

PAYROLL JOB SUMMARY

Average Payrolls	2,550.0m
Annual Change 1Q17	101.1m (4.1%)
RCR 2017 Forecast	91.1m (3.6%)
RCR 2018 Forecast	96.4m (3.7%)
RCR 2019 Forecast	80.0m (3.0%)
RCR 2020 Forecast	60.5m (2.2%)
RCR 2021 Forecast	63.5m (2.2%)
Unemployment (NSA)	3.8% (4/17)

1Q17 PAYROLL TRENDS AND FORECAST

Annual payroll growth trends were vigorous in the first quarter as Dallas posted its second consecutive quarter of 4% or faster year-on-year job growth. Total payroll employment increased at a 101,100 (4.1%) job rate, up slightly from 4Q16's 99,000 (4.0%) performance. Goods producing sectors were off moderately as construction, factory and wholesaler headcounts advanced at a 10,700-job, 2.9% pace, down from a 14,200-job advance in the prior quarter. But service sectors picked up the slack. Financial, business, healthcare and hospitality service concerns hired at 10% faster y-o-y rate in 1Q17, adding to headcount at a 57,500-job, 5.0% rate. Retailer trade hiring also surged.

Preliminary April and May data were weaker. Annual com-

parisons decelerated to a 3.5% growth rate, slowest since 4Q13. Seasonally-adjusted data suggested that job growth nearly came to a halt, netting only 1,100 jobs during the 2-month period, comparing unfavorably to 14,500 in 2016.

RED Research's DAL payroll model suggests that the spring slowdown is likely to be short-lived. The 98.3% adjusted-R² (SE=0.3%) equation employs the second derivative of US payroll growth, lagged fed funds change and personal consumption expenditure_(t-5) growth as independent variables. As our macro forecast anticipates slightly faster US job growth over the next 18 months, the outlook for Dallas is rosy. Annual growth is projected to return to the high-3% area next year and continue at 3%+ rates through MY2019.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	95.5%
RED 51 Rank	29 th
Annual Chg. (Reis)	+0.2%
RCR YE17 Forecast	94.9%
RCR YE18 Forecast	95.0%
RCR YE19 Forecast	94.8%
RCR YE20 Forecast	94.0%
RCR YE21 Forecast	93.2%

1Q17 ABSORPTION AND OCCUPANCY RATE TRENDS

Dallas households expressed near record appetite for apartment space in 2016, but demand came to an abrupt halt during 1Q17. Reis report that renters vacated a net of 107 occupied units, palling by comparison to 4,048- and 4,103-unit net absorption performances during the prior and year-earlier quarters, respectively. There was no shortage of new space to rent as developers completed 3,498 units, causing metro occupancy to fall -80 basis points sequentially to 95.5%, lowest rate in twelve months.

Stabilized, same-store properties surveyed by Axiometrics reported a 94.4% fill rate, down -30bps sequentially and -60bps year-on-year. Each class lost about -60bps over

the year, leaving classes-C&B on 95.6%, and class-A trailing on 93.7%. Several submarkets notched y-o-y gains, mostly suburban areas east and south of Central Dallas. Oaklawn (93.7%/-60bps) and Southeast Dallas (92.0%/-200bps), highest and lowest rent submarkets in Dallas, posted the lowest occupancy and largest occupancy loss metrics.

The balance of 2017 should bring further occupancy decreases. Reis expect a 28-year series high 20,680 new units this year and about 15,000 in 2018. RCR's demand model projects that occupied stock growth will fall 7,500 units short of these figures, giving rise to further occupancy rate decreases of -50 to -80bps by year-end 2018.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$989
Annual Change	4.7%
RED 51 Rent Change Rank	10 th
RCR YE17 Forecast	4.8%
RCR YE18 Forecast	4.6%
RCR YE19 Forecast	3.7%
RCR YE20 Forecast	2.8%
RCR YE21 Forecast	2.8%

1Q17 EFFECTIVE RENT TRENDS

Dallas rent surged 6.5% in 2016, the fastest growth ever recorded in the 28-year Reis data series. But progress stalled in 1Q17 as rents went unchanged sequentially, down materially from \$14 (1.5%) and \$16 (1.8%) gains posted in the prior and year-before quarters. Year-on-year trends tumbled to 4.7%. Momentum was sluggish across classes, but the "A" segment exhibited less momentum as asking rents declined -0.2%; the first setback since 2009.

