

PAYROLL JOB SUMMARY

Total Payrolls	1,115.9m
Annual Change	39.5m (3.7%)
RCR FY15 Forecast	35.7m (3.3%)
RCR 2016 Forecast	28.1m (2.5%)
RCR 2017 Forecast	30.6m (2.7%)
RCR 2018 Forecast	30.6m (2.6%)
RCR 2019 Forecast	24.8m (2.1%)
Unemployment (NSA)	5.2% (Sept.)

3Q15 PAYROLL TRENDS AND FORECAST

Portland employers found another gear during the summer quarter, hiring at a 18-year high 39,500-job, 3.7% year-on-year rate, up from 2Q's strong 33,000 (3.1%) job performance. Faster hiring in the construction and services sectors was largely responsible for the surge as the foregoing sectors hired at a collective 21,700-job, 4.1% pace, up from 15,600 (3.0%) in 2Q15. Notably, manufacturing headcounts continued to rise at a vigorous rate, especially in the transportation equipment industry, which is benefiting from strong foreign and domestic demand for trucks, aircraft and rolling stock. Subsector payrolls increased at an 11.7% y-o-y rate, representing the third consecutive quarter of double-digit growth.

Seasonally adjusted data also were strong, recording a net gain of 10,800 jobs July to September, the best quarter since 2005. The period ended on a sour note, however, as workers lost a net of -1,300 jobs in September, the weakest month posted since July 2010.

RED Research specified a Portland payroll forecasting equation using current and lagged U.S. payroll growth and lagged values of S&P500 returns to achieve a 97.6% adjusted-R² (S.E.=0.4%). The model projects strong growth through mid-2016, before weaker macroeconomic conditions lead to a mild slowdown. Annual net gains in the 25,000- to 30,000-job range are the probable outcome.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	96.0%
RED 50 Rank	22 nd
Annual Chg. (Reis)	-0.3%
RCR YE15 Forecast	95.3%
RCR YE16 Forecast	94.7%
RCR YE17 Forecast	94.2%
RCR YE18 Forecast	94.6%
RCR YE19 Forecast	94.7%

3Q15 ABSORPTION AND OCCUPANCY RATE TRENDS

Tenant demand for apartment space weakened during the third quarter as renters leased a net of 628 units, according to Reis, down from 727 and 665 in the prior and year-earlier quarters, respectively. By the same token, supply levels increased as the service added 1,135 units to the Portland inventory, giving rise to a -40 basis point sequential occupancy rate decline to 96.0%, the lowest rate observed in this market in nearly five years.

96.1% and 95.5%, respectively. Northeast submarket enjoyed highest occupancy (97.5%), while amply supplied Northwest (95.6%) was the only submarket to record a metric below 96%. Sixteen properties in lease-up absorbed an average of 12 units/month, up from 9 during 2Q15.

Axiometrics surveys of 248 stabilized, professionally-managed properties recorded a 96.2% average occupancy rate, up 30bps year-on-year. Class-C maintained a long-standing lead at 97.5%, followed by classes-B and -A at

RCR specified a 94.8% ARS (S.E.=0.4%) occupied stock growth model using payroll, rent, inventory and home price growth as independent variables. The model projects absorption of 3,302 units over the next five quarters, falling 1,715 units short of expected supply. As a result, occupancy is likely to decline 130 bps by YE16. Portland is likely to return to equilibrium in 2017, and recover in the out years..

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$991
Annual Change	7.1%
RED 50 Rent Change Rank	4 th
RCR YE15 Forecast	7.3%
RCR YE16 Forecast	3.7%
RCR YE17 Forecast	2.7%
RCR YE18 Forecast	4.3%
RCR YE19 Forecast	4.0%

3Q15 EFFECTIVE RENT TRENDS

After upwardly revising rent growth over the past five quarters from an average of 4.4% to 5.2%, Reis report that the average effective rent of Portland apartments surged \$29 (3.0%) sequentially during 3Q15 to \$991. Expressed on a year-on-year basis, rents advanced 7.1%, the fourth fastest gain among the **RED 50** and the largest annual increase ever posted in the 26-year Reis Portland data series.

properties enjoyed the fastest gains (17.0%), maintaining a lead that dates to 2012. Classes-A (14.6%) and C (12.1%) followed. Beaverton rents increased more than 20%, while East Gresham and Vancouver notched 18% increases. Only Northeast and Northwest failed to reach double-digits.

