



The Suburban Office Park's Extreme Makeover

John Abuja, Marcus & Millichap
Mark Fitzgerald, USAA Real Estate Company



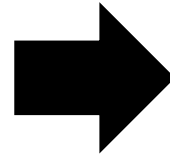
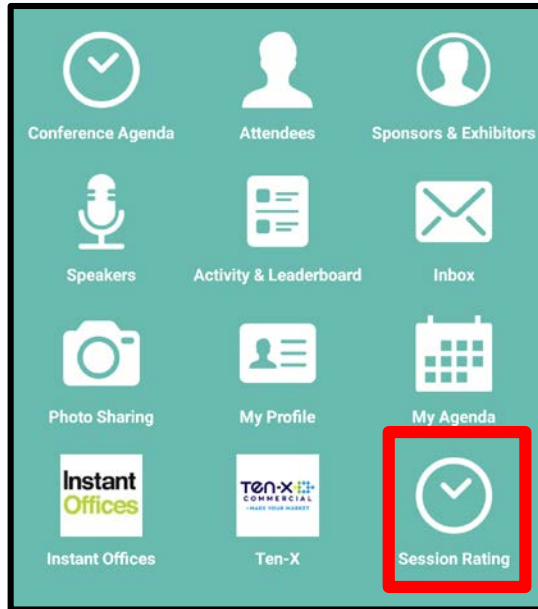
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John Abuja
Senior Vice President Investments
Marcus & Millichap



Mark Fitzgerald
Senior Director
USAA Real Estate Company



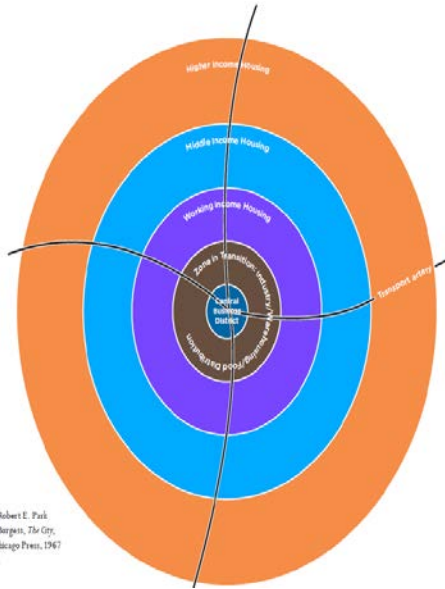
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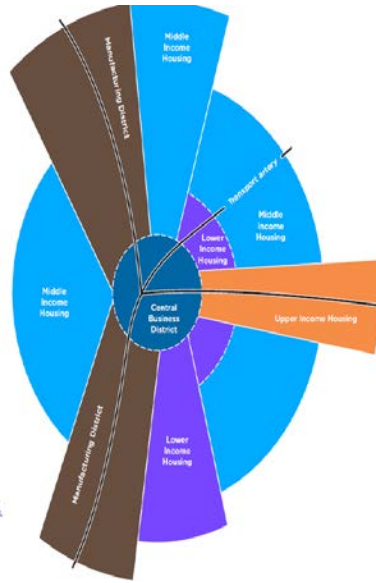


Concentric Ring Model



Adapted from Robert E. Park and Ernest W. Burgess, *The City*, University of Chicago Press, 1947 (original 1925).

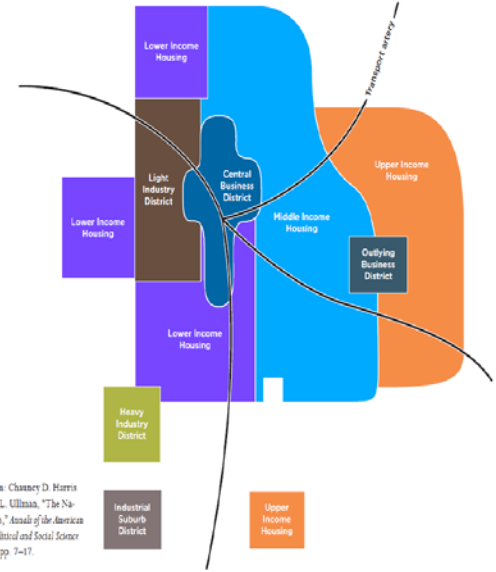
Sector Model



Adapted from Homer Hoyt, *The Structure and Growth of American Cities*, Washington, DC: US Government Printing Office, 1939.

Exhibit 2: Sector Model

Multiple Nuclei Model

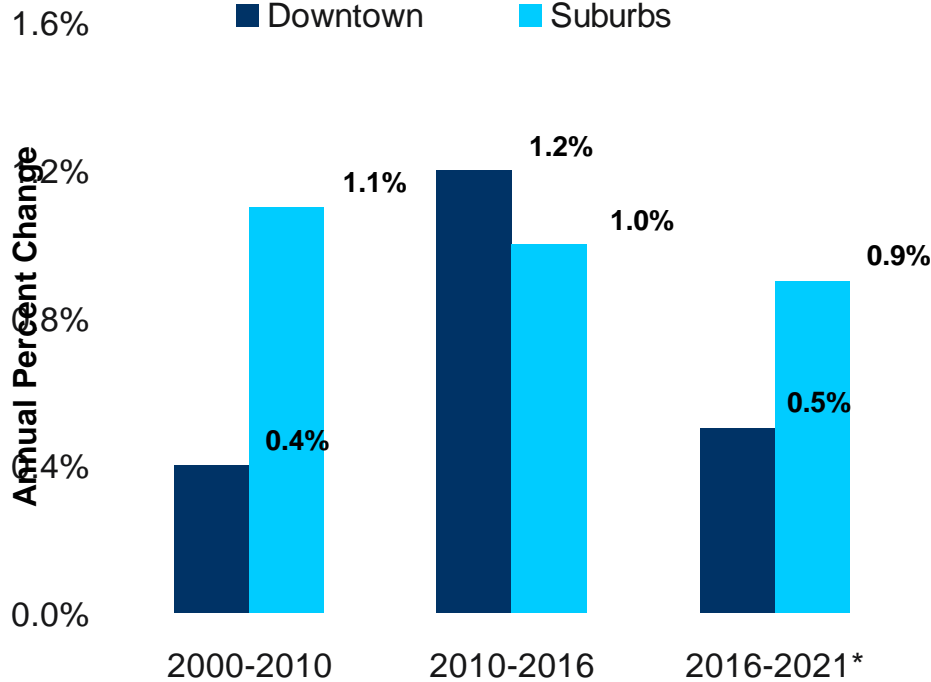


Adapted from Channay D. Harris and Edward L. Ullman, "The Nature of Cities," *Annals of the American Academy of Political and Social Science* 24, 2, 1945, pp. 7-17.

