

### PAYROLL JOB SUMMARY

Total Payrolls	901.3m
Annual Change	25.4m (2.9%)
2015 Forecast	25.5m (2.9%)
2016 Forecast	26.7m (2.9%)
2017 Forecast	23.5m (2.5%)
2018 Forecast	17.2m (1.8%)
Unemployment (NSA)	5.6% (Mar.)

### 1Q15 PAYROLL TRENDS AND FORECAST

Sacramento payroll trends accelerated during the first quarter as establishments hired at a 25,400-job, 2.9% year-on-year rate, up from 4Q14's 21,700-job pace. Consumer-driven industries were primary responsible for the advance. Construction, retail, trade and financial, accommodation and food services employers added to staff at a 10,700-job, 4.1% annual rate, representing a 43% increase from the prior quarter's 7,500-job, 2.8% collective gain.

Seasonally-adjusted data were consistent, showing a strong 7,100-job net payroll increase during the January-to-March period, up from 4,900- and 5,400-job increases in 4Q14 and 1Q14, respectively. Data were softer for April, however; preliminary figures show that total payroll employment declined -1,400 jobs month-to-

month, the worst one-month outcome in two years, and year-on-year non-seasonally adjusted comparisons were notably softer.

**RED Capital Research** specified a 95.9% adjusted-R<sup>2</sup> econometric payroll forecasting equation employing U.S. payroll and income growth and metro home price growth as independent variables. The model reflects the high degree of volatility in the Sacramento payroll series, projecting first stable conditions in 2015, followed by accelerating growth in 2016. The pace of hiring decreases gradually in 2017 through 2019 but remains consistently above the national average by a considerable margin. The model produces a forecast of 20,000-job+ annual gains through 2017, falling to the mid- to high-teens in the projection out years.

### OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	97.7%
RED 50 Rank	1 <sup>st</sup>
Annual Chg. (Reis)	0.5%
RCR YE15 Forecast	97.6%
RCR YE16 Forecast	97.9%
RCR YE17 Forecast	97.1%
RCR YE18 Forecast	97.8%

### 1Q15 ABSORPTION AND OCCUPANCY RATE TRENDS

Exceptionally tight markets notwithstanding, demand for metro apartment space remained constructive during the first quarter. In spite of the fact that only 2,380 units in the 101,5584-unit Reis survey universe were vacant, Sacramento renters net leased 175 units, matching 4Q14's performance and easily exceeding 3Q14's 113-unit tally. Accounting for new supply of 96 units, average occupancy was essentially unchanged sequentially at 97.7%, highest among the **RED 50**. Occupancy increased 50 basis points year-on-year.

Axiometrics surveys of large, professionally managed properties found average occupancy of 95.7%, down 20 bps sequentially and unchanged y-o-y. Across property classes, class-C recorded the highest occupancy for the third consecutive quarter at an average

of 96.5%. Classes-B and -A followed at 95.6% and 95.2%, respectively. Recent construction were absorbed at a brisk pace. An 84-unit Downtown mid-rise and a 56-unit Carmichael GLR were about 98% occupied after leasing for roughly 12 months.

**RCR's** Sacramento absorption model uses metro rent, job and apartment stock and U.S. home price growth as independent variables and seven lags of the dependent variable to achieve a 89.0% ARS. Strong payroll job formation and a cresting supply wave expected to roll over Sacramento in 2017 boost the rate of occupied stock growth from the 0.7% to 1.3% range observed in 1Q13 to 1Q15 to the 1.5% to 3.5% range in 2016 and 2017, keeping metro occupancy above 97% for the forecast duration.

### EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$986
Annual Change	3.7%
RED 50 Rent Change Rank	24 <sup>th</sup>
RCR YE15 Forecast	4.4%
RCR YE16 Forecast	4.5%
RCR YE17 Forecast	3.7%
RCR YE18 Forecast	2.0%

### 1Q15 EFFECTIVE RENT TRENDS

Reis report an average Sacramento apartment inventory effective rent metric of \$986, up \$10 (1.0%) sequentially and \$35 (3.7%) year-on-year. The latter figure represents a considerable acceleration over the 3.2% figures reported in each of the last two quarters. Indeed, rent growth during 1Q15 was the fastest since 2Q02.

