COLUMBUS, OHIO

MARKET OVERVIEW & MULTIFAMILY HOUSING UPDATE

RED Capital Group | 1Q17 | July 2017

PAYROLL JOB SUMMARY	
Average Payrolls	1,065.6m
Annual Change 1Q17	25.3m (2.4%)
RCR 2017 Forecast	20.9m (2.0%)
RCR 2018 Forecast	18.5m (1.7%)
RCR 2019 Forecast	13.4m (1.2%)
RCR 2020 Forecast	10.8m (1.0%)
RCR 2021 Forecast	12.0m (1.1%)
Unemployment (NSA)	3.7% (5/17)

1Q17 PAYROLL TRENDS AND FORECAST

Columbus employment trends were strong and steady in the first quarter. Establishment payrolls increased at a 25,300-job, 2.4% year-on-year rate, on par with 4Q16's 25,400-job performance as well as the 2.4% compound rate observed since 2011. While the pace of job creation was stable, sector leadership changed materially. Annual gains in Columbus's traditional strong suits—finance, healthcare and transportation – totaled only 3,200 (1.3%) jobs in 1Q17, down from 8,400 (3.4%) jobs in the prior quarter. Goods producing sectors, on the other hand, uncharacteristically provided most of the momentum as construction, manufacturing and wholesale trade head-counts advanced at a 10,600-job, 3.9% pace, comparing favorably to 4Q16's 3,600-job gain.

This is unlikely to be sustainable, and early 2Q17 data suggests that it may not be. April and May y-o-y comparisons dropped sharply to an average 19,500 (1.8%) jobs, while seasonally-adjusted data show an 8,100-job loss, representing the weakest two-month period since 2009.

RED Research's COL payroll forecasting equation is cautiously optimistic. The 96.3% adjusted-R^2 (SE=0.3%) model uses only the rate of change of US payroll growth and US home appreciation as independent variables. The model anticipates near long-term average (~1.4%) employment growth over the 5-year forecast interval, tracking parallel to US growth with a consistent 0.4% advantage. Five digit annual gains should continue throughout the forecast.

OCCUPANCY RATE SUMMARY	
Occupancy Rate (Reis)	96.1%
RED 51 Rank	20th
Annual Chg. (Reis)	+0.5%
RCR YE17 Forecast	95.9%
RCR YE18 Forecast	96.3%
RCR YE19 Forecast	96.2%
RCR YE20 Forecast	96.1%
RCR YE21 Forecast	96.2%

1Q17 ABSORPTION AND OCCUPANCY RATE TRENDS

Apartment demand was weak but positive as tenants occupied a net of 160 vacant units (Reis), down from 778 in the year earlier quarter and the fewest units absorbed in any quarter since 2010. Supply exceeded demand by 220 units, causing average occupancy to fall about -15 basis points sequentially to 96.06%. Preliminary data indicate that metro occupancy declined another –25bps to 95.8% in 2Q.

Axiometrics surveys of 336 stabilized, same-store properties found lower 94.8% and 95.5% rates in 1Q17 and 2Q17, respectively. Class-C (96.0%) properties recorded the highest 2Q17 occupancy, followed by classes-B (95.8%) and –A (94.1%). Class-A (+70bps) made the largest year-on-year up move, topping class-C (+50bps) and class-B (0bps). Absorption rates at new properties continued to be sluggish, averaging about 7 units per month, up from 1Q but still substantially slower than the 16-unit rate observed in 4Q16. Suburban properties had the greatest success. Downtown was mixed based on product and location.

Market inventory is projected to continue to grow at a brisk 1.5% to 2.0% annual rate through 2019. Our demand model expects demand to keep pace, however, as key demand drivers (job creation and owned home affordability) promise to be constructive. Occupancy seems likely to remain near the 96% level for the forecast interval.

