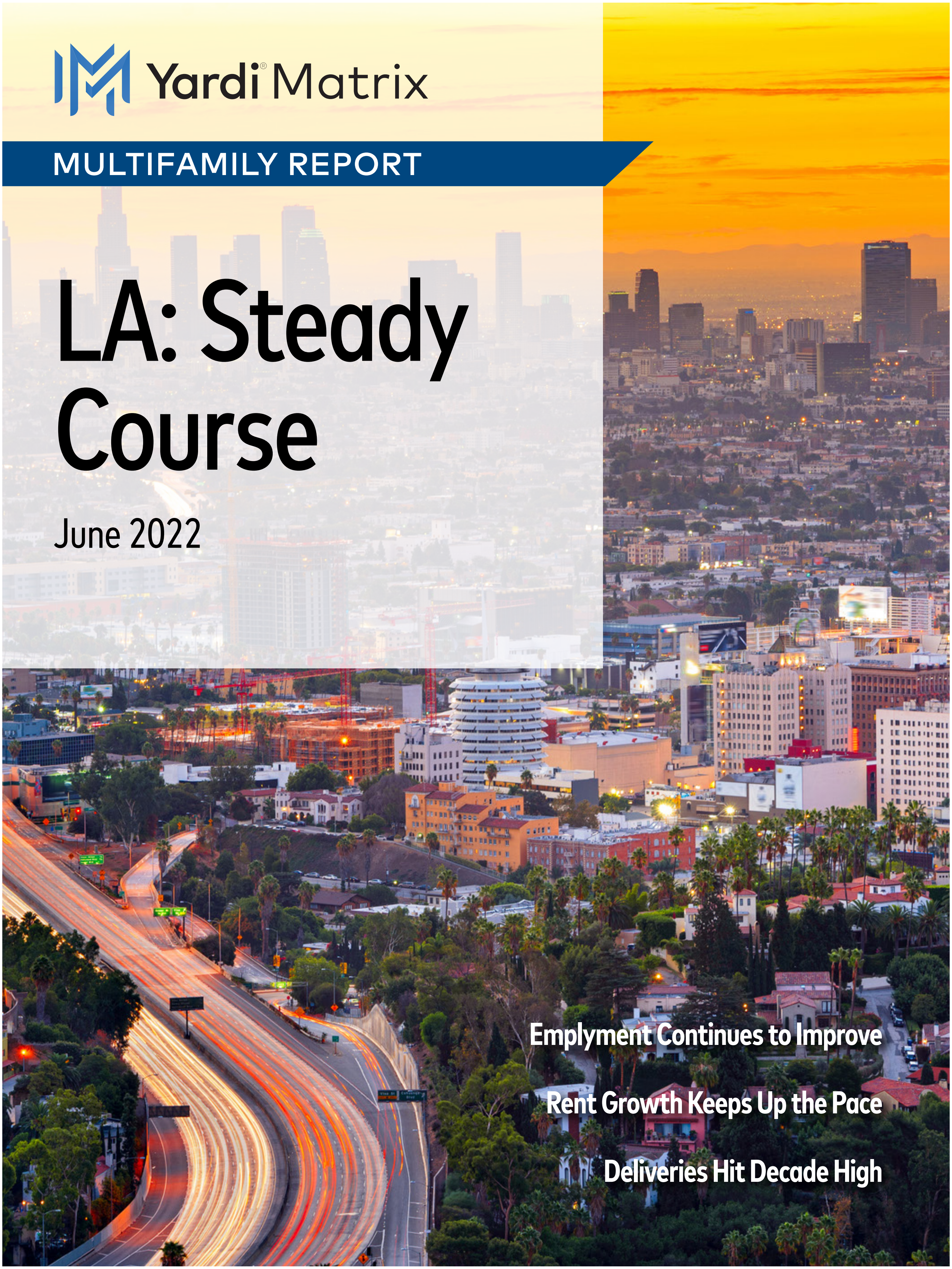
Yardi Matrix

MULTIFAMILY REPORT

LA: Steady Course

June 2022



Emplyment Continues to Improve

Rent Growth Keeps Up the Pace

Deliveries Hit Decade High

LOS ANGELES MULTIFAMILY

Yardi Matrix

LA Starts Year On Strong Note

Los Angeles' strong performance is likely to continue this year, with most indicators on a positive trajectory going into the second quarter. The average rent increased by 12.7% year-over-year, to $2,508 as of April. Housing demand remained elevated across the U.S., and L.A. was no exception. The occupancy rate in stabilized properties increased by 140 basis points year-over-year, to 96.8% as of March—on par with pre-pandemic levels.

The metro gained 324,200 jobs during the 12-month period ending in February, representing a 7.1% expansion, 240 basis points above the national rate. California Gov. Gavin Newsom's proposed state budget, clocking in at $300.7 billion, includes measures meant to tackle issues from rising inflation to housing affordability and climate change. Of the total funds, $37 billion was proposed for infrastructure and housing projects. A total of $18.1 billion, proposed in the form of an inflation relief package, includes $2.7 billion earmarked for emergency rental assistance.

Construction activity continued to rise, with Los Angeles recording 12,420 completions in 2021, setting a new decade high. In April, Los Angeles had 30,079 units under construction, with an additional 150,000 in the planning and permitting stages.

