

PAYROLL JOB SUMMARY

Total Payrolls	1,884.3m
Annual Change	51.4m (2.8%)
RCR FY15 Forecast	52.1m (2.8%)
RCR 2016 Forecast	48.2m (2.5%)
RCR 2017 Forecast	55.3m (2.8%)
RCR 2018 Forecast	53.7m (2.7%)
RCR 2019 Forecast	44.5m (2.2%)
Unemployment (NSA)	5.5% (Sept.)

3Q15 PAYROLL TRENDS AND FORECAST

Phoenix's improving residential real estate market and growing population fueled faster hiring in construction and financial services, boosting overall job growth from a 49,700-job, 2.7% year-on-year rate in 2Q15 to a 51,400-job pace in the third quarter. The foregoing industries expanded at 12,400-job, 4.8% annual rate, up from 10,100 jobs in the prior quarter. Stronger hiring also was recorded in the hotel and food services subsector, where establishments hired at a 5,700-job, 3.4% pace, a substantial increase over 2Q's 2,700-job, 1.6% performance.

Seasonally-adjusted data also recorded faster growth. This series noted a 12,300-job net add during the July to

September period after the economy created only 9,400 jobs during the first six months of the year.

RED Research specified an econometric forecasting equation for Phoenix employment using U.S. payroll and GDP growth, and metro income and home price changes as independent variables to achieve a 98.0% adjusted-R² (SE=0.5%). Based on the macroeconomic forecast displayed on Page 3, the model foresees healthy job growth in Phoenix, with annual net point estimates in the 40,000 to 60,000 range through 2019. Growth is expected to slow to about 20,000 jobs in the forecast out-year (2020) as the U.S. economic expansion gives way to near recession.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	95.3%
RED 50 Rank	31 st
Annual Chg. (Reis)	+0.3%
RCR YE15 Forecast	95.2%
RCR YE16 Forecast	94.9%
RCR YE17 Forecast	95.1%
RCR YE18 Forecast	95.1%
RCR YE19 Forecast	94.8%

3Q15 ABSORPTION AND OCCUPANCY RATE TRENDS

Phoenix multifamily space demand was steady over the summer. Tenants leased a net of 1,050 units, according to Reis, comparable to 1,175- and 1,150-unit tallies observed during the prior and year-earlier quarters, respectively. At the same time, Reis added 2,026 units to the Phoenix inventory, the largest one-quarter add in six years. Occupancy slipped 40 basis points sequentially as a result but remained 30 bps above the comparable period of 2014.

Occupancy levels among 659 stabilized, same-store properties surveyed by Axiometrics were moderately weaker. The average occupancy of this group was 94.4%, up 80 bps year-on-year. Highest occupancy was observed in the

class-B sector (94.5%) for the second consecutive quarter, followed by classes-C (94.3%) and -A (93.7%). Goodyear/Avondale posted highest occupancy (95.9%) among submarkets, followed by Glendale South and Paradise Valley; Central North (90.7%) trailed. New properties absorbed an average of 18 units/month in 3Q15 after filling 12 in 2Q.

RCR settled on a simple demand model for this volatile market using the rate of supply growth and the rate of change of U.S. payroll growth as variables (ARS=93.3%, S.E.=0.4%). This model projects net absorption of 5,800 units next year; but supply will exceed this level by about 1,000 units, sending occupancy 40 bps lower to 94.9%.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$795
Annual Change	4.7%
RED 50 Rent Change Rank	16 th
RCR YE15 Forecast	4.5%
RCR YE16 Forecast	2.4%
RCR YE17 Forecast	2.7%
RCR YE18 Forecast	3.0%
RCR YE19 Forecast	2.5%

3Q15 EFFECTIVE RENT TRENDS

Reis report that average rents surged \$14 (1.8%) sequentially to \$795 during 3Q, the strongest quarter-to-quarter gain posted in nine years. Much of the impetus came from the class-A segment, where asking rents rose 1.9% sequentially, outpacing class-B&C assets, which scored a 1.3% advance. Expressed on a year-on-year basis, rents increased 4.7%, placing 16th among the **RED 50**, highest rank since 2007.

