FORT WORTH, TEXAS

MARKET OVERVIEW & MULTIFAMILY HOUSING UPDATE

RED Capital Group | 1Q17 | June 2017

PAYROLL JOB SUMMARY

Average Payrolls	1,021.6m
Annual Change 1Q17	28.6m (2.9%)
RCR 2017 Forecast	26.3m (2.6%)
RCR 2018 Forecast	25.1m (2.4%)
RCR 2019 Forecast	16.3m (1.5%)
RCR 2020 Forecast	10.2m (1.0%)
RCR 2021 Forecast	12.7m (1.2%)
Unemployment (NSA)	3.8% (4/17)

1Q17 PAYROLL TRENDS AND FORECAST

The Fort Worth labor market outperformed the national large Fort Worth market average and closed the gap with its faster growing neighbor to the east. The year-on-year rate of payroll employment growth in 1Q17 surged from 4Q16's below average 18,700-job, 1.9% pace to a robust 28,600-job, 2.9% rate. By contrast, the RED 49 (2.1%) and Dallas (4.1%) were nearly unchanged sequentially. Faster hiring was evident across industries, most prominently in oil and gas-related manufacturing, retail, air transportation and business and healthcare services. The aerospace industry was the sole source of weakness, a condition that is likely to resolve itself as sluggish F-35 jet sales begin to take off.

Preliminary April and May data displayed weaker trends. Annual growth comparisons decelerated to 2.5% on slower oil patch exploration and DFW activity. Moreover, seasonally-adjusted data recorded a net add of only 1,100 payroll jobs after three consecutive quarters of 8,300 or more.

RED Research's FTW payroll equation generates a constructive forecast. The 96.3% adjusted-R^2(SE=0.38%) model's positively signed coefficients (US payroll and Fort Worth personal income growth, S&P 500 returns) are projected to have positive impact on job creation through 2018, while limiting variables (Dallas job and US home price growth) are expected to decelerate moderately. As a result, Fort Worth job growth is projected to remain above the 2.0% long-term Fort Worth average for the next two years

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	96.4%
RED 51 Rank	12th
Annual Chg. (Reis)	+0.8%
RCR YE17 Forecast	96.1%
RCR YE18 Forecast	95.3%
RCR YE19 Forecast	95.0%
RCR YE20 Forecast	94.5%
RCR YE21 Forecast	94.1%

1Q17 ABSORPTION AND OCCUPANCY RATE TRENDS

Dallas space demand evaporated in 1Q17 (occupied stock fell -107 units), but leasing surged in Fort Worth. Reis report that tenants occupied a net of 907 vacant units, up from 635 and 553 in the prior and year-earlier quarters, respectively. Fort Worth occupancy was unchanged sequentially on 96.4%, however, as supply of 932 units counterbalanced demand. Renters absorbed more class-A units (683) but the class-B&C segment tightened materially: class occupancy soared 30 basis points sequentially to 97.2%.

Occupancy among the professionally-managed, stabilized same-store sample surveyed by Axiometrics was 94.8%, up 10 bps year-on-year. The class-B segment (95.1%) recorded the highest rate, leading classes-A and -C by 100 and 50bps, respectively. Grapevine had the highest rents and occupancy (95.2%) among submarkets, followed by Northeast (95.1%). Southwest (94.1%), under some degree of supply pressure, reported lowest submarket occupancy.

Elevated supply will drive occupancy trends over the next two years. RCR's demand model (ARS=92.7%/SE=0.35%) suggests that FTW will struggle to keep pace. The forecast outcome is for steady occupancy decay through 2021. But the Fort Worth market appears fundamentally different than its pre-Recession self, and the historically-specified

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	$858
Annual Change	4.6%
RED 51 Rent Change Rank	12th
RCR YE17 Forecast	4.7%
RCR YE18 Forecast	4.4%
RCR YE19 Forecast	3.8%
RCR YE20 Forecast	3.0%
RCR YE21 Forecast	2.6%

1Q17 EFFECTIVE RENT TRENDS

Fort Worth rent trends made steady progress in 1Q17, rising $6 (0.8%) sequentially and $38 (4.6%) year-on-year, according to Reis; comparing favorably to Dallas's respective 0.0% and 4.7% gains. Class performance was commensurate as asking rent advanced 0.6% in both class-A and B&C segments. Rent concessions were moderate and steady on 4.5% of asking rent, relatively better than Dallas's respective 7.3% and up 10 basis point metrics.

