COLUMBUS, OHIO

MARKET OVERVIEW & MULTIFAMILY HOUSING UPDATE

RED Capital Group | 2Q15 | October 2015

PAYROLL JOB SUMMARY	
Total Payrolls	1,035.4m
Annual Change	20.7m (2.0%)
2015 Forecast	16.7m (1.6%)
2016 Forecast	16.3m (1.5%)
2017 Forecast	16.4m (1.5%)
2018 Forecast	16.7m (1.5%)
Unemployment (NSA)	3.6% (Aug.)

2Q15 PAYROLL TRENDS AND FORECAST

The rate of payroll job creation in Central Ohio decelerated during the spring but early reports suggest the economy regained momentum over the summer. The year-on-year pace of growth declined from 1Q's 22,800-job, 2.3% pace to 20,700 (2.0%) jobs in the second quarter. Weaker trends were evident in some consumer driven sectors, notably construction and retail trade, but faster growth in health care and finance counterbalanced the trend. By contrast, July and August data were encouraging, revealing faster gains in key technical business and health care services sectors and robust growth overall: year-on-year comparisons accelerated to a 28,300-job, 2.8% pace, the fastest rate of growth observed in Columbus since 2012.

Seasonally-adjusted data also exhibited summer vigor. After adding only 3,600 jobs by mid-year, establishments brought on 8,800 workers July and August, according to this series, the largest two-month add in three years.

RED Research statistical analysis finds that the COL economy closely tracks the national trajectory as statistically significant variables include U.S. payroll, GDP and home price growth. The resulting model (adjusted R^2=96.7%, S.E.=0.3%) not surprisingly calls for a convergence of metro and national trend in the 1.5% to 1.7% range after the 2015 spurt is realized. Columbus should continue to produce 14,000 to 18,000 jobs annually through 2020.

OCCUPANCY RATE SUMMARY	
Occupancy Rate (Reis)	95.2%
RED 50 Rank	33rd
Annual Chg. (Reis)	+0.0%
RCR YE15 Forecast	95.0%
RCR YE16 Forecast	95.2%
RCR YE17 Forecast	95.2%
RCR YE18 Forecast	95.1%

2Q15 ABSORPTION AND OCCUPANCY RATE TRENDS

Columbus occupancy continued to recover in the spring quarter following supply driven occupancy rate setbacks last year. Space absorption was surprisingly healthy in spite of soft job numbers and constructive home price appreciation, factors that typically sap demand in this market. Renters leased a net of 932 vacant units, according to Reis, up from 487 and 653 in the prior and year-earlier periods, respectively. Developers delivered 691 units, generating a 20 basis point sequential occupancy increase to 95.2%.

Axiometrics surveys of larger, stabilized properties were more upbeat. These data show occupancy averaging 95.5%, down 10 bps year-on-year. Class-A assets recorded highest occupancy (95.6%), followed closely by class-B (96.2%). Both classes A&B recorded meaningful year-on-year gains. By contrast, class-C occupancy plunged 120 bps y-o-y to 93.0% following a year of sharp rent increases.

Columbus is more than half-way into its supply wave but there are further pressures to bear. Fortunately, the demand outlook is promising. Our model suggests that changes in home price (-) and inventory (+) are the primary factors affecting demand. Both should be moderate positive influences, contributing to a relatively stable occupancy environment for the forecast period. The base case calls for occupancy to hover around equilibrium (95%).level.

EFFECTIVE RENT SUMMARY	
Mean Rent (Reis)	$743
Annual Change	3.2%
RED 50 Rent Change Rank	31st
RCR YE15 Forecast	2.4%
RCR YE16 Forecast	2.3%
RCR YE17 Forecast	2.2%
RCR YE18 Forecast	2.1%

2Q15 EFFECTIVE RENT TRENDS

After stalling in the first quarter, vigorous rent growth returned to the Central Ohio market in 2Q15. Average effective rent increased $7 (1.0%) sequentially to $743, according to Reis, up from $2 (0.3%) in 1Q15. Expressed on a year-on-year basis, rents advanced 3.2%, down from 3.4% and 3.8%, in the prior and penultimate quarters, respectively.

Axiometrics surveys of larger, stabilized same-store properties recorded a 3.0% unit-weighted average y-o-y rent change, down from 4Q14's recent peak of 4.1% and 3.8% in the prior quarter. Class-C assets notched the fastest growth (4.1%) again, while classes-B (3.0%) and –A (0.8%) trailed.

