

### PAYROLL JOB SUMMARY

<b>Total Payrolls</b>	1,896.4m
<b>Annual Change</b>	56.8m (3.1%)
<b>2015 Forecast</b>	66.4m (3.6%)
<b>2016 Forecast</b>	82.9m (4.3%)
<b>2017 Forecast</b>	82.4m (4.1%)
<b>2018 Forecast</b>	79.6m (3.8%)
<b>Unemployment (NSA)</b>	4.9% (Apr.)

### 1Q15 PAYROLL TRENDS AND FORECAST

Payroll job formation in the first quarter surged to the fastest pace since 2006 as Phoenix establishments hired at a 56,800-job, 3.1% annual rate, up from 4Q14's 43,100-job, 2.3% performance. Construction, retail trade and employment service companies set the pace, adding workers at a 19,100 (4.9%) rate, 170% of 4Q14's 7,100-job advance. Expansion among other service industries also was robust, accounting for 33,600 (3.7%) new jobs over the year, a 15% increase from the prior quarter.

Seasonally-adjusted data were not entirely consistent. This series reported a 9,100-job net gain in the January-March period, down from 4Q14's nine-year high 24,500-

job performance. Moreover, the data show net cuts in March and April totaling -8,200 jobs; representing the first sequential month losses recorded since 2010.

The **RCR** econometric forecasting equation for Phoenix employs U.S. payroll and U.S. and metro personal income growth as independent variables to achieve a 97.8% adjusted R<sup>2</sup>. The model produces a very optimistic projection, foreseeing sustained growth in the 3%-4% annual range throughout the forecast, yielding annual job growth in the 70,000-85,000 range. **RCR** have a *downward logical bias* to this forecast as it would require home construction growth that is unlikely in today's climate.

### OCCUPANCY RATE SUMMARY

<b>Occupancy Rate (Reis)</b>	95.4%
<b>RED 50 Rank</b>	28 <sup>th</sup>
<b>Annual Chg. (Reis)</b>	+0.6%
<b>RCR YE15 Forecast</b>	94.2%
<b>RCR YE16 Forecast</b>	93.6%
<b>RCR YE17 Forecast</b>	93.5%
<b>RCR YE18 Forecast</b>	92.8%

### 1Q15 ABSORPTION AND OCCUPANCY RATE TRENDS

Tenant demand for Phoenix apartment space during the first quarter was the strongest since 2011 as renters net leased a total of 1,761 units, up from 1,616 and 1,557 units in the prior and year-earlier quarters, respectively. Supply delivered to market (848 units) was less than one-half of supply, resulting in a 30 basis point sequential increase in metro occupancy to 95.6%, a 26-year series record high.

Axiometrics surveys of 641 larger stabilized same-store properties recorded a 94.9% average occupancy rate, representing 80 and 140 bps sequential and year-on-year increases, respectively. Class-A properties reported the highest average occupancy (95.2%) for the second consec-

utive quarter, followed by the class-B (95.1%) and class-C (94.0%) segments. Class-C notched the largest sequential quarter advance, rising 150 bps from the 4Q14 level. Mesa and Scottsdale submarkets reported the highest occupancy rates (96%+), and Central Phoenix (91.2%) the lowest.

**RCR** find that 95% of historic occupied stock growth changes can be explained by an equation using U.S. payroll and metro inventory growth and metro vacancy as independent variables. The demand forecast is constructive but projected supply overwhelms it, sending occupancy down 260 bps by 2018. We have a downward logical bias for supply though, suggesting a better outcome is likely

### EFFECTIVE RENT SUMMARY

<b>Mean Rent (Reis)</b>	\$773
<b>Annual Change</b>	3.9%
<b>RED 50 Rent Change Rank</b>	18 <sup>th</sup>
<b>RCR YE15 Forecast</b>	3.9%
<b>RCR YE16 Forecast</b>	3.4%
<b>RCR YE17 Forecast</b>	3.2%
<b>RCR YE18 Forecast</b>	3.3%

