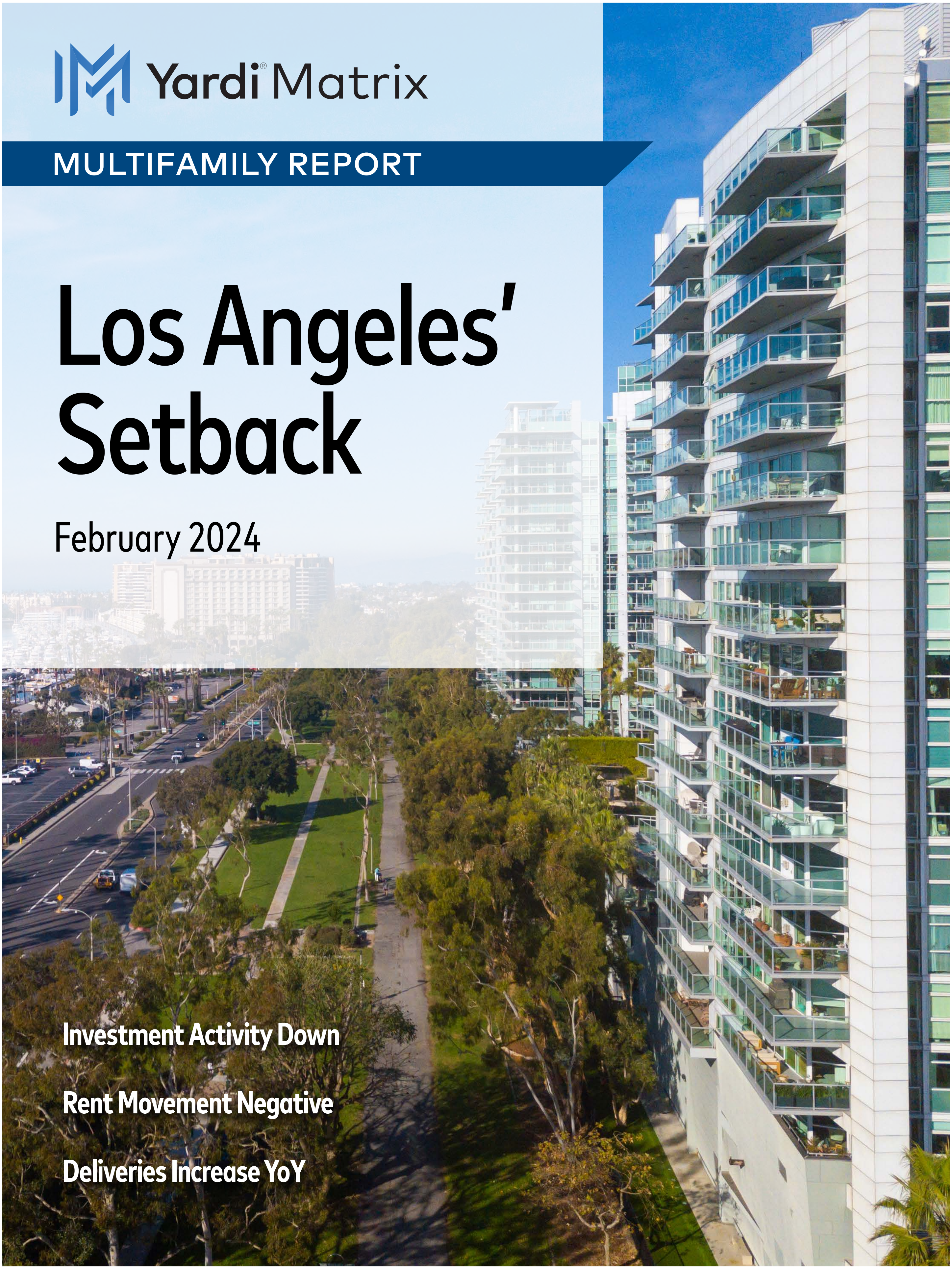
Yardi® Matrix

MULTIFAMILY REPORT

Los Angeles' Setback

February 2024



Investment Activity Down

Rent Movement Negative

Deliveries Increase YoY

Yardi Matrix

Resilience Gives Way To Downturn

The Los Angeles multifamily market felt the impact of the economic downturn across fundamentals in 2023, and this trend is expected to persist in 2024. Rents were down 0.4% on a trailing three-month basis through December, 10 basis points below the national figure. On a year-over-year basis, rates were down 1.1%, to an average of $2,560. Deliveries improved year-over-year, but occupancy rates fell 40 basis points, to 96.1% in November.

Employment growth stood at 2.1% for the 12-month period ending in October, with Los Angeles adding 74,900 jobs. Meanwhile, the unemployment rate reached 5.0% as of November, according to preliminary data from the Bureau of Labor Statistics, close to the January 2023 figure. The top performing sectors were education and health services (up 55,800 jobs) and leisure and hospitality (29,700 jobs). The information sector took a massive hit, losing 29,900 jobs through