

PAYROLL JOB SUMMARY

Total Payrolls	2,378.7m
Annual Change	91.6m (4.0%)
RCR 2015 Forecast	87.0m (3.8%)
RCR 2016 Forecast	64.3m (2.7%)
RCR 2017 Forecast	63.6m (2.6%)
RCR 2018 Forecast	59.5m (2.4%)
Unemployment (NSA)	3.8% (Aug.)

2Q15 PAYROLL TRENDS AND FORECAST

Dallas employment growth maintained a blistering pace during the second quarter, growing at a 91,000-job, 4.0% year-on-year rate, representing the third consecutive quarter of 4% or faster expansion. Financial, business, health care and leisure services were the mainstays, collectively adding workers to payrolls at a 48,800-job, 5.5% annual rate, on par with the prior quarter. By contrast, employment growth in goods producing sectors was moderately weaker as construction, manufacturing and wholesale trade headcounts grew at a 10,400-job pace, less than one-half of 1Q15's 21,400-job y-o-y advance.

Seasonally-adjusted data were volatile with large monthly gains punctuated by smaller sequential losses. Overall,

this series shows Dallas added a net of 23,400 jobs during 2Q15, the fifth largest one-quarter gain since 2000. But preliminary data point to a slower start for 3Q15, as only 7,100 new positions were added in July and August.

RED Research chose a forecasting equation with only two lags of the dependent variable to better reflect Dallas's sensitivity to changes of macroeconomic events. The 98.6% adjusted-R² (S.E.=0.3%) model employs US payroll and personal consumption expenditure growth and the rate of change of the fed funds rate as independent variables. The resulting forecast calls for a slowdown to a 60,000-70,000 job annual run rate by 2016, followed by steady 2.1%-2.6% growth for the duration of the forecast.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	95.3%
RED 50 Rank	32 nd
Annual Chg. (Reis)	+0.1%
RCR YE15 Forecast	94.9%
RCR YE16 Forecast	95.8%
RCR YE17 Forecast	95.3%
RCR YE18 Forecast	94.6%

2Q15 ABSORPTION AND OCCUPANCY RATE TRENDS

Reis report that demand for apartment space receded during the second quarter as renters net leased 1,774 vacant units, down from 2,564 during the seasonally weaker first quarter (typically, tenants absorb 60% more units in 2Q than 1Q) and 2,325 in the year-earlier period. Supply declined as well, contributing to the demand dip, falling from 2,217 units in 1Q to 1,507. As a result, occupancy increased 10 basis points sequentially and year-on-year to 95.3%, a 14-year high for this typically well-supplied market.

Axiometrics surveys of 1,158 stabilized professionally-managed assets recorded 95.3% average occupancy, up 60 bps y-o-y. Class-B properties maintained the market lead,

posting a 95.6% average, bettering both classes-A and -C by 80 bps. Garland and Carrollton reported the highest occupancies among submarkets; Richardson lowest. Apartments in lease-up absorbed an average of 15 units/month, equating to a 19-month average period to stabilization.

RCR specified a 95.1% ARS demand model with vacancy (+), 10-year Treasury rate (-), supply (+), job (+) and rent (+) growth as independent variables. The model projects strong absorption trends through 2016, pushing occupancy higher despite heavy supply. The balance is likely to shift toward the supply side of the ledger afterward, sending metro occupancy back below 95% in three year's time.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$891
Annual Change	5.1%
RED 50 Rent Change Rank	8 th
RCR YE15 Forecast	4.3%
RCR YE16 Forecast	3.3%
RCR YE17 Forecast	3.4%
RCR YE18 Forecast	3.2%

2Q15 EFFECTIVE RENT TRENDS

Robust rent growth continued during the second quarter. Reis report that average rent increased 1.0% sequentially to \$891, the fifth consecutive quarterly gain of 1% or faster. Expressed on a year-on-year basis rents advanced 5.1%, representing the fastest annual growth rate recorded since 1999, ranking Dallas 8th among the RED 50 markets.

Axiometrics surveys of stabilized, same-store properties recorded unit-weighted average y-o-y rent growth of 6.9%, up from 5.9% in the prior quarter and the fastest rate in four years. Classes-B and -C posted the strongest growth, both notching 7.3% gains; class-A trailed (4.5%). Concessions plunged to -0.4% of asking rent from -0.9% in the year-

earlier period. Irving submarkets reported the fastest y-o-y growth, topping 8%; while Oaklawn (3.7%), Denton Co. (3.8%) and Northwest (2.7%) lagged behind. New construction rents made little headway, rising an average of 2.5%.

