

PAYROLL JOB SUMMARY

Average Payrolls	1,957.3m
Annual Change	63.9m (3.4%)
RCR 2016 Forecast	59.7m (3.1%)
RCR 2017 Forecast	56.1m (2.8%)
RCR 2018 Forecast	49.5m (2.4%)
RCR 2019 Forecast	24.2m (1.2%)
RCR 2020 Forecast	15.0m (0.7%)
Unemployment (NSA)	5.0% (Aug.)

2Q16 PAYROLL TRENDS AND FORECAST

Phoenix employment growth remained on a steep trajectory during the second quarter, rising at a 63,900-job, 3.4% year-on-year rate, down slightly from 1Q's 3.5% annual pace yet the fourth consecutive quarter of brisk 3.4% or faster expansion. Population growth appeared to be the catalyzing element as stronger demand for housing and public services boosted construction and government headcounts by 8,300 (2.5%) y-o-y, comparing favorably to 1Q's 5,000-job advance. Nevertheless, some weakness was evident in "export" oriented industries, including manufacturing and professional and technical services. These sectors collectively declined at a -300-job, -0.1% y-o-y rate, a material decrease from the 2,800-job, 1.3% advance posted in the prior quarter.

Seasonally-adjusted data also exhibited evidence of deceleration. This series indicates Phoenix netted 9,000 jobs in 2Q and 14,200 during the January-June period, down from 11,100 and 24,800, respectively, in 2015. Moreover, 3Q16 got off to a slow start with a -100-job net setback in July and August, down from 2015's 18,500-job surge.

RED Research used the rate of change of US payroll growth (+), and metro personal income (+) and nominal GDP (-) growth as independent variables to specify a 96.4% adjusted-R² (SE=0.5%) model. The model projects 2% to 3% growth continuing through 2018, followed by much slower expansion in 2019 and 2020 in keeping with a national economic slump anticipated for that period.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	95.0%
RED 51 Rank	33 rd
Annual Chg. (Reis)	-0.6%
RCR YE16 Forecast	94.7%
RCR YE17 Forecast	95.1%
RCR YE18 Forecast	95.4%
RCR YE19 Forecast	95.4%
RCR YE20 Forecast	95.0%

2Q16 ABSORPTION AND OCCUPANCY RATE TRENDS

Reis found robust apartment demand during the second quarter as surveys indicate that households net leased 1,237 vacant units, up from 1,198 in the year earlier period and materially higher than the 889 unit trailing 10-year 2Q average. By the same token, supply also was significant, totaling 1,290 units, compared to 868 in the year-earlier quarter and a 790-unit trailing 10-year mean. As a result, average occupancy was unchanged sequentially but down 60 basis points year-on-year to 95.0%, lowest in two years.

-10 bps, respectively. Highest 3Q16 occupancy was observed among class-B assets (94.3%), followed by classes-C (93.8%) and -A (93.4%). Leaders among submarkets were East Mesa (95.2%) and Goodyear (95.4%), while Northeast (92.1%), Central North and Sunnyslope (each 93.1%) trailed.

Axiometrics surveys of 631 stabilized same-store properties found average occupancy of 94.6% in 2Q16 and 94.3% in 3Q16, representing y-o-y occupancy changes of 0 and

RCR crafted a 92.8% (SE=0.45%) model using inventory, payroll, home price and rent_(t-3) growth as independent variables. The model forecasts constructive absorption throughout the 5-year forecast that falls moderately below supply over the next four quarters. After drifting down to the 94.7% level at year end, prospects are good for steady or moderately rising occupancy through 2019.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$833
Annual Change	6.1%
RED 51 Rent Change Rank	4 th
RCR YE16 Forecast	5.0%
RCR YE17 Forecast	4.3%
RCR YE18 Forecast	4.2%
RCR YE19 Forecast	2.5%
RCR YE20 Forecast	1.8%

