

PAYROLL JOB SUMMARY

Total Payrolls	1,085.7m
Annual Change	31.8m (3.0%)
2015 Forecast	31.4m (2.9%)
2016 Forecast	24.8m (2.2%)
2017 Forecast	18.4m (1.6%)
2018 Forecast	14.1m (1.2%)
Unemployment (NSA)	5.3% (Mar.)

1Q15 PAYROLL TRENDS AND FORECAST

The Portland payroll work force continued to expand at a significantly above average pace as establishments hired at a 31,800-job, 3.0% annual rate during the first quarter, up from 4Q's 28,700-job, 2.7% performance. Accelerated growth was primarily attributable to faster hiring in electronic equipment and semiconductor manufacturing, health care and government, which collectively added 10,200 (3.3%) workers year-on-year, up from 4Q's 6,700-job, 2.2% gain. Constructive growth was observed in every industry sector with the exception of colleges and universities, where headcounts fell at 900-job, -6.9% y-o-y rate during 1Q15.

The seasonally-adjusted series also recorded vigorous growth, showing an 8,700-job net pick up during the January-March

period. Although the advance was moderately slower than 4Q's 9,000-job surge, it represented the sixth largest one quarter gain posted since 2000, and second largest of the current recovery.

RCR specified a payroll forecasting equation using six lags of the dependent variable and lags of U.S. payroll growth and S&P500 returns to achieve a 97.9% adjusted-R². This model produces a forecast of steadily moderating payroll job growth, influenced by comparable declines in U.S. hiring and weaker, although positive equity returns. To be specific, the model forecasts a 2.7% y-o-y advance in 4Q15, followed by comparable 4th quarter metrics of 2.0%, 1.4% and 1.2% in 2016, 2017 and 2018, respectively. In each case the Portland result is about 50% faster than the U.S. mean.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	96.7%
RED 50 Rank	17 th
Annual Chg. (Reis)	-0.1%
RCR YE15 Forecast	95.4%
RCR YE16 Forecast	95.2%
RCR YE17 Forecast	95.6%
RCR YE18 Forecast	95.9%

1Q15 ABSORPTION AND OCCUPANCY RATE TRENDS

Tenant demand was moderately stronger during the winter quarter as renters occupied a net of 371 vacant units, according to Reis, up from 305 during the previous quarter. On the other hand, absorption was down materially from the comparable periods of 2013 and 2014 when Portland households net leased an average of 723 units. Net supply totaled only 378 units during 1Q15, however, and average occupancy held steady at 96.7%, immaterially lower than the 96.9% 20-year high recorded during the third quarter 2013.

Axiometrics surveys of larger, stabilized same-store properties recorded a 96.1% average occupancy rate, up 30 basis points sequentially and 30 bps y-o-y. Axio data indicate that class-C properties maintained the highest level of occupancy, adding 40 bps

sequentially to 97.4%. Class-B occupancy also increased 40 sequentially (to 96.2%), while class-A properties continued to battle the impact of new supply, holding steady at 94.5%. Absorption of new units appeared to slow down during the winter quarter, falling to about 9 units per property/month from 16 during 4Q14.

RCR's occupied stock growth model achieves a 93.8% ARS using payroll and home price growth and lags of rent and inventory as independent variables. Inventory growth has the largest coefficient, and that's a good thing as supply pressure promises to be intense. Demand will nearly keep pace, however; allowing occupancy to recover to about 96.0% following a supply-driven 150 bps decline to the 95.2% area projected by the end of 2016.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$933
Annual Change	3.9%
RED 50 Rent Change Rank	19 th
RCR YE15 Forecast	3.1%
RCR YE16 Forecast	1.9%
RCR YE17 Forecast	2.1%
RCR YE18 Forecast	2.3%

1Q15 EFFECTIVE RENT TRENDS

High occupancy notwithstanding, rent trends decelerated during the winter quarter. Average effective rent increased 3.9% year-on-year, down sharply from 4Q's 4.5% performance and the smallest advance recorded in nearly four years. Rent trend weakness was largely confined to the Northwest Portland submarket. This submarket, which encompasses Downtown, the Pearl District and contiguous areas of intensive new property development, saw rents actually decline -0.1% sequentially, thereby trimming the y-o-y metric to only 2.1%, equal lowest with Beaverton. These data suggest that supply already is exerting downward pressure on rents.

