MARKET REPORT

Marcus & Millichap

MULTIFAMILY

Los Angeles Metro Area

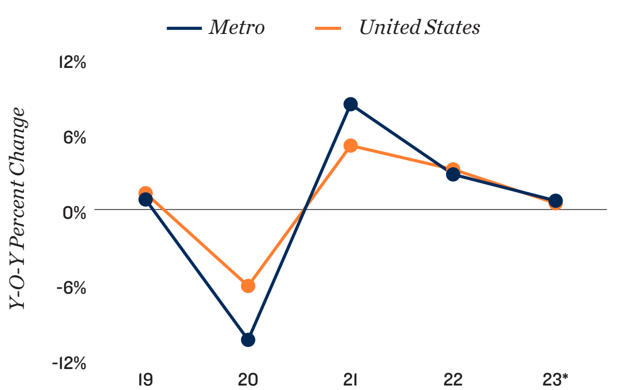
2Q/23

Collection of Los Angeles Submarkets Exhibit Encouraging Property Performance

Trio of downtown locations register positive momentum. Los Angeles County's apartment sector is showing signs of improvement, despite vacancy resting slightly above its pre-pandemic mark. During the first quarter of 2023, seven of 20 submarkets registered positive net absorption, the best ratio in a year. Three of these areas — Downtown Los Angeles, Mid-Wilshire and Hollywood — comprise the CBD, an indication that some renters are returning to areas of higher density. This demand restoration comes at an opportune time, as most of the 7,500 units underway in Los Angeles proper are located in these submarkets. Elsewhere in the county, only the cities of Long Beach and Inglewood had active pipelines that exceeded 500 units as of March — with metro inventory slated to advance by just 1 percent this year, despite the delivery of 11,000 apartments. This moderate stock increase, and stalwart demand for lower cost rentals, will enable vacancy to hold below 5 percent for a 13th straight year.

Duo stands out on a national scale. Comprising 20 percent of the metro's multifamily inventory, and home to below-average rents, South Los Angeles and Van Nuys-Northeast San Fernando Valley entered April with high-2 percent vacancy rates. Apart from New York City boroughs, these rates rank as the lowest among U.S. submarkets with at least 60,000 units, indicating strong demand exists for lower cost rentals in Los Angeles suburbs and denser neighborhoods. Over the next two years, both areas will add few units, a dynamic that will provide the framework for tight conditions to be maintained.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2023 Outlook

30,000 JOBS *will be created*

EMPLOYMENT:

Los Angeles County's job count reached a record mark last year. In 2023, a 0.7 percent rate of employment growth is expected, despite a drop in the number of traditional office-using positions.

11,000 UNITS *will be completed*

CONSTRUCTION:

More than half of the units finalized across the county are in Los Angeles proper, with the Koreatown, West Los Angeles and Financial District neighborhoods each slated to add more than 600 rentals.

90 BASIS POINT *increase in vacancy*

VACANCY:

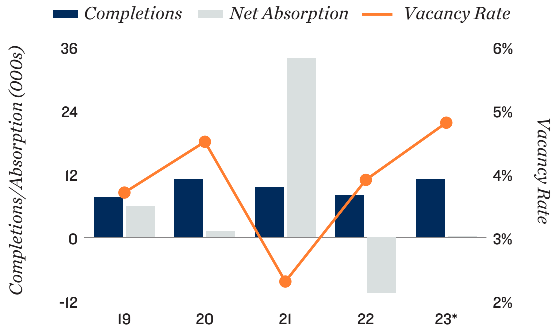
Demand for lower cost units prevents a sizable vacancy increase, placing year-end availability at 4.8 percent. Among major metros with more than 500,000 units of stock, only New York City will end 2023 with a lower rate.

