LOS ANGELES, CALIFORNIA

MARKET OVERVIEW & MULTIFAMILY HOUSING UPDATE

RED Capital Group | 1Q15 | June 2015

PAYROLL JOB SUMMARY	
Total Payrolls	4,280.7m
Annual Change	102.9m (2.5%)
2015 Forecast	104.6m (2.5%)
2016 Forecast	121.4m (2.8%)
2017 Forecast	117.9m (2.6%)
2018 Forecast	99.7m (2.2%)
Unemployment (NSA)	7.1% (Apr.)

1Q15 PAYROLL TRENDS AND FORECAST

L.A. County payroll employment growth reignited during the first quarter, accelerating from 4Q14's 12-quarter low 85,800-job, 2.0% pace to 102,900 (2.5%) jobs. Sequential quarter gains were observed in nearly every industry super-sector led by a handful of consumer driven and service industries. Construction, retail trade, finance and business service establishments added to staffs at a collective 27,200-job, 2.0% rate, more than double 4Q's 12,000-job, 0.9% advance. Likewise, firmer results were posted by manufacturing, wholesale and transportation firms. Notable on the soft side were the motion picture and recording and computer system design industries where job cuts accelerated from -2,500-jobs y-o-y during 4Q14 to a -3,100-job pace.

Seasonally-adjusted data exhibited a somewhat flatter trend. This series counted a net gain of 6,800 jobs during the January-March period, down from 22,300- and 43,400-job net gains during 4Q and 3Q14, respectively. Likewise, the second quarter got off to a moderately slower start as 6,100 jobs were added in April.

RCR specified a payroll growth forecasting equation with a 96.2% adjusted-R^2 using current and lagged values of U.S. payroll and L.A. personal income growth and the yield of 10-year U.S. Treasury notes as independent variables. This model projects above 2% growth through 2018, adding 100,000+ jobs per year to the 315,000 created from 2012 and 2014.

OCCUPANCY RATE SUMMARY	
Occupancy Rate (Reis)	96.8%
RED 50 Rank	15th
Annual Chg. (Reis)	-0.1%
RCR YE15 Forecast	96.2%
RCR YE16 Forecast	95.7%
RCR YE17 Forecast	95.4%
RCR YE18 Forecast	95.3%

1Q15 ABSORPTION AND OCCUPANCY RATE TRENDS

Apartment demand decelerated moderately during the first quarter as renters net leased 1,176 vacant units, according to Reis, down from 1,387 and 1,518 units in the prior and year-earlier quarters, respectively. A sequential quarter decline in supply was in part responsible for the decrease as developers completed 1,045 new units during 1Q15, down from 4Q14's robust 1,677-unit total. As a result, occupancy was essentially unchanged from YE14 at 96.8%.

Axiometrics surveys of 578 larger stabilized properties found average metro 1Q15 occupancy to be 96.0%, also unchanged sequentially but up 30 basis points year-over-year. Class-C properties (96.3%) recorded the highest average occupancy for the third consecutive quarter, followed by class-B (96.0%) and class-A (95.4%) assets. The only segment to record a y-o-y decline was class-A (-30 bps). By contrast, class-C occupancy rose 80 bps. New unit absorption appeared to slow during 1Q15, falling from 12-15 units per month during 2Q-3Q14 to about 4 units/month.

RCR's absorption model achieves a 92.9% ARS using rent and nominal GDP growth and metro vacancy as independent variables. The model projects gradually increasing absorption as supply and vacancy rise and rent growth moderates in 2016. Still, supply is likely to outpace demand for four years, sending occupancy down 140bps by 2019.

EFFECTIVE RENT SUMMARY	
Mean Rent (Reis)	$1,503
Annual Change	2.7%
RED 50 Rent Change Rank	40th
RCR YE15 Forecast	2.8%
RCR YE16 Forecast	2.7%
RCR YE17 Forecast	2.4%
RCR YE18 Forecast	2.3%

1Q15 EFFECTIVE RENT TRENDS

Reis report that average L.A. rents increased $9 (0.6%) sequentially and $39 (2.7%) year-on-year during 1Q15, in line with trends dating to spring 2013. The y-o-y advance ranked only 40th among the RED 50 irrespective of tight market conditions and rapidly rising home prices. Sluggish personal income growth appears largely responsible.

