

PAYROLL JOB SUMMARY

Average Payrolls	2,001.2m
Annual Change 4Q16	35.4m (1.8%)
RCR 2017 Forecast	41.9m (2.1%)
RCR 2018 Forecast	25.8m (1.3%)
RCR 2019 Forecast	4.2m (0.2%)
RCR 2020 Forecast	-3.1m (-0.1%)
RCR 2021 Forecast	-3.9m (-0.2%)
Unemployment (NSA)	5.9% (2/17)

4Q16 PAYROLL TRENDS AND FORECAST

Job growth in the Detroit metro area continued at a brisk pace in 4Q16 as metro establishments hired at a 35,400-job, 1.8% year-on-year rate, on par with levels observed for the past three years. Strong vehicle sales were in part responsible: car and truck manufacturers added workers at a 2,700-job, 2.7% 4Q rate. But robust expansion in service industries was the headline story. Financial, business, healthcare and leisure service employers hired at a 22,700-job annual pace, the fastest rate in 12 months, including especially strong performances in the finance and insurance and food and accommodation service sub-sectors. Only retail trade exhibited meaningful weakness following six years of steady gains.

Seasonally-adjusted data were constructive, but depicted a recent moderate slowing trend. Detroit employers created 7,800 jobs in

4Q16, up from 6,300 in the year-ago comparison but substantially below the net 10,600- and 16,000-job adds recorded in 3Q16 and 2Q16, respectively. January and February also were slower as only 4,500 new positions were added, down from 7,200 in 2Q16.

RED Research macroeconomic models forecast better conditions in 2017, boosted by increased consumer spending, boding well for Motor City. But the longer-term environment is not benign. After mid-2018, GDP growth is expected to return to the "new normal" sub-2% growth recorded over the past 18 months. The impact of this slowdown will be magnified in Detroit by virtue of its reliance on consumer vehicle purchases. Our payroll model projects that metro job creation will decline about -38% in 2018, and further to near zero in the last three years of the 5-year forecast interval.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	97.7%
RED 51 Rank	1 st
Annual Chg. (Reis)	+0.2%
RCR YE17 Forecast	97.9%
RCR YE18 Forecast	98.6%
RCR YE19 Forecast	98.3%
RCR YE20 Forecast	98.3%
RCR YE21 Forecast	98.0%

4Q16 ABSORPTION AND OCCUPANCY RATE TRENDS

Apartment space demand was the strongest in four years last year as tenants leased a net of 1,699 units, up from 1,553 in 2015. But absorption was moderately weaker in the seasonally soft fourth quarter when renters occupied only 171, mostly class-A vacant units, fewest in a fall quarter since 2009. Supply also was modest (199 units), leaving metro occupancy essentially unchanged sequentially (+20 basis points year-on-year), maintaining Detroit in **RED 51** first position for the sixth consecutive quarter on 97.7%.

Axiometrics surveys of 219 stabilized, same-store metro properties generated a 95.5% average occupancy rate, down -70bps y-o-y. The relative small sample of "C" quality properties (96.3%) led among classes, followed by classes-A (95.9%) and -B (95.3%).

Among submarkets, Novi recorded highest occupancy on 97.2% (+70bps y-o-y). Pontiac was next on 97.0% (+100bps). Midtown and Dearborn submarkets recorded lowest occupancy, while Troy (-140bps) and Oak Park (-210bps) suffered the largest annual declines. New properties continued to lease-up briskly, absorbing an average of nearly 12 units per month (average size = 170 units).

