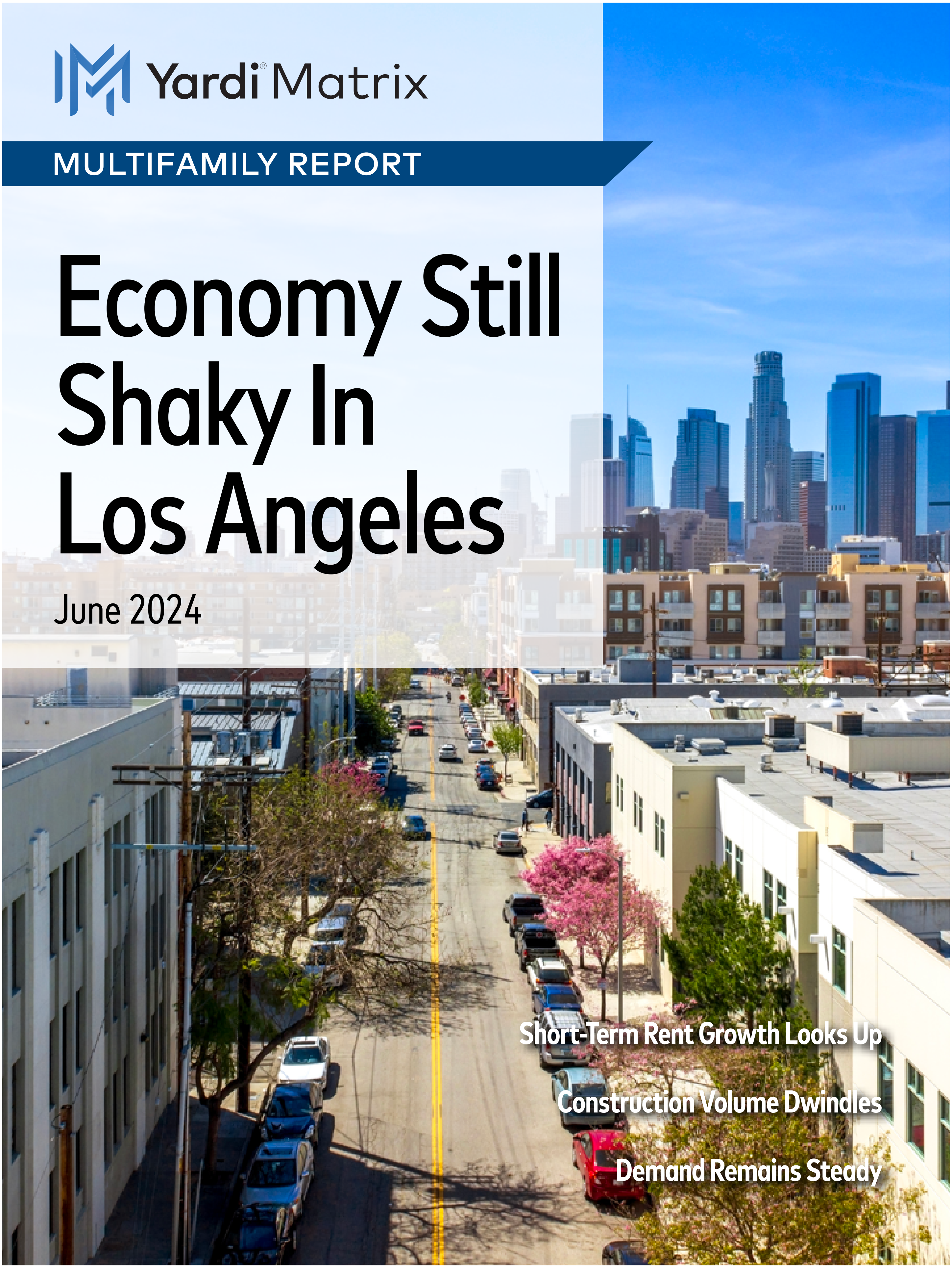
Yardi Matrix

MULTIFAMILY REPORT

Economy Still Shaky In Los Angeles

June 2024



Short-Term Rent Growth Looks Up

Construction Volume Dwindles

Demand Remains Steady

LOS ANGELES MULTIFAMILY

Yardi Matrix

Employment Market Contracts

Los Angeles multifamily fundamentals were sluggish at the start of the second quarter of 2024. Short-term rent growth emerged from negative territory, up 0.1%, to $2,584, on a trailing three-month basis through April. Meanwhile, year-over-year movement slid further, down 0.5%. However, demand remained steady. Despite last year's decade-high supply expansion, the occupancy rate in stabilized properties declined just 50 basis points to 95.8%.

In the 12 months ending in February, the Los Angeles employment market contracted 0.1%, marking the sixth consecutive month of job losses, while the U.S. rate was up 1.5%. The information sector lost the most jobs (-36,000), mainly due to the writers' and actors' strikes, which ended in November. Professional and business services followed