Sharon Dickinson <sharon.dickinson@lacity.org>

Council File: 15-1170-S1 (118-126 N. Flores St.) (Hearing date: June 30, 2017)

Sylvie Shain <sylvie@sylvieshain.com> Fri, Jun 30, 2017 at 8:12 AM
To: sharon.dickinson@lacity.org, zina.cheng@lacity.org
Cc: "John A. Henning, Jr." <jhenning@planninglawgroup.com>, James Bickhart <james.bickhart@lacity.org>, Tom Henry <tom.henry@lacity.org>

Sharon,

Please upload this email and attachments into the council file.

Thanks you,
Sylvie Shain

---------- Forwarded message ----------
From: **Georgene Smith** <georgenegoodin@yahoo.com>
Date: Thu, Jun 29, 2017 at 1:13 PM
Subject: Fw: Condo Conversion at 118 - 126 N Flores
To: Sylvie Shain <sylvie@sylvieshain.com>

On Thursday, June 29, 2017 1:09 PM, Georgene Smith <georgenegoodin@yahoo.com> wrote:

Dear Councilman O'Farrell,

Tomorrow, City Council will hear an appeal of a condo conversion application at 118 – 126 N. Flores.

At the heart of this appeal is the fact LADWP no longer supplies the data City Planning needs to determine if the vacancy rate is sufficient (5% or greater) to allow apartments to be converted.

Some have suggested using census data to determine these vacancy rates. Others argue this data isn't current enough.

Census data is not the only alternative source for this information.

Forbes magazine contracted with Marcus & Millichap, a prominent real estate research and advisory firm, to produce a list of the worst cities for renters. Vacancy rate is part of that data.

https://www.forbes.com/sites/samanthasharf/2017/03/08/full-list-how-renters-fare-in-americas-hottest-cities/#6fe679532907

Los Angeles has an average 2.9% vacancy rate, county wide. However, it is possible to get more specific market information from the Marcus & Millichap website. The company produces a report on Los Angeles each quarter, which is available simply by registering for the site. Registration is free.

The most recent report for Los Angeles (2Q 17) is attached. Page 1 lists a 4.6% vacancy rate for Downtown Los Angeles and 3.4% for the San Fernando Valley. Page 4 lists a 3.5% vacancy rate for Hollywood. Not one of the submarkets that is listed meets the 5% threshold.

Of utmost interest, much of the vacancy is happening in Class A units – new construction. Class C, which encompasses RSO housing, continues to run a very low vacancy rate. In page 5, the report notes that Class C housing in Mid-Wilshire is “virtually full.”

Red Capital Group, a provider of financial services for multifamily housing, also produces a report on Los Angeles. The May 2017 report is attached. It lists an occupancy rate of 96.7% (Vacancy rate of 3.3%) and projects that occupancy rate to climb to 97.1% (vacancy rate of 2.9%) by 2021.

Page 4 of this report breaks out this vacancy rate by various submarkets and surrounding cities.

Page 2 of this report shows historical vacancy rates for the city. Since 2012, the first year shown, the Los Angeles city vacancy rate has not been above 4%.

The above examples illustrate multiple options the planning department can use to determine vacancy rate without maintaining its own data set. The fair thing to do, for both tenants and developers, is to commit to using one of the available data sets. This would provide a consistent and predictable method of permitting condo conversions.

The city’s failure to maintain vacancy data is a disservice to both developers and tenants, and has created a situation where both sides might cry foul when City Council makes a decision on this appeal. But it is imperative that City Council recognize developers have multiple FREE sources for vacancy rates.

Both the Red Capital Group and Marcus & Millichamp reports are specifically created to guide real estate investors and provide the sort of up-to-date information investors need to make wise business decisions.

The above cited reports took fifteen minutes to find through Google. I have no background in real estate, and it’s quite possible a longer search by a more experienced individual might turn up more than a dozen of these types of research providers.

In any real estate investment, due diligence to ascertain the land’s suitability for the desired type of development is imperative.

The property on Flores was purchased in November of 2014. Six months prior, in May 0f 2014, Beacon Economics produced a study for the city of Los Angeles that notes a 3% city-wide vacancy rate for 1Q14 on page 13. County rate is listed separately at 3.1%. The study can be found by copying the below link into a web browser.

cao.lacity.org/debt/2014.05.27_Los_Angeles_Bond_Study_2014.pdf

This study turns up with a Google search.

Red Capital Group published a report in August 2014, just three months prior to the purchase of the Flores property. It lists occupancy at 96.9% (3.1% vacancy rate) and forecasts only a modest increase in vacancy to 3.6% in 2016 (96.4% occupancy). This study turns up with a Google search.

The condo conversion was applied for in June of 2016. The Red Capital Group report for December 2015 lists occupancy at 96.8% (3.2% vacancy rate) and forecasts only a modest decrease in occupancy to 96.5% in 2019 (3.5% vacancy rate).

The city’s failure to maintain its own data set is unfortunate, and City Council is now in the position of deciding who “loses” because of this failure: a real estate developer or vulnerable tenants. It spite of the city's lack of data, the above examples clearly illustrate that **a developer doing a modicum of due diligence could have foreseen the city would not have the 5% vacancy rate necessary to approve a condo conversion on this property.** The developer's failure to take reasonable steps to ensure the property being purchased was suitable for the type of development desired is not the fault of the city or the tenants.

The tenants should not be at a disadvantage due to lack of prudence on the part of the property owner. The condo conversion should be denied.

Sincerely,

Georgene Smith Goodin

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2 attachments

2Q17 Los Angeles LAR.pdf
127K

RCH-CA-001_LosAngeles_1Q17.pdf
558K

Marcus & Millichap

Multifamily Research Market Report

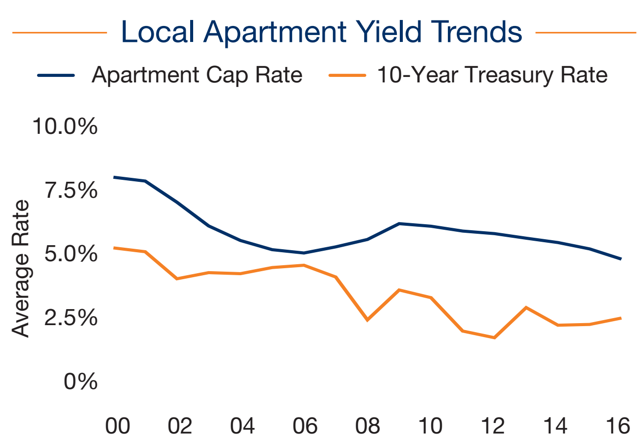
Second Quarter 2017

Los Angeles County

Downtown Revitalization Changing Landscape; Delivery Schedule Rising

Broad labor market, high single-family home prices driving demand for apartments. Amid consistent job growth in the Los Angeles metro, particularly in the hospitality and healthcare sectors, household formation is rising. As a result of the vast improvement since the recession, the labor market has improved significantly, spurring strong demand for housing. Due to the high cost of single-family homes and the infill nature of the metro, the vast majority of these new households are renting apartments, pushing the vacancy rate below 4 percent. As rental rates have risen, the absorption of units has been most pronounced in more affordable areas such as the South Bay and the San Fernando Valley markets.

Cycle high in supply slated for mostly urban core locations. As vacancy has declined to extremely low levels, developers have focused on larger projects in revitalizing areas of Downtown Los Angeles. Major projects in the area include the 700-unit Eighth & Grand and 606-unit Sixth and Bixel projects, illustrating the large size of the new developments underway. Meanwhile, construction outside Downtown Los Angeles will slow from the 2016 level, with fewer than 3,400 apartments slated for delivery outside the core. Tight vacancy in the metro will enable the average rent to reach $2,000 per month, far outpacing the rate of inflation over the coming year.