Axiometrics data paint a more optimistic picture. According to this

series, Portland same store rents increased at a 7.7% y-o-y rate, up from 7.5% in the prior period. This was largely a class-B and class-C phenomenon as gains recorded in these segments reached 8.5% and 7.7%, respectively. By contrast, class-A rents advanced only 4.9%, largely due to slower growth in suburban areas.

The **RCR** Portland rent model employs payroll and occupied stock growth and a lag of inventory growth as independent variables to reach a 93.8% ARS. The model interprets recent deceleration in the Reis series as a predictor of further slowing in the future. The model forecasts rent progress to decline to 3.1% in 4Q15 and to less than 2% by YE16 before recovering moderately in the out years.

TRADE & RETURN SUMMARY

\$5mm+ Sales	12
Approx. Proceeds	\$256.7mm
Avg. Cap Rate (FNM)	4.6%
Avg. Price/Unit	\$130,044
Expected Total Return	5.7%
RED 46 ETR Rank	35 th
Risk-adjusted Index	3.83
RED 46 RAI Rank	33 rd

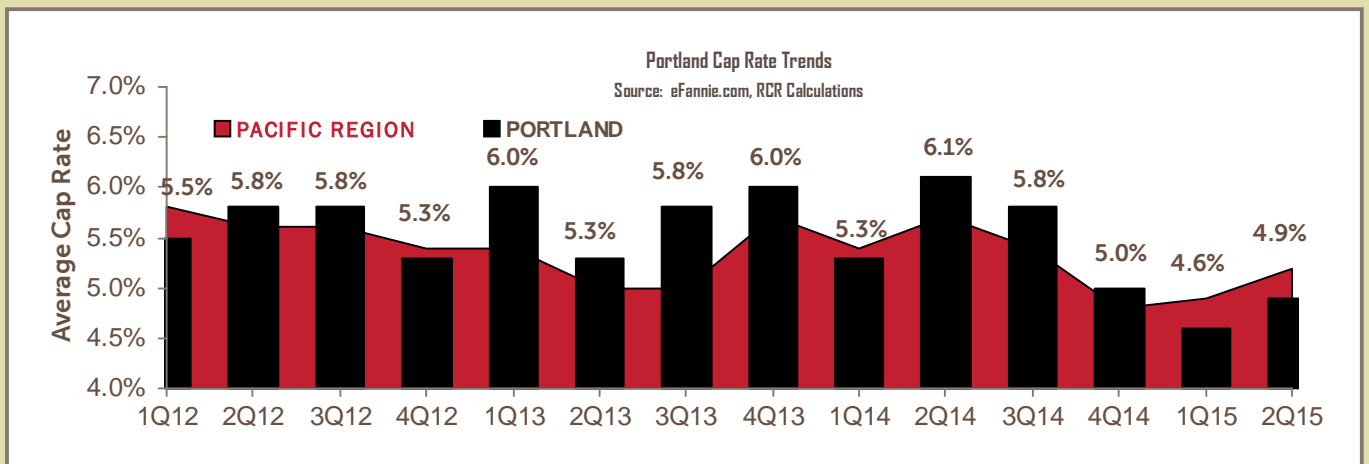
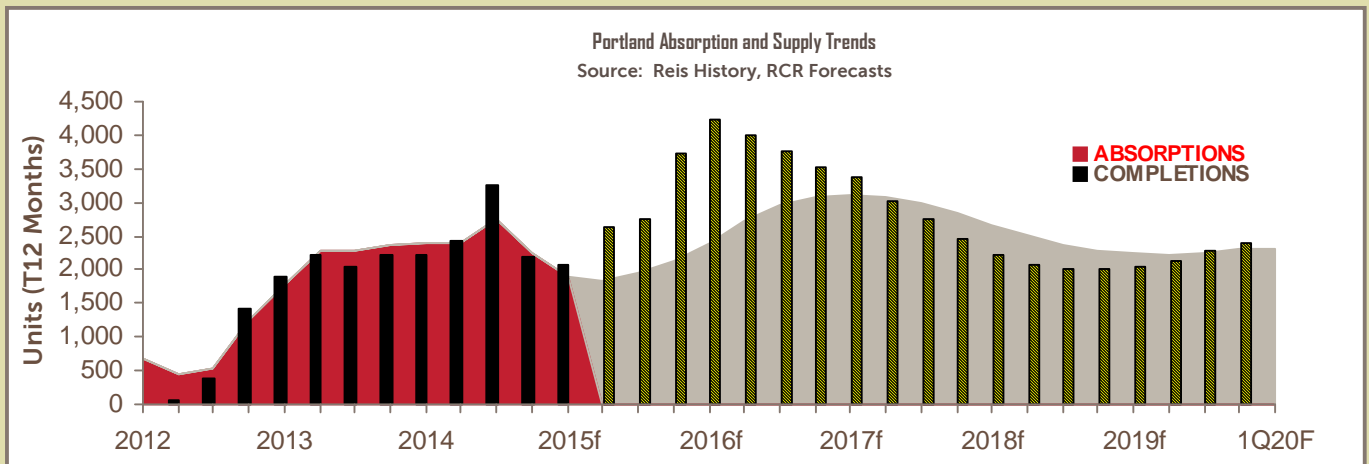
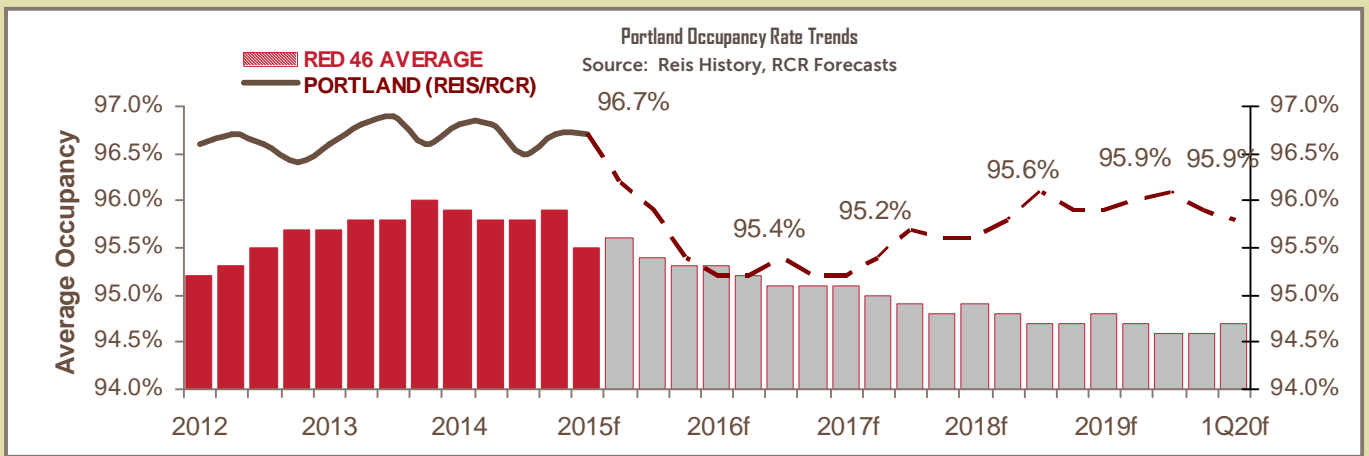
1Q15 PROPERTY MARKETS AND TOTAL RETURNS

