

PAYROLL JOB SUMMARY

Average Payrolls	1,078.8m
Annual Change 1Q17	21.1m (2.0%)
RCR 2017 Forecast	20.7m (1.9%)
RCR 2018 Forecast	18.6m (1.7%)
RCR 2019 Forecast	10.9m (1.0%)
RCR 2020 Forecast	6.3m (0.6%)
RCR 2021 Forecast	5.1m (0.4%)
Unemployment (NSA)	3.9% (5/17)

Cincinnati payroll employment regained momentum in the first quarter as establishments hired workers at a 21,100-job, 2.0% year-on-year rate following three consecutive quarters of 1.7% annual growth. Goods producing industries were in part responsible: construction, manufacturing and wholesale trade headcounts advanced at a 6,600-job pace, up from 4Q16's 5,000-job gain. Services accounted for the balance of the quarter's advance, especially the financial and food services sectors, which added to payrolls at a collective 6,400-job pace, an increase of more than 50% from the prior quarter. Each super-sector added jobs and only information sector growth was materially slower.

Preliminary April and May data were moderately weaker.

Not seasonally-adjusted annual comparisons decelerated to 1.9%, and the seasonally adjusted series showed a -900 job net loss, the first two-month decline since May 2016.

The near-term outlook is constructive. RED Research's CIN payroll model uses the rate of change of US payroll growth, and personal consumption expenditure_(t-5) and current dollar GDP growth as independent variables to achieve a 95.4% adjusted-R² (SE=0.3%). As consumption and nominal GDP growth is projected to be reasonably robust through 2018, so, too, is metro job growth. But a weaker macroeconomic environment is expected to develop in the last years of the decade, producing materially slower job creation trends in the Cincinnati metro area.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	96.2%
RED 51 Rank	16 th
Annual Chg. (Reis)	+0.1%
RCR YE17 Forecast	94.8%
RCR YE18 Forecast	94.8%
RCR YE19 Forecast	94.9%
RCR YE20 Forecast	95.0%
RCR YE21 Forecast	95.1%

1Q17 ABSORPTION AND OCCUPANCY RATE TRENDS

After a remarkably strong 2016, apartment demand moderated during the winter quarter. Renters occupied a net of 127 vacant units (Reis), down from 465 and 252 units in the prior and year-earlier quarters, respectively. No new supply was delivered to the market, allowing occupancy to rise 10 basis points sequentially to 96.2%, highest in more than a year. Preliminary data suggest space demand increased in 2Q17, holding occupancy steady on 96.2%.

A 184-property same-store stabilized sample surveyed by Axiometrics was 93.7% occupied in 1Q17, down -80bps year-on-year; 94.5% in 2Q17, down -90bps y-o-y. The C segment (96.3%) was the class leader in 2Q17, followed by

classes-A (94.7%) and -B (94.2%). Suburban submarkets generally recorded higher occupancy rates, led by Blue Ash (97.1%) and Clermont Co. (95.8%). Downtown slid about -100bps to 94.4% on supply pressure. New unit absorption rebounded to 8 units per month from 4 in 1Q17, but remained well below the 16-unit 2H16 pace.

Reis forecast that supply growth will surge to rates not seen since the early 1990's. Absorption is unlikely to keep pace: RCR's demand model projects supply will exceed demand by 1,300 units by MY18. Occupancy is likely to decline to the high 94% area as a result, a phenomenon already evident in the more sensitive Axiometrics data.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$815
Annual Change	2.5%
RED 51 Rent Change Rank	39 th
RCR YE17 Forecast	1.4%
RCR YE18 Forecast	2.3%
RCR YE19 Forecast	1.7%
RCR YE20 Forecast	2.1%
RCR YE21 Forecast	2.2%

1Q17 EFFECTIVE RENT TRENDS

Metro rents were nearly flat for the second consecutive quarter, rising only \$1 (0.1%) sequentially (Reis), following 4Q16's six-year low \$2 (0.3%) advance. Expressed on a year-on-year basis, rent trends plunged to 2.5% from 4.1% in 4Q16, the most dramatic sequential quarter decline in 15 years. Preliminary data suggest trends improved in the seasonally-stronger spring quarter: asking rent rose 0.7%.

