SALT LAKE CITY, UTAH

MARKET OVERVIEW & MULTIFAMILY HOUSING UPDATE

RED Capital Group | 4Q16 | March 2017

PAYROLL JOB SUMMARY	
Average Payrolls	716.8m
Annual Change 4Q16	24.5m (3.5%)
RCR 2017 Forecast	20.7m (3.0%)
RCR 2018 Forecast	16.5m (2.3%)
RCR 2019 Forecast	11.5m (1.6%)
RCR 2020 Forecast	7.7m (1.0%)
RCR 2021 Forecast	4.3m (0.6%)
Unemployment (NSA)	2.7% (Dec.)

4Q16 PAYROLL TRENDS AND FORECAST

Salt Lake MSA recorded an eighth consecutive quarterly annual employment growth rate above 3% in 4Q16, adding workers to payrolls at a 24,500-job, 3.5% year-on-year pace. The result was moderately slower than 2Q and 3Q16's respective 3.7% and 3.8% gains but SLC remained one of the fastest growing larger metro markets in the U.S. Financial service concerns were primarily responsible for recent strength, hiring 5,100 (10.1%) workers in 2015 and 2016, up from 3,600 in the prior two years. But the tech flavored business service sector remained the economic bulwark, generating 9,700 (8.5%) net new jobs over the past two years, including a metro best 5,800 (4.7%) jobs year-on-year in 4Q16. Of note, hiring in the construction of buildings subsector came to an abrupt halt in 4Q16 as sector establishments added only 100 (0.9%) workers to payrolls, down from 1Q16's 1,300 (19%) job cycle peak.

Seasonally-adjusted data were largely consistent, showing a 7,300-job net gain in 4Q16, moderately stronger than the 6,400– and 6,600-job gains posted in the year-earlier and prior quarters, respectively. The New Year got off to a slow start, however, as SLC suffered its first sequential month net job loss (-2,100 jobs) in nearly two years and only the eighth in the last seven years.

RED Capital Research specified a 95.9% adjusted-R^2 (S.E.=0.5%) forecasting equation using the rate of change of U.S. payroll growth, metro personal income growth (+) and S&P500 returns (+) as independent variables. Under our base macro forecast (see page 3) the equation projects further 2%+ annual gains in 2017 and 2018 but gradually slower job creation afterward as we forecast weaker trends in each of the equation independent variables beginning 2019.

OCCUPANCY RATE SUMMARY	
Occupancy Rate (Reis)	96.3%
RED 51 Rank	15th
Annual Chg. (Reis)	-0.2%
RCR YE17 Forecast	96.0%
RCR YE18 Forecast	97.1%
RCR YE19 Forecast	96.9%
RCR YE20 Forecast	95.9%
RCR YE21 Forecast	95.0%

4Q16 ABSORPTION AND OCCUPANCY RATE TRENDS

Reis report that apartment demand was brisk during 4Q16 as tenants net leased 354 vacant units, up from –108 in the comparable period of 2016. This was the largest fourth quarter net absorption tally since 2012. But supply (439 units) also increased, a first salvo of what promises to be an historic construction fusillade (3,319 units) in 2017. Occupancy declined -10 basis points sequentially (-20bps year-on-year) to 96.3%, comfortably within the 96% to 97% range in which metro occupancy has resided since 2012.

Axiometrics surveys of 115 larger, stabilized same-store properties found average occupancy of 95.6% in 4Q16, down –20bps sequentially and year-on-year. Inclusive of properties in lease-up the figure was 94.8%. SLC's small class-A sector (96.3%) posted highest occupancy, followed by classes-B (95.6%) and –C (95.1%). Among submarkets, Murray and South SL/Cottonwood (96.7%) recorded highest occupancy. By contrast, only Northwest (94.6%) fell below 95%. New unit absorption was slower in 4Q as 11 new properties leased up 10 units per month, down from 17 during 3Q16.

As noted, an unprecedented supply deluge is in store that will deliver more than 3,000 units to market in 2017. **RCR** analysis suggests that demand will lag supply in 2017, causing occupancy to slip about -30bps. But the supply pressures will abate in mid-2018, opening the prospect of metro occupancy rebounding to the 97% area by YE18. Slower economic growth after 2018 and returning supply in the out years will tend to move occupancy lower by 2020.

