Los Angeles Apartment Advisors

Marcus & Millichap

Offering Memorandum

940 N SUMMIT AVE
Pasadena, CA 91103

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940 N SUMMIT AVE
Pasadena, CA
ACT ID ZAA0121470

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Marcus & Millichap

INVESTMENT OVERVIEW

EXECUTIVE SUMMARY

VITAL DATA				
Price	$1,225,000		CURRENT	PRO FORMA
Down Payment	30% / $367,500	CAP Rate	4.90%	5.00%
Loan Amount	$857,500	GRM	15.71	15.47
Loan Type	Proposed New	Net Operating Income	$60,074	$61,274
Interest Rate / Amortization	3.88% / 30 Years	Net Cash Flow After Debt Service	3.18% / $11,686	3.51% / $12,886
Price/Unit	$408,333	Total Return	7.38% / $27,118	7.87% / $28,926
Price/SF	$670.87			
Number of Units	3			
Rentable Square Feet	1,826			
Year Built / Renovated	1963 / 2019			
Lot Size	0.23 acre(s)			

UNIT MIX		
NUMBER OF UNITS	UNIT TYPE	APPROX. SQUARE FEET
3	2 Bed / 1 Bath	
3	Total	1,826

PROPOSED FINANCING	
First Trust Deed	
Loan Amount	$857,500
Loan Type	Proposed New
Interest Rate	3.88%
Amortization	30 Years
Loan Term	30 Years
Loan to Value	70%
Debt Coverage Ratio	1.24

MAJOR EMPLOYERS

EMPLOYER	# OF EMPLOYEES
Operations/Risk Group	6,561
Jacobs Engineering Company	4,000
Caltech	3,908
Huntington Hospital	3,501
Hudson Gardens	3,400
Blue Chip Stamps	3,074
Saint Elizabeth Church	2,800
ADVENTIST HEALTH	2,550
HUNTINGTON MEMORIAL HOSPITAL	2,100
Parsons	2,000
Feihe International Inc	1,932
Pasadena City College	1,600

DEMOGRAPHICS

	1-Miles	3-Miles	5-Miles
2018 Estimate Pop	43,096	180,389	420,425
2010 Census Pop	41,281	172,378	404,725
2018 Estimate HH	14,517	71,621	157,490
2010 Census HH	13,733	67,518	149,778
Median HH Income	$46,648	$78,379	$78,359
Per Capita Income	$24,622	$47,856	$45,504
Average HH Income	$71,552	$119,502	$120,631

INVESTMENT OVERVIEW

Marcus & Millichap is proud to present the unique opportunity to own a turn-key 3-unit property located at 940 N Summit Avenue in Pasadena, California. The offering sits on a huge 10,017 SF lot with 1,826 SF of building area and is comprised of a great mix of all 2-bed/1-bath units.

The property has been meticulously rehabbed throughout with a brand new roof, new landscaping, drip system, new a/c and heating, new kitchens, cabinets, stainless steel appliances, flooring, windows & doors, bathrooms, showers, etc.

The property will be delivered with 2 vacant units that are completely rent ready allowing an investor to either owner-occupy or rent to tenants of their choosing at market rents. Since the property has less than 5 units, an investor can lock in a 30-year fixed-rate residential loan with today's very low interest rates (even more favorable if one chooses to owner occupy).

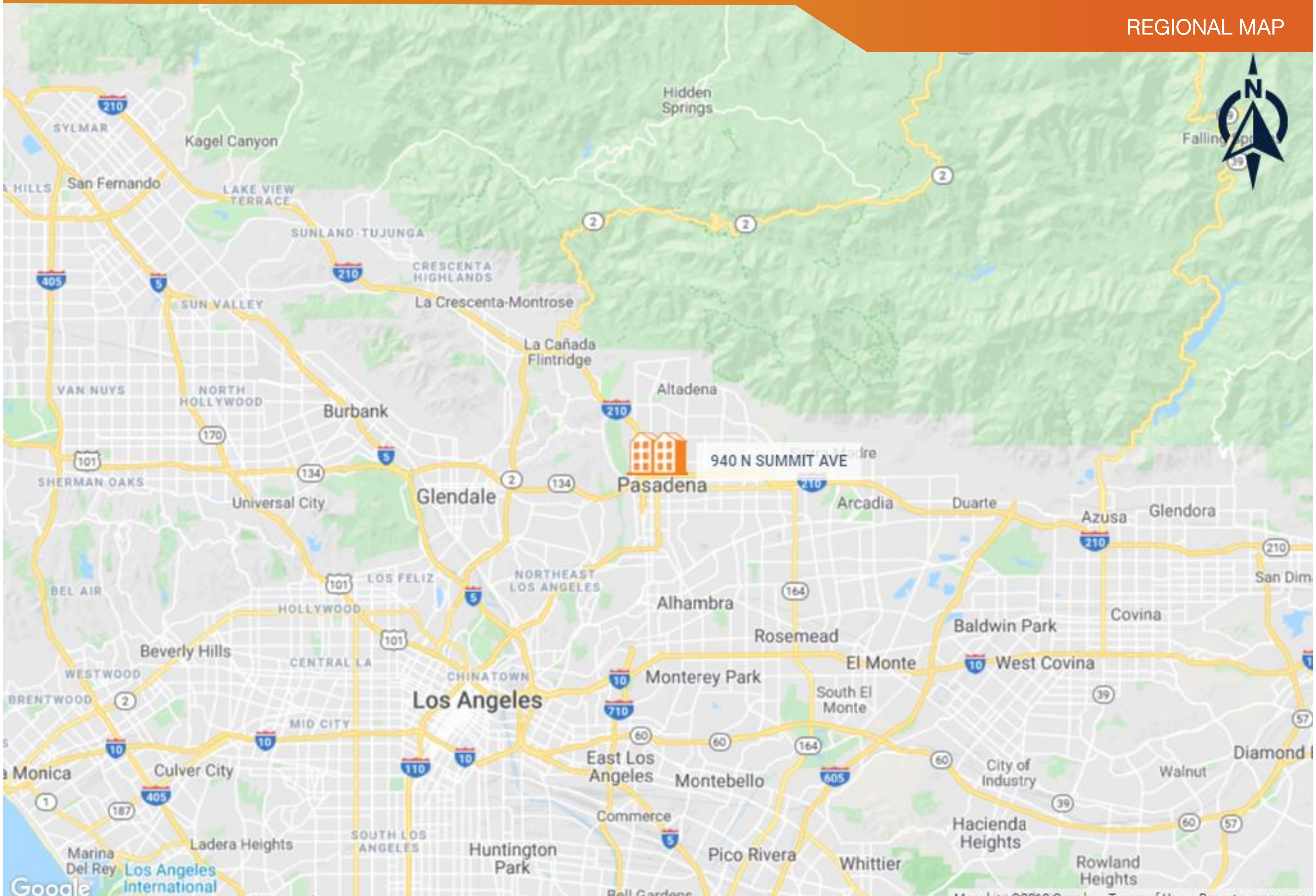
The offering is well located less than 2 miles from the premier dining, entertainment and shopping of Old Town Pasadena.

This asset offers an investor the very rare opportunity to acquire a hassle-free, high cash flow, and turn-key triplex in one of Los Angeles County's premier cities.

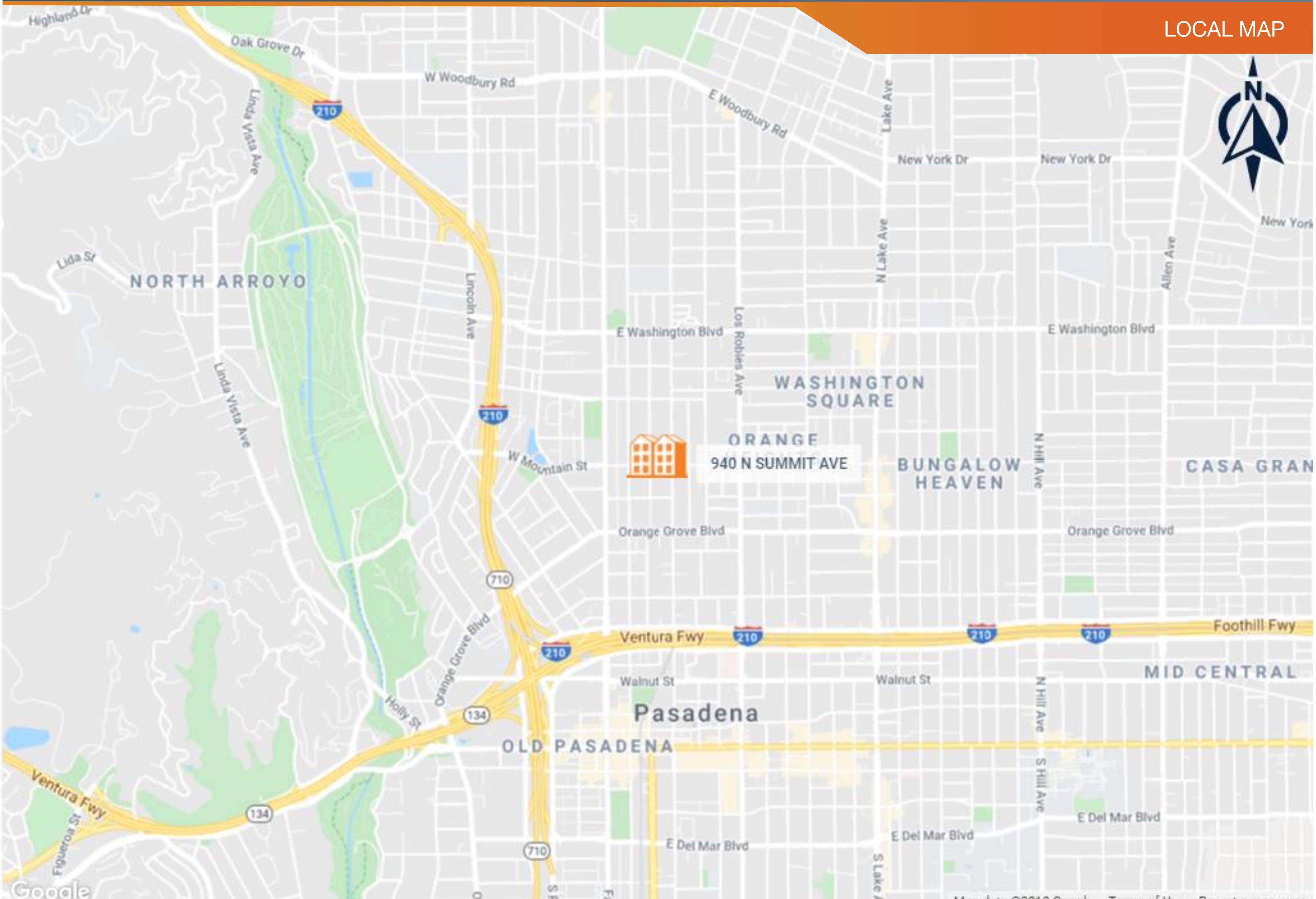
INVESTMENT HIGHLIGHTS

- Built in 1963
- Completely Rehabbed in 2019
- Turn-Key Property
- Ample On-Site Parking
- Easy to Manage
- 2 Units Delivered Vacant
- Large Lot (Over 10,000 SF)
- Walk Score of 75

