

### PAYROLL JOB SUMMARY

Average Payrolls	4,419.2m
Annual Change 1Q17	75.4m (1.7%)
RCR 2017 Forecast	91.7m (2.1%)
RCR 2018 Forecast	112.8m (2.5%)
RCR 2019 Forecast	81.0m (1.8%)
RCR 2020 Forecast	73.2m (1.6%)
RCR 2021 Forecast	73.7m (1.6%)
Unemployment (NSA)	4.1% (4/17)

### 1Q17 PAYROLL TRENDS AND FORECAST

Los Angeles payroll trends continued to decelerate during the first quarter, slowing to a 75,400-job, 1.7% year-on-year rate from as fast as 2Q16's 125,500-job, 2.9% pace. Softer conditions in consumer-driven sectors and the media complex were largely responsible. Construction, retail trade and leisure service headcounts advanced at a 13,700-job, 1.3% annual rate in 1Q17, a mere shadow of 2Q16's full-throated 35,700-job, 3.5% gain. Likewise, payrolls in the information sector, which encompass much of the entertainment industry, declined slightly in 1Q after thundering ahead at a 31,500-job, 15.4% pace in 2Q16. By the same token, professional, technical and healthcare services maintained a vigorous growth trajectory, collectively accounting for nearly one-half of metro job creation.

The seasonally-adjusted job series also points to a marked economic slowdown. These data indicate LA lost a net of -1,500 jobs January to April, comparing unfavorably to a 47,500-job surge recorded in the same period of 2016.

Adverse recent data notwithstanding, RED Research's LA payroll model finds reason for optimism. The 96.4% adjusted-R<sup>2</sup> (SE=0.39%) model uses the rate of change of US job growth and 5-year average GDP growth as independent variables. Each is forecast to accelerate moderately over the next 18 months, boosting metro growth with a degree of leverage. County job growth rates are projected to rebound to the mid-2% area through 3Q18 before slowing again in harmony with broader national trends.

### OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	96.7%
RED 51 Rank	T8 <sup>th</sup>
Annual Chg. (Reis)	+0.1%
RCR YE17 Forecast	96.4%
RCR YE18 Forecast	96.2%
RCR YE19 Forecast	96.2%
RCR YE20 Forecast	96.5%
RCR YE21 Forecast	97.1%

### 1Q17 ABSORPTION AND OCCUPANCY RATE TRENDS

Reis report that 1Q17 apartment demand was constructive if moderately weaker than the prior quarter. Tenants occupied a net of 1,277 units in the period, up from 846 in 1Q16 but materially below the near record 2,577-unit absorption performance in the previous quarter. Developers completed 1,120 units, maintaining metro occupancy at about 96.7%, representing a 10 basis point year-on-year advance.

95.9% in spite of meaningful new competition. Eight sub-markets posted rates above 96%, largely in areas with rents below \$1,800; high rent Mar Vista and West LA were prominent exceptions. Areas experiencing supply pressures – Downtown, Hollywood and MDR – were resilient, recording occupancy rates ranging from 94.6% to 95.7%.

Axiometrics surveys of 649 stabilized, same-store properties revealed sample occupancy of 95.6%, down -30bps y-o-y. Class-C (96.7%) recorded highest occupancy for the 9<sup>th</sup> consecutive quarter, followed by classes-B (95.5%) and -A (95.0%). Mid- and high-rise buildings held steady at

LA inventory is expected to increase by 4.2% over five years, least among the primary markets. RCR's demand model forecasts that absorption should keep pace after moderate shortfalls in 2017-2018. Occupancy is likely to hold steady in the 96% to 97% range throughout the 5-year forecast interval as a result, boding well for investors.

### EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$1,725
Annual Change	3.7%
RED 51 Rent Change Rank	22 <sup>nd</sup>
RCR YE17 Forecast	2.9%
RCR YE18 Forecast	2.7%
RCR YE19 Forecast	2.3%
RCR YE20 Forecast	3.1%
RCR YE21 Forecast	5.0%

### 1Q17 EFFECTIVE RENT TRENDS

Southland rent growth came to an abrupt halt in 1Q17, as Los Angeles, Orange County and San Diego suffered sequential quarter declines and the Inland Empire scratched out the smallest advance in two years. LA rents slipped \$2 or -0.1%, representing the first quarterly dip in seven years. Annual rent growth fell from 4.9% to 3.7%, dropping LA from 16<sup>th</sup> to 22<sup>nd</sup> among the RED 51 peers.