EFFECTIVE RENT SUMMARY	
Mean Rent (Reis)	$824
Annual Change	3.3%
RED 51 Rent Change Rank	28th
RCR YE17 Forecast	2.7%
RCR YE18 Forecast	2.6%
RCR YE19 Forecast	1.9%
RCR YE20 Forecast	1.8%
RCR YE21 Forecast	1.9%

1Q17 EFFECTIVE RENT TRENDS

Following a halting $2 (0.2%) sequential quarter increase in 4Q16, rent growth improved slightly in 1Q17, gaining $4 (0.5%). The class-A segment was entirely responsible for forward momentum. Class *asking* rent posted a healthy $9 (0.9%) advance, while class B&C rents were flat. Preliminary 2Q17 data suggest COL's rebound continued in the spring as asking rents gained about $8 (0.8%) sequentially and $26 (2.9%) year-on-year, up from 0.7%/2.3% in 1Q17.

The results of Axiometrics's same-store survey were stronger. This sample recorded 2.8% and 3.9% y-o-y gains in 1Q and 2Q17, the latter representing the fastest advance in one year. Class-A (4.8%) popped with its fastest growth in four years, paced by strong performances in Dublin, Hilliard and Westerville. Classes-B (3.6%) and –C (4.0%) also accelerated. Among submarkets, suburban Dublin (5.6%), Northeast (5.7%) and Worthington (4.9%) were robust; infill OSU/Downtown (2.4%) not so much.

RCR's COL rent model employs payroll growth (+) and home price appreciation$_{(t-3)}$ (-) as independent variables to achieve a 92.2% ARS (SE=0.5%). The equation projects above average (μ=2.5%) trends through YE18, but weaker growth after, driven by declining job growth amidst relatively healthy home appreciation. Compound annual rent growth is projected to be 2.1% p.a., ranking RED 49 #41.

TRADE & RETURN SUMMARY	
$3mm+/60+ unit Sales	9
Estimated Proceeds	$114mm
Average Cap Rate (FNM)	6.0%
Average Price / Unit	$66,909
Expected Total Return	7.0%
RED 49 ETR Rank	21st
Risk-adjusted Index (ETR/σ_{ETR})	5.56
RED 49 RAI Rank	4th

