

PAYROLL JOB SUMMARY

| | |
|--------------------|--------------|
| Average Payrolls | 2,007.1m |
| Annual Change 1Q17 | 50.6m (2.6%) |
| RCR 2017 Forecast | 52.6m (2.7%) |
| RCR 2018 Forecast | 58.2m (2.9%) |
| RCR 2019 Forecast | 35.6m (1.7%) |
| RCR 2020 Forecast | 15.5m (0.7%) |
| RCR 2021 Forecast | 8.7m (0.4%) |
| Unemployment (NSA) | 4.3% (5/17) |

Phoenix payroll employment growth maintained steady forward momentum during 2Q17, rising at a 2.6% year-on-year rate for the third consecutive quarter. Headcounts increased at a 50,300-job annual rate, matching 1Q's 50,600-job add. The financial, health care and lodging and food services sectors were the driving forces, combining to create 31,400 (5.2%) jobs over the year, up 23% from 4Q16. Construction hiring also was materially faster, catalyzed by booming demand for affordable 1-family housing. By contrast, weaker trends were evident in the tech flavored information and professional and technical service industries, a common recent phenomenon in the Western Region.

Seasonally-adjusted payroll and Household Survey data

also are constructive. The former show employment up 14,500 jobs in 2Q; the latter recording in May y-o-y increases in total employment and labor force of 65,000 and 67,000, respectively, reminiscent of prior boom periods.

RED Research's PHX payroll model is optimistic for 2017 and 2018, but cautious of the longer term. The 98.0% adjusted-R² (SE=0.5%) model employs the rate of change of US job growth, personal consumption, nominal GDP and home price growth and Baa-rated bond yields as independent variables. The resulting forecast calls for faster job growth over the next 18 months, catalyzed by moderately stronger macroeconomic conditions. Cloudy macro conditions later may dim prospects in the Valley of the Sun.

OCCUPANCY RATE SUMMARY

| | |
|-----------------------|------------------|
| Occupancy Rate (Reis) | 95.6% |
| RED 51 Rank | 26 th |
| Annual Chg. (Reis) | +0.2% |
| RCR YE17 Forecast | 94.9% |
| RCR YE18 Forecast | 95.0% |
| RCR YE19 Forecast | 94.9% |
| RCR YE20 Forecast | 95.4% |
| RCR YE21 Forecast | 95.0% |

1Q17 ABSORPTION AND OCCUPANCY RATE TRENDS

Healthy space demand was observed during 1Q17, although absorption was moderately below average for the seasonally-strong winter quarter. Tenants occupied a net of 1,322 units (Reis), up from 4Q16's weak 25 unit performance but down materially from 2,349 in the year-earlier quarter. Supply matched demand, holding average occupancy essentially unchanged on 95.6%. Preliminary 2Q17 data show flat occupancy again at a revised 95.7% rate.

Axiometrics stabilized, same-store data point to slightly looser conditions. This sample of 699 professionally-managed properties was 94.3% and 94.4% occupied in 1Q and 2Q17, down -40 and -10 basis points year-on-year. B-

grade (94.6%) properties were the class leader, followed by classes-C (94.0%) and -A (93.8%). Class-A (+30bps) was the sole segment to chalk down an annual advance. Absorption in 64 lease-up complexes decelerated, however, declining to a 7-unit/month 2Q17 pace from 13 in 4Q16.

Reis expect supply levels to reaccelerate in 2H17 and 2018, and RCR's demand model suggests absorption is likely to fall a bit short. Statistically, job creation is the primary positive demand driver, while home and rent price growth act as constraints. Each factor is expected to be mildly constructive, but supply levels will be of such magnitude that occupancy is likely to decline -50 to -70bps anyway.