Axiometrics surveys of stabilized, same-store properties uncovered a stronger result. This service recorded 15.8% growth, up from 12.9% during the prior quarter and the strongest metric recorded in at least eight years. Class-B

RCR statistical analysis finds that metro payroll and home price growth and sequential vacancy change and Baa bond yields are significant predictors of Portland rent growth. The resulting 94.8% ARS (S.E.=0.6%) model foresees a gradual deceleration to the high-2% area by mid-2017, followed by a rebound to 4% - 4.5% by 2H2018-2019.

TRADE & RETURN SUMMARY

\$5mm+ / 80-unit+ Sales	19
Approximate Proceeds	\$655mm
Average Cap Rate (FNM)	5.1%
Average Price / Unit	\$181,265,
Expected Total Return	6.8%
RED 46 ETR Rank	26 th
Risk-adjusted Index	5.78
RED 46 RAI Rank	14 th

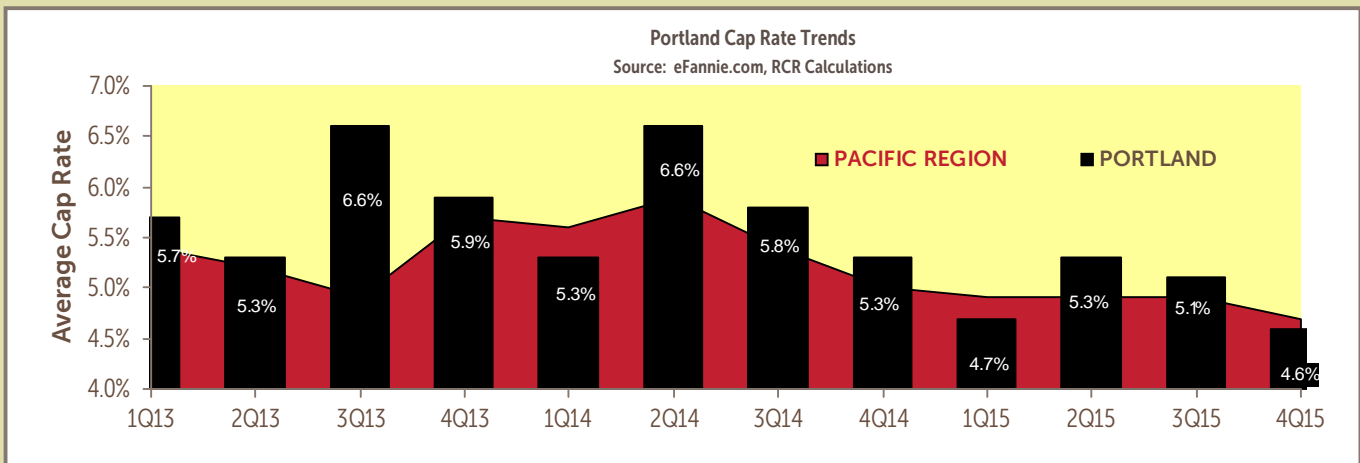
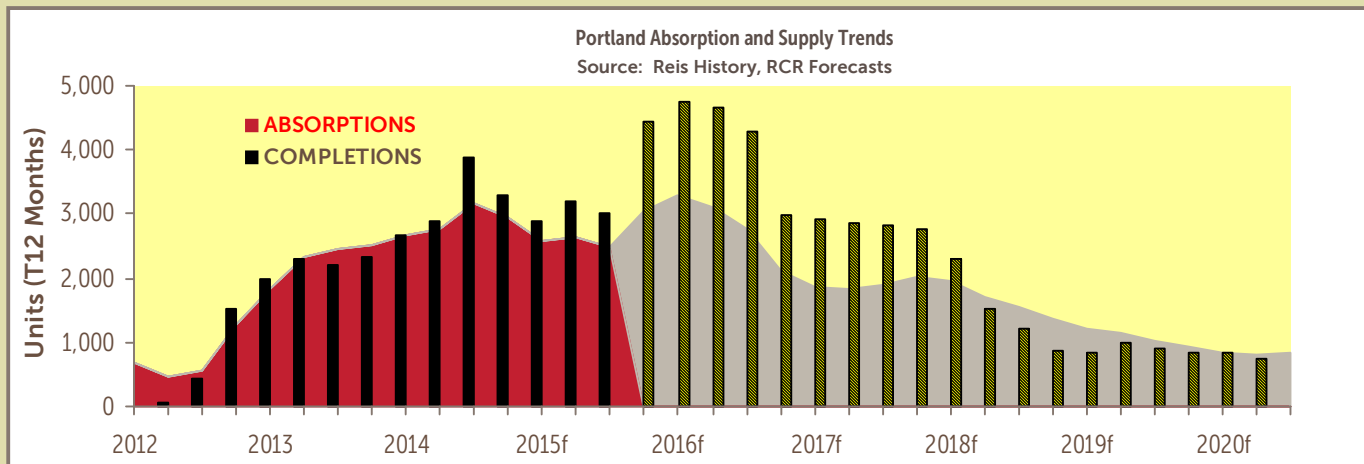
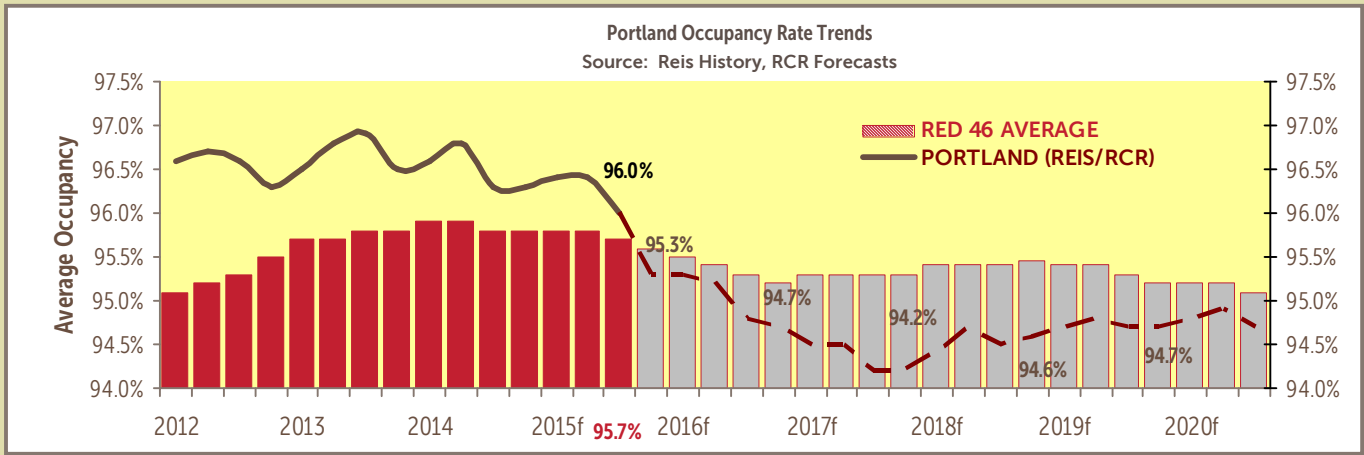
3Q15 PROPERTY MARKETS AND TOTAL RETURNS

