

MARKET UPDATE

Apartment Snapshot Q3 2016

Louisville



Apartment Market Overview

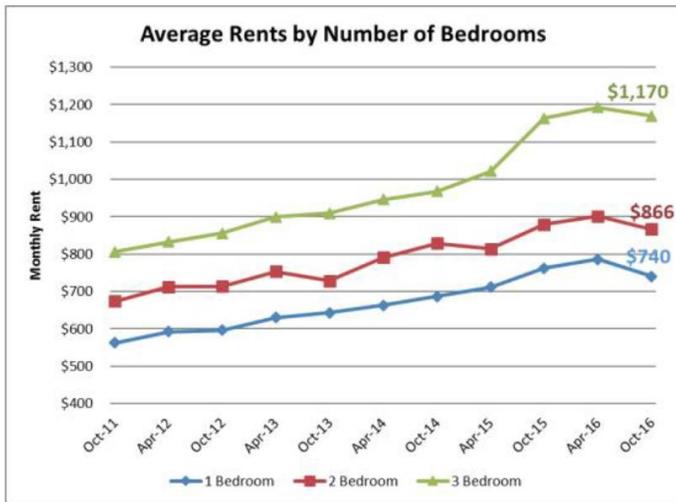
The data in this report represents approximately 53,000 apartment units in the Louisville Metropolitan Statistical Area (MSA) which has a population of over 1,200,000. This data focuses on complexes with a minimum of 50 units. The Louisville MSA apartment market surveyed is divided into 11 submarkets, as shown in the map on the next page.

After ten consecutive quarters of increasing rent, the average cost of an apartment decreased slightly, by 4% this period. This may signal that rents have peaked in the current market cycle, or have temporarily stalled before several new high-end developments enter the market. With over twenty projects planned, under construction, or in lease-up, the competition among landlords for high occupancy rates could directly impact rents.

We anticipate the new construction and development of multifamily product in the Louisville market to 'rebound' from this slight rent downturn leading to increasing rents within the next two quarters. The new developments being delivered in Louisville have superior interior packages and, in the larger developments, an extensive amenity package which should increase average rents across the board. Traditionally, Louisville has not seen market rate housing in the urban core, or near-urban core of the city. This will change over the next 6-12 months as the 800 building has been redeveloped and recently delivered, and as multiple near-urban communities are delivered on the eastern border of the CBD. This change in traditional multifamily living for the Louisville marketplace could benefit even suburban communities as these near-urban and urban communities will rent for higher prices per square foot.

There have been limited rental concessions in the Louisville multifamily market over the last 24 months. However, we anticipate with the delivery of new units at higher rents than historical averages, new communities will offer short term front end concessions to reach stabilization. As the Louisville economy continues to grow, we anticipate these concessions to be relatively short-lived, as the demand for multifamily housing continues to increase.

The included charts provide the effective occupancy rates for the 11 submarkets in the Louisville MSA as well as the average rents for each unit size compared to the previous six-month period. The area with the greatest number of proposed new units is Area 2 located in the central/downtown quadrant of Jefferson County. Area 4 is also continuing to be a hot area for new multifamily development.



Source: Integra Realty Resources Kentucky-Southern Indiana

EFFECTIVE OCCUPANCY RATES			
AREA	OCCUPANCY 10/2015	OCCUPANCY 04/2016	% CHANGE
1	98%	97%	-1%
2	95%	91%	-4%
3	95%	95%	0%
4	96%	93%	-3%
5	96%	96%	0%
6	94%	95%	1%
7	96%	96%	0%
8	96%	95%	-1%
9	97%	97%	0%
10	96%	95%	-1%
11	99%	98%	-1%
AVERAGE	96%	95%	-1%

Source: Integra Realty Resources Kentucky-Southern Indiana

OVERALL AVERAGES FOR AREAS 1 TO 11			
BEDROOMS	AVERAGE RENT		% CHANGE
	Apr-16	Oct-16	
1	\$786	\$740	-6%
2	\$902	\$866	-4%
3	\$1,193	\$1,170	3%

