

Los Angeles County

Multifamily Market Outlook Q2 2024

MARKET OVERVIEW

In Q2 2024, the multifamily sector experienced another uptick in the vacancy rate, rising 20 bps quarter-over-quarter and 40 bps year-over-year to 5.1%. New construction was a key driver of this increase, with newly completed units contributing to a rise in the average asking rent per unit. Following an uptick in Q1, the average rent rose again by 0.5% quarter-over-quarter and by 0.7% year-over-year, reaching a record high of \$2,207/unit, with 3,715 newly completed units added to the market in Q2 - up 56.9% from Q1 2024. Multifamily investment has faced significant pressures, creating a challenging landscape. High interest rates, rising construction costs, a slowing economy, and lower rent growth have all contributed to these difficulties. Additionally, the City of L.A.'s 'ULA Tax' remains a factor in the investment marketplace. Despite these challenges, historic highs in rent prices serve to mitigate some investor concerns.

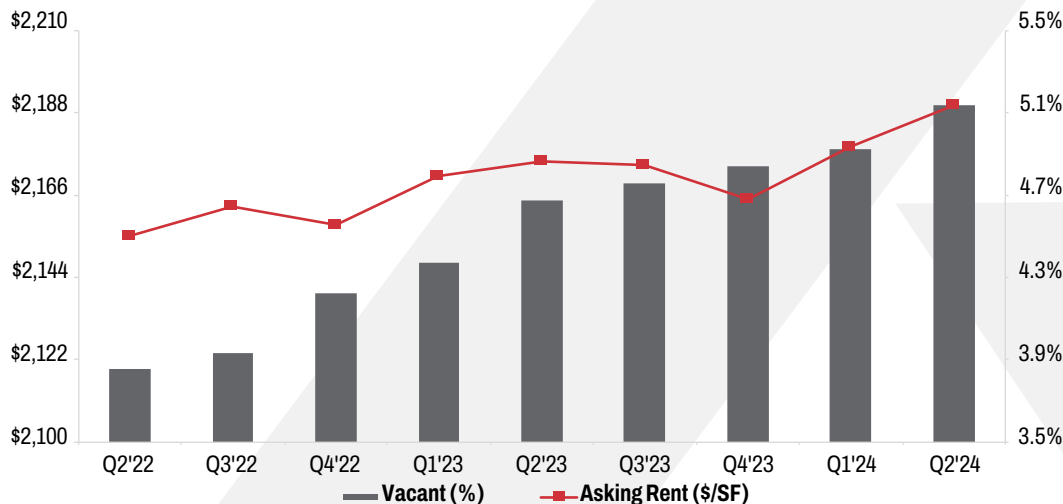
The first half of this year reflects the situation, with the number of units sold decreasing by only 1.9% compared to the previous year, totaling 11,019 units year-to-date. However, quarter-over-quarter, there was a significant increase of 122.2% in units sold. The average sale price per unit saw a modest drop of 3.0% quarter-over-quarter but increased by 12.4% year-over-year to \$304,876. The sales dollar volume countywide rose by 16.7% from the previous quarter but experienced a significant decline of 26.7% year-to-date. Additionally, the average capitalization rate increased by 30 basis points compared to last year, now standing at 4.9%. Investors are grappling with price discovery as the sales market adjusts.

TRENDS TO WATCH

Elevated interest rates have made borrowing more expensive, reducing investment and spending on home ownership, which bodes well for the existing rental market. This impact is evident in reduced construction due to heightened costs for developers, considering the prospects of lower rent growth. By the end of the first half of 2024, there was a substantial double-digit decline of 34.6% in completed units (6,083), coupled with a notable drop of 9.3% year-over-year in the number of units under construction. This indicates that the supply of multifamily housing units will see some constraints. Apartment sales volume in the City of L.A. has been significantly impacted by Measure ULA, enacted on April 1, 2023. Sales for apartment buildings under the \$4.99 million threshold increased by 9.9% quarter-over-quarter as investors shift their focus to properties not subject to the ULA Tax. Conversely, year-to-date sales volume for buildings over \$5M has dropped by 40%, with the number of deals plummeting by 74.5% compared to the first half of last year. This heightened barrier to entry is seen as an opportunity for investors with available capital. Recently, Blackstone Inc. completed its \$10B acquisition of Apartment Income REIT Corp., which included an L.A. portfolio comprised of 3,561 units in prime L.A. County neighborhoods.

Investment demand has shifted as credit conditions tighten. The multifamily market faces a less optimistic growth outlook due to increased borrowing and operating costs, which heighten financial risks. Despite these challenges, demand for certain asset classes within the adjusting sector remains strong.

