Market Insights

Greater Los Angeles Multifamily 1Q 2022

Northmarq

Construction Activity

23,573

Units under construction

477

Units delivered (YTD)

Market Fundamentals

3.9%

Vacancy

-60bps | Year over year change

$2,236

Asking Rent

+13.6% | Year over year change

Transaction Activity

$341,400

Median sales price per unit (YTD)

Rents Surge Higher During the First Quarter

Highlights

- Continued vacancy tightening and a recovering employment market fueled rent gains in Los Angeles County at the start of 2022. Rent growth in the first quarter outpaced neighboring Southern California markets and supported continued investment activity and rising per-unit prices.
- The vacancy rate in Los Angeles dipped 10 basis points in the first quarter to 3.9 percent; this is the lowest area vacancy rate since 2019. Year over year, the rate declined by 60 basis points.
- Asking rents climbed in the first quarter, rising 4.7 percent to $2,236 per month. The pace of rent growth is accelerating; during the past 12 months, rents advanced 13.6 percent.
- The multifamily investment market remained active in the first quarter. The median sales price to this point in 2022 reached $341,400 per unit, up 17.5 percent from the median price in 2021. Cap rates averaged around 3.7 percent at the start of the year.

Greater Los Angeles Multifamily Market Overview

The Los Angeles multifamily market started the year on a high note with the vacancy rate dropping below 4 percent and asking rents posting strong gains. This marked the first time since the end of 2019 where vacancy dipped below 4 percent. Operators responded to the tightening conditions by implementing healthy rent increases. The continued rapid recovery of the local employment base helped stimulate renter demand in the region. Although the apartment construction pipeline swelled in recent months, net absorption is still expected to slightly surpass new deliveries in 2022, pointing toward additional tightening and rent increases across the region.

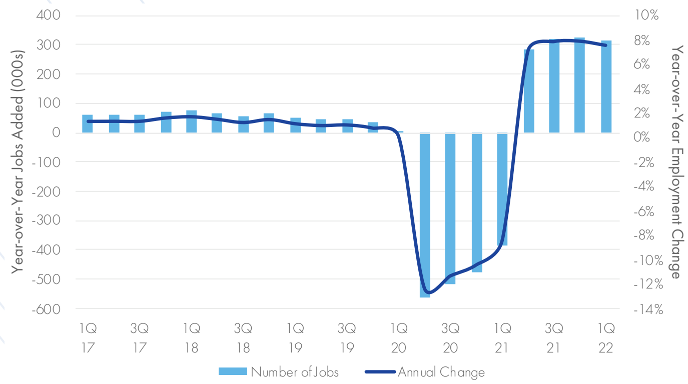
Multifamily investor sentiment in Los Angeles has been favorable to this point in 2022, resulting in an active first quarter in sales volume. With asking rents trending higher and the vacancy rate improving, the competition for existing properties heightened across the region. A handful of newer assets traded for more than $500,000 per unit, pushing the median sales price higher in the first quarter. Cap rates during the first quarter averaged about 3.7 percent, similar to levels recorded at the end last year. With interest rates trending higher, cap rates are also expected to inch higher, although rent gains may offset some of the rise in borrowing costs.

Employment

- Local employers in Los Angeles continue to add back workers at a rapid pace with the addition of nearly 50,000 workers in the first quarter. Year over year, total employment has expanded by 315,500 jobs, a 7.6 percent annual growth rate.
- Although strong rebounds occurred across most industries in recent quarters, some of the largest gains occurred in the education and health services sector. Year over year, this industry—which did not contract significantly during the pandemic—grew by 5.2 percent with the addition of 43,600 net new jobs.
- The healthcare organization Providence is undergoing the development of a 35,000-square-foot emergency department and an 8,500-square-foot urgent care building that will be added to its Saint Joseph Medical Center Burbank Campus. The new facilities, which will be completed in the second half of 2022, will add nearly 100 jobs to the area.
- **Forecast:** Employers will continue to add back workers through the remainder of the year. Area employers are forecast to add approximately 135,000 jobs in 2022, expanding total employment in Los Angeles County by 3 percent for the year.

> Year over year, total employment has expanded by 315,500 jobs.

