The Pinkard Fund

Investor Update

April 2014
For Q1 2014

Market Update

Some of our greatest insights occur when we get out on the road. I recently attended the Urban Land Institute conference in Vancouver, considered one of the emerging gateway cities in North America. Their embrace of immigration (30 % of the population is Chinese), pragmatic view toward historic preservation, and thoughtful approach toward livening the streetscape could be instructive to us here in the Washington Area. However, my greatest “aha” moment during my time in Vancouver was hearing how robust many parts of the country are relative to the Washington region. Rental rates for office space are growing in Boston, New York and San Francisco. Dallas and Houston developers are building speculative office buildings. Job creation is strong and capital is more interested in those markets than ours. That is not the way it used to be. Over the years I would return from ULI meetings and thank my lucky stars that I was practicing real estate in the DC region because of our solid, recession proof economy.

As an optimist I am glad that we are not currently at the top of the list for capital investment. It will create opportunities for more rational pricing of the assets that we are pursuing. Right now we are seeing better investment opportunities than we have seen over the last year or two, and we have heard from our competitors here that they are as well. The reason for our economic malaise is that job growth is tepid at best, and therefore, recovery is less tangible than in other places. Our view is that it is a great time to buy assets that need fixing or repositioning with the plan to solve problems at the property level and reintroduce them to the capital markets at a more favorable time. As the sequester moves further into the rearview mirror and federal budgets stabilize, a more favorable time will be upon us before we know it. Washington is just too dynamic a global city to be held down for too long and my bet is that federal spending is way more likely to rise than fall over the next few years.

I heard again and again that Washington is one of the great cities in the country. The resurgence of our urban areas and our suburban centers is talked about across the country. We continue to see growth in both domestic and international migration to the area which continues to fuel demand for apartments.

At ULI there was a lot of conversation about how technology is changing real estate. The buzz word that I have been hearing everywhere is “disruptive.” The classic example is the disruptive effect on bricks and mortar retail that has come from online retailers like Amazon. There are other examples as well and a general sense that if you are not aware of the changes that are afoot, you may end up becoming a victim. Over the last few years we have begun sharing things that we never shared before, information certainly, but also bikes (Capital Bike Share), cars (Zipcars), houses (airbnb and VRBO) and office space (1776 and WeWork). Technology has facilitated all of this sharing. So we must ask ourselves, what are we going to be sharing tomorrow?