

PAYROLL JOB SUMMARY

Average Payrolls	1,947.1m
Annual Change	50.3m (2.6%)
RCR 2016 Forecast	58.7m (3.1%)
RCR 2017 Forecast	51.5m (2.6%)
RCR 2018 Forecast	37.6m (1.9%)
RCR 2019 Forecast	20.9m (1.0%)
RCR 2020 Forecast	10.8m (0.5%)
Unemployment (NSA)	4.5% (Oct.)

3Q16 PAYROLL TRENDS AND FORECAST

In the wake of exceptionally strong job creation rates during the first half 2016, Phoenix job growth slowed after mid-year. Metro establishments hired at a 50,300-job, 2.6% year-on-year rate in 3Q16, compared to IHG's 65,400-job, 3.5% surge. Weaker hiring was recorded in consumer-driven sectors and tech oriented services and manufacturing. On the consumer side, retail trade and personal service growth slowed to a 4,300-job, 1.5% annual rate in 3Q16, from 12,900 (3.0%) jobs in the previous quarter. On the tech side, attrition in the electronic equipment and aerospace spaces accelerated while negative trends persisted in the recently hot technical business services subsector. By the same token, continued rapid population growth fueled further powerful gains in the construction and leisure and health care services industries, which together contributed one-half of metro job gains.

Seasonally-adjusted data also told a slower growth story. Although 3Q16 gains (11,600 jobs) were the highest year-to-date, recent results were soft: three of the four months ended November were negative, generating a net period loss of -4,700 jobs.

RED Research specified a 98.6% adjusted-R² (S.E.=0.4%) PHX econometric forecasting equation using the rate of change U.S. payroll job growth (+), Baa-rated bond yields_(t-2) (+) and home price growth (+) as independent variables. As the near-term outlook for each variable is optimistic the equation suggests that metro job growth should continue at above average rates for the next 18 to 24 months. But the longer-term outlook is less benign: gains are likely slip below the 2.4% 27-year average in 2019 as the U.S. economy's forward momentum begins to dissipate.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	95.5%
RED 51 Rank	27 th
Annual Chg. (Reis)	+0.2%
RCR YE16 Forecast	95.1%
RCR YE17 Forecast	95.1%
RCR YE18 Forecast	95.3%
RCR YE19 Forecast	94.4%
RCR YE20 Forecast	93.7%

3Q16 ABSORPTION AND OCCUPANCY RATE TRENDS

Robust renter demand for apartment space continued through the summer irrespective of somewhat weaker job creation. Reis aver that tenants net leased a total of 1,310 vacant units during the third quarter compared to 1,336 and 960 units during the prior and year-earlier quarters, respectively. At the same time supply receded to a two-year quarterly low 609 units, producing a 40 basis point occupancy surge to 95.5%, representing the third strongest sequential rate gain recorded among the **RED 51** markets.

Including properties in lease-up, class-A was 85.5% occupied. Only one submarket (East Mesa) recorded occupancy above 95%, down from eight in 2Q16. Five submarkets recorded occupancy below 94%, including Northeast (92.0%), Sunnyslope (93.2%) North Tempe (93.8%) and Paradise and Deer Valleys.

Axiometrics surveys of 802 stabilized, same-store properties found average occupancy of 94.3%, down -10bps year-on-year. Class-B (94.6%) properties posted highest occupancy, unchanged y-o-y. Class-C (93.9%/Unchanged) and class-A (93.4%/-30bps)

The Phoenix occupancy outlook is constructive. After digesting a small surge of supply in 2017, **RCR's** absorption model foresees a solid recovery in 2018 to the low-95% area. Near equilibrium conditions are likely to prevail through late decade, maintaining occupancy in the neighborhood of 95%. Our supply model suggests that some degree of supply risk may return in the out-years should building trends revert to Phoenix's rapid historic norm.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$855
Annual Change	6.7%
RED 51 Rent Change Rank	6 th
RCR YE16 Forecast	5.8%
RCR YE17 Forecast	4.0%
RCR YE18 Forecast	4.1%
RCR YE19 Forecast	3.6%
RCR YE20 Forecast	2.6%

3Q16 EFFECTIVE RENT TRENDS

Rent trends continued on a steep trajectory, according to Reis, as the metro average advanced \$11 (1.4%) sequentially and 6.7% year-on-year to \$855. Annual metro trends ranked 6th among the **RED 51**, down from 5th in 2Q16, Phoenix's highest ever rank. The class-B&C segment was largely responsible for third quarter strength. While class-A sequential asking rent gains declined to 0.6% from 2.1% and 1.7% in 1Q and 2Q16, respectively, the "B&C" segment posted a robust 1.8% increase, its fastest gain in 10 years.