Axiometrics surveys of 152 stabilized same store properties recorded a similar but more exaggerated pattern. This service reports a 8.0% y-o-y advance in 1Q15, following gains of 10.0% and 10.2% in 4Q14 and 3Q14, respectively. The recent surge represents the first observed growth above 5% in longer than a decade.

With respect to class, "A" properties chalked down the fastest y-o-y advance, posting a 10.4% first quarter gain. Classes-C and -B followed with 8.2% and 6.8% increases. Arden Way and West University submarkets reported the fastest rent growth (11.3%), and Citrus Heights (4.4%) and Rancho Cordova (4.5%) the slowest.

**RCR's** modeling exercise found that two lags of the dependent variable, the fourth lag of inventory growth and GDP describe 96.6% of the change in the Reis y-o-y effective rent series. Using this model, we project strong 3.7% to 4.6% growth to persist through 2017, followed by sharply slower gains (1%-2%) in the forecast out-years as 2017 supply weighs heavily on rent trends.

### TRADE & RETURN SUMMARY

\$5mm+ / 80-units+ Sales	13
Approx. Proceeds	\$339.8mm
Avg. Cap Rate (FNM)	5.1%
Avg. Price/Unit	\$115,418
Expected Total Return	7.2%
RED 46 ETR Rank	22 <sup>nd</sup>
Risk-adjusted Index	3.83
RED 46 RAI Rank	39 <sup>th</sup>

