

### PAYROLL JOB SUMMARY

|                    |              |
|--------------------|--------------|
| Total Payrolls     | 1,099.9m     |
| Annual Change      | 39.1m (3.7%) |
| RCR FY15 Forecast  | 36.9m (3.5%) |
| RCR 2016 Forecast  | 31.1m (2.8%) |
| RCR 2017 Forecast  | 31.9m (2.8%) |
| RCR 2018 Forecast  | 27.1m (2.3%) |
| RCR 2019 Forecast  | 22.0m (1.8%) |
| Unemployment (NSA) | 5.3% (Oct.)  |

### 3Q15 PAYROLL TRENDS AND FORECAST

Charlotte labor market trends reaccelerated during the third quarter as establishments added workers to payrolls at a 39,100-job, 3.7% annual rate, up from 2Q's 35,400-job performance. It was the largest absolute 12-month payroll gain recorded since 1Q07. Faster hiring was observed in three key sectors: finance and insurance; professional and technical business services; and construction. Combined, the foregoing industries hired at an 11,800-job, year-on-year pace, up from 9,100 over the four quarters ended 2Q15. The consumer driven retail trade and accommodations and food services sectors also made great strides, expanding at a 9,000 (6.4%) job y-o-y rate, up from 5,100 (3.6%) during the prior quarter.

Conversely, trends in the non-professional business and education and health care services sectors were weaker. Headcount growth in the former slid to -600 jobs, while the latter grew at only a 2,400-job, 2.2% rate, down from 2Q15's 3,700-job advance.

RED Research specified a 96.1% adjusted-R<sup>2</sup>(SE=0.5%) forecasting equation for Queen City payroll growth using one lag of the dependent variable and the rate of change of U.S. payroll growth and metro personal income and home price growth as independent variables. The model projects strong job growth through 2017, followed by a gradual cooling off in keeping with national trends.

### OCCUPANCY RATE SUMMARY

|                       |                  |
|-----------------------|------------------|
| Occupancy Rate (Reis) | 95.0%            |
| RED 50 Rank           | 37 <sup>th</sup> |
| Annual Chg. (Reis)    | -0.2%            |
| RCR YE15 Forecast     | 94.6%            |
| RCR YE16 Forecast     | 94.3%            |
| RCR YE17 Forecast     | 94.5%            |
| RCR YE18 Forecast     | 94.1%            |
| RCR YE19 Forecast     | 93.4%            |

### 3Q15 ABSORPTION AND OCCUPANCY RATE TRENDS

Tenant demand for Charlotte apartment space declined during 3Q15, according to Reis, as renters net leased 352 units, down from 1,001 and 745 during the prior and year-earlier quarters, respectively. As a result, the year-on-year occupied stock growth rate declined from 4.5% in 2Q15 to 4.1%, moderately slower than the 4.2% rate forecast by the RCR absorption model. Accounting for 513 units delivered by developers, occupancy slipped -10 basis points sequentially (-20 bps y-o-y) to 95.0%, reversing a six-month rally.

(96.2%), while classes-B&C were tied at 95.3%. Class-C achieved the strongest y-o-y advance (+100 bps), class-A was next (+60 bps), and class-B was flat. North Tryon (+400 bps) and Downtown (+140) submarkets made the largest up moves; Fairview and Pineville declined. Rates in Concord (96.6%) and West Charlotte (96.8%) were highest.

Axiometrics surveys of 383 larger, stabilized properties found 95.4% of inventory occupied during 3Q15, up 30 bps y-o-y. Class-A apartments posted the highest occupancy

RCR used the rate of change of inventory growth, job and home price growth and a lag of vacancy to achieve a 94.2% ARS (SE=0.46%) demand model. The model projects weaker absorption through 2016, followed by gathering strength in 2017-2019. Occupancy is expected to decline about -160 bps by the end of the 5-year forecast.