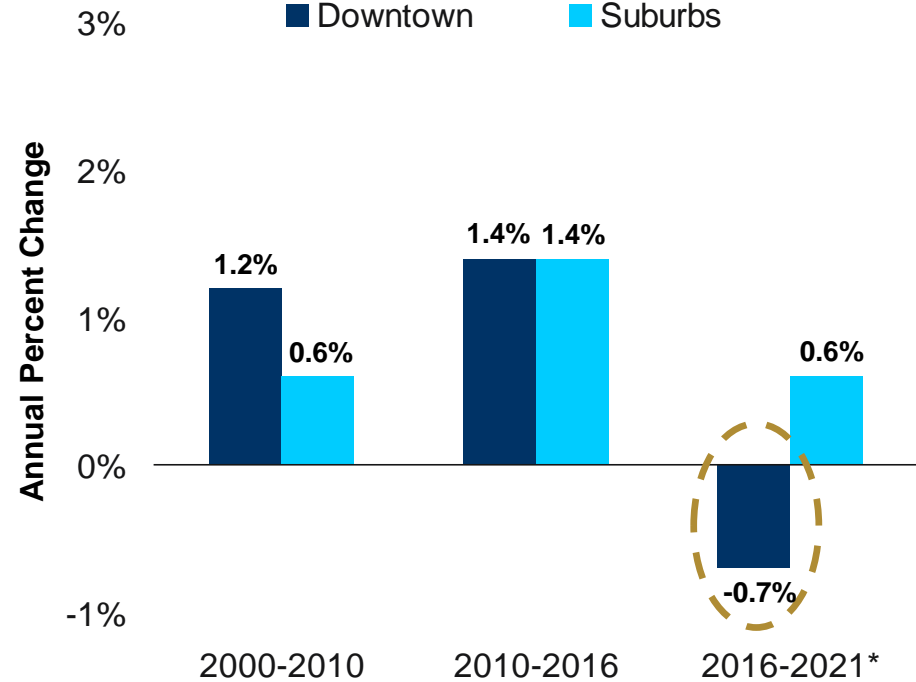
- Higher income housing
- Middle income housing
- Working income housing
- Zone in transition
- Central business district
- Heavy industrial district

