

ACCESS

FALL 2024



SYNDICATED EQUITIES



PENDRY NASHVILLE HOTEL
AND RESIDENCES
NASHVILLE, TN

News of Interest for
Investors and Industry Professionals



SYNDICATED EQUITIES TEAM



Richard Kaplan
CEO & FOUNDER



Matt McCulloch
MANAGING PARTNER



Jason Schwartz
MANAGING PARTNER & COO



René Ristau
PRINCIPAL & DIRECTOR OF
ASSET MANAGEMENT



Robert Handler
PRINCIPAL & CONTROLLER



Terri Leslie
CHIEF OF STAFF



Tracy Treger
PRINCIPAL



Gayle Teicher
SENIOR DIRECTOR OF
BUSINESS DEVELOPMENT



Andy Raney
1031 EXCHANGE CONSULTANT &
SENIOR INVESTMENT SPECIALIST



Bibi Zichmiller
DIRECTOR OF INVESTOR
RELATIONS



Miranda Danes
DIRECTOR OF ACQUISITIONS



Taylor Ligenza
OPERATION ASSET MANAGER



Joshua York
DIRECTOR,
NET LEASE BROKERAGE



Katie Donovan
INVESTMENT &
COMMUNICATIONS ASSOCIATE



Andrew Killian
SENIOR ASSOCIATE



Luke Riordan
INVESTMENT ASSOCIATE

LETTER FROM THE PRESIDENT

Richard Kaplan

The Fed lowered rates, and I believe there is a window opening in the real estate world. Every aspect of the market is affected by the cost of money, and lower rates have historically spurred optimism and activity. For the past 2 years, transaction volume across the country has slowed as pricing, loan availability, construction and home ownership have experienced the significant effects of higher interest rates. Hopefully, the trend has begun to reverse itself, and our world can return to a more stable and predictable platform.

For us at Syndicated, we have been fortunate to have worked on a variety of acquisitions that reflect our ability to uncover opportunities that provide solid, risk-adjusted returns for our investors. We have also worked diligently to maintain the quality of our portfolio through some very difficult times. While we have experienced situations that suffered due to the swing of lending parameters, we and our operating partners have been diligent in the operation and management of our properties. We are pleased to report that over 90% of our assets remain on pro forma.

Operating a business that relies on external, uncontrollable and unforeseen events has been our challenge for almost 40 years. Recessions, unchecked inflation, interest rate fluctuations, 9/11, the pandemic and 10 presidential elections have been endured and successfully maneuvered. Syndicated and its team of 16 professionals are well poised to continue the next chapter in our endeavor to provide real estate opportunities to our ever-growing list of investors. We appreciate your support and loyalty and pledge to maintain our long-standing reputation as one of the most respected companies in our field.



Here comes
the sun ...
and I say,
it's alright.”





A NOTE FROM OUR MANAGING PARTNER

Matt McCulloch

“

At Syndicated, we remain committed to finding value and return for our investors.”



The real estate industry remains as focused as ever on interest rates. We're all waiting to see what may finally lead to an environment in which rates decline or at least start to stabilize. For nearly a decade, the market had coalesced around stable baseline rates that were typically sub-3%, which created dependable pricing levels for all asset classes over a long period of time. With baseline rates now consistently above 4%, the pricing levels that were established between 2012-2022 have been disrupted. Owners who acquired assets during this timeframe aren't eager to sell and won't do so unless loan maturities or other factors force their hand.

The high level of interest rate volatility is another factor making transactions difficult to complete. When an investor puts an asset under contract, they typically require up to 60 days to perform due diligence and arrange for a closing. During this period, interest rate fluctuations can wreak havoc on a transaction's underwriting if the cost of borrowing increases substantially. In 2024, practically every 60-day period has seen interest rates fluctuate by 50 basis points, and the past 30 days has seen the 10Yr Treasury rise by an astounding 65 basis points. For many investors, this uncertainty has caused them to pull back from making new investments until a better sense of market stabilization emerges.

Further complicating this dynamic is the reduced availability of debt capital. For the past few years, lenders were not having loans paid back regularly, and regulators were requiring them to keep more capital in reserve. As a result, banks (to the extent they were lending at all) were able to charge borrowers higher rates of interest since capital was in short supply while demand for that capital remained strong.

This phenomenon may finally be improving — over the past few months, we've been pleased to hear from several of our relationship lenders that they're now receiving more payoffs, allowing them to make new loans. Additionally, we're hearing that banks may begin to lend more actively as the worst fears regarding their balance sheet and the economy have not been realized. If the debt market fills with more capital, borrowing rates should decline.