with 16,000 jobs lost. Meanwhile, job gains were led by education and health services (45,100 jobs) and government (11,000 jobs). The former has good prospects, sustained by the county's $1.7 billion Harbor-UCLA Medical Center Replacement Program.

Developers delivered 1,728 units through April. While new starts are dwindling, there were 31,423 units underway. Investment activity remained tepid, with $616 million traded through April, for an average per-unit price of $368,240.

Market Analysis | June 2024

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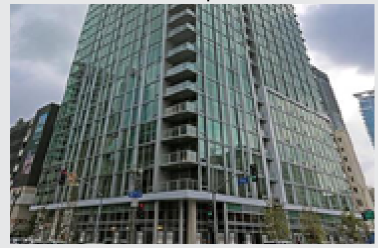
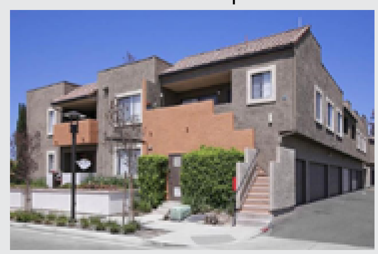
Recent Los Angeles Transactions

888 at Grand Hope Park



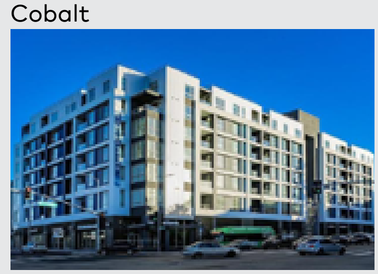
City: Los Angeles
Buyer: FPA Multifamily
Purchase Price: $186 MM
Price per Unit: $354,286

The Ranch at Moorpark



City: Moorpark, Calif.
Buyer: AEW Capital Management
Purchase Price: $133 MM
Price per Unit: $360,000

Cobalt



City: Los Angeles
Buyer: Robhana Group
Purchase Price: $68 MM
Price per Unit: $501,481

