



Q2 2020


U.S. NET-LEASE INVESTMENT REPORT

Q2 2020 U.S. NET LEASE INVESTMENT – EXECUTIVE SUMMARY

NET-LEASE COMPRISES BIGGER SHARE OF MUCH LOWER COMMERCIAL REAL ESTATE INVESTMENT ACTIVITY

 Q2 Investment Volume
\$8.1 Billion

 Q2 Cross-Border Capital
\$806 Million

 Q2 Average Cap Rate
6.3%

 10-Year Treasury Rate*
0.66%

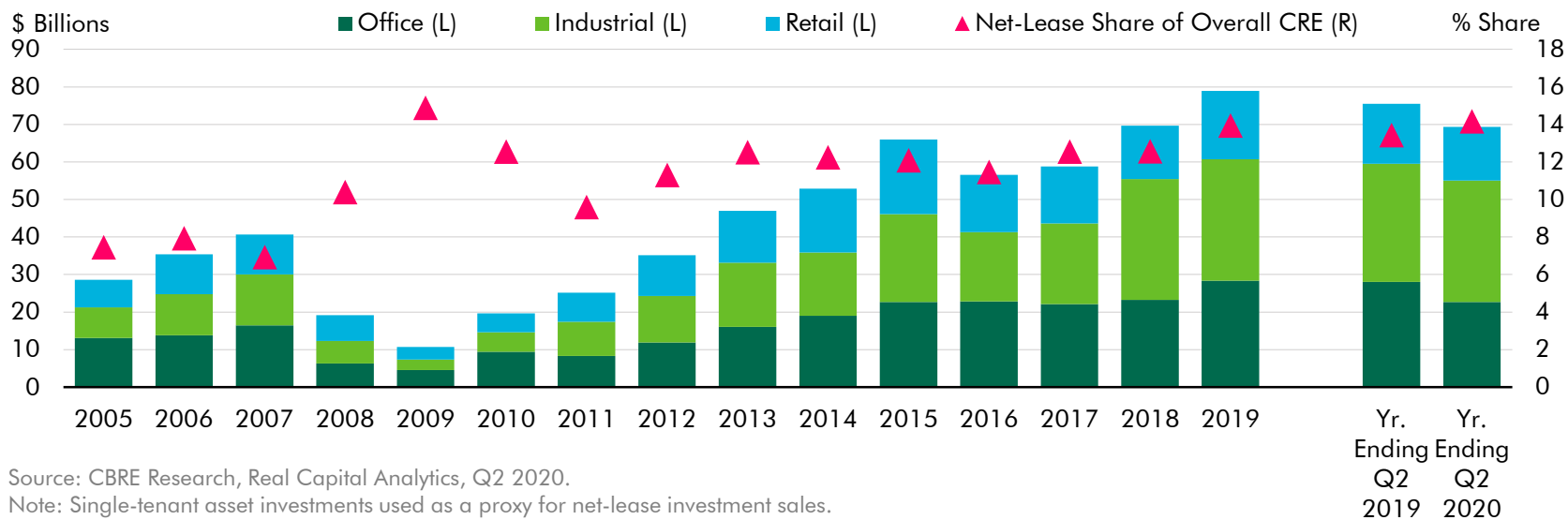
Arrows indicate change from the same quarter in the previous year.
*As of June 30, 2020.

- Net lease investment fell significantly in Q2 but its share of sharply lower commercial real estate investment activity jumped to a record 20.2% from 13.3% in Q1. A similar trend occurred during the Global Financial Crisis (GFC) when the net-lease share increased to 14.9% in 2009 from 6.9% in 2007.
- Net-lease investment volume fell by 61.8% year-over-year in Q2 to \$8.1 billion. The decline in total commercial real estate investment volume was 69.9% due to the COVID-19 economic downturn.
- The industrial sector's share of total net-lease investment increased to 48% in Q2 2020, while the office and retail sectors' shares fell. However, many retail REITs reported a stabilization in rent collections in Q2, which could boost the sector's attractiveness to investors.
- The average net-lease cap rate was unchanged at 6.3% in Q2 due to limited investment activity. COVID-19 led to a disconnect between buyer and seller expectations, which stalled price discovery and slowed investment activity. Spreads widened to 559 basis points (bps) in Q2—the most in seven years—as the 10-year Treasury rate hit a historic low of 0.66%.
- Chicago, Philadelphia, Los Angeles, the Inland Empire and Dallas/Ft. Worth had the most net-lease investment volume in Q2. Philadelphia net-lease investment doubled year-over-year. Investors also were increasingly interested in secondary and tertiary markets that had been growing rapidly prior to the pandemic, with some of the largest four-quarter percentage investment gains occurring in Memphis, Austin, San Antonio and Cincinnati.

