

RED 362 Final Project

Introduction

Boyle Heights is located in East Los Angeles, California. Boyle Heights is a diverse, low income neighborhood. When looking at the economic market of housing, a majority of the population rents. Our group decided to invest our \$350,000 in 1412 Estepona Ct East Los Angeles, CA 90033, an updated four bed two bath home.¹²

History and Composition of Boyle Heights

Boyle Heights is located in between downtown and East Los Angeles. Boyle Heights was originally a part of the First Mexican Republic and, after the Mexican-American War, was occupied and incorporated into the United States. Like much of Los Angeles (and the West more generally), the area was heavily shaped by the Native American and Mexican influences.³ As the area developed and industrialized, it also became home to a large Asian population, attracted by opportunity and welcomed as cheap labor. Due to the Chinese Exclusion Act, Japanese immigrants became a greater share of the arriving populations. Boyle Heights was located near Little Tokyo, and between the early 1900s and World War II shared many of the same cultural influences. With the incarceration of Japanese Americans at the beginning of the war, the Japanese influence on the area was effectively removed. At the same time, urbanization and a growing Mexican American population asserted its influence, particularly in agricultural areas. These various movements of different, working class populations into and out of Boyle Heights over the past century have greatly altered the composition of this lower income community over time.

The latest data indicates that the neighborhood has a population of around 100,000 people (based on L.A. Department of City Planning estimate of 99,243 for 2008).⁴ The area is 6.52 square miles in size, with a population density of roughly 14,230 people per square mile (all the data is based on Los Angeles Times Local Mapping LA). The population is 94 percent Latino, with Whites making up just two (2) percent of the population. The average income in Boyle Heights is \$33,235, which is low in comparison to the greater Los Angeles area. Moreover, the majority of the population earns less than \$40,000 per year. Indeed, more than 50 percent earn less than \$20,000 per year. In terms of education, the vast majority have a high school diploma or less, with only five (5) percent possessing a college degree. The population of Boyle Heights is also quite young, with an average age of 25. By comparison, the average for all of Los Angeles is 35 years of age. Just 24 percent of the population own their home, with 75 percent renting. Finally, more than half (52 percent) are foreign born, primarily from Mexico. Boyle Heights is similar to other communities such as Lincoln Heights, and El Sereno, and East LA. (El Sereno has a somewhat higher rate of home ownership, Lincoln Heights has a bit more

¹ Redfin (Ed.). (n.d.). 1412 Estepona Ct East Los Angeles, CA 90033. Redfin. Retrieved November 8, 2020, from <https://www.redfin.com/CA/Los-Angeles/1412-Estepona-Ct-90033/home/128184030>

² Zillow (Ed.). (n.d.). 1412 Estepona Ct, Los Angeles, CA 90033. Zillow. Retrieved November 8, 2020, from https://www.zillow.com/homedetails/1412-Estepona-Ct-Los-Angeles-CA-90033/2117832033_zpid/

³ Japanese American National Museum (Ed.). (n.d.). Timeline. Exhibition Boyle Heights Project. Retrieved November 8, 2020, from <http://www.janm.org/exhibits/bh/exhibition/timeline.htm>

⁴ Los Angeles Times. (n.d.). Boyle Heights. Los Angeles Times. <http://maps.latimes.com/neighborhoods/neighborhood/boyle-heights/> Source: Census 2000, SCAG, Los Angeles Department of City Planning

diverse population.) In short, Boyle Heights can be characterized as a low-income, majority young Latino area dominated by renters.

Boyle Heights Amenities and Proximity to CBD

This single family home is located in the heart of Boyle Heights, very close to the bustling Downtown Los Angeles. The location is very close to Little Tokyo, USC Keck Medical Center, Civic Center Courthouses, and the Gold Line. This home is also conveniently located near the US-101 Freeway, which increases transportation accessibility for an individual with a car. The home is located only a 7-minute drive away from the CBD and trending restaurants, museums, retail shops, and entertainment located in the heart of Downtown Los Angeles. The home benefits from positive location externality spillovers as individuals who are moving into this area are those who are professors at nearby universities, such as USC, or undergraduate and graduate level students from the CBD.

