

Tuvia Multifamily Memo

June 2021

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Market Update

The Los Angeles multifamily market is highly active again with transaction volume similar to 2019. Sellers are enjoying the lowest cap rates in the nation for multifamily, while buyers are enjoying low interest rates and value add opportunities. There are obviously some challenges ahead of us with new legislation such as a cap on 1031 exchanges and an increase in capital gains tax. Regardless of the upcoming legislation investors feel it is a good time to be active in the market.

Local investors have good reasons to be optimistic now with eviction courts opening shortly and rents finally growing again both locally and nationally. The gateway markets including LA have started rent growth since the beginning of this year. Rents in Los Angeles are up slightly and are forecasted to get to pre-Pandemic levels by the end of the year and we get to more household growth and fuller employment.

Is Los Angeles Overbuilding?

So far, most of the new construction supply has been luxury and there has only been an increase of 2.9% of housing stock within the past year. Construction delays due to supply constraints and sluggish pace at Building & Safety will limit the completions for the remainder of the year. Compared to many other metros our increase of new housing as a percentage of the overall rental stock remains relatively low. For example, San Francisco has had a 3.5% increase and many markets in Texas are seeing a 4% - 5% increase.

Why does Los Angeles have the Lowest Cap-Rate in the Nation?

So far this year the average cap rate in Los Angeles has been 4.2% with the National average cap rate at 5.3%. Over a 100-basis point difference clearly shows Los Angeles multifamily is still in favor while there are high barriers to entry and difficulty bringing new units to market. Even though we are not experiencing the population growth of other markets, the LA market is stable with continuous high demand and a rental market that is bouncing back.

How does the Extraordinary Single-Family Residential Market Affect Multifamily?

Median single-family home pricing is up 20% over the past year which is the largest increase on record since 1969. Around 900,000 homes have been sold over the past year. Single family mortgage rates have increased though since their all-time low this January. Coupled with reduced stimulus that may have assisted down payments, the single-family frenzy may be starting to subside. The slowing of single-family purchases should help multifamily rent growth. This should be exacerbated in LA, which has a median home value of \$650,000 throughout the county and \$852,000 in the city of LA.

Multiple escrows and closings of mine this year have been from 1031 buyers exchanging out of rental homes into multifamily. This is a great arbitrage now, as single-family rents are not very strong in comparison to the value. This is a simple strategy to capitalize on the hot single-family market while increasing cash flow and units in multifamily.

Is there a Bidding War for Los Angeles Multifamily?

Depends on the type of product and pricing, however value add is still getting most of the capital in today's environment. Most of my listings are getting at least 2 - 4 bidders at competitive numbers. One of my recent listings in Koreatown had fourteen offers with multiple offers above list price. The ultimate buyer ended up removing all contingencies prior to the opening of escrow.



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