

### PAYROLL JOB SUMMARY

|                           |              |
|---------------------------|--------------|
| <b>Total Payrolls</b>     | 1,034.5m     |
| <b>Annual Change</b>      | 17.2m (1.7%) |
| <b>2015 Forecast</b>      | 20.0m (1.9%) |
| <b>2016 Forecast</b>      | 17.6m (1.7%) |
| <b>2017 Forecast</b>      | 11.9m (1.1%) |
| <b>2018 Forecast</b>      | 9.0m (0.8%)  |
| <b>Unemployment (NSA)</b> | 4.3% (May)   |

### 1Q15 PAYROLL TRENDS AND FORECAST

Job creation in the Cincinnati metro area continued at a steady, moderate pace during the first quarter but signs of strengthening were evident in preliminary spring data. Metro establishments hired at a 17,200-job, 1.7% annual pace during 1Q15, within 1,500 jobs of the quarterly statistics reported in each of the last eight quarters. Accelerating employment in retail trade, transportation and financial and professional services was offset by rare softness in the health care and leisure services industries.

By contrast, the second quarter got off to an "All Star" start. Total payrolls increased at a 21,900 (2.1%) job rate, fueled by surges in the business and leisure service indus-

tries, which grew at a collective 12,500-job, 4.4% pace. Likewise, seasonally-adjusted data recorded a 12,100-job net gain in real job totals in April and May alone.

**RED Capital Research** statistical analysis finds that Cincinnati payroll growth trends are highly correlated to national macroeconomic events. Our econometric forecast equation achieves a 95.5% adjusted-R<sup>2</sup> using only current and lagged U.S. payroll and personal income growth and one lag of the dependent variable as independent variables. Not surprisingly, metro results mimic our national outlook for moderate, gradually slowing job growth over the duration of the five-year forecast period.

### OCCUPANCY RATE SUMMARY

|                              |                  |
|------------------------------|------------------|
| <b>Occupancy Rate (Reis)</b> | 96.9%            |
| <b>RED 50 Rank</b>           | 11 <sup>th</sup> |
| <b>Annual Chg. (Reis)</b>    | +0.2%            |
| <b>RCR YE15 Forecast</b>     | 95.9%            |
| <b>RCR YE16 Forecast</b>     | 96.0%            |
| <b>RCR YE17 Forecast</b>     | 95.9%            |
| <b>RCR YE18 Forecast</b>     | 95.6%            |

### 1Q15 ABSORPTION AND OCCUPANCY RATE TRENDS

Apartment space demand decelerated during the first quarter as tenants absorbed 167 units, according to Reis, down from 373 and 408 in the year-earlier and previous quarters, respectively. Tight markets and a shortage of new units were partially responsible as the vacant inventory slipped to only 3,389 units in the Reis survey universe and developers completed only 111 units from January to March. At the end of the day, metro occupancy rose 10 basis points sequentially to 96.9%, highest since 2000.

Axiometrics surveys of 158 larger stabilized, same-store properties found occupancy averaging 94.1% during 1Q15

and 95.2% during 2Q15, down 60 basis points year-on-year in each case. Class-A properties maintained the highest occupancy rates during the first and second quarters (95.5%, 96.7%) with classes B&C trailing by about 200 bps.

**RCR's** Queen City occupied stock growth model relies on payroll, inventory and lagged (-2) home price growth and lagged (-4) vacancy as independent variables to achieve a 90.0% ARS (S.E.=0.3%). Slower job growth and a relatively low inventory growth variable coefficient cause absorption to trail supply consistently over the forecast period, trimming 130 bps from the average occupancy rate by 2018.

