

PAYROLL JOB SUMMARY

Total Payrolls	1,368.0m
Annual Change	41.5m (3.1%)
2015 Forecast	41.8m (3.1%)
2016 Forecast	34.5m (2.5%)
2017 Forecast	30.4m (2.1%)
2018 Forecast	24.6m (1.7%)
Unemployment (NSA)	4.8% (Apr.)

1Q15 PAYROLL TRENDS AND FORECAST

San Diego employers switched on the hiring afterburners, raising the annual rate of payroll job formation 30% from 4Q14's 1,600-job, 2.4% pace to a 12-month high 41,300-job, 3.1% rate during the first quarter. Accelerating growth was observed in the construction, wholesale trade and business services sectors, which collectively added workers to payrolls at an annual rate of 15,100 (4.6%), up from 4Q14's 7,000-job, 2.1% performance. Meaningfully faster growth also was observed in the retail trade, transportation and financial services sectors.

Seasonally-adjusted data were constructive as well. The BLS counted 8,700 net new jobs created in the January-

March period. While down from 4Q14's robust 15,900-job net add, the first quarter result was the ninth largest one-quarter advance posted since 1999. Moreover, the second quarter got off to a flying start with a 4,700-job sequential month performance in April.

RCR's San Diego payroll model indicates that rapid job formation is likely to continue. The forecast equation is relatively simple, relying on lags of the dependent variable and U.S. payroll growth to reach a 95.9% adjusted-R². The model foresees further 2% or faster growth through 2017, with only moderate deceleration in the forecast out-years, yielding 25,000- to 40,000-job annual gains.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	97.5%
RED 50 Rank	4 th
Annual Chg. (Reis)	+0.1%
RCR YE15 Forecast	97.9%
RCR YE16 Forecast	98.0%
RCR YE17 Forecast	97.9%
RCR YE18 Forecast	97.9%

1Q15 ABSORPTION AND OCCUPANCY RATE TRENDS

Robust job creation notwithstanding, apartment demand was tepid during the first quarter as only 210 vacant units were absorbed, according to Reis, among the weakest leasing performances recorded in the post-recession period. Developers completed 360 units during the quarter, sending metro average occupancy down 10 basis points sequentially to 95.5%, 4th highest among the RED 50, down from 2nd in 4Q14 and equal lowest rank posted since 2011.

Axiometrics surveys of 332 stabilized large properties recorded a 95.9% metro occupancy rate, down 30 bps sequentially. Class-C properties reported the highest occu-

pancy (97.6%) with the class-B (95.9%) and class-A (94.8%) segments trailing materially. Lower rent submarkets recorded the highest occupancy rates, led by El Cajon (97.9%) and San Diego/E. of I-15 (97.7%). Higher rent areas posted the largest y-o-y gains though, including Downtown (+800 bps); La Jolla (+360 bps); and Ocean Beach (+160 bps).

The RCR occupied stock growth equation includes inventory and job growth and rent and home price trend variables. The model paints a very optimistic picture of San Diego unit demand, ranging from 1,900 to 3,200 per year through 2019, sufficient to hold occupancy near 98%.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$1,460
Annual Change	2.4%
RED 50 Rent Change Rank	44 th
RCR YE15 Forecast	2.4%
RCR YE16 Forecast	3.7%
RCR YE17 Forecast	3.7%
RCR YE18 Forecast	3.6%

1Q15 EFFECTIVE RENT TRENDS

Rent growth stalled, according to Reis, as the service reported no sequential change in the first quarter, the weakest quarter-to-quarter performance recorded since 1Q10. As a result, the year-over-year rent growth comparison plunged from a respectable 3.1% in 4Q14 to 2.4%, the 6th slowest rate reported among the RED 50 markets. Weak trends were the rule across classes as "A" property asking rents declined and the "B&C" segment was unchanged.

Axiometrics data were more sanguine, showing a \$5 (0.2%) overall sequential quarter advance, down from 0.4% during 4Q14. The y-o-y comparison held steady at a recent high

5.4%, fueled by very rapid rent increases observed during the first half 2014. Class-A properties reported the softest trends, notching a -0.2% sequential quarter decline while the "B" and "C" segments scratched out 0.2% advances.

RCR statistical analysis finds that 95.6% of the changes in y-o-y rent growth can be explained by changes in metro job and U.S. GDP growth, the fed funds rate and metro vacancy rate changes. This model foresees a rent rebound but not before 2016. Rent trends will remain below 2.5% this year, but should bust out into the mid- to high-3% area by 2017, propelled by faster GDP growth and home appreciation.

