

PAYROLL JOB SUMMARY

| | |
|--------------------|--------------|
| Average Payrolls | 927.4m |
| Annual Change 2Q17 | 23.7m (2.6%) |
| RCR 2017 Forecast | 27.0m (3.0%) |
| RCR 2018 Forecast | 31.1m (3.3%) |
| RCR 2019 Forecast | 18.2m (1.9%) |
| RCR 2020 Forecast | 14.5m (1.5%) |
| RCR 2021 Forecast | 11.5m (1.2%) |
| Unemployment (NSA) | 4.1% (8/17) |

Raleigh job growth was strong and steady during 2Q17. Employers added workers to payrolls at a 23,700-job, 2.6% year-on-year rate, on par with the prior quarter's 24,100-job advance. The business services sector remained the lynch pin, expanding headcounts at a 10,400-job, 6.8% annual rate, inclusive of a 4,700-job, 6.0% gain in the high compensation professional and technical service sub-sector. Growth in the transportation, finance and leisure and personal service industries also was robust as each segment expanded at a 2.4% annual rate or faster. Only retail headcounts declined.

Job creation accelerated in July and August. Average payrolls increased by 29,200 (3.2%) jobs relative to 2016 comparisons, representing the fastest growth recorded in a year. A surge of business, education and healthcare hiring was largely responsible.

The seasonally-adjusted series also depicted faster job creation. A net of 11,500 new jobs were added in 2Q17, the largest one-quarter add since 2005. Net job growth in July and August totaled 8,500 jobs, putting 3Q17 on course for the best summer since 2013.

RED Research's econometric payroll model produces an optimistic near-term forecast. The equation uses the rate of change of US job growth (+), S&P500 returns_(t-2) (+), metro home price appreciation_(t-3) (+) inflation (+) and 10-year UST rates (-) as independent variables to reach a 95.0% adjusted-R (SE=0.5%). The model projects a 3.1% 3Q17 growth rate, followed by faster job creation in each of the following four quarters. Slower projected national job formation is expected to lead to weaker local conditions later, but Raleigh-Durham is forecast to grow at one of the fastest clips in the US.

2Q17 PAYROLL TRENDS AND FORECAST

OCCUPANCY RATE SUMMARY

| | |
|-----------------------|------------------|
| Occupancy Rate (Reis) | 95.4% |
| RED 51 Rank | 31 st |
| Annual Chg. (Reis) | -0.3% |
| RCR YE17 Forecast | 94.0% |
| RCR YE18 Forecast | 93.1% |
| RCR YE19 Forecast | 93.2% |
| RCR YE20 Forecast | 93.9% |
| RCR YE21 Forecast | 94.5% |

2Q17 ABSORPTION AND OCCUPANCY RATE TRENDS

Tenant demand was constructive in 2Q17. Renters net leased 961 vacant units (Reis) April to June, down from 1,035 during the seasonally weaker first quarter. The decline was largely attributable to reduced supply: developers completed only 555 units in 2Q, down from 1,513 in the prior quarter. Occupancy rose 30 basis points sequentially to 95.4%, offsetting occupancy losses recorded over the previous six months. Class-A accounted for 99% of net absorptions, producing a 60bps sequential rate increase to 94.2%.

A stabilized, same store sample surveyed by Axiometrics was 93.9% occupied in 2Q17, 20 and 10bps greater than the year-ago and prior quarters, respectively. Occupancy increased to 94.5% (+10bps year-on-year) in the seasonally stronger August period.

The "C" segment posted highest 2Q occupancy (94.4%), followed by classes-B (93.8%) and -A (93.6%). By way of submarkets, Hillsborough (95.7%) and NW Raleigh (95.4%) posted highest occupancy; Carrboro, Chapel Hill and West Durham were sub-93%. Properties in lease-up absorbed ~10 units/month in 2Q17, up from 8 in 1Q.

There is a great deal of supply in store for Raleigh: Reis project that 6,400 units will be completed by YE2018, representing 5.2% of existing stock. Historically, Raleigh has demonstrated the ability to absorb this sort of volume, but only when personal income growth exceeded 6%, and home appreciation was less than 3%. We don't forecast either condition over the next two years. Thus, occupancy is likely to decline through 2018, before recovering in late decade.