Tied into this comment that “we're seeing more payoffs” is an encouraging performance trend throughout the overall market: many asset classes are experiencing stability or growth, especially in the industrial, retail and multifamily markets. Seeing past the headlines about the office market can be difficult, but even there the market is correcting itself, allowing banks to move past their balance sheet exposure to those loans and begin lending again.

At Syndicated, we're approaching this market cycle in a few different ways. First, we've made fewer investments this year, both on account of pricing levels not correlating to where interest rates are, and because we've narrowed our investment criteria to include only the most stable of asset types or locations. Secondly, we're borrowing from relationship lenders that can either “lock” our interest rate early in a transaction or assure us that their rate spread will not fluctuate before closing. Additionally, our underwriting assumes that rates will be higher when we close, giving investors a healthy “buffer” to protect returns prior to closing. Overall, we remain committed to finding value and return for our investors, which in this environment means staying true to time-tested fundamentals and not stretching just to “do a deal.”

Jason Schwartz

TIMING THE MARKET

With the baseball season coming to an end last month, I am left with more to reflect upon than to celebrate. My Chicago White Sox have set the unfortunate record for the most losses in the modern era, and the quote that immediately comes to mind is, “I’d rather be lucky than good.” This phrase has always stuck with me, not just in the context of sports, where my team was neither, but also in business, and in particular commercial real estate.

In both baseball and investing, what feels like “luck” can often play a deciding factor in an outcome. And while we can each recall a personal story where “luck” played an outsized role, either directly or indirectly, we know that skill and strategy are what ultimately determine outcomes, allowing “luck” to occur.

With the recent interest rate cut and the possibility of a soft landing, my conversations with investors and partners have shifted from predicting the bottom of the market to the strategy of “timing the market.” Waiting for that perfect moment to jump back into the market with the goal of securing outsized returns.

Timing the market, while tempting, is nearly impossible and, according to historical data provided by NCREIF and AEW, not necessary to achieve above market returns. NCREIF and AEW tracked the 5-year return for the Open-End Diversified Core Real Estate fund index during the Tech Crash and Great Financial Crisis and found that investing six months prior to or after the trough still produced low- to mid-teens returns. In fact, investing in the three months following the trough during the tech crash resulted in a slightly better overall return than investing at the bottom, and during the financial crisis the difference was only eleven basis points. Roughly 18 months into the current real estate recession, all indications are that we hit the trough, as property values are now coming off their lows. If this cycle follows the same pattern, the next six months represent a unique opportunity to invest before more capital flows into the market and pushes up pricing.

Just like the White Sox will rebuild, so to will the commercial real estate industry, and focusing on fundamentals rather than luck will allow us to capitalize on this unique moment in the market cycle without the need for “perfect timing.” Perhaps the better quote to keep in mind, in both baseball and investing, is from Thomas Edison, who said “good fortune often happens when opportunity meets with preparation.”



A handwritten signature in blue ink that reads "Jason Schwartz".



Just like the
White Sox
will rebuild,
so to will the
commercial
real estate
industry.”



Current Cap Rate Snapshot

3.50% - 4.50%
MCDONALD'S

5.50% - 7.00%
CVS PHARMACY

4.95% - 7.00%
STARBUCKS

3.75% - 5.00%
CHICK-FIL-A

5.00% - 5.50%
RAISING CANE'S

5.00% - 5.50%
TEXAS ROADHOUSE

4.60% - 6.00%
CHIPOTLE

6.60% - 8.00%
DOLLAR GENERAL

For more insights on today's net lease market, please contact Josh York at (312) 640-9018 or jjork@syneq.com.



NET LEASE

BY JOSHUA YORK

Amidst economic fluctuations, (relatively) high interest rates, and shifts in consumer behavior, the net lease retail sector has remained resilient due to robust tenant demand and favorable lease structures.

A few of my thoughts are below on what our Net Lease Brokerage team has experienced in the second half of 2024:

Coming Off the Sidelines

We have observed a noticeable increase in recent months of all-cash buyers re-entering the market to make new equity investments in single- and multi-tenant retail assets. The resurgence signals renewed confidence in the sector as stability and predictable cash flow remain attractive in uncertain economic conditions.

Flight to Quality

Buyers are heavily focused on quality retail properties that are leased to (1) credit-rated or large private tenants and (2) feature prominent positions in strong trade areas. Such properties remain the most liquid asset type in the sector; specifically, those that feature a ground-lease structure and are priced between \$2.5 and \$5 million.