The Axiometrics professionally-managed same-store sample posted faster growth. Annual rent growth was 3.7% in 1Q17, and 3.8% in 2Q. Class-B (4.5%) chalked down the largest 2Q advance, and was the only class to accelerate from 1Q17. Classes A (2.8%) and -C (1.5%) followed.

Suburban Clermont (5.8%), North (5.4%) and Butler/Warren (4.4%) submarkets scored solid 2Q rent increases but supply-challenged Downtown managed only a 1.1% advance. All mid- and high-rise buildings fared slightly better, notching a 1.5% weighted average annual increase.

RCR's CINC rent model projects slow but stable rent growth for the duration of the 5-year forecast interval. The equation uses nominal GDP_(t-1) (+) and metro home price¹²_(t-3) (-) growth and sequential occupancy change (+) as independent variables to reach a 90.1% ARS (SE=0.48%). The model projects 2.0% compound annual rent growth through 2021, slightly below the 2.3% long-term average.

TRADE & RETURN SUMMARY

\$3mm+/60+ unit Sales	6
Estimated Proceeds	\$90mm
Average Cap Rate (FNM)	5.8%
Average Price / Unit	\$94,384
Expected Total Return	6.4%
RED 49 ETR Rank	35 th
Risk-adjusted Index	4.80
RED 49 RAI Rank	12 th

