

### PAYROLL JOB SUMMARY

Total Payrolls	1,028.0m
Annual Change	30.8m (3.1%)
RCR FY15 Forecast	29.2m (2.9%)
RCR 2016 Forecast	18.7m (1.8%)
RCR 2017 Forecast	19.3m (1.8%)
RCR 2018 Forecast	16.0m (1.5%)
RCR 2019 Forecast	13.0m (1.2%)
Unemployment (NSA)	4.2% (Nov.)

### 3Q15 PAYROLL TRENDS AND FORECAST

Payroll growth trends stayed on an even keel during the July-to-November 2015 period, expanding at a 28,200-job, 2.8% year-on-year rate, on par with 1H15's 28,400-job, 2.9% pace. The transportation sector carried much of the freight as trucking, railroad and warehouse employers hired at a brisk 6,100-job, 9.9% annual pace, up from a 5,600-job, 9.5% advance recorded in the first half. Gains in the skilled services sectors also were robust as business, education and health care service concerns hired at a 7,100-job (2.4%) aggregate rate, up from 1H15's 6,900-job performance. Moreover, consumer-driven sector (retail, lodging, food services) growth was strong, offsetting moderate weakness in the financial services arena.

Seasonally-adjusted estimates also were constructive. This series revealed a 16,800-job surge during the five-month period ended in November, nearly twice the total jobs added during the first half of the year (8,700).

RED Research specified a 94.6% adjusted-R<sup>2</sup> (S.E.=0.4%) payroll growth forecasting equation using the rate of change of U.S. payroll growth (+) and the fed funds rate (-), and lagged GDP and personal consumption expenditure growth (-) as independent variables. The model projects moderate deceleration in 2016; then faster growth in 2017; followed by a steady slowdown in the out years in keeping with the expected U.S. average trend.

### OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	93.9%
RED 50 Rank	46 <sup>th</sup>
Annual Chg. (Reis)	+0.1%
RCR YE15 Forecast	93.8%
RCR YE16 Forecast	93.5%
RCR YE17 Forecast	94.0%
RCR YE18 Forecast	93.8%
RCR YE19 Forecast	93.7%

### 3Q15 ABSORPTION AND OCCUPANCY RATE TRENDS

Net apartment demand was moderately softer during the third quarter, according to Reis. The service recorded net tenant demand for 676 units, down from the seasonally weaker spring quarter (824 units) and the year earlier period (954). But supply declined as well (461 units), giving rise to a 20 basis point occupancy rate gain to 93.9%.

Class-A occupancy declined 60 bps y-o-y, while classes-B (+30 bps) and -C (+80 bps) made significant headway. Central (95.6%) was the only submarket to pierce the 95% rate threshold, while Far Northwest, Hamilton County, Southwest and West submarkets each returned occupancy averages below 92.5%.

Axiometrics surveys of 188 stabilized, larger properties found somewhat softer conditions. Occupancy among this sample averaged 92.8% during 3Q15, up 30 bps year-over-year. Highest occupancy was observed among class-A (93.6%) properties, followed by classes-B (93.2%) and -C

RCR used the rate of inventory (+), payroll (+) and rent (+) growth and lagged occupancy change (-) as independent variables to construct a 94.4% ARS (SE=0.3%) demand forecast model. The model indicates that demand may fall short of supply in 2016 before making up ground in 2017.

### EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$742
Annual Change	3.1%
RED 50 Rent Change Rank	37 <sup>th</sup>
RCR YE15 Forecast	2.9%
RCR YE16 Forecast	1.9%
RCR YE17 Forecast	2.4%
RCR YE18 Forecast	2.0%
RCR YE19 Forecast	2.1%

### 3Q15 EFFECTIVE RENT TRENDS

Reis report that metro rent increased \$8 (1.2%) sequentially during the third quarter, the fastest quarter-to-quarter advance recorded in four years. Exceptional gains in Central (2.8%) and East (4.0%) Indianapolis submarkets were primarily responsible as owners were able to implement material rent hikes in spite of high vacancy conditions. Rents advance 3.1% year-on-year, up from 2.8% in 2Q15.

orded the strongest advance (2.1%), while classes-C (1.6%) and A (0.3%) trailed. Southeast (3.3%) and West (3.1%) submarkets recorded the fastest advances, while Castleton, Central and Hamilton Co. rents grew less than 1.3% y-o-y.

