

PAYROLL JOB SUMMARY

Average Payrolls	964.9m
Annual Change 1Q17	35.4m (3.8%)
RCR 2017 Forecast	32.9m (3.5%)
RCR 2018 Forecast	24.3m (2.5%)
RCR 2019 Forecast	16.3m (1.6%)
RCR 2020 Forecast	11.7m (1.1%)
RCR 2021 Forecast	10.0m (1.0%)
May Unemployment	2.3% (-1.1% y-o-y)

1Q17 PAYROLL TRENDS AND FORECAST

The Music City economy remained on song in the first half 2017, creating new payroll jobs at a 35,100-job, 3.7% year-on-year pace, the fastest rate of job growth among US metros with populations of one million or more. Every industry super-sector expanded at a 2.1% rate or faster except wholesale trade. The construction and professional, technical and education service sectors were the principal catalysts, each adding to headcount at a 7% annual rate or faster. Some degree of deceleration was evident in the health care and financial services sectors but not to a degree that suggests a broader slowdown is imminent.

The greatest threat to the Nashville juggernaut may be its own success. Job creation was so strong over the past year

that unemployment declined -110 basis points y-o-y in May to 2.3%, equal lowest with Denver among large metro areas. Skilled labor shortages and rising wages (average weekly earnings are up 8.2% year-to-date) may begin to hinder the expansion plans of Nashville establishments.

RED Research's NASH payroll model reaches a 97.2% adjusted-R² using the rate of change of US payroll growth, GDP_(t-3) and Atlanta income growth_(t-3)¹² and the Treasury yield curve as independent variables. The first is the most influential: Metro trends are highly sensitive to changes in national job creation. As the US job market is projected to weaken, so too is Nashville's employment market; however a low constant (0.4%) may impose a negative forecast bias.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	93.6%
RED 51 Rank	49 th
Annual Chg. (Reis)	-1.8%
RCR YE17 Forecast	92.0%
RCR YE18 Forecast	91.4%
RCR YE19 Forecast	90.7%
RCR YE20 Forecast	90.1%
RCR YE21 Forecast	89.9%

1Q17 ABSORPTION AND OCCUPANCY RATE TRENDS

Strong job creation produced robust apartment demand during the first quarter. Tenants occupied a net of 1,206 vacant units (Reis), up from 552 and 433 units in the previous and year-ago quarters, respectively. But occupancy fell -120 basis points sequentially to 93.6% anyway as developers debuted a deluge of new product—2,691 units in all— a one-quarter record by 360 units. Preliminary data suggest the market stabilized in 2Q17 as occupancy declined only -10bps to an upwardly revised 94.0%.

Axiometrics surveys of 262 professionally-managed same-store stabilized properties found similar conditions. The sample was 94.0% and 94.3% occupied in 1Q and 2Q17,

down -180bps and -130bps year-on-year. "C" was the class leader (94.9%), followed by "B" (94.4%) and "A" (93.5%). Every submarket lost ground in 2Q, but Belle Meade (-280bps/92.7%) suffered the sharpest blow. Downtown fared better (-0.9%/93.6%) in spite of heavy supply.

Supply will remain a challenge for the next two years. Reis expect 8,000 new units over the next four quarters, another 3,200 in the following four. RCR's demand model forecasts that absorption will fall 2,650 units short, trimming another -250bps from market occupancy. Supply will diminish by 2019, but so, too, will demand if our job forecast is accurate, sending occupancy to the low-90% area.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$974
Annual Change	6.8%
RED 51 Rent Change Rank	2 nd
RCR YE17 Forecast	5.2%
RCR YE18 Forecast	3.1%
RCR YE19 Forecast	2.5%
RCR YE20 Forecast	3.1%
RCR YE21 Forecast	3.2%

1Q17 EFFECTIVE RENT TRENDS

The impact of supply burdens on Nashville rent trends was significant. Sequential rent growth declined from \$16 (1.7%) in 4Q16 to \$0 (-0.1%) in 1Q17. Year-on-year comparison declined from 8.2% to 6.8%, the steepest drop since 2009, while rents in six of Nashville's eight submarkets declined. Preliminary Reis 2Q17 data indicate a seasonal rebound as metro asking rents recovered by 1.0%.