Surveys of 1,276 stabilized, same-store properties by Axiometrics revealed similar results. Sequential rents were slightly lower but y-o-y comparisons were up 4.5%. Class-A assets recorded the weakest trends in this sample, too,

rising only 1.0% y-o-y, compared to 4.7% and 6.9% respective gains by classes-B&C. Elevator buildings were notably weak, making a -0.2% retreat. Submarkets where rents average less than \$900 reported 8% to 10% gains. Oaklawn rents, by contrast, dipped -0.5% year-on-year.

This soft patch likely is a temporary pause. The variables in RCR's 95.8% ARS (SE=0.5%) DAL rent model with the largest positive coefficients are job growth and home price appreciation. We project that each will remain exceptionally strong through 2018 or longer. As a result, rent trends should regain momentum: annual gains in the mid-4% range are the probable outcome for 2017-2018.

TRADE & RETURN SUMMARY

\$5mm+ / 80-unit+ Sales	56
Approximate Proceeds	\$900mm
Average Cap Rate (FNM)	5.7%
Median Price / Unit	\$67,824
Expected Total Return	7.4%
RED 49 ETR Rank	8 th
Risk-adjusted Index	5.84
RED 49 RAI Rank	3 rd

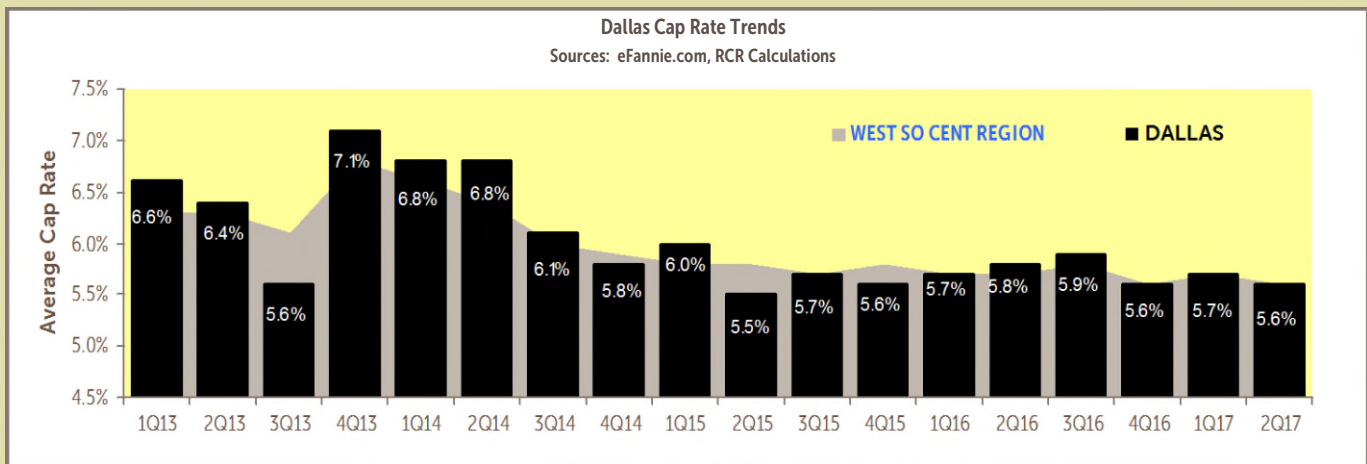
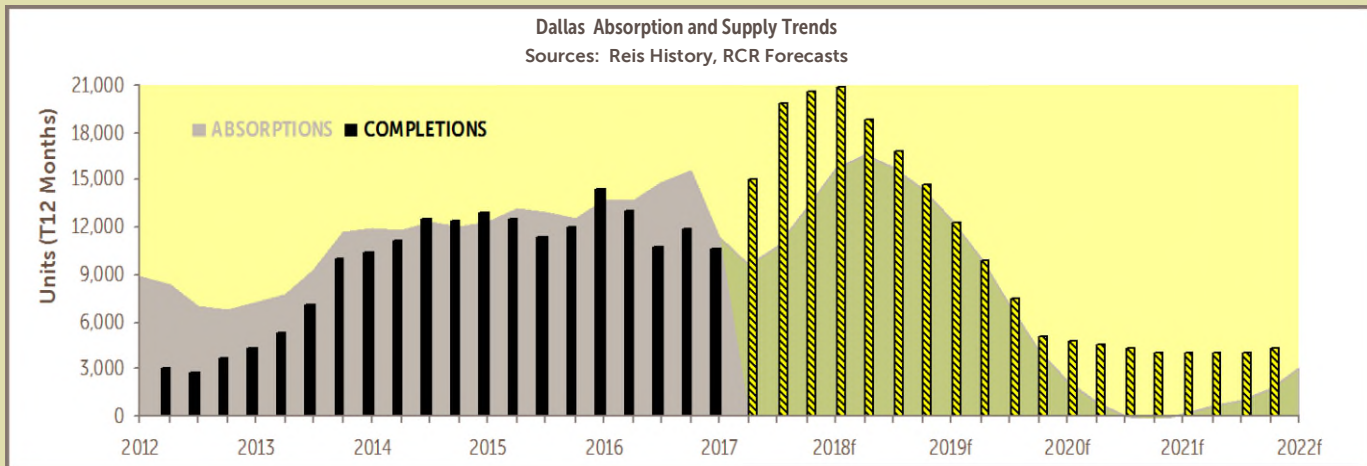
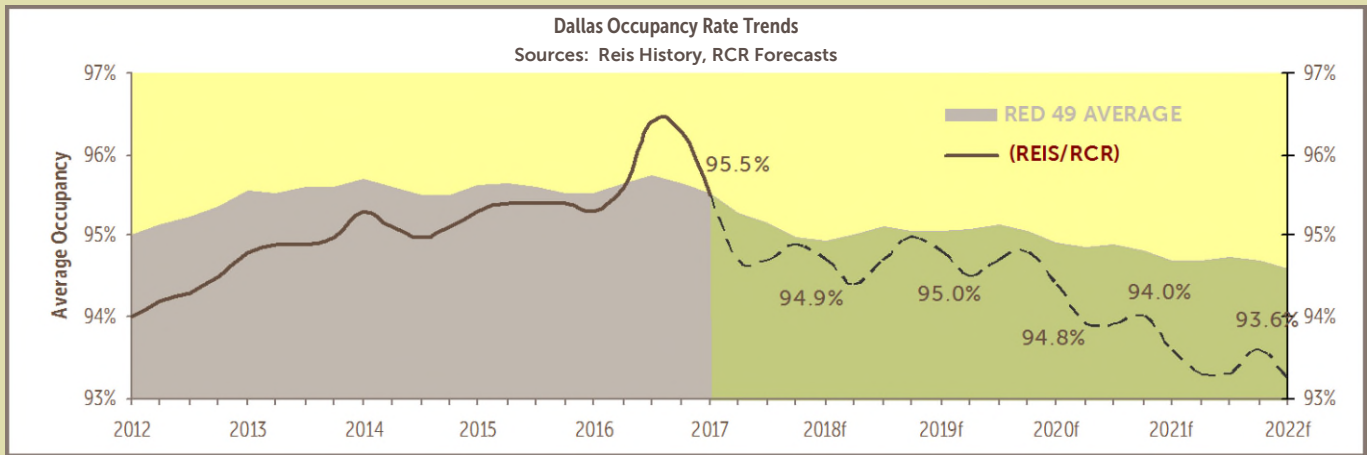
1Q17 PROPERTY MARKETS AND TOTAL RETURNS

