

Los Angeles County

Multifamily Market Outlook Q1 2024

MARKET OVERVIEW

The multifamily sector maintained a steady vacancy rate of 4.8%, holding firm from the end of the previous year. The increase in newly completed units, particularly in the high-end market segment, drove the average asking rent per unit higher this quarter. Following a slight decline in Q4 2023, the average rent rose by more than half a percentage point quarter over quarter and by four-tenths of a percent year over year, with 2,425 units added to the market. This pushed the average asking rent to a record high of \$2,185 per unit per month. Despite historic highs in rent prices, multifamily investment has faced significant challenges. High interest rates, concerns about a slowing economy, rising construction costs, and reduced rent growth have all contributed to this difficult landscape. Adding to these pressures, the City of L.A.'s 'ULA Tax' has compounded the negative effects.

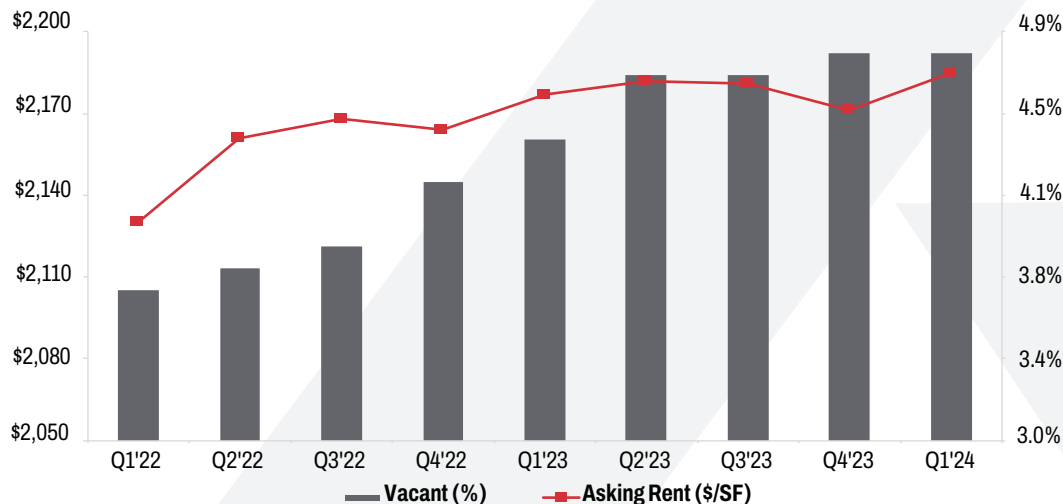
The impact was noticeable: the number of units sold decreased by 51.9% compared to the previous year, totaling 3,533 units. However, there was a modest uptick in the average sale price per unit, which increased by 2.0% year over year to \$314,536. The sales dollar volume countywide experienced a drop of 22.7% from the previous quarter and a significant decline of 43.3% year to date. Additionally, the average capitalization rate increased by 50 bps compared to last year. Investors are grappling with a price disparity with sellers due to rising interest rates, tight credit, and softening market conditions, leading to a decrease in transaction volume.

TRENDS TO WATCH

The Federal Reserve's objective to maintain interest rates elevated to curb inflation has impacted sales. This impact is evident in reduced investment demand and heightened credit costs for developers and investors. There was a substantial double-digit decrease of 12.7% year-over-year in units under construction, coupled with a notable 29.8% decline in completed units, indicating a slowdown in multifamily housing construction.

In the City of Los Angeles, Measure ULA, enacted since April 1st, 2023, continues to exert a significant impact on the multifamily sales market. Under Measure ULA, a special tax, known as the 'ULA Tax,' is imposed in addition to the Base Tax. This ULA Tax is applied to property transfers of real estate sales over \$5M, significantly reducing the sales volume of apartment buildings valued over \$5M. Year over year, sales volume for these properties has plummeted by 71%, with the number of deals sharply declining by 85% compared to the previous year. In the San Fernando Valley, where the majority of the region is subject to the ULA measure, sales volume has decreased by 75%. Similarly, on L.A.'s Westside, known for its luxury real estate, there has been an 85% decline in sales volume, accompanied by a 75% reduction in the number of transactions compared to the previous year, primarily due to the impact of the ULA Tax. Against a backdrop of slower rental rate growth, elevated interest rates, and new taxes, investors must remain vigilant to navigate potential challenges and adapt their strategies accordingly.