Source: Integra Realty Resources Kentucky-Southern Indiana

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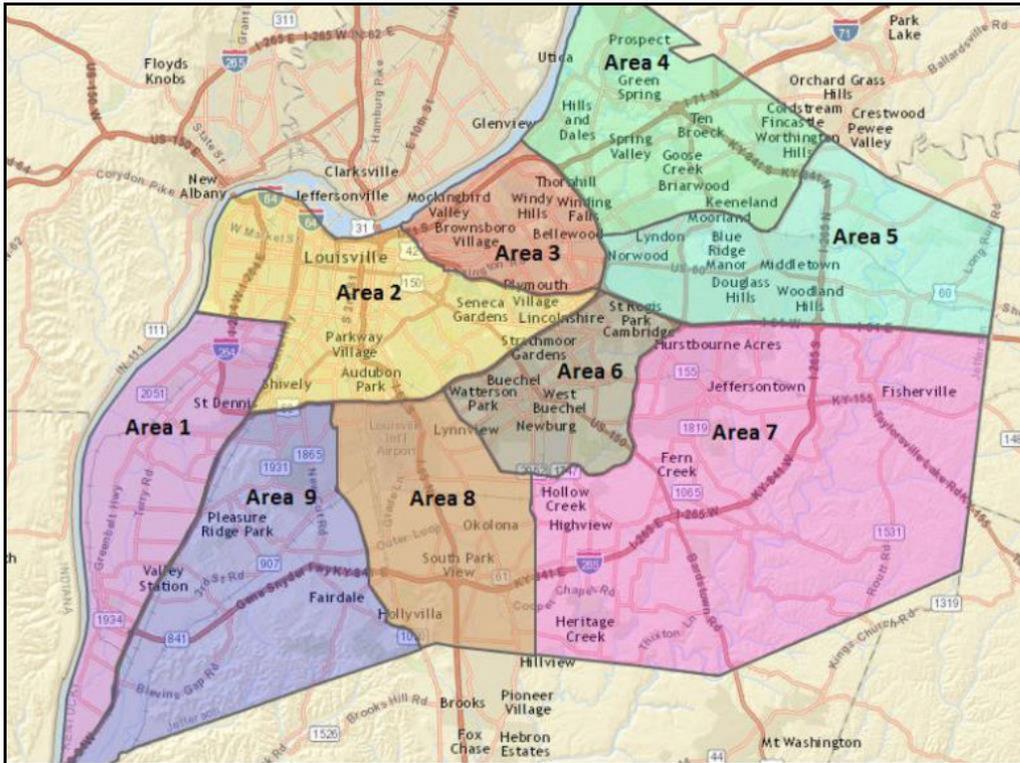
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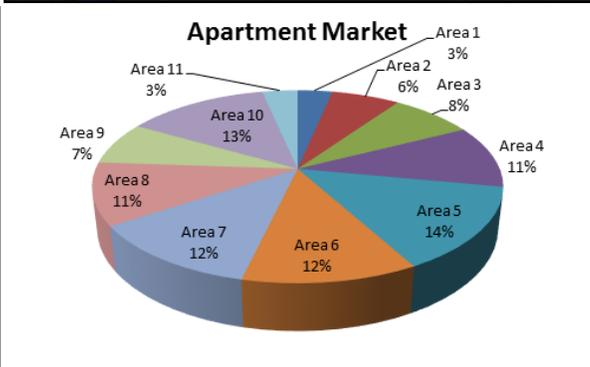


CUSHMAN & WAKEFIELD

Commercial Kentucky



- SUBMARKET IDENTIFICATION**
- AREA 1: Dixie Highway Corridor
 - AREA 2: Central/Downtown
 - AREA 3: Frankfort Ave/Brownsboro Road Corridor
 - AREA 4: East Brownsboro/Westport Road Corridor
 - AREA 5: Shelbyville Road Corridor
 - AREA 6: Mid-Bardstown/Taylorsville Road Corridor
 - AREA 7: South Bardstown Road Corridor
 - AREA 8: South Preston Highway Corridor
 - AREA 9: New Cut Road Corridor
 - AREA 10: Clark and Floyd Counties (IN)
 - AREA 11: Oldham, Shelby and Bullitt Counties (KY)



2ND & 3RD QUARTER 2016 APARTMENT SALES						
PROPERTY NAME	AREA	BUYER	SELLER	# OF UNITS	PURCHASE PRICE	PRICE/UNIT
Veranda at Norton Commons	4	Passco Companies	Bristol Development	236	\$50,400,000	\$213,559
Grinstead Place Apartments	3	Robert & Nathalie Corry	Poe Development	28	\$4,200,000	\$150,000
Worthington Apartments	2	URS Capital Partners	Synergy Worthing, LLC	66	\$4,800,000	\$72,727
The Woods at Lexington Road	3	KY Bluegrass, LLC	Poe Development	72	\$10,750,000	\$149,306
Clifton Ridge Apartments	3	29th Street Capital	Your Community Bank	80	\$3,500,000	\$43,750
Avana Southgate	8	BRE Silver MF Southgate	CAP REIT	256	\$26,075,000	\$104,492

Source: Cushman & Wakefield | Commercial Kentucky Research Dept.