Same-store, stabilized property rents in the Axiometrics universe enjoyed an 8.0% increase, the fastest hike in at least 10 years. Among properties surveyed by this service, class-C assets notched the strongest gains, rising 9.1% y-o-

y. The class-A and -C segments posted 6.2% and 8.1% advances, respectively. Two submarkets recorded double-digit growth (Northeast, Sunnyslope), while So. Scottsdale (0.7%) was the only submarket to fail to achieve a 4.5% or faster gain. Notably, concession levels continued to recede, falling to -0.7% of asking rent, down from -1.4% a year ago.

RCR kept the rent model simple, using inventory (-), payroll (+) and home price (-) growth as independent variables. The 96.3% ARS (S.E.=0.6%) model projects slowing rents in 2016 due to supply pressure but reacceleration in 2017 when supply abates and job growth regains momentum.

TRADE & RETURN SUMMARY

\$5mm+ / 80-unit+ Sales	31
Approximate Proceeds	\$912mm
Average Cap Rate (FNM)	5.1%
Average Price / Unit	\$94,008
Expected Total Return	5.9%
RED 46 ETR Rank	37 th
Risk-adjusted Index	3.46
RED 46 RAI Rank	37 th

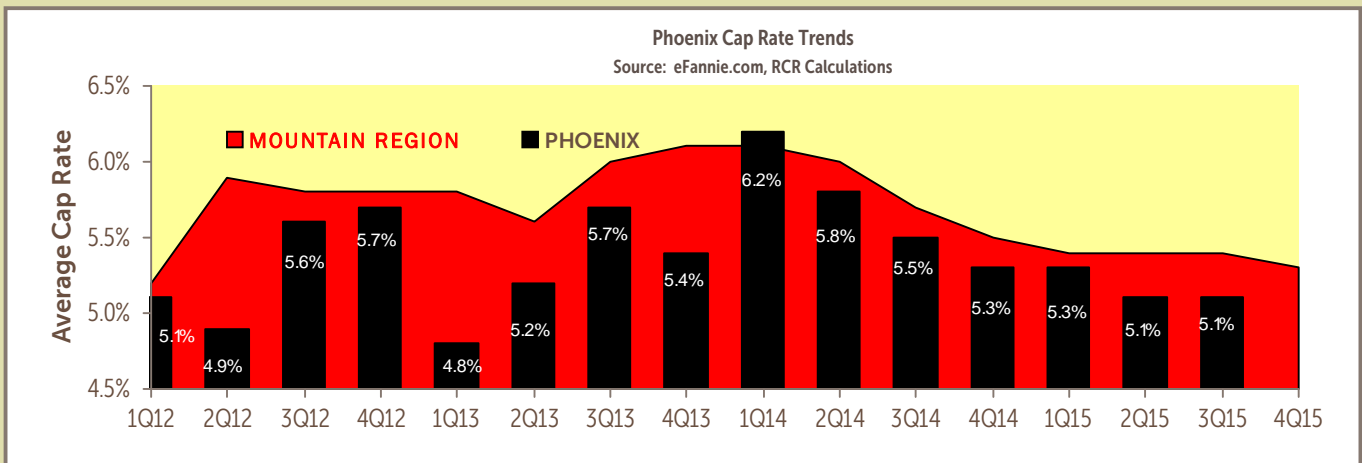
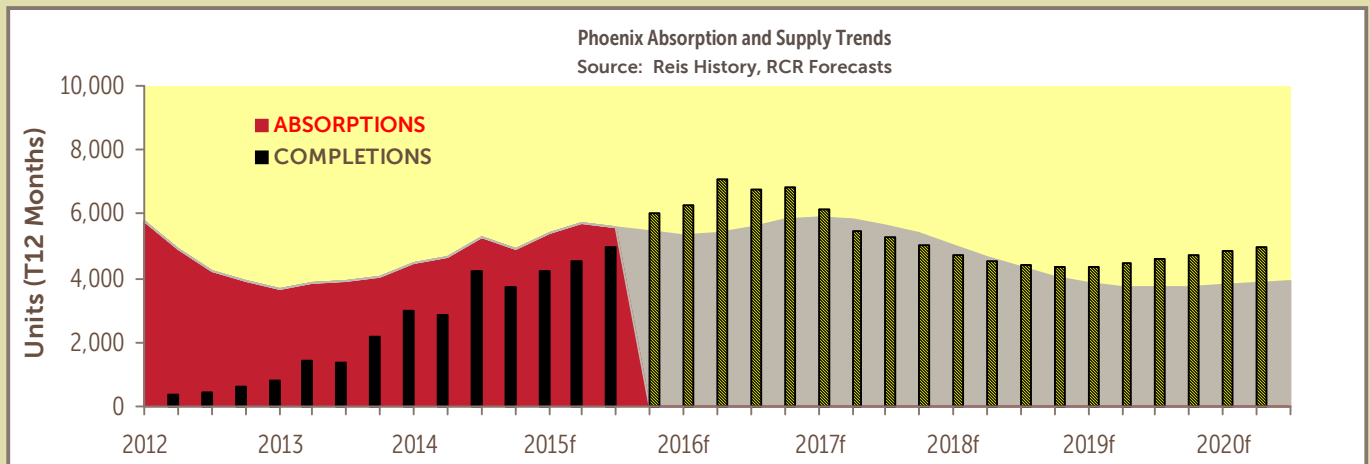
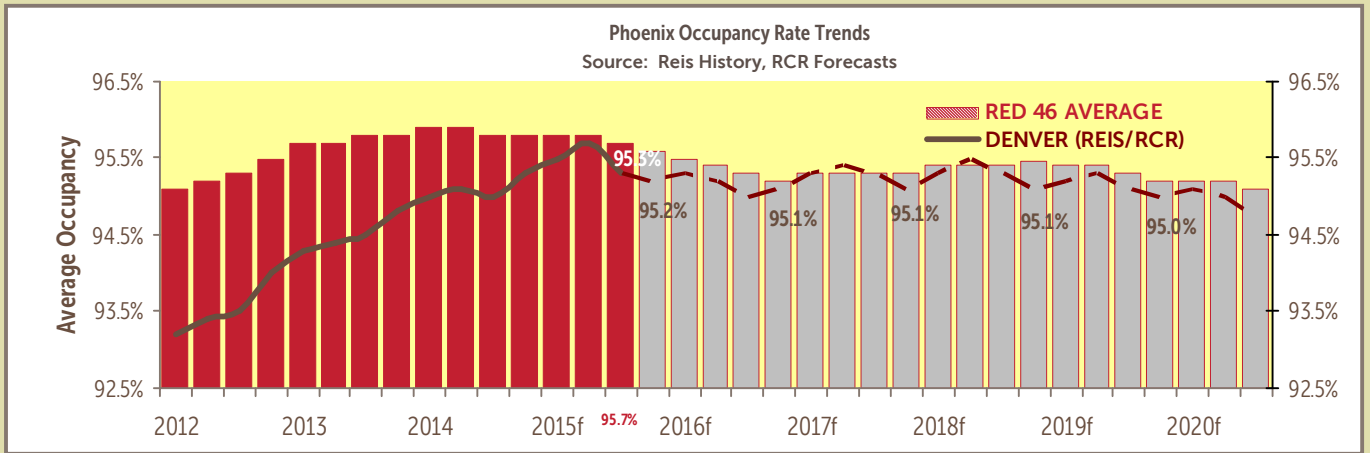
3Q15 PROPERTY MARKETS AND TOTAL RETURNS

