

PAYROLL JOB SUMMARY

Average Payrolls	1,358.1m
Annual Change 1Q17	19.2m (1.4%)
RCR 2017 Forecast	16.2m (1.2%)
RCR 2018 Forecast	16.9m (1.2%)
RCR 2019 Forecast	11.1m (0.8%)
RCR 2020 Forecast	6.9m (0.5%)
RCR 2021 Forecast	5.5m (0.4%)
Unemployment (NSA)	4.0% (5/17)

1Q17 PAYROLL TRENDS AND FORECAST

The Saint Louis labor market regained momentum over the winter following six months of slack growth. Establishments hired at a 19,200-job, 1.4% year-on-year rate, topping 4Q16's 0.9% advance, which included a 4-year low 0.4% 12-month gain in December. Service industries were the catalysts: service sector establishments added to headcounts at an 18,800-job, 2.8% annual rate in 1Q, up from the prior quarter's 10,100-job advance. Notably, the education, healthcare and food service subsectors expanded at a rate (3.4%) nearly three times as fast as 4Q16. Other industry super-sectors made virtually no gains over the year.

Preliminary spring data reports were considerably weaker. April and May payroll numbers reflected a much slower

pace of growth, as concerns expanded at only a 0.8% y-o-y rate. The seasonally-adjusted data series was especially soft, showing -11,400 net job losses March through May.

Down tempo growth in spring is disconcerting but **RED Research's** STL payroll model remains optimistic for 2017-2018. The 95.3% adjusted-R² (SE=0.3%) equation employs the rate of change of US job growth, current dollar GDP growth^{A2}, metro home appreciation_(t-1) and the Baa credit spread as predictive variables. The model projects that the metro job market will draft on slightly faster NGDP and US job growth through 2018, before succumbing to the gravitational pull of weaker national economic conditions and stagnating home prices through the end of the decade.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	95.7%
RED 51 Rank	25 th
Annual Chg. (Reis)	Unch'd
RCR YE17 Forecast	94.6%
RCR YE18 Forecast	94.3%
RCR YE19 Forecast	94.5%
RCR YE20 Forecast	94.3%
RCR YE21 Forecast	94.5%

1Q17 ABSORPTION AND OCCUPANCY RATE TRENDS

Saint Louis apartment demand was in line with seasonal norms. Renters occupied a net of 257 vacant units (Reis) in 1Q17, about -10% below the post-Recession winter quarter average. Moreover, no new construction was added to inventory, allowing metro occupancy to incline 20 basis points sequentially to 95.7%, highest in 18 months. Strong interest in class-A units was evident as tenants absorbed 173 luxury units, lifting class occupancy 50bps to 95.4%.

Occupancy posted by 143 stabilized, same-store properties surveyed by Axiometrics was considerably lower. Sample averages were 92.9% in 1Q17, and 93.7% in May. Year-on-year changes were +30bps and +10bps, respec-

tively. May occupancy was highest in the "B" segment (94.0%), 160bps and 470bps above classes-A and -C. Submarket performance varied broadly. City South and South County occupancy topped 95% in 1Q, but City North and Airport/I-70 failed to pierce the 90% threshold.

Similar to many US markets, STL faces a material increase of supply in 2017 and 2018. Reis project that more than 3,100 units will be delivered by YE18. **RCR's** payroll model suggests that fewer than one-half will be concurrently absorbed, causing metro occupancy to decline more than 100bps. Supply will recede afterward, and demand is expected to be sufficient to hold occupancy above 94%.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$823
Annual Change	3.9%
RED 51 Rent Change Rank	20 th
RCR YE17 Forecast	2.2%
RCR YE18 Forecast	2.4%
RCR YE19 Forecast	2.8%
RCR YE20 Forecast	1.9%
RCR YE21 Forecast	2.4%

1Q17 EFFECTIVE RENT TRENDS

Reis report that rent trends diminished in 1Q17. Sequential quarter growth slowed from \$12 (1.4%) during 4Q16, to \$2 (0.2%), representing the smallest quarterly advance observed in more than five years. The annual rent growth metric also plunged, slipping from 4.6% in 4Q, to 3.9%, a quarterly deceleration level unseen since recessionary 2Q09. Class-A trends were most affected: sequential asking rent growth slipped from 1.5% in 4Q16 to 0.3%.

