Properties of choice

Investors covet single-tenant net-lease assets

A PERIODICALS SUPPLEMENT TO JUNE 2019 REAL ASSETS ADVISER

Published by Institutional Real Estate, Inc.

Single-tenant sector entices investors with income play

Investors find plenty of direct and indirect options to grow net-lease asset holdings

by Beth Mattson-Teig

Singles, doubles and triples sound more like the recap of a baseball game than a discussion on commercial real estate investment strategy. But it is standard lingo when it comes to describing the booming single-tenant net-lease investment market.

Single-tenant net-lease, also commonly referred to as triple-net-lease (NNN) investments due to their lease structure, are becoming a standard part of commercial real estate investment portfolios for both institutions and individual retail investors. The sector has been experiencing a steady rise in transaction volume over the past decade with single-tenant property sales hitting a record high $68.1 billion last year, according to Real Capital Analytics.

"The amount of demand for net-lease assets, funds and REITs has been tremendous over the last 10 years," says Chris Czarnecki, CEO of Broadstone Real Estate. Broadstone is an active acquirer of single-tenant assets via its open-end, net-lease REIT, Broadstone Net Lease.

Many individual investors use single-tenant properties as an early move in a broader asset allocation strategy to expand into commercial real estate or grow real estate holdings. "It is a very easy entry point for the investor to get into the real estate space and get their feet wet, because it is relatively easy to understand," says Czarnecki. Properties are commonly structured with a triple-net lease, which puts responsibility for property taxes, insurance, and maintenance and repairs squarely on the tenant, while the landlord collects a monthly net-rent check.

Net lease is a bit of a unique animal in the commercial real estate investment universe. The financing structure can be used across a variety of different property types, such as restaurants, retail, office, industrial and healthcare. In addition, investors will find a variety of entry points with the ability to purchase direct or wholly owned assets, as well as buying shares or fractional ownership in other vehicles that include public and private REITs, mutual funds, Reg D offerings and Delaware Statutory Trusts (DSTs).

Cashing in on predictable income

One of the biggest selling points of net-lease assets for investors and financial advisers is that they tend to deliver solid income to clients. Additionally, properties and nontraded vehicles tend to demonstrate greater stability and are not subject to the same volatility as stocks, or even publicly traded REITs, which often correlate to the stock market.

"The reason that the market as a general proposition likes single-tenant leases is it bridges a big gap, from an overall economic perspective," adds Kevin Shields, chairman and CEO of Griffin Capital

Due diligence: NNN assets require careful vetting

Due diligence is a critical aspect in single-tenant net-lease investing, due to the "all or nothing" nature of owning a property that is fully occupied and guaranteed by one tenant.

Net-lease assets require careful analysis of the tenant, lease term and underlying real estate. "As we analyze single-tenant transactions, the first step in underwriting is, how confident are you about the credit?" says Kevin Shields, chairman and CEO of Griffin Capital Company. Is the tenant's promise to pay rent over a period of time sustainable? For public companies, one good window into tenant credit is their bond rating. Executing a lease is tied to a promise to pay rent, which is exactly the same as a promise to repay senior, unsecured debt, notes Shields.

Broadly speaking, it is important to look at tenant financials, specific terms of the lease and the tenant's history of lease renewals, adds Dana Woodbury, founder and chairman of Buttonwood Due Diligence in Littleton, Colo. Having a tenant who has invested its own capital in improvements also suggests that tenant will be more likely to renew as compared to a tenant who has no investment in the space, he says.

"Because there is only one tenant that occupies the entire property, the biggest concern that we have is, who guarantees the lease?" says Woodbury. Oftentimes the corporate tenant is the one that also guarantees the lease. However, in some cases, the corporation might be named in the lease as the occupant, but the entity that guarantees the lease could be an affiliate or a franchisee that is not as financially strong, he says.

Due diligence also needs to cover analysis of the quality and location of the property, as well as any unique dynamics or trends impacting the sector. Industrial has been a very popular property type over the past few years due to growing demand for e-commerce distribution and fulfillment. A lot of those sites tend to be large, single-purpose entities, and there might not be a secondary user or viable replacement in that market if the current tenant should vacate. "Not all industrial is a great opportunity just because it is focused on distribution or serving an e-commerce use," says Chris Czarnecki, CEO of Broadstone Real Estate.

Likewise, some investors are wary of investing in single-tenant retail due to negative headlines related to store closings and increased competition with e-commerce. However, there are many different segments of the retail market that perform very differently with net-lease options that run the gamut from drug stores and fast-food restaurants to auto parts, dollar stores and grocers.

