

PAYROLL JOB SUMMARY

Average Payrolls	670.7m
Annual Change 4Q16	14.3m (2.2%)
RCR 2017 Forecast	16.7m (2.5%)
RCR 2018 Forecast	18.0m (2.7%)
RCR 2019 Forecast	15.6m (2.2%)
RCR 2020 Forecast	14.0m (2.0%)
RCR 2021 Forecast	15.1m (2.1%)
Unemployment (NSA)	4.6% (2/17)

4Q16 PAYROLL TRENDS AND FORECAST

Louisville payroll job creation decelerated in the fourth quarter as metro establishments hired workers at a 14,300-job, 2.2% year-on-year rate, down from 3Q's robust 20,400-job, 3.2% performance. Headcount growth across industry sectors was slower, with the most pronounced deceleration observed in the non-auto manufacturing, retail trade and healthcare, leisure and personal services industries. The foregoing expanded at a 3,800-job annual pace in 4Q, down from 3Q's brisk 9,200-job rate. On the other hand, the metro received a boost from hiring among higher wage business and professional services concerns which added a net of 2,900 (3.3%) workers y-o-y, up from 1,500 and 200 during 3Q16 and 2Q16.

Moreover, actual job growth may be stronger than suggested by the payroll survey. The BLS's household survey indicates that 24,592

more residents self-reported being employed in December than the year earlier period, while 32,343 (5.5%) more residents reported employment in February 2017 than February 2016. Also, hiring appeared to regain momentum during January and February.

For its initial attempt to model Louisville payroll growth RED Research used the rate of change of U.S. payroll growth, U.S. personal consumption expenditure and industrial production growth and metro personal income growth as independent variables. The 94.0% adjusted-R² (S.E.=0.5%) model produces a strong forecast, calling for 2% or faster employment growth throughout the five-year forecast interval. Annual job gains are expected to hover in the 12,000 to 18,000 range through the end of the decade, one of the best forecasts for metros located east of the Mississippi.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	95.0%
RED 51 Rank	38 th
Annual Chg. (Reis)	+0.4%
RCR YE17 Forecast	94.1%
RCR YE18 Forecast	91.9%
RCR YE19 Forecast	91.4%
RCR YE20 Forecast	91.1%
RCR YE21 Forecast	91.6%

4Q16 ABSORPTION AND OCCUPANCY RATE TRENDS

Multifamily space demand sagged in the fourth quarter after exhibiting considerable strength earlier in the year. Tenants vacated a net of 61 units during the period, down from net absorption of 652 units during the first nine months of the year and 278 units in the year-earlier quarter. Developers completed only 40 units but occupancy slipped -20 basis points sequentially anyway to 95.0%, according to Reis. Preliminary data indicate that demand rebounded in 1Q17, returning average occupancy to 95.1%.

Axiometrics surveys of 111 larger, stabilized, same-store properties recorded lower 93.8% and 93.6% occupancy rates in 4Q16 and 1Q17, respectively. The latter represents a -50bps year-on-year decline. Class-C (95.2%) owned highest occupancy for the 15th

consecutive quarter, followed distantly by classes-B (93.4%) and -A (92.6%). As for submarkets, South Central (97.3%) and SW Jefferson Co. (95.7%) were highest. Among the others, only Jeffersonville and NE Jefferson topped 94%. West Central (77.0%) struggled. New properties leased up at a sluggish pace for the second straight quarter, leasing a net of 5.5 units per month.