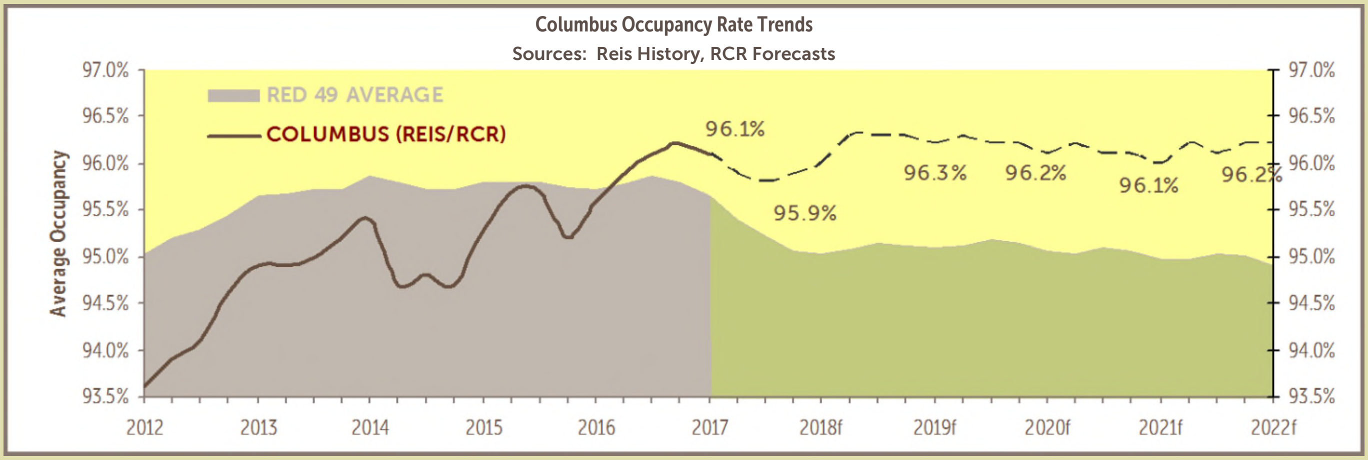
1Q17 PROPERTY MARKETS AND TOTAL RETURNS

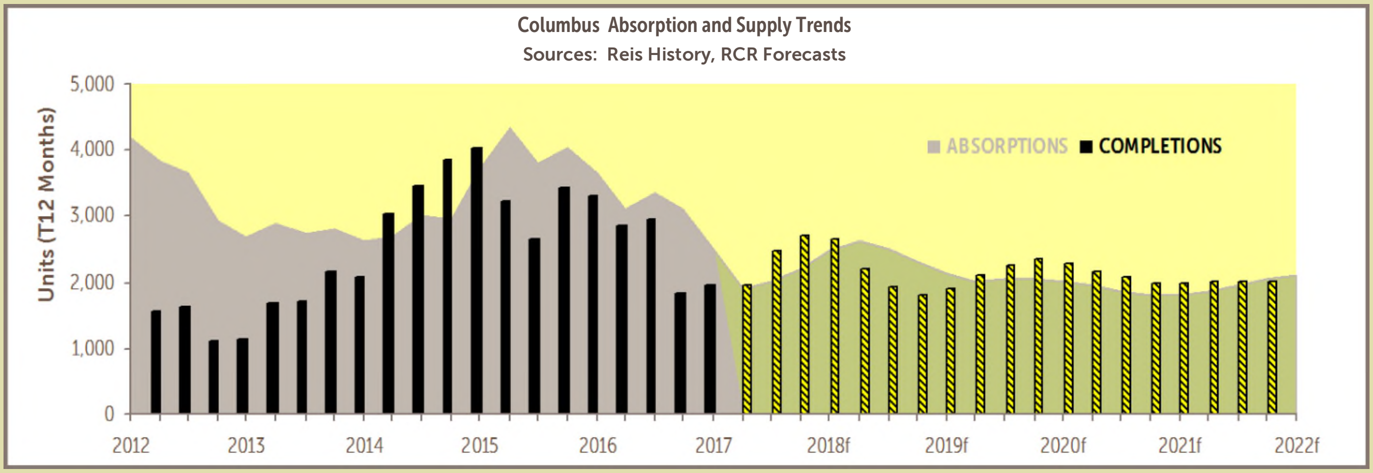
Sales velocity of Columbus apartment properties was slow for the past several quarters. Only 12 investment sales (CoStar) were recorded during the five quarters ended June 30, 2017, compared to 42 during the prior 15-month period. Of these, four were consummated in 1Q17 for proceeds of about $114 million. The average price of 941 units traded during the quarter with publicly available pricing parameters was $66,909.

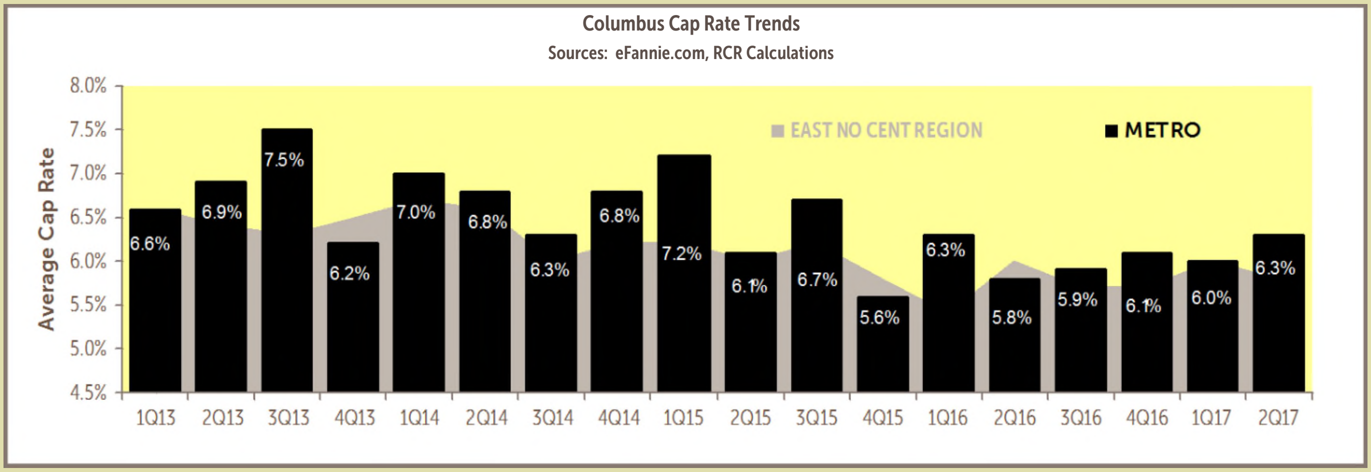
Only two investment sales for $30.9mm were closed during the spring. Investors acquired 728 units at a $42,445 average price, inclusive of 604-units class-C property located in the Morse Road corridor east of Interstate-71.