Our team is currently representing several buyers in Chick-fil-A transactions and are seeing consistent cap rates in the mid-4%'s. Yield expectations for McDonald's ground leases, the poster-tenant of the QSR industry, have traded as low as the 3.5%-3.9% cap rate range over the last six months.

Demand for Assets with Under-Market Rents

With increased construction costs, some investors have preferred shorter-term leases. We have seen several investors stretch into the low-4% or sub-4% cap rate range for such opportunities; particularly, where the tenant has no options to extend its lease in the first seven years of the hold period.

Greater Focus on Tenant Credit

The net lease retail sector saw an uptick in tenant bankruptcies and credit downgrades in 2023 and 2024 (ex. Rite Aid, Red Lobster), contributing to increased delinquencies and vacancies. Part of this is due to the current interest rate environment, which has led to higher borrowing costs for tenants, further straining profitability and limiting expansion opportunities. As a result, tenants with investment-grade credit in strong markets continue to trade at a significant premium to those with poor credit in tertiary locations.

Despite the challenges posed by inflation, the net lease retail market has demonstrated remarkable stability.

AI in Commercial Real Estate

Artificial intelligence (AI), whether in the form of chess-playing robots, automated phone answering systems, or Alexa, has been transforming our world for decades. The recent prevalence of *generative* AI — the ability for AI to create text and images from a written or verbal prompt — has both accelerated the pace of AI use and brought it to the forefront of conversation. Companies are experimenting with AI to save time, cull through large sets of data to create summaries, or aid the creative process by generating draft documents. In the commercial real estate (CRE) industry, AI applications include:

- **Predictive and Market Analytics**, synthesizing vast amounts of data to provide insights into property values and rental rates and predict future trends;
- **Intelligent Building Management Systems** to optimize energy consumption, improve tenant comfort, and enhance security; and
- **Marketing and Communications** drafted and delivered by AI to share property summaries, photo layouts, or videos with clients and prospects.

Many of us at Syndicated already use AI tools. For example, programs that analyze cell phone data to determine the number of visitors to a store or retail corridor assist our acquisitions and brokerage teams. As capabilities of AI technologies develop, we can work toward innovations like more detailed or personalized reporting about investor holdings. Perhaps AI will be able to suggest new investment opportunities — both for us to offer and for investors to participate in — based on prior investments or other specified criteria.

Industry adoption of generative AI has been justifiably cautious. At an institutional level, only 55% of CRE companies have invested in AI over the last year. A July 2024 study of over 1000 CRE professionals indicated that 38% have never used AI for work. Of those who use it, most (60%) do so to save time and effort or increase their productivity. Cited challenges include balancing cost-cutting with investing for growth, reducing bias, and ensuring privacy. If the data includes sensitive information, such as financial records, AI access must be restricted or contain sufficient guardrails to ensure confidentiality and prevent the misuse of information. Businesses also do not want to expend financial and human resources only to find that the technology has become obsolete.

The environmental impact of AI is also cause for concern. The computing power needed for generative AI is significant. A search on Chat GPT, for example, uses about ten times more energy than the identical query in Google. The industry's existing infrastructure and technology to mitigate the energy costs of AI are not keeping pace with usage and demand. Improvements are needed in order for AI tools to become reliable and economical for the long-term.

Most importantly, AI is only as good as its underlying data set. If the AI analyzes incomplete or inaccurate information, the results may be incorrect, biased, or misleading. We need to be aware of these limitations.

As companies like Syndicated evaluate opportunities to use AI to improve efficiency and guide business decisions, we must also consider its risks. We view AI as a tool that can assist us, not as a replacement for common sense and judgment. Rest assured that Syndicated still values the human touch. You are always able to speak directly with a member of our team — please give us a call!

BY TRACY TREGER



A handwritten signature in black ink that reads "Tracy Tregar".



We view AI as a tool that can assist us, not as a replacement for common sense and judgment.”



The 721 Tax Code: For Sellers of Large Commercial Property

BY MIRANDA DANES



Syndicated Equities has successfully leveraged the 721 Exchange strategy.”

The 721 Tax Code, also known as IRS Revenue Code 721, is a powerful provision that allows property sellers to defer taxes on certain transactions. Often referred to as a “721 Exchange,” it specifically applies to limited liability companies (LLCs) and partnerships.

Much like the 1031 Exchange, a 721 Exchange allows investors to exchange property for a partnership interest — essentially a form of replacement property — without triggering capital gains taxes. To qualify for a 721 Exchange, the exchanged property must be used for business or investment purposes, just as with a traditional 1031 Exchange.

