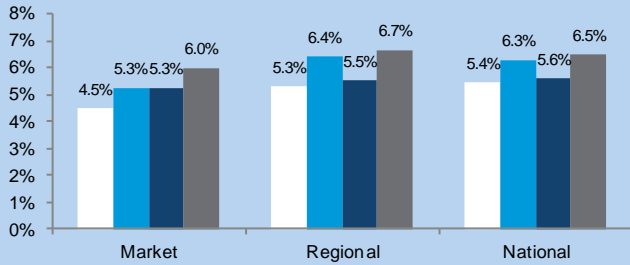


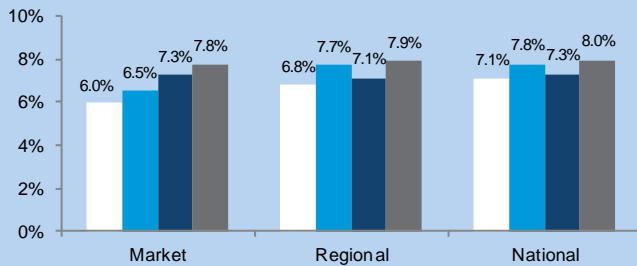


### Multifamily Snapshot

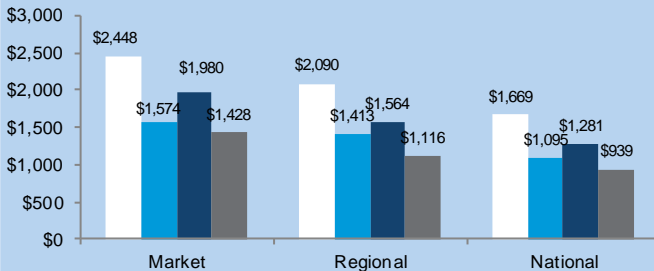
#### GOING IN CAP RATES (%)



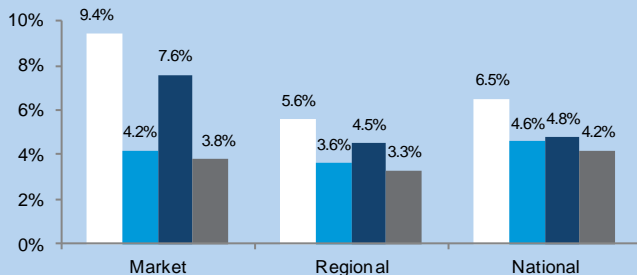
#### DISCOUNT RATES (%)



#### MARKET RENT (\$/UNIT)



#### VACANCY RATE (%)



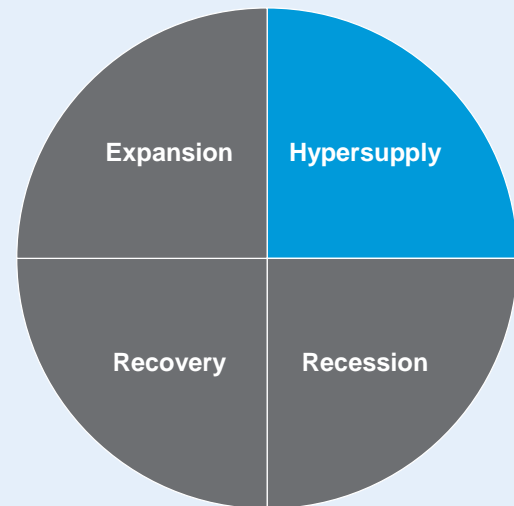
#### Legend

- Urban Multifamily Class A
- Suburban Multifamily Class A
- Urban Multifamily Class B
- Suburban Multifamily Class B

### Market Commentary

The Washington metro area has undergone an unprecedented boom in the multifamily sector, and most signs suggest that the current supply/demand imbalance will persist well into 2016. The three-year supply pipeline peaked in late 2014/early 2015 at just over 40,000 units. With over 10,000 units delivered metro-wide during the first half of 2015, this pipeline has shrunk considerably, and demand is still growing at record levels, especially for Class A apartments in the urban core. However, supply growth has outstripped absorption over the past six to twelve months, resulting in increasing vacancy rates and a small but notable decline in rental rates, at least for Class A properties. Class A effective rents are down by 2% in the District and 1% metro-wide.

