AUSTIN, TEXAS

MARKET OVERVIEW & MULTIFAMILY HOUSING UPDATE

RED Capital Group | 4Q15 | MARCH 2016

PAYROLL JOB SUMMARY

Total Payrolls	982.4m
Annual Change	45.2m (4.8%)
RCR 2016 Forecast	36.7m (3.8%)
RCR 2017 Forecast	24.8m (2.5%)
RCR 2018 Forecast	18.1m (1.8%)
RCR 2019 Forecast	16.5m (1.6%)
RCR 2020 Forecast	17.8m (1.7%)
Unemployment (NSA)	3.2% (Jan.)

4Q15 PAYROLL TRENDS AND FORECAST

The BLS announced the results of its annual benchmark payroll revision in March, revealing that the Austin economy defied the impossible last year by growing considerably faster than was previously understood. Rather than the 35,000-job, 3.8% year-on-year 4Q15 growth initially reported the Austin labor market actually expanded at an astounding 45,200-job, 4.8% annual pace, establishing a 26-year series record for y-o-y absolute payroll growth. The construction, wholesale trade and business and leisure service industries led the charge, expanding payrolls at a 31,500-job, 8.7% y-o-y pace, reflecting the metro's booming tech and tourism sectors as well as the building industry's scramble to meet the growing population's demand for new residential, retail and office space.

Seasonally adjusted data were largely consistent, showing 10,000+ jobs added in each of the past five quarters, including a 9-year high 13,300-jobs during 4Q15. December and January were softer as establishments created only 4,500 jobs, lowest 2-month total since August 2014.

Austin's volatile economy is a modeling challenge but with the help of dummy variables RED Research managed to specify a 96.4% adjusted R^2 (SE=0.5%) equation using US payroll (+) and metro income growth (+), S&P500 returns (+), and the yield curve slope (+) as independent variables. This model projects slower growth as weaker equity returns, a flatter yield curve and slower US growth conspire to revert Austin back to its long-term average.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	93.5%
RED 50 Rank	48th
Annual Chg. (Reis)	-1.0%
RCR YE16 Forecast	92.4%
RCR YE17 Forecast	91.8%
RCR YE18 Forecast	91.2%
RCR YE19 Forecast	90.8%
RCR YE20 Forecast	90.7%

4Q15 ABSORPTION AND OCCUPANCY RATE TRENDS

Tenant demand for Austin apartment space continued at a robust pace during 4Q15, as renters net leased 1,048 vacant units. Although the figure approaches the sixteen-year Reis history fourth quarter average (1,296 units) the tally was weaker than the prior and year-earlier quarters (1,618 / 2,017) and fell 380 units short of RCR's in-sample forecast. Reduced supply (1,598) accounts for some of the softness, but at 93.5% average occupancy following delivery of 8,516 units last year, there is adequate market slack to accommodate most potential renters. With 10,500 units in the pipeline for 2016, leasing agents will have their work cut out for them to avoid further occupancy attrition.

Axiometrics surveys of stabilized larger properties uncovered better news. This sample was 94.8% occupied, down only -0.1% y-o-y and –0.7% from the post recession peak (3Q11). Class-C assets posted highest occupancy (95.1%), while classes-B (94.9%) and –A (94.0%) lagged slightly.

RCR used the rate of change of rent and inventory growth, the change in vacancy$_{t-1}$ and payroll growth as independent variables to specify an 88.5% ARS (SE=0.4%) forecasting equation. The model projects constructive demand for about 2,400 units/quarter 2016–2020. On the other hand, we see no sign of the events that would inhibit supply. Consequently, occupancy seems destined to fall further.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	$987
Annual Change	5.0%
RED 50 Rent Change Rank	16th
RCR YE16 Forecast	5.2%
RCR YE17 Forecast	5.0%
RCR YE18 Forecast	4.2%
RCR YE19 Forecast	3.4%
RCR YE20 Forecast	2.9%

4Q15 EFFECTIVE RENT TRENDS

Rent levels continued to grind higher. Reis report that rents increased $8 (0.8%) sequentially, equaling the year earlier quarter performance, and $37 (5.0%) year-on-year, representing the fourth consecutive quarter of 5% growth or faster. Rapid sequential trends were concentrated in collar submarkets north and south of the CBD. By contrast, central and east Austin and Round Rock trends were flat.