Only class-A exhibited growth acceleration, rising from 1Q15's slim 0.4% gain. Submarkets with largely class-C inventories posted faster growth, notably Southeast (4.1%), Grove City (3.7%) and Whitehall (3.1%), while higher rent Downtown/OSU (2.1%) and Arlington (2.7%) lagged behind.

RCR's modeling exercise finds that inventory growth (+) and sequential occupancy change (-) are the greatest influences on rents. Occupancy will be a neutral force, supply negative through 2016. But supply will be less of a drag starting in 2017. So, rents are likely to continue to decelerate to the mid–2% area before plateauing in 2017 to 2020.

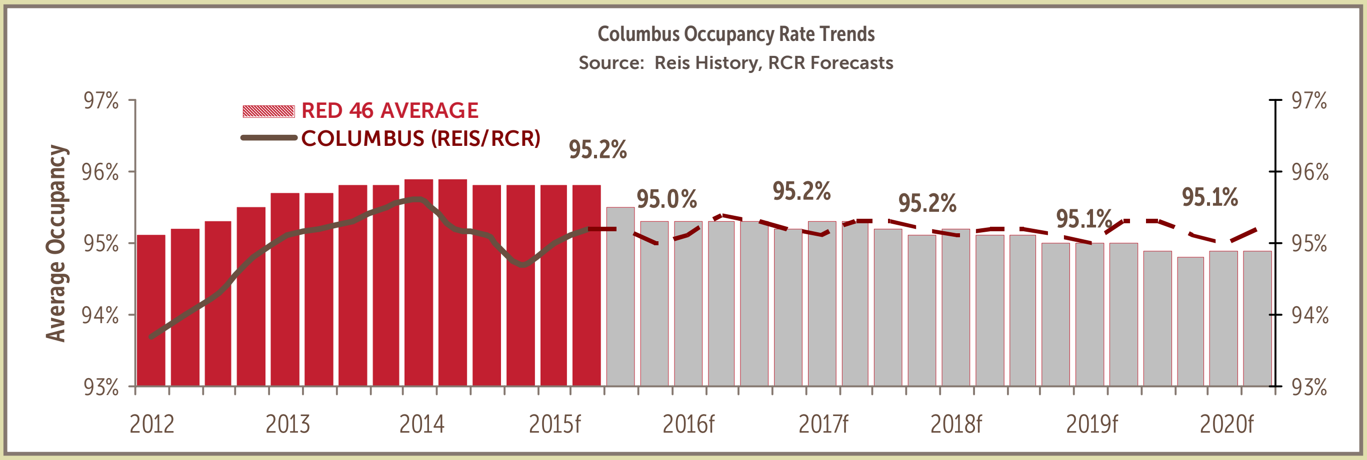
TRADE & RETURN SUMMARY	
$3mm+ / 80-unit+ Sales	6
Approx. Proceeds	$43.5mm
Avg. Cap Rate (FNM)	6.0%
Avg. Price/Unit	$47,089
Expected Total Return	7.5%
RED 46 ETR Rank	15th
Risk-adjusted Index	4.77
RED 46 RAI Rank	23rd

