

PAYROLL JOB SUMMARY

Total Payrolls	4,297.7m
Annual Change	88.5m (2.1%)
RCR FY15 Forecast	95.5m (2.3%)
RCR 2016 Forecast	98.6m (2.3%)
RCR 2017 Forecast	118.4m (2.7%)
RCR 2018 Forecast	106.3m (1.8%)
RCR 2019 Forecast	81.6m (1.8%)
Unemployment (NSA)	5.9% (Oct.)

3Q15 PAYROLL TRENDS AND FORECAST

The pace of Los Angeles County payroll job formation decelerated during the third quarter, slowing from 2Q15's 102,800-job, 2.4% year-on-year rate to an 88,500-job, 2.1% performance. Slower expansion in the transportation and information/entertainment industry, finance and education services industries was primarily responsible. These sectors added workers to payrolls at a 2,900-job, 0.4% annual rate, down from a collective gain of 13,100 (1.8%) during 2Q15. By contrast, growth in the tech-flavored professional and technical business services subsector soared, accelerating from 2Q15's 2,500-job, 0.9% advance to an 8,100-job, 2.9% 3Q15 surge, boding well for the future of the L.A. economy. Expressed on a

seasonally-adjusted basis, L.A. added 67,800 jobs January through October, down from 80,400 jobs during the comparable period of 2014.

RED Research specified a 96.3% adjusted-R² (S.E.=0.4%) forecasting equation using the rate of change of U.S. payroll growth; metro personal income growth; and lags of nominal GDP growth and S&P500 returns as independent variables. The equation projects stable growth in the low- to mid-2% range through 2016, followed by a rebound to the high-2% area in the 2017-18 period in keeping with faster forecasted U.S. economic growth. Progress is likely to be slower in the out-years of the forecast.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	96.8%
RED 50 Rank	11 th
Annual Chg. (Reis)	0.0%
RCR YE15 Forecast	96.9%
RCR YE16 Forecast	96.5%
RCR YE17 Forecast	96.3%
RCR YE18 Forecast	96.3%
RCR YE19 Forecast	96.5%

3Q15 ABSORPTION AND OCCUPANCY RATE TRENDS

Reis report that apartment space demand decelerated materially during the third quarter as renters net leased 550 vacant units, down from 2,179 in the prior quarter and short of the 1,500-unit 16-year summer quarter average. A sharp decline in construction deliveries was partially responsible: developers delivered only 246 units, down from 2Q's one-quarter record (3,340). Our demand model projects that L.A. typically would fill more than 1,000 units under comparable economic, rent growth and space availability conditions. Occupancy was unchanged sequentially and year-on-year at 96.8%, ranking 11th in the **RED 50**.

ties found greater space availability. This service reported 95.7% market occupancy, down -40 basis y-o-y. Class-A assets reported the highest occupancy (96.0%), topping 2Q15 leader Class-C, which slipped to 95.9%. Assets in lease-up absorbed an average of 19 units/month.

Independent variables in **RCR's** demand model include the rate of change of rent and lags of nominal GDP and metro vacancy and payroll growth. The 94.7% ARS (SE=0.1%) model projects robust annual demand for 4,400 to 5,800 units per year from 2016 to 2019, but stronger supply in 2016 and 2017. Occupancy is likely to decline ~ -50 bps by 2017, but recover to the mid-96% area two years later.

Axiometrics surveys of 612 stabilized, same-store proper-

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$1,552
Annual Change	4.5%
RED 50 Rent Change Rank	18 th
RCR YE15 Forecast	5.4%
RCR YE16 Forecast	5.0%
RCR YE17 Forecast	4.6%
RCR YE18 Forecast	3.8%
RCR YE19 Forecast	3.7%

3Q15 EFFECTIVE RENT TRENDS

After being bound in a 2.5% to 2.8% range for two years, L.A. rent trends broke out during 2Q15 with a 3.4% year-on-year advance, followed by a 7-year high 4.5% surge during 3Q15. Both classes-A and B&C performed exceptionally well, boosting asking rents 4.2% and 4.0% y-o-y, respectively. The booming Downtown submarket led the way with a 9.1% same-store sequential quarter gain.