2Q16 EFFECTIVE RENT TRENDS

Reis report that average rent increased \$11 (1.3%) sequentially in 2Q16, down slightly from 1Q's \$12 (1.5%) advance. Expressed on a year-on-year basis, rents increased 6.1%, representing the fastest metric observed since 2006. Indeed, the rent advance was fourth fastest among the 65 markets that we track, the metro's highest ever rank. Class-A assets were the prime movers as sector asking rents increased 1.4% sequentially while B&C gained 1.1%.

again in 3Q16, followed distantly by class-A (5.5%). Among submarkets, Sunnyslope, North Glendale and South Mesa posted double-digit gains, So. Scottsdale (1.9%) trailed, and, Central North (5.0%), Tempe (5.1%-5.6%) and Northeast (5.1%) managed increases only in the 5% region.

Axiometrics surveys of stabilized same-store properties found that rents increased 8.2% y-o-y in 2Q16, and 7.2% in 3Q16. The former figure was the fastest advance observed since 1Q06. Classes-C and -B (8.7%/7.3%) were leaders

RCR specified a strong 96.8% ARS (SE=0.3%) model using metro payroll (+), inventory_(t-1) (-), and personal income (-) growth and US home appreciation (-) as independent variables. The model projects further 4%+ rent growth through 2018. Expected slower payroll growth (the principal rent driver) in the forecast out-years will cause rent growth to decelerate to the 2.0%-2.5% area after 2019.

