MARKET INSIGHTS

Developers to increase activity levels in 2023

HIGHLIGHTS

- The Los Angeles multifamily market finished the year on a high note with the vacancy rate holding steady at a four-year low and the pace of rent growth accelerating. Local apartment developers continued to bring new projects online at a healthy pace in 2022.
- Area vacancy was mostly stable from the third quarter to the fourth quarter, as the vacancy rate finished 2022 at 3.5 percent. The rate improved by 50 basis points for the full year.
- Rent growth spiked in 2022; average asking rents in Los Angeles County surged 15 percent in the past year. Gains were strong in the fourth quarter, as rents rose 4.2 percent to $2,456 per month.
- Multifamily transaction activity continued to trend lower during the fourth quarter while pricing remains strong. The median sales price in 2022 was $325,900 per unit, up 12 percent from the median price in 2021. Cap rates averaged approximately 4.25 percent during the fourth quarter.

GREATER LOS ANGELES MULTIFAMILY MARKET OVERVIEW

The Greater Los Angeles multifamily market posted a strong fourth quarter, as vacancy held steady and rent growth accelerated at a rapid clip. Absorption levels and supply growth closely tracked each other in recent quarters, which helped maintain a stable vacancy rate in the mid-3 percent range throughout the second half. Despite the volatility that has been present in the economy in recent years, the current vacancy rate is below the market's long-term trend; vacancy averaged 3.9 percent from 2017 to 2021. The tight conditions allowed for rapid rent growth in 2022; annual rent growth reached 15 percent in 2022, a cyclical high in Los Angeles. Average Class A asking rents topped $3,000 per month in 2022, providing additional support for new development projects.

Multifamily investors in Los Angeles were extremely active in the first half of 2022 before cooling in the last six months of the year. Despite fewer properties trading, pricing remains elevated. The median sales price in 2022 totaled more than $325,000 per unit, up 12 percent from the 2021 figure. While properties changed hands across Greater Los Angeles, investors were most active in 2022 around Downtown and in the San Fernando Valley, two regions that highlight the multiple investing strategies available in Los Angeles. Downtown has been an active region for new development, but many of the properties that sold in 2022 were built more than 50 years ago. Assets that sold in the San Fernando Valley were a mix of newer properties and 1980s-vintage assets.

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CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	22,696
UNITS DELIVERED	6,813

MARKET FUNDAMENTALS

VACANCY RATE	3.5%
YEAR-OVER-YEAR CHANGE	-50bps
ASKING RENTS	$2,456
YEAR-OVER-YEAR CHANGE	+15.0%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$325,900

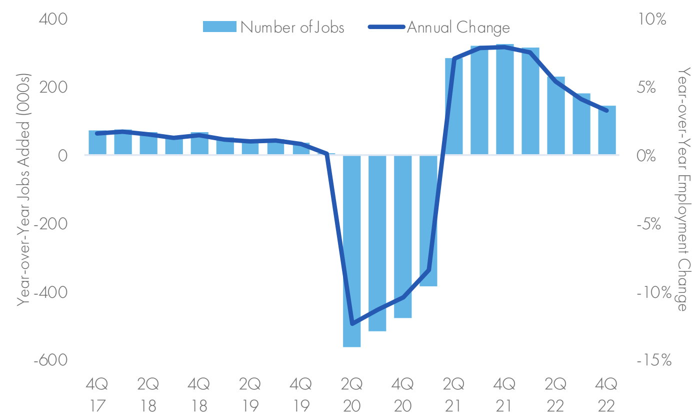
Los Angeles Multifamily
4Q 2022

EMPLOYMENT

- Employers in Los Angeles continued to add jobs during the fourth quarter, although the pace of growth slowed from the previous period. Total employment advanced by approximately 25,000 positions in the last three months of 2022. For the full year, the local labor market grew by 3.3 percent with the addition of 145,600 workers.
- The healthcare and social assistance sector outperformed the overall employment market in Los Angeles in 2022. This industry added more than 35,000 jobs in the last 12 months, a gain of 5 percent.
- PNC Bank is expanding its corporate banking services and plans to grow its retail branch presence in Los Angeles. Although complete details of the expansion have not yet been disclosed, the company is expected to add numerous branch locations in the region and create high-paying employment opportunities in the coming years.
- **FORECAST:** The local job market is projected to slow in 2023, mirroring national trends. Total employment in Los Angeles is expected to advance by 0.9 percent in the next 12 months with the addition of 40,000 jobs.