The Portland property market continued to gain momentum as 19 multifamily properties valued at \$5 million or more exchanged hands during the third quarter, a likely record for this market. Aggregate proceeds were about \$655mm, up 36% from 2Q's strong \$481mm performance. The increase was largely attributable to a move up in class by buyers, who concentrated increasingly on higher \$/sf infill and class-A suburban product. As a result, the average price per exchanged unit metric increased 27% sequentially from \$142,933 to \$181,265, also a new record.

pricing equating to cap rates in the mid- to high-4% range. Class-B+ suburban properties were exchanged at going-in yields in the high-4% - to low-5%-ballpark, while class-B-/C product was available in the high 5% - to mid-6%-region.

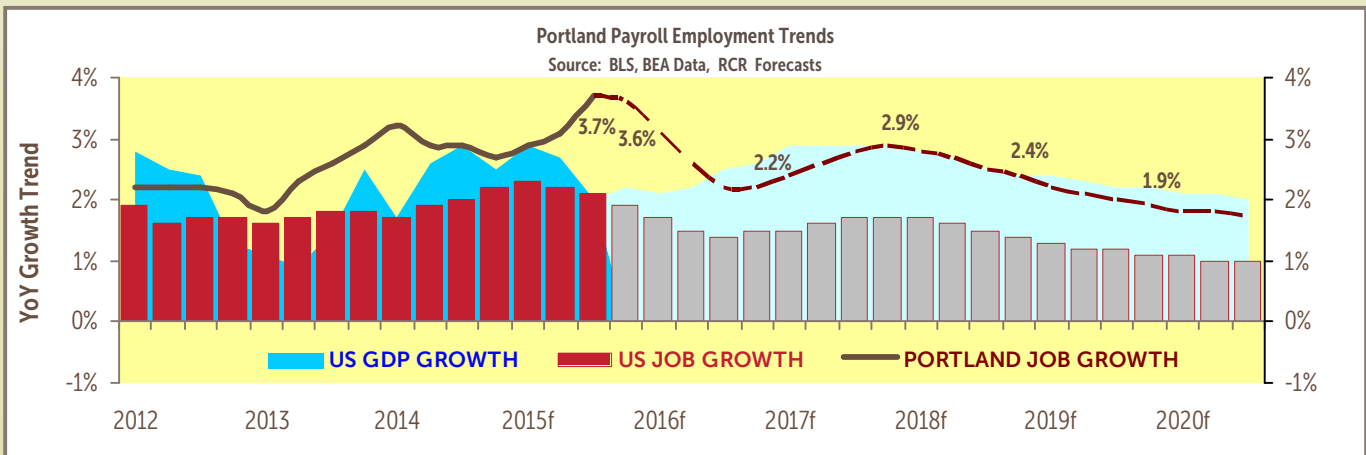
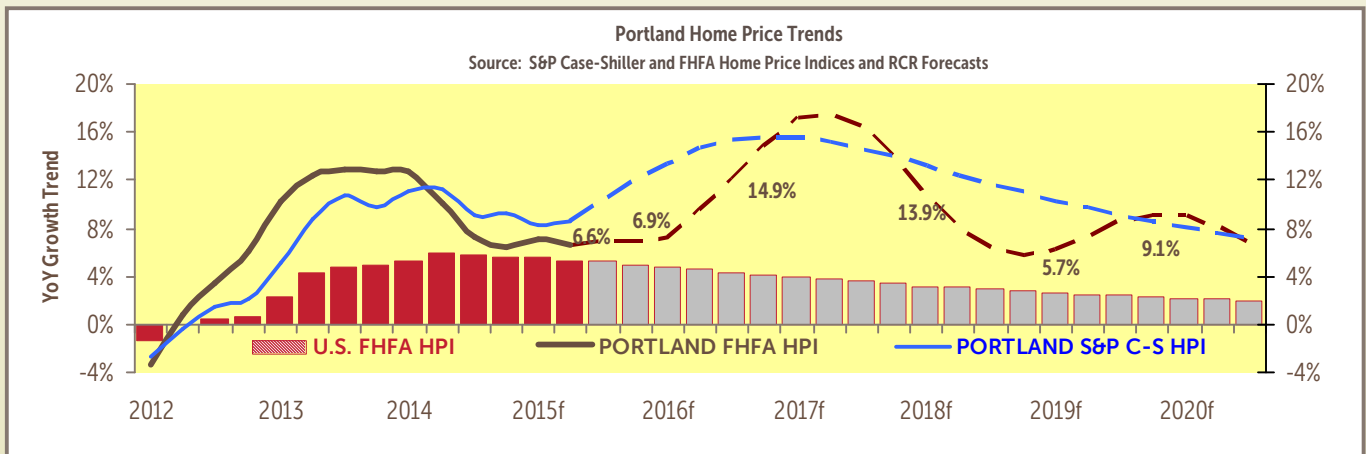
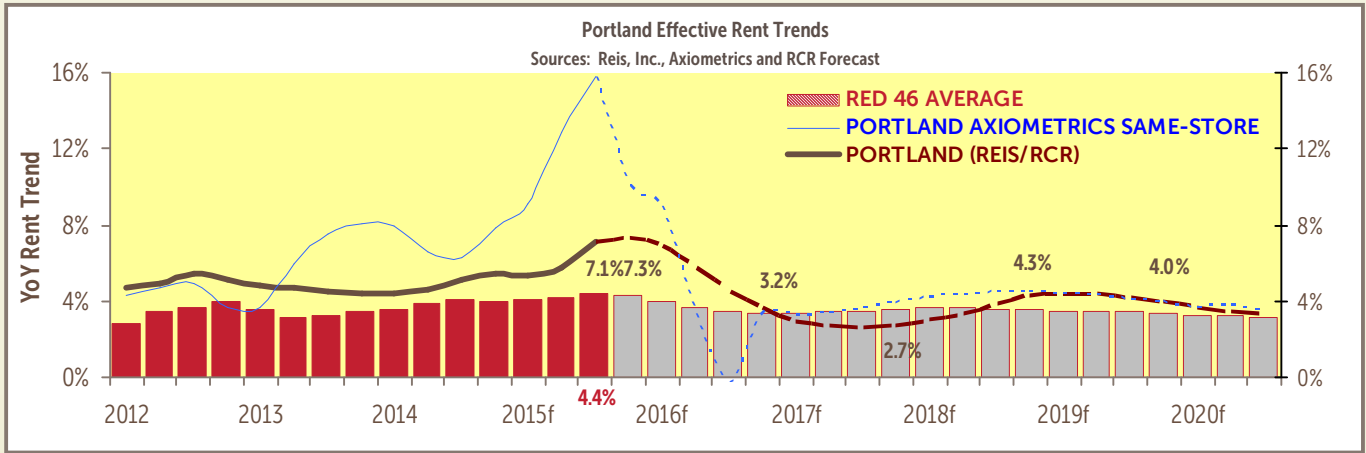
Although infill trophy properties may trade to yields in the low-4% area, most class-B/B+ infill product commanded

