

PAYROLL JOB SUMMARY

Average Payrolls	1,044.0m
Annual Change 1Q17	22.7m (2.2%)
RCR 2017 Forecast	23.5m (2.3%)
RCR 2018 Forecast	21.0m (2.0%)
RCR 2019 Forecast	13.5m (1.2%)
RCR 2020 Forecast	10.1m (0.9%)
RCR 2021 Forecast	10.1m (0.9%)
Unemployment (NSA)	2.7% (5/17)

Indianapolis payroll employment trends raced forward with a full head of steam during the first half 2017, rising at brisk 22,700, 2.2% year-on-year rate in the first quarter before accelerating to a 24,000-job, 2.3% pace in 2Q. Faster 2Q17 growth was fueled by significant expansion in financial services (3,600 jobs/5.5%) and, surprisingly, retail trade (5,300 jobs/4.9%). Construction headcounts also expanded at a rapid pace, as building concerns added to payrolls at a 3,600, 7.4% annual rate following 1Q17's five-year high 5,000-job, 11.4% surge. By contrast, transportation and information sector payrolls declined, and business, education and healthcare service hiring (1.1%) was muted.

Seasonally-adjusted data was, if anything, indicative of

greater strength. This series recorded a net increase of 27,000 jobs January through June, a six-month performance surpassed only twice before in 1994 and 2006.

RED Research's Indianapolis payroll model expects above average payroll growth to persist into 2019. The model is rather less robust than most, achieving a 93.8% adjusted-R² (SE=0.4%) using the rate of change of US payroll growth, and GDP_(t-1), personal consumption expenditure_(t-2) and Columbus job_(t-1) growth rates as independent variables. Annual gains in the low-2% area are forecast for the next 12 months, followed by gradually slowing expansion through the end of the forecast interval. More than 20,000 new jobs should be added in each of 2017 and 2018.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	94.6%
RED 51 Rank	47 th
Annual Chg. (Reis)	+0.2%
RCR YE17 Forecast	94.7%
RCR YE18 Forecast	94.4%
RCR YE19 Forecast	93.9%
RCR YE20 Forecast	93.2%
RCR YE21 Forecast	93.0%

1Q17 ABSORPTION AND OCCUPANCY RATE TRENDS

First quarter apartment space demand was soft in most major markets and Indianapolis was no exception. Tenants net leased only 204 vacant units, according to Reis, down from 634 and 593 in the prior and year-earlier quarters, respectively. Supply eased off a bit as well, but occupancy declined -10 basis points sequentially anyway to 94.6%. Absorption appears to have regained strength in the spring as preliminary 2Q17 Reis data show occupancy unchanged sequentially on 94.6% despite increased supply pressure.

Axiometrics surveys of 288 stabilized, same-store properties set the average lower. This sample was 92.6% and 93.2% occupied in 1Q17 and 2Q17, up 40bps year-on-year

in each case. The "B" segment was the class leader, followed by classes-A (93.6%) and -C (90.5%). Class-C (90bps) reported the strongest y-o-y up move. Rates of new unit absorption remained slow, averaging less than 4 units per property/month for the third consecutive quarter.

Supply growth is expected to remain above the historic average ($\mu=1.5%$) through 2018. RCR's occupied stock growth model suggests that demand is likely to fall short of supply during this period, causing occupancy to decline to the ~94.4% level by YE18. Further decreases may be possible afterward if absorption levels decline as expected on weaker economic conditions late in the decade

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$783
Annual Change	3.6%
RED 51 Rent Change Rank	23 rd
RCR YE17 Forecast	2.9%
RCR YE18 Forecast	2.7%
RCR YE19 Forecast	2.6%
RCR YE20 Forecast	2.3%
RCR YE21 Forecast	2.6%

1Q17 EFFECTIVE RENT TRENDS

Reis report that effective rent averaged \$783 in 1Q17, up \$5 (0.7%) from the prior quarter and \$27 (3.6%) from the year-earlier period. Both metrics were improvements over 4Q16's comparable 0.4% and 3.5% results, a feat managed only by 3 other RED 51 markets. Preliminary 2Q17 results indicate that moderate rent trends persisted in the spring as asking rents increased 0.8% sequentially and 3.4% year-on-year, down slightly from 0.9% and 3.7% 1Q17 gains.

