

PAYROLL JOB SUMMARY

Average Payrolls	977.7m
Annual Change 2Q17	34.1m (3.6%)
RCR 2017 Forecast	31.7m (3.3%)
RCR 2018 Forecast	21.7m (2.2%)
RCR 2019 Forecast	19.2m (1.9%)
RCR 2020 Forecast	19.9m (1.9%)
RCR 2021 Forecast	23.4m (2.2%)
Unemployment (NSA)	2.9% (8/17)

Metro employment growth continued at a brisk clip in the second quarter as establishments added to payrolls at a 34,100-job, 3.6% year-on-year rate, modestly slower than 1Q's 35,400-job performance. Job creation among super-sectors was balanced, with ten of twelve recording annual growth of 2% or faster. Financial, business, education and health care services remained the mainstays, generating new positions at a 13,700-job, 3.8% pace, down slightly from 1Q17's result. Construction, manufacturing and transportation employers hired at an 8,200-job, 5.0% annual rate, boosted by an exceptional 10.2% year-on-year surge in construction headcounts.

Annual comparisons were weaker over the summer. Payrolls advanced at a slower 27,600-job, 2.9% y-o-y rate in July and August, representing the weakest growth recorded in six years. The slow-

down was particularly pronounced in the foundation healthcare sector, which added only 1,300 (0.9%) jobs over the trailing 12 months, a level unseen since the recessionary spring of 2009.

Household survey data suggest that developing labor shortages are to blame. Labor force growth lagged during the spring and summer, causing unemployment to fall to the lowest rate since 1999.

RED Research expect growth to slow further but Nashville still is likely to remain among the most dynamic metro economies in the US. Our 97.2% (SE=0.4%) NAS payroll model is highly influenced by the second derivative of US job growth. As we expect the national economy to weaken absent exogenous stimulus, metro job growth is likely to decelerate as well, perhaps to the high-1% p.a. range.

2Q17 PAYROLL TRENDS AND FORECAST

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	94.0%
RED 51 Rank	49 th
Annual Chg. (Reis)	-0.5%
RCR YE17 Forecast	91.7%
RCR YE18 Forecast	91.5%
RCR YE19 Forecast	90.6%
RCR YE20 Forecast	90.3%
RCR YE21 Forecast	90.6%

2Q17 ABSORPTION AND OCCUPANCY RATE TRENDS

After adding nearly 4,000 new units to inventory in the previous six months (Reis), developers pulled back on the reins, delivering only 766 in 2Q17. Renters absorbed nearly as many vacant units (753), boosting occupancy 10 basis points sequentially to 94.0%. Notably, robust renter demand was observed in the Downtown/West End and Murfreesboro submarkets, where occupancy rose in each case despite significant increases in market rate inventory. With 10,500 unit completions expected by YE18, NAS will need further absorption performances along these lines to prevent a steep occupancy drop.

Axiometrics same-store surveys also recorded positive trends during the spring quarter. The 280-property sample was 94.4% occupied, up 50bps sequentially (down -130bps year-on-year).

Occupancy continued to rise over the summer, reaching 94.7% in August. Some supply pressure was observed in the Downtown submarket as occupancy declined -50bps from June to August to 93.1%. Murfreesboro occupancy was slightly higher. Absorption of new units was moderate, averaging 11 units/month at lease-up properties in 2Q17, up from 8 units/per mo. in the winter quarter.

