

PAYROLL JOB SUMMARY

Total Payrolls	870.9m
Annual Change	17.6m (2.1%)
RCR FY15 Forecast	20.9m (2.5%)
RCR 2016 Forecast	18.1m (2.1%)
RCR 2017 Forecast	21.7m (2.4%)
RCR 2018 Forecast	20.4m (2.2%)
RCR 2019 Forecast	17.3m (1.9%)
Unemployment (NSA)	4.9% (Oct.)

3Q15 PAYROLL TRENDS AND FORECAST

Raleigh-Durham payroll trends decelerated for the second consecutive quarter, slowing to a 17,600-job, 2.1% annual pace from 2Q15's 21,600 (2.5%) job and 1Q15's 27,100 (3.3) job performances. The Raleigh MSA was primarily responsible for the trend as Raleigh establishments hired at a 12,900-job, 2.3% annual rate during 3Q15, down from 1Q's strong 20,400-job, 3.7% advance. The construction, leisure service and government sectors were the weak links, growing at a collective 1,430-job, 0.5% year-on-year rate, down from 5,900- and 7,300-job gains in the prior and penultimate quarters, respectively.

Seasonally-adjusted data suggest that the fourth quarter

began on a sluggish note. This series shows Raleigh and Durham headcounts fell by about -300 jobs in October and November, comparing unfavorably to the 8,200-job advance recorded in the same period of 2014.

RCR forecasting equation suggests that slower growth is only temporary. The 94.6% adjusted-R² (SE=0.5%) equation uses the rate of change of U.S. payroll growth and current R-D personal income growth as independent variables. The equation projects stable annual job creation in the 2% area through 2016, followed by reacceleration to the mid-2% range in 2017. Growth should slow gradually thereafter to ~1.7% in the forecast out-years.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	93.1%
RED 50 Rank	49 th
Annual Chg. (Reis)	-0.3%
RCR YE15 Forecast	93.5%
RCR YE16 Forecast	93.0%
RCR YE17 Forecast	93.6%
RCR YE18 Forecast	94.1%
RCR YE19 Forecast	93.9%

3Q15 ABSORPTION AND OCCUPANCY RATE TRENDS

Reis report that Raleigh-Durham apartment demand was seasonally weaker as tenants absorbed a net of 489 units during the summer quarter, down from 978 during 2Q15 but on par with 3Q14's 448-unit performance and the 443-unit third quarter average observed from 2012-14. Supply also fell, dropping from 1,138 new units in 2Q15 to 582. As a result, average occupancy declined for the sixth consecutive quarter, in this case by -10 basis points to 93.1%.

Axiometrics surveys of stabilized same-store properties found a 94.6% average occupancy rate, up 10 bps year-on-year. Class-B enjoyed the highest occupancy across classes as 95.1% of units were occupied, bettering classes-C

(94.2%) and -A (93.2%). Occupancy among submarkets was led by Northeast Raleigh, followed by Cary (95.7%) and Central (95.1%). West Durham (89.8%) and Chapel Hill (91.9%) submarkets trailed. Twenty-nine new projects net leased an average of 17 units/mo., up from 10 in 2Q15.

Heavy supply will continue for several years, so the market must generate demand to maintain reasonable occupancy. Our demand model suggests that Raleigh will struggle through 2016, resulting in a meaningful vacancy increase. But absorption is likely to rebound in 2017, bringing Raleigh occupancy back near 94% by 2018 where it is likely to remain through the end of the forecast interval.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$876
Annual Change	4.9%
RED 50 Rent Change Rank	15 th
RCR YE15 Forecast	4.5%
RCR YE16 Forecast	2.8%
RCR YE17 Forecast	3.0%
RCR YE18 Forecast	2.8%
RCR YE19 Forecast	2.4%

3Q15 EFFECTIVE RENT TRENDS

Reis recorded a powerful \$13 (1.5%) sequential quarter effective rent increase during 3Q15, up from \$10 (1.2%) and \$8 (1.0%) gains in the prior and year-earlier quarters, respectively. As a result, rents expressed on a year-on-year basis increased 4.9%, the second fastest gain posted since 1996. Substantial gains in South Durham (5.0%) and Chapel Hill (2.3%) provided most of the metro's impetus.

Axiometrics same-store, stabilized properties posted a faster 6.0% unit-weighted y-o-y advance, equaling the 2Q15 metric as the fastest growth observed in four years. Class-B properties chalked down the fastest rent growth

(6.2%), followed closely by class-A (5.9%) and class-C (5.5%) assets. Three submarkets delivered 7%+ gains (Cary and Northwest and Northeast Raleigh), while only West Durham (-1%) failed to generate a 4% or greater increase.