The LP by CLG

City: Los Angeles
Buyer: HACLA
Purchase Price: $43 MM
Price per Unit: $362,000

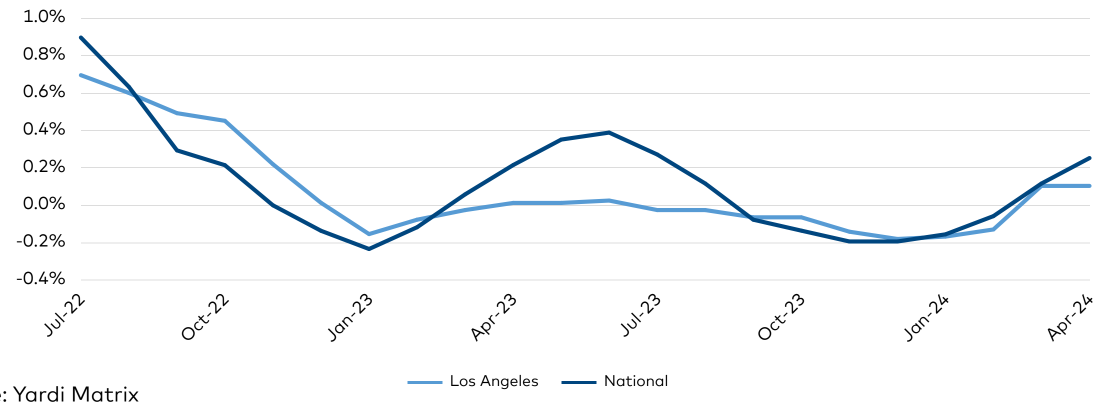
RENT TRENDS

- Los Angeles rents rose 0.1% on a trailing three-month (T3) basis through April, trailing the 0.3% national rate. This was the second consecutive month of recovery for the metro, following six months of contractions. On a year-over-year basis, rents were down 0.5% in April, while the U.S. rate increased 0.7%. The average asking rent in the metro clocked in at $2,584, well above the $1,725 national figure.

- In the working-class Renter-by-Necessity segment, rents were up 0.2% on a T3 basis through April, to $2,273, while Lifestyle figures remained flat, at $3,184. RBN rents contracted for a brief two-month period (December 2023 to January 2024). Last year's decade-high supply expansion had little impact on the occupancy rate in stabilized properties, down just 50 basis points year-over-year, to 95.8% in March. The rental market remained tighter on the RBN side with occupancy down 50 basis points, to 96.3%, while Lifestyle occupancy decreased 40 basis points, to 95.1%.

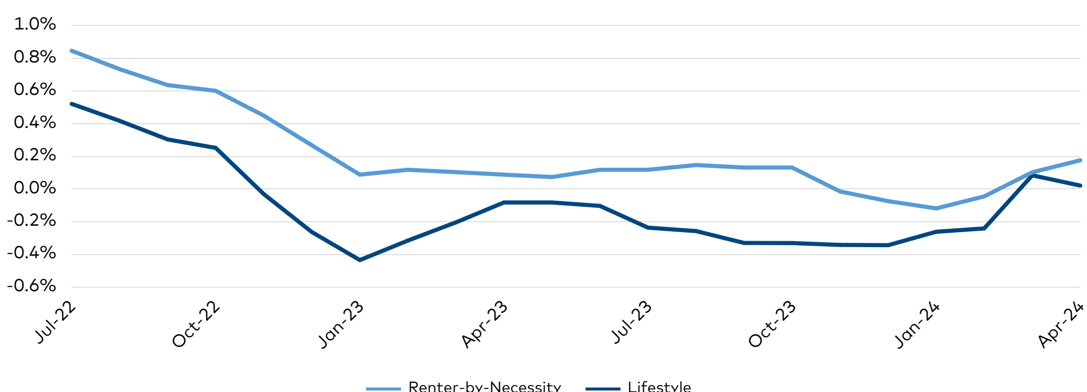
- Year-over-year through April, rents contracted across 45 of the 103 Los Angeles submarkets tracked by Yardi Matrix but continued to increase in the metro's most expensive areas—Marina Del Rey (up 0.3% to $4,001) and Westwood (1.0% to $3,687). Eight submarkets had an average asking rent above $3,000, 74 in the $2,000 to $3,000 range, and 13 below $2,000. The single-family rental segment lagged multifamily, with rents down 1.8% year-over-year in April, to $3,313, and occupancy declining 2.4% year-over-year in March, to 95.8%.

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 was 4.5% in April, closer to pre-pandemic levels, according to preliminary data from the Bureau of Labor Statistics. The rate was down 70 basis points month-over-month and 140 basis points since the start of the year. It outperformed California (5.3%) but trailed the U.S. (3.9%). Since April 2022, unemployment in the metro has ranged between 4.4% and 5.9%.

