SACRAMENTO, CALIFORNIA

MARKET OVERVIEW & MULTIFAMILY HOUSING UPDATE

RED Capital Group | 3Q15 | NOVEMBER 2015

PAYROLL JOB SUMMARY	
Total Payrolls	914.3m
Annual Change	24.7m (2.8%)
RCR FY15 Forecast	24.6m (2.8%)
RCR 2016 Forecast	26.2m (2.9%)
RCR 2017 Forecast	26.5m (2.8%)
RCR 2018 Forecast	22.5m (2.3%)
RCR 2019 Forecast	17.4m (1.8%)
Unemployment (NSA)	5.2% (Sept.)

3Q15 PAYROLL TRENDS AND FORECAST

Payroll job growth accelerated during the third quarter, rising from 2Q's three-year low 20,800-job, 2.3% performance to a 24,700-job, 2.8% year-on-year pace. The business and leisure services sectors provided the primary impetus, adding workers to payrolls at a 14,800-job, 6.9% y-o-y rate, twice as fast as 2Q's 7,450-job, 3.5% advance. Indeed, concerns in the food and lodging sector expanded at a record setting pace, hiring at a 8,400-job, 10.6% annual rate, easily the fastest pace ever recorded in this market. Strength in these industries offset a rare lull in the health care and social services sub-sector, which added workers at a weak 300 (0.3%) job annual rate, the weakest progress recorded in this industry in nearly five years.

Seasonally-adjusted data also depicted a vigorous period of growth. This series recorded a net gain of 6,700 jobs July to September, up from 2,900- and 3,900- job adds in the prior and year-earlier quarters, respectively.

RED Research employed six lags of the dependent variable and U.S. payroll, personal income and home price growth measures as independent variables to craft a 95.9% adjusted–R^2 (S.E.=0.48%) forecasting model. In the macroeconomic environment summarized on Pg. 3, the model projects further strong 2.5% or faster job growth through 2017, before a stuttering U.S. recovery places downward force on metro growth in 2018-2019.

OCCUPANCY RATE SUMMARY	
Occupancy Rate (Reis)	97.6%
RED 50 Rank	1st
Annual Chg. (Reis)	+0.1%
RCR YE15 Forecast	97.8%
RCR YE16 Forecast	97.8%
RCR YE17 Forecast	97.8%
RCR YE18 Forecast	98.1%
RCR YE19 Forecast	98.2%

3Q15 ABSORPTION AND OCCUPANCY RATE TRENDS

The apartment market remained exceptionally tight over the summer months. Fewer than 2,500 (2.4%) units remain vacant in the Reis inventory (101,924 total), and developers delivered no new product to market after completing only 454 units since 2011. With few options available, tenants net leased only 40 units, leaving the market 97.6% occupied, the highest rate observed among the RED 50.

Conditions among 135 larger, professionally-managed stabilized, same-store properties surveyed by Axiometrics were moderately looser. This sample exhibited a 95.2% occupancy rate, down 70 basis points year-on-year. Class-C properties maintained the highest occupancy rate at 96.8%, up 40 bps y-o-y. Classes-B (95.2%) and –A (94.2%) followed. Highest occupancy was observed in Davis (99.4%) submarket, followed by Arden Way (96.6%) and Florin Road West (96.4%). Downtown and West University (93.4%) had lowest occupancy. New units were snapped up by renters at a brisk 20-unit per month average pace.

RCR used lagged rent and current metro payroll and inventory and U.S. home price growth as independent variables to specify an 88.9% ARS (SE=0.37%) demand model. The model forecasts that absorption will generally exceed supply over the forecast interval, contributing to moderately tighter market conditions going forward.

