PORTLAND, OREGON

MARKET OVERVIEW & MULTIFAMILY HOUSING UPDATE

RED Capital Group | 1Q16 | JUNE 2016

PAYROLL JOB SUMMARY

Total Payrolls	1,125.0m
Annual Change	34.6m (3.2%)
RCR 2016 Forecast	28.6m (2.6%)
RCR 2017 Forecast	16.4m (1.4%)
RCR 2018 Forecast	15.1m (1.3%)
RCR 2019 Forecast	14.4m (1.2%)
RCR 2020 Forecast	14.0m (1.2%)
Unemployment (NSA)	4.4% (Apr.)

1Q16 PAYROLL TRENDS AND FORECAST

Rapid expansion of the Portland labor market continued over the winter as employers added workers to payrolls at a brisk 34,600-job, 3.2% annual rate during 1Q16, representing the fifth consecutive quarter of 3% or faster growth. Hiring across sectors remained admirably balanced between goods producing, skilled service and consumer service industries. Only the professional and technical service subsector was in any way disappointing as payroll growth in this tech flavored segment decelerated to 1,600 (2.4%) jobs, slowest since 2Q10. On the brighter side, headcounts in the computer system design segment grew at the fastest pace (5.1%) in five quarters,

Seasonally-adjusted data also were constructive. This series recorded a 9,600-job January-April advance, down moderately from the 11,500 average recorded over the same period in 2013-15, but on track to produce a fourth consecutive calendar year gain of 30,000 jobs or more.

RED Research's PORT payroll model suggests that metro job creation will fall short of that target in 2016. The 97.3% adjusted-R^2 (S.E.=0.4%) model relies on the metro Case-Schiller Index and personal income growth and the rate of change of U.S. payroll growth (all +) as independent variables. Due largely to macro-model projections that U.S. GDP and job growth will decelerate the PORT payroll model projects a 28,600-job, 2.6% add in 2016, with gradually declining gains to the 1.2% area in 2019-2020.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	95.1%
RED 50 Rank	29th
Annual Chg. (Reis)	-1.2%
RCR YE16 Forecast	94.9%
RCR YE17 Forecast	95.2%
RCR YE18 Forecast	95.7%
RCR YE19 Forecast	95.8%
RCR YE20 Forecast	95.7%

1Q16 ABSORPTION AND OCCUPANCY RATE TRENDS

Space absorption was slightly weaker during 1Q16 as tenants leased a net of 480 units, down from 1,296 units during seasonally-stronger 4Q15 and 551 in the year-earlier period (Reis). Indeed, it represented the lowest quarterly absorption in nearly three years. By contrast, developers delivered 729 new units, yielding a -20 basis point sequential (-120 bps y-o-y) decrease in metro occupancy to 95.1%, a six-year low.

Larger professionally managed properties performed moderately better. Axiometrics surveys of 243 stabilized, same store properties revealed a 95.4% average in 1Q, down -70 bps y-o-y. Including assets in-lease up the figures were 93.6%, down –50 bps. Class-C (96.8%) has a lock on highest rate, followed distantly by classes-B (95.4%) and –A (93.5%). Largely class-B-/C East Gresham and Milwaukie submarkets remained 96%+ occupied, but class-A heavy Northeast (95.3%/-90 bps) and Northwest (93.7%/-140 bps) Portland suffered significant tenant attrition. New construction assets leased up at a 17-unit/mo. pace, up from 12 units in 4Q15.

RCR's PORT demand model (ARS=94.6%, SE=0.4%) uses payroll (+) and inventory$_{(t-1)}$ (+) growth as independent variables. Results are constructive as PORT absorption is projected to range from 2,079 to 3,469 units per year through 2020. That will supersede supply for the most part, but not before 2H17. Until then, occupancy is likely to fall another ~60 bps.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	$1,034
Annual Change	9.0%
RED 50 Rent Change Rank	1st
RCR YE16 Forecast	5.3%
RCR YE17 Forecast	5.2%
RCR YE18 Forecast	4.4%
RCR YE19 Forecast	3.8%
RCR YE20 Forecast	3.3%

1Q16 EFFECTIVE RENT TRENDS

Reis report that the sequential quarter rate of rent growth decelerated materially during 1Q16, falling to a $7 (0.8%) pace from 2.0% and 1.5% during the prior and year earlier quarters, respectively. The metro rate was hindered by unusual decreases in Beaverton (-0.1%) and Vancouver (-0.2%), the first negative trends recorded since 2009. These events may simply reflect some price right-sizing after a period of exceptional growth as rents increased 9.0% year-on-year, fastest among the RED 50 markets.