RCR finds that U.S. and metro payroll and metro home price growth and lagged vacancy rates are the most statistically significant predictors of Dallas rent growth. The resulting 97.3% ARS (S.E.=0.4%) model projects 4%+ growth through year-end, followed by gains in the mid- to high-3% range in 2016 and 2017. Rents are projected to advance at a compound annual growth rate of 3.2% over the five-year forecast period, ranking #18 fastest among the RED 46.

TRADE & RETURN SUMMARY

\$5mm+ / 80-unit+ Sales	43
Approx. Proceeds	\$1,105mm
Avg. Cap Rate (FNM)	5.6%
Avg. Price/Unit	\$88,148
Expected Total Return	7.5%
RED 46 ETR Rank	15 th
Risk-adjusted Index	10.01
RED 46 RAI Rank	3 rd

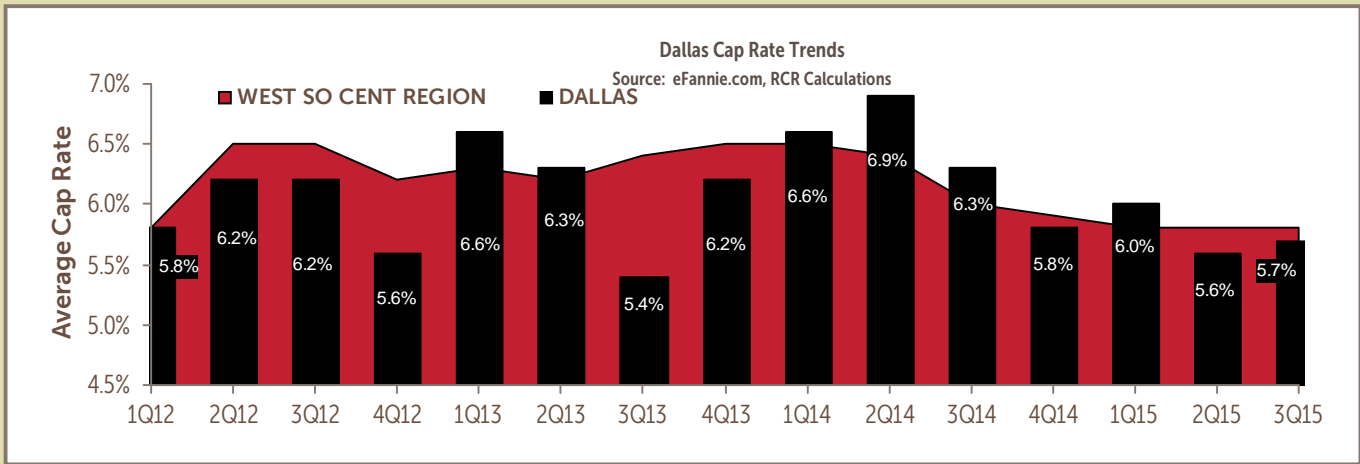
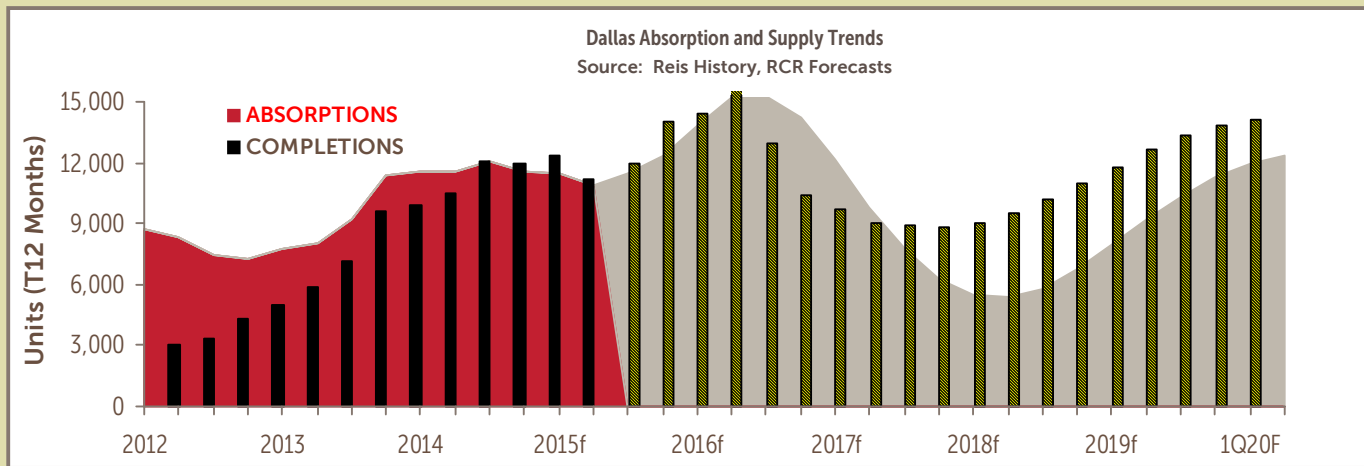
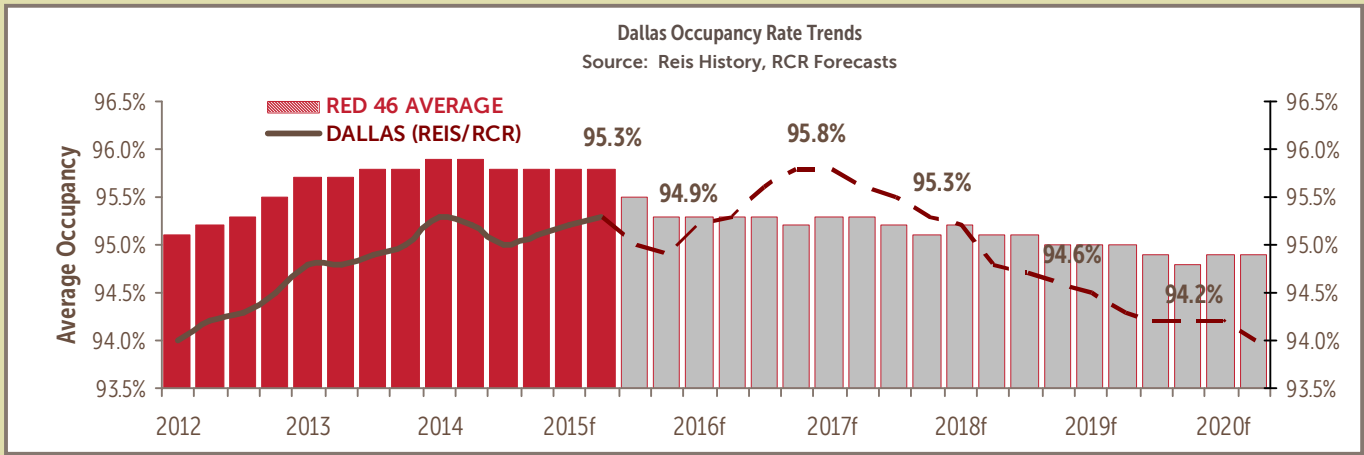
2Q15 PROPERTY MARKETS AND TOTAL RETURNS

