

Multifamily Metro Outlook:

Los Angeles - Q1 2023

Overview:

- Los Angeles continues to be a metro that is trending in the right direction regarding their labor recovery, however the recovery is a bit uneven across sectors. After a few quarters of near or above-average job growth, for the period ending Q1 2023, job growth was slightly lower than the national rate at 1.9% vs 2.2% respectively. Much of the slowdown in job growth performance can be attributed to the ongoing calamitous issues in the Entertainment sector.
- Apartment fundamentals in the metro area are continuing their downward trend that has started over the last several quarters. For the period ending Q1 2023, both vacancies and rent growth declined by -50bps and -25bps, respectively. Vacancies for Q1 2023 were approximately 4.25% and rent growth cooled to -0.5% during the same period. Despite vacancies inching up in the metro, they are still healthy as they are nearly “full.”
- The single-family market continues to be out of reach for many in the metro and despite declining home evaluations due to being previously overpriced (-1.5% vs 2.4% nationally), the mortgage to rent ratio is nearly 2.3 meaning that obtaining a mortgage is more than 200% more expensive than the average asking rent for a rental unit.

Market Strengths:

- Los Angeles has a favorable renter composition which should support rental demand. The Los Angeles metro has one of the highest proportion of renters among metros in the U.S., as approximately half of all households are renters. Although home price growth has slowed to below national growth levels, home ownership is still out of reach for many causing and unaffordability has increased in the metro.
- According to Moody's Analytics, many of the labor related issues that were impacting output at the Ports of Los Angeles and Long Beach have eased and will ease further. During the earlier part of 2023, an agreement has been reached by the port union and port operators that will increase hiring and increase output. Furthermore, elevated consumer demand is good news for the ports as they continue to do record levels of output.

Market Weaknesses:

- Job growth recovery has been uneven in the metro for quite some time, however there is the chance that below-average levels of growth could be the norm at least for the short-term. One of the metro's economic crutches, the Entertainment industry is in a state of flux as it was already dealing with competition from lower-cost areas to produce content, it is now dealing with both a writers' and an actors' strike simultaneously. Early data returns show that the number of shoot days had already declined in Q1 2023, and with both parties now on strike, that trend will continue until a deal can be reached.

New Development:

- Development has remained elevated with historical levels with approximately 75,000 apartment units completed since 2017. Another 27,000 units are underway with an additional 110,000 units in the planning stages.
- Despite a period of correction to home values in the metro, the number of SF permits issued has actually increased quarter-over-quarter since Q2 2022, increasing by nearly 27% (6,900 vs 8,800). However, the number of permits issued is still down year-over-year as housing demand remains subdued.

Outlook:

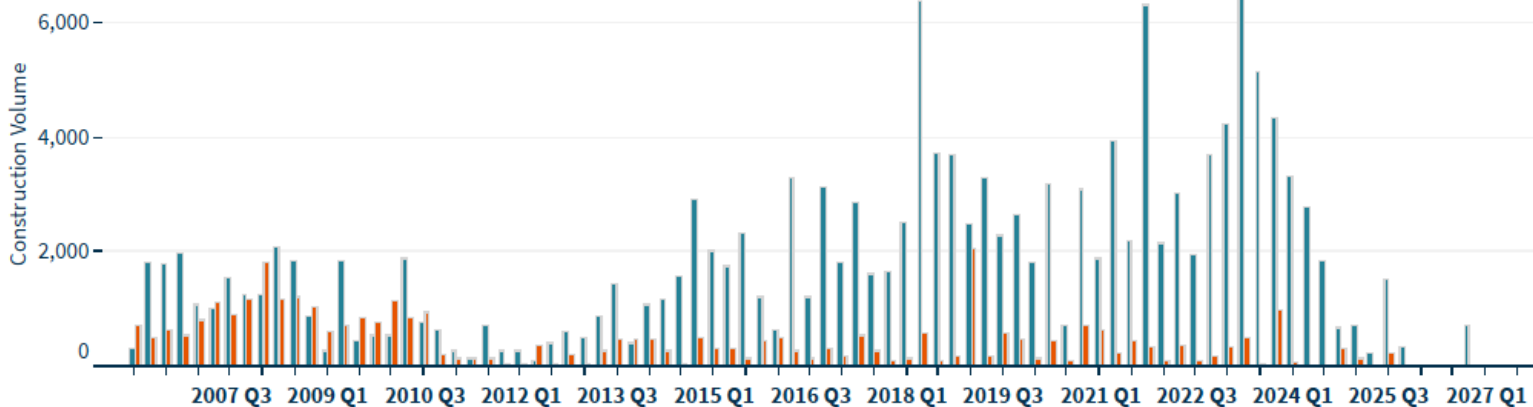
- Los Angeles is a lifestyle metro where renting is much more attainable than home ownership. Although vacancies are drifting upwards, the metro's historic lack of supply and low development will prevent oversupply issues. However, Los Angeles' longer term demographics are worrying as the metro gets more expensive and migration trends worsen.
- Unfortunately, the economic recovery continues be up and down and the ongoing uncertainty regarding one of the metro's economic crutches in the Entertainment industry further clouds economic growth. However, even though the Entertainment industry is in a state of flux, the metro's saving grace is that it is a lifestyle metro that will continue to always attract residents and high-wage earners despite its economic