TRADE & RETURN SUMMARY

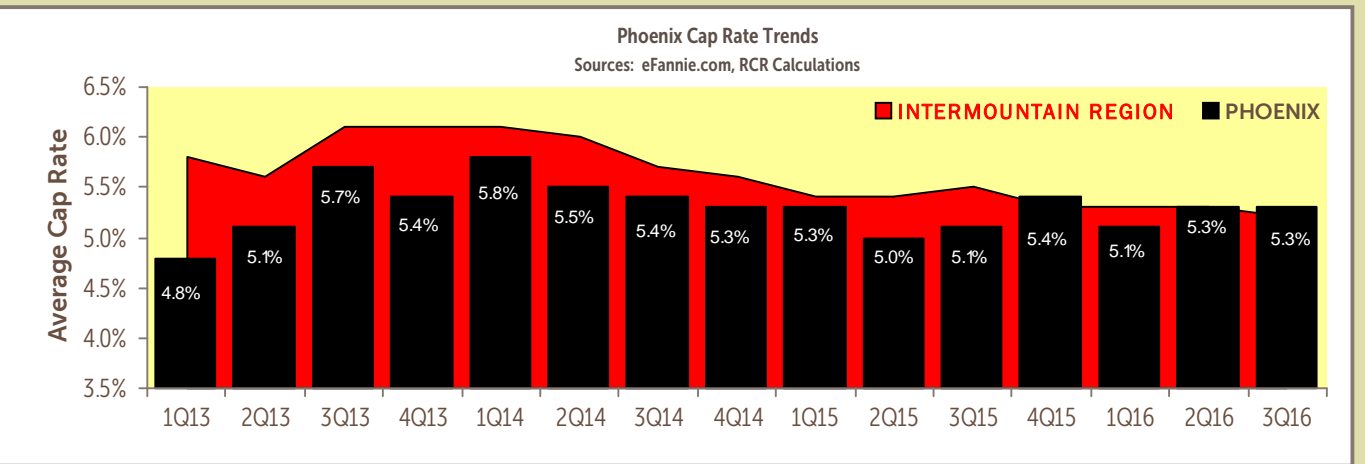
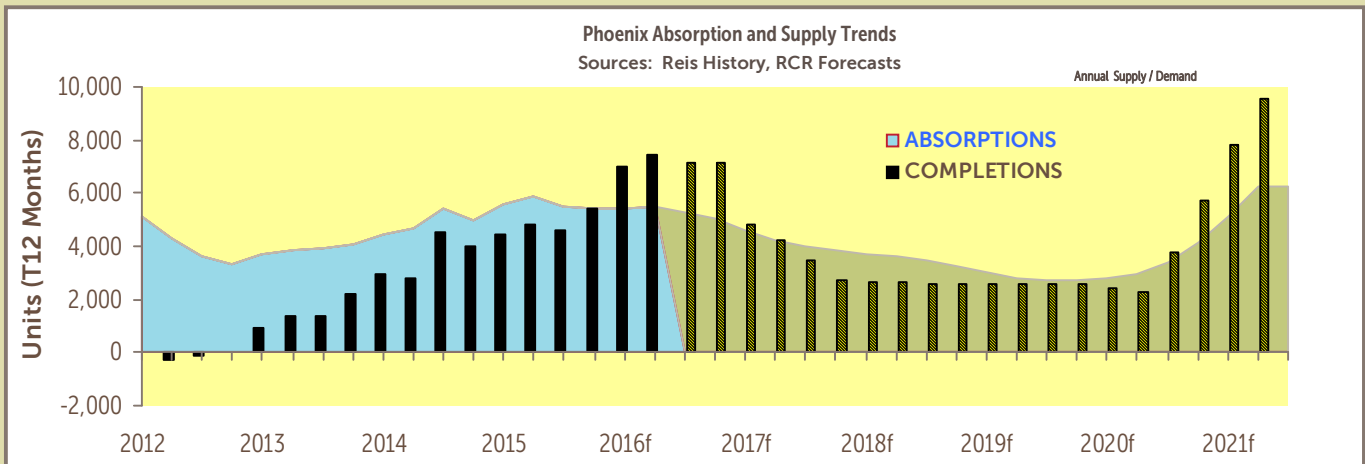
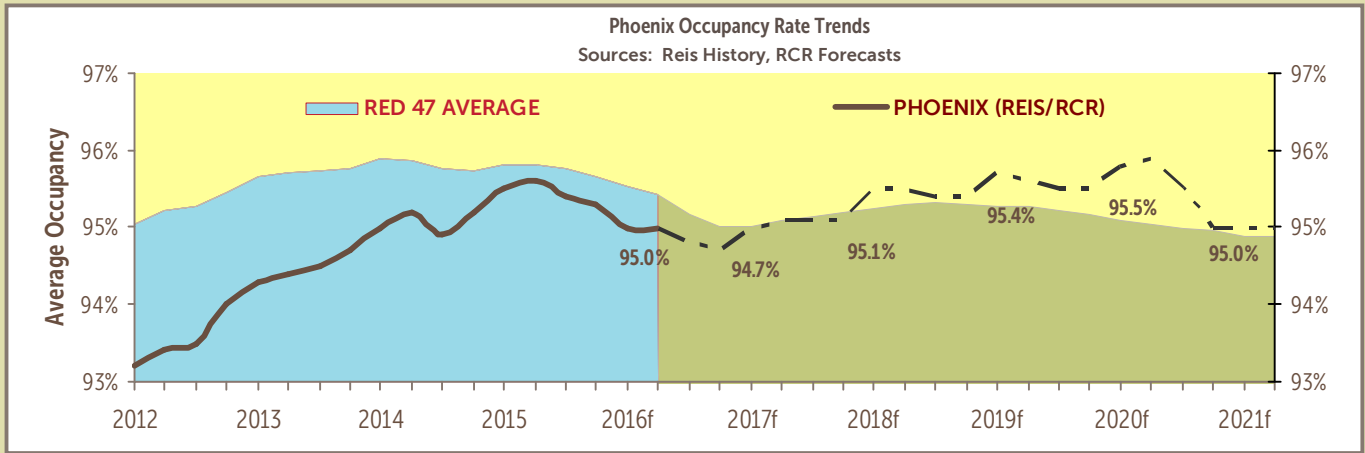
\$5mm+ / 80-unit+ Sales	68
Approximate Proceeds	\$1.96bn
Average Cap Rate (FNM)	5.3%
Average Price / Unit	\$109,678
Expected Total Return	6.0%
RED 47 ETR Rank	33 th
Risk-adjusted Index	5.88
RED 47 RAI Rank	11 th

