

PAYROLL JOB SUMMARY

Average Payrolls	1,061.1m
Annual Change 4Q16	5.5m (0.5%)
RCR 2017 Forecast	9.3m (0.9%)
RCR 2018 Forecast	6.4m (0.6%)
RCR 2019 Forecast	1.3m (0.1%)
RCR 2020 Forecast	-1.9m (-0.2%)
RCR 2021 Forecast	-1.2m (-0.1%)
Unemployment (NSA)	7.5% (2/17)

4Q16 PAYROLL TRENDS AND FORECAST

The Bureau of Labor Statistics' annual benchmark revisions weren't kind to Cleveland. The metro's initially reported 12,000 (1.2%) job annual 2016 and 9,800 (0.9%) job 4Q16 year-on-year comparisons, each a useful result for Cleveland, were revised down to considerably weaker 9,400 (0.9%) and 5,500 (0.5%) job gains, respectively. The apparent late year soft patch was largely attributable to weaker conditions in consumer driven sectors as job creation in construction, retail trade and leisure services fell from a 2,900 (1.2%) y-o-y pace in 3Q16 to a -2,370-job, -1.0% decline in 4Q, and further to a -1.3% rate during the first two months of 2017. Meanwhile, the unemployment rate increased to 7.5% in February – the highest metric recorded in four years—from 5.8% in February 2016. The cause of the rate spike was not the result of discouraged job seekers re-entering the work force but rather a -19,500 person

over-the-year decrease in self-reported total employment.

Seasonally-adjusted figures were more benign. These data show Cleveland payrolls up 900 jobs in 4Q16 and 2,400 jobs in January and February, weaker than year-earlier comparisons but evidence of continued forward momentum in the metro job market.

RED Research statistical analysis finds that U.S. job, industrial production, nominal GDP_(t-2), and home price growth, and 10-year UST yields and S&P500 returns explain 97.4% of changes in Cleveland job growth rates (S.E.=0.3%). Using this model and our baseline macroeconomic outlook calling for slow GDP and employment growth over the 5-year forecast interval we project that metro job creation is most likely to be slow but positive through 2019, before slipping into shallow negative territory in 2020 and 2021.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	96.9%
RED 51 Rank	7 th
Annual Chg. (Reis)	+0.5%
RCR YE17 Forecast	96.9%
RCR YE18 Forecast	96.8%
RCR YE19 Forecast	97.0%
RCR YE20 Forecast	97.2%
RCR YE21 Forecast	97.4%

4Q16 ABSORPTION AND OCCUPANCY RATE TRENDS

After recording a six-year, single quarter high net absorption figure in 3Q16, tenants net leased only 48 vacant units in the seasonally weaker fall quarter. By way of comparison, renters vacated a net of -27 units in the comparable period of 2015. Developers delivered no new product allowing occupancy to increase 10 basis points sequentially (50 bps year-on-year) to 96.9%. Class-B&C segment units were in greatest demand as renters occupied a net of 84 vacant units, bringing class occupancy to 97.2%, while the class-A segment (96.2%) experienced net move-outs of -36 units.

Axiometrics' smaller sample of stabilized same-store properties was 94.1% occupied in 4Q16, unchanged year-on-year, and 94.2% occupied in March 2017. The class-A segment regained the top

spot on 95.1%, leading classes-C (94.2%) and -B (93.8%). East Cleveland (96.5%), Downtown/University Circle (95.9%) and Lakewood (95.8%) submarkets recorded highest occupancy; Euclid (92.9%) and Bedford (91.7%) lowest. High rise buildings averaged 93.0% in 4Q16, up 200 basis points from the year earlier period.

