Marcus & Millichap

Offering Memorandum

12360-12364 MAGNOLIA BOULEVARD

Valley Village, CA 91607

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12360-12364 MAGNOLIA BOULEVARD
Valley Village, CA
ACT ID Z0121113

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INVESTMENT OVERVIEW

EXECUTIVE SUMMARY

VITAL DATA				
Price	$4,000,000		CURRENT	PROFORMA
Loan Amount	$2,000,000	CAP Rate	4.60%	6.59%
Loan Type	Proposed New	GRM	14.06	11.26
Interest Rate / Amortization	4.60% / 30 Years	Net Operating Income	$184,114	$263,418
Price/Unit	$333,333	Net Cash Flow After Debt Service	3.05% / $61,079	7.02% / $140,383
Price/SF	$331.62	Total Return	4.64% / $92,777	8.68% / $173,570
Number of Units	12			
Rentable Square Feet	12,062			
Year Built	1952			
Lot Size	0.39 acre(s)			

UNIT MIX

NUMBER OF UNITS	UNIT TYPE	APPROX. SQUARE FEET
10	Two-Bed/One-Bath	1,000
2	Two-Bed/Two-Bath Townhouse	1,031
12	Total	12,062

MAJOR EMPLOYERS

EMPLOYER	# OF EMPLOYEES
Disney	15,158
Walt Disney Company	9,434
Victory Studio	5,000
Warner Bros Television	5,000
Kaiser Permanente	3,000
Providence Holy Cross	2,930
Andrews International Inc	2,254
Providence St Joseph Med Ctr	2,099
Mann Theaters	2,000
PROVIDENCE HOLY CROSS FOUNDATI	2,000
Universal City Studios Prod	2,000
Homebridge Financial Services	1,700

DEMOGRAPHICS

	1-Miles	3-Miles	5-Miles
2017 Estimate Pop	36,812	290,367	607,145
2010 Census Pop	34,703	274,824	576,658
2017 Estimate HH	17,433	119,810	230,316
2010 Census HH	16,238	112,070	216,676
Median HH Income	$61,898	$57,851	$60,084
Per Capita Income	$45,824	$38,408	$37,594
Average HH Income	$96,432	$92,775	$98,722

INVESTMENT OVERVIEW

Marcus & Millichap is pleased to offer for sale a luxury multi-family asset in the most desirable Valley village submarket of the San Fernando Valley. Located on Magnolia Boulevard near Coldwater Canyon and in proximity to numerous new developments, this property offers great curb appeal and has been enhanced with distinctive appointments catering to tastes of today's renters. Seven Units have been upgraded with state of the art kitchens, Individual water heaters, hardwood floors, recessed lighting, stainless steel appliances, new plumbing, walk-in closets, high ceilings, balconies and/or private gardens.

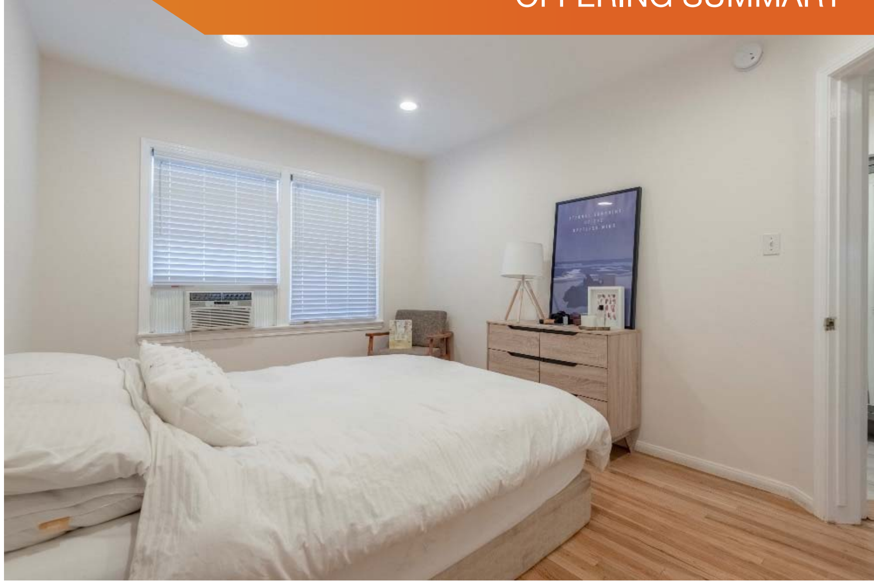
Magnolia Apartments offer an investor the opportunity to acquire an asset with the most desirable unit mix of all two-bed/two-bath units, current high rental rates, potential for further rent increases on a double lot offering future redevelopment potential in a much-desired pocket of the San Fernando Valley.

INVESTMENT HIGHLIGHTS

- Much Desired Valley Village Investment Market
- Prime Asset Offering Considerable Current Cash Flow with Future Development Potential
- Two Separate and Adjoining Parcels Totaling Approximately 17,000-Square Feet of Land
- Two Six- Unit Buildings Consisting of 10, Two-Bedroom/One-Bath Units and Two, Two-Bedroom/Two-Bath Townhouses
- Seven Units Fully remodeled with Distinctive Interior Appointments
- Large Unit Sizes - 12,062-Square Feet of Improvements in 12 Units
- Townhouses Open to Lush Private and Gated Gardens on Magnolia Boulevard
- Each Apartment Features Two Entrances and Two Balconies and a Living Room/Dining Room Floorplan
- Each Six-Unit Building offers a Separate Laundry Room Operated by Current Ownership
- Recent Improvements include Installation of New Sewer Lines, Re-pavement of Common Areas, Individual Water Heaters in most units, Upgraded Plumbing systems
- Rare Investment Opportunity

12360

12360

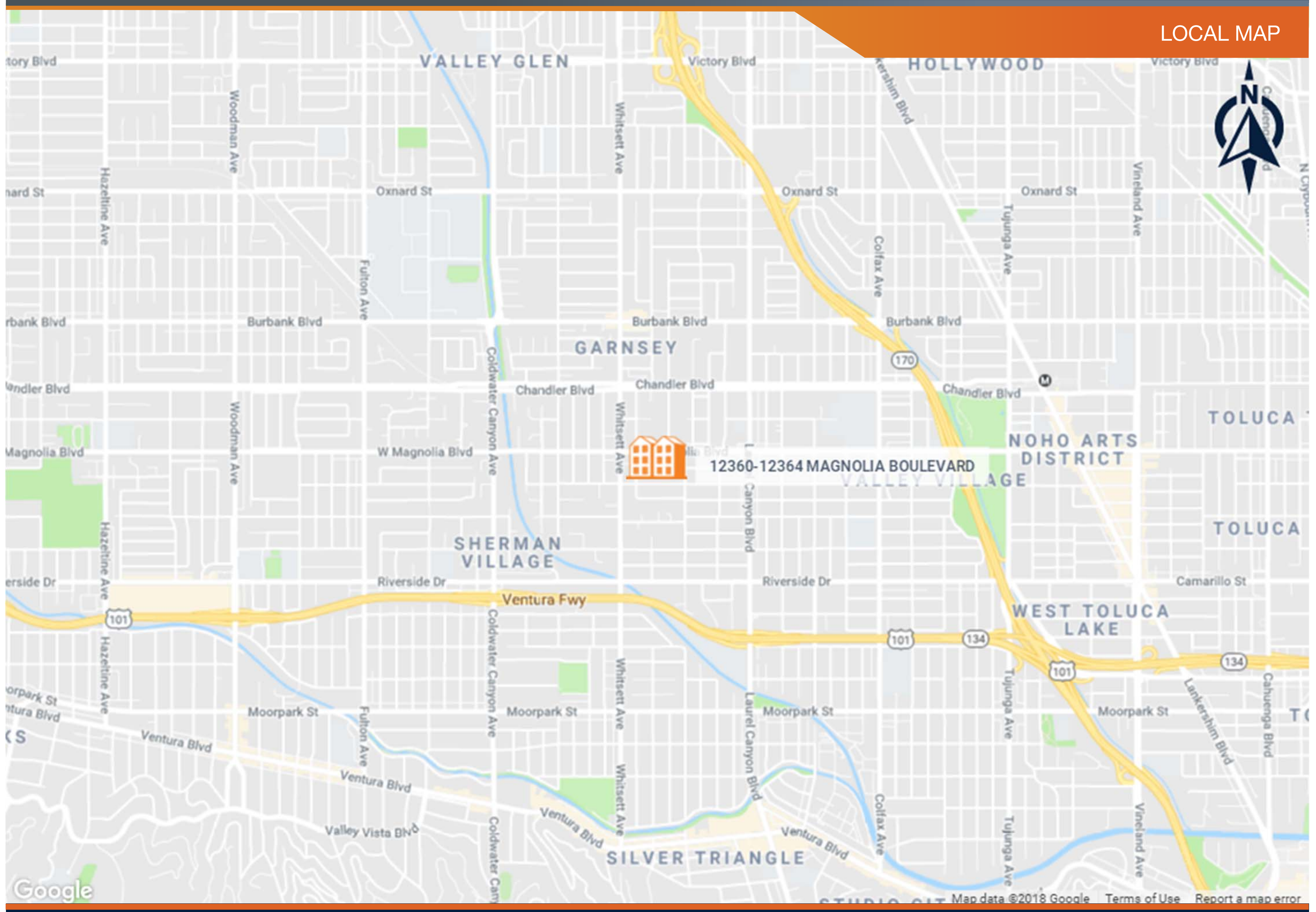


PROPERTY SUMMARY

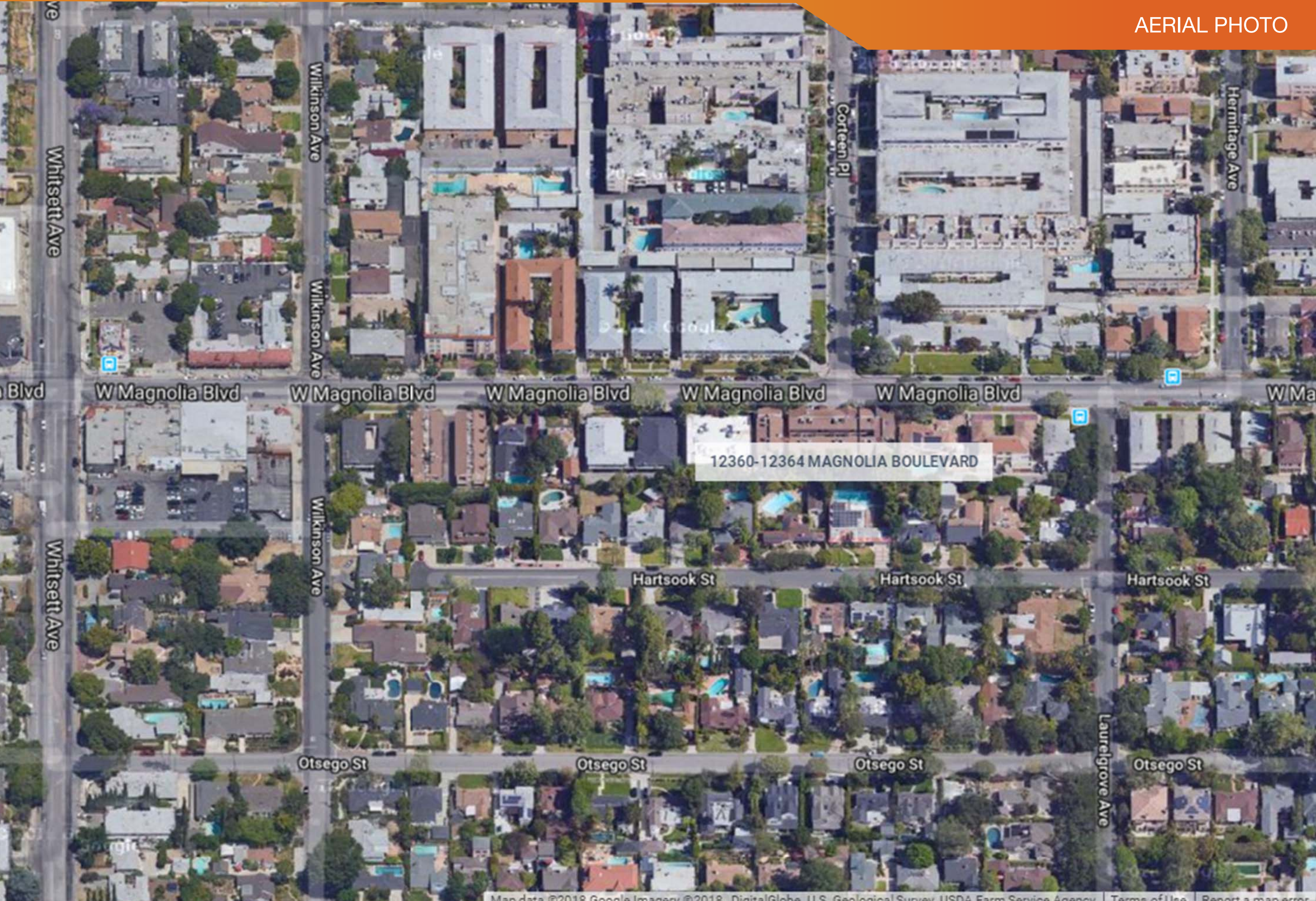
THE OFFERING	
Price	$4,000,000
Property Address	12360-12364 Magnolia Boulevard, Valley Village, CA
SITE DESCRIPTION	
Number of Units	12
Year Built/Renovated	1952
Rentable Square Feet	12,062
Lot Size	0.39 acre(s)
Type of Ownership	Fee Simple