Employment Overview



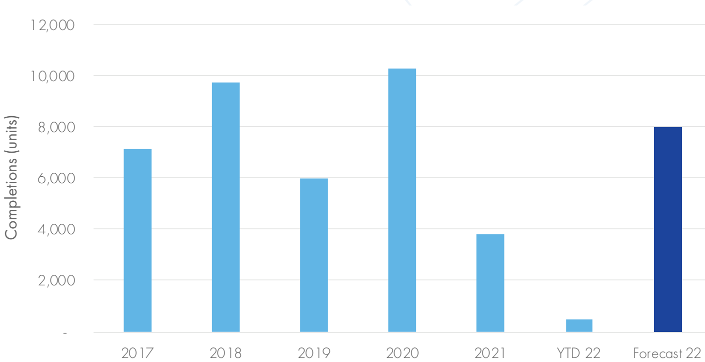
Sources: Northmarq, Bureau of Labor Statistics

Development and Permitting

- Multifamily development activity in Los Angeles started the year fairly slow with nearly 480 units coming online in the first quarter. After completions totaled nearly 11,000 units in 2020, the total was nearly cut in half last year. Despite a slow start, deliveries are forecast to accelerate this year.
- The multifamily construction pipeline swelled in recent months with nearly 23,600 units currently under construction throughout the county. The Wilshire/Westlake submarket is the most active area for new development with more than 4,750 units under construction.
- While there are several projects that are under construction, permitting activity slowed at the beginning of the year. Developers pulled permits for approximately 2,400 multifamily units to start 2022, the lowest first-quarter permitting total in the past decade.
- **Forecast:** The pace of apartment deliveries will accelerate in 2022 and closely track the market's long-term average. Approximately 8,000 units are forecast to be completed this year.

> Nearly 23,600 units are currently under construction.

Development Trends



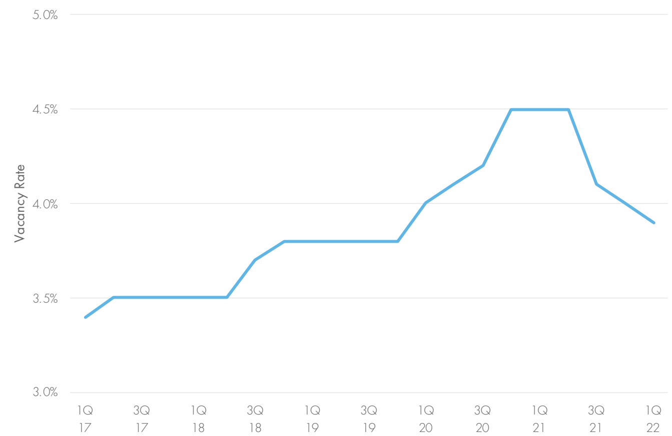
Sources: Northmarq, Reis

Vacancy

- The vacancy rate continued to trend lower in recent months, dropping 10 basis points in the first quarter to 3.9 percent. The current rate is the lowest figure in Los Angeles since 2019.
- Year over year, the vacancy rate tightened by 60 basis points as net absorption more than doubled the number of new units delivered in the past 12 months. There are a handful of submarkets with vacancies below 1.5 percent; these submarkets generally have some of the lowest average rents in the region.
- Vacancy conditions have tightened considerably in the lower tiers. Year over year, the combined vacancy in Class B and Class C units dropped 130 basis points to 1.7 percent. With rents rising throughout Los Angeles County, demand is expected to remain elevated for the units with the lowest rents.
- **Forecast:** Absorption levels and new apartment construction are expected to closely track each other in the remainder of the year, keeping the vacancy rate fairly steady. The rate is forecast to end 2022 at 3.8 percent, 20 basis points lower than at the end of 2021.

> Year over year, the vacancy rate tightened by 60 basis points.

