PORTLAND, OREGON

MARKET OVERVIEW & MULTIFAMILY HOUSING UPDATE

RED Capital Group | 4Q15 | MARCH 2016

PAYROLL JOB SUMMARY

Total Payrolls	1,134.4m
Annual Change	39.1m (3.6%)
RCR 2016 Forecast	29.7m (2.7%)
RCR 2017 Forecast	26.4m (2.3%)
RCR 2018 Forecast	22.8m (2.0%)
RCR 2019 Forecast	18.1m (1.5%)
RCR 2020 Forecast	18.4m (1.5%)
Unemployment (NSA)	4.7% (Dec.)

4Q15 PAYROLL TRENDS AND FORECAST

Portland's labor market continued to outperform historical norms, adding to payrolls at a 39,100-job, 3.6% year-on-year rate, more than twice the Rose City's 25-year historical average and the 20th consecutive quarter of 2% growth or faster. This supercharged job creation was sustained with virtually no help from the typically pro-cyclical construction sector, which added only about 500 (0.9%) jobs in 2015. Instead, manufacturing, transportation and all variety of skilled services led the charge, collectively hiring at a 28,700-job, 4.1% rate. Of note, the tech-heavy professional and technical services sub-sector contributed 3,300 jobs, a 4.7% annual advance.

Seasonally adjusted data also recorded robust gains. This series indicates that establishments added 26,400 jobs July-to-December and 41,600 for the full year, the largest 12-month add recorded in Portland's 26-year BLS series.

With Portland job creation running so far above normal, specifying an unbiased model that produces "reasonable" results can be challenging. In the end, RED Research settled on the simplest possible equation using two lags of the dependent variable and the rate of change of US payroll observations as independent variables. The 97.1% adjusted R^2 (SE=0.4%) model predictably projects gradually slowing job growth in keeping with forecasted US conditions. Two percent or faster (20,000 to 30,000 jobs per year) growth is likely to be maintained through 2018.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	95.0%
RED 50 Rank	33rd
Annual Chg. (Reis)	-1.3%
RCR YE16 Forecast	95.5%
RCR YE17 Forecast	96.3%
RCR YE18 Forecast	96.3%
RCR YE19 Forecast	95.7%
RCR YE20 Forecast	95.3%

4Q15 ABSORPTION AND OCCUPANCY RATE TRENDS

Portland apartment occupancy declined -130 basis points year-on-year to 95.0% in 2015, the worst performance among the RED 50 markets. Demand was not the issue — Reis report that renters absorbed 2,860 units in 2015, third largest annual total since 2001 — but supply was overwhelming. Developers delivered 4,551 units last year, representing the largest vintage recorded in 20 years.

By contrast, Axiometrics surveys of larger, professionally managed assets posted a smaller –30 bps y-o-y drop, both among the universe of all surveyed properties (to 95.0%) and among the subset of stabilized, same-store assets (to 95.4%). The class-C segment maintained the tightest market conditions (96.4%), while class-A succumbed to supply pressure, falling –130bps sequentially to 93.7%. Naturally, submarkets with the most active construction pipelines (Northeast, Northwest, Beaverton) suffered the largest occupancy losses, while the mostly class-B-/C East Gresham submarket scratched out a small occupancy advance.

RCR again used a simple model to forecast demand, giving added weight to PORT's recent performance. With current payroll and T-1 inventory growth as independent variables, we specified a 95.0% ARS (SE=0.4%) equation that projects above historical average absorption through 2018, allowing Rose City occupancy to recover to 96.3% by YE2017.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	$1,006
Annual Change	7.5%
RED 50 Rent Change Rank	4th
RCR YE16 Forecast	5.5%
RCR YE17 Forecast	4.9%
RCR YE18 Forecast	4.5%
RCR YE19 Forecast	3.9%
RCR YE20 Forecast	3.7%

4Q15 EFFECTIVE RENT TRENDS

Rent trends went from strength to strength during 4Q15, topping the previous quarter's 26-year Reis series record 7.1% year-on-year growth rate by 40 basis points. Rents increased $15 (1.5%) sequentially, down from seasonally-stronger 3Q15's $29 (3.0%) surge but superior to an $11 (1.2%) advance posted during the comparable period 2014; irrespective of negligible rent growth in the supply-heavy Northeast (0.0%) and lagging Tigard (0.1%) submarkets.

