

Preliminary Market Data Update for Columbia Town Center

| Columbia, Maryland | July 6, 2015

REAL ESTATE SUPPLY/ DEMAND – RENTAL HOUSING

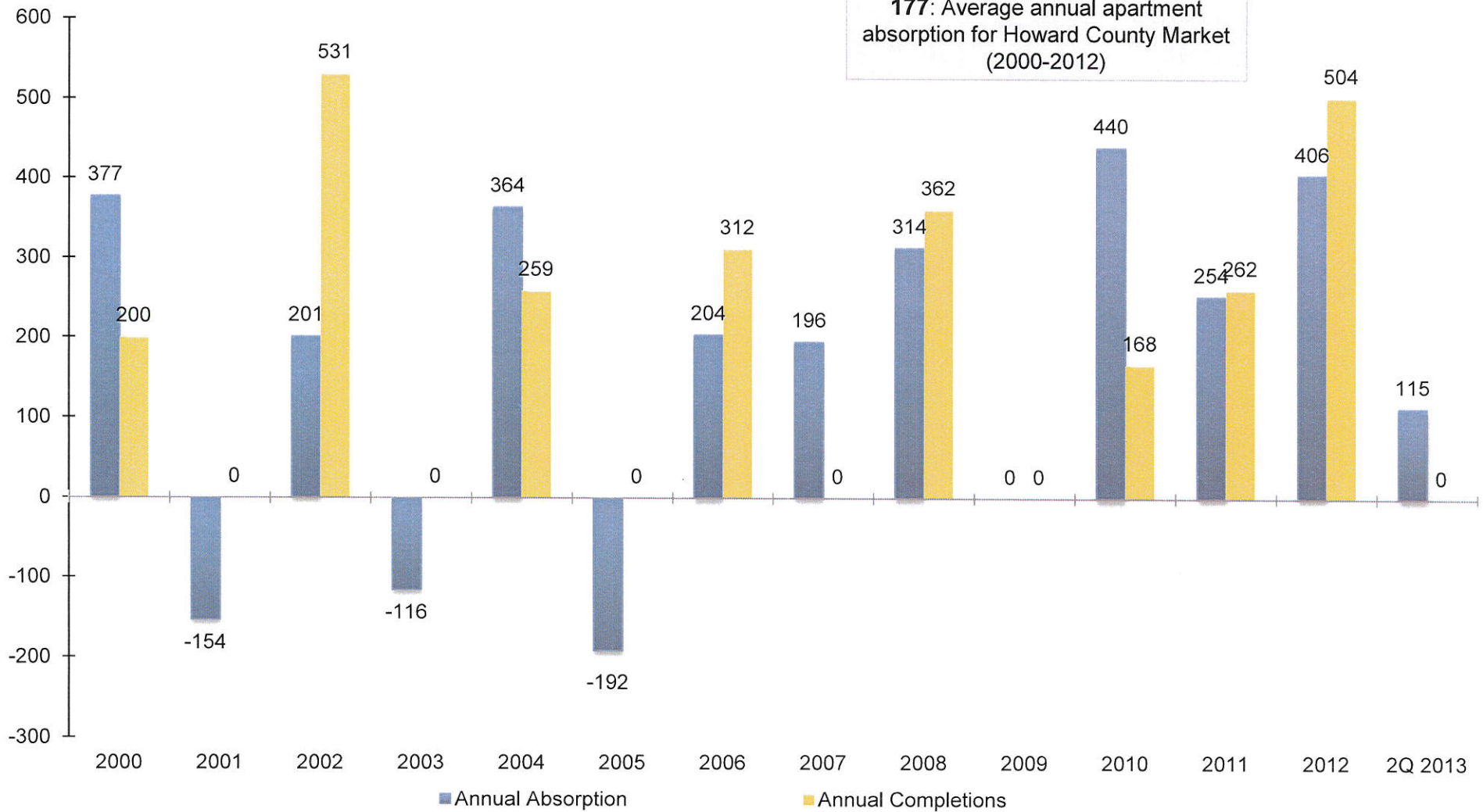
Key Findings – Rental Market Supply/Demand Context

- Demographic evidence is that there is a large population of affluent renters in the county who are paying rents well below their full potential based on the limitations of the product that has been delivered
- Howard County has tightly controlled the delivery of new rental housing, with less than 150 completions on average over the last decade, resulting in highly constrained supply/demand condition reflected in growth rates of 5% to 7% during the peak of the previous economic cycle
- The market was relatively immune from the recent economic downturn during which occupancies remained above 95% and rent declines were negligible
- Achieved rental rates today peak at \$1.75 to \$1.80 per square foot, but reflect older and not particularly innovative product, RCLCO hypothesizes that new state-of-the art rentals in a prominent Town Center location may achieve a rental rate 20% to 25% above this in the very near term, justifying best in class wood-frame mid-rise construction above a parking podium
- RCLCO projects capacity to add as many as 2,500 rental apartment units to the town center over the next decade, gradually increasing density and sophistication of the product as each new project demonstrates the true renter spending power in this marketplace
- As increasingly sophisticated product begins to drive rents above and beyond the pace of general rent growth in the marketplace during this period of time, construction feasible product types will expand beyond wood frame product to steel frame mid-rise and eventually concrete high-rise product.

