



# TRISTAR

REAL ESTATE INVESTMENT

[www.tristarinvest.com](http://www.tristarinvest.com)

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## WHEN THE FED MOVES: *IDEAS FOR CRE INVESTORS*

It is widely expected that the Federal Reserve will lower short interest rates over the coming months. This signifies that the economy may not be doing as well as expected and that stimulus is needed to keep the economic engine rolling. The fact of the matter is that the move is related to international factors surrounding trade wars, the impact on the dollar, corporation who do business trade overseas and the resulting drag on the economy. The consumer which drives the spending of the country is doing fine ...we digress. Let's not talk economics but what to do with your real estate portfolio relative to the economic backdrop of interest rate movements.

### **Have Patience**

We've reached a stage in the economic cycle that all decisions should be well thought out relative to the current environment. There is still significant money in the real estate deal flow albeit volumes seem to be down in many categories. This means more discipline than ever in buying or selling real estate.

### **Hold the Rental Rate; Increase the Improvement Allowance**

For well-located assets in office or retail, stand your ground. The economy is good, demand is still solid and replacement costs means well positioned assets relative to newer alternatives have a competitive advantage. A recommendation from this retired broker is to increase rental rates to accommodate more money toward tenant improvements. I know it doesn't feel good to help finance your tenant and it may not be in your proforma. Let face it, the cost of construction materials and labor are trending upward. What was a standard improvement allowance years ago needs to meet today's build-out needs. The landlord that can build out what the tenant needs will win over the competition. Better said, in my 25 years of brokerage, I never saw a tenant, short of money to build their space, go back to the C-Suite and ask the corporation to fund the excess. Actually, it did happen once and the tenant negotiated a discount to the rent for a rent rate with no Tenant Improvements. The rent rate was discounted at 8% and the company used its 3% money to finance its own Tenant Improvements. At the time, this bank had the luxury of doing this. FF&E, telephone and moving costs, a company will fund...but no money for improvement will come from a tenant to build-out space in a landlord's building. Make sure that the amortization of additional improvement dollars doesn't far exceed the market rent for the product or your lender or the next buyer will never give you credit for the higher rental rate.

### **The Obvious - Refinance, but how to do it**

We chased a deal last fall when the ten (10) year treasury was 3.2% and it killed the deal. Today T-Bills are hovering around 2%!! Interpretation? Lock in rates and go long but there

are a couple of ways to look at this opportunity:

1) Refi and pull proceeds - and why not? Immediate gratification! Your loan balance is down, values are up so grab some cash, keep the deal and hold for the long term. If you are going to do this, why not sell?

2) Refi and pay down debt - for many with a long-term view of ownership, you will not be concerned if you lose a tenant or need to get a loan in the future for capital improvements. An asset with little to no debt, during a recession is more stress free than an over-leveraged property headed into a recession. For those of you who remember one of our first articles, *The Millionaire Next Door* - I admired the investor who sits in his retail center at the café that has no debt, clipping coupons and enjoying a stress-free life. - what's your tolerance? Who remembers 2009?

### **Understand the US Dollar**

Caveat - I don't understand it well but seek to understand its significance in a global economy every day. In simplistic terms, people need US currency to trade for good and services. If geopolitical or economic condition affect the cost of the dollar, it can be devastating to industries. Foreign investors seek safety in US real estate but if they have to spend more of their currency to buy dollars to buy property, it affect returns. Likewise, when they are looking to sell assets, how much they get in return depends on the exchange for their currency at the end.

**Take a look at an area we are about he invest in!**

Deal Review of the Month:

### **Suntrust Park Area (Confidential Deal)**



#### **What We Like:**

- \* An off-market office investment below market value that will benefit from its unique location to changes surrounding the Braves Baseball Park
- \* 10% projected Cashflow and 15% IRR

#### **What We Don't Like:**

- \* Nothing

## 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](mailto:dgibbs@tristarinvest.com).

Sincerely,

TriStar Real Estate Investment

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