AUSTIN, TEXAS

MARKET OVERVIEW & MULTIFAMILY HOUSING UPDATE

RED Capital Group | 2Q15 | October 2015

PAYROLL JOB SUMMARY	
Total Payrolls	945.9m
Annual Change	30.4m (3.3%)
RCR 2015 Forecast	30.8m (3.4%)
RCR 2016 Forecast	33.8m (3.6%)
RCR 2017 Forecast	31.8m (3.3%)
RCR 2018 Forecast	32.3m (3.2%)
Unemployment (NSA)	3.2% (Aug.)

2Q15 PAYROLL TRENDS AND FORECAST

The rate of Austin payroll employment gained momentum during the second quarter, accelerating from 1Q15's 26,500-job, 2.9% year-on-year increase to a 30,400-job, 3.3% pace. Progress was predominately attributable to faster hiring in the non-professional and technical business, accommodations, health care and food services sub-sectors. These industries expanded at a 13,500-job, 5.1% annual rate, up from 7,400 (3.0%) jobs during 1Q15.

Seasonally-adjusted data also exhibited growing strength. This series recorded a net increase of 13,000 jobs April to June, up from 7,600 jobs in the prior quarter and 8,000 in the year-earlier period. July and August data were constructive. Twelve-month not-seasonally-adjusted comparisons were on-par with 2Q15 results, and seasonally-adjusted data showed a net two-month hire of 5,100 workers, consistent with a 30,600-job annual run rate.

RED Research elected to specify a complex payroll employment model to achieve the lowest possible standard error. Independent variables include U.S. payroll, GDP, and nominal GDP growth, home prices appreciation, the slope of the yield curve, and six lags of the dependent variable. The 98.6% adjusted-R^2 (S.E.=0.3%) model produces a stable forecast of 3% to 3.5% annual growth rates, translating to annual adds of 30,000 to 33,000 jobs.

OCCUPANCY RATE SUMMARY	
Occupancy Rate (Reis)	94.0%
RED 50 Rank	47th
Annual Chg. (Reis)	-1.0%
RCR YE15 Forecast	93.7%
RCR YE16 Forecast	94.5%
RCR YE17 Forecast	95.2%
RCR YE18 Forecast	94.3%

2Q15 ABSORPTION AND OCCUPANCY RATE TRENDS

Renters net leased the fewest vacant units in any quarter since 1Q14, according to Reis, absorbing a total of 1,438, down from an average of 1,724 during the preceding four quarters. By the same token, supply levels remained elevated as developers delivered 1,916 units. As a result, occupancy fell 20 basis points sequentially and 100 bps year-over-year to 94.0%, lowest level in four years.

Axiometrics surveys of 450 stabilized, larger properties recorded a 94.5% average occupancy rate, down 20 basis points y-o-y. Class-C (95.8%) retained its longstanding occupancy leadership, followed by classes-B (94.9%) and –A (92.6%). Only class-A recorded a y-o-y advance (10 bps), while B & C each declined -20 bps. Near North Central (96.3%) and Round Rock (96.0%) submarkets reported the highest occupancy; no submarket recorded less than 94%. New assets absorbed an average of 12 units per month, equating to a typical 21-month lease-up to stabilization.

RCR specified a 90.6% ARS (S.E.=0.4%) demand model using inventory (+), payroll (+), nominal GDP (-) and rent (+) growth and vacancy (+) as independent variables. The equation projects healthy demand for 6,000 to 8,000 units per year throughout the forecast period. But supply levels are likely to rise again so long as investment returns are high, sending occupancy back to the 93.5% area by 2019.

EFFECTIVE RENT SUMMARY	
Mean Rent (Reis)	$959
Annual Change	4.9%
RED 50 Rent Change Rank	10th
RCR YE15 Forecast	4.8%
RCR YE16 Forecast	4.5%
RCR YE17 Forecast	5.1%
RCR YE18 Forecast	4.2%

2Q15 EFFECTIVE RENT TRENDS

Rent growth reaccelerated after a uncharacteristic $7 (0.8%) advance during 1Q15. Reis report that average effective rents increased $14 (1.5%), representing the second fastest sequential quarter gain since 2007. Class-A properties provided the principal impetus: asking rents surged 1.6% quarter-to-quarter versus 0.5% for classes-B&C. Rent growth expressed on a year-on-year basis also accelerated, rising from 4.4% in 1Q15 to 4.9%, 10th among the RED 50.