- The local economy has been struggling, with job growth at -0.1% over the 12 months ending in February. This was the sixth consecutive month of contractions. Meanwhile, the U.S. rate was 1.5%. Six sectors posted job losses, with the largest cuts recorded in information (-36,000 jobs) and professional and business services (-16,000 jobs). Motion picture producers and other employers in the information sector, which include publishing, broadcasting, telecom and computer infrastructure companies, have been slow to restart hiring, despite the sector rebounding following last fall's strikes.

- Education and health services (45,100 jobs) and government (11,000 jobs) led gains. These were sustained by projects currently underway, such as the nine-story hospital building on the campus of Harbor-UCLA Medical Center, part of the county's $1.7 billion Replacement Program that will include a six-story clinic, a regional laboratory and two support buildings.

Los Angeles Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
65	Education and Health Services	946	20.8%
90	Government	591	13.0%
70	Leisure and Hospitality	529	11.6%
80	Other Services	160	3.5%
15	Mining, Logging and Construction	151	3.3%
40	Trade, Transportation and Utilities	822	18.1%
55	Financial Activities	210	4.6%
30	Manufacturing	316	6.9%
60	Professional and Business Services	641	14.1%
50	Information	184	4.0%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Los Angeles lost 90,641 residents in 2022, down 0.7%, while the national rate rose 0.4%.

- The decline was quite significant compared to the previous year, roughly -0.1% and more than double the -0.3% recorded in 2020.

Los Angeles vs. National Population

	2019	2020	2021	2022
National	324,697,795	326,569,308	329,725,481	331,097,593
Los Angeles	13,249,614	13,211,027	13,202,558	13,111,917

Source: U.S. Census

SUPPLY

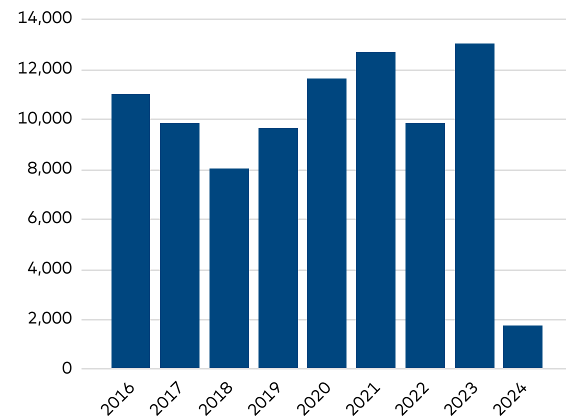
- Following last year's decade-high supply expansion of 13,055 units, developers delivered 1,728 units this year through April. This was a 0.4% expansion of existing stock and 20 basis points below the national rate. The bulk of new completions were Lifestyle units, accounting for 92.0%, and the remainder (8.0%) were apartments in fully affordable assets.

- Developers had 31,423 units underway in April and another 171,000 units in the planning and permitting stages. The fully affordable share grew since last year, to (32.7%). Compared to the 8.0% of recent affordable deliveries, this marks a significant jump. Los Angeles' inventory comprises nearly 20.0% of fully affordable communities. The current level is in line with national trends, reflecting the increased pressure for low-income housing.

- Construction starts decreased to 811 units across eight properties through April, from 4,181 units across 30 properties recorded during the same interval last year. Like other gateway markets, this considerable drop was the result of high volatility created by high interest rates and high construction and labor costs.