Population Growth Shifting to Areas Outside the City

Total Population



Young Adult Population

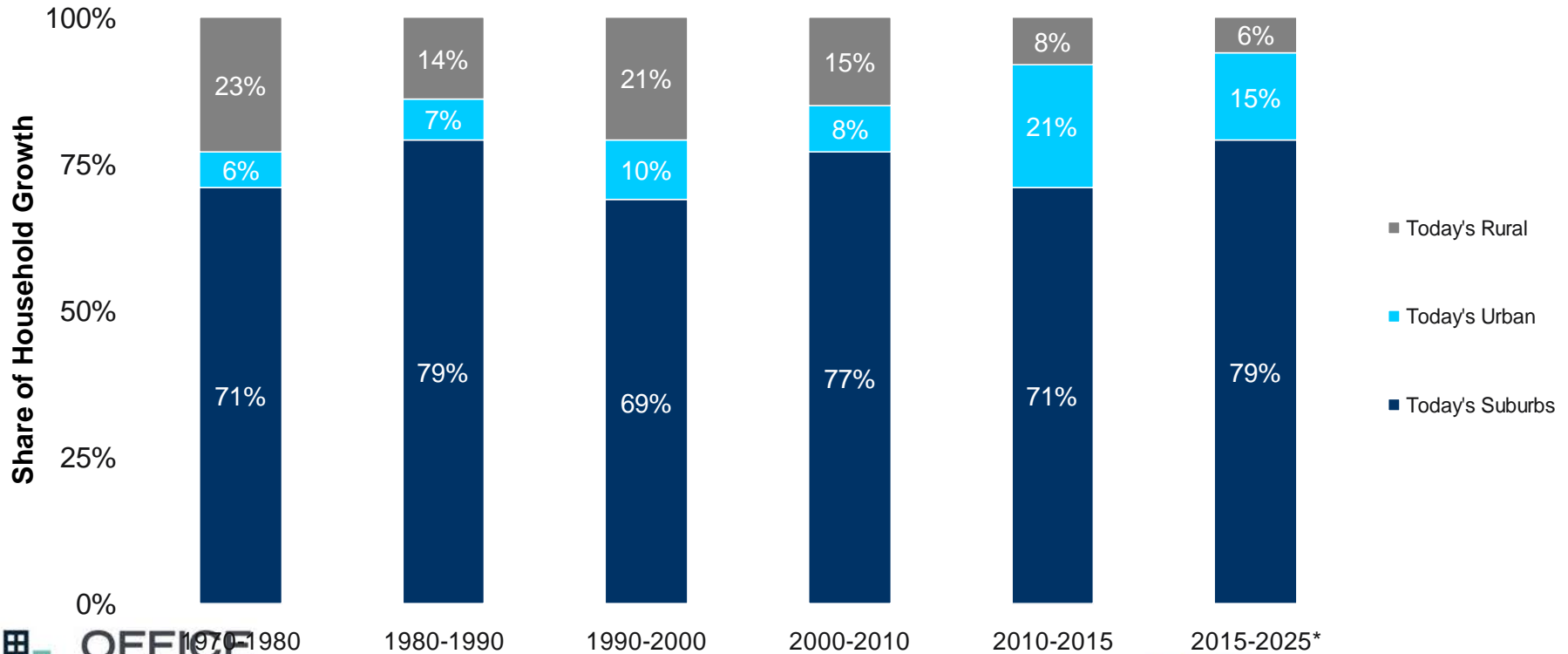


* Forecast

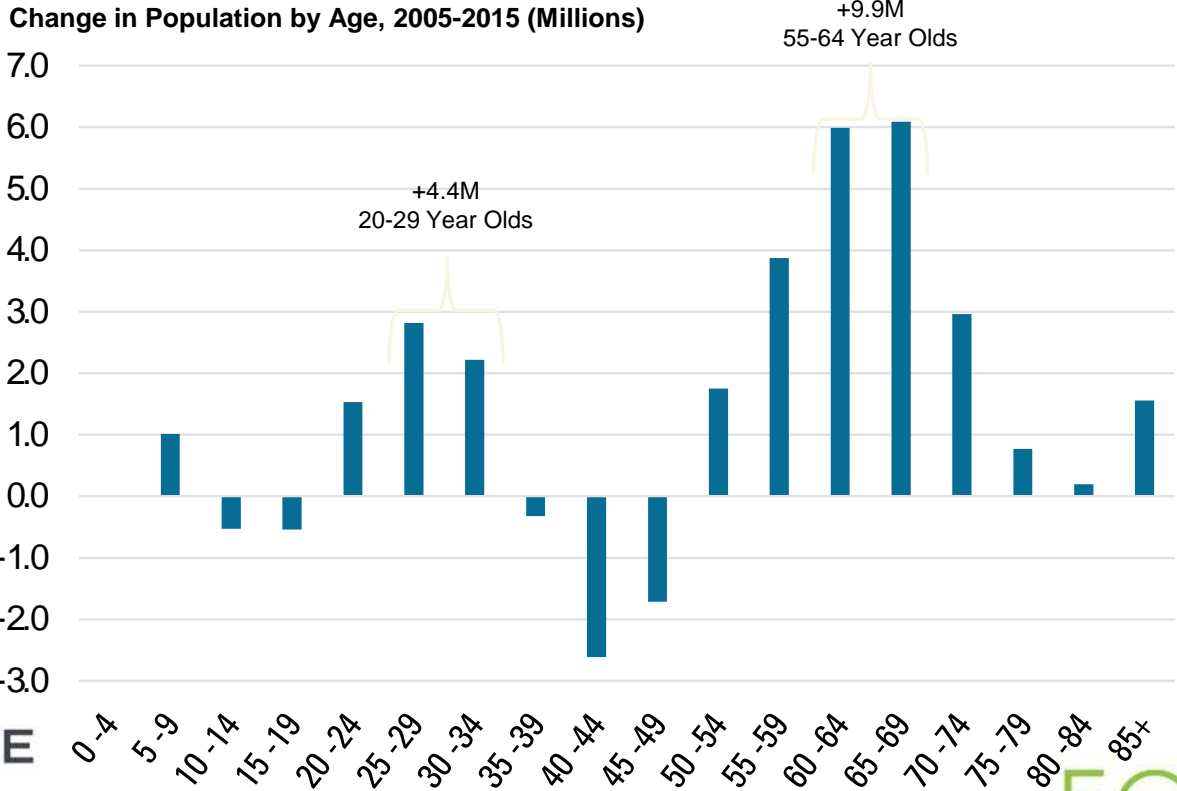
Young adult population: 20-34 years old

Sources: Marcus & Millichap Research Services, U.S. Census Bureau

Suburbs Will Capture a Larger Share of Household: Growth Over the Next Decade



“Urban Lifestyle” Population Grew by 14 Million from 2005-2015



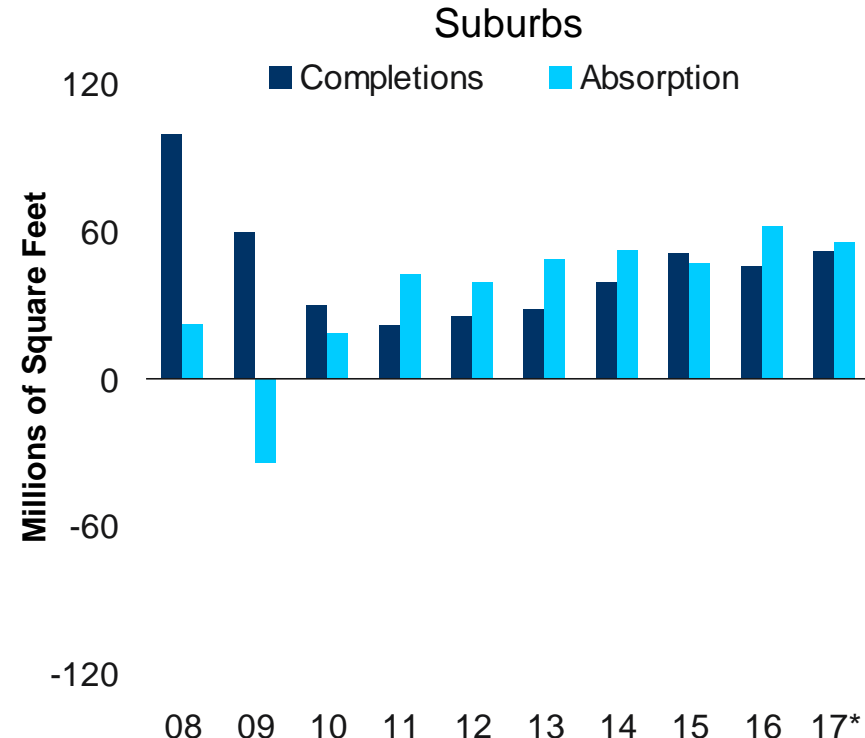
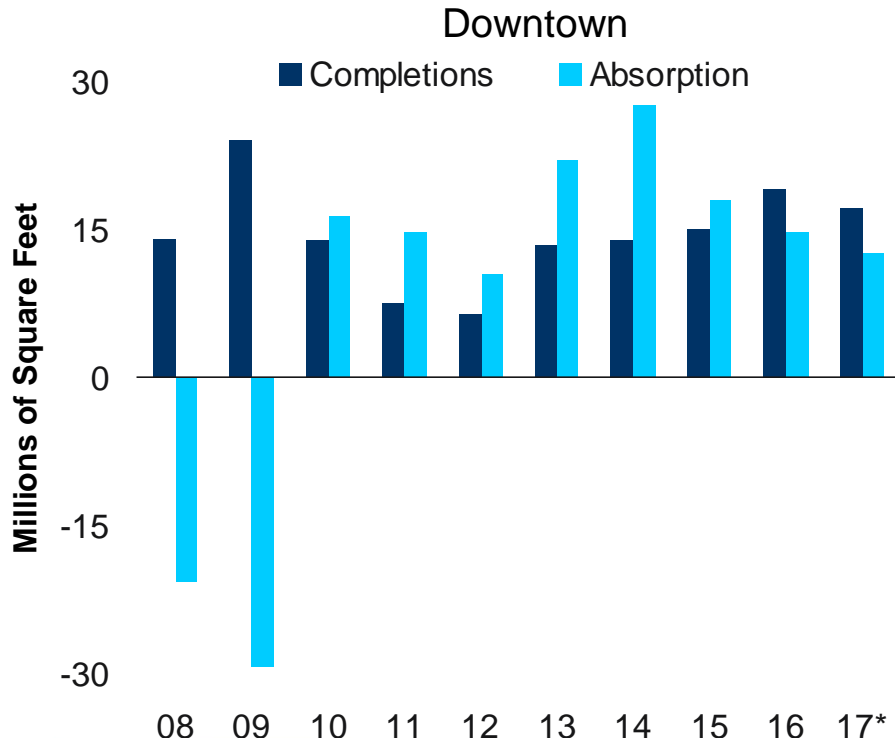
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Sources: USAA Real Estate Research, U.S. Census Bureau, John Burns Real Estate Consulting



