

### PAYROLL JOB SUMMARY

|                    |              |
|--------------------|--------------|
| Total Payrolls     | 1,072.5m     |
| Annual Change      | 27.6m (2.6%) |
| 2015 Forecast      | 23.5m (2.2%) |
| 2016 Forecast      | 14.2m (1.3%) |
| 2017 Forecast      | 7.1m (0.6%)  |
| 2018 Forecast      | 1.1m (0.1%)  |
| Unemployment (NSA) | 4.9% (Mar.)  |

### 1Q15 PAYROLL TRENDS AND FORECAST

East Bay payroll employment trends were steady during the first quarter as establishments hired at a 27,600-job, 2.6% pace, comparable to the 2.6% to 2.8% rates recorded in each of the previous three quarters. Business, health care, education and leisure services continued top form the backbone of metro job creation, collectively accounting for 14,900 (3.3%) new jobs over the trailing twelve months. Renewed interest in home building boosted construction hiring, which accelerated from 4Q14's 3,200 (5.5%) result to a brisk 4,900 (8.8%) pace. Conversely, retail and transportation growth slowed to 2,500 (1.8%) from 3.2%.

By contrast, monthly year-on-year comparisons exhibited a degree of deceleration. Preliminary April headcounts reflect a

21,900-job add from the comparable month of 2014, down from December's solid 32,000-job comparison and the smallest 12-month gain since March 2012. Sharply lower business and leisure services growth was largely responsible. Likewise, recent seasonally-adjusted data were soft, recording only a 700-job net gain from January to March, the weakest quarter in two years.

**RCR** specified a 96.5% adjusted-R<sup>2</sup> forecasting model employing three lags of U.S. payroll growth and the first lag of metro personal income growth as independent variables. This equation projects slower but constructive growth through year-end 2015 but meaningfully weaker advances thereafter. The pace of growth is expected to fall to 1.1% in 2016 and less than 0.5% in 2017.

### OCCUPANCY RATE SUMMARY

|                       |                 |
|-----------------------|-----------------|
| Occupancy Rate (Reis) | 97.4%           |
| RED 50 Rank           | 5 <sup>th</sup> |
| Annual Chg. (Reis)    | Unchd           |
| RCR YE15 Forecast     | 97.1%           |
| RCR YE16 Forecast     | 96.9%           |
| RCR YE17 Forecast     | 96.7%           |
| RCR YE18 Forecast     | 96.3%           |

### 1Q15 ABSORPTION AND OCCUPANCY RATE TRENDS

Tenant demand held steady at a moderate pace. Renters absorbed a net of 198 units during 1Q15, according to Reis, up slightly from 190 units during the year-earlier period but down from 4Q14's 238-unit two-year high performance. Developers delivered no new units to the marketplace, allowing occupancy to rise 10 basis points sequentially to 97.4%, an equal 14-year peak. Class-A properties provided the principal impetus as renters occupied a net of 108 vacant A units, up from 4Q14's rare -31-unit net move-out result.

Axiometrics surveys of 226 larger, stabilized properties recorded a 96.4% average occupancy rate, up 10 bps sequentially and 20 bps y-o-y. Occupancy was closely comparable across property classes, led by class-C (96.8%), followed closely by classes-A and -B, each

recording 96.6% average rates. New assets enjoyed moderately higher rates. Properties completed since 2012 recorded average occupancy of 97.0%. The highest occupancy among new properties was posted by a class-B, 2012-vintage 293-unit, San Ramon garden project, which reported 98.4% occupancy in the March quarter.

The **RCR** occupied stock model employs inventory, job, home price and S.F. rent growth and East Bay vacancy rate variables as predictors to achieve a 93.6% ARS. The model forecasts net absorption of 574 units in 2015, rising to 2,466 and 3,125 in 2016 and 2017. But supply promises to be even stronger, resulting in small but steady erosion in the metro occupancy rate, which is projected to tumble 30 bps by YE15, and another 40 bps by YE17 to about 96.7%.