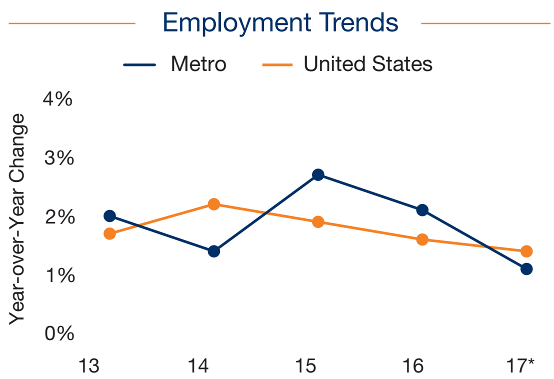
Sources: CoStar Group, Inc.; Real Capital Analytics

Multifamily 2017 Outlook

Metro	Vacancy	Y-O-Y Basis Point Change	Effective Rent	Y-O-Y Change
Downtown Los Angeles	4.6%	120	$2,200	-0.1%
San Fernando Valley	3.4%	60	$1,880	1.6%
South Bay/Long Beach	2.8%	40	$1,930	1.1%
Westside Cities	2.7%	-60	$2,910	1.8%

Investment Trends

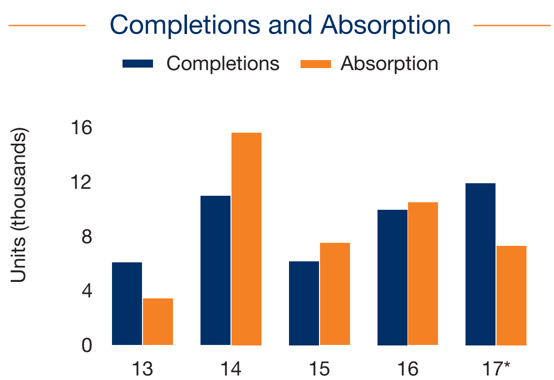
- As interest rates have begun to rise and supply increases in the urban core, buyers are shifting their acquisitions to assets offering higher cap rates in the outer suburbs of the metro. In particular, deal flow and dollar volume have nearly doubled in the San Fernando Valley over the past three years, driven by assets in Pasadena and Glendale.
- Institutions are deploying capital in the Westside Cities and the South Bay near office complexes in Silicon Beach; they seek infill areas with supply constraints. In addition, the robust salaries and job creation associated with new businesses in these areas are raising demand for luxury rentals in newly built mixed-use concepts.
- The Westside Cities and Downtown Los Angeles remain the focus of institutional capital, driven by the stability of the assets and affluent renter profile. In particular, deals in Culver City and West Hollywood generate strong buyer interest.
- The high cost of single-family homes underpins the multifamily investment thesis, driven by the wide gap between owning and renting. Transitioning neighborhoods in second-tier suburbs are eliciting significant interest, particularly where value-add opportunities through unit upgrades remain.



EMPLOYMENT:

1.7% increase in total employment Y-O-Y

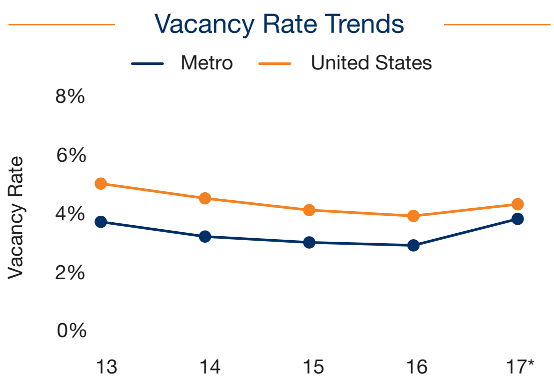
- Metro employers created 72,800 jobs over the past year, led by growth in trade, healthcare and hospitality professions. While the pace of improvement has moderated over the past year, employment growth exceeds the national pace of increase.
- Labor market strength has driven the unemployment rate to 4.8 percent, a 770-basis-point drop since 2010.



CONSTRUCTION:

9,480 units completed Y-O-Y

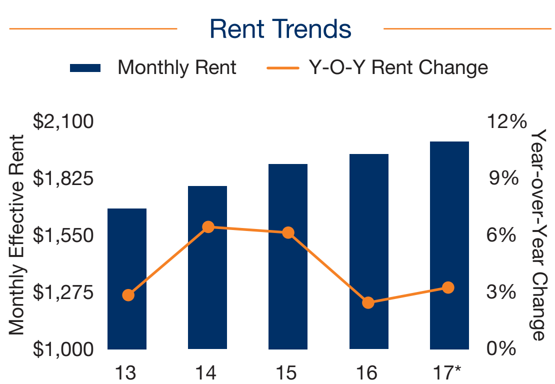
- Over the past year, developers focused on projects primarily in Downtown Los Angeles and the South Bay, where more than 6,750 units were brought to market.
- The largest delivery over the past year was the Villas at Playa Vista-Sausalito at 703 units. The nearby Villas at Playa Vista-Malibu contains 491 apartments; both completions are near the Playa Vista mixed-use project.



VACANCY:

60 basis point increase in vacancy Y-O-Y

- Vacancy rose to 3.5 percent over the past year, driven by a 210-basis-point increase in Class A apartments to 5.9 percent as supply pressure rose considerably.
- The weakness at the top end of the market had little impact on Class B and C assets, where vacancy rose 10 basis points to 2.9 percent and dropped 50 basis points to 1.4 percent, respectively.



RENTS:

2.1% increase in effective rents Y-O-Y

- Even as vacancy increased, the average effective rent rose to $1,978, driven by robust performance in Long Beach, where the average rent rose 7.1 percent, and Palms/Mar Vista, which had a 6.2 percent gain.
- The best performer over the past year was the Northridge/NW San Fernando Valley submarket, where the average rent rose 8.6 percent to $1,720 per month.

* Forecast

DEMOGRAPHIC HIGHLIGHTS

FIVE-YEAR POPULATION GROWTH*

295,700

1Q17 POPULATION AGE 20-34
(Percent of total population)

Metro **23%**

U.S. 21%

1Q17 MEDIAN HOUSEHOLD INCOME

Metro **$62,748**

U.S. Median $58,218

FIVE-YEAR HOUSEHOLD GROWTH*

199,000

POPULATION OF AGE 25+
PERCENT WITH BACHELOR DEGREE+**

Metro **31%**

U.S. Average 29%

1Q17 TOTAL HOUSEHOLDS*

50% Rent

50% Own

* 2017-2022

**2Q16

* Los Angeles-Long Beach-Anaheim, CA Metropolitan Statistical Area

SUBMARKET TRENDS

Lowest Vacancy Rates 1Q17

Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
Brentwood/Westwood/ Beverly Hills	1.8%	-100	$2,946	0.4%
Van Nuys/NE San Fernando Valley	1.9%	20	$1,569	4.0%
Northridge/ NW San Fernando Valley	2.7%	20	$1,720	8.6%
Palms/Mar Vista	2.8%	-50	$2,468	6.2%
Sherman Oaks/N Holly-wood/Encino	2.8%	-100	$2,131	1.9%
South Bay	3.2%	60	$2,203	4.6%
Hollywood	3.5%	100	$2,183	-4.2%
Santa Monica/Marina del Rey	3.5%	0	$3,331	6.0%
Long Beach	3.8%	80	$1,759	7.1%
Woodland Hills	4.2%	170	$2,137	2.8%
Overall Metro	**3.5%**	**60**	**$1,978**	**2.1%**

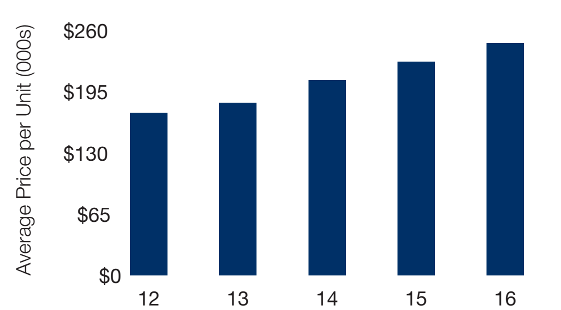
SALES TRENDS

Constrained Volume of Listings Triggers Upside in Apartment Values

- Muted listings triggered a 10 percent drop in deal velocity over the past year, led predominantly by the Downtown Los Angeles submarket. An uptick was recorded in the South Bay.
- The average price per unit advanced 6 percent to $247,000 per door, driven by Westside Cities assets that traded at a significant premium to the metro.

