

### PAYROLL JOB SUMMARY

Average Payrolls (IQ17)	1,162.0m
Annual Change IQ17	34.9m (3.1%)
RCR 2017 Forecast	34.1m (3.0%)
RCR 2018 Forecast	28.0m (2.4%)
RCR 2019 Forecast	20.8m (1.7%)
RCR 2020 Forecast	16.7m (1.4%)
RCR 2021 Forecast	17.8m (1.4%)
Unemployment (NSA)	4.7% (2/17)

### 4Q16 PAYROLL TRENDS AND FORECAST

Charlotte posted strong job creation numbers early in 2017. Establishments created payroll jobs at a robust 34,900-job, 3.1% annual rate, marginally slower than 2016's powerful 40,700-job, 3.7% performance but nearly twice as fast as the U.S. average (1.6%). Skilled service industries remained the primary catalysts as financial, business and health care concerns hired at a 16,900-job, 4.5% year-on-year rate, up from 4Q16's 14,200-job pace. Goods producing and consumer-driven sectors, on the other hand, were a mixed bag. Retailer and government headcounts grew at an 8,800-job y-o-y rate, up slightly from the previous quarter; but construction, manufacturing, and wholesale trade expanded at less than half the rate observed in 4Q16. Moreover, hiring in the fast growing accommodation and food service segment slowed materially, decelerating to a 2,000-job, 1.9% trot from CY2016's 5,000-job, 5.0% gallop.

Seasonally-adjusted data hinted that a more dramatic slowdown may be underway. This series indicates that Charlotte employers created only 6,800 jobs in 4Q16 and 4,300 in IQ17. The latter outcome was the weakest single quarter print since 2013, and the smallest first quarter add since recessionary 2009.

RED Research's CLT payroll model suggests that 2017 is likely to be another strong year. The 96.4% adjusted-R<sup>2</sup> (S.E.=0.5%) model uses the rate of change of U.S. job growth, S&P returns<sub>(t-3)</sub>, and 10-year Treasury<sub>(t-1)</sub> and Baa-rated bond yields as independent variables. The model anticipates one more year of 3%+ job growth before a weaker macroeconomic backdrop pulls Charlotte employment growth down to the mid-1% to mid-2% range for the duration of the 5-year forecast interval.

### OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	94.1%
RED 51 Rank	50 <sup>th</sup>
Annual Chg. (Reis)	-1.6%
RCR YE17 Forecast	93.3%
RCR YE18 Forecast	93.0%
RCR YE19 Forecast	93.7%
RCR YE20 Forecast	94.2%
RCR YE21 Forecast	94.3%

### 4Q16 ABSORPTION AND OCCUPANCY RATE TRENDS

Renters expressed vigorous demand for apartment space in the fall quarter, occupying a net of 1,071 vacant units (Reis). This compares to net absorption of 792 units during the comparable period of 2015. By the same token, developers completed a total of 1,738 units in 4Q16, causing metro occupancy to tumble -50 basis points sequentially (-160bps year-on-year); in each case one of largest declines observed among major metro markets. Preliminary IQ17 data show a dramatic about face as Charlotte occupancy advanced 30bps over the winter from an upwardly revised 94.4% to 94.7%.

highest for the 9<sup>th</sup> consecutive quarter, leading classes-A (94.6%) and -B (94.3%). Submarket rates ranged from 93.5% (Carmel) to 96.2% (Concord). Supply pressured Downtown (-160bps) and West Charlotte (-140bps) experienced the largest annual declines. Mid- and high-rise buildings held their ground (95.1%/-20bps).

Axiometrics surveys of 427 stabilized, same-store properties recorded 95.0% and 94.7% rates in 4Q16 and IQ17, respectively, unchanged and up 10bps y-o-y. Class-C (96.2%) occupancy was

RCR's CLT demand model uses the rate of change of stock growth, job and home price<sub>(t-3)</sub> growth and occupancy<sub>(t-3)</sub> as independent variables in an equation that forecasted 93.4% of historical changes in Reis-series occupied stock growth (S.E.=0.48%). The model projects net absorption of 5,100 and 4,500 units in 2017 and 2018. But this robust outcome will fall about 2,300 units short of Reis projected supply, causing occupancy to fall about -110bps by YE18.

### EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$921
Annual Change	4.3%
RED 51 Rent Change Rank	19 <sup>th</sup>
RCR YE17 Forecast	1.3%
RCR YE18 Forecast	2.0%
RCR YE19 Forecast	2.9%
RCR YE20 Forecast	3.7%
RCR YE21 Forecast	4.3%

### 4Q16 EFFECTIVE RENT TRENDS

After seven consecutive quarters of year-on-year effective rent growth of 5% or faster, Charlotte trends decelerated materially in the fourth quarter. Rents increased only \$4 (0.5%) sequentially (Reis), the smallest one-quarter gain in three years, and the y-o-y comparison slipped to a two-year low 4.3%. Preliminary data suggest that rent momentum faltered further during IQ17: asking rents fell -0.3% sequentially, the first such decline in eight years.

trast, classes-C (4.9%) and -B (4.6%) continued to post strong results. Properties in three submarkets (East Charlotte, Gaston Co., North Pineville) notched 5% or faster IQ17 gains, while largely class-A Downtown (-2.1%) and West Charlotte (0.5%) lagged.

Axiometrics surveys of stabilized same-store assets exhibit a similar if less dramatic pattern. Overall, y-o-y rent growth declined from 4.9% in 3Q16, to 4.7% in 4Q16, and 4.1% in IQ17. But the "A" segment recorded much weaker conditions, slowing from a peak of 5.0% in IQ16 to 0.5% and 0.4% in 4Q16 and IQ17. By con-

RCR's CLT rent model is among the strongest in the RED 49, sporting a 96.1% adjusted-R<sup>2</sup> (S.E.=0.6%). The model uses six lags of the dependent variable, occupancy, the Baa/10-year spread and home price appreciation as variables. The equation generates a weak forecast for 2017-2018, as occupancy and home appreciation rates are projected to decline. After 2018, occupancy is expected to recover and appreciation rates stabilize, allowing rent growth to regain momentum, rebounding to the 3% to 4% range by 2020.

### TRADE & RETURN SUMMARY

\$5mm+ / 80-unit+ Sales	19
Approximate Proceeds	\$654.5mm
Average Cap Rate (FNM)	5.8%
Average Price / Unit	\$134,611
Expected Total Return	7.1%
RED 48 ETR Rank	23 <sup>rd</sup>
Risk-adjusted Index	3.42
RED 48 RAI Rank	34 <sup>th</sup>

