

PAYROLL JOB SUMMARY

Total Payrolls	1,057.7m
Annual Change	7.7m (0.7%)
RCR 2016 Forecast	6.9m (0.7%)
RCR 2017 Forecast	-0.9m (-0.1%)
RCR 2018 Forecast	-3.0m (-0.3%)
RCR 2019 Forecast	1.7m (0.2%)
RCR 2020 Forecast	4.9m (0.5%)
Unemployment (NSA)	5.5% (Feb.)

4Q15 PAYROLL TRENDS AND FORECAST

The BLS annual benchmark payroll revisions released in March weren't kind to Cleveland as year-on-year job growth comparisons were revised down for each quarter of 2015. None was more heavily discounted than 4Q15. Initially reported as a robust 20,000-job, 1.9% advance, the data were revised down to a 7,700-job, 0.7% crawl. Weakening conditions in the durable goods manufacturing, construction, retail and business service sectors were at the bottom of it, reflecting declining corporate investment in plant, equipment and structures nationally.

Overall condition seemed to improve in 1Q16: metro payrolls increased at a 10,400-job, 1.0% annual pace. But the seasonally-adjusted series and component details

were troubling. The former showed a -4,300 net quarterly job loss while the latter depicted growing weakness in the construction and durable goods manufacturing sectors.

Decelerating growth in the second half 2015 doesn't bode well for the near future as RCR's foundation GDP model now points toward slower growth in 2016 and 2017. The Cleveland payroll model uses U.S. payroll (+), industrial production (+), personal consumption expenditure (-) and U.S. home price (-) growth and S&P500 (-) returns as independent variables to achieve a 98.2% adjusted R² (SE=0.2%). The model projects small but positive payroll growth in 2016, followed moderate declines in 2017 and 2018. Net gains return in the forecast out years.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	96.7%
RED 50 Rank	10 th
Annual Chg. (Reis)	-0.6%
RCR YE16 Forecast	96.6%
RCR YE17 Forecast	96.1%
RCR YE18 Forecast	96.2%
RCR YE19 Forecast	96.3%
RCR YE20 Forecast	96.7%

4Q15 ABSORPTION AND OCCUPANCY RATE TRENDS

Apartment space absorption was positive for the 25th consecutive quarter in 4Q15, as renters net leased 130 metro units, according to Reis, up from 32 during the seasonally-stronger third quarter. Deliveries (321 units) were higher as well, however, causing occupancy to decline -20 basis points sequentially to 96.7%, lowest in nearly three years. Preliminary 1Q16 data indicate that the market recovered some lost ground over the winter as occupancy bounced back 10bps to 96.8%, matching the RED Capital Research in-sample forecast.

Axiometrics surveys of 69 stabilized properties recorded 94.6% and 94.7% average occupancy in 4Q15 and 1Q16,

respectively, down -50bps and up 50bps year-on-year. The small class-A component of the sample experienced dramatic occupancy attrition, which tumbled from 96.3% in 3Q15 to 90.2% in 1Q16. Conversely, class-B (95.2%) and class-C (94.1%) increased over the comparable period.

RCR's demand model employs employment growth (+), U.S. home appreciation_(t-4) (-) and quarterly occupancy rate change_(t-1) (+) as statistically significant predictive variables. The model projects net absorption of 534 units in 2016 and 120 in 2017, comparing unfavorably to Reis's 549- and 600-unit forecasts. As a result, RCR's forecast of YE17 occupancy (96.1%) is -40bps lower than Reis's.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$791
Annual Change	3.3%
RED 50 Rent Change Rank	38 th
RCR YE16 Forecast	1.9%
RCR YE17 Forecast	1.3%
RCR YE18 Forecast	1.0%
RCR YE19 Forecast	1.2%
RCR YE20 Forecast	1.5%

4Q15 EFFECTIVE RENT TRENDS

Effective rent increases decelerated for the third consecutive quarter, rising \$4 (0.5%) sequentially in 4Q15 to \$791 after 0.7%, 0.9% and 1.1% gains in 4Q, 3Q and 1Q15, respectively, according to Reis. Likewise, the year-on-year comparison declined to 3.3% from 3.7%, slowest since 4Q14. Preliminary 1Q16 data suggest that trends continued to lose momentum over the winter as y-o-y asking rent growth declined from 3.3% during 4Q15 to 2.4%.

Axiometrics stabilized same-store comparisons were volatile reflecting the small size of the sample. These data show weak y-o-y growth during 4Q15 (1.6%) followed by a

4.3% surge in 1Q16. Solid 1Q16 gains were entirely attributable to strong performances among classes-B and -C, which posted 4.8% and 4.9% y-o-y gains. Class-A assets, by contrast saw rents tumble -3% as occupancy rates plunged.