Axiometrics surveys of 170 stabilized, same-store properties found weaker conditions. This sample posted 2.0% year-over-year growth, down from 2.3% and 3.0% in the prior and year-earlier quarters, respectively. Class-B rec-

Employing the Reis data series, RCR specified a 93.0% ARS (SE=0.5%) rent growth forecasting equation using U.S. home price (-) and job (+) growth, the spread between 10-year UST notes and Baa-rated bonds (-) and lagged occupancy change (+) as independent variables. The model forecasts slower rent growth in 2016, followed by a rebound above the 2% threshold for 2017-2019.

### TRADE & RETURN SUMMARY

\$2mm+ / 80-unit+ Sales	11
Approximate Proceeds	\$193.6mm
Average Cap Rate (FNM)	6.7%
Average Price / Unit	\$71,683
Expected Total Return	6.7%
RED 46 ETR Rank	23 <sup>rd</sup>
Risk-adjusted Index	7.55
RED 46 RAI Rank	7 <sup>th</sup>

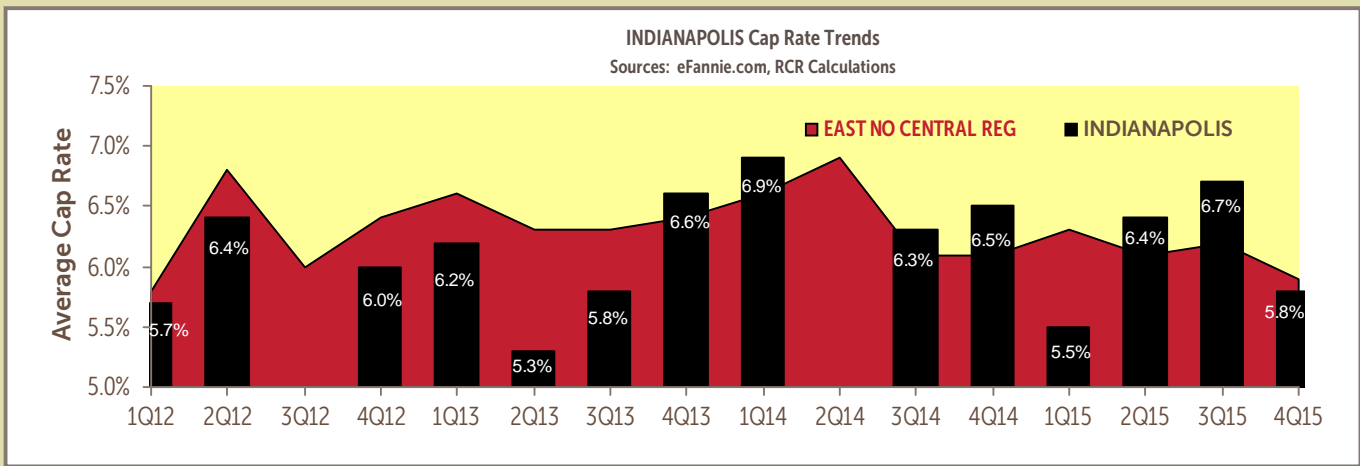
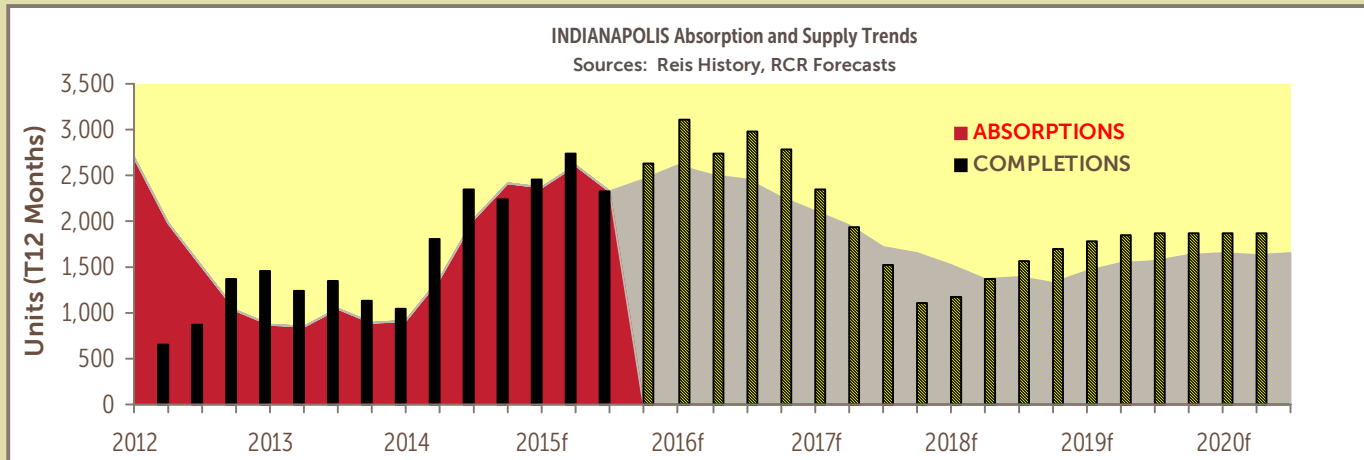
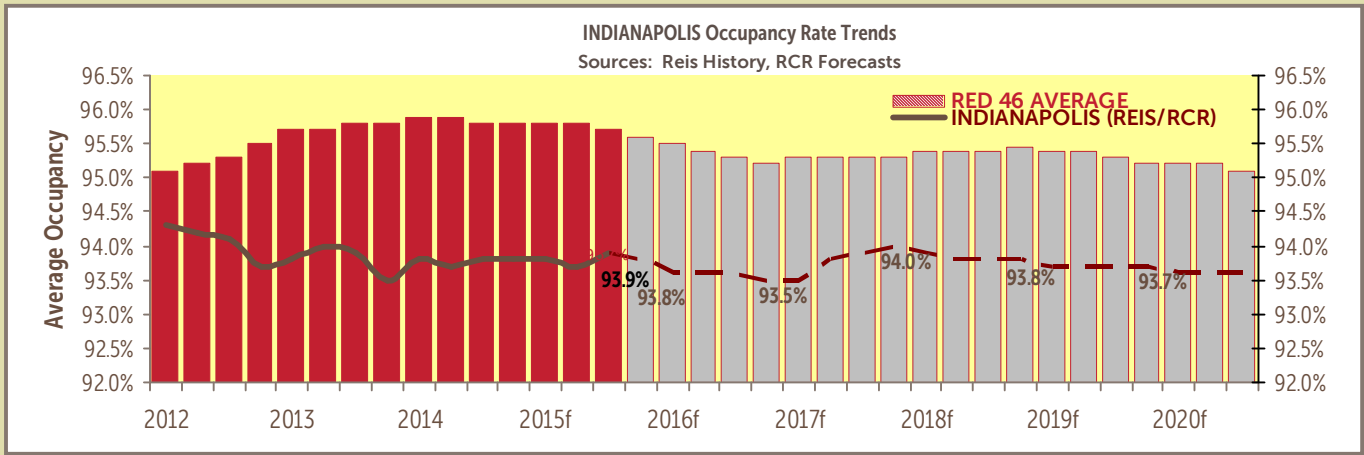
### 3Q15 PROPERTY MARKETS AND TOTAL RETURNS