By way of comparison, Axiometrics surveys unearthed considerably faster rent growth. Stabilized, same-store property rents increased 13.1% y-o-y, down from 15.7% during 3Q15. Class-B was fastest for the 10th straight quarter (14.4%), while class-A (10.0%) trailed. Only two submarkets failed to reach a 12% advance — Northeast (7.6%) and Northwest (5.0%) — in each case due to supply pressures.

The current RCR PORT rent model uses only the first lag of the dependent variable; Baa-rated bond yields (-); the rate of Portland personal income growth (+); and the rate of change of RED 46 rent growth as independent variables. The 92.2% ARS (SE=0.7%) model projects exceptional 4.5% 5-year annual compound rent growth, ranking second among the RED 46; trailing only New York City (4.7%).

TRADE & RETURN SUMMARY

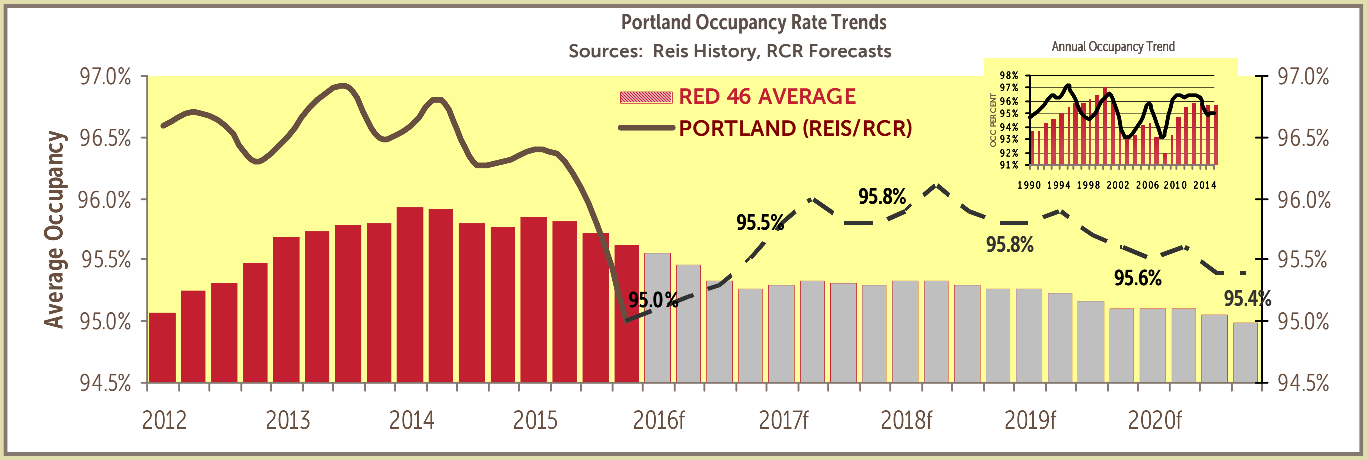
$5mm+ / 80-unit+ Sales	13
Approximate Proceeds	$425mm
Average Cap Rate (FNM)	4.9%
Average Price / Unit	$170,302
Expected Total Return	8.8%
RED 46 ETR Rank	3rd
Risk-adjusted Index	5.21
RED 46 RAI Rank	12th

