

PAYROLL JOB SUMMARY

| | |
|--------------------|--------------|
| Total Payrolls | 1,323.6m |
| Annual Change | 44.7m (3.5%) |
| RCR FY15 Forecast | 47.3m (3.7%) |
| RCR 2016 Forecast | 37.2m (2.8%) |
| RCR 2017 Forecast | 44.0m (3.2%) |
| RCR 2018 Forecast | 46.2m (3.3%) |
| RCR 2019 Forecast | 41.6m (2.9%) |
| Unemployment (NSA) | 6.4% (Oct.) |

3Q15 PAYROLL TRENDS AND FORECAST

Inland Empire payroll employment growth decelerated for the second consecutive quarter but continued to expand at a rate considerably faster than the national average. Metro payrolls increased at a 44,700-job, 3.5% pace, down from 48,900- and 55,000-job performances in 2Q15 and 1Q15, respectively. Slower growth in the retail trade and business, health care and leisure services sectors was primarily responsible. The foregoing industries added workers to payrolls at a healthy 25,000-job, 4.6% rate in 3Q, down from 2Q's exceptional 32,400-job, 6.0% gain. By contrast, robust hiring in the goods producing industries persisted as construction and manufacturing concerns added 8,600 (5.0%) employees over the past

year, up from 7,500 year-on-year during 2Q15.

Seasonally-adjusted data also were upbeat. The Empire added 15,700 jobs from July through October, up from a 6,200-job advance from March through June.

RED Research specified a 95.7% adjusted-R² (SE=0.6%) econometric forecasting equation using the rate of change of U.S. payroll growth, a lag of the Baa/10-year spread and nominal GDP growth as independent variables. The model projects further mild deceleration through 2016, followed by a return to 3% or faster growth in 2017 and 2018; gradual slowing afterward to the low-2% area in keeping with broader U.S. trends.

OCCUPANCY RATE SUMMARY

| | |
|-----------------------|-----------------|
| Occupancy Rate (Reis) | 97.4% |
| RED 50 Rank | 4 th |
| Annual Chg. (Reis) | +0.4% |
| RCR YE15 Forecast | 97.3% |
| RCR YE16 Forecast | 97.1% |
| RCR YE17 Forecast | 97.1% |
| RCR YE18 Forecast | 96.9% |
| RCR YE19 Forecast | 96.7% |

3Q15 ABSORPTION AND OCCUPANCY RATE TRENDS

Inland Empire apartment demand materially declined during the third quarter, according to Reis, as renters occupied a net of only 53 vacant units, lowest space absorption rate recorded in six years. Tight markets and lack of new supply were largely responsible. Developers delivered no new units during the quarter, leaving average occupancy at 97.4%. **RED 50** fourth highest. Among markets with average occupancy of 96% or greater, the Empire was only one of two achieving year-on-year occupancy rate gains of so much as 40 basis points (Baltimore was the other).

Axiometrics surveys of 175 stabilized, larger, same-store properties found 95.2% of units occupied, down -90 bps y-

o-y. Class-A properties recorded the highest occupancy (96.0%) for the third consecutive quarter, while classes-B (95.2%) and -C (94.2%) lagged. Fontana (96.7%) submarket scored the highest occupancy, followed closely by Perris and Upland (each at 96.5%) and University City (96.4%). Seven new properties tenanted a monthly average of 17 units in 3Q15, up from 11 units/month during 2Q15.

RCR modeled the I.E.'s volatile demand dynamics using one lag the dependent variable, the rate of change of inventory and rent growth and a lag of payroll growth to reach an 87.7% ARS (SE=0.3%). The model projects that demand will moderately lag supply throughout the forecast interval,

EFFECTIVE RENT SUMMARY

| | |
|-------------------------|------------------|
| Mean Rent (Reis) | \$1,144 |
| Annual Change | 4.3% |
| RED 50 Rent Change Rank | 21 st |
| RCR YE15 Forecast | 4.0% |
| RCR YE16 Forecast | 3.6% |
| RCR YE17 Forecast | 3.4% |
| RCR YE18 Forecast | 3.5% |
| RCR YE19 Forecast | 3.2% |

3Q15 EFFECTIVE RENT TRENDS

Effective rent increased \$10 (0.8%) quarter-to-quarter, according to Reis, down from \$11 (1.0%) and \$18 (1.6%) gains during 2Q and 1Q, respectively. As a result, the pace of growth expressed on a year-over-year basis also decelerated, falling from 2Q's 10-year high 4.6% to 4.3%. Weaker trends in Coachella Valley submarkets, where asking rents were flat to down sequentially, were primarily responsible.