When considering Boyle Heights and Los Angeles in terms of urban locations models, and in specific, the monocentric city model, downtown Los Angeles is the business zone, with Boyle Heights crossing the boundary from transition zone to working class. The principle of the monocentric city model is that there is a central point from which the city expands outward. So, in this sense, Boyle Heights fits into the monocentric city model, expanding outward in order to form residential hubs from the CBD in downtown Los Angeles.

Nestled into the Aliso Village, this single family residence benefits from the village as a whole. The Aliso Village was built in 2004 to facilitate a resort-style community living made up of single family homes.⁵ This community includes community-wide access to a club house, gym, a pool, and parks. Unlike many single family residences in Los Angeles, this home is priced as one comparable to a condominium and requires low HOA dues of \$105 per month. These low price characteristics are very attractive to individuals looking to start families and live near the CBD.

The home is located on a corner and is brightened by natural light along with a spacious kitchen. Counters are tile and the floors have been recently replaced along with new painting. There is also a private outdoor porch for a BBQ area or lounging. Furthermore, this property includes direct access to a private garage, where there is also a laundry hookup available.

Some of the disamenities in this community that Aliso Village experienced high rates of crime and poverty in the 80s and 90s, which dampens its reputation for individuals looking for a safe and luxurious single family residence. Some researchers determine that the Aliso Village housing projects are one of the most dangerous, so for many individuals this attribute may deter the purchase from young homeowners. Therefore, in analyzing the amenities and disamenities, it can be assumed that potential tenants would consist of the same demographic currently residing in the area, and therefore would fail to instigate younger, wealthier individuals to move into this home.

Zoning and Impact on Land and Housing Values

Boyle Heights is not one of Los Angeles' 35 Historical Preservation Overlay Zones (HPOZs).⁶ Nonetheless, Boyle Heights is included in one Los Angeles's 35 Community Plans, which sets goals and policies for the future of each community. The Boyle Heights Community

⁵Newman, M. (2003). Aliso Village Offers Clear-Eyed Approach To Slum Abatement. California Planning & Development Report, 18(2). <https://www.cp-dr.com/articles/node-824>

⁶ Boyle Heights community plan : a part of the general plan of the City of Los Angeles . (1979). The Department.

Plan consists of several goals and policies for land use and urban forms. The five goals for land use and urban form incentivize new development for affordable and low-income housing. The policies protect the community's affordable and stable housing by discouraging new developments or renovations that don't align with affordable housing requirements. They also promote the development of amenities for children and seniors, such as outdoor play areas, childcare facilities, and new housing for seniors located near public transportation. And lastly there are a few policies that ensure that all neighborhoods include the educational, recreational and social facilities necessary for any person living in the Boyle Heights Community.

These policies will help maintain land and housing values, keeping them at a low cost so that low-income families can find new homes in the city. With no minimum-lot size, developers can develop multifamily properties in addition to single family residences. However, they have to comply with the goals and policies listed in the city plan regarding affordable and low income housing. Since the policies in the Boyle Heights Community Plan emphasize affordable and low-income housing, land and housing values are protected from reaching sky-high values. Residents will be able to find homes for reasonable prices without having to worry about prices being too high.

Development and Recent Market Trends

According to Los Angeles City Planning, The Boyle Heights Community Plan is being updated for the first time in 20 years. While there are no concretized plans yet, the assumption amongst experts is that the commercial corridor by commercial corridor of the neighborhood will be reexamined which will elevate the property value and bring more developments into the budding area.⁷ Because the plan will take consideration of neighborhood identities, transportation, jobs, and housing, more Boyle Heights developments can be expected in the neighborhood. Additionally, there have been a few recent developments including a freestanding Starbucks in 2013 and a newly developed Walgreens in 2012 that would usher in an affordable real estate boom as the Boyle Heights Community Plan comes to fruition⁸. This shows the neighborhood is currently not at its peak but is a growing area. Boyle Heights has a median property of \$532,913.⁹ Home values in the area have risen by 13.1% over the last year and are expected to rise by 9.3%. The area is a Buyer's Market with 99.75% of houses in the area selling for approximately the asking price within 45 days of being on the market.¹⁰ Currently there are 105 houses for sale and 53 homes available for rent. The rentals range between \$950 to \$3700 a month. Boyle Heights is also very affordable compared to the 28 cities that surround it, of which Los Angeles has the highest median price of \$950,000. The lowest median price for houses of all the cities surrounding the area is the city of Commerce with \$505,000. This information indicates that there is an excess supply even though the prices are low compared to nearby communities.