REGIONAL MAP



LOCAL MAP


940 N SUMMIT AVE
NORTH ARROYO
WASHINGTON SQUARE
ORANGE
BUNGALOW HEAVEN
CASA GRAN
MID CENTRAL
Pasadena
OLD PASADENA
Ventura Fwy
Foothill Fwy
E Washington Blvd
Orange Grove Blvd
Walnut St
E Del Mar Blvd
New York Dr
W Woodbury Rd
E Woodbury Rd
Oak Grove Dr
Highland Dr
Lida St
Linda Vista Ave
Lincoln Ave
Los Robles Ave
N Lake Ave
Lake Ave
S Lake Ave
N Hill Ave
S Hill Ave
Allen Ave
W Mountain St
Orange Grove Blvd
Holly St
Figueroa St
210
710
134
N
Google
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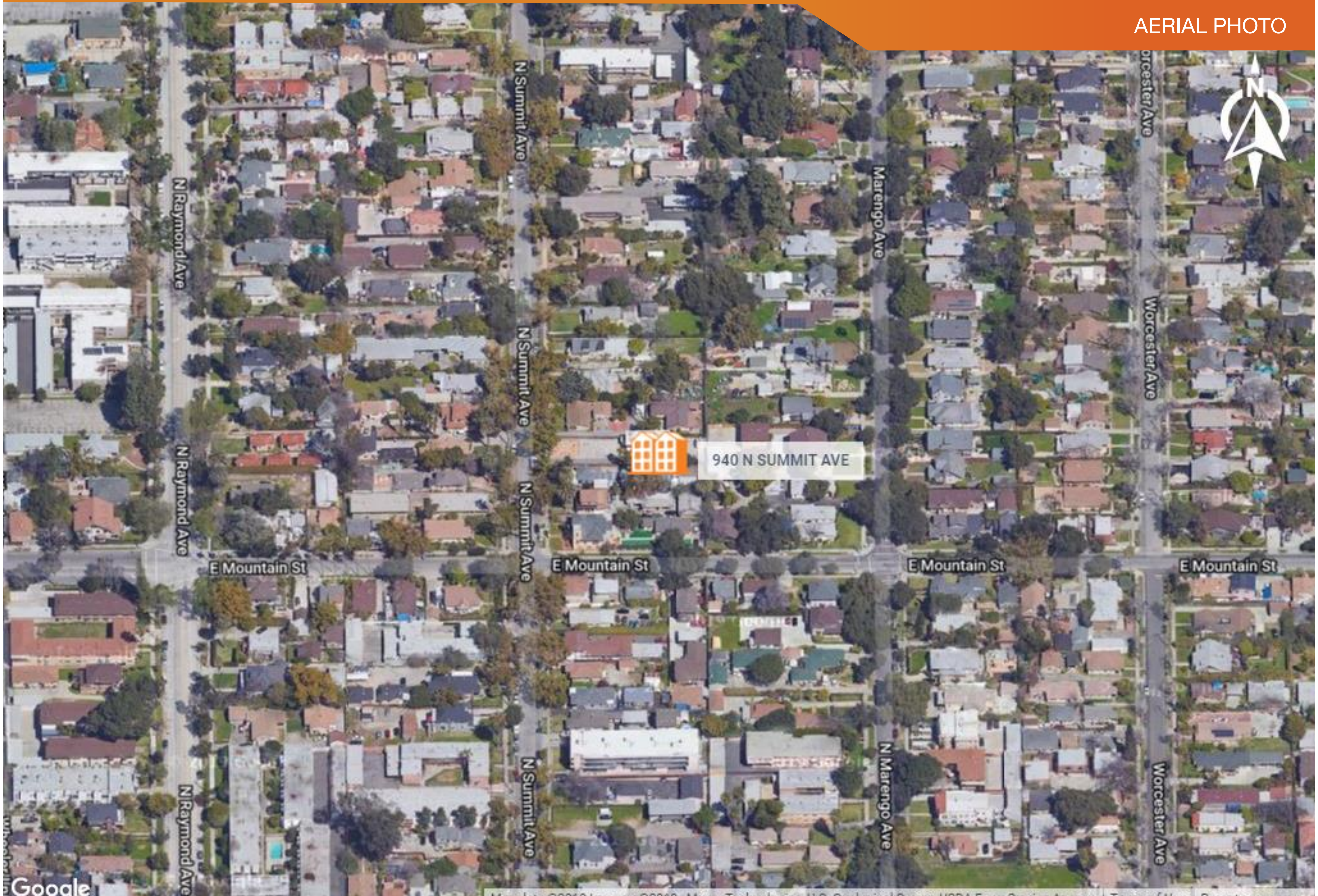
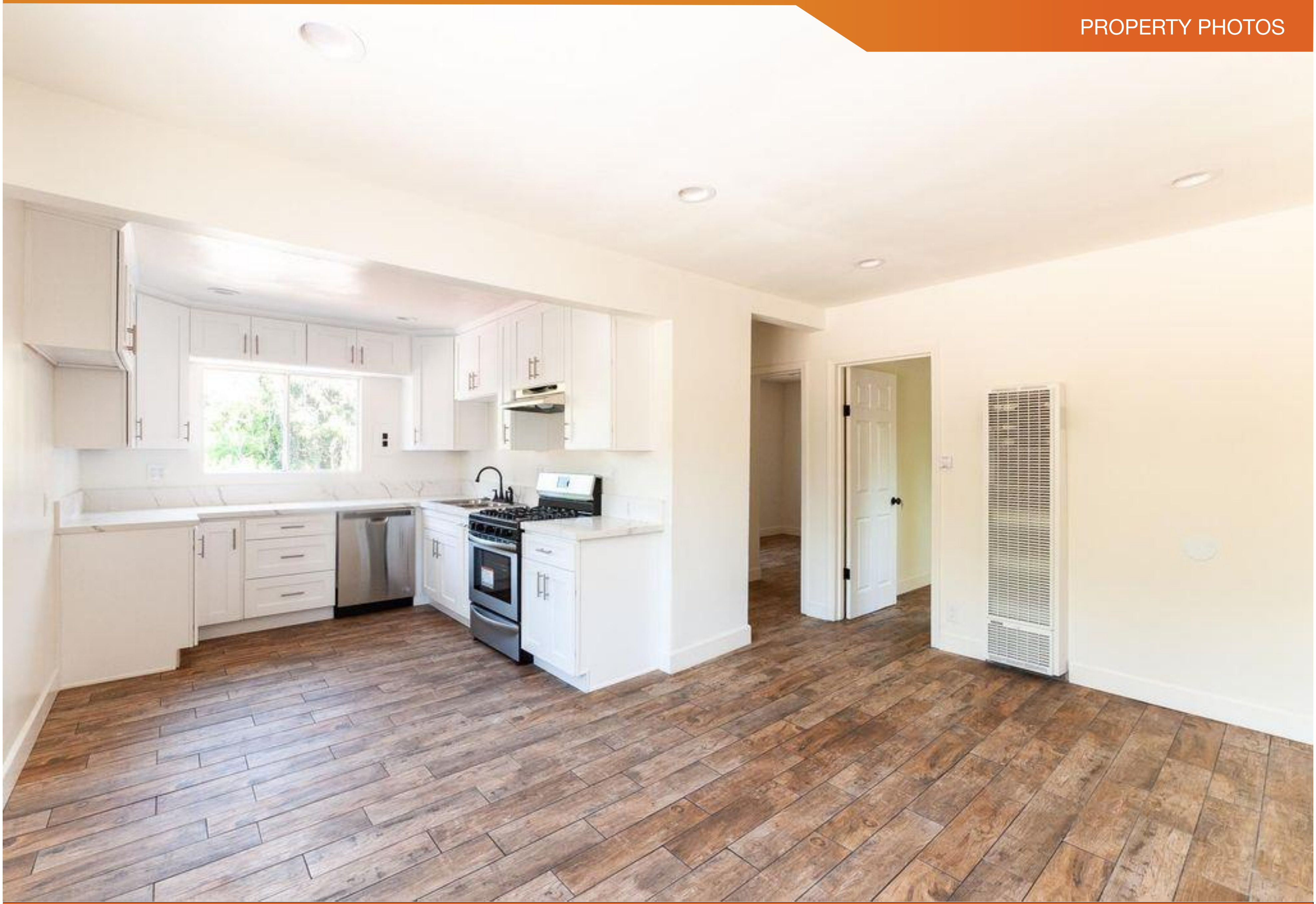
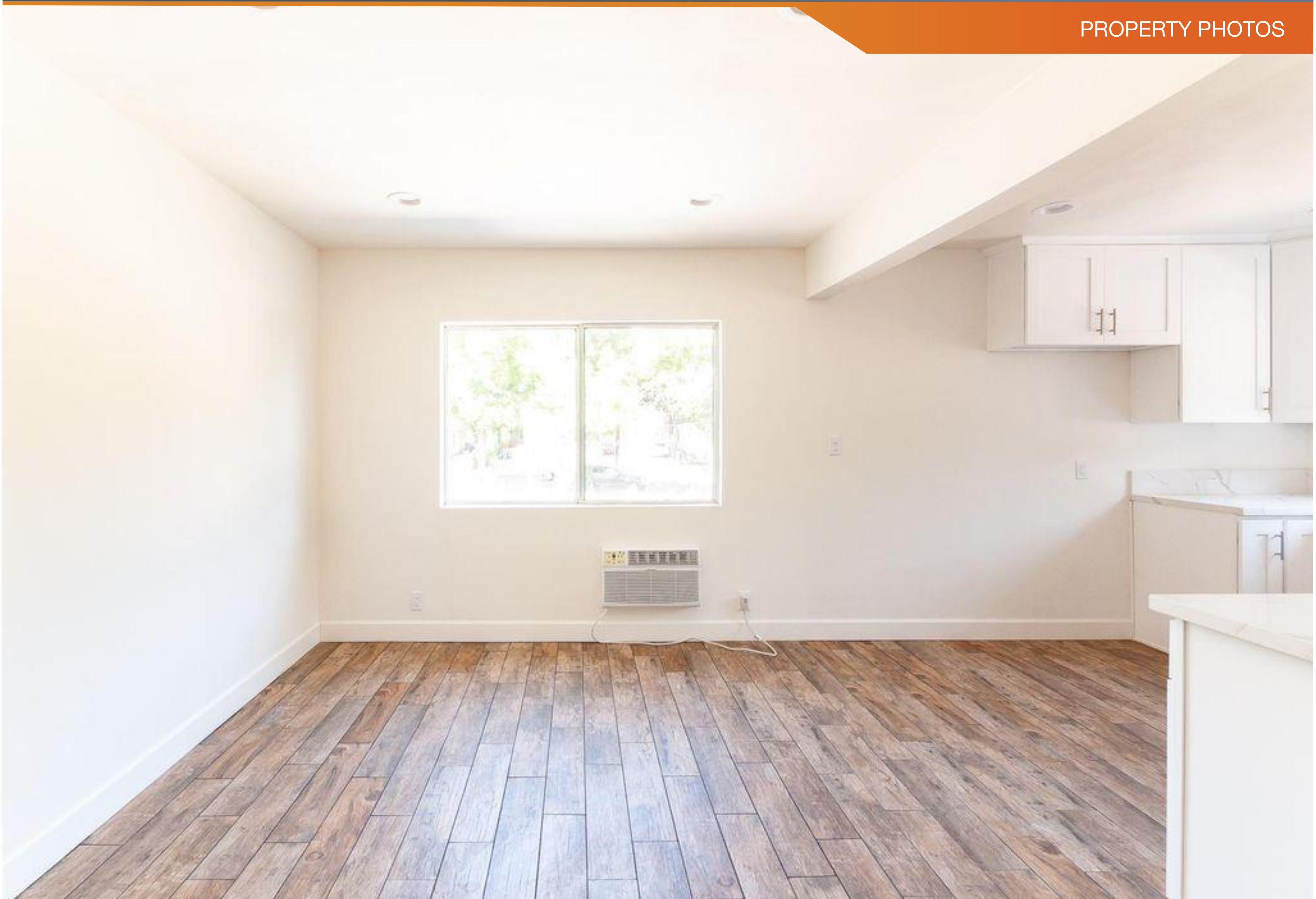
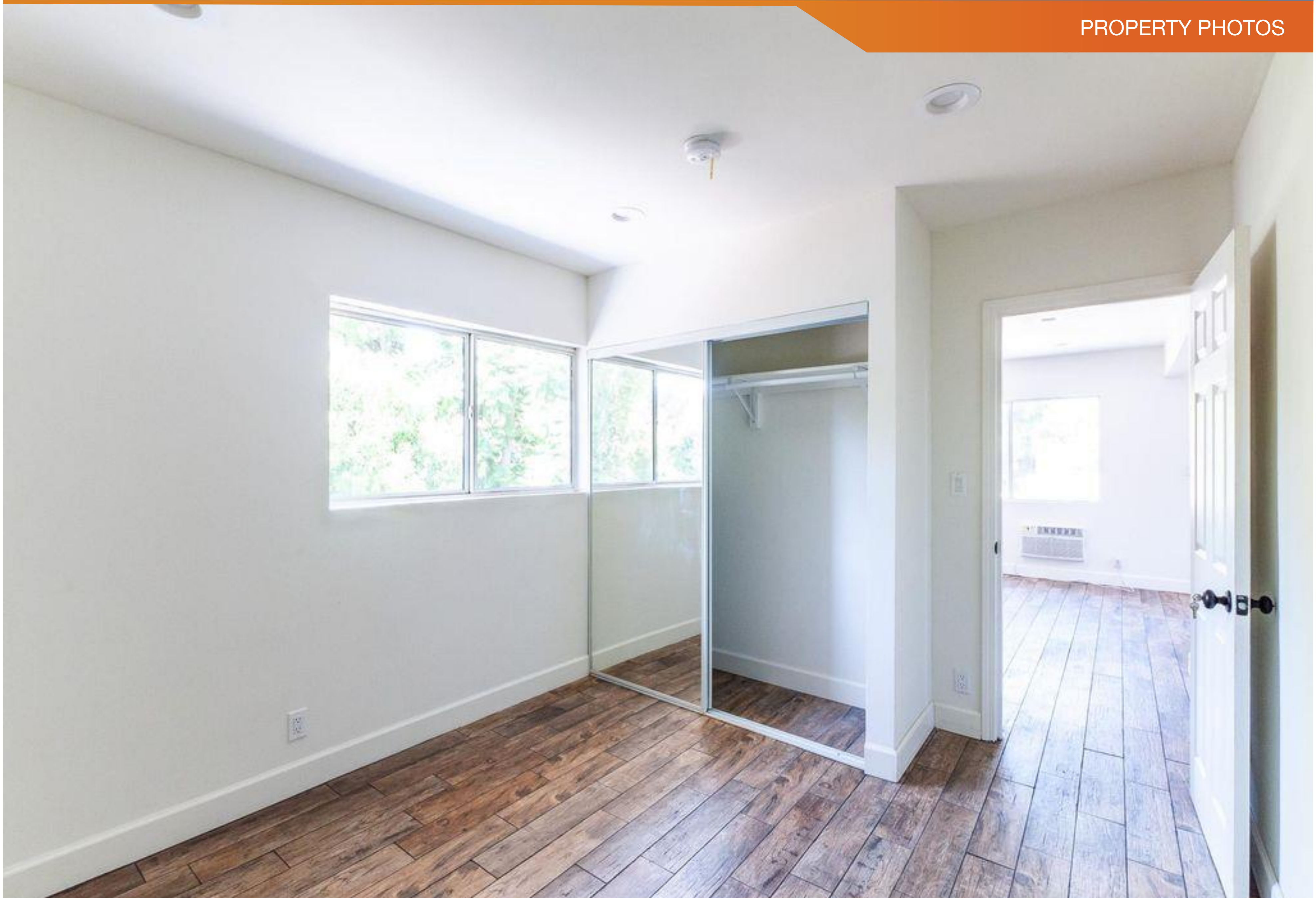
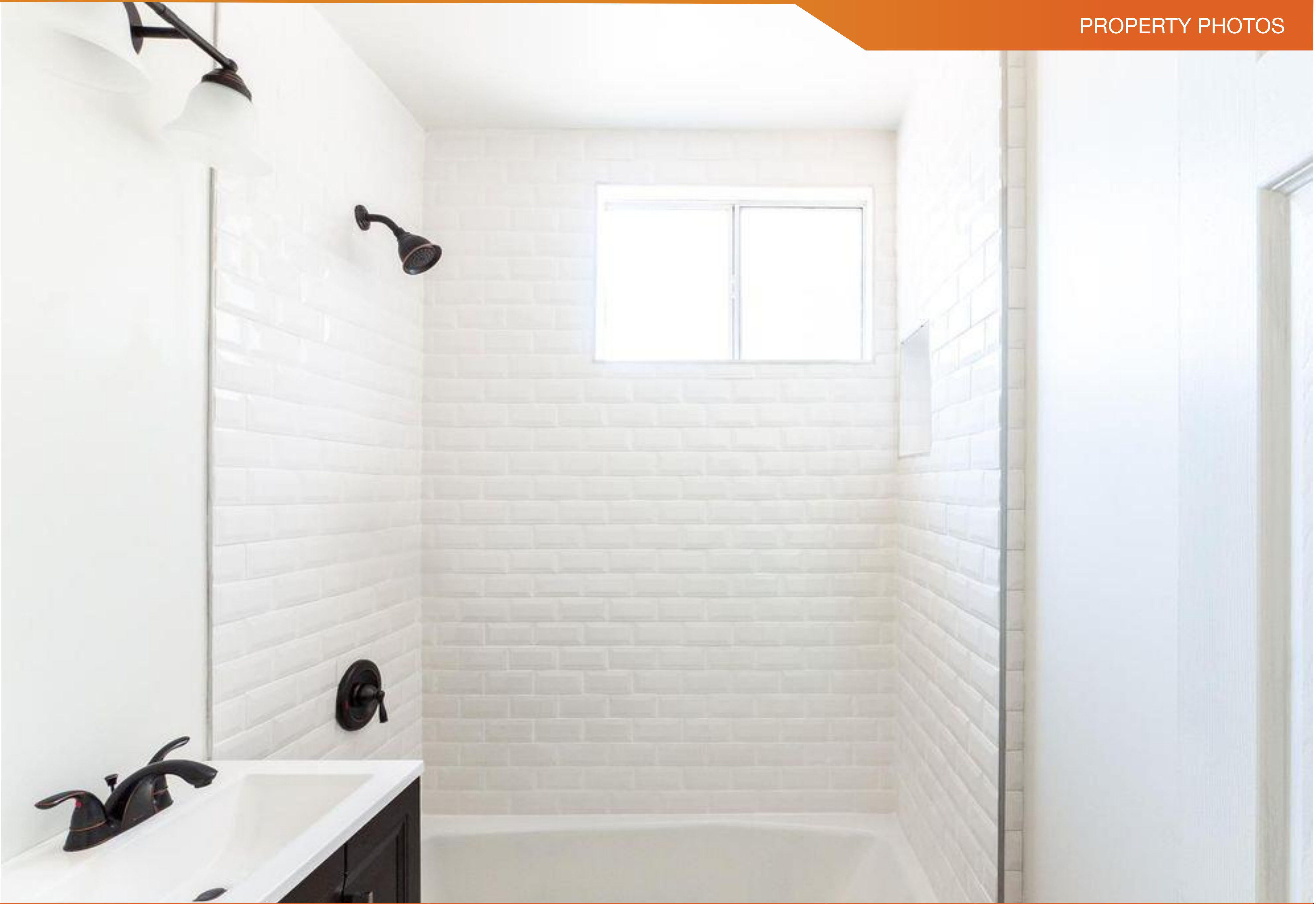
AERIAL PHOTO











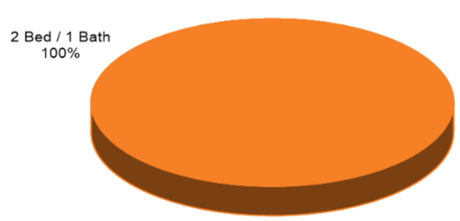
FINANCIAL ANALYSIS

RENT ROLL SUMMARY

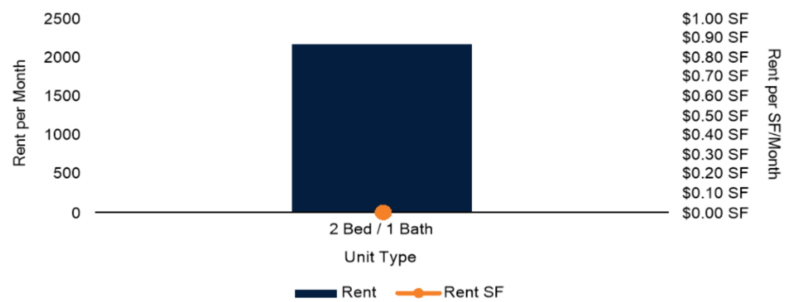
As of October,2019

				Current			Potential		
Unit Type	# of Units	Avg Sq Feet	Rental Range	Average Rent	Average Rent / SF	Monthly Income	Average Rent	Average Rent / SF	Monthly Income
2 Bed / 1 Bath	1	N/A	\$2,100 - \$2,100	\$2,100	N/A	\$2,100	\$2,200	N/A	\$2,200
2 Bed / 1 Bath (Vacant)	2	N/A	\$2,200 - \$2,200	\$2,200	N/A	\$4,400	\$2,200	N/A	\$4,400
Totals/Weighted Averages	**3**	**609**		**\$2,167**	**\$3.56**	**\$6,500**	**\$2,200**	**\$3.61**	**\$6,600**
Gross Annualized Rents				**\$78,000**			**\$79,200**		

