

### PAYROLL JOB SUMMARY

Average Payrolls	1,440.0m
Annual Change	44.7m (3.2%)
RCR 2016 Forecast	44.7m (3.2%)
RCR 2017 Forecast	58.4m (4.1%)
RCR 2018 Forecast	56.6m (3.8%)
RCR 2019 Forecast	38.2m (2.5%)
RCR 2020 Forecast	32.3m (2.0%)
Unemployment (NSA)	3.4% (July)

### 2Q16 PAYROLL TRENDS AND FORECAST

Denver establishments added workers to payrolls at a faster pace in 2Q16, accelerating from 1Q16's 38,900-job, 2.9% year-on-year performance to a 44,700 (3.2%) rate. The construction and healthcare sectors were primarily responsible, contributing net y-o-y gains totaling 12,900 (5.3%) jobs, more than two times 1Q16's 5,600-job advance. Gains in the higher wage durable goods and business services sectors also were constructive. The sectors collectively hired at a 4.0% rate, up from 1Q16's 3.6%.

The seasonally-adjusted series recorded a solid 10,500-job April-to-June increase, on par with the year-ago period. Second quarter gains declined from 1Q's equal 16-year 16,800-job high, but July's 10,200-job blowout (the

largest one-month total in the 27-year series by 2,200 jobs) put Denver back on track in 2016 to approach a 50,000-job net again for a third consecutive year.

The RED Research DEN payroll model is little changed from 1Q, relying on the interplay between the rate change of US job growth (+) and nominal GDP growth (-), and metro personal income growth (+) as independent variables (Adjusted R<sup>2</sup>=98.5%, S.E.=0.3%). Our base GDP forecast is considerably more optimistic for 2Q17-2Q18, however, foreseeing 2.4% - 2.9% annual growth rates. Denver job creation should accelerate accordingly, adding a projected 115,000 total jobs during CY17 and CY18. Slower growth will follow, but no recession is yet in sight.

### OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	95.1%
RED 50 Rank	29 <sup>th</sup>
Annual Chg. (Reis)	-0.4%
RCR YE16 Forecast	94.6%
RCR YE17 Forecast	94.6%
RCR YE18 Forecast	94.6%
RCR YE19 Forecast	93.9%
RCR YE20 Forecast	93.7%

### 2Q16 ABSORPTION AND OCCUPANCY RATE TRENDS

Reis report that apartment demand was relatively weak for the second consecutive quarter as tenants leased a net of 562 vacant units, down -63% from 2Q15's 1,538. This was the second fewest units absorbed in a spring quarter since 2009. Inventory growth also slowed, however, limiting the impact on market occupancy. Average occupancy declined only -10 basis points sequentially (-40 bps year-on-year) to 95.1%, maintaining DEN in RED 50 29<sup>th</sup> position.

Axiometrics surveys of stabilized same-store properties recorded a 94.7% average rate, down -110 bps y-o-y. Occupancy was seasonally stronger, however, as the metric increased 70 bps quarter-to-quarter, surpassing

2015's comparable 50 bps advance. Class-C (95.7%) posted the strongest results, rising 160 bps sequentially. Classes-B and -A followed on 94.6% and 93.9%, respectively.

The RCR demand model remains largely the same, driven primarily by supply (+) and home price appreciation<sub>(t-2)</sub> (-) variables and to a lesser degree the rate of change of metro employment growth. Employment and supply promise to provide strong demand support: we expect tenants to absorb about 17,000 units by 4Q18. But supply is likely to exceed demand by 10% to 15%, with negative consequences for occupancy. RCR estimate that DEN occupancy will fall about -70 bps to 94.6% by YE2018.

### EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$1,072
Annual Change	4.8%
RED 50 Rent Change Rank	11 <sup>th</sup>
RCR YE16 Forecast	4.4%
RCR YE17 Forecast	5.9%
RCR YE18 Forecast	6.4%
RCR YE19 Forecast	5.2%
RCR YE20 Forecast	4.9%

### 2Q16 EFFECTIVE RENT TRENDS

Rent trends decelerated again in 2Q16, according to Reis, as average effective rent advanced only \$7 (0.7%) sequentially, down from \$21 (2.1%) in the comparable period of 2015. Expressed on a year-on-year basis, rent increased 4.8%, materially lower than 2Q's 6.3% metric. Indeed, the y-o-y comparison was the lowest recorded in three years.

