Shifting Capital Boosts Single-Tenant and Net Lease Opportunities

Midyear Review 2021
Overview

Single-tenant and net-lease properties continue to be hot with investors on the hunt for low-maintenance assets. Investors such as KKR, which is launching a $3 billion net lease platform, are piling capital into this space. With their reliable cash flow, frequent triple-net lease structure, and longer lease terms, STNLs smooth out volatility and create predictability in a portfolio.

Investors are redirecting single-tenant and net lease dollars into new spaces. For example, retail captured just 20% of all investment into the space in 2020 and through mid-year 2021. Compare that to 31% coming out of the last economic downturn. Retail has also seen relatively less capital as a share of total single-tenant and net lease investment since 2014. Drug store pricing is the strongest within retail, but investors are pivoting their capital elsewhere.

Industrial is benefiting from that pivot. From 2015-2019, industrial accounted for about 39% of investment activity in STNL. It topped 50% in 2020 and has captured 46% year-to-date. Office has broadly held market share at 34% this year, close to its 36% share from 2015-2019.

Private capital is selling these assets. Over the past two years, there has been a net outflow from this sector. Cross-border, institutional, and REITs have all been net buyers during that period. As the economy continues to heal, volume should see further gains. Investors are sitting on record amounts of capital, and with impending tax changes, private capital sources may continue to sell.
# Retail

Single-tenant net lease retail volume is back to healthier, pre-pandemic levels. At $4.1 billion, Q2 volume is in line with quarterly averages pre-pandemic (2015-2019). Median cap rates remain strong and steady, hovering right around the 6% mark. Overall sales volume through mid-2021 is up 77% compared to the same time last year. Volume is ahead of first-half figures for 2016-2018 but hasn’t reached peak 2019 levels.

Pricing for single-tenant retail and drug stores is outperforming the broader retail market, per Real Capital Analytics data. Price growth of 3.7% and 4.4% over the past year is driving overall asset pricing. Unanchored retail has seen just 0.5% price growth in the past 12 months. The nation’s largest metro areas have seen the most volume. New York City and Los Angeles metros are first and second, followed by San Francisco.

Private capital dominates this segment of the market with nearly 70% of buyer activity. Private capital has been a net buyer since 2014 and remained so through mid-year 2021. Cross-border and REITs have also been net buyers, while institutional capital sources have been minor net sellers.

## YTD 2021 Top Volume Metros

- San Francisco, CA
- Los Angeles, CA
- New York City, NY
- Chicago, IL
- Dallas, TX

## Net Acquisitions by Capital Source

- Cross-Border
- Institutional
- REIT
- Private

Source: Colliers, Real Capital Analytics
Industrial

Net leased industrial product remains in high demand. First-half volume is by far the strongest on record. Overall volume is up 83% from year-ago figures, and first-half figures are nearly 30% above 2019 levels. The continued strength of the industrial market’s fundamentals is driving capital to this asset class. Cap rate compression is ongoing, with best-in-class assets setting new lows. Real Capital Analytics is reporting 5% cap rates for the top quartile of deals.

The Los Angeles metro, which includes the Inland Empire, is the top market year-to-date, with nearly $3 billion of single-tenant activity. This metro is on pace to top its 2019 all-time high of $5.6 billion. Likewise, the New York City metro, at $1.1 billion, is well on its way to a record year after hitting $2 billion in 2020. The San Francisco metro, driven mainly by flex product, has seen $1 billion in deal volume, a strong showing after back-to-back years of $1.7 billion in deals.

Once again, private capital remains a net seller in this segment in 2021. Cross-border, institutional, and REITs have all been on buying sprees. Institutional sources of capital have been the most significant net buyers for several years running. While they’re still net purchasers, their pace of expansion has slowed after the breakneck speed of 2018 and 2019.

YTD 2021 Top Volume Metros

[Map showing top volume metros: San Francisco, Los Angeles, New York City, Chicago, Dallas, TX]

Pricing and Cap Rates Over Time

[Graph showing quarterly volume and median cap rate]

Net Acquisitions by Capital Source

[Bar chart showing net acquisitions by capital source: Cross-Border, Institutional, REIT, Private]
Office

Investors continue to chase security in the office market, with single-tenant asset sales nearly doubling from year-ago figures. This represents the largest jump of the three major asset types. On the flip side, volume declined from Q1 to Q2, a drop unique to this asset class. Median cap rates have resumed compression, ending mid-year at 6.1%.

San Francisco and Boston, both heavy on tech and life science, are top markets for single-tenant asset purchases. They’ve shown remarkable growth, despite the pandemic, and account for more than one-third of overall single-tenant sales activity over the past year, as well as half of all volume year-to-date.

Following the overall trend, capital is also shifting in this space. Institutional capital sources have been net buyers this year, while cross-border, REITs, and private capital have all been net sellers. This is the first time in recent history that such a dynamic has been at play. Blackstone and KKR have been major net purchasers this year, particularly in the San Francisco/Bay Area and Boston.
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