

PAYROLL JOB SUMMARY

| | |
|--------------------|--------------|
| Total Payrolls | 979.4m |
| Annual Change | 24.3m (2.5%) |
| RCR 2016 Forecast | 20.4m (2.1%) |
| RCR 2017 Forecast | 7.2m (0.7%) |
| RCR 2018 Forecast | 10.8m (1.1%) |
| RCR 2019 Forecast | 9.9m (1.0%) |
| RCR 2020 Forecast | 12.8m (1.3%) |
| Unemployment (NSA) | 3.4% (Apr.) |

OCCUPANCY RATE SUMMARY

| | |
|-----------------------|------------------|
| Occupancy Rate (Reis) | 95.8% |
| RED 50 Rank | 20 th |
| Annual Chg. (Reis) | -0.5% |
| RCR YE16 Forecast | 96.2% |
| RCR YE17 Forecast | 96.5% |
| RCR YE18 Forecast | 96.7% |
| RCR YE19 Forecast | 97.1% |
| RCR YE20 Forecast | 98.0% |

EFFECTIVE RENT SUMMARY

| | |
|-------------------------|------------------|
| Mean Rent (Reis) | \$1,419 |
| Annual Change | 2.7% |
| RED 50 Rent Change Rank | 43 rd |
| RCR YE16 Forecast | 2.9% |
| RCR YE17 Forecast | 3.3% |
| RCR YE18 Forecast | 2.9% |
| RCR YE19 Forecast | 2.5% |
| RCR YE20 Forecast | 2.4% |

TRADE & RETURN SUMMARY

| | |
|-------------------------|------------------|
| \$5mm+ / 80-unit+ Sales | 9 |
| Approximate Proceeds | \$713.5mm |
| Average Cap Rate (FNM) | 5.1% |
| Average Price / Unit | \$201,900 |
| Expected Total Return | 7.1% |
| RED 46 ETR Rank | 11 th |
| Risk-adjusted Index | 6.67 |
| RED 46 RAI Rank | 7 th |

1Q16 PAYROLL TRENDS AND FORECAST

Establishments in Silver Spring-Rockville-Prince George's Co. MSA added workers to payrolls at the fastest rate since 1999 in 1Q16, hiring at a 24,300-job, 2.5% year-on-year pace, up from 19,200 (2.0%) in 4Q15. The construction, retail and education and health care services sectors fueled the surge, collectively expanding at a 12,100 (4.1%) job annual rate, up from 7,100 in the prior quarter. Leisure and personal service concerns also contributed, boosting headcounts at a 5,700-job rate, topping 4Q15's 4,400-job add. Conversely, transportation and information sector shops shed workers for the fifth consecutive quarter, in this case at a swift -1,400-job, -3.5% pace.

Seasonally-adjusted figures were consistent. This series

recorded a 7,400-job January-March gain, down from 4Q15's 16-year high 9,300. Calvert-P.G Co. did the heavy lifting, contributing 4,000 net jobs during the first quarter.

RED Research's four-county payroll model achieves a 92.9% adjusted-R² (S.E.=0.4%) using U.S. payroll and personal consumption growth and the GDP deflator as independent variables. Against the backdrop of our cautious baseline macro U.S. GDP and payroll forecasts, Suburban Maryland fares remarkably well, slowing gradually to the 1% growth rate area by 2018, but recovering to the mid-1% range by 2020. Point estimates of 20,400 and 7,200 jobs are projected for 2016 and 2017, followed by successive advances in the 10,000-job per year region

1Q16 ABSORPTION AND OCCUPANCY RATE TRENDS

Strong job growth notwithstanding, space demand plummeted during the first quarter. Tenants net leased 149 vacant units, down from 525 units in the prior and 519 units in the year-earlier quarters (Reis). Leaner supply was partially responsible — developers delivered only 217 units — but a meaningful loss of absorption momentum was apparent relative to 1H15. Occupancy was unchanged sequentially at 95.8%, but down -50 basis points year-on-year.

Axiometrics surveys of stabilized, same-store larger properties uncovered slightly weaker conditions. This service recorded a 94.6% occupancy rate, unchanged y-o-y. Class-A (95.1%) assets posted the highest occupancy for the fourth consecutive quarter, followed by classes-B (94.7%) and -C

(94.0%). Tacoma Park (96.6%) maintained highest occupancy among submarkets despite a -70 bps y-o-y decline. Kensington, Silver Spring and Rockville also recorded 95%+ results, but Frederick Co and Bethesda failed to reach 94%.

