

### PAYROLL JOB SUMMARY

Average Payrolls	1,134.0m
Annual Change	28.4m (2.6%)
RCR 2016 Forecast	27.2m (2.5%)
RCR 2017 Forecast	36.2m (3.2%)
RCR 2018 Forecast	35.2m (3.0%)
RCR 2019 Forecast	22.2m (1.8%)
RCR 2020 Forecast	18.8m (1.5%)
Unemployment (NSA)	4.9% (Aug.)

### 2Q16 PAYROLL TRENDS AND FORECAST

Charlotte employment growth was steady during the second quarter, holding at a 2.6% year-on-year pace. Metro headcounts increased at a 28,400-job rate, slightly faster than 1Q's 27,700-job performance. Preliminary 3Q16 results were moderately weaker, showing a 24,900-job, 2.3% advance, slowest in four years. Business service establishments were most responsible, hiring workers at a 22% slower speed than in the prior quarter. The financial and leisure service industries also recorded decelerating growth, adding workers at a 6,900-job annual rate, down from an 8,400-job pace during the second quarter.

Conversely, the principal catalysts of the Queen City labor market stayed the course. Most notably, the professional

and technical services sub-sector expanded at a brisk 6,500-job, 10.2% rate, near the expansion-cycle peak, and the transportation and warehousing industry chalked down an 11<sup>th</sup> consecutive 4% or faster y-o-y advance.

RED Research's CLT payroll model manages a 96.3% adjusted-R<sup>2</sup> (SE=0.5%) using US payroll and metro personal income (+) growth and 10-year Treasury<sub>(t-3)</sub>(+) and Baa-rated bond yields (-) as independent variables. Against a backdrop of expected stronger US GDP and employment growth rates (see pg. 3) the model projects a return to 3%+ job growth in 2017 and 2018. Weaker and potentially recessionary conditions develop afterward, lowering Charlotte job growth by half in the forecast out-years.

### OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	93.9%
RED 51 Rank	46 <sup>th</sup>
Annual Chg. (Reis)	-1.5%
RCR YE16 Forecast	93.7%
RCR YE17 Forecast	93.7%
RCR YE18 Forecast	94.5%
RCR YE19 Forecast	94.6%
RCR YE20 Forecast	94.1%

### 2Q16 ABSORPTION AND OCCUPANCY RATE TRENDS

Following weak demand during the winter quarter when tenants net leased only 30 units, Reis report that demand recovered in the spring. Renters absorbed 641 units, down from 951 during 2Q15, but near the 780-unit trailing 10-year second quarter average. But deliveries totaled 1,728 units, resulting in -90 basis point sequential and -150bps year-on-year occupancy declines to 93.9%. Preliminary 3Q16 data suggest a further -20bps quarterly loss but a significant upward revision of CLT average occupancy.

Axiometrics surveys of 406 stabilized, same-store properties found respondents were 95.4% and 95.3% occupied in 2Q and 3Q, respectively, up 30bps and down 10 bps y-o-y.

For 3Q16, class-C (96.5%) reported highest occupancy (4<sup>th</sup> consecutive quarter), followed by classes-A (95.5%) and -B (95.0%). Concord (96.8%) and Fairview (96.3%) were leaders among submarkets; Gaston County (94.7%) and Carmel (94.9) trailed. New properties leased an average of 17 units/month for a 15-month average lease-up period.

RCR specified a 93.3% ARS (SE=0.5%) demand forecasting model using inventory, home price and payroll growth and occupancy<sub>(t-3)</sub> as independent variables. The model projects absorption of 11,910 units between 3Q16 and 4Q18. Supply will be nearly identical, allowing occupancy to climb about 60bps. Occupancy decay is likely afterward.

### EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$904
Annual Change	5.7%
RED 51 Rent Change Rank	6 <sup>th</sup>
RCR YE16 Forecast	4.7%
RCR YE17 Forecast	2.7%
RCR YE18 Forecast	3.3%
RCR YE19 Forecast	3.8%
RCR YE20 Forecast	3.4%

### 2Q16 EFFECTIVE RENT TRENDS

Reis report that rent trends bounced back from a moderate \$8 (0.8%) sequential gain in 1Q16 to a robust \$13 (1.5%) increase during 2Q16. Rent growth expressed on a year-on-year comparison basis rose 5.7%, representing the 6<sup>th</sup> straight quarter of 5.6% growth or faster. Preliminary 3Q16 Reis data suggest revenues remained on a steep trajectory as asking rents advanced at a 5.9% annual pace.

Axiometrics same store results were consistent. Rents in this sample increased at 5.8% and 5.0% y-o-y rates in 2Q and 3Q16, respectively. Class-C properties led on this basis as well, posting a 5.6% 3Q16 advance. Classes-B (5.2%) and -A (3.1%) trailed. Submarket performance varied widely.

East/Central Ave. and Gaston Co. notched 9%+ y-o-y gains, while Concord, East/Albemarle and North Tyron St. topped 6%. Conversely, Downtown submarket rents lost ground (-1.4%) and West (3.2%), Northwest (3.1%) and Carmel (3.4%) rents lagged under heavy supply pressures.

RCR specified a 95.9% ARS (SE=0.6%) rent model employing occupancy (+) and the 10-year UST/Baa-rated bond spread (-) as independent variables. The model projects gradual deceleration to the mid-2% area by early 2018, followed by a resurgence to the mid- to high 3% range as apartment supply diminishes and the rapid increase of term interest rates forecast for 2017-2018 moderates.

### TRADE & RETURN SUMMARY

\$5mm+ / 80-unit+ Sales	21
Approximate Proceeds	\$588.8mm
Average Cap Rate (FNM)	5.5%
Average Price / Unit	\$109,971
Expected Total Return	6.1%
RED 47 ETR Rank	32 <sup>nd</sup>
Risk-adjusted Index	2.97
RED 47 RAI Rank	38 <sup>th</sup>