RCR's 93.5% ARS (SE=0.5%) demand model is relatively up beat, foreseeing net absorption of 4,116 units in 2H17, and 3,019 units in 2018. But Reis project supply of considerably greater magnitude. As a result, we foresee vacancy rising as high as 9% by 2019. Reis are more optimistic, projecting consistently stronger absorption throughout the forecast interval, holding occupancy above 92%.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$978
Annual Change	4.8%
RED 51 Rent Change Rank	9 th
RCR YE17 Forecast	3.5%
RCR YE18 Forecast	2.3%
RCR YE19 Forecast	2.6%
RCR YE20 Forecast	3.9%
RCR YE21 Forecast	4.6%

2Q17 EFFECTIVE RENT TRENDS

After falling into negative territory in 1Q17, NAS rent trends rebounded in the spring, rising \$5 (0.6%) to \$978 (Reis). Year-on-year comparisons were weaker, however, declining from 1Q17's 6.8% level and 4Q16's 26-year record 8.4% to 4.8%. Growing class-A competition was responsible; indeed concessions levels have risen considerably, reaching an average of 5.8% of asking rent in 2Q17, up from 4.5% one year earlier. The supply pressured Downtown submarket may be the bellwether: rents fell -0.9% in 2Q17, the only submarket to fail to notch at least a 0.3% increase.

Axiometrics report slightly weaker conditions. The same store sample reported a 2.5% y-o-y 2Q17 increase, down from 3.7% and 5.2% in the prior and penultimate quarters, respectively. Rents

were up just 0.7% y-o-y in August. Predictably, class-A rents were weakest, falling -2.4% y-o-y in 2Q17, while class-C (6.3%) and -B (2.5%) made solid progress. Downtown rents slipped -3.1% and -2.7% in 2Q17 and August, while Murfreesboro (3.4%/4.3%) and Belle Meade (1.6%/2.1%) posted improving results.

RCR's NAS rent model utilizes payroll job growth (+), lagged absorption rate_(t-3) (-) and nominal GDP_(t-2) (-) as independent variables to reach a moderately robust 93.7% ARS and 0.7% standard error. The model projects further rent deceleration consistent with expected weaker job creation in 2018 and 2019. But rents are forecast to reaccelerate at the end of the decade as the metro economy returns to its standard rapid growth mode.

TRADE & RETURN SUMMARY

\$5mm+/60 unit+ Sales	10
Estimated Proceeds	\$169.2mm
Average Cap Rate (FNM)	5.6%
Average Price / Unit	\$117,999.
Expected Total Return	7.7%
RED 49 ETR Rank	15 th
Risk-adjusted Index	3.83
RED 49 RAI Rank	28 th