Vacancy Trends



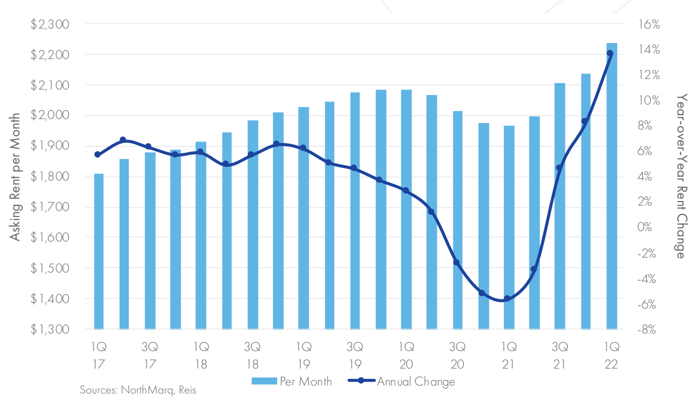
Sources: NorthMarq, Reis

Rents

- The pace of rent growth accelerated in recent months, rising 4.7 percent in the first quarter. This marked the fastest rate of rent growth in Southern California to start the year, and one of the strongest performances in the country at the beginning of 2022. Asking rents in Los Angeles ended the period at $2,236 per month.
- Year over year, area rents spiked 13.6 percent, after rent growth averaged 5.8 percent from 2015 to 2019. The most expensive submarkets in Los Angeles include Downtown and Marina Del Rey/Venice/Westchester with apartment rents around $3,600 per month.
- Average rents pushed higher across all asset classes in Los Angeles in recent quarters. Year over year, asking rents in Class A properties spiked nearly 13 percent, reaching $2,889 per month.
- **Forecast:** Area rents are forecast for continued growth in the next several quarters, ending 2022 at around $2,345 per month, up nearly 10 percent from the end of last year.

> Asking rents ended the quarter at $2,236 per month.

Rent Trends



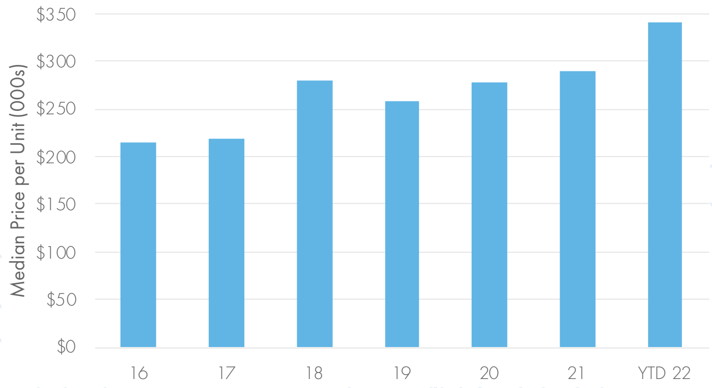
Sources: NorthMarq, Reis

Multifamily Sales

- The multifamily investment market got off to a stronger start to 2022 than in recent years. Transaction activity during the first quarter was down less than 10 percent from the prior period but ahead of levels recorded at the start of previous years.
- Strong rent growth throughout Los Angeles County helped push sales prices higher in the first quarter. The median sales price reached $341,400 per unit, up 17.5 percent from the median price in 2021.
- As prices trended higher, cap rates held fairly steady. Cap rates averaged approximately 3.7 percent during the first few months of 2022.

The median sales price reached $341,400 per unit in the first quarter.

Investment Trends



Sources: NorthMarq, CoStar

Recent Transactions

Multifamily Sales Activity

Property Name	Street Address	Units	Sales Price	Price/Unit
The Enclave	13801-13829 Paramount Blvd., Paramount	306	$128,500,000	$419,935
Towne at Glendale	1717 N Verdugo Rd., Glendale	126	$79,742,270	$632,875
Villa Del Sol Apartments	11217 Barnwall., Norwalk	120	$45,600,000	$380,000
Colima Terrace	1740 Otterbein Ave., Rowland Heights	72	$21,960,000	$305,000

