Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	19,039
UNITS DELIVERED	7,747

MARKET FUNDAMENTALS

VACANCY RATE	4.2%
YEAR-OVER-YEAR CHANGE	+70bps
ASKING RENTS	$2,440
YEAR-OVER-YEAR CHANGE	+3.5%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$283,400

Los Angeles Multifamily
3Q 2023

MARKET INSIGHTS

Supply outpacing demand in 2023

HIGHLIGHTS

- The Los Angeles multifamily market softened during the third quarter as vacancy rates ticked higher and asking rents inched lower. Apartment developers remain active with a steady flow of new projects expected to come online through the end of the year.
- The local vacancy rate continued to tick higher during the third quarter, rising 20 basis points to 4.2 percent. Year over year, the rate increased by 70 basis points.
- Asking rents dipped during the last three months after jumping in the previous quarter. Local rents fell 0.3 percent during the third quarter to $2,440 per month. Despite the recent decline, apartment rents are up 3.5 percent from one year ago.
- Multifamily sales activity in Los Angeles continued to slow in recent months as the number of deals to this point in the year is down more than 50 percent from the same period in 2022. The median sales price year to date is $283,400 per unit while cap rates are averaging around 5 percent.

GREATER LOS ANGELES MULTIFAMILY MARKET OVERVIEW

The Los Angeles multifamily market has been recording some mixed operational performance in recent quarters. After a strong second quarter—highlighted by rising rents—conditions softened somewhat in recent months. Vacancy rates inched higher and rents dipped during the third quarter. The softer fundamentals are the combined result of cooling renter demand for apartments and a somewhat faster pace of new construction. Multifamily developers have delivered roughly 7,750 units year to date, after completions totaled fewer than 7,000 units in both 2021 and 2022. An additional 19,000 units are currently under construction and slated to deliver in the next two years. The most active areas for new development include Downtown Los Angeles, Koreatown, and the San Gabriel Valley.

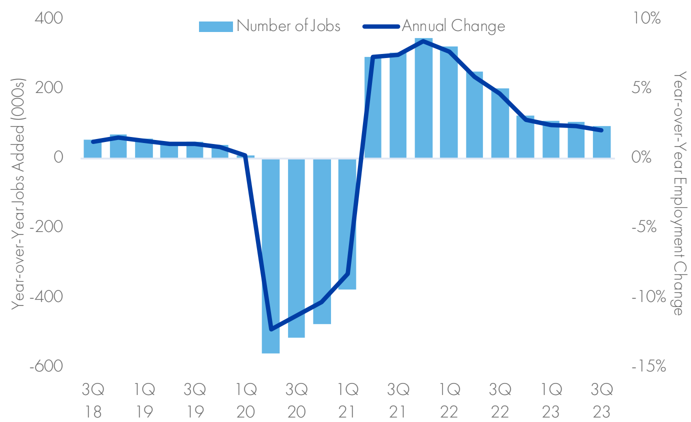
The increase in debt costs and tighter lending standards continue to hamper multifamily sales activity throughout the Greater Los Angeles region. Transaction volume during the third quarter fell 20 percent from the previous quarter and is down 66 percent from the same period in 2022. Sales prices continued to tick lower in recent months, a function of higher cap rates and a transaction mix that has consisted of fewer Class A properties than usual. The median sales price year to date is $283,400 per unit, down 13 percent from last year's figure, although Class A properties have traded for more than $430,000 per unit and prices for Class B assets have topped $388,000 per unit. Cap rates continued to trend higher, averaging 5 percent during the last three months.

EMPLOYMENT

- Total employment in Los Angeles continued to expand during the third quarter, although the pace of job growth slowed to its lowest level in three years. Area employers added 9,000 jobs in the last three months. Year over year, the local labor market grew by 91,400 workers, a gain of 2 percent.
- The healthcare and social assistance sector in Los Angeles continues to outperform the overall employment market. Year over year, this industry added 52,200 workers and grew by 7 percent.
- Kaiser Permanente recently announced plans to expand its West Los Angeles Medical Center campus. Located at the intersection of Venice Boulevard and Fairfax Avenue, the expansion will include a 63,000-square-foot building for medical offices and a state-of-the-art surgery center. Kaiser anticipates to break ground in 2025.
- **FORECAST:** Total employment in Los Angeles is projected to expand by 1.5 percent in 2023, with the addition of roughly 70,000 positions.

