

**Marina del Rey  
Lessees Association**

C/o Mr. Timothy C. Riley, Executive Director  
8537 Wakefield Avenue  
Panorama City, CA 91402  
Telephone: 818-891-0495; FAX: 818-891-1056

April 2, 2019

The Honorable Janice Hahn  
Los Angeles County Board of Supervisors  
Kenneth Hahn Hall of Administration, Room 822  
Los Angeles, CA 90012

Dear Supervisor Hahn:

The Marina del Rey Lessees Association was provided on March 14<sup>th</sup> with the March 12, 2019, REPORT BACK REGARDING MARINA DEL REY LEASEHOLDS AND A PERMANENT RENT STABILIZATION ORDINANCE prepared and delivered to the Board offices by the Department of Beaches and Harbors. We are disappointed by both the substance and the publication of the Report, since it was produced by the Department without any input from, or discussion with, the Association and/or our counsel and consultants since what we thought was a constructive February 11, 2019 meeting referenced in the Report.

Succinctly put, the Report reflects a lack of good faith by the County in its dealings with its development partners in Marina del Rey, lessees who have implemented the redevelopment and/or renovation of Marina del Rey apartment complexes upon terms agreed to by the County -- and who now find ourselves faced with an unrealistic and a punitive Interim Rent Stabilization Ordinance and the uncertainty associated with a prospective Permanent Rent Stabilization Ordinance.

First, the representatives of the Association left the February 11, 2019 meeting with the explicit understanding that the Department would be granted an extension from its March 12<sup>th</sup> deadline to carry out follow-up discussions with the Association and its counsel and economic consultant to engage in an appropriate give-and-take process to find mutually-acceptable solutions to the issues and problems caused by the imposition of rent stabilization and the County's unique "Just Cause Eviction" rules upon Marina del Rey leaseholds under contract with the County. Those discussions never took place.

Second, for more than six months, the Association has been advised that the County would act to work with the Lessees to come up with a fair plan to address those losses to be suffered by the lessees as a result of the establishment of a Permanent RSO. By imposing rent stabilization, and by discouraging additional incremental investments in the affected apartment complexes, the County is also limiting its own compensation and land value. The Board of Supervisors certainly has the discretion to reduce the County's own revenue and value which derive from its ownership of Marina del Rey, but the County should not punish its private sector partners by reducing the financial return to lessees and their investors in order to impose a regressive rent control policy which will subsidize high-income "renters by choice" in Marina del Rey.



From our perspective, the Report does not deal substantively with any of the policy issues brought up at the February 11th meeting, including the fact that the County's own data suggest that most residents in Marina del Rey apartments have household incomes of well above \$100,000 a year and do NOT pay more than 30% of their income on rent—and are therefore NOT "housing cost burdened." The County participants in the meeting were also unaware that the Interim Rent Stabilization Ordinance makes it illegal for a resident to choose to pay more than the maximum increase in rent as defined in the Interim Ordinance upon a lease renewal in exchange for the provision of any upgrades to their apartment.

The Association's concerns about the practical implications of the temporary and possibly permanent rent control regulations on the management of Marina del Rey apartment complexes were also not adequately addressed in the Report, such as the specific policy and potential mitigation issues described in Section G of our February 11, 2019 presentation, including, most notably, a chart we prepared which shows the inconsistencies between the Interim Ordinance passed by the County Board of Supervisors and the City of Los Angeles Rent Stabilization Ordinance. Another example is that the Report does not consider that many of the renters by choice in Marina del Rey prefer month-to-month leases and are willing to pay more for the flexibility such a lease provides.

Thousands of affluent "residents by choice" will effectively be subsidized, not one additional affordable housing unit will be created, and County General Fund revenue will suffer, along with the profitability of your lessees under binding agreements with the County, for no good reason. Not to engage in nuanced discussions with the County's partners about these issues in good faith would be unfair and inappropriate under the circumstances.