Cap rate data are limited but there is little evidence that buyers were prepared to bid aggressively for existing Columbus properties. Class-B+/A- suburban assets trade near 6%; class-B/B– gardens from 6.2% to 7%, and value-adds and class-C situations in the 7% to 9% range.

RCR elected to increase the purchase cap rate 5 basis points to 6.15% to reflect weaker demand for COL assets. Using a terminal cap rate of 6.75% and model derived rent and occupancy point estimates we calculate that a 1Q17 investor would expect to earn a 7.0% annual return on a 5-year carry, ranking 21st among the RED 49. Performance volatility is low though: COL risk-adjusted returns rank #6.

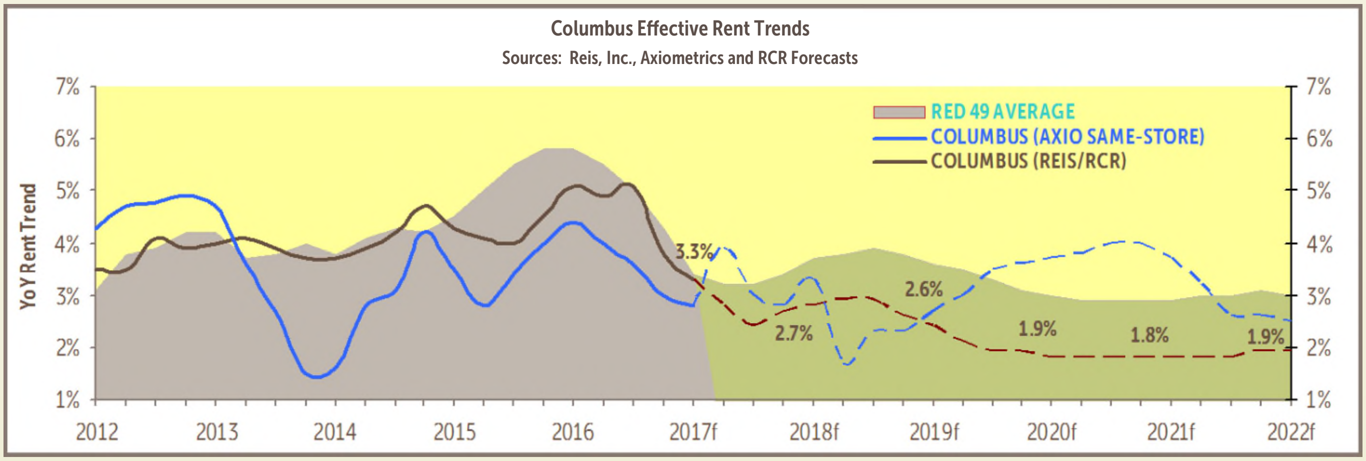