### 1Q15 EFFECTIVE RENT TRENDS

Effective rents surged sequentially by \$8 (1.0%) to \$773, according to Reis, raising the year-on-year comparison from 3.5% during 4Q14 to 3.9%, fastest recorded since 2007. The performance raised Phoenix to 18th rank among the **RED 50** on this basis, up from 26<sup>th</sup> position in the prior quarter. Much of the impetus came from the class-A sector where asking rents increased 4.4% y-o-y, more than twice the 2.1% advance recorded among class-B/C assets.

Axiometrics same-store data uncovered a stronger 6.3% average y-o-y rent increase, down slightly from 4Q14's post-recession high of 6.4%. Class-B properties posted the

largest gain (6.5%), followed by class-A (6.3%) and class-C (5.4%). By contrast, class-C properties stood alone as the only segment to record a sequential y-o-y acceleration: rent growth increased from 5.1%. Tempe (7.1%-9.0%) and Northeast Phoenix (8.7%) submarkets notched the fastest gains; S. Scottsdale (3.5%) and East Mesa (4.0%) the slowest.

Fueled by strong job and home price growth, **RCR's** rent model foresees robust rent growth in Phoenix's future, despite heavy supply (a negative variable). The forecasts gains in the 3% to 4% range through 2019, yielding a 3.9% compound annual rate, ranked 9th among the **RED 46**.

### TRADE & RETURN SUMMARY

<b>\$5mm+ / 80-unit+ Sales</b>	27
<b>Approx. Proceeds</b>	\$624mm
<b>Avg. Cap Rate (FNM)</b>	5.2%
<b>Avg. Price/Unit</b>	\$89,864
<b>Expected Total Return</b>	7.1%
<b>RED 46 ETR Rank</b>	23 <sup>rd</sup>
<b>Risk-adjusted Index</b>	5.66
<b>RED 46 RAI Rank</b>	16 <sup>th</sup>