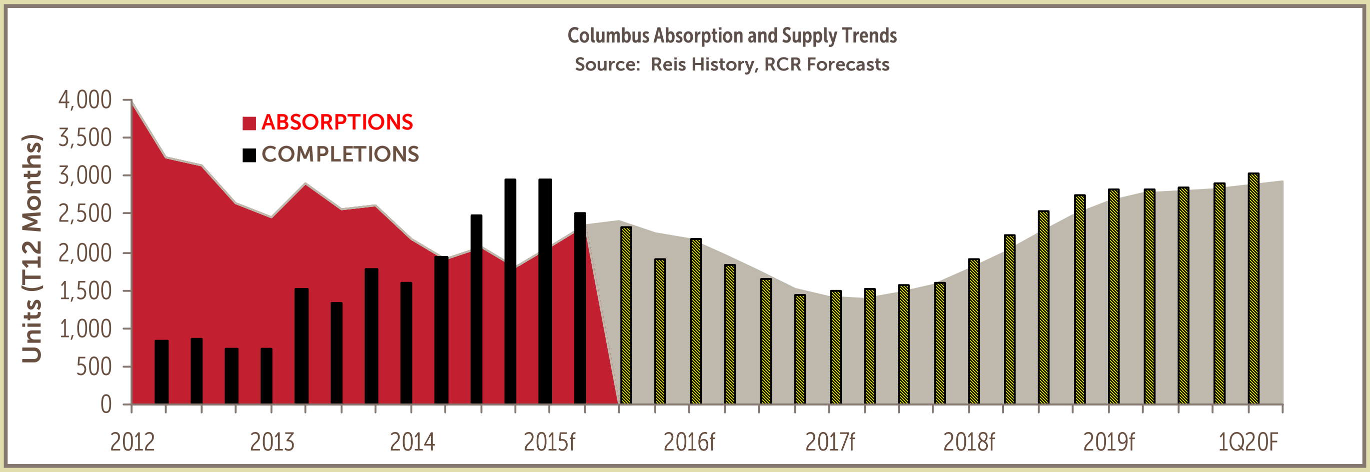
2Q15 PROPERTY MARKETS AND TOTAL RETURNS

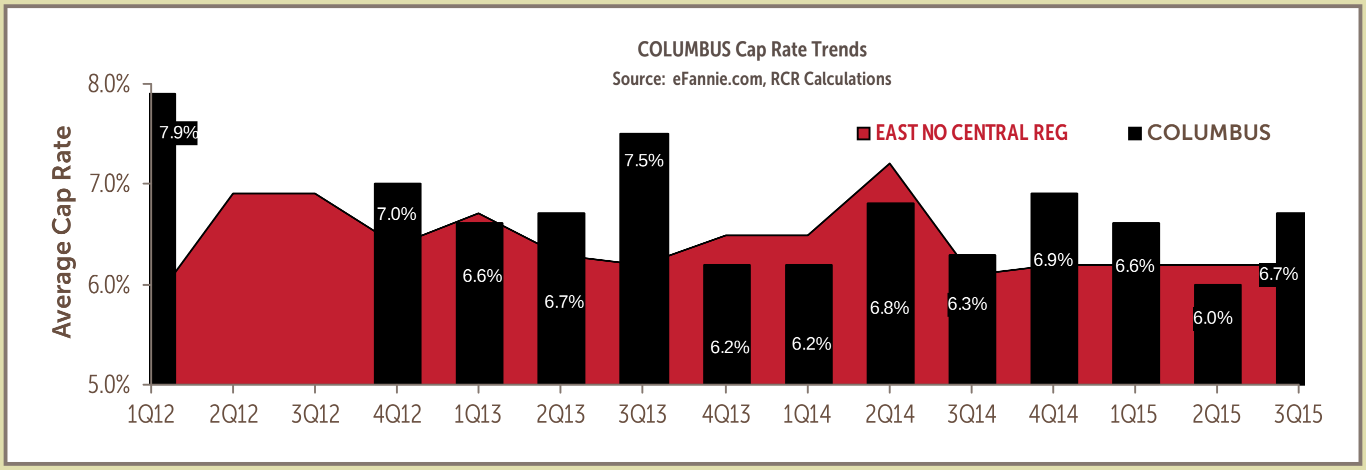
Sales velocity proceeded at a deliberate pace as investors acquired six properties during the second quarter, up from five during 1Q15. Deal size decreased as 2Q trades involved 923 units and generated $43.5 million of proceeds, down from 2,033 and $86.8mm, respectively, in the prior quarter. Conversely, the average price paid per unit increased moderately, rising from $42,671 to $47,086 in 2Q.

As evident from the price/unit metric, there were no class-A property transaction during the quarter. With the exception of a 7-year old class-B Dublin asset, all traded properties were class-C. The average age was 35 years and the average price/square foot was $45.18. Class-B cap rates fell in the mid-6% to 7% range, while class-C assets traded to going-in yields from 7% to 10%.

RCR saw no evidence of cap rate compression and elected to maintain its 6.75% generic class-B+ cap rate proxy, second highest among the RED 46. Employing this purchase cap rate, model derived rent and occupancy point estimates and a 7.6% exit cap rate, RCR estimate that Columbus investors would expect to achieve a 7.5% unlevered total return over a 5-year hold. The figure ranks 15th highest overall and second among Midwest metros in the RED 46 after Cleveland. High absorption volatility hampers risk-adjusted returns, COL's RAI ranks #23.