Outlook: The elevated pipeline and a slowdown in listings will shift investors' focus toward value-add opportunities. Properties near mixed-use retail will receive multiple bidders.

Pricing Trends

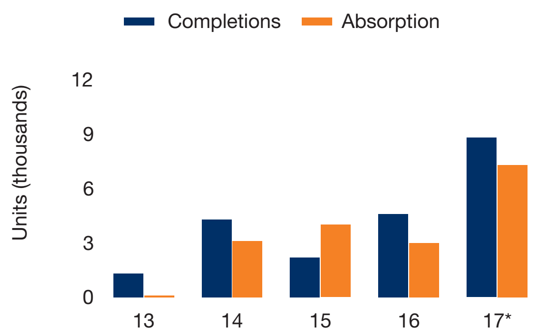


Sources: CoStar Group, Inc.; Real Capital Analytics

Investment Highlights

- The revitalization of the Greater Downtown Los Angeles area, centered around numerous mixed-use projects combining retail, apartments and office space, has drawn both new residents and investors to the area. The highest pace of completions in several years will provide new units to meet considerable demand from new millennial households.
- As employment and household growth have expanded in recent years, buyers have stepped up their allocations to the area, leading to a rise in closed transactions and dollar volume. However, both metrics slipped over the past year as listings volume slowed considerably. Over the past year, properties in the Mid-Wilshire, Hollywood and Koreatown submarkets posted the most transactions, with prices per unit in the mid-$250,000 range.
- Tremendous appetite from buyers compressed the average cap rate to the low-4 percent band over the past year, driven by marquee properties in Downtown Los Angeles and West Hollywood that changed ownership at cap rates far below the average. The highest cap rates were in the Mid-Wilshire and Koreatown submarkets, where yields were in the low- to mid-4 percent range. Dollar volume rose considerably in Hollywood, leading dollar volume in the Greater Downtown Los Angeles area.

Completions and Absorption

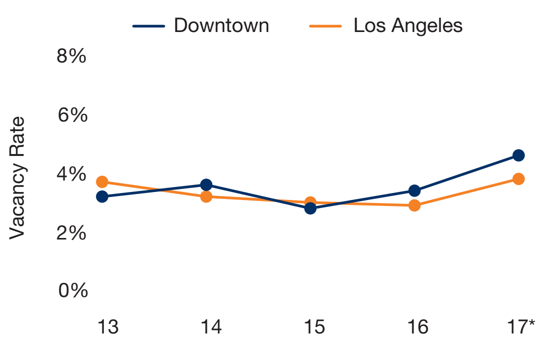


CONSTRUCTION:

4,220 units completed Y-O-Y

- While all submarkets were active, builders targeted the Downtown Los Angeles submarket, where nearly 2,400 units were delivered over the past year.
- There are 7,400 additional apartments scheduled to come online this year, with more than 4,750 at sites in Downtown Los Angeles. The Mid-Wilshire area will also receive more than 1,100 units.

Vacancy Rate Trends

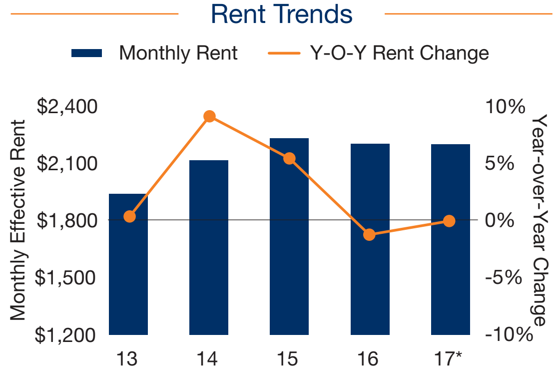


VACANCY:

190 basis point increase in vacancy Y-O-Y

- Over the past year, vacancy rose to 4.8 percent as a sharp increase in deliveries overwhelmed absorption. The uptick was driven by Class A assets in Downtown Los Angeles, where vacancy rose 330 basis points.
- Class C properties in Mid-Wilshire posted a vacancy decline of 170 basis points to virtually full as tenants sought out the most affordable accommodations.

Rent Trends



RENTS:

2.2% decrease in effective rents Y-O-Y

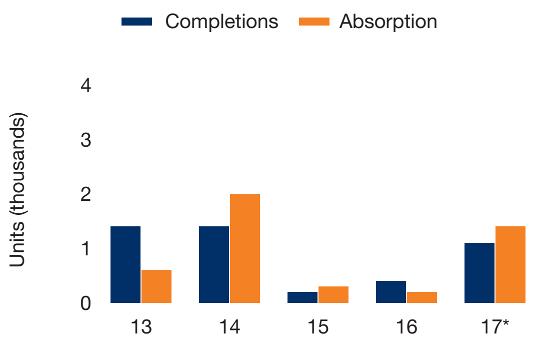
- All submarkets posted rent declines, led by Hollywood, where the average effective rent fell 4.2 percent to $2,183 per month.
- Concessions rose considerably over the past year, with Downtown Los Angeles and Hollywood properties now offering incentives on 5.0 percent and 6.3 percent of units, respectively.

* Forecast

Investment Highlights

- Boosted by an influx of technology firms into the area, rental demand has remained elevated. Single-family housing costs in the area remain extremely high, limiting residential options. In addition, a lack of available land for new construction restricts competition from emerging to challenge existing assets.
- Due to the desirable characteristics of the market, investors tend to hold assets for extremely long periods. As a result, limited deals come onto the market, providing consistent deal flow and dollar volume, led mostly by institutions. Transaction velocity slipped over the past year in the Beverly Hills/Century City/UCLA submarket, yet deal flow remained elevated in all other submarkets, particularly the Greater Culver City submarket, where closed transactions rose 10 percent. More than $300 million was deployed in Santa Monica, the highest concentration in the market, while the highest prices were paid in Malibu at more than $500,000 per door.
- At an average price of more than $410,000 per unit, pricing in the Westside Cities far outpaces the rest of the metro and is more than two times the average price in nearby South Bay. As a result, the average cap rate in the market was 3.5 percent over the past 12 months, with assets in Westwood and Beverly Hills transacting below that threshold.

Completions and Absorption

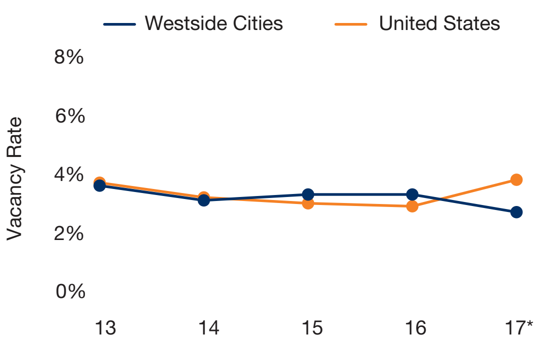


CONSTRUCTION:

745 units completed Y-O-Y

- During the last year, builders ramped up construction considerably, with a focus on the Brentwood/Westwood/Beverly Hills submarket, where 464 units were brought to market.
- Through the remainder of this year, 663 apartments will be delivered between the Brentwood/Westwood/Beverly Hills and Palms/Mar Vista submarkets.