Market Analysis | June 2022

Contacts

Jeff Adler
Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(303) 615-3676

Ron Brock, Jr.
Industry Principal, Matrix
JR.Brock@Yardi.com
(480) 663-1149 x2404

Doug Ressler
Media Contact
Doug.Ressler@Yardi.com
(480) 695-3365

Author

Tudor Scolca
Associate Editor

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Recent Los Angeles Transactions

Vela on OX

City: Woodland Hills, Calif.
Buyer: Essex Property Trust
Purchase Price: $183 MM
Price per Unit: $482,850

SB Tower

City: Los Angeles
Buyer: Laguna Point Properties
Purchase Price: $112 MM
Price per Unit: $414,126

Crescent at West Hollywood

City: West Hollywood, Calif.
Buyer: Standard Communities
Purchase Price: $84 MM
Price per Unit: $646,154

Towne at Glendale

City: Glendale, Calif.
Buyer: CSCDA
Purchase Price: $80 MM
Price per Unit: $632,875

RENT TRENDS

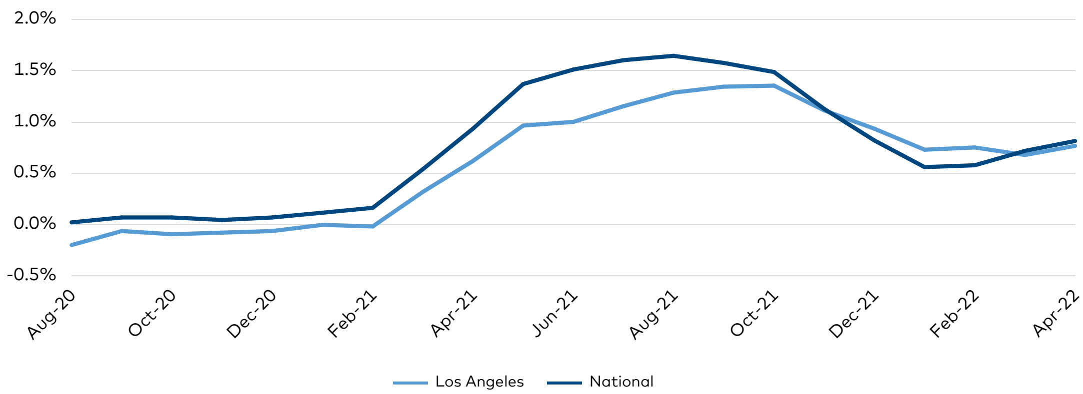
- Rents across Los Angeles were up 0.8% on a trailing three-month (T3) basis through April, on par with the national figure. At $2,508, the average figure remained significantly above the national rate—also at an all-time high of $1,659. Growth peaked in October last year (1.4% on a T3 basis), after which it recorded a seasonal slowdown. Year-over-year, L.A. rents grew by 12.7%, not far from the 14.3% U.S. average.