2Q16 PROPERTY MARKETS AND TOTAL RETURNS

Investors feasted on Phoenix properties during the second quarter, setting new records for transactions closed and proceeds collected. Sales for which prices were disclosed totaled 68, up from 28 during the prior quarter and 49 (the previous record) during 4Q15. Investors parted with \$2.0 billion, an increase of 230% from the prior quarter and 41% greater than the former record set last fall. One record that did not fall was for average price per unit. The 2Q16 metric (\$109,678) stands as the second highest level ever behind 4Q15's \$127,777 standard. Third quarter trade was moderately slower but approached 4Q15's results as 45 trades valued at \$1.12bn and \$105,204 per unit closed.

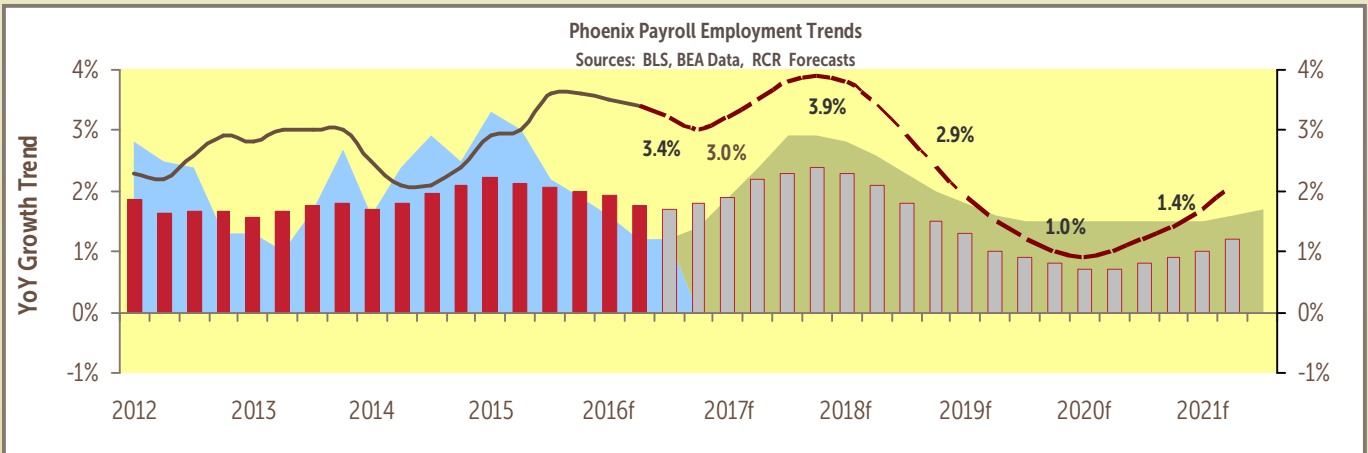
