SEATTLE, WASHINGTON

MARKET OVERVIEW & MULTIFAMILY HOUSING UPDATE

RED Capital Group | 4Q15 | FEBRUARY 2016

PAYROLL JOB SUMMARY

Total Payrolls	1,624.1m
Annual Change	45.0m (2.9%)
RCR 2016 Forecast	33.0m (2.1%)
RCR 2017 Forecast	35.5m (2.2%)
RCR 2018 Forecast	32.3m (1.9%)
RCR 2019 Forecast	23.2m (1.4%)
RCR 2020 Forecast	20.1m (1.2%)
Unemployment (NSA)	4.7% (Dec.)

4Q15 PAYROLL TRENDS AND FORECAST

U.S economic growth ground nearly to a halt during 4Q15, and the high flying Jet City labor market was not immune to its centripetal force. Payroll growth ebbed to a 45,000-job, 2.9% year-on-year rate, slowest since spring 2014. Much weaker expansion in the construction, manufacturing and tech-heavy information services sectors was principally responsible as these industries slowed to a 2,200-job collective annual growth rate from 2Q15's 14,100-job pace. Signs of softer growth in the tech services niche also were evident. By contrast, momentum accelerated in the government and socially-funded health care and education services sectors, where year-on-year job gains advanced about 10% to an 11,400-job rate.

Sluggish 2H15 global and domestic growth gave rise to a material downward tilt in RED Research's base line U.S forecast for 2016. Quarterly average GDP growth now is expected to evolve at about 1.8%, down nearly –0.3% from the November projection. Growth is expected to be especially weak during 1H16 (1.6%). Our model estimates a 2% chance of negative SAAR GDP growth 2015 vs 2016.

RCR still expect Seattle job growth to top the national average, but job creation in 2016, and in the near recessionary 2019-2020 period is likely to be unusually slow. Job growth in each of the next three years will most likely hover in the high-1% to low-2% range; however, the forecast out-years may fall considerably lower than this.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	94.7%
RED 50 Rank	39th
Annual Chg. (Reis)	-0.6%
RCR YE16 Forecast	93.6%
RCR YE17 Forecast	94.6%
RCR YE18 Forecast	94.5%
RCR YE19 Forecast	94.2%
RCR YE20 Forecast	94.3%

4Q15 ABSORPTION AND OCCUPANCY RATE TRENDS

Seattle renters absorbed a healthy 5,832 vacant apartments in 2015, including a 17-year high fourth quarter net of 2,257 units, according to Reis, yet it was not enough to keep pace with a torrent of supply. Developers completed 7,531 units last year and 2,806 units during 4Q15. As a result, occupancy slipped -20 basis points sequentially and -60 bps year-on-year to 94.7%. With a slowing economy and even more supply projected for 2016, conditions are likely to grow worse before they improve next winter.

Axiometrics surveys of 505 larger, *stabilized* properties found a higher 95.1% rate, down only -10 bps y-o-y. The *total* market rate was 94.7%. Class-C (95.4%) recorded highest occupancy for the second consecutive quarter, topping former champ class-B by 20 bps. Class-A trailed on 94.5%. North and West Seattle posted the highest rates (96.1%); supply-heavy Kirkland and Downtown lagged.

The RCR SEA demand model relies on supply growth (+), S&P500 returns (+), vacancy (+) and rent (+), job (+) and home price (-) growth as independent variables. The 94.7% adjusted R^2 model sees weaker 1H16 absorption, deluged by record supply, but gradually improving conditions after. Occupancy is likely to dip to 93.6% before recovering.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	$1,313
Annual Change	8.3%
RED 50 Rent Change Rank	2nd
RCR YE15 Forecast	2.5%
RCR YE16 Forecast	4.1%
RCR YE17 Forecast	4.3%
RCR YE18 Forecast	2.9%
RCR YE19 Forecast	2.4%

4Q15 EFFECTIVE RENT TRENDS

Reis surveys found continued strong rent momentum in the Seattle rental market during 4Q15, recording average sequential and year-on-year growth of $13 (1.0%) and $101 (8.5%), respectively, to $1,313. Comparable 4Q14 sequential and 3Q15 y-o-y gains were 1.2% and 8.5%. Sequential gains exceeded 1% in every submarket save Renton, while three submarkets (Downtown, Kirkland and Tukwila) topped 6%.

