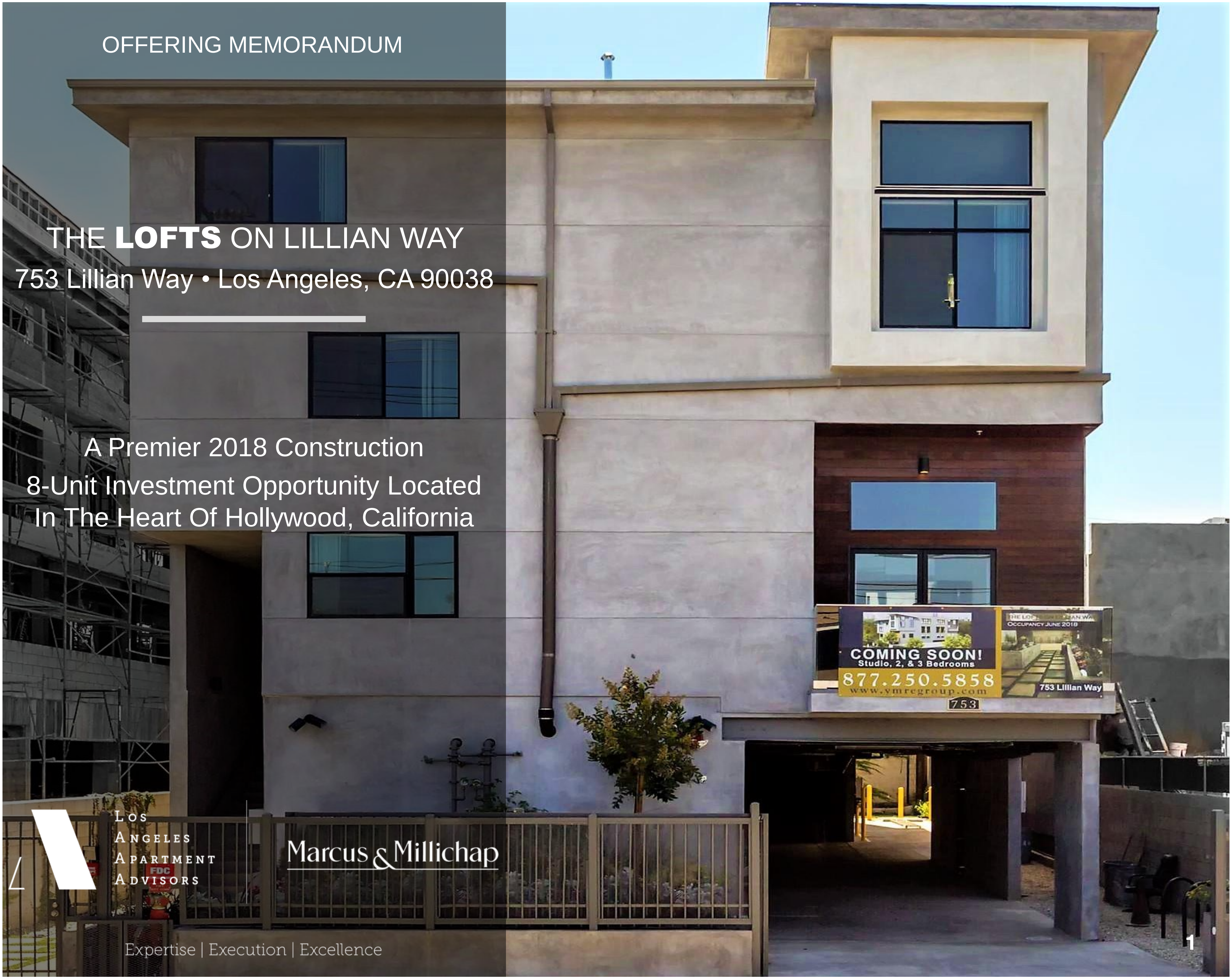
OFFERING MEMORANDUM

# THE **LOFTS** ON LILLIAN WAY

753 Lillian Way • Los Angeles, CA 90038

A Premier 2018 Construction

8-Unit Investment Opportunity Located In The Heart Of Hollywood, California




Los Angeles Apartment Advisors

Marcus & Millichap

Expertise | Execution | Excellence

# NON-ENDORSEMENT AND DISCLAIMER NOTICE

## Confidentiality and Disclaimer

The information contained in the following Marketing Brochure is proprietary and strictly confidential. It is intended to be reviewed only by the party receiving it from Marcus & Millichap and should not be made available to any other person or entity without the written consent of Marcus & Millichap. This Marketing Brochure has been prepared to provide summary, unverified information to prospective purchasers, and to establish only a preliminary level of interest in the subject property. The information contained herein is not a substitute for a thorough due diligence investigation. Marcus & Millichap has not made any investigation, and makes no warranty or representation, with respect to the income or expenses for the subject property, the future projected financial performance of the property, the size and square footage of the property and improvements, the presence or absence of contaminating substances, PCB's or asbestos, the compliance with State and Federal regulations, the physical condition of the improvements thereon, or the financial condition or business prospects of any tenant, or any tenant's plans or intentions to continue its occupancy of the subject property. The information contained in this Marketing Brochure has been obtained from sources we believe to be reliable; however, Marcus & Millichap has not verified, and will not verify, any of the information contained herein, nor has Marcus & Millichap conducted any investigation regarding these matters and makes no warranty or representation whatsoever regarding the accuracy or completeness of the information provided. All potential buyers must take appropriate measures to verify all of the information set forth herein. Marcus & Millichap is a service mark of Marcus & Millichap Real Estate Investment Services, Inc. 

## Non-Endorsement Notice

Marcus & Millichap is not affiliated with, sponsored by, or endorsed by any commercial tenant or lessee identified in this marketing package. The presence of any corporation's logo or name is not intended to indicate or imply affiliation with, or sponsorship or endorsement by, said corporation of Marcus & Millichap, its affiliates or subsidiaries, or any agent, product, service, or commercial listing of Marcus & Millichap, and is solely included for the purpose of providing tenant lessee information about this listing to prospective customers.

ALL PROPERTY SHOWINGS ARE BY APPOINTMENT ONLY.
PLEASE CONSULT YOUR MARCUS & MILLICHAP AGENT FOR MORE DETAILS.

THE LOFTS ON LILLIAN WAY
Los Angeles, CA
ACT ID ZAA0120371

Marcus & Millichap

# TABLE OF CONTENTS



Marcus & Millichap

# INVESTMENT OVERVIEW

## EXECUTIVE SUMMARY

| VITAL DATA | | | | |
|---|---|---|---|---|
| Price | $5,500,000 | | CURRENT | PRO FORMA |
| Down Payment | 35% / $1,925,000 | CAP Rate | 4.89% | 5.13% |
| Loan Amount | $3,575,000 | GRM | 14.74 | 14.21 |
| Loan Type | Proposed New | Net Operating Income | $269,085 | $281,935 |
| Interest Rate / Amortization | 4.05% / 30 Years | Net Cash Flow After Debt Service | 3.27% / $63,035 | 3.94% / $75,886 |
| Price/Unit | $687,500 | Total Return | 6.52% / $125,447 | 7.32% / $140,873 |
| Price/SF | $606.33 | | | |
| Number of Units | 8 | | | |
| Rentable Square Feet | 9,071 | | | |
| Year Built | 2018 | | | |
| Lot Size | 0.16 acre(s) | | | |

### UNIT MIX

| NUMBER OF UNITS | UNIT TYPE | APPROX. SQUARE FEET |
|---|---|---|
| 1 | Studio / 1 Bath | 850 |
| 2 | 2 Bed / 2 Bath | 1,090 |
| 4 | 2 Bed / 2.5 Bath | 1,060 |
| 1 | 3 Bed / 3.5 Bath | 1,803 |
| 8 | Total | 9,071 |

### PROPOSED FINANCING

| First Trust Deed | |
|---|---|
| Loan Amount | $3,575,000 |
| Loan Type | Proposed New |
| Interest Rate | 4.05% |
| Amortization | 30 Years |
| Loan Term | 5 Years |
| Loan to Value | 65% |
| Debt Coverage Ratio | 1.31 |

### MAJOR EMPLOYERS

| EMPLOYER | # OF EMPLOYEES |
|---|---|
| Disney | 10,618 |
| Yf Art Holdings Gp LLC | 10,600 |
| Walt Disney Company | 5,876 |
| Cedars-Sinai Medical Center | 5,333 |
| Magic Workforce Solutions LLC | 4,539 |
| Ticketmaster Entertainment LLC | 4,390 |
| Mufg Union Bank Foundation | 4,200 |
| Califrnia Dept State Hospitals | 4,000 |
| Mercury Insurance Services LLC | 4,000 |
| Mtv Networks | 3,646 |
| Project Boat Holdings LLC | 3,174 |
| Kpmg LLP | 3,080 |

### DEMOGRAPHICS

| | 1-Miles | 3-Miles | 5-Miles |
|---|---|---|---|
| 2018 Estimate Pop | 45,833 | 504,422 | 1,059,595 |
| 2010 Census Pop | 43,384 | 475,973 | 1,004,473 |
| 2018 Estimate HH | 20,619 | 227,868 | 440,760 |
| 2010 Census HH | 19,292 | 212,241 | 412,129 |
| Median HH Income | $48,284 | $50,587 | $50,512 |
| Per Capita Income | $39,020 | $38,320 | $36,812 |
| Average HH Income | $86,045 | $84,136 | $87,632 |

## INVESTMENT OVERVIEW

Marcus & Millichap is pleased to present The Lofts on Lillian Way, an eight-unit multifamily investment opportunity located in the Hollywood submarket of Los Angeles. Built in 2018, The Property offers investors the opportunity to acquire a premier core, investment-grade asset with upscale finishes in a spectacular location. Located on Lillian Way, approximately a quarter mile away from the intersection of Melrose Avenue and Vine Street, The Offering provides excellent walk-ability, ease of access to public transit and opulent living. This four-story investment was developed with luxury finishes and distinctive features that appeal to renters today. The Asset features state-of-the-art kitchens, fir wood plank style flooring, over-sized windows, and private balconies. The excellent unit mix includes 1- spacious two-story studio loft, 2- two bedroom / two bathroom with lofts, 4- two bedroom / two and a half bathroom with lofts, and 1- three bedroom / three and a half bathroom unit with two lofts. There are over $120,000 in furniture and appliances included in the sale. Units #1, 6, 7 & 8 are fully furnished and all 8 units include high-end washer & dryers, stoves & refrigerators. Newly built, the asset is also low in expenses as each unit is individually metered for water, power and gas.

The latest in apartment design, The Lofts on Lillian Way evoke the architectural aesthetic of a modern boutique hotel. Every detail is crafted to match the vibe of the neighborhood and the upscale preferences of today's lifestyle renter. These discerning renters are putting off home purchases and choosing an urban lifestyle where they can walk, work and socialize. The Lofts on Lillian Way enjoys a Walk Score of 91, further enhancing the attraction of investors seeking long-term ownership and core returns with this highly desirable urban-chic community in the Hollywood MSA.

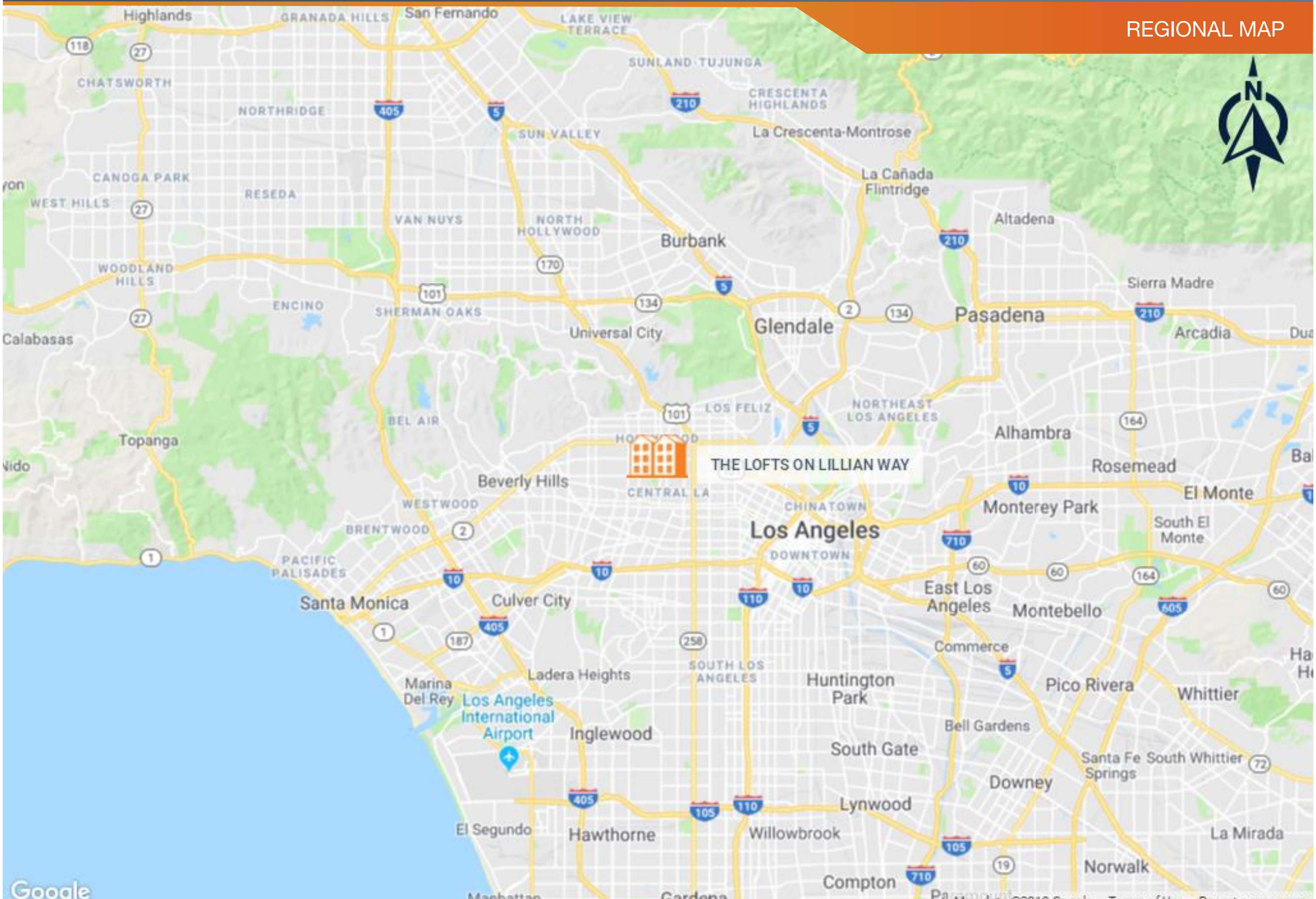
Situated on a quiet residential street, The Offering provides a welcome-hideaway feel, while being within blocks from hot new restaurants, artisan cafes, bars, boutique shops, theaters, Paramount Studios, Raleigh Studios, Hollywood Forever and the quaint-yet-vibrant "Main Street America" community that is Hollywood, California. Hollywood, known as the "Entertainment Capital of the World", is also home to one of the most robust employment markets in the country and benefits from high renter demand, further bolstered by the booming entertainment industry. Few comparable properties are this close to the endless amount of dining, entertainment and nightlife.

The Lofts on Lillian Way is conducive to lifestyle renters who seek high-end finishes in locations where they can walk and bike to work, errands, dining, entertainment and nightlife. Only a few properties in Los Angeles fit these exacting standards sought by the most aggressive, core investors. The Property represents one of the newest and most stylized offerings on the market today.

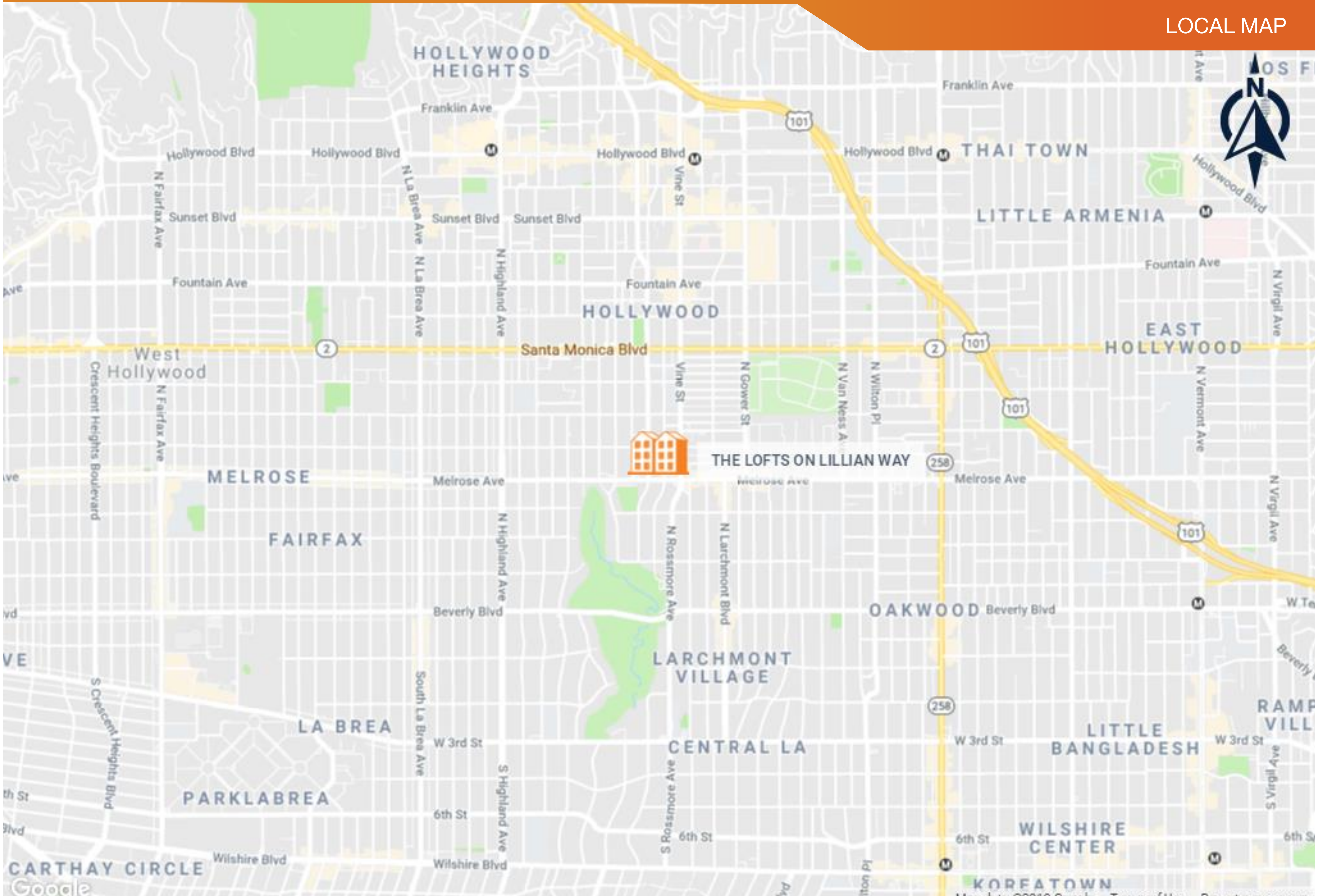
## INVESTMENT HIGHLIGHTS

- Built in 2018
- Over $120k in Furniture & Appliances
- Individually Metered for All Utilities
- All Units Feature Lofts
- Central Hollywood Location
- Walk Score of 91 - Walker's Paradise