For the full year, the labor market grew 3.3 percent.

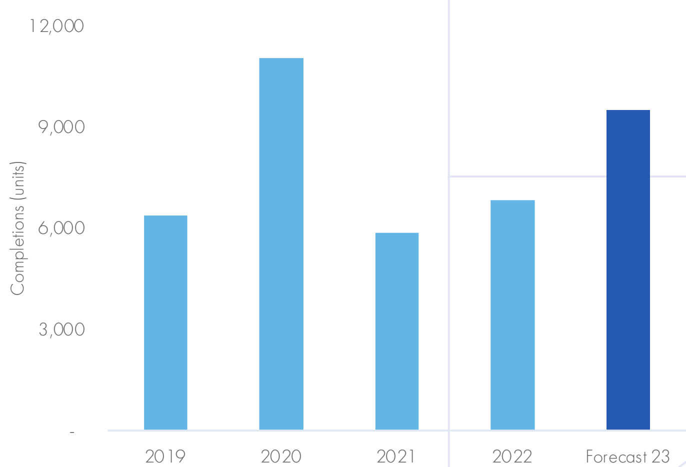
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Projects totaling nearly 22,700 units are under construction.

DEVELOPMENT TRENDS



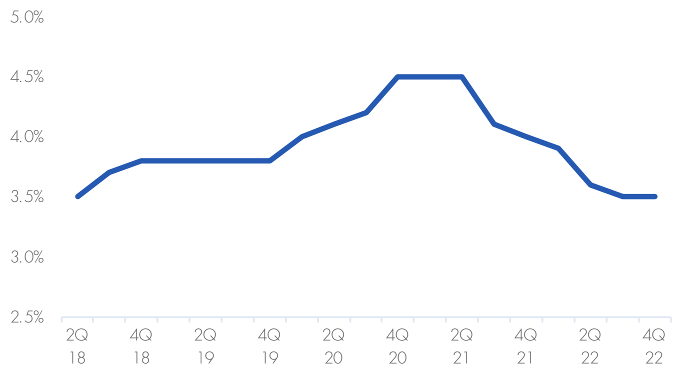
Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

- Multifamily development picked up in the final months of 2022, as more than 2,700 units were delivered across Greater Los Angeles during the fourth quarter. For the full year, developers completed more than 6,800 apartment units with a concentration of activity around Downtown.
- Projects totaling nearly 22,700 units are currently under construction throughout the region, up 8 percent from one year ago. One area where development is gaining momentum is Inglewood, as part of the larger development surrounding SoFi Stadium, which will ultimately bring about 2,500 units to the area.
- Multifamily permitting trended lower in recent months with roughly 3,200 permits pulled in the fourth quarter, a 26 percent decline from the previous period. Despite the recent slowing, developers pulled permits for more than 15,000 multifamily units for the full year, the highest level of issuance in Los Angeles since 2016.
- **FORECAST:** The pace of apartment completions is projected to gain momentum in the coming quarters. Multifamily developers are expected to deliver more than 9,000 units in 2023.

For the full year, vacancy improved 50 basis points.

VACANCY TRENDS



Sources: Northmarq, REIS

VACANCY

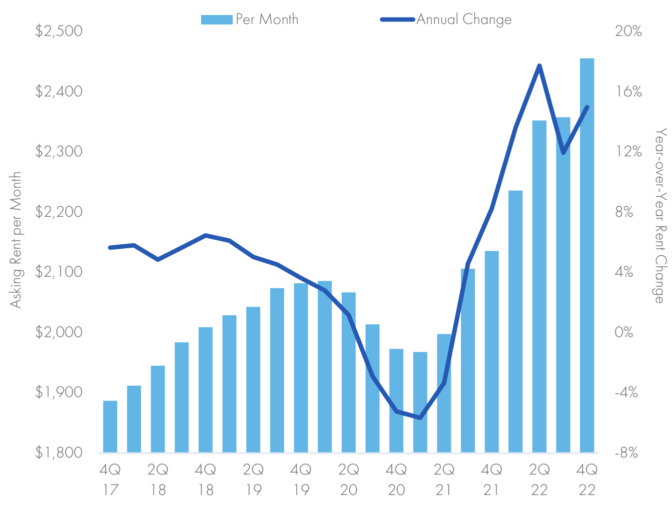
- After tightening for five consecutive periods, the vacancy rate in Los Angeles County held steady from the third quarter to the fourth quarter. Local vacancy finished 2022 at 3.5 percent, and the rate was below 4 percent in each of the past four quarters.
- For the full year, area vacancy improved by 50 basis points. The tightest vacancies are being recorded in the San Fernando Valley, where the rate ended the year at 2.8 percent. Most of the primary regions throughout the county recorded tightening vacancy rates, as renter demand rebounded and outpaced new inventory growth.
- Class B and Class C units continue to record the lowest vacancy levels throughout Los Angeles County, as lower-cost rental options remain in short supply. The combined vacancy rate for Class B and Class C properties fell 50 basis points in 2022 to 2 percent. The average Class A vacancy rate ended the year at 6.2 percent.
- **FORECAST:** Local vacancy is projected to tick higher in the coming quarters, as construction activity picks up. The vacancy rate is expected to rise 20 basis points in 2023 and finish the year around 3.7 percent.