EFFECTIVE RENT SUMMARY	
Mean Rent (Reis)	$1,035
Annual Change	6.9%
RED 50 Rent Change Rank	6th
RCR YE15 Forecast	7.3%
RCR YE16 Forecast	4.8%
RCR YE17 Forecast	3.2%
RCR YE18 Forecast	2.5%
RCR YE19 Forecast	2.0%

3Q15 EFFECTIVE RENT TRENDS

Reis report that rents surged over the summer, rising $28 (2.8%) sequentially to an average of $1,035, representing the largest sequential quarter increase recorded since 2000. The Rancho Cordova submarket was largely responsible as rents among 54 surveyed same-store properties increased by an incredible 11.5% quarter-to-quarter. Expressed on a year-over-year basis, Sacramento rents increased 6.9%, ranking 6th fastest among the RED 50.

Same-store surveys by Axiometrics recorded stronger results. In this case, rents of stabilized properties increased 10.6% y-o-y, representing the fifth consecutive quarter of 8.6% annual growth or faster. Class-B assets posted the largest advance (11.1%) for the seventh consecutive quarter, followed closely by classes-C (10.8%) and –A (8.9%).

The RCR rent model is straightforward, relying on two lags of the dependent variable, the first lag of S&P returns and current metro personal income growth as equation variables. The resulting 96.6% ARS (SE=0.58%) model projects gradually decelerating rent growth throughout the 5-year forecast interval. Above average rent gains persist through 2017, but give way to sluggish growth in the out-years when S&P500 returns and metro income growth diminish.

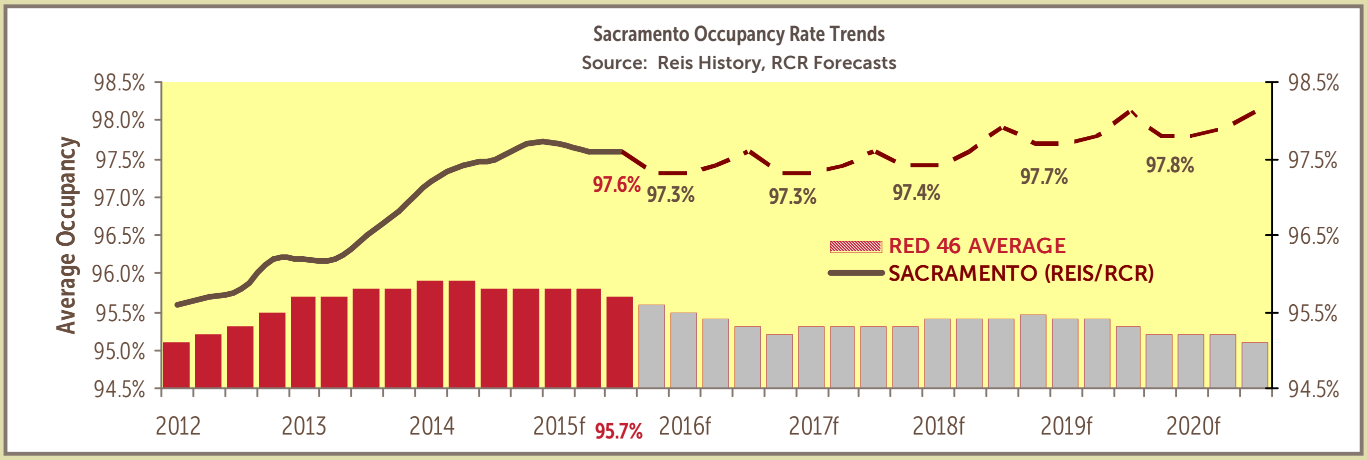
TRADE & RETURN SUMMARY	
$5mm+ / 80-unit+ Sales	9
Approximate Proceeds	$237mm
Average Cap Rate (FNM)	5.8%
Average Price / Unit	$137,187
Expected Total Return	7.1%
RED 46 ETR Rank	23th
Risk-adjusted Index	3.91
RED 46 RAI Rank	32nd