Axiometrics same-store stabilized property comparisons recorded comparable results. This sample unit-weighted mean effective rent increase was 5.1% during 2Q16, on par with the prior quarter but considerably slower than the 12.2% surge posted in the year-earlier period. Class-C continued to lead, rising 7.7% y-o-y, compared to 4.8%

and 3.2% for classes-B and -A, respectively. Only class-A gains were faster in sequential quarters as class rents enjoyed a robust rebound from 1Q16's weak results.

Our rent model is unchanged, achieving a 97.3% ARS (S.E.=0.6%) with sequential occupancy change (+), job growth (+) and home prices as independent variables. The model projects that rent growth will continue to decelerate moderately through the winter but catch fire again as the anticipated economic expansion in 2017-2018 gains traction. Rents are expected to rise 5.5% to 6.5% during this period. Over the course of the forecast rents are projected to increase at a 5.3% compound rate, RED 46 #3.

### TRADE & RETURN SUMMARY

\$5mm+ / 80-unit+ Sales	23
Approximate Proceeds	\$1,153mm
Average Cap Rate (FNM)	5.1%
Average Price / Unit	\$223,323
Expected Total Return	8.2%
RED 46 ETR Rank	3 <sup>rd</sup>
Risk-adjusted Index	4.91.
RED 46 RAI Rank	19 <sup>th</sup>