Year over year, the local labor market grew by 91,400 workers.

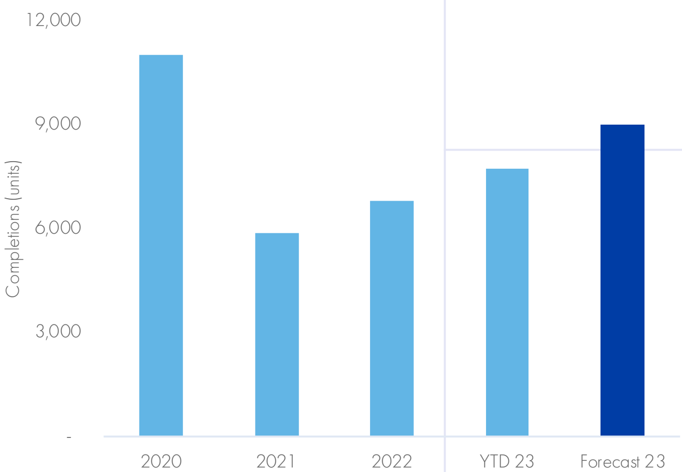
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

More than 19,000 apartment units are currently under construction.

DEVELOPMENT TRENDS



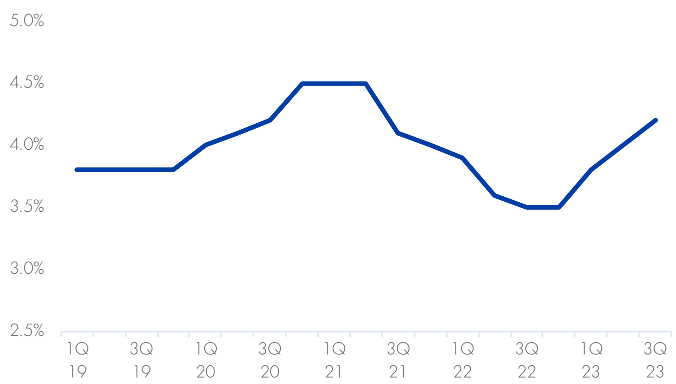
Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

- Multifamily developers in Los Angeles remained active in recent months with more than 2,800 units completed during the third quarter. Projects totaling roughly 7,750 units have come online year to date, outpacing the annual totals of the last two years.
- More than 19,000 apartment units are currently under construction throughout Los Angeles County, down 10 percent from one year ago. While most submarkets have some projects under construction, the Downtown area accounts for nearly 35 percent of the total development pipeline.
- Developers in Los Angeles continued to pull permits for multifamily units at a steady pace during the third quarter with nearly 3,700 permits issued in the last three months. Roughly 10,500 permits have been pulled year to date, down 10 percent from the same period in 2022.
- **FORECAST:** Projects totaling roughly 9,000 units are scheduled to come online in 2023 after approximately 6,800 units were completed in the previous year. Since 2015, developers have delivered an average of approximately 8,000 units per year.

Year over year, vacancy conditions have increased by 70 basis points.

