

PAYROLL JOB SUMMARY

Average Payrolls	1,039.8m
Annual Change 1Q17	4.4m (0.4%)
RCR 2017 Forecast	5.2m (0.5%)
RCR 2018 Forecast	4.8m (0.5%)
RCR 2019 Forecast	1.8m (0.2%)
RCR 2020 Forecast	-1.4m (-0.1%)
RCR 2021 Forecast	-0.8m (-0.1%)
Unemployment (NSA)	5.8% (5/17)

Cleveland payroll growth was slow but stable in the first quarter. Establishments added workers to payrolls at a 4,400-job, 0.4% year-on-year rate, down from 5,500- and 10,900-job gains in the prior and penultimate quarters, respectively. The healthcare industry remained the growth leader, adding employees at a 5,100-job, 3.1% rate, the fastest rate in four years. Financial services were another highlight, producing new jobs at a 1,300-job, 2.0% annual rate, the strongest performance since 2014. Otherwise, trends were sluggish or worse, none more so than the consumer-driven industries: construction, retail and leisure service headcounts declined at a 4,000-job, -1.7% pace. Likewise, manufacturing job attrition continued apace, shedding employees at an 1,800-job, -2.1% y-o-y rate.

April and May trends exhibited some improvement. Annual comparisons showed a 7,800-job advance, and seasonally-adjusted data captured a total net gain of 2,100 jobs, up from a -500 job loss in the year-before period.

Slow growth is likely to continue through the end of the decade. RED Research specified a CLE payroll forecasting equation using US payroll, nominal GDP_(t-2), home price and industrial production growth, and 10-year Treasury yields and S&P500 returns as independent variables. The 97.4% adjusted-R² (SE=0.3%) model expects growth to inch forward at near the current pace through next year under the base economic forecast before first slowing and then falling slightly into negative territory in the forecast out-years.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	96.9%
RED 51 Rank	5 th
Annual Chg. (Reis)	+0.3%
RCR YE17 Forecast	96.9%
RCR YE18 Forecast	96.6%
RCR YE19 Forecast	96.6%
RCR YE20 Forecast	96.9%
RCR YE21 Forecast	97.3%

1Q17 ABSORPTION AND OCCUPANCY RATE TRENDS

Absorption was off as tenants vacated a net of -83 previously occupied units (Reis), down from occupied stock increases of 40 and 360 units in the prior and year earlier quarters, respectively. At the same time a developer added an 83-unit building to the Downtown inventory, resulting in a -10 basis point decrease in metro occupancy to 96.9%. Preliminary data indicate that demand recovered in the seasonally stronger spring quarter, propelling Cleveland occupancy 20 basis points higher to 97.1% in 2Q17.

segment was the 2Q17 class leader on 95.9%. Classes-A (95.0%) and -B (94.2%) followed. Highest 2Q17 occupancy was observed in Medina (97.6%), Lake County (97.4%) and Strongsville (97.2%) submarkets. Lakewood and Downtown (95.3%) performed well, but Beachwood (89.0%) lagged.

Occupancy among a sample of 119 professionally managed, stabilized, same-store properties surveyed by Axiometrics was 93.9% in 1Q17, and 94.6% in 2Q17. The "C"

With Detroit, Cleveland is among the few major markets that is not subject to a pending supply surge. The rate of inventory growth will rise above the metro's 0.5% annual average only slightly in 2017 and 2018, before decelerating to about 0.4%. RCR's demand model suggests absorption is likely to keep pace, maintaining the occupancy rate in the high-96% area for the duration of the forecast interval.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$819
Annual Change	2.8%
RED 51 Rent Change Rank	37 th
RCR YE17 Forecast	2.2%
RCR YE18 Forecast	2.1%
RCR YE19 Forecast	1.8%
RCR YE20 Forecast	1.7%
RCR YE21 Forecast	1.9%

1Q17 EFFECTIVE RENT TRENDS

Cleveland rent growth was surprisingly strong in a first quarter that was largely disappointing nationally. Metro average effective rent increased \$5 (0.6%) sequentially (Reis), topping the 0.2% RED 49 unit-weighted average. The year-on-year comparison was moderately weaker, however; falling from 3.0% in 4Q17 to 2.8%. Preliminary 2Q17 data indicate that asking rents increased 0.6% sequentially and 2.6% y-o-y, down from 1Q's 0.7% and 2.8%.

small class-A sector provided much of the momentum, chalking down a 6.1% surge in 2Q on strength in the A++ segment. Class-B (2.0%) and class-C (1.5%) results were in line with recent norms. The Downtown/University Circle area posted a 5.7% average gain. Otherwise, peripheral suburban submarkets recorded the fastest growth.

