

PAYROLL JOB SUMMARY

Total Payrolls	870.6m
Annual Change	21.6m (2.5%)
2015 Forecast	23.6m (2.8%)
2016 Forecast	19.3m (2.2%)
2017 Forecast	17.3m (1.9%)
2018 Forecast	17.7m (1.9%)
Unemployment (NSA)	5.5% (Aug.)

2Q15 PAYROLL TRENDS AND FORECAST

The pace of Raleigh-Durham job creation decelerated during the spring, slowing from 1Q15's 27,100-job, 3.3% year-on-year performance to 21,600 (2.5%) jobs. Slower hiring among non-professional/technical business services was in part responsible as growth in this sub-sector fell from 5,000 (7.2%) to 2,600 (3.6) in 2Q. Consumer driven sectors also were moderately weaker, as hiring in construction, retail trade and leisure services declined from a 7,600-job, 3.7% annual pace to 5,400 jobs in 2Q15.

Preliminary summer data suggest that job creation may decline in the third quarter as well. Year-on-year comparisons in July and August recorded average job gains of

only 16,200, which if realized would be the slowest quarter in four years. Likewise, seasonally-adjusted estimates were softer, especially in Raleigh MSA, showing combined gains of 3,400 jobs, down from 5,600 jobs last year.

RED Research modeling exercises find that 94.4% (S.E.=0.5%) of changes in Triangle job growth can be explained by changes in U.S. payroll and nominal GDP growth, S&P500 returns and Raleigh and Durham home appreciation rates. The model projects stable job creation rates through 2016 in the mid-2% area followed by gradual slowing in harmony with U.S. GDP and payroll trends. Annual job gains in the mid- to high-teens are likely.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	93.2%
RED 50 Rank	49 th
Annual Chg. (Reis)	-1.0%
RCR YE15 Forecast	92.9%
RCR YE16 Forecast	92.9%
RCR YE17 Forecast	93.5%
RCR YE18 Forecast	94.0%

2Q15 ABSORPTION AND OCCUPANCY RATE TRENDS

Rental space demand was firm during the second quarter as tenants absorbed a net of 978 units, according to Reis, down from the winter quarter's seasonally-strong 1,159-unit tally but up from 869 in the comparable quarter of 2014. New unit deliveries over-balanced demand by 150 units, however, causing occupancy to decline 10 basis points sequentially and 100 bps year-on-year to 93.2%.

Axiometrics surveys of 370 stabilized professionally-managed properties recorded a higher (94.5%) occupancy rate, unchanged y-o-y. The 235 surveyed class-B properties posted the highest occupancy (94.8%), with classes-C (94.1%) and -A (93.9%) trailing. Northeast and Cary notched

the highest occupancy rates among submarkets; Central and Carrboro lowest. Absorption of new units decelerated, falling to an average of about 9 units/month, corresponding to a 26-month average stabilization period.

RCR finds that 88.1% of change in occupied stock growth can be explained by the rate of change of inventory growth; home price appreciation; and U.S. personal income and metro payroll growth. This model (S.E.=0.6%) projects absorption of 2,500 to 3,100 units per year through 2018. Supply will overbalance demand in 2015 and 2016, sending occupancy down 50 bps, but the longer term outlook is constructive: occupancy may recover lost ground by YE17.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$860
Annual Change	4.0%
RED 50 Rent Change Rank	20 th
RCR YE15 Forecast	3.1%
RCR YE16 Forecast	2.3%
RCR YE17 Forecast	2.3%
RCR YE18 Forecast	1.8%

2Q15 EFFECTIVE RENT TRENDS

Reis report that average effective rents increased \$9 (1.1%) sequentially, up from 1Q's two-year low \$5 (0.6%) advance. Growth measured on a year-on-year basis decelerated from 4.4% to 4.0% quarter-to-quarter. Momentum was largely attributable to class-A properties which notched a 1.0% sequential asking rent gain, twice as fast as class-B&C.

Axiometrics surveys uncovered faster rent growth among larger, stabilized professionally managed properties. Unit-weighted average same-store rents increased 6.0% y-o-y, up from 4.9% in 1Q15 and the fastest progress recorded since 4Q12. Class-B pulled the most weight, rising 6.5%,

followed by classes-A (5.3%) and -C (4.6%). Cary (8.0%), NW Raleigh (7.4%) and Hillsborough submarkets posted the fastest growth; West Durham (1.9%), Central Raleigh (4.0%) slowest. Units delivered since 2013 achieved 4.4% gains.