Office Completions and Absorption: Downtown vs. Suburbs

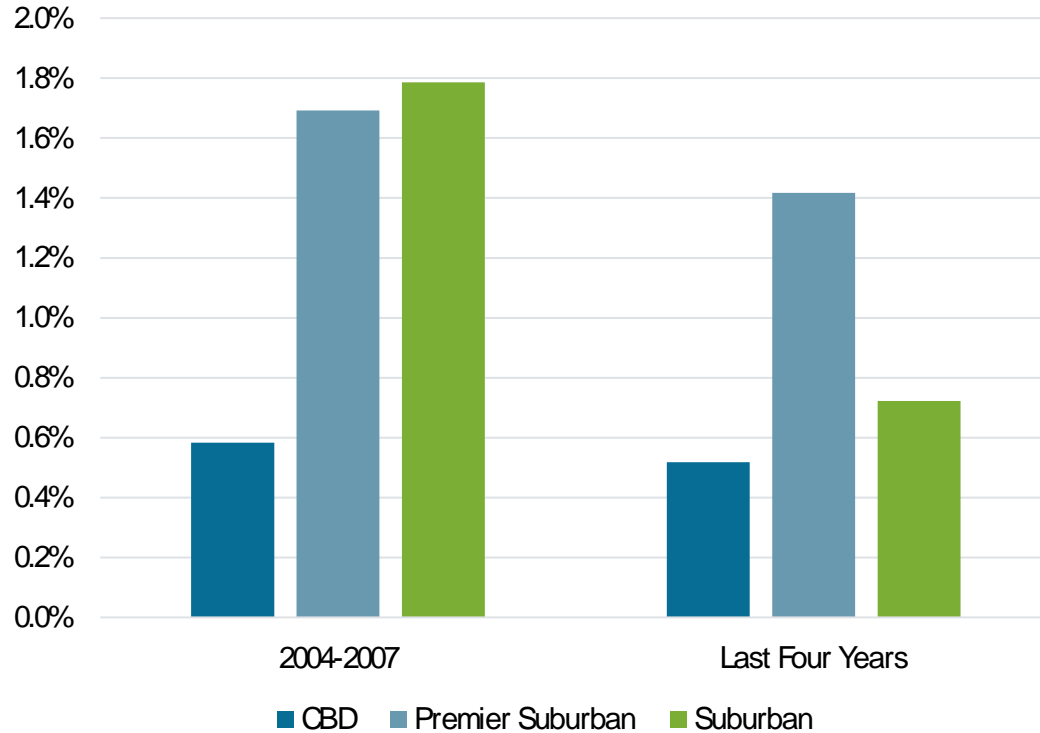


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* Trailing 12-months through 3Q
Sources: Marcus & Millichap Research Services, CoStar Group, Inc.

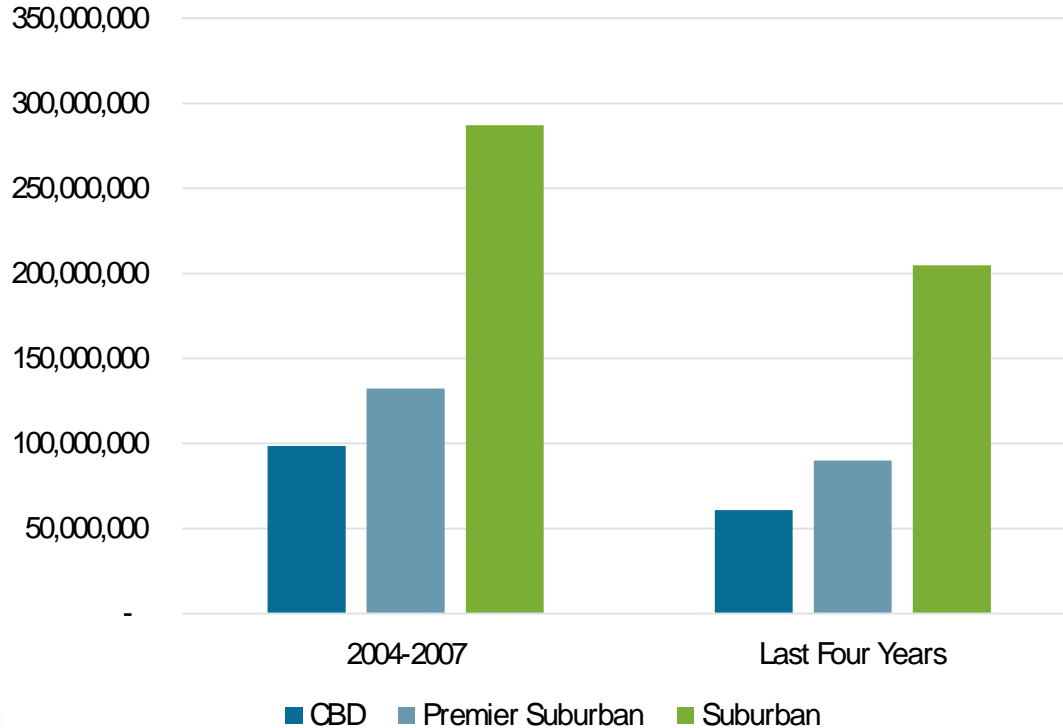


U.S. Office Construction – Average Annual % of Stock



Source: CoStar Portfolio Strategy, USAA Real Estate Research

U.S. Office Absorption – Suburbs Still Largest (by SF)



Source: CoStar Portfolio Strategy, USAA Real Estate Research



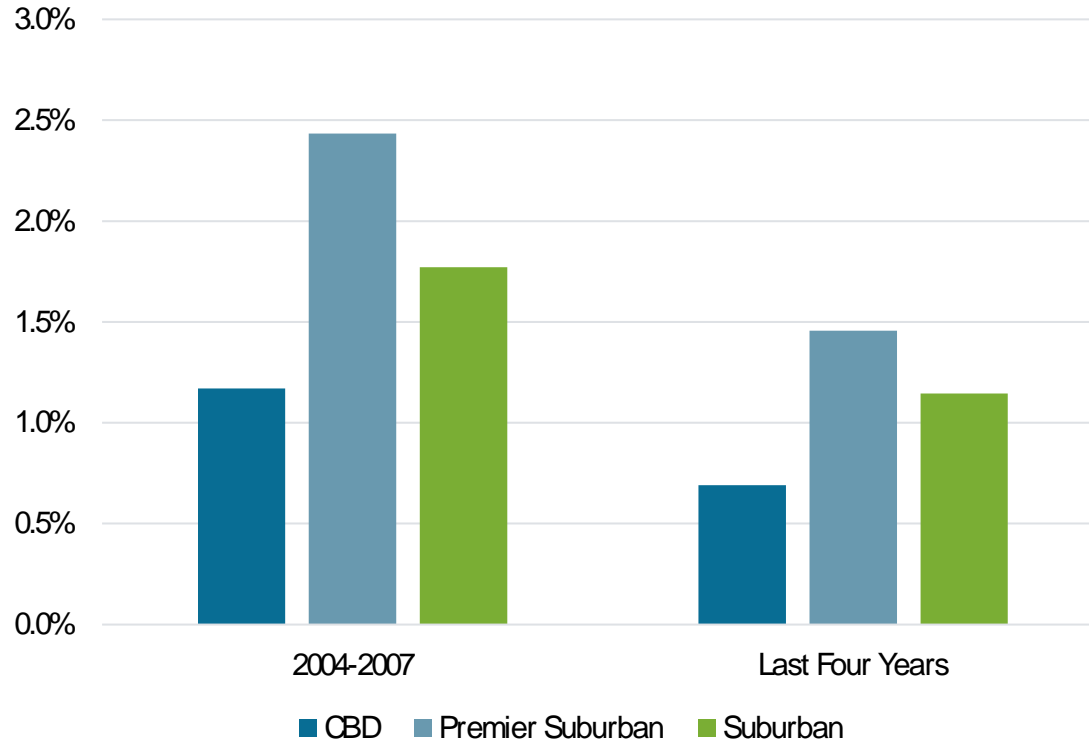
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U.S. Office Absorption – Average Annual % of Stock