#### MARKET CYCLE



#### Market Cycle: Hypersupply Stage 3

- Low/Neg Rental Rate Growth
- Increasing Vacancy Rates
- Moderate/Low New Construction
- Low/Negative Employment Growth
- Low Absorption

Going forward, we project that roughly half as many units will be completed over the coming year as had been delivered during the prior year. Meanwhile, forecasters are projecting stabilized demand going forward to average approximately 10,000 new units per year. Accordingly, market conditions are expected to tighten considerably beginning in late 2016, leading to sustained rent growth and declining vacancies.

### WASHINGTON DC 12 MONTH FORECASTS

Categories	Urban Multifamily Class A	Urban Multifamily Class B	Suburban Multifamily Class A	Suburban Multifamily Class B
Going In Cap Rate	Remain Steady - no change	Decrease 1-24 bps	Remain Steady - no change	Decrease 1-24 bps
Discount Rate	Remain Steady - no change	Decrease 1-24 bps	Remain Steady - no change	Decrease 1-24 bps
Market Rent Change (%)	-1.50%	1.50%	-1.00%	2.00%
Expense Change (%)	2.50%	2.50%	2.50%	2.50%
Absorption (Units)	3,500	300	5,500	1,300
Construction (Units)	9,000			
Years to Balance	2	In Balance	2	In Balance

### AVERAGE ANNUAL CHANGE IN VALUE

Time	Urban Multifamily Class A	Urban Multifamily Class B	Suburban Multifamily Class A	Suburban Multifamily Class B
Previous 36 Months	Increase 2% - 3.9%	Increase 2% - 3.9%	Increase .1% - 1.9%	Increase 2% - 3.9%
Previous 12 Months	Remain Steady - no change	Increase 2% - 3.9%	Remain Steady - no change	Increase .1% - 1.9%
Future 12 Months	Remain Steady - no change	Increase 2% - 3.9%	Remain Steady - no change	Increase .1% - 1.9%
Future 36 Months	Increase 2% - 3.9%	Increase 2% - 3.9%	Increase 2% - 3.9%	Increase 2% - 3.9%

## Market Commentary (continued)

In the meantime, however, concessions are likely to spread from lease-up properties into the broader market as managers compete for occupancy, and effective rents are likely to decline further.

Conditions in the Class B/C market are considerably more stable. Rental rates in this sector have continued to increase at a moderate pace, and vacancies have not topped 5% in recent memory. Given the well-documented dearth of affordable housing options in the Washington metro area, this segment of the market is likely to continue to offer investors a stable income stream and steady growth prospects. This stability has led to considerable capitalization rate compression over the past year.

### TOP SEVEN CAP RATE FACTORS

- 1 Supply/demand
- 2 Property income growth
- 3 Local economy, job growth, unemployment
- 4 Interest rates
- 5 Availability of financing
- 6 Risk premium of private real estate
- 7 National economic conditions/GDP growth

## About IRR

Integra Realty Resources (IRR) is the largest independent commercial real estate valuation and consulting firm in North America, with over 200 MAI-designated members of the of the Appraisal Institute among over 900 professionals based in our 66 offices throughout the United States and the Caribbean. Founded in 1999, the firm specializes in real estate appraisals, feasibility and market studies, expert testimony, and related property consulting services across all local and national markets. Our valuation and counseling services span all commercial property types and locations, from individual properties to large portfolio assignments. For more information, visit [www.irr.com](http://www.irr.com) or [blog.irr.com](http://blog.irr.com).

## Disclaimer

While the great majority of data and content contained herein is proprietary to IRR, this publication includes data provided by third parties, and while the available data is presumed to be accurate, no representation or warranty is made regarding the accuracy of the information contained in this publication. This publication does not render legal, accounting, appraisal, counseling, investment or other professional advice. Should such services or other expert assistance be needed, it is recommended that the services of a competent person or firm, having access to the details of the situation, be employed.