Q1 2020

U.S. NET-LEASE INVESTMENT REPORT

CBRE

Q1 2020 U.S. NET LEASE INVESTMENT – EXECUTIVE SUMMARY

STRONG Q1 INVESTMENT BOOSTED BY FOREIGN BUYERS

Q1 Investment Volume
$13.2 Billion

Q1 Cross-Border Capital
$2.0 Billion

Q1 Average Cap Rate
6.3%

10-Year Treasury Rate*
0.7%

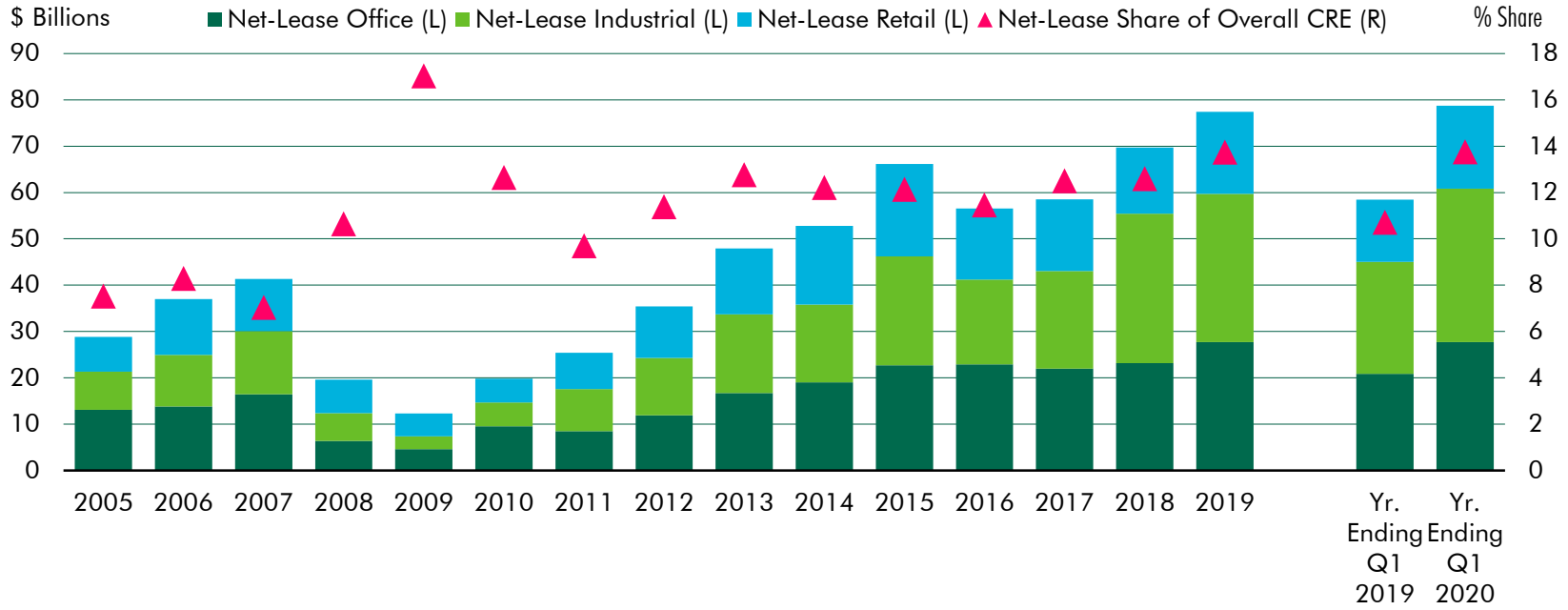
Arrows indicate change from the same quarter in the previous year.
*As of March 31, 2020.