- Rent gains for Lifestyle assets was slower than that of communities in the Renter-by-Necessity segment, reversing the situation at the beginning of the year. Lifestyle rates were up 0.6% on a T3 basis, to $3,220, while RBN assets were up 0.8%, to $2,156.

- The occupancy rate in stabilized properties increased by 140 basis points year-over-year, to 96.8% as of March. The figure currently stands above pre-pandemic levels, even as 2021 marked a peak year for deliveries in Los Angeles. For RBN assets, occupancy grew to 97.2% (up 140 basis points year-over-year), while Lifestyle assets recorded a 160-basis-point jump, to 96.0%.

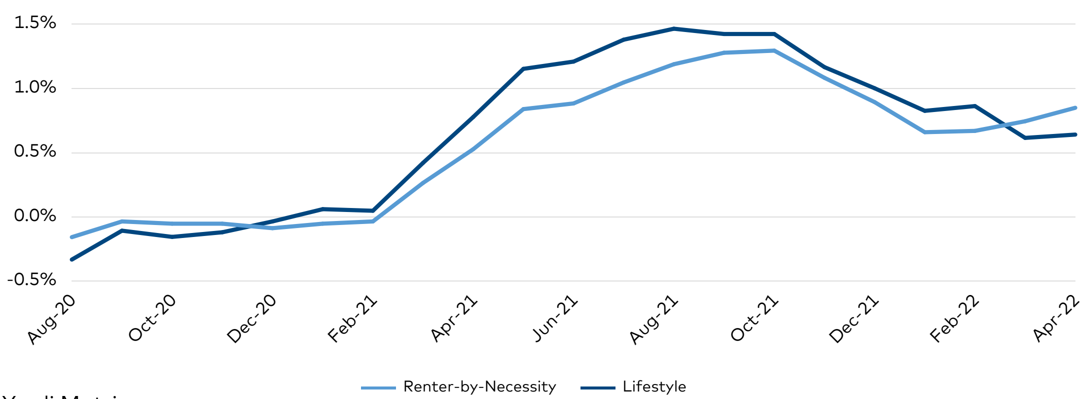
- Rent development was high across the map, with Eastern Los Angeles County and San Fernando Valley–Ventura County recording some of the strongest gains in the past 12 months ending in April. Gains were led by West Long Beach (up 22.2%, to $2,047), Walnut/Diamond Bar (21.5%, to $2,593), Pomona (21.2%, to $2,100), Pasadena/Arcadia (21.1%, to $2,939) and Palmdale (21%, to $1,785).

Los Angeles vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

Los Angeles Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- The metro continued its recovery, ending 2021 on a strong note. In the 12 months ending in February, Los Angeles added 324,200 jobs, with all sectors posting gains. Employment growth clocked in at 7.1%, 240 basis points above the U.S. rate.
- Leisure and hospitality recorded the greatest increase, with 117,000 jobs added—an expansion of 32.7%. Professional and business services (43,300) and education and health services (40,800) also recorded significant gains.
- As of March, California had recovered about 90% of the jobs lost during the height of the pandemic, according to the Employment Development Department. The state's unemployment rate was 4.9% in March, dropping by 350 basis points year-over-year. In metro Los Angeles, the rate was 4.5%, still lagging the 3.6% national rate.
- Concerns about the rate of recovery going forward still exist, however. Among other factors, upcoming labor negotiations within key industries will have a significant impact on the recovery, according to the Los Angeles Economic Development Corp. Workers in global trade, entertainment and other sectors have collective bargaining negotiations set to take place this summer.