October. According to a study from Otis College of Art and Design, this was mostly due to losses recorded during the Writers Guild of America and Screen Actors Guild-American Federation of Television and Radio Artists strikes, as a total of 24,799 people lost their jobs between May and November.

The development pipeline remained sturdy, with 31,401 units underway as of December. Developers completed 11,121 apartments in 2023, representing a 2.4% expansion of stock.

Recent Los Angeles Transactions

Summerset Village

City: Chatsworth, Calif.
Buyer: IMT Capital
Purchase Price: $106 MM
Price per Unit: $380,000

Providence Gardens

City: Long Beach, Calif.
Buyer: Redwood Housing Partners
Purchase Price: $75 MM
Price per Unit: $375,000

Terramonte

City: Pomona, Calif.
Buyer: Positive Investments
Purchase Price: $36 MM
Price per Unit: $257,246

William on Sunset

City: Los Angeles
Buyer: Winstar Properties
Purchase Price: $28 MM
Price per Unit: $348,101

Market Analysis | February 2024

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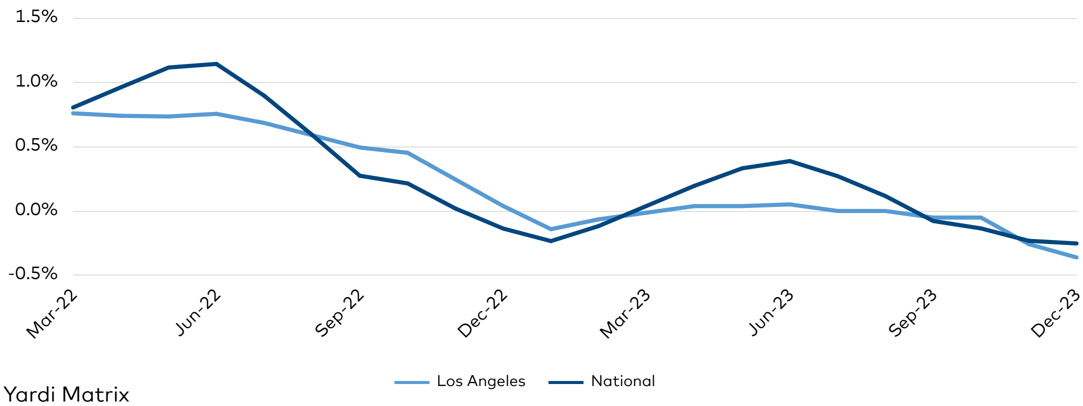
On the cover: Photo by Adam Mustafa/iStockphoto.com

