

PAYROLL JOB SUMMARY

Average Payrolls	1,822.4m
Annual Change	37.5m (2.1%)
RCR 2016 Forecast	33.4m (1.9%)
RCR 2017 Forecast	25.6m (1.4%)
RCR 2018 Forecast	24.1m (1.3%)
RCR 2019 Forecast	19.4m (1.0%)
RCR 2020 Forecast	16.0m (0.9%)
Unemployment (NSA)	2.2% (Nov.)

3Q16 PAYROLL TRENDS AND FORECAST

After a first half 2016 lull the Boston labor market surged ahead in the third quarter, posting the fastest year-on-year growth in a year. Establishments hired at a 37,500-job, 2.1% annual rate, up from 2Q16's 31,000, 1.7% pace. Vigorous growth in financial, professional, technical and healthcare service sectors was the primary driver as headcounts in these high compensation industries increased at a 3.2% year-on-year rate. Robust gains also were observed in construction, and education and leisure services. Sector headcounts advanced at a 19,700-job, 4.7% annual rate, up from 2.7% in 2Q16. Relative weakness was confined to manufacturing, transportation and retail, where payrolls declined at a 2,300-job, -0.9% annual rate, a moderate deterioration from recent observed trends.

Seasonally-adjusted data were at odds with the y-o-y trend. This

series recorded a weak 3,600-job net third quarter gain, down sharply from 13,200-job adds in the previous two quarters. Moreover, data show that the fourth quarter got off to a slow start with a net gain of only 600 jobs in October and November.

RED Research are of the mind that seasonal adjustments are frequently misleading, especially in a rapidly changing market like this one. We do expect job growth to decelerate but continue at above historical average rates for the next three years. Our 96.7% adjusted-R² (SE=0.3%) payroll model is unchanged from 2Q16 save for the addition of S&P 500_(t-1) (+) returns as an independent variable. Under the base economic forecast, we expect payroll growth to remain above 1% through 2019, succumbing to weak US conditions at decade's end. Moody's Analytics are moderately less optimistic.

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	95.1%
RED 5I Rank	35 th
Annual Chg. (Reis)	0.3%
RCR YE16 Forecast	94.8%
RCR YE17 Forecast	94.9%
RCR YE18 Forecast	95.1%
RCR YE19 Forecast	94.9%
RCR YE20 Forecast	94.6%

3Q16 ABSORPTION AND OCCUPANCY RATE TRENDS

Space demand was seasonally strong over the summer as renters net leased 885 units, according to Reis, on par with the comparable period of 2015, and the 17-year third quarter mean of 825. Tenants were active in popular Central/Back Bay and Cambridge neighborhoods where more than 300 vacant units were tenanted. Supply levels moderated as well, falling to only 807 units, thereby allowing occupancy to recover to 95.1%, up 30 bps year-on-year.

Axiometrics surveys of 283 same-store, stabilized properties recorded higher levels. This sample was 95.7% occupied in 3Q16, and 95.3% occupied in 4Q16, down -40 and -30bps y-o-y. Including properties in lease-up, the comparable levels were 94.8% and 94.4%. The "C" segment (96.1%) remained the class leader in 4Q,

followed by A and B on about 95%. Occupancy near 96% was observed in Brookline, South Suburban and West submarkets, while infill Boston City, Central and Back Bay were sub-95%. Absorption rates at new properties slowed falling from a brisk 14-unit per month pace in the third quarter to 9-units per month in 4Q16.

Consistent with Axio, the **RCR** demand model forecasts weaker absorption in 4Q16, falling to about 225 units. But the longer-term outlook is constructive. The model projects net demand for 4,000 to 4,250 units per year for 2017-2019. Supply will be largely offsetting, however, maintaining average metro occupancy in the 95% range. Some degree of occupancy decay may develop in the out-years should supply growth return to BOS's historic norms.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$2,072
Annual Change	4.3%
RED 5I Rent Change Rank	18 th
RCR YE16 Forecast	2.9%
RCR YE17 Forecast	3.7%
RCR YE18 Forecast	3.9%
RCR YE19 Forecast	3.5%
RCR YE20 Forecast	3.5%

3Q16 EFFECTIVE RENT TRENDS

Reis report that the average Boston rent increased \$19 (0.9%) sequentially to \$2,072, down from the prior quarter's \$24 (1.2%) gain. Expressed on a year-on-year basis, rents increased 4.3%, down from 2Q's 5.0% advance and the slowest increase observed since 1Q14. According to a preliminary report, effective rent fell in 4Q16, tumbling -1.7% to approximately \$2,037 due to concessions. This implies a y-o-y 4Q gain of about 1.1%, slowest since 2010.

Axiometrics surveys confirmed the 4Q16 sequential distress reported by Reis. But this was essentially a seasonal phenomenon observed in each of the past four fall quarters. Expressed on a y-o-y basis Boston rents increased at a 2.0% rate after 3Q16's 3.1% rise. Classes-B&C managed 2.4% 4Q progress, while class-A

(0.1%) struggled to post a net gain for the second consecutive quarter. High-rise assets saw rents fall -0.5% after a sharp 3.7% sequential decrease. Central/Back Bay (-1.9%), South Suburban (-0.5%) and Cambridge (0.3%) submarkets recorded the steepest 4Q16 deceleration, while North Shore (4.9%), Mystic River (2.9%) and West (2.2%) maintained healthy forward momentum.

After Reis apply seasonal adjustments to its 4Q16 average rent estimate, **RCR** expect the y-o-y comparison to be about 2.9%. Using this figure our BOS rent model projects that growth will recover to the 3.5% to 4% range in the 2017-19 period, reflecting the constructive income and job growth and occupancy conditions we expect. Weaker economics could trim growth by 60 to 110bps.

TRADE & RETURN SUMMARY

\$5mm+ / 80-unit+ Sales	30
Approximate Proceeds	\$547mm
Average Cap Rate (FNM)	4.5%
Average Price / Unit	\$200,671
Expected Total Return	6.6%
RED 47 ETR Rank	29 th
Risk-adjusted Index	4.39
RED 47 RAI Rank	17 th

3Q16 PROPERTY MARKETS AND TOTAL RETURNS

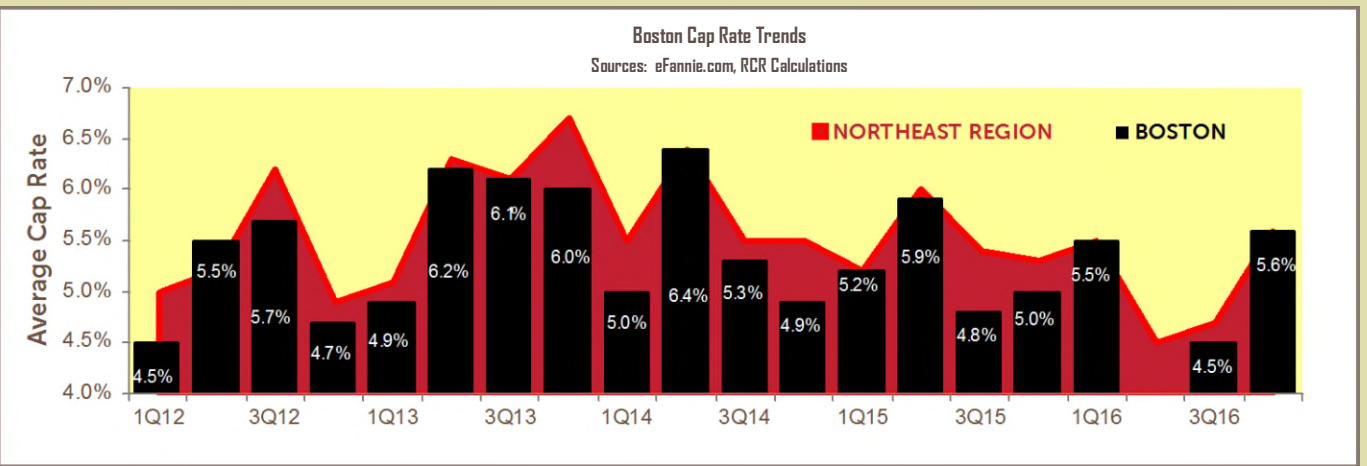
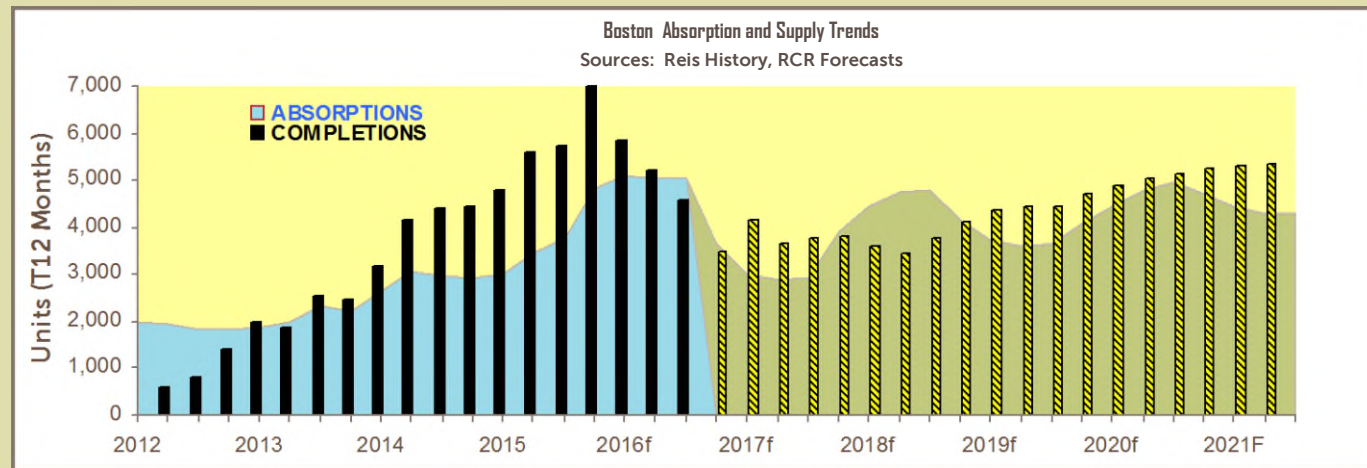
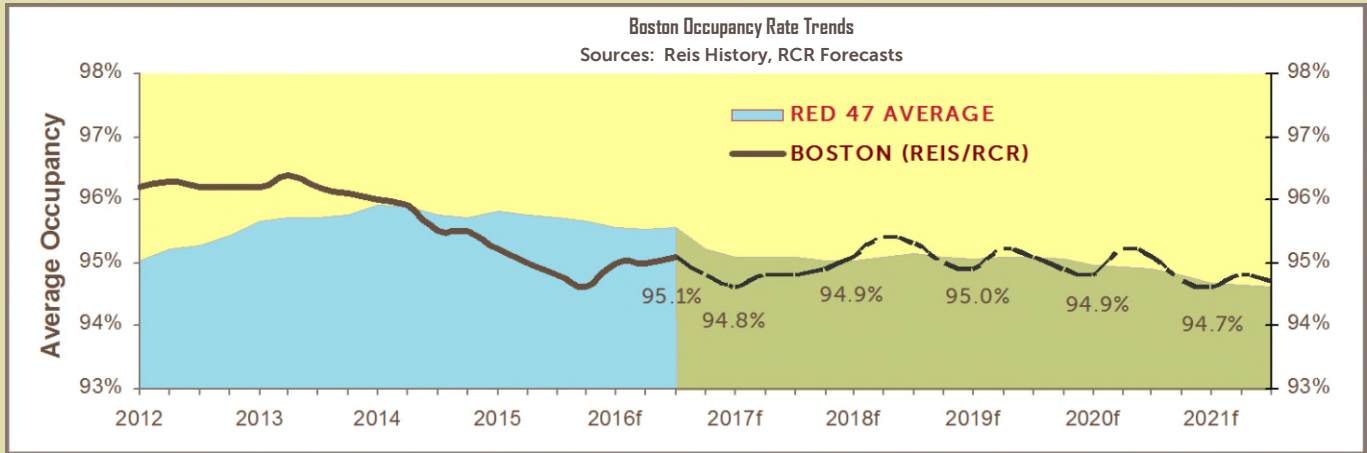
Following a relatively quiet second quarter sales velocity accelerated in the second half of 2016. In all, 30 and 44 sales of properties valued at \$5 million or more closed in 3Q16 and 4Q16, respectively, up from 21 during the spring quarter. Proceeds totaled \$547 million in 3Q16 and \$948mm in 4Q16, each figure about 30% below its 2015 comparison. The average price of units sold were \$200,671 and \$253,713 in 3Q16 and 4Q16, respectively, each falling considerably below 3Q15's \$328,199 series record high.

REITs and institutional investors were net sellers. The two largest residential REITs divested \$160mm of Boston assets and fiduciaries sold a net of approximately \$200mm in 2H16. Buyers were led by global integrated owner/managers: the two largest acquired

Boston area properties valued at a total of \$300mm.

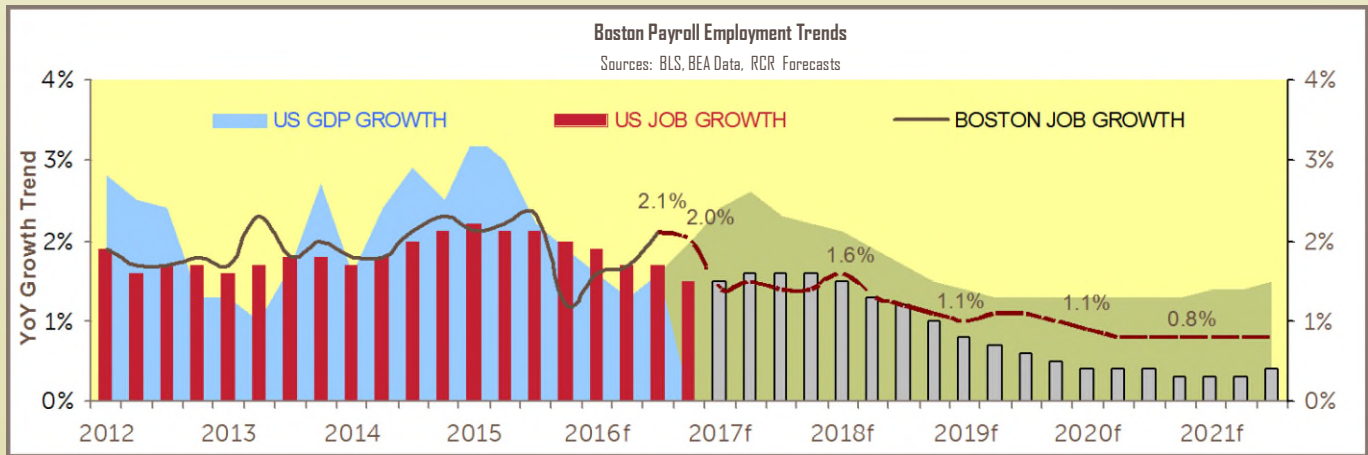
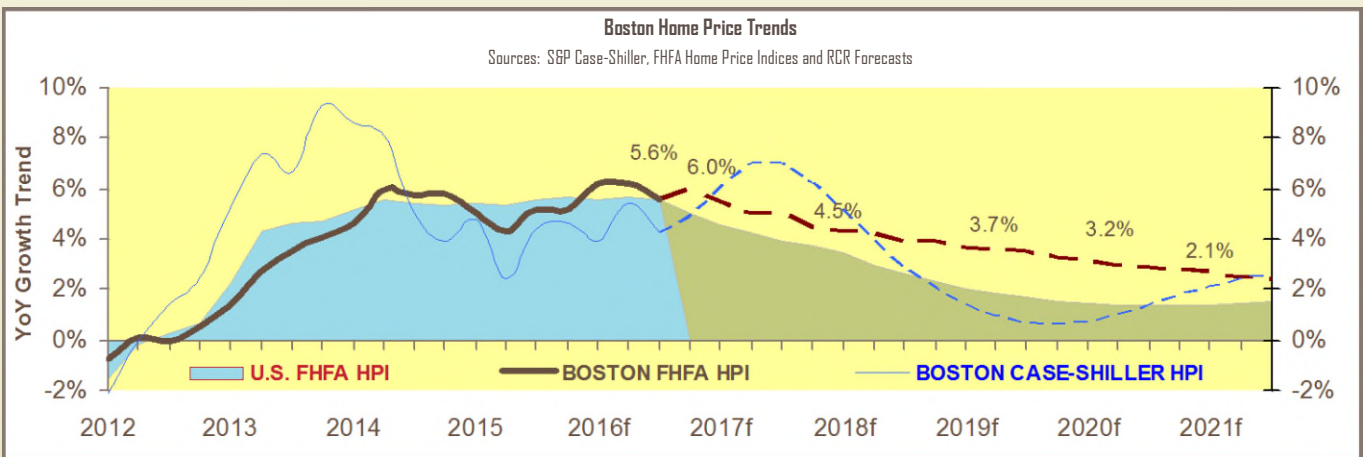
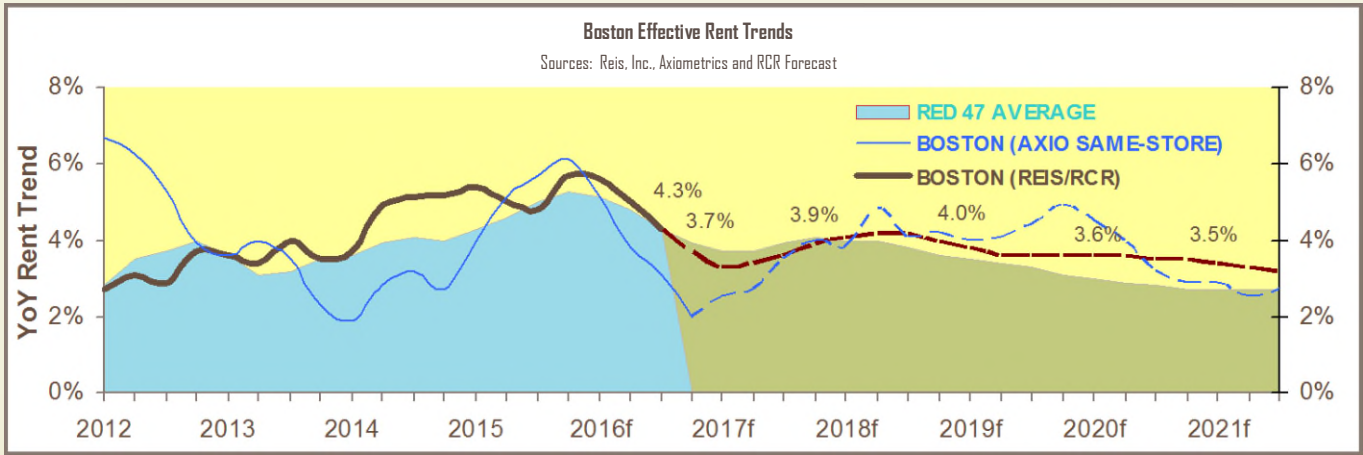
Cap rates were firm, holding on an average of about 5.2%. Infill trophies traded in the high-3% to 4.0% range. Class-B infill assets were priced 50-75 bps behind these levels. Suburban properties traded at a discount, mostly in the 5.3% to 5.7% neighborhood.

