COLUMBUS, OHIO

MARKET OVERVIEW & MULTIFAMILY HOUSING UPDATE

RED Capital Group | 4Q16 | April 2017

PAYROLL JOB SUMMARY

Average Payrolls	1,084.4m
Annual Change 4Q16	25.4m (2.4%)
RCR 2017 Forecast	21.1m (2.0%)
RCR 2018 Forecast	17.8m (1.6%)
RCR 2019 Forecast	12.3m (1.1%)
RCR 2020 Forecast	9.4m (0.8%)
RCR 2021 Forecast	10.4m (0.9%)
Unemployment (NSA)	4.5% (2/17)

4Q16 PAYROLL TRENDS AND FORECAST

Columbus finished 2016 with considerable forward momentum, adding workers to payrolls at a brisk 25,400-job, 2.4% year-on-year pace in 4Q16, up from 3Q's 24,900-job, 2.4% performance. Indeed, this was the largest annual advance posted since 1Q14, quite in contrast to regional rivals and many growth markets across the country that recorded slower growth late in the year. Brisk population growth was the primary driver, boosting construction, healthcare and government hiring. Collectively, these sectors hired at a 13,500-job, 4.0% rate, accounting for more than one-half of all jobs created over the past year. Financial and professional services also exhibited encouraging strength, hiring at a 5,400-job, 3.8% annual rate. But some weakness was evident in industries requiring lower skills, especially food services and retail trade, trends that appear to have accelerated in January and February.

The seasonally-adjusted series also points to a late year uptick in hiring. These data recorded a net 8,200-job 4Q16 net gain, up from 4,900 and 5,900 in the year-earlier and prior quarters, respectively. Payrolls increased by 3,400 jobs in January and February.

RED Research's COL payroll model uses the rate of change of U.S. payroll growth and home price appreciation, and lagged Baa-bond and 10-year UST yields as independent variables to reach a 97.1% adjusted-R^2 (S.E.=0.29%). Under our base case macroeconomic forecast, which calls for slightly faster GDP growth in 2017 but slower conditions for the balance of the 5-year interval, Columbus posts one more year of 2% payroll growth in 2017, followed by gradually decelerating trends through the end of the decade. A recovery of sorts may begin to form beginning in 2021.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	96.3%
RED 51 Rank	15th
Annual Chg. (Reis)	+1.0%
RCR YE17 Forecast	96.5%
RCR YE18 Forecast	96.7%
RCR YE19 Forecast	96.6%
RCR YE20 Forecast	96.4%
RCR YE21 Forecast	96.2%

4Q16 ABSORPTION AND OCCUPANCY RATE TRENDS

With respect to occupancy, Columbus was among the strongest larger markets in the country last year. Metro occupancy increased 100 basis points year-on-year, a gain exceeded only by Norfolk among the **RED 51** peer group. Apartment demand during 4Q16 was healthy as renters occupied a net of 675 vacant units (Reis), consistent with the 717-unit post-crisis fourth quarter average. On the other hand, developers delivered only 366 units, lower than the comparable fall quarter 552-unit mean. As a result, occupancy increased 20bps sequentially to 96.3%, a 16-year high.

Axiometrics surveys of 316 stabilized, same store properties uncovered a lower 94.7% 4Q occupancy rate, down 20bps y-o-y (94.8% in March). A-quality properties (95.4%) led among classes for the sixth consecutive quarter. Classes-B (94.9%) and –C (93.7%) trailed. Among submarkets, Northeast (96.5%) and Sharon (96.2%) — areas that have experienced little recent supply— had highest occupancy, but these were closely followed by well-supplied Downtown/OSU (95.8%) and in-demand suburban areas (Dublin, Hilliard, Westerville) that posted 94.9% to 95.8% metrics.