Vacancy Rate Trends

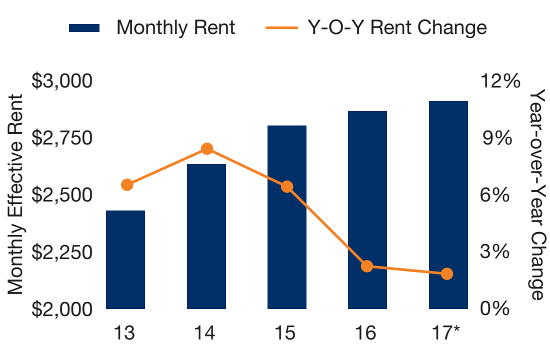


VACANCY:

50 basis point decrease in vacancy Y-O-Y

- Vacancy declined in all three submarkets, led by a 100-basis-point drop in the Brentwood/Westwood/Beverly Hills submarket to 1.8 percent.
- Robust performance was recorded in the Palms/Mar Vista submarket. Vacancy here declined 50 basis points to 2.8 percent. Vacancy in the Santa Monica/Marina del Rey submarket remained unchanged at 3.5 percent.

Rent Trends



RENTS:

4.7% increase in effective rents Y-O-Y

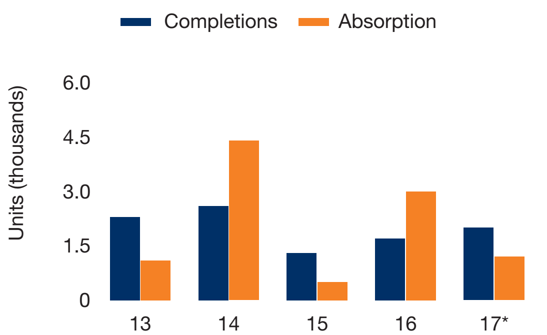
- All submarkets logged higher rents over the past year. The Palms/Mar Vista and Santa Monica/Marina del Rey submarkets vastly outperformed, tacking on 6.2 percent and 6.0 percent, respectively.
- The gain in Palms/Mar Vista was led by Class A buildings, where average effective rents vaulted 8.2 percent to $2,633 per month.

* Forecast

Investment Highlights

- Renters have been flocking to the most affordable market in the Los Angeles metro in search of apartments. The area is popular with young professionals in entertainment and media businesses due to the shorter commutes. Operations have been strong during the past few years, although development has begun to pick up more recently.
- Over the past 12 months, investors have deployed significant amounts of capital into the San Fernando Valley, prompting the market to lead the metro in deal flow and dollar volume by a wide margin. More than $2.2 billion flowed into the Valley last year, nearly doubling the next closest market. Prices per unit remain in the mid- to low-$200,000 range, with a wide variety of options and locations to suit investor preferences. The highest prices were paid in Burbank, Glendale and Sherman Oaks, while more affordable assets changed hands in Van Nuys and Panorama City.
- The average cap rates on closed transactions was in the low-4 percent range over the last 12 months, driven by a multitude of deals in the mid-3 and mid-5 percent band. Deal flow was most prominent in North Hollywood and Glendale, with additional pockets of activity in Van Nuys and Pasadena.

Completions and Absorption

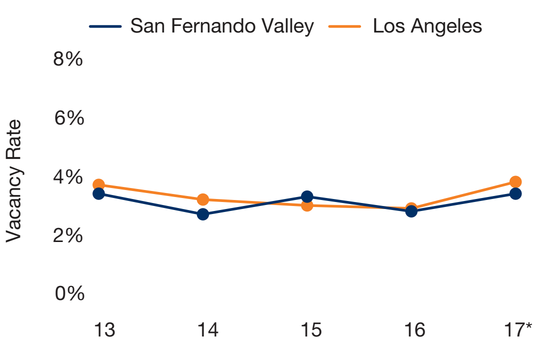


CONSTRUCTION:

1,970 units completed Y-O-Y

- Builders primarily targeted the Burbank/Glendale/Pasadena submarket, which accounted for more than 1,600 new apartments over the past year.
- Developers will complete 1,250 units through year-end, with more than two-thirds underway in Burbank/Glendale/Pasadena.

Vacancy Rate Trends

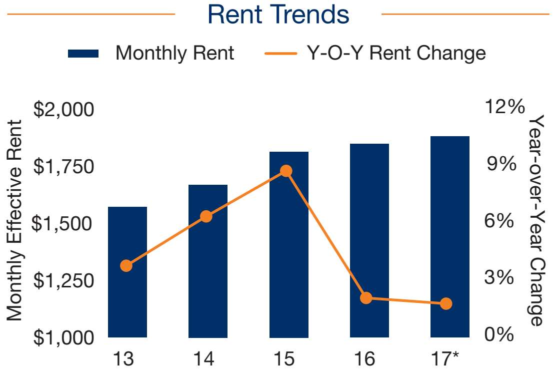


VACANCY:

190 basis point increase in vacancy Y-O-Y

- Vacancy rose significantly as net absorption failed to keep up with development by a wide margin. Vacancy increased 410 basis points in Burbank/Glendale/Pasadena, while the rate in Woodland Hills rose 170 basis points.
- The Sherman Oaks/N. Hollywood/Encino submarket outperformed the broader market, with vacancy falling 100 basis points to 2.8 percent.

Rent Trends



RENTS:

2.1% increase in effective rents Y-O-Y

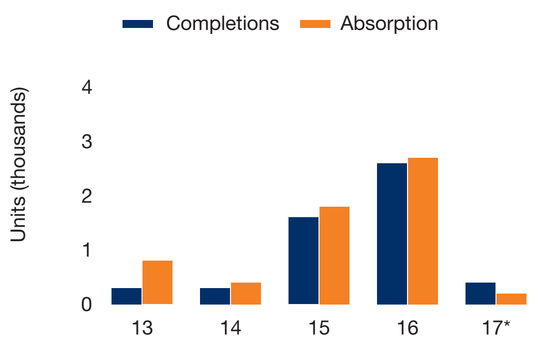
- Propelled by an 8.6 percent boost in the Northridge/Northwest San Fernando Valley submarket, the average rent ascended for the fifth year in a row.
- Despite a sharp climb in vacancy, rent in the Burbank/Glendale/Pasadena submarket tacked on 1.5 percent to $2,183 per month. The average rent climbed 2.8 percent in Woodland Hills to $2,137 per month.

* Forecast

Investment Highlights

- The burgeoning Silicon Beach technology and startup scene is driving demand for local rentals as more office-using firms choose to call the market home. Snapchat, YouTube and Yahoo have all recently acquired space, bringing a robust labor force to the area. As a result, vacancy has spiraled more than 200 basis points lower over the course of the current cycle, underpinning demand from the investment community.
- While the market remained the laggard for deal flow and dollar volume, both numbers increased markedly over the past year, with dollar volume rising nearly 25 percent. As a result, price per unit pushed above $195,000 per door, with the highest prices paid in El Segundo, Hermosa Beach and Manhattan Beach. Assets in Long Beach, Gardena and San Pedro represented the most affordable slots. Deal flow was most prominent in Long Beach, Hawthorne and Gardena, with transactions and dollar volume high in Long Beach.
- Closed transactions over the past year averaged first-year returns in the high-4 percent band, although properties traded in the mid-3 to mid-6 percent range, depending on asset quality and location. While the Beach cities prompted the lowest cap rates, first-year returns were higher in Signal Hill, Harbor City and Gardena.

Completions and Absorption

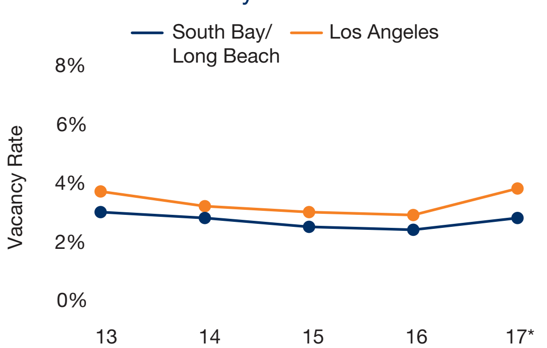


CONSTRUCTION:

2,550 units completed Y-O-Y

- Developers delivered the highest volume of units in more than 15 years during the past 12 months. Nearly 1,900 units came online the South Bay submarket, including three projects encompassing more than 1,700 rentals.
- The pace of construction will slow dramatically throughout the remainder of the year, with just 400 apartments slated for completion by year-end.

