The Pinkard Fund

Investor Update January 2016

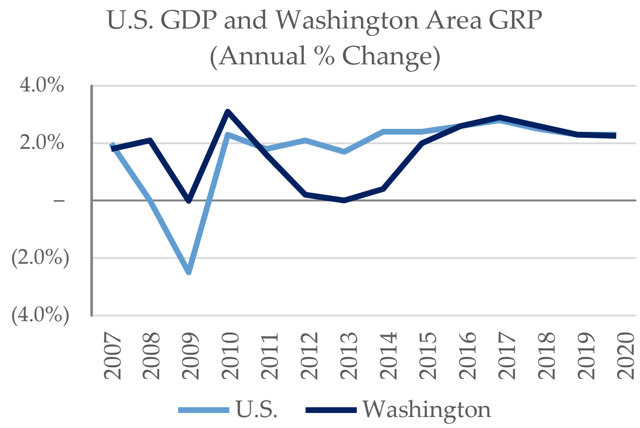
Market Update For Q4 2015

As investors look back at the performance of their investments in 2015, it will be hard to ignore the sharp drop in stock indices that has taken place in the early weeks of 2016. Values have changed so much that 2015 seems like "so last year". However, for those of us in the private side of the real estate business, where values change at a glacial pace compared to the equity indices, there is no correlation to the current volatility in the equity markets. It is a good reminder about the benefits of being diversified. Investment real estate has had its time in the tank for sure and will again at some point, but at this time and in this place it does not seem that we are headed back down that road in the near term. In fact, 2015 was a real turning point for the Washington DC real estate market.

"The local economy ground to a halt beginning in 2011, but 2015 was a turnaround year," said Stephen Fuller, an economist who directs the Center for Regional Analysis at George Mason University. As we mentioned in our last report the job market has turned around quite sharply. Year over year job growth in the region topped 60,000 as of the end of November 2015. This is the highest annual figure since 2005. Importantly, these are high-paying jobs. The Professional and Business Services sector has rebounded sharply as has the Government sector. These areas both saw severe cutbacks as a result of the Sequester.

The other turning point for the region last year was the signing of the Bipartisan Budget Act of 2015. This was a large step forward for the entire region as the Act calls for approximately $90 billion of new discretionary Federal spending. While increased government spending is generally not high on the "good news" list for most people, the reality for our region is that we capture a disproportionate share of those dollars. Being a bipartisan bill, the increased spending ranges across many agencies from Defense with the largest portion to Homeland Security, HHS ($2.0 billion increase in NIH alone), Education and more. While there is a consensus view in the region that the federal government will play a less prominent role in the local economy going forward and that the region must be more competitive in attracting, creating, and supporting growth industries (which is happening), the fact is that small increases in federal spending still mean big dollars for the region.

The chart to the right shows how the constriction of Federal Spending in the region led to Gross Regional Product (GRP) trailing national GDP from 2011 through 2014. With the new budget in place GRP should slightly exceed National GDP going forward, and outperform more dramatically, as it did during the Great Recession, if the country enters a period of slower growth or recession.



With the above dynamics of job growth and growth in federal spending occurring a foundation for a strong real estate recovery is in place. This cannot come soon enough for the struggling office market which has seen some green shoots, but still has a ways to go. It also means that the strong residential and retail markets should continue to perform well. While the national recovery appears to be in its latter stages, the recovery in this region seems to be just beginning.