JACKSONVILLE, FLORIDA

MARKET OVERVIEW & MULTIFAMILY HOUSING UPDATE

RED Capital Group | 2Q15 | October 2015

PAYROLL JOB SUMMARY	
Total Payrolls	636.3m
Annual Change	15.0m (2.4%)
RCR 2015 Forecast	14.7m (2.4%)
RCR 2016 Forecast	11.4m (1.8%)
RCR 2017 Forecast	10.4m (1.6%)
RCR 2018 Forecast	9.2m (1.4%)
Unemployment (NSA)	3.6% (Aug.)

2Q15 PAYROLL TRENDS AND FORECAST

Metro job growth was steady during 2Q15, as establishments added payroll employees at a 15,000-job, 2.4% year-on-year pace, comparable to 1Q's healthy 16,800-job rate. Retail trade and health care, accommodations and food services were the mainstays, collectively hiring at an 13,100-job, 5.7% annual clip, up from 1Q's 10,500-job, 4.6% advance. Construction concerns also hired at a brisk clip, adding workers at a 1,300-job, 4.0% rate that kept pace with the sector's first quarter performance. By contrast, weakness in financial and business service sectors is a concern. Attrition among finance, insurance and professional service firms accelerated to a -3,100-job, -3.4% rate in 2Q, down from 1Q's –1,100 job annual loss.

Preliminary 3Q15 data suggest that hiring reaccelerated over the summer. The seasonally-adjusted series recorded a 6,700-job net pick-up in July and August, in part attributable to a solid rebound in financial services hiring.

RED Research specified a 94.7% adjusted-R^2 (S.E.=0.6%) growth model employing the rate of change of U.S. payroll growth (+), metro home value appreciation (+) and Baa bond yields (+) as independent variables. The model projects gradual deceleration of metro job growth to the mid-1% area by YE16. Annual payroll gains are expected to decrease from current levels to a run rate of 8,000- to -12,000 jobs over the course of the forecast period.

OCCUPANCY RATE SUMMARY	
Occupancy Rate (Reis)	94.0%
RED 50 Rank	47th
Annual Chg. (Reis)	+0.5%
RCR YE15 Forecast	93.1%
RCR YE16 Forecast	92.9%
RCR YE17 Forecast	93.3%
RCR YE18 Forecast	92.9%

2Q15 ABSORPTION AND OCCUPANCY RATE TRENDS

Renters expressed robust demand for metro apartment space again during the second quarter, net leasing 411 vacant units (against a 206-unit 16-year spring average) after filling 264 units in the seasonally weak first quarter (16-year mean = 0). Supply remained a non-factor (300 units), allowing occupancy to rise 20 basis points sequentially (50 bps year-on-year) to 94.0%, a nine-year high (preliminary 3Q15 data indicate occupancy increased another 20 bps).

Axiometrics surveys of 172 stabilized properties recorded average 2Q15 and 3Q15 occupancy rates of 94.4% and 94.7%, respectively. Class-B quality assets recorded the highest occupancies (94.7%/95.0%) during both quarters, eclipsing previous leader, class-A, by 10 and 50 bps. Class-C trailed at 93.2%/93.8%. Properties delivered in 2014 were 95.1% occupied in 3Q15; while the 2015 vintage leased up quickly, absorbing about 31 units/month per property.

The Jacksonville absorption model uses GDP, metro home price and supply growth and the rate of change of vacancy and rent as independent variables to achieve a 94.6% ARS (S.E.=0.4%). The model projects healthy space demand in 2015 and 2016, but not enough to keep pace with supply. Occupancy is forecast to dip about 100 bps by YE16.

EFFECTIVE RENT SUMMARY	
Mean Rent (Reis)	$848
Annual Change	2.3%
RED 50 Rent Change Rank	45th
RCR YE15 Forecast	3.1%
RCR YE16 Forecast	1.7%
RCR YE17 Forecast	3.0%
RCR YE18 Forecast	2.9%

2Q15 EFFECTIVE RENT TRENDS

Reis report that metro rent trends gained momentum during the second quarter, rising $9 (1.1%) sequentially, representing a vigorous recovery from 1Q15's anemic, supply-pressured $3 advance. Expressed on a year-on-year basis rents gained 2.3%, up from the first quarter's 1.8% metric.

