



www.tristarinvest.com

December 4 ,2018

THE 2019 CRE OUTLOOK - ONE OPINION

Greetings!

2019 will have changes! As they say: "change is inevitable." We are frankly worn out with dated baseball analogies as to "what inning are we in this economic cycle?" So rather than look at poor, overworked descriptions, we will look at the backdrop behind the economy where there are risks and opportunities.

A recent report we read illustrated that the US economy is truly global now, meaning that as we look to what is impacting our pocketbooks, we need to look closely at the global economy and how it affects main street USA. We are no longer insulated in this open economy. In perspective, as we stated that the US is in the 2nd longest economic run in its history (112 months currently and 122 months is the longest), we can look at Australia (since 1991 - month 324 w 3.3% GDP average), South Korea (240 months 2.2% GDP average) and other global players like Ireland who have had longer economic recoveries...is this relevant in a global economy?

Economic Growth - The key is consumer spending. How is Commercial Real Estate contributing to the need of the consumer to spend? Logistics (warehouse and distribution functions) is booming to enable distribution of retail goods through Amazon and other supply chain channels. Live/work/mixed use developments that make it easier for consumers to live, work, and spend are healthy.

Interest Rates - Though the ten (10) year treasury note rate has subsided in the last few weeks (from 3.2% to around 3.0 as of today), the Federal Reserve will continue to push rates to cool an economy that continues to grow. (Note - Federal Reserve just pulled back their comments but stay tuned). This will trickle through all parts of the economy and in particular push upward on cap rates. Sellers and Buyers will be at an impasse, and we expect deal volume to slow.

Also, the increasing interest rates are affecting new home construction and purchases, which is an economic multiplier for the greater economy. The more homes bought, the more refrigerators, mattresses, and other products are purchased.

Employment - Unemployment is at an all time low; however, there is an undercurrent of restlessness with what we see as an economy that is not fully employed. This gap has occurred due to those not fully engaged in the labor hunt.

This may be boomers that are early in retirement but not motivated enough to get back into the market. Also, there is a talent gap that is not reflected in the numbers. Wage pressures will show in technical jobs that are high in demand. Also advances in technology will continue to make lower wage jobs less relevant, and some are in danger of positions becoming obsolete. Advancement in real skills in areas of STEM (science, technology, engineering and math) area must to keep competitive with the world economy. Job training is important to close the widening gap of income differences in the labor pool.

Flow of Capital - We are in a global economy and the price for goods, services and investments trade on a worldwide scale. The US is the safe haven for investments; however, higher yields are being seen in other countries, which puts safety of the US shores in rival with economies that may have more attractive returns. Likewise, investment in US real estate will continue to see interest from foreign money which will seek to "place money" in the US for safety as well as from better returns that may be found in their countries.

Affordable Housing - The need for affordable housing can't be emphasized enough. Our economy runs on a workforce that is being priced out of housing. If the average apartment rent in Atlanta is \$1,200/month, then you need to be making almost \$50,000/year to afford the average apartment. This is an average wage of \$25/hour. The biggest employers in town are retail providers and grocery stores who pay close to half of this amount. We are in trauma mode in need of a solution.

Wildcards

1. Trade War - how long can the US alienate trading partners for long term fairness at the expense of short term deficits of US businesses
2. Wage Inflation - at 4% unemployment, it seems inevitable that the cost of doing business will go up

See our Deal Profile of the Month.

Deal Profile of the Month:



The city of Atlanta has found good fortune to NOT win the HQ2 bid for Amazon. Sound crazy? We are huge supporters of economic development for the city and state, but only to a certain degree. At some point, you look at your municipal attributes and realize that while prestigious to get such a win, the cost would have dramatically altered the landscape of Atlanta with burdens that wouldn't be felt in some time. Yes, the 55,000 jobs and new development would make for a pretty skyline. The downside? An incredible cost for infrastructure and the unenviable traffic everywhere from the impact of such an immigration of workers...one person's opinion.

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

Visit us on the web! | www.tristarinvest.com

Copyright © 2018. All Rights Reserved.