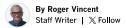
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Almost no one is building new apartments in Los Angeles. Here's why



An urban apartment complex in Hollywood completed nearly a decade ago. New construction has waned. (Myung J. Chun / Los Angeles Times)



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- Los Angeles apartment construction has dropped by close to a third in three years as developers struggle with unprofitable economics and regulatory uncertainty.
- Institutional investors are pulling money from L.A. real estate projects, preferring other cities with more predictable development rules and profits.
- New apartments need \$4,000-\$5,000 monthly rents to break even, forcing residents to live farther from their jobs.

Los Angeles developer Cliff Goldstein just completed a plush new apartment complex on the Westside, but that's the last one he's going to build for the foreseeable future.

Even though demand for housing in the region is red hot, many people who build apartments for a living have paused putting shovels in the ground because, they say, it's just too hard to turn a profit.

"It's a needle in a haystack to find an opportunity that makes financial sense to build today," Goldstein said.

Ari Kahan used to have multiple projects with as many as 800 total units being built in Los Angeles at any given time. No more, he says.

"We haven't bought a site with the intention to develop it in over two years," he said. "I don't know when we will be building in L.A next."

The supply of fresh rental units, which make up the bulk of new housing in Los Angeles, is petering out despite robust demand. The vacancy rate is among the lowest in the country, while rental rates are among the highest nationwide.

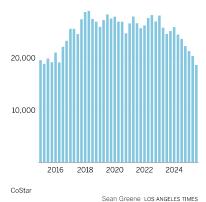
Still, the number of new units under construction in Los Angeles has been falling each quarter since early last year and is set to dive to a more than 10-year low, according to real estate data provider CoStar.

Under 19,000 apartments were under construction in the three months through September. That's 30% fewer than three years earlier, according to CoStar's count.

Construction of new rental housing has slowed in Los Angeles

Just under 19,000 apartments were under construction in the third quarter this year, a 30% drop from three years earlier.

Market-rate apartment units under construction



Developers say they can't raise the money they need to build as many of their biggest backers — think pension funds, insurance companies and other institutions looking for long-term investments — don't want to park their money in L.A. because the rapidly changing rules make it impossible to predict profits.

The years since COVID-19 have demonstrated how tangled regulation of the industry can get in L.A., observers say, so investors are taking their money to other cities.

"L.A. has been redlined by the majority of the investment

community," said Kahan, a principal of California Landmark Group.

If the investors won't invest, builders can't build.

"A developer without investors would be like a king without clothes," said Goldstein. "I am an optimistic developer who wants to develop, but the investment community won't participate."

Recent policy out of Washington also hasn't helped. Higher tariffs have sparked rising prices in construction materials and equipment, while the crackdown on undocumented workers has thinned and spooked much of the international workforce the industry depends on.

"Prices rose at an especially rapid pace in some of the categories most affected by tariffs," including iron and steel prices, which have risen 9% in the last year, and copper wire and cable prices, which have jumped 14%, said Anirban Basu, chief economist of trade group Associated Builders and Contractors.

California's construction industry depends on immigrant workers. Around 61% of construction workers in the state are immigrants, and 26% of those are undocumented, according to a June report from the Bay Area Council Economic Institute.

"Finding construction labor was hard before, and now it's even harder," economist Richard Green said.

Green, who is director of the USC Lusk Center for Real Estate, said findings from a new USC project that collects housing data on Los Angeles County neighborhoods illustrate the problem.



The Overland & Ayres apartments recently completed by GPI Cos. at the site of a former shopping center on the Westside of Los Angeles. (Juliana Yamada / Los Angeles Times)

Housing production in Los Angeles County has slowed dramatically over the decades, dropping from over 70,000 new units annually in the 1950s to roughly 30,000 in the 1970s and 1980s to less than 15,000 in the 2010s. This long-term slowdown in housing construction has left the region with an older, more strained housing stock and a deep shortfall in affordable options, USC said.

With little urban land left for single-family subdivisions, most new housing is rental apartments. Over the last six years, around 152,000 new units were built in Los Angeles County. The vast majority of those were rental units, and only 10% were affordable to lower-income households.

Southern California stands out even among sharp nationwide declines in apartment production, according to HomeAbroad, which helps foreign investors buy U.S. real estate.

The number of multifamily building permits issued in the Los Angeles-Long Beach-Anaheim metropolitan area in July fell 68% to 556 compared to the same month in 2020, <u>HomeAbroad said</u>. It was the second biggest drop in the country after the Silicon Valley area of San José-Sunnyvale-Santa Clara.

Among investors' concerns are public policies such as the United to House Los Angeles (Measure ULA) transfer tax on large real estate sales, and also temporary limits on evicting tenants that were enacted during the pandemic.

"They're fearful of what policies might come down later," said Goldstein, a co-founder of GPI Cos.

On Tuesday, two Los Angeles City Council members introduced a motion to study the effects of establishing a \$32.35 per hour minimum wage for construction projects in the city with 10 or more residential units that are under 85 feet in height. The study will also examine adding an additional healthcare credit of \$7.65 per hour to builders' costs.

Of course, the cost of apartments in Los Angeles is also hard on renters. At the current construction price, developers need to charge between \$4,000 and \$5,000

per month in rent, depending on the apartment size, which suggests the tenant should earn between \$120,000 and \$150,000 per year.

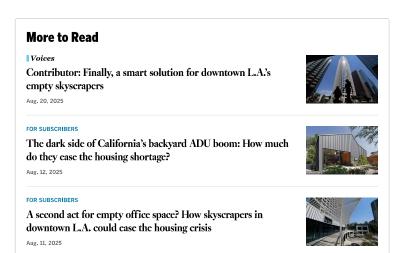
Developers predict people will have to move farther out and commute times will grow.

Still, some are looking for deals to be ready to build when the environment is better.

"There is a lot less competition and prices have come down substantially" on some types of properties, said Jordan Lang, president of McCourt Partners. "We're viewing this as a time to buy multiple land sites to be ready for this next cycle."

In Culver City, McCourt Partners has recently joined with Lincoln Property Co. to take over and redesign a proposed apartment complex on Jefferson Boulevard. Lang hopes to start work on the project next year, pending the return of institutional investors.

"We're anticipating capital coming back into the market" in six months to three years, he said. "We want to be ready with a project that can put shovels in the ground when that happens."





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Roger Vincent covers commercial real estate for the Los Angeles Times.