

### PAYROLL JOB SUMMARY

Average Payrolls	1,064.1m
Annual Change	12.8m (1.2%)
RCR 2016 Forecast	14.6m (1.4%)
RCR 2017 Forecast	20.2m (1.3%)
RCR 2018 Forecast	14.1m (1.3%)
RCR 2019 Forecast	2.2m (0.2%)
RCR 2020 Forecast	-1.4m (-0.1%)
Unemployment (NSA)	4.9% (Sep.)

### 2Q16 PAYROLL TRENDS AND FORECAST

Cleveland payroll job growth remained on even keel, growing at a 12,800-job, 1.2% year-on-year rate during the second quarter, on par with 1Q16's 10,300-job, 1.0% performance. Strength in the education, healthcare and leisure services sectors offset faster attrition in durable goods manufacturing and construction and recent weakness in the business services sector. Indeed, health care, accommodations and food service establishments accounted for nearly all Cleveland's 2Q16 gains, combining for growth at a 14,000-job, 5.6% y-o-y rate, up from 1Q's 11,300-job advance. Preliminary 3Q16 data indicate that job creation in these sectors accelerated to an 18,100-job pace, boosting metro growth to a solid 17,400 (1.7%) rate.

Seasonally-adjusted data were not entirely consistent. This series recorded a powerful 10,400-job net job gain during 2Q, but a weak 400-job advance over the summer.

RED Capital Research developed a 98.2% adjusted R<sup>2</sup> (SE=0.2%) forecasting model using US payroll, industrial production index, nominal GDP and home price growth and S&P500 returns as independent variables. The equation projects robust high-1% annual growth persisting through early 2018, in keeping with our optimistic baseline macro outlook (see page 3). Slower US growth is likely to ensue by 2019, causing CLE gains to weaken and possibly turn negative in the forecast interval out-years.

### OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	96.9%
RED 51 Rank	5 <sup>th</sup>
Annual Chg. (Reis)	-0.1%
RCR YE16 Forecast	96.7%
RCR YE17 Forecast	97.0%
RCR YE18 Forecast	97.1%
RCR YE19 Forecast	97.3%
RCR YE20 Forecast	97.8%

### 2Q16 ABSORPTION AND OCCUPANCY RATE TRENDS

Reis report that tenant demand faded moderately in the second quarter as tenants net leased 120 vacant units, down from 176 and 242 units during the prior and year-earlier quarters, respectively. A surfeit of new units was partially responsible as developers delivered no supply in 2Q16 and only 70 units year-to-date. Occupancy increased sequentially, rising 10 base points to 96.9%. Preliminary 3Q16 data indicate that occupancy was flat and suggest that no new supply was completed in the period.

est occupancy for the 6th consecutive quarter, while class-A (95.6%) placed close behind. Class-C reported a 94.7% rate. No. Royalton (98.2%) and East Cleveland (98.0%) were leaders among submarkets, followed Bedford (97.0%) and Lyndhurst (97.4%). Seven stabilized Downtown properties were 97.7% occupied: only two of these fell below 98%.

Surveys by Axiometrics of 95 stabilized same store properties recorded average occupancy of 95.8% in each of 2Q and 3Q16. For 3Q, class-B (96.1%) properties posted high-

CLE delivery and absorption pattern are random and difficult to model, but occupancy trends are exceptionally stable. Our models project absorption of 2,275 units and supply of 1,603 units from 3Q16 through 4Q18. Occupancy should rise about 20bps as a result, with larger gains possible in the out-years as supply volumes diminish.

### EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$797
Annual Change	1.9%
RED 51 Rent Change Rank	50 <sup>th</sup>
RCR YE16 Forecast	1.0%
RCR YE17 Forecast	1.4%
RCR YE18 Forecast	1.6%
RCR YE19 Forecast	1.4%
RCR YE20 Forecast	1.9%

### 2Q16 EFFECTIVE RENT TRENDS

Reis data indicate that Cleveland rents inched higher in 2Q16, rising \$5 (0.6%) sequentially to \$797, representing the fourth consecutive quarter of 0.6% growth or less. Year-on-year comparisons were up only 1.9%, the slowest rent growth observed among the RED 51 peer group save Norfolk. Preliminary 3Q16 data suggest an upward surge as asking rents rose 1.1% sequentially, most since 1Q15.

spectively. The "C" segment notched a 3.5% advance. Submarket performance was diffuse as North Olmsted (8.1%) and Loraine (6.2%) posted strong y-o-y trends, while Bedford, East Side, Euclid, Lakewood and Lyndhurst were in the hole. Downtown rents were among the softest.

Same-store, stabilized property surveys by Axiometrics found year-on-year gains of 2.9% and 1.8% in 2Q and 3Q15, respectively. Third quarter sequential trends were slightly negative, a counter-seasonal event. Classes A and B were the weakest links, rising only 1.6% and 1.5%, re-

RCR's rent model reaches a 91.9% ARS (SE=0.4%) using US personal income and home price growth and metro absorption<sub>(t-2)</sub> and inventory growth<sub>(t-5)</sub> as independent variables. The model projects flat rents through the winter, with slow growth returning next spring. Gains will peak near 2% in mid-2018, followed by slow, steady progress for the duration of the forecast interval in the 1.5% to 2.0% range.

### TRADE & RETURN SUMMARY

\$3mm+ / 60-unit+ Sales	2
Approximate Proceeds	\$9.1mm
Average Cap Rate (FNM)	6.6%
Average Price / Unit	\$43,429
Expected Total Return	6.2%
RED 47 ETR Rank	28 <sup>th</sup>
Risk-adjusted Index	8.33
RED 47 RAI Rank	2 <sup>nd</sup>