0.5% INCREASE *in effective rent*

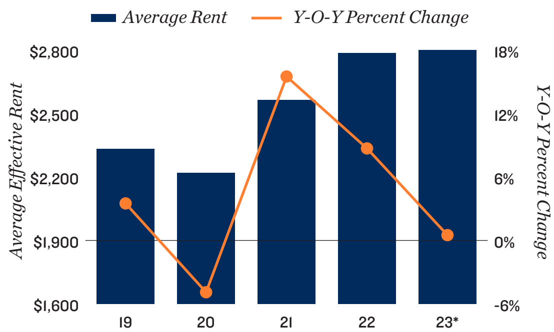
RENT:

Above-average vacancy limits rent growth during 2023, placing the year-end rate at $2,800 per month. The Class C sector is poised to note a more pronounced growth rate, as segment vacancy is below its long-term mean.

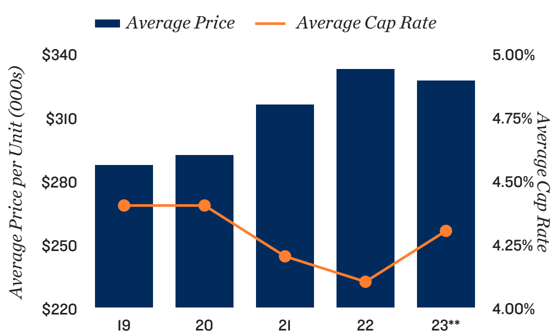
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 1Q*

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

Los Angeles County Offices:

Jim Markel *First Vice President, Regional Manager*

Tel: (818) 212-2700 | jim.markel@marcusmillichap.com

Tony Solomon *Senior Vice President, District Manager*

Tel: (213) 943-1800 | tony.solomon@marcusmillichap.com

Dawson Rinder *Regional Manager*

Tel: (424) 405-3900 | dawson.rinder@marcusmillichap.com

For information on national multifamily trends, contact:

John Chang

Senior Vice President, National Director | Research Services

Tel: (602) 707-9700 | john.chang@marcusmillichap.com

Price: $250

1Q 2023 - 12-Month Period

CONSTRUCTION

8,986 units completed

- Deliveries in Greater Downtown Los Angeles accounted for 45 percent of the apartments added metrowide during the past four quarters.
- As of March, construction was underway on 14,000 rentals, with projects averaging 180 units. More than half of these units are in Los Angeles proper, with Long Beach claiming the second-largest pipeline among cities.

VACANCY

210 basis point increase in vacancy Y-O-Y

- The metro's vacant stock more than doubled during the 12-month interval ending in March, raising unit availability to 4.2 percent. Vacancy rose by at least 100 basis points across all submarkets, except Palms-Mar Vista.
- Each property class noted a rise of at least 200 basis points, with the Class B segment noting the largest adjustment in vacancy at 220 basis points.

RENT

6.0% increase in the average effective rent Y-O-Y

- Los Angeles County's average effective rent stood at $2,785 per month in March, after a nominal adjustment during the first quarter of this year.
- Rate growth over the past year was most pronounced in the Class C segment, where the mean rent rose 15.6 percent. This increase narrowed the disparity between lower-tier and Class B rates to $435 per month.

Investment Highlights

- Deal flow in Los Angeles County fell by roughly 15 percent last year, with data from the first quarter of 2023 reflecting a lack of large-scale property trades. Investors paid an average of $327,000 per unit over the 12-month span ending in March; however, a more stable federal funds rate may translate to a near-term realignment in buyer-seller pricing expectations.
- The impending enaction of Measure ULA — which placed a 4.0 percent tax on all real estate transactions in the city of Los Angeles above $5 million and a 5.5 percent tax on deals above $10 million — likely motivated a collection of would-be buyers and sellers to take a wait-and-see approach during recent quarters. These investors may remain on the fence, as California voters can block the measure via a 2024 ballot item that would create a new requirement for two-thirds approval of state referendums that impose any new local special tax increases. If approved, the referendum would grandfather the rule, invalidate the newly-authorized tax and possibly usher in an uptick in investor competition for listings.
- Unaffected by recent tax adjustments, sub-$5 million Class C listings continue to trade in lower cost submarkets, specifically Inglewood, Koreatown, Long Beach and Southeast Los Angeles.