Axiometrics data were more robust. Year-on-year comparisons of same-store properties show a 5.7% average advance, down from 4Q14's 5.9% gain but considerably stronger than the 3.3% rise recorded in the comparable period of 2014. Momentum in the class-B and class-C segments provided most of the impetus behind the market increase. The latter notched a 7.2% gain; the former 6.4%. By way of comparison, class-A properties achieved only a 4.1% advance. Among submarkets, South County beach cities posted the fastest gains, most notably Long Beach, El Segundo and Palos Verdes Estates, each up over 11% y-o-y.

The RCR rent model uses only four variables (2 lags of rent, U.S. personal income growth and the Case-Shiller HPI) to achieve a 97.2% ARS. The model projects stable rent growth in the mid– to high-2% range for the duration of the forecast, in line with behavior observed since 2013.

TRADE & RETURN SUMMARY	
$5mm+ / 80-unit+ Sales	18
Approx. Proceeds	$849.7mm
Avg. Cap Rate (FNM)	4.8%
Avg. Price/Unit	$276,415
Expected Total Return	5.5%
RED 46 ETR Rank	42nd
Risk-adjusted Index	2.48
RED 46 RAI Rank	44th

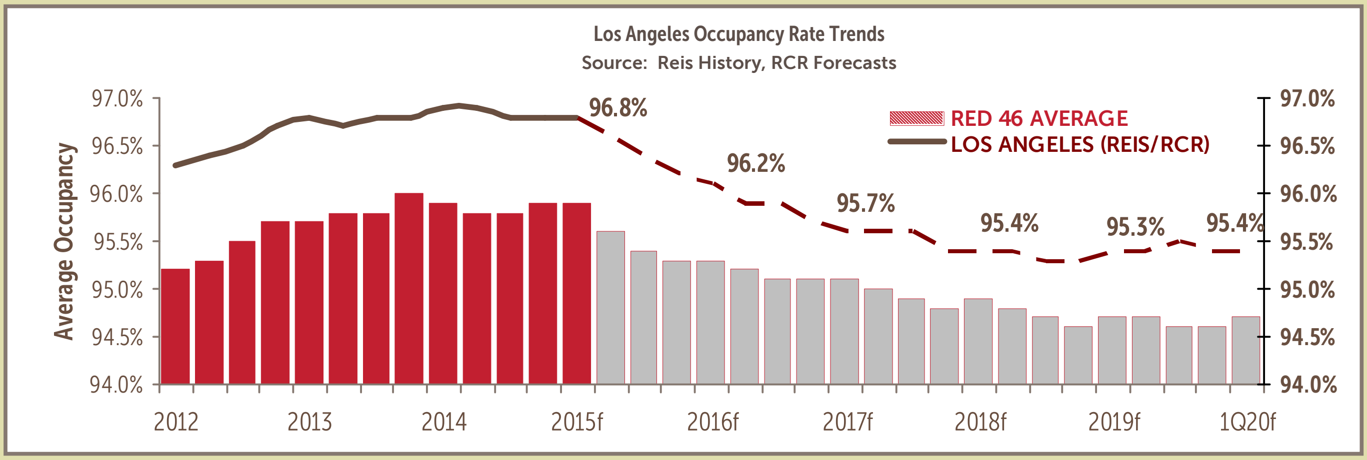
1Q15 PROPERTY MARKETS AND TOTAL RETURNS

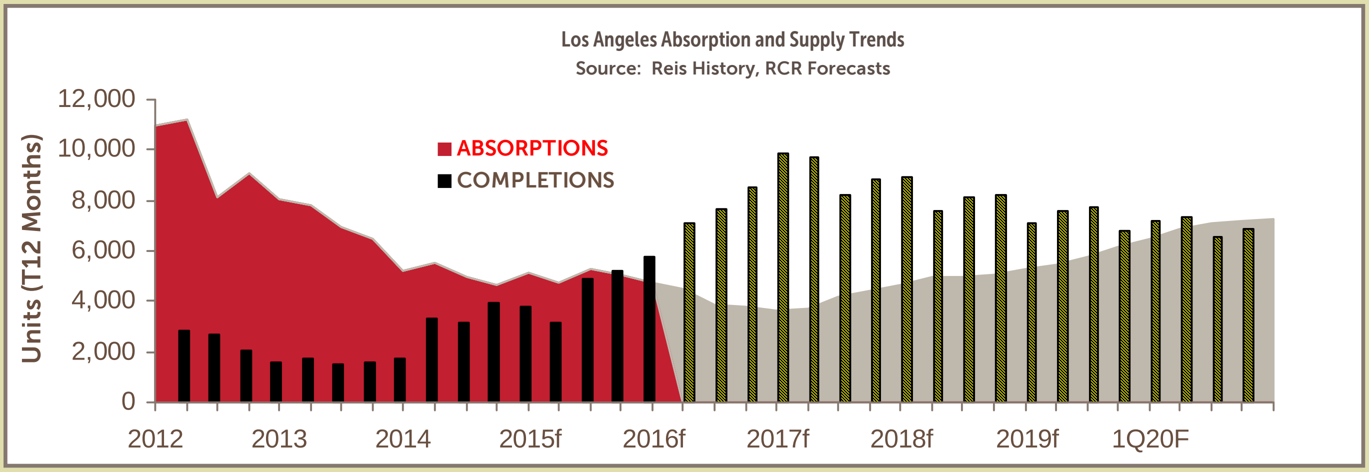
Investors stepped up the pace of L.A. County property buys, closing in 18 transactions of 80 or more units during the first quarter, up from 14 in the previous quarter and 16 in the year earlier period. Proceeds totaled about $850 million, up sharply from comparable $517mm and $652mm statistics during 4Q14 and 1Q14, respectively.

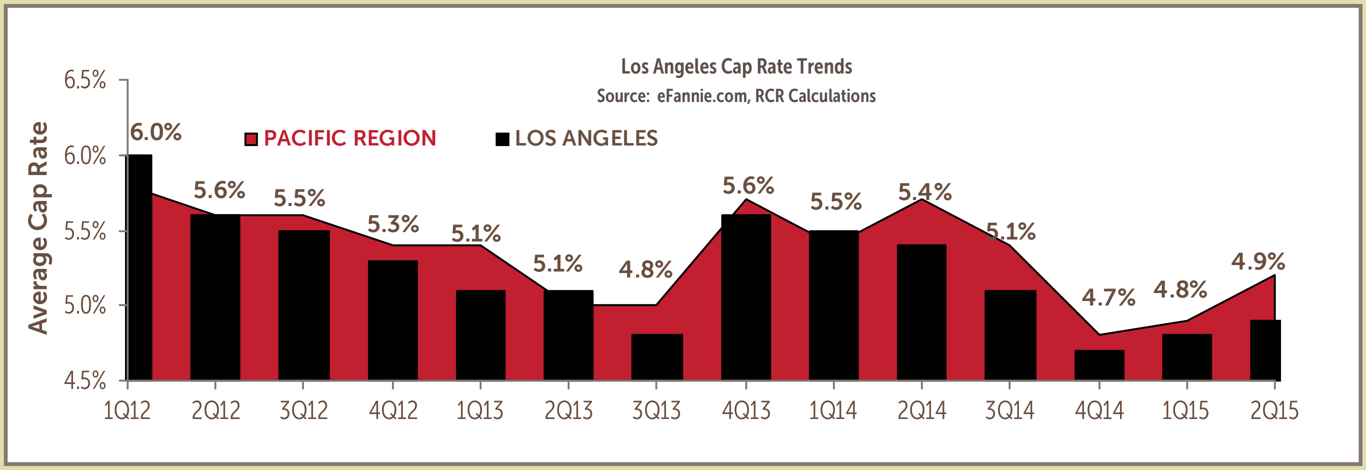
The average price paid per unit also increased, rising from $218,826 during 4Q14 to $276,415. The price/unit metric was boosted by the sale of a new construction luxury Downtown tower at a $690,000/unit price and four other transactions valued at $300,000 or more per unit.