EFFECTIVE RENT SUMMARY

| | |
|-------------------------|------------------|
| Mean Rent (Reis) | \$873 |
| Annual Change | 4.6% |
| RED 51 Rent Change Rank | 13 th |
| RCR YE17 Forecast | 2.7% |
| RCR YE18 Forecast | 3.2% |
| RCR YE19 Forecast | 2.8% |
| RCR YE20 Forecast | 2.3% |
| RCR YE21 Forecast | 2.2% |

1Q17 EFFECTIVE RENT TRENDS

Rent growth accelerated during 1Q17, but was moderately slower than rates observed during the previous two winter quarters. Average unit rent increased \$7 (0.8%) sequentially (Reis), up from 4Q16's 0.6% gain but materially below the 2.0% advance recorded in the year-earlier period. On a year-on-year basis, growth slid from 5.7% in 4Q16 to 4.6%. Preliminary 2Q17 data were constructive as asking rent increased 1.1% sequentially, up from 0.7% during 1Q.

Same-store rent trends were stronger. The Axiometrics sample recorded 5.3% and 5.2% y-o-y growth in 1Q and 2Q17, respectively, following nine consecutive quarters of 6.3% gains or better. The "C" segment (6.0%) was the class

leader for the 10th consecutive quarter. Class-A (4.2%) lagged, but was the only class to accelerate in 2Q, posting its fastest advance in a year. Lower rent submarkets generally reported faster growth, but Scottsdale was an exception: city rents increased 6.3% in 1Q, and 4.7% in 2Q17.

RCR's PHX rent model (ARS=96.6%, SE=0.6%) uses job, personal income, inventory and home price growth and occupancy change as independent variables. Variables with positive coefficients (jobs, occupancy) are determinant and expected to be moderate drags on rent growth. Consequently, rents are expected to decelerate, but average gains are likely to approach the 3.0% metro average.

TRADE & RETURN SUMMARY

| | |
|------------------------|------------------|
| \$5mm+/80+-unit Sales | 30 |
| Estimated Proceeds | \$683mm |
| Average Cap Rate (FNM) | 4.9% |
| Average Price / Unit | \$101,033 |
| Expected Total Return | 6.2% |
| RED 49 ETR Rank | 39 th |
| Risk-adjusted Index | 4.19 |
| RED 49 RAI Rank | 18 th |