Axiometrics surveys of larger, professionally-managed same-store properties also uncovered faster rent growth. Rents in this sample increased at a 5.5% y-o-y rate, up from 4.7% in the prior quarter. Class-C recorded the fastest advance — 6.2% (up 21% in 3 years). Hampered by a 30% increase in concessions, class-A posted the smallest gain (3.7%). North Travis (7.5%), Northwest and Southeast (6.9%) chalked down the fastest growth; Central (1.5%) slowest.

RCR statistical analysis finds that the rate of change of payroll growth, home appreciation (+) and the articulation of lagged supply and absorption are the primary factors influencing Austin rent growth. Each factor is expected to have a small moderating effect. Still, the model projects y-o-y gains in the mid–4% to low-5% range through 2018.

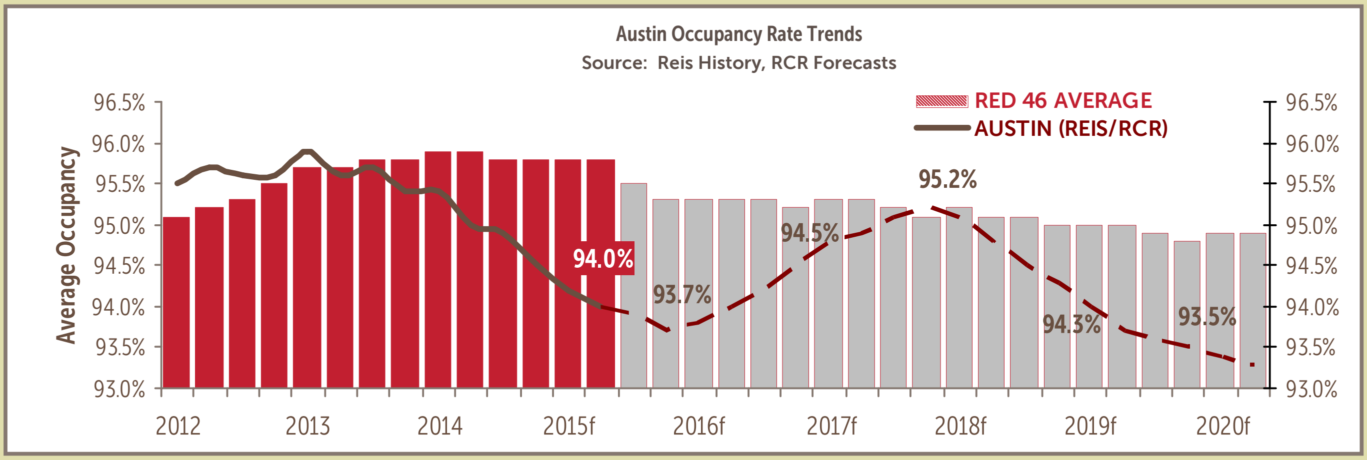
TRADE & RETURN SUMMARY	
$5mm+ / 120-unit+ Sales	18
Approx. Proceeds	$590mm
Avg. Cap Rate (FNM)	5.3%
Avg. Price/Unit	$129,324
Expected Total Return	8.7%
RED 46 ETR Rank	2nd
Risk-adjusted Index	4.26
RED 46 RAI Rank	31st