The critique offered in the "Initial Analysis of the Marina del Rey Lessees Association Discussion of the Impact of the County's Proposed Permanent Rent Stabilization Ordinance" prepared by Illuminas Consulting is likewise concerning. The County's economic consultant does admit that the Rent Stabilization Ordinance "would most likely cause some detrimental impact to lessees," that the reduction of leasehold revenue hence net income and cash flow "is likely to be the case to some degree," and that "reduced net income will decrease value." Yet, the analysis concludes that the Association's proposed mitigations "are in no measure justified" because the lessees "are able to earn an acceptable return on their investment with the existing lease terms." Given the acknowledgement that the affected lessees will suffer losses of both income and value, this conclusion is not supported by the content of the Illuminas Analysis — and ironically points out the wisdom and prudence of the Association's targeted, specific proposals.

For example, to defend the position that the lessees should absorb all of the impact of rent control, the analysis states "it should be pointed out that never have the lessees offered any additional compensation to the County in times of high rent inflation." This statement is not accurate. The fact is that, "in periods of high rent inflation," the County receives a dramatic increase in ground rent, since it receives a percentage of the gross revenue generated by the leaseholds, and not a flat rent amount. The Marina del Rey ground lessees are so structured that the County benefits from every dollar of gross revenue generated by the rents paid by our residents, and, as a result, the County also benefits from additional investments and upgrades made by lessees which result in higher rents.

The Department's Report claims that the percentage ground rent can be adjusted upon the rent renegotiation date for each leasehold, but this statement ignores the fact that the current



language included in the ground leases precludes any downward adjustment of the percentage ground rent. It further fails in two additional respects: the amount of downward adjustment of ground rent is difficult to accurately assess in changing market conditions; and any adjustment in percentage ground rent would be made years after the impact has been incurred by Lessees.

A Rent Stabilization Ordinance, Interim or Permanent, also pits the “renovated” apartment complexes against the new “redeveloped” apartment complexes, even though the renovations (and the lease extensions which implemented them) were required to provide projects “like new” to compete with new products in the Marina, in Playa Vista, and elsewhere on the Westside. It makes no sense for the County to put the Marina at a competitive economic disadvantage with the Marina del Rey redeveloped apartment projects and the luxury apartments in the City of Los Angeles by imposing more onerous restrictions than the City of Los Angeles’ RSO.

In contrast, the Association’s proposal to mitigate the negative impacts of rent stabilization by the annual application of a rent credit equal to the actual reduction in revenues attributable to the Rent Stabilization Ordinance was rejected outright without any discussion or exploration simply because “it would be unworkable from an administrative standpoint” – despite the fact that this judgment was made without any discussion or effort to make it “workable.” The Department already requires the monthly submittal of forms by lessees to document the calculation of ground rent and the County also carries out periodic Audits of Lessee operations. The Association believes the proposed rent credit could be determined by filling out a one-page form similar to the monthly reporting and periodic audit forms which are already submitted by the lessees — and we have attached an example of our proposed form to this letter for the County’s consideration.

Our proposal, in fact, would protect the County’s own financial return by limiting mitigation to the actual impact of the RSO each year. And, the mitigation is a credit against the amount of ground rent which may be generated by higher market rents achieved by virtue of vacancy decontrol for new residents. We note that the County rejects our fact-based, property-specific approach as “unworkable” when the County itself is imposing a substantial administrative burden on its Lessees to implement an Ordinance with an untried hearing process and which is inconsistent with both state law and the City of Los Angeles RSO.

There is much work to be done to address the complex housing crisis in Los Angeles County, and we Lessees believe we can be part of the solution. In our February 11, 2019 presentation, the Association requested consideration of alternative public policy approaches to increase the affordable housing supply throughout Los Angeles County by deploying some portion of the County’s ground rent generated by the Marina del Rey leaseholds to subsidize real affordable housing elsewhere in the Marina or in other unincorporated areas of the County. Succinctly put, we do not believe that imposition of a RSO without mitigation for the affected lessees will have a meaningful impact on solving the public policy issues which are the concern of the Board, as the adopted RSO, whether it remains interim or becomes permanent, will both harm the County’s Lessee partners and hinder the choices and flexibility enjoyed by the current “renter by choice” residents of Marina del Rey.

Once again, as we have stated since the Board established a Working Group to consider establishment of a Rent Stabilization Ordinance, the Lessees Association urges the Board to carry out meaningful, nuanced discussions with your Lessee partners to attempt to come to agreement on pragmatic and fair mitigation for rent control measures already enacted by the

April 2, 2019

Board, as well as to better prepare all affected parties for a Permanent Rent Stabilization Ordinance, in the event the Board should move forward with such an ordinance.