RENTS

- After the pace of apartment rent growth slowed in the third quarter, rents in Greater Los Angeles surged in the final three months of 2022. Local asking rents rose 4.2 percent in the fourth quarter, reaching $2,456 per month.
- Average rents jumped 15 percent for the full year. While rents increased at a rapid pace throughout Los Angeles, some of the largest gains occurred in the Downtown area, particularly in the Wilshire/Westlake submarket. Asking rents in this submarket rose 18.3 percent in 2022 to nearly $3,000 per month.
- Class A asking rents rose more than $300 per month in 2022, ending the year at $3,096 per month. Rents in the top tier are expected to continue to trend higher in 2023, as developers bring additional units to the market with top rental rates.
- **FORECAST:** The pace of rent growth should cool in the coming months as vacancy inches higher. Local asking rents are expected to rise 4 percent in 2023 to around $2,555 per month.

Local asking rents rose 4.2 percent in the fourth quarter.

RENT TRENDS



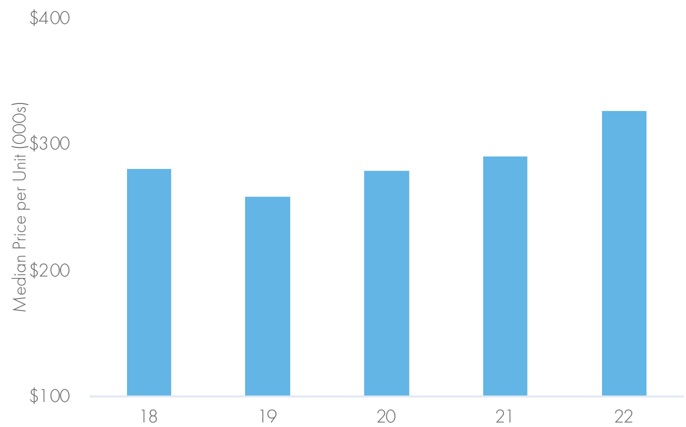
Sources: Northmarq, REIS

MULTIFAMILY SALES

- Sales of apartment properties continued to slow in the final three months of 2022, following a strong first half of the year. The number of deals in the fourth quarter declined 33 percent from the previous period. Despite the quarterly volatility, total transaction counts for the year were down only 6 percent from levels achieved in 2021.
- Despite sales velocity slowing in recent quarters, pricing remains elevated. The median sales price in 2022 was $325,900 per unit, up 12 percent from the 2021 figure. While properties traded across the region during the fourth quarter, there was an uptick in transactions in Santa Monica and other submarkets within West Los Angeles.
- Cap rates held steady in recent months after ticking higher in the previous period. Cap rates averaged around 4.25 percent during the fourth quarter, up from 3.75 percent at the start of the year.