Metro demand trends are volatile and RCR's demand model reflects it. Using inventory, rent, payroll and nominal GDP growth and vacancy change as variables, the model achieves only an 87.1% ARS (S.E.=0.3%). Nevertheless, it produces a constructive forecast, foreseeing annual absorption of 2,421, 3,343 and 3,728 units during 2016, 2017 and 2018, respectively. Although supply is likely to remain robust throughout the forecast interval occupancy should ascend moderately through 2020.

1Q16 EFFECTIVE RENT TRENDS

Rent growth stalled during the seasonally-weaker winter quarter as the metro average increased only \$1 (0.0%) sequentially to \$1,419, according to Reis. SMD was one of five markets among the RED 50 that failed to make statistical progress in 1Q16. Both classes A and -B&C were soft, but class-A was weaker. Asking rents fell -0.1% sequentially while B&C rents managed a \$2 (0.2%) gain. Expressed on a year-on-year basis metro effective rent increased 2.7%, ranking T4th slowest among the 46 markets RCR model.

Axiometrics surveys of larger, stabilized same-store properties recorded similar trends. Metro rents advanced 1.2% y-o-y, down from 1.6% and 2.0% in the prior and penulti-

mate quarters, respectively. Class-A (2.4%) chalked the fastest gain for the second straight quarter while class-C rents repeated 4Q15's decline, in this case by -1.0%. Concessions inhibited growth as class-A discounts increased from -0.5% of asking rent during 4Q15 to -1.0% in 1Q16.

The metro rent model employs U.S. personal income and GDP_(t-5) growth and the output gap as independent variables, reaching an ARS of 94.6% (S.E.=0.4%). The forecast is optimistic despite recent weak trends, projecting 2.9% - 3.2% advances through 2018. Slower personal income growth anticipated for the forecast out-years may cause rents to decelerate to the mid-2% range by 2019 and 2020.

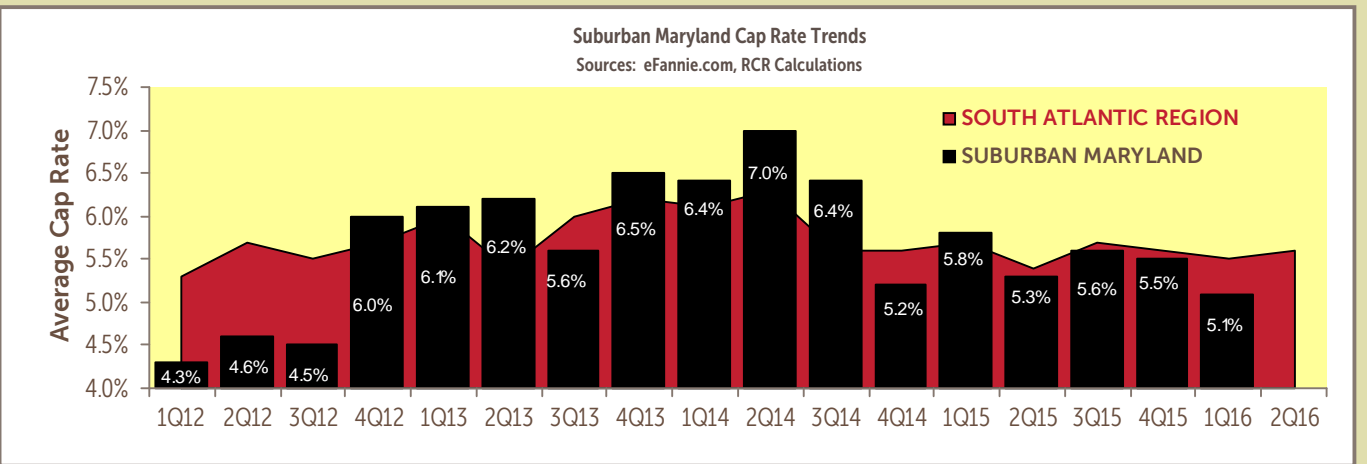
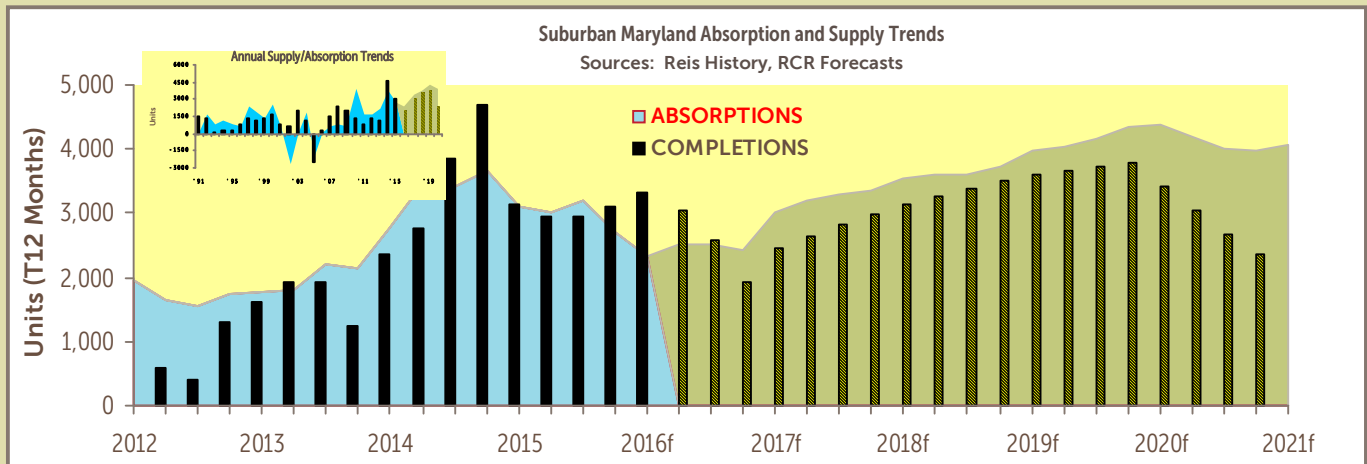
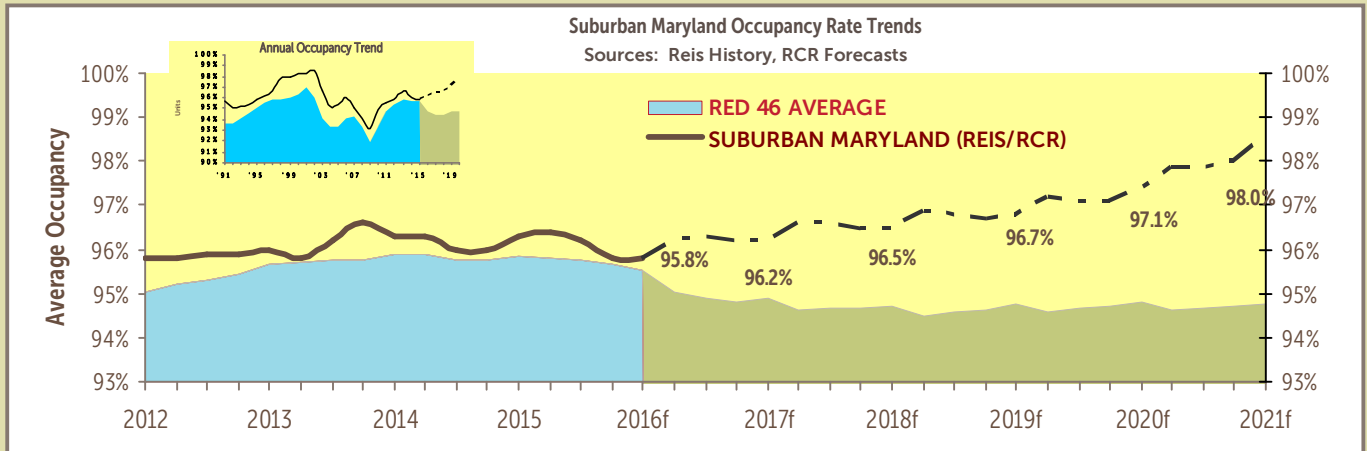
1Q16 PROPERTY MARKETS AND TOTAL RETURNS

Sales velocity lost momentum after 4Q15's strong 22 trade, \$1.6 billion performance as only nine \$5 million or greater trades were consummated during the first quarter. Seven of the first quarter trades were components of a \$5.4bn portfolio sale by Equity Residential. Absent these transactions, sales aggregated only \$85mm of proceeds. Sold assets commanded an average estimated price of about \$201,900, based on estimated price allocations, up 13% from 4Q15's observed \$178,395 average. The pace of sales remained slow during the second quarter as only one larger property exchanged hands in April and May.