Axiometrics surveys of 454 stabilized same-store complexes recorded 5.7% y-o-y growth during the quarter, moderately slower than 3Q15's 5.9% advance. Sequential gains during the seasonally slow fall quarter were comparable to 4Q14's 0.1% increase. Class-A performance continued to improve, accelerating for the fourth consecutive quarter to 5.7%. But it was class-C (6.5%) that chalked down the fastest gain for the fourth straight quarter, bettering class-B's 5.7% increase, its tenth consecutive advance of 5% or faster.

The RCR Austin rent model is simple, containing only one lag of the dependent variable, payroll (+)and home price$_{(t-1)}$ (+) growth, and vacancy change$_{(t-1)}$ (-). Model point estimates are constructive, projecting 5%+ growth through 2017, despite higher vacancy. Rents are expected to grow at an annual compound rate of 4.1%, 4th ranked in the R46.

TRADE & RETURN SUMMARY

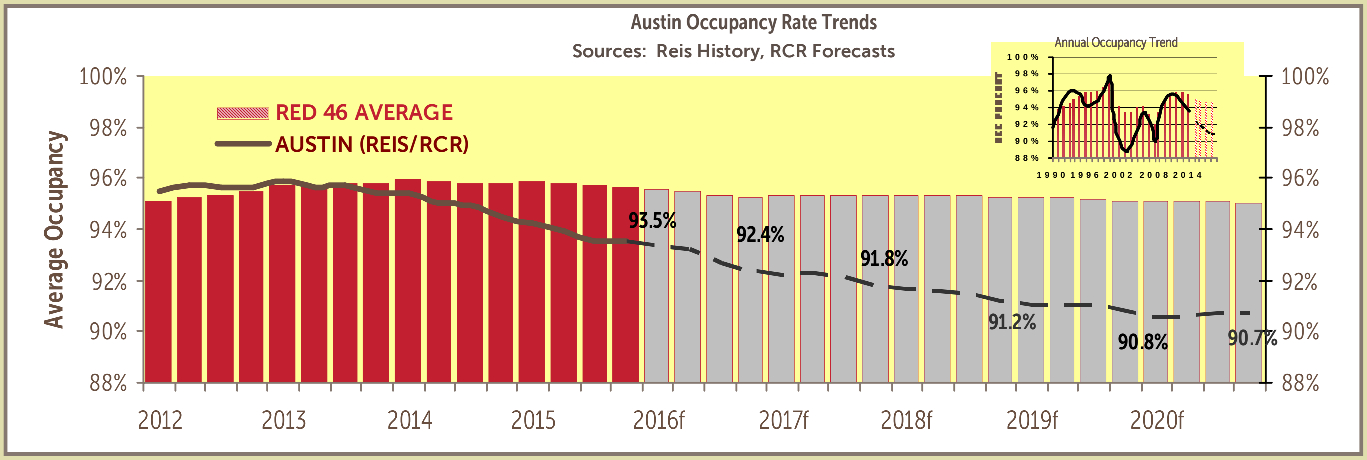
$5mm+ / 80-unit+ Sales	18
Approximate Proceeds	$660mm
Average Cap Rate (FNM)	5.2%
Average Price / Unit	$128,739
Expected Total Return	8.4%
RED 46 ETR Rank	5th
Risk-adjusted Index	4.58
RED 46 RAI Rank	21st