VACANCY TRENDS



Sources: Northmarq, REIS, Yardi, CoStar

VACANCY

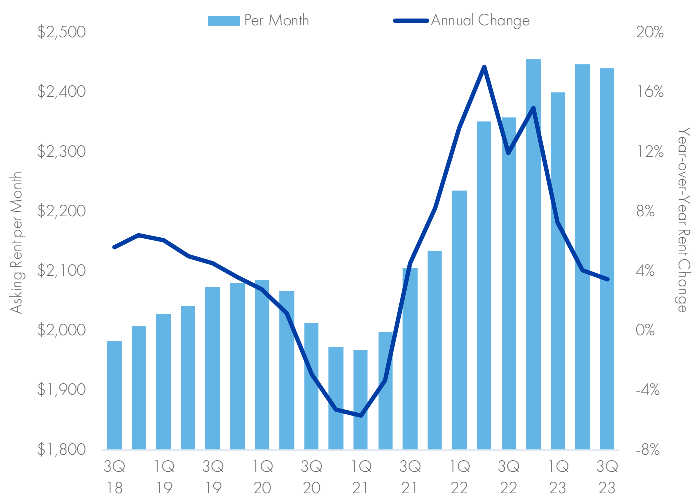
- The vacancy rate in Los Angeles continued to tick higher during the third quarter, rising 20 basis points to 4.2 percent. Year over year, vacancy conditions have increased by 70 basis points. The current vacancy is 20 basis points higher than the county's five-year average.
- Vacancy in the San Fernando Valley has been consistently tight for the past several years. The rate ended the third quarter at just 3.3 percent and has ranged between 2.8 percent and 3.8 percent since 2017.
- Class A properties have higher average vacancies in Los Angeles, but the rate has been tightening in the top tier during the past few years. The Class A vacancy rate ended the third quarter at 5.6 percent, down 60 basis points from one year ago and 180 basis points lower than the peak recorded at the end of 2020.
- **FORECAST:** The local vacancy rate is expected to continue to inch higher through the end of the year, rising 90 basis points in 2023 to around 4.4 percent. This follows back-to-back years where the vacancy rate declined.

RENTS

- Rent trends have been inconsistent in 2023, with dips recorded in two of the first three quarters of the year. Rents inched lower by 0.3 percent to $2,440 per month in the third quarter. Year over year, rents have increased by 3.5 percent, but the bulk of the rise was recorded at the end of 2022.
- Class A asking rents topped $3,100 per month at the end of last year but have trended lower throughout much of 2023. The average Class A rent ended the third quarter at $3,017 per month.
- The largest rent increases are generally being concentrated in lower-cost submarkets and in mid-tier and lower-tier properties. The combined average asking rent in Class B and Class C properties increased 4.8 percent during the past 12 months to $2,096 per month.
- **FORECAST:** Apartment rents in Los Angeles will likely tick lower at the end of this year, offsetting some of the rapid gains recorded in 2022. Area asking rents are expected to fall about 1.5 percent in 2023 to $2,420 per month.

Rents inched lower to $2,440 per month.

RENT TRENDS



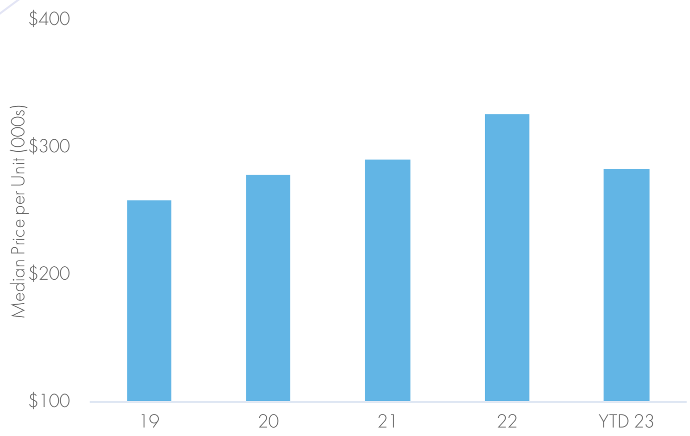
Sources: Northmarq, REIS

MULTIFAMILY SALES

- Multifamily transaction activity continued to slow in Los Angeles in recent months, as the number of deals dropped 20 percent from the second quarter to the third quarter. Declines are being recorded across nearly every major multifamily market in the country; sales velocity in Los Angeles year to date is down more than 50 percent from the same period in 2022.
- Sales prices have trended lower thus far in 2023, in response to higher cap rates and a change in the mix of properties that have traded. The median sales price to this point in the year is $283,400 per unit, down 13 percent from the median price in 2022.
- While sales activity has slowed across all property classes, the sharpest declines have been recorded in Class A assets. Class A properties have accounted for about 10 percent of total transactions, down from 20 percent in recent years. The median price in Class A sales to this point in 2023 is $433,000 per unit.
- Cap rates continue to tick higher throughout Los Angeles. Cap rates averaged 5 percent during the third quarter, up 70 basis points from the start of the year.

