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## Are We There Yet? A Real Estate Veterans Economic Perspective

### Greetings!

2014 was a boom year for Commercial Real Estate with Landlords seeing values and activity increasing across the board. Rents, occupancies, sales prices all showed respectable increases which bodes well for investors...especially in a lowering interest rate environment. But are we there yet? At the point where we can be confident of a sustainable economic recovery? Our circles of influence cross a wide and diverse group of thought-leaders, successful business entrepreneurs, landlords, tenants, service providers and community charities. Let's examine the evidence and key indicators we see going into 2015.

**1. Stock Market.** If you have checked your stock portfolio, you probably had another good year with the S&P gaining 11.86% in 2014. In fact, after the crash of 2008 (S&P down-38.49%) the index has returned an impressive 91.09% between 2009 and 2014. The chatter at the cocktail parties is that stock portfolios are being flush again and the shock-and-awe velocity is starting to subside;

**2. Retail Real Estate is making a comeback.** Remember those dark shopping centers with the vacant parking lots? They are starting to become a thing of the past. The retail economic engine is back and stronger than ever. 2014 is expected to be record year with \$3.19 trillion in sales compared to \$2.64 trillion at the trough in 2009. This is great news for landlords. Our shopping center in North Atlanta went through four tenant bankruptcies from 2008-2012, but the property is 100% leased, we are raising rents and quite frankly, I had to circle the property for 10 minutes to get a parking space last week. As we underwrite deals all over the South, we are seeing the same trend...not only in the core cities but the suburbs as well.

**3. Lenders are courting again.** For the first time in many years, lenders have been calling us to push their programs. This, of course, is a far cry from even two years ago where you were lucky to get a lender to look at your deal unless it was virtually risk free credit. We are getting several phone calls a month from lenders wanting to know if we had any business for them. The interest rates are at record lows and we anticipate that rates will start trending up in the second quarter 2015. Debt is the foundation of the real estate transaction market and as debt becomes

more available, pushing real estate activity and prices;

**4. Charities are reporting record-breaking donations.** Humility and gratefulness are two positives that have come out of the economic bust and American's have proven over and over that they are generous and more than willing to share their wealth with those less fortunate. We collectively sit on three non-profit boards and every single one of them is reporting an increase in donations. We see this as a directly correlated to confidence in the economy.

Looking at the evidence we feel confident that the turbulent years are now behind us and we can expect a stabilized environment going forward. That does not mean that we are completely out of the woods! As few cautionary events are to be considered:

**1. Interest rates** will be increasing in 2015 however we think this is healthy for the overall economy and it has already been factored in to most economic forecasting models.

**2. Event Turmoil** is now the new norm as our economy couples with other economies around the world. This can be a terrorist incident, an outbreak of Ebola or other unforeseen event. Such events will be short term in nature, will impact the markets in various ways but the strength of the economy will push past the turmoil.

**Please see our investment profile of the month.**

## INVESTMENT PROFILE OF THE MONTH

### TOYS R US Shadow Center, Kennesaw, Georgia



This property sits in the sweet spot between I-575 and I-75 in Northwest Atlanta, GA metro area. Anyone who has driven this stretch of road on Barrett Parkway will bemoan the traffic; however, for retail properties, this is exactly what landlords want to see...high traffic count in a strong market with barrier to entry from competitors. We underwrote this property and like it because of

a strong retail market with high barriers to entry. The property is south of Barrett Parkway and is considered a destination location. The rents are slightly below market and we have seen a considerable rent increase since 12 months ago. Even if rent growth slows, we feel this property will continue to produce a good and stable cash flow. The neighboring Toys R Us owns their building as well as the Home Depot that sits to the south of the property. This gives an owner a degree of confidence that the property will continue to draw traffic because of such neighbors.

We at TriStar are looking forward to a robust 2015. Happy New Year and Best of luck in your endeavors.

Sincerely,

TriStar Partners

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