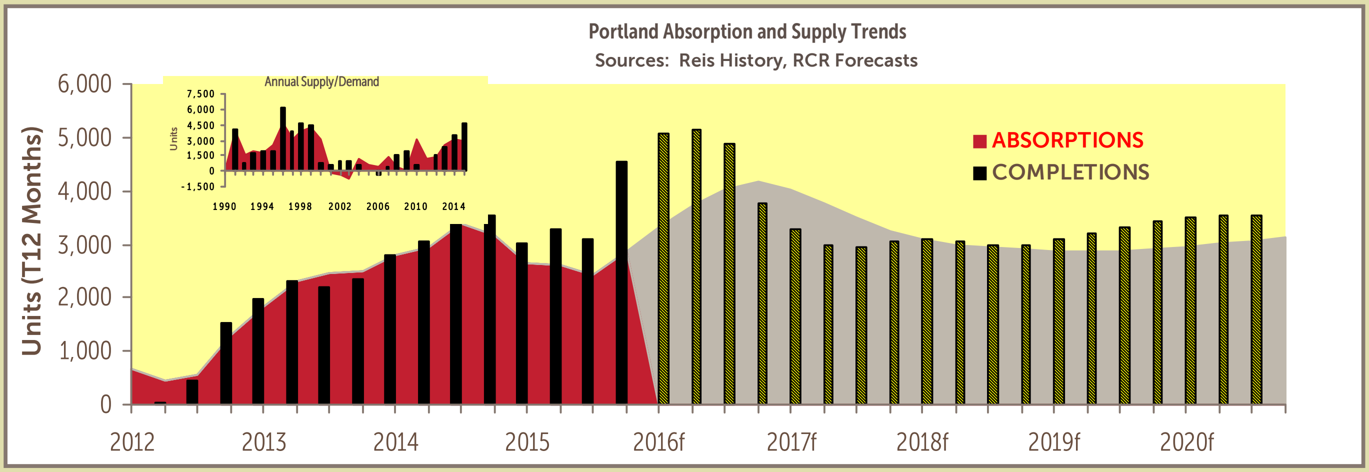
4Q15 PROPERTY MARKETS AND TOTAL RETURNS

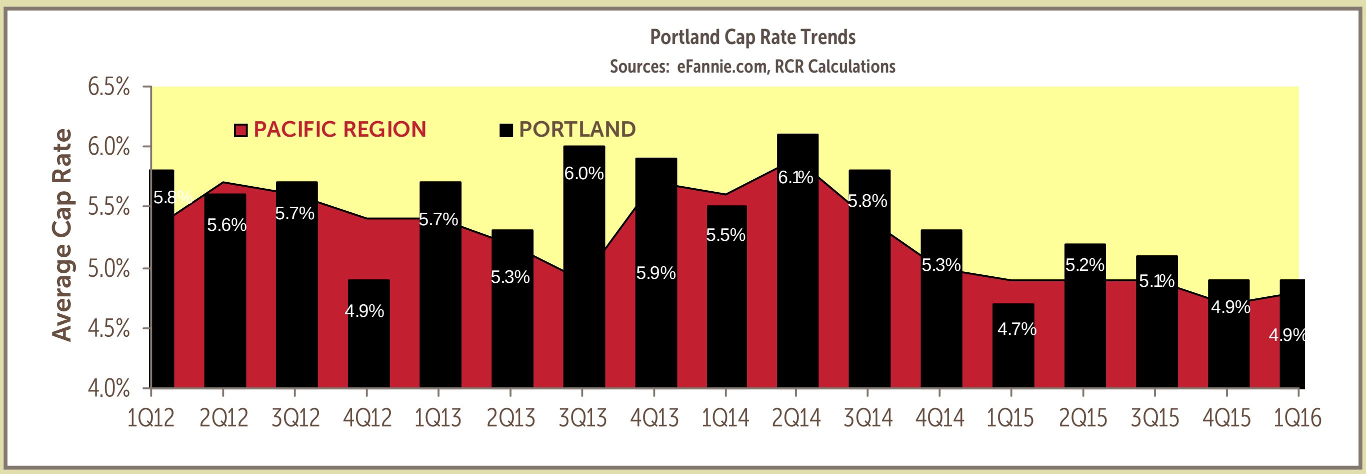
Property sales activity was moderately slower during the fourth quarter as 13 priced transactions closed during the period for gross proceeds of $425 million. This compares to 18 transactions valued at $640mm during the previous period. Moreover, sales in 1Q16 appeared to get off to a sluggish start as only five sales were recorded by the end of February. Slow sales velocity was largely attributable to a shortage of quality assets offered for sale rather than weakening demand. Owners of investment quality assets appear to prefer to further capitalize soaring rents before considering a liquidation of a precious core holding.