Cap rates averaged 5 percent during the third quarter.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Providence Gardens Apartments	1011 Pine Ave., Long Beach	200	$75,000,000	$375,000
Citrus Court Apartments	8121 Broadway., Whittier	138	$31,250,000	$226,449
William on Sunset	5837 W Sunset Blvd., Los Angeles	79	$27,300,000	$345,570
Paramount Square Apartments	13940 Paramount Blvd., Paramount	101	$22,450,000	$222,277

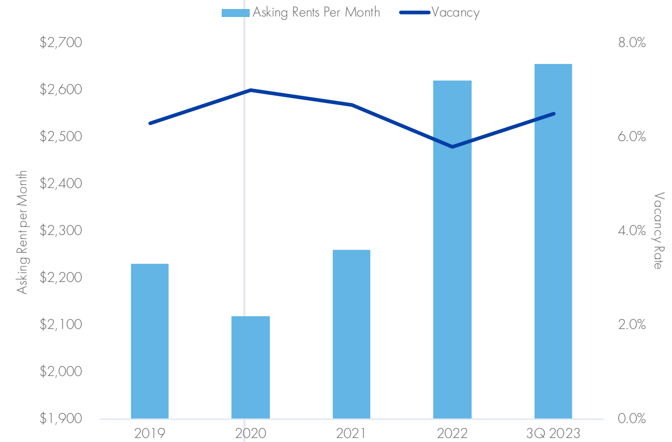
DOWNTOWN

PROPERTY PERFORMANCE METRICS

- Multifamily construction activity in the Downtown area continued to gain momentum in recent months, with projects totaling roughly 2,140 units completed during the third quarter. Developers have delivered more than 4,400 units year to date with another 6,840 units currently under construction throughout the city center.
- Vacancy conditions improved slightly during the third quarter, even as the pace of deliveries picked up. The vacancy rate in Downtown Los Angeles dipped 10 basis points in the last three months to 6.5 percent. During the past 12 months, the rate has crept up 60 basis points.
- After recording strong gains in the previous quarter, average asking rents dipped $2 per month during the third quarter to $2,657 per month. Even after the recent slowing, rents in Downtown have risen by 6 percent year over year.
- **FORECAST:** Apartment developers will continue to bring new projects online in Downtown through the end of the year with more than 5,000 multifamily units slated for delivery in 2023. Vacancy is on pace to finish the year at 6.8 percent, up 100 basis points for the full year. Asking rents are projected to increase by nearly 2 percent in 2023 to roughly $2,670 per month.

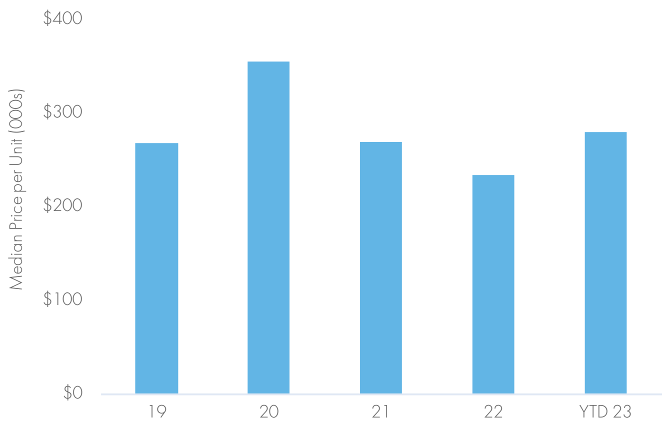
Developers have delivered more than 4,400 units year to date.

