

# LA Multifamily Hot Topics

# Introduction: Who We Are

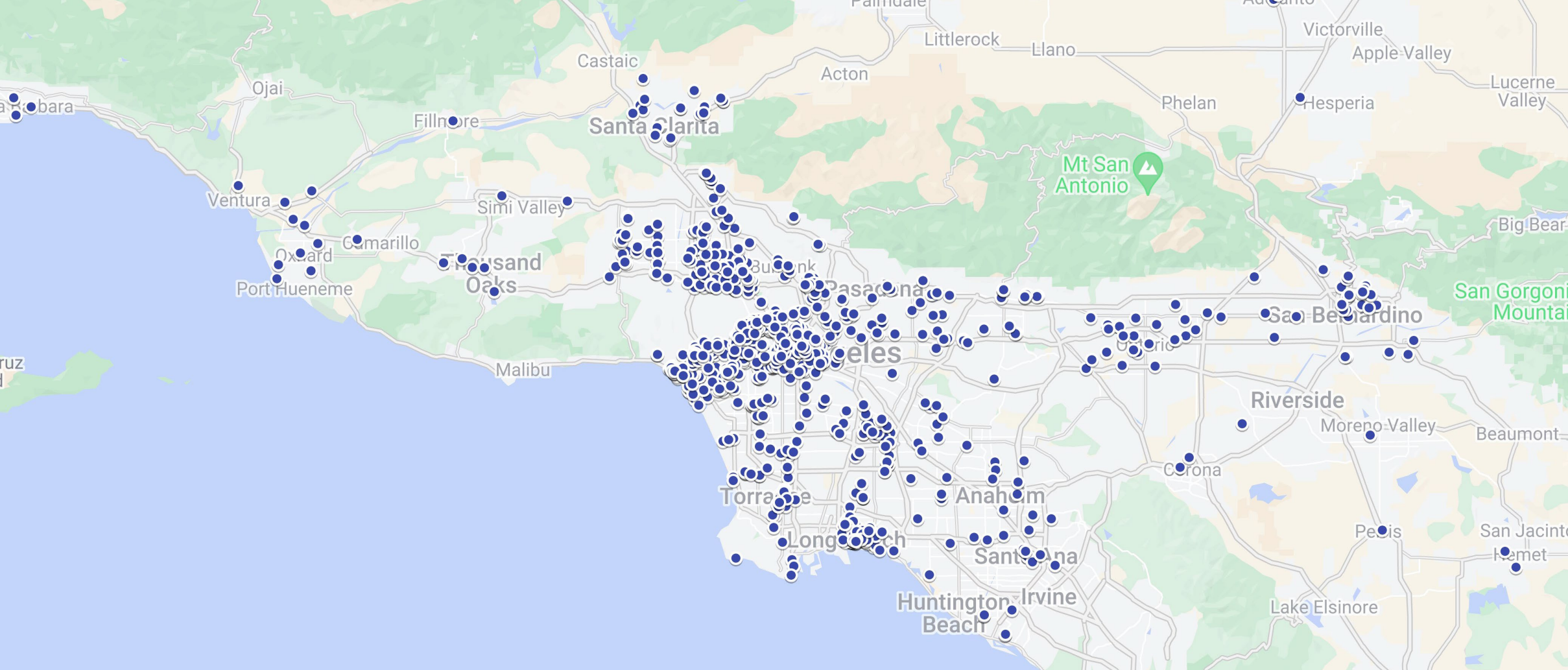


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# Our Information Comes From Experience



# Topics of Discussion



ULA MANSION TAX



PERMISSIBLE DENSITY FOR  
DEVELOPMENT SITES



MARKET TRENDS

# Measure ULA – Mansion Tax

**What is Measure ULA?**

**How does it impact values?**

**If you take back an asset,  
do you have to pay the  
transfer tax?**

# Measure ULA Overview

- Effective April 1, 2023
- Affects properties in the City of Los Angeles valued at \$5MM or higher
- Paid by seller
- Qualified affordable housing organization and government entities are exempt (explicit)

Value of Property Conveyed	Base Rate	ULA Rate	Applicable Tax Rate
> \$100; ≤ \$5,000,000	\$2.25 / \$500	0%	0.45% + 0.11%
> \$5,000,000; < \$10,000,000	\$2.25 / \$500	4%	4.45% + 0.11%
≥ \$10,000,000	\$2.25 / \$500	5.5%	5.95% + 0.11%

# Measure ULA Impact



## UCLA “Measure ULA” White Paper

- 1,443 buildings would have been affected in 2021-2022 fiscal year, or 4% of all transactions
- 271 multifamily buildings would have been affected in 2021-2022 fiscal year, or 6% of multifamily transactions

## Impact on Sale Prices

- There is no observable data yet that indicates significant price drops due to legislation. However, we can't differentiate from overall market conditions.

