

Los Angeles County

Multifamily Market Outlook Q3 2023

MARKET OVERVIEW

An influx of new multifamily construction is reshaping Los Angeles County's multifamily market as eviction protections become a thing of the past. In Q3 2023, the vacancy rate increased by 70 basis points compared to the previous year, reaching 4.5 percent. The primary factor driving this trend is the completion of construction projects, with a remarkable annual increase of 54.9 percent year to date. However, developers are slowing down as there has been a 16.1 percent annual decrease in the number of units under construction.

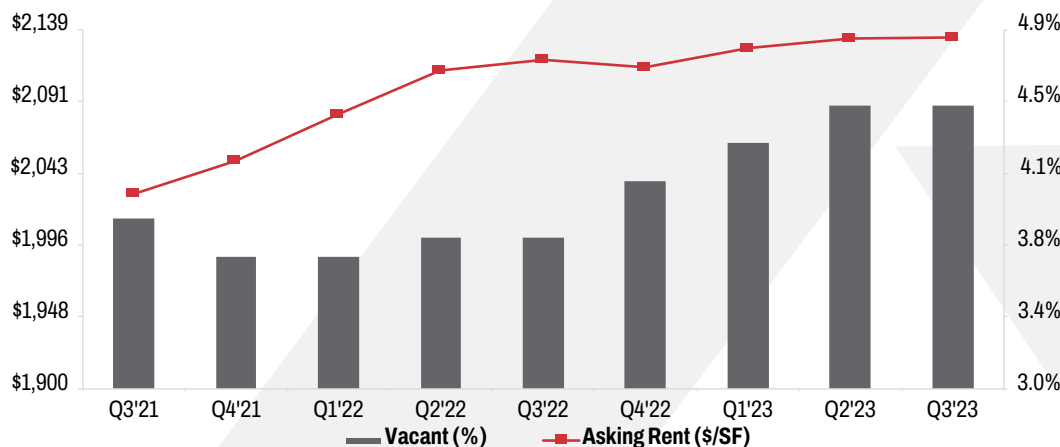
Despite the increased number of vacancies this quarter, the overall number of vacant units has decreased by 5.2 percent, or 2,932 units compared to Q1 2020 – pre-pandemic shutdown. Additionally, 52,389 newly completed units have been added to the market since then, helping to create a more favorable rental market for renters struggling to buy a home. This quarter, the average rent has dropped by \$2 from last quarter's record high to \$2,174 per unit, still registering a six-tenths of a percent increase from last year. The continuous completion of newly constructed multifamily housing units is having a softening effect on Los Angeles County's rental market. While the number of units sold rebounded from the previous quarter, the year-over-year number of units sold has seen a significant drop of 48.7 percent year to date compared to 2022, reminiscent of the Great Recession. Investors are grappling with a price disparity with sellers due to rising interest rates, tight credit, and softening market conditions, resulting in lower transaction volume.

TRENDS TO WATCH

The Federal Reserve's interest rate increase remains a significant influence on the multifamily market, resulting in reduced demand for investment and the imposition of constraints on financing options for developers and investors. As credit conditions tighten, the multifamily market is adapting to increased borrowing costs, substantial inflation, a less robust growth outlook, and heightened financial risks. In Q3, every submarket in L.A. County has observed a double-digit increase in vacant units year to date, while sales volume has plummeted by 61.4 percent.

Following the implementation of Measure ULA in the City of Los Angeles, the newly imposed property transfer tax (effective April 1st, 2023) has impacted the sales volume of apartment buildings valued over \$5 million in the city. Although the sales volume of apartment buildings over \$5 million recorded a 10.6 percent increase quarter over quarter, rebounding from the initial shock of Measure ULA's induced low volume in 2Q 2023, it dropped by 60.8 percent year over year. In contrast, sales volume for apartment buildings under the \$5 million threshold in the City of Los Angeles experienced a significant decrease of 15.5 percent quarter over quarter, marking a substantial decline of 44.6 percent year over year, reflecting the overall market conditions. With the rental market in a more concessionary environment, the tug-of-war between sellers and buyers will continue to unfold, so far resulting in a 60-basis point increase in the average cap rate (4.8 percent) in Los Angeles County and a notable 19.6 percent drop in the average sale price per unit year over year.

