COLUMBUS, OHIO

MARKET OVERVIEW & MULTIFAMILY HOUSING UPDATE

RED Capital Group | 2Q16 | OCTOBER 2016

PAYROLL JOB SUMMARY

Average Payrolls	1,059.2m
Annual Change	20.1m (1.9%)
RCR 2016 Forecast	21.7m (2.1%)
RCR 2017 Forecast	26.4m (2.5%)
RCR 2018 Forecast	25.7m (2.4%)
RCR 2019 Forecast	16.5m (1.5%)
RCR 2020 Forecast	14.5m (1.3%)
Unemployment (NSA)	3.9.% (Aug.)

2Q16 PAYROLL TRENDS AND FORECAST

Columbus job growth decelerated during the spring after several years of strong and consistent expansion. Expressed on a year-on-year comparison basis, metro hiring declined from 1Q16's 23,200-job, 2.1% pace to a 20,100-job, 1.9% rate. Goods producing sectors were effected to the greatest degree as construction, manufacturing and wholesale trade hiring slowed to a 2,900 (2.0%) job y-o-y rate following 1Q16's strong 5,600-job increase. Retail trade, education services and finance also exhibited signs of weakness. Only business, professional and leisure services evinced stronger, robust expansion.

The seasonally-adjusted payroll series amplified the change in tone. These data indicate that Columbus experienced net job cuts in each month of 2Q16, totaling 6,300. This was the negative quarter since 2009 and a dramatic reversal from the prior and year-ago quarters. Conversely. July and August results were encouraging as the BLS recorded net formation of 10,300 jobs during the period.

RED Research's Columbus payroll model achieves a 96.6% adjusted-R^2 (SE=0.3%) using US payroll (+) and home price growth and 10-year Treasury and Baa-rated bond yields as independent variables. The model projects faster growth in 2017 and 2018, in keeping with our optimistic macroeconomic forecast. On the other hand, weaker gains are anticipated late in the decade when the now seven-year old US expansion approaches its sell-by date.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	94.9%
RED 51 Rank	37th
Annual Chg. (Reis)	-0.3%
RCR YE16 Forecast	94.3%
RCR YE17 Forecast	94.6%
RCR YE18 Forecast	94.6%
RCR YE19 Forecast	94.2%
RCR YE20 Forecast	93.8%

2Q16 ABSORPTION AND OCCUPANCY RATE TRENDS

Reis report that tenants absorbed a net of 683 vacant units during the second quarter, down from 1,333 during the year-earlier period but on par with the trailing 10-year second quarter average (664). Developers completed 776 units, causing metro occupancy to decline less than 0.5% sequentially to 94.91%. Preliminary Reis data indicate that occupancy was virtually unchanged in 3Q16 as well.

Axiometrics surveys of 302 stabilized same store properties found average occupancy of 95.2% and 94.9% in 2Q16 and 3Q16, respectively. When new properties in lease-up are included 3Q occupancy was 94.7%. By class, "A" properties reported highest occupancy (95.6%) for the 6th consecutive quarter, followed by classes-B (95.4%) and –C (92.9%). Among submarkets, Grove City and Northeast (96.6%) posted highest occupancy, Upper Arlington (92.8%) and Southeast (91.9%) lowest. The OSU/Downtown, inventory grew by leaps and bounds but same-store occupancy was 95.6%, while all submarket properties stood on 96.4%.

Statistically, job growth is the strongest driver of COL absorption rates. As the outlook for employment growth is constructive space demand should be as well. Although supply will overbalance absorption for the next three or four quarters, metro occupancy should recover lost ground and stabilize in the mid-94% area through 2019.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	$778
Annual Change	4.0%
RED 51 Rent Change Rank	23Th
RCR YE16 Forecast	3.4%
RCR YE17 Forecast	3.1%
RCR YE18 Forecast	3.2%
RCR YE19 Forecast	2.4%
RCR YE20 Forecast	2.3%

2Q16 EFFECTIVE RENT TRENDS

Metro rent growth trends were steady in the spring as effective rents increased $7 (0.9%) sequentially, replicating the year earlier quarter performance. Expressed on a year-on-year basis, rents increased 4.0%, comparing favorably to 3.9% and 3.3% metrics posted in the prior and year-ago quarters, respectively. Preliminary Reis data indicate rents increased by approximately 1% again during 3Q16.

