

PAYROLL JOB SUMMARY

Total Payrolls	2,341.1m
Annual Change	99.1m (4.4%)
2015 Forecast	91.6m (4.0%)
2016 Forecast	79.2m (3.3%)
2017 Forecast	67.0m (2.7%)
2018 Forecast	57.2m (2.3%)
Unemployment (NSA)	3.7% (May)

1Q15 PAYROLL TRENDS AND FORECAST

The Dallas labor market continued to defy gravity during the first quarter as establishments hired at a 99,100-job, 4.4% year-on-year pace, up from 4Q14's 90,800-job, 4.0% performance. The trade sector was primarily responsible, generating net annual growth of 14,500 (4.0%) jobs in 1Q, doubling 4Q's 7,300-job advance. By the same token, business and health care services remained the granite foundation of Dallas's economic colossus, collectively accounting for a 36,600 (5.7%) job y-o-y gain.

Preliminary 2Q15 data exhibited signs of "topping." Seasonally adjusted data showed a net loss of -1,800 payroll jobs March to May, representing the weakest three-month

period since 3Q09. Although the SA data rebounded strongly in June (+15,600 jobs), not seasonally-adjusted y-o-y comparisons slowed to a 90,200 (4.0%) advance.

RED Capital Research specified a 98.6% (S.E.=0.3%) adjusted-R² econometric payroll growth forecast equation employing U.S. payroll and personal consumption expenditure growth and the rate of change of the federal funds rate as independent variables. The model projects that Dallas employment will continue to grow about 2.5 - 3.0 times as fast as the U.S. average. Unfortunately, we expect the U.S. average to decelerate gradually through 2018, precipitating slower expansion in Dallas as well.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	95.3%
RED 50 Rank	35 th
Annual Chg. (Reis)	Unchd
RCR YE15 Forecast	95.7%
RCR YE16 Forecast	96.4%
RCR YE17 Forecast	95.5%
RCR YE18 Forecast	94.6%

1Q15 ABSORPTION AND OCCUPANCY RATE TRENDS

Apartment demand was off slightly during the winter quarter as tenants net leased 2,175 vacant units, according to Reis, down from 3,333 and 2,614 in the prior and year-earlier quarters, respectively. Supply moderated as well, however, as developers completed 1,660 units, allowing average occupancy to rise to 95.3%, an equal 15-year high. Preliminary data indicate no rate change during 2Q15.

Axiometrics surveys of 1,197 stabilized larger properties found average occupancy of 94.7% and 94.9% during 1Q15 and 2Q15, respectively, up 50 basis points and 20 bps year-on-year, respectively. The class-B segment led the way for

the sixth consecutive quarter, averaging 95.4%. Classes A&C trailed at 93.0% and 94.8%. Closer in suburban submarkets with predominately class-B inventories posted the highest occupancies (Garland, Grand Prairie, South County), while supply pressures sent North White Rock (93.8%) and Oaklawn (4.5%) to the bottom of the submarket chart.

RCR's 95.2% ARS demand model uses vacancy, the 10-year UST yield, inventory and payroll growth and the first derivative of rent change as independent variables. The model foresees 13,000+ units/year absorption in 2015-16, pushing occupancy above 96% but supply pressures afterward.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$879
Annual Change	4.6%
RED 50 Rent Change Rank	10 th
RCR YE15 Forecast	4.1%
RCR YE16 Forecast	3.4%
RCR YE17 Forecast	3.0%
RCR YE18 Forecast	3.0%

1Q15 EFFECTIVE RENT TRENDS

Rapid rent growth continued during the first half 2015 as average effective rents advanced 4.6% year-on-year during 1Q15 and asking rents soared 4.8% y-o-y in 2Q15, according to Reis. The latter metric was the fastest comparable asking rent growth statistic recorded in fourteen years.

Axiometrics same-store comparisons were stronger still. Unit-weighted average effective rents of 1,197 stabilized properties were 6.8% higher y-o-y (2Q15), following 1Q15's stout 6.0% advance. Class B&C properties reported the strongest 2Q15 gains, surging 7.2% and 7.3% y-o-y, respectively. The class-A segment lagged with a 4.4% advance,

notching the smallest average rent gains among classes for the eighth consecutive quarter. South Irving submarket posted the largest increase (9.9%), while Carrollton, South Irving, White Rock and Far Northeast submarket reported 8% or faster gains. Conversely, Northwest, South and Oaklawn submarkets each advanced by 3% to 4% y-o-y.

