

PAYROLL JOB SUMMARY

Average Payrolls	4.315.9m
Annual Change	93.0m (2.2%)
RCR 2016 Forecast	89.1m (2.1%)
RCR 2017 Forecast	78.8m (1.8%)
RCR 2018 Forecast	82.9m (1.9%)
RCR 2019 Forecast	71.5m (1.6%)
RCR 2020 Forecast	62.8m (1.4%)
Unemployment (NSA)	5.2% (Nov.)

3Q16 PAYROLL TRENDS AND FORECAST

New York City posted another strong quarter after establishments hired at a 93,000-job, 2.2% year-on-year rate in 3Q16, on par with 2Q's 92,100-job advance. Although strong overall some sector rotation was evident that suggests that moderately slower growth looms on the horizon. Most notably, the two sectors most responsible for NYC's economic boom over the last several years -- financial and high-skilled business services - posted materially weaker results. The two segments added workers at only a 2,900-job, 0.4% annual rate, down from the 3Q15 cycle peak level of 26,600 (3.7%) jobs. The tech sector exhibited singularly soft trends as computer system design headcounts fell at a -5.3% rate. Rather, lower average compensation leisure services was the primary employment driver, adding workers at a 24,100-job, 5.6% annual rate, more than twice as fast as the 2.8% gain posted during 1Q16.

Early 4Q16 data hinted at slower growth to come. Twelve-month comparisons for October and November were up by an average of 67,600 (1.5%), a slow pace not recorded in New York since 2010.

The **RED Research** NYC payroll model remains optimistic for the future. The 96.3% adjusted-R² (SE=0.4%) model uses the rate of change of U.S. job growth, and lagged Baa bond yields_(t-4) (-) and S&P 500_(t-1) returns (+) as independent variables. Our model 1H17 forecast for faster U.S. GDP and job growth and near 10% y-o-y equity returns are expected to lift metro job creation back above 2% by 2H17. Gains are likely to moderate afterward but the model foresees payroll growth rates above 1.3% through 2020. Should pro-growth banking legislation reforms come to pass, faster metro job creation and personal income growth may be possible.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	96.8%
RED 51 Rank	19 th
Annual Chg. (Reis)	-1.2%
RCR YE16 Forecast	96.7%
RCR YE17 Forecast	93.4%
RCR YE18 Forecast	93.1%
RCR YE19 Forecast	92.5%
RCR YE20 Forecast	93.8%

2H16 ABSORPTION AND OCCUPANCY RATE TRENDS

Reis data suggest space demand was in line with seasonal norms in 3Q16 as tenants net leased 733 vacant units, up from 488 in the year earlier period and consistent with the 810-unit trailing 17-year third quarter average. Following IHIG's supply deluge of 4,522 units, developers completed only 1,106 units, holding the sequential quarter occupancy bleed to -20 basis points, smallest in a year. At 96.0%, metro occupancy fell to the tied lowest level in 27 years, equaled only in 2003. Preliminary 4Q16 data suggest Reis revised 3Q16 occupancy to 96.8% and recorded a -10bps decline in the fall quarter to 96.7%. No explanation was available at press time.

stabilized, same-store assets was 97.2% in 3Q16 and 96.5% in 4Q16. Including properties in lease-up, the statistics were 95.2% and 95.6%. Class-B occupancy fell -100bps sequentially in 4Q to 96.4%; class-A declined only -40bps to 96.5%. New asset absorption was brisk, averaging 25 units per property per month.

Supply will place consistent pressure on the market for the next four years. Reis expect inventory to increase 19% by 2020, nearly twice as fast as the past four years. Our absorption model suggests that demand will fail to keep pace over the next two to three years, causing occupancy in the Reis sample to plunge to the 92%-93% level. The market should claw back to 94% afterward when supply begins to moderate from the 2017-2018 peak.

