

Los Angeles County

Multifamily Market Outlook Q4 2022

MARKET OVERVIEW

Los Angeles County multifamily market rent eased 0.3 percent in Q4 2022 compared with the prior quarter, marking the first quarter over quarter deceleration since the pandemic shutdown of 2020. The average asking rent, a measurement of what renters pay for rental units of all sizes combined, rose on an annual basis at its slowest pace since 2021. Rent's annual growth rate of 3.2 percent from Q4 2021 to \$2,127 per unit was well below 6.3 percent in Q4 2021 from Q4 2020. Yearend data showed that while rents continued to be high, LA County's multifamily market ended 2022 with rent cooling, based on the quarter over quarter change in the average asking rent per unit.

While a strong jobs market and a severe shortage of single family home affordability in LA County helped landlords retain multifamily renters, completed construction of multifamily units pushed vacancy higher in 2022. Vacant units increased 3.9 percent from the prior quarter and year over year, as the vacancy rate registered 3.7 percent in the fourth quarter of 2022. Developers added 3,612 units to the market in Q4 2022, up 32.3 percent quarter over quarter. The rise in vacant units was mainly driven by newly completed multifamily housing units. Multifamily units under construction in LA County totaled 35,343 in Q4 – down 3.9 percent quarter over quarter.

With the eviction moratorium, which was put in place March of 2020 thru September 30, 2021, and extended to expire on December 31, 2022, now in the review mirror the anticipated "tsunami of evictions" hasn't materialized.

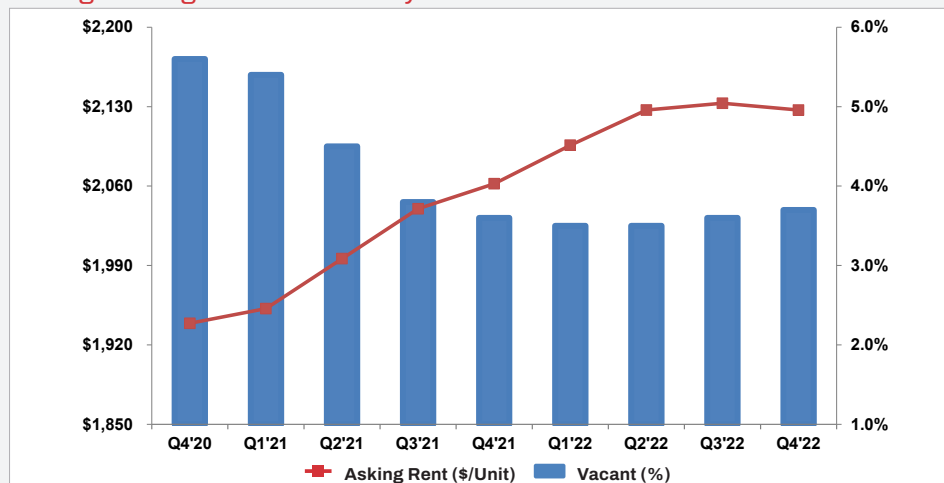
TRENDS TO WATCH

With interest rates surging, homeownership has not only become out of reach for many borrows in the rental market investors too are getting squeezed. While investors stayed active during the first half of 2022, sales volume in the second half of the year plummeted 35.9 percent. With financing harder to obtain in the latter half of the year and further interest rates hikes anticipated, sales volume in Q4 2022 fell 12.7 percent quarter over quarter and 52.5 percent when compared to Q4 2021.

As investors focused on acquiring quality multifamily units, the total number of units sold fell 11.1 percent in 2022 from last year to 35,756 units. However, the annual average sale price per unit rose to \$374,597 in 2022, approximately \$25,000 or 7 percent higher than 2021. In the largest transaction of 2022, the THEA at Metropolis in downtown LA sold for \$504 million or \$735,766 per unit. The 685-unit THEA at Metropolis was built in 2020. The second largest deal of the year, also in Central LA, The Vermont, a 464-unit hi-rise sold for \$235 million or \$506,466 per unit. It reportedly sold at a 3.8 percent cap rate. Central LA transactions drove up LA's multifamily annual average sale price per unit in 2022. Central LA, which includes downtown, will remain in the spotlight with a third of all units under construction (11,730) in LA County.

The multifamily market will continue adjusting to challenges in the economy, impacted by rising interest rates, inflated construction costs, and a slowing economy.

