

PAYROLL JOB SUMMARY

Average Payrolls	1,584.0m
Annual Change	48.0m (3.1%)
RCR 2016 Forecast	44.6m (2.9%)
RCR 2017 Forecast	45.1m (2.8%)
RCR 2018 Forecast	39.8m (2.4%)
RCR 2019 Forecast	19.4m (1.2%)
RCR 2020 Forecast	12.1m (0.7%)
Unemployment (NSA)	4.4% (Aug.)

2Q16 PAYROLL TRENDS AND FORECAST

Orange County establishments continued to hire workers at a spirited clip. Headcounts increased at a 48,000-job, 3.1% annual rate in 2Q16, up from 1Q's 43,200-job, 2.8% performance. Rapid growth in construction and professional and technical services staff was primarily responsible as these subsectors added to payrolls at a collective 20,400-job, 9.5% year-on-year pace, up from 1Q's strong 7.7% advance. Wholesale and retail trade hiring also accelerated, rising from 1Q16's 1.6% increase to a 5,600-job, 2.5% rate during 2Q. Only the finance sector reported meaningful weakness, rising at only a 0.6% annual rate after expanding at a rapid 4.0% pace as recently as last fall.

Seasonally-adjusted data also exhibited evidence of economic

acceleration. This series recorded a 13,800-job April to June gain, representing the 4th largest one-quarter add in the last fifteen years. Moreover, O.C. headcounts increased by another 5,700 jobs in July and August.

RED Research specified a strong 96.4% adjusted-R² (S.E.=0.5%) forecasting equation using the rate of change of U.S. payroll growth (+), metro personal income (+) and nominal GDP growth (-) as independent variables. The model projects robust hiring through mid-2018, supporting elevated growth in the 2.6% to 3.0% range. In Southern California, however, what goes up eventually comes down: growth is expected to fall slightly below the national average as the U.S. economy stumbles after 2018.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	96.4%
RED 51 Rank	11 th
Annual Chg. (Reis)	-0.8%
RCR YE16 Forecast	96.1%
RCR YE17 Forecast	96.4%
RCR YE18 Forecast	96.9%
RCR YE19 Forecast	96.9%
RCR YE20 Forecast	96.4%

2Q16 ABSORPTION AND OCCUPANCY RATE TRENDS

Reis report seasonally normal apartment demand during the spring as tenants leased a net of 549 units, exactly equal to the trailing 10-year second quarter average. On the other hand, a growing construction pipeline was expressed with delivery of 1,123 units, nearly two times the typical spring quarter vintage. As a result, occupancy declined -20 basis points sequentially (-80bps year-on-year) to 96.4%, the lowest level observed in nearly four years.

Axiometrics surveys of a sample of 381 larger, stabilized same-store properties found average occupancy of 95.8%, up 10bps y-o-y. Occupancy was comparable across classes, led by "A" and "B" (each 95.9%) and followed by "C" on

95.8%. Class-A properties recorded the strongest gains, rising 80bps y-o-y; "B"s were unchanged, while "C" occupancy fell -30bps. New property absorption averaged 23 units/mo., equating to a lease-up period of 16 months.

RCR specified occupied stock and inventory growth models using as independent variables the rate of change of inventory growth (+), and rent_(t-1)(-) and personal income (+) growth in the former, and occupancy_(t-4)(+), GDP (-), and Baa (+) and 10-year (-) yields in the latter. The models project demand growth of ~1.0% y-o-y throughout, nearly matching the rate of inventory growth; thereby holding occupancy steady in the mid- to high-96% region.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$1,739
Annual Change	3.6%
RED 51 Rent Change Rank	32 nd
RCR YE16 Forecast	2.5%
RCR YE17 Forecast	2.7%
RCR YE18 Forecast	3.4%
RCR YE19 Forecast	4.0%
RCR YE20 Forecast	4.9%

2Q16 EFFECTIVE RENT TRENDS

After a weak winter quarter when average rents barely registered a gain, the O.C. market regained momentum in the spring. Average rent increased \$15 (0.9%) sequentially, approaching the \$18 (1.1%) surge recorded during the year earlier quarter. Expressed on a year-on-year basis rents advanced 3.6%, down from 1Q16's 3.8% gain and the slowest annual increase observed since 4Q14 (3.3%).