## Market Participant Feedback

- Some developers will no longer look to acquire sites in Los Angeles
- Buyers/developers with long-term investment horizons do not seem less deterred by Measure ULA



# Stress Test

If you take back an asset, do you have to pay the transfer tax?



# Permissible Density for Development Sites

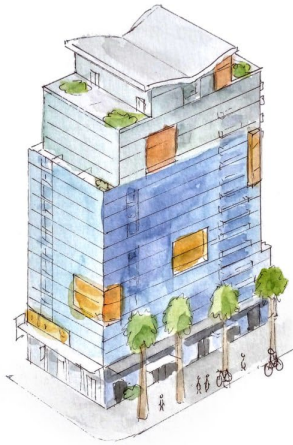
# State Density Bonus Law

No Bonus



No Affordable Units  
 100 Base Density Market Rate Units  
 100 Total Units

Old Density Bonus



35 Bonus Market Rate Units  
 11 Affordable Units  
 89 Base Density Market Rate Units  
 135 Total Units

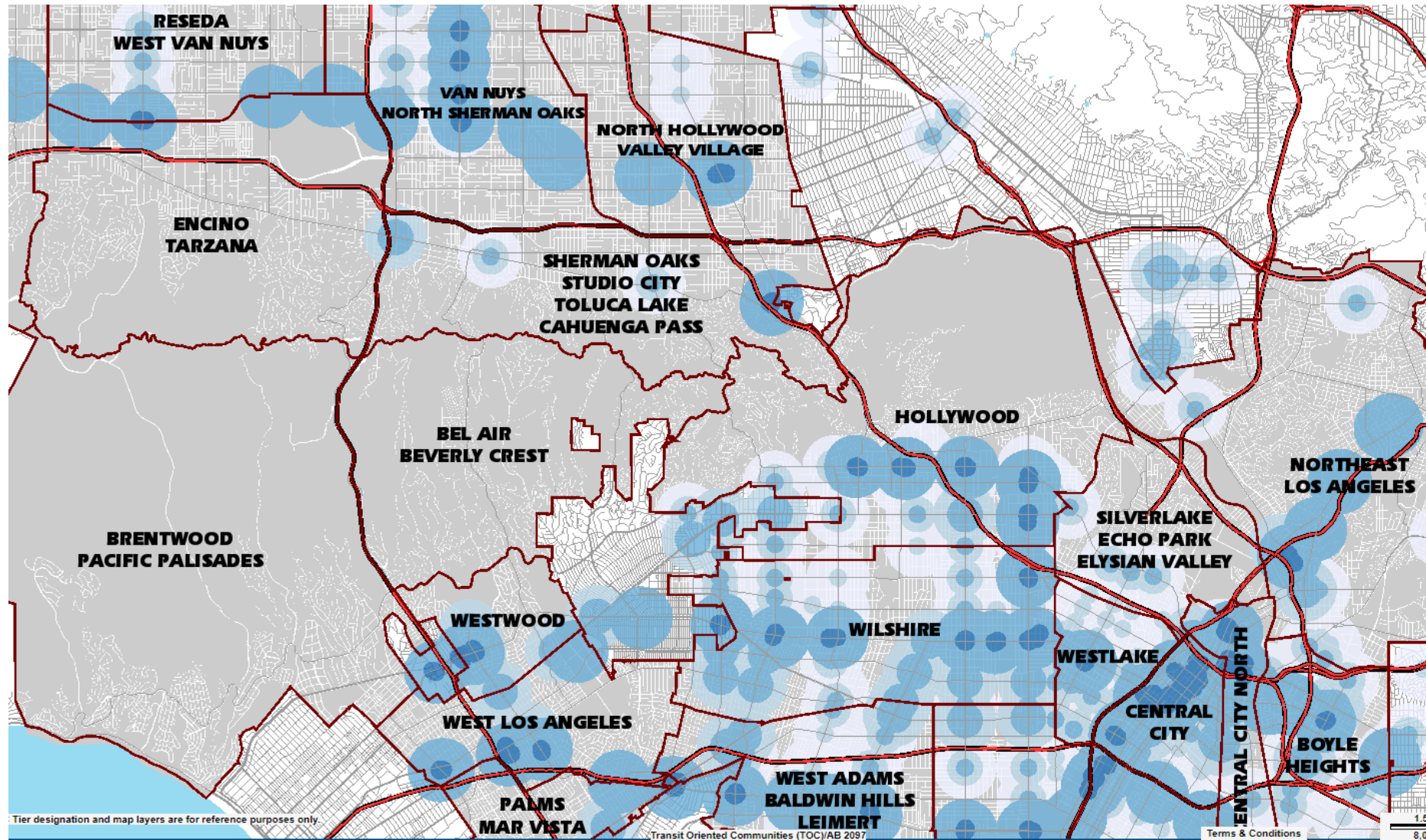
AB2345 Density Bonus



50 Bonus Market Rate Units  
 15 Affordable Units  
 85 Base Density Market Rate Units  
 150 Total Units

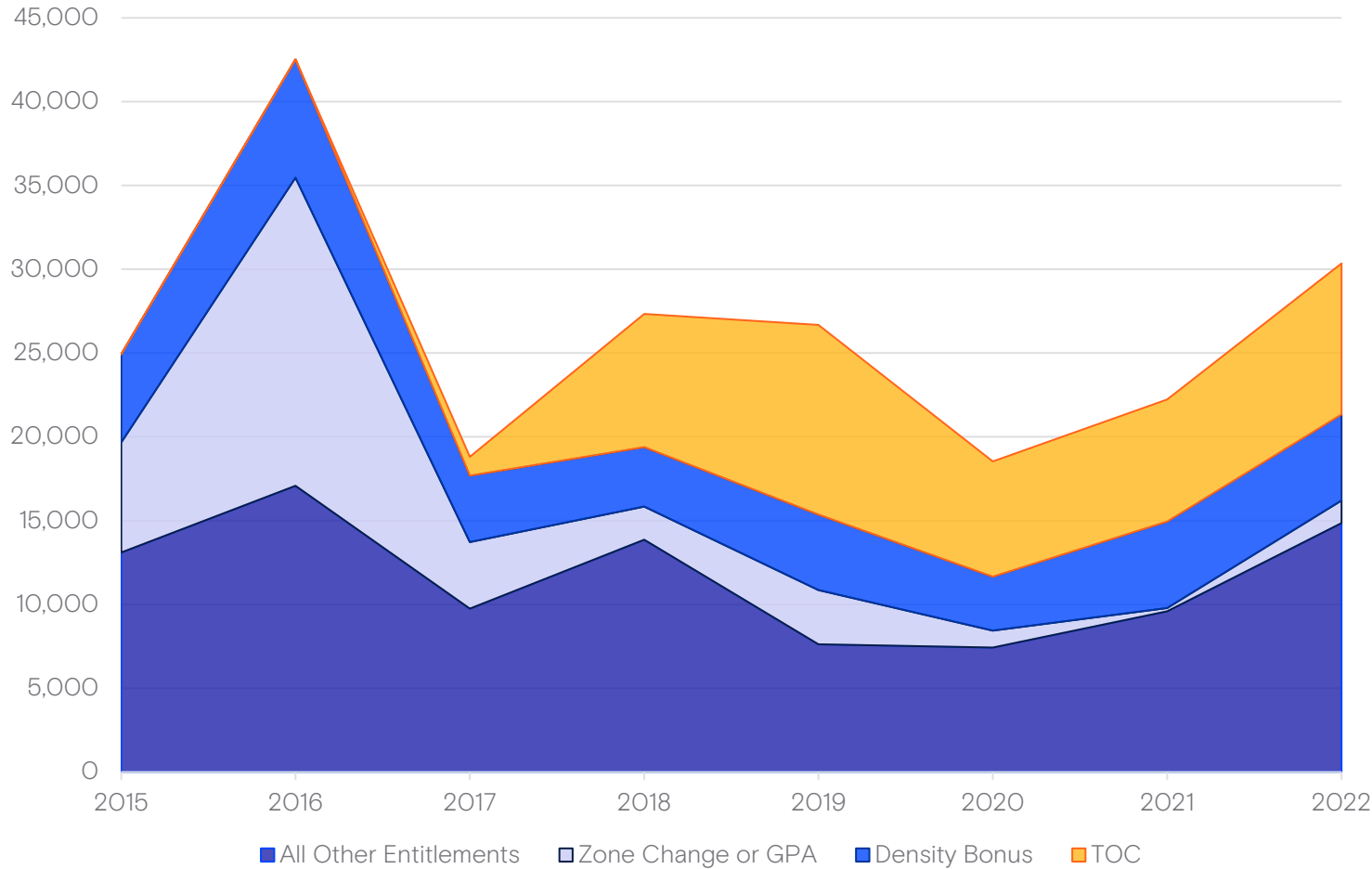
- Enacted in 1979, allows for increased density (mainly more units) in exchange for providing for affordable housing (restricted for 55 years effective 1/2015).
- SB 1818 (effective 1/1/2005) increased density bonus up to 35% by increasing affordable housing requirement to 11% Very Low Income.
- AB 744 (effective 1/1/2016) reduce parking requirements, thereby lowering costs. Allows 0.5 space per bedroom if within half-mile of major transit stop.
- AB 2345 (effective 1/1/2021) increased density bonus to 50% by increasing affordable housing requirement to 15% Very Low Income. Allows 0.5 space per unit if within half-mile of major transit stop.
- AB 2334 (effective 1/1/2023) the definition of “maximum allowable residential density” (the term used to identify base density) was updated to mean the maximum number of units allowed under the zoning ordinance, specific plan, or general plan land use designation, whichever allows the greater density.