For investors who are investing in single-tenant assets through partnerships, funds, REITs or DSTs, it is important to also do the homework on that sponsor or structure. "Dodd-Frank [Wall Street Reform and Consumer Protection Act] is very clear in the need to identify any bad actors in any of these offerings," says Woodbury. Other factors that Buttonwood typically identifies in its due diligence reports is whether or not a sponsor has invested its own capital, and how much and when the sponsor receives compensation. "The main thing in terms of the focus of the structure is to see that the needs of the investor are placed ahead of the sponsor," he adds.

— Beth Mattson-Teig

Company. For example, if an investor buys a Walgreens or a corporate headquarters facility that is leased to a strong credit tenant for a five-, 10- or 15-year period, there is a lot of stability in the leveraged distributions coming off of those properties. “That is really the driver in a number of instances, particularly in the 1031 exchange market,” he says.

The solid income characteristics of net-lease assets are similar to bonds. The credit of the tenant also weighs heavily on pricing. One difference to bonds is that single-tenant properties are typically structured with annual rent increases, which means that cash flow grows each year. Investors also get the benefits of depreciation in having lower taxable current income, as well as the backing of a hard asset in the underlying real estate.

“We have a lot of people who are drawn in by the income and it gets them excited, but they also appreciate some of the more nuanced components of it as time goes on, as well,” notes Czarnecki. Investors often switch from getting monthly dividend checks to reinvesting those dividends to grow their investments. Secondarily, people also appreciate the total return characteristics. Even if the investment is static on a year-over-year basis, valuations can increase in a portfolio due to rising NOI. “So, as people get to know net lease and understand how our approach works, they’ll see it as a total-return focused vehicle with strong income potential,” he adds.

Investors like “low maintenance” characteristics

Investors pursue net-lease investments for a variety of reasons. Notably, the 1031-exchange market provides a steady inflow of capital. Investors that are selling out of properties that require more hands-on management, such as an apartment building, often roll proceeds into single-tenant net-lease properties that are less management intensive. “It doesn’t require a lot of sweat equity in the form of management. So, it is a good fit for a high-net-worth investor who is looking to take on a slightly more passive role,” says Keith Lampi, president and COO of Inland Private Capital Corporation. Inland is active in single-tenant investments structured as DSTs.

Net-lease assets are typically structured with long-term leases, usually 10 to 15 years or longer. The long-term leases generate a steady, predictable income stream, as well as requiring less time and fewer resources spent on marketing and leasing a property. Another advantage of a single-tenant net-lease investment is the credit tenant that anchors that long-term lease. “You know that income is going to be there for many years to come even in a potential market downturn, as long as the credit quality of that tenant is sound," says Lampi.

That pipeline of 1031 activity is being fueled by the tremendous shifting of wealth occurring around the aging baby boomer population, which includes commercial real estate, notes Jason Salmon, senior vice president and managing director of Real Estate Analytics at Kay Properties & Investments, a national DST firm. Aging boomers are looking to transition out of actively managed real estate. At the same time, real estate is being passed on to the next-generation heirs, who do not necessarily want the added property management responsibilities of their parents or grandparents. There are a lot of transactions being fueled by people who are moving on to retirement, or are looking to simplify real estate holdings, says Salmon.

DSTs are in a prime position to capture those investment dollars, as, unlike REITs, they qualify as a like-kind replacement property for a 1031 exchange. DSTs also appeal to a broader base of investors that like the fractional aspect that DSTs offer, adds Salmon. Investors don't have to put all of their investment dollars into one asset, rather they can use capital to buy fractional ownership in a single asset or a portfolio of assets. The minimum investment amount into a DST is typically $100,000. "So, it is very accessible to investors as long as they are accredited investors," he says.

Weighing downside risks

Single-tenant net-lease investments are attractive for investors seeking reliable fixed income. However, there also is a downside to being locked into fixed rents in a strong market where market rents are rising more rapidly. There is usually a cap on the annual rent increases, which prevents landlords from taking advantage of greater upside. "So, while there is safety in that stability in income, it sometimes comes at the loss of opportunity with pushing rents in an upward trending market," says Lampi.