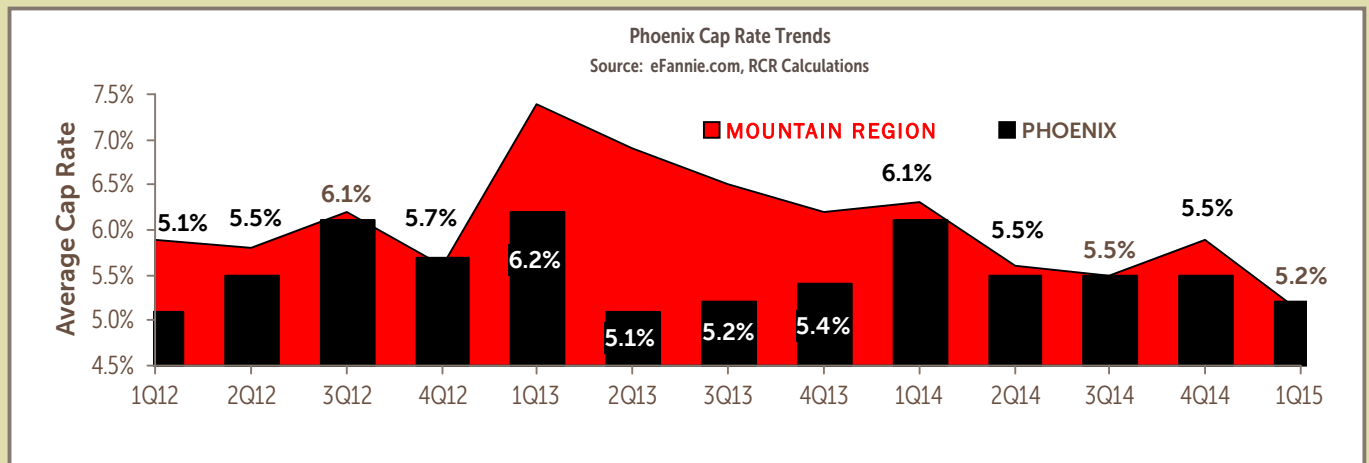
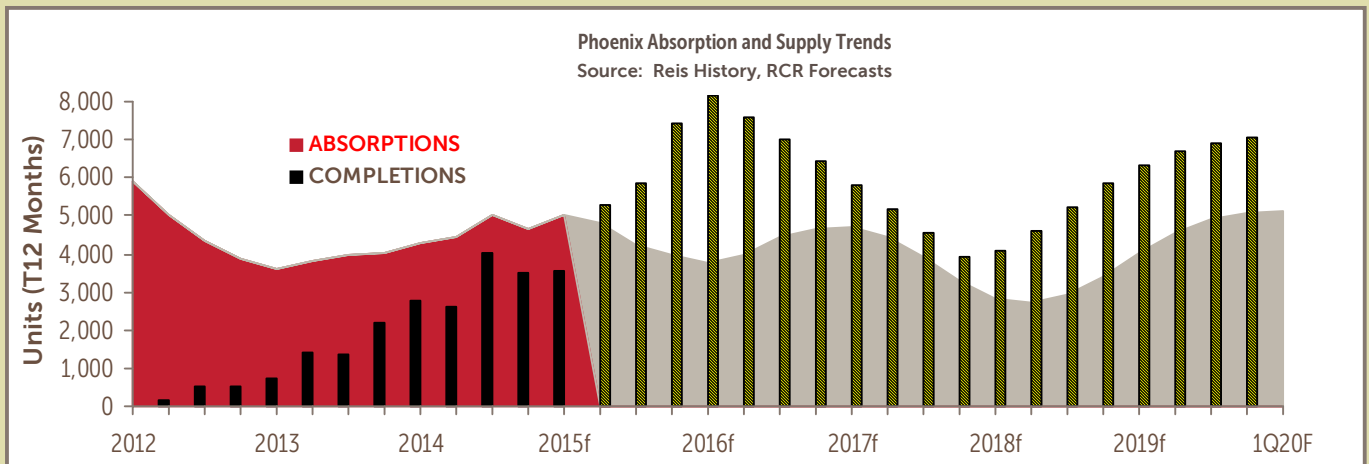
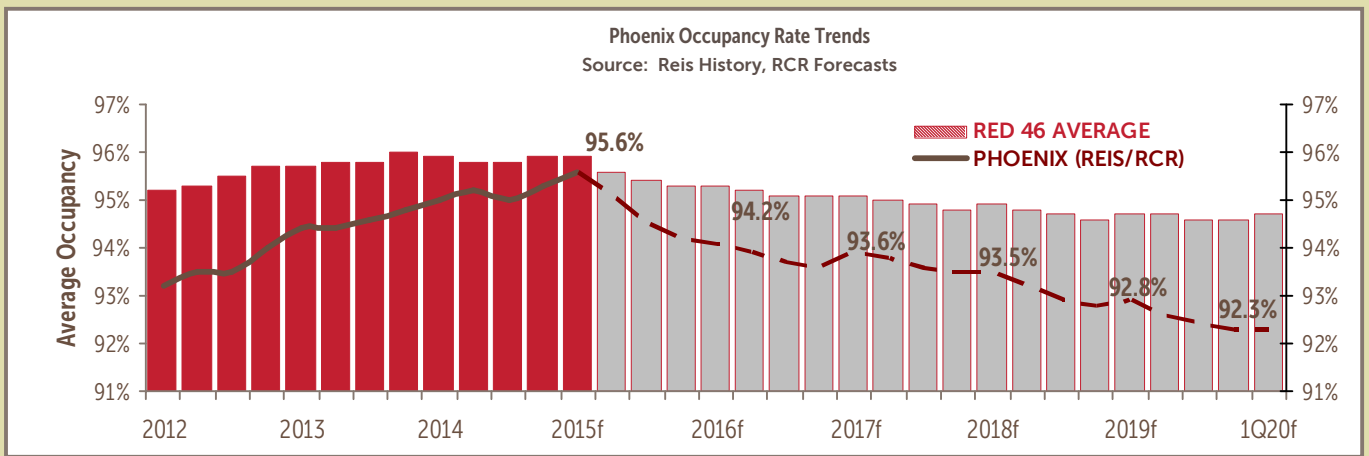
### 1Q15 PROPERTY MARKETS AND TOTAL RETURNS

