

PAYROLL JOB SUMMARY

Average Payrolls	1,813.2m
Annual Change	31.0m (1.7%)
RCR 2016 Forecast	27.4m (1.5%)
RCR 2017 Forecast	32.7m (1.8%)
RCR 2018 Forecast	30.9m (1.7%)
RCR 2019 Forecast	11.6m (0.6%)
RCR 2020 Forecast	1.2m (0.1%)
Unemployment (NSA)	3.3% (Aug.)

2Q16 PAYROLL TRENDS AND FORECAST

Boston job creation gained strength for the second consecutive quarter. Establishments added workers at a 31,000-job, 1.7% year-on-year pace during 2Q16, up from 28,500- and 21,300-job rates in the prior and penultimate quarters, respectively. Economic acceleration was attributable in large part to faster hiring in the skilled services: financial, professional, technical and healthcare services added employees at a collective 23,700-job, 2.9% rate, comparing favorably to 4Q15's 19,100-job pace. Trade and leisure service industries also exhibited greater strength. By contrast, education service and manufacturing headcount losses gained speed.

stronger than nominal payrolls suggest. The series shows that employers created 26,400 jobs January-to-June, greater than any comparable period in at least 27 years. Moreover, early 3Q16 results were constructive as Boston created another 8,100 jobs in July and August.

RED Research specified a 96.8% adjusted-R² (SE=0.4%) payroll forecasting model using the rate of change of US payroll growth and the federal funds rate, metro income growth and home appreciation and S&P500 returns as independent variables. The model projects accelerating growth through 2017, fueled by stronger US job gains and S&P returns; followed by gradually slower progress as the nation's expansion phase ends in decade's final years.

Seasonally-adjusted data indicate that labor market are

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	94.5%
RED 51 Rank	40 th
Annual Chg. (Reis)	-0.5%
RCR YE16 Forecast	93.9%
RCR YE17 Forecast	94.4%
RCR YE18 Forecast	94.1%
RCR YE19 Forecast	94.0%
RCR YE20 Forecast	93.9%

2Q16 ABSORPTION AND OCCUPANCY RATE TRENDS

Second quarter apartment demand was moderately weaker than expected. Reis report that tenants occupied a net of 823 vacant units, comparing unfavorably to 1,441 in the year-earlier quarter and RCR's 1,210-unit in-sample forecast. Supply, by contrast, was heavy as developers delivered 1,475 newly completed units to market, causing metro occupancy to decline -30 basis points sequentially to 94.5%, a six-year low. Supply was heaviest in the Boston City (353) and Central/Back Bay (376) submarkets, trimming occupancy -100bps sequentially in each case.

-40 and -50bps year-on-year. The overall 3Q16 rate, including assets in lease-up, was 94.8%. Outside 128 suburban submarkets recorded occupancies above 96%. Rates in infill areas were 95.0% or lower, -70bps (Boston City) to -170bps (Brookline) below year-before comparisons.

Axiometrics surveys of stabilized same-store properties found average occupancy of 95.7% in 2Q and 3Q16, down

Above average supply will persist through summer 2017. Demand will struggle to keep pace, causing further occupancy attrition. But our models indicate that moderating rent growth, faster home appreciation and higher vacancy will propel absorption higher by 2H17, while supply trends moderate. Consequently, occupancy should recover and remain in the low-94% range for the forecast interval.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$2,046
Annual Change	4.6%
RED 51 Rent Change Rank	15 th
RCR YE16 Forecast	3.8%
RCR YE17 Forecast	5.9%
RCR YE18 Forecast	5.6%
RCR YE19 Forecast	3.9%
RCR YE20 Forecast	2.9%

2Q16 EFFECTIVE RENT TRENDS

Boston rents rebounded from 1Q16's sluggish \$7 (0.5%) sequential advance with a faster \$21 (1.0%) gain during the spring quarter. Although an improvement over the prior quarter, the 2Q16 metric represented a sharp deceleration from the 1.8% increase recorded during the year-earlier period and the 2.2% surge observed in 2Q14. As a result, the year-on-year comparison declined from 5.4% in 1Q16 and 5.7% in 4Q15 (a 15-year high) to 4.6%, a two-year low.

0.8% gain in 3Q, trailing classes-B (3.8%) and -C (2.7%). Assets in lease-up managed a 1.7% increase. Mystic River North (6.1%) and North Shore (4.5%) led among submarkets, while Brookline (1.1%), Cambridge (1.3%), Back Bay (0.9%) and South Suburban (1.0%) fell short of 1.5% growth.

Stabilized, same store properties surveyed by Axiometrics reported slower growth. Sample rents increased 3.8% and 3.0% y-o-y during 2Q and 3Q16, respectively, down from 1Q16's 5.2% advance. Class-A properties registered only a

RCR's BOS rent model uses payroll and personal income growth as independent variables to achieve a 95.9% ARS (SE=0.8%). The model foresees reaccelerating rent trends beginning in 2017 as metro job and income growth strengthen, perhaps to 15-year highs in 2018. But this late cycle surge is unlikely to have a long shelf life; slower revenue growth may define the end of the decade.

TRADE & RETURN SUMMARY

\$5mm+ / 80-unit+ Sales	11
Approximate Proceeds	\$583.4mm
Average Cap Rate (FNM)	4.6%
Average Price / Unit	\$271,611
Expected Total Return	6.6%
RED 47 ETR Rank	19 th
Risk-adjusted Index	3.92
RED 47 RAI Rank	29 th