The median sales price in 2022 was $325,900 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
THEA at Metropolis	1000 W 8th St., Los Angeles	685	$504,000,000	$735,766
The Vermont	3150 Wilshire Blvd., Los Angeles	464	$235,000,000	$506,466
Residences at Woodlake	4551-4611 W Martin Luther King Jr Blvd., Los Angeles	276	$76,025,000	$275,453
San Vicente Tower	220 San Vicente Blvd., Santa Monica	90	$39,669,500	$440,772
Rose Gardens	10751 Rose Ave., Los Angeles	118	$31,700,000	$268,644
Pioneer Gardens Apartments	9039 Pioneer Blvd., Santa Fe Springs	141	$16,566,519	$117,493

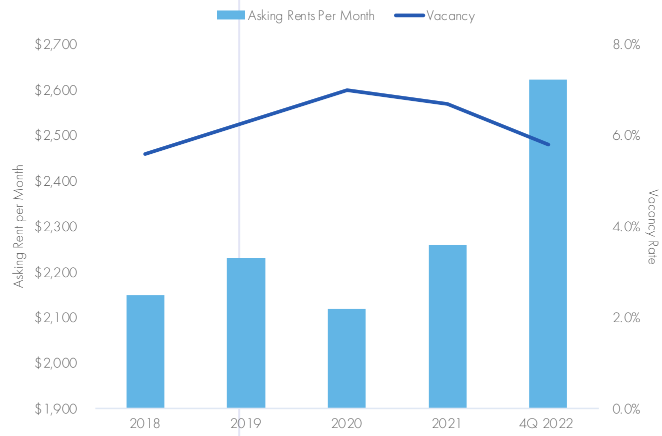
DOWNTOWN

PROPERTY PERFORMANCE METRICS

- The pace of apartment completions picked up in Downtown in the final months of 2022, as approximately 1,670 units were delivered during the fourth quarter, more than half the total deliveries for the full year. Developers will remain active Downtown with projects totaling more than 10,000 units currently under construction.
- The vacancy rate in the Downtown submarkets inched lower at the end of the year, dipping 10 basis points in the fourth quarter to 5.8 percent. In 2022, the rate improved by 90 basis points, as demand outpaced supply growth.
- Asking rents surged in the last three months of 2022, after more modest growth in the previous period. Average rents in the Downtown region rose 4.6 percent in the final quarter to $2,622 per month. Rents spiked 16 percent in 2022.
- **FORECAST:** Multifamily construction activity is expected to gain momentum, as projects totaling approximately 4,500 units are scheduled to come online in 2023. With construction on the rise, vacancy is projected to inch higher and should end the year at around 6 percent. Asking rents are expected to rise 5 percent in the next 12 months to around $2,755 per month.

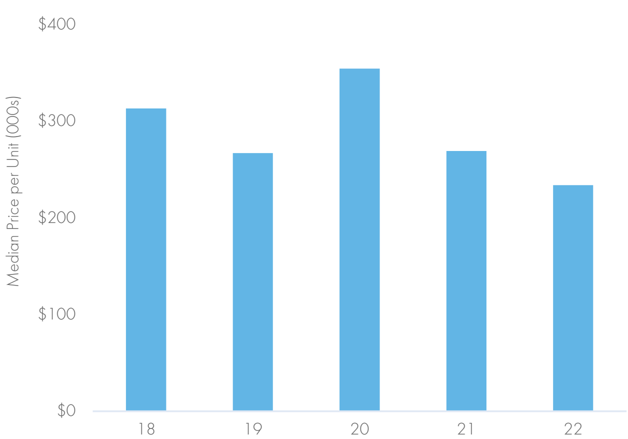
Rents spiked 16 percent in 2022.

VACANCY & RENT TRENDS



Sources: Northmarq, Reis

SALES TRENDS



Sources: Northmarq, CoStar

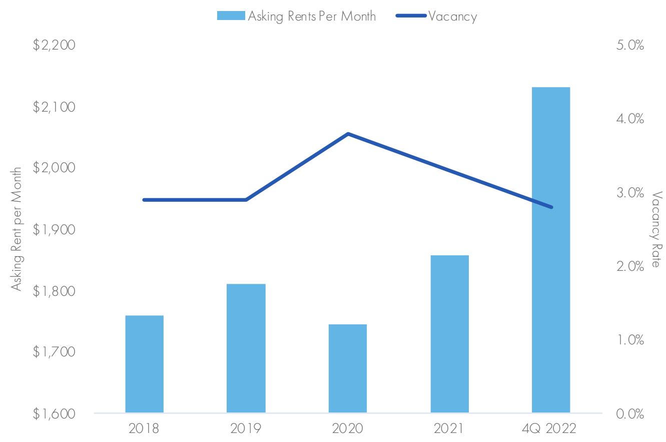
The median sales price in 2022 was $234,100 per unit.