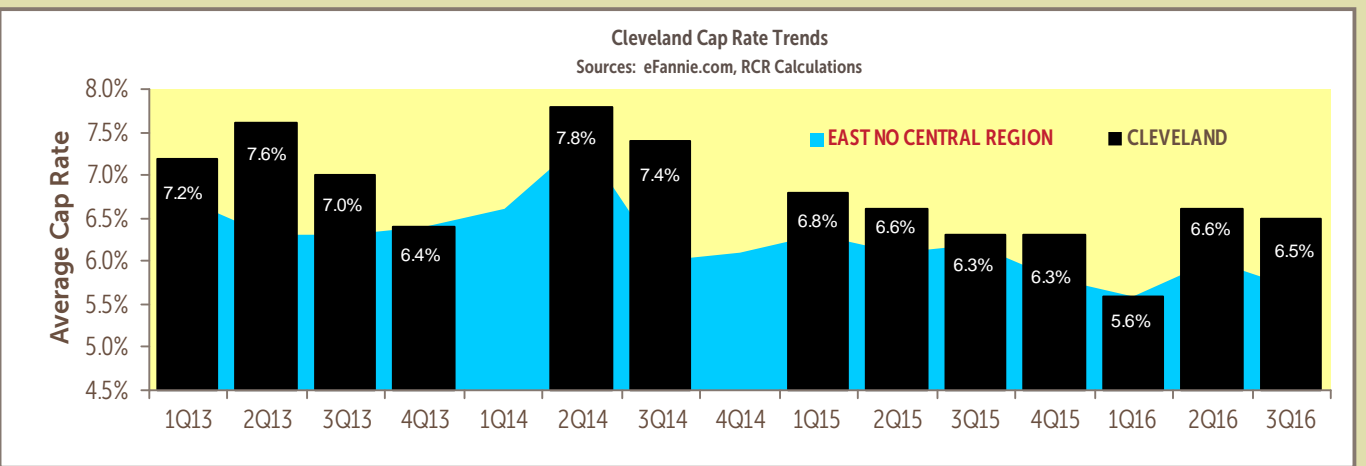
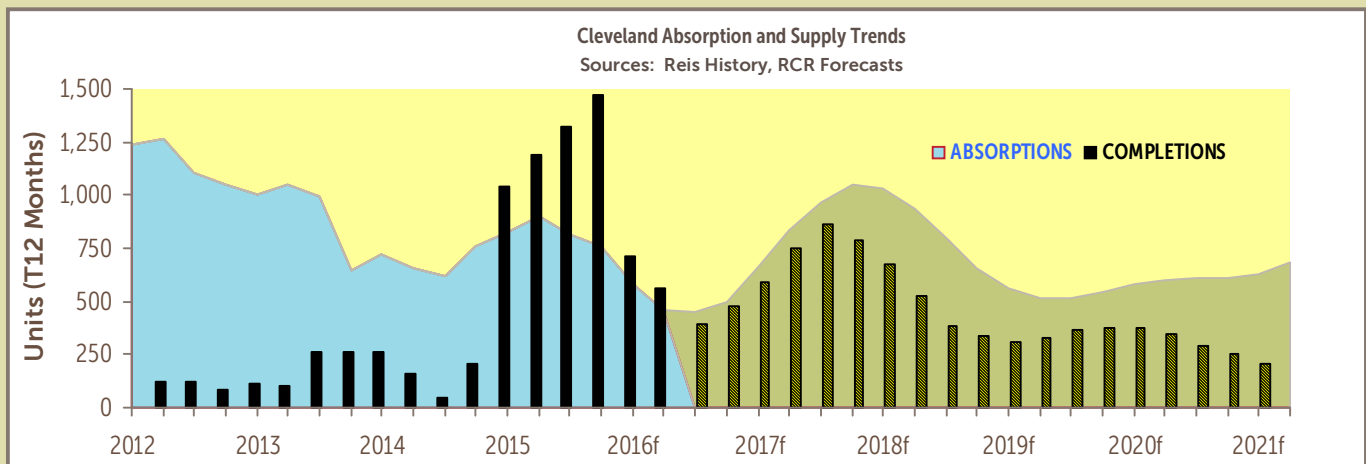
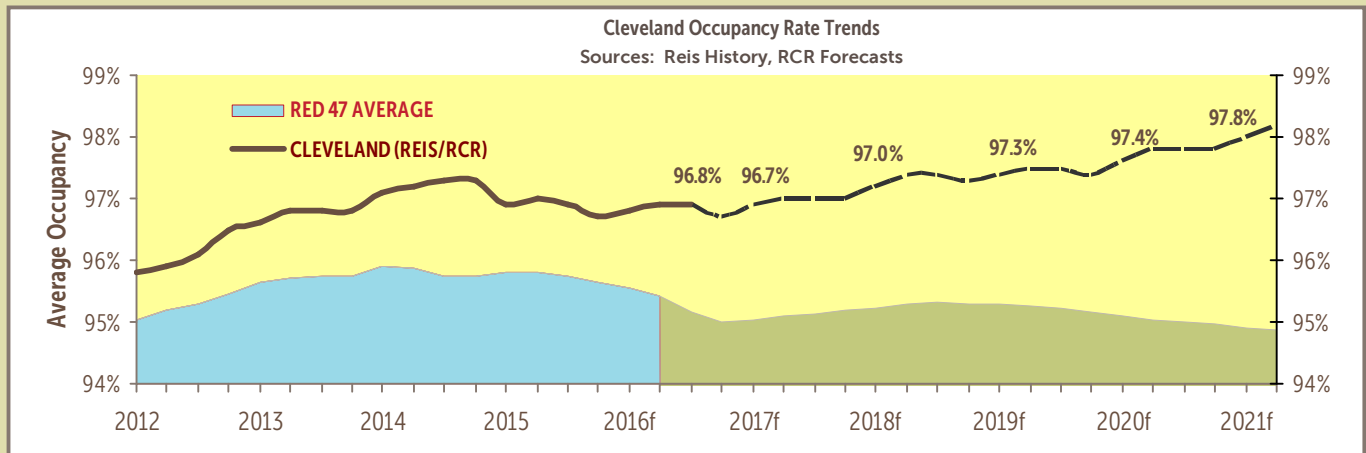
### 2Q16 PROPERTY MARKETS AND TOTAL RETURNS

Property sales velocity continued on a low note during the second quarter as only two transactions of assets valued at \$3 million or more were recorded for total proceeds of \$9.1 million. This follows a winter quarter in which no transactions were consummated.

