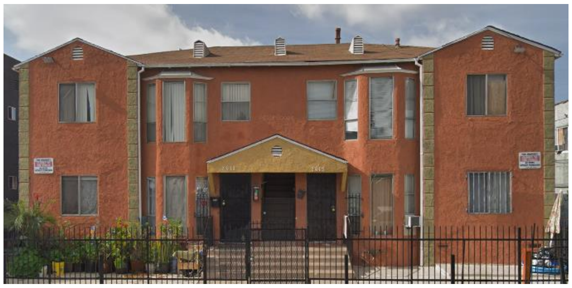
Featured New Development:
$1bn George Lucas Museum of Narrative Art Takes Shape
- 5-Story Museum dedicated to George Lucas (Star Wars, Indiana Jones)
- 300,000 SF building will house exhibition space for Lucas' 100,000-piece movie-related art collection.
- The spaceship-style building is adjacent to USC's LA Memorial Coliseum.
- In addition to this new museum, USC has seen major investment over the past few years:
    1 - Renovation of the Coliseum ($315mm)
    2 – New Stadium for new MLS team, LAFC ($350mm)
    3 – USC Village combining new student housing, retail, & shops ($700mm)

Find it on the Map

Featured Leasing Update:
The beloved Amoeba Music isn't going away - they've found a new home.
- Amoeba is a Hollywood Landmark and record store on Sunset & Cahuenga.
- It was heartbreaking news that the building was sold to GPI Companies to be replaced by a 28-story apartment tower.
- Fortunately, the shop is surviving and moving a few blocks north & east.

Find the new location on the Map

Featured RE Trade:
Keystone Investors purchased a 10-Unit multifamily property at 2615 West Blvd in West Adams for $2.49mm, or $249k / unit, $298 PSF. This is a 14.4x GRM or a 4.12% cap rate. All units are well laid-out 2 BRs and none have been significantly renovated. This was an off-market transaction. The deal has significant upside, as rents can be increased by 81% on average. Additionally, a Freddie Mac agency loan was obtained on the property for a fixed rate of 3.37%.
Find it on the Map



Local Politics:
[Another Rent Control Battle is on the Horizon]
- Rent Control will again be on the ballot in November.

Who's Leading the Rent Control Charge?
- Michael Weinstein – Owner of AIDS Healthcare Foundation & Founder of the Housing Is A Human Right Organization.
- His organization has gathered 1mm signatures, enough to put this measure on the ballot.

What is Proposed?
- Give municipalities power to implement & expand rent control as they wish.
- Currently, they're restricted by a state law called Costa Hawkins, which (i) protects Landlords right to raise rent to market once a tenant moves out. (ii) prevents cities from establishing rent control on units built after 1995, (iii) exempts single-family homes and condos from rent control.

What Happened Last Time (2018)?
- Rejected by voters 60/40.

Is it Likely to Pass This Time?
- Opponents spent $72mm, while supporters spent $25mm. This strong opposition would likely continue, making it unlikely to pass.
- A Statewide rent control law (AB 1482) passed last year, which caps rent increases at 7% per year, impacting properties that weren't already rent controlled. Now that all properties in CA are rent controlled, an additional argument for the opposition will inevitably be: why do we need more regulation?

What Happens to Owners of Rent Controlled Properties if it Passes?
- First, the measure itself wouldn't change anything - it would give municipalities the power to make changes. They may or may not, but there would still be a lot of back and forth before anything changed.
- If you own a rent-controlled building, you own the last type of property that the municipalities want to go after. They will first try to apply rent control to buildings not already rent-controlled.

What About Vacancy Control?
- This is by far the **most controversial** and the big one to consider if you own a rent-controlled building. This would mean a Landlord could not increase rent to market if a tenant moved. Under the ballot measure proposal, the Landlord could **only increase rent by 15%.**
- If they went this far, it would negatively impact the value of rent controlled units where rents are >15% below market.
- The value of units that have already been brought within 15% of market would not be negatively impacted.

What would be the New Strategy for Rent-Controlled Investors?

