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Caring for Your Coast

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March 12, 2019

TO: Each Supervisor

FROM: Gary Jones, Director AC for

SUBJECT: **REPORT BACK REGARDING MARINA DEL REY LEASEHOLDS AND A PERMANENT RENT STABILIZATION ORDINANCE**

Recommendation:

Provided the permanent rent stabilization ordinance (RSO) is materially similar to the interim RSO adopted by your Board on November 20, 2018, the Department of Beaches and Harbors (DBH) does not believe that Marina del Rey (MdR) residential leaseholds on County-owned property need to be exempted from the RSO. However, it does appear that an appeal process specifically tailored to MdR leasehold properties may be required, which will be more specifically addressed by the Department of Consumer and Business Affairs (DCBA) in the coming months.

Background:

On September 11, 2018, your Board instructed the Community Development Commission (CDC) and the DCBA, in consultation with the Chief Executive Office (CEO) and County Counsel, to prepare an interim RSO to temporarily limit rent level increases and prohibit evictions without just cause. At the same time, DBH was also instructed, in consultation with County Counsel, to return to the Board with recommendations regarding how rental units located on County-owned MdR property should be addressed in a permanent RSO, should such an ordinance be adopted at a future date.

At the outset, it should be noted that the interim RSO states that any dwelling unit with a certificate of occupancy or equivalent permit for residential occupancy issued after February 1, 1995 shall be exempt from the interim RSO provisions. DBH has determined that 4,635 rental units located on 11 County-owned leasehold properties in MdR were built prior to 1995 and are, therefore, subject to the interim RSO. (See Attachment I.)

In furtherance of the Board's directive specific to DBH, DBH has collaborated with County Counsel and DCBA, as well as with the MdR Lessees (Lessees), to explore the following issues related to rental units located on County-owned leasehold property in MdR:

- Whether any permanent RSO should provide any exceptions or special treatment for MdR rental units (or similarly-situated rental units);
- The appropriate hearing or appeal process to address any challenges from Lessees regarding application of the RSO to MdR ground leases;
- Appropriate methods to address any unjust economic impact to an individual Lessee, as determined by the DCBA's review process;
- Necessary components of DCBA's hearing process, including:
    - A fair and reasonable return process for Lessees, which considers the RSO's effect on MdR properties; and,
    - A process to contest rent increases that may violate the RSO.

In this process, DBH has met and communicated with the MdR Lessees Association (Association) on multiple occasions to address the Lessees' concerns relative to the interim RSO. Furthermore, DBH coordinated with DCBA to provide a presentation on January 9, 2019 to the Association's membership at its monthly luncheon meeting. The Association representatives voiced their concerns about the impacts of the interim RSO on the Lessees' expected revenue, as well as the practical impacts of compliance with the RSO and the County's legal authority to impose the RSO on its own ground lessees. Subsequently, DCBA provided written responses to the Association's concerns. (See Attachment II.)

Thereafter, DBH and the County team have continued the dialogue with the Association, including a meeting between County Counsel and the Association's counsel on January 28, 2019 and, at the Association's request, a February 11, 2019 "all hands" meeting with the Third and Fourth Supervisorial Districts, DCBA, CDC, County Counsel, DBH and the Association to further discuss the Lessees' concerns. At the February 11 meeting, the Association presented a report that included its economic consultant's analysis of the impact of the interim RSO and a potential permanent RSO on the Lessees. This analysis identified three areas of the RSO's alleged negative impact: (a) a reduction in project cash flow; (b) hampered ability to recover additional investment; and (c) decreased market value of the Lessees' leasehold interests. Accordingly, the Lessees requested mitigation measures to address these anticipated impacts, including: (a) a rent credit to reimburse Lessees for the reduction in their revenues; (b) elimination of capital improvement funds Lessees are currently required to fund by their MdR leases; and (c) elimination of the participation fees owed to the County by the Lessees in connection with any refinancing or other transfers of their leases.

DBH subsequently utilized one of its economic consultants to analyze the Association's analysis, which found that the Lessees are likely to be able to earn a reasonable return on their investment under their existing lease terms, even with a 3% cap on rent increases, and, accordingly, the mitigations proposed by the Association are not justified. DBH's consultant indicated that in most Lessee submissions reviewed for lease extensions, redevelopment, new developments, financing, and acquisitions, the Lessees have projected rents to increase at an annual rate of 3%. (See illuminas Consulting Report, Attachment III.)

Additionally, DBH notes an already-existing mechanism within each MdR lease agreement, which occurs at, typically, 10-year intervals, that provides for the review and adjustment of rent and insurance levels as per market conditions. To the extent there might be an adjudicated unjust impact on the return for any individual Lessee (as determined by the DCBA hearing officer), the County can remedy the issue via a rental adjustment made through a lease amendment as occurs when rent and insurance levels are otherwise adjusted pursuant to existing lease terms.

If a permanent RSO is presented to the Board that materially differs from the interim RSO, DBH will report back to your Board if its position about the application of the permanent RSO to Lessees should be addressed differently. Barring that, DBH does not believe MdR leasehold properties need to be exempted from a permanent RSO.

Going forward, DBH will continue to work with DCBA to refine the hearing process and with the Association and Lessees to address their concerns, particularly those related to the practical impacts of compliance with the interim (and any permanent) RSO. To date, there have been no challenges to the interim RSO from any Lessees or tenants located in Marina del Rey.

If you have any questions or require additional information, please contact me or your staff may contact Steve Penn at (424) 526-7725 or email spenn@bh.lacounty.gov.

GJ:AC:SP:svg

Attachments (3)

c: Department Board Deputies
Executive Office, Board of Supervisors
County Counsel
Chief Executive Office
Department of Consumer and Business Affairs
Community Development Commission

Marina del Rey-Apartment Units Survey

	Rental Units Built Pre-2/1995	Parcel Number	Lease Expiration	Year Built	Most Recent Renovation Date	Renovated Units On-Line	T O T A L Units On-Line Now	Next Percentage Rent Adjustment Date	Lease Requires a Capital Improvement (CI)/ Subsequent Renovation (SR) Fund
1	Marina Harbor Apartment Homes	111, 112	2062	1963	2006	846	846	9/15/2025	SR
2	Breakwater Apartments	64	2054	1964	2013	224	224	1/1/2032	CI / SR
3	Dolphin Apartments	18	2062	1967	2006	332	332	7/1/2024	
4	Waves Marina del Rey Apartments	7	2055	1969	2015	149	149	1/1/2023	CI /SR
5	Pearl Apartments	103	2042	1970	2004	597	597	11/29/2021	SR
6	Mariners Village Apartments	113	2023	1971	n/a	0	981	Extended Lease	
7	Avalon Marina Bay Apartments	8	2051	1972	2014	205	205	9/8/2032	CI / SR
8	Marina City Club Apartments	125I	2067	1972	n/a	0	101	no further adjustments	
9	Villa del Mar Apartments	13	2060	1972	2017	198	198	1/1/2025	CI / SR
10	Wayfarer Apartments	28	2061	1974	2018	379	379	1/1/2026	CI / SR
11	Marina 41 Apartments	102	2042	1975	2004	623	623	3/1/2025	CI
T O T A L number of Rental Units Built Pre-2/1995 now on-line							**4,635**		

updated 2-27-19

- At the conclusion of a one-year lease, many tenants will default into a month-to month lease, which is less stable than a yearlong lease. Does the Temporary Rent Stabilization Ordinance allow landlords to charge more rent if a tenant wishes to go month-to-month after the initial year lease expires?

  No. The Temporary Rent Stabilization Ordinance caps rental increases at three percent (3%) per year. Base rent is the rent charged as of September 11, 2018, or the rent charged at the beginning of a tenancy that began after September 11, 2018. The maximum rental increase under the Temporary Rent Stabilization Ordinance does not depend on the type of lease (e.g., multi-year, one-year, month-to-month, etc.).

- Since the Temporary Rent Stabilization Ordinance does not allow landlords to charge more when a tenant goes month-to-month after a yearlong lease expires, can landlords require tenants to sign another yearlong lease?

