

PAYROLL JOB SUMMARY

Average Payrolls	1,145.8m
Annual Change	32.1m (2.9%)
RCR 2016 Forecast	33.0m (3.0%)
RCR 2017 Forecast	34.4m (3.0%)
RCR 2018 Forecast	29.4m (2.5%)
RCR 2019 Forecast	20.0m (1.7%)
RCR 2020 Forecast	14.9m (1.2%)
Unemployment (NSA)	4.7% (Oct.)

3Q16 PAYROLL TRENDS AND FORECAST

Third quarter job growth was “steady as it goes” as Portland added workers to payrolls at a 32,100-job, 2.9% rate, representing the 13th consecutive quarterly advance over 30,000 jobs. Skilled service industries continued to lead the way. Business, education and healthcare services expanded at a collective 13,200-job, 4.0% rate, up from 2Q’s 3.5% performance. Gains also were recorded among finance and insurance firms and, notably, construction employers. Builders added workers at a 3,500-job, 5.9% pace, topping the prior quarter’s 2,800-job add. Elsewhere, growth in manufacturing and consumer driven sectors continued to deteriorate. Job attrition in transportation equipment and weaker electronics growth dragged factory trends into the red (-900 jobs), while retail trade and personal service hiring fell to the slowest quarterly pace (1,600 jobs y-o-y) observed since 3Q10.

Seasonally-adjusted payroll data were more robust. This series shows a powerful 13,000-job net pick-up for the July-September period, representing the largest three-month gain recorded since 2005, and the largest summer quarter job add since 1995. By way of comparison, only 900 jobs were created in the prior quarter..

RED Research's PORT payroll model employs the rate of change of U.S. job growth (+); 5-year GDP growth (-); and metro personal income (+) and home price (+) growth to specify a 97.7% adjusted R^2 (S.E.=0.4%) forecasting equation. Based on our base case economic forecast, the model projects moderately faster PORT job growth in 2017, followed by slower but useful gains in 2018. Metro growth is likely to slow toward the end of the decade; but growth should remain well above the national average rate throughout.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	94.6%
RED 51 Rank	4 th
Annual Chg. (Reis)	-1.3%
RCR YE16 Forecast	94.9%
RCR YE17 Forecast	95.0%
RCR YE18 Forecast	95.4%
RCR YE19 Forecast	95.4%
RCR YE20 Forecast	95.4%

3Q16 ABSORPTION AND OCCUPANCY RATE TRENDS

Reis report Portland occupancy plunged -50 basis points sequentially to 94.6% during 3Q16, lowest metric in six years. Supply was primarily responsible: developers delivered 1,220 units, 20% greater than 1Q and 2Q combined. But weaker demand also was a factor. Tenants absorbed only 531 units, about -40% fewer than in the comparable periods of 2Q14 and 2Q15. Average annual rent hikes of 7.1% since 3Q13 may have contributed. The -130bps year-on-year decline was tied largest among the **RED 51** markets and was the second largest such y-o-y Portland decrease since 2003.

-up, was only 93.3%. Across classes, stabilized occupancy was nearly indistinguishable as each segments was 95.5% and 95.7% full. With pre-stabilized assets considered classes-A and-B fell to 89.3% and 93.0%, respectively. Milwaukie submarket posted highest occupancy at 96%; supply rich Northwest (93.9%) lowest. Northeast (-200bps) submarket suffered the largest y-o-y decline.

Average occupancy among stabilized, same-store properties surveyed by Axiometrics was 95.3%, down -80bps y-o-y. But overall occupancy, including 5,699 units in properties still in lease

Job_(t-1) (+) and supply_(t-1) (+) growth are the primary factors driving demand in **RCR's** 94.9% ARS occupied stock model, balanced to some degree by home price appreciation_(t-2) (-). The outlook for each variable is robust, laying the groundwork for annual absorption in the 2,500-3,250 unit range through 2018. Occupancy appears likely to hover in the low-95% area through decade's end.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$1,082
Annual Change	7.4%
RED 51 Rent Change Rank	3 rd
RCR YE16 Forecast	6.9%
RCR YE17 Forecast	5.8%
RCR YE18 Forecast	5.3%
RCR YE19 Forecast	4.2%
RCR YE20 Forecast	3.2%

