

PAYROLL JOB SUMMARY

Total Payrolls	1,319.7m
Annual Change	55.0m (4.3%)
2015 Forecast	50.8m (4.0%)
2016 Forecast	47.2m (3.5%)
2017 Forecast	51.6m (3.7%)
2018 Forecast	54.5m (3.8%)
Unemployment (NSA)	6.2% (Apr.)

1Q15 PAYROLL TRENDS AND FORECAST

The Inland Empire boom continued in the first quarter as establishments hired at a 55,000-job, 4.3% year-on-year rate, up from 4Q14's robust 50,200-job, 4.0% performance, marking the seventh consecutive quarter of 50,000-job or faster annual expansion. Growth was especially vigorous in the transportation and warehousing sector where employers added to headcount at a 10,500-job, 13.6% annual rate. Demand for contract workers also was intense as temporary services added workers to payrolls at a 14.9% y-o-y pace, up from 4Q's 9.7% rate.

Seasonally-adjusted data suggest that the labor market was hotter still. This series indicates that I.E. employers

created a net of 22,800 jobs during the January-March period, up from 2,500 jobs during 4Q14 and the largest one-quarter add recorded in the 26-year BLS series.

RCR's I.E payroll equation reaches a 96.7% adjusted-R² employing six lags of the dependent variable; U.S. payroll and personal income growth; metro income growth; and metro home price appreciation as independent variables. The model yields an optimistic forecast calling for 3.4% - 4.3% annual rates of job growth to persist through 2017. The rate of growth doesn't decelerate much afterward, falling only into the low- to mid-3% range in the out-years of the forecast, producing 45m -55m annual gains.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	97.3%
RED 50 Rank	6 th
Annual Chg. (Reis)	+0.1%
RCR YE15 Forecast	96.7%
RCR YE16 Forecast	95.9%
RCR YE17 Forecast	95.2%
RCR YE18 Forecast	95.0%

1Q15 ABSORPTION AND OCCUPANCY RATE TRENDS

Tenant demand for I.E. apartment space accelerated during the winter quarter as net absorption increased from 408 and 542 units during the prior and year-earlier periods, respectively, to 635 units in 1Q15, representing the best net leasing performance since 4Q12. By the same token, supply pressures were modest, totaling 306 units during the quarter. As a result, Reis report that average metro occupancy increased 30 basis points sequentially to 97.3%

Axiometrics surveys of 181 larger, stabilized properties found average occupancy of 95.6%, down 20 bps sequentially but up 30 bps y-o-y. The class-C segment reported

the highest occupancy rate (96.5%) for the second consecutive quarter. Class-A and -B levels were comparable at 95.6% and 95.4%, respectively. Occupancy was highest in Palm Springs (97.2%) and Hemet submarkets (97.0%), while Perris notched the largest y-o-y gain: 290 bps to 96.4%.

RCR's statistical analysis of I.E. absorption history finds that local payroll job formation has little impact on apartment demand. Rather, supply, home prices and lagged vacancy are more material. As a result, our model projects a sharp decline in demand in 2015-2016, leading to higher vacancy rates as supply pressures intensify in 2H16 and 2017.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$1,123
Annual Change	4.3%
RED 50 Rent Change Rank	14 th
RCR YE15 Forecast	3.0%
RCR YE16 Forecast	3.4%
RCR YE17 Forecast	2.8%
RCR YE18 Forecast	2.7%

1Q15 EFFECTIVE RENT TRENDS

Reis report that effective rents surged by an average of \$18 (1.6%) sequentially in the first quarter, the largest one quarter advance in this market since 2005. Consequently, the year-on-year comparison accelerated from 3.2% in 4Q14 to 4.2%, the fastest metric recorded in Riverside since 1Q07.

Axiometrics surveys of larger same-store properties encountered similar circumstances. This service reported a 5.7% y-o-y advance, representing the second fastest annual comparison observed in the post-recession period after 4Q14 (6.0%). The gain was largely a class-C phenomenon as segment properties posted a 7.5% y-o-y advance, up

from 6.9% in the prior quarter. Class-B also performed well, chalking down a 6.0% gain, while class-A properties lagged with only a 2.7% increase. Colton submarket rents increased fastest, rising 9.0%, followed by Hemet and North Magnolia (8.9%). San Bernardino County submarkets Fontana (2.0%) and Rancho Cucamonga (3.5%) trailed the pack.