RCR's CLE demand model uses metro payroll (+) and U.S. home price growth_(t-4) (-) and the ten-year/Baa-bond yield spread_(t-1) (-) as independent variables. The equation generates an optimistic forecast of metro absorption of 598, 685, 596 and 658 units in 2017, 2018, 2019 and 2020, respectively. The supply outlook is steady as well but demand should overbalance it, gradually lifting occupancy above the 97% threshold over the next four years.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$813
Annual Change	3.0%
RED 51 Rent Change Rank	35 th
RCR YE17 Forecast	2.5%
RCR YE18 Forecast	2.3%
RCR YE19 Forecast	2.0%
RCR YE20 Forecast	1.8%
RCR YE21 Forecast	1.9%

4Q16 EFFECTIVE RENT TRENDS

Following 3Q16's robust \$8 (1.0%) sequential quarter advance, average rent growth slowed seasonally in the fourth quarter to \$3 (0.3%), according to Reis. This result compares to stronger 0.6% and 1.0% gains in the comparable quarters of 2015 and 2014, respectively, suggesting a decelerating trend. Year-on-year comparisons also were weaker as Cleveland rent growth slowed to 3.0% from 3.3% in 3Q16. Still, the 4Q16 results were constructive as only five faster quarters were recorded since 2008.

Axiometrics surveys of stabilized same-store properties found somewhat weaker growth. In this case, effective rents increased 1.8% y-o-y, down from a cycle peak of 4.6% in 1Q16, but up slightly from 3Q16's seven-quarter trough of 1.4%. "A"-quality properties

were the class leaders, posting a 3.7% advance, followed by classes-B (1.5%) and -C (1.0%). Strongsville and North Olmstead assets in this sample continued to exhibit vigorous growth, rising 5.0% and 4.6%. North Royalton, Lyndhurst and Lorain rents fell, while Lakewood and Downtown/U-Circle trends were nearly flat.

Cleveland rent trends are unusually stable. Lagged values of absorption and supply and current job growth account for 90.1% of the ambling variability (S.E.=0.46%) that does occur. This model projects typical low-volatility rent trends persisting in the 2% to 3% range through 2019, before slowing to the high-1% area in the near recessionary forecast out-years. Compound annual growth of 2.1% is forecast, 45th fastest among the **RED 46**.

TRADE & RETURN SUMMARY

\$5mm+ / 80-unit+ Sales	8
Approximate Proceeds	\$24.0mm
Average Cap Rate (FNM)	5.8%
Average Price / Unit	\$25,000
Expected Total Return	8.0%
RED 48 ETR Rank	6 th
Risk-adjusted Index	7.06
RED 48 RAI Rank	19 th