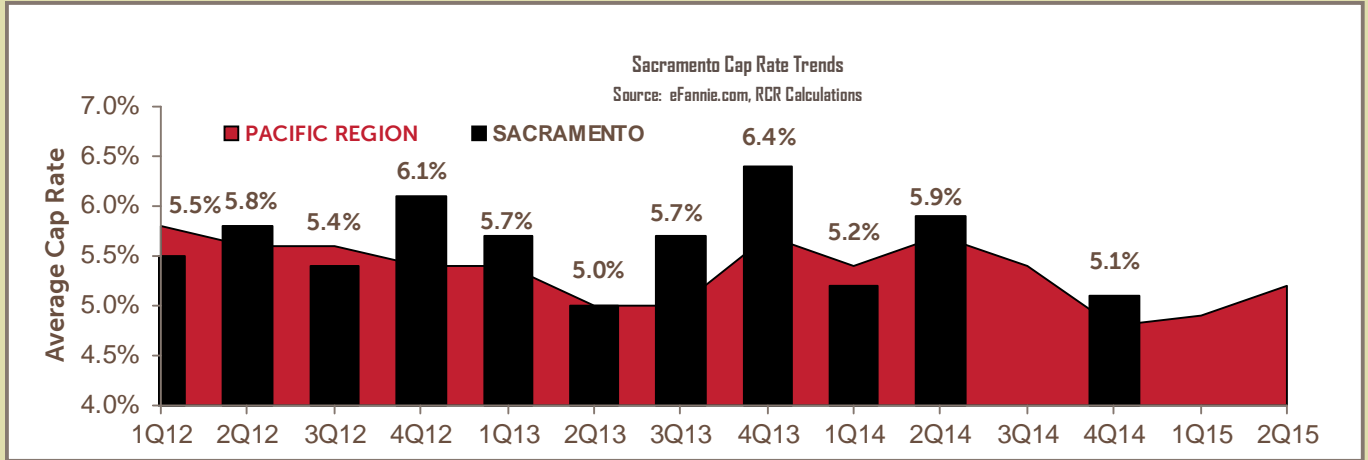
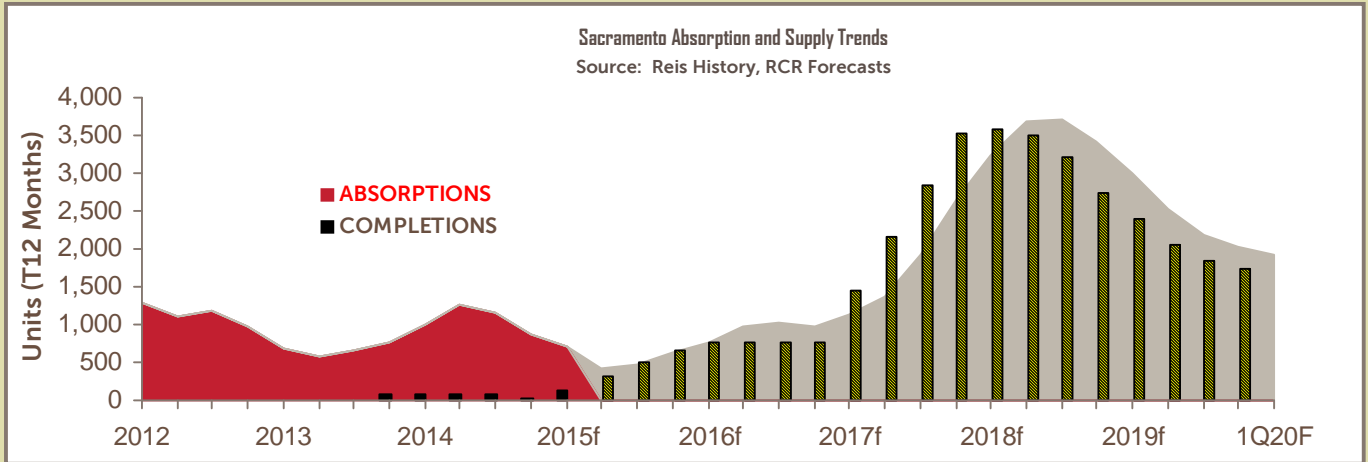
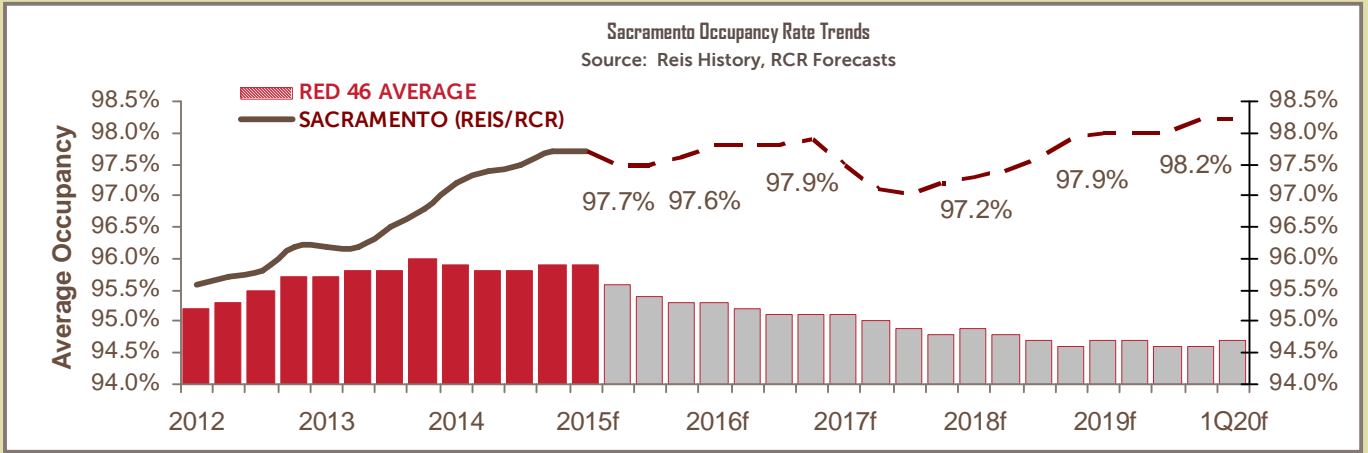
### 1Q15 PROPERTY MARKETS AND TOTAL RETURNS