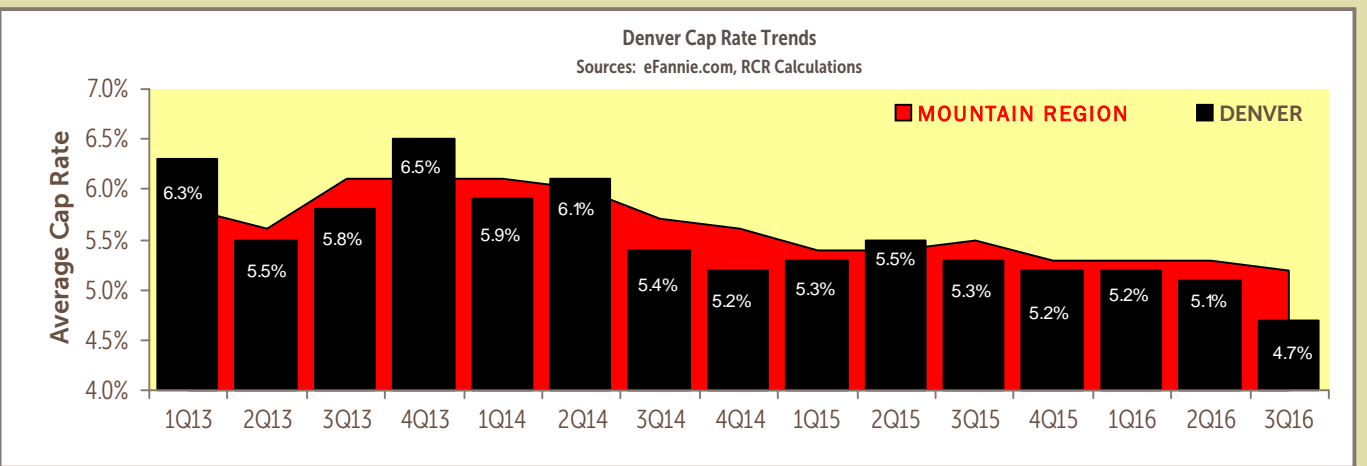
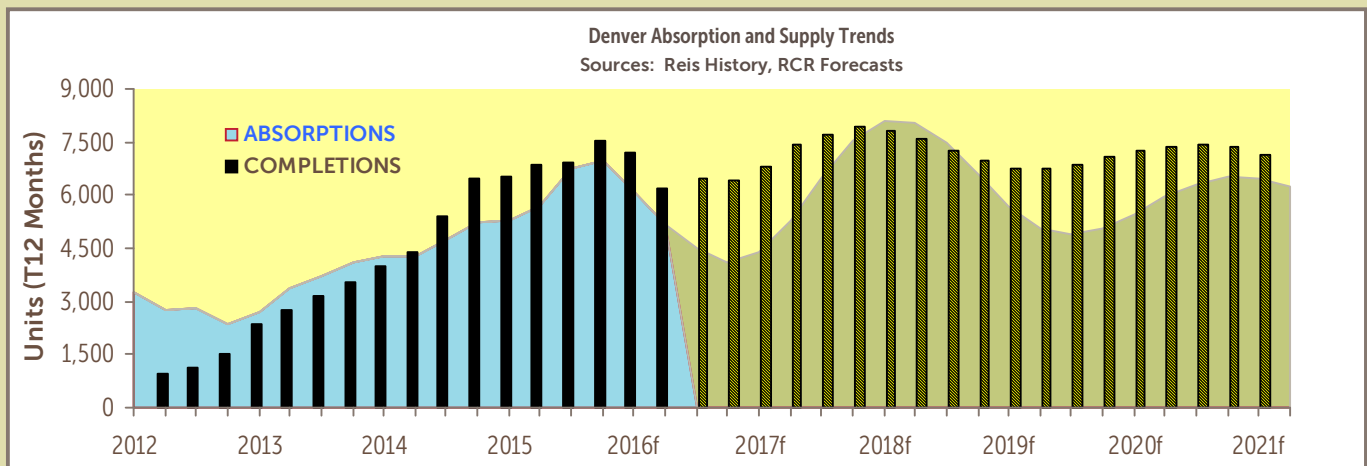
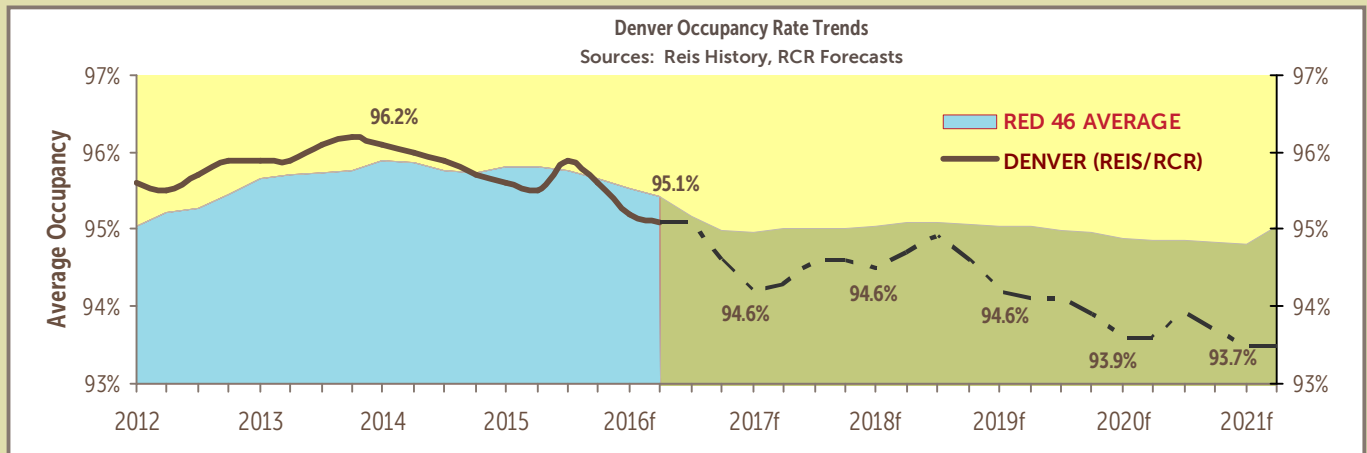
### 2Q16 PROPERTY MARKETS AND TOTAL RETURNS

Sales velocity continued at a brisk clip during the spring. Investors acquired a total of 23 properties valued at \$5 million or more for proceeds of more than \$1.1 billion. Nevertheless, activity fell sharply from the record first quarter wherein a total of 45 properties exchanged hands for \$2.8bn proceeds. The average price per unit was \$223,323 in 2Q, up from 1Q's \$212,177 metric. Preliminary 3Q16 data suggest further velocity deceleration as only 15 assets were closed for \$680mm through mid-September.