Axiometrics market analysis of stabilized same-store assets uncovered a 9.2% y-o-y average advance, up from 8.6% in the prior quarter. Class C properties continued to rack up impressive growth, rising 11.1% to class-B's 9.8% and class-A's 4.7%, leading among classes for the eighth consecutive quarter. Ten submarkets chalked down double-digit growth, led by Kent (15.4%), while supply heavy Downtown (4.7%), North (6.5%) and Kirkland (4.2%) lagged materially.

The relationship between supply and rent is becoming clearer. The RCR rent model incorporates it with a sharply negative coefficient for vacancy rate. The model also uses job (+), income and home (+) price growth and BAA-rated bond yields (-) as independent variables to achieve a 97.1% ARS (SE=0.36%). The model forecasts a sharp deceleration in 2016 to 2.5%, followed be a nice rebound in 2017-2018.

TRADE & RETURN SUMMARY

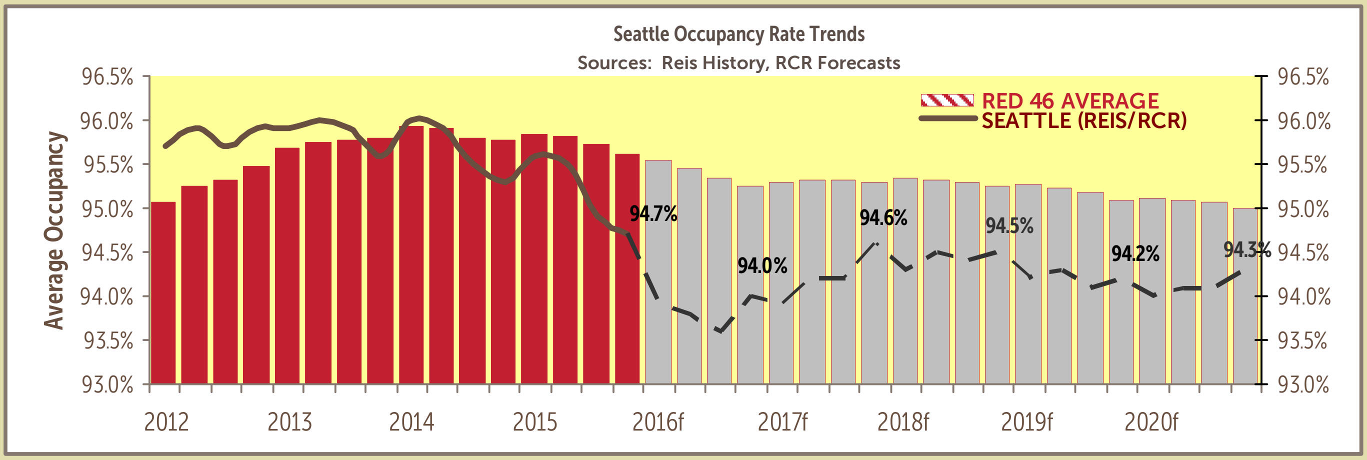
$5mm+ / 80-unit+ Sales	26
Approximate Proceeds	$1,179mm
Average Cap Rate (FNM)	4.8%
Average Price / Unit	$219,661
Expected Total Return	5.9%
RED 46 ETR Rank	33th
Risk-adjusted Index	4.42
RED 46 RAI Rank	19th