EFFECTIVE RENT SUMMARY	
Mean Rent (Reis)	$879
Annual Change	6.3%
RED 51 Rent Change Rank	7th
RCR YE17 Forecast	4.3%
RCR YE18 Forecast	4.0%
RCR YE19 Forecast	3.2%
RCR YE20 Forecast	2.4%
RCR YE21 Forecast	2.0%

4Q16 EFFECTIVE RENT TRENDS

Rent growth was seasonally-strong during the fall quarter, rising $15 (1.7%) sequentially to $879, according to Reis, representing the fastest sequential gain recorded during a fourth calendar quarter period since 2006. Asking rents advanced at a solid $14 (1.5%) pace, and concessions receded -$1 or about 1.5%. Expressed on an annual basis, rents increased 6.3%, representing the fastest growth recorded in SLC since 2007, and the seventh fastest annual advance observed among the **RED 46** peer group.

Axiometrics same-store data were largely in line with Reis. These surveys found that large property rents increased at a 6.2% annual pace, down from 7.0% in the prior quarter. Class-A assets were in the poll position again, rising at a 6.8% pace against increases of 6.5% and 4.6% for classes-B and –C. Trends were strongest in South SLC/Cottonwood (9.4%) and Southwest SLC (8.4%) submarkets. Above average growth also was observed in Sandy/Millvale (7.1%) submarket. On the other side of the coin, West Jordan (3.7%) reported the slowest submarket growth rate.

RCR specified an 87.9% ARS (SE=1.0%) rent forecasting equation, using quarterly occupancy change$_{t-1}$(+) and home price appreciation$_{t-2}$ (+) as independent variables. The resulting base forecast is constructive. Rents are expected to rise at above market average (2.0%) rates through the end of the decade. Gains are projected to exceed 4% through 2018, followed by gradually slowing growth through the end of the five-year forecast interval.

TRADE & RETURN SUMMARY	
$5mm+ / 60-unit+ Sales	17
Approximate Proceeds	$249.0mm
Average Cap Rate (FNM)	5.6%
Average Price / Unit	$165,181
Expected Total Return	7.1%
RED 48 ETR Rank	17th
Risk-adjusted Index	2.78
RED 48 RAI Rank	39th