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



- Net-lease properties’ share of total commercial real estate investment volume has been in the 11%-to-13% range since 2012, suggesting consistent investor demand. Amid the COVID-19 economic downturn, however, the Q2 2020 share jumped to 20.2% from 13.3% in Q1—the sector’s highest quarterly share on record.
- The net-lease sector exhibited a similar trend during the GFC when its share of total commercial real estate investment volume increased to 14.9% in 2009 from 6.9% in 2007, an indication that investors view net-lease investments as less cyclical and more resilient.
- The COVID-19 downturn stalled all commercial real estate investment activity in Q2. Net-lease investment volume (using single-tenant asset transactions as a proxy) fell by 61.8% year-over-year to \$8.1 billion, slightly less than the 69.9% drop in total investment volume. For the year ending Q2 2020, net-lease investment volume fell by 8.2% to \$69.5 billion.
- Long-term leases and creditworthy tenants are attractively safe attributes for investors looking to mitigate risk during an economic downturn.

FIGURE 2

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

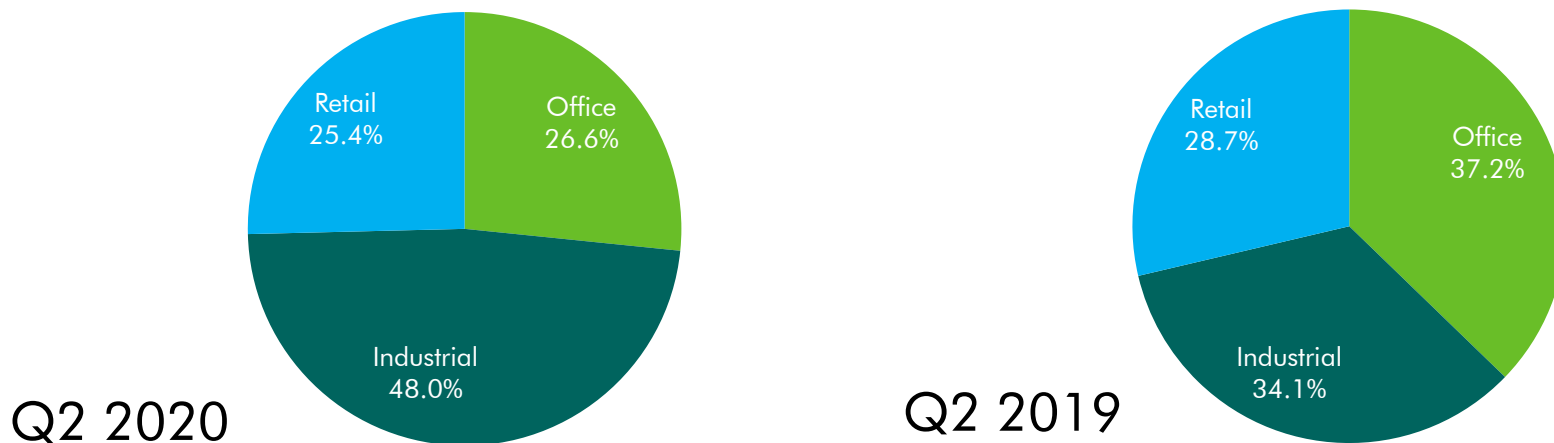
	Total (\$ Billions)			Market Share (%)	Total (\$ Billions)			Market Share (%)
	Q2 2020	Q2 2019	Change (%)		Yr. Ending Q2 2020	Yr. Ending Q2 2019	Change (%)	
All Types of Investments								
Office	2.2	7.9	-72.7	26.6	22.7	28.0	-19.1	32.6
Industrial	3.9	7.3	-46.2	48.0	32.4	31.5	2.9	46.7
Retail	2.1	6.1	-66.2	25.4	14.3	16.0	-10.8	20.6
Other	0.0	0.0	--	0.0	0.1	0.1	--	0.2
Total	8.1	21.3	-61.8	100.0	69.5	75.6	-8.2	100.0
Single-Asset Investments Only								
Office	1.9	6.4	-70.3	28.4	17.0	19.0	-10.6	37.1
Industrial	3.1	4.8	-35.0	46.9	17.9	17.5	2.3	39.1
Retail	1.7	3.3	-50.6	24.7	10.8	11.6	-6.6	23.6
Other	0.0	0.0	--	0.0	0.0	0.1	--	0.1
Total	6.7	14.6	-54.1	100.0	45.8	48.2	-5.1	100.0
Portfolio Investments Only								
Office	0.3	1.5	-82.7	18.3	5.7	9.0	-37.1	23.9
Industrial	0.8	2.4	-68.3	53.3	14.5	14.0	3.8	61.2
Retail	0.4	2.8	-85.1	28.4	3.5	4.4	-22.0	14.6
Other	0.0	0.0	--	0.0	0.1	0.0	--	0.3
Total	1.4	6.7	-78.5	100.0	23.7	27.4	-13.7	100.0