Axiometrics same-store comparisons of stabilized properties recorded faster growth. Effective rents increased 7.9% year-on-year in this sample, down moderately from the prior quarter's 11-year high 8.3% advance. Class-B proper-

ties posted the fastest growth (8.6%), overtaking class-C (8.1%), while class-A (4.8%) trailed for the fifth consecutive quarter. Fontana (13.6%) submarket also held the lead in this category, while three others (Indio, Rancho Cucamonga, Upland) reaped double-digit gains. Only Perris and South Ontario failed to notch y-o-y growth of 5% or more.

To achieve a 96.8% ARS (SE=0.55%), **RCR** used the rate of change of I.E. inventory growth, metro payroll growth and the Baa bond/10-year spread as independent variables. The model projects gradually decelerating trends to the low-3% area by the fourth year of the five-year forecast interval.

TRADE & RETURN SUMMARY

| | |
|-------------------------|------------------|
| \$5mm+ / 80-unit+ Sales | 9 |
| Approximate Proceeds | \$359mm |
| Average Cap Rate (FNM) | 5.1% |
| Average Price / Unit | \$197,519 |
| Expected Total Return | 6.7% |
| RED 46 ETR Rank | 30 th |
| Risk-adjusted Index | 4.03 |
| RED 46 RAI Rank | 31 st |