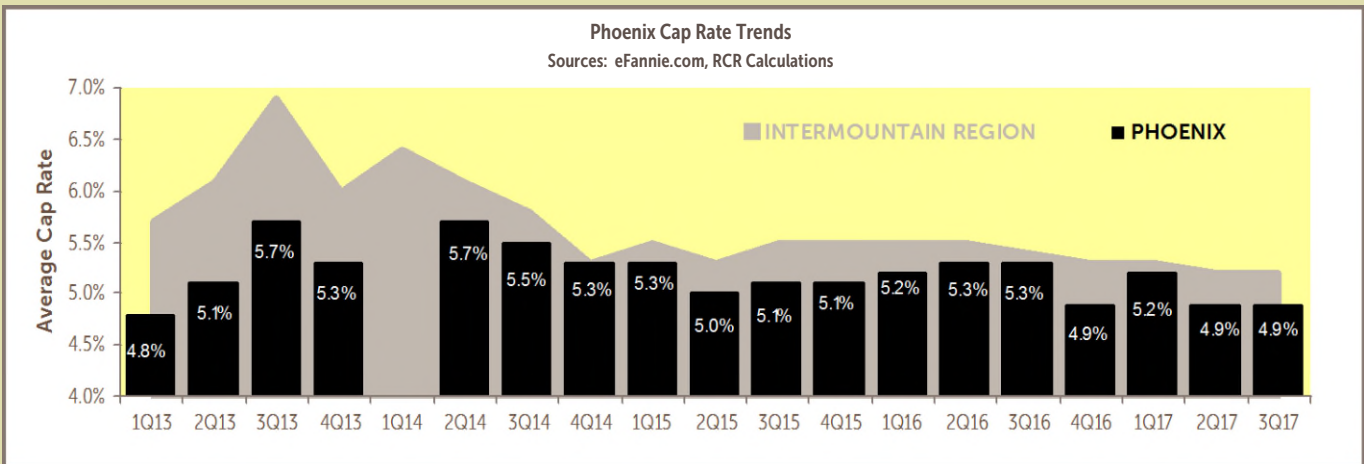
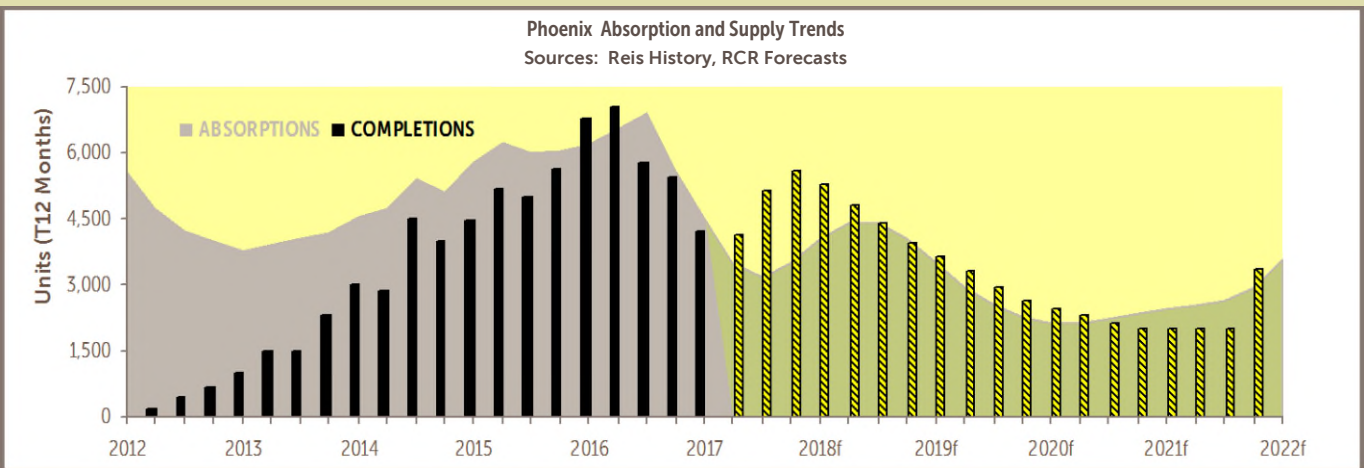
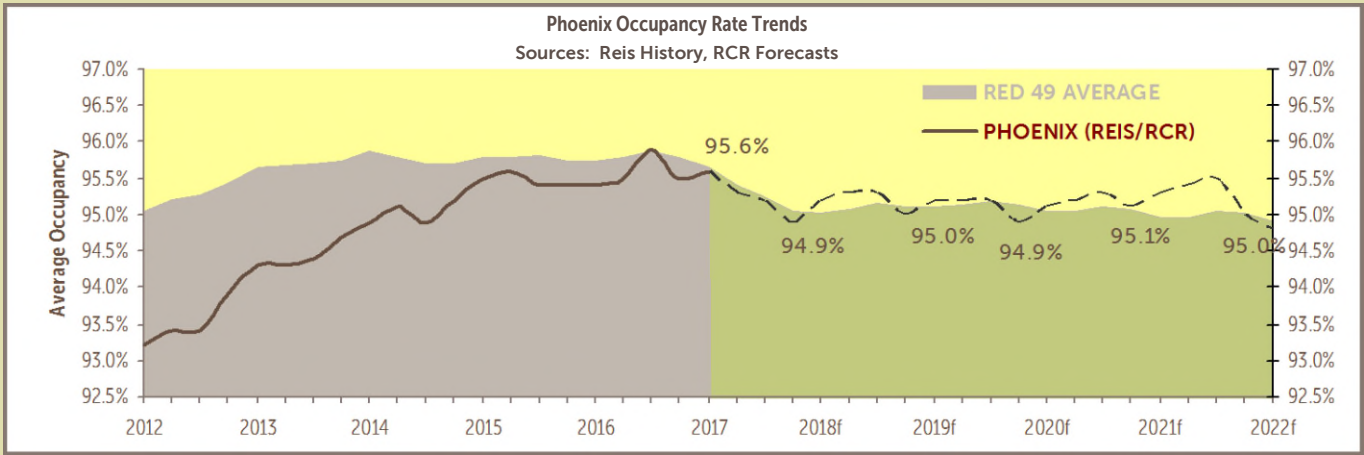
1Q17 PROPERTY MARKETS AND TOTAL RETURNS

Strong investor interest in Phoenix properties persisted in the first half 2017. Investment sale deal count (69) and total volume (\$1.9 billion) were below 1H16's record high levels, but nonetheless were the second highest metrics recorded since 2008. The average price of units sold continued to rise, reaching \$112,479 in the first half 2017, up 9% year-over-year and 1% from 2H16.