Cap rate levels remain somewhat opaque due to thin trade. The Vue transaction establishes a rough 5.75% baseline for stabilized recent construction trophies. Class-B properties trade in the 6%-7% region; class-C's fall in a 7%-10% range

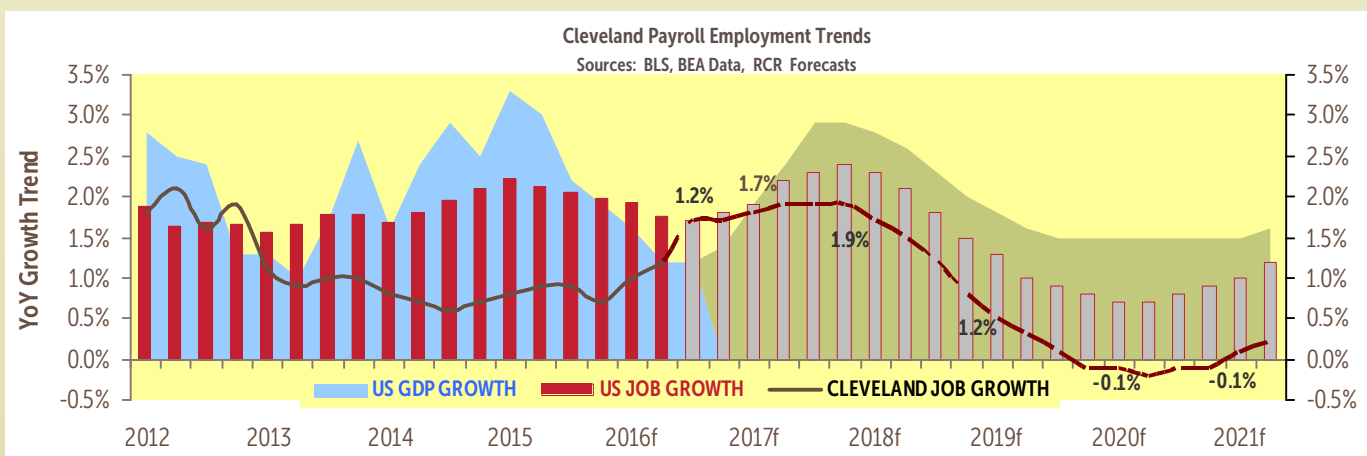
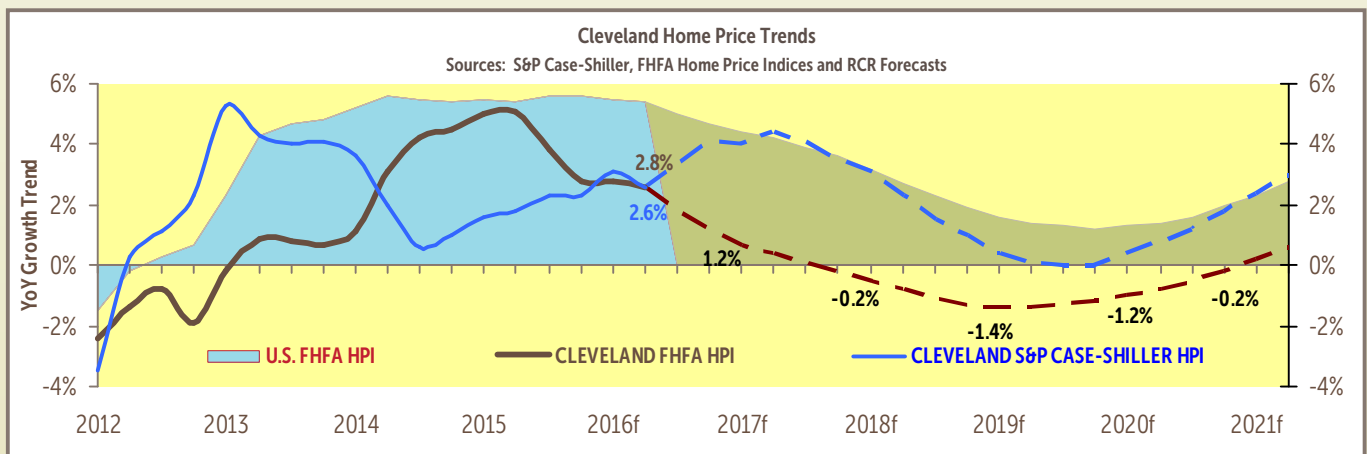
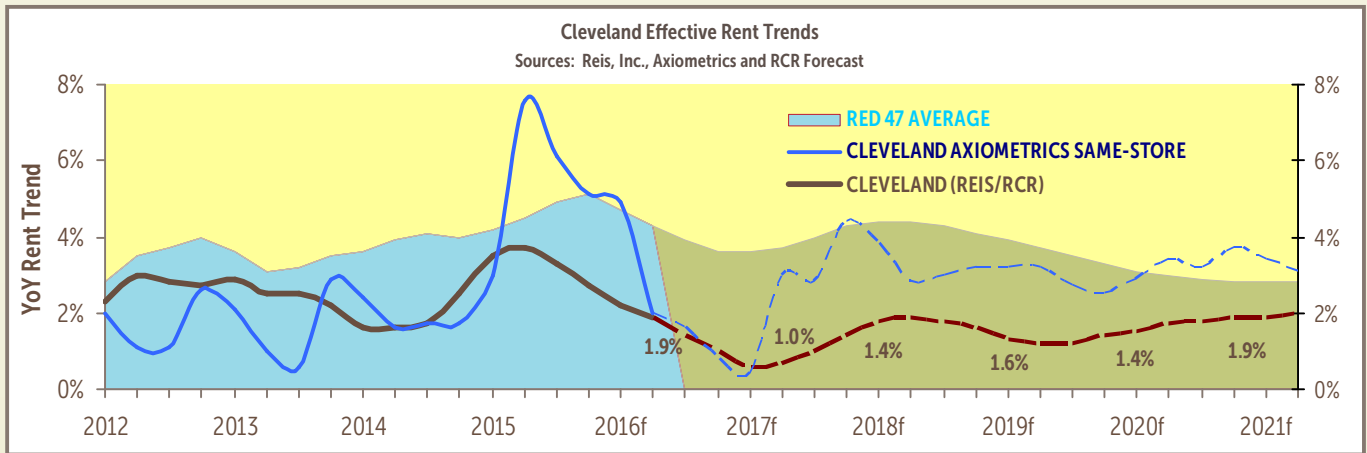
Sluggish trade remained the order of the day in 3Q16 as only two properties exchanged hands during the summer. Proceeds were sharply higher (\$91.5mm), however, due to inclusion of an \$85.3mm August acquisition of a class-A-masonry brick complex located in Beachwood. The price was a record high for a Cleveland multifamily property.