Conditions in the professionally-managed segment were similar to Reis revised levels, according to Axiometrics. Occupancy among

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$3,425
Annual Change	0.1%
RED 51 Rent Change Rank	50 th
RCR YE16 Forecast	-0.5%
RCR YE17 Forecast	3.9%
RCR YE18 Forecast	4.8%
RCR YE19 Forecast	5.0%
RCR YE20 Forecast	4.6%

2H16 EFFECTIVE RENT TRENDS

Reis report NYC rents declined \$18 (-0.5%) sequentially to \$3,425 in 3Q16, following 2Q's 1.0% gain. Preliminary 4Q16 data suggest that effective rents declined again, falling approximately \$10/-0.3% to \$3,415. Expressed on a year-on-year basis, rents advanced about 0.1% over the year-ended September 30, but slipped -0.5% over CY2016. Asking rent trends were soft during 4Q16, but the weak effective rent trend was largely attributable to an observed increase in concessions. Although measured vacancy remained low an increase of the number of properties in lease-up not deemed "complete" by Reis drove concessions higher.

for the third consecutive quarter, in this case by -1.8%. Surprisingly, class-A (-1.3%) and properties in lease-up (-0.7%) outperformed class-B (-2.2%), suggesting increased competition may have had a greater effect on older property pricing power. Rents declined annually in every submarket. Midtown (-2.9%), Morning-side Heights (-2.0%) and Stuyvesant (-2.0%) bore the brunt of it.

This is a challenging environment for unbiased forecasting but the **RCR** rent model was accurate in 4Q16 (-0.5%) after a large miss in 3Q. The model projects another negative print in 1Q17, followed by a recovery above 4% (the 27-year market average) by 4Q17. Rent growth is projected to average about 4.5% annually through 2021, **RED 47 #4**; but the risk is asymmetric to the downside.

Axiometrics's survey of 52,000 NYC units (~1/4th the size of the Reis sample) found 4Q stabilized same-store rents declined y-o-y

TRADE & RETURN SUMMARY

\$5mm+ / 80-unit+ Sales	11
Approximate Proceeds	\$733.9mm
Average Cap Rate (FNM)	3.9%
Average Price / Unit	\$362,703
Expected Total Return	7.4%
RED 47 ETR Rank	13 th
Risk-adjusted Index	4.88
RED 47 RAI Rank	14 th

