



REAL ESTATE INVESTMENT

www.tristarinvest.com

February 2014

How to Invest In Commercial Real Estate

Bloomberg published an [article](#) citing sources at Morgan Stanley that **Commercial Real Estate is the Number One Place that Millionaires Will Be Looking to Invest in 2014**. This may make sense as interest rates are low and the equity markets have reached their long term PE ratios. Many of such millionaires have made and continue to make money on real estate.

Real estate is a part of many successful investors' portfolios. We read stories of the super wealthy that invest in real estate and wonder how to get in on these opportunities. The constraints for many potential investors can be: 1) Lack of general real estate expertise; 2) Lack of market knowledge; 3) Capital demands to enter at a significant level; 4) Operational expertise; or 5) Time. These items just touch on the basics. So, apart from your house, how do you reap the profits of real estate as a part of your investment portfolio?

On the small scale, you can invest in small rental properties, like a rental house or small apartment. Many people find after taking this plunge that the downsides, such as dealing with tenant calls in the middle of the night or the unexpected cash needed for a roof leak, are a nightmare. It takes expertise and patience to buy property, understand the market, and sell before the market sinks (as it does with every cycle). If you put debt on the property, the loan could potentially mature in a down market. Then what?

On a larger scale, REITS (real estate investment trusts) can be bought or traded on the public exchanges, provide liquidity, and alleviate the headaches of ownership. That liquidity comes with a cost. During the recession, many investors jumped into this sector to take advantage of cash flow when bond prices yielded little in return. The prices ran up! Conversely, with a rising interest rate environment, these securities get hammered as investors flee from REITS to other types of investments that are perceived less risky. Much like the stock market, the REIT sector moves with many of the same drivers that push volatility.

Small Private Equity funds have autonomy to invest outside of the public scrutiny of public markets but they can be difficult to find and evaluate. The investment is usually illiquid and the investor is usually in for the duration of the fund, which may be 5 years. The makeup of the fund can be narrowly focused (i.e. apartments) or broadly focused in larger funds. On a local level, these opportunities were usually available to the "inner circle" of investors who had connections to the real estate asset managers that were buying and developing behind the scenes. The best deals came from those who pooled together private money and subsequently bought "off market deals" which had the higher yields. The buildings in our neighborhoods with the salons or the restaurants where we dine have created millions for the quiet investors, who backed the local experts. We don't always know about these stories, likely because these investors have retired to West Palm Beach.

Finally, stay tuned for more on Crowd Funded real estate investing. The Jump Start Our Business (Jobs Act) was passed by the Obama administration in April 2012 has opened the door for non-accredited investors to have access to riskier investments that were previously only accessible to the super wealthy. This new legislation is now allowing people to invest in startup companies and real estate in a more direct manner with smaller amounts. This will create a lower threshold to investment in areas not previously available.

Are you invested in commercial real estate? See our website to learn more about our Value Add Fund as well as our first venture into Crowd funding.

TriStar Real Estate Investment
1175 Peachtree Road NE, Suite 760 | Atlanta, GA 30361 | (404) 698-3535
www.tristarinvest.com