# Transit Oriented Communities Guideline (TOC)

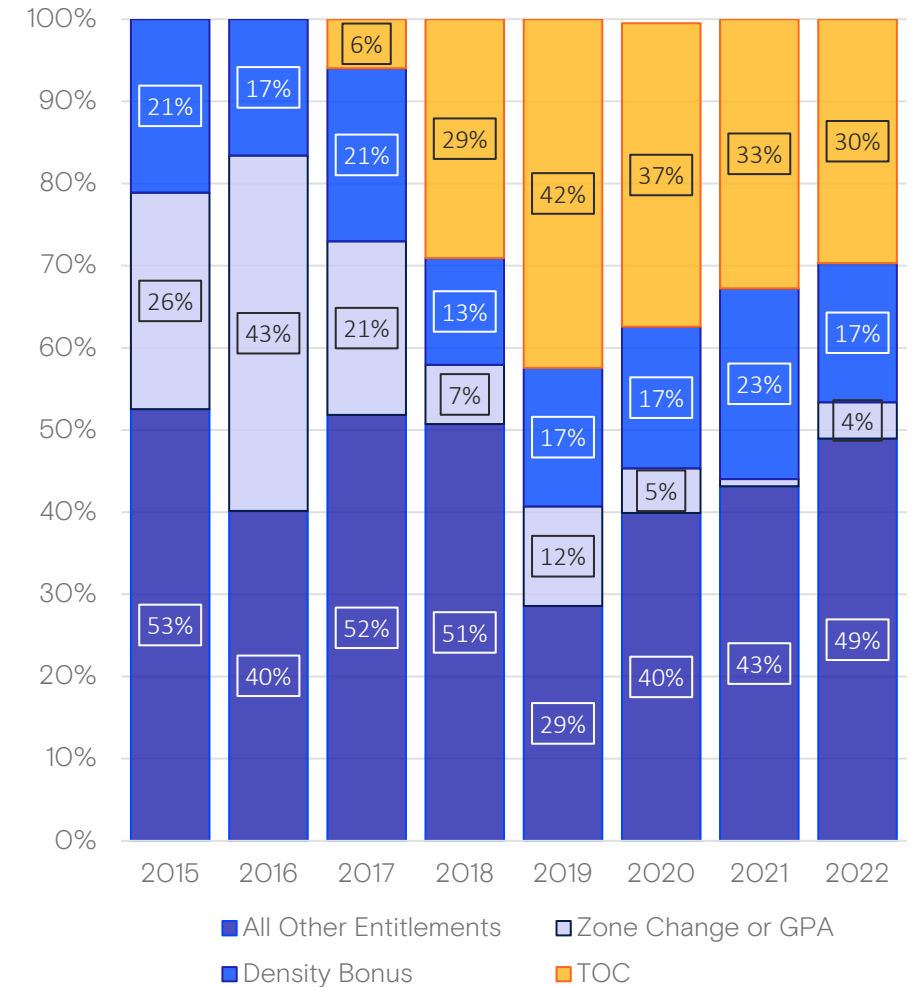


# Historical Change In Entitlement Types

Housing Units Proposed By Entitlement Type

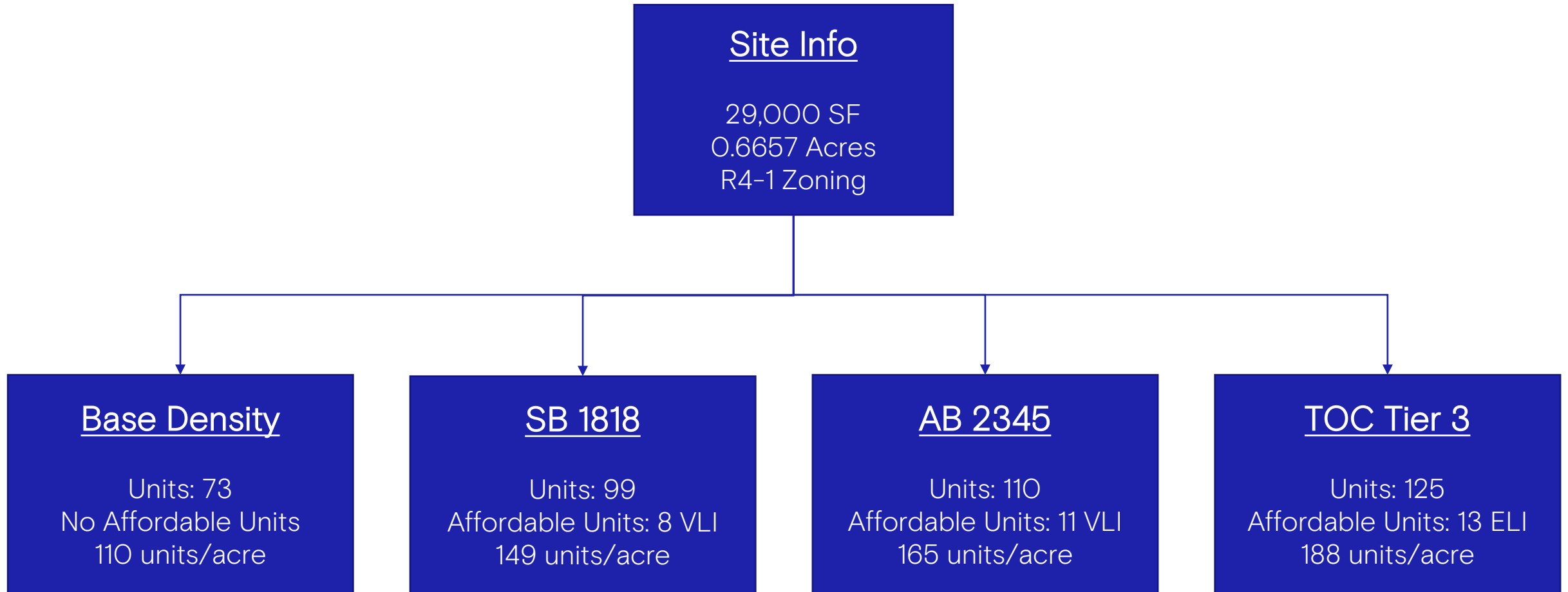


% of Units Proposed By Entitlement Type



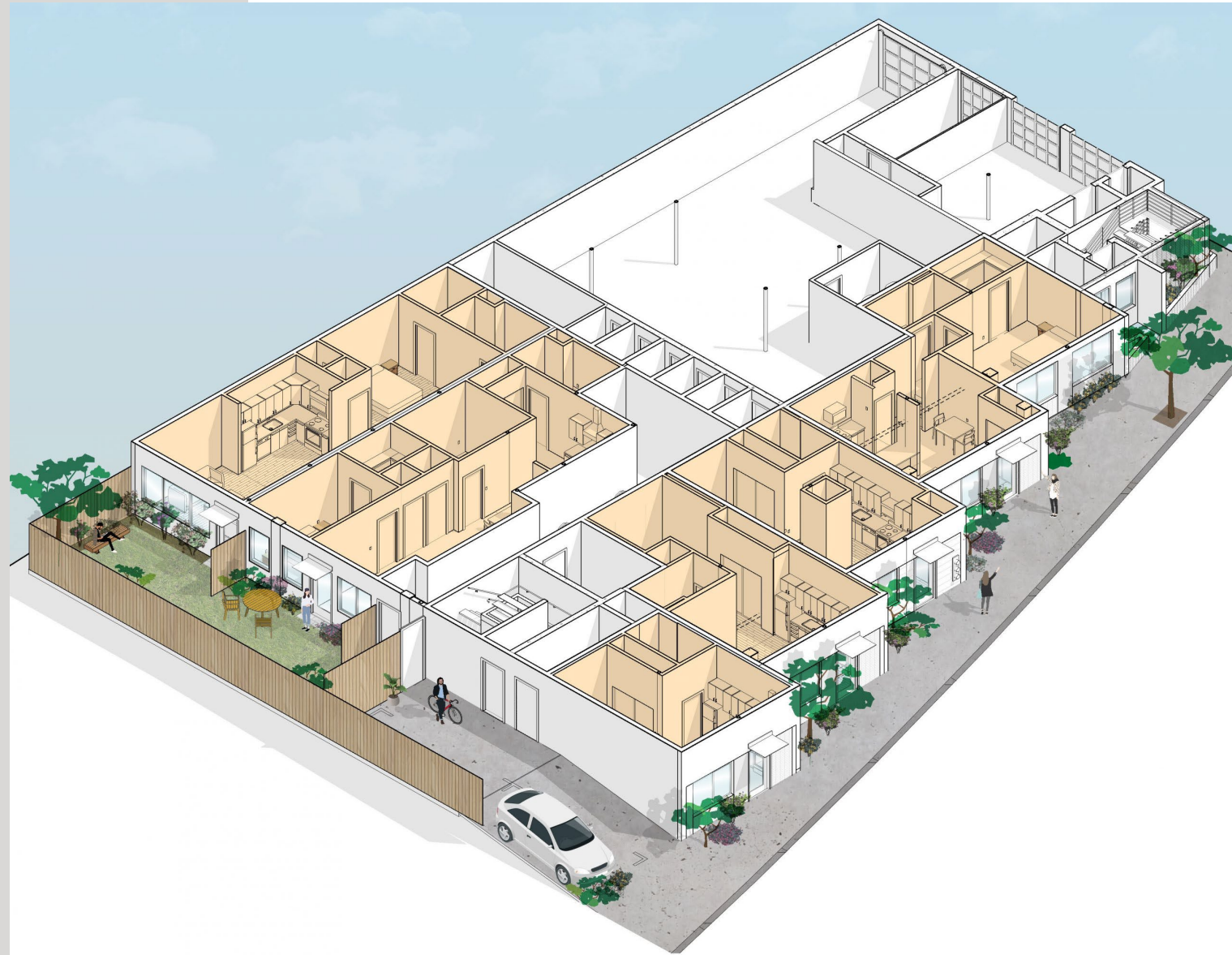
Source: Los Angeles City Planning

# Case Study: What Can You Build?



# ADU Construction

- AB 2221 (effective 1/1/2023) requires agencies to approve or deny an ADU application within 60 days of the completeness determination, otherwise an ADU Application is deemed approved as a matter of law.
- SB 897 and AB 2221 (effective 1/1/2023) added to LAMC 12.22 A.33 - this ordinance allows developers to build more units while avoiding the requirement to provide affordable units. In addition, this can be added on to other density bonuses to create an addition of up to 25% more units.



