



TRISTAR

REAL ESTATE INVESTMENT

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THE TOP TEN (10) CONCERNS FACING COMMERCIAL REAL ESTATE (PART 1 OF II)

#1 The Amazon Effect

You've heard of it, but have you experienced it? It is the joy of consumers to buy whatever they want to buy in the retail world. But it can be done quickly online, and delivered to your door step in 24 hours. How can brick and mortar stores compete with this? Often, we will see sales/marketing packages for retail centers that say "Amazon Immune Center" for sale. What they are saying is that the tenants who pay rent are protected from the Amazon effect and are not likely to be displaced by online commerce. Stores such as restaurants, nail salons, hair salons and doctor offices need a retail presence. Clothing items and even electronics are bought online and can be prey to the internet shopping world, unless the item is unique or difficult to purchase without being present in the store. There is a reason Jeff Bezos is one of the world's wealthiest people!

#2 Interest Rate Increases

Yes, if the cost of capital increases, the returns on transactions decrease. To rectify this, prices have to go down, or return expectations needs to be lowered. The result of this will be deal stalemates in the short term. An economy that doesn't trade is never healthy. A higher cost of capital also will hurt the refinancing business. Over the last few years, there has been an increase in all sector values. Five, Seven and Ten-year loans will come due, and there may be consternation as property owners seek to refinance or sell. Stay tuned.

#3 Co-Working Business

This innovative way to do business is truly a game changer to allow a new breed of office users to shorten their lease commitments, reduce the size of this footprint and move more nimbly. It was not too long ago that this concept was introduced to the market as executive suites. In fact, it was not the darling tenant but the only one that landlords would lease to when times were difficult and vacancies were high. The challenge today is that the co-working phenomena is concentrated in a very few players, the biggest being WeWork. It is our understanding that WeWork is the single largest tenant in all of New York City. This is one company that is very young, that has not made tremendous profits but is betting on the fashion of the new office use concept. If this one company goes under, think of the devastation to this one market.

#4 Economic Inequality

This is a capitalist organization making a comment about what many feel this is a social issue, but the economic impact of this challenge is frightening to commercial real estate and our investments. If it is true that the classes are growing further apart and that the rich is getting richer and the poor is getting poorer, then the ripple effect creates unexpected consequences. Housing is a good example. The standard for decades is that renters should pay/allocate 30% of their income to housing. In Oakland, California, in order to rent an apartment, you

will use approximately 60% of your paycheck to live there. New products and buildings are usually more expensive every year due to costs of materials, labor and delivery. If these costs grow faster than wages, then the middle class can't afford to spend in the same manner they have been spending before.

#5 Aging Infrastructure

After the Great Depression, the US government launched a massive spending initiative to build highways and public infrastructure all around the country. As with many projects, they deteriorate over time if they are not maintained and even when maintained, they eventually need replacing. The road systems, bridges and sewer systems around the country are failing, and the undertaking to make them functional again is awe-inspiring. Who is going to pick up the tab?

Please review the Investment Profile of the Month!

Deal Profile of the Month: Special Purpose Use

Royal 400 Office Park **Alpharetta, GA**



<u>What We Liked</u>	<u>What We Didn't</u>
Barriers to entry for single story office product	Deep bay depths limit leasing to larger tenants
Close to Avalon Mixed Use Center	Far off the main road

Are You an Investor?

We are in pursuit of several investments. If you are an accredited investor and want to be considered for one of these offerings, please reach out to us. Call us today to learn more at 404-698-3535 or dgibbs@tristarinvest.com.

Sincerely,

TriStar Real Estate Investment

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