  No. The Temporary Rent Stabilization Ordinance allows eviction only for "just cause," which means landlords can only evict tenants if certain conditions are met. These conditions can be found at Ordinance 2018-0045, section 4. A tenant's refusal to sign a one-year lease at the conclusion of a one-year lease term is not a justification to evict a tenant. However, landlords are not prohibited from incentivizing tenants to sign a new one-year lease through other means.

- Can tenants agree to a rent increase of more than the three percent (3%) limit in the Temporary Rent Stabilization Ordinance, for example, in exchange for additional amenities or unit upgrades?

  No. The Temporary Rent Stabilization Ordinance sets the maximum rent increase of three percent (3%) per 12-month period. The Temporary Rent Stabilization Ordinance does not allow rent increases in excess of the cap by agreement between landlord and tenant for any reason.

- Landlords and management companies of large developments with many rental units need the flexibility to raise rents at different times for different units, and often in different amounts, in order to maintain fiscal stability over the entire development. Does the Temporary Rent Stabilization Ordinance allow landlords to petition for rental increases more than three percent (3%), even if the landlord does not ultimately raise the rents to the level requested?

  Yes. A landlord may file a petition for relief to assess a rent increase of more than three percent (3%). The landlord bears the burden of demonstrating that increasing rent more than three percent (3%) is necessary to provide a "fair return." (See Ordinance 2018-0045 section 5.A.) The landlord can file a petition for relief affecting some or all rental units in a residential development. Under the

Temporary Rent Stabilization Ordinance, the landlord must notify all tenants who may be affected by a proposed rent increase. (See Ordinance 2018-0045 section 5.A.)

If a landlord's petition to raise rents is approved, the landlord is allowed, but not required, to raise the rent to the level approved by the hearing officer, even if it such allowance is above the 3% rent cap stated in the ordinance.

- Does the Temporary Rent Stabilization Ordinance change the required amount of notice landlords have to provide prior to initiating eviction proceedings?

In some cases, the Temporary Rent Stabilization Ordinance increases the amount of notice a tenant must receive before eviction proceedings can be initiated. The chart below specifies where additional notice is required. The notice provided by the landlord must properly provide the tenant notice of the amount of time the tenant has to cure under the Temporary Rent Stabilization Ordinance.

"For Cause" Evictions		
Reason	**Required Notice (by State law and/or Temporary RSO)**	**Notes**
Failure to Pay Rent	Three Day Pay or Quit	
Breach of Material Lease Term	Ten Day Notice to Perform Covenant or Quit	
Refusal to allow Landlord Reasonable Access to Unit	Three Day Notice to Perform or Quit	
Nuisance or Illegal Use of Unit	Three Day Notice to Quit	
"No Fault" Evictions		
Reason	**Required Notice (by State law and/or Temporary RSO)**	**Notes**
Demolition of or removal of unit from rental market	120 Day Notice to Quit	Can require (1) year notice if tenant is a senior or disabled
Landlord (or family member) wishes to move into rental unit	30/60/90, as required by state law	Landlord (or family member) must move into unit within 3 months of tenant vacating *and* must remain in unit for at least (1) year

Note: A copy of any notice of termination of tenancy must be sent to DCBA certified mail return receipt requested at 500 W Temple St., Rm. B-96, Los Angeles, CA 90012, along with proof of service to the tenant within (5) calendar days after service.

- The Temporary Rent Stabilization Ordinance allows landlords to initiate eviction proceedings when tenants have breached a "material rental agreement term." What does that mean and how can a landlord tell if a breach is material?

Ordinance 2018-0045 section 2.J. defines "Material Rental Agreement Term" as "any provision in a rental agreement that is reasonable, legal, and accepted in writing by the Tenant as material. Adding additional occupants in an existing tenancy is not a breach of a Material Rental Agreement Term so long as the number of occupants does not exceed the maximum number of occupants as determined by State law, and new terms added to an existing rental agreement cannot be considered a Material Rental Agreement Term unless expressly consented to in writing by the Tenant."

Where lease terms fall outside of the definition in Ordinance 2018-0045 section 2.J., whether an alleged breach by a tenant is of a "material rental agreement term" will be decided by a court during the eviction proceedings.

- The Temporary Rent Stabilization Ordinance applies to units with an initial certificate of occupancy issued on or before February 1, 1995. If a unit was renovated after February 1, 1995, and received a new certificate of occupancy, is it still subject to the Temporary Rent Stabilization Ordinance?

  Yes. The applicability of the Temporary Rent Stabilization Ordinance depends on when the unit first received a certificate of occupancy. (See Ordinance 2018-0045 section 1.B.1.) Subsequent renovations do not affect the applicability of the Temporary Rent Stabilization Ordinance, except in certain cases where units were considered completely demolished and rebuilt. A determination of whether a unit was completely demolished and rebuilt requires a case-by-case analysis.

  If a parcel contains units that received a certificate of occupancy on or before February 1, 1995, and newer units constructed after February 1, 1995, the new units are not subject to the Temporary Rent Stabilization Ordinance.

- Does the Temporary Rent Stabilization Ordinance apply to boat slips?

  No. The Temporary Rent Stabilization Ordinance does not apply to rent charged for boat slips in Marina del Rey.

Attachment III

illuminas Consulting
STRATEGY | REAL ESTATE | URBAN ECONOMICS

Memorandum

To: Steve Penn, LA County DBH

CC: Susana Graether, Amy Caves, LA County DBH

From: Faith F. Backus

Date: February 26, 2019

Subject: Initial Analysis of Marina del Rey Lessees Association Discussion of the Impact of the County's Proposed Permanent Rent Stabilization Ordinance

At your request, Illuminas Consulting has reviewed the Marina del Rey Lessees Association's paper on the County's proposed Rent Stabilization Ordinance (RSO)[1]. This initial analysis focuses on Attachment E, prepared by the Maxima Group, which analyzes the financial impacts[2].

This memo analyzes the three areas of impact identified by Maxima, with the proposed mitigation measures:

1. Reduces cash flow – mitigate with a rent credit equal to the reduction in revenues due to the RSO
2. Hampers ability to recover additional investment – mitigate by eliminating Renovation Funds
3. Decreases market value – mitigate by eliminating County Participation Rent

Summary Observations

While the RSO would most likely cause some detrimental impact to lessees in each of the three areas identified by Maxima, the proposed mitigations are in no measure justified, as will be explained in detail.

[1] "A Discussion of the Impact of the Proposed Permanent Rent Stabilization and Tenant Protection Ordinance on Marina del Rey Leaseholds" presented by the Marina del Rey Lessees Association, dated February 11, 2019.

[2] Attachment E: Maxima Group LLC Study of the Impact of the Rent Stabilization Ordinance (RSO) on Marina Lessees and Suggested Mitigation Measures.

It is the opinion of Illuminas that lessees are able to earn an acceptable return on their investment with the existing lease terms, even with a 3% cap on annual rent increases. This conclusion is based on many years of reviewing lessee pro forma submissions for lease extensions, redevelopment, new development, financing, and acquisitions. In the overwhelming majority of these submissions, rents are projected to increase at an annual rate of 3%. Based on these projections, deals have been negotiated that were acceptable to the lessees. While periods of higher increases clearly are hoped for, they are "gravy," increasing returns above the projected acceptable levels. Thus, there is no reason to provide a rent credit or eliminate key lease provisions to offset any impacts of the RSO.

Key to this conclusion is that the 3% annual increase can be applied regardless of actual increases in the market. As we understand the ordinance, there is nothing to prevent a landlord from catching up after a period of market increases in excess of 3% by continuing to increase rents at the 3% annual rate, even if that rate exceeds the market rate of increase, until rents are once again at market. This is explained by way of example in the following section of this memo.

Further, it should be pointed out that never have the lessees offered any additional compensation to the County in times of high rent inflation. The ups and downs of rents are part of the normal market risk of a residential real estate investment, whether it be a leasehold in Marina del Rey or some other property.

Each of the areas of impact identified by Maxima, with the proposed mitigations, are discussed in detail below.

