Northmarq

MARKET INSIGHTS

Tight conditions, continued rent growth throughout the region

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	40,362
UNITS DELIVERED	14,231

MARKET FUNDAMENTALS

VACANCY RATE	3.4%
YEAR-OVER-YEAR CHANGE	-40bps
ASKING RENTS	$2,379
YEAR-OVER-YEAR CHANGE	+11.6%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$335,000

Southern California Multifamily
4Q 2022

HIGHLIGHTS

- Property performance metrics in Southern California generally improved in 2022. Asking rents rose at rapid rates and vacancies tightened. Modest levels of new construction are anticipated in 2023, representing a minimal increase to the region's overall inventory levels.
- While the vacancy rate inched higher across the region during the fourth quarter, the rate improved for the full year. In 2022, the average vacancy in Southern California fell 40 basis points to 3.4 percent.
- Southern California posted significant rent gains in 2022; average rents rose 11.6 percent. Greater Los Angeles led the region in rent growth, posting a 15 percent increase.
- Total sales activity in 2022 fell 20 percent from levels recorded in 2021. The median sales price during the past 12 months was $335,000 per unit, up 14 percent from the median price in 2021. Cap rates inched higher, but were among the lowest in the country in 2022.

SOUTHERN CALIFORNIA MULTIFAMILY MARKET OVERVIEW

The multifamily market in Southern California showed some signs of cooling during the fourth quarter, although overall property fundamentals remain strong. Despite some of the major markets in the region posting slight rent declines in recent months, average rents rose at a healthy pace in the past year, advancing 11.6 percent. Additionally, the vacancy rate posted consistent improvements in recent quarters and dropped 40 basis points in 2022. Southern California markets typically record some of the lowest vacancy rates in the nation and fluctuate in a tight range between 3 percent and 3.5 percent. Supported by heightened occupancy levels, developers continue to break ground on new projects, although the total new construction will represent just a small fraction of the region's existing inventory and total population.

Most major markets in Southern California recorded more transactions in the first half of 2022 before tapering off in the last six months. Total sales activity in the region fell 20 percent from 2021 to 2022. Despite fewer properties changing hands in recent quarters, pricing remains elevated. The median sales price in Southern California in 2022 was $335,000 per unit, up 14 percent from the median price in 2021. The largest jump in sales prices occurred in the Inland Empire where the median sales price rose more than 26 percent from 2021 to 2022. Cap rates inched higher across some of the markets in the region, reflecting the higher costs of capital. Still, many owners are resisting potential cap rate increases, citing strong operational performance, rapid rent growth, and minimal vacancies.

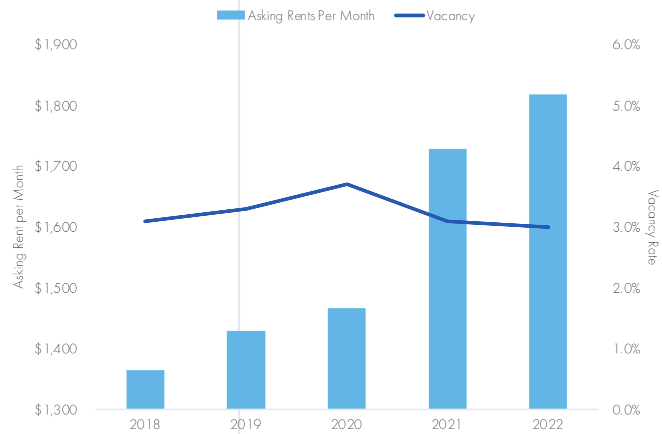
INLAND EMPIRE

CONSTRUCTION/VACANCY/RENTS

- Projects totaling nearly 2,400 units were delivered in 2022, about 85 percent higher than the region's trailing five-year average. Completions will accelerate going forward; at the end of 2022, more than 6,800 units were under construction in the Inland Empire.
- Local vacancy declined 10 basis points to 3 percent in 2022, although the rate inched higher in the final three months of the year. Vacancy in the Inland Empire averaged 3.3 percent during the past five years.
- After more than a decade of consistent rent growth, asking rents in the Inland Empire dipped lower in the fourth quarter. Rents fell nearly 2 percent in the final months of 2022 to $1,818 per month. Even with the recent dip, apartment rents rose 5.1 percent for the full year.
- **FORECAST:** Projects totaling roughly 3,000 units are scheduled to come online in 2023. Local vacancy is projected to inch higher in 2023 as delivery activity picks up. The vacancy rate is expected to rise 20 basis points to 3.2 percent. Average rents are forecast to advance 2.6 percent in 2023 to around $1,865 per month.