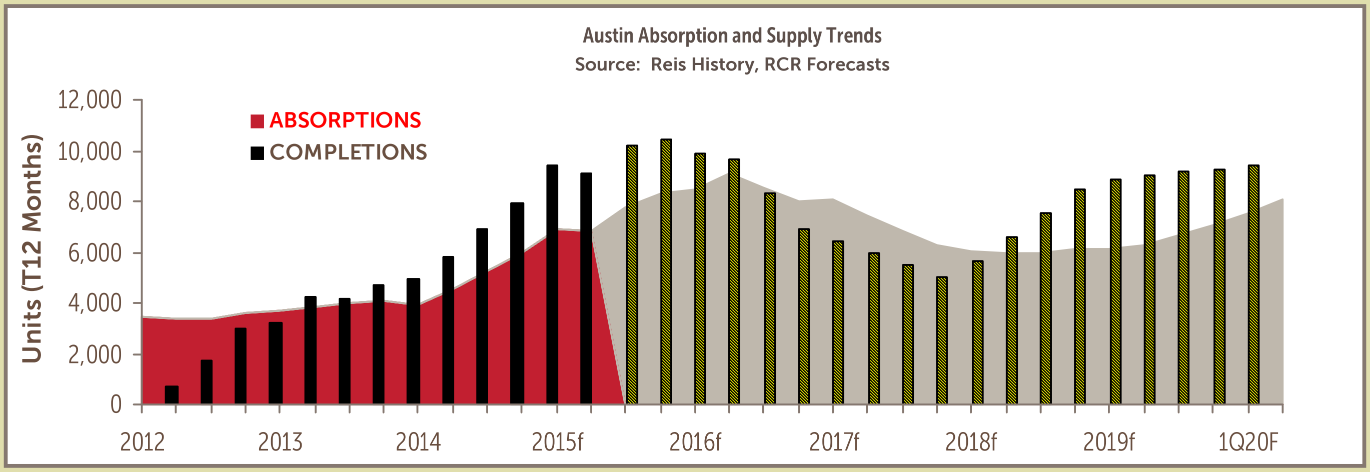
2Q15 PROPERTY MARKETS AND TOTAL RETURNS

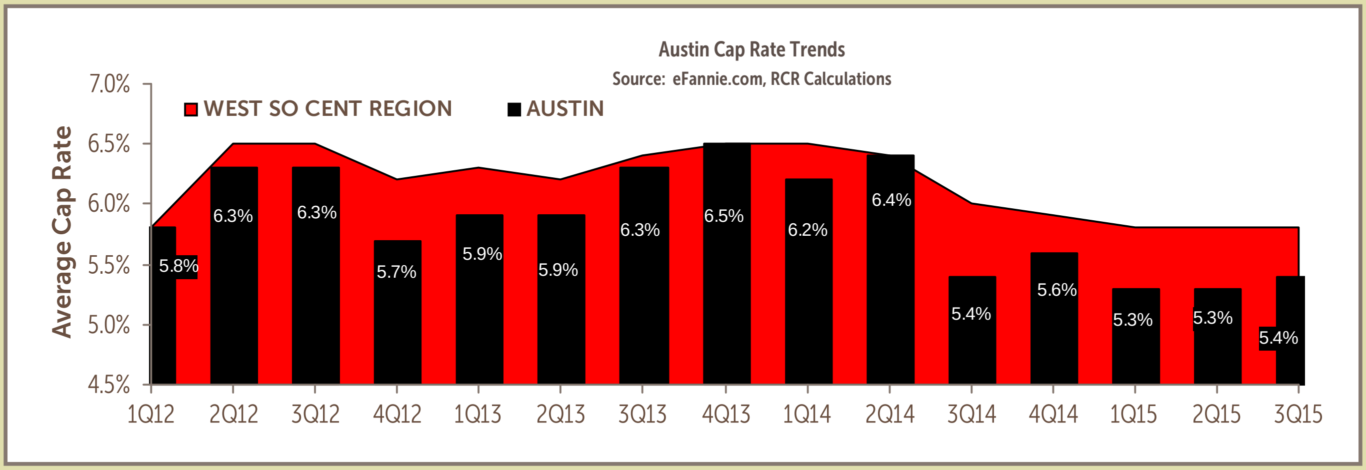
Sales velocity decelerated during the spring quarter as buyers acquired 18 Austin apartment complexes, down from 30 over the winter. Proceeds declined to an estimated $591 million from $1,100mm due in part to the slower velocity and to the smaller size of properties in the mix. The average age of sold assets increased by four years to 17, while the cost of units sold for which price data is available was essentially unchanged at approximately $129,000. Transaction activity was steady during 3Q15, as velocity totaled 18 trades and proceeds about $593mm.

