

PAYROLL JOB SUMMARY

Total Payrolls	1,521.7m
Annual Change	51.4m (3.5%)
2015 Forecast	42.5m (2.8%)
2016 Forecast	32.2m (2.1%)
2017 Forecast	32.2m (2.0%)
2018 Forecast	31.4m (2.0%)
Unemployment	4.1% (Apr.)

1Q15 PAYROLL TRENDS AND FORECAST

Payroll job formation continued to surge during the first quarter, rising to a 17-year high 51,400-job, 3.5% year-over-year pace, up from 4Q14's 45,500-job rate. Quarter-to-quarter growth was fueled by faster hiring in the manufacturing and financial, education, health care and leisure service industries. The foregoing sectors added workers at a combined 24,300-job, 4.0% rate, representing a 50% increase from 4Q14's 16,400-job advance. Consumer-driven markets were softer by comparison: construction and retail trade hiring declined from a collective 8,300-job y-o-y increase in 4Q14 to 5,600 in 1Q15.

Seasonally-adjusted data told a similar story. This series

recorded a 17,900-job pick-up in the January-March period, representing the second largest one-quarter net payroll gain since 2000. The spring quarter got off to a slower start, as no net increase was observed in April.

RCR specified a 97.2% adjusted-R² equation using two lags of the dependent variable and U.S. payroll growth, lags of home prices and Los Angeles payroll and O.C. personal income growth as independent variables. The model paints an optimistic intermediate-term picture as O.C. growth is seen moderating to the mid-2% annual range in 2H15 but stabilizing in the low- to mid-2% range for the duration of the 5-year forecast period.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	97.6%
RED 50 Rank	2 nd
Annual Chg. (Reis)	+0.3%
RCR YE15 Forecast	97.4%
RCR YE16 Forecast	97.8%
RCR YE17 Forecast	98.1%
RCR YE18 Forecast	98.2%

1Q15 ABSORPTION AND OCCUPANCY RATE TRENDS

Tenant space demand increased to the highest level since last summer as renters absorbed a net of 330 vacant units, up from 327 and 234 during the prior and penultimate quarters, respectively. As developers delivered no new product to the market, occupancy increased 20 basis points sequentially (30 bps year-on-year) to 97.6%, the second highest rate recorded among the RED 50 markets.

Axiometrics surveys of larger, same-store properties found an average metro occupancy rate of 95.7%, down 50 bps sequentially but up 50 bps y-o-y. "C" properties recorded the highest occupancy rate across classes at 97.0%, fol-

lowed by classes-B (95.3%) and -A (95.0%). Class-C assets also posted the largest y-o-y gain, rising 80 bps from 1Q14. Buena Park (97.3%) and Tustin (97.2%) enjoyed the highest occupancy rates among submarkets, Huntington Beach (91.5%) and Laguna Hills (93.6%) the lowest. Lower rent submarkets chalked down the largest y-o-y occupancy gains, most notably Buena Park, Placentia and Santa Ana.

The RCR absorption equation features inventory, payroll and rent growth as independent variables. Each is expected to increase robustly, producing an optimistic occupancy forecast producing sub-2% vacancy levels by 2017.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$1,661
Annual Change	3.6%
RED 50 Rent Change Rank	25 th
RCR YE15 Forecast	4.3%
RCR YE16 Forecast	5.0%
RCR YE17 Forecast	3.7%
RCR YE18 Forecast	2.6%

1Q15 EFFECTIVE RENT TRENDS

Broad Reis surveys found that O.C. rents averaged \$1,661 during the first quarter, up \$10 (0.6%) sequentially and \$57 (3.6%) year-over-year, the latter metric ranking only in the middle of the pack (25th) among the RED 50 markets despite exceptional market tightness. But rent momentum appeared to build as the y-o-y increase accelerated for the fourth consecutive quarter, boding well for the future.

Axiometrics surveys of larger, stabilized same-store properties suggest that the future may already be here. This service recorded a unit-weighted average 5.6% y-o-y advance among its survey universe, the fastest gain observed

in the post-recession rally. Rent increases were comparable across classes, led by "C" properties (5.8%) for the fifth consecutive quarter, followed by classes-B (5.7%) and -A (5.2%). Placentia (8.0%) submarket posted the largest advance, followed closely by Huntington Beach (7.8%) and South Anaheim (7.3%). South Coast submarkets lagged.

