



TRISTAR

REAL ESTATE INVESTMENT

www.tristarinvest.com

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BOOSTING RETURNS: A LOOK AT REFINANCING AND ITS IMPACT ON YOUR INVESTMENT

Overall Benefits

Whether you own a house or a portfolio of investment properties like TriStar, there are decisions to be made that go beyond simply lowering your monthly payments to really maximizing the many benefits of refinancing. As investment managers, we make decisions based on many factors, from the timing of the investment holding period to the cost of the refinancing. Sometimes, the cost to refinance may be expensive depending on the type of loan you have. A syndicated loan may have prepayment penalties or defeasance provisions that make refinancing costly. Lenders can make this difficult, so they don't have their investment terminated. Here are some benefits and things to consider:

Interest Rates

It was almost this time last year when the ten (10) year treasury rate (a key benchmark in commercial real estate financing) was hovering above 3%. Today, the index is hovering around 1.5%. This makes a world of difference in the amount of debt service you have to pay on a loan, and it is usually the first place one looks when deciding to refinance. TriStar is refinancing one shopping center that we own that has a loan at 4.75%, and we anticipate it being recast around 3.5%. The savings in debt service alone will return 1.55% more in return to our investors per year. In simple terms, this move alone will boost their returns 17%. But it's not just about the interest rate.

The Existing Mortgage Constant

Over time, many loans "amortize," meaning that the debt owed is paid down. The longer you have had your loan, the lower your loan balance. Let's say that you have \$1 million in debt with a great loan costing around \$45,000 per year. This indicates a mortgage constant of 4.5%. Not bad!! Let's say that you've had the loan for a while, and the loan balance is now \$800,000. Your mortgage constant is $\$45,000/\$800,000$, which shows a 5.6% constant. Your interest rate (coupon rate when you started the loan) seemed really good, but the constant has changed. It may be time to look at recasting your loan.

Pulling Proceeds or Lowering Debt

The lender for refinancing will look the appraisal on your property, and based on the loan to value ratio of the new appraisal, you may be able to refinance and pull out cash for your investors or for capital projects. Let's say, you purchased your asset with a 65% loan to value ratio and today, the appraisal has increased such that your loan is now 40% of the new value. You could refinance back to 65% LTV or higher and pull that cash out. The returns should be the same but now you have "found money". Another strategy for long term

investors, is that you reduce your debt and increase your future cash-flow with your reduced loan payments. What is your strategy and risk tolerance? It sounds good to pull out money and increase the debt load, but what if a recession hits? Can your asset survive a loss of your tenant base or need for capital repairs? This is where expert advice from an asset/investment management company is critical.

Cost Recovery

It will cost something to refinance your home or investment property. These expenses include a new appraisal, lender costs, etc. A key consideration is how long will the savings from a refinance take to pay this cost? Compare this to your holding period and ask if it is worth the effort.

Deal Review of the Month:

PARSON'S ALLEY **DULUTH, GA**



WHAT WE LIKED

Urban/Suburbanism concept (dense infill seen in urban areas moving to the suburbs)

Live/walk community

Near government center

WHAT WE DIDN'T LIKE AND WHY WE PASSED

Mediocre demographics to support the center

Heavy restaurant mix - very risky

New retail not yet proven

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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