

PAYROLL JOB SUMMARY

Average Payrolls	1,094.3m
Annual Change 4Q16	17.8m (1.7%)
RCR 2017 Forecast	17.9m (1.7%)
RCR 2018 Forecast	14.7m (1.3%)
RCR 2019 Forecast	9.7m (0.9%)
RCR 2020 Forecast	5.5m (0.5%)
RCR 2021 Forecast	4.3m (0.4%)
Unemployment (NSA)	4.7% (1/17)

4Q16 PAYROLL TRENDS AND FORECAST

Cincinnati employment growth was steady in the fourth quarter of 2016, rising at a 17,800-job, 1.7% year-on-year rate, matching the growth rates observed in each of the previous two quarters. Indeed, job creation was almost ineffably consistent over the past three years as metro establishments created 17,200, 19,000 and 19,100 positions in 2014, 2015 and 2016, respectively.

Goods producing sectors continued to record constructive head-count gains: construction, manufacturing and wholesale trade concerns hired at a 5,000-job, 2.3% year-on-year rate in 4Q, mirroring the performance observed over the past 36 months. Retail trade and financial services also posted strong results, surging at a 8,200-job, 4.5% y-o-y pace, up from 3.4% in 3Q. Lodging and food services were the only noticeable area of weak-

ness, recording the slowest advance in more than seven years.

Seasonally-adjusted data were consistent. This series recorded net payroll gains of 9,800 and 8,500 jobs in 4Q and 3Q16, up from 6,100 and 2,900 in the comparable quarters of 2015. Growth was slower in January and February, however, when only 400 jobs were added.

RED Research analysis finds that Cincinnati payroll growth is closely correlated with national output and job growth. Our 95.2% adjusted-R² forecasting equation uses the rate of change of U.S. job growth and nominal GDP and PCE_(t-5) growth as independent variables, plus just one lag of the dependent variable. Like our base macro forecast, metro economic growth is projected to decelerate materially after posting one more year of robust progress.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	96.1%
RED 51 Rank	23 rd
Annual Chg. (Reis)	-0.4%
RCR YE17 Forecast	95.0%
RCR YE18 Forecast	95.1%
RCR YE19 Forecast	94.7%
RCR YE20 Forecast	94.5%
RCR YE21 Forecast	94.3%

4Q16 ABSORPTION AND OCCUPANCY RATE TRENDS

Space demand was constructive during the seasonally-softer fourth quarter. Renters occupied a net of 465 vacant units, according to Reis, comparing favorably to absorption of 277 and 240 units in the prior and year-earlier quarters, respectively. Developers delivered 380 units, limiting the sequential occupancy advance to 10 basis points to 96.1%. Preliminary data indicate occupancy increased another 10bps in 1Q17, reaching 96.2%.

Axiometrics surveys of 169 stabilized, same-store properties recorded lower, moderately weaker conditions. Occupancy in this sample was 94.5% (-0.3% year-on-year) in 4Q16, and 93.6% (-1.0% y-o-y) in 1Q17. The "A" segment was the class leader in 1Q17 on 94.3%, followed by classes-C (93.6%) and -B (93.4%). Class-B

(-1.3%) and -A (-1.1%) properties suffered the largest y-o-y declines, reflecting developing competitive pressures from properties in lease-up. Class-C occupancy slipped only -0.3%. Among submarkets, Northeast (95.6%) and Clermont (95.2%) were leaders. Downtown fell -0.9% sequentially to 94.5%, and Blue Ash (89.5%) and Butler/Warren Counties (92.9%) trailed.