The Axiometrics same-store survey also recorded constructive trends. The sample posted 2.0% and 3.0% y-o-y gains in 1Q17 and 2Q17, respectively, the latter figure representing the fastest growth since 2Q16. The relatively

RCR's CLE rent model is less robust than most as metro rent trends tend to amble with weak correlation to economic events. The equation reaches an 89.6% ARS using inventory, occupied stock and payroll growth as independent variables. The model projects slow (CAGR=1.9%) but stable rent growth through 2021, ranking RED 49 #47.

TRADE & RETURN SUMMARY

\$2mm+/60-unit+ Sales	5
Estimated Proceeds	\$26mm
Average Cap Rate (FNM)	5.8%
Average Price / Unit	\$44,523
Expected Total Return	7.6%
RED 49 ETR Rank	6 th
Risk-adjusted Index	6.61
RED 49 RAI Rank	2 nd

1Q17 PROPERTY MARKETS AND TOTAL RETURNS

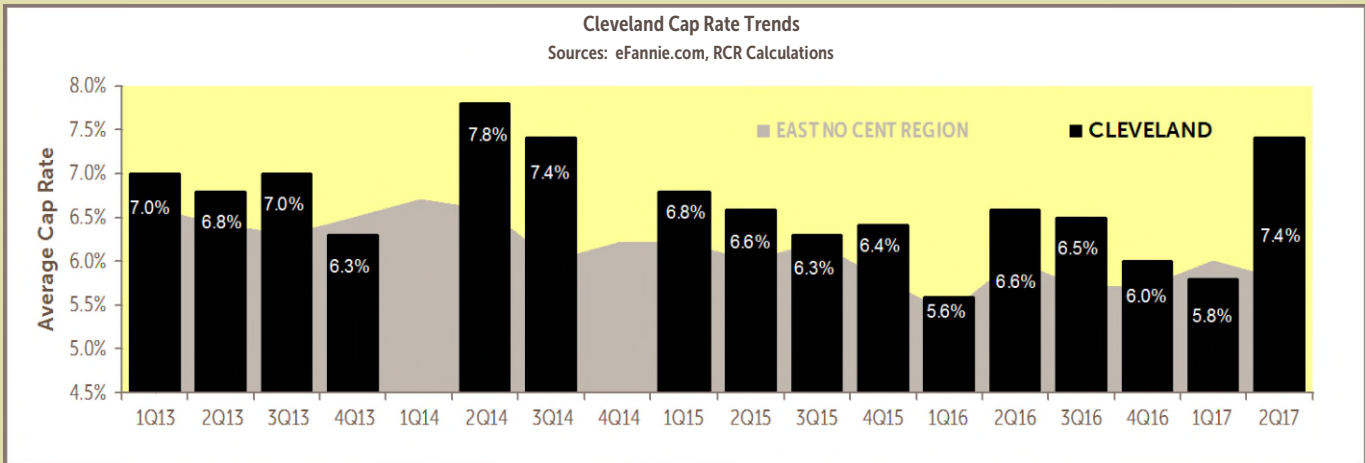
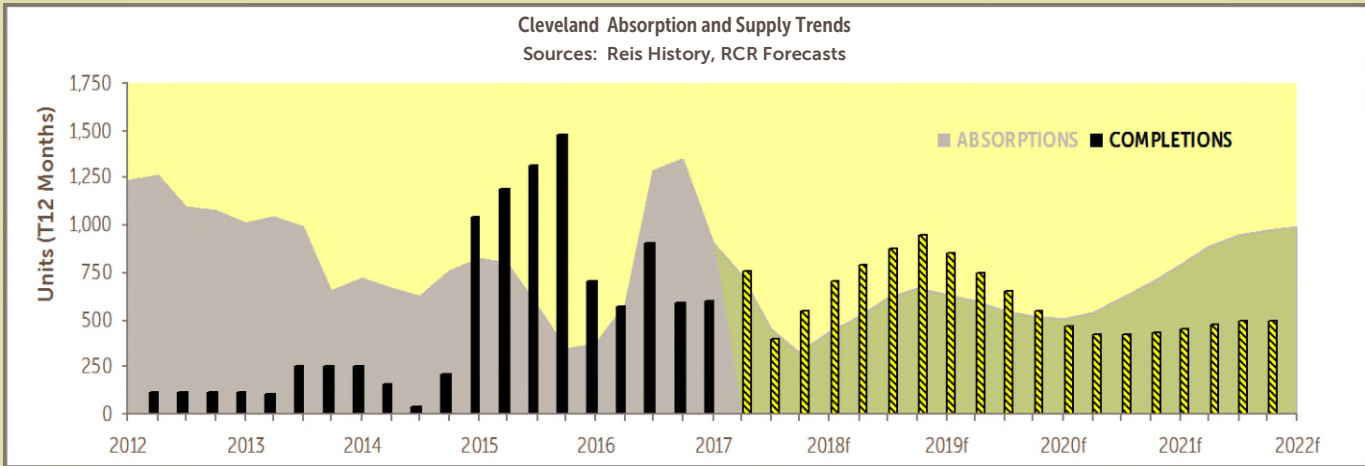
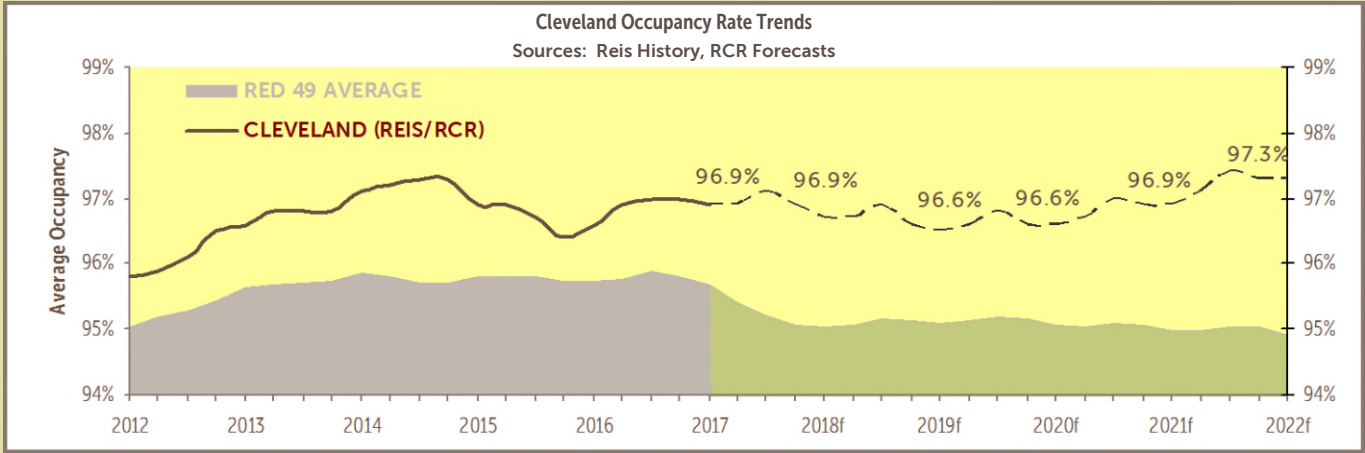
Only eleven multifamily properties exchanged hands in the first half of 2017, compared to 17 during the second half 2016. RCR estimate that volume was about \$60 million, although transaction pricing information is not complete. By way of comparison, sales in 2H16 totaled about \$170 million, and volume in the 1H16 approximated \$55mm.