The RCR rent equation employs payroll, inventory and income growth as independent variables to reach a 97.1% ARS. The model suggests that rent growth is likely to accelerate through 2016 before returning to the 2.5%-3% range. Rent is projected to compound at 3.7% annually, R46 #7.

TRADE & RETURN SUMMARY

\$5mm+ / 80-unit+ Sales	6
Approx. Proceeds	\$341.9mm
Avg. Cap Rate (FNM)	4.5%
Avg. Price/Unit	\$203,752
Expected Total Return	7.1%
RED 46 ETR Rank	23 rd
Risk-adjusted Index	6.26
RED 46 RAI Rank	11 th

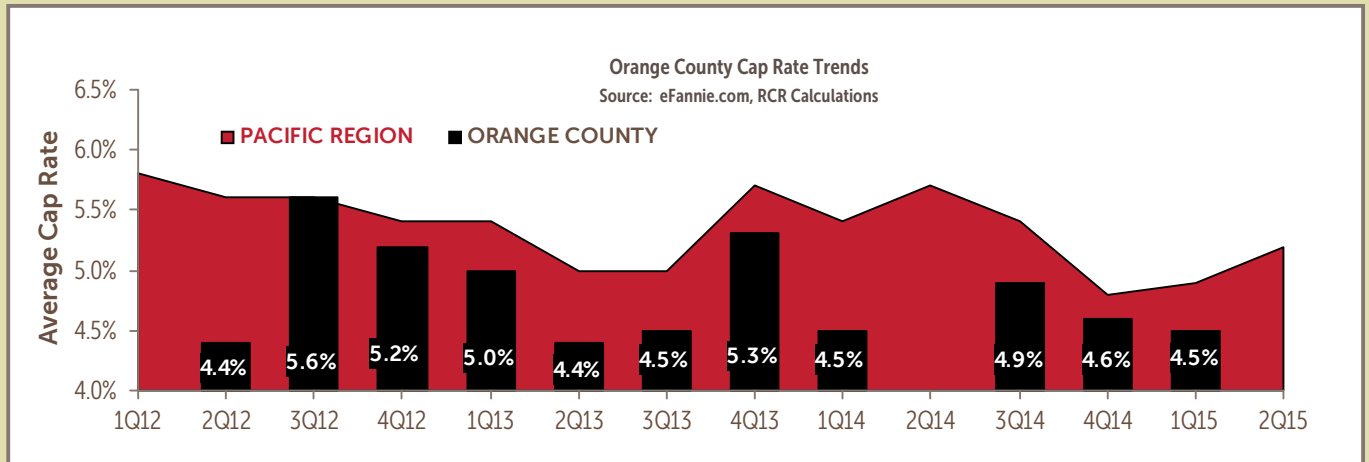
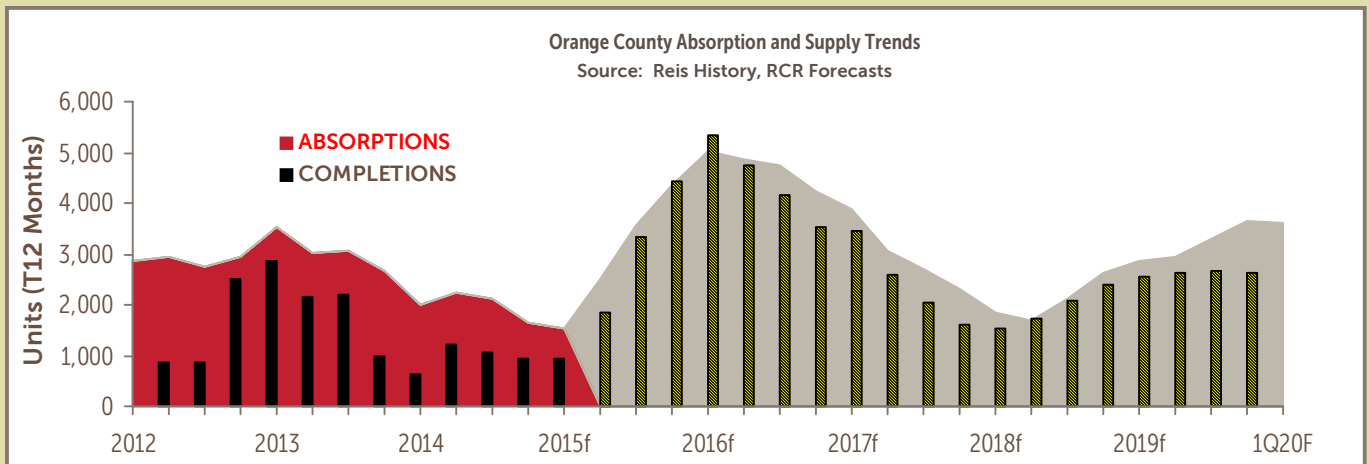
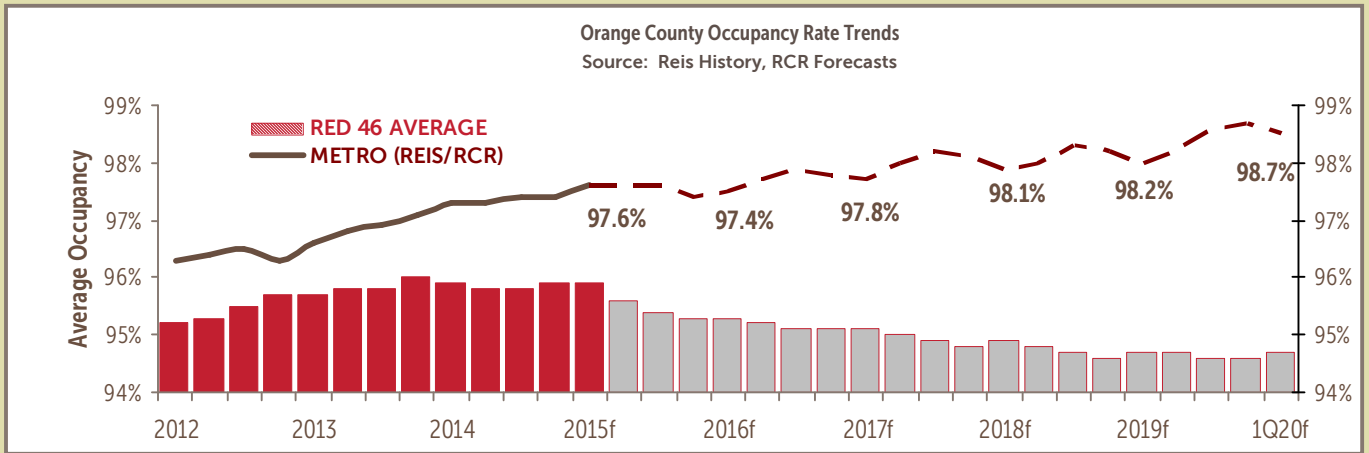
1Q15 PROPERTY MARKETS AND TOTAL RETURNS