Class-A/B+ infill and suburban properties traded to high-4% to low-5% cap rates. Class-B 10– to 15-year old properties traded to going in yields in the mid-5% area. Class-B-/C+ complexes were priced to yield 6% to 7%.

RED Research elected to maintain its 5.0% purchase cap rate proxy for the Austin market. Using this going-in yield, a terminal cap rate of 5.71% and model derived occupancy and rent point estimates, we estimate that an investor in a typical Austin property would expect to achieve an 8.7% five-year unlevered total return, ranking second among the RED 46 and 180 basis points above the group average. Although Austin's performance model standard errors are near normal, its economy is volatile relative to the norm. As a result, it ranks only 31st on a risk-adjusted index basis.

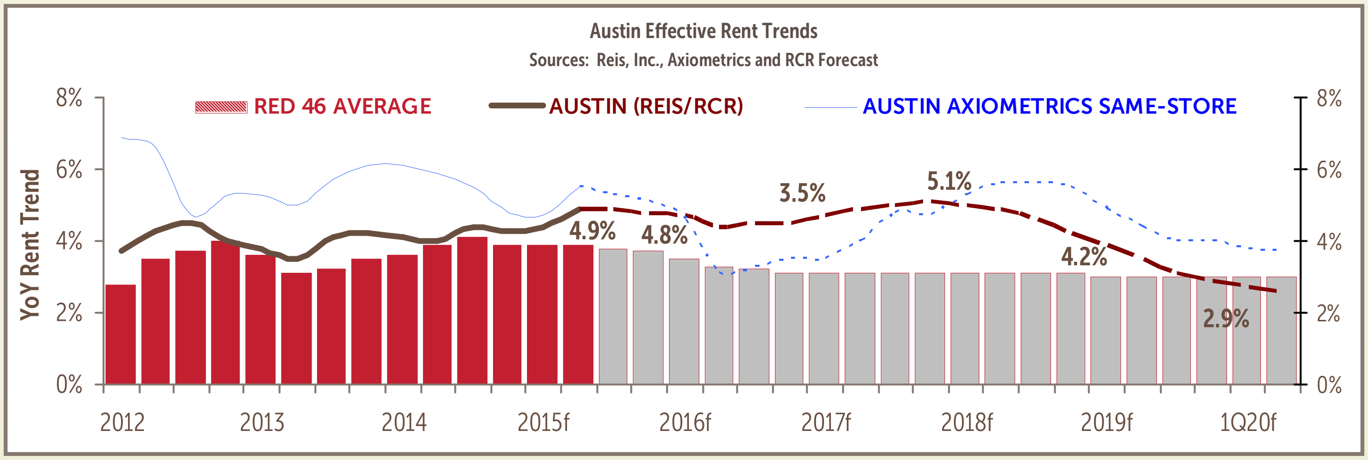


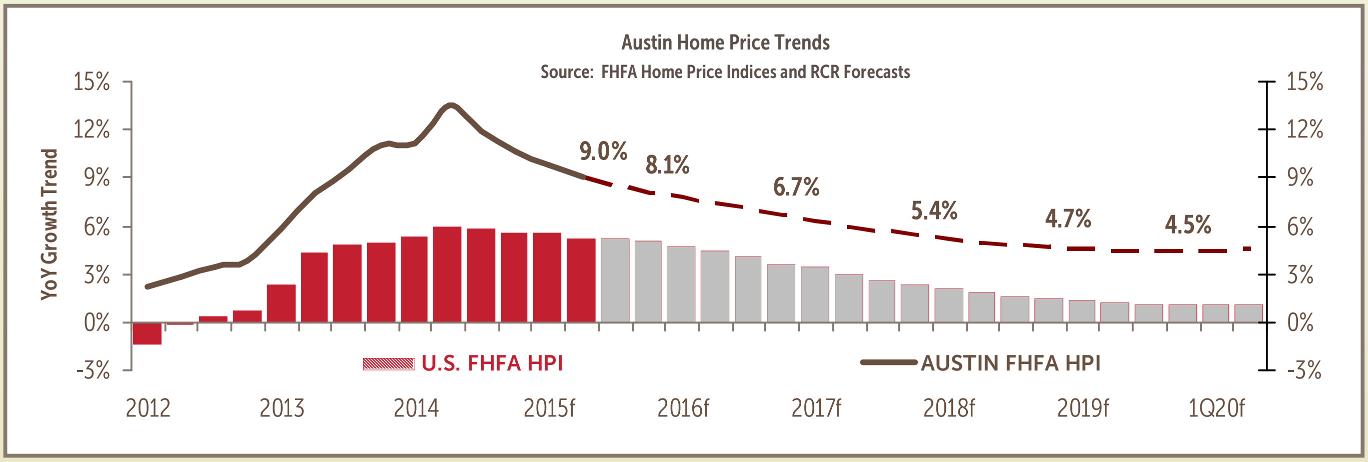


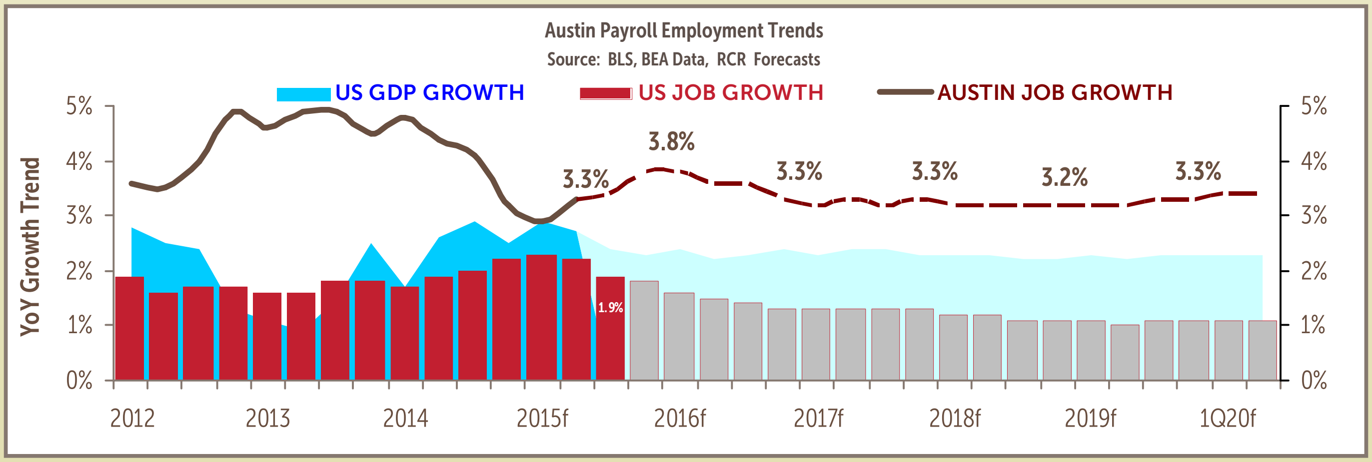


NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
The Kenzie at the Domain (Far Northwest)	A- / MR (2014)	28-May-2015	$63.5	$227,599	5.0%
Bexley at Anderson Mill (Hwy 183/Cedar Park)	B / GLR (2007)	29-May-2015	$54.0	$145,161	4.9%
Park at Walnut Creek (Northeast)	B- / GLR (2004)	29-May-2015	$47.0 (est.)	$102,174	5.8%
Springs at Tech Ridge (North Travis County)	B+ / GLR (2014)	23-Aug-2015	$47.8	$139,620	4.9%
Wyndhaven Wells Branch (North Travis Co.)	B / GLR (1996)	23-Aug-2015	$30.4	$110,301	5.7%
Marquis at Tech Ridge (North Travis County)	B- / GLR (2008)	15-Sep-2015	$36.0	$103,448	5.7%