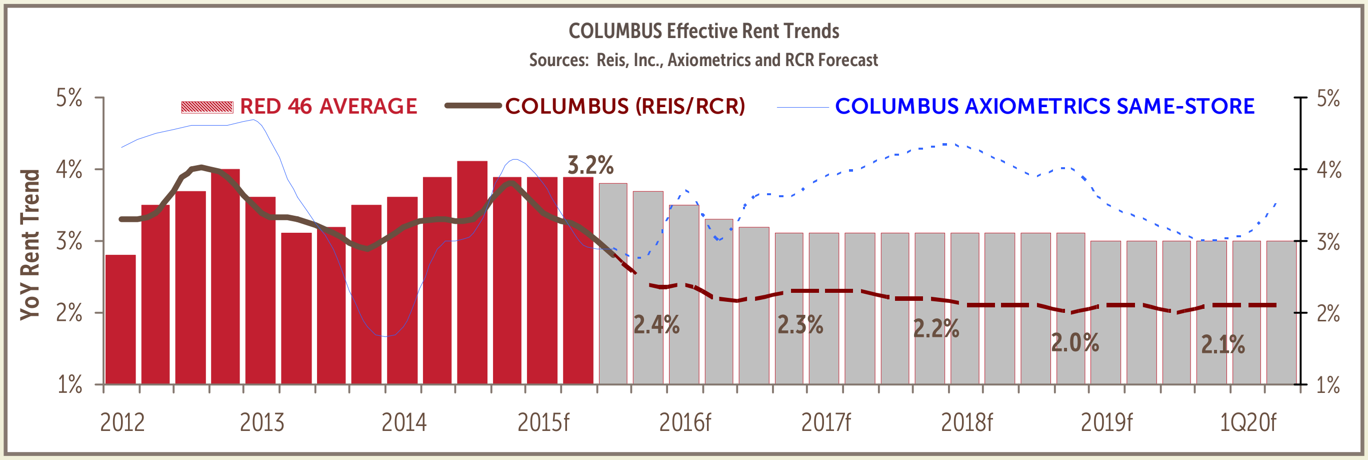


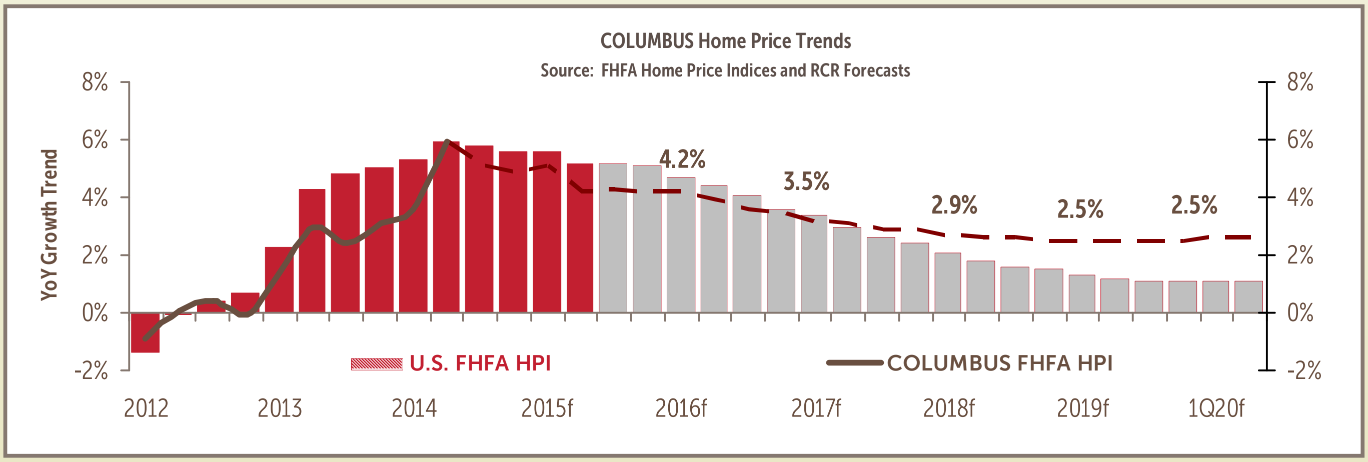


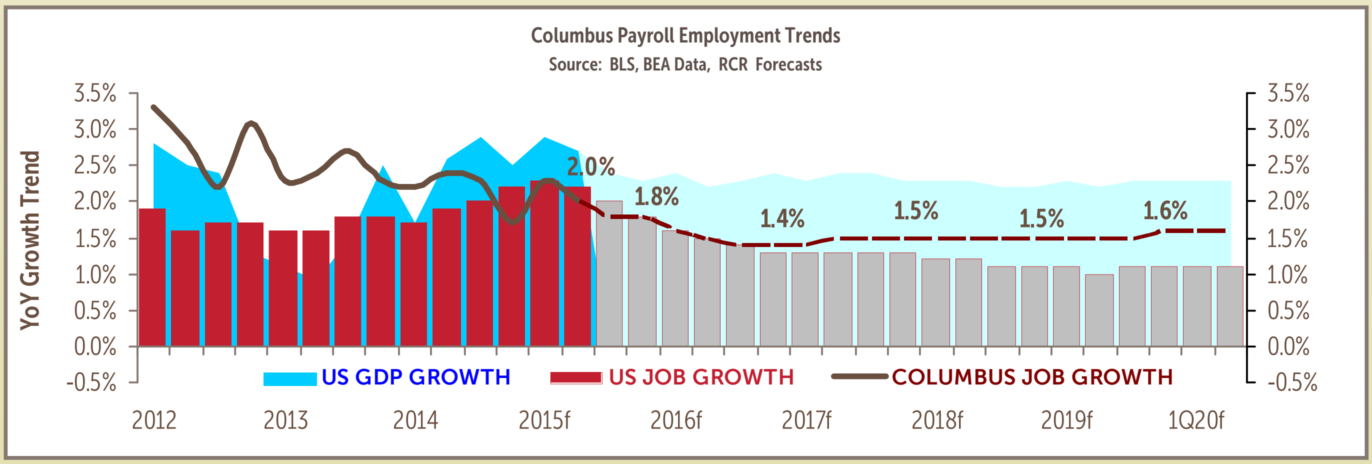


NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
Residences at Edgewater Place (Whitehall)	B / Condo (2007)	2-May-2015	$9.0 (approx.)	$60,811	6.8%
Mayfair Village (Whitehall/Gahanna)	C / GLR (1948)	3-May-2015	$9.0	$25,862	10.0%
Collier Crest (Grove City)	B / GLR (2001)	18-Jul-2015	$14.6	$62,931	7.0%
Harvest Grove Apts. (Whitehall/Gahanna)	C+ / GLR (1986)	18-Jul-2015	$6.2	$47,142	7.8%
Arbors at Turnberry (Groveport/Canal Winch)	B+ / GLR (2008)	1-Sep-2015	$21.0	$125,749	6.6%







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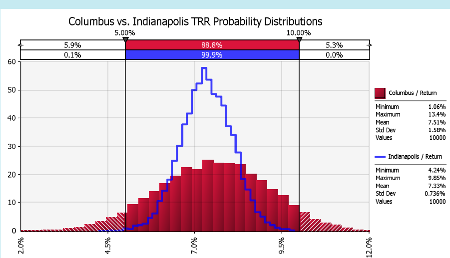
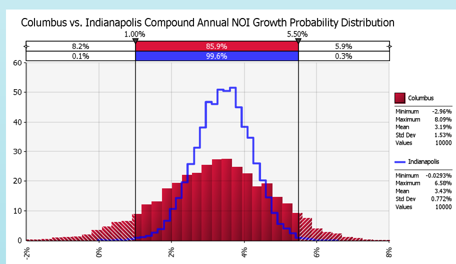