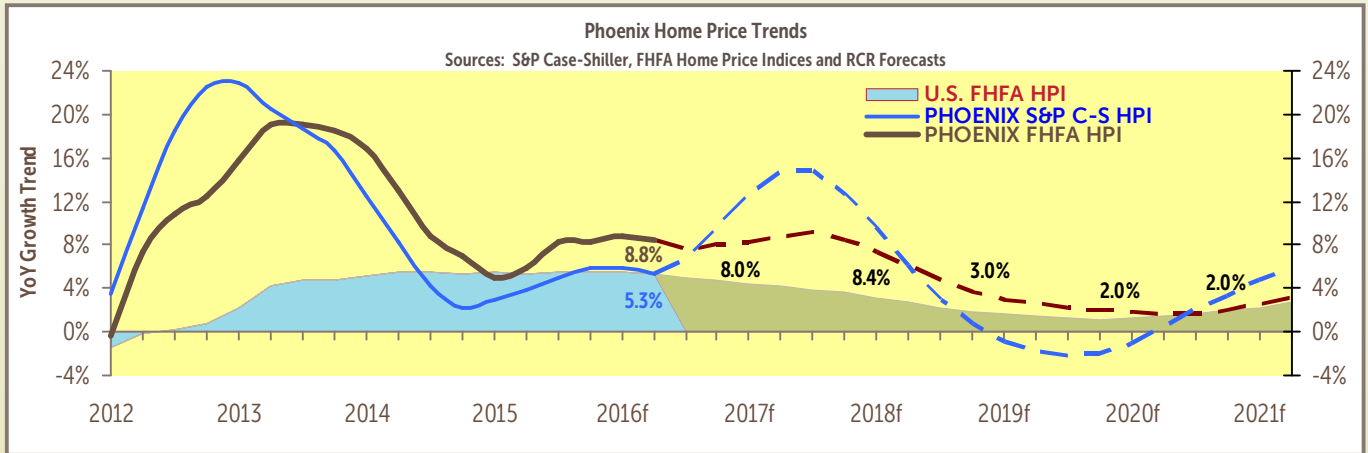
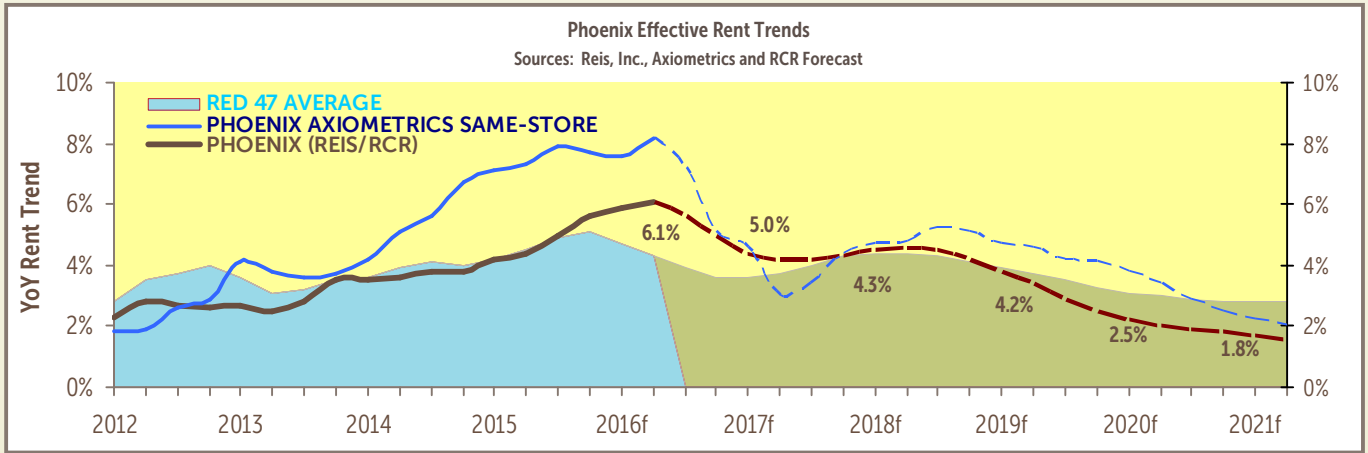
Trade was concentrated in the class-B segment. B- value-adds traded in the low- to mid-5% cap rate range. Recent construction A/B+ properties settled on low- to -high 4% yields. Standard "B" assets hovered at caps of about 5%.

Recent trade compelled us to trim the purchase cap rate proxy -20bps to 5.3%. Using this level, model derived rent and occupancy point estimates and a 6.5% terminal cap produces a 6.0% 5-year unlevered annual total return estimate (R47 #33), up from 5.2% in 1Q16 owing to the improved rent outlook. Low model standard errors boost risk-adjusted returns. Phoenix's risk-adjusted index of 5.88 ranks 11th among the RED 47 peer group.