2Q17 PROPERTY MARKETS AND TOTAL RETURNS

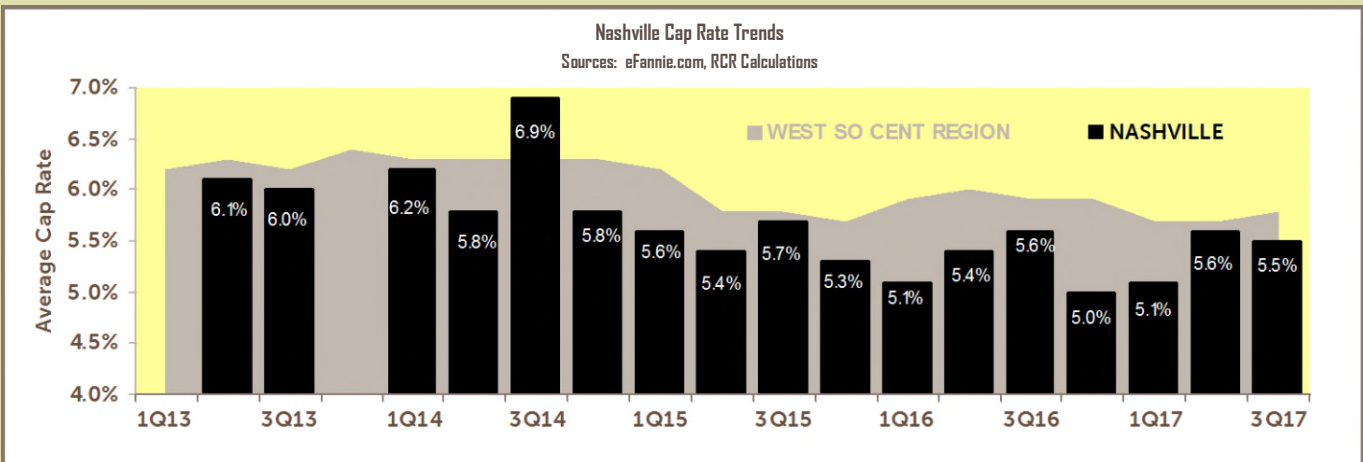
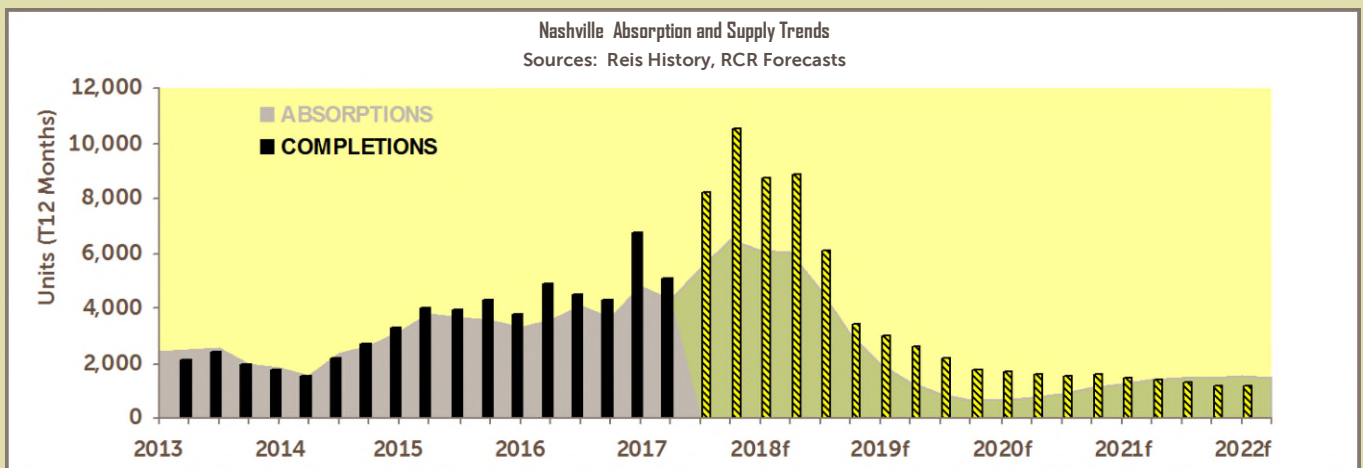
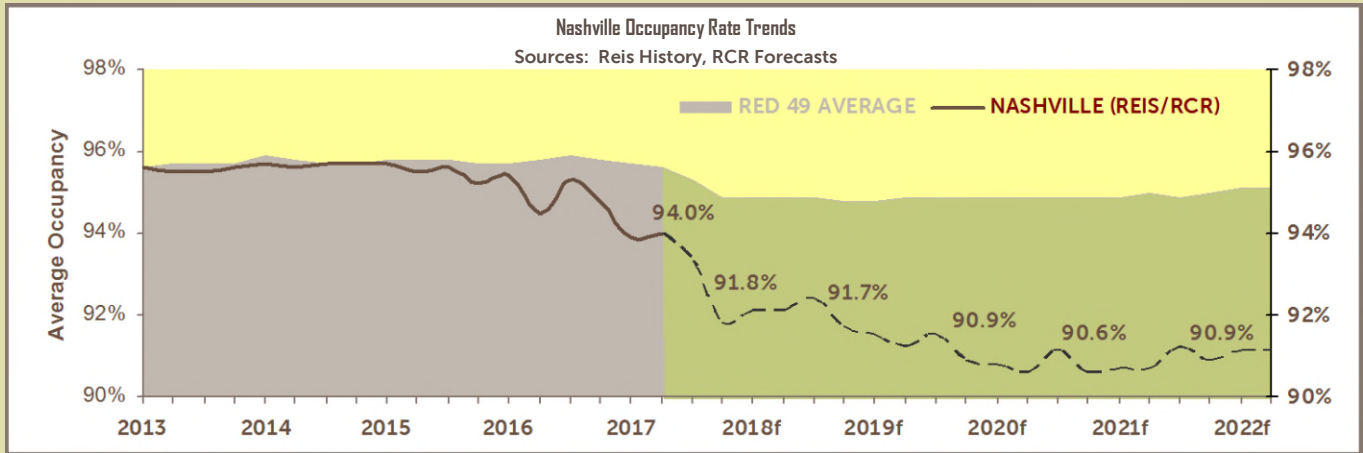
Property sales velocity was steady in the second quarter. CoStar report that 10 investment sales closed, up from 8 in the year-earlier period and 10 in the spring quarter of 2015. Disclosed proceeds totaled \$169.2 million. Estimated total proceeds approached \$400mm. By way of comparison, actual sales volume in 2Q16 was \$277.8mm.