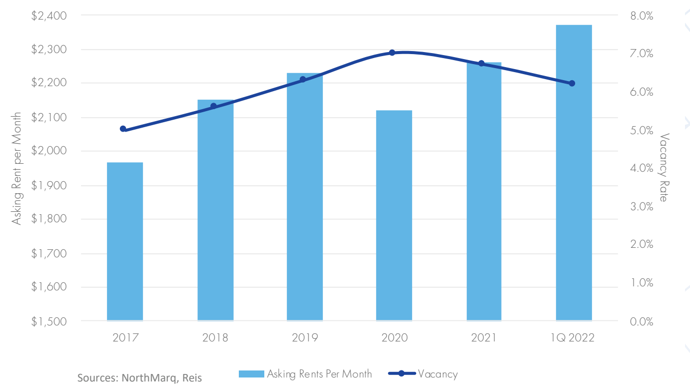
Downtown

Construction/Vacancy/Rents

- Multifamily developers were active in recent months with approximately 350 apartment units coming online in the first quarter, up 30 percent from the same period last year. Apartment construction activity is expected to accelerate in the coming quarters with projects totaling more than 11,700 units currently under construction in the Downtown area.
- Vacancy tightened in the first quarter, as net absorption nearly doubled the number of new units delivered in the Downtown area. The vacancy rate declined 50 basis points in the first quarter, ending the period at 6.2 percent. Year over year, vacancy dropped by 70 basis points.
- Apartment rents climbed at a rapid pace to start the year, rising nearly 5 percent in the first quarter to $2,370 per month. Year over year, asking rents in the Downtown area are up 13.4 percent. Prior to the recent spikes, annual rent growth has averaged around 6 percent in the past five years.
- **Forecast:** The pace of apartment completions is expected to accelerate in the next several quarters. Projects totaling approximately 4,000 units are forecast to be delivered in 2022. As an elevated number of apartment projects come online, the vacancy rate will likely inch higher, finishing the year at around 6.5 percent. Demand is expected to remain elevated, allowing asking rents to rise, reaching $2,450 per month.

> “ Year over year, rents in Downtown are up 13.4 percent.

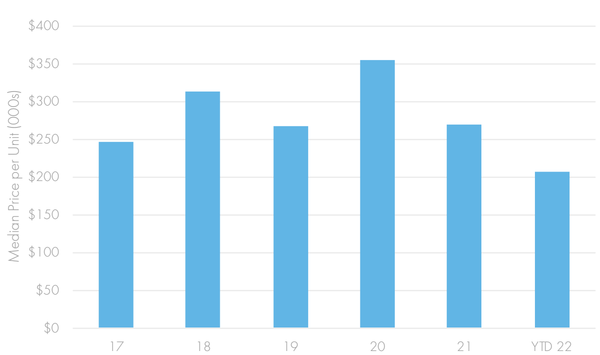
Vacancy and Rent Trends



Sources: NorthMarq, Reis

> “ Cap rates averaged nearly 4.5 percent in the first quarter.

Sales Trends



Multifamily Sales

- Transaction activity slowed in the first few months of 2022, as the number of sales declined 30 percent from the previous quarter. Sales velocity in the Downtown area also lagged levels from one year earlier by nearly 15 percent.
- The decline in activity was most pronounced in the sale of newer, Class A and Class B properties, with fewer of these buildings changing hands at the start of the year. With older, Class C properties accounting for a greater share of the transactions in the Downtown area, the median sales price in the first quarter was approximately $206,300 per unit, down 23 percent from the median sales price in 2021.
- As prices ticked lower, cap rates rose. Cap rates averaged nearly 4.5 percent during the first quarter, after being below 4 percent at the end of last year.

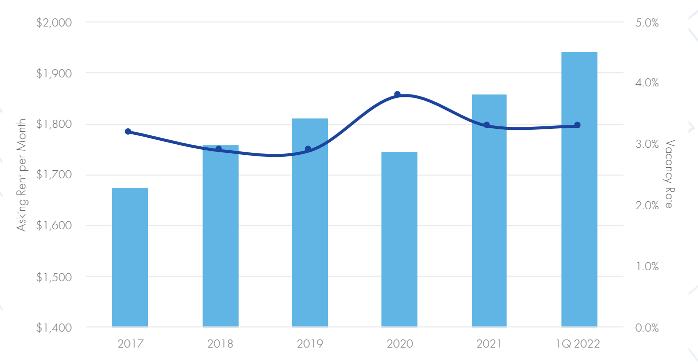
San Fernando Valley

Construction/Vacancy/Rents

- No significant new apartment complexes were delivered in the San Fernando Valley during the first quarter, after projects totaling more than 260 units came online at the start of last year. Activity should pick up in the coming quarters, as developers currently have more than 2,650 units under construction in the region. The bulk of these projects are forecast to be completed in 2023.
- With inventory levels remaining stable, the vacancy rate was flat in the first quarter, holding steady at 3.3 percent. In the past 12 months, the rate has tightened by 50 basis points.
- Asking rents continued to rise to this point in 2022. Year over year, average rents in the San Fernando Valley jumped 12 percent to $1,942 per month.
- **Forecast:** Apartment completions are expected to accelerate slightly in the coming quarters with projects totaling nearly 500 units slated to be delivered in 2022. With new supply fairly limited, the vacancy rate will likely creep lower, ending the year below 3 percent. Asking rents are forecast for further growth and should approach $2,000 per month by year end.

