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CHASING THE HIGHEST AND BEST USE OF LAND

Greetings!

The economic cycle has seen a change in the supply and demand of real estate. There was a time where everyone who owned land aspired to having a high-rise office tower built on their land. Today the population boom in the urban markets is seeing the shift to higher land prices for residential (apartment) land than that for office land. How you make money when your office (land) becomes apartment (land) is a quick lesson on highest and best use.

HIGHEST AND BEST USE

The highest and best use of land is that identified use, that in a reasonable period of time, could be improved to an entity which would create the highest price for the land. Much of the value today is in density in highly populated areas. Land is more valuable, for example, if you can build two (2) houses on an acre versus one (1)...that's easy to understand. But how do you look at an old class C office building?

OFFICE VS APARTMENT

In urban Atlanta, single-story office hovers at rents around \$20/sf on a triple net basis (meaning the tenants are responsible for 100% of the cost of operations). At today's returns, that might translate into a value of around \$250/sf. If this is a 20,000-sf building, then the value is \$5 million. Sound like a great value? Ten years ago that would probably be worthless than ½ this...take the money and run!! But let's say, the building is sitting on around 3 acres in West Midtown Atlanta, where apartments might get zoned for 80 units to the acre. You talked to your friends at TriStar and you hear that apartment land prices today are around \$30,000 for every units of density allowed. Now you land alone is worth \$7.2 million. Now you understand why you have 3 offers at \$5 million which was your asking price last week.

APARTMENT VS. APARTMENT

We are also seeing this trend in older apartment deals. Many apartment properties built in the late 1950's to 1970's were built in a time where zoning laws limited density to 12 units per acre. As urban demand has grown, local municipalities have changed zoning laws to increase density per acre to increase housing supply, with some densities as high as 80 units per acre for high-rise

apartment buildings. At \$30,000 per unit, the land that supported the 12 unit per acre deal is suddenly seven times more valuable. This dynamic is causing a rapid disappearance of older apartment communities in urban areas around the country. The downside is many of these low-density apartment communities have rents that are affordable for working families and more being replaced by class-A apartments with new rents at two to three times.

MARKET CYCLE

The imbalance of supply and demand is pushing the change in values of land...especially in urban areas. Watch the trends as populations increase. Warehouses, Class C offices, and apartment buildings are clear areas to see the impact of a change in highest and best use.

Please Review Investment Profile of the Month:

Investment Profile of the Month:

Pharr Road Apartments or Land?





What We Liked

- Great Location
- Solid Renovations
- High Demand for Apartments

What We Didn't Like

- Value expectation from Seller for land was worth more than the improvements - not yet
- Awkward site to develop even if cycle were right
- Off the beaten path of the main corridor - Peachtree Rd

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

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