SEATTLE, WASHINGTON

MARKET OVERVIEW & MULTIFAMILY HOUSING UPDATE

RED Capital Group | 1Q16 | JUNE 2016

PAYROLL JOB SUMMARY

Total Payrolls	1,611.7m
Annual Change	49.4m (3.2%)
RCR 2016 Forecast	42.2m (2.6%)
RCR 2017 Forecast	33.9m (2.1%)
RCR 2018 Forecast	30.9m (1.8%)
RCR 2019 Forecast	28.2m (1.7%)
RCR 2020 Forecast	25.1m (1.5%)
Unemployment (NSA)	4.2% (Apr.)

1Q16 PAYROLL TRENDS AND FORECAST

Seattle payroll trends remained on a robust trajectory during the first quarter, rising at a 49,400-job, 3.2% year-on-year rate; up from 4Q15's 46,800-job pace. The solid performance was achieved with little help from the foundation manufacturing and business service sectors, which collectively added positions at a 5,100-job, 1.3% rate, down from 9,600 (2.4%) jobs in 4Q. Rather, growth was propelled by rapid hiring by trade, software and financial services concerns, where headcounts increased at a 16,330-job, 4.5% annual rate, up from 11,000 (3.0%) in the prior quarter. While the headline business service number was soft the professional and tech component shone, rising 5,200 jobs y-o-y, strongest since 1Q13 (6,000).

Seasonally-adjusted data also were constructive. Metro payrolls increased 15,200 positions in 1Q, a 6-quarter high, and 4,900 jobs April, the best April add since 2013.

Although RED Research expect SEA labor market trends to continue to significantly out-perform the nation, our models expect U.S job growth to begin to revert to the normal 2% increase in GDP to 1% payroll growth relationship observed over the past 30 years. This reversion is largely responsible for the model's forecast of slower job creation ahead, especially in 2017-18. SEA gains are projected to decelerate to 42,200 jobs in 2016, and 30,900 and 28,200 positions during 2017 and 2018, respectively.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	94.3%
RED 50 Rank	43rd
Annual Chg. (Reis)	-1.3%
RCR YE16 Forecast	92.7%
RCR YE17 Forecast	93.4%
RCR YE18 Forecast	94.1%
RCR YE19 Forecast	94.6%
RCR YE20 Forecast	94.6%

1Q16 ABSORPTION AND OCCUPANCY RATE TRENDS

Apartment demand was moderately weaker during the winter quarter as tenants absorbed a net of 1,063 units, down from 2,267 and 1,265 units in the prior and year-earlier periods, respectively (Reis). By the same token, supply levels remained elevated as developers delivered 1,827 units, producing a sequential quarter occupancy decline of −30 basis points (-130 bps year-on-year) to 94.3%. This is the lowest Seattle rate observed in six years.

Large professionally-managed assets maintained higher occupancy. Axiometrics surveys of 514 stabilized same-store properties recorded a 95.4% occupancy rate, down -10 bps y-o-y. Class-C (95.9%) was highest for the fourth consecutive quarter, topping A- and B-class assets by 90 and 40 bps, respectively. Kirkland, North Seattle and Redmond submarkets topped 96% occupancy while Beacon Hill (94.2%) brought up the rear. New properties leased up at a 16-unit/mo. average rate, up from 13 units in 4Q15.

RCR's demand model employs stock growth (+), S&P500 returns (+) and vacancy$_{(t-4)}$ (+) as independent variables to achieve a 94.2% adjusted-R^2. The model responds to weaker absorption in 1Q to project soft 2Q16-3Q16 demand (~900 units) irrespective of anticipated rapid stock growth. Consequently, occupancy is projected to fall sharply followed by a recovery to the mid-94% range as supply pressures abate .

