

### PAYROLL JOB SUMMARY

Total Payrolls	2,592.9m
Annual Change	77.8m (3.1%)
RCR FY15 Forecast	85.3m (3.4%)
RCR 2016 Forecast	68.2m (2.6%)
RCR 2017 Forecast	62.1m (2.3%)
RCR 2018 Forecast	54.1m (2.0%)
RCR 2019 Forecast	44.1m (1.6%)
Unemployment (NSA)	5.0% (Nov.)

### 3Q15 PAYROLL TRENDS AND FORECAST

Atlanta employment trends were steady during the third quarter but early evidence suggests that hiring accelerated materially during the fourth quarter. Payrolls increased at a 77,800-job, 3.1% rate during 3Q15, down modestly from 2Q's 80,800-job, 3.2% performance. Professional services remained the mainstay as financial, business, health care and education services collectively added workers to payrolls at a 36,500-job, 3.9% year-on-year rate, equaling 2Q15's robust pace. Goods producing industries also contributed to Atlanta's momentum: construction, manufacturing and wholesale trade payrolls increased at a 11,900-job, 2.9% rate, up from 10,300 (2.6%) jobs during the second quarter.

October and November data lay groundwork for stronger results in 4Q15. Year-on-year growth comparisons averaged 87,000 jobs and the seasonally-adjusted series recorded a 24,400-job pick up September to November.

**RED Research** specified a 97.8% (SE=0.4%) job growth forecasting equation using the rate of change of U.S. payroll growth and S&P500 returns as independent variables. Relative to the base macroeconomic forecast illustrated on Page 3, the model projects strong 2.3% or faster annual expansion through 2017. Slower growth is likely to evolve for the balance of the forecast interval in keeping with softer U.S. GDP and employment growth.

### OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	94.2%
RED 50 Rank	45 <sup>th</sup>
Annual Chg. (Reis)	-0.2%
RCR YE15 Forecast	94.4%
RCR YE16 Forecast	94.4%
RCR YE17 Forecast	94.1%
RCR YE18 Forecast	94.0%
RCR YE19 Forecast	93.6%

### 3Q15 ABSORPTION AND OCCUPANCY RATE TRENDS

Space demand was seasonally weaker during the third quarter as 825 vacant units were leased, down from 2Q15's exceptional 1,658-unit absorption performance yet on par with 3Q14's 846-unit net lease gain. By contrast, additions to inventory totaled only 438 units, yielding a 10 basis point sequential quarter occupancy increase to 94.2%, partially offsetting 2Q's -20 bps decline. Reis expect occupancy to slip further over time, falling to near 93% by 2019.

(+10 bps) and -C (+170 bps) recorded annual gains, while class-A retreated -30 bps. New projects leased up rapidly. The average complex absorbed 19 units per month, up from an average of 14 observed during the second quarter.

Axiometrics surveys of 1,064 larger, stabilized properties found average occupancy of 94.0%, up 30 bps year-on-year. Class-A (94.9%) and class-B (95.0%) levels were comparable, while class-C continued to trail (89.6%). Classes-B

**RCR** specified a 94.5% ARS (SE=0.3%) occupied stock growth equation using inventory (+), payroll (+) and home price (-) growth and lags of 10-year UST and baa-rated bond yields (+) as independent variables. The equation projects robust annual absorption of 5,400-6,500 units throughout the 5-year forecast interval. But supply is likely to be too great for demand to keep pace: metro average occupancy is likely to slip -50 to -75 bps by 2019.

### EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$885
Annual Change	5.4%
RED 50 Rent Change Rank	10 <sup>th</sup>
RCR YE15 Forecast	5.0%
RCR YE16 Forecast	3.8%
RCR YE17 Forecast	2.9%
RCR YE18 Forecast	2.5%
RCR YE19 Forecast	1.8%

### 3Q15 EFFECTIVE RENT TRENDS

Reis report that average Atlanta effective rents surged \$15 (1.7%) sequentially during the third quarter, the largest absolute and percentage quarter-to-quarter advance posted in its 16-year quarterly data series. Year-over-year, rents increased 5.4% the fastest one-year growth since 1995. Suburban Roswell (5.2% q-o-q) and Decatur (3.4%) led the way, while infill submarkets lagged, recording gains of 0.1% (Sandy Spring), 1.1% (Midtown) and 1.5% (Buckhead).

properties notched the fastest advance (9.4%), followed by classes-C (5.9%) and -A (5.6%). Two submarkets posted double-digit y-o-y growth (I-20 West and Clarkston), while only South Fulton and South Gwinnett failed to surpass 6%.

Axiometrics same-store data recorded faster growth. Stabilized property rents in this sample increased an average of 8.1% y-o-y for the third consecutive quarter. Class-B

**RCR** conclude that Atlanta rents are best forecasted with a simple model using only two lags of the dependent variable, payroll growth (+) and sequential occupancy change (+) as independent variables. The 94.2% ARS (SE=0.8%) equation forecasts above average rent growth through 2017, before giving way to more typical 2% to 3% gains during the balance of the five-year forecast.

### TRADE & RETURN SUMMARY

\$5mm+ / 80-unit+ Sales	57
Approximate Proceeds	\$1.6bn
Average Cap Rate (FNM)	6.1%
Average Price / Unit	\$101,324
Expected Total Return	6.7%
RED 46 ETR Rank	22 <sup>nd</sup>
Risk-adjusted Index	3.78
RED 46 RAI Rank	32 <sup>nd</sup>