VACANCY RATE AND AVERAGE ASKING RENT



MARKET OUTLOOK

**Asking
Rental Rates**



**Vacancy
Rates**



**New
Construction**



**Sales
Volume**



**Sales
Price**



**Cap
Rates**



J.C. Casillas
Managing Director
Research
jcasillas@naicapital.com
Direct: 818.933.2433

**NAI Capital Commercial
Research**
www.naicapital.com

Los Angeles County

Multifamily Market Outlook Q3 2023



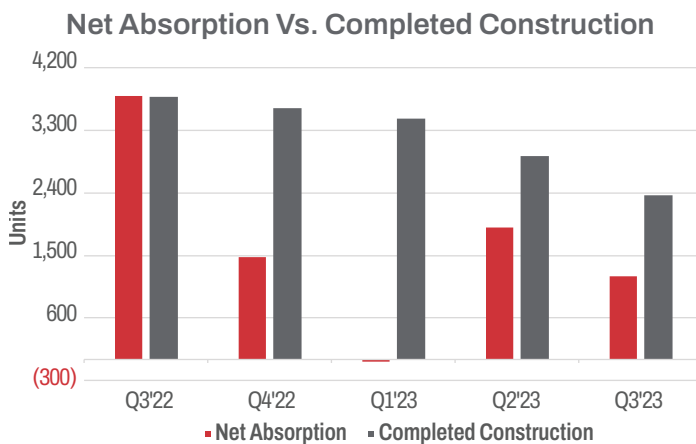
MARKET STATISTICS*

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	218,301	7,476	5.2%	\$2,034	3,716	\$521,389,374	\$208,561	5.2%
East	189,971	5,291	3.4%	\$1,951	2,153	\$752,808,431	\$300,118	4.3%
West	305,349	8,546	5.8%	\$2,644	3,716	\$1,371,325,629	\$358,240	4.7%
North	266,741	5,642	3.8%	\$2,101	2,875	\$656,936,328	\$255,297	5.0%
South Bay	208,462	3,502	3.8%	\$1,891	3,200	\$928,714,944	\$294,149	4.7%
Los Angeles County	1,188,824	30,457	4.5%	\$2,174	15,660	\$4,231,174,706	\$289,583	4.8%

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

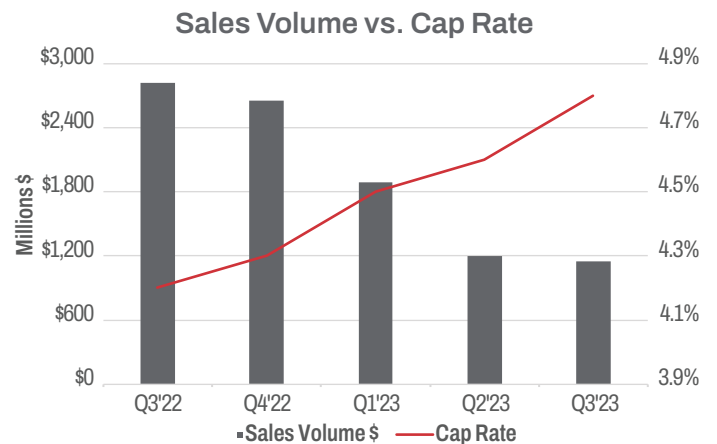
LEASING TRENDS

In the last five quarters, completed construction has added a total of 16,160 units to the market, highlighting the shift in supply and demand. However, the absorption of units during the same period fell 51.7 percent 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 third quarter of 2023, sales volume had ended approximately 61.4 percent below Q3 2022, amounting to approximately \$4.2 billion year to date. Additionally, the third quarter of 2023 saw the average cap rate on investment sales increase by 60 basis points, reaching 4.8 percent.



SELECT SALES TRANSACTIONS

Address : Building Name	City	Submarket	Units	Sale Price
1011 Pine Ave - Providence Gardens Apartments	Long Beach	South Bay	200	\$75M
Portfolio of 6 Multi-Family Properties Sold	Los Angeles	LA West	408	\$15.6M
13940 Paramount Blvd - Paramount Square Apartments	Paramount	South Bay	101	\$22.45M
1030 N Soto St	Los Angeles	Central	84	\$35.14M
5837 W Sunset Blvd - William on Sunset	Los Angeles	West	79	\$27.3M
1784 Sycamore Ave - Hollywood Sycamore Towers	Los Angeles	West	42	\$7.97M
23805 Arlington Ave - Arlington Square Apartment	Torrance	South Bay	41	\$11.3M
624 S Berendo St - Mid Wilshire Plaza	Los Angeles	Central	41	\$5M
1293 N Garfield Ave - Garfield Palms	Pasadena	East	40	\$9.8M
14715-14719 Chadron Ave	Gardena	South Bay	32	\$7.05M
9315-9325 Artesia Blvd	Bellflower	South Bay	31	\$8.25M
14808 Blythe St	Van Nuys	LA North	30	\$5M