SEATTLE, WASHINGTON

MARKET OVERVIEW & MULTIFAMILY HOUSING UPDATE

RED Capital Group | 3Q15 | NOVEMBER 2015

PAYROLL JOB SUMMARY

Total Payrolls	1,617.6m
Annual Change	53.7m (3.4%)
RCR FY15 Forecast	52.9m (3.4%)
RCR 2016 Forecast	35.6m (2.2%)
RCR 2017 Forecast	39.3m (2.4%)
RCR 2018 Forecast	39.7m (2.4%)
RCR 2019 Forecast	31.9m (1.9%)
Unemployment (NSA)	3.9% (Sept.)

3Q15 PAYROLL TRENDS AND FORECAST

Seattle employers added workers to payrolls at an upbeat tempo during the third quarter as employment increased at a 53,700-job, 3.4% year-on-year pace, down modestly from 2Q's 58,100-job cycle peak. The construction, retail, and business, health care and education service industries continued to provide leadership, hiring at a collective 33,400-job, 4.9% rate. But weakness remained evident in the foundation transportation equipment manufacturing and software sub-sectors. Industry headcounts declined at a –4,250-job, -2.9% rate, down from annualized attrition of -3,200 (-2.2%) jobs during the prior quarter.

Expressed on a seasonally-adjusted basis, payrolls increased by 9,900 jobs from July to September, up from 9,400 in 2Q15 but weaker than the year-earlier period's 10-year high 17,800-job blow-out. The quarter ended on a soft note in September with a 17-month low 200-job add and a 0.3% unemployment rate increase to 3.9%.

RED Research tweaked the Seattle payroll model slightly, employing U.S. payroll growth, S&P500 index returns and the slope of the Treasury curve as independent variables to achieve a 95.2% adjusted-R^2 (S.E.=0.27%). Boosted by a slightly stronger macroeconomic outlook, the model now forecasts consistent annual job gains in the 30,000 to 40,000 range through 2019; slower growth in 2020.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	94.9%
RED 50 Rank	39th
Annual Chg. (Reis)	-0.6%
RCR YE15 Forecast	94.4%
RCR YE16 Forecast	94.4%
RCR YE17 Forecast	94.3%
RCR YE18 Forecast	95.2%
RCR YE19 Forecast	95.1%

3Q15 ABSORPTION AND OCCUPANCY RATE TRENDS

Reis surveys recorded a sharp decrease in tenant demand during the third quarter as renters net leased 736 units, the lowest one-quarter total in more than three years. At the same time, the service added 1,809 units to its Seattle inventory, the largest quarterly vintage in more than one year. As a result, metro occupancy dropped 40 basis points sequentially and 60 bps year-over-year to 94.9%.

Axiometrics surveys of larger, professionally-managed properties revealed stronger conditions. Axio report average occupancy of 95.7% among stabilized assets, up 10bps y-o-y. Levels were comparable across classes, led by class -C (95.8%) with classes-B (95.7%) and –A (95.5%) close behind. Three submarkets — Kent, North Seattle and Redmond — posted rates above 96%, while none fell below 94%. Stabilized Downtown properties averaged 95.8%, but the impact of five assets in lease-up lowered overall occupancy to 93.5%. New metro properties net leased an average of about 17 units per month, up 1.5 units from 2Q.

The reworked demand model uses inventory, rent and lagged job and home price growth, lagged vacancy and SP500 returns as independent variables. The 95.5% ARS (S.E.=0.28%) model finds probable absorption will fall short of supply through 2017, but a more favorably supply/demand relationship is likely to evolve by 2018-2019.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	$1,299
Annual Change	8.4%
RED 50 Rent Change Rank	3rd
RCR YE15 Forecast	8.4%
RCR YE16 Forecast	2.5%
RCR YE17 Forecast	3.6%
RCR YE18 Forecast	6.2%
RCR YE19 Forecast	5.2%

3Q15 EFFECTIVE RENT TRENDS

Reis revised its Seattle rent series, raising realized rent growth in four of past five quarters. For example, year-on-year growth in 2Q15 is now estimated to be 7.1%, up from 5.6% prior to the revision. For 3Q15, Reis now report an 8.4% surge, representing the fast annual increase recorded since 2001. Much of the impetus came from the Downtown and Kirkland submarkets, which posted 7.9% and 6.0% *sequential* and double-digit y-o-y respective gains.

