

PAYROLL JOB SUMMARY

Average Payrolls	1,181,100
Annual Change 2Q17	32.4m (2.8%)
RCR 2017 Forecast	32.2m (2.8%)
RCR 2018 Forecast	30.2m (2.6%)
RCR 2019 Forecast	23.9m (2.0%)
RCR 2020 Forecast	21.6m (1.7%)
RCR 2021 Forecast	24.8m (2.0%)
Unemployment (NSA)	4.2% (8/17)

2Q17 PAYROLL TRENDS AND FORECAST

Charlotte payroll employment grew at a moderately slower pace during the spring and summer, slipping below the 3% or faster threshold that was recorded continuously since 2Q13. Total payrolls increased at a 32,400-job, 2.8% rate in 2Q17, down from 1Q's 34,400-job, 3.1% performance. Growth decelerated further over the summer months as headcount growth declined to a 29,400-job, 2.6% year-on-year rate in July and August.

Hiring in the foundational business and health care services remained strong over the summer: payroll expansion in these super-sectors was little changed from levels observed during Charlotte's fastest growing periods. But gains in construction, trade, information and finance and insurance were off sharply. Combined, the foregoing sectors added only 4,300 (1.2%) positions over the trail-

ing 12 months, down from 15,600 (4.7%) in the same period of 2016.

Seasonally-adjusted data conveyed a sense of weaker growth. This series recorded a net decline of -800 jobs in July and August, representing the lowest job count for those months since 2009.

RED Research specified a 96.3% adjusted-R² (SE=0.5%) CLT payroll forecasting equation employing the rate of change of US payroll growth (+), the 10-year Treasury yield_(t-1) (+) and the Baa-rated bond yield (-) as independent variables. Based on our macro-economic forecast of gradually slowing US job growth and widening credit spreads through decade end, the equation generates a forecast of meaningfully slower growth through 2020, followed by a constructive recovery in the forecast interval out-years.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	94.8%
RED 51 Rank	43 rd
Annual Chg. (Reis)	+0.3%
RCR YE17 Forecast	93.7%
RCR YE18 Forecast	93.1%
RCR YE19 Forecast	92.9%
RCR YE20 Forecast	93.2%
RCR YE21 Forecast	93.6%

2Q17 ABSORPTION AND OCCUPANCY RATE TRENDS

In the wake of 1Q17's exceptionally strong demand performance—when renters absorbed 1,295 units (Reis) in the seasonally soft winter quarter – Charlotte tenants again exhibited robust space demand in the spring. Households net leased 1,146 units, producing a 10 basis point sequential metro occupancy advance to 94.8%. Demand for class-A space predominated as tenants absorbed 1,142 top tier units while net demand for class-B&C space was negligible.

Surveys of 447 stabilized, same-store properties by Axiometrics recorded similar conditions. The sample was 94.9% and 95.1% occupied in 2Q17 and 3Q17, respectively, representing -50 and -20 bps decreases year-on-year. Including lease-up properties, occupancy equaled 94.1% and 94.6%. The "C" (96.7%) segment led

among classes, followed distantly by classes-B (94.9%) and -A (94.3%). Elevator buildings firmed in 3Q, rising 100bps year-on-year to 93.4%. Concord, Gaston Co. and N. Tryon submarkets posted rates above 96%, while only Downtown (92.6%) failed to reach 94.3% or better. Buildings in lease-up absorbed an average of 13 units/month in 3Q, up from 10 units in 2Q17 and 8 units in 1Q17.