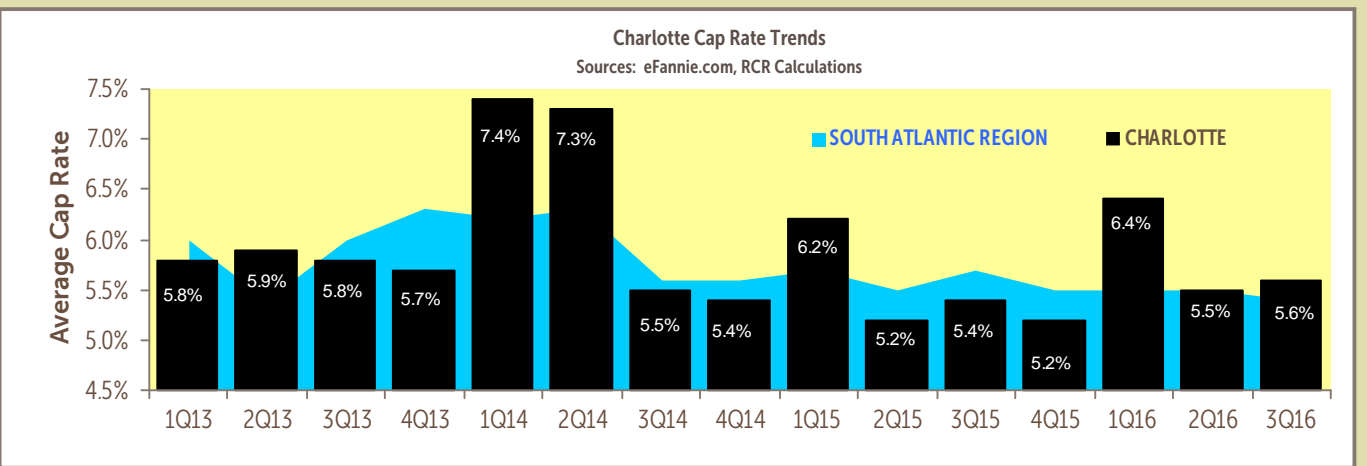
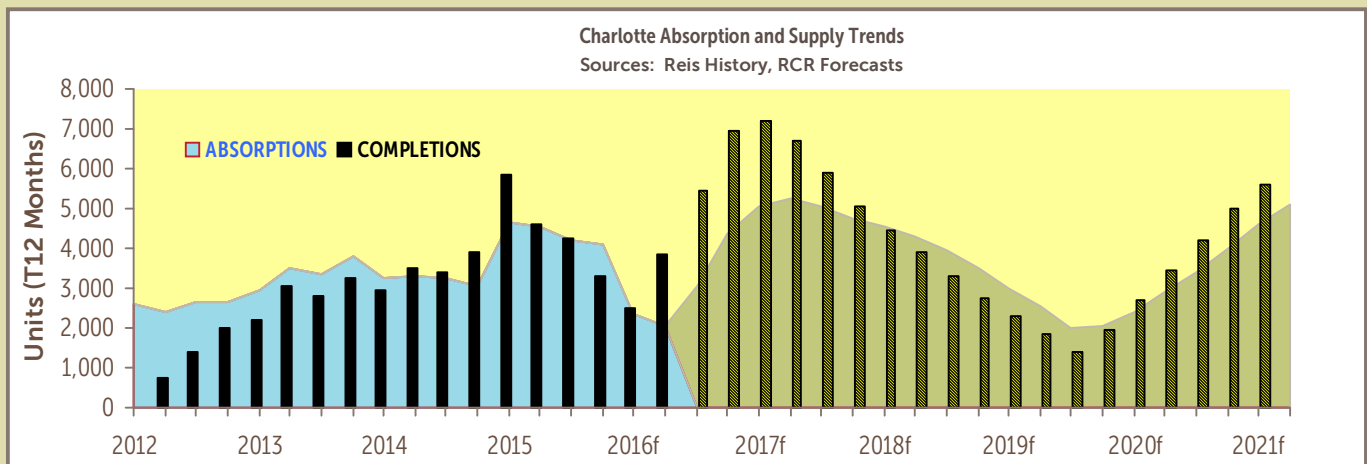
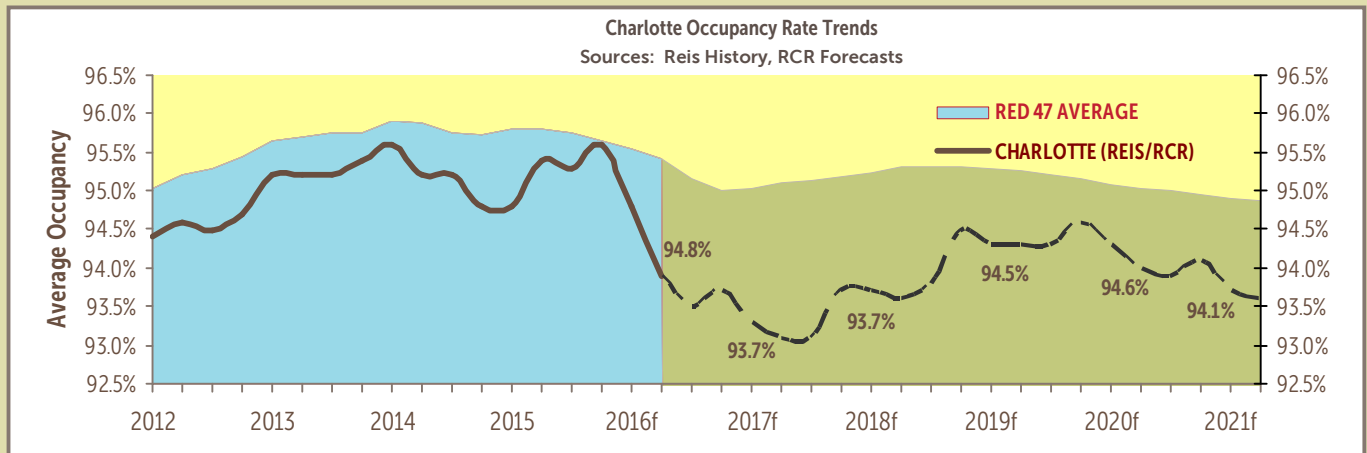
### 2Q16 PROPERTY MARKETS AND TOTAL RETURNS