Property market activity gained momentum during the first quarter, setting recent high totals in velocity and total proceeds. Investors acquired 13 80-unit or larger properties valued at \$5 million or more for proceeds of approximately \$340 million dollars. These statistics compare to 10 and 6 transactions valued at \$199mm and \$144mm during the prior and year-earlier quarters, respectively. The average price of units sold during the first quarter was \$115,418, down from 4Q14's \$152,708 mean but up from 1Q14's \$101,762 metric.

Cap rates generally fell in the 5% to 6.5% range. Assets constructed since 1999 mostly traded in the 5% area. Class-B properties were priced to yield buyers 5.75% to 6.25% in the first year,

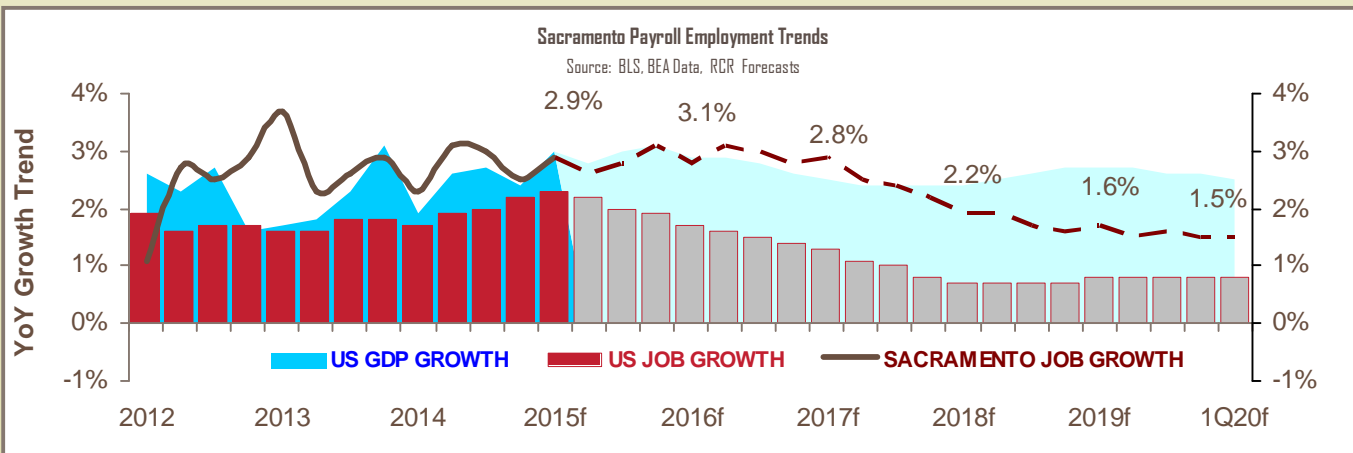
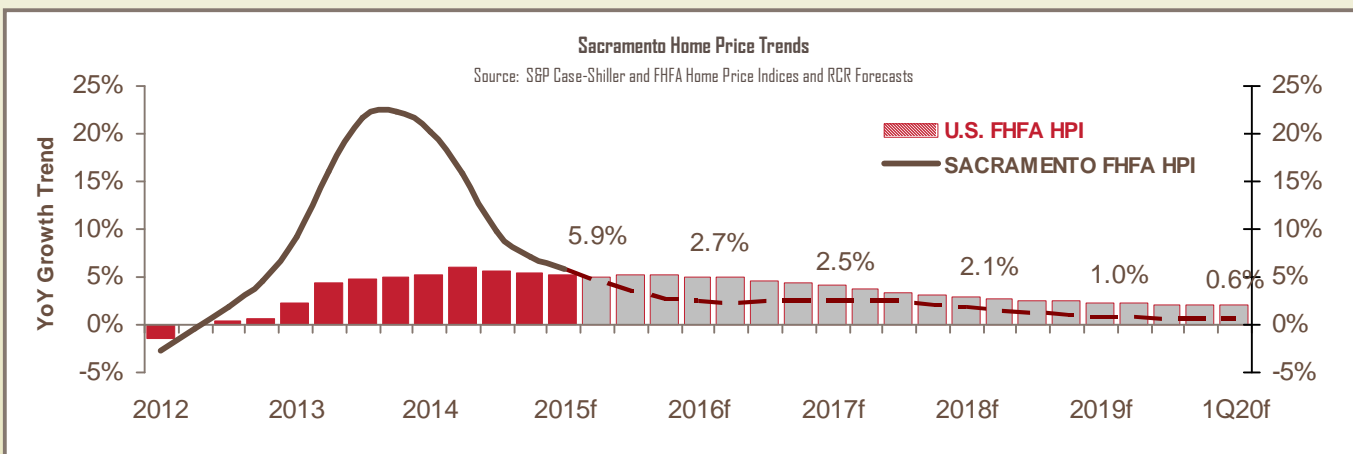
