SAN ANTONIO, TEXAS

MARKET OVERVIEW & MULTIFAMILY HOUSING UPDATE

RED Capital Group | 4Q15 | MARCH 2016

PAYROLL JOB SUMMARY

Total Payrolls	995.2m
Annual Change	27.5m (2.8%)
RCR 2016 Forecast	25.5m (2.6%)
RCR 2017 Forecast	25.4m (2.5%)
RCR 2018 Forecast	25.0m (2.4%)
RCR 2019 Forecast	21.7m (2.1%)
RCR 2020 Forecast	21.6m (2.1%)
Unemployment (NSA)	3.7% (Jan.)

4Q15 PAYROLL TRENDS AND FORECAST

Payroll growth in 2H15 proved to be slower than previously understood, according to the BLS, as the Bureau revised down third and fourth quarter year-on-year job growth metrics from the initially reported 3.5% and 3.7%, respectively, to 3.1% and 2.8%. Slower growth is attributable to decelerated hiring in the construction, manufacturing, transportation, finance and business services sectors, industries that collectively grew headcounts at a 5,500-job, 1.6% year-on-year rate during 4Q15, down from a 19,200-job, 6.1% surge in 1Q15. The pattern is similar to those exhibited in Houston and Fort Worth, evidence that San Antonio's Eagle Shale formation is not immune to the effects of low oil and natural gas prices.

A similar pattern emerges from the seasonally-adjusted data. Although quarterly job gains were steady in the 6m-7m range, only 800 were added in November and December, the smallest 2-month aggregate in three years.

RED Research tested the feasibility of using West Texas crude price trends as a predictor of S.A. job growth but found only a modest correlation. Therefore, we elected to retain the existing equation which employs the rate of change of U.S. payroll job (+), $GDP_{(t-3)}$(-) and metro personal income (+) growth, and S&P500 $returns_{(t-5)}$(+) as independent variables. The point estimate forecast calls for 2% to 2.6% annual job growth rates for the entire forecast interval; an upbeat outlook, indeed.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	93.8%
RED 50 Rank	47TH
Annual Chg. (Reis)	-0.2%
RCR YE16 Forecast	93.8%
RCR YE17 Forecast	93.8%
RCR YE18 Forecast	93.9%
RCR YE19 Forecast	93.6%
RCR YE20 Forecast	93.3%

4Q15 ABSORPTION AND OCCUPANCY RATE TRENDS

For six of the seven previous years San Antonio tenants net leased more vacant units during the fourth quarter (40%) than any other; but 2015 was an exception. Absorption declined to 782 units, according to Reis, down from 1,366 and 1,185 units during the prior and year-earlier quarters, respectively, and 700 units below RCR's in-sample forecast. It wasn't attributable to lack of supply, developers completed 1,600 units, among the largest single quarter vintages since 2000. Rather, fast rising home prices were probably responsible, drawing households into homeownership at the margin. As a result, occupancy declined -40 basis points sequentially and –20 bps year-on-year to 93.8%, the lowest level observed in three years.

Axiometrics surveys recorded similar trends. Overall occupancy fell -90 bps sequentially and -50 bps y-o-y to 93.0%. The largest annual decline was recorded in the supply challenged class-A (-130 bps y-o-y) segment.

Our FHFA home price model indicates that real estate price appreciation is likely to remain robust but stabilize in the 6%-7% range through 1H18. This will allow demand to recover and generally keep pace with projected supply throughout the 5-year forecast interval. The RCR demand model (adjusted-R^2=92.4%, S.E.=0.3%) projects absorption of more than 3,000 units annually, sufficient to maintain above-93% occupancy for the duration of the forecast.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	$809
Annual Change	3.7%
RED 50 Rent Change Rank	33rd
RCR YE16 Forecast	2.5%
RCR YE17 Forecast	3.3%
RCR YE18 Forecast	3.6%
RCR YE19 Forecast	3.0%
RCR YE20 Forecast	3.2%

4Q15 EFFECTIVE RENT TRENDS

Average effective rent increased $6 (0.7%) sequentially to $809, moderately slower than the four previous fourth quarters wherein gains averaged 0.9%, according to Reis. Sequential growth was paced by robust trends in Far North submarkets, especially Northwest (1.7%) and North Central (3.4%). Otherwise, submarket rent gains were the equivalent of 0.8% or less, and two — Central S.A. and Southeast — recorded decreases, in each case under supply pressure.

