

### PAYROLL JOB SUMMARY

Average Payrolls	2,748.9m
Annual Change 2Q17	88.0m (3.3%)
RCR 2017 Forecast	89.9m (3.4%)
RCR 2018 Forecast	71.1m (2.6%)
RCR 2019 Forecast	54.2m (1.9%)
RCR 2020 Forecast	46.6m (1.6%)
RCR 2021 Forecast	49.4m (1.7%)
Unemployment (NSA)	4.6% (8/17)

The Atlanta economy reached heretofore unparalleled heights in the first quarter as establishment added more than 100,000 workers to payrolls over the trailing four quarters for the first time. Job creation was marginally slower in 2Q17 as employers created payroll positions at an 88,200-job, 3.3% year-on-year rate, in line with 2015 and 2016 levels. The construction, finance and business services sectors remained the mainstays, together hiring at a 45,300-job, 5.9% annual pace, topping 1Q's 41,900-job advance. But gains elsewhere were slower, especially in retail trade and leisure services. Sector job growth declined from a 23,000 (4.2%) job year-on-year rate in 1Q to a 12,500-job, 2.2% rate in 2Q17.

Seasonally-adjusted data suggest that recent growth was considerably weaker than implied by the year-on-year NSA comparisons.

This series recorded only a 12,100-job add during 2Q17, followed by a net advance of just 3,600 jobs during July and August

The **RED Research** ATL payroll model anticipates further growth deceleration. The equation uses the rate of change of US payroll growth (+) and S&P 500 equity returns (+) as independent variables to reach a robust 97.2% adjusted-R<sup>2</sup> (SE=0.4%). By virtue of the fact that our base macro models project slowing job growth nationally and smaller (although positive) equity returns over the next few years, the ATL model projects slower job growth to come. Annual growth rates are expected to decline to the 2% area over the next two years and further to the mid-1% range by the end of the decade. Arguably, the model does not fully incorporate recent fundamental improvement in the ATL landscape: actual outcomes may be better.

### 2Q17 ABSORPTION AND OCCUPANCY RATE TRENDS

#### OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	95.5%
RED 51 Rank	29 <sup>th</sup>
Annual Chg. (Reis)	-0.8%
RCR YE17 Forecast	94.9%
RCR YE18 Forecast	94.9%
RCR YE19 Forecast	95.6%
RCR YE20 Forecast	94.9%
RCR YE21 Forecast	95.3%

In 2015 and 2016, renters absorbed a net of 22,200 vacant units (Reis), a period during which average occupancy increased 190 basis points to 96.2%, highest in 22 years. But tenant demand weakened in the first half 2017, perhaps reflecting slower job creation at mid-year and a shift in preference toward homeownership. In all, households occupied only 815 vacant units in 1H17, about 15% of the number absorbed in the same period of 2016. Occupancy fell -70bps to 95.5%, lowest rate observed in two years.

A sample of 980 stabilized, same-store properties surveyed by Axiometrics recorded 94.3% and 94.6% rates in 2Q17 and 3Q17, down -30bps and -20bps year-on-year. Class-B (94.7%) posted higher occupancy in 3Q17 than classes-A and -C (94.3%). Elevator

buildings were 94.1% occupied. Among submarkets, Clayton (95.2%) and I-20 East (95.1%) recorded the highest rates; Sandy Springs (93.4%) and South DeKalb (93.3%) lowest. Top infill areas reported useful rates led by Midtown (96.4%) and Buckhead (94.7%). New property absorption was steady on 12 units/month.

Supply pressures are projected to persist through 2018, with 17,000 units on tap for the next six quarters. **RCR's** ATL demand model (94.1% ARS/SE=0.3%) projects that 14,000 (82%) are likely to be absorbed concurrently, limiting the damage to metro occupancy to about -60bps. Although supply pressures are expected to be an evergreen issue in Atlanta, average occupancy is projected to hover near the 95% mark for the five-year forecast interval.

#### EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$1,008
Annual Change	5.6%
RED 51 Rent Change Rank	6 <sup>th</sup>
RCR YE17 Forecast	4.0%
RCR YE18 Forecast	2.9%
RCR YE19 Forecast	3.0%
RCR YE20 Forecast	2.4%
RCR YE21 Forecast	2.7%

### 2Q17 EFFECTIVE RENT TRENDS

Following 1Q17's three-year low \$9 (0.9%) sequential gain, Atlanta rent trends sparked back to life in the spring leasing season, surging \$15 (1.5%). Expressed on a year-on-year basis, rents increased 5.6%, down from 1Q's 6.2% advance but still strong enough to rank sixth among the **RED 51** peer group. Gains were evenly distributed between segments as class-A asking rents rose 1.1% (\$14) sequentially, while class-B&C rents advanced 0.9% (\$8).

The Axiometrics same-store sample posted smaller 4.5% and 3.9% increases in 2Q and 3Q17, respectively, the latter the smallest advance since 1Q13. Class-A (1.2%) and elevator buildings (-0.1%) remained under supply pressure in 3Q, but classes-C (6.0%) and -B (4.2%) continued to post rapid rent growth; good

news for the many value-add investors in this inventory. Clarkston, Clayton and South DeKalb, the submarkets with the lowest rent structures, chalked down the fastest gains (8.4%, 7.1% and 7.0%). By contrast, the most expensive areas - Buckhead (-0.5%), Midtown (-3.6%) and Sandy Springs (2.9%) - were weakest.

The ATL rent forecast is constructive despite predictable model mean reversion. **RCR's** 95.1% (SE=0.8%) ATL rent model employs inventory<sub>(t-1)</sub> (-), occupied stock (+) and job (+) growth and occupancy change (+) as independent variables. Forecasted slower job creation and a near zero constant are determinate as the other factors are expected to be neutral. Thus, trends are projected to decelerate over the forecast interval, averaging 2.8% per year.

#### TRADE & RETURN SUMMARY

\$5mm+/60 unit+ Sales	82
Estimated Proceeds	\$2,019.9mm
Average Cap Rate (FNM)	5.9%
Average Price / Unit	\$98,095
Expected Total Return	7.4%
RED 49 ETR Rank	23 <sup>rd</sup>
Risk-adjusted Index	3.49
RED 49 RAI Rank	33 <sup>rd</sup>