Occupied stock increased 5.2% over the four quarters ended in June, fastest absorption since 2000. Demand must rise still faster to keep up with 11,000 new units expected to be delivered by YE18. RCR's demand model projects that about 75% of new units will be absorbed concurrently, causing occupancy to decline about -170bps to 93.1%. Occupancy should begin to recover by 2020.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$956
Annual Change	4.6%
RED 51 Rent Change Rank	14 th
RCR YE17 Forecast	4.8%
RCR YE18 Forecast	2.7%
RCR YE19 Forecast	2.3%
RCR YE20 Forecast	3.2%
RCR YE21 Forecast	3.9%

2Q17 EFFECTIVE RENT TRENDS

Rent trends made a comprehensive recovery in the spring, rising \$27 (2.8%) sequentially, following 1Q17's three-year low \$1 (0.1%) gain, and a \$9 (1.0%) advance in the year-earlier period. Expressed on a year-on-year basis rents increased 4.6%, up from 3.2% in the prior quarter. Class-A performance was largely responsible as segment asking rents surged 2% and concessions receded 9.4%, while B&C properties posted only a 1.2% increase.

By contrast, Axiometrics same-store sample rents decelerated. Sample rents increased at 3.5% and 2.9% annual rates in 2Q and 3Q17, respectively, down from 1Q17's 3.6% gain. Class-C led the way, recording a strong 5.0% gain in 3Q17, while class-B posted a 4-year low 3.3% advance. Class-A (0.0%) and elevator buildings

(-2.1%) stumbled. By way of submarkets, West (4.7%), Northwest (4.9%) and East/Central Ave. (4.3%) chalked down the fastest growth rates. Downtown (0.0%) recovered after five consecutive negative prints but remained the weakest neighborhood by rent trends. Fairview recorded the strongest momentum, rising from -0.1% in 1Q17 to 1.3% and 3.6% in 2Q17 and 3Q17, respectively.

RCR's CLT rent model uses occupancy (+), home price appreciation (-) and the Baa-bond/10-year UST credit spread as variables to achieve a 95.1% ARS (SE=0.7%). Applied to our base macro forecast the model projects weaker rent trends through 2019 as the market works through supply. As supply pressures begin to recede in 2020, rent trends should return to 3% or faster rates.

TRADE & RETURN SUMMARY

\$5mm+/60 unit+ Sales	13
Estimated Proceeds	\$308.5mm
Average Cap Rate (FNM)	5.8%
Average Price / Unit	\$97,303
Expected Total Return	7.7%
RED 49 ETR Rank	12 th
Risk-adjusted Index	3.62
RED 49 RAI Rank	29 th