Average effective rent growth in the Axiometrics same-store sample was marginally faster. Rents increased 3.4% y-o-y in 1Q17, and 3.0% in 2Q17. Although class-A (3.7%) posted fastest growth in 1Q, the "B" segment (3.5%)

emerged as the class leader in 2Q, topping classes-A (2.3%) and -C (1.5%). Lower rent suburban submarkets recorded the fastest 2Q rent growth, led by Southwest (3.7%), West (3.5%) and Southeast (3.4%). By contrast, higher cost Central (0.6%), Hamilton (1.8%) and Boone/Hendricks (1.1%) posted weaker results by comparison.

RCR's INDY rent model (ARS=89.3%, SE=0.6%) suggests that US payroll (+) and home price (-) growth and sequential occupancy rate change (+) are the most significant drivers of metro rent. Each is likely to have slightly negative influence on rent, but a positive constant will tend to maintain rents in the 2% to 2.7% range through 2021.

TRADE & RETURN SUMMARY

\$3mm+/60+ units Sales	9
Estimated Proceeds	\$160mm
Average Cap Rate (FNM)	6.0%
Average Price / Unit	\$58,060
Expected Total Return	7.1%
RED 49 ETR Rank	16 th
Risk-adjusted Index	5.02
RED 49 RAI Rank	10 th