The direction of home prices and supply levels and metro income proved to be statistically significant predictors of rent growth rates in the I.E. The 97.8% ARS equation projects solid but decelerating rents through 1Q20 equating to an 18th R46 ranked compound annual growth rate of 2.8%

TRADE & RETURN SUMMARY

\$5mm+ / 80-unit+ Sales	17
Approx. Proceeds	\$561mm
Avg. Cap Rate (FNM)	5.6%
Avg. Price/Unit	\$146,625
Expected Total Return	6.1%
RED 46 ETR Rank	32 nd
Risk-adjusted Index	4.34
RED 46 RAI Rank	25 th

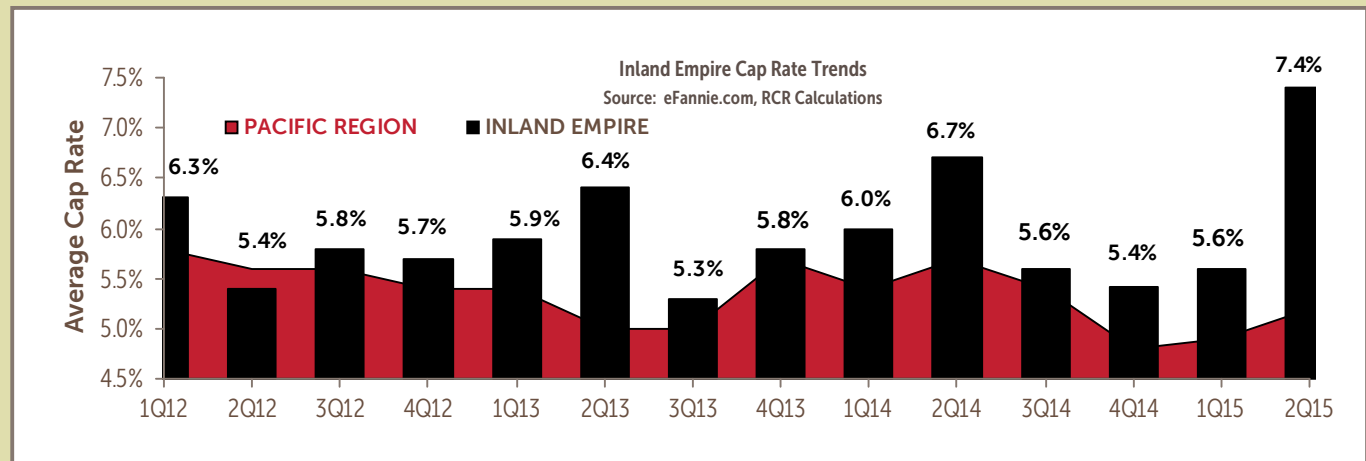
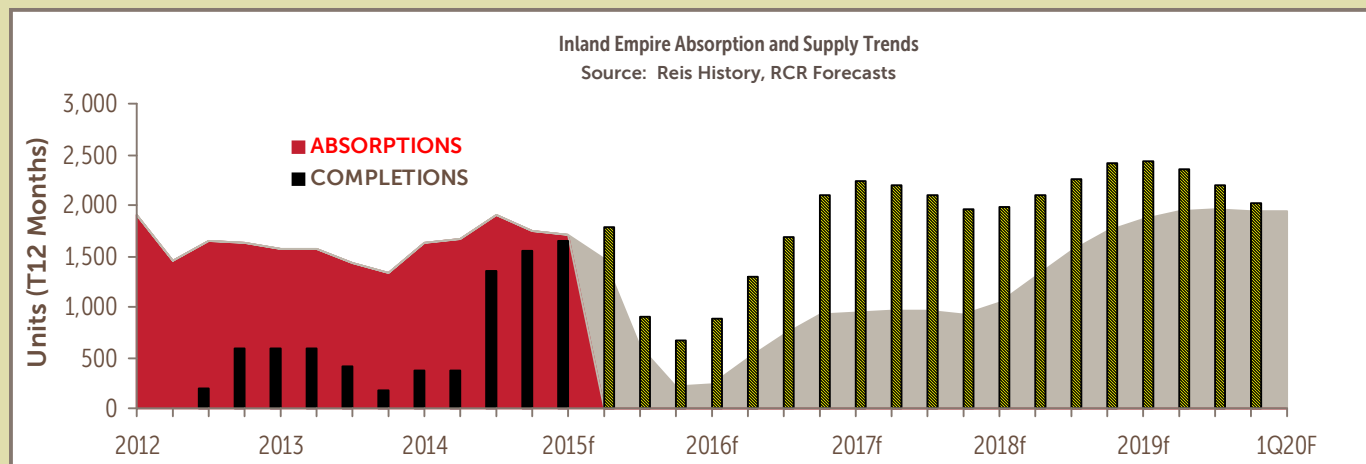
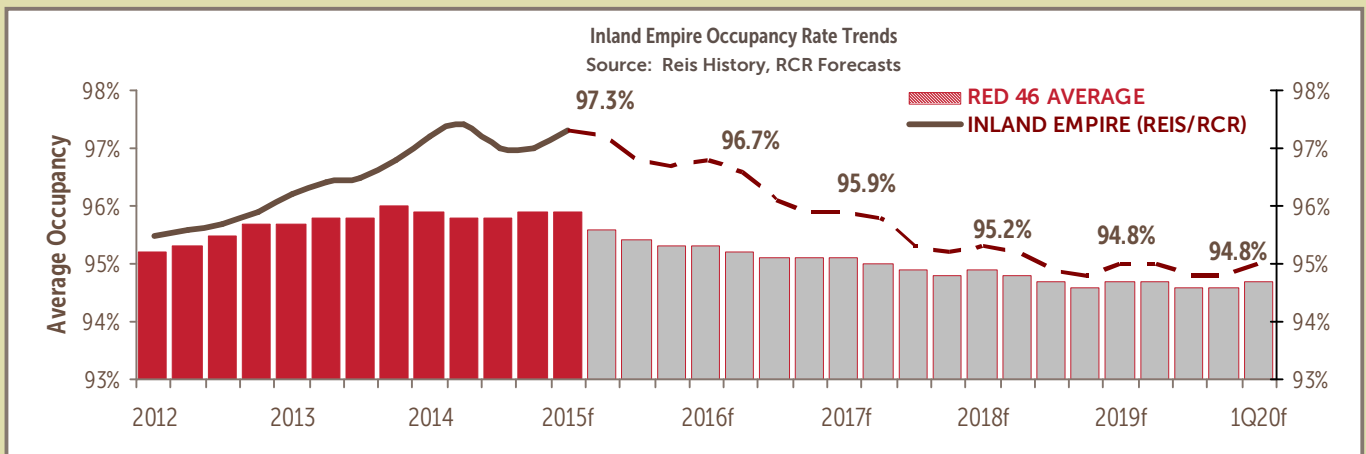
1Q15 PROPERTY MARKETS AND TOTAL RETURNS

