DENVER, COLORADO

MARKET OVERVIEW & MULTIFAMILY HOUSING UPDATE

RED Capital Group | 3Q15 | NOVEMBER 2015

PAYROLL JOB SUMMARY	
Total Payrolls	1,391.0m
Annual Change	33.7m (2.5%)
RCR FY15 Forecast	39.3m (2.9%)
RCR 2016 Forecast	31.7m (2.3%)
RCR 2017 Forecast	33.3m (2.4%)
RCR 2018 Forecast	24.8m (1.7%)
RCR 2019 Forecast	15.9m (1.1.%)
Unemployment (NSA)	3.2% (Sept.)

3Q15 PAYROLL TRENDS AND FORECAST

Denver job trends decelerated significantly for the second consecutive quarter as metro payrolls increased at a 33,700-job, 2.5% year-on-year rate, down from 50,900- (3.9%) and 42,000- (3.1%) job performances during 1Q and 2Q15, respectively. This was the slowest advance observed in nearly four years. Weaker hiring in the business and leisure service industries primarily was responsible: the sectors added workers at a 3,300-job, 0.8% pace during 3Q, down from 1Q15's 12,500-job, 3.3% advance.

Seasonally-adjusted data also exhibited weaker growth. This series recorded a net gain of 5,800 jobs during the six months ended in September, down from 29,700 during the comparable period of 2014. Moreover, the quarter ended on a sour note with the September y-o-y comparison slipping to 29,300 jobs, a 41-month low, and the S.A. sequential month payroll add slowing to only 800 jobs.

Does recent softness indicate that the Denver boom is running its course? The RED Research payroll model suggests otherwise: robust job growth is likely to continue through 2017. The model employs U.S. payroll and GDP and metro personal income growth and oil price trends as independent variables to achieve a 98.5% adjusted-R^2 (SE=0.3%). The model forecasts growth in the low– to mid-2% range through YE17, weaker gains after.

OCCUPANCY RATE SUMMARY	
Occupancy Rate (Reis)	95.5%
RED 50 Rank	28th
Annual Chg. (Reis)	-0.4%
RCR YE15 Forecast	94.9%
RCR YE16 Forecast	94.5%
RCR YE17 Forecast	94.5%
RCR YE18 Forecast	94.4%
RCR YE19 Forecast	94.2%

3Q15 ABSORPTION AND OCCUPANCY RATE TRENDS

Reis recorded a leasing surge over the summer as tenants occupied a five-year high net of 2,066 vacant units, nearly doubling 2Q15's total. Supply pressures did not abate, however, as the service added 1,665 units to its metro inventory, the seventh consecutive quarter characterized by completions of 1,400 or more units. As a result, metro occupancy improved for the first time in seven quarters, rising 20 basis points sequentially to 95.5%.

Axiometrics surveys of 452 stabilized same-store properties recorded similar results. The inventory occupancy rate during 3Q15 was 95.4%, down 60 bps year-on-year. Rates were comparable across classes, led by class-C (95.7%), with classes-A and -B each 40 bps behind. Arvada, Aurora-Central and Englewood (96.7%) reported the highest occupancy; Aurora-North and Lakewood-North the lowest (93.7%) and the largest y-o-y declines (-3.0%/-4.1%). New properties leased an impressive 20 units/mo. on average.

RCR specified a 91.8% ARS (SE=0.4%) metro occupied stock growth forecasting equation using the rate of change of payroll (+) and inventory (+) growth and home price appreciation (-) as independent variables. The model projects faster absorption through 2017, as supply increases and payroll growth remains robust. But supply consistently outpaces demand, trimming occupancy by 100 bps..

