

PAYROLL JOB SUMMARY

Average Payrolls	1,435.1m
Annual Change 1Q17	30.0m (2.1%)
RCR 2017 Forecast	31.4m (2.2%)
RCR 2018 Forecast	40.9m (2.8%)
RCR 2019 Forecast	33.3m (2.2%)
RCR 2020 Forecast	27.0m (1.8%)
RCR 2021 Forecast	27.3m (1.7%)
Unemployment (NSA)	2.1% (4/17)

1Q17 PAYROLL TRENDS AND FORECAST

Denver payroll job growth stabilized in the first quarter following a long slide from the 4.4% cycle peak performance recorded two years before. Metro employers added to payrolls at a 30,000-job, 2.1% year-on-year, matching 4Q16's performance. Weaker expansion in the extraction, construction, manufacturing and professional and technical services industries was largely responsible for the soft patch as group growth slowed from an 8,000-job, 2.7% y-o-y pace as recently as last summer to 1Q17's 3,100 (1.1%) advance. The healthcare and computer system design sub-sectors remained bright spots, however, maintaining full heads of steam, each growing faster than 5% y-o-y.

the metro's slowing rate of job creation. Only 32,700 residents seeking employment were jobless in April (2.1%), -35% fewer than were unemployed 12 months earlier.

RED Research's DEN econometric payroll model produces an optimistic forecast. The 98.3% adjusted-R² (SE=0.3%) equation employs the rate of change of US payroll growth, metro personal income and GDP_(t-4) growth as independent variables. As our base macro forecast calls for slightly faster US GDP and job growth over the next 12-15 months, the model expects Denver to follow suit with some degree of leverage. Payrolls are projected to grow at a 2.2% rate in 2017, despite a sluggish start during the first five months, and then accelerate to the high-2% area during 2018.

A developing labor shortage undoubtedly played a role in

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	94.5%
RED 51 Rank	48 th
Annual Chg. (Reis)	-1.0%
RCR YE17 Forecast	93.6%
RCR YE18 Forecast	94.0%
RCR YE19 Forecast	94.1%
RCR YE20 Forecast	93.7%
RCR YE21 Forecast	93.6%

1Q17 ABSORPTION AND OCCUPANCY RATE TRENDS

Apartment demand slumped in the first quarter. After renters absorbed a net of 1,423 vacant units (Reis) in 4Q16, the movement of tenants took an abrupt turn in the opposite direction as a net of -109 move-outs were recorded. This was the first quarterly decline in occupied stock in eight years. Demand was soft across classes but the trend in class-A was worse, where renters net leased only 38 units in 1Q17, down 1,280 from the prior quarter. Occupancy fell -20 basis points sequentially and -100bps year-on-year to 94.5% as a result, lowest level since 2011.

Class-C (94.2%) reported the highest occupancy and only y-o-y increase (+20bps); class-A (92.9%) lowest and largest decrease (-70bps). With no recent supply, Denver-South/Glendale (95.2%/+220bps) submarket enjoyed highest occupancy/largest gain, while supply-heavy Denver Central (92.0%) and Downtown (92.5%) trailed the pack.

Axiometrics surveys of 508 stabilized, same store assets found average occupancy of 93.7%, down -20bps y-o-y.

Denver will be barraged with heavy supply through 2018, pressuring occupancy irrespective of our upbeat economic outlook. Supply relief in 2019 is likely to run concurrent with weaker job growth (+) and still robust home price advances (-), influential variables in our demand equation. Hence, occupancy is likely to slip and struggle to recover.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$1,130
Annual Change	3.1%
RED 51 Rent Change Rank	35 th
RCR YE17 Forecast	2.3%
RCR YE18 Forecast	2.9%
RCR YE19 Forecast	3.1%
RCR YE20 Forecast	2.8%
RCR YE21 Forecast	2.3%

1Q17 EFFECTIVE RENT TRENDS

Denver rent trends also took a turn for the worse. Average Reis reported effective rent declined \$7 (-0.6%) sequentially, the first retrgrade motion since 2Q09. The effect on annual trends was material, dropping year-on-year growth from 4.9% in 4Q16 to 3.1%, a "two sigma" plus event. The class-B&C segment bore the brunt of the decline: Reis report that class asking rents fell -0.9% sequentially, while comparable class-A rent declined only -0.4%.

case. Thirty assets delivered since 2015 with <86% occupancy notched a 2.8% advance. Every class participated, led by A (3.6%), with classes-B and -C on 3.4%. Suburban submarkets posted solid annual growth metrics, while infill Downtown (0.1%) and Central Denver (2.2%) drifted.