Axiometrics's sample of stabilized same store properties recorded faster rent growth (5.1%) than Reis, but noted a decelerating trend as well: rent growth decelerated 120bps year-on-year. By way of class performance, "C" posted the strongest metric (5.7%) for the fourth consecutive quarter.

Classes-A and -B were evenly matched on 5.2% and 5.0%, respectively. Among submarkets, Brea (6.5%) and Anaheim (5.8%) notched the fastest growth, while Huntington Beach (2.9%), Laguna Beach (4.0%) and Irvine (4.6%) trailed.

Employing personal income (+) and payroll_(t) (-) growth, occupancy (+) and Baa yields (-) as independent variables RCR specified a robust 97.2% ARS (S.E.=0.5%) O.C. rent model. Under our base case economic scenario the equation produces a forecast for weaker rent growth through 2017, as supply is digested and income growth moderates. Stronger rent growth returns in 2018, raising 5-year compound annual rent growth rate to 3.9%, RED 47 #13.

TRADE & RETURN SUMMARY

\$5mm+ / 80-unit+ Sales	8
Approximate Proceeds	\$404.4mm
Average Cap Rate (FNM)	4.5%
Average Price / Unit	\$266,433
Expected Total Return	5.7%
RED 47 ETR Rank	37 th
Risk-adjusted Index	0.61
RED 47 RAI Rank	46 th