> Year over year, vacancy in the San Fernando Valley dropped 50 basis points.

Vacancy and Rent Trends



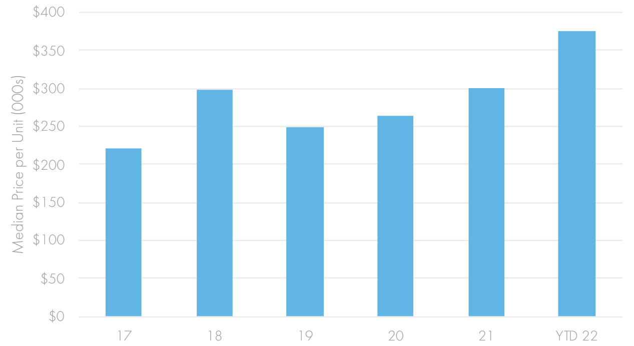
Sources: NorthMarq, Reis

Multifamily Sales

- Sales activity in the San Fernando Valley gained momentum at the beginning of the year, rising 13 percent from transaction levels at the end of last year. The number of properties changing hands in the first few months of 2022 was higher than in seven of the preceding eight quarters.
- The median sales price in the first quarter rose to $375,000 per unit, a 25 percent increase from the median price in 2021. About 30 percent of transactions that closed in the first quarter involved Class A properties; the median price in these transactions was over $480,000 per unit.
- After averaging about 3.5 percent at the end of last year, cap rates during the first quarter inched higher, reaching approximately 4 percent.

> The median sales price in the first quarter rose to $375,000 per unit.

Sales Trends



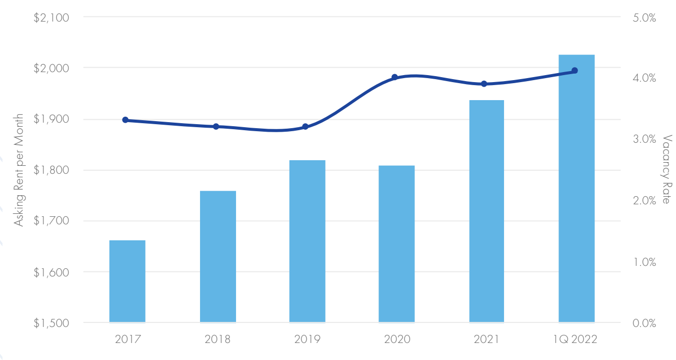
South Bay

Construction/Vacancy/Rents

- Apartment development activity in the South Bay slowed in the first quarter, with no significant projects coming online during this period, after nearly 900 units were delivered in 2021. Projects totaling more than 2,600 units are currently under construction in the area.
- Even with supply growth limited in the South Bay, the vacancy rate ticked higher in the first quarter, rising 20 basis points to 4.1 percent. During the past 12 months, the rate increased by 50 basis points in response to a slowing pace of net absorption.
- Despite a slight uptick in vacancy, rents continued to trend higher at the start of 2022. Asking rents rose 4.7 percent in the first quarter to $2,027 per month. Year over year, rents in the South Bay advanced more than 12 percent.
- **Forecast:** Multifamily development activity is expected to accelerate, as projects totaling more than 700 units are scheduled to come online in the next few quarters. Absorption levels will likely closely track deliveries, and vacancies should end the year near current levels. Asking rents will continue to trend upwards, reaching approximately $2,100 per month, reflecting an annual gain of about 8.5 percent.

> “Asking rents in the South Bay ended the first quarter at $2,027 per month.