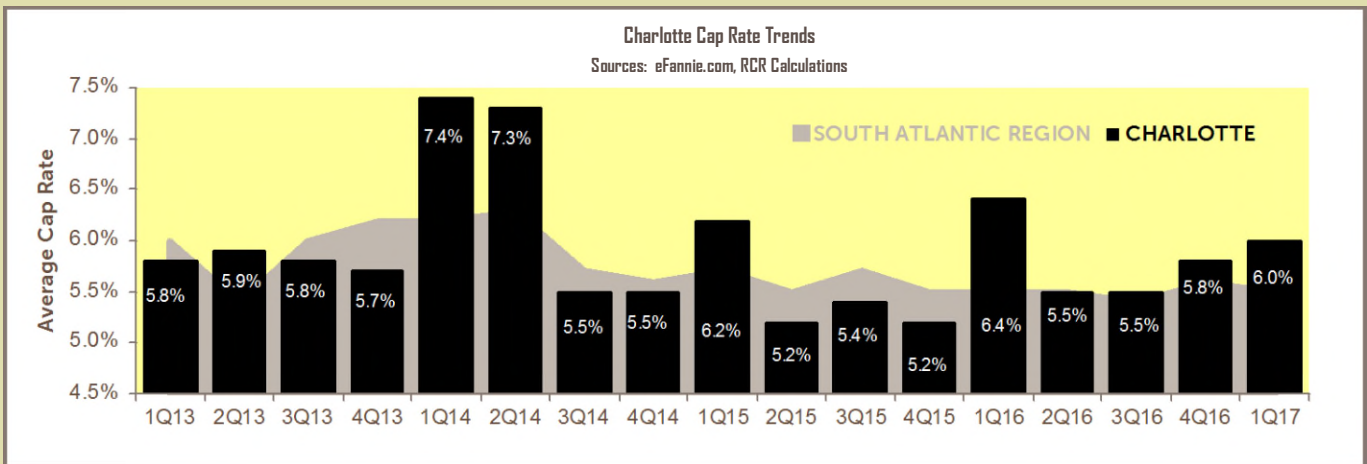
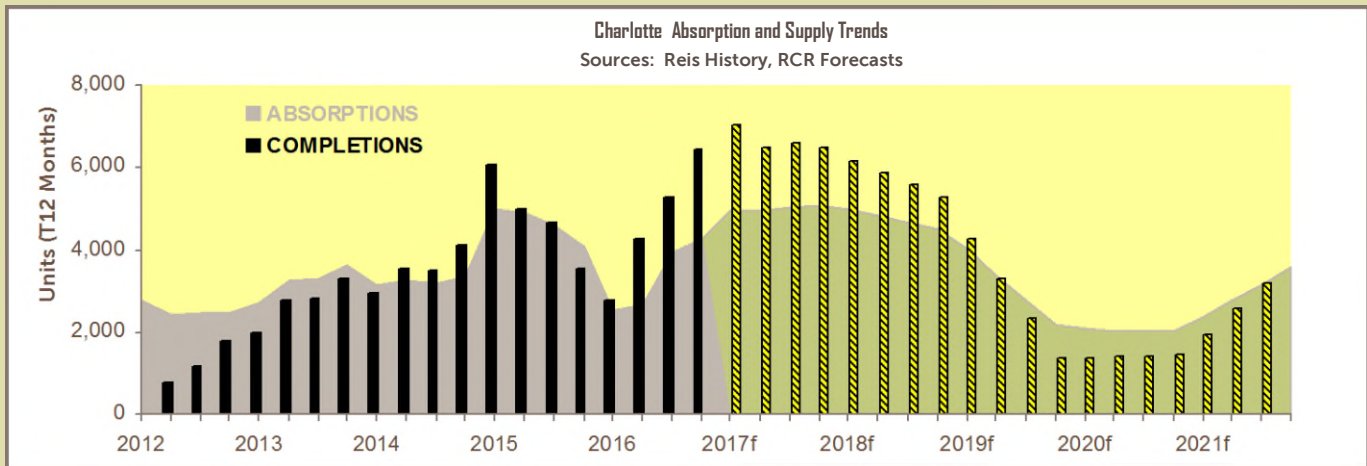
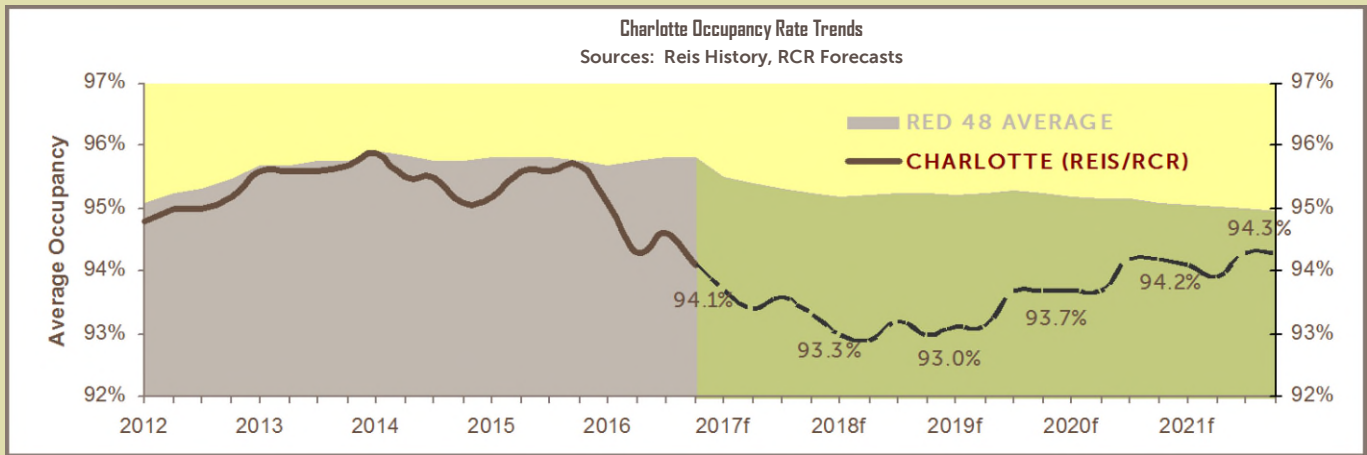
### 4Q16 PROPERTY MARKETS AND TOTAL RETURNS