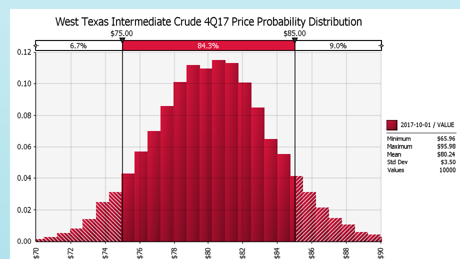
SUBMARKET TRENDS (REIS)

Submarket	Effective Rent			Physical Vacancy		
	2Q14	2Q15	Change	2Q14	2Q15	Change
Bexley	$663	$658	-0.8%	8.4%	6.3%	-210 bps
Dublin / Powell	$766	$838	9.4%	4.1%	3.7%	-40 bps
Grove City	$649	$669	3.2%	5.5%	5.1%	-40 bps
Groveport	$659	$682	3.5%	3.0%	2.4%	-60 bps
Hilliard	$788	$822	4.2%	6.6%	7.3%	70 bps
Northeast	$635	$653	2.9%	3.4%	2.6%	-80 bps
Sharon / Worthington	$675	$710	5.1%	3.7%	4.2%	50 bps
Southeast	$553	$563	2.0%	4.1%	3.7%	-40 bps
OSU / Downtown	$883	$909	3.0%	5.4%	6.1%	70 bps
Upper Arlington	$773	$786	1.7%	3.6%	3.1%	-50 bps
Westerville	$879	$902	2.6%	4.8%	8.9%	410 bps
Whitehall / Gahanna	$642	$664	3.4%	4.8%	4.0%	-80 bps
Metro	$720	$743	3.2%	4.8%	4.8%	0 bps







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