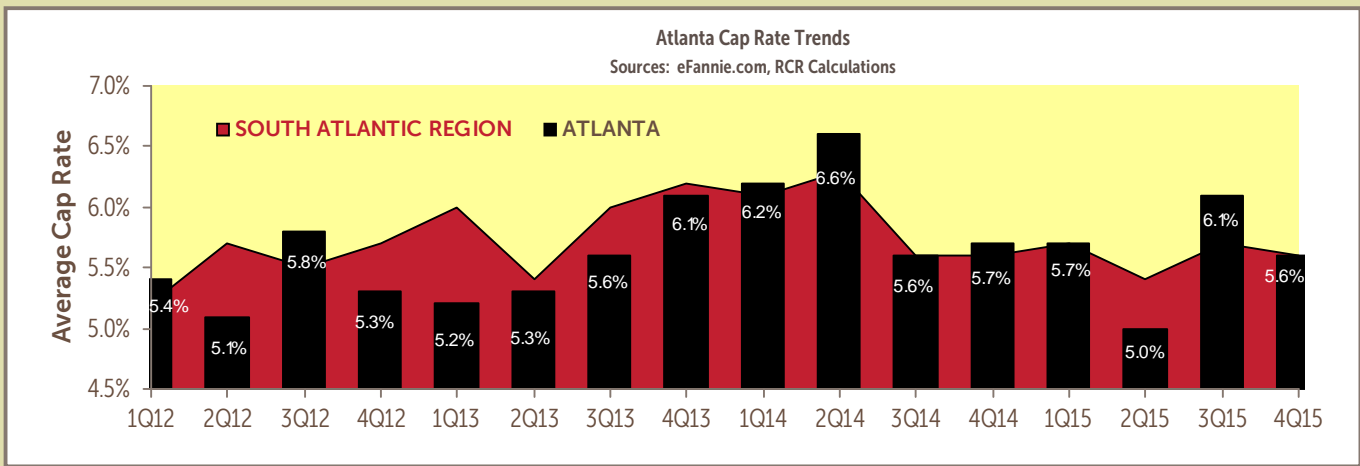
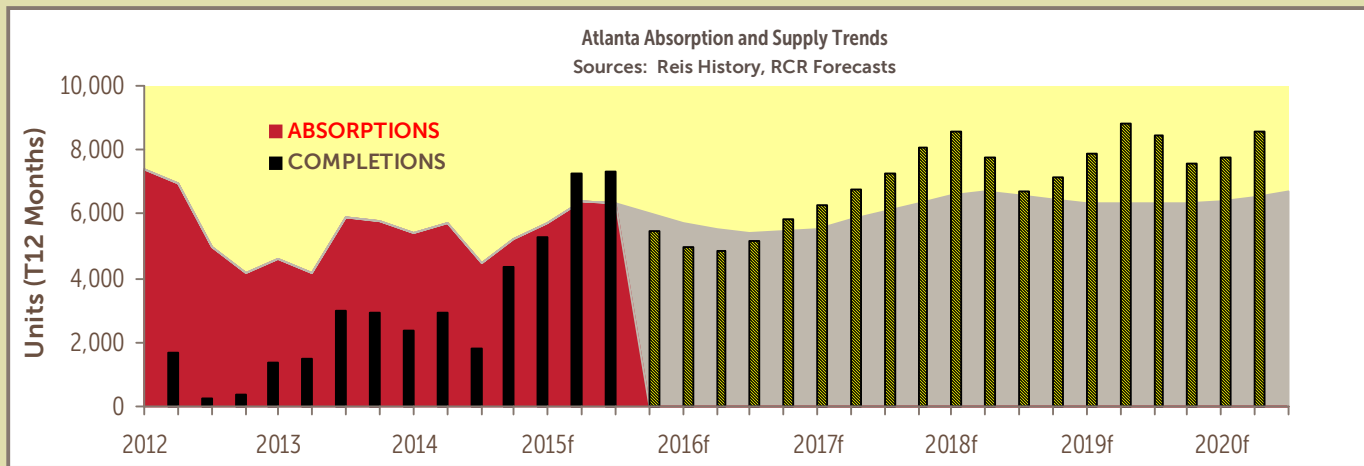
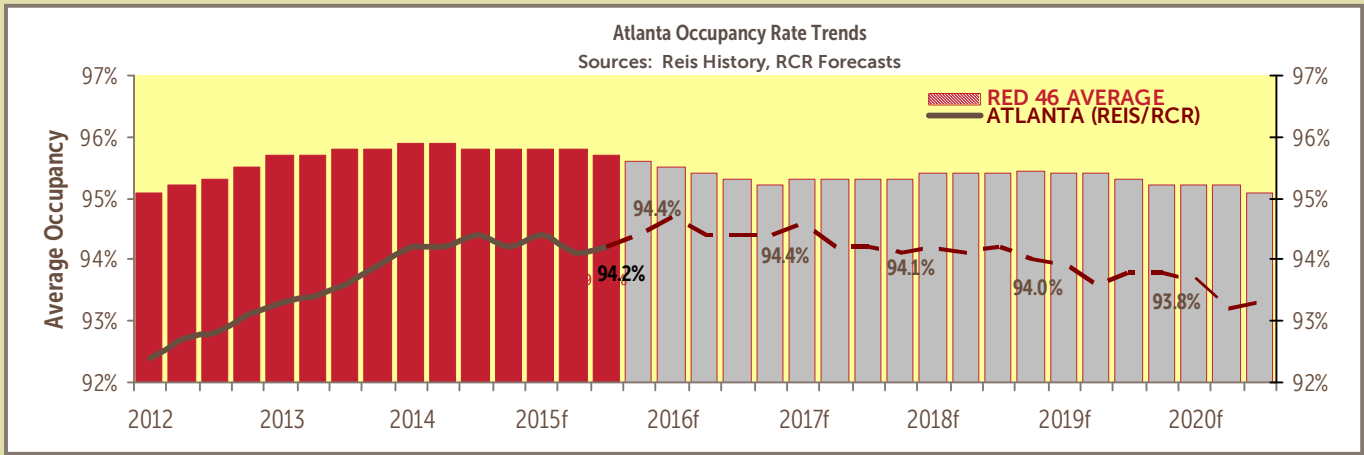
### 3Q15 PROPERTY MARKETS AND TOTAL RETURNS

Private equity companies, managed funds and owner/managers were aggressive buyers during the summer and fall as 56 and 57 properties valued at \$5 million or more exchanged hands during the 4th and 3rd quarters, respectively. Proceeds totaled \$1.3 and \$1.6 billion in respective quarters. The average price of traded units surged 14% sequentially to \$101,324 during 3Q15, reflecting a strong bid for value-add opportunities and the impact of a pair of recent construction trophy property sales at prices near \$300/sf. The average price metric moderated in the fourth quarter to \$89,821, on par with the second quarter mean.

to high-5% area. Class-B+ assets in top neighborhoods commanded prices producing low-5% yields, while a few class-A trophies were acquired below the 5% threshold.