3Q16 EFFECTIVE RENT TRENDS

Rent trend estimates from Reis surveys indicate that Portland renters found no relief from rent burdens over the summer. The service avers that rents increased \$29 (2.7%) sequentially to \$1,082, representing the fastest quarter-to-quarter advance in a year. Class-B&C renters bore the brunt of it as segment asking rents increased 2.9% against 2.5% among class-A units. Expressed on a year-on-year basis, effective rents rose 7.4%, the smallest gain since 2Q15, but strong enough to rank **RED 51** #3.

slowest since 1Q13. Weak class-A trends were largely responsible. Class year-on-year growth fell to 2.1% from 12.4% in 3Q15. Robust growth continued in classes-C (7.4%) and -B (6.2%). Lower rent Gresham submarket posted a 10.2% y-o-y advance, while supply challenged Northeast (1.2%) and Northwest (0.5%) trailed.

By contrast, same-store, stabilized properties surveyed by Reis displayed decelerating pricing trends. This 262-property sample recorded sequential growth of 1.5%, down from 4.2% in the comparable period of 2Q15. Annual rent growth declined to 5.5%,

RCR's 93.4% ARS rent model employs quarterly occupancy change_(t-1) (+), job growth (+) and Baa bond yields_(t) (-) as independent variables. The Reis series-specified model projects above series average (3.0%) rent growth throughout the 5-year forecast interval (CAGR=4.5%), with trends above 4% through 2019. Axiometrics (3.6%) are on the same page save for a sluggish 2Q17, while Reis are more pessimistic (3.1%) for the 2016-2020 period.

TRADE & RETURN SUMMARY

\$5mm+ / 80-unit+ Sales	7
Approximate Proceeds	\$271.8MM
Average Cap Rate (FNM)	5.4%
Average Price / Unit	\$189,540
Expected Total Return	8.6%
RED 47 ETR Rank	6 th
Risk-adjusted Index	3.53
RED 47 RAI Rank	29 th

3Q16 PROPERTY MARKETS AND TOTAL RETURNS

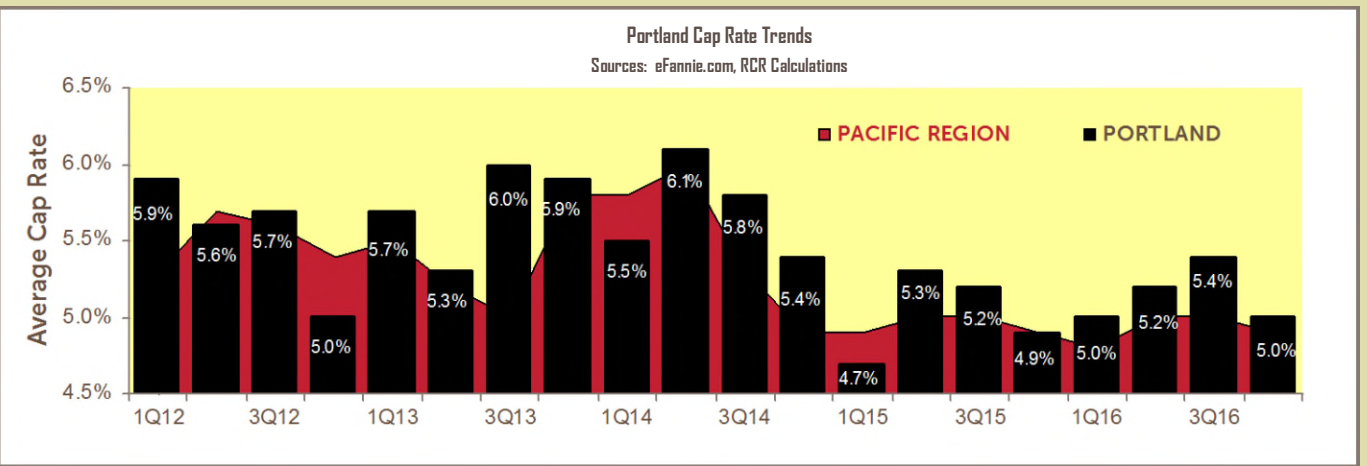
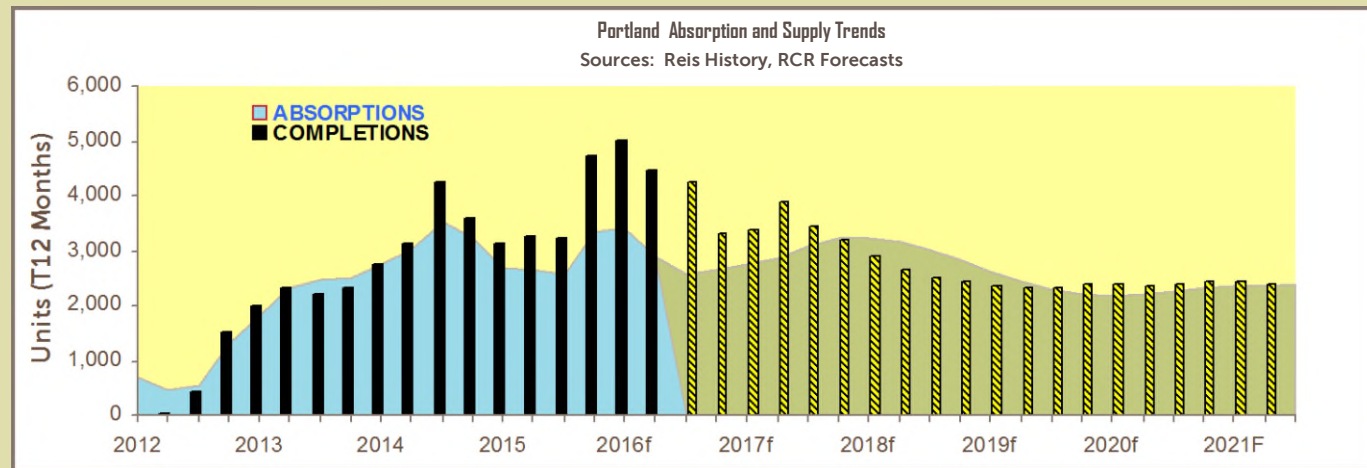
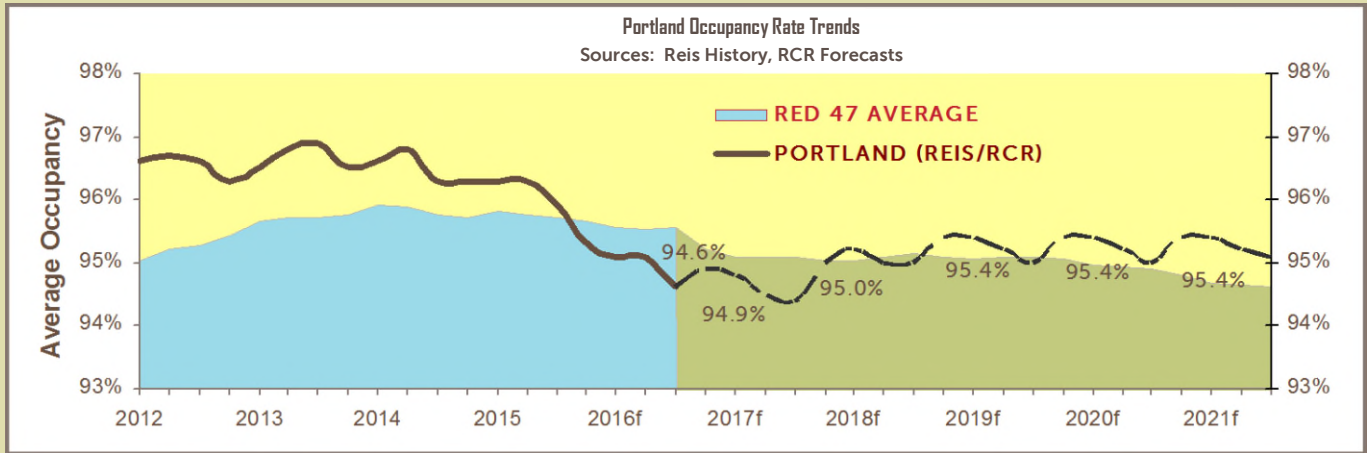
Portland's property market experienced a second consecutive quarter of moderating trade during 3Q16. After investors consummated 41 transactions valued at \$5 million or more during the nine months ended March 31, trade slowed to 10 and 7 transactions during the second and third quarters, respectively. Proceeds fell from a peak of \$631mm during 4Q15 to \$280mm and \$272mm in 2Q16 and 3Q16. The average 3Q price per unit sold was \$189,540, up 28% sequentially, and within a whisker of Portland's 4Q15 series record of \$190,507.