TRADE & RETURN SUMMARY

\$5mm+ / 80-unit+ Sales	8
Approx. Proceeds	\$280.3mm
Avg. Cap Rate (FNM)	4.7%
Avg. Price/Unit	\$196,985
Expected Total Return	7.3%
RED 46 ETR Rank	17 th
Risk-adjusted Index	5.58
RED 46 RAI Rank	15 rd

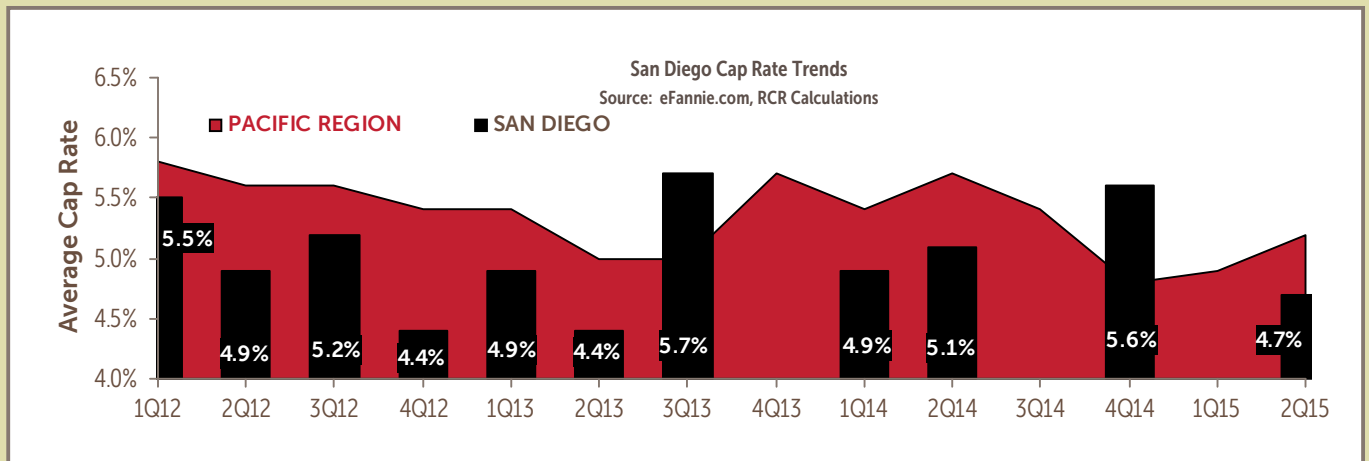
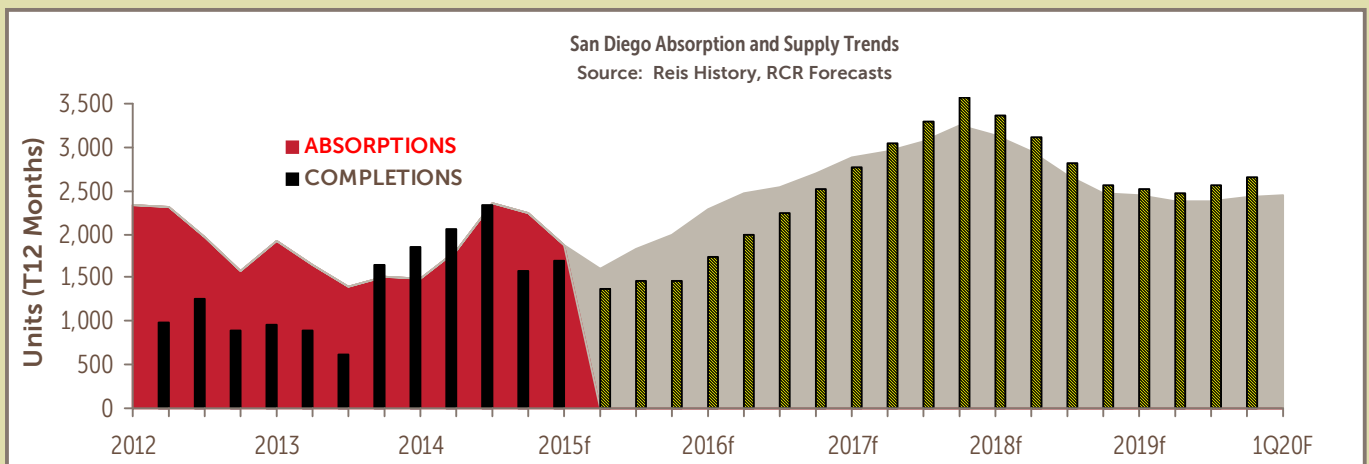
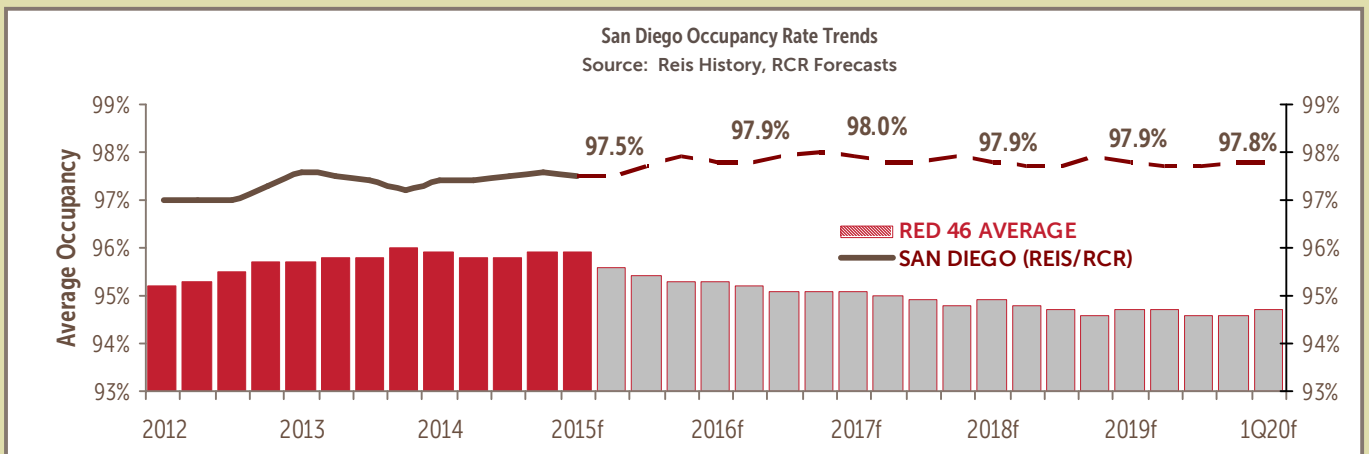
1Q15 PROPERTY MARKETS AND TOTAL RETURNS