Sincerely,

*David O. Levine*

David O. Levine

President, Marina del Rey Lessees Association

Attachments: Marina del Rey Lessees Association Presentation dated February 11, 2019  
The Maxima Group's March 2019 Analysis of the Illuminas Consulting Report  
Proposed sample one-page monthly reports (Appendix A, Maxima Analysis)





## THE MAXIMA GROUP LLC

Real Estate and Business Solutions

---

27 March 2019

To: David Levine  
Tim Riley

From: Pat Flynn

Subject: Response to Illuminas' Analysis of Lessees Discussion of the Effect of Rent Stabilization Ordinance (RSO) on Lessees' Economic Performance

I have reviewed the Illuminas Consulting (Illuminas) memo dated February 26, 2019 that offers observations on the Maxima analysis of the economic impact of the RSO on the affected Lessees. When the idea of a rent stabilization ordinance was first discussed with the Lessees Association in late 2018, County representatives directly acknowledged that a rent control measure in Marina del Rey would impose an economic impact on the Lessees and expressed a willingness by the County to offset this impact in order for the County to gain the perceived social benefit of limited rental rate increases.

The February 8, 2019 Maxima Group memo described mitigation for the three areas of economic performance that would be impacted by the RSO. The Illuminas memo acknowledged that "while the RSO will most likely cause some detrimental impact to lessees in each of the three areas (of economic impact) identified by Maxima, the proposed mitigation measures are in no way justified...". The memo goes on to state that "there is no reason to provide a rent credit or eliminate any key lease provisions to offset any impacts of the RSO." This statement directly contradicts the acknowledgement that the RSO will impact the Lessees and the County's previous pledge to offset this impact.

The Illuminas memo dismisses the need for mitigation by critiquing analytical assumptions, required rates of rent escalation and return, and asset valuation. It concludes by stating that a rent credit "would be unworkable from an administrative standpoint." This memo discusses each of these areas of critique.

Here are Maxima's thoughts on the key points in the Illuminas memo:

#### Illuminas' Observations on the Impact of the RSO on Lessee Income

Illuminas cites seven primary flaws in the Maxima analysis of the impact of the RSO on Lessee income. These alleged flaws are:

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 revenue.
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 when the market increase is less than 3%
5. Using a baseline turnover rate of 33% when Marina turnover is typically 45%
6. Using four percent annual rent increase as a "baseline" whereas the projected increases in Lessee negotiation pro formas is 3%
7. Analyzing the impact over a short period (10 years) rather than the long term (30 years).

The Illuminas comments seem to miss the point of the Maxima income analysis. All of Maxima's assumptions (see Illuminas comments 1, 4, 6, and 7) are based on discussion with the affected Lessees and are meant to be illustrative only. If there is one thing that is evident in preparing the analysis of the RSO impact is that there is no "one size fits all" remediation. In a strange and unintended way, the Illuminas critique of the assumptions used in the analysis proves this point. The only fair and effective approach to offsetting the impact of the RSO on rental revenue is to measure the impact at each property (more on this later) and use ground rent credits as an offset when the impact is a reduction in income.

Illuminas' points 2 and 3 fault the Maxima analysis for omitting the reduction in management fees and ground rent (dependent of the amount of gross revenues) and turnover costs (dependent on tenant turnover). These comments fail to recognize the following conditions:

- All the affected Lessees self-manage their assets. The reduction in revenue from the RSO and resulting loss of management fees is another negative impact on the bottom line for the Lessees. We excluded this loss of management income from the analysis because the focus of this exercise is on rental revenues.
- Lower ground rent will result from lower gross revenue. However, lower gross revenue will also decrease "other income" in the total revenue calculation. Maxima believes that the loss of revenue in management fees and other income line items will equal or exceed any reduction in ground rent payment.
- Turnover costs may be reduced initially due to fewer tenants moving out, but these costs will be higher per unit once the longer-occupied unit is vacated. Any short-term reduction will be made up for (and perhaps more) with higher per unit costs in the future.



These critiques of variable costs associated with reduced revenue and turnover implicitly acknowledge that the RSO will impact tenant turnover and revenue. In fact, nothing in the Illuminas memo refutes the fact that the RSO will have a negative impact on Lessees.