EFFECTIVE RENT SUMMARY

| | |
|-------------------------|-----------------|
| Mean Rent (Reis) | \$966 |
| Annual Change | 5.1% |
| RED 51 Rent Change Rank | 8 th |
| RCR YE17 Forecast | 4.5% |
| RCR YE18 Forecast | 2.3% |
| RCR YE19 Forecast | 2.3% |
| RCR YE20 Forecast | 3.0% |
| RCR YE21 Forecast | 3.4% |

2Q17 EFFECTIVE RENT TRENDS

Reis report that Raleigh rent trends roared to life in 2Q17 after a chilly winter quarter. Average unit rent increased \$16 (1.7%) sequentially, up from 1Q's 7-year low \$2 (0.2%) advance. Expressed on a year-on-year basis, rent growth accelerated, rising to 5.1% from 4.7% in 1Q, a fairly rare outcome. The class-A segment was largely responsible as class assets recorded a 1.7% asking rent gain, while class-B&C rents increased only 0.4%.

Axiometrics's same store sample recorded a 3.8% year-on-year increase, down from 4.2% in the previous quarter and slowest metric posted in three years. Trends continued to decelerate in the summer, slipping to 3.1% over the 12 months ended in August. Class-C properties (4.8%) reported the fastest 2Q17 growth,

followed by classes-A (3.7%) and -B (3.6%). Only the A segment accelerated sequentially. Durham MSA submarkets led the way in August as Carrboro (5.6%), Chapel Hill (4.6%) and West (5.2%) bounced back from 2.2%, 1.4% and 3.2% gains in 2Q. More supply-challenged Raleigh submarkets reported 2% to 3.5% gains.

RCR data analysis indicates that a model using inventory_(t-1) (-) and occupied stock (+) growth and S&P500 returns (+) accounts for 95.5% of quarterly changes in Raleigh rent growth (SE=0.7%). Based on Reis projections, inventory growth will be determinate through 2019, causing rent trends to decelerate to the low-2% range. Supply will recede in late decade, allowing rent trends to reaccelerate to the mid-3% area in about three years.

TRADE & RETURN SUMMARY

| | |
|------------------------|------------------|
| \$5mm+/60 unit+ Sales | 15 |
| Estimated Proceeds | \$455.9mm |
| Average Cap Rate (FNM) | 5.5% |
| Average Price / Unit | \$130,519 |
| Expected Total Return | 7.2% |
| RED 49 ETR Rank | 27 th |
| Risk-adjusted Index | 3.45 |
| RED 49 RAI Rank | 33 rd |