Unit Distribution



Unit Rent



RENT ROLL DETAIL

Unit	Unit Type		Current Rent / Month	Current Rent / SF/ Month	Potential Rent / Month	Potential Rent/ SF/ Month
1	2 Bed / 1 Bath		$2,100	$0.00	$2,200	$0.00
2	2 Bed / 1 Bath (Vacant)		$2,200	$0.00	$2,200	$0.00
3	2 Bed / 1 Bath (Vacant)		$2,200	$0.00	$2,200	$0.00
Total		**Square Feet: 1,826**	**$6,500**	**$3.56**	**$6,600**	**$3.61**

OPERATING STATEMENT

Income	Current		Pro Forma		Notes	Per Unit	Per SF
Gross Current Rent	**78,000**		**79,200**			**26,400**	**43.37**
Total Vacancy	**$0**	**0.0%**	**$0**	**0.0%**		**$0**	**$0**
Effective Gross Income	**$78,000**		**$79,200**			**$26,400**	**$43.37**

Expenses	Current	Pro Forma	Notes	Per Unit	Per SF
Real Estate Taxes	12,936	12,936	[1]	4,312	7.08
Insurance	730	730	[2]	243	0.40
Utilities - Electric	192	192	[3]	64	0.11
Utilities - Water & Sewer	738	738	[4]	246	0.40
Repairs & Maintenance	1,500	1,500	[5]	500	0.82
Landscaping	600	600	[6]	200	0.33
Pest Control	480	480	[7]	160	0.26
Operating Reserves	750	750	[8]	250	0.41
Total Expenses	**$17,926**	**$17,926**		**$5,975**	**$9.82**
Expenses as % of EGI	**23.0%**	**22.6%**			
Net Operating Income	**$60,074**	**$61,274**		**$20,425**	**$33.56**

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

NOTES

Notes to Operating Statement	
[1]	1.056015% of the purchase price
[2]	$0.40 per rentable square feet
[3]	Owner provided Electricity Expense Averaged
[4]	Owner provided Water Expense Averaged
[5]	$500 per unit per year
[6]	$50 per month
[7]	$40 per month
[8]	$250 per unit per year

PRICING DETAIL

Summary		
Price	**$1,225,000**	
Down Payment	$367,500	30%
Number of Units	3	
Price Per Unit	$408,333	
Price Per SqFt	$670.87	
Gross SqFt	1,826	
Lot Size	0.23 Acres	
Approx. Year Built	1963/2019	

Returns	Current	Pro Forma
CAP Rate	**4.90%**	**5.00%**
GRM	15.71	15.47
Cash-on-Cash	3.18%	3.51%
Debt Coverage Ratio	1.24	1.27

Financing	1st Loan
Loan Amount	$857,500
Loan Type	New
Interest Rate	3.88%
Amortization	30 Years
Year Due	2049

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

# Of Units	Unit Type	SqFt/Unit	Scheduled Rents	Market Rents
3	2 Bed / 1 Bath	0	$2,167	$2,200

Operating Data

Income		Current		Pro Forma
Gross Scheduled Rent		**$78,000**		**$79,200**
Less: Vacancy/Deductions	0.0%	$0	0.0%	$0
Total Effective Rental Income		$78,000		$79,200
Other Income		$0		$0
Effective Gross Income		$78,000		$79,200
Less: Expenses	23.0%	$17,926	22.6%	$17,926
Net Operating Income		**$60,074**		**$61,274**
Cash Flow		$60,074		$61,274
Debt Service		$48,387		$48,387
Net Cash Flow After Debt Service	3.18%	$11,686	3.51%	$12,886
Principal Reduction		$15,431		$16,040
Total Return	**7.38%**	**$27,118**	**7.87%**	**$28,926**

Expenses	Current	Pro Forma
Real Estate Taxes	$12,936	$12,936
Insurance	$730	$730
Utilities - Electric	$192	$192
Utilities - Water & Sewer	$738	$738
Repairs & Maintenance	$1,500	$1,500
Landscaping	$600	$600
Pest Control	$480	$480
Operating Reserves	$750	$750
Total Expenses	**$17,926**	**$17,926**
Expenses/Unit	**$5,975**	**$5,975**
Expenses/SF	**$9.82**	**$9.82**

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 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

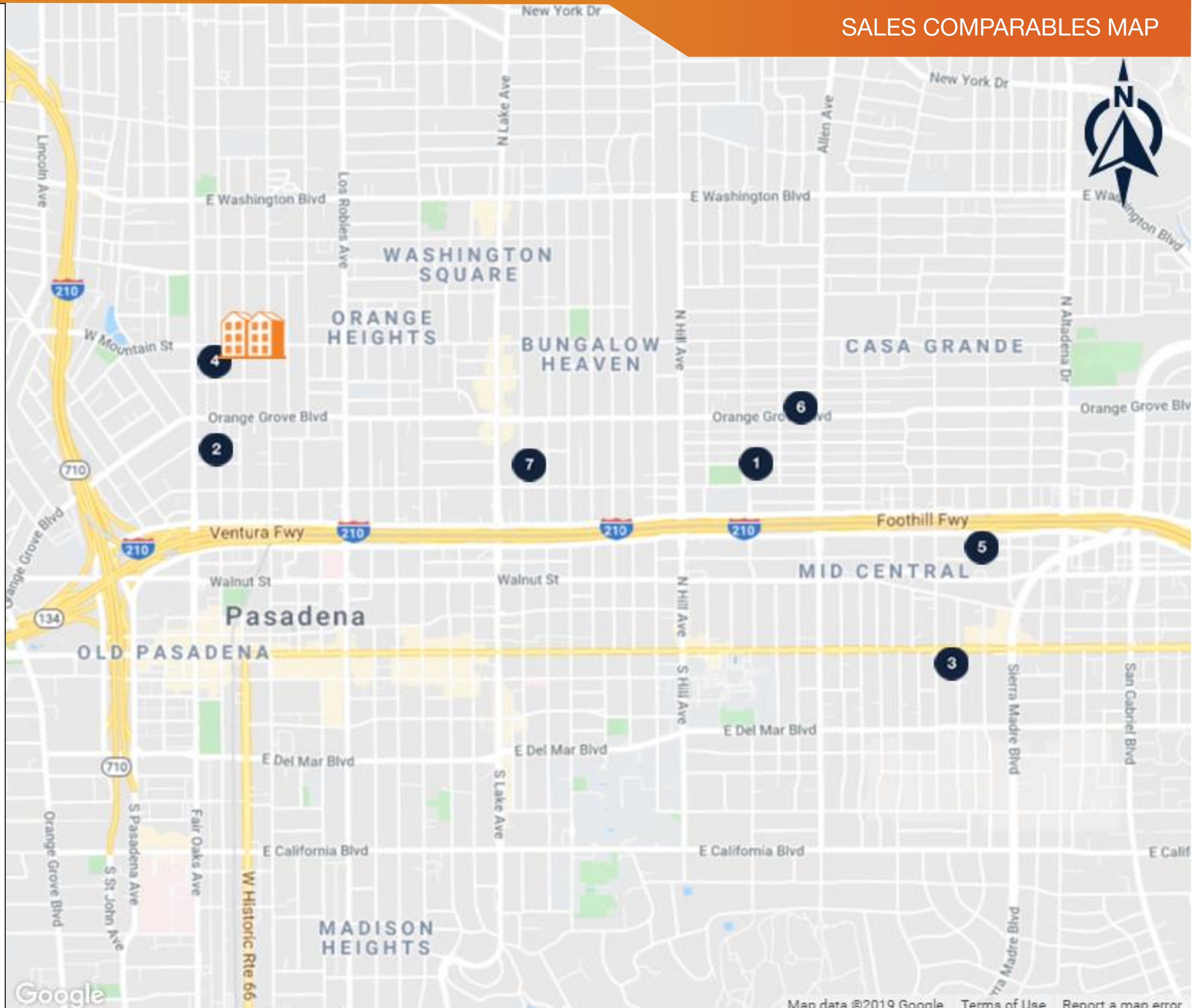
- **Through buyer qualification support**
- **Our ability to manage buyers finance expectations**
- **Ability to monitor and manage buyer/lender progress, insuring timely, predictable closings**
- **By relying on a world class set of debt/equity sources and presenting a tightly underwritten credit file**

MARKET
COMPARABLES

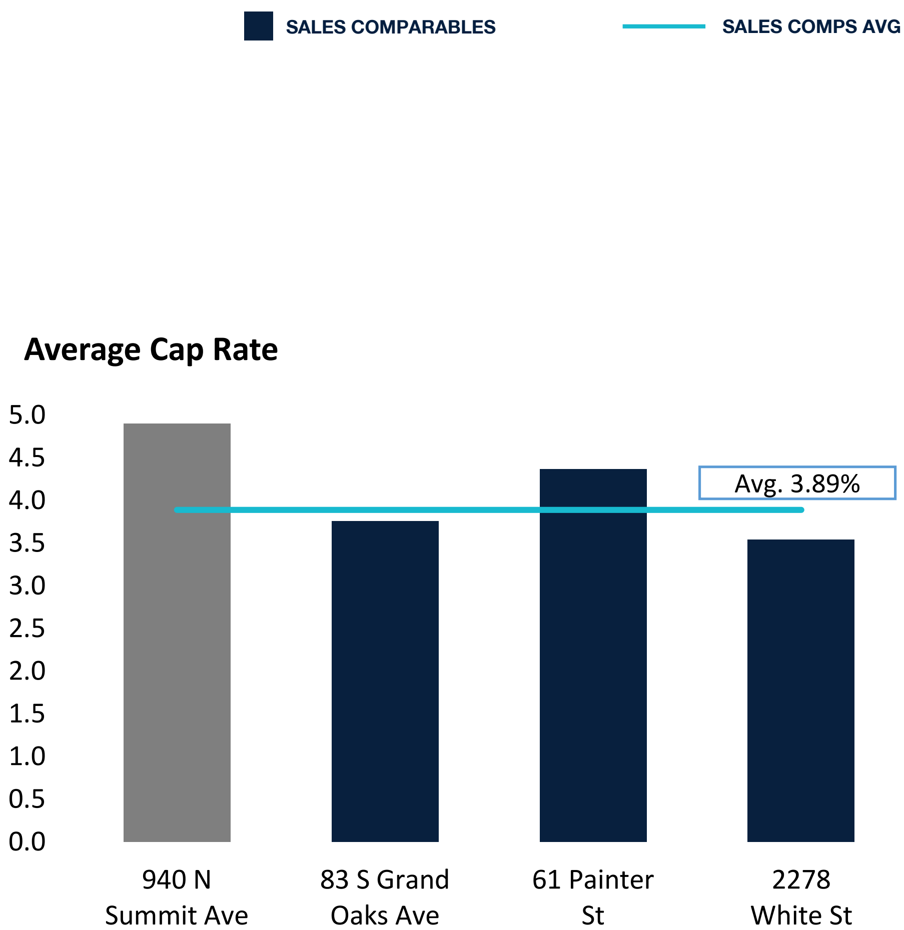
SALES COMPARABLES MAP

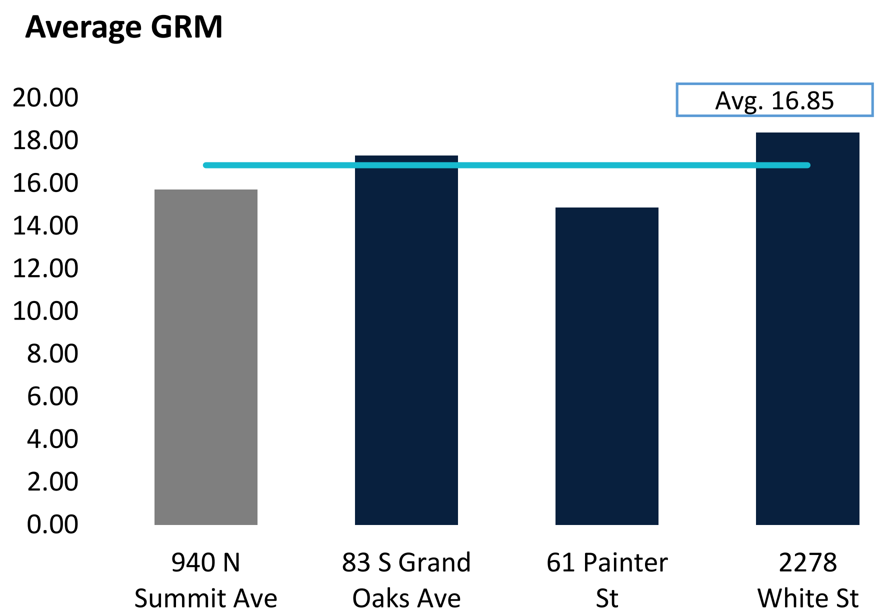
940 N SUMMIT AVE
Pasadena, CA 91103

1. 1623 E Villa St
2. 56 Esther St
3. 83 S Grand Oaks Ave
4. 61 Painter St
5. 2278 White St
6. 1754 E Orange Grove Blvd
7. 961 E Villa St



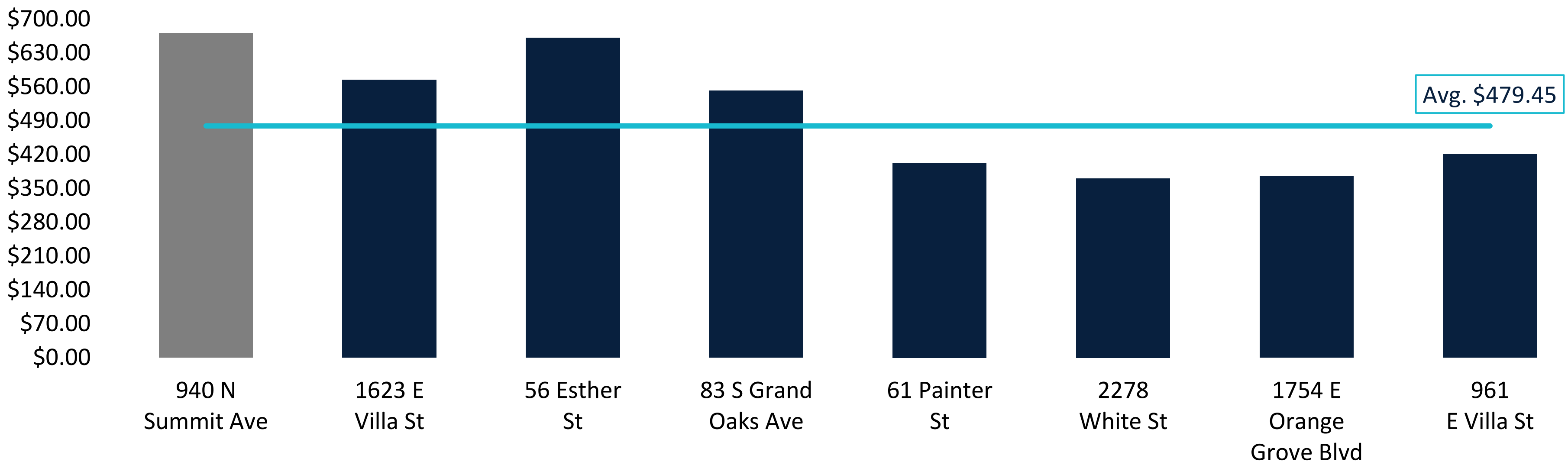
● SALES COMPARABLES


SALES COMPARABLES
SALES COMPS AVG
Average Cap Rate
5.0
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
Avg. 3.89%
940 N Summit Ave
83 S Grand Oaks Ave
61 Painter St
2278 White St