By way of pricing, investment quality suburban properties were priced to mid-4% to low-5% yields. The lone recent infill class-A transaction appears to have been priced to a materially sub-4% cap. Class-B/B– properties were priced to mid-5% yields and a handful of class-C or marginally located assets sold to high-5% to 6% going-in cap rates.

In view of the supply/demand imbalance for PORT properties, RCR reduced the cap rate proxy from 5.2% to 4.75%. Even at this level metro assets offer an attractive 8.8% annual total return over a five-year hold, based on model derived occupancy and rent point estimates; ranked third among the RED 46. Above average rent volatility reduces risk-adjusted returns for which Portland ranks group #12.

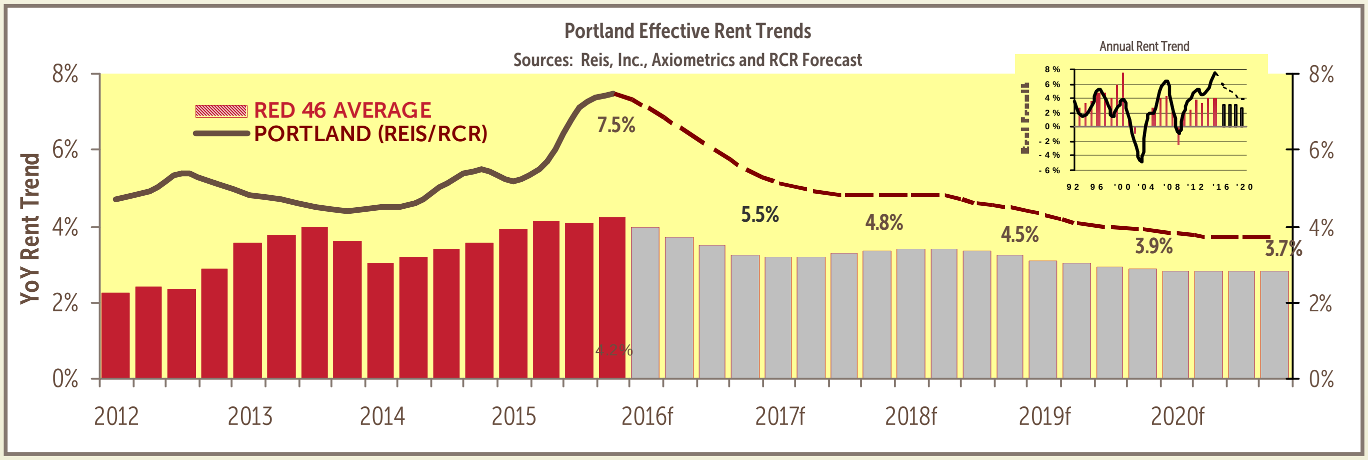




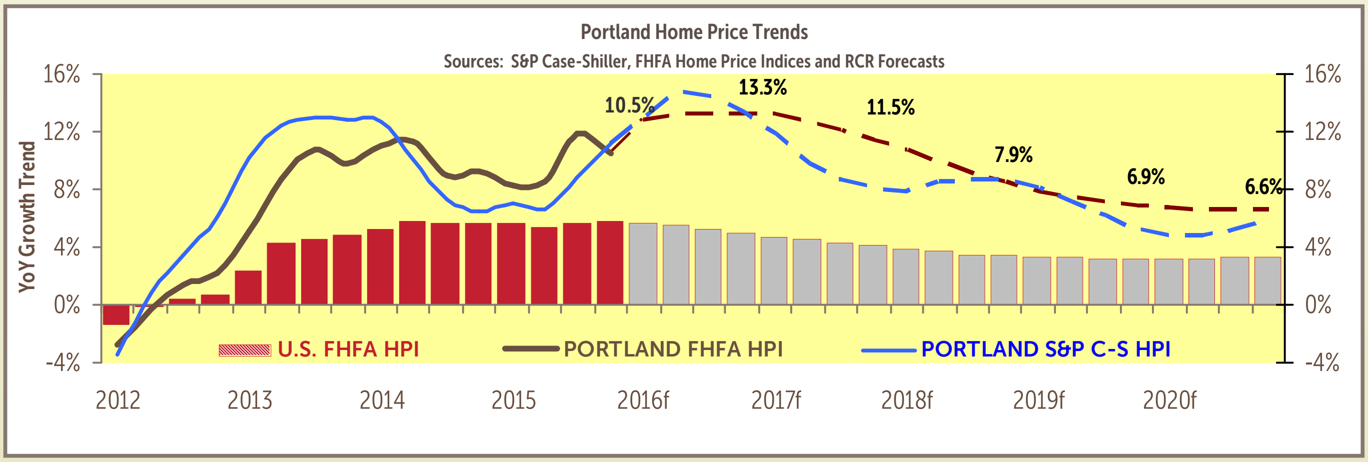


NOTABLE TRANSACTIONS