Larger, professionally-managed properties appeared to fare better than the average. The Axiometrics same-store sample scratched out 0.5% sequential and 3.1% y-o-y gains, considerable improvements over 4Q16 in each

Occupancy is very material in RCR's 96.3% ARS (SE=0.7%) rent model, which doesn't bode well for revenue prospects. Indeed, trends are not projected to recover to the metro's 4.1% long-term average over the course of the 5-year forecast. Compound annual rent growth of 2.7% (RED 49 #31) is anticipated over the forecast interval: trends may be weaker if rapid home appreciation rates persist.

TRADE & RETURN SUMMARY

\$5mm+ / 80-unit+ Sales	29
Approximate Proceeds	\$896.6mm
Average Cap Rate (FNM)	4.9%
Average Price / Unit	\$193,477
Expected Total Return	6.3%
RED 49 ETR Rank	40 th
Risk-adjusted Index	1.84
RED 49 RAI Rank	48 th

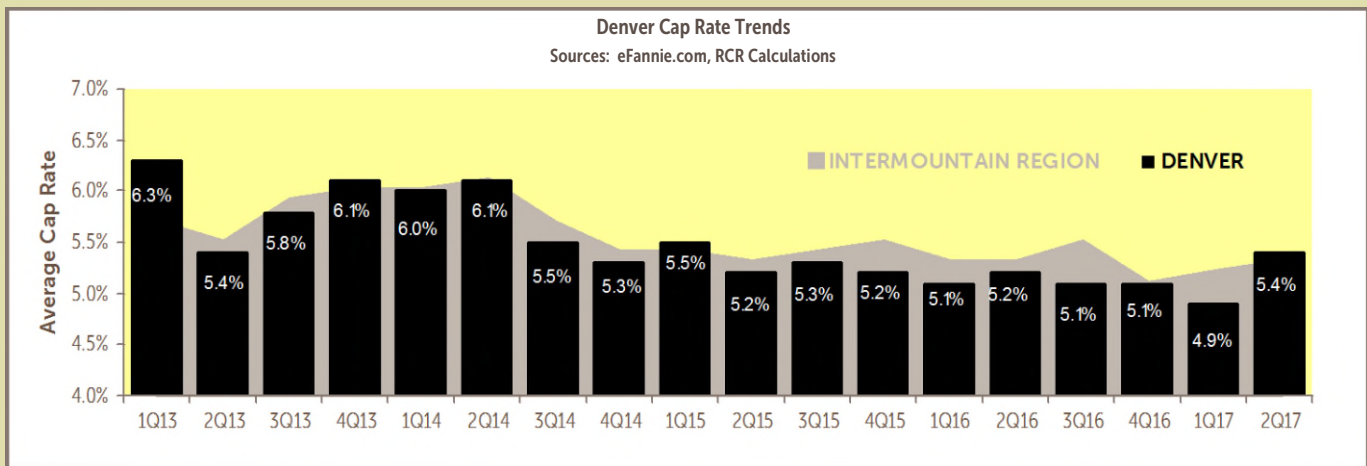
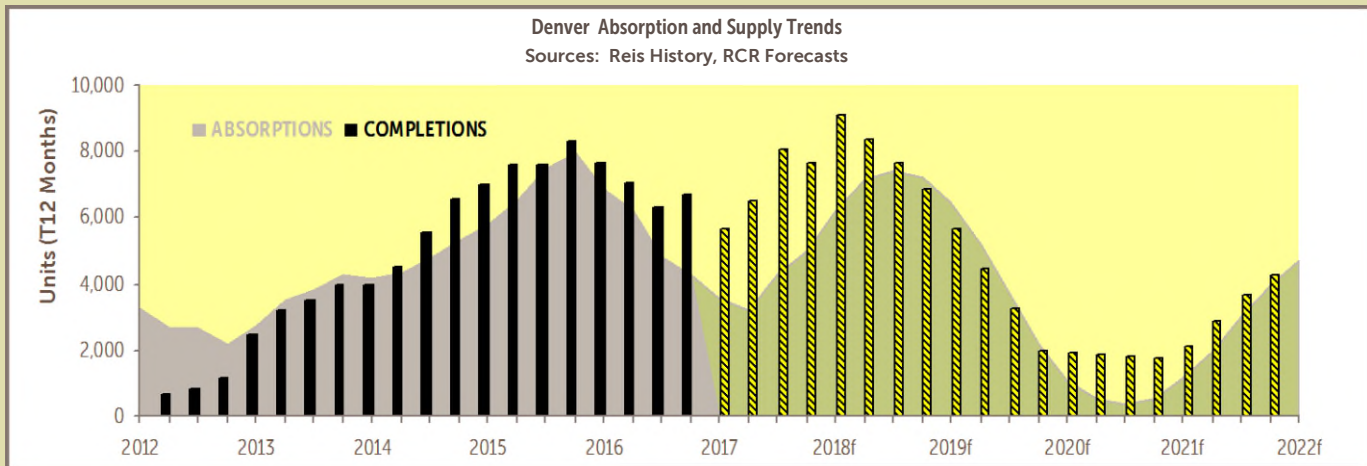
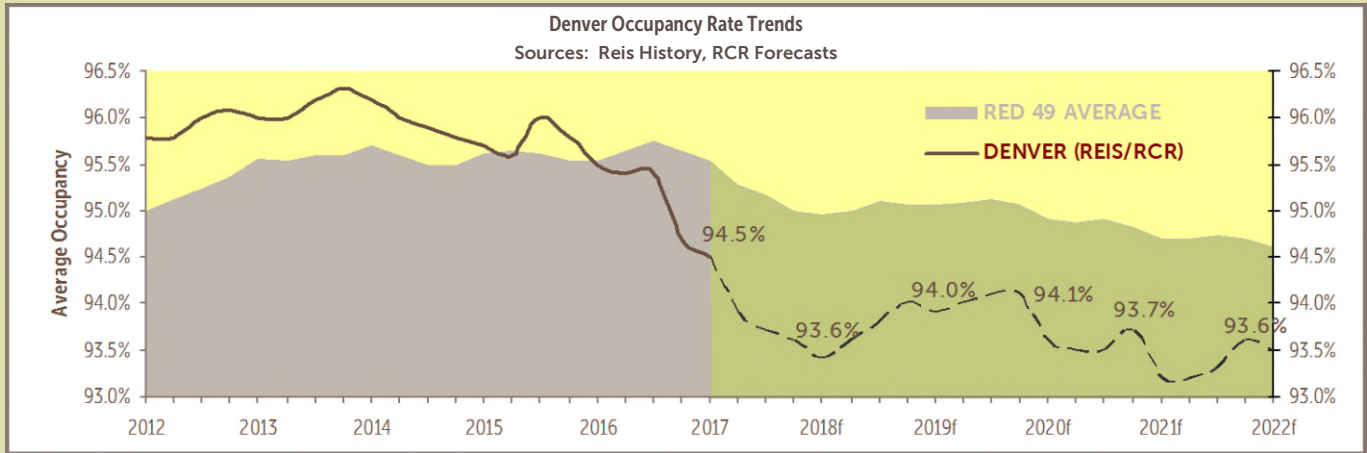
1Q17 PROPERTY MARKETS AND TOTAL RETURNS

Sputtering Reis reported rent trends didn't put off investors. Buyers closed on 29 single-asset purchases for proceeds of \$896.6 million in 1Q17, up slightly from 4Q16's 28 -trade velocity, but a seasonal -45% sequential decline in respect to volume. The average price per unit metric was \$193,477, down -5% sequentially and -6% year-on-year. Incomplete 2Q17 data were largely consistent with 1Q17.

assets exchanged hands at going in yields in the high-4% region, up from the mid-4s last year. Value-add yields crept up as well, reaching the mid- to-high 5% range, perhaps 30 basis points above average 2016 levels.

