

# TUVIA MULTIFAMILY MEMO

## Los Angeles Multifamily Market Update

June 2023

By: Jason Tuvia

### When Will the Bid - Ask Spread Narrow?

Over the past six months the bid - ask spread has continued to increase with buyers desiring a cap rate closer to the cost of debt and sellers remembering their building was a 3% cap less than two years ago. Some sellers are getting more realistic as there have been some recent sales trading sometimes one third off their original list price. The average listed cap rate in the core markets of LA is 4.7%, which is the highest we have seen on average in a decade. The average price per unit is \$301,000 at still a very elevated level. As sellers get more comfortable trading at higher cap rates, we should start seeing a healthier buyer pool. Many of the recent sales have been with buyers that have a smaller portfolio and see this as a good opportunity to expand their portfolio as many of the usual players over the past five years are waiting to find a market bottom.

### Where are Interest Rates?

As the Fed has paused rate hikes in June and indicated there should be a few more hikes in this cycle, we are seeing interest rates relatively stable for the past six months. Multifamily rates have been pretty range bound between the mid 5% - low 6% range. Some deals are starting to get done with assumable financing from debt that originated a few years ago in the 3s which is helping a new buyer get a strong cash on cash return. Additionally, seller carry loans are becoming more prevalent in the marketplace as sellers can take advantage of favorable tax treatment by deferring much of their capital gains into the future.

### Increased Local Regulation

Los Angeles is looking to pass a law which requires landlords to provide air conditioning in each multifamily unit. The cost will end up falling on individual landlords, however we have yet to find out the details of the proposal and potential capital improvement reimbursements landlords might be able to implement. Additionally, many multifamily owners are starting to prepare for SB721 which requires balcony, decking, and stairway inspections and later work to be complete for any water intrusion starting in 2025. This year has seen a good amount of new regulation on local multifamily owners who are becoming accustomed to seeing this on a monthly basis.

### Are there Distressed Sellers?

There is definitely an acute form of distressed sellers in the marketplace today. As more debt adjusts to market rates and bridge debt matures, some multifamily owners are deciding to sell versus adding fresh capital in order to refinance. Even though we are not seeing these types of situations turn into a bank owned foreclosure, these sellers have limited options and will be forced to meet the market. A good majority of the listings we are marketing now have some component of debt maturing or a development that is not penciling at the seller's current basis. I expect to see more of these projects hitting the market through the second half of this year and into next year.

### How Much CRE Debt is Coming Due?

This year alone, \$151 billion in multifamily debt throughout the country is coming due and \$940 billion coming due over the next five years. Multifamily owners need to start strategizing if debt is either maturing or adjusting in the next twenty-four months. Our team and other brokers are working on more BOVs (broker opinion of value) than we normally do as brokers are needed to help assess the situation and figure out if a sale is warranted while rates and inflation are still very elevated for the foreseeable future albeit at lower rate of inflation than we have seen over the past year.

### ULA Stalls Transactions?

The ULA transfer tax that took effect on April 1st of this year was promised to generate over \$50 million per month and so far has only brought in \$3.6 million. Not only have luxury single family home sales stalled, multifamily transactions over \$5 million have stalled dramatically which have nothing to do with a "mansion tax." Only 11% of the listings under contract in Costar are over \$5 million showing a very limited pipeline of ULA dollars coming in over the next few months. As buyers are unable to underwrite an exit on deals without the tax, for the time being the sub \$5 million price point on multifamily will see significantly higher volume.

### Insurance Concerns

LA multifamily investors have seen their insurance expense rise dramatically over the past few years, many buyers are seeing the insurance expense risk as another underwriting concern. With Allstate, Nationwide, and State Farm leaving the market for new projects, there are limited options for multifamily buyers. Buyers typically underwrote insurance at around the same pricing as the seller, however, now many new buyers will have to get a new policy that could cost 30%- 100% higher which is an objection we have been getting on many of the older buildings we are selling now.

In conclusion, the market is moving albeit at a slower pace and capital continues to want to own in Los Angeles, one of the most stabilized multifamily markets; however, buyers are being more selective on their acquisitions. We plan on seeing more inventory hit the market which will increase the days on the market for any individual listing.



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Marcus & Millichap  
**TUVIA GROUP**  
LOS ANGELES MULTIFAMILY

# TUVIA GROUP FEATURED LISTINGS



**314-316 DOUGLAS STREET**  
Los Angeles, CA 90026  
Submarket: Eastside (Echo Park Adjacent)

PRICE: \$1,250,000  
LAND SF: 5,714 SF  
ZONING: LACW  
PRICE PER SF: \$218.76  
BUILDABLE UNITS: 23  
RTI SLO HOMES: 5



**2436 ECHO PARK AVENUE**  
Los Angeles, CA 90026  
Submarket: Elysian Heights (Echo Park)

PRICE: \$2,775,000  
UNITS: 8  
PRICE PER UNIT: \$346,875  
PRICE PER SF: \$518.30  
GRM: 11.45  
CAP RATE: 6.07%



**4541-4545 SANTA MONICA BLVD**  
Los Angeles, CA 90029  
Submarket: Virgil Village (Silver Lake)

PRICE: \$2,750,000  
LAND SF: 9,986 SF  
ZONING: LAC2-1D  
PRICE PER SF: \$275.39  
BUILDABLE UNITS: 43  
NEARLY RTI UNITS: 23



**8514 SHERWOOD DRIVE**  
West Hollywood, CA 90069  
Submarket: Tri-West

PRICE: \$4,195,000  
UNITS: 12  
PRICE PER UNIT: \$349,583  
PRICE PER SF: \$446.66  
GIM: 15.11  
CAP RATE: 4.57%



**2900 FRANCIS AVENUE**  
Los Angeles, CA 90005  
Submarket: Koreatown

PRICE: \$2,400,000  
UNITS: 10  
PRICE PER UNIT: \$240,000  
PRICE PER SF: \$166.34  
GRM: 15.88  
CAP RATE: 3.04%



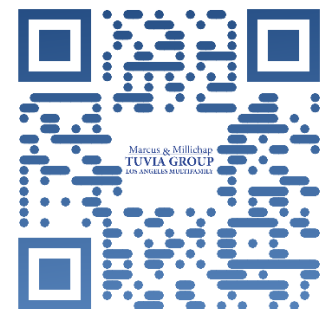
**321 S HAMEL ROAD**  
Los Angeles, CA 90048  
Submarket: Beverly Grove

PRICE: \$3,675,000  
UNITS: 9  
PRICE PER UNIT: \$408,333  
PRICE PER SF: \$522.02  
GRM: 15.60  
CAP RATE: 4.14%



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