

Los Angeles County

Multifamily Market Outlook Q1 2023

MARKET OVERVIEW

Since authorities lifted pandemic-era state and local eviction protections, multifamily housing vacancy rates and rents have risen in Los Angeles County. As of January 1, 2023, tenants who are unable to pay rent may face eviction. Despite some landlords now collecting unpaid rent from tenants who have not paid for years, vacancy rates for rental units have slightly increased in Q1 2023, moving up 20 bps quarter over quarter to 4.2%, which is an increase of 70 bps from the previous year. Completed construction has also dropped by 12.6% quarter over quarter, with multifamily housing units under construction decreasing by 2.6% from the previous quarter to 34,902 units.

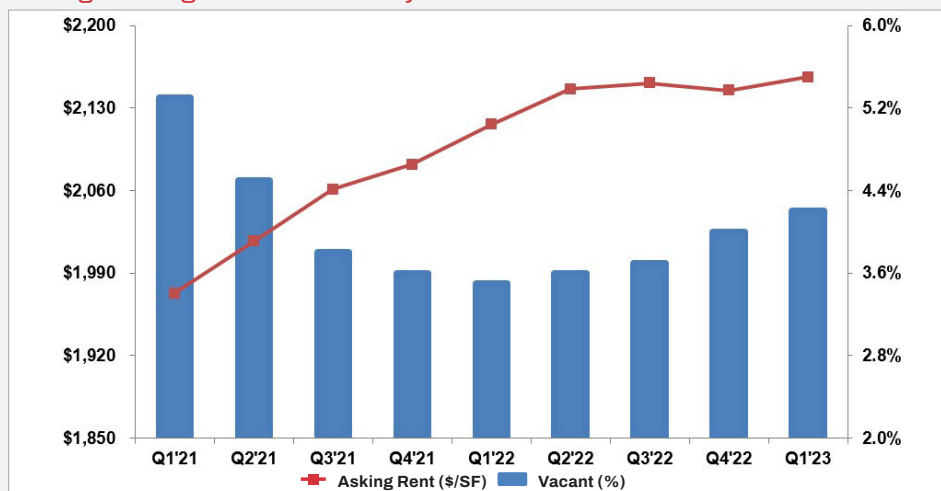
Following the pandemic, there was a surge in demand in the rental market, resulting in an overall decrease in the number of vacant multifamily housing units. Now three years later however, the number of vacancies has increased, albeit by a negligible 2,112 units compared to the size of the L.A. housing market with a household population of 3.3 million people. This rise in vacant units seems to be following a pattern similar to the Great Recession as the economy began to change in 2008/2009. The monthly average rent has climbed back to a record high of \$2,156 per unit, up half a percent from Q4 2022, with newly completed multifamily housing units being the main drivers of the rise in average rent. Units sold dropped off by 10.8% from Q4 2022 as watchful investors pulled back.

TRENDS TO WATCH

The Federal Reserve has impacted economic conditions, through its increase in the interest rate, affecting the demand for multifamily housing and the financing available to developers and investors. With credit conditions tightening, the multifamily housing market is experiencing an adjustment to high inflation, rising borrowing costs, a weaker growth outlook, and elevated financial risks. In Q1 2023 every submarket experienced an increase in vacant units, less units under construction, and a declining average sale price per unit quarter over quarter. North LA, home to San Fernando Valley and Santa Clarita Valley, saw the largest drop in average sale price per unit, down 35.9% year over year as the market had a 22% rise in the number of vacant units. In the East, home to the San Gabriel Valley, the largest rise in vacant units was recorded, up 32.2% as the average sale price per unit sold dropped 20.3% year over year. In the most prestigious housing market in L.A. County, West LA, the average sale price per unit sold dropped 9.5% and the number of vacant units increased 10.7% over the same period.

Although rents are up 1.9% year over year, high inflation and interest rates have made developers and investors wary. The number of vacant multifamily housing units in the county totaled 48,885 in Q1, up by 19.4% year over year. The number of units sold plummeted by 37.5% over the same timeframe, while the average sale price per unit dropped by 18.4%. This shift in market conditions and demand for multifamily housing will impact the underwriting of new projects moving forward.