Recent trade suggests that CLE cap rates drifted lower in 2016. RCR conclude that a 6.75% purchase cap rate is an appropriate proxy, down from 7.1%. Using this level, an 8.2% terminal cap and model derived rent and vacancy point estimates we calculate that an investor would expect to earn a 6.2% annual 5-year, unlevered total return, ranking #28 among the RED 47. Model error and volatility are low, boosting the risk-adjusted index to RED 47 #2.



## NOTABLE TRANSACTIONS

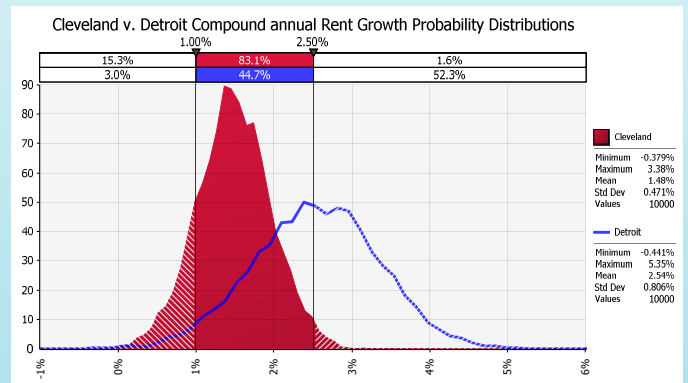
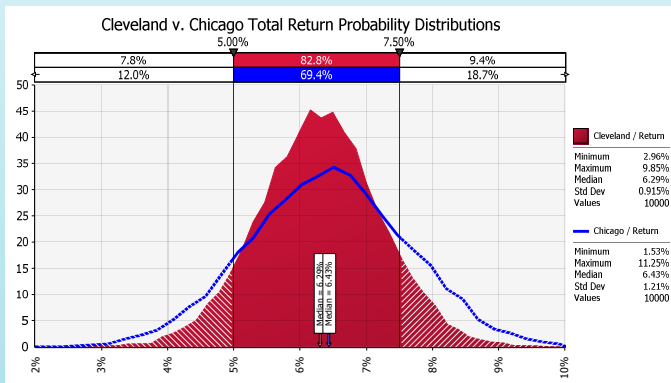
Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price (in millions)	Price / Per Unit	Estimated Cap Rate
Triumph Tower (Euclid/Euclid Avenue)	B-/MB MR (1969/2015)	31-May-2016	\$4.4	\$34,682	7.5%
Big Sky Park (Medina Co./Wadsworth)	B / GLR (1998)	29-Jul-2016	\$6.2	\$74,166	6.0%
The Vue (Beachwood / Highland Hills / Canterbury)	A- / MB MR (2015)	1-Sep-2016	\$85.3	\$245,000	6.0%
Garfield Villa (Bedford / Garfield Heights)	C / MB LR (1987)	8-Sep-2016	\$2.9	\$25,446	10.1%
Willo Park Apartments (West Lake Co. / Willoughby)	B- / MB LR (1957)	8-Sep-2016	\$2.9	\$36,750	6.0%



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## SUBMARKET TRENDS (REIS)

Submarket	Inventory % Change	Effective Rent			Physical Vacancy		
		2Q15	2Q16	Change	2Q15	2Q16	Change
Bay Village	0.0%	\$899	\$900	0.1%	4.0%	3.7%	-30 bps
Beachwood	0.0%	\$1,195	\$1,203	0.6%	7.4%	7.3%	-10 bps
Bedford / Garfield Heights	0.0%	\$628	\$633	0.8%	3.0%	2.8%	-20 bps
Downtown / The Flats	1.4%	\$1,268	\$1,300	2.5%	6.5%	6.8%	30 bps
East Cleveland	0.0%	\$762	\$762	0.0%	4.4%	4.2%	-20 bps
Euclid / West Lake County	0.0%	\$680	\$680	0.0%	3.6%	3.5%	-10 bps
Lake County	0.0%	\$817	\$829	1.6%	1.1%	0.9%	-20 bps
Lakewood / Brooklyn	0.0%	\$673	\$673	0.0%	2.4%	2.5%	10 bps
Lyndhurst / Mayfield	0.0%	\$809	\$812	0.4%	3.2%	3.0%	-20 bps
North Olmsted	0.0%	\$731	\$733	0.3%	1.1%	1.2%	10 bps
North Royalton / Brecksville	0.0%	\$715	\$723	1.0%	1.8%	1.6%	-20 bps
Parma / Independence	0.0%	\$754	\$758	0.5%	1.2%	1.2%	0 bps
Strongsville / Berea	0.0%	\$701	\$709	1.1%	2.3%	2.1%	-20 bps
Metro	0.0%	\$784	\$792	1.0%	3.1%	3.3%	20 bps



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