

PAYROLL JOB SUMMARY

Total Payrolls	659.1m
Annual Change	15.3m (2.4%)
RCR 2016 Forecast	13.5m (2.1%)
RCR 2017 Forecast	13.6m (2.1%)
RCR 2018 Forecast	10.9m (1.6%)
RCR 2019 Forecast	9.0m (1.3%)
RCR 2020 Forecast	8.9m (1.3%)
Unemployment (NSA)	4.6% (Dec.)

4Q15 PAYROLL TRENDS AND FORECAST

The Louisville labor market grew at an American Pharoah-style gallop the last four years, adding a total of 61,400 payroll jobs since 2015, including a 26-year BLS data series record 18,600 (3.0%) jobs last year. Strong domestic brand auto sales played a large part in the Louisville Renaissance, but other sectors also made significant contributions. The financial and business services sectors hired at 4.7% and 4.9% rates, creating a total of 6,100 jobs in 2015, while the consumer-driven construction, retail trade and leisure services industries added another 5,100 (3.7%) jobs. Only personal service establishment payrolls declined, falling by a net of just -300 positions.

By way of forecast, RED Research specified a 94.4%

adjusted-R² (SE=0.5%) econometric model using five lags of the dependent variable, the rate of change of US job growth (+) and the Fed Funds rate (-) as independent variables. The model projects a return to "normal" growth rates in 2016 (2.1%), followed by a gentle cooling trend in keeping with expected slower growth in the US economy.

By contrast, Moody's Analytics foresee moderately stronger results in 2016–2018, with aggregate job creation of 44,300 jobs vs. 38,000 projected by RCR. Both forecasts anticipate similar 2019 results (high four-digit gains). In 2020, however, RCR expect softer but still significant job creation (8,900 jobs) while M.A. see near-recessionary conditions and virtually no job growth.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	94.5%
RED 50 Rank	40 th
Annual Chg. (Reis)	-0.2%
RCR YE16 Forecast	93.7%
RCR YE17 Forecast	93.5%
RCR YE18 Forecast	93.6%
RCR YE19 Forecast	93.5%
RCR YE20 Forecast	93.5%

4Q15 ABSORPTION AND OCCUPANCY RATE TRENDS

Apartment demand was seasonally weaker during the fourth quarter, but nevertheless admirable for the typically soft fall period. Households leased a net of 247 vacant units during the quarter, down from 3Q15's six-year one-quarter high 473 but well above 2000–2014 4Q average of 86. Supply was heavy for the third consecutive quarter (312 units), however, causing average occupancy to slip -10 basis points sequentially and -20 bps year-on-year to 94.5%, lowest occupancy metric observed since 4Q13.

Axiometrics surveys of mostly larger, professionally managed assets recorded similar results. In this case, 4Q15

occupancy averaged 94.4%, down -60 bps sequentially and -30 bps y-o-y. Weaker conditions were largely attributable to supply deliveries to Northeast Jefferson, Chenoweth and Southeast Jefferson Co. submarkets, that precipitated -180, -140 and -140 bps sequential occupancy rate declines, respectively.

RCR's demand model (ARS=85.8%, SE=0.27%) is moderately optimistic, forecasting net absorption of 472, 876 and 687 units in 2016, 2017 and 2018; in each case above the 15-year, 459-unit average. But supply will exceed demand in each year, trimming LOU occupancy -110 bps by 4Q18.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$723
Annual Change	3.6%
RED 50 Rent Change Rank	34 th
RCR YE16 Forecast	1.9%
RCR YE17 Forecast	1.7%
RCR YE18 Forecast	1.9%
RCR YE19 Forecast	1.9%
RCR YE Forecast	1.9%

4Q15 EFFECTIVE RENT TRENDS

Reis report that average Louisville effective rents increased \$5 (0.7%) sequentially, seasonally strong for the typically soft fourth quarter. Expressed on a year-on-year basis, Louisville rents increased \$25 (3.6%), just 20 basis points lower than the cycle-peak 3.8% advance observed during 2Q12. South Central, NE Jefferson Co. and Jeffersonville submarkets were largely responsible, producing sequential rent growth equal to 2.0%, 1.7% and 1.5%, respectively. Conversely, SW County and Central West rents fell.

