

Multifamily Metro Outlook:

Los Angeles - Q1 2022

Overview:

- Los Angeles continues to be a metro that is trending in the right direction regarding their recovery, however the recovery is a bit uneven. According to CoStar employment growth in the metro for the quarter ending Q1 2022 expanded by 6.7% compared to 4.5% nationally. Even though it appears as if the recovery is trending ahead of the national recovery, the Los Angeles metro is playing a bit of catch up as they had a tumultuous period dealing with the ramifications of the virus.
- Apartment fundamentals, continue to perform well after trending in the right direction for consecutive quarters. Vacancies have returned to pre-pandemic levels and are now full at 3.25% and rent growth continues to trend in the right direction, expanding by 2.75% during Q1 2022.

Market Strengths:

- Los Angeles has a favorable renter composition which should support rental demand. According to CoStar, approximately 52% of the metro's households are renters compared to 35% nationally. Furthermore, home ownership is out of reach for many as the median home price in the metro is close to \$700,000 and the virus has increased unaffordability in the metro according to Moody's Analytics.
- According to CoStar, both the Port of Los Angeles and Long Beach ports had their highest volumes and fourth highest volume output years (respectively) during 2020 which also carried into 2021. Due to the shift in consumption of goods, the ports have been so busy that they have had to shift some output to smaller ports in order to meet demand and deadlines. The ports (and the Transportation/Warehouse Industry as a whole) have fully recovered although they continue to be overwhelmed due to supply chain constraints according to Moody's Analytics.
- One of the metro's economic crutches, the Entertainment sector has had a rough few years due to work stoppages and cheaper alternative locations to produce content. However, the rough period seems to be over as production has resumed due to the removal of mandated closures and there is pent up demand to produce content for streaming services in the ongoing "content wars." As things have returned to normal for the Entertainment sector, the last quarter of 2021 had a record high number of shoot/filming days as the demand for content persists.

Market Weaknesses:

- According to Moody's Analytics, while unemployment and job numbers were trending in the right direction nationwide, unemployment remains elevated in Los Angeles. As of March 2022, the unemployment rate in the metro was 4.5% compared to 3.6% nationally. The elevated unemployment rate indicates a metro that has not fully found its footing as it continues to deal with the ripple effects of the virus.
- Even though the Ports of Los Angeles and the Transportation industry are still performing very well, there is a potentially rather large obstacle looming over the Port of LA. According to Moody's Analytics, a potential work stoppage at the ports could be on the horizon if contract negotiations do not go well with the employees of the ports. If a strike were to emerge as a result of the contract negotiations, that would impact not only the local economy but the US and potentially the global economy.
- According to Moody's Analytics, the demographic profile of the metro could present some issues going forward as the metro attempts to recover from the virus. The metro has a population growth rate of approximately 0.1% compared to 0.5% nationally. Los Angeles was already an expensive place to live pre-virus, and the virus has only exacerbated the unaffordability in the metro as many low wage workers have been forced out. Fortunately, Los Angeles is a lifestyle metro that has lured more high-wage earners than it has lost over the last few years.

Development:

- Condo development is beginning to slow. Since 2012 approximately 30,000 condos have completed, but currently there are few units underway through the first half of 2024.
- Development has been robust with approximately 60,000 apartment units completed since 2017. Another 27,000 units are underway, which should help ease the tightness in the market. There are currently close to 14,000 rental units in the planning stages.

Outlook:

- Los Angeles is a lifestyle metro where renting is much more attainable than home ownership. Furthermore, the apartment market is finally back on track as vacancies have returned to pre-pandemic levels and rent growth continues to trend in the right direction. Even with robust supply being delivered, the demand will continue to support the supply since most can only afford to rent.
- The local job market was already under performing before the onset of COVID-19. Fortunately, after a tumultuous 2020, the economic recovery continues to trend in the right direction. Much of the recovery in the metro can be attributed to the record years of the local ports and the Entertainment industry getting its footing back. However, longer term the demographic profile of the metro is something to watch over as the metro continues to get more expensive and low-wage earners are forced to leave as their jobs have not fully returned. Furthermore, 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 shortcomings.