Sales velocity was steady during the first quarter as eight properties valued at \$5 million or more exchanged hands, matching 4Q14's performance. Total proceeds increased 13% sequentially to \$280mm, however, as first quarter trade included four transactions valued at \$40mm or more, up from two during the prior period. The average value of units sold metric also increased materially, rising 10% from \$179,882 to \$196,985. The winter quarter metric was boosted by the sale of a 2012-construction trophy property at a price equating to \$295,000 per unit.

"A" and "B+" quality property cap rates gravitated to the mid- to high 4% area. Class-B assets traded at prices pro-

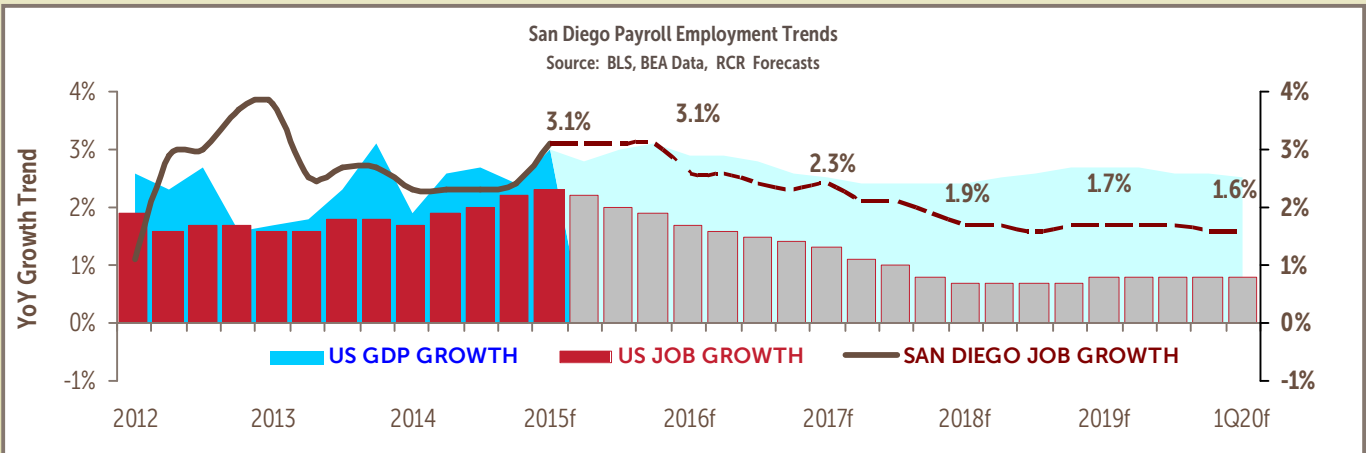
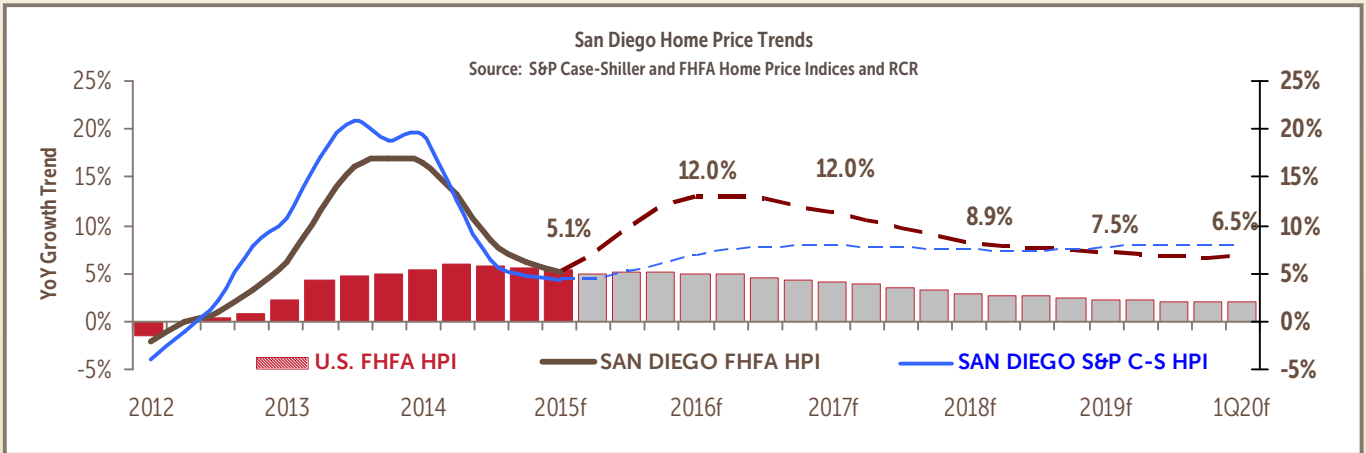
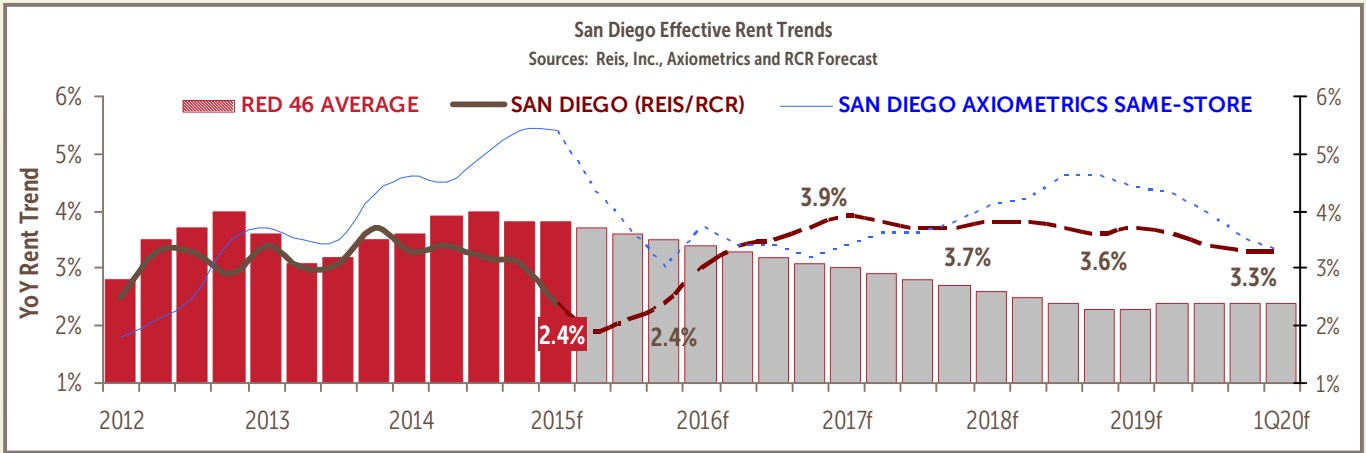
ducing low-5% initial yields. Class-B- and C complexes exchanged hands at mid-5% to low-6% cap rates.