You might already be familiar with the 721 Tax Code in the context of an **UPREIT**. However, it’s important to note that a 721 Exchange and an UPREIT are not the same. Large DST and REIT sponsors typically trigger the 721 Exchange when the REIT acquires the DST. Smaller 1031 investors, with minimum investment thresholds, typically around \$250,000, will invest into the DST with the intent that the DST will ultimately roll into the REIT.

Syndicated Equities and the 721 Strategy

Syndicated Equities has successfully leveraged the 721 Exchange strategy — without involving the REIT component — for commercial real estate sellers. This approach often offers more flexibility and can be more advantageous for sellers, allowing Syndicated to secure deals even if we are outbid by more aggressive offers.

For example, Syndicated Equities purchased the Flowserve manufacturing facility directly from the developer. The developer rolled over some of their proceeds into Syndicated’s new DST structure for the property via a 721. Thanks to the 721 Exchange, they were able to defer capital gains taxes on the reinvested proceeds. Furthermore, they continue to manage the property and maintain their relationship with the tenant.

Advantages of the 721 Exchange:

- **Stay in the Deal:** If you believe in the long-term potential of the property, a 721 Exchange allows you to remain involved by converting your equity into a partnership interest, all while deferring capital gains taxes.
- **Passive Investment:** After exchanging your property, you become a passive investor. For example, Syndicated Equities manages each net lease property, allowing you to enjoy quarterly distributions without the burden of day-to-day management.
- **No Rush to Identify:** If you are buying a new replacement property using the typical 1031 Exchange, you need to identify the replacement property within a strict 45-day window. If you reinvest proceeds into the same property via a 721 you do not have the pressure of finding new property.

If you have questions about the 721 tax code, and how it can benefit your transaction, please don’t hesitate to reach out to Syndicated Equities.

Arbitrage in 1031 Exchange

A 1031 exchange is almost too good to be true. Real estate investors can perpetually defer depreciation recapture and capital gains tax by redeploying sale proceeds into another investment property. The principal and profit can continue to grow without being reduced by taxes, potentially providing higher tax efficient income as well. From an estate planning perspective, beneficiaries can receive a stepped-up cost basis at death, allowing them to potentially inherit everything tax free. More income, larger estate, everyone wins! Uncle Sam even likes this as it's a key element in keeping real estate "liquid" and encouraging the highest and best use of land.

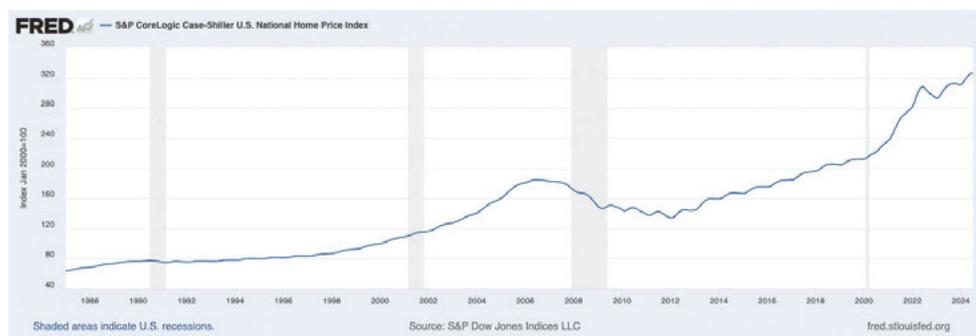
What is a drawback to 1031 exchanges?

A common sentiment is that one cannot "time the market." The 45-day identification window forces investors to sell and buy within the same market cycle. While this may be true, a 1031-exchange DOES allow investors to sell one asset class and buy another (i.e. sell residential and buy commercial). This ability to pivot asset classes can create opportunities for arbitrage.

Do these opportunities exist today?

Arbitrage: "The nearly simultaneous purchase and sale of securities or foreign exchange in different markets in order to profit from price discrepancies." — Merriam-Webster.

The Case-Shiller Home Price Index tracks the price of homes in America. Despite higher interest rates and an incredible jump in value since 2020, prices have remained resilient. Ultimately, this is a tale of supply and demand. Anyone with a 3% mortgage is not incentivized to move, which has helped keep supply low, and a strong jobs market with net positive population growth has helped keep demand high. The result: homes are historically unaffordable.



Source: S&P CoreLogic Case-Shiller U.S. National Home Price Index (CSUSHPINSA), FRED, St. Louis Fed (stlouisfed.org)

Contrast this with Greenstreet's Commercial Property Price Index (CPPI), a commonly used appraisal-based index that tracks the price of all commercial real estate property types (multifamily housing, self-storage, industrial, hotel, office, etc).