The RCR CLE rent model uses occupied stock_(t-2) (+), inventory_(t-5) (-), U.S. personal income_(t-1) and industrial production_(t-4) growth and the rate of change of metro home prices as variables to reach a 91.6% adjusted R² (SE=0.4%). The model indicates that y-o-y rent growth is likely to continue to decelerate to about the 1% level before regaining momentum as the economy bounces back in 2019-2020.

TRADE & RETURN SUMMARY

\$2mm+ / 80-unit+ Sales	5
Approximate Proceeds	\$65mm
Average Cap Rate (FNM)	5.6%
Average Price / Unit	\$41,484
Expected Total Return	7.1%
RED 46 ETR Rank	14 th
Risk-adjusted Index	7.03
RED 46 RAI Rank	5 th

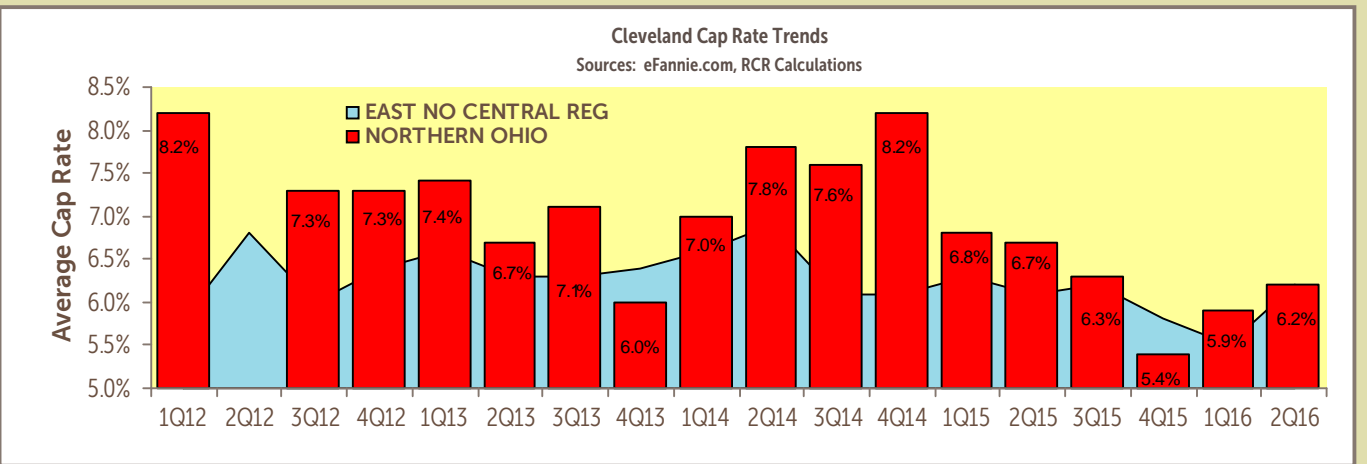
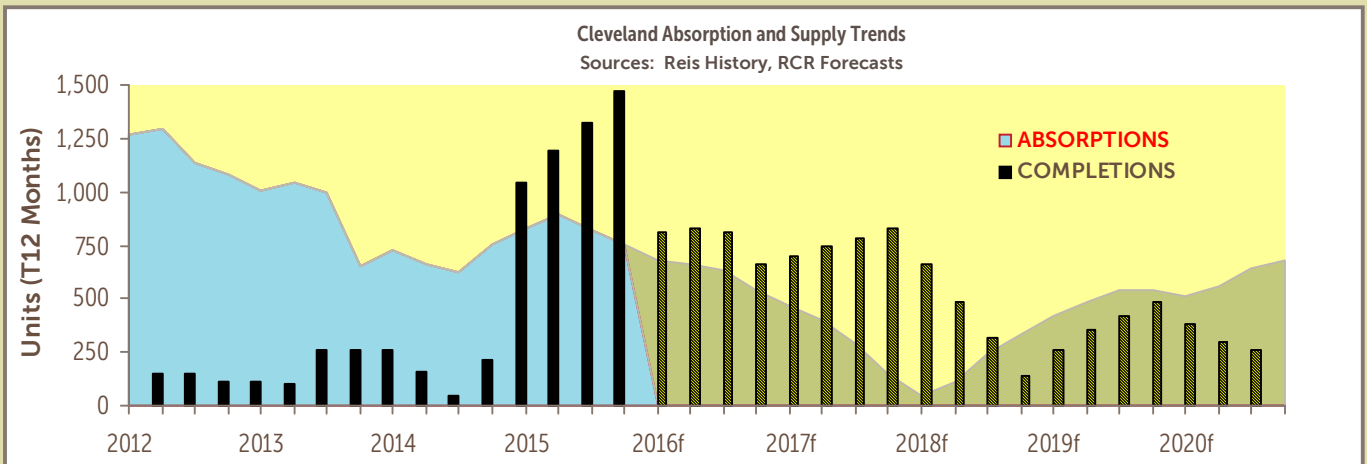
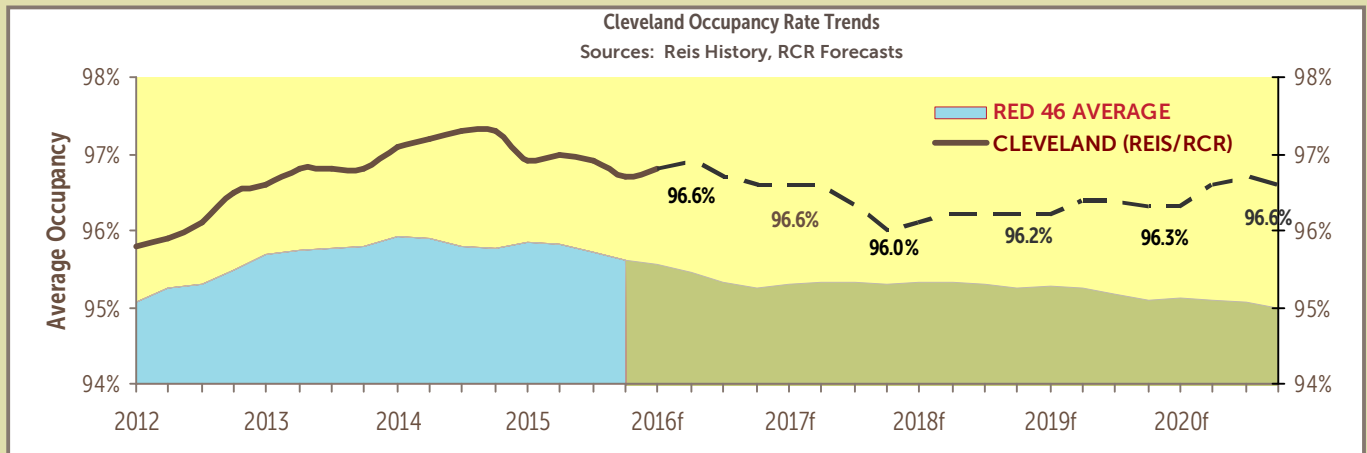
4Q15 PROPERTY MARKETS AND TOTAL RETURNS