Sales velocity and sale proceeds were strong in the fourth quarter. Nineteen properties valued at \$5 million or more exchanged hands for total proceeds of \$655mm. The average price per unit sold metric was \$134,611. These results compare to 20 transactions for \$464mm (\$103,111/unit) recorded in the previous quarter and 15 trades for \$414mm (\$118,023/unit) in 4Q15. Activity in the first quarter 2017 was moderately slower: 15 properties closed for \$554.3mm (\$122,308/unit). By way of comparison, IQ16 saw 28 closings for total proceeds of \$414.4mm (\$118,023/unit), equal highest one quarter trade count in ten years.

tated toward pro forma yields in the low- to mid 5s. Class-B+ suburban garden complexes and class-B value adds were priced to generate mid-5% to 6% going-in yields. Class-B/C assets traded to capitalization rates ranging from about 6.25% to 6.75%.

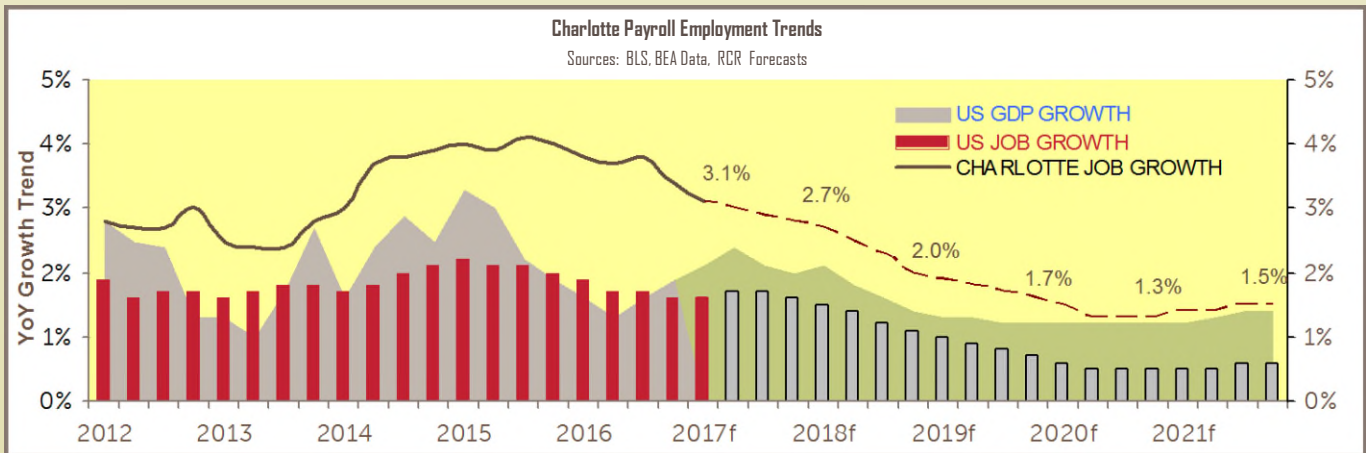
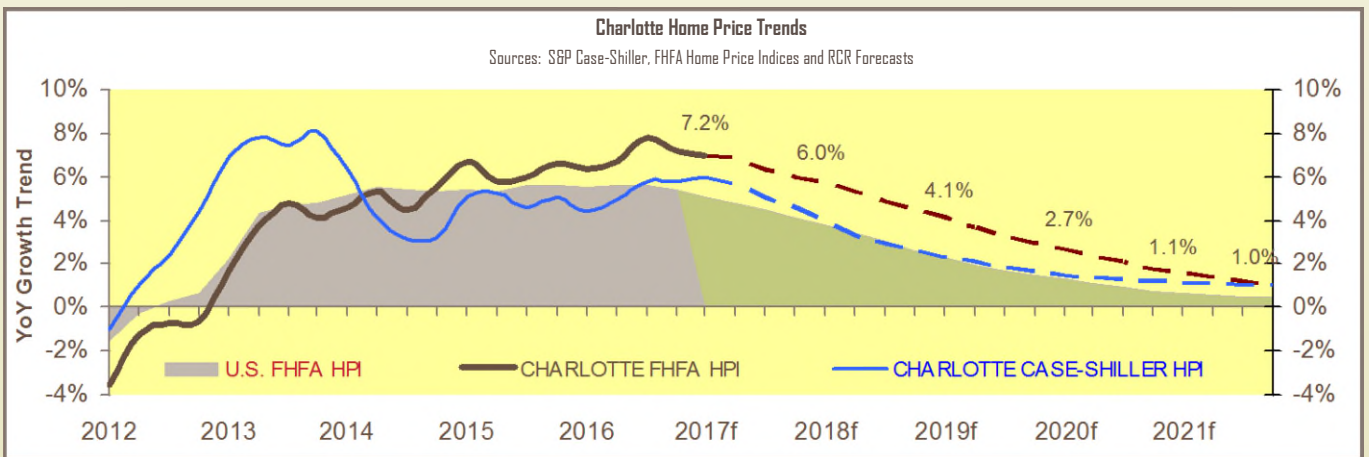
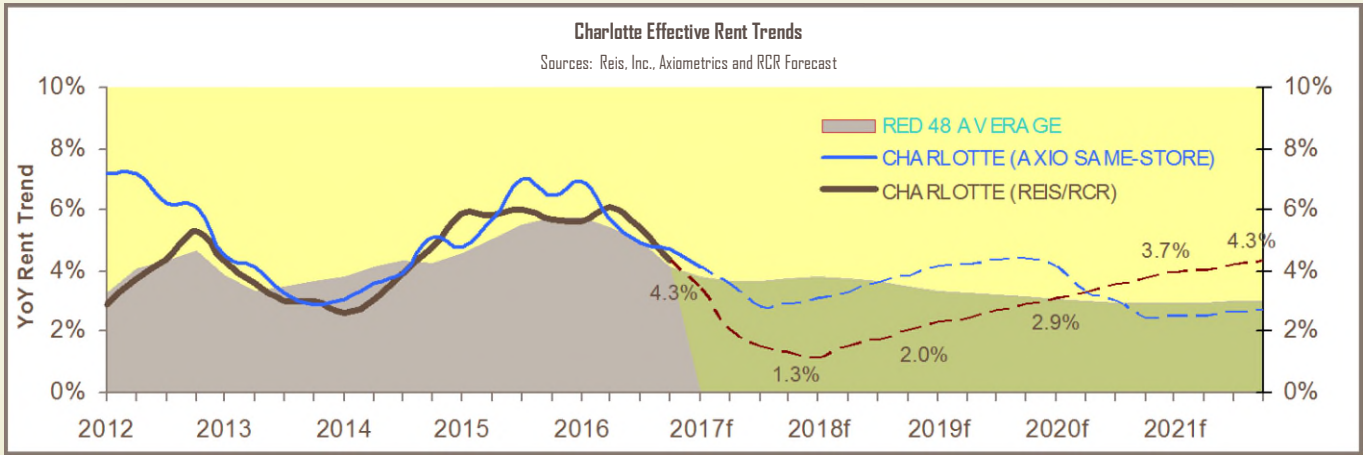
Cap rates averaged about 6% over the past six months, roughly where they have hovered since 2015. Infill mid-rise trophies gravi-