The **RCR** demand model expects absorption of about 1,000 units in each of 2017 and 2018, but supply promises to be much higher. Metro occupancy is likely to be under supply pressure through 2019, when average occupancy may fall to the mid-94% area. After 2019, supply and absorption should return to near equilibrium for the remainder of the five-year forecast interval.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$813
Annual Change	4.1%
RED 51 Rent Change Rank	26 th
RCR YE17 Forecast	3.3%
RCR YE18 Forecast	2.9%
RCR YE19 Forecast	2.5%
RCR YE20 Forecast	2.3%
RCR YE21 Forecast	2.1%

4Q16 EFFECTIVE RENT TRENDS

Cincinnati posted a fifth consecutive quarter of four percent or faster year-on-year rent growth in 4Q16, a considerable achievement for a market that previously posted gains of this magnitude in only five quarters over the previous 24 years, only once successively. Rent increased 4.1% in 4Q16, well placed on 26th among the **RED 51** primary and secondary markets. But signs of slowing were evident. Rents increased only 0.3% sequentially in 4Q, slowest since 2010, and preliminary asking rent data indicate that 1Q17 was weaker still on 0.1%. A 1Q17 y-o-y advance of about 3.0% is likely.

Axiometrics surveys of stabilized same store properties were more optimistic. This sample produced average gains of 4.4% in 4Q16, and 3.8% in 1Q17. The class-A segment notched a solid 3.1%

advance despite mounting supply pressure, while class-B provided the most momentum with a 4.3% gain. Clermont (6.9%) and Butler/Warren (4.9%) Counties chalked down the fastest growth. Conversely, supply challenged Downtown continued to struggle, recording only a 0.5% annual advance, down from 1.6% in 4Q16.

RCR elected to use a simple, concise model for CINC rent growth, employing the first lags of the dependent variable and Indianapolis rent growth, the yield of Baa-bonds_(t-1), and GDP_(t-1) and metro payroll growth as variables. The 85.9% ARS (S.E.=0.57%) model foresees slower but useful rent growth unfolding for the duration of the 5-year forecast interval. Rents are projected to rise at a 2.6% compound annual rate, ranked 38th fastest in the **RED 49**.

TRADE & RETURN SUMMARY

\$2mm+ / 80-unit+ Sales	13
Approximate Proceeds	\$119.8mm
Average Cap Rate (FNM)	6.0%
Average Price / Unit	\$66,134
Expected Total Return	7.1%
RED 48 ETR Rank	19 th
Risk-adjusted Index	6.00
RED 48 RAI Rank	19 th