Cap rates for institutional quality assets fell in the high-3% to mid-4% range. Older class-B properties traded in the low– to mid-5% area. Yields on class-C properties gravitated toward to 6% to low-6% level.

RCR elected to trim 10 basis points from the generic going-in cap rate assumption to 5.1%. Using this level, a 5.8% terminal cap rate and model derived rent and occupancy forecasts, we estimate that an investor in L.A. class-B/B+ assets would expect to achieve a 5.5% unlevered 5-year total return, ranking 42nd among the RED 46. The risk-adjusted index fares no better due to L.A.'s volatile demand and supply history, figuring 44th among the peer group.

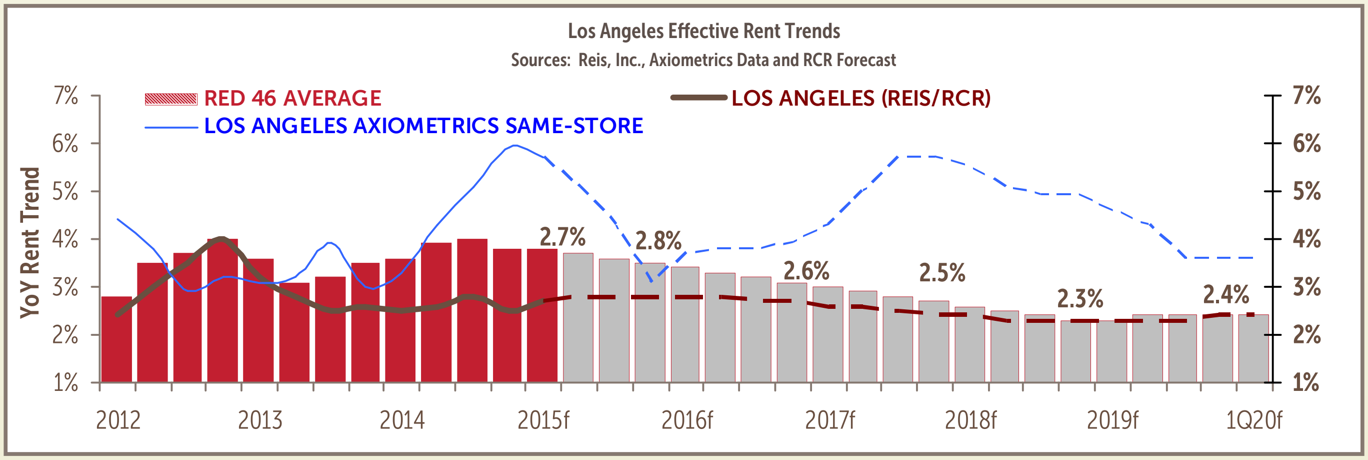


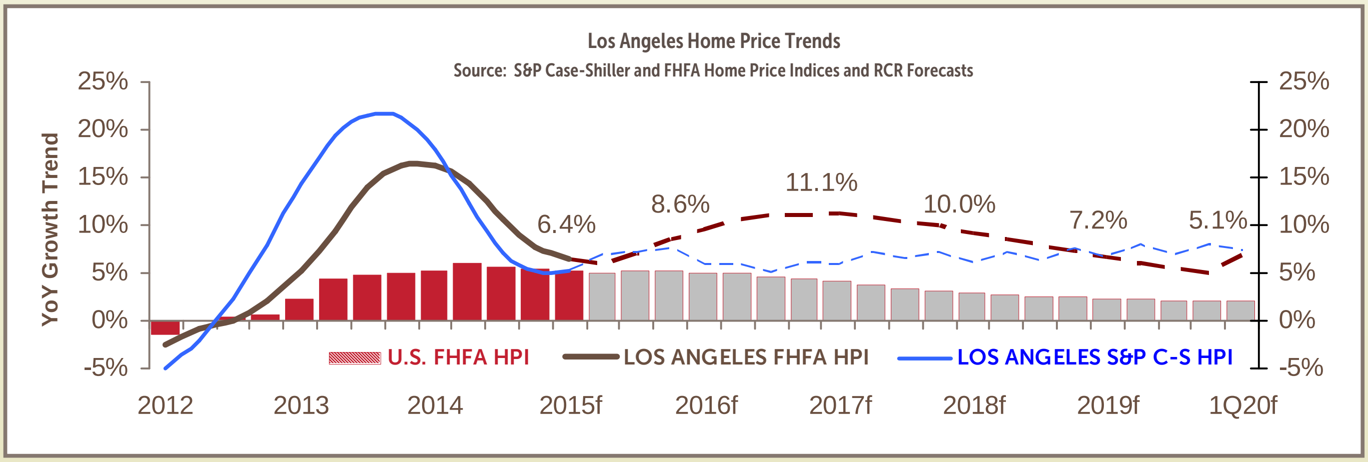


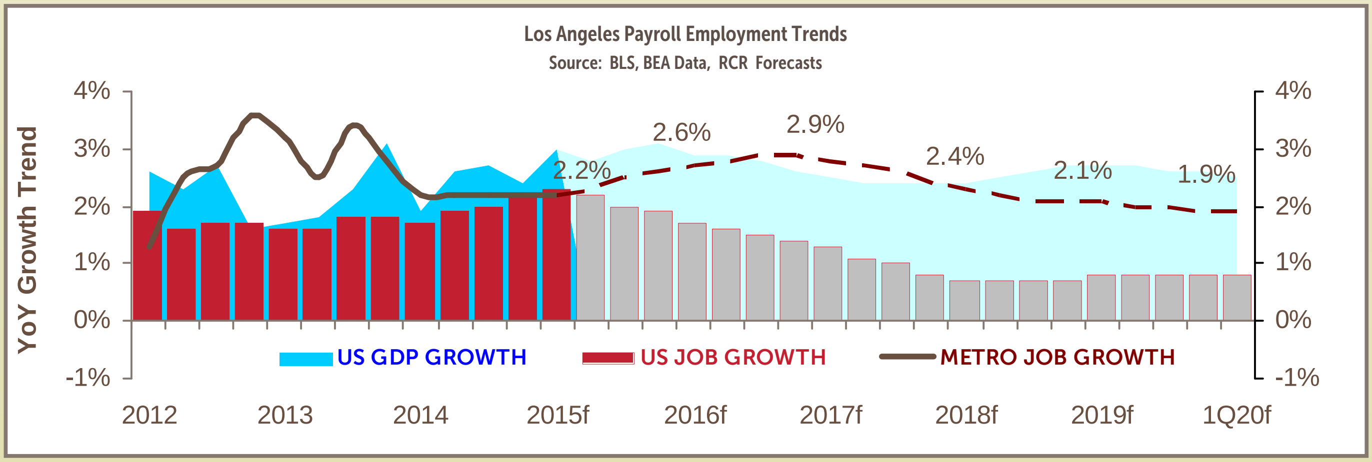


NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
8th+Hope (Downtown / Silver Lake)	A / HR (2014)	4-Mar-2015	$200.0	$689,655	4.1% p.f.
Torrey Pines (West Covina/La Puente)	B- / GLR (1980)	12-Mar-2015	$53.8	$214,243	4.9%
Waterstone at Cheviot Hills (Culver City)	B+ / GLR (86/06)	15-Mar-2015	$36.3	$302,083	5.0%
La Belle Hollywood Tower (Hollywood)	A- / MR (2010)	8-Apr-2015	$63.0	$431,507	3.9%
Rockwood at the Cascades (San Fernando)	B- / GLR (2007)	29-May-2015	$45.0	$205,381	5.3%