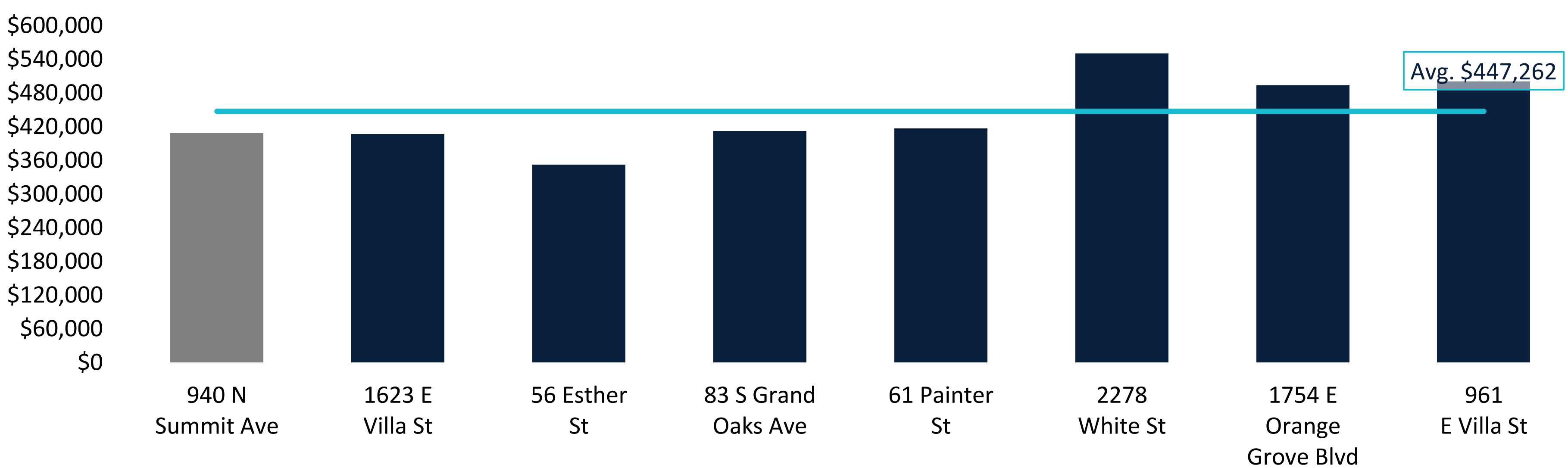

Average GRM
20.00
18.00
16.00
14.00
12.00
10.00
8.00
6.00
4.00
2.00
0.00
Avg. 16.85
940 N Summit Ave
83 S Grand Oaks Ave
61 Painter St
2278 White St

SALES COMPARABLES SALES COMPS AVG

Average Price Per Square Foot



Average Price Per Unit



SALES COMPARABLES

940 N SUMMIT AVE
940 N Summit Ave, Pasadena, CA, 91103

		Units	Unit Type
Offering Price:	$1,225,000	3	2 Bed 1 Bath
Price/Unit:	$408,333		
Price/SF:	$670.87		
CAP Rate:	4.90%		
GRM:	15.71		
Total No. of Units:	3		
Year Built:	1963		

Underwriting Criteria			
Income	$78,000	Expenses	$17,926
NOI	$60,074		

1623 E VILLA ST
1623 E Villa St, Pasadena, CA, 91106

1

		Units	Unit Type
Close Of Escrow:	5/30/2018	1	3 Bdr 2 Bath
Sales Price:	$1,220,000	2	1 Bdr 1 Bath
Price/Unit:	$406,667		
Price/SF:	$574.39		
Total No. of Units:	3		
Year Built:	1954		

56 ESTHER ST
56 Esther St, Pasadena, CA, 91103

2

		Units	Unit Type
Close Of Escrow:	9/25/2018	3	1 Bdr 1 Bath
Sales Price:	$1,057,500		
Price/Unit:	$352,500		
Price/SF:	$660.94		
Total No. of Units:	3		
Year Built:	1949		

SALES COMPARABLES

83 S GRAND OAKS AVE
83 S Grand Oaks Ave, Pasadena, CA, 91107

3

		Units	Unit Type
Close Of Escrow:	4/26/2018	1	1 Bdr 1 Bath
Sales Price:	$1,235,000	2	2 Bdr 1 Bath
Price/Unit:	$411,667		
Price/SF:	$552.08		
CAP Rate:	3.76%		
GRM:	17.30		
Total No. of Units:	3		
Year Built:	1925		

Underwriting Criteria			
Income	$71,400	Expenses	$24,990
NOI	$46,410		

61 PAINTER ST
61 Painter St, Pasadena, CA, 91103

4

		Units	Unit Type
Close Of Escrow:	1/8/2019	1	3 Bdr 2 Bath
Sales Price:	$1,250,000	2	1 Bdr 1 Bath
Price/Unit:	$416,667		
Price/SF:	$401.93		
CAP Rate:	4.37%		
GRM:	14.88		
Total No. of Units:	3		
Year Built:	1921		

Underwriting Criteria			
Income	$84,000	Expenses	$29,400
NOI	$54,600		

2278 WHITE ST
2278 White St, Pasadena, CA, 91107

5

		Units	Unit Type
Close Of Escrow:	6/29/2018	3	3 Bdr 3 Bath
Sales Price:	$1,650,000		
Price/Unit:	$550,000		
Price/SF:	$370.54		
CAP Rate:	3.54%		
GRM:	18.38		
Total No. of Units:	3		
Year Built:	1993		

Underwriting Criteria			
Income	$89,760	Expenses	$31,416
NOI	$58,344		

SALES COMPARABLES

1754 E ORANGE GROVE BLVD
1754 E Orange Grove Blvd, Pasadena, CA, 91104

6

		Units	Unit Type
Close Of Escrow:	3/22/2018	2	1 Bdr 1 Bath
Sales Price:	$1,480,000	1	2 Bdr 1 Bath
Price/Unit:	$493,333		
Price/SF:	$375.63		
Total No. of Units:	3		
Year Built:	1918		

961 E VILLA ST
961 E Villa St, Pasadena, CA, 91106

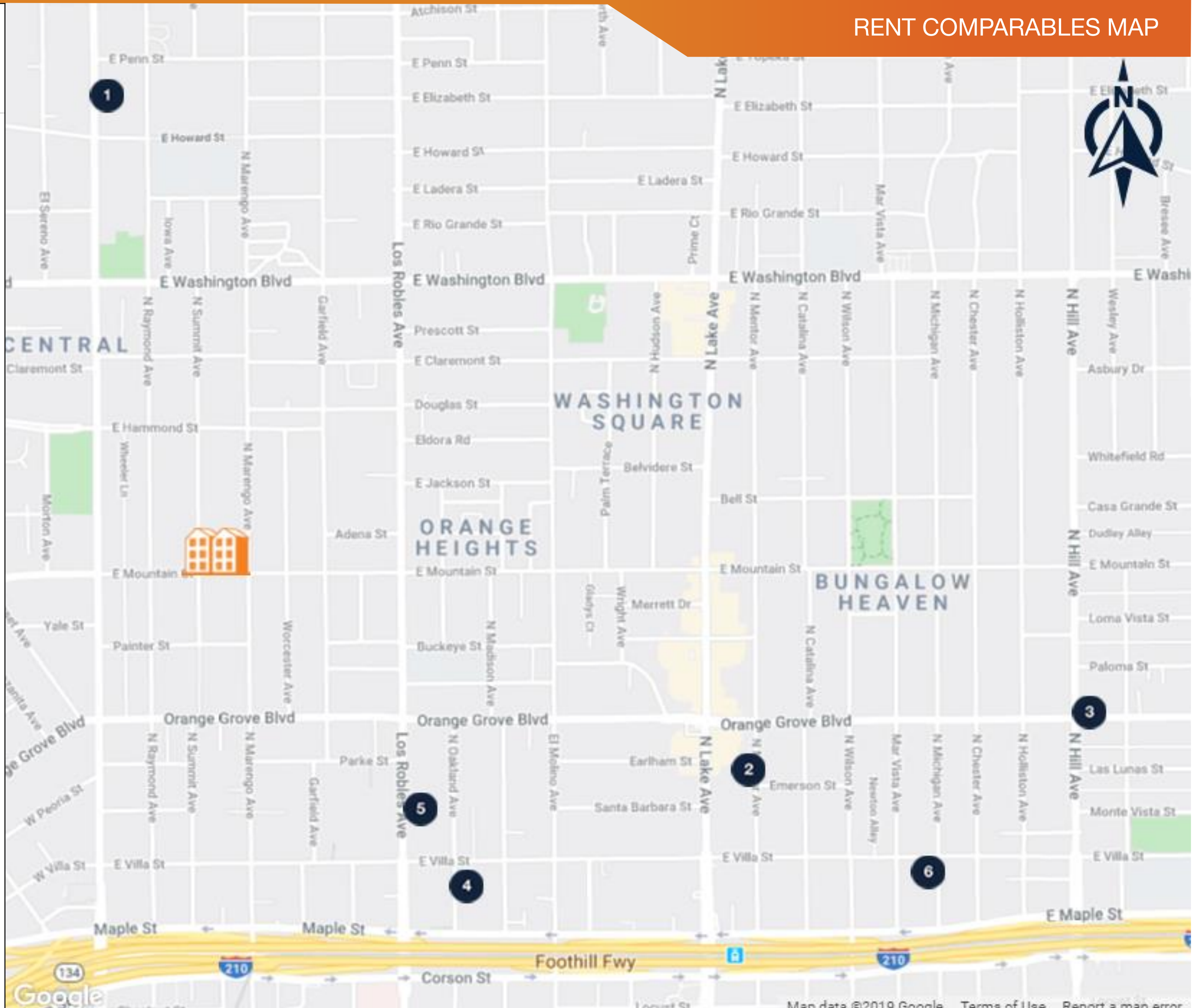
7

		Units	Unit Type
Close Of Escrow:	9/14/2019	3	2 Bdr 2 Bath
Sales Price:	$1,500,000		
Price/Unit:	$500,000		
Price/SF:	$420.64		
Total No. of Units:	3		
Year Built:	1979		

RENT COMPARABLES MAP

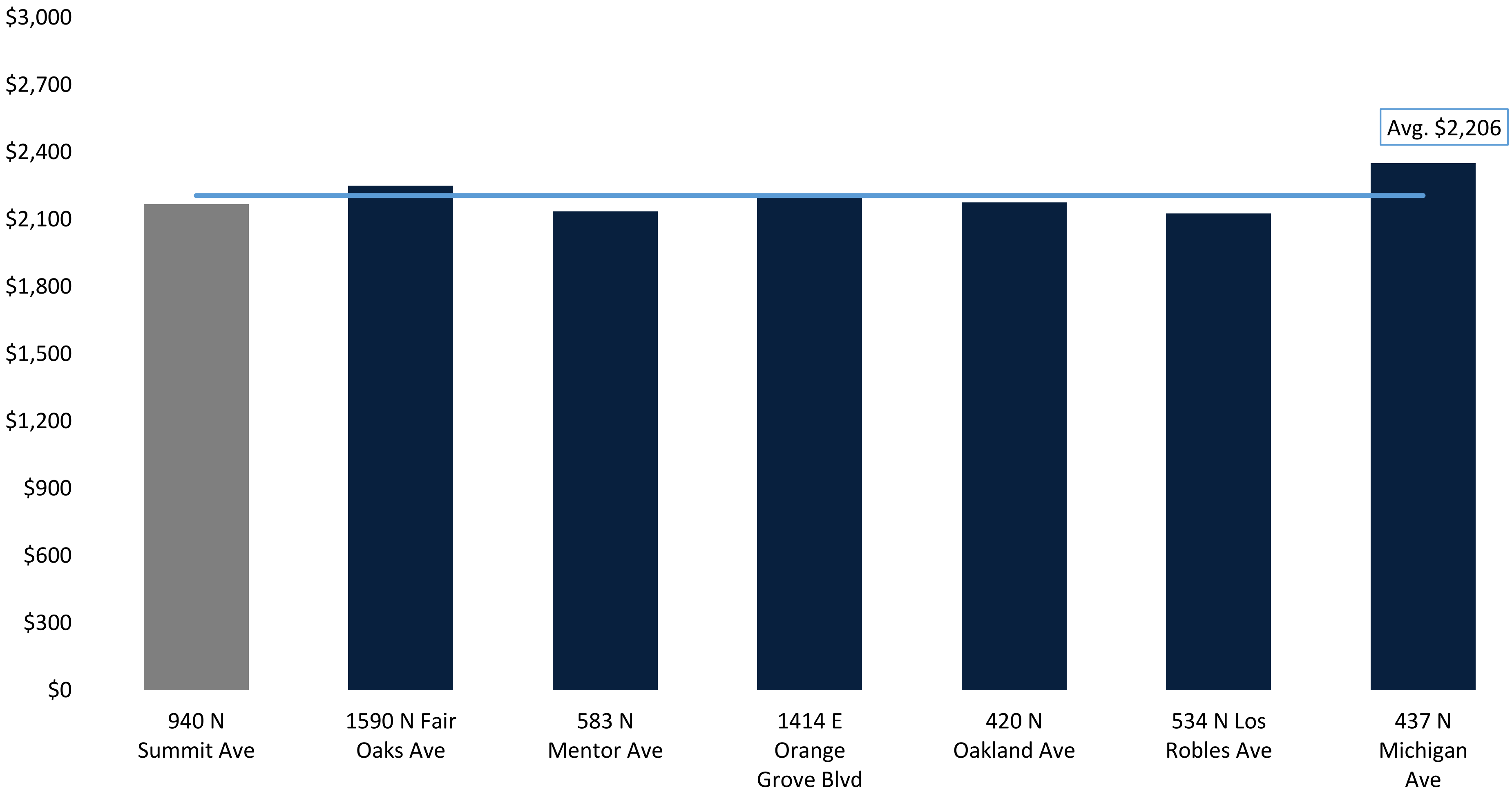
940 N SUMMIT AVE
Pasadena, CA 91103

1. 1590 N Fair Oaks Ave
2. 583 N Mentor Ave
3. 1414 E Orange Grove Blvd
4. 420 N Oakland Ave
5. 534 N Los Robles Ave
6. 437 N Michigan Ave



AVERAGE RENT - MULTIFAMILY

2 Bedroom



940 N SUMMIT AVE
940 N Summit Ave, Pasadena, CA, 91103

Unit Type	Units	SF	Rent	Rent/SF
2 Bed 1 Bath	3		$2,167	$0.00
Total/Avg.	3		$2,167	

YEAR BUILT: 1963

1590 N FAIR OAKS AVE
1590 N Fair Oaks Ave, Pasadena, CA, 91103

1

Unit Type	Units	SF	Rent	Rent/SF
2 Bdr 1 Bath			$2,250	
Total/Avg.			$2,250	

YEAR BUILT: 1960

583 N MENTOR AVE
583 N Mentor Ave, Pasadena, CA, 91106

2

Unit Type	Units	SF	Rent	Rent/SF
2 Bdr 1 Bath			$2,135	
Total/Avg.			$2,135	

YEAR BUILT: 1928

1414 E ORANGE GROVE BLVD
1414 E Orange Grove Blvd, Pasadena, CA, 91104

3

Unit Type	Units	SF	Rent	Rent/SF
2 Bdr 1.5 Bath			$2,200	
Total/Avg.			$2,200	

YEAR BUILT: 1978

420 N OAKLAND AVE
420 N Oakland Ave, Pasadena, CA, 91101

4

Unit Type	Units	SF	Rent	Rent/SF
2 Bdr 2 Bath			$2,175	
Total/Avg.			$2,175	

YEAR BUILT: 1955

534 N LOS ROBLES AVE
534 N Los Robles Ave, Pasadena, CA, 91101

5

Unit Type	Units	SF	Rent	Rent/SF
2 Bdr 1.5 Bath	1	900	$2,125	$2.36
Total/Avg.	1	900	$2,125	$2.36

YEAR BUILT: 1984

437 N MICHIGAN AVE

437 N Michigan Ave, Pasadena, CA, 91106

6

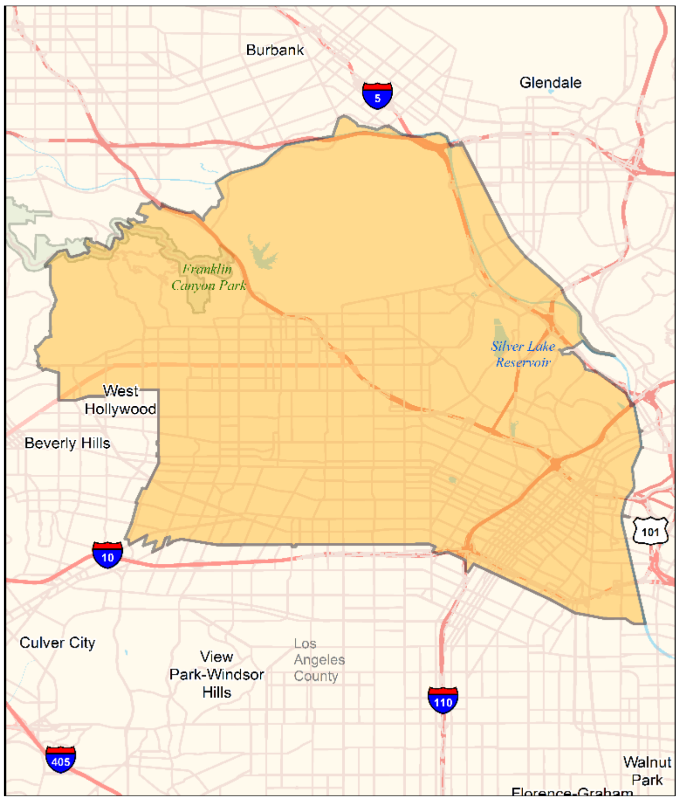
Unit Type	Units	SF	Rent	Rent/SF
2 Bdr 1 Bath			$2,350	
Total/Avg.			$2,350	

YEAR BUILT: 1964

MARKET
OVERVIEW

GREATER DOWNTOWN LOS ANGELES
OVERVIEW

Greater Downtown Los Angeles consists of the Downtown, Mid-Wilshire and Hollywood submarkets. The continued revitalization of the market will boost population gains. The population base of 822,000 people will expand as more than 11,000 citizens are added over the next five years, filling new residential projects. Downtown houses numerous corporations, retail and entertainment venues that draw commuters into the city daily.