New Apartment Supply

Apartment Absorptions and Completions in Howard County

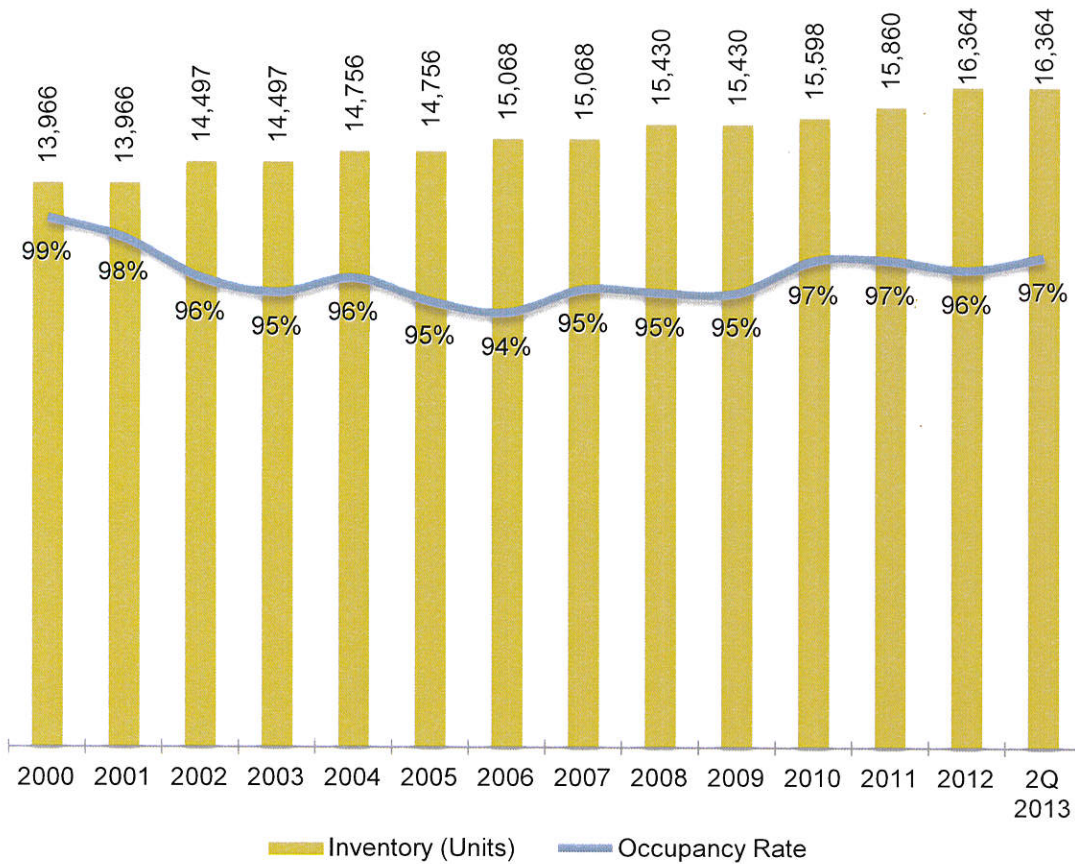
Source: Reis



Multifamily Market Conditions – High Occupancy, Strong and Steady Rent Growth

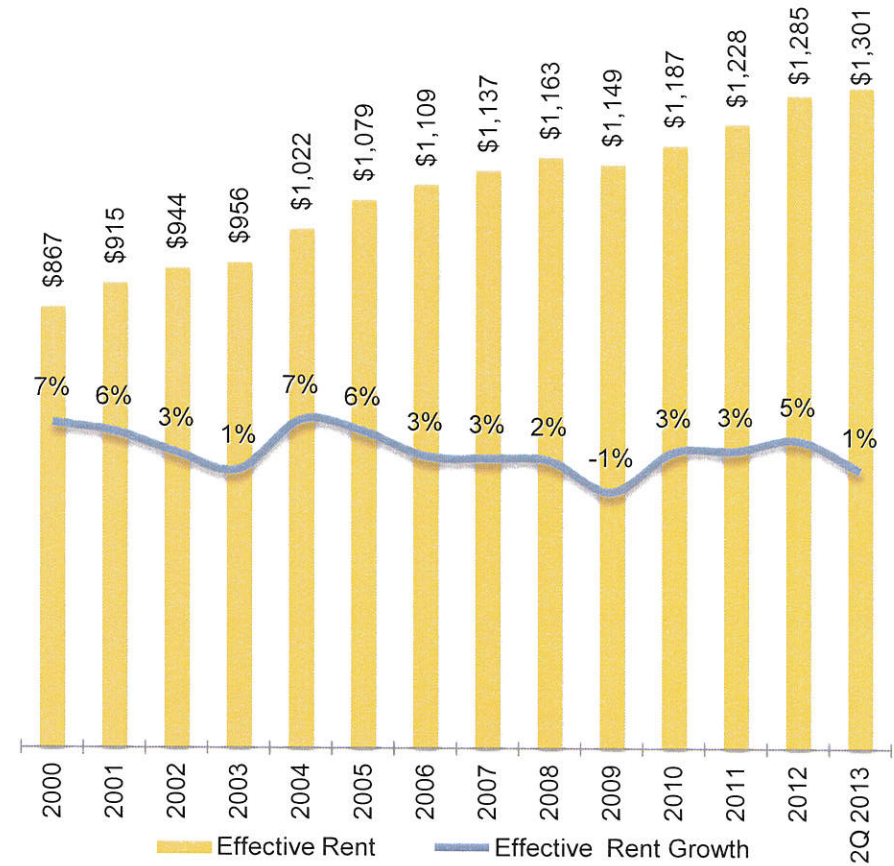
Apartment Inventory and Occupancy Rates in Howard County