Surveys by Axiometrics of stabilized, same-store properties recorded comparable results, reporting 4.0% and 3.6% y-o-y gains in 2Q16 and 3Q16, respectively. Class-C (3.9%) properties enjoyed the fastest 3Q growth, supplanting leader class-B (3.5%). Class-A assets (3.4%) trailed but recorded the largest increase in three years. South of I-70 submarkets chalked down impressive gains, led by Southeast (9.2%), Grove City (6.1%) and Groveport (5.2%). North of I-70 suburbs, by contrast, lagged: Dublin (-0.7%), Hilliard (1.7%) and Upper Arlington (1.1%) reported weaker results. OSU/Downtown (2.4%) decelerated from a 4.0% advance.

RCR's COL rent model uses metro payroll growth (+) and home appreciation rates$_{(t-2)}$ (-) and US average rents$_{(t-1)}$ (+) as independent variables to reach a 93.7% ARS (SE=0.4%). The model projects 3% or faster rent trends through 2018, before slower job and national apartment rent growth and stable metro home prices shift gains down to the mid-2s.

TRADE & RETURN SUMMARY

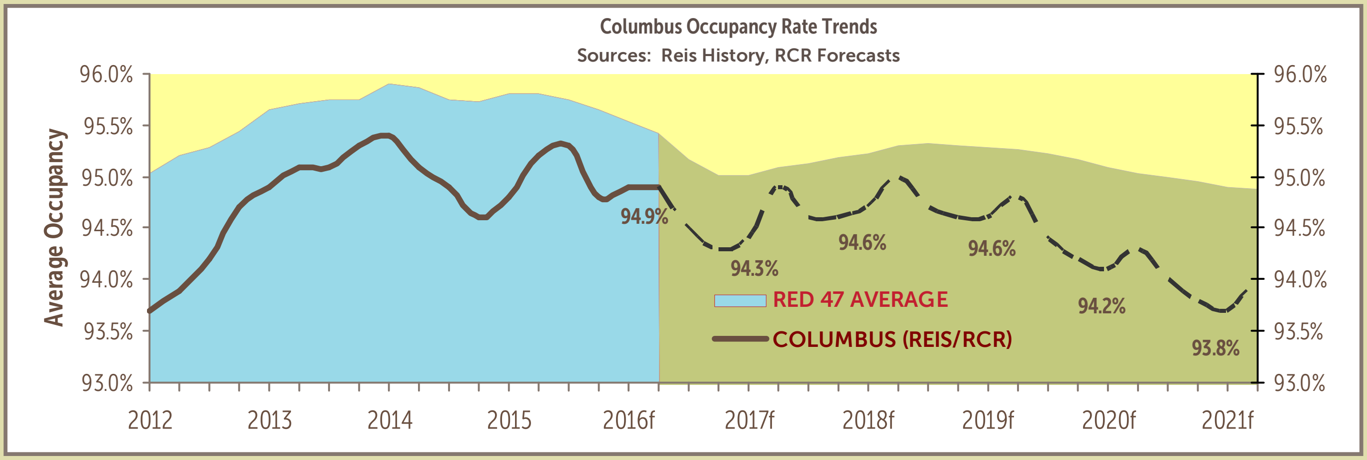
$3mm+ / 80-unit+ Sales	2
Approximate Proceeds	$8.9mm
Average Cap Rate (FNM)	5.8%
Average Price / Unit	$32,895
Expected Total Return	6.8%
RED 47 ETR Rank	15th
Risk-adjusted Index	7.65
RED 46 RAI Rank	5th