2Q17 PROPERTY MARKETS AND TOTAL RETURNS

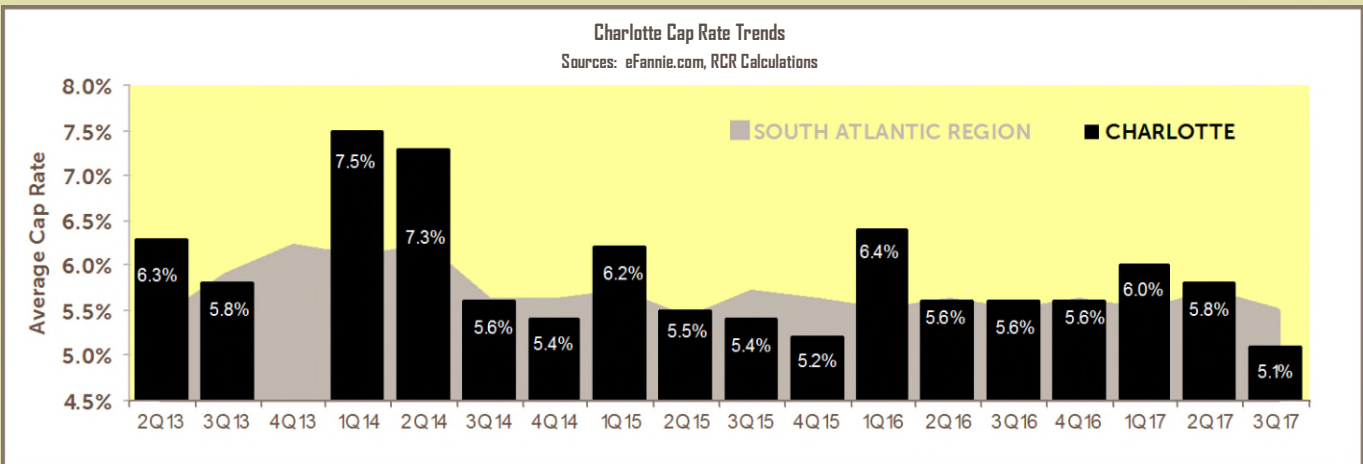
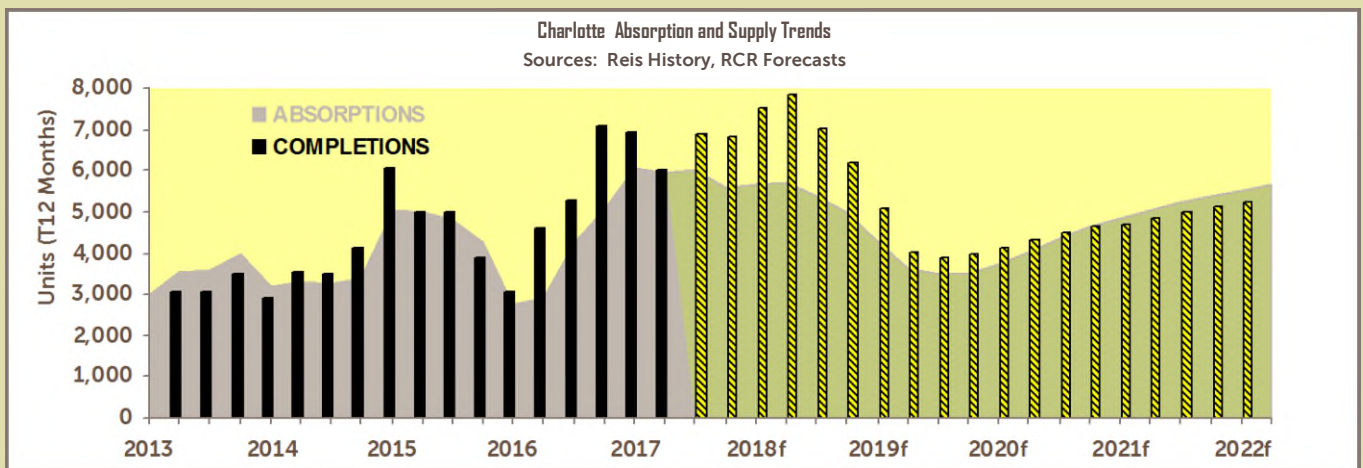
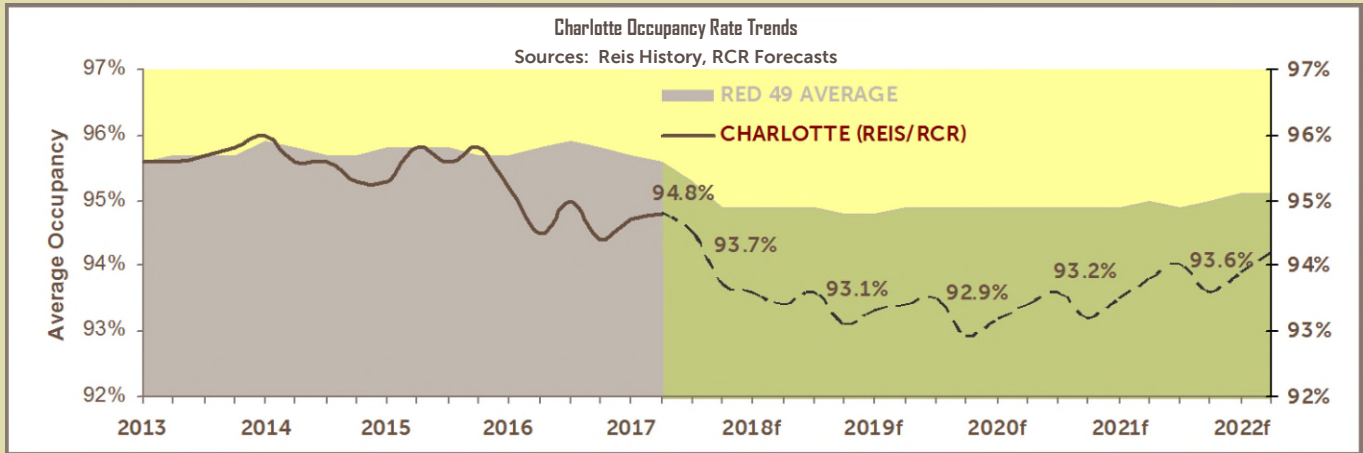
Investment sales volume declined in the first half 2017 as investors paused to evaluate the impact of supply on Charlotte property performance. A total of 28 transactions closed for total proceeds of \$862 million. This compared to 48 exchanges valued at \$1.2 billion in the comparable period of 2016. Still, the average price of units sold increased 2%, rising \$2,090 to \$116,743.