Axiometrics same-store comparisons also show a sequential quarter 1Q loss (-0.8%), and a solid 2Q recovery (1.8%). Expressed on a y-o-y basis, rent trends continued to decelerate, however, slowing from 5.2% in 4Q16 to 3.8% in 1Q and 2.3% in 2Q17. Class-A (-2.2%) rents fell y-o-y for

the third consecutive quarter in 2Q, even as class-C (6.7%) remained on a roll. Among submarkets, C/B flavored Antioch (5.5%) and Airport (4.0%) set the pace, while higher rent Downtown (-3.1%) and Brentwood (1.3%) struggled.

RCR analysis of the Nashville performance history found no meaningful correlation between vacancy and rent growth. That's a good thing in the current environment. Rather, rents seem to be dictated by metro job and US nominal GDP and lagged absorption. Each of these will be slower but constructive. Consequently, our model (ARS=94.1%/SE=0.7%) projects rents to decelerate but remain near the long-term historical norm ($\mu=3.5%$).

TRADE & RETURN SUMMARY

\$3mm+/80-unit+ Sales	7
Estimated Proceeds	\$198.3mm
Average Cap Rate (FNM)	5.2%
Average Price / Unit	\$136,084
Expected Total Return	6.7%
RED 49 ETR Rank	31 st
Risk-adjusted Index	2.83
RED 49 RAI Rank	40 th