VACANCY & RENT TRENDS



Sources: Northmarq, Reis

SALES TRENDS



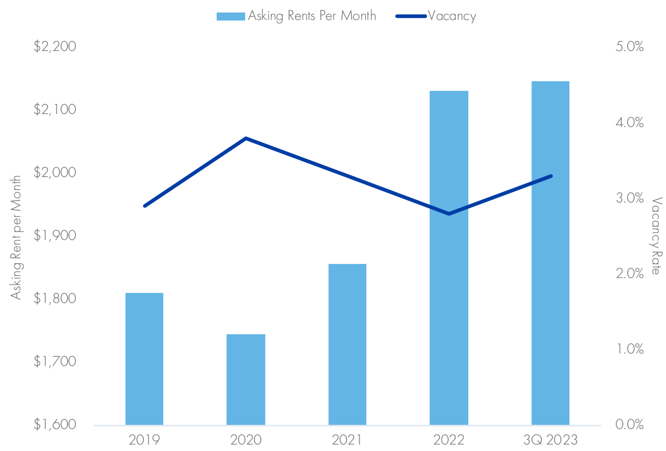
MULTIFAMILY SALES

- Multifamily transaction activity continued to slow with just one significant property trading in Downtown in the last three months. The number of sales year to date is down nearly 25 percent from the same period in 2022.
- Despite fewer properties changing hands, pricing ticked higher to this point in the year. The median sales price thus far in 2023 is $279,200 per unit, up roughly 20 percent from the median price last year. Class B and Class C assets continue to account for nearly all of the transactions in the city center.
- Most properties in the Downtown area are selling with cap rates between 5 percent to 5.5 percent, after averaging around 4.5 percent at the start of the year.

Most properties are selling with cap rates between 5 percent to 5.5 percent.

SAN FERNANDO VALLEY

VACANCY & RENT TRENDS



Sources: Northmarq, Reis

Year over year, asking rents advanced by 4.8 percent.

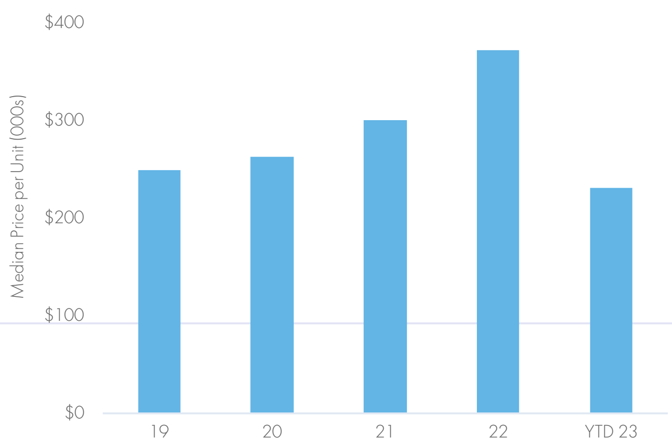
PROPERTY PERFORMANCE METRICS

- Projects totaling nearly 120 units were delivered in the San Fernando Valley during the third quarter. Year to date, developers completed roughly 850 units with approximately 2,860 apartment units currently under way.
- The local vacancy rate ticked higher by 10 basis points during the third quarter, finishing the period at 3.3 percent. Year over year, the rate increased by 50 basis points. The tightest conditions continue to be recorded in the Panorama Hills/San Fernando/Pacoima submarket, where the rate finished the third quarter at just 1.3 percent.
- Asking rents in the San Fernando Valley dipped 0.6 percent during the third quarter to $2,146 per month. Rents have leveled off after a 15 percent spike in 2022.
- **FORECAST:** Apartment deliveries are expected to be light in the final quarter of the year with roughly 900 units scheduled for delivery in 2023. The vacancy rate is forecast to hold mostly steady in the coming months, finishing the year at around 3.2 percent. Rents are projected to end 2023 at roughly $2,155 per month, a 1 percent annual gain.

MULTIFAMILY SALES

- No significant properties changed hands in the San Fernando Valley during the third quarter, after just a handful of transactions in the first half of the year. Deal volume year to date fell more than 70 percent from 2022 levels.
- The median sales price so far in 2023 is $231,700 per unit, down more than 35 percent from last year's figure. Current pricing is more consistent with levels recorded from 2015 to 2019.
- After trending higher at the end of 2022, cap rates have been fairly steady in the small number of deals year to date. Cap rates in the San Fernando Valley are trending between 4 percent to 4.5 percent.

SALES TRENDS



The median sales price so far in 2023 is $231,700 per unit.