First quarter investors targeted value-adds at cap rates in the high-5% to mid-6% range. The average age was 33 years. Emphasis shifted toward newer class-B and class-B+ properties in 2Q17 (μ =29 years old), most trading to going-in yields ranging from the as low as 4.1% to about 5.3%.

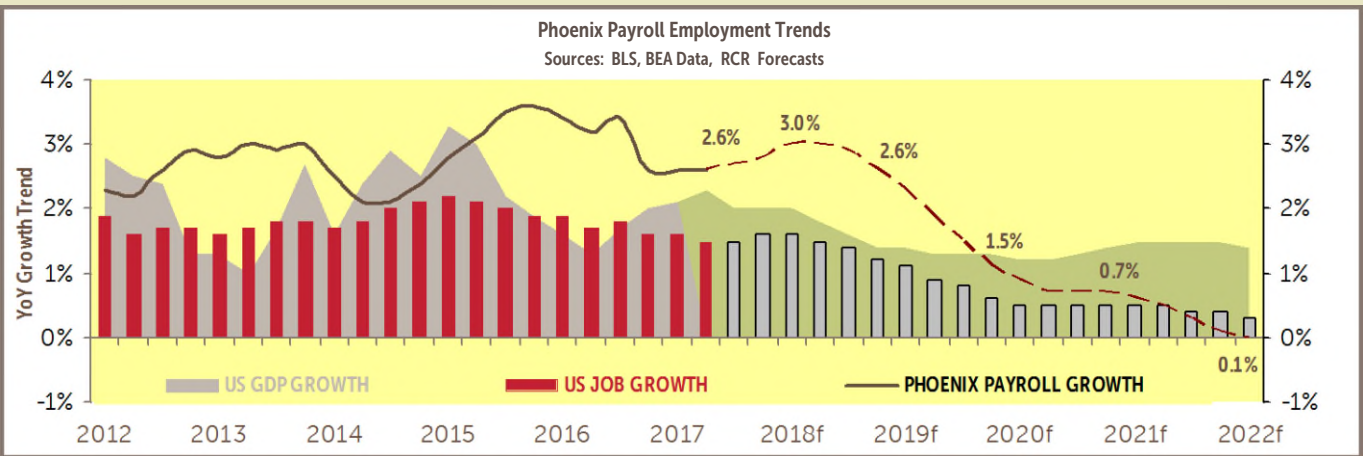
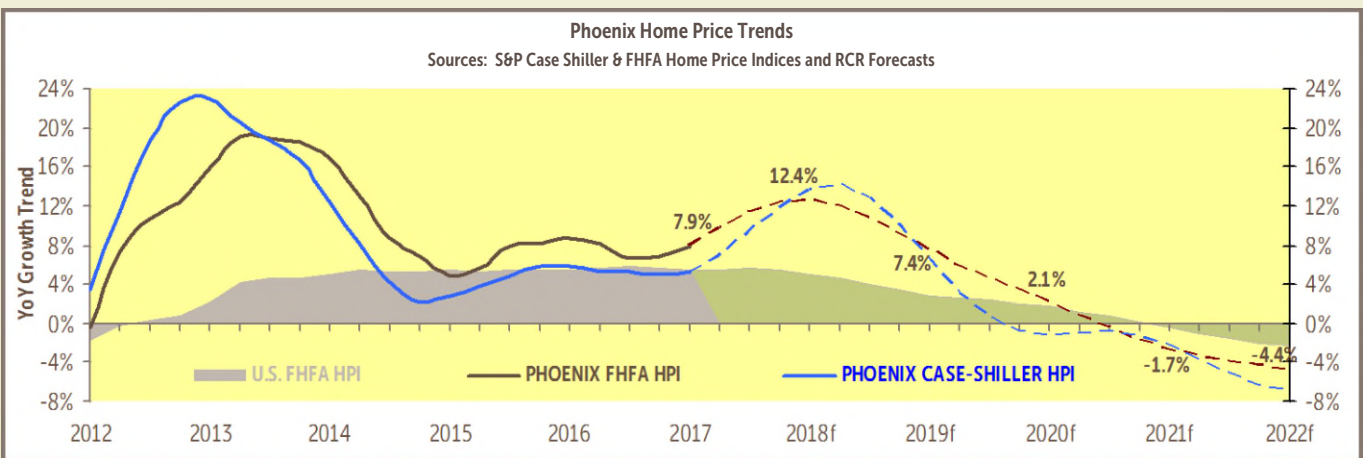
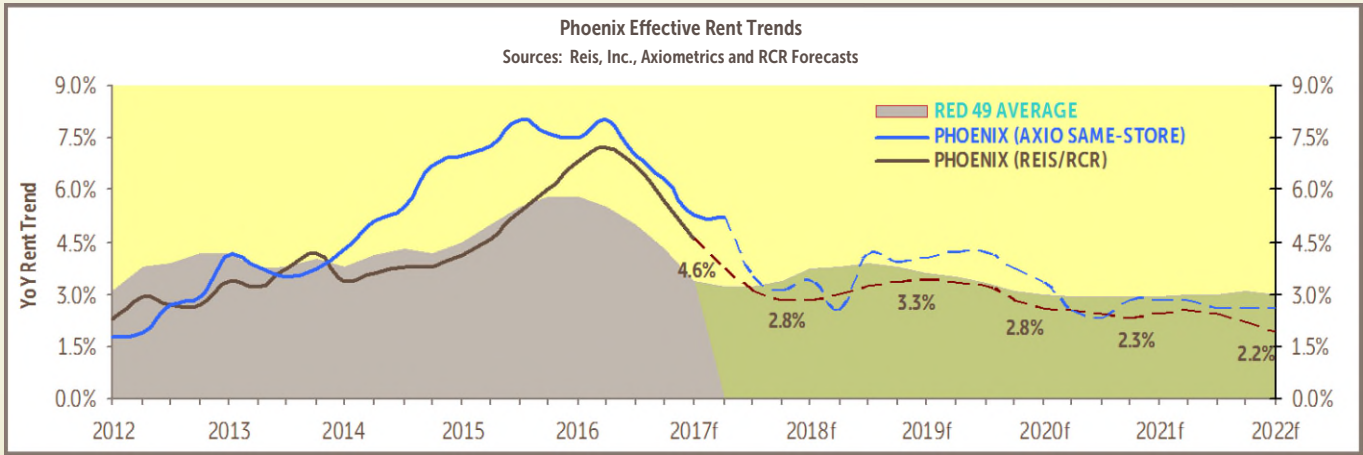
Class-A- gardens in top submarkets commanded prices equating to cap rates in the mid- to high-4s. Ten-year old class-B+ GLRs in second tier areas traded to low- to mid 5% yields. Value adds traded in a wide range from 4% to 6% depending on prospects for up-management.