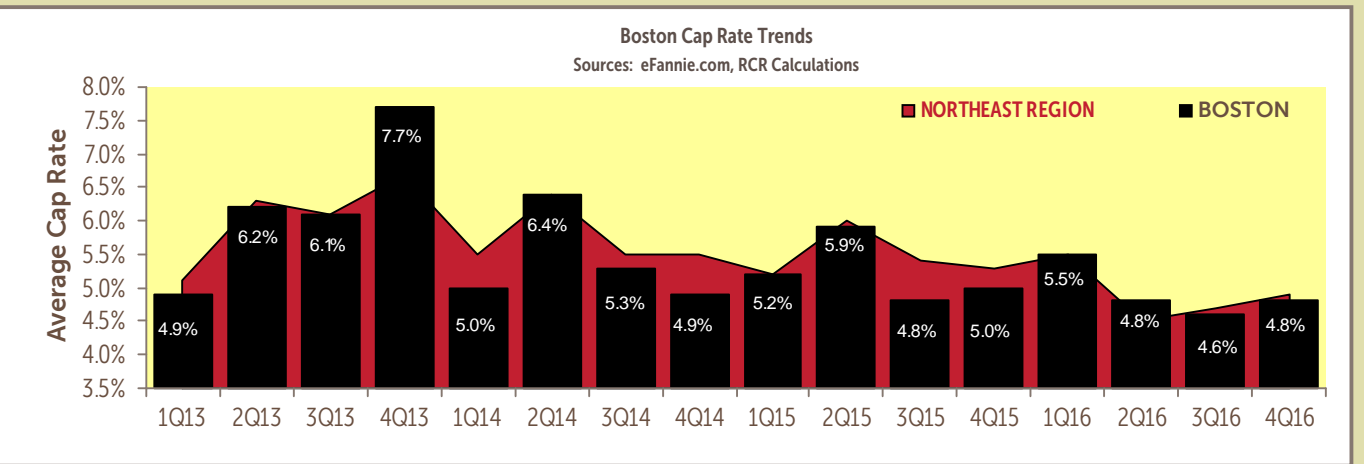
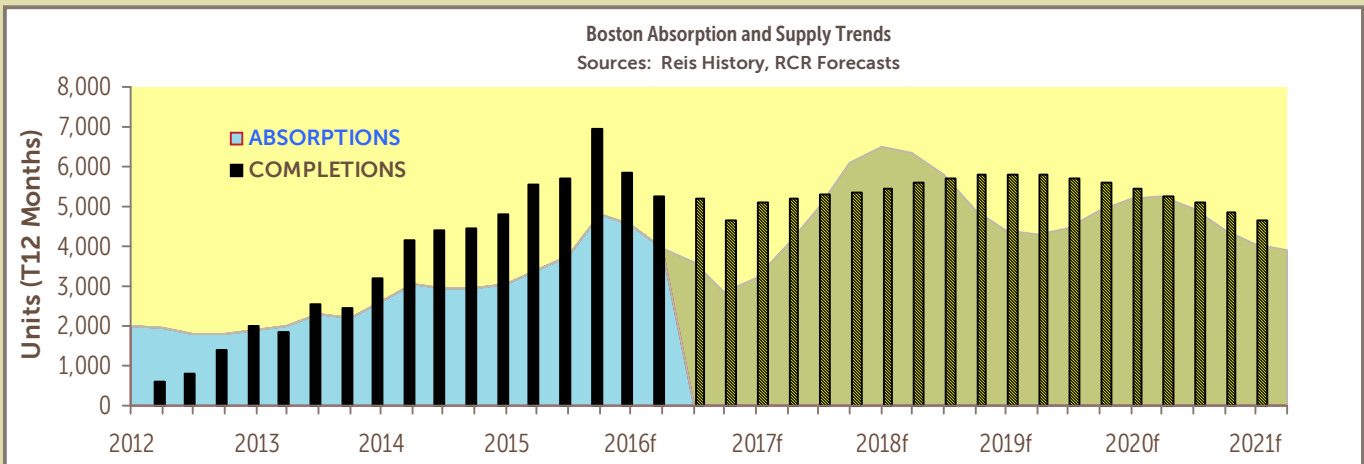
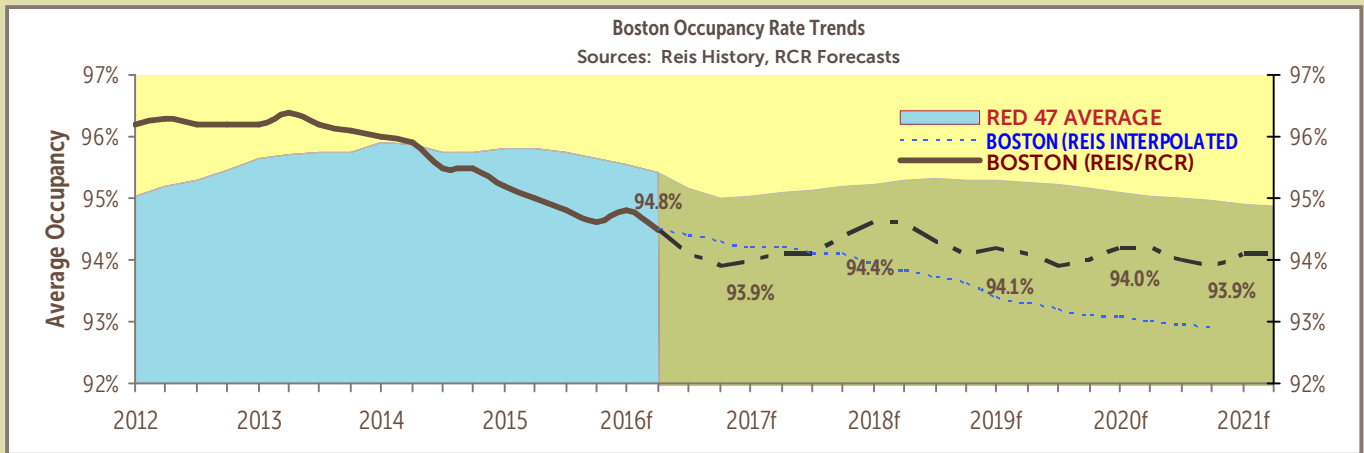
2Q16 PROPERTY MARKETS AND TOTAL RETURNS

Sales velocity picked up in the spring after a seasonally slow first quarter. A total of 11 properties of \$5 million value or greater exchanged hands for total proceeds of \$583 million. This compares to 8 and 14 trades valued at \$242mm and \$652mm during the prior and year-earlier quarters. The average price per unit was \$271,611, a 94% increase relative to 1Q16 and the second highest quarterly figure in the Boston data series after 3Q15.