Buyers remained active in the Portland market, consummating 12 transactions valued at \$5 million or greater during the winter quarter for gross proceeds of \$256.7 million. These metrics compare to 13 transactions valued at a total of \$373.2mm during the prior quarter. The decrease in proceeds was attributable to the older average age of the properties in the mix. A preponderance of assets traded during 1Q15 were lower cost 70s- and 80s-vintage suburban garden projects. Moreover, no higher priced urban mid-rise or high-rise assets were exchanged.

Cap rates gravitated to the 5% to 6.75% range. Newer vintage garden properties generated going-in yields at the low end of this range, while class B- and C assets traded in the 5.75% - 6.75%

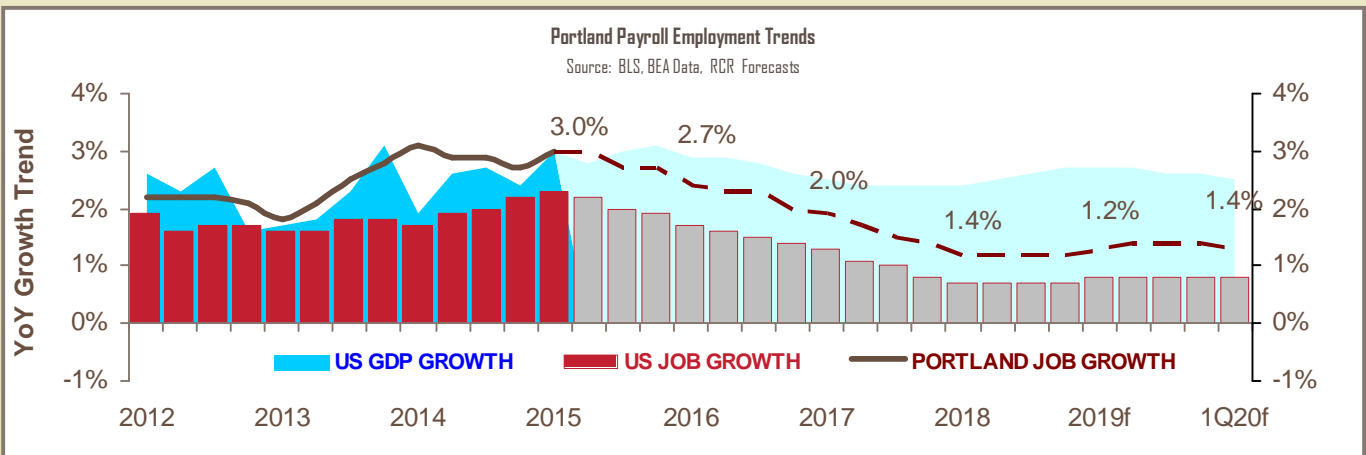
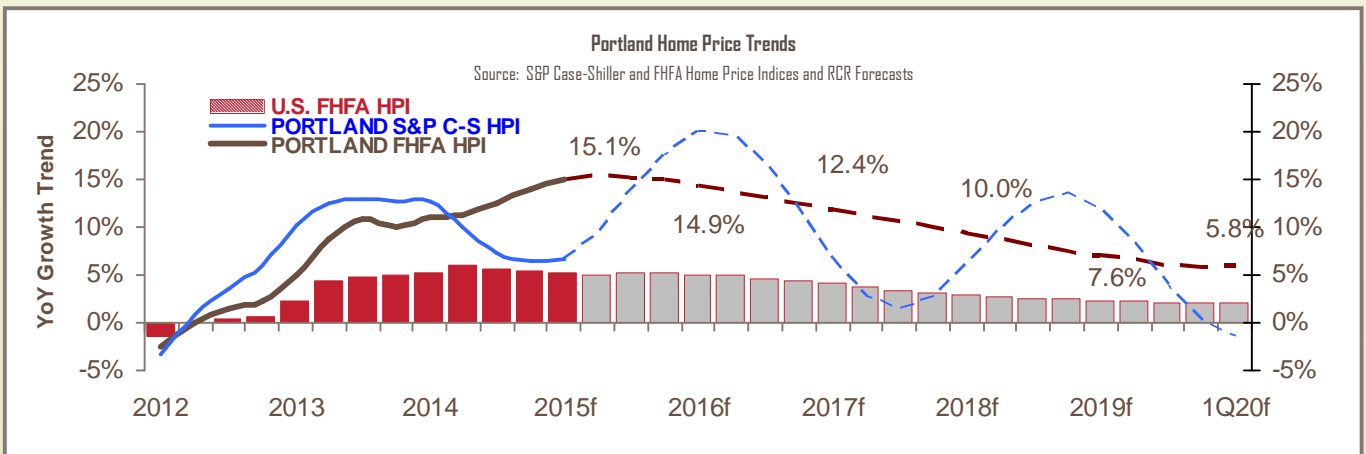
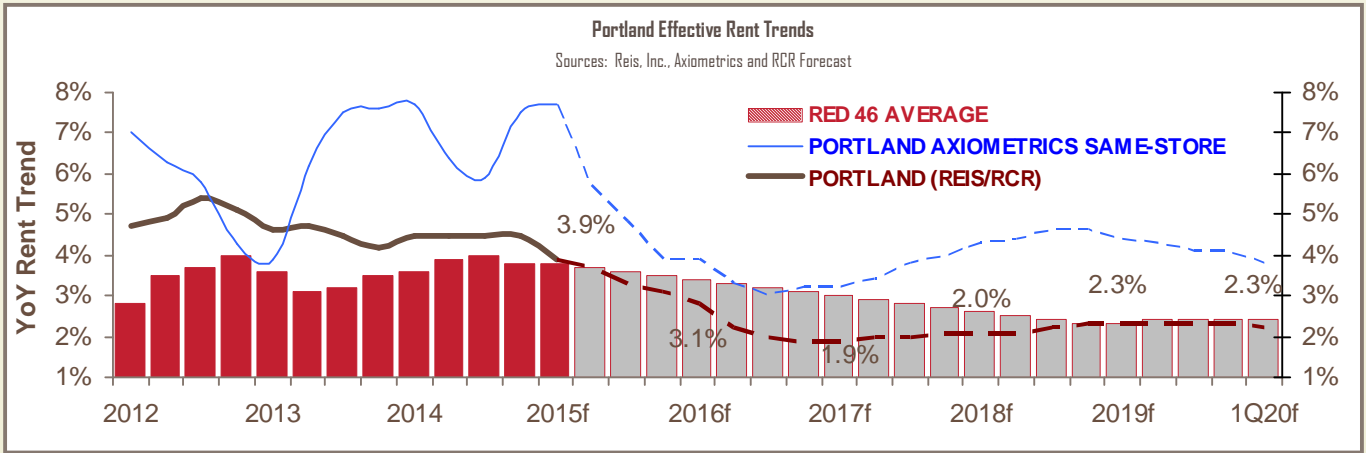
area. The most recent benchmark trade for class-A properties took place in December when a 4-story, 2008-construction Beaverton complex was priced to an approximate 4.5% initial yield.