Raleigh's above average rent volatility makes for difficult modeling. **RCR** settled on a model using current S&P500 returns (+) and payroll growth (+) and the second lag of vacancy change (-) as independent variables. The 94.6% ARS (S.E.= 0.8%) model projects decelerating rent growth throughout the forecast period as improving occupancy is insufficient to offset forecasted weaker S&P and job gains.

TRADE & RETURN SUMMARY

\$5mm+ / 120-unit+ Sales	20
Approx. Proceeds	\$538.7mm
Avg. Cap Rate (FNM)	5.5%
Avg. Price/Unit	\$102,188
Expected Total Return	5.6%
RED 46 ETR Rank	40 th
Risk-adjusted Index	2.97
RED 46 RAI Rank	42 nd

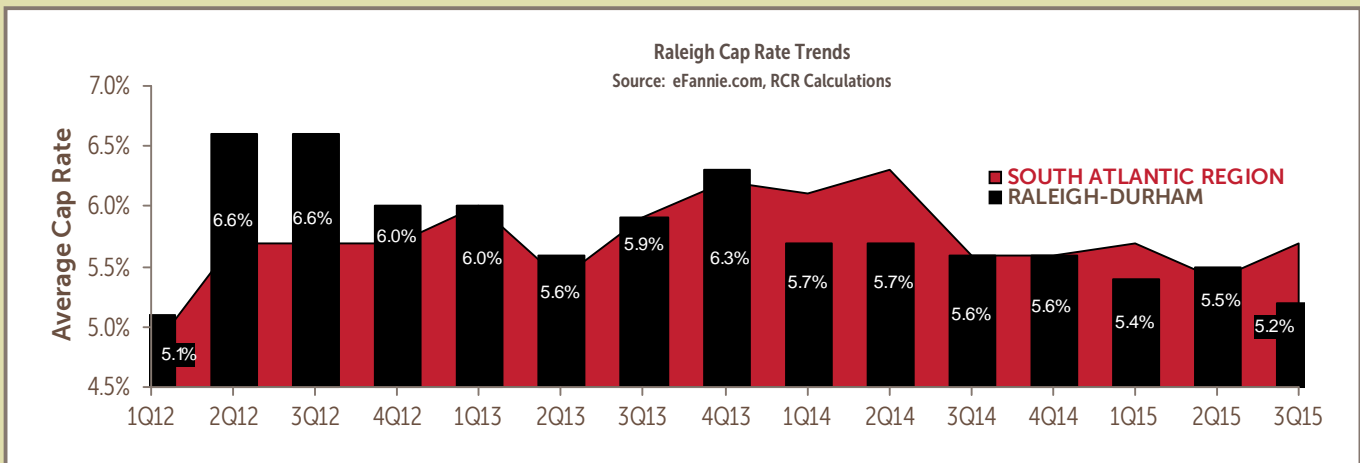
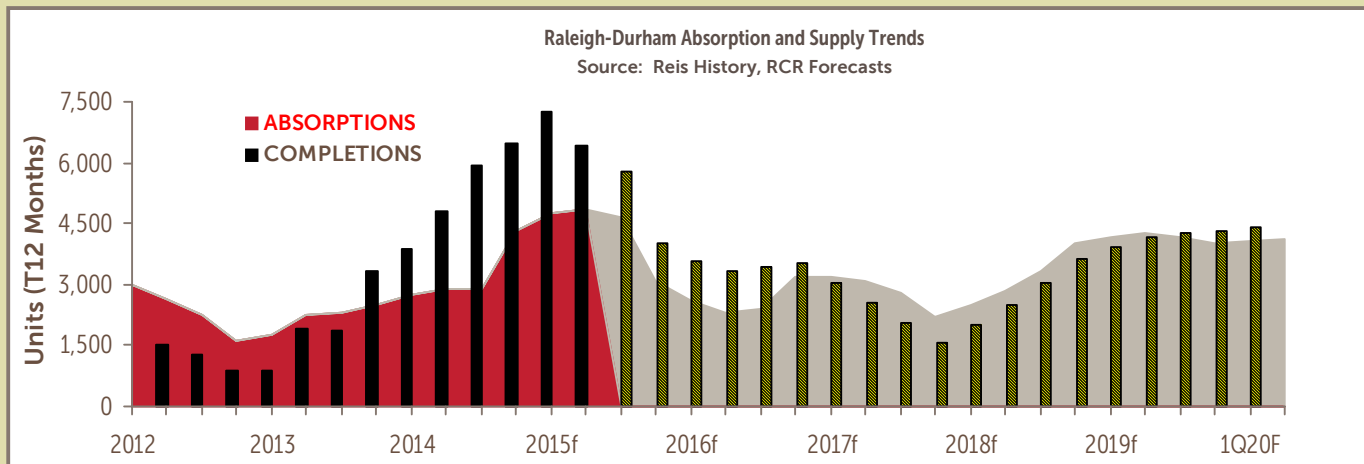
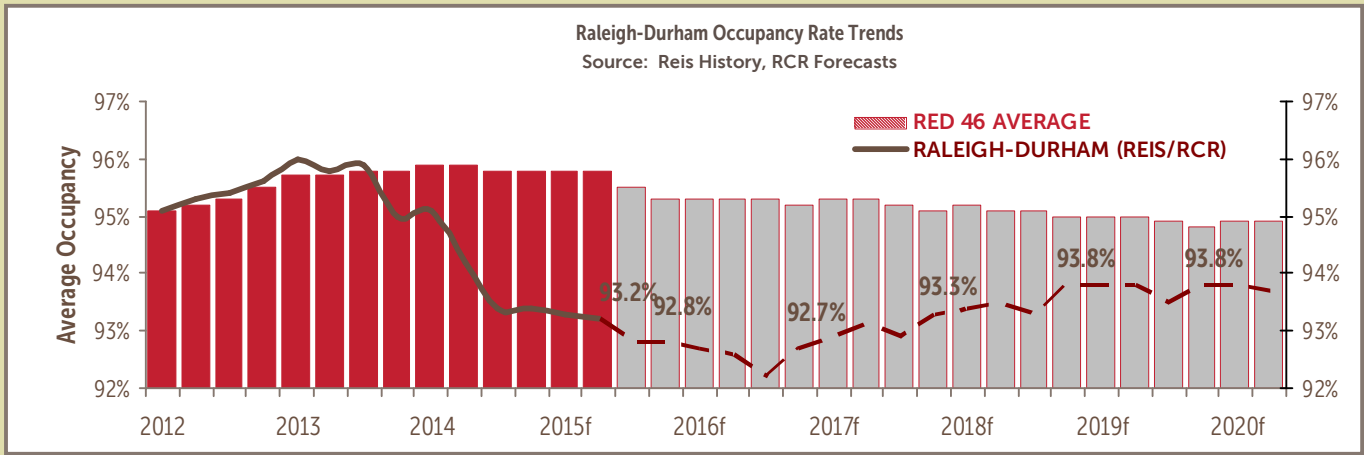
2Q15 PROPERTY MARKETS AND TOTAL RETURNS