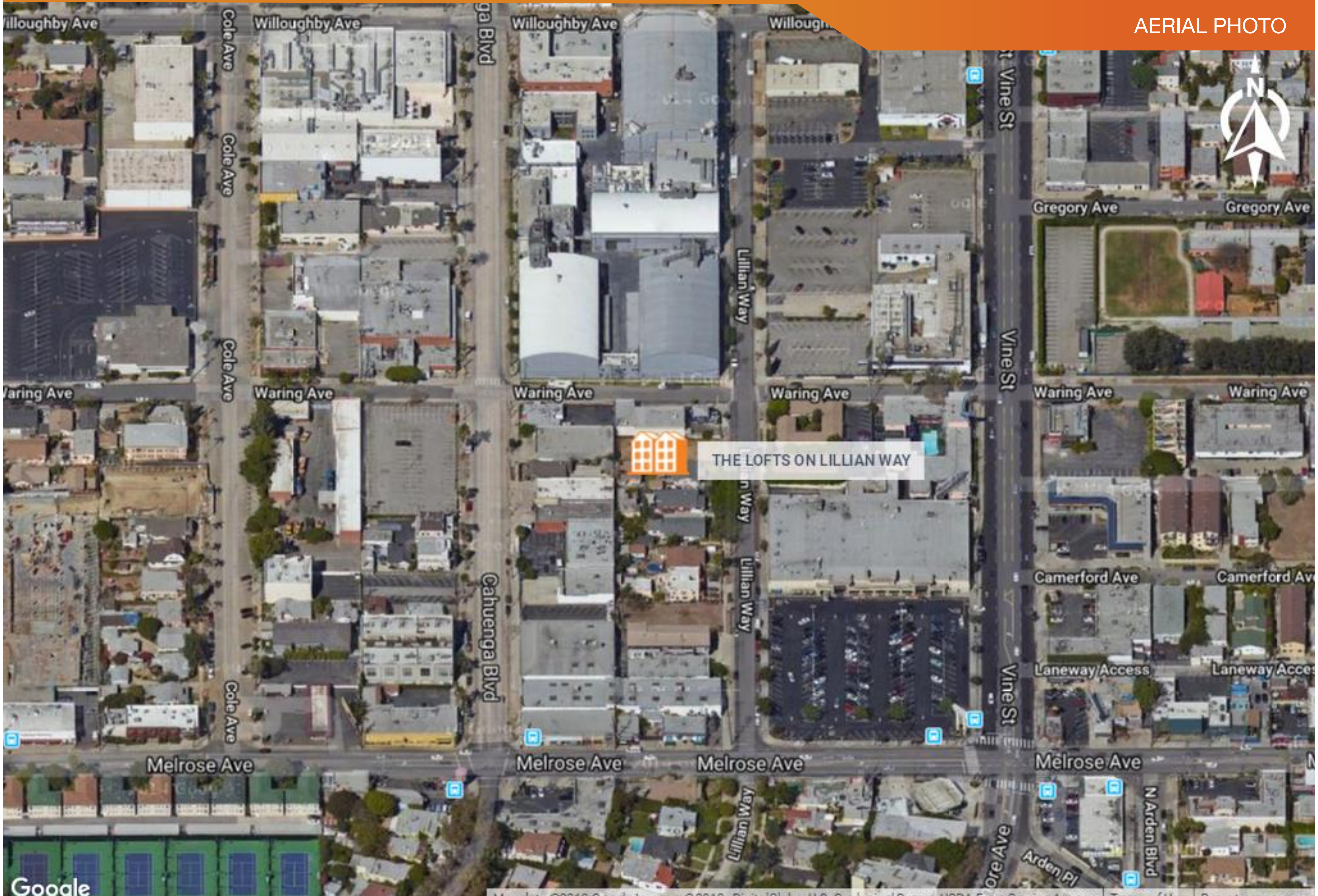
## REGIONAL MAP



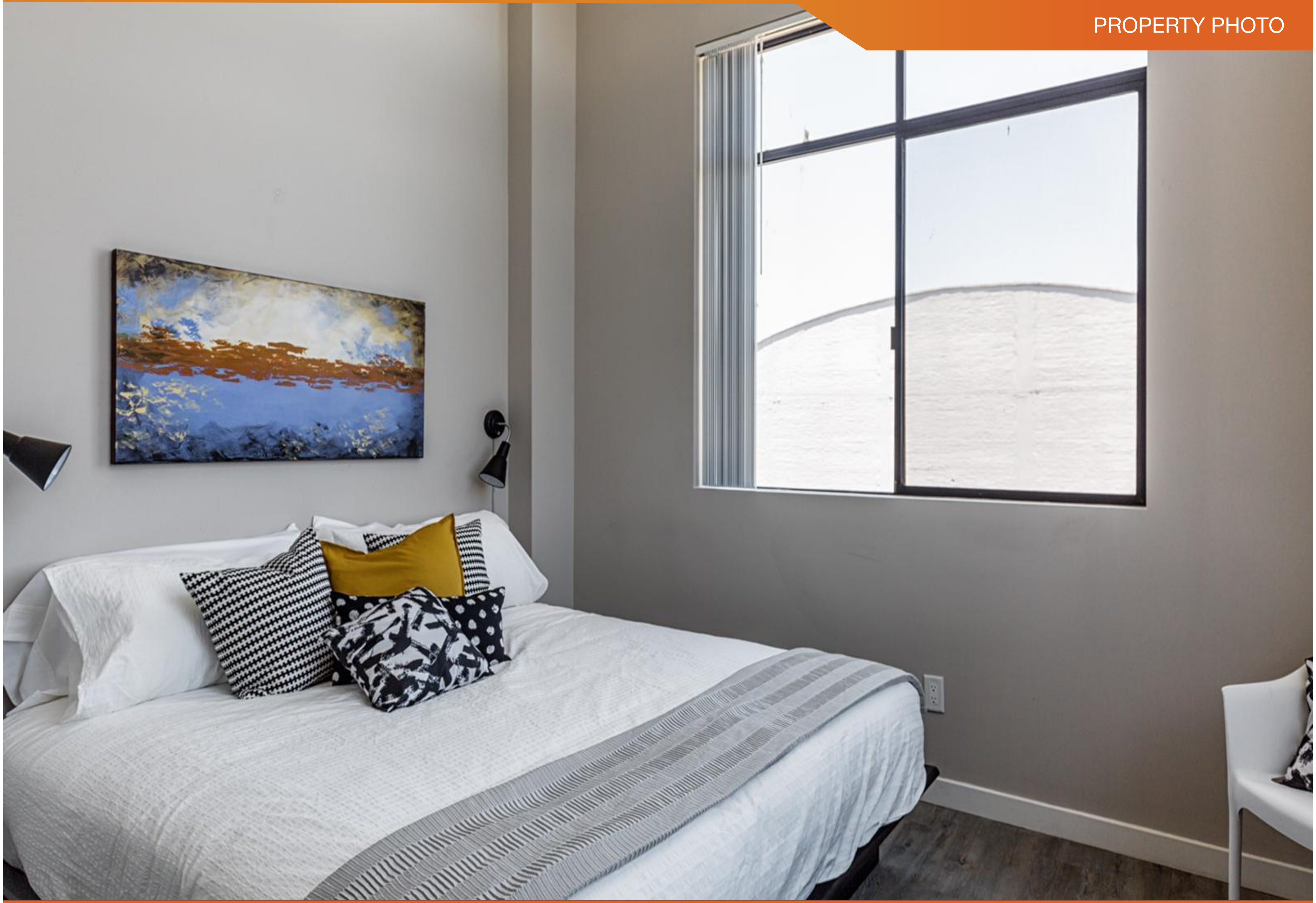
LOCAL MAP


HOLLYWOOD HEIGHTS
Franklin Ave
Hollywood Blvd
Sunset Blvd
Fountain Ave
HOLLYWOOD
Santa Monica Blvd
West Hollywood
THAI TOWN
LITTLE ARMENIA
EAST HOLLYWOOD
THE LOFTS ON LILLIAN WAY
Melrose Ave
MELROSE
FAIRFAX
Beverly Blvd
OAKWOOD
LARCHMONT VILLAGE
LA BREA
CENTRAL LA
W 3rd St
LITTLE BANGLADESH
PARKLABREA
6th St
WILSHIRE CENTER
Wilshire Blvd
CARTHAY CIRCLE
KOREATOWN
N Fairfax Ave
N La Brea Ave
N Highland Ave
Vine St
N Gower St
N Van Ness Ave
N Wilton Pl
N Vermont Ave
N Virgil Ave
N Rossmore Ave
N Larchmont Blvd
Crescent Heights Boulevard
N
Google
Map data ©2019 Google Terms of Use Report a map error

## AERIAL PHOTO



PROPERTY PHOTO

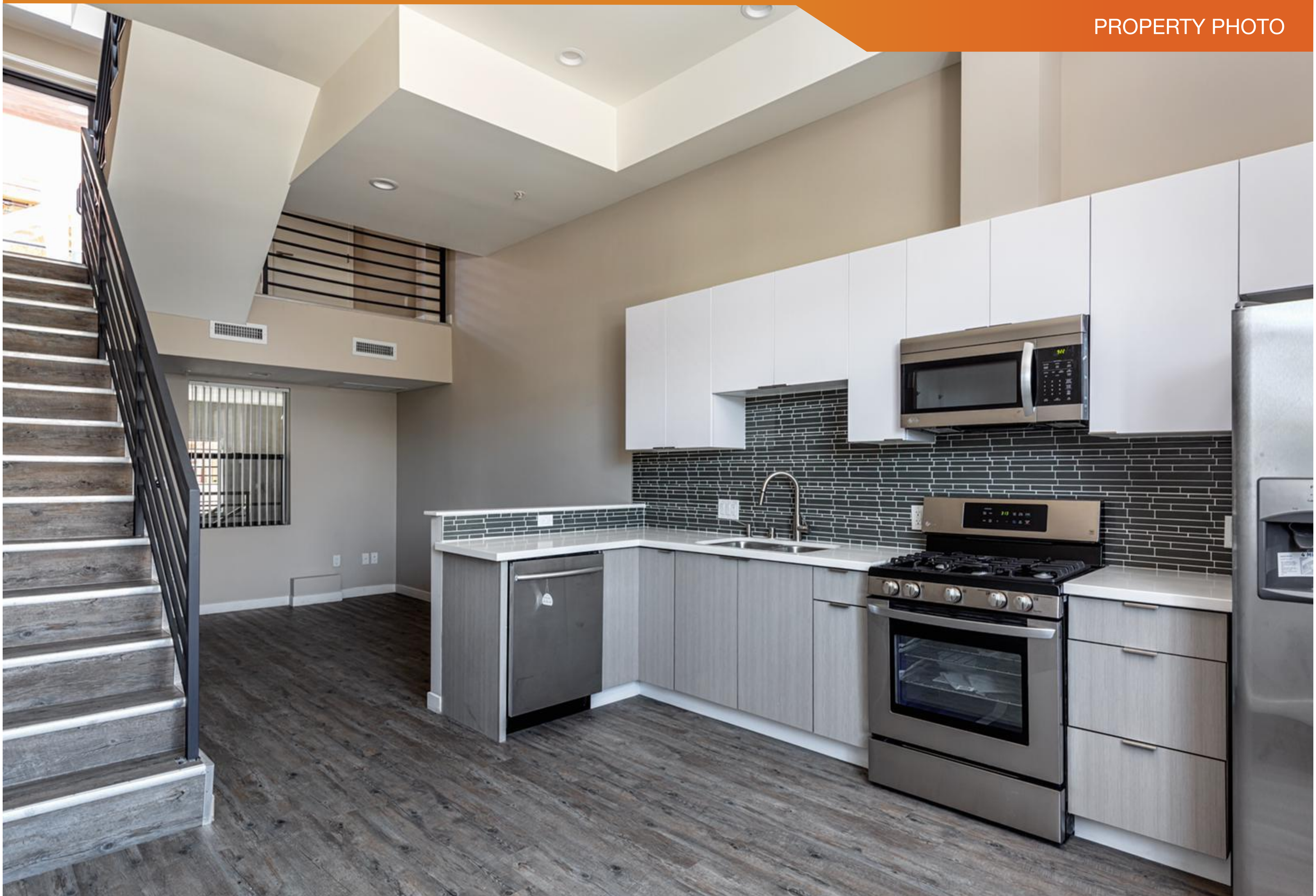


PROPERTY PHOTO

PROPERTY PHOTO

PROPERTY PHOTO

## PROPERTY PHOTO



## PROPERTY PHOTO


HOLLYWOOD

# FINANCIAL
# ANALYSIS

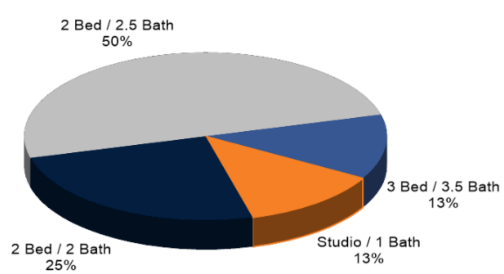
## RENT ROLL SUMMARY

As of March,2019

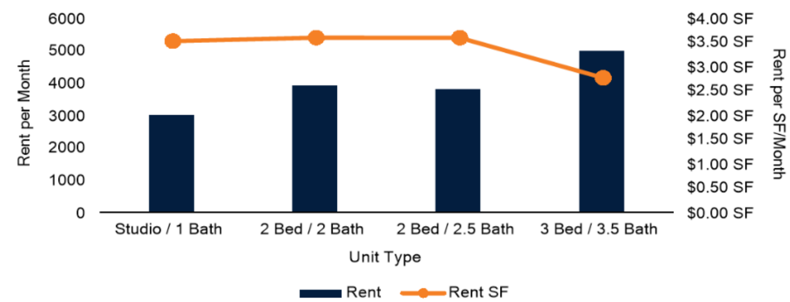
| Unit Type | # of Units | Avg Sq Feet | Rental Range | Current Average Rent | Current Average Rent / SF | Current Monthly Income | Potential Average Rent | Potential Average Rent / SF | Potential Monthly Income |
|---|---|---|---|---|---|---|---|---|---|
| Studio / 1 Bath w/ Loft (2 levels) (Furnish | 1 | 850 | $3,000 - $3,000 | $3,000 | $3.53 | $3,000 | $3,150 | $3.71 | $3,150 |
| 2 Bed / 2 Bath w/ Loft | 1 | 1,049 | $3,850 - $3,850 | $3,850 | $3.67 | $3,850 | $3,900 | $3.72 | $3,900 |
| 2 Bed / 2 Bath w/ Loft (Furnished) | 1 | 1,131 | $4,000 - $4,000 | $4,000 | $3.54 | $4,000 | $4,100 | $3.63 | $4,100 |
| 2 Bed / 2.5 Bath w/ Loft | 2 | 1,057 | $3,500 - $3,850 | $3,675 | $3.48 | $7,350 | $3,950 | $3.74 | $7,900 |
| 2 Bed / 2.5 Bath w/ Loft (Furnished) (Vac | 1 | 1,055 | $3,950 - $3,950 | $3,950 | $3.74 | $3,950 | $4,150 | $3.93 | $4,150 |
| 2 Bed / 2.5 Bath w/ Loft (Vacant) | 1 | 1,069 | $3,950 - $3,950 | $3,950 | $3.70 | $3,950 | $3,950 | $3.70 | $3,950 |
| 3 Bed / 3.5 Bath w/ 2 Lofts (Furnished) | 1 | 1,803 | $5,000 - $5,000 | $5,000 | $2.77 | $5,000 | $5,100 | $2.83 | $5,100 |
| **Totals/Weighted Averages** | **8** | **1,134** | | **$3,888** | **$3.43** | **$31,100** | **$4,031** | **$3.56** | **$32,250** |
| **Gross Annualized Rents** | | | | **$373,200** | | | **$387,000** | | |

Notes:

Unit Distribution




Unit Rent



## RENT ROLL DETAIL

As of March,2019

| Unit | Unit Type | Square Feet | Current Rent / Month | Current Rent / SF/ Month | Potential Rent / Month | Potential Rent/ SF/ Month |
|---|---|---|---|---|---|---|
| 1 | 2 Bed / 2 Bath w/ Loft (Furnished) | 1,131 | $4,000 | $3.54 | $4,100 | $3.63 |
| 2 | 2 Bed / 2 Bath w/ Loft | 1,049 | $3,850 | $3.67 | $3,900 | $3.72 |
| 3 | 2 Bed / 2.5 Bath w/ Loft | 1,069 | $3,500 | $3.27 | $3,950 | $3.70 |
| 4 | 2 Bed / 2.5 Bath w/ Loft (Vacant) | 1,069 | $3,950 | $3.70 | $3,950 | $3.70 |
| 5 | 2 Bed / 2.5 Bath w/ Loft | 1,045 | $3,850 | $3.68 | $3,950 | $3.78 |
| 6 | 2 Bed / 2.5 Bath w/ Loft (Furnished) (Vacant) | 1,055 | $3,950 | $3.74 | $4,150 | $3.93 |
| 7 | 3 Bed / 3.5 Bath w/ 2 Lofts (Furnished) | 1,803 | $5,000 | $2.77 | $5,100 | $2.83 |
| 8 | Studio / 1 Bath w/ Loft (2 levels) (Furnished) | 850 | $3,000 | $3.53 | $3,150 | $3.71 |
| **Total** | | **9,071** | **$31,100** | **$3.43** | **$32,250** | **$3.56** |

## OPERATING STATEMENT

| Income | Current | | Pro Forma | | Notes | Per Unit | Per SF |
|---|---|---|---|---|---|---|---|
| **Gross Current Rent** | **373,200** | | **387,000** | | | **48,375** | **42.66** |
| **Physical Vacancy** | (11,196) | 3.0% | (11,610) | 3.0% | | (1,451) | (1.28) |
| **Total Vacancy** | **($11,196)** | **3.0%** | **($11,610)** | **3.0%** | | **($1,451)** | **($1)** |
| **Effective Gross Income** | **$362,004** | | **$375,390** | | | **$46,924** | **$41.38** |

| Expenses | Current | | Pro Forma | | Notes | Per Unit | Per SF |
|---|---|---|---|---|---|---|---|
| Real Estate Taxes | 65,783 | | 65,783 | | [1] | 8,223 | 7.25 |
| Insurance | 3,176 | | 3,176 | | [2] | 397 | 0.35 |
| Utilities | 1,800 | | 1,800 | | [3] | 225 | 0.20 |
| Repairs & Maintenance | 4,000 | | 4,000 | | [4] | 500 | 0.44 |
| Landscaping | 1,200 | | 1,200 | | [5] | 150 | 0.13 |
| Pest Control | 480 | | 480 | | [6] | 60 | 0.05 |
| Operating Reserves | 2,000 | | 2,000 | | [7] | 250 | 0.22 |
| Management Fee | 14,480 | 4.0% | 15,016 | 4.0% | | 1,877 | 1.66 |
| **Total Expenses** | **$92,919** | | **$93,455** | | | **$11,682** | **$10.30** |
| **Expenses as % of EGI** | **25.7%** | | **24.9%** | | | | |
| **Net Operating Income** | **$269,085** | | **$281,935** | | | **$35,242** | **$31.08** |

Notes and assumptions to the above analysis are on the following page.

