

PAYROLL JOB SUMMARY

Total Payrolls	3,015.4m
Annual Change	24.5m (0.8%)
RCR 2016 Forecast	8.0m (0.3%)
RCR 2017 Forecast	9.9m (0.3%)
RCR 2018 Forecast	30.7m (1.0%)
RCR 2019 Forecast	50.5m (1.7%)
RCR 2020 Forecast	63.5m (2.1%)
Unemployment (NSA)	4.7% (Feb.)

4Q15 PAYROLL TRENDS AND FORECAST

The impact of a prolonged, steep decline in the prices of oil and natural gas hit the Houston labor market with a vengeance during 4Q15 as year-on-year job growth fell to a six-year low 24,500 (0.8%) job rate, down from a 69,000-job, 2.4% pace at mid-year. Job losses in the durables manufacturing sector were acute as demand for energy exploration and pipeline transportation equipment vanished, falling -22,300 (-13.6%) jobs y-o-y. Likewise, extraction headcounts decreased at a -16,600 (-14.9%) rate and 6,000 or more positions were lost at geological, engineering and architectural service concerns. Only leisure, education and health care establishment continued to hire at rates similar to the pre-oil price crunch period, expanding at a 38,000-job, 5.9% y-o-y rate.

The degree of recent attrition was surprising. Our modeling experience indicates that a 10% decline in WTI prices will reduce metro employment growth by -0.4%. The model was fairly accurate until 4Q15 when strong derivative effects were manifested in related service industries.

RED Research's WTI forecast model is pessimistic regarding oil prices as the primary statistical drivers (nominal GDP, S&P500 returns and personal consumption expenditures) now look soft through 2017. As a result, projected HOU job growth recovers slowly, rebounding to a 50,000-job annual run rate only by 2019. Were WTI to rebound quickly to \$80 (our average marginal replacement cost), 2.5%+ growth could return as soon as next year.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	94.2%
RED 50 Rank	44 th
Annual Chg. (Reis)	Unchd
RCR YE16 Forecast	91.9%
RCR YE17 Forecast	91.6%
RCR YE18 Forecast	91.4%
RCR YE19 Forecast	91.1%
RCR YE20 Forecast	91.1%

4Q15 ABSORPTION AND OCCUPANCY RATE TRENDS

Apartment demand was seasonally strong in spite of soft job growth. Tenants net leased 3,321 vacant units during the fourth quarter, according to Reis, more than 200% of the trailing 16-year fall quarter average and 87% greater than 4Q14. But supply outpaced absorption by 1,009 units, sending occupancy -10 basis points lower sequentially to 94.2%. Preliminary data indicate that occupancy fell another -40 bps sequentially in 1Q16 to 93.8%

Property data from Axiometrics recorded weaker conditions: 1,132 stabilized properties were 93.3% and 92.9% occupied in 4Q15 and 1Q16, respectively, down -70 and -100 bps year-on-year. Class-B assets posted the highest

metric (93.2%/-1.1%), while classes-A (92.4%/-0.9%) and -C (92.6%/-0.3%) trailed. Imperial (3.1%) and Pasadena (3.5%) notched strong y-o-y gains but submarkets with oil industry exposure suffered losses of -2% or more, including Bear Creek/Katy, Champions, CyFair and Humble.

RCR's HOU demand model uses occupancy_{t-1} (-) and nominal GDP_{t-3} (+), rent (+) and inventory_{t-4} (+) growth as independent variables to reach an adjusted-R² of 95.4% (S.E. = 0.3%). This model, coupled with a revised, more cautious GDP forecast produces a 2016 absorption projection of 8,140 units, down from 12,599 last year. With more than 20,000 units in the pipeline, occupancy may fall materially.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$899
Annual Change	4.5%
RED 50 Rent Change Rank	21 st
RCR YE16 Forecast	2.3%
RCR YE17 Forecast	2.3%
RCR YE18 Forecast	1.8%
RCR YE19 Forecast	2.4%
RCR YE20 Forecast	2.6%