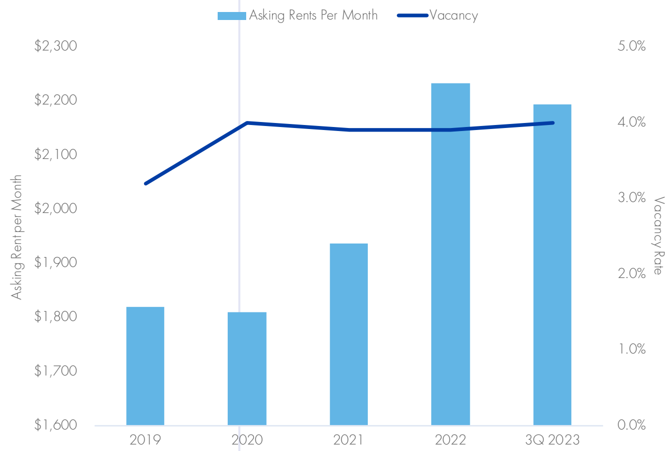
SOUTH BAY

PROPERTY PERFORMANCE METRICS

- After more than 700 units were delivered in the first half, multifamily deliveries in the South Bay tapered off a bit during the third quarter, with the completion of just 80 units. Projects totaling approximately 1,950 units are currently under construction throughout the South Bay.
- Area vacancy inched higher during the third quarter, ticking up 10 basis points to 4 percent. During the past year, the vacancy rate increased by 30 basis points. Vacancy in the South Bay generally maintains a consistently tight level; the rate has averaged 3.6 percent during the past five years.
- Apartment rents in the South Bay ticked lower during the third quarter, falling 0.6 percent to $2,193 per month. Year over year, rents are up 2.4 percent.
- **FORECAST:** Developers are on track to deliver roughly 1,000 units in the South Bay in 2023. Vacancy conditions are expected to hold mostly steady in the remainder of the year, finishing 2023 at 4 percent, while rents are on pace to close the year at around $2,230 per month.

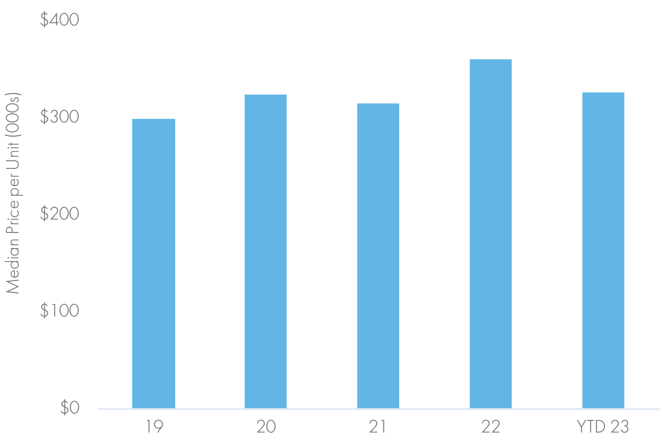
During the past 12 months, the vacancy rate increased by 30 basis points.

VACANCY & RENT TRENDS



Sources: Northmarq, Reis

SALES TRENDS



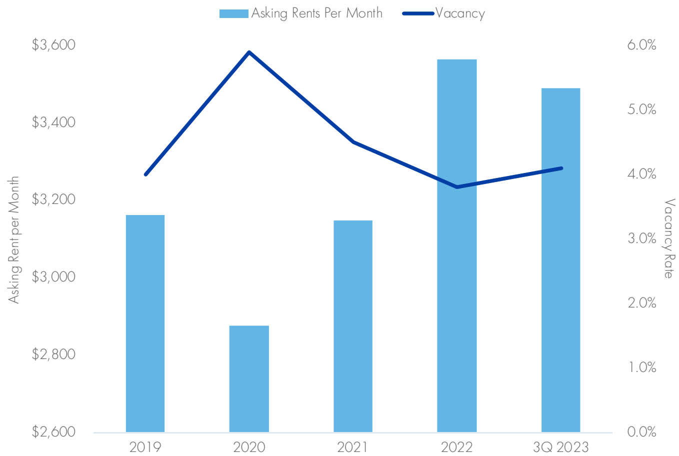
MULTIFAMILY SALES

- Sales velocity remained light in the South Bay during the third quarter. Multifamily transaction activity to this point in the year has declined nearly 60 percent from the same period in 2022.
- Per-unit pricing in the South Bay has ticked lower thus far in 2023 but held steady in recent months. The median sales price year to date is $326,700 per unit, down 10 percent from the median price in 2022.
- Cap rates seem to have leveled off in recent months after ticking slightly higher in the first half of the year. Most properties are trading with cap rates between 4 percent to 4.5 percent.

Most properties are trading with cap rates between 4 percent to 4.5 percent.

WEST LOS ANGELES

VACANCY & RENT TRENDS



Sources: Northmarq, Reis

Projects totaling more than 750 units have come online year to date.