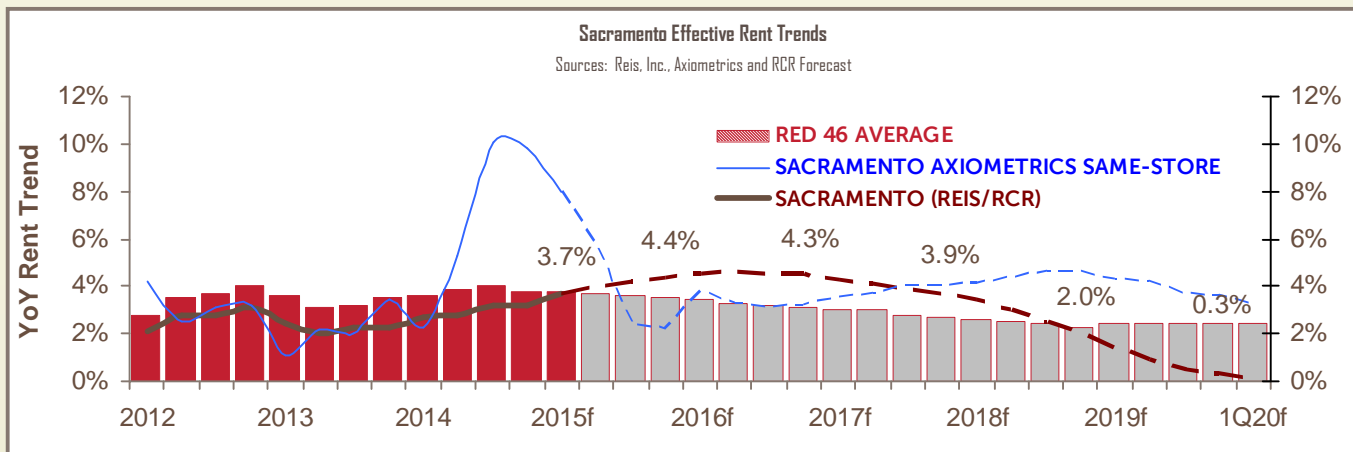
while class-C cap rates gravitated toward the mid- to high 6s.

**RCR's** observation of recent Sacramento trade suggests that 5.4% remains a reasonable proxy for a generic class-B/B+ cap rate. Using model derived occupancy and rent forecasts and a model derived 6.05% terminal cap rate, we estimate that an investor in metro properties would expect to achieve a 7.2% five-year unlevered total return. This metric ranks 22nd among the **RED 46**, compares favorably to the East Bay (6.4%/29th) and is competitive with San Francisco and San Jose. As regards risk adjusted returns, Sacramento volatility produces a risk-adjusted index of 3.83, ranked only 39th among the peer group, hindered by above average personal income, absorption and rent volatility.