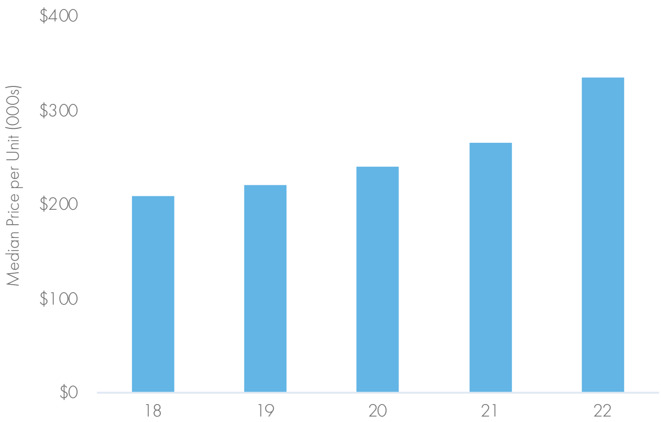
Vacancy declined 10 basis points to 3 percent in 2022.

VACANCY & RENT TRENDS



Sources: Northmarq, Reis

SALES TRENDS



The median sales price in 2022 was $334,500 per unit.

MULTIFAMILY SALES

- The multifamily investment market in the Inland Empire slowed significantly in recent months as only a handful of properties changed hands in the fourth quarter. Additionally, the number of sales in 2022 declined nearly 40 percent from the 2021 total.
- Per-unit pricing has trended higher during the past 12 months, despite fewer properties trading. The median sales price in 2022 was $334,500 per unit, up 26 percent from the median price in 2021.
- Cap rates in the Inland Empire ticked up in the final quarter of 2022. The prevailing cap rates across most of the properties that sold during the last three months were between 3.5 percent and 4 percent.

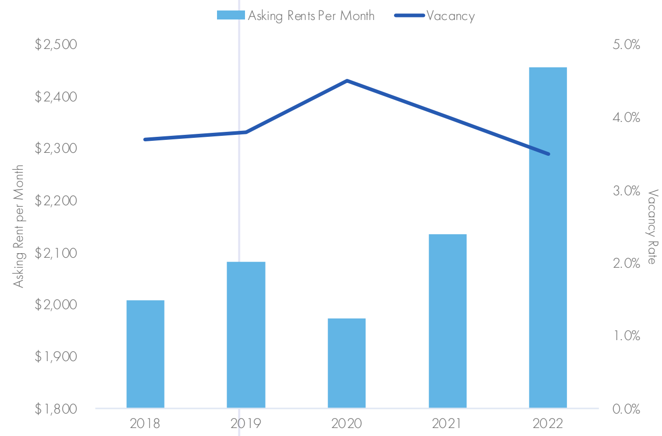
LOS ANGELES

CONSTRUCTION/VACANCY/RENTS

- Multifamily construction activity picked up in the fourth quarter as more than 2,700 units were delivered across Greater Los Angeles. For the full year, developers completed more than 6,800 apartment units in 2022 with a concentration of activity around Downtown.
- After trending lower for five consecutive quarters, the vacancy rate in Los Angeles remained unchanged from the third quarter to the fourth quarter, finishing the year at 3.5 percent. The rate declined 50 basis points in 2022, a second consecutive year where the rate tightened. In the San Fernando Valley, average vacancies are just 2.8 percent.
- Apartment rents surged across Los Angeles to close the year, following minimal growth in the previous period. Asking rents rose 4.2 percent in the final three months of 2022 to $2,456 per month. Average rents climbed 15 percent for the full year.
- **FORECAST:** Developers are expected to bring new projects totaling roughly 9,000 units in 2023. With construction activity accelerating, the vacancy rate is projected to rise 20 basis points and finish the year at around 3.7 percent. Local apartment rents are forecast to rise 4 percent to more than $2,550 per month.

Rents surged across Los Angeles during the fourth quarter.

