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# Office Industry Overview Oct 2017

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# Today's Agenda

- Macroeconomic Outlook
- Demand Trends
- Commercial Real Estate Fundamentals
- Technology, Demographics, Migration and Immigration



# THE YARDIMATRIX VIEW - OFFICE INVESTMENT STRATEGY

- We are initiating investment strategy coverage for the office asset class - with a bifurcated strategy
- US office strategy can be thought of in two broad categories - cash yield and asset preservation in the international gateway core cities, and repositioning/re-invention of environments in gateway cities' urbanizing suburban nodes and non-gateway top 40 cities and their intellectual capital nodes
- US macroeconomic conditions, while not great, are solid and generating job growth of ~175-200K jobs per month
  - Enough to maintain decent office-using employment growth, occupancy and slow rental growth
  - Secular changes in sq. ft. per person, co-working, and on-demand space are dampening influences on space needs
- US office supply growth is fairly concentrated in gateway or rapidly growing metro areas
  - Supply surges in SF, Bay Area, Manhattan, Los Angeles, Seattle are very heavily tech influenced
  - Re-invention of suburban office parks and creation of integrated communities is underway as value added plays
- Oil prices are range bound - \$40-\$50/bbl. with regional pain continuing - Houston (?), OKC and Pittsburgh
- Major top 40 non-gateway markets, and their growing intellectual capital nodes, are well positioned to benefit from domestic migration and lower costs vs. gateway cities...and largely insulated from national immigration policy
  - Opportunistic or yield investors need to move to "unloved" markets away from institutional investors
  - Value-add has good odds of success, on fundamentals - but asset price change has narrowed the opportunity recently