Supply is poised to spike in 2017. Reis expect developers to deliver 1,923 units, the most since 1999. But **RED Research's** demand model suggests that absorption is likely to meet or exceed this amount. The model is relatively weak but it projects very useful occupancy trends throughout the 5-year forecast interval with the metro average rising and staying above 98% after 2017.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$913
Annual Change	5.1%
RED 51 Rent Change Rank	11 th
RCR YE17 Forecast	2.5%
RCR YE18 Forecast	2.8%
RCR YE19 Forecast	1.5%
RCR YE20 Forecast	1.2%
RCR YE21 Forecast	0.8%

4Q16 EFFECTIVE RENT TRENDS

After posting unusually rapid rent growth earlier in the year rent trends decelerated during the seasonally weaker fourth quarter. Average effective rent increased \$6 (0.7%) sequentially, down from \$14 (1.5%) in the prior quarter but in line with fourth quarter results in each of the previous five years. Annual comparisons were not affected, showing rents up 5.1% year-on-year, with 3Q16 the fastest rent growth recorded in the 27-year Reis series.

Axiometrics same-store comparisons largely agreed with Reis. This sample recorded 5.2% y-o-y growth, consistent with readings in each of the previous three quarters. Contrary to national form, the class-A segment (8.5%) provided most of the momentum, paced by a sterling 9.4% advance at high-rise properties. Classes

-B (2.9%) and -C (2.8%) trailed far behind. High-rise centric Downtown (9.7%) led among submarkets, followed by Troy (7.6%) and Farmington Hills (7.3%). Suburban Novi, Macomb and Livonia trailed the pack with sub-4% annual advances.

RCR analysis of the Reis Detroit rent growth history finds that metro personal income and occupied stock growth are the biggest influences on the metro's ambulant rent trends. While the absorption and occupancy outlooks are constructive we project that metro income trends will suffer as the U.S. economy slows in late decade. For this reason our rent model forecasts below average rent trends after 2018. The risk is to the upside, however, as historical models may not accurately reflect current conditions.

TRADE & RETURN SUMMARY

\$3mm+ / 80-unit+ Sales	22
Approximate Proceeds	\$223mm
Average Cap Rate (FNM)	6.1%
Average Price / Unit	\$36,089
Expected Total Return	6.5%
RED 48 ETR Rank	40 th
Risk-adjusted Index	3.55
RED 48 RAI Rank	19 th