Investor interest in Phoenix properties did not fade over the summer as sales of 31 properties valued at \$5 million or more closed from July to September, up from an average of 28 trades during the past three quarters and the greatest trade velocity since the record third quarter of 2014. Gross sales proceeds totaled \$912.4mm, representing a 49% increase from 2Q15, and the largest quarterly tally in a year. In all, 9,706 units transacted at an average price of \$94,008, consistent with the \$94,726 average recorded over the year ended in June.

Private equity and other opportunistic investors were well represented among buyers. These investors showed in-

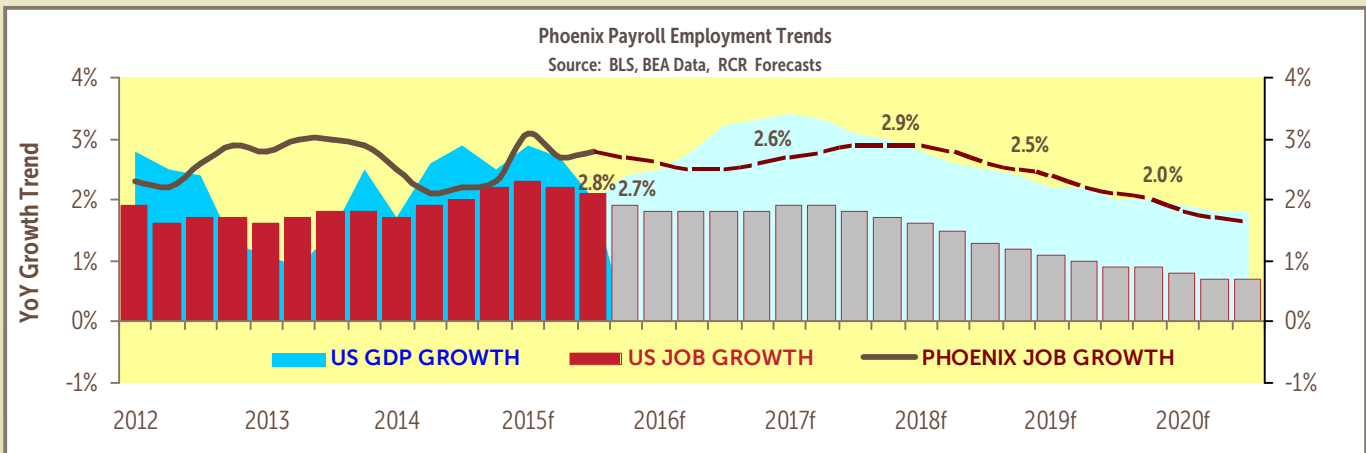
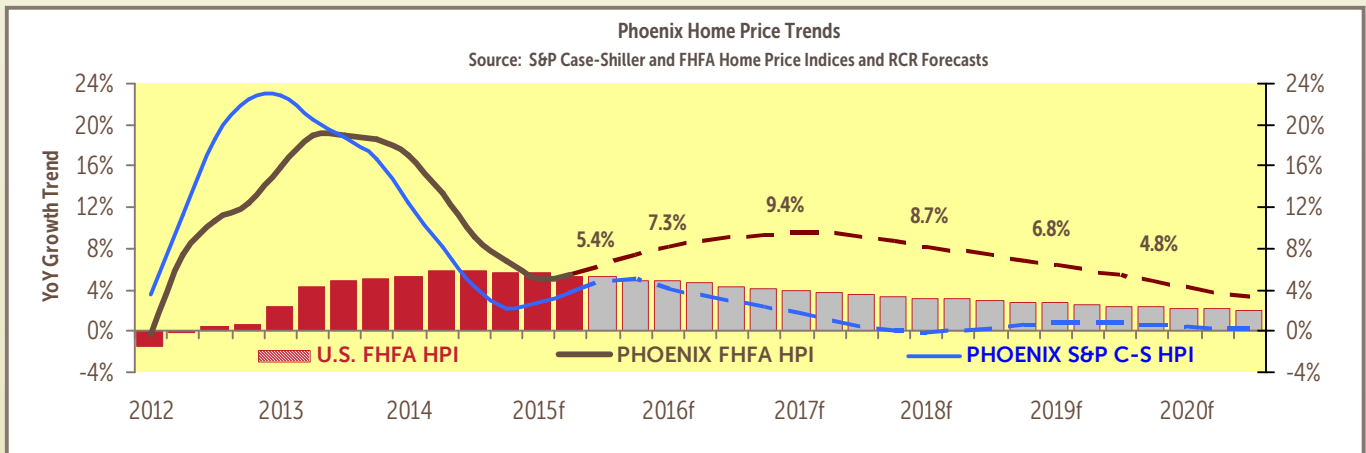
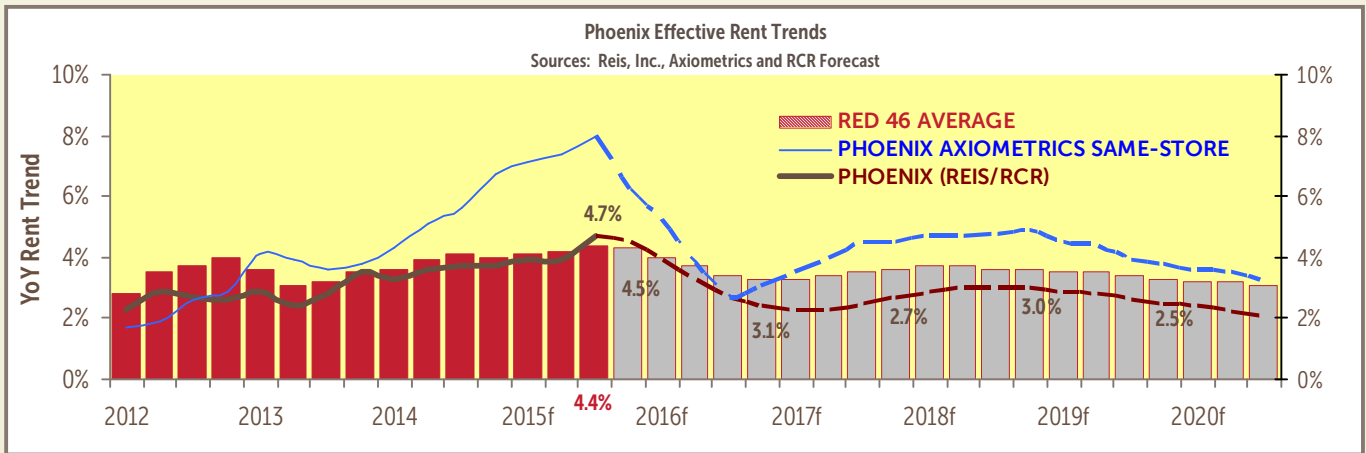
creased willingness to acquire class-B properties with repositioning potential and pre-stabilized assets. Cap rates for assets in the former category were in the low-5s, with pro forma potential to the 6% area. Recent construction properties exchanged hands in the high-4% to low-5% range, with pro forma potential in the mid- to high-5s.

