Los Angeles

DESPITE leading Southern California in new multifamily construction over the last several years, and even with an average renter income that is among the lowest in the region, Los Angeles County has the highest average rent among the Southern California metro areas. The County economy has grown steadily throughout 2019, and the county unemployment rate has remained in record-low territory. Total nonfarm jobs grew 1.3% in August from the same period last year, for a gain of 60,000. As California's nonfarm jobs have increased 1.8% over the period, the County is lagging the State as a whole. Still, other measures reflect progress in the County economy, notably a healthy 13.1% year-to-date increase in taxable sales in the first half of this year and a modest 2.9% year-to-year gain in average wages as of the first quarter.

About one-third of the gains in nonfarm jobs were in Healthcare, followed by Construction and Leisure and Hospitality. Construction (6.5%), Natural Resources/Mining (5.3%), and Administrative Support (3.2%) had the largest percentage increases. Retail Trade and a few other industries lost jobs over the same period, but total losses amounted to just 0.2% of all employment.

There were 3.57 million housing units in Los Angeles County in 2019, according to the California Department of Finance. Of these, 1.54 million were multifamily. Los Angeles County is the only Southern California region with more renters than homeowners. Data from the American Community Survey for 2018 indicate that renters accounted for 54.7% of all households in the County.[1]

Average apartment rent was $2,230 per month, up from $2,180 in 2018. Los Angeles County registered the highest county-level average rent in Southern California in 2019, continuing a trend going back at least to the start of the decade. The average rent increased 2.3% year over year. Rent increases have trended down over the last few years, with this year's just one third as large as that in 2015.

The County includes three of the five most expensive rental submarkets in Southern California, led by Coastal Communities-Beverly Hills at ($3,060). Downtown ($2,560) and the West San Gabriel Valley ($2,380) followed. The Inglewood-Gardena-Hawthorne submarket had the lowest rent at $1,620 per month, followed by Central Los Angeles at $1,640.

The Inglewood-Gardena-Hawthorne submarket has had the highest rental growth in recent quarters. Some of its rent increases can be traced to the spillover effect from expensive submarkets west of Inglewood. The recently named SoFi Stadium, scheduled to open next summer, along with proximity to Los Angeles International Airport will make this market that much more desirable. With a prime location and relative affordability (compared with western neighbors such as Westchester and El Segundo), Inglewood-Gardena-Hawthorne will be a market to watch in the coming years.

The County vacancy rate remained below 4% for the fifth year in a row at 3.5%. The rate edged down from 3.7% in 2018, as did vacancy rates in most submarkets. Inglewood-Gardena-Hawthorne had the lowest vacancy rate at 2.1%, followed by Central Los Angeles at 2.3%.

Stubbornly low vacancy rates over many years reflect the chronic shortfall of new housing stock. Because construction activity has been small in recent decades, the County's housing stock is the oldest among the Southern California metro areas, with 56.1% built before 1970 and just 8.2% built after 2000.

Multifamily construction in Los Angeles County increased steadily from 2009 to 2015, when it achieved a peak of 18,638 units. Permitting has been reasonably active since then, with 16,633 permits in 2018, up 1.1% from the previous year. Permitting slipped in the first half of this year, however, down from 10,875 permits in the first half of 2018 to 7,334, for a decline of 33%.

At $47,430, Los Angeles County had the second-lowest household income among multifamily renters in Southern California in 2017. Over half (52.7%) of renting (multifamily) households were rent-burdened, meaning they spent 30% or more of their income on rent.

Over the next year, nonfarm job growth in Los Angeles County will remain steady, increasing from 1.0% to 1.4% year over year. The County will add to its job base and income growth. Moreover, despite a marginal decline in population, the County's housing shortfall will take years to remedy. The decline in mortgage rates over the past year has increased affordability in the owner-occupied market. However, home prices are still high relative to incomes, limiting the pool of prospective buyers.

Taken together, the combination of rising employment and little construction ensure that low vacancies and rising rents will prevail in the Los Angeles County multifamily market. The vacancy rate will be virtually unchanged, edging up from 3.5% to 3.6%. With vacancy below 4%, the average rent is expected to increase 3.1% from $2,230 in 2019 to $2,300 in 2020, with an increase of 3.0% expected in 2021. Rent increases will be softer in high-end submarkets.

[1] The metro level figures cited from the 2018 American Community Survey were obtained directly from the Census Bureau's website. The 2017 American Community Survey figures were derived from the American Community Survey Public Use Micro Sample (PUMS) and were the basis for household and housing stock figures at the submarket level.