Volume was steady in the third quarter. Eight investment sales closed representing total sales volume of \$293.7mm. The average price of 1,981 units exchanged was \$148,271, representing the highest quarterly metric in the Nashville CoStar series.

Value-add type propositions dominated recent property trade. Cap

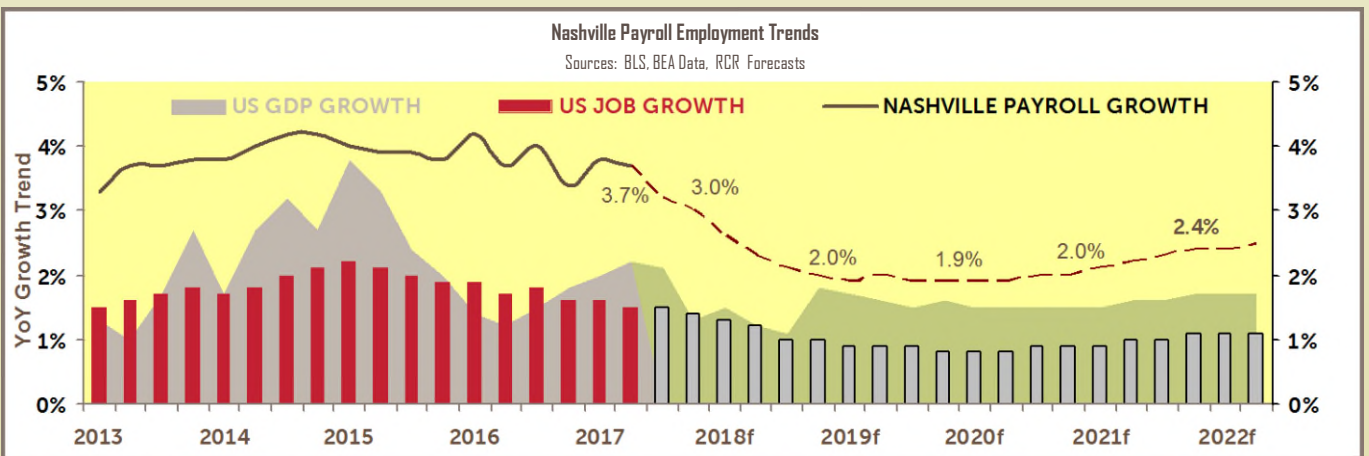
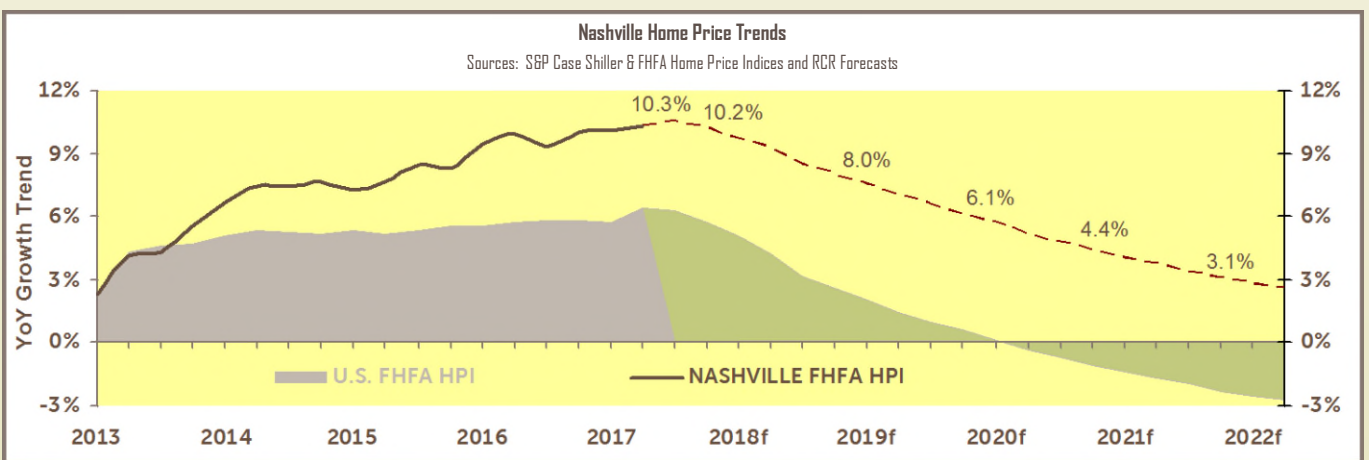
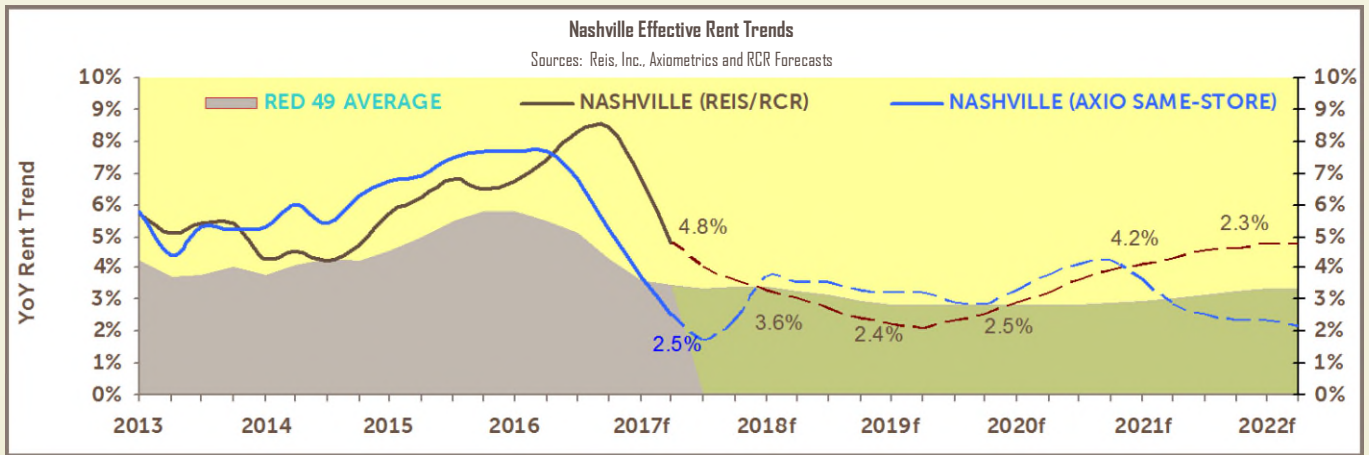
rates ranged in the mid-5% to low-6% region, with location being the determinate factor. Yields of class-A trophy assets likely fall in the high-4% to low-5% neighborhood.

RCR elected to maintain the NAS B/B+ purchase cap rate proxy on 5.5%. Using this level, a terminal cap rate of 5.98% and model derived rent and occupancy point estimates we calculate that a 2Q17 investor would expect to earn a 7.7% unlevered annual total return on a five-year hold. This ranks 15th highest among the **RED 49**, in spite of our weak occupancy outlook. Above average rent and absorption volatility hamper risk-adjusted returns, however; Nashville's risk-adjusted index stands in 28th place on the peer group league table.