Source: CoStar Portfolio Strategy, USAA Real Estate Research



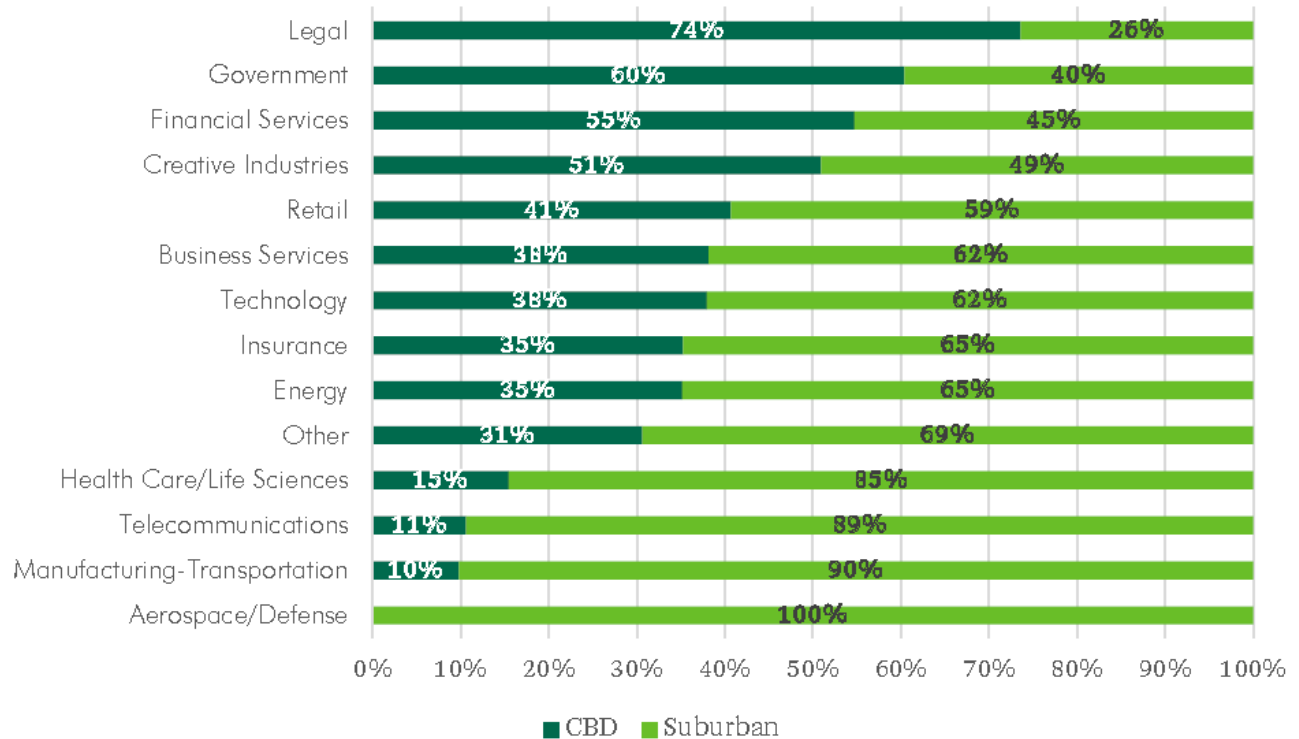
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Leasing Activity by Sector