3Q15 PROPERTY MARKETS AND TOTAL RETURNS

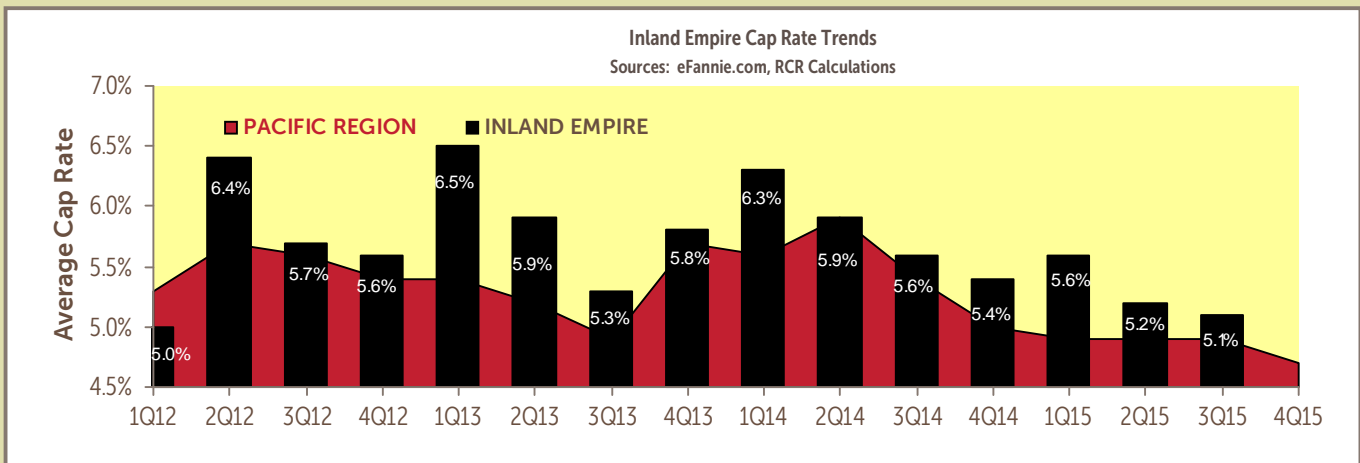
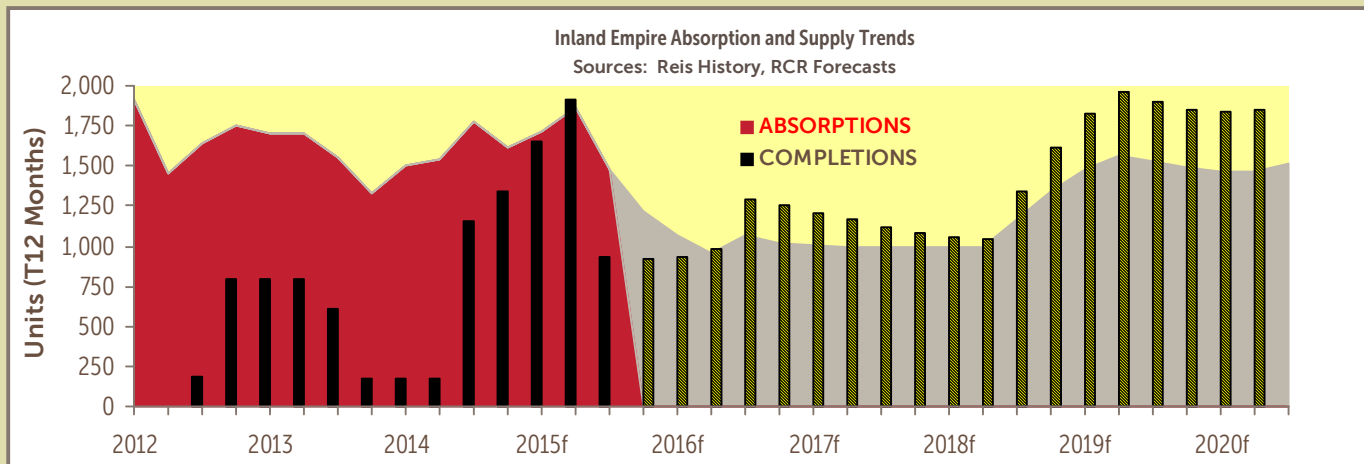
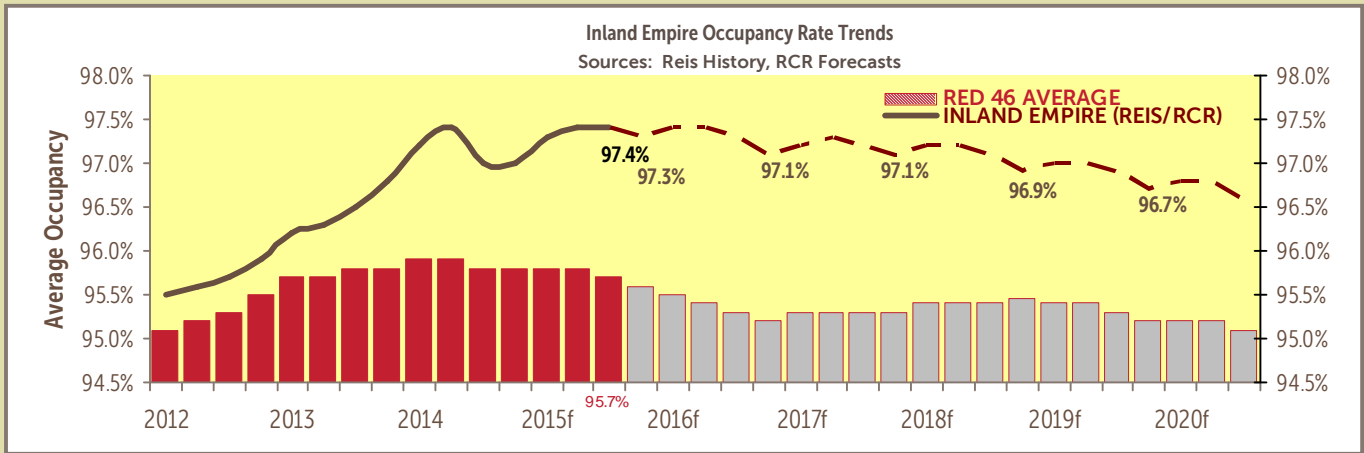
The sales velocity of Riverside-San Bernardino properties slowed materially during the third quarter in the wake of record sales during the spring. Investors closed on nine larger apartment properties from July to September, down from 24 during the prior quarter. Proceeds totaled about \$359 million, down -31% from 2Q's \$522mm aggregate. Conversely, the average value of traded units climbed +48% to \$194,519 as investors moved up the quality curve: the average age of units sold fell from 24 years in 1Q and 2Q15 to 15 years during the year's third quarter.