Axiometrics same-store surveys of stabilized larger properties recorded 7.7% average effective rent growth, fastest in more than nine years. Class-C assets notched the strongest gains for the fourth consecutive quarter,

rising 8.1%, with classes-B (7.9%) and -A (6.5%) trailing. Southwest County submarkets recorded the best results in this sample as East Long Beach (12.7%) and West Torrance (11.8%) posted the largest y-o-y advances.

RCR's L.A. rent model employs the first lags of metro vacancy and U.S. personal income growth as independent variables to achieve a 98.2% ARS (SE=0.4%). The model produces a bullish 4.3% compound annual rent growth forecast. Rent growth is projected to accelerate through 2016 and slow gradually thereafter, remaining above 3.7% throughout the 5-tyear forecast interval.

TRADE & RETURN SUMMARY

\$5mm+ / 80-unit+ Sales	23
Approximate Proceeds	\$600mm
Average Cap Rate (FNM)	4.9%
Average Price / Unit	\$153,953
Expected Total Return	7.4%
RED 46 ETR Rank	13 th
Risk-adjusted Index	4.22
RED 46 RAI Rank	28 th

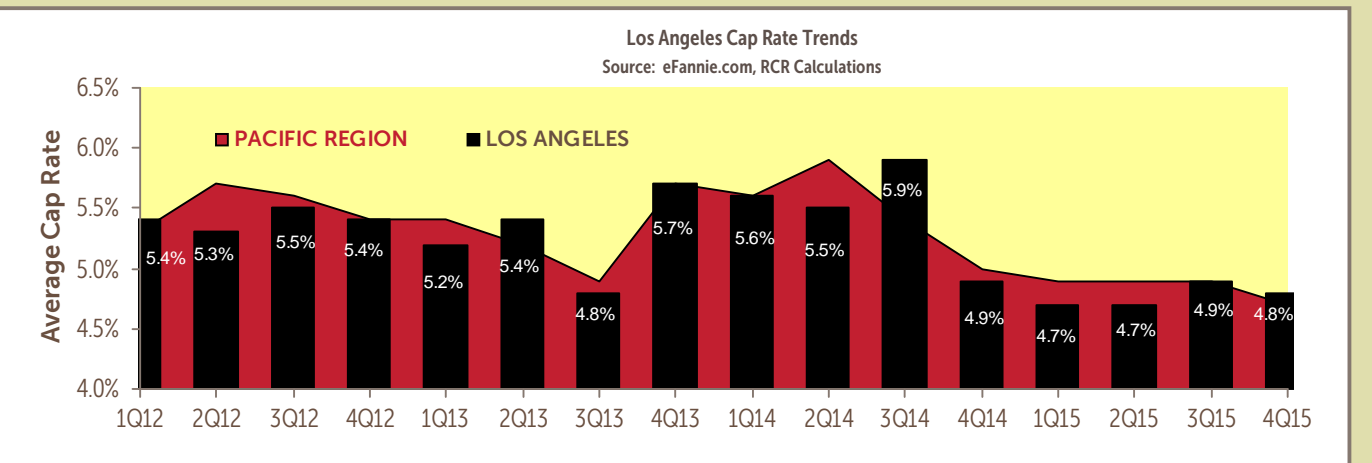
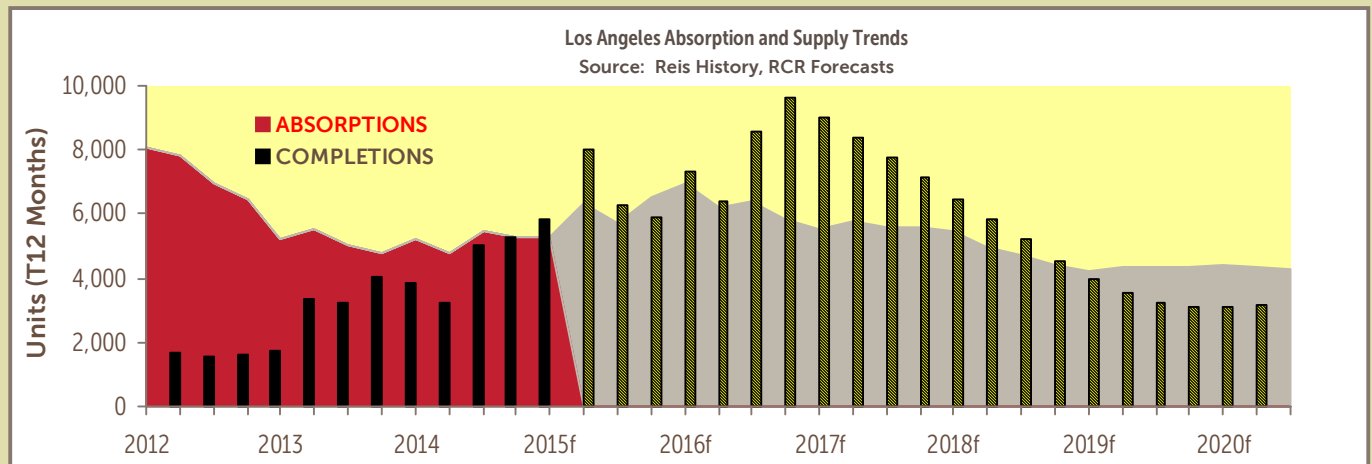
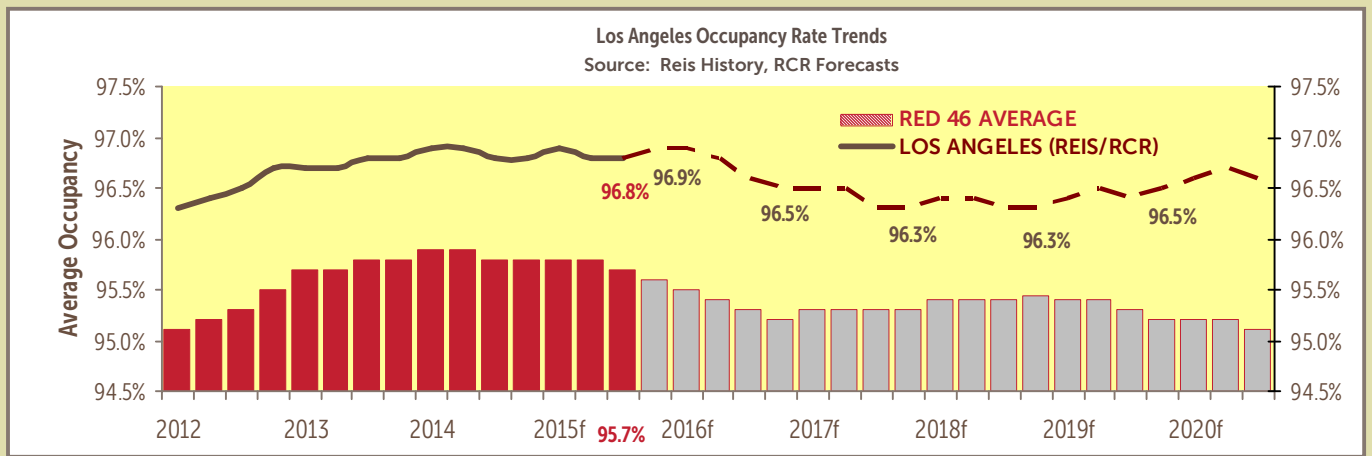
3Q15 PROPERTY MARKETS AND TOTAL RETURNS

Property market activity gained momentum over the summer as 23 large property transactions were recorded, up from 17 and 12 during the prior and penultimate quarters, respectively. Sales proceeds declined, however, as traded assets were more highly concentrated in older properties (average age 43 years vs. ~26 years in each of the two prior quarters) located in inland submarkets. Third quarter proceeds totaled approximately \$600 million, down from \$732mm and \$698mm during 2Q15 and 1Q15, respectively. Likewise, the average price of units sold fell, dipping to \$153,953 from \$212,076 and \$206,076.