PROPOSED FINANCING	
First Trust Deed	
Loan Amount	$2,000,000
Loan Type	Proposed New
Interest Rate	4.60%
Amortization	30 Years
Loan Term	5 Years
Loan to Value	50%
Debt Coverage Ratio	1.5

LOCAL MAP



AERIAL PHOTO



FINANCIAL ANALYSIS

RENT ROLL SUMMARY

As of August,2018

Unit Type	# of Units	Avg Sq Feet	Rental Range	Current Average Rent	Current Average Rent / SF	Current Monthly Income	Potential Average Rent	Potential Average Rent / SF	Potential Monthly Income
Two-Bed/One-Bath	10	* 1,000	$1,665 - $2,300	$1,998	$2.00	$19,982	$2,400	$2.40	$24,000
Two-Bed/Two-Bath Townhouse Unit	2	* 1,031	$1,277 - $2,450	$1,863	$1.81	$3,727	$2,800	$2.72	$5,600
Totals/Weighted Averages	**12**	**1,005**		**$1,976**	**$1.97**	**$23,709**	**$2,467**	**$2.45**	**$29,600**
Gross Annualized Rents				**$284,506**			**$355,200**		

*Estimated square footage based on total building square feet. Buyer to verify

RENT ROLL DETAIL

As of August,2018

Unit	Unit Type	Square Feet	Current Rent / Month	Current Rent / SF/ Month	Potential Rent / Month	Potential Rent/ SF/ Month
12360-1	Two-Bed/Two-Bath Townhouse Unit	* 1,031	$2,450	$2.38	$2,800	$2.72
12360-2	Two-Bed/One-Bath	* 1,000	$2,300	$2.30	$2,400	$2.40
12360-3	Two-Bed/One-Bath	* 1,000	$2,060	$2.06	$2,400	$2.40
12360-4	Two-Bed/One-Bath	* 1,000	$2,200	$2.20	$2,400	$2.40
12360-5	Two-Bed/One-Bath	* 1,000	$2,200	$2.20	$2,400	$2.40
12360-6	Two-Bed/One-Bath	* 1,000	$1,745	$1.75	$2,400	$2.40
12364-1	Two-Bed/Two-Bath Townhouse Unit	* 1,031	$1,277	$1.24	$2,800	$2.72
12364-2	Two-Bed/One-Bath	* 1,000	$2,200	$2.20	$2,400	$2.40
12364-3	Two-Bed/One-Bath	* 1,000	$2,200	$2.20	$2,400	$2.40
12364-4	Two-Bed/One-Bath	* 1,000	$1,665	$1.67	$2,400	$2.40
12364-5	Two-Bed/One-Bath	* 1,000	$1,689	$1.69	$2,400	$2.40
12364-6	Two-Bed/One-Bath	* 1,000	$1,723	$1.72	$2,400	$2.40
Total		**Square Feet: 12,062**	**$23,709**	**$1.97**	**$29,600**	**$2.45**

*Estimated square footage based on total building square feet. Buyer to verify

OPERATING STATEMENT

Income	Current		ProForma		Notes	Per Unit	Per SF
Gross Current Rent	**284,506**		**355,200**			**29,600**	**29.45**
Physical Vacancy	(8,610)	3.0%	0			0	0.00
Total Vacancy	**($8,610)**	**3.0%**	**$0**	**0.0%**		**$0**	**$0**
Effective Rental Income	**275,896**		**355,200**			**29,600**	**29.45**
Other Income							
Laundry - Owned	2,400		2,400			200	0.20
Total Other Income	**$2,400**		**$2,400**			**$200**	**$0.20**
Effective Gross Income	**$278,296**		**$357,600**			**$29,800**	**$29.65**

Expenses	Current	ProForma	Notes	Per Unit	Per SF
Real Estate Taxes	48,000	48,000		4,000	3.98
Insurance	5,800	5,800	[2]	483	0.48
Utilities	9,621	9,621		802	0.80
Trash Removal	3,598	3,598		300	0.30
Repairs & Maintenance	11,120	11,120		927	0.92
Landscaping	1,912	1,912		159	0.16
Off-Site Management	11,131	11,131		928	0.92
Reserves & Replacements	3,000	3,000		250	0.25
Total Expenses	**$94,182**	**$94,182**		**$7,849**	**$7.81**
Expenses as % of EGI	**33.8%**	**26.3%**			
Net Operating Income	**$184,114**	**$263,418**		**$21,952**	**$21.84**

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

PRICING DETAIL

Summary		
Price	**$4,000,000**	
Down Payment	$2,000,000	50%
Number of Units	12	
Price Per Unit	$333,333	
Price Per SqFt	$331.62	
Gross SqFt	12,062	
Lot Size	0.39 Acres	
Approx. Year Built	1952	

Returns	Current	ProForma
CAP Rate	**4.60%**	**6.59%**
GRM	14.06	11.26
Cash-on-Cash	3.05%	7.02%
Debt Coverage Ratio	1.50	2.14

Financing	1st Loan
Loan Amount	$2,000,000
Loan Type	New
Interest Rate	4.60%
Amortization	30 Years
Year Due	2023

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

# Of Units	Unit Type	SqFt/Unit	Scheduled Rents	Market Rents
10	Two-Bed/One-Bath	1,000	$1,998	$2,400
2	Two-Bed/Two-Bath Townhous	1,031	$1,863	$2,800

Operating Data

Income		Current		ProForma
Gross Scheduled Rent		**$284,506**		**$355,200**
Less: Vacancy/Deductions	3.0%	$8,610	0.0%	$0
Total Effective Rental Income		$275,896		$355,200
Other Income		$2,400		$2,400
Effective Gross Income		$278,296		$357,600
Less: Expenses	33.8%	$94,182	26.3%	$94,182
Net Operating Income		**$184,114**		**$263,418**
Cash Flow		$184,114		$263,418
Debt Service		$123,035		$123,035
Net Cash Flow After Debt Service	3.05%	$61,079	7.02%	$140,383
Principal Reduction		$31,697		$33,187
Total Return	**4.64%**	**$92,777**	**8.68%**	**$173,570**

Expenses	Current	ProForma
Real Estate Taxes	$48,000	$48,000
Insurance	$5,800	$5,800
Utilities	$9,621	$9,621
Trash Removal	$3,598	$3,598
Repairs & Maintenance	$11,120	$11,120
Landscaping	$1,912	$1,912
Off-Site Management	$11,131	$11,131
Reserves & Replacements	$3,000	$3,000
Total Expenses	**$94,182**	**$94,182**
Expenses/Unit	**$7,849**	**$7,849**
Expenses/SF	**$7.81**	**$7.81**

MARKET
COMPARABLES

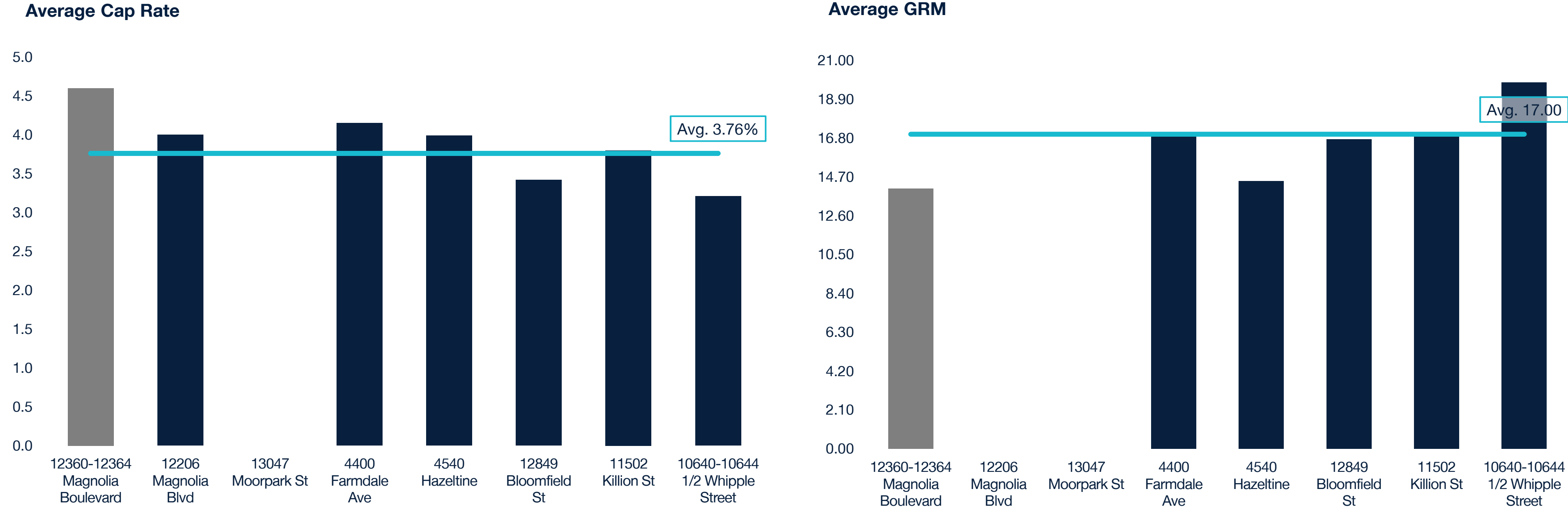
SALES COMPARABLES MAP

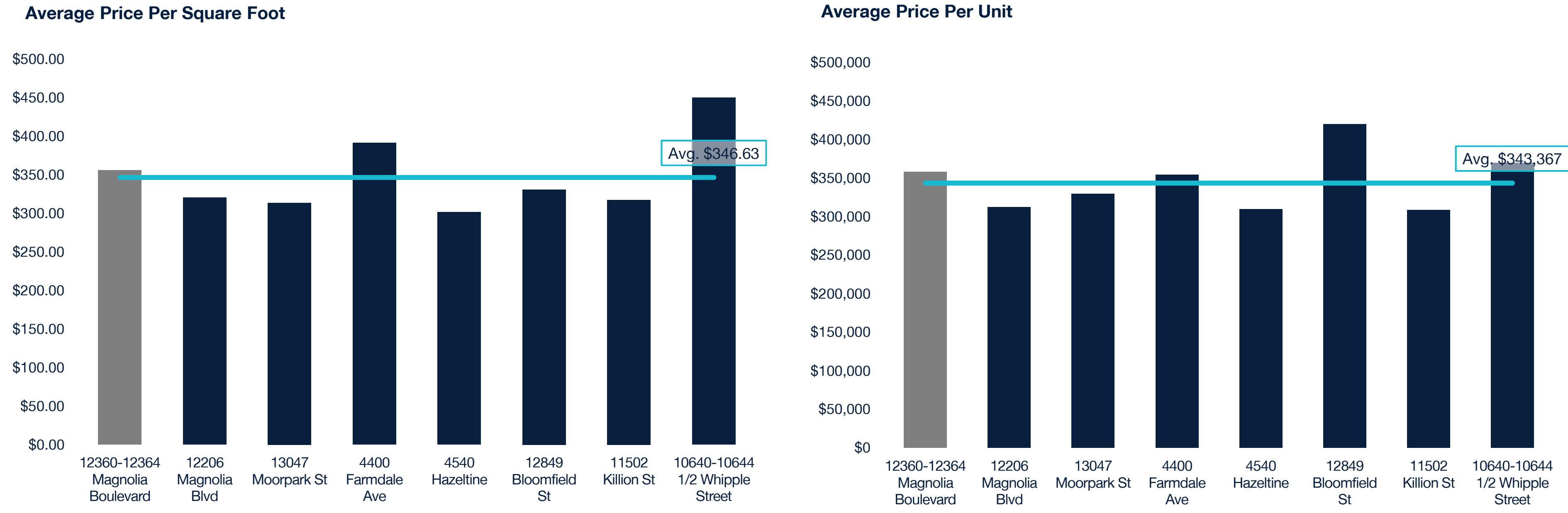
12360-12364 MAGNOLIA BOULEVARD (SUBJECT)

1. 12206 Magnolia Blvd
2. 13047 Moorpark St
3. 4400 Farmdale Ave
4. 4540 Hazeltine
5. 12849 Bloomfield St
6. 11502 Killion St
7. 10640-10644 1/2 Whipple Street

SALES COMPARABLES

Map data ©2018 Google Terms of Use Report a map error


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. 3.76%
12360-12364 Magnolia Boulevard
12206 Magnolia Blvd
13047 Moorpark St
4400 Farmdale Ave
4540 Hazeltine
12849 Bloomfield St
11502 Killion St
10640-10644 1/2 Whipple Street
Average GRM
21.00
18.90
16.80
14.70
12.60
10.50
8.40
6.30
4.20
2.10
0.00
Avg. 17.00
12360-12364 Magnolia Boulevard
12206 Magnolia Blvd
13047 Moorpark St
4400 Farmdale Ave
4540 Hazeltine
12849 Bloomfield St
11502 Killion St
10640-10644 1/2 Whipple Street


SALES COMPARABLES
SALES COMPS AVG
Average Price Per Square Foot
$500.00
$450.00
$400.00
$350.00
$300.00
$250.00
$200.00
$150.00
$100.00
$50.00
$0.00
Avg. $346.63
12360-12364 Magnolia Boulevard
12206 Magnolia Blvd
13047 Moorpark St
4400 Farmdale Ave
4540 Hazeltine
12849 Bloomfield St
11502 Killion St
10640-10644 1/2 Whipple Street
Average Price Per Unit
$500,000
$450,000
$400,000
$350,000
$300,000
$250,000
$200,000
$150,000
$100,000
$50,000
$0
Avg. $343,367
12360-12364 Magnolia Boulevard
12206 Magnolia Blvd
13047 Moorpark St
4400 Farmdale Ave
4540 Hazeltine
12849 Bloomfield St
11502 Killion St
10640-10644 1/2 Whipple Street