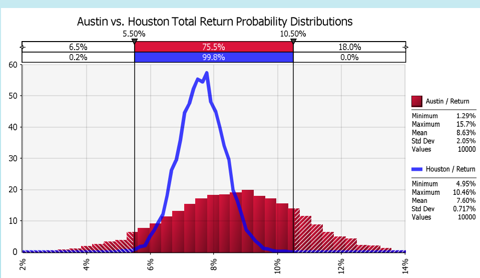

Austin Effective Rent Trends
Sources: Reis, Inc., Axiometrics and RCR Forecast
RED 46 AVERAGE
AUSTIN (REIS/RCR)
AUSTIN AXIOMETRICS SAME-STORE
YoY Rent Trend
8%
6%
4%
2%
0%
4.9%
4.8%
3.5%
5.1%
4.2%
2.9%
2012
2013
2014
2015f
2016f
2017f
2018f
2019f
1Q20f

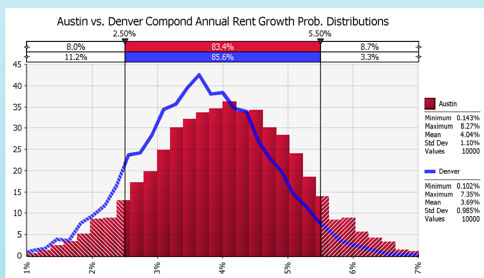

Austin Home Price Trends
Source: FHFA Home Price Indices and RCR Forecasts
YoY Growth Trend
15%
12%
9%
6%
3%
0%
-3%
9.0%
8.1%
6.7%
5.4%
4.7%
4.5%
U.S. FHFA HPI
AUSTIN FHFA HPI
2012
2013
2014
2015f
2016f
2017f
2018f
2019f
1Q20f

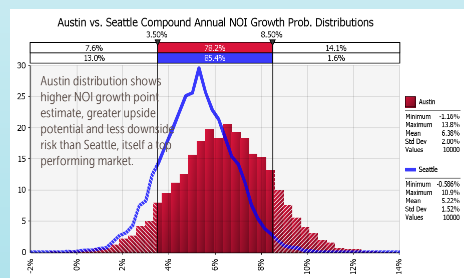

Austin Payroll Employment Trends
Source: BLS, BEA Data, RCR Forecasts
US GDP GROWTH
US JOB GROWTH
AUSTIN JOB GROWTH
YoY Growth Trend
5%
4%
3%
2%
1%
0%
3.8%
3.3%
3.3%
3.3%
3.2%
3.3%
1.9%
2012
2013
2014
2015f
2016f
2017f
2018f
2019f
1Q20f

SUBMARKET TRENDS (REIS)

Submarket	Effective Rent			Physical Vacancy		
	2Q14	2Q15	Change	2Q14	2Q15	Change
Central	$1,161	$1,243	7.1%	8.5%	11.7%	320 bps
East	$778	$808	3.7%	6.6%	6.8%	20 bps
Far North Central	$651	$670	2.8%	5.7%	4.9%	-80 bps
Far Northwest	$979	$1,047	6.9%	3.1%	4.3%	120 bps
Far South	$1,008	$1,043	3.5%	4.7%	6.3%	160 bps
Highway 183 / Cedar Park	$840	$866	3.1%	4.5%	4.6%	10 bps
Near North Central	$804	$827	2.9%	2.0%	1.6%	-40 bps
Near Northwest	$873	$911	4.3%	1.6%	1.3%	-30 bps
Near South Central	$1,035	$1,103	6.5%	8.6%	10.9%	230 bps
North Travis	$854	$874	2.4%	4.4%	4.2%	-20 bps
Ranch Rd 620N / FM2222	$1,149	$1,198	4.3%	5.4%	11.9%	650 bps
Round Rock/Georgetown	$890	$943	6.0%	3.0%	4.9%	190 bps
San Marcos / No. Hays Co	$835	$868	4.0%	5.2%	6.4%	120 bps
Southeast	$845	$885	4.7%	5.7%	5.3%	-40 bps
Metro	$914	$959	4.9%	5.0%	6.0%	100 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