Los Angeles Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	475	10.6%
60	Professional and Business Services	653	14.6%
65	Education and Health Services	869	19.5%
40	Trade, Transportation and Utilities	842	18.9%
50	Information	227	5.1%
80	Other Services	145	3.2%
90	Government	568	12.7%
30	Manufacturing	318	7.1%
15	Mining, Logging and Construction	156	3.5%
55	Financial Activities	210	4.7%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- During the pandemic, California lost residents for the first time since recording began 100 years ago. In 2021, L.A. lost 159,621 residents, with migration trends accelerated by hybrid work and housing affordability, according to Los Angeles County Economic Development Corporation.

Los Angeles vs. National Population

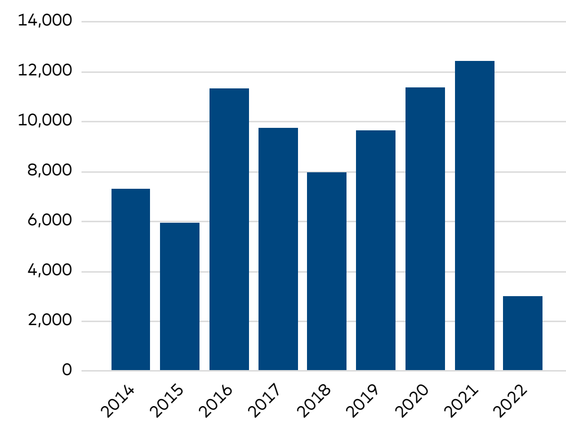
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Los Angeles	10,061,533	10,011,602	9,989,165	9,829,544

Source: U.S. Census

SUPPLY

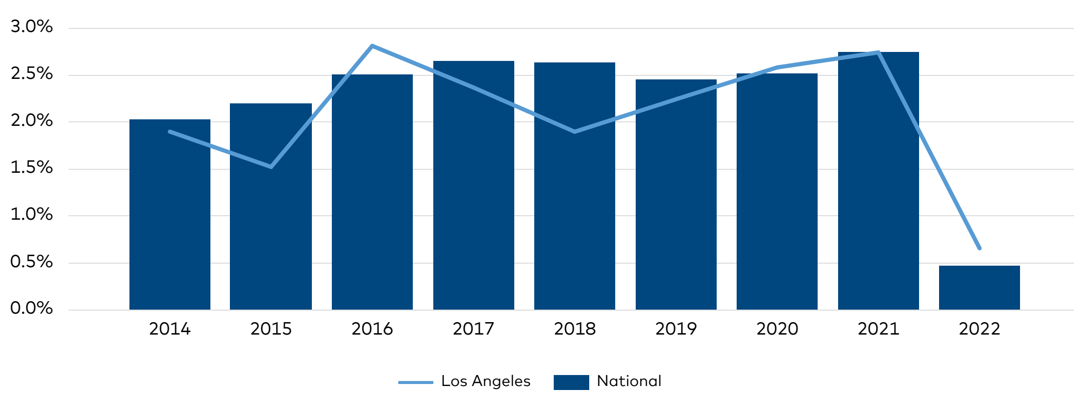
- Los Angeles had 30,079 units under construction as of April. The overwhelming majority (82%, roughly 24,700 units) fell within the Lifestyle segment, while 18% were in fully affordable projects. Yardi Matrix expects 13,243 units to come online across the market in 2022. This would mark not only a 2.9% expansion of stock but also another decade high.
- Year-to-date through April, developers completed 2,994 units, representing 0.7% of total stock, 20 basis points above the national rate. More than 2,100 of these are in metro Los Angeles proper. The number of multifamily completions increased in recent years, with 2020 (11,369 units) and 2021 (12,420 units) both exceeding previous records. Over the past six years, developers have added an average of 9,324 units annually to the market.
- Metro L.A. proper accounted for 61.1% of the pipeline (18,388 units), while San Fernando Valley–Ventura County had 5,734 units underway and Eastern Los Angeles County recorded 5,957 units.
- Urban core submarkets recorded the greatest number of units under construction, led by Downtown Los Angeles (3,485), Koreatown (2,222) and Westlake North (2,060).
- The largest property that came online during the first four months of the year was Cecil Hotel in Downtown Los Angeles. Simon Baron Development completed the adaptive reuse project of the historic Rice Hotel on South Main Street, adding 600 fully affordable units to the market. Skid Row Housing Trust is handling property management.