### EFFECTIVE RENT SUMMARY

|                         |                 |
|-------------------------|-----------------|
| Mean Rent (Reis)        | \$1,575         |
| Annual Change           | 6.2%            |
| RED 50 Rent Change Rank | 4 <sup>th</sup> |
| RCR YE15 Forecast       | 4.1%            |
| RCR YE16 Forecast       | 5.0%            |
| RCR YE17 Forecast       | 2.8%            |
| RCR YE18 Forecast       | 2.0%            |

### 1Q15 EFFECTIVE RENT TRENDS

Reis report that average metro effective rents increased \$16 (1.0%) to \$1,575 in sequential quarters, up from \$15 (0.9%) in the previous period. The year-on-year comparison declined from 7.5% to a six-quarter low 6.2%, reflecting substantially slower rent growth recorded in these quarters when compared to the 2% or faster sequential advances chalked down from 3Q13 through 2Q14. Still, 1Q15 East Bay y-o-y rent gains ranked 4th among the **RED 50**.

Axiometrics surveys of larger properties recorded a much different result. This service reports that stabilized same store properties achieved average y-o-y rent growth of 14.6%, fastest since the late 1990s. Class-A properties recorded the strongest gains, posting an

incredible 4.3% sequential quarter advance, driving a 15.6% y-o-y increase. Class-B (14.9%) and class-C (10.3%) assets followed. The fastest submarket sequential gains were posted in Fremont (3.5%), while North Alameda notched the y-o-y laurels (20.1%).

**RCR** specified a 98.5% ARS rent model using five lags of the dependent variable and metro personal income, S&P 500 returns and personal consumption expenditures as independent variables. The resulting model projects slower rent growth for the balance of 2015, followed by reacceleration to 5% in 2016. Rent growth trends drop sharply into the low- to mid-2% range thereafter, holding compound annual rent growth to 3.0%, 16<sup>th</sup> fastest among the **R46**.

### TRADE & RETURN SUMMARY

|                         |                  |
|-------------------------|------------------|
| \$5mm+ / 80-unit+ Sales | 7                |
| Approx. Proceeds        | \$198.9mm        |
| Avg. Cap Rate (FNM)     | 4.4%             |
| Avg. Price/Unit         | \$202,170        |
| Expected Total Return   | 6.4%             |
| RED 46 ETR Rank         | 30 <sup>th</sup> |
| Risk-adjusted Index     | 2.55             |
| RED 46 RAI Rank         | 42 <sup>nd</sup> |