- Net-lease investment volume increased by 34.6% to $78.9 billion for the year ending Q1 2020—the highest four-quarter total on record—as investors sought attractive yield at lower risk than other commercial real estate assets. Q1 volume ticked up 1.0% year-over-year to $13.2 billion. However, volume is expected to drop in Q2 due to the economic fallout from COVID-19.
- Washington, D.C. was the most-favored investment market in Q1, while New York City, Los Angeles and San Jose had the most volume over the past four quarters. Investors also were increasingly attracted to net-lease investment opportunities in high-growth secondary and tertiary markets, with some of the largest four-quarter percentage gains occurring in Kansas City, the Inland Empire, San Diego, Austin, Indianapolis and Cincinnati.
- Net-lease cap rates were stable in Q1 but are expected to rise in 2020 due to suppressed investment activity from the COVID-19 pandemic. Spreads widened to 557 bps in Q1—the most in seven years—as the 10-year Treasury rate hit a historic low of 0.7%.
- The global search for yield and portfolio diversification continued to attract international investors to the U.S. net-lease market. Cross-border capital for net-lease properties totaled $9.3 billion for the year ending in Q1 2020, a 38.7% jump from the same period a year ago. Canada, Germany, Spain and Switzerland have been the top countries for inbound capital over the past two years.

Note: Net-lease properties are not characterized by asset class or tenant, but by their lease structure, in which the tenant agrees to pay a portion or all of the taxes, insurance fees and maintenance costs in addition to rent. The assets can have office, industrial, retail, health care and other types of commercial tenants. What sets them apart from other assets in those sectors is that the space is nearly always leased by one tenant with minimal landlord responsibilities. Triple net leases (NNN) are also very common and most of these structures are long term.

FIGURE 1

U.S. NET-LEASE INVESTMENT VOLUME



Source: CBRE Research, Real Capital Analytics, Q1 2020. Note: single-tenant asset investments used as a proxy for net-lease investment sales.

- Q1 net-lease investment volume (using single-tenant asset transactions as a proxy) rose by 1.0% year-over-year to $13.2 billion.
- Volume climbed 34.6% to $78.9 billion for the year ending Q1 2020, far outpacing the 4.9% growth rate for all commercial real estate.
- The net-lease share of total commercial real estate investment volume has been in the 11%-to-13% range since 2012, suggesting sustained investor demand prior to the economic fallout from COVID-19. The Q1 2020 share was 11.2%.

FIGURE 2

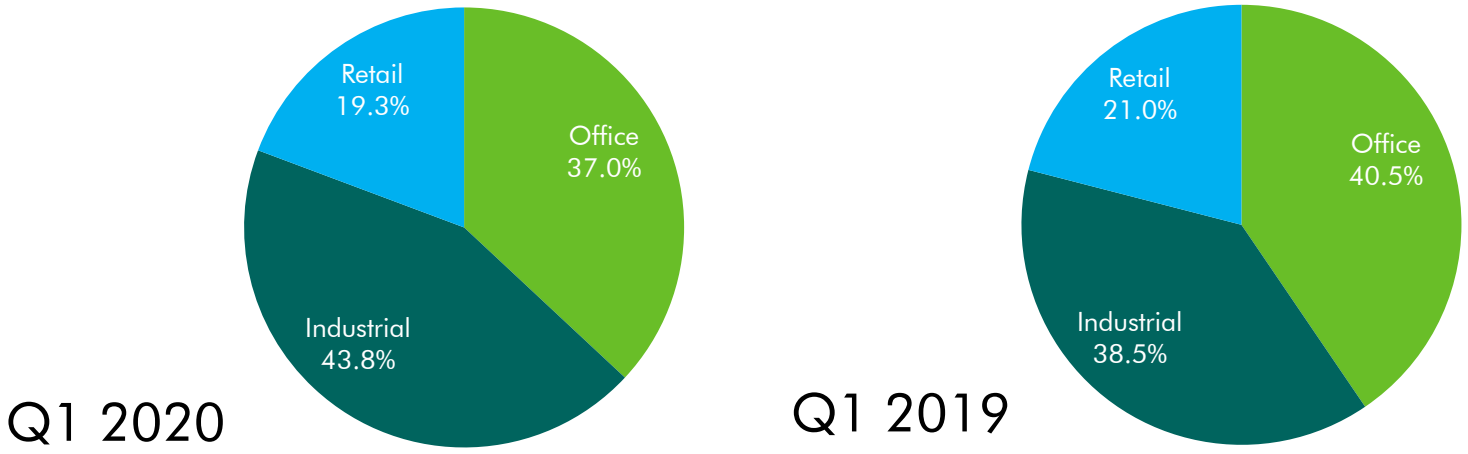
U.S. NET-LEASE INVESTMENT VOLUME BY PROPERTY TYPE