Source: CBRE Research, Real Capital Analytics, Q2 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, Q2 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 to 48% in Q2 2020, while the office and retail sectors' shares fell.
- Retail's share fell only moderately year-over-year to 25.4% from 28.7%. Increased demand for essential services like pharmacies, grocery stores and drive-thru fast-food restaurants helped to keep retail from experiencing a larger drop.
- Uncertainty about the future of workplaces dampened interest in the office sector, whose share of net-lease investment volume fell to 26.6% from 37.2% year-over-year.

FIGURE 4

TOP 20 MARKETS BY NET-LEASE INVESTMENT VOLUME, Q2 2020

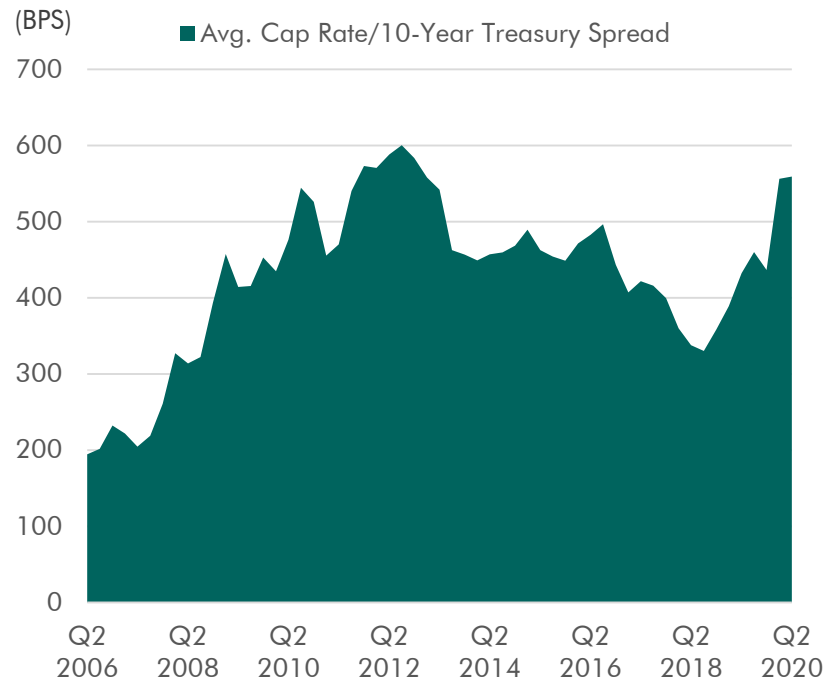
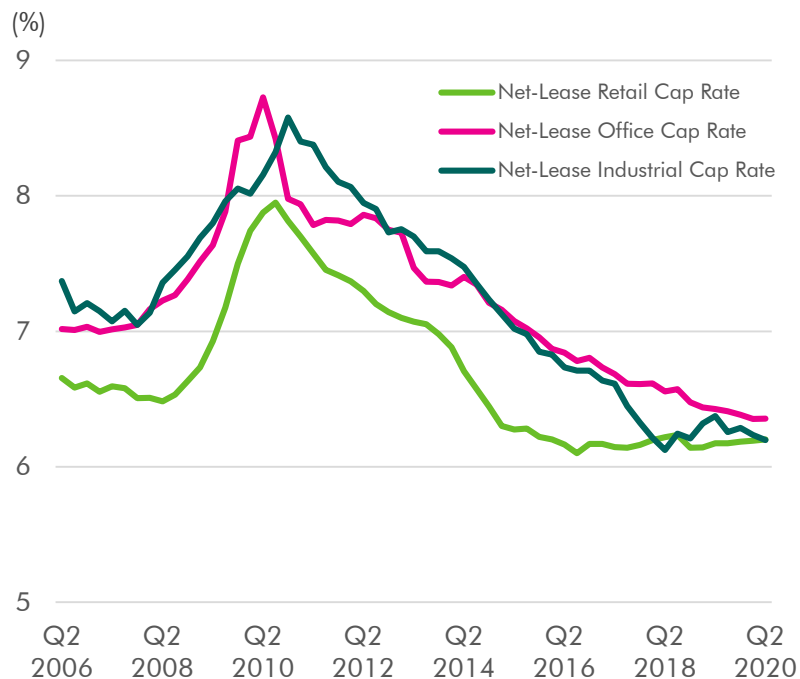
Rank	Market	Q2 2020 (\$ Millions)	Q2 2019 (\$ Millions)	Change (\$ Millions)	Change (%)	Yr. Ending Q2 2020 (\$ Millions)	Yr. Ending Q2 2019 (\$ Millions)	Change (\$ Millions)	Change (%)
1	Chicago	524	873	-349	-40.0	3,612	4,172	-560	-13.4
2	Philadelphia	512	254	258	101.6	1,370	907	463	51.0
3	Los Angeles	342	1,140	-798	-70.0	3,170	4,720	-1,550	-32.8
4	Inland Empire	336	738	-402	-54.5	2,625	1,845	780	42.3
5	Dallas/Ft. Worth	270	450	-180	-40.0	3,205	3,323	-118	-3.6
6	Northern New Jersey	265	443	-178	-40.2	1,939	1,766	173	9.8
7	Minneapolis	215	206	9	4.4	1,082	1,148	-66	-5.7
8	San Francisco	190	568	-378	-66.5	1,764	1,639	125	7.6
9	New York City	187	192	-5	-2.6	822	1,432	-610	-42.6
10	Las Vegas	175	90	85	94.4	570	529	41	7.8
11	Atlanta	167	209	-42	-20.1	1,647	1,541	106	6.9
12	Memphis	166	47	119	253.2	778	397	381	96.0
13	Indianapolis	166	154	12	7.8	991	777	214	27.5
14	Kansas City	163	102	61	59.8	531	391	140	35.8
15	Charlotte	162	236	-74	-31.4	797	918	-121	-13.2
16	Boston	150	1,094	-944	-86.3	1,696	2,686	-990	-36.9
17	Houston	142	489	-347	-71.0	1,704	1,849	-145	-7.8
18	Orange County	117	306	-189	-61.8	1,499	997	502	50.4
19	San Jose	115	693	-578	-83.4	3,275	2,693	582	21.6
20	Washington, D.C.	113	323	-210	-65.0	988	1,005	-17	-1.7