Axiometrics findings were largely in line with the revised Reis statistics. Surveys of 524 stabilized properties found rents rising an average of 8.8% y-o-y, following 2Q's 8.1% advance. Class-C properties recorded the fastest growth (9.9%), with classes-B (9.0%) and –A (6.4%) trailing. Seven submarkets notched double-digit increases, led by Kent (15.3%). Downtown remained in the last echelon at 4.9%.

Changes to the Reis series forced RCR to re-specify the rent model. It now employs metro income, payroll and home price growth, vacancy and Baa-bond rates as independent variables to achieve a 96.8% ARS (S.E.=0.7%). The model projects decelerating rent gains in 2016 as vacancy rises but a strong recovery after mid-year 2017, fueled by faster job and income expansion projected for that period.

TRADE & RETURN SUMMARY

$5mm+ / 80-unit+ Sales	22
Approximate Proceeds	$1.05bn
Average Cap Rate (FNM)	4.8%
Average Price / Unit	$230,018
Expected Total Return	7.3%
RED 46 ETR Rank	13th
Risk-adjusted Index	4.79
RED 46 RAI Rank	20th

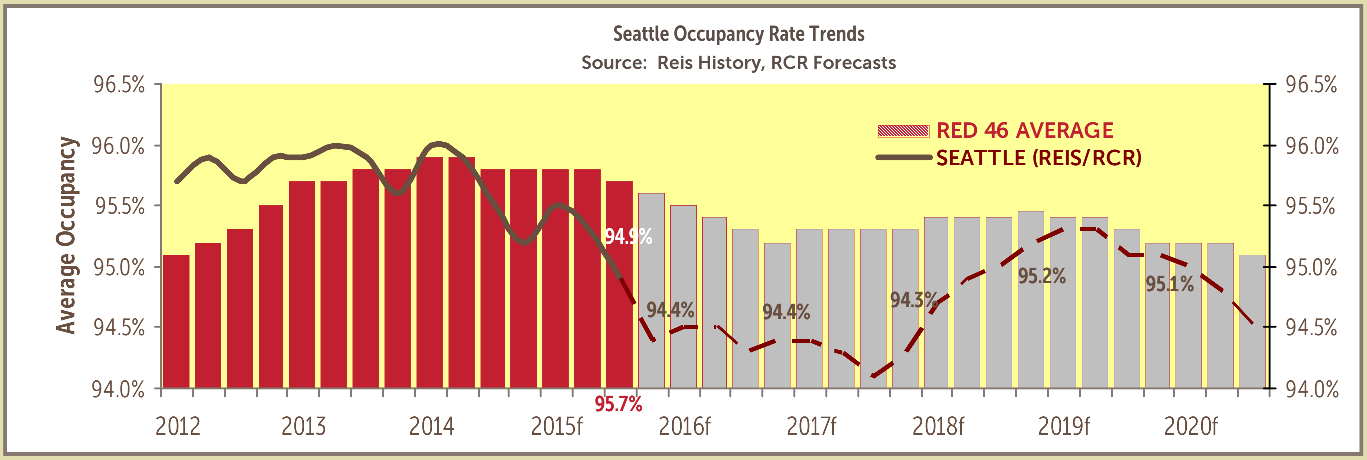
3Q15 PROPERTY MARKETS AND TOTAL RETURNS

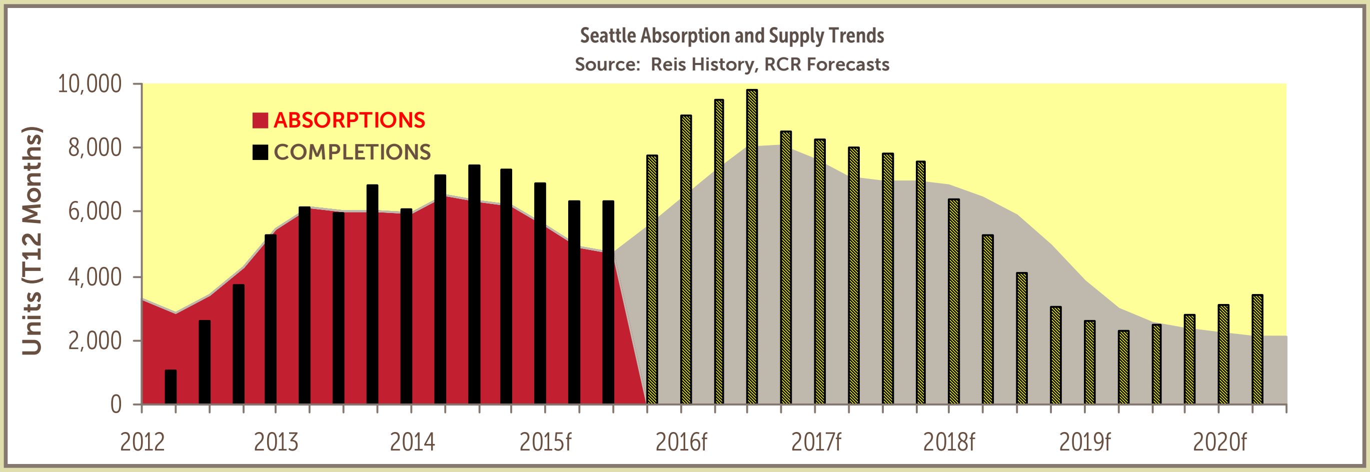
Property sales velocity continued at a brisk pace as 22 properties valued at $5 million or more exchanged hands, equaling 2Q15's cycle-high total. Gross proceeds totaled about $1.05 billion, up 16% quarter-over-quarter. The increase was attributable to a higher concentration of class -B+ and -A assets in the mix, which produced a 17% advance in the average price per unit metric from $197,057 to $230,018. Trade got off to a fast start during the fourth quarter as 11 transactions were consummated by early November for gross proceeds exceeding $500 million.

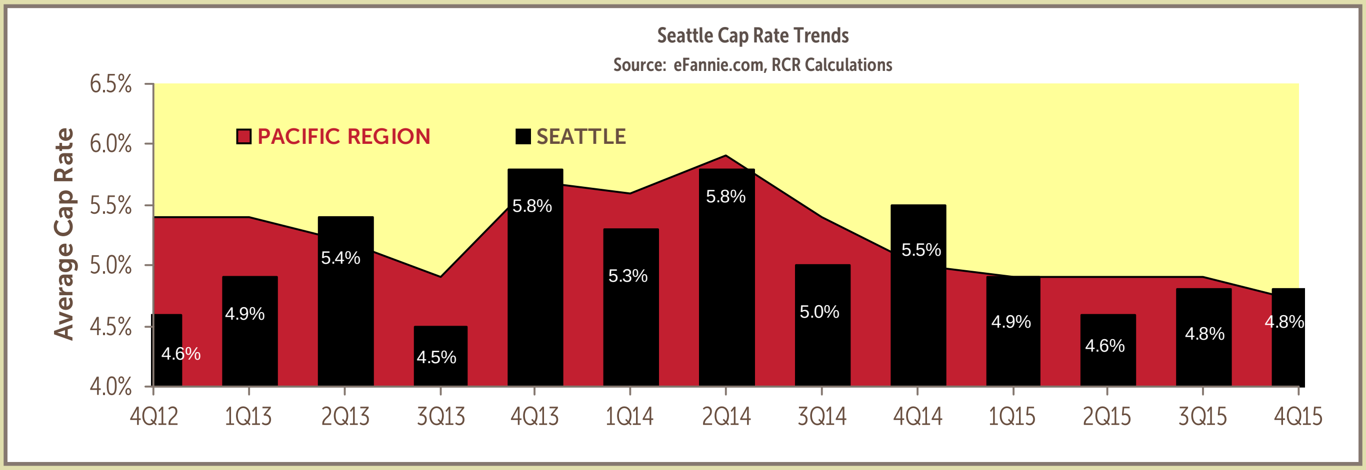
Private equity investors were well represented among sellers, an indication that early entrants in the Puget Sound boom already have achieved their return objectives. Integrated owner/managers dominated the ranks of buyers, suggesting that efficient operators believe that attractive returns still are available even at today's low cap rates.