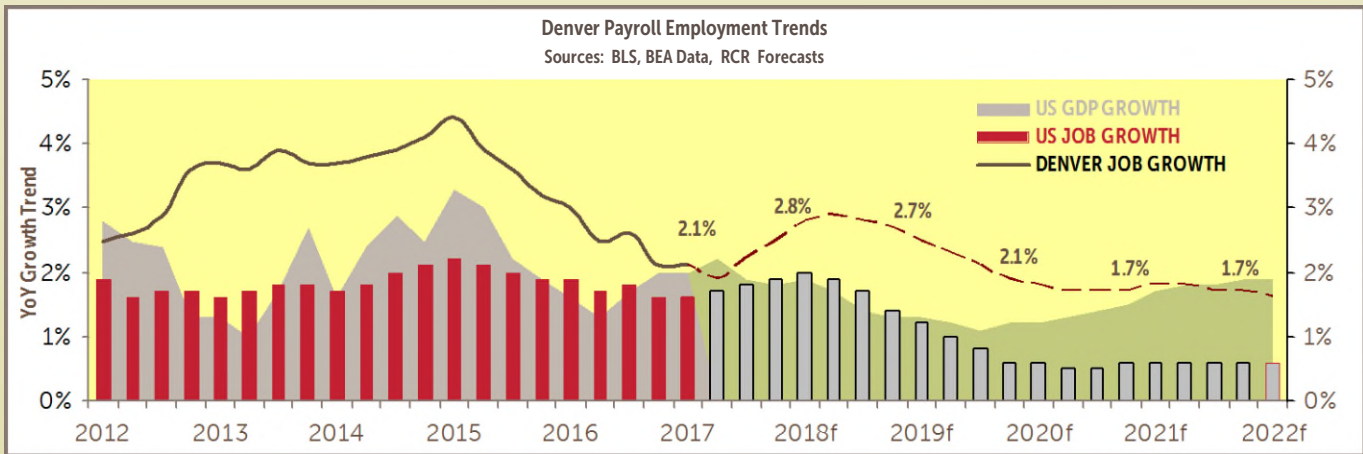
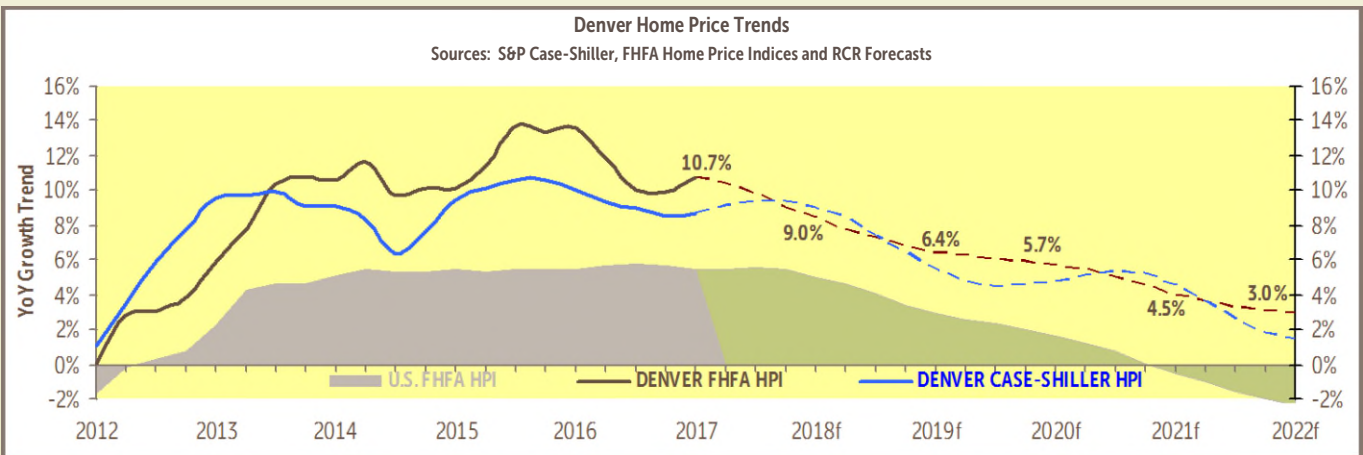
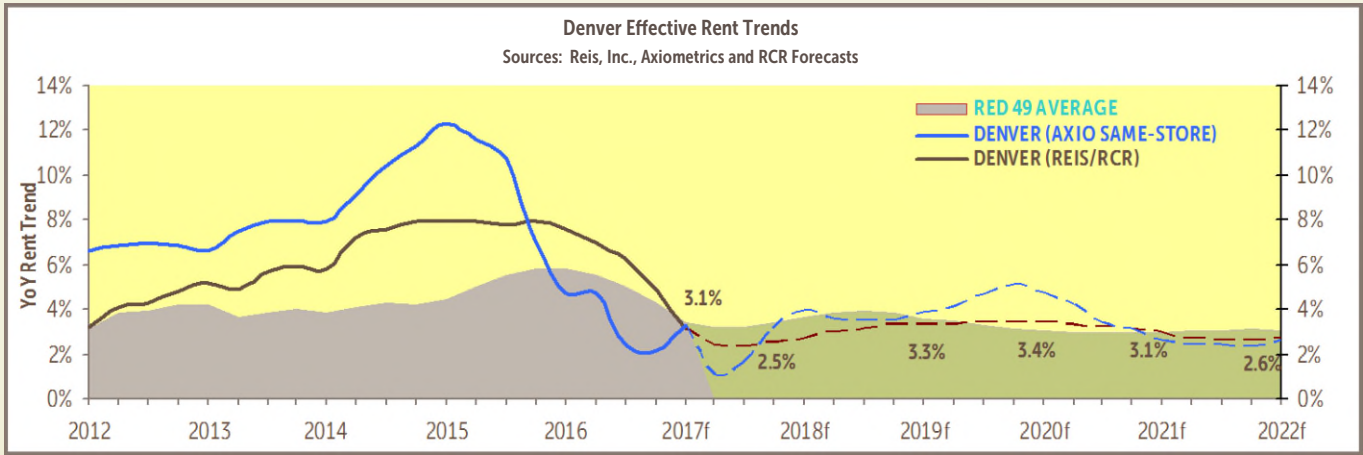
Private and institutional investors were the dominant forces, accounting for 95% of year-to-date sales proceeds through mid-June. This compares to the historic average of 85%. Private equity/REIT share fell from 14% to only 5%. Cap rates appeared to rise, however, as some class-B+/A