Investors continued to feast on Valley properties, acquiring 27 assets valued at \$5 million or more for total proceeds of \$623.8mm, down moderately from 31 and 41 closings in 4Q14 and 3Q14, respectively, for sales of \$735.3mm and \$1,192.5mm. The average price per unit paid increased sequentially, however, rising from \$76,303 during 4Q to \$89,864, but remained well below the recent high level of \$98,140 observed during 3Q14.

Sellers were skewed toward individuals, merchant builders and REITs. Buyers consisted predominately of real estate investment funds and a few private equity players.

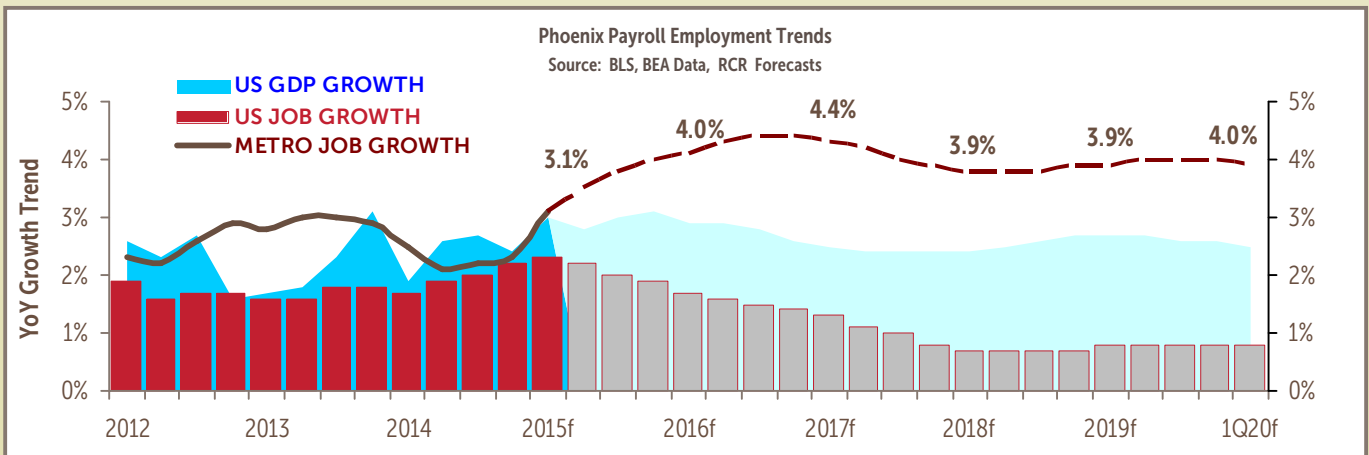
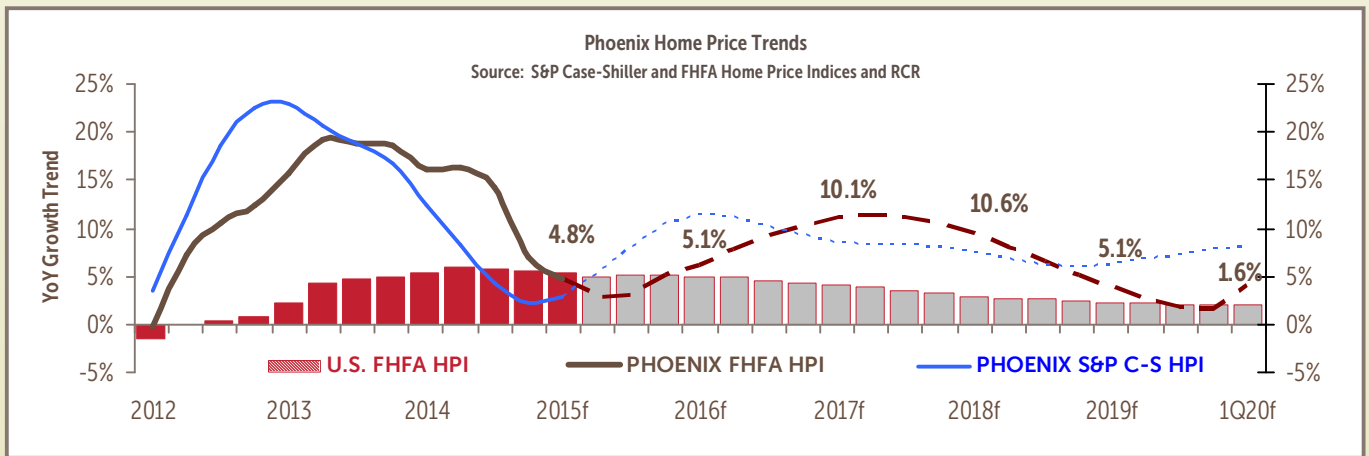