VACANCY & RENT TRENDS



Sources: Northmarq, Reis

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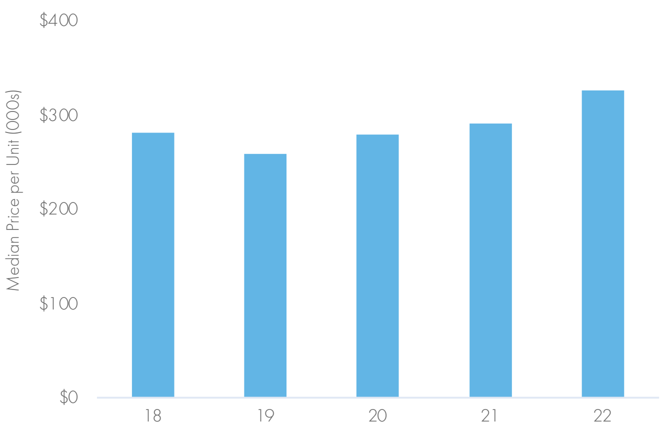


Cap rates averaged 4.25 percent during the fourth quarter.

MULTIFAMILY SALES

- The Los Angeles investment market continued to slow in recent months, following an active first half of the year. Deal volume declined 33 percent from the third quarter to the fourth quarter. Total transaction activity for the year was 6 percent lower than levels posted in 2021.
- The median sales price in 2022 was $325,900 per unit, a 12 percent increase from the 2021 figure. Sales activity occurred throughout the region during the fourth quarter, with an uptick in transactions in Santa Monica and other submarkets within West Los Angeles.
- Cap rates were mostly stable in the final few months of 2022, after ticking higher during the third quarter. Cap rates averaged around 4.25 percent during the fourth quarter, up roughly 50 basis points from the start of the year.

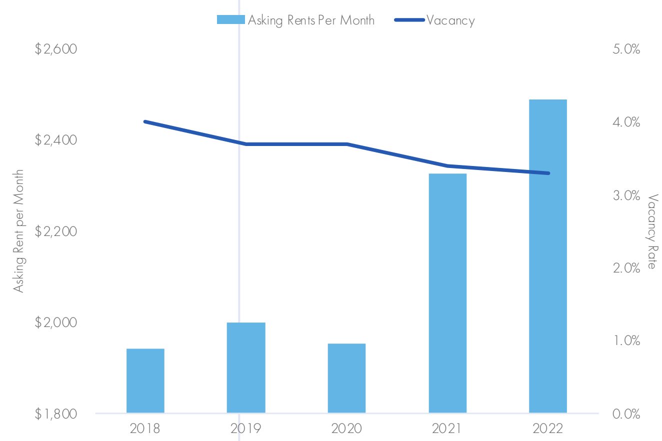
ORANGE COUNTY

CONSTRUCTION/VACANCY/RENTS

- Approximately 685 apartment units were completed in Orange County during the fourth quarter, and developers delivered nearly 1,860 units for the full year. Projects totaling roughly 6,240 units are currently under construction throughout the region, up 19 percent from one year ago.
- Vacancy in Orange County remained within its historical range throughout 2022. The rate ended 2022 at 3.3 percent, down 10 basis points for the year. Vacancy inched up 10 basis points during the fourth quarter.
- Asking rents stalled in the fourth quarter but still rose 7 percent in 2022, reaching $2,490 per month. The Irvine submarket posted some of the strongest rent gains in the past year, rising 8.2 percent in 2022 to $2,944 per month.
- **FORECAST:** Projects totaling approximately 3,000 units are slated to come online in 2023, nearly doubling levels from the past year. The result will likely be a modest increase in area vacancy. The rate is projected to rise 20 basis points to 3.5 percent. Rent growth will moderate in the year ahead as asking rents are forecast to rise about 2.5 percent to $2,550 per month.

The vacancy rate ended 2022 at 3.3 percent.

VACANCY & RENT TRENDS



Sources: Northmarq, Reis

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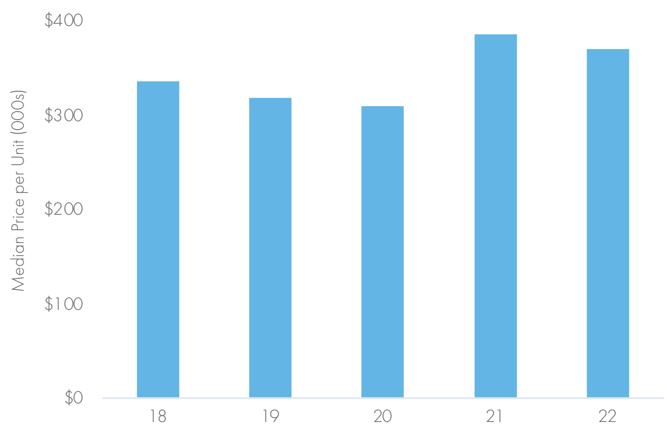


Cap rates in Orange County held fairly steady.

