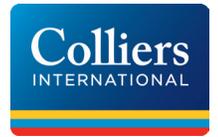


# Snyder/ Carlton Team

## Market Reflections

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Shortly before I signed up for the real estate game, I read “The Art of the Deal” by Donald Trump. The book’s fast paced narrative coupled with Trump’s recollections about his rapid rise as a real estate developer was tough to turn down; I gobbled it up. It was a fun read – simply a man’s story about the inherently logical steps to create wealth in real estate and why anyone could do it. Personally, it seemed like real estate was simple enough: just remain persistent in writing letters to property owners about 100 times a year, fake it till you make it, and wait until luck opens an opportunity. That was the allure – there was always opportunity in real estate. One simply needed to go find it out.

There are many reasons why Trump could accomplish what he did in his late twenties (having amassed an incredible sum of sweat equity and exceptional net worth). One, in particular, is central to the real estate game: inefficient markets. In Trump’s time, greater profit margins were generally more accessible to investors given the relative lack of transparency, such as ready and available information, no cell phones, relative cost of equities and bonds, and the power of the dollar, among other things. However, today presents a much different picture.

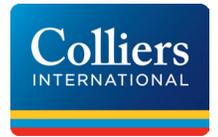
We now operate in a more transparent real estate market, where access to information, capital and ownership has vastly increased. Real estate is being transformed into a core asset class, capable of satisfying a vast pool of investors looking to beat inflation and preserve wealth. Evaluating real estate decades ago was different and, I argue, less complicated than today. Real estate is more than just supply and demand; it is also a function of capital. Our day-to-day business is a two lane highway – one lane being asset level fundamentals of supply and demand, and the other being the affect of capital flows in the system. To anticipate the market, investors and brokers must understand the symbiotic relationship between these two lanes. Back in the early nineties when many experienced the aftermath of the savings and loans crisis (and when we were enjoying classic movies like Dances With Wolves), we had a fundamental problem of supply. We had constructed too many buildings and we had to flush them out of the system. In the aftermath of the recent downturn, we experienced a problem of capital. We had to deleverage and erase billions of paper value. I wonder what the next downturn will look like.

Today, we observe some positive signs in the economy that will enable it to grow: good global liquidity, home pricing stability, and deleveraging (less REO activity). The FED stimulus has pro-longed the “flushing” out of crummy deals, but we are getting there. Real estate will continue to function well as long as we do not experience any major disruptions to global capital flow. For example, if an unforeseen terrorist attack or perhaps a European currency crisis causes Wall Street to shut down, that is a dangerous climate for real estate assets. Liquidity is what enables real estate values to remain stable. And there is no doubt today that capital is looking to buy real estate because it cannot find attractive risk-adjusted yields in competing asset classes.

# Snyder/ Carlton Team

## Market Reflections

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Here are some things that we have observed with capital flows in our business:

- Disciplined Capital vs. Un-Disciplined Capital – A lack of quality property for sale (supply) has caused many Buyers to accept a lower yield in exchange for relatively higher risk (demand)
- Tax Deferment – A supply-constrained environment has increased the value of net lease assets, resulting in numerous Sellers looking to 1031 exchange their equity into a new deal. The problem is that identifying an upleg is very difficult.
- Flight to Quality – Hefty premiums are paid for true investment grade credit net lease offerings; the CAP rate curve decreases almost exponentially if the property is prime in the following areas: location, credit, term.
- Aggressive Offers - Buyers are stretching and getting creative in order to secure long-term net lease investments (pre-construction commits, etc).

This past quarter, we closed about \$150M in deals spread across 29 separate deals in about 10 states across the nation. We look out and see a market that lacks inventory. We see Buyers taking extremely aggressive swings to purchase quality assets. We see more private and institutional capital flowing into single tenant assets. We see REITs choosing to buy or merge with other REITs because it would be impossible to individually buy so many properties.

Sellers: real estate is inherently cyclical and it is directly linked to liquidity, real economic growth, and inflation. We are back to historical CAP rate lows (but not values as most rental schedules have been reset to market). Take a strong look at your asset and ask us what it is worth today – you will be surprised.

Buyers: have extreme patience and be ready to move fast to secure a deal. Sellers of quality real estate will choose amongst a long list of hungry Buyers – you must fully understand the asset and pay attention to your desired hold period. Know what you want and we will help establish the right steps to success.

The game never stops. Our business will continue to evolve and change as long as capital is looking for real estate yields. It may not be like the times of Trump in the late 70s, but there are still good deals out there.

See you next quarter,

John Sharpe  
May 1st, 2014