EAST BAY, CALIFORNIA

MARKET OVERVIEW & MULTIFAMILY HOUSING UPDATE

RED Capital Group | 1Q16 | JULY 2016

PAYROLL JOB SUMMARY

Total Payrolls	1,104.1m
Annual Change	29.2m (2.7%)
RCR 2016 Forecast	26.5m (2.4%)
RCR 2017 Forecast	15.5m (1.4%)
RCR 2018 Forecast	8.0m (0.7%)
RCR 2019 Forecast	8.4m (0.7%)
RCR 2020 Forecast	11.7m (1.0%)
Unemployment (NSA)	3.9% (May)

1Q16 PAYROLL TRENDS AND FORECAST

The East Bay labor market ended 2015 with strong momentum and preserved it during the first quarter. Metro employers added workers to payrolls at a 29,200-job, 2.7% year-on-year pace, down immaterially from 4Q15's 32,300-job performance. Rapid healthcare industry expansion was largely responsible, as sector establishments added to headcount at an equal post-recession high 7,100-job, 4.6% rate. Growth in every other sector (with the exception of trade) was softer, however; most notably in financial and business services, which collectively added workers at only a 1,400-job, 0.6% annual rate.

Seasonally-adjusted data were more upbeat. This series recorded a strong 7,000-job net gain during 1Q16, followed by a constructive 3,400-job advance in April and May. While moderately behind 2015's 13,600-job January-May performance, the East Bay is on target for to create 25,000 or more payroll jobs for the 5th consecutive year.

RED Research used the second derivative of U.S. payroll growth (+), nominal GDP$_{(t-1)}$ (-) and metro personal income growth (+) as variables to specify a 97.2% adjusted-R^2, (S.E.=0.4%) East Bay payroll forecasting model. Largely influenced by our macro forecast foreseeing slower U.S. job growth relative to GDP, the model projects gradually decelerating metro expansion through 2018. Hiring is expected to regain momentum in 2019 and 2020 in keeping with an anticipated concurrent U.S. resurgence..

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	97.1%
RED 50 Rank	4th
Annual Chg. (Reis)	-0.3%
RCR YE16 Forecast	96.9%
RCR YE17 Forecast	96.4%
RCR YE18 Forecast	96.1%
RCR YE19 Forecast	96.2%
RCR YE20 Forecast	96.2%

1Q16 ABSORPTION AND OCCUPANCY RATE TRENDS

First quarter absorption was moderately stronger than the previous six months but fell well short of the 374-unit average of the six preceding winter quarters. Tenants net leased 163 vacant units, according to Reis, representing the smallest first quarter occupied stock gain since 2009. Limited supply was partially responsible: developers delivered only 162 units to market, limiting options for renters. At the end of the day, however, the metro market remained among the tightest in America, with occupancy holding on 97.1%, down -30 basis points year-on-year.

Occupancy among larger, stabilized properties surveyed by Axiometrics was lower. Data from this source show a 95.8% average rate, down -70bps y-o-y. The dip was primarily attributable to the class-A sector, which fell -130 bps to 95.3%. Classes-B and -C both recorded 95.9% rates.

The RCR East Bay demand model achieves a 93.4% ARS (SE=0.26%) with inventory (+), payroll (+), home price$_{(t-2)}$ (-) and San Francisco and R46 rent growth, and metro vacancy (+) as independent variables. Faster stock and slower rent growth are expected to overcome economic headwinds to produce increased absorption in 2016. But demand is likely to lag supply over the next 3-4 years, giving rise to occupancy rate attrition. Equilibrium is projected to evolve in the forecast out-years as supply diminishes.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	$1,685
Annual Change	6.1%
RED 50 Rent Change Rank	7th
RCR YE16 Forecast	2.7%
RCR YE17 Forecast	4.7%
RCR YE18 Forecast	2.8%
RCR YE19 Forecast	2.9%
RCR YE20 Forecast	2.8%

1Q16 EFFECTIVE RENT TRENDS

Reis report that East Bay rents declined sequentially in 1Q16, falling $8 (-0.5%) to $1,685, the first quarterly retreat in six years. As a result, year-on-year comparisons plunged from 8.7% in 4Q15 to 6.1%; slowest gain in over two years. The outcome was entirely attributable to class B&C, where rents fell -1% q-o-q. Class-A managed a 0.2% advance.