The biggest risk for single-tenant assets is that a property is either 100 percent occupied or 100 percent empty. Investors do need to understand and be comfortable with that risk. One way that investors manage that risk is by assembling their own portfolio of single-tenant assets or buying into a REIT or DSTs with multiple assets, which allows an investor to spread renewal risk across multiple properties. Building portfolios also allows investors to create diversity across geographic regions, corporate credit and property types.

"There are a lot of people that are really keen on certain types of single-tenant assets, only rather than putting all of their eggs in one basket and buying only one property, many of our clients prefer to take fractional ownership of these properties and be able spread their investment capital around," says Salmon.

Investors going into a single-tenant net-lease investment are often buying it for the income stream. However, investors also need to be aware of valuation risk and preservation of principal when it comes time to sell or exit a single-tenant investment. The increased buyer demand for net-lease assets has fueled higher valuations. Although cap rates have shown some signs of stabilizing, the average cap rates on single-tenant assets are hovering at record lows of around 6.2 percent, according to Real Capital Analytics.

In addition, lease term at the time of sale has a big impact on the exit price. For example, if an investor bought a medical office building 10 years ago when there was a 15-year lease in place, but needs to now sell the property with only five years remaining on the term, it is likely the sale price will be discounted to reflect that shorter term. "There are some nuances associated with valuation on exit that should be considered by net-lease investors," says Lampi.

Oftentimes, the role that net lease plays within those diversified real estate portfolios is to provide stability and fixed income. However, it is always prudent for investors to work with their financial advisers to shape investment portfolios and real estate allocations based on risk tolerance, financial goals and personal needs. ❖

Beth Mattson-Teig is a freelance writers based in Minneapolis.

STNL transactions on the rise

Late-cycle shifts in investor sentiment drive interest in single-tenant net lease

by Melina Cordero and Will Pike

U.S. single-tenant net-lease transaction volume (including office, retail and industrial properties) reached $68.1 billion in 2018 and rose 16.2 percent year-over-year, according to data from Real Capital Analytics. At 21.1 percent of overall 2018 investment activity, the single-tenant net-lease space has attracted increasing attention from a buyer pool that is seeking low-risk investments and steady income.

Shifts in investor sentiment over the past 18 months have driven further interest to the net-lease space. According to CBRE's 2019 *America's Investor Intentions Survey,* the most common motivation for purchasing real estate in 2019 is to secure a stable income stream; this represented a significant shift in motivation from early 2018, when yield and asset class diversification were the main investment drivers. At the same time, appetite for risk is weakening; according to the survey, the share of investors with a lower risk tolerance doubled from 2018 to 2019, reaching 43 percent.

This change in investor sentiment is linked to late-cycle dynamics. As expectations for capital growth have slightly diminished compared to 2018, investors are turning to the single-tenant net-lease space as a "flight to safety" that provides a stable income stream at relatively lower risk.

Dynamics vary by sector; fundamental changes in consumer behavior and demand are driving new occupier trends across office, retail and industrial that are, in turn, impacting real estate demand.

Office

Net-lease office investment rose by 3 percent in 2018, accounting for 33 percent of total volume. This modest growth rate can be attributed to a relative lack of opportunities in gateway markets, where prices and competition tend to be higher; as transaction activity shifts toward lower priced but higher growth secondary and tertiary markets, the dollar volume of net-lease office transactions sees lower growth than the number of net-lease assets that traded (up 8.3 percent compared to 2017).

Overall, historically low unemployment is driving up competition for talent among employers. This is driving occupiers to dedicate significant investment to the location, design and convenience of their spaces. The “amenitization” of the workplace, a trend explored in CBRE’s white paper, *The Agile Advantage,* is driving reinvestment in existing assets, as well as demand for build-to-suit solutions. Well-designed, tech-enabled, heavily amenitized office spaces are becoming important currency in the bid for talent and this, in many cases, favors single-tenant, net-lease environments that give occupiers considerable control over the design and layout of their workplace.

Retail

Retail transactions represented 20 percent of overall net-lease sales volumes in 2018, down from 26 percent in 2017. Although this reflects a shift toward higher growth sectors with more favorable headlines such as industrial, the single-tenant net-lease sector is still viewed favorably by retail investors. In many ways, it represents a safe haven amid what many investors consider an uncertain retail environment. Average cap rates for single-tenant net-lease retail property transactions have remained stable over the past four years at around 6.2 percent, and the single-tenant net-lease space has been relatively shielded from many of the bankruptcies and wide-scale store closures that have affected other retail asset types. Single-tenant net-lease retail properties are also dominated by high-credit tenant occupiers that represent lower risk and steadier income streams than shopping centers. As a result, single-tenant net-lease retail is attracting a diversified buyer pool that includes institutional, REIT and private investors.