2Q17 PROPERTY MARKETS AND TOTAL RETURNS

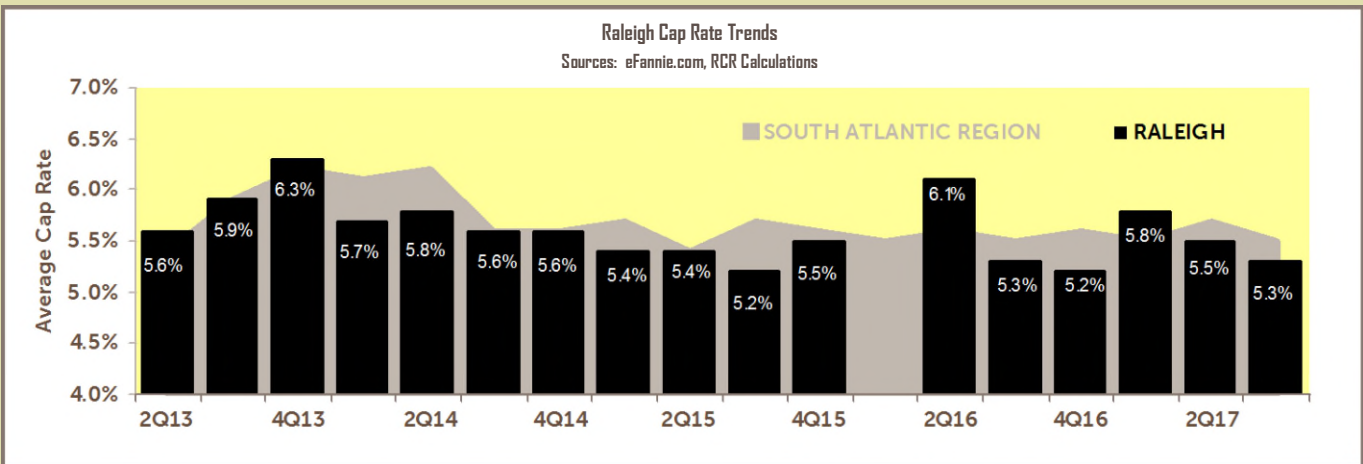
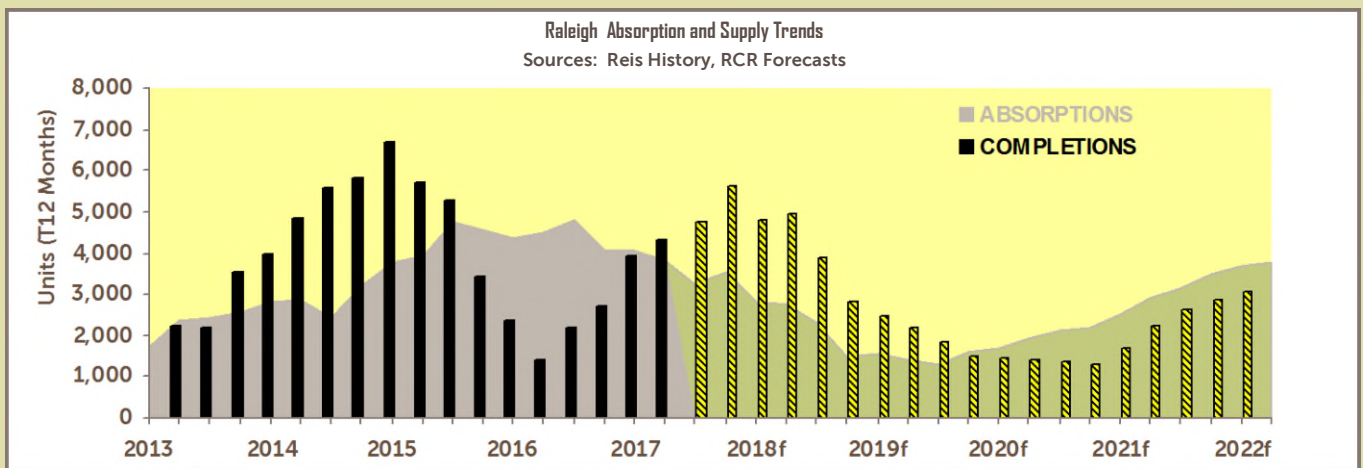
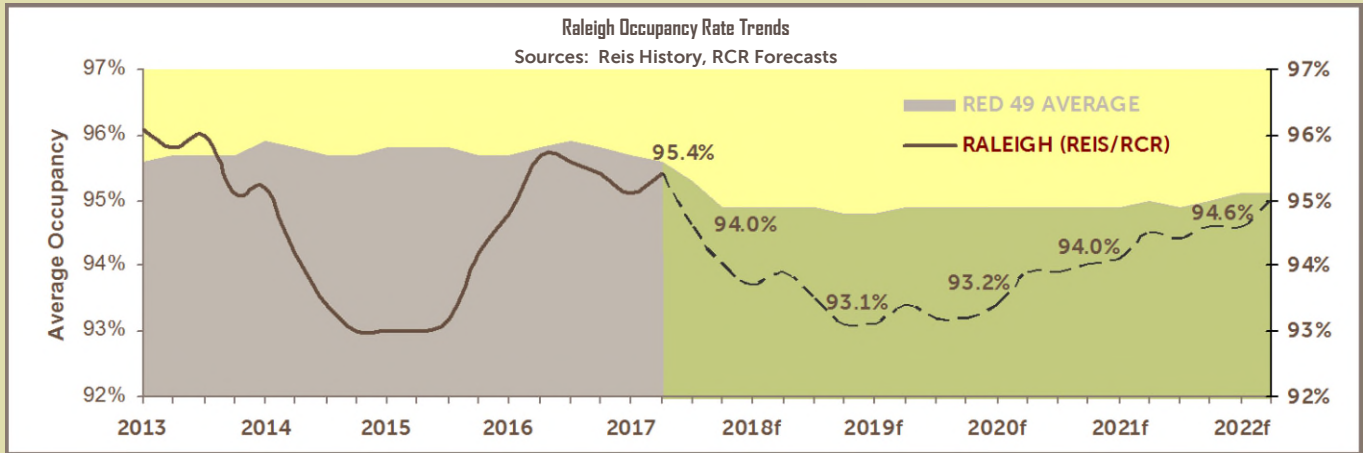
Raleigh investment sales activity was brisk and steady in 2017. A total of 43 transactions were closed during the year's first three quarters: 14 in each of the first and third quarters and 15 in the second. Sales volume increased sequentially in each quarter, rising 246% in 1Q17; 8% in 2Q17; and 11% in 3Q17, reaching \$506 million.

