Cracks in the Sidewalk – A Look Back

Where does the time go? Given that we're rolling into a new year, I thought it'd be interesting to look back at Trinity Capital newsletters from the last two years to compare them to the economic news and sentiment that we're seeing as we start 2019.

Today, our leading and lagging economic indicators are telling different stories, but with the DOW down about 15% from historic and recent highs, there aren't many who think this cycle has much longer to run. Economists who just a few months ago thought we had no chance of a recession until 2020 or later are now saying that they'll be surprised if we get out of 2019 without entering one. The headline "rising fears of an economic slowdown" often accompanies the recent wild swings in the DOW, which are happening weekly, and in some cases daily.

Given this recently changed outlook, we must ask ourselves if this is just more noise, or if the investing cycle has peaked and it's now time to plan for a downturn. Perhaps a look back at our last six newsletters will help shed some perspective:

JAN. 2017 — *Seeking direction in an uncertain world*

- Before the election, blue chip office & multi-family investors began pulling back in late 2015 and early 2016.
- Capital started flowing aggressively into the industrial asset class.
- The post-election DOW jumped from 18,000 to 20,000 by January 2017.

MAY 2017 — *How is the Economy? Just Fine, Thanks.*

- The easy money has been made, but the good times aren't necessarily over.
- Foreign capital makes up 7 of the top 10 buyers; domestic was 8 of the top 10 sellers.
- Second-tier cities like Charlotte, Nashville, and Raleigh lead the growth nationally.

SEPT. 2017 — *Our Actions Speak Louder Than Words*

- Trinity has a sixth sense that "perhaps this cycle, and our good fortune, won't last forever."
- Trinity starts a heavy disposition cycle, selling 23 buildings in the fall of 2017.
- Focus for many institutional investors switches to less-risky Core Plus investing.

JAN. 2018 — *The Rearview Mirror*

- DOW crosses 26,000, and jobs reports continue to exceed expectations.
- Despite this, 2017 was a light investing year for seasoned institutional investors.
- Bid fields for the bottom 75% of the office asset class got very shallow.

MAY 2018 — *Lulled to Sleep*

- New Class-A office towers (top of the asset class) sell for record prices in Southeastern markets, exceeding prior records by sizable amounts.
- Multi-family construction continues at an aggressive pace.
- Cracks start to form: some economists worry about rising Treasury yields.

SEPT. 2018 — *Our Broken Crystal Ball*

- Jobs data continues to be very strong.
- DOW stays at 26,000 despite CrazyTown headlines in Washington.
- 10-year/2-year Treasury spread continues to fall, heading toward inversion.

In 2018, we at Trinity Capital continued to sell portfolio assets and harvest profits at an aggressive pace, with a 4-to-1 disposition-to-new-investment ratio, selling another 17 buildings over the calendar year. Toward the end of 2018, buyer bid fields in the previously red-hot industrial space also got very thin, with sellers having to work harder to get buyers across the closing table. Separately but related, in New York, which often leads the way on many real estate investing fronts, residential prices have tumbled 20% since peaking in 2015. Home sales fell 14% in Manhattan last year, the steepest drop since 2009 (CNBC). Who knew?

It's impossible to know if this is the end of this fantastic economic run or just more noise. But at Trinity, our contrarian investing philosophy suggests to us that this cycle's peak is in our rear-view mirror and that the end of this already-long-in-the-tooth economic expansion is within sight. That said, our late partner David Allen used to remind us that "change creates opportunity" – and we sense that a lot of opportunity may soon be coming our way.

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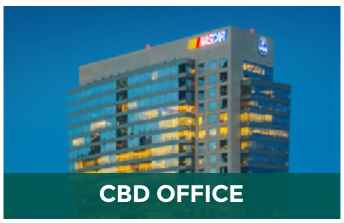
TRINITYCAPITAL

Real Estate Investment Excellence

What We Do

Acquire and develop office, industrial, and mixed-use real estate in the Southeast and Mid-Atlantic U.S. Since 2002, Trinity Capital has invested more than $2.3 billion in 18M SF. Sister company Trinity Partners' (trinity-partners.com) 155 employees in Charlotte, Raleigh, and Greenville (SC) provide sourcing, operating expertise, and accurate market data for Trinity Capital's underwriting of its investments.

Notable Investments


CBD OFFICE

MIXED USE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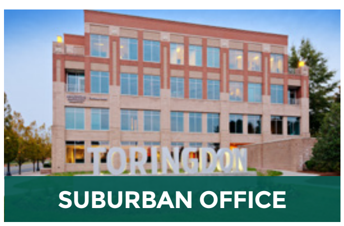
MIXED USE


SUBURBAN OFFICE


SUBURBAN OFFICE


INDUSTRIAL

INDUSTRIAL

Why We Win

» Contrarian investing, avoiding the froth

» In-house operating platform

» Hands-on value creation

» Disciplined underwriting, moderate leverage

» Buy or develop the best assets

» Quick reactions to capital market flows

Investment Performance

FUND	YEARS INVESTED	GROSS IRR	NET IRR TO INVESTOR	TOTAL COST	% HARVESTED
Pre-Fund	2002-2005	44.24%	n/a	$127,548,000	100%
TCVF I	2005-2007	23.98%	18.64%	$32,140,000	100%
TCVF II	2008-2011	20.17%	13.14%	$254,549,000	100%
TCVF III	2012-2014	55.99%	28.00%	$208,110,828	99%
Post-Fund	2015-present	37.80%	29.45%	$1,737,000,000	60%
TOTALS:		**31.02%**	**21.63%**	**$2.3 B**	**N/A**

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