Source: Reis



Effective Rents in Howard County

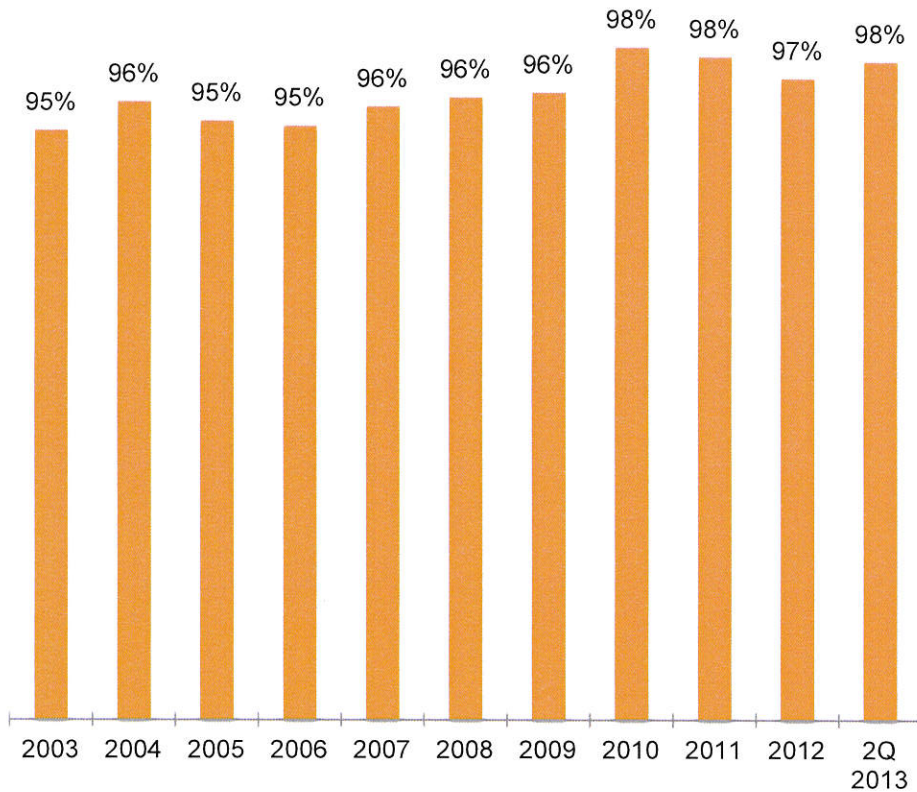
Source: Reis



Multifamily Market Conditions – Class A Market Performance Particularly Strong

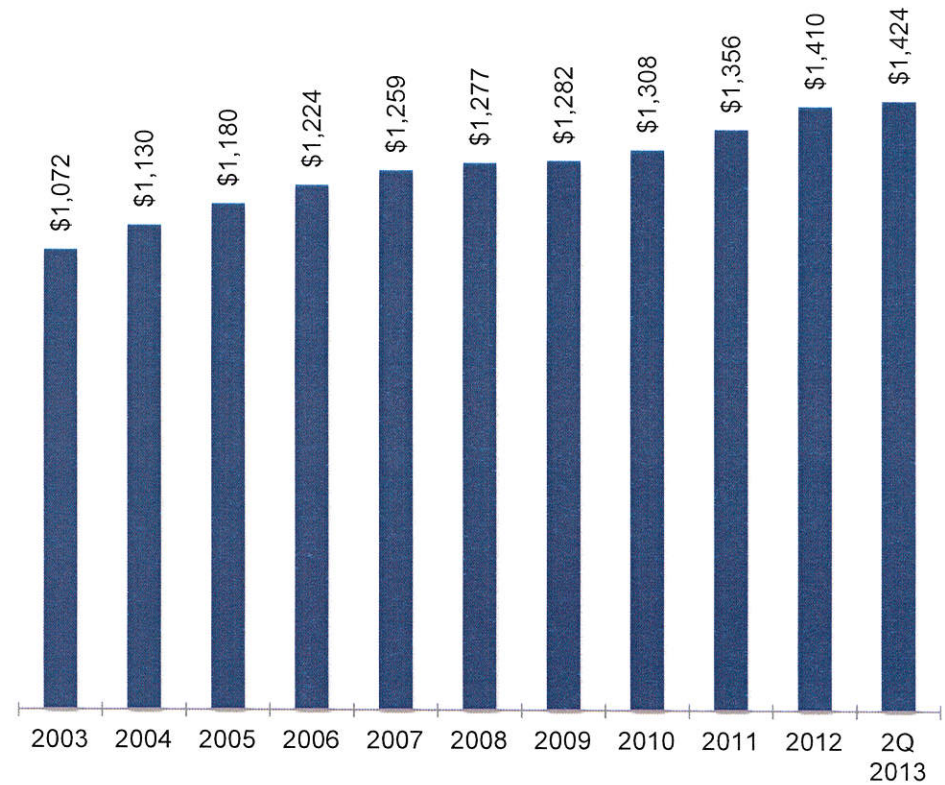
Class A Occupancy Rate in Howard County, 2003-2Q 2013