that recent construction investment quality properties are valued to cap rates in the mid-5% to -6% region. Better quality "B" product is priced to 6% to 7% yields, and class-C and value-add situations may reach 8% or higher.

Price per unit metrics were in the mid-\$40,000 range. This comported closely with longstanding trends, as the average price of units sold since 2010 was \$46,047.

Lack of meaningful trade data led RCR to maintain a 6.75% purchase cap rate proxy for the fourth consecutive quarter. With a 7.4% terminal cap rate and model derived rent and occupancy point estimates we estimate that a 1Q17 investor would expect to earn a 7.6% unlevered annual total rate of return on a five-year hold, sixth highest among the RED 49. NOI growth is expected to be unusually stable, elevating risk-adjusted returns to second among the peer group.

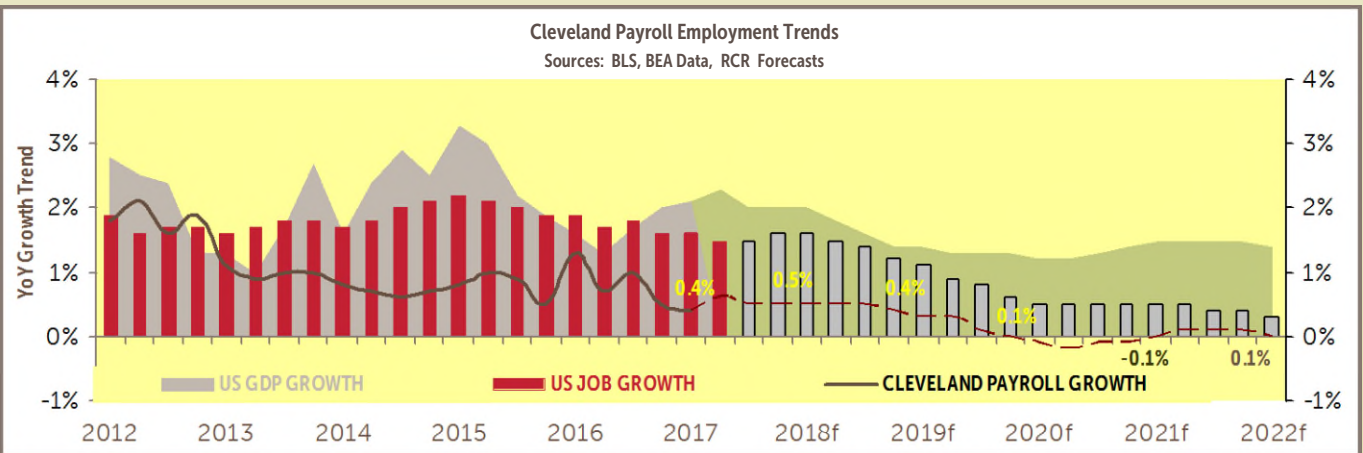
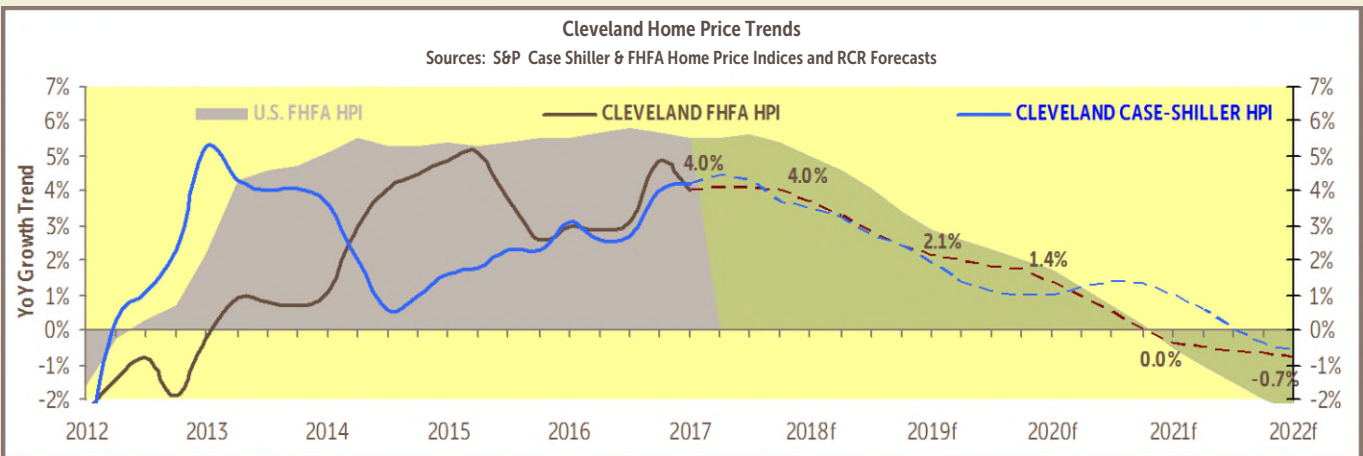
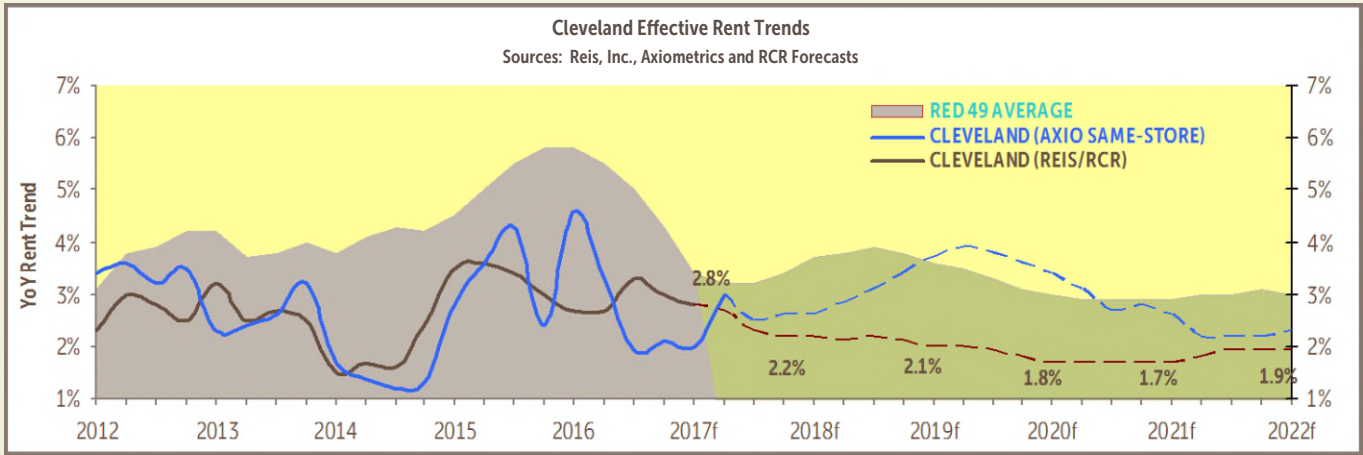
Trade data was insufficient to draw meaningful conclusions regarding market yields. Refinancing terms suggest



NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price (in millions)	Price / Per Unit	Estimated Cap Rate
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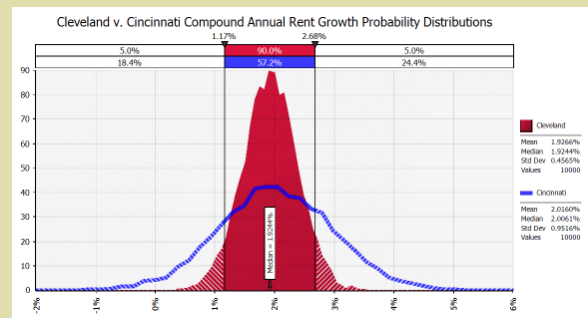
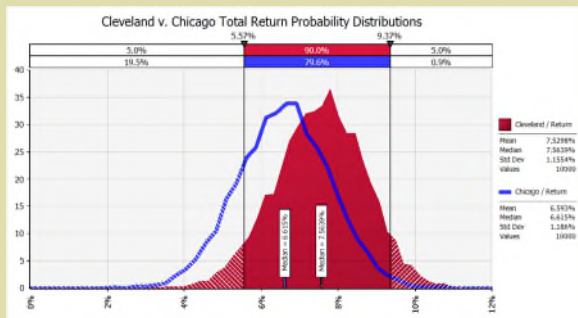
Not Applicable



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SUBMARKET TRENDS (REIS)

Submarket	Reis Inventory Percent Change	Effective Rent			Physical Vacancy		Basis Point Change
		4Q16	1Q17	Change	4Q16	1Q17	
Bay Village	0.0%	\$926	\$974	5.1%	6.0%	5.9%	-10 bps
Beachwood	0.0%	\$1,213	\$1,215	0.2%	6.6%	3.7%	-290 bps
Bedford	0.0%	\$640	\$642	0.3%	2.8%	3.0%	20 bps
Downtown / The Flats	1.6%	\$1,336	\$1,338	0.1%	2.3%	3.0%	70 bps
East Cleveland	0.0%	\$769	\$760	-1.2%	3.4%	3.3%	-10 bps
Euclid	0.0%	\$683	\$680	-0.5%	3.0%	4.0%	100 bps
Lake County	0.0%	\$858	\$848	-1.1%	1.9%	2.0%	10 bps
Lakewood	0.0%	\$682	\$696	2.1%	2.6%	2.5%	-10 bps
Lyndhurst	0.0%	\$823	\$823	0.1%	4.2%	4.4%	20 bps
North Olmsted	0.0%	\$739	\$742	0.4%	1.6%	1.7%	10 bps
North Royalton	0.0%	\$729	\$725	-0.5%	1.9%	1.9%	0 bps
Parma / Independence	0.0%	\$761	\$767	0.7%	2.2%	2.3%	10 bps
Strongsville / Berea	0.0%	\$774	\$798	3.1%	2.0%	2.1%	10 bps
Metro	0.1%	\$814	\$819	0.6%	3.0%	3.1%	10 bps



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