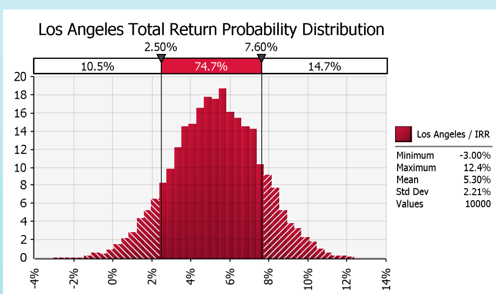

Los Angeles Effective Rent Trends
Sources: Reis, Inc., Axiometrics Data and RCR Forecast
RED 46 AVERAGE
LOS ANGELES (REIS/RCR)
LOS ANGELES AXIOMETRICS SAME-STORE
YoY Rent Trend
7%
6%
5%
4%
3%
2%
1%
2.7%
2.8%
2.6%
2.5%
2.3%
2.4%
2012
2013
2014
2015f
2016f
2017f
2018f
2019f
1Q20f

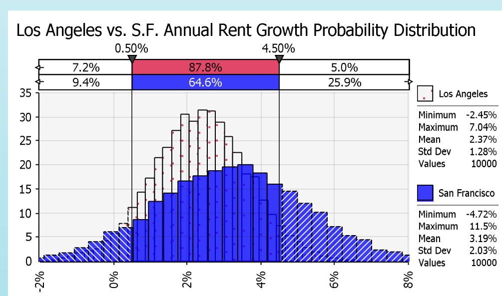

Los Angeles Home Price Trends
Source: S&P Case-Shiller and FHFA Home Price Indices and RCR Forecasts
YoY Growth Trend
25%
20%
15%
10%
5%
0%
-5%
6.4%
8.6%
11.1%
10.0%
7.2%
5.1%
U.S. FHFA HPI
LOS ANGELES FHFA HPI
LOS ANGELES S&P C-S HPI
2012
2013
2014
2015f
2016f
2017f
2018f
2019f
1Q20f


Los Angeles Payroll Employment Trends
Source: BLS, BEA Data, RCR Forecasts
YoY Growth Trend
4%
3%
2%
1%
0%
-1%
2.2%
2.6%
2.9%
2.4%
2.1%
1.9%
US GDP GROWTH
US JOB GROWTH
METRO JOB GROWTH
2012
2013
2014
2015f
2016f
2017f
2018f
2019f
1Q20f

SUBMARKET TRENDS (REIS)

Submarket	Effective Rent			Physical Vacancy		
	1Q14	1Q15	Change	1Q14	1Q15	Change
West LA / Beverly	$1,966	$2,029	3.2%	2.3%	2.5%	20 bps
Santa Monica / Marina	$2,260	$2,339	3.5%	4.2%	4.0%	-20 bps
Beach Cities / West Torrance	$1,431	$1,475	3.1%	2.1%	1.6%	-50 bps
San Pedro / Long Beach	$1,245	$1,275	2.4%	3.6%	3.2%	-40 bps
Hollywood / Westlake	$1,351	$1,401	3.7%	2.9%	3.1%	20 bps
Glendale / Pasadena	$1,457	$1,497	2.7%	3.8%	4.4%	60 bps
East LA / Arcadia	$1,155	$1,177	1.9%	3.3%	2.8%	-50 bps
South Central / Inglewood	$1,010	$1,019	0.8%	2.6%	2.7%	10 bps
Downtown	$1,932	$1,994	3.2%	3.4%	13.1%	970 bps
Claremont / Azusa / W. Covina	$1,252	$1,289	2.9%	3.6%	4.2%	60 bps
Tujunga / Panorama Hills	$1,112	$1,144	2.9%	1.8%	1.7%	-10 bps
Sherman Oaks / Van Nuys	$1,458	$1,507	3.3%	2.8%	2.6%	-20 bps
Chatsworth / Granada Hills	$1,286	$1,316	2.3%	4.2%	3.3%	-90 bps
Whittier / Paramount / Downey	$1,190	$1,219	2.4%	2.4%	1.9%	-50 bps
Santa Clarita / Palmdale	$1,150	$1,186	3.1%	5.6%	4.0%	-160 bps
Metro	**$1,464**	**$1,503**	**2.7%**	**3.1%**	**3.2%**	**10 bps**





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