	Total ($ Billions)				Total ($ Billions)			
	Q1 2020	Q1 2019	Change (%)	Market Share (%)	Yr. Ending Q1 2020	Yr. Ending Q1 2019	Change (%)	Market Share (%)
All Types of Investments								
Office	4.8	5.3	-8.2	36.7	27.7	20.9	32.6	35.1
Industrial	5.7	5.0	14.3	43.5	33.2	24.2	37.2	42.1
Retail	2.5	2.7	-7.5	19.2	17.9	13.4	33.7	22.7
Other	0.1	0.0	--	0.6	0.1	0.1	--	0.1
Total	**13.2**	**13.0**	**1.0**	**100.0**	**78.9**	**58.6**	**34.6**	**100.0**
Single-Asset Investments Only								
Office	4.5	4.9	-7.6	44.2	21.5	15.8	35.8	40.4
Industrial	3.7	3.6	1.1	35.8	19.4	16.9	14.4	36.5
Retail	2.0	2.5	-20.2	19.8	12.2	11.2	8.6	23.0
Other	0.0	0.0	--	0.3	0.0	0.1	--	0.1
Total	**10.3**	**11.1**	**-7.4**	**100.0**	**53.1**	**44.1**	**20.4**	**100.0**
Portfolio Investments Only								
Office	0.3	0.4	-16.4	10.4	6.2	5.1	22.8	24.1
Industrial	2.1	1.4	48.9	70.8	13.8	7.2	90.6	53.5
Retail	0.5	0.2	171.0	17.0	5.7	2.2	164.7	22.1
Other	0.1	0.0	--	1.9	0.1	0.0	--	0.2
Total	**2.9**	**1.9**	**48.9**	**100.0**	**25.8**	**14.5**	**78.0**	**100.0**

Source: CBRE Research, Real Capital Analytics, Q1 2020. Note: Some numbers may not total due to rounding. Single-tenant asset transactions used as a proxy for net-lease investment sales.

FIGURE 3

U.S. NET-LEASE MARKET SHARE BY PROPERTY TYPE



Source: CBRE Research, Real Capital Analytics, Q1 2020. Note: Real Capital Analytics only tracks properties and portfolios of at least $2.5 million. Therefore, the total net-lease acquisitions volume is understated, especially since a notable share of retail transactions are below $2.5 million.

- The industrial sector's share of total net-lease investment increased in Q1 2020, offsetting declines in the office and retail sectors' shares.
- Net-lease investment volume growth in Q1 was driven by a 5.2-percentage-point gain year-over-year for the industrial sector. Office and retail were down by 3.5 and 1.7 percentage points, respectively.