Source: Reis

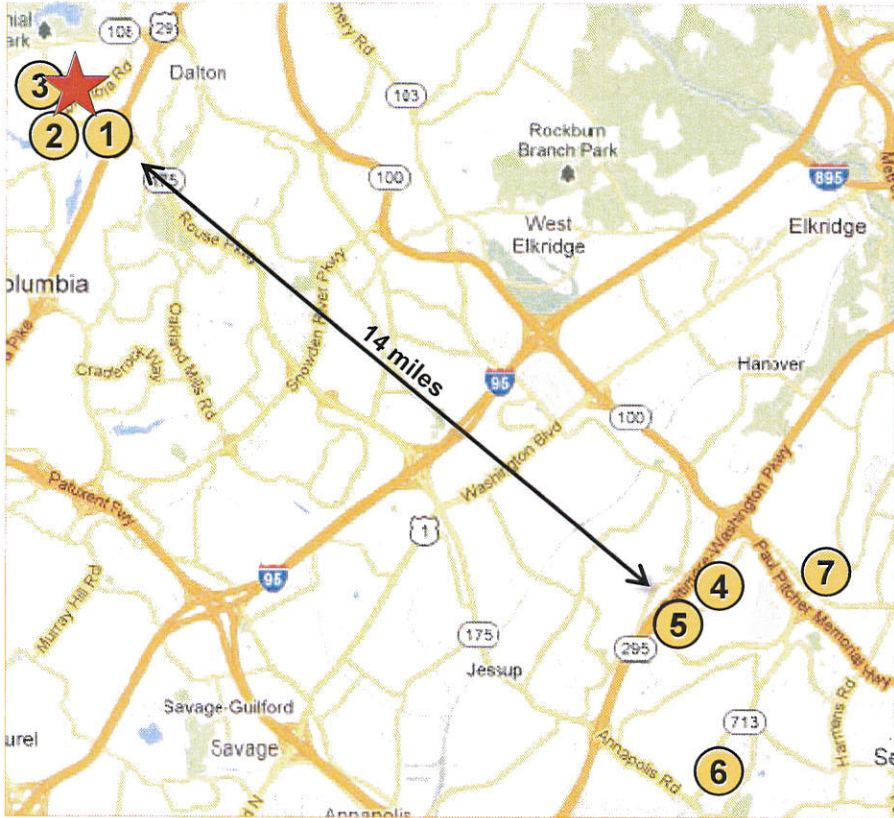


Class A Asking Rent in Howard County, 2003-2Q 2013

Source: Reis



Top of Market Rental Properties – Columbia Town Center Should Be Outperforming the Market, Significantly