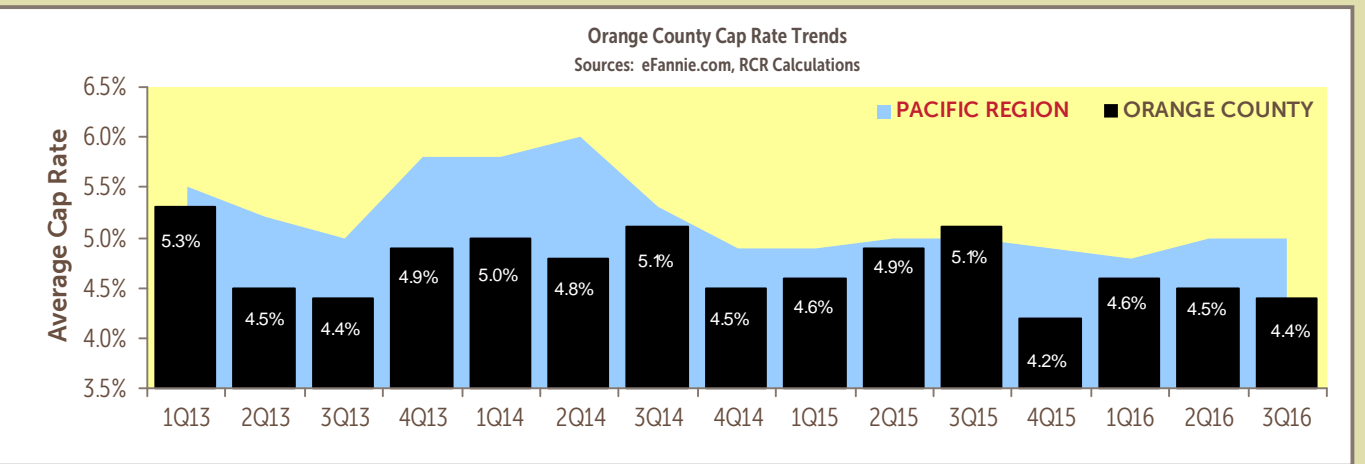
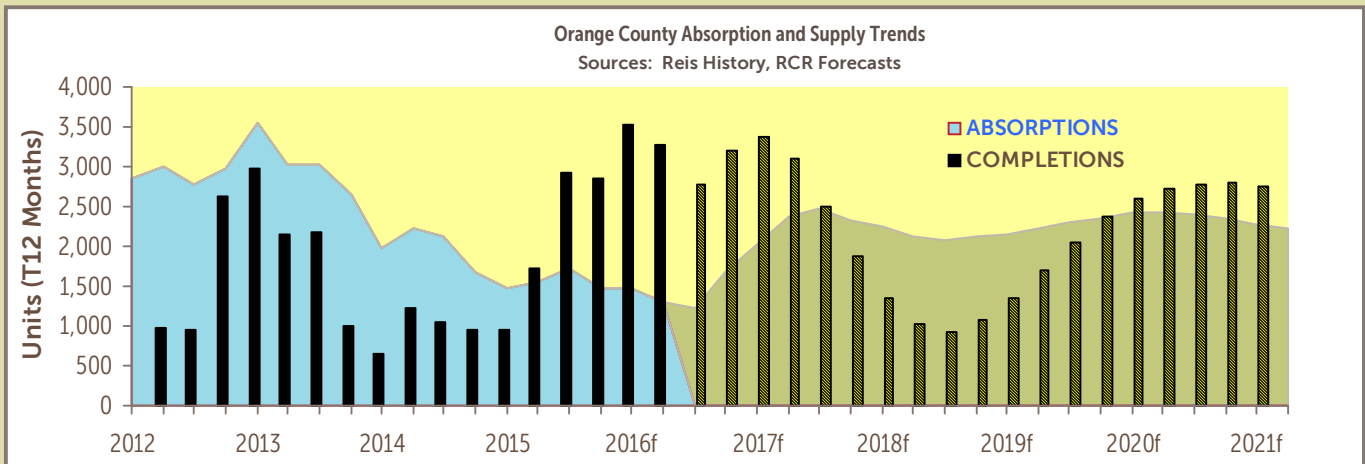
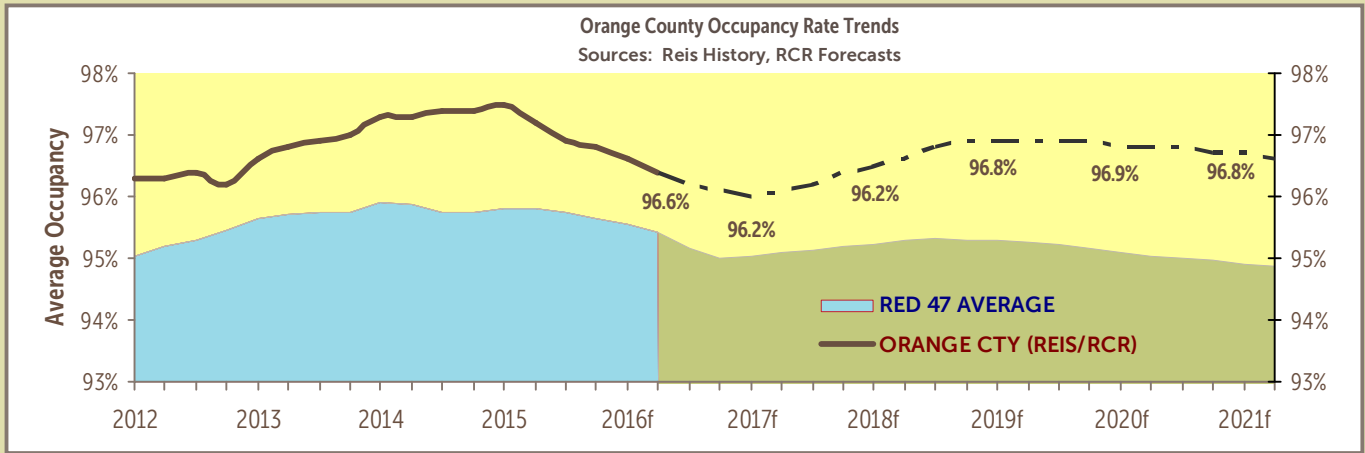
2Q16 PROPERTY MARKETS AND TOTAL RETURNS