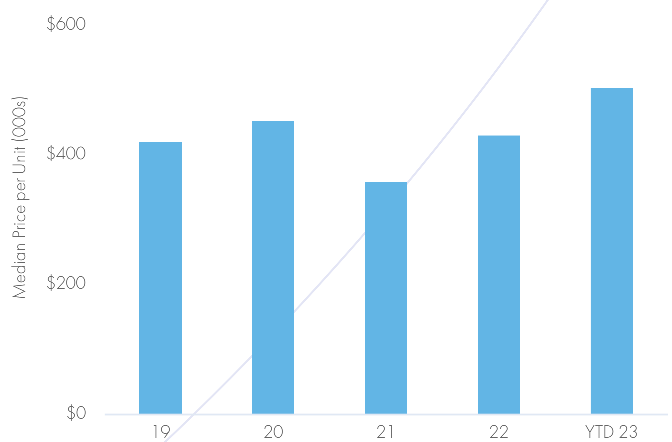
PROPERTY PERFORMANCE METRICS

- Multifamily deliveries were light in recent months as developers completed fewer than 100 units during the third quarter. Projects totaling more than 750 units have come online year to date with another 1,860 units currently in the construction pipeline.
- Vacancy conditions in West Los Angeles improved slightly during the third quarter, dipping 10 basis points to 4.1 percent. Year over year, the vacancy rate increased by 40 basis points.
- Local apartment rents finished the third quarter at $3,489 per month, rising 1.5 percent from one year ago. West Los Angeles typically records some of the most expensive rents in the entire nation. Rents in the Marina Del Rey/Venice/Westchester submarket reached $3,972 per month during the third quarter, a 5.8 percent increase year over year.
- **FORECAST:** Developers will continue to bring new units online at a modest pace with approximately 850 apartment units slated for delivery in 2023. Vacancy in West Los Angeles will likely trend slightly higher through the end of the year, finishing 2023 at around 4.3 percent. Asking rents will end 2023 below last year's peak, closing the year at roughly $3,525 per month.

MULTIFAMILY SALES

- After the pace of deals spiked at the start of the year, multifamily sales activity has been extremely light in the past six months. Typically, only a handful of properties trade in West Los Angeles each year.
- Sales prices strengthened thus far in 2023; the median sales price year to date is $503,900 per unit, up 17 percent from the median price in 2022.
- Cap rates trended higher in the last six months after averaging around 3.5 percent in the opening period. Most properties in West Los Angeles are trading with cap rates between 4 percent to 5.5 percent.

SALES TRENDS



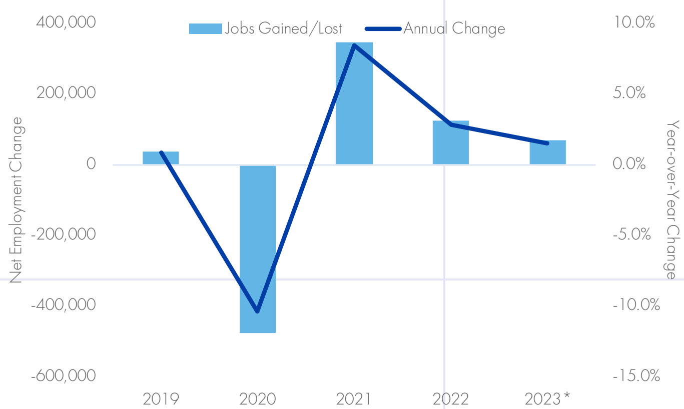
The median sales price year to date is $503,900 per unit.

LOOKING AHEAD

Property fundamentals in the Greater Los Angeles multifamily market should finish 2023 slightly weaker than at the beginning of the year. Vacancy will remain low, but the rate will push higher for the first time since 2020. The vacancy increase will be the result of supply outpacing demand; apartment developers in Los Angeles are on track to complete roughly 9,000 units in 2023, with an additional 19,000 units in the pipeline. Operating conditions in the Class A segment of the market will be the most affected by the new supply, particularly throughout Downtown Los Angeles. In other parts of the county, including the San Fernando Valley and in the South Bay, supply growth is modest, and fundamentals should be stable.