Sales velocity regained momentum in the spring as 20 apartment complexes of 120 units or more exchanged hands during 2Q15, up from 15 in 1Q, and on par with 4Q14's strong 22-transaction tally. Proceeds totaled \$539 million, comparable to \$419mm and \$782mm in the prior and penultimate quarters, respectively. In all, 5,272 units exchanged hands at an average price of \$102,188, compared to 3,776 and \$110,844 in 1Q15.

Private REITs, private equity concerns and owner/managers were the predominate buyers. Repositioning plays accounted for the lion's share of trade as the average age of traded properties was 23 years and sales of only three properties aged 10 years or fewer were closed. Class

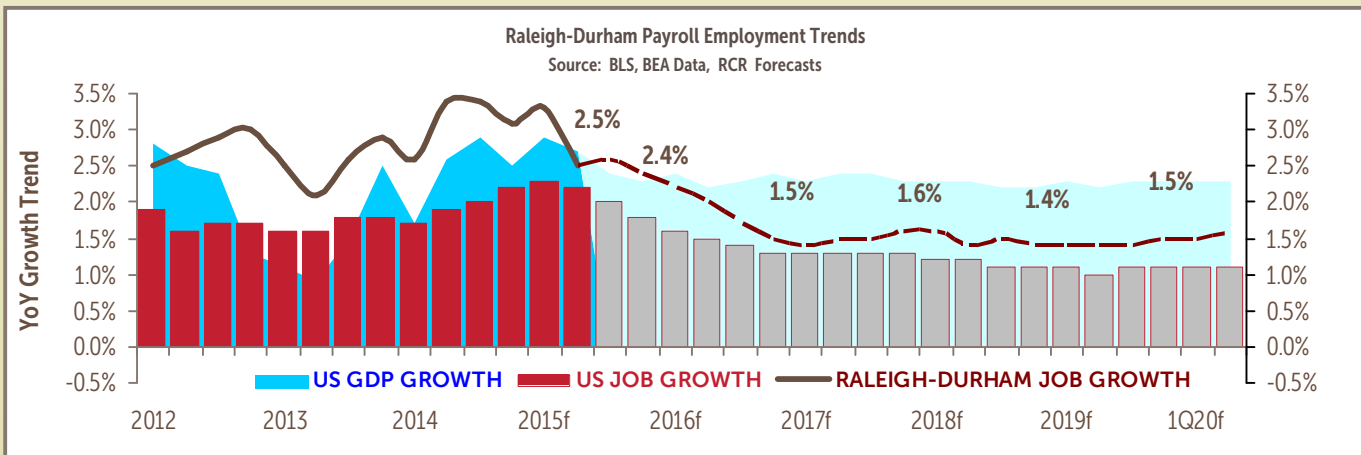
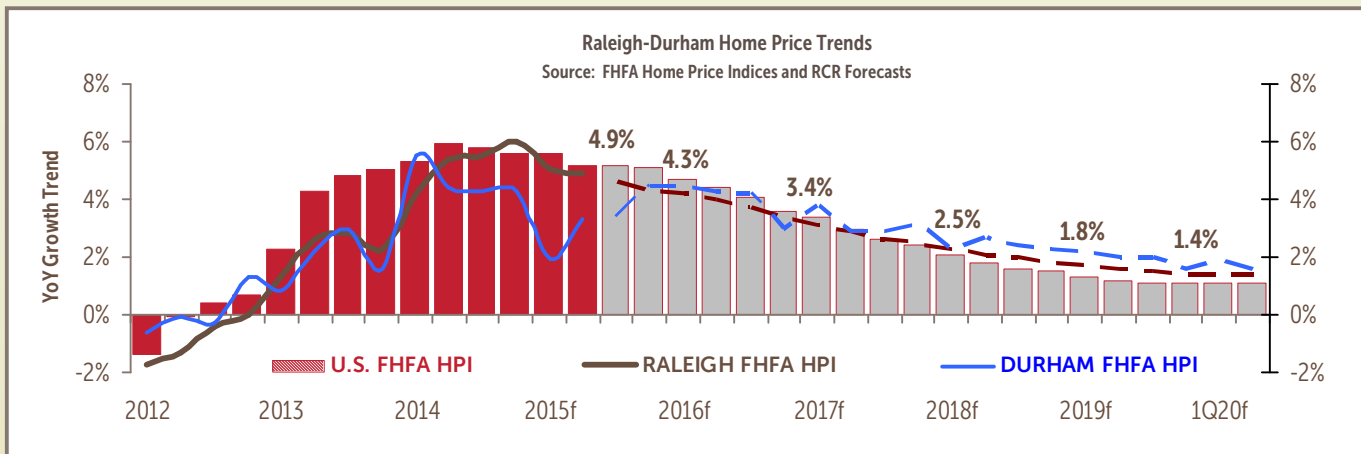
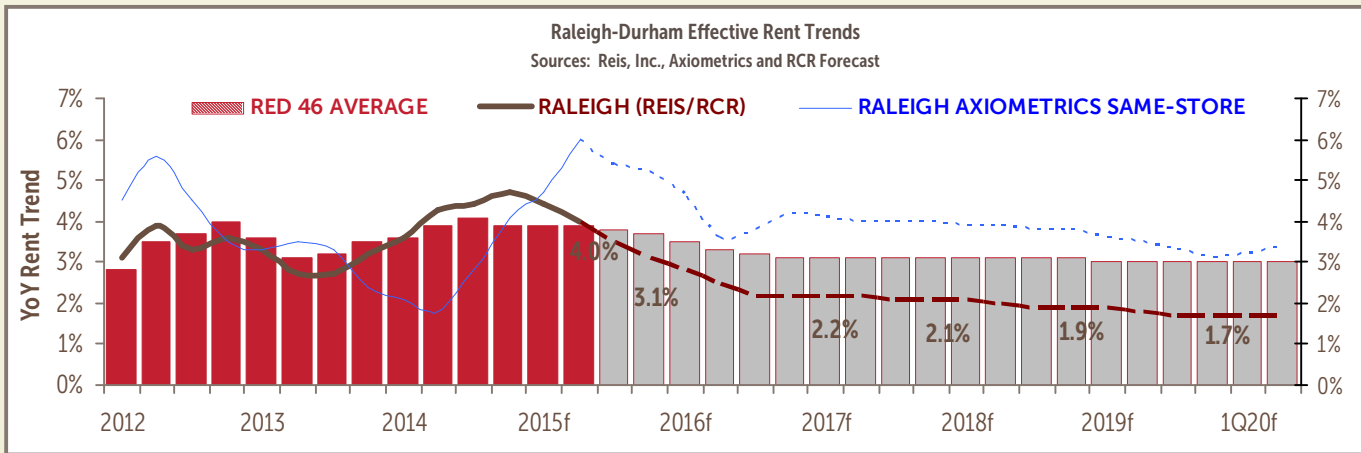
-A properties were valued in the high-4% to low-5% range. Class-B/B+ assets traded to mid-5% yields, while class-B-/C+ properties were valued in the 6% to 6.5% area.