EFFECTIVE RENT SUMMARY	
Mean Rent (Reis)	$1,041
Annual Change	7.0%
RED 50 Rent Change Rank	5th
RCR YE15 Forecast	6.1%
RCR YE16 Forecast	4.4%
RCR YE17 Forecast	3.8%
RCR YE18 Forecast	3.1%
RCR YE19 Forecast	2.2%

3Q15 EFFECTIVE RENT TRENDS

Average effective rent increased $13 (2.3%) sequentially to $1,041, according to Reis, the strongest quarter-to-quarter gain in a year. Robust tenant demand for space in infill neighborhoods was primarily responsible: Denver-Central, and Aurora-North and Central saw 5%-7% sequential gains. Rents rose 7.0% year-on-year: although the smallest gain recorded since 1Q14, Denver ranked 5th among the RED 50.

Stabilized same-store properties surveyed by Axiometrics reported average y-o-y rent growth of 10.5%, remarkably the slowest advance in a year. Class-C properties posted the strongest rent growth for the 11th consecutive quarter, gaining 12.9% y-o-y. Class-A lagged significantly at 6.1%. Eleven of 19 submarkets notched double-digit gains, but largely class-A Downtown managed only a 3.7% advance. By contrast, Aurora-Central submarkets, featuring primarily class-B-/C product, chalked down a stout 12.4% increase.

Statistical analysis indicates that 97.2% of change in y-o-y Denver rent growth can be explained by changes in the metro occupancy rate (+) and payroll employment growth (+). Unfortunately, both factors will work against rents in during most of the 5-year forecast interval. Still, healthy rent growth averaging 3.4% per annum is expected

TRADE & RETURN SUMMARY	
$5mm+ / 80-unit+ Sales	25
Approximate Proceeds	$817.9mm
Average Cap Rate (FNM)	5.3%
Average Price / Unit	$162,439
Expected Total Return	8.3%
RED 46 ETR Rank	5th
Risk-adjusted Index	3.36
RED 46 RAI Rank	39th