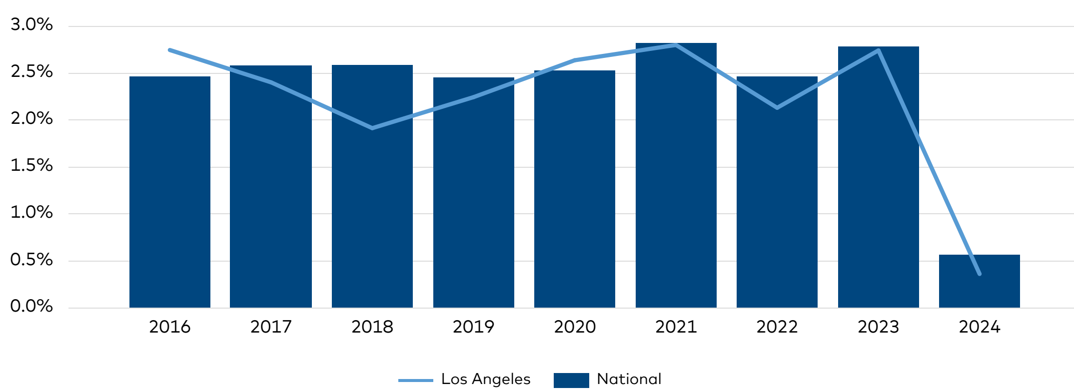
- Downtown Los Angeles remained the top submarket for construction with 2,602 units underway. Next in line were Silverlake (1,786 units) and Westlake North (1,467 units). Los Angeles metro proper had the largest share of units under construction (17,914 units), followed by San Fernando Valley–Ventura County (7,265) and Eastern Los Angeles County (6,244).

Los Angeles Completions (as of April 2024)



Source: Yardi Matrix

Los Angeles vs. National Completions as a Percentage of Total Stock (as of April 2024)

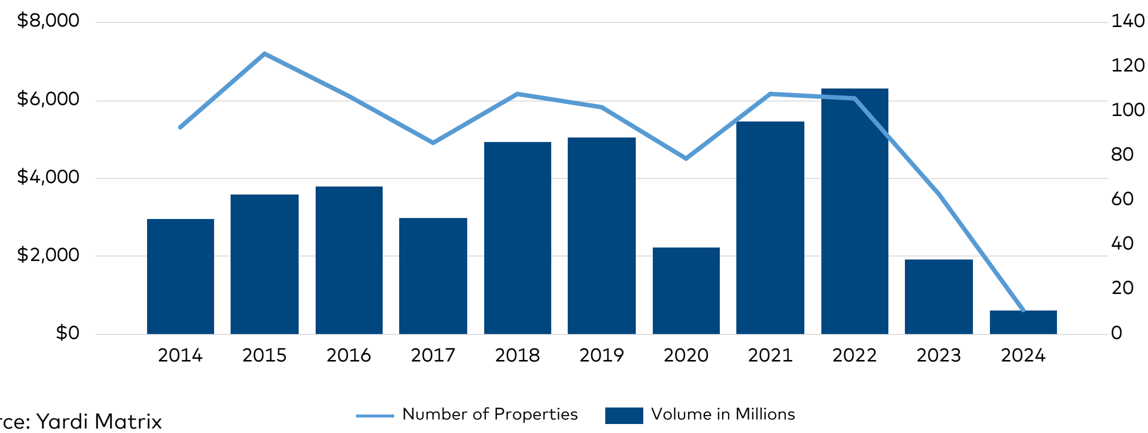


Source: Yardi Matrix

TRANSACTIONS

- Investors remained cautious and traded just $616 million in multifamily assets in Los Angeles through April. This figure represents roughly one-third of last year's volume of $1.9 billion, aligning with 2023's total, which was the lowest figure recorded over the past decade.
- Property values rebounded, with the year-to-date price per unit up 13.2% from 2023's average, to $368,240. That's more than double the $181,913 U.S. figure. Two-thirds of the 11 properties that changed hands were value-add assets. Unsurprisingly, the per-unit price was significantly below the $432,028 decade-high recorded during the 2022 surge.
- The largest sale price through April was for FPA Multifamily's acquisition of 888 at Grand Hope Park in Downtown Los Angeles from CIM Group. The asset sold for $186 million, or $354,286 per unit, with aid from a $105 million loan issued by Apollo Global Management.