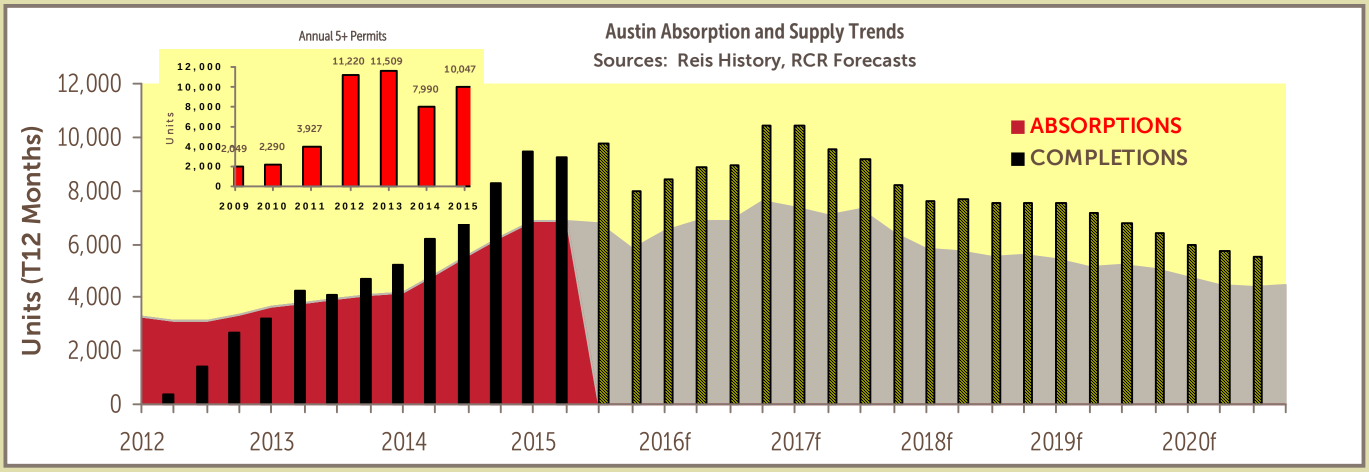
4Q15 PROPERTY MARKETS AND TOTAL RETURNS

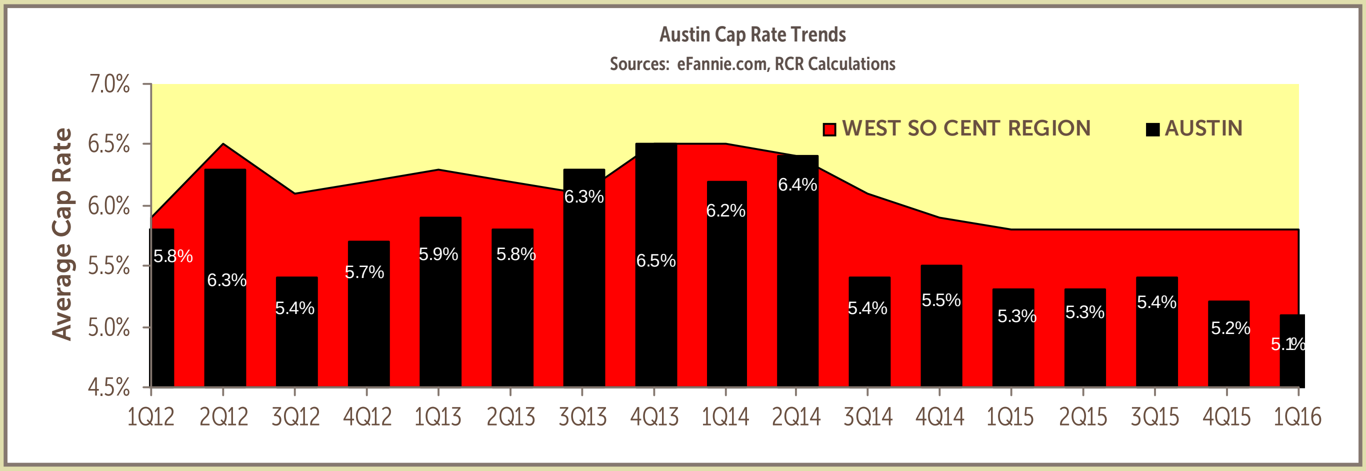
Interest among investors in Austin properties remained intense over the winter. CoStar report 18 large property transactions during 4Q15 and 11 during the first two months of 2016, and it is likely that several more transactions closed off market. RCR estimate that fourth quarter proceeds totaled $660 million, translating to $128,739 per unit. These data compare to 23 trades closed during the third quarter for approximately $710mm or $127,194/unit.