Trade velocity regained momentum over the summer. Investors acquired 21 properties for \$430.8mm during 3Q17, representing the largest deal count in more than a year. Likewise, the average price per unit soared to \$168,773, a Charlotte series record by 22% for quarters with four or more closed transactions.

Cap rates applicable to infill mid-rise trophies appear to gravitate

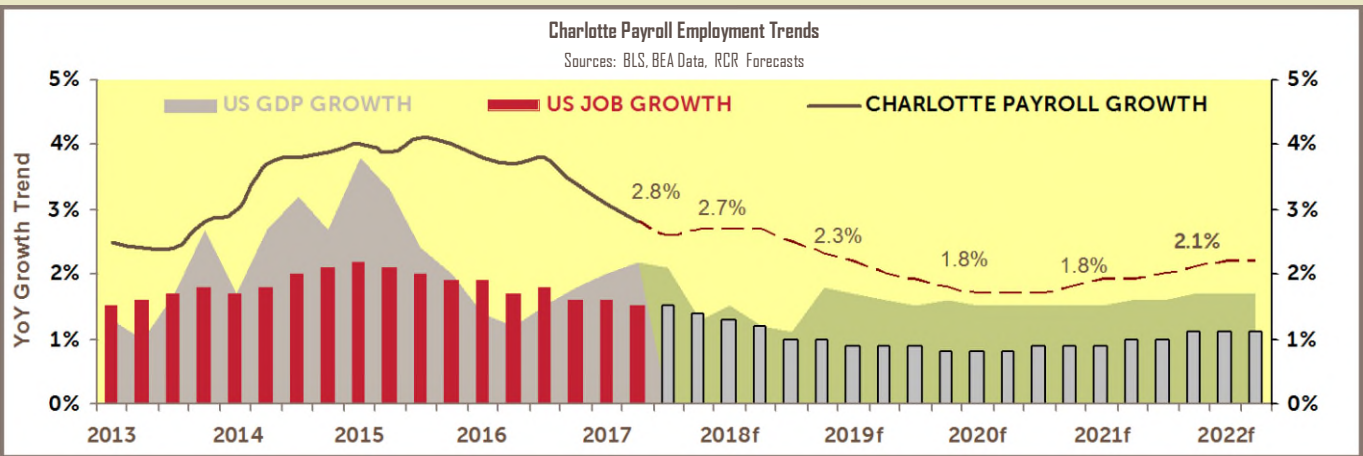
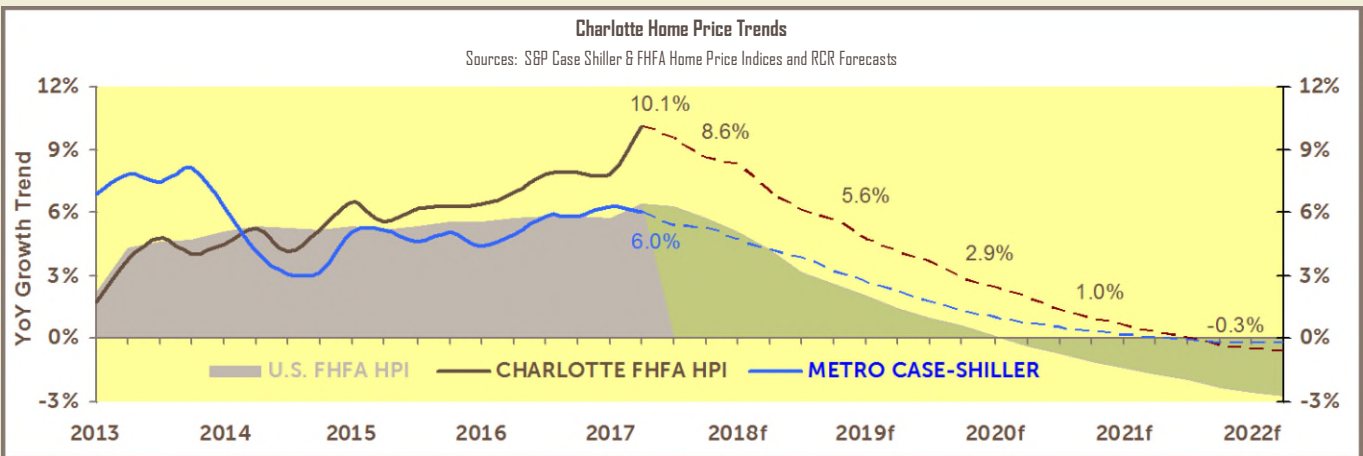
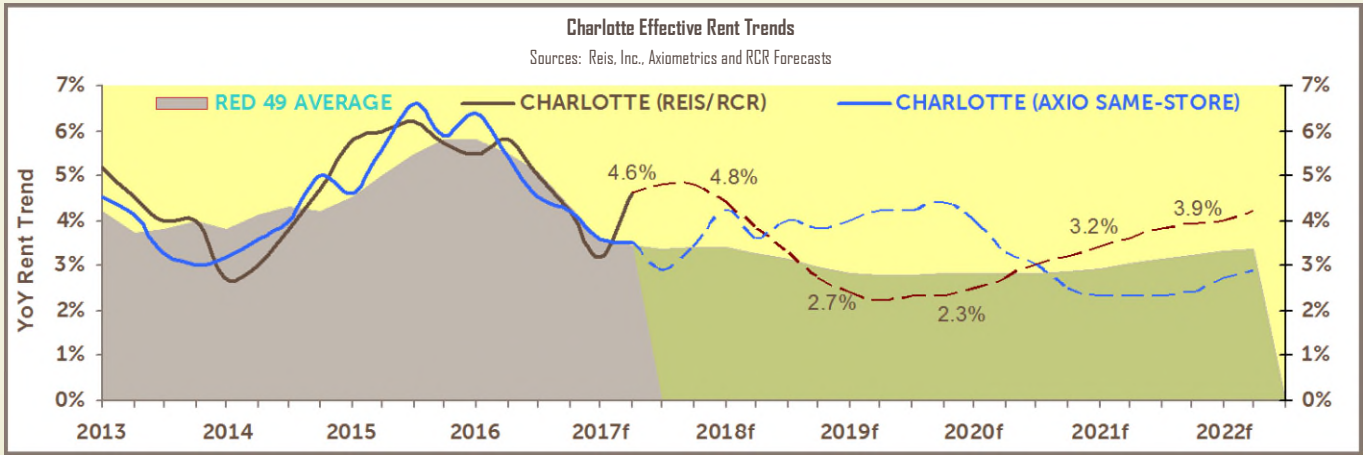
toward the 4.9% to 5.2% range. High-quality gardens located close to the CBD trade in the mid-5s. Suburban value-adds and B- properties are priced to yield in the high-5% to mid-6% region.

Investor interest in value-adds and institutional quality suburban GLRs led RCR to trim the CLT B/B+ purchase cap rate proxy -10bps to 5.4%. Using this level, a terminal cap rate of 5.86% and model derived rent and occupancy point estimates, we estimate that a 2Q17 investor would expect to achieve a 7.7% annual unlevered total return over a 5-year hold. This ranks 12th highest among the RED 49 large market peer group. High rent volatility and rent model standard error hinder risk-adjusted returns: CLT ranks 29th among the RED 49 peer group on this basis.