Los Angeles Sales Volume and Number of Properties Sold (as of April 2024)



Source: Yardi Matrix

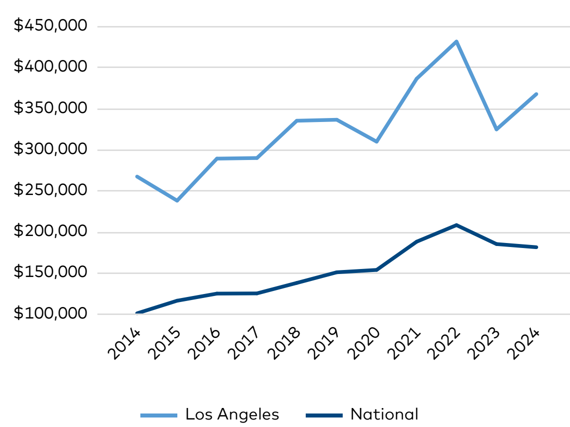
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Thousand Oaks	325
Downtown Los Angeles	186
Moorpark	133
Chatsworth	106
Chinatown	97
Santa Monica–Brentwood	76
SW Long Beach	75

Source: Yardi Matrix

[1] From May 2023 to April 2024

Los Angeles vs. National Sales Price per Unit



Source: Yardi Matrix

Serving the Underserved: An Affordable Housing Provider's Take

By Diana Firtea

Despite being one of the most supply-constrained markets in the country, California presents significant opportunities to both build and preserve affordable housing. And provider Housing on Merit is leveraging all the resources available to step up to the task. Jaymie Beckett—who joined the company as CEO in February—talks about challenges, policies and advocacy efforts, and HOM's approach to easing the state's notorious affordable housing crisis.

In today's economic environment, how difficult is it to stay active as an affordable housing developer in California?

While California can be a challenging affordable housing market due to the state's particular regulatory burdens and high costs, it remains one of the largest areas of growth for the company. We have been a partner on many pioneering projects in the state over the past few years, including several motel conversions funded by the state's Homekey grant program, to innovative ground lease structures on government disposition request for proposals, to master-leased permanent supportive housing developments in Los Angeles.

What policies or advocacy efforts are the most beneficial to you?

Federal incentives, particularly the LIHTC program, serve as the cornerstone of our efforts. LIHTC not only supports the construction and revitalization of affordable rental housing but also attracts substantial private investment.

We play an active role in guiding developers through the intricacies of applying for these credits and maximizing their impact. Additionally, we tap into HUD programs such as the HOME Investment Partnerships Program and the Community Development Block Grant to further bolster affordable housing projects and community development endeavors.