### EFFECTIVE RENT SUMMARY

|                         |                 |
|-------------------------|-----------------|
| Mean Rent (Reis)        | \$868           |
| Annual Change           | 5.9%            |
| RED 50 Rent Change Rank | 9 <sup>th</sup> |
| RCR YE15 Forecast       | 5.4%            |
| RCR YE16 Forecast       | 3.6%            |
| RCR YE17 Forecast       | 4.0%            |
| RCR YE18 Forecast       | 3.8%            |
| RCR YE19 Forecast       | 3.1%            |

### 3Q15 EFFECTIVE RENT TRENDS

Reis radically revised the Charlotte rent series with upward revisions in each of previous five quarters. The changes caused Charlotte annualized rent growth for the two years ended 2Q15 to rise to 4.4% from 4.1%. Metro performance didn't disappoint during the summer as rents increased \$14 (1.6%) sequentially, boosting the year-on-year growth metric to 5.9%, fastest rate observed since 1996. The class-A segment continued to fuel the advance as sector asking rents rose 1.7% sequentially, outpacing B&C's 1.1% increase.

2Q15 and fastest rise in more than three years. Class-B led the way with a 7.8% advance, followed by A (7.0%) and C (4.8%). Albemarle (9.8%) posted the largest increase among submarkets, while Carmel, Harris Blvd. and North Pineville and Tryon Street each chalked down 7.9% gains or greater.

Axiometrics stabilized, same-store comparisons uncovered still faster growth among larger properties. This sample recorded 7.1% y-o-y effective rent growth, up from 5.9% in

RCR found that current vacancy and Baa/10-year spreads are statistically significant predictors of CLT rent trends along with six lags of the dependent variable. The resulting 95.9% ARS (SE=0.6%) equation projects slower rent growth in 2016, but a return to form afterward. Rents are projected to rise at a 3.5% compound rate through 2020, besting regional rivals Atlanta (3.0%) and Nashville (2.8%)

### TRADE & RETURN SUMMARY

|                         |                  |
|-------------------------|------------------|
| \$5mm+ / 80-unit+ Sales | 16               |
| Approximate Proceeds    | \$448.8mm        |
| Average Cap Rate (FNM)  | 5.4%             |
| Average Price / Unit    | \$120,345        |
| Expected Total Return   | 7.1%             |
| RED 46 ETR Rank         | 17 <sup>th</sup> |
| Risk-adjusted Index     | 3.77             |
| RED 46 RAI Rank         | 34 <sup>th</sup> |