Second quarter sales velocity regained momentum after 1Q16's sluggish trade. A total of eight investment sales closed during the period, up from only two during the winter quarter. Proceeds totaled \$404.4mm, an increase of 730% over the prior period. Likewise, the average price per unit metric surged 30.8% to \$266,433. The market maintained a steady course over the summer as six large transaction closed during 3Q16 for total proceeds of \$473.5mm at an average price per unit of \$266,133.

As elsewhere, properties marketed as "value-adds" commanded investors' attention. Sixties- and Seventies-era garden projects in class-B submarkets traded to cap rates

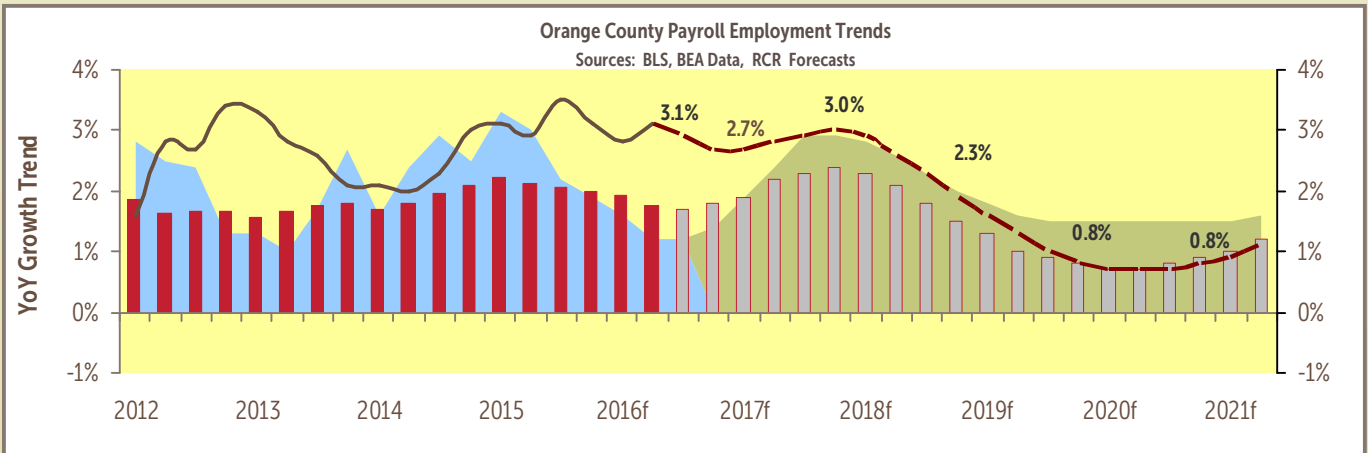
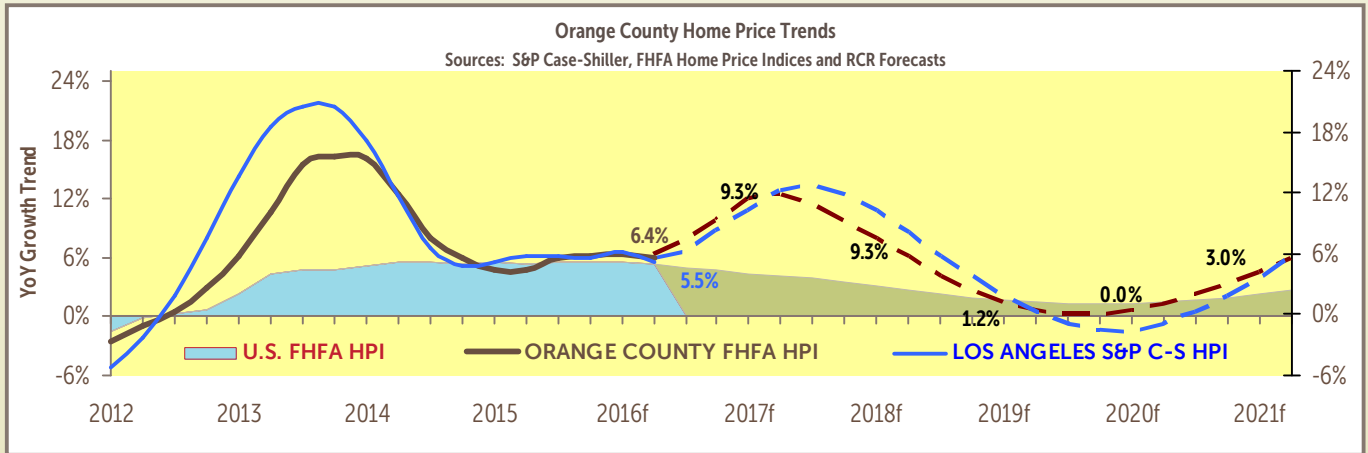
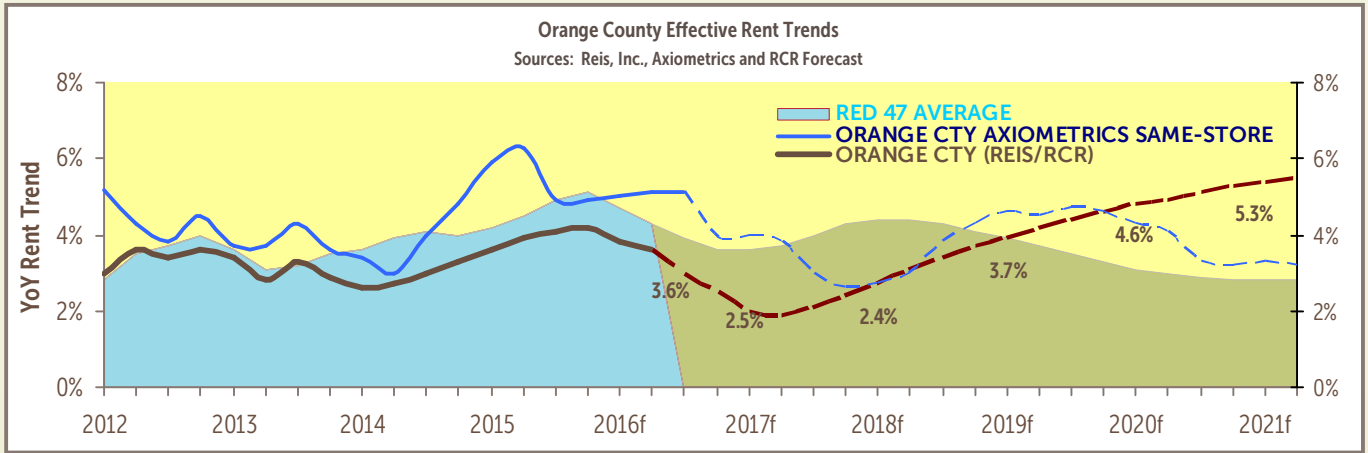
in the high-4% to low-5% range. Class-B/B+ garden product commanded going in yields in the mid-4% region. Class-A assets near the Pacific appear to find interest between 3.9% and 4.2%.