Axiometrics same-store rents also fell sequentially, but to a lesser degree: -$3 to $2,314. In this population, classes-A (-1.8%) and -C (-1.9%) were the weak links, while class-B forged a modest $2 increase. As regards y-o-y comparisons, all properties posted an 8.4% gain, down from 11.7% in 4Q15. Class-C (11.4%) easily prevailed, surpassing class-A (6.9%) for the first time in two years and class-B (8.0%).

Setbacks notwithstanding, three submarkets posted double-digit gains (East & West Contra Costa, Hayward), while only East Alameda and San Ramon failed to reach 8%.

RCR employed metro personal income and San Francisco payroll growth and S&P500 returns as independent variables to specify a 98.9% ARS, 0.7% S.E. rent forecasting model. The rent behavior discussed above and our projections that prospective SF job growth and S&P returns will decelerate materially causes the model to project much slower OAK rent growth through YE16. A rebound in 2017 is likely, but rent growth through 2020 is expected to have annual compound growth of "only" 3.2%, down from 5.6% during the 5-year period between 1Q11 and 1Q16.

TRADE & RETURN SUMMARY

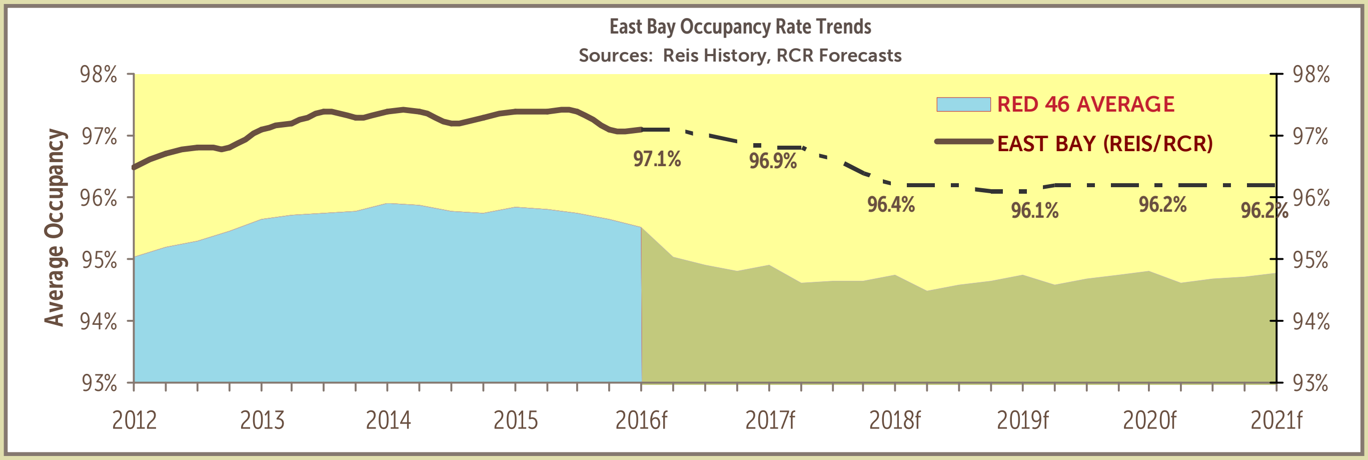
$5mm+ / 80-unit+ Sales	11
Approximate Proceeds	$308.3mm
Average Cap Rate (FNM)	4.6%
Average Price / Unit	$170,906
Expected Total Return	6.8%
RED 46 ETR Rank	21st
Risk-adjusted Index	4.55
RED 46 RAI Rank	26th