FIGURE 4

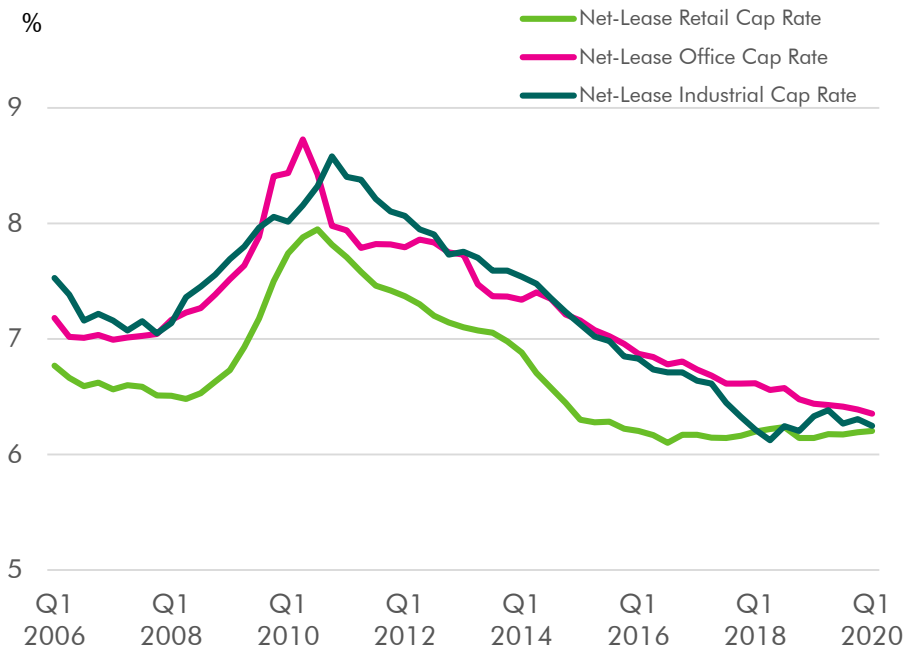
TOP 20 MARKETS BY NET-LEASE INVESTMENT VOLUME, Q1 2020

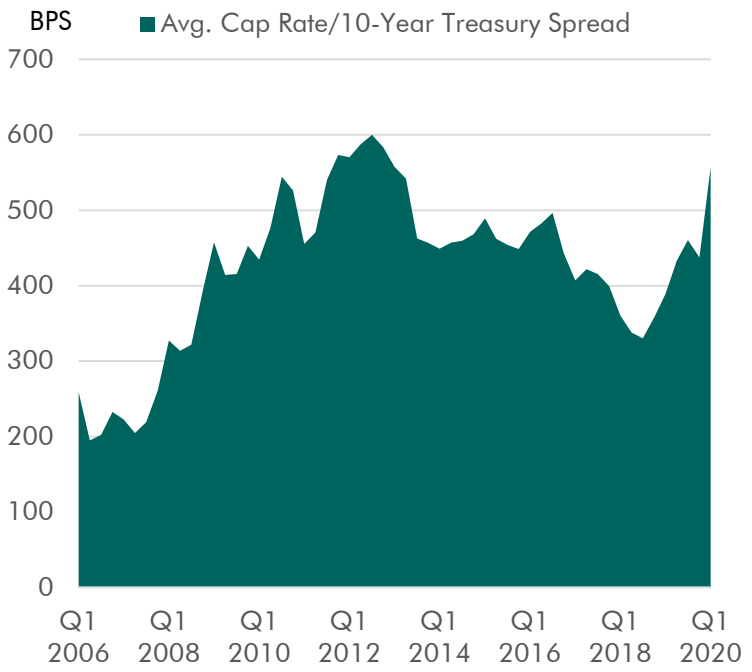
Rank	Market	Q1 2020 ($ Millions)	Q1 2019 ($ Millions)	Change ($ Millions)	Change (%)	Yr. Ending in Q1 2020 ($ Millions)	Yr. Ending in Q1 2019 ($ Millions)	Change ($ Millions)	Change (%)
1	Washington, D.C.	1,383	349	1,034	296.3	2,914	2,164	750	34.7
2	Boston	814	301	513	170.4	2,612	1,124	1,488	132.4
3	San Jose	651	917	-266	-29.0	3,810	2,427	1,383	57.0
4	Chicago	558	498	60	12.0	3,350	2,810	540	19.2
5	Los Angeles	551	1,509	-958	-63.5	3,884	3,880	4	0.1
6	Dallas/Ft. Worth	527	301	226	75.1	3,354	2,656	698	26.3
7	Seattle	466	994	-528	-53.1	3,304	2,387	917	38.4
8	Houston	353	258	95	36.8	1,849	1,217	632	51.9
9	East Bay	349	198	151	76.3	1,232	801	431	53.8
10	Inland Empire	348	386	-38	-9.8	2,810	1,141	1,669	146.3
11	Northern New Jersey	309	386	-77	-19.9	1,838	1,330	508	38.2
12	New York City	295	716	-421	-58.8	4,157	3,951	206	5.2
13	Atlanta	255	270	-15	-5.6	1,669	1,264	405	32.0
14	Orange County, CA	248	76	172	226.3	1,720	929	791	85.1
15	Phoenix	208	157	51	32.5	1,980	1,195	785	65.7
16	Minneapolis	205	151	54	35.8	1,023	923	100	10.8
17	Pittsburgh	199	51	148	290.2	382	184	198	107.6
18	Sacramento	190	73	117	160.3	405	492	-87	-17.7
19	Charlotte	178	154	24	15.6	886	750	136	18.1
20	Nashville	168	144	24	16.7	598	397	201	50.6

