WASHINGTON, DC

MARKET OVERVIEW & MULTIFAMILY HOUSING UPDATE

RED Capital Group | 1Q16 | JUNE 2016

PAYROLL JOB SUMMARY

Total Payrolls	740.4m
Annual Change	11.1m (1.5%)
RCR 2016 Forecast	10.0m (1.3%)
RCR 2017 Forecast	7.9m (1.0%)
RCR 2018 Forecast	7.0m (0.9%)
RCR 2019 Forecast	7.4m (0.9%)
RCR 2020 Forecast	8.1m (1.0%)
Unemployment (NSA)	5.4% (Apr.)

1Q16 PAYROLL TRENDS AND FORECAST

The District labor market sparked back to life after a late 2015 lull, adding payroll jobs at a 11,100-job, 1.5% year-on-year rate during 1Q16, up from 4Q15's 8,700-job, 1.1% performance, weakest in 2015. The construction, information and education services industries provided the principal impetus, as sector establishments expanded at a 900-job, 1.0% annual pace, reversing 4Q15's -2,000-job rate of attrition. Small gains in manufacturing and government and continued strength in the dining and lodging segment also contributed to first quarter progress.

Growth in the Washington metro area was faster, expanding at an 11-year high 64,300-job, 2.5% pace in 1Q, up from CY15's 51,000-job add. Expressed on a seasonally-adjusted basis, the metro area added 22,500 jobs January to March, the largest single quarter advance since 2Q10.

RED Research's 93.1% adjusted-R^2 (S.E.=0.36%) metro payroll model employs the rate of change of US payroll growth (-), personal consumption growth (+) and the GDP deflator (-) as independent variables. It's relatively upbeat, projecting a constructive post-recession high 59,000-job, 2.3% gain for CY16, and annual growth of 36,000 or more for the duration of the forecast. Our District model also uses delta U.S. job growth (-) and metro job growth$_{(t-2)}$ as variables to reach an 80.5% ARS. The model paints an optimistic picture as well, foreseeing annual gains ranging from 7,000 to 10,000 jobs for the forecast interval.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	94.2%
RED 50 Rank	49th
Annual Chg. (Reis)	+0.8%
RCR YE16 Forecast	93.1%
RCR YE17 Forecast	91.5%
RCR YE18 Forecast	90.9%
RCR YE19 Forecast	90.8%
RCR YE20 Forecast	90.9%

1Q16 ABSORPTION AND OCCUPANCY RATE TRENDS

Renters exhibited robust space demand in 1Q16, absorbing 502 vacant units, according to Reis, topping the year earlier quarter's 422 and the post-recession 335-unit first quarter average. Developers debuted only 261 units, the smallest single quarter add in four years, allowing occupancy to climb 30 basis points sequentially (80 bps year-on-year) to 94.2%. Woodley Park submarket accounted for nearly half the vacant units absorbed during 1Q16.

Axiometrics same-store data comparisons tell a similar tale. In this instance, 1Q16 occupancy is moderately higher at 94.8%, while the y-o-y gain also was 80 bps. Class-C (96.0%) maintained highest occupancy for the 3rd consecutive quarter, while class–A (94.6%) and -B (94.8%) lagged. Among submarkets with above average rents, only Foggy Bottom (95.7%) topped 95%. Mt. Pleasant (96.2%) posted highest occupancy in each of the last five quarters; Capitol Hill (93.1%) and Northwest (93.6%) the lowest.

RCR's D.C. demand model employs the rate of change of supply growth (+) and rent$_{(t-4)}$ and District job$_{(t-3)}$ growth as independent variables. The ARS and standard error stats are 88.5% and 0.36%. Absorption is projected to be constructive, averaging about 1,800 units annually through 2020. But supply will overbalance demand, especially in 2016-17, causing significant occupancy rate attrition.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	$1,599
Annual Change	4.0%
RED 50 Rent Change Rank	23rd
RCR YE16 Forecast	4.9%
RCR YE17 Forecast	3.8%
RCR YE18 Forecast	2.8%
RCR YE19 Forecast	2.7%
RCR YE20 Forecast	3.2%

1Q16 EFFECTIVE RENT TRENDS

Reis report strong momentum in the D.C rent series as the rate of growth accelerated in each of the last five quarters, culminating in a 4.0% advance during 1Q16. Rapid growth was broadly distributed among submarkets, without evident correlation by asset class. Year-on-year gains of 6% or greater were observed in higher rent Downtown and Northwest and lower rent Brookland. Some of this was attributable to new high rent supply but the evidence suggests a material positive trend inflection regardless.