### 2Q17 PROPERTY MARKETS AND TOTAL RETURNS

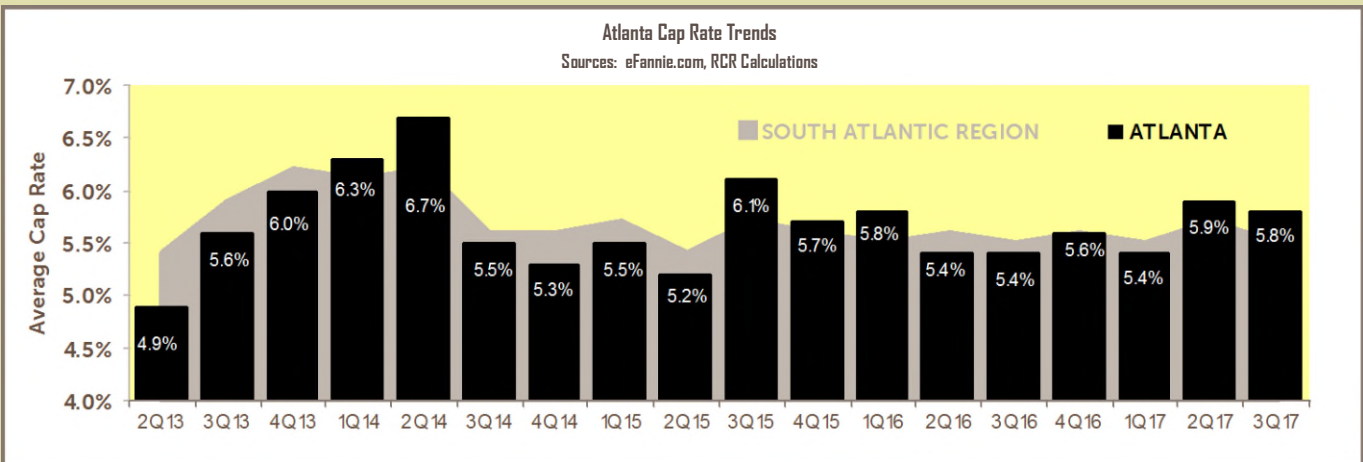
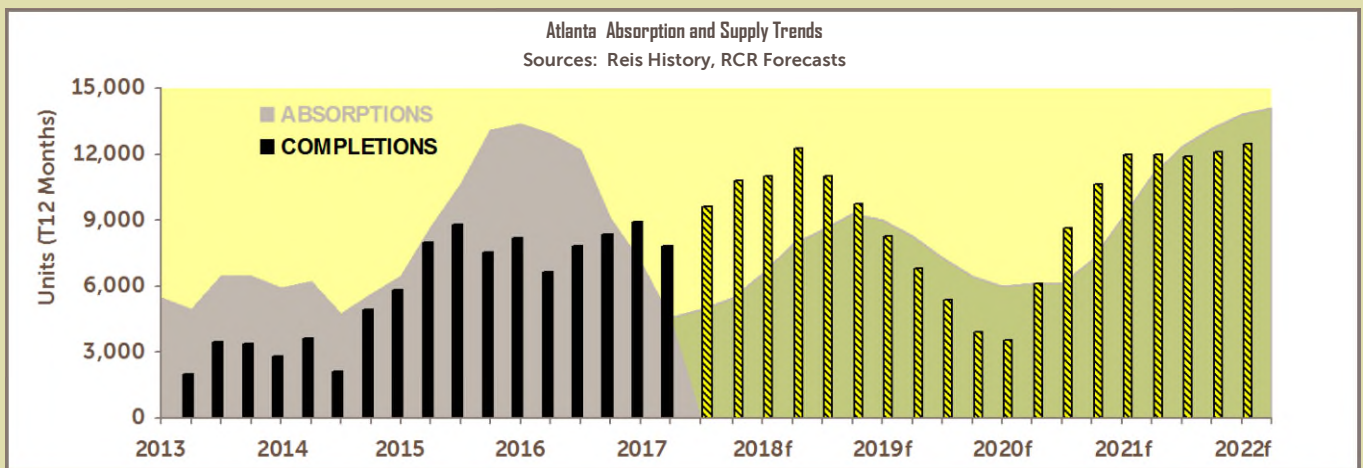
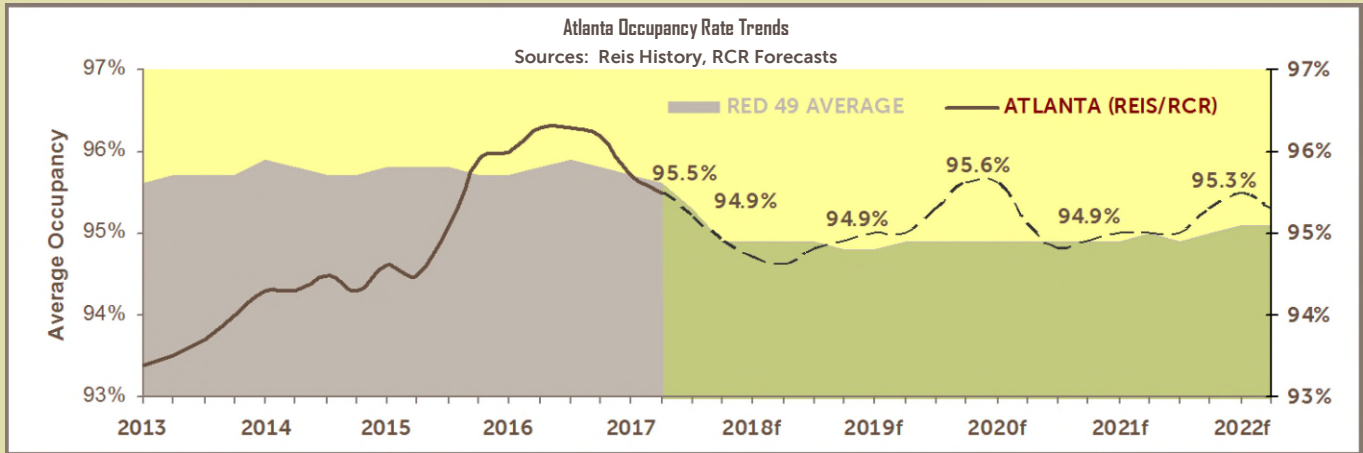
After catalyzing record sales in the second half 2016 (159 transactions for gross proceeds of \$4.5 billion) investors went on a well earned hiatus over the winter. First quarter 2017 deal count dipped 66% and sales volume fell 50% from levels observed in 4Q16.