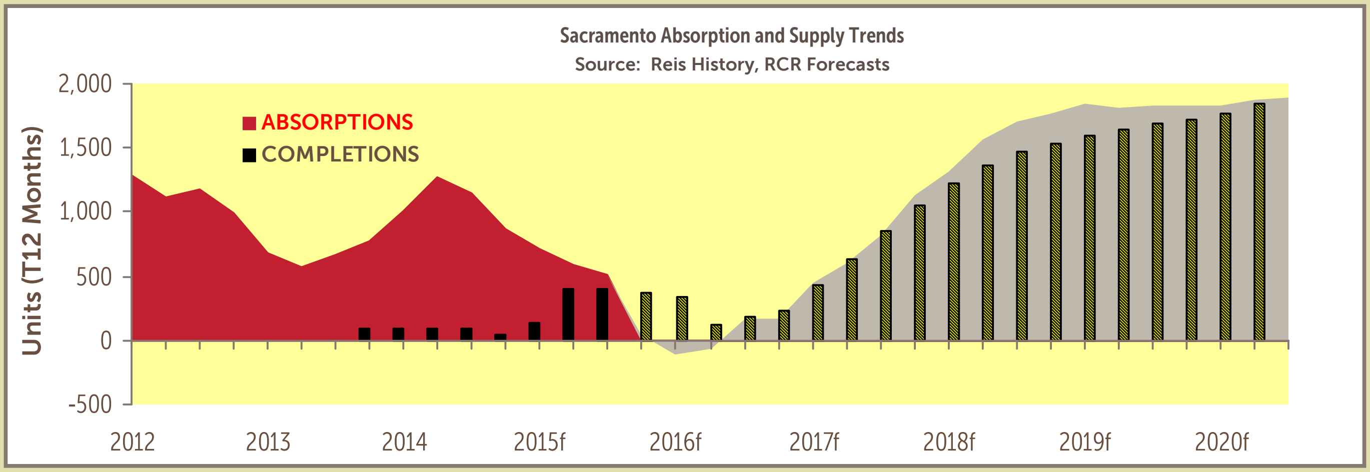
3Q15 PROPERTY MARKETS AND TOTAL RETURNS

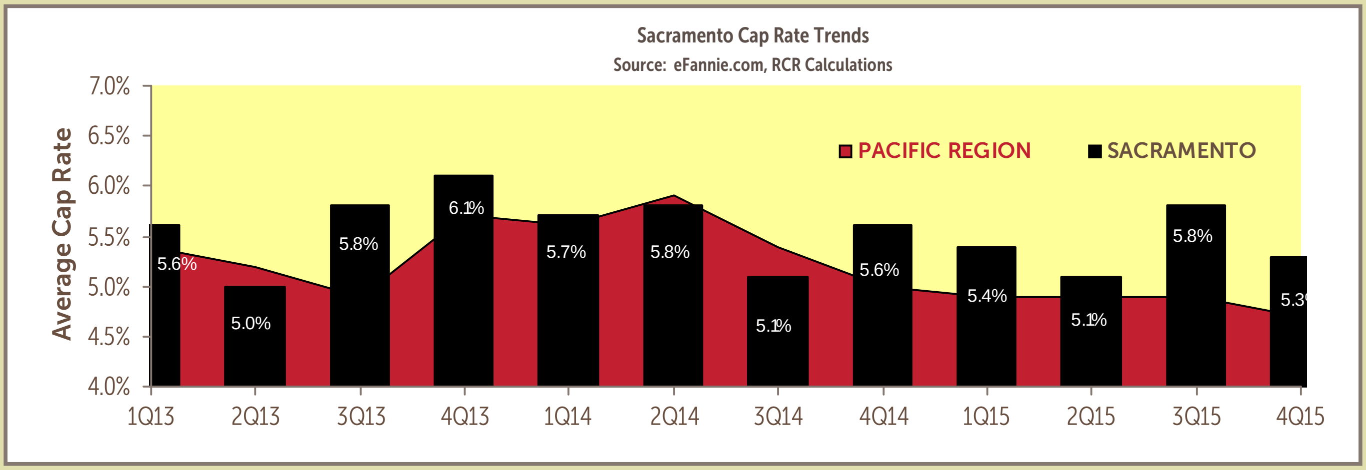
Trade velocity declined to nine after 2Q15's cycle peak 15 closed sales, but proceeds were virtually unchanged. Sales proceeds collected during the third quarter totaled $236.9 million, down only –2.3% from the prior quarter. Third quarter proceeds were boosted by inclusion of five properties valued at $95,000 or more per unit in the mix, up from three during the spring quarter. As a result, the average price per unit metric increased materially, rising 40% from the trailing 12-month average of $98,026 to $137,187.