RENT TRENDS

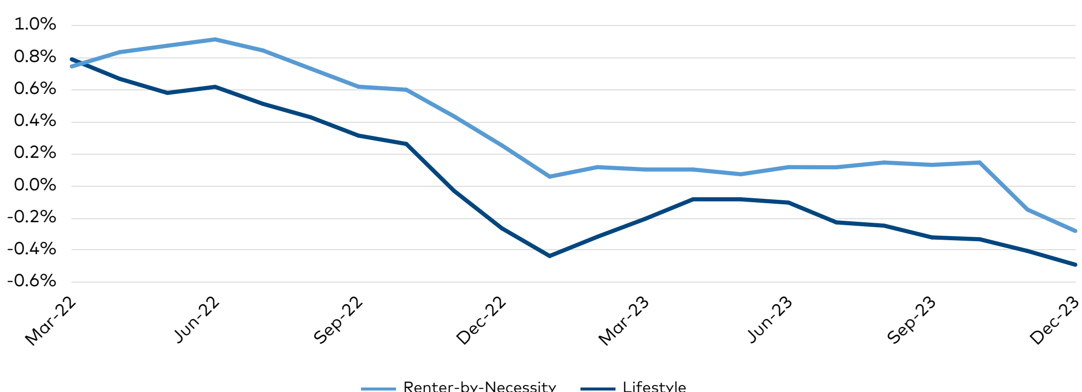
- Los Angeles rents were down 0.4% on a trailing three-month (T3) basis through December, 10 basis points below the U.S. rate of -0.3%. On a year-over-year basis, rents decreased 1.1% in the metro, 80 basis points behind the U.S. rate.
- The average rate in Los Angeles was $2,560 as of December, remaining significantly above the national $1,709 figure. The working-class Renter-by-Necessity segment recorded a 0.3% decline on a T3 basis, to $2,252. Meanwhile, Lifestyle rents were down 0.5%, to an average of $3,167, nearly $1,000 higher than the RBN average.
- Overall occupancy in Los Angeles decreased 40 basis points year-over-year, to 96.1%, as of November. The national average was down 50 basis points, to 94.7%. In 2023, increased new supply and reduced renter mobility due to economic factors led to decreased occupancy across quality segments. Lifestyle assets saw occupancy drop 60 basis points, to 95.1%, while for RBN the rate decreased 30 basis points, to 96.7%.
- A handful of Eastern Los Angeles County and San Fernando Valley submarkets recorded significant year-over-year gains, while most metro Los Angeles proper submarkets saw rents contract. In Bellflower/Paramount, rates were up 6.7%, to $2,064, followed by Glendora (up 5.0% to $2,195) and Pomona (up 4.8% to $2,195).

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

- Los Angeles unemployment stood at 5.0% as of November, according to preliminary data from the BLS. This was 130 basis points above the national figure. The rate started climbing from the end of April—up to 5.8% in September—after which it came down closer to historic levels. Meanwhile, California's figure reached 4.9%.
- Over the 12-month period ending in October, Los Angeles gained 74,900 jobs, representing a 2.1% expansion of the labor pool—20 basis points below the U.S. rate. The metro's growth rate significantly slowed from 3.3% at the beginning of last year, as the overall U.S. economy slowed.
- Education and health services remained a top performer, with 55,800 jobs, or a 6.2% expansion. It was followed by leisure and hospitality, which grew by 29,700 positions, or 5.6%. According to a recent study from Otis College of Art and Design, the WGA and SAG-AFTRA strikes contributed to a loss of 24,799 jobs in the entertainment industry alone between May and November. This was felt in the information sector, which lost 29,900 jobs through October—a 12.7% contraction.
- Significant ongoing projects in the metro include the $5 billion landside access modernization plan for Los Angeles International Airport and a $900 million light-rail stop serving the C and K lines.

Los Angeles Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
65	Education and Health Services	953	20.3%
70	Leisure and Hospitality	558	11.9%
40	Trade, Transportation and Utilities	853	18.2%
90	Government	578	12.3%
80	Other Services	161	3.4%
55	Financial Activities	219	4.7%
15	Mining, Logging and Construction	156	3.3%
60	Professional and Business Services	684	14.6%
30	Manufacturing	320	6.8%
50	Information	205	4.4%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Domestic out-migration contributed to a 1.6% decline in population from 2020 to 2021, as the metro lost 159,621 residents.
- Meanwhile, the U.S. population grew by 0.1%.

