

The Net Takeaways

October 2018 Market Trends



Dear Clients & Colleagues -

Q4 2018 is upon us and brings with it a fluid marketplace that promises to make the last 3 months of the year an unpredictable finish for the Net Lease Marketplace. After an above average summer deal season, the market has started to confront the headwinds of some of the most robust interest rate increases in quite some time. Some of the most central themes we are seeing include:

Interest Rates' Big Breakout

Since our last Net Takeaways, we've seen the 10 Year Treasury make a major move from the 2.90% range to around 3.25%, a 35bps move in only 30 days' time! Such moves are rare, happening on only 5 occasions in the last 5 years. The net impact is that a 10-year loan has now gone from an approximate rate of 5.00% to roughly 5.35%, with a loan constant of 6.70% (assuming a 30-year amortization). As we consistently point to, that loan constant is a line of demarcation, insomuch as investors are very reticent to take on a negatively leveraged scenario.

Know Your Buyer's Financing or Prepare for Re-Trades

Now more than ever it is of critical importance to understand Buyers' anticipated financing structure when agreeing to an LOI. We advise going so far as to request the Buyer's Term Sheet and understand all the elements that are comprising their financing. Oftentimes, it can make sense to move forward with a Buyer who may not be the highest price payer if they have less risk of exposure to capital markets moves. Even then, we are seeing some investors who are "opportunisticly" attempting to reduce purchase prices owing to higher interest rates, and in these situations, being able to point to the Buyers preliminarily indicated financing structure is of enormous benefit.

Cautious Buyers Continue to Hunt

Despite rising interest rates, we continue to see elevated levels of buyer activity and deal review. We believe that a solid crop of investors remains in the wings currently and have a sincere interest and intent to make deals for 2018. Both private and institutional capital sources have solid stores of capital still ready to be deployed in 2018 but are watching the subtle dance between interest rates and cap rates, to determine the best moment at which to strike. We believe that if rates can show some stabilization over the next couple of weeks, we will see a flurry of deal making in late October and early November.

Mattress Firm Bankruptcy: The Fallout

A little more than two years after Steinhoff International's staggering \$3.8B acquisition of Mattress Firm in 2016, the company has now sought out the protection of bankruptcy. As part of the filing, the company has announced plans to close 20% of its 3,200 national locations. The roughly 600+ locations that are closed will put a substantial amount of retail space back into the ecosystem and create downward pressure on rental rates as the marketplace absorbs this inventory. Additionally, the bankruptcy will compound investors' nervous outlook on the retail market.

We invite you to connect with us to discuss any questions or thoughts you may have!

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