Vacancy Rate Trends

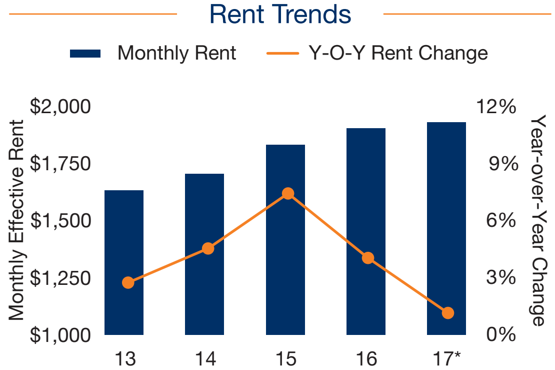


VACANCY:

60 basis point increase in vacancy Y-O-Y

- Both the Long Beach and South Bay submarkets recorded an uptick in vacancy over the past year. The rate in Long Beach rose 80 basis points to 3.8 percent and the South Bay's rate rose 60 basis points to 3.2 percent.
- The rise in vacancy was most pronounced in Class A Long Beach properties. A jump of 650 basis points to 10.3 percent was recorded over the past year.

Rent Trends



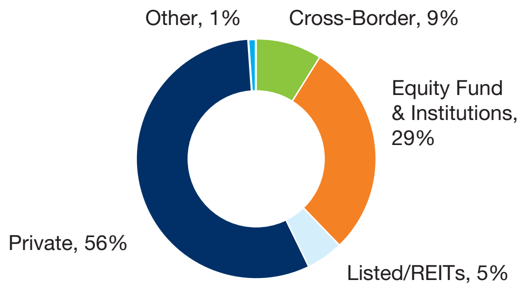
RENTS:

5.7% increase in effective rents Y-O-Y

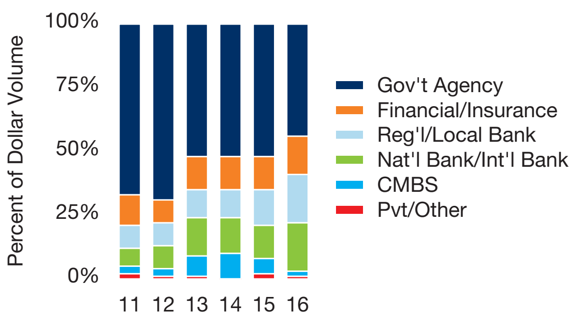
- A sharp increase in the average effective rent was driven by a 7.1 percent climb in Long Beach to $1,759 per month. South Bay properties increased 4.6 percent to $2,203 per month, driven by Class A growth.
- Rent gains were exceptional at the Class B asset level as well, with Long Beach rising 10.7 percent and South Bay advancing 4.2 percent.

* Forecast

Apartment Acquisitions By Buyer Type



Apartment Mortgage Originations By Lender



Sources: CoStar Group, Inc.; Real Capital Analytics

By WILLIAM E. HUGHES, Senior Vice President, Marcus & Millichap Capital Corporation

- **Monetary policy actions set to accelerate.** The 10-year U.S. Treasury rate held below 2 percent until a surge following the election raised the rate above that threshold and potentially established a new and higher range for the benchmark. Moderate economic growth and muted inflation throughout the growth cycle allowed the Federal Reserve to hold off on rate hikes, which has supported additional cap rate compression. However, the Trump administration's fiscal plans built on higher spending and reduced taxes could accelerate economic growth. Intensifying inflationary pressure under that scenario could encourage the Federal Reserve to quicken the pace of its efforts to raise its short-term benchmark.
- **Inflation on the upswing, but for the right reasons.** Though inflationary pressures are beginning to grow, increases are occurring from a historically low base. Further, inflationary pressure has arisen from wage growth and stabilization of oil prices, both positives for the overall economy. Higher wages will encourage spending while inflationary pressure on prices will raise overall consumption, the primary driver of economic growth.
- **Underwriting discipline persists; ample debt capital remains.** Multifamily originations increased in 2016, with agency lending dominating the overall marketplace. The government agencies underwrote about $105 billion in loans last year and remain a primary source of multifamily originations in 2017 due to their efficient execution. Acquisition debt remained plentiful throughout 2016, but borrowers' rates rose late in the year in conjunction with higher Treasury yields and loan-to-value ratios compressed. The combination of higher rates and tighter lender underwriting created some investor caution that could carry over into 2017. A potential easing of Dodd-Frank regulations on financial institutions could create additional lending capacity for other capital sources.

National Multi Housing Group

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Price: $250

Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Experian; National Association of Realtors; Moody's Analytics; Real Capital Analytics; MPF Research; TWR/Dodge Pipeline; U.S. Census Bureau.

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LOS ANGELES, CA

MARKET OVERVIEW & MULTIFAMILY HOUSING UPDATE

RED Capital Group | 1Q17 | May 2017

PAYROLL JOB SUMMARY

Average Payrolls	4,419.2m
Annual Change 1Q17	75.4m (1.7%)
RCR 2017 Forecast	91.7m (2.1%)
RCR 2018 Forecast	112.8m (2.5%)
RCR 2019 Forecast	81.0m (1.8%)
RCR 2020 Forecast	73.2m (1.6%)
RCR 2021 Forecast	73.7m (1.6%)
Unemployment (NSA)	4.1% (4/17)

1Q17 PAYROLL TRENDS AND FORECAST

Los Angeles payroll trends continued to decelerate during the first quarter, slowing to a 75,400-job, 1.7% year-on-year rate from as fast as 2Q16's 125,500-job, 2.9% pace. Softer conditions in consumer-driven sectors and the media complex were largely responsible. Construction, retail trade and leisure service headcounts advanced at a 13,700-job, 1.3% annual rate in 1Q17, a mere shadow of 2Q16's full-throated 35,700-job, 3.5% gain. Likewise, payrolls in the information sector, which encompass much of the entertainment industry, declined slightly in 1Q after thundering ahead at a 31,500-job, 15.4% pace in 2Q16. By the same token, professional, technical and healthcare services maintained a vigorous growth trajectory, collectively accounting for nearly one-half of metro job creation.

The seasonally-adjusted job series also points to a marked economic slowdown. These data indicate LA lost a net of -1,500 jobs January to April, comparing unfavorably to a 47,500-job surge recorded in the same period of 2016.

Adverse recent data notwithstanding, RED Research's LA payroll model finds reason for optimism. The 96.4% adjusted-R^2 (SE=0.39%) model uses the rate of change of US job growth and 5-year average GDP growth as independent variables. Each is forecast to accelerate moderately over the next 18 months, boosting metro growth with a degree of leverage. County job growth rates are projected to rebound to the mid-2% area through 3Q18 before slowing again in harmony with broader national trends.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	96.7%
RED 51 Rank	T8th
Annual Chg. (Reis)	+0.1%
RCR YE17 Forecast	96.4%
RCR YE18 Forecast	96.2%
RCR YE19 Forecast	96.2%
RCR YE20 Forecast	96.5%
RCR YE21 Forecast	97.1%

1Q17 ABSORPTION AND OCCUPANCY RATE TRENDS

Reis report that 1Q17 apartment demand was constructive if moderately weaker than the prior quarter. Tenants occupied a net of 1,277 units in the period, up from 846 in 1Q16 but materially below the near record 2,577-unit absorption performance in the previous quarter. Developers completed 1,120 units, maintaining metro occupancy at about 96.7%, representing a 10 basis point year-on-year advance.