Los Angeles vs. National Population

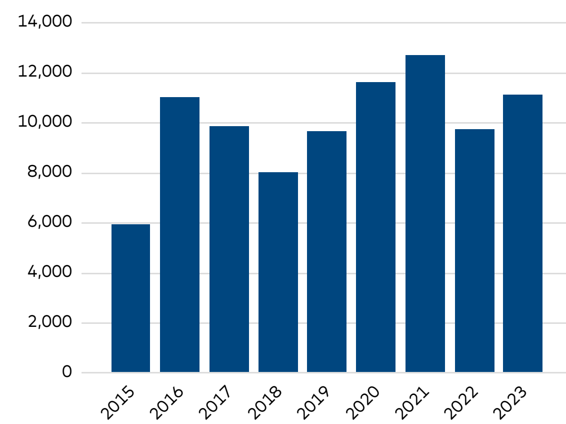
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Los Angeles	10,061,533	10,011,602	9,989,165	9,829,544

Source: U.S. Census

SUPPLY

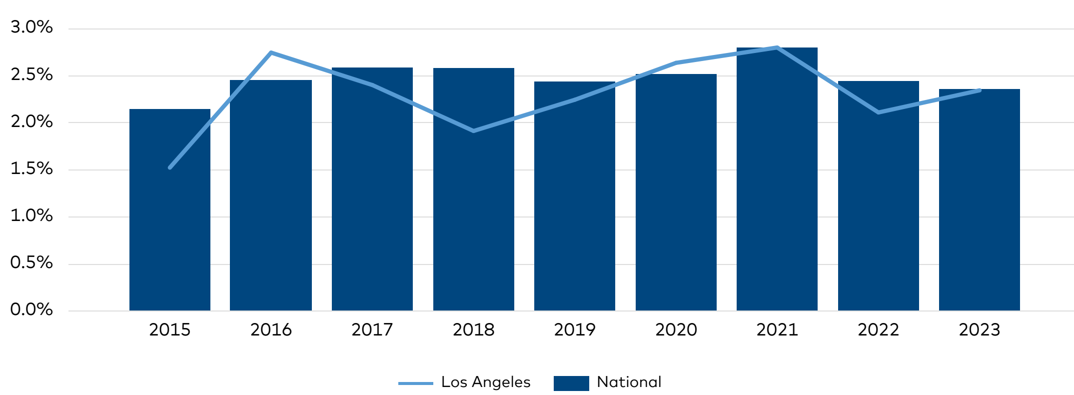
- In 2023, developers completed 11,121 units across metro Los Angeles, which represented a 2.4% expansion of existing stock, on par with the national rate. Deliveries were up 13.9% year-over-year, thanks to projects started before the interest rate hikes. It's unlikely the Federal Reserve will increase rates further, which will give investors some breathing room. Yardi Matrix forecasts metro Los Angeles' inventory will expand by nearly 3.0% this year, or roughly 6,182 units—significantly below the 10,966-unit five-year annual average.
- Los Angeles had 31,401 units under construction at the end of the year. In line with national trends, the Lifestyle segment represented an overwhelming majority of the pipeline, at 69.2% of the total. Units in fully affordable assets comprised 29.6%, while the remaining 1.2% were in RBN properties. Roughly 162,000 additional units were in the planning and permitting stages.
- With financing rates high, construction starts dwindled. In 2023, a total of 9,545 units broke ground, already a 28.3% drop year-over-year.
- Downtown Los Angeles was by far the most active in terms of development, with 4,112 units underway. Six other submarkets recorded more than 1,000 units under construction, including Silverlake (1,573), Westlake North (1,451) and East Los Angeles South (1,323).
- The largest property to come online in 2023 was the 682-unit Ferrante in Westlake North. Developer GH Palmer Associates benefited from a $335 million construction loan from Goldman Sachs and is planning a second phase, comprising 100 more units.