Source: CBRE Research, Real Capital Analytics, Q1 2020. Note: single-tenant asset transactions used as a proxy for net-lease investment sales.

FIGURE 5

CAP RATES & SPREADS BETWEEN 10-YEAR TREASURY RATE



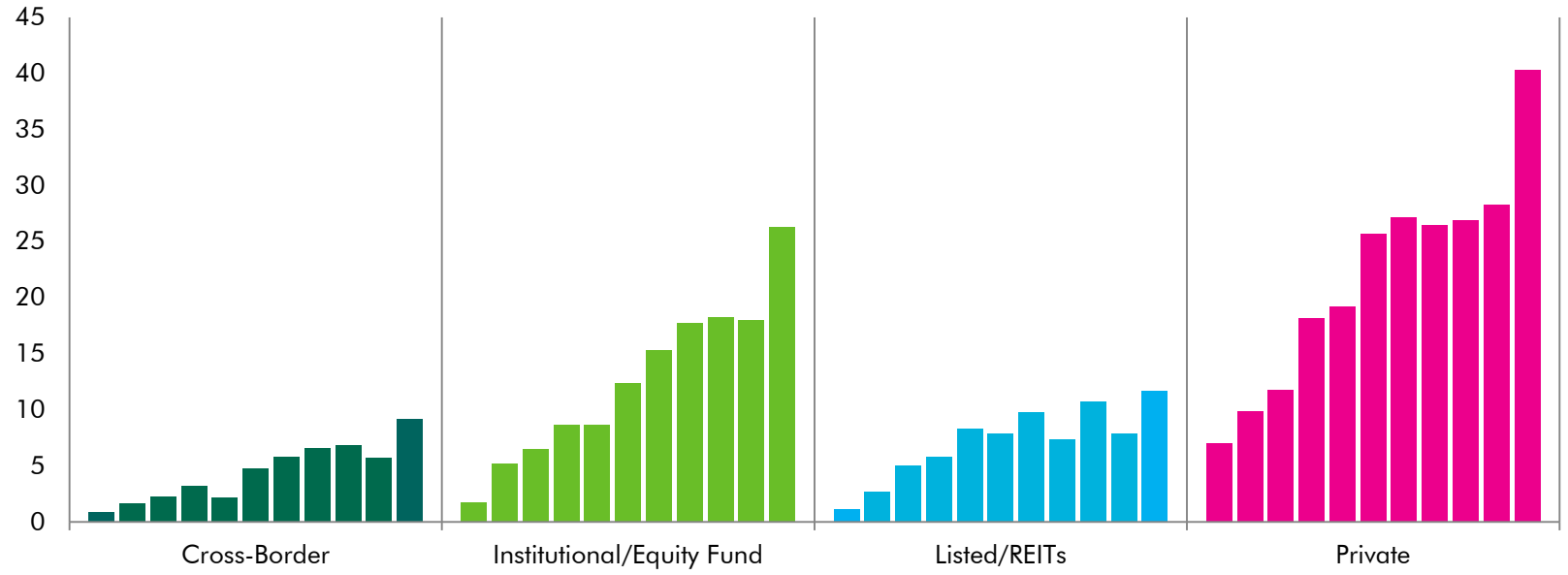


Source: CBRE Research, Real Capital Analytics, U.S. Department of the Treasury, Q1 2020.

- The average net-lease cap rate remained at 6.3% in Q1. Sustained high levels of net-lease investment have kept cap rates at a record low for the past six