The pace of trade reaccelerated during the fall. By mid-December, buyers closed on 19 properties for \$486mm,

likely a one-quarter proceeds record for this market.

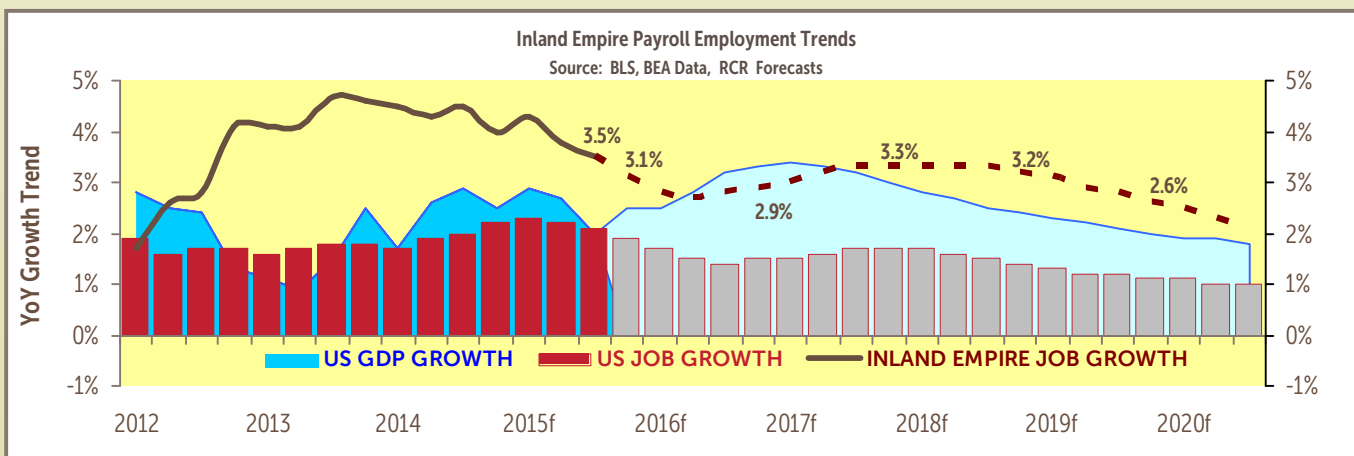
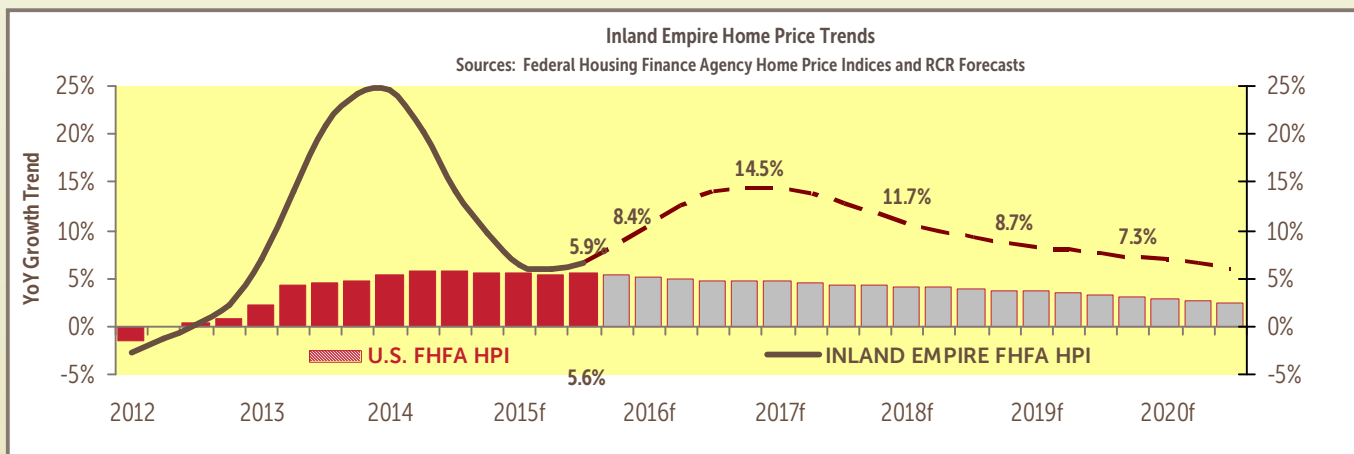
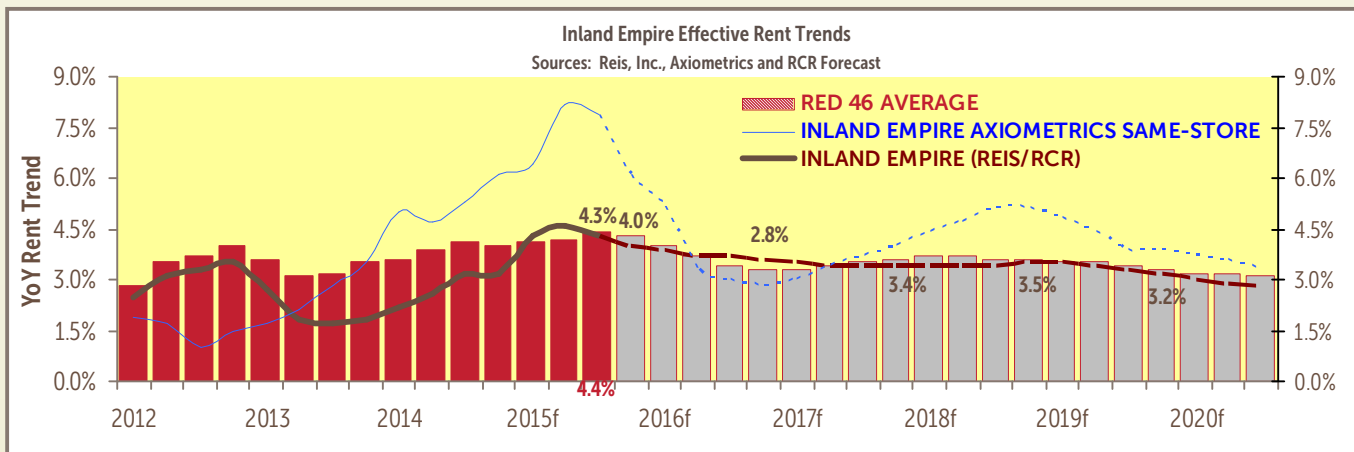
Cap rates fell in a narrow range from 5% to 6%. Class-A institutional quality assets traded to near 5% yields. Class-B+/B assets were priced to initial yields in the mid-5s. Older, class-B-/C complexes were valued in the high-5s as investors paid up for assets with repositioning potential.