Los Angeles Completions (as of December 2023)



Source: Yardi Matrix

Los Angeles vs. National Completions as a Percentage of Total Stock (as of December 2023)

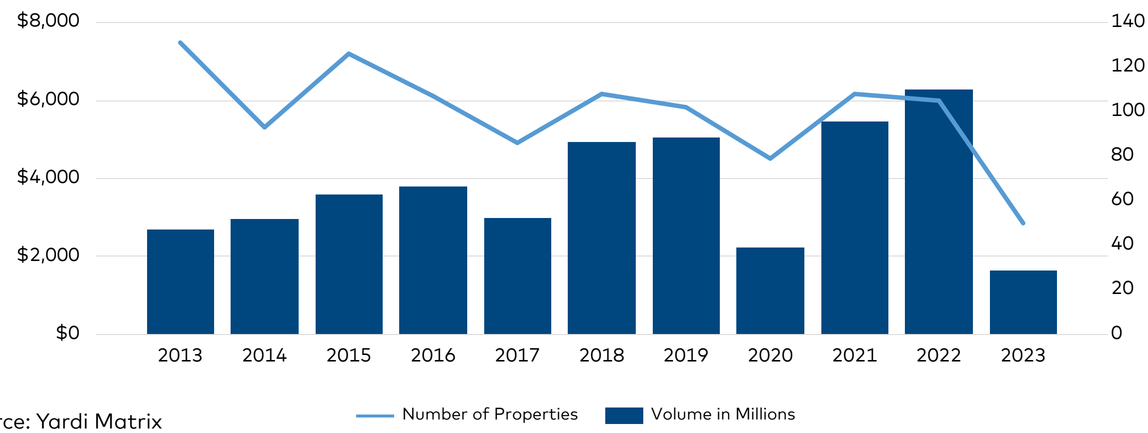


Source: Yardi Matrix

TRANSACTIONS

- Last year, multifamily investments in Los Angeles totaled $1.6 billion—the lowest in at least eight years and a drop to just 25% of the value recorded in 2022. A total of 50 transactions closed in the metro, 36 of which were in the RBN segment, while 14 were Lifestyle assets. In the context of interest rates potentially remaining elevated—at least in the first half of 2024—transaction activity will likely remain low going forward.
- The average price per unit reached $332,705 at the end of last year. While this figure was down 23.3% year-over-year, it remained well above the $185,172 national average. Both quality segments recorded price decreases—Lifestyle assets traded for $579,240 per unit, while RBN clocked in at $294,461.
- Metro Los Angeles had the lion's share of investments, with $764 million in total, followed by San Fernando Valley–Ventura County, with $482 million. Finally, Eastern Los Angeles County rounded out the top three, with $395 million.

Los Angeles Sales Volume and Number of Properties Sold (as of December 2023)



Source: Yardi Matrix

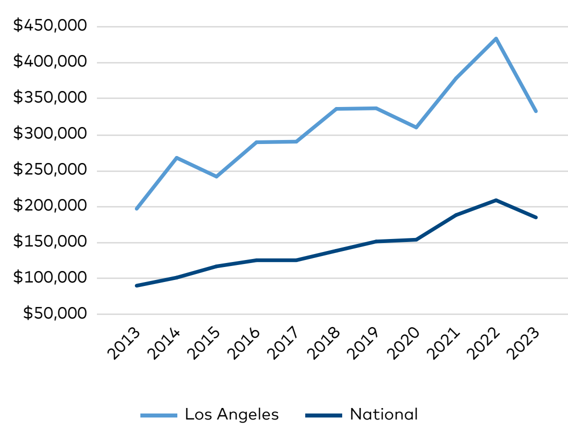
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Thousand Oaks	172
Silverlake	149
SW Long Beach	133
Central Hollywood	113
Chatsworth	106
Chinatown	97
Whittier/La Miranda	81