The Axiometrics same-store sample posted a smaller 0.6% sequential gain, but y-o-y growth (6.5%) was considerably stronger. Class-B (7.2%) properties gained momentum relative to 4Q16 (+0.2%), as class-C (6.2%/-1.8%) and class –A (4.6%/-0.4%) segments trailed and decelerated. Central Arlington submarket recorded lowest average rent ($851) but fastest rent growth (13.0%). By contrast, Grapevine ($1,317/5.2%) rents were highest, but rent growth was faster than only Northwest Fort Worth on $1,193 and 3.9%.

RCR's FTW rent model employs Fort Worth payroll and US personal consumption expenditure$_{(t-4)}$ and GDP$_{(t-3)}$ growth and sequential occupancy change as independent variables$_{(t-1)}$ to achieve a 94.4% ARS (SE=0.56%). The somewhat weaker than average model forecasts that rent growth will remain above 4% through mid-2019, producing 5-year compound annual growth of 3.6%, 10bps below Dallas.

TRADE & RETURN SUMMARY

$5mm+ / 80-unit+ Sales	25
Approximate Proceeds	$550mm
Average Cap Rate (FNM)	5.7%
Average Price / Unit	$83,741
Expected Total Return	7.6%
RED 49 ETR Rank	5th
Risk-adjusted Index	3.25
RED 49 RAI Rank	35th