Axiometrics surveys of 649 stabilized, same-store properties revealed sample occupancy of 95.6%, down –30bps y-o-y. Class-C (96.7%) recorded highest occupancy for the 9th consecutive quarter, followed by classes-B (95.5%) and –A (95.0%). Mid– and high-rise buildings held steady at 95.9% in spite of meaningful new competition. Eight submarkets posted rates above 96%, largely in areas with rents below $1,800; high rent Mar Vista and West LA were prominent exceptions. Areas experiencing supply pressures — Downtown, Hollywood and MDR — were resilient, recording occupancy rates ranging from 94.6% to 95.7%.

LA inventory is expected to increase by 4.2% over five years, least among the primary markets. RCR's demand model forecasts that absorption should keep pace after moderate shortfalls in 2017-2018. Occupancy is likely to hold steady in the 96% to 97% range throughout the 5-year forecast interval as a result, boding well for investors.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	$1,725
Annual Change	3.7%
RED 51 Rent Change Rank	22nd
RCR YE17 Forecast	2.9%
RCR YE18 Forecast	2.7%
RCR YE19 Forecast	2.3%
RCR YE20 Forecast	3.1%
RCR YE21 Forecast	5.0%

1Q17 EFFECTIVE RENT TRENDS

Southland rent growth came to an abrupt halt in 1Q17, as Los Angeles, Orange County and San Diego suffered sequential quarter declines and the Inland Empire scratched out the smallest advance in two years. LA rents slipped $2 or -0.1%, representing the first quarterly dip in seven years. Annual rent growth fell from 4.9% to 3.7%, dropping LA from 16th to 22nd among the RED 51 peers.

Data from Axiometrics were comparable as the 649-property same-store sample reported annual rent growth of 3.9%, down from 5.1% in 4Q16. Class-C (10.7%) assets easily retained the pole position for the 10th consecutive quarter. Class-A notched a third consecutive gain of about 2%, and class-B reported a 3.9% advance. East LA and Palmdale surged more than 14% each, and several San Fernando and San Gabriel Valley areas chalked hikes in the 5% to 7% range. Downtown (4.0%) and MDR (3.2%) held their own, but other well-supplied areas (South Glendale, Pasadena, Central) suffered moderate decreases.

RCR's LA rent model uses occupancy (+), personal consumption expenditures (+) and home prices (-) as variables to achieve a 98.4% ARS (SE=0.4%). The model is constructive, calling for slow, stable rent growth through 2020, with a prospect for better performance afterward as occupancy and PCE firm and home price growth decelerates.

TRADE & RETURN SUMMARY

$5mm+ / 80-unit+ Sales	11
Approximate Proceeds	$503.2mm
Average Cap Rate (FNM)	4.4%
Average Price / Unit	$270,838
Expected Total Return	6.6%
RED 49 ETR Rank	36th
Risk-adjusted Index	1.87
RED 49 RAI Rank	48th

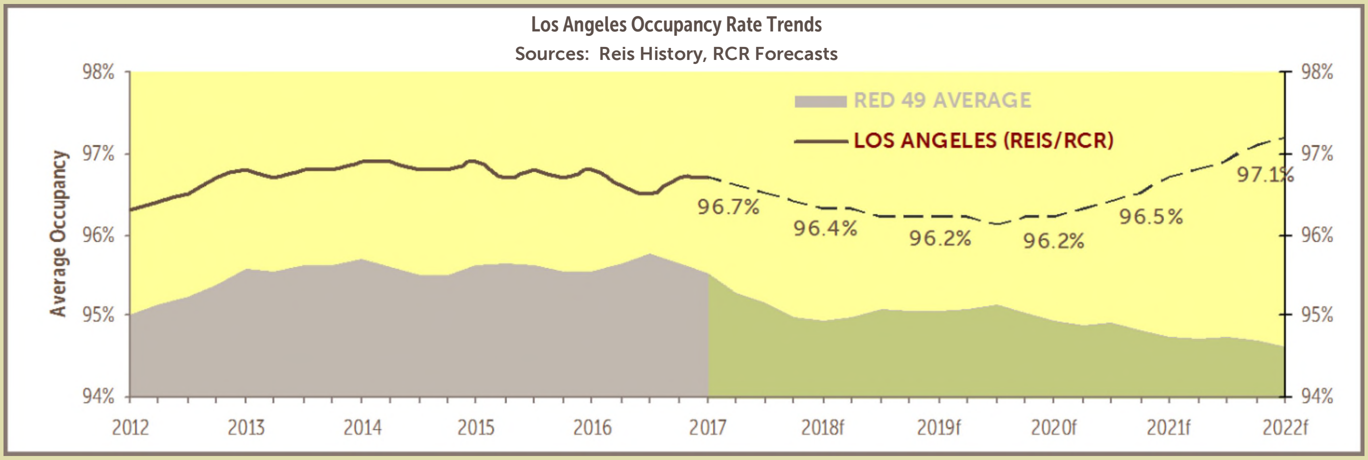
1Q17 PROPERTY MARKETS AND TOTAL RETURNS

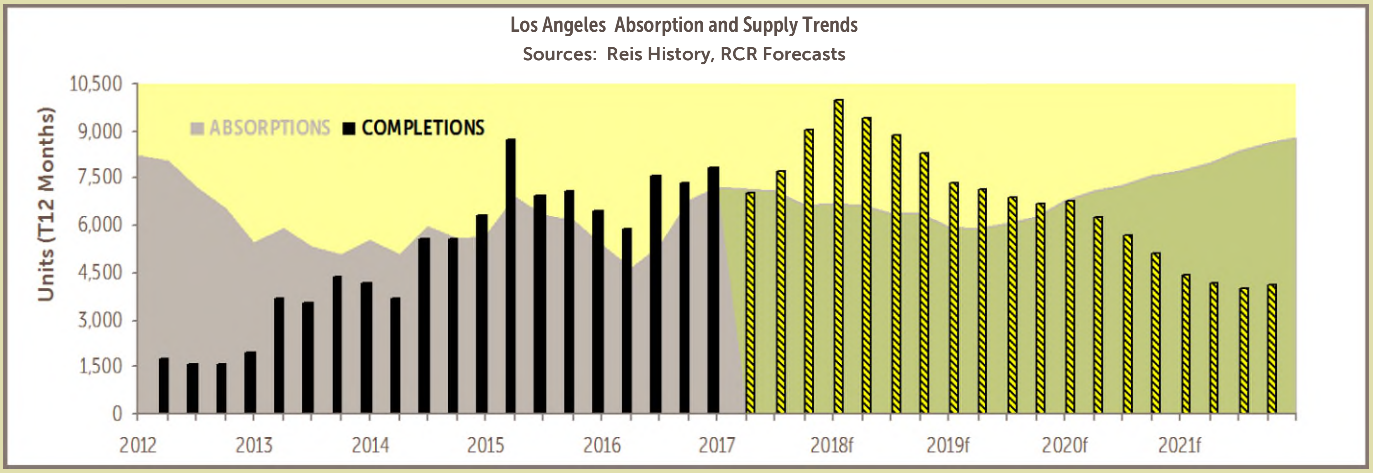
Sales velocity moderated in 2017 after a period of white hot trade during the second half of 2016, when 53 LA properties of 80 units or more exchanged hands for total sales proceeds of $2,527 million. By contrast, only 11 properties transacted in 1Q17 for gross proceeds of $503.2mm, ranking the quarter as the quietest since 2Q14's seven sales for $338.2mm. The average price of 1,858 units sold was $270,838, down –12% sequentially and –8% year-on-year.