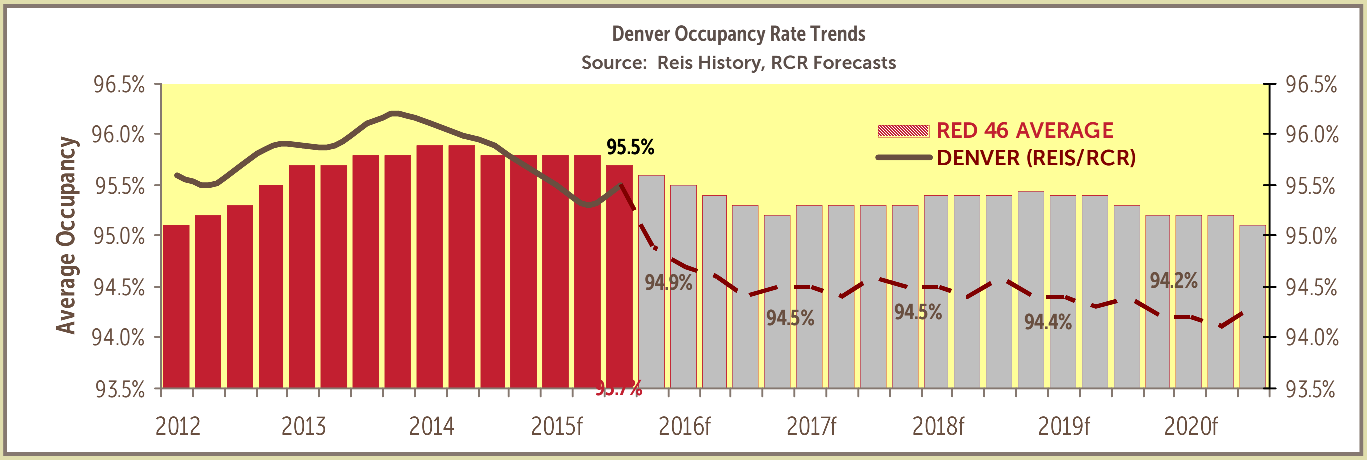
3Q15 PROPERTY MARKETS AND TOTAL RETURNS

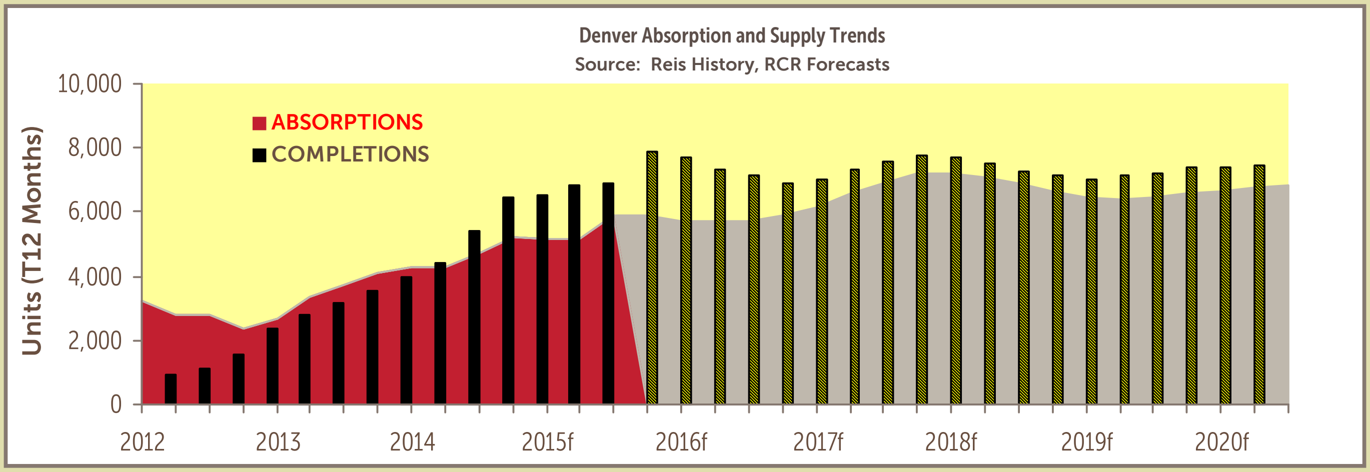
Transaction velocity continued at a brisk clip during the third quarter as 25 properties valued at $5 million or more exchanged hands, up from 19 during the previous quarter. Gross proceeds totaled $818 million (down from $897mm and $936mm during the prior and year-earlier quarters), translating to an average price per unit of $162,439.

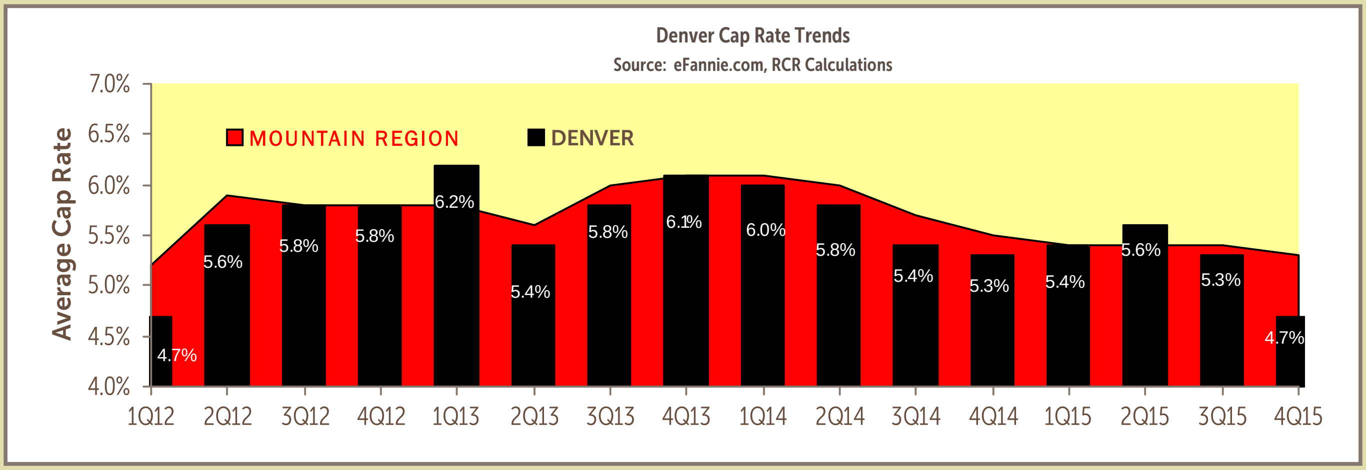
The average price per unit fell –3.3% and –12.7% from 2Q15 and 3Q14, respectively. The sequential and year-on-year declines were attributable to an increased concentration among investors on class-C /–B– repositioning plays.