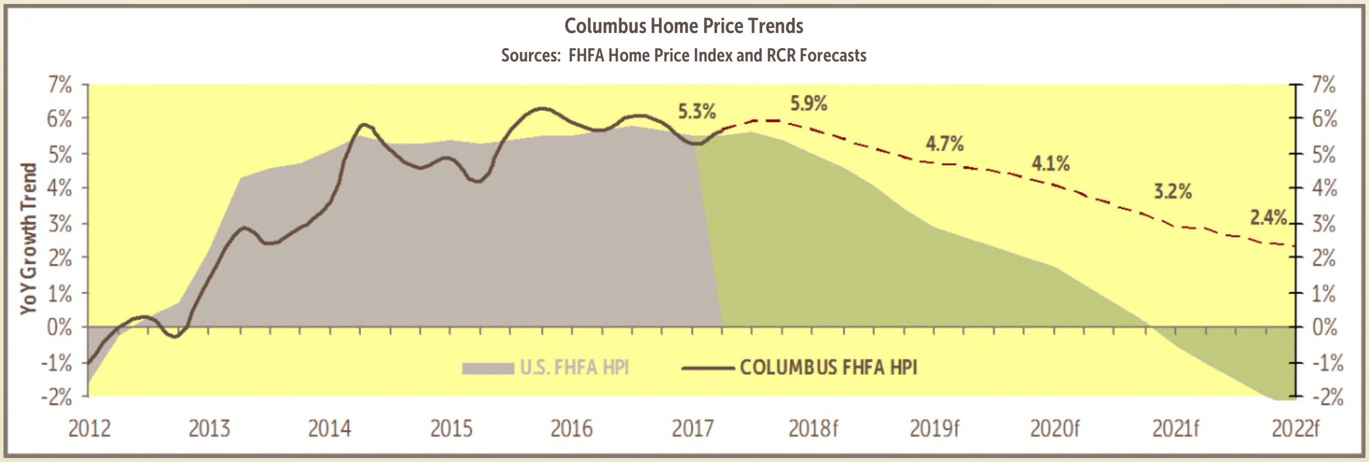


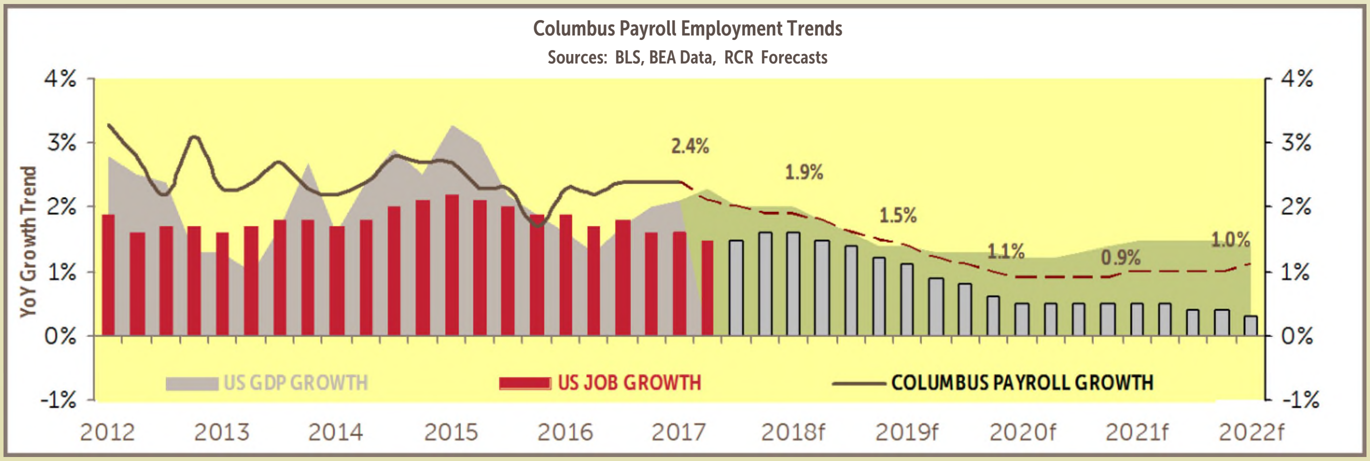


NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price (in millions)	Price / Per Unit	Estimated Cap Rate
Muirwood Village (Reynoldsburg / Brice)	B- / MB GLR (1988)	3-Feb-2017	$8.9	$54,085	6.74% (UW)
Arbors at Watermark (Grandview South / Scioto)	B+ / MB GLR (1990)	23-Feb-2017	$55.5	$132,143	5.0%/5.8% pro forma
District at Tuttle (Hilliard / Tuttle / Dexter Falls)	A- / WF GLR (2014)	7-Apr-2017	$33.5	$146,930	5.8%
Clear Point Gardens (Northeast / Maize-Morse)	C / WF GLR (1969)	12-May-2017	$22.4	$37,086	7.08% (UW)
Stratford Lakes Apts. (Groveport / Brice)	C+ / WF GLR (1996)	2-Jun-2017	$8.5	$68,548	6.12% (UW)

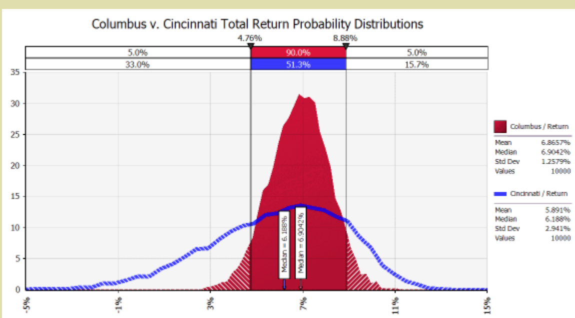

Columbus Effective Rent Trends
Sources: Reis, Inc., Axiometrics and RCR Forecasts
RED 49 AVERAGE
COLUMBUS (AXIO SAME-STORE)
COLUMBUS (REIS/RCR)
YoY Rent Trend
3.3%
2.7%
2.6%
1.9%
1.8%
1.9%
2012
2013
2014
2015
2016
2017f
2018f
2019f
2020f
2021f
2022f

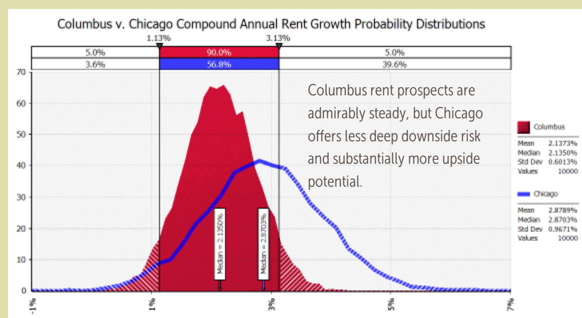

Columbus Home Price Trends
Sources: FHFA Home Price Index and RCR Forecasts
YoY Growth Trend
5.3%
5.9%
4.7%
4.1%
3.2%
2.4%
U.S. FHFA HPI
COLUMBUS FHFA HPI
2012
2013
2014
2015
2016
2017
2018f
2019f
2020f
2021f
2022f


Columbus Payroll Employment Trends
Sources: BLS, BEA Data, RCR Forecasts
YoY Growth Trend
2.4%
1.9%
1.5%
1.1%
0.9%
1.0%
US GDP GROWTH
US JOB GROWTH
COLUMBUS PAYROLL GROWTH
2012
2013
2014
2015
2016
2017
2018f
2019f
2020f
2021f
2022f

SUBMARKET TRENDS (REIS)

Submarket	Reis Inventory Percent Change	Effective Rent 1Q16	Effective Rent 1Q17	Effective Rent Change	Physical Vacancy 1Q16	Physical Vacancy 1Q17	Basis Point Change
Bexley	0.0%	$679	$696	2.5%	4.0%	4.0%	0 bps
Dublin / Powell	2.9%	$840	$861	2.6%	3.6%	5.4%	180 bps
Grove City	1.2%	$698	$711	1.8%	5.0%	3.6%	-140 bps
Groveport	1.0%	$693	$724	4.3%	3.3%	4.7%	140 bps
Hilliard	13.0%	$839	$953	13.6%	7.0%	3.3%	-370 bps
Northeast	0.0%	$663	$678	2.2%	2.9%	4.5%	160 bps
Sharon / Worthington	0.0%	$721	$734	1.7%	4.5%	3.3%	-120 bps
Southeast	0.0%	$577	$597	3.5%	3.6%	4.8%	120 bps
University/Downtown	6.9%	$1,018	$1,260	23.8%	6.4%	4.3%	-210 bps
Upper Arlington	6.8%	$829	$869	4.8%	5.1%	3.2%	-190 bps
Westerville	19.8%	$920	$932	1.4%	9.2%	3.4%	-580 bps
Whitehall / Gahanna	2.2%	$678	$698	2.9%	3.6%	3.5%	-10 bps
Metro	1.4%	$820	$824	0.5%	4.4%	3.9%	-50 bps





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