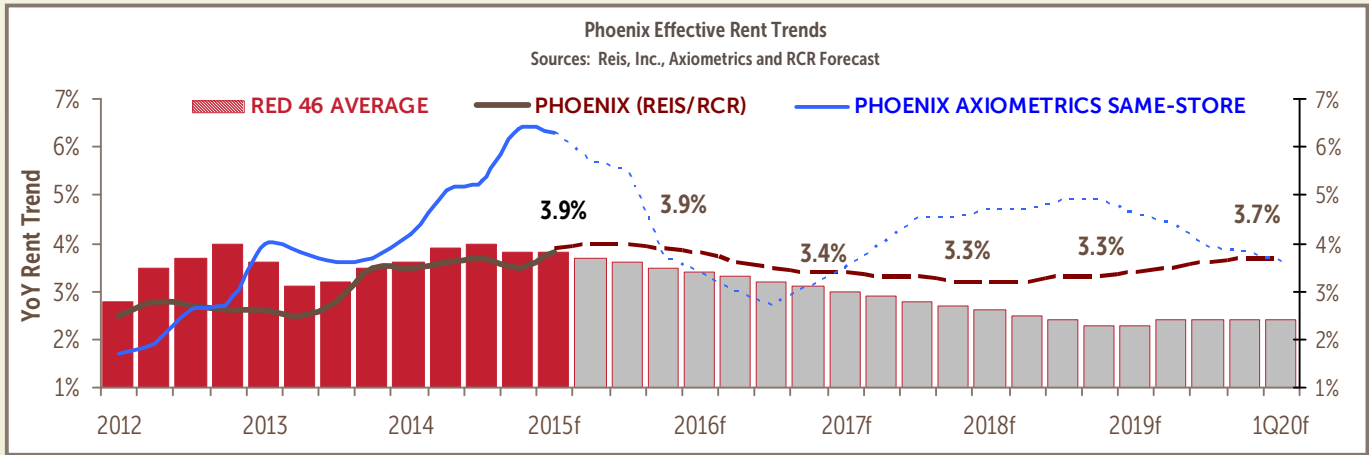
Cap rates for class-A properties fell in the low- to mid-5% area. Class-B assets traded about 50 bps behind "A" levels. Class-C trades gravitated toward a 6.25% - 7.5% range.

In light of the strong demand for Phoenix properties expressed by buyers, **RCR** elected to reduce the generic cap rate assumption 30 basis points to 5.5%. At this level, our model estimates that an investor in metro assets would expect to earn a 7.1% 5-year, unlevered total return, 20 bps above the **RED 46** mean and 23<sup>rd</sup> rank among the group. Equation forecast error is relatively low, boosting risk-adjusted returns to 16<sup>th</sup> place in the peer group rankings.