Trade velocity also accelerated significantly during the first quarter as large investment fund and private equity buyers moved aggressively to increase Inland Empire allocations. A total of 17 properties exchanged hands in ten transactions during the period for total proceeds of approximately \$560 million. This compares to 8 and 9 trades for about \$250 and \$181 million, respectively, recorded in the prior and year-earlier quarters. Buyers paid an average of \$146,625 per unit for trades for which pricing data were publicly available, up from \$134,922 during 4Q14.

Cap rates for investment quality assets were concentrated in the high-4% to low-5% range. Stabilized class-A prop-

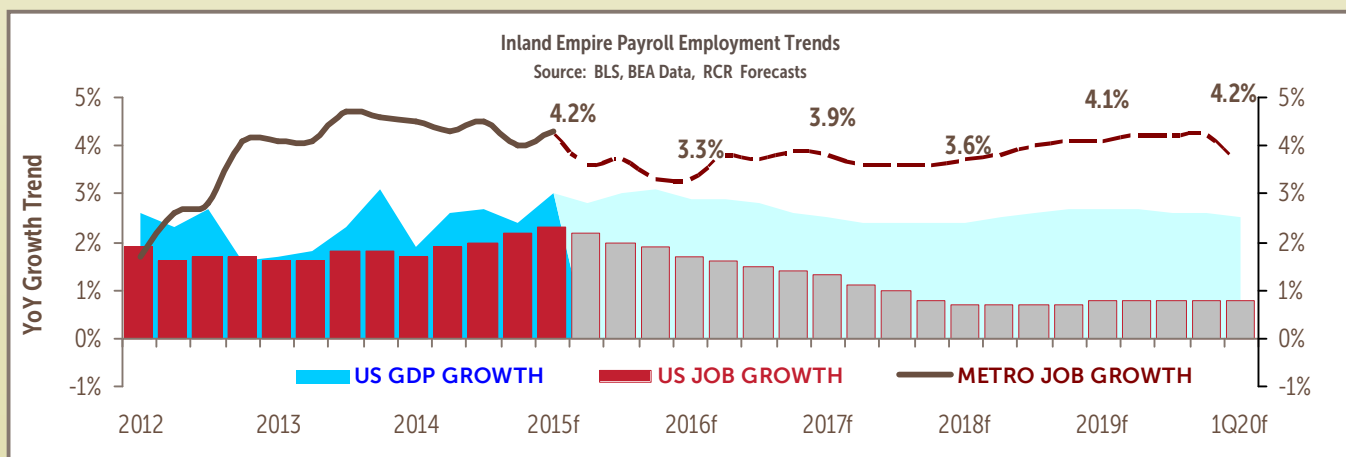
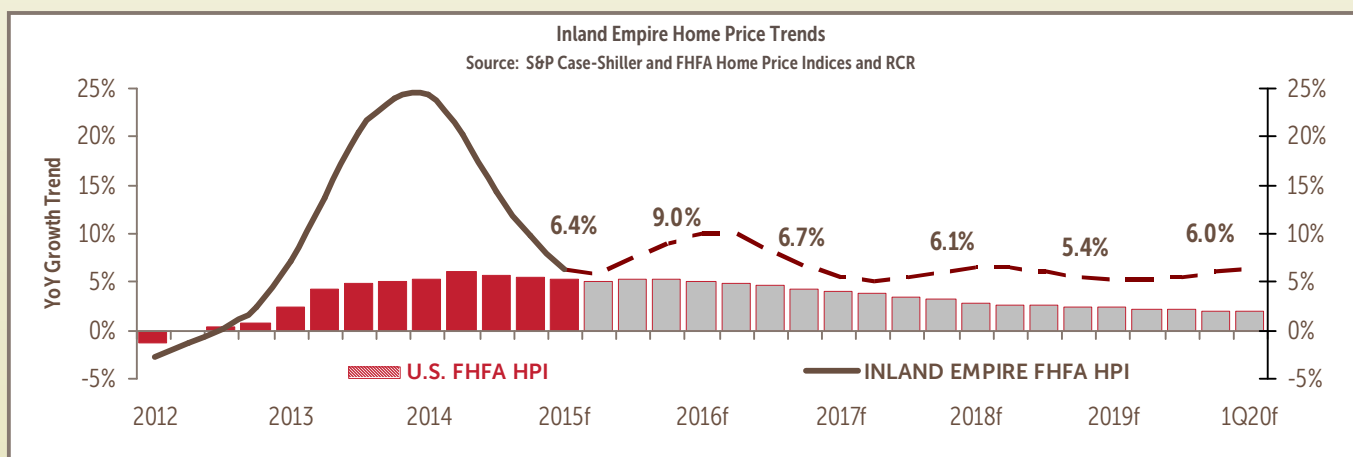
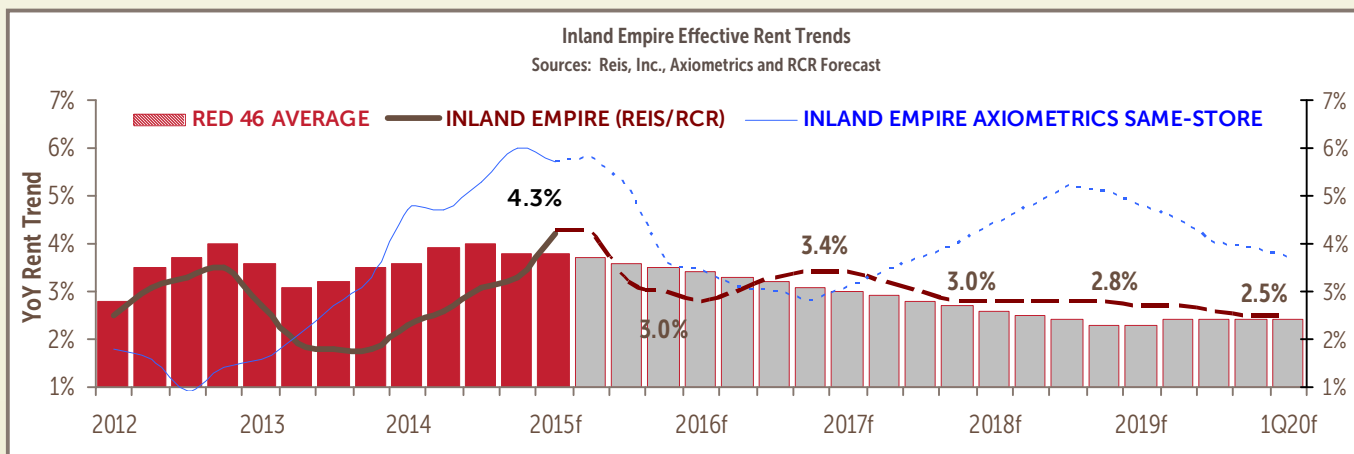
erties gravitated toward the 5% area. Class-B properties, viewed as having greater upside rent potential, traded inside class-A deals in the high-4s. Class-C trades were priced to yield 5.5% to 6.0% in most instances.