NOTABLE TRANSACTIONS

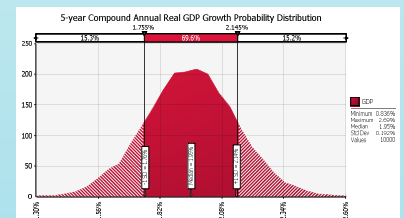
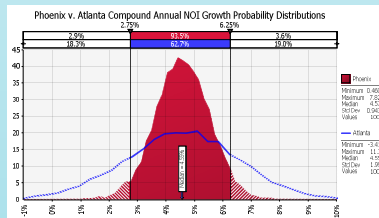
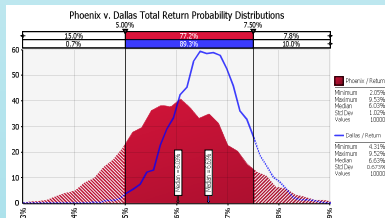
Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price (in millions)	Price / Per Unit	Estimated Cap Rate
Park on Bell (Deer Valley/Central Park Village)	B / LR (2008)	21-Jun-2016	\$31.0	\$135,965	4.7%
Almeria Ocotillo (Chandler / Ocotillo)	A / GLR (2014)	15-Aug-2016	\$79.8	\$205,100	4.3%
Crossroads Apts. (Deer Valley / I-17 & 101)	B- / GLR (1982)	2-Sep-2016	\$25.2	\$79,747	5.2% / 5.6% p.f.
Arches Hidden Creek (Chandler/S. Marcos CC)	B / GLR (1986)	8-Sep-2016	\$55.0	\$127,315	5.2%
Canyon Crossroads (No. Scottsdale)	B+ / GLR (2009)	8-Sep-2018	\$45.0	\$160,714	4.9%
The Retreat (Deer Valley / I-17 & 101)	B- / GLR (1997)	4-Oct-2016	\$62.5	\$130,104	5.0%



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SUBMARKET TRENDS (REIS)

Submarket	Inventory % Change	Effective Rent			Physical Vacancy		
		2Q15	2Q16	Change	2Q15	2Q16	Change
Central Phoenix-North	1.2%	\$639	\$664	3.9%	5.6%	5.2%	-40 bps
Central Phoenix-South	3.6%	\$738	\$780	5.7%	4.3%	6.6%	230 bps
Chandler / Gilbert	3.7%	\$905	\$1,009	11.5%	7.3%	7.8%	50 bps
Deer Valley	1.0%	\$720	\$756	5.1%	2.8%	2.5%	-30 bps
East Mesa	0.0%	\$774	\$812	4.9%	0.8%	0.9%	10 bps
Glendale South	0.0%	\$639	\$664	4.0%	5.7%	4.7%	-100 bps
Goodyear / Avondale	1.5%	\$873	\$905	3.8%	1.5%	1.5%	0 bps
Maryvale	0.0%	\$590	\$602	2.2%	4.1%	3.2%	-90 bps
North Scottsdale	6.0%	\$1,050	\$1,120	6.6%	5.7%	6.7%	100 bps
North Tempe	4.0%	\$858	\$932	8.7%	4.1%	6.6%	250 bps
Northeast Phoenix	5.2%	\$757	\$828	9.4%	4.3%	7.3%	300 bps
Paradise Valley	0.0%	\$729	\$758	4.0%	4.5%	3.9%	-60 bps
Peoria/Sun City/Surprise	0.0%	\$810	\$846	4.5%	1.4%	1.6%	20 bps
South Mesa	0.0%	\$666	\$704	5.6%	4.0%	3.5%	-50 bps
South Scottsdale	12.1%	\$913	\$987	8.1%	11.5%	14.0%	250 bps
South Tempe	5.2%	\$897	\$952	6.1%	4.1%	5.0%	90 bps
Sunnyslope	0.5%	\$674	\$694	3.0%	2.3%	2.3%	0 bps
West Mesa	0.0%	\$636	\$662	4.0%	3.1%	2.3%	-80 bps
Metro	2.8%	\$785	\$833	6.1%	4.4%	5.0%	60 bps



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