The rising costs and consumer demands for e-commerce across nearly all retail categories is driving occupiers to seek efficiencies in their

logistics and supply-chain structures; in many cases, retailers are turning to their stores as a pivotal point in their last-mile distribution. This need to shift focus toward logistics networks is currently driving strong demand for industrial properties; it is also likely to drive investment in strategically located retail assets. This will benefit properties in densely populated areas with close and convenient access to consumer doorsteps — a trend we are likely to see endure over the next two to five years.

Industrial

Unsurprisingly, single-tenant industrial properties drove the greatest gains in the overall net-lease space. Sales of industrial net-lease assets rose 50 percent in 2018 compared with the previous year, increasing as a share of overall net-lease volumes from 26 percent to 46 percent. The e-commerce growth that has caused uncertainty in many areas of the retail sector has driven growth in industrial. As retailers make necessary investments to restructure their logistics and supply-chain networks to better service e-commerce and omnichannel growth, demand for smaller, infill facilities and last-mile distribution hubs is soaring. As supply is limited and demand rising in many of these infill markets, cap rates have been declining over the past few years and attracting growing investor interest.

At the same time, industrial occupiers are investing heavily in technology and automation to mitigate the profit margin risks posed by rising labor and other operational costs, while addressing the limited labor supply in many infill markets. Like the trend seen in the office sector, this is driving demand for build-to-suit solutions that allow industrial users maximum flexibility to invest in the design and operations of increasingly high-tech facilities where efficiency and speed are key.

Outlook

Given the late-cycle shifts in investor sentiment toward steady income and low risk recorded in CBRE's latest *Americas Investor Intentions Survey,* the single-tenant net-lease sector is expected to remain a favorable area for acquisitions in 2019. Industrial is expected to be a high-growth area within the net-lease space, and retail is likely to see more stability than noted in the 2018 figures. Just as important, the underlying fundamental "disruptors" within each sector — competition for talent in office, e-commerce growth in industrial, risk mitigation in retail — will continue to shape occupier demand for each property type. ❖

Melina Cordero is global head of retail research, and **Will Pike** is vice chairman of net-lease properties and corporate capital markets at **CBRE.**

Sector analysis

Investors considering single-tenant net-lease assets have a wide array of investment options, in different property-type and tenant-type categories. For example, investors interested in retail properties could consider options ranging from auto supply stores (with tenants such as AutoZone, Advance Auto Parts or O'Reilly Auto Parts), to casual dining restaurants (Applebee's, Chili's, Denny's, IHOP), to fast-food restaurants (Burger King, Dairy Queen, McDonalds, Starbucks) to drugstores (CVS, Rite Aid, Walgreens), among others. While retail is the most prevalent property type in the NNN arena, investors may also consider options in the office and industrial sectors. Each category has its own characteristics and is affected differently by macroeconomic and demographic trends, as well as real estate and capital market trends.

To learn more about some of the various property sectors, we've enlisted several industry experts to provide their insights and commentary. On the following pages, **Warren Thomas,** founder and managing member, Exchange Right, addresses the appeal of net-lease properties, especially to 1031-exchange investors; **Branden Huffman,** portfolio manager of equity investments, Rubenstein Partners, discusses office market fundamentals and trends; **Chris Czarnecki,** CEO, Broadstone Real Estate, dives into the retail segment of the net-lease market; **Frank Myers,** senior vice president, LDK Ventures, weighs in on the industrial sector; and **Alan Lincoln,** underwriting and valuation analyst, Mick Law P.C., touches on investment in warehouse distribution and R&D properties.

Popularity of NNN properties grows among 1031-exchange investors

Single-tenant net-lease property is attractive to investors who want steady, passive income. This makes net lease a popular asset class among 1031-exchange investors, who want to defer their capital gains taxes while reinvesting their equity into real estate, as they look ahead to retirement. When single-tenant net-lease properties are aggregated into a portfolio, an investor who purchases shares can combine the benefits and security of diversification with the reliable passive income that makes net-lease property so attractive.

When a real estate investor is evaluating potential replacement property for their 1031 exchange, they can choose to identify an interest in a diversified portfolio of net-leased properties, either as their first choice or as a backup. So, instead of identifying just one single-tenant net-lease property, the investor can look to acquire an undivided fractional interest in a curated group of five, 10 or even 20 different net-leased properties. A well-diversified portfolio like this can add additional protection to investor cash flow by eliminating binary risk.