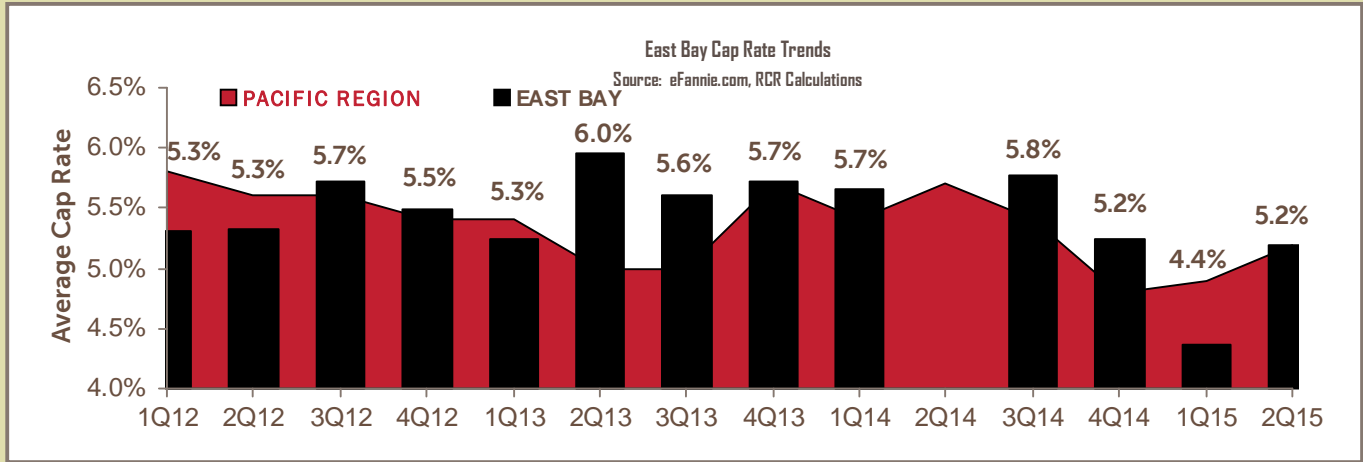
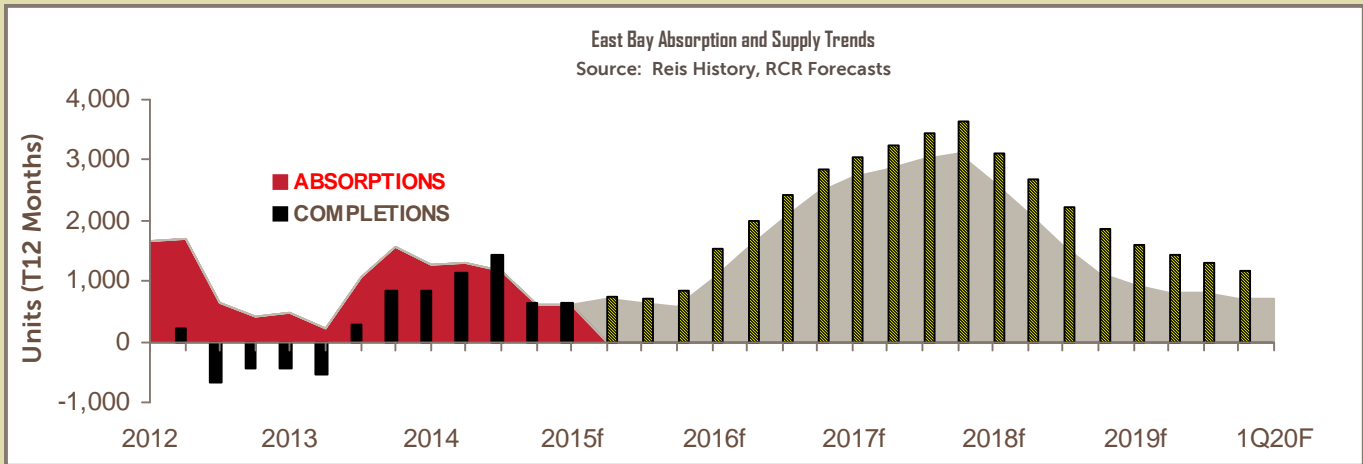
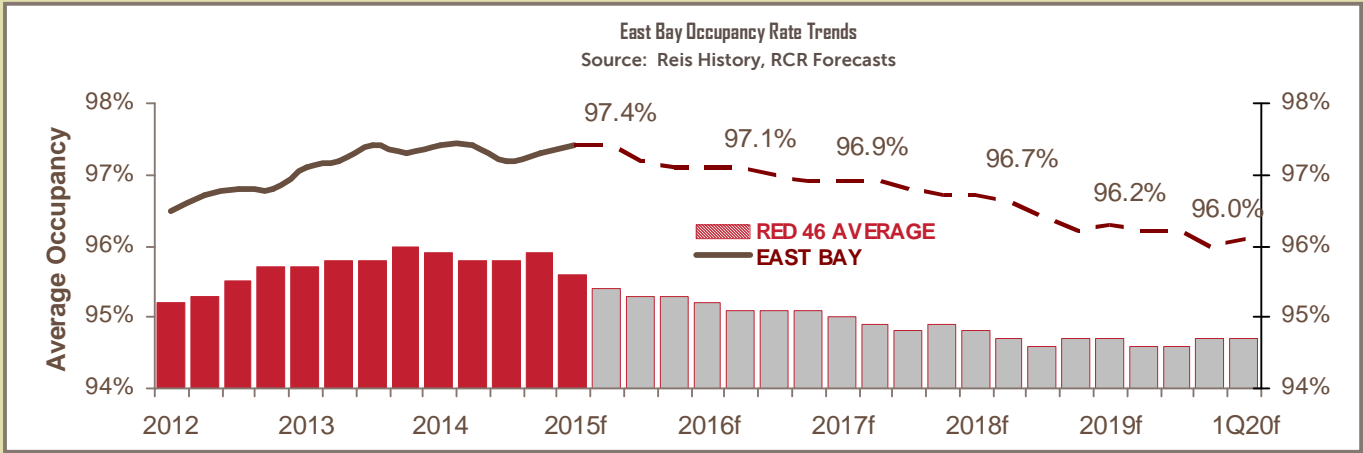
### 1Q15 PROPERTY MARKETS AND TOTAL RETURNS

Sales velocity during 1Q15 was on par with the prior quarter as buyers closed on seven acquisitions of properties with 80 or more units valued at \$5 million or more in each case. Total proceeds declined, however, from \$258.6mm during 4Q14 to \$198.9mm. Likewise, the average price per unit metric fell, declining from \$242,324 to \$202,170 during 1Q15. The heavier concentration of older properties in the mix was responsible: five of the seven 1Q15 purchased properties were constructed prior to 1980.