Investors returned in force in the spring, and summer. Buyers closed 82 investment sales transactions valued at \$2,020m during 2Q17, up 50% and 36% year-on-year, respectively. Sales nearly were as strong in 3Q17, when 58 sales closed for \$1,662m. The average price of traded units was \$98,085 in 2Q17, and \$110,214 in 3Q17. The 3Q17 metric established a new Atlanta series record.

Cap rates for institutional quality infill trophies fell in the high-4%

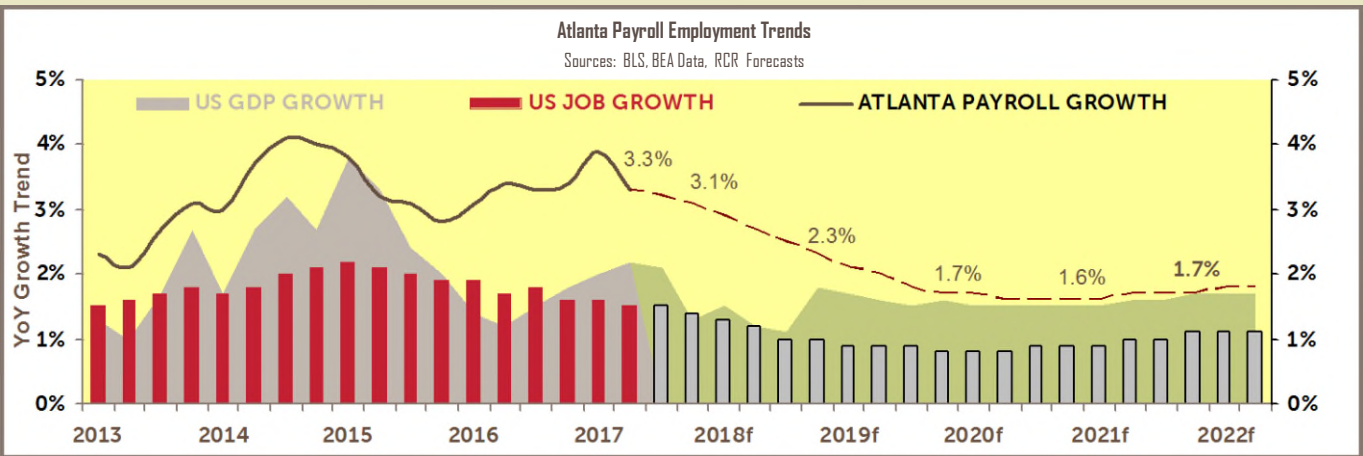
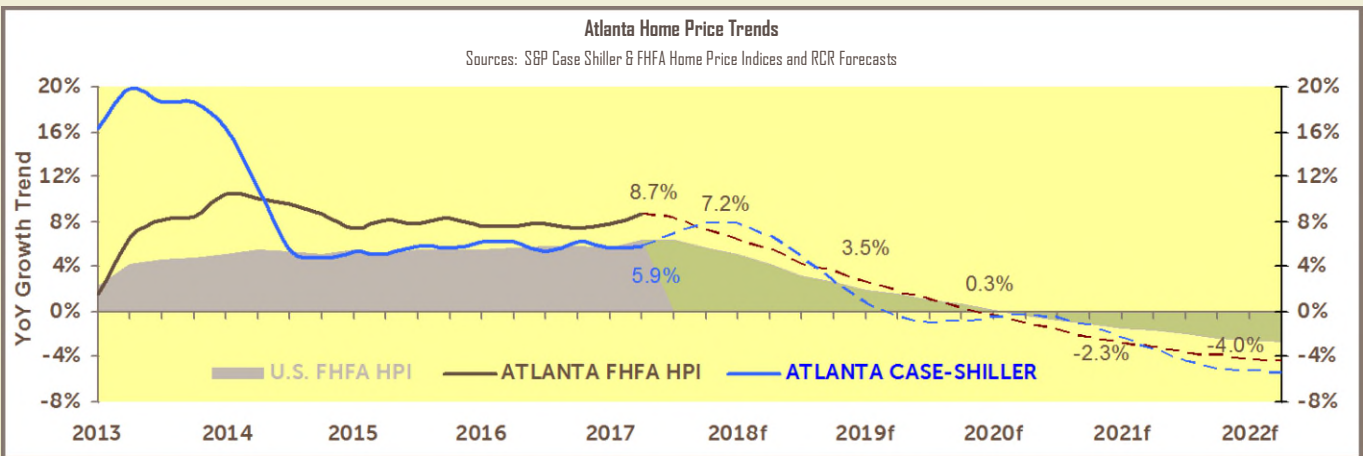
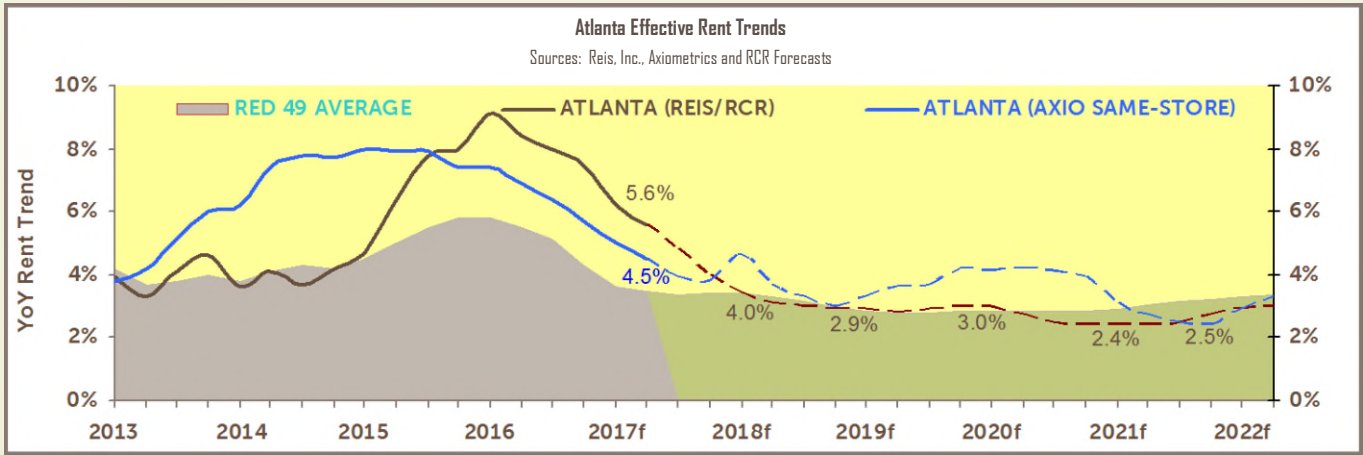
to low-5% range. Most other transaction were priced to yields in the mid- to high 5% area. Class-B/B+ gardens in top suburban locations traded to 5.25% to 5.5% cap rates, while assets in second tier submarkets gravitated toward 5.75% to 6% yields.

The strength of investor demand exhibited since spring led **RCR** to cut the ATL B/B+ purchase cap rate proxy -10bps to 5.4%. At this level, a terminal cap rate of 5.82% and model derived rent and occupancy point estimates we calculate that a 2Q17 investor would expect to yield a 7.4% annual unlevered total return over a five-year hold. This metric ranks 23<sup>rd</sup> among the **RED 49** large market peer group. With respect to risk, above average rent volatility hinders Atlanta risk-adjusted returns, which rank **R49** number 33.