Reduced Cash Flow Mitigated by Rent Credit

Maxima makes the point that the RSO will reduce leasehold revenue hence net income and cash flow. While this is likely to be the case to some degree, Illuminas has identified many flaws in Maxima's analysis, both in the assumptions and in the analytical methodology.

Flaws in Analysis

Maxima makes several material errors in computing the impact of the RSO on revenues[3]:

1. Overvaluing the impact of losing the premium for month-to-month rentals.
2. Failing to account for the reduction in management fees and ground rent associated with reduced revenues.
3. Failing to reflect the reduced costs of vacancy and turnover that will result from fewer move-outs.
4. Failing to catch up to market in years in which the market rate of increase is less than 3%.
5. Using a baseline turnover rate of 33% when turnover in the Marina is typically 45%[4] (allowing for greater opportunity to reset rents to market for move-outs).

[3] For expedience in providing this analysis, the impact of each of these errors is not explained in detail herein. This can be provided in a separate memo should staff so desire.

[4] This parameter, as well as several other operational parameters, is based on many conversations over the years with one of the major lessees in Marina del Rey.

6. Using 4.0% annual rent increases as a "baseline," whereas Illuminas can document the use of 3.0% in many projections submitted by the lessees over the years.
7. Analyzing the impact over a short period (10 years) rather than the long term (30+).

Maxima computes the static (one-year) impact of the RSO, and also projects the impact over ten years using actual the market rent increases observed for Marina del Rey (MdR) for 2008 through 2017. The static analysis is flawed in that it overstates the impact of the loss of the month-to-month (MTM) premium. It implicitly assumes that the 10% premium is perpetuated for MTM units when they are re-leased after the tenant moves out, whereas the rent would go back to market. Further, if the same MTM rent premium occurs every year it does not impact the overall rate of increase in other than the first year. Thus, Illuminas dismissed the static analysis as having any relevance.

Multi-Year Analysis of Impact on NOI

A multi-year projection is the only valid way to analyze the potential impact of the RSO; however, the projection provided by Maxima is flawed by the errors listed above.

Illuminas prepared two sets of illustrative projections: one with fixed rates for market rent increases, and the other with the actual rates of rent increase for 2008-2017 cited by Maxima[5]. We ran each analysis with the lessees' (Maxima's) assumptions and those of Illuminas.

The results are summarized in the following table. There is a lot of information presented, but the key results to compare are the Net Income Losses in Year 10, highlighted in yellow and green. The yellow values compare the Year 10 losses computed with fixed market rent increases; the green values compare the Year 10 losses computed with trend rent increases.

As can be seen, while there is a loss in net income after 10 years in all cases, Illuminas's estimates are materially lower than those of Maxima. For the analysis with fixed market rent increases (yellow values), Illuminas estimates the net income loss to be about one-third that of Maxima ($111,000 vs. $304,000). With the first trend increases (actual 2008-2017 market rates of change in that order), the difference is smaller, with Illuminas's estimate at about 80% of Maxima's ($228,000 vs. $288,000).

The second trend analysis shows even less of a net income loss than Maxima's ($173,000 vs $288,000). For this run we shifted the 10-year actual trend arbitrarily by five years. As shown, with Illuminas's assumptions the net income loss is lower at $173,000 than with the actual trend data ($228,000), illustrating how variable the results can be in the short run when market increases swing above and below the 3.0% level. As indicated above, both of the Illuminas trend estimates are lower than that of Maxima.

[5] Illuminas has not independently verified the rent increases cited for 2008-2017; however, we have no reason to think they are not accurate. Maxima can be asked to provide the support if so desired.

Summary Results for Illustrative 10-Year Projections of the Impact of the Proposed RSO

	Lessee Analysis		*County Analysis*		
	Fixed Increases	Trend Increases	Fixed Increases	Trend Increases	Trend SHIFTED /3
Key Assumptions:					
Total Units	100	100	100	100	100
Current Market Rent per Unit	$3,000	$3,000	$3,000	$3,000	$3,000
Annual Turnover, No RSO	33	33	45	45	45
Annual Turnover, with RSO /1	27	27	37	37	37
Renewals at MTM, % of Turnover	10%	10%	5%	5%	5%
Premium for MTM	10%	10%	10%	10%	10%
Rent Increase, Market /2	4.0%	Trend	3.5%	Trend	Trend
Vacancy after Turnover, Months	0	0	0.5	0.5	0.5
Make-ready Cost, % of Rent	0%	0%	20%	20%	20%
Key Results:					
Net Income Loss, Year 2	55,280	43,225	8,997	18,158	110,378
Net Income Loss, Year 10	**303,983**	**288,270**	**111,163**	**227,675**	**173,354**
Net Income Loss/Unit, Year 10	3,040	2,883	1,112	2,277	1,734

Notes:

/1 Turnover decrease of 18% per Maxima's citation of a Standford study of the impact of rent control in San Francisco. Not yet verified by Illuminas, but does not seem unreasonable.

/2 Illuminas used 3.5% for the long-term average rate of rent increase, for illustration only. A more thorough analysis of County rents from apartments may indicate a different long-term rate.

/3 To illustrate the variability in outcome resulting from the speicif rent increase trend used, Illuminas shifted the 2008-2017 trend by five years for this analysis.

The detailed output associated with these runs is presented in Exhibits 1-A and 1-B, and 2-A, 2-B and 2-C. Exhibit 1 presents the estimated loss in net income using the lessee's (Maxima's) assumptions (1-A with fixed rent increases; 1-B with trend). Exhibit 2 shows the same analysis using the County's assumptions (2-A with fixed rent increases; 2-B with trend; 2-C with the shifted trend).

The Impact of the Ability to Catch Up to Market

The real test of the RSO impact over the long term (30 years or more) is the comparison between the 3.0% RSO increase and the observed long-term rental rate increase in the area. The RSO allows a landlord to catch up when market increases are lower than 3.0%; thus, over the long term if the market trend is at 3.0% or only slightly higher, the RSO impact will not be great. As mentioned, Illuminas does not have the long-term average rate of rent increases in this market but could develop it from Gross Receipts reports if necessary.

This phenomenon is illustrated in the following simplified example of market rent increases over a 10-year period. Please note that the market rates used are illustrative only, chosen to illustrate how the RSO allows constrained rents to catch up to market in periods of low market increases. While illustrated over 10 years, it is more likely that this phenomenon would be observable over a longer period of actual market behavior.

Illustration of Landlords' Ability to Catch Up to Market in Periods of Low Market Rent Increases

Key: BLUE indicates catch-up years at full rate of 3.0%
YELLOW indicates the year market parity is achieved

Year	Market Rent Incr %	Market Rent	RSO Rent Incr %	RSO Rent	Rent Difference
1		$1,000		$1,000	$0
2	6.0%	$1,060	3.0%	$1,030	$30
3	5.0%	$1,113	3.0%	$1,061	$52
4	4.0%	$1,158	3.0%	$1,093	$65
5	3.0%	$1,192	3.0%	$1,126	$67
6	2.0%	$1,216	3.0%	$1,159	$57
7	1.0%	$1,228	3.0%	$1,194	$34
8	1.0%	$1,241	3.0%	$1,230	$11
9	**1.0%**	**$1,253**	**1.9%**	**$1,253**	**$0**
10	3.0%	$1,291	3.0%	$1,291	$0

It should be noted that, while not illustrated, there is nothing in the ordinance that would prevent landlords for increasing rent at the full 3.0% even if it results in slightly higher than market rents, thus allowing landlords to build up a bit of a cushion for times of high rent inflation. Given typical tenant behavior, it is unlikely that such a small increase would cause a mass exodus of tenants, and even if it did, those units could be re-rented at market.

In the illustration above, this might mean that landlords increase rents at the full rate of 3.0% in year 9, thus staying slightly ahead of market until market rent increases again exceed 3.0%.

Comment on the Impact of Rate of Unit Turnover

The actual rate at which apartments are vacated has a material impact on how much the RSO will reduce revenue, since landlords can return units to market rent on turnover. As mention, Maxima assumes market turnover in MdR at 33%; however, conversations over the years with lessees suggests a higher rate, at about 45%. While it is invalid to assume that this means all units in a property will be vacated over two years and three months,[6] clearly the higher the turnover rate, the less impact the RSO will have on revenues.