Los Angeles Completions (as of April 2022)



Source: Yardi Matrix

Los Angeles vs. National Completions as a Percentage of Total Stock (as of April 2022)

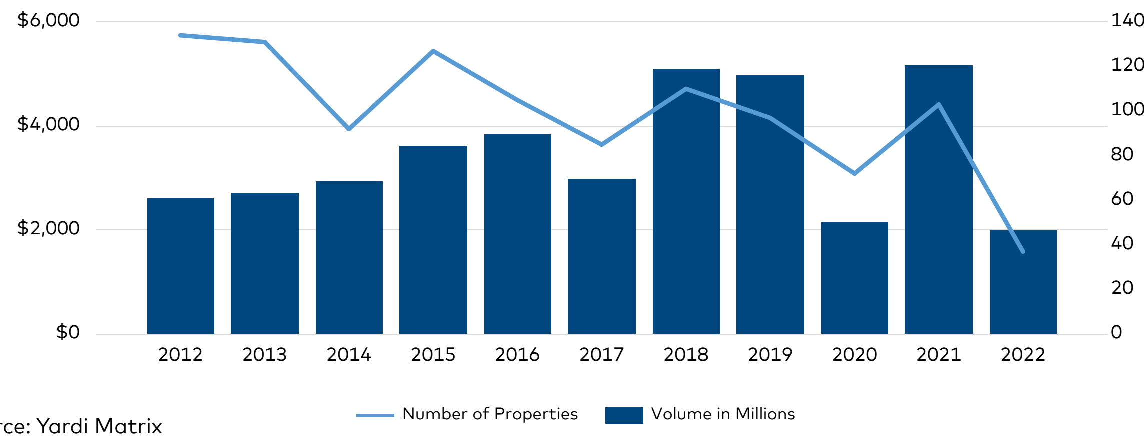


Source: Yardi Matrix

TRANSACTIONS

- Year-to-date through April, 37 properties—comprising 3,983 units—traded in Los Angeles for a total of $1.9 billion, outpacing the $1.6 billion recorded in the same period last year. Of these, 25 were RBN assets, which changed hands for a combined $810 million. The 11 Lifestyle properties that traded added up to $1.1 billion.
- In 2021, multifamily sales totaled $5.2 billion. The amount represents a new peak for the metro—$165 million more than the roughly $5 billion recorded in 2018. On average, multifamily sales generated $3.6 billion annually over the past decade.
- The average price per unit clocked in at $374,230 last year, almost double the national average of $192,489 and also up 19.3% year-over-year. RBN assets jumped 15.2% in value year-over-year, to $308,256 per unit, while the price of Lifestyle properties increased by 4.1%, to $537,325, in 2021.

Los Angeles Sales Volume and Number of Properties Sold (as of April 2022)



Source: Yardi Matrix

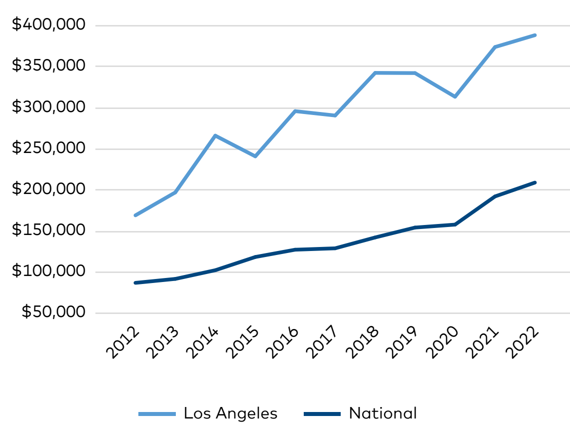
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Canoga Park	$476
Downtown Los Angeles	$414
Santa Clarita	$395
Pasadena/Arcadia	$388
Pomona	$374
Beach Cities	$349
SW Long Beach	$259