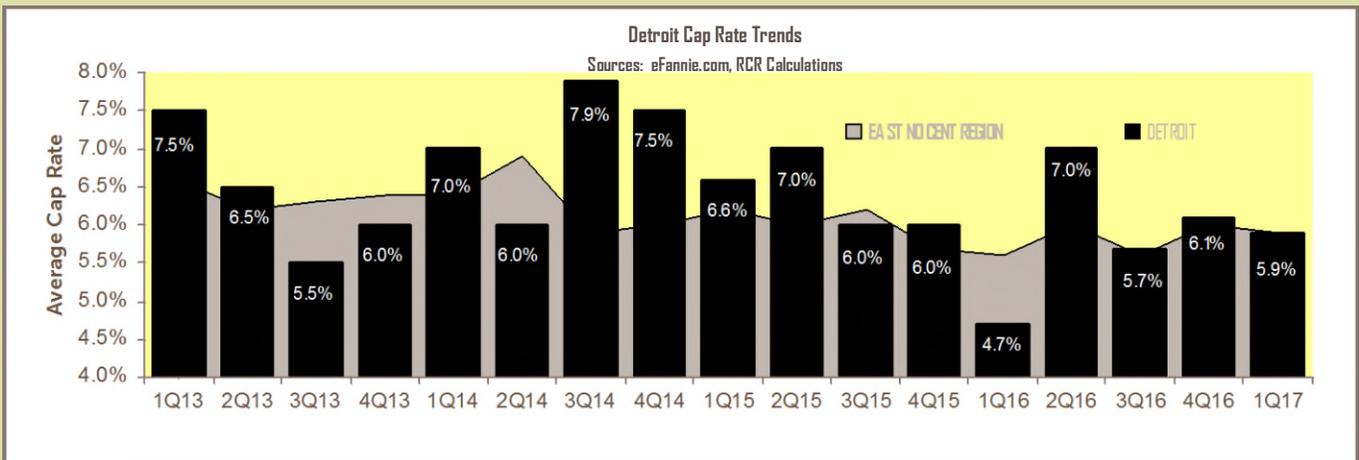
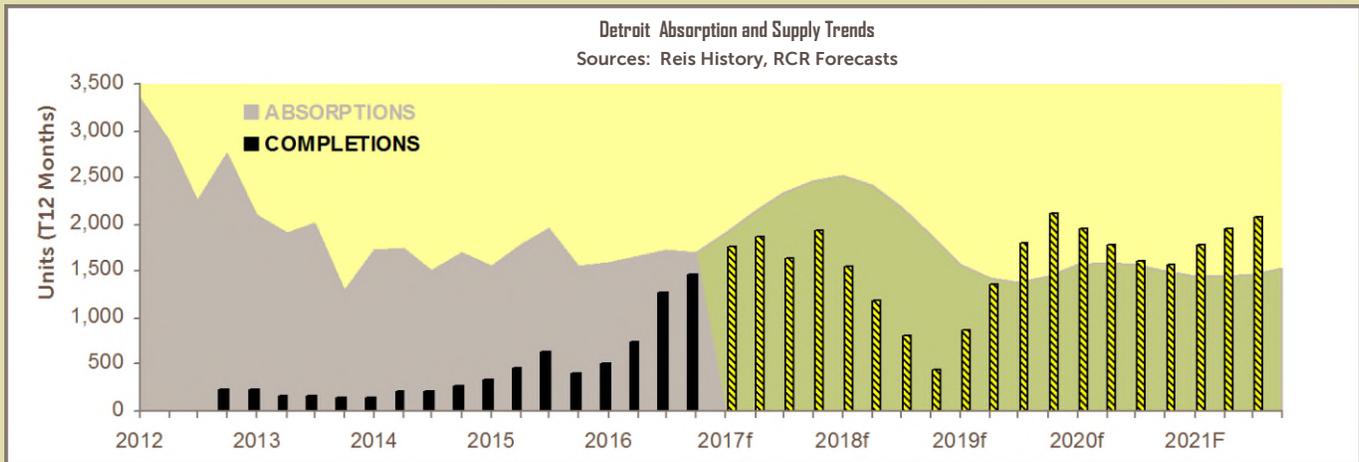
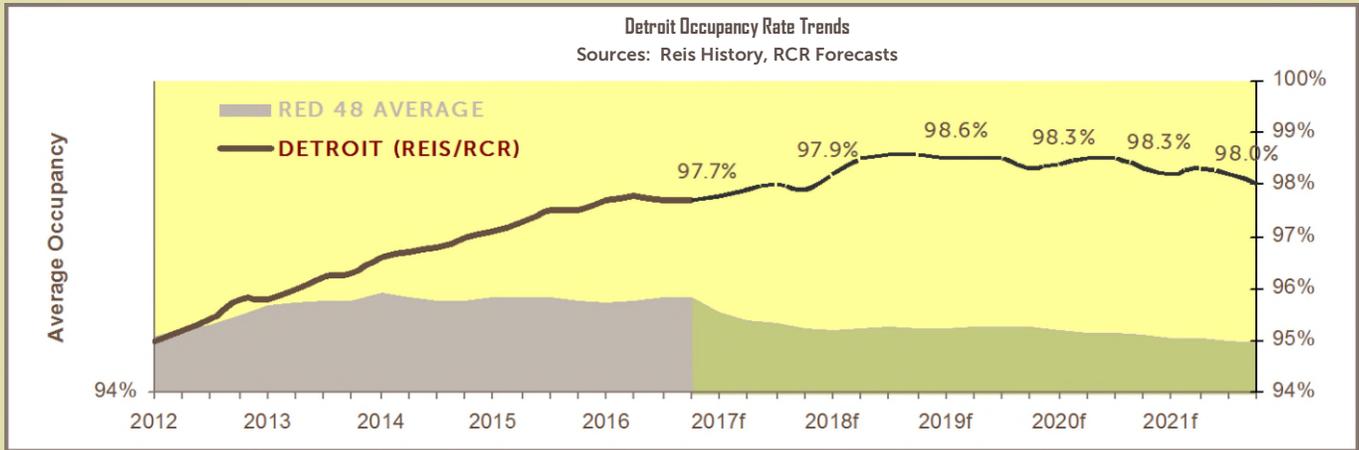
4Q16 PROPERTY MARKETS AND TOTAL RETURNS