Cap rates for class-B- and C properties in inland submar-

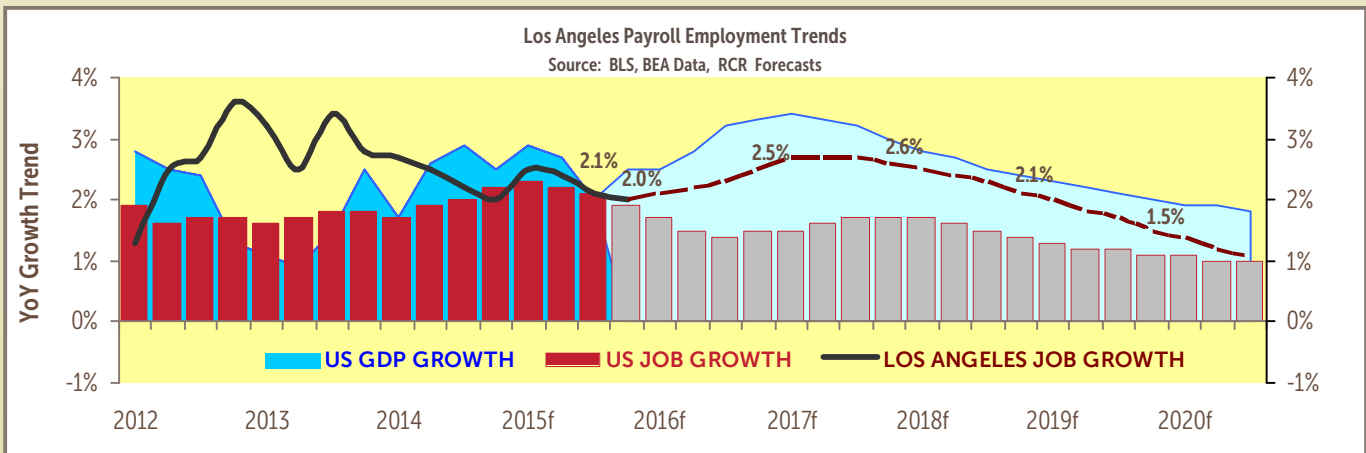
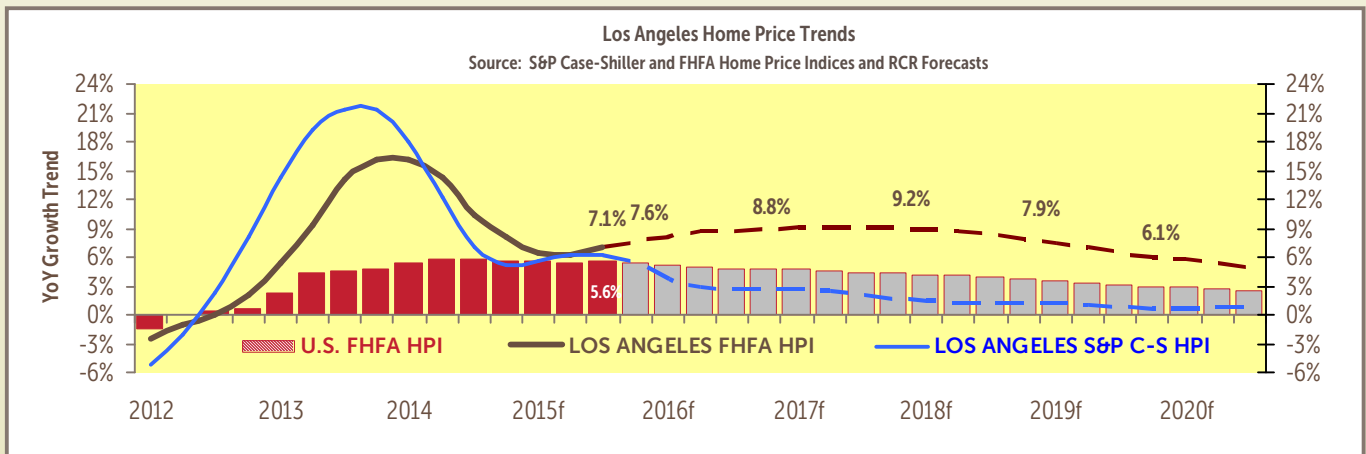
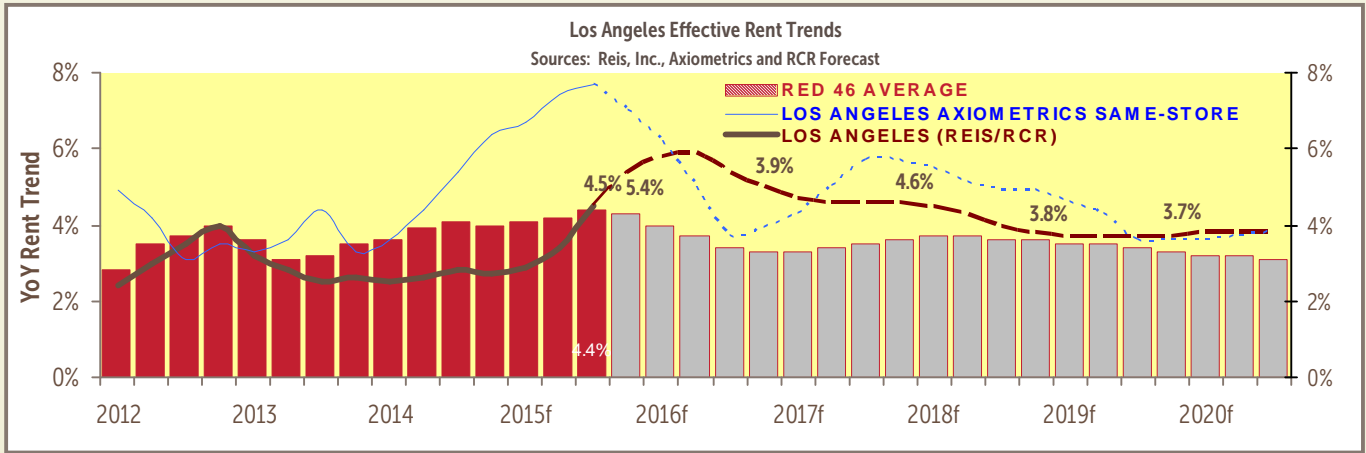
kets fell in the 5.3% to 5.8% range. Assets located west of I-5 were more likely to trade in the mid-4% to low-5% range. Properties less than 20 years old, located near the Pacific Coast gravitated toward the low- to mid-4% range.