METRO HIGHLIGHTS

DOWNTOWN RENAISSANCE
The downtown area is undergoing a major renaissance due to the light rail and mixed-use projects such as L.A. Live attracting businesses and residents.

RAPID HOUSEHOLD GROWTH
Household formation will increase briskly during the next five years with the addition of 12,100 households.

ROBUST HEALTH SECTOR
Healthcare provides a large number of jobs in the downtown area, employing thousands of workers and supported by public healthcare initiatives.

ECONOMY

- Major employers in the market include Farmers Insurance, Kaiser Permanente, Paramount Pictures, Deloitte, Ernst & Young, University of Southern California and Transamerica Insurance.
- Building conversions and mixed-use developments that include housing are bringing residents back into the area. Young, urban professionals desiring shorter commutes and downsizing households seeking to live near amenities are absorbing these units.
- A well-educated population provides companies with a skilled workforce. Roughly 38 percent of people age 25 and older hold a bachelor's degree; among those residents, 11 percent also have earned a graduate or professional degree.

DEMOGRAPHICS

2018 POPULATION: **822K**
Growth 2018-2023*: 1.3%

2018 HOUSEHOLDS: **350K**
Growth 2018-2023*: 3.5%

2018 MEDIAN AGE: **36.5**
U.S. Median: 38.0

2018 MEDIAN HOUSEHOLD INCOME: **$46,600**
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

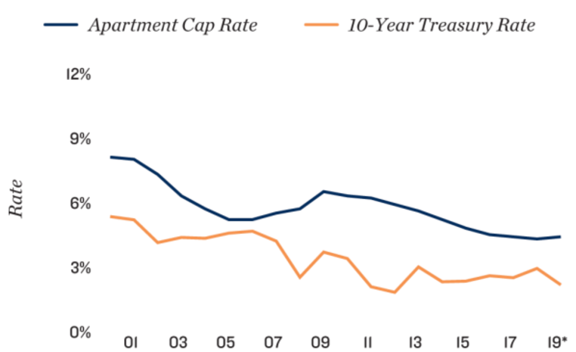
LOS ANGELES COUNTY

Heightened Delivery Volume Impacts Primary Regions; Investor Demand Bolsters Asset Values

Vacancy holds below 4 percent for a sixth consecutive year. The volume of supply additions in Los Angeles County has remained historically elevated since the third quarter of last year, yet a notable shift in vacancy has not occurred. Instead, unit availability in the metro compressed slightly over the past 12 months ending in June as net absorption matched delivery volume. With the number of project completions slated to intensify during the next six months, demand for luxury units will be further tested. A strong rate of household formation during the second half coupled with near cyclically low Class A vacancy suggests the sizable wave of upcoming apartments should be well received. Additionally, diverse economic expansion and steady income growth should allow more households and individuals to afford these higher-priced rentals; however, concessions usage is likely to rise as nearly 50 properties enter lease-up.

Widespread deliveries equate to historic six-month span. The metro's apartment inventory will swell by 9,400 units during the second half of 2019, a figure that exceeds the number of units completed during each of the previous two years. Five submarkets' rental stocks will grow by at least 1,000 dwellings, led by Downtown Los Angeles and Hollywood, where 1,700 and 1,600 units will come online, respectively. Santa Monica/Marina del Rey, the San Fernando Valley and Mid-Wilshire round out the list, with Long Beach welcoming more than 700 apartments following two years of no supply additions. This upcoming influx of rentals has yet to generate oversupply concerns as construction began on 36 additional projects, totaling 8,700 units, over the past four quarters.

Local Apartment Yield Trends



* Cap rate trailing 12-month average through 2Q
Sources: CoStar Group, Inc.; Real Capital Analytics

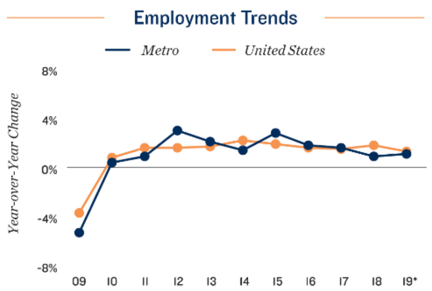
Multifamily 2019 Forecast

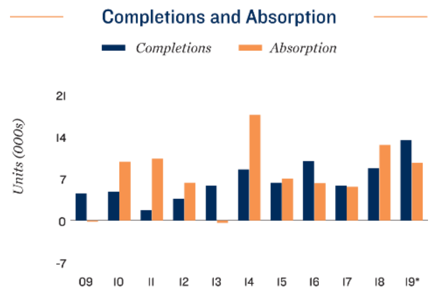
Metro	Vacancy	Y-O-Y Basis Point Change	Effective Rent	Y-O-Y Change
Greater Downtown Los Angeles	4.6%	90	$2,440	2.0%
Westside Cities	3.4%	50	$3,263	3.2%
San Fernando Valley/ Tri-Cities	3.4%	20	$2,156	3.0%
South Bay/Long Beach	3.5%	10	$2,317	2.9%
Overall Metro	3.8%	30	$2,290	3.2%

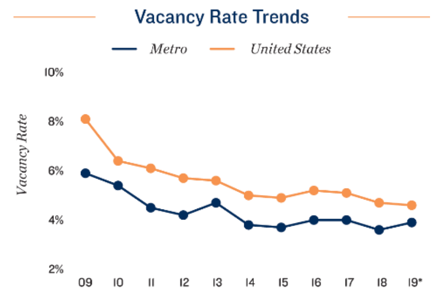
Investment Trends

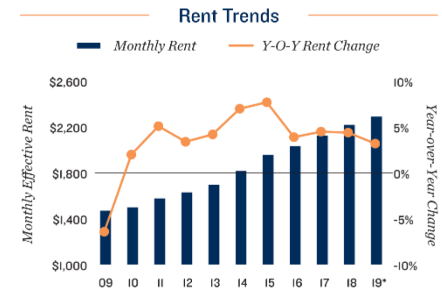
- Cyclically low Class C vacancy throughout Los Angeles County is prompting local private investors and high-net-worth individuals to acquire pre-1980s-built apartments that provide steady NOI growth following moderate property upgrades. Robust demand for value-add opportunities has many buyers willing to pay more than $300,000 per unit for available complexes, often acquiring these assets via 1031 exchanges.
- Most trades fall in the $8 million to $15 million range, providing investors with an average cap rate in the low-4 percent band. Buyers with higher yield thresholds target listings in the San Gabriel and San Fernando valleys, where first-year returns can reach the high-4 to mid-5 percent range.
- While an influx of new rentals places upward pressure on vacancy in Greater Downtown Los Angeles, the region witnessed a pronounced uptick in deal flow over the past year. Heightened transaction velocity in Hollywood supported the rise in closings. The submarket appeals to a diverse pool of buyers as it is home to an equal distribution of Class A, B and C listings requiring capital deployments beyond $10 million.

LOS ANGELES COUNTY









2Q19 – 12-Month Period

* Forecast

EMPLOYMENT

1.2% increase in total employment Y-O-Y

- Employment growth moderated over the past 12 months ending in June as organizations added 56,200 positions after expanding payrolls by 69,200 workers during the prior period. Amid recent hiring, metro unemployment fell 10 basis points to 4.5 percent.
- The number of education and health services positions grew by 21,700 over the past year, while the count of professional and tech services jobs elevated by 6,900.

CONSTRUCTION

10,680 units completed Y-O-Y

- Delivery volume doubled over the past four quarters, notably eclipsing the 5,300 units finalized during the prior yearlong span. Of the recently completed rentals, 60 percent were in Greater Downtown Los Angeles.
- At the end of June, construction was underway on 27,900 units with completion extending into 2021. The projects Ferrante in City West and Cumulus in West Adams each feature more than 1,000 rentals.

VACANCY

10 basis point increase in vacancy Y-O-Y

- The county’s vacancy rate fell to 3.6 percent in June following the absorption of 10,700 units over the past 12 months. During the prior year, unit availability compressed by 30 basis points.
- Demand for lower-cost rentals reduced Class C vacancy in the metro 40 basis points to 2.3 percent, while strong leasing velocity at luxury complexes slashed availability to 4.4 percent, equating to a year-over-year decline of 10 basis points.

RENTS

3.8% increase in effective rents Y-O-Y

- The average effective rent reached $2,259 per month in the second quarter after posting a 4.1 percent increase a year ago. Spanning the past 12 months, 10 percent of available units offered concessions.
- Rent growth was most exaggerated in the Class C sector, where the average rate climbed 4.1 percent to $1,556 per month. Effective rates at Class A apartments were subdued, rising 1.7 percent following a 3.6 percent uptick during the previous 12-month span.

LOS ANGELES COUNTY

Demographic Highlights

2Q19 Median Household Income
Metro $69,487
U.S. Median $64,784

2Q19 Affordability Gap
Renting is $850 Per Month Lower
Average Effective Rent vs. Mortgage Payment*

Multifamily (5+ Units) Permits❖
12,801 1H 2019
18% Compared with 1H 2016-2018

2Q19 Median Home Price
Metro $587,137
U.S. Median $269,186

Five-Year Household Growth**
136,000 or 0.8% Annual Growth
U.S. 1.0% Annual Growth

Single-Family Permits❖
5,238 1H 2019
8% Compared with 1H 2016-2018

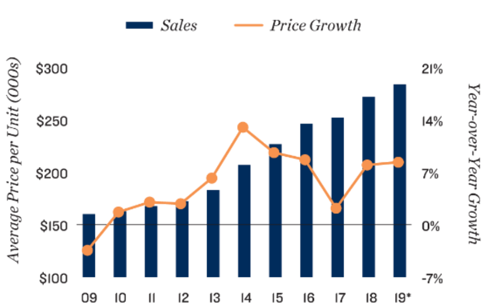
*Mortgage payments based on quarterly median home price with a 30-year fixed-rate conventional mortgage, 90% LTV, taxes, insurance and PMI. **2019-2024 ❖ Annualized Rate

Sales Trends

Class C Listings Generate Robust Buyer Competition as Renters Seek Lower-Cost Housing

- Transaction velocity rose by 2 percent over the past 12 months ending in June, yet sales volume decreased by $500 million as Class C transactions accounted for nearly 60 percent of total deal flow.
- Amid the uptick in sales activity, the metro's average pricing rose 8.3 percent over the past year, reaching $284,000 per unit. Increasing property values did not impact overall cap rates as the county's average first-year return held at 4.3 percent.

Sales Trends



Outlook: Assets near recent and future light-rail extensions remain in high demand among buyers as more renters seek to avoid freeway commutes.

* Trailing 12 months through 2Q19

** Only submarkets with a rental stock of more than 20,000 units were included.

Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

Submarket Trends

Lowest Vacancy Rates 2Q19**

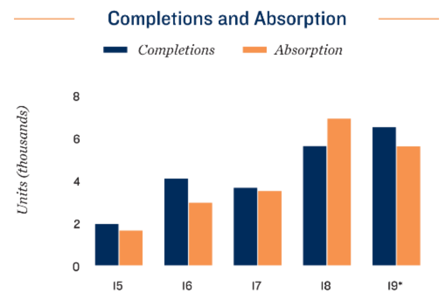
Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rent	Y-O-Y % Change
South Los Angeles	2.2%	30	$1,649	2.0%
East Los Angeles	2.7%	-250	$1,625	6.6%
Southeast Los Angeles	2.7%	-10	$1,791	4.9%
Van Nuys/Northeast San Fernando Valley	2.7%	20	$1,746	4.2%
Brentwood/Westwood/Beverly Hills	2.8%	-50	$3,405	4.2%
Northridge/Northwest San Fernando Valley	2.9%	10	$1,962	5.1%
Palms/Mar Vista	3.2%	-30	$2,685	3.6%
South Bay	3.5%	-50	$2,619	2.7%
Burbank/Glendale/Pasadena	3.6%	-20	$2,406	3.4%
Long Beach	3.6%	-50	$1,981	3.3%
Mid-Wilshire	3.6%	0	$2,305	3.4%
Overall Metro	3.6%	-10	$2,259	3.8%

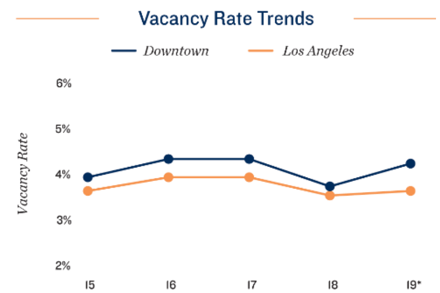
** Includes submarkets with more than 30,000 units of inventory

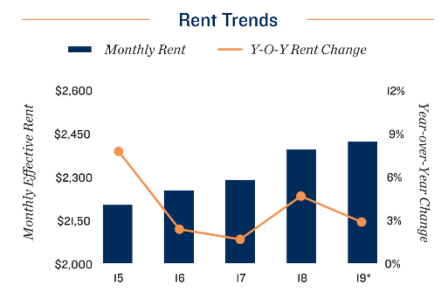
LOS ANGELES METRO AREA: GREATER DOWNTOWN LOS ANGELES

Investment Trends

- Spanning the past two years ending in June, Greater Downtown's apartment inventory climbed by nearly 9,700 units, yet vacancy compressed by 60 basis points, signaling strong leasing activity at newly delivered properties. Concessions usage is aiding the absorption of luxury units so far this year, with more than 20 percent of rentals in Downtown Los Angeles and Hollywood offering incentives during the second quarter. Demand for high-end apartments will be further tested during the second half as more than 4,300 doors are finalized. This upcoming influx of supply, and the resulting short-term rise in vacancy, is not deterring project starts as construction began on 10 properties during the first half of 2019, including five in Hollywood.
- Transaction velocity rose over the past four quarters, aided by increased sales activity in Hollywood, where a variety of listings were available for acquisition. Here, Class B and C properties of various vintages provide investors with low-3 to 4 percent initial returns, with most complexes trading for more than $10 million. Koreatown and East Hollywood represent additional locales for Class C deals, as pricing remains below $300,000 per unit for most assets.
- Hollywood and Downtown Los Angeles provide institutional investors with select opportunities to acquire buildings constructed within the past five years, with pricing exceeding $700,000 per unit.