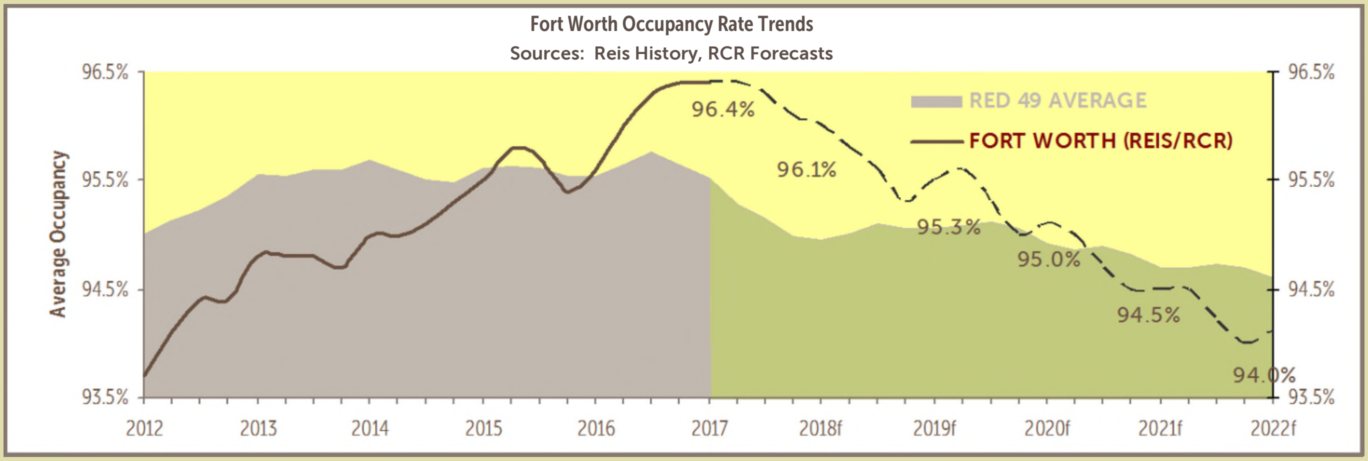
1Q17 PROPERTY MARKETS AND TOTAL RETURNS

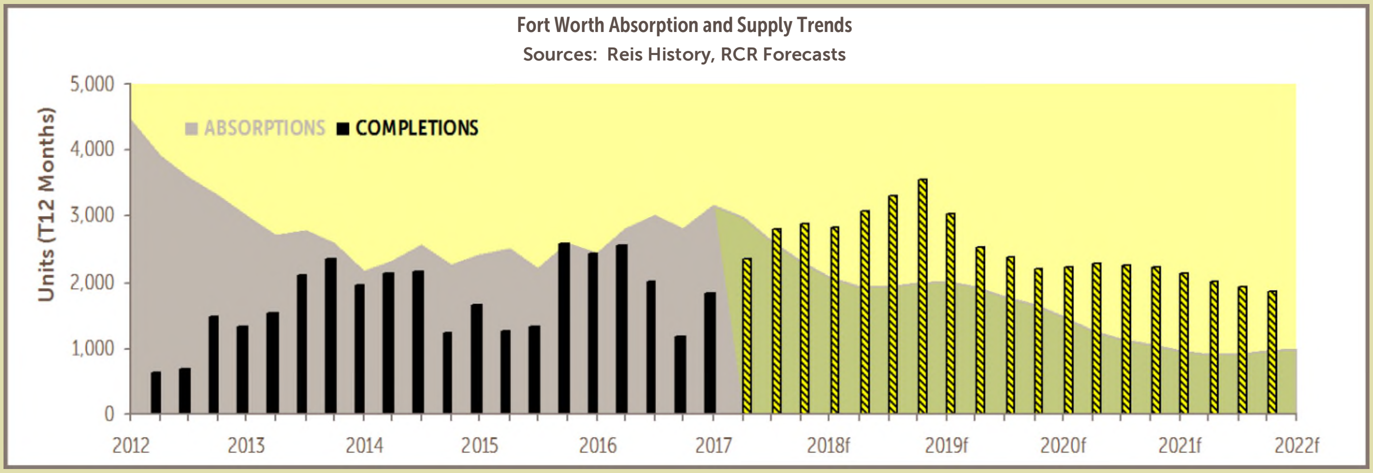
Investors exhibited a healthy appetite for Fort Worth properties, closing on 25 assets valued at $5 million or more for total volume of approximately $550mm. The results compare to 29 and 34 exchanges in the prior and year-earlier quarters for estimated proceeds of $571mm and $630mm, respectively. The average price of units sold was about $83,741, according to CoStar, compared to $78,804 in the comparable period of 2016.

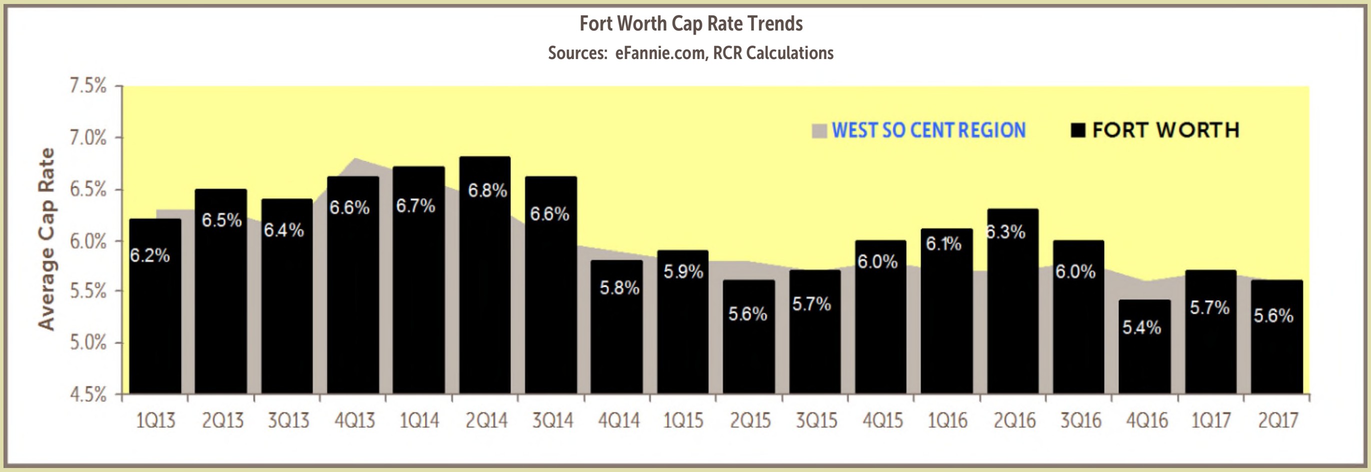
Sales during the first 10 weeks of 2Q17 were slower but the product mix shifted decidedly upmarket. Investors closed only 16 transactions, but three of the four for which pricing data were available were priced above $145,000 per unit.