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	$1,337
Annual Change	8.3%
RED 50 Rent Change Rank	2nd
RCR YE16 Forecast	2.1%
RCR YE17 Forecast	1.2%
RCR YE18 Forecast	3.7%
RCR YE19 Forecast	3.9%
RCR YE20 Forecast	3.7%

1Q16 EFFECTIVE RENT TRENDS

Reis report that effective rent trends rebounded during 1Q16, rising $23 (1.8%) sequentially to $1,337, up from 4Q's seasonally weaker, equal 4-year low $15 (1.1%) advance. Year-on-year comparisons held steady at 8.3%, nearly replicating results observed in the previous two quarters. Primarily class-B&C Auburn submarket recorded the strongest same-store sequential gain (2.3%/$938), matched by supply-heavy Downtown/Capitol Hill (2.3%/ $1,974).

Axiometrics same-store comparisons registered an 8.8% y-o-y increase, down slightly from 4Q15's 5-year high 9.2% metric. Class-C easily posted the strongest result (11.6%), topping classes-A (5.8%) and –B (8.8%) for the 6th consecutive quarter. Among submarkets, largely class-B-/C Kent, Des Moines and Everett recorded 13%+ y-o-y gains, while Beacon Hill, Downtown and North Seattle fell short of 5%.

RCR's SEA rent model includes job (+) and personal income (-) growth, home appreciation$_{(t-6)}$(+), Baa bond yields$_{(t-1)}$ (-) and vacancy$_{(t-1)}$ (-) as independent variables to achieve a 97.2% ARS (S.E.=0.3%). The model finds that the projected sharp increase in vacancy expected in 2016-17 overbalances the positive impact of robust home price appreciation to inhibit rent growth for the next two years. Above average growth is projected to return in 2018 as supply levels decline and the metro occupancy rate improves.

TRADE & RETURN SUMMARY

$5mm+ / 80-unit+ Sales	23
Approximate Proceeds	$923mm
Average Cap Rate (FNM)	5.6%
Average Price / Unit	$188,068
Expected Total Return	5.2%
RED 46 ETR Rank	33rd
Risk-adjusted Index	3.2
RED 46 RAI Rank	34th

1Q16 PROPERTY MARKETS AND TOTAL RETURNS

Sales velocity was steady during the first quarter. A total of 23 transactions valued at $5 million or more closed during the quarter, matching 4Q15's results. Sales proceeds fell –13.9%, however, as the average price per unit sold plunged –17.3% quarter-to-quarter from $227,426 to $188,068. The decline was largely attributable to a shift in buyer from recent construction properties to "value add" plays. Indeed, the unit weighted average age of properties sold in 1Q16 increased seven years from 23 years in 4Q15 to 30 years during the first quarter.

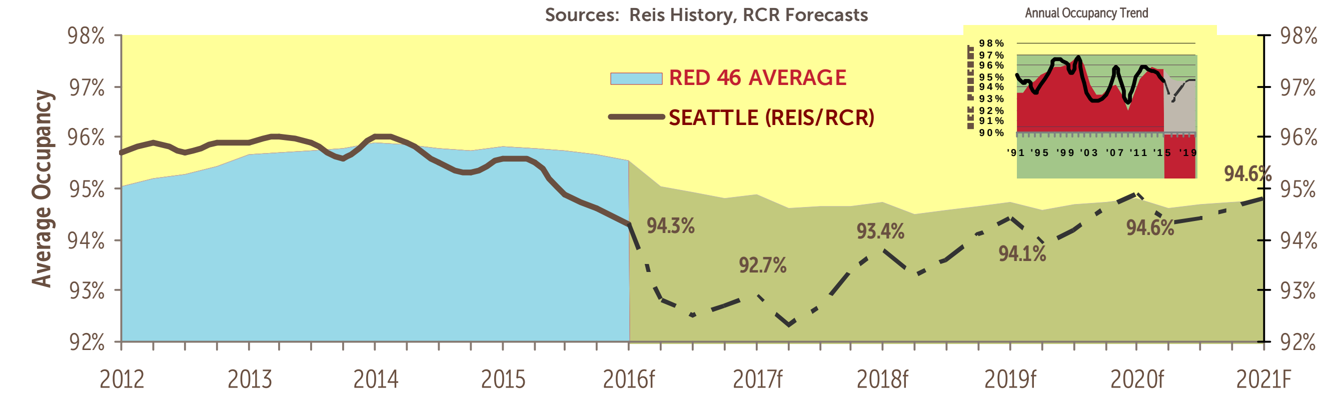
Sales appeared to stall in the spring as CoStar reported only 3 closings in April and May. Buyers may be growing more reluctant to fight the looming supply bulge.