Axiometrics stabilized same-store comparisons were not as encouraging. This series recorded a 2.2% y-o-y increase in 1Q16. The metric for all properties including those in lease up was 2.0%. As in 4Q15, Class-C (3.2%) notched the fastest growth, trailed by class-A (2.3%) and class–B (1.9%). Capitol Hill (5.1%), Brookland (4.0%) and Downtown (3.5%) submarkets led the pack, while Woodley Park (0.8%) and Mt. Pleasant/Howard (-1.2%) filled the rear echelon.

RCR's rent model is specified to the Reis series and is influenced by its upward trend. The model uses five lags of the dependent variable, GDP growth, vacancy change and the Baa/10-year spread to achieve a 92.9% ARS (S.E.=0.7%). It projects further acceleration through year-end followed by gradual deceleration to the high-2% area by late 2018. Axio also foresee faster rent growth beginning in 2017.

TRADE & RETURN SUMMARY

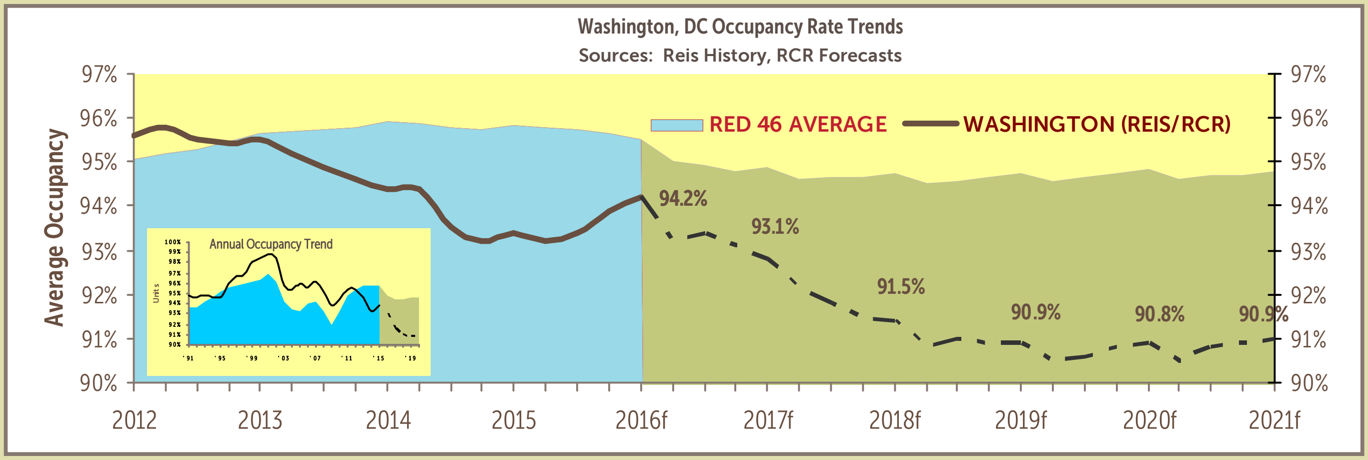
$5mm+ / 80-unit+ Sales	1
Approximate Proceeds	$77.9mm
Average Cap Rate (FNM)	5.4%
Average Price / Unit	$303,016
Expected Total Return	6.0%
RED 46 ETR Rank	25th
Risk-adjusted Index	3.12
RED 46 RAI Rank	34th