Axiometrics surveys of stabilized, same-store properties recorded stable year-on-year gains in the 4.5% to 4.6% range for the third consecutive quarter. The class-B (5.1%) and –C (4.8%) segments provided most of momentum as class-A rents plodded forward at only 2.8%, held back by growing competition. West and north submarkets posted the strongest gains, while east and south submarkets were generally weaker than average.

Payroll, income and home price growth and vacancy trends have the most statistically significant impact on S.A. rent levels. Using these variables RCR specified a 91.6% ARS (S.E.= 0.6%) rent forecasting equation that projects above metro average rent growth through 2020. Rent is expected to grow at a 3.1% annual compound rate, RED46 #12 rank.

TRADE & RETURN SUMMARY

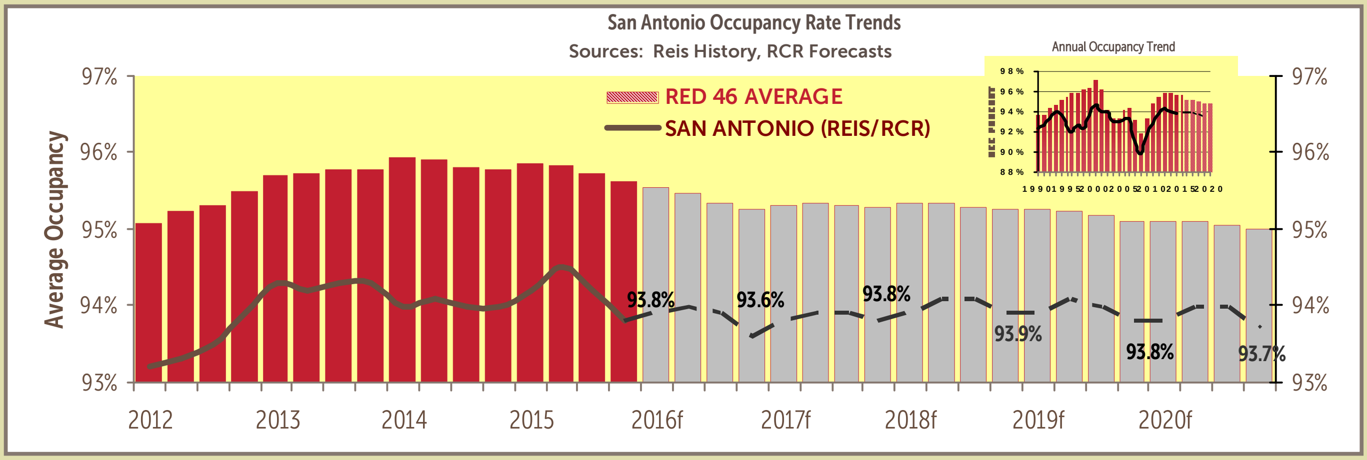
$5mm+ / 80-unit+ Sales	10
Approximate Proceeds	$350mm
Average Cap Rate (FNM)	5.6%
Average Price / Unit	$98,732
Expected Total Return	7.2%
RED 46 ETR Rank	13th
Risk-adjusted Index	7.65
RED 46 RAI Rank	4th

