

The Pinkard Fund I

Investor Update

April 2017

Market Update

For Q1 2017

We are now at the 100 day mark of the new administration and are beginning to see the pattern of life under a Trump administration. As one of the late night comedians quipped, the difference between Trump and other presidents is that it is not the President but we who are aging more rapidly during his presidency. The President has been predictably unpredictable and while this may unnerve some, it is becoming more apparent every day that the more his administration ignores the ways of Washington, the less he will accomplish. Over time this administration will be judged on the course of the economy and on its ability to sustain growth and create jobs. It is way too early to predict whether they will be successful.

Like many parts of the country the Washington region feels like someone hit the pause button. The local economy is not bad, continuing to create jobs, but the atmosphere is tentative. Construction lenders have a dwindling supply of new projects to fund; new home sales have fallen off; gross office leasing is down. Certain members of the administration have declared war on the administrative state, proposing draconian budget cuts in discretionary spending outside the defense arena. While that can't be good for the local economy, it seems unlikely that Congress would support all of these cuts.

One of the questions we are asking ourselves is whether there will be distressed investing opportunities around the corner. It is hard to make a real downside case. The employment picture in the region continues to be positive. There is strong job growth in technology on both the private and contractor side of the equation. Overall regional unemployment stands at 4.6% vs. the national average of 5.4%. The unemployment rate in Northern Virginia is below 3.9%. Not surprisingly, the number of job postings and unfilled jobs has increased. In the past these jobs were filled through domestic migration and immigration, but while immigration remains constant, domestic migration into the region has fallen. If immigration also begins to fall, this could develop into a labor shortage which would hold back growth in the region.

Another factor that drives a strong investment climate and mitigates the downside risk in this market is the abundance of equity capital. The first quarter of 2017 saw robust investment activity in the Washington region, almost 40% of the total annual volume for 2016, led by a continued surge of foreign capital. Japanese investor, Unizo, purchased 8 office assets in the last year totaling over \$1.0 billion followed by Singapore's GIC Real Estate International which

purchased 6 assets. The sale of Northern Virginia office assets topped \$1 billion for the quarter which reflects a renewed investment appetite for the right suburban properties. While capital flows can change quickly, the current level of activity certainly shows broad investor confidence in the economic vitality of the Washington region.