\$223,343, also a record. By the same token, the average disclosed cap rate was 5.52%, second highest observed since 3Q13.

Velocity gained momentum in 4Q16. Through mid-December, investors closed on 19 transactions valued at \$1.15bn, a one quarter record by more than \$400mm. The average unit price was

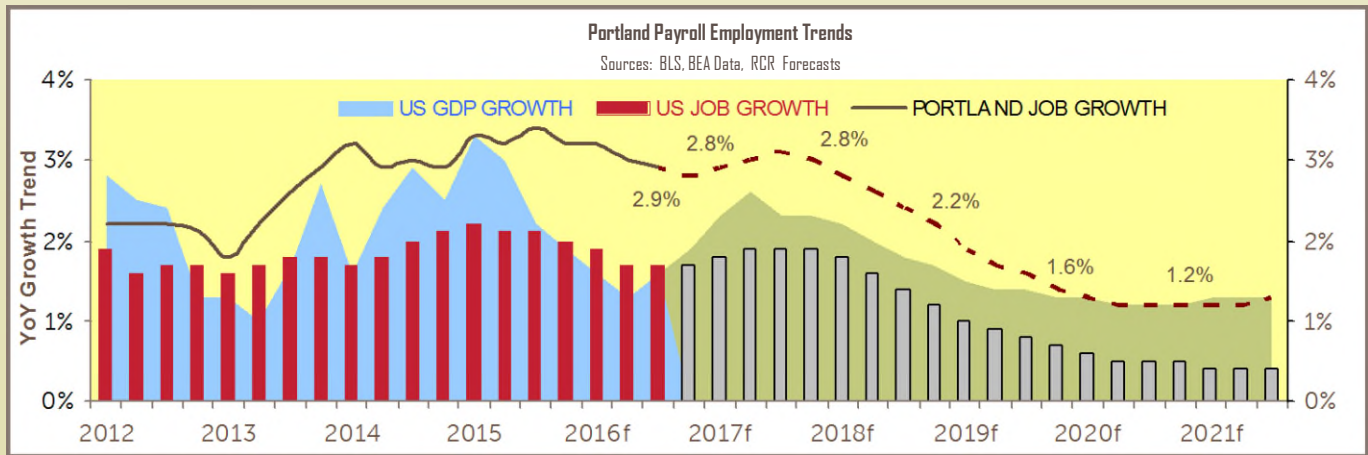
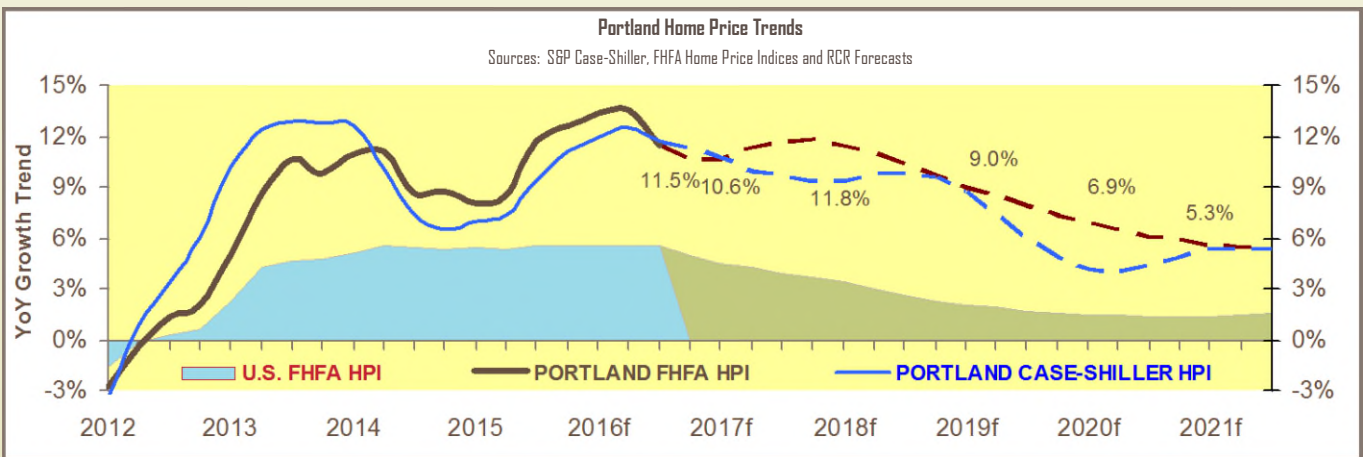
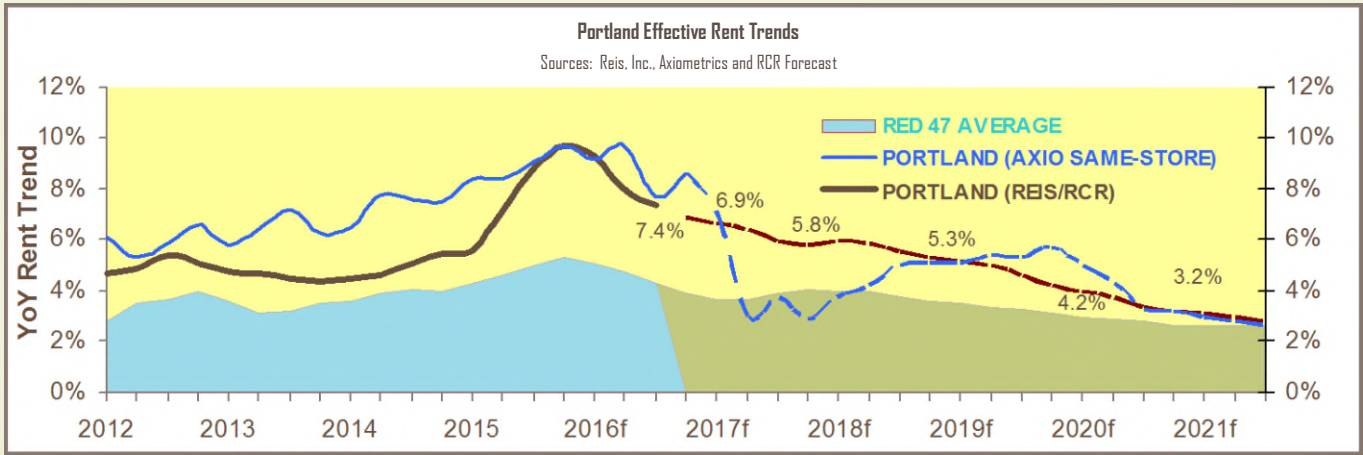
Reinforced steel and concrete infill mid-rises traded to low 4% cap rates; suburban B+/A- garden projects to mid-4% yields. Value adds and peripheral submarket class-B's trade from 5% to 5.25%.

RCR elected to push the cap B+ purchase cap rate proxy down 10 basis points to 4.6%. Employing a 5.2% terminal cap and model derived rent and occupancy point estimates, we calculate that a PORT investor would expect to achieve an 8.4% unlevered total return over 5 years, up from 7.8% in 2Q16. The risk-adjusted index (ETR/ σ_{ETR}) is 3.53, ranked 29th among the **RED 47** peer group.