1Q17 PROPERTY MARKETS AND TOTAL RETURNS

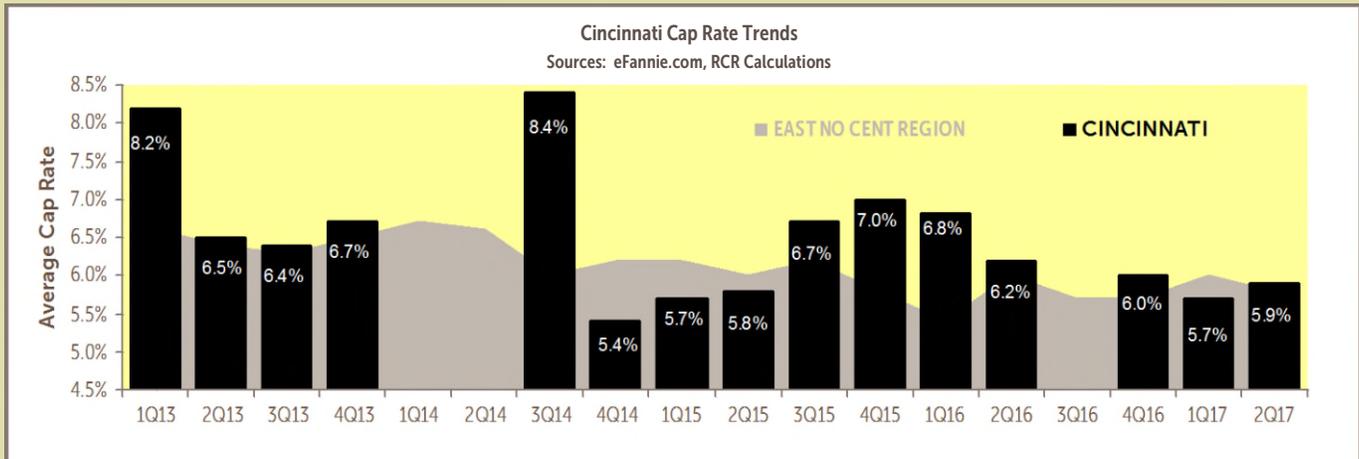
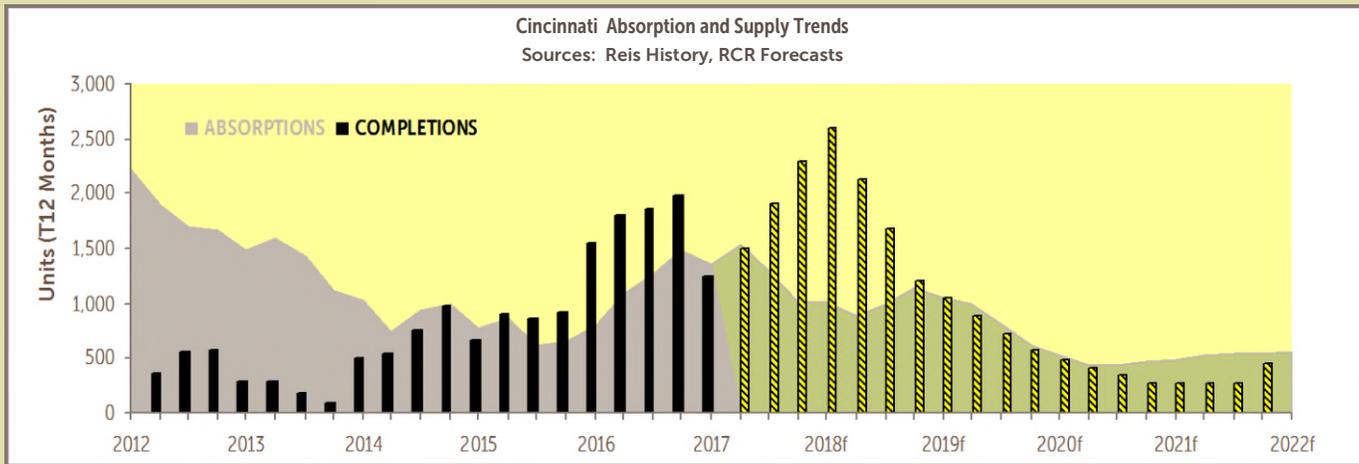
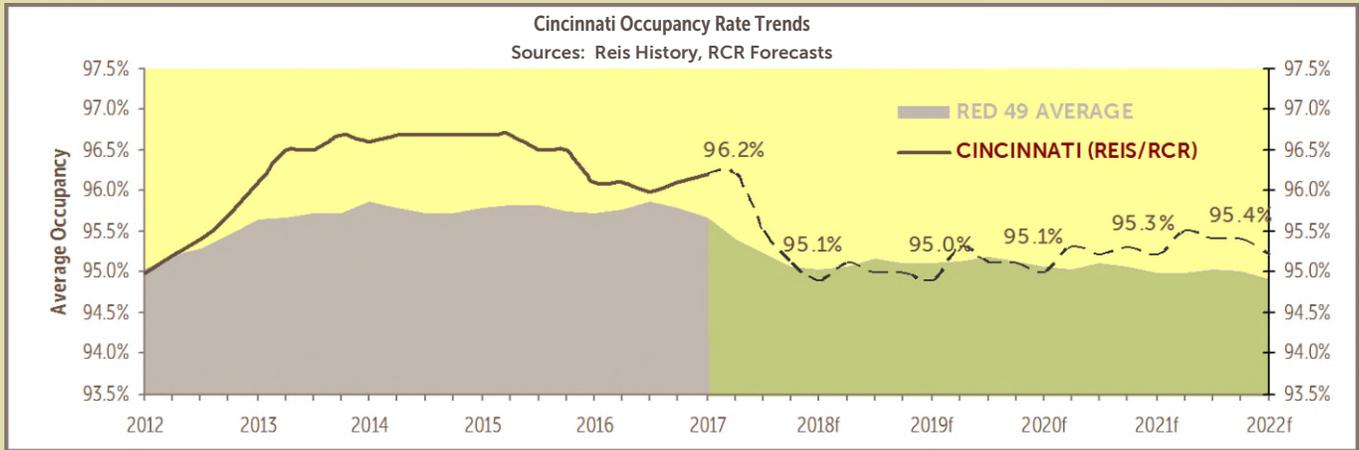
Cincinnati investment sales were slower in the first half 2017. Only six sales were recorded in the first quarter and two in the second. This compares to 20 during the prior six-month period and 12 in the first six months of 2016.