SALES COMPARABLES

12360-12364 MAGNOLIA BOULEVARD
12360-12364 Magnolia Boulevard, Valley Village, CA, 91607

		Units	Unit Type
Offering Price:	$4,000,000	10	Two-Bed One-Bath
Price/Unit:	$333,333	2	Two-Bed Two-Bath Townhouse
Price/SF:	$331.62		
CAP Rate:	4.60%		
GRM:	14.06		
Total No. of Units:	12		
Year Built:	1952		

Underwriting Criteria			
Income	$278,296	Expenses	$94,182
NOI	$184,114	Vacancy	($8,610)

12206 MAGNOLIA BLVD
12206 Magnolia Blvd, Valley Village, CA, 91607

1

		Units	Unit Type
Close Of Escrow:	6/15/2018	4	1 Bdr Bath
Sales Price:	$3,120,000	6	2 Bdr Bath
Price/Unit:	$312,000		
Price/SF:	$320.53		
CAP Rate:	4.00%		
Total No. of Units:	10		
Year Built:	1964		

13047 MOORPARK ST
13047 Moorpark St, Studio City, CA, 91604

2

		Units	Unit Type
Close Of Escrow:	4/6/2018	1	1 Bdr Bath
Sales Price:	$2,305,000	5	2 Bdr Bath
Price/Unit:	$329,286	3	1 Bdr Bath
Price/SF:	$313.90		
Total No. of Units:	7		
Year Built:	1958		

SALES COMPARABLES

4400 FARMDALE AVE
4400 Farmdale Ave, North Hollywood, CA, 91602

3

		Units	Unit Type
Close Of Escrow:	5/25/2018	3	1 Bdr Bath
Sales Price:	$2,125,000	2	2 Bdr Bath
Price/Unit:	$354,167	1	3 Bdr Bath
Price/SF:	$391.49		
CAP Rate:	4.15%		
GRM:	17.00		
Total No. of Units:	6		
Year Built:	1957		

4540 HAZELTINE
4540 Hazeltine Ave, Sherman Oaks, CA, 91423

4

		Units	Unit Type
Close Of Escrow:	12/1/2017	6	1 Bdr Bath
Sales Price:	$7,125,000	7	2 Bdr Bath
Price/Unit:	$309,783	10	3 Bdr Bath
Price/SF:	$301.83		
CAP Rate:	3.99%		
GRM:	14.48		
Total No. of Units:	23		
Year Built:	1951		

12849 BLOOMFIELD ST
12849 Bloomfield St, Studio City, CA, 91604

5

		Units	Unit Type
Close Of Escrow:	7/19/2018	4	2 Bdr Bath
Sales Price:	$2,100,000	1	3 Bdr Bath
Price/Unit:	$420,000		
Price/SF:	$331.02		
CAP Rate:	3.42%		
GRM:	16.73		
Total No. of Units:	5		
Year Built:	1964		

SALES COMPARABLES

11502 KILLION ST

11502 Killion St, North Hollywood, CA, 91601

6

		Units	Unit Type
Close Of Escrow:	6/20/2018	1	Studio Bath
Sales Price:	$1,850,000	4	1 Bdr Bath
Price/Unit:	$308,333	1	3 Bdr Bath
Price/SF:	$317.43		
CAP Rate:	3.80%		
GRM:	17.00		
Total No. of Units:	6		
Year Built:	1978		

10640-10644 1/2 WHIPPLE STREET

10640-10644 1/2 Whipple Street, North Hollywood, CA, 91602

7

		Units	Unit Type
Close Of Escrow:	1/5/2018	3	1 Bdr Bath
Sales Price:	$1,850,000	2	2 Bdr Bath
Price/Unit:	$370,000		
Price/SF:	$450.23		
CAP Rate:	3.21%		
GRM:	19.81		
Total No. of Units:	5		
Year Built:	1954		

MARKET
OVERVIEW

SAN FERNANDO VALLEY
OVERVIEW

Approximately 2.5 million people reside in the San Fernando Valley, which includes the submarkets of Northridge-Northwest San Fernando Valley, Van Nuys-Northeast San Fernando Valley, Woodland Hills, Burbank-Glendale-Pasadena and Sherman Oaks-North Hollywood-Encino. The area's population is expected to increase by 33,000 residents through 2022. Many people are attracted by the region's more affordable home prices.

METRO HIGHLIGHTS

DIVERSE ECONOMY

While the entertainment industry underpins the economy, other economic drivers include aerospace, insurance and healthcare.

EDUCATED WORKFORCE

Roughly 23 percent of San Fernando Valley residents who are age 25 and older hold a bachelor's degree and 13 percent also obtained a graduate or professional degree.

GROWTH

Population and household growth will increase faster than other large metros in Southern California, generating a demand for housing, and goods and services.

ECONOMY

- Known for its entertainment industry, the Valley boasts more than 100 soundstages. Entertainment giants calling the Valley home include Walt Disney Co., Universal Studios, Warner Brothers, DreamWorks and Paramount Ranch.
- Aerospace giants Boeing and Northrop Grumman as well as 21st Century Insurance generate numerous well-paying jobs.
- Healthcare is also a major source of employment with providers that include Kaiser Permanente and Providence Health & Services. As a result of its large concentration of high salaries and successful companies, household incomes are above the national average.

DEMOGRAPHICS

* Forecast

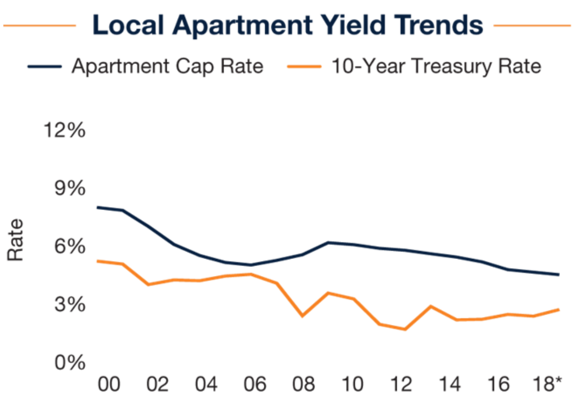
Sources: Marcus & Millichap Research Services; BLS; Bureau of Economic Analysis; Experian; Fortune; Moody's Analytics; U.S. Census Bureau

LOS ANGELES COUNTY

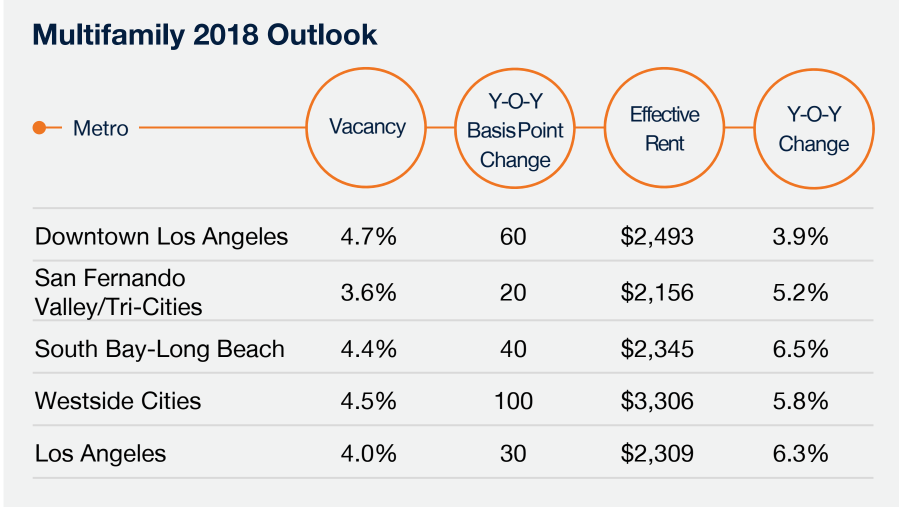
Heightened Rate of Absorption Lessens Impact of New Supply

Diverse job creation supports the formation of various-earning households. Over the past five years, employment sectors that historically produce renters have driven job creation in Los Angeles County, as a combined 170,000 hospitality, education and health positions were added during the span. Increased hiring velocity within these industries has bolstered demand for affordable apartments, reducing vacancy in all submarkets that boast average monthly rents under $2,000 per month. At the same time, expansion of the metro's higher-paying professional and business services sector has fueled relocations and resident demand for luxury apartments during a time of heightened deliveries and strong median home price appreciation. Together, these market conditions have held metrowide vacancy below 4 percent for five straight years, positioning the market to handle an upcoming, two-year influx of new supply.

New submarket leads metro in annual deliveries. After a slow start to the year, developers are slated to complete 8,950 units during the next three quarters. More than half of these rentals are concentrated in the Downtown Los Angeles region, including more than 2,600 apartments in Mid-Wilshire, where a host of six- and seven-story properties are brought to market. Outside this area, core downtown, the Tri-Cities submarket and the Westside Cities region each welcome more than 1,500 new rentals in 2018.



* Cap rate trailing 12-month average through 1Q; Treasury rate as of March 29th
Sources: CoStar Group, Inc.; Real Capital Analytics



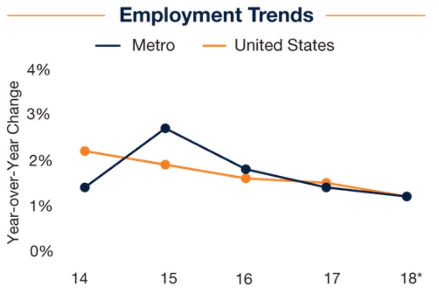
Multifamily 2018 Outlook

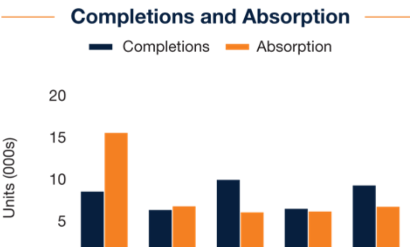
Metro	Vacancy	Y-O-Y Basis Point Change	Effective Rent	Y-O-Y Change
Downtown Los Angeles	4.7%	60	$2,493	3.9%
San Fernando Valley/Tri-Cities	3.6%	20	$2,156	5.2%
South Bay-Long Beach	4.4%	40	$2,345	6.5%
Westside Cities	4.5%	100	$3,306	5.8%
Los Angeles	4.0%	30	$2,309	6.3%

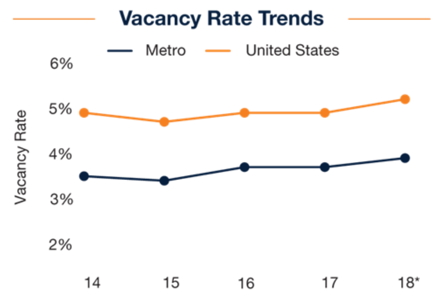
Investment Trends

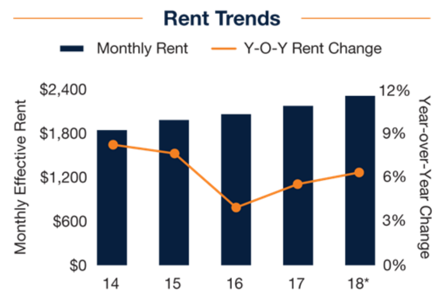
- Potential regulatory changes surrounding the repeal of the Costa-Hawkins Act are weighing on investor sentiment, adding another level of concern to transactions in front of a possible shift in the legal framework surrounding rent control. While the potential changes would likely take years to fully implement, the possible impact of this regulation in the marketplace is being felt today. Additionally, the costs associated with retrofitting wood-frame soft-story and non-ductile concrete structures in the market is widening an expectations gap between buyers and sellers, potentially straining activity as investors adjust to upcoming legislative deadlines.
- Renter demand for affordable apartments holds Class C vacancy below 3 percent, allowing for above-average rent growth. These factors fuel investors' desire for older assets that generate upside following property upgrades and improved management efficiencies. In the San Fernando Valley, Long Beach and Tri-Cities submarkets, areas of significant value-add sales activity, minimum yields dip below 3 percent.
- The metro's absorption of new luxury units has institutional buyers eager to acquire Class A properties in Downtown Los Angeles, where initial returns bottom out in the high-3 percent realm. Many of these same investors target the San Fernando Valley prior to an influx of rentals next year. Here, higher-quality assets can sell for less than $400,000 per unit.

LOS ANGELES COUNTY









1Q18 – 12-Month Period

* Forecast

EMPLOYMENT

1.2% increase in total employment Y-O-Y

- Organizations bolstered staffs by 55,100 jobs over the past 12 months after adding 61,000 positions during the previous period. Recent hiring reduced the unemployment rate by 40 basis points to 4.5 percent.
- Over the past year, 75 percent of positions created were hospitality, education or health-related. Additionally, the professional services sector added 12,700 workers.

CONSTRUCTION

5,600 units completed Y-O-Y

- Deliveries slowed during the past four quarters following the completion of 9,400 units during the prior period. A trio of projects in Downtown Los Angeles, Glendale and North San Gabriel Valley accounted for nearly 30 percent of the apartments finalized over the past 12 months.
- Metrowide, developers are underway on more than 28,000 rentals, with completions extending into 2020.

VACANCY

30 basis point increase in vacancy Y-O-Y

- Vacancy rose to 3.8 percent over the past year on net absorption of 2,000 units. Entering the second quarter, unit availability in every Los Angeles County submarket is below 5 percent.
- Of the metro's four primary regions, vacancy is tightest in the San Fernando Valley-Tri-Cities, where an uptick of 20 basis points increased availability to 3.6 percent.