Dallas sales velocity declined significantly during 2Q15, slowing from blistering 62 and 57 transaction counts in 1Q15 and 4Q14, respectively, to 43. Proceeds totaled approximately \$1.1 billion, compared to \$1.7bn and \$2.1bn tallies in the prior two quarters. Pricing data were available for trades involving 7,602 units. The average price per unit was \$88,148, on par with the first quarter metric but considerably lower than 4Q14's \$112,496 mean.

Sales velocity regained momentum during the summer as 60 Dallas apartment sales were closed from July to September. Proceeds totaled about \$1.4bn, while the average price of traded units faded moderately to \$83,117.

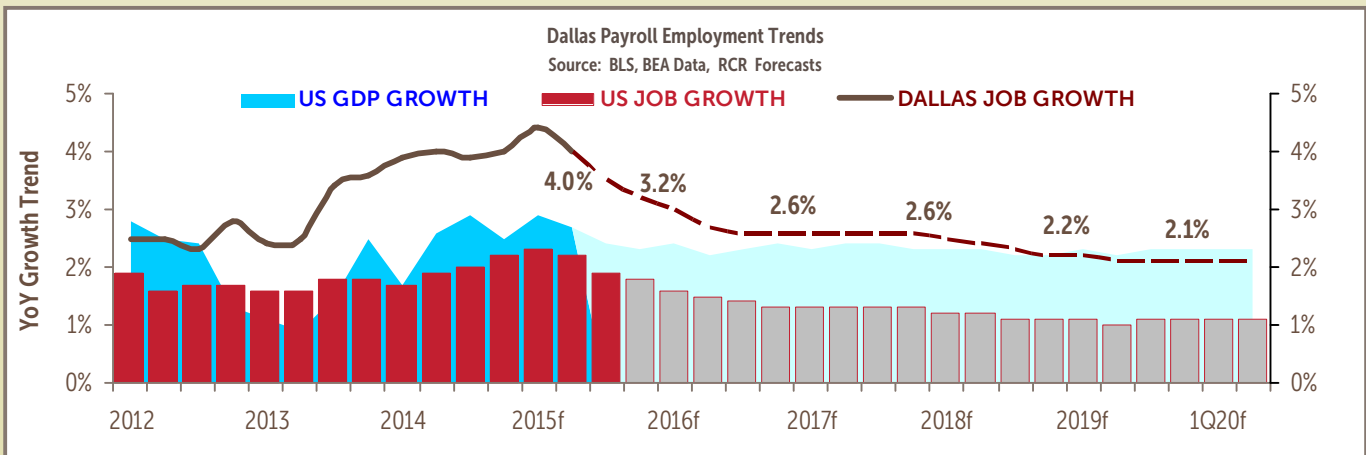
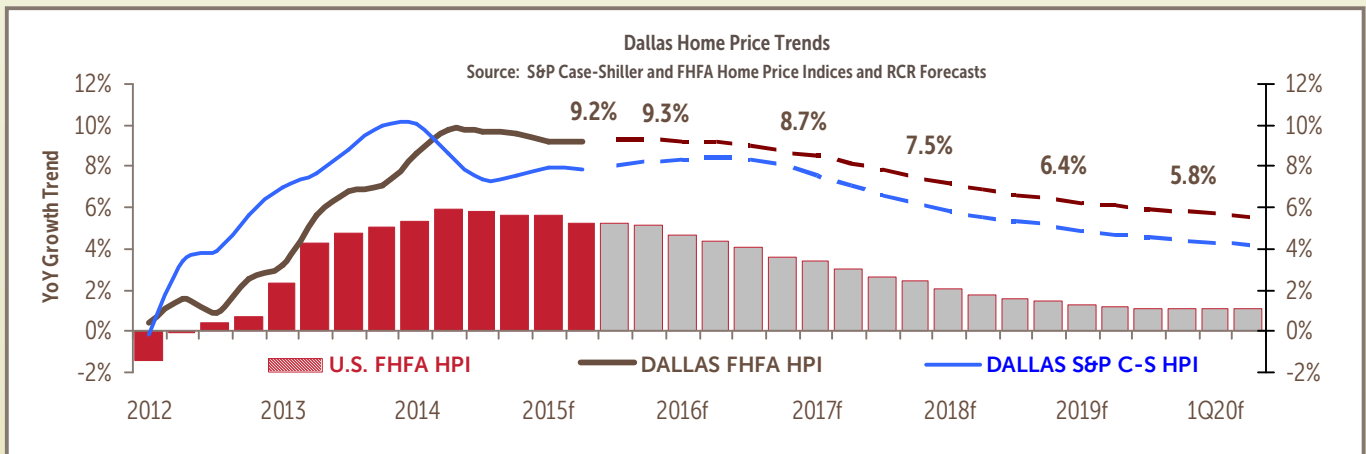
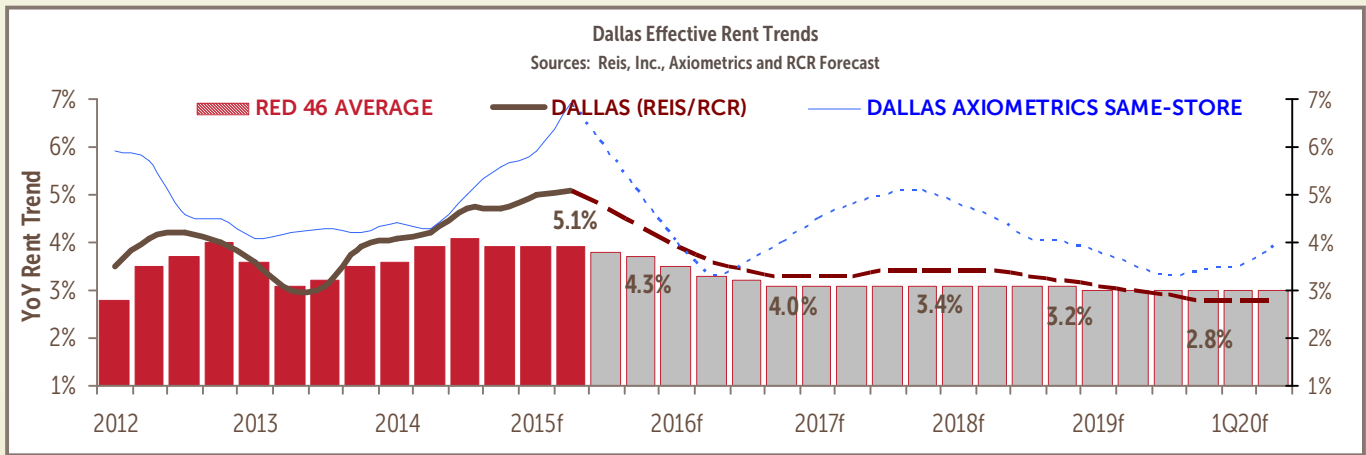
Buyers focused on 25 to 40 year old properties with a view toward repositioning. Cap rates for class-B garden complexes plunged to the mid- to high-5s. Class-A traded only about 50 bps tighter to the curve. Class-C properties were valued at considerable discounts in the 7%-to-9% range.