Average Asking Rent and Vacancy Rate



MARKET OUTLOOK

Asking Rental Rates



Vacancy Rates



New Construction



Sales Volume



Sales Prices



Cap Rates



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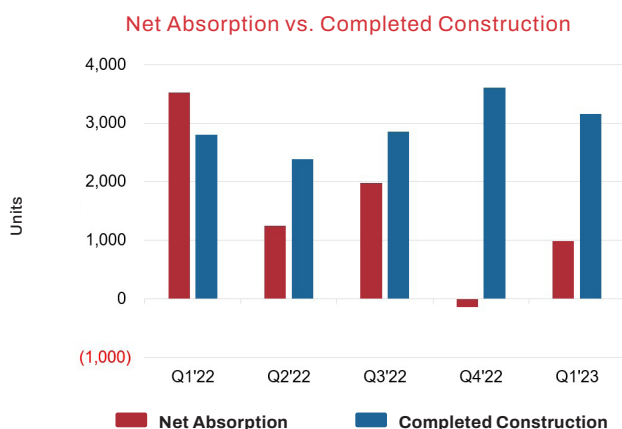


Market Statistics*

SUBMARKET	INVENTORY (UNITS)	UNDER CONSTRUCTION (UNITS)	TOTAL VACANCY (%)	AVERAGE ASKING RENT (\$/UNIT)	YTD UNITS SOLD	YTD SALES VOLUME (\$)	AVERAGE SALE PRICE (\$/UNIT)	AVERAGE CAP RATE (%)
Central	213,229	11,180	5.1%	\$2,041	844	\$168,793,500	\$202,390	5.4%
East	187,871	4,058	3.2%	\$1,929	752	\$238,036,522	\$318,657	4.3%
West	302,431	10,042	5.2%	\$2,628	2,041	\$815,630,500	\$418,272	4.3%
North	265,509	5,994	3.5%	\$2,082	1,767	\$406,970,422	\$230,317	4.4%
South Bay	206,554	3,628	3.4%	\$1,860	905	\$267,869,000	\$303,362	4.3%
Los Angeles County	1,175,594	34,902	4.2%	\$2,156	6,309	\$1,897,299,944	\$306,957	4.5%

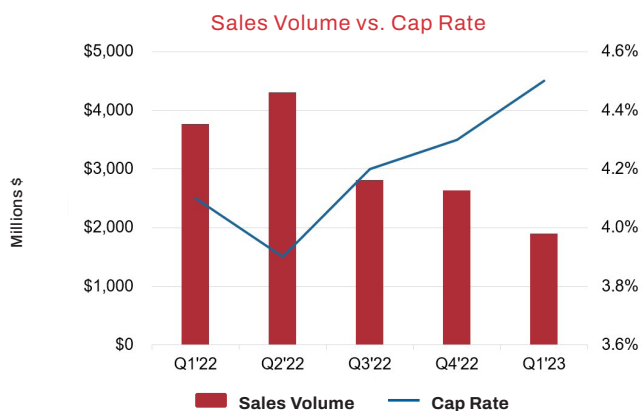
Supply and Demand Trends

Over the past four quarters, the rental housing market has struggled to cope with the increased inventory. The imbalance between supply and demand began in Q2 2022 and has persisted ever since, shaping investors' expectations for the market this year. Since Q1 2022, more than twice as many units have been completed than absorbed.



Sales Trends

As interest rates have risen, sales volume has declined for the past three quarters, prompting investors to adapt to changing financial conditions. This quarter, sales volume reached around \$1.9B, representing a 28.1% drop from Q4 2022. Additionally, the average cap rate has consistently increased since Q2 2022.