Source: Yardi Matrix

[1] From May 2021 to April 2022

Los Angeles vs. National Sales Price per Unit



Source: Yardi Matrix

LISTICLE

MULTI-HOUSING NEWS

data by Yardi Matrix

Top Multifamily Markets for Construction Activity

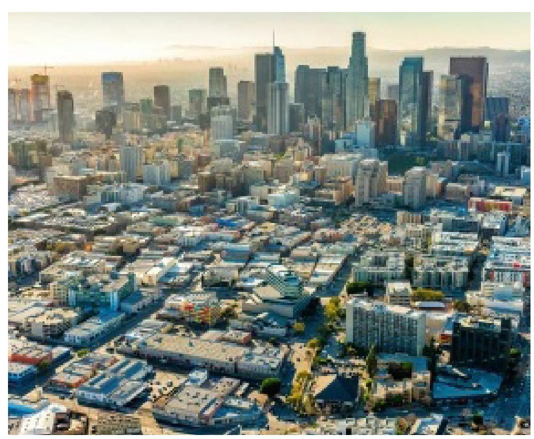
By Lucia Morosanu

The multifamily sector has been among the best-performing industries since the onset of the health crisis. Strong demand pushed development to surpass pre-pandemic levels, with 388,141 units completed across the country in 2021, up almost 13 percent compared to 2019. The list below details the most-active markets across the country for construction activity. The top 10 metros had 334,833 units under development as of March, accounting for a little more than 40 percent of the national level.

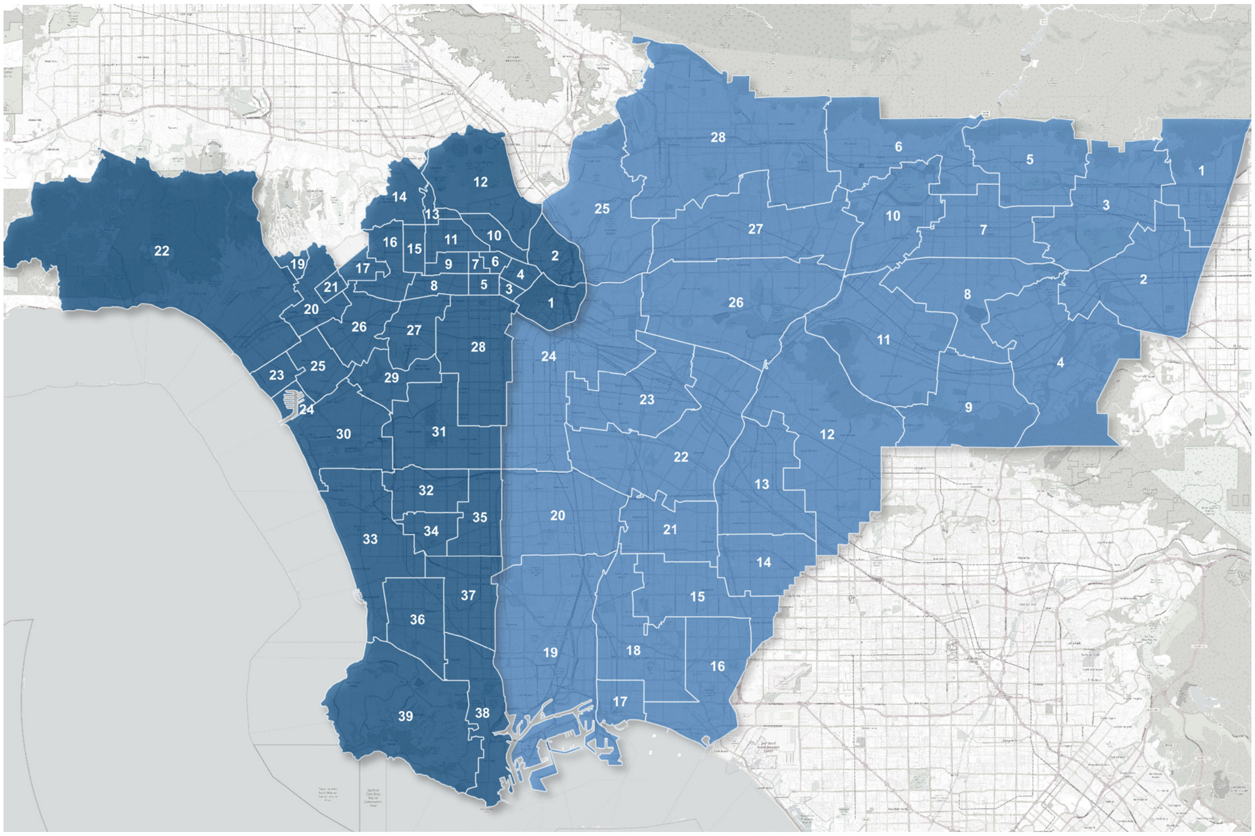
Rank	Metro	Units Under Construction	Forecast Units Delivered 2022	Units Delivered 2021
1	Dallas	44,595	21,105	25,976
2	Austin	41,358	15,536	14,856
3	Phoenix	37,929	18,585	10,108
4	Washington, D.C.	36,570	12,214	13,703
5	Miami Metro	34,880	19,739	18,068