Source: Yardi Matrix

[1] From January 2023 to December 2023

Los Angeles vs. National Sales Price per Unit



Source: Yardi Matrix

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MULTI-HOUSING NEWS

It Will Get Worse Before It Gets Better, a California Property Manager Warns

By Diana Firtea

As California continues to battle high living costs, stubborn inflation and rising insurance expenses, providing sustainable and affordable housing solutions is proving very challenging. Kevin Grani, president of Sterling Asset Management Co., the property management arm of Community Housing Opportunities Corp., talks about overcoming difficulties in one of the most supply-constrained affordable housing markets in the country.

What are the top challenges today for affordable housing property managers in California?

The challenge today is simply the lack of attainable affordable housing, given how long it takes to build. The common challenges we've seen for years have been people losing their jobs, not having an income that stacks up against housing costs and, of course, the lack of subsidies for the properties. We also often face the challenge when trying to find people to manage sites—due to budget restrictions—which are all driven by the rents that are controlled by California state agencies.

What can be done to alleviate the housing crisis? Can property managers help in any way?

There are so many different components to resolving this crisis but what it comes down to is supply and demand, and simply building more. It's less of a management question and more about the development of housing and providing supportive services

to residents, which is where management can help. Things like financial literacy, guidance with finding food and rental assistance. You start with basic needs and then move to financial literacy and, eventually, self-sufficiency.

How can organizations such as CHOC and its property managers maintain affordable rental rates when costs rise, particularly in a market like California?

Frankly, it's incredibly difficult. Many in our industry are of the mind that it's not possible to keep rental rates lower as costs rise. As a property manager, CHOC does not set rental rates. The rates are set by state and federal agencies.

Despite that, our hope is that we can develop more affordable housing to counteract this issue and, ideally, house as many people as we possibly can.

What are your short- and medium-term goals at Sterling?

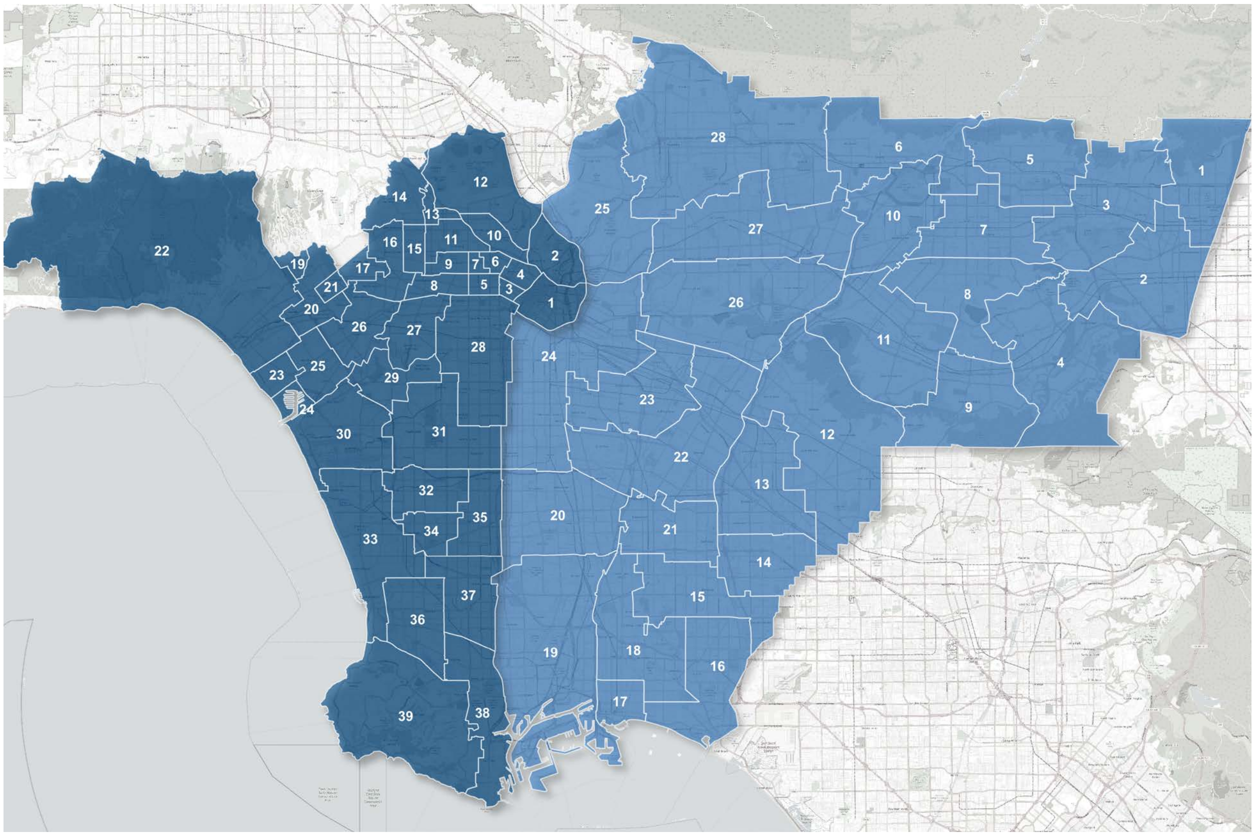
Our short-term goals include the ongoing development and investment in our property management team, across our portfolio, maximizing efficiencies wherever possible. Longer term, the resident experience is primary.