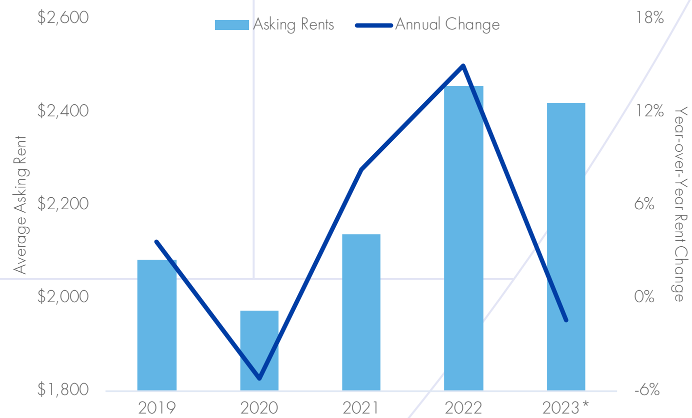
Multifamily investors in Los Angeles have spent much of 2023 adjusting to a series of evolving market conditions. There are factors such as borrowing costs and a slowing pace of renter demand that are impacting most markets, but also local challenges highlighted by a new tax on real estate transactions. These forces have predictably dragged on investment activity in the region, but as investors assess the impact of these conditions on property performance, the pace of transactions should ultimately regain momentum. Cap rates have pushed up to approximately 5 percent on average but may not rise much further as interest rates show some signs of retreating and expectations call for some rate cuts beginning in 2024.

EMPLOYMENT FORECAST



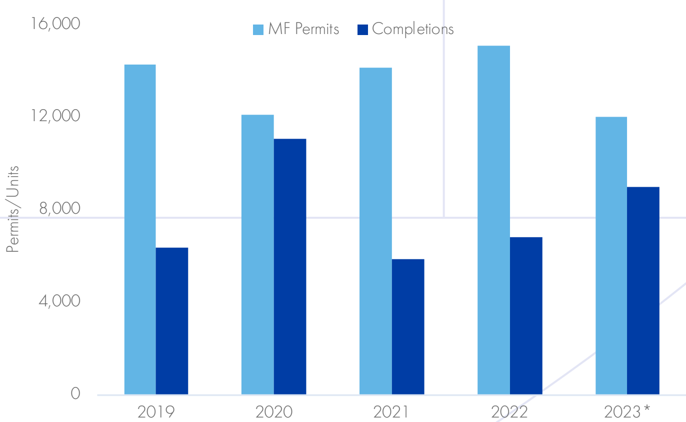
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



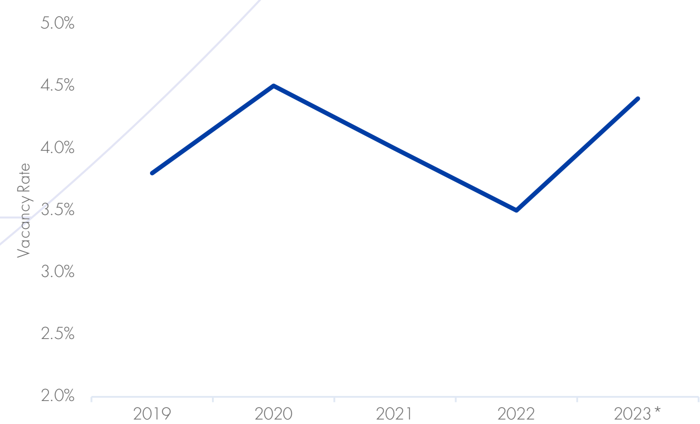
* Year End Forecast
Sources: Northmarq, REIS

CONSTRUCTION & PERMITTING FORECAST



* Year End Forecast
Sources: Northmarq, Census Bureau, CoStar

VACANCY FORECAST



* Year End Forecast
Sources: Northmarq, REIS, Yardi, CoStar

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ABOUT NORTHMARQ

Northmarq offers real estate investors access to experts in debt, equity, investment sales and loan servicing. We combine industry-leading capabilities with an open, flexible structure, allowing our team of seasoned professionals to do the best work on behalf of clients and lenders. Our solid foundation and innovative approach have led to substantial growth, with more than 1,000 employees, loan servicing volume approaching $80 billion, and $40+ billion in transaction volume.

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