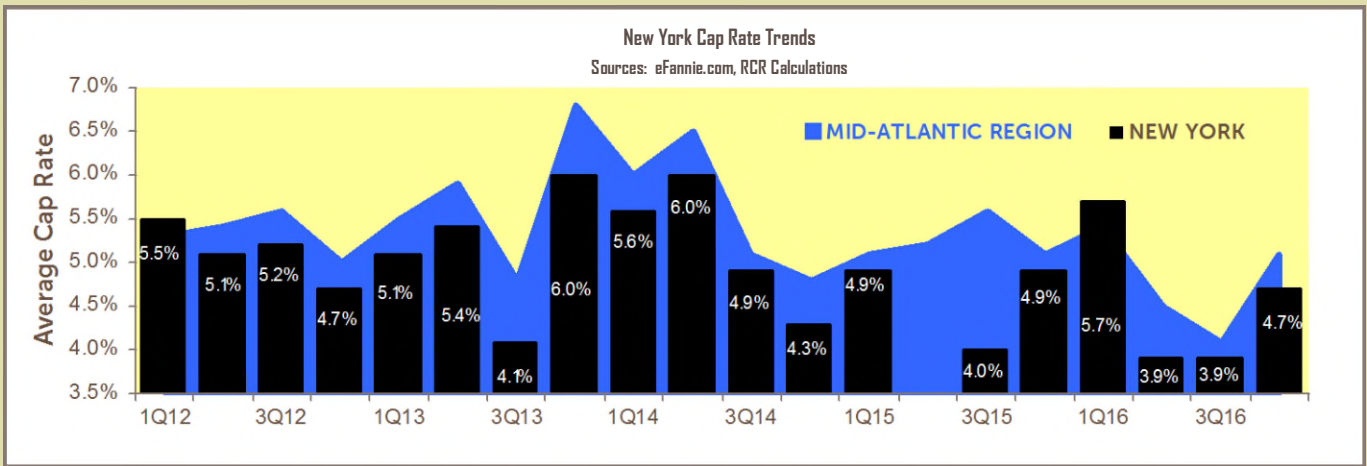
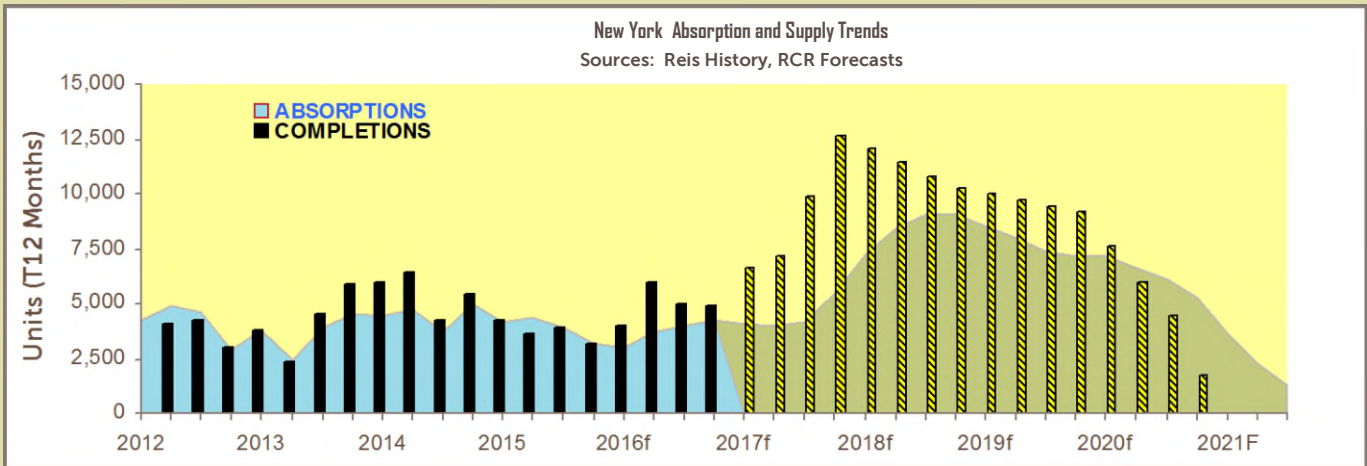
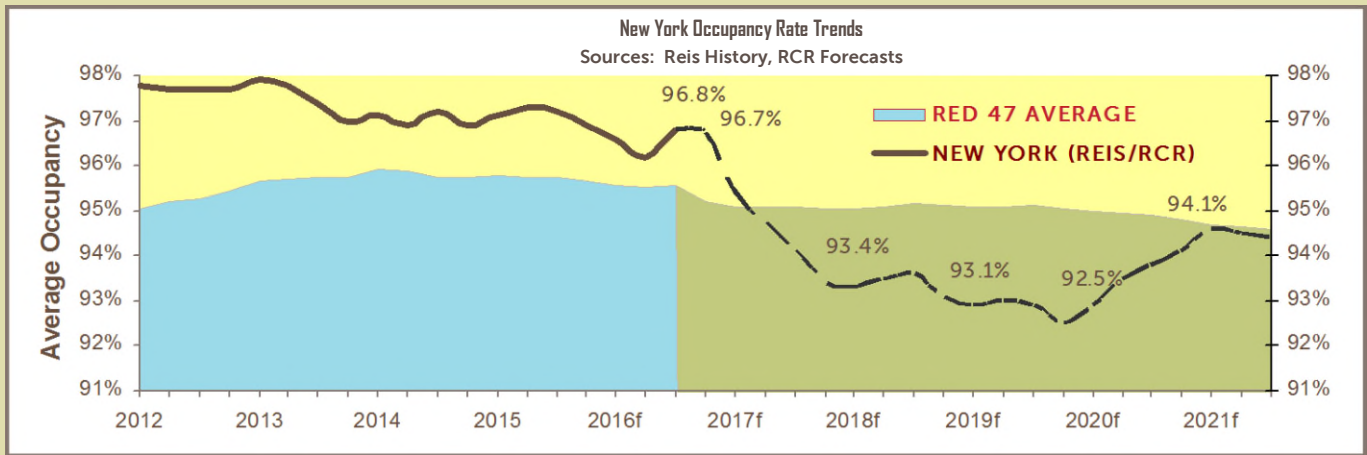
2H16 PROPERTY MARKETS AND TOTAL RETURNS