RCR's COL demand equation uses the rate of change of supply growth, Baa-bond yields and metro job and home price growth as variables to reach a 91.4% ARS (S.E.=0.4%). The model forecasts absorption of 2,000+ units per year through 2019, nearly balancing supply. Demand will recede as the economy decelerates, but occupancy is likely to remain above 96% for the 5-year forecast.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	$816
Annual Change	3.8%
RED 51 Rent Change Rank	29th
RCR YE17 Forecast	3.0%
RCR YE18 Forecast	2.9%
RCR YE19 Forecast	2.1%
RCR YE20 Forecast	2.0%
RCR YE21 Forecast	1.9%

4Q16 EFFECTIVE RENT TRENDS

Although elevated supply levels had limited affect on metro occupancy effective rent growth was not immune. According to Reis, average unit rent increased only $2 (0.3%) sequentially in 4Q16, down from $10 (1.1%) and $12 (1.5%) advances in the prior and year-earlier quarters, respectively. Year-on-year comparisons also declined sharply, plunging from a 5.2% gain in 3Q16 to 3.8%. Class-A properties were largely responsible as class asking rents declined sequentially, the first quarterly dip recorded in seven years. By contrast, class-B&C rents inched 0.4% higher.

Surveys by Axiometrics recorded similar trends. Same-store, stabilized properties saw y-o-y rent growth slow from 4.0% in 3Q16 to 3.1% in 4Q, and 2.9% in March. Class-A rents were affected most, declining from 2.8% in 3Q to 1.4%. Classes-B (3.0%) and –C (4.4%) maintained constructive forward momentum. Submarkets with largely B&C inventories (Southeast, Sharon, Grove City, Northeast) posted 4.1% to 9.2% gains. But areas experiencing intense competition from assets in lease-up lagged, especially Hilliard (1.6%), Downtown/OSU (1.0%) and Arlington (-0.5%).

RCR finds that metro job (+) and home price (-) growth are the primary independent variables influencing rents. The 93.3% ARS (S.E.=0.5%) model foresees less volatile trends in 2017-2018, characterized by annual rent growth rates in the high-2% to low-3% range. Trends should decelerate afterward as job growth fades but home appreciation rates remain above the U.S. average.

TRADE & RETURN SUMMARY

$2mm+ / 60-unit+ Sales	4
Approximate Proceeds	$22.7mm
Average Cap Rate (FNM)	5.8%
Average Price / Unit	$74,671
Expected Total Return	7.2%
RED 48 ETR Rank	21st
Risk-adjusted Index	6.00
RED 48 RAI Rank	3rd

4Q16 PROPERTY MARKETS AND TOTAL RETURNS

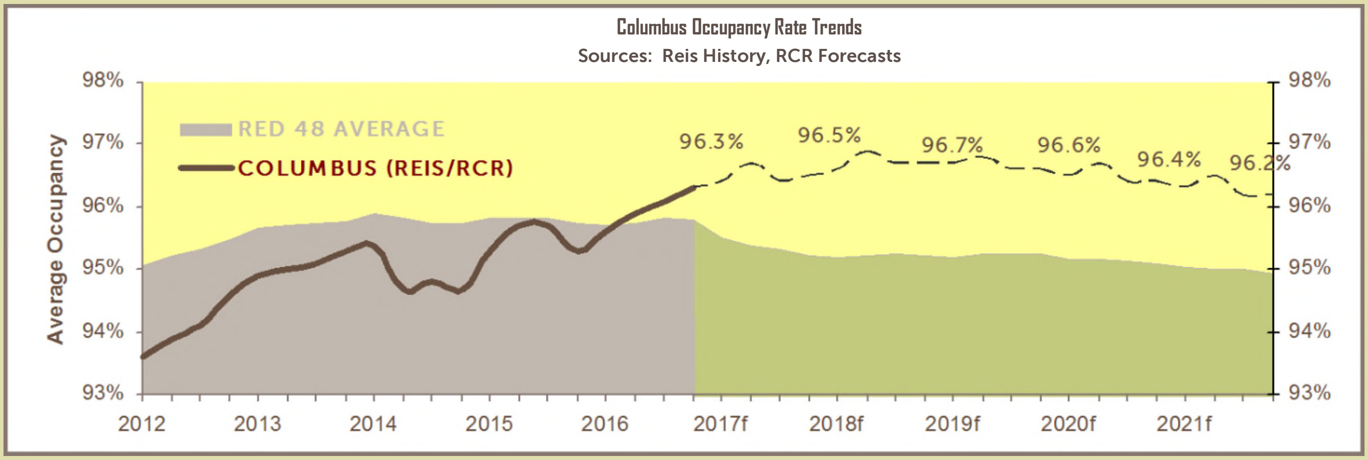
Columbus metro transaction volume remained in low gear as investors interested in entering this tertiary market continued to prefer new construction over acquisition. CoStar identified five and four sales of properties valued at $2 million or more during 3Q16 and 4Q16, respectively. Known proceeds totaled $51.6mm and $22.7mm, giving rise to average unit prices of $46,776 and $74,671.