Trade velocity in the fourth quarter was the fastest in 10 years as investors acquired 22 properties valued at \$3 million or more for total proceeds estimated to exceed \$200 million. These data compare to 20 transactions valued at more than \$225 million closed during the previous quarter and 10 trades for ~\$150mm in 4Q15. Buyers appeared to move down the quality curve, focusing on value-add renovation plays. The average purchase price of transactions for which pricing data were available was only \$36,089, the lowest metric recorded since 1Q14.

Transaction activity slowed considerably during 1Q17. Only six trades were consummated during the quarter, down -73% sequentially and -54% from 1Q16, but two totaled more than \$100 million.

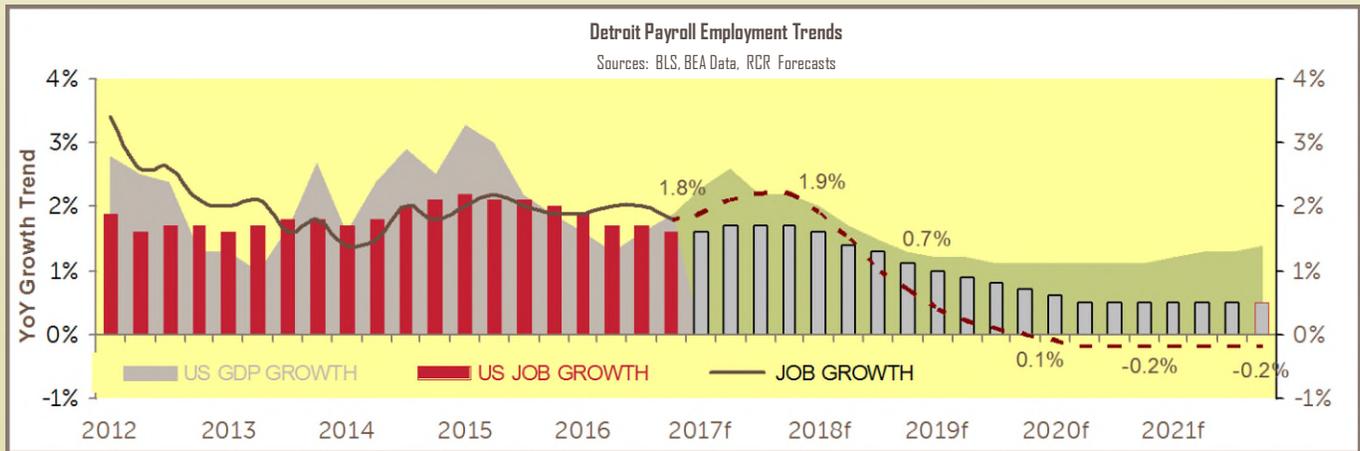
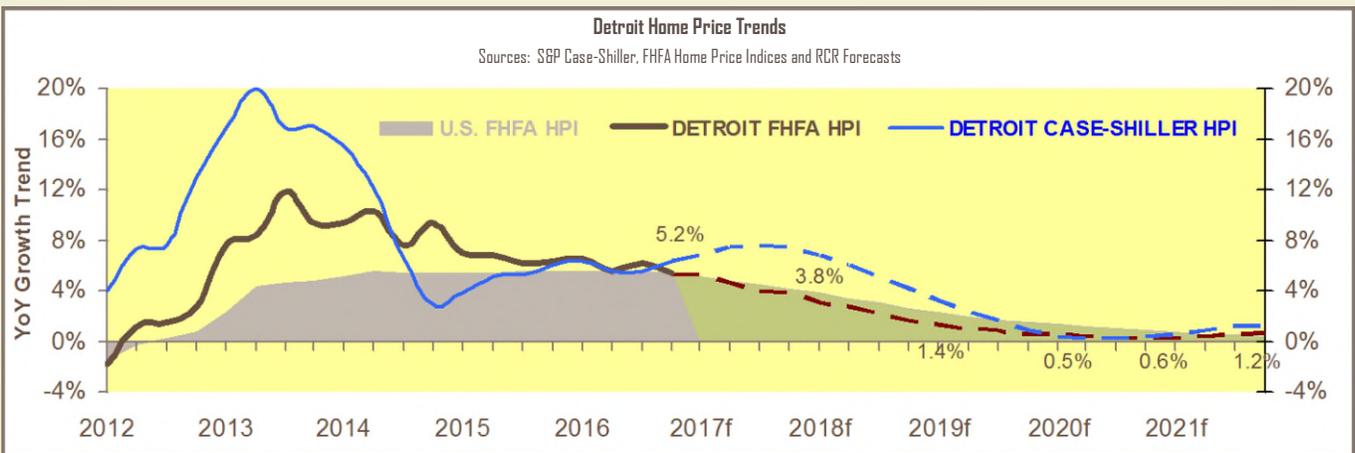