Cap rates applicable to pre-1980 product were relatively generous by Bay Area standards, ranging in the mid-5% to 7% area. Prices per square foot ranged from \$137 for a 1940s era Richmond property to \$271 for a 1964-vintage Walnut Creek garden complex.

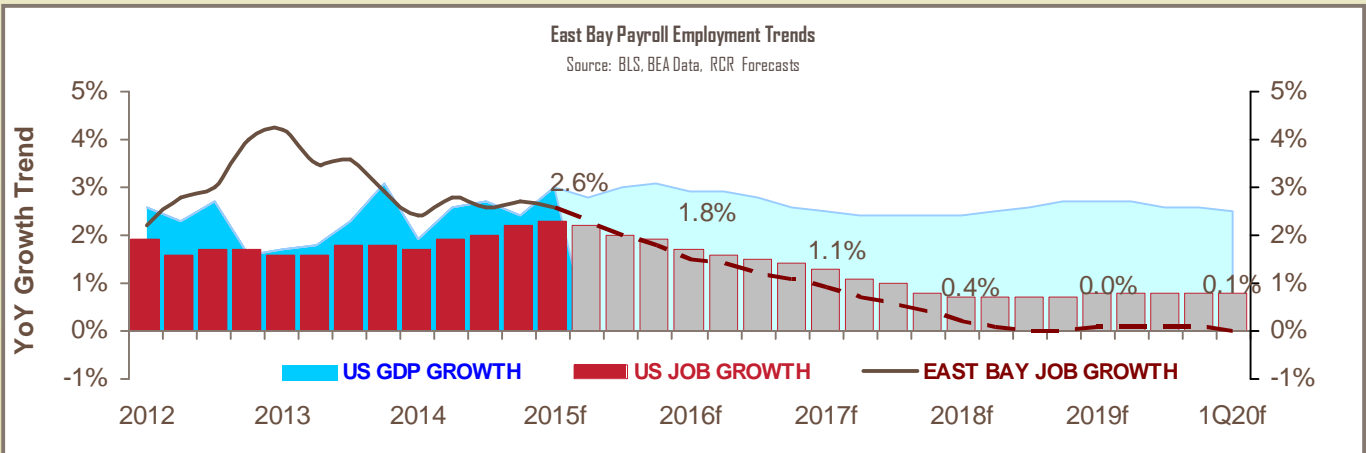
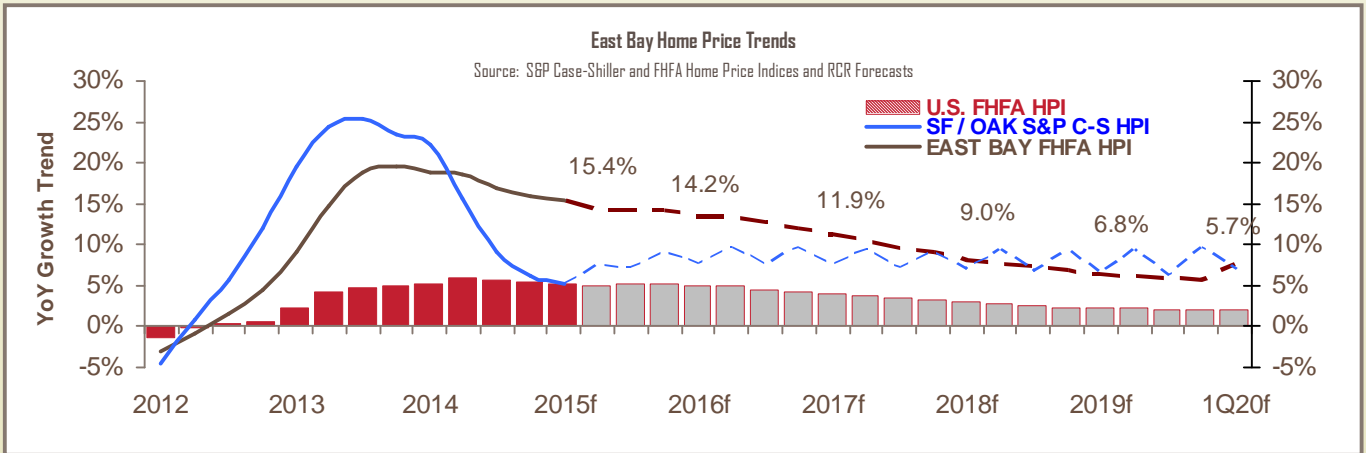
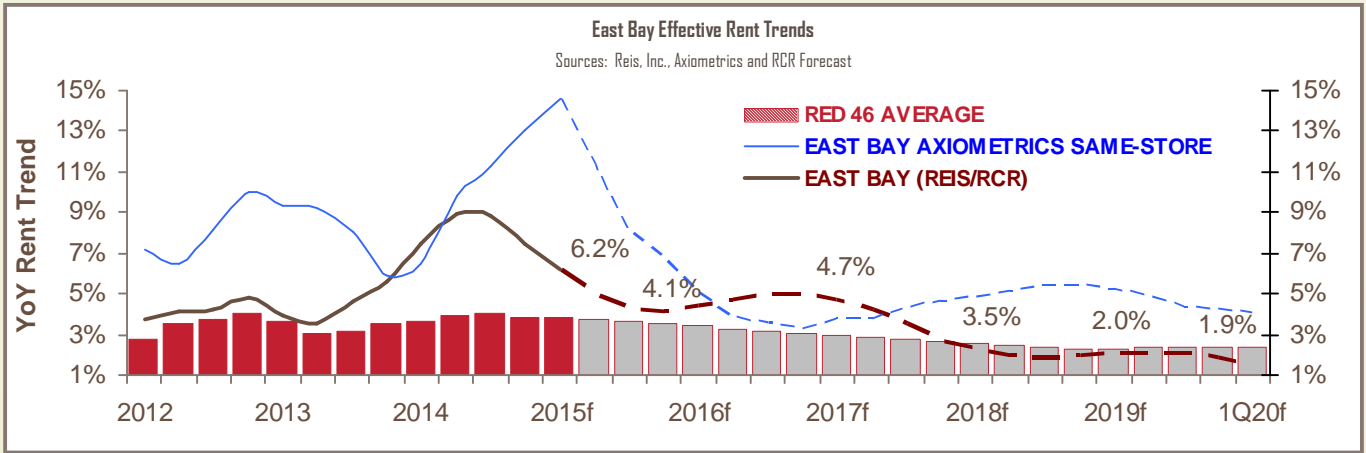
The most recent institutional quality property acquisition closed in December 2014. The deal involved a 2008-vintage mid-rise located near Lafayette Square Downtown. The property traded to a mid-4% going-in yield and a \$329,000-per unit dollar price.