Los Angeles

The only California market on the list added 12,259 units to its inventory in 2021. Developers responded to the need for housing, as deliveries in the previous year surpassed the completions recorded in 2020 (11,369 units) and 2019 (9,627 units). As of March, Los Angeles had 29,552 units under construction, out of which 13,811 units are forecast to be delivered by the end of the year.



LOS ANGELES SUBMARKETS



Area No.	Submarket
1	Downtown Los Angeles
2	Chinatown
3	Westlake South
4	Westlake North
5	Koreatown
6	Mid Wilshire East
7	Mid Wilshire West
8	Park La Brea South
9	Park La Brea North
10	Silverlake
11	East Hollywood
12	Los Feliz–Griffith Park
13	Hollywood Hills East
14	Hollywood Hills West
15	Central Hollywood
16	West Hollywood
17	Beverly Hills South
19	Bel Air
20	Westwood
21	Century City
22	Santa Monica–Brentwood

Area No.	Submarket
23	Venice
24	Marina Del Ray
25	Mar Vista
26	Culver City
27	Hyde Park
28	Adams-Normandie–Hoover
29	Ladera Heights
30	El Segundo–Playa del Rey
31	Inglewood
32	Hawthorne
33	Beach Cities
34	Lawndale
35	Gardena
36	West Torrance
37	East Torrance
38	San Pedro
39	Rolling Hills–Palos Verdes
40	Catalina Island

Area No.	Submarket
1	Claremont
2	Pomona
3	San Dimas/LaVerne
4	Walnut/Diamond Bar
5	Glendora
6	Azusa/Monrovia
7	Covina
8	West Covina
9	Rowland Heights
10	Baldwin Park
11	City of Industry/Hacienda Heights
12	Whittier/La Mirada
13	Sante Fe Springs/Norwalk
14	Artesia
15	Lakewood/Hawaiian Gardens
16	East Long Beach
17	SW Long Beach
18	NW Long Beach
19	West Long Beach
20	Compton
21	Bellflower/Paramount
22	Downey/Southgate
23	Maywood/Bell/Montebello
24	East Los Angeles South
25	East Los Angeles North
26	S El Monte/Rosemead
27	Alhambra/San Gabriel/El Monte
28	Pasadena/Arcadia

OTHER PROPERTY SECTORS

Office

- Year-to-date through April, office sales across the U.S. totaled $26.7 billion, according to CommercialEdge data. In Los Angeles, they totaled $1.4 billion, exceeding most other metros and double the amount recorded over the same period last year. Only Manhattan ($1.8 billion) and New Jersey ($1.5 billion) surpassed L.A.