Axiometrics same-store surveys recorded still faster increases among larger properties. This service reported a 12.3% annual gain, representing the fourth straight quarter of 10%+ advances. Only class-A (8.0%) failed to pierce the 10% barrier, while class-B (13.5%) dominance persisted for the 10th consecutive quarter. Only Northeast (5.3%) and Northwest (4.5%) submarkets posted sub-10% gains.

RCR's rent model (ARS 93.2%, SE=0.7%) employs metro personal income$_{(t-1)}$ (+), inventory$_{(t-1)}$ (-) and occupied stock (+) growth and Baa bond yields (-) as independent variables. Rapid inventory growth expected in 2016-2017 will inhibit rent hikes, lowering gains to a roughly 5% pace. Declining income growth and absorption will hinder trends in the out years, but PORT is likely to enjoy some of the fastest compound annual rent growth rates among the R46 peers.

TRADE & RETURN SUMMARY

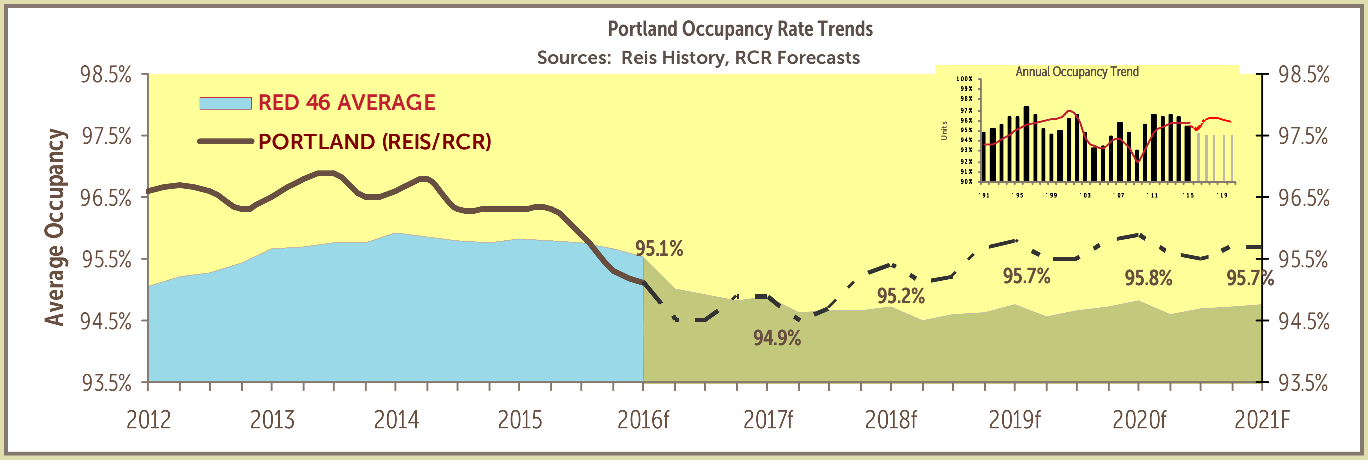
$5mm+ / 80-unit+ Sales	13
Approximate Proceeds	$419mm
Average Cap Rate (FNM)	5.5%
Average Price / Unit	$196,424
Expected Total Return	8.2%
RED 46 ETR Rank	3rd
Risk-adjusted Index	4.47
RED 46 RAI Rank	20th

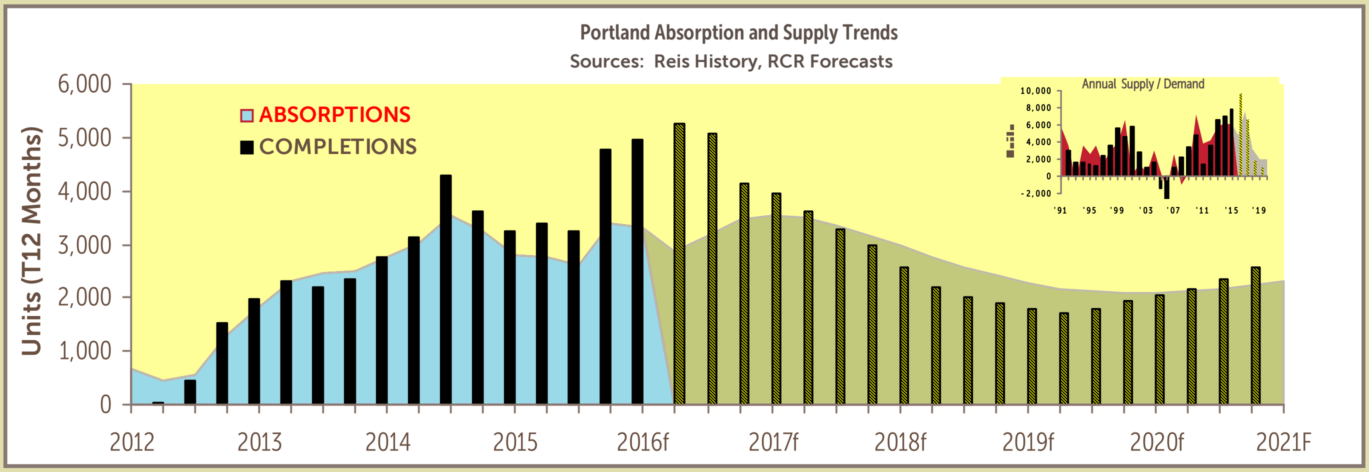
1Q16 PROPERTY MARKETS AND TOTAL RETURNS

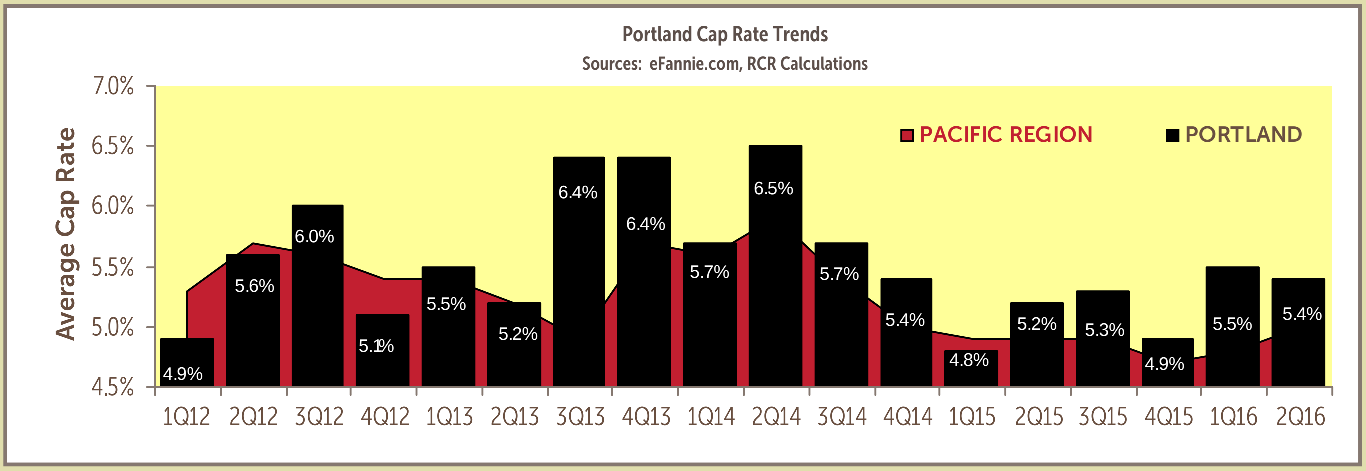
Sales velocity was steady in 1Q16 as 13 properties valued at $5 million or more exchanged hands, matching 4Q15's tally. Sales proceeds totaled $419mm, representing a 2.2% increase over the prior quarter. The average price per unit metric increased 12.7% from $174,253 to $196,424, benefiting from the sale of three properties valued at $250,000 or more, including one asset that traded at $412,000/unit, third highest price ever paid in this market. Nevertheless, the unit-weighted age of sold properties increased from 23 to 25 years, suggesting investors are growing more inclined to pursue value add situations.

Cap rates for recent construction trophies were mostly in the low-4% area, although buyers are prepared to go as low as 3.6% for assets with upside potential. Class-B's traded in the mid-4% to 5.2% range. While value adds could be found in the mid– to-high 5% neighborhood.

Aggressive pricing for mid-rise trophies convinced RCR to trim the cap rate proxy 5 basis points to 4.7%. At this purchase level, model derived occupancy and rent point estimates and a 5.3% terminal cap we calculate that a PORT investor would expect to achieve an 8.2% unlevered total return over a 5-year hold. This ranks third among the R46 peers. Above average payroll and rent model standard error hinder risk-adjusted returns: PORT ranks R46 #20.

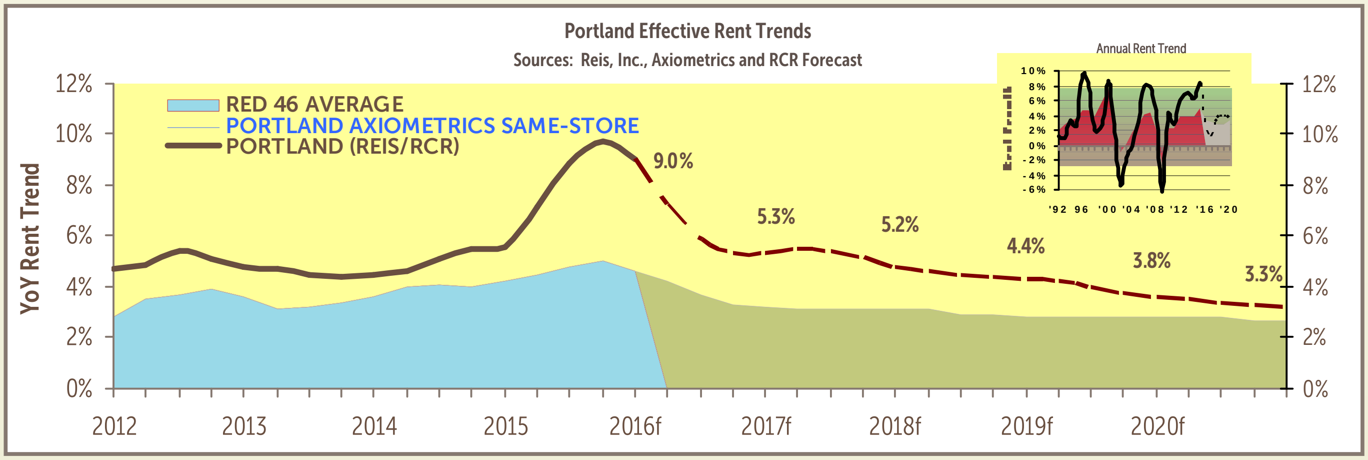


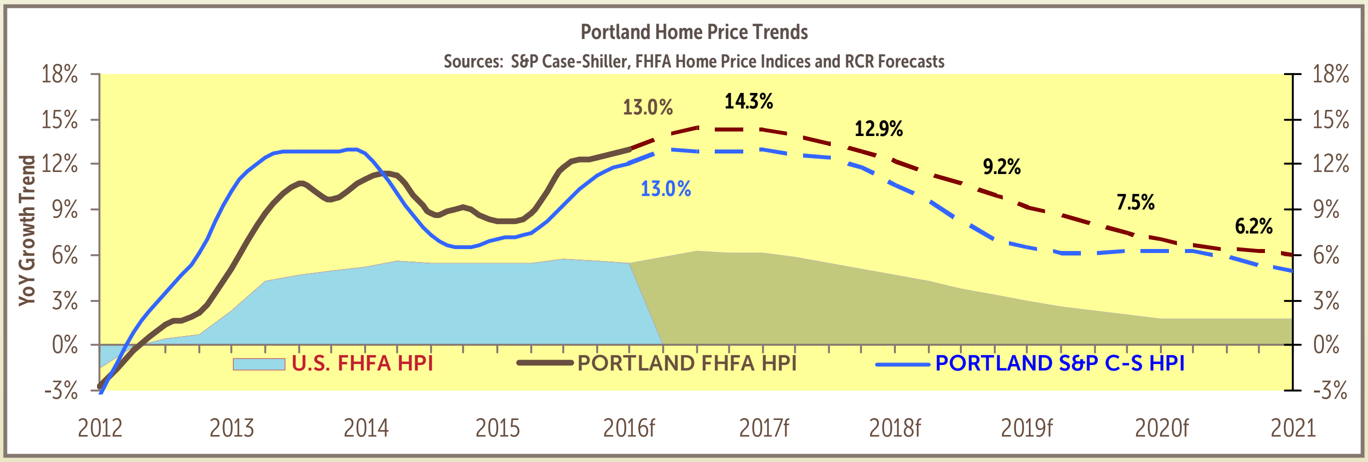


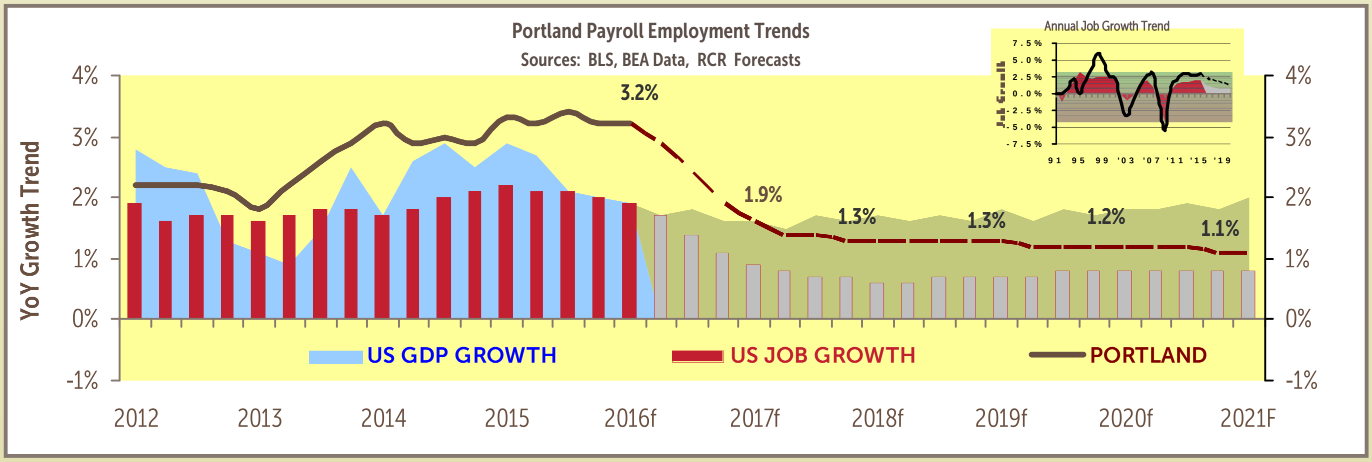


NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
CityView (Northwest/Council Crest/OH&SU)	B- / LR (1950)	6-Jan-2016	$13.2	$152,299	5.2%
Meadows at Cascade Park (Vancouver)	B / GLR (1989)	31-Jan-2016	$35.3	$178,030	5.4%
Platform 14 (Hillsboro / Platform District)	B+ / MB MR (2012)	10-Feb-2016	$45.0	$252,809	3.7%
Lower Burnside Lofts (Northeast)	B+ / RC MR (2015)	25-Feb-2016	$15.5	$293,651	4.15%
Waterline (Northwest/Northwest District)	A / RC MR (2015)	31-Mar-2016	$94.0	$386,831	3.6%/4.5% p.f.
Hogan Wood (East Gresham/Red Sunset Park)	C+ / GLR (1991)	1-May-2016	$10.8	$108,198	5.7%

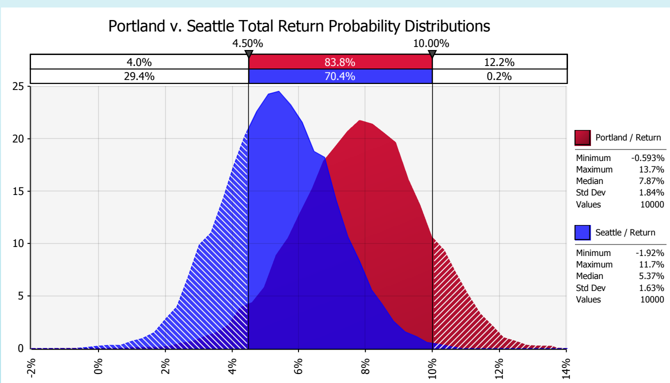

Portland Effective Rent Trends
Sources: Reis, Inc., Axiometrics and RCR Forecast
RED 46 AVERAGE
PORTLAND AXIOMETRICS SAME-STORE
PORTLAND (REIS/RCR)
YoY Rent Trend
9.0%
5.3%
5.2%
4.4%
3.8%
3.3%
Annual Rent Trend
2012
2013
2014
2015
2016f
2017f
2018f
2019f
2020f

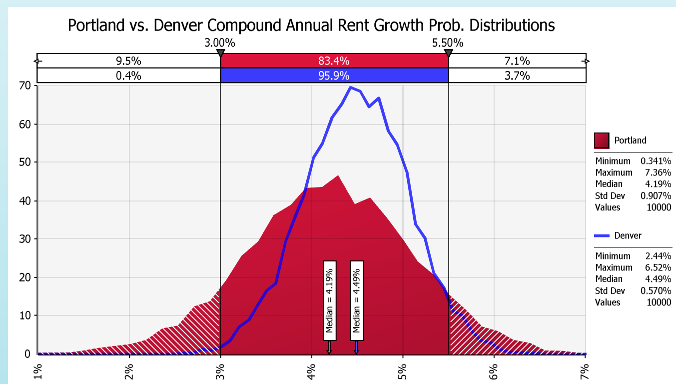

Portland Home Price Trends
Sources: S&P Case-Shiller, FHFA Home Price Indices and RCR Forecasts
YoY Growth Trend
13.0%
14.3%
12.9%
13.0%
9.2%
7.5%
6.2%
U.S. FHFA HPI
PORTLAND FHFA HPI
PORTLAND S&P C-S HPI
2012
2013
2014
2015
2016f
2017f
2018f
2019f
2020f
2021


Portland Payroll Employment Trends
Sources: BLS, BEA Data, RCR Forecasts
Annual Job Growth Trend
YoY Growth Trend
3.2%
1.9%
1.3%
1.3%
1.2%
1.1%
US GDP GROWTH
US JOB GROWTH
PORTLAND
2012
2013
2014
2015
2016f
2017f
2018f
2019f
2020f
2021F

SUBMARKET TRENDS (REIS)

Submarket	Inventory % Change	Effective Rent			Physical Vacancy		
		1Q15	1Q16	Change	1Q15	1Q16	Change
Beaverton	3.9%	$888	$991	11.6%	3.3%	4.3%	100 bps
East Gresham	0.4%	$788	$824	4.5%	0.6%	1.1%	50 bps
Milwaukie / Oregon City	1.4%	$822	$927	12.8%	1.2%	2.1%	90 bps
Northeast	21.6%	$988	$1,180	19.4%	5.4%	8.6%	320 bps
Northwest	12.6%	$1,248	$1,322	5.9%	6.2%	11.3%	510 bps
Tigard / Oswego	0.0%	$970	$1,056	8.9%	3.1%	3.5%	40 bps
Vancouver	0.0%	$899	$991	10.2%	3.8%	4.6%	80 bps
Metro	4.4%	$949	$1,034	9.0%	3.7%	4.9%	120 bps





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