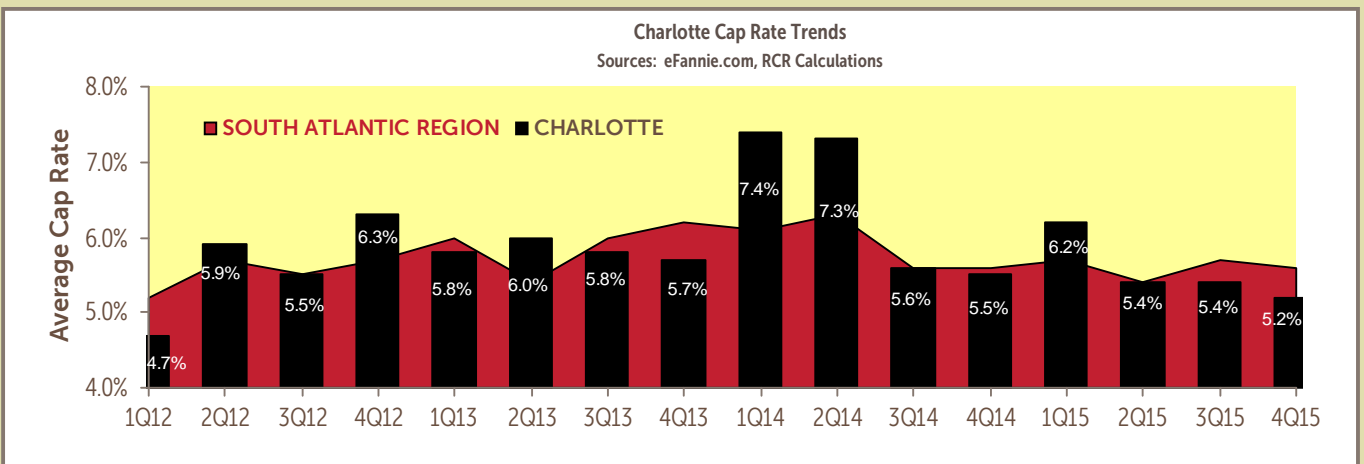
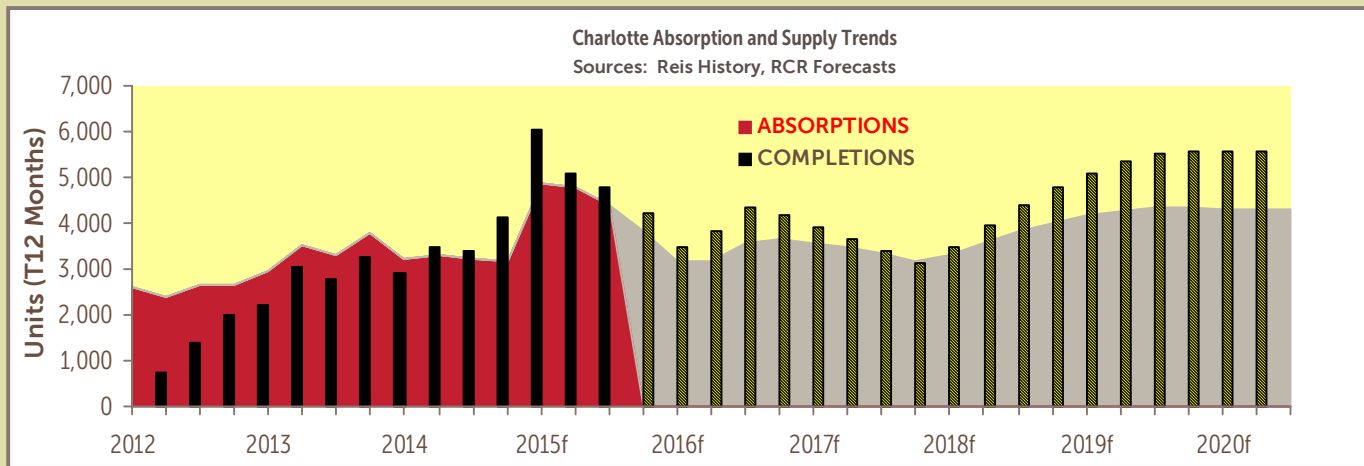
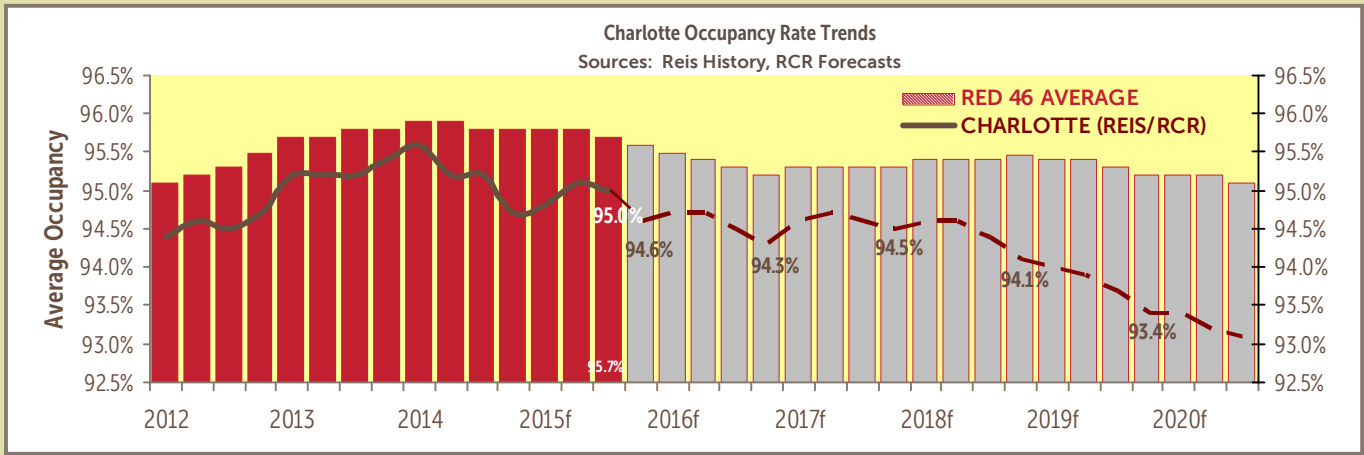
### 3Q15 PROPERTY MARKETS AND TOTAL RETURNS