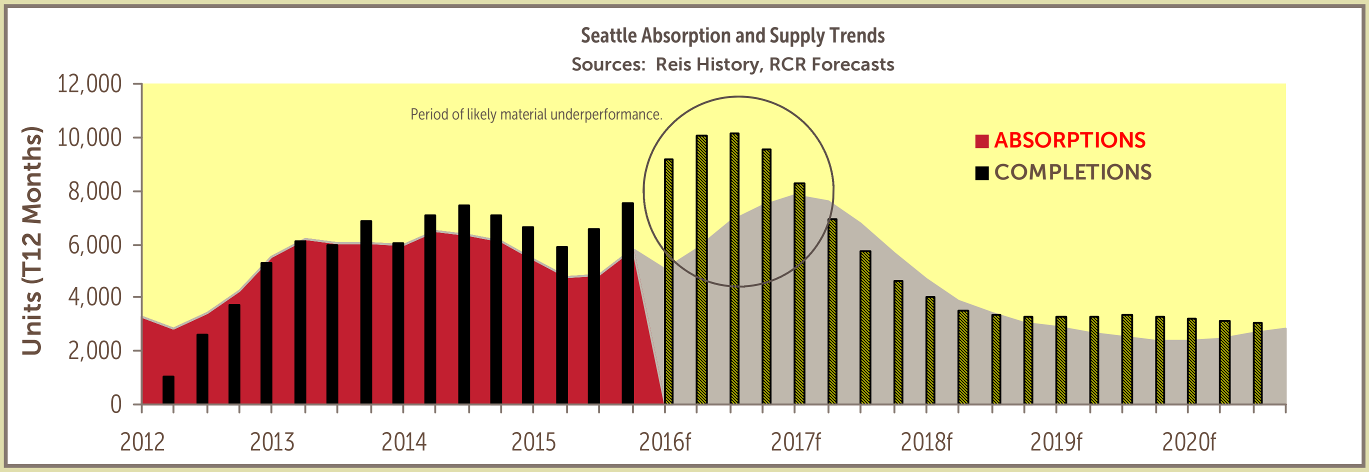
4Q15 PROPERTY MARKETS AND TOTAL RETURNS

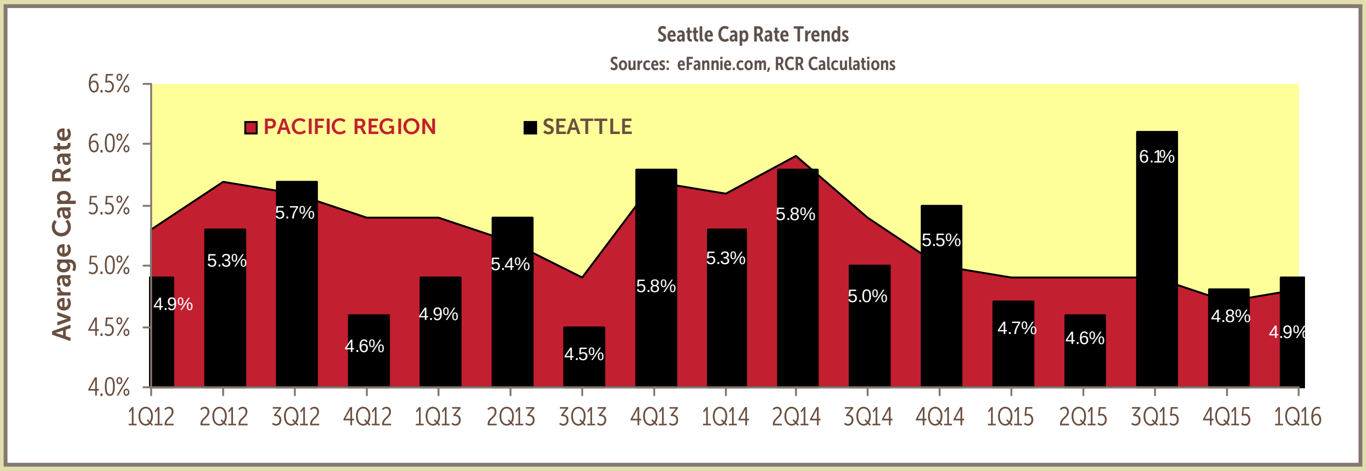
The metro property market maintained a blistering pace as 26 investment sales were recorded during 4Q15, up from 25 and 24 in 3Q15 and 2Q15, respectively. Totals sales also advanced, rising from $1.1 billion in 3Q to $1.2bn. The average price of traded units declined -9.8% to $219,661, attributable to an increase in the average property age from 23 years to 25, and possibly a small up-tick in average cap rate. Private equity and fund manager investors continued to dominate the ranks of buyers, although a large public REIT also participated, closing on a class-B+ Capitol Hill mid-rise priced at ~$495/sf, according to CoStar. RCR estimate a *pro forma* cap rate in the low-4% area.