#### The Ability to "Catch Up" to Market

Illuminas states that "there is nothing in the ordinance that would prevent landlords for (sic) increasing rent at the full 3.0% even if it results in slightly higher than market rents, thus allowing the landlords to build up a bit of a cushion for times of high rent inflation." This statement is a misunderstanding of the meaning of market rent. The issue here is not the ordinance, but the market. The rent you can charge IS the market rent. There is no such thing as achievable rent that is higher than market. It will be possible to increase at 3.0% in a year when rent increases are less than 3.0%, but only for units that are already more than 3.0% below market. This may occur for units that have enjoyed the benefits of limited rent increases for several consecutive years, but only after not realizing full market rents for the previous years.

The table on page 5 of the Illuminas memo (see below) demonstrates that it is possible to "catch up" to an average annual rent increase of 3% by using the maximum escalation in years when market increases are below 3.0%.

#### **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

While the example shows that market rent is "regained" in year 9, it also demonstrates that Lessee revenue is a loss relative to market in years 1 to 8. If the "rent difference" losses shown in the table above were applied to 250 units, the total losses to market for the Lessee would have totaled nearly \$1 million before reaching "parity" in year 9. A sale in year 5 using these assumptions and a 4% capitalization rate would result in revenue loss of \$201,000 and a value loss of over \$5 million.



It would be equally possible to utilize assumptions that show an on-going loss that never returns rents to market levels. There is simply no way to predict future market behavior. Again, this demonstrates the need for an annual reconciliation of actual revenues to market. If the cycle is such that a Lessee is able to "catch up to market" then no ground rent offset is required.

### Lessees' Expectations of Returns

Illuminas cites pro formas submitted by Lessees for negotiations as evidence that annual rental rate increases are not expected to exceed 3.0% per year. This statement ignores market realities. Although Lessees may expect an average annual increase of 3.0%, market realities are that the annual rent escalations may range from flat (or sometimes negative) to growth in excess of 3.0%. By limiting the upside of rental rate increases over the economic cycle, the RSO makes it harder (or perhaps impossible) to achieve an average three percent return over the long term.

It is important to point out here that the Lessees are not asking the County to guarantee an average 3.0% escalation rate throughout the lease term in order to earn the return modeled in negotiating pro formas. The expectation, as negotiated in many, many transactions with the Department of Beaches and Harbors, is that Lessees take both the risk of the downside and the benefits of the upside with the hope that an average rate of growth can be achieved. Limiting the potential upside of rent growth jeopardizes the ability to earn an acceptable return over the final term of the extended lease.

### Proposed Mitigation of Rent Credit

Illuminas points out that the rent credit concept would be unworkable from an administrative perspective. This is not true. Lessees can report annual results against established benchmarks based on actual market rents for comparable units. This can be done annually with sufficient supporting information for DBH to verify the calculated loss (if such a loss exists). The information necessary to produce the required reporting is gathered on a real-time basis in property management information systems. Appendix A shows examples of one approach to reporting results. DBH would have the typical audit rights it now enjoys over several other ground lease provisions, including some leases with complicated ground rent formulas.

### Limited Ability to Recover Investment

This section responds to three incorrect assumptions:

1. 3.0% return is enough to recover a return on/of investment. In order to earn a 3% average annual return, the Lessee must use the growth that is higher than 3% to offset the years when growth is less.
2. If a tenant requests improvements that the Lessee is unwilling to provide, the tenant will simply go elsewhere. This is correct, and that "elsewhere" may be to



- other MDR properties that are not subject to rent control, or it may be out of the Marina. The RSO creates a group of "haves" and "have nots" within the Marina.
3. The Renovation Fund is sustainable as-is because rents will still go up 3% per year. The 3% average cannot be achieved if Lessees are restricted to no more than 3% annual increases for renewing tenants.

### Decreased Market Value

Illuminas recognizes that reduced net operating income will decrease value but argues that the cap rate will not be affected because there are other fee properties also subject to rent control. This argument fails to consider that the only valid comparison here is to the value of the asset before the RSO and the value after the RSO.

Even in the brief time that the RSO has been considered there have been several proposals at the State and local level to change rent control regulations. These proposed changes illustrate the uncertainty that is inherent in a rent-controlled income stream.