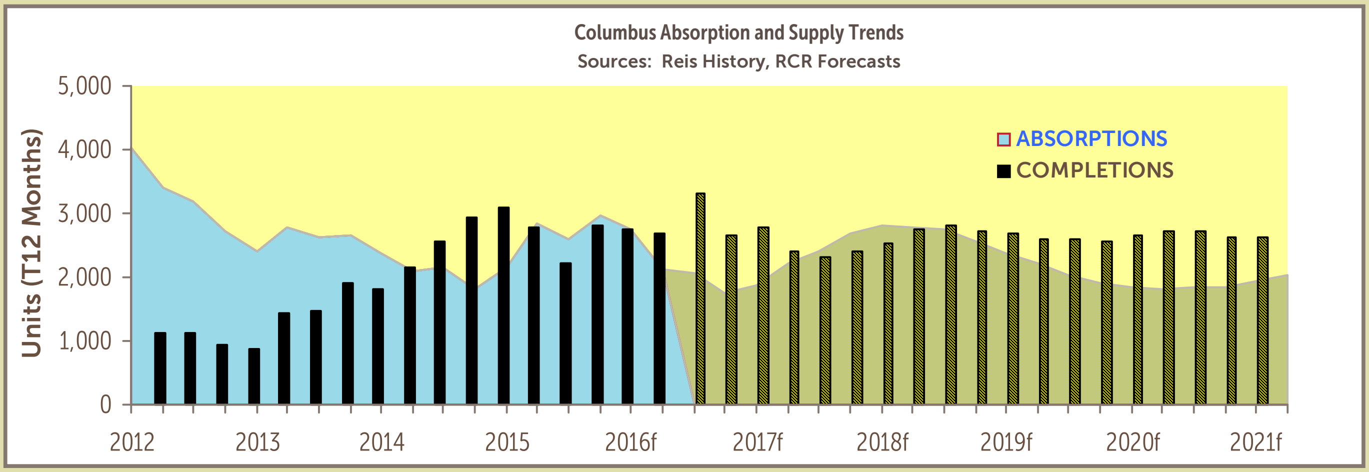
2Q16 PROPERTY MARKETS AND TOTAL RETURNS

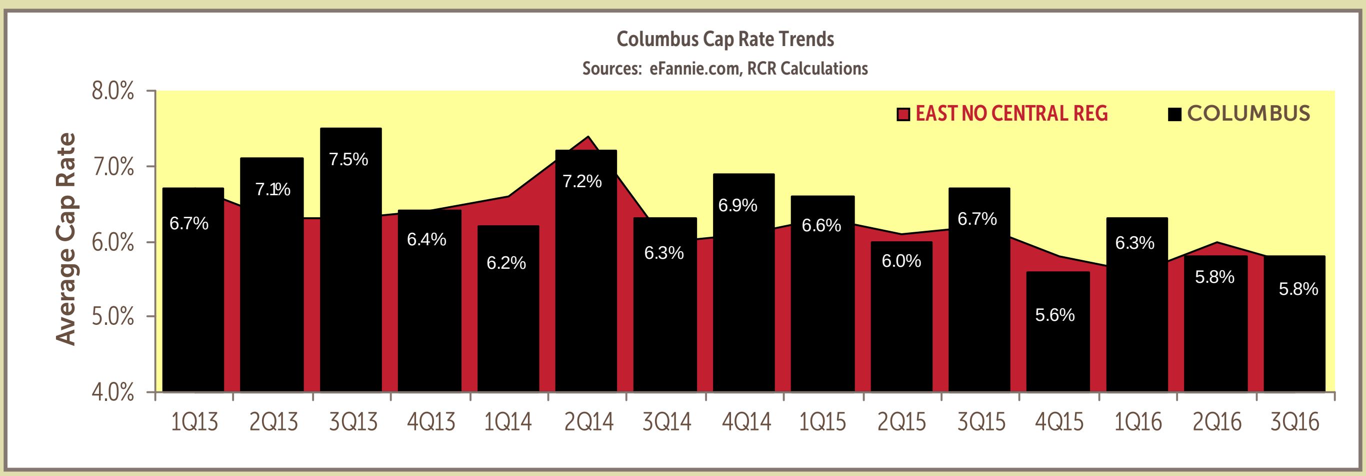
Following an active first quarter when investors acquired five apartment properties valued at a total of $132 million sales velocity slumped in 2Q16 to two transactions consisting of an aggregate of 272 units. Proceeds totaled about $9mm, representing an average value of $32,895, the lowest statistic recorded in five years. Third quarter velocity was hardly better. Buyers closed on three transactions over the summer, according to CoStar, for which a total of $16.4mm was exchanged, translating to a new single-quarter low average unit price of about $25,711.