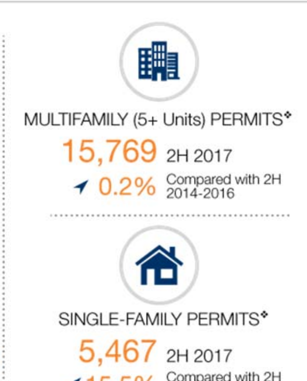
RENTS

5.6% increase in effective rents Y-O-Y

- Aided by sub-4 percent vacancy, the pace of rent growth doubled on a year-over-year basis, with the metro's average rate reaching $2,185 per month.
- Above-average gains were registered in South Bay-Long Beach and Downtown Los Angeles, where increases of 7.2 percent and 6.1 percent elevated regional rents to $2,188 per month and $2,453 per month, respectively.

LOS ANGELES COUNTY

DEMOGRAPHIC HIGHLIGHTS



1Q18 MEDIAN HOUSEHOLD INCOME
Metro $64,080
U.S. Median $60,686

1Q18 AFFORDABILITY GAP
Renting is $893 Per Month Lower
Average Effective Rent vs. Mortgage Payment*

MULTIFAMILY (5+ Units) PERMITS❖
15,769 2H 2017
0.2% Compared with 2H 2014-2016

1Q18 MEDIAN HOME PRICE
Metro $565,735
U.S. Median $257,628

FIVE-YEAR HOUSEHOLD GROWTH**
186,000 or 1.1% Annual Growth
U.S. 1.1% Annual Growth

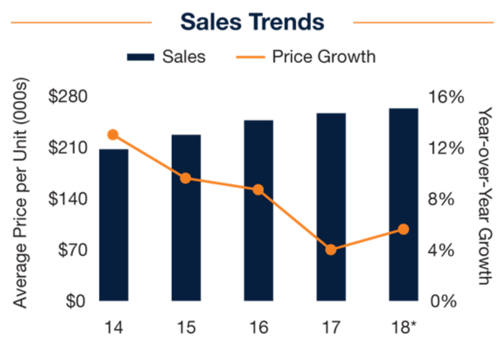
SINGLE-FAMILY PERMITS❖
5,467 2H 2017
15.5% Compared with 2H 2014-2016

*Mortgage payments based on quarterly median home price with a 30-year fixed-rate conventional mortgage, 90% LTV, taxes, insurance and PMI. **2017-2022 ❖Annualized Rate

Sales Trends

Investors Gravitate to Tight Suburban Submarkets, Epicenters of Development

- Sales activity rose by 5.2 percent over the past year, with trades in Downtown Los Angeles and San Fernando Valley-Tri-Cities accounting for half of all deal flow.
- Average pricing advanced 5.6 percent to a historically high $262,700 per unit. The increase in asset values lowered the average cap rate by 30 basis points year over year to 4.5 percent.

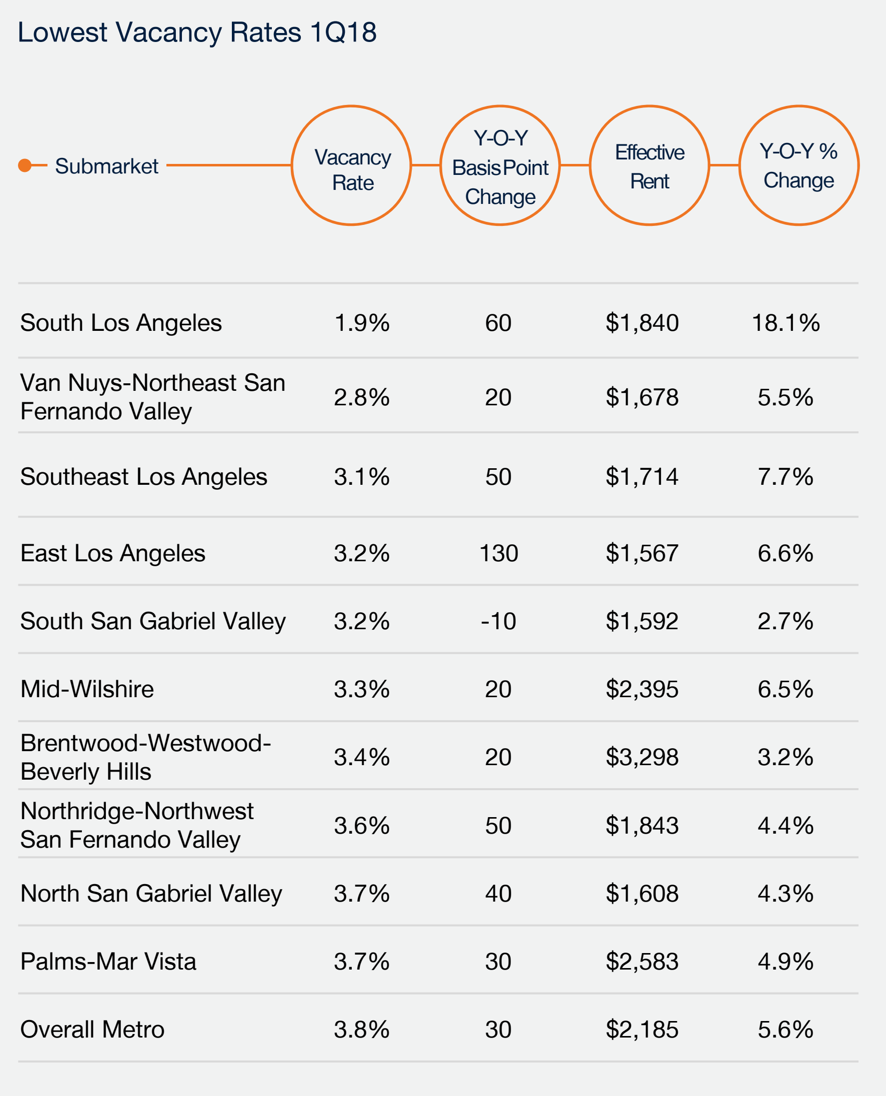


Outlook: Rising property values limit opportunities for sub-$300,000-per-unit pricing. When deploying capital, these buyers target the San Fernando and San Gabriel valleys with increased frequency.

* Trailing 12 months through 1Q18
Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

Submarket Trends

Lowest Vacancy Rates 1Q18

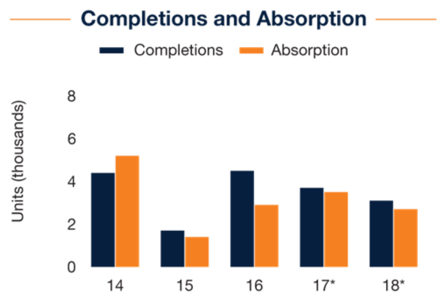


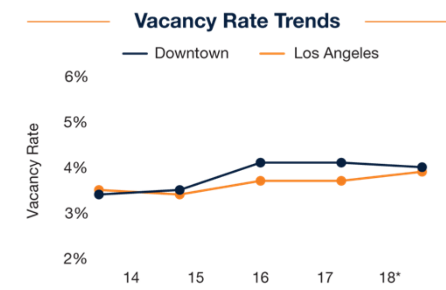
Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rent	Y-O-Y % Change
South Los Angeles	1.9%	60	$1,840	18.1%
Van Nuys-Northeast San Fernando Valley	2.8%	20	$1,678	5.5%
Southeast Los Angeles	3.1%	50	$1,714	7.7%
East Los Angeles	3.2%	130	$1,567	6.6%
South San Gabriel Valley	3.2%	-10	$1,592	2.7%
Mid-Wilshire	3.3%	20	$2,395	6.5%
Brentwood-Westwood-Beverly Hills	3.4%	20	$3,298	3.2%
Northridge-Northwest San Fernando Valley	3.6%	50	$1,843	4.4%
North San Gabriel Valley	3.7%	40	$1,608	4.3%
Palms-Mar Vista	3.7%	30	$2,583	4.9%
Overall Metro	3.8%	30	$2,185	5.6%

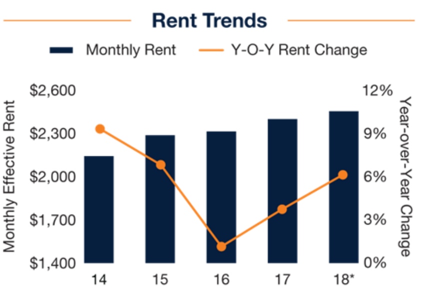
LOS ANGELES METRO AREA: GREATER DOWNTOWN LOS ANGELES

Investment Trends

- During the past two years, nearly 7,800 units were delivered in Downtown Los Angeles, yet vacancy compressed by 60 basis points. The region's ability to absorb an influx of luxury rentals has sustained developers' confidence and encouraged a steady flow of project starts, which will translate to the completion of 4,800 rentals during the next three quarters. Unlike in previous years, finalizations in core downtown will not drive overall delivery volume in 2018. Instead, heightened activity in Mid-Wilshire carries the load, with 2,650 apartments slated to come online, most of which are part of six- or seven-story buildings.
- Strong absorption amid robust construction attracts more investors to the region, influencing owners to list while buyer competition elevates. Overall, Class C assets with a high concentration of studios and one-bedrooms trade most frequently, providing investors with low-3 percent minimum returns. Hollywood and Koreatown are the most active submarkets for these trades, with the latter locale offering some sub-$200,000-per-unit opportunities.
- Institutional buyers from out-of-state primary markets and the Bay Area are active in the Class A arena, targeting 100-unit-plus properties built within the past five years. Typical pricing for these assets exceeds $500,000 per unit in core downtown.







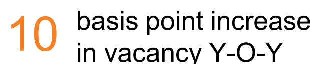
1Q18 – 12-Month Period

CONSTRUCTION

3,125 units completed Y-O-Y

- Development activity remains heightened, yet delivery volume declined over the past year following the finalization of 4,650 rentals during the previous period. The 695-unit Lexington in Hollywood represented the largest recent completion.
- Entering the second quarter, developers are underway on more than 14,400 units.

VACANCY



- Net absorption of 2,725 units nearly negated the impact of new supply, as the region's vacancy rate inched up to 4 percent.
- Vacancy is tightest in Mid-Wilshire, where two- and three-bedroom availability is limited. Amid the delivery of 1,800 units, Downtown Los Angeles' vacancy rate rose just 10 basis points to 4.1 percent.

RENTS

6.1% increase in effective rents Y-O-Y

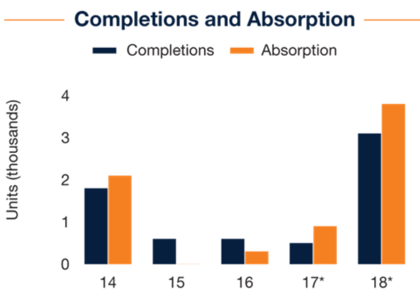
- The region's average rent rose to $2,453 per month over the past year, supported by 6-percent-plus gains in both Mid-Wilshire and Hollywood.
- In Downtown Los Angeles, strong Class A and B rent growth countered a 10.5 percent dip in Class C rates. Overall, the submarket's average rent sat at $2,478 per month in March.

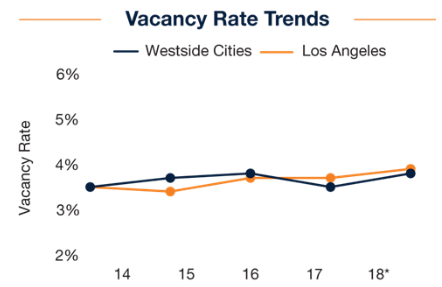
* Completions & Absorption Trailing 12 month; Vacancy and Rent 1Q

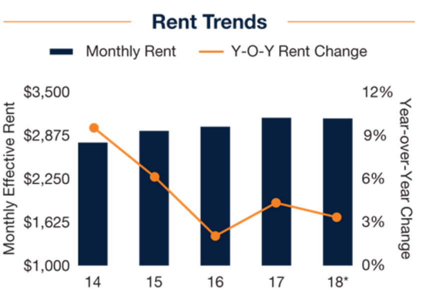
LOS ANGELES METRO AREA: WESTSIDE CITIES

Investment Trends

- Thousands of new tech employees are expected to flood Silicon Beach this year, as the region's heavy hitters occupy new headquarters and bolster payrolls. Most individuals who take up residence locally will look to lease apartments, as the median home price in the Westside exceeds $1.5 million. Anticipating an increased need for multifamily properties, developers will complete nearly 1,600 units in 2018, testing local demand for high-priced luxury apartments while also determining the level of concessions needed to fill the more than 2,000 rentals slated for finalization in the following two years.
- Transaction activity remained sparse over the past year, with an average of two deals closing per month, an indication most owners are holding in favor of steady NOI gains. A lack of listings has buyers willing to pay above asking prices for properties, with price tags regularly exceeding $500,000 per unit.
- Deal flow is steered by 1950s-to-1970s-built Class C assets, with activity evenly distributed among Santa Monica, West Hollywood and Beverly Hills-Century City-UCLA. These sub-30-unit properties trade at high-2 percent to high-3 percent cap rates and are typically acquired by in-county buyers. Opportunities to acquire Class B complexes remain limited, yet these assets can net investors mid-4 percent maximum yields.







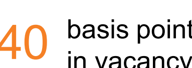
1Q18 – 12-Month Period

CONSTRUCTION

510 units completed Y-O-Y

- Completions slowed over the past year after 700 units were finalized during the previous period. Smaller projects in Brentwood-Westwood-Beverly Hills accounted for more than half of the recently delivered rentals.
- Two developments in Marina del Rey and a project near the confluence of interstates 405 and 10 account for nearly half of the 3,660 units currently under construction.