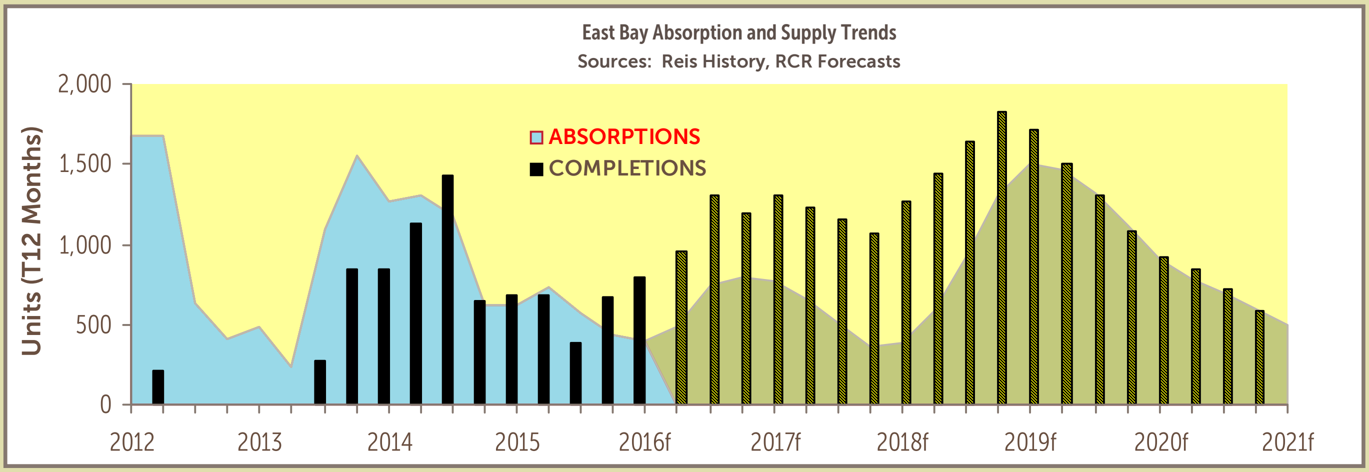
1Q16 PROPERTY MARKETS AND TOTAL RETURNS

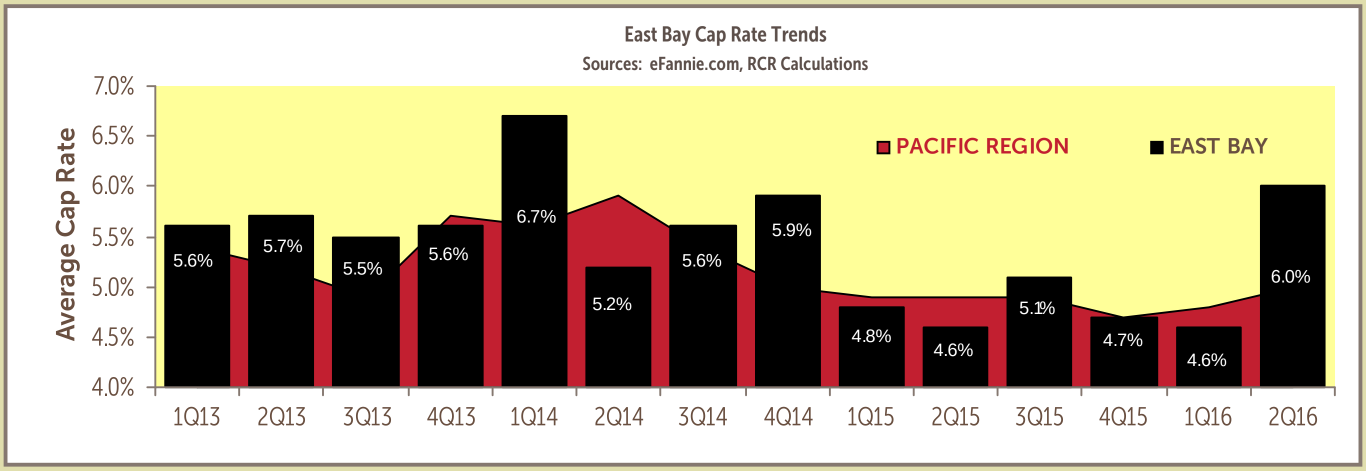
The pace of East Bay multifamily sales picked up materially during the first quarter when 11 80+ unit properties exchanged hands, equaling the total of the previous three quarters combined. Gross proceeds totaled $306 million, about 18% higher than 4Q15. By the same token, the average price of traded units fell -35% to $170,906 as trade was concentrated in lower value Sixties and Seventies vintage Contra Costa County properties. Second quarter sales also were robust, with seven transactions closed by mid-June.