-A (5.3%). New properties appeared most vulnerable as 7 of 10 assets in lease up with an annual comparison suffered y-o-y declines. Glendale South (11.2%) was the sole submarket to notch a double-digit gain, followed by Sunnyslope (9.9%) and South Scottsdale, Northeast, P.V. and North Scottsdale trailed the pack.

Axiometrics same-store data ran along similar lines. Stabilized property rents increased 7.2% y-o-y, down from 2Q16's 10-year high 8.1% performance. Class-C (8.4%) posted the fastest growth for the 6th consecutive quarter, followed by classes-B (7.3%) and

RCR's rent model uses job (+), supply_(t-1) (-) and home price growth and occupancy (+) as independent variables to achieve a 96.6% adjusted-R² (S.E.=0.6%). The model projects rent growth exceeding Phoenix's 2.9% long-term average rate through 2020, when supply risk returns. Over the 5-year forecast interval, 3.3% compound annual rent growth is expected, ranking 20th fastest among the **RED 47** peer group.

TRADE & RETURN SUMMARY

\$5mm+ / 80-unit+ Sales	40
Approximate Proceeds	\$1,081.0MM
Average Cap Rate (FNM)	5.4%
Average Price / Unit	\$105,556
Expected Total Return	6.7%
RED 47 ETR Rank	29 th
Risk-adjusted Index	3.92
RED 47 RAI Rank	23 rd