2%, and class-B reported a 3.9% advance. East LA and Palmdale surged more than 14% each, and several San Fernando and San Gabriel Valley areas chalked hikes in the 5% to 7% range. Downtown (4.0%) and MDR (3.2%) held their own, but other well-supplied areas (South Glendale, Pasadena, Central) suffered moderate decreases.

Data from Axiometrics were comparable as the 649-property same-store sample reported annual rent growth of 3.9%, down from 5.1% in 4Q16. Class-C (10.7%) assets easily retained the pole position for the 10<sup>th</sup> consecutive quarter. Class-A notched a third consecutive gain of about

RCR's LA rent model uses occupancy (+), personal consumption expenditures (+) and home prices (-) as variables to achieve a 98.4% ARS (SE=0.4%). The model is constructive, calling for slow, stable rent growth through 2020, with a prospect for better performance afterward as occupancy and PCE firm and home price growth decelerates.

### TRADE & RETURN SUMMARY

\$5mm+ / 80-unit+ Sales	11
Approximate Proceeds	\$503.2mm
Average Cap Rate (FNM)	4.4%
Average Price / Unit	\$270,838
Expected Total Return	6.6%
RED 49 ETR Rank	36 <sup>th</sup>
Risk-adjusted Index	1.87
RED 49 RAI Rank	48 <sup>th</sup>

