

PAYROLL JOB SUMMARY

Average Payrolls	1,141.9m
Annual Change 1Q17	27.4m (2.5%)
RCR 2017 Forecast	28.9m (2.5%)
RCR 2018 Forecast	30.6m (2.6%)
RCR 2019 Forecast	19.0m (1.6%)
RCR 2020 Forecast	9.4m (0.8%)
RCR 2021 Forecast	7.9m (0.6%)
Unemployment (NSA)	3.5% (4/17)

1Q17 PAYROLL TRENDS AND FORECAST

Year-on-year payroll comparisons declined from 4Q16's 33,700-job, 3.0% rate to 27,400 (2.5%) jobs in 1Q17. This was the East Bay's smallest annual advance in more than two years. Slower growth was largely confined to two sectors: manufacturing and retail trade. Combined, industry headcounts declined by -2,800 (-1.4%) year-on-year, compared to a 2,900-job, 1.4% increase in the prior quarter. Materially slower growth also was observed in construction and transportation, where job growth declined from 4Q16's 4,600-job, 4.0% rate to 3,250 (2.9%) jobs. Otherwise, the East Bay's key industries created jobs at a brisk pace. Hiring accelerated in the core financial, professional business and health care services sectors and was firm at high levels in the leisure and personal services.

Seasonally-adjusted jobs data hinted at a more pronounced slowdown. This series recorded a net gain of 3,800 jobs in 1Q17, including negative sequential month changes in January and February. The initial April estimate also was soft as establishment added a net of only 500 workers.

The RED Research East Bay payroll model points to stronger growth ahead. The 97.0% adjusted-R² (SE=0.4%) model uses the current and two lags of US payroll growth, nominal GDP_(t-1) and metro personal income growth as independent variables. The model projects that job trends will drift on slightly faster US growth in 2017 and 2018, producing mid-2% gains before relative weakness returns in 2019, and persists through the end of the decade.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	96.6%
RED 51 Rank	10 th
Annual Chg. (Reis)	-0.6%
RCR YE17 Forecast	96.4%
RCR YE18 Forecast	96.2%
RCR YE19 Forecast	96.1%
RCR YE20 Forecast	95.9%
RCR YE21 Forecast	96.0%

1Q17 ABSORPTION AND OCCUPANCY RATE TRENDS

Parting ways with Peninsular and South Bay trends East Bay apartment demand was relatively vigorous during 1Q17, as renters net leased 527 vacant units, according to Reis, up from -133 and 221 units in the prior and year-earlier quarters, respectively. Market occupancy fell for the third consecutive quarter, however, as developers delivered 700 units to market, dropping the metro average -10 basis points sequentially (-60bps year-on-year) to 96.6%.

rate, while the class-A (95.2%) and -B (94.6%) segments followed. Class-B (-140bps y-o-y) delivered the weakest performance, comparing unfavorably to "C" (+40bps) and "A" (-10bps). Concord, East Contra Costa and San Ramon (each 95.5%) posted highest occupancy; West Contra Costa (92.5%) lowest and weakest year-on-year (-270bps).

Axiometrics data derived from a sample of professionally-managed properties was moderately weaker. Metro occupancy in this 248 property same-store sample was 94.9%, down -100bps y-o-y. Class-C (96.6%) recorded the highest

Supply pressure is set to intensify through the end of 2017, and will remain elevated through 2018. Occupancy is likely to fray around the edges, but RCR demand model suggests that vacancy increases will be modest as pent-up demand, robust income growth and steep Peninsular rent hikes are expected to continue to drive East Bay space demand.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$2,055
Annual Change	4.1%
RED 51 Rent Change Rank	16 th
RCR YE17 Forecast	4.6%
RCR YE18 Forecast	4.2%
RCR YE19 Forecast	5.2%
RCR YE20 Forecast	3.0%
RCR YE21 Forecast	2.1%

1Q17 EFFECTIVE RENT TRENDS

East Bay rent trends bounced back after 4Q16's unusual -\$5 (-0.7%) sequential quarter decrease with a brisk \$19 (1.0%) advance over the winter. Rising class-A costs were primarily responsible as segment asking rents advanced at nearly twice the rate observed in the B&C segment. Annual trends accelerated, advancing from 3.9% in 4Q16 to 4.1%, one of only 7 RED 51 metros to accomplish this feat.