RCR elected to reduce the generic cap rate for Portland class-B+ assets by 15 bps to 5.35% to reflect the strong interest among investors for Pacific Northwest properties. Using this level, a terminal cap rate assumption of 6.0% and model derived occupancy and rent forecasts, we estimate that Portland investors may expect to achieve a 5.7% unlevered five-year total return. This ranks only 35th among the **RED 46**, constrained by our forecast for sluggish rent growth after 2015. Volatility is about average, giving rise to a similar risk-adjusted index, ranked group #33.



NOTABLE TRANSACTIONS

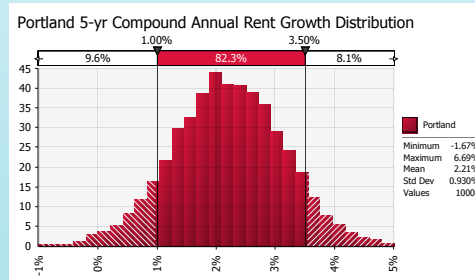
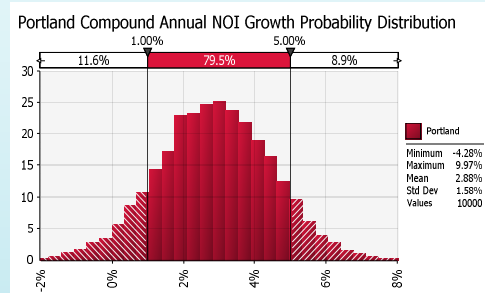
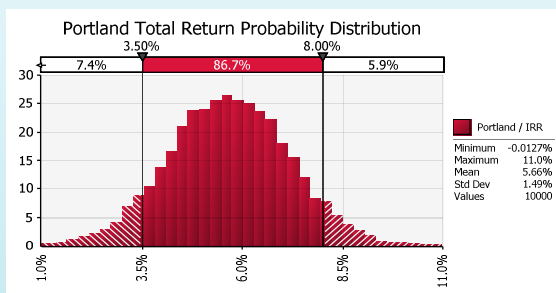
Property Name (Submarket)	Property Class/Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
The Belmont (Northeast Portland)	A / MR (2008)	15-Dec-2014	\$42.3	\$343,902	4.5%
Jory Trail at the Grove (Wilsonville)	B+ / GLR (2012)	25-Jan-2015	\$59.0	\$182,099	5.0%
Sunnyside Park Apts. (Milwaukie/Oregon)	B- / GLR (1986)	8-Feb-2015	\$14.1	\$83,304	7.5%
Element 170 (Beaverton)	B+ / LR (2014)	24-Feb-2015	\$39.0	\$159,836	5.0%
Commons at Redwood Creek (Beaverton)	B- / GLR (1980)	25-Mar-2015	\$48.8	\$120,074	5.2%



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SUBMARKET TRENDS (REIS)

Submarket	Effective Rent			Physical Vacancy		
	1Q14	1Q15	Change	1Q14	1Q15	Change
Beaverton	\$869	\$888	2.1%	2.8%	3.3%	50 bps
East Gresham	\$755	\$788	4.3%	0.8%	0.6%	-20 bps
Milwaukie / Oregon	\$796	\$822	3.2%	1.9%	1.2%	-70 bps
Northeast	\$959	\$988	3.0%	3.9%	5.4%	150 bps
Northwest	\$1,222	\$1,248	2.1%	5.3%	6.2%	90 bps
Tigard / Oswego	\$883	\$970	9.8%	2.7%	3.1%	40 bps
Vancouver	\$862	\$899	4.3%	3.9%	3.8%	-10 bps
Metro	\$898	\$933	3.9%	3.2%	3.3%	10 bps



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