

Northern Virginia



Multifamily Housing Update

July 2010

EXECUTIVE SUMMARY

Conditions in the Northern Virginia economy began to improve in recent months. On a seasonally-adjusted basis, May payroll headcounts were 18,300 above the September 2009 figure. As a result, non-seasonally adjusted year-over-year job growth totaled 8,400 (0.7%) in April and 9,400 (0.7%) in May. Retail and leisure service sector firms were largely responsible for the improvement. Combined, the sectors added 11,700 jobs y-o-y in May, following a net loss of -2,300 jobs in the twelve-month period ended in December. Furthermore, business service firms added 2,600 workers y-o-y in May.

The Virginia portion of the Washington DC metro area posted a low-5.2% unemployment rate in May, only slightly higher than the 5.1% rate observed in the same month last year. Additionally, the rate compared favorably to the 9.6% unemployment rate in the District of Columbia and the 6.7% jobless rate in the Maryland portion of the MSA.

Washington DC metro area employers are justifiably optimistic. As of June, 23% of companies included in the Manpower Employment Outlook Survey planned to add workers in the third quarter, far outweighing the 4% that expected to contract.

RED CAPITAL Research (RCR) foresee a modest 11,800 (0.9%) job gain this year, followed by more robust growth of 40,700 (3.1%) new jobs in 2011 and 49,800 (3.7%) new jobs in 2012. Economy.com foresee similar growth, predicting employers will add 13,160 jobs in 2010, 30,700 jobs in 2011 and 56,730 jobs.

The Virginia Association of Realtors count 7,220 foreclosures in the first quarter, down -4.5% from 4Q09. Fewer foreclosures supported price growth but also contributed to slower

sales velocity. The source calculates that the median home price surged 19.2% y-o-y from \$255,965 in 1Q09 to \$305,174 in 1Q10. But the number of sales fell from 7,912 to 7,064.

Developers delivered only 280 units in the first quarter, down from the 675-unit quarterly average observed in 2009. But apartment demand remained stout as property managers net leased 809 units from January to March. As a result, the Northern Virginia apartment occupancy rose 30 basis points from 94.0% in 4Q09 to 94.3% in 1Q10. Tenants preferred Class-A rentals in the first quarter. Indeed, positive net absorption totaled 651 units among upper-tier assets, comparing favorably to the 157 absorption tally among Class B/C properties.

Property managers trimmed concessions in the first quarter, from an average of 4.5% of asking rent in 4Q09 to only 4.1%. As a result, effective rent increased 0.4% sequentially and the pace of y-o-y effective rent decline slowed from -0.5% to -0.1%. Still, asking rent among Class-A properties continued to trend lower, down -0.2% sequentially and -0.8% y-o-y. By comparison, Class B/C asking rent rose 0.3% quarter-over-quarter and was up 0.2% from 1Q09.

Real Capital Analytics report eight transactions involving properties priced at or above \$2 million in the first six months of 2010, totaling \$390 million in sales proceeds. The largest transaction involved a 2008-vintage high-rise property located in the Rosslyn / Ballston submarket. The original intent was to sell the units as condos, but the property was converted to apartments before construction was completed. The buyer bought the property at auction, paying \$118 million or \$450,380 per unit.

SNAP SHOT

	Y-o-y change	Projected YE 2010
Vacancy (5.7% - 1Q10)	50bps ↓	40bps ↑
Effective Rents (\$1,374 - 1Q10)	0.1% ↓	1.0% ↑
Cap Rate (4.2% - 1Q10)	100bps ↓	↑
Employment (1,273.4m - 1Q10)	10m ↓	11.8m ↑

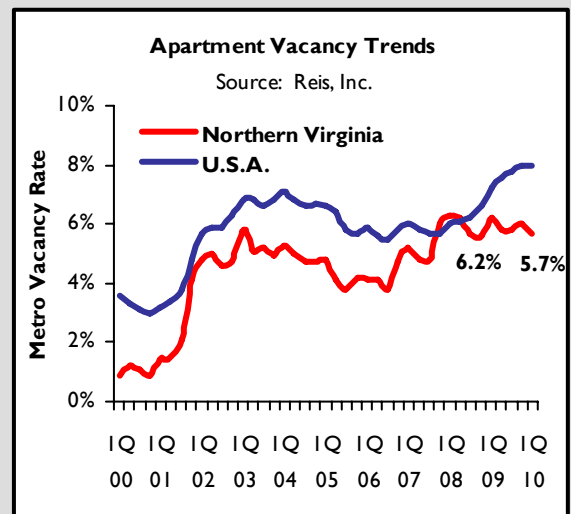
KEY POINTS

- The Northern Virginia vacancy rate decreased 30 basis points sequentially and 50 basis points year-over-year to 5.7%. Strong tenant demand for Class-A units was partially responsible for the improvement. Indeed, property managers at Class-A properties net leased 3,153 units in the twelve-month period ended in March. By comparison, positive net absorption totaled only 93 units among Class B/C assets.
- The size of the average concession packaged average 4.1% in 1Q10, down from 4.5% in the previous quarter. Consequently, the average effective rent rose 0.4% sequentially, marking the second consecutive quarterly increase.
- According to the Virginia Association of Realtors, the median home price in Northern Virginia rose 19.2% year-over-year to \$305,174 in 1Q10. By comparison, the National Association of Realtors calculate a 4.7% year-over-year price increase in the Washington DC metro area.
- At an assumed 5.7% going-in yield, **RCR** estimate a 6.7% expected rate of total return, ranking 37th highest among the **RED 50**.

VACANCY TRENDS

- The metro vacancy rate decreased 30 basis points sequentially, owing to stout tenant demand and limited supply. Positive net absorption totaled 809 units from January to March, up from 555 units in 4Q09. Additionally, developers completed 970 units in 4Q09 and only 280 units in 1Q10.
- Apartment demand was particularly stout for Class-A properties as positive net absorption totaled 651 units in the first quarter, stronger than the 157 units absorbed by Class B/C assets.
- Only three of the metro's fourteen submarkets experienced a year-over-year increase in vacancy in 1Q10.
- Reis expect vacancy to rise 40 basis points to 6.1% by year-end.