## NOTES

| Notes to Operating Statement | |
|---|---|
| [1] | 1.196046% of the purchase price |
| [2] | Actual |
| [3] | $150 per month |
| [4] | $500 per unit per year |
| [5] | $100 per month |
| [6] | $40 per month |
| [7] | $250 per unit per year |

## PRICING DETAIL

| Summary | | |
|---|---|---|
| **Price** | **$5,500,000** | |
| Down Payment | $1,925,000 | 35% |
| Number of Units | 8 | |
| Price Per Unit | $687,500 | |
| Price Per SqFt | $606.33 | |
| Rentable SqFt | 9,071 | |
| Lot Size | 0.16 Acres | |
| Approx. Year Built | 2018 | |

| Returns | Current | Pro Forma |
|---|---|---|
| **CAP Rate** | **4.89%** | **5.13%** |
| GRM | 14.74 | 14.21 |
| Cash-on-Cash | 3.27% | 3.94% |
| Debt Coverage Ratio | 1.31 | 1.37 |

| Financing | 1st Loan |
|---|---|
| Loan Amount | $3,575,000 |
| Loan Type | New |
| Interest Rate | 4.05% |
| Amortization | 30 Years |
| Year Due | 2024 |

Loan information is subject to change. Contact your Marcus & Millichap Capital Corporation representative.

| # Of Units | Unit Type | SqFt/Unit | Scheduled Rents | Market Rents |
|---|---|---|---|---|
| 1 | Studio / 1 Bath | 850 | $3,000 | $3,150 |
| 2 | 2 Bed / 2 Bath | 1,090 | $3,925 | $4,000 |
| 4 | 2 Bed / 2.5 Bath | 1,060 | $3,813 | $4,000 |
| 1 | 3 Bed / 3.5 Bath | 1,803 | $5,000 | $5,100 |

**Operating Data**

| Income | | Current | | Pro Forma |
|---|---|---|---|---|
| **Gross Scheduled Rent** | | **$373,200** | | **$387,000** |
| Less: Vacancy/Deductions | 3.0% | $11,196 | 3.0% | $11,610 |
| Total Effective Rental Income | | $362,004 | | $375,390 |
| Other Income | | $0 | | $0 |
| Effective Gross Income | | $362,004 | | $375,390 |
| Less: Expenses | 25.7% | $92,919 | 24.9% | $93,455 |
| **Net Operating Income** | | **$269,085** | | **$281,935** |
| Cash Flow | | $269,085 | | $281,935 |
| Debt Service | | $206,050 | | $206,050 |
| Net Cash Flow After Debt Service | 3.27% | $63,035 | 3.94% | $75,886 |
| Principal Reduction | | $62,412 | | $64,987 |
| **Total Return** | **6.52%** | **$125,447** | **7.32%** | **$140,873** |

| Expenses | Current | Pro Forma |
|---|---|---|
| Real Estate Taxes | $65,783 | $65,783 |
| Insurance | $3,176 | $3,176 |
| Utilities | $1,800 | $1,800 |
| Repairs & Maintenance | $4,000 | $4,000 |
| Landscaping | $1,200 | $1,200 |
| Pest Control | $480 | $480 |
| Operating Reserves | $2,000 | $2,000 |
| Management Fee | $14,480 | $15,016 |
| **Total Expenses** | **$92,919** | **$93,455** |
| **Expenses/Unit** | **$11,615** | **$11,682** |
| **Expenses/SF** | **$10.24** | **$10.30** |

# MARCUS & MILLICHAP CAPITAL CORPORATION CAPABILITIES

MMCC—our fully integrated, dedicated financing arm—is committed to providing superior capital market expertise, precisely managed execution, and unparalleled access to capital sources providing the most competitive rates and terms.

We leverage our prominent capital market relationships with commercial banks, life insurance companies, CMBS, private and public debt/equity funds, Fannie Mae, Freddie Mac and HUD to provide our clients with the greatest range of financing options.

Our dedicated, knowledgeable experts understand the challenges of financing and work tirelessly to resolve all potential issues to the benefit of our clients.

**Closed 1,678 debt and equity financings in 2018**

**National platform operating within the firm's brokerage offices**

**$6.24 billion billion total national volume in 2018**

**Access to more capital sources than any other firm in the industry**

## WHY MMCC?

**Optimum financing solutions to enhance value**

**Our ability to enhance buyer pool by expanding finance options**

**Our ability to enhance seller control**

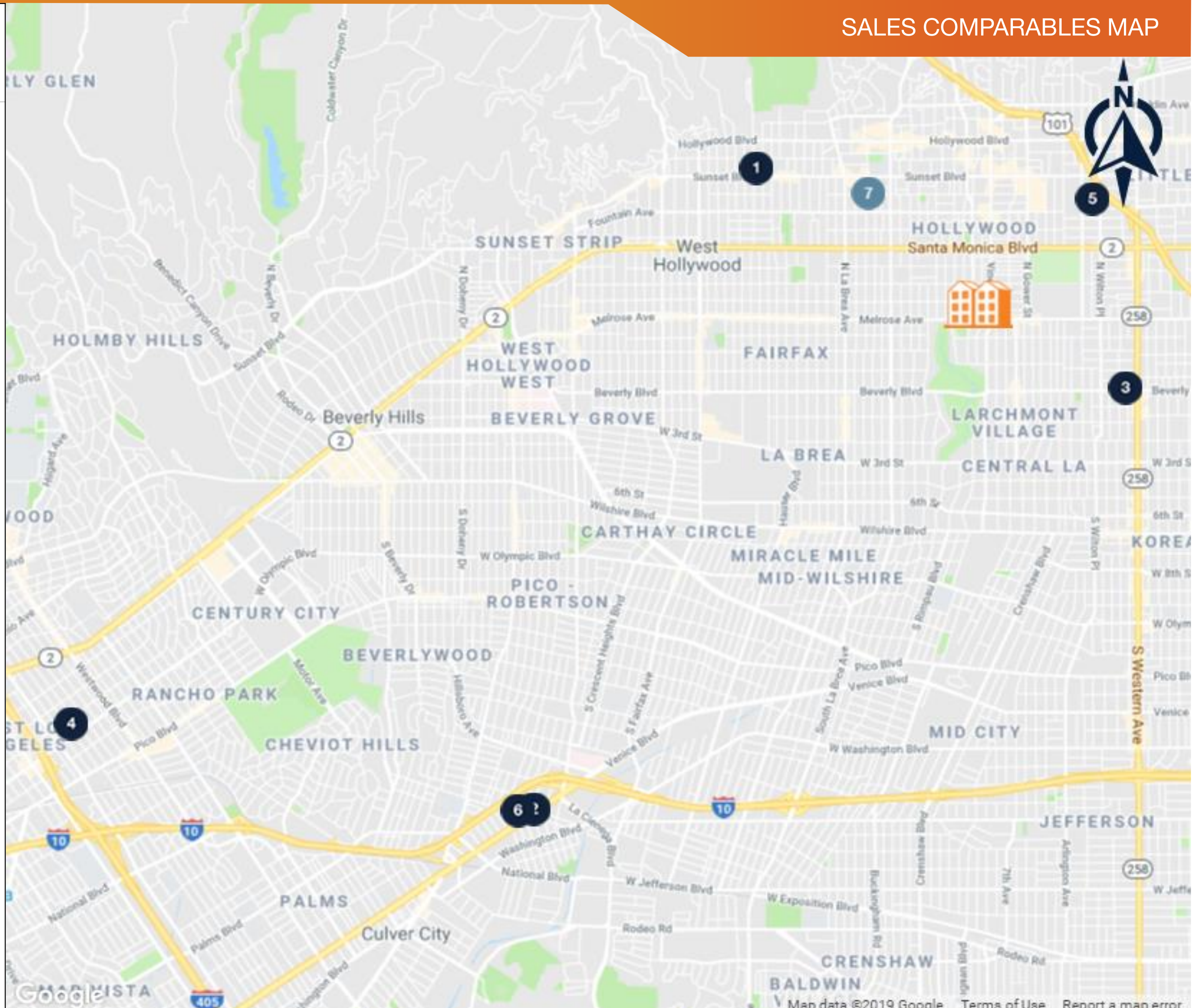
- **Through buyer qualification support**
- **Our ability to manage buyers finance expectations**
- **Ability to monitor and manage buyer/lender progress, insuring timely, predictable closings**
- **By relying on a world class set of debt/equity sources and presenting a tightly underwritten credit file**

# MARKET
# COMPARABLES

## SALES COMPARABLES MAP

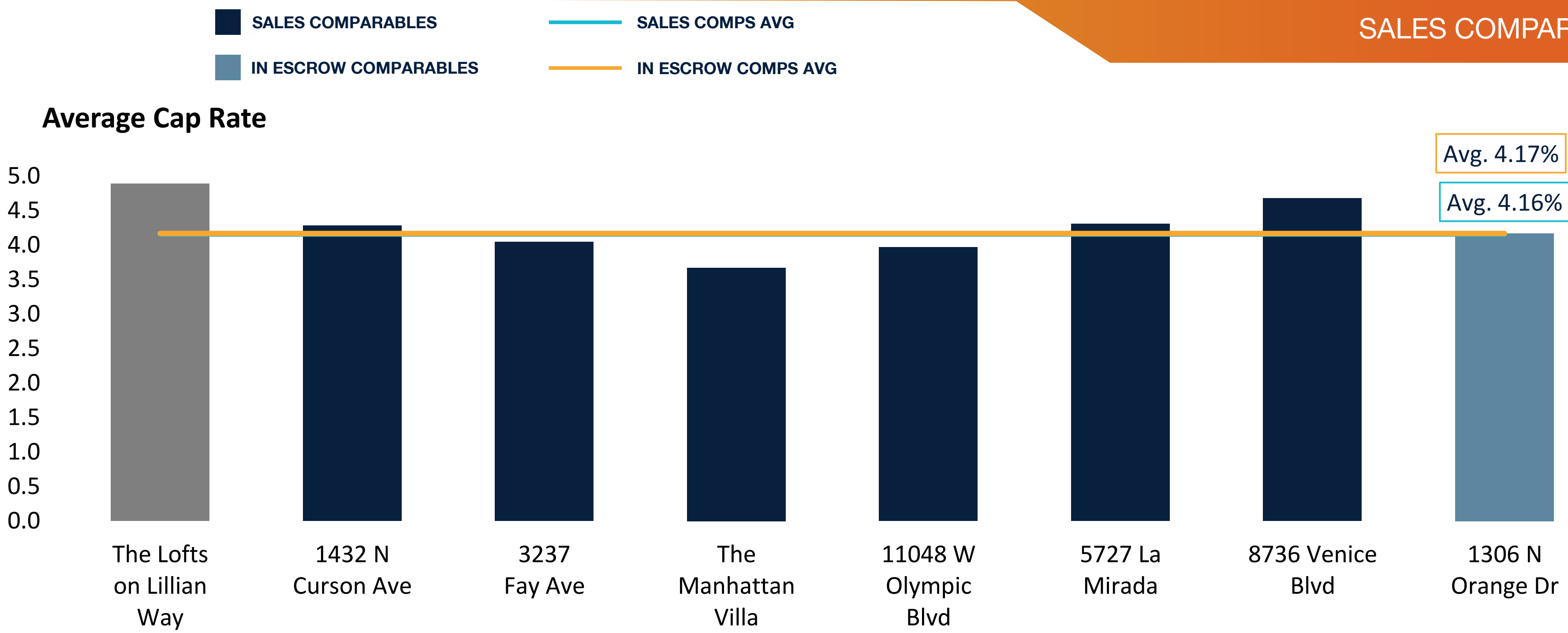
**THE LOFTS ON LILLIAN WAY**

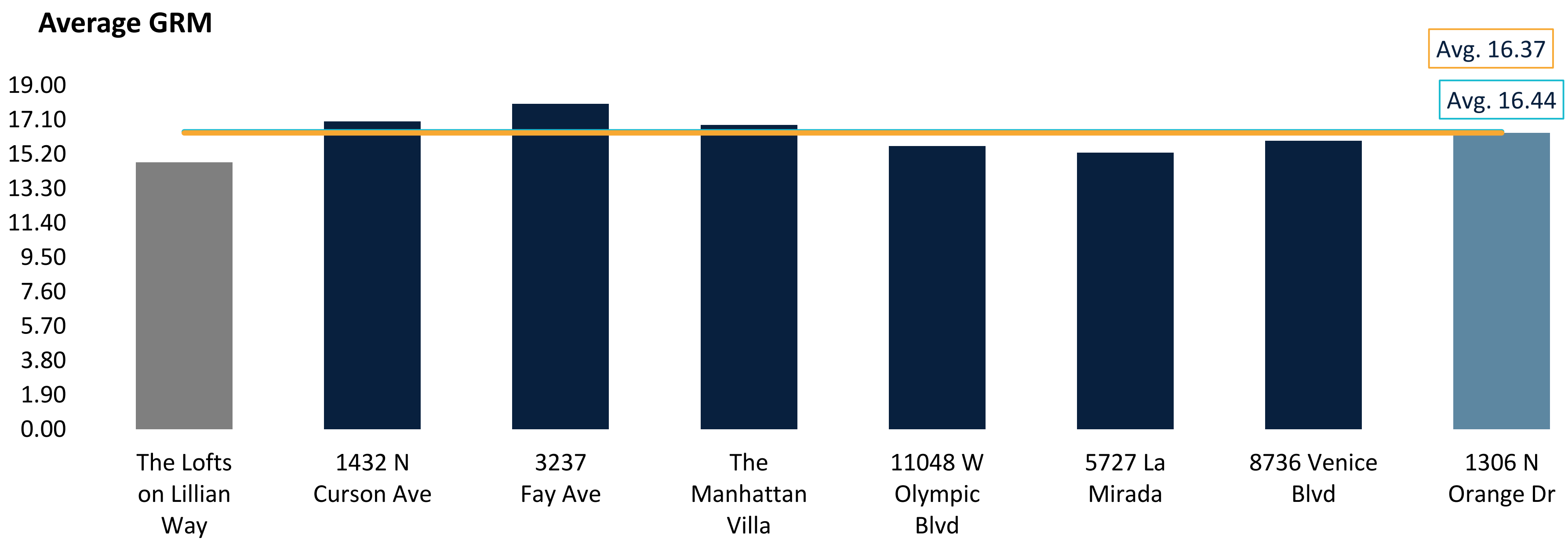
1. 1432 N Curson Ave
2. 3237 Fay Ave
3. The Manhattan Villa
4. 11048 W Olympic Blvd
5. 5727 La Mirada
6. 8736 Venice Blvd
7. 1306 N Orange Dr




**SALES COMPARABLES**

**IN ESCROW COMPARABLES**

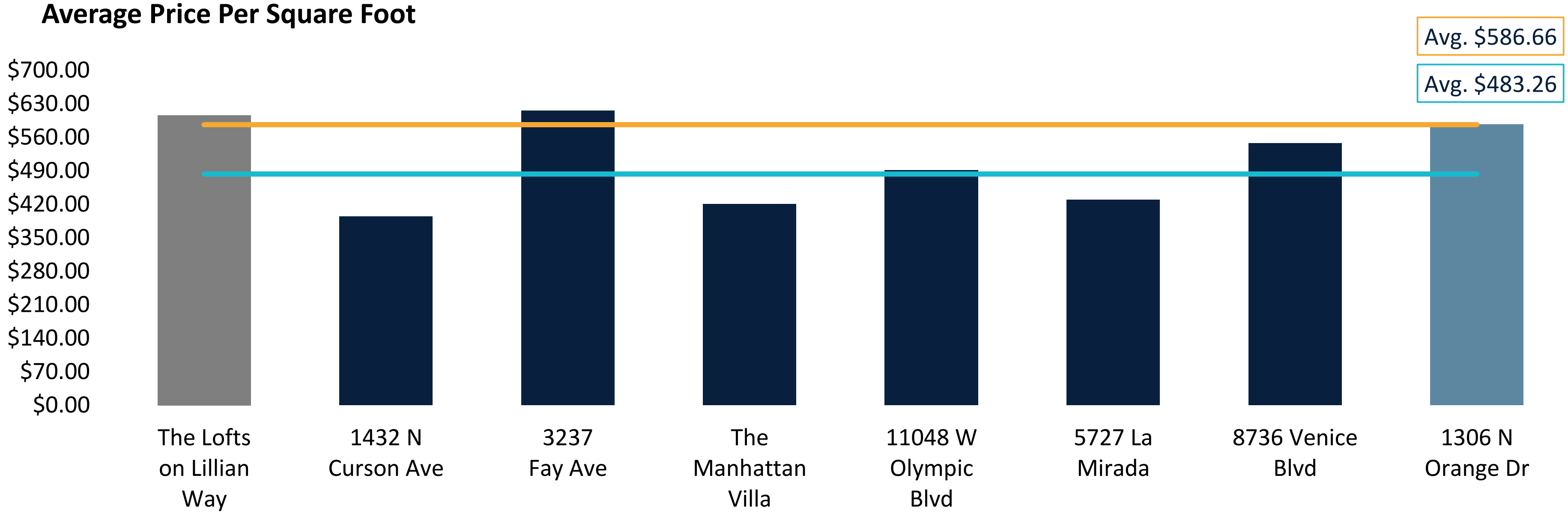

SALES COMPARABLES
SALES COMPS AVG
IN ESCROW COMPARABLES
IN ESCROW COMPS AVG
Average Cap Rate
Avg. 4.17%
Avg. 4.16%
5.0
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
The Lofts on Lillian Way
1432 N Curson Ave
3237 Fay Ave
The Manhattan Villa
11048 W Olympic Blvd
5727 La Mirada
8736 Venice Blvd
1306 N Orange Dr