Strong interest in newer garden assets led RCR to cut the purchase cap rate proxy 10bps to 5.3%. With an exit cap of 5.9% and model derived performance estimates we calculate a 1Q17 investor would expect to yield a 6.2% annual, unlevered return on a 5-year hold, RED 49 39th. Relatively low historical and forecast occupancy volatility boosts risk-adjusted returns: Phoenix ranks #18 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 |
|---|--------------------------------|-----------------------------|---------------------------|------------------|---------------------|
| Fiesta Park (South Mesa / Country Village / MCC) | C / WF GLR (1979) | 17-Mar-2017 | \$20.0 | \$62,500 | 6.43% (UW) |
| Alta Paradise Ridge (North Scottsdale / Windsong) | A+ / WF MR (2016) | 16-Jun-2017 | \$72.0 | \$244,898 | 4.3%/4.7% pro forma |
| Arcadia Cove (Central Phoenix So. / Papago / Ambre) | B+ / WF GLR (1996) | 23-Jun-2017 | \$71.5 | \$165,509 | 4.6% |
| Chuparosas Apts. (Chandler / Pecos Vistas) | B+ / MB GLR (2007) | 23-Jun-2017 | \$43.5 | \$168,605 | 4.65% (UW) |
| Avenue 25 Apts. (Deer Valley / Cinnabar) | B+ / WF GLR (2014) | 5-Jul-2017 | \$40.3 | \$174,107 | 5.31% (UW) |
| Santa Rosa (South Tempe / Ahwatukee / Lakewood) | A- / MB GLR (1997) | 14-Jul-2017 | \$19.5 | \$174,107 | 5.2% |