Sales velocity reaccelerated during the third quarter as 16 properties valued at \$5 million or more for which pricing data were available exchanged hands for total proceeds of nearly \$450mm, up from 12 transactions for \$262mm during 2Q15. Likewise, the average price of units sold increased 58% to \$120,345 as investors concentrated on newer construction garden properties in prime suburban locations. Indeed, the average age of transacted assets declined from 23 years during 2Q15 to 13 years.

high-4% to low-5% range. Properties located at a greater distance from the CBD gravitated toward the 5.25% to 5.5% neighborhood. Standard class-B 20-25 year old garden complexes were priced to high-5% yields.

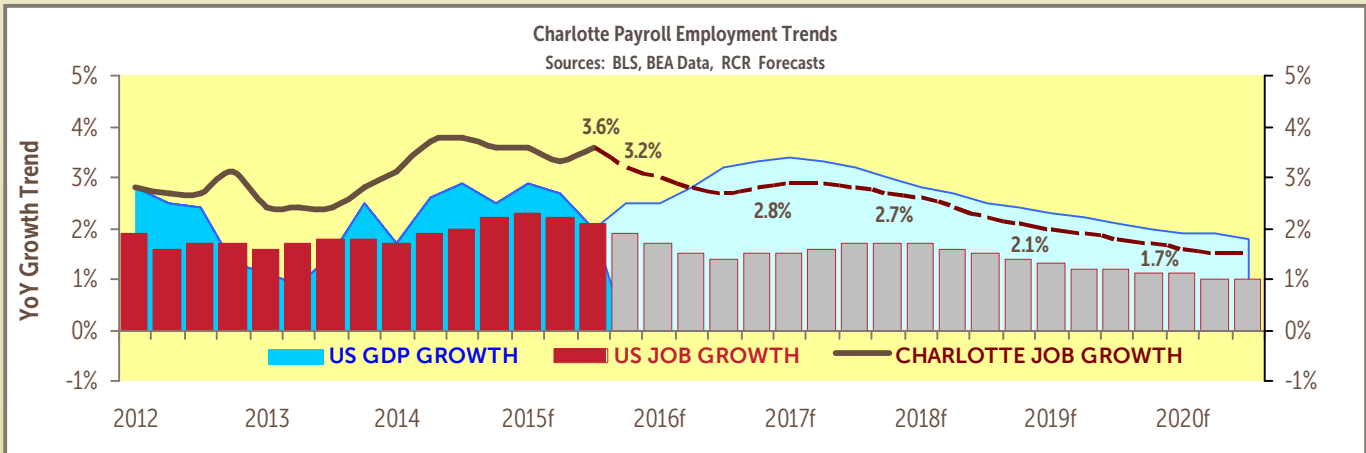
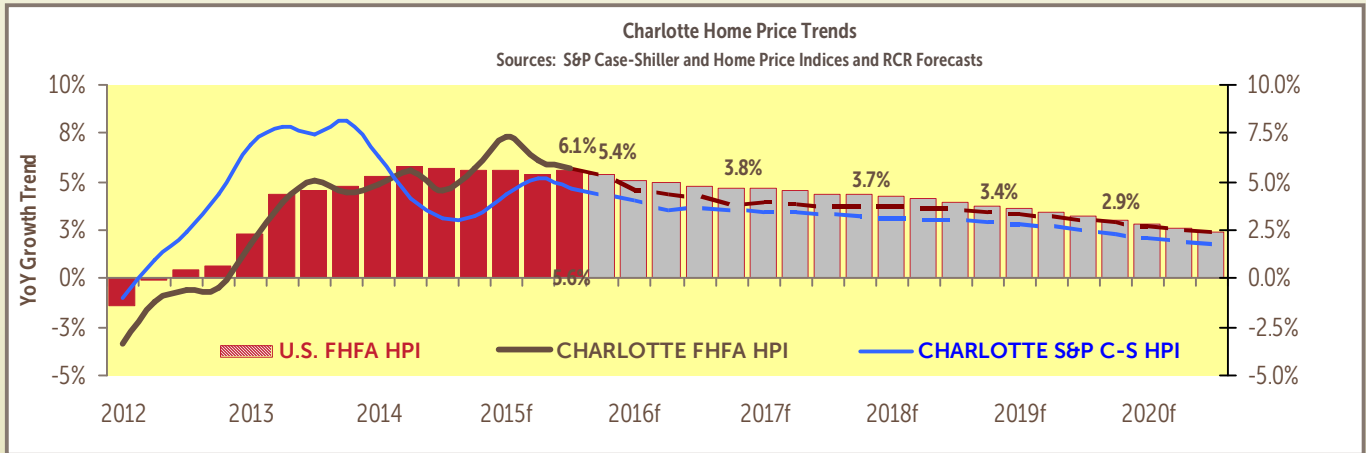
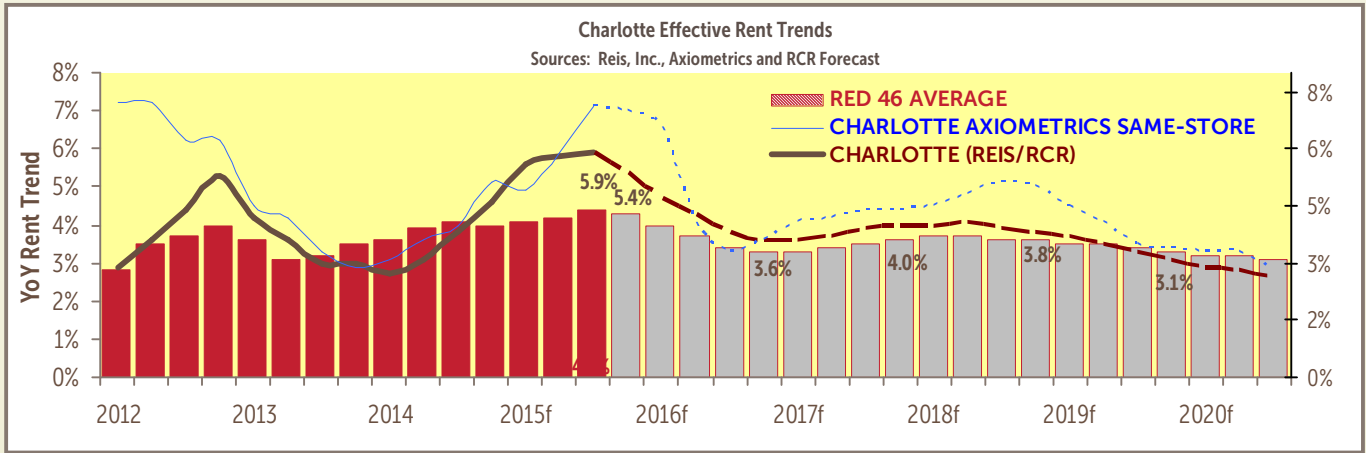
Institutional quality assets traded to 5-handle cap rates. Recent construction properties located in close-in northern suburban neighborhoods were priced to yields in the