Average GRM
Avg. 16.37
Avg. 16.44
19.00
17.10
15.20
13.30
11.40
9.50
7.60
5.70
3.80
1.90
0.00
The Lofts on Lillian Way
1432 N Curson Ave
3237 Fay Ave
The Manhattan Villa
11048 W Olympic Blvd
5727 La Mirada
8736 Venice Blvd
1306 N Orange Dr

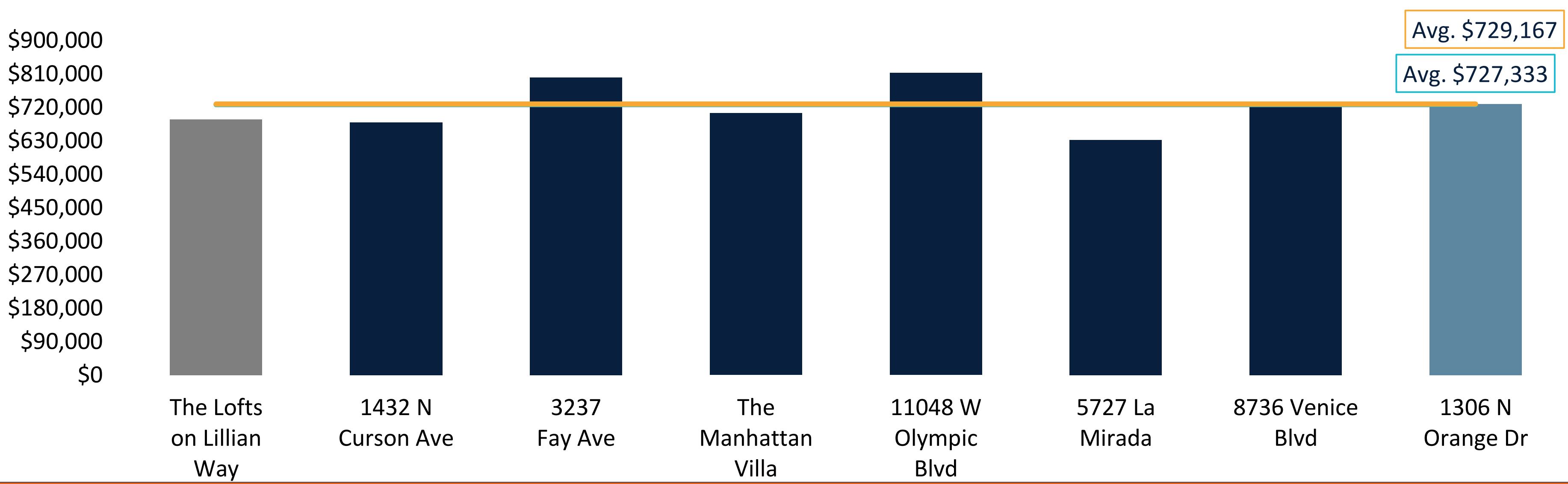
## SALES COMPARABLES

SALES COMPARABLES
SALES COMPS AVG
IN ESCROW COMPARABLES
IN ESCROW COMPS AVG

### Average Price Per Square Foot

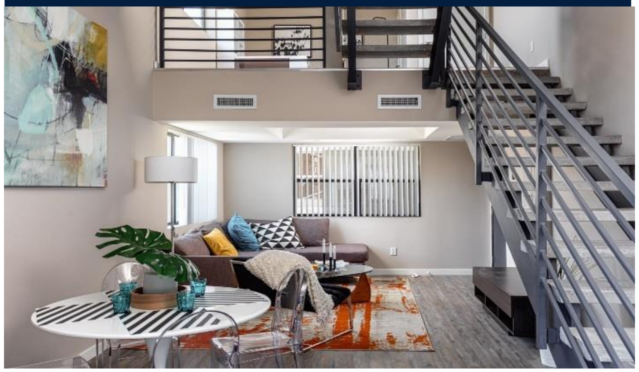



### Average Price Per Unit



**SALES COMPARABLES** **IN ESCROW COMPARABLES**

## THE LOFTS ON LILLIAN WAY
753 Lillian Way, Los Angeles, CA, 90038



| | | Units | Unit Type |
|---|---|---|---|
| Offering Price: | $5,500,000 | 1 | Studio 1 Bath |
| Price/Unit: | $687,500 | 2 | 2 Bed 2 Bath |
| Price/SF: | $606.33 | 4 | 2 Bed 2.5 Bath |
| CAP Rate: | 4.89% | 1 | 3 Bed 3.5 Bath |
| GRM: | 14.74 | | |
| Total No. of Units: | 8 | | |
| Year Built: | 2018 | | |

| Underwriting Criteria | | | |
|---|---|---|---|
| Income | $362,004 | Expenses | $92,919 |
| NOI | $269,085 | Vacancy | ($11,196) |

## 1432 N CURSON AVE
1432 N Curson Ave, Los Angeles, CA, 90046

1

| | | Units | Unit Type |
|---|---|---|---|
| Close Of Escrow: | 5/26/2017 | 3 | 1 Bdr 1 Bath |
| Sales Price: | $6,120,000 | 6 | 2 Bdr 2 Bath |
| Price/Unit: | $680,000 | | |
| Price/SF: | $394.33 | | |
| CAP Rate: | 4.28% | | |
| GRM: | 17.00 | | |
| Total No. of Units: | 9 | | |
| Year Built: | 2016 | | |

| Underwriting Criteria | | | |
|---|---|---|---|
| Income | $360,000 | Expenses | $98,134 |
| NOI | $261,866 | | |

NOTES

3 units delivered vacant.

## 3237 FAY AVE
3237 Fay Ave, Los Angeles, CA, 90034

2

| | | Units | Unit Type |
|---|---|---|---|
| Close Of Escrow: | 8/1/2017 | 5 | 2 Bdr 2 Bath |
| Sales Price: | $5,600,000 | 2 | 3 Bdr 3 Bath |
| Price/Unit: | $800,000 | | |
| Price/SF: | $615.59 | | |
| CAP Rate: | 4.05% | | |
| GRM: | 17.99 | | |
| Total No. of Units: | 7 | | |
| Year Built: | 2012 | | |

| Underwriting Criteria | | | |
|---|---|---|---|
| Income | $311,304 | Expenses | $84,707 |
| NOI | $226,597 | | |

SALES COMPARABLES | IN ESCROW COMPARABLES

## THE MANHATTAN VILLA
201 N Manhattan Pl, Los Angeles, CA, 90004

3

| | | Units | Unit Type |
|---|---|---|---|
| Close Of Escrow: | 9/21/2018 | 6 | 3 Bdr 2 Bath |
| Sales Price: | $4,225,000 | | |
| Price/Unit: | $704,167 | | |
| Price/SF: | $420.40 | | |
| CAP Rate: | 3.67% | | |
| GRM: | 16.81 | | |
| Total No. of Units: | 6 | | |
| Year Built: | 2008 | | |

| Underwriting Criteria | | | |
|---|---|---|---|
| Income | $251,400 | Expenses | $96,177 |
| NOI | $155,223 | | |

NOTES

1 unit delivered vacant.

## 11048 W OLYMPIC BLVD
11048 W Olympic Blvd, Los Angeles, CA, 90064

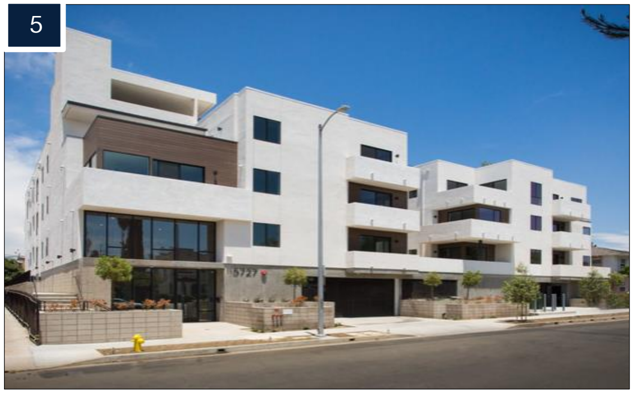
4

| | | Units | Unit Type |
|---|---|---|---|
| Close Of Escrow: | 8/2/2018 | 8 | 2 Bdr 2 Bath |
| Sales Price: | $6,500,000 | | |
| Price/Unit: | $812,500 | | |
| Price/SF: | $491.16 | | |
| CAP Rate: | 3.97% | | |
| GRM: | 15.63 | | |
| Total No. of Units: | 8 | | |
| Year Built: | 2016 | | |

| Underwriting Criteria | | | |
|---|---|---|---|
| Income | $415,953 | Expenses | $145,584 |
| NOI | $257,891 | Vacancy | $12,478 |

## 5727 LA MIRADA
5727 La Mirada Ave, Los Angeles, CA, 90038

5



| | | Units | Unit Type |
|---|---|---|---|
| Close Of Escrow: | 2/13/2019 | 13 | 2 Bdr 2 Bath |
| Sales Price: | $17,700,000 | 15 | 3 Bdr 3 Bath |
| Price/Unit: | $632,143 | | |
| Price/SF: | $430.07 | | |
| CAP Rate: | 4.31% | | |
| GRM: | 15.28 | | |
| Total No. of Units: | 28 | | |
| Year Built: | 2018 | | |

| Underwriting Criteria | | | |
|---|---|---|---|
| Income | $1,158,377 | Expenses | $366,000 |
| NOI | $763,812 | Vacancy | $46,565 |

SALES COMPARABLES   IN ESCROW COMPARABLES

## 8736 VENICE BLVD
8736 Venice Blvd, Los Angeles, CA, 90034

6

| | | Units | Unit Type |
|---|---|---|---|
| Close Of Escrow: | 8/15/2018 | 3 | Studio 1 Bath |
| Sales Price: | $5,881,500 | 1 | 1 Bdr 1 Bath |
| Price/Unit: | $735,188 | 3 | 2 Bdr 2 Bath |
| Price/SF: | $547.98 | 1 | 3 Bdr 3 Bath |
| CAP Rate: | 4.68% | | |
| GRM: | 15.93 | | |
| Total No. of Units: | 8 | | |
| Year Built: | 2016 | | |

| Underwriting Criteria | | | |
|---|---|---|---|
| Income | $369,288 | Expenses | $83,021 |
| NOI | $275,188 | Vacancy | $11,079 |

## 1306 N ORANGE DR
1306 N Orange Dr, Los Angeles, CA, 90028

7

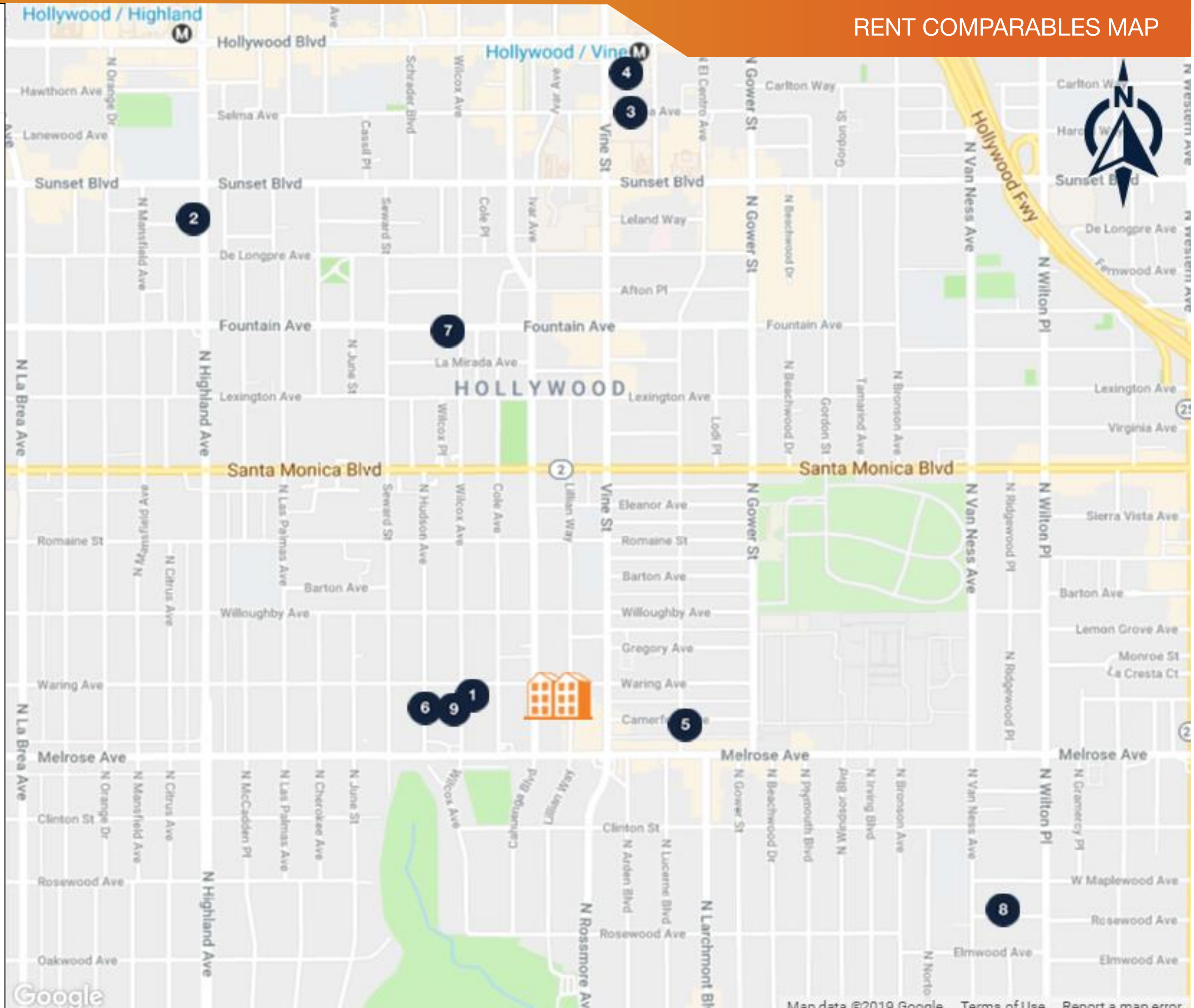
| | | Units | Unit Type |
|---|---|---|---|
| In Escrow | | 1 | 1 Bdr 1 Bath |
| List Price: | $8,750,000 | 7 | 2 Bdr 2 Bath |
| Price/Unit: | $729,167 | 4 | 3 Bdr 3 Bath |
| Price/SF: | $586.66 | | |
| CAP Rate: | 4.17% | | |
| GRM: | 16.37 | | |
| Total No. of Units: | 12 | | |
| Year Built: | 2018 | | |

| Underwriting Criteria | | | |
|---|---|---|---|
| Income | $534,648 | Expenses | $158,617 |
| NOI | $364,792 | Vacancy | $16,039 |

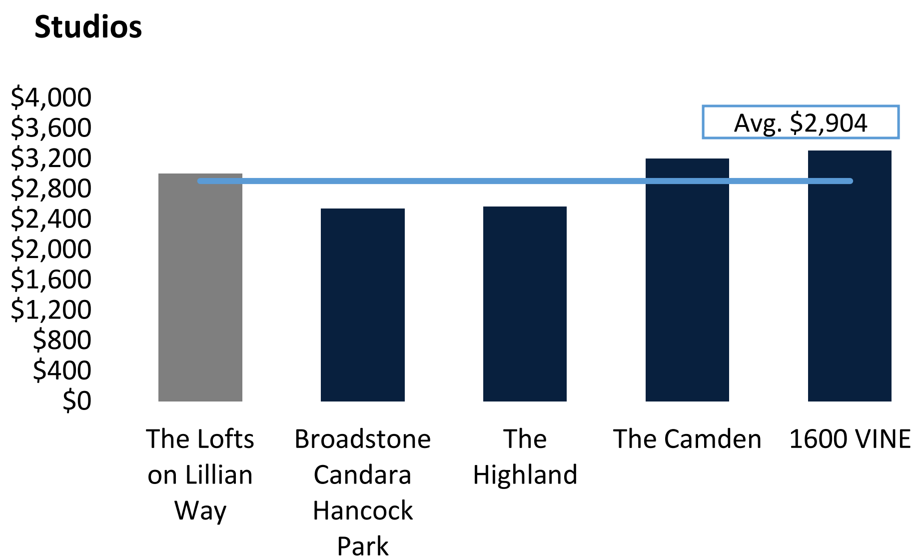
## RENT COMPARABLES MAP

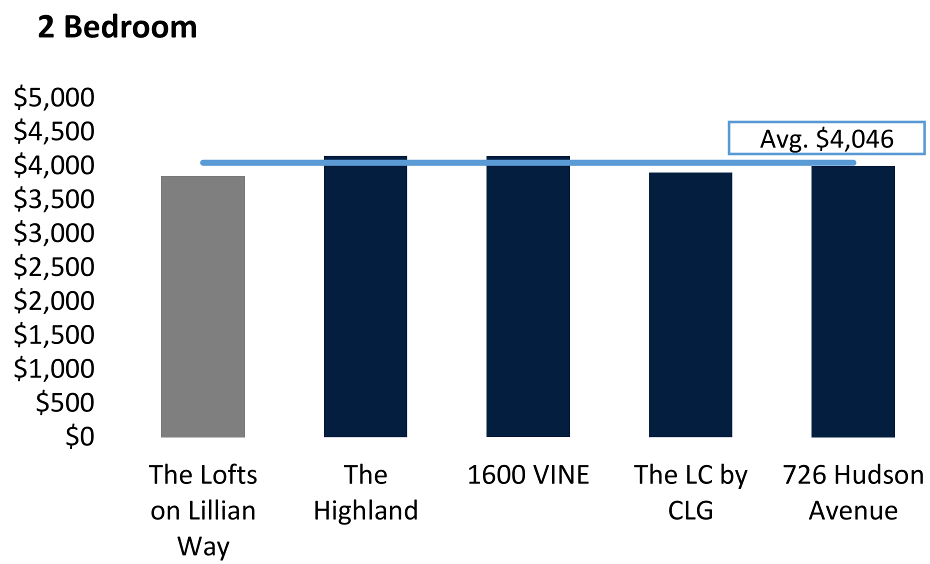
**THE LOFTS ON LILLIAN WAY**

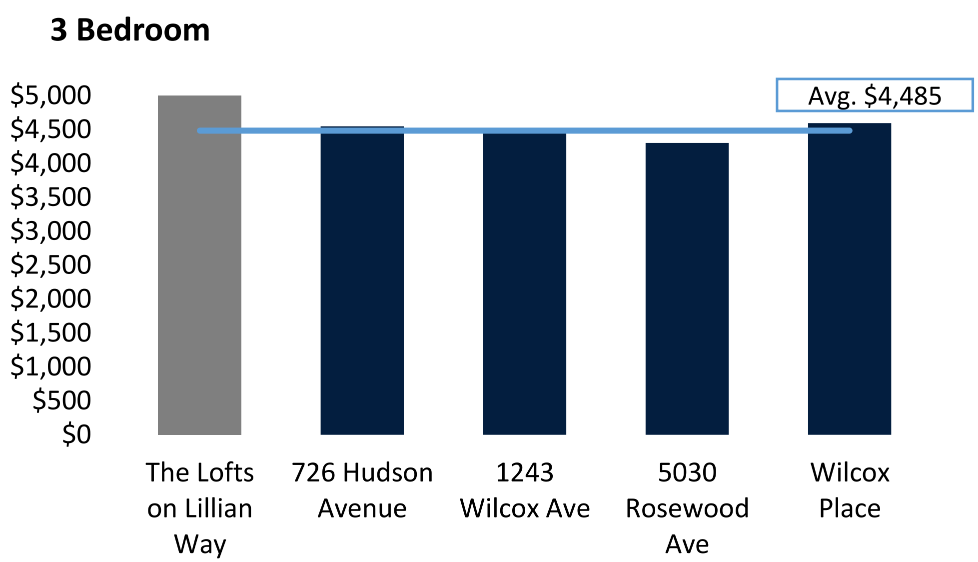
1. Broadstone Candara Hancock Park
2. The Highland
3. The Camden
4. 1600 VINE
5. The LC by CLG
6. 726 Hudson Avenue
7. 1243 Wilcox Ave
8. 5030 Rosewood Ave
9. Wilcox Place