Five Year Metro Area Growth Forecast

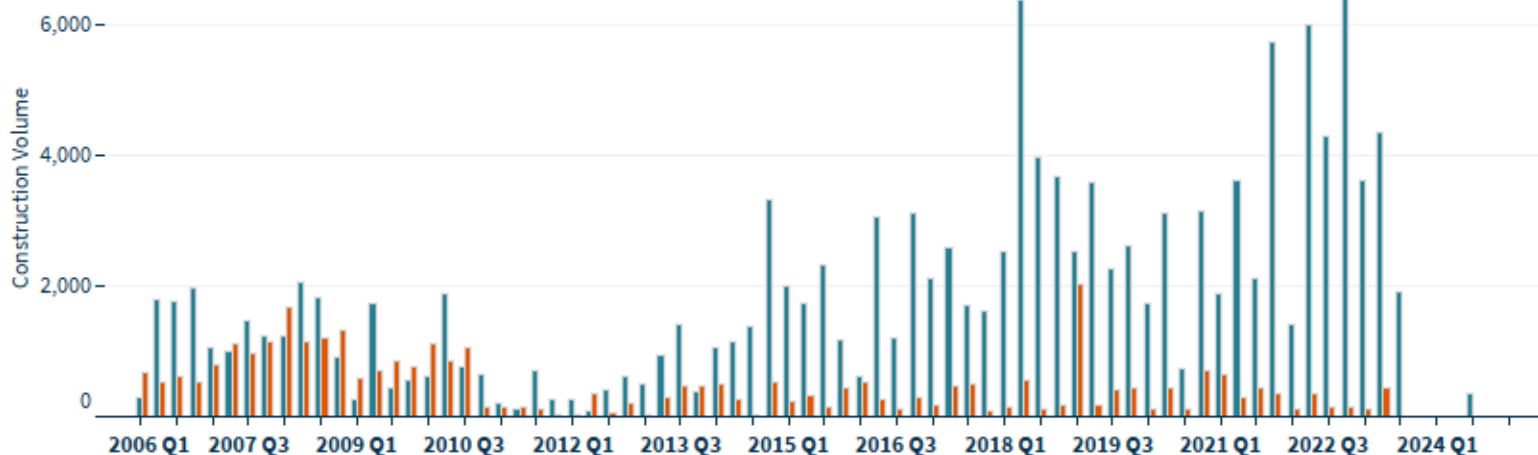
	Q4 2021	Q4 2026	Los Angeles (5-Year Annual Average Change)	National (5-Year Annual Average Change)
Population (000s)	13,219	13,282	0.09%	0.47%
Households (000s)	4,480	4,635	0.68%	0.90%
Renting Cohort (Ages 20-34) (000s)	2,940	2,793	-1.02%	-0.30%
Total Employment (000s)	5,913	6,343	1.41%	1.08%
Median Household Income	\$77,953	\$91,927	3.35%	3.30%
Median SF Home Price	\$850,356	\$1,054,160	4.39%	1.93%
Net Migration	-44,650	-40,415		