Cap rates for class-A trophy mid-rise and high-rise struc-

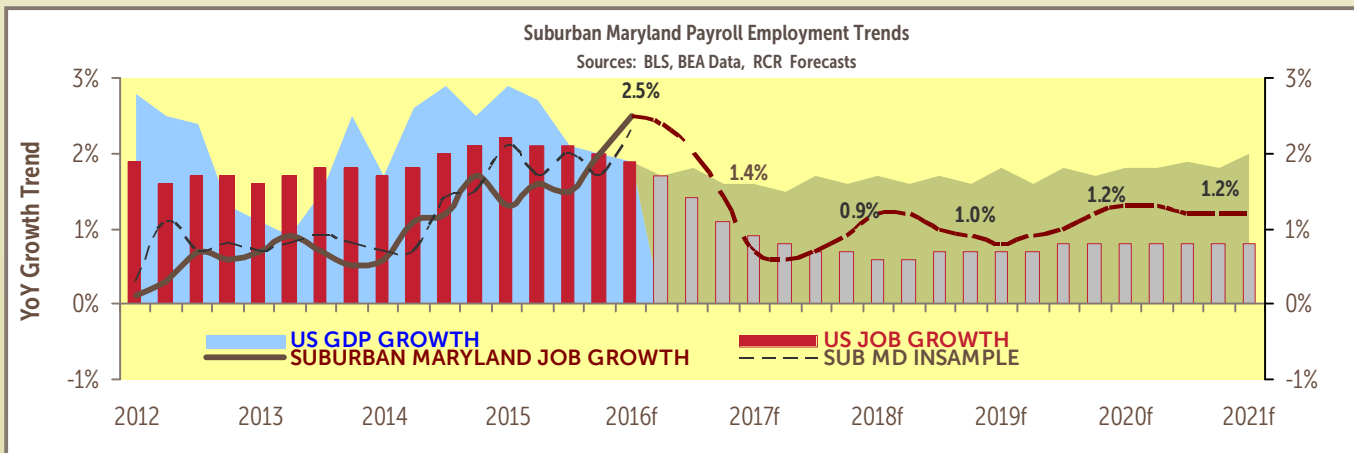
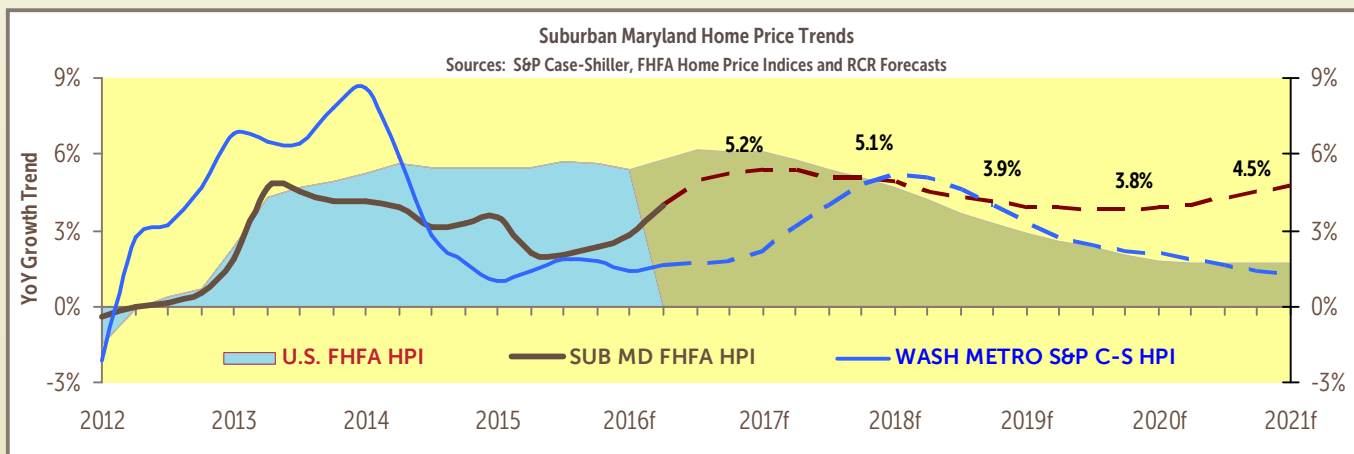
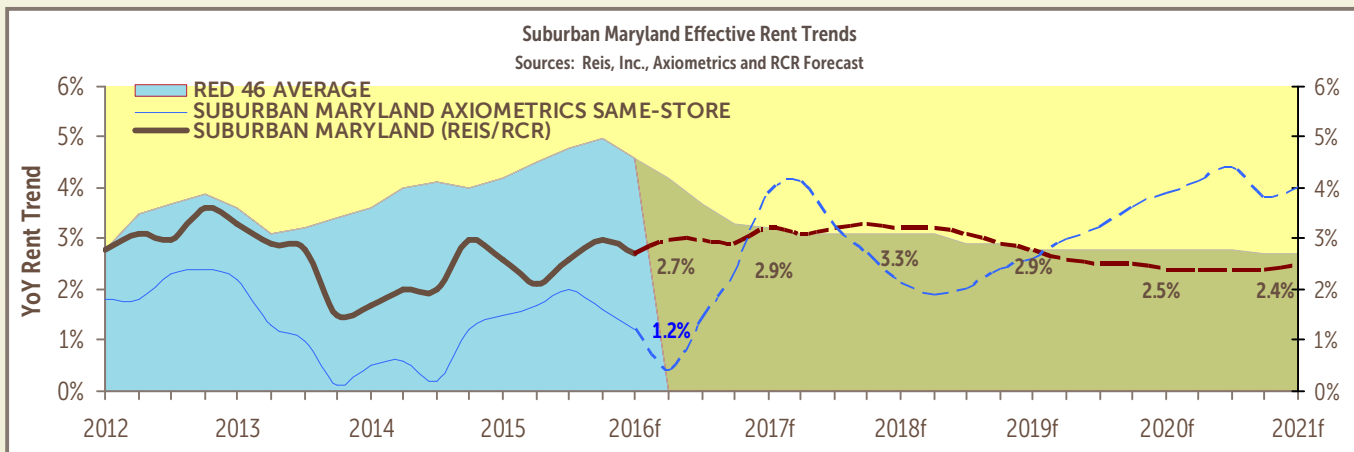
tures were in the low- to mid-4% area. Newer low-rise assets traded in the high-4% to mid-5% range depending on location. Value adds were priced to yield 5.5% to 6.0%.