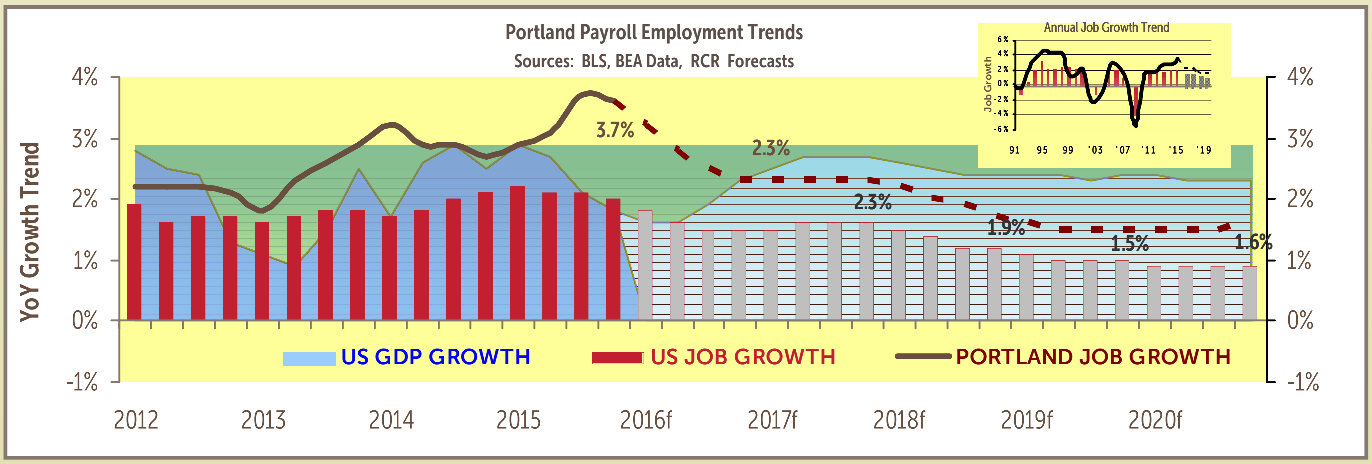
Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
Hidden Oaks (Gresham / Argay)	C / GLR (1973)	21-Oct-2015	$29.0	$109,211	5.4%
Heatherbrae Commons (Milwaukie)	B / GLR (1995)	7-Dec-2015	$26.5	$152,299	5.1%
Newport Apt. Homes (Northwest)	A / WF MR (2010)	11-Dec-2015	$26.7	$143,611	5.5%
Springville Oaks (Beaverton/Bethany)	A- / GLR (2014)	16-Dec-2015	$28.0	$250,000	4.6% / 5.3% p.f.
Village at Main St. (Wilsonville)	B / GLR (1998)	21-Dec-2015	$95.0	$204,741	4.7%
Meadows Cascade Park ((Vancouver)	B- / GLR (1998)	9-Feb-2016	$35.2	$177,778	4.7%



Portland Effective Rent Trends
Sources: Reis, Inc., Axiometrics and RCR Forecast
Annual Rent Trend
RED 46 AVERAGE
PORTLAND (REIS/RCR)
YoY Rent Trend
8%
6%
4%
2%
0%
7.5%
5.5%
4.8%
4.5%
3.9%
3.7%
2012
2013
2014
2015
2016f
2017f
2018f
2019f
2020f