(-0.6%) retreated. Class-C declined for the third consecutive quarter, now -5.1% from its 4Q15 peak level. Trends in North Alameda (1.1%) and West Contra County (1.1%) rebounded from 4Q16; East Alameda and Fremont faded.

The higher rent (average=\$3,022) units in the Axiometrics sample did not fare as well. Despite a sequential quarter gain, year-on-year comparisons (-0.3%) were negative for the third consecutive quarter. Only class-B (4.3%) managed an annual advance, while class-A (-0.1%) and class-C

RCR's rent model achieves a 96.5% ARS (SE=1.2%) using San Francisco rent_(t-4), job growth and quarterly occupancy change as independent variables. The model projects moderately faster rent growth in 2017-2019, catalyzed by faster job creation and SF rent growth, partially offset by negative occupancy trends. Our macro models project slower national and Bay Area economic growth by 2020, causing East Bay rent trends to decelerate accordingly.

TRADE & RETURN SUMMARY

\$5mm+ / 60-unit+ Sales	6
Approximate Proceeds	\$140.1mm
Average Cap Rate (FNM)	4.9%
Average Price / Unit	\$230,729
Expected Total Return	6.8%
RED 49 ETR Rank	33 rd
Risk-adjusted Index	3.38
RED 49 RAI Rank	33 rd