Source: CBRE Research, Real Capital Analytics, Q2 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, Q2 2020.

- The average net-lease cap rate remained at 6.3% in Q1 as sellers’ and buyers’ pricing expectations were too far apart. COVID-19 led to a wider bid-ask gap, which stalled price discovery and slowed investment activity.
- Net-lease industrial and retail cap rates both remained at 6.2% in Q2, while office cap rates remained at 6.4%.
- Industrial cap rates fell 20 bps year-over-year, while retail rates fell by 10 bps and office rates stayed the same.

FIGURE 6

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

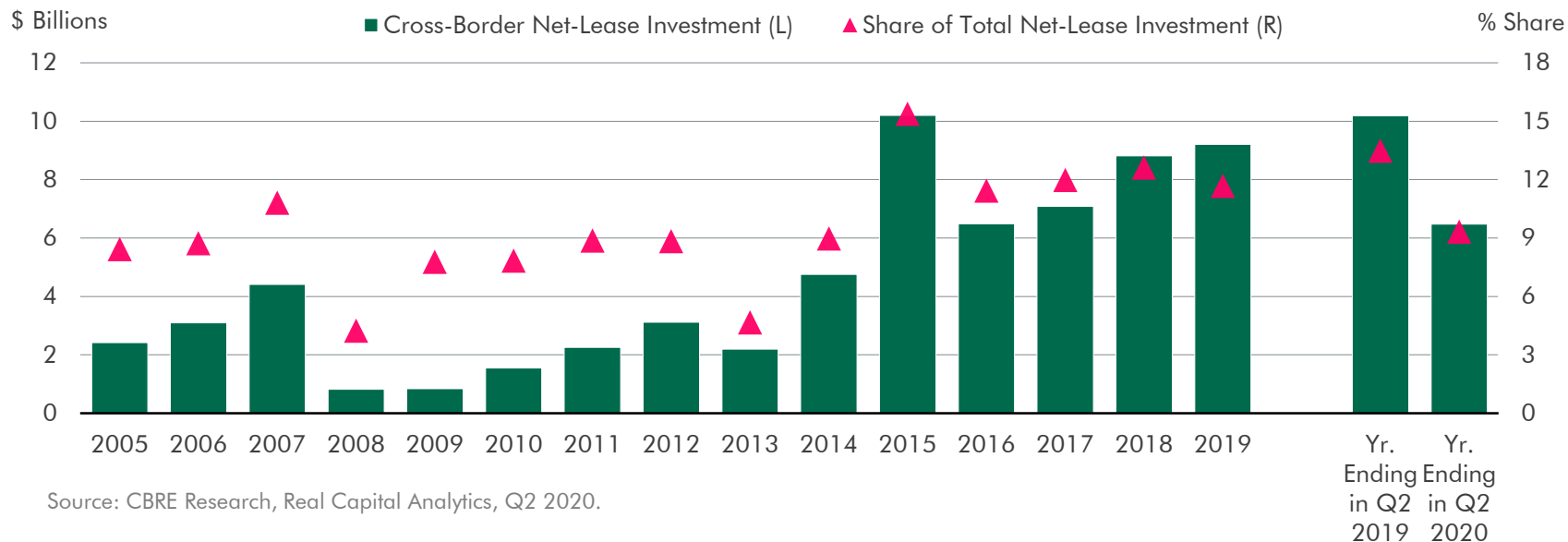


Source: CBRE Research, Real Capital Analytics, Q2 2020.

- Net-lease investment volume by REITs fell by 18.7% year-over-year to \$12.0 billion for the year ending Q2 2020. Institutional investors' volume fell by 17.2% to \$22.3 billion.
- Private investors, the largest buyer group, accounted for \$30.2 billion of net-lease investment over the past four quarters, down by 10.3% year-over-year. Investment by international buyers was down by 36.5% to \$6.5 billion.
- REIT volume is expected to decrease further in Q3 due to COVID-19, while private investment should remain relatively stable.