Cap rates for class-A/B+ trophies hovered around 5%, somewhat higher than most West Coast metro areas. Class -B properties traded in the mid-5% range, while class-B– and –C assets were available for the high-5s to about 7%.

Based on recent trade RCR elected to trim the purchase cap rate proxy 10 basis points to 5.3%. Using this purchase cap rate level, a model derived terminal yield of 6.2% and model generated occupancy and rent point estimates, we calculate that a Denver investor would expect to achieve a 8.3% total rate of return on a five-year hold. This level ranks 5th among the RED 46 markets. Income, demand and job growth volatility hinders risk-adjusted returns, however; on this basis Denver ranks only 39th

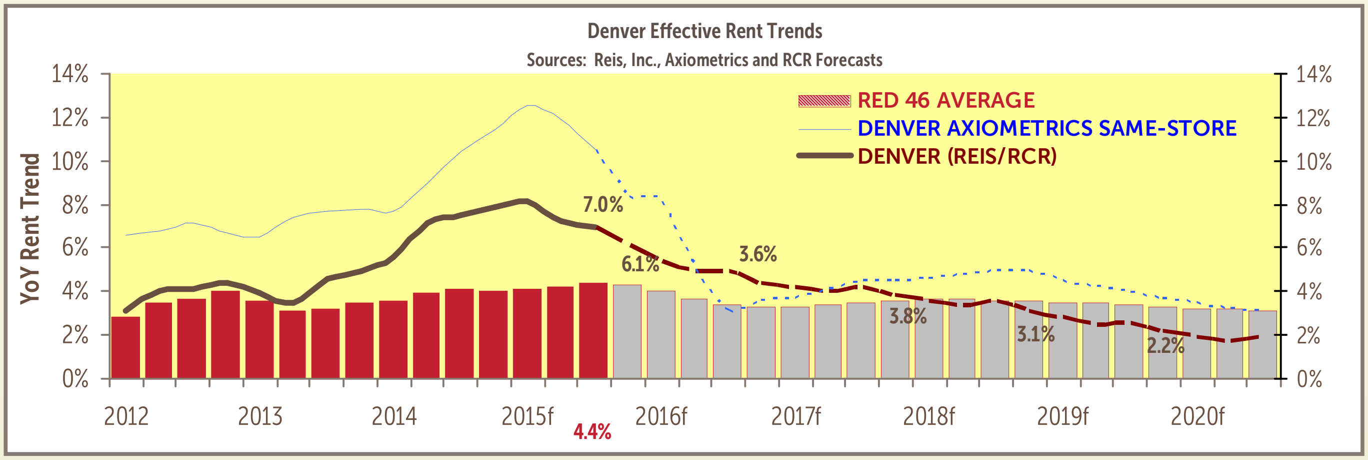


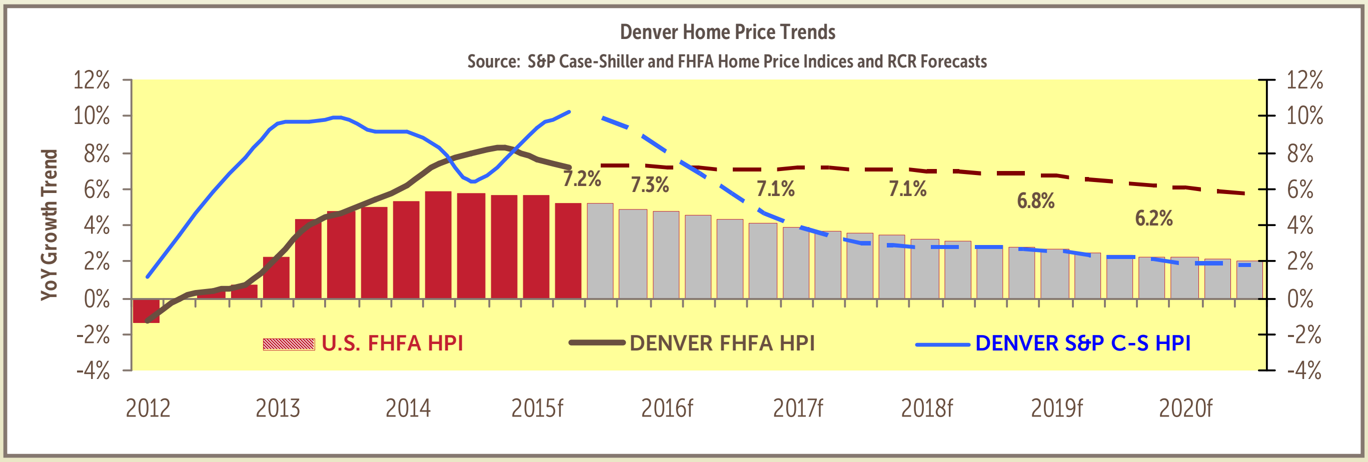


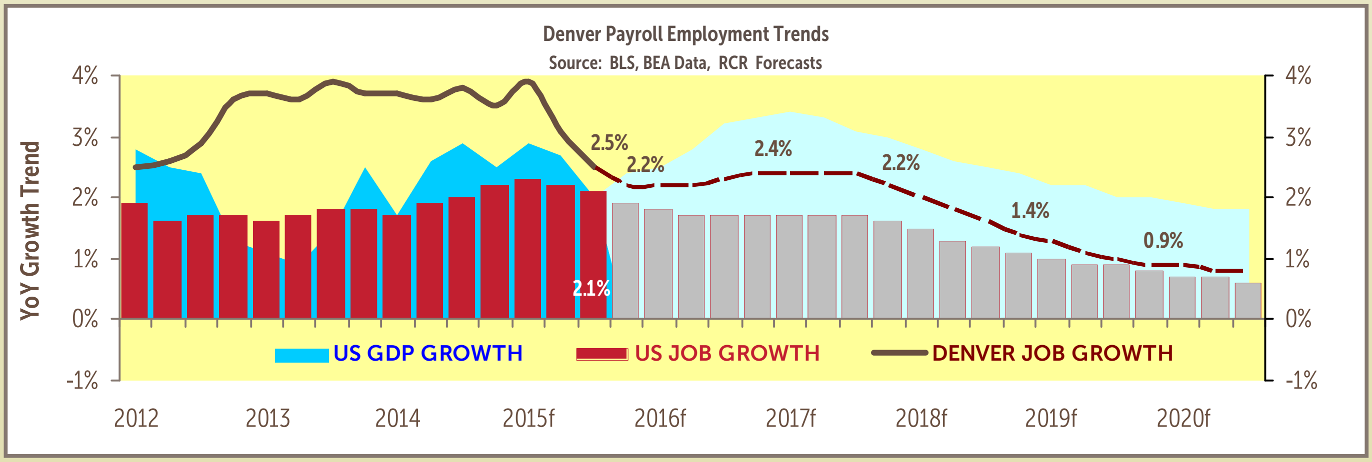


NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
Center Pointe East (Aurora-Central)	B- / GLR (1999)	14-Aug-2015	$31.1	$149,519	5.3%
The Crossings Bear Creek (Lakewood South)	B+ / GLR (1996)	25-Aug-2015	$48.3	$215,402	5.0%
The Boulevard (Denver-Central / Capitol Hill)	A- / SR MR (2005)	21-Sep-2015	$65.0	$295,345	4.5%
Liberty Creek Apts. (Aurora-Cent/Utah Park)	C- / GLR (1981)	13-Oct-2015	$65.0	$111,301	5.5%
Axis Nine-mile Station (Aurora-So/Kennedy)	C+/MB MR (1980)	28-Oct-2015	$50.3	$149,554	5.0%
Retreat at Park Meadows (Douglas Country)	B+ / GLR (2001)	5-Nov-2015	$125.0	$241,313	4.8%