Maxima also cites a Stanford study of rent control in San Francisco that concludes that rent control causes an 18% reduction in the rate of turnover[7]. Illuminas has not had the opportunity to review the study to verify either this parameter[8] or the applicability of this parameter to properties MdR; however, typically the frequency of residential moves decreases with both age and income. It may well be the case that the typical MdR tenant is younger and more affluent than the average tenant included in the Stanford study. If this is the case, the 18% factor may well overstate the impact of

[6] A turnover rate of 45% means that 3.75% of units are vacated every month, so 100% of the units would turn over in slightly less than two years and three months (3.75% x 27 months = 101.25%). However, as noted, a specific unit may turn over more than once in this period, while another may not turn over at all.

[7] Diamond, McQuade, Quinn, "The Effect of Rent Control Expansion on Tenants, Landlords, and Inequality" December 2018.

[8] Illuminas has no reason to believe the 18% citation is not contained in the referenced study.

the RSO on turnover rates, which would further reduce the impact of the RSO on revenues. Illuminas can investigate further the issues associated with rates of turnover, should it become necessary.

Lessees' Expectations of Returns

Maxima proposes an annual rent credit to offset the loss in revenue from attributable to the RSO in the prior year. As stated above, Illuminas does not believe in the underlying premise behind this proposal: that the lessees cannot earn a fair return with only a 3.0% annual increase in rents. This directly contradicts the projections used in most of the negotiations for new development, lease extensions, and acquisitions over the past 20 years, most of which assume long-term rent increases of 3.0%. This is illustrated in the following table.

Survey of Long-Term Apartment Rent increases Used in Various Lessee Projections

	Parcel and Leasehold		Unit Count	Doc Date	Type of Doc	Apt Rent Incr Rate Used	Prepared By
1.	12&15	Esprit	1,022	2005	Financing	3.0%	Prepared by lessee
2.	12&15	Esprit	1,022	2013	Calc of Extension Fee Credits	3.0%	An element of sale of leasehold
3.	8	Bay Club	200	2010	Financing	3.0%	Unknown
4.	10	Neptune Marina	526	2015	Acquisition	3.62%	Prepared by Legacy Partners
5.	13	Villa del Mar	196	2011	Ground Lease Extension	3.0%	Prepared by lessee
6.	28	Mariner's Bay	379	2012	Ground Lease Extension	3.0%	Prepared by lessee
7.	28	Mariner's Bay	379	2014	Ground Lease Extension	6 yrs @ 3.5%, then 3.0%	Prepared by Legacy Partners
8.	64	Breakwater	224	2013	Acquisition	3.75%	Prepared by Equity Residential
9.	64	Villa Venetia	224	2009	Ground Lease Extension	3.0%	Lyon Capital (?)
10.	64	Villa Venetia	224	2009	Investment	4.0%	Prepared by purchaser
11.	95	Golden West	172	2015	Ground Lease Extension	2.0%	New development
12.	95	Golden West	172	2019	Ground Lease Extension	3.0%	New development
13.	100/101	Del Rey Shores	202	2016	Analysis of Affordable Housing Impact	3.0%	Prepared by lessee
14.	102S	Marina 41	260	2015	Ground Lease Extension	3.0%	Prepared by lessee
15.	103	Oakwood	597	2016	Ground Lease Extension	3.0% no ext; 3.75% with ext	Prepared by Equity Residential
16.	113	Mariner's Village	981	2017	Ground Lease Extension	2.4%	Prepared by lessee
					Weighted Average Apt Rent Increase	**3.06%**	**(with Oakwood at 3.75%)**
					Weighted Average Apt Rent Increase	**2.99%**	**(with Oakwood at 3.0%)**

As shown, the weighted average rate used in this sample of 16 analyses ranges from 2.99% to 3.06%, essentially equal to the RSO rate of 3.0%; thus, we can assume the lessees were satisfied that this rate of increase would yield at least minimally acceptable returns. Therefore, no compensation for the RSO should be needed.

Proposed Mitigation: Rent Credit

As well as being unnecessary, the rent credit mitigation would be unworkable from an administrative standpoint. As proposed, it would be implemented on a lease-by-lease basis. DBH staff would be required to work with each lessee to establish property-specific benchmarks for parameters including market rent by unit, average turnover, and MTM renewals. Each benchmark would need to be revisited every year as market conditions change, placing a huge burden on County staff. It is also likely that some, if not many, of these discussions would end up in arbitration, further burdening staff.

Limited Ability to Recover Investment Mitigated by Elimination of Renovation Funds

Maxima asserts that the reduction in cash flow and the inability to charge extra for tenant-requested improvements limits the lessees' ability to earn a return on capital investment. While lower revenues would mean lower returns, it does not mean that the RSO would prevent lessees from earning sufficient return on their investment. As demonstrated above, most lessees have assumed that a 3.0% rent increase (with no additional charges) is sufficient to move forward with lease extensions, acquisitions, and new development.

While it is the case that additional return could not be earned on tenant-requested improvements, all landlords in MdR will be under the same constraints. If such a request cannot be met by a lessee and the tenant moves out, the lessee will be able to re-lease the unit at market, thus eliminating any detrimental impact of the RSO on that unit.

Maxima cites the requirement included many MdR leases for a Renovation Fund as being untenable without the ability to increase rents sufficiently to cover the investment. Maxima states that:

> "The Renovation Fund is intended to 'reposition' the asset on an on-going basis, particularly in the later years of the term, in order to ensure that the MdR projects are competitive with new projects in the wider MdR submarket. The Renovation Fund requirement is an explicit recognition that the limited remaining term makes reinvestment economically infeasible using standard capital structuring."

This is true; however, lessees agreed to Renovation Funds assuming only 3.0% rent increases, as demonstrated above. Also, all other properties in the County will be similarly impacted by the RSO, so the lessees will be on an equal footing with other owners in LA County in terms of the ability to recoup new investment.

The Renovation Fund is critical to the long-term viability of the asset; that is why the County negotiated it into many leases as part of the package of economic terms. If revenue is reduced due to the RSO, the lessees' contributions to the Renovation Funds will be reduced since contributions are calculated as a percentage of revenue. Use of these funds for renovation will benefit the lessees as the market rents available on turnover will be higher than without renovation. With the average turnover with the RSO in the 35% range, the opportunity to earn an appropriate return through resetting rents to market will be achieved in roughly three years[9].

"Stranded" Extensions

Maxima also cites the situation of leaseholds for which the term has not been extended to the full total term of 99 years, suggesting that these leaseholds should be extended to the maximum term as

[9] This assumes that 100% of the units are turned over every three years. Illuminas realizes this will not be the case as there are always some long-term tenants; however, most units will return to market within that window.

mitigation for the RSO, presumably without compensation to the County for the extension. The implication is that these lessees have even less opportunity to earn an adequate return on the investment required for the lease extension.

Illuminas rejects this proposal for the reasons cited above. The lessees most likely negotiated their lease extensions with a 3.0% rent increase, implying that they believed their return would be adequate with that rate of increase within the extended term. Therefore, further extension of these leases should be valued like any other: based on analysis of the County's value with and without the lease extension.

Decreased Market Value Mitigated by Elimination of County Participation Rent

Maxima's third area of RSO impact is in the value of the leaseholds. While reduced net income will decrease value, again it is not clear that it will reduce it to a level at which acceptable returns cannot be realized.