While 3Q17 proceeds declined -8% year-on-year, the average price of 3,263 units sold set a series record of \$155,072. The previous high of \$142,883 was established in the first quarter 2017.

Cap rates applied to the reinforced concrete and steel infill mid-rise properties favored by institutional investors fell in the 4.4% to 4.8% range. Class-B+ garden projects were priced to yield in the

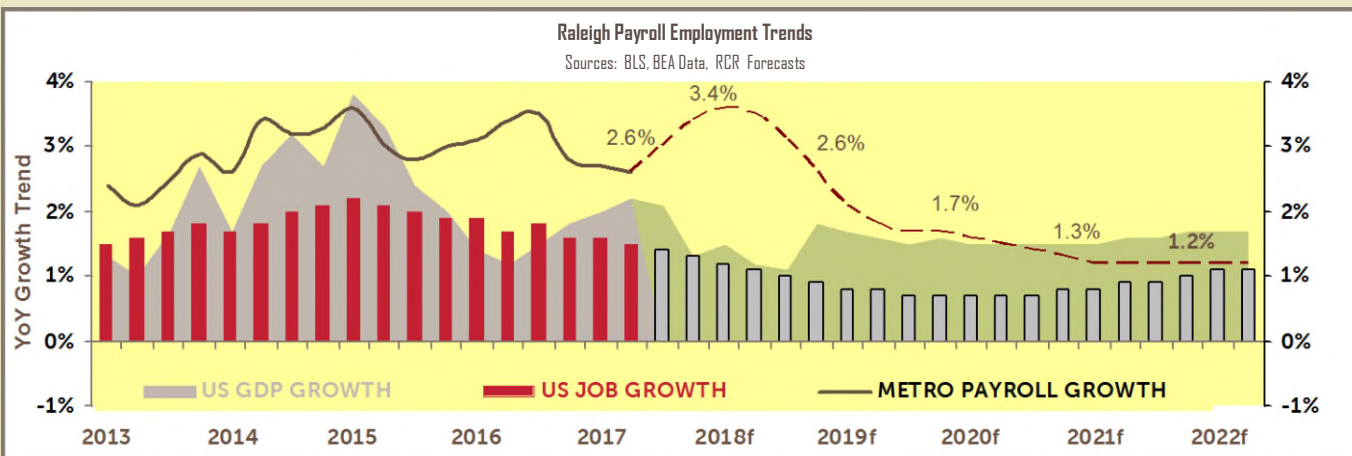
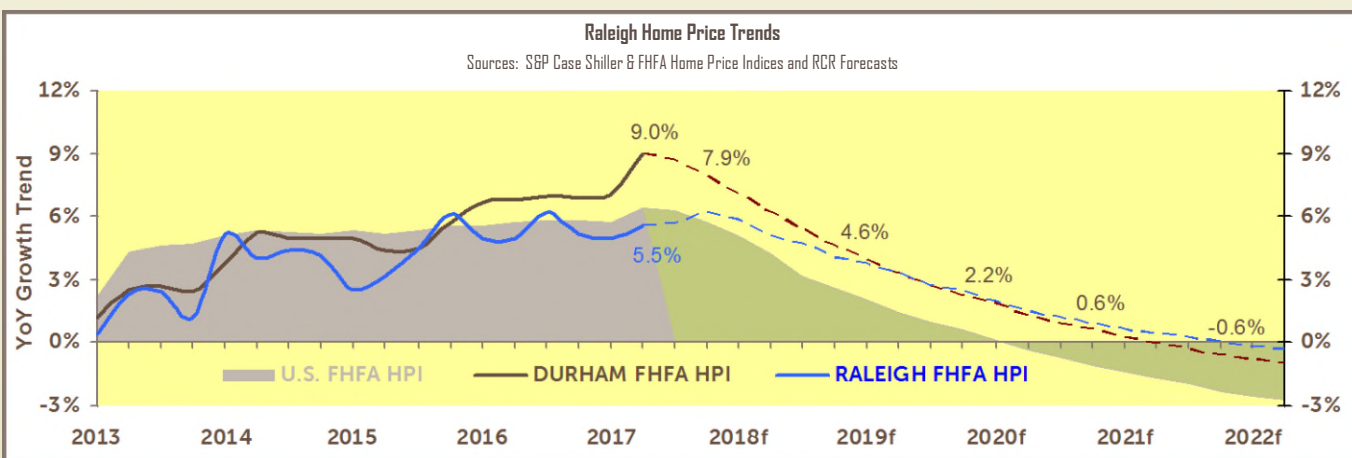
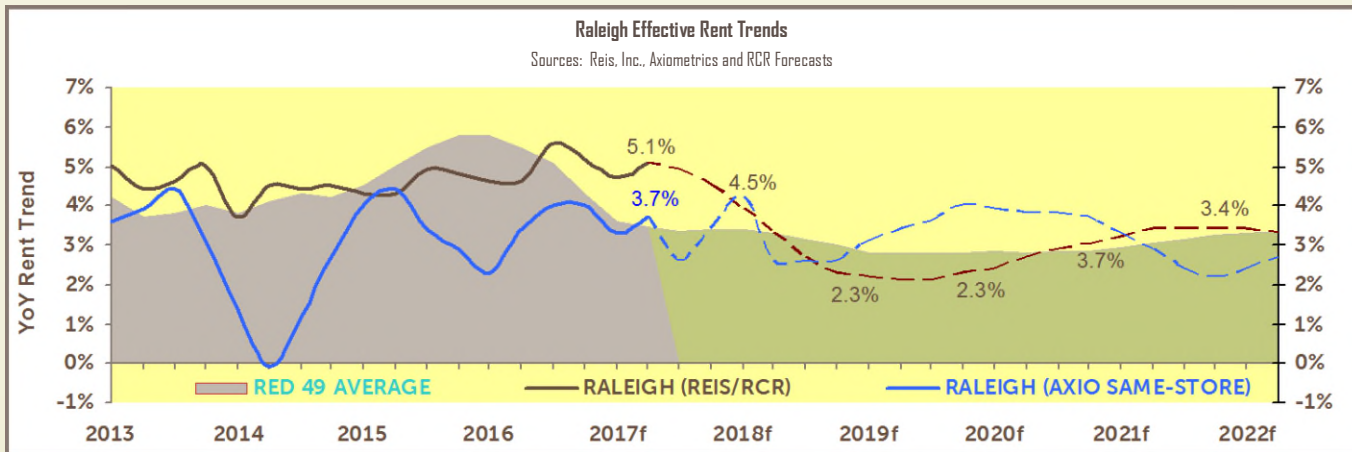
low- to mid-5% area, slightly lower for properties with "value-add" potential. A handful of class-B- complexes located in peripheral areas traded to high-5% or low-6% yields.

Steady investor demand and consistent pricing for standard garden apartment assets convinced RCR to hold the Raleigh purchase cap rate proxy on 5.2%. Using this level, a terminal cap rate of 5.62% and model derived rent and occupancy point estimates, we calculate that a 2Q17 investor would expect to earn a 7.2% annual, unlevered total return over a five-year hold. This metric is 20bps over the RED 49 average and ranks 27th highest in the peer group. Above average performance volatility and high rent model standard error hamper risk-adjusted returns. Raleigh ranks RAI group #33.