quarters. Cap rates are expected to rise in Q2 due to COVID-19, yet any increase should be marginal because of limited transaction volume and historically low rates.
- Net-lease office and industrial cap rates both fell by 10 bps year-over-year in Q1 to 6.4% and 6.2%, respectively, while retail cap rates rose by 10 bps to 6.2%.

FIGURE 6

U.S. NET-LEASE INVESTMENT BY CAPITAL TYPE, 2009 TO 2019

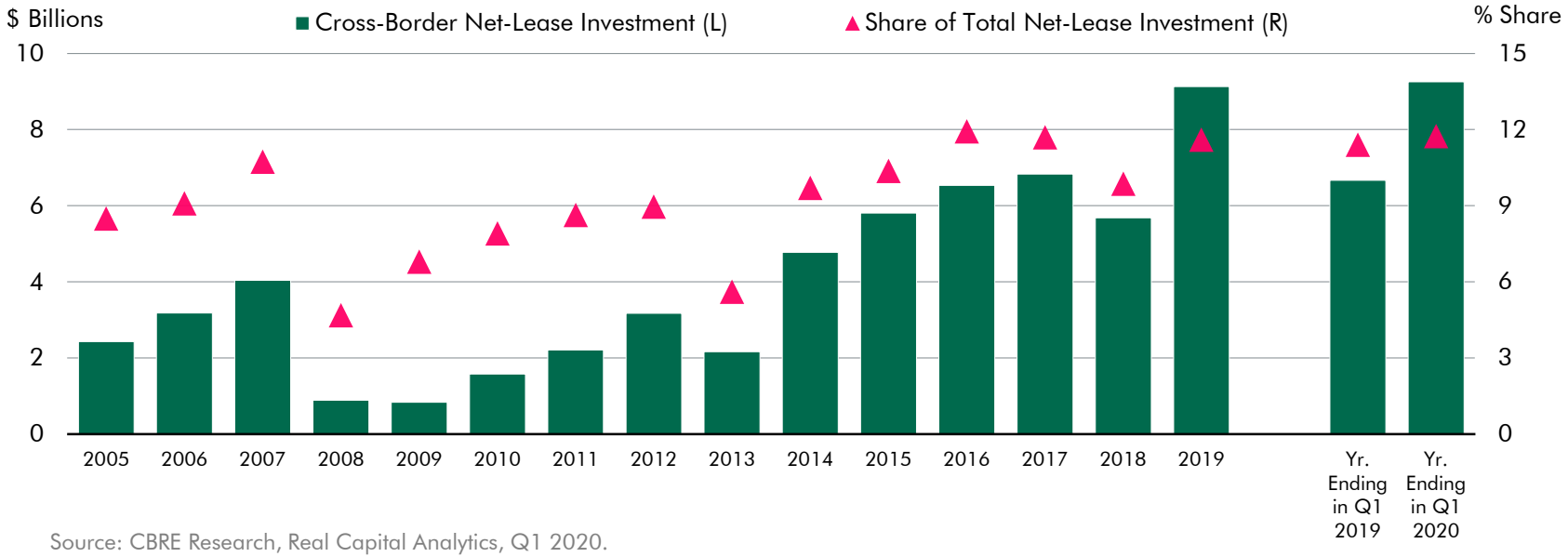


Source: CBRE Research, Real Capital Analytics, Q1 2020.