Maxima cites three ways the RSO will impact value:

1. Maxima alleges it will reduce the pool of potential investors since many will not bid on properties subject to an RSO. Illuminas believes this is a red herring in several ways. First, should rent control become increasingly prevalent in major and desirable metropolitan areas, investors will have to consider properties with these restrictions for their portfolios. Owners in the Marina will be at no less of a disadvantage than all the other owners in LA County (and the City of LA and other California municipalities). Second, the liquidity of leaseholds is expected to decrease as the leases near expiration, becoming essentially illiquid close to lease termination. This has always been known to the lessees and is not made worse by the imposition of the RSO.
2. Maxima alleges that investors will factor rent limitations into their pricing analyses and will increase the cap rate premium for all assets, but even more so for leaseholds. The first allegation may well be true, but the second is not. If the market devalues properties due to the RSO, this will be the case for the fee cap rate for equivalent properties. There is nothing to suggest that the cap rate premium for leaseholds will increase from the current level of roughly 7.7%[10]. Thus, owners of leaseholds will be relatively no worse off than owners in fee should the RSO increase cap rates.
3. Maxima alleges that the RSO "creates an additional level of risk of future regulatory changes," further causing cap rates to rise. This is another red herring. <u>If</u> this is true, it is true for all residential investors in the City and the County, so again lessees are comparatively no worse off than other owners.

[10] Citation from "Analysis of Cap Rates in Connection with Sale of Archstone Leaseholds" by Allan D. Kotin and Faith F. Backus, dated March 14, 2013. This analysis indicated that, on average, leaseholds have a cap rate that is 7.7% higher than the equivalent fee cap rate. Thus, if the equivalent fee cap rate for a property is 4.5%, the leasehold cap rate will be roughly 4.85%.

Proposed Mitigation: Eliminate Participation Rent

Maxima proposes to eliminate the County's Participation Rent to mitigate the negative impact of the RSO on value. Participation Rent is collected upon sale or refinance, and is intended to compensate the County, at least in part, for the contribution made by the land to the increase in value of the property over time. If values are reduced by the RSO, the County's Participation Rent will also be reduced; however, the land will still have contributed to the increase in the asset's value. Further, as these properties become less liquid with the short remaining lease terms, there will be less and less opportunity for sale or refinance regardless of the RSO, as is well known by the lessees. Thus, Participation Rent will be due less and less frequently for leaseholds approaching expiration. Therefore, the elimination of Participation Rent is not justified.

Attachments

File Reference: RSO Analysis 022819.xlsb

Exhibit 1-A

Impact of RSO on Net Income, Fixed Inputs -- LESSEE

		Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
With NO RSO												
Avg Rent, Lease Renewals	4.0%	3,000	3,120	3,245	3,375	3,510	3,650	3,796	3,948	4,106	4,270	4,441
Premium, MTM Renewals	10.0%	3,000	3,432	3,569	3,712	3,861	4,015	4,176	4,343	4,516	4,697	4,885
Avg Rent, Turnover	4.0%	3,000	3,120	3,245	3,375	3,510	3,650	3,796	3,948	4,106	4,270	4,441
Renewals, Lease	60	2,160,000	2,246,400	2,336,256	2,429,706	2,526,894	2,627,970	2,733,089	2,842,413	2,956,109	3,074,354	3,197,328
Renewals, MTM for 6 mo	7	126,000	144,144	149,910	155,906	162,142	168,628	175,373	182,388	189,684	197,271	205,162
MTM after Turnover	7	126,000	131,040	136,282	141,733	147,402	153,298	159,430	165,807	172,440	179,337	186,511
Turnover Units	33	1,188,000	1,235,520	1,284,941	1,336,338	1,389,792	1,445,384	1,503,199	1,563,327	1,625,860	1,690,894	1,758,530
Gross Potential Rent		3,600,000	3,757,104	3,907,388	4,063,684	4,226,231	4,395,280	4,571,091	4,753,935	4,944,093	5,141,856	5,347,531
Less:												
Effective Vacancy Rate		0.00%										
Turnover Vacancy, 0.0 mth			0	0	0	0	0	0	0	0	0	0
MTM Turnover Vacancy, 0.0 mth			0	0	0	0	0	0	0	0	0	0
Turnover Make-ready Costs @ % of Rent			0	0	0	0	0	0	0	0	0	0
MTM Turnover Make-ready Costs @ % of Rent			0	0	0	0	0	0	0	0	0	0
Total Adjustments for all Turnover			0	0	0	0	0	0	0	0	0	0
Adjusted Gross Potential Rent		3,600,000	3,757,104	3,907,388	4,063,684	4,226,231	4,395,280	4,571,091	4,753,935	4,944,093	5,141,856	5,347,531
Adjusted Rate of Increase			4.36%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
With RSO												
Avg Rent, Lease Renewals	3.0%	3,000	3,090	3,183	3,278	3,377	3,478	3,582	3,690	3,800	3,914	4,032
Premium, MTM Renewals	0.0%	3,000	3,090	3,183	3,278	3,377	3,478	3,582	3,690	3,800	3,914	4,032
Avg Rent, Turnover	4.0%	3,000	3,120	3,245	3,375	3,510	3,650	3,796	3,948	4,106	4,270	4,441
Renewals, Lease	66	2,376,000	2,447,280	2,520,698	2,596,319	2,674,209	2,754,435	2,837,068	2,922,180	3,009,846	3,100,141	3,193,145
Renewals, MTM for 6 mo	7	126,000	129,780	133,673	137,684	141,814	146,069	150,451	154,964	159,613	164,401	169,333
MTM after Turnover	7	126,000	131,040	136,282	141,733	147,402	153,298	159,430	165,807	172,440	179,337	186,511
Turnover Units	27	972,000	1,010,880	1,051,315	1,093,368	1,137,103	1,182,587	1,229,890	1,279,086	1,330,249	1,383,459	1,438,797
Gross Potential Rent		3,600,000	3,718,980	3,841,969	3,969,104	4,100,528	4,236,389	4,376,839	4,522,038	4,672,148	4,827,339	4,987,787
Less:												
Effective Vacancy Rate		0.00%										
Turnover Vacancy, 0.0 mth			0	0	0	0	0	0	0	0	0	0
MTM Turnover Vacancy, 0.0 mth			0	0	0	0	0	0	0	0	0	0
Turnover Make-ready Costs @ % of Rent			0	0	0	0	0	0	0	0	0	0
MTM Turnover Make-ready Costs @ % of Rent			0	0	0	0	0	0	0	0	0	0
Total Adjustments for all Turnover			0	0	0	0	0	0	0	0	0	0
Adjusted Gross Potential Rent		3,600,000	3,718,980	3,841,969	3,969,104	4,100,528	4,236,389	4,376,839	4,522,038	4,672,148	4,827,339	4,987,787
Adjusted Rate of Increase			3.31%	3.31%	3.31%	3.31%	3.31%	3.32%	3.32%	3.32%	3.32%	3.32%
Impact on Net Income												
Adjusted Rent Reduction due to RSO			38,124	65,420	94,580	125,703	158,892	194,252	231,898	271,945	314,517	359,743
Less: Ground Rent @ 10.5%			(4,003)	(6,869)	(9,931)	(13,199)	(16,684)	(20,396)	(24,349)	(28,554)	(33,024)	(37,773)
Less: Mgmt Fee @ 5.0%			(1,906)	(3,271)	(4,729)	(6,285)	(7,945)	(9,713)	(11,595)	(13,597)	(15,726)	(17,987)
Reduction in Net Income			**32,215**	**55,280**	**79,920**	**106,219**	**134,263**	**164,143**	**195,954**	**229,794**	**265,767**	**303,983**
Per Unit			**322**	**553**	**799**	**1,062**	**1,343**	**1,641**	**1,960**	**2,298**	**2,658**	**3,040**

