

# Los Angeles County

## Multifamily Market Outlook Q2 2023

### MARKET OVERVIEW

The lifting of state and local eviction protections in January 2023 has led to a rise in vacancy and rent in LA County's multifamily market. Tenants who have not been paying rent are now facing eviction, and landlords can collect unpaid rent from tenants, some of whom have not paid for several years. In Q2 2023, the vacancy rate increased by 100 basis points compared to the previous year, reaching 4.7%. The primary driving force behind this trend is the completion of construction projects, which has seen a staggering annual increase of 65.2% year to date. However, there has been an 8.3% annual decrease in the number of units under construction.

Despite the increased number of vacancies this quarter, the overall number of vacant units has declined by 11.9% or 7,500 units compared to Q2 2020. Additionally, since then, 45,733 newly completed units have been added to the market, which is beneficial considering the household population of 3.3 million people in L.A.

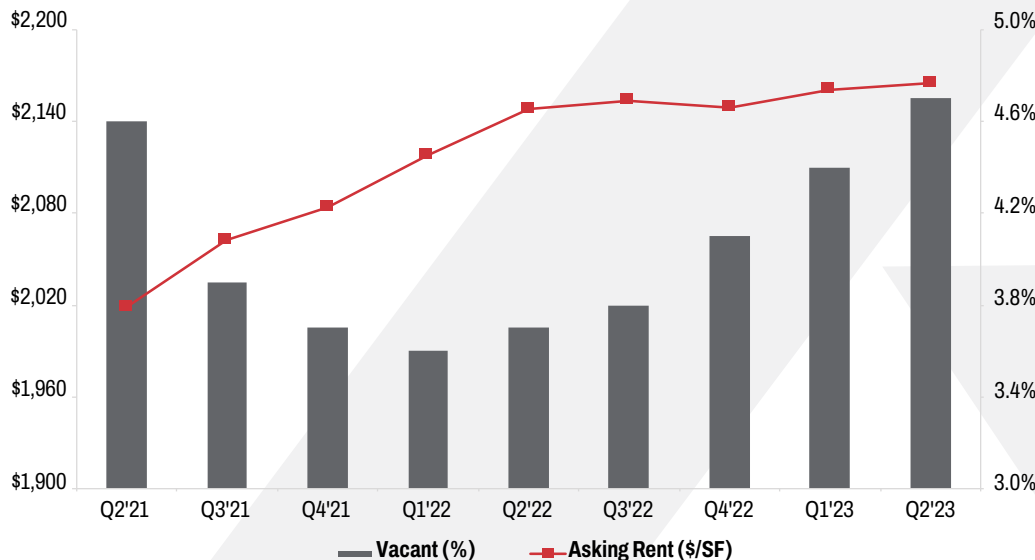
This quarter, the average rent reached a record high of \$2,165 per unit, representing a 0.8% increase from Q2 2022. The continuous completion of newly constructed multifamily housing units is driving this rent increase. However, the number of units sold has experienced a significant drop of 48.7% year to date during the same period. Investors have retreated from the market due to tight credit conditions and a disparity in prices between sellers and buyers, resulting in a transactional standoff.

### TRENDS TO WATCH

The Federal Reserve's interest rate increase will have a significant impact on the multifamily market, resulting in reduced demand for investment and limited financing options for developers and investors. As credit conditions tighten, the multifamily market is adjusting to higher borrowing costs, significant inflation, a weaker growth outlook, and increased financial risks. In Q2 every submarket in L.A. County has witnessed an increase in vacant units and a decline in year-to-date sales volume.

In the City of Los Angeles, the implementation of Measure ULA and the additional property transfer tax have had a substantial effect on the multifamily market. To avoid the tax burden, investors, developers, and sellers rushed to close deals before the tax took effect on April 1st, 2023. Consequently, sales volume for apartment buildings under the \$5 million threshold experienced a significant increase of 40.5%. However, sales volume for apartment buildings over \$5 million plummeted by 75.2% quarter over quarter. In the post-Measure ULA landscape, sellers will be hesitant to sell unless compelled to do so, and investors will avoid the market area due to the additional tax burden. However, some investors may still take a gamble, hoping for the repeal of Measure ULA in the future.