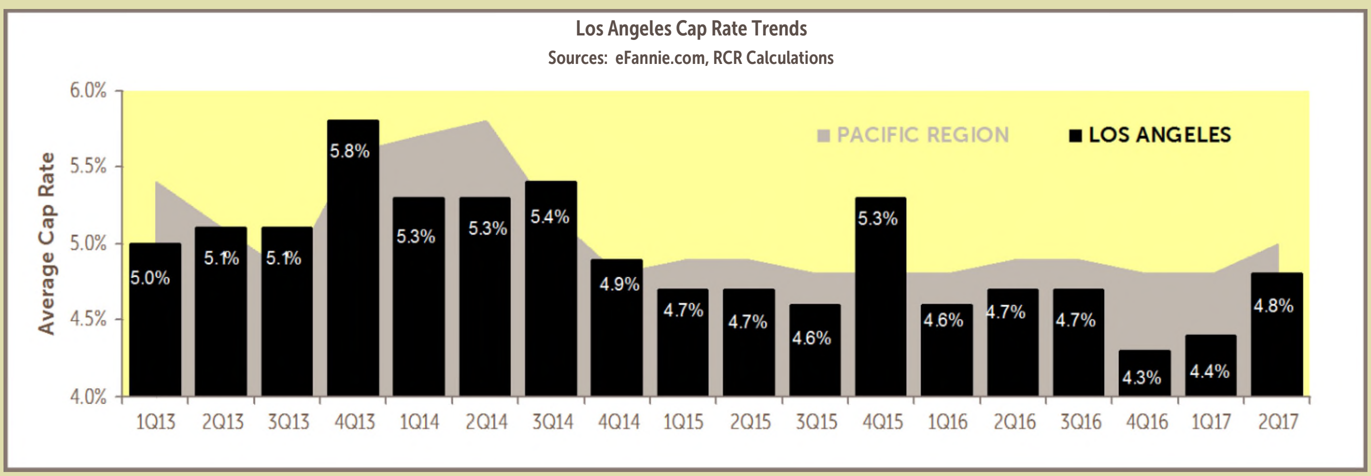
The first six weeks of the second quarter were more active as seven sales closed by May 10 for aggregate value of $258.9mm. The average unit price of early 2Q17 transactions was $240.,626, lowest mean value since 3Q15.

Cap rates of investor quality properties averaged about 4.5% in recent trade. High-quality mid-rise assets traded to high-3% to low-4% yields. Class-B assets and value-adds were priced to going-in yields in the 4.5% to 5.25% range.

RCR elected to trim another 10bps from the LA purchase cap rate proxy to 4.5%. Using a terminal cap rate assumption of 5.0% and model derived rent and occupancy point estimates we calculate that an investor would expect to earn a 6.6% unlevered total return on a five-year hold. This ETR ranks 36th among the RED 49 peer group. With respect to risk-adjusted returns, LA ranks only 48th due to the effect of its low cap rate and exposure to economic volatility.