Cap rate trends reflected a degree of buyer caution. Average cap rates increased about 40 bps between 4Q15 and 1Q16 to about 5.45%. Value adds continued to trade in the mid-5% area, but caps on younger assets drifted higher.

RCR elected to raise the cap rate proxy 20 bps to 5.0%. Regardless, the expected 5-year total return metric declined from 6.6% to 5.2%, largely due to weaker forecasted rate of rent growth in 2016-17. The metric ranks 33rd among the RED 46 markets. Risk-adjusted returns were comparable, ranking 34th among the peer group.

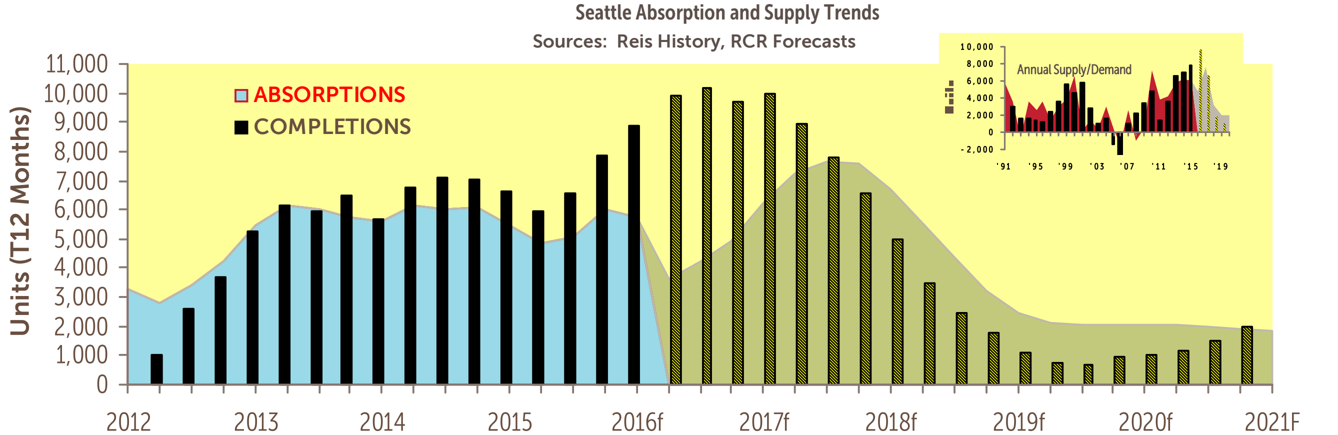
Seattle Occupancy Rate Trends

Sources: Reis History, RCR Forecasts



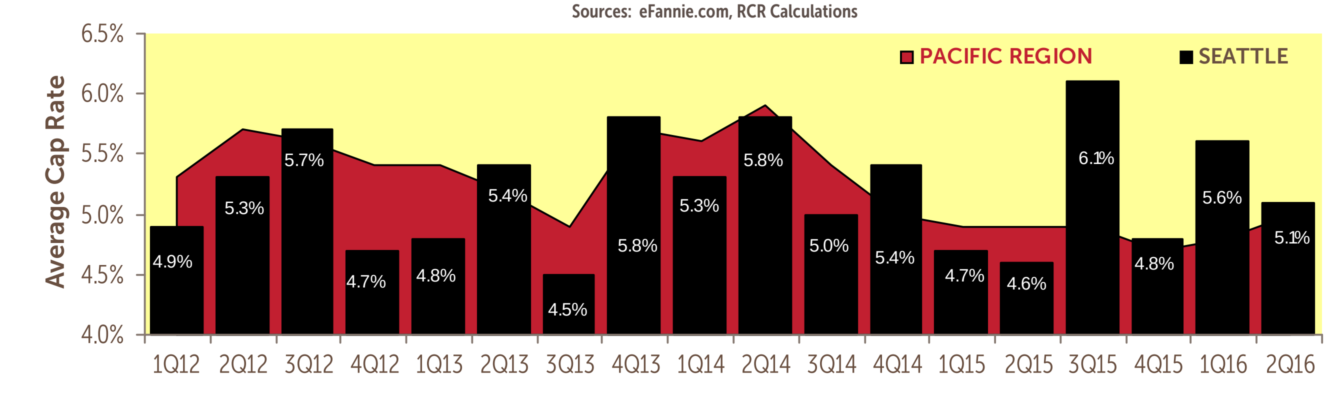
Seattle Absorption and Supply Trends

Sources: Reis History, RCR Forecasts



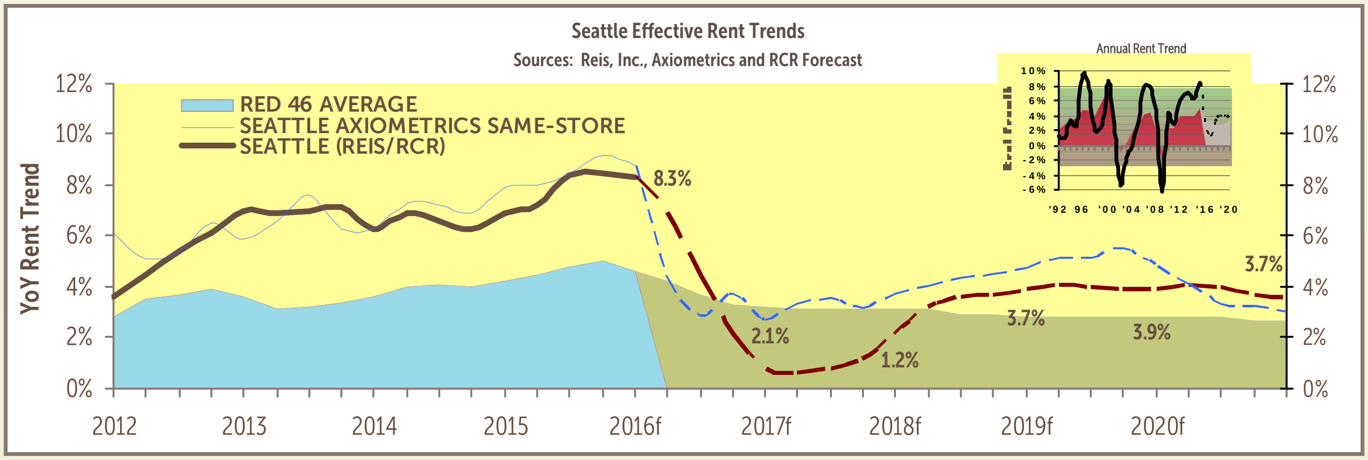
Seattle Cap Rate Trends

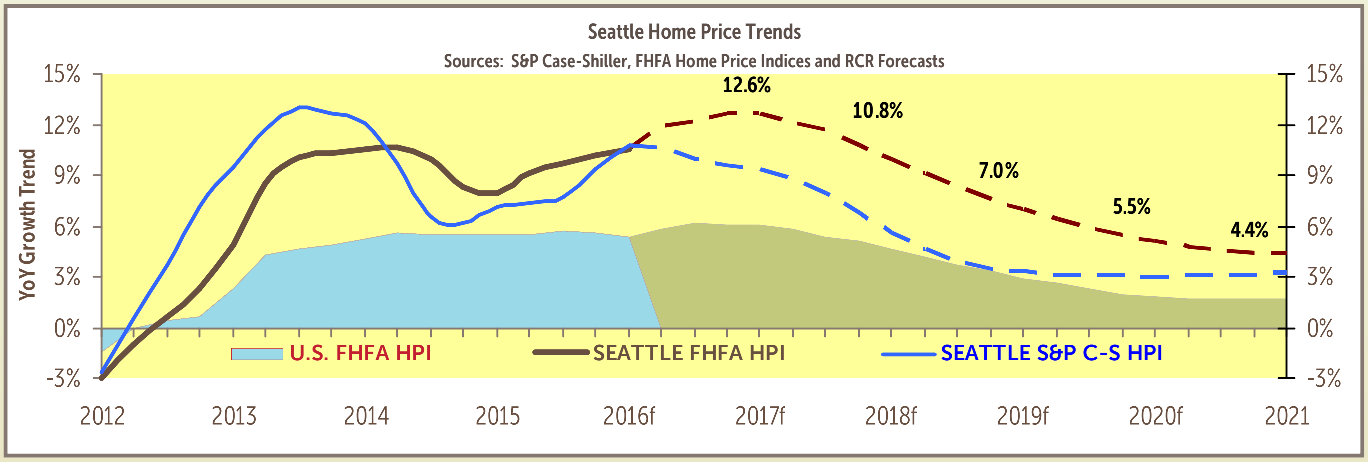
Sources: eFannie.com, RCR Calculations

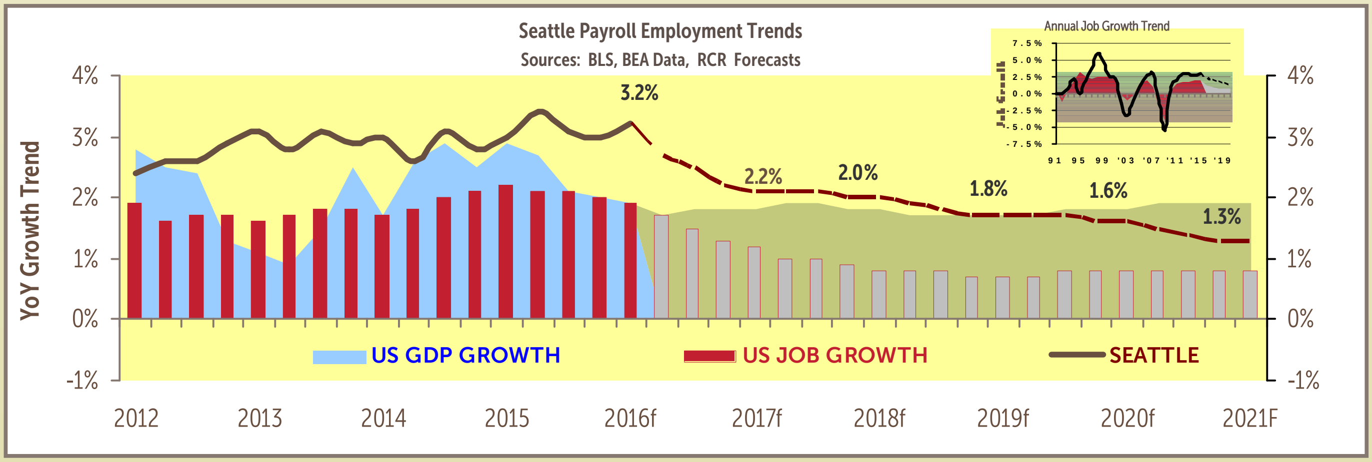


NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price / (in millions)	Price / per unit	Estimated Cap Rate
Arterra (Everett / Intercity)	C / GLR (1981)	15-Jan-2016	$13.4	$111,250	6.2%
Cambridge (Edmonds/Lynwood/Cedar Valley)	C / GLR (69/99)	19-Jan-2016	$27.0	$160,714	6.1%
Griffis Belltown (Downtown/Waterfront)	B+ / RC LR (1992)	21-Jan-2016	$90.8	$389,485	4.3%
Alturis at Burien (West Seattle / Seahurst)	C / GLR (48/73)	30-Jan-2016	$51.5	$94,577	7.1%
Tivalli Apartments (Edmonds/North Lynwood)	B+ / RC LR (2014)	7-Mar-2016	$94.3	$246,084	4.2%/5.2% p.f.
77 Central (Bellevue / Mercer Heights)	A++/WF LR (2008)	22-Apr-2016	$97.0	$567,261	4.2%