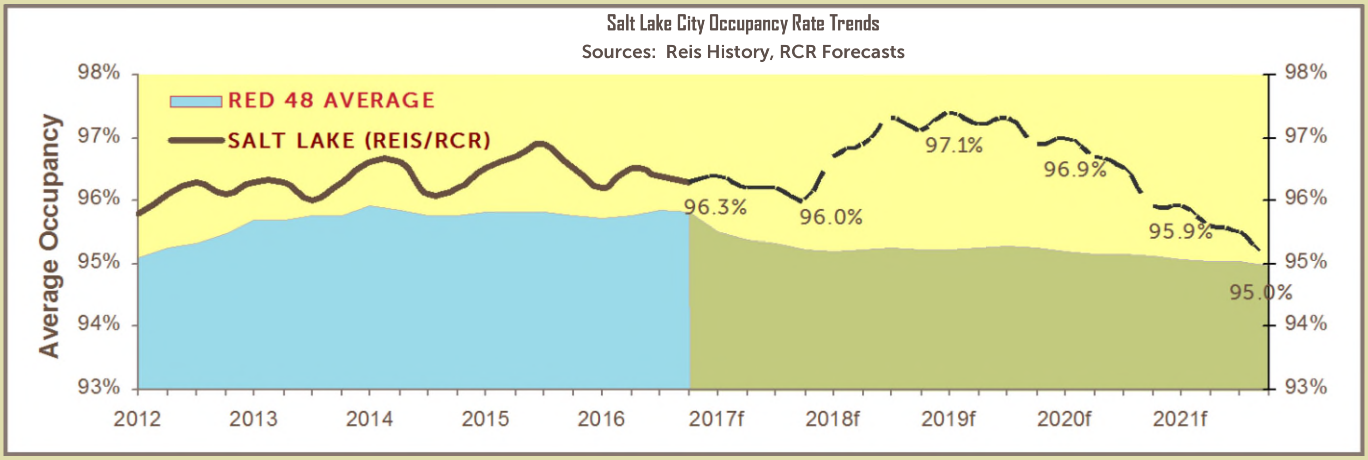
4Q16 PROPERTY MARKETS AND TOTAL RETURNS

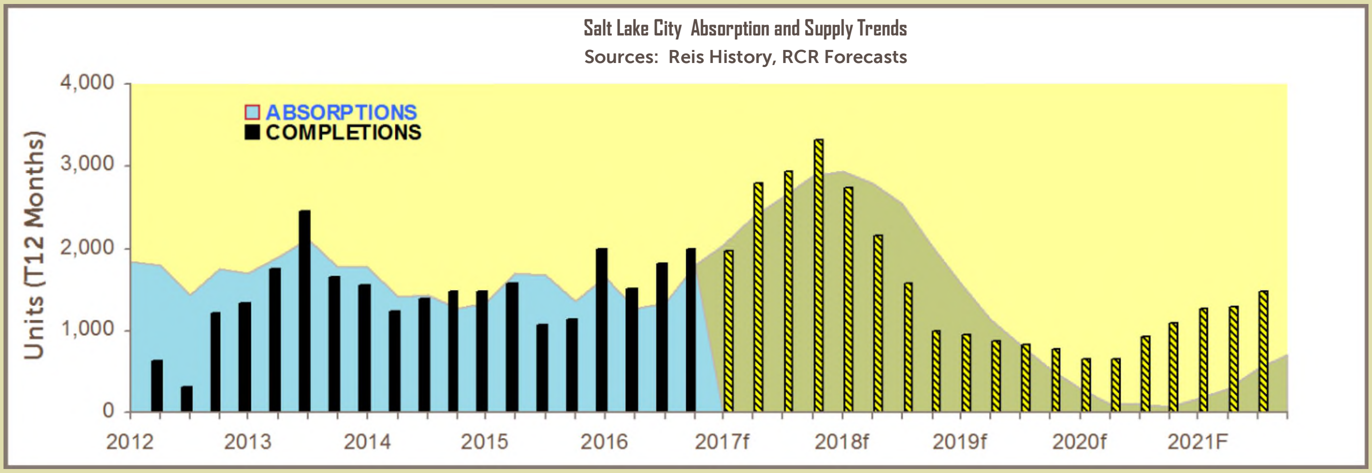
Property sales surged in the fourth quarter as 17 large properties exchanged hands for $249.0 million, ranking as the most active quarter in market history. The average price of 2,815 traded units was $165,181; SLC series record high metrics in each instance.

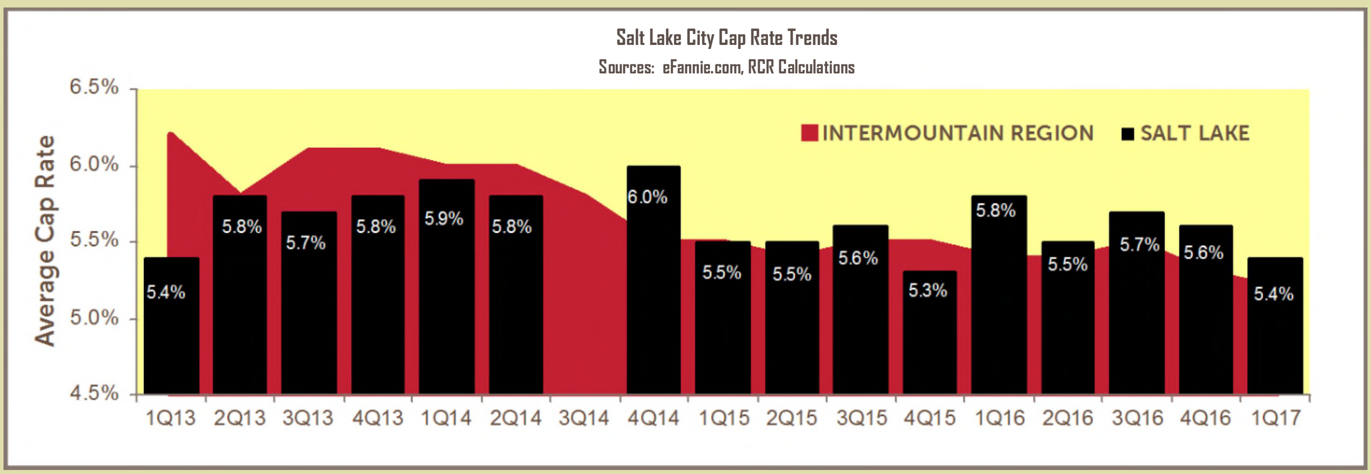
Private investors remained the dominant force in the market. Private entities accounted for 100% of 4Q16 purchases, up from 76% during the first nine months of the year. A San Diego-based family-owned real estate company was the largest 4Q16 acquirer, closing on nearly $100mm of apartment assets and accounting for more than 35% of total quarterly sales.