New York property market velocity continued at a steady, moderate pace. According to CoStar, eleven properties exchanged hands during the third quarter; fifteen during the fourth. This compares to closely to the 7-year quarterly average of 13.5. Among trades for which pricing were available, proceeds totaled \$734 million and \$1.5 billion in 3Q and 4Q16, respectively. Average price per unit metrics were \$256,591 and \$362,703. The 3Q16 metric exceeded comparable statistics from only four quarters observed since 2010.

Rising funding costs did not appear to place upward pressure on cap rates -- yet--as established trophies continued to trade in the high-2% to mid-3% area. New Downtown steel towers appear to trade at a discount in some cases, although uncertain expense levels rendered estimating yields on these buildings a challenge.

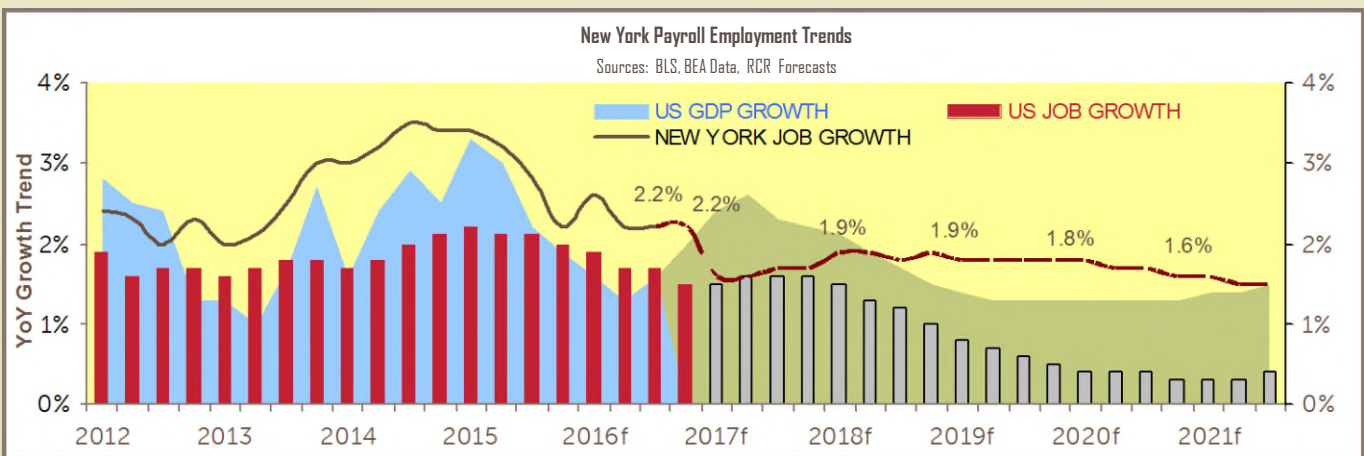