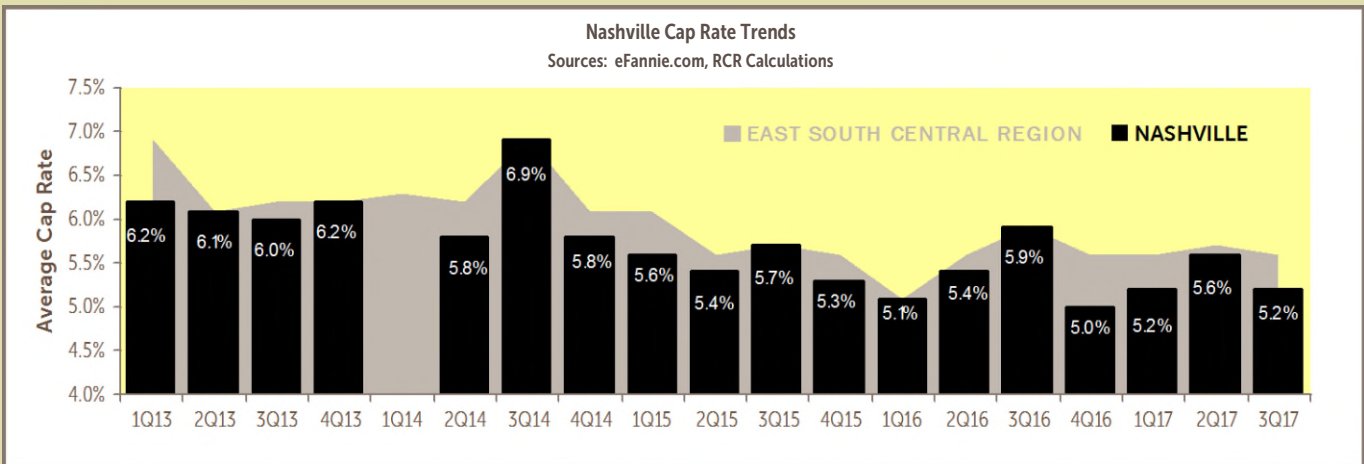
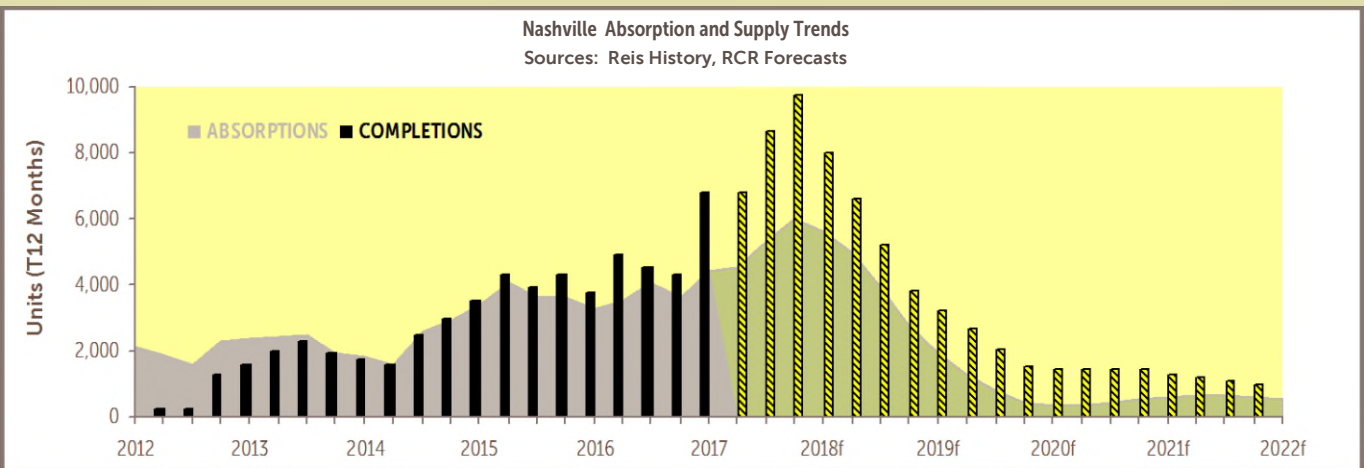
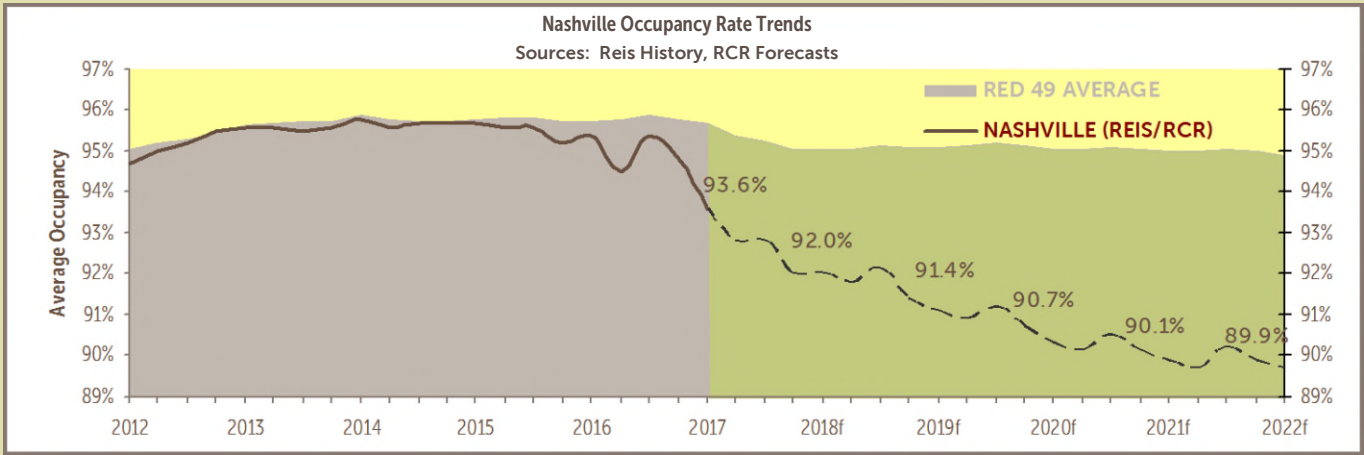
1Q17 PROPERTY MARKETS AND TOTAL RETURNS