1Q17 PROPERTY MARKETS AND TOTAL RETURNS

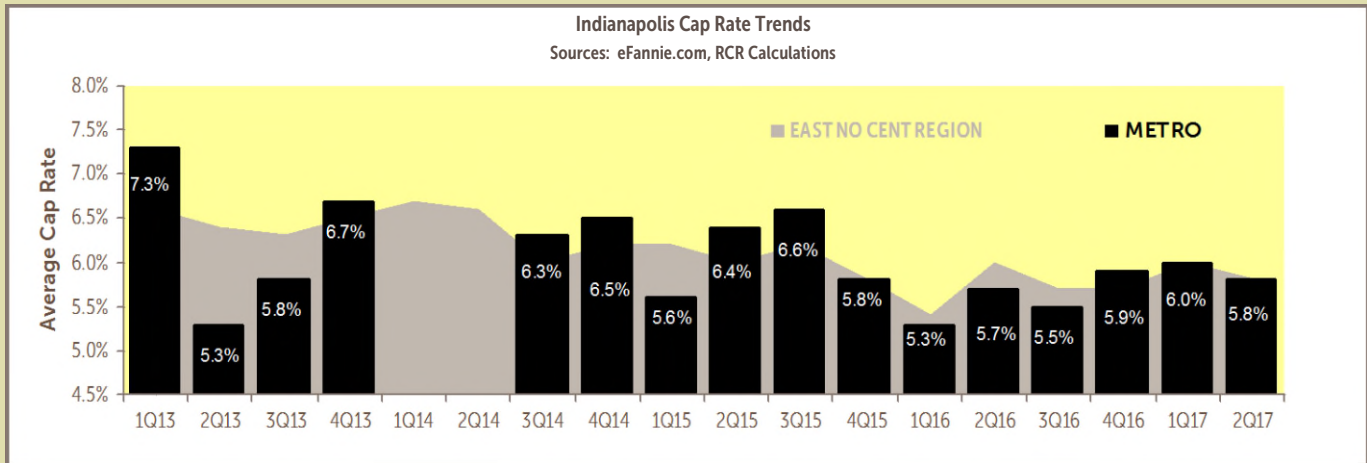
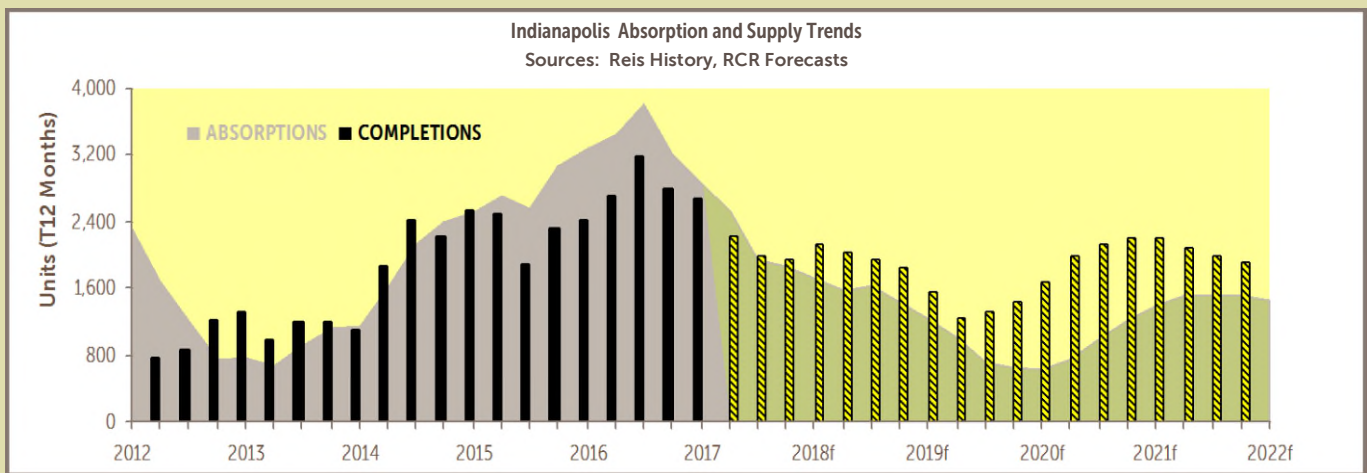
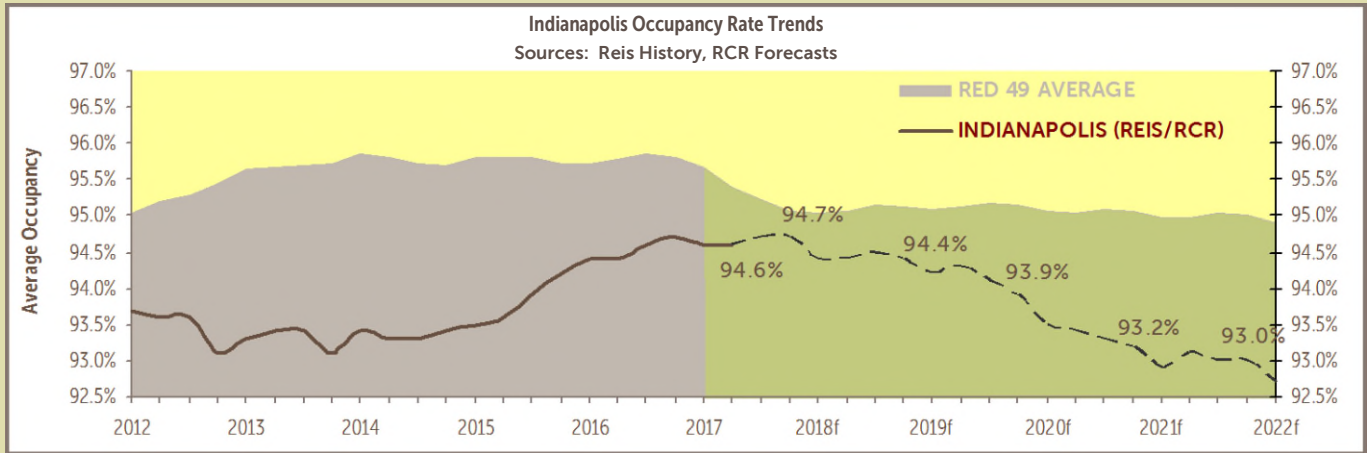
Property market velocity was moderately slower during the first half 2017. A total of 18 transactions of assets valued at \$3 million or more were closed, down from 26 sales in the comparable period of 2016, and 21 during 2H16. The average transaction size increased, however, raising total proceeds to approximately \$385mm from \$325mm during 1H16 and \$275mm in 2H16. The average price of 5,710 units sold was about \$67,100, on par with 2016.