Axiometrics same-store data recorded a mid-year surge of greater proportions. This survey recorded year-on-year respective gains of 5.6% and 6.7% in 2Q15 and 3Q15, the strongest trends observed in the current recovery cycle. Third quarter growth rates were closely comparable across classes, led by class-B (6.9%) and followed by classes-C (6.4%) and -A (6.0%). New properties enjoyed enviable pricing power as the 2014-vintage posted average 6.0% 3Q advance fueled by dramatic declines in concessions levels.

RCR's rent model achieves a 91.5% ARS (S.E.=0.56%) employing home price appreciation (-) and vacancy (-), the rate of change of personal income (-) and the Baa credit spread (-) as independent variables. The model forecasts stronger trends in 2H15 before giving way to gradual deceleration back to the high-1% region by YE16 as vacancy rises. Pricing power is expected to improve in 2017 as home price gains diminish and occupancy levels stabilize.

TRADE & RETURN SUMMARY	
$5mm+ / 100-unit+ Sales	12
Approx. Proceeds	$214mm
Avg. Cap Rate (FNM)	5.6%
Avg. Price/Unit	$78,844
Expected Total Return	6.7%
RED 46 ETR Rank	28th
Risk-adjusted Index	3.60
RED 46 RAI Rank	36th

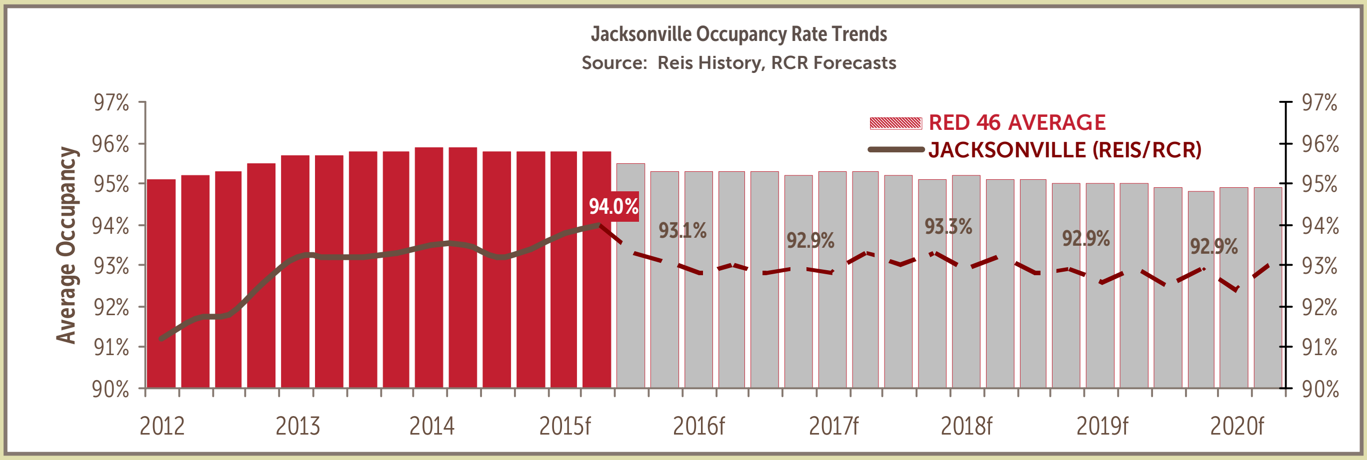
2Q15 PROPERTY MARKETS AND TOTAL RETURNS

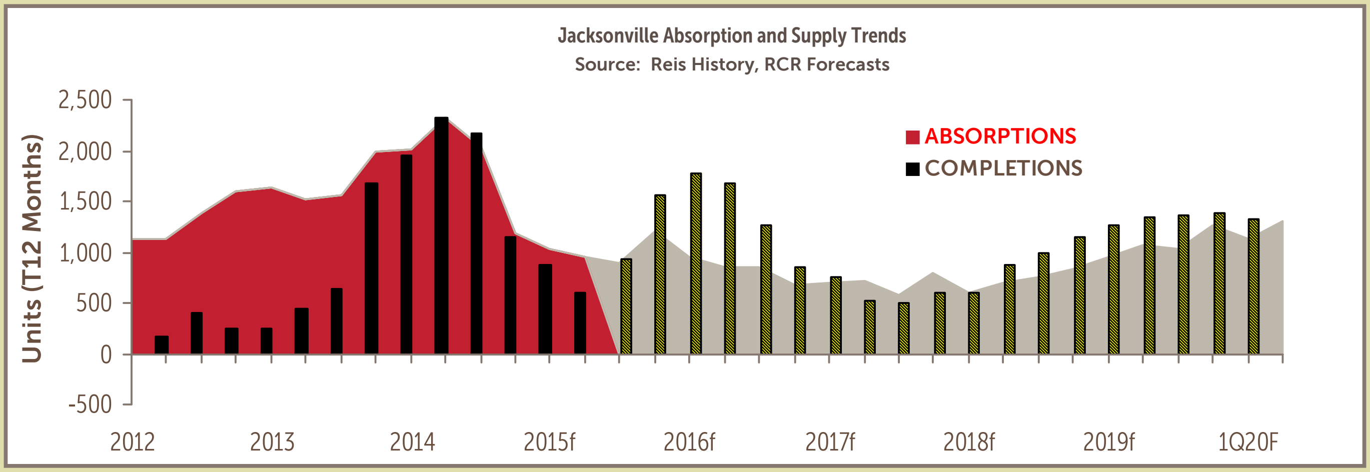
Property sales regained momentum in the spring as 12 transactions valued at $5 million or more closed, up from three during the first quarter. A total of 2,716 units exchanged hands at an average price of $78,844, the lowest price per unit metric since 3Q14.

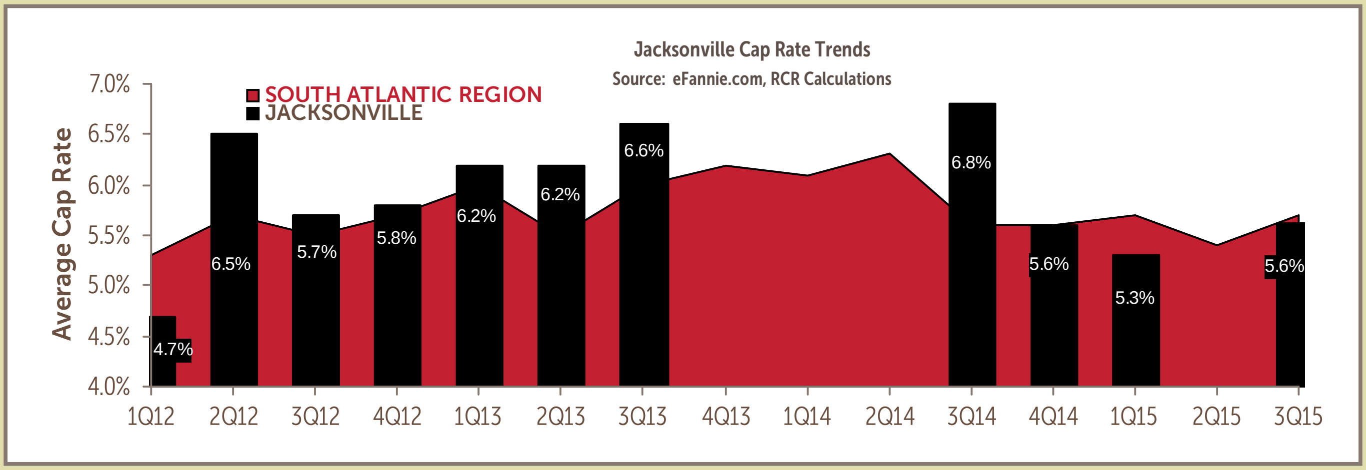
Sales velocity continued at a brisk pace over the summer as 12 transactions closed July through September for total proceeds of $232.6mm. The average price metric continued to diminish, receding to $68,300 as buyers shifted focus toward class-B- product with repositioning potential: the average age of traded stock increased from 18 years in 1Q15 ($119,792/unit) to 32 years during the third quarter.