Observed purchase cap rates gravitated in a tight 5% to 6% range. Recent construction properties traded at the lower end of the range with few apparent geographic distinctions. Older value-adds exchanged hands at mid-5% to 6% yields based on age. Earlier sales suggest that center city assets may trade to high-4% caps.

RCR conclude that 5.5% represents a reasonable purchase cap rate proxy for SLC class-B+/B quality properties. At this level, a terminal cap rate estimated at 6.2% and quarterly model-derived rent and occupancy point estimates we calculate that an investor would expect to earn a 7.1% unlevered annual total rate of return on a 5-year hold. This is 20bps above the **RED 48** mean and ranks 17th among the group. Model standard error is high, however, suggesting unusual uncertainty. The risk-adjusted index ranks #39.

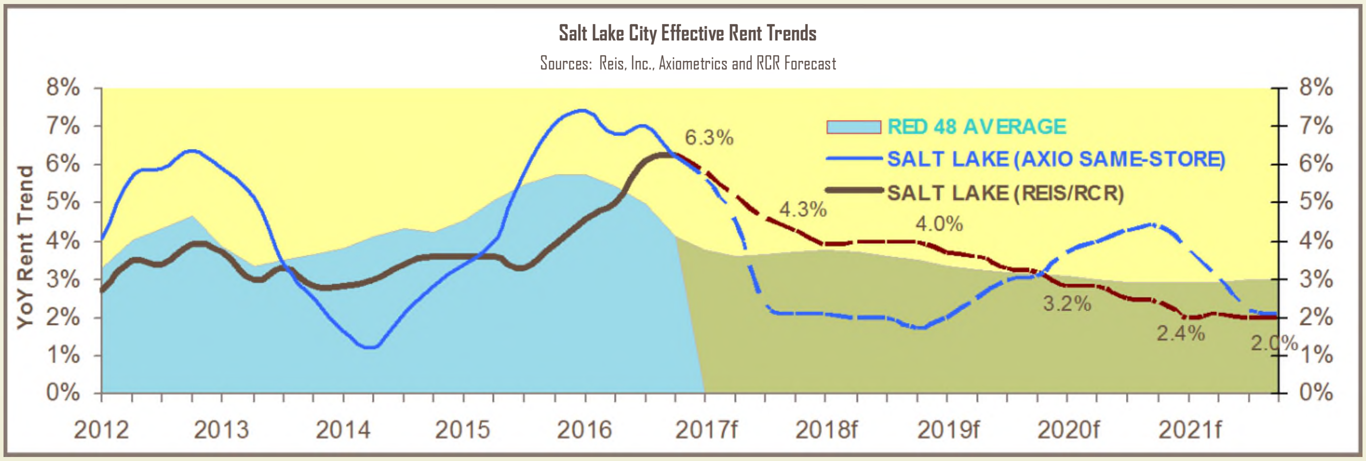