1Q17 PROPERTY MARKETS AND TOTAL RETURNS

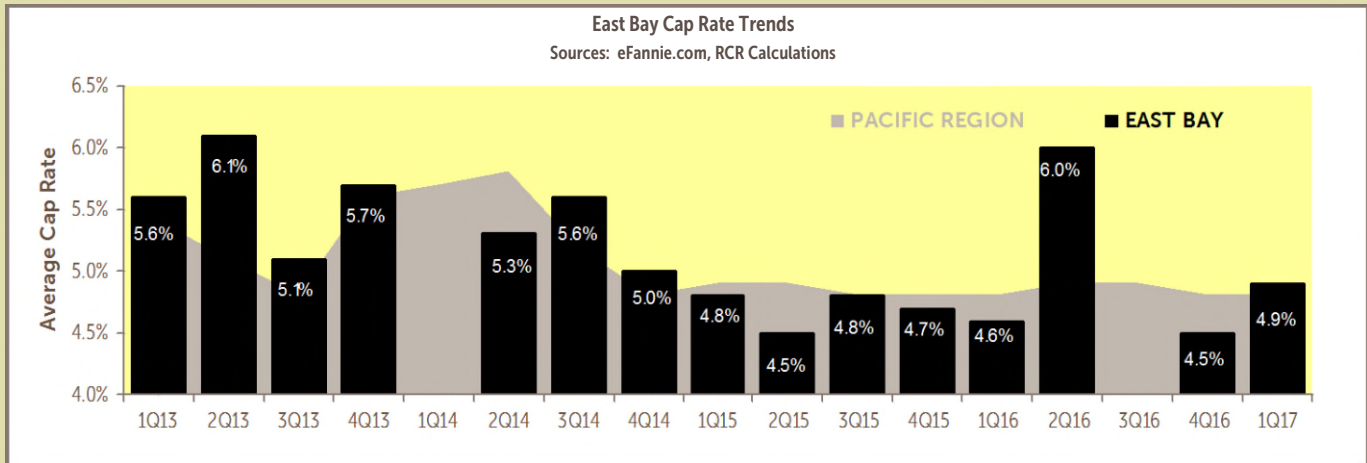
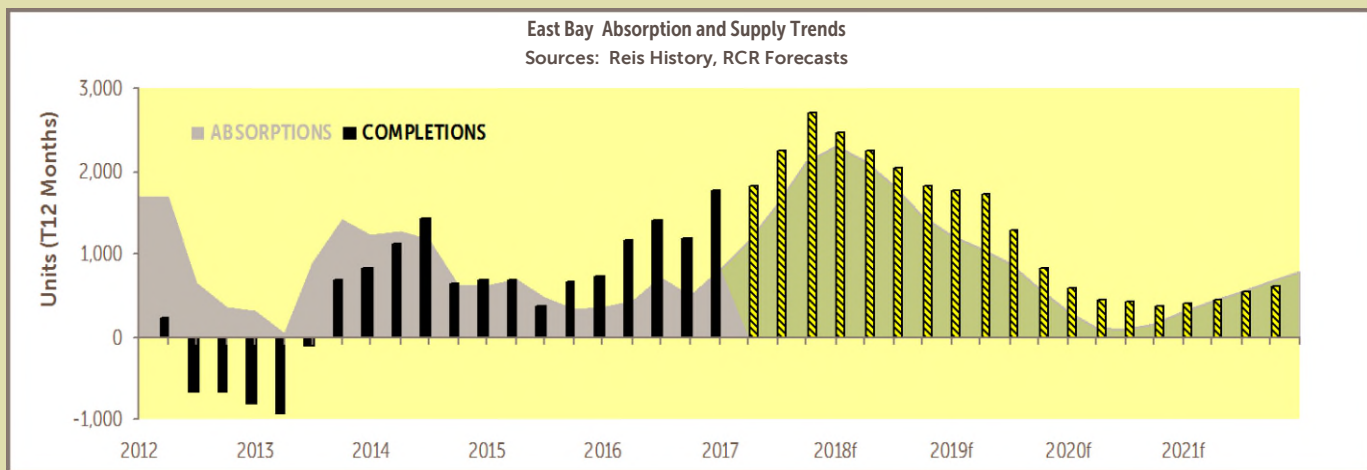
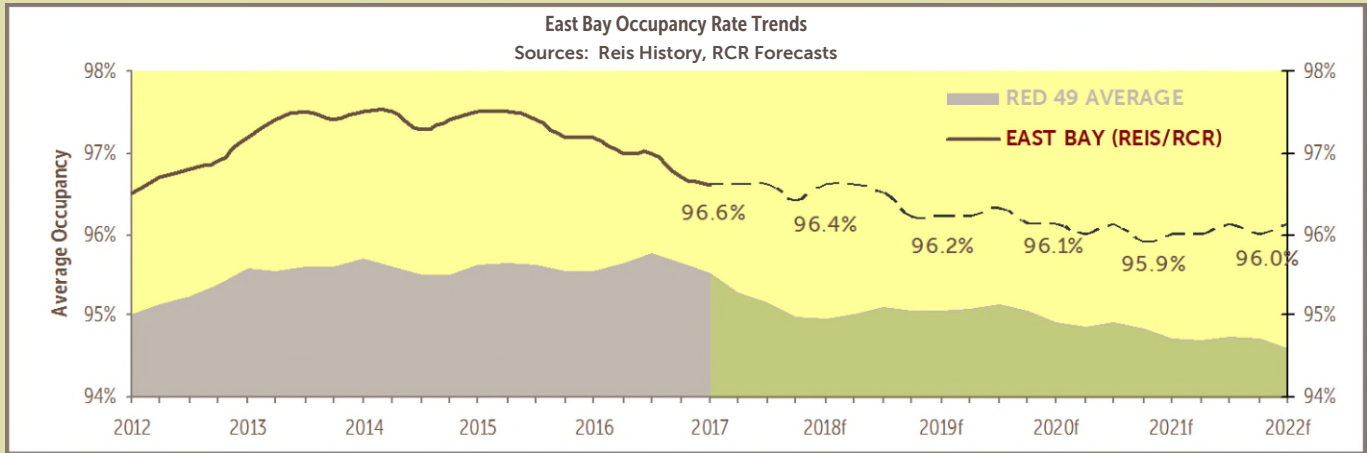
Trade was light during the first quarter. CoStar recorded only six sales of properties of 60 or more units, down from 10 and 14 in the prior and year-earlier quarters, respectively. Proceeds totaled \$140.1 million, representing decreases of -50% from 4Q16 and -66% from 1Q16. The average price of 539 traded units was \$230,729, a -5% decrease from the previous quarter but a 16% year-on-year advance.