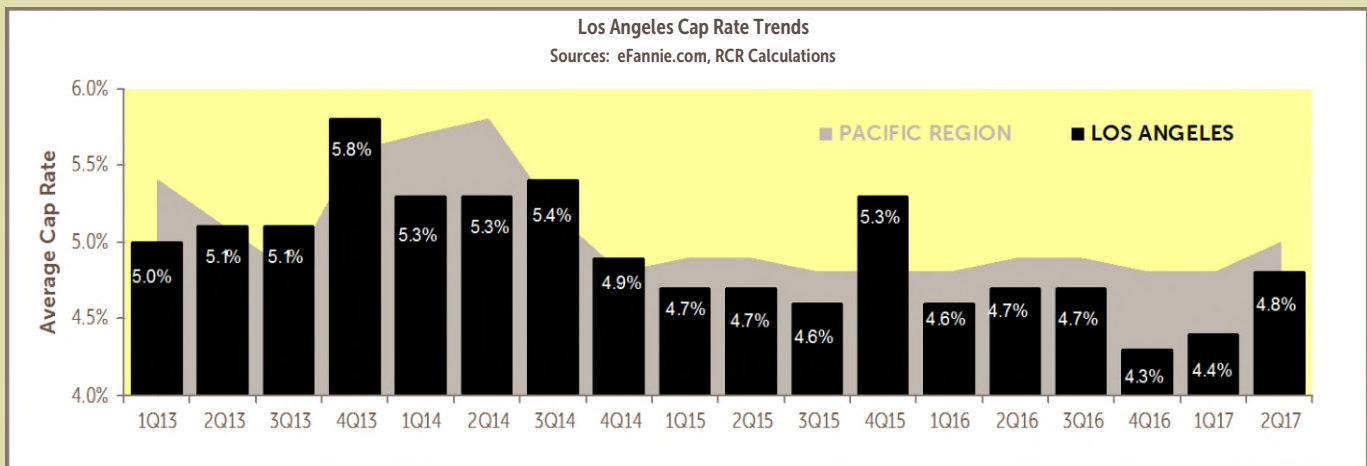
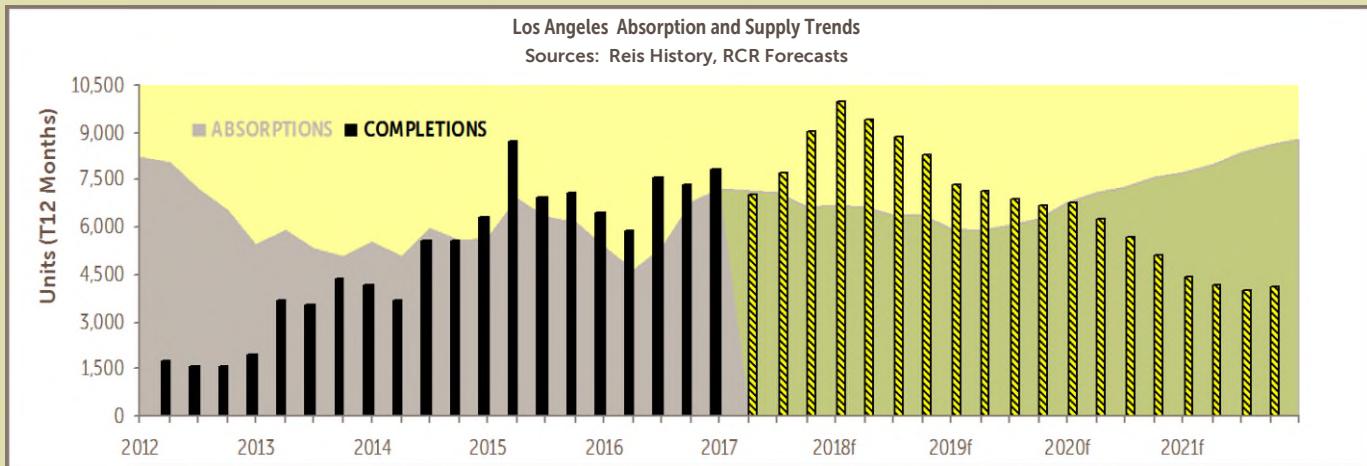
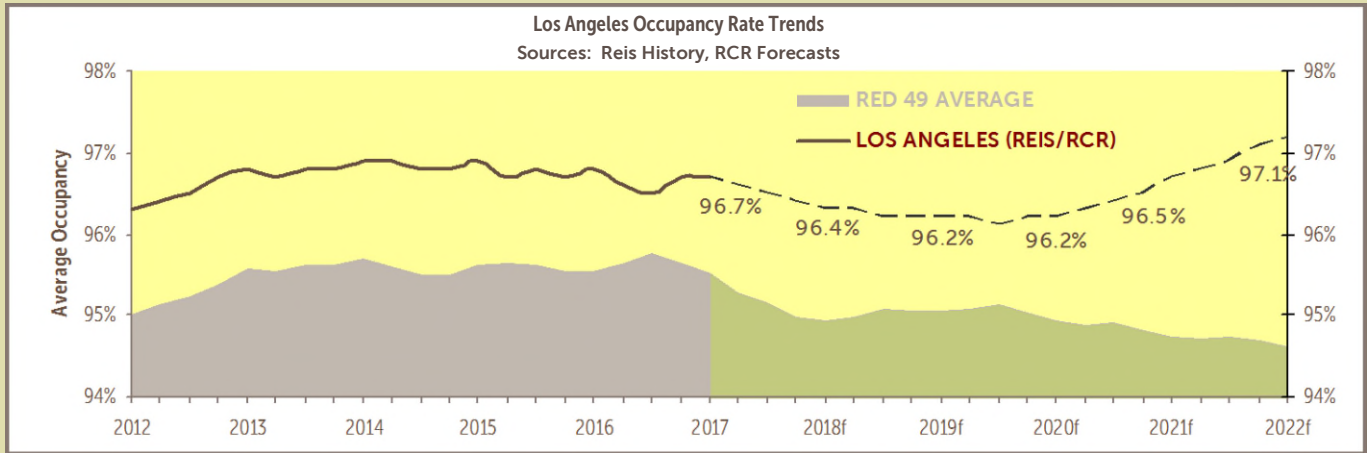
### 1Q17 PROPERTY MARKETS AND TOTAL RETURNS

Sales velocity moderated in 2017 after a period of white hot trade during the second half of 2016, when 53 LA properties of 80 units or more exchanged hands for total sales proceeds of \$2,527 million. By contrast, only 11 properties transacted in 1Q17 for gross proceeds of \$503.2mm, ranking the quarter as the quietest since 2Q14's seven sales for \$338.2mm. The average price of 1,858 units sold was \$270,838, down -12% sequentially and -8% year-on-year.

Cap rates of investor quality properties averaged about 4.5% in recent trade. High-quality mid-rise assets traded to high-3% to low-4% yields. Class-B assets and value-adds were priced to going-in yields in the 4.5% to 5.25% range.