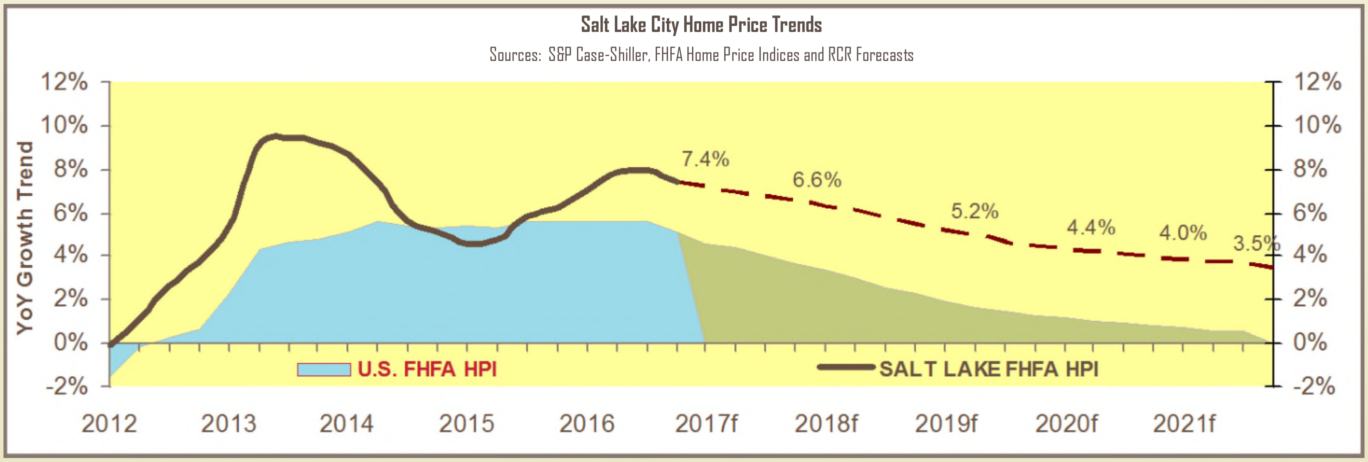


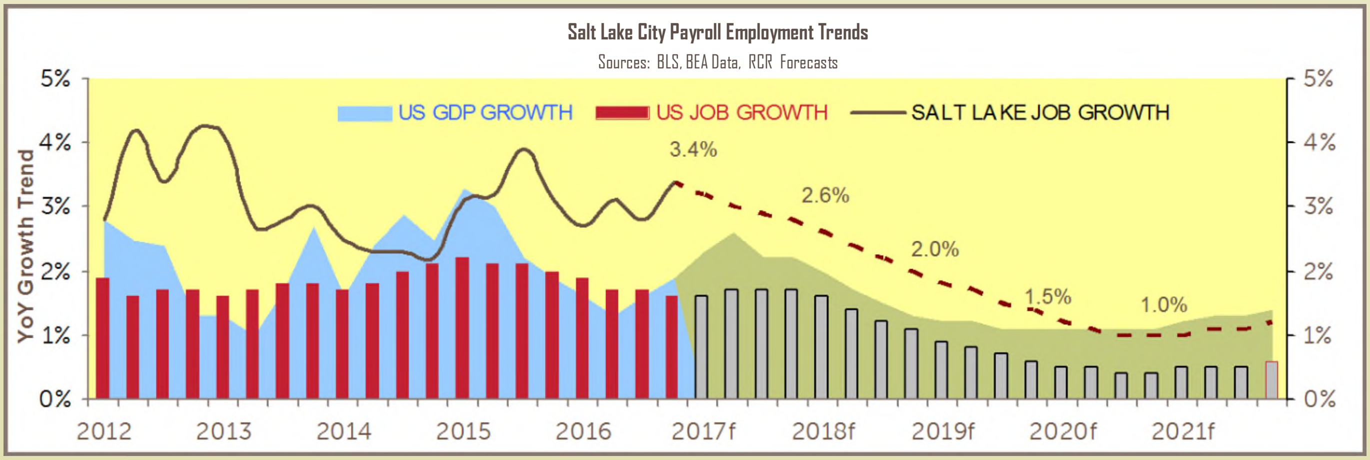


NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class/Type (Constr.)	Approx. Date of Transaction	Total Price (in millions)	Price / Per Unit	Estimated Cap Rate
Mission Meadowbrook (Southwest Salt Lake / Meadowbrook)	C / GLR (1985)	17-Oct-2016	$44.2	$107,282	5.7%
Harmony Gardens (Southwest Salt Lake / West Valley City)	LIHTC B/SR LR (1996)	23-Oct-2016	$5.6	$58,125	5.5%
West Station (Northwest Salt Lake / Airport / Fairpark)	B+ / WF MR (2015)	17-Nov-2016	$23.8	$163,800	5.4%
The 500 Apartments (South Salt Lake / Millcreek)	C / LR (1974)	20-Dec-2016	$13.6 (appraisal)	$124,500	6.0%
Coppergate Apartments (Millvale / Sandy / Historic Sandy)	B / GLR (2004)	29-Dec-2016	$22.6	$117,578	5.6%
Solameer (West Jordan / Riverton / Harriman)	B+ / TH (2015)	30-Dec-2016	$27.1	$202,238	5.2%