Axiometrics surveys recorded a degree of seasonal deceleration during 4Q15. Expressed on a sequential quarter

basis, rents declined -\$1 (-0.9%) to \$833. East Central submarket was the greatest offender, falling -1.4% sequentially, and -5.2% year-on-year. Submarket year-on-year trends were weaker generally, as the mean fell to 4.0%, down from 4.2% in 3Q and 2Q15's cycle peak of 5.4%.

RCR specified an 89.3% ARS, 0.5% standard error rent model using RED 46 average rent trends (+), lagged Louisville home price (-) and current GDP (+) growth and Baa-rated bond yields (=) as independent variables. The model projects steady deceleration to the 2.0% rent growth level by late 2016; then stable growth rates for the duration.

TRADE & RETURN SUMMARY

\$5mm+ / 80-unit+ Sales	7
Approximate Proceeds	\$67.8mm
Average Cap Rate (FNM)	5.6%
Average Price / Unit	\$73,787
Expected Total Return	NA
RED 46 ETR Rank	NA
Risk-adjusted Index	NA
RED 46 RAI Rank	NA

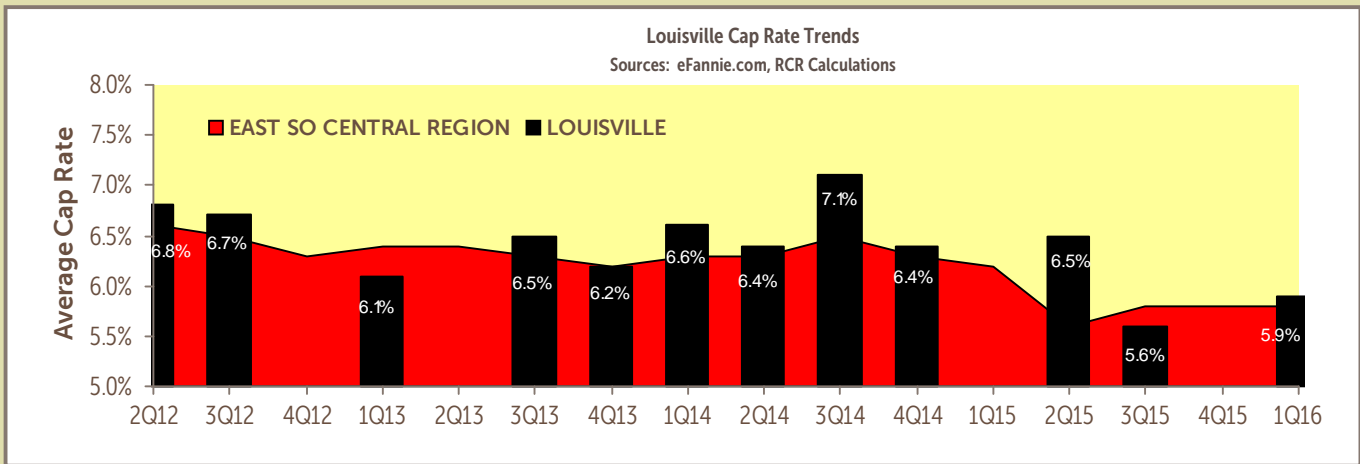
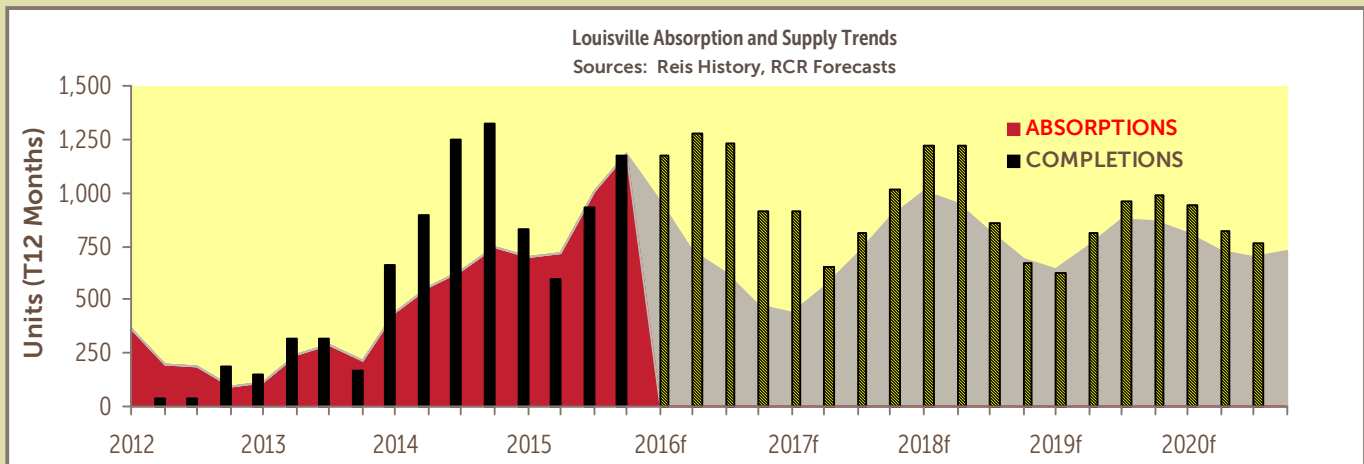
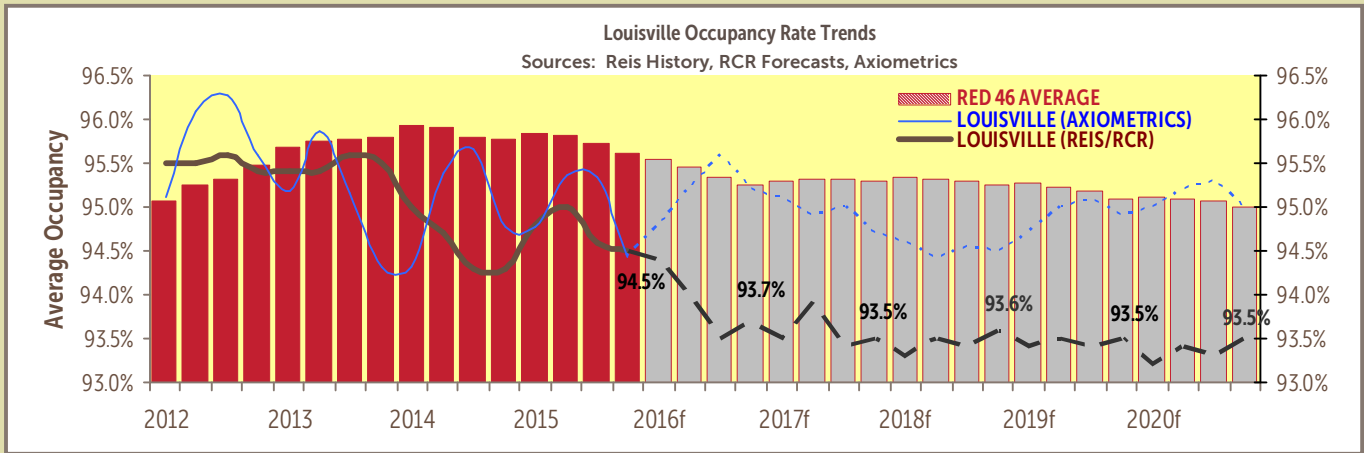
4Q15 PROPERTY MARKETS AND TOTAL RETURNS

The pace of trade in the second half of 2015 gained momentum as 14 larger properties exchanged hands, seven in each quarter. This compares to only seven recorded trades in 1H15. Proceeds totaled about \$59.2 million during 3Q15 and \$67.8mm in 4Q15. The average price per unit during 4Q15 was \$70,694, down -31% from the prior quarter's \$106,925 statistic.