with broader Bay Area norms, which is to say in the high-3% to low-4% area. Conversely, class-B value-adds and class-C properties are valued at discounts to the coastal markets. Yields vary in a broad range from 5% and 6%.

Only two single asset sales closed during the first two months of the second quarter for proceeds of \$39.4mm. The average price of 234 traded units was \$229,186.

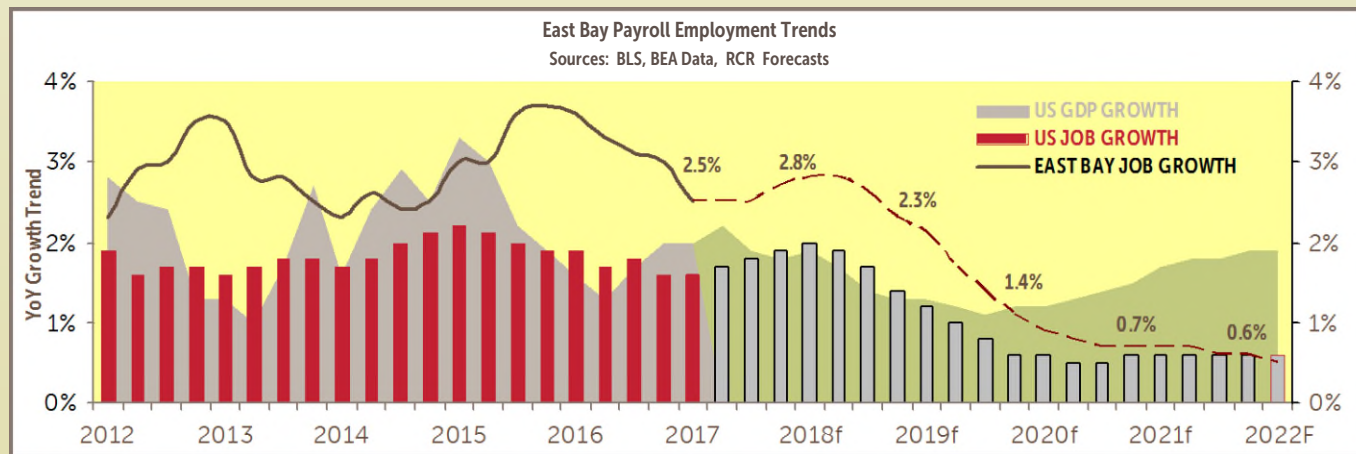
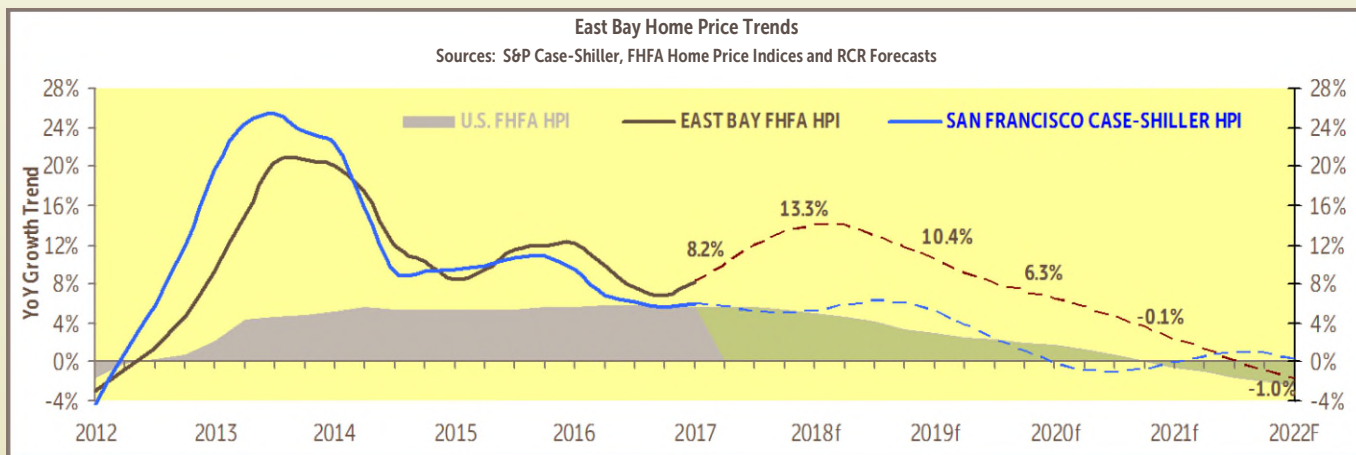
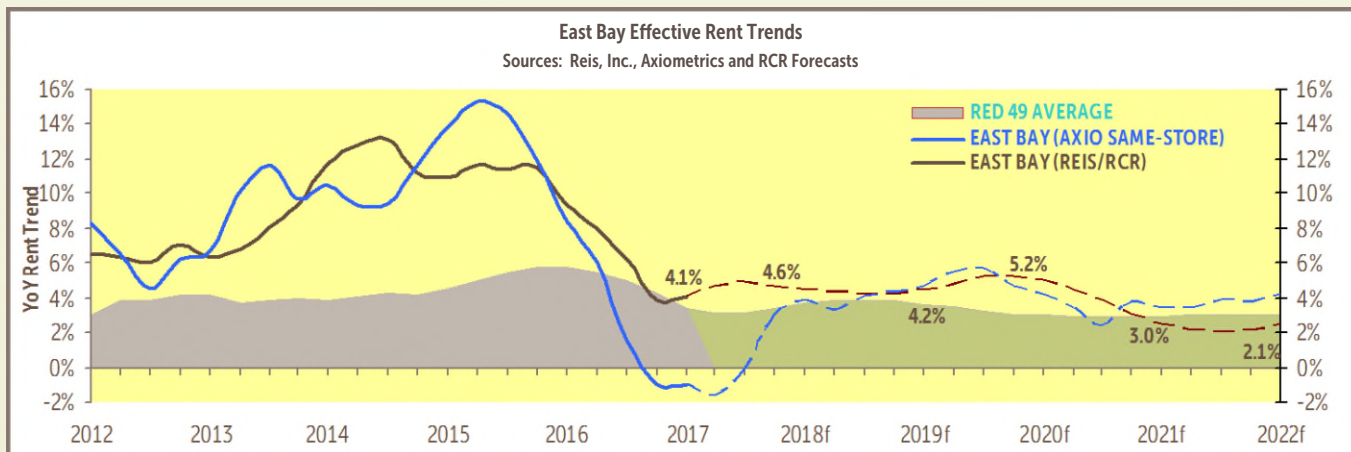
Considering thin trade and the weaker pricing for value adds, RCR elected to raise the B/B+ purchase cap proxy to 4.75% from 4.5%. Using a terminal cap of 5.2% and model derived occupancy and rent point estimates we calculate that an investor would expect to achieve a 6.8% unlevered total return on a 5-year hold. This ranks 33rd among the R47, trailing SJ (6.8%) and SF (6.9%). Risk-adjusted returns are comparable, also ranking 33rd among the peer group.