NOTABLE TRANSACTIONS

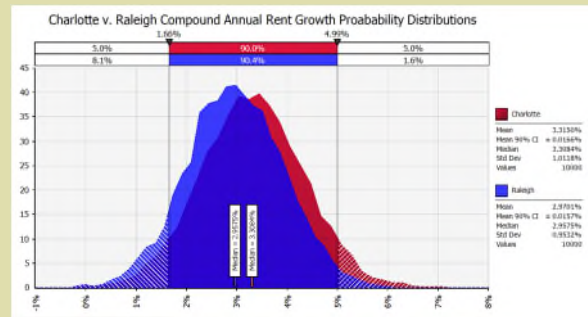
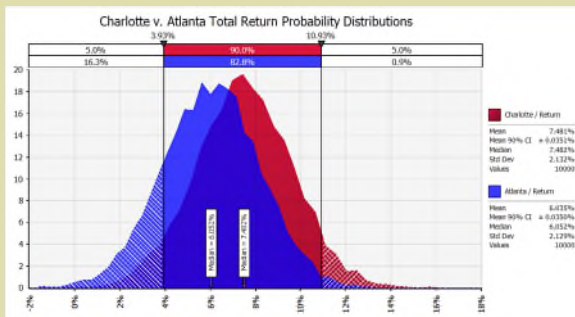
Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price (in millions)	Price / Per Unit	Estimated Cap Rate
Crown Point Apartments (Concord / West)	B-/WF GLR (2000)	4-Aug-2017	\$12.8	\$84,068	6.28% (UW)
Somerset Apartments (N. Tryon St./I-85)	C / GLR (1973)	4-Aug-2017	\$11.8	\$48,960	7.53% (UW)
Avalon Heights (East Charlotte/Albemarle)	B- / GLR (1999)	30-Aug-2017	\$24.0	\$100,000	6.14% (UW)
Berkeley Place (Harris Blvd./University City)	B / GLR (2000)	31-Aug-2017	\$52.5	\$142,527	5.54% (UW)
Pavilion Village (Harris & Pavilion Boulevards)	B+ / GLR (2015)	1-Sep-2017	\$44.7	\$152,007	5.12% (UW)
Wren Northlake (Northwest/Northlake Mall)	B+ / GLR (2016)	29-Sep-2017	\$57.3	\$184,677	2.9%/5.1% p.f.



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SUBMARKET TRENDS (REIS)

Submarket	Reis Inventory Percent Change	Effective Rent			Physical Vacancy		Basis Point Change
		1Q17	2Q17	Change	1Q17	2Q17	
Carmel	0.0%	\$1,017	\$1,019	0.3%	7.0%	6.4%	-60 bps
Concord/North Concord	7.2%	\$779	\$819	5.1%	1.5%	4.7%	320 bps
Downtown	0.1%	\$1,395	\$1,425	2.1%	9.4%	8.3%	-110 bps
East Charlotte/Albemarle	0.0%	\$729	\$744	2.0%	3.2%	3.1%	-10 bps
East Charlotte/Central Av.	1.0%	\$936	\$946	1.1%	6.1%	5.0%	-110 bps
Fairview North	0.0%	\$1,013	\$1,043	2.9%	11.0%	10.4%	-60 bps
Gaston County	0.0%	\$765	\$772	1.0%	3.9%	3.6%	-30 bps
Harris Boulevard	1.9%	\$935	\$1,006	7.6%	4.7%	5.5%	80 bps
North Tryon Street	2.7%	\$717	\$771	7.5%	2.7%	4.1%	140 bps
North Pineville	1.8%	\$845	\$874	3.4%	3.5%	4.4%	90 bps
Northwest Charlotte	12.1%	\$1,076	\$1,056	-1.8%	6.8%	4.5%	-230 bps
West Charlotte/Airport	2.6%	\$1,107	\$1,144	3.4%	5.4%	4.5%	-90 bps
Metro	1.0%	\$929	\$956	2.9%	5.3%	5.2%	-10 bps



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