2Q19 – 12-Month Period

CONSTRUCTION

6,490 units completed Y-O-Y

- The number of units completed over the past 12 months ending in June doubled on a year-over-year basis, with at least eight properties comprising more than 300 units finalized. Deliveries were concentrated in Downtown Los Angeles, where nearly 4,400 apartments came online.
- The construction of 12,770 units is currently underway, with completions extending into the second quarter of 2021.

VACANCY

20 basis point increase in vacancy Y-O-Y

- The absorption of 3,300 units partially negated the impact of 6,500 new units, with regional vacancy rate rising to 4.2 percent.
- Vacancy was unchanged or rose in each of Greater Downtown Los Angeles' three submarkets, driven by rising Class A unit availability. Downtown Los Angeles registered the largest increase, 70 basis points, while vacancy in Mid-Wilshire held at 3.6 percent on net absorption of 1,200 units.

RENTS

2.8% increase in effective rents Y-O-Y

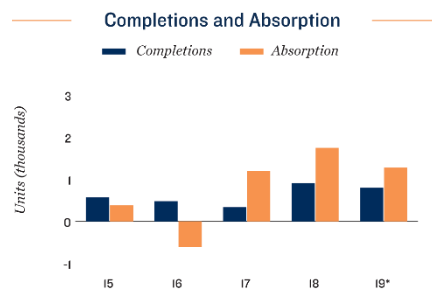
- The region's average effective rate reached $2,420 per month in June, after rising 4.4 percent during the previous 12-month span.
- Increased concessions usage in Downtown Los Angeles hindered overall rent growth over the past year. The submarket's average effective rate rose 0.6 percent to $2,515 per month. Mid-Wilshire registered the most pronounced rent gain, 3.4 percent.

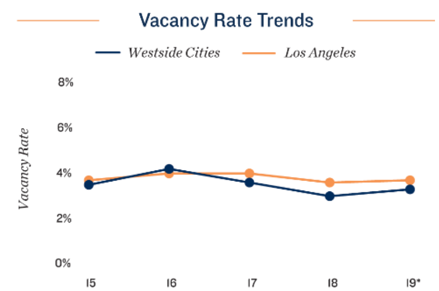
* Forecast

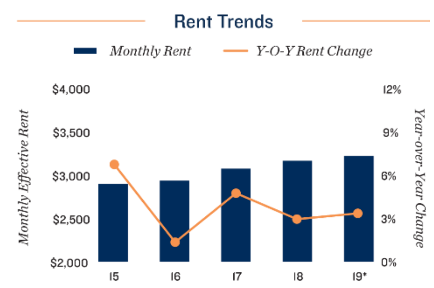
LOS ANGELES METRO AREA: WESTSIDE CITIES

Investment Trends

- Consistent growth by high-profile tech, entertainment and financial firms continues to bolster the number of high-paying jobs in the Westside. Many of these positions are held by affluent millennials that historically rent and desire proximity to regional employment hubs. An increase in this age cohort's population has heightened demand for Class A apartments, reducing the availability of these units in both Santa Monica/Marina del Rey and Brentwood/Westwood/Beverly Hills over the past 12 months. Demand for luxury rentals will be further tested in the next two quarters as 1,900 apartments are slated for finalization. This total includes more than 1,200 doors in Santa Monica/Marina del Rey. While the overall influx of supply additions during the second half will have a short-term impact on regional vacancy, unit availability should not exceed the low-3 percent band, supporting consistent rent growth in the metro's highest-priced rental market.
- In-county buyers are targeting smaller Class B and C properties that feature a high concentration of either studios, one-bedroom or two-bedroom units. Throughout the Westside, these complexes are trading for $8 million to $15 million, providing investors with 3 to low-4 percent first-year cap rates. Class C assets priced around $300,000 per unit remain available in Culver City and West Hollywood, while pricing for Class B properties exceeds $500,000 per unit throughout the region.







2Q19 – 12-Month Period

CONSTRUCTION

800 units completed Y-O-Y

- Supply additions rose moderately over the past four quarters following a 12-month span where 650 units were finalized. The recent uptick in completions was supported by the delivery of 480 rentals in Santa Monica/Marina del Rey.
- The development pipeline consists of 4,600 units currently under construction. At least 1,000 apartments are being built in each of the region's three submarkets, with deliveries planned into 2021.

VACANCY

40 basis point decrease in vacancy Y-O-Y

- Vacancy compressed for a third consecutive 12-month period, reaching 3.2 percent in June on net absorption of 1,280 units.
- Unit availability fell in each of the region's three submarkets led by Brentwood/Westwood/Beverly Hills, where vacancy dipped 50 basis points to 2.8 percent. Leasing velocity was strongest in Santa Monica/Marina del Rey, as 650 apartments were absorbed over the past year, lowering vacancy to 3.7 percent.

RENTS

3.3% increase in effective rents Y-O-Y

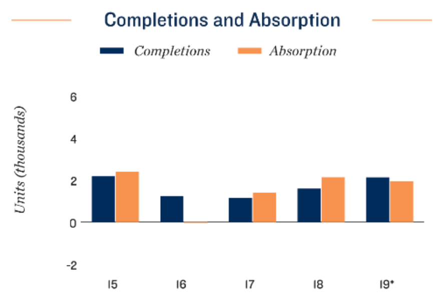
- Consistent rate growth lifted the region's average effective rent to $3,218 per month in June, a figure that eclipses the metro average by nearly $1,000 per month.
- Home to the tightest vacancy in the region, Brentwood/Westwood/Beverly Hills recorded a 4.2 percent uptick in rent over the past year to $3,405 per month.

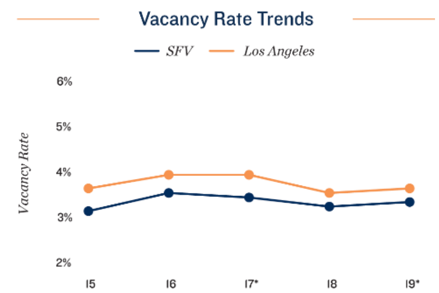
* Forecast

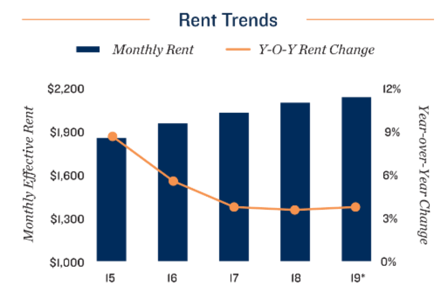
LOS ANGELES METRO AREA: SAN FERNANDO VALLEY/TRI-CITIES MARKET

Investment Trends

- South Bay/Long Beach represents a locale of revitalization, as older industrial properties in El Segundo are being converted into creative office space and redevelopment efforts in Downtown Long Beach are significant. These regional upgrades are bringing tech and entertainment companies priced out of Silicon Beach into the market, equating to an uptick in higher-paying job creation. A percentage of individuals filling these new positions are opting to live locally to avoid lengthy commutes and above-average rental rates elsewhere, which has increased demand for available apartments. As of June, vacancy in both South Bay and Long Beach sat in the mid-3 percent band. These rates are unlikely to shift during the second half, as supply additions are minimal in South Bay and the 735 units delivered in Downtown Long Beach are well received following a recent dearth of completions.
- Mid-size and larger complexes with an equal mix of one- and two-bedroom units accounted for the majority of deal flow over the past 12 months ending in June. In Long Beach and San Pedro, these Class B and C properties trade for $10 million to $20 million-plus, providing private investors and 1031-exchange buyers with mid-3 to mid-4 percent initial returns. Similar properties in beach communities can trade at sub-3 percent minimum returns, with pricing often above $500,000 per unit.







2Q19 – 12-Month Period

CONSTRUCTION

1,140 units completed Y-O-Y

- Supported by the finalization of 1,500 units in Tri-Cities, supply additions rose by nearly 600 apartments over the past four quarters ending in June.
- The region's development pipeline consists of 5,330 apartments currently under construction. Woodland Hills represents an epicenter for building activity as more than 2,400 rentals are ongoing, with projects featuring an average of 300 units.

VACANCY

no change in vacancy Y-O-Y

- After falling 20 basis points during the prior yearlong span, vacancy held steady during the past 12 months, sitting at 3.3 percent in June.
- On absorption of roughly 1,500 units, vacancy in Burbank/Glendale/Pasadena fell 20 basis points to 3.6 percent. The Sherman Oaks/North Hollywood/Encino submarket was the only section of the San Fernando Valley to record a decline in vacancy.

RENTS

3.7% increase in effective rents Y-O-Y

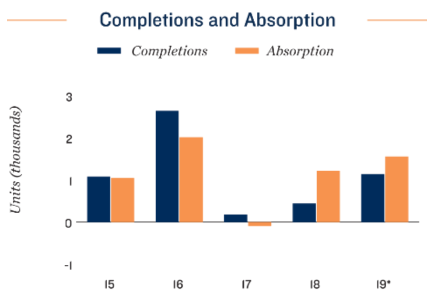
- Unchanged vacancy and growing earnings allowed for a slight uptick in year-over-year rent growth, pushing the region's average effective rate to $2,131 per month during the second quarter.
- The most pronounced rent gain was noted in Northridge/Northwest San Fernando Valley, where the average effective rate rose 5.1 percent to $1.962 per month amid sub-3 percent vacancy.

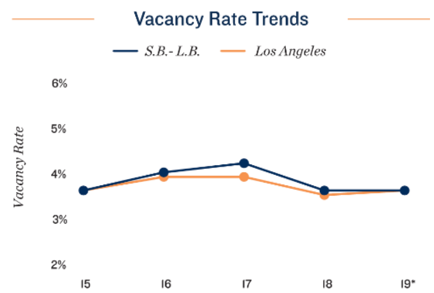
* Forecast

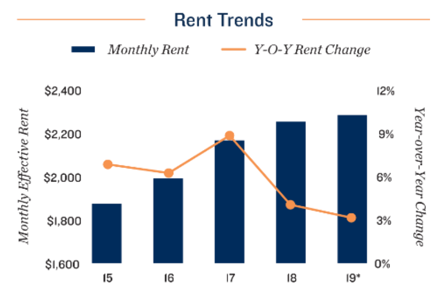
LOS ANGELES METRO AREA: SOUTH BAY/LONG BEACH

Investment Trends

- South Bay/Long Beach represents a locale of revitalization, as older industrial properties in El Segundo are being converted into creative office space and redevelopment efforts in Downtown Long Beach are significant. These regional upgrades are bringing tech and entertainment companies priced out of Silicon Beach into the market, equating to an uptick in higher-paying job creation. A percentage of individuals filling these new positions are opting to live locally to avoid lengthy commutes and above-average rental rates elsewhere, which has increased demand for available apartments. As of June, vacancy in both South Bay and Long Beach sat in the mid-3 percent band. These rates are unlikely to shift during the second half, as supply additions are minimal in South Bay and the 735 units delivered in Downtown Long Beach are well received following a recent dearth of completions.
- Mid-size and larger complexes with an equal mix of one- and two-bedroom units accounted for the majority of deal flow over the past 12 months ending in June. In Long Beach and San Pedro, these Class B and C properties trade for $10 million to $20 million-plus, providing private investors and 1031-exchange buyers with mid-3 to mid-4 percent initial returns. Similar properties in beach communities can trade at sub-3 percent minimum returns, with pricing often above $500,000 per unit.







1Q19 – 12-Month Period

CONSTRUCTION

1,140 units completed Y-O-Y

- Delivery volume over the past 12 months ending in June rose by 1,000 units on a year-over-year basis, driven by the finalization of 600 apartments during the second quarter of 2019.
- Entering the second half, construction is underway on 2,600 units with deliveries extending into early 2021. Approximately 60 percent of these rentals are underway in Long Beach, where ongoing projects comprise an average of 160 apartments.

VACANCY

50 basis point increase in vacancy Y-O-Y

- On net absorption of nearly 1,600 units over the past four quarters, vacancy compressed to 3.6 percent in June. During the prior yearlong period, unit availability rose 20 basis points.
- Vacancy declined by 50 basis points in both Long Beach and the South Bay submarkets over the past year, falling to 3.6 percent and 3.5 percent, respectively. Class C availability is notably limited in Long Beach, entering the second half at 1.5 percent following a 190-basis-point decline.

RENTS

3.1% increase in effective rents Y-O-Y

- The average effective rent reached $2,282 per month in June, with less than 10 percent of units offering concessions as of the second quarter of 2019. In the prior 12-month period, the average monthly rate rose 4.1 percent.
- Rent growth was most pronounced in Long Beach, where the average effective rate rose 3.3 percent to $1,981 per month.

* Forecast

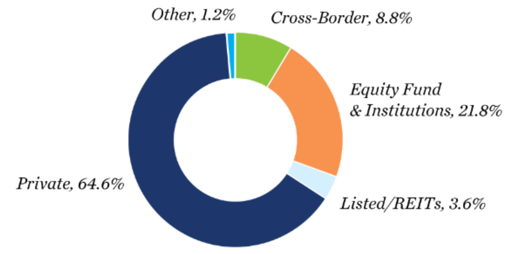
LOS ANGELES METRO AREA

Capital Markets

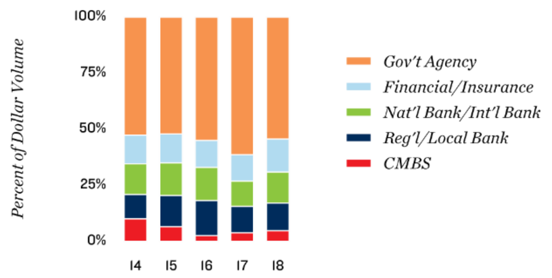
- **Fed takes action to sustain economic momentum.** The combination of trade disputes between the U.S. and China together with slowing European growth converged to weigh on the global economic outlook, sparking action by the Federal Reserve. To combat the restraints on growth, largely driven by uncertainty surrounding international trade, the Federal Reserve cut its overnight rate by 25 basis points and halted its balance sheet reductions, known as quantitative tightening. Though this action runs the risk of lifting inflation pressure, the Fed has communicated its willingness to let the economy "run hot." Many believed the Fed action would offer a boost to domestic markets until the trade war was escalated immediately after the Fed announcement. This new bout of uncertainty pushed the 10-year Treasury yield below 2 percent for the first time since 2016. Though domestic growth has moderated, the nation's economic foundation remains solid, headlined by the tight labor market and muted inflationary pressure. Fed officials will continue to focus on economic risks spilling over from the trade war with China, potentially calling for additional rate reductions this year.

- **Abundant liquidity balances conservative underwriting.** Debt financing for apartment assets remains strong, supported by a variety of lenders. However, Fannie Mae and Freddie Mac, two mainstay apartment capital sources, will step to the sidelines in the second half of the year as they reach their lending caps on market rate assets. The Government Sponsored Enterprises will remain active lenders for "uncapped business," including environmentally sustainable and affordable housing properties. A wide range of local, regional and national banks; pension funds; insurance companies and CMBS sources will remain active. All have responded to the falling interest rate climate by reducing mortgage rates, but lender spreads have widened as the 10-year Treasury rate has fallen. Given the downward pressure on interest rates, lender caution has risen, particularly for construction loans. Though lending is still available for these types of projects, investors may need to blend mezzanine debt with other capital sources until they prove out their concepts and substantially fill units. For stabilized existing assets in most major markets, financing remains plentiful.