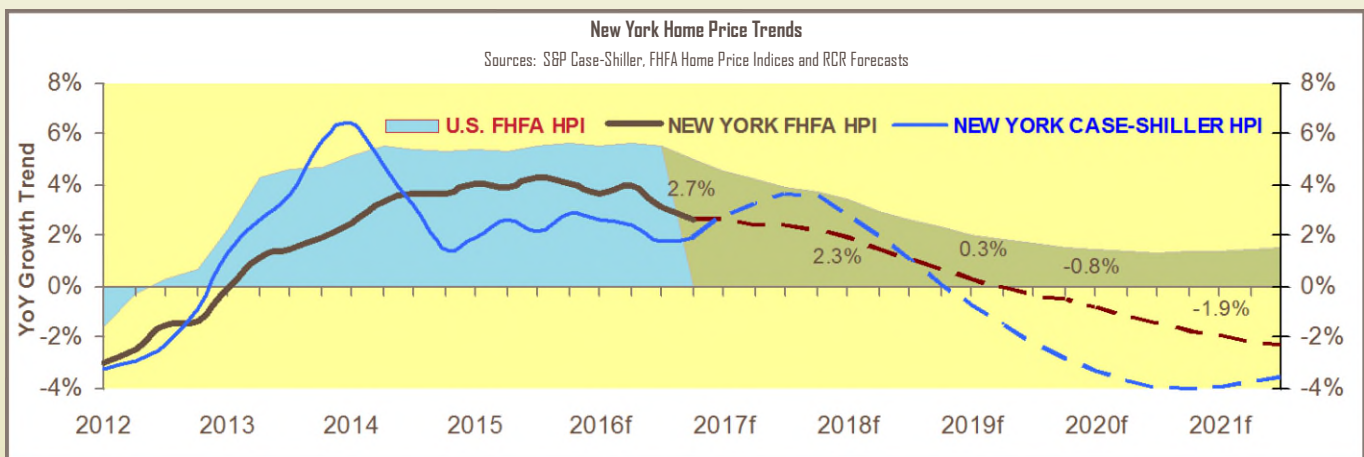
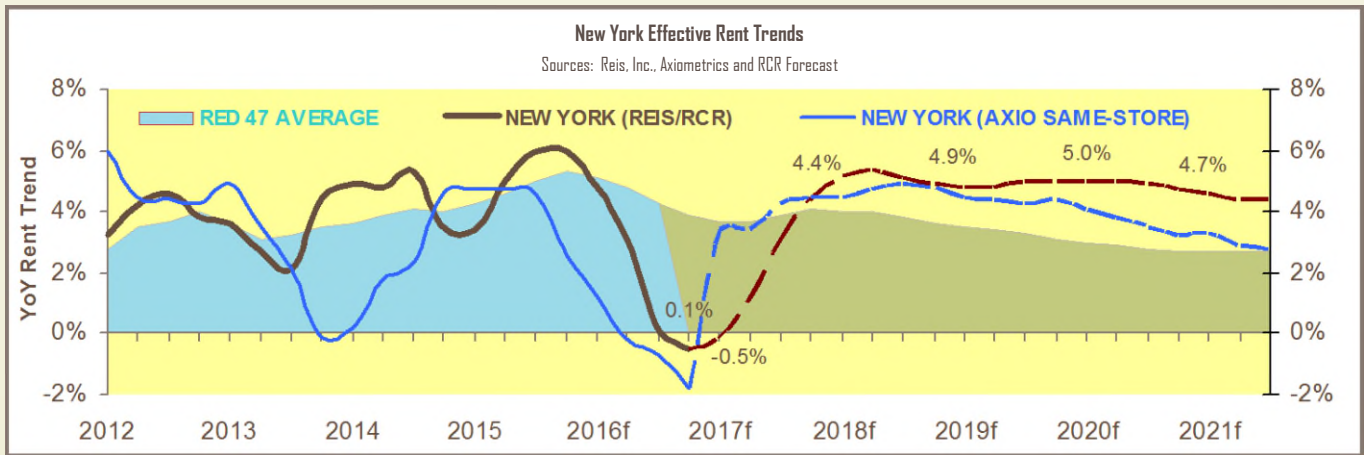
Private equity investors were active buyers in the second half, accounting for 30% of total acquisition proceeds, up from a negligible amount in 1H16. Integrated owner/managers remained the biggest players in the City, recording a 51% purchase market share in 2H16, down from 58% during the first half.

The increased observation of 3% or lower cap rates caused **RCR** to adjust the purchase cap rate proxy down -20 basis points back to our 4.0% series low. This going-in yield, a terminal cap of 4.6% and model-derived rent and occupancy point estimates produces a 7.4% unlevered annual expected total rate of return estimate on a five-year hold; 13th among the **RED 47** peer group. Moreover, model standard error is near peer group norms, giving rise to a comparable #14 ranking among the peers on a risk-adjusted basis.



NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class/Type (Constr.)	Approx. Date of Transaction	Total Price (in millions)	Price / Per Unit	Estimated Cap Rate
88 Leonard Apartments (Downtown / Tribeca)	A MI / SR HR (2007)	22-Sep-2016	\$242.1	\$683,898	4.8%
Tribeca Condo (Downtown / Tribeca / Hudson Square)	A MI / SR HR (2016)	29-Sep-2016	\$221.9	\$2,073,832	4.48% (FNM)
The Brewster Luxury Apts. (Upper West Side / 86th)	A+ / MB HR (1927)	7-Nov-2016	\$172.5	\$1,612,150	3.9%
85 East 10th (East Village / Astor Place)	B / MB MR (1987)	6-Dec-2016	\$72.5	\$599,174	3.62%
Kips Bay Court (Stuyvesant / Kips Bay)	B / MB HR (1976)	13-Dec-2016	\$620.0	\$693,512	3.00% (FNM)



The information contained in this report was prepared for general information purposes only and is not intended as legal, tax, accounting or financial advice, or recommendations to buy or sell currencies or securities or to engage in any specific transactions. Information has been gathered from third party sources and has not been independently verified or accepted by RED Capital Group. RED makes no representations or warranties as to the accuracy or completeness of the information, assumptions, analyses or conclusions presented in the report. RED cannot be held responsible for any errors or misrepresentations contained in the report or in the information gathered from third party sources. Under no circumstances should any information contained herein be used or considered as an offer or a solicitation of an offer to participate in any particular transaction or strategy. Any reliance upon this information is solely and exclusively at your own risk. Please consult your own counsel, accountant or other advisor regarding your specific situation. Any views expressed herein are subject to change without notice due to market conditions and other factors.

SUBMARKET TRENDS (REIS)

Submarket	Inventory % Change	Effective Rent			Physical Vacancy		
		3Q15	3Q16	Change	3Q15	3Q16	Change
Bronx County	1.1%	\$1,234	\$1,249	1.2%	1.1%	1.7%	60 bps
Kings County	9.1%	\$2,122	\$2,195	3.4%	3.0%	7.2%	420 bps
Midtown West	0.8%	\$4,440	\$4,516	1.7%	3.2%	4.1%	90 bps
Morningside Heights	0.6%	\$2,459	\$2,489	1.2%	2.9%	2.3%	-60 bps
Queens County	4.4%	\$1,924	\$2,097	9.0%	4.0%	5.3%	130 bps
Stuyvesant / Turtle Bay	0.1%	\$4,553	\$4,377	-3.9%	2.3%	2.0%	-30 bps
Upper East Side	1.9%	\$4,217	\$4,183	-0.8%	0.9%	2.2%	130 bps
Upper West Side	4.2%	\$4,898	\$4,856	-0.9%	3.4%	4.8%	140 bps
Greenwich Vill/Downtown	1.5%	\$4,335	\$4,358	0.5%	2.0%	2.0%	0 bps
Metro	3.3%	\$3,420	\$3,425	0.1%	2.8%	4.0%	120 bps

Submarket	Effective Rent Growth			Physical Occupancy		
	4Q15	3Q16	4Q16	4Q15	4Q16	Change
Kings County	2.3%	-1.6%	-1.7%	95.8%	97.0%	120 bps
Midtown West	2.1%	-1.7%	-2.9%	97.2%	96.7%	-50 bps
Morningside Heights	1.4%	-1.2%	-2.0%	97.0%	97.1%	10 bps
Queens County	1.6%	2.3%	-1.0%	95.3%	97.3%	200 bps
Stuyvesant / Turtle Bay	4.1%	-2.9%	-2.0%	96.1%	96.1%	Unchd.
Upper East Side	1.6%	-2.3%	-1.2%	95.3%	97.4%	210 bps
Upper West Side	0.1%	-0.7%	-1.8%	97.2%	96.7%	50 bps
Greenwich Vill / Downtown	3.7%	-0.4%	-1.0%	97.0%	95.3%	170 bps
Metro	2.6%	-0.7%	-1.8%	96.8%	96.5%	-30 bps

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