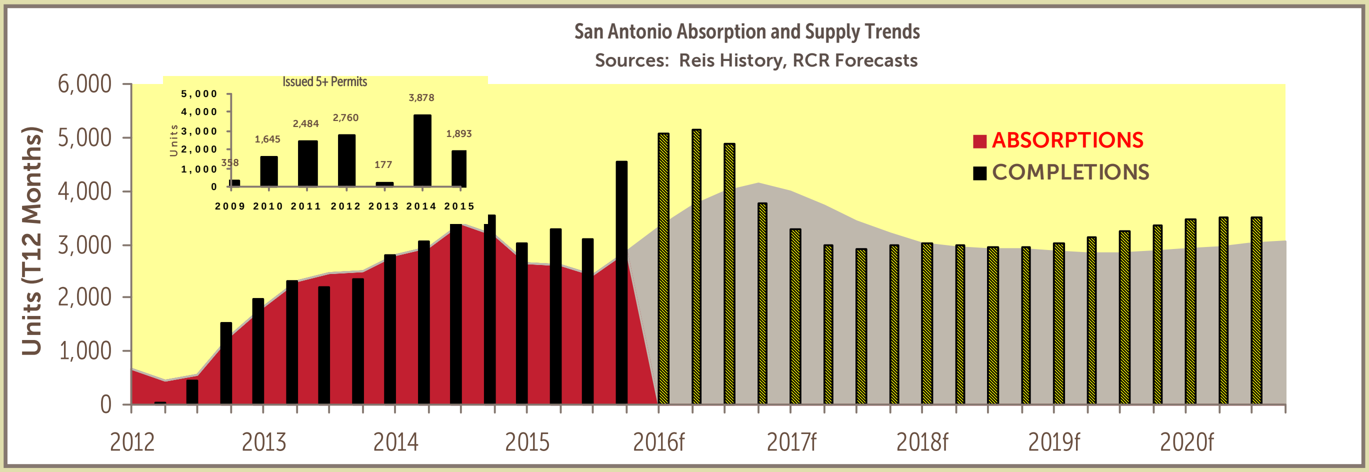
4Q15 PROPERTY MARKETS AND TOTAL RETURNS

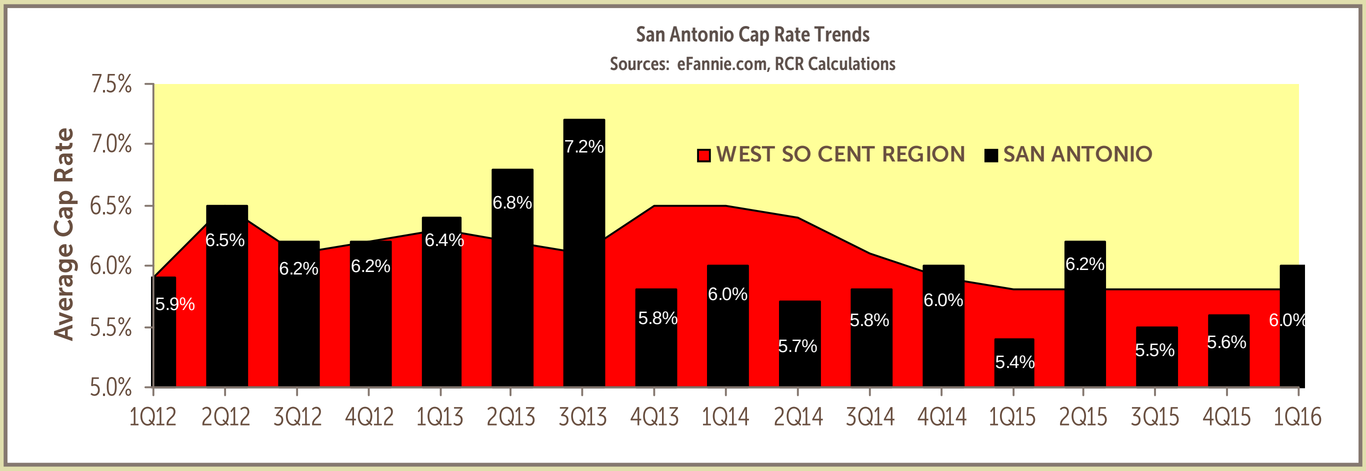
The pace of property sales accelerated during the fourth quarter, reaching the current cycle peak of 10 large property transactions. The average price of traded units for which pricing data were available was $98,732, giving rise to estimated total sale proceeds of about $350 million. The average price per unit declined for the second consecutive quarter, however, as investors shifted focus from recent construction class– A/B+ assets to older, value-add opportunities. Indeed, the unit-weighted average age of traded properties increased to 24 years in 4Q15 from 13 years in 2Q, when the average value per unit was $125,870.