VACANCY



40 basis point increase in vacancy Y-O-Y

- Amid a dip in deliveries, vacancy rose in each of the region's three submarkets, with overall availability climbing to 3.8 percent. Compression of 30 basis points was recorded during the prior 12-month span.
- Entering the second quarter, Class A vacancy was sub-4 percent in both Palms-Mar Vista and Brentwood-Westwood-Beverly Hills.

RENTS

3.3% increase in effective rents Y-O-Y

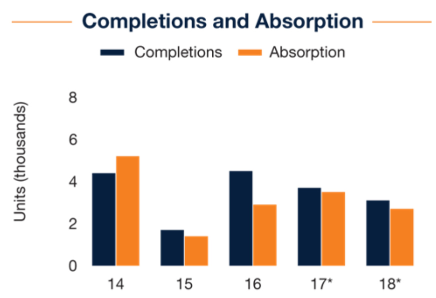
- The average effective rent reached $3,116 per month in March, driven by a double-digit spike in Class B rent. Recent rate growth was comparable to the 3 percent bump registered during the previous four quarters.
- Following a year-over-year increase of 2.5 percent, Santa Monica remains the most expensive submarket in the metro, with an average rent of $3,387 per month.

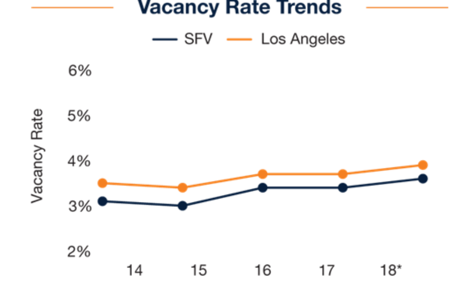
* Completions & Absorption Trailing 12 month; Vacancy and Rent 1Q

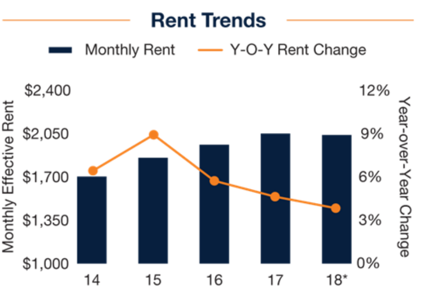
LOS ANGELES METRO AREA: SAN FERNANDO VALLEY/TRI-CITIES MARKET

Investment Trends

- Spanning the past five years, the region's vacancy rate has held below 4 percent amid steady demand from renters seeking a lower cost of living and proximity to employment centers. This period of limited availability has sparked an uptick in San Fernando Valley construction, yet 2018 deliveries total less than 400 units. Instead, completions are concentrated in the Tri-Cities this year, with most of the 3,600 rentals underway in the San Fernando Valley slated for completion in the following two years. Minimal deliveries in half the region combined with a median home price of $700,000 preserves demand for existing apartments, holding vacancy below 4 percent in 2018.
- Home to a mix of investment opportunities, the San Fernando Valley attracts a diverse pool of buyers. Those targeting Class C properties have been most active in Van Nuys and Studio City-North Hollywood, where sub-3 percent to high-4 percent cap rates are obtainable. Out-of-town buyers, namely those from New York, jump at the chance to acquire smaller Class A complexes built within the past 10 years. Price tags for these assets can dip below $400,000 per unit.
- Opportunities to purchase luxury units are scarce in the Tri-Cities, steering buyers to sub-50-unit, Class B listings that produce low-3 percent minimum returns.







1Q18 – 12-Month Period

CONSTRUCTION

1,220 units completed Y-O-Y

- The finalization of more than 900 units in Burbank-Glendale-Pasadena buoyed overall completion activity in the region during the past year. Spanning the previous 12-month window, developers delivered 1,330 rentals.
- Construction is underway on 6,440 units. Roughly 40 percent of the pipeline is concentrated in Woodland Hills and Van Nuys-Northeast San Fernando Valley.

VACANCY

20 basis point increase in vacancy Y-O-Y

- After bottoming out at 3 percent during the first half of 2016, the region's vacancy rate has climbed moderately, reaching 3.6 percent in March of this year.
- Woodland Hills was the only submarket to have a year-over-year rise in vacancy, as availability fell 50 basis points to 3.9 percent. Van Nuys-Northeast San Fernando Valley is the county's second-tightest submarket, at 2.8 percent.

RENTS

3.8% increase in effective rents Y-O-Y

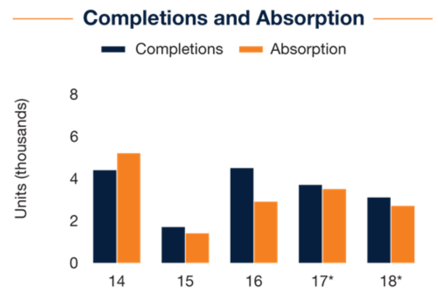
- Tight vacancy warranted a second year of 3 percent-plus rent growth. Entering the second quarter, the region's average effective rent sat at $2,037 per month.
- Above-average rent growth occurred in affordable submarkets. Van Nuys-Northeast San Fernando Valley recorded a 5.5 percent gain, while Northridge-Northwest San Fernando Valley tallied a 4.4 percent rise.

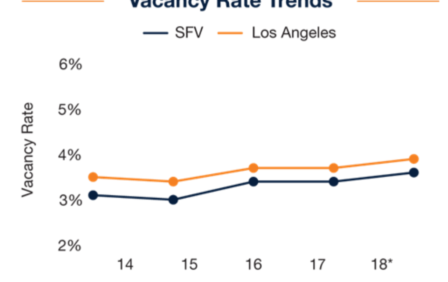
* Completions & Absorption Trailing 12 month; Vacancy and Rent 1Q

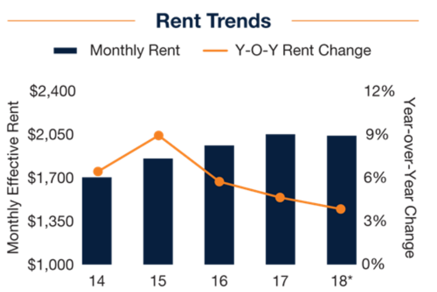
LOS ANGELES METRO AREA: SOUTH BAY/LONG BEACH

Investment Trends

- Renowned for its aerospace and port presence, the region is primed for upcoming economic growth, as companies within these sectors expand. Also, contributing to future job growth will be Ring, a smart video doorbell firm relocating to Hawthorne, along with companies that occupy space at the soon-to-be-completed Douglas Park. The 4.1-million-square-foot office park near the Long Beach Airport is slated to support 5,000 jobs. Progression of the local employment base underpins housing demand moving forward. Anticipating an increased need for new rentals, developers finalize more than 1,000 apartments in both Long Beach and the South Bay spanning the next 24 months. This influx of units may cause some temporary softness, yet demand should hold vacancy below 5 percent.
- Class C vacancy is extremely tight throughout the region, bolstering investor demand for older properties where in-unit and common-area renovations net significant upside. In Long Beach, these assets provide buyers with mid-2 to mid-4 percent yields. Slightly higher minimums are found in Torrance.
- Influenced by job growth projections, institutional investors remain active in the Class A and B arenas, nabbing higher-quality assets at high-3 to high-4 percent cap rates.







1Q18 – 12-Month Period

CONSTRUCTION

445 units completed Y-O-Y

- Delivery volume dipped notably over the past four quarters following the finalization of 1,550 units during the previous period. Recent completions were concentrated in the South Bay.
- Development rises in Long Beach, where 1,350 rentals are underway. In the South Bay, 1,410 units are being built, including 510 units slated for 2018 completion.

VACANCY

110 basis point increase in vacancy Y-O-Y

- After hovering at or below 4 percent for four straight years, the region's vacancy rate rose to 4.4 percent over the past 12 months, as net absorption turned negative.
- South Bay vacancy rose by 80 basis points to 4.3 percent, yet Class C availability tightened by 140 basis points to 1.4 percent. Long Beach's vacancy rate increased by triple-digit basis points, reaching 4.4 percent.

RENTS

7.2% increase in effective rents Y-O-Y

- The average rent increased by more than 7 percent for a fourth consecutive 12-month period, reaching $2,188 per month in March. Long Beach and South Bay recorded gains of 7.2 percent and 7.1 percent, respectively.
- A limited number of new units in the South Bay heightened the effective rent for an existing Class A apartment to $3,000 per month.

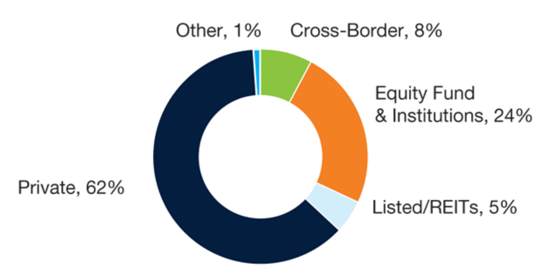
* Completions & Absorption Trailing 12 month; Vacancy and Rent 1Q

LOS ANGELES METRO AREA

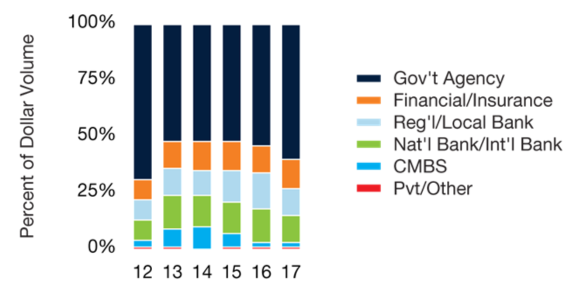
Capital Markets

- **Fed raises benchmark interest rate, plots path for additional increases.** The Federal Reserve increased the federal funds rate by 25 basis points, lifting the overnight lending rate to 1.5 percent. While the Fed noted that the inflation outlook had moderated in recent months, an upgraded economic forecast factoring in recent tax cuts and a rollback in regulation strengthened growth projections for the next two years. As a result, the Fed has guided toward two additional rate hikes this year, while setting the stage for as many as four increases in 2019.
- **Lending costs rise alongside Fed rate increase.** As the Federal Reserve lifts interest rates, lenders will face a rising cost of capital, which may lead to higher lending rates for investors. However, in an effort to compete for loan demand, lenders may also choose to absorb a portion of the cost increases. While higher borrowing costs may prompt buyers to seek higher cap rates, the positive economic outlook should provide rent growth that outpaces inflation over the coming year. As a result, sellers remain committed to higher asking prices, which has begun to widen an expectation gap as property performance and demand trends remain positive.
- **The capital markets environment continues to be highly competitive.** Government agencies continue to consume the largest share, just slightly over 50 percent, of the apartment lending market. National and regional banks control approximately a quarter of the market. Global markets and foreign central banks are keeping pressure down on long-term interest rates. Pricing resides in the 4 percent realm with maximum leverage of 75 percent. Portfolio lenders will typically require loan-to-value ratios closer to 70 percent with interest rates in the high-3 to mid-4 percent range. The passage of tax reform and rising fiscal stimulus will keep the U.S. economy growing strongly and rental demand will remain high with the national apartment vacancy rate at 5 percent at the end of 2017.

1Q18 Apartment Acquisitions By Buyer Type



Apartment Mortgage Originations By Lender



Include sales $2.5 million and greater

Sources: CoStar Group, Inc.; Real Capital Analytics

2018 PRICING & VALUATION TRENDS

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

Elevated Yield
Outperforming
Stalwart
Elevated Appreciation

Cleveland
Detroit
Pittsburgh
Cincinnati
Kansas City
Columbus
St. Louis
Indianapolis
Louisville
Baltimore
Tampa-St. Petersburg
Milwaukee
Houston
Dallas/Fort Worth
Philadelphia
San Antonio
Atlanta
Chicago
Charlotte
New Haven-Fairfield County
Salt Lake City
Phoenix
Las Vegas
Minneapolis-St. Paul
Orlando
Fort Lauderdale
Nashville
Miami-Dade
Denver
West Palm Beach
Sacramento
Raleigh
Portland
Northern New Jersey
Austin
Riverside-San Bernardino
Boston
United States
Washington, D.C.
Oakland
Seattle-Tacoma
New York City
San Diego
Los Angeles
Orange County
San Jose
San Francisco

2017 Average Cap Rate: 9%, 8%, 7%, 6%, 5%, 4%, 3%

10-Year Annualized Appreciation*: -10%, -5%, 0%, 5%, 10%, 15%, 20%, 25%

* 2007-2017 Average annualized appreciations in price per unit

Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; Real Capital Analytics

AVERAGE PRICE PER UNIT RANGE**
(Alphabetical order within each segment)

$50,000 - $75,999	$76,000 - $99,999	$100,000 - $149,999	$150,000 - $199,999	$200,000 - $299,999	$300,000 - $450,000
• Cincinnati	• Atlanta	• Austin	• Chicago	• Los Angeles	• Boston
• Cleveland	• Charlotte	• Baltimore	• Denver	• Oakland	• New York City
• Columbus	• Dallas/Fort Worth	• Houston	• Fort Lauderdale	• Orange County	• San Francisco
• Detroit	• Milwaukee	• Minneapolis-St. Paul	• Miami-Dade	• San Diego	• San Jose
• Indianapolis	• Las Vegas	• Nashville	• New Haven-Fairfield County	• Seattle-Tacoma	
• Kansas City	• Louisville	• Orlando	• Northern New Jersey		
• Memphis	• San Antonio	• Philadelphia	• Portland		
• Pittsburgh	• St. Louis	• Phoenix	• Washington, D.C.		
		• Raleigh	• West Palm Beach		
		• Riverside-San Bernardino			
		• Sacramento			
		• Salt Lake City			
		• Tampa-St. Petersburg			

** Price per unit for apartment properties $1 million and greater
Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; Real Capital Analytics

2018 NATIONAL MULTIFAMILY INDEX

U.S. Multifamily Index

Coastal Markets Top National Multifamily Index; Several Unique Markets Climb Ranks

Trading places. Seattle-Tacoma leads this year's Index after moving up one notch, driven by robust employment in the tech sector and soaring home prices that keep rental demand ahead of elevated deliveries. The metro outperforms last year's leader, Los Angeles (#2), which slid one spot. Midwest metro Minneapolis-St. Paul (#3) rose one notch as its diverse economy generates steady job growth and robust rental demand, maintaining one of the lowest vacancy rates among larger U.S. markets. San Diego (#4) jumped five spots as deliveries slump while household formation proliferates, resulting in sizable rent growth. Portland (#5) inches up a slot to round out the top five markets. East Coast markets fill the next two positions: Boston (#6) moves down three slots as rent growth slows while vacancy ticks up, and New York City (#7) rises three places as stout renter demand holds vacancy tight.