Exhibit 1-B

Impact of RSO on Net Income, Trend (2008-2017) -- LESSEE

		Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
With NO RSO												
Avg Rent Incr, Market & Renewals			0.9%	4.5%	3.6%	0.4%	10.7%	6.6%	5.6%	3.3%	1.7%	0.2%
Avg Rent, Market and Renewals		3,000	3,027	3,163	3,277	3,290	3,642	3,883	4,100	4,235	4,307	4,316
Premium, MTM Renewals	10.0%	3,000	3,330	3,480	3,605	3,619	4,006	4,271	4,510	4,659	4,738	4,748
Avg Rent, Turnover		3,000	3,027	3,163	3,277	3,290	3,642	3,883	4,100	4,235	4,307	4,316
Renewals, Lease	60	2,160,000	2,179,440	2,277,515	2,359,505	2,368,943	2,622,420	2,795,500	2,952,048	3,049,466	3,101,307	3,107,509
Renewals, MTM for 6 mo	7	126,000	139,847	146,141	151,402	152,007	168,272	179,378	189,423	195,674	199,001	199,399
MTM after Turnover	7	126,000	127,134	132,855	137,638	138,188	152,975	163,071	172,203	177,885	180,910	181,271
Turnover Units	33	1,188,000	1,198,692	1,252,633	1,297,728	1,302,919	1,442,331	1,537,525	1,623,626	1,677,206	1,705,719	1,709,130
Gross Potential Rent		3,600,000	3,645,113	3,809,144	3,946,273	3,962,058	4,385,998	4,675,474	4,937,300	5,100,231	5,186,935	5,197,309
Less:												
Effective Vacancy Rate		0.00%										
Turnover Vacancy, 0.0 mth			0	0	0	0	0	0	0	0	0	0
MTM Turnover Vacancy, 0.0 mth			0	0	0	0	0	0	0	0	0	0
Turnover Make-ready Costs @ % of Rent			0	0	0	0	0	0	0	0	0	0
MTM Turnover Make-ready Costs @ % of Rent			0	0	0	0	0	0	0	0	0	0
Total Adjustments for all Turnover			0	0	0	0	0	0	0	0	0	0
Adjusted Gross Potential Rent		3,600,000	3,645,113	3,809,144	3,946,273	3,962,058	4,385,998	4,675,474	4,937,300	5,100,231	5,186,935	5,197,309
Adjusted Rate of Increase			1.25%	4.50%	3.60%	0.40%	10.70%	6.60%	5.60%	3.30%	1.70%	0.20%
With RSO, Assuming Max Increase of:	3.0%											
Avg Rent Incr, Market			0.9%	4.5%	3.6%	0.4%	10.7%	6.6%	5.6%	3.3%	1.7%	0.2%
Avg Rent Incr, Renewals /1			0.9%	3.0%	3.0%	2.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Avg Rent, Renewals		3,000	3,027	3,118	3,211	3,290	3,389	3,491	3,595	3,703	3,814	3,929
Premium, MTM Renewals	0.0%	3,000	3,027	3,118	3,211	3,290	3,389	3,491	3,595	3,703	3,814	3,929
Avg Rent, Turnover		3,000	3,027	3,163	3,277	3,290	3,642	3,883	4,100	4,235	4,307	4,316
Renewals, Lease	66	2,376,000	2,397,384	2,469,306	2,543,385	2,605,838	2,684,013	2,764,533	2,847,469	2,932,893	3,020,880	3,111,506
Renewals, MTM for 6 mo	7	126,000	127,134	130,948	134,876	138,188	142,334	146,604	151,002	155,532	160,198	165,004
MTM after Turnover	7	126,000	127,134	132,855	137,638	138,188	152,975	163,071	172,203	177,885	180,910	181,271
Turnover Units	27	972,000	980,748	1,024,882	1,061,777	1,066,025	1,180,089	1,257,975	1,328,422	1,372,260	1,395,588	1,398,379
Gross Potential Rent		3,600,000	3,632,400	3,757,990	3,877,676	3,948,239	4,159,410	4,332,183	4,499,096	4,638,571	4,757,576	4,856,161
Less:												
Effective Vacancy Rate		0.00%										
Turnover Vacancy, 0.0 mth			0	0	0	0	0	0	0	0	0	0
MTM Turnover Vacancy, 0.0 mth			0	0	0	0	0	0	0	0	0	0
Turnover Make-ready Costs @ % of Rent			0	0	0	0	0	0	0	0	0	0
MTM Turnover Make-ready Costs @ % of Rent			0	0	0	0	0	0	0	0	0	0
Total Adjustments for all Turnover			0	0	0	0	0	0	0	0	0	0
Adjusted Gross Potential Rent		3,600,000	3,632,400	3,757,990	3,877,676	3,948,239	4,159,410	4,332,183	4,499,096	4,638,571	4,757,576	4,856,161
Adjusted Rate of Increase			0.90%	3.46%	3.18%	1.82%	5.35%	4.15%	3.85%	3.10%	2.57%	2.07%
Impact on Net Income												
Adjusted Rent Reduction due to RSO			12,713	51,153	68,596	13,819	226,587	343,291	438,205	461,661	429,359	341,148
Less: Ground Rent @ 10.5%			(1,335)	(5,371)	(7,203)	(1,451)	(23,792)	(36,046)	(46,011)	(48,474)	(45,083)	(35,821)
Less: Mgmt Fee @ 5.0%			(636)	(2,558)	(3,430)	(691)	(11,329)	(17,165)	(21,910)	(23,083)	(21,468)	(17,057)
Reduction in Net Income			**10,743**	**43,225**	**57,964**	**11,677**	**191,466**	**290,081**	**370,283**	**390,103**	**362,809**	**288,270**
Reduction per Unit			**107**	**432**	**580**	**117**	**1,915**	**2,901**	**3,703**	**3,901**	**3,628**	**2,883**
Reduction % of "No RSO"			0.3%	1.1%	1.5%	0.3%	4.4%	6.2%	7.5%	7.6%	7.0%	5.5%

Notes:

/1 Assumes rent increases can catch up to market, but no greater than 3.0% per year.

