

# The Net Takeaways

## September 2018 Market Trends



### Dear Clients & Colleagues -

The race to the finish line of 2018's real estate deal cycle is officially underway! With summer vacations completed, football kicked off, and school bells ringing across America, "deal season" is upon us! We've seen a whirlwind of action and engagement in the past couple of weeks, but did want to take a moment to provide you with the latest pulse of marketplace conditions:

### Late Summer Run Continues Post-Labor Day with Solid But Uneven Deal Making

The marketplace saw an above average amount of activity in August, on an adjusted basis; approximately 31% more transactions went under contract compared to the average for the previous five Augusts. Much of that can be attributed to a sluggish start to the year, and also a nice pull back in the 10 Year Treasury to 2.85% from 3.05%.

As is typical for the Net Lease market, there's been a nice uptick in market activity after Labor Day. Naturally, as sellers and investors come back from their holidays, it's time to get down to business and handle the last deals that need to get done this year.

We've seen a stabilization of pricing with bids coming in on assets roughly 20-35 bps off of list, which has been tighter than the trailing 12 months, and is indicative of solid engagement. These stronger bids have helped buoy the amount of deals being struck and are taking a bite out of the robust supply of assets currently in the marketplace.

### Tick Tick Tick: Interest Rate Pressures Creeping Back Into the Mix

Over the last 30 days, we've seen the 10 Year Treasury rise substantially from 2.85% to roughly 3.05%. After experiencing a brief reprieve from 3% treasuries in late July, the marketplace is once again confronting 3%+ rates, which equate to 10 year loans in the 4.80-5.20% range, and loan constants (on 30 year amortizations) between 6.60-7%.

We expect that the positive impacts garnered by increased buy-side demand will be tempered by this upward pressure on rates and loan constants. Buyers remain very reticent to accept negative leverage scenarios, and as such, upward movement in rates will have a more pronounced impact on larger transactions that are likely to require financing.

### Opportunity Zones: Setting Up to Spur Major Wave of Developments

A little noticed addition to the Late 2017 Tax Overhaul (Tax Cuts and Jobs Act) was the creation of Opportunity Zones. Composed of 8,600 designated census tracts across the US, these zones allow new investments made into business and real estate opportunities with proceeds from asset sales subject to capital gains taxes, to defer and potentially eliminate tax burdens under specific circumstances.

We believe that the real estate investment and development markets are still processing this new program, but we anticipate that it will have a major impact drawing in new capital and spurring a wide range of development in economically under served markets.

We look forward to connecting with each of you soon and invite you to reach out if you have any questions or further thoughts!

**Brad Feller**  
Managing Director  
bfeller@stanjohnsonco.com

**Isaiah Harf**  
Director  
iharf@stanjohnsonco.com

**Andy Gatchell**  
Associate Director  
agatchell@stanjohnsonco.com

**Blaise Bennett**  
Associate  
bbennett@stanjohnsonco.com

**Mark Lovering**  
Associate  
mlovering@stanjohnsonco.com

**Rachel Walz**  
Associate  
rwalz@stanjohnsonco.com

**Justin Wollmershauser**  
Associate  
jwollmershauser@stanjohnsonco.com

**Stan Johnson Company**  
303 East Wacker Drive | Suite 1111  
Chicago, IL 60601