Limited data suggest that higher quality assets valued at more than \$100/sf trade at cap rates ranging from about 5.5% to 6.5%. Buyers are willing to apply yields at the low end of the range when assets are perceived to possess "value add" qualities. Class-B/B- properties traded at cap

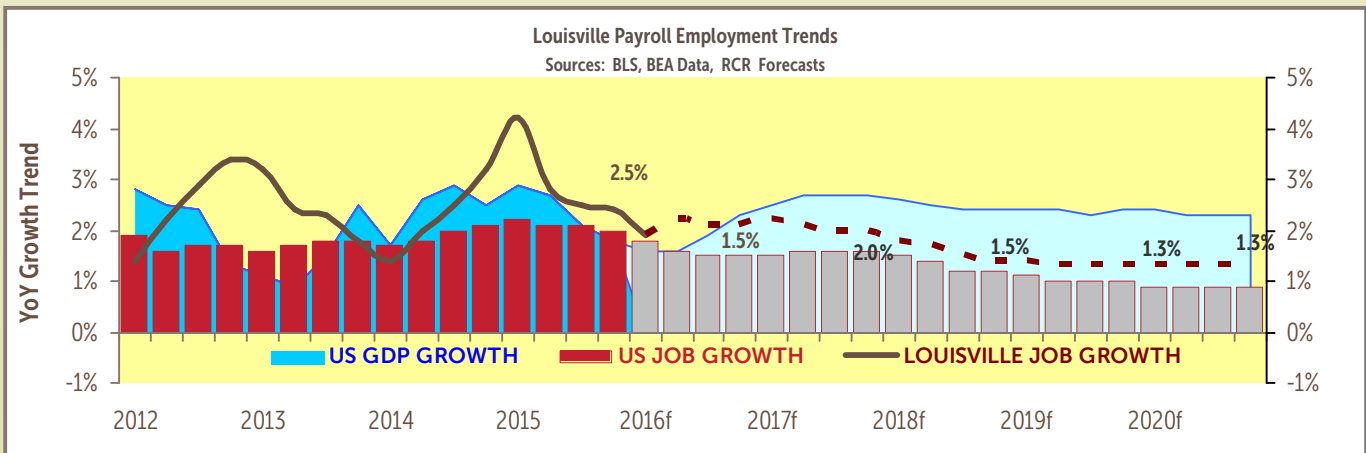
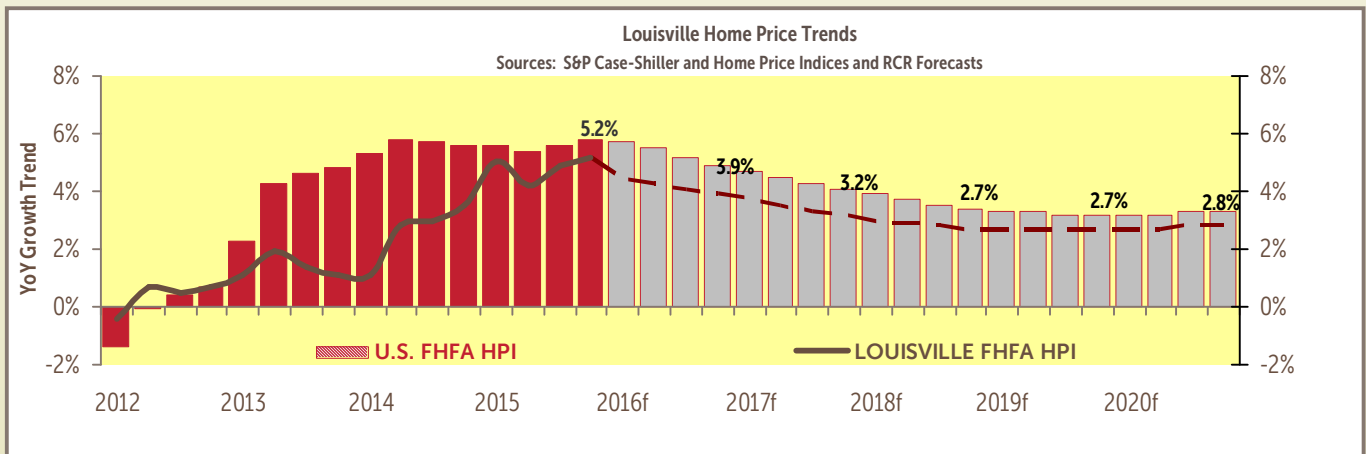
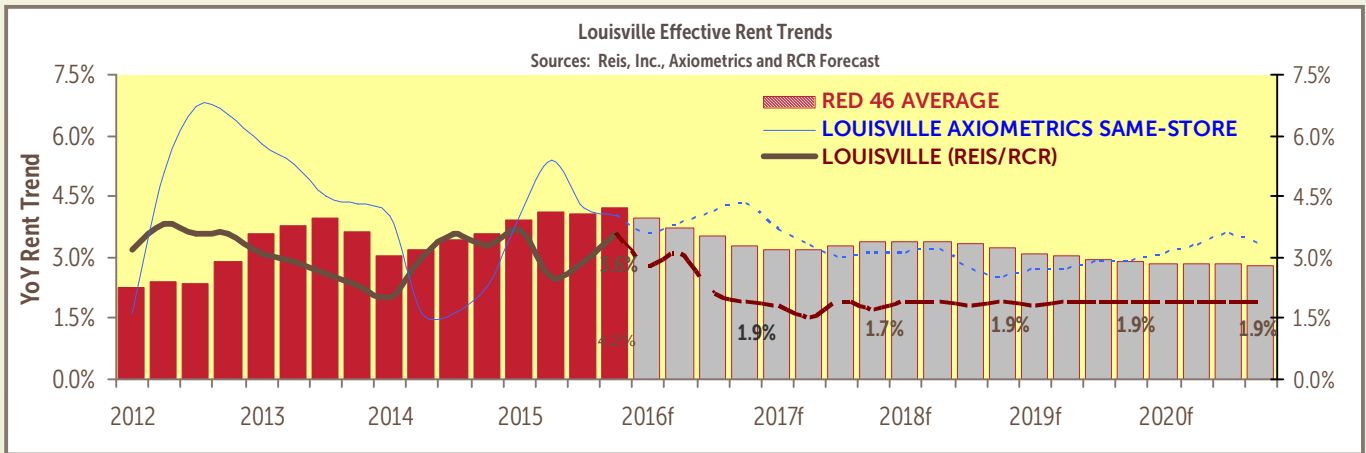
rates in the high-6% to mid-7% area. Class-C assets may still be available at yields of 8% or greater.

