

# The Net Takeaways

April 2018 Market Trends



Stan Johnson Co.

Dear Clients -

We hope this note finds you well and that 2018 is in motion with fruitful projects and investments underway. With nascent fluctuations and movement in the capital markets, we wanted to take a moment to share our thoughts on the impact the current conditions are having in the Net Lease marketplace.

## Hunting Season is Upon Us

With April underway, we now find ourselves entering “hunting season” for the Net Lease Market, the time between Spring Break and Summer Vacation that sees a heightened level of activity. This roughly 60-day period certainly revolves greatly around ICSC RECon in Las Vegas (May 20-23 this year) and is a major driver for deal-making prior to the summer holidays. We are seeing a solid uptick in market activity and engagement, which is leading to enhanced buyer review of properties, and positive new deals getting signed up. That said, compared to prior year’s levels of market activity as we enter Q2, we would assess conditions as slightly below average.

## Interest Rates Leveling Off as Cap Rates Trend Higher

We noted in our March Market Trends with regards to Interest Rates:

*As you’re likely aware, the **10 Year Treasury went from 2.35% at the beginning of December, to now right around 2.90%! It’s not often that in a 4 month span the market experiences a 55bps move in rates, in either direction.** Based on the conversations we’re having daily with buyers, brokers and sellers, there’s no question this is top of mind across the full investor spectrum. However, it only represents a true headwind for a portion of market participants.*

Since that time, we have seen the 10 Year Treasury level off and settle into a range between 2.70-2.90% for the last 30 days. Some of this has been driven by a “wait and see” mentality regarding the Fed’s next steps, as well as the impact of recent tariffs on Equity Market values.

Month-to-month trends can be challenging to spot while in the trenches, but we believe Cap Rates have slowly been responding to increases in Interest Rates and are likely up 10-20 basis points over the past 120 days.

## The Price is Right

More than any time in the last 5 years, the market is now showing a clear divergence between assets that are “priced right” and those that are overly aggressive. We consider “priced right” to mean assets that are priced in the top quartile of comparable properties, and generally within 20-30 bps of their Strike Cap Rate. These assets are generally seeing strong buyer attention, and are continuing to trade with regularity, whereas assets priced more aggressively are showing a tendency to sit on the market. Please let us know if you have any questions or feedback. We welcome the opportunity to continue this conversation with each of you, and look forward to opportunities to partner with you in the rest of 2018!

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