The RCR occupied stock growth model forecasts healthy absorption in 2017 and 2018 of 845 and 1,022 units, respectively. But this Ohio River city faces a flood of 1,355 and 2,269 units of comparable supply, a level of stock growth never heretofore experienced in Derby City. This will force occupancy down about -300bps by YE2018. Afterward, the market should stabilize in the 92% area.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$747
Annual Change	3.0%
RED 51 Rent Change Rank	36 th
RCR YE17 Forecast	3.6%
RCR YE18 Forecast	2.8%
RCR YE19 Forecast	2.6%
RCR YE20 Forecast	3.2%
RCR YE21 Forecast	3.5%

4Q16 EFFECTIVE RENT TRENDS

Reis report that metro rent advanced at a seasonally brisk clip in the fall. Average unit rent rose \$7 (1.0%) sequentially, comparing favorably to a \$5 (0.7%) gain recorded in the year-ago quarter. Expressed on a year-on-year basis rent increased 3.0%, up from 2.8% in 3Q16. Preliminary 1Q17 data suggest asking rent trends gained momentum, rising 4.0% y-o-y, up from 3.6% in 4Q16.

Axiometrics larger property same-store comparisons also exhibited relative strength. Effective rents in this sample were up 4.2% y-o-y in 4Q16, and 3.5% in 1Q17. Class-A properties were in large part responsible for the constructive 1Q17 outcome as segment rents advanced 5.2% y-o-y, up from 3.4% in 4Q16. Class-B decelerated from 5.0% in 4Q to 3.4% in 1Q17, in line with class-C trends,

which slowed from 2.2% to 1.4%. East (6.5%) and West (6.4%) Central submarkets recorded the fastest rent growth; South Central (2.9%) and NE Jefferson Co. (2.1%) the weakest. Mid- and high-rise buildings (11.9%) continued to drive the fastest rent growth, paced by mature Old Louisville and CBD towers.

RCR's first attempt at a LOU rent model relies on the rates of metro job, occupied stock and unit inventory_(t-1) growth as independent variables. The 86.4% ARS (S.E.=0.5%) model yields an optimistic forecast calling for 3%+ annual growth through 3Q18, followed by trends vacillating in a mid-2% to low-3% range for the duration of the 5-year forecast interval. Compound annual rent growth of 3.1% is expected, ranking 28th among the RED 49.

TRADE & RETURN SUMMARY

\$3m+ / 80-unit+ Sales	9
Approximate Proceeds	\$104.9mm
Average Cap Rate (FNM)	6.1%
Average Price / Unit	\$68,050
Expected Total Return	6.5%
RED 49 ETR Rank	40 th
Risk-adjusted Index	3.34
RED 49 RAI Rank	37 th