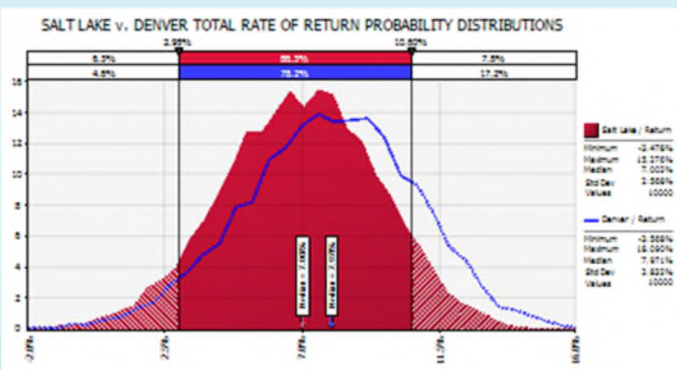

Salt Lake City Effective Rent Trends
Sources: Reis, Inc., Axiometrics and RCR Forecast
YoY Rent Trend
RED 48 AVERAGE
SALT LAKE (AXIO SAME-STORE)
SALT LAKE (REIS/RCR)
6.3%
4.3%
4.0%
3.2%
2.4%
2.0%
2012
2013
2014
2015
2016
2017f
2018f
2019f
2020f
2021f

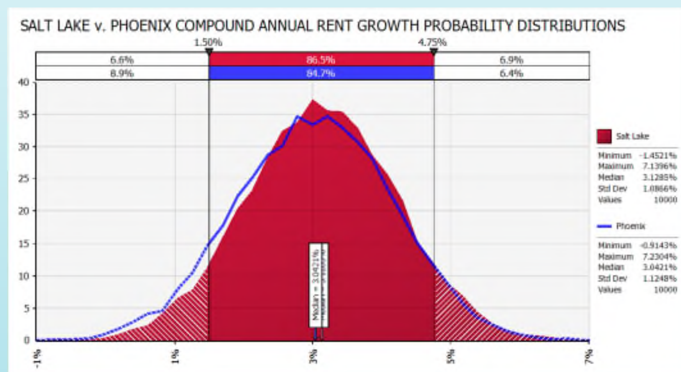

Salt Lake City Home Price Trends
Sources: S&P Case-Shiller, FHFA Home Price Indices and RCR Forecasts
YoY Growth Trend
U.S. FHFA HPI
SALT LAKE FHFA HPI
7.4%
6.6%
5.2%
4.4%
4.0%
3.5%
2012
2013
2014
2015
2016
2017f
2018f
2019f
2020f
2021f


Salt Lake City Payroll Employment Trends
Sources: BLS, BEA Data, RCR Forecasts
YoY Growth Trend
US GDP GROWTH
US JOB GROWTH
SALT LAKE JOB GROWTH
3.4%
2.6%
2.0%
1.5%
1.0%
2012
2013
2014
2015
2016
2017f
2018f
2019f
2020f
2021f

SUBMARKET TRENDS (REIS)

Submarket	Inventory % Change	Effective Rent			Physical Vacancy		
		4Q15	4Q16	Change	4Q15	4Q16	Change
Central Salt Lake	1.1%	$947	$991	4.6%	7.0%	3.9%	-310 bps
Davis County	1.9%	$824	$876	6.3%	5.4%	5.2%	-20 bps
Midvale/Sandy	5.3%	$889	$957	7.7%	2.1%	3.9%	180 bps
Murray	-1.9%	$901	$973	8.0%	1.8%	1.8%	0 bps
NW Salt Lake	0.0%	$650	$712	9.5%	5.5%	4.3%	-120 bps
South Salt Lake	1.8%	$730	$771	5.6%	3.9%	2.7%	-120 bps
SW Salt Lake	0.0%	$754	$818	8.5%	2.8%	2.4%	-40 bps
Weber County	0.0%	$705	$722	2.5%	2.0%	1.6%	-40 bps
West Jordan	1.3%	$919	$950	3.3%	5.2%	4.0%	-120 bps
West Valley City	7.3%	$781	$828	6.0%	11.7%	8.3%	-340 bps
Metro	2.3%	$827	$879	6.3%	3.5%	3.7%	20 bps





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