## NOTABLE TRANSACTIONS

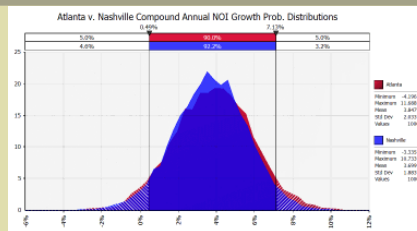
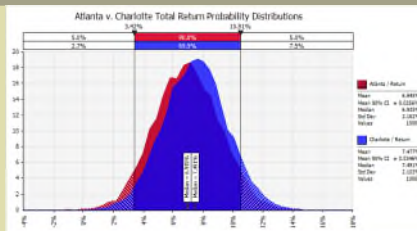
Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price (in millions)	Price / Per Unit	Estimated Cap Rate
Jasmine Winters Chapel (North DeKalb)	B- / GLR (1989)	30-Jun-2017	\$53.1	\$89,738	5.77% (UW)
Paces Crossing (South Gwinnett / Norcross)	B / GLR (2001)	6-Jul-2017	\$33.8	\$130,000	5.56% (UW)
Lakeside Milton Park (Alpharetta)	A-/MB LR (2002)	12-Jul-2017	\$98.3	\$213,123	4.9%
Parc Dunwoody (Sandy Springs/Pitts Road)	B-/GLR (1980)	17-Jul-2017	\$33.0	\$105,769	6.0% (UW)
Peninsula Buckhead (Buckhead/Lindbergh)	A / MB MR (2008)	17-Jul-2017	\$63.5	\$204,180	5.5%
Cyan Peachtree (Buckhead)	A+ / RC HR (2015)	22-Sep-2017	\$91.0	\$278,175	5.0%



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## SUBMARKET TRENDS (REIS)

Submarket	Reis Inventory Percent Change	Effective Rent			Physical Vacancy		Basis Point Change
		1Q17	2Q17	Change	1Q17	2Q17	
Buckhead	2.0%	\$1,385	\$1,405	1.4%	6.4%	7.5%	110 bps
Central I-75 West	3.5%	\$1,122	\$1,184	5.5%	6.2%	7.1%	90 bps
Cherokee County	0.0%	\$989	\$993	0.4%	4.6%	3.8%	-80 bps
Clarkston/Stone Mountain	0.0%	\$803	\$806	0.4%	2.0%	2.2%	20 bps
Clayton Co. / Henry Co.	0.0%	\$811	\$826	1.9%	3.7%	3.9%	20 bps
Decatur / Avondale	0.0%	\$995	\$1,001	0.6%	4.4%	4.8%	40 bps
Interstate-20 East	0.0%	\$828	\$848	2.4%	3.1%	2.9%	-20 bps
Interstate-20 West	0.0%	\$830	\$833	0.5%	2.8%	2.6%	-20 bps
Marietta	0.0%	\$949	\$963	1.4%	4.0%	3.8%	-20 bps
Midtown	0.3%	\$1,393	\$1,425	2.3%	11.1%	8.6%	-250 bps
North DeKalb County	-0.6%	\$1,125	\$1,137	1.1%	4.5%	4.6%	10 bps
North Gwinnett	0.0%	\$980	\$976	-0.5%	3.9%	4.4%	50 bps
Roswell / Alpharetta	-0.1%	\$1,068	\$1,078	1.0%	3.9%	4.1%	20 bps
Sandy Spring/Dunwoody	1.7%	\$1,121	\$1,151	2.7%	2.4%	3.6%	120 bps
Smyrna	1.3%	\$997	\$1,042	4.4%	4.9%	4.6%	-30 bps
South DeKalb County	0.0%	\$702	\$718	2.3%	7.1%	4.9%	-220 bps
South Fulton County	0.5%	\$799	\$809	1.3%	3.9%	4.1%	20 bps
South Gwinnett	-0.6%	\$895	\$901	0.6%	2.9%	3.1%	20 bps
Metro	0.3%	\$1,008	\$1,023	1.5%	4.3%	4.5%	20 bps



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