Assets were valued at a discount relative to Dallas. Class-B+/A properties yielded investors 5% to 5.25%, while class-B's and value-adds exchanged hands from 5.5% to 7.0%.

RCR elected to trim another 20bps from the FTW cap rate proxy to 5.4% to reflect the strong bid for Fort Worth assets. Using a 5.9% terminal cap rate and model derived rent and occupancy forecast point estimates, we calculate that an investor would expect to achieve a 7.6% annual unlevered return over a 5-year hold. This ranks 5th among the RED 49 peer group, irrespective of a 60bps reduction in cap rates over the past year. Risk-adjusted returns are hampered by rent model standard error: FTW ranks 35th on

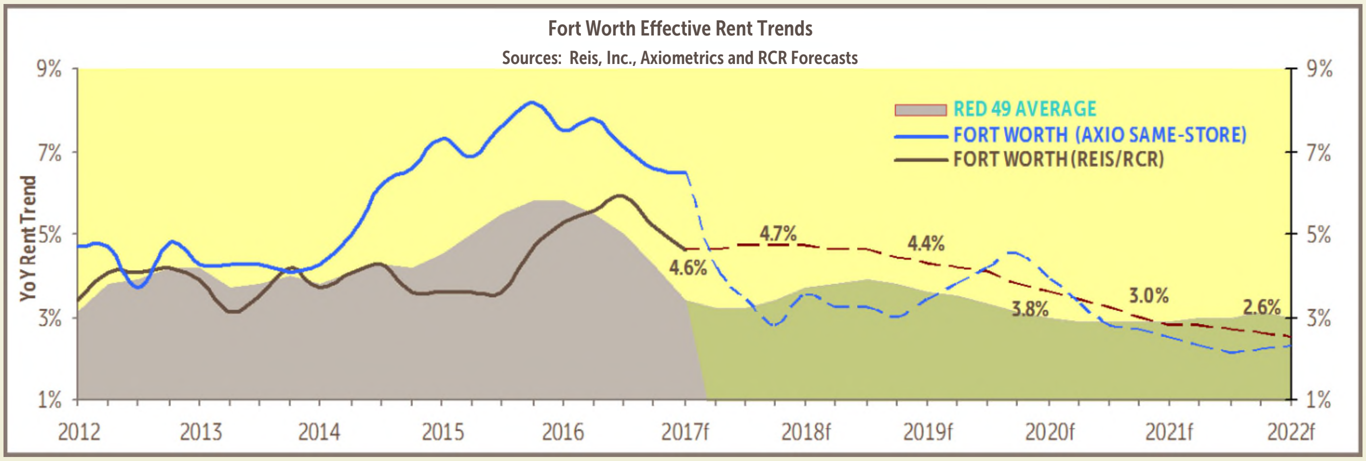


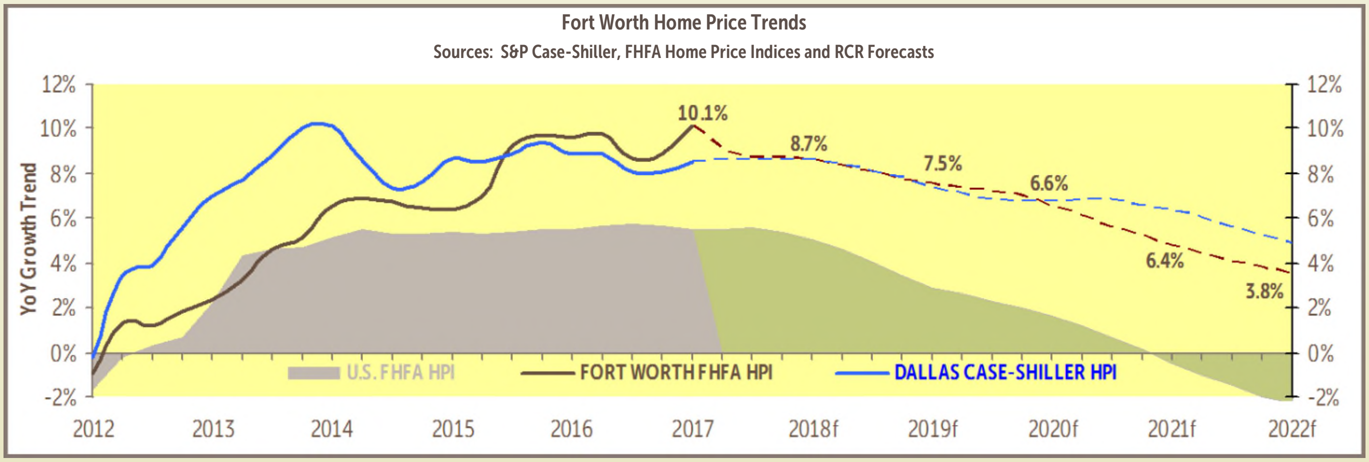