2Q19* Apartment Acquisitions By Buyer Type



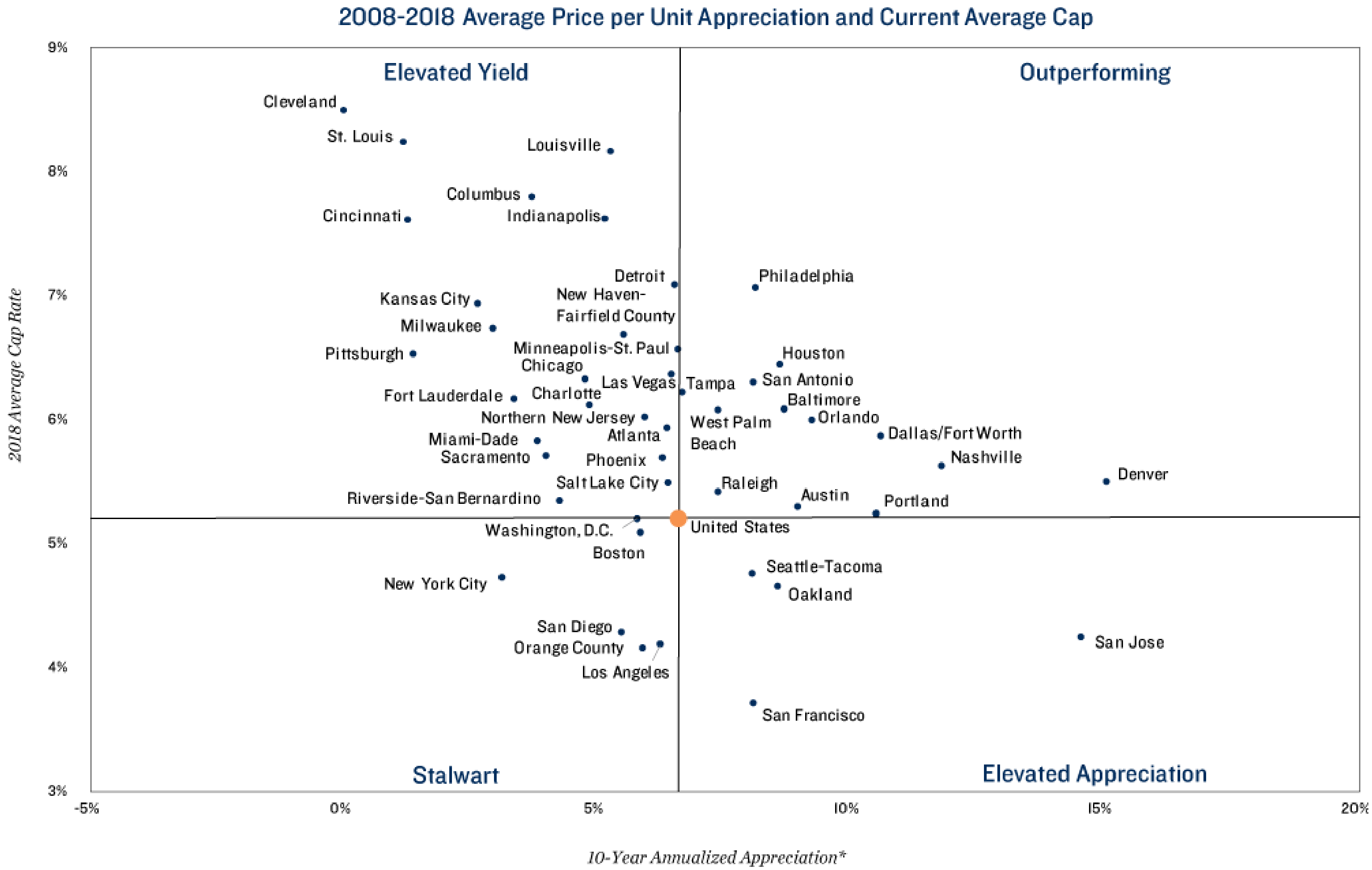
Apartment Mortgage Originations By Lender



* Trailing 12 months through 2Q19
Includes sales $2.5 million and greater
Sources: CoStar Group, 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

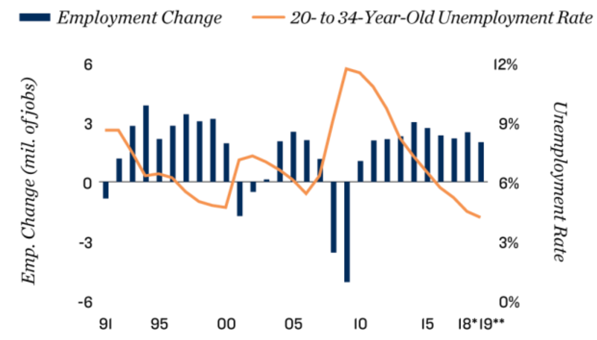
U.S. ECONOMY

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

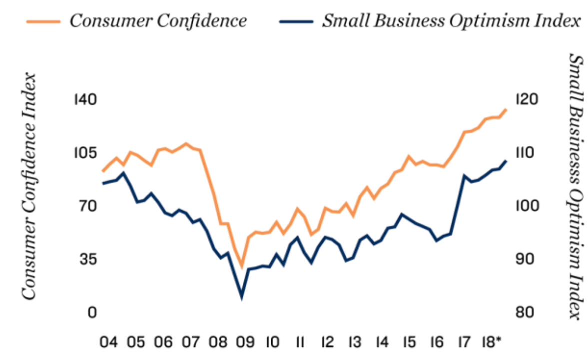
Exceptionally low unemployment levels invigorate household formation. Accelerated job creation in 2018 drove the unemployment rate of young adults between 20 to 34 years old to a 48-year low of 4.5 percent. With two-thirds of this age group living in rentals, they are a dominant force supporting apartment 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.

Employment vs. Unemployment



Optimism Reinforces Growth



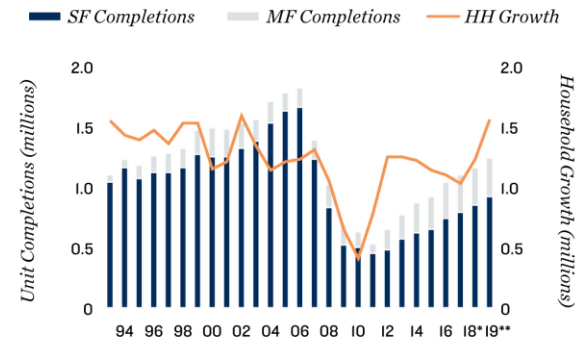
* Estimate
** Forecast

U.S. ECONOMY

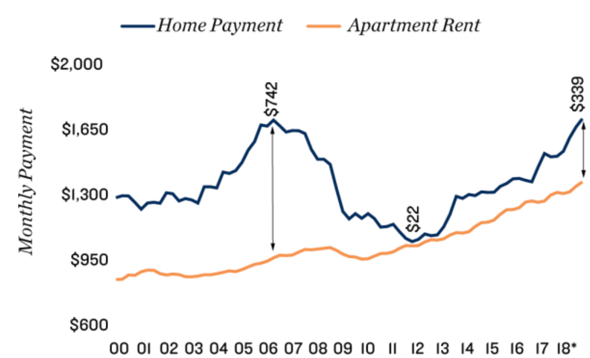
2019 National Economic Outlook

- **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.**

Household Growth Outpaces Construction



Rent and Home Payment Gap Widening



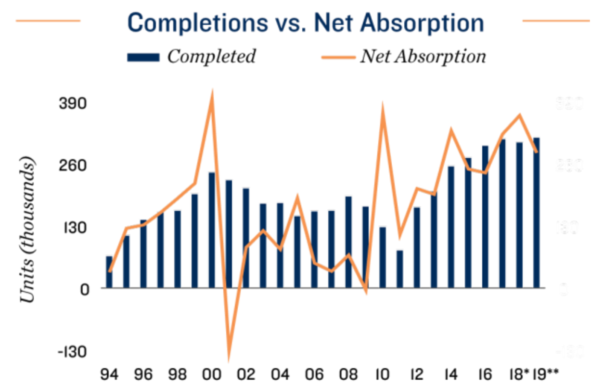
* Estimate
** Forecast

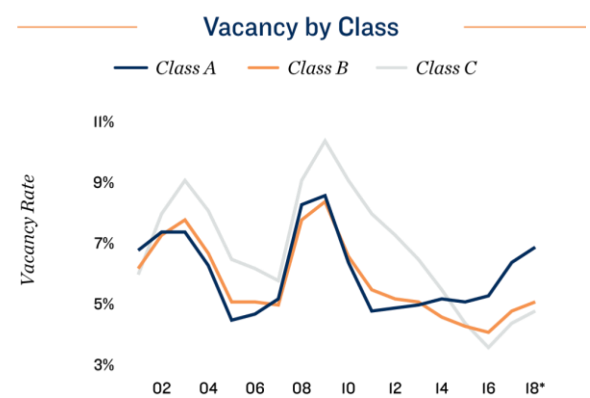
U.S. APARTMENT OVERVIEW

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.



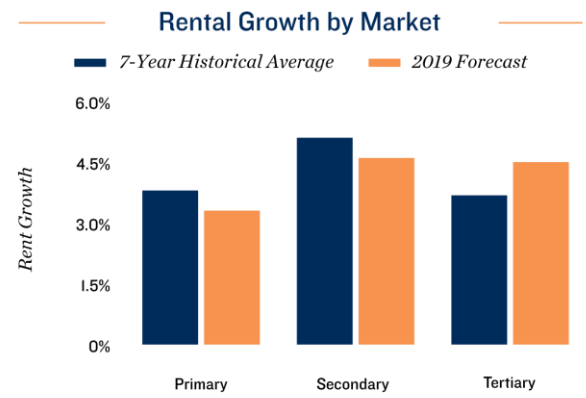


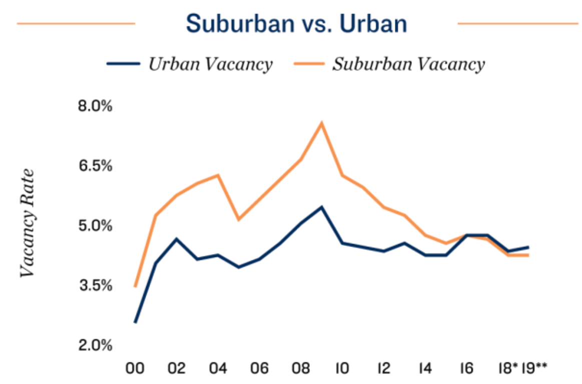
* Estimate
** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics

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

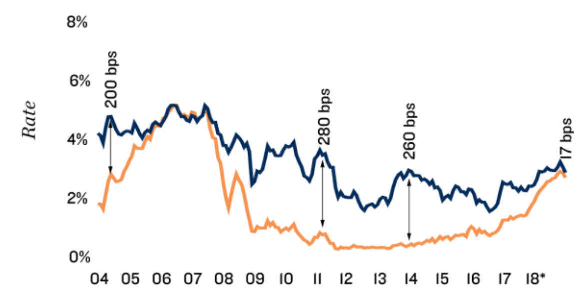
U.S. CAPITAL MARKETS

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

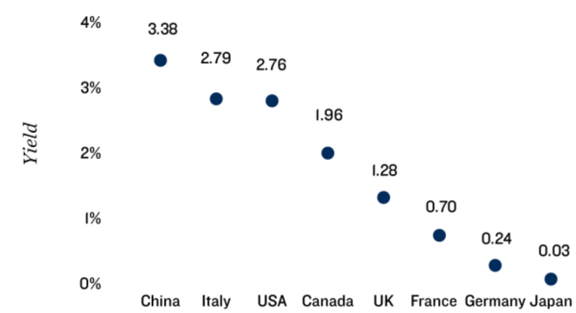
Fed walking a tightrope. The Federal Reserve has been battling the inflationary pressure created by wage gains and increased trade protectionism with raises of short-term interest rates and quantitative tightening. The efforts, however, have run into the stubbornly low 10-year Treasury that has not responded 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❖



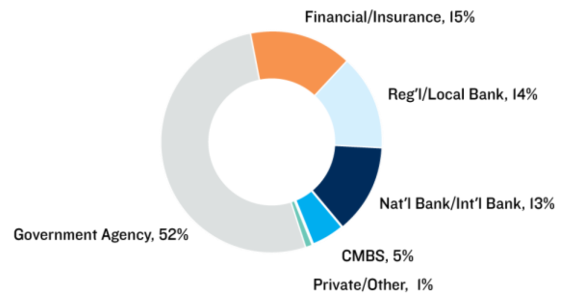
* Through Dec. 18
❖ Through Dec. 19

U.S. CAPITAL MARKETS

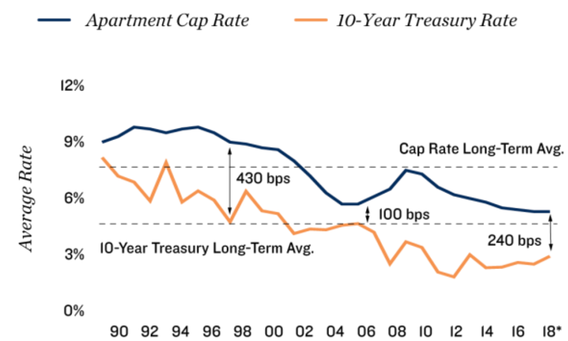
2019 Capital Markets Outlook

- **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

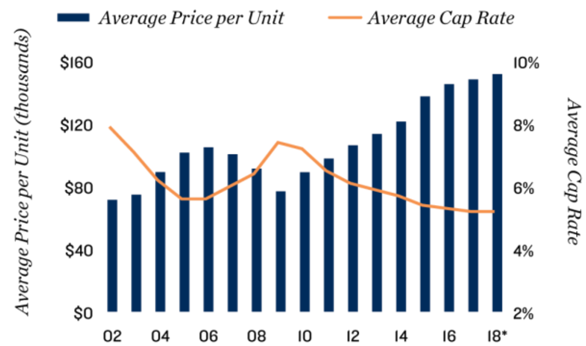
U.S. INVESTMENT OUTLOOK

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

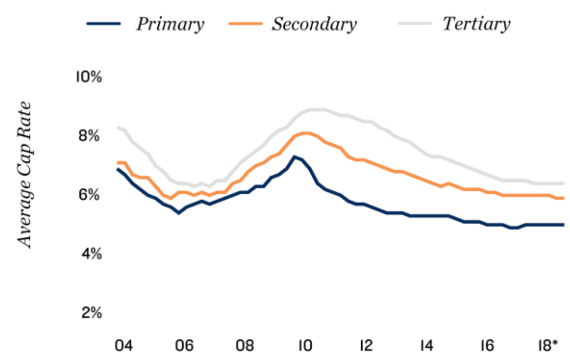
Market diversification a key portfolio strategy in maturing cycle. The economic expansion will remain supportive of the apartment investment market in 2019, though buyers' and sellers' expectations will likely need to adjust to a rising interest rate climate and the possibility of downside economic risk. 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