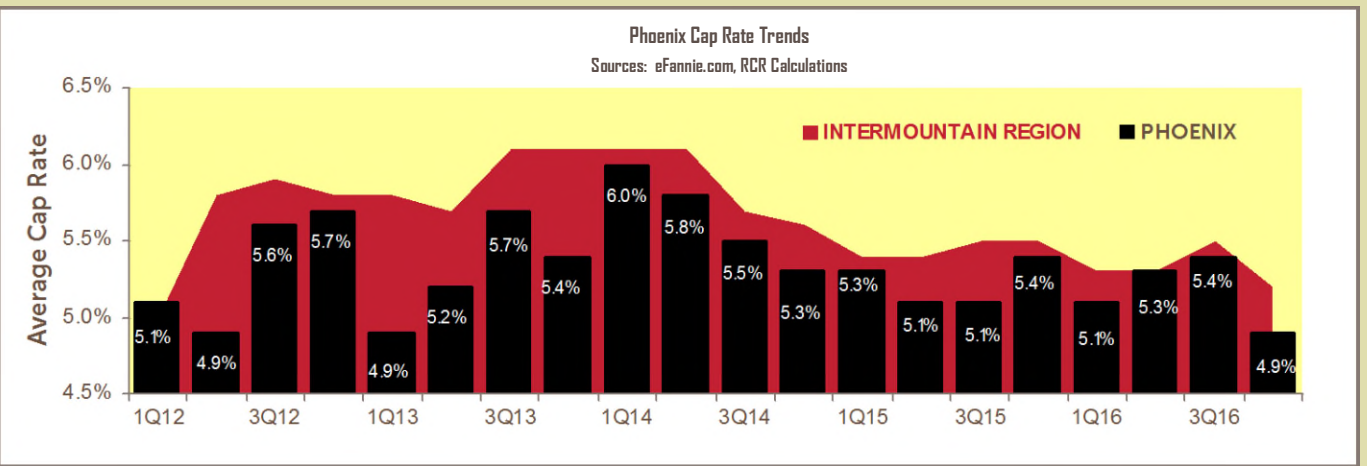
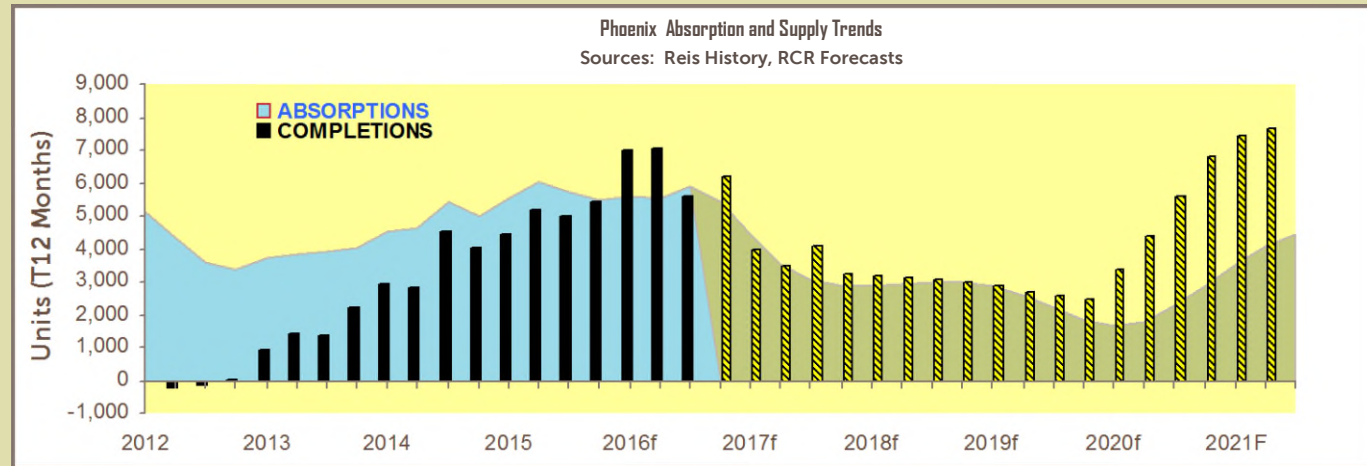
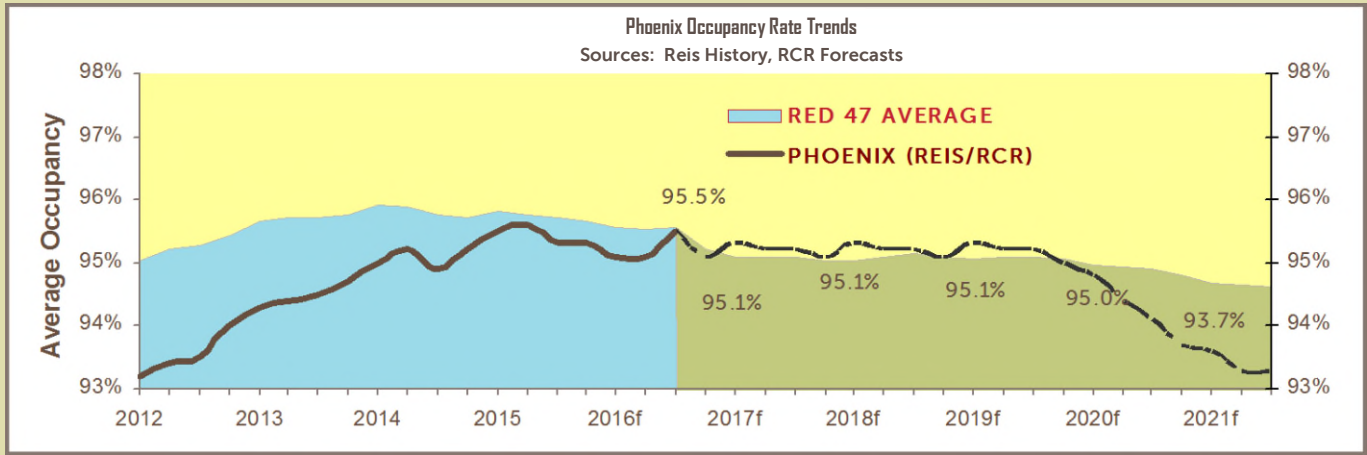
3Q16 PROPERTY MARKETS AND TOTAL RETURNS