Denver Effective Rent Trends
Sources: Reis, Inc., Axiometrics and RCR Forecasts
YoY Rent Trend
RED 46 AVERAGE
DENVER AXIOMETRICS SAME-STORE
DENVER (REIS/RCR)
14%
12%
10%
8%
6%
4%
2%
0%
7.0%
6.1%
3.6%
3.8%
3.1%
2.2%
4.4%
2012
2013
2014
2015f
2016f
2017f
2018f
2019f
2020f


Denver Home Price Trends
Source: S&P Case-Shiller and FHFA Home Price Indices and RCR Forecasts
YoY Growth Trend
12%
10%
8%
6%
4%
2%
0%
-2%
-4%
7.2%
7.3%
7.1%
7.1%
6.8%
6.2%
U.S. FHFA HPI
DENVER FHFA HPI
DENVER S&P C-S HPI
2012
2013
2014
2015f
2016f
2017f
2018f
2019f
2020f


Denver Payroll Employment Trends
Source: BLS, BEA Data, RCR Forecasts
YoY Growth Trend
4%
3%
2%
1%
0%
-1%
2.5%
2.2%
2.4%
2.2%
1.4%
0.9%
2.1%
US GDP GROWTH
US JOB GROWTH
DENVER JOB GROWTH
2012
2013
2014
2015f
2016f
2017f
2018f
2019f
2020f

SUBMARKET TRENDS (REIS)

Submarket	Effective Rent			Physical Vacancy		
	3Q14	3Q15	Change	3Q14	3Q15	Change
Arapahoe County	$1,203	$1,293	7.5%	3.5%	9.7%	620 bps
Arvada / Broomfield	$947	$1,040	9.8%	6.2%	4.7%	-150 bps
Aurora-Central-Southeast	$843	$917	8.8%	2.6%	3.0%	40 bps
Aurora-Central-Southwest	$812	$849	4.5%	3.9%	5.0%	110 bps
Aurora-North	$759	$852	12.2%	2.2%	1.9%	-30 bps
Aurora-South	$1,087	$1,169	7.5%	2.8%	4.7%	190 bps
Denver-Central	$1,037	$1,119	7.9%	5.2%	6.8%	160 bps
Denver-Downtown	$1,166	$1,210	3.8%	7.2%	7.6%	40 bps
Denver-Far Southeast	$835	$884	5.8%	4.7%	4.2%	-50 bps
Denver-North	$1,517	$1,584	4.5%	13.5%	14.0%	50 bps
Denver-Northeast	$985	$1,040	5.5%	4.2%	5.2%	100 bps
Denver-South	$856	$892	4.2%	8.7%	5.1%	-360 bps
Denver-Southeast	$848	$879	3.7%	1.6%	1.1%	-50 bps
Douglas County	$1,147	$1,181	2.9%	3.5%	3.3%	-20 bps
Englewood / Sheridan	$784	$823	4.9%	3.0%	2.2%	-80 bps
Golden / Wheat Ridge	$931	$973	4.5%	1.4%	2.8%	140 bps
Lakewood-North	$902	$954	5.8%	3.7%	2.4%	-130 bps
Lakewood-South	$1,051	$1,095	4.2%	2.7%	1.8%	-90 bps
Littleton	$963	$1,066	10.7%	3.5%	5.9%	240 bps
North Glenn / Thornton	$893	$941	5.3%	4.8%	5.1%	30 bps
Westminster	$899	$988	9.8%	2.3%	4.1%	180 bps
Metro	$973	$1,041	7.0%	4.1%	4.5%	40 bps

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THE FACE OF LENDING