4Q16 PROPERTY MARKETS AND TOTAL RETURNS

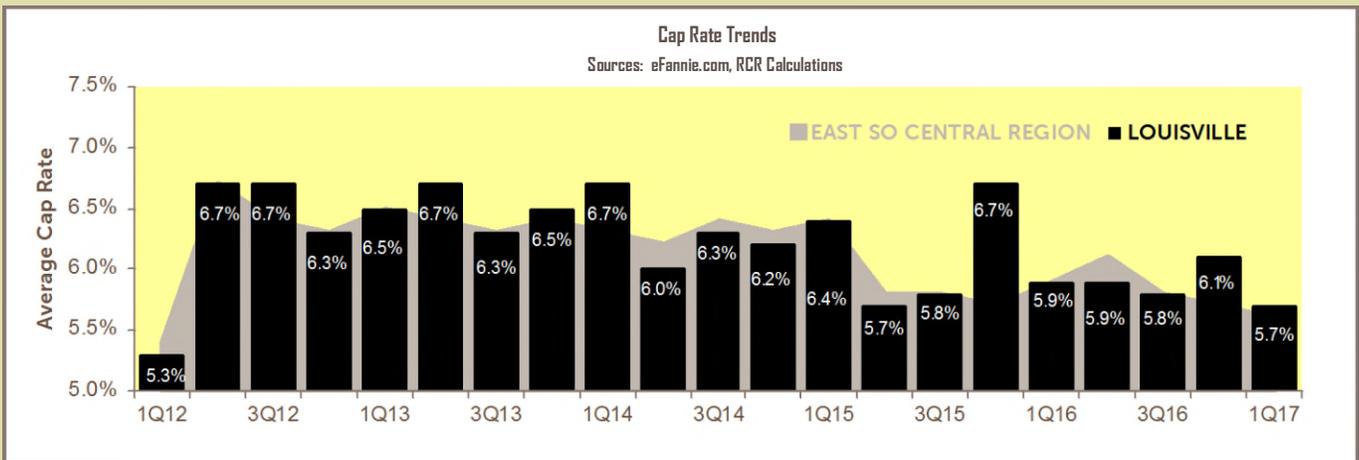
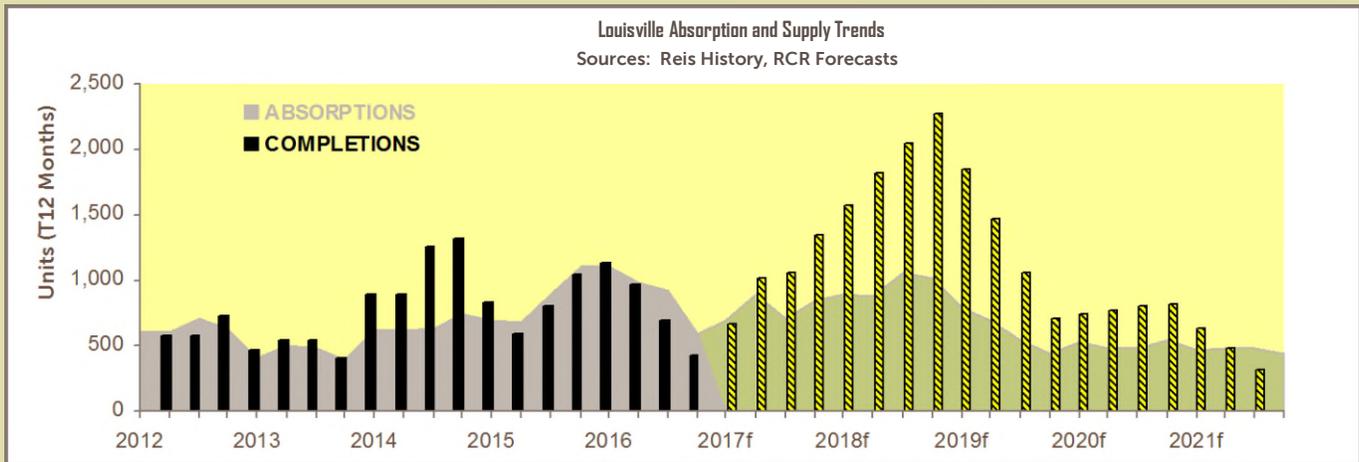
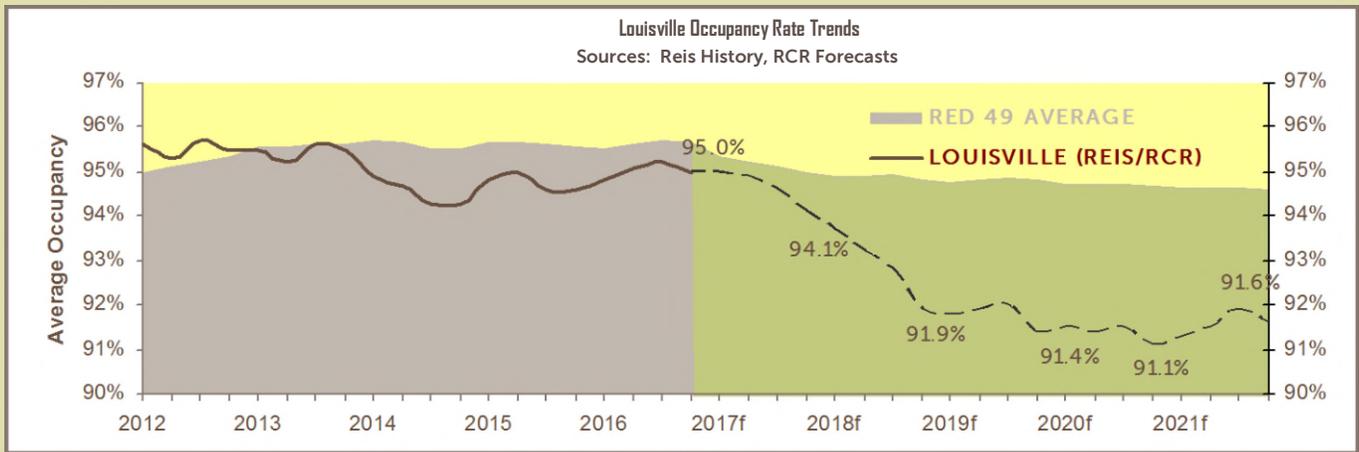
Sales velocity accelerated in the fourth quarter as nine properties valued at \$3 million or more exchanged hands, up from three in each of the prior and year-earlier quarters. Indeed, the 4Q16 result tied the Louisville series record. Proceeds totaled \$104.9mm, an increase of 59% over the previous quarter. The average price of units sold was \$68,050, down significantly from \$133,502 during 3Q16, as investors tilted toward value-add situations. Only two transactions closed during 1Q17 — the fewest in a winter quarter since 2013 — for total proceeds of \$86.9mm. The average price per unit statistic during the first quarter was \$79,752.