Investors were active accumulators of Nashville properties in recent years. Investment sales topped \$1 billion in each of the last three years, peaking in 2015 at \$1.34bn (CoStar). But sales year-to-date were materially slower, declining to the lowest level since 2014. In all, 16 sales were recorded in the first half of 2017, for total proceeds of \$320mm. This compares to 25 transactions valued at a total of \$543mm in the same period of 2016. The average price paid per unit was \$123,041, nearly unchanged from \$121,501 in 1H16.

Publicly-held investors conspicuously increased market share. This class of buyer accounted for 20% of purchase volume year-to-date, up from only 3% from 2010 to 2016.

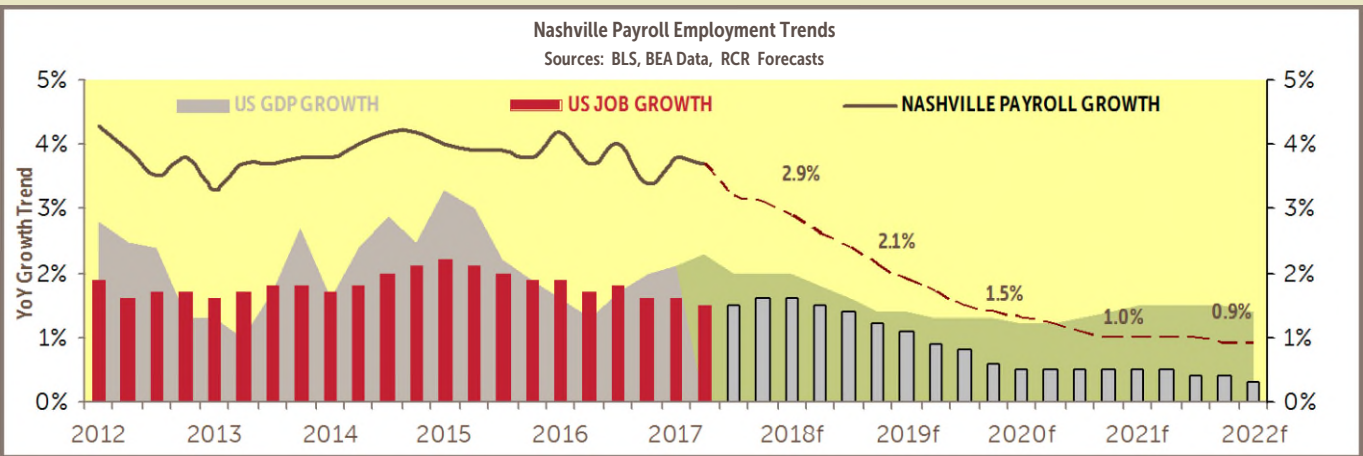
