RCLCO
REAL ESTATE CONSULTING

MEMORANDUM

DATE: February 11, 2022

TO: City of Pico Rivera

FROM: Derek Wyatt, Managing Director, and Josh Ball, Senior Associate

SUBJECT: Responses to Preliminary Review – 8825 Washington Boulevard Project

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RCLCO prepared a Strategic Market Analysis ("Report") dated May 4, 2020 for Optimus Properties, LLC ("Developer") related to the proposed apartment development located at 8825 Washington Boulevard ("Site") in the City of Pico Rivera ("City"). Keyser Marston Associates ("KMA"), the City's consultant, has reviewed the report and prepared a series of comments and questions for Developer and RCLCO. RCLCO has prepared responses to the relevant questions below, but has not undertaken a comprehensive effort to update the Report.

1. Based on the date of the Report, what changes in the market could/would impact its findings?

   Since the Report was published, the apartment market in Pico Rivera and Gateway Cities has performed well, with vacancy in Pico Rivera falling to a historical low of 0.6% as of February 2022 and decreasing to 2.5% in the Gateway Cities submarket. Despite economic headwinds caused by COVID-19, rent growth was also strong, with rents growing by 8.9% in Pico Rivera and 11.0% for the broader Gateway Cities since March 2020 (when data was collected for the Report). These strong metrics suggest potential increases from the original projections, particularly regarding achievable rental rates.

2. The Report indicated two communities in Pico Rivera that were undergoing renovations in 2020, have these been completed? If so, what are the current asking rents and vacancy levels in these properties?

   California Villages has completed its renovation and is currently 99.5% occupied with average asking rents of $2,026 per month ($3.13/SF), a 10.1% increase from the Report. Corsica Apartments (since rebranded as Lucia Apartments) has also completed its renovation and currently has an occupancy rate of 98.6% with average asking rents of $2,054 per month ($2.49/SF), a 2.4% increase from the Report.

3. The Report indicated numerous new projects coming on-line in the Gateway Cities, what is the status of this inventory?

   Since the beginning of 2020, nearly 1,400 units have been delivered in the Gateway Cities. However, absorption has outpaced this new supply, with over 1,900 units absorbed over the same period. Vacancy rates for the new projects are higher, which is expected as many of these new communities are still early in their lease-up periods.

4. The market for the 88 at Alhambra Place and The Colony at the Lakes appear significantly different than the subject site, please fully detail the rationale to include these projects in the competitive set, as they appear well outside the Competitive Market Area.

   To provide additional context and considering the lack of new contemporary communities in Pico Rivera, RCLCO surveyed competitive communities in Alhambra (88 at Alhambra Place) and West Covina as well (The Colony at the Lakes). While these communities are located outside of the Gateway Cities and are unlikely to represent significant competition to the site, they nonetheless offer additional examples of well executed apartment communities that likely appeal to a similar set of target markets, and offer additional context in terms of successful product programs and amenity offerings.

5. The projected rents for the subject site are much higher than the two existing developments in Pico Rivera. What contingency is there in the current development pro forma if the projected rents are not achieved?

   Per Developer, "there is enough room in the operating budget if market rents are not achieved."

6. How did RCLCO and the development team identify the mix and size of the units in the Project? Specifically:

   a. The unit mix and rents for the comparable projects shown on pages 18 and 19 show 22% of the units are under 575 square feet while only 13% of the market area units are below this threshold. Why is the share of smaller units in this Project so high?

The Report indicates an opportunity to capture a market that doesn't currently live in the area, likely due to the lack of product that meets their needs and preferences. Contemporary communities in other locations such as Pico Rivera are also introducing new products with unit mixes and sizes that may not be consistent with existing supply, but nonetheless are attractive to the evolving target market of renters. The smaller unit sizes also allow the development to attract price-conscious renters who may prefer to live in a smaller unit that offers nicer finishes and amenities.

b. Consistent with the previous question both the one-bedroom (617 square feet compared to 740 square feet) and two-bedroom (988 square feet compared to 1,066+ square feet) in the Project are much smaller than the comparable projects, please explain.

This also relates to the general trend of apartment development moving towards smaller unit sizes mentioned above. Newer projects are able to be more efficiently designed, offering a similar experience in a smaller amount of space, while maintaining attractive rents on a "chunk" rent perspective (the total monthly rent paid by the tenant).

c. The study indicates the "renters are likely to view the smaller unit sizes as a viable trade-off for the site's retail-rich location, attractive lifestyle, high quality units and community amenities." What experience does the developer have with a project attempting to hit this target? In addition, what experience does the developer have leasing smaller units in this market area?