Columbia Town Center



Gramercy at Town Center



Stonehaven



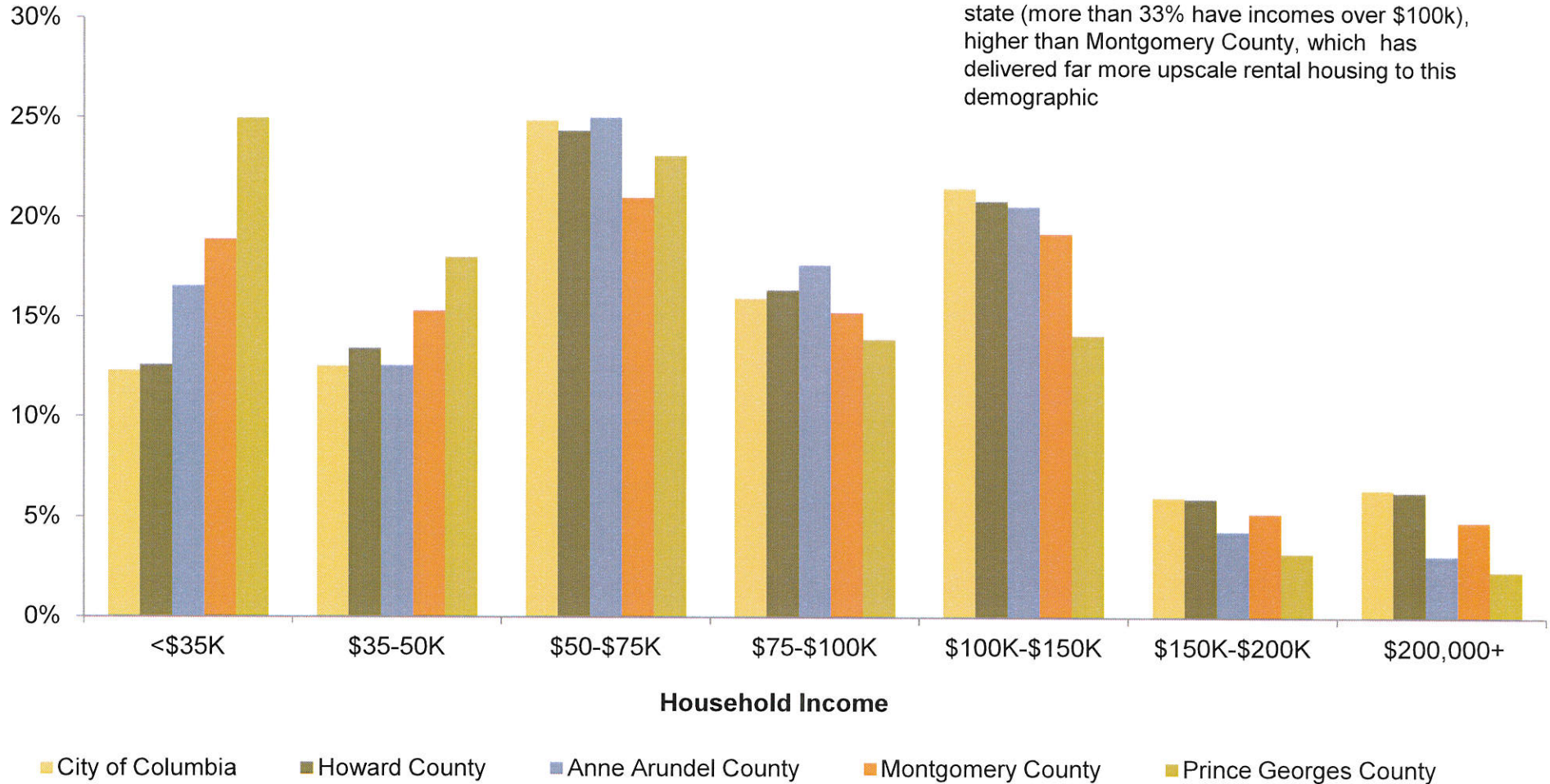
Arbors at Arundel Mills

PROJECT	YEAR BUILT	EFFECTIVE RENT/SF
1 COLUMBIA TOWN CENTER	2002	\$1.80
2 GRAMERCY AT TOWN CENTER	1997	\$1.81
3 EVERGREENS	2005	\$1.92
4 ARBORS AT ARUNDEL PRESERVE	2007	\$1.90
5 RESIDENCES AT ARUNDEL PRESERVE	2011	\$2.00
6 SERENITY PLACE AT DORSEY RIDGE	2012	\$2.00
7 VILLAS AT DORSEY RIDGE	2012	\$1.96

Affluence Levels in the Key Renter Cohort – Many Households 25-45 Should be Able to Pay More Rent

Households Age 25-34 by Income Bracket, 2012

Source: ESRI



Statistical Demand Methodology – Large Share of Market Activity Can Pay Premium Rents