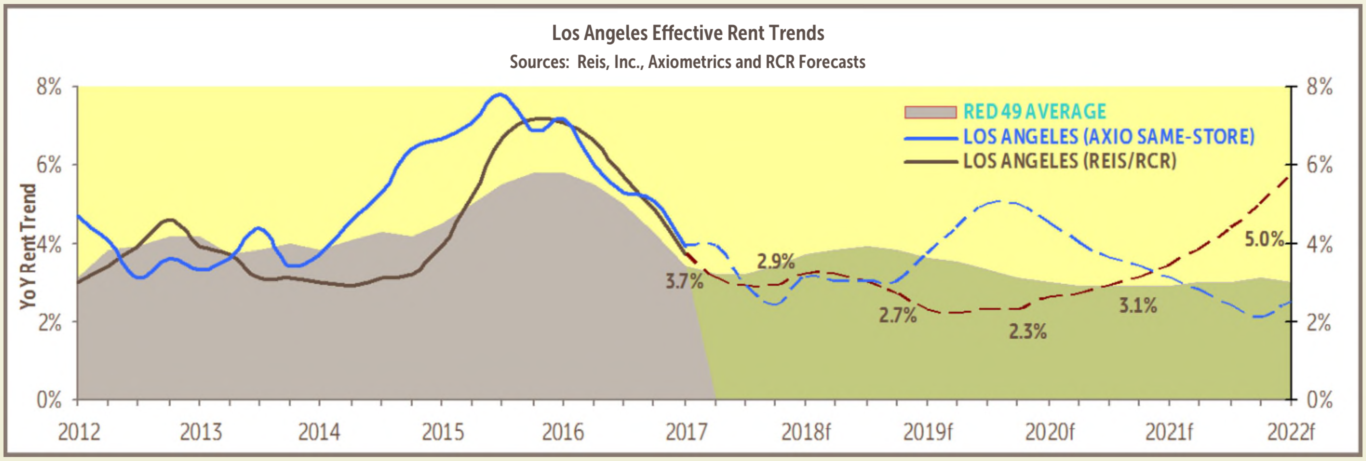


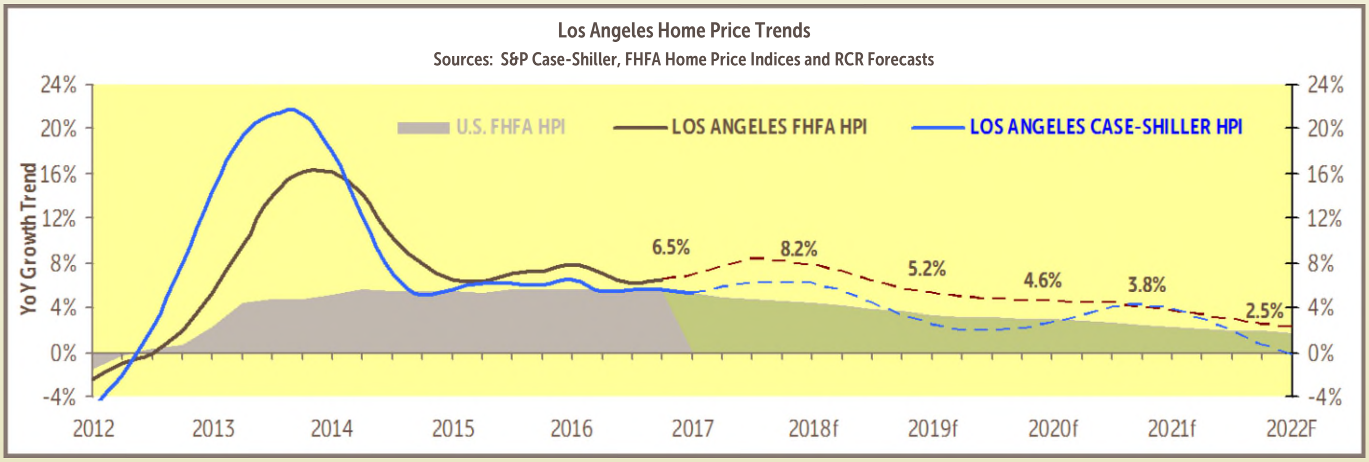


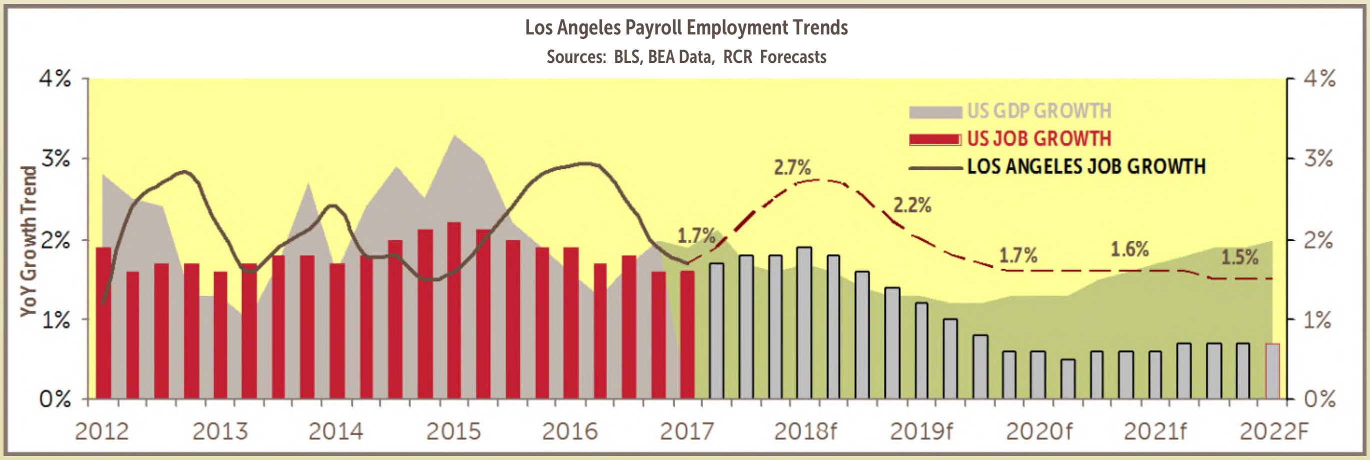


NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price (in millions)	Price / Per Unit	Estimated Cap Rate
Lofts NoHo Commons (Sherman Oaks/NoHo Arts Dist.)	B+ / MB MR (2006)	24-Nov-2016	$102.5	$351,027	3.7%
La Cienega WeHo (Beverly Hills / WeHo West / Bev. Ctr.)	A+ / SR MR (2014)	25-Nov-2016	$80.5	$644,000	4.0%
Solimar (Carson - San Pedro/Harbor City/Harbor Park)	B+ / WF GLR (2016)	30-Dec-2016	$75.0	$367,647	NA / 4.5% pro forma
1724 Highland (Hollywood / Hollywood Heights)	B+ / SR MR (2010)	6-Jan-2017	$132.5	$490,741	3.5%
Monterey Station (Claremont / Pomona / WUHS)	B / WF MR (2014)	17-Feb-2017	$84.5	$242,120	4.8%
Portofino Townhomes (Carson—San Pedro/Harbor City)	B+ / TH (1987)	24-Feb-2017	$67.8	$335,750	5.23%


Los Angeles Effective Rent Trends
Sources: Reis, Inc., Axiometrics and RCR Forecasts
RED 49 AVERAGE
LOS ANGELES (AXIO SAME-STORE)
LOS ANGELES (REIS/RCR)
YoY Rent Trend
3.7%
2.9%
2.7%
2.3%
3.1%
5.0%
8%
6%
4%
2%
0%
2012
2013
2014
2015
2016
2017
2018f
2019f
2020f
2021f
2022f


Los Angeles Home Price Trends
Sources: S&P Case-Shiller, FHFA Home Price Indices and RCR Forecasts
U.S. FHFA HPI
LOS ANGELES FHFA HPI
LOS ANGELES CASE-SHILLER HPI
YoY Growth Trend
6.5%
8.2%
5.2%
4.6%
3.8%
2.5%
24%
20%
16%
12%
8%
4%
0%
-4%
2012
2013
2014
2015
2016
2017
2018f
2019f
2020f
2021f
2022F


Los Angeles Payroll Employment Trends
Sources: BLS, BEA Data, RCR Forecasts
US GDP GROWTH
US JOB GROWTH
LOS ANGELES JOB GROWTH
YoY Growth Trend
1.7%
2.7%
2.2%
1.7%
1.6%
1.5%
4%
3%
2%
1%
0%
2012
2013
2014
2015
2016
2017
2018f
2019f
2020f
2021f
2022F

SUBMARKET TRENDS (REIS)

Submarket	Reis Inventory Percent Change	Effective Rent			Physical Vacancy		
		1Q16	1Q17	Change	1Q16	1Q17	Basis Point Change
Arcadia / Duarte	0.0%	$1,254	$1,335	6.5%	2.2%	2.0%	-20 bps
Azusa / Covina	0.0%	$1,266	$1,379	9.0%	3.7%	3.4%	-30 bps
Beverly Hills	0.4%	$2,201	$2,410	9.5%	2.3%	2.4%	10 bps
Burbank / North Glendale	0.0%	$1,698	$1,806	6.4%	5.7%	5.2%	-50 bps
Carson / San Pedro	1.3%	$1,268	$1,351	6.5%	2.4%	2.9%	50 bps
Chatsworth	0.8%	$1,380	$1,459	5.7%	4.4%	3.0%	-140 bps
Claremont / Pomona	0.0%	$1,441	$1,527	6.0%	6.2%	3.4%	-280 bps
Downtown	12.7%	$2,248	$2,413	7.3%	6.3%	8.0%	170 bps
East LA / Alhambra	0.0%	$1,200	$1,259	4.9%	2.5%	2.3%	-20 bps
East Long Beach	0.2%	$1,514	$1,572	3.8%	3.0%	3.2%	20 bps
El Segundo	1.4%	$1,838	$2,131	15.9%	1.4%	4.9%	350 bps
Granada Hills	0.7%	$1,394	$1,562	12.1%	1.3%	2.1%	80 bps
Hawthorne	0.0%	$1,103	$1,232	11.7%	1.4%	1.1%	-30 bps
Hollywood	1.3%	$1,613	$2,114	31.1%	3.7%	3.8%	10 bps
Inglewood / Crenshaw	0.0%	$1,118	$1,279	14.4%	2.2%	2.0%	-20 bps
Mar Vista / Palms	0.8%	$1,619	$2,126	31.3%	2.1%	2.2%	10 bps
Marina Del Rey	8.1%	$2,394	$3,075	28.5%	6.2%	5.4%	-80 bps
Mid-City / West Adams	0.0%	$1,216	$1,252	3.0%	2.3%	2.1%	-20 bps
North Long Beach	1.6%	$1,191	$1,411	18.5%	3.5%	4.6%	110 bps
Palmdale / Lancaster	0.0%	$935	$1,084	16.0%	4.4%	4.2%	-20 bps
Panorama Hills	1.5%	$1,147	$1,193	4.1%	1.1%	1.2%	10 bps
Paramount / Downey	0.7%	$1,293	$1,421	9.9%	1.5%	1.6%	10 bps
Pasadena	1.4%	$1,730	$1,813	4.8%	4.5%	5.4%	90 bps
Santa Clarita Valley	0.0%	$1,530	$1,590	3.9%	3.3%	3.0%	-30 bps
Santa Monica	0.8%	$2,579	$2,743	6.4%	3.3%	3.2%	-10 bps
Sherman Oaks	0.8%	$1,719	$1,807	5.1%	2.8%	2.6%	-20 bps
South Glendale	1.0%	$1,469	$1,578	7.4%	6.7%	4.6%	-210 bps
South/Central LA	0.0%	$951	$958	0.7%	2.6%	2.4%	-20 bps
Tujunga / Montrose	0.0%	$1,387	$1,531	10.4%	2.8%	2.7%	-10 bps
Van Nuys/No. Hollywood	0.9%	$1,218	$1,365	12.1%	2.2%	2.2%	0 bps
West Covina / La Puente	3.8%	$1,368	$1,603	17.2%	1.8%	3.3%	150 bps
West LA / Westwood	0.6%	$2,427	$2,478	2.1%	2.9%	2.7%	-20 bps
West Long Beach	1.2%	$1,308	$1,967	50.4%	4.0%	5.7%	170 bps
West Torrance	0.0%	$1,658	$1,713	3.3%	1.9%	2.0%	10 bps
Whittier	0.0%	$1,223	$1,321	8.0%	2.5%	2.3%	-20 bps
Wilshire / Westlake	2.2%	$1,419	$1,562	10.1%	3.6%	4.0%	40 bps
Woodland Hills	0.0%	$1,930	$1,900	-1.6%	4.7%	4.3%	-40 bps
Metro	1.0%	$1,664	$1,725	3.7%	3.2%	3.3%	10 bps

THE FACE OF LENDING