Diversified portfolios of net-lease properties backed by investment-grade corporations in the necessity retail space are not overly dependent on any one tenant, location, industry, market or lease rollover.

Net leases provide stability since they contractually obligate tenants to pay all operating expenses and tend to have both long lease terms and investment-grade tenants. A long-term lease (around 10 years) locks in rents for a long period that stands to outlast the next recession.

This stability is further increased when such a lease is backed by an "investment-grade tenant" (one that has an independently given credit rating of BBB– or higher). Investment-grade tenants are large national corporations with strong balance sheets that are unlikely to default on their lease obligations. The subset of such tenants that successfully operate in necessity retail are even more resilient to fluctuations in the economy because they are not overly reliant on discretionary spending.

Many 1031-DST offerings are structured so that each investor can close on his or her shares within two to three days, independently of one another, which makes it easier for them to satisfy their respective 1031-exchange deadlines.

— *Warren Thomas, Exchange Right*

Aggressive office pricing demands investor due diligence, caution

For the better part of the current bull market, a common theme across the real estate industry has been the outperformance of core assets. This outperformance is most often found in single-tenant net-lease properties within the core office market segment. As investing continues in today's "risk-off" world, substantially more capital is flowing to income-oriented real estate investments. Core office assets, specifically single-tenant net-lease assets, are largely being treated as fixed-income proxies and drafting off the low, long-term Treasury rates. This trend is reflected in current cap rates, which are at times nearing 4 percent for the most desirable single-tenant net-lease assets — a level rarely, if ever, seen during previous real estate cycles.

In the context of aggressive, single-tenant net-lease office pricing, there is a broad spectrum in investor appetite for these assets, impacting their value. This pricing disparity is based on several factors, including tenant credit, lease rent relative to market rent, annual rent escalations, location, lease term and asset quality. Single-tenant net-lease assets are exhibiting cap rates ranging from approximately 4 percent to 9 percent based on how closely they mirror a fixed-income instrument, with pricing falling precipitously for assets with less cash-flow certainty that do not closely resemble an investment-grade bond.

Notwithstanding this prevalent market attitude toward single-tenant net-lease properties, it is important to remember that office buildings are not bonds. Tenants do not necessarily renew leases, buildings require capital for maintenance and releasing, and investors do not necessarily get back their par balance at the end of an investment. Accordingly, we remain cautious about pricing these assets in the same way as fixed-income products, as a general matter, but particularly in the context of today's record-low yields.

— *Branden Huffman, Rubenstein Partners*

Retail properties offer investors a wide array of options

The retail segment of the net-lease market is one of the original forms of net-lease investing and remains attractive to investors. The retail segment generally exemplifies all of the most important and valuable attributes that investors are seeking when considering net-lease investing. The leases tend to be absolute net lease, which means the tenant is solely responsible for all the costs relating to the asset (maintenance, taxes and insurance), in addition to any normal operating expenses that are expected under the agreement (rent, utilities, etc.).

Another key characteristic in the retail sector is very long-term leases; especially in the QSR (quick-service restaurants) and fast-casual space, where the leases tend to be 15 or 20 years. These properties tend to be located in strong retail corridors, which location is integral to the success of the tenant. The lessees are willing to sign a long-term lease because controlling that location is key to their flow of traffic coming in the door and, ultimately, their success. A strong tenant with a long-term lease in place greatly enhances the value of the property for the investor. Those assets are fairly recession resistant, and they are more predictable than the big-box and other retail assets. They also tend to be insulated from the "Amazon effect," or e-commerce, and perform well across a variety of economic cycles.

The availability of site-level financials for a single property is a unique aspect in the retail net-lease space. An investor can gain visibility into the location's profitability and how well it is performing over time, which can better inform an investor's understanding of the tenant's longevity and potential for lease renewal. Granular site-level reporting is less common for other property types, such as industrial, where an investor may have to rely on consolidated corporate reporting to assess tenant health.

Single-tenant net-lease retail is still very much in demand because it can produce strong returns, consistent income and offer a wide range of price points for investors to consider. These characteristics attract all sorts of buyers, ranging from high-net-worth (HNW) individuals to more institutional players such as the public and private net-lease real estate investment trusts (REITs) or private equity firms. Overall, cap rates in the retail sector have increased slightly over the past 18 months (14.7 basis points, according to RCA trend tracker), and certain property types, such as QSR, