

PAYROLL JOB SUMMARY

Total Payrolls	1,762.2m
Annual Change	28.5m (1.6%)
RCR 2016 Forecast	20.8m (1.2%)
RCR 2017 Forecast	10.1m (0.6%)
RCR 2018 Forecast	9.6m (0.6%)
RCR 2019 Forecast	10.0m (0.6%)
RCR 2020 Forecast	7.4m (0.4%)
Unemployment (NSA)	3.2% (Apr.)

1Q16 PAYROLL TRENDS AND FORECAST

The Boston labor market experienced a growth spurt during the first quarter as establishments added workers to payrolls at a 28,500-job, 1.6% annual pace, rebounding from a 5-year low 21,300 (1.2%) job advance during the prior quarter. Strong positive momentum in financial, education, health care and professional services was primarily responsible. The foregoing hired at a collective 21,600-job, 2.9% rate, up from an 11,000-job 4Q15 add.

The seasonally-adjusted series was consistent with year-on-year comparisons, showing a 13,200-job net gain over the January-March period, a 5-year high. But preliminary April-May data were softer, suggesting that weaker US hiring may have affected the Bay State. Payroll job crea-

tion for the period fell to 1,400 following a loss of -8,100 jobs in May, the weakest May recorded since 1991. Although adjustment errors associated with the school calendar may be at fault, non-seasonally adjusted data also suggest that May was an unusually soft period for hiring.

The RED Research Boston payroll model is unchanged, relying on home value, personal income_(t-1), and S&P500 return growth and the rate of change in fed funds to meet a 96.7% adjusted-R² (SE=0.36%). The model forecast is a bit downbeat, influenced by our underlying forecast for slower national payroll trends. But Boston job gains are expected to continue throughout the forecast, rising at a 0.6% annual rate, equal to the 25-year historic average.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	94.8%
RED 50 Rank	37 th
Annual Chg. (Reis)	-0.4%
RCR YE16 Forecast	94.0%
RCR YE17 Forecast	94.4%
RCR YE18 Forecast	94.3%
RCR YE19 Forecast	94.8%
RCR YE20 Forecast	94.7%

1Q16 ABSORPTION AND OCCUPANCY RATE TRENDS

Stronger job creation notwithstanding, space absorption subsided during the seasonally softer winter quarter. Tenants net leased 589 units, down from 1,618 and 836 units during the prior and year earlier quarters, respectively, according to Reis. A brief interregnum in the ongoing supply surge emerged, however, as developers debuted only 264 units in 1Q, well below the 1,160-unit trailing 12-quarter average. As a result, occupancy increased 20 basis points sequentially to 94.8%, reversing 4Q15's loss, and year-on-year change improved from -90 bps to -40 bps.

Stabilized same-store occupancy in the Axiometrics universe followed a different pattern. First quarter averages

fell -40 bps sequentially to 95.3%, a 5-quarter low. Inclusive of lease-up assets the metric was 90.7%. Class-A posted the largest y-o-y decline (-100 bps) to 94.5%. Classes-B and -C fell -20 bps each to 95.3% and 95.9%. Lease-up rates lost momentum as new construction absorption slowed to about 9 units/mo., down from 10 during 4Q15.

RCR's demand model is unchanged, using rent_(t-1), vacancy_(t-2), income, home value_(t-3) and stock growth as variables (ARS=88.3%, SE=0.38%). Demand will remain constructive throughout but is likely to be overbalanced by heavy supply over the next five quarters. Occupancy is likely to drop -80 bps before recovering lost ground by 2019.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$2,025
Annual Change	5.4%
RED 50 Rent Change Rank	13 th
RCR YE16 Forecast	3.9%
RCR YE17 Forecast	2.8%
RCR YE18 Forecast	2.9%
RCR YE19 Forecast	2.7%
RCR YE20 Forecast	2.2%

1Q16 EFFECTIVE RENT TRENDS

Reis report that asking rent trends skidded into negative territory during the first quarter, as the survey average fell \$6 sequentially or -0.3%. Concession burn-off continued, however, allowing effective rent to advance \$10 (0.5%) to a \$2,098 average, a 2-year low speed. Expressed on a year-on-year basis, trends continued at a brisk pace, advancing at a 5.4% rate, ranking 13th among the RED 50 markets.

Similar trends were evident among larger, professionally-managed properties. Axiometrics surveys found moderate sequential same-store asking and effective rent decay in the seasonally-soft quarter, but y-o-y comparisons remained solid. Effective rents advanced at a 5.3% pace,

down from 6.1% in 4Q15. Class-A exhibited the slowest growth, falling -1.3% q-o-q, while rising 3.5% y-o-y. Class-B showed sequential vigor (0.4%/5.6%), topping class-C (-0.4%/5.8%). Properties in lease-up at least five quarters gained 1.3% y-o-y, slowest pace observed in the past year.

RCR statistical analysis continues to find that payroll, personal income and home price growth are the most robust predictors of Boston rent growth. The resulting equation (ARS=96.4%, SE=0.7%) suggests that rent trends are likely to turn over during 2016, gradually slowing to the high 2% range. Reacceleration will depend on a resurgence of job growth and S&P500 returns similar to 2015-16 norms.

TRADE & RETURN SUMMARY

\$5mm+ / 80-unit+ Sales	9
Approximate Proceeds	\$242mm
Average Cap Rate (FNM)	5.3%
Average Price / Unit	\$139,546
Expected Total Return	5.6%
RED 46 ETR Rank	29 th
Risk-adjusted Index	3.90
RED 46 RAI Rank	25 th

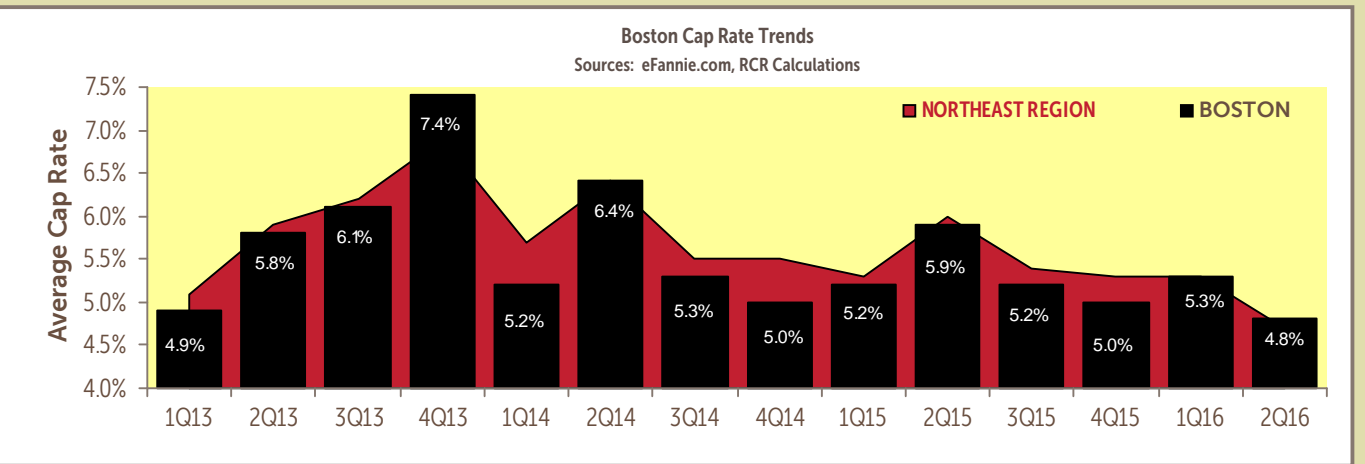
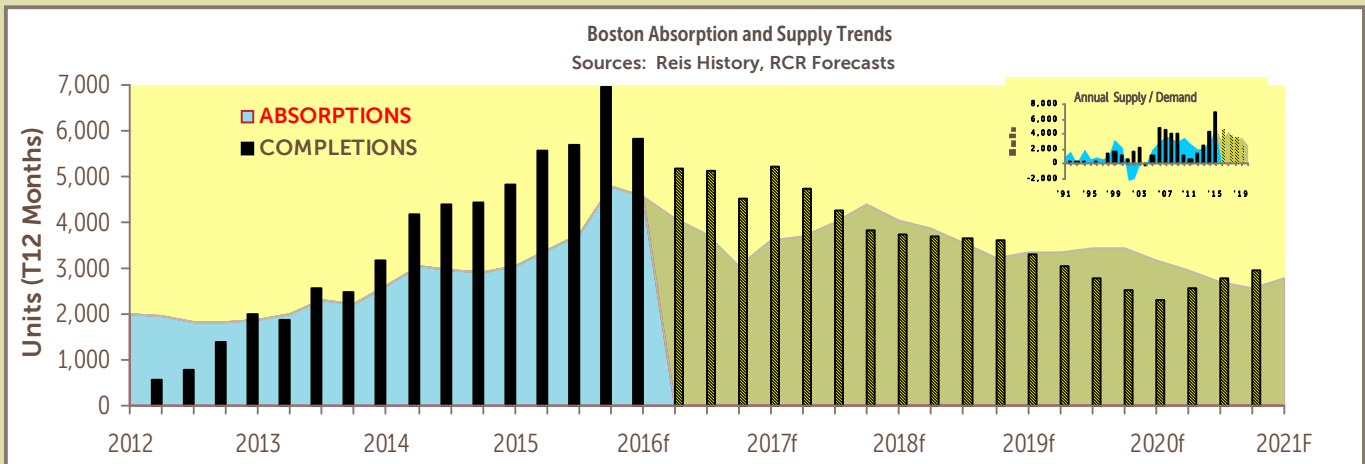
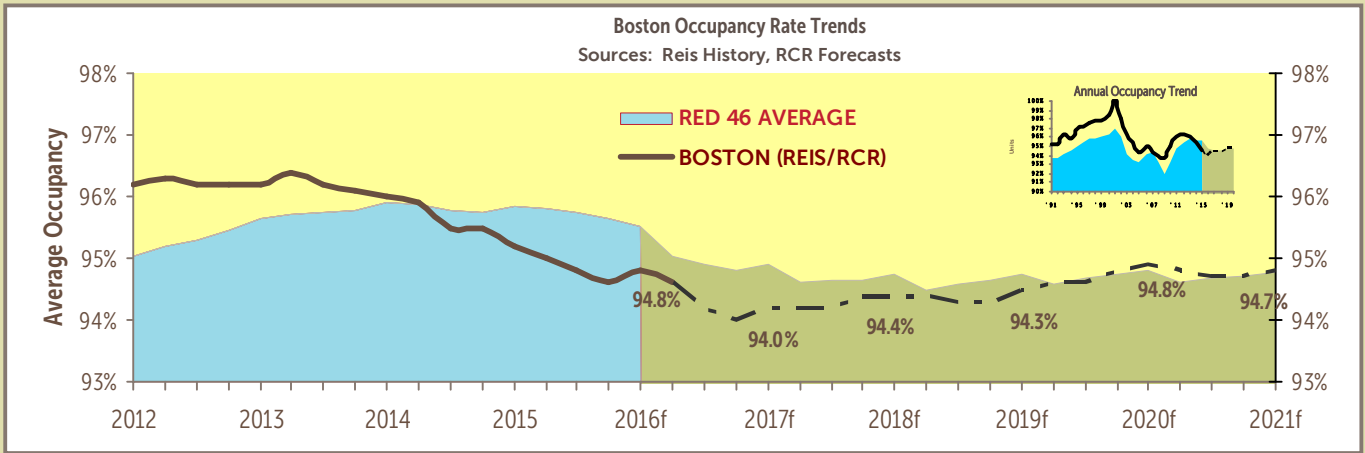
1Q16 PROPERTY MARKETS AND TOTAL RETURNS

Sales velocity decelerated significantly during the first quarter, falling from 21 transactions during the prior period to eight. Proceeds declined accordingly from 4Q15's all-time one quarter high \$1.3 billion to \$242 million, lowest figure reported since 3Q14. Likewise, the average price paid per traded unit plunged -30% sequentially to \$139,546, lowest since 1Q14, reflecting a decided shift in the asset mix from properties valued at \$250/sf or more to lower priced value-adds.

