

PAYROLL JOB SUMMARY

Average Payrolls	1,666.6m
Annual Change	58.7m (3.6%)
RCR 2016 Forecast	55.6m (3.5%)
RCR 2017 Forecast	60.3m (3.7%)
RCR 2018 Forecast	55.8m (3.3%)
RCR 2019 Forecast	45.4m (2.6%)
RCR 2020 Forecast	40.0m (2.2%)
Unemployment (NSA)	3.8% (Oct.)

3Q16 PAYROLL TRENDS AND FORECAST

Seattle job creation accelerated during the third quarter, rising from 2Q16's 55,500-job, 3.5% year-on-year rate to 58,700 (3.6%) jobs in 3Q16. Firmer conditions in the education and health care services were primarily responsible, as sector establishments expanded at a 7,400-job, 3.7% rate, up from 2Q's 3,800-job metric. Faster growth also was observed in transportation, construction and personal services. Conversely, weakness in the key durable goods manufacturing sector accelerated to a -4,900-job, -3.4% annual pace, the weakest quarter since 2Q10. The aerospace sector contributed the lion's share of factory losses (-3,600 jobs), comparing unfavorably to 2Q's -2,200-job setback.

Seasonally-adjusted data ran along similar lines. Seattle picked up 15,800 jobs from July to September, up from 10,700 during the

same period last year and 15,200 in 2Q16. Likewise, 4Q16 got off to a quick start as SEA generated another 4,300 jobs in October, topping the year before add of only 500 net jobs.

RED Research tweaked the SEA payroll model, replacing the S&P 500 returns variable with the second lag of personal consumption expenditure growth, reflecting the large role retail sales now play in the Puget Sound economy. The switch boosted the adjusted-R² about 0.2% to 95.4% and reduced standard error. The resulting forecast remains virtually unchanged for the near term, with 3% or faster job growth through 2018; but the 2019-2021 outlook is more optimistic as consumption spending growth holds up better than equity returns in the out-years when U.S. growth falters. Potential pro-growth changes in policy may extend strong growth

OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	94.9%
RED 51 Rank	38 th
Annual Chg. (Reis)	-0.1%
RCR YE16 Forecast	94.0%
RCR YE17 Forecast	93.2%
RCR YE18 Forecast	93.4%
RCR YE19 Forecast	93.3%
RCR YE20 Forecast	93.7%

3Q16 ABSORPTION AND OCCUPANCY RATE TRENDS

Households net leased 1,556 vacant units during 3Q16 (Reis), up 24% from the year-earlier quarter. Demand was concentrated in the class-A sector (1,471 units), while tenants absorbed only 86 class-B&C units, where vacant inventory dipped to the lowest level in 15 years (2.9%). By contrast, conditions were loose in the well-supplied A-segment, where occupancy held steady at 92.9%. Overall metro occupancy was 94.9%, down 0.1% year-on-year.

Axiometrics surveys of stabilized, same-store assets recorded average 3Q16 occupancy of 95.3%. Like Reis, average occupancy fell -10 bps over the year. Class-C assets recorded highest occupancy (95.5%), with class-B (95.3%) following. Stabilized class-A assets maintained a solid 95.0% rate, but the class-A inventory

was only 92.9% occupied when properties in lease-up are considered. Supply was heaviest in Bellevue, Downtown and North Seattle, where stabilized and total occupancy statistics were 95.4% / 93.8%, 95.6% / 93.1% and 95.9% / 95.5%, respectively.

RCR's demand model now uses supply (+), occupancy change (+) and industrial production (+) as independent variables. Occupied stock growth (absorption) remains above the 1.8% 27-year average in the base case through 1Q19, before gradually slowing to less than 1% in 2021. Occupancy falls to as low as 93.1% in 2019 under heavy supply pressure but recovers to 93.9% by end of the 5-year forecast interval. By way of comparison, Reis project occupancy to declines to the high-92% area in 2019 and 2020.

EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$1,435
Annual Change	10.1%
RED 51 Rent Change Rank	1 st
RCR YE16 Forecast	8.6%
RCR YE17 Forecast	4.5%
RCR YE18 Forecast	4.9%
RCR YE19 Forecast	3.7%
RCR YE20 Forecast	3.2%

3Q16 EFFECTIVE RENT TRENDS

Reis report that sequential rent growth cooled off during the summer but continued at a torrid pace. Average rents increased \$28 (2.0%) to \$1,435 quarter-on-quarter, down from \$40 (2.9%) and \$37 (2.9%) gains in the prior and year-earlier quarters, respectively. Class-A asking rents increased \$30 (1.7%), while comparable B&C rents climbed \$24 (2.1%). Expressed on a year-on-year basis, effective rents were 10.1% higher, down from 11.1% in 2Q16. Still, Seattle retained the #1 ranking among the **RED 47**.

Stabilized same-store trends captured in surveys conducted by Axiometrics were moderately weaker. This source recorded average y-o-y growth of 7.2%, remarkably the smallest advance recorded in nearly two years. Class-C (8.6%) notched first honors

for the sixth consecutive quarter, leading classes-B (7.4%) and -A (5.4%). Three South Puget Sound suburban submarkets posted double digit gains (Auburn, Federal Way, SeaTac), while supply stifled rent growth in some infill areas. Bellevue (4.2%), Downtown (5.1%) and No. Seattle (5.7%) were among the rent laggards.

Our rent model now uses occupancy_(t-1) (+), job growth (+), home appreciation_(t-6) (+), income (-) and Baa bond rates_(t-2) as independent variables to achieve a 97.2% ARS and 0.7% standard error. The forecast reveals some mean reversion tendencies but takes its time about it, leisurely slowing to the 3.7% long-term SEA average over three years. Forecasted rents grow at a useful 3.9% compound annual rate through 2021 ranking **R47 #12**.

TRADE & RETURN SUMMARY

\$5mm+ / 80-unit+ Sales	33
Approximate Proceeds	\$1.2bn
Average Cap Rate (FNM)	4.7%
Average Price / Unit	\$239,305
Expected Total Return	7.0%
RED 47 ETR Rank	23 rd
Risk-adjusted Index	3.03
RED 47 RAI Rank	38 th

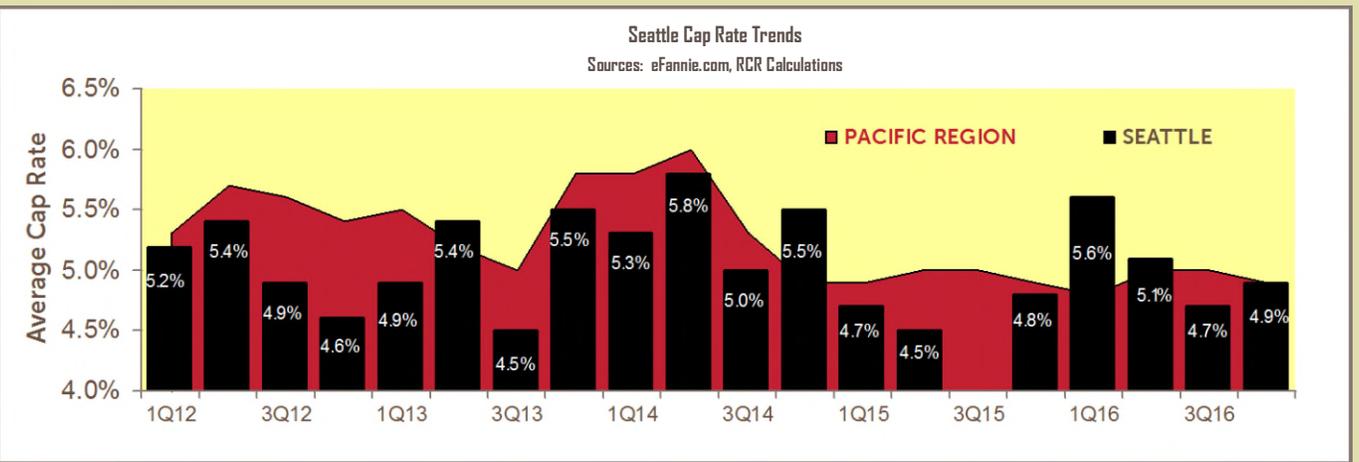
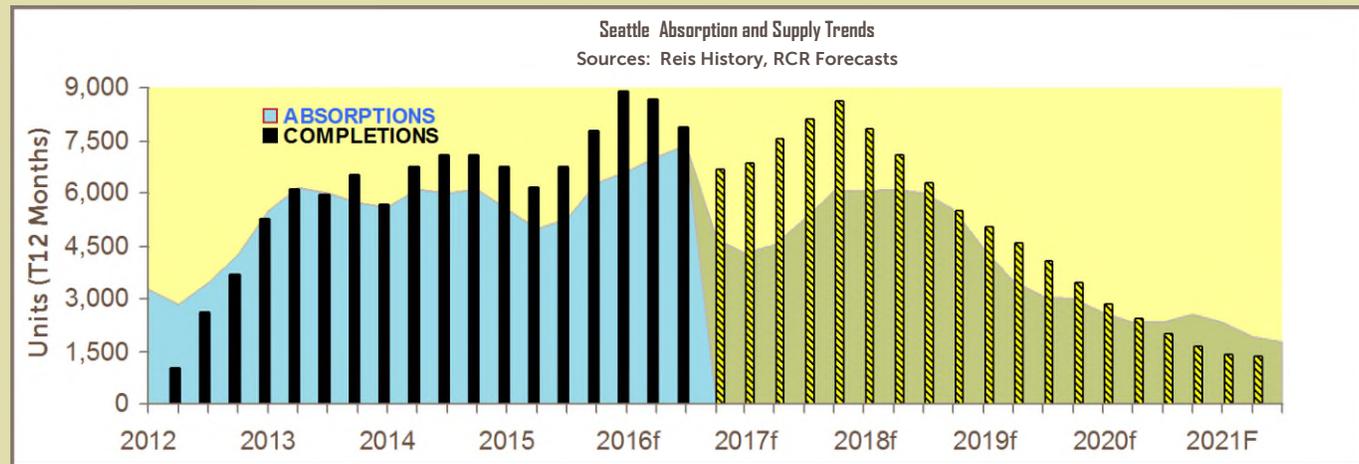
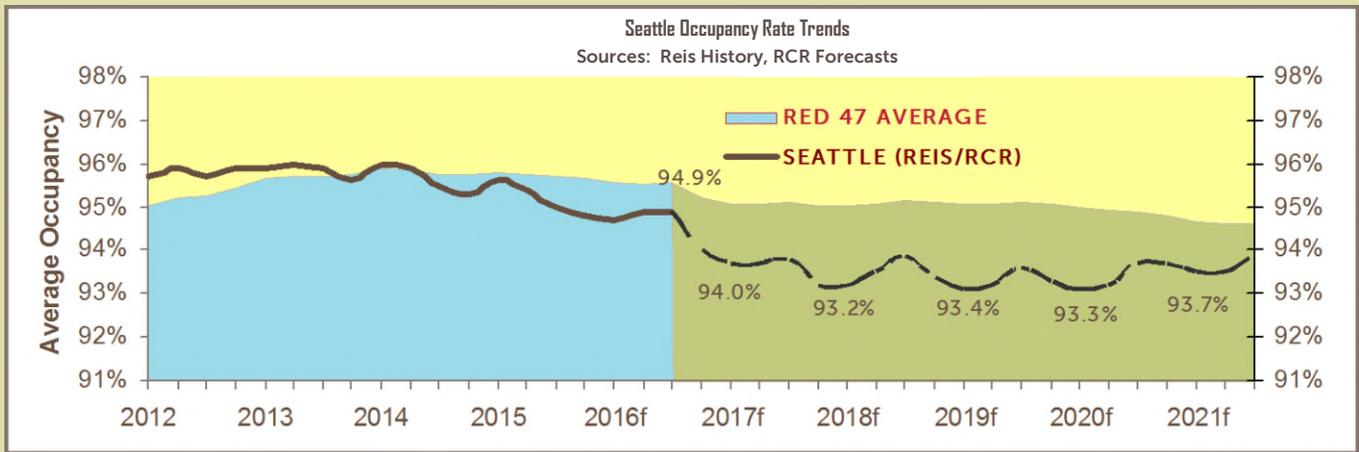
3Q16 PROPERTY MARKETS AND TOTAL RETURNS

Property market velocity regained momentum over the summer, rising from 2Q16's uncharacteristically low 20 transactions to a robust 33 trades. Proceeds totaled almost \$1.2 billion, an increase of 116% over the prior quarter. The average price per unit sold was \$239,305, a decrease of -6% quarter-over-quarter, reflecting a higher concentration of older suburban value-add trades in the mix.