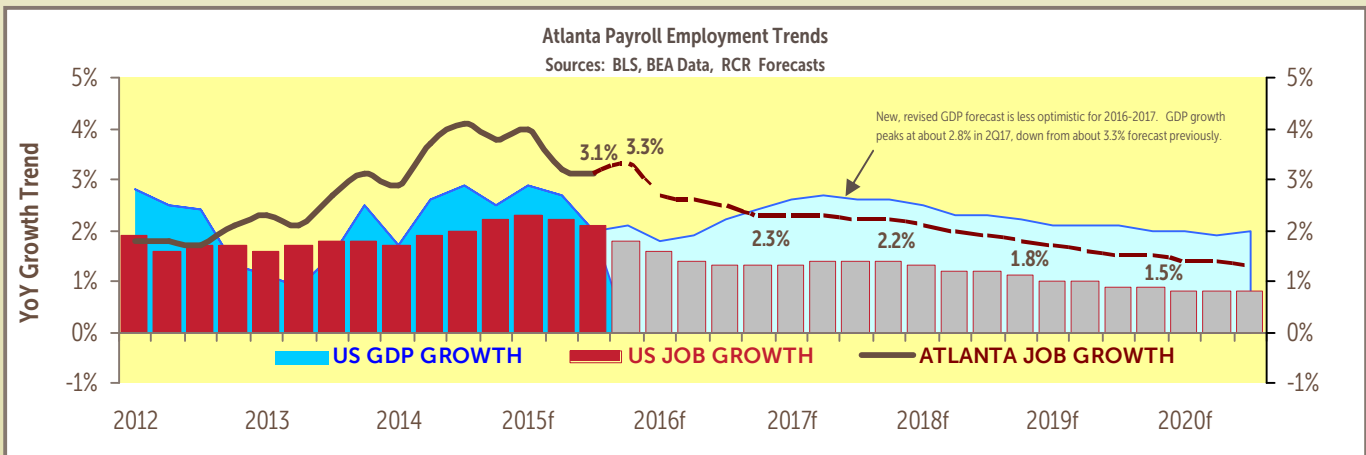
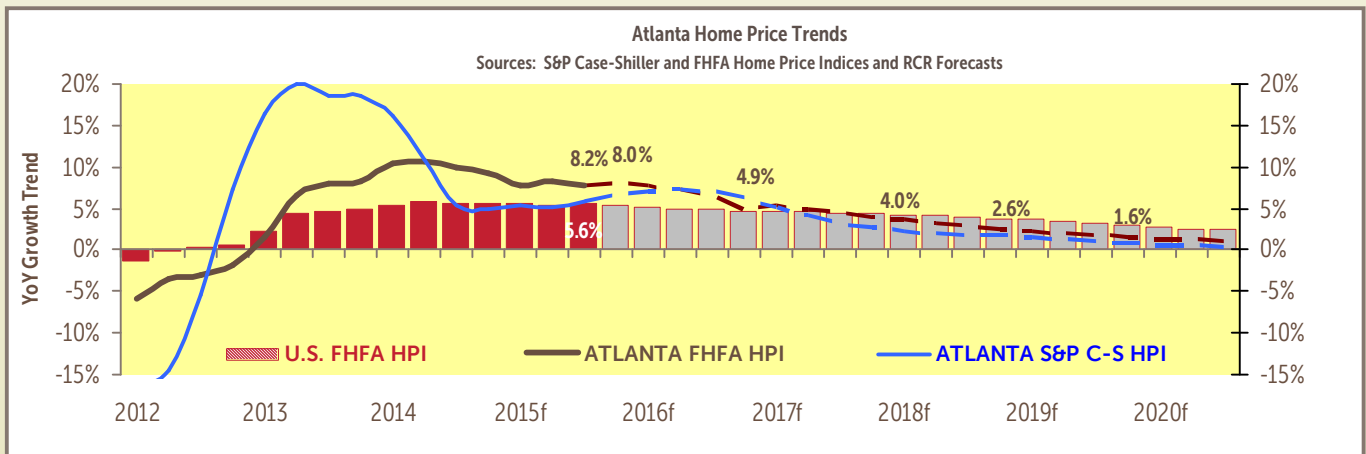
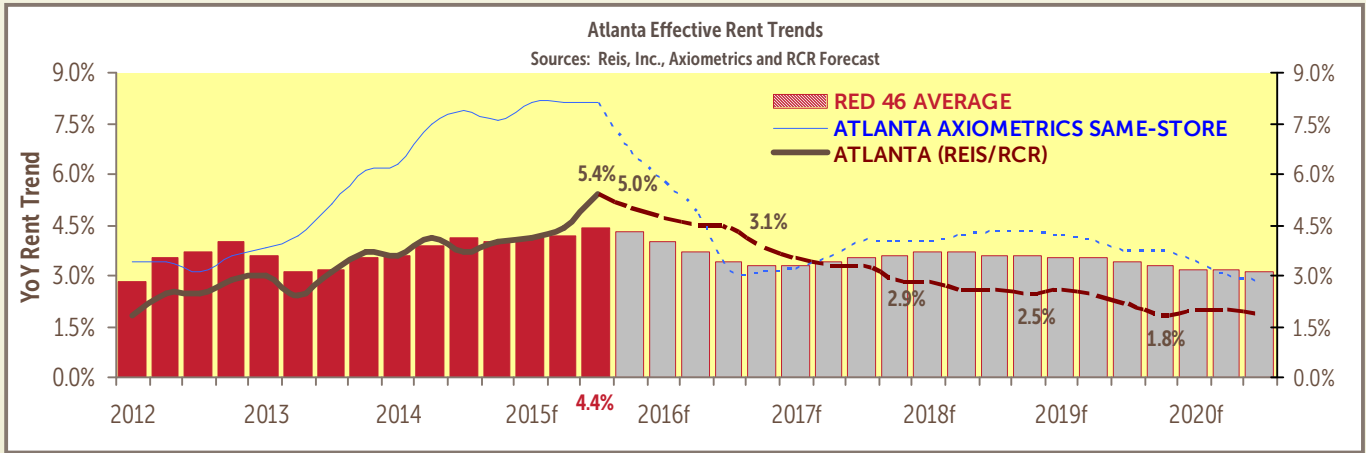
Cap rates for value-add situations compressed to the mid-