Cap rates for institutional quality assets ranged from 4% to 4.5%. Class-B product was on offer in the high-4s to low-5s. Class-B-/C assets traded in the mid-5% to low-6% area.

RCR reduced the generic B+ cap rate proxy 5 bps to 4.75%. Employing this purchases cap rate and model derived performance metrics produces a 7.3% 5-year, unlevered total return, ranking 13th among the RED 46.

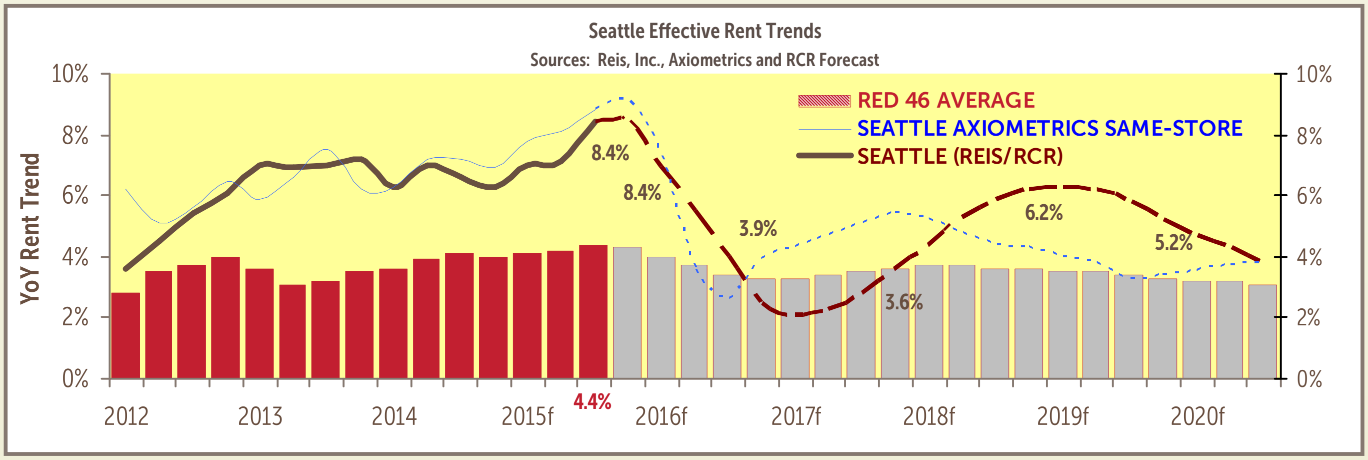




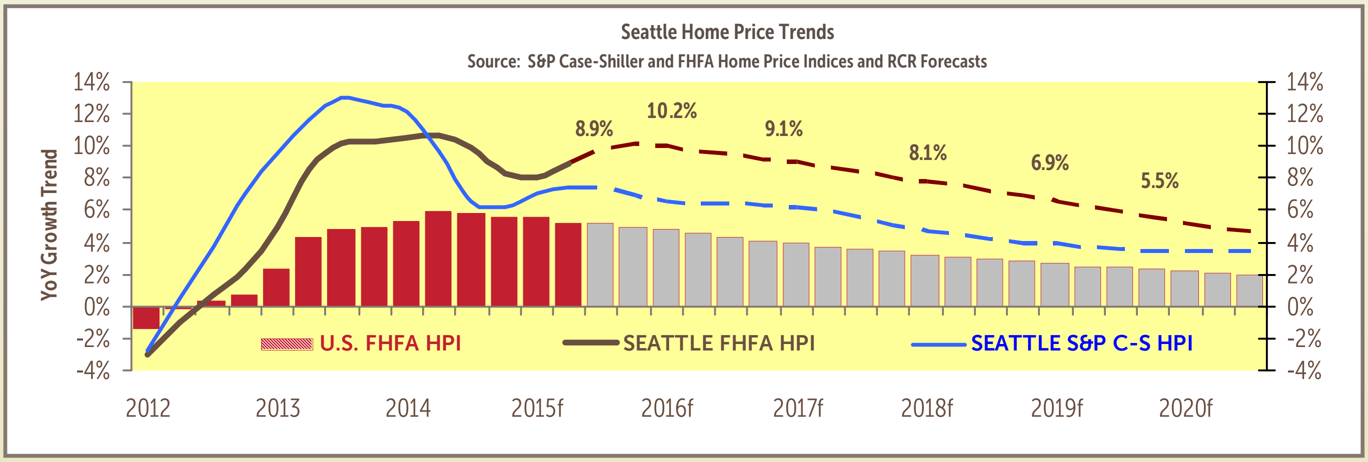


NOTABLE TRANSACTIONS

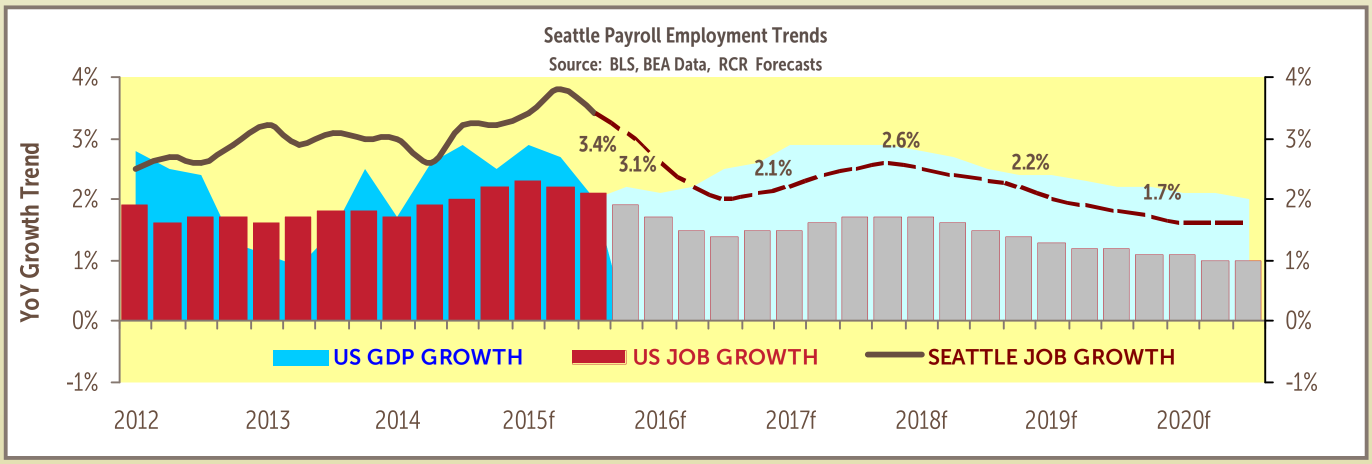
Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
Velo Fremont (North Seattle / Fremont)	B+ / GLR (2014)	12-Sep-2015	$65.2 (allocated)	$381,357	4.7%
Greenleaf Skyline (Des Moines / West Kent)	B- / GLR (1983)	18-Sep-2015	$34.0	$177,083	5.9%
Dimension (Downtown / Belltown)	A- / HR (2014)	23-Sep-2015	$144.0	$483,221	3.1% / 4.5% p.f.
Brisa (Everett / Mukilteo)	C / GLR (1986)	1-Oct-2015	$26.4	$133,157	5.5%
Summit at lake Union (Downtown / Westlake)	B+/WF MR (1995)	14-Oct-2015	$48.5	$323,033	4.8%
Old Town Lofts (Redmond / Downtown)	B+ / RC MR (2014)	2-Nov-2015	$52.8	$353,371	4.4%



Seattle Effective Rent Trends
Sources: Reis, Inc., Axiometrics and RCR Forecast
YoY Rent Trend
RED 46 AVERAGE
SEATTLE AXIOMETRICS SAME-STORE
SEATTLE (REIS/RCR)
10%
8%
6%
4%
2%
0%
8.4%
8.4%
3.9%
6.2%
5.2%
3.6%
4.4%
2012
2013
2014
2015f
2016f
2017f
2018f
2019f
2020f