# Permissible Density Takeaways

State is reducing hurdles to facilitate new construction

State law supersedes local city zoning

AB 2345 raises Density Bonus to 50%

Developers won't always build to max density

Legislation/incentives are more complicated than it's ever been



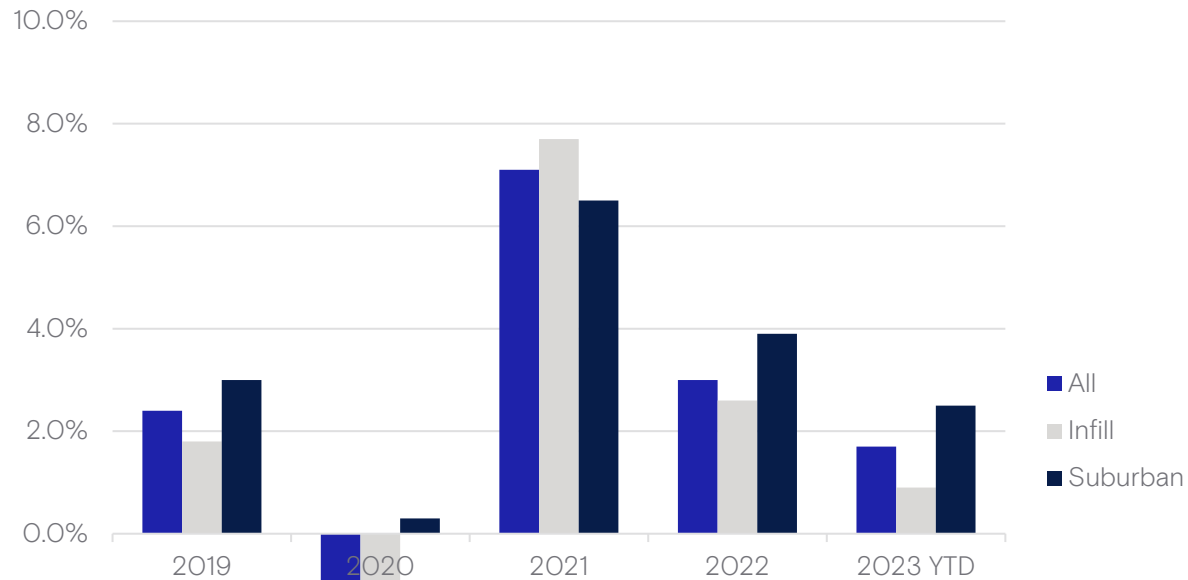


# Market Trends – Current State of Rents



# Rent Trends: By Location Type

Annual Rent Growth in LA Markets



Source: CoStar

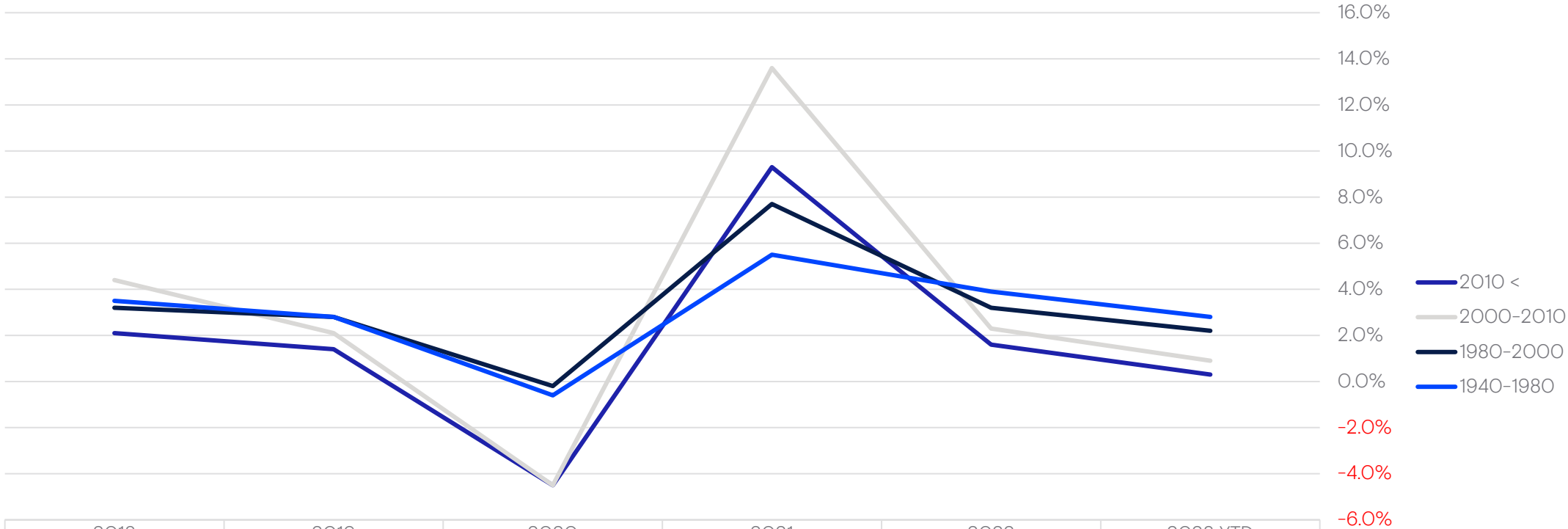
Most rent growth observed in suburban submarkets

Most infill locations demonstrate low rent growth

Downtown LA is only submarket with declining rents

# Rent Trends: By Vintage

Effective Rent Growth



	2018	2019	2020	2021	2022	2023 YTD
2010 <	2.1%	1.4%	-4.5%	9.3%	1.6%	0.3%
2000-2010	4.4%	2.1%	-4.5%	13.6%	2.3%	0.9%
1980-2000	3.2%	2.8%	-0.2%	7.7%	3.2%	2.2%
1940-1980	3.5%	2.8%	-0.6%	5.5%	3.9%	2.8%

Source: CoStar

# Overall Takeaways

- Rent growth is still being demonstrated in submarkets with affordable rents. Particularly B and C product.