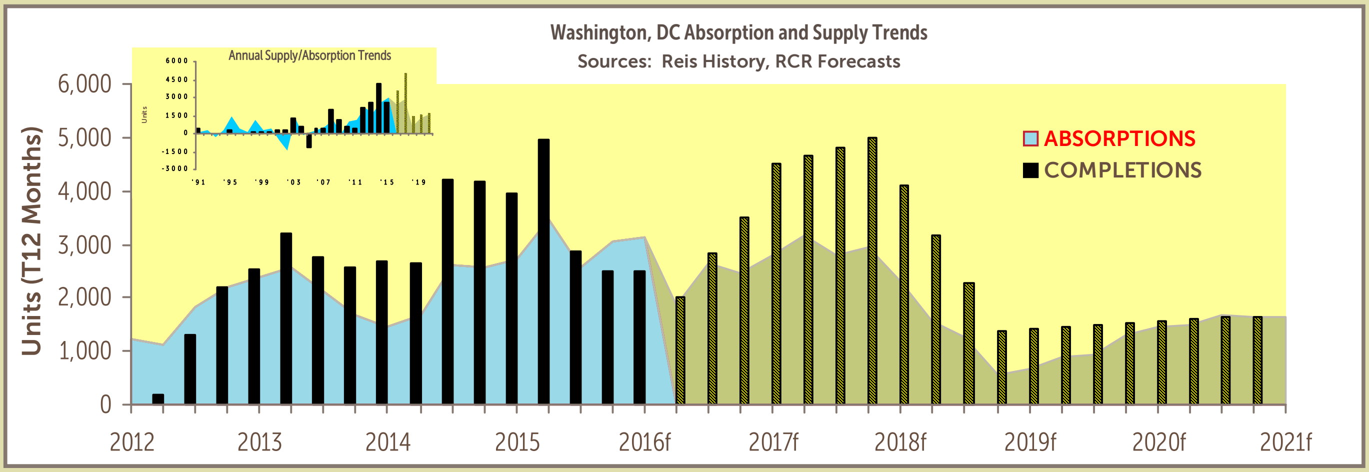
1Q16 PROPERTY MARKETS AND TOTAL RETURNS

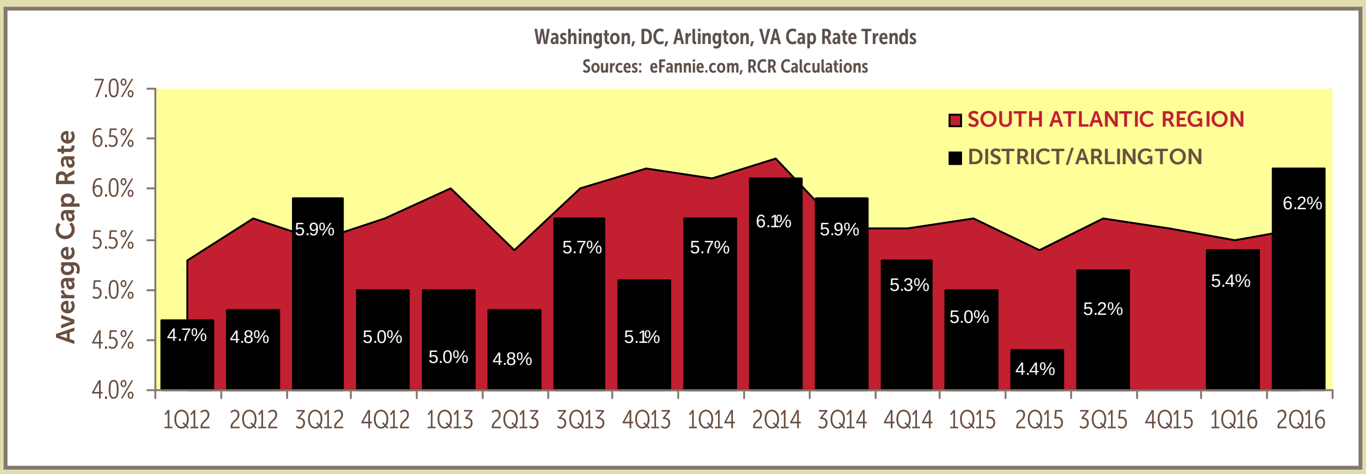
Sales velocity nearly ground to a standstill during the first quarter as only one larger property exchanged ownership for about $78 million. This compares to three trades valued at a total of $416mm, and four trades of aggregate value $436mm recorded during the previous and penultimate quarters, respectively. The average price of units sold declined as well, falling from $491,038 and $333,260 in 4Q15 and 3Q15, respectively, to $303,016, reflecting the sale of two high-end 10-story new construction properties in the fourth quarter.