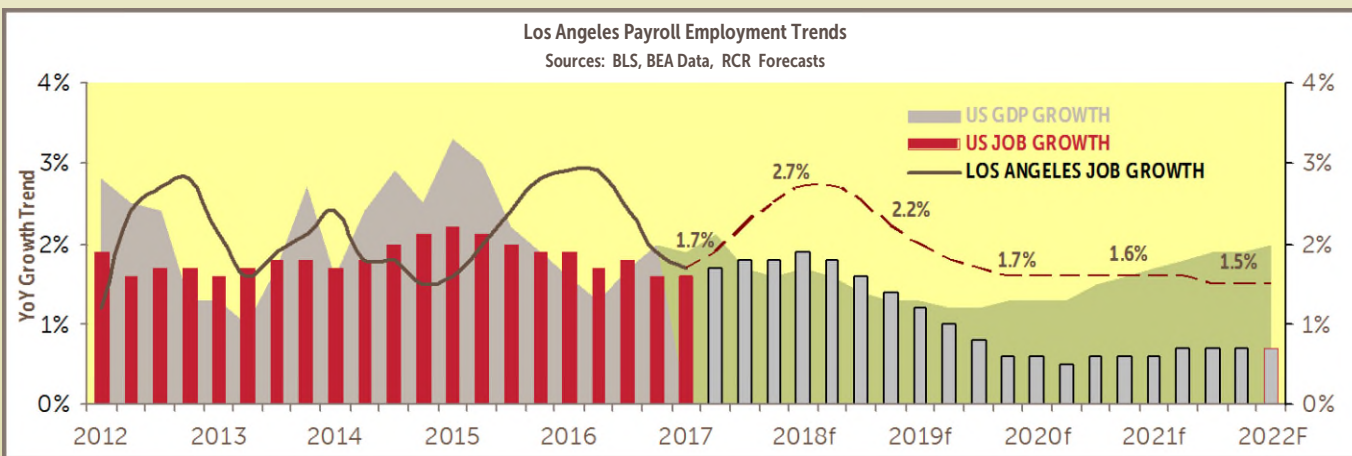
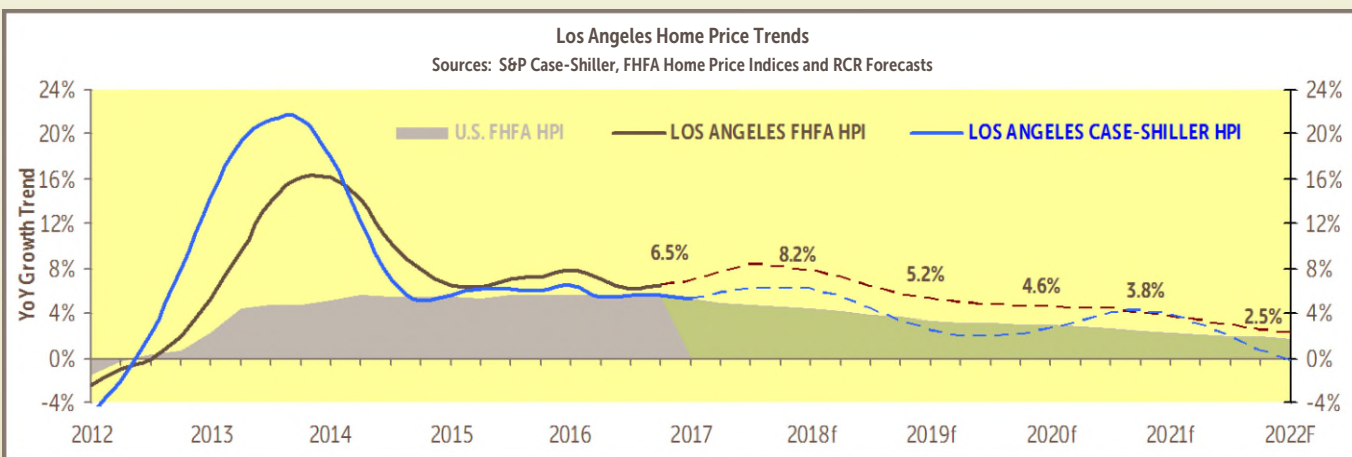
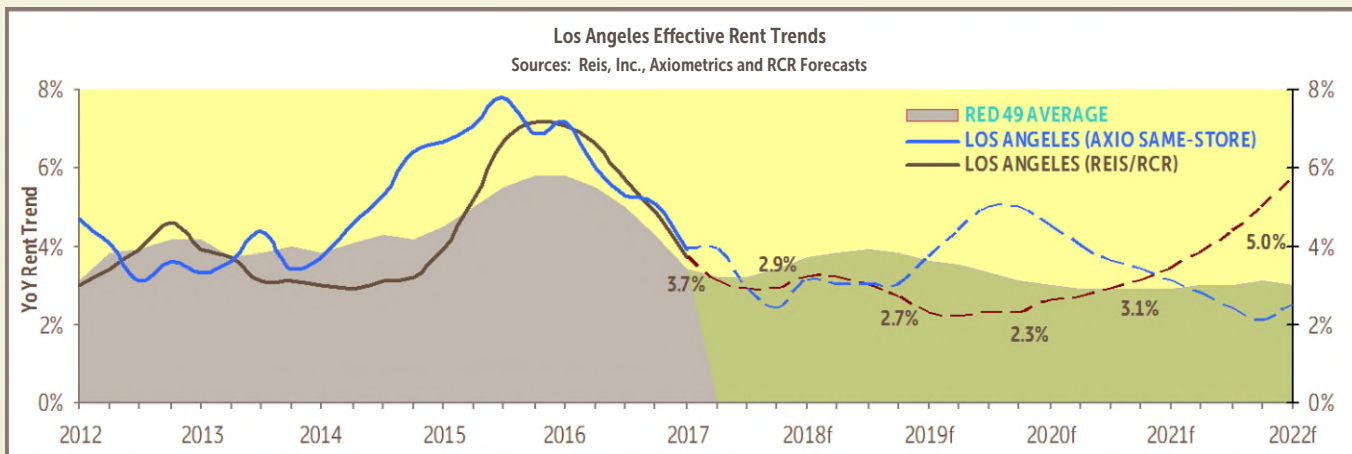
The first six weeks of the second quarter were more active as seven sales closed by May 10 for aggregate value of \$258.9mm. The average unit price of early 2Q17 transactions was \$240,626, lowest mean value since 3Q15.