By contrast, rent trends among the Axiometrics same-store sample were stable. Sequential growth was about 0.5% in 1Q17, matching the comparable metric in 2016. Annual comparisons were nearly unchanged in 1Q17 on

2.2%, but annual growth stumbled in May to 1.4%. Class-A (1.6%) recorded the fastest May advance, followed by classes-B (1.4%) and -C (1.3%). Lower cost Airport (8.5%) and East I-44 and Florissant (3.3%) notched fastest submarket growth, while highest cost Clayton (0.3%) lagged.

RCR's STL rent model uses nominal GDP_(t-3) and Chicago payroll_(t-3) growth, occupancy and inflation^{A2} as independent variables to reach ARS 90.0% (SE=0.5%). The model projects 1.9% to 2.8% annual rent growth for the 5-year forecast interval, translating to a compound annual rate of 2.4%, ranked 38th among the **RED 49** peers. By way of comparison, KC (2.2%) and CHI (2.4%) rank #41 and #37.

TRADE & RETURN SUMMARY

\$2mm+ Sales	15
Estimated Proceeds	\$144mm
Average Cap Rate (FNM)	6.0%
Average Price / Unit	\$101,936
Expected Total Return	6.9%
RED 49 ETR Rank	23 rd
Risk-adjusted Index	5.82
RED 49 RAI Rank	4 th

