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REAL ESTATE INVESTMENT

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REAL ESTATE CYCLES 101:
INVESTING IN 2016 - WHERE ARE WE IN THE CYCLE?

Greetings!

A global real estate forecast star, Dr. Glen Mueller from the University of Denver, spoke this month at the Georgia Real Estate "Views from the Top" and gave his assessment of where the commercial real estate market is relative to his investment cycle thesis. Dr. Mueller has spent over 20 years researching real estate market-cycle analysis, and has been a visiting professor at Harvard and the European Business School where he has taught his real estate cycle thesis. TriStar thought it would be beneficial to share his thoughts:

Definition of Recovery Cycles - The Basics:

Phase I - *Recovery* - **declining vacancies, occupancies below long term historic averages, rental growth less than inflation, no new construction.**

Phase II - *Expansion* - **rents rise rapidly to justify new construction, occupancy levels exceed long term historic averages**

Phase II - *Hyper Supply* - **supply demand equilibrium has been surpassed, rent growth is positive yet declining, sense of over construction**

Phase IV - *Recession* - **increasing vacancies and rent growth below inflation to negative.**

Note - for a better graphic explaining the cycles visit:
Graphic Cycles

Physical vs. Financial Cycles: Professor Mueller suggests there are two components of any real estate cycle. A physical cycle measures the rent growth relative to Supply and Demand of product type. Yet more important is the Financial Cycle which measures the capital flow into real estate investments based on alternative investment choices for an international consumer.

The Physical cycle overall is entering the Phase II expansion in almost every category except apartments. The lack of new construction and economic recovery are seeing increased occupancies and rent growth forecasted from 2-4% for the next 1-2 years. Apartments in the overall market are at supply/demand equilibrium with subsectors like Atlanta being flagged as in the Hyper Supply Cycle where rent growth is slowing from over construction.

The Financial cycle, 40+ years ago, measured capital flow into investments on a local or regional basis where investment decisions were made due to local expertise. Today's international capital flow has money flowing to the United States for: 1) its perceived safety in the world and; 2) returns that surpass their regions of the world. The ten (10) year treasury, as a benchmark, has a long term historical average of 6.2%. This is high relative to the 2.00+/-% as of this writing or the historical low we saw in 2015. Historical cap rates for real estate investment purchases have been 350-500 basis points over the ten (10) year treasury for risk adjusted returns (this is a range of 5.6-7.1 %). At the height of the market in 2007, before the last recession, the spread was 170 basis points. Relatively speaking, commercial real estate looks like a bargain with today's spreads, especially in a market with few comparable alternatives.

2016 Commercial Real Estate Conclusions

- We are in the Recovery Stage, likely for the next 2 years
- Continued occupancy growth in office, retail and industrial is still positive due to lack of significant supply.
- Apartment Sector nationwide has reached equilibrium with a few submarkets being in the Hyper Supply stage.
- Inflow of capital to the real estate market will continue to support price increases/stabilization even with modest interest rate increases.

Please see our latest TriStar Investment

Investment of the Month

Crabapple Station
12635 Crabaplle Road
Milton, Georgia

3 building, Neighborhood Shopping Center.

$172,000 Household Income (1 mile).

15,910 cars drive by per day.

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 Partners

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