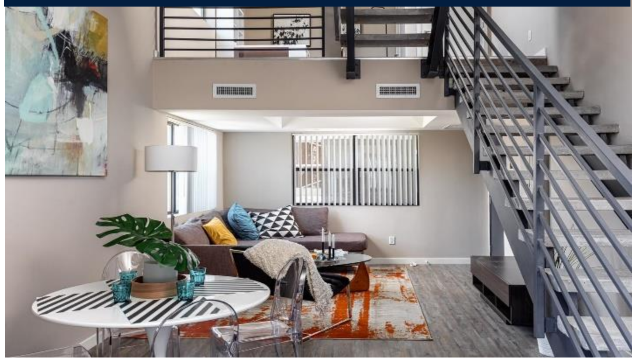
## AVERAGE RENT - MULTIFAMILY



## THE LOFTS ON LILLIAN WAY
753 Lillian Way, Los Angeles, CA, 90038



| Unit Type | Units | SF | Rent | Rent/SF |
|---|---|---|---|---|
| Studio 1 Bath | 1 | 850 | $3,000 | $3.53 |
| 2 Bed 2 Bath | 2 | 1,090 | $3,925 | $3.60 |
| 2 Bed 2.5 Bath | 4 | 1,060 | $3,813 | $3.60 |
| 3 Bed 3.5 Bath | 1 | 1,803 | $5,000 | $2.77 |
| Total/Avg. | 8 | 1,134 | $3,888 | $3.43 |

YEAR BUILT: 2018

## BROADSTONE CANDARA HANCOCK PARK
738 Wilcox Ave, Los Angeles, CA, 90038

1

| Unit Type | Units | SF | Rent | Rent/SF |
|---|---|---|---|---|
| Studio 1 Bath | 1 | 595-615 | $2,545 | $4.21 |
| Total/Avg. | 1 | 605 | $2,545 | $4.21 |

YEAR BUILT: 2015

## THE HIGHLAND
1411 N Highland Ave, Los Angeles, CA, 90028

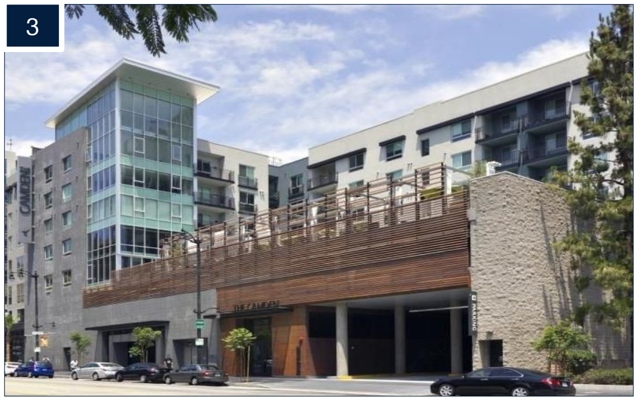
2

| Unit Type | Units | SF | Rent | Rent/SF |
|---|---|---|---|---|
| Studio 1 Bath | 1 | 541 | $2,566 | $4.74 |
| 2 Bdr 2 Bath | 1 | 998-1,287 | $3,599-$4,695 | $3.63 |
| Total/Avg. | 2 | 842 | $3,357 | $3.99 |

YEAR BUILT: 2016

## THE CAMDEN
1540 Vine St, Los Angeles, CA, 90028

3




| Unit Type | Units | SF | Rent | Rent/SF |
|---|---|---|---|---|
| Studio 1 Bath | 1 | 526 | $2,879-$3,519 | $6.08 |
| Total/Avg. | 1 | 526 | $3,199 | $6.08 |

YEAR BUILT: 2016

## 1600 VINE
1600 Vine St, Los Angeles, CA, 90028

4


| Unit Type | Units | SF | Rent | Rent/SF |
|---|---|---|---|---|
| Studio 1 Bath | 1 | 683 | $3,308 | $4.84 |
| 2 Bdr 2 Bath | 1 | 1,151 | $4,142 | $3.60 |
| Total/Avg. | 2 | 917 | $3,725 | $4.06 |

YEAR BUILT: 2010

## THE LC BY CLG
710 N El Centro Ave, Los Angeles, CA, 90038

5

| Unit Type | Units | SF | Rent | Rent/SF |
|---|---|---|---|---|
| 2 Bdr 2 Bath | 1 | 963 | $3,499 | $3.63 |
| 2 Bdr 2.5 Bath | 1 | 1,286 | $4,300 | $3.34 |
| Total/Avg. | 2 | 1,125 | $3,900 | $3.47 |

YEAR BUILT: 2015

## 726 HUDSON AVENUE
726 N Hudson Ave, Los Angeles, CA, 90038

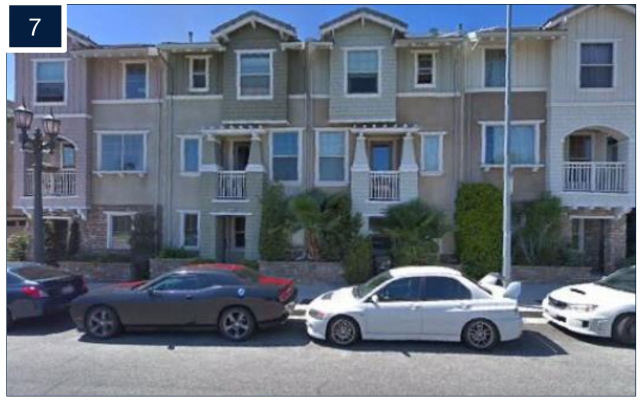
6


| Unit Type | Units | SF | Rent | Rent/SF |
|---|---|---|---|---|
| 3 Bdr 3 Bath | 1 | 1,516-1,566 | $4,095-$4,995 | $2.95 |
| 2 Bdr 2 Bath | 1 | 1,257 | $3,695-$3,995 | $3.06 |
| 2 Bdr 2.5 Bath | 1 | 1,449 | $3,995-$4,295 | $2.86 |
| Total/Avg. | 3 | 1,416 | $4,178 | $2.95 |

YEAR BUILT: 2006

## 1243 WILCOX AVE
1243 Wilcox Ave, Los Angeles, CA, 90038

7

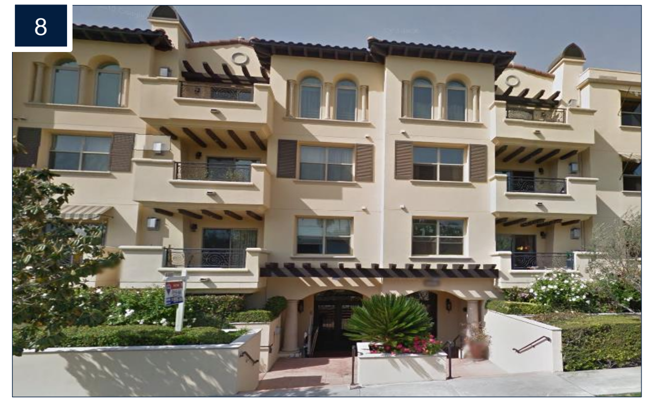


| Unit Type | Units | SF | Rent | Rent/SF |
|---|---|---|---|---|
| 3 Bdr 3 Bath | 1 | 1,736 | $4,500 | $2.59 |
| Total/Avg. | 1 | 1,736 | $4,500 | $2.59 |

YEAR BUILT: 2009

## 5030 ROSEWOOD AVE
5030 Rosewood Ave, Los Angeles, CA, 90004

8



| Unit Type | Units | SF | Rent | Rent/SF |
|---|---|---|---|---|
| 3 Bdr 2 Bath | 1 | 1,245 | $4,300 | $3.45 |
| Total/Avg. | 1 | 1,245 | $4,300 | $3.45 |

YEAR BUILT: 2016

## WILCOX PLACE
727 Wilcox Ave, Los Angeles, CA, 90038

9

| Unit Type | Units | SF | Rent | Rent/SF |
|---|---|---|---|---|
| 3 Bdr 2 Bath | 1 | 1,841 | $4,595 | $2.50 |
| Total/Avg. | 1 | 1,841 | $4,595 | $2.50 |

YEAR BUILT: 2017

# MARKET OVERVIEW

# WESTSIDE CITIES, LOS ANGELES
## OVERVIEW

The Westside Cities area is located west of downtown Los Angeles and north of Los Angeles International Airport. The market contains the following submarkets: Brentwood-Westwood-Beverly Hills; West Hollywood; Century City; Palms-Mar Vista; and Santa Monica-Marina del Rey. Cities from Venice to Playa Del Rey to Culver City are all located within these submarkets. The region is projected to add 12,000 residents through 2022, resulting in the formation of more than 7,600 households.


## METRO HIGHLIGHTS

### GROWING TECH SECTOR
The region's growing high-tech sector has awarded the Santa Monica/Venice area the nickname of "Silicon Beach," attracting companies such as Google.

### WELL-EDUCATED WORKFORCE
Twice as many adults possess a bachelor's degree compared with the nation and 27 percent also hold a graduate or professional degree.

### HIGH INCOMES
Educational attainment translates into a median household income that is well above the national average. High home prices, however, keep the homeownership level below 40 percent, providing a strong rental market.

## ECONOMY

- Major employers in the region include entertainment giants 21st Century Fox and Sony Pictures. While roughly 20,000 jobs are in the motion-picture industry, ancillary businesses tied to entertainment are a major source of employment, as is marketing and advertising.
- The large healthcare industry is represented by UCLA Medical Group, Cedars-Sinai Medical Center, Providence Health and Services, and the local VA.
- Educational institutions throughout the market, including UCLA, Loyola Marymount and Pepperdine University, employ more than 42,000 workers.
- Tourism and retail shopping are also major drivers of the local economy.

## DEMOGRAPHICS

| 2018 POPULATION: | 2018 HOUSEHOLDS: | 2018 MEDIAN AGE: | 2018 MEDIAN HOUSEHOLD INCOME: |
|---|---|---|---|
| 648K | 300K | 39.5 | $88,400 |
| Growth 2018-2023*: 1.8% | Growth 2018-2023*: 2.4% | U.S. Median: 38.0 | U.S. Median: $58,800 |

* Forecast
Sources: Marcus & Millichap Research Services; BLS; Bureau of Economic Analysis; Experian; Fortune; Moody's Analytics; U.S. Census Bureau

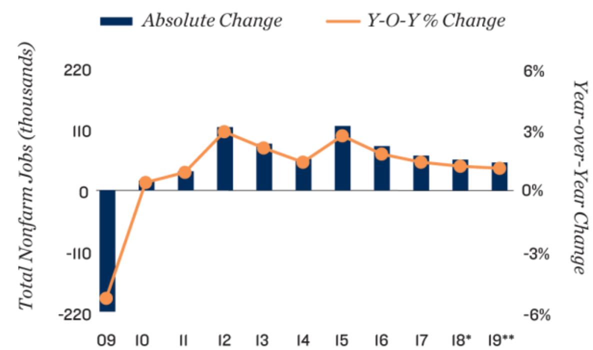
## LOS ANGELES METRO AREA

### Increased Leasing Highlights Level of Rental Demand; Investment Opportunities Prevail Throughout County

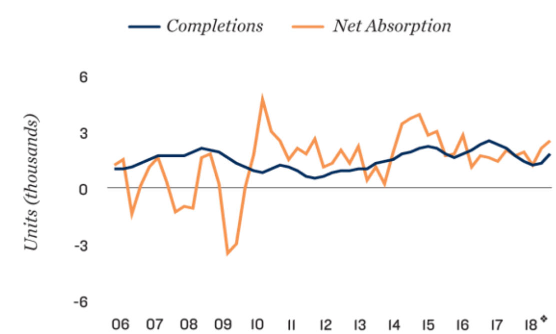
**Absorption paces elevated construction level. Over the past five years, more than 40,000 apartments were delivered in Los Angeles County, yet robust absorption held the metro's vacancy rate below 4 percent throughout this period, reaching a cycle-low level last year. In 2019, construction activity further elevates as nearly 15,000 additional rentals are completed, the third largest annual total among U.S. metros. Amid this century-high volume of deliveries, the county's vacancy rate remains below 4 percent, aided by consistent hiring within the tech, entertainment and defense sectors, which has encouraged the formation of 35,000 new households. The widening gap between a mortgage payment and average monthly rent also favors demand for apartments, with the median home price nearing $600,000. Residents looking to lease newly built units this year will find the most opportunities in Greater Downtown Los Angeles, where more than 8,000 apartments are slated for finalization. An uptick in completions also occurs in the San Fernando Valley, where an extended period of tight vacancy has created pent-up demand.**

**Tight vacancy throughout Los Angeles County prompts even distribution of sales activity. Amid cycle-high construction, institutional buyers are actively pursuing newly built properties in the urban core. Downtown Los Angeles and surrounding neighborhoods represent top spots for investors seeking low-3 to low-4 percent returns for Class A assets and relatively newer Class B complexes. Buyers seeking upside-producing opportunities in areas of tight vacancy eye listings in San Fernando Valley and cities north of Route 60. Here, 1960s- to 1980s-built Class C properties provide investors with low-3 to mid-4 percent first-year yields. Expansions by defense and aerospace-related firms enhance the appeal of cities south of LAX Airport, where similar returns are obtainable for upgradeable complexes. To the north of the airport, smaller Class C assets trading at high-2 to low-3 percent initial yields steer deal flow.**

**Employment Trends**




**Quarterly Completions vs. Absorption⌘**

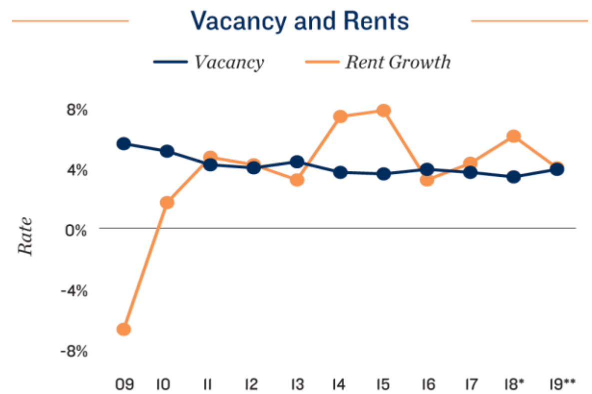



* Estimate; ** Forecast; ❖ Through 3Q; ⌘ Trailing 12-month average
Sources: Marcus & Millichap Research Services; BLS; CoStar Group, Inc.