Owner/managers and opportunistic funds were aggressive buyers of Indianapolis properties during the third quarter. Largely through their efforts sales velocity and proceeds surged to the highest levels seen since the record 4Q14 period. A total of 15 properties valued at \$2 million or more exchanged hands, up from seven trades for gross proceeds of \$92mm during the second quarter. The average price of units sold increased 4.2% to \$71,683 as investor focused on class-B value add trades rather than the older class-C assets that dominated 2Q15 activity.

5s. Class-B/B+ product traded within a low-5% to high-5% range. Yields available for B/B- value add plays appeared to compress to the high-5% to mid-6% area.

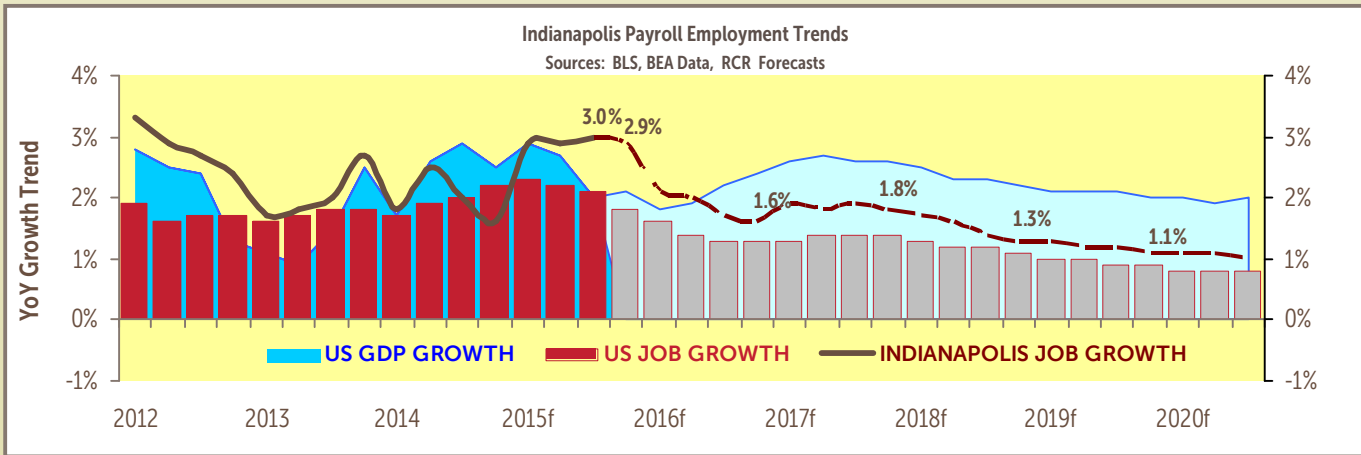
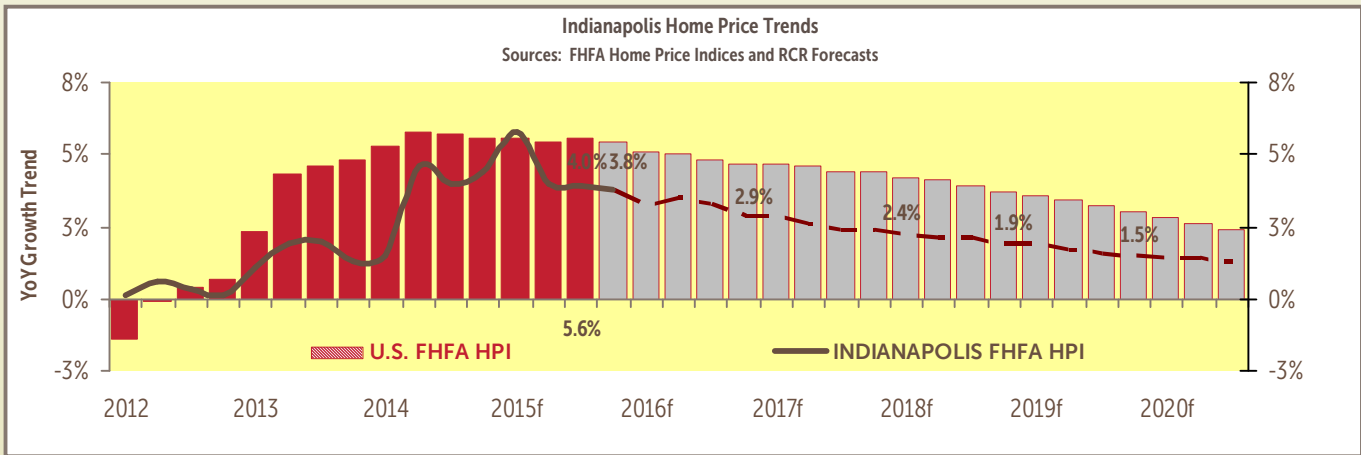
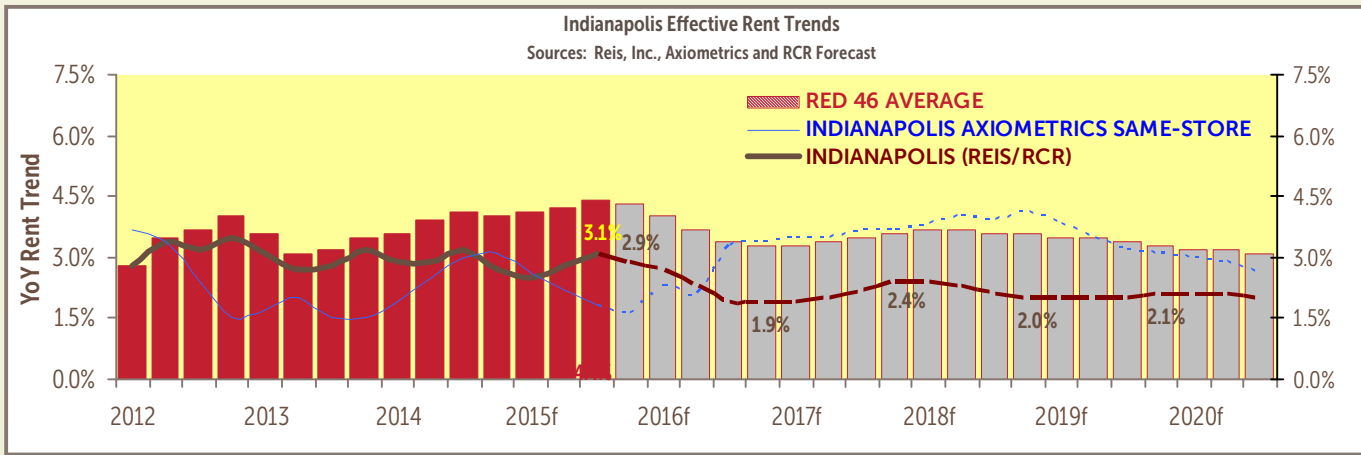
Class-A properties in top suburban submarkets commanded pricing generating going-in yields in the high-4s to low-