Source: CBRE-EA



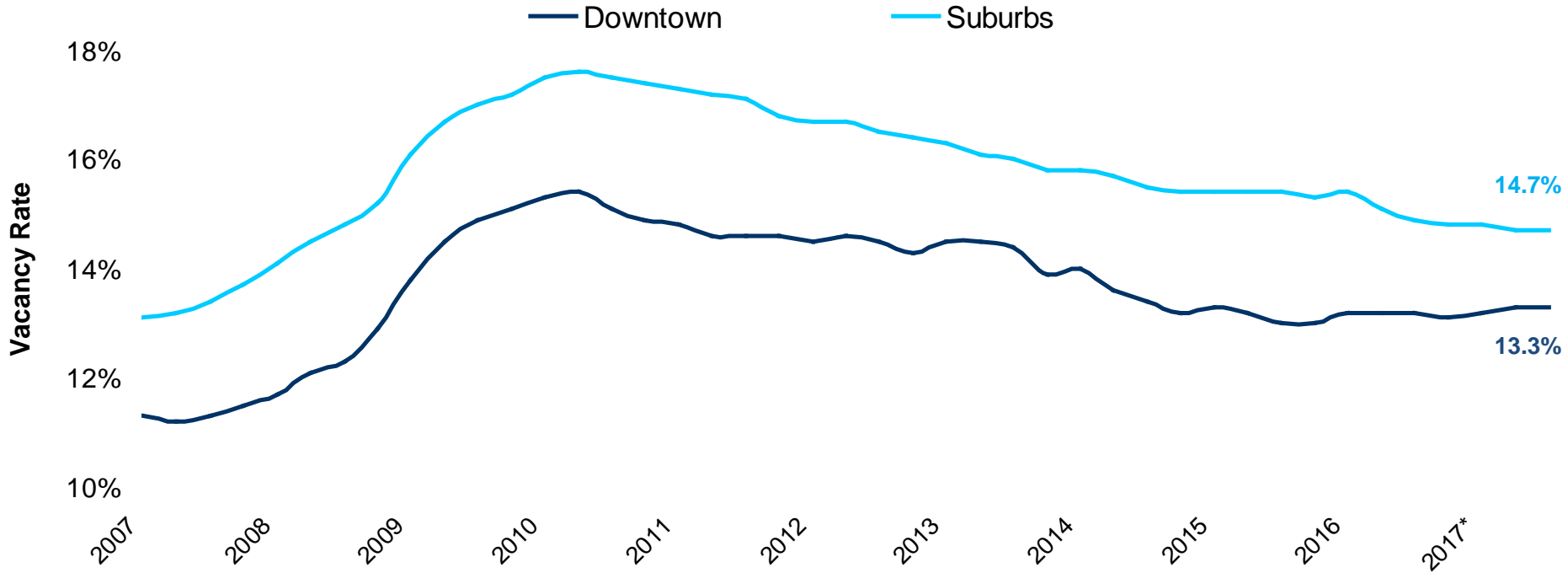
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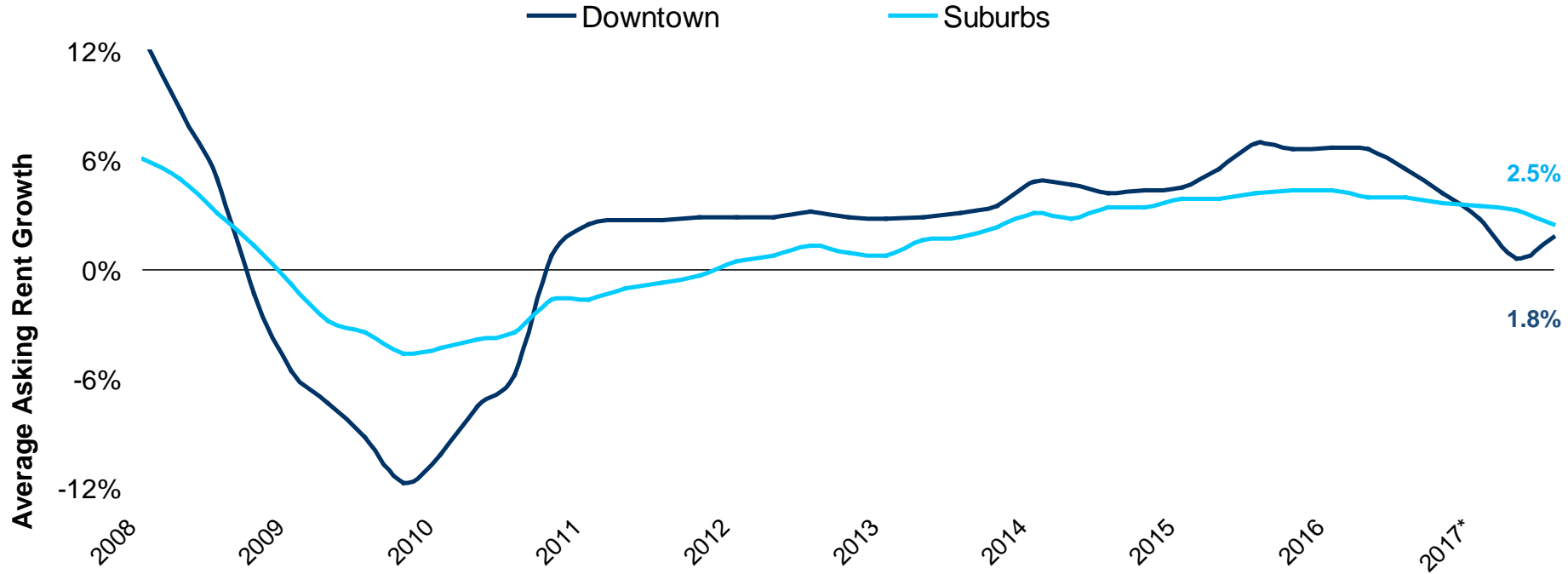
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Office Vacancy Trends: Downtown vs. Suburbs



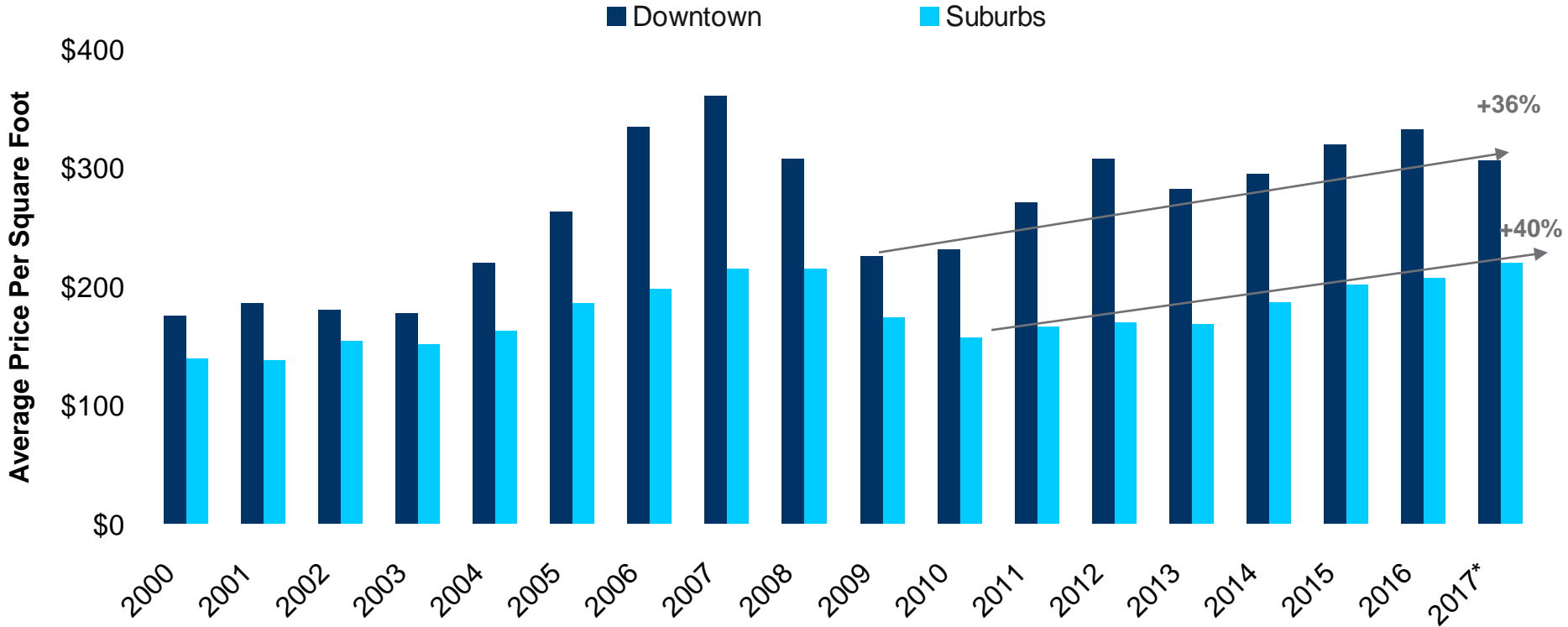
Office Rent Growth Trends: Downtown vs. Suburbs