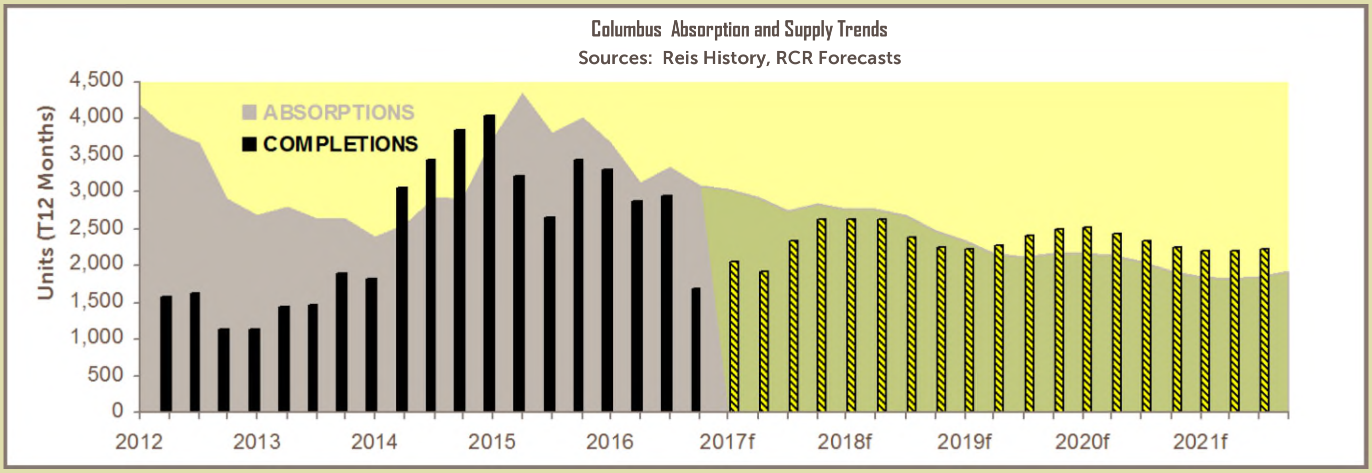
The first quarter 2017 was more of the same. Only three properties exchanged hands for $29.5mm, down from 13 for gross proceeds of $136.6mm in the comparable period of 2016.

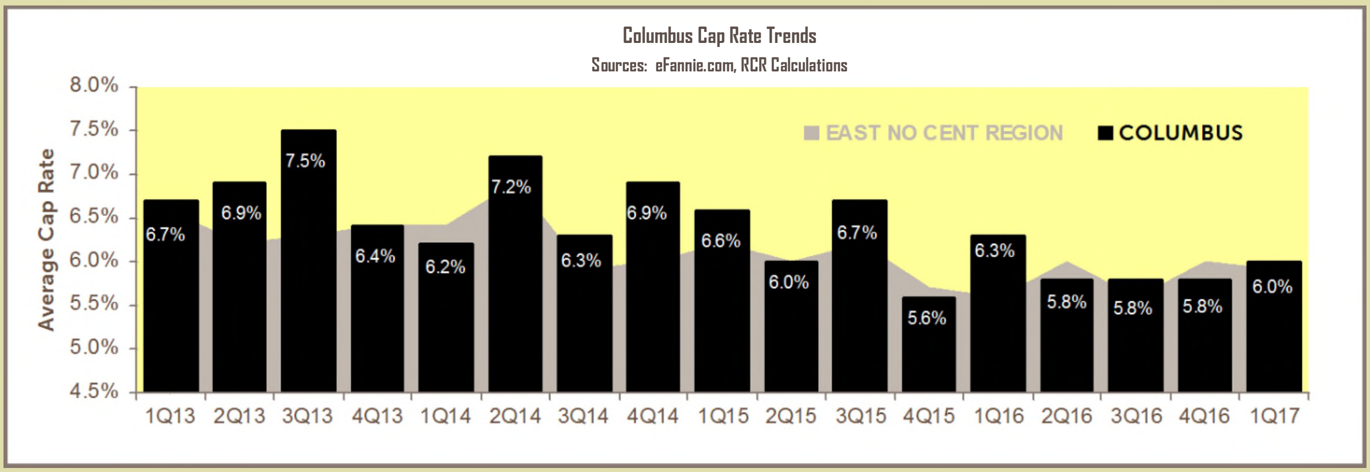
Private equity players made noise in mid-2016, accounting for 36% of spring and summer proceeds. Recent sales were initiated entirely by private buyers, including both regional and national players.