Private owner/managers continued to dominate the ranks of buyers, accounting for 90% of purchased principal. Institutional investors re-entered the fray in 2Q17, however, adding a \$28mm Noblesville asset (CoStar); thereby

doubling total acquired value over the past 30 months.

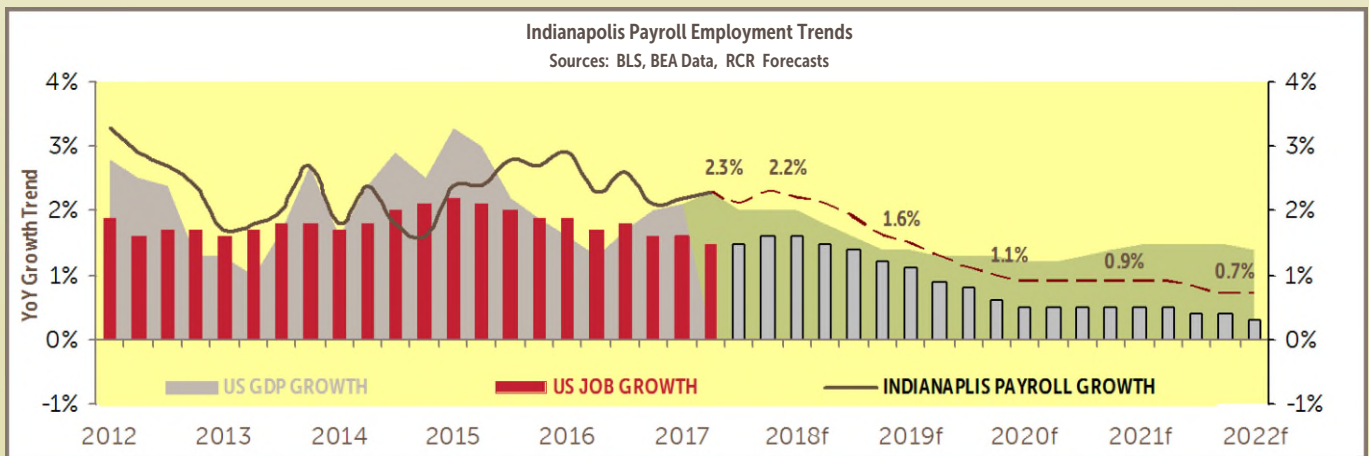
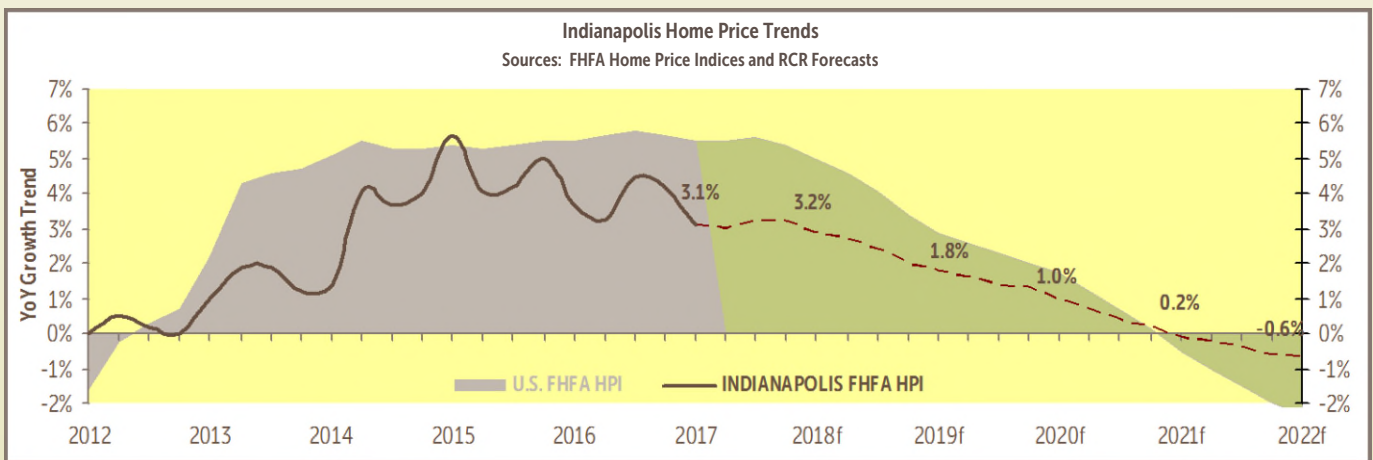
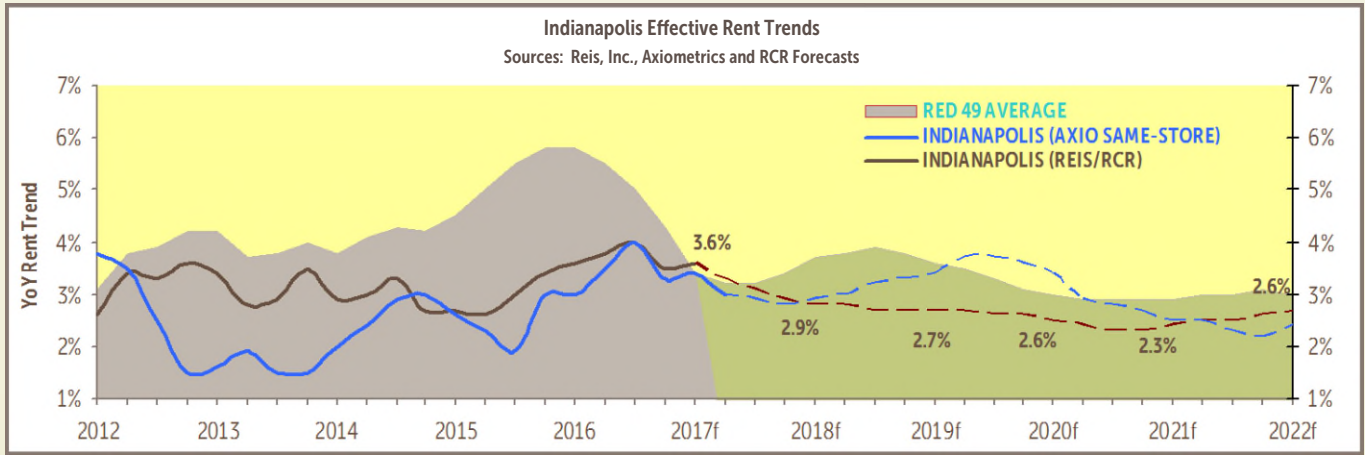
Investment quality properties traded to mid-5% to mid-6% yields, depending on age and location. Class-B/-C assets sold at cap rates in the mid-6% to mid-7% range.

RCR elected to raise the purchase cap rate proxy 10 basis points to 6.1%, bringing it in line with similar Ohio and Michigan markets. With a terminal cap rate of 6.7%, and model derived performance metrics we calculate that a 1Q17 investor would expect to earn a 7.1% annual, unlevered total return on a five-year hold. This ranks 16th among the RED 49; 10th as regards risk-adjusted return.



