

### PAYROLL JOB SUMMARY

Total Payrolls	1,408.9m
Annual Change	35.3m (2.6%)
RCR 2016 Forecast	28.5m (2.0%)
RCR 2017 Forecast	9.9m (0.7%)
RCR 2018 Forecast	4.7m (0.3%)
RCR 2019 Forecast	3.8m (0.3%)
RCR 2020 Forecast	5.4m (0.4%)
Unemployment (NSA)	2.6% (Apr.)

### 1Q16 PAYROLL TRENDS AND FORECAST

Northern Virginia job creation accelerated to the fastest rate of growth observed in ten years during the first quarter as employers hired at a 35,400-job, 2.6% year-on-year rate, considerably faster than 2015's 1.7% advance. Trade and skilled service sector expansion was principally responsible. Wholesalers and retailers added to headcounts at a 6,100-job, 3.6% rate, while business, education and health care provider payrolls grew by 15,000 (3.0%). Comparable counts for CY2015 were 2,300 (1.3%) and 11,200 (2.1%), respectively. Growth in the critical high tech sector also was encouraging as the professional and technical service subsector rebounded from 2013-14 losses with a second consecutive quarter of 2.5% y-o-y growth or faster: the first gains of this degree in nearly four years.

Seasonally-adjusted data were consistent, showing a robust 13,500-job advance in 1Q16, up from 3,600 jobs during the prior quarter. Indeed, 1Q16's advance was the largest single quarter job increase recorded since 2Q05.

**RED Research** specified a 93.7% adjusted-R<sup>2</sup> (S.E.=0.5%) econometric forecasting model using nominal GDP (+) and metro home price<sub>(t-2)</sub> (-) growth as independent variables as well as three lags of the dependent variable<sub>(t-1 to t-3)</sub>. Our macro models expect NGDP and Washington home appreciation to decelerate over the course of the forecast interval, thereby placing downward pressure on NoVA job creation. After a relatively strong 2016, the models project growth to slip to sub-1% rates through 2020.

### OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	95.6%
RED 50 Rank	27 <sup>th</sup>
Annual Chg. (Reis)	+0.1%
RCR YE16 Forecast	95.2%
RCR YE17 Forecast	94.9%
RCR YE18 Forecast	94.9%
RCR YE19 Forecast	94.9%
RCR YE20 Forecast	95.0%

### 1Q16 ABSORPTION AND OCCUPANCY RATE TRENDS

Strong job growth translated to healthy apartment space demand. Renters net leased 825 vacant units, up from 4Q15's 690-unit metric and the 587-unit post-recession 1Q mean. By the same token, completions totaled only 411 units (smallest single quarter add since 4Q13), allowing occupancy to rise 20 basis points sequentially (10 bps year-on-year) to 95.6%. Rosslyn and Tyson's Corner recorded substantial y-o-y occupancy gains in spite of heavy supply.

pancy for at least the 5th consecutive quarter, followed by classes-A (94.9%) and -B (94.8%) Loudon Co., Glebe Road and Rosslyn recorded rates in the mid-95% range, while supply-challenged Old Town (93.0%) brought up the rear. New assets leased-up at an average of about 11 units per month, down from nearly 13 units in 4Q15.

Axiometrics surveys of larger same-store stabilized properties reveal somewhat weaker conditions. These data indicate that occupancy averaged 94.9% in 1Q16, up 40 bps y-o-y. Class-C (95.3%) properties maintained highest occu-

The NoVA demand model uses inventory, home price and GDP growth and vacancy variables to reach an ARS of 92.1% (S.E.=0.3%). The model forecasts robust demand ranging from 2,742 to 3,427 units per year. But supply will overbalance demand for the most part averaging 3,347 units annually, causing occupancy to drift -60 bps lower.

### EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$1,648
Annual Change	2.1%
RED 50 Rent Change Rank	49 <sup>th</sup>
RCR YE16 Forecast	3.9%
RCR YE17 Forecast	3.1%
RCR YE18 Forecast	2.2%
RCR YE19 Forecast	1.9%
RCR YE20 Forecast	2.0%

### 1Q16 EFFECTIVE RENT TRENDS

Reis report that Northern Virginia rents bounced back from the prior quarter's virtual stall (\$1/0.0%) with a modest \$7 (0.4%) sequential gain during 1Q16. The results were comparable to sluggish 0.6% average post-recession winter quarter outcomes. Expressed on a year-on-year basis, rents increased at a 2.1% annual pace, the second slowest rate among the 50 markets followed by **RED Research** (RED 50).

fourth consecutive quarter, while classes-A and -B (1.75%) followed. Lower rent Loudon Co. and Glebe Road submarkets posted 4% advances. By contrast, tonier Falls Church, SE Fairfax and Tyson's Corner failed to breach 1% gains.

Axiometrics stabilized property, same-store comparisons were consistent with Reis estimates. These data revealed 1Q16 average effective rent growth of 2.0%, up from 1.8% and 0.7% gains during the prior and year-earlier quarters, respectively. Class-C (3.7%) recorded fastest growth for the

**RCR** employed nominal GDP<sub>(t-4)</sub>, payroll, personal income and DC rent growth as independent variables to specify a 95.0% ARS (S.E.=0.6%) rent forecasting model. The resulting forecast is upbeat irrespective of our somewhat pessimistic macro outlook: Projected rents accelerate gradually to the high 3% area by 2017, benefiting from an improving DC market. Weaker gains are expected in the out-years. In keeping with projected slower income and payroll gains.

### TRADE & RETURN SUMMARY

\$5mm+ / 80-unit+ Sales	6
Approximate Proceeds	\$428.3mm
Average Cap Rate (FNM)	5.3%
Average Price / Unit	\$305,704
Expected Total Return	5.4%
RED 46 ETR Rank	33 <sup>rd</sup>
Risk-adjusted Index	2.98
RED 46 RAI Rank	38 <sup>th</sup>

