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USC: SoCal Apartment Rents Will Rise 2% to 4% In Coming Years

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Apartment rents are expected to grow between 2% and 4% in the next two years in all five Southern California housing markets, according to the new University of Southern California Casden Real Estate Economic Forecast.

In Los Angeles County alone, rents are projected to grow 2% over the next two years.

"For now, rent growth will be somewhat moderate," Moussa Diop, forecast author and USC Sol Price School of Public Policy associate professor of real estate, said in a release about the findings.

It is a statistic that might not be welcome news for apartment owners.

"I don't think anyone on the ownership side — direct owners, operators and developers — like to hear 2%," Northmarq Regional Managing Director Vince Norris said. "Currently, inflation exceeds that number, so it's tough to make money with a 2% rent growth target."

Northmarq's third-quarter report for this year also anticipates 2% rent growth in LA County in the coming year.

Los Angeles rents were relatively flat month-over-month at the end of October and down 2.8% year-over-year, according to Apartment List data. Rent growth in Los Angeles in the 12 months trailing October was below both the national average of negative 1.2% and the California average of negative 2%, Apartment List found.

Median rent for a one-bedroom unit in LA stood at $1,633 per month and $2,157 for a two-bedroom as of the end of October, according to Apartment List.

Owners of the more than 600,000 rent-stabilized apartments in the city of Los Angeles, the majority of rental units in LA, can raise rents for the first time in three years after a pandemic-related pause on increases. The Los Angeles City Council voted this week to allow rent increases of 4%, or 6% if landlords pay for tenants' utilities and gas, beginning Feb. 1.

"A 4% increase doesn't even begin to make up for the fact that there have been no increases for 36 months and collection issues during Covid," CBRE Executive Vice President Dean Zander said.

But some owners said that, while rent growth is an important metric, it isn't the only factor in the value of a property.

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"While rent growth may not be forecasted to be as robust as other periods over the past 10 years, there are other favorable characteristics that make acquiring assets today very attractive," Cityview CEO Sean Burton told Bisnow via email. "We are starting to see opportunities to acquire assets at a deep discount to what it would cost to build a new project. We believe there will be a buying window similar to what we saw in 2009-2010 coming out of the Great Financial Crisis."

Diop and report co-author Eunha Jun, a research associate at the USC Lusk Center, saw continued high interest rates, plus increasingly expensive operating costs and a "tidal wave of maturing debt," on the horizon for commercial real estate. That combination adds up to a recipe for, among other things, concerning crimps in the near-term pipeline.

"Adding housing supply is one of the only reliable ways to ease rent burden," Diop said. "It's near impossible to significantly add housing if builders can't finance projects or they have properties nearing default. It may be a lose-lose situation for renters and landlords."

The average asking rent in the Los Angeles metro grew 3% in the third quarter, while the average income grew 5.7% over the same period, according to a Moody's Analytics report published last week.

Still, Los Angeles is consistently on lists of metro areas with the highest share of rent-burdened residents, or residents paying more than 30% of their income toward rent. Los Angeles' rent-to-income ratio was 34% in the third quarter, meaning a median-income tenant would have to pay 34% of gross income to afford average monthly rent.

For renters who make less than that median income, the burden shifts significantly. A low-income family earning $43,492 — around half of the median income for the area — would pay 54.8% of their monthly income to rent an average-priced Class-B or C unit, Moody's found.

Tighter supply could put some wind in the sails for rent growth in 2025, Norris said.

By Northmarq's count, LA's vacancy rate is about 4%, and he said he expects it to remain relatively the same. High interest rates are keeping many would-be homebuyers in the rental market longer, and that could help keep demand for apartments high and allow for rents to creep up, he said.

A bit of a slump in the housing pipeline is already visible, according to a report from Hilgard Analytics on residential permits in the city of LA. The report used data from the city's Department of Building and Safety to track changes in housing permits in the first three quarters of this year and last and found only a shortage of 5.3%, or 641 units. However, in order for 2023 to end on pace with 2022, the city of LA would need to permit 4,184 units.

Hilgard chalked the drop-off up to high interest rates, but also a far less robust job market and "a score of labor disputes," the latter two it expects will dissipate or have their impact blunted, leading to a resurgence in housing permits.

"Particularly in some of these cities that are more heavily regulated, like Los Angeles, a spigot is being turned off on new construction," Zander said. "If you haven't broken ground already, I can't imagine new product getting built in '24 or '25. That alone will lead to some rent growth."

He said he anticipates that will be closer to 3.5% over the coming years.

Burton said that it will be "very challenging" for his company to start new developments over the next 12 to 24 months.

"That, coupled with the fact that we expect to see really attractive opportunities to buy existing assets well below replacement cost, [means] we expect to focus more of our efforts on value-add rather than development," Burton said.

Courtesy of Sterling Davis
The construction pipeline in the city is likely to be sluggish over the next year or so.

Tenant advocates and renters organized to speak out about the rent stabilization ordinance increases, telling the council in the weeks leading up to the vote that many tenants were still grappling with rent debt accrued during the depths of the pandemic. The final installment of pandemic rent debt for back rent accrued from October 2021 through Jan. 31, 2022, is also due in February.

Because both of these rent events are happening in February, Strategic Actions for a Just Economy community organizer Mateo Gil, whose work focuses on tenant protections, is expecting to see a rise in eviction filings around that time.

From February to October, more than 66,000 eviction notices have been filed in court, 96% of them for nonpayment of rent, according to data from Los Angeles City Controller Kenneth Mejia. Gil said the figure from the controller only counts legal evictions through the courts and said that other methods of getting tenants to vacate a unit can be employed.

"It's going to create a bigger issue than what's going on right now," Gil said.

Among the renters he works with — many of whom are undocumented, on fixed incomes or unable to work — wages aren't going up in the way that rents will be.

"That automatically is going to push tenants out of their home and possibly into homelessness," he said.