Velocity remained at low tide in 2Q16 as only seven trades closed by mid-June; but in this case sales were concentrated in high-value recent construction trophies in the

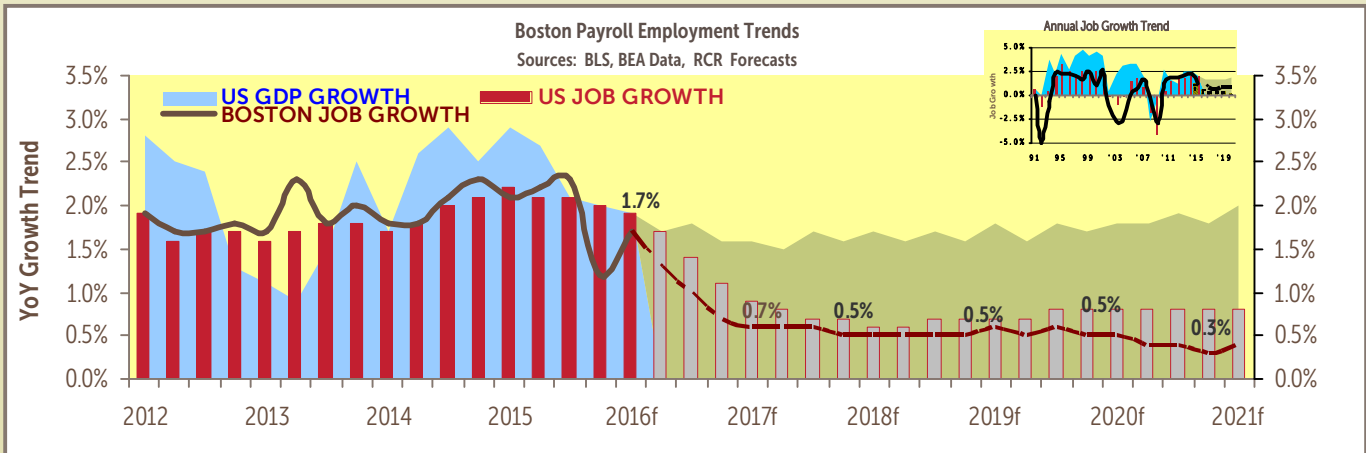
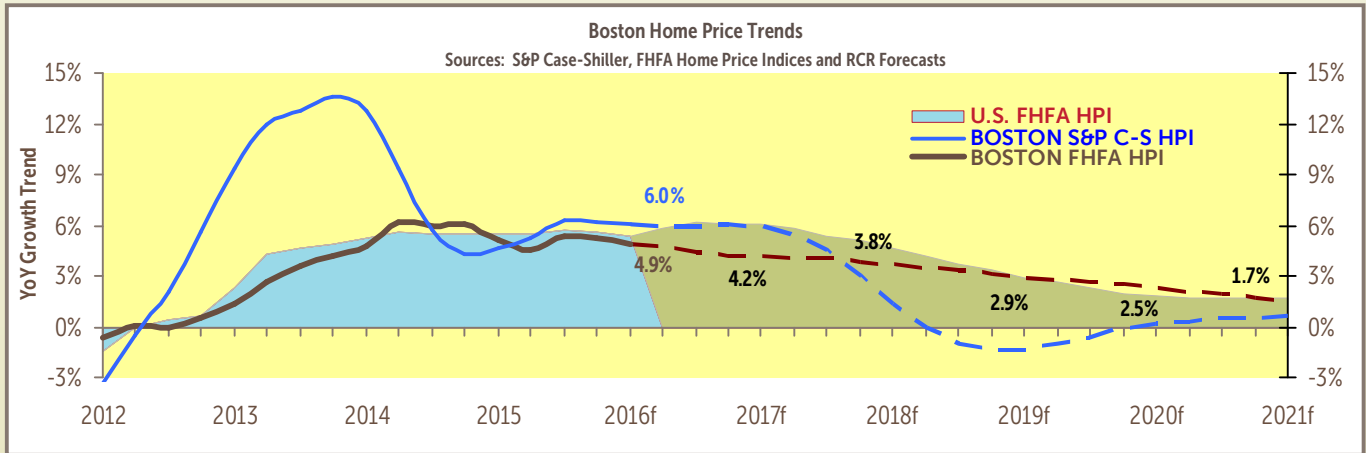
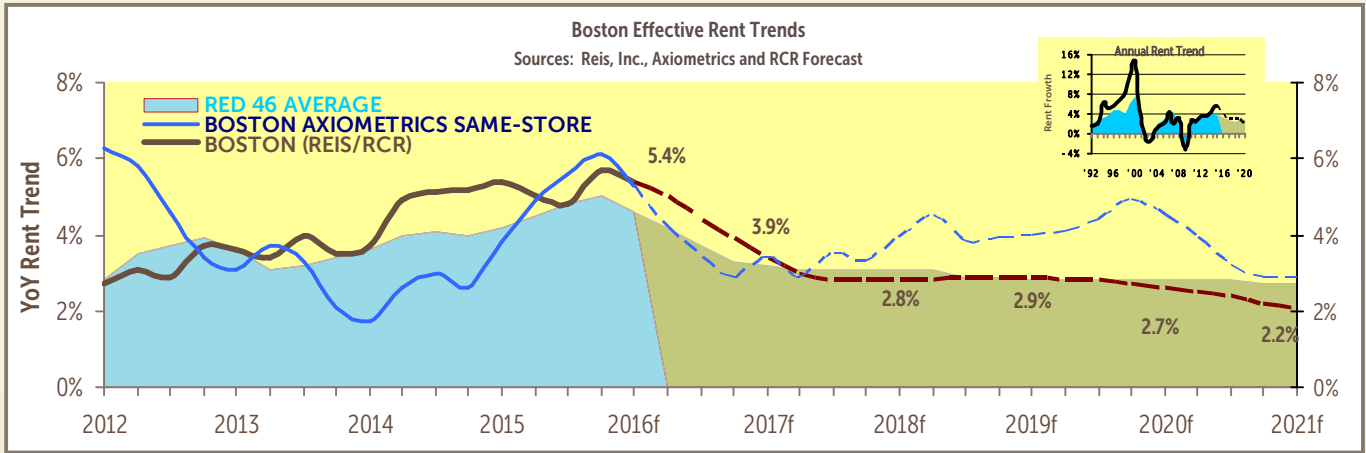
north collar markets. Cap rates applicable to these transaction were in the low- to mid-4% area, a metric more or less unchanged since 2010. Class-B and value-add sales continued to command values equating to 5%-6% yields.