Class-B-/B properties located along the San Joaquin/ Sacramento River Basin traded at discount cap rates in the 5.75%-6.25% range, suggesting investors grew cautious after years of powerful rent growth. But interest remains keen in bayside properties, which continued to command pricing producing yields in the high-4% to low-5% range.

Although some evidence is emerging that investors are seeking higher cap rates for Bay Area assets, RCR maintained a 4.9% purchase cap rate proxy for purposes of estimating generic expected total returns. Using this level, a 5.4% terminal cap and model derived rent and occupancy point estimates, we calculate that an investor would expect to earn a 6.8% unlevered 5-year return here, ranked #21 among the RED 46. Above average rent model standard error hampers risk-adjusted returns, which rank #26.

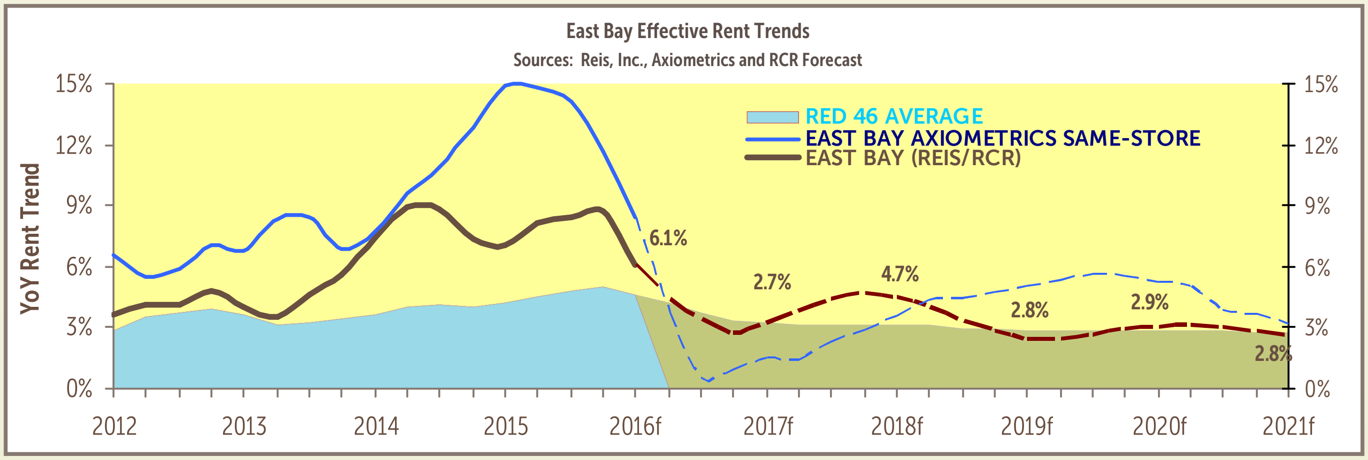


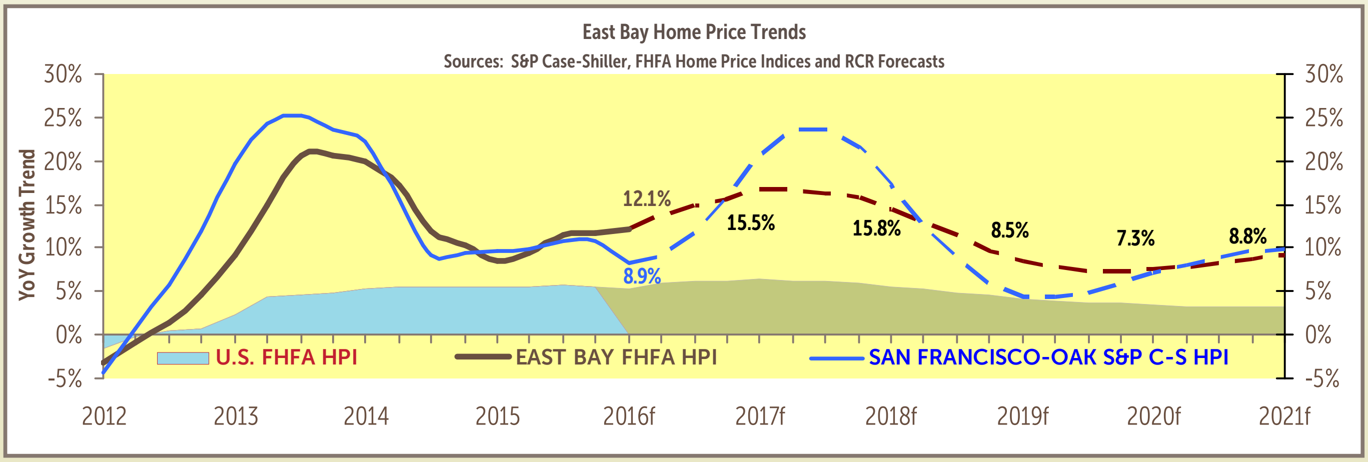


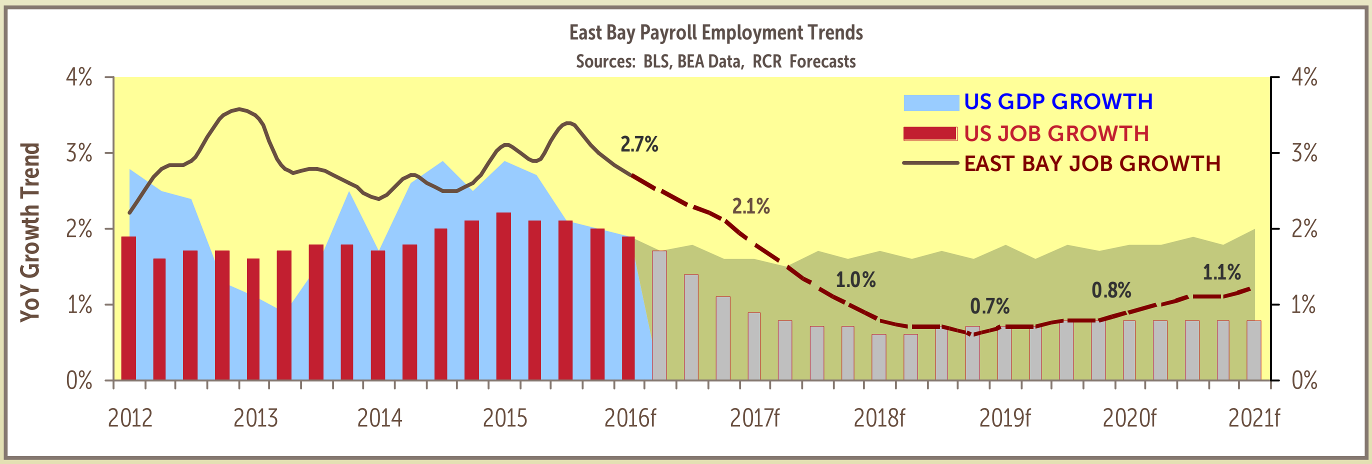


NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
Village at Town Center (West Contra Costa)	B+ / MI LR (2007)	16-Jan-2016	$55.0	$345,912	4.9%
Hidden Creek (Concord/Martinez/Eastgate)	B- / WF LR (1985)	27-Jan-2016	$37.6	$223,512	6.2%
Oak Hills (San Leandro/Hayward/Garin Park)	B- / WF LR (1971)	27-Feb-2016	$41.0	$277,027	5.6%
Mosaic Apts. (W. Contra Costa/Pittsburg)	B-/WF GLR (1986)	26-Apr-2016	$37.2	$179,064	6.0%
Sora Apts. (Union City/El Dorado Park)	B / GLR (1984)	25-May-2016	$68.3	$273,000	6.0%
Camden Village (Fremont/Centerville)	B / GLR (1969)	20-Jun-2016	$63.0	$321,429	5.2%

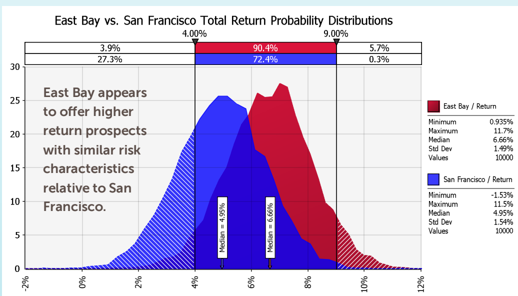

East Bay Effective Rent Trends
Sources: Reis, Inc., Axiometrics and RCR Forecast
YoY Rent Trend
RED 46 AVERAGE
EAST BAY AXIOMETRICS SAME-STORE
EAST BAY (REIS/RCR)
15%
12%
9%
6%
3%
0%
6.1%
2.7%
4.7%
2.8%
2.9%
2.8%
2012
2013
2014
2015
2016f
2017f
2018f
2019f
2020f
2021f

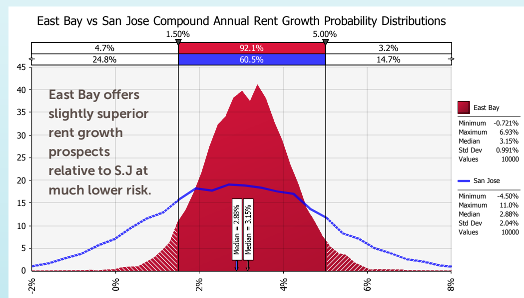

East Bay Home Price Trends
Sources: S&P Case-Shiller, FHFA Home Price Indices and RCR Forecasts
YoY Growth Trend
30%
25%
20%
15%
10%
5%
0%
-5%
12.1%
8.9%
15.5%
15.8%
8.5%
7.3%
8.8%
U.S. FHFA HPI
EAST BAY FHFA HPI
SAN FRANCISCO-OAK S&P C-S HPI
2012
2013
2014
2015
2016f
2017f
2018f
2019f
2020f
2021f

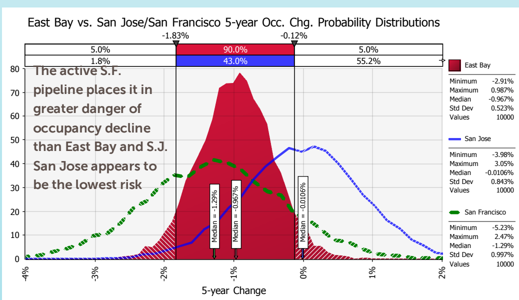

East Bay Payroll Employment Trends
Sources: BLS, BEA Data, RCR Forecasts
YoY Growth Trend
US GDP GROWTH
US JOB GROWTH
EAST BAY JOB GROWTH
4%
3%
2%
1%
0%
2.7%
2.1%
1.0%
0.7%
0.8%
1.1%
2012
2013
2014
2015
2016f
2017f
2018f
2019f
2020f
2021f

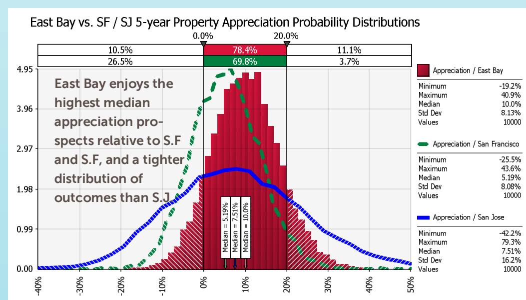
SUBMARKET TRENDS (REIS)

Submarket	Inventory % Change	Effective Rent			Physical Vacancy		
		1Q15	1Q16	Change	1Q15	1Q16	Change
Concord / Martinez	0.2%	$1,395	$1,447	3.7%	2.1%	2.0%	-10 bps
East Alameda	1.2%	$1,732	$1,798	3.8%	2.3%	2.3%	0 bps
East Contra Costa	0.0%	$1,331	$1,472	10.6%	2.5%	2.4%	-10 bps
Fremont/Newark/Union Cty	0.0%	$1,643	$1,757	6.9%	1.7%	2.7%	100 bps
North Alameda	1.1%	$1,723	$1,812	5.2%	4.5%	5.2%	70 bps
San Leandro / Hayward	0.0%	$1,389	$1,575	13.4%	1.6%	1.6%	0 bps
San Ramon	1.6%	$1,622	$1,700	4.8%	3.4%	3.5%	10 bps
West Contra Costa	0.0%	$1,649	$1,785	8.3%	2.4%	2.3%	-10 bps
Metro	0.5%	$1,588	$1,685	6.1%	2.6%	2.9%	30 bps









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