Class-A/A– assets traded at low– to mid-5% cap rates. Class-B+/B properties were priced to yields in the mid– to high-5s, while class-B-/C+ complexes offered buyers initial yields in the 6% to 7.5% range.

In light of the increased interest among investors in metro properties RCR chose to trim another 20 basis points from the generic cap rate proxy to 6.0%. Using this purchase yield, a terminal cap rate of 6.9% and model derived rent and occupancy point estimates, we calculate that an investor would expect to generate a 6.7% 5-year, unlevered total return, ranked R46 #28. High job and home price volatility hamper risk-adjusted returns, which rank #36.

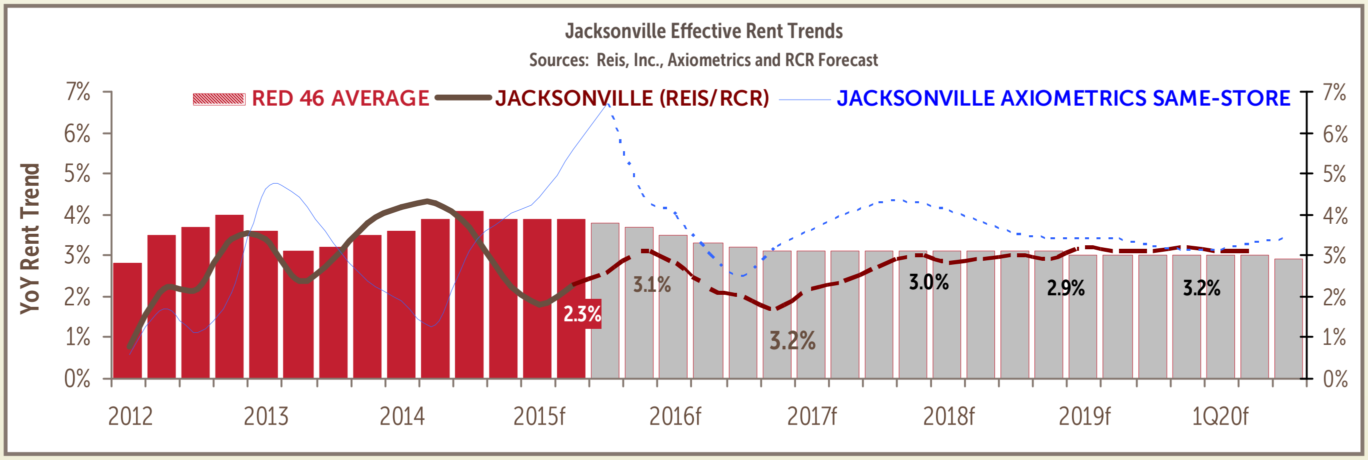


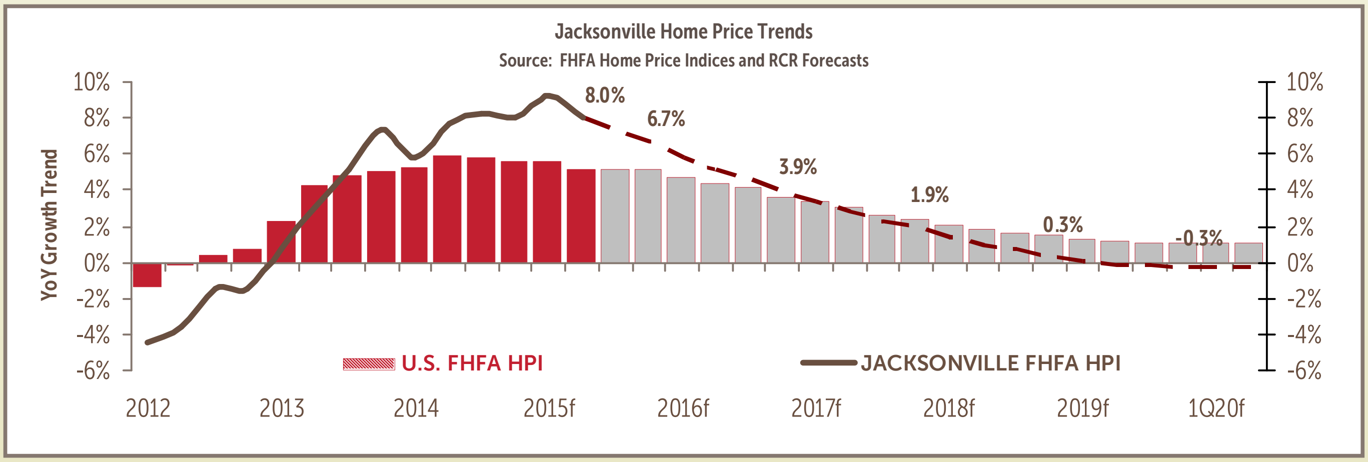


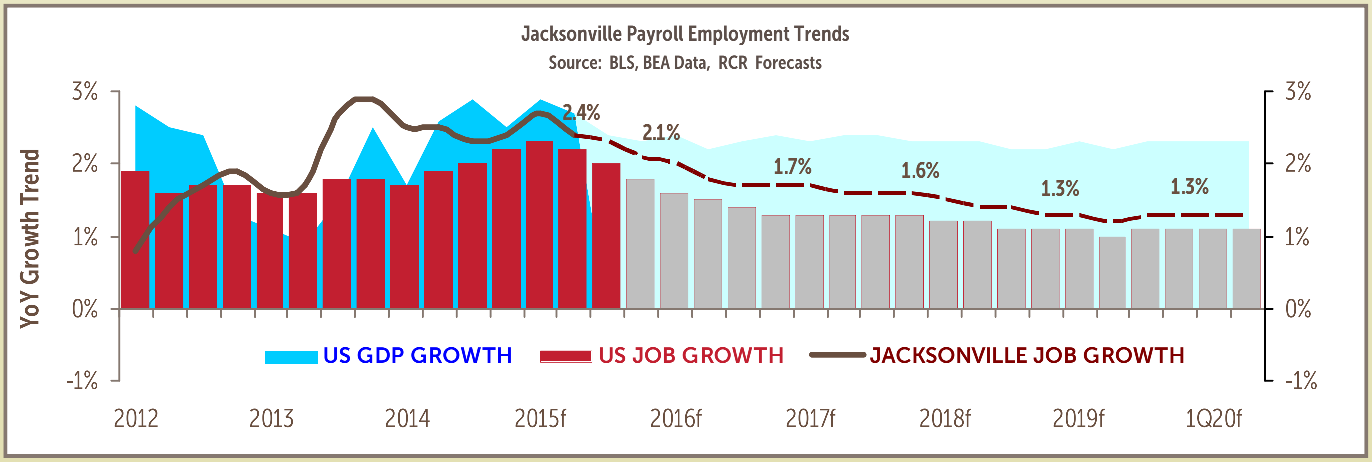


NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
The Lakes at Ponte Vedra (Ocean Beaches)	B / GLR (1985)	14-May-2015	$28.0	$116,967	6.0%
Hawthorne Apts. (Southside/Bay Meadows)	A- / GLR (2013)	15-May-2014	$35.2	$147,280	5.5%
Wimberly at Deerwood (East Jacksonville)	B+ / GLR (2000)	11-Sep-2015	$43.5	$135,093	5.6%
Club at Charter Point (Greater Arlington)	C+ / GLR (1975)	22-Sep-2015	$15.1 (allocated)	$58,333	7.5%
Madison Spring Woods (East Jacksonville)	B- / GLR (1986)	6-Oct-2015	$34.1 (allocated)	$66,517	6.0%