New construction remained the preferred entry vehicle for investors. Year-to-date, 16 high-quality assets were delivered, including 14 rated A– quality or higher. Nine are located in core OSU/Downtown or Arlington submarkets.

RCR are of the mind that recent construction product would trade below 6% in most cases. As for standard B/B+ quality assets, we maintain a 6.25% cap rate proxy. Using this assumption, model derived occupancy and rent point estimates and a 7.5% terminal cap rate we estimate that a Columbus investor would expect to earn a 6.8% unlevered 5-year annual total return. This ETR ranks 15th among the RED 47. If home price appreciation is weaker than expected, rents and ETR could be higher. Low model standard errors boost risk-adjusted returns to peer group #5.

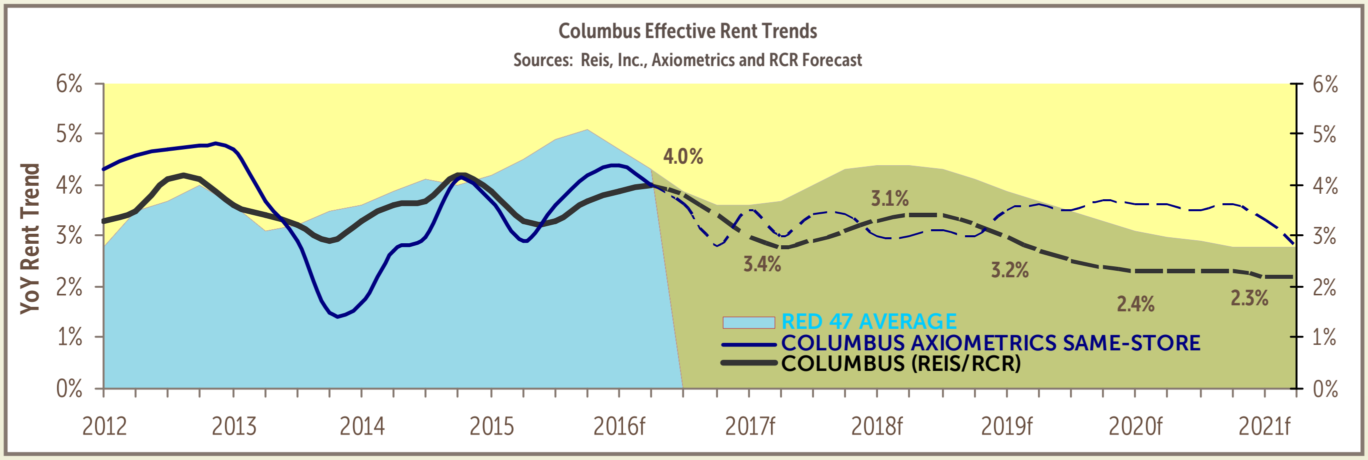


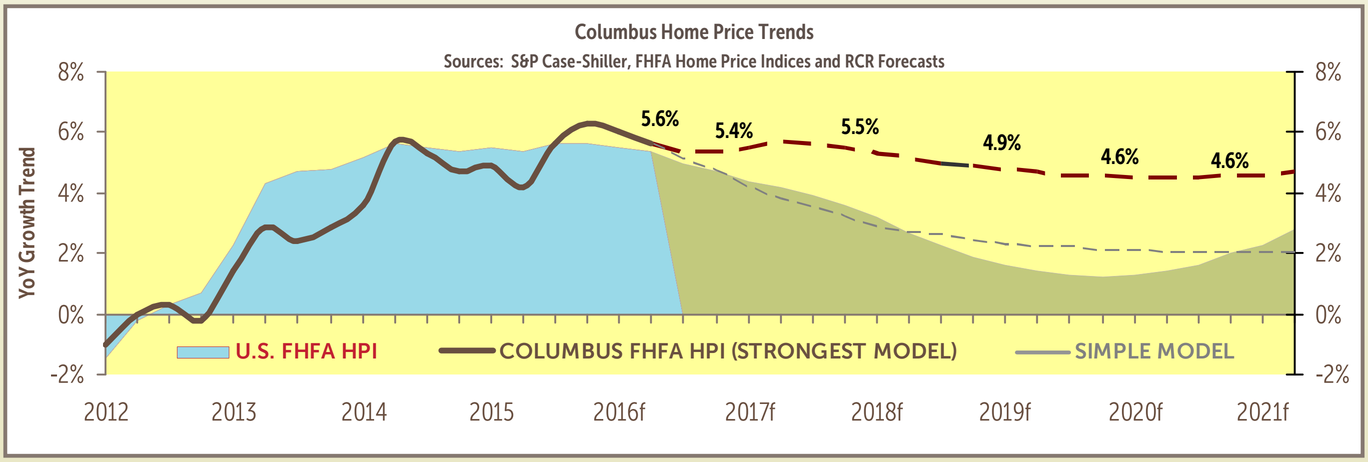


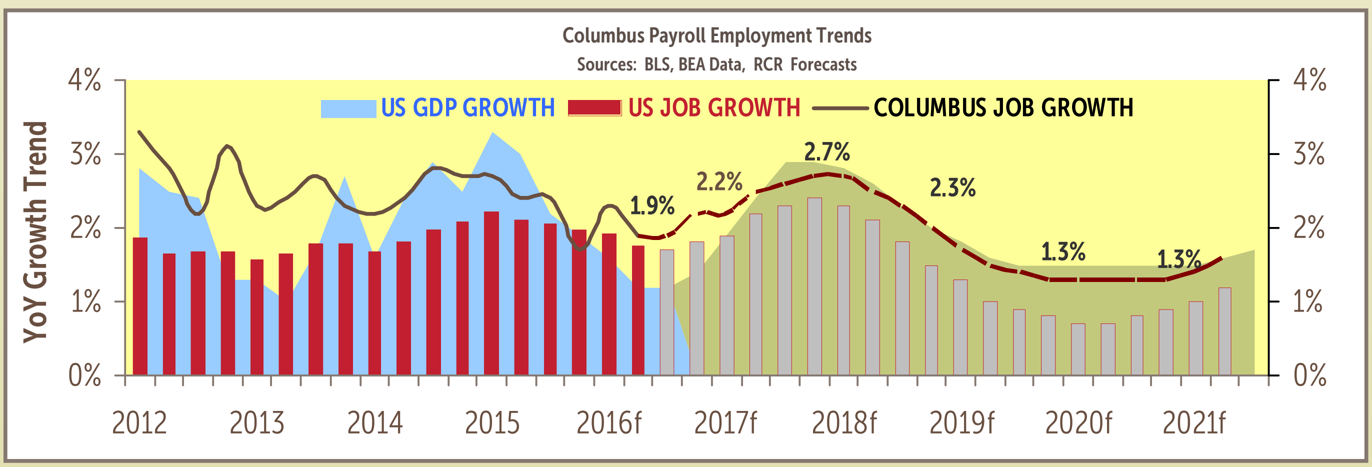


NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price (in millions)	Price / Per Unit	Estimated Cap Rate
Carriage House Apts. (Northeast/No. Linden)	C / GLR (1972)	10-Apr-2016	$6.3	$32,895	6.9%
Cardinal Creek Apts. (Bexley/Near East Side)	C / GLR (1963)	19-Jul-2016	$6.0	$30,990	7.4%

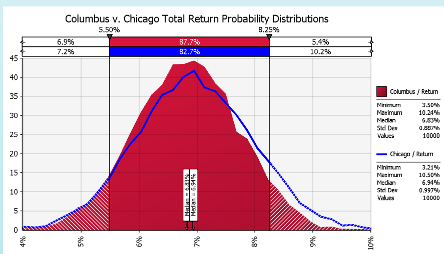

Columbus Effective Rent Trends
Sources: Reis, Inc., Axiometrics and RCR Forecast
YoY Rent Trend
6%
5%
4%
3%
2%
1%
0%
4.0%
3.4%
3.1%
3.2%
2.4%
2.3%
RED 47 AVERAGE
COLUMBUS AXIOMETRICS SAME-STORE
COLUMBUS (REIS/RCR)
2012
2013
2014
2015
2016f
2017f
2018f
2019f
2020f
2021f