1Q17 PROPERTY MARKETS AND TOTAL RETURNS

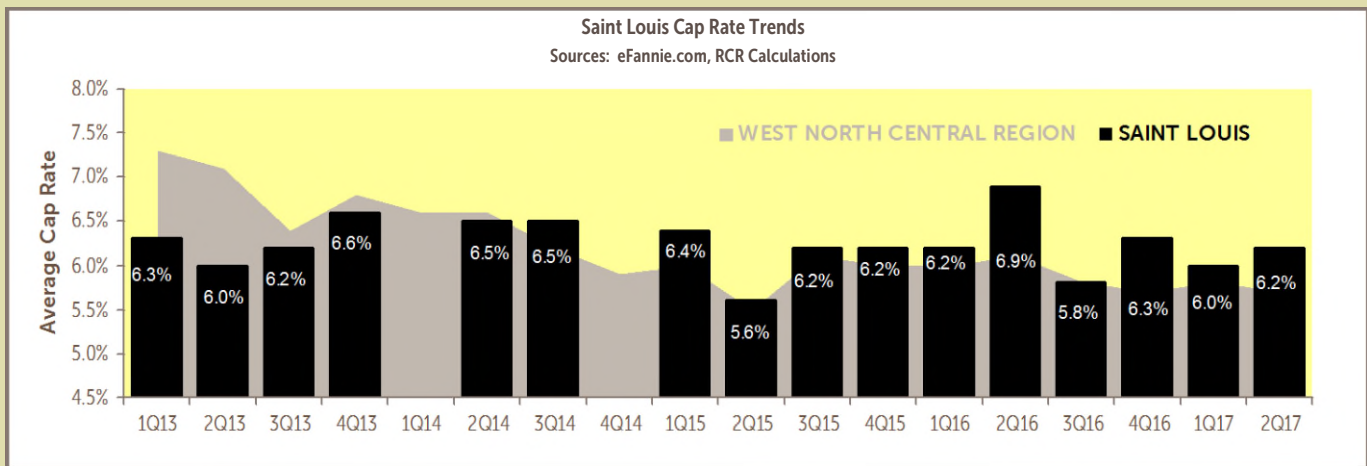
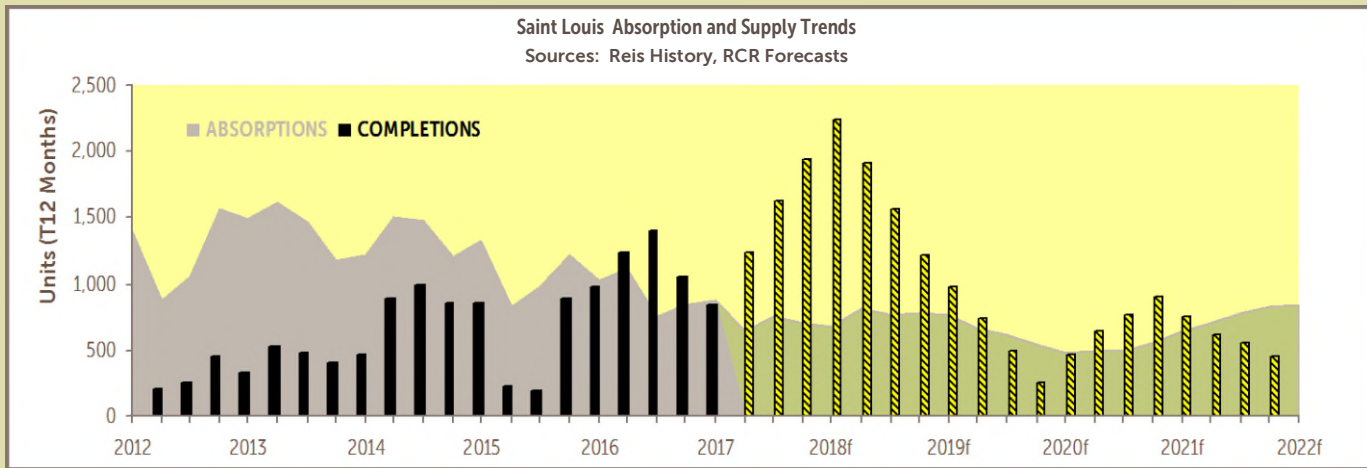
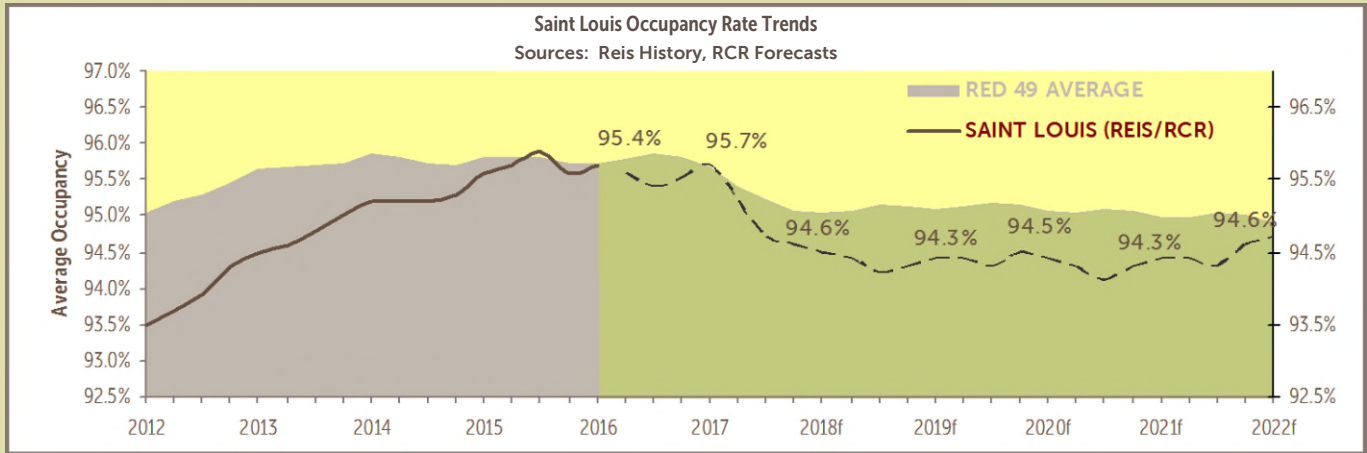
Property sales spiked during the first quarter, reaching 15 transactions, according to Real Capital Analytics, up from 11 in the prior and year-earlier quarters. Estimated proceeds totaled \$144 million, down moderately from 4Q16 (\$151mm) and 1Q16 (\$194mm). The average price of units sold for transactions with known pricing parameters was \$101,936 (CoStar), up from \$88,147 and \$83,680 in the previous and year earlier periods, respectively.