Recent construction masonry and concrete structures in established neighborhoods traded to current yields of 3% or less, with pro forma expectations at market average occupancy and anticipated market rents in the low to mid-4% area. Similar assets in developing areas and older value add situations traded in the low– to-mid 5% region.

In keeping with the sluggish pace of sales RCR's elected to raise the B/B+ cap rate proxy 10 bps to 5.0%. At this purchase cap rate, model derived occupancy and rent forecast point estimates and a terminal yield of 5.8%, we estimate that a D.C investor would expect to earn a 6.0% annual unlevered total return over a 5-year hold. The metric ranks 25th among the 46 markets we model. With respect to risk-adjusted returns, D.C ranks RED46 #34.

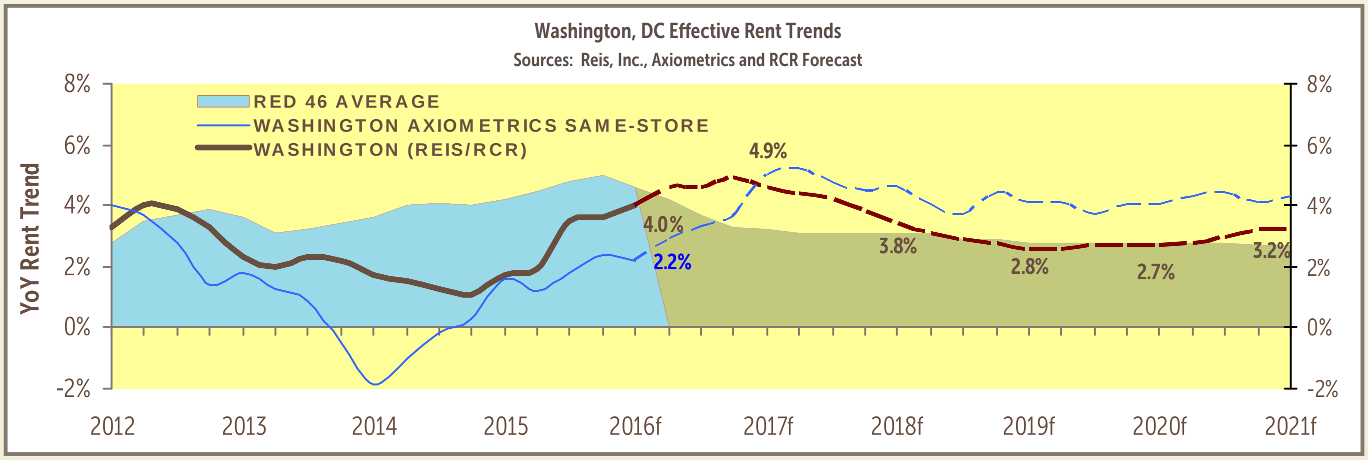


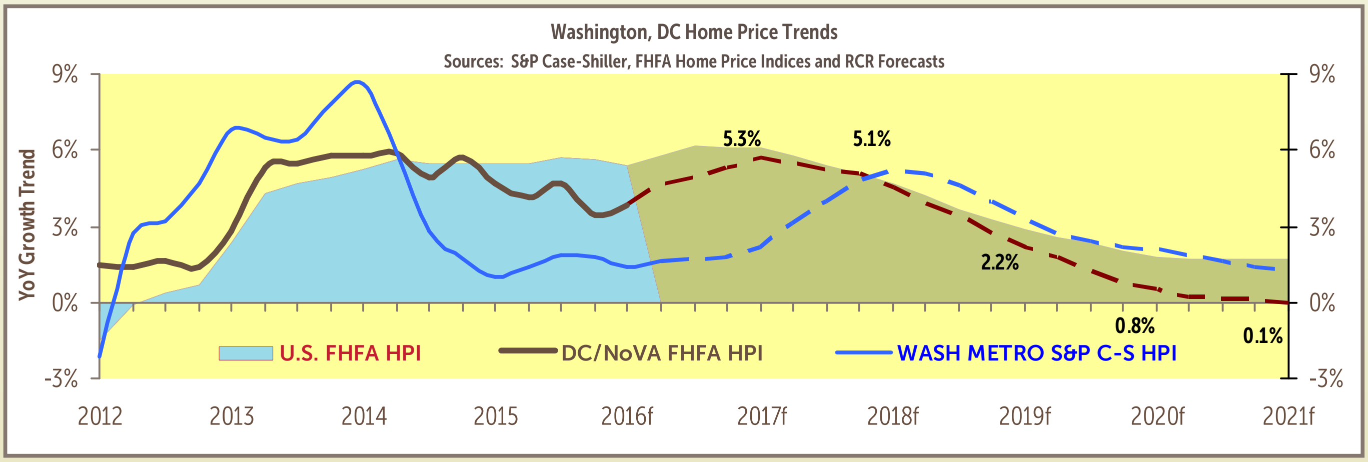


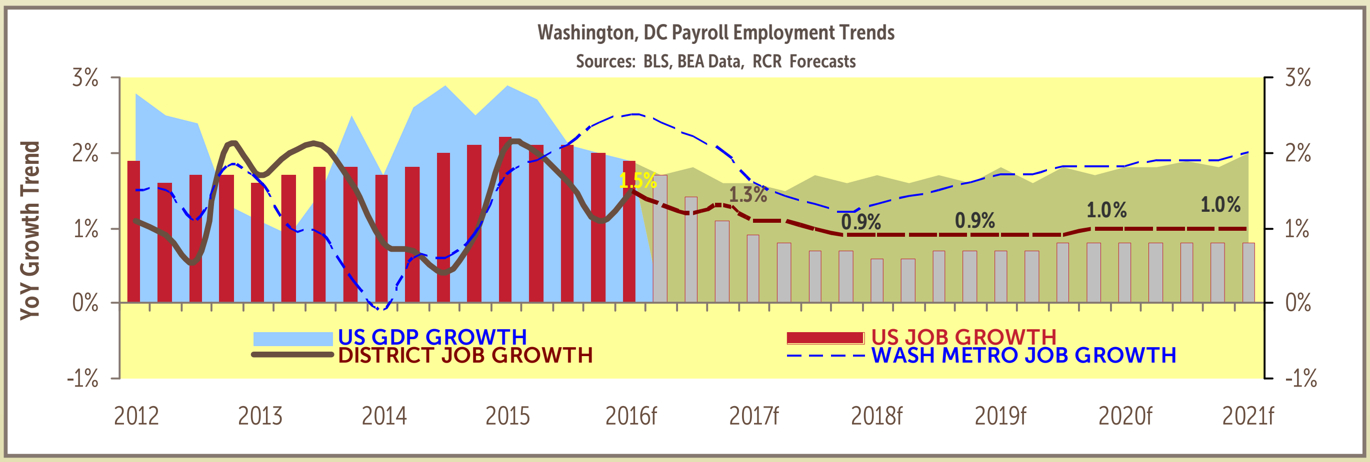


NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
Ellicott House (Northwest/Forest Hills)	B / MB MR (72/11)	22-Oct-2015	$75.0	$229,358	5.7%
Atlantic Plumbing (Howard Univ./V Street)	A+ / SR MR (2015)	12-Nov-2015	$178.4	$575,484	NA / 4.6% p.f.
Jefferson Marketplace (Logan Circle)	B+ MI/RC MR (2014)	5-Dec-2015	$141.0	$501,779	3.0%/4.6% p.f.
Flats at Atlas (Northeast/Carter Langston)	B+ / MB LR (2012)	30-Mar-2016	$77.9	$303,016	5.2%
Avalon Clarendon (Rosslyn/Clarendon)	A / MB LR (2001)	19-May-2016	$120.3	$401,000	4.9%

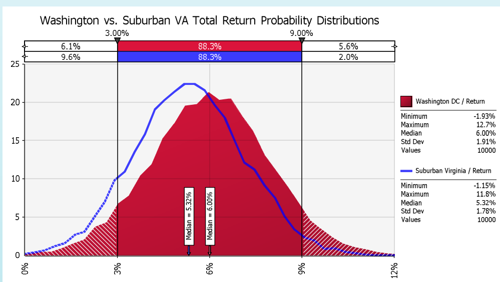

Washington, DC Effective Rent Trends
Sources: Reis, Inc., Axiometrics and RCR Forecast
RED 46 AVERAGE
WASHINGTON AXIOMETRICS SAME-STORE
WASHINGTON (REIS/RCR)
YoY Rent Trend
4.9%
4.0%
2.2%
3.8%
2.8%
2.7%
3.2%
2012
2013
2014
2015
2016f
2017f
2018f
2019f
2020f
2021f