Recent construction trophies continued to trade in the 3.9% - 4.3% range. Class-B suburban gardens are priced at yields about 50 bps behind, although Redmond and Bellevue assets are valued at trophy property levels. Class-B-/C properties mostly command 5.5% to 6% yields.

For valuation purposes, RCR left the purchase cap proxy stable at 4.75%. Property values are projected to fall -3% in 2016, before recovering lost ground next year. Unlevered total returns are projected to average 5.9% over a 5-year hold, down from 7.7% last quarter due to our outlook for weaker job- and stronger supply-growth. The 33rd ranked R46 total return estimate compares to a 6.7% group mean.

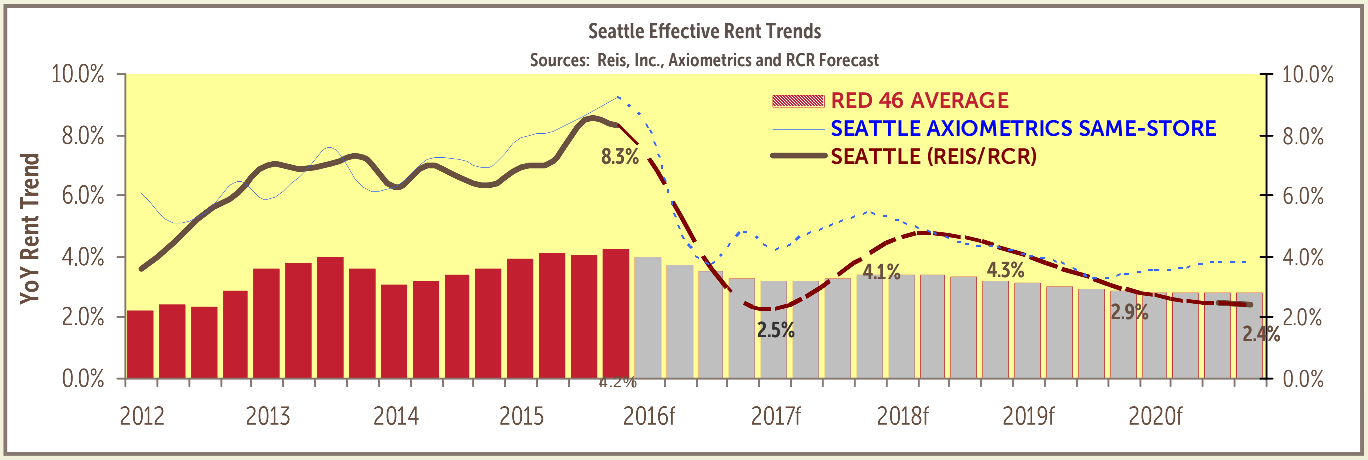




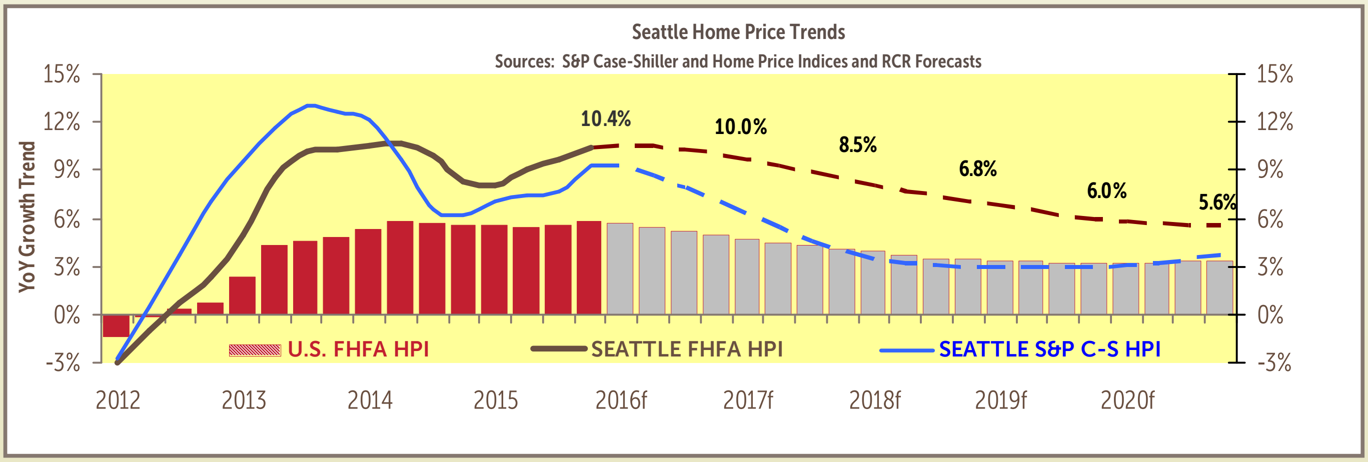


NOTABLE TRANSACTIONS

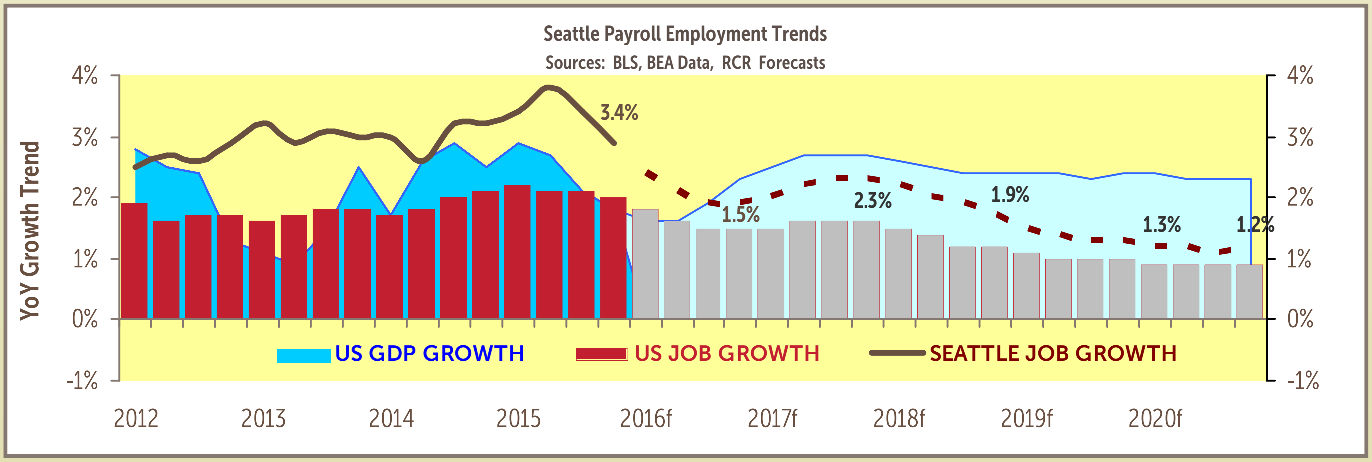
Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
Somerset Green (Bellevue)	B+ / GLR (1986)	28-Nov-2015	$40.1	$397,020	4.7%
Emerald Heights (Renton)	B- / GLR (1979)	3-Dec-2025	$40.3	$155,000	6.1%
Marq West Seattle (West Seattle)	B+ MI /RC MR ('14)	4-Dec-2015	$38.0	$342,342	4.1% p.f.
Avana 522 (Bothell / Woodinville)	B / GLR (1997)	10-Dec-2015	$143.3	$256,810	4.9%
The Berkshire Apts. (Renton)	C+ / GLR (1980)	22-Dec-2015	$46.4	$169,161	5.6%
Griffis Belletown (Downtown/Belletown)	B+/RC MR (1992)	21-Jan-2016	$90.8	$389,485	4.1%



Seattle Effective Rent Trends
Sources: Reis, Inc., Axiometrics and RCR Forecast
YoY Rent Trend
RED 46 AVERAGE
SEATTLE AXIOMETRICS SAME-STORE
SEATTLE (REIS/RCR)
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
8.3%
4.2%
2.5%
4.1%
4.3%
2.9%
2.4%
2012
2013
2014
2015
2016f
2017f
2018f
2019f
2020f