Estimated 1Q17 volume was \$90 million, down from about \$105mm in the prior quarter. Second quarter sales volume was less than \$10mm. The average price of traded units for which price data were publicly available was \$94,384 in 1Q17, up from \$64,803 in 4Q16, and \$57,292 in 2Q17.

Purchase and pro forma cap rates came in mostly in the low- to mid six percent range. A 2014-vintage Mason

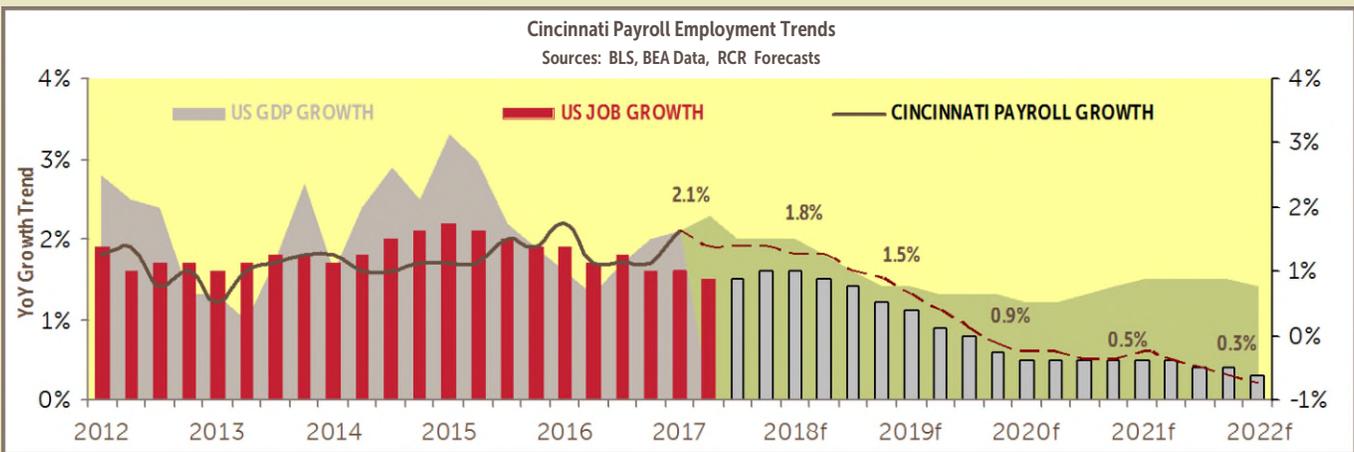
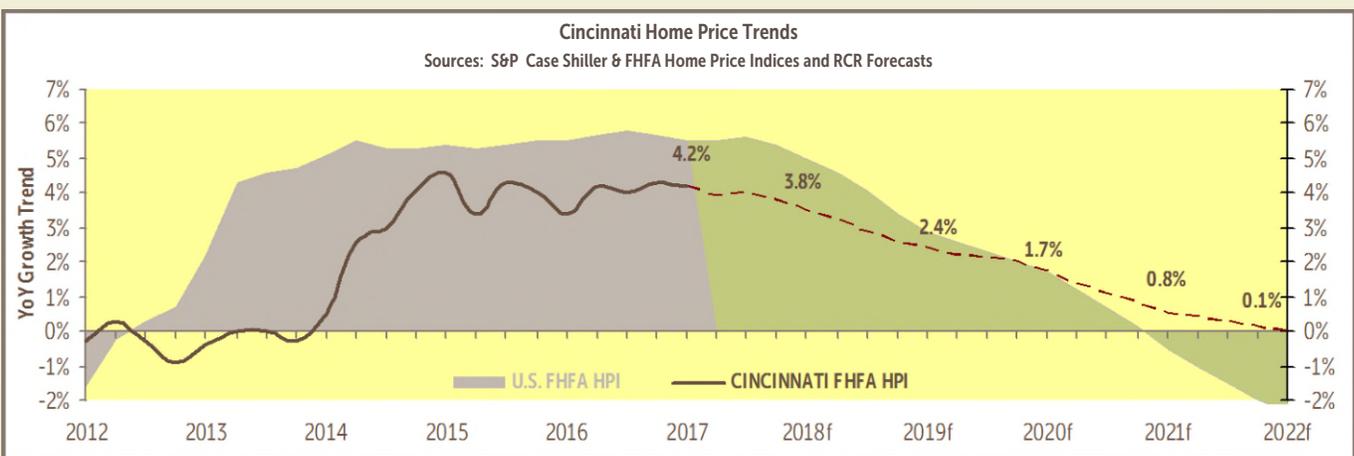
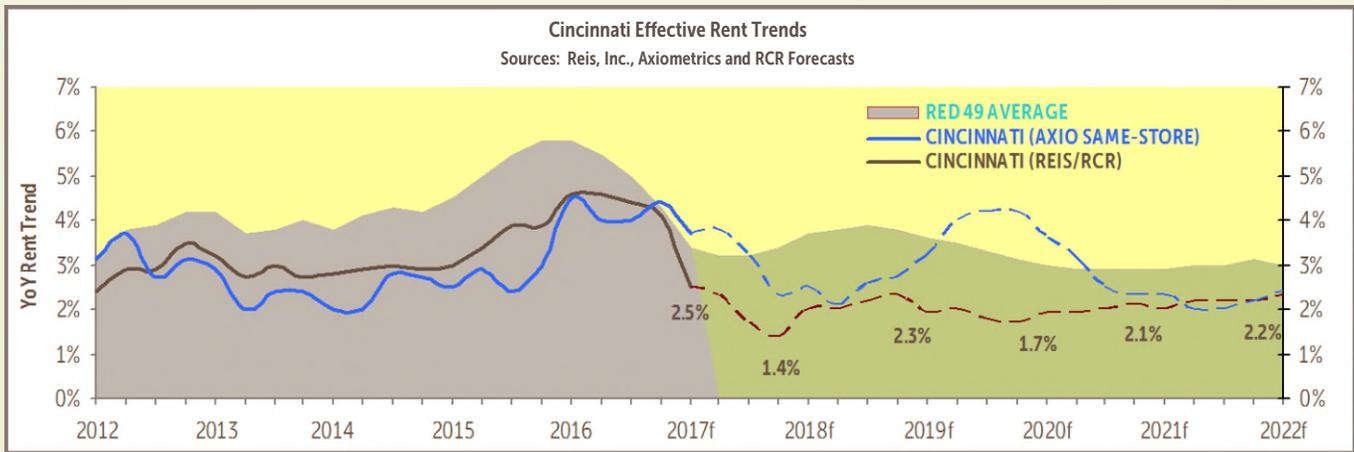
garden complex provided some visibility on investment quality suburban assets when the property traded to a 6.6% going-in yield. A couple value-add situations traded to lower rates, presumably to wider pro forma yields.

RCR found no reason to adjust the 6.25% purchase cap rate proxy. Using this level, a terminal cap rate of 6.9% and model derived rent and occupancy point estimates we calculate that a 1Q17 investor would expect to earn a 6.4% annual unlevered total return over a 5-year hold, ranked 35th among the RED 49 markets. By contrast, income volatility is quite low, making Cincinnati's risk-adjusted returns attractive. The metro ranks peer group #12 on this basis.