NOTABLE TRANSACTIONS

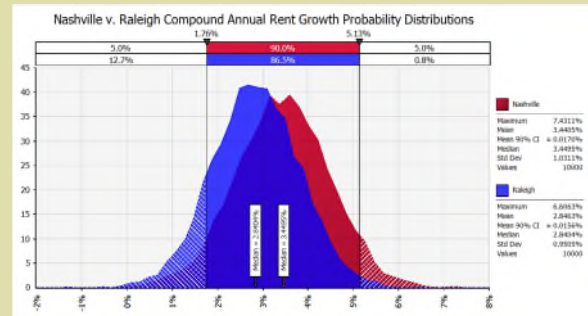
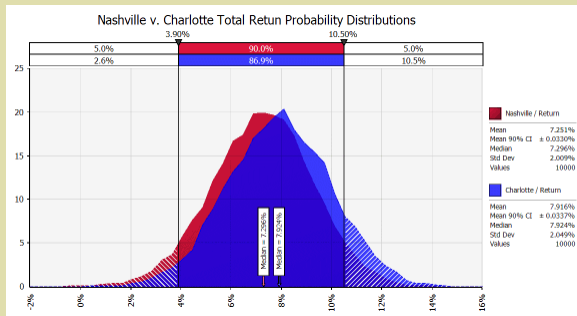
Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price (in millions)	Price / Per Unit	Estimated Cap Rate
Meridian at Hermitage (Donelson/Hermitage)	C+ / GLR (1973)	30-Jun-2017	\$23.6	\$90,421	6.6% (UW)
IMT Cool Springs (Williams Co./Franklin)	A / GLR (1997)	21-Jul-2017	\$97.5	\$205,696	4.8%/6.5% p.f.
Discovery Mountain View (Murfreesboro/Antioch)	B / MB GLR (2008)	28-Jul-2017	\$49.8	\$148,065	5.4%
The 500 Fifth (Downtown Nashville)	B / MB MR (1960)	31-Jul-2017	\$27.3	\$160,588	6.08% (UW)
Park West at Hillwood (Belle Meade)	B / WF LR (1973)	31-Jul-2017	\$13.1	\$126,186	5.92% (UW)



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SUBMARKET TRENDS (REIS)

Submarket	Reis Inventory	Effective Rent			Physical Vacancy		Basis Point Change
	Percent Change	1Q17	2Q17	Change	1Q17	2Q17	
Airport	-0.1%	\$759	\$773	1.8%	2.6%	3.3%	70 bps
Belle Meade / West	0.1%	\$1,033	\$1,042	0.9%	6.5%	6.6%	10 bps
Brentwood	-0.1%	\$1,189	\$1,193	0.3%	5.7%	5.8%	10 bps
Donelson / Hermitage	0.0%	\$892	\$896	0.4%	4.5%	4.3%	-20 bps
Downtown / West End	2.2%	\$1,569	\$1,555	-0.9%	17.2%	15.0%	-220 bps
Hickory Hollow	0.0%	\$914	\$923	1.0%	5.3%	5.4%	10 bps
Antioch	0.0%	\$833	\$839	0.7%	4.4%	4.5%	10 bps
Murfreesboro	1.6%	\$838	\$841	0.3%	5.8%	5.5%	-30 bps
Northeast / Rivergate	0.0%	\$857	\$860	0.3%	6.3%	4.7%	-160 bps
Metro	0.6%	\$973	\$978	0.5%	6.1%	6.0%	-10 bps



FOR MORE INFORMATION ABOUT RED'S RESEARCH CAPABILITIES CONTACT:



Daniel J. Hogan
 Director of Research
 djhogan@redcapitalgroup.com
 +1.614.857.1416 office
 +1.800.837.5100 toll free