RCR chose to trim 5 bps from the purchase cap rate proxy to 5.2%. At this level, investors were projected to realize a 6.7% annual total return on a five-year hold, ranking 30th among the **RED 46**. Overall model error was near normal, resulting in a comparable 31st ranked risk-adjusted return.



NOTABLE TRANSACTIONS

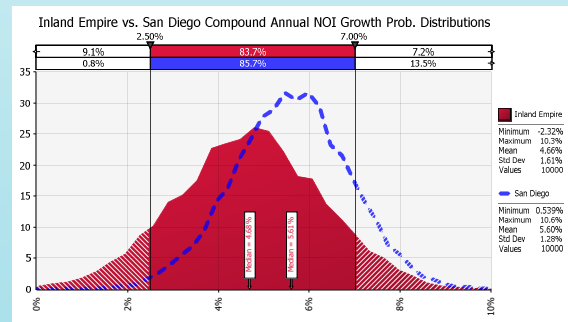
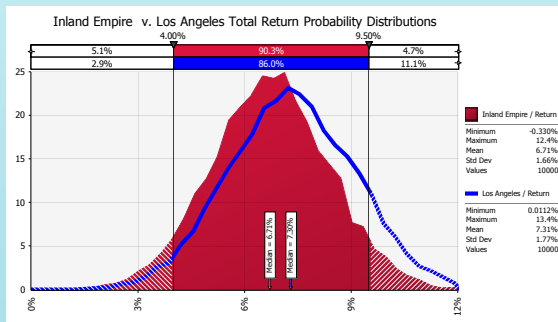
| Property Name (Submarket) | Property Class/ Type (Constr.) | Approx. Date of Transaction | Total Price / (in millions) | Price / per unit | Estimated Cap Rate |
|------------------------------------------|--------------------------------|-----------------------------|-----------------------------|------------------|--------------------|
| Promenade Terrace (Riverside Co./Corona) | A- / GLR (1990) | 5-Sep-2015 | \$78.4 | \$237,479 | 5.3% |
| Sunridge Pines Apts. (Rancho Cucamonga) | A / GLR (1988) | 11-Oct-2015 | \$58.5 | \$240,891 | 5.0% |
| Alvista Terrace (Colton / Loma Linda) | B- / GLR (1986) | 14-Oct-2015 | \$48.8 (allocated) | \$133,197 | 5.6% |
| Reserve @ Rancho Belago (Moreno Valley) | B / GLR (2005) | 22-Oct-2015 | \$30.1 | \$171,023 | 5.3% |
| Avana Canyon Crest (University City) | B+ / GLR (2005) | 9-Dec-2015 | \$34.1 (allocated) | \$215,905 | 5.0% |



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SUBMARKET TRENDS (REIS)

| Submarket | Effective Rent | | | Physical Vacancy | | |
|--------------------------|----------------|----------------|-------------|------------------|-------------|----------------|
| | 3Q14 | 3Q15 | Change | 3Q14 | 3Q15 | Change |
| Colton / Loma Linda | \$1,147 | \$1,188 | 3.5% | 1.5% | 0.8% | -70 bps |
| Fontana / Rialto | \$1,029 | \$1,067 | 3.7% | 3.5% | 2.2% | -130 bps |
| Hemet | \$795 | \$820 | 3.1% | 4.8% | 3.8% | -100 bps |
| Indio / La Quinta | \$896 | \$929 | 3.6% | 3.5% | 2.7% | -80 bps |
| North Ontario | \$1,183 | \$1,235 | 4.4% | 4.6% | 3.3% | -130 bps |
| Palm Springs/Palm Desert | \$926 | \$950 | 2.5% | 3.3% | 3.8% | 50 bps |
| Perris | \$908 | \$915 | 0.8% | 4.6% | 4.9% | 30 bps |
| Rancho Cucamonga | \$1,442 | \$1,537 | 6.6% | 1.1% | 1.9% | 80 bps |
| Riverside County | \$1,205 | \$1,242 | 3.1% | 2.3% | 1.7% | -60 bps |
| Riverside / No. Magnolia | \$1,051 | \$1,102 | 4.8% | 3.0% | 3.6% | 60 bps |
| Southwest Riverside Co. | \$1,244 | \$1,304 | 4.8% | 7.4% | 4.7% | -270 bps |
| San Bernardino | \$841 | \$866 | 3.0% | 2.4% | 1.5% | -90 bps |
| South Ontario / Chino | \$1,347 | \$1,420 | 5.5% | 1.3% | 4.6% | 330 bps |
| University City | \$1,052 | \$1,091 | 3.8% | 2.5% | 1.9% | -60 bps |
| Upland | \$1,095 | \$1,138 | 3.9% | 2.2% | 1.5% | -70 bps |
| Victorville | \$784 | \$812 | 3.6% | 5.0% | 6.0% | 100 bps |
| Metro | \$1,097 | \$1,144 | 4.3% | 3.0% | 2.6% | -40 bps |



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