Fourth quarter velocity is on track for a still stronger performance. By December 12, 18 transactions were in the books totaling \$1.2bn of proceeds. Notable among these were three acquisitions valued at \$130mm or more, each ranking among the 15 largest apartment sales in Seattle history. The average price per unit was \$259,908, the highest figure recorded since 1Q15.

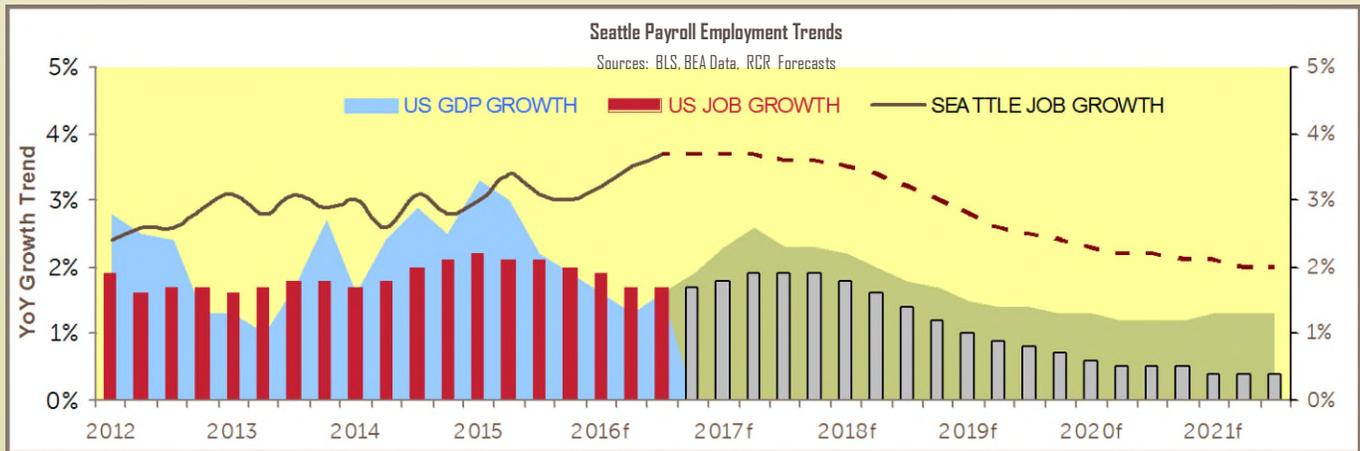
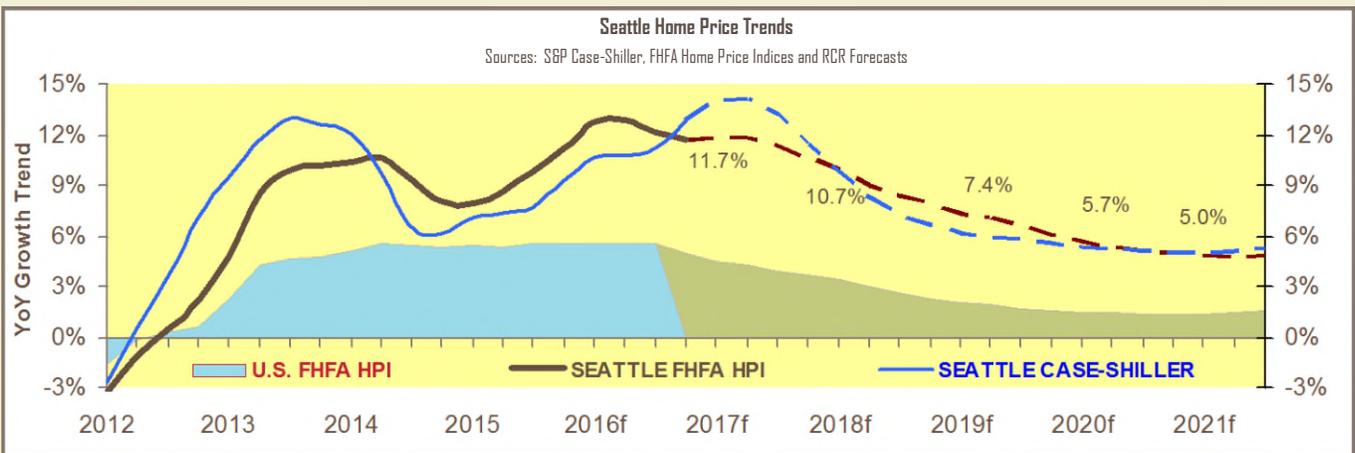
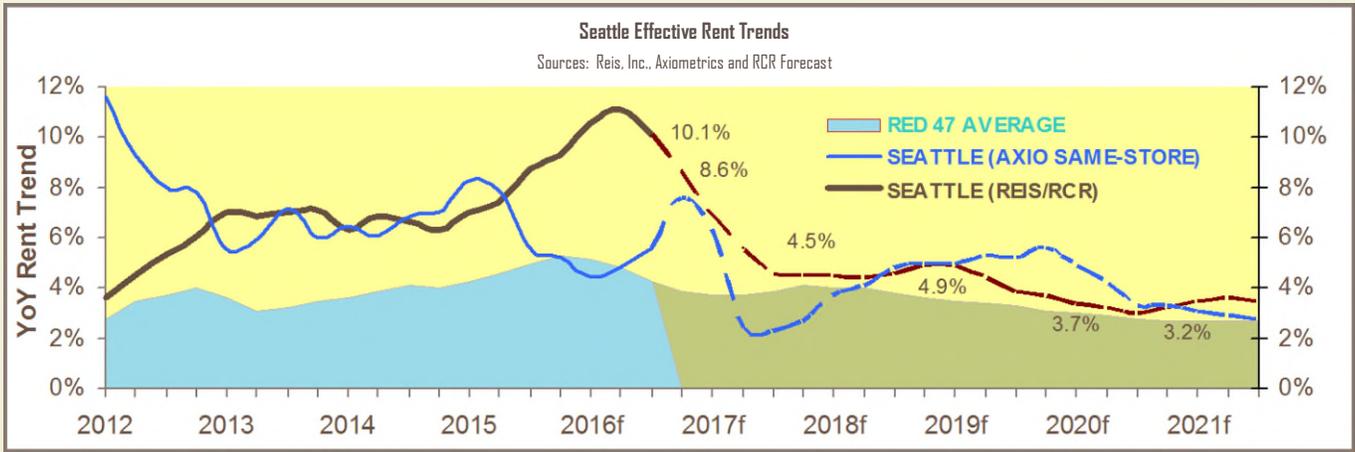
No dramatic change in yields was evident. The average Seattle property continued to trade to an approximate 4.8% cap. Infill class-B+/A- assets remained comfortably in the low- to mid-4% range. Older properties were valued in the 4.9% to 5.2% region Value-add plays may have crept closer to the curve, as most were priced to sub-5.5% yield levels.

For valuation purposes we elected to continue to use a 4.8% cap rate proxy. At this level, model derived rent and occupancy point estimates and a 5.4% terminal cap, we conclude that a SEA investor would expect to earn a 7.0% total return over a 5-year hold, up from 6.4% in 2Q16. This places Seattle at #23 among the **RED 47**. The metro risk-adjusted return index ranks #38 in the peer group.