- REITs increased their volume by 61.7% to $12.3 billion for the year ending Q1 2020. Institutional investors also had a strong double-digit gain of 45.1% to $27.2 billion.
- Private investors, the largest buyer group, accounted for $37.7 billion of net-lease investment over the past four quarters, up by 28.2% year-over-year. Investment by international buyers jumped by 38.7% to $9.3 billion.
- REIT volume is expected to decrease in Q2 due to COVID-19, while private investment should remain relatively stable.

FIGURE 7

CROSS-BORDER INVESTMENT

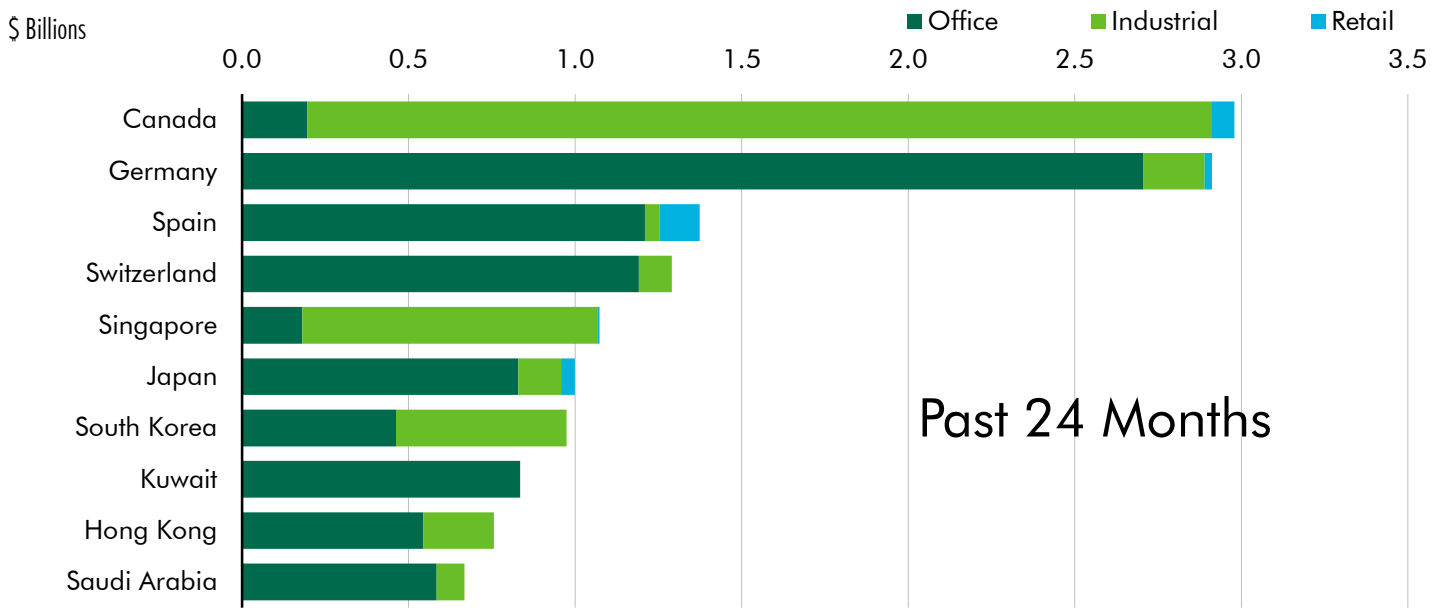


Source: CBRE Research, Real Capital Analytics, Q1 2020.

- International buyers accounted for 15.1% of net-lease investment volume in Q1, above their five-year average of 11.1%.
- Global investment in U.S. net-lease properties totaled $9.3 billion for the year ending Q1 2020—a 38.7% increase from the same period last year. The annual average between 2015 and 2019 was $6.8 billion.
- While net-lease investment volume by international investors increased by nearly 40% over the past four quarters, foreign investment in all U.S. commercial real estate fell by nearly 49%.
- New York City, Seattle, Dallas/Ft. Worth, San Francisco and Los Angeles received the most net-lease foreign investment in the past four quarters; however, totals for these metros were inflated by a handful of large office building acquisitions.

FIGURE 8

CROSS-BORDER INVESTMENT BY COUNTRY OF ORIGIN



Source: CBRE Research, Real Capital Analytics, Q1 2020. Note: Investment is for Q2 2018 to Q1 2020.

- Canada, Germany, Spain and Switzerland have been the top countries of origin for foreign investment in U.S. net-lease properties over the past two years. Since Q2 2018, they have accounted for more than half of all foreign investment in the U.S. net-lease market.
- Canadian investors primarily targeted industrial properties. German, Spanish, Swiss and Japanese investors overwhelmingly preferred office assets.
- Because foreign investors prefer large assets or portfolios, they are less attracted to the retail sector.

FIGURE 9

LARGEST TRANSACTIONS BY PRICE, Q1 2020

Type	Date	Market	Property Name	Price ($ Millions)	$/SF	Buyer	Seller
Office	March	Washington, D.C.	Southeast Federal Center	760	561	GSA - Public Building Service	JBG Smith
Office	March	Seattle	333 108th Avenue Northeast	401	968	KKR	Equity Commonwealth
Industrial	January	Boston	Amazon Distribution Center	355	430	Clarion Partners	VMD Companies, Atlantic Management
Office	February	San Jose	Servicenow HQ	276	840	Northridge Capital, KAMCO Investment	Sobrato Development
Office	February	D.C./VA suburban	New Dominion Technology Park	256	519	USAA Real Estate	Boston Properties
Other	February	Las Vegas	Raiders HQ (Leasehold)	191	1,415	Mesirow Financial	Oakland Raiders
Office	January	Pittsburgh	Cranberry Woods Drive	180	218	Fortress Credit Corp	Columbia Property Trust
Office	January	Boston	Staples Headquarters	165	248	LCN Capital	Staples Inc
Office	March	San Jose	Creekside@17	139	782	JOSS Realty Prtnrs LLC	Carlyle Group, South Bay Development
Industrial	February	East Bay	Amazon Distribution Center	136	223	BentallGreenOak	Orchard Properties
Industrial	February	Inland Empire	Cardinal Health	132	130	TA Realty	Carlyle Group, Dedeaux Properties
Office	March	Houston	MD Anderson	115	553	Harrison Street RE Cap	Howard Hughes
Office	February	Chicago	Takeda Pharmaceutical Company	115	174	Horizon Therapeutics	Takeda Pharmaceutical
Industrial	March	East Bay	Tesla	110	218	Morgan Stanley	DivcoWest
Office	February	Sacramento	Roseville Innovation Park	102	227	Dimah Capital Investment	Stonemont Financial
Industrial	January	Greenville	The Cubes at Inland 85 Building A	98	76	Lexington Realty	Clayco
Office	February	No. NJ	Liberty Innovation Centre	95	315	Thor Equities	Prudential RE Investors, SJP Properties
Office	January	No. NJ	Kenneth Cole Productions Corporate Office	90	736	SL Green	Kenneth Cole Productions Inc
Industrial	March	Inland Empire	Kmart Distribution Center	84	52	CenterPoint Properties	Winthrop Realty Trust
Industrial	March	San Francisco	Mid Point Technology Park	75	140	Stanford Health Care	Stanford University

Source: CBRE Research, Real Capital Analytics, Q1 2020. Note: includes only single-asset investments; excludes portfolios and assets for redevelopment.

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