RCR's 98.0% ARS rent model employs metro payroll, home price, U.S. payroll, GDP and income growth as independent variables. The model projects 4%+ gains in 2015, followed by moderately slower progress afterward. Further rapid home price appreciation poses a downside rent risk.

TRADE & RETURN SUMMARY

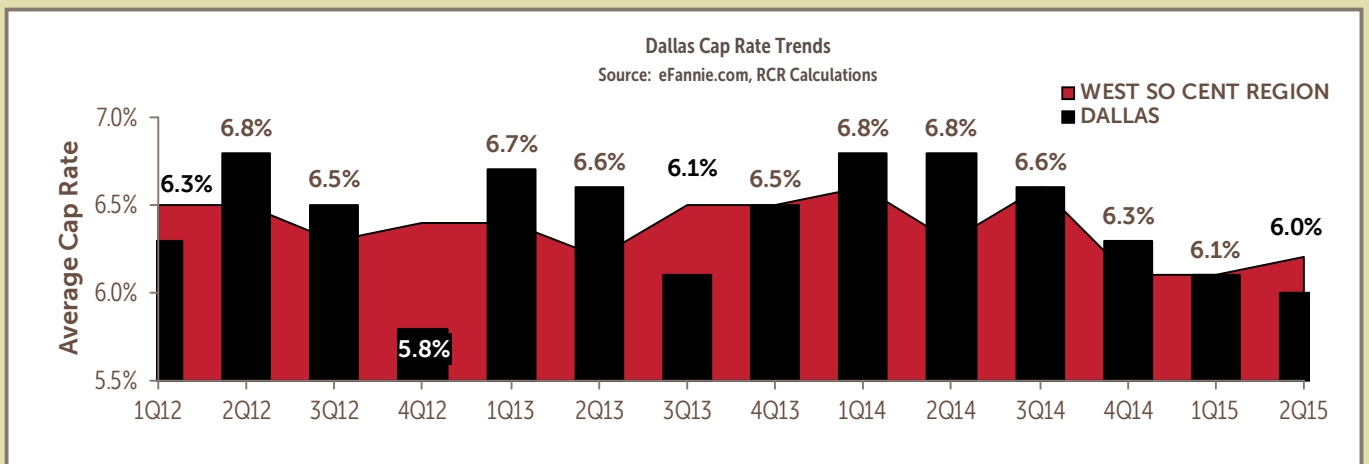
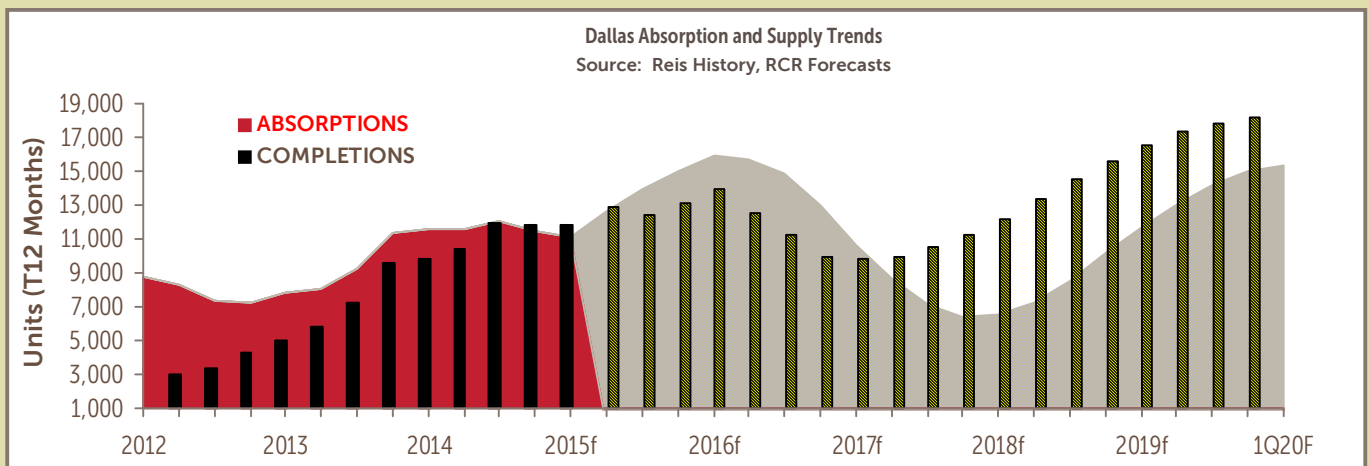
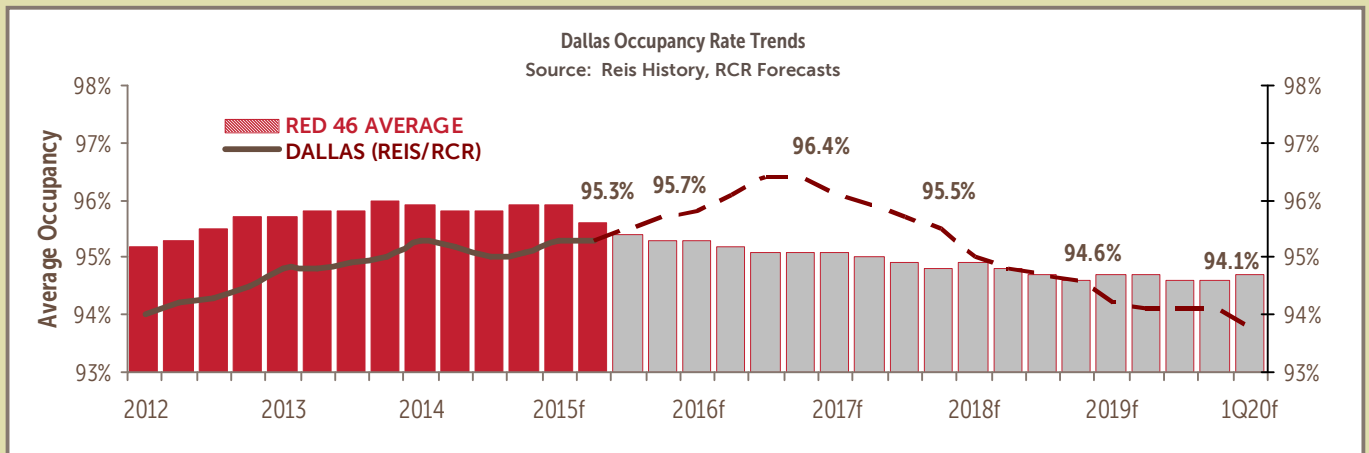
\$5mm+ / 80-unit+ Sales	52
Approx. Proceeds	\$1.5bn
Avg. Cap Rate (FNM)	6.1%
Avg. Price/Unit	\$94,143
Expected Total Return	7.6%
RED 46 ETR Rank	10 th
Risk-adjusted Index	12.59
RED 46 RAI Rank	1 st