RCR slashed 35 basis points from the generic Inland Empire cap rate to 5.0% for the first quarter, reflecting the new, intense interest cash in metro assets by institutional investors. Using this purchase level, a derived 5.7% terminal cap rate and model derived rent and occupancy forecasts, we estimate that an investor would expect to earn a 6.1% 5-year, unlevered total return, R46 #32 and third highest of the four Southern California metros, topping Los Angeles.



NOTABLE TRANSACTIONS

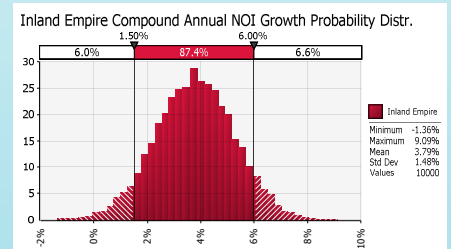
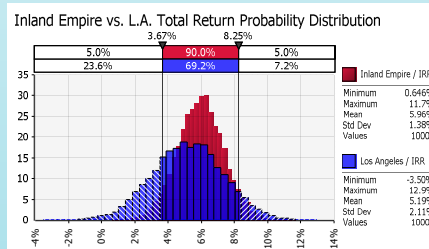
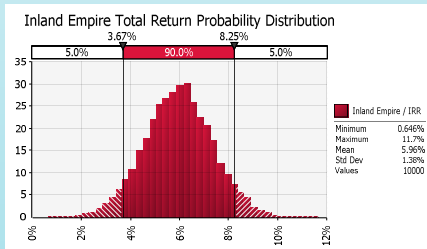
Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
Acacia Park Apts. (SW Riverside County)	B / GLR (1989)	9-Jan-2015	\$52.4	\$163,750	4.8%
Parkview Terrace (Colton / Loma Linda)	B / GLR (1987)	27-Feb-2015	\$86.4 (alloc)	\$154,839	5.5%
Estancia Apts. (University City/Mission Grove)	B / GLR (2001)	27-Feb-2015	\$35.7 (alloc)	\$171,635	4.8%
Paseos at Montclair (No. Ontario)/Claremont)	A / GLR (2013)	12-Apr-2015	\$108.5	\$281,818	3.9%/5.0% p.f.
Foothills at Old Town (Old Town Temecula)	A / GLR (2009)	16-May-2015	\$70.0	\$255,474	5.0%



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SUBMARKET TRENDS (REIS)

Submarket	Effective Rent			Physical Vacancy		
	1Q14	1Q15	Change	1Q14	1Q15	Change
Colton / Loma Linda	\$1,133	\$1,165	2.9%	1.8%	0.9%	-90 bps
Fontana / Rialto	\$1,018	\$1,046	2.8%	3.3%	2.3%	-100 bps
Hemet	\$782	\$809	3.4%	5.4%	3.8%	-160 bps
Indio / La Quinta	\$883	\$917	3.8%	3.7%	2.8%	-90 bps
North Ontario	\$1,151	\$1,218	5.8%	1.6%	3.7%	210 bps
Palm Springs / Palm Desert	\$920	\$941	2.3%	3.5%	3.6%	10 bps
Perris	\$898	\$904	0.7%	4.8%	4.3%	-50 bps
Rancho Cucamonga	\$1,424	\$1,499	5.3%	1.3%	2.1%	80 bps
Riverside County	\$1,185	\$1,219	2.8%	2.5%	1.8%	-70 bps
Riverside / North Magnolia	\$1,030	\$1,073	4.1%	1.7%	2.4%	70 bps
Southwest Riverside County	\$1,193	\$1,275	6.9%	2.8%	6.1%	330 bps
San Bernardino	\$830	\$854	2.9%	2.9%	1.7%	-120 bps
South Ontario / Chino	\$1,328	\$1,393	4.9%	0.7%	5.1%	440 bps
University City	\$1,033	\$1,081	4.6%	2.9%	2.2%	-70 bps
Upland	\$1,071	\$1,117	4.4%	2.7%	1.8%	-90 bps
Victorville	\$770	\$793	3.0%	6.3%	6.0%	-30 bps
Metro	\$1,077	\$1,123	4.3%	2.8%	2.7%	-10 bps



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