Following 2Q15's record 65 transaction/\$1.9 billion property market performance sales velocity could only cool off. It did in fact, but third quarter results still were impressive. Investors acquired 40 \$5mm or larger properties for total proceeds of \$1,018mm, making the third quarter the fourth and third most active ever with respect to transactions and proceeds, respectively. The average price per unit metric was \$105,556, down -4%, attributable to a buyer shift toward older value-add properties. Preliminary 4Q16 data suggest that sales will approach or surpass third quarter outcomes.

quality assets command prices equating going-in yields between 4.9% to 5.25%. Class-B/B- value-adds attracted interest at levels only slightly higher, trading from 5.25% to 5.5%. Class-C assets in tertiary submarkets exchanged hands at 6.0% to 7.0% levels.

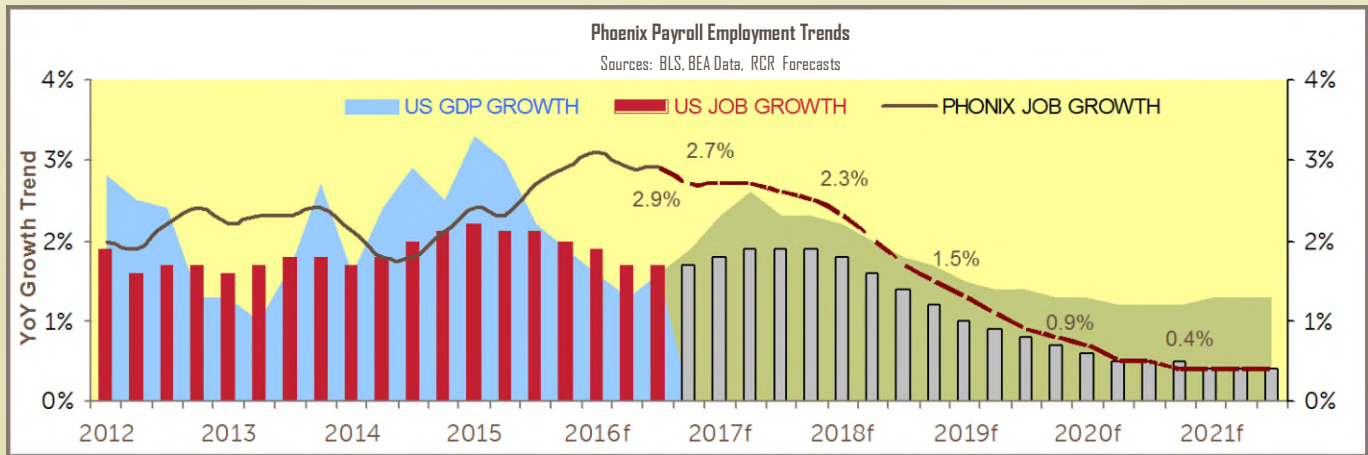
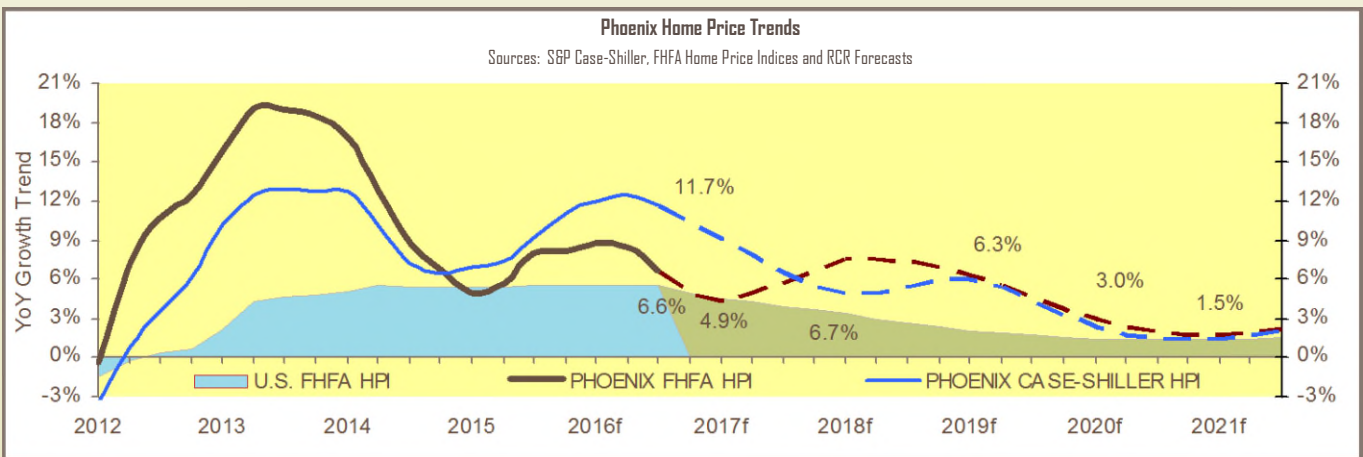
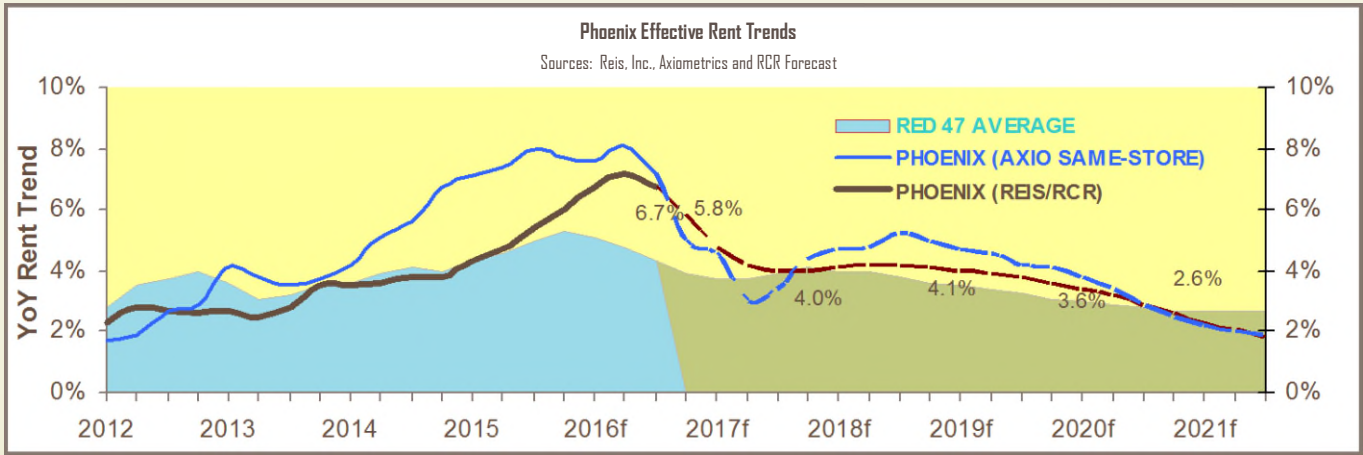
Cap rate levels were relatively stable overall but some degree of compression was evident in the value-add segment. Class-A trophies trade in the 4.6% to 4.9% range. Class-B+ institutional