Per Developer, "Optimus has been around since 2007 and owns and manages close to 1,000 units throughout Los Angeles County. Studios and 1BR units have much higher demand and lease quicker compared to 2BR and 3BR units in our portfolio."

d. Given the small unit sizes, how will the developer address potential issues regarding overcrowding?

Per Developer, "there are occupancy standards for all of Optimus' Buildings. Two people per bedroom and one person per living room, meaning studios would have a maximum of two people, 1BR a maximum of three people, and 2BR a maximum of five people."

7. Please detail the factors assumed to arrive at the total capture rates shown on Page 24. Specifically:

a. What is the City's historical and projected share of renter households in the primary market area?

According to Esri, the City's historical share of renter households in the Primary Market Area was 1.8% in 2019. This figure is expected to remain somewhat consistent until new rental product is introduced, with Esri projecting a 1.7% share of renter households in 2024.

b. What shift in trends was assumed?

The Report assumed that the City's share of renter households has been limited by the fact that there has not been any apartment development in over a decade. By introducing new product, the City could increase its share of available demand in the Primary Market Area.

c. What is the basis for the rent as a percent of income estimates shown in Exhibit III-3?

This is based on Census Data, RCLCO experience, and conversations with leasing professionals at the communities profiled in the market study.

d. What is the basis for the share of annual rental demand pool that chooses multi-family rentals shown in Exhibit III-3?

This share is based on detailed data for the Primary Market Area from the U.S. Census Bureau's American Community Survey.

8. The proposed income levels required to afford the projected rents appear relatively high, particularly given the unit sizes. To that end:

a. What is the average household income level assumed for the Project?

At the projected average rent of $2,220 from the Report and assuming an average rent to income ratio of 30% to 35%, the implied average household income would be between $76,100 and $88,800.

b. What is the projected average household income for each of the unit types?

Following a similar approach as described in 8.a., the average income by unit type is shown in the table below:

UNIT TYPE	AVG. RENT	AVERAGE INCOME		
Studio	$1,890	$64,800	-	$75,600
Jr. 1BR	$1,940	$66,514	-	$77,600
1BR	$2,015	$69,086	-	$80,600
2BR	$2,695	$92,400	-	$107,800
3BR	$3,925	$134,571	-	$157,000

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c. How do the projected average household income levels for the unit types compare to existing household income levels in Pico Rivera?

According to Esri, the average household income for Pico Rivera was $78,886 in 2019, similar to the average household income based on the projected rents (see 8.a. above).

d. Approximately 8.9% of City households earn over $150,000 per year. Based on the graph shown on page 24, it appears nearly 14% of the Project households would earn over $150,000, is this correct? If so, please explain the rationale for these higher income households choosing this project over other units in the City and market area.

Higher income households are typically drawn to newer and higher quality units. Because there has been a lack of both new and high-quality inventory in Pico Rivera for more than a decade, the Subject Site should be able to induce demand from households that currently live outside the City. Additionally, the analysis assumes that this project can attract renter households from beyond just the City of Pico Rivera providing greater market depth among these higher income households, particularly those that might have considered Pico Rivera but did not have comparable product available to them.

e. What is the developer's experience with multi-family, rental projects that would require income levels much higher than surrounding environs?

Per Developer, "Optimus has 15 years of experience bringing luxury apartments to areas lacking them."

9. What are the projected household sizes for the Project? Specifically:

a. What is the household size for each of the unit types in the Project?

The Report assumes an average household size of 1.0 for Studios and Junior 1BRs, 1.25 for 1BRs, 1.75 for 2BRs, and 2.25 for 3BRs. The unit mix provided in the Report implies an average household size of 1.35 for the total project.

b. How do the projected household sizes for the Project compare to existing household sizes by room count in Pico Rivera?

Using localized data from the U.S. Census Bureau's American Community Survey, the average household sizes for renters in Pico Rivera are generally 1.0 across Studio and 1BRs, 1.65 for 2BRs, and 2.10 for 3BRs. As a result, our projected household sizes are slightly larger than the current market conditions in Pico Rivera.

10. Has a fiscal analysis for the project been prepared? Typically, a thorough evaluation of the project would address the following:

Yes, Kosmont Companies prepared a Fiscal Impact Analysis for the project.

a. Projection of Annual Revenues – Provide an estimate of the gross annual recurring tax revenues and subvention revenues to be generated by the build out of the project, which are allocated to the City's General Fund.

b. Projection of Annual Plan Service Costs – This would be an assessment of annual General Fund operating and maintenance costs related to providing services.

c. Preparation of a basic set of general fund revenues and costs generated by the project. Often a comparison analysis is prepared to evaluate the fiscal impact of a "by right" development