Illuminas states that the increased level of risk would be "true for all residential investors in the City and the County, so again Lessees are comparatively no worse off than other owners." This ignores the fact that some assets in Marina Del Rey (and elsewhere) are subject to rent control and others are not.

The rent control provisions differ significantly between the City and County. The City of Los Angeles' rent control ordinance provides a luxury exemption for housing targeted at higher-income renters who are not "housing cost burdened." This exemption, which is not provided in the temporary RSO, illustrates the uneven playing field for projects not only within the Marina, but also for comparable projects nearby in the City of Los Angeles, such as Playa Vista.

The rent control requirements can and do change over time. This creates higher risk, and therefore require a cap rate premium.

### Conclusion

The Illuminas memo confirms that Lessees will face an economic impact as a result of the RSO, and the memo's critique of Maxima's assumptions and methodology demonstrates, rather than refutes, the need for an annual property-specific reconciliation. The County response to the Lessees' February 11, 2019 presentation does not offer alternative mitigation measures to offset the impact the County has acknowledged, nor does it respond to suggested alternative approaches such as banking annual rent increases.



## **APPENDIX A: EXAMPLE OF RENT RECONCILIATION REPORTING FORMAT**

The attached schedules show examples of rent reconciliation under three conditions:

- The current escalation is higher than the RSO-allowed amount;
- The current escalation is equal to the RSO-allowed amount;
- The current escalation is lower than the RSO-allowed amount.

These examples are illustrative only, and notes are provided on each schedule to clarify assumptions. This example shows a report based on monthly results. Lessees can prepare monthly reports and aggregate to an annual report for submittal to DBH.



Property Name

Parcel #

**Market Rent Monthly Reconciliation Report  
Leases Expiring October 2018**

Current year market escalation of **4.5%** Note 1  
RSO escalation limit 3.0% Note 2

Note 3

Unit	Unit Type	RSF	Lease Start	Renew?	Current Rent	Includes MTM Premium?	RSO Renewal Rent	Market Rent	Rent Loss to RSO
103	ST	525	9/1/2017	N	\$1,627.50		\$1,676.33	\$1,700.74	\$0.00
111	1 BR	750	9/1/2016		2,437.00		2,510.11	2,546.67	36.55
117	1 BR	765	9/1/2017		2,486.25		2,560.84	2,598.13	37.29
187	2 BR	880	9/1/2017	N	2,775.00		2,858.25	2,899.88	0.00
203	ST	532	9/1/2016	N	1,635.00		1,684.05	1,708.58	0.00
214	2 BR	882	9/1/2017		2,778.00		2,861.34	2,903.01	41.67
222	1 BR	763	7/1/2017	N	2,685.76	244.16	2,514.85	2,551.47	0.00
231	2 BR	875	9/1/2017		2,756.25		2,838.94	2,880.28	41.34
302	2 BR	880	10/1/2017		2,779.14	252.65	2,602.28	2,640.18	37.90
310	ST	525	9/1/2017		1,837.50		1,892.63	1,920.19	27.56
318	1 BR	750	9/1/2017		2,437.50		2,510.63	2,547.19	36.56
319	1 BR	765	9/1/2017		2,486.25		2,560.84	2,598.13	37.29
365	1 BR	750	9/1/2017		2,437.50		2,510.63	2,547.19	36.56
					\$31,158.65	\$496.81	\$31,581.69	\$32,041.62	\$332.74
					% of Total Revenue from MTM Premium		1.6%		496.81
					<b>Total Loss To RSO</b>		Note 4		<b>\$829.55</b>

Notes

- 1 Based on change in rental revenue over the past 12-month period.
- 2 Based on current TRSO: this can change over time if escalation limits are modified.
- 3 Assumes previous year escalation was 3%, applicable to lease originating in 2016.
- 4 This example shows some MTM income in place. Over time this income will go away under the RSO. The % RSO income should be based on the historic % of MTM premium to total income. This ratio will vary with each affected Lessee.



