

LOS ANGELES MARKET SUMMARY | Q2 2024

SALES

Multifamily Sales Activity

- **Decline in Sales:** The multifamily sales sector recorded \$971 million in sales in Q1 2024, down from \$1.3 billion in the previous quarter. This is significantly below the historical quarterly average of \$2.2 billion over the past decade. The primary reason for this decline is the increased cost of debt.

Los Angeles Challenges

- **ULA Transfer Tax:** Since April 2023, Los Angeles has imposed a 4% tax on transactions over \$5 million and a 5.5% tax on sales exceeding \$10 million. This new tax is a major concern for developers and large buyers but less impactful for private buyers who plan to hold properties long-term.
- **Reduced Activity:** In Q1 2024, approximately \$550 million in properties were sold in Los Angeles, which is about 25% of the average quarterly activity in 2022. Buyers are seeking discounts of 15-30% compared to early 2022 prices due to higher debt costs and the transfer tax. The average market price has dropped around 20% to \$360,000 per unit.

Market Dynamics

- **Private Buyers' Market Share:** Private buyers have increased their market share from a historical average of 70% to 85% over the past year, focusing on well-priced properties in prime locations.
- **Institutional Buyers' Reduced Activity:** Institutional buyers, private equity firms, and REITs have reduced their activity from over 25% to around 15% due to concerns over the local business environment, eviction challenges, and rent control issues.

Notable Transaction

- **FPA Multifamily Purchase:** FPA Multifamily purchased 888 at Grand Hope Park, a 525-unit tower in Downtown Los Angeles, for \$186 million (\$354,000 per unit). This price is a 40% discount from the estimated replacement cost, with an expected net IRR of 9-11%.

SALE COMPARABLES SUMMARY STATISTICS

Sales Attributes	Low	Average	Median	High
Sale Price	\$412,695	\$3,892,708	\$2,275,000	\$186,000,000
Price/Unit	\$43,040	\$290,286	\$262,500	\$1,647,058
Cap Rate	1.3%	4.9%	4.8%	14.4%
Vacancy Rate At Sale	0%	5.9%	0%	100%
Time Since Sale in Months	0.0	6.1	6.3	12
Property Size in Units	5	13	8	525
Number of Floors	1	2	2	33
Average Unit SF	50	821	789	3,607
Year Built	1898	1958	1959	2025



KEVIN KAWAOKA
EXECUTIVE VICE PRESIDENT

📞 310.806.6119

✉️ kkawaoka@naicapital.com

📄 Cal DRE #01733613

Your Apartment Investment Specialist

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RENTS

- **Resumed Rent Growth:** Asking rent growth in Greater L.A. resumed in Q1 2024 after bottoming out in late 2023.
- **Year-over-Year Changes:** Rents in Greater L.A. increased by 0.5% year-over-year, below the national average of 1.0%. Historically, L.A.'s annual rent growth has averaged 2.5% since 2000.
- **Peak and Lag:** In Q1 2022, L.A.'s rent growth peaked at 7.1%, below the national average peak of 10.2%. Over the past five years, L.A.'s rent increase was 10.9%, compared to 19.5% nationally.
- **Property Performance:** High-end (4 & 5 Star) properties saw a slight loss of -0.2% in the past year, while lower-end (1 & 2 Star) properties saw 0.9% growth.
- **Submarket Trends:** Submarkets with lower rents and vacancy rates, like South L.A. and Sun Valley, outperformed with 2.5-3.5% growth. Downtown L.A. saw -1.5% growth due to high vacancy rates and new apartment deliveries.
- **Future Outlook:** Rent gains are expected to improve throughout the year due to better matching of renter demand and supply, leading to a contraction in market-wide vacancy

VACANCY

Market Improvement

- **Supply/Demand Balance:** The Los Angeles apartment market has seen an improvement in the supply/demand imbalance recently.
- **Vacancy Rates:** Vacancy during Q2 2024 was 5.0% and has stabilized since late June.

Renter Activity by Asset Quality

- **High-End Apartments:** Higher-income renters drove demand for top-tier apartments (4 & 5 Star communities), which make up 15% of inventory. These units saw demand for 8,900 units in the past year, surpassing the 7,200 units completed. Vacancy in this segment decreased from a peak of 10% in Q2 2023 to 8.2%.
- **Lower-End Apartments:** Demand for lower-end (1 & 2 Star) and mid-end (3 Star) apartments declined, with 1 & 2 Star properties seeing a demand drop of -2,300 units, and 3 Star properties seeing demand for 630 units. Lower and middle-income renters face budget constraints and continue to migrate out of Greater L.A. to more affordable metros.

Regional Variations

- **Submarket Differences:** Vacancy rates vary by location. Affordable submarkets, such as those in the San Fernando Valley, have lower vacancy rates (~3.5%) and average asking rents of \$1,600-\$2,100/month. In contrast, more expensive submarkets like Downtown L.A. and Santa Monica have higher vacancy rates (above 7.5%) and higher rents (\$2,700/month and \$3,300/month, respectively).

OUTLOOK

- **Economic Growth:** The forecast anticipates avoiding a recession with improved household formation compared to 2023. Vacancy rates are expected to decline in the second half of 2024 as renter demand improves and matches a moderating supply pipeline.
- **Renter Demand and Supply:** The outlook predicts renter demand for around 8,000 units in 2024, up from 5,000 units in 2023, with approximately 8,000 new units expected to complete in 2024.



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