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

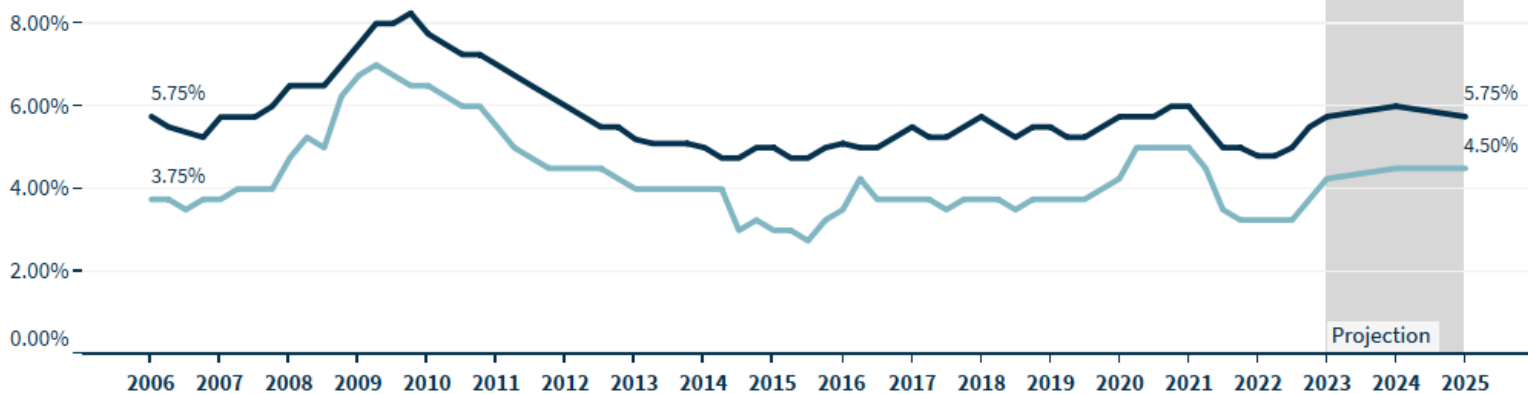
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Los Angeles | National

Q1 2023 Vacancy Rate:

4.25%

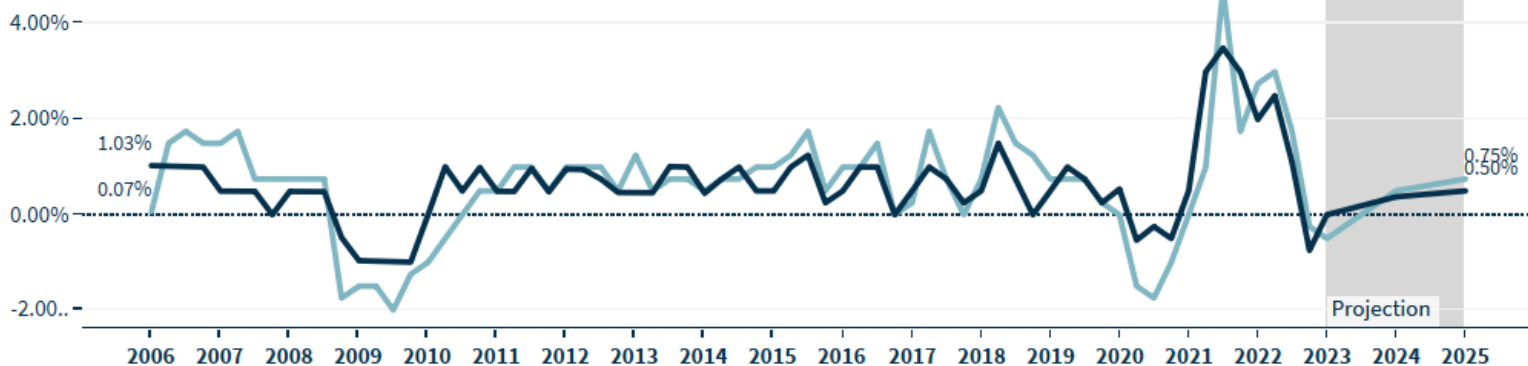


Asking Rent Growth

Los Angeles | National

Q1 2023 Asking Rent:

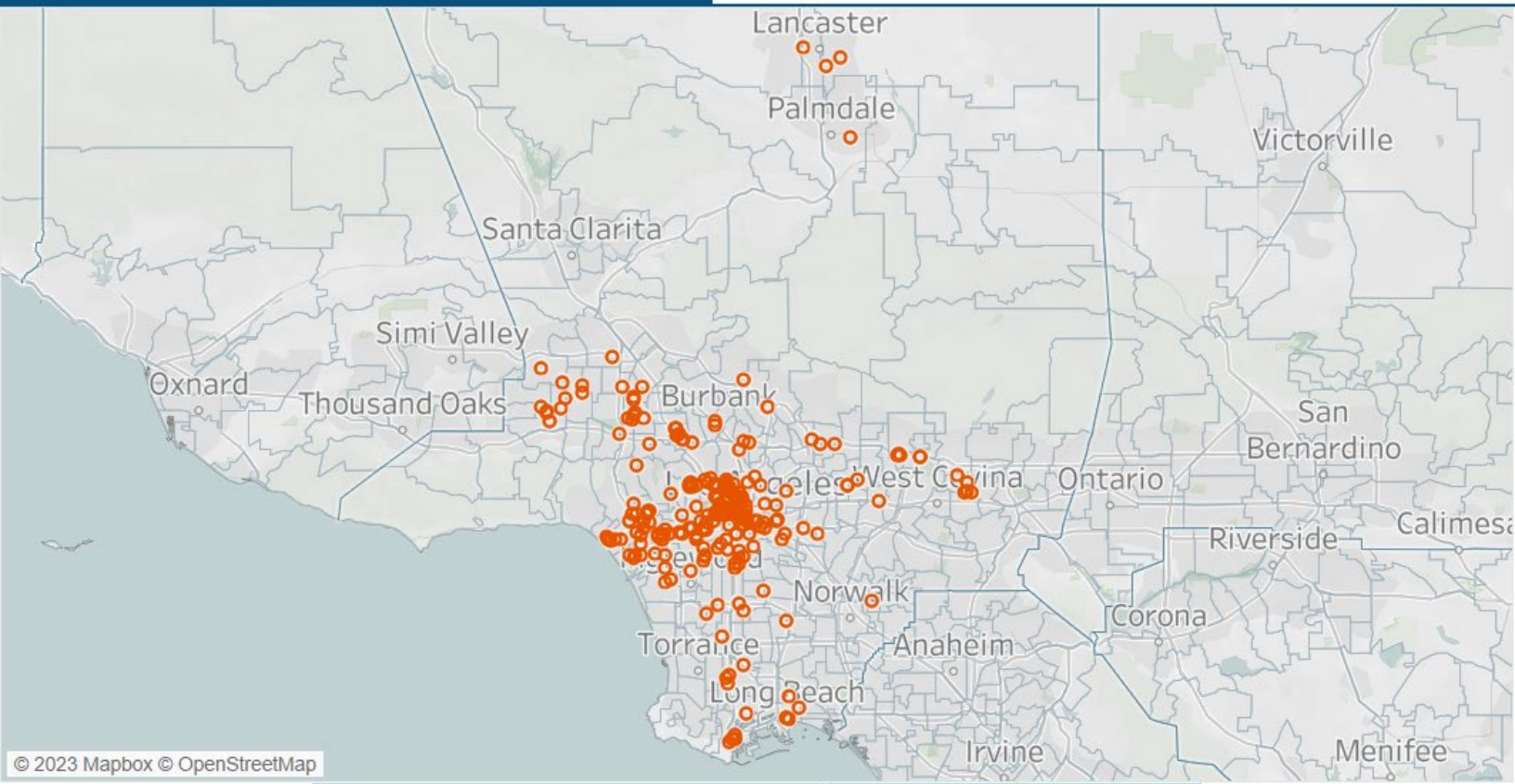
\$2,470



Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



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| Submarket | Apartments | Building Units |
|--|------------|----------------|
| Antelope Valley | 4 | 795 |
| Brentwood/Westwood/Beverly Hills | 12 | 640 |
| Burbank/Glendale/Pasadena | 15 | 3,165 |
| Downtown Los Angeles | 14 | 4,926 |
| East Los Angeles | 12 | 1,018 |
| Hollywood | 26 | 1,963 |
| Long Beach | 7 | 1,037 |
| Mid-Wilshire | 41 | 4,048 |
| North San Gabriel Valley | 5 | 167 |
| Northridge/Northwest San Fernando Valley | 9 | 835 |
| Palms/Mar Vista | 16 | 1,254 |
| Santa Monica/Marina del Rey | 8 | 511 |
| Sherman Oaks/North Hollywood/Encino | 9 | 358 |
| South Bay | 11 | 1,255 |
| South Los Angeles | 36 | 2,611 |
| Southeast Los Angeles | 1 | 19 |
| Van Nuys/Northeast San Fernando Valley | 9 | 824 |
| Woodland Hills | 5 | 896 |
| Grand Total | 240 | 26,322 |

Source: Dodge Data & Analytics SupplyTrack Pipeline



Multifamily: ESR Team

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Multifamily Economics and Market Research Team

Francisco Nicco-Annan, Economic and Strategic Research - Economics – Advisor

Sources Used

- Moody's Economy.com
- Moody's CRE/REIS
- CoStar
- Real Capital Analytics
- RealPage
- Dodge Data and Analytics SupplyTrack Pipeline
- Axiometrics
- CBRE-Econometric Advisors
- Yardi

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