Index reshuffles with big moves. Sacramento (#8) posted the largest increase in the Index, vaulting 12 positions to lead a string of California markets that fill the next five slots. Robust rent growth and low vacancy pushed the market up in the ranking. Other double-digit movers were Orlando (#17) and Detroit (#28), which each leaped 10 places. Employment gains and in-migration are generating the need for apartments in Orlando, maintaining ample rent advancement. In Detroit, steady employment and a slow construction pipeline keep demand above supply, allowing rents to flourish. The most significant declines were registered in Austin, Nashville and Baltimore. Austin (#31) tumbled nine spaces as elevated deliveries overwhelm demand slowing rent growth. Nashville (#35) and Baltimore (#45) each moved down six steps as demand has yet to absorb multiple years of elevated inventory gains. Although Kansas City (#46) retains the bottom slot, there is greater change in the lower half of the NMI as more Midwest markets rise.

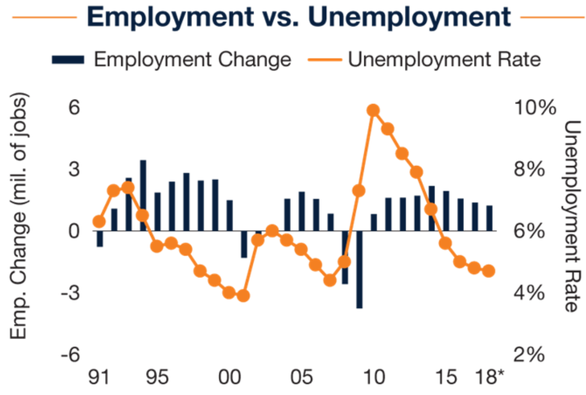
Market Name	Rank 2018	Rank 2017	17-18 Change
Seattle-Tacoma	1	2	1
Los Angeles	2	1	-1
Minneapolis-St. Paul	3	4	1
San Diego	4	9	5
Portland	5	6	1
Boston	6	3	-3
New York City	7	10	3
Sacramento	8	20	12
Riverside-San Bernardino	9	11	2
Oakland	10	5	-5
San Francisco	11	7	-4
San Jose	12	8	-4
Phoenix	13	12	-1
Denver	14	13	-1
Atlanta	15	14	-1
Northern New Jersey	16	18	2
Orlando	17	27	10
Raleigh	18	16	-2
Orange County	19	17	-2
Miami-Dade	20	15	-5
Tampa-St. Petersburg	21	19	-2
Fort Lauderdale	22	23	1
Philadelphia	23	30	7
Salt Lake City	24	25	1
Chicago	25	21	-4
Columbus	26	35	9
Charlotte	27	24	-3
Detroit	28	38	10
Houston	29	31	2
Dallas/Fort Worth	30	26	-4
Austin	31	22	-9
Washington, D.C.	32	32	0
Las Vegas	33	28	-5
Cincinnati	34	34	0
Nashville	35	29	-6
Indianapolis	36	42	6
San Antonio	37	36	-1
Milwaukee	38	33	-5
Cleveland	39	40	1
St. Louis	40	44	4
West Palm Beach	41	37	-4
Pittsburgh	42	43	1
Louisville	43	45	2
New Haven-Fairfield County	44	41	-3
Baltimore	45	39	-6
Kansas City	46	46	0

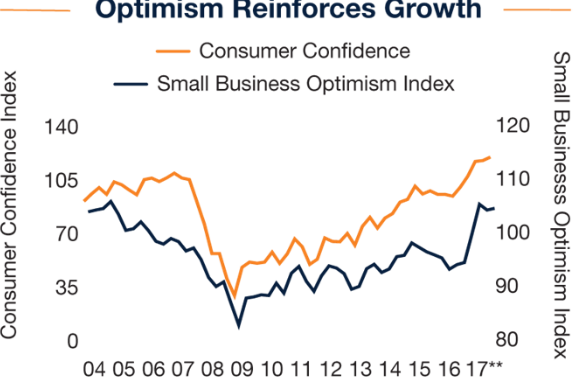
U.S. ECONOMY

Growth Cycle Invigorated by Confidence; Tax Laws Could Transform Housing

Tight labor market restrains hiring as confidence surges. The steady economic tailwind benefiting apartment performance is poised to carry through 2018 as a range of positive factors align to support growth. Consumer confidence recently reached its highest point since 2000 while small-business sentiment attained a 31-year record level, both reinforcing indications that consumption and hiring will be strong. The total number of job openings has hovered in the low-6 million range through much of 2017, illustrating that companies have considerable staffing needs, but with unemployment entrenched near 4 percent, companies will continue to face challenges in filling available positions. These tight labor conditions should place additional upward pressure on wages, potentially boosting inflationary pressure in the coming year. The strong employment market, rising wages and elevated confidence levels could unlock accelerated household formation, particularly by young adults. Last year, the number of young adults living with their parents ticked lower for the first time since the recession, signaling that these late bloomers may finally be considering a more independent lifestyle.

Housing preferences may change under new tax laws. The new tax laws could play a significant role in shaping both the economy and housing demand in 2018. Reduced taxes will be a windfall for corporations, potentially sparking invigorated investment into infrastructure. The rise in CEO confidence over the last year already boosted companies' investment by more than 6 percent, accelerating economic growth. However, the tax incentive-based stimulus will likely offer only a modest bump to GDP in 2018 because corporate investment comprises just 12 percent of economic output. One factor that could weigh on economic expansion under the new tax laws is the housing sector, which added just 3 percent to the economy last year, about two-thirds of normal levels. The increased standard deduction and restrictions on housing-related deductions will reduce some of the economic incentive to purchase a home, further sapping the strength of the housing sector. Nonetheless, the increased standard deduction could benefit apartment investors, encouraging renters to stay in apartments longer and reducing the loss of tenants to homeownership.



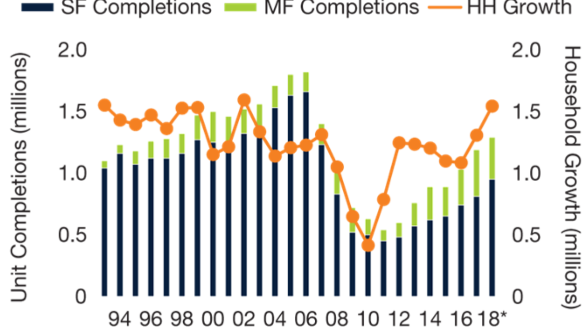


* Forecast
** Through 3Q

U.S. ECONOMY

2018 National Economic Outlook

- **Labor force shortage weighs on job creation.** The economy has added jobs every month for more than seven years, the longest continuous period of job creation on record. The trend will continue in 2018, but the pace of job additions will moderate, falling below 2 million for the year as the low unemployment rate restricts the pool of prospective employees.
- **Wage growth poised to accelerate.** Average wage growth has been creeping higher in the post-recession era, with compensation gains in construction, professional services and the hospitality sectors outpacing the broader trend. The tight labor market will continue to pressure wage growth, potentially sparking inflation in the process.
- **Tax laws could invigorate apartment demand.** Since 2011 household formations have outpaced total housing construction, a key ingredient in the tightening of apartment vacancies. The new tax laws could cause homebuilders to reduce construction while shifting a portion of the housing demand from homeownership to rentals, and a rental housing shortage could ensue. If this behavior change occurs in conjunction with additional young adults moving out of their own, apartment demand could dramatically outpace completions.



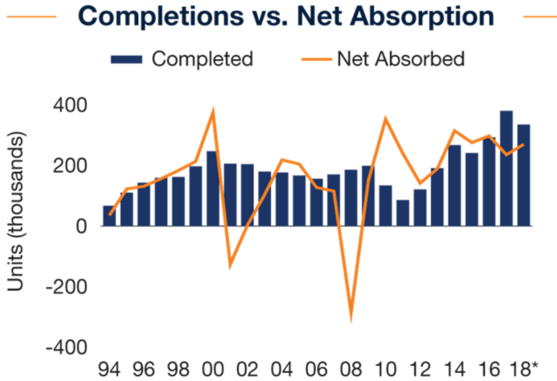
* Forecast
** Through 3Q

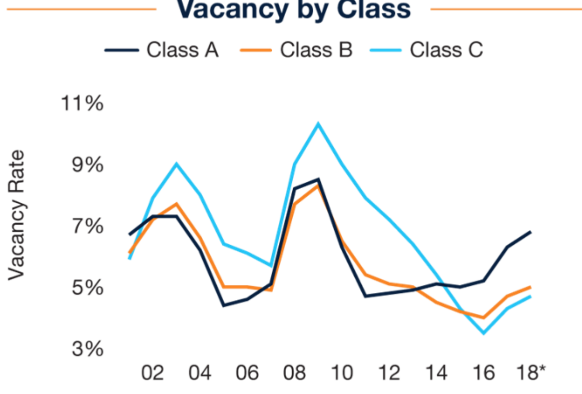
U.S. APARTMENT OVERVIEW

Demand Outlook Sturdy as Pace Of Construction Begins to Retreat

Investors wary of apartment construction. The wave of apartment completions entering the market in recent years has permeated the investor psyche, raising concerns of overdevelopment and escalating vacancy rates, but numerous demand drivers have held this risk in check. Steady job creation, positive demographics, above-trend household formation and elevated single-family home prices have converged to counterbalance the addition of 1.37 million apartments over the last five years, at least on a macro level. Though a small number of markets have faced oversupply risk, the affected areas tend to be concentrated pockets, with upper-echelon units facing the greatest competition. For traditional workforce housing, Class B and C apartments, the risks stemming from overdevelopment have been nominal, and in most metros, even the Class A tranche has demonstrated sturdy performance. In the coming year, rising development costs, tighter construction financing and mounting caution levels will curb the pace of additions from the 380,000 units delivered in 2017 to approximately 335,000 apartments. However, the list of markets facing risk from new completions will stretch beyond the dozen metros that builders have concentrated on thus far. This will heighten competition, requiring investors to maintain an increasingly tactical perspective integrating vigilant market scrutiny and strong property management.

Competitive nuances increasingly granular. Although the pace of apartment completions will moderate in 2018, additions will still likely outpace absorption. This imbalance will most substantively affect areas where development has been focused, such as the urban core where vacancy rates have risen above suburban rates for the first time on record. Nationally, Class A vacancy rates have advanced to 6.3 percent in 2017 and will continue their climb to the 6.8 percent range over the next year. Vacancy rates for Class B and C assets will rise less significantly in 2018, pushing to 5.0 percent and 4.7 percent, respectively. Although vacancy levels are rising, three-fourths of the major metros have rates below their 15-year average. Still, the magnitude of new completions coming to market and the high asking rents these new units command will spark increased competition for tenants, generating a more liberal use of concessions in 2018 as landlords attempt to entice move-up tenants.



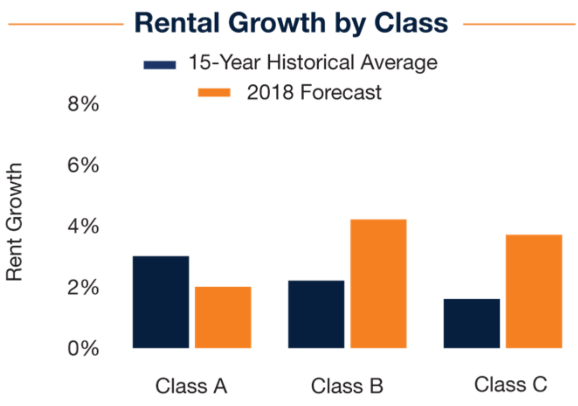


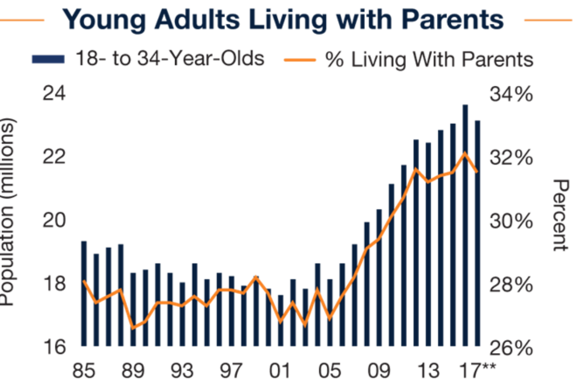
* Forecast

U.S. APARTMENT OVERVIEW

2018 National Apartment Outlook

- **Rent growth tapers as concession use edges higher.** Average rent growth will taper to 3.1 percent in 2018 as concessions become more prevalent, particularly in Class A properties. Rent gains in the Class C space, which were particularly strong last year, will face greater challenges as affordability restrains demand. Although job growth has been steady for seven years, wage growth has been relatively weak, particularly for low-skilled labor.
- **Congress may nudge apartment demand.** The new tax laws could reinforce apartment living as the larger standard deduction reduces the economic incentive of homeownership. Previous tax rules encouraged homeownership with itemized deductions for property taxes and mortgage interest that often surpassed the standard deduction. These advantages have largely been eliminated, particularly for first-time buyers.
- **Are millennials finally moving out on their own?** The 80 million-strong millennial age cohort, now pushing into their late 20s, may finally be showing independence. Since the recession, the percentage of young adults living with their parents increased dramatically, but last year that trend reversed. Should the share of young adults living with family recede toward the long-term average, an additional 3 million young adults would need housing.