Buyers remain reluctant to push COL cap rates below 6%. A class-A infill mid-rise traded to a 6% yield, unchanged over three years. Valued adds were priced to yield in the mid– to-high 6s, and class-C properties may occasionally be acquired with 8 handles or more.

RCR chose to cut the COL cap rate proxy 0.15% to 6.10% to reflect the interests of developers as well as buyers. At this yield, a 6.8% terminal cap, and model derived rent and occupancy point estimates an investor would expect to earn a 7.2% annual unlevered return on a 5-year hold (**RED 48** #21). Low rent volatility boosts risk-adjusted returns: COL ranks peer group #3 on this basis.

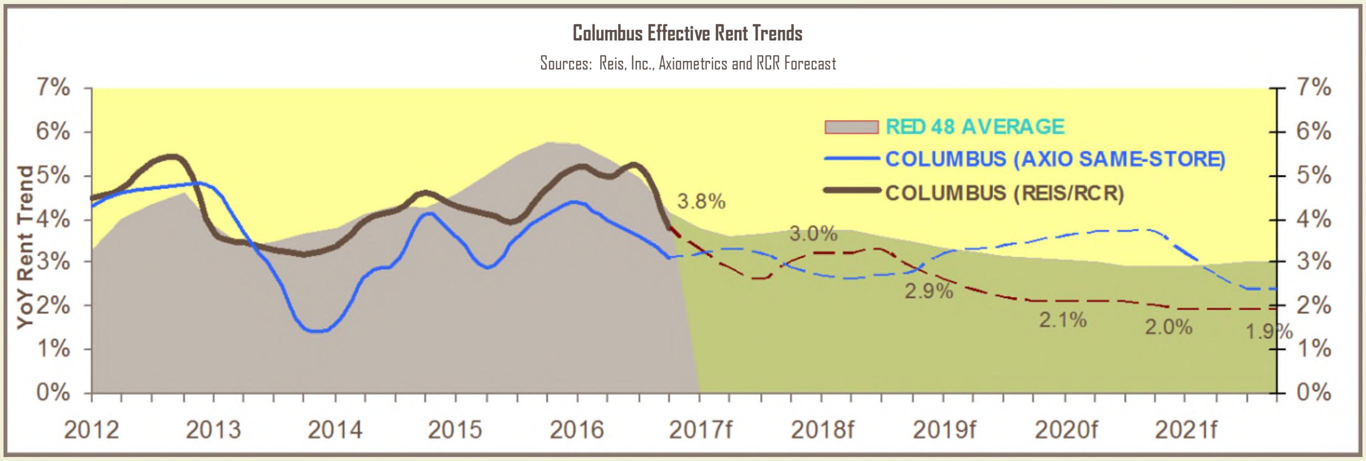




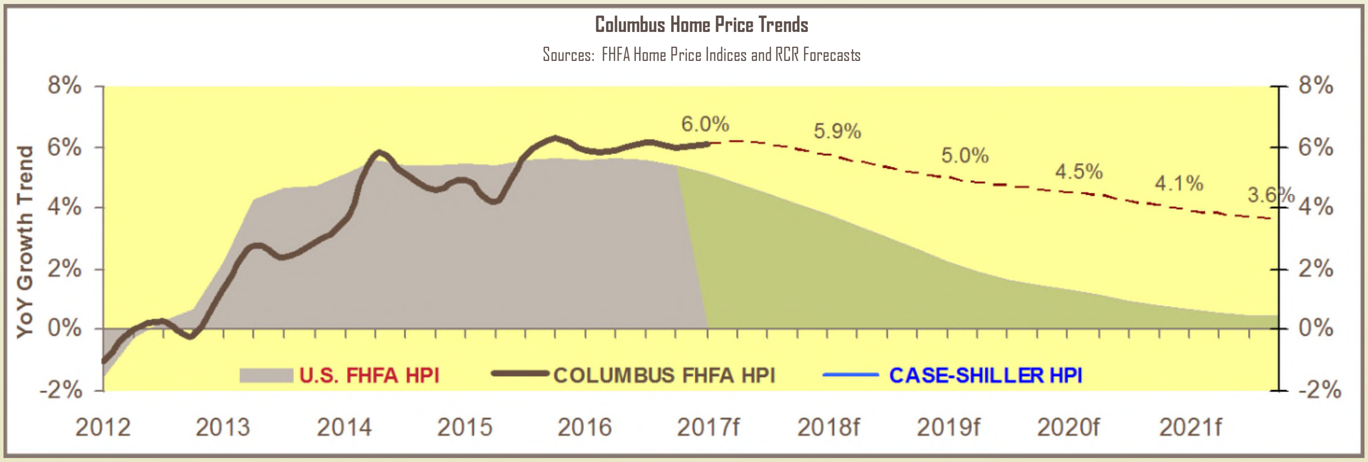


NOTABLE TRANSACTIONS

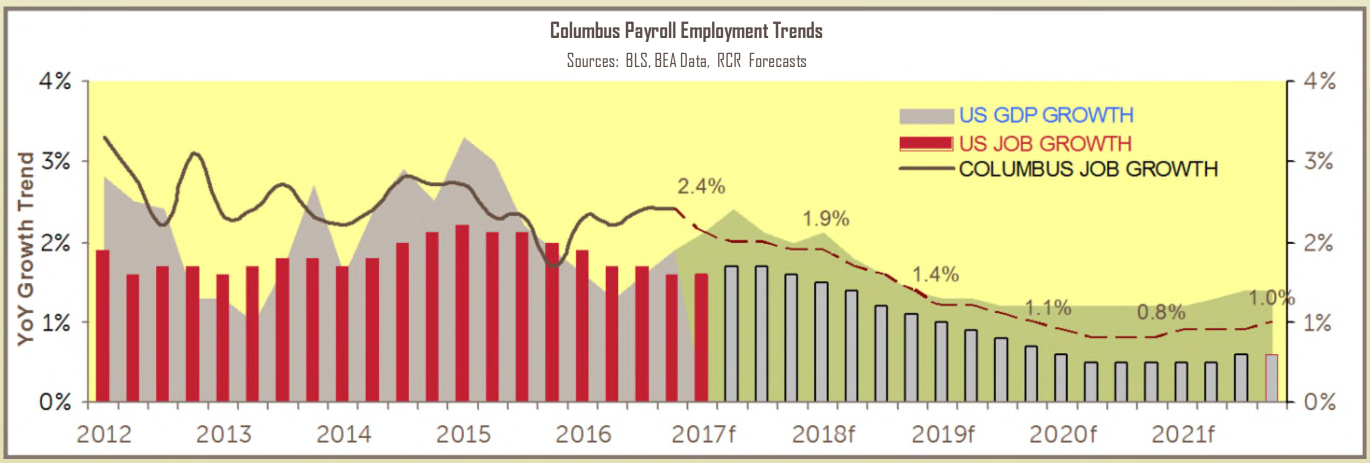