How do you expect the state's affordable housing crisis to evolve?

Unfortunately, as things stand, it will get worse before it gets better. It's essential that the state develops permanent sources of funding, in order to help organizations like ours develop and sustain multifamily affordable housing for as many people as possible.

(Read the complete interview on multihousingnews.com.)

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

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.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

Yardi Matrix

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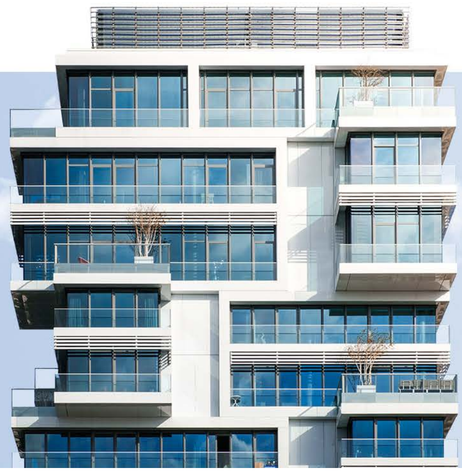
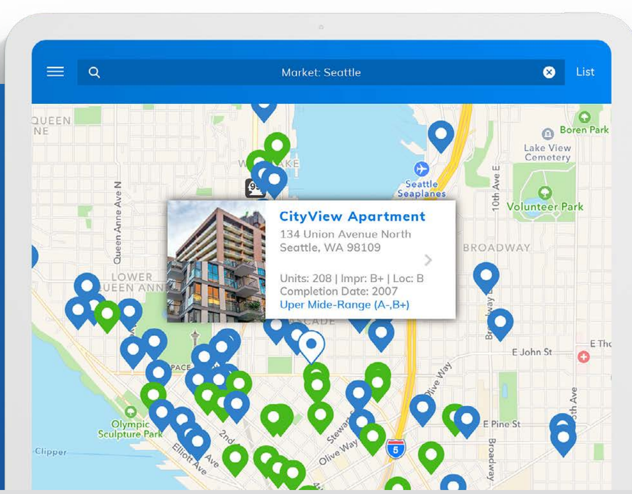


MULTIFAMILY KEY FEATURES

- Pierce the LLC every time with true ownership and contact details
- Leverage improvement and location ratings, unit mix, occupancy and manager info
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



Yardi Matrix Multifamily provides accurate data on **19.7+ million units**, covering over **92% of the U.S. population.**

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