NOTABLE TRANSACTIONS

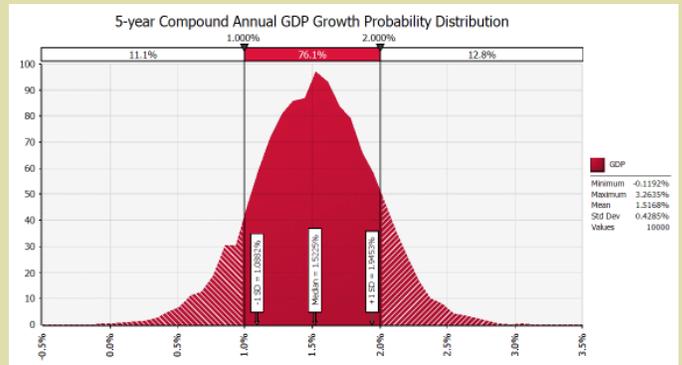
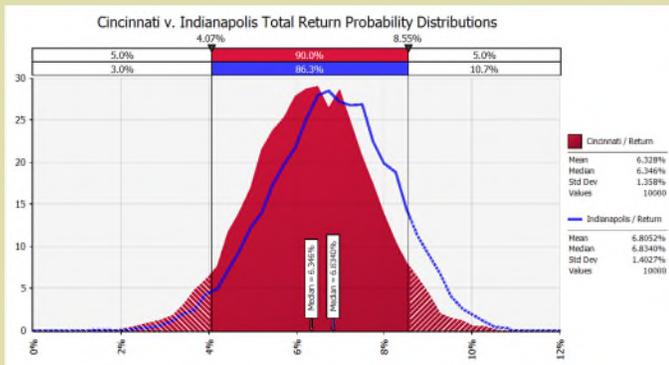
Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price (in millions)	Price / Per Unit	Estimated Cap Rate
Carriage Court (North / Springdale)	B- / MB GLR (1989)	13-Jan-2017	\$9.6	\$78,688	6.13% (UW)
The Commons (North / Woodlawn / Trillium Trails)	B / WF GLR (1990)	3-Feb-2017	\$26.4	\$91,788	4.65% (UW)
Northern View Apts. (Northern Kentucky / NKU)	B Ded Stnt/GLR (1992)	17-Mar-2017	\$13.8	\$116,949	6.18% (UW)
Mason Grand (Butler-Warren / Mason / Kings Island)	A- / WF GLR (2014/15)	17-Mar-2017	\$51.3	\$174,490	6.6% (RCA)
Eleven Hundred Apts. (Butler-Warren / West Chester)	B / WF GLR (1967)	19-May-2017	\$10.5	\$68,548	5.85% (UW)



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SUBMARKET TRENDS (REIS)

Submarket	Reis Inventory Percent Change	Effective Rent			Physical Vacancy		Basis Point Change
		1Q16	1Q17	Change	1Q16	1Q17	
Blue Ash/Amberley	0.0%	\$778	\$791	1.7%	4.2%	3.6%	-60 bps
Butler/Warren Counties	2.0%	\$865	\$891	2.9%	3.0%	3.5%	50 bps
Clermont County	0.0%	\$717	\$722	0.7%	3.3%	2.5%	-80 bps
Downtown	2.2%	\$895	\$997	11.4%	6.2%	6.7%	50 bps
Highway 27 / 127	2.2%	\$639	\$657	2.7%	2.7%	4.7%	200 bps
North	0.0%	\$797	\$800	0.3%	2.0%	1.7%	-30 bps
Northeast	2.3%	\$1,076	\$1,120	4.1%	1.6%	3.2%	160 bps
Northern Kentucky	3.1%	\$785	\$816	3.9%	2.2%	3.2%	100 bps
Southeast	0.0%	\$884	\$909	2.9%	4.8%	4.8%	0 bps
Southwest	0.0%	\$578	\$589	1.8%	5.5%	4.6%	-90 bps
Metro	0.0%	\$795	\$815	2.5%	3.9%	3.8%	-10 bps



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