4Q16 PROPERTY MARKETS AND TOTAL RETURNS

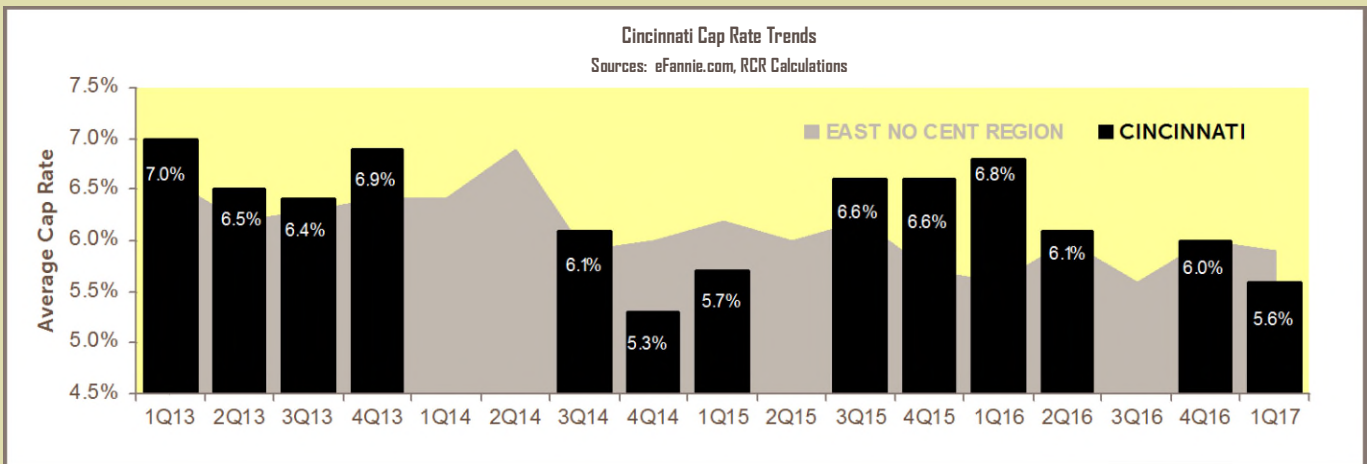
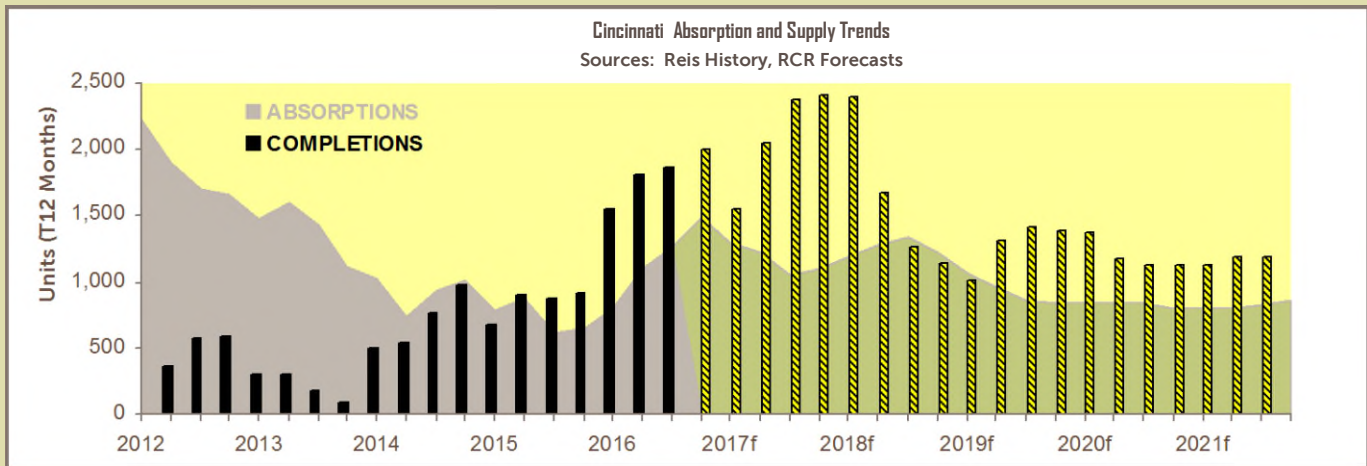
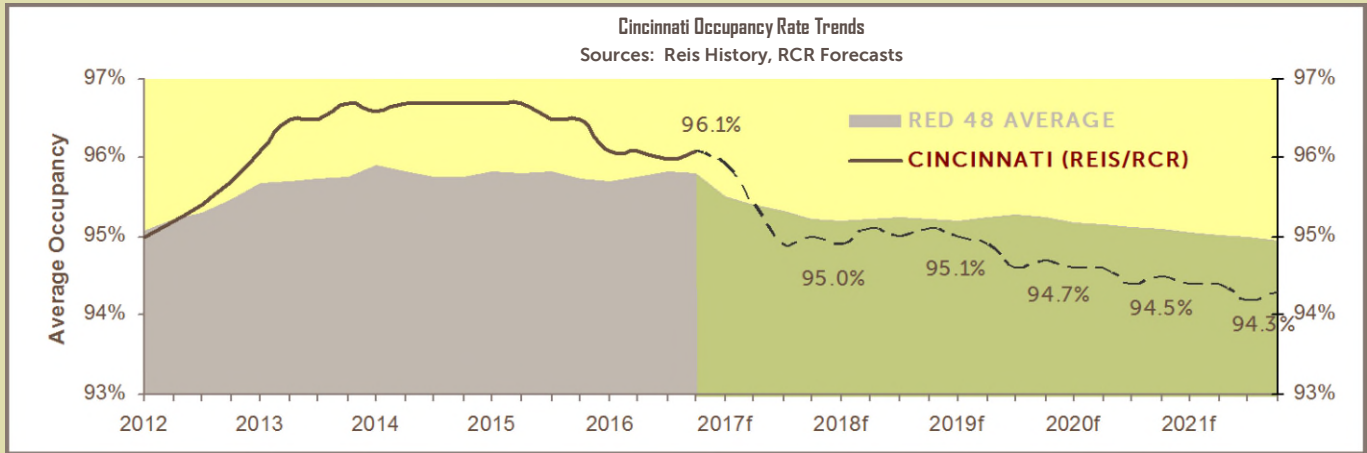
Buyers were active in the Cincinnati property market in 4Q16, acquiring 13 properties valued at \$2 million or more for gross proceeds of approximately \$120mm. Trade velocity was the highest observed here since 1Q06, and total volume was the highest since 1Q14. The average price of units sold was \$66,134, down 12% from 3Q16's \$72,490 figure but up 28% from the year-earlier quarter.