## LOS ANGELES METRO AREA

### 2019 Market Forecast

| | |
|---|---|
| Employment up 1.1% | Hiring velocity in 2019 is nearly on par with last year, when employers bolstered payrolls by 55,000 workers. Nearly a fourth of the jobs created this year are traditional office positions. |
| Construction 14,800 units | After completing 9,700 units last year, developers will increase annual deliveries by more than 5,000 rentals in 2019. |
| Vacancy up 50 bps | Robust renter demand lessens the impact of century-high delivery volume, as the metro's vacancy rate rises moderately to 3.9 percent in 2019. |
| Rent up 4.0% | The average effective rent climbs to $2,350 per month. Last year the average monthly rent increased by 6.1 percent. |
| Investment | Expansions by both major and startup tech companies located off Interstate 405, north of LAX Airport, inflate buyer demand for regionally affordable rentals located in this area. |

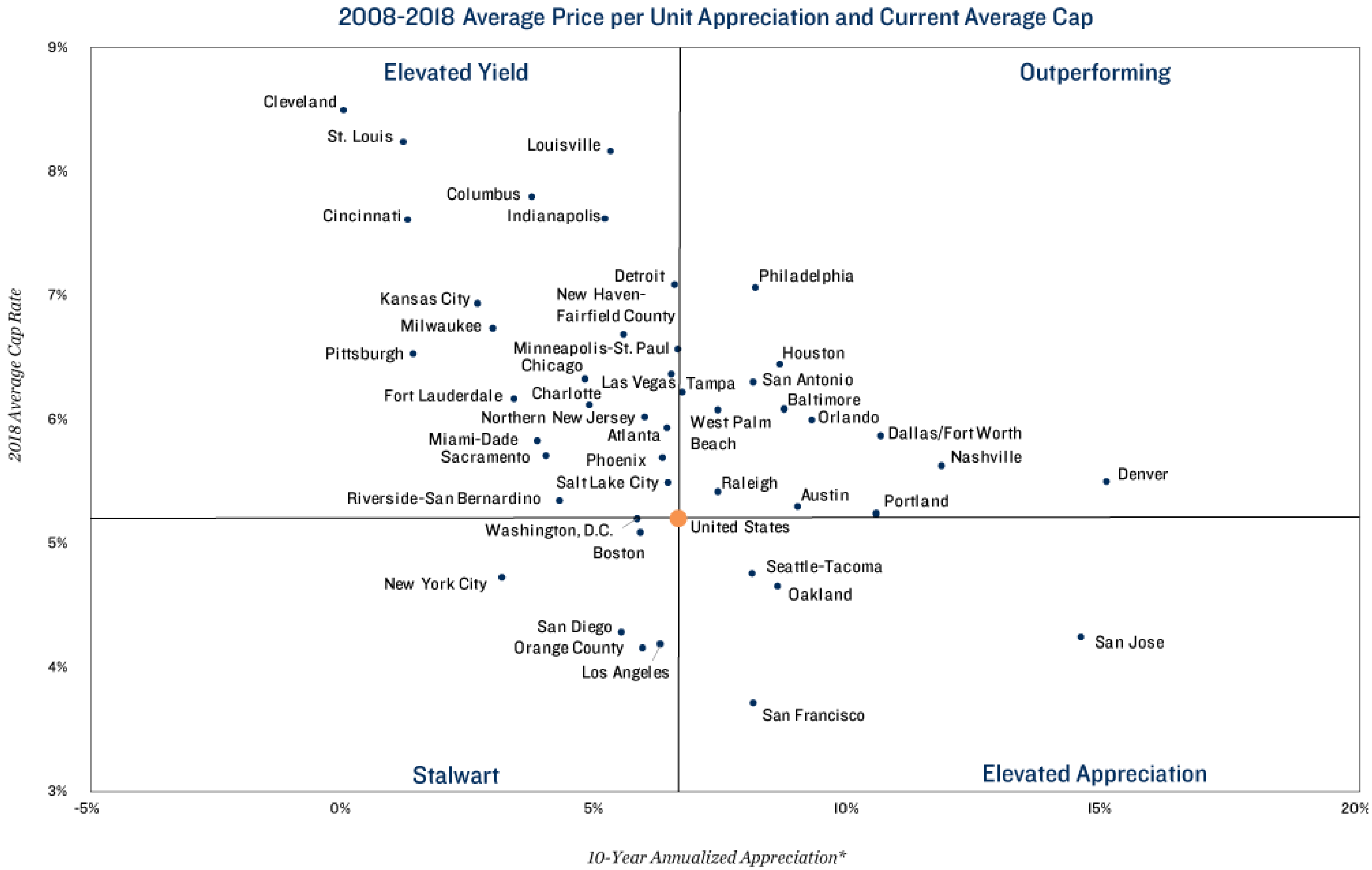




* Estimate; ** Forecast
Sources: CoStar Group, Inc.; RealPage, Inc.; Real Capital Analytics

## 2019 PRICING QUADRANT

### Yield Range Offers Compelling Options for Investors; Most Metros Demonstrate Strong Appreciation




* 2008-2018 Average annualized appreciations in price per unit
Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; Real Capital Analytics

## 2019 PRICING QUADRANT

### Pricing and Valuation Trends Summary

**Ten-year appreciation favors high-growth markets. Benchmarked from the end of 2008 as the U.S. economy began its rapid tumble into recession, appreciation has generally been strongest in tech, growth and Texas markets. Because Texas experienced a much softer downturn, assets there had to recover less lost value during the growth cycle. Interestingly, markets like Denver, Nashville, Orlando and Baltimore generated stronger-than-average value gains that reflect substantive economic and employment growth. Several Midwestern markets, which were trading at cycle highs in late 2008, faced significant value loss during the recession and only recently surpassed their prices of 10 years ago.**

**Capital pursues yield to smaller metros. Although Midwestern markets have taken longer to generate appreciation relative to the near-peak pricing achieved in late 2008, they have offered investors particularly high yields. Comparatively, the Bay Area and Seattle provide low yields but have higher-than-average appreciation. The most favored primary markets, New York City, Southern California and Washington, D.C., have generated lower-than-average appreciation over the last 10 years. This reflects the flight to safety in late 2008 that kept pricing in these markets stronger than many others.**

### Average Price per Unit Range

**(Alphabetical order within each segment)**

| $50,000 - $74,999 | $75,000 - $99,999 | $100,000 - $149,999 | $150,000 - $199,999 | $200,000 - $299,999 | $300,000 - $450,000 |
|---|---|---|---|---|---|
| Cincinnati | Kansas City | Atlanta | Chicago | Los Angeles | Boston |
| Cleveland | Las Vegas | Austin | Denver | New York City | Orange County |
| Columbus | Louisville | Baltimore | Fort Lauderdale | Oakland | San Francisco |
| Detroit | Milwaukee | Charlotte | Miami-Dade | San Diego | San Jose |
| Indianapolis | Pittsburgh | Dallas/ Fort Worth | N.H.-Fairfield County | Seattle-Tacoma | |
| St. Louis | | Houston | Northern New Jersey | | |
| | | Minneapolis-St. Paul | Orlando | | |
| | | Nashville | Philadelphia | | |
| | | Phoenix | Portland | | |
| | | Raleigh | Washington, D.C. | | |
| | | Riverside-San Bernardino | West Palm Beach | | |
| | | Sacramento | | | |
| | | Salt Lake City | | | |
| | | San Antonio | | | |
| | | Tampa-St. Petersburg | | | |

2008-2018 Average annualized appreciations in price per unit Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; Real Capital Analytics

## 2019 NATIONAL MULTIFAMILY INDEX

### Midwest Metro Rises to Claim First Place;
### Coastal Markets Fill Remainder of Top Rungs

**Reshuffling changes leader. Minneapolis-St. Paul climbed two spots to head this year's Index as sustained apartment demand kept vacancy persistently tight, allowing steady rent growth. It is the only Midwest market to break into the top 20. San Diego also inched up two notches on solid rent growth to claim second place. High housing prices and the lowest vacancy rate among major U.S. markets advanced New York City (#3) four steps, while an escalation in the vacancy rate slid Los Angeles (#4) down two places. A surge in new inventory this year will increase vacancy in Seattle-Tacoma (#5), pushing last year's Index leader down four rungs to round out the first five markets. Orlando (#6) is the only new entrant into the top 10, with Riverside-San Bernardino (#7), Boston (#8), Oakland (#9), and Portland (#10) changing places to round out the rest of the spots.**

**Biggest movers shake up Index. Neighboring Florida metros Orlando (#6) and Tampa-St. Petersburg (#12) registered the largest advances in this year's NMI, leaping 11 and nine places, respectively. In both markets, robust job growth will expand the population base, generating strong demand for apartments, cutting vacancy and producing substantial rent gains. An escalation in employment and in-migration also propelled Las Vegas (#27) up six notches. The most significant declines in the Index were posted in Northern New Jersey, Denver, Cincinnati and St. Louis. Northern New Jersey (#24) stumbled eight notches as a slowdown in employment and a rise in deliveries widened the gap between supply and demand. Another year of elevated completions will push vacancy above the national average in Denver (#21) this year, lowering the metro seven steps. Cincinnati (#40) and St. Louis (#46) each moved down six rungs due to above-average vacancy and slower rent growth. Midwestern markets dominate the last five spots in the Index with St. Louis sliding into the bottom rung.**

### Index Methodology

The NMI ranks 46 major markets on a collection of 12-month, forward-looking economic indicators and supply-and-demand variables. Markets are ranked based on their cumulative weighted-average scores for various indicators, including projected job growth, vacancy, construction, housing affordability and rents. Weighing both the forecasts and incremental change over the next year, the Index is designed to show relative supply-and-demand conditions at the market level.

Users of the Index are cautioned to keep several important points in mind. First, the NMI is not designed to predict the performance of individual investments. A carefully chosen property in a bottom-ranked market could easily outperform a poor choice in a higher-ranked market. Second, the NMI is a snapshot of a one-year horizon. A market encountering difficulties in the near term may provide excellent long-term prospects, and vice versa. Third, a market's ranking may fall from one year to the next even if its fundamentals are improving. The NMI is an ordinal Index, and differences in rankings should be carefully interpreted. A top-ranked market is not necessarily twice as good as the second-ranked market, nor is it 10 times better than the 10th-ranked market.

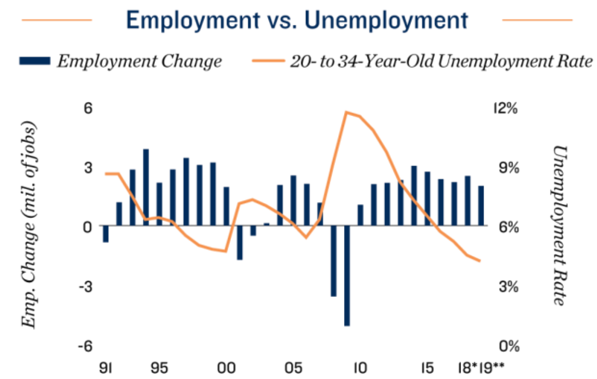
| Market Name | Rank 2019 | Rank 2018 | '18-'19 Change |
|---|---|---|---|
| Minneapolis-St. Paul | 1 | 3 | 2 |
| San Diego | 2 | 4 | 2 |
| New York City | 3 | 7 | 4 |
| Los Angeles | 4 | 2 | -2 |
| Seattle-Tacoma | 5 | 1 | -4 |
| Orlando | 6 | 17 | 11 |
| Riverside-San Bernardino | 7 | 9 | 2 |
| Boston | 8 | 6 | -2 |
| Oakland | 9 | 10 | 1 |
| Portland | 10 | 5 | -5 |
| Sacramento | 11 | 8 | -3 |
| Tampa-St. Petersburg | 12 | 21 | 9 |
| Phoenix | 13 | 13 | 0 |
| San Jose | 14 | 12 | -2 |
| San Francisco | 15 | 11 | -4 |
| Orange County | 16 | 19 | 3 |
| Fort Lauderdale | 17 | 22 | 5 |
| Atlanta | 18 | 15 | -3 |
| Salt Lake City | 19 | 24 | 5 |
| Raleigh | 20 | 18 | -2 |
| Denver | 21 | 14 | -7 |
| Miami-Dade | 22 | 20 | -2 |
| Columbus | 23 | 26 | 3 |
| Northern New Jersey | 24 | 16 | -8 |
| Philadelphia | 25 | 23 | -2 |
| Charlotte | 26 | 27 | 1 |
| Las Vegas | 27 | 33 | 6 |
| Chicago | 28 | 25 | -3 |
| Washington, D.C. | 29 | 32 | 3 |
| Houston | 30 | 29 | -1 |
| Dallas/Fort Worth | 31 | 30 | -1 |
| Detroit | 32 | 28 | -4 |
| Indianapolis | 33 | 36 | 3 |
| Austin | 34 | 31 | -3 |
| Milwaukee | 35 | 38 | 3 |
| West Palm Beach | 36 | 41 | 5 |
| Nashville | 37 | 35 | -2 |
| San Antonio | 38 | 37 | -1 |
| New Haven-Fairfield | 39 | 44 | 5 |
| Cincinnati | 40 | 34 | -6 |
| Pittsburgh | 41 | 42 | 1 |
| Kansas City | 42 | 46 | 4 |
| Cleveland | 43 | 39 | -4 |
| Baltimore | 44 | 45 | 1 |
| Louisville | 45 | 43 | -2 |
| St. Louis | 46 | 40 | -6 |

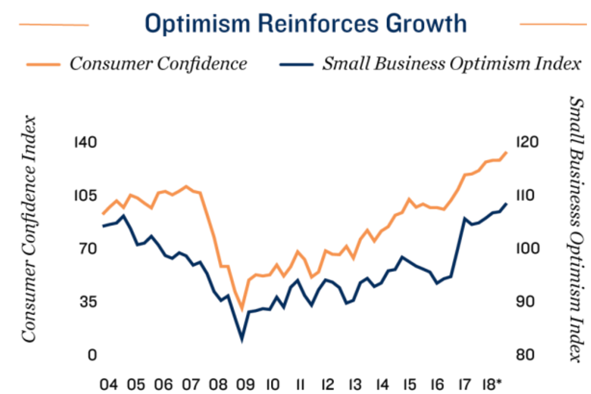
## U.S. ECONOMY

### Tight Labor Market, Waning Confidence Challenge Economic Momentum; Climate Remains Favorable

**Exceptionally low unemployment levels invigorate household formation.** Accelerated job creation in 2018 drove the unemployment rate of young adults between 20 to 34 years old to a 48-year low of 4.5 percent. With two-thirds of this age group living in rentals, they are a dominant force supporting apartment demand, and the strong job market has empowered more of them to move out on their own. Record-high consumer confidence in 2018 reinforced these positive dynamics, inspiring young adults to form new households. These trends should carry into 2019, though confidence has begun to ease back from peak levels and total job additions will likely taper. Labor force shortages will weigh on companies' ability to fill positions, creating an increasingly competitive hiring climate that pushes wage growth above 3 percent for the first time in more than 10 years. Increased compensation and rising disposable income will sustain rising retail sales and apartment tenants' ability to absorb escalating rents. However, wage gains will also place upward pressure on inflation, causing the Federal Reserve to tap the brakes on the economy by raising rates.

**Rising interest rates weigh on home sales, favor rental demand.** Inflation remained in the 2 to 3 percent range through much of last year, but increasing wage growth and the potential inflationary impact of tariffs have elevated caution at the Federal Reserve. The Fed exerted upward pressure on interest rates through quantitative tightening and by raising the overnight rate, resulting in a substantive 90-basis-point increase in mortgage rates in 2018. Higher loan rates converged with rising home prices, a shortage of entry-level homes for sale and changing lifestyle preferences to reduce home sales activity by 4 percent. The monthly payment on a median-priced home increased by $175 last year to nearly $1,700 per month, dramatically widening the disparity between a mortgage payment and the average monthly rent. This widening payment gap, together with tighter underwriting, has restrained young adults' migration into homeownership, reducing the under-35 homeownership rate to 37 percent, down from the peak of 43 percent in 2007. This confluence of factors will likely carry into 2019, sustaining young adults' preference for rental housing.



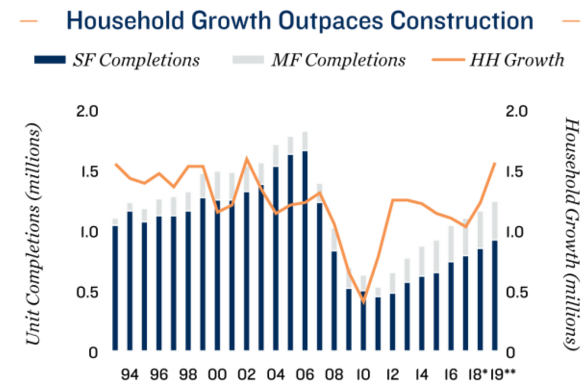



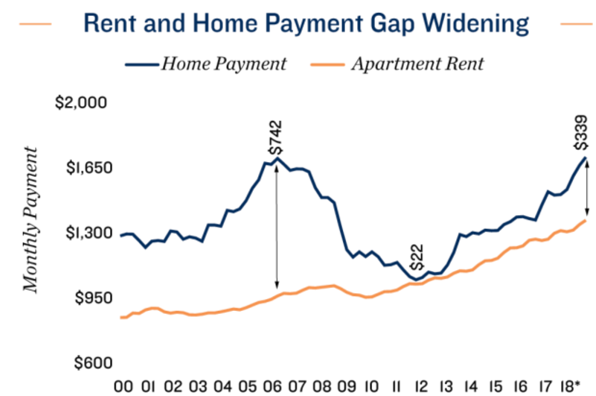

* Estimate
** Forecast

## U.S. ECONOMY

### 2019 National Economic Outlook

- **Economic growth to ease as benefits of tax stimulus fade. Though consumption and corporate investment will support economic growth in 2019, trade imbalances and a likely weaker housing market will weigh on momentum. Job creation, facing an ultra-tight labor market, will slacken to the 2 million range, but wage growth should push above 3 percent.**
- **International trade and capital flows complicate outlook. Trade tensions with China, the strengthening U.S. dollar and floundering European economies could pose economic risks in 2019. Raising tariffs could accelerate inflation and weigh on consumption, resulting in slower economic growth. More significantly, a strengthening U.S. dollar could hamper foreign investment in the U.S. and disrupt international debt markets, increasing financial market stress.**
- **Federal Reserve closely monitoring inflation. Rising wages and tariffs are leading the way toward higher inflation risk, but the Federal Reserve has maintained a cautious stance, increasing short-term interest rates to ward off the trend. Long-term interest rates, however, have remained range-bound near 3 percent as stock market volatility and low international interest rates restrain upward movement. A yield-curve inversion, when short-term rates rise above long-term rates, is a commonly perceived sign of an upcoming recession, and a potential inversion could weigh on confidence levels.**



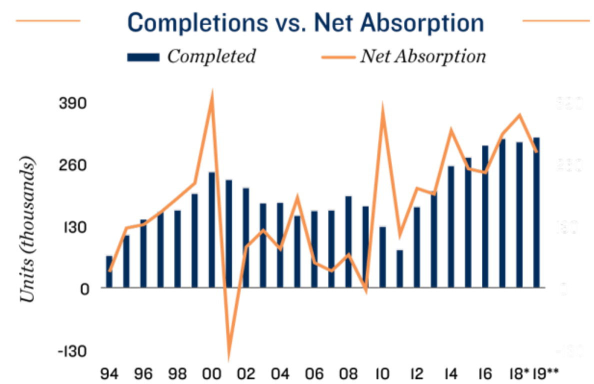

* Estimate
** Forecast

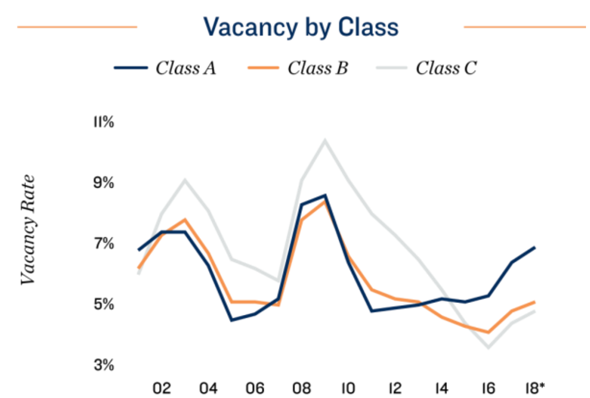
## U.S. APARTMENT OVERVIEW

### Economy Delivers Elevated Apartment Demand; Aggressive Building Nudges Top-Tier Vacancy Higher

**Housing market remains tight as household formation accelerates. Steady job creation and exceptionally low unemployment will boost household formation in 2019, supporting a third consecutive year of national sub-5 percent vacancy levels. Much of the new demand will center on apartments that serve to the traditional workforce: Class B and C properties. Although new apartment completions will reach their highest level in more than 25 years with the delivery of more than 315,000 units, the new inventory largely caters to more affluent renters. As a result, Class A vacancy is expected to rise to 5.8 percent while Class B apartment vacancy remains relatively stable at 4.7 percent. The most affordable segment of the market, Class C apartments, faces strong demand and vacancy for this segment is expected to tighten to 3.9 percent, its lowest year-end level in 19 years. These trends will support consistent rent gains averaging 3.7 percent in 2019, led by momentum in secondary and tertiary markets.**