Based on increased interest in Maryland reinforced concrete, steel and masonry buildings RCR elected to trim the B/B+ proxy cap rate about 25 bps to 5.1%. Even at this level we calculate that a Suburban Maryland investor would expect to achieve a 7.1% unlevered 5-year IRR, using model derived rent and occupancy point estimates and a 5.9% terminal cap. Expected stable rent trends and higher occupancy are primarily responsible. Low model standard error boosts risk-adjusted returns: the RAI ranks RED 46 #7.



NOTABLE TRANSACTIONS

| Property Name (Submarket) | Property Class/ Type (Constr.) | Approx. Date of Transaction | Total Price / (in millions) | Price / per unit | Estimated Cap Rate |
|---|--------------------------------|-----------------------------|-----------------------------|------------------|--------------------|
| Crossings Washingtonian Ctr. (Gaithersburg) | B / RC MR (1989) | 12-Dec-2015 | \$146.0 | \$225,309 | 4.9% |
| Canterbury Apts. (Gaithersburg/Germantown) | C / LR (1986) | 28-Jan-2016 | \$105.0 (est.) | \$193,015 | 5.0% |
| Northlake Apts. (Gaithersburg/Germantown) | C / LR (84/07) | 28-Jan-2016 | \$57.4 | \$188,812 | 5.3% |
| Scarborough Square (Rockville) | A- / GLR (1967) | 28-Jan-2016 | \$39.0 (est.) | \$322,314 | 4.6% |
| Ashton Heights (Suitland) | B / SR HR (1968) | 24-Feb-2016 | \$38.0 | \$129,071 | 6.0% |