By virtue of the fact that Louisville quarterly performance data are available only from 2001, RCR cannot specify forecast models robust enough to support reliable total return estimates. Investors will find quality assets here at cap rates above all but one or two RED 46 markets. Louisville offers income-oriented investors high yields and relatively low performance volatility. Metro investment are likely to offer attractive risk-adjusted returns, but total returns may be hampered by uncertain rent growth and the perceived competitive threat from for sale housing.



NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
Kennedy Townhomes (SW Jefferson Co.)	B / TH (1995)	12-Oct-2015	\$5.9	\$67,045	6.9%
Avana Southgate (South Central)	A- / GLR (2002)	7-Dec-2015	\$15.7 (allocated)	\$61,496	6.5%
Crescent Centre (East Central)	B / GLR (1989)	15-Dec-2015	\$22.0	\$105,263	4.5%/5.7% p.f.



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SUBMARKET TRENDS (REIS)

Submarket	Inventory % Change	Effective Rent			Physical Vacancy		
		4Q14	4Q15	Change	4Q14	4Q15	Change
Chenoweth	0.0%	\$714	\$727	1.7%	7.8%	7.6%	-20 bps
East Central	0.0%	\$802	\$824	2.7%	5.2%	4.4%	-80 bps
Jeffersonville	0.0%	\$644	\$669	3.9%	2.9%	2.1%	-80 bps
Northeast Jefferson Co.	2.7%	\$836	\$873	4.3%	6.1%	5.2%	-90 bps
South Central	3.4%	\$599	\$628	4.9%	4.0%	3.2%	-80 bps
Southwest Jefferson Co.	3.3%	\$575	\$591	2.8%	5.1%	5.6%	50 bps
West Central	9.4%	\$656	\$685	4.4%	9.1%	12.6%	350 bps
Louisville	4.1%	\$936	\$1,006	7.5%	3.7%	5.0%	130 bps

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