FIGURE 7

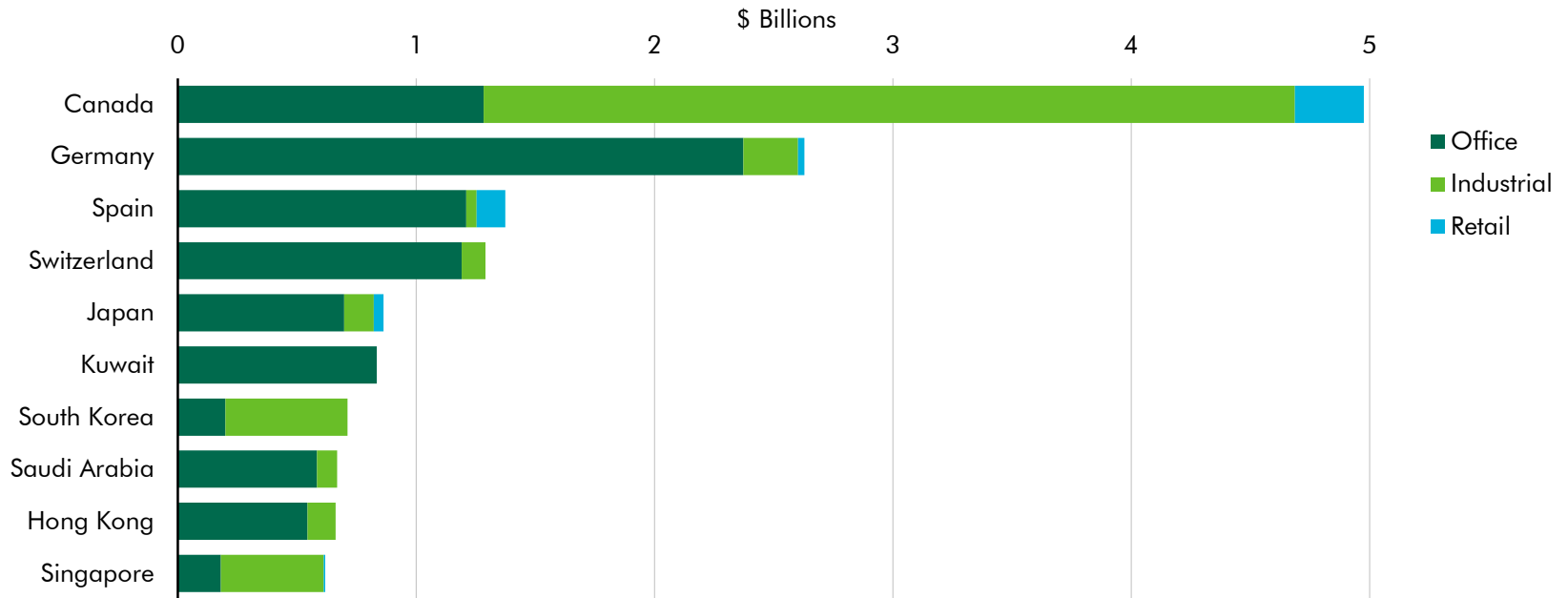
CROSS-BORDER INVESTMENT



- International buyers accounted for 9.9% of net-lease investment volume in Q2, down from 10.8% in Q1.
- Global investment in U.S. net-lease properties totaled \$6.5 billion for the year ending Q2 2020—a 36.5% decline from the same period last year. Total foreign investment in U.S. commercial real estate fell by 52.8%.
- Seattle, Dallas, San Francisco, Los Angeles and San Jose had the most net-lease foreign investment in the past four quarters.

FIGURE 8

CROSS-BORDER INVESTMENT BY COUNTRY OF ORIGIN: LAST 24 MONTHS



Source: CBRE Research, Real Capital Analytics, Q2 2020.
 Note: Investment since Q3 2018.

- 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, accounting for roughly two-thirds of foreign investment volume since Q3 2018.
- 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 INVESTMENT TRANSACTIONS BY PRICE, Q2 2020

Type	Market	Property Name	Price (\$ Millions)	\$/SF	Buyer	Seller
Office	Philadelphia	Independence Blue Cross HQ	360	473	Blue Cross	Piedmont REIT
Industrial	Chicago	Kenosha Enterprise Park	176	115	KKR	Prologis, NBIM
Industrial	Northern New Jersey	LG Electronics USA	164	177	BentallGreenOak	Crow Holdings, Carlyle Group
Office	Kansas City	Burns & McDonnell Complex	121	249	KC Engineering Property HQ LLC	TA Realty, Estate of James Campbell
Industrial	Minneapolis	Amazon Shakopee	119	145	MetLife	USAA Real Estate
Industrial	New York City	66-35 Otto Road	112	476	GLP Capital Partners	Sitex Group
Industrial	Las Vegas	Tropical Distribution Center	110	129	Preylock RE Holdings	VanTrust Real Estate
Office	Trenton, NJ	Merrill Lynch Hopewell Campus	88	230	Opal Holdings	Independencia SA, American RE Partners
Industrial	Charlotte	Amazon CLT3	84	83	KKR	Morgan Stanley
Office	San Francisco	Shoreline Center	81	993	GI Partners, CalPERS	Thor Equities
Industrial	Philadelphia	Principio Commerce Center II	76	138	CBRE Capital Partners (Trammel Crow Co)	Stewart Properties
Office	Orange County	Element	73	450	IRA Capital	CrossHarbor Capital, Stillwater Inv't Group
Retail	Chicago	Whole Foods	71	978	Eaton Vance Real Estate	Novak Construction Co
Industrial	Dallas/Ft. Worth	Valwood Crossroads (Bldg. A&B)	70	114	Black Creek Group	Core5 Industrial Partners
Industrial	Los Angeles	Western Tube	64	156	Brookfield AM	Western Tube & Conduit Corp
Industrial	Allentown	Logisticenter at 33	63	131	Black Creek Group	PCCP LLC, Dermody Properties
Office	Charlotte	Corning Optical Communications HQ	59	321	Crown Realty & Dev	Beacon Partners
Industrial	Ocala, FL	Florida Crossroads Logistics Center	58	95	Lexington Realty	Red Rock Developments, Wharton Equity Partners
Office	Washington, D.C.	John Marshall II	57	241	The Meridian Group	WashREIT
Industrial	Atlanta	PVH Distribution Center	54	63	James Campbell Company	Blackstone

Source: CBRE Research, Real Capital Analytics, Q2 2020.

Note: Includes only single-asset investments; excludes portfolios and assets for redevelopment.

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