### 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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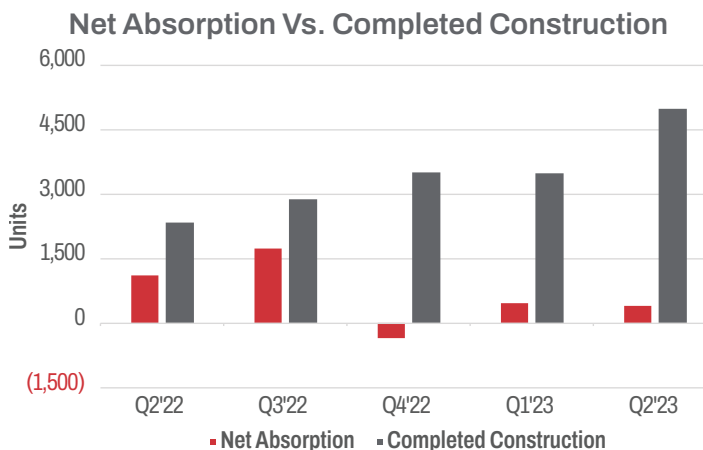
### MARKET STATISTICS\*

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	215,892	9,340	5.7%	\$2,030	2,639	\$361,480,272	\$247,297	5.1%
East	188,585	4,337	3.4%	\$1,945	1,379	\$433,839,522	\$313,215	4.7%
West	303,921	9,129	5.9%	\$2,640	2,838	\$1,033,757,350	\$257,964	4.2%
North	266,403	5,925	4.0%	\$2,092	2,143	\$479,277,783	\$264,680	4.3%
South Bay	207,793	3,308	3.9%	\$1,874	2,010	\$582,883,556	\$310,189	4.6%
<b>Los Angeles County</b>	<b>1,182,594</b>	<b>32,039</b>	<b>4.7%</b>	<b>\$2,165</b>	<b>11,009</b>	<b>\$2,891,238,483</b>	<b>\$280,222</b>	<b>4.6%</b>

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

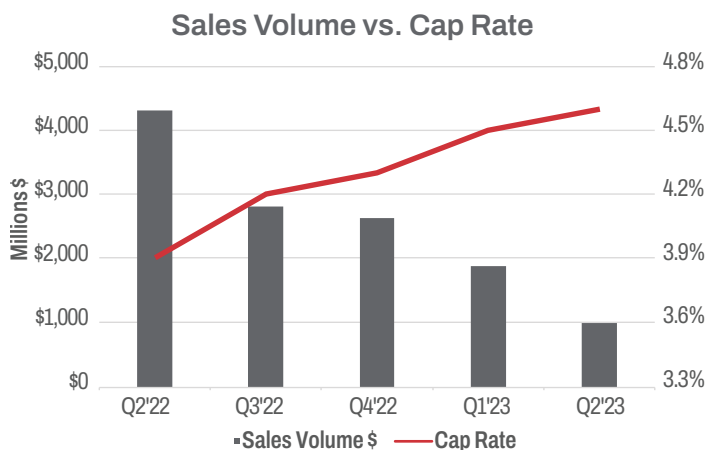
### LEASING TRENDS

The market's supply and demand shift is highlighted by the last five quarters, with completed construction adding a total of 17,222 units to the market. However, the net absorption during the same period has been well under that, totaling 3,370 units as of Q2 2023. This indicates a significant disparity between the supply of newly constructed units and the demand for multifamily.



### SALES TRENDS

The last five quarters highlight the downward trend in sales volume as the impact of rising interest rates was felt. By midyear 2023, the sales volume ended approximately 76.8 percent below Q2 2022, amounting to approximately \$2.9 billion year to date. Additionally, the average cap rate on investment sales increased by 70 basis points from the second quarter of 2022, reaching 4.6 percent.



### SELECT SALES TRANSACTIONS

Address : Building Name	City	Submarket	Units	Sale Price
398 W Valley Blvd - The Province	San Gabriel	East	127	\$125M
600 N Broadway - Cathay Manor Apartments	Los Angeles	Central	273	\$97M
100 Long Beach Blvd - The Edison	Long Beach	South Bay	156	\$58M
21811 Main St - Carson Gardens	Carson	South Bay	101	\$33M
689 S Catalina St	Los Angeles	Central	61	\$29.61M
9210 Somerset Blvd - Amber Court Apartments	Bellflower	South Bay	48	\$11.14M
257 E Valencia Ave	Burbank	North	24	\$10.27M
1293 N Garfield Ave - Garfield Palms	Pasadena	East	40	\$9.8M
1428-1440 Vineland Ave	Baldwin Park	East	34	\$9.8M
497 St. Louis Ave - Saint Louis Apartments	Long Beach	South Bay	30	\$9.4M
281 Madison Ave	Pasadena	East	21	\$7.9M
348 Paseo de la Playa	Redondo Beach	South Bay	8	\$7.75M