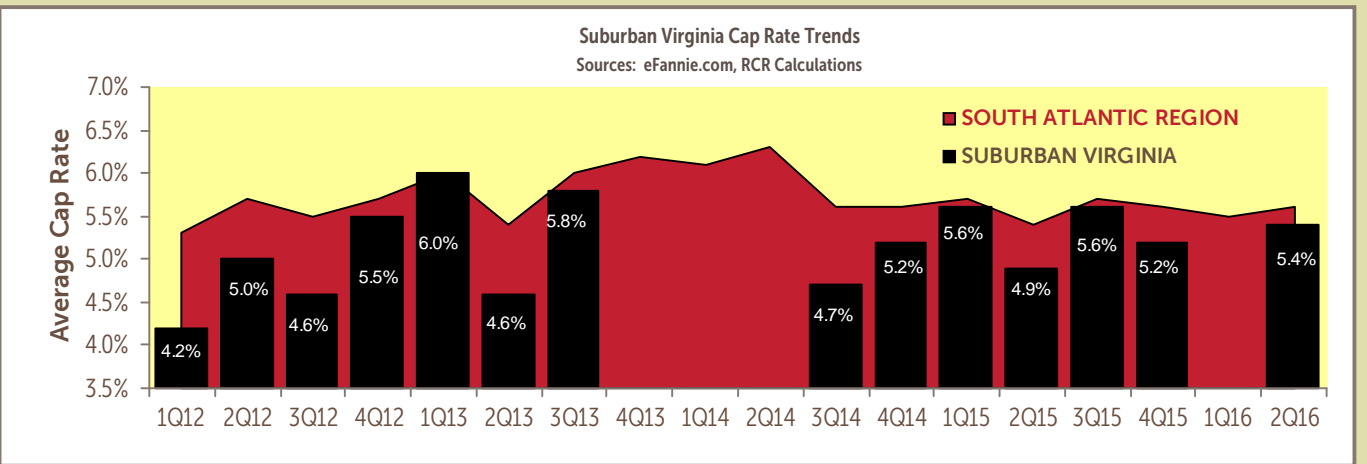
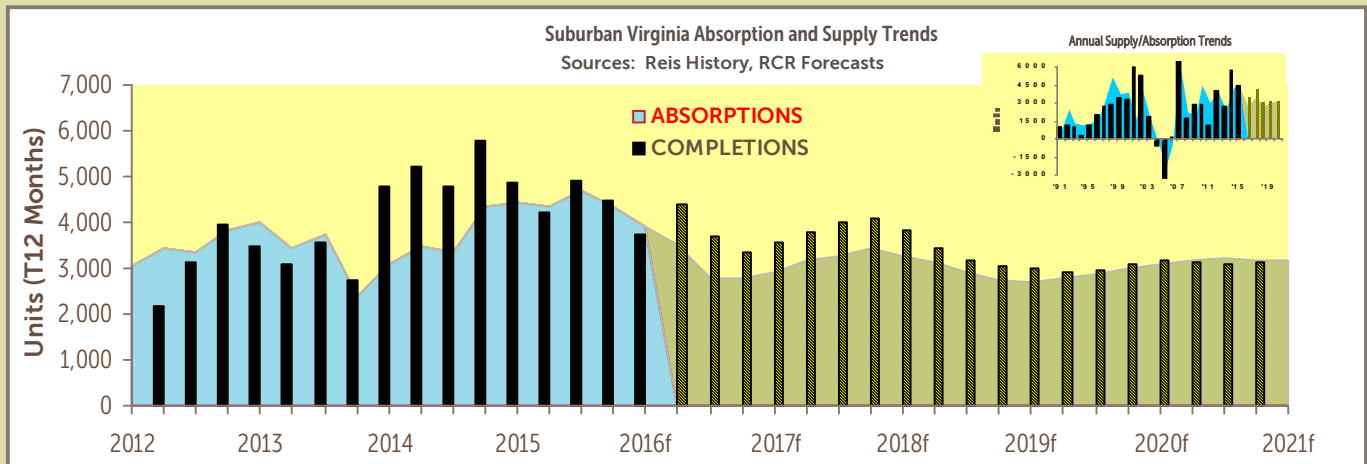
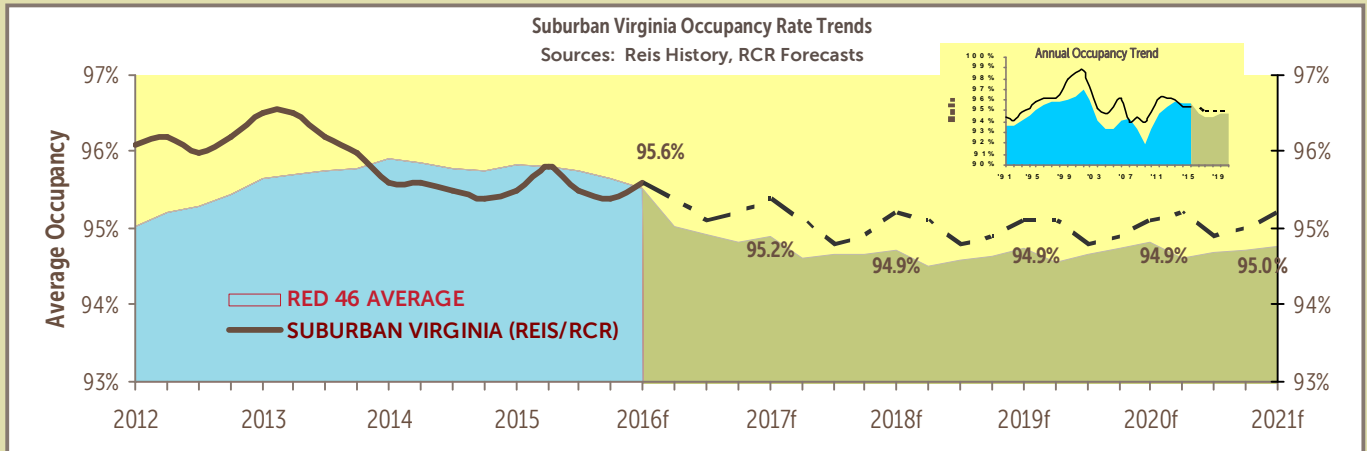
### 1Q16 PROPERTY MARKETS AND TOTAL RETURNS

Sales velocity continued at a measured pace as only six properties valued at \$5 million or more exchanged hands for total proceeds of \$428mm. This compares to seven single property sales closed in 4Q15 for total proceeds of \$936mm (adjusted for multi-property REIT sales). Buyers concentrated on high-value mid- and high-rise masonry brick and concrete structures, however, raising the average per unit price 9.6% from \$279,053 to \$305,704. Second quarter activity started slowly as only three trades were consummated during April and May.

properties were 30 to 50 bps cheaper with going in yields ranging from 4.8% to 5.3%. Value adds were priced to yield 5.25%-6.0%, with pro forma targets in the high 5% to low-6% range.

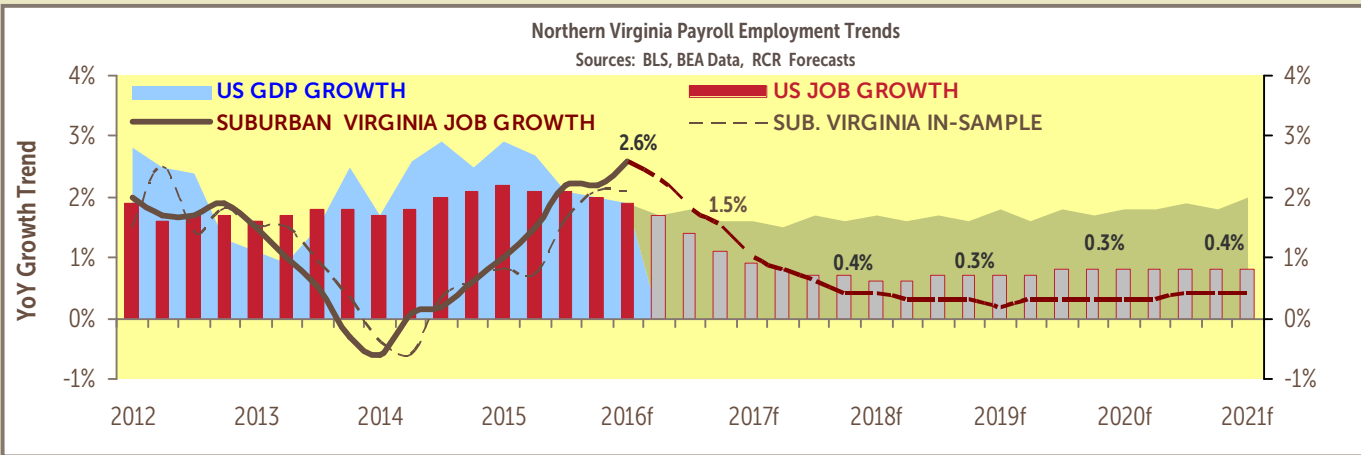
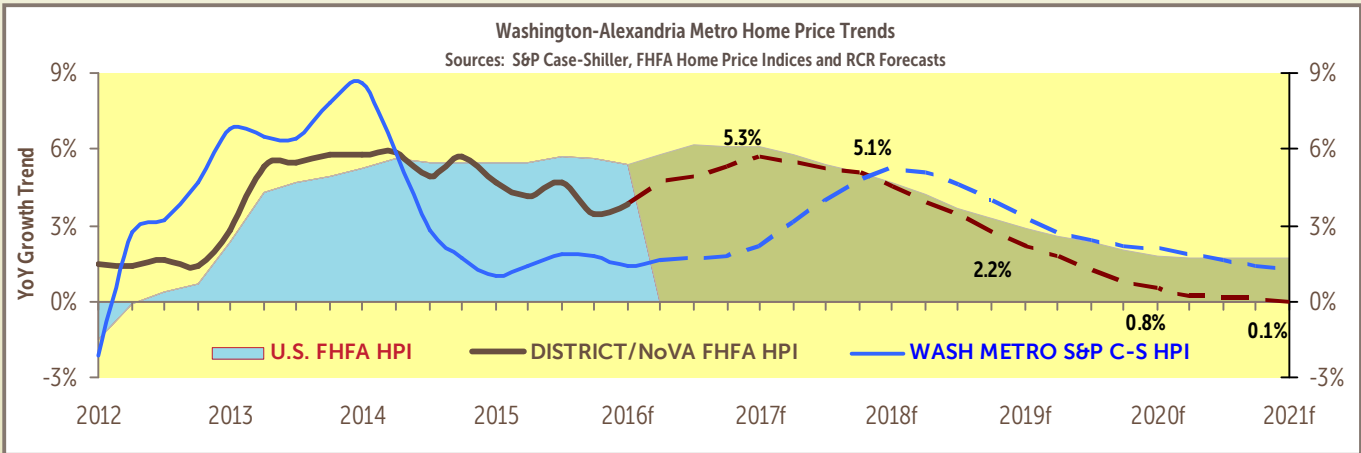
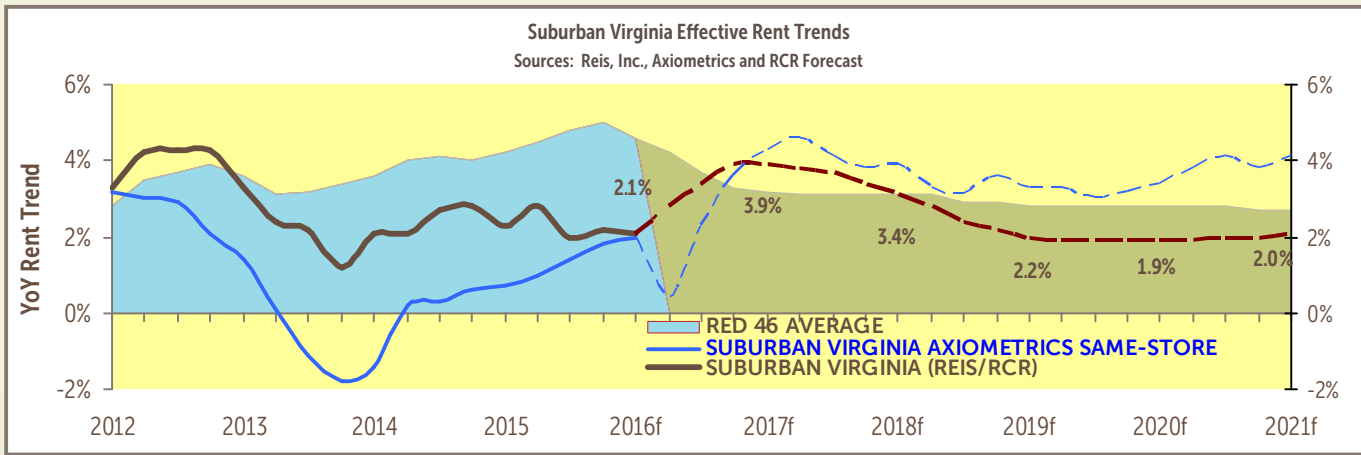
Class-A trophies traded to low- to mid-4% cap rates with envisioned pro forma potential to 4.8% to 5.0%. Class-B/B+

