Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	39,054
UNITS DELIVERED	18,281

MARKET FUNDAMENTALS

VACANCY RATE	4.0%
YEAR-OVER-YEAR CHANGE	+50bps
ASKING RENTS	$2,341
YEAR-OVER-YEAR CHANGE	-1.5%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$286,000

Southern California Multifamily
4Q 2023

MARKET INSIGHTS

Investment activity limited in 2023, cap rates rise

HIGHLIGHTS

- Apartment fundamentals softened a bit in Southern California in 2023, with vacancy rates inching higher and rents posting modest declines. The pace of construction rose in 2023, but Southern California is more supply constrained than most other major multifamily regions.
- Vacancy in the region rose 50 basis points in 2023, with the rate ending the year at 4 percent. During the fourth quarter, vacancy inched up 10 basis points.
- Rents generally trended lower in Southern California in 2023, although Orange County posted some modest gains. The average rent in the region dropped 1.5 percent in the past year, with the fourth quarter proving to be the weakest period for area rents.
- The investment market was less active in 2023 than in recent years, although more properties sold in the final three months of the year than during any other quarter. Cap rates rose about 100 basis points on average.

SOUTHERN CALIFORNIA MULTIFAMILY MARKET OVERVIEW

During a year where multifamily property operations softened across most major markets in the country, operating fundamentals in Southern California weakened slightly, but still outperformed. The regional vacancy rate ended 2023 at 4 percent, 50 basis points higher than at the beginning of the year. Vacancy trends were strongest in the Inland Empire, which was one of the few markets in the country that recorded an annual vacancy decline in 2023. Asking rents in Southern California declined by 1.5 percent on average, although Orange County posted an annual increase and rents in San Diego held steady throughout much of the year. Competition from new supply increased in 2023, with completions rising nearly 30 percent from prior-year levels. While construction increased, projects were concentrated in few areas, led by Downtown Los Angeles and Downtown San Diego.

While property fundamentals held up reasonably well throughout much of Southern California in 2023, investors took a more cautious approach when evaluating acquisitions. Combined transaction activity across the region was trimmed nearly in half from 2022 to 2023. Some of the decline was attributable to a new tax on real estate transactions of more than $5 million that went into effect in Los Angeles early in the year, but each of the major markets in Southern California posted activity drops. In addition to an overall decline in sales velocity, the mix of assets that traded was mixed across markets. In Los Angeles, there was a sharp decline in transactions over $50 million, while large transactions in Orange County closely tracked 2022 levels. Cap rates rose throughout the region, averaging between 5 percent and 6 percent.

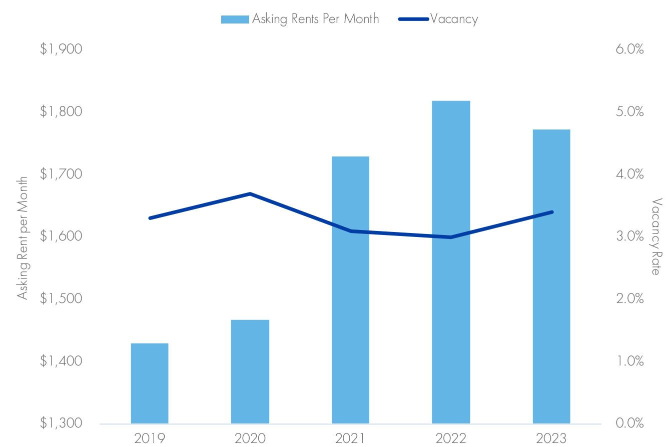
INLAND EMPIRE

CONSTRUCTION/VACANCY/RENTS

- Completions in the fourth quarter were elevated, numbering over 1,200 units, bringing total deliveries in 2023 to projects totaling more than 3,000 units. One of the impacts of the heightened pace of deliveries has been a thinning of the construction pipeline. Roughly 5,800 multifamily units are currently under construction in the Inland Empire, down 16 percent from one year ago.
- After holding fairly steady at the start of the year, vacancy conditions in the Inland Empire rose slowly in the second half. The rate inched up 10 basis points in the fourth quarter, ending the year at 3.4 percent.
- Rents dipped at the end of the year, offsetting modest gains recorded through the first half. Asking rents ended the year at $1,773 per month, down 2.5 percent year over year. During the fourth quarter, rents retreated 2.7 percent.
- **FORECAST:** Multifamily developers are on pace to deliver approximately 3,400 units in 2024, about 12 percent higher than the 2023 total. This should result in a 50-basis point increase in vacancy, with the rate likely to end the year at 3.9 percent. Rents are expected to inch higher, but at a slower pace than in prior years. Area rents are forecast to rise 1.5 percent in 2024.

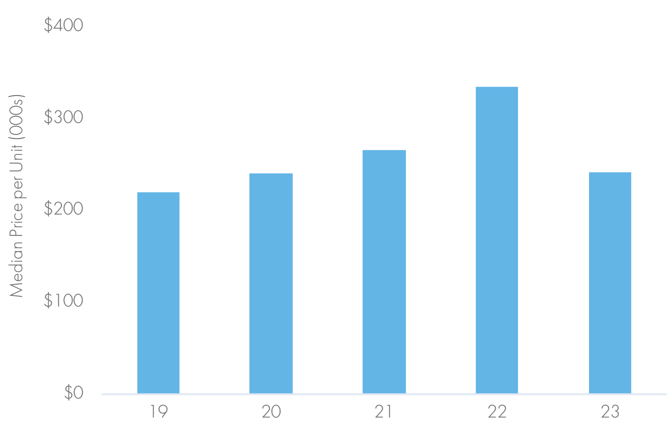
Asking rents ended the year at $1,773 per month.

VACANCY & RENT TRENDS



Sources: Northmarq, Reis

SALES TRENDS



Cap rates averaged 5 percent in the fourth quarter.

MULTIFAMILY SALES

- The fourth quarter was a soft period for transaction activity in the Inland Empire. Sales velocity dropped 40 percent from the third quarter to the fourth quarter. For the full year, transaction activity declined by more than 50 percent.
- In the past 12 months, more than 70 percent of all multifamily transactions involved Class C apartments, resulting in lower per-unit price levels for the market as a whole. The median sales price in 2023 was $240,600 per unit, down nearly 30 percent from the prior year.
- Cap rates appeared to stabilize in the fourth quarter after rising in the earlier parts of the year. Cap rates averaged 5 percent in the fourth quarter.

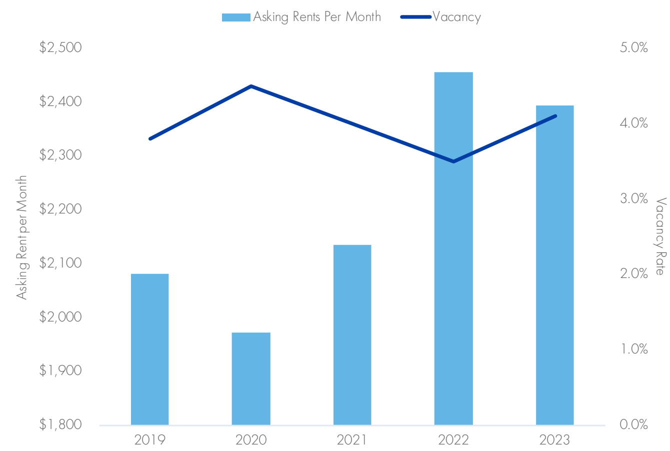
LOS ANGELES

CONSTRUCTION/VACANCY/RENTS

- Developers were active in Los Angeles in 2023, completing projects totaling 9,577 units during the course of the year. Annual completions were up 40 percent from 2022 levels. More than 21,100 units were under construction at the end of 2023, with the Downtown area having the largest concentration of units in the pipeline.
- Vacancy levels inched lower in the fourth quarter, reversing a trend that prevailed throughout much of 2023. The rate dipped 10 basis points in the fourth quarter, reaching 4.1 percent. Despite the improvement in the final few months, vacancy rose 60 basis points over the course of the full year.
- Asking rents in Los Angeles dipped in three of the four quarters of 2023. Rents ended the year at $2,393 per month, down 2.6 percent from one year earlier.
- **FORECAST:** New apartment construction is forecast to accelerate again in 2024, resulting in a modest vacancy increase. Approximately 12,500 units are forecast to be delivered in the coming year, and vacancy is on pace to increase 40 basis points to 4.5 percent. Rents are expected to remain within a tight range and should end the year at approximately $2,405 per month.

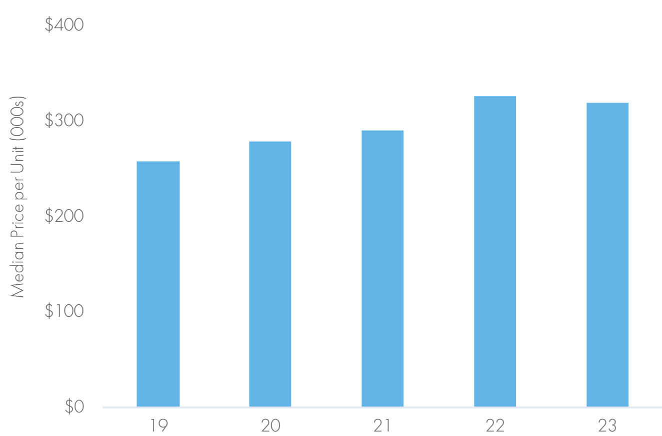
Vacancy levels inched lower in the fourth quarter.

VACANCY & RENT TRENDS



Sources: Northmarq, Reis

SALES TRENDS



The median price during the past year was $319,200 per unit.

MULTIFAMILY SALES

- Transaction activity in Los Angeles was most active at the beginning of the year and slow throughout the final three quarters of the year. Activity hit its lowest point during the third quarter before inching higher in the fourth quarter. For the full year, the number of transactions declined more than 40 percent from 2022 levels.
- While investment activity was down, prices held mostly steady from 2022 to 2023. The median price during the past year was $319,200 per unit, just 2 percent lower than in 2022. Prices were lower in the fourth quarter, when the unit mix was split fairly evenly between Class B and older Class C properties.
- Cap rates rose in 2023, particularly toward the end of the year when Treasury yields continued to push higher. The average cap rate in the fourth quarter was between 5.5 percent and 6 percent, about 150 basis points higher than one year earlier. Current area cap rates are at their highest point in nearly a decade.

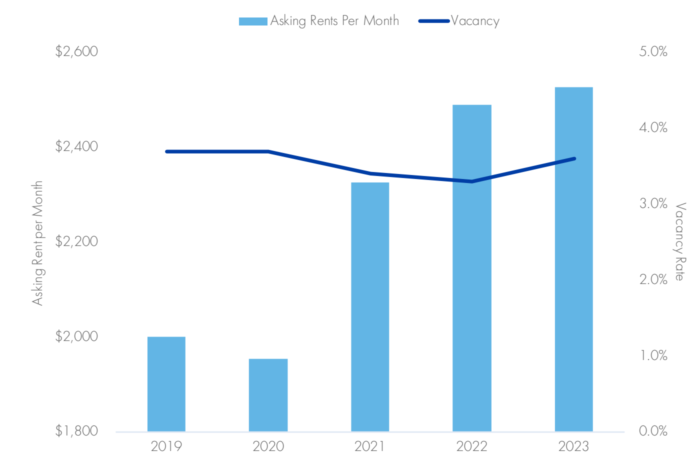
ORANGE COUNTY

CONSTRUCTION/VACANCY/RENTS

- Developers in Orange County eased multifamily completions in the fourth quarter from an accelerated pace of deliveries at the beginning of the year. Projects totaling only 250 units came online in the fourth quarter, bringing the annual total to more than 2,400 units.
- The vacancy rate inched higher in the fourth quarter by 10 basis points, reaching a total of 3.6 percent. In 2023, vacancies were up 30 basis points in the area.
- Rents ticked higher in Orange County in 2023, running counter to the regional trend. Area asking rents advanced 1.5 percent to $2,527 per month. Orange County's largest multifamily submarket, Irvine, was the leader in rent growth in 2023 with a 5 percent annual increase.
- **FORECAST:** The pace of deliveries is expected to accelerate in 2024, with projects totaling approximately 3,500 units slated to come online. With deliveries on the rise, area vacancy is forecast to rise by a modest 20 basis points while rents should continue to advance at a steady 2.5 percent through the year.

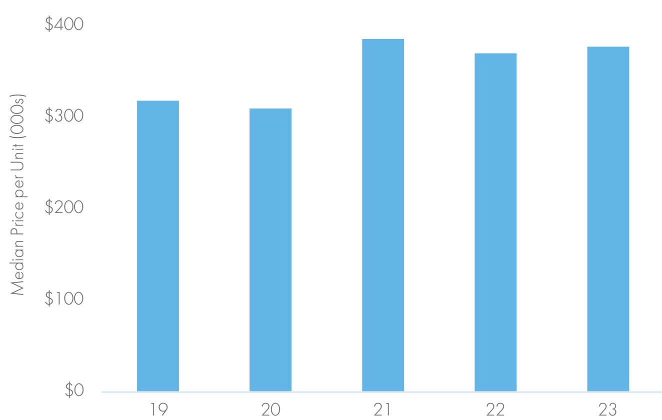
Projects totaling 250 units came online in the fourth quarter.

VACANCY & RENT TRENDS



Sources: Northmarq, Reis

SALES TRENDS



Pricing in Orange County has remained consistent for the past three years.