**RCR** elected to maintain the generic B+/B cap rate proxy at 5.5% as rapidly rising rents appear to have offset the effect of higher prices. At this level, a terminal cap rate of 6.2% and model rent and occupancy forecasts, an investor would expect to achieve a 6.7% annual unlevered total return over a five-year hold, ranking 22nd among the **RED 46**. Above average rental model standard error hinders risk-adjusted returns. The risk-adjusted index is 3.78, ranking 32nd highest among the major market peer group.



## NOTABLE TRANSACTIONS

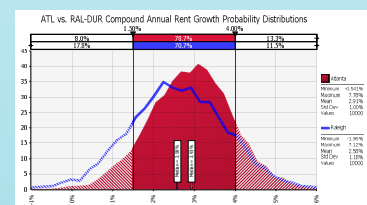
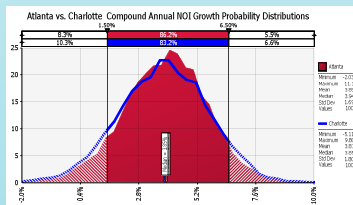
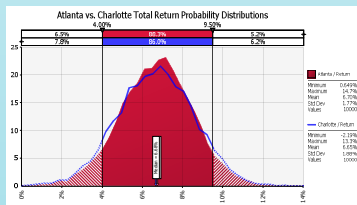
Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
Conservatory Druid Hills (Decatur)	B+ / GLR (1984)	1-Oct-2015	\$58.1	\$122,000	5.5%
Estates at Crossroads (North Gwinnett)	B+ / GLR (2002)	8-Oct-2015	\$45.5	\$132,154	5.1%
Creekside White Oaks (Coweta Co.)	B- / GLR (1990)	10-Nov-2015	\$53.0	\$94,500	5.4%
Bricks at Perimeter (Sandy Sprng/Dunwoody)	A- / MB MR (2006)	22-Nov-2015	\$93.0	\$207,589	4.7%
Park at Abernathy (Sandy Sprng / Dunwoody)	B / LR (1976)	5-Dec-2015	\$50.1	\$103,527	5.7%
Jefferson @ Perimeter (Dunwoody)	A- / LR (1996)	14-Dec-2015	\$69.2	\$137,204	5.8%



The information contained in this report was prepared for general information purposes only and is not intended as legal, tax, accounting or financial advice, or recommendations to buy or sell currencies or securities or to engage in any specific transactions. Information has been gathered from third party sources and has not been independently verified or accepted by RED Capital Group. RED makes no representations or warranties as to the accuracy or completeness of the information, assumptions, analyses or conclusions presented in the report. RED cannot be held responsible for any errors or misrepresentations contained in the report or in the information gathered from third party sources. Under no circumstances should any information contained herein be used or considered as an offer or a solicitation of an offer to participate in any particular transaction or strategy. Any reliance upon this information is solely and exclusively at your own risk. Please consult your own counsel, accountant or other advisor regarding your specific situation. Any views expressed herein are subject to change without notice due to market conditions and other factors.

# SUBMARKET TRENDS (REIS)

Submarket	Effective Rent			Physical Vacancy		
	3Q14	3Q15	Change	3Q14	3Q15	Change
Buckhead	\$1,165	\$1,286	10.3%	4.0%	9.5%	550 bps
Central I-75 West	\$907	\$960	5.8%	7.4%	7.3%	-10 bps
Cherokee County	\$849	\$885	4.2%	4.1%	3.1%	-100 bps
Clarkston / Stone Mountain	\$656	\$676	3.0%	8.1%	7.8%	-30 bps
Clayton Co. / Henry Co.	\$725	\$759	4.7%	6.5%	5.6%	-90 bps
Decatur/Avondale	\$802	\$823	2.6%	9.7%	7.8%	-190 bps
I-20 East	\$754	\$784	3.9%	4.6%	3.1%	-150 bps
I-20 West	\$728	\$747	2.6%	5.9%	4.1%	-180 bps
Marietta	\$815	\$847	3.9%	4.1%	3.4%	-70 bps
Midtown	\$1,149	\$1,218	6.0%	4.1%	8.3%	420 bps
North DeKalb	\$914	\$973	6.4%	4.3%	5.0%	70 bps
North Gwinnett	\$815	\$853	4.7%	4.9%	3.8%	-110 bps
Roswell / Alpharetta	\$889	\$969	9.1%	3.4%	4.7%	130 bps
Sandy Spring / Dunwoody	\$916	\$946	3.3%	3.0%	3.8%	80 bps
Smyrna	\$806	\$837	3.8%	4.1%	4.1%	0 bps
South DeKalb	\$613	\$631	3.0%	18.6%	15.2%	-340 bps
South Fulton	\$743	\$755	1.6%	9.7%	10.0%	30 bps
South Gwinnett	\$752	\$781	3.9%	4.3%	3.5%	-80 bps
<b>Metro</b>	<b>\$840</b>	<b>\$885</b>	<b>5.4%</b>	<b>5.6%</b>	<b>5.8%</b>	<b>20 bps</b>



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