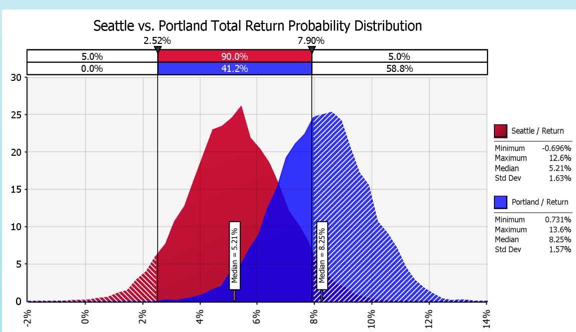

Seattle Effective Rent Trends
Sources: Reis, Inc., Axiometrics and RCR Forecast
RED 46 AVERAGE
SEATTLE AXIOMETRICS SAME-STORE
SEATTLE (REIS/RCR)
YoY Rent Trend
Annual Rent Trend
8.3%
2.1%
1.2%
3.7%
3.9%
3.7%
2012
2013
2014
2015
2016f
2017f
2018f
2019f
2020f

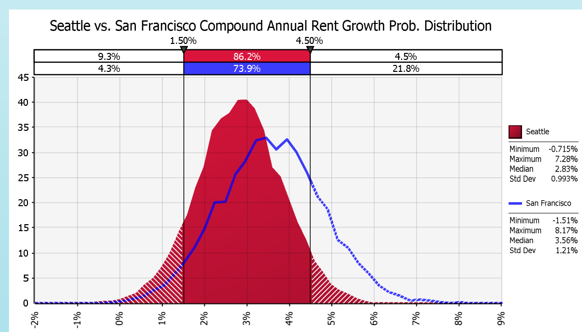

Seattle Home Price Trends
Sources: S&P Case-Shiller, FHFA Home Price Indices and RCR Forecasts
YoY Growth Trend
12.6%
10.8%
7.0%
5.5%
4.4%
U.S. FHFA HPI
SEATTLE FHFA HPI
SEATTLE S&P C-S HPI
2012
2013
2014
2015
2016f
2017f
2018f
2019f
2020f
2021


Seattle Payroll Employment Trends
Sources: BLS, BEA Data, RCR Forecasts
YoY Growth Trend
Annual Job Growth Trend
3.2%
2.2%
2.0%
1.8%
1.6%
1.3%
US GDP GROWTH
US JOB GROWTH
SEATTLE
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
Auburn / Enumclaw	1.6%	$874	$938	7.4%	1.2%	1.8%	60 bps
Beacon Hill / Rainier	5.3%	$1,137	$1,225	7.8%	5.0%	7.0%	200 bps
Bellevue / Issaquah	7.6%	$1,439	$1,562	8.5%	3.9%	6.3%	240 bps
Bothell	1.4%	$1,190	$1,262	6.0%	5.6%	4.9%	-70 bps
Des Moines / West Kent	1.4%	$941	$1,016	8.0%	3.0%	3.0%	0 bps
Downtown / Capitol Hill	8.6%	$1,747	$1,974	13.0%	8.5%	11.9%	340 bps
Edmonds / Lynnwood	4.6%	$1,005	$1,101	9.5%	2.4%	4.1%	170 bps
Everett / Mukilteo	1.6%	$1,001	$1,073	7.3%	2.7%	2.7%	0 bps
Federal Way	0.0%	$947	$1,036	9.4%	2.4%	1.4%	-100 bps
Kent	0.0%	$988	$1,052	6.5%	1.8%	1.2%	-60 bps
Kirkland / Juanita	3.7%	$1,487	$1,690	13.7%	3.0%	4.1%	110 bps
North Seattle	4.1%	$1,264	$1,327	5.0%	7.4%	8.1%	70 bps
Redmond	7.6%	$1,372	$1,450	5.7%	2.1%	6.1%	400 bps
Renton	1.6%	$1,020	$1,074	5.4%	2.1%	2.4%	30 bps
Tukwila / Sea-Tac	0.0%	$824	$890	8.0%	1.6%	1.2%	-40 bps
West Seattle / Burien	6.3%	$1,015	$1,112	9.6%	3.9%	6.2%	230 bps
Metro	4.2%	$1,235	$1,337	8.3%	4.4%	5.7%	130 bps





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