NOTABLE TRANSACTIONS

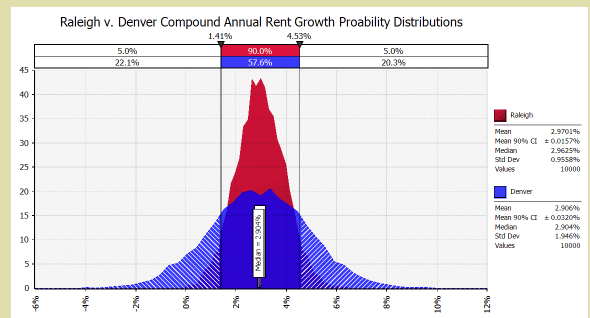
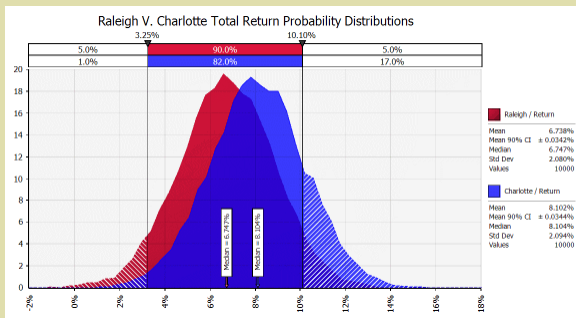
| Property Name (Submarket) | Property Class/ Type (Constr.) | Approx. Date of Transaction | Total Price (in millions) | Price / Per Unit | Estimated Cap Rate |
|---|--------------------------------|-----------------------------|---------------------------|------------------|--------------------|
| Cedar Springs Apts. (North Central Raleigh) | B- / GLR (1996) | 9-Jun-2017 | \$19.7 | \$109,444 | 5.61% (UW) |
| Carrington Park (Cary / Morrisville) | B+ / GLR (2007) | 16-Jun-2017 | \$38.8 | \$145,676 | 5.21% (UW) |
| Governor's Point (NW Raleigh/Lake Lynn) | B- / GLR (1986) | 30-Jun-2017 | \$35.3 | \$102,470 | 5.32% (UW) |
| Triangle Place (South Durham / RTP) | B- / GLR (1985) | 11-Jul-2017 | \$22.0 | \$101,851 | 6.26% (UW) |
| Edwards Mill (Northwest Raleigh/Laurel Hills) | B / GLR (1984) | 15-Aug-2017 | \$34.5 | \$156,818 | 5.18% (UW) |
| Aurum Falls River (No. Cent. Raleigh/North) | B / MB GLR (2001) | 22-Sep-2017 | \$45.7 | \$160,915 | 4.9% (RCA) |



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SUBMARKET TRENDS (REIS)

| Submarket | Reis Inventory | | Effective Rent | | | Physical Vacancy | | Basis Point Change |
|-----------------------|----------------|---------|----------------|--------|-------|------------------|----------|--------------------|
| | Percent Change | IQ17 | 2Q17 | Change | IQ17 | 2Q17 | | |
| Carrboro | 0.0% | \$899 | \$917 | 2.0% | 2.0% | 2.1% | 10 bps | |
| Cary | 0.0% | \$1,022 | \$1,012 | -1.0% | 4.8% | 4.5% | -30 bps | |
| Central Raleigh | -1.9% | \$843 | \$898 | 6.5% | 11.4% | 8.4% | -300 bps | |
| Chapel Hill | 5.6% | \$1,020 | \$1,038 | 1.7% | 8.2% | 9.7% | 150 bps | |
| North Central Raleigh | -0.1% | \$1,005 | \$1,014 | 0.9% | 5.9% | 5.7% | -20 bps | |
| North Durham | 0.0% | \$770 | \$777 | 0.8% | 1.6% | 1.4% | -20 bps | |
| Northeast Raleigh | 0.0% | \$846 | \$857 | 1.3% | 5.9% | 4.2% | -170 bps | |
| Northwest Raleigh | 1.6% | \$945 | \$980 | 3.7% | 3.9% | 3.3% | -60 bps | |
| South Durham | 1.1% | \$968 | \$997 | 3.0% | 3.2% | 3.8% | 60 bps | |
| Southwest Raleigh | 0.0% | \$891 | \$913 | 2.5% | 4.6% | 4.3% | bps | |
| West Durham | 0.0% | \$993 | \$1,008 | 1.6% | 3.2% | 3.1% | bps | |
| Metro | 0.5% | \$950 | \$966 | 1.7% | 4.9% | 4.6% | -30 bps | |



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