Cap rates for class-A/B+ properties ranged from the high-4s to the low-5s. Class-B properties were exchanged at prices generating yields in the 5.5% to 6% area. Class-B– and class-C assets were valued in the 6% to 7% range.

RCR elected to trim the generic cap rate proxy 10 basis points from last quarter to 5.4% to reflect the strong 1031-exchange bid for class-B Sacramento suburban garden projects. At this level, the typical metro property is valued at about $130,000 per unit. Employing a 6.2% terminal cap rate and model derived occupancy and rent point estimates, we expect the generic asset to increase in value by about 8.6% over five years. Taking expected net operating income into consideration, a Sacramento buyer should expect to earn a 7.1% annual total rate of return over a five-year hold, ranking 23rd among the RED 46.

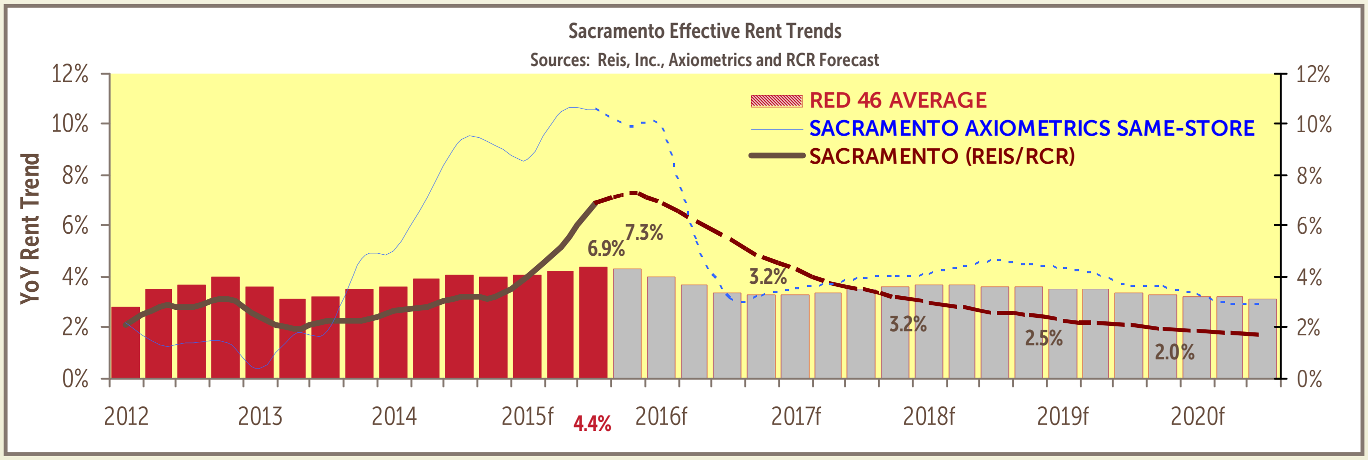


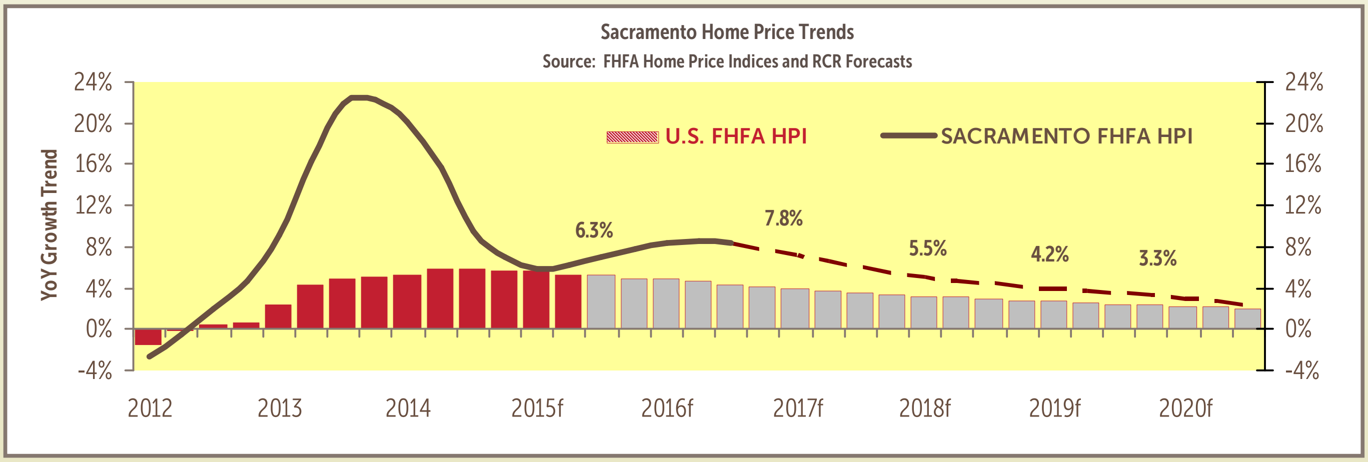


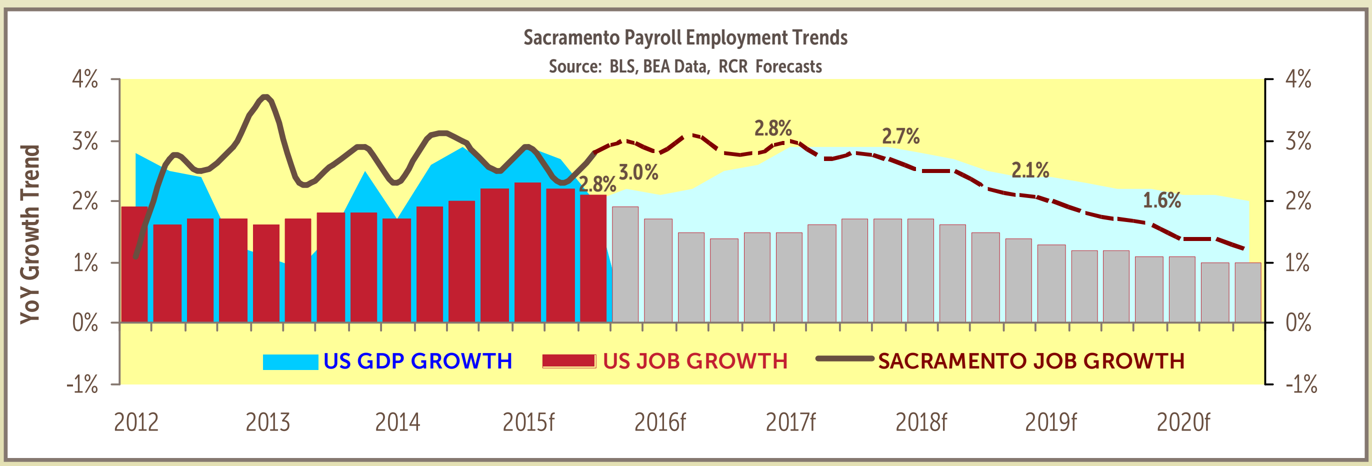


NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
Tanglewood Condominium (Davis)	A / GLR (1991)	25-Jun-2015	$54.0	$250,000	4.8%
Slate Creek at Johnson Ranch (Roseville)	B / GLR (1989)	30-Jun-2015	$100.0	$163,399	6.1%
Cobble Oaks (Rancho Cordova)	B+ / GLR (1998)	6-Sep-2015	$42.1	$194,907	5.6%
Summertime Apts. (North Highlands)	C+ / GLR (1987)	30-Sep-2015	$16.0	$99,706	6.5%
Rosemont Terrace Apts. (Rancho Cordova)	C / GLR (1978)	11-Nov-2015	$7.7	$77,000	5.1% / 6.5% p.f.