RED Research statistical analysis found that vacancy rate change, S&P500 returns and inventory growth were statistically significant predictors of metro rent trends. With these independent variables, RCR specified 95.1% ARS (SE=0.7%) forecasting model. The model projects a material slowdown in 2016 as occupancy and stock returns falter, but reacceleration in 2017 on improving fundamentals.

TRADE & RETURN SUMMARY

\$5mm+ / 80-unit+ Sales	9
Approximate Proceeds	\$303.7mm
Average Cap Rate (FNM)	5.2%
Average Price / Unit	\$122,213
Expected Total Return	6.5%
RED 46 ETR Rank	35 th
Risk-adjusted Index	3.47
RED 46 RAI Rank	39 th

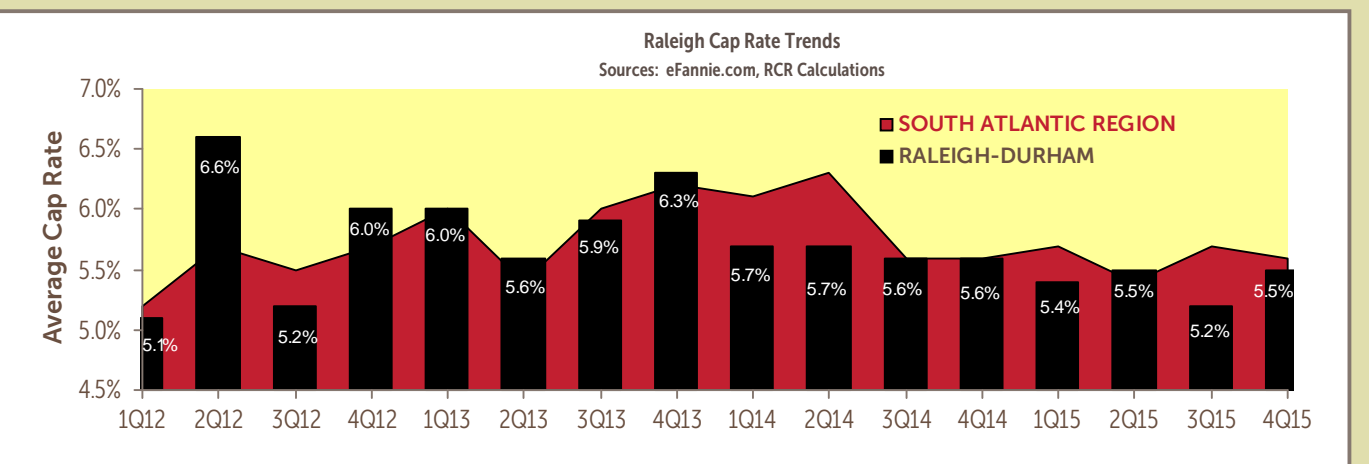
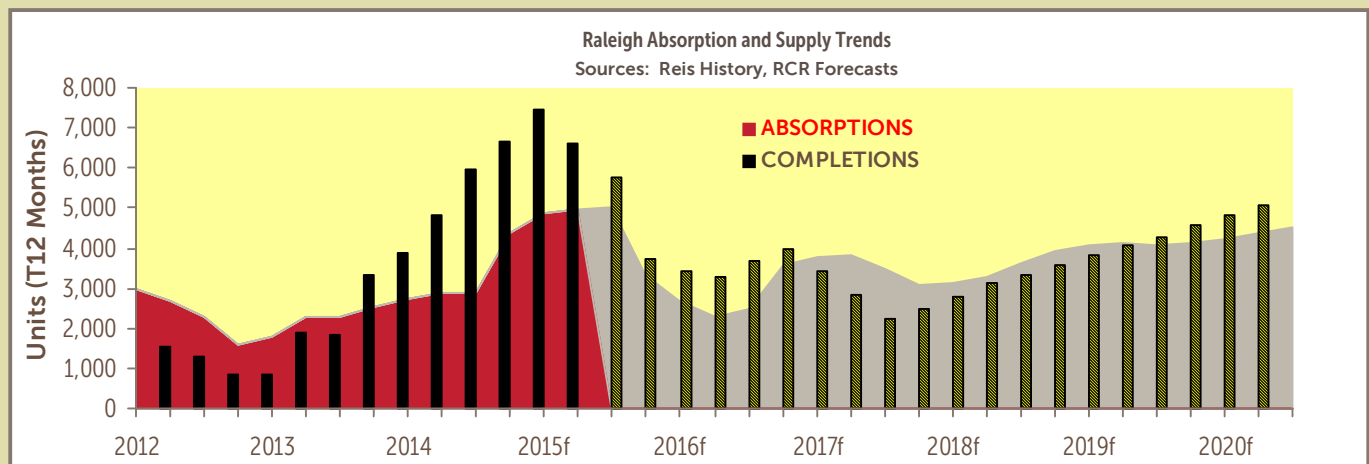
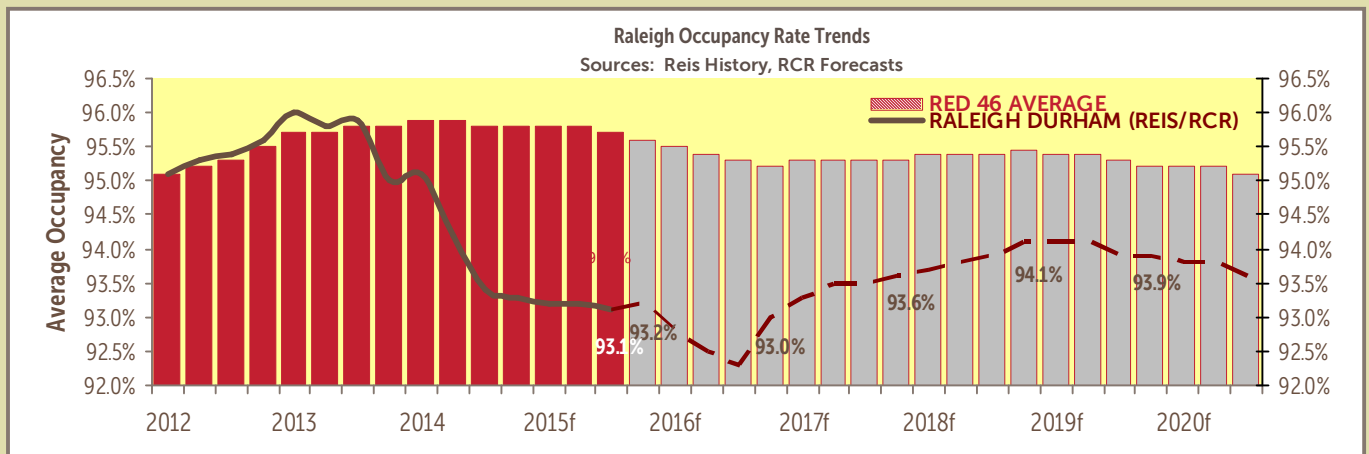
3Q15 PROPERTY MARKETS AND TOTAL RETURNS