Exhibit 2-A

Impact of RSO on Net Income, Fixed Inputs -- COUNTY

		Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
With NO RSO												
Avg Rent, Lease Renewals	3.5%	3,000	3,105	3,214	3,326	3,443	3,563	3,688	3,817	3,950	4,089	4,232
Premium, MTM Renewals	10.0%	3,000	3,416	3,535	3,659	3,787	3,919	4,057	4,199	4,345	4,498	4,655
Avg Rent, Turnover	3.5%	3,000	3,105	3,214	3,326	3,443	3,563	3,688	3,817	3,950	4,089	4,232
Renewals, Lease	52	1,872,000	1,937,520	2,005,333	2,075,520	2,148,163	2,223,349	2,301,166	2,381,707	2,465,067	2,551,344	2,640,641
Renewals, MTM for 6 mo	3	54,000	61,479	63,631	65,858	68,163	70,549	73,018	75,573	78,218	80,956	83,790
MTM after Turnover	3	54,000	55,890	57,846	59,871	61,966	64,135	66,380	68,703	71,108	73,596	76,172
Turnover Units	45	1,620,000	1,676,700	1,735,385	1,796,123	1,858,987	1,924,052	1,991,394	2,061,092	2,133,231	2,207,894	2,285,170
Gross Potential Rent		3,600,000	3,731,589	3,862,195	3,997,371	4,137,279	4,282,084	4,431,957	4,587,076	4,747,623	4,913,790	5,085,773
Less:												
Effective Vacancy Rate		2.00%										
Turnover Vacancy, 0.5 mth			69,863	72,308	74,838	77,458	80,169	82,975	85,879	88,885	91,996	95,215
MTM Turnover Vacancy, 0.5 mth			4,658	4,821	4,989	5,164	5,345	5,532	5,725	5,926	6,133	6,348
Turnover Make-ready Costs @ 20% of Rent			27,945	28,923	29,935	30,983	32,068	33,190	34,352	35,554	36,798	38,086
MTM Turnover Make-ready Costs @ 20% of Rent			1,863	1,928	1,996	2,066	2,138	2,213	2,290	2,370	2,453	2,539
Total Adjustments for all Turnover			104,328	107,979	111,759	115,670	119,719	123,909	128,246	132,734	137,380	142,188
Adjusted Gross Potential Rent		3,528,108	3,627,261	3,754,215	3,885,613	4,021,609	4,162,365	4,308,048	4,458,830	4,614,889	4,776,410	4,943,584
Adjusted Rate of Increase			2.81%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
With RSO												
Avg Rent, Lease Renewals	3.0%	3,000	3,090	3,183	3,278	3,377	3,478	3,582	3,690	3,800	3,914	4,032
Premium, MTM Renewals	0.0%	3,000	3,090	3,183	3,278	3,377	3,478	3,582	3,690	3,800	3,914	4,032
Avg Rent, Turnover	3.5%	3,000	3,105	3,214	3,326	3,443	3,563	3,688	3,817	3,950	4,089	4,232
Renewals, Lease	60	2,160,000	2,224,800	2,291,544	2,360,290	2,431,099	2,504,032	2,579,153	2,656,528	2,736,223	2,818,310	2,902,859
Renewals, MTM for 6 mo	3	54,000	55,620	57,289	59,007	60,777	62,601	64,479	66,413	68,406	70,458	72,571
MTM after Turnover	3	54,000	55,890	57,846	59,871	61,966	64,135	66,380	68,703	71,108	73,596	76,172
Turnover Units	37	1,332,000	1,378,620	1,426,872	1,476,812	1,528,501	1,581,998	1,637,368	1,694,676	1,753,990	1,815,379	1,878,918
Gross Potential Rent		3,600,000	3,714,930	3,833,550	3,955,981	4,082,343	4,212,766	4,347,380	4,486,320	4,629,726	4,777,744	4,930,521
Less:												
Effective Vacancy Rate		1.67%										
Turnover Vacancy, 0.5 mth			57,443	59,453	61,534	63,688	65,917	68,224	70,611	73,083	75,641	78,288
MTM Turnover Vacancy, 0.5 mth			4,658	4,821	4,989	5,164	5,345	5,532	5,725	5,926	6,133	6,348
Turnover Make-ready Costs @ 20% of Rent			22,977	23,781	24,614	25,475	26,367	27,289	28,245	29,233	30,256	31,315
MTM Turnover Make-ready Costs @ 20% of Rent			1,863	1,928	1,996	2,066	2,138	2,213	2,290	2,370	2,453	2,539
Total Adjustments for all Turnover			86,940	89,983	93,132	96,392	99,766	103,257	106,871	110,612	114,483	118,490
Adjusted Gross Potential Rent		3,539,821	3,627,990	3,743,568	3,862,848	3,985,951	4,113,000	4,244,122	4,379,448	4,519,114	4,663,260	4,812,030
Adjusted Rate of Increase			2.49%	3.19%	3.19%	3.19%	3.19%	3.19%	3.19%	3.19%	3.19%	3.19%
Impact on Net Income												
Adjusted Rent Reduction due to RSO			(729)	10,648	22,764	35,658	49,365	63,926	79,382	95,775	113,150	131,554
Less: Ground Rent @ 10.5%			77	(1,118)	(2,390)	(3,744)	(5,183)	(6,712)	(8,335)	(10,056)	(11,881)	(13,813)
Less: Mgmt Fee @ 5.0%			36	(532)	(1,138)	(1,783)	(2,468)	(3,196)	(3,969)	(4,789)	(5,657)	(6,578)
Reduction in Net Income			**(616)**	**8,997**	**19,236**	**30,131**	**41,713**	**54,017**	**67,077**	**80,930**	**95,612**	**111,163**
Per Unit			**(6)**	**90**	**192**	**301**	**417**	**540**	**671**	**809**	**956**	**1,112**

Exhibit 2-B

Impact of RSO on Net Income, Trend (2008-2017) -- COUNTY

		Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
With NO RSO												
Avg Rent Incr, Market & Renewals			0.9%	4.5%	3.6%	0.4%	10.7%	6.6%	5.6%	3.3%	1.7%	0.2%
Avg Rent, Market and Renewals		3,000	3,027	3,163	3,277	3,290	3,642	3,883	4,100	4,235	4,307	4,316
Premium, MTM Renewals	10.0%	3,000	3,330	3,480	3,605	3,619	4,006	4,271	4,510	4,659	4,738	4,748
Avg Rent, Turnover		3,000	3,027	3,163	3,277	3,290	3,642	3,883	4,100	4,235	4,307	4,316
Renewals, Lease	52	1,872,000	1,888,848	1,973,846	2,044,905	2,053,084	2,272,764	2,422,767	2,558,442	2,642,870	2,687,799	2,693,175
Renewals, MTM for 6 mo	3	54,000	59,935	62,632	64,886	65,146	72,117	76,876	81,181	83,860	85,286	85,457
MTM after Turnover	3	54,000	54,486	56,938	58,988	59,224	65,561	69,888	73,801	76,237	77,533	77,688
Turnover Units	45	1,620,000	1,634,580	1,708,136	1,769,629	1,776,708	1,966,815	2,096,625	2,214,036	2,287,099	2,325,980	2,330,632
Gross Potential Rent		3,600,000	3,637,849	3,801,552	3,938,408	3,954,161	4,377,257	4,666,155	4,927,460	5,090,066	5,176,597	5,186,951
Less:												
Effective Vacancy Rate		2.00%										
Turnover Vacancy, 0.5 mth			68,108	71,172	73,735	74,029	81,951	87,359	92,252	95,296	96,916	97,110
MTM Turnover Vacancy, 0.5 mth			4,541	4,745	4,916	4,935	5,463	5,824	6,150	6,353	6,461	6,474
Turnover Make-ready Costs @ 20% of Rent			27,243	28,469	29,494	29,612	32,780	34,944	36,901	38,118	38,766	38,844
MTM Turnover Make-ready Costs @ 20% of Rent			1,816	1,898	1,966	1,974	2,185	2,330	2,460	2,541	2,584	2,590
Total Adjustments for all Turnover			101,707	106,284	110,110	110,551	122,380	130,457	137,762	142,308	144,728	145,017
Adjusted Gross Potential Rent		3,528,108	3,536,141	3,695,268	3,828,297	3,843,611	4,254,877	4,535,699	4,789,698	4,947,758	5,031,870	5,041,934
Adjusted Rate of Increase			0.23%	4.50%	3.60%	0.40%	10.70%	6.60%	5.60%	3.30%	1.70%	0.20%
With RSO, Assuming Max Increase of:	3.0%											
Avg Rent Incr, Market			0.9%	4.5%	3.6%	0.4%	10.7%	6.6%	5.6%	3.3%	1.7%	0.2%
Avg Rent Incr, Renewals /1			0.9%	3.0%	3.0%	2.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Avg Rent, Renewals		3,000	3,027	3,118	3,211	3,290	3,389	3,491	3,595	3,703	3,814	3,929
Premium, MTM Renewals	0.0%	3,000	3,027	3,118	3,211	3,290	3,389	3,491	3,595	3,703	3,814	3,929
Avg Rent, Turnover		3,000	3,027	3,163	3,277	3,290	3,642	3,883	4,100	4,235	4,307	4,316
Renewals, Lease	60	2,160,000	2,179,440	2,244,823	2,312,168	2,368,943	2,440,012	2,513,212	2,588,608	2,666,267	2,746,255	2,828,642
Renewals, MTM for 6 mo	3	54,000	54,486	56,121	57,804	59,224	61,000	62,830	64,715	66,657	68,656	70,716
MTM after Turnover	3	54,000	54,486	56,938	58,988	59,224	65,561	69,888	73,801	76,237	77,533	77,688
Turnover Units	37	1,332,000	1,343,988	1,404,467	1,455,028	1,460,848	1,617,159	1,723,892	1,820,430	1,880,504	1,912,472	1,916,297
Gross Potential Rent		3,600,000	3,632,400	3,762,349	3,883,988	3,948,239	4,183,732	4,369,821	4,547,554	4,689,664	4,804,916	4,893,343
Less:												
Effective Vacancy Rate		1.67%										
Turnover Vacancy, 0.5 mth			56,000	58,519	60,626	60,869	67,382	71,829	75,851	78,354	79,686	79,846
MTM Turnover Vacancy, 0.5 mth			4,541	4,745	4,916	4,935	5,463	5,824	6,150	6,353	6,461	6,474
Turnover Make-ready Costs @ 20% of Rent			22,400	23,408	24,250	24,347	26,953	28,732	30,340	31,342	31,875	31,938
MTM Turnover Make-ready Costs @ 20% of Rent			1,816	1,898	1,966	1,974	2,185	2,330	2,460	2,541	2,584	2,590
Total Adjustments for all Turnover			84,756	88,570	91,759	92,126	101,983	108,714	114,802	118,590	120,606	120,848
Adjusted Gross Potential Rent		3,540,000	3,547,644	3,673,779	3,792,229	3,856,113	4,081,749	4,261,108	4,432,753	4,571,073	4,684,310	4,772,496
Adjusted Rate of Increase			0.22%	3.56%	3.22%	1.68%	5.85%	4.39%	4.03%	3.12%	2.48%	1.88%
Impact on Net Income												
Adjusted Rent Reduction due to RSO			(11,503)	21,489	36,068	(12,503)	173,128	274,591	356,945	376,685	347,560	269,438
Less: Ground Rent @ 10.5%			1,208	(2,256)	(3,787)	1,313	(18,178)	(28,832)	(37,479)	(39,552)	(36,494)	(28,291)
Less: Mgmt Fee @ 5.0%			575	(1,074)	(1,803)	625	(8,656)	(13,730)	(17,847)	(18,834)	(17,378)	(13,472)
Reduction in Net Income			**(9,720)**	**18,158**	**30,477**	**(10,565)**	**146,293**	**232,030**	**301,619**	**318,298**	**293,688**	**227,675**
Reduction per Unit			**(97)**	**182**	**305**	**(106)**	**1,463**	**2,320**	**3,016**	**3,183**	**2,937**	**2,277**
Reduction % of "No RSO"			N/A	0.5%	0.8%	N/A	3.4%	5.1%	6.3%	6.4%	5.8%	4.5%