4Q15 EFFECTIVE RENT TRENDS

The trajectory of Houston rent growth remained at an acute upward angle irrespective of oil price static. Reis report that effective rents increased \$11 (1.2%) sequentially, matching 3Q15's performance and exceeding the year earlier period's 1.0% advance. Annual growth rebounded from 3Q's weaker 4.3% metric, rising 4.5%. Preliminary 1Q16 asking rent data suggest a moderately slower winter quarter sequential gain of 0.8% versus 1Q15's 1.1% advance.

Axiometrics stabilized same-store analysis yields a slower 3.5% 4Q15 advance and a soft 2.2% gain during the first quarter 2016. Class-A rents stalled, rising 0.2% in 4Q15 before dropping -1.5% in 1Q16. Classes-B (1.6%) and -C

(6.5%) were considerably more robust. Submarket trends were mixed with a number of areas with average rents less than \$900 posting 5%-7% y-o-y growth while higher rent markets (Montrose, North Houston, Braeswood) retreated.

RCR's rent model achieves a 96.6% ARS (SE=0.3%) using lags of metro payroll_{t-1} (+) and nominal GDP_{t-3} (-) growth and the rate of change of WTI_{t-2,t-1} y-o-y trends as independent variables. Our current forecast for each is downbeat, yielding a similar rent forecast: annual gains in the 1.5% to 2.5% range are expected. But the forecast is sensitive to changes in WTI prices, which recently firmed on rumored agreements to constrain global oil production.

TRADE & RETURN SUMMARY

\$5mm+ / 80-unit+ Sales	50
Approximate Proceeds	\$1.56bn
Average Cap Rate (FNM)	6.1%
Average Price / Unit	\$116,969
Expected Total Return	5.5%
RED 46 ETR Rank	34 th
Risk-adjusted Index	3.77
RED 46 RAI Rank	25 th