4Q16 PROPERTY MARKETS AND TOTAL RETURNS

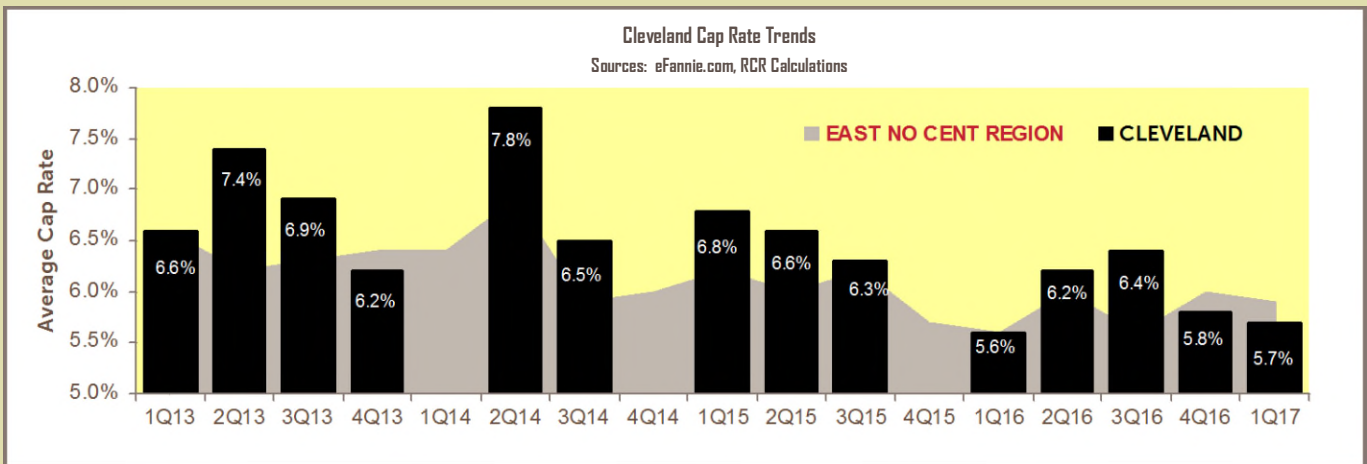
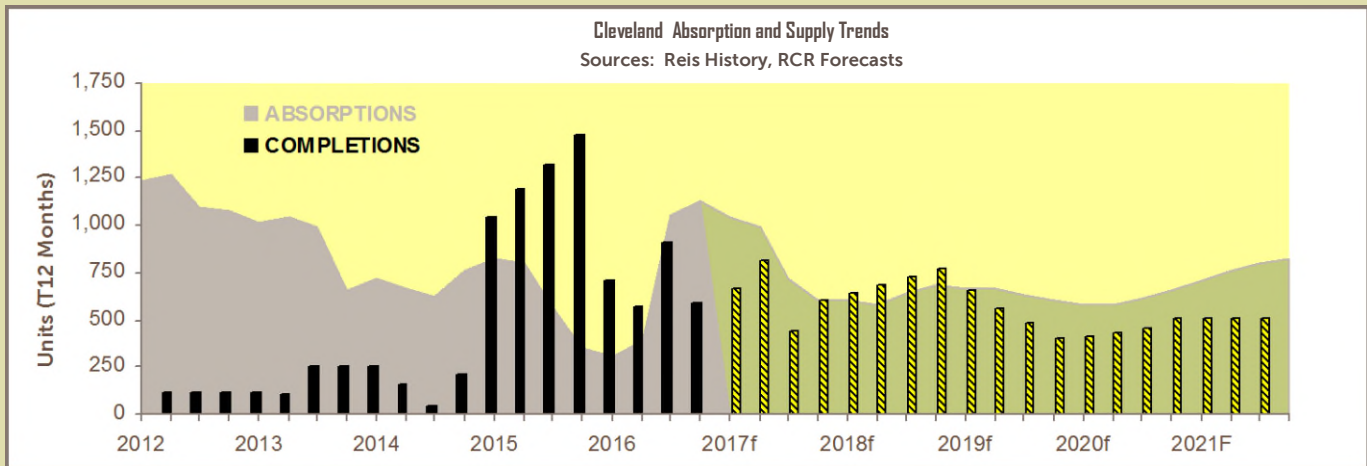
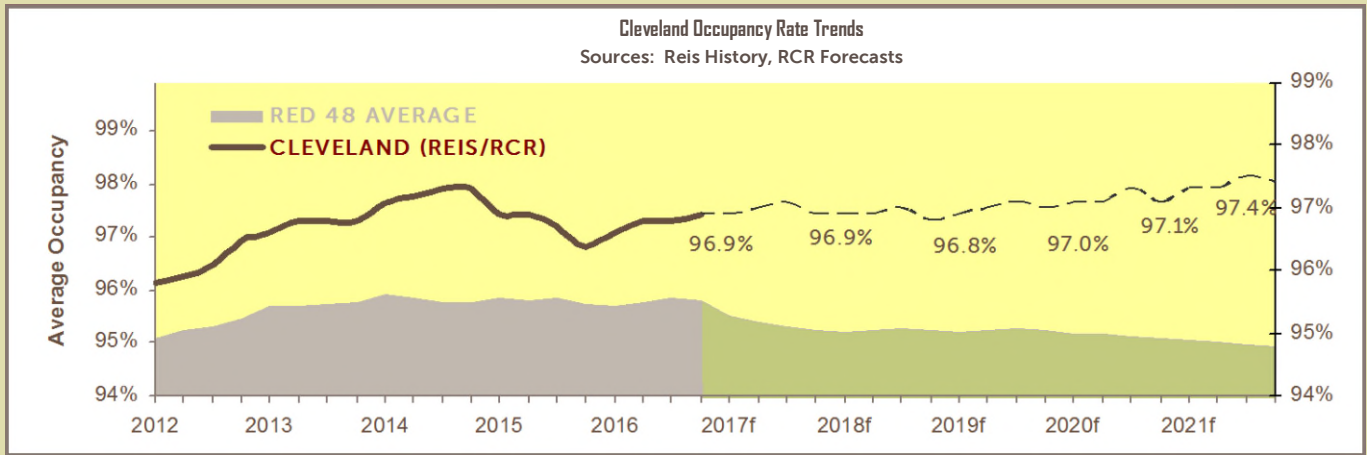
Trade in Cleveland properties remained thin. CoStar report that 8 and 9 transactions closed during 4Q16 and 3Q16, respectively, for known proceeds of \$3.2 million and \$105.5mm. The average prices per unit were \$25,000 and \$139,896, the latter figure boosted by the sale of an A+-quality mid-rise in Beachwood.

