

# LOS ANGELES MULTIFAMILY UPDATE

*As of October 26th, LA MSA YTD sales were 1,352, which shows to be on track to end the year at 1,620 (824 less or 33% less than 2022) and almost half of 2021 sales velocity. This results from increasing interest rates (doubling rates with an 11 hike since March 2022), government regulation (measure ULA and GS), and increased insurance costs/utilities.*

Despite the higher inventory levels in the Los Angeles market, there has been an average of 135 monthly properties and a 10% absorption rate per month. The absorption rate is related to the on-market inventory on Costar (1,402 currently properties available for sale).

Value-add properties, particularly properties with vacancy larger lots where ADUs and redevelopment can be implemented or properties not subject to LA RSO, are in higher demand than those not.

Due to financing obstacles, properties getting marketed for sale with assumable or seller financing are seeing more demand than those not.

Cap rates have expanded some with the increasing costs of debt; however, in most markets, they have not equaled the current cost of borrowing. In primary markets (and with recently renovated properties), there is still a gap in the bid/ask price between sellers and buyers, which has taken many investors out of the market since last year.

Continued flattening and softening of rents in primary markets and increasing vacancies in newer construction residential developments are happening across the Downtown Los Angeles multifamily market. The current 12% vacancy is the highest of any submarket in Southern California.

Increased regulation (eviction moratorium, AB 12) makes property owners and managers more cautious regarding renting to marginally qualified renters.

There appears to be increased mortgage delinquency per Trepp in the CMBS loan markets, particularly by borrowers whose loans have matured and have struggled to identify new debt at attractive terms.

In more positive news, Los Angeles owners of RSO properties will be able to increase rents after four years of rent increases, effective February. While the amount LAHD proposed is 7%, that amount has yet to be approved by the city hall. Some believe the actual number will be closer to a 3-4% increase.

## *Provided by*

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