- There has been a decline in rent growth, but we have not seen overall rent decline in the market.
- There are risks with rent decline if unemployment increases. However, economists project that a worst case “recession” scenario would only have a mild impact on the CA economy.





# Market Trends – Current State of Cap Rates



# LA County Sales - 10 to 99 Units

Year	# of Transactions	Average Sale Price	Average Price/Unit	Average Price/SF	Average Cap Rate	Average GRM
2013	930	\$3,228,713	\$147,148	\$179.54	5.80%	11.1
2014	1171	\$3,589,786	\$173,378	\$214.30	5.30%	11.9
2015	1226	\$4,230,537	\$191,181	\$234.62	4.80%	13
2016	1238	\$4,600,715	\$219,124	\$274.41	4.40%	14.2
2017	1501	\$4,721,647	\$230,284	\$293.85	4.30%	14.6
2018	1284	\$5,267,697	\$249,201	\$312.97	4.10%	15.4
2019	1054	\$5,505,369	\$255,245	\$328.20	4.40%	14.7
2020	671	\$5,796,644	\$275,155	\$328.03	4.40%	14.6
2021	848	\$6,376,464	\$282,550	\$352.50	4.20%	14.8
2022	825	\$6,527,473	\$303,866	\$359.12	4.10%	15.4
2023 Q1	141	\$8,070,011	\$304,227	\$341.95	4.30%	14.7