RCR elected to raise the CLT purchase cap rate 0.1% to 5.5% to take into account a modest upward drift in trophy property yields. Using a 6.1% terminal cap rate and model derived rent and occupancy point estimates we now calculate that a Charlotte investor would expect to achieve a 7.1% unlevered internal rate of return on a 5-year hold of a standard class-B/B+ asset. This ranks RED 49 #23. Above average rent and occupancy volatility hinders risk-adjusted returns. Charlotte's Risk-adjusted Index ranks R49 34<sup>th</sup>.



## NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class/Type (Constr.)	Approx. Date of Transaction	Total Price (in millions)	Price / Per Unit	Estimated Cap Rate
Alexander Place Apts. (Rowan County / Salisbury)	C / GLR (1998)	10-Oct-2016	\$7.6	\$44,444	6.7%
Matthews Lofts (East Charlotte-Albemarle / Matthews)	B+ / LR (2010)	8-Nov-2016	\$10.4	\$128,395	6.1%
Marq Midtown (East Charlotte-Central Ave. / Cherry)	A- / SR MR (2015)	22-Nov-2016	\$63.4	\$242,720	3.7% / 5.2% p.f.
Loft 135 (West Charlotte-Airport / South End / Carson)	A+ / WF MR	29-Dec-2016	\$78.5	\$263,423	3.6% / 5.4% p.f.
Rock Creek at Ballantyne (Carmel / Ballantyne)	A- / GLR (1996)	1-Feb-2017	\$54.6	\$165,303	5.5%
Morehead West Apts. (West Charlotte-Airport / Ashley Park)	B+ / MB MR (2015)	25-Mar-2017	\$30.4	\$144,060	6.0%



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## SUBMARKET TRENDS (REIS)

Submarket	Reis Inventory Percent Change	Effective Rent			Physical Vacancy			Basis Point Change
		4Q15	4Q16	Change	4Q15	4Q16		
Carmel	7.6%	\$986	\$1,013	2.7%	1.9%	6.2%	430 bps	
Concord / N Concord	0.0%	\$765	\$788	3.0%	6.3%	2.0%	-430 bps	
Downtown	15.1%	\$1,347	\$1,398	3.8%	12.4%	10.9%	-150 bps	
East / Albemarle	3.6%	\$710	\$728	2.5%	1.9%	3.7%	180 bps	
East/Central Avenue	13.8%	\$773	\$931	20.5%	3.8%	8.3%	450 bps	
Fairview North	14.1%	\$954	\$1,000	4.9%	4.8%	14.0%	920 bps	
Gaston County	0.0%	\$728	\$766	5.2%	7.7%	4.5%	-320 bps	
Harris Blvd	3.9%	\$895	\$914	2.1%	5.0%	6.0%	100 bps	
North Tryon Street	0.4%	\$673	\$710	5.5%	5.0%	2.9%	-210 bps	
North Pineville	4.5%	\$831	\$861	3.5%	3.0%	3.4%	40 bps	
Northwest Charlotte	6.0%	\$1,048	\$1,068	1.9%	6.2%	7.4%	120 bps	
West Charlotte	2.8%	\$1,086	\$1,074	-1.1%	7.4%	3.8%	-360 bps	
Metro	5.7%	\$883	\$921	4.3%	4.3%	5.9%	160 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