To reflect the strong bid for Charlotte assets, RCR elected to reduce the purchase cap rate proxy 15 basis points to 5.6%. Using this level, a 6.5% terminal cap rate and model derived rent and occupancy estimates, we calculate that an investor would expect to achieve a 7.1% total return, ranked RED 46 #17. Above average supply and demand volatility give rise to higher model standard errors, contributing to a weaker 34th ranked risk-adjusted return.



## NOTABLE TRANSACTIONS

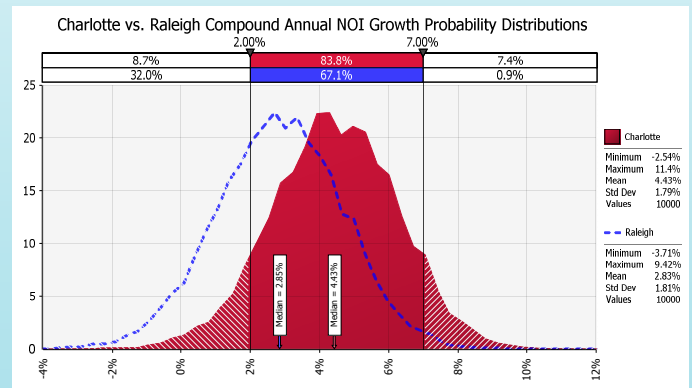
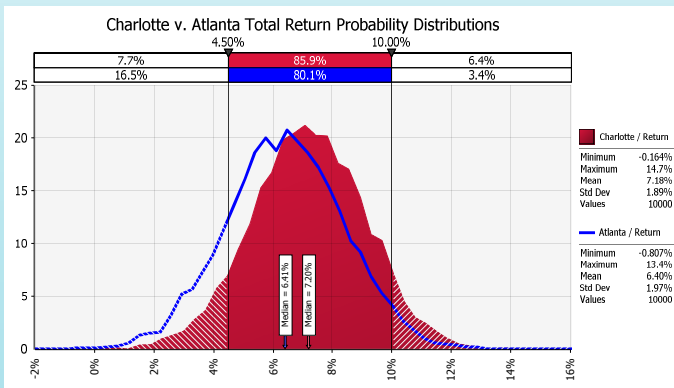
| Property Name (Submarket)                      | Property Class/ Type (Constr.) | Approx. Date of Transaction | Total Price / (in millions) | Price / per unit | Estimated Cap Rate |
|--|--------------------------------|-----------------------------|-----------------------------|------------------|--------------------|
| University Center (Harris Blvd / UNCC)         | B / GLR (2008)                 | 9-Sep-2015                  | \$47.0                      | \$126,344        | 5.1%               |
| Alexander Village (Harris Blvd/W. Mallard Crk) | B+ / GLR (2014)                | 30-Sep-2015                 | \$52.3                      | \$163,281        | 4.0% / 5.0% p.f.   |
| Reserve @ Kenton Place (NW Charlotte)          | B+ / WF LR (2015)              | 29-Oct-2015                 | \$33.7                      | \$160,476        | 5.3%               |
| Retreat at McAlpine Creek (Carmel)             | B / GLR (1988)                 | 9-Dec-2015                  | \$55.5 (allocated)          | \$138,750        | 5.7%               |
| Ashford Green (N. Tryon St. / UNCC)            | B / GLR (1995)                 | 9-Dec-2015                  | \$41.5 (allocated)          | \$138,333        | 5.4%               |



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## SUBMARKET TRENDS (REIS)

| Submarket                   | Effective Rent |              |             | Physical Vacancy |             |               |
|-----------------------------|----------------|--------------|-------------|------------------|-------------|---------------|
|                             | 3Q14           | 3Q15         | Change      | 3Q14             | 3Q15        | Change        |
| Carmel                      | \$917          | \$970        | 5.8%        | 2.1%             | 1.5%        | -60 bps       |
| Concord / North Concord     | \$735          | \$755        | 2.7%        | 6.5%             | 7.3%        | 80 bps        |
| Downtown                    | \$1,309        | \$1,346      | 2.8%        | 12.8%            | 13.7%       | 90 bps        |
| East Charlotte / Albemarle  | \$661          | \$692        | 4.6%        | 3.1%             | 2.2%        | -90 bps       |
| East Charlotte / Central Av | \$747          | \$762        | 2.0%        | 3.3%             | 4.3%        | 100 bps       |
| Fairview North              | \$899          | \$958        | 6.6%        | 3.8%             | 7.8%        | 400 bps       |
| Gaston County               | \$684          | \$721        | 5.4%        | 4.6%             | 8.3%        | 370 bps       |
| Harris Blvd/Mallard Creek   | \$851          | \$881        | 3.5%        | 4.9%             | 5.3%        | 40 bps        |
| North Tryon Street          | \$618          | \$660        | 6.8%        | 4.9%             | 5.6%        | 70 bps        |
| North Pineville             | \$773          | \$822        | 6.4%        | 4.7%             | 3.5%        | -120 bps      |
| Northwest Charlotte         | \$947          | \$990        | 4.6%        | 7.6%             | 6.3%        | -130 bps      |
| West Charlotte / Airport    | \$942          | \$1,065      | 13.0%       | 8.8%             | 4.7%        | -410 bps      |
| <b>Metro</b>                | <b>\$820</b>   | <b>\$868</b> | <b>5.9%</b> | <b>4.8%</b>      | <b>5.0%</b> | <b>20 bps</b> |



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