RCR elected to trim another 10bps from the LA purchase cap rate proxy to 4.5%. Using a terminal cap rate assumption of 5.0% and model derived rent and occupancy point estimates we calculate that an investor would expect to earn a 6.6% unlevered total return on a five-year hold. This ETR ranks 36<sup>th</sup> among the RED 49 peer group. With respect to risk-adjusted returns, LA ranks only 48<sup>th</sup> due to the effect of its low cap rate and exposure to economic volatility.



## NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price (in millions)	Price / Per Unit	Estimated Cap Rate
Lofts NoHo Commons (Sherman Oaks/NoHo Arts Dist.)	B+ / MB MR (2006)	24-Nov-2016	\$102.5	\$351,027	3.7%
La Cienega WeHo (Beverly Hills / WeHo West / Bev. Ctr.)	A+ / SR MR (2014)	25-Nov-2016	\$80.5	\$644,000	4.0%
Solimar (Carson - San Pedro/Harbor City/Harbor Park)	B+ / WF GLR (2016)	30-Dec-2016	\$75.0	\$367,647	NA / 4.5% pro forma
1724 Highland (Hollywood / Hollywood Heights)	B+ / SR MR (2010)	6-Jan-2017	\$132.5	\$490,741	3.5%
Monterey Station (Claremont / Pomona / WUHS)	B / WF MR (2014)	17-Feb-2017	\$84.5	\$242,120	4.8%
Portofino Townhomes (Carson—San Pedro/Harbor City)	B+ / TH (1987)	24-Feb-2017	\$67.8	\$335,750	5.23%



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## SUBMARKET TRENDS (REIS)