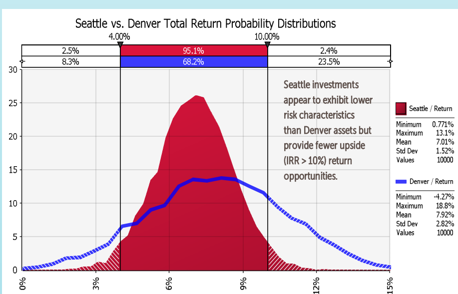
Seattle Home Price Trends
Source: S&P Case-Shiller and FHFA Home Price Indices and RCR Forecasts
YoY Growth Trend
14%
12%
10%
8%
6%
4%
2%
0%
-2%
-4%
8.9%
10.2%
9.1%
8.1%
6.9%
5.5%
U.S. FHFA HPI
SEATTLE FHFA HPI
SEATTLE S&P C-S HPI
2012
2013
2014
2015f
2016f
2017f
2018f
2019f
2020f

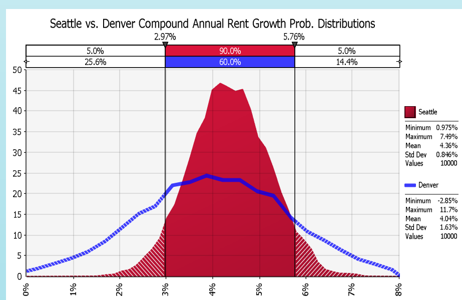


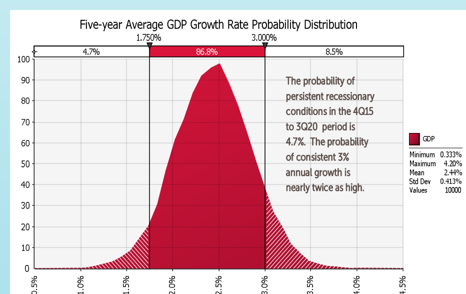
Seattle Payroll Employment Trends
Source: BLS, BEA Data, RCR Forecasts
YoY Growth Trend
4%
3%
2%
1%
0%
-1%
3.4%
3.1%
2.1%
2.6%
2.2%
1.7%
US GDP GROWTH
US JOB GROWTH
SEATTLE JOB GROWTH
2012
2013
2014
2015f
2016f
2017f
2018f
2019f
2020f

SUBMARKET TRENDS (REIS)

Submarket	Effective Rent			Physical Vacancy		
	3Q14	3Q15	Change	3Q14	3Q15	Change
Auburn / Enumclaw	$867	$912	5.2%	1.8%	2.1%	30 bps
Beacon Hill / Rainier	$1,117	$1,180	5.7%	5.2%	6.0%	80 bps
Bellevue / Issaquah	$1,420	$1,527	7.6%	5.2%	4.5%	-70 bps
Bothell	$1,166	$1,253	7.4%	3.3%	5.7%	240 bps
Des Moines / West Kent	$918	$980	6.8%	2.7%	3.4%	70 bps
Downtown / Capitol Hill / QA	$1,701	$1,920	12.9%	8.1%	10.3%	220 bps
Edmonds / Lynnwood	$989	$1,086	9.8%	2.5%	5.1%	260 bps
Everett / Mukilteo	$991	$1,037	4.7%	3.2%	2.9%	-30 bps
Federal Way	$942	$1,012	7.5%	2.5%	2.3%	-20 bps
Kent	$981	$1,037	5.6%	2.1%	1.4%	-70 bps
Kirkland / Juanita	$1,458	$1,652	13.3%	3.9%	4.2%	30 bps
North Seattle	$1,234	$1,299	5.2%	7.8%	7.1%	-70 bps
Redmond	$1,346	$1,422	5.7%	3.3%	3.8%	50 bps
Renton	$1,008	$1,056	4.8%	2.1%	2.8%	70 bps
Tukwila / Sea-Tac	$815	$883	8.3%	1.3%	1.3%	0 bps
West Seattle / Burien	$1,002	$1,071	7.0%	4.1%	5.6%	150 bps
Metro	$1,198	$1,299	8.4%	4.5%	5.1%	60 bps







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