### EFFECTIVE RENT SUMMARY

|                                |                  |
|--------------------------------|------------------|
| <b>Mean Rent (Reis)</b>        | \$759            |
| <b>Annual Change</b>           | 2.8%             |
| <b>RED 50 Rent Change Rank</b> | 36 <sup>th</sup> |
| <b>RCR YE15 Forecast</b>       | 1.9%             |
| <b>RCR YE16 Forecast</b>       | 1.9%             |
| <b>RCR YE17 Forecast</b>       | 1.5%             |
| <b>RCR YE18 Forecast</b>       | 1.4%             |

### 1Q15 EFFECTIVE RENT TRENDS

Reis surveys of 108,000 Cincinnati units found that effective rent increased \$5 (0.7%) sequentially on the typical metro apartment unit to \$759, up from 4Q14's \$4 advance but a deceleration from the year-earlier period's \$7, 0.9% surge. As a result, the year-on-year comparison declined for the 2nd consecutive quarter to 2.8% from 3.1% in 4Q14.

Axiometrics surveys of 26,100 units also detected a degree of softness in metro rent trends in the fall and winter months as rents decreased moderately from September to March from a \$865 average to \$861. But 2Q15 data exhibit a seasonal spring rebound as average rents recovered to

\$885, reflecting a 2.7% average y-o-y increase. In this case, class-A and B led the way, rising at 3.2% and 3.3% rates, respectively, while class-C properties trailed comprehensively with a 1.4% gain. Downtown, North, Northeast and Northern Kentucky submarkets fueled the 2Q advance, each posting year-on-year gains of 3.7% or faster.

Historic Cincinnati rent trends are relatively slow and stable and the **RCR** model reflects that, employing three lags of the dependent variable, Indianapolis rents and metro personal income as independent variables. The resulting forecast calls for slow and generally decelerating rent trends.

### TRADE & RETURN SUMMARY

|                                |                  |
|--------------------------------|------------------|
| <b>\$2mm+ / 60-unit+ Sales</b> | 7                |
| <b>Approx. Proceeds</b>        | \$110.5mm        |
| <b>Avg. Cap Rate (FNM)</b>     | 6.1%             |
| <b>Avg. Price/Unit</b>         | \$64,222         |
| <b>Expected Total Return</b>   | 6.4%             |
| <b>RED 46 ETR Rank</b>         | 30 <sup>th</sup> |
| <b>Risk-adjusted Index</b>     | 8.63             |
| <b>RED 46 RAI Rank</b>         | 3 <sup>rd</sup>  |