Submarket	Reis Inventory Percent Change	Effective Rent			Physical Vacancy		
		1Q16	1Q17	Change	1Q16	1Q17	Basis Point Change
Arcadia / Duarte	0.0%	\$1,254	\$1,335	6.5%	2.2%	2.0%	-20 bps
Azusa / Covina	0.0%	\$1,266	\$1,379	9.0%	3.7%	3.4%	-30 bps
Beverly Hills	0.4%	\$2,201	\$2,410	9.5%	2.3%	2.4%	10 bps
Burbank / North Glendale	0.0%	\$1,698	\$1,806	6.4%	5.7%	5.2%	-50 bps
Carson / San Pedro	1.3%	\$1,268	\$1,351	6.5%	2.4%	2.9%	50 bps
Chatsworth	0.8%	\$1,380	\$1,459	5.7%	4.4%	3.0%	-140 bps
Claremont / Pomona	0.0%	\$1,441	\$1,527	6.0%	6.2%	3.4%	-280 bps
Downtown	12.7%	\$2,248	\$2,413	7.3%	6.3%	8.0%	170 bps
East LA / Alhambra	0.0%	\$1,200	\$1,259	4.9%	2.5%	2.3%	-20 bps
East Long Beach	0.2%	\$1,514	\$1,572	3.8%	3.0%	3.2%	20 bps
El Segundo	1.4%	\$1,838	\$2,131	15.9%	1.4%	4.9%	350 bps
Granada Hills	0.7%	\$1,394	\$1,562	12.1%	1.3%	2.1%	80 bps
Hawthorne	0.0%	\$1,103	\$1,232	11.7%	1.4%	1.1%	-30 bps
Hollywood	1.3%	\$1,613	\$2,114	31.1%	3.7%	3.8%	10 bps
Inglewood / Crenshaw	0.0%	\$1,118	\$1,279	14.4%	2.2%	2.0%	-20 bps
Mar Vista / Palms	0.8%	\$1,619	\$2,126	31.3%	2.1%	2.2%	10 bps
Marina Del Rey	8.1%	\$2,394	\$3,075	28.5%	6.2%	5.4%	-80 bps
Mid-City / West Adams	0.0%	\$1,216	\$1,252	3.0%	2.3%	2.1%	-20 bps
North Long Beach	1.6%	\$1,191	\$1,411	18.5%	3.5%	4.6%	110 bps
Palmdale / Lancaster	0.0%	\$935	\$1,084	16.0%	4.4%	4.2%	-20 bps
Panorama Hills	1.5%	\$1,147	\$1,193	4.1%	1.1%	1.2%	10 bps
Paramount / Downey	0.7%	\$1,293	\$1,421	9.9%	1.5%	1.6%	10 bps
Pasadena	1.4%	\$1,730	\$1,813	4.8%	4.5%	5.4%	90 bps
Santa Clarita Valley	0.0%	\$1,530	\$1,590	3.9%	3.3%	3.0%	-30 bps
Santa Monica	0.8%	\$2,579	\$2,743	6.4%	3.3%	3.2%	-10 bps
Sherman Oaks	0.8%	\$1,719	\$1,807	5.1%	2.8%	2.6%	-20 bps
South Glendale	1.0%	\$1,469	\$1,578	7.4%	6.7%	4.6%	-210 bps
South/Central LA	0.0%	\$951	\$958	0.7%	2.6%	2.4%	-20 bps
Tujunga / Montrose	0.0%	\$1,387	\$1,531	10.4%	2.8%	2.7%	-10 bps
Van Nuys/No. Hollywood	0.9%	\$1,218	\$1,365	12.1%	2.2%	2.2%	0 bps
West Covina / La Puente	3.8%	\$1,368	\$1,603	17.2%	1.8%	3.3%	150 bps
West LA / Westwood	0.6%	\$2,427	\$2,478	2.1%	2.9%	2.7%	-20 bps
West Long Beach	1.2%	\$1,308	\$1,967	50.4%	4.0%	5.7%	170 bps
West Torrance	0.0%	\$1,658	\$1,713	3.3%	1.9%	2.0%	10 bps
Whittier	0.0%	\$1,223	\$1,321	8.0%	2.5%	2.3%	-20 bps
Wilshire / Westlake	2.2%	\$1,419	\$1,562	10.1%	3.6%	4.0%	40 bps
Woodland Hills	0.0%	\$1,930	\$1,900	-1.6%	4.7%	4.3%	-40 bps
Metro	1.0%	\$1,664	\$1,725	3.7%	3.2%	3.3%	10 bps