RCR retained a 4.6% B/B+ cap rate proxy. Using this going-in yield, a terminal cap rate of 5.3% and model derived occupancy and rent point estimates, we conclude that an investor would expect to earn a 6.6% unlevered 5-year IRR; **RED 47** #29. If 4Q16 y-o-y rent growth was below 3%, the estimate declines to 6.3%. Model stand-ard errors are low, boosting risk-adjusted returns to **RED 47** #17.



NOTABLE TRANSACTIONS

Property Name (Submarket)	Property Class/Type (Constr.)	Approx. Date of Transaction	Total Price (in millions)	Price / Per Unit	Estimated Cap Rate
Woodfield Commons (South Shore / Canton)	B-/MI GLR (1989)	12-Sep-2016	\$28.6	\$181,012	5.65%
The Charles Bellingham (South / Bellingham / Wethersfield)	B/MI GLR (2004)	28-Oct-2016	\$58.4	\$204,912	5.4%
The Victor (Central Boston / North Station)	A / SR HR (2013)	1-Nov-2016	\$187.0	\$653,846	3.7%
Union Place (South Suburban / Franklin / Wrentham)	B/MI WF MR (2005)	10-Dec-2016	\$64.8	\$215,833	5.6%
Naponset Landing (South Shore/No Quincy/Naponset River)	A- / MI SR HR (2007)	16-Dec-2016	\$89.5	\$319,643	4.0%
Carson Tower Apts. (Boston City / Telegraph Hill)	C+ / SR HR (1972)	22-Dec-2016	\$64.3	\$419,935	4.5%



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SUBMARKET TRENDS

Reis Survey Averages	Inventory % Change	Effective Rent			Physical Vacancy		
		3Q15	3Q16	Change	3Q15	3Q16	Change
Submarket							
Boston City	3.3%	\$1,902	\$2,011	5.7%	6.8%	5.2%	-160 bps
Brookline / Brighton	1.8%	\$2,077	\$2,282	9.9%	2.0%	2.9%	90 bps
Cambridge / Watertown	2.1%	\$2,563	\$2,621	2.2%	7.8%	5.8%	-200 bps
Central City / Back Bay	3.0%	\$2,987	\$3,174	6.3%	7.8%	6.0%	-180 bps
Mystic River No / Rt. 128	2.7%	\$1,632	\$1,725	5.7%	6.5%	7.3%	80 bps
North Shore	0.8%	\$1,627	\$1,653	1.6%	2.9%	3.3%	40 bps
South Shore / Rt. 128 S	1.4%	\$1,677	\$1,716	2.3%	3.3%	4.5%	120 bps
South / Southeast Suburban	1.1%	\$1,335	\$1,371	2.7%	4.4%	4.6%	20 bps
West / Northwest Suburban	3.3%	\$1,669	\$1,752	4.9%	5.5%	6.0%	50 bps
Metro	2.5%	\$1,986	\$2,072	4.3%	5.2%	4.9%	-30 bps

Axiometrics Same-Store	Effective Rent Growth			Physical Occupancy		
	4Q15	3Q16	4Q16	4Q15	4Q16	Change
Submarket						
Boston City	3.7%	4.2%	2.0%	95.4%	94.4%	-100 BPS
Brookline / Brighton	1.4%	2.5%	1.5%	96.1%	95.9%	-12 BPS
Cambridge / Watertown	4.0%	1.6%	0.3%	96.0%	95.3%	-70 BPS
Central City / Back Bay	2.7%	0.9%	-1.9%	96.3%	94.8%	-150 BPS
Mystic River North	4.6%	5.3%	2.9%	95.5%	95.1%	-40 BPS
North Shore	6.2%	4.2%	4.9%	95.8%	95.4%	-40 BPS
South Shore	6.9%	3.6%	2.0%	95.6%	95.2%	-40 BPS
South Southeast Suburban	11.5%	1.2%	-0.5%	95.8%	96.0%	20 BPS
West / Northwest Suburban	7.0%	3.0%	2.2%	95.7%	95.8%	10 BPS

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