



TRISTAR

REAL ESTATE INVESTMENT

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Core Real Estate Yields 5-6% IRR unlevered

All About Risk and Return

Investors contemplating real estate investments often wonder how to assess correct returns for the risk incurred with various property types. Industry terms such as "Core", "Value Add" and "Opportunistic" investments rarely have adequate boundaries to define the investment and the inherent risks (or returns). With the caveat that these lines are often blurred between investments, this article will loosely frame TriStar's view of these terms.

Core Real Estate - this classification of investment is often thought of as low risk and has correspondingly, low yields. The example below represents what many would label as a "Core Asset". Characteristics of this class include investment credit tenant(s); sought after locations; barriers to entry (low competition), long term lease in place; minimal investor expenses (in the case of NNN single tenant leases). These properties trade from 5-6% CAP rates, lower in some Tier 1 cities (New York, Boston, Chicago, Los Angeles) with barriers to entry and rapidly rising interest rates.



Core Investment: *Walgreens - NNN lease; Kennesaw Georgia;; 20 year lease;\$5.23million; 6.0 % return per year*

Value Add Real Estate Yields 14-18% IRR levered

Value Add Real Estate - these properties have been unable to achieve their highest potential. This may simply be due to an economic downturn like was experienced during this past great recession. Bank and other financial institution have been selling troubled assets and the provide a great opportunity for returns as these assets can be bought at a fraction of the original loan and a greater discount to the asset replacement cost.



Value Add Investment: *Midtown Atlanta Office; 50% leased; projected price at 35% of replacement cost.*

These assets may have fallen into distress due to bad debt structures, deferred maintenance, an inexperienced operator or just bad timing (loans coming due before a stabilize occupancy). The solution comes from a restructured price, debt or an infusion of equity and experience to restore the investment to optimal conditions.

A word of caution with the term "Value Add": understanding the strategy to return the real estate to successful operation is important. Some properties should have never been built in certain areas that will never recover. One person's value add may be a 70% leased shopping center waiting on the recovery of the residential housing growth to bring shoppers to the market. The housing recovery will help. Another person's value add may be an empty 30 year old building in Detroit, MI. There is a fine line between "value add with a strategy" verse value add with optimism and wishful thinking. Value Add returns we target range between 14%-18%

IRR.

Opportunistic Real Estate Yields 20%+ IRR levered

Opportunistic Real Estate - this area has the most risk and is often associated with new development. It can also be related to the redevelopment of assets which have adaptive reuse plans. We see warehouses in West Midtown Atlanta that have converted to loft office uses or specialty retail purpose and high end restaurants.

The example below is a conversion from a warehouse to a popular restaurant and office. The developer secured the property from a distressed lender, worked with the tenant on a rehabilitation and long term lease. This is a well-known restaurant but not the credit rating of a publicly trade brand such as CVS or Walgreens. This investment group would have been expected to return more than a 20%+ IRR.



Opportunistic Investment:

Future FIGO Restaurant - Midtown Atlanta;

7K sf Vacated warehouse/ grocery store converting to Restaurant and HQ.

TriStar Fund I is a Value Add real estate vehicle for accredited investors. We are targeting commercial assets in the Southeast with a defined strategy to produce attractive return for investors. To learn more about our offering see us at www.tristarinvest.com or call Duncan Gibbs or Marjy Stagmeier at 404-698-3535.

Sincerely,

TriStar Real Estate Partners

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