Property Name (Submarket)	Property Class/Type (Constr.)	Approx. Date of Transaction	Total Price (in millions)	Price / Per Unit	Estimated Cap Rate
Harrison Park (Victorian Village / Harrison West)	A / MB MR (2013)	3-Nov-2016	$20.2	$187,037	6.0%
Oak Bend Commons (Groveport / Independence Village)	B / GLR (1996)	16-Nov-2016	$7.4	$72,735	6.6%
Troy Farms (Delaware County / Delaware)	B+ / GLR (2003/2007)	17-Nov-2016	$27.0	$88,816	6.5%
Muirwood Village (Groveport / Reynoldsburg)	B- / GLR (1988)	8-Feb-2017	$8.9	$54,085	6.4%
Regency Arms (Grove City)	B– Aff / GLR (1964/00)	10-Feb-2017	$17.5	$43,000	6.9%



Columbus Effective Rent Trends
Sources: Reis, Inc., Axiometrics and RCR Forecast
RED 48 AVERAGE
COLUMBUS (AXIO SAME-STORE)
COLUMBUS (REIS/RCR)
YoY Rent Trend
3.8%
3.0%
2.9%
2.1%
2.0%
1.9%
7%
6%
5%
4%
3%
2%
1%
0%
2012
2013
2014
2015
2016
2017f
2018f
2019f
2020f
2021f