The New Year brought no meaningful changes. CoStar report consummation of just three transactions for known gross proceeds of \$12.6mm. One of these acquisitions involved a manufactured home community on the Lake in Erie County.

Thin trade notwithstanding, some insight into cap rates could be discerned from sale transactions and Fannie Mae financing activity.

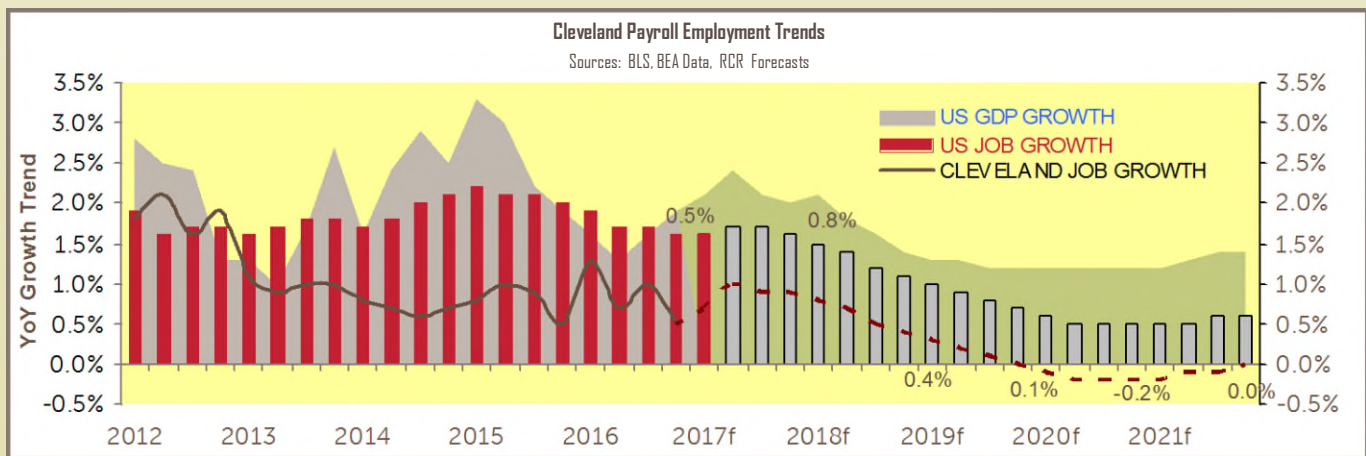
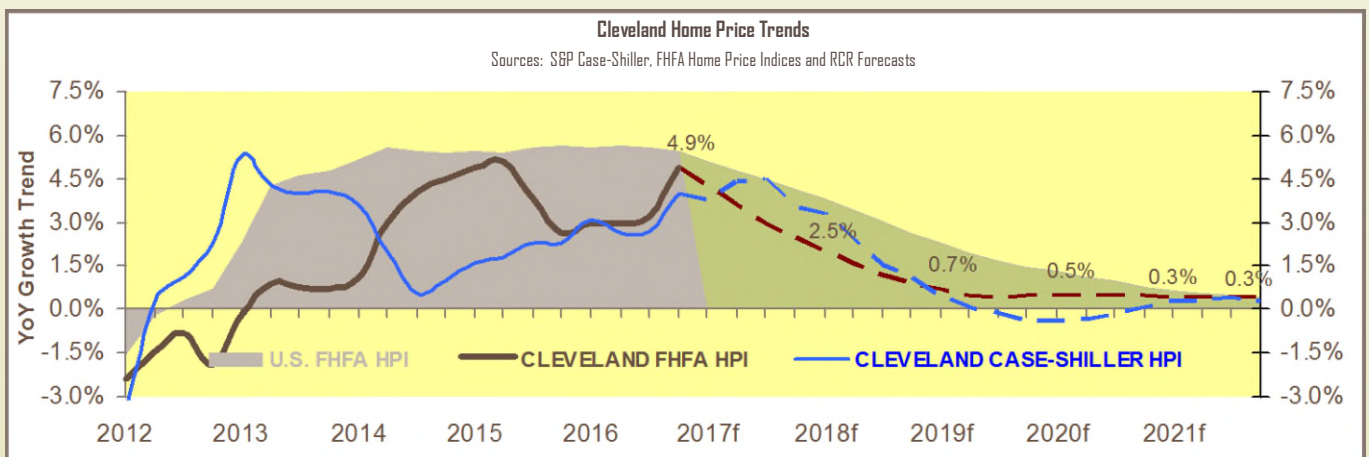
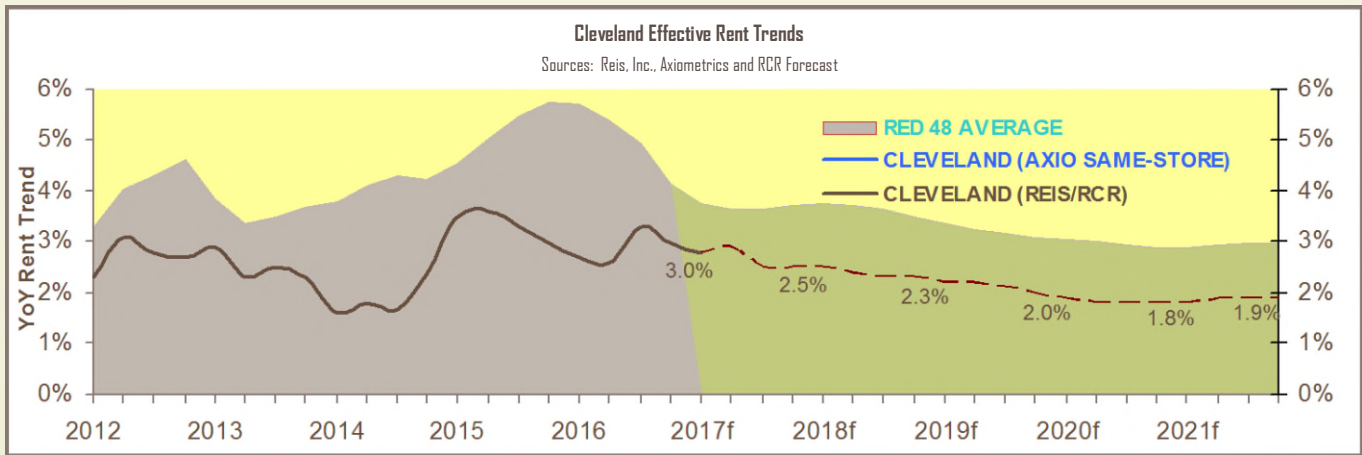
Institutional quality class-A/B+ product appears to trade in the 5.35% to 6% range. Class-B garden projects and value-adds trade from 6.5% to 8%. Class-C properties generally yield from 8% to low-double digit rates.

RCR do not find reason to adjust the 6.75% acquisition cap rate proxy it employed earlier in 2016; however, a 6.0% cap rate is more appropriate for institutional quality assets. Using the former figure, a 7.4% terminal cap and model occupancy and rent point estimates, we calculate an investor would expect to earn an 8.0% annual unlevered return on a metro investment, **RED 48 #6**. Using the latter, the ETR falls to 7.1%, 22nd in the peer group. Comparable risk-adjusted index rankings are each second after Dallas.