MULTIFAMILY SALES

- Investment activity trends in Orange County were mixed in 2022. Total transaction velocity for the full year declined by 30 percent from levels recorded in 2021. The market did show signs of gaining momentum during the fourth quarter, however, as the number of closed deals rose 40 percent from the third quarter.
- The median sales price in 2022 was $369,100 per unit, 4 percent lower than the median price in the preceding year. The transaction mix included a number of Class C assets, which sold for about $290,000 per unit, while Class A properties changed hands with a median price of $540,000 per unit.
- While interest rates rapidly trended higher in 2022, cap rates in Orange County held fairly steady. Most properties are selling with cap rates between 3.75 percent and 4.25 percent.

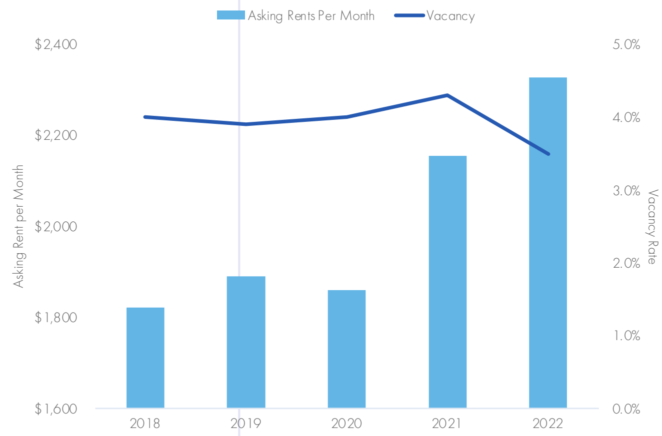
SAN DIEGO

CONSTRUCTION/VACANCY/RENTS

- The pace of completions declined at the end of the year. Projects totaling 320 units came online in San Diego during the fourth quarter, bringing the annual total to roughly 3,200 units. Approximately 4,600 units are currently under construction, nearly identical to levels from one year ago.
- The vacancy rate in San Diego inched higher in recent months after falling to a five-year low earlier in 2022. The rate rose 20 basis points in the fourth quarter to 3.5 percent. Vacancy dropped 80 basis points in 2022. Outside of Class A properties, average vacancy rates are below 2 percent.
- Rents increased by nearly 2 percent in the fourth quarter, reaching $2,327 per month. For the full year, asking rents surged 8 percent. San Diego is consistently one of the top markets for rent growth; during the past decade, local average rents have increased 5.3 percent per year.
- **FORECAST:** The San Diego multifamily market is projected to post a strong performance in 2023. Projects totaling nearly 3,000 units are scheduled to be delivered in the next 12 months. Local vacancy should inch slightly higher, rising 20 basis points in 2023 to 3.7 percent. Rents are forecast to end the year at approximately $2,400 per month, a 3 percent annual gain.

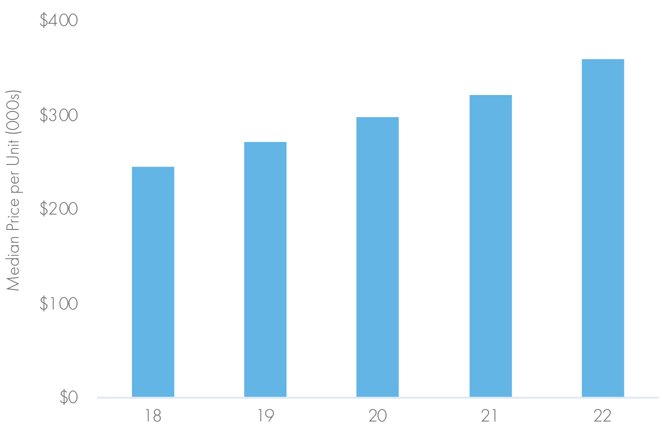
For the full year, asking rents surged 8 percent.

VACANCY & RENT TRENDS



Sources: Northmarq, Reis

SALES TRENDS



The median sales price in 2022 was $358,900 per unit.

MULTIFAMILY SALES

- San Diego's multifamily investment market gained momentum in the last few months of 2022, as sales volume more than doubled from the third quarter to the fourth quarter. Despite the recent jump in sales, annual deal volume in 2022 declined 28 percent from levels recorded in 2021.
- Although fewer properties traded in 2022 compared to 2021, pricing remained elevated. The median sales price in 2022 was $358,900 per unit, up 12 percent from the median price in 2021.
- Cap rates rose approximately 50 basis points in the fourth quarter, averaging nearly 4 percent at the end of the year. Additional cap rate increases will likely be modest.

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