Excel Work

⁷ Lank, B. (2020, September 11). Boyle Heights plans for its future -- and where to put 11,000 new units of housing. The Eastsider. Retrieved November 8, 2020, from https://www.theeastsiderla.com/neighborhoods/boyle_heights/boyle-heights-plans-for-its-future---and-where-to-put-11-000/article_9a738d6e-f2ee-11ea-95cd-3382eb684b61.html

⁸ Torkamani, A. (2014, October 14). Boyle Heights Real Estate – A Market Study. Esquire Real Estate Brokerage. Retrieved November 8, 2020, from <https://www.esquirereb.com/boyle-heights-real-estate>

⁹ Zillow. (2020, September 30). Boyle Heights Home Values. Zillow. Retrieved November 8, 2020, from <https://www.zillow.com/boyle-heights-los-angeles-ca/home-values/>

¹⁰ realtor.com. (n.d.). Boyle Heights, Los Angeles, CA Real Estate Market. realtor.com. Retrieved November 8, 2020, from https://www.realtor.com/realstateandhomes-search/Boyle-Heights_Los-Angeles_CA/overview

In regards to our operating expenses, we did some research on how much utilities and maintenance costs are for single family residences similar to ours. For the utilities, we chose an average of \$400 per month and multiplied it by 12 to get the annual expenses for utilities. For maintenance costs we found that for single family homes, the average amount of maintenance expenses is approximately 2%-3% of the property's purchase price. For our insurance expense, we determined that for single family homes, insurance is about .67% of our purchase price. Our other expenses consisted of HOA dues of \$105. We grew our operating expenses at 2.5%, which we derived from the industry average of 2-3%. We determined that property taxes are generally 1.25% of the home price. Then we grew our property taxes by 4%, as we have seen a general increase in taxes along with the rent growth rate of 3% year over year.¹¹ (Reference 1)

So, a general rule of thumb is that Discount Rate = Cap Rate + Growth Rate. Therefore, our going-in cap rate is 6%, our growth rate is 3%, which is adjusted for inflation which is typically 2-3%. This calculation results in our discount rate equalling 9%. Thus, we would use 9% as our opportunity cost of capital which we use to determine our Net Present Value (NPV) and Internal Rate of Return. If the NPV is greater than zero, that means this is a good investment and is better than our second best alternative (opportunity cost) as an investment. Alongside, if our NPV is greater than zero, our IRR would be positive to show the positive return on invested capital. Likewise, if our NPV is less than zero (calculated with our derived discount rate), we would conclude that the investment is not better than our second best alternative, and therefore should not be undertaken. As a result, our IRR would be a negative value showing that the investment is not generating a positive return on invested capital. In our calculations, we arrived at a negative NPV of \$270,201.15 and a positive IRR of 13.49% (Reference 2). Conclusively, we assess that this is not a good investment for us to make since we are not generating a positive NPV despite our positive IRR. In comparing these KPIs with other metrics would include those such as cash-on-cash returns, free and clear return, as well as our debt constant ratio. In examining these ratios, we are to determine whether the investment is positive or negative leverage. Using a few different methods, we can see that our cash-on-cash returns are constantly increasing, which is an indicator of positive leverage. Supplementally, we also note that the free and clear return is greater than the debt constant starting year 4, which is another indicator of positive leverage over time. Positive leverage denotes whether the act of taking on debt is compensated over and above by the returns generated from the property. So, we can see that it is a good idea to take a loan in purchasing this property since it is positively leveraged.