Average Asking Rent and Vacancy Rate



MARKET OUTLOOK

Asking Rental Rates



Vacancy Rates



New Construction



Sales Volume



Sales Prices



Cap Rates



J.C. Casillas

Managing Director, Research
 jcasillas@naicapital.com
 Direct: 818.933.2433

NAI Capital Commercial Research
www.naicapital.com

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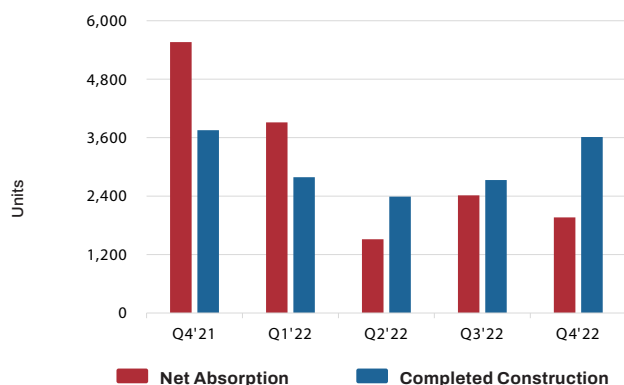
Market Statistics*

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	212,210	11,730	4.4%	\$2,000	6,873	\$2,394,335,196	\$487,736	4.7%
East	187,343	3,812	3.0%	\$1,913	5,565	\$1,914,382,608	\$316,221	4.2%
West	300,494	10,341	4.8%	\$2,608	8,003	\$3,706,729,817	\$417,897	4.0%
North	264,513	5,251	2.9%	\$2,044	7,032	\$2,459,675,169	\$338,574	4.2%
South Bay	205,326	4,209	2.9%	\$1,832	8,283	\$2,824,504,079	\$274,455	4.3%
Los Angeles County	1,169,886	35,343	3.7%	\$2,127	35,756	\$13,299,626,869	\$389,639	4.2%

Supply and Demand Trends

The past three quarters pointed to the change in momentum for the rental market as newly completed units were added to the inventory. In Q2 2022, a supply/demand imbalance began to hit the market as supply exceeded demand. In Q4, the trend continued with supply exceeding demand – setting investor expectations heading into yearend 2023.

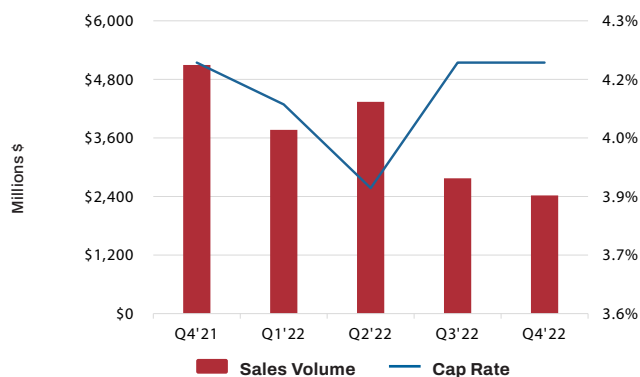
Net Absorption vs. Completed Construction



Sales Trends

Sales volume trended lower starting in Q2 2022 as investors adjusted to buying and selling into a changing economic environment. With rising interest rates in full swing, sales volume dropped 53 percent from Q4 2021 to approximately \$2.4 billion this quarter. The average cap rate remained flat at 4.2 percent.

Sales Volume vs. Cap Rate



Select Sales Transactions

Building Name/Address	City	Submarket	Units	Sale Price
1000 W 8th St : THEA at Metropolis	Los Angeles	Central	685	\$504M
3150 Wilshire Blvd : The Vermont	Los Angeles	Central	464	\$235M
24640 Town Center Dr : Bell Valencia	Santa Clarita	North	210	\$96.25M
1130 E Alostia Ave - Alostia Place (3-building Portfolio)	Azusa	East	316	\$81M
4551-4611 W Martin Luther King Jr Blvd : Residences at Woodlake	Los Angeles	Central	276	\$76.03M
220 San Vicente Blvd : San Vicente Tower	Santa Monica	West	90	\$51M
975 San Pasqual St : San Pasqual	Pasadena	East	86	\$38M
10751 Rose Ave : Rose Gardens	Los Angeles	West	118	\$31.7M
4805 N Bakman St : 11 NoHo	North Hollywood	North	60	\$29.25M
809 S Gretna Green Way - Brentwood West Luxury Apartments	Los Angeles	West	32	\$26M
1319 S Orange Grove Ave : HIVE Los Angeles	Los Angeles	Central	33	\$24.25M
11000 Morrison St : Noho Gallery North (2-building Portfolio)	North Hollywood	North	48	\$21.6M