Notes:

/1 Assumes rent increases can catch up to market, but no greater than 3.0% per year.

Exhibit 2-C

Impact of RSO on Net Income, Trend SHIFTED (2008-2017) -- COUNTY

		Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
With NO RSO												
Avg Rent Incr, Market & Renewals			6.6%	5.6%	3.3%	1.7%	0.2%	0.9%	4.5%	3.6%	0.4%	10.7%
Avg Rent, Market and Renewals		3,000	3,198	3,377	3,489	3,548	3,555	3,587	3,748	3,883	3,899	4,316
Premium, MTM Renewals	10.0%	3,000	3,518	3,715	3,837	3,903	3,910	3,946	4,123	4,272	4,289	4,748
Avg Rent, Turnover		3,000	3,198	3,377	3,489	3,548	3,555	3,587	3,748	3,883	3,899	4,316
Renewals, Lease	52	1,872,000	1,995,552	2,107,303	2,176,844	2,213,850	2,218,278	2,238,242	2,338,963	2,423,166	2,432,859	2,693,175
Renewals, MTM for 6 mo	3	54,000	63,320	66,866	69,073	70,247	70,388	71,021	74,217	76,889	77,196	85,457
MTM after Turnover	3	54,000	57,564	60,788	62,794	63,861	63,989	64,565	67,470	69,899	70,179	77,688
Turnover Units	45	1,620,000	1,726,920	1,823,628	1,883,807	1,915,832	1,919,664	1,936,941	2,024,103	2,096,971	2,105,359	2,330,632
Gross Potential Rent		3,600,000	3,843,356	4,058,584	4,192,518	4,263,790	4,272,318	4,310,769	4,504,753	4,666,925	4,685,592	5,186,951
Less:												
Effective Vacancy Rate		2.00%										
Turnover Vacancy, 0.5 mth			71,955	75,984	78,492	79,826	79,986	80,706	84,338	87,374	87,723	97,110
MTM Turnover Vacancy, 0.5 mth			4,797	5,066	5,233	5,322	5,332	5,380	5,623	5,825	5,848	6,474
Turnover Make-ready Costs @ 20% of Rent			28,782	30,394	31,397	31,931	31,994	32,282	33,735	34,950	35,089	38,844
MTM Turnover Make-ready Costs @ 20% of Rent			1,919	2,026	2,093	2,129	2,133	2,152	2,249	2,330	2,339	2,590
Total Adjustments for all Turnover			107,453	113,470	117,215	119,207	119,446	120,521	125,944	130,478	131,000	145,017
Adjusted Gross Potential Rent		3,528,108	3,735,904	3,945,114	4,075,303	4,144,583	4,152,872	4,190,248	4,378,809	4,536,446	4,554,592	5,041,934
Adjusted Rate of Increase			5.89%	5.60%	3.30%	1.70%	0.20%	0.90%	4.50%	3.60%	0.40%	10.70%
With RSO, Assuming Max Increase of:	3.0%											
Avg Rent Incr, Market			6.6%	5.6%	3.3%	1.7%	0.2%	0.9%	4.5%	3.6%	0.4%	10.7%
Avg Rent Incr, Renewals /1			3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	2.6%	3.0%
Avg Rent, Renewals		3,000	3,090	3,183	3,278	3,377	3,478	3,582	3,690	3,800	3,899	4,016
Premium, MTM Renewals	0.0%	3,000	3,090	3,183	3,278	3,377	3,478	3,582	3,690	3,800	3,899	4,016
Avg Rent, Turnover		3,000	3,198	3,377	3,489	3,548	3,555	3,587	3,748	3,883	3,899	4,316
Renewals, Lease	60	2,160,000	2,224,800	2,291,544	2,360,290	2,431,099	2,504,032	2,579,153	2,656,528	2,736,223	2,807,145	2,891,359
Renewals, MTM for 6 mo	3	54,000	55,620	57,289	59,007	60,777	62,601	64,479	66,413	68,406	70,179	72,284
MTM after Turnover	3	54,000	57,564	60,788	62,794	63,861	63,989	64,565	67,470	69,899	70,179	77,688
Turnover Units	37	1,332,000	1,419,912	1,499,427	1,548,908	1,575,240	1,578,390	1,592,596	1,664,262	1,724,176	1,731,073	1,916,297
Gross Potential Rent		3,600,000	3,757,896	3,909,047	4,030,999	4,130,977	4,209,012	4,300,792	4,454,673	4,598,704	4,678,574	4,957,628
Less:												
Effective Vacancy Rate		1.70%										
Turnover Vacancy, 0.5 mth			59,163	62,476	64,538	65,635	65,766	66,358	69,344	71,841	72,128	79,846
MTM Turnover Vacancy, 0.5 mth			4,797	5,066	5,233	5,322	5,332	5,380	5,623	5,825	5,848	6,474
Turnover Make-ready Costs @ 20% of Rent			23,665	24,990	25,815	26,254	26,307	26,543	27,738	28,736	28,851	31,938
MTM Turnover Make-ready Costs @ 20% of Rent			1,919	2,026	2,093	2,129	2,133	2,152	2,249	2,330	2,339	2,590
Total Adjustments for all Turnover			89,544	94,558	97,679	99,339	99,538	100,434	104,953	108,732	109,167	120,848
Adjusted Gross Potential Rent		3,538,727	3,668,352	3,814,489	3,933,320	4,031,638	4,109,474	4,200,358	4,349,720	4,489,972	4,569,408	4,836,780
Adjusted Rate of Increase			3.66%	3.98%	3.12%	2.50%	1.93%	2.21%	3.56%	3.22%	1.77%	5.85%
Impact on Net Income												
Adjusted Rent Reduction due to RSO			67,552	130,625	141,983	112,945	43,399	(10,110)	29,090	46,474	(14,815)	205,153
Less: Ground Rent @ 10.5%			(7,093)	(13,716)	(14,908)	(11,859)	(4,557)	1,062	(3,054)	(4,880)	1,556	(21,541)
Less: Mgmt Fee @ 5.0%			(3,378)	(6,531)	(7,099)	(5,647)	(2,170)	505	(1,454)	(2,324)	741	(10,258)
Reduction in Net Income			**57,081**	**110,378**	**119,975**	**95,439**	**36,672**	**(8,543)**	**24,581**	**39,271**	**(12,519)**	**173,354**
Reduction per Unit			**571**	**1,104**	**1,200**	**954**	**367**	**(85)**	**246**	**393**	**(125)**	**1,734**
Reduction % of "No RSO"			1.5%	2.8%	2.9%	2.3%	0.9%	N/A	0.6%	0.9%	N/A	3.4%

Notes:

/1 Assumes rent increases can catch up to market, but no greater than 3.0% per year.