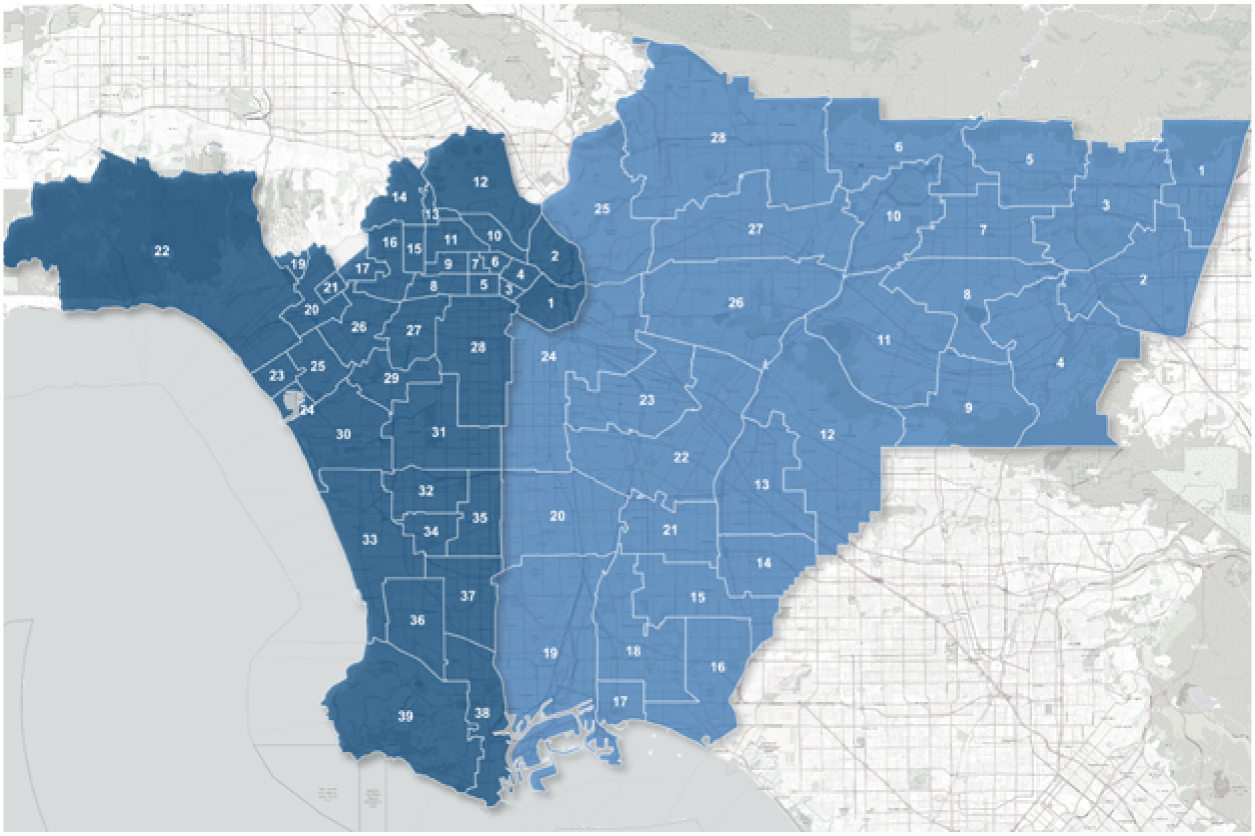
One of the best incentive tools that we have available to us is the Welfare Tax Exemption, a critical tool we advocate for in affordable housing development. This exemption eases financial burdens for developers and owners by exempting eligible properties from certain property taxes. Our efforts focus on promoting its adoption, ensuring its ease of use and expanding its accessibility to more developers and owners.

What would work best in alleviating California's notorious affordable housing crisis, besides simply building more?

As we have seen most recently in Los Angeles, policy can have a big and immediate impact on the development pipeline. While other cities in California are following Los Angeles' lead—or coming up with their own incentives such as in San Diego under the Complete Communities' program—there are many more cities that can act with the same urgency in helping clear regulatory hurdles in the development process.

(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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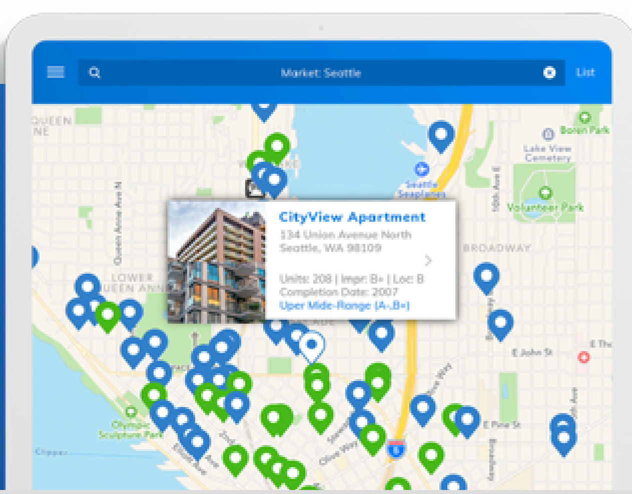
MULTIFAMILY KEY FEATURES

- 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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