- L.A's average full-service equivalent listing rate was $42.20 in March, up by 4.0% year-over-year and more than the national average ($37.37). Amazon was among the large players to recently commit to expand in Southern California. The tech giant plans to create about 2,500 jobs and lease more than 430,000 square feet of office space over the next 12 months.

- Like most gateway markets, the office development pipeline in Los Angeles shrunk during the first quarter. In April, the metro had 3 million square feet of office space underway—equivalent to 1.1% of total stock, half the national rate. However, deliveries during the same period amounted to 2 million square feet.

- Among the largest properties to come online—although not a ground-up development—was Brookfield Properties' reimagined California Market Center, offering 1.5 million square feet of office space in downtown L.A. At the beginning of the year, Adidas agreed to occupy 107,000 square feet at the $250 million mixed-use project.

Industrial

- The industrial sector will likely continue its strong performance this year, according to a recent CommercialEdge report. Port markets such as Southern California are undersupplied, driving both occupancy and rents at historically high levels. The Inland Empire continued to record the lowest vacancy in the nation, at 0.8% as of April, while rents increased by 6.3% year-over-year to $6.75—above U.S. averages.

- The area also had one of the largest development pipelines going into the second quarter. A total of 33.6 million square feet of industrial space was underway in the Inland Empire as of April, representing 5.6% of total stock—190 basis points above the national rate. Physical space for ground-up development is limited, but speculative projects continue to make up a large portion of the pipeline, as are redevelopments.

- Among the larger projects that broke ground recently is CapRock Partners' Palomino Ranch in Norco. The project is reportedly one of the largest in the city's history, at 2 million square feet across 24 buildings. Its first phase will encompass 700,000 square feet. Earlier this year, Duke Realty also announced plans for six speculative developments in the Inland Empire and Orange County markets, totaling roughly 1.5 million square feet.

Self Storage

- Demand for self storage remains elevated, according to Yardi Matrix, but some markets—including coastal metros—have recorded a deceleration in rents. The overall national street rate remains relatively unchanged from last year, at $145 as of March. In L.A., the rate remained unchanged on a month-over-month basis, at $208.

- On a national level, new properties under construction or in the planning stages accounted for 9.3% of existing stock as of March, with almost all metros recording an uptick in development since February. Los Angeles' rate was 9.8%, increasing by 20 basis points month-over-month and exceeding other gateway metros—except for New York, which continues to lead at 19.0%.

- One of the larger properties to came online this year in the metro was Westport Properties' 1,182-unit US Storage Centers facility. The developer acquired the 2.2-acre parcel in 2019, for $5.4 million.

DEFINITIONS

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

- *A young-professional*, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;
- *Students,* who also span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income ("gray-collar") households,* composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households,* which barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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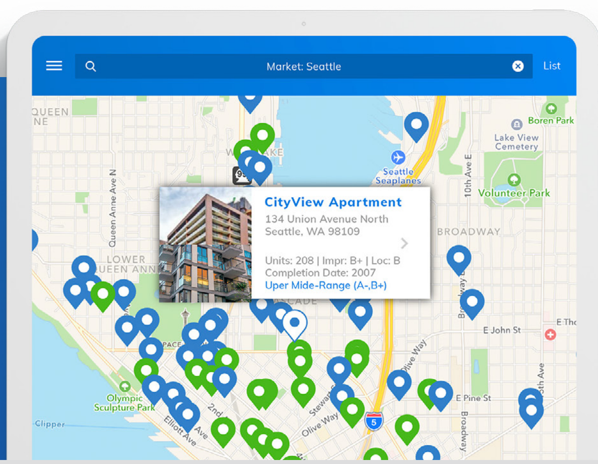
- Access aggregated and anonymized residential revenue and expense comps



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