Irrespective of the strong bid for Phoenix apartments, **RCR** elected to maintain a 5.5% purchase cap rate proxy as this is representative of B/B+ pro forma yields. At this level, a terminal cap rate of 6.4% and model derived rent and occupancy point estimates, investors would expect to achieve a 5.9% 5-year total return, ranked 37th in the **R46**.



NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
Ocotillo Bay (Chandler/Queen's Creek)	B / GLR (1997)	15-Sep-2015	\$39.3	\$132,601	4.9%
IMT Deer Valley (Deer Valley / Amberwood)	B+ / GLR (1996)	1-Oct-2015	\$100.5	\$120,793	5.8%
Broadstone Trevi (Chandler/Gilbert)	B+ / GLR (2004)	15-Oct-2015	\$47.5	\$163,793	5.0%
Avion on Legacy (North Scottsdale)	A / GLR (2015)	26-Oct-2015	\$74.1	\$230,000	4.1% / 5.5% p.f.
Alcove at the Islands (Gilbert/Harbor Point)	B- / GLR (1989)	28-Oct-2015	\$33.5	\$123,162	5.0% / 6.0% p.f.
Jefferson at One Scottsdale (No. Scottsdale)	A- / GLR (2014)	11-Nov-2015	\$88.0	\$226,804	4.6%



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SUBMARKET TRENDS (REIS)

Submarket	Effective Rent			Physical Vacancy		
	3Q14	3Q15	Change	3Q14	3Q15	Change
Central Phoenix North	\$630	\$644	2.3%	7.5%	5.4%	-210 bps
Central Phoenix South	\$728	\$741	1.8%	5.3%	4.2%	-110 bps
Chandler / Gilbert	\$868	\$914	5.3%	5.7%	7.4%	170 bps
Deer Valley	\$701	\$741	5.7%	4.5%	3.2%	-130 bps
East Mesa	\$758	\$781	3.1%	2.0%	1.4%	-60 bps
Glendale South	\$619	\$645	4.4%	7.4%	5.6%	-180 bps
Goodyear / Avondale	\$857	\$884	3.1%	2.4%	1.5%	-90 bps
Maryvale	\$573	\$595	3.8%	6.4%	4.0%	-240 bps
North Scottsdale	\$1,017	\$1,075	5.6%	5.1%	7.6%	250 bps
North Tempe	\$825	\$889	7.7%	4.2%	5.9%	170 bps
Northeast Phoenix	\$740	\$772	4.3%	5.6%	5.2%	-40 bps
Paradise Valley	\$708	\$740	4.4%	4.9%	4.2%	-70 bps
Peoria/Sun City/Surprise	\$789	\$816	3.5%	2.5%	1.5%	-100 bps
South Mesa	\$658	\$681	3.4%	4.9%	4.1%	-80 bps
South Scottsdale	\$874	\$923	5.7%	8.3%	11.3%	300 bps
South Tempe	\$872	\$918	5.3%	5.0%	4.2%	-80 bps
Sunnyslope	\$659	\$676	2.7%	3.2%	2.3%	-90 bps
West Mesa	\$625	\$648	3.8%	4.1%	3.0%	-110 bps
Metro	\$759	\$795	4.7%	5.0%	4.7%	-30 bps

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