**RCR** elected to raise the B/B+ purchase cap rate proxy 10 bps from the 4Q15 level to 4.9%. Employing the proxy as a purchase yield, model derived rent and occupancy point estimates and a 5.7% terminal cap rate we estimate that an investor in a Suburban Virginia asset should expect to achieve a 5.4% 5-year, unlevered total return; ranking 33<sup>rd</sup> among the **RED 46** peer group. The risk-adjusted index (TR/ $\beta^2_{TR}$ ) is 2.9; placing 37<sup>th</sup> among the **R46** peers.



## NOTABLE TRANSACTIONS

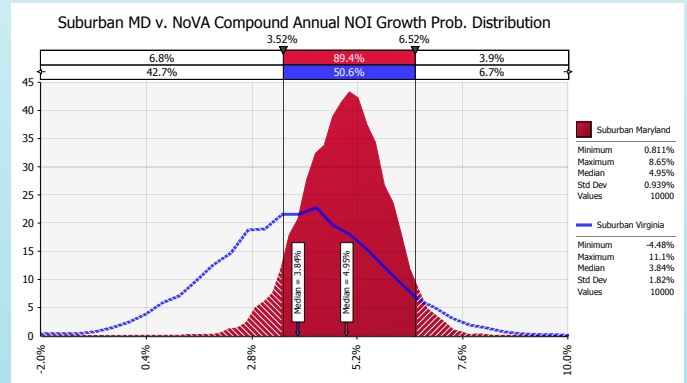
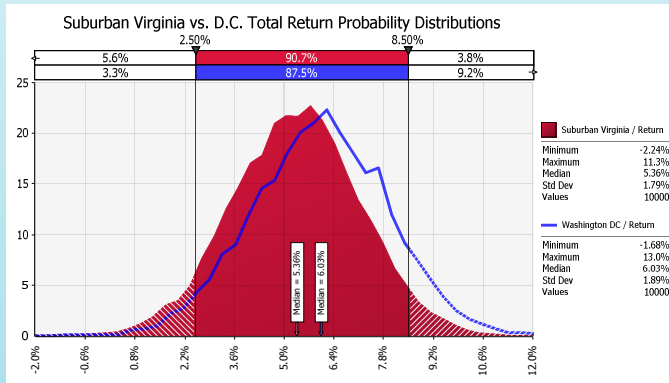
Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
Newport Village Apartments (Alexandria)	B / GLR (1968)	7-Oct-2015	\$240.0	\$256,136	4.8%
Cosmopolitan Lorton Station (SE Fairfax)	B / LR (2006)	24-Nov-2015	\$65.2	\$259,781	4.6%
The Kingsley (Old Town / OT North)	A / MB MR (2014)	25-Nov-2015	\$75.0 (Res only)	\$428,571	4.6%
Avalon Potomac Yard (Old Town)	B+ / MB MR (2014)	15-Feb-2016	\$108.3	\$335,139	4.3%/4.8% p.f.
Avalon Clarendon (Rosslyn/Clarendon)	A / MB LR (2001)	19-May-2016	\$120.3	\$401,000	4.9%
Riverside Apts. (SE Fairfax / Huntington)	C+/RC HR (73/07)	20-May-2016	\$227.8 (Res only)	\$186,375	5.2%



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## SUBMARKET TRENDS (REIS)

Submarket	Inventory % Change	Effective Rent			Physical Vacancy		
		1Q15	1Q16	Change	1Q15	1Q16	Change
Columbia Pike	1.5%	\$1,646	\$1,667	1.3%	1.9%	3.2%	130 bps
Falls Church	0.0%	\$1,587	\$1,619	2.0%	2.5%	1.8%	-70 bps
Fredericksburg	0.0%	\$964	\$977	1.4%	4.6%	3.6%	-100 bps
Loudoun County	0.0%	\$1,492	\$1,544	3.5%	5.1%	4.1%	-100 bps
Northeast Alexandria	-0.2%	\$1,256	\$1,312	4.4%	3.4%	2.6%	-80 bps
Old Town	9.3%	\$1,648	\$1,683	2.1%	10.6%	12.4%	180 bps
Pentagon City	4.1%	\$2,184	\$2,389	9.4%	2.6%	4.0%	140 bps
Prince William County	3.8%	\$1,260	\$1,322	4.9%	5.6%	5.1%	-50 bps
Rosslyn / Ballston	1.7%	\$1,982	\$2,009	1.3%	8.3%	6.5%	-180 bps
Southeast Fairfax Co.	2.2%	\$1,557	\$1,459	-6.3%	2.0%	2.5%	50 bps
Seminary Road	0.6%	\$1,507	\$1,553	3.1%	2.0%	1.4%	-60 bps
Stafford County	0.0%	\$1,047	\$998	-4.7%	3.1%	3.3%	20 bps
Tysons Corner / Fairfax	5.8%	\$1,750	\$1,779	1.7%	9.5%	8.2%	-130 bps
Western Fairfax County	3.7%	\$1,567	\$1,648	5.2%	2.5%	3.7%	120 bps
<b>Metro</b>	<b>2.1%</b>	<b>\$1,614</b>	<b>\$1,648</b>	<b>2.1%</b>	<b>4.5%</b>	<b>4.4%</b>	<b>-10 bps</b>



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