Dundee Place Apartments

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Investment Sales

Louisville continues to attract investors from around the United States looking at multifamily product in the metropolitan area. Buyers report that they can realize 50+ basis points of increased return for high quality and well-located multifamily projects in Louisville than they can in larger markets including coastal markets. Since the last report, several separate California buyers have purchased new construction product in the Louisville market at record pricing. The Veranda at Norton Commons sold for over \$200,000 per unit to Passco, a California private REIT. We also saw a private 1031 buyer purchase The Woods of Lexington Road (a 72-unit development in the Highlands) and Grinstead Place (a 28-unit development also located in the Highlands) at aggressive pricing per door. Both Passco and the private 1031 buyer felt that these communities were very well located and would sustain high occupancy levels and growing rents for the foreseeable future.

Along with new construction, multifamily investors have been digging into Louisville trying to find older communities to which they could add value through interior renovations or capital improvements to increase the rents. Most out of state buyers looking at the Louisville market enjoy the diversity of employment that Louisville offers, as well as an increasing employment base with large capital being spent by employers such as UPS, Ford and General Electric. Most of the older communities that offer the value-add component have been acquired over the last 24 months. However, when an older community that needs renovation comes to the market, we find tremendous demand from a variety of investment groups trying to acquire these assets and increase value through renovation.

Louisville Market Overview

Unemployment rates in the Louisville area rose slightly in the period, but as of September, returned to the 4.1% rate held in April of 2016. Louisville's unemployment rate continues to stay below of the national average, which was 5.0% for the same period.

Recent economic news for the area includes the following items:

- Technology services company, Computershare, has received final approval for tax incentives and has adjusted its projected job totals in downtown Louisville from an initial estimate of 250 to 1,100 people. Computershare's projected capital investment has also grown from \$12 million to \$32 million and its average hourly wage is jumping from \$20 to \$30.

About Cushman & Wakefield

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- International law firm, Hogan Lovells, headquartered in Washington, D.C., has signed a 10-year lease to become the anchor tenant at Paragon Place. The opening of this new branch represents a \$9M investment and the firm plans to create 50 new jobs immediately, with the expectation to grow to 250 positions at this location.
- NTT Data, Inc. has started hiring for 300 open positions in its North America Service Delivery Center in Louisville, all focused on financial services. Of those, about 40 would be leadership roles.
- Magna Seating of America, Inc., which does business as Louisville Seating, intends to create 170 jobs at its Shepherdsville facility as part of a \$12.7 million plant expansion.
- LaGrange-based The Rawlings Group plans to bring on 200 new staff members later this year. The Rawlings Group analyzes and mines data to help companies reduce health care costs and performs claims-recovery services for the health care industry.

Outlook

The latest quarter shows a slight decrease in overall average rents. We anticipate this to change over the next few quarters as new product is being delivered at much higher market rents. The new communities that have been delivered over the previous 12-18 months have seen rapid absorption and this accelerated absorption (with up to 30 units leased per month) is expected to continue into the near future.

Communities that are being delivered in the urban core and near-urban core are attracting the young upwardly mobile workforce with high amenity and design features that are offered to professional level tenants at attractive rents. We anticipate the communities that are first to the market in the urban core and near-urban core will be successful in filling a gap that Louisville has not experienced in the past. The big question for developers and projects in the urban core would be, "How deep is the market for the high amenity urban developments?". The next 12-18 months should prove to be very exciting for the Louisville apartment market as these new communities come online and attract residents to an active and growing urban environment in Louisville, Kentucky.

Craig Collins

Executive Vice President
Commercial Kentucky, Inc.
333 East Main Street, Suite 510
Louisville, KY 40202
Tel: +1 502 589 5150
ccollins@commercialkentucky.com

Mike Kemether

Executive Vice President
Cushman & Wakefield
55 Ivan Allen Jr. Blvd., Ste. 700
Atlanta, GA 30308
Tel: +1 404 853 5269
mike.kemether@cushwake.com