1Q15 PROPERTY MARKETS AND TOTAL RETURNS

Investor interest in Dallas properties intensified during the first half 2015. Following 4Q14's record 56 trades valued at \$5 million or more, buyers closed on 52 transaction during the winter quarter and at least 39 during the spring stanza. Portfolio trades were the dominant theme as REITs and private equity buyers consummated five property bundles incorporating 19 Dallas assets. Based on known pricing data sales totaled approximately \$1.5 billion during the first quarter, down slightly from 4Q14's \$2.1bn aggregate. 2Q15 sales totaled about \$920mm. The average price of traded units was \$94,143 in 1Q15 and \$83,893 in 2Q15, down from 4Q14's recent record high \$117,498 level.

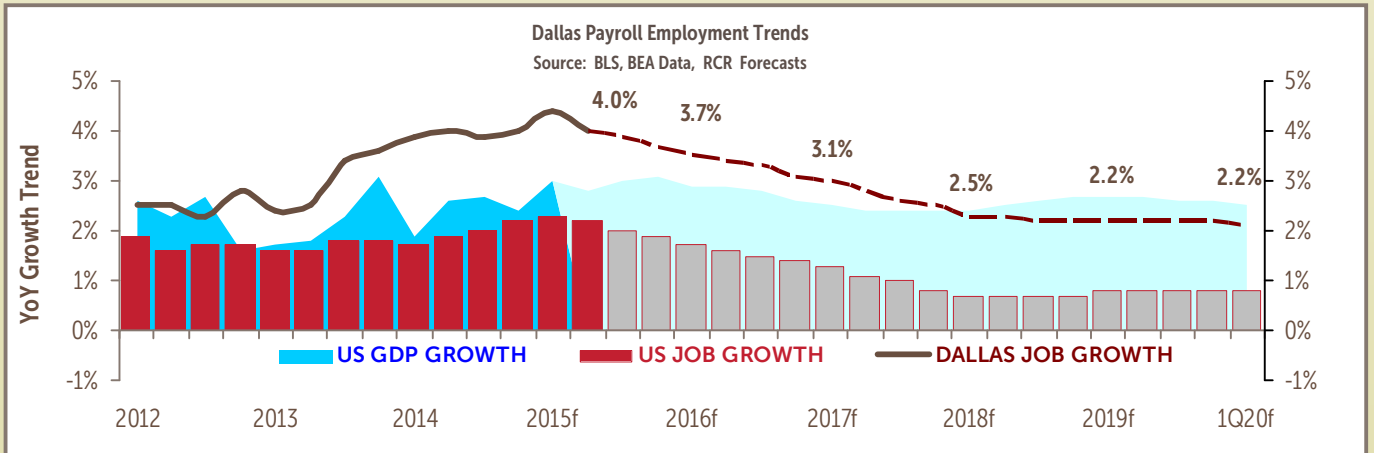
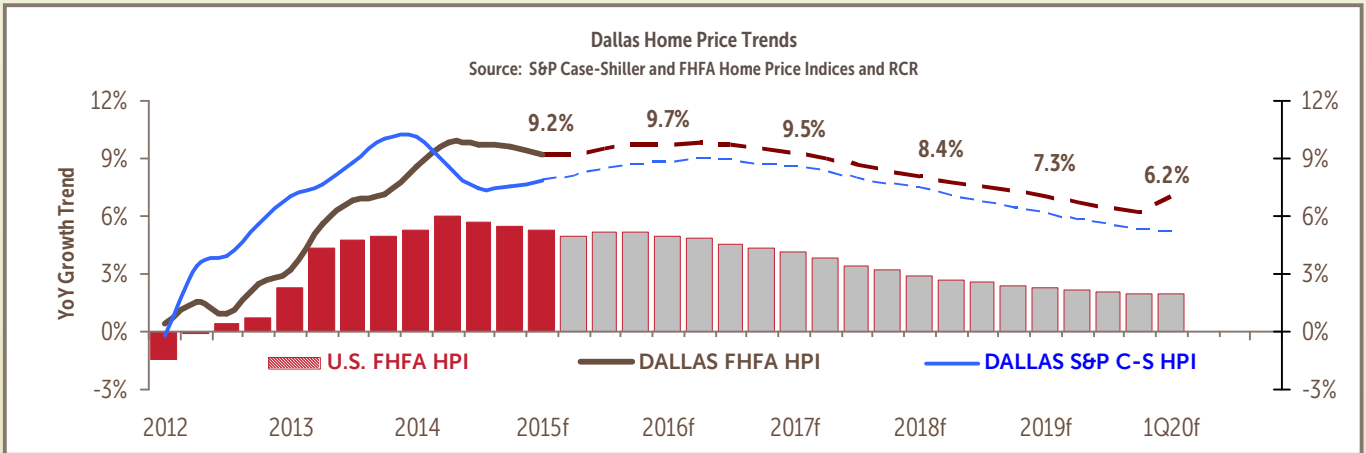
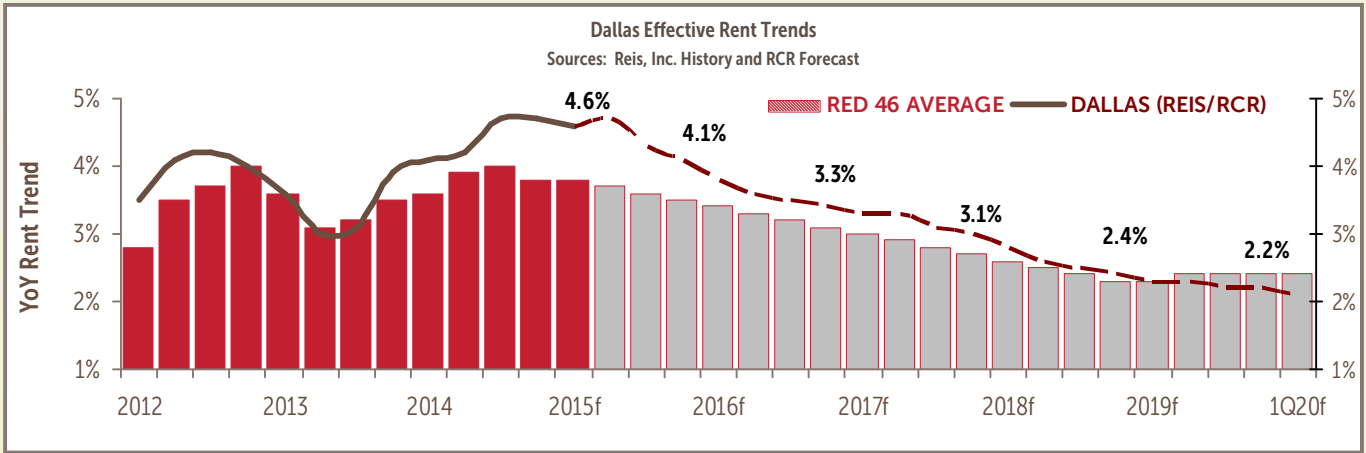
Institutional quality assets traded in the low- to mid-5% range. Class-B/B- properties exchanged hands in the high -5% to high-6% area, depending on age and location. Class-C yields gravitated toward the 7% to 8% area.