Sales continued at a robust rate in 2Q17. RCA report proceeds of more than \$204mm in 10 transactions.

Cap rates fell mostly in the 6% to 7% region. Class-A recent

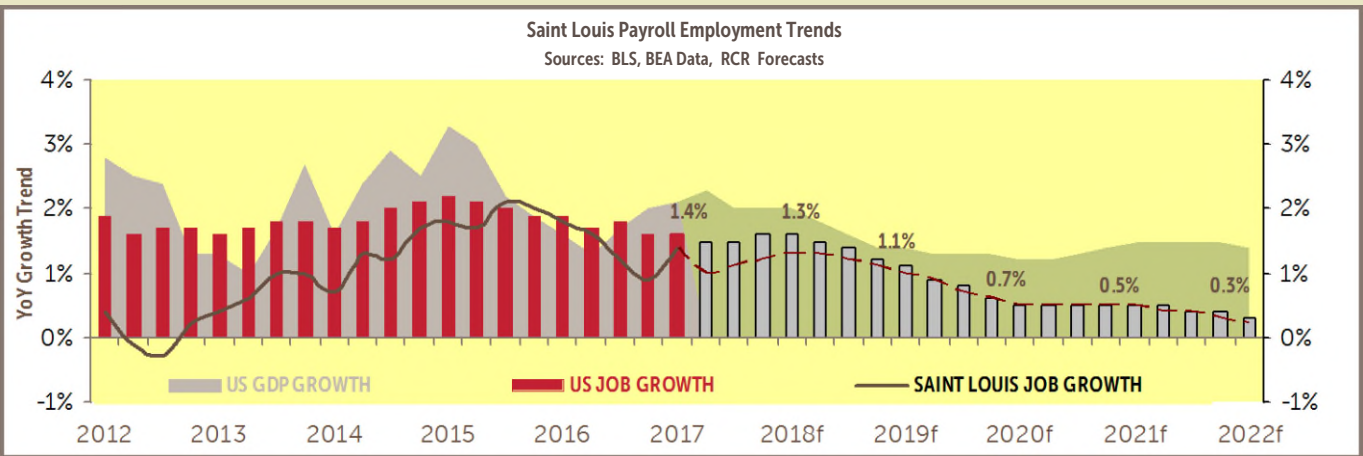
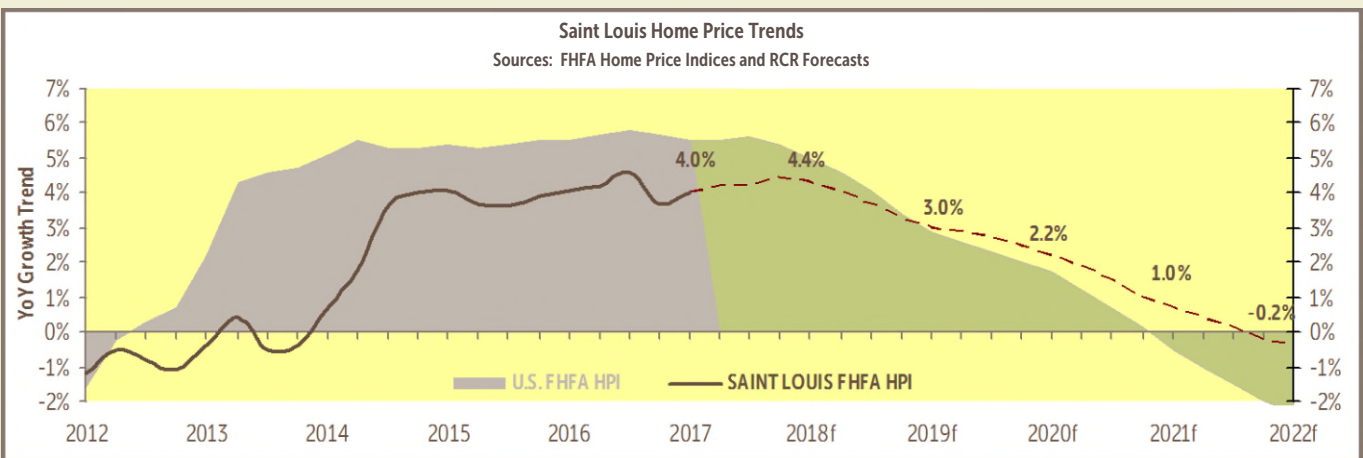
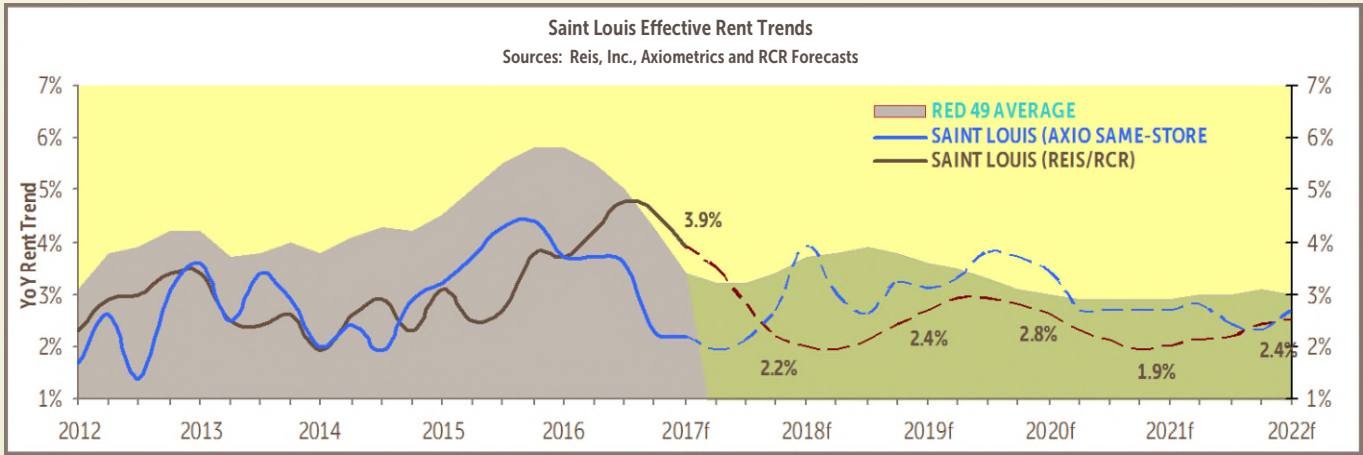
construction assets traded to high-5% to low-6% yields. Class-B gardens were priced to discounts of 25 to 50 bps behind trophies. There was no evident bump for "value-adds:" older assets trade in a wide 6.5% to 7.5% range.

RCR elected to stick with a 6.0% purchase cap rate proxy for the fourth consecutive quarter. With this level, a terminal cap of 6.6% and model generated performance point estimates we calculate that an investor would expect to earn a 6.9% unlevered total return over a 5-year carry. This ranks 23rd among the **RED 49** peers and is 20bps above our current group average. Performance volatility is low, elevating STL's risk-adjusted index to peer group 4th rank.