Institutional quality assets traded at cap rates consistent



NOTABLE TRANSACTIONS

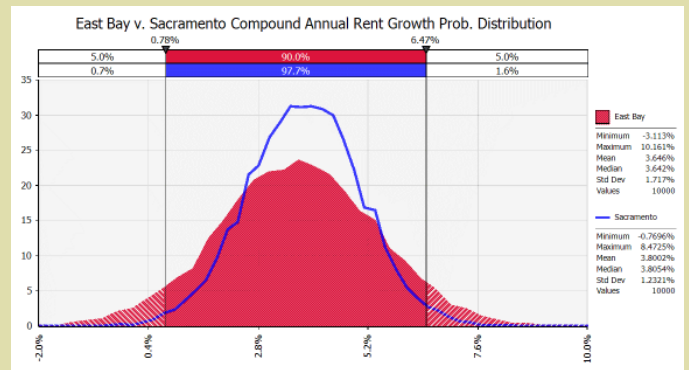
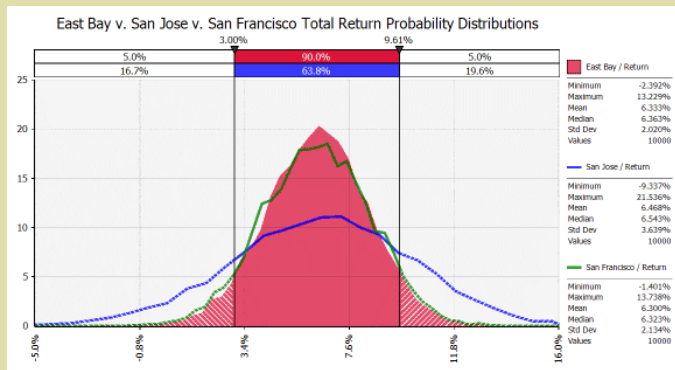
Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price (in millions)	Price / Per Unit	Estimated Cap Rate
Modera on North Main (San Ramon / Walnut Creek)	B+ / RC MR (2015)	23-Nov-2016	\$67.0	\$531,746	4.1%
Mosaic Castro Valley (San Leandro / Castro Valley)	B / GLR (1961)	26-Nov-2016	\$20.0	\$322,580	5.0%
Harrison Street Apartments (Oakland / Downtown)	C / MB MR (1916)	20-Dec-2016	\$15.8	\$259,016	6.0%
Sofi Fremont (Fremont / Parkmont / Cherry-Guardino)	B- / GLR (1973)	29-Dec-2016	\$74.5	\$365,196	4.7%
Palomar Terrace Apts. (Hayward / Santa Clara)	C / LR (1960)	17-Feb-2017	\$30.5	\$203,333	6.0%
Villas at Harbor Pointe (WCC / Pinole / Gately)	C / GLR (1972)	7-Apr-2017	\$22.8	\$227,700	5.0%



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SUBMARKET TRENDS (REIS)

Submarket	Reis Inventory		Effective Rent		Physical Vacancy		Basis Point Change
	Percent Change	4Q16	1Q17	Change	4Q16	1Q17	
Concord / Martinez	0.0%	\$1,726	\$1,728	0.1%	1.9%	1.8%	-10 bps
East Alameda	3.3%	\$2,224	\$2,265	1.8%	3.3%	5.4%	210 bps
East Contra Costa	0.0%	\$1,548	\$1,681	8.6%	3.9%	3.6%	-30 bps
Fremont / Newark	0.0%	\$2,104	\$2,123	0.9%	2.7%	2.4%	-30 bps
North Alameda	0.9%	\$2,337	\$2,340	0.1%	5.8%	6.0%	20 bps
San Leandro/Hayward	0.9%	\$1,890	\$1,940	2.7%	1.4%	1.8%	40 bps
San Ramon	-1.1%	\$2,261	\$2,285	1.1%	2.5%	2.3%	-20 bps
West Contra Costa	0.0%	\$1,801	\$1,837	2.0%	3.7%	3.5%	-20 bps
Metro	0.5%	\$2,034	\$2,055	1.0%	3.3%	3.4%	10 bps



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