Contra most high-cost markets buyers focused largely on recent construction urban infill properties. Cap rates for class-B+ or better infill assets remained in the low- to mid-

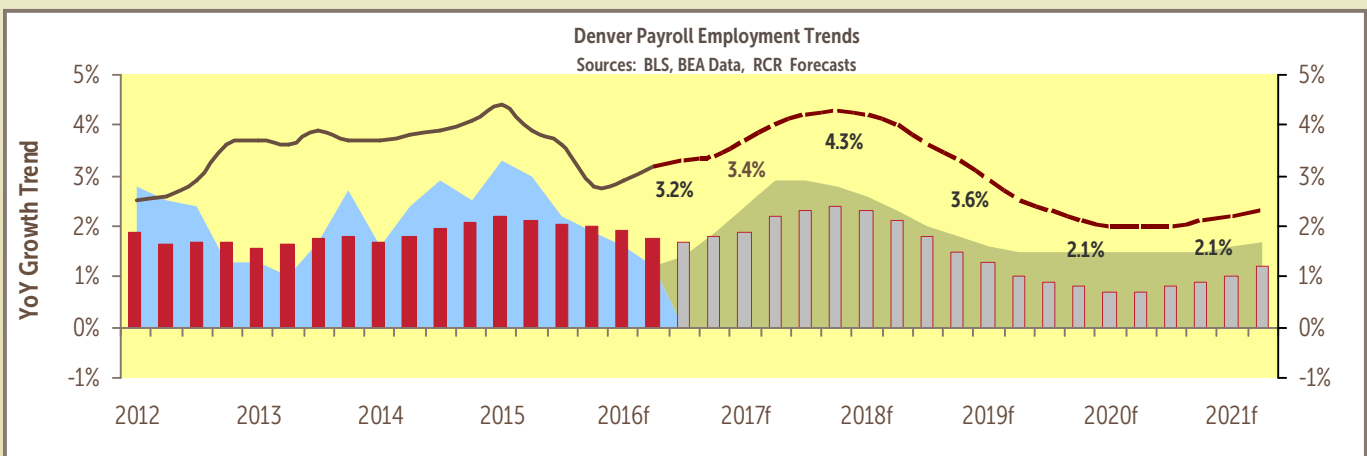
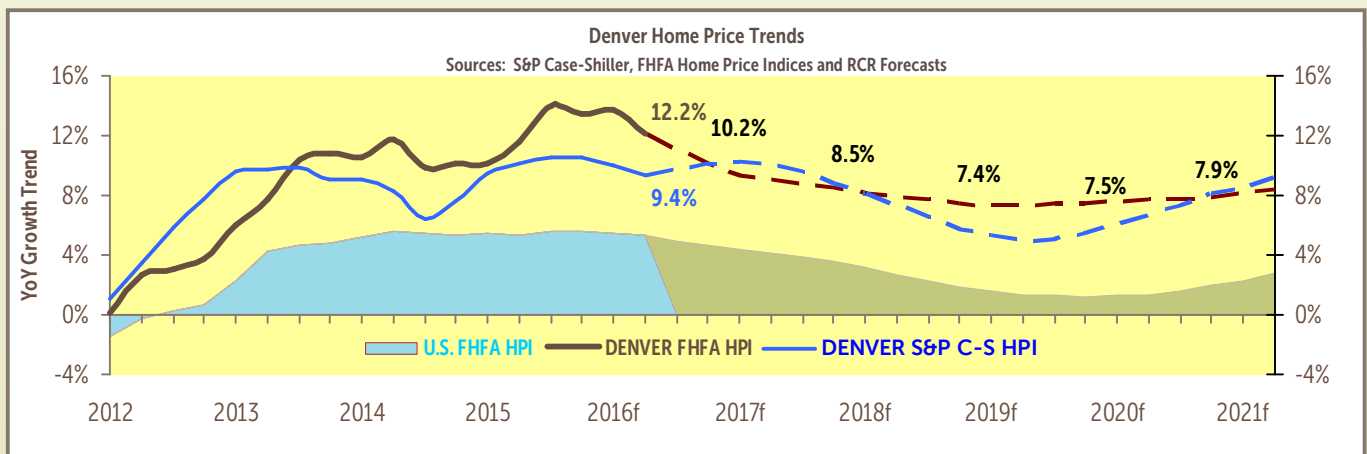
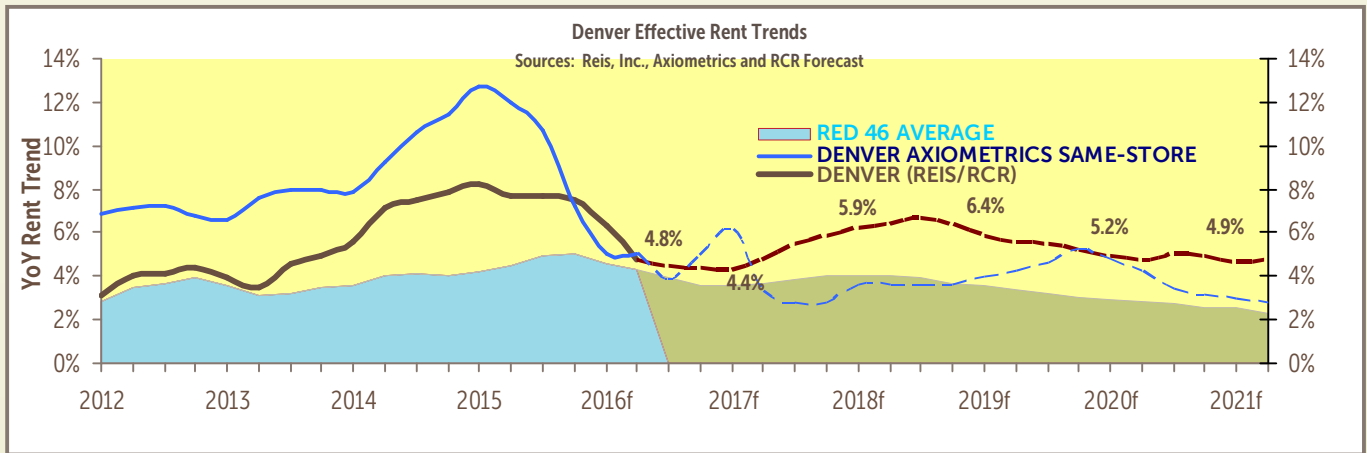
4% region with some investors willing to purchase lower-occupancy properties at yields in the 2.5%-to-3.5% range. 1980s vintage value-adds exchanged hands in the mid-5% area and class-Cs traded from 5.75% to 6.5% yields.

