

What's Ahead for the Los Angeles Apartment Market?

By Hendricks & Partners

Second Quarter 2006

Although West Los Angeles vacancy rates rose somewhat in the second quarter, the area's perennially strong rental market continued to show aggressive rent gains and enviably-low vacancy rates. Mixed results were recorded in one of the West L.A.'s signature industries, the entertainment business, at the midpoint of 2006. Local film production was down nearly 7% in the second quarter compared to a year prior, but box office receipts for the first half of the year climbed 5% over the same period in 2005. West L.A. is seeing some expansion in its sizeable media / entertainment sector. L.A. Center Studios in Downtown Los Angeles signed new leases totaling 70,000 square feet in the second quarter, while Technicolor announced that it will expand operations at a new 115,000-square-foot facility in Hollywood.

Illustrating strength in the professional / business services field, the Westside's average office vacancy rate fell to under 8% in the second quarter, lower than the overall L.A. rate of 11% in the same period, and a decline of more than three percentage points from a year prior. The office market has tightened due to both business expansion and the redevelopment of office buildings into residential projects. West L.A. remains the most active multifamily development center in the metro area, especially in areas such as Downtown, Hollywood, and Mid-Wilshire. During the second quarter of the year, local apartments noted slightly higher vacancy rates due to this high volume of new development.

- Apartment absorption was negative by 82 units during the second quarter, compared to net move-ins totaling 149 units a year ago.
- A total of 184 new apartment units came online during the quarter, up from 89 delivered one year earlier. Downtown saw 116 units enter lease-up with Hollywood receiving the remaining 68. Nearly 3,200 units are slated for L.A.'s central core, with Mid-Wilshire set to receive over 1,600; Marina del Rey (*Airport Cities*) 1,800; Hollywood more than 800; and roughly 350-400 units each in Santa Monica, the West L.A. area, and Westwood.
- Including for-sale and rental projects, multifamily construction permits increased to 1,664 units from the year-ago total of 1,317.
- The area's average apartment vacancy rate increased slightly to 4.4% in the second quarter from 3.8% a year prior, due to the delivery of more than 1,000 new units over the past 12 months.
- The market's average apartment rent rose 7.0%, from \$1,737 to \$1,859, from mid-2005 to mid-2006. This was more subdued than the 10.0% growth rate recorded in June 2006, but still quite strong compared to many other metros across the U.S.

Work is beginning in earnest on the anchor of Downtown's L.A. Live development - a \$750 million hotel complex. This 54-story tower, scheduled to open in 2010, will include an 876-room Marriott Marquis hotel and a 124-room Ritz-Carlton topped by 216 luxury condominiums. The addition of 1,000 hotel rooms near the city's convention center is expected to provide a major boost to the tourism sector.

New development is also reshaping Central L.A.'s Figueroa Corridor. Projects have included various developments at the University of Southern California, along with new car dealerships, transportation improvements, and renovations of existing businesses. The Los Angeles Community Redevelopment Agency recently approved plans for a \$135 million mixed-use project at Figueroa Street and Jefferson Boulevard. University Gateway will provide housing for 1,600 USC students, along with 83,000 square feet of commercial space. The project is expected to support 500 construction and 170 permanent jobs.

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