By contrast, 1Q17 was seasonally slower. Only three properties exchanged hands for \$40.2mm, on par with 1Q16's five transactions for total sales volume of approximately \$35.6mm.

Recent trade provided some needed price discovery. Sales included everything from class-C value-adds to class-A infill and suburban

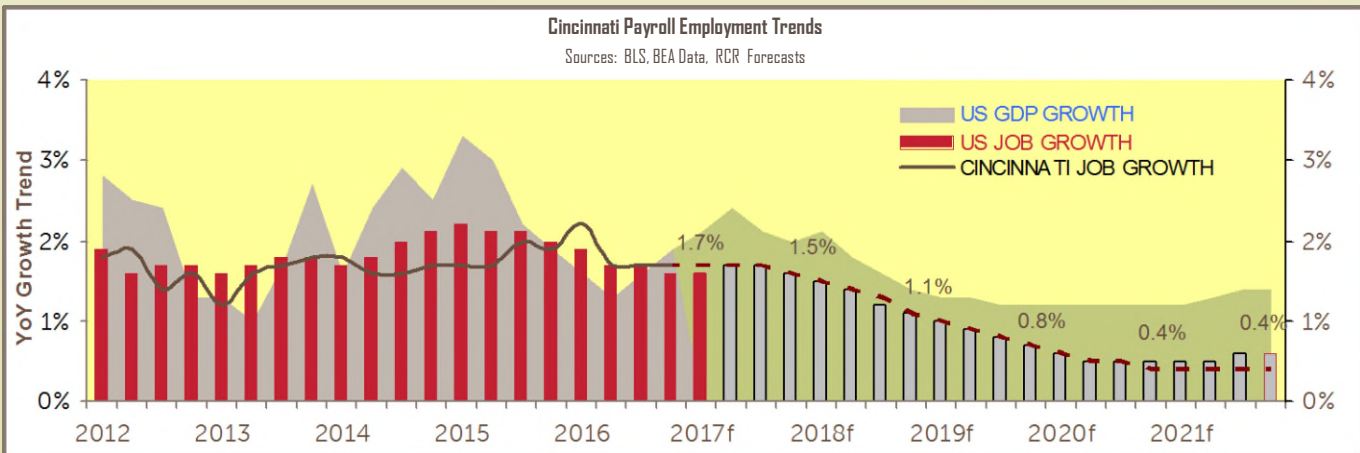
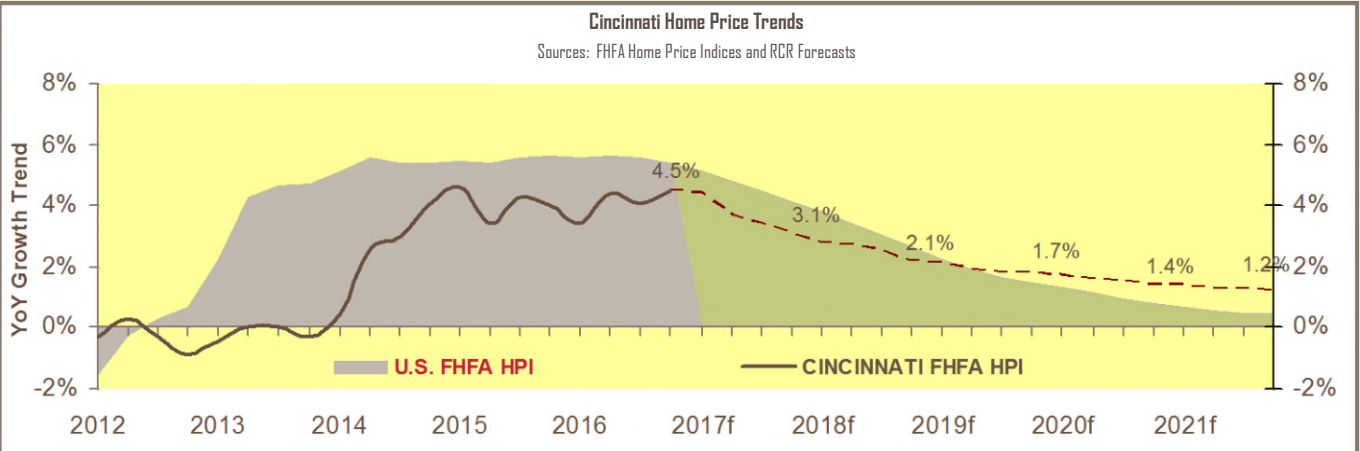
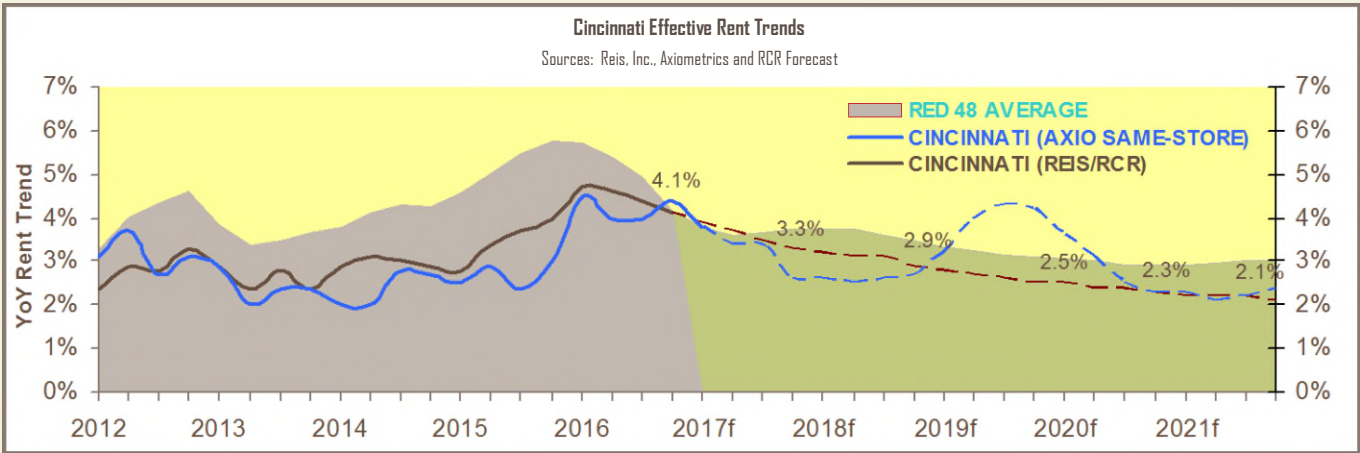
trophies. The trophies traded to yields in the high-5% to 6.0% range. Standard class-B gardens were priced to 6.5% to 7% caps. Value-adds and class-C product ranged from 7% to 10%.

Reflecting the fact that cap rate applied to investment quality properties are lower than before, **RCR** elected to drop the purchase cap rate proxy 25 basis points to 6.25%. Using a terminal cap rate of 7.0% and model derived rent and occupancy point estimates, we calculate that an investor would expect to realize a 7.1% unlevered total rate of return on a 5-year hold. This ranks **RED 49** #19. Low rent volatility promote higher risk-adjusted returns. CINC's 6.00 risk-adjusted index ranks 6th among the **R49** peer group, challenging Cleveland (#2) and Columbus (#3).