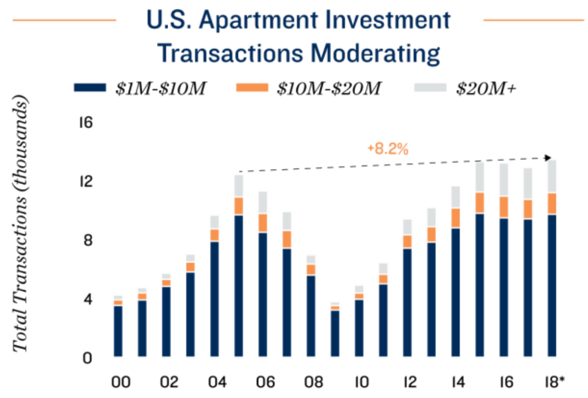


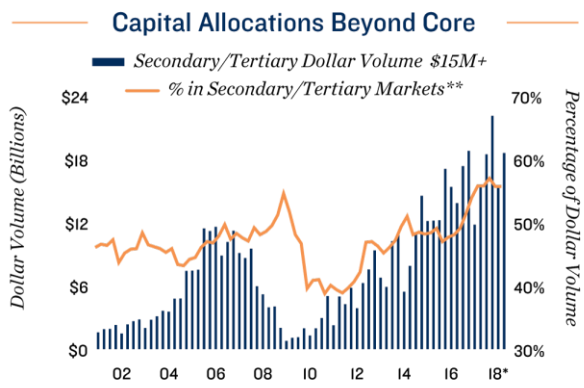
* Through 3Q

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.**

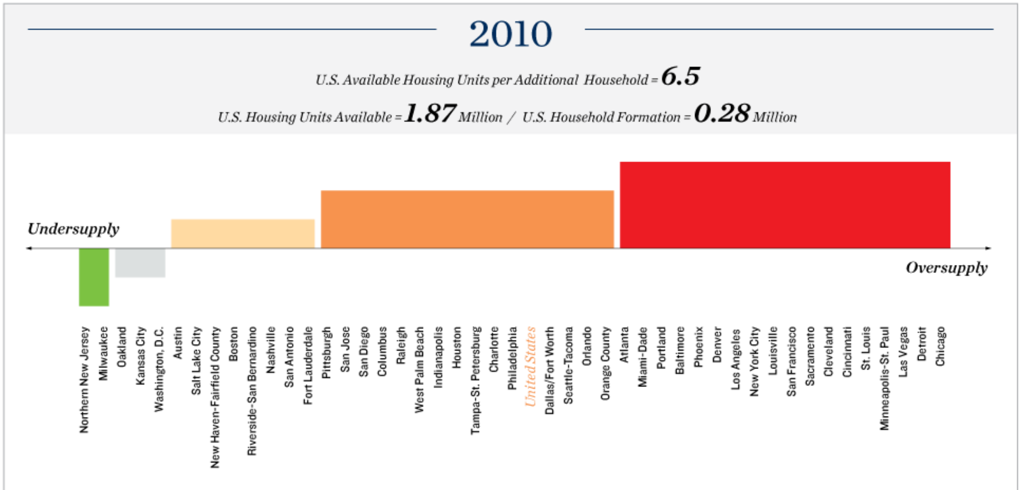


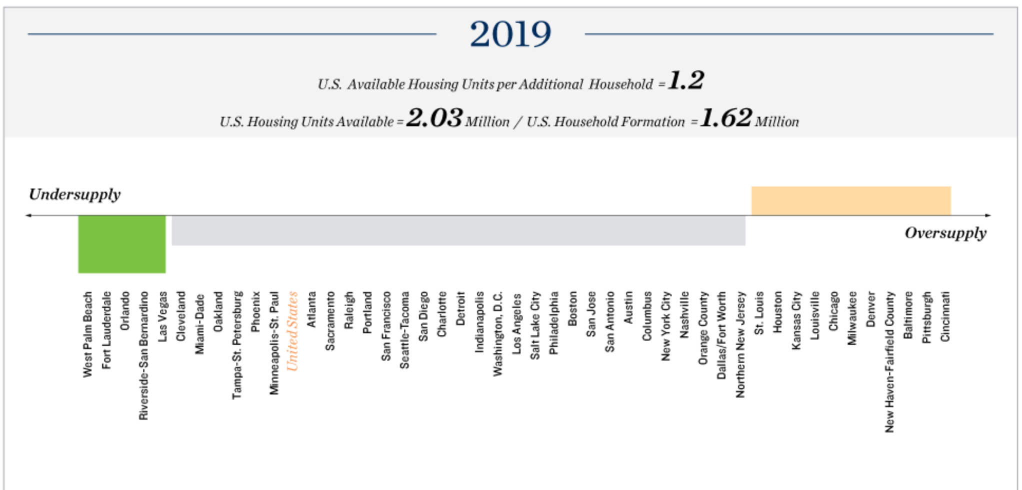


* Through 3Q
** Trailing 12 months through 3Q

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

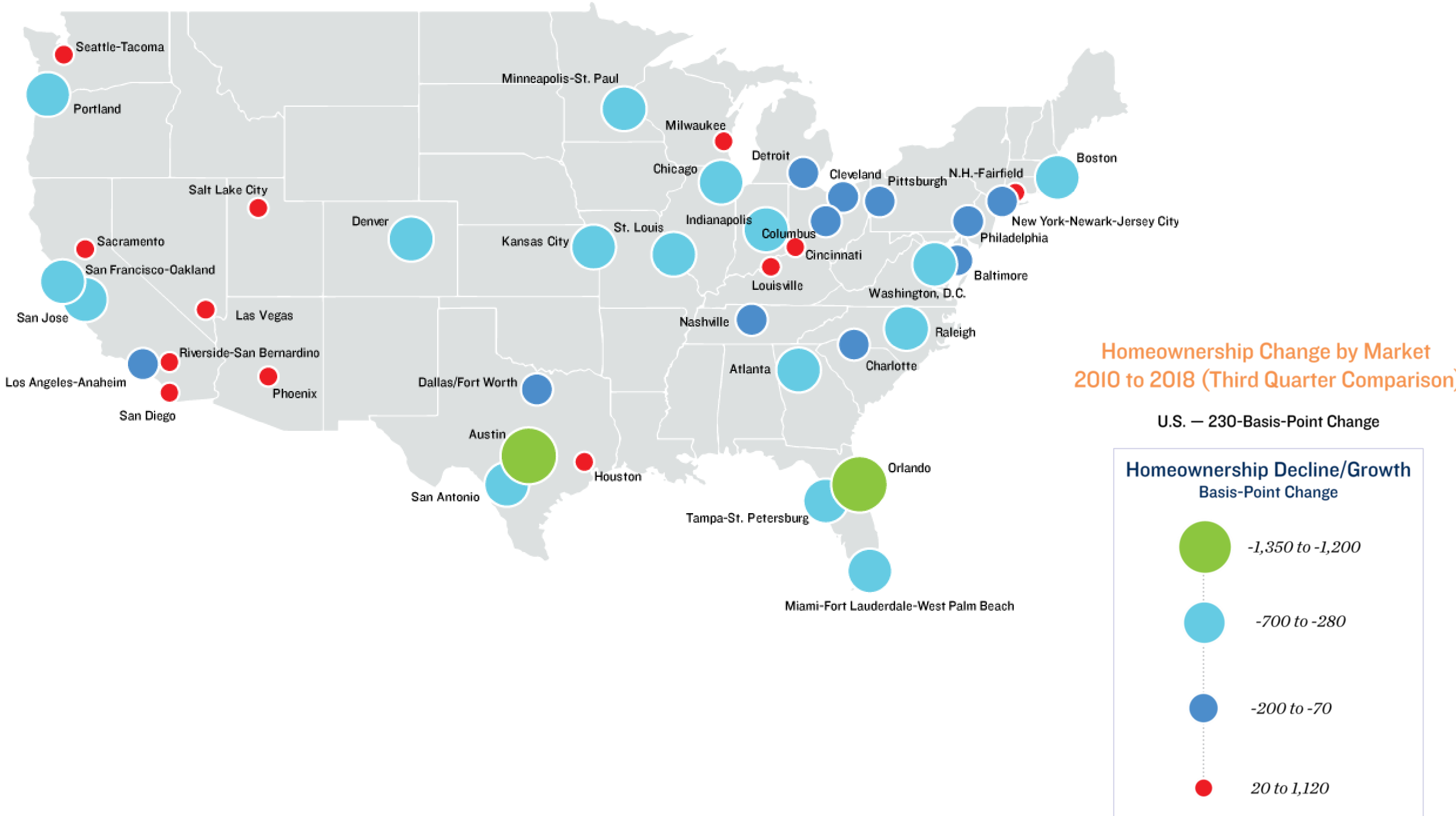
0 - 0.9	1.0 - 1.9	2.0 - 2.9	3.0 - 9.9	10.0+

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 October 2019

POPULATION	1 Miles	3 Miles	5 Miles
2023 Projection			
Total Population	43,561	184,090	425,221
2018 Estimate			
Total Population	43,096	180,389	420,425
2010 Census			
Total Population	41,281	172,378	404,725
2000 Census			
Total Population	42,746	169,836	402,911
Daytime Population			
2018 Estimate	46,130	214,089	425,637
HOUSEHOLDS	**1 Miles**	**3 Miles**	**5 Miles**
2023 Projection			
Total Households	15,009	74,288	161,430
2018 Estimate			
Total Households	14,517	71,621	157,490
Average (Mean) Household Size	2.85	2.45	2.62
2010 Census			
Total Households	13,733	67,518	149,778
2000 Census			
Total Households	13,127	64,132	145,469
Growth 2015-2020	3.39%	3.72%	2.50%
HOUSING UNITS	**1 Miles**	**3 Miles**	**5 Miles**
Occupied Units			
2023 Projection	15,009	74,288	161,430
2018 Estimate	15,249	74,296	162,233
Owner Occupied	3,717	33,496	79,904
Renter Occupied	10,800	38,125	77,586
Vacant	732	2,675	4,743
Persons In Units			
2018 Estimate Total Occupied Units	14,517	71,621	157,490
1 Person Units	31.25%	32.81%	27.66%
2 Person Units	24.15%	31.13%	30.31%
3 Person Units	13.43%	14.43%	16.43%
4 Person Units	12.49%	11.30%	13.85%
5 Person Units	8.32%	5.29%	6.38%
6+ Person Units	10.36%	5.05%	5.38%

HOUSEHOLDS BY INCOME	1 Miles	3 Miles	5 Miles
2018 Estimate			
$200,000 or More	4.23%	13.09%	13.46%
$150,000 - $199,000	5.44%	9.28%	9.24%
$100,000 - $149,000	11.92%	16.59%	16.70%
$75,000 - $99,999	10.55%	13.02%	12.46%
$50,000 - $74,999	15.43%	15.17%	15.21%
$35,000 - $49,999	11.25%	8.92%	9.46%
$25,000 - $34,999	9.16%	6.09%	6.51%
$15,000 - $24,999	11.41%	6.84%	7.22%
Under $15,000	20.61%	11.01%	9.72%
Average Household Income	$71,552	$119,502	$120,631
Median Household Income	$46,648	$78,379	$78,359
Per Capita Income	$24,622	$47,856	$45,504
POPULATION PROFILE	**1 Miles**	**3 Miles**	**5 Miles**
Population By Age			
2018 Estimate Total Population	43,096	180,389	420,425
Under 20	25.10%	21.05%	21.82%
20 to 34 Years	26.84%	22.69%	20.86%
35 to 39 Years	7.64%	7.45%	6.97%
40 to 49 Years	12.95%	13.86%	13.98%
50 to 64 Years	16.00%	19.66%	20.51%
Age 65+	11.49%	15.31%	15.85%
Median Age	33.87	39.18	40.25
Population 25+ by Education Level			
2018 Estimate Population Age 25+	29,060	131,581	303,762
Elementary (0-8)	14.53%	6.64%	6.13%
Some High School (9-11)	10.43%	5.70%	6.00%
High School Graduate (12)	19.19%	14.23%	15.32%
Some College (13-15)	17.18%	16.83%	17.14%
Associate Degree Only	6.15%	6.61%	6.87%
Bachelors Degree Only	18.35%	26.46%	26.59%
Graduate Degree	9.43%	21.62%	20.00%
Population by Gender			
2018 Estimate Total Population	43,096	180,389	420,425
Male Population	49.55%	48.58%	48.28%
Female Population	50.45%	51.42%	51.72%

Source: © 2018 Experian

Population

In 2018, the population in your selected geography is 43,096. The population has changed by 0.82% since 2000. It is estimated that the population in your area will be 43,561.00 five years from now, which represents a change of 1.08% from the current year. The current population is 49.55% male and 50.45% female. The median age of the population in your area is 33.87, compare this to the US average which is 37.95. The population density in your area is 13,715.44 people per square mile.

Households

There are currently 14,517 households in your selected geography. The number of households has changed by 10.59% since 2000. It is estimated that the number of households in your area will be 15,009 five years from now, which represents a change of 3.39% from the current year. The average household size in your area is 2.85 persons.

Income

In 2018, the median household income for your selected geography is $46,648, compare this to the US average which is currently $58,754. The median household income for your area has changed by 61.25% since 2000. It is estimated that the median household income in your area will be $56,488 five years from now, which represents a change of 21.09% from the current year.

The current year per capita income in your area is $24,622, compare this to the US average, which is $32,356. The current year average household income in your area is $71,552, compare this to the US average which is $84,609.

Race and Ethnicity

The current year racial makeup of your selected area is as follows: 42.41% White, 15.66% Black, 0.09% Native American and 8.85% 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 58.52% of the current year population in your selected area. Compare this to the US average of 18.01%.

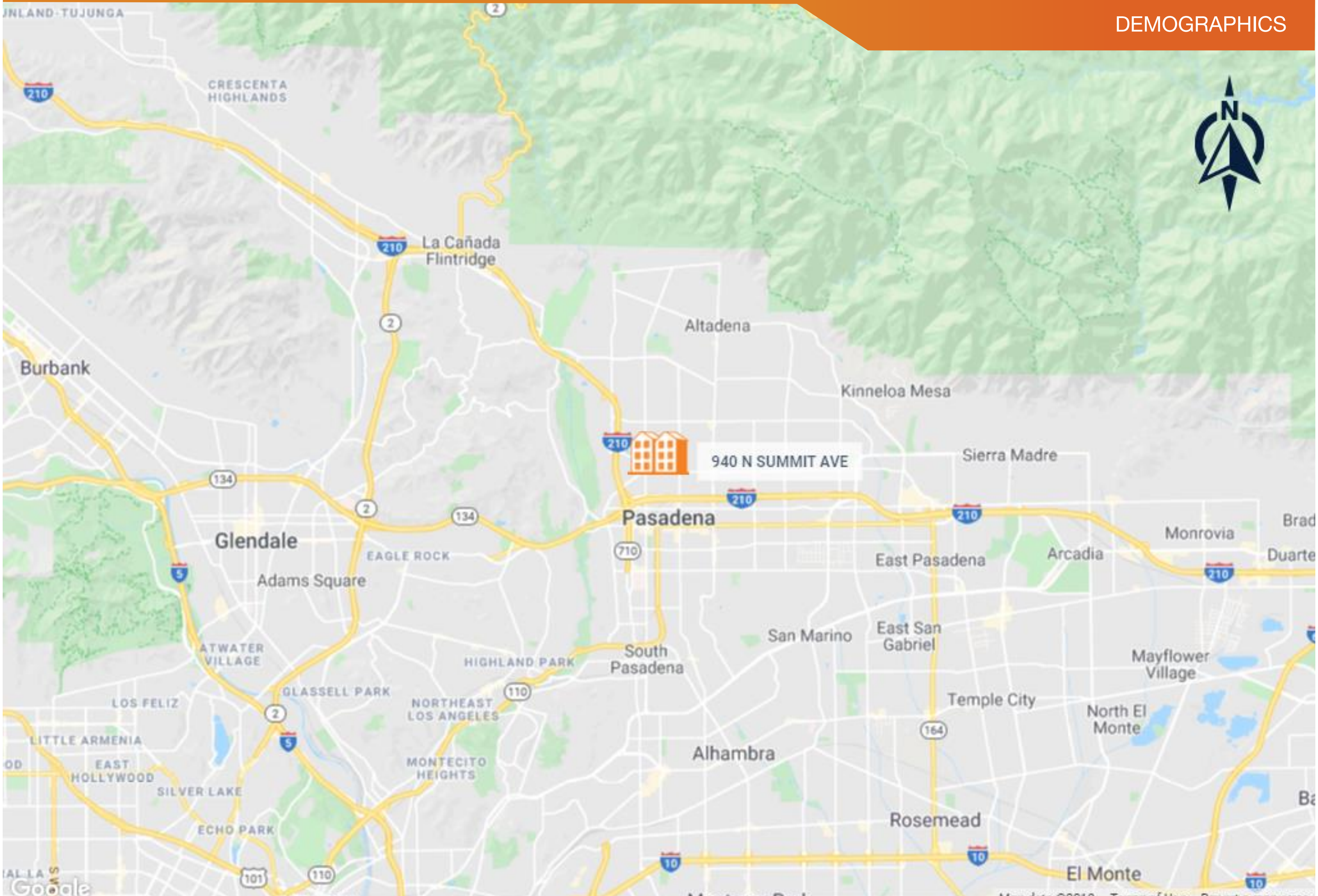
Housing

The median housing value in your area was $518,259 in 2018, compare this to the US average of $201,842. In 2000, there were 3,649 owner occupied housing units in your area and there were 9,478 renter occupied housing units in your area. The median rent at the time was $573.

Employment

In 2018, there are 24,668 employees in your selected area, this is also known as the daytime population. The 2000 Census revealed that 49.14% of employees are employed in white-collar occupations in this geography, and 51.43% are employed in blue-collar occupations. In 2018, unemployment in this area is 7.78%. In 2000, the average time traveled to work was 30.00 minutes.

Source: © 2018 Experian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La Cañada Flintridge
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Glendale
Eagle Rock
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East Pasadena
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