1) Less generous relocation assistance packages would be offered. For example, a relocation offer may consist of a couple months of discounted rent; instead of free rent + a moving service + guaranteed Security Deposit + $20,000.
2) If a tenant who is >15% below unrenovated market moves, you would not renovate the unit. You would leave it as is and simply release it 15% higher. After that tenant moves on, it may make sense to renovate, or do a partial renovation. The strategy may be to do renovations in phases as tenants move in and out: kitchen after one move-out, then bathroom, then flooring, then recessed lighting, etc.
3) Currently, when purchasing a building with rents that are >15% below market, you're willing to pay more because you know with rentals, people move over time or accept relocation assistance packages, and you will eventually capture the top-line rent growth over the hold period needed to meet your required returns. If the amount you can increase is capped, you can't assume as much top-line growth and may need to pay less for a building with significantly below market rents.
4) I believe that Vacancy Control would actually support and even **increase the value** of buildings where units have already been renovated and released. The reason for this is because Landlords would immediately stop doing nice renovations. The Supply of freshly renovated units would **stop** overnight. This policy wouldn't impact the Demand for renovated units, therefore the **rent for a renovated unit would increase drastically.** If your portfolio consists of 50% renovated units that were leased at market within the last few years, you could find that those units quickly become 10-15% **below** market. This pop in value for your renovated units would outweigh the lower value the market would assign your units that are still far below market.
5) As I write out the strategy for moving forward in a world where there is Vacancy Control, you may notice that the situation for rent-controlled renters would become **significantly worse.** Below is the Before & After Vacancy Control for renters:

- <u>Before:</u> Rent can be increased a max of 3% per year, it's extremely difficult to be evicted in LA courts unless you haven't paid your rent, and a Landlord who wants to renovate your unit may offer you a generous relocation package, which you do not have to accept if you don't want to.
- <u>After:</u> Significantly less units across the city would be renovated, rents on renovated units would increase drastically, relocation assistance packages would be greatly slimmed down or disappear altogether.

The <u>After</u> is a serious downgrade for the renter, and this policy would result in the exact opposite outcome that Housing As a Human Right is looking for.

<u>Conclusion:</u>

- Giving municipalities power to make their own rent control policies is on the ballot.
- Vacancy Control is the only change that would impact strategy & value for rent-controlled investors.
- If Vacancy Control did pass, rent-controlled investors would need to decrease spending on relocation assistance and renovation work.
- Vacancy Control would drastically reduce Supply, therefore increasing market rent. While the value of unrenovated units with rents far below market would decrease, the value of renovated units close to market would increase.

Celebrity RE Update:
Bezos' Other Big LA RE Deal: a $90mm patch of dirt
Remember last week the Celebrity RE article was about Bezos breaking the record with his $165mm purchase?

Weekly Long-Read Suggestion:
Why LA is One of the Trickiest Markets for Institutional Investors to Crack
LA is very unique in that it is comprised of dozens of submarkets, with no defined center. This gives local firms a distinct advantage and makes it tough for out of state investors to compete.

Quote of the Week: "Inefficient markets do not necessarily give the participants generous returns. Rather, my view is that they provide the raw materials — mispricings — that can allow some people to win and others to lose on the basis of differential skill." – Howard Marks, from his book: The Most Important Thing (Co-Founder of Oaktree Capital Mgmt)
**** this is particularly relevant to buying rent-controlled properties in LA.**

LA Restaurant Feature of the Week:
KazuNori: The Original Hand Roll Bar – no reservations, just get in line to be seated in a horseshoe around the chefs. There's one in Santa Monica & DTLA. I highly recommend.

Real Estate Term of the Week:
PF GRM – Pro Forma Gross Rent Multiplier. (Purchase Price + Renovation Costs + Relocation Assistance Costs) / (Annual Gross Rental Revenue After Increased Rents). This takes one of the simplest real estate calculations, GRM, and fast forwards until you've completed renovation work and released those units. If there is upside in the deal, the PF GRM will be **lower** than the GRM at purchase. There is more guesswork in the PF GRM compared to the GRM because you need to estimate relocation & renovation costs as well as achievable rents. Again, in 4Q'19 the median & average GRM in LA was 14.6x and 13.6x respectively. PF GRM's on great deals can be as low as 9.0x, but a 10-12x PF GRM is more typical and is still a good deal depending on the location.

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