## NOTABLE TRANSACTIONS

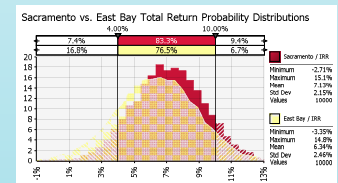
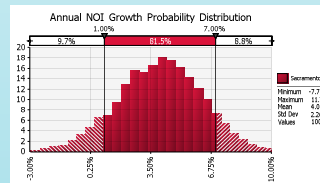
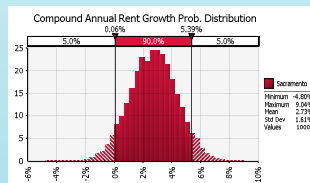
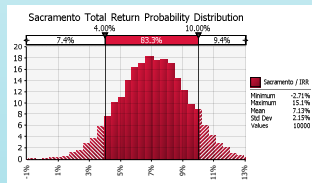
Property Name (Submarket)	Property Class/Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
Iron Point at Prairie Oaks (Folsom)	A / GLR (2000)	19-Dec-2014	\$58.2	\$207,857	5.5%
College Square Apt. (Davis)	C / GLR (1965)	14-Jan-2015	\$34.6	\$143,958	6.0%
The Winsted at Sunset West (Roseville)	B / GLR (2001)	18-Feb-2015	\$36.0	\$173,077	4.8%
800 J Lofts (Downtown)	A- MI / MR (2006)	3-Mar-2015	\$53.5 (less retail)	\$237,640	5.5%
Bella Vista (Elk Grove)	B+ / GLR (1999)	31-Mar-2015	\$35.6	\$147,510	6.1%



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## SUBMARKET TRENDS (REIS)

Submarket	Effective Rent			Physical Vacancy		
	1Q14	1Q15	Change	1Q14	1Q15	Change
Arden Way	\$792	\$825	4.1%	3.4%	2.7%	-70 bps
Carmichael	\$830	\$848	2.2%	2.4%	2.3%	-10 bps
Citrus Heights	\$875	\$901	3.0%	2.1%	2.0%	-10 bps
Davis	\$1,208	\$1,251	3.5%	1.0%	1.2%	20 bps
Downtown Sacramento	\$1,202	\$1,304	8.5%	5.4%	4.9%	-50 bps
East Marconi Avenue	\$806	\$807	0.2%	6.5%	6.2%	-30 bps
Fair Oaks	\$947	\$975	2.9%	1.8%	1.1%	-70 bps
Florin Road West	\$1,039	\$1,081	4.1%	2.5%	2.1%	-40 bps
North Highlands	\$846	\$884	4.5%	3.2%	2.0%	-120 bps
North Sacramento	\$1,014	\$1,050	3.5%	2.3%	1.9%	-40 bps
Orangevale / Folsom	\$1,095	\$1,148	4.8%	3.6%	3.4%	-20 bps
Rancho Cordova	\$850	\$886	4.2%	1.7%	1.2%	-50 bps
Roseville	\$1,146	\$1,189	3.8%	2.3%	1.8%	-50 bps
South / Elk Grove	\$800	\$824	3.0%	2.7%	1.6%	-110 bps
West Marconi Avenue	\$719	\$743	3.4%	6.6%	4.8%	-180 bps
West University	\$995	\$1,026	3.1%	2.2%	2.2%	0 bps
Woodland	\$818	\$841	2.8%	3.0%	2.4%	-60 bps
<b>Metro</b>	<b>\$951</b>	<b>\$986</b>	<b>3.7%</b>	<b>2.8%</b>	<b>2.3%</b>	<b>-50 bps</b>



FOR MORE INFORMATION ABOUT RED'S RESEARCH CAPABILITIES CONTACT:



**Daniel J. Hogan**  
 Director of Research  
 djhogan@redcapitalgroup.com  
 +1.614.857.1416 office  
 +1.800.837.5100 toll free