Select recent trade notwithstanding, RCR hold the view that a buyer with an intermediate-term hold strategy would transact at a cap rate of about 5.0%. Using this proxy, a terminal cap rate of 6.3% and model derived rent and occupancy point estimates produces a 5.7% expected annual total return, good for 37th rank among the R47. Above average supply and demand model standard error hinders risk-adjusted returns: O.C. ranks 46th 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
Rose Garden Apts. (Westminster)	Aff. Hsg./LR (1995)	13-Apr-2016	\$19.5	\$146,541	5.4%
Solare Apts. (North Santa Ana/Bristol)	B- / GLR (1987)	24-Apr-2016	\$60.4	\$251,646	4.9%
Latitude 1&2 (North Santa Ana)	B- / GLR (1970)	17-Jun-2016	\$70.0	\$290,076	4.8%
Axion Tustin (Tustin / Browning)	B- / GLR (1968)	11-Jul-2016	\$163.6	\$260,430	4.8%
Elan Overlook (Laguna Niguel / Laguna Sur)	A- / WF LR (1989)	19-Jul-2016	\$41.1	\$411,000	4.2%
Elan Huntington Beach (Huntington/5 Points)	A / WF MR (2015)	27-Jul-2016	\$131.0	\$478,102	3.5% / 4.2% p.f.



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SUBMARKET TRENDS (REIS)

Submarket	Inventory % Change	Effective Rent			Physical Vacancy		
		2Q15	2Q16	Change	2Q15	2Q16	Change
Brea	0.0%	\$1,467	\$1,491	1.7%	1.0%	0.9%	-10 bps
Buena Park	0.0%	\$1,401	\$1,442	2.9%	0.9%	1.0%	10 bps
Costa Mesa	0.0%	\$1,801	\$1,830	1.6%	2.0%	1.9%	-10 bps
Fullerton	2.1%	\$1,423	\$1,481	4.1%	0.9%	2.6%	170 bps
Huntington Beach	5.6%	\$1,557	\$1,664	6.9%	1.7%	6.4%	470 bps
Irvine	4.2%	\$2,130	\$2,277	6.9%	4.8%	6.5%	170 bps
Laguna Beach/Dana Point	1.6%	\$1,844	\$1,874	1.6%	2.9%	4.0%	110 bps
Laguna Hills	6.3%	\$1,880	\$1,930	2.7%	3.3%	6.8%	350 bps
Mission Viejo	1.7%	\$1,756	\$1,796	2.3%	2.0%	2.7%	70 bps
Newport Beach	0.0%	\$2,315	\$2,275	-1.7%	1.4%	2.7%	130 bps
North Anaheim	0.0%	\$1,345	\$1,382	2.7%	2.0%	1.8%	-20 bps
North Santa Ana	2.0%	\$1,333	\$1,389	4.2%	0.9%	2.9%	200 bps
Orange	0.0%	\$1,670	\$1,718	2.9%	1.3%	1.2%	-10 bps
Northeast Anaheim	0.0%	\$1,337	\$1,399	4.6%	2.8%	3.3%	50 bps
South Anaheim	6.2%	\$1,458	\$1,543	5.9%	2.4%	5.6%	320 bps
South Santa Ana	0.0%	\$1,775	\$1,832	3.2%	3.8%	3.9%	10 bps
Tustin	0.8%	\$1,555	\$1,618	4.1%	2.2%	3.0%	80 bps
Westminster	0.0%	\$1,444	\$1,494	3.5%	2.1%	1.8%	-30 bps
Metro	1.5%	\$1,679	\$1,739	3.6%	2.8%	3.6%	80 bps

FOR MORE INFORMATION ABOUT RED'S RESEARCH CAPABILITIES CONTACT:



Daniel J. Hogan

Director of Research
 djhogan@redcapitalgroup.com
 +1.614.857.1416 office
 +1.800.837.5100 toll free

redcapital
 group

THE FACE OF LENDING

RED Capital Group, LLC • RED Mortgage Capital, LLC • RED Capital Markets, LLC (Member FINRA/SIPC) • RED Capital Partners, LLC

10 West Broad Street, Columbus, Ohio 43215 • redcapitalgroup.com • +1.800.837.5100

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