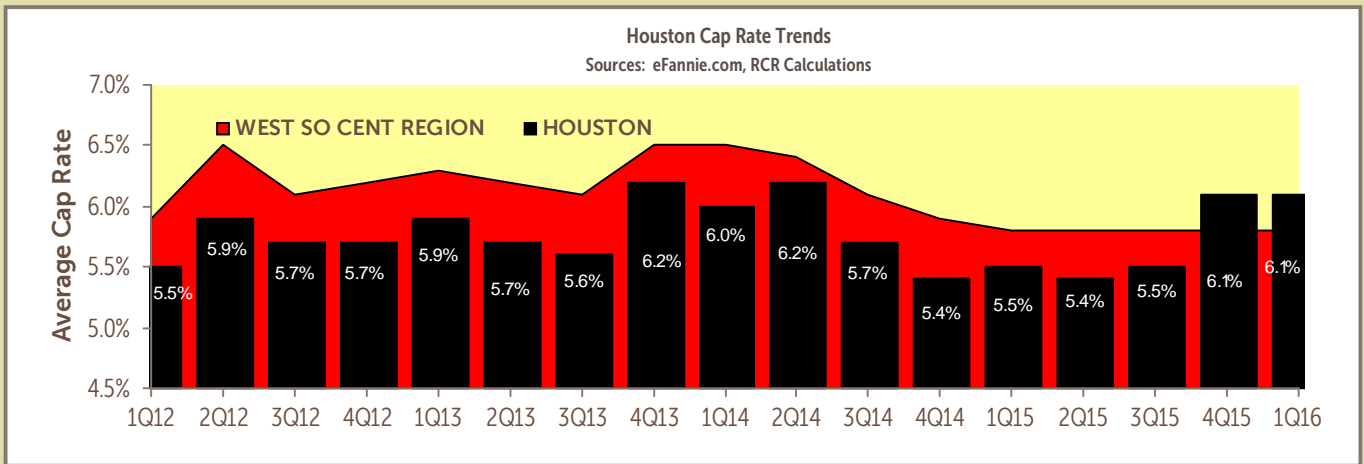
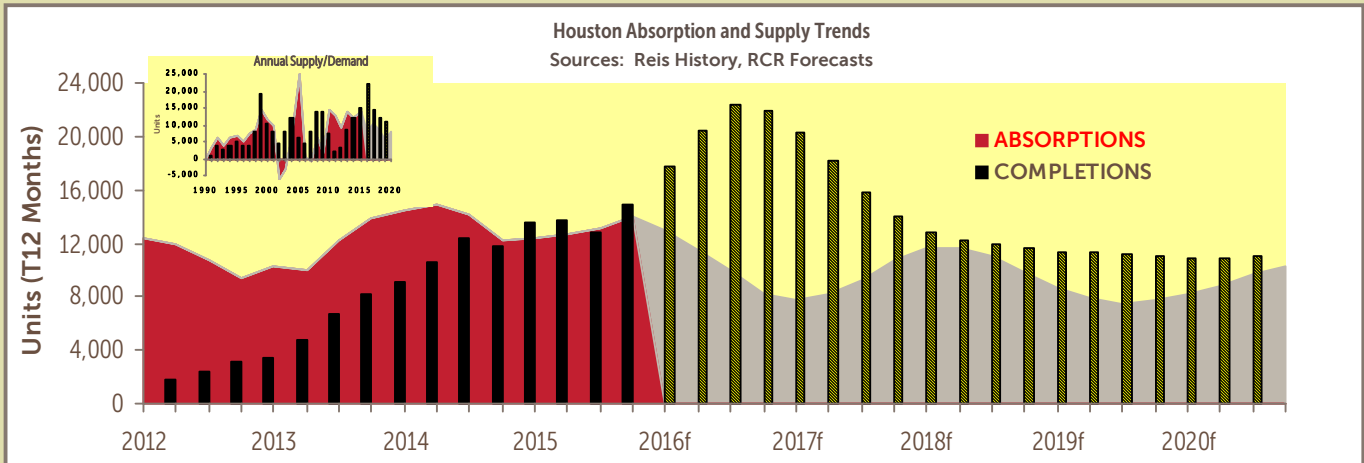
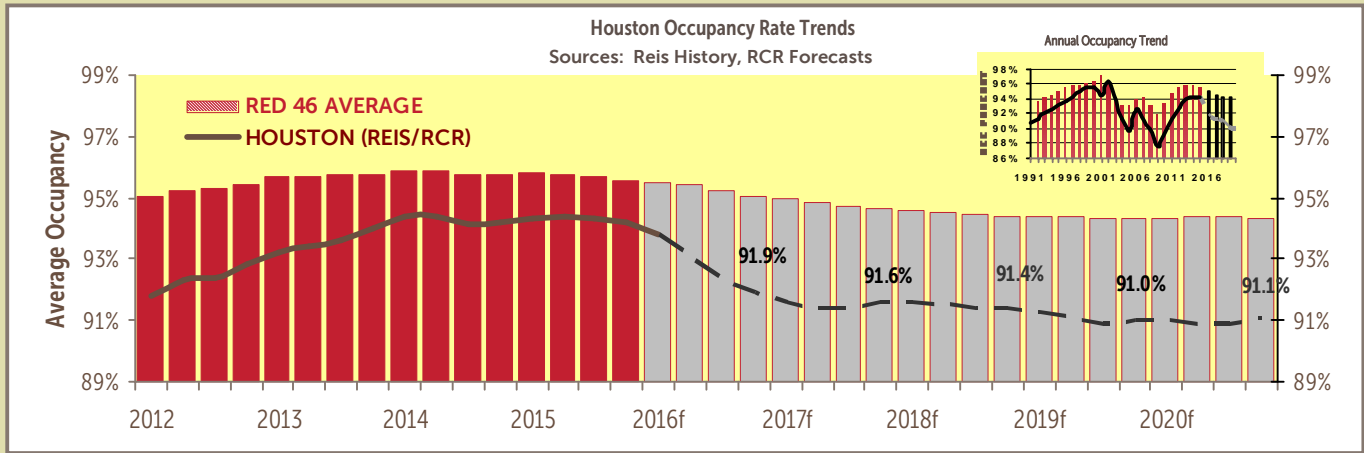
4Q15 PROPERTY MARKETS AND TOTAL RETURNS