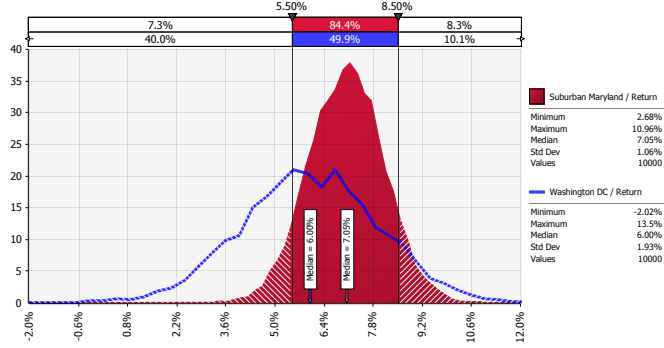


The information contained in this report was prepared for general information purposes only and is not intended as legal, tax, accounting or financial advice, or recommendations to buy or sell currencies or securities or to engage in any specific transactions. Information has been gathered from third 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.

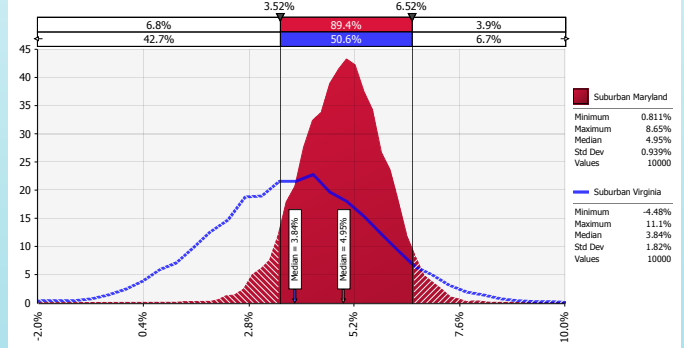
SUBMARKET TRENDS (REIS)

| Submarket | Inventory % Change | Effective Rent | | | Physical Vacancy | | |
|-------------------------|--------------------|----------------|----------------|-------------|------------------|-------------|---------------|
| | | 1Q15 | 1Q16 | Change | 1Q15 | 1Q16 | Change |
| Bethesda /Chevy Chase | 7.7% | \$2,105 | \$2,243 | 6.5% | 4.5% | 7.5% | 300 bps |
| College Park/Greenbelt | 0.0% | \$1,413 | \$1,425 | 0.9% | 2.9% | 3.3% | 40 bps |
| District Heights | 0.0% | \$1,082 | \$1,119 | 3.5% | 4.1% | 4.3% | 20 bps |
| Forest Heights | 0.0% | \$1,129 | \$1,160 | 2.8% | 3.3% | 3.3% | 0 bps |
| Frederick County | 6.9% | \$1,069 | \$1,091 | 2.1% | 4.8% | 8.4% | 360 bps |
| Gaithersburg/Germantown | 1.8% | \$1,414 | \$1,435 | 1.5% | 3.6% | 4.1% | 50 bps |
| Hyattsville | 0.0% | \$1,250 | \$1,269 | 1.5% | 2.0% | 1.8% | -20 bps |
| Kensington / Wheaton | 0.3% | \$1,523 | \$1,547 | 1.6% | 4.3% | 2.8% | -150 bps |
| Landover | 3.1% | \$1,212 | \$1,238 | 2.2% | 2.0% | 2.7% | 70 bps |
| Laurel | 2.0% | \$1,342 | \$1,364 | 1.6% | 3.4% | 3.5% | 10 bps |
| Northeast Montgomery | 0.0% | \$1,293 | \$1,303 | 0.8% | 1.4% | 1.1% | -30 bps |
| Rockville | 11.4% | \$1,696 | \$1,768 | 4.2% | 7.8% | 9.6% | 180 bps |
| Silver Spring | 1.9% | \$1,546 | \$1,549 | 0.2% | 6.3% | 6.2% | -10 bps |
| Takoma Park | 0.0% | \$1,278 | \$1,295 | 1.3% | 1.1% | 1.3% | 20 bps |
| Metro | 2.1% | \$1,382 | \$1,419 | 2.7% | 3.7% | 4.2% | 50 bps |

Suburban MD vs. Washington DC Total Return Probability Distributions



Suburban MD v. NoVA Compound Annual NOI Growth Prob. Distribution



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