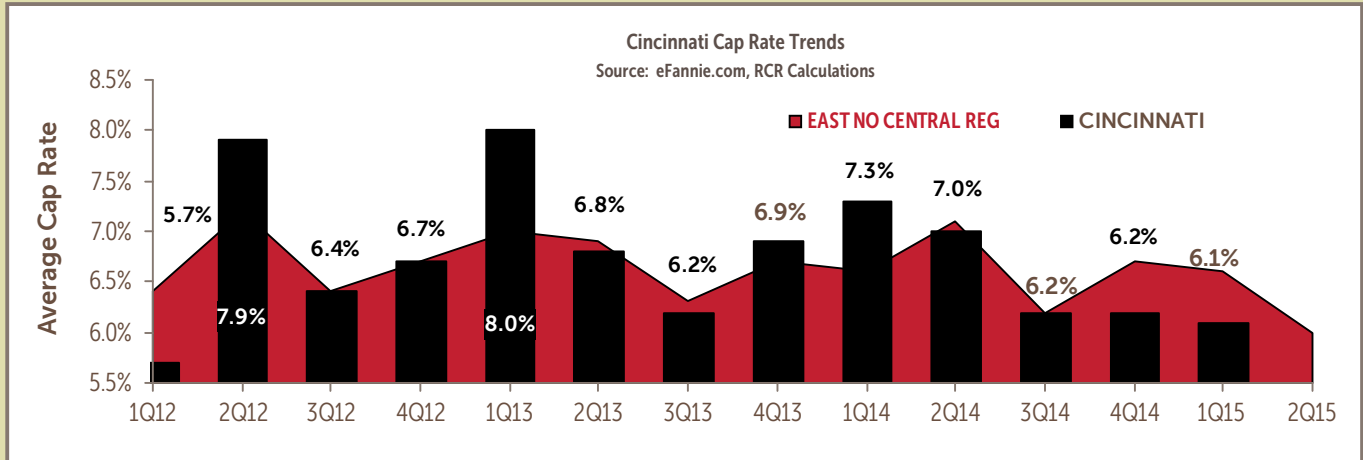
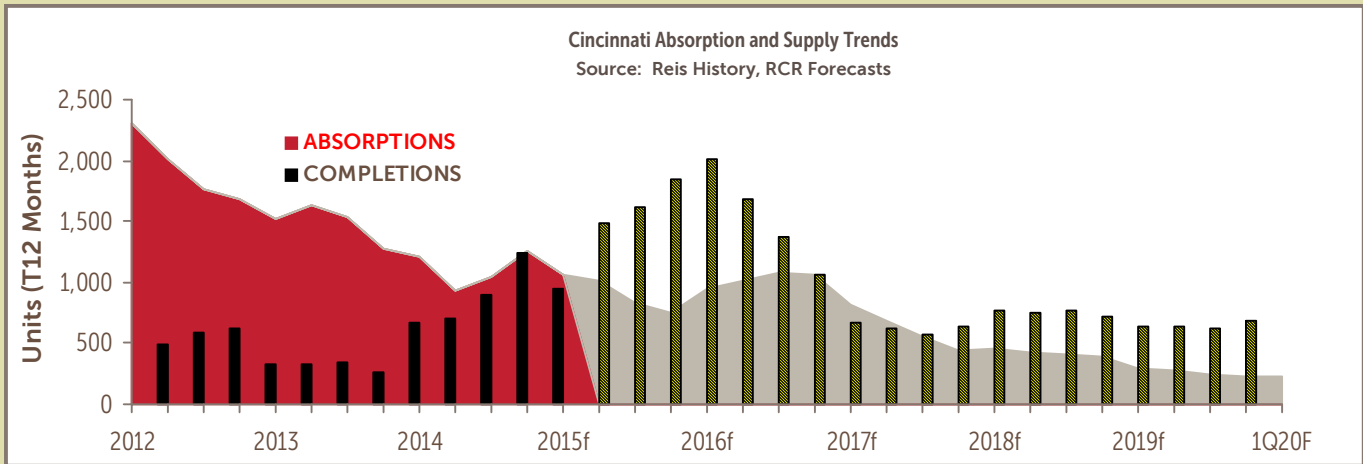
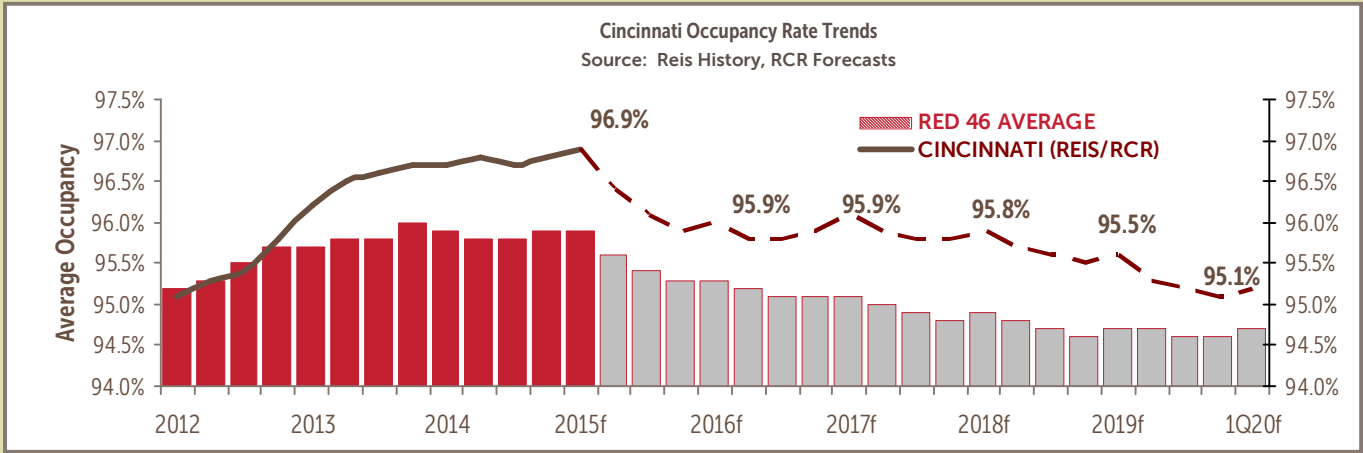
### 1Q15 PROPERTY MARKETS AND TOTAL RETURNS

Sales of Cincinnati apartment properties continued at a steady, deliberate pace as investors acquired seven mostly class-B and class-C properties during the first quarter, matching 4Q14's trade velocity. Proceeds totaled \$110.5 million, up 81.5% from 4Q's \$60.9mm results. The increase was largely attributable to two transactions valued at \$25mm or more, including a Florence trophy acquired by a private REIT at a mid-5% cap rate. The average price per unit metric was nearly unchanged, coming in at \$64,222, down slightly from \$67,564 during the prior quarter.

Investors focused largely on 80s and 90s vintage garden apartments. Class-C properties traded in the mid-6% to 7%

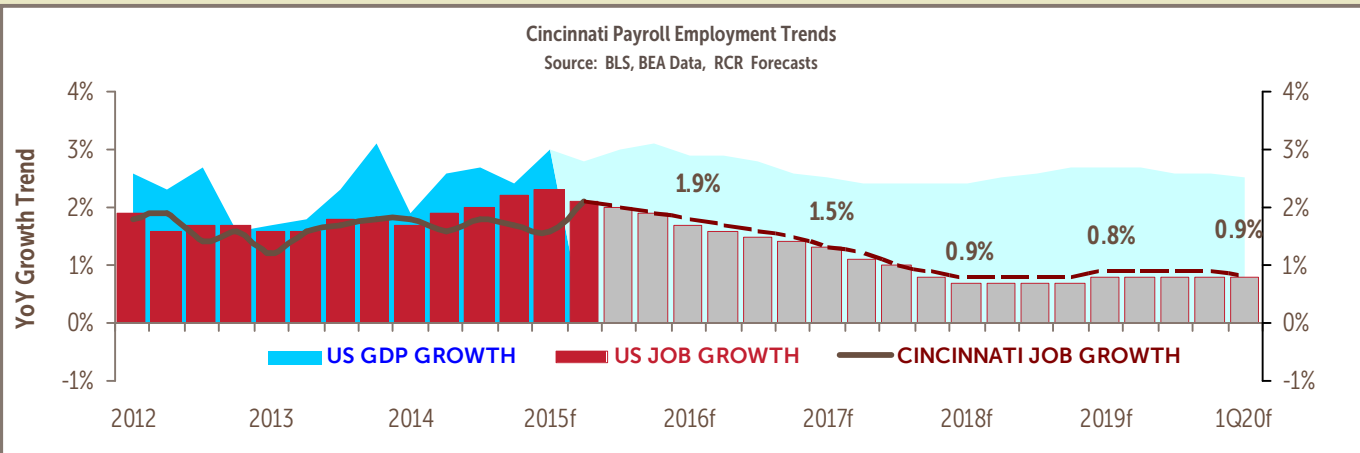
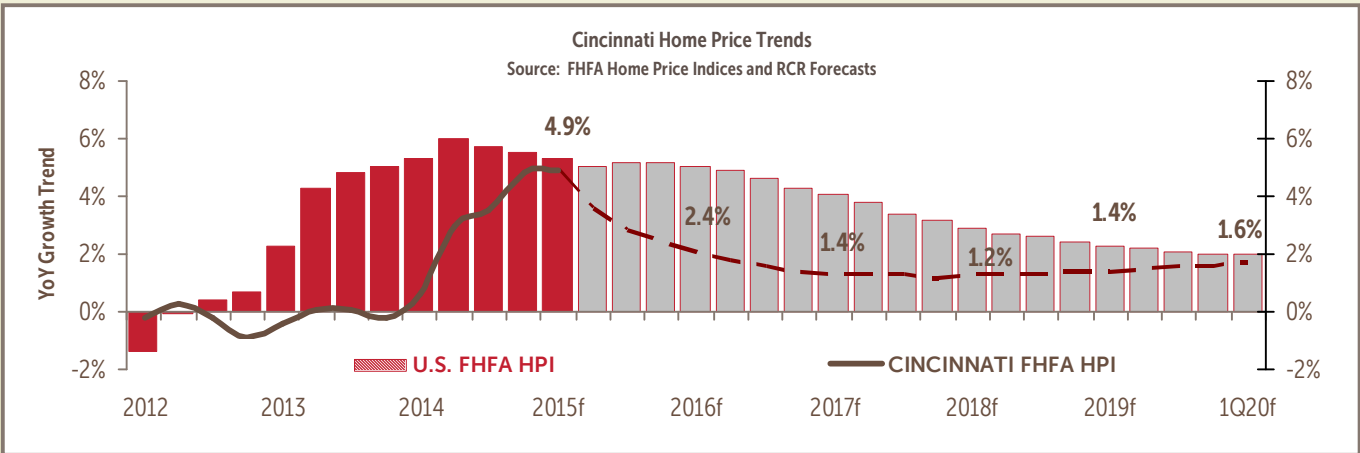
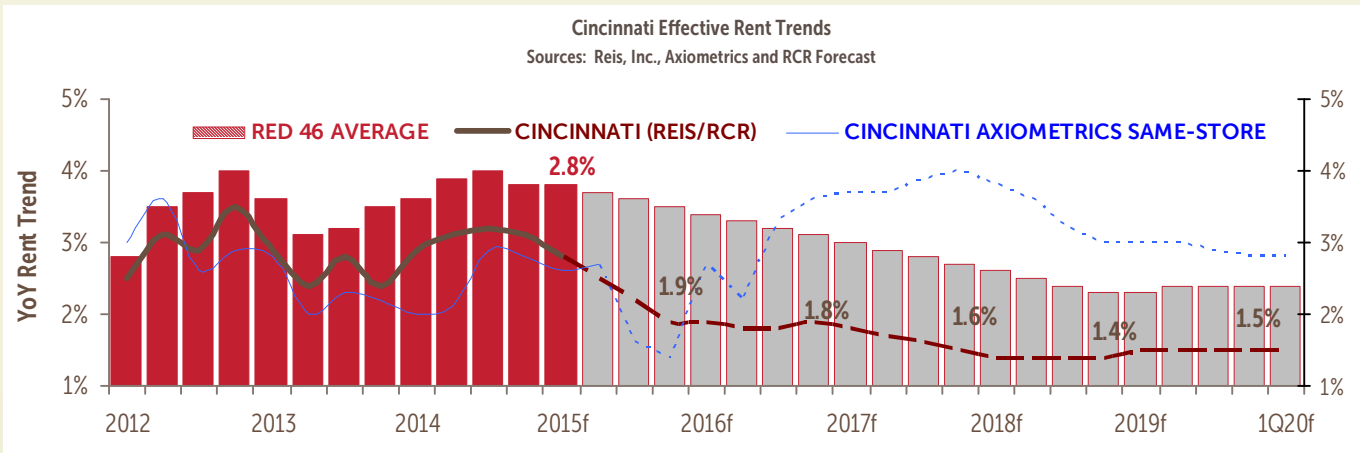
cap rate range. Class-B assets exchanged hands in the high 5% to low-6% area. Using the aforementioned Northern Kentucky transaction as a guide, class-A assets may gravitate to the low-to mid-5% area.