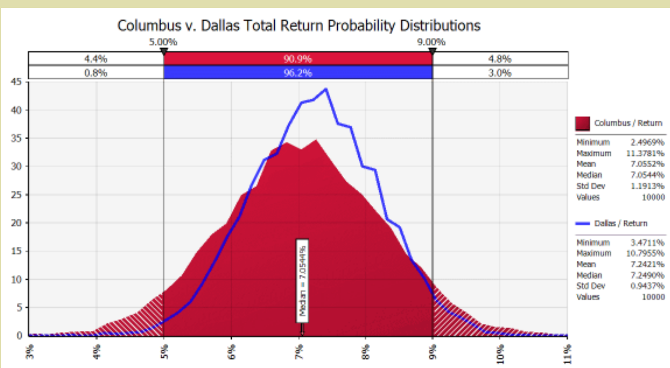
Columbus Home Price Trends
Sources: FHFA Home Price Indices and RCR Forecasts
YoY Growth Trend
6.0%
5.9%
5.0%
4.5%
4.1%
3.6%
U.S. FHFA HPI
COLUMBUS FHFA HPI
CASE-SHILLER HPI
8%
6%
4%
2%
0%
-2%
2012
2013
2014
2015
2016
2017f
2018f
2019f
2020f
2021f

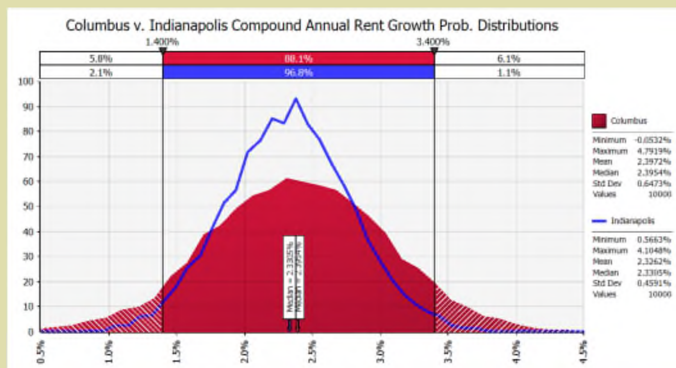


Columbus Payroll Employment Trends
Sources: BLS, BEA Data, RCR Forecasts
US GDP GROWTH
US JOB GROWTH
COLUMBUS JOB GROWTH
YoY Growth Trend
2.4%
1.9%
1.4%
1.1%
0.8%
1.0%
4%
3%
2%
1%
0%
2012
2013
2014
2015
2016
2017f
2018f
2019f
2020f
2021f

SUBMARKET TRENDS (REIS)

Submarket	Reis Inventory Percent Change	Effective Rent			Physical Vacancy		
		4Q15	4Q16	Change	4Q15	4Q16	Basis Point Change
Bexley	0.0%	$679	$694	2.3%	3.6%	3.5%	-10 bps
Dublin / Powell	0.0%	$841	$834	-0.8%	3.9%	3.6%	-30 bps
Grove City / Southwest	3.1%	$689	$707	2.6%	6.0%	3.7%	-230 bps
Groveport	2.3%	$681	$716	5.1%	3.1%	4.5%	140 bps
Hilliard	11.5%	$839	$954	13.7%	7.7%	2.3%	-540 bps
Northeast	0.0%	$666	$674	1.2%	3.1%	5.6%	250 bps
Sharon / Worthington	0.0%	$719	$723	0.5%	4.2%	3.1%	-110 bps
Southeast	0.0%	$563	$591	5.1%	3.7%	3.1%	-60 bps
OSU / Downtown	11.3%	$948	$1,252	32.2%	5.7%	4.2%	-150 bps
Upper Arlington	6.3%	$821	$867	5.5%	5.1%	3.2%	-190 bps
Westerville / Polaris	17.9%	$909	$913	0.4%	9.7%	3.3%	-640 bps
Whitehall / Gahanna	2.2%	$679	$699	2.8%	3.8%	3.7%	-10 bps
Metro	1.2%	$786	$816	3.8%	4.7%	3.7%	-100 bps





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THE FACE OF LENDING