Sales velocity decelerated during the second half of the year as 20 properties valued at \$5 million or more exchanged hands from July to mid-December, down from 37 during the first half. Proceeds totaled about \$681mm during 2H15, down -30% from the previous six-month period. The average price of units sold increased, by contrast, rising from \$103,919 to \$121,715. Higher unit prices were attributable to an increase of newer B+-quality product in the mix. The unit-weighted average age of properties sold during 2H15 was 19 years, five years younger than properties traded during the January to June period.

Cap rates for institutional quality trophies fell in the high-

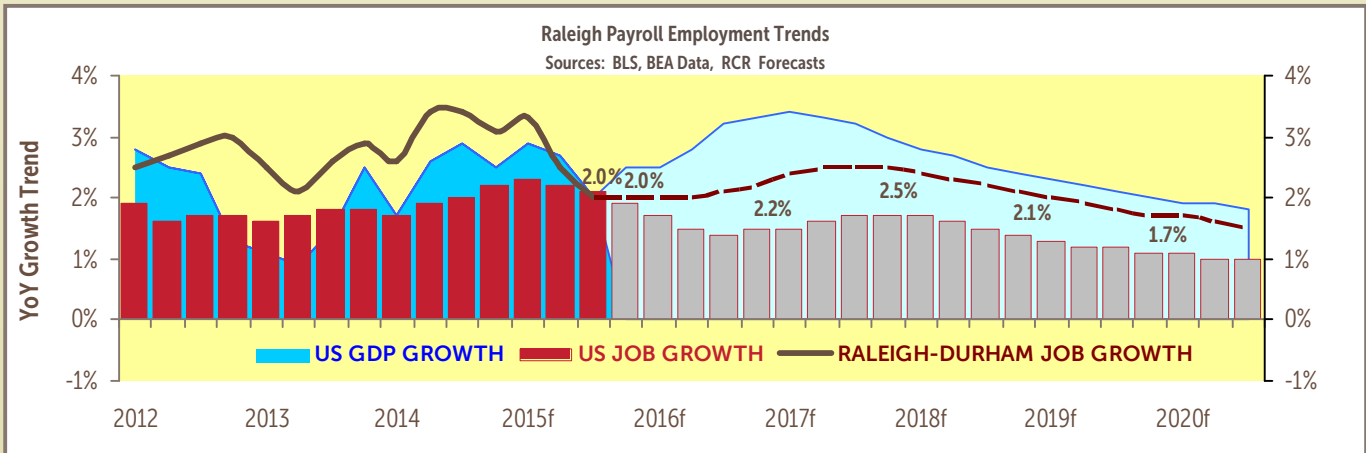
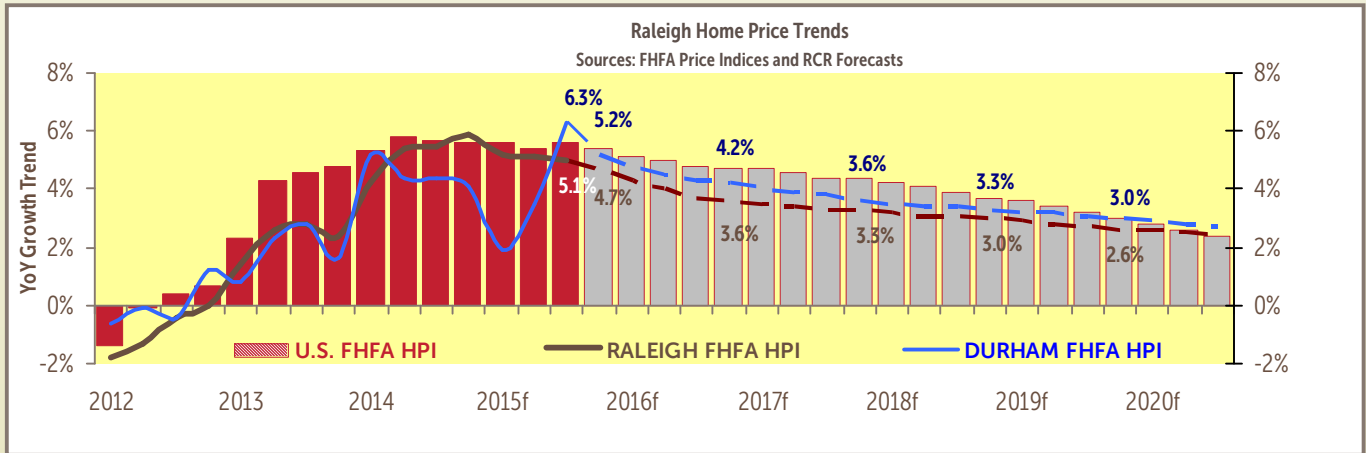
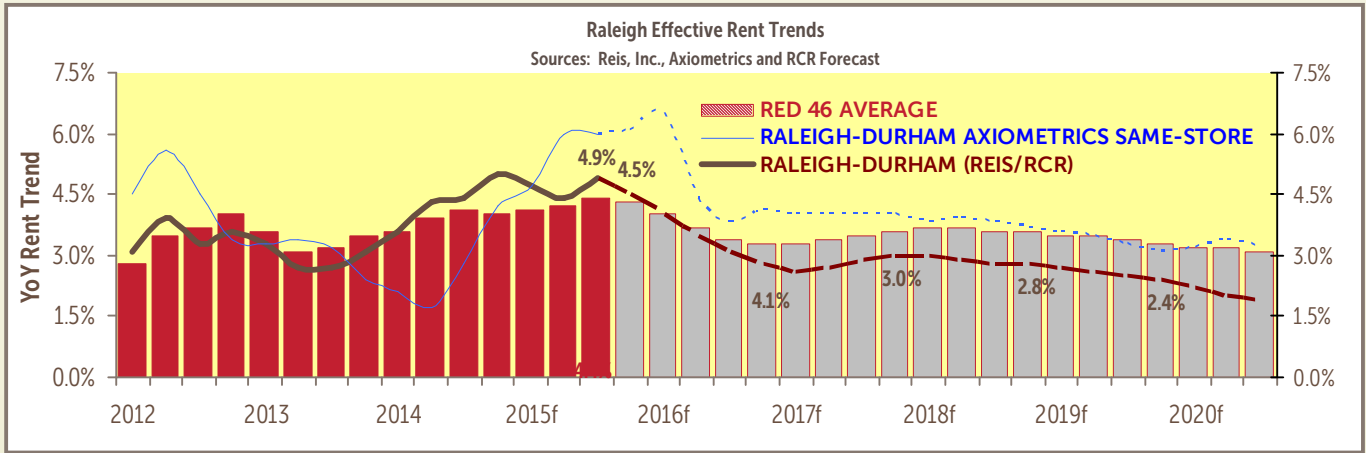
4% to low-5% area. Class-B+ assets traded to yields in the low- to mid-5% range, depending on location. Class-B and B- communities were priced to mid-5% to low-6% yields. Class-C product traded in the low-6% vicinity.