Northern Ohio property market velocity was sluggish during 4Q15 as trade in apartment properties in metropolitan areas bordering Lake Erie totaled just five transactions during 4Q15 and four during 1Q16. Proceeds in the former totaled \$65.3 million and in the latter \$41.1mm. The average price of units sold was \$41,484 in 4Q15 and \$55,520 in 1Q16. Only three trades closed during the October to March period involved properties located within the Cleveland-Elyria metropolitan area. Of these, two were REO sales, while the third involved a 91-year old rent subsidized high-rise in University Circle that will undergo renovation.

Cap rates among distressed class-C properties were in the

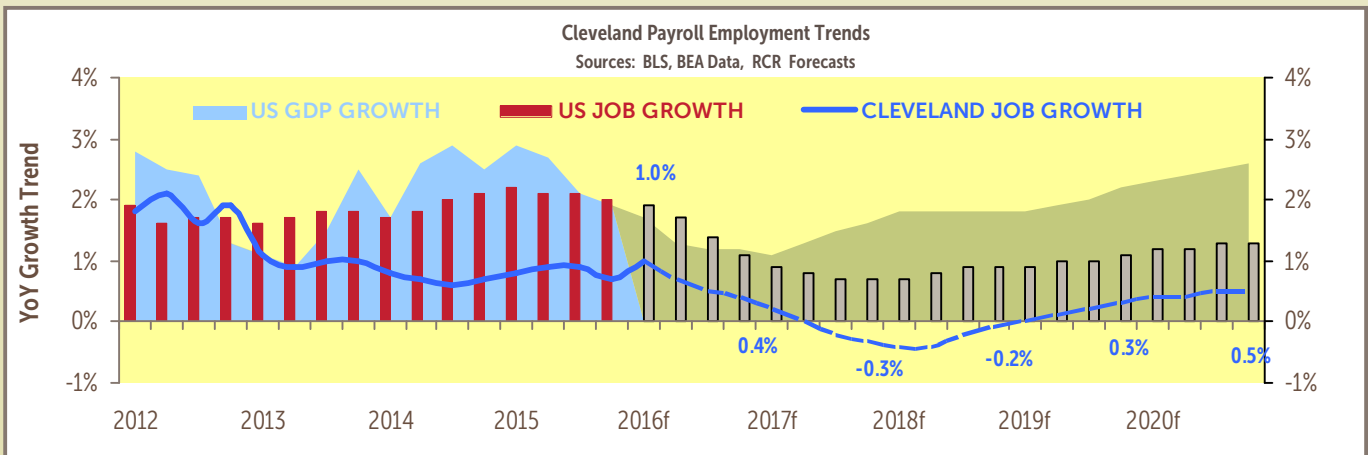
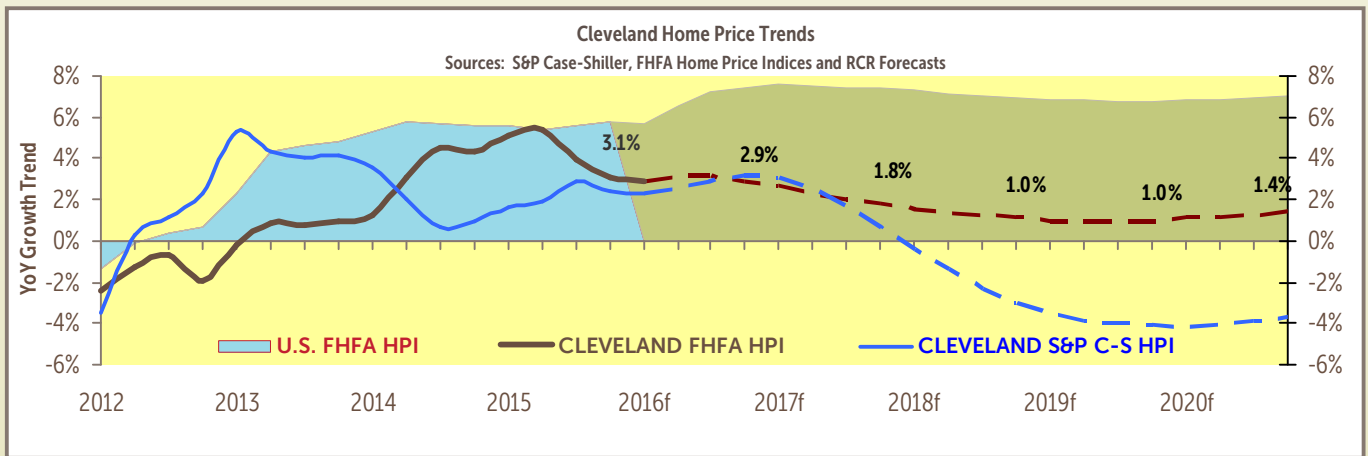
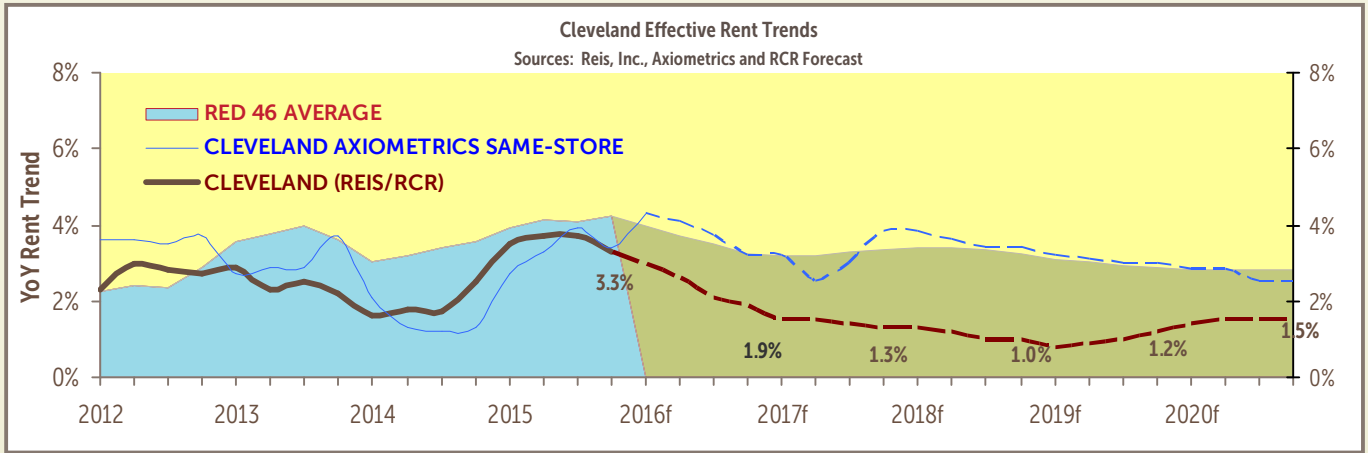
double digits, although data were not available in sufficient detail to make more precise estimates. Class-B assets appear to trade in the 7.5% to 9% range, although visibility is poor due to an extended period of thin trade.