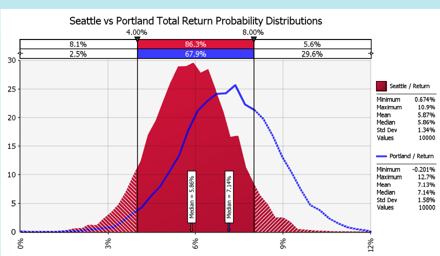
Seattle Home Price Trends
Sources: S&P Case-Shiller and Home Price Indices and RCR Forecasts
YoY Growth Trend
15%
12%
9%
6%
3%
0%
-3%
10.4%
10.0%
8.5%
6.8%
6.0%
5.6%
U.S. FHFA HPI
SEATTLE FHFA HPI
SEATTLE S&P C-S HPI
2012
2013
2014
2015
2016f
2017f
2018f
2019f
2020f

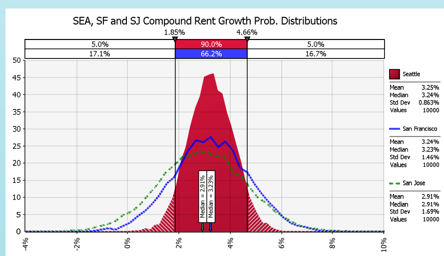


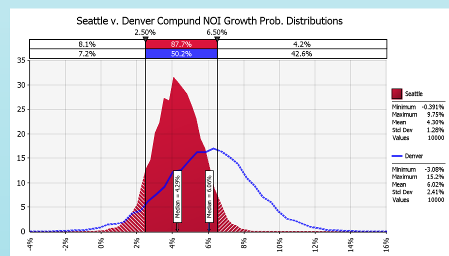
Seattle Payroll Employment Trends
Sources: BLS, BEA Data, RCR Forecasts
YoY Growth Trend
4%
3%
2%
1%
0%
-1%
3.4%
1.5%
2.3%
1.9%
1.3%
1.2%
US GDP GROWTH
US JOB GROWTH
SEATTLE JOB GROWTH
2012
2013
2014
2015
2016f
2017f
2018f
2019f
2020f

SUBMARKET TRENDS (REIS)

Submarket	Inventory % Change	Effective Rent			Physical Vacancy		
		4Q14	4Q15	Change	4Q14	4Q15	Change
Auburn / Enumclaw	1.6%	$872	$917	5.2%	1.4%	1.9%	50 bps
Beacon Hill / Rainier	2.3%	$1,114	$1,189	6.7%	4.9%	5.2%	30 bps
Bellevue / Issaquah	6.8%	$1,426	$1,550	8.7%	4.8%	7.0%	220 bps
Bothell	1.3%	$1,185	$1,252	5.7%	6.2%	4.9%	-130 bps
Des Moines / West Kent	1.4%	$932	$997	7.0%	2.9%	3.0%	10 bps
Downtown / Capitol Hill	7.6%	$1,731	$1,930	11.5%	8.8%	10.4%	160 bps
Edmonds / Lynnwood	4.3%	$1,002	$1,090	8.8%	2.9%	4.2%	130 bps
Everett / Mukilteo	1.6%	$994	$1,053	5.9%	3.2%	2.9%	-30 bps
Federal Way	0.0%	$953	$1,028	7.9%	2.4%	1.5%	-90 bps
Kent	0.0%	$988	$1,045	5.8%	1.8%	1.3%	-50 bps
Kirkland / Juanita	3.6%	$1,466	$1,658	13.1%	3.5%	4.4%	90 bps
North Seattle	3.4%	$1,256	$1,308	4.1%	8.2%	7.6%	-60 bps
Redmond	4.2%	$1,345	$1,422	5.7%	2.8%	4.2%	140 bps
Renton	1.6%	$1,010	$1,064	5.3%	1.9%	2.7%	80 bps
Tukwila / Sea-Tac	0.0%	$821	$876	6.8%	1.2%	1.2%	0 bps
West Seattle / Burien	6.9%	$1,000	$1,113	11.3%	4.4%	6.3%	190 bps
Metro	3.6%	$1,212	$1,313	8.3%	4.7%	5.3%	60 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

THE FACE OF LENDING