Class-A trophy cap rates remain in the 4.0%-4.2% area. Class-B+ yields fall in the mid-4s. Class-B/B-value adds trade from the high-4s to near 6%, depending on location.

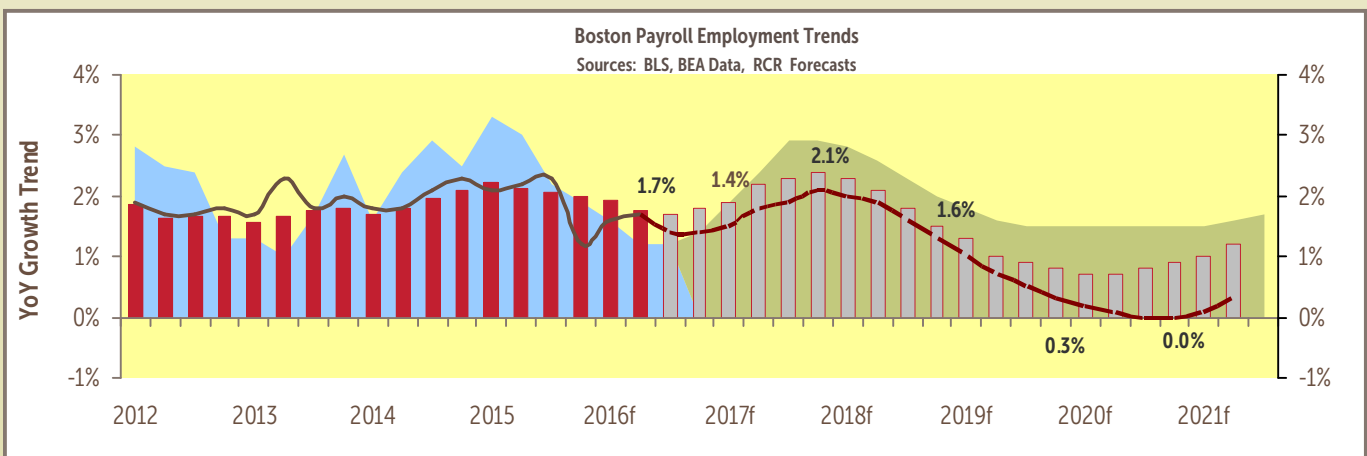
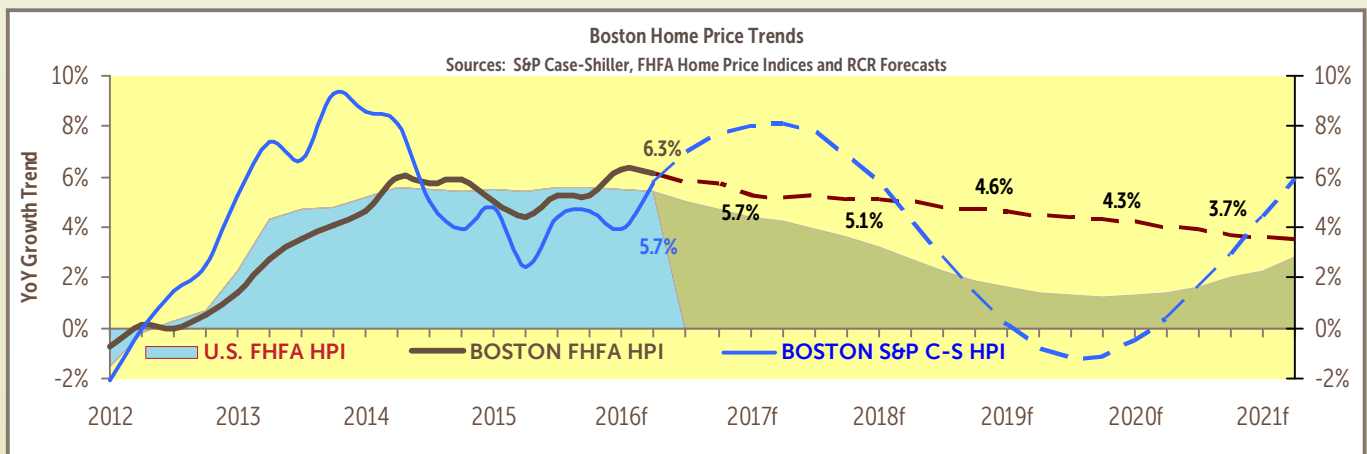
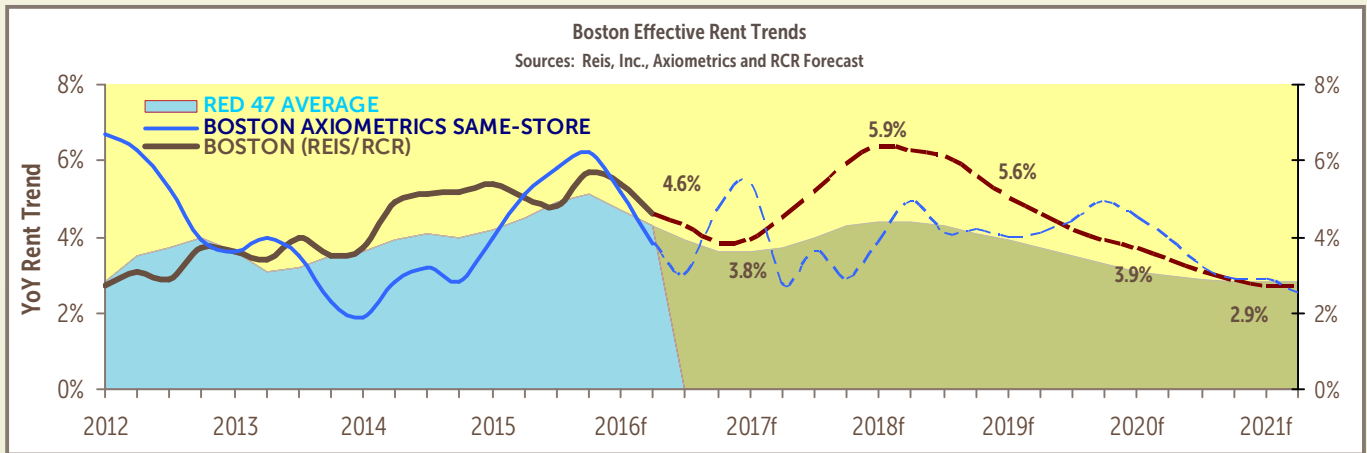
Third quarter trade velocity was consistent as 12 closings were recorded valued at \$391mm. Investors concentrated on lower priced value-adds, causing the average price/unit metric to plunge -48% to \$140,815, comparable to 1Q16.

RCR elected to reduce the purchase cap rate proxy 20 bps to 4.6%. Using this level, model derived occupancy and rent point estimates and a terminal cap rate of 5.7%, we estimate that an investor would expect to earn a 6.5% (RED 47 #19) unlevered annual total return on a 5-year hold. The estimate represents a roughly 40bps increase since July, largely due to the more optimistic economic outlook. Risk-adjusted returns are hindered by high rent model standard error: Boston's RAI ranks peer group #29.



NOTABLE TRANSACTIONS

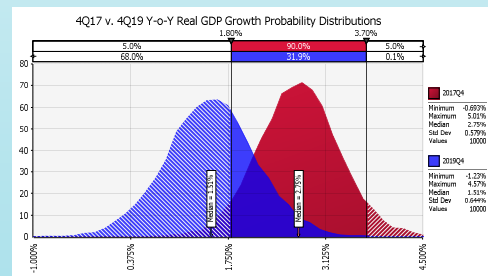
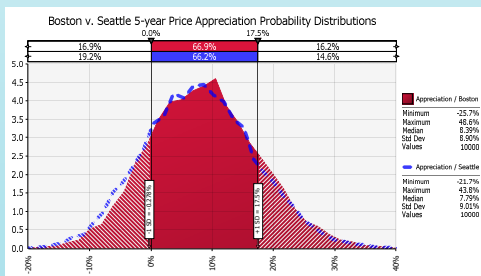
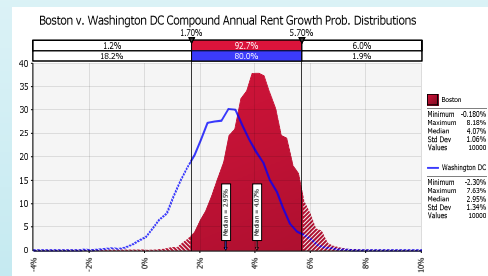
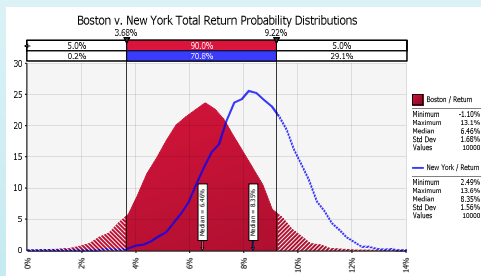
Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price (in millions)	Price / Per Unit	Estimated Cap Rate
Windsor Cambridge Park (Cambridge/North)	B+ / SR MR (2014)	28-Apr-2016	\$215.0	\$540,201	4.2%
Liberty Place (South Shore/Randolph)	C MI / GLR (1988)	1-Jun-2016	\$19.2	\$179,533	6.45%
River's Edge (North Shore/Haverhill)	C- / MB MR (1970)	7-Jun-2016	\$15.6	\$95,122	5.77%
480 Main (Mystic No/Malden/Malden Center)	B+ / MB MR (2015)	27-Jul-2016	\$73.8	\$378,205	4.6%
Alister Quincy (South Shore/South Quincy)	B / GLR (1997)	26-Sep-2016	\$50.0	\$292,398	5.6%
Waltham Overlook (Waltham / Kingston)	B / MB LR (1978)	11-Oct-2016	\$57.0	\$275,362	5.5%



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SUBMARKET TRENDS (REIS)

Submarket	Inventory % Change	Effective Rent			Physical Vacancy		
		2Q15	2Q16	Change	2Q15	2Q16	Change
Boston City	3.2%	\$1,882	\$2,020	7.3%	7.0%	5.2%	-180 bps
Brookline / Brighton	1.5%	\$2,064	\$2,113	2.4%	1.9%	2.8%	90 bps
Cambridge / Watertown	3.3%	\$2,482	\$2,601	4.8%	7.6%	7.4%	-20 bps
Central City / Back Bay	3.8%	\$2,986	\$3,194	7.0%	7.2%	8.4%	120 bps
Mystic River No. / Rt. 128	2.2%	\$1,614	\$1,723	6.7%	6.5%	6.8%	30 bps
North Shore	0.8%	\$1,568	\$1,645	4.9%	2.9%	3.3%	40 bps
South Shore / Rt. 128 So.	1.5%	\$1,656	\$1,691	2.1%	2.8%	3.9%	110 bps
South/Southeast Suburban	2.6%	\$1,318	\$1,369	3.9%	3.9%	4.6%	70 bps
West/Northwest Suburban	2.8%	\$1,645	\$1,741	5.8%	5.7%	5.7%	0 bps
Metro	2.5%	\$1,956	\$2,046	4.6%	5.0%	5.5%	50 bps



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