TRISTAR
REAL ESTATE INVESTMENT

www.tristarinvest.com

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LESSONS FROM 1986

Greetings!

Veterans of any industry can mark a relevant time in history that they entered the business or experienced change that influenced their career. 1986 was an important year in commercial real estate as well as the economy that is worth looking back on to learn and glean insights to the future. Let's compare some shocking data points:

DATA POINT	1986	CURRENT
Inflation	1.91%	0.12% (2015 low)
Dow Jones	1,895	17,728
Avg. Home Price	$89,430	$355,000
Avg. Income	$22,400	$53,657
Avg. Rent	$385/month	+- $1,000/month
Gas at the pump	$0.89/gallon	$2.64gallon
Avg. Car Price	$9,255	$33,560

1986 Master Champion - *Jack Nicklaus*

What was learned in 1986 and what is the lesson in 2016?

<u>Government Tax Codes can Create Artificial Investment Markets</u> - many real estate investments in this era were made because changes in the tax code that allowed accelerated losses on real estate investments in order to gain valuable tax write offs. Accelerated depreciation and other vehicles were an avenue to avoid tax payments. As insane as it sounds, people were investing in real estate that was designed to generate a loss for their investors to offset theirs incomes. The US government changed the laws to remove these tax benefits and the industry toppled trying to recover.

Lesson - look at investments before tax considerations and make decisions accordingly.

International Capital infiltrated Commercial Real Estate - there was a crazy paranoia as Japanese capital invested heavily in US real estate in the 1980's. A good case study was One Atlantic Center (IBM Tower) in Midtown Atlanta which traded at a record price - higher than any other investments in Atlanta made by a US pension fund or institution. Why? - The Japanese cost of capital was so low (safe rate was 1-2%) relative to the US Treasury (7-7.5%) that in a global economy, it was a sound return to the Japanese. International investment in the US was small and done by a limited few like the Japanese, the Dutch and some Europeans. Fast forward to today and we have a true global market with new money coming from Arabic countries, China, Israel, Russia and Latin American as money is fleeing to the US for safety and return.

Lesson- we are now in a global economy where capital flows more freely and investment parameters are often driven by safety rather than return. How do you compete with" safety" as an investor?

Interest Rates/Lending Environment - 9% on a 30 year fixed rate for homes was considered a bargain for homeowners at this time. Loan to value ratios were relatively modest 80% compared to "irrational exuberance times" when loans were as high as 100% of the purchase price. Today home mortgages are around half of this and lending scrutiny is healthy relative to prerecession leniency.

Lesson - rates are incredibly low relative to any time in history. The loan to value ratios are also healthy giving better safety in the banking world.

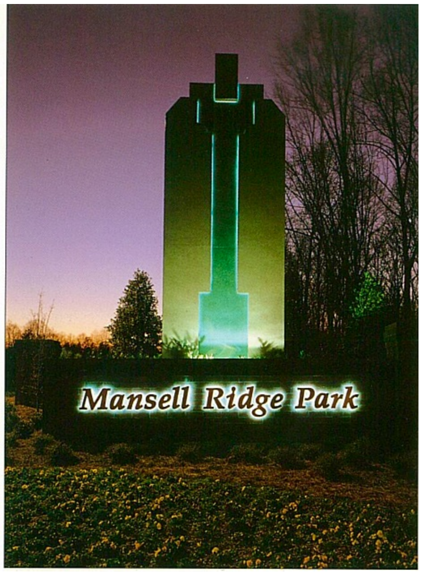
Commercial Real Estate Supply - in this writer's career, the never ending development cycle of the past would see new construction begin as soon as absorption of supply decreased vacancies to a healthy level. Then, the construction cranes would go up as fast as the ink on the loan was dry and we went quickly into hyper supply. This cycle was prevalent for all real estate investment types including retail, office, apartments and industrial. Especially in Atlanta, a developer would build anything he/she could get financed....why?, nonrecourse debt!! Rents never had a chance to increase because there was low inflation and an ever abundant supply.

Lesson - apart from the apartment sector, never has there been a lack of supply like we have today. Lender restrictions are intense and new development is slow. Hold your breath if you are a tenant because without new supply, owners of existing CRE will be increasing rents. Even where there is new construction, the cost for new product is pushing rents 20-30% higher than the top price of existing product.

1986 seems a distant memory but there is so much to learn from the past to apply to good investments today. So how is TriStar learning and applying lessons from 1986?...by buying well located investments in the path of growth and demand. See below:

Recent Investments in Tristar Portfolio:

Mansell Exchange -100 Woodside
(Closed March 31, 2016)



TriStar is seeking Investors for its next investment. Please call us at 404-698-3535 to learn more or email us at dgibbs@tristarinvest.com.

Sincerely,

TriStar Real Estate Investment Partners

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