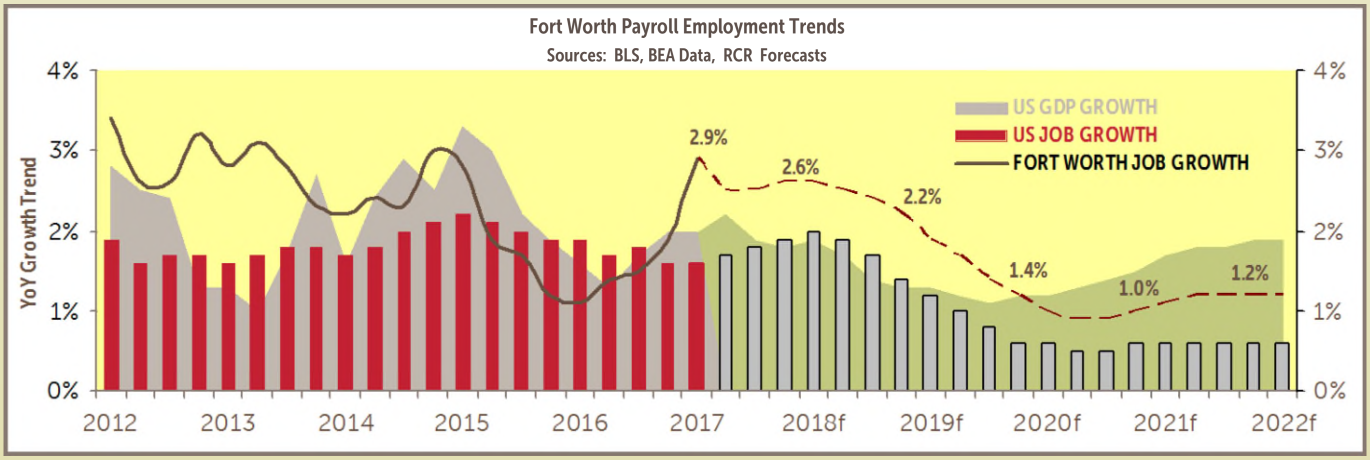


NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price (in millions)	Price / Per Unit	Estimated Cap Rate
Las Lomas Apts. (Central Arlington / East of TX-360)	C+ / GLR (1970/2002)	13-Jan-2017	$14.6	$65,178	7.4%
Mandolin (Hurst / Euless / Bear Creek Club)	A- / GLR (2002)	25-Jan-2017	$75.4	$155,113	5.2%
The Boulders Apts. (Northeast/Richland Hills/Hurst)	B+ / GLR (2004)	3-Feb-2017	$29.5	$111,553	5.5%
Three60 North (North Arlington / East of TX-360)	B- / BLR (1984/2004)	17-Mar-2017	$26.1	$75,000	5.99% (FNM)
Atlantic Mansfield (Southeast / Outer Mansfield)	B+ / BLR (2002)	31-Mar-2017	$32.0	$125,000	5.52% (FNM)
The Arlie Apartments (Central Arlington / UTA)	A Std. / WF MR (2016)	7-Apr-2017	$46.0	$85,661/bed	6.2%

