



TRISTAR

REAL ESTATE INVESTMENT

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THE TOP TEN (10) CONCERNS FACING COMMERCIAL REAL ESTATE (PART 2 OF 2)

6.) Private Loan Syndication

During the last recession, easy debt and the securitization of this debt were major contributors to the great recession. In the aftermath, many checks and balances were put in place at banks and other federally regulated lending institutions to make sure that balance sheets were healthy to ensure there would be more accountability. What we've seen lately is a tremendous amount of private capital going in to replace lenders who have been constrained by these regulations, and even the banks themselves are pooling capital in non-regulated funds to get higher returns and solve and provide capital in an unconventional way. It is a creative solution. However, there is no measure to how much money is in these funds, and given that they are unregulated, what will happen if there is financial peril? Bank deposits are measured, the value of stock exchanges are now...private debt funds...this may be the next CMBS type of crisis in the making.

7.) Construction Costs

Materials and labor (skilled and unskilled) are increasingly more expensive across the board. It manifests itself into the need for higher cost for new buildings, and more tenant improvement allowances, which necessitate higher rents. The rent increases are less about true value as much as the necessity to bring commercial and residential spaces to market. This drives up the cost of living and the price of conducting business in terms of store space, office space and housing. In past construction booms, you could rely on a migrant work force that would come (legally and illegally) to help support the boom with cheap labor. This is no longer the case, and this is being felt even more so in the lack of skilled trades. There is no end in sight. As global warming creates more and more natural disasters, expect the demand for building supplies to remain strong.

8.) Government Regulations

The government on all levels instills regulations that have good intentions. They are to help their municipalities and their constituents with much needed regulation to solve problems. I will submit, in the kindest way possible, that the regulations being put in place have never had to find the accountability of a P&L statement that regulates and drives the private sector in this country. Big government does mean more costs. One can argue whether more cost is justified as a means to the end, no doubt, but when government regulation raises its head, the world around it gets more expensive and inefficient. Affordable housing is great example. Any developer who has worked on affordable housing within the government system will attest to the challenges involved. Enough said.

9.) Affordable Housing

Simple observation: if the largest employers in a municipality pay \$12-15/hour (think grocery stores, retailers, etc.) what can these valuable workers afford to pay in rent? The standard

metric is 30% of your pay goes to housing. That means you can afford to pay up to \$700/month in rent at an income of about \$28,000/year. Where we need these laborers is not where affordable housing is located. And its not like Atlanta has a robust urban transit system where you can get on a train and be at work in a reasonable period of time. This is Atlanta, where the average commute is about 40 minutes each way by car. What happens to our work force when there is no place affordable to live? Ask your barista at Starbucks tomorrow where they live...it might surprise you.

10.) Transportation

Transportation is a three-part concern: 1) Lack of urban transit to get the workforce to their jobs in a reasonable manner apart from their vehicles and a long commute; 2) Increasing densification without proper planning for the limited road space to accommodate new development. If you add thousands of apartments without increasing the capacity of the streets, the result is mind boggling traffic; 3) The infrastructure created years ago that is falling apart from roadways to bridges.

Investment Profile of the Month

Please review the Investment Profile of the Month!

Deal Profile of the Month: Mixed Use

**Crabapple Broadwell
Mixed Use Complex
Milton, GA**



<u>What We Liked</u>	<u>What We Didn't</u>
Barrier to entry	Seller had put expense caps on NNN leases
Mixed use component w Retail and Office	Three apartments- management intensive

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,

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