VACANCY RATE AND AVERAGE ASKING RENT



MARKET OUTLOOK

**Asking
Rental Rates**



**Vacancy
Rates**



**New
Construction**



**Sales
Volume**



**Sales
Price**



**Cap
Rates**



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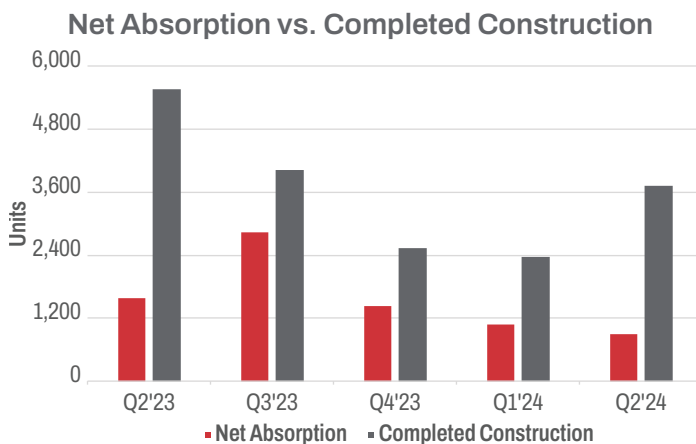
MARKET STATISTICS*

Submarket	Existing Inventory (Units)	Under Construction (Units)	Total Vacancy (%)	Average Asking Rent (\$/Unit)	YTD Units Sold	YTD Sales Volume (\$/Unit)	Average Sale Price (\$/Unit)	Average Cap Rate (%)
Central	229,295	7,816	5.9%	\$2,060	1,483	\$405,860,299	\$195,482	5.7%
East	195,778	4,896	4.1%	\$2,005	1,430	\$332,060,008	\$267,668	4.4%
West	310,892	8,965	6.5%	\$2,651	4,515	\$705,586,490	\$409,907	4.7%
North	268,633	6,231	4.2%	\$2,135	2,233	\$448,771,400	\$312,978	4.8%
South Bay	214,415	3,220	4.5%	\$1,951	1,358	\$366,232,950	\$264,276	5.1%
Los Angeles County	1,219,013	31,128	5.1%	\$2,207	11,019	\$2,258,511,147	\$304,876	4.9%

* Inventory includes all multifamily buildings. Rents reflect all market rate units.

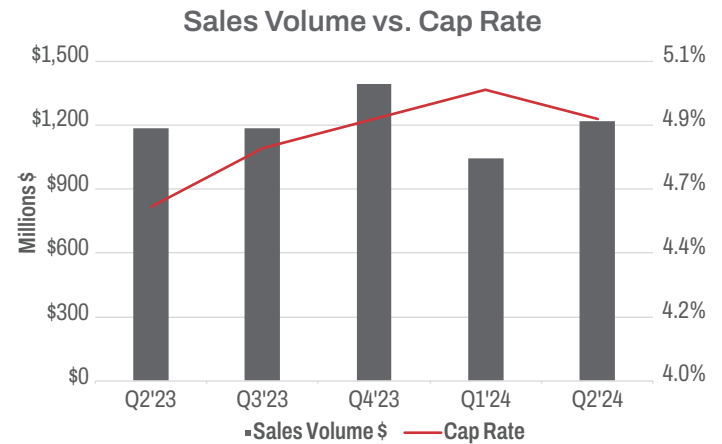
LEASING TRENDS

In the last five quarters, completed construction has added a total of 18,205 units to the market, highlighting the shift in supply and demand. However, the absorption of units during the same period fell 56.9% below that figure. This indicates a significant disparity between the supply of newly constructed units and the pace of demand for multifamily housing.



SALES TRENDS

Over the last five quarters, sales volume has fluctuated due to the impact of rising interest rates. In the first half of 2024, sales volume was approximately 12.5% lower than in the second half of 2023, totaling around \$2.3 billion. Additionally, Q2 2024 saw the average cap rate on investment sales increase by 30 basis points from Q2 2023, reaching 4.9%.



SELECT SALES TRANSACTIONS

Address : Building Name	City	Submarket	Units	Sale Price
4735 Sepulveda Blvd - VEDA	Sherman Oaks	North	236	\$72.5M
2701 Randolph St - Bella Vista Senior Apartments	Huntington Park	South Bay	225	\$33.75M
5710 Crescent Park E - Reveal Playa Vista	Los Angeles	West	214	\$122.1M
5077 Lankershim Blvd - Hue North Hollywood	North Hollywood	North	156	\$62.1M
535-547 S Kingsley Dr - Maya	Los Angeles	West	72	\$30M
7940 Reseda Blvd - Pine Tree Terrace Apartments	Reseda	North	58	\$17.6M
18325 Saticoy St - Windmere Court	Reseda	North	52	\$16.3M
14748 Burbank Blvd - Sherman Oaks Regency Apartments	Sherman Oaks	North	50	\$16.28M
801 S Gramercy Dr - Gramercy Drive Apartments	Los Angeles	West	48	\$6.61M
3106 N Garey Ave - North Garey Village	Pomona	East	44	\$9.9M
115 N Oak St	Inglewood	South Bay	41	\$8.75M
13801-13817 Van Ness Ave - Hollypark Apartments	Gardena	South Bay	41	\$9.47M