MULTIFAMILY SALES

- Multifamily sales velocity in Downtown increased 50 percent from the third quarter to the fourth quarter. Even after ramping up at the end of the year, transaction activity in 2022 was down 16 percent from 2021 levels.
- While rents rose, per-unit prices dipped in 2022. The pricing trends were fueled by the mix of assets changing hands; in 2022, several sales of small, multi-property portfolios changed hands, particularly late in the year. The median sales price in 2022 was $234,100 per unit, down 13 percent from the 2021 figure.
- Cap rates have been mostly stable through the end of 2022. Cap rates averaged around 4.5 percent during the fourth quarter, although the high-end of the cap rate range has trended higher.

SAN FERNANDO VALLEY

VACANCY & RENT TRENDS



Sources: Northmarq, Reis

Vacancy declined 50 basis points from one year ago.

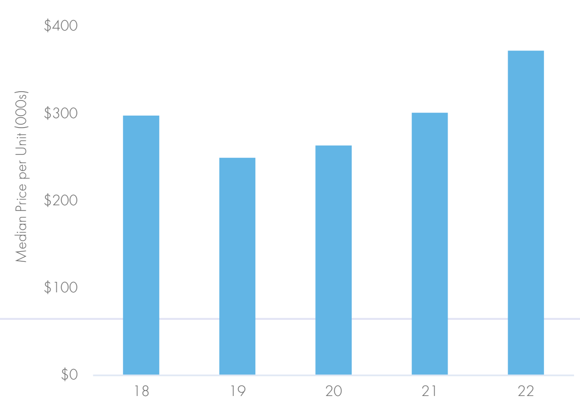
PROPERTY PERFORMANCE METRICS

- The past year was a light one for new apartment development in the San Fernando Valley. Fewer than 450 units were delivered in 2022, and no significant projects came online during the fourth quarter. The pace of deliveries should ramp up going forward with projects totaling nearly 3,500 units under construction in the area.
- Vacancy conditions held steady in the San Fernando Valley in recent months, as the rate finished the year at 2.8 percent, unchanged from the third quarter. Vacancy declined 50 basis points from one year ago.
- After minimal rent growth in the previous period, asking rents posted significant gains in the fourth quarter. Apartment rents in the San Fernando Valley jumped 4.1 percent in the last three months of the year to $2,131 per month. For the full year, rents surged 14.8 percent.
- **FORECAST:** Apartment deliveries are projected to pick up in the next few quarters, as more than 1,500 units are slated to come online in 2023. Renter demand should closely track new inventory growth in the San Fernando Valley, and the vacancy rate is expected to end 2023 at 2.9 percent. Rents are projected to rise around 4.5 percent to $2,225 per month.

MULTIFAMILY SALES

- Multifamily sales activity in the San Fernando Valley was fairly limited at the end of 2022, as only a handful of properties changed hands in the fourth quarter. This followed steady investment volume during the first three quarters of 2022. For the full year, transaction volume fell 25 percent from the 2021 total.
- While fewer properties changed hands in recent quarters, prices pushed higher in the region. The median sales price in 2022 was $372,200 per unit, up 24 percent from the median price in 2021. A lack of new construction is supporting the operational performance of existing properties, and rapid rent growth is resulting in higher per-unit prices.
- Cap rates have slowly trended higher in the last six months. Most properties in the San Fernando Valley are selling with cap rates between 4 percent and 4.75 percent.

SALES TRENDS



Sources: Northmarq, CoStar

The median sales price in 2022 was $372,200 per unit.