Using a 5.75% acquisition cap rate proxy and model derived rent and occupancy forecasts, RCR estimate that an investor would expect to achieve a 7.6% five-year unlevered total return from a Dallas investment, ranking #10 among the RED 46. Low model standard error produces high return certainty and the #1 risk-adjusted index. Further rapid home price appreciation is the primary risk.



NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
Camino del sol Apts. (Denton County)	B- / GLR (1985)	25-Feb-2015	\$23.0	\$76,531	6.1%
Residences at the Collection (Lewisville)	B+ / GLR (2012)	1-Mar-2015	\$45.5	\$145,925	5.7%
Century Medical District (Northwest)	B+ / MR (2014)	3-Apr-2015	\$42.5 (Alloctd)	\$147,569	5.3% (p.f.)
Falls at Highpoint Apts. (No. White Rock)	B- / GLR (1984)	23-May-2015	\$50.0	\$70,621	6.8%
Madison at Round Grove (Lewisville)	B / GLR (1994)	31-May-2015	\$28.9 (Alloctd)	\$71,481	7.4%



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SUBMARKET TRENDS (REIS)

Submarket	Effective Rent			Physical Vacancy		
	1Q14	1Q15	Change	1Q14	1Q15	Change
Carrollton / Addison	\$818	\$846	3.5%	3.8%	3.9%	10 bps
Central Dallas	\$1,753	\$1,845	5.2%	5.7%	9.7%	400 bps
East Dallas	\$893	\$963	7.9%	7.8%	7.3%	-50 bps
Far North	\$834	\$859	3.0%	2.4%	1.4%	-100 bps
Far Northeast	\$616	\$638	3.6%	6.4%	3.7%	-270 bps
Far Northwest	\$704	\$752	6.8%	4.3%	4.0%	-30 bps
Garland	\$699	\$720	3.0%	3.9%	3.9%	0 bps
Grand Prairie	\$675	\$696	3.1%	4.9%	3.2%	-170 bps
Lewisville	\$904	\$934	3.3%	6.3%	7.7%	140 bps
Mesquite / Seagoville	\$696	\$717	3.1%	3.5%	2.7%	-80 bps
North Dallas	\$846	\$879	3.9%	2.4%	2.5%	10 bps
North Irving	\$881	\$909	3.1%	3.7%	2.6%	-110 bps
North White Rock	\$679	\$703	3.6%	4.5%	4.0%	-50 bps
Northwest	\$900	\$954	6.1%	6.5%	9.4%	290 bps
NW Denton County	\$930	\$964	3.7%	6.6%	6.1%	-50 bps
Oaklawn	\$1,241	\$1,352	9.0%	4.3%	18.5%	1420 bps
Plano / Allen / McKinney	\$991	\$1,040	5.0%	4.0%	5.4%	140 bps
Richardson	\$852	\$873	2.4%	4.7%	3.8%	-90 bps
South Dallas	\$744	\$733	-1.5%	11.1%	9.3%	-180 bps
South County	\$706	\$722	2.3%	4.8%	3.7%	-110 bps
South Irving	\$689	\$714	3.7%	3.2%	2.0%	-120 bps
South White Rock / I-30	\$626	\$646	3.2%	6.3%	5.9%	-40 bps
Southeast Dallas	\$567	\$587	3.4%	5.5%	3.6%	-190 bps
Southwest Dallas	\$684	\$705	3.0%	6.4%	6.0%	-40 bps
Metro	\$840	\$879	4.6%	4.7%	4.7%	0 bps

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