Slower sales were recorded during the second quarter but only by comparison to 1Q16's series record 27 transactions valued at \$5 million or more and gross sale proceeds of \$753mm. Twenty-one larger properties exchanged hands in 2Q for \$588.8mm, the second most active quarter in Charlotte history on both counts. The average price per unit sold was \$109,971, up about 5% from 1Q16. Investors concentrated on 80s and 90s value-add properties during both quarters. Third quarter sales activity also was robust as investors acquired 18 properties for \$435mm.

Cap rates for recent construction class-A-/B+ assets ranged from 4.8% to 5.2%. Class-B/B- value adds traded

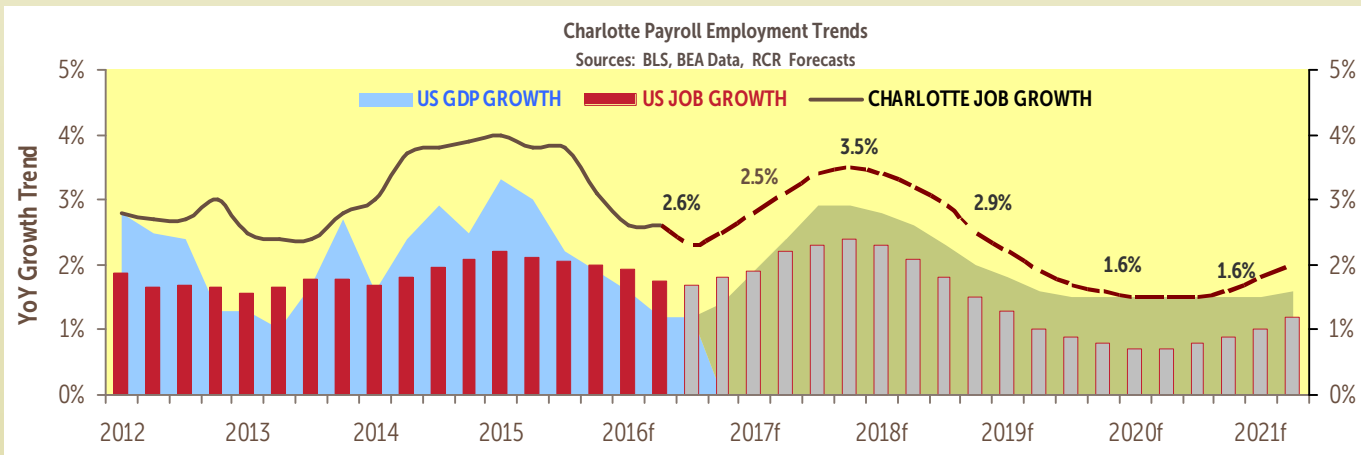
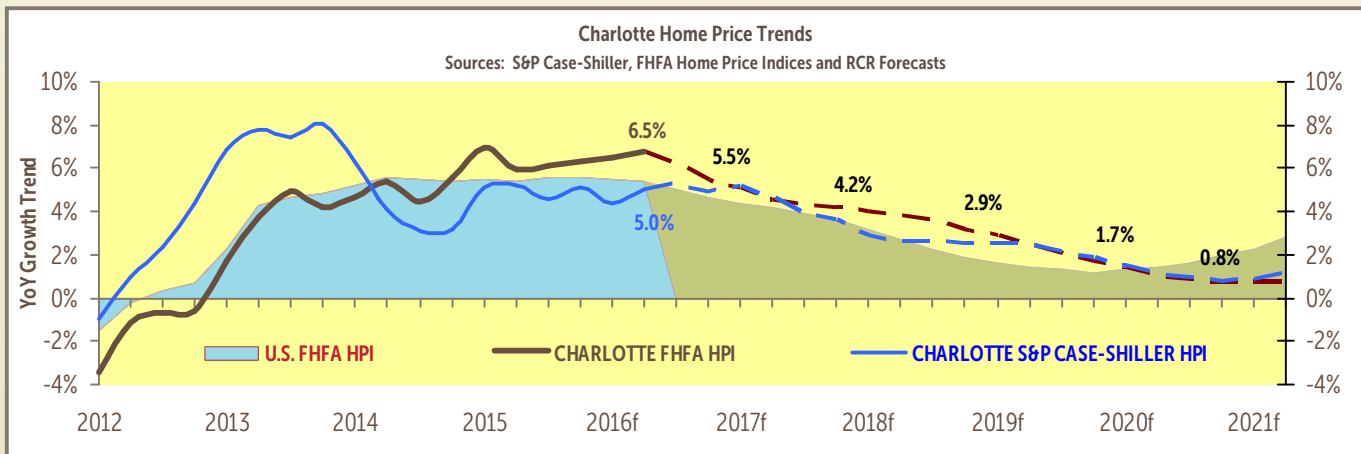
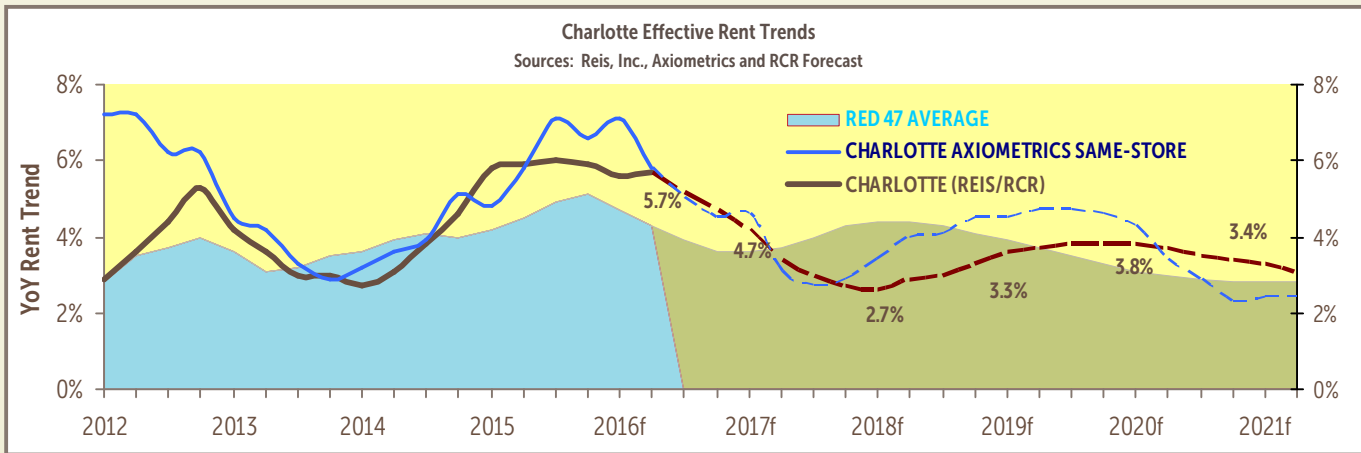
from 5% to 6%. Class-B-/C assets in peripheral locations traded within a yield range of about 6% to 6.5%.