As noted above, East Bay rents are expected to decelerate materially and occupancy is projected to decline over the forecast period. As a result, the expected metro total return estimate is lower than those calculated for San Francisco and San Jose. Using a 4.8% going-in cap rate and model derived rent and occupancy forecasts, **RCR** estimate that investors may expect to achieve a 6.4% total return, from East Bay investments, ranking #29 among the **R46**. The risk-adjusted index (2.55) ranks only peer4 group 42nd.



## NOTABLE TRANSACTIONS

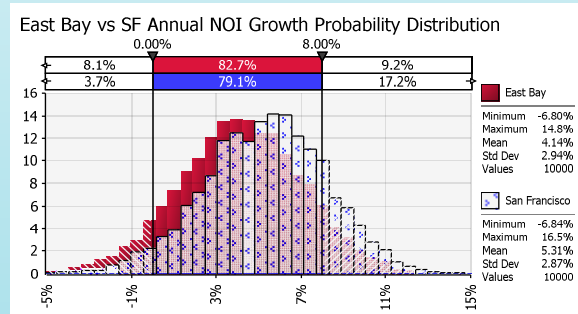
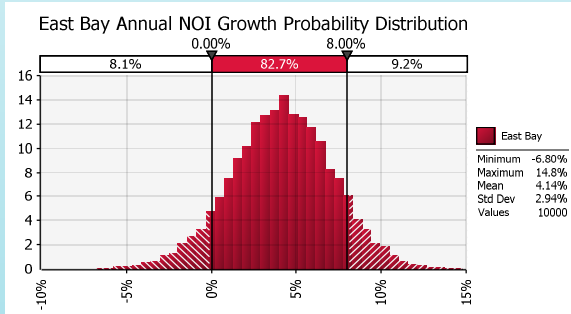
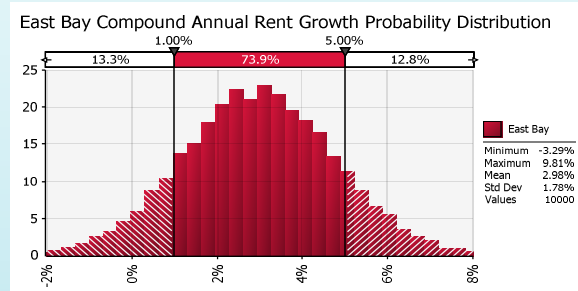
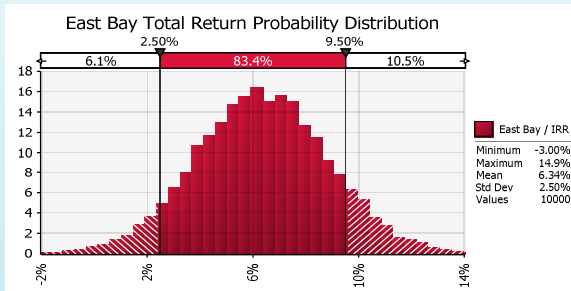
| Property Name (Submarket)                      | Property Class/Type (Constr.) | Approx. Date of Transaction | Total Price / (in millions) | Price / per unit    | Estimated Cap Rate |
|--|-------------------------------|-----------------------------|-----------------------------|---------------------|--------------------|
| 901 Jefferson (North Alameda/Lafayette Sq.)    | B / MR (2008)                 | 21-Dec-2014                 | \$24.7                      | \$329,333           | 4.4%               |
| Cypress Creek (San Ramon / Walnut Creek)       | B- / GLR (1962)               | 23-Jan-2015                 | \$24.0                      | \$242,424 (alloctd) | 5.5%               |
| The Tides Apts. (W. Contra Costa/Richmond)     | B- / GLR (2004)               | 26-Feb-2015                 | \$48.6                      | \$243,175 (alloctd) | 6.4%               |
| Bridgescourt Apts. (W. Contra Costa/Emryville) | B / GLR (1997)                | 16-Mar-2015                 | \$45.1                      | \$205,000           | 6.3%               |



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## SUBMARKET TRENDS (REIS)

| Submarket                 | Effective Rent |                |             | Physical Vacancy |             |              |
|---------------------------|----------------|----------------|-------------|------------------|-------------|--------------|
|                           | 1Q14           | 1Q15           | Change      | 1Q14             | 1Q15        | Change       |
| Concord/Martinez          | \$1,296        | \$1,395        | 7.7%        | 2.4%             | 2.1%        | -30 bps      |
| East Alameda              | \$1,662        | \$1,732        | 4.2%        | 3.8%             | 2.3%        | -150 bps     |
| East Contra Costa         | \$1,209        | \$1,331        | 10.1%       | 3.3%             | 2.5%        | -80 bps      |
| Fremont/Newark/Union City | \$1,539        | \$1,643        | 6.7%        | 1.9%             | 1.7%        | -20 bps      |
| North Alameda             | \$1,523        | \$1,723        | 13.1%       | 4.5%             | 4.5%        | 0 bps        |
| San Leandro / Hayward     | \$1,333        | \$1,389        | 4.2%        | 1.7%             | 1.6%        | -10 bps      |
| San Ramon                 | \$1,572        | \$1,622        | 3.2%        | 1.6%             | 3.4%        | 180 bps      |
| West Contra Costa         | \$1,385        | \$1,649        | 19.0%       | 2.6%             | 2.4%        | -20 bps      |
| <b>Metro</b>              | <b>\$1,483</b> | <b>\$1,575</b> | <b>6.2%</b> | <b>2.6%</b>      | <b>2.6%</b> | <b>0 bps</b> |



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