RCR elected to maintain a 5.5% purchase cap rate proxy for B+/B product. At this level, a terminal cap rate of 6.4% and model derived rent and occupancy point estimates, we calculate that an investor would expect to achieve a 6.3% total return, ranking 35th among the RED 46 and about 60 basis points below the unit-weighted average of the peer group. Above average model standard error driven by volatility hampers risk-adjusted returns, which rank #39.



NOTABLE TRANSACTIONS

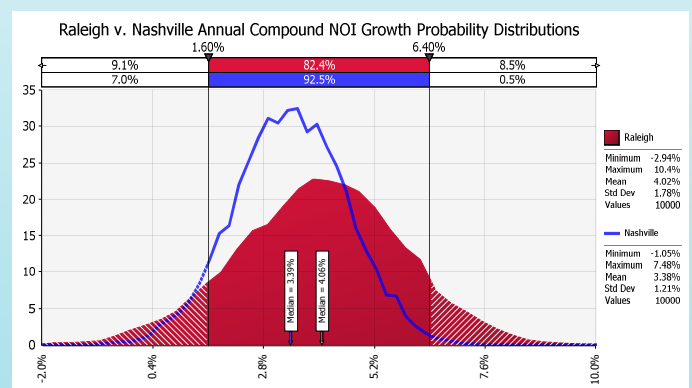
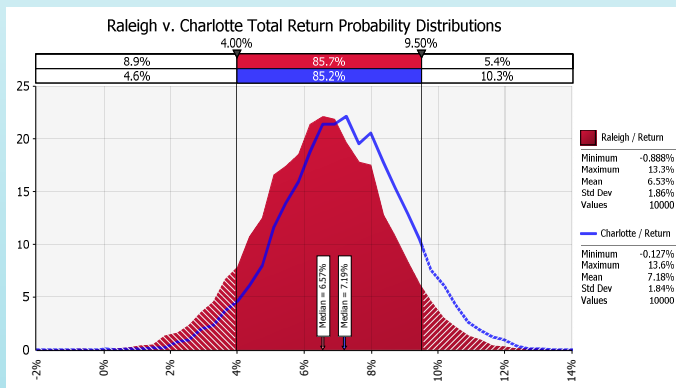
Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
Regatta at Lake Lynn (NW Raleigh/Lake Lynn)	C+ / GLR (1984)	30-Sep-2015	\$35.8	\$91,199	6.2%
The Exchange at Brier Creek (NW Raleigh)	B+ / WF MR (2008)	16-Oct-2015	\$39.4	\$136,460	4.9%
Reserve at Magnolia Ridge (South Durham)	B- / GLR (1985)	23-Oct-2015	\$29.3	\$81,250	5.3%
Villages at Pecan Grove (No. Centr. Raleigh)	A- / GLR (2013)	16-Nov-2015	\$51.2	\$152,277	6.0%
Parkside Place (Cary / O'Kelly Chapel Road)	A- / GLR (2015)	17-Nov-2015	\$52.5	\$178,571	1.5% / 5.0% p.f.
Audubon Park (Hillsborough/Lochmere Lake)	B+ / GLR (1995)	13-Dec-2015	\$26.5	\$147,222	5.5%



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
Carrboro	\$775	\$828	6.8%	9.6%	5.9%	-370 bps
Cary	\$889	\$913	2.8%	5.3%	4.4%	-90 bps
Central Raleigh	\$711	\$761	7.0%	14.7%	22.1%	740 bps
Chapel Hill	\$916	\$955	4.3%	9.0%	6.2%	-280 bps
North Central Raleigh	\$853	\$901	5.6%	5.4%	4.0%	-140 bps
North Durham	\$721	\$744	3.2%	3.6%	2.4%	-120 bps
Northeast Raleigh	\$790	\$815	3.2%	8.1%	8.8%	70 bps
Northwest Raleigh	\$846	\$907	7.3%	4.8%	6.8%	200 bps
South Durham	\$834	\$897	7.5%	4.1%	5.0%	90 bps
Southwest Raleigh	\$832	\$835	0.4%	7.4%	6.3%	-110 bps
West Durham	\$826	\$898	8.6%	8.4%	10.6%	220 bps
Raleigh-Durham	\$835	\$876	4.9%	6.6%	6.9%	30 bps



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