** Estimate

U.S. CAPITAL MARKETS

Fed Normalization Portends Rising Interest Rates; Capital Availability for Apartments Elevated

Fed cautiously pursues tighter policies. Investors have largely adapted to the modestly higher interest rate environment, and most anticipate additional increases in 2018 as the Federal Reserve normalizes both its policies and its balance sheet. The Fed is widely expected to continue raising its overnight rate through 2018 as it tries to restrain potential inflation risk and create some dry powder to combat future recessions. The Fed will, however, be cautious about pushing short-term rates into the long-term rates, which would create an inverted yield curve. The spread between the two-year Treasury rate and the 10-year Treasury rate has tightened significantly, and if the Fed is too aggressive in its policies, the short-term interest rates could climb above long-term rates. This inversion is a commonly watched leading indicator of an impending recession. The new chairman of the Fed, Jerome Powell, will likely make few changes to the trajectory of Fed policies, and he is widely expected to continue the reduction of the Fed balance sheet. Powell may consider accelerating the balance sheet reduction to ensure long-term rates move higher. That said, Powell is widely perceived to be a dovish leader who will advance rates cautiously.

Readily available debt backed by sound underwriting. Debt availability for apartment assets remains abundant, with a wide range of lenders catering to the sector. Apartment construction financing has experienced some tightening, a generally favorable trend for most investors. Fannie Mae and Freddie Mac will continue to serve a significant portion of the multifamily financing, with local and regional banks targeting smaller transactions and insurance companies handling larger deals with low-leverage needs. In general, lenders have been loosening credit standards on commercial real estate lending, but underwriting standards remain conservative with loan-to-value ratios for apartments in the relatively conservative 66 percent range. An important consideration going forward, however, will be investors' appetite for acquisitions as the yield spread between interest rates and cap rates tightens.

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

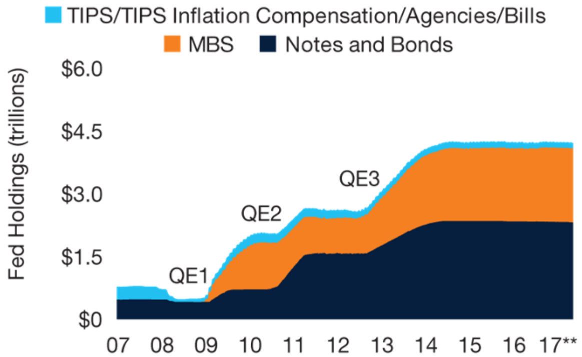
10-Year Treasury — 2-Year Treasury

Rate: 8%, 6%, 4%, 2%, 0%

200 bps, 280 bps, 260 bps, 60 bps

04 05 06 07 08 09 10 11 12 13 14 15 16 17*

Fed to Begin Balance Sheet Normalization



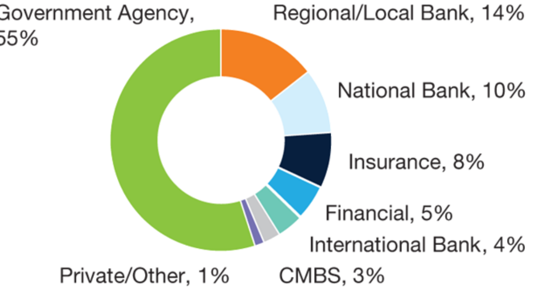
* Through December 12
** Through December 6

U.S. CAPITAL MARKETS

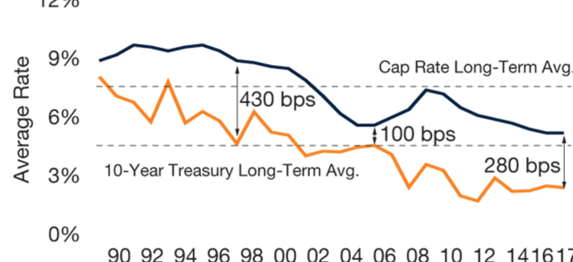
2018 Capital Markets Outlook

- **Yield spread tightens amid rising interest rates.** Average apartment cap rates have remained relatively stable in the low-5 percent range for the last 18 months, with a yield spread above the 10-year Treasury of about 280 basis points. Many investors believe cap rates will rise in tandem with interest rates, but this has not been the case historically. Given the strong performance of the apartment sector, it's more likely the yield spread will compress, reducing the positive leverage investors have enjoyed in the post-recession era.
- **Inflation restrained but could emerge.** Inflation has been nominal throughout the current growth cycle, but pressure could mount as the tight labor market spurs rising wages. Elevated wages and accelerating household wealth could boost consumption, creating additional economic growth and inflation. The Fed has become increasingly proactive in its efforts to head off inflationary pressure, but the stimulative effects of tax cuts could overpower the Fed's efforts.
- **Policies likely to strengthen dollar and could pose new risks.** One wild card that could create an economic disruption is the strengthening dollar. The economic stimulus created by tax cuts together with tightening Fed monetary policy place upward pressure on the value of the dollar relative to foreign currencies. This could restrain foreign investment in U.S. commercial real estate, but it could also weaken exports and make it more difficult for other countries to pay their dollar-denominated debt, which in turn weakens global economic growth.

2017❖ Apartment Lender Composition By Percent of Total Dollar Volume



U.S. Apartment Cap Rate Trends



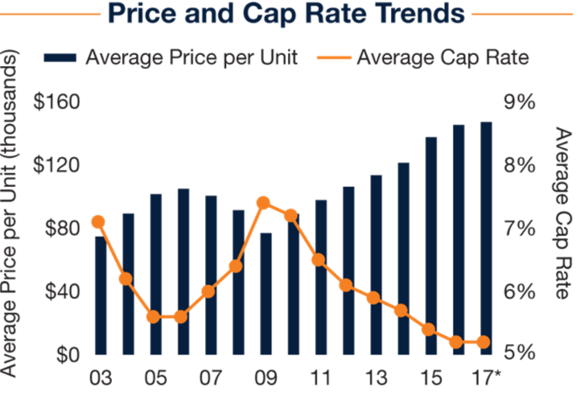
* Through December 12
❖ Estimate

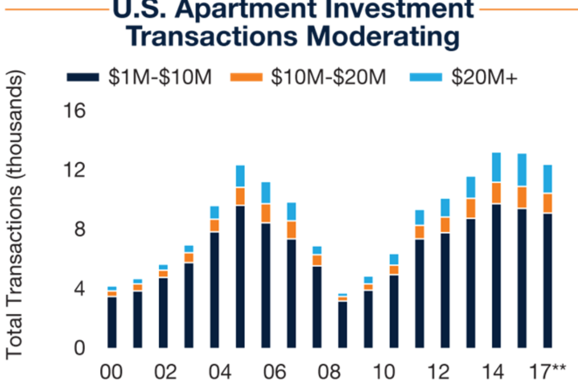
U.S. INVESTMENT OUTLOOK

Apartment Investors Recalibrate Strategies; Broaden Criteria to Capture Upside Opportunities

Appreciation flattens as buyers recalibrate expectations. The maturing apartment investment climate has continued its migration from aggressive growth to a more stable but still positive trend. Investors have reaped strong returns in the post-recession era through significant gains in fundamentals and pricing, but the growth trajectory has flattened as the market has normalized. The pace of apartment rental income growth has moved back toward its mid-3 percent long-term average and investor caution has flattened cap rates, moderating appreciation. With much of the gains created by the post-recession recovery absorbed and most of the value-add opportunity already extracted, it has been increasingly difficult for investors to find opportunities with substantive upside potential. At the same time, apartment construction has finally brought macro-level housing supply and demand back toward equilibrium, restraining upside potential in markets with sizable deliveries. These challenges have been compounded by a widened bid/ask gap, with many would-be apartment sellers retaining a highly optimistic perception of their asset's value. It will take time for investor expectations to realign, but buyers and sellers are discovering a flattening appreciation trajectory. Still, a range of opportunities remain.

Investors broaden criteria as they search for yield upside. Investors are recalibrating strategies, broadening their search and sharpening their efforts to find investment options with upside potential. They have expanded criteria to include a variety of Class B and Class C assets, outer-ring suburban locations, and properties in secondary or tertiary markets. The yield premium offered by these types of assets has drawn an increasing amount of multifamily capital. In the last year, nearly half of the dollar volume invested in apartment properties over $1 million went to secondary and tertiary markets, up from 42 percent of the capital in 2010. This influx of activity has caused cap rates in tertiary markets to fall from the high-8 percent range in 2010 to their current average near 6 percent. During the same period, national cap rates of Class B/C apartment properties have fallen by 200 basis points to the mid-5 percent range. Considering the low cost of capital, these yields have remained attractive to investors with longer-term hold plans.



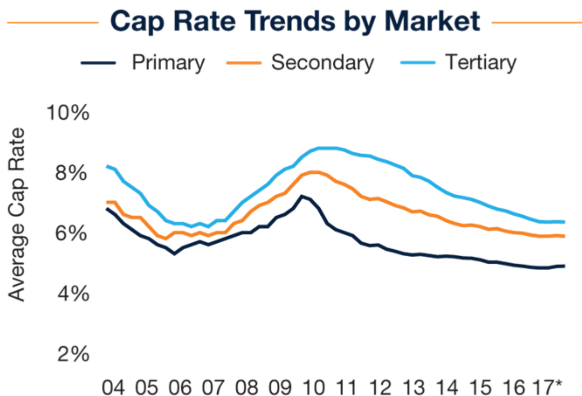


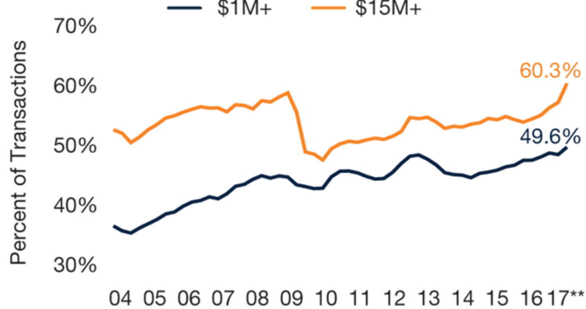
* Through 3Q
** Trailing 12 months through 3Q

U.S. INVESTMENT OUTLOOK

2018 Investment Outlook

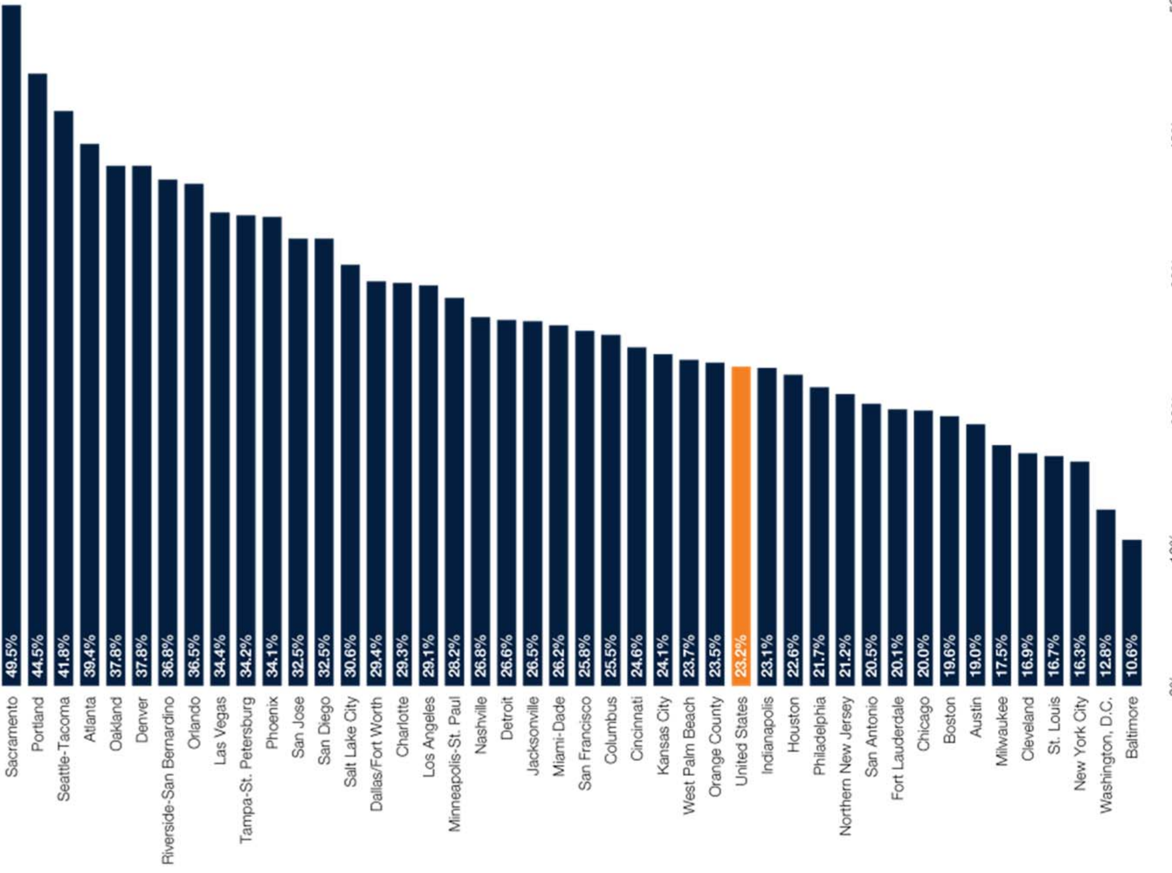
- **New tax laws could shift investor behavior.** Additional clarity on taxes should alleviate some of the uncertainty that held back investor activity over the last year while helping to mitigate the expectation gap between buyers and sellers. Reduced tax rates on pass-through entities could spark some repositioning efforts, bringing additional assets to market and supporting market liquidity.
- **Tighter monetary policy could narrow yield spreads.** Prospects of a rising interest rate environment could weigh on buyer activity as the yield spread tightens. Cap rates have held relatively stable over the last two years, and the sturdy outlook for apartment fundamentals is unlikely to change substantively in the coming year. As a result, investors' pursuit of yield will likely push activity toward assets and markets that have traditionally offered higher cap rates.
- **Transaction activity retreats from peak levels.** Apartment sales continued to migrate toward more normal levels last year as investors' search for upside and value-add opportunities delivered fewer candidates. Markets with a limited construction pipeline but with respectable employment and household formation growth will see accelerated activity, while markets facing an influx of development could see moderating investor interest.