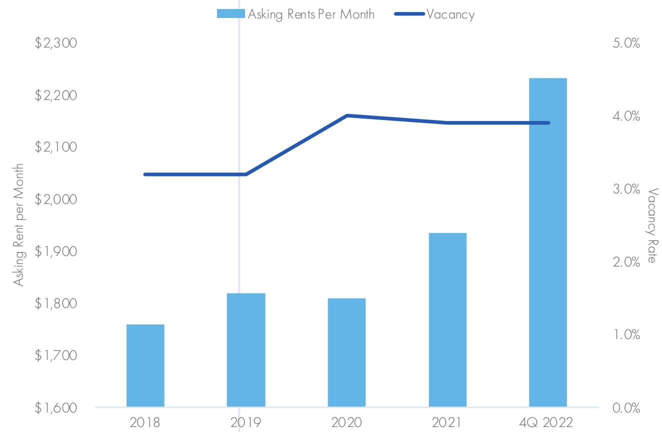
SOUTH BAY

PROPERTY PERFORMANCE METRICS

- Apartment construction activity picked up slightly at the end of 2022, as developers completed roughly 220 units in the final three months of the year. Projects totaling approximately 640 units were delivered in the last 12 months. Nearly 1,900 units were under construction throughout the South Bay at the end of 2022.
- Vacancy conditions trended higher in recent months, rising 20 basis points during the fourth quarter to 3.9 percent. The current rate matches the figure from the end of 2021. Vacancy in the South Bay has remained in a tight range for the past three years.
- Rents in the South Bay advanced at one of the fastest rates in Los Angeles County in 2022. Rents spiked 15.3 percent in 2022, including a 4.2 percent increase during the fourth quarter. Asking rents ended the year at $2,232 per month.
- **FORECAST:** Apartment developers are projected to bring more than 750 units online in the next 12 months, a slight increase from the delivery total in 2022. Local vacancy is projected to reach 4.1 percent by the end of 2023, while rents are expected to advance 3 percent in 2023 to approximately $2,300 per month.

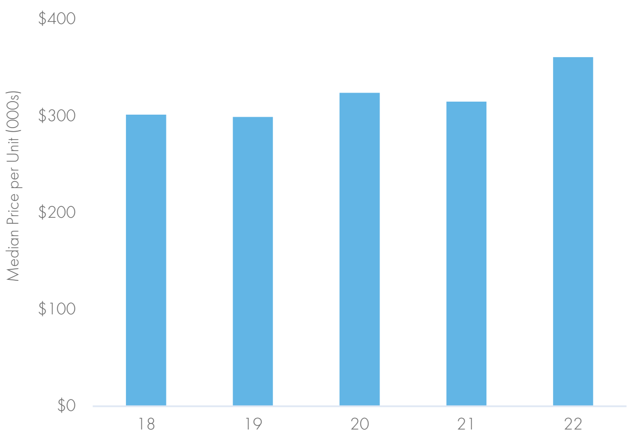
Rents spiked 15.3 percent in 2022.

VACANCY & RENT TRENDS



Sources: Northmarq, Reis

SALES TRENDS



Sources: Northmarq, CoStar

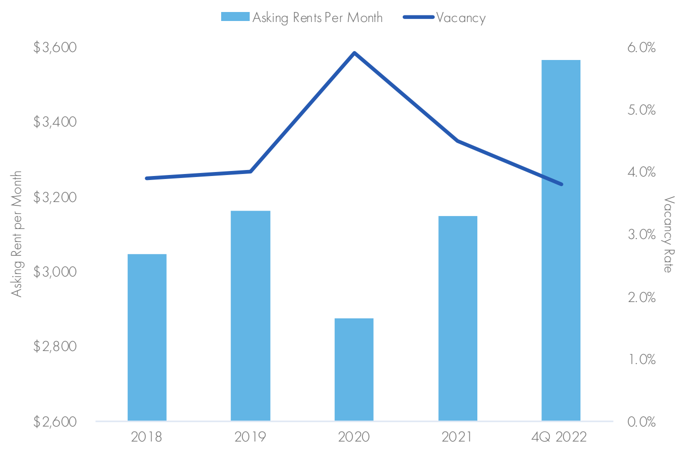
The median sales price in 2022 was $361,000 per unit.

MULTIFAMILY SALES

- After only a handful of properties traded in the South Bay during the third quarter, there were no significant deals during the last three months of 2022. Despite the recent slowing, sales volume in the last 12 months was up nearly 15 percent from the 2021 total. This followed the strongest first half in the South Bay in more than a decade.
- Prices jumped in 2022, after fluctuating near $300,000 per unit during the past five years. The median sales price in 2022 was $361,000 per unit, up 15 percent from the median price in 2021.
- Cap rates in the South Bay have not yet shown signs of rising significantly, although some of that trend can be explained by a limited number of recent transactions. During the first half of the year, cap rates averaged approximately 3.3 percent. Cap rates will likely be closer to 4 percent in 2023.

WEST LOS ANGELES

VACANCY & RENT TRENDS



Sources: Northmarq, Reis

For the full year, 760 apartment units came online.