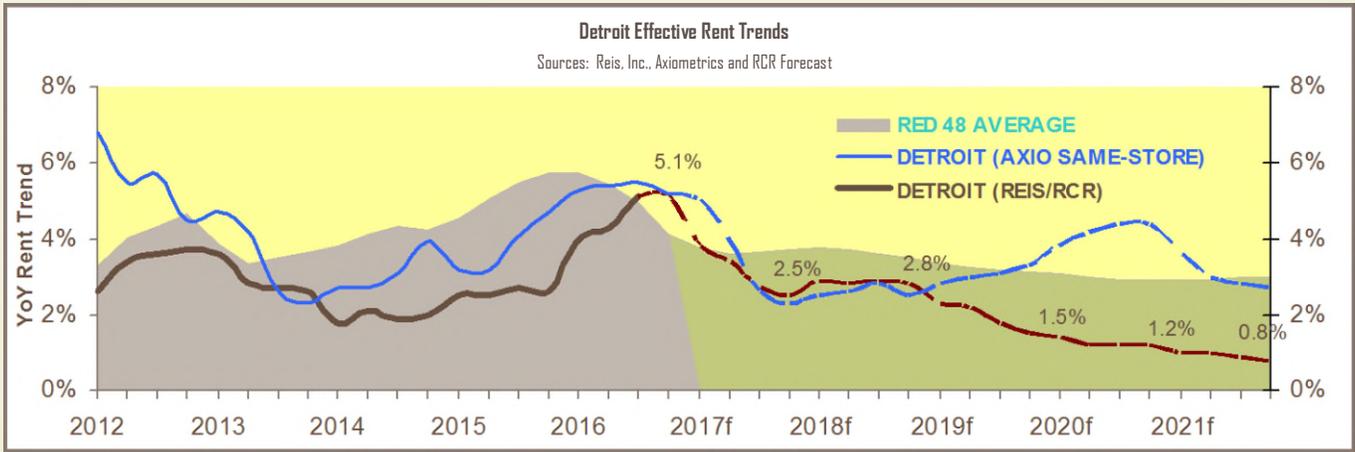
Cap rates were mostly above 6%. Recent construction product likely would trade to mid-5% yields but there is little hard evidence to verify it. Class-B+/A- suburban gardens trade in the low-6s, value-add low-rise properties in the mid-6% to mid-8% range.

RCR are of the mind that 6.25% is a valid cap rate proxy for investment quality B/B+ assets. Using a terminal cap rate of 6.9% and model derived rent and occupancy point estimates we calculate that an investor would expect to achieve a 6.4% unlevered annual return over a five-year hold. This ranks 40th among the **RED 48** peer group. Detroit cash flow volatility is low but model standard error is surprisingly high. As a result, DET risk-adjusted returns rank only 31st in the **R48** on this basis, low for the Midwest Region.