Vacancy and Rent Trends



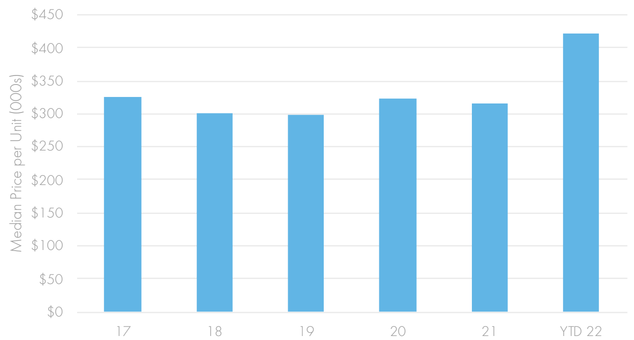
Sources: NorthMarq, Reis

Multifamily Sales

- Transaction activity gained momentum at the start of 2022, with the number of properties that changed hands in the first quarter increasing 60 percent from the previous period. Total sales volume in the first few months of the year surpassed levels recorded at the start of the last five years.
- With activity picking up, transaction prices jumped in recent months. The median sales price in the first quarter reached nearly $421,500 per unit, a 34 percent increase from the median sales price in 2021.
- As prices climbed in the South Bay, cap rates continued to compress. Cap rates during the first quarter averaged approximately 3.3 percent.

> “The median sales price in the first quarter reached nearly $421,500 per unit.

Sales Trends



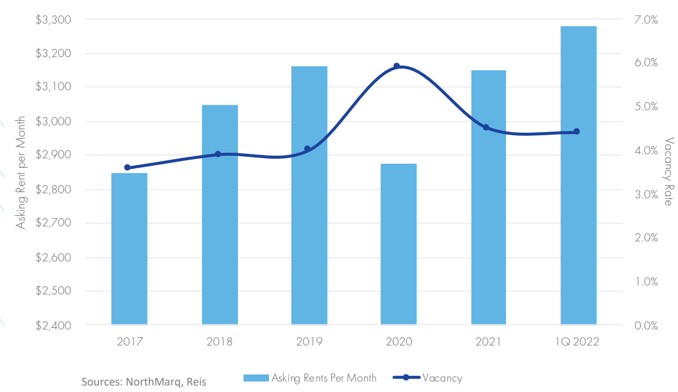
West Los Angeles

Construction/Vacancy/Rents

- Multifamily developers were fairly quiet in the first few months of 2022 with no units coming online in the first quarter. More than 1,700 units are currently under construction in the West Los Angeles area.
- Renter demand in West Los Angeles has picked up as the economy has strengthened. The vacancy rate dipped 10 basis points in the first quarter to 4.4 percent, and year over year, the rate has dropped 110 basis points.
- Rents continued to push higher in the West Los Angeles area, climbing more than 4 percent in the first quarter to $3,279 per month. Year over year, asking rents advanced nearly 15 percent.
- **Forecast:** More than 600 multifamily units are forecast to be delivered in 2022. Despite the increases to inventory, demand should be sufficient to keep the area vacancy rate near the current figure. Asking rents are forecast to end the year at nearly $3,400 per month, a gain of about 8 percent for the full year.

> Year over year, asking rents advanced nearly 15 percent to $3,279 per month.

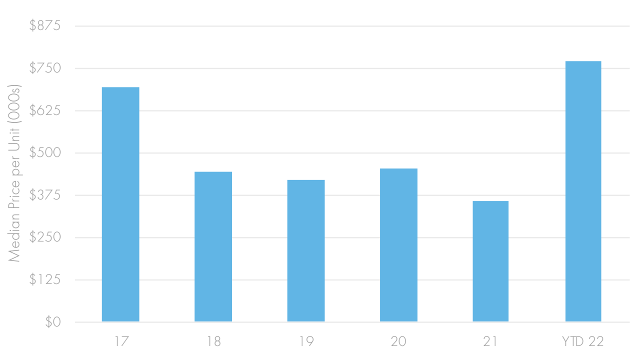
Vacancy and Rent Trends



Sources: NorthMarq, Reis

> Cap rates averaged around 3 percent to this point in 2022.