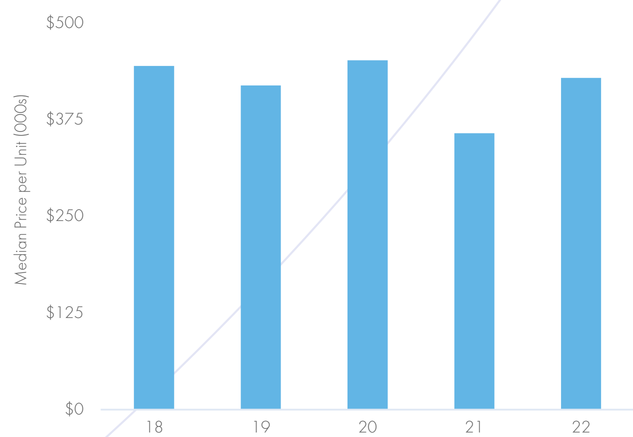
PROPERTY PERFORMANCE METRICS

- After no significant projects were delivered in West Los Angeles during the third quarter, developers completed more than 120 units in the final three months of 2022. For the full year, approximately 760 apartment units came online. Developers should be more active in 2023 with projects totaling more than 1,700 units under construction.
- The vacancy rate in West Los Angeles inched higher during the fourth quarter, rising 10 basis points to 3.8 percent. The rate improved by 70 basis points during the past 12 months. Conditions are particularly tight in the Marina Del Rey/Venice/Westchester submarket, where the vacancy rate finished 2022 at 3 percent.
- Apartment rents in the West Los Angeles region rose at a healthy pace during the fourth quarter, jumping 3.7 percent in the final few months of the year to $3,565 per month. For the full year, asking rents increased by 13.3 percent.
- **FORECAST:** Total apartment completions in 2023 are projected to reach 800 units, similar to the year earlier total. Supply growth and absorption levels should be fairly balanced, which will keep the vacancy rate steady at around 3.8 percent. Asking rents in West Los Angeles are forecast to rise roughly 3.5 percent in the next 12 months to approximately $3,690 per month.

MULTIFAMILY SALES

- Sales velocity remained consistent throughout much of 2022 with only a handful of deals in each quarter. Total transaction activity in 2022 was down nearly 15 percent from the pace recorded in 2021. There was an increase in the average transaction size from 2021 to 2022.
- Following a drop in pricing during 2021, sales prices have pushed higher in recent periods. The median sales price in 2022 was $429,300 per unit, up 20 percent from the median price in 2021. Santa Monica was the most active area for sales in West Los Angeles in the past 12 months.
- West Los Angeles typically records some of the lowest cap rates in Southern California. Throughout much of 2023, cap rates averaged around 3.2 percent.

SALES TRENDS



Sources: Northmarq, CoStar

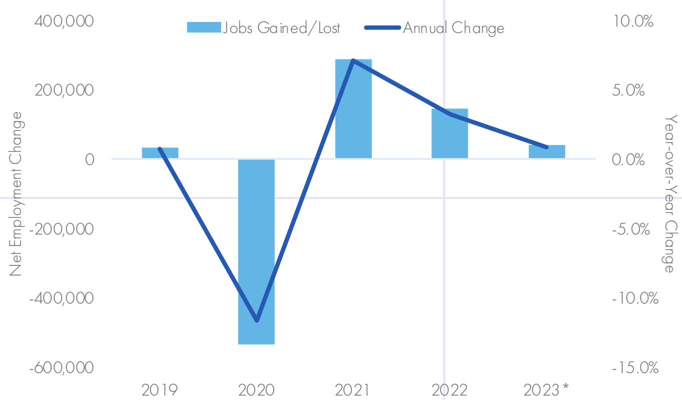
The median sales price in 2022 was $429,300 per unit.

LOOKING AHEAD

After nearly every property performance metric improved in 2022, the multifamily market in Los Angeles may begin to show some signs of cooling in the coming quarters. Apartment completions are projected to increase in 2023, following two consecutive years of below-trend inventory growth. While deliveries are expected to pick up, Los Angeles County as a whole is undersupplied when it comes to housing, and the number of units slated to come online represents a minimal increase to the overall rental stock. As such, vacancy will particularly be affected in areas where construction activity is more concentrated, including around Downtown, but will have a minimal impact outside of a few submarkets. The Downtown area is likely to be the region of the county that experiences the greatest operational stress in 2023.