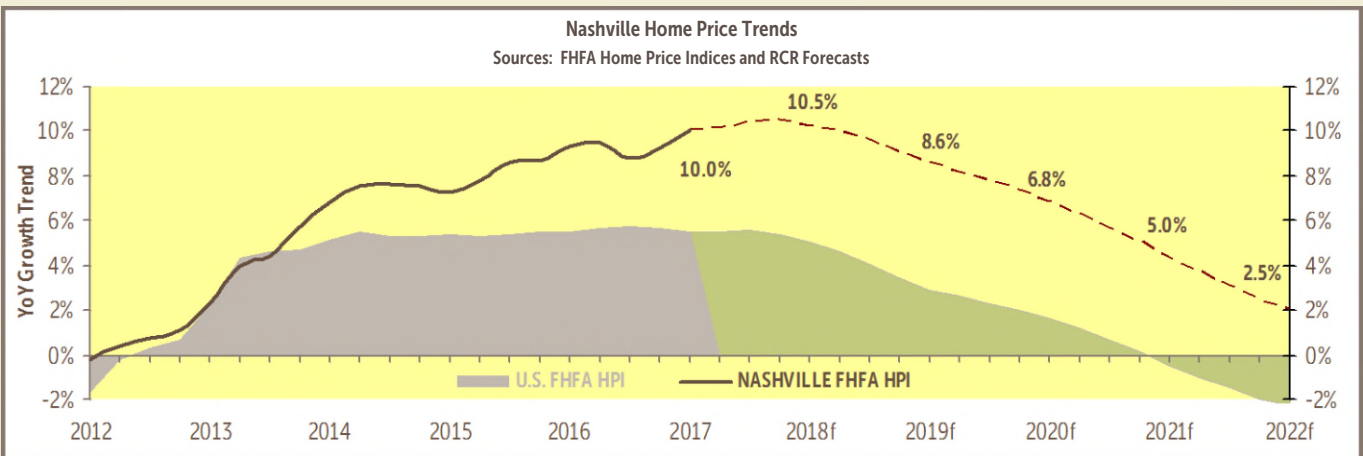
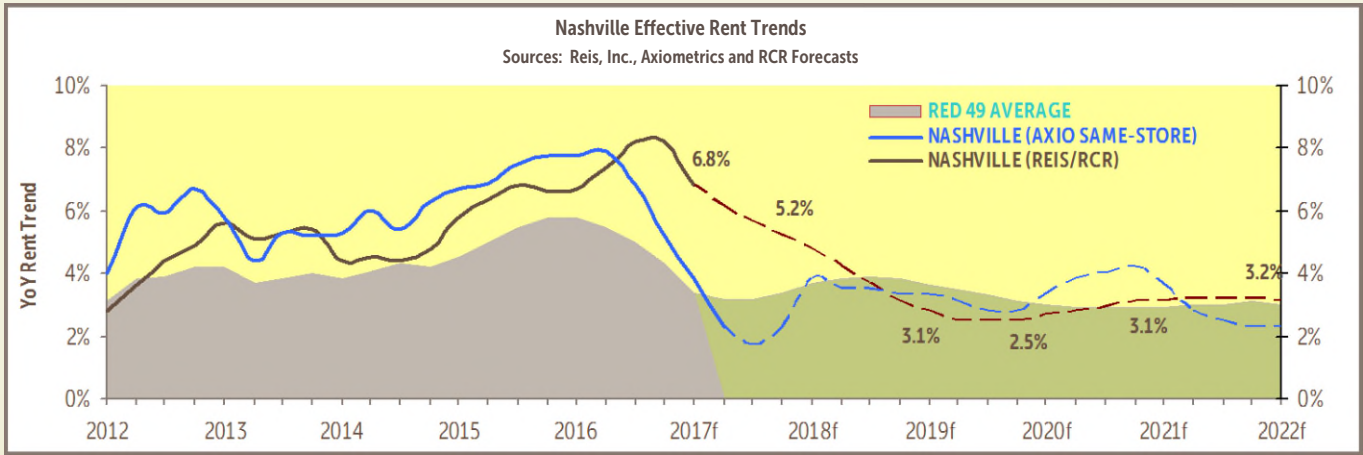
Cap rates were mostly in the 5's. Two class-A properties traded: an infill mid-rise yielding about 5% (pro-forma) and a suburban garden yielding about 5.5%. Valued-add trades were popular, with pro forma ranging from 5.5% to 6.25%.

RCR elected to maintain a 5.5% purchase cap rate proxy, although an argument could be made for a 10bps increase. With a terminal cap of 6.1% and model derived performance point estimates, we calculate a 1Q17 investor would expect to earn a 6.7% annual unlevered total return on a 5-year hold, ranked 31st among the RED 49. High rent and demand volatility and model standard errors hinder forecast certainty, trimming risk-adjusted returns to 40th rank.