Property Name

Parcel #

**Market Rent Monthly Reconciliation Report  
Leases Expiring October 2018**

Current year market escalation of 3.0% Note 1  
RSO escalation limit 3.0% Note 2

Note 3

Unit	Unit Type	RSF	Lease Start	Renew?	Current Rent	Includes MTM Premium?	RSO Renewal Rent	Market Rent	Rent Loss to RSO
103	ST	525	9/1/2017	N	\$1,627.50		\$1,676.33	\$1,676.33	\$0.00
111	1 BR	750	9/1/2016		2,437.00		2,510.11	2,510.11	0.00
117	1 BR	765	9/1/2017		2,486.25		2,560.84	2,560.84	0.00
187	2 BR	880	9/1/2017	N	2,775.00		2,858.25	2,858.25	0.00
203	ST	532	9/1/2016	N	1,635.00		1,684.05	1,684.05	0.00
214	2 BR	882	9/1/2017		2,778.00		2,861.34	2,861.34	0.00
222	1 BR	763	7/1/2017	N	2,685.76	244.16	2,514.85	2,514.85	0.00
231	2 BR	875	9/1/2017		2,756.25		2,838.94	2,838.94	0.00
302	2 BR	880	10/1/2017		2,779.14	252.65	2,602.28	2,602.28	0.00
310	ST	525	9/1/2017		1,837.50		1,892.63	1,892.63	0.00
318	1 BR	750	9/1/2017		2,437.50		2,510.63	2,510.63	0.00
319	1 BR	765	9/1/2017		2,486.25		2,560.84	2,560.84	0.00
365	1 BR	750	9/1/2017		2,437.50		2,510.63	2,510.63	0.00
					\$31,158.65	\$496.81	\$31,581.69	\$31,581.69	\$0.00
					% of Total Revenue from MTM Premium		1.6%		496.81
					<b>Total Loss To RSO</b>		Note 4		<b>\$496.81</b>

Notes

- 1 Based on change in rental revenue over the past 12-month period.
- 2 Based on current TRSO: this can change over time if escalation limits are modified.
- 3 Assumes previous year escalation was 3%, applicable to lease originating in 2016.
- 4 This example shows some MTM income in place. Over time this income will go away under the RSO. The % RSO income should be based on the historic % of MTM premium to total income. This ratio will vary with each affected Lessee.

Property Name

Parcel #

**Market Rent Monthly Reconciliation Report  
Leases Expiring October 2018**

Current year market escalation of 2.0% Note 1  
RSO escalation limit 3.0% Note 2

Note 3

Unit	Unit Type	RSF	Lease Start	Renew?	Current Rent	Includes MTM Premium?	RSO Renewal Rent	Market Rent	Rent Loss to RSO
103	ST	525	9/1/2017	N	\$1,627.50		\$1,676.33	\$1,660.05	\$0.00
111	1 BR	750	9/1/2016		2,437.00		2,510.11	2,485.74	0.00
117	1 BR	765	9/1/2017		2,486.25		2,560.84	2,535.98	0.00
187	2 BR	880	9/1/2017	N	2,775.00		2,858.25	2,830.50	0.00
203	ST	532	9/1/2016	N	1,635.00		1,684.05	1,667.70	0.00
214	2 BR	882	9/1/2017		2,778.00		2,861.34	2,833.56	0.00
222	1 BR	763	7/1/2017	N	2,685.76	244.16	2,514.85	2,490.43	0.00
231	2 BR	875	9/1/2017		2,756.25		2,838.94	2,811.38	0.00
302	2 BR	880	10/1/2017		2,779.14	252.65	2,602.28	2,577.02	0.00
310	ST	525	9/1/2017		1,837.50		1,892.63	1,874.25	0.00
318	1 BR	750	9/1/2017		2,437.50		2,510.63	2,486.25	0.00
319	1 BR	765	9/1/2017		2,486.25		2,560.84	2,535.98	0.00
365	1 BR	750	9/1/2017		2,437.50		2,510.63	2,486.25	0.00
					\$31,158.65	\$496.81	\$31,581.69	\$31,275.07	\$0.00
					% of Total Revenue from MTM Premium		1.6%		496.81
					<b>Total Loss To RSO</b>		Note 4		<b>\$496.81</b>

Notes

- 1 Based on change in rental revenue over the past 12-month period.
- 2 Based on current TRSO: this can change over time if escalation limits are modified.
- 3 Assumes previous year escalation was 3%, applicable to lease originating in 2016.
- 4 This example shows some MTM income in place. Over time this income will go away under the RSO. The % RSO income should be based on the historic % of MTM premium to total income. This ratio will vary with each affected Lessee.