Sales velocity remained on the sluggish side as few properties were offered for sale. In all, six trades of larger apartments were recorded in the first quarter, up from four during the previous quarter but down from 1Q14's relatively robust nine trade tally. Proceeds totaled a respectable \$342 million, boosted by two transactions valued at more than \$100mm each. The average price per unit metric increased 39% from 4Q14 to \$203,752, largely attributable to one of the \$100mm+ transactions that exchanged hands at a \$277,296/unit dollar price.

Class-A cap rates are difficult to estimate as an individual property built after 1990 has not exchanged hands since

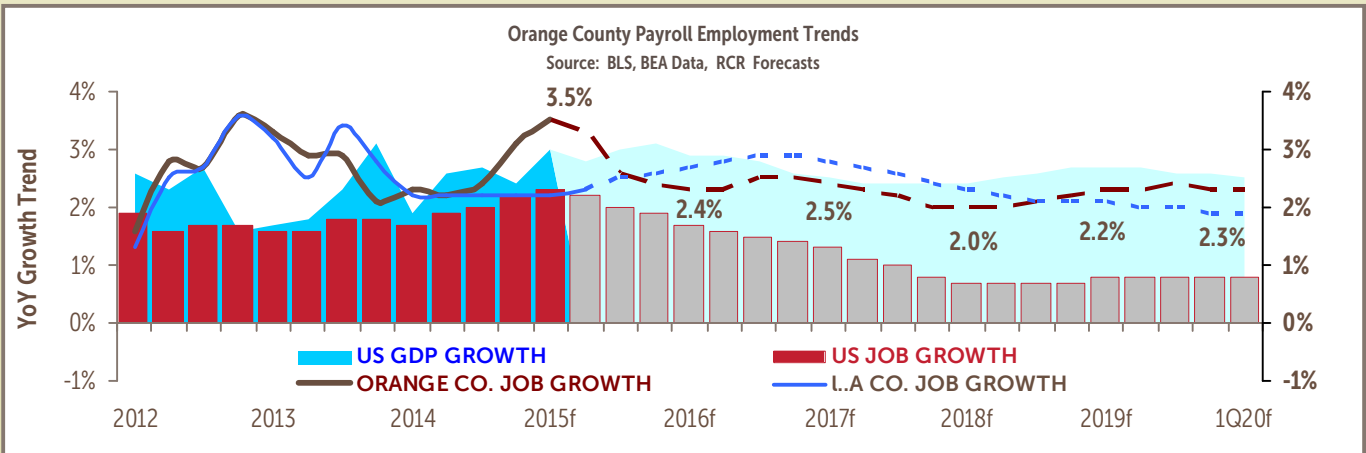
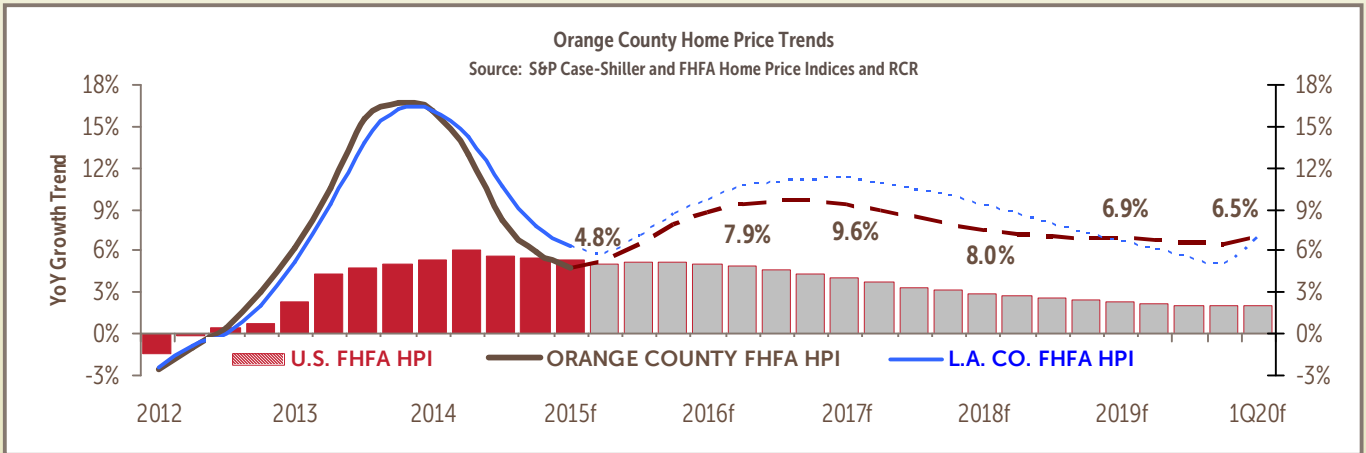
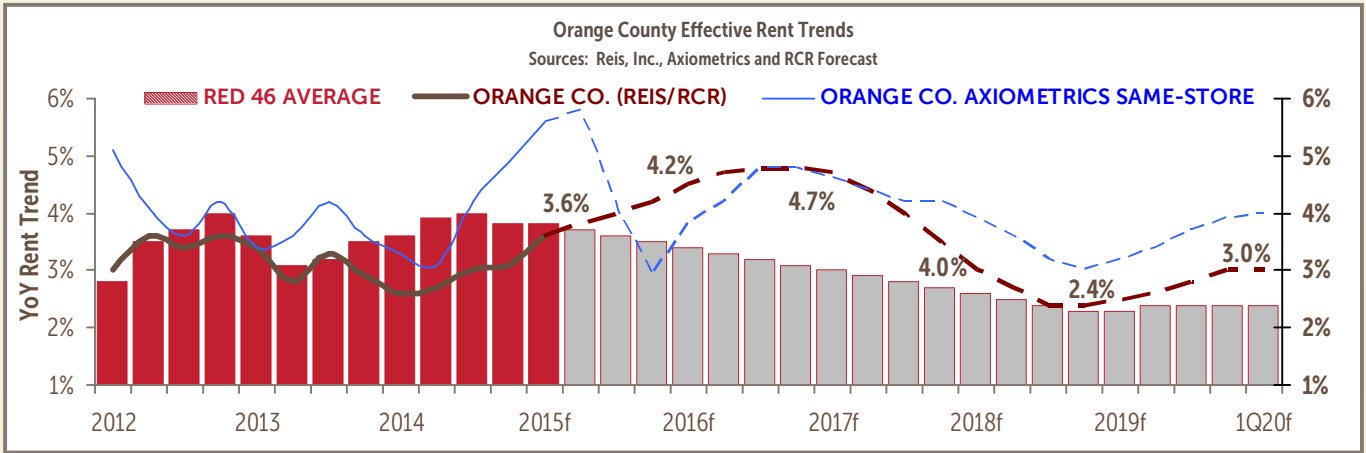
2013. Trophy yields are likely in the high 3% area, while standard institutional quality properties trade in the low- to mid-4s. Class-B assets generate going-in yields in the 5% range, while class-C properties may reach the low-6s.

