



# TRISTAR

REAL ESTATE INVESTMENT

[www.tristarinvest.com](http://www.tristarinvest.com)

April 2, 2020

## COVID 19: THE IMPACT ON COMMERCIAL REAL ESTATE

I hope that all in receipt of this email are safe and secure as we move through the COVID-19 and its impact on the economy. The optimist in me says that we will get through this as we always do. All jolts to the economy come out better on the other side with better knowledge and experiences on how to change for efficiency, best practices and profitability.

### **The Macro**

When the economy shuts down, business is hurt. Money flowing through the economy is what makes the world go 'round. The good news is that through monetary and fiscal policy, the US government has given a solution to help us weather the downside. No - not everyone will recover, but the fast action relative to the "great recession" will make the pain far less than it could have been with a delay and sub-par response. Here is what we are seeing in commercial real estate - sector to sector.

**Lenders-** The 2 trillion-dollar bailout and the Federal Reserve assurance of liquidity with low interest rate loans and a strong bond buying program will ensure money is available for banks to lend to help business stay afloat. What we are seeing from a landlord perspective are lenders giving up to three (3) month debt relief and loan extensions. This allows us to pass through benefits to struggling tenants to help them make it through the downtime. Refinancing? Good idea, but get in line. The banks are giving priority to those property owners in most need with immediate loan maturities, rather than seasoned borrowers seeking a better deal.

**Retail** - This sector has been hit the hardest. In a consumer-led economy, people are not going out to eat, getting their hair/nails done or shop, unless through Amazon delivery. This is an ongoing trend exacerbated by COVID-19. Many restaurants will not recover, and a pattern of how retail spending is procured is changing. Nevertheless, we think a social world will return to neighborhood/community centers for their workouts, lattes and pedicures in the near future

**Office** - Working at home and co-working have been growing trends recently. Our tenants are suffering in many different industries, but their need for office space to work is more predicable than the retailer who will close if they can't sell sandwiches. People need a business presence, and we may find after being at home for weeks on end with family, the dog and tempting snack in the refrigerator that we will all crave to be "away from home" and socializing again in that home called office. Future trend -

back to work?

**Logistics/Industrial** - The darling of real estate investments has gotten stronger. The need for distribution and supply chain logistics is on fire as the world tries to operate online and get deliveries. The cloud computing needs of "stay at home people" are growing for those looking to live streaming both for entertainment and the need for video conferencing. This has pushed the cloud capacity to the max. It is apparent that the need for more data centers and distribution hubs is here to stay and will continue to rise.

**Apartments** - If you don't have a job, paying rent is a challenge. Rent relief is being offered, and the government has implemented eviction bans across the country. At the upper end, it is easy to see those paying \$2,500 a month and losing a job could find a balanced budget by leaving for a \$1,200 month apartment, or moving home with family. At the affordable housing level, not paying rent means homelessness because at \$850/month, there is nowhere else to go but the street. Affordable housing is our biggest challenge in America. Deals bought with significant rent increases forecasted will be challenged.

**Construction** - This is considered an essential industry, and cranes are still moving. One general contractor explained his challenge: one subcontractor on a large job site had an employee test positive for COVID-19, so the whole crew was shut down over the fear of the spread....150 people on a construction site...look at the cost delays and the wrecked proformas. In addition, every construction site is reliant on a sequence of governmental permits/approvals that need to be blessed by the local planning office...electrical, plumbing, final certificates occupancy, etc. Many governments are shutting down, so who signs off on the work? This has always been an area for delay, but third-party people are being brought in to help.

### **TRISTAR ACTIONS**

1. **Assembling Capital** - The market was already coming to a peak with many deals underway that are falling apart and many deals closed over the last two years that were underwritten poorly. Yes, there will be a buying opportunity.
2. **Watch Foreign Capital** - There is money overseas that has always loved US real estate. With the world headed for a recession, money will flock to safety in the US, and attention needs to be paid to stupid money chasing deals.
3. **Refinance Now** - Every economist we follow is pointing to what we see is inevitable - higher inflation and higher interest rates. It is time to get in line to firm up your best existing assets with long term debt. We are going long.

**Please Review Investment Profile of the Month**

Deal Review of the Month:

NONE:

**WE ARE AWAITING THE SHAKE OUT OF THE COVID 19 FOR  
END OF YEAR DEALS**

STAY TUNED!!

**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](mailto:dgibbs@tristarinvest.com).

Sincerely,

TriStar Real Estate Investment

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