Reflecting recent trade, RCR bumped the B/B+ cap rate proxy 30bps to 5.0%, highest since 4Q15. With terminal yield of 5.6% and model derived rent and occupancy point estimates we calculate that an investor would expect to earn a 6.3% annual unlevered return over 5 years, ranking 40th among the RED 49. Moreover, above average rent and income volatility dents Denver's risk-adjusted return outlook: the metro ranks only #48 of 49 by way of RAI.



NOTABLE TRANSACTIONS

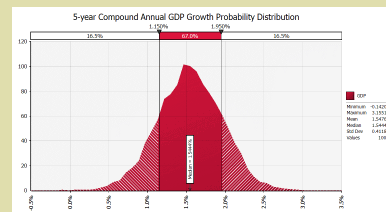
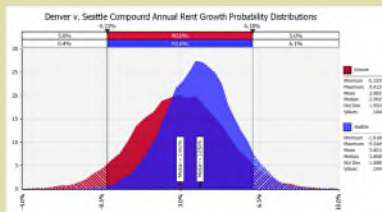
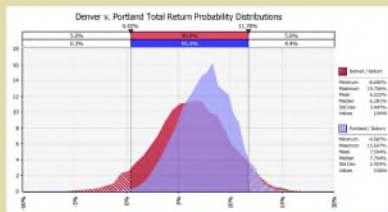
Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price (in millions)	Price / Per Unit	Estimated Cap Rate
Timber Lodge (Northglenn-Thornton / Welby)	C M.I./GLR (1971/2010)	30-Jan-2017	\$40.5	\$103,910	5.5%
City Block (Downtown / North Capitol Hill)	A- / MR (2013)	4-Feb-2017	\$99.5	\$329,470	4.4%
Landon Park (Aurora-North / City Center North)	C+ / GLR (1978)	17-Feb-2017	\$58.2	\$125,431	6.2%
Metropolitan Lincoln Station (Douglas Co. / Lone Tree)	B+ / MB MR (2006)	3-Mar-2017	\$99.1	\$229,980	4.7%
Griffis Union Station (Downtown / LoDo / Ballpark)	B+ / SR MR (2010)	17-Mar-2017	\$126.0	\$315,000	4.0%
Green Leaf Stone Cliff (Aurora-So. / Aurora Knolls)	B / GLR (2001)	9-June-2017	\$78.0	\$197,970	5.5%



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SUBMARKET TRENDS (REIS)

Submarket	Reis Inventory		Effective Rent		Physical Vacancy		Basis Point Change
	Percent Change	4Q16	1Q17	Change	4Q16	1Q17	
Arapahoe County	0.0%	\$1,338	\$1,344	0.5%	6.4%	6.6%	20 bps
Arvada / Broomfield	-0.7%	\$1,107	\$1,101	-0.5%	6.2%	6.8%	60 bps
Aurora-Central-SE	0.0%	\$933	\$934	0.0%	2.4%	3.1%	70 bps
Aurora-Central-SW	0.0%	\$874	\$881	0.8%	5.1%	4.9%	-20 bps
Aurora-North	0.0%	\$911	\$901	-1.1%	2.0%	2.3%	30 bps
Aurora-South	0.0%	\$1,176	\$1,200	2.0%	6.1%	6.5%	40 bps
Denver-Central	0.0%	\$1,505	\$1,499	-0.4%	8.1%	8.2%	10 bps
Denver-Downtown	0.0%	\$1,255	\$1,255	0.0%	8.7%	10.0%	130 bps
Denver-Far Southeast	0.0%	\$922	\$924	0.2%	3.7%	4.0%	30 bps
Denver-North	3.1%	\$1,592	\$1,623	2.0%	12.5%	13.5%	100 bps
Denver-Northeast	1.9%	\$1,168	\$1,197	2.5%	4.1%	4.3%	20 bps
Denver-South	0.0%	\$926	\$947	2.2%	3.8%	3.9%	10 bps
Denver-Southeast	0.0%	\$959	\$956	-0.4%	2.9%	2.9%	0 bps
Douglas County	0.0%	\$1,258	\$1,272	1.1%	6.3%	6.3%	0 bps
Englewood / Sheridan	4.3%	\$910	\$931	2.3%	4.5%	7.0%	250 bps
Golden / Wheat Ridge	-0.1%	\$1,074	\$1,070	-0.4%	3.5%	3.5%	0 bps
Lakewood-North	0.0%	\$1,023	\$1,016	-0.7%	3.3%	3.9%	60 bps
Lakewood-South	0.4%	\$1,132	\$1,151	1.6%	2.2%	2.4%	20 bps
Littleton	0.0%	\$1,053	\$1,063	1.0%	5.8%	5.2%	-60 bps
Northglenn / Thornton	0.4%	\$1,021	\$1,025	0.4%	5.2%	5.6%	40 bps
Westminster	1.7%	\$1,108	\$1,125	1.5%	4.5%	4.9%	40 bps
Metro	0.1%	\$1,137	\$1,130	-0.6%	5.3%	5.5%	20 bps



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