TRISTAR
REAL ESTATE INVESTMENT

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THE 2018 VIEW FROM TRISTAR

Greetings!

While we read many publications to understand trends and make the best decisions for our investors, our view of the world is shaped by observations, and years of experience, gut checks and intuitions that help us develop informed opinions.

As we enter 2018, what is not to like about this economy? This is a question, combined with the memories of financial peril just 10 years ago, that have experts reaching for support of calamities to burst the bubble of optimism: "Historically, we are long overdue for a recession;" "The market is getting frothy;" Economic cycles only last ten years;" "a market can't sustain this kind of run up." Let's look at some casual observations that a student would learn in Economics 101.

1. Inflation? - in check.
2. Unemployment? - at historical lows;
3. Consumer Spending? Good but not outlandish;
4. GNP? - ideally could be better but OK.
5. PE ratios relative to history - high but not like the dotcom era.

Let's face it, the fundamentals of the economy say all is OK. It's the unknown that causes concern. Our read of the economy is a lesson on supply and demand:

Macro Perspective - For the most part, tight lending criteria have kept rampant development in check. Sponsors now have to put real money in the game, and there is tremendous scrutiny keeping the supply for most forms of real estate in balance.

Interest Rates - Yes, they will go up but like many things, prices will adjust accordingly, and the movement of investors in and out of investments, with the associated yields, will bend to the market. You can't time the market; you play under the new rules, and guidelines given during the cycle.

Capital Flow - We are a global economy, so money in investment real estate may be local in its sponsor, but it is knee deep in foreign equity sources. Capital will continue to come to the US because we are the safest country in the world, which is not easily said amongst capital coming from the Far East, South America and other parts of the world. For many, getting their capital back is a good return, and this view will affect the returns perspective of a competing domestic investor where the safety of the investment is not questioned.

Investment Sectors

- **Apartments**- The demographics of growing younger population and the surprising return of baby boomers to apartments seem to be in support to this category. The abundance of new construction should be evaluated market by market. On one level, everyone will need housing. Whether this means at $750/month or $2,500/month in rent, there are places to go to find housing.

- **Retail-** On one hand, it is the most frightening place to be right now with the uncertainty of the online shopper. However, this may be the biggest surprise category, as smart people are figuring out how to re-position obsolete retail. Nonetheless, the neighborhood center with restaurants, nails salons and your local gym are not threatened by Amazon and seemed to be positioned well to survive the change in shopping patterns.

- **Office**- On one hand, the younger generation is redefining the way we work with telecommuting, shared work environments and mobile technology. However, other reports suggest that corporate America wants to tighten its rope on employees and bringing them back to the office. The smaller office size per employee and working at home is backfiring on productivity. Gone is the large mahogany office on the corner but companies will need to bring their employees together for a sense of culture and belonging. We feel this may be more of a design change than a category killer.

- **Industrial/Logistics**- As internet shopping increases in popularity, logistic hubs are growing to get goods to your front door. Will trucks become obsolete, or will the air be filled with drones that deliver faster? We think, this category is morphing into "logistics," rather than industrial as a category.

Perplexing Change of the Future - follow this logic chain - technology creates automated cars in the next decade - do we need more cars or less cars? If the most underutilized capital expenditure you own can now be productive - how does this change its use? Instead of the car, sitting in your garage or in an office garage all day, it drops you off then picks up your partner or spouse to get to the grocery store, then picks kids up at school and then gets you at the end of the day. - In this scenario do we need parking decks anymore? What does that mean for parking companies and, parking lots? Do we need auto insurance anymore? Do premiums go down and lawyers in the future do they chase ambulances, or do they chase the software company behind the automated cars involved in accidents.

Take a look at the investment profile of the month.

Investment Profile of the Month:

ARMOUR YARDS LOFT OFFICES

WHAT WE LIKED:

- **Modern loft office design**
- **Good parking ratios for a warehouse district**
- **Access to I-85**

WHAT CONCERNED US:

- **Only one point of ingress/egress to the area - as development continues to grow, the line to get out grows**
- **Sustainability of the Rents - they are higher than most other loft office/urban rents. Will people continue to pay a premium to be in a warehouse?**

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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