NOTABLE TRANSACTIONS

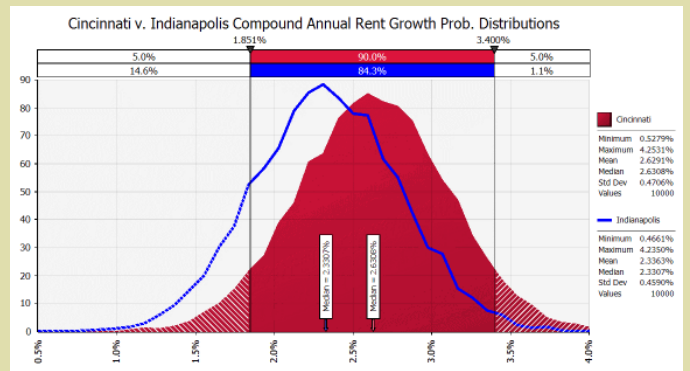
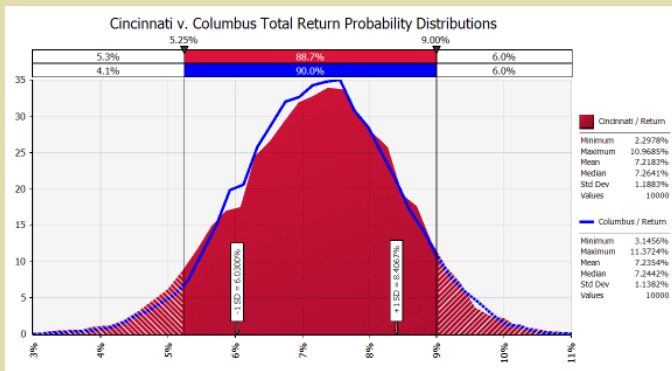
Property Name (Submarket)	Property Class/Type (Constr.)	Approx. Date of Transaction	Total Price (in millions)	Price / Per Unit	Estimated Cap Rate
Overlook Apt. Homes (Northern Kentucky / Florence)	B+ / GLR (2015)	18-Oct-2016	\$29.5	\$117,063	6.0%
Timber Hollow Apts. (Butler Co. / Fairfield / Furmandale)	B / GLR (1986)	26-Oct-2016	\$28.5	\$77,446	6.5%
Sun Valley Apartments (Highway 27/I27 / Mount Airy)	C / MB LR (1970)	21-Dec-2016	\$2.6 (allocated)	\$22,609	10.1% (reported)
Vue 180 on Water (Northern Kentucky / Newport)	A+ / RC MR (2013)	2-Dec-2016	\$21.9	\$235,484	6.0%
The Commons (North Cincinnati / Woodlawn / Trillium Trails)	B / GLR (1993)	2-Feb-2017	\$26.4	\$91,788	4.7%
Northern View (Northern Kentucky / Highland Heights / NKU)	Std. Hsg. / MB GLR (1992)	12-Mar-2017	\$13.8	\$116,949	5.0%



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SUBMARKET TRENDS (REIS)

Submarket	Reis Inventory Percent Change	Effective Rent			Physical Vacancy			Basis Point Change
		4Q15	4Q16	Change	4Q15	4Q16		
Blue Ash / Amberley	0.0%	\$773	\$786	1.6%	4.4%	3.9%	-50 bps	
Butler Co/Warren Co	2.5%	\$857	\$892	4.1%	2.6%	3.5%	90 bps	
Clermont County	0.8%	\$697	\$726	4.2%	2.8%	2.7%	-10 bps	
Downtown	3.8%	\$885	\$1,004	13.5%	4.8%	7.2%	240 bps	
Highway 27/127	2.2%	\$636	\$652	2.5%	2.8%	4.9%	210 bps	
North	0.0%	\$776	\$790	1.8%	2.1%	1.8%	-30 bps	
Northeast	2.3%	\$1,086	\$1,103	1.6%	1.1%	3.3%	220 bps	
Northern Kentucky	3.1%	\$779	\$813	4.4%	2.4%	3.3%	90 bps	
Southeast	5.0%	\$827	\$892	7.8%	2.7%	4.5%	180 bps	
Southwest	0.0%	\$573	\$589	2.9%	5.7%	4.6%	-110 bps	
Metro	1.8%	\$781	\$813	4.1%	3.5%	3.9%	90 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