Property trades and volume were seasonally strong during the first quarter 2017. Investors closed on 56 acquisitions of properties of valued at \$5.0 million or greater for volume of about \$900 million, comparing closely to the year earlier period's 59 trades for approximately \$1.3 billion in proceeds. But both periods were dwarfed by the second half 2016's feast, when estimated investor purchases exceeded \$5 billion in 166 transactions.

Sales over the first ten weeks of 2Q17 were slower. CoStar report 26 exchanges valued at less than \$500 million. The median price of traded units was \$69,010, on par with the first quarter but less than one-half of 4Q16's metric.

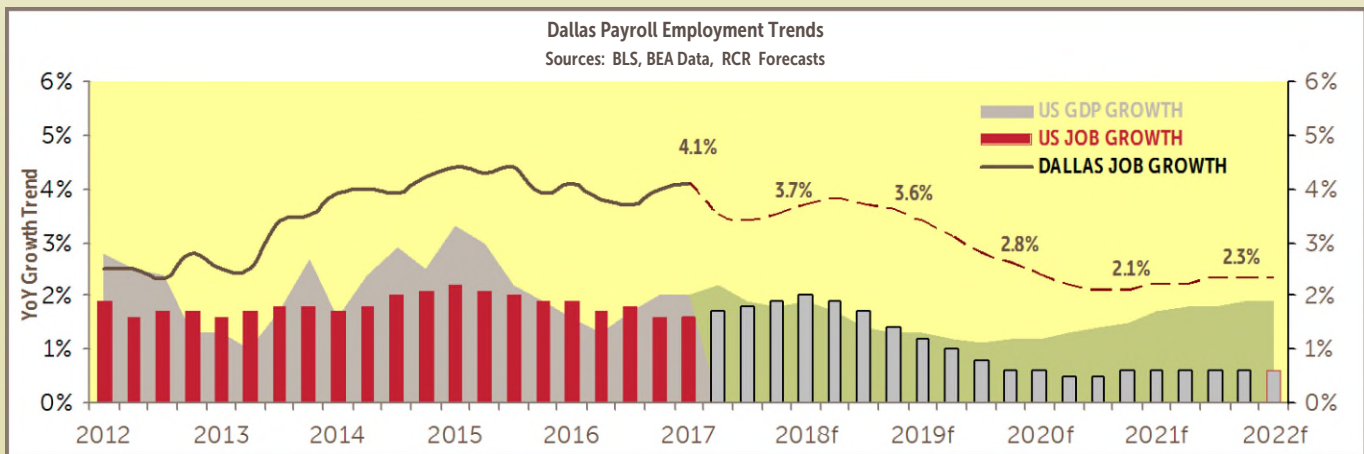
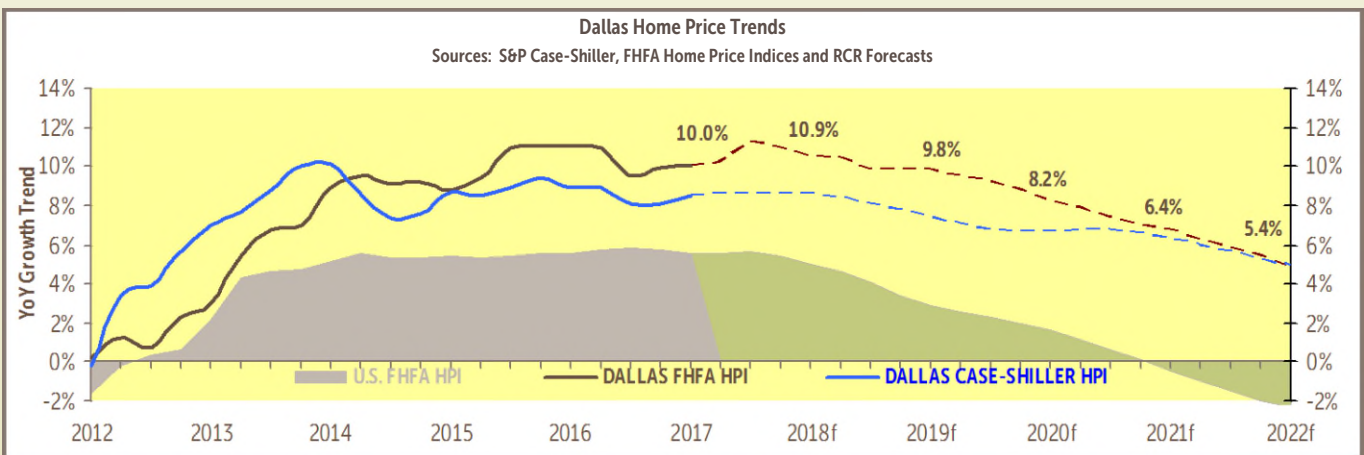