Institutional investors were active buyers since last fall, accounting for 25% of proceeds, more than twice their historical market

share. Private equity buyers were scarce, accounting for only 6%.

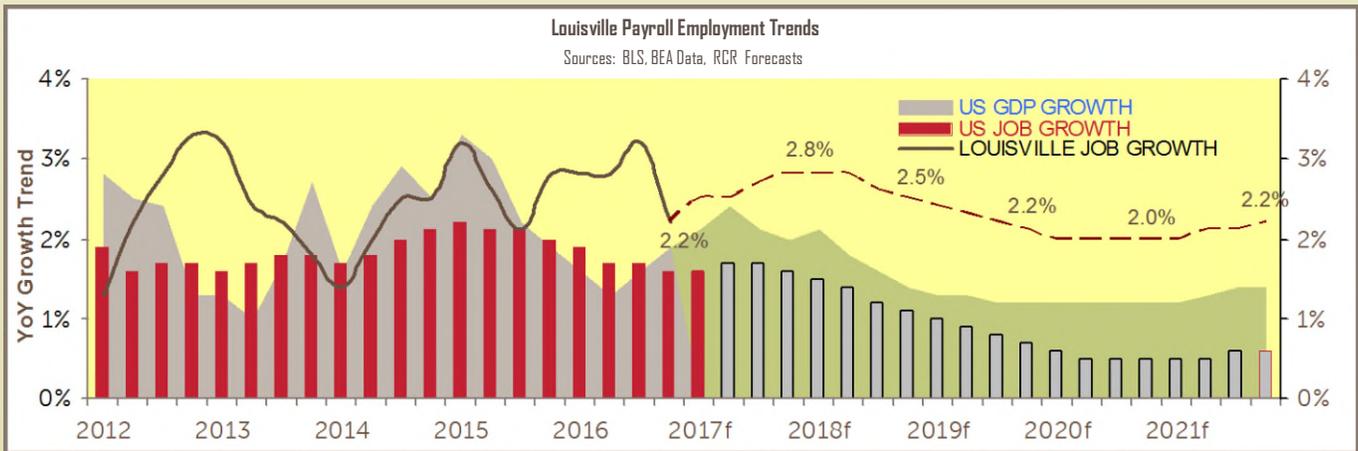
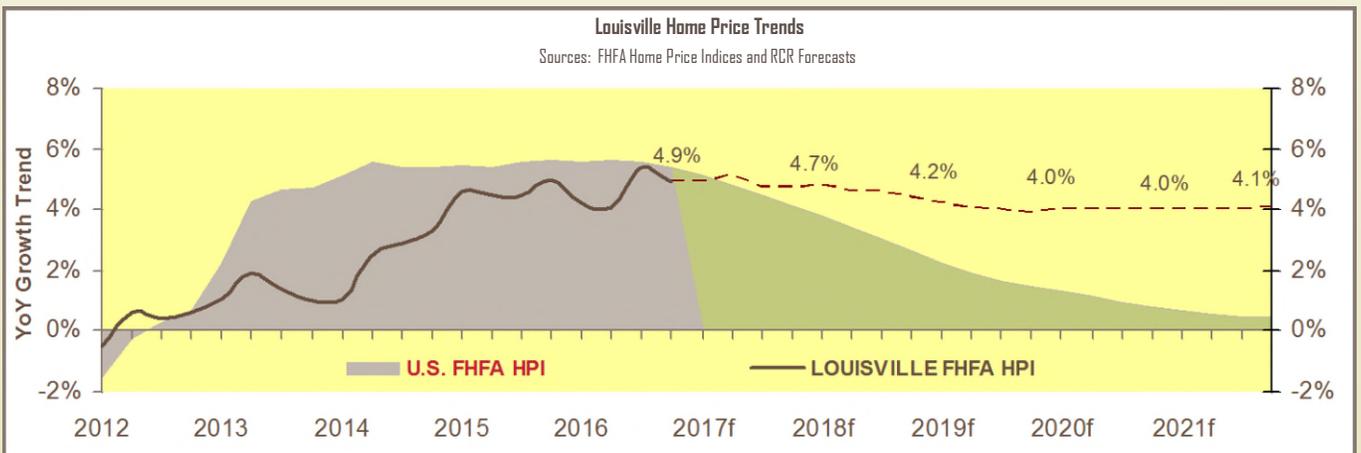
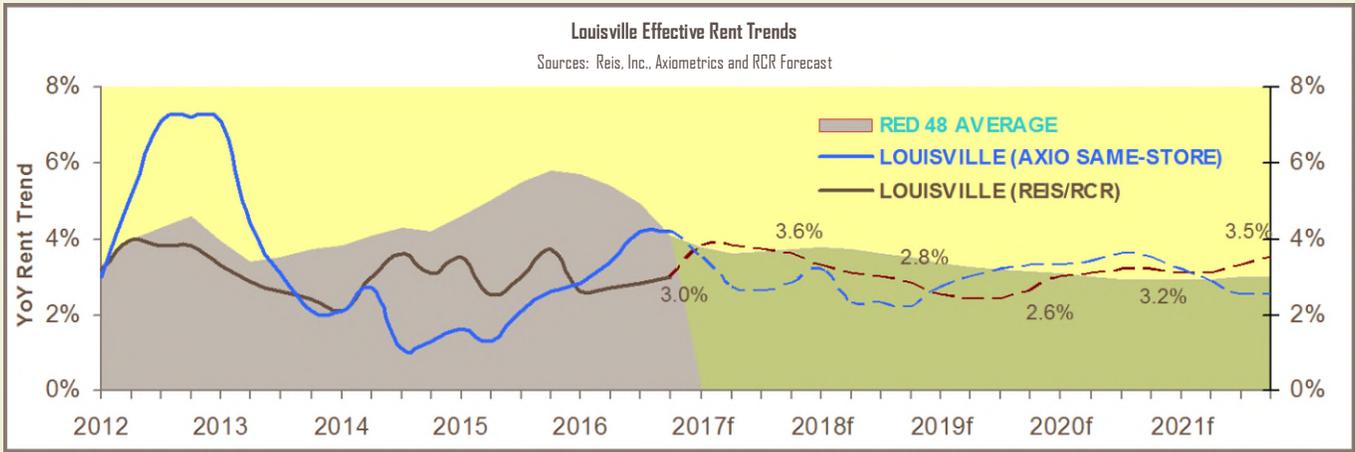
Cap rates for higher quality garden product were in the mid- to high 5% area. Standard class-B gardens traded to 6% to 6.5% yields. Class-B-/C product traded to high-6% to mid-7% caps.