NOTABLE TRANSACTIONS

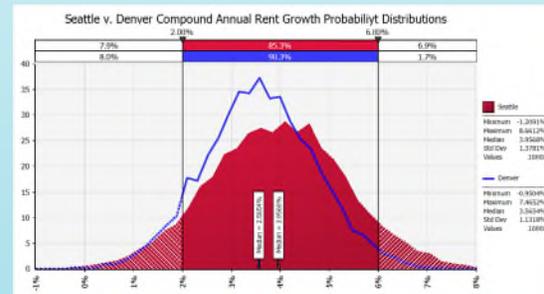
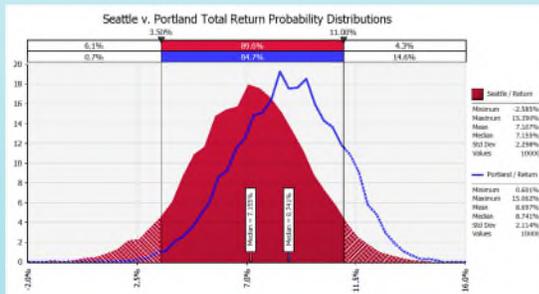
Property Name (Submarket)	Property Class/Type (Constr.)	Approx. Date of Transaction	Total Price (in millions)	Price / Per Unit	Estimated Cap Rate
The Reserve Apartment Homes (Federal Way)	B / GLR (89/07)	27-Sep-2016	\$63.7	\$159,920	5.2%
Bridges at North Creek (Bothell/Thrasher's Corner)	B- / GLR (88/14)	12-Oct-2016	\$98.0	\$272,222	4.8%
Campbell Run Apartments (Bothell/Woodinville)	B / GLR (1989)	19-Oct-2016	\$98.0	\$272,222	4.6%
Trillium Heights Apartments (Silverdale)	B- / GLR (88/11)	4-Nov-2016	\$37.0	\$164,444	6.0%
Milehouse (Redmond / Sammamish)	A- / WF MR (2015)	9-Nov-2016	\$69.3	\$391,525	4.45%
Arcadia Town Homes (Federal Way / Alderbrook)	B / GLR (1990)	23-Nov-2016	\$68.5	\$221,682	5.4%



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SUBMARKET TRENDS (REIS)

Submarket	Inventory % Change	Effective Rent			Physical Vacancy		
		3Q15	3Q16	Change	3Q15	3Q16	Change
Auburn / Enumclaw	0.0%	\$912	\$1,027	12.6%	2.1%	1.5%	-60 BPS
Beacon Hill / Rainier	2.3%	\$1,180	\$1,237	4.8%	6.0%	6.8%	80 BPS
Bellevue / Issaquah	8.3%	\$1,527	\$1,649	8.0%	4.5%	6.9%	240 BPS
Bothell	-0.3%	\$1,253	\$1,291	3.1%	5.7%	4.3%	-140 BPS
Des Moines / West Kent	1.5%	\$980	\$1,040	6.2%	3.4%	3.3%	-10 BPS
Downtown / Capitol Hill	7.0%	\$1,920	\$2,001	4.2%	10.3%	10.7%	40 BPS
Edmonds / Lynnwood	0.6%	\$1,086	\$1,194	10.0%	5.1%	2.9%	-220 BPS
Everett / Mukilteo	1.1%	\$1,037	\$1,107	6.8%	2.9%	2.0%	-90 BPS
Federal Way	0.0%	\$1,012	\$1,056	4.3%	2.3%	1.3%	-100 BPS
Kent	1.7%	\$1,037	\$1,072	3.4%	1.4%	2.2%	80 BPS
Kirkland / Juanita	1.2%	\$1,652	\$1,729	4.7%	4.2%	3.7%	-50 BPS
North Seattle	5.3%	\$1,299	\$1,372	5.6%	7.1%	8.8%	170 BPS
Redmond	6.8%	\$1,422	\$1,468	3.2%	3.8%	7.0%	320 BPS
Renton	0.0%	\$1,056	\$1,100	4.2%	2.8%	1.9%	-90 BPS
Tukwila / Sea-Tac	0.0%	\$883	\$964	9.2%	1.3%	1.2%	-10 BPS
West Seattle / Burien	2.9%	\$1,071	\$1,222	14.1%	5.6%	4.1%	-150 BPS
Metro	3.7%	\$1,303	\$1,435	10.1%	5.0%	5.1%	10 BPS



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