In light of the strong bid for Charlotte properties in 1H16, RCR elected to trim 20 basis points from the 1Q16 purchase cap rate proxy to 5.4%. Using this assumption, model derived rent and occupancy point estimates and a terminal cap rate of 6.7%, we estimate an investor would expect to earn an unlevered annual total return of 6.1%, ranking 32<sup>nd</sup> among the RED 47 peer group. Large standard errors in the rent and inventory growth models are indicative of above average volatility in this market. As a result, risk-adjusted returns are lower, ranking R47 peer group #38.



## NOTABLE TRANSACTIONS

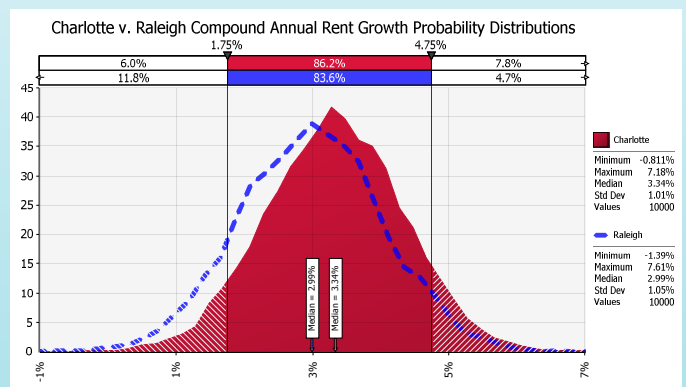
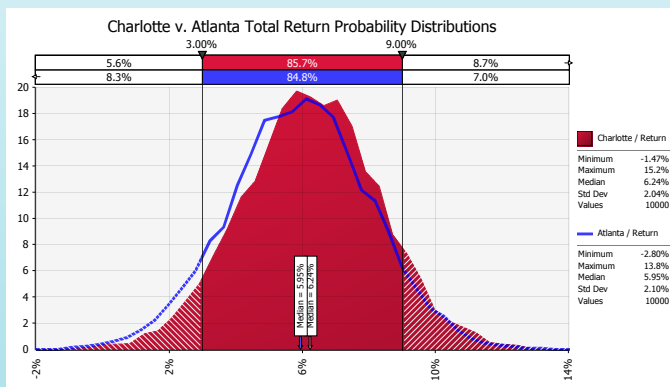
Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price (in millions)	Price / Per Unit	Estimated Cap Rate
Montclair Estates (Pineville/Montclair So.)	B- / GLR (1974)	18-Jul-2016	\$20.5	\$68,106	5.9%
Whitehall Parc (Pineville / Yorkmount)	A- / LR (2013)	5-Aug-2016	\$51.2	\$171,812	5.0%
Meadow Creek (Concord / Easy Street)	B / LR (1997)	18-Aug-2016	\$5.8	\$71,605	5.3%
Residences at West Mint (East/Elburte Downs)	B / GLR (1999)	9-Sep-2016	\$41.0	\$100,490	5.0%
Village of Brierfield (Harris Blvd)	C / GLR (2002)	7-Oct-2016	\$12.1	\$65,038	6.0%
5115 Park Place (Fairview North/Southpark)	A-/WF MR (2016)	16-Oct-2016	\$59.3	\$217,033	0.5%/5.3% p.f.



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## SUBMARKET TRENDS (REIS)

Submarket	Inventory % Change	Effective Rent			Physical Vacancy		
		2Q15	2Q16	Change	2Q15	2Q16	Change
Carmel	4.1%	\$946	\$1,005	6.2%	1.2%	4.1%	290 bps
Concord / North Concord	0.0%	\$752	\$764	1.6%	7.6%	7.0%	-60 bps
Downtown	23.7%	\$1,320	\$1,408	6.7%	9.7%	17.9%	820 bps
East / Albemarle	0.1%	\$680	\$717	5.5%	2.3%	2.3%	0 bps
East / Central Avenue	8.7%	\$761	\$844	10.9%	4.3%	10.0%	570 bps
Fairview North	2.7%	\$948	\$992	4.6%	7.9%	10.3%	240 bps
Gaston County	2.9%	\$725	\$746	2.9%	7.5%	7.9%	40 bps
Harris Blvd / Mallard Creek	0.0%	\$872	\$911	4.6%	5.4%	5.1%	-30 bps
North Tryon Street	0.0%	\$650	\$678	4.2%	5.8%	5.0%	-80 bps
North Pineville	0.0%	\$809	\$838	3.6%	3.7%	3.5%	-20 bps
Northwest Charlotte	4.1%	\$974	\$1,057	8.5%	8.8%	7.6%	-120 bps
West Charlotte / Airport	7.8%	\$964	\$1,093	13.4%	8.1%	4.4%	-370 bps
<b>Metro</b>	<b>3.5%</b>	<b>\$855</b>	<b>\$904</b>	<b>5.7%</b>	<b>4.6%</b>	<b>6.1%</b>	<b>150 bps</b>



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