Employing a 5.6% going-in yield assumption, a 6.3% terminal cap rate and model derived rent and occupancy point estimates, RCR derive a 7.5% expected unlevered total return for Dallas investments, ranked #15 among the RED 46. Rent and demand volatility and model standard errors are very low, resulting in an attractive risk adjusted index of 10.01, ranked third among the R46 peer group.



NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
Century Medical District (Far North)	B+ / MR (2014)	4-Apr-2015	\$42.5	\$147,569	4.1% / 5.0% p.f.
Madison on Parkway (Far North)	B / GLR (1995)	29-May-2015	\$48.5 (allocated)	\$131,613	5.0%
Oaks Trinity (Southwest Dallas)	A- / GLR (2014)	12-Jun-2015	\$28.9	\$172,754	5.4%
Landmark on Lovers (North White Rock)	A / GLR (2014)	2-Jul-2015	\$82.5	\$245,536	4.3% / 5.3% p.f.
Fairways at Bent Tree (Far North)	B / GLR (1979)	25-Aug-2015	\$21.3	\$106,250	5.6%



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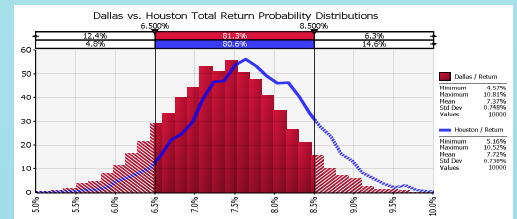
SUBMARKET TRENDS (REIS)

Submarket	Effective Rent			Physical Vacancy		
	2Q14	2Q15	Change	2Q14	2Q15	Change
Carrollton/Addison/Coppell	\$824	\$853	3.6%	3.6%	3.8%	20 bps
Central Dallas	\$1,779	\$1,866	4.9%	6.8%	9.1%	230 bps
East Dallas	\$896	\$1,058	18.0%	7.3%	8.3%	100 bps
Far North	\$838	\$867	3.4%	2.3%	1.4%	-90 bps
Far Northeast	\$621	\$648	4.3%	6.1%	3.5%	-260 bps
Far Northwest	\$708	\$755	6.7%	3.8%	3.7%	-10 bps
Garland	\$701	\$731	4.2%	3.7%	4.3%	60 bps
Grand Prairie	\$680	\$699	2.8%	4.5%	2.9%	-160 bps
Lewisville	\$910	\$941	3.4%	7.3%	7.3%	0 bps
Mesquite / Seagoville	\$703	\$722	2.7%	3.2%	2.4%	-80 bps
North	\$849	\$884	4.2%	2.2%	3.9%	170 bps
North Irving	\$884	\$914	3.4%	3.4%	2.6%	-80 bps
North White Rock	\$690	\$706	2.3%	4.8%	3.8%	-100 bps
Northwest	\$907	\$963	6.1%	7.7%	9.1%	140 bps
Northwest Denton County	\$939	\$980	4.3%	6.3%	6.6%	30 bps
Oaklawn	\$1,242	\$1,348	8.6%	4.3%	14.6%	1030 bps
Plano / Allen / McKinney	\$998	\$1,058	6.0%	4.3%	5.6%	130 bps
Richardson	\$856	\$891	4.1%	4.6%	5.2%	60 bps
South Dallas	\$739	\$735	-0.6%	10.7%	8.8%	-190 bps
South Dallas County	\$707	\$733	3.6%	4.5%	6.1%	160 bps
South Irving	\$695	\$720	3.7%	3.0%	1.8%	-120 bps
South White Rock / I-30	\$632	\$649	2.7%	6.0%	4.9%	-110 bps
Southeast Dallas	\$569	\$588	3.4%	5.1%	3.2%	-190 bps
Southwest Dallas	\$688	\$714	3.7%	6.5%	5.8%	-70 bps
Metro	\$848	\$891	5.1%	4.8%	4.7%	-10 bps

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