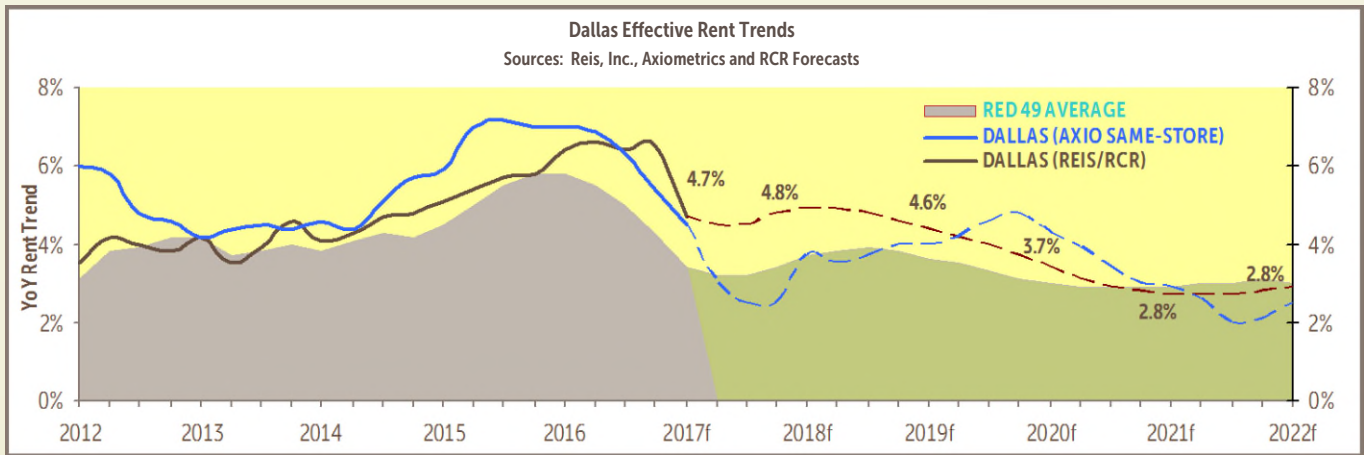
Cap rates applied to institutional quality A/B+ assets ranged from 4.2% to 5.0% as institutional buyers bid aggressively. Class-B and value-add situations traded cheaper in the 5% to 6% neighborhood, while assets valued below \$75,000/unit were available at yields between 6% to 7%.

The Dallas market was fluid but we chose to stand fast with a 5.25% purchase cap rate proxy. With a 5.8% terminal cap rate and model derived performance point estimates we calculate that a Dallas investor would expect to earn a 7.4% unlevered total return over a 5-year hold. This ranks 8th in the RED 49. Metro model error and volatility are low: the Big D ranks 3rd in the peer group for risk-adjusted returns.



NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price (in millions)	Price / Per Unit	Estimated Cap Rate
Vibe Medical District (Northwest/So'west Medical Dist.)	B+ / WF MR (2009)	31-Jan-2017	\$62.8	\$158,560	4.2%/5.1% pro forma
Ridge at Spring Valley (Far North / Preston Road)	B- / GLR (1978)	10-Feb-2017	\$18.3	\$87,981	5.75% (FNM)
Grand Reserve Townhomes (N. White Rock / NE Dallas)	A+ / TH (2009)	22-Feb-2017	\$42.0	\$281,879	5.2%
Creekbend Commons (Far Northeast/Whispering Hills)	B- / WF GLR (1980)	24-Mar-2017	\$14.8	\$67,273	6.75% after reno.
Miramar Apts. (Far Northeast / North Lake Highlands)	C / WF GLR (1982)	4-Apr-2017	\$16.6	\$52,707	6.08% (FNM)
Civic at Frisco Square (Plano / Frisco Market Center)	A+ / MB MR (2016)	24-May-2017	\$53.5	\$194,545	4.2%/4.8% pro forma



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SUBMARKET TRENDS (REIS)

Submarket	Reis Inventory Percent Change	Effective Rent			Physical Vacancy		Basis Point Change
		4Q16	1Q17	Change	4Q16	1Q17	
Carrollton/Addison	0.0%	\$902	\$897	-0.6%	2.7%	3.1%	40 bps
Central Dallas	0.9%	\$1,959	\$1,946	-0.7%	7.2%	7.3%	10 bps
East Dallas	0.0%	\$1,183	\$1,191	0.7%	4.8%	4.6%	-20 bps
Far North	0.7%	\$929	\$927	-0.2%	1.8%	2.4%	60 bps
Far Northeast	0.0%	\$742	\$743	0.2%	2.1%	2.4%	30 bps
Far Northwest	2.9%	\$815	\$832	2.1%	3.1%	5.1%	200 bps
Garland	1.8%	\$795	\$800	0.6%	1.5%	2.8%	130 bps
Grand Prairie	3.3%	\$837	\$860	2.8%	2.8%	4.3%	150 bps
Lewisville	0.0%	\$1,061	\$1,060	-0.1%	5.4%	5.6%	20 bps
Mesquite / Seagoville	0.0%	\$764	\$777	1.7%	1.2%	1.3%	10 bps
North	1.3%	\$960	\$1,007	4.9%	3.3%	5.3%	200 bps
North Irving	0.9%	\$1,018	\$1,040	2.1%	3.2%	4.0%	80 bps
North White Rock	0.0%	\$794	\$794	0.1%	3.5%	3.9%	40 bps
Northwest	5.4%	\$1,023	\$1,042	1.9%	4.6%	7.9%	330 bps
Northwest Denton Co.	1.8%	\$1,138	\$1,132	-0.5%	3.6%	5.4%	180 bps
Oaklawn	3.1%	\$1,470	\$1,464	-0.5%	7.7%	7.6%	-10 bps
Plano/Allen/McKinney	2.1%	\$1,116	\$1,158	3.8%	5.3%	5.9%	60 bps
Richardson	0.3%	\$988	\$1,013	2.5%	6.4%	5.7%	-70 bps
South	-0.1%	\$850	\$871	2.4%	4.9%	5.5%	60 bps
South County	0.0%	\$776	\$788	1.5%	4.6%	3.8%	-80 bps
South Irving	0.0%	\$750	\$759	1.2%	1.5%	2.1%	60 bps
South White Rock / I-	0.0%	\$705	\$704	0.0%	3.5%	3.6%	10 bps
Southeast Dallas	0.0%	\$609	\$620	1.9%	2.3%	2.2%	-10 bps
Southwest Dallas	1.6%	\$786	\$795	1.1%	4.2%	6.1%	190 bps
Metro	0.7%	\$989	\$989	0.0%	3.7%	4.5%	80 bps

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