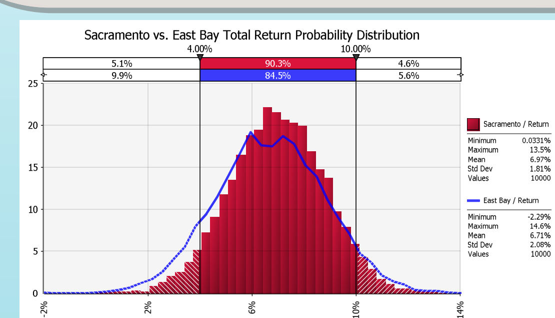

Sacramento Effective Rent Trends
Sources: Reis, Inc., Axiometrics and RCR Forecast
YoY Rent Trend
RED 46 AVERAGE
SACRAMENTO AXIOMETRICS SAME-STORE
SACRAMENTO (REIS/RCR)
6.9%
7.3%
3.2%
3.2%
2.5%
2.0%
4.4%
2012
2013
2014
2015f
2016f
2017f
2018f
2019f
2020f

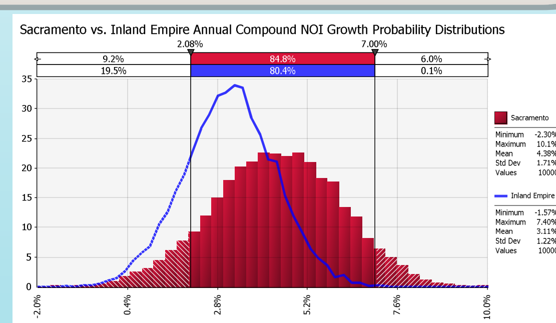

Sacramento Home Price Trends
Source: FHFA Home Price Indices and RCR Forecasts
YoY Growth Trend
U.S. FHFA HPI
SACRAMENTO FHFA HPI
6.3%
7.8%
5.5%
4.2%
3.3%
2012
2013
2014
2015f
2016f
2017f
2018f
2019f
2020f


Sacramento Payroll Employment Trends
Source: BLS, BEA Data, RCR Forecasts
YoY Growth Trend
2.8%
2.7%
2.8%
3.0%
2.1%
1.6%
US GDP GROWTH
US JOB GROWTH
SACRAMENTO JOB GROWTH
2012
2013
2014
2015f
2016f
2017f
2018f
2019f
2020f

SUBMARKET TRENDS (REIS)

Submarket	Effective Rent 3Q14	Effective Rent 3Q15	Effective Rent Change	Physical Vacancy 3Q14	Physical Vacancy 3Q15	Physical Vacancy Change
Arden Way	$803	$842	4.8%	2.7%	2.7%	0 bps
Carmichael	$842	$865	2.7%	3.1%	1.9%	-120 bps
Citrus Heights	$887	$932	5.1%	1.6%	2.4%	80 bps
Davis	$1,227	$1,280	4.2%	1.2%	1.7%	50 bps
Downtown Sacramento	$1,300	$1,364	4.9%	5.0%	5.4%	40 bps
East Marconi Avenue	$812	$840	3.4%	5.7%	5.7%	0 bps
Fair Oaks	$956	$993	4.0%	1.6%	1.0%	-60 bps
Florin Road West	$1,056	$1,127	6.7%	2.4%	1.9%	-50 bps
North Highlands	$859	$909	5.8%	2.2%	1.9%	-30 bps
North Sacramento	$1,030	$1,140	10.7%	1.9%	1.8%	-10 bps
Orangevale / Folsom	$1,115	$1,206	8.2%	3.5%	3.3%	-20 bps
Rancho Cordova	$863	$1,000	15.9%	1.6%	1.0%	-60 bps
Roseville	$1,166	$1,277	9.5%	2.2%	2.9%	70 bps
South / Elk Grove	$814	$844	3.6%	2.1%	1.6%	-50 bps
West Marconi Avenue	$729	$745	2.3%	5.5%	4.7%	-80 bps
West University	$1,014	$1,039	2.5%	1.9%	2.2%	30 bps
Metro	$968	$1,035	6.9%	2.5%	2.4%	-10 bps





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