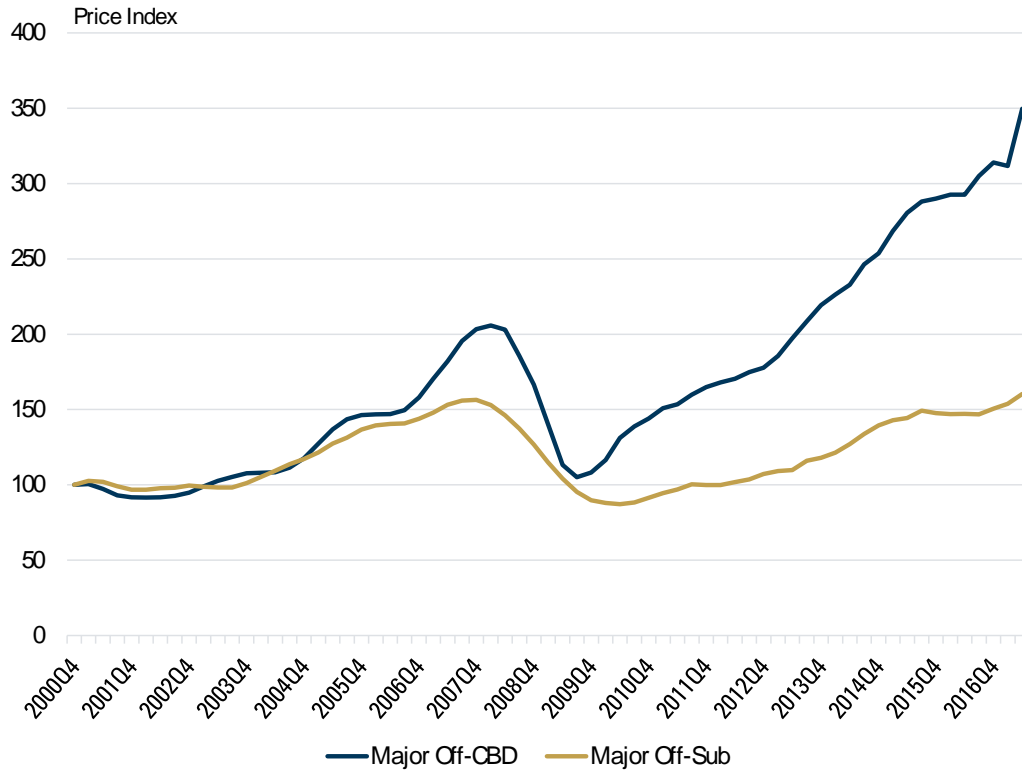
* Through 3Q

Sources: Marcus & Millichap Research Services, CoStar Group, Inc.

U.S. Office Price Trends: Downtown vs. Suburbs

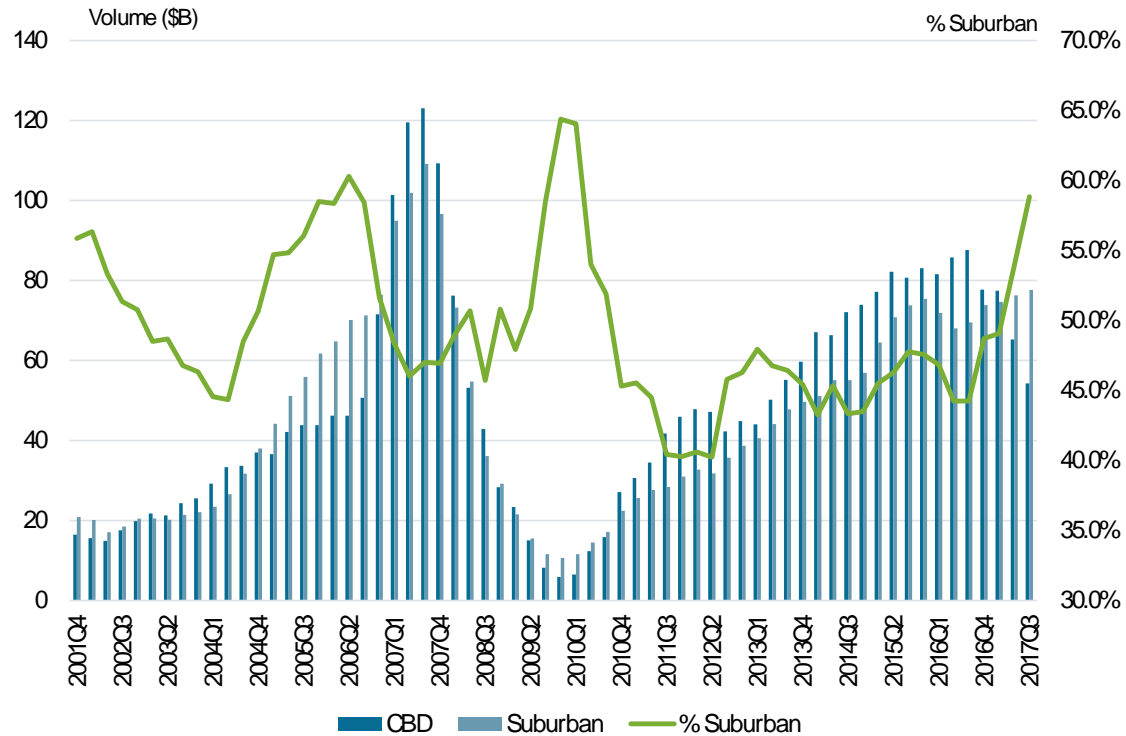


U.S. Office Pricing Gap Continues to Widen



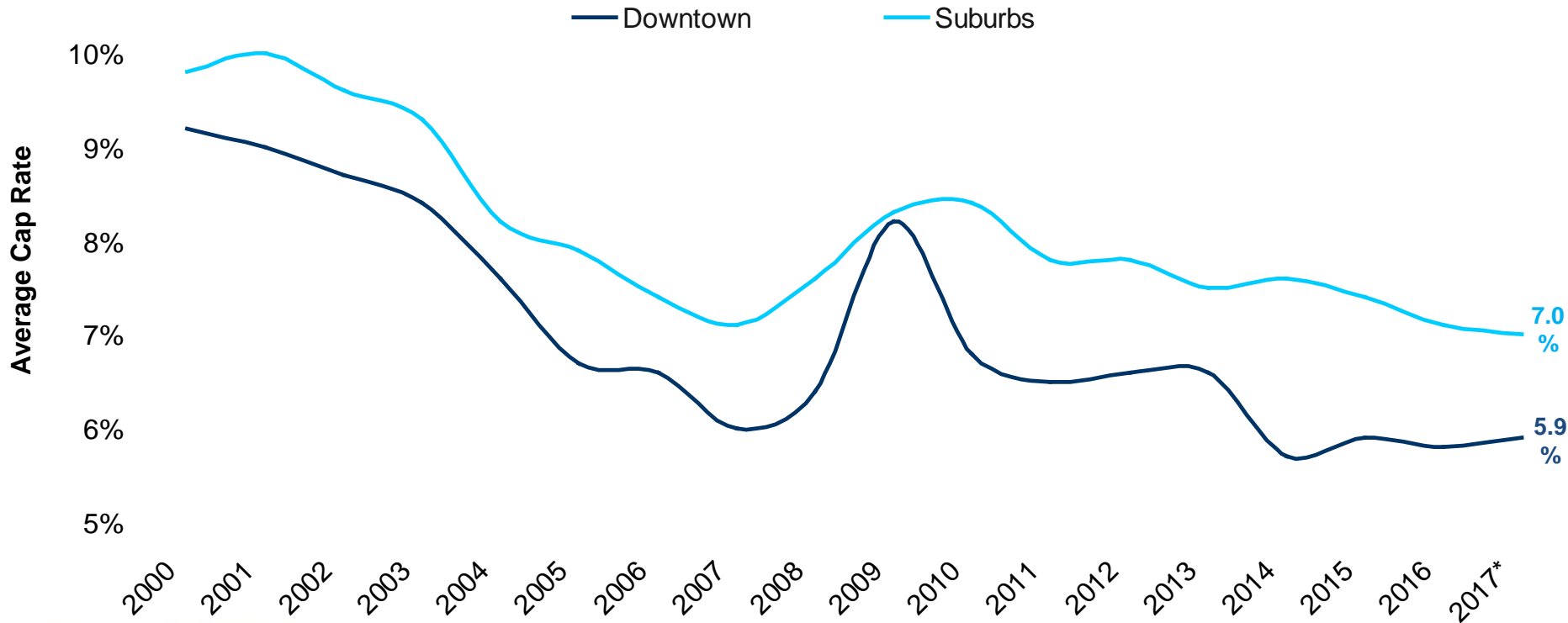
Source: RCA/CPPI, USAA Real Estate Research