NOTABLE TRANSACTIONS

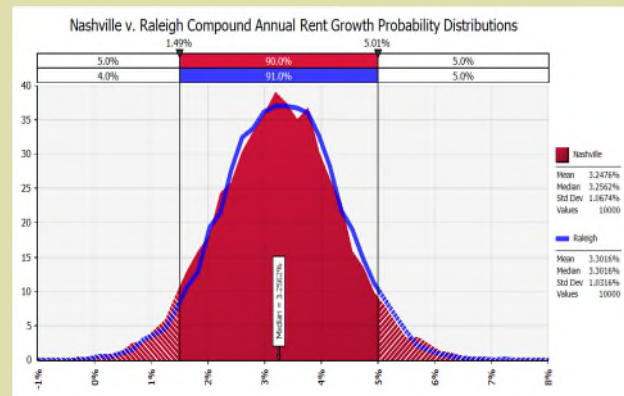
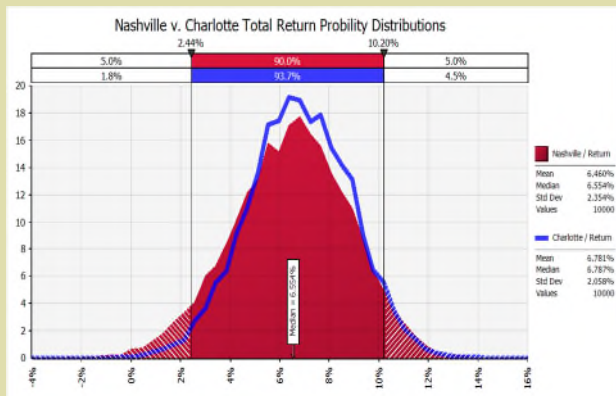
Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price (in millions)	Price / Per Unit	Estimated Cap Rate
Hillwood Pointe (Belle Meade / Hillwood)	B / WF GLR (1997)	13-Jan-2017	\$23.4	\$130,000	5.8%
Creekside Providence (Wilson Co. / Mt. Juliet / I-40)	A- / WF GLR (2015)	13-Jan-2017	\$42.2	\$143,537	5.45% (UW)
Charlotte Midtown (Downtown/Midtown/Charlotte Ave.)	A- / RC MR (2015)	17-Mar-2017	\$62.5	\$224,014	3.3%/5.0% pro forma
The Ellington (Airport / Southeast Nashville / US-41)	B- / WF LR (1966)	26-Apr-2017	\$30.3	\$77,892	5.96% (UW)
Bell Murfreesboro (Murfreesboro / Manson Pike)	B / WF GLR (2007)	25-May-2017	\$47.3	\$147,813	4.6%/5.0% pro forma
Meridian at Hermitage (Hermitage / Market Square)	C+ / WF GLR (1973)	30-Jun-2017	\$23.6	\$90,421	6.0%/6.25% pro forma



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SUBMARKET TRENDS (REIS)

Submarket	Reis Inventory		Effective Rent			Physical Vacancy		Basis Point Change
	Percent Change	4Q16	1Q17	Change	4Q16	1Q17		
Airport	0.0%	\$773	\$759	-1.8%	2.8%	2.6%	-20 bps	
Belle Meade/West	5.2%	\$1,034	\$1,033	-0.1%	4.1%	6.5%	240 bps	
Brentwood	1.3%	\$1,182	\$1,189	0.7%	4.4%	5.7%	130 bps	
Donelson/Hermitage	0.0%	\$900	\$892	-0.9%	4.7%	4.5%	-20 bps	
Downtown/West End	9.6%	\$1,552	\$1,569	1.1%	14.9%	17.2%	230 bps	
Hickory Hollow	2.3%	\$924	\$914	-1.1%	3.2%	5.3%	210 bps	
Antioch	1.9%	\$841	\$833	-1.0%	3.4%	4.4%	100 bps	
Murfreesboro	3.7%	\$846	\$838	-0.9%	4.8%	5.8%	100 bps	
Metro	2.5%	\$974	\$974	0.0%	5.2%	6.4%	120 bps	



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