Cap rates exhibited significant compression. CoStar report that yields averaged about 5.6% in 2H15, down about 140 bps in two years. Trade data indicate that investment sales transacted at meaningfully lower rates: in the mid-4% to 5% range for class-A/B+; 5% to 5.5% rates for value-adds.

To reflect current pricing conditions RCR trimmed 40 bps from the generic class-B yield proxy to 5.25%. At this level, a terminal cap of 5.95% and model derived rent and occupancy point estimates we calculate that an investor would expect to realize a 7.2% unlevered 5-year total return, ranking peer group #13 and well above our current large metro average estimate of 6.4% Relatively low equation error boosts risk-adjusted returns: S.A. ranks RED 46 #4.

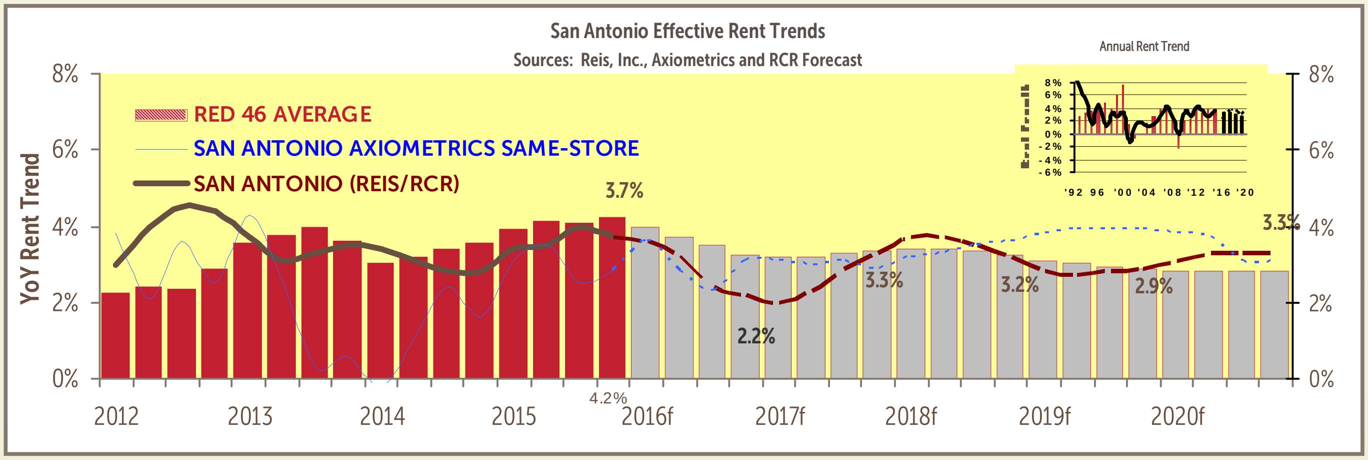