RCR elected to maintain 4.8% as our purchase cap rate proxy, anchored primarily by strong demand from long-term hold fiduciaries for reinforced construction trophies. At this entry rate and model derived performance point estimates an investor would expect to achieve a 5.6% 5-year IRR (RED 46 #29) down sequentially due to lower projected rent growth and higher exit cap rate projection. Risk-adjusted returns are slightly higher, ranking R46 #25.



NOTABLE TRANSACTIONS

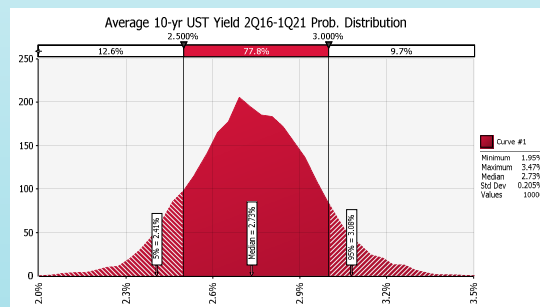
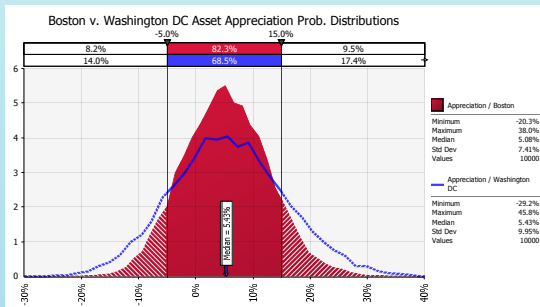
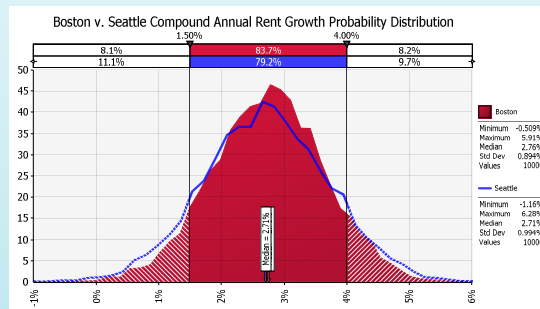
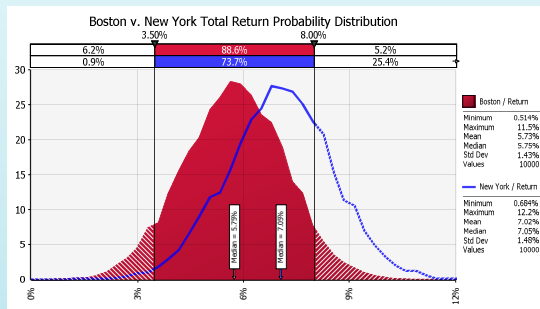
Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
Jack Flats (Mystic River/Melrose/Wyoming)	B+/MB MR (2014)	8-Apr-2016	\$80.0	\$377,358	4.7%/5.6% p.f.
Portside at East Pier (East Boston/Maverick)	B+ MI/SR MR (14)	16-Apr-2016	\$86.6	\$478,453	5.0%
Lumiere (Medford/Wellington)	A- / SR MR (2014)	21-May-2016	\$66.8	\$409,543	4.5%
Windsor Cambridge Park (Cambridge/North)	B+ / SR MR (2014)	28-Apr-2016	\$215.0	\$540,201	4.0%



The information contained in this report was prepared for general information purposes only and is not intended as legal, tax, accounting or financial advice, or recommendations to buy or sell currencies or securities or to engage in any specific transactions. Information has been gathered from third party sources and has not been independently verified or accepted by RED Capital Group. RED makes no representations or warranties as to the accuracy or completeness of the information, assumptions, analyses or conclusions presented in the report. RED cannot be held responsible for any errors or misrepresentations contained in the report or in the information gathered from third party sources. Under no circumstances should any information contained herein be used or considered as an offer or a solicitation of an offer to participate in any particular transaction or strategy. Any reliance upon this information is solely and exclusively at your own risk. Please consult your own counsel, accountant or other advisor regarding your specific situation. Any views expressed herein are subject to change without notice due to market conditions and other factors.

SUBMARKET TRENDS (REIS)

Submarket	Inventory % Change	Effective Rent			Physical Vacancy		
		1Q15	1Q16	Change	1Q15	1Q16	Change
Boston City	3.8%	\$1,819	\$1,954	7.4%	6.6%	4.2%	-240 bps
Brookline / Brighton	1.5%	\$2,059	\$2,108	2.4%	2.0%	2.8%	80 bps
Cambridge / Watertown	5.1%	\$2,421	\$2,590	7.0%	6.5%	7.5%	100 bps
Central City / Back Bay	7.1%	\$2,936	\$3,136	6.8%	4.3%	7.4%	310 bps
Mystic River / No Rt-128	4.8%	\$1,569	\$1,698	8.3%	4.7%	6.6%	190 bps
North Shore	0.8%	\$1,554	\$1,638	5.4%	3.1%	3.4%	30 bps
South Shore / So. Rt-128	1.3%	\$1,614	\$1,678	4.0%	3.2%	3.4%	20 bps
South/Southeast Suburbs	1.6%	\$1,307	\$1,358	3.9%	4.1%	4.0%	-10 bps
West/Northwest Suburbs	2.8%	\$1,630	\$1,727	5.9%	5.7%	5.9%	20 bps
Metro	2.8%	\$1,921	\$2,025	5.4%	4.8%	5.2%	40 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