In light of the aggressive bid for 25-to-35 year-old value-add assets, RCR elected to trim the class-B/B+ cap rate proxy 25 bps to 6.25%. At this purchase cap rate level, a terminal cap of 7.1% and model derived rent and occupancy point estimates, we calculate that an Indy investor would expect to achieve a 6.7% unlevered annual return over a five-year hold, ranking 23<sup>rd</sup> among the RED 46. Low market volatility gives rise to low model standard error, resulting in a high RAI of 7.55, ranking 7<sup>th</sup> in the R46.



## NOTABLE TRANSACTIONS

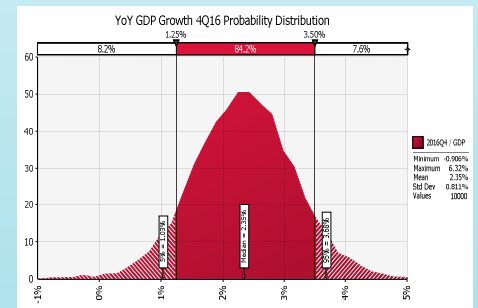
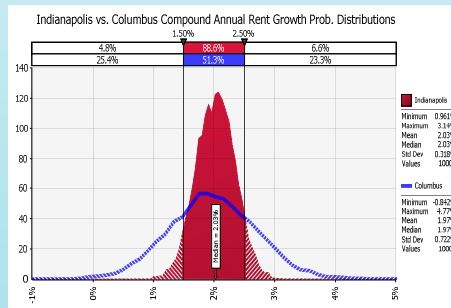
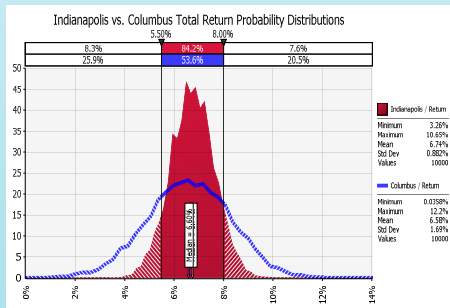
Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
Reveal on Cumberland (Carmel/Fishers)	A- / LR (2014)	6-Apr-2015	\$29.5	\$134,091	3.4% / 5.7% p.f.
The Village at Spring Mill (Carmel)	B+ / GLR (1999)	5-Oct-2015	\$50.0	\$125,000	5.1%
The Carmel Center Apts. (Carmel)	A- / LR (2002)	19-Oct-2015	\$47.9	\$148,758	5.2%
Deerbrook (Carmel / Fishers)	B / GLR (1985)	24-Nov-2015	\$22.6 (allocated)	\$74,424	6.0%
Regency Park (Southwest/Johnson Co.)	B- / GLR (1967)	Pending	\$14.5 (est.)	\$14,697 (est.)	7.8%



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
Boone Co./Hendricks Co.	\$842	\$870	3.3%	3.5%	9.5%	600 bps
Castleton	\$822	\$847	3.0%	4.6%	3.9%	-70 bps
Central	\$901	\$940	4.3%	15.1%	12.3%	-280 bps
East	\$577	\$606	5.0%	11.1%	12.2%	110 bps
Far Northeast	\$630	\$648	2.9%	9.9%	9.8%	-10 bps
Far Northwest	\$700	\$703	0.3%	2.5%	1.7%	-80 bps
Hamilton County	\$902	\$930	3.1%	4.9%	8.9%	400 bps
Hancock Co. / Shelby Co.	\$635	\$656	3.3%	2.2%	1.6%	-60 bps
Johnson County	\$668	\$681	2.0%	9.0%	5.1%	-390 bps
Near Northwest	\$650	\$671	3.2%	6.2%	4.9%	-130 bps
Southeast	\$669	\$688	2.8%	5.1%	4.7%	-40 bps
Southwest	\$687	\$699	1.7%	4.3%	4.3%	0 bps
West	\$611	\$633	3.6%	5.7%	4.5%	-120 bps
<b>Metro</b>	<b>\$720</b>	<b>\$742</b>	<b>3.1%</b>	<b>6.2%</b>	<b>6.1%</b>	<b>-10 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