**Smaller metros step to forefront. While primary markets such as Boston, Los Angeles, the Bay Area and New York City are expected to see the largest dollar rent increases, smaller metros are generating faster increases on a percentage basis. Metros across the Southeast and Midwest in particular are generating outsize employment growth and housing demand. For the seventh consecutive year, secondary markets will lead in percentage rent growth, followed closely by tertiary markets. This reflects the concentration of new supply additions in primary markets, which is raising competition for renters and suppressing rent gains. Another important factor has been the migration of millennials to more affordable smaller cities. Many tech firms and other industries have pursued the millennial labor force to these smaller metros, boosting local job creation. In addition to having higher-than-average job growth, cities such as Orlando, Phoenix, Indianapolis and Salt Lake City are expected to generate outsize rent gains. Many investors, in pursuit of higher yields, have already expanded their search for assets in these metros, increasingly the market liquidity and boosting values.**



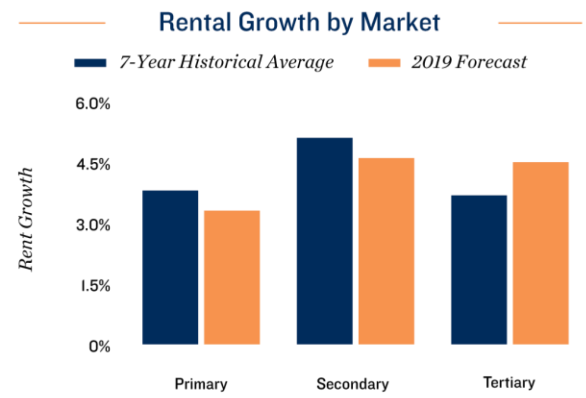



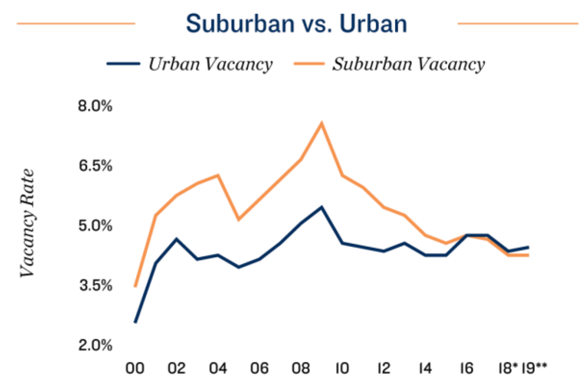

* Estimate
** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

# U.S. APARTMENT OVERVIEW

## 2019 National Apartment Outlook

- **Tax reform boosts rental demand. The new tax law is having a substantive impact on rental demand as several tax benefits of homeownership have been altered. The doubling of the standard deduction to $12,000 for singles and $24,000 for couples means fewer homeowners will benefit from itemizing mortgage interest deductions. In addition, a $10,000 cap on state and local taxes will reduce homeowners' ability to deduct property taxes. These changes will weigh on first-time homebuyers in high-tax states the most, keeping young adults in the rental pool longer.**
- **Suburbs invigorated by changing lifestyles. A surge in new inventory and much higher rents in the urban core are diverting more renters to the suburbs. As a result, vacancy in suburban submarkets nationwide remain below the rate in downtown submarkets for the third consecutive year. Millennials, now entering their late 30s, are starting to form families. As this trend plays out, the lower rents of suburban areas and the generally higher-quality schools have begun to win out over the urban lifestyle.**
- **Potential housing shortage despite record development. Elevated completions in 2019 will bring the total apartment additions since 2012 above 2.1 million units, a net inventory gain of approximately 13 percent over eight years. Despite this cycle's delivery of the most apartments since the 1980s, vacancy is forecast to remain at just 4.6 percent in 2019. With rising labor and materials costs, tighter lending, and a shortage of skilled construction labor available, the pace of construction should begin to ebb in 2020.**




* Estimate
** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

## U.S. CAPITAL MARKETS

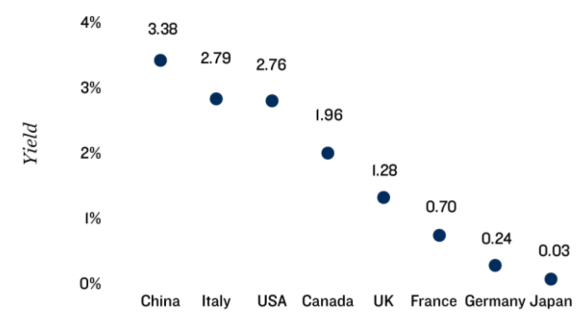
### Fed Balances International Headwinds With Domestic Optimism; Elevated Liquidity Supports Active Market

**Fed walking a tightrope.** The Federal Reserve has been battling the inflationary pressure created by wage gains and increased trade protectionism with raises of short-term interest rates and quantitative tightening. The efforts, however, have run into the stubbornly low 10-year Treasury that has not responded to the Fed's prodding. Slowing international economic growth and the exceptionally low bond yields offered by most other high-credit countries have drawn international investors to the higher yields and safety of U.S. Treasurys. International buying activity together with other factors such as stock market volatility have held U.S. long-term rates down. This combination of events has placed the Fed in an awkward position and their decision to raise rates in December has placed additional upward pressure on short-term yields. Should short-term interest rates rise above long-term rates, a yield curve inversion forms, and this is a commonly known sign of an impending recession. The inverted yield curve will weigh on confidence levels and could potentially erode consumption and stall the growth cycle. The typical onset time of a recession following an inversion is about one year, but there have been two false positives in which a recession did not follow an inversion.

**Conservative underwriting balances abundant capital.** Debt financing for apartment assets remains widely available, with sourcing led by Fannie Mae and Freddie Mac in addition to a wide array of local, regional and national banks and insurance companies. Loan-to-value (LTV) ratios have tightened, with maximum leverage typically in the 55 to 75 percent range depending on the borrower, asset and location. Lenders have been reluctant to lend on future revenue growth through value-add efforts, resulting in increased use of short-term mezzanine debt and bridge loans to cover the span until improvements deliver the planned returns. Construction lending has also tightened as developers deliver record numbers of new units into the market. Higher borrowing costs and questions about the durability of the growth cycle have widened bid/ask spreads. Rising capital costs and increased downpayments are eroding buyer yields, while sellers continue to seek premium pricing based on ongoing robust property performance.

10-Year Treasury vs. 2-Year Treasury Yield Spread Tightens


Foreign 10-Year Treasury Rates❖



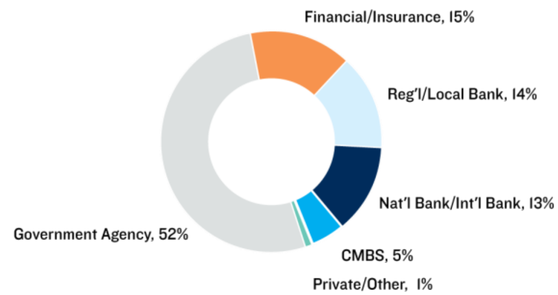

* Through Dec. 18
❖ Through Dec. 19

# U.S. CAPITAL MARKETS

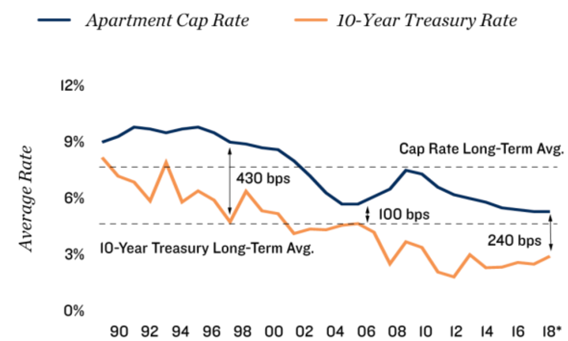
## 2019 Capital Markets Outlook

- **Investors wary of interest rate surge. While the 10-Year Treasury has traded in a relatively tight range near 3 percent recently, on two occasions it has rapidly surged and stalled investor activity. The 90-basis-point jump in late 2016 and the 80-basis-point surge in late 2017 both strained liquidity, widened bid/ask spreads and stalled transactions as investors recalibrated their underwriting. Given the volatility of financial markets, investors must remain prepared for a rapidly changing climate.**
- **Lenders remain nimble in dynamic climate. Most lenders, particularly Fannie Mae and Freddie Mac, have adapted to the more fluid financial climate. When Treasury rates increased in the third quarter, many lenders tightened their spreads to cushion volatility. Lenders remain cautious and they have adopted tighter underwriting standards, but they are also aggressively competing to place capital and apartment assets are a favored investment class.**
- **Tightened yield spreads erode positive leverage. Multifamily cap rates have remained relatively stable on a macro level, with yields in primary markets flattening while secondary and tertiary market cap rates have continued to trickle lower. Rising interest rates, however, have tightened the spread between cap rates and lending rates, reducing investors' ability to generate positive leverage. Though this trend could put some upward pressure on yields, elevated capital flows into apartments will likely mitigate the upward pressure.**

2018** Apartment Lender Composition By Percent of Total Dollar Volume




U.S. Apartment Cap Rate Trends




* Through Dec. 18
** Estimate
⌘ Year-end estimate for cap rate; 10-year Treasury rate through Dec. 18

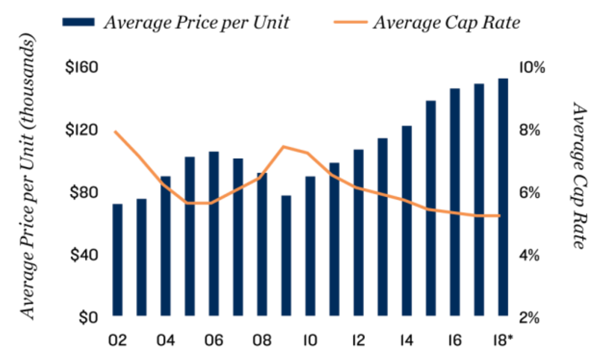
## U.S. INVESTMENT OUTLOOK

### Investors Consider Portfolio Strategies to Mitigate Risk, Boost Returns; Buyers Adapt to Tighter Yield Spreads

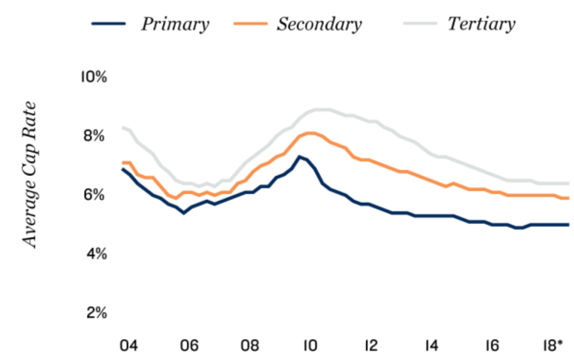
**Market diversification a key portfolio strategy in maturing cycle.** The economic expansion will remain supportive of the apartment investment market in 2019, though buyers' and sellers' expectations will likely need to adjust to a rising interest rate climate and the possibility of downside economic risk. Stock market volatility and prospects of a flattening yield curve will weigh on sentiment and induce elevated caution, but the underlying performance of apartments remain positive. Strong demand drivers supporting long-term yield models will counterbalance much of the market volatility, encouraging investors to look beyond any short-term turbulence. While the bid/ask gap could widen for transactions in primary locations where the spread between interest rates and cap rates is narrowest, capital could pursue yields to suburban locations as well as secondary and tertiary markets. The spread in average cap rates between primary to secondary markets has tightened to approximately 80 basis points, with an additional 80-bassis-point yield difference between secondary and tertiary markets. The yield premium offered by smaller metros, together with the market diversification it brings, should offer investors more durable yields on a portfolio basis.

**Influx of non-traditional capital could invigorate transaction activity.** Sales of apartment assets have remained relatively stable at elevated levels for four years, and the trend should carry into 2019 as new capital enters commercial real estate. Tax reform, particularly the ability to defer and reduce capital gains from other investment types by placing the gains into an opportunity fund, has the potential to draw new capital into real estate. In addition to the initial opportunity fund investments into properties located in opportunity zones, a domino effect could ensue as the sellers of that property seek to reinvest into other property types through 1031 exchanges. This influx of new capital could offset a natural slowing of sales generally experienced in a maturing growth cycle. Another tax rule change that could affect investor behavior is tied to the new depreciation rules. Investors may apply accelerated depreciation to the personal property of new acquisitions identified by using a cost-segregation study. In doing this, investors can fully expense property such as HVAC systems, furnishings and security systems in acquired properties, thereby boosting the cash flow in the early years of ownership.

Price and Cap Rate Trends




Cap Rate Trends by Market



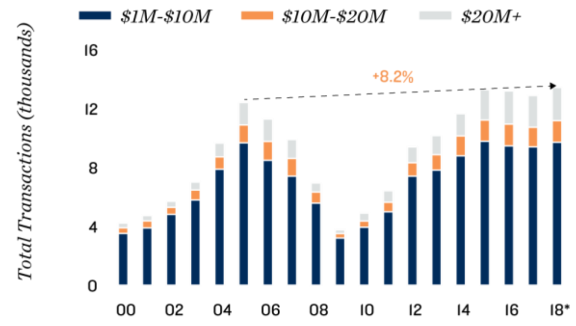

* Through 3Q

# U.S. INVESTMENT OUTLOOK

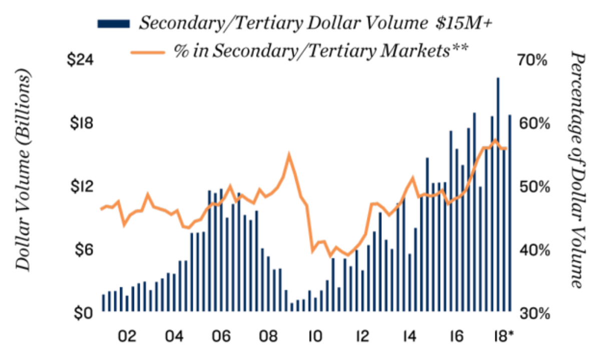
## 2019 Investment Outlook

- **Pursuit of yield drives capital beyond the core. As multifamily yields have compressed, an increasing portion of "mobile capital" acquiring assets priced over $15 million has migrated to secondary and tertiary markets. Whereas in 2010 nearly 60 percent of the dollar volume was focused in primary markets, in 2018 the share of capital inverted with 60 percent of the capital flowing to secondary and tertiary markets. This trend will likely be sustained in 2019.**
- **Portfolio diversity increasingly important to private investors. A range of localized risks such as natural disasters, metro-level economic downturns, and the rise of state or metro-level policy decisions such as rent control have inspired investors to more carefully consider geographic diversification. Following the spate of recent hurricanes across Texas and the Southeast as well as the recent Proposition 10 vote in California, interstate buyer activity has accelerated.**
- **Increased investor caution may elevate expectation gap. Stock market volatility, rising interest rates, trade tensions and the implications of a flattening yield curve will weigh on buyer sentiment and inspire increasingly cautious underwriting. Sellers, focusing on positive performance metrics, may price assets more aggressively and the resulting expectation gap could weigh on transaction timelines.**

U.S. Apartment Investment Transactions Moderating



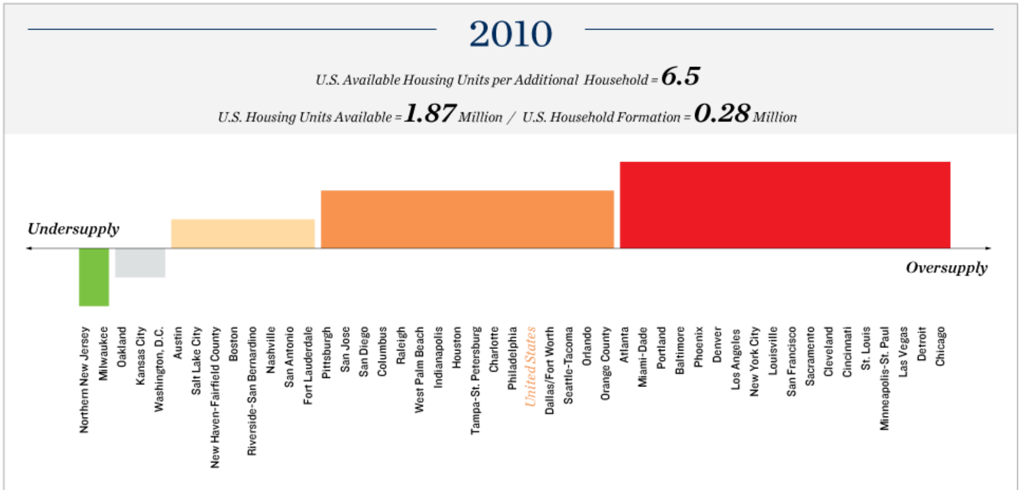

Capital Allocations Beyond Core

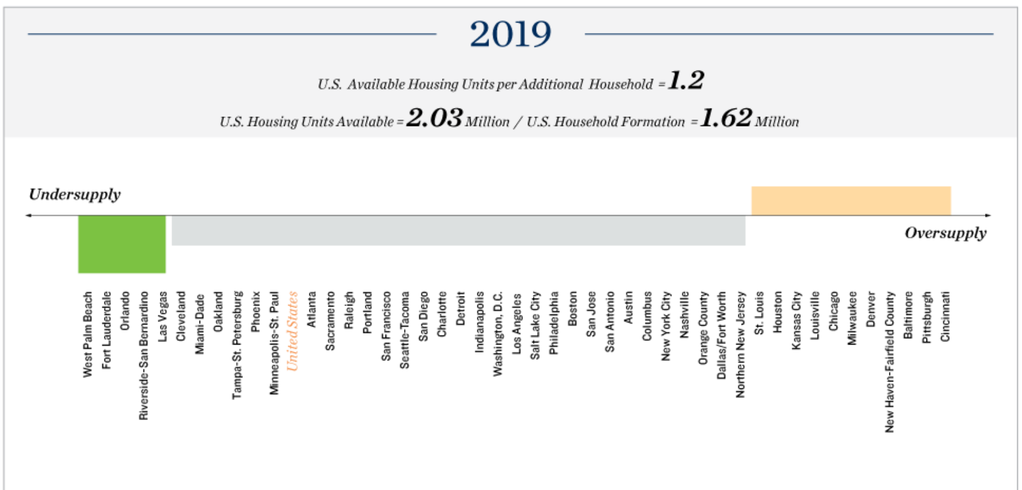



* Through 3Q
** Trailing 12 months through 3Q

## Supply/Demand Profile

### Housing Demand Growth Outpacing New Supply




**Number of Available Housing Units per New Household**

*(Single-Family Completion + MF Completion and Existing Available Units)/New Household Formation*