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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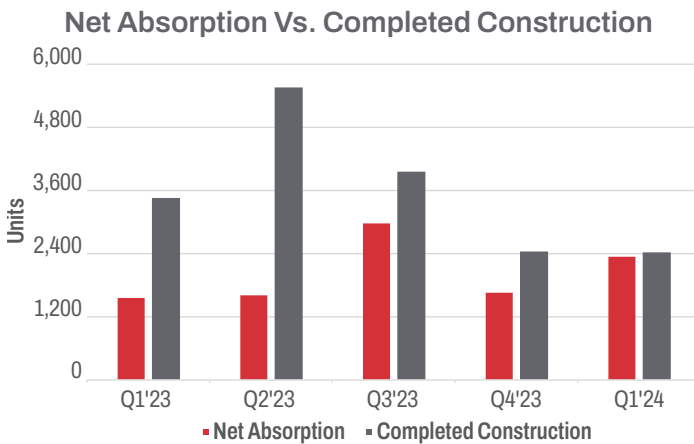
MARKET STATISTICS*

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	226,601	8,395	5.4%	\$2,026	963	\$302,476,800	\$311,511	5.4%
East	192,796	5,396	3.7%	\$1,982	546	\$120,665,250	\$266,369	4.7%
West	309,552	9,067	6.1%	\$2,633	720	\$281,904,152	\$407,002	4.7%
North	268,001	5,562	4.1%	\$2,121	758	\$213,241,600	\$281,321	5.0%
South Bay	213,164	3,489	4.1%	\$1,920	546	\$154,815,000	\$288,834	5.3%
Los Angeles County	1,210,114	31,909	4.8%	\$2,185	3,533	\$1,073,102,802	\$314,536	5.0%

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

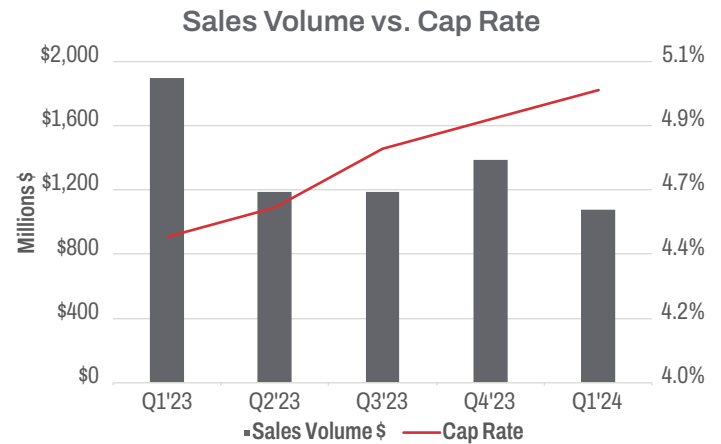
LEASING TRENDS

In the last five quarters, completed construction has added a total of 17,837 units, 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

The last five quarters highlight the downward trend in sales volume as the impact of rising interest rates was felt. By the first quarter of 2024, sales volume had ended approximately 43.3% below Q1 2023, amounting to approximately \$1.07 billion. The average cap rate increase by 50 bps from Q1 2023, reaching 5.0%.



SELECT SALES TRANSACTIONS

Address : Building Name	City	Submarket	Units	Sale Price
888 S Hope St - 888 at Grand Hope Park	Los Angeles	Central	525	\$186M
10601 Washington Blvd - Cobalt	Culver City	West	135	\$67.7M
349 S La Fayette Park Pl - LP by CLG	Los Angeles	Central	120	\$43.44M
1731 W Holt Ave - Tivoli Plaza Apartments	Pomona	East	90	\$13.88M
2021/2611 W Olive Ave (Part of a Portfolio)	Sherman Oaks	North	78	\$11.02M
8434 Willis Ave - Willis Avenue Apartments	Panorama City	North	72	\$9.3M
1741-1761 Park Ave - Park Towers Apartments	Long Beach	South Bay	52	\$18.71M
401 W 6th St - Lexanna Apartments	Long Beach	South Bay	52	\$11.8M
14755 Burbank Blvd - BRBNK One	Sherman Oaks	North	48	\$28M
571 Fairview Ave - Fairview Apartments	Los Angeles	Central	38	\$5M
932 Leorita St - Leorita and Bess Apartments	Baldwin Park	East	30	\$5.71M
4804 Oakwood Ave - 4804 Oakwood	Los Angeles	West	30	\$13.35M