¹¹ Los Angeles County Assessor Portal. (n.d.). AIN: 5173-029-939. Los Angeles County Assessor Portal. Retrieved November 8, 2020, from <https://portal.assessor.lacounty.gov/parceldetail/5173029939>

Excel Image Reference

(1) Set Up

Information		
Investment/Equity		\$350,000
Vacancy		3.00%
Going-in Cap Rate		6.00%
Exit Cap Rate		5.57%
Discount Rate		9.00%
Rent Growth		3.00%
Tax Growth		3.00%
OpEX Growth		2.50%
Year 1 Property Tax		\$8,062.50 (1.25% of Home Price)
Debt Interest		3%
LTV		46%
Debt	\$	295,000.00
Debt Service		\$15,050.68
Property Information		
Address	1412 Estepona Ct East Los Angeles, CA 90033	
Beds		4
Baths		2.5
SF		1,581
\$ per SF	\$	408.00
Purchase Price	\$	645,000.00
Rent	\$	5,482.50
HOA Dues	\$	105.00
Operating Expenses		
Utilities	\$	4,800.00 (Average for SFR is about \$400/month)
Maintenance	\$	16,125.00 (Approx. 2%-3% of Purchase Price)
Insurance	\$	4,321.50
Other Expenses	\$	105.00
Total OpEX	\$	25,351.50

(2) Proforma

Proforma	Year						
	0	1	2	3	4	5	6
Potential gross revenue		\$65,790.00	\$67,763.70	\$69,796.61	\$71,890.51	\$74,047.22	\$76,268.64
Vacancy		(\$1,973.70)	(\$2,032.91)	(\$2,093.90)	(\$2,156.72)	(\$2,221.42)	(\$2,288.06)
Effective rental income		\$63,816.30	\$65,730.79	\$67,702.71	\$69,733.79	\$71,825.81	\$73,980.58
Operating expenses		(\$25,351.50)	(\$25,985.29)	(\$26,634.92)	(\$27,300.79)	(\$27,983.31)	(\$28,682.90)
Property taxes		(\$8,062.50)	(\$8,304.38)	(\$8,553.51)	(\$8,810.11)	(\$9,074.41)	(\$9,346.65)
Net operating income		\$30,402.30	\$31,441.13	\$32,514.29	\$33,622.89	\$34,768.08	\$35,951.04
Capital expenses		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Property cash flow		\$30,402.30	\$31,441.13	\$32,514.29	\$33,622.89	\$34,768.08	\$35,951.04
Debt service		(\$15,050.68)	(\$15,050.68)	(\$15,050.68)	(\$15,050.68)	(\$15,050.68)	(\$15,050.68)
Investor cash flow		\$15,351.62	\$16,390.45	\$17,463.61	\$18,572.21	\$19,717.40	\$20,900.36
Reversion	(\$350,000.00)						\$599,183.99
Total	(\$350,000.00)	\$15,351.62	\$16,390.45	\$17,463.61	\$18,572.21	\$19,717.40	\$620,084.35
PV of Cash Flows	\$79,798.85						
NPV	(\$270,201.15)						
IRR	13.49%						

	Year					
	1	2	3	4	5	6
Cash-on-Cash Returns	4.39%	4.68%	4.99%	5.31%	5.63%	5.97%
Free and Clear Return	4.71%	4.87%	5.04%	5.21%	5.39%	5.57%
Debt Constant	5.10%					

(3) Mortgage

Mortgage	Year						
	0	1	2	3	4	5	6
Initial Balance	(\$295,000.00)	\$ 295,000.00	\$ 288,799.32	\$ 282,412.62	\$ 275,834.31	\$ 269,058.66	\$ 262,079.74
Interest Payment		\$ 8,850.00	\$ 8,663.98	\$ 8,472.38	\$ 8,275.03	\$ 8,071.76	\$ 7,862.39
Principal Payment		\$6,200.68	\$6,386.70	\$6,578.30	\$6,775.65	\$6,978.92	\$7,188.29
Outstanding Balance		\$ 288,799.32	\$ 282,412.62	\$ 275,834.31	\$ 269,058.66	\$ 262,079.74	\$ 254,891.45

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Source: Census 2000, SCAG, Los Angeles Department of City Planning

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