## NOTABLE TRANSACTIONS

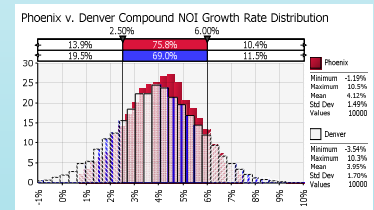
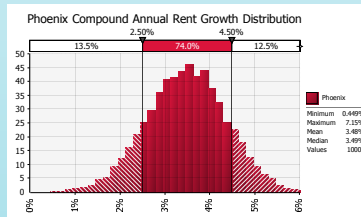
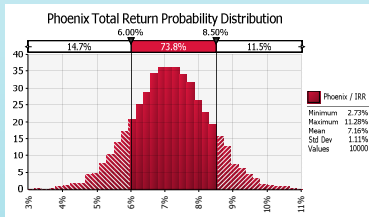
Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
Ascent Papago Park (Cent. Phoenix South)	A- / LR (2007)	24-Feb-2015	\$36.2	\$134,148	5.1%
Trillium Deer Valley/Trillium No. (Deer Valley)	B+/A- (2006/12)	27-Mar-2015	\$91.2	\$143,849	4.9%
44 Monroe (Central Phoenix South)	A++ / HR (2008)	17-Apr-2015	\$50.7	\$275,272	4.6% / 5.8% pf
Green Leaf at Dana Park (East Mesa)	B- / GLR (1987)	31-May-2015	\$22.1	\$99,550	5.5%
SkySong Apartments (South Scottsdale)	A+ / MR (2013)	11-Jun-2015	\$67.5	\$207,692	5.1% / 5.7% pf



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# SUBMARKET TRENDS (REIS)

Submarket	Effective Rent			Physical Vacancy		
	1Q14	1Q15	Change	1Q14	1Q15	Change
Central Phoenix North	\$621	\$633	1.8%	8.1%	6.0%	-210 bps
Central Phoenix South	\$711	\$733	3.0%	5.3%	4.4%	-90 bps
Chandler / Gilbert	\$859	\$886	3.1%	6.2%	5.5%	-70 bps
Deer Valley	\$689	\$716	3.8%	3.9%	3.4%	-50 bps
East Mesa	\$745	\$765	2.7%	2.0%	1.2%	-80 bps
Glendale South	\$615	\$636	3.4%	8.0%	6.2%	-180 bps
Goodyear / Avondale	\$850	\$863	1.4%	3.0%	1.9%	-110 bps
Maryvale	\$562	\$581	3.4%	6.8%	4.9%	-190 bps
North Scottsdale	\$987	\$1,045	5.9%	3.7%	6.1%	240 bps
North Tempe	\$813	\$842	3.6%	4.4%	3.0%	-140 bps
Northeast Phoenix	\$726	\$755	4.0%	5.6%	4.4%	-120 bps
Paradise Valley	\$701	\$721	2.8%	5.4%	4.6%	-80 bps
Peoria / Sun City/ Surprise	\$774	\$803	3.8%	2.9%	1.6%	-130 bps
South Mesa	\$648	\$661	2.0%	5.1%	4.6%	-50 bps
South Scottsdale	\$851	\$897	5.4%	8.3%	10.7%	240 bps
South Tempe	\$847	\$891	5.2%	3.7%	4.2%	50 bps
Sunnyslope	\$647	\$669	3.4%	3.8%	2.7%	-110 bps
West Mesa	\$617	\$632	2.4%	4.5%	3.3%	-120 bps
<b>Metro</b>	<b>\$744</b>	<b>\$773</b>	<b>3.9%</b>	<b>5.0%</b>	<b>4.4%</b>	<b>-60 bps</b>



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