BY ANDY RANEY



More income,
larger estate,
everyone
wins!"

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◀ CONTINUED FROM PAGE 9



Source: Greenstreet's Commercial Property Price Index (<http://www.greenstreet.com/insights/CPPI>)

Commercial real estate prices are down almost 20% from the March of 2022 peak, but prices are up 3% year to date in 2024. Some are starting to call a bottom as borrowing costs, liquidity, and relative returns are encouraging more transaction volume.

Bottom Line: 1031 exchanges allow investors to pivot asset classes. In this example, someone who has been renting a home or small apartment building may be able to both sell high and buy low within the same 45-day identification window. Broadly speaking, residential real estate continues to trade at historic highs, while commercial real estate is trading almost 20% below the March of 2022 peak. This sort of arbitrage between asset classes can uncover compelling opportunity.

This is not investment or tax advice. This is not a recommendation to buy or sell an investment or security. Please consult a qualified tax professional to see if a 1031 exchange is right for you.

Join **Andy Raney** for his **Zoom webinar series**. Register online at www.syneq.com.

1031 Exchanges & Passive Income Solutions:

December 3rd at 11:00 AM CST

January 7th at 11:00 AM CST

February 4th at 11:00 AM CST

March 4th at 11:00 AM CST

Andy Raney is a 1031 Exchange Consultant and Senior Investment Specialist for Syndicated Equities. Over his career, he has helped investors place more than \$850M in various 1031 exchange investments, Delaware Statutory Trusts (DSTs), 721 UPREITs, opportunity zone funds, and various other alternative investments. He holds a Colorado real estate license along with a Series 7, 63, and 65.

NEWS



Andy Raney

1031 EXCHANGE CONSULTANT & SENIOR INVESTMENT SPECIALIST

We are excited to announce that **ANDY RANEY** has joined the team. Andy is a 1031 Exchange Consultant and Senior Investment Specialist for Syndicated Equities. Over his career, Andy has helped investors place more than \$850 million in various 1031 exchange investments, Delaware Statutory Trusts (DSTs), 721 UPREITs, opportunity zone funds, and various other alternative investments. He holds a Colorado real estate license along with a Series 7, 63, and 65.

Kahan Fellowship

ANDREW KILLIAN has been selected for the **Urban Land Institute (ULI) Chicago Jeffrey Kahan Fellowship**. This opportunity will offer Andrew access to ULI's leadership and policy makers while providing a forum for peer exchange and a focus on the most prominent issues and trends in land development.



Luke Riordan

INVESTMENT ASSOCIATE

We are excited to announce **LUKE RIORDAN** has joined the Syndicated team. Luke graduated from the University of Iowa and is currently studying for his MBA at DePaul University. He works as an investment associate assisting Syndicated's Net Lease Brokerage team.

► Pendry Nashville Luxury Hotel & Residences by Montage Development

NASHVILLE, TN — PROJECTED TO CLOSE DECEMBER 2024

A ground-up development of a Pendry Luxury Hotel and Residences by Montage in Nashville, Tennessee. Once completed, the project will be a 30-story, 180-key luxury hotel and 146-unit condominium tower. Syndicated is investing alongside Somera Road, Trestle Studio, and JE Dunn Construction, a joint venture partnership with deep experience in all facets of hotel and residential development in Nashville. Syndicated has previously invested alongside Trestle in the successful repositioning of the Choo Choo Hotel in Chattanooga, Tennessee. The project is scheduled to break ground in December 2024 and to deliver in mid-2027.



► We had a wonderful time at our fall event. Thank you to everyone who joined us.



David Rudis
ADVISOR

DAVID RUDIS has been appointed as an advisor to Syndicated Equities. David's primary career was an executive with LaSalle National Bank where he headed Commercial Banking and Wealth Management as well as LaSalle's multi-state branch system. After LaSalle was sold to Bank of America, David remained with BofA as president of Chicago and Illinois. David is currently chairman of the Acorn Wanger Funds and acts as an advisor to closely held businesses. He holds a BA and MBA from the University of Chicago.



Happy Anniversary

Congratulations to **TERRI LESLIE** who is celebrating her 35th anniversary with Syndicated this fall. We're so lucky to have you, Terri!



Tracy Treger Elected President

TRACY TREGER has been elected **2025 President of CREW Chicago**, the premier business network for commercial real estate professionals in the Chicago area, of which she has been a member of for 11 years. CREW Chicago's mission is to advance all women in commercial real estate through business networking, leadership development, career outreach, and industry research. It is the local chapter of CREW Network, with over 12,000 members globally.

SINCE 1986

Private Real Estate Investment



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