In view of the strong bid for class-B/B+ properties in the mid-5% area, **RCR** elected to reduce the Raleigh cap rate proxy -25 bps to 5.5%. Using this going-in yield, a terminal cap rate of 6.36% and model derived occupancy and rent point estimates, we calculate that a buyer would expect to realize a 5.6% unlevered total rate of return from a Raleigh investment on a five-year hold, ranking 40th among the **RED 46**. Above average rent volatility and model standard error produces lower risk-adjusted returns, contributing to a 2.97 risk-adjusted index, ranked 42nd among the peers.



NOTABLE TRANSACTIONS

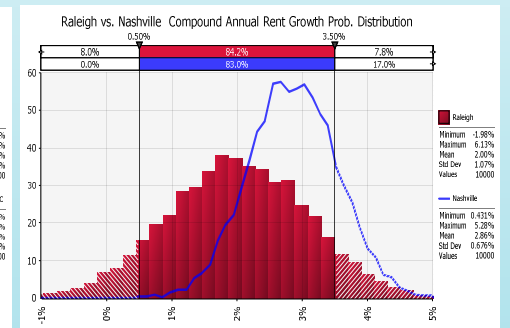
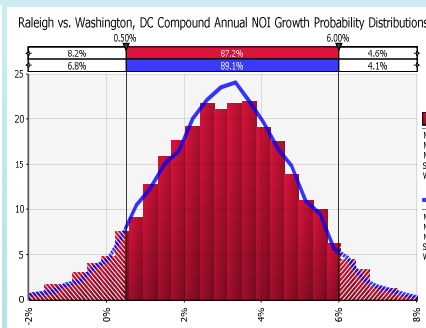
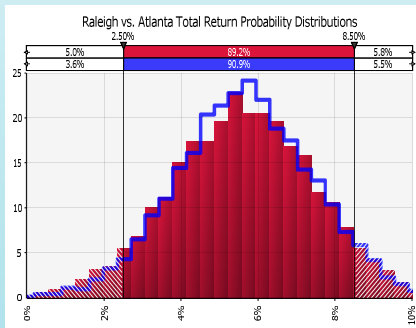
Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
Cary Greens at Preston (Cary)	B+ / GLR (1995)	26-Apr-2015	\$39.8	\$136,301	4.9%
Mission University Pines (South Durham)	C+ / GLR (1989)	30-Apr-2015	\$28.7 (allocated)	\$79,138	6.0%
Altera North Pointe Commons (No. Durham)	B / GLR (2001)	29-Jun-2015	\$36.4	\$113,750	5.7%
Centerview at Crossroads (Hillsborough)	B+ / GLR (2008)	2-Aug-2015	\$59.0	\$157,754	5.0%
Regatta at Lake Lynn (Cary)	B- / GLR (1984)	30-Sep-2015	\$35.8	\$91,199	6.2%



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SUBMARKET TRENDS (REIS)

Submarket	Effective Rent			Physical Vacancy		
	2Q14	2Q15	Change	2Q14	2Q15	Change
Carrboro	\$765	\$805	5.2%	2.3%	7.4%	510 bps
Cary	\$850	\$902	6.2%	3.6%	4.2%	60 bps
Central Raleigh	\$719	\$749	4.1%	9.2%	20.0%	1,080 bps
Chapel Hill	\$912	\$934	2.4%	4.0%	6.5%	250 bps
North Central Raleigh	\$837	\$886	5.8%	3.6%	4.4%	80 bps
North Durham	\$718	\$740	3.1%	3.4%	2.2%	-120 bps
Northeast Raleigh	\$783	\$812	3.8%	6.0%	9.2%	320 bps
Northwest Raleigh	\$823	\$891	8.2%	5.1%	6.8%	170 bps
South Durham	\$827	\$854	3.3%	3.6%	4.4%	80 bps
Southwest Raleigh	\$825	\$828	0.3%	5.2%	6.8%	160 bps
West Durham	\$822	\$885	7.7%	5.7%	10.5%	480 bps
Metro	\$827	\$860	4.0%	5.8%	6.8%	100 bps



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