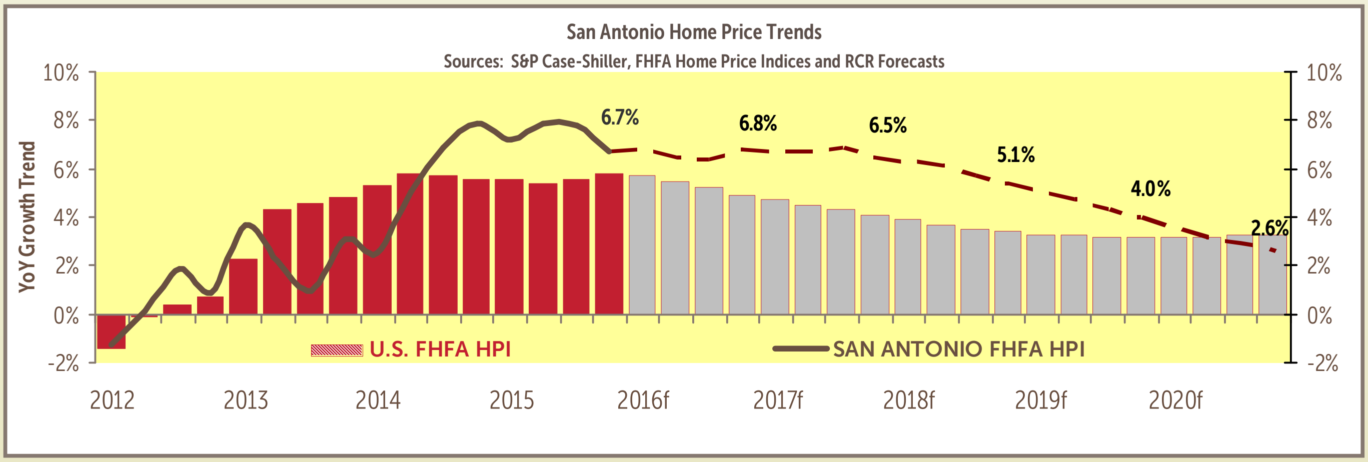


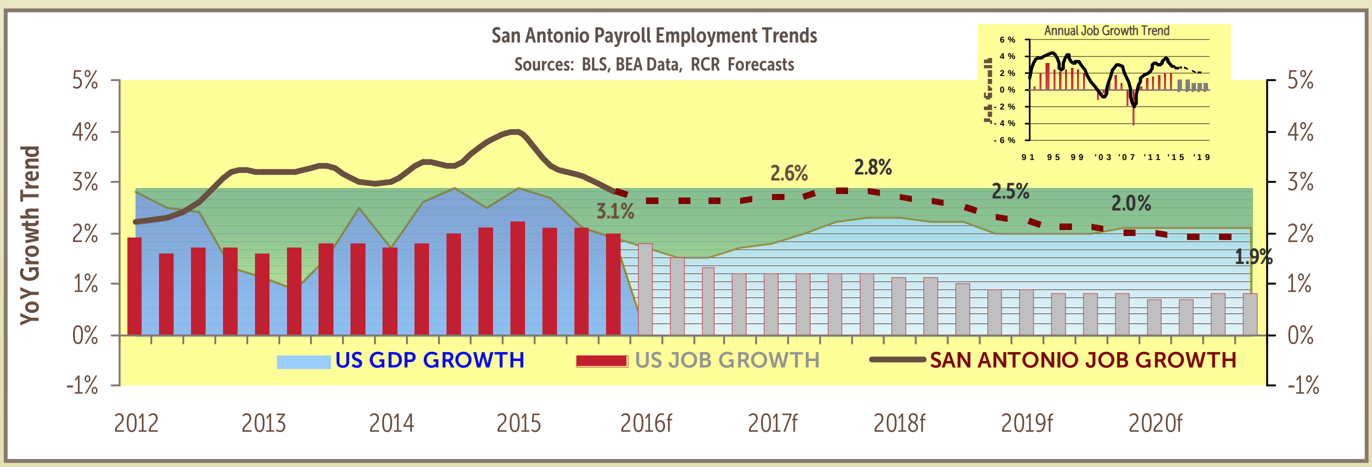


NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
Collection at Overlook (Far North Central)	B- / GLR (1984)	3-Nov-2015	$34.0	$82,759	5.1%
Landmark Lofts (New Braunfels/Comal Co.)	A / MB MR (22/06)	18-Nov-2015	$15.7	$140,172	6.5%
City Summit (Far Northwest)	B / GLR (1981)	3-Dec-2015	$20.6	$76,580	5.45%
Sonterra Blue (North Bexar Co. / Sonterra)	A / GLR (2014)	4-Dec-2015	$51.0	$150,585	4.9%
Walker Ranch (Far North Central)	B+ / GLR (2004)	25-Jan-2016	$51.1 (Allocated)	$157,168	4.5%
Hidden Lake (Far Northwest)	B+ / GLR (2004)	25-Jan-2016	$47.4 (Allocated)	$124,732	5.1%







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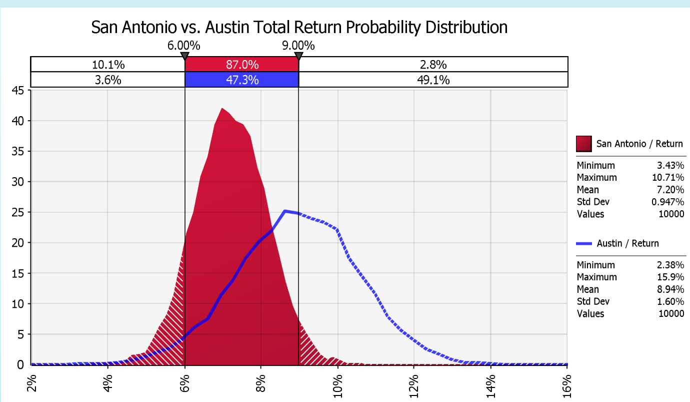
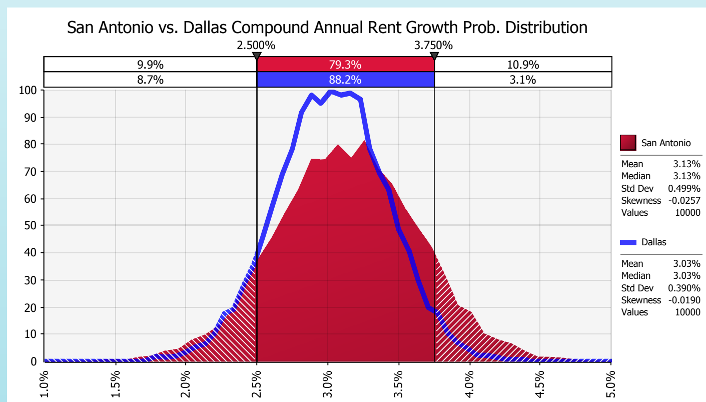
SUBMARKET TRENDS (REIS)

Submarket	Inventory % Change	Effective Rent			Physical Vacancy		
		4Q14	4Q15	Change	4Q14	4Q15	Change
Airport / Northeast	0.0%	$828	$846	2.1%	5.6%	4.5%	-110 bps
Central San Antonio	4.5%	$761	$801	5.3%	5.8%	7.1%	130 bps
East	3.4%	$879	$905	3.0%	6.3%	6.0%	-30 bps
Far North Central	3.0%	$839	$879	4.8%	6.2%	6.4%	20 bps
Far Northeast	0.0%	$723	$738	2.1%	7.0%	5.0%	-200 bps
Far Northwest	3.4%	$805	$850	5.6%	4.0%	5.2%	120 bps
Far West	4.9%	$725	$746	2.9%	7.6%	8.0%	40 bps
Northwest	2.4%	$561	$578	3.0%	4.8%	3.8%	-100 bps
South	5.7%	$658	$676	2.8%	7.2%	8.8%	160 bps
Southeast	11.3%	$580	$600	3.4%	10.7%	14.9%	420 bps
Southwest	2.3%	$587	$590	0.6%	6.2%	6.3%	10 bps
Metro	2.9%	$780	$809	3.7%	6.0%	6.2%	20 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

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