NOTABLE TRANSACTIONS

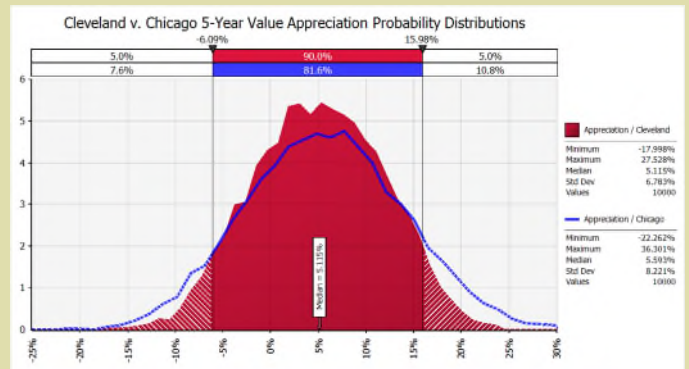
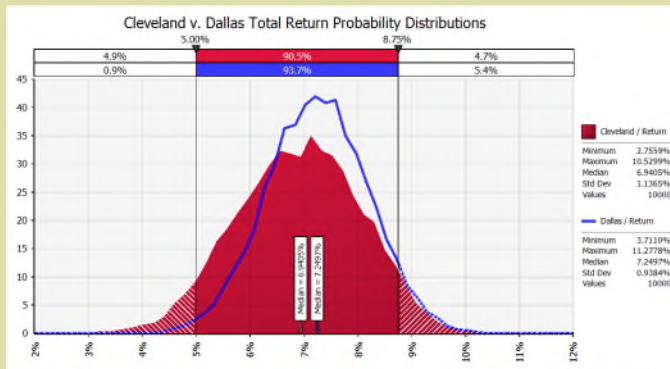
Property Name (Submarket)	Property Class/Type (Constr.)	Approx. Date of Transaction	Total Price (in millions)	Price / Per Unit	Estimated Cap Rate
The Vue (Beachwood / Chagrin Blvd)	A++ / MB MR (2015)	18-Aug-2016	\$84.3	\$242,256	5.9%
Fairview Park Apts. (North Olmstead/Fairview/Rocky River)	V- / MB LR (1956)	31-Oct-2016	\$2.2	\$45,833	5.9%



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SUBMARKET TRENDS (REIS)

Submarket	Reis Inventory Percent Change	Effective Rent			Physical Vacancy		Basis Point Change
		4Q15	4Q16	Change	4Q15	4Q16	
Bay Village	4.0%	\$897	\$926	3.3%	3.8%	6.0%	220 bps
Beachwood	0.0%	\$1,225	\$1,213	-1.0%	7.9%	6.6%	-130 bps
Bedford	0.0%	\$624	\$640	2.5%	3.3%	2.8%	-50 bps
Downtown / The Flats	2.7%	\$1,264	\$1,336	5.7%	6.4%	2.3%	-410 bps
East Cleveland	-0.3%	\$761	\$769	1.0%	4.7%	3.4%	-130 bps
Euclid	0.0%	\$678	\$683	0.8%	3.9%	3.0%	-90 bps
Lake County	2.7%	\$805	\$858	6.6%	1.4%	1.9%	50 bps
Lakewood	0.0%	\$672	\$682	1.4%	2.5%	2.6%	10 bps
Lyndhurst	0.0%	\$806	\$823	2.1%	2.9%	4.2%	130 bps
N Olmsted	0.0%	\$731	\$739	1.1%	0.9%	1.6%	70 bps
North Royalton	0.0%	\$707	\$729	3.1%	1.9%	1.9%	0 bps
Parma / Independence	0.0%	\$753	\$761	1.1%	1.4%	2.2%	80 bps
Strongsville / Berea	0.0%	\$694	\$774	11.6%	2.0%	2.0%	0 bps
Metro	0.5%	\$789	\$813	3.0%	3.6%	3.1%	-50 bps



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