In light of the strong investor bid for West County properties, **RCR** elected to trim 20 basis points from the purchase cap rate proxy to 4.7%. Using this level, a terminal cap rate of 5.5% and model generated occupancy and rent point estimates we calculate that an L.A. investor would expect to achieve a 7.4% 5-year, unlevered total return, ranking 13th among the **RED 46**. Risk-adjusted returns are hindered by economic volatility: L.A. ranks **R46** #28 on this basis.



NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
Vista Pointe Apts. (Azusa/Covina)	B / GLR (1985)	8-Aug-2015	\$45.2	\$209,028	5.2%
Alvista long Beach (East Long Beach)	B / GLR (1963)	16-Oct-2015	\$53.0	\$223,629	4.6%
Olive Ridge Resort (Claremont/Pomona)	C / GLR (1971)	16-Oct-2015	\$32.5	\$147,727	5.5%
Emerald Terrace Apts. (Wilshire/Westlake)	B- / GLR (1971)	18-Nov-2015	\$66.5	\$220,199	5.5%
VIDA Hollywood Apts. (Hollywood)	B / MB MR (88/08)	22-Nov-2015	\$88.5	\$256,522	4.4%
Carmel Hacienda Hts. (W Covina/La Puente)	B- / GLR (70/99)	25-Nov-2015	\$81.5	\$232,857	4.7%



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SUBMARKET TRENDS (REIS)