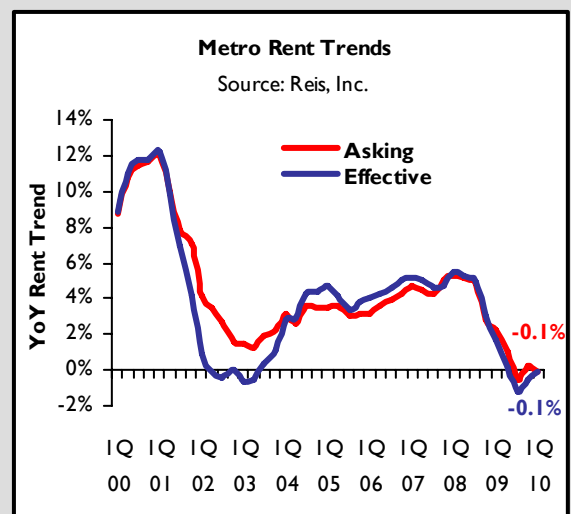
RANK: 10th out of 50



RENT TRENDS

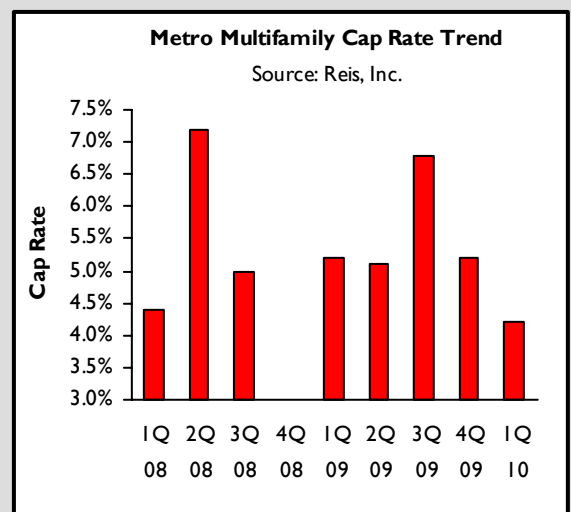
- The average effective rent increased 0.4% sequentially to \$1,374 in 1Q10, moderately better than the 0.3% advance in the previous quarter. As a result, the pace of annual effective rent decline moderated from -0.5% to -0.1%.
- Class-A asking rent decreased -0.2% from \$1,649 in 4Q09 to \$1,646 in 1Q10. By comparison, Class B/C asking rent advanced 0.3% sequentially to \$1,248.
- At 4.9%, the Pentagon City submarket experienced the fastest rate of over-the-year effective rent growth in 1Q10.
- Reis forecast that effective rent will rise to \$1,381 by YE 2010, and advance at a 3.1% annual rate from 2011 to 2014.

RANK: 14th out of 50



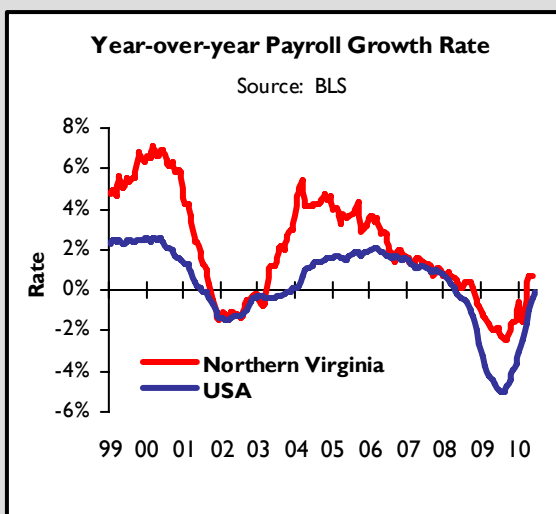
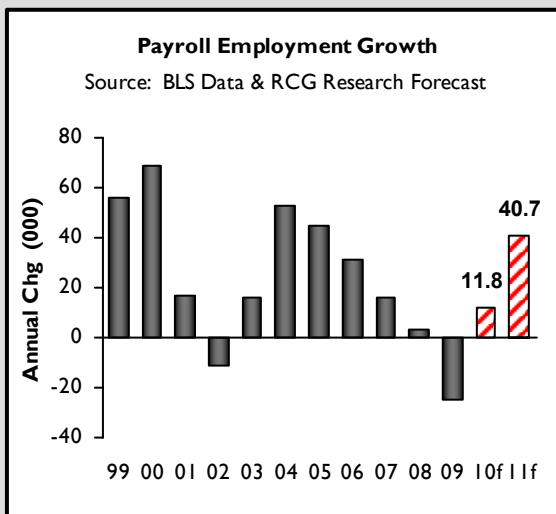
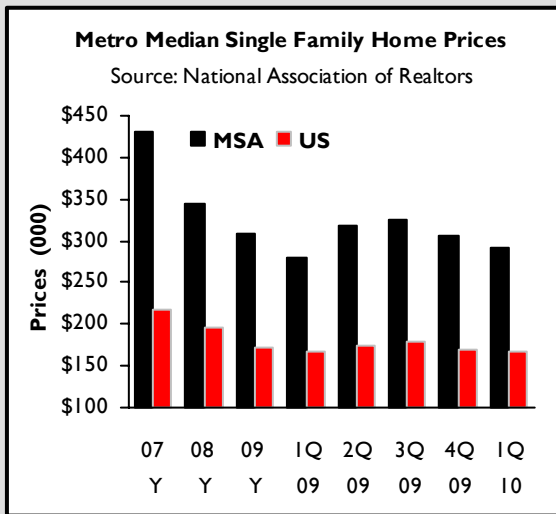
PROPERTY MARKET & CAP RATE TRENDS

- Real Capital Analytics identify eight investor-grade trades in 1H10. Sales volume totaled \$390 million, down -47.3% from the \$741 million tally recorded during the same period last year. On the other hand, the average price per unit rose 18.3% year-over-year to \$247,108.
- The largest transaction involved a 262-unit asset in the Rosslyn / Ballston submarket. The asset was sold at auction in February for \$118 million or \$450,380 per unit. **RCR** calculate a 4.5% going-in yield.
- Based on an assumed 5.7% cap rate, the **RCR** total return model generates a 6.7% expected rate of total return, below the 7.0% **RED** 50 average.



NOTABLE TRANSACTIONS

Property Name	Property Class	Date of Transaction	Total Price (in millions)	Price per unit	Estimated Cap Rate
Riverside Station (Prince William Co)	A	May 2010	\$54.4	\$178,947	5.5%
The Palatine (Rosslyn / Ballston)	A	February 2010	\$118.0	\$450,380	4.5%
Vista on Courthouse (Rosslyn / Ballston)	A	January 2010	\$85.0	\$386,364	4.0%
Woodway at Trinity Center (Western Fairfax Co)	A	January 2010	\$75.0	\$148,810	6.0%



DEMOGRAPHICS & HOUSING MARKET

- The pace of Northern Virginia population growth accelerated from 1.9% in 2008 to 2.5% in 2009. Tactician Corp. expect population growth to decelerate to 0.7% annually from 2009 to 2014.
- According to the National Association of Realtors, the median price of a single-family home in the Washington DC metro area increased 4.7% year-over-year from \$279,400 in 1Q09 to \$292,600 in 1Q10.
- Prices advanced at a faster pace in Northern Virginia. Data from the Virginia Association of Realtors show that the \$305,174 median sale price in 1Q10 was 19.2% above the 1Q09 comparison.
- Sales velocity declined. The Northern Virginia Association of Realtors count 7,064 sales in the first quarter, down -10.7% from 7,912 transactions in the comparable period of 2009.

EMPLOYMENT TRENDS

Non-Seasonally Adjusted

- Job growth resumed in April as employers created 8,400 (0.7%) jobs year-over-year in April and 9,400 (0.7%) jobs year-over-year in May. By comparison, job losses averaged -10,000 (-0.8%) year-over-year in 1Q10.
- Improvements in the retail and leisure service sectors contributed to the turnaround. Store headcounts increased 7,300 in the twelve-month period ended in May as compared to the -7,100-job decrease in the same period last year. Likewise, leisure and hospitality employment increased 4,400 year-over-year in May.
- The Northern Virginia unemployment rate was 5.2% in May, up slightly from the 5.1% rate recorded in May 2009. The increase was attributable to a growing labor force. Indeed, total employment rose 0.3% year-over-year in May, moderately slower than the 0.4% advance in the labor force.

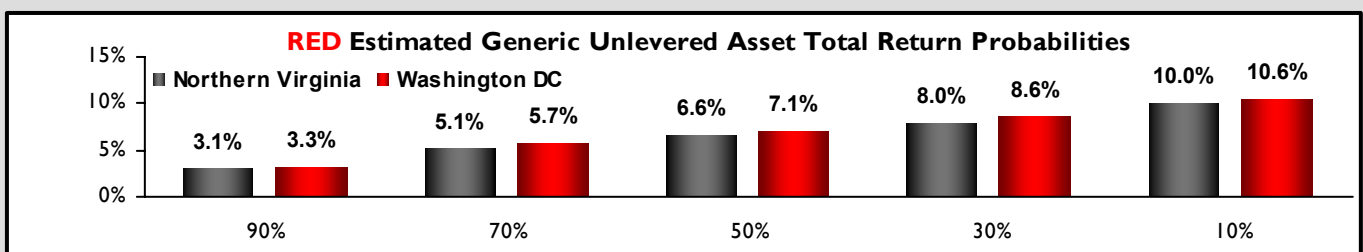
Seasonally-Adjusted

- On a seasonally-adjusted basis, the pace of job growth decelerated from 5,800 net new jobs in 4Q09 to 4,800 new jobs in the first quarter. But job creation rebounded as 7,700 positions were added to payrolls in April and May.

Forecast

- RCR foresee strong job growth in the next several years. Specifically, our econometric payroll model produces point estimates of 11,800 (0.9%) new jobs this year, followed by gains of 40,700 (3.1%) jobs in 2011 and 49,800 (3.7%) jobs in 2012.

RANK: 3rd out of 50

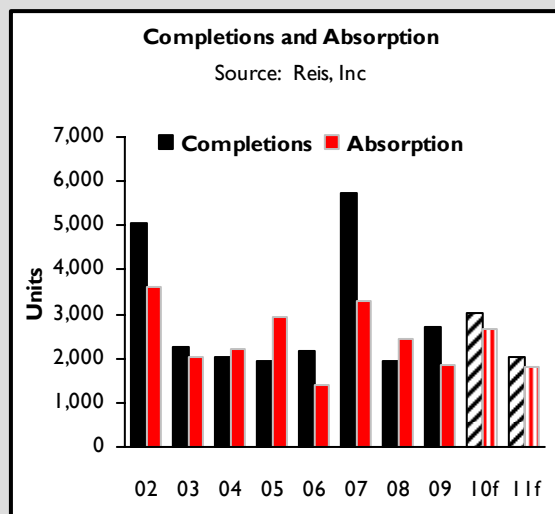


SUBMARKET TRENDS

Submarket	Effective Rent			Physical Vacancy		
	1Q09	1Q10	Change	1Q09	1Q10	Change
Pentagon City	\$1,814	\$1,902	4.9%	8.8%	6.2%	-260 bps
Rosslyn / Ballston	\$1,725	\$1,700	-1.4%	6.8%	5.4%	-140 bps
Old Town	\$1,439	\$1,445	0.4%	6.6%	8.4%	180 bps
Columbia Pike	\$1,374	\$1,407	2.4%	7.2%	7.2%	unchg
Northeast Alexandria	\$1,146	\$1,103	-3.8%	5.5%	4.2%	-130 bps
Southeast Fairfax County	\$1,360	\$1,357	-0.2%	5.5%	4.9%	-60 bps
Western Fairfax County	\$1,366	\$1,339	-2.0%	6.5%	5.2%	-130 bps
Loudoun County	\$1,273	\$1,299	2.0%	5.2%	3.9%	-130 bps
Prince William County	\$1,035	\$1,062	2.6%	6.0%	7.7%	170 bps
Seminary Road	\$1,381	\$1,324	-4.1%	5.3%	4.5%	-80 bps
Falls Church	\$1,308	\$1,327	1.5%	4.0%	5.1%	110 bps
Tysons Corner / Fairfax	\$1,414	\$1,397	-1.2%	6.5%	4.9%	-160 bps
Stafford County	\$930	\$927	-0.3%	6.9%	5.9%	-100 bps
Fredericksburg	\$902	\$883	-2.1%	8.0%	9.5%	150 bps
Metro	\$1,375	\$1,374	-0.1%	6.2%	5.7%	-50 bps

SUPPLY TRENDS

- Developers completed seven apartment properties totaling 1,806 units in the first half of 2010. By comparison, only 734 units were delivered in the comparable period of 2009.
- Reis also was aware of 14 apartment properties under construction in July. The largest addition to inventory will occur in Columbia Pike submarket as construction on four properties containing 831 units was in progress. Construction also was underway in the Rosslyn / Ballston (498 units), Loudon County (433 units), Southeast Fairfax (421 units), Pentagon City (308 units), Fredericksburg (232 units) and Western Fairfax County (111 units) submarkets.
- Reis identified only two condo properties under construction in July. Both assets, containing a total of 282 units, are located in the Loudon County submarket.



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