Source: Moody's

SupplyTrack Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



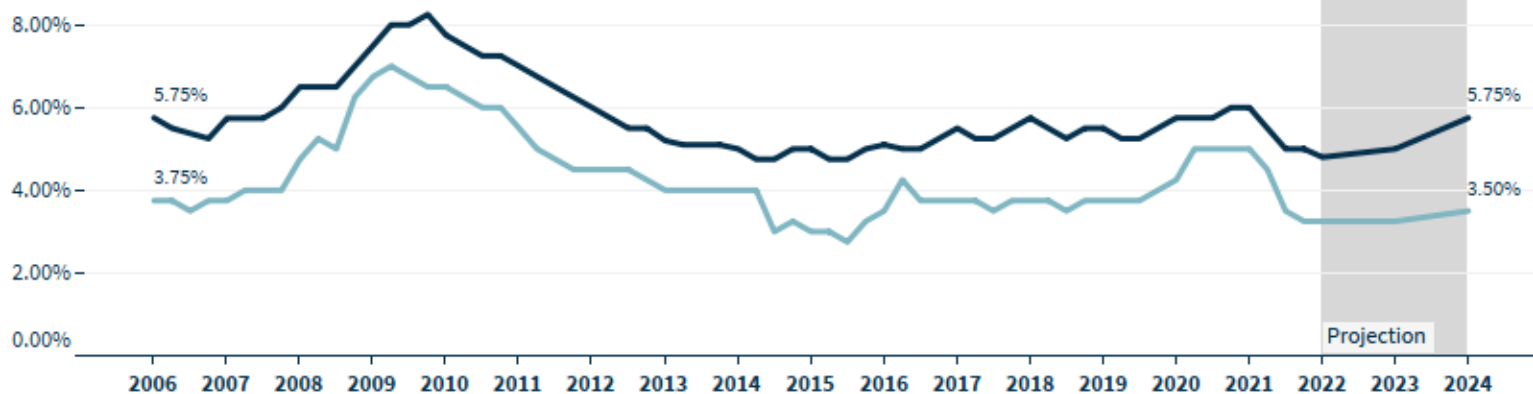
Vacancy & Rent Composite Estimates

Vacancy Rates

Los Angeles | National

Q1 2022 Vacancy Rate:

3.25%

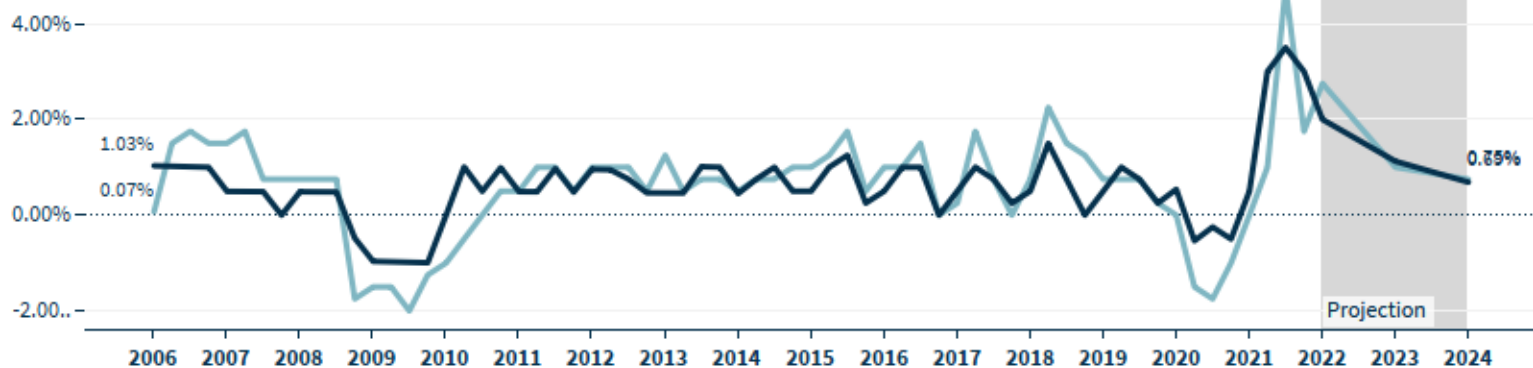


Asking Rent Growth

Los Angeles | National

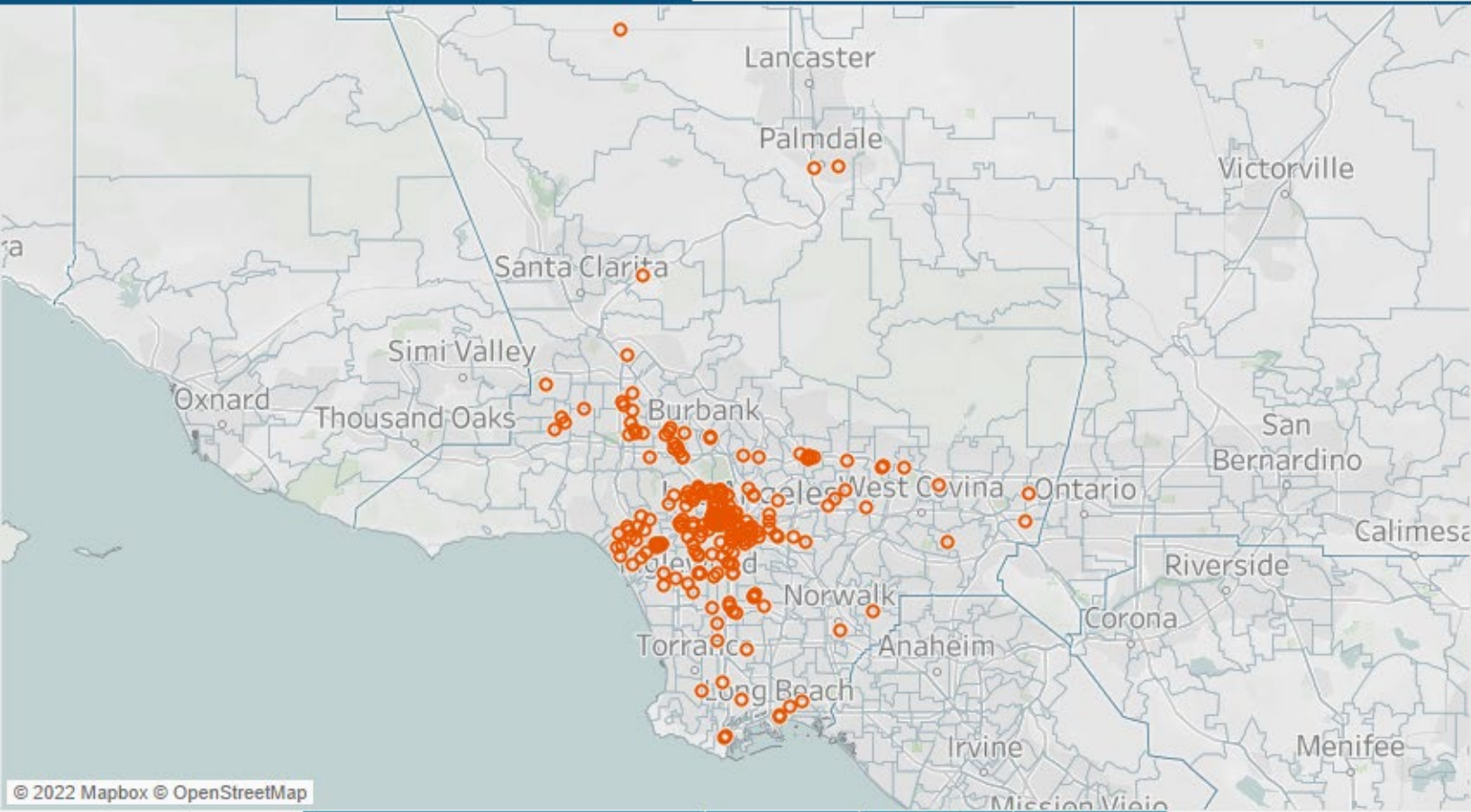
Q1 2022 Asking Rent:

\$2,330



Source: Multifamily Economics and Research

Construction: Bidding & Underway



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<i>TWR Submarket Name</i>	<i>Apartments</i>	<i>Building Units</i>	<i>Building Area SF</i>
Antelope Valley	3	324	0.39M
Brentwood/Westwood/Beverly Hills	6	702	0.69M
Burbank/Glendale/Pasadena	16	2,774	2.82M
Downtown Los Angeles	17	5,055	5.69M
East Los Angeles	13	908	1.26M
Hollywood	24	2,557	3.12M
Long Beach	6	708	1.03M
Mid-Wilshire	46	3,532	4.05M
n/a	1	216	0.22M
North San Gabriel Valley	3	496	0.48M
Northridge/Northwest San Fernando Valley	4	328	0.46M
Palms/Mar Vista	12	1,328	1.86M
Santa Clarita Valley	1	375	0.38M
Santa Monica/Marina del Rey	5	217	0.27M
Sherman Oaks/North Hollywood/Encino	7	417	0.41M
South Bay	7	803	1.21M
South Los Angeles	40	3,791	4.26M
South San Gabriel Valley	1	49	0.10M
Southeast Los Angeles	2	89	0.14M
Van Nuys/Northeast San Fernando Valley	14	1,825	1.94M
Woodland Hills	1	275	0.31M
Grand Total	229	26,769	31.09M

Multifamily: ESR Team

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Multifamily Economics and Market Research Team

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Sources Used

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

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