RCR chose 6.0% as the LOU purchase cap rate proxy, a blend of typical class B and B+ levels. Using a 6.7% terminal cap rate and model derived rent and occupancy point estimates we calculate that a Louisville investor would expect to earn a 6.5% annual unlevered total return over 5-year hold. This ranks 40th among the 49 markets we econometrically model, hampered by the expected sharp decline in metro occupancy. Louisville's 3.34 risk-adjusted index ranks 37th among the RED 49 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
Clifton Ridge Apts. (East Central Louisville / Clifton)	C / MR GLR (1967)	30-Oct-2016	\$3.5	\$43,125	6.8%
Maple Brook Apts. (NE Jefferson Co. / East End / Fincastle)	B+ / GLR (2005)	14-Nov-2016	\$17.9	\$89,500	5.4%
Stonewater Park (NE Jefferson Co. / East End / Fincastle)	B+ / GLR (1972/2014)	23-Nov-2016	\$20.3	\$85,805	6.7%
Willowbrook Apts. (South Central / West Buechel)	B- / GLR (1970/2005)	30-Dec-2016	\$6.2	\$51,458	6.7%
Enclave Breckenridge (Chenoweth/Taylorville/Houston Acres)	B / GLR (1970/2015)	9-Jan-2017	\$34.0	\$90,426	5.6%
Park at Hurstbourne (South Central Louisville / Fern Creek)	B / GLR (1976/2005)	21-Mar-2017	\$52.9	\$74,123	6.4%



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SUBMARKET TRENDS

REIS Submarket	Reis Inventory Percent Change	Effective Rent			Physical Vacancy		Basis Point Change
		4Q15	4Q16	Change	4Q15	4Q16	
Chenoweth	0.0%	\$727	\$755	3.9%	7.6%	6.2%	-140 bps
East Central	2.4%	\$824	\$857	4.1%	4.4%	6.4%	200 bps
Jeffersonville	6.8%	\$669	\$671	0.3%	2.1%	1.8%	-30 bps
NE Jefferson County	0.0%	\$873	\$898	2.9%	5.2%	4.8%	-40 bps
South Central	4.8%	\$628	\$657	4.7%	3.2%	2.9%	-30 bps
SW Jefferson County	-1.8%	\$591	\$602	1.9%	5.6%	4.1%	-150 bps
West Central	10.1%	\$685	\$726	6.0%	12.6%	11.6%	-100 bps
Metro	0.9%	\$725	\$747	3.0%	5.4%	5.0%	-40 bps

Submarket	Axiometrics Same-Store Effective Rent Y-o-Y Growth				Physical Occupancy		Basis Point Change
	2Q16	3Q16	4Q16	1Q17	1Q16	1Q17	
Chenoweth	3.7%	3.4%	2.2%	4.1%	92.4%	93.0%	60 bps
East Central	2.3%	6.5%	12.5%	6.5%	91.5%	93.1%	160 bps
Jeffersonville	2.0%	1.6%	2.9%	3.9%	95.8%	94.2%	-160 bps
NE Jefferson County	3.5%	4.7%	4.1%	2.1%	95.2%	94.2%	-100 bps
South Central	1.8%	2.7%	2.4%	2.9%	96.6%	97.3%	70 bps
SW Jefferson County	4.5%	2.7%	2.8%	3.8%	95.2%	95.7%	50 bps
West Central	7.5%	8.5%	4.8%	6.4%	82.8%	77.0%	-580 bps
Metro	3.4%	4.2%	4.2%	3.5%	94.1%	93.6%	-50 bps

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