2022 and the beginning of 2023, cap rates trended higher in the second half. Cap rates in West Los Angeles averaged approximately 4.8 percent in transactions that closed in the final few months of the year. Historically, properties in these submarkets trade infrequently and competition is elevated, resulting in cap rates that are often among the lowest in Los Angeles County.

SALES TRENDS



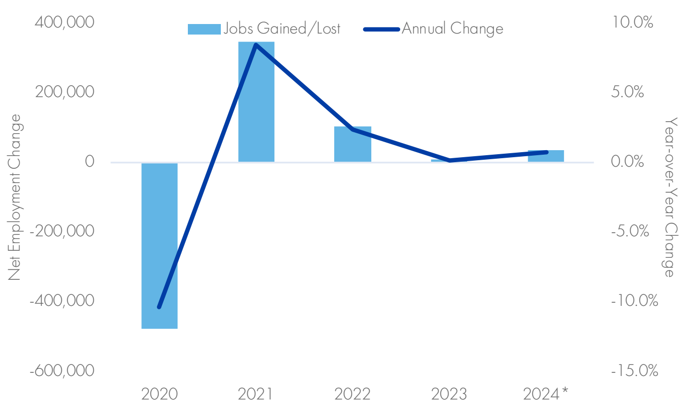
Property sales were 50 percent higher than 2022 levels.

LOOKING AHEAD

The Greater Los Angeles multifamily market will likely record some additional operational softening throughout much of 2024. An accelerating pace of deliveries is scheduled to occur at the same time as only modest employment growth in the region, and more units are forecast to be delivered than absorbed. This should result in a modest vacancy rise, with the rate forecast to end 2024 close to 2020 levels and about 100 basis points higher than the region's long-term average. For the full year, rents should be essentially flat, although there should be some quarterly fluctuations throughout 2024 and some of the county's more supply constrained submarkets may outperform. Beyond 2024, the outlook brightens, with the competitive impact from new supply likely to dissipate and economic growth expected to gain momentum.

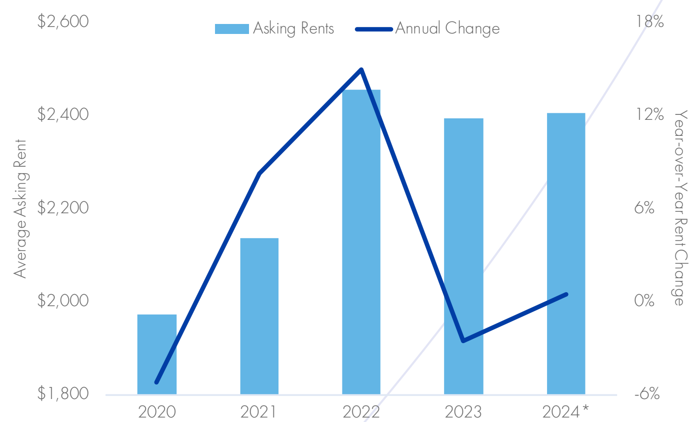
Multifamily investor sentiment is expected to remain mixed in 2024. The uptick in transactions that occurred in the final few months of 2023 is unlikely to be sustained in any meaningful way, and investors are expected to take a fairly cautious stance as uncertainty persists. The recent rise in cap rates to levels that have not been recorded in more than a decade could prompt some buyers to look at a few more acquisitions, but the pace of transactions is expected to continue to lag behind the region's long-term averages. Historically, the San Fernando Valley has been a source of significant investment activity in Los Angeles County, but transaction counts in the area lagged throughout much of 2023. Activity picked up late in the year, however, which could signal a rebound in investment volume in the coming quarters.

EMPLOYMENT FORECAST



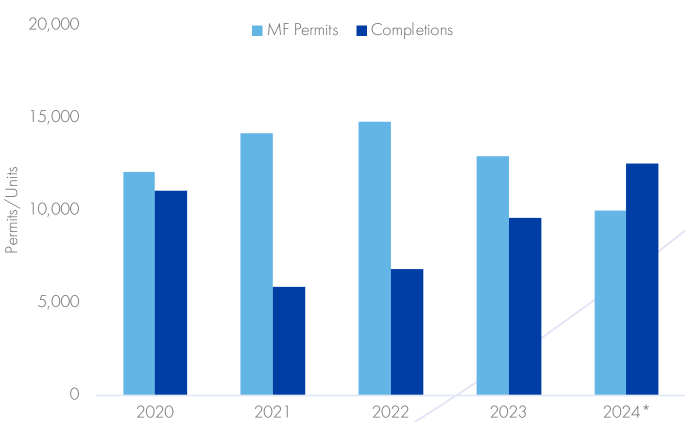
** Year End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



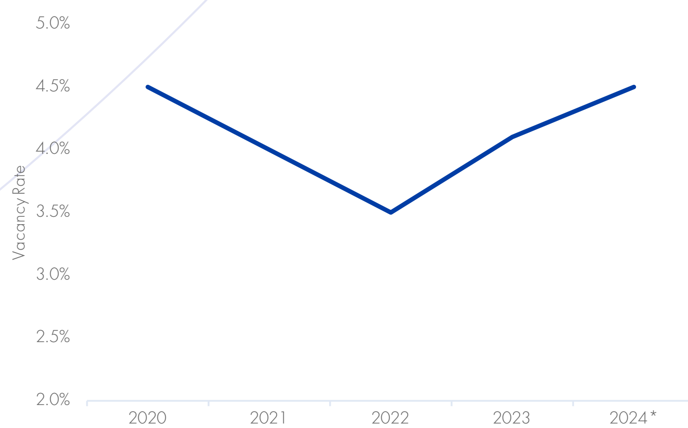
** Year End Forecast*
Sources: Northmarq, REIS

CONSTRUCTION & PERMITTING FORECAST



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

VACANCY FORECAST



** Year End Forecast*
Sources: Northmarq, REIS, Yardi, CoStar

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