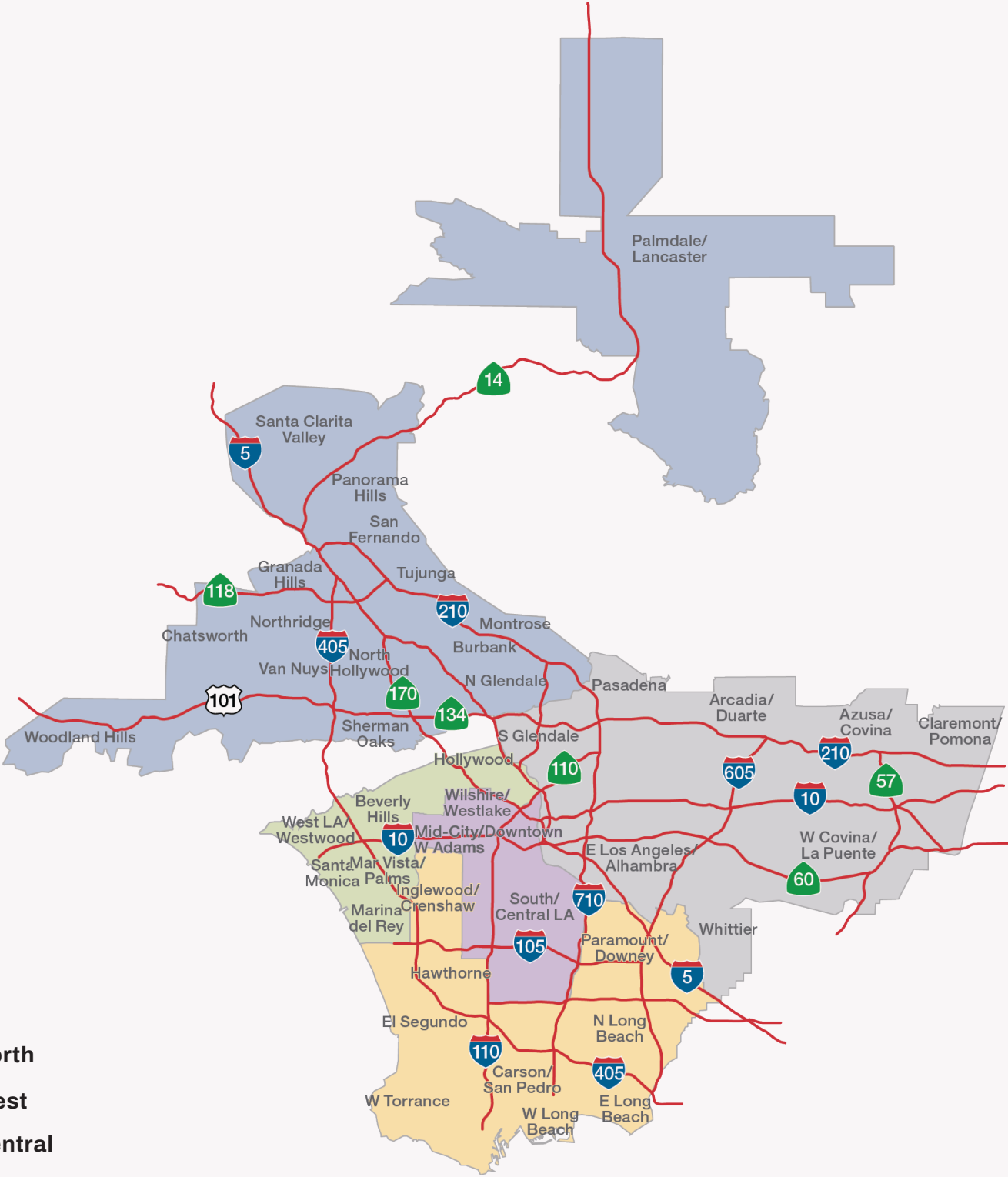
*Existing inventory includes all apartment buildings. Rent reflects market rate units of all sizes.

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COMMERCIAL REAL ESTATE SERVICES, WORLDWIDE



- North
- West
- Central
- East
- South Bay

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Multifamily Market Outlook Q4 2022



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