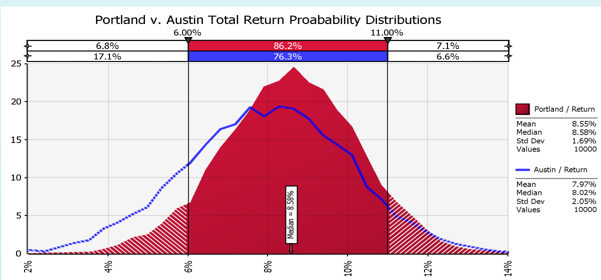
Portland Home Price Trends
Sources: S&P Case-Shiller, FHFA Home Price Indices and RCR Forecasts
YoY Growth Trend
16%
12%
8%
4%
0%
-4%
10.5%
13.3%
11.5%
7.9%
6.9%
6.6%
U.S. FHFA HPI
PORTLAND FHFA HPI
PORTLAND S&P C-S HPI
2012
2013
2014
2015
2016f
2017f
2018f
2019f
2020f

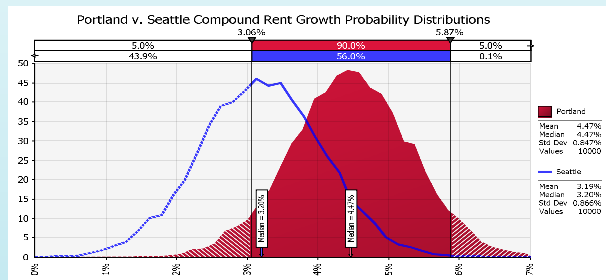


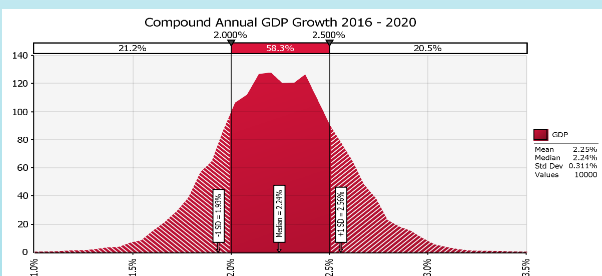
Portland Payroll Employment Trends
Sources: BLS, BEA Data, RCR Forecasts
Annual Job Growth Trend
YoY Growth Trend
4%
3%
2%
1%
0%
-1%
3.7%
2.3%
2.3%
1.9%
1.5%
1.6%
US GDP GROWTH
US JOB GROWTH
PORTLAND JOB GROWTH
2012
2013
2014
2015
2016f
2017f
2018f
2019f
2020f

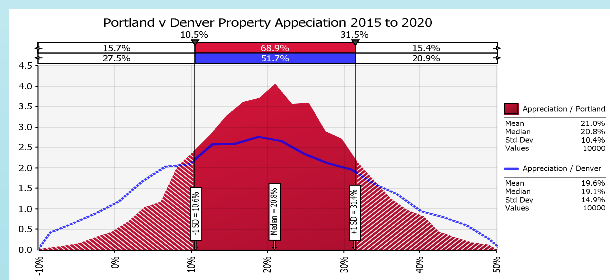
SUBMARKET TRENDS (REIS)

Submarket	Inventory % Change	Effective Rent			Physical Vacancy		
		4Q14	4Q15	Change	4Q14	4Q15	Change
Beaverton	3.5%	$885	$992	12.1%	3.5%	4.3%	80 bps
East Gresham	0.4%	$779	$820	5.3%	0.5%	1.0%	50 bps
Milwaukie / Oregon	1.4%	$824	$859	4.2%	1.6%	2.3%	70 bps
Northeast	31.7%	$997	$1,134	13.7%	5.1%	11.8%	670 bps
Northwest	11.1%	$1,244	$1,310	5.3%	6.2%	10.4%	420 bps
Tigard / Oswego	1.5%	$950	$997	4.9%	2.3%	3.0%	70 bps
Vancouver	0.5%	$895	$959	7.1%	4.0%	4.7%	70 bps
Metro	4.1%	$936	$1,006	7.5%	3.7%	5.0%	130 bps









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