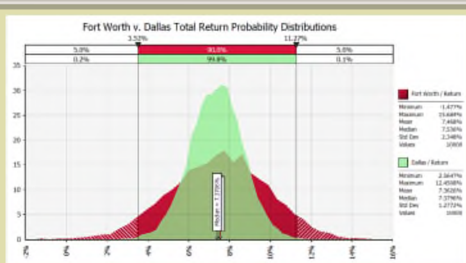

Fort Worth Effective Rent Trends
Sources: Reis, Inc., Axiometrics and RCR Forecasts
YoY Rent Trend
RED 49 AVERAGE
FORT WORTH (AXIO SAME-STORE)
FORT WORTH (REIS/RCR)
4.6%
4.7%
4.4%
3.8%
3.0%
2.6%
9%
7%
5%
3%
1%
2012
2013
2014
2015
2016
2017f
2018f
2019f
2020f
2021f
2022f

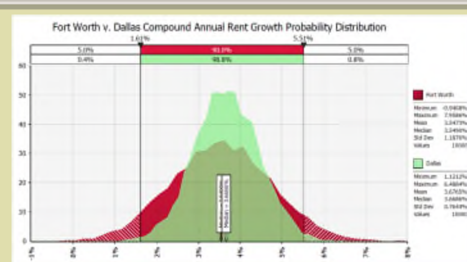

Fort Worth Home Price Trends
Sources: S&P Case-Shiller, FHFA Home Price Indices and RCR Forecasts
YoY Growth Trend
10.1%
8.7%
7.5%
6.6%
6.4%
3.8%
U.S. FHFA HPI
FORT WORTH FHFA HPI
DALLAS CASE-SHILLER HPI
12%
10%
8%
6%
4%
2%
0%
-2%
2012
2013
2014
2015
2016
2017
2018f
2019f
2020f
2021f
2022f

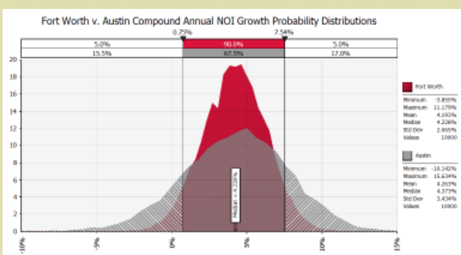

Fort Worth Payroll Employment Trends
Sources: BLS, BEA Data, RCR Forecasts
YoY Growth Trend
US GDP GROWTH
US JOB GROWTH
FORT WORTH JOB GROWTH
2.9%
2.6%
2.2%
1.4%
1.0%
1.2%
4%
3%
2%
1%
0%
2012
2013
2014
2015
2016
2017
2018f
2019f
2020f
2021f
2022f

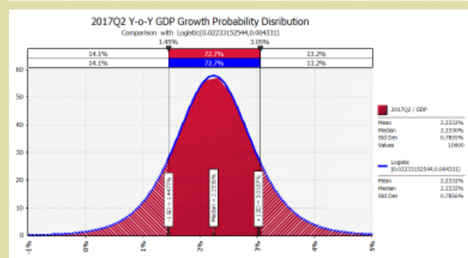
SUBMARKET TRENDS (REIS)

Submarket	Reis Inventory Percent Change	Effective Rent 4Q16	Effective Rent 1Q17	Effective Rent Change	Physical Vacancy 4Q16	Physical Vacancy 1Q17	Basis Point Change
Central Arlington	0.0%	$659	$665	0.9%	2.3%	2.0%	-30 bps
Grapevine	0.0%	$988	$1,002	1.4%	3.5%	3.3%	-20 bps
Hurst/Bedford/Euless	0.0%	$902	$905	0.4%	2.3%	2.1%	-20 bps
Interstate-820	0.0%	$644	$678	5.3%	4.7%	4.6%	-10 bps
North Arlington	0.0%	$745	$754	1.2%	3.4%	3.3%	-10 bps
Northeast	0.6%	$981	$979	-0.3%	3.2%	3.2%	0 bps
Northwest	3.4%	$945	$962	1.7%	7.9%	4.9%	-300 bps
Southeast	0.0%	$970	$984	1.4%	5.4%	5.0%	-40 bps
Southwest	3.1%	$812	$832	2.5%	4.0%	4.8%	80 bps
Metro	0.6%	$852	$858	0.7%	3.6%	3.6%	0 bps









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