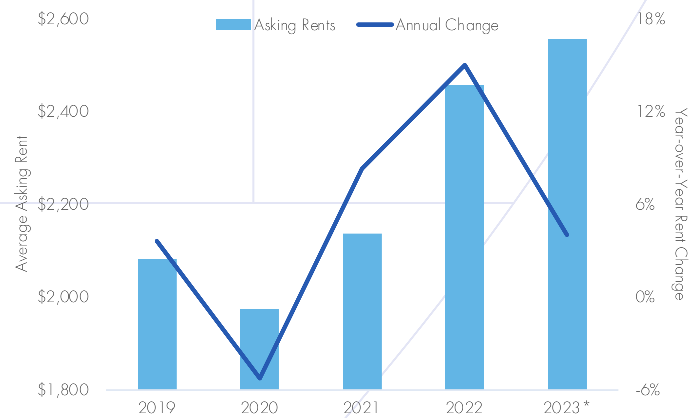
Multifamily sales activity is expected to continue slowing in the coming quarters, as the investment market in Los Angeles remains impacted by higher interest rates and an expectations gap between buyers and sellers. Until the cost of capital levels off, which is expected to happen in the latter half of 2023, multifamily investors and lenders will underwrite deals with caution. Cap rates in Los Angeles County have historically been among the lowest in the country, and many existing owners will not feel compelled to sell at higher cap rates. Another potential impediment to transaction activity in 2023 is the new ULA property transfer tax, that will go into effect in April 2023 and will apply to sales within the city of Los Angeles.

EMPLOYMENT FORECAST



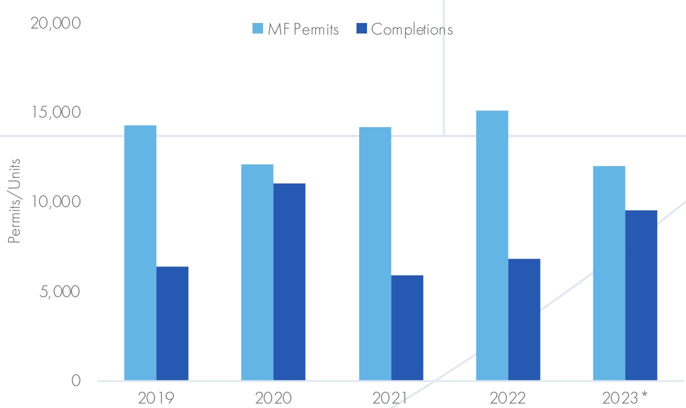
** Year End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



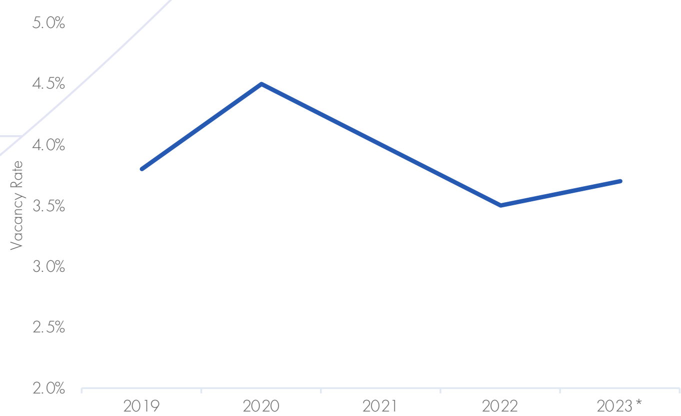
** Year End Forecast*
Sources: Northmarq, REIS

CONSTRUCTION & PERMITTING FORECAST



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

VACANCY FORECAST



** Year End Forecast*
Sources: Northmarq, REIS

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FOR MORE INFORMATION, PLEASE CONTACT:

VINCE NORRIS
Managing Director—Investment Sales
424.334.7021
vnorris@northmarq.com

BRENT SPRENKLE
Managing Director—Investment Sales
424.334.7005
bsprenkle@northmarq.com

STEVE GOLDSTEIN
Vice President—Investment Sales
424.422.0904
sgoldstein@northmarq.com

ZALMI KLYNE
SVP, Managing Director—Debt & Equity
424.422.0903
zklyne@northmarq.com

TREVOR KOSKOVICH
President—Investment Sales
602.952.4040
tkoskovich@northmarq.com

PETE O'NEIL
Director of Research
602.508.2212
poneil@northmarq.com

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