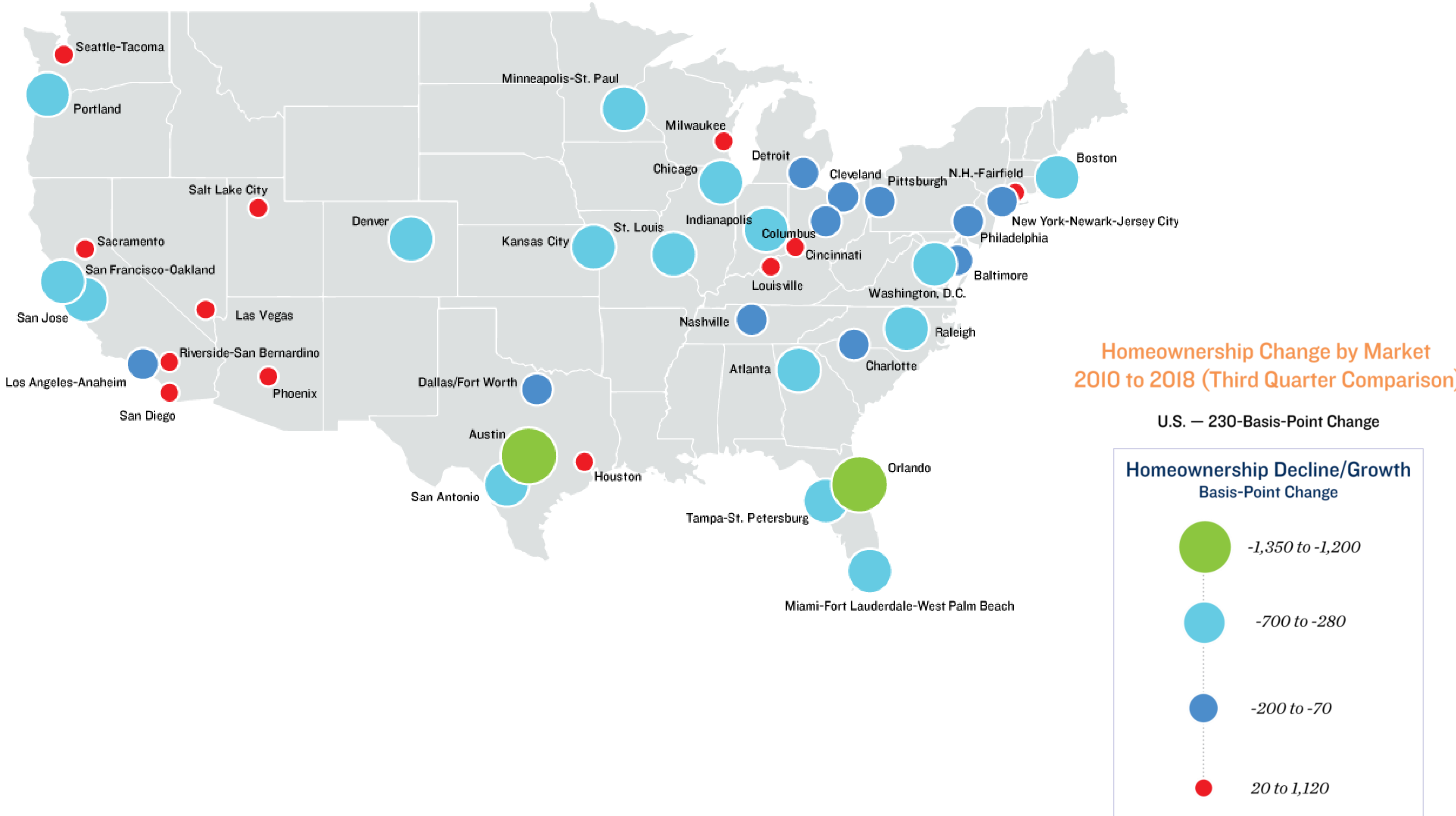
| 0 - 0.9 | 1.0 - 1.9 | 2.0 - 2.9 | 3.0 - 9.9 | 10.0+ |
|---|---|---|---|---|

Sources: Marcus & Millichap Research Services; Moody's Analytics; RealPage, Inc.; U.S. Census

## HISTORICAL HOMEOWNERSHIP TREND

### Decline in Homeownership Underpins Lowering Apartment Vacancy

**Eight-Year Change 2010-2018**




Sources: Marcus & Millichap Research Services; U.S. Census

## HISTORICAL HOMEOWNERSHIP TREND

### Top 10 Markets by Homeownership

**Eight-Year Change 2010-2018**

| Lowest Homeownership | 2018 3Q | 2010 3Q-2018 3Q Apt. Vacancy Basis-Point Change |
|---|---|---|
| Los Angeles-Long Beach-Anaheim | 47.3% | -180 |
| New York-Newark-Jersey City | 48.8% | -140 |
| Austin | 54.0% | -80 |
| San Francisco-Oakland | 54.1% | -40 |
| San Jose | 54.4% | -20 |
| Orlando | 55.4% | -430 |
| Miami-Fort Lauderdale-West Palm Beach | 57.0% | -100 |
| Las Vegas | 57.2% | -410 |
| San Diego | 59.3% | -200 |
| Seattle-Tacoma | 61.3% | -120 |
| U.S. | 64.4% | -220 |

| Highest Homeownership | 2018 3Q | 2010 3Q-2018 3Q Apt. Vacancy Basis-Point Change |
|---|---|---|
| Detroit | 74.2% | -430 |
| New Haven-Milford | 70.4% | 0 |
| Cleveland | 69.5% | -130 |
| Pittsburgh | 69.5% | -150 |
| Sacramento | 69.5% | -230 |
| Minneapolis-St. Paul | 68.9% | -190 |
| Philadelphia | 68.5% | -140 |
| St. Louis | 68.3% | -120 |
| Nashville | 68.1% | -60 |
| Phoenix | 67.4% | -510 |

Sources: Marcus & Millichap Research Services; U.S. Census

## Created on March 2019

| POPULATION | 1 Miles | 3 Miles | 5 Miles |
|---|---|---|---|
| 2023 Projection | | | |
| Total Population | 45,565 | 505,861 | 1,065,544 |
| 2018 Estimate | | | |
| Total Population | 45,833 | 504,422 | 1,059,595 |
| 2010 Census | | | |
| Total Population | 43,384 | 475,973 | 1,004,473 |
| 2000 Census | | | |
| Total Population | 47,697 | 502,478 | 1,026,711 |
| Daytime Population | | | |
| 2018 Estimate | 61,720 | 470,394 | 1,116,721 |
| **HOUSEHOLDS** | **1 Miles** | **3 Miles** | **5 Miles** |
| 2023 Projection | | | |
| Total Households | 20,891 | 231,811 | 450,595 |
| 2018 Estimate | | | |
| Total Households | 20,619 | 227,868 | 440,760 |
| Average (Mean) Household Size | 2.20 | 2.18 | 2.35 |
| 2010 Census | | | |
| Total Households | 19,292 | 212,241 | 412,129 |
| 2000 Census | | | |
| Total Households | 19,426 | 211,770 | 405,050 |
| Growth 2015-2020 | 1.32% | 1.73% | 2.23% |
| **HOUSING UNITS** | **1 Miles** | **3 Miles** | **5 Miles** |
| Occupied Units | | | |
| 2023 Projection | 20,891 | 231,811 | 450,595 |
| 2018 Estimate | 21,412 | 237,105 | 460,936 |
| Owner Occupied | 3,848 | 36,413 | 92,650 |
| Renter Occupied | 16,771 | 191,455 | 348,110 |
| Vacant | 793 | 9,237 | 20,176 |
| Persons In Units | | | |
| 2018 Estimate Total Occupied Units | 20,619 | 227,868 | 440,760 |
| 1 Person Units | 41.55% | 41.27% | 37.86% |
| 2 Person Units | 28.78% | 29.73% | 28.68% |
| 3 Person Units | 12.27% | 12.67% | 13.35% |
| 4 Person Units | 9.41% | 8.85% | 10.05% |
| 5 Person Units | 4.52% | 4.16% | 5.23% |
| 6+ Person Units | 3.46% | 3.32% | 4.84% |

| HOUSEHOLDS BY INCOME | 1 Miles | 3 Miles | 5 Miles |
|---|---|---|---|
| 2018 Estimate | | | |
| $200,000 or More | 8.23% | 7.12% | 8.08% |
| $150,000 - $199,000 | 3.97% | 4.68% | 4.86% |
| $100,000 - $149,000 | 10.98% | 11.28% | 11.41% |
| $75,000 - $99,999 | 9.24% | 10.48% | 10.32% |
| $50,000 - $74,999 | 16.28% | 16.85% | 15.65% |
| $35,000 - $49,999 | 12.05% | 12.66% | 11.87% |
| $25,000 - $34,999 | 10.02% | 9.82% | 9.74% |
| $15,000 - $24,999 | 12.29% | 11.91% | 12.11% |
| Under $15,000 | 16.92% | 15.20% | 15.94% |
| Average Household Income | $86,045 | $84,136 | $87,632 |
| Median Household Income | $48,284 | $50,587 | $50,512 |
| Per Capita Income | $39,020 | $38,320 | $36,812 |
| **POPULATION PROFILE** | **1 Miles** | **3 Miles** | **5 Miles** |
| Population By Age | | | |
| 2018 Estimate Total Population | 45,833 | 504,422 | 1,059,595 |
| Under 20 | 17.85% | 16.93% | 19.65% |
| 20 to 34 Years | 29.06% | 29.35% | 28.41% |
| 35 to 39 Years | 9.49% | 9.45% | 8.58% |
| 40 to 49 Years | 15.66% | 15.29% | 14.48% |
| 50 to 64 Years | 16.85% | 17.17% | 16.87% |
| Age 65+ | 11.07% | 11.83% | 12.02% |
| Median Age | 36.55 | 36.87 | 36.07 |
| Population 25+ by Education Level | | | |
| 2018 Estimate Population Age 25+ | 34,367 | 385,842 | 771,324 |
| Elementary (0-8) | 9.64% | 7.98% | 10.40% |
| Some High School (9-11) | 7.65% | 7.19% | 8.31% |
| High School Graduate (12) | 16.25% | 16.67% | 17.34% |
| Some College (13-15) | 18.00% | 16.55% | 16.40% |
| Associate Degree Only | 5.29% | 5.79% | 5.47% |
| Bachelors Degree Only | 28.97% | 30.97% | 26.65% |
| Graduate Degree | 11.39% | 12.30% | 12.18% |
| Population by Gender | | | |
| 2018 Estimate Total Population | 45,833 | 504,422 | 1,059,595 |
| Male Population | 52.30% | 50.92% | 50.55% |
| Female Population | 47.70% | 49.08% | 49.45% |

Source: © 2018 Experian

## Population

In 2018, the population in your selected geography is 45,833. The population has changed by -3.91% since 2000. It is estimated that the population in your area will be 45,565.00 five years from now, which represents a change of -0.58% from the current year. The current population is 52.30% male and 47.70% female. The median age of the population in your area is 36.55, compare this to the US average which is 37.95. The population density in your area is 14,586.85 people per square mile.

## Race and Ethnicity

The current year racial makeup of your selected area is as follows: 56.64% White, 4.53% Black, 0.12% Native American and 12.25% Asian/Pacific Islander. Compare these to US averages which are: 70.20% White, 12.89% Black, 0.19% Native American and 5.59% Asian/Pacific Islander. People of Hispanic origin are counted independently of race.

People of Hispanic origin make up 43.74% of the current year population in your selected area. Compare this to the US average of 18.01%.

## Households

There are currently 20,619 households in your selected geography. The number of households has changed by 6.14% since 2000. It is estimated that the number of households in your area will be 20,891 five years from now, which represents a change of 1.32% from the current year. The average household size in your area is 2.20 persons.

## Housing

The median housing value in your area was $888,131 in 2018, compare this to the US average of $201,842. In 2000, there were 3,611 owner occupied housing units in your area and there were 15,815 renter occupied housing units in your area. The median rent at the time was $567.

## Income

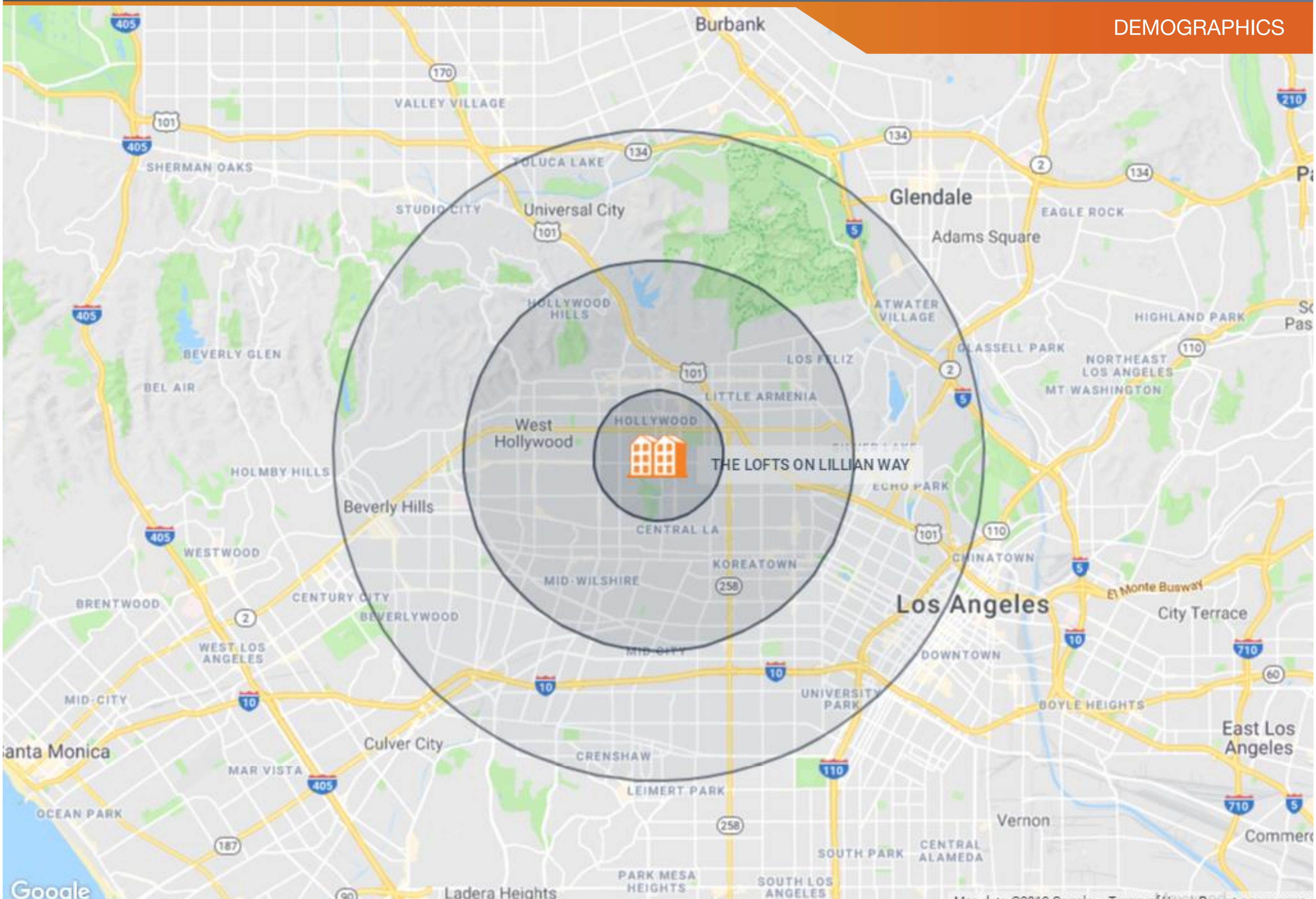
In 2018, the median household income for your selected geography is $48,284, compare this to the US average which is currently $58,754. The median household income for your area has changed by 73.02% since 2000. It is estimated that the median household income in your area will be $55,777 five years from now, which represents a change of 15.52% from the current year.

The current year per capita income in your area is $39,020, compare this to the US average, which is $32,356. The current year average household income in your area is $86,045, compare this to the US average which is $84,609.

## Employment

In 2018, there are 25,787 employees in your selected area, this is also known as the daytime population. The 2000 Census revealed that 57.95% of employees are employed in white-collar occupations in this geography, and 41.99% are employed in blue-collar occupations. In 2018, unemployment in this area is 5.99%. In 2000, the average time traveled to work was 34.00 minutes.

Source: © 2018 Experian


Burbank
VALLEY VILLAGE
SHERMAN OAKS
TOLUCA LAKE
STUDIO CITY
Universal City
Glendale
Adams Square
EAGLE ROCK
HOLLYWOOD HILLS
ATWATER VILLAGE
HIGHLAND PARK
BEVERLY GLEN
BEL AIR
LOS FELIZ
GLASSELL PARK
NORTHEAST LOS ANGELES
LITTLE ARMENIA
MT WASHINGTON
HOLLYWOOD
West Hollywood
THE LOFTS ON LILLIAN WAY
HOLMBY HILLS
ECHO PARK
Beverly Hills
CENTRAL LA
WESTWOOD
CHINATOWN
KOREATOWN
MID-WILSHIRE
Los Angeles
El Monte Busway
City Terrace
BRENTWOOD
CENTURY CITY
BEVERLYWOOD
WEST LOS ANGELES
MID-CITY
DOWNTOWN
UNIVERSITY PARK
BOYLE HEIGHTS
East Los Angeles
Culver City
CRENSHAW
MAR VISTA
OCEAN PARK
LEIMERT PARK
Vernon
SOUTH PARK
CENTRAL ALAMEDA
PARK MESA HEIGHTS
SOUTH LOS ANGELES
Ladera Heights
Google
Map data ©2019 Google Terms of Use Report a map error