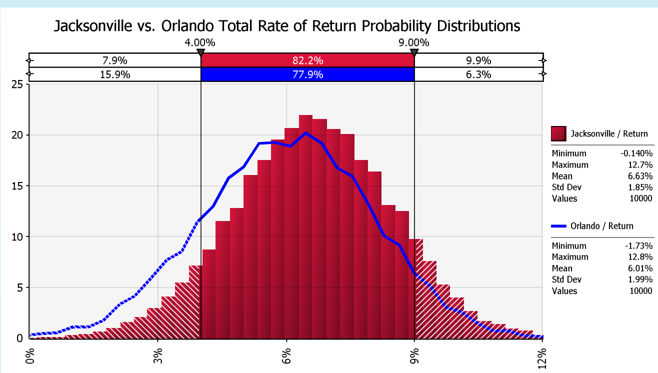

Jacksonville Effective Rent Trends
Sources: Reis, Inc., Axiometrics and RCR Forecast
RED 46 AVERAGE
JACKSONVILLE (REIS/RCR)
JACKSONVILLE AXIOMETRICS SAME-STORE
YoY Rent Trend
2.3%
3.1%
3.2%
3.0%
2.9%
3.2%
2012
2013
2014
2015f
2016f
2017f
2018f
2019f
1Q20f

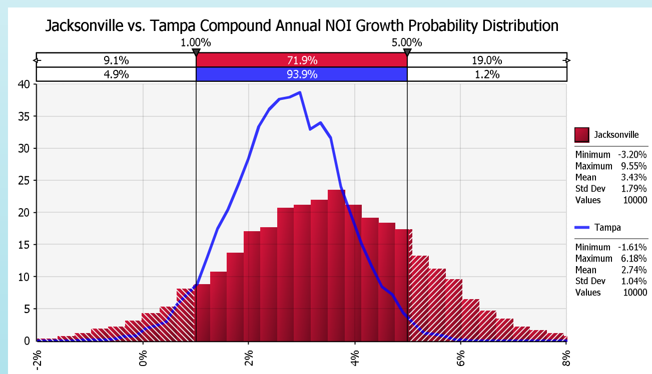

Jacksonville Home Price Trends
Source: FHFA Home Price Indices and RCR Forecasts
YoY Growth Trend
8.0%
6.7%
3.9%
1.9%
0.3%
-0.3%
U.S. FHFA HPI
JACKSONVILLE FHFA HPI
2012
2013
2014
2015f
2016f
2017f
2018f
2019f
1Q20f


Jacksonville Payroll Employment Trends
Source: BLS, BEA Data, RCR Forecasts
YoY Growth Trend
2.4%
2.1%
1.7%
1.6%
1.3%
1.3%
US GDP GROWTH
US JOB GROWTH
JACKSONVILLE JOB GROWTH
2012
2013
2014
2015f
2016f
2017f
2018f
2019f
1Q20f

SUBMARKET TRENDS (REIS)

Submarket	Effective Rent			Physical Vacancy		
	2Q14	2Q15	Change	2Q14	2Q15	Change
Atlantic Beach	$715	$722	1.0%	4.0%	5.9%	190 bps
East Jacksonville	$985	$1,015	3.1%	8.0%	8.9%	90 bps
Greater Arlington	$627	$641	2.2%	10.4%	7.6%	-280 bps
Jacksonville Heights	$748	$760	1.5%	6.9%	5.4%	-150 bps
Jacksonville North	$706	$721	2.1%	6.4%	7.4%	100 bps
Lake Shore	$738	$760	3.0%	8.7%	6.6%	-210 bps
Northwest Jacksonville	$854	$876	2.6%	5.2%	4.6%	-60 bps
Ocean Beaches	$1,054	$1,208	14.6%	2.4%	5.3%	290 bps
Orange Park / Clay City	$732	$756	3.3%	2.3%	1.6%	-70 bps
San Jose	$682	$684	0.3%	2.7%	2.7%	0 bps
Southeast Jacksonville	$877	$885	1.0%	3.4%	2.8%	-60 bps
Southside / Bay Meadows	$904	$920	1.8%	6.3%	5.3%	-100 bps
Southside / University	$822	$849	3.3%	5.2%	5.1%	-10 bps
Metro	$829	$848	2.3%	6.5%	6.0%	-50 bps





FOR MORE INFORMATION ABOUT RED'S RESEARCH CAPABILITIES CONTACT:

Daniel J. Hogan
Director of Research
djhogan@redcapitalgroup.com
+1.614.857.1416 office
+1.800.837.5100 toll free

red capital group

THE FACE OF LENDING