Addressing the growing interest in PHX value-adds **RCR** elected to trim the cap rate proxy 5 basis points to 5.25%. Using this purchase yield, a 6.0% terminal cap rate and model derived rent and occupancy point estimates, we estimate that an investor would expect to achieve a 6.7% unlevered total return over five years, ranked 29th among the **RED 47** peer group. Lower than average demand and supply model standard errors boost risk-adjusted returns: Phoenix's RAI now ranks 23rd among the peer group.



NOTABLE TRANSACTIONS

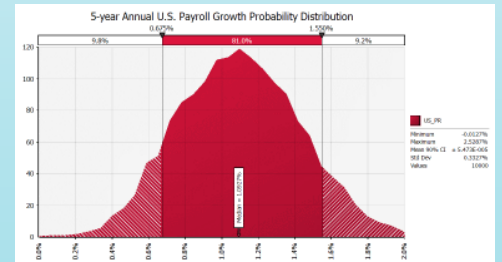
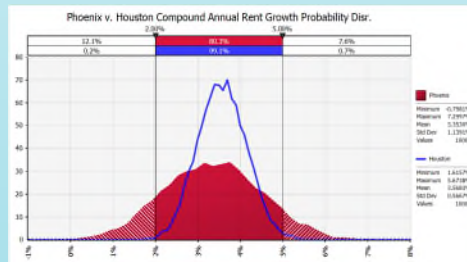
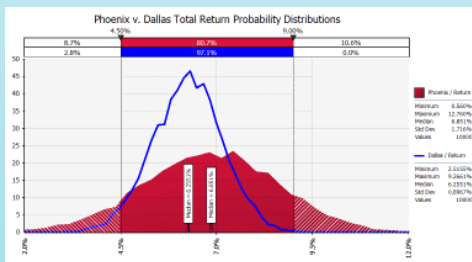
Property Name (Submarket)	Property Class/Type (Constr.)	Approx. Date of Transaction	Total Price (in millions)	Price / Per Unit	Estimated Cap Rate
Reserve at Cave Creek (Paradise Valley / Jeanette Estates)	B+ / LR (2006)	30-Sep-2016	\$34.7	\$146,202	4.96%
Tuscano Village (Glendale South / Bethany Meadows)	C / LR (1974)	14-Oct-2016	\$8.0	\$66,667	7.25%
Altitude 1675 (Sunnyslope / Skyline Heights)	A+ / RC MR (2015)	25-Oct-2016	\$60.0	\$266,667	4.74%
Biscayne Bay (Chandler / Stonegate Crossing)	B / GLR (2000/01)	14-Nov-2016	\$71.5	\$139,648	5.15%
Salado Springs (North Tempe / Sunset)	B / GLR (1986)	13-Dec-2016	\$20.2	\$140,278	5.4%
Tatum Place (North Scottsdale / Paradise Valley Miranda)	B / GLR (1984)	16-Dec-2016	\$18.1	\$110,366	5.5%



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SUBMARKET TRENDS (REIS)

Submarket	Inventory % Change	Effective Rent			Physical Vacancy		
		3Q15	3Q16	Change	3Q15	3Q16	Change
Central Phoenix North	1.2%	\$644	\$668	3.7%	5.4%	5.2%	-20 bps
Central Phoenix South	3.7%	\$741	\$778	4.9%	4.2%	6.0%	180 bps
Chandler / Gilbert	4.4%	\$914	\$1,015	11.1%	7.4%	7.3%	-10 bps
Deer Valley	0.0%	\$741	\$761	2.7%	3.2%	1.8%	-140 bps
East Mesa	1.4%	\$781	\$910	16.5%	1.4%	1.0%	-40 bps
Glendale South	0.0%	\$645	\$681	5.6%	5.6%	4.2%	-140 bps
Goodyear / Avondale	1.5%	\$884	\$912	3.2%	1.5%	1.5%	0 bps
Maryvale	0.0%	\$595	\$712	19.6%	4.0%	2.4%	-160 bps
North Scottsdale	4.1%	\$1,075	\$1,142	6.3%	7.6%	6.8%	-80 bps
North Tempe	0.4%	\$889	\$936	5.3%	5.9%	6.2%	30 bps
Northeast Phoenix	1.9%	\$772	\$825	6.9%	5.2%	6.9%	170 bps
Paradise Valley	0.0%	\$740	\$759	2.6%	4.2%	2.7%	-150 bps
Peoria / Sun City / Surprise	0.0%	\$816	\$852	4.3%	1.5%	1.6%	10 bps
South Mesa	0.0%	\$681	\$712	4.5%	4.1%	2.8%	-130 bps
South Scottsdale	10.3%	\$923	\$969	4.9%	11.3%	11.2%	-10 bps
South Tempe	3.2%	\$918	\$949	3.4%	4.2%	4.9%	70 bps
Sunnyslope	1.9%	\$676	\$750	10.9%	2.3%	2.8%	50 bps
West Mesa	0.0%	\$648	\$695	7.2%	3.0%	1.8%	-120 bps
Metro	2.6%	\$801	\$855	6.7%	4.7%	4.5%	-20 bps



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