Submarket	Effective Rent			Physical Vacancy		
	3Q14	3Q15	Change	3Q14	3Q15	Change
Arcadia / Duarte	\$1,193	\$1,245	4.3%	2.6%	2.4%	-20 bps
Azusa / Covina	\$1,187	\$1,242	4.6%	3.3%	3.0%	-30 bps
Beverly Hills	\$2,066	\$2,156	4.3%	2.4%	2.4%	0 bps
Burbank / North Glendale	\$1,530	\$1,644	7.4%	4.8%	6.0%	120 bps
Carson / San Pedro	\$1,170	\$1,201	2.6%	2.5%	2.8%	30 bps
Chatsworth	\$1,303	\$1,358	4.3%	5.4%	4.5%	-90 bps
Claremont / Pomona	\$1,337	\$1,408	5.3%	6.1%	6.5%	40 bps
Downtown	\$1,998	\$2,211	10.6%	8.3%	7.3%	-100 bps
East L.A. / Alhambra	\$1,154	\$1,178	2.0%	3.2%	2.9%	-30 bps
East Long Beach	\$1,443	\$1,514	4.9%	3.2%	3.1%	-10 bps
El Segundo	\$1,778	\$1,805	1.5%	1.9%	1.6%	-30 bps
Granada Hills	\$1,299	\$1,380	6.2%	1.5%	1.4%	-10 bps
Hawthorne	\$1,034	\$1,077	4.2%	1.6%	1.4%	-20 bps
Hollywood	\$1,497	\$1,597	6.7%	3.3%	3.7%	40 bps
Inglewood / Crenshaw	\$1,070	\$1,107	3.5%	2.4%	2.3%	-10 bps
Mar Vista / Palms	\$1,542	\$1,593	3.3%	2.0%	1.8%	-20 bps
Marina Del Rey	\$2,236	\$2,361	5.6%	5.1%	6.2%	110 bps
Mid-City / West Adams	\$1,087	\$1,110	2.0%	2.5%	2.3%	-20 bps
North Long Beach	\$1,150	\$1,162	1.1%	3.9%	3.8%	-10 bps
Palmdale / Lancaster	\$819	\$859	4.9%	5.0%	4.7%	-30 bps
Panorama Hills	\$1,074	\$1,126	4.9%	1.3%	1.1%	-20 bps
Paramount / Downey	\$1,223	\$1,282	4.8%	1.4%	1.3%	-10 bps
Pasadena	\$1,637	\$1,703	4.0%	3.4%	4.0%	60 bps
Santa Clarita Valley	\$1,468	\$1,523	3.8%	4.4%	3.4%	-100 bps
Santa Monica	\$2,369	\$2,443	3.1%	3.0%	3.0%	0 bps
Sherman Oaks	\$1,605	\$1,692	5.4%	3.0%	2.8%	-20 bps
South Glendale	\$1,338	\$1,440	7.6%	4.2%	6.2%	200 bps
South / Central LA	\$918	\$932	1.5%	2.6%	2.6%	0 bps
Tujunga / Montrose	\$1,302	\$1,371	5.3%	3.1%	2.9%	-20 bps
Van Nuys / North Hollywood	\$1,140	\$1,186	4.0%	1.9%	1.6%	-30 bps
West Covina / La Puente	\$1,316	\$1,357	3.1%	2.3%	2.3%	0 bps
West L.A. / Westwood	\$2,298	\$2,377	3.4%	2.8%	2.8%	0 bps
West Long Beach	\$1,247	\$1,265	1.5%	3.6%	3.4%	-20 bps
West Torrance	\$1,604	\$1,639	2.1%	2.1%	1.9%	-20 bps
Whittier	\$1,178	\$1,212	2.9%	3.0%	2.6%	-40 bps
Wilshire / Westlake	\$1,348	\$1,382	2.5%	3.7%	3.4%	-30 bps
Woodland Hills	\$1,692	\$1,808	6.9%	3.7%	4.1%	40 bps
Metro	\$1,485	\$1,552	4.5%	3.2%	3.2%	0 bps

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