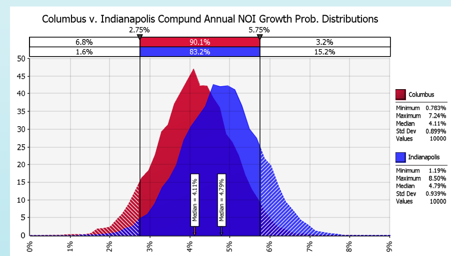

Columbus Home Price Trends
Sources: S&P Case-Shiller, FHFA Home Price Indices and RCR Forecasts
YoY Growth Trend
8%
6%
4%
2%
0%
-2%
5.6%
5.4%
5.5%
4.9%
4.6%
4.6%
U.S. FHFA HPI
COLUMBUS FHFA HPI (STRONGEST MODEL)
SIMPLE MODEL
2012
2013
2014
2015
2016f
2017f
2018f
2019f
2020f
2021f

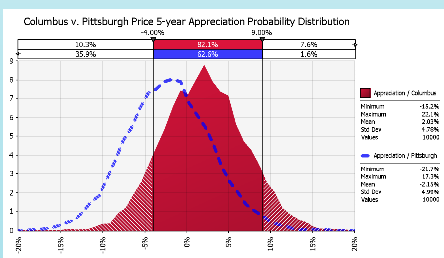

Columbus Payroll Employment Trends
Sources: BLS, BEA Data, RCR Forecasts
YoY Growth Trend
4%
3%
2%
1%
0%
US GDP GROWTH
US JOB GROWTH
COLUMBUS JOB GROWTH
1.9%
2.2%
2.7%
2.3%
1.3%
1.3%
2012
2013
2014
2015
2016f
2017f
2018f
2019f
2020f
2021f

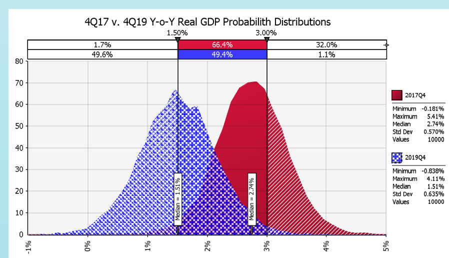
SUBMARKET TRENDS (REIS)

Submarket	Inventory % Change	Effective Rent			Physical Vacancy		
		2Q15	2Q16	Change	2Q15	2Q16	Change
Bexley	-5.6%	$658	$684	4.0%	6.3%	3.6%	-270 bps
Dublin / Powell	0.0%	$838	$838	-0.1%	3.7%	3.6%	-10 bps
Grove City	3.7%	$669	$701	4.8%	5.1%	4.9%	-20 bps
Groveport	2.6%	$682	$696	2.1%	2.4%	3.0%	60 bps
Hilliard	3.1%	$822	$848	3.3%	7.3%	6.6%	-70 bps
Northeast	0.0%	$653	$667	2.1%	2.6%	2.8%	20 bps
Sharon / Worthington	0.0%	$710	$721	1.6%	4.2%	4.1%	-10 bps
Southeast Columbus	0.0%	$563	$581	3.1%	3.7%	3.5%	-20 bps
OSU/Downtown	11.4%	$909	$1,030	13.3%	6.1%	7.3%	120 bps
Upper Arlington	7.1%	$786	$846	7.5%	3.1%	6.6%	350 bps
Westerville / Polaris	4.0%	$902	$927	2.8%	8.9%	9.8%	90 bps
Whitehall / Gahanna	0.9%	$664	$691	4.1%	4.0%	3.7%	-30 bps
Metro	2.0%	$748	$778	4.0%	4.8%	5.1%	30 bps









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