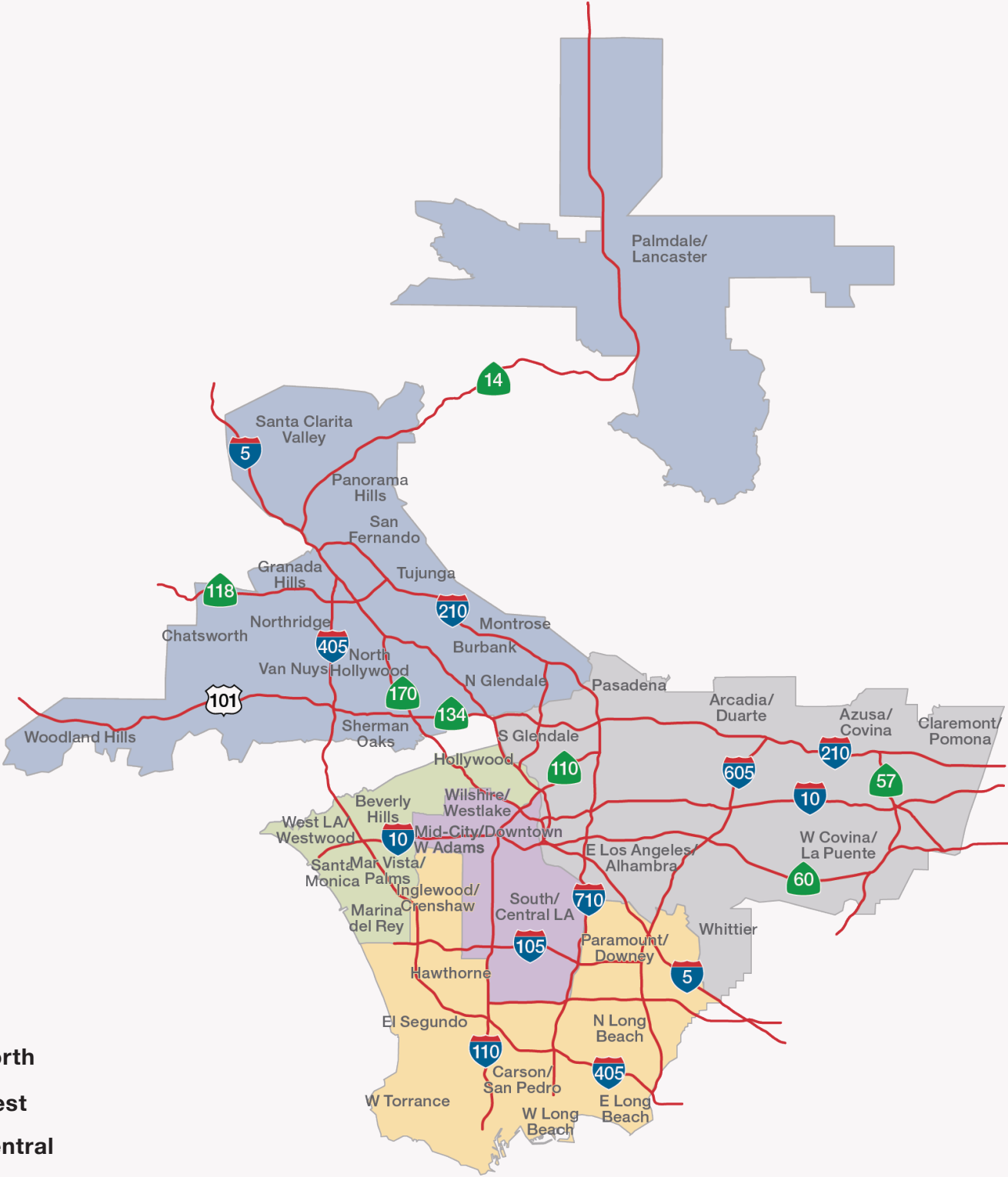
Select Sales Transactions

Building Name/Address	City	Submarket	Units	Sale Price
915 N La Brea Ave - Angelene Apartments	West Hollywood	West	179	\$112.5M
2245 S Beverly Glen Blvd - Westside Villas Apartments	Los Angeles	West	113	\$66.1M
Westside Collection - 4 Multi-Family Properties Sold	Los Angeles	West	116	\$58.45M
6530 Independence Ave - Haven Warner Center	Canoga Park	North	205	\$54M
1530 N Poinsettia Pl - Urbanlux Fleur	Los Angeles	West	136	\$48.25M
710 N El Centro Ave - The LC	Los Angeles	West	84	\$46.5M
12035 Wilshire Blvd - Picasso Brentwood	Los Angeles	West	81	\$41.5M
12960 Dronfield Ave - Mountain View Manor Apartments	Sylmar	North	200	\$39.5M
2900 E Virginia Ave - South Hills	West Covina	East	85	\$38.25M
11405 Chandler Blvd - nVe	North Hollywood	North	82	\$32M
12221-12225 San Vicente Blvd - Brentwood Gardens	Los Angeles	West	50	\$31M
5800 Harold Way - 5800 Harold	Hollywood	West	56	\$25.35M

*Existing inventory includes all apartment buildings. Rent reflects market rate units of all sizes.

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- North
- West
- Central
- East
- South Bay

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NAI Capital Commercial Southern California Office Locations

Headquarters

15821 Ventura Blvd., Ste. 320
Los Angeles, CA 91436
818.905.2400

Los Angeles County

Downtown LA

707 Wilshire Blvd., Ste. 5125
Los Angeles, CA 90017
213.632.7700

West Los Angeles

11835 Olympic Blvd., Ste. 700E
Los Angeles, CA 90064
310.440.8500

Torrance

970 W. 190th St., Ste. 100
Torrance, CA 90502
310.532.9080

Pasadena

225 S. Lake Ave., Ste. 1170
Pasadena, CA 91101
626.564.4800

Valencia

25060 Avenue Stanford., Ste. 165
Valencia, CA 91355
661.705.3550

Diamond Bar

21660 E. Copley Dr., Ste. 320
Diamond Bar, CA 91765
909.348.0600

Ventura County

Oxnard

300 Esplanade Dr., Ste. 470
Oxnard, CA 93036
805.278.1400

Westlake Village

2555 Townsgate Rd., Ste. 320
Westlake Village, CA 91361
805.446.2400

Inland Empire

Ontario

800 N. Haven Dr., Ste. 400
Ontario, CA 91764
909.945.2339

Victorville

13911 Park Ave., Ste. 206
Victorville, CA 92392
760.780.4200

Orange County

Irvine

1920 Main St., Ste. 100
Irvine, CA 92614
949.854.6600

Coachella Valley

Palm Desert

75-410 Gerald Ford Dr., Ste. 204
Palm Desert, CA 92211
760.346.1566