NOTABLE TRANSACTIONS

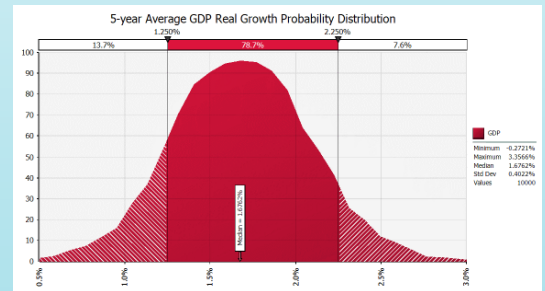
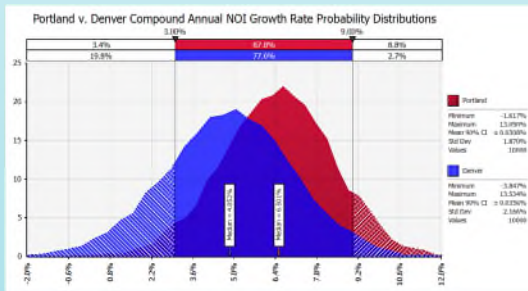
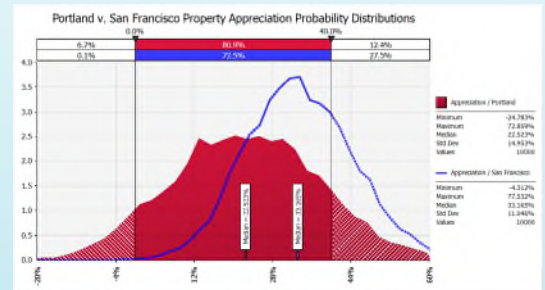
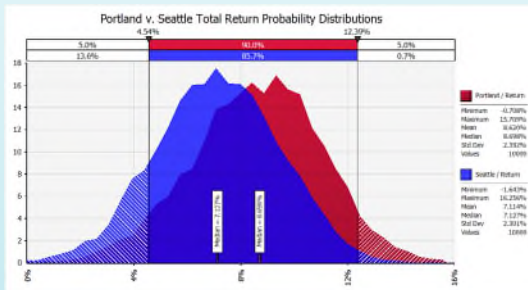
Property Name (Submarket)	Property Class/Type (Constr.)	Approx. Date of Transaction	Total Price (in millions)	Price / Per Unit	Estimated Cap Rate
RiverWalk (Milwaukie / Southgate / Clackamas Town Center)	B- / GLR (1990)	30-Sep-2016	\$76.0	\$194,872	4.9%
Vector / HUB 9 Apts. (Hillsboro / Drenco)	A- / WF MR (2015/16)	6-Oct-2016	\$80.3	\$226,840	4.8%
One Jefferson (Lake Oswego / West Portland Park)	B+ / GLR (1987)	12-Oct-2016	\$78.0	\$224,138	4.75%
Domaine at Villebois (Wilsonville / Arbor Villebois Park)	B+ / WF MR (2008)	24-Oct-2016	\$63.3	\$230,000	5.4%
LaSalle Apartments (Beaverton / Beaverton Creek Station)	A-/WF LR (1997)	12-Nov-2016	\$140.0	\$247,350	4.4%
Alara Hedges Creek (Tualatin / Westside Station)	B+ / GLR (1998)	3-Dec-2016	\$93.0	\$227,941	4.6%



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SUBMARKET TRENDS (REIS)

Submarket	Inventory % Change	Effective Rent			Physical Vacancy		
		3Q15	3Q16	Change	3Q15	3Q16	Change
Beaverton	1.3%	\$977	\$1,026	5.0%	4.2%	4.6%	40 BPS
East Gresham	0.0%	\$808	\$866	7.1%	0.8%	1.1%	30 BPS
Milwaukie/Oregon	1.4%	\$842	\$942	11.8%	1.5%	2.5%	100 BPS
Northeast	24.1%	\$1,134	\$1,192	5.2%	8.8%	10.1%	130 BPS
Northwest	11.9%	\$1,295	\$1,340	3.5%	6.6%	11.5%	490 BPS
Tigard/Oswego	0.0%	\$996	\$1,110	11.4%	2.7%	3.4%	70 BPS
Vancouver	1.5%	\$939	\$1,009	7.5%	4.8%	5.0%	20 BPS
Metro	3.7%	\$1,007	\$1,082	7.4%	4.1%	5.4%	130 BPS



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