Investment sales velocity decelerated in the typically robust fourth quarter, falling from 88 closed transactions in 3Q15 to 50. Perhaps investors took a step back to evaluate the impact of persistent low energy prices on the metro economy. By the standard of any other market, however, sales were enormous: RCR estimate that aggregate proceeds totaled more than \$1.5 billion. In addition, investors shifted focus somewhat from older value-add propositions toward newer class-B/B+ assets. To wit, the unit weighted average price age of sold properties for which price data were available declined from 26 years in 3Q15 to 20, yielding a 23% increase of the average price per unit metric to

\$116,969. Sales bounced back in 1Q16 to at least 69 trades.

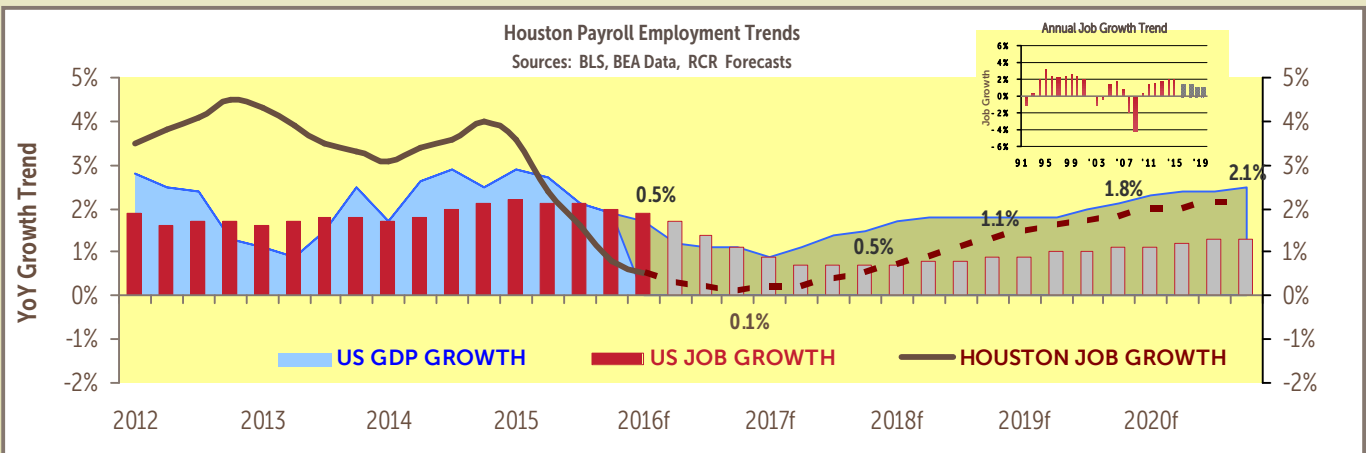
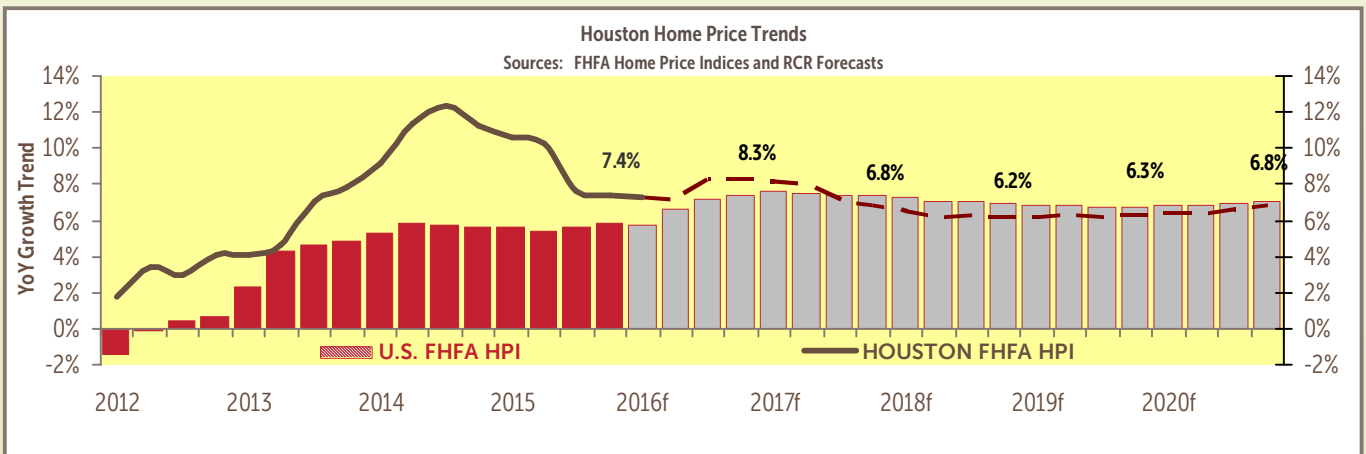
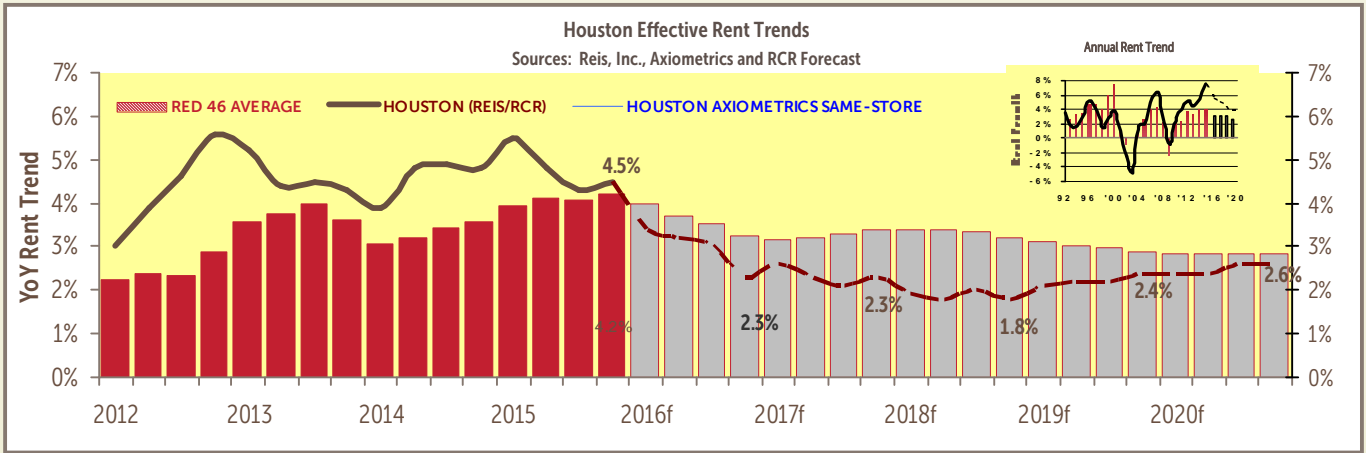
The average cap rate inched down to a record low 5.9% in 4Q15 before bouncing back 35 bps in 1Q. Investment quality B+ product traded in the low- to-mid 5% area, while class-B/B- value-add yields ranged from 6% - 6.5%.

Using a 5.75% purchase cap rate proxy, flat oil price projection and model rent and occupancy point estimates, our model projects that an investor would expect to achieve a 5.5% annual unlevered total return over a five-year hold, ranking 34th among the RED 46. With respect to risk-adjusted returns rank, Houston sits at peer group #25.



NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
Avana Cypress Texas (Cypress / Fairbanks)	B / SR LR (2004)	10-Dec-2015	\$45.6 (alloc)	\$135,568	5.4%
Avana Sterling Ridge (The Woodlands)	B+ / GLR (2005)	10-Dec-2015	\$38.7 (alloc)	\$152,450	5.4%
Retreat at Cinco Ranch (Bear Creek / Katy)	B+ / GLR (2008)	24-Jan-2016	\$40.3	\$150,373	5.0%
Dolce Living Grand Harbor (Bear Creek / Katy)	B+ / GLR (2014)	12-Feb-2016	\$41.0	\$126,543	5.5%
Ivy at Clear Creek (Clear Lake / UH-CL)	B- / GLR (1979)	12-Feb-2016	\$19.4	\$79,500	6.4%
Carmel Creek (Inwood / Near Northeast)	B- / GLR (1982)	17-Feb-2016	\$36.6	\$68,266	6.6%



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SUBMARKET TRENDS (REIS)

Submarket	Inventory % Change	Effective Rent			Physical Vacancy		
		4Q14	4Q15	Change	4Q14	4Q15	Change
Alief / Kirkwood	0.0%	\$683	\$717	4.8%	7.0%	3.6%	-340 bps
Baytown	3.2%	\$626	\$645	3.0%	7.8%	8.5%	70 bps
Bear Creek / Katy	11.1%	\$933	\$999	7.1%	5.6%	10.1%	450 bps
Braeswood / Bellaire	1.2%	\$1,136	\$1,173	3.2%	4.7%	4.5%	-20 bps
Briar Forest	2.3%	\$896	\$929	3.7%	5.0%	4.6%	-40 bps
Briar Grove	1.6%	\$943	\$979	3.8%	4.4%	3.8%	-60 bps
Champions / FM 1960	3.3%	\$772	\$812	5.1%	5.5%	5.8%	30 bps
Clear Lake / NASA	0.0%	\$849	\$889	4.7%	4.0%	3.0%	-100 bps
Cloverleaf	0.0%	\$681	\$688	1.0%	6.2%	4.2%	-200 bps
Cypress / Fairbanks	2.5%	\$894	\$929	3.8%	3.7%	4.4%	70 bps
Far Northwest / Montgomery	15.7%	\$909	\$979	7.7%	10.2%	12.9%	270 bps
Fondren / Westbury	0.0%	\$628	\$645	2.6%	5.0%	3.7%	-130 bps
Ft. Bend County	14.0%	\$1,054	\$1,109	5.2%	3.8%	9.5%	570 bps
Imperial Valley	0.0%	\$594	\$608	2.2%	9.2%	8.6%	-60 bps
Interloop / South Houston	0.3%	\$758	\$791	4.4%	4.3%	3.0%	-130 bps
Inwood / Near Northwest	0.0%	\$691	\$715	3.5%	5.9%	4.8%	-110 bps
Montrose / River Oak	7.8%	\$1,377	\$1,436	4.2%	10.0%	10.7%	70 bps
North / Northeast Houston	3.9%	\$758	\$789	4.1%	3.9%	5.0%	110 bps
Northborough	0.0%	\$654	\$681	4.1%	7.0%	6.0%	-100 bps
Pasadena / Deer Park	0.3%	\$671	\$698	4.0%	4.8%	3.5%	-130 bps
Sharpstown	0.0%	\$672	\$695	3.5%	5.7%	4.8%	-90 bps
Spring Branch	1.1%	\$757	\$768	1.5%	3.6%	3.7%	10 bps
Spring / Humble	0.0%	\$868	\$893	2.9%	3.1%	2.2%	-90 bps
Metro	2.9%	\$860	\$899	4.5%	5.8%	5.8%	0 bps

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