NOTABLE TRANSACTIONS

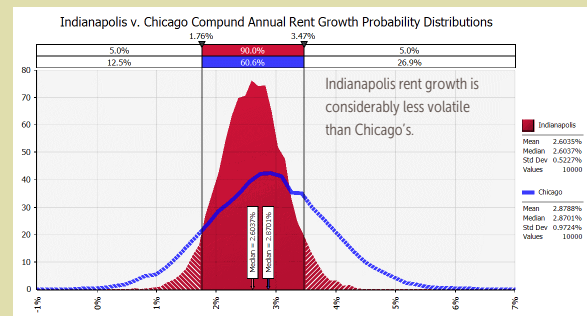
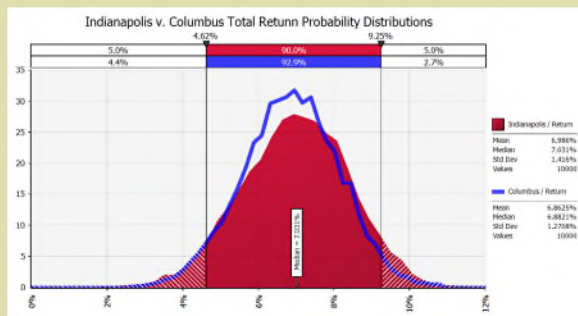
Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price (in millions)	Price / Per Unit	Estimated Cap Rate
Island Club (West / Windham Lake)	B- / WF GLR (1990)	12-Jan-2017	\$23.1	\$73,566 5.	5.90% (UW)
Mann Village (Southwest / Airport / Mann Rd)	C / WF GLR (1989)	3-Mar-2017	\$19.5	\$66,327	6.01% (UW)
Ashford at Keystone (Castleton / Ravenswood)	B / WF GLR (1967)	3-Apr-2017	\$36.0	\$79,121	5.98% (UW)
Northlake Village (Hamilton Co. / Noblesville)	B- / WF GLR (1983)	31-May-2017	\$29.3	\$84,195	5.6%
Lake Castleton (Far Northeast / Castleton Farms)	B- / MB GLR (1978)	26-June-2017	\$90.6	\$71,848	6.5%
LaCabra Apts. (Hendricks Co. / Brownsburg)	B+ / MB GLR (2016)	30-June-2017	\$28.0	\$116,667	5.6%



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SUBMARKET TRENDS (REIS)

Submarket	Reis Inventory Percent Change	Effective Rent			Physical Vacancy		Basis Point Change
		1Q16	1Q17	Change	1Q16	1Q17	
Boone Co./Hendricks Co.	14.1%	\$880	\$894	1.6%	8.3%	5.5%	-280 bps
Castleton	0.0%	\$838	\$849	1.3%	4.1%	5.1%	100 bps
Central	9.3%	\$949	\$1,036	9.2%	8.6%	8.3%	-30 bps
East	-1.6%	\$588	\$638	8.4%	4.9%	2.2%	-270 bps
Far Northeast	0.0%	\$657	\$667	1.5%	8.1%	7.2%	-90 bps
Far Northwest	0.0%	\$721	\$750	4.0%	2.6%	4.1%	150 bps
Hamilton County	7.6%	\$961	\$1,003	4.3%	9.2%	8.5%	-70 bps
Hancock Co./Shelby Co.	10.7%	\$663	\$679	2.4%	1.4%	2.5%	110 bps
Johnson County	0.0%	\$685	\$704	2.7%	4.0%	2.9%	-110 bps
Near Northwest	0.0%	\$669	\$705	5.4%	3.9%	5.8%	190 bps
Southeast	0.0%	\$695	\$708	1.9%	4.4%	4.1%	-30 bps
Southwest	-0.7%	\$720	\$736	2.1%	6.8%	4.0%	-280 bps
West	-1.1%	\$640	\$661	3.3%	3.5%	4.5%	100 bps
Metro	0.2%	\$756	\$783	3.6%	5.3%	5.4%	10 bps



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