Investors focused on recent construction trophies and Nineties vintage "value-add" plays. The former traded at low-4% cap rates for infill assets and 5% to 5.4% cap rates for suburban garden product. The range of cap rates for value-add opportunities was slightly wider than was observed in most "in demand" markets as 1985–2000 construction assets exchanged hands at 5% to 6.5% yields.

Average metro cap rates declined about 100 bps to 5.5% over the course of the last two years. We conclude that investment quality properties trade in the 4.9% area. Using this purchase cap proxy and model derived rent and occupancy point estimates, we believe that an investor would expect to earn an 8.4% total return on an Austin property, ranking 5th among the RED 46; however, above average rent and payroll model standard errors suggest that Austin is materially more volatile and therefore riskier than the large market standard. Consequently, the risk-adjusted index ranks only 21st among the R46 peer group.

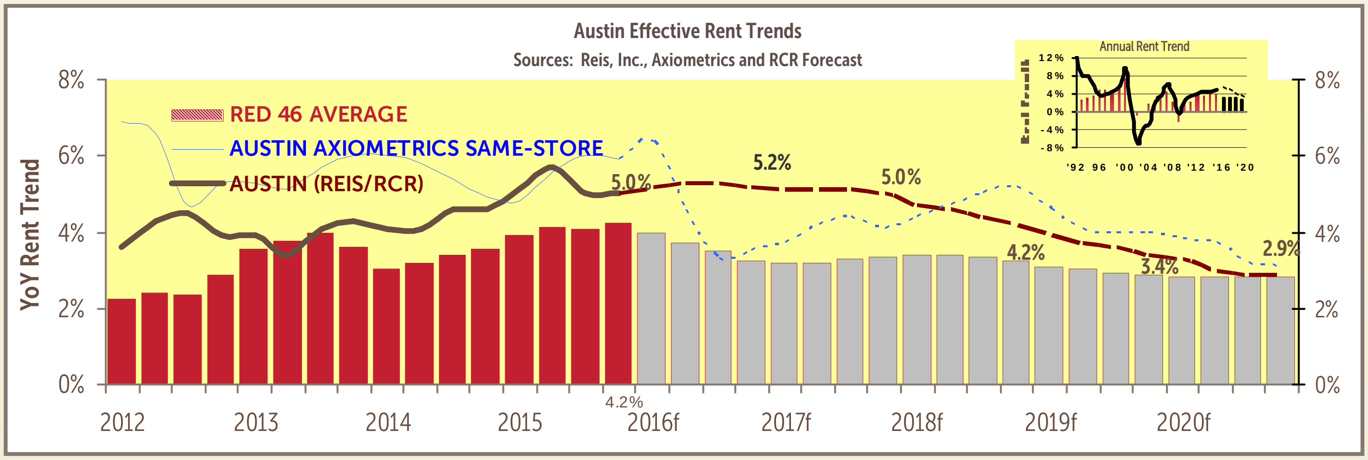




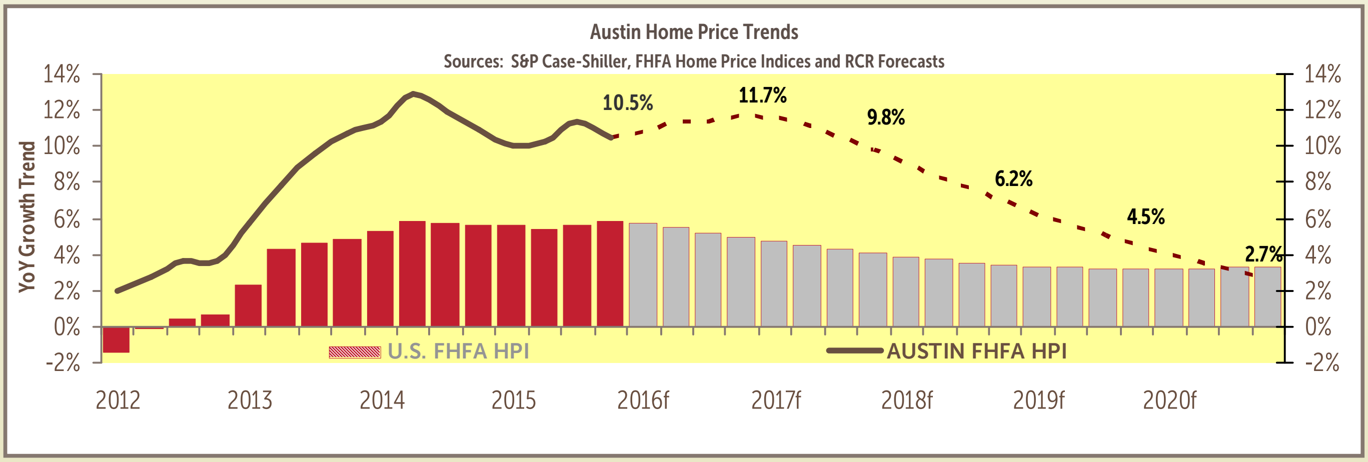


NOTABLE TRANSACTIONS

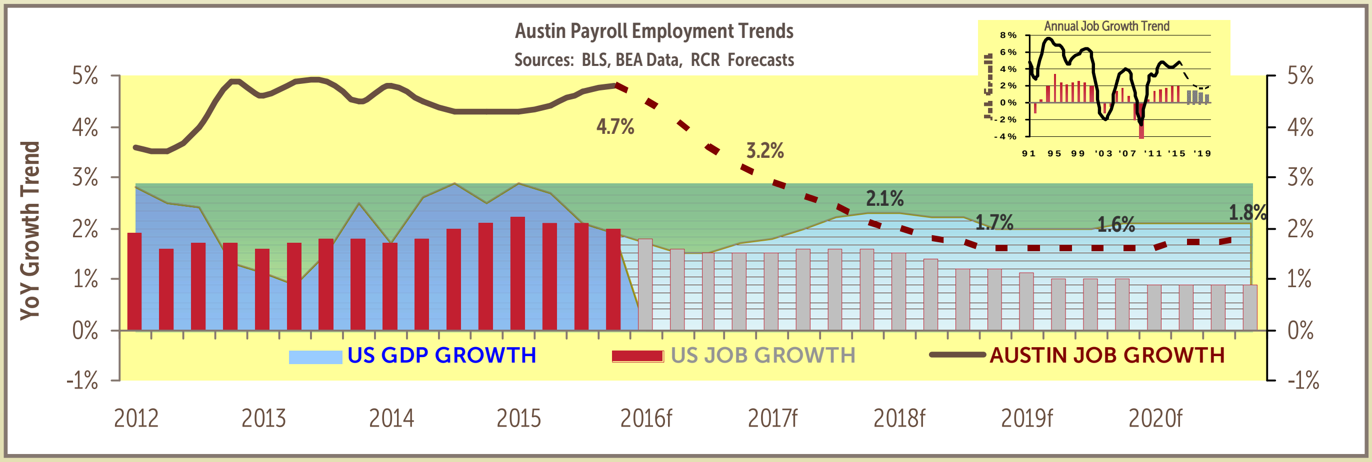
Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
RiverView (Southeast / Riverside)	A / RC MR (2013)	2-Oct-2015	$63.0	$200,609	4.3%
Uptown Square (San Marcos)	B+/ST HSG (2015)	18-Dec-2015	$46.0	$145,570	5.0%
Northchase Apartments (Far North Central)	C+ / GLR (1984)	28-Dec-2015	$8.6	$72,021	6.4%
Abelia Flats (Ranch Road 620N/FM2222)	B / GLR (2001)	22-Jan-2016	$80.5	$109,973	4.8%
Las Colinas (East / Coronado Hills)	C+ / GLR (1969)	27-Jan-2016	$11.9	$66,854	6.5%
Bell Four Points (620N/FM2222/Four Points)	B+ / GLR (2014)	8-Feb-2016	$53.0	$154,070	5.1%



Austin Effective Rent Trends
Sources: Reis, Inc., Axiometrics and RCR Forecast
RED 46 AVERAGE
AUSTIN AXIOMETRICS SAME-STORE
AUSTIN (REIS/RCR)
YoY Rent Trend
8%
6%
4%
2%
0%
5.0%
5.2%
5.0%
4.2%
3.4%
2.9%
4.2%
2012
2013
2014
2015
2016f
2017f
2018f
2019f
2020f
Annual Rent Trend
'92 96 '00 '04 '08 '12 '16 '20