Employing a 6.75% cap rate and model derived rent and occupancy forecasts, **RCR** calculate that investors in B-quality Cincinnati properties would expect to achieve a 6.4% unlevered total return over a five-year hold. The result places Cincinnati in 30th place among the **RED 46**, largely due to the sluggish rent outlook. But low volatility and return predictability are Cincinnati's strong suits. The risk-adjusted index ranks third among the 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 |
|--|--------------------------------|-----------------------------|-----------------------------|------------------|--------------------|
| Orchard of Landen (Butler / Warren)      | B- / GLR (1986)                | 10-Feb-2015                 | \$30.9                      | \$99,038         | 5.7%               |
| Columns on Wetherington (No. Kentucky)   | B+ / GLR (1996)                | 27-Feb-2015                 | \$25.0                      | \$130,208        | 5.6%               |
| Woodman Park (Central Dayton/Page Manor) | C+ / GLR (1969)                | 11-Mar-2015                 | \$15.5                      | \$29,808         | 6.3%               |
| Olive Branch Townhomes (Clermont Co)     | B / TH (1996)                  | 26-Mar-2015                 | \$9.7                       | \$54,830         | 7.0%               |
| Century Lake Apartments (North)          | B / GLR (1989)                 | 6-Apr-2015                  | \$15.4                      | \$69,866         | 6.2%               |

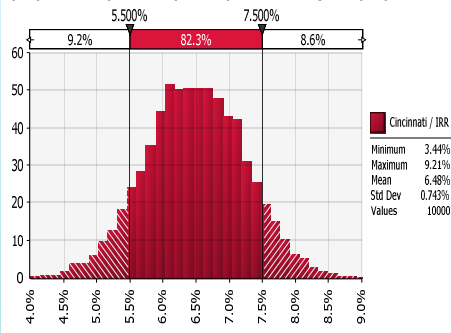


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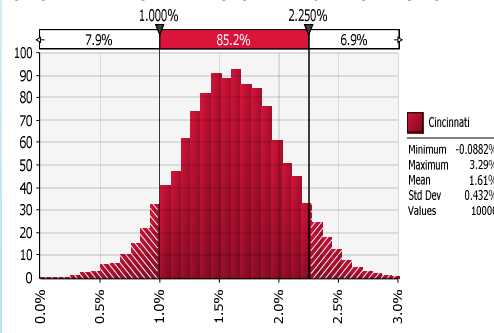
## SUBMARKET TRENDS (REIS)

| Submarket              | Effective Rent |              |             | Physical Vacancy |             |                |
|------------------------|----------------|--------------|-------------|------------------|-------------|----------------|
|                        | 1Q14           | 1Q15         | Change      | 1Q14             | 1Q15        | Change         |
| Blue Ash / Amberley    | \$768          | \$772        | 0.5%        | 4.7%             | 4.0%        | -70 bps        |
| Butler/Warren Counties | \$800          | \$832        | 4.1%        | 1.8%             | 2.0%        | 20 bps         |
| Clermont County        | \$667          | \$689        | 3.3%        | 2.7%             | 3.3%        | 60 bps         |
| Downtown               | \$837          | \$868        | 3.7%        | 4.8%             | 5.6%        | 80 bps         |
| Highway 27 / 127       | \$617          | \$625        | 1.3%        | 4.1%             | 3.3%        | -80 bps        |
| North                  | \$731          | \$746        | 2.0%        | 3.1%             | 2.3%        | -80 bps        |
| Northeast              | \$942          | \$1,052      | 11.6%       | 2.0%             | 1.4%        | -60 bps        |
| Northern Kentucky      | \$742          | \$757        | 2.0%        | 2.1%             | 1.7%        | -40 bps        |
| Southeast              | \$799          | \$806        | 0.9%        | 2.2%             | 3.0%        | 80 bps         |
| Southwest              | \$564          | \$568        | 0.8%        | 5.3%             | 5.2%        | -10 bps        |
| <b>Metro</b>           | <b>\$738</b>   | <b>\$759</b> | <b>2.8%</b> | <b>3.3%</b>      | <b>3.1%</b> | <b>-20 bps</b> |

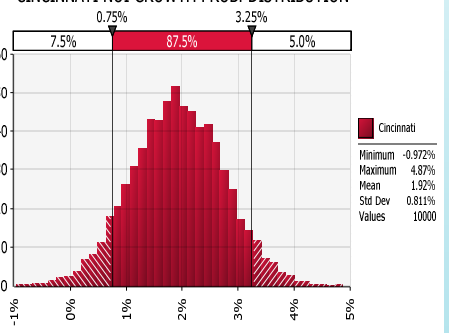
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