NOTABLE TRANSACTIONS

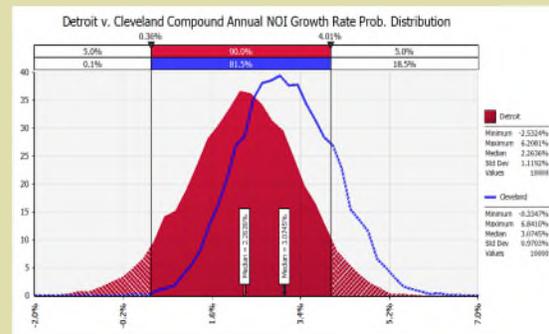
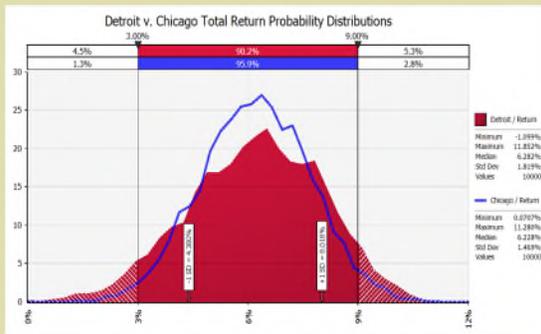
Property Name (Submarket)	Property Class/Type (Constr.)	Approx. Date of Transaction	Total Price (in millions)	Price / Per Unit	Estimated Cap Rate
Lakeview Apartments (Farmington Hills)	C+ / GLR (1979/2008)	17-Oct-2016	\$8.8 (est.)	\$68,750	6.25%
Woodland Arms (Midtown / West Detroit / Berg-Lahser)	B- / LR (1963)	28-Oct-2016	\$3.2	\$19,207	8.0%
Parks of Belleville (Westland / Van Buren Township)	B / LR (1973/2000)	7-Nov-2016	\$9.2	\$54,911	8.5%
Restoration Towers (Livonia / Redford Township)	Sr. Sect B / MB MR (1980)	21-Dec-2016	\$9.7 (est.)	\$65,986	6.3%
Chimney Hills Apts. (Farmington Hills/West Bloomfield Twps.)	A- / GLR (1986)	12-Jan-2017	\$52.1	\$158,841	6.0%
Crossings at Canton (Westland / Canton / Plymouth)	B- / MB LR (1968)	1-Mar-2017	\$52.3	\$70,329	6.7%



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SUBMARKET TRENDS (REIS)

Submarket	Reis Inventory Percent Change	Effective Rent			Physical Vacancy		
		4Q15	4Q16	Change	4Q15	4Q16	Basis Point Change
Ann Arbor	2.0%	\$996	\$1,080	8.5%	1.7%	1.8%	10 bps
Dearborn/Dearborn Ht.	0.0%	\$797	\$814	2.1%	2.5%	2.3%	-20 bps
Downriver/South Wayne	0.0%	\$758	\$782	3.1%	1.3%	1.1%	-20 bps
Downtown	1.6%	\$1,013	\$1,073	6.0%	5.8%	2.5%	-330 bps
Farmington Hills	0.0%	\$1,014	\$1,040	2.5%	3.6%	3.5%	-10 bps
Macomb County	0.3%	\$765	\$804	5.0%	1.8%	1.6%	-20 bps
Midtown / West Detroit	3.2%	\$605	\$648	7.2%	6.6%	5.2%	-140 bps
Novi / Livonia	0.0%	\$914	\$966	5.7%	3.9%	3.9%	0 bps
Oak Park / Royal Oak	1.2%	\$742	\$767	3.4%	0.8%	1.3%	50 bps
Pontiac / Waterford	0.2%	\$876	\$925	5.6%	3.1%	2.7%	-40 bps
Southfield	0.8%	\$943	\$993	5.3%	1.9%	2.3%	40 bps
Troy	-0.7%	\$1,071	\$1,151	7.6%	1.6%	1.6%	0 bps
Westland	0.3%	\$781	\$802	2.7%	1.3%	1.4%	10 bps
Metro	0.7%	\$869	\$913	5.1%	2.5%	2.3%	-20 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