Age and Income	Affordable Home Price ¹	Total HHs ²	% Of HHs	% Renters ³	% of Renters from Existing in Turnover ³	Demand from Existing Households		Demand from New Households		Total Rental Demand
						Demand from Existing Renters	New HHs ⁵	% Renters	Total Demand from New HHs	
25 - 34										
\$35,000	\$50,000	15,780					460			
\$50,000	-\$75,000	2,122	13%	86%	35%	638	62	86%	53	692
\$75,000	-\$100,000	3,844	24%	66%	25%	633	112	66%	74	707
\$100,000	-\$150,000	2,591	16%	52%	20%	271	76	52%	40	311
\$150,000	-AND OVER	3,297	21%	39%	15%	193	96	39%	38	231
		1,938	12%	18%	10%	35	57	18%	10	45
35 - 54										
\$35,000	\$50,000	49,556					-503			
\$50,000	-\$75,000	2,963	6%	55%	32%	528	-30	55%	-17	512
\$75,000	-\$100,000	6,477	13%	40%	25%	646	-66	40%	-27	619
\$100,000	-\$150,000	5,924	12%	24%	15%	213	-60	24%	-14	199
\$150,000	-AND OVER	12,743	26%	15%	10%	191	-129	15%	-19	172
		17,811	36%	5%	5%	43	-181	5%	-9	34
55 - 64										
\$35,000	\$50,000	21,401					305			
\$50,000	-\$75,000	1,254	6%	33%	15%	61	18	33%	6	67
\$75,000	-\$100,000	2,686	13%	15%	6%	22	38	15%	6	28
\$100,000	-\$150,000	2,398	11%	16%	5%	19	34	16%	5	24
\$150,000	-AND OVER	5,239	24%	7%	5%	19	75	7%	5	25
		8,151	38%	3%	4%	10	116	3%	3	13
65+										
\$35,000	\$50,000	18,746					711			
\$50,000	-\$75,000	2,133	11%	13%	10%	27	81	13%	10	37
\$75,000	-\$100,000	3,275	17%	6%	9%	18	124	6%	7	25
\$100,000	-\$150,000	1,910	10%	6%	8%	9	72	6%	4	13
\$150,000	-AND OVER	3,107	17%	6%	6%	11	118	6%	7	18
		3,969	21%	1%	5%	2	150	1%	2	3
Summary of Demand by Age Group										
25 - 34		13,792	15%	53%	24%	1,771	402	53%	214	1,985
35 - 54		45,918	49%	18%	19%	1,622	-466	18%	-86	1,536
55 - 64		19,728	21%	9%	7%	131	282	9%	26	157
65 - AND OVER		14,394	15%	6%	8%	66	546	6%	30	96
Total		93,832				3,590	763		185	3,774
Summary of Demand by Income and Price Band										
\$35,000	-\$50,000	8,472	9%	49%	30%	1,254	529		53	1,307
\$50,000	-\$75,000	16,282	17%	35%	23%	1,319	159		61	1,380
\$75,000	-\$100,000	12,823	14%	25%	16%	512	122		35	546
\$100,000	-\$150,000	24,386	26%	15%	11%	415	159		31	445
\$150,000	-AND OVER	31,869	34%	5%	6%	89	143		6	96
Total		93,832				3,590	1,111		185	3,774

27% of the market rate demand can afford higher rents than being achieved now

More limited evidence of upscale empty nester demand (unless renter/owner) behaviors change

Probably underestimates structural demand and doesn't count for obsolescence

Apparent Near Term Upside Rate Potential – In-Place Rents Are Constrained by Character of Product