RCR elected to trim the generic cap rate assumption 10 basis points to 4.5% to reflect the supply/demand imbalance affecting the O.C. market. With this level, a terminal cap rate of 5.1% and model derived occupancy and rent forecasts, we estimate that a buyer would expect to achieve a 7.1% 5-year, unlevered total return from a metro investment ranking 23rd among the RED 46. Low model standard error boosts the risk-adjusted index to group #11.



NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
Sofi Irvine (Irvine)	B / GLR (1988)	31-Jan-2015	\$111.8	\$277,296	4.6%
Pine Lake Terrace (Buena Park)	C+ / GLR (1971)	2-Feb-2015	\$24.1	\$217,340	4.9%
Peppertree Apartments (South Anaheim)	C / GLR (1971)	5-Mar-2015	\$31.1	\$228,676	5.1%
Madison Park (Buena Park)	B- / GLR (1970)	31-Mar-2015	\$122.0	\$158,854	6.0%



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SUBMARKET TRENDS (REIS)

Submarket	Effective Rent			Physical Vacancy		
	1Q14	1Q15	Change	1Q14	1Q15	Change
Brea	\$1,421	\$1,448	1.9%	1.9%	1.1%	-80 bps
Buena Park	\$1,352	\$1,392	2.9%	1.1%	0.9%	-20 bps
Costa Mesa	\$1,737	\$1,780	2.5%	2.6%	2.1%	-50 bps
Fullerton	\$1,380	\$1,415	2.5%	2.0%	0.8%	-120 bps
Huntington Beach	\$1,486	\$1,551	4.4%	3.8%	1.7%	-210 bps
Irvine	\$2,039	\$2,120	4.0%	4.8%	4.8%	0 bps
Laguna Beach / Dana Point	\$1,752	\$1,817	3.8%	3.0%	3.1%	10 bps
Laguna Hills	\$1,687	\$1,862	10.3%	3.5%	3.7%	20 bps
Mission Viejo	\$1,664	\$1,737	4.4%	1.9%	2.3%	40 bps
Newport Beach	\$2,139	\$2,288	7.0%	1.8%	1.5%	-30 bps
North Anaheim	\$1,306	\$1,335	2.2%	2.6%	2.0%	-60 bps
North Santa Ana	\$1,288	\$1,324	2.7%	1.2%	0.9%	-30 bps
Orange	\$1,623	\$1,648	1.5%	1.4%	1.5%	10 bps
Northeast Anaheim	\$1,314	\$1,327	0.9%	3.8%	2.9%	-90 bps
South Anaheim	\$1,414	\$1,452	2.7%	3.1%	2.3%	-80 bps
South Santa Ana	\$1,715	\$1,781	3.8%	3.2%	4.0%	80 bps
Tustin	\$1,485	\$1,517	2.2%	2.3%	1.8%	-50 bps
Westminster	\$1,397	\$1,426	2.1%	2.4%	2.3%	-10 bps
Metro	\$1,604	\$1,661	3.6%	2.7%	2.4%	-30 bps

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