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October 1, 2015

## **The Year-End Rush: Why is everyone in Commercial Real Estate Crazy at the End of the Year?**

### **Greetings!**

Real estate lawyers, accountants, brokers and investors all seem to have so much stress packed into the end of every calendar year. Why? Is it a lack of planning, procrastination or something magical about midnight on December 31 each year? Does Scrooge really exist?

A noteworthy piece of commercial real estate in Atlanta was appropriately named "DOA1987, LP". The attorneys in charge of closing acquisition on behalf of their client said that "if we can get this deal done by the end of the year we will be "dead on arrival in 1987". This later proved to be an unfortunate name as there was a death at the asset and the lawsuit claim was by the prosecution against the owner as defendant , "DOA 1987, LP aka Dead on Arrival 1987".

So why is it so crazy at the end of the year? Here are a few observations to consider:

**1. Tax Consequences** - every few years there is discussion of tax reform that is especially targeted at the capital gains rate. Sometimes the notion of pending legislation has many asset owners wanting to sell assets before losing such tax benefits. In addition because of current tax laws, people sell assets when they achieve a capital gains status. Since many people's tax year is a calendar year, there is an end of year rush.

**2. Fund Requirements** - many organizations have asset allocation requirements as well as liquidity ratios they must maintain. Several years ago, with only 14 days left in the year, a friend of TriStar was approached by a REIT to buy a portfolio valued at \$20 million dollars. The seller was willing to sell at a price that would give an annualized return of 20%. Furthermore the seller was willing to buy back the properties at, par, at the end of five years at the purchaser's option. This was a no risk situation for a 20% return over 5 years. However; the buyer had to close within 14 days, all cash. This is

a type of transaction that would take typically 30 to 60 days to accomplish in the normal course of business. What happened? The selling REIT had a few deals fall through toward the end of the year and was going to be short of cash necessary to pay their dividend investors. The purchaser, rallied his lawyers, paid them well and collapsed on January 1.

**3.The Bonus** - it is human nature to take care of one's own selfish needs. Whether a hedge fund, mutual or real estate fund manager, many salaried employees are bonused based on their yearly performance. The end of the year is when you make or break a good portion of your annual compensation. Walk around Manhattan on a late evening toward the end of the year and you will see buildings lit up. Ask real estate brokers and lawyers and they will tell you that the largest part of their revenue comes in the last quarter every year.

#### **What are the take-a-ways from this madness?**

- Having cash at the end of year - with a strong team of professionals to make deals happen will pay large returns.
- Knowing Seller's motivations - will aid in knowing the best organizations selling at the end of the year.
- Be patient - with friends and professionals in these roles when they miss the holiday party or family event. Catch up with them in January.

**Please see our TriStar Professional of the Month: Bill Hayes of Atlanta office of Bain & Company- TriStar's newest board member**

#### **Professional of the Month**

***Bill Hayes of Atlanta office of Bain & Company  
TriStar's Newest Board member***



Bill Hayes is a Director and co-founder of the Atlanta office of Bain, focusing on corporate growth strategy and operations improvement. He first joined Bain in 1984 and has been responsible for managing numerous client engagements in North America, Europe and Latin America. At Bain, Bill is a leader of the Growth and Performance Improvement practice areas. Until recently, he was a member of Bain's Global Nominating Committee Prior to joining Bain & Company, Bill directed the marketing and sales areas of a start-up computer venture. Bill is an honors graduate of Harvard College and has an MBA from the Wharton School at the University of Pennsylvania.

**Please Review TriStar's Investment Profile of the Month:**

### Investment Profile of the Month



8290 Roswell Road  
Sandy Springs, GA

**16244 sq.ft. Neighborhood center at corner of Roswell Road & Northridge Road**

### **What we like:**

- National Credit Tenant
- Competitive Barriers to entry
- High Traffic Count

### **What we didn't like:**

- Egregious Ground Lease that effectively puts the property in default in 10 years if rent increases can't keep up with the high ground lease payments

TriStar is seeking Investors for its current fund. Please call us at 404-698-3535 to learn more or email us at [dgibbs@tristarinvest.com](mailto:dgibbs@tristarinvest.com)

**Sincerely,**

**TriStar Partners**

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