To reflect the preponderance of recent class-B+ asset cap rates in the high-4% area, RCR elected to slice 15 basis points from its generic cap rate assumption to 4.85%. Using this level for purchase cap rate assumption, a 5.4% terminal cap rate and model derived occupancy and rent trends, RCR estimate that an investor in S.D. properties may expect to achieve a 7.3% 5-year unlevered total return, 17th ranked among the RED 46. Model standard error is slightly below average, producing a risk-adjusted index of 5.58, ranking 15th in the RED 46 peer group.



NOTABLE TRANSACTIONS

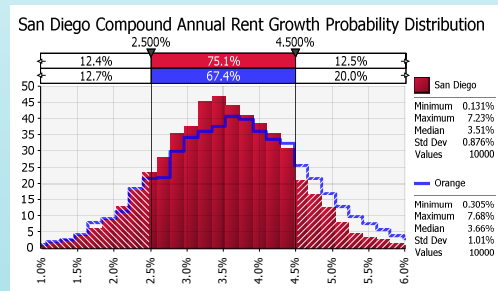
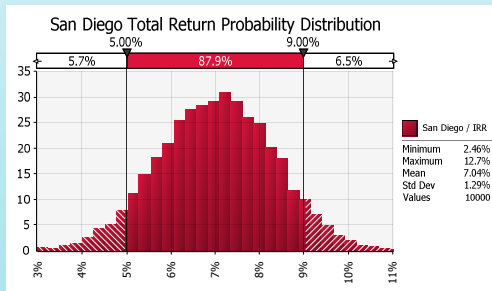
Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
Ultris at Rancho Del Oro (Oceanside)	B+ / GLR (2001)	19-Nov-2014	\$73.5	\$258,715	5.2%
Waterleaf Apartments (Oceanside)	B- / GLR (1985)	9-Jan-2015	\$86.2	\$189,035	5.2%
Alta San Marcos (Vista)	B+ / LR (2013)	20-Jan-2015	\$27.0	\$250,000	4.8%
Latitude33 (Escondido)	A- / MR&TH (2012)	31-Mar-2015	\$58.5	\$295,455	4.7%



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SUBMARKET TRENDS (REIS)

Submarket	Effective Rent			Physical Vacancy		
	1Q14	1Q15	Change	1Q14	1Q15	Change
Balboa Park / West of Interstate-5	\$1,101	\$1,113	1.1%	1.7%	1.0%	-70 bps
Clairemont	\$1,573	\$1,599	1.7%	3.6%	4.5%	90 bps
Downtown San Diego	\$1,806	\$1,882	4.2%	6.2%	6.2%	0 bps
El Cajon / Santee	\$1,108	\$1,142	3.1%	1.0%	0.7%	-30 bps
Escondido / San Marcos	\$1,208	\$1,233	2.1%	2.3%	1.4%	-90 bps
La Jolla / University City	\$1,830	\$1,864	1.9%	2.1%	1.8%	-30 bps
La Mesa / Spring Valley	\$1,386	\$1,418	2.3%	1.4%	1.0%	-40 bps
Mira Mesa	\$1,657	\$1,692	2.1%	4.5%	4.5%	0 bps
Mission Bay / Pacific Beach	\$1,621	\$1,675	3.3%	2.7%	2.1%	-60 bps
National City / Chula Vista	\$1,295	\$1,332	2.8%	1.9%	1.9%	0 bps
North Beaches	\$1,615	\$1,653	2.3%	1.9%	1.4%	-50 bps
Ocean Beach /Point Loma	\$1,405	\$1,410	0.4%	1.4%	0.9%	-50 bps
Oceanside	\$1,277	\$1,310	2.6%	2.6%	1.9%	-70 bps
San Diego / East of Interstate-15	\$1,127	\$1,154	2.4%	2.3%	2.4%	10 bps
Vista	\$1,281	\$1,325	3.4%	3.2%	3.6%	40 bps
Metro	\$1,426	\$1,460	2.4%	2.6%	2.5%	-10 bps



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