The information contained in this report was prepared for general information purposes only and is not intended as legal, tax, accounting or financial advice, or recommendations to buy or sell currencies or securities or to engage in any specific transactions. Information has been gathered from third party sources and has not been independently verified or accepted by RED Capital Group. RED makes no representations or warranties as to the accuracy or completeness of the information, assumptions, analyses or conclusions presented in the report. RED cannot be held responsible for any errors or misrepresentations contained in the report or in the information gathered from third party sources. Under no circumstances should any information contained herein be used or considered as an offer or a solicitation of an offer to participate in any particular transaction or strategy. Any reliance upon this information is solely and exclusively at your own risk. Please consult your own counsel, accountant or other advisor regarding your specific situation. Any views expressed herein are subject to change without notice due to market conditions and other factors.

SUBMARKET TRENDS (REIS)

| Submarket | Reis Inventory Percent Change | Effective Rent | | | Physical Vacancy | | Basis Point Change |
|--------------------------|-------------------------------------|----------------|---------|--------|------------------|------|-----------------------|
| | | 4Q16 | 1Q17 | Change | 4Q16 | 1Q17 | |
| Central Phoenix North | 0.0% | \$684 | \$685 | 0.1% | 5.0% | 4.8% | -20 bps |
| Central Phoenix South | 1.8% | \$769 | \$808 | 5.1% | 5.7% | 6.5% | 80 bps |
| Chandler / Gilbert | 0.0% | \$1,021 | \$1,026 | 0.5% | 4.7% | 4.3% | -40 bps |
| Deer Valley | 0.0% | \$759 | \$774 | 1.9% | 3.0% | 3.1% | 10 bps |
| East Mesa | 0.0% | \$885 | \$898 | 1.5% | 2.9% | 3.3% | 40 bps |
| Glendale South | 0.0% | \$742 | \$746 | 0.6% | 4.5% | 3.9% | -60 bps |
| Goodyear / Avondale | 0.0% | \$926 | \$934 | 0.9% | 2.2% | 2.4% | 20 bps |
| Maryvale | -4.1% | \$707 | \$707 | 0.0% | 3.3% | 2.2% | -110 bps |
| North Scottsdale | 1.9% | \$1,161 | \$1,178 | 1.5% | 6.8% | 6.5% | -30 bps |
| North Tempe | 0.1% | \$948 | \$942 | -0.6% | 6.0% | 5.5% | -50 bps |
| Northeast Phoenix | 0.0% | \$832 | \$841 | 1.1% | 6.4% | 7.2% | 80 bps |
| Paradise Valley | 0.0% | \$764 | \$769 | 0.8% | 3.0% | 3.4% | 40 bps |
| Peoria/Sun City/Surprise | 0.5% | \$861 | \$879 | 2.0% | 3.2% | 2.5% | -70 bps |
| South Mesa | 2.4% | \$776 | \$795 | 2.4% | 3.1% | 3.9% | 80 bps |
| South Scottsdale | 2.4% | \$977 | \$1,023 | 4.8% | 6.3% | 6.4% | 10 bps |
| South Tempe | 1.1% | \$952 | \$971 | 2.0% | 4.8% | 5.1% | 30 bps |
| Sunnyslope | 0.0% | \$764 | \$760 | -0.5% | 2.8% | 2.5% | -30 bps |
| West Mesa | 0.0% | \$704 | \$707 | 0.5% | 3.2% | 2.6% | -60 bps |
| Metro | 0.5% | \$866 | \$873 | 0.8% | 4.5% | 4.4% | -10 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