MULTIFAMILY SALES

- Multifamily investment activity in Orange County slowed in 2023, with total transactions down 57 percent from the number of deals that closed in 2022. Fourth quarter activity was limited after more assets changed hands in the prior period.
- Pricing in Orange County has remained within a tight range for the past three years, despite volatility in the number of properties changing hands. In 2023, the median price was $376,400 per unit, 2 percent higher than the 2022 figure.
- Cap rates continued to rise in the fourth quarter, averaging roughly 5.25 percent. Cap rates were generally closer to 4.25 percent in late 2022 and early 2023 before rising in the second half.

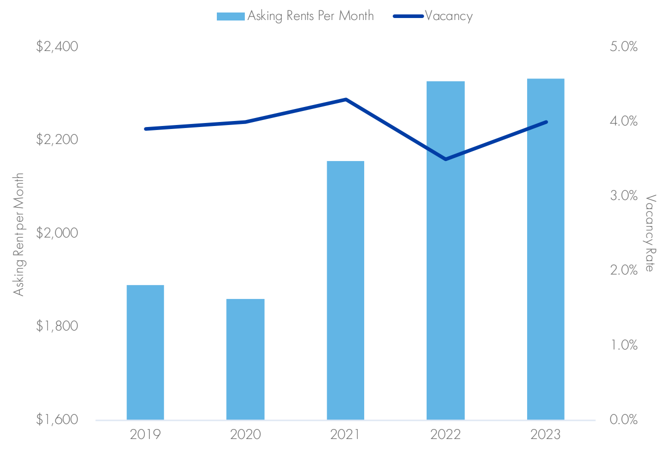
SAN DIEGO

CONSTRUCTION/VACANCY/RENTS

- Multifamily development in San Diego accelerated in the fourth quarter as 1,500 new units were delivered. Projects totaling more than 3,200 units came online in 2023, roughly the same as in 2022.
- Increased deliveries in the area pushed vacancy higher, though strong demand for new units kept the rise in vacancy to 20 basis points in the fourth quarter. The vacancy rate finished 2023 at 4 percent, up 50 basis points for the full year. Despite rising in the past 12 months, current vacancy conditions are within the region's historical range.
- Rent growth in San Diego was also affected by the rise in new units diluting the market. Asking rents decreased by 0.7 percent in the fourth quarter, the first quarterly decline since early 2020. Annual average rents still managed to climb by 0.2 percent to $2,333 per month.
- **FORECAST:** Deliveries in San Diego are expected slow from recent peaks, as projects totaling 2,700 units are forecast to come online in 2024. Similar to much of Southern California, vacancies are expected to rise by a small margin, roughly 20 percent in the next 12 months. Despite a rise in vacancy, conditions will remain tight in San Deigo, pushing future rents up by approximately 1.4 percent.

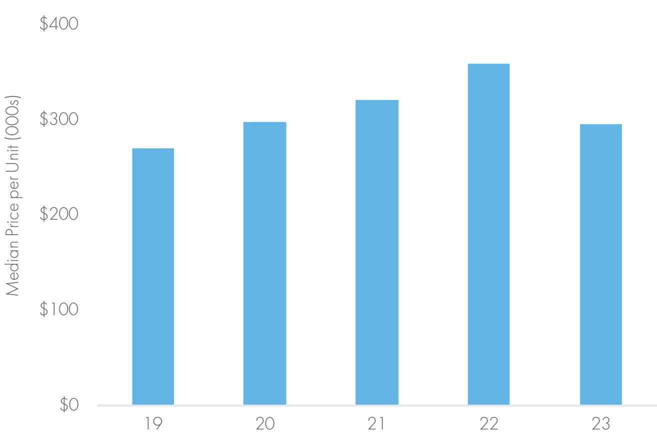
The vacancy rate finished 2023 at 4 percent.

VACANCY & RENT TRENDS



Sources: Northmarq, Reis

SALES TRENDS



The median sales price in 2023 was $296,000 per unit.

MULTIFAMILY SALES

- Transaction activity in San Diego was down 28 percent annually, though sales picked up towards the end of the year. Total sales in the second half of 2023 rose 50 percent from the light activity posted in the first half.
- The median sales price in 2023 was $296,000 per unit, down nearly 20 percent from the 2022 peak. Higher-tier properties still held strong values despite the market wide decrease in price; Class A properties that traded at the end of the year had prices ranging from $400,000 per unit to $675,000 per unit.
- Cap rates held steady through the end of the year, averaging 5.1 percent during the fourth quarter. Most sales during 2023 traded with cap rates between 4.25 percent and 5.25 percent.

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ABOUT **NORTHMARQ**

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