NOTABLE TRANSACTIONS

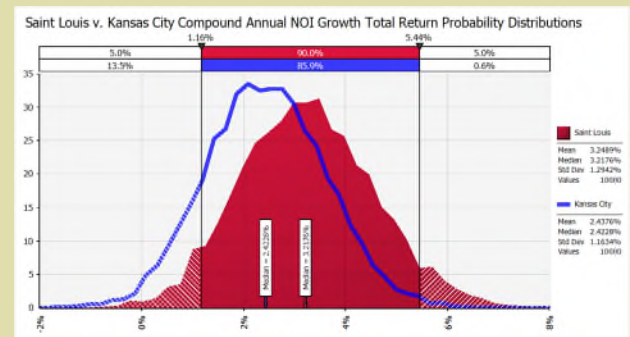
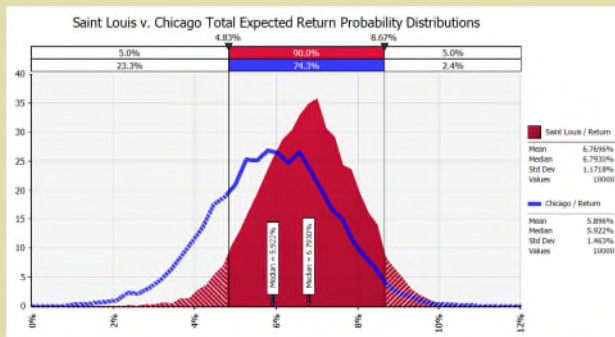
Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price (in millions)	Price / Per Unit	Estimated Cap Rate
Ashwood Apts. (St. Charles Co. / Harvester)	B LIHTC / GLR (1999)	19-Dec-2016	\$25.7	\$93,116	6.08% (U/W)
Maryland Park Apts. (Maryland Heights/Creve Coeur)	B / GLR (1971)	3-Mar-2017	\$19.2	\$76,319	6.35% (U/W)
Tower at OPOP (Downtown / Old Post Office Plaza)	A / RC HR (2014)	3-Mar-2017	\$27.0	\$210,938	6.1%
Lofts at OPOP (Downtown / Old Post Office Plaza)	A+/MB MR (1931/2010)	3-Mar-2017	\$8.0	\$150,943	6.19% (U/W)
Vanguard Heights (Maryland Heights / Creve Coeur)	A+/WF MR (2016)	5-Apr-2016	\$39.6	\$227,586	4.9%/6.25% pro forma
Woodhollow Apts. (Maryland Heights / Dorset Road)	B- / WF LR (1971)	26-Apr-2017	\$32.0	\$79,602	6.36% (U/W)



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
		1Q16	1Q17	Change	1Q16	1Q17	
Airport / I-70	0.0%	\$579	\$582	0.6%	4.5%	7.7%	320 bps
Clayton / Mid-County	4.8%	\$953	\$996	4.6%	3.6%	4.4%	80 bps
East of I-44	0.0%	\$668	\$674	0.9%	2.8%	2.3%	-50 bps
Florissant / North County	0.0%	\$676	\$688	1.7%	5.6%	5.4%	-20 bps
Manchester	0.0%	\$888	\$931	4.9%	2.8%	2.1%	-70 bps
Maryland Heights	1.2%	\$850	\$903	6.3%	2.5%	3.5%	100 bps
South	1.1%	\$695	\$699	0.6%	1.6%	2.0%	40 bps
St. Charles County	1.4%	\$888	\$918	3.4%	4.9%	2.6%	-230 bps
St. Louis City North	0.9%	\$890	\$985	10.6%	5.7%	5.6%	-10 bps
St. Louis City South	0.0%	\$620	\$702	13.2%	6.1%	5.3%	-80 bps
Metro	0.7%	\$792	\$823	3.9%	4.3%	4.3%	0 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