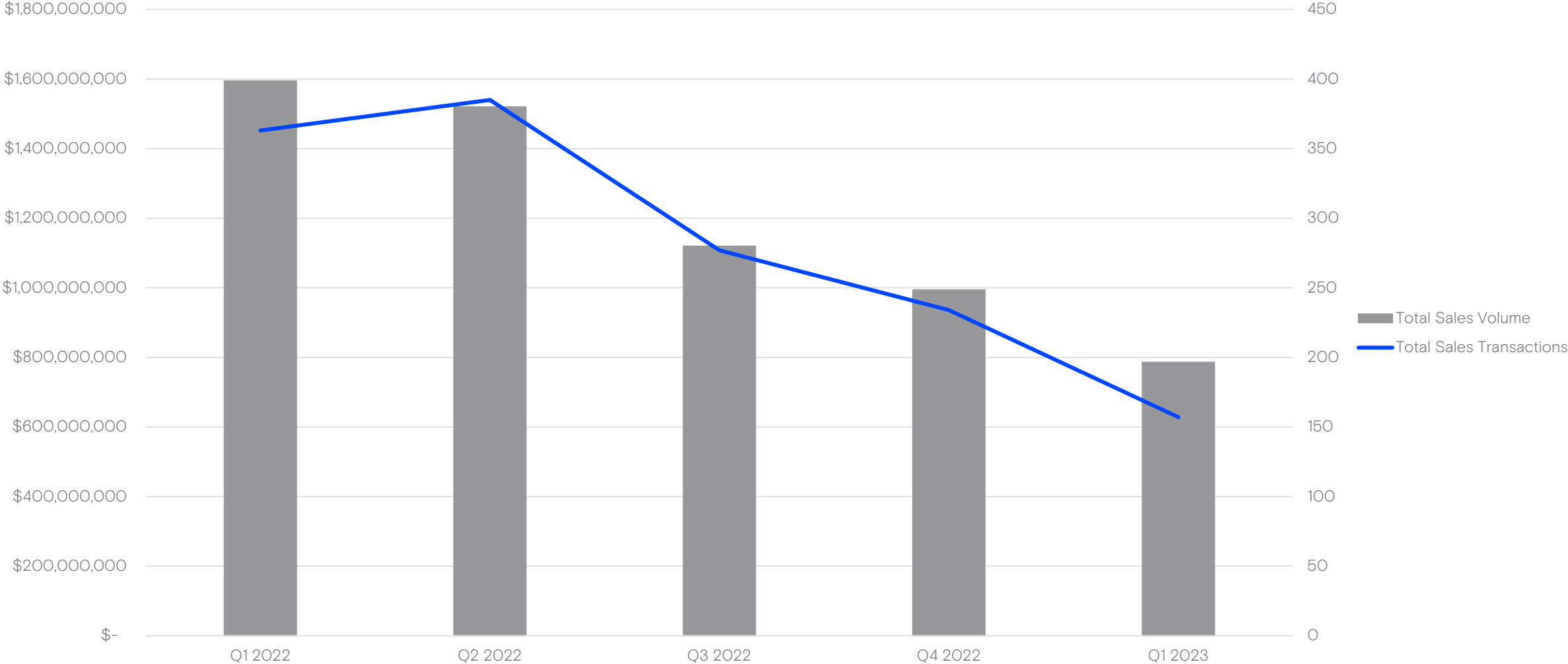
Source: CoStar

# LA County Sales - 99+ Units

Year	# of Transactions	Average Sale Price	Average Price/Unit	Average Price/SF	Average Cap Rate	Average GRM
2013	33	\$54,969,562	\$244,408	\$233.60	5.00%	-
2014	64	\$55,108,284	\$299,312	\$329.67	5.10%	9.3
2015	64	\$44,043,472	\$231,746	\$248.03	4.90%	11.9
2016	62	\$54,754,227	\$300,442	\$338.63	4.70%	11.5
2017	46	\$71,016,702	\$365,706	\$401.35	4.40%	12.4
2018	66	\$78,414,688	\$338,532	\$367.30	4.50%	13.5
2019	62	\$80,428,508	\$377,657	\$401.41	4.30%	12.2
2020	35	\$63,775,162	\$311,232	\$327.36	4.30%	12.6
2021	56	\$97,051,851	\$426,448	\$436.27	4.00%	14.7
2022	62	\$93,989,183	\$468,548	\$471.89	3.50%	18.0
2023 Q1	6	\$66,329,167	\$436,855	\$359.86	5.10%	-

Source: CoStar

# Sales Volume Decrease



Source: CoStar



# Cap Rate Takeaways



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Cap rates have gone up at least 50bps since 2022

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We would have expected cap rates to increase more considering the rise in interest rates

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Most market participants that we have spoken with expect values to decline



# Market Trends – Item to Be Aware of & Conclusion





# Questions?

## Contact Us

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