TRISTAR
REAL ESTATE INVESTMENT

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Commercial Real Estate: Why Invest in Private Equity Funds

Greetings!

Many people like investing in commercial real estate but don't wish to be in a fund. For independent real estate operators and developers, they have their own machines and operating platforms; as well as, a focus to make this a full-time occupation. A fund makes natural sense for investors who don't have access to real estate deals or don't make it their full-time occupation. The dilemma is for the individual or organization (family office) that has sufficient capital, is real estate savvy yet full time CRE investing isn't their focus. The objections we sometimes hear is their desire to want more control. This may mean the ability to pick individual deals or control when to sell the asset. This article is advocating a fund approach to commercial real estate investing.

Investing in a Fund (Investor's Perspective) some things for an investor to consider:

1. The Best Deals Go to the Active Players - there, we said it. Those who are in the market day in and day out as professional investors know where the inside deals are and they are on the top of the list of brokers who are running with deals and "pocket listings" that never hit the market. They see deals that no one else sees. Ask yourself the question if you're an independent investor, and you're finding a great deal - "why hasn't anyone else bought the deal?"

2. Diversification - as an example, you can invest a million dollars in a commercial real estate investment that you control or a million dollars into a fund that owns six different buildings and the risk is spread out. I am advocating safety through diversification in a fund here.

3. Leverage Risk- to maximize returns on real estate, applying the appropriate amount of leverage will make all the difference in the world between a good return a great return. Do you wish to burden yourself with that debt risk and do you have influence to get the best terms and conditions? That's the role of the general partner who usually takes on the loan guarantee risk.

4. Economies of scale - a fund platform will have the ability to have lower operating costs, better financing terms and access to better deals because of its size and expertise.

Investing in a Fund (General Partner's Perspective) some things for the general partner to consider:

1. Cash in Hand Required - the sellers today will sell at discounts if you can close quickly, with no contingencies. In the past, you tied up a property with a long close and then you went out to raise money. The auctions houses today will not let you register unless you show proof of liquid funds. A fund allows for the volume discount available to the big players but in a league below where they buy.

2. Equity to Close, debt post close - equity can go to the next deal after debt is placed on the property post-closing. With the property closed, you can shop the debt market for better terms without pressure of a pending deadline.

3. General Partner Motivation - a Regulation D offering governing many funds has specific rules and guideline that keep the general partner focused. Most funds are structured with a preferred return to the investors before the GP earns a return therefor aligning interests.

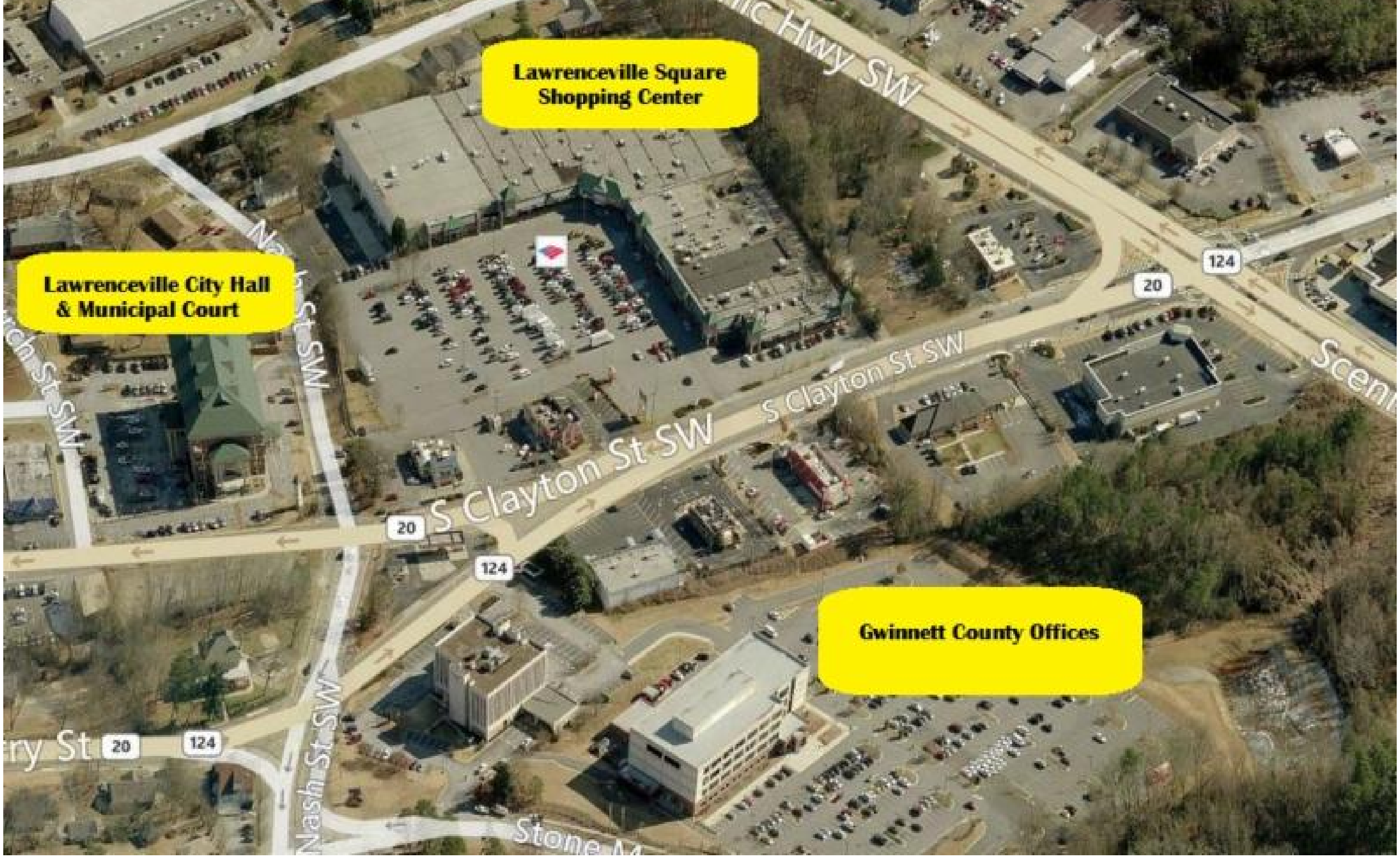
Big Fund versus small funds- many people who do not wish to be in real estate funds lump the "fund category" into a larger pool of large institutional players. These funds are complicated machines that provide diversity throughout the world due to their size. Their size however makes them a machine that must sustain itself by placing money at a rapid pace. Smaller equity funds typically have General Partners who have their own equity invested and carry a hefty promotional interest on the backend tied to performance. Their motivation seems more driven by making good investments rather than placing money. If your concept of the fund is confused with these differences you may be considering the wrong fund type.

Large real estate organizations that own, operate the real estate, and are doing this on a full-time basis may not need to be investing in funds. The investor has many benefits to participating in a fund. The high net worth individual and family office leaders can benefit tremendously through the diversification and specialty coming from small private equity funds with well-defined thesis and a good platform to perform.

Please see one of TriStar's Investment deals we have looked at this month.

Investment Review of the Month

Lawrenceville Square
136,200 sq ft Shopping Center
Gwinnett County, Georgia



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Profile:

Owner has owned for extended period of time. Depreciation recapture means selling at a loss. Major Anchor is thrift store owned by landlord under a short term lease. Most tenants are on MTM leases and rents considerably below market.

TriStar Strategy:

Buy all cash with seller financing. Sign MTM tenants up to 3-5 year leases in order to get a loan to take out owner. Cure deferred maintenance. Convert storage units to office and find replacement tenant for thrift store.

Equity Needed:

$1.8 million

Return Anticipated and Time Frame:

25% IRR; 4 years

Thank you for following our newsletter. Please call if you have any interest in investing with TriStar.

Sincerely,

TriStar Partners

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