RCR elected to stick with 5.2% as our proxy B+/B asset cap rate. Using this purchase level, model derived rent and occupancy point estimates and a terminal cap rate of 6.1%, we estimate that a Portland investor would expect to achieve a 6.8% total rate of return on a five-year hold. Among the **RED 46**, this ranks 26th. Low model standard errors boost risk-adjusted returns, however; the metro's 5.78 risk-adjusted Index ranks #14, ahead of Seattle (#20).



NOTABLE TRANSACTIONS

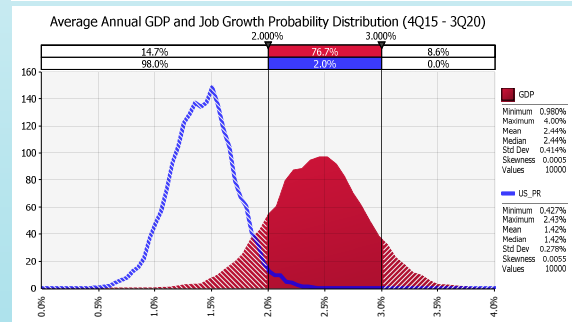
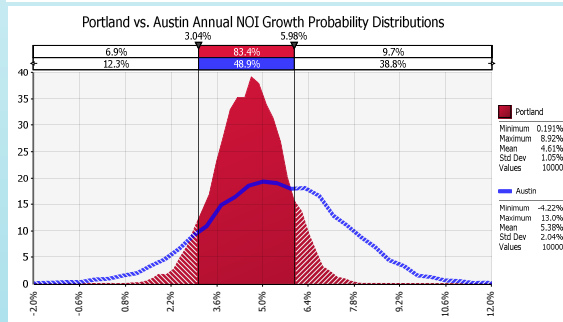
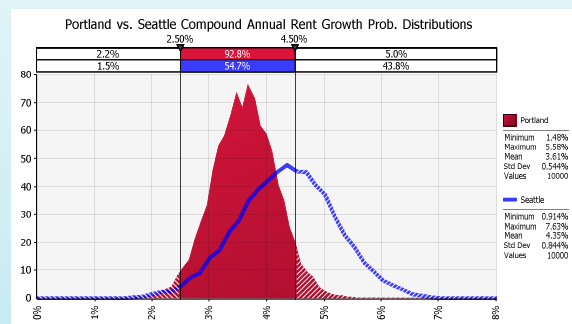
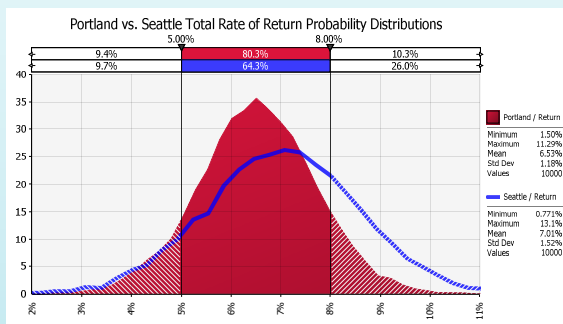
Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
Terrene at Gove 232 (Tigard/Wilsonville)	A- / GLR (2013)	1-Sep-2015	\$59.5	\$206,597	4.9%
Prestige Plaza (Vancouver / Academy Square)	B+/WF MR (2014)	1-Sep-2015	\$23.3	\$242,708	4.6%
Mint Urban 37 (Northwest / Downtown0)	B+/RC MR (98/14)	17-Sep-2015	\$92.3 (MFH Only)	\$318,414	5.0% / 5.5% p.f.
Bridge Creek/Boulder Creek (Wilsonville)	B-/GLR (89/88)	29-Sep-2015	\$92.3 (allocated)	\$151,147	5.7%
Waterhouse Place Apts. (Beaverton/Five Oaks)	B / GLR (1990)	29-Sep-2015	54.5	\$195,520	5.5%



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SUBMARKET TRENDS (REIS)

Submarket	Effective Rent			Physical Vacancy		
	3Q14	3Q15	Change	3Q14	3Q15	Change
Beaverton	\$879	\$977	11.1%	3.7%	4.2%	50 bps
East Gresham	\$769	\$808	5.1%	0.6%	0.8%	20 bps
Milwaukie / Oregon	\$812	\$842	3.8%	1.7%	1.5%	-20 bps
Northeast	\$977	\$1,134	16.1%	4.7%	8.8%	410 bps
Northwest	\$1,249	\$1,295	3.7%	6.2%	6.6%	40 bps
Tigard / Oswego	\$945	\$996	5.3%	2.5%	2.7%	20 bps
Vancouver	\$883	\$939	6.3%	3.7%	4.8%	110 bps
Metro	\$925	\$991	7.1%	3.7%	4.0%	30 bps



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