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

REVENUE TRENDS



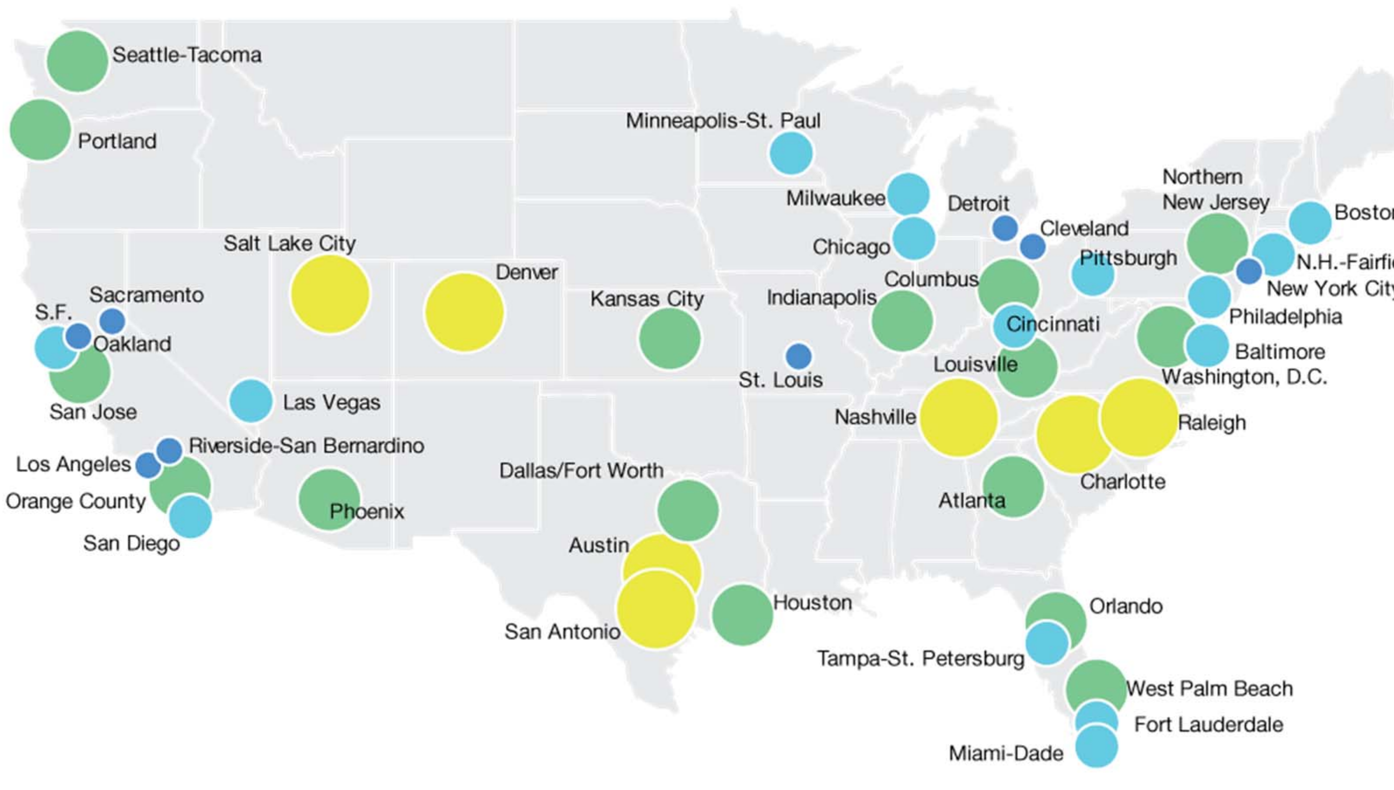
FIVE-YEAR TREND: Outperforming Through Development Cycle 2013-2018*

- U.S. creates 11.8 million jobs over five years
- Developers add 1.5 million new apartments
- Absorption totals 1.4 million apartments
- U.S. vacancy rate to match 2013 at 5.0 percent
- U.S. average rent rises 23.2 percent

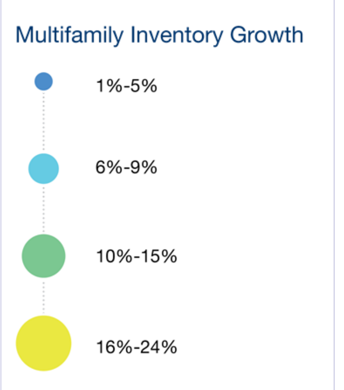
* Forecast

2018 NATIONAL INVENTORY TREND

Five-Year Development Wave Transforms Rental Landscape
Inventory Growth 2013-2018



Inventory Change by Market 2013 to 2018



Sources: Marcus & Millichap Research Services; MPF Research

2018 NATIONAL INVENTORY TREND

Top 10 Markets by Inventory Change

Largest Growth	Five-Year Inventory Change	Five-Year Rent Growth
Austin	23.6%	22%
Charlotte	22.9%	30%
Nashville	21.7%	31%
Salt Lake City	20.9%	31%
Raleigh	19.5%	27%
San Antonio	18.7%	20%
Denver	17.9%	41%
Seattle-Tacoma	15.9%	41%
Orlando	15.3%	35%
Dallas/Fort Worth	15.3%	30%
U.S.	**9.8%**	**23%**

Smallest Growth	Five-Year Inventory Change	Five-Year Rent Growth
Cincinnati	6.6%	24%
Chicago	6.2%	21%
Oakland	5.8%	40%
Riverside-San Bernardino	5.6%	36%
St. Louis	5.5%	14%
Los Angeles	5.4%	31%
New York City	4.6%	15%
Cleveland	4.6%	15%
Sacramento	3.8%	48%
Detroit	2.9%	25%

Sources: Marcus & Millichap Research Services; MPF Research

Created on August 2018

POPULATION	1 Miles	3 Miles	5 Miles
▪ 2022 Projection			
Total Population	37,376	293,405	611,149
▪ 2017 Estimate			
Total Population	36,812	290,367	607,145
▪ 2010 Census			
Total Population	34,703	274,824	576,658
▪ 2000 Census			
Total Population	33,934	270,714	564,074
▪ Daytime Population			
2017 Estimate	32,561	271,212	642,590
HOUSEHOLDS	**1 Miles**	**3 Miles**	**5 Miles**
▪ 2022 Projection			
Total Households	17,810	122,786	235,138
▪ 2017 Estimate			
Total Households	17,433	119,810	230,316
Average (Mean) Household Size	2.11	2.40	2.60
▪ 2010 Census			
Total Households	16,238	112,070	216,676
▪ 2000 Census			
Total Households	16,094	109,524	212,916
Growth 2015-2020	2.16%	2.48%	2.09%
HOUSING UNITS	**1 Miles**	**3 Miles**	**5 Miles**
▪ Occupied Units			
2022 Projection	17,810	122,786	235,138
2017 Estimate	17,977	122,904	236,780
Owner Occupied	5,620	38,383	89,609
Renter Occupied	11,813	81,427	140,706
Vacant	543	3,094	6,464
▪ Persons In Units			
2017 Estimate Total Occupied Units	17,433	119,810	230,316
1 Person Units	38.94%	33.91%	30.55%
2 Person Units	33.30%	30.57%	29.13%
3 Person Units	13.76%	14.59%	15.15%
4 Person Units	9.09%	11.39%	12.61%
5 Person Units	3.12%	5.29%	6.45%
6+ Person Units	1.80%	4.26%	6.10%

HOUSEHOLDS BY INCOME	1 Miles	3 Miles	5 Miles
▪ 2017 Estimate			
$200,000 or More	8.65%	8.13%	9.39%
$150,000 - $199,000	6.65%	5.71%	5.89%
$100,000 - $149,000	13.02%	12.94%	13.44%
$75,000 - $99,999	12.38%	11.91%	11.73%
$50,000 - $74,999	19.32%	17.49%	16.85%
$35,000 - $49,999	12.29%	12.80%	12.52%
$25,000 - $34,999	7.77%	9.38%	9.29%
$15,000 - $24,999	9.41%	10.32%	10.00%
Under $15,000	10.53%	11.31%	10.89%
Average Household Income	$96,432	$92,775	$98,722
Median Household Income	$61,898	$57,851	$60,084
Per Capita Income	$45,824	$38,408	$37,594
POPULATION PROFILE	**1 Miles**	**3 Miles**	**5 Miles**
▪ Population By Age			
2017 Estimate Total Population	36,812	290,367	607,145
Under 20	18.15%	20.73%	22.02%
20 to 34 Years	24.35%	25.63%	24.38%
35 to 39 Years	8.35%	8.28%	7.86%
40 to 49 Years	15.00%	15.11%	14.97%
50 to 64 Years	20.13%	18.44%	18.56%
Age 65+	14.03%	11.80%	12.20%
Median Age	39.48	37.13	37.24
▪ Population 25+ by Education Level			
2017 Estimate Population Age 25+	28,105	211,236	433,089
Elementary (0-8)	2.40%	7.36%	8.68%
Some High School (9-11)	4.00%	6.45%	7.38%
High School Graduate (12)	15.34%	17.42%	18.44%
Some College (13-15)	24.35%	20.93%	20.22%
Associate Degree Only	6.86%	6.74%	6.71%
Bachelors Degree Only	32.75%	27.67%	24.81%
Graduate Degree	13.71%	11.72%	11.53%
▪ Population by Gender			
2017 Estimate Total Population	36,812	290,367	607,145
Male Population	48.80%	49.63%	49.89%
Female Population	51.20%	50.37%	50.11%

Source: © 2017 Experian

Population

In 2017, the population in your selected geography is 36,812. The population has changed by 8.48% since 2000. It is estimated that the population in your area will be 37,376.00 five years from now, which represents a change of 1.53% from the current year. The current population is 48.80% male and 51.20% female. The median age of the population in your area is 39.48, compare this to the US average which is 37.83. The population density in your area is 11,715.47 people per square mile.

Race and Ethnicity

The current year racial makeup of your selected area is as follows: 75.51% White, 5.19% Black, 0.07% Native American and 6.18% Asian/Pacific Islander. Compare these to US averages which are: 70.42% White, 12.85% Black, 0.19% Native American and 5.53% Asian/Pacific Islander. People of Hispanic origin are counted independently of race.

People of Hispanic origin make up 19.59% of the current year population in your selected area. Compare this to the US average of 17.88%.

Households

There are currently 17,433 households in your selected geography. The number of households has changed by 8.32% since 2000. It is estimated that the number of households in your area will be 17,810 five years from now, which represents a change of 2.16% from the current year. The average household size in your area is 2.11 persons.

Housing

The median housing value in your area was $623,850 in 2017, compare this to the US average of $193,953. In 2000, there were 5,407 owner occupied housing units in your area and there were 10,687 renter occupied housing units in your area. The median rent at the time was $685.

Income

In 2017, the median household income for your selected geography is $61,898, compare this to the US average which is currently $56,286. The median household income for your area has changed by 46.96% since 2000. It is estimated that the median household income in your area will be $72,195 five years from now, which represents a change of 16.64% from the current year.

The current year per capita income in your area is $45,824, compare this to the US average, which is $30,982. The current year average household income in your area is $96,432, compare this to the US average which is $81,217.

Employment

In 2017, there are 9,609 employees in your selected area, this is also known as the daytime population. The 2000 Census revealed that 77.53% of employees are employed in white-collar occupations in this geography, and 22.89% are employed in blue-collar occupations. In 2017, unemployment in this area is 6.89%. In 2000, the average time traveled to work was 35.00 minutes.

Source: © 2017 Experian

12360-12364 MAGNOLIA BOULEVARD

SHADOW
ARLETA
CRESCENTA HIGHLANDS
NORTHRIDGE
NORTH HILLS
PANORAMA CITY
SUN VALLEY
NNETKA
RESEDA
LAKE BALBOA
VAN NUYS
VALLEY GLEN
NORTH HOLLYWOOD
Burbank
TARZANA
ENCINO
SHERMAN OAKS
TOLUCA LAKE
Glendale
STUDIO CITY
Universal City
Adams Square
HOLLYWOOD HILLS
ATWATER VILLAGE
BEVERLY GLEN
LOS FELIZ
BEL AIR
LITTLE ARMENIA
West Hollywood
HOLLYWOOD
SILVER LAKE
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