Sales Trends



Multifamily Sales

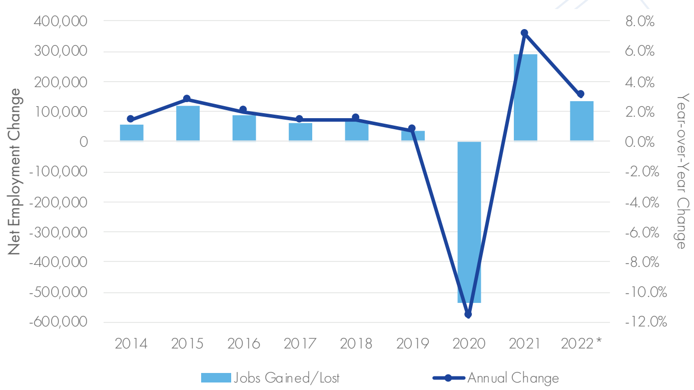
- Multifamily sales activity slowed slightly during the first quarter but still closely tracked levels recorded in previous periods. Typically, only a handful of properties change hands in the West Los Angeles area every year.
- Only one significant property traded in the first quarter, a 130-unit, Class B apartment building in West Hollywood. This property sold for approximately $769,200 per unit; the median sales price in 2021 was $357,700 per unit.
- Although sales volume was limited in recent months, cap rates held fairly steady. Cap rates have averaged around 3 percent since 2020.

Looking Ahead

A rapid pace of hiring, persistent renter demand for apartments, and a quickening pace of rent growth were the prevailing trends that highlighted the momentum in the Los Angeles County multifamily market at the beginning of 2022. Strong multifamily fundamentals are forecast to be sustained for the next several quarters. The only significant change in market conditions that is likely is an increase in the number of units delivered after significant slowing in 2021 and at the beginning of this year. After a period of undersupply, the accelerating pace of completions should bring supply and demand closer to equilibrium by the end of 2022.

Investor demand for area multifamily properties is expected to remain elevated throughout the remainder of the year, as the market's recovery and sound fundamental footing will attract capital. Sales velocity got off to a stronger start to 2022 than in recent years, and preliminary indications suggest healthy volume in the second quarter even as interest rates have pushed higher. The prospect for sustained rent growth is a natural hedge against inflation and should help offset some of the impact of rising borrowing costs. With most forecasts calling for an extended period of rising interest rates across the board, cap rates will likely top 4 percent.

Employment Forecast

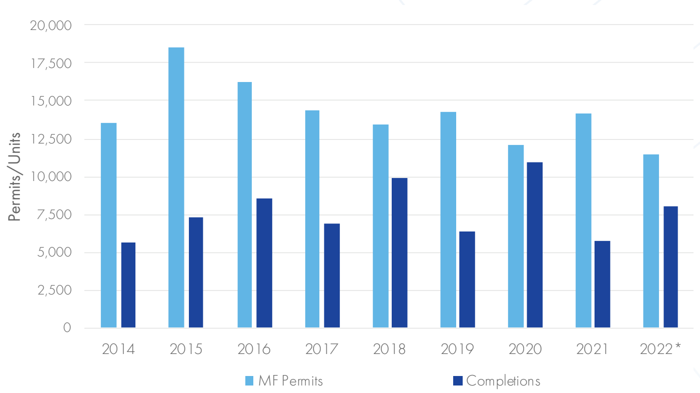


* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast

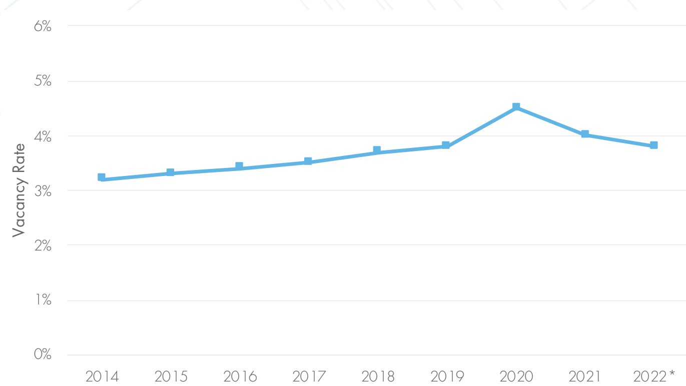
* Year End Forecast
Sources: Northmarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Reis

Northmarq

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