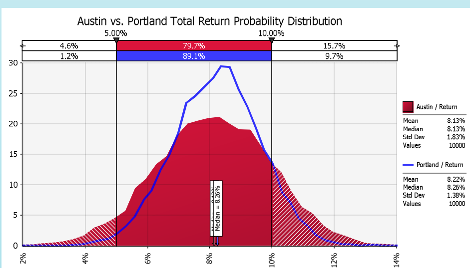
Austin Home Price Trends
Sources: S&P Case-Shiller, FHFA Home Price Indices and RCR Forecasts
YoY Growth Trend
14%
12%
10%
8%
6%
4%
2%
0%
-2%
10.5%
11.7%
9.8%
6.2%
4.5%
2.7%
U.S. FHFA HPI
AUSTIN FHFA HPI
2012
2013
2014
2015
2016f
2017f
2018f
2019f
2020f

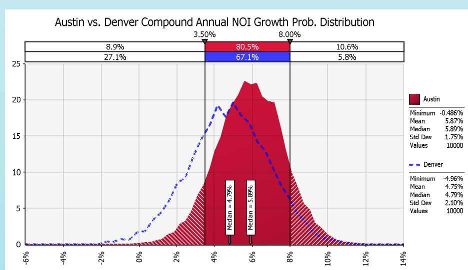


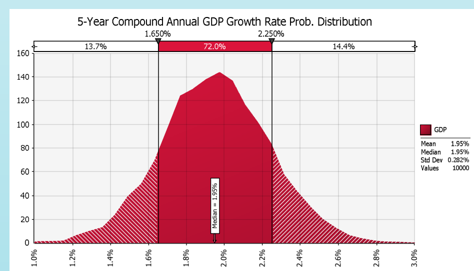
Austin Payroll Employment Trends
Sources: BLS, BEA Data, RCR Forecasts
YoY Growth Trend
5%
4%
3%
2%
1%
0%
-1%
4.7%
3.2%
2.1%
1.7%
1.6%
1.8%
US GDP GROWTH
US JOB GROWTH
AUSTIN JOB GROWTH
2012
2013
2014
2015
2016f
2017f
2018f
2019f
2020f
Annual Job Growth Trend
91 95 99 '03 '07 '11 '15 '19

SUBMARKET TRENDS (REIS)

Submarket	Inventory % Change	Effective Rent			Physical Vacancy		
		4Q14	4Q15	Change	4Q14	4Q15	Change
Central Austin	6.6%	$1,166	$1,264	8.4%	10.9%	10.5%	-40 bps
East Austin	2.9%	$800	$833	4.2%	9.0%	6.9%	-210 bps
Far North Central	2.6%	$674	$691	2.5%	5.1%	5.8%	70 bps
Far Northwest	3.3%	$1,023	$1,058	3.3%	4.3%	4.9%	60 bps
Far South	4.0%	$1,026	$1,077	5.0%	4.6%	5.7%	110 bps
Highway 183/Cedar Park	4.6%	$861	$895	3.9%	5.3%	6.6%	130 bps
Near North Central	0.0%	$823	$845	2.7%	2.1%	1.9%	-20 bps
Near Northwest	0.0%	$901	$930	3.3%	1.5%	2.0%	50 bps
Near South Central	15.4%	$1,083	$1,166	7.6%	11.6%	13.9%	230 bps
North Travis County	5.1%	$868	$949	9.2%	4.9%	5.9%	100 bps
Ranch Rd 620N/FM2222	11.0%	$1,164	$1,223	5.0%	6.8%	11.6%	480 bps
Round Rock/Georgetown	10.6%	$913	$947	3.7%	2.2%	5.2%	300 bps
San Marcos/No Hays Co.	2.6%	$869	$894	2.8%	7.6%	8.3%	70 bps
Southeast Austin	-2.7%	$868	$907	4.5%	5.7%	4.8%	-90 bps
Metro	4.5%	$940	$987	5.0%	5.5%	6.5%	100 bps







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