Office Transaction Volume Slowdown Focused in CBD

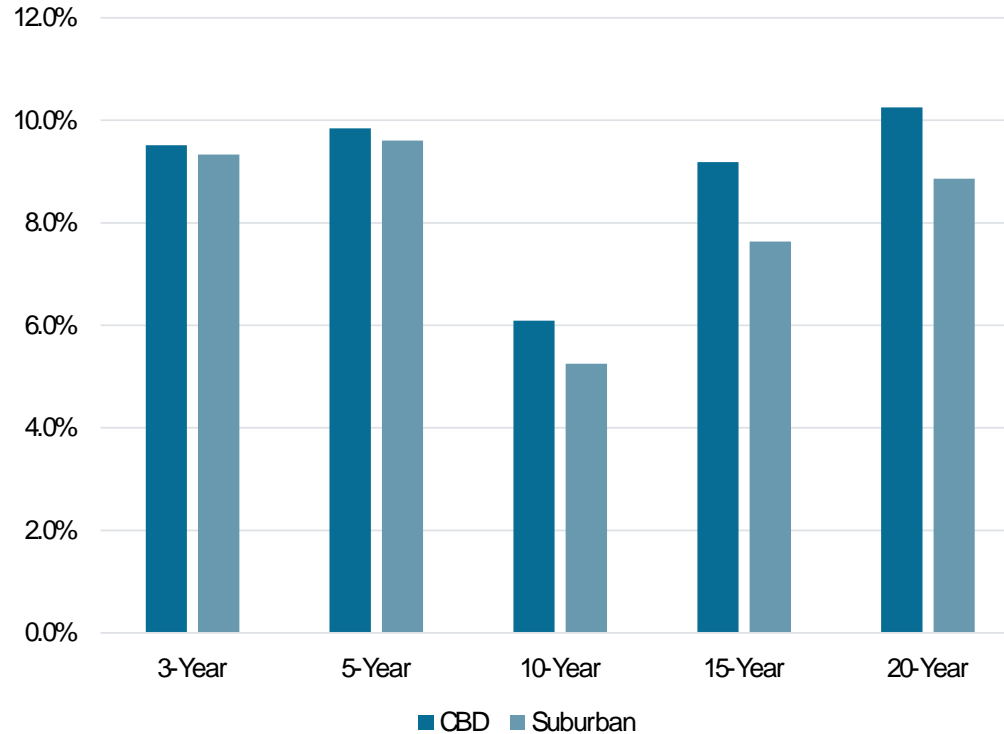


Source: RCA, USAA Real Estate Research

U.S. Office Cap Rate Trends: Downtown vs. Suburbs



NCREIF Office Total Returns: CBD vs. Suburban



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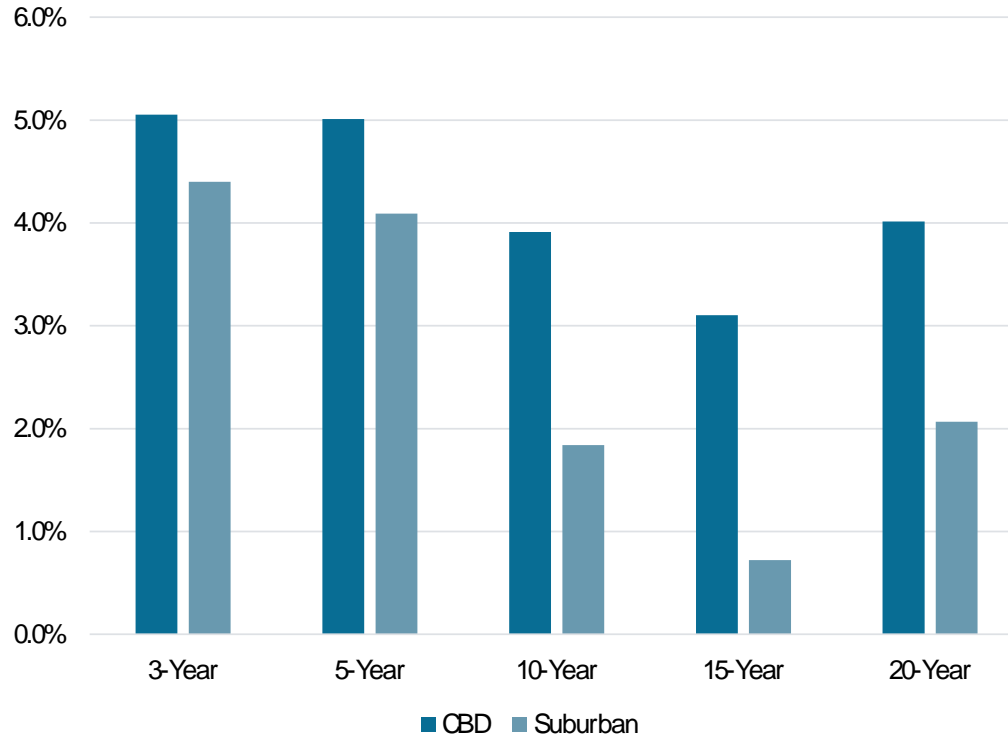
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* Through Q2 2017

Sources: USAA Real Estate Research, NCREIF



NCREIF Office Same-Store NOI Growth: CBD vs. Suburban



* Through Q2 2017
Sources: USAA Real Estate Research, NCREIF



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