Using a 4.75% purchase cap rate proxy; 5.9% terminal cap rate; and model derived occupancy and rent point estimates, we calculate that an investor would expect to earn a 8.2% unlevered total annual return on a five-year hold. This ranks 3<sup>rd</sup> highest among the RED 46, but is down from 8.4% and 1<sup>st</sup> in 1Q16. The risk-adjusted index also is down moderately, dipping to 19<sup>th</sup> rank among the peer group from 9<sup>th</sup> in our first quarter run.



## NOTABLE TRANSACTIONS

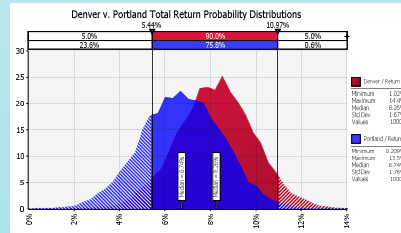
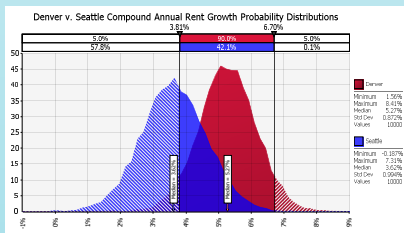
Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
Highland Park Apts. (Downtown / Highland)	B+ / SR MR (2012)	29-Jun-2016	\$40.3	\$322,000	4.25%
TwentyOne 01 Mrkt (Downtown / Five Points)	B+/MB MR (27/08)	11-Jul-2016	\$81.9	\$364,111	4.1%
Diamond @ Prospect (Downtown / Five Points)	B / RC LR (2005)	13-Jul-2016	\$20.5	\$146,429	4.6% (FNM)
Waterfront Apt. Homes (Lakewood-South)	B- / LR (1978)	1-Aug-2016	\$92.3	\$151,727	6.5%
Bell at Summit (Broomfield / Mid-Cities)	A- / SR LR (2004)	8-Aug-2016	\$116.3	\$232,600	4.6%
Westlink @ Oak Station (Lakewood-North)	B+ / WF LR (2015)	9-Sep-2016	\$63.1	\$258,402	4.6% / 5.3% p.f.



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## SUBMARKET TRENDS (REIS)

Submarket	Inventory % Change	Effective Rent			Physical Vacancy		
		2Q15	2Q16	Change	2Q15	2Q16	Change
Arapahoe County	3.1%	\$1,249	\$1,290	3.3%	10.0%	6.4%	-360 bps
Arvada / Broomfield	2.4%	\$980	\$1,050	7.1%	6.4%	6.2%	-20 bps
Aurora-Central-SE	-0.5%	\$870	\$934	7.4%	3.3%	2.8%	-50 bps
Aurora-Central-SW	0.0%	\$844	\$869	2.9%	5.4%	5.3%	-10 bps
Aurora-North	0.0%	\$795	\$837	5.3%	2.3%	2.3%	0 bps
Aurora-South	3.7%	\$1,127	\$1,185	5.2%	4.1%	5.9%	180 bps
Denver-Central	6.3%	\$1,034	\$1,170	13.1%	5.9%	9.1%	320 bps
Denver-Downtown	-0.1%	\$1,202	\$1,215	1.1%	8.7%	1.7%	-700 bps
Denver-Far Southeast	0.0%	\$870	\$902	3.7%	4.4%	3.6%	-80 bps
Denver-North	19.9%	\$1,572	\$1,643	4.5%	17.1%	10.1%	-700 bps
Denver-Northeast	0.0%	\$1,026	\$1,061	3.4%	5.9%	4.8%	-110 bps
Denver-South	17.4%	\$870	\$920	5.7%	7.2%	7.8%	60 bps
Denver-Southeast	2.6%	\$863	\$927	7.4%	1.4%	3.1%	170 bps
Douglas County	4.9%	\$1,165	\$1,212	4.1%	2.8%	4.3%	150 bps
Englewood / Sheridan	6.4%	\$811	\$859	6.0%	2.6%	5.2%	260 bps
Golden / Wheat Ridge	14.5%	\$956	\$1,024	7.1%	2.9%	8.6%	570 bps
Lakewood-North	5.0%	\$924	\$980	6.0%	3.3%	3.7%	40 bps
Lakewood-South	3.0%	\$1,076	\$1,108	3.0%	2.1%	2.8%	70 bps
Littleton	5.2%	\$978	\$1,087	11.1%	3.3%	5.7%	240 bps
North Glenn / Thornton	0.0%	\$919	\$1,039	13.0%	5.8%	5.2%	-60 bps
Westminster	-2.4%	\$948	\$1,039	9.5%	6.8%	2.2%	-460 bps
<b>Metro</b>	<b>3.3%</b>	<b>\$1,023</b>	<b>\$1,072</b>	<b>4.8%</b>	<b>4.5%</b>	<b>4.9%</b>	<b>40 bps</b>



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