Cleveland continues to maintain the highest cap rate structure among the RED 46. We elected to cut 15 bps from the purchase cap proxy to 7.1% to stay in line with other tertiary markets. Using this purchase assumption and model derived occupancy and rent point estimates we calculate that an investor would expect to achieve a 7.1% unlevered total return over a 5-year holding period, ranking 14th among the peer group.



NOTABLE TRANSACTIONS

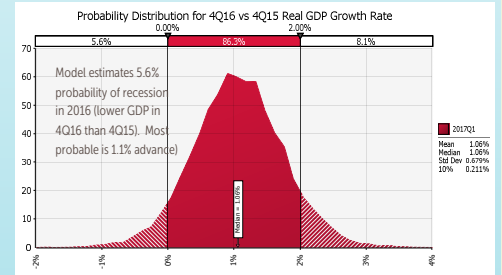
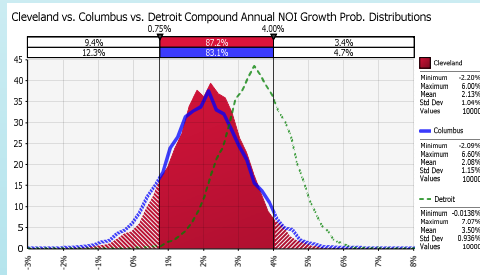
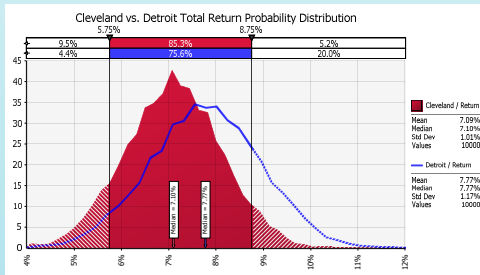
Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
Sunset Ridge Apts. (Lake County)	C / LR (1964)	26-Sep-2015	\$2.4	\$37,109	9.2%
Shaker Square Towers (East Cleveland)	C+ / SR MR (1968)	10-Feb-2016	\$1.6 (CoStar)	\$15,000	11.3%
Mark Twain Apts. (Lakewood)	C / MB MR (1965)	In Process	\$2.6 (CoStar)	\$40,625	8.1%



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SUBMARKET TRENDS (REIS)

Submarket	Inventory % Change	Effective Rent			Physical Vacancy		
		4Q14	4Q15	Change	4Q14	4Q15	Change
Bay Village	3.5%	\$853	\$897	5.1%	1.6%	3.8%	220 bps
Beachwood	6.6%	\$1,190	\$1,225	2.9%	1.7%	7.9%	620 bps
Bedford	0.0%	\$615	\$624	1.6%	2.8%	3.3%	50 bps
Downtown / The Flats	11.6%	\$1,176	\$1,264	7.5%	4.6%	6.4%	180 bps
East Cleveland	1.4%	\$738	\$761	3.2%	4.0%	4.7%	70 bps
Euclid	0.0%	\$655	\$678	3.4%	4.6%	3.9%	-70 bps
Lake County	0.0%	\$795	\$805	1.3%	1.7%	1.4%	-30 bps
Lakewood	0.0%	\$665	\$672	1.1%	3.0%	2.5%	-50 bps
Lyndhurst	0.0%	\$780	\$806	3.4%	1.1%	2.9%	180 bps
North Olmsted	0.0%	\$717	\$731	1.9%	0.9%	0.9%	0 bps
North Royalton	0.0%	\$703	\$707	0.5%	2.4%	1.9%	-50 bps
Parma / Independence	0.0%	\$735	\$753	2.4%	1.9%	1.4%	-50 bps
Strongsville / Berea	0.0%	\$689	\$694	0.8%	1.6%	2.0%	40 bps
Metro	1.3%	\$766	\$791	3.3%	2.7%	3.3%	60 bps



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