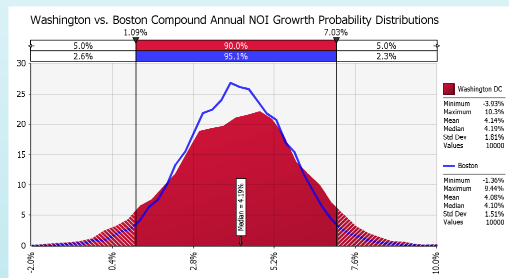

Washington, DC Home Price Trends
Sources: S&P Case-Shiller, FHFA Home Price Indices and RCR Forecasts
YoY Growth Trend
5.3%
5.1%
2.2%
0.8%
0.1%
U.S. FHFA HPI
DC/NoVA FHFA HPI
WASH METRO S&P C-S HPI
2012
2013
2014
2015
2016f
2017f
2018f
2019f
2020f
2021f

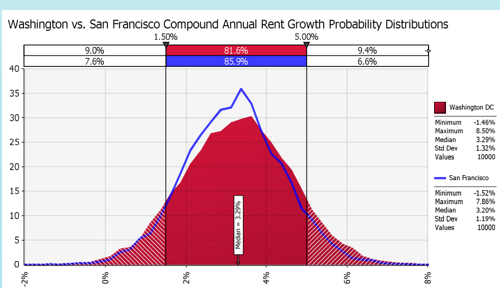

Washington, DC Payroll Employment Trends
Sources: BLS, BEA Data, RCR Forecasts
YoY Growth Trend
1.5%
1.3%
0.9%
0.9%
1.0%
1.0%
US GDP GROWTH
DISTRICT JOB GROWTH
US JOB GROWTH
WASH METRO JOB GROWTH
2012
2013
2014
2015
2016f
2017f
2018f
2019f
2020f
2021f

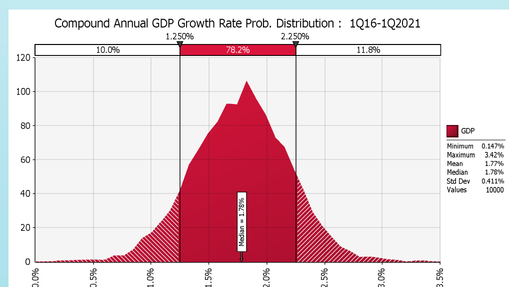
SUBMARKET TRENDS (REIS)

Submarket	Inventory % Change	Effective Rent			Physical Vacancy		
		1Q15	1Q16	Change	1Q15	1Q16	Change
Anacostia / Northeast	1.9%	$1,068	$1,095	2.5%	8.7%	7.9%	-80 bps
Brookland / CUA	11.9%	$1,100	$1,160	5.5%	9.1%	10.4%	130 bps
Capitol Hill / Southwest	4.2%	$1,567	$1,617	3.2%	7.0%	7.9%	90 bps
Downtown / Logan Circle	4.8%	$1,767	$1,921	8.7%	10.9%	5.0%	-590 bps
DuPont Circle/Adams Morgan	0.1%	$1,731	$1,784	3.0%	3.7%	2.7%	-100 bps
Foggy Bottom	0.0%	$1,978	$1,913	-3.3%	3.8%	2.1%	-170 bps
Mt. Pleasant	5.6%	$1,375	$1,423	3.5%	8.9%	8.9%	0 bps
Northwest / Georgetown	1.4%	$1,760	$1,864	6.0%	2.7%	3.4%	70 bps
Woodley Park / Van Ness	3.4%	$2,041	$2,129	4.3%	1.4%	2.5%	110 bps
Metro	2.6%	$1,538	$1,599	4.0%	6.6%	5.8%	-80 bps









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