Age and Income	Affordable Home Price	Total For-Rent Demand	1-PERSON HHs				2-PERSON HHs				3- OR MORE PERSON HHs				Prefer/ Afford MR	Prefer/ Afford HR				
			% of all HHs	Prefer/ Afford SFD Rental	Prefer/ Afford Garden	Prefer/ Afford MR	Prefer/ Afford HR	% of all HHs	Prefer/ Afford SFD Rental	Prefer/ Afford Garden	Prefer/ Afford MR	Prefer/ Afford HR	% of all HHs	Prefer/ Afford SFD Rental			Prefer/ Afford Garden	Prefer/ Afford MR	Prefer/ Afford HR	
25 - 34																				
\$35,000	\$50,000	\$875 - \$1,250	692	39%	0%	100%	0%	0%	25%	0%	100%	0%	0%	36%	0%	100%	0%	0%	0	0
\$50,000	-\$75,000	\$1,250 - \$1,875	707	50%	5%	25%	55%	15%	26%	15%	20%	55%	10%	24%	50%	35%	15%	0%	320	71
\$75,000	-\$100,000	\$1,875 - \$2,333	311	30%	5%	10%	20%	65%	35%	25%	5%	40%	30%	35%	65%	20%	10%	5%	73	99
\$100,000	-\$150,000	\$2,333 - \$3,000	231	21%	5%	5%	15%	75%	35%	30%	5%	15%	50%	44%	80%	5%	5%	10%	25	88
\$150,000	-AND OVER	\$3,000 - OVER	45	0%	5%	5%	15%	75%	64%	30%	5%	15%	50%	36%	80%	5%	5%	10%	5	16
35 - 54																				
\$35,000	\$50,000	\$875 - \$1,250	512	33%	0%	100%	0%	0%	12%	0%	100%	0%	0%	55%	25%	75%	0%	0%	0	0
\$50,000	-\$75,000	\$1,250 - \$1,875	619	31%	5%	25%	55%	15%	37%	15%	20%	55%	10%	32%	75%	25%	0%	0%	231	52
\$75,000	-\$100,000	\$1,875 - \$2,333	199	30%	5%	10%	20%	65%	10%	25%	5%	30%	40%	60%	75%	20%	5%	0%	24	47
\$100,000	-\$150,000	\$2,333 - \$3,000	172	21%	5%	5%	15%	75%	16%	30%	5%	15%	50%	64%	90%	5%	5%	0%	15	40
\$150,000	-AND OVER	\$3,000 - OVER	34	21%	5%	5%	15%	75%	12%	30%	5%	15%	50%	67%	90%	5%	5%	0%	3	7
55 - 64																				
\$35,000	\$50,000	\$875 - \$1,250	67	48%	0%	100%	0%	0%	18%	0%	100%	0%	0%	34%	0%	100%	0%	0%	0	0
\$50,000	-\$75,000	\$1,250 - \$1,875	28	77%	5%	25%	55%	15%	23%	15%	20%	55%	10%	0%	50%	35%	15%	0%	16	4
\$75,000	-\$100,000	\$1,875 - \$2,333	24	28%	5%	10%	20%	65%	46%	25%	5%	30%	40%	26%	65%	20%	10%	5%	5	9
\$100,000	-\$150,000	\$2,333 - \$3,000	25	38%	5%	5%	15%	75%	30%	30%	5%	15%	50%	32%	80%	5%	5%	10%	3	12
\$150,000	-AND OVER	\$3,000 - OVER	13	12%	5%	5%	15%	75%	88%	30%	5%	15%	50%	0%	80%	5%	5%	10%	2	7
65+																				
\$35,000	\$50,000	\$875 - \$1,250	37	79%	0%	100%	0%	0%	21%	0%	100%	0%	0%	0%	0%	100%	0%	0%	0	0
\$50,000	-\$75,000	\$1,250 - \$1,875	25	53%	5%	25%	55%	15%	47%	15%	20%	55%	10%	0%	50%	35%	15%	0%	14	3
\$75,000	-\$100,000	\$1,875 - \$2,333	13	50%	5%	10%	20%	65%	50%	25%	5%	30%	40%	0%	65%	20%	10%	5%	3	7
\$100,000	-\$150,000	\$2,333 - \$3,000	18	0%	5%	5%	15%	75%	45%	30%	5%	15%	50%	55%	80%	5%	5%	10%	2	5
\$150,000	-AND OVER	\$3,000 - OVER	3	0%	5%	5%	15%	75%	100%	30%	5%	15%	50%	0%	80%	5%	5%	10%	1	2

Summary of Demand by Age Group																			
25 - 34																	1,985		
35 - 54																	1,536		
55 - 64																	157		
65 - AND OVER																	96		
Total																	3,774		
																		423	274
																		273	146
																		26	32
																		19	17
																		741	468

Summary of Demand by Income and Rental Rate Band			
\$35,000	-\$50,000	\$875 - \$1,250	1,307
\$50,000	-\$75,000	\$1,250 - \$1,875	1,380
\$75,000	-\$100,000	\$1,875 - \$2,333	546
\$100,000	-\$150,000	\$2,333 - \$3,000	445
\$150,000	-AND OVER	\$3,000 - OVER	96
Total			3,774

Total potential annual market rate renter activity

15% to 20% of it should have an appetite and can pay the rents for high-density product

0	0
581	130
105	162
44	144
10	32

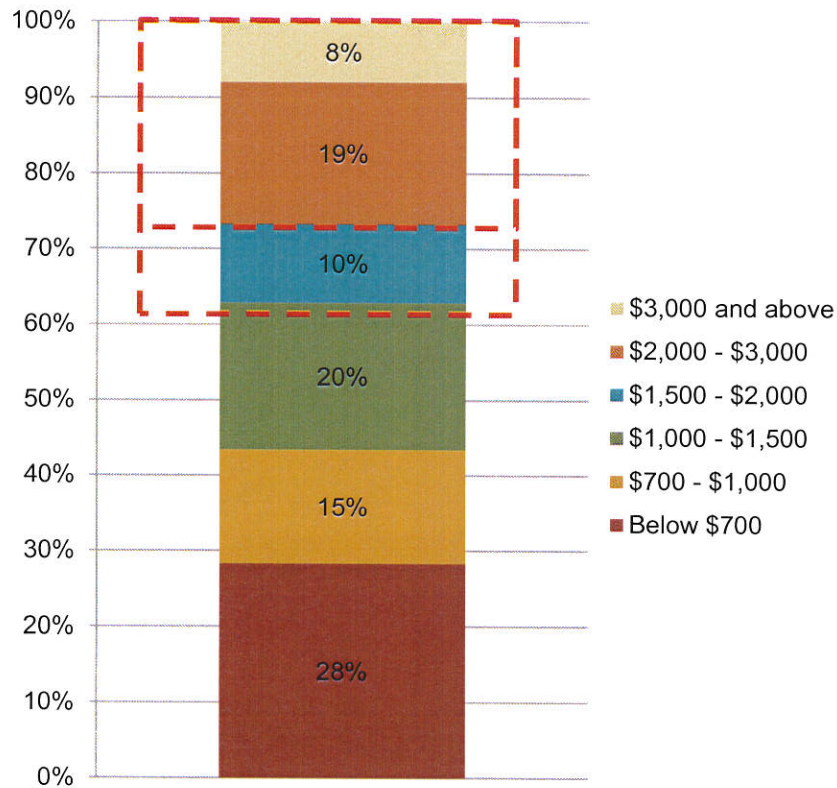


High Discrepancy between Renter Affordability and Actual Rent Paid in Howard County

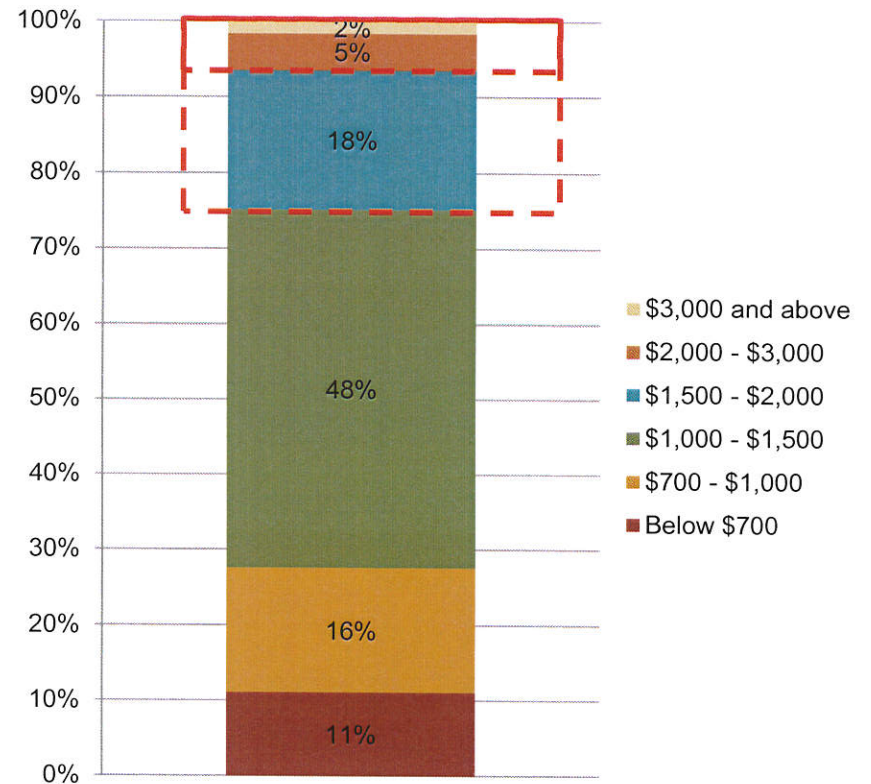
37% of renters can afford \$1,500 and up
27% of renters can afford \$2,000 and up

25% of renters are paying \$1,500 and up
6% of renters are paying \$2,000 and up

Existing Occupants by Rental Affordability



Existing Occupants by Actual Rent Paid



Resulting from tight rental bands in Howard County, renters at the top end are paying too little – there are currently about 2,500 renters paying over \$1,500 in rent in Howard County today, while almost 10,000 renters could afford to be paying over \$1,500.

Source: American Community Survey, 2009-2011; Esri; RCLCO

Renter Market Segmentation Comparison by County

- Montgomery County and Howard County have similar demographics and age distributions. Montgomery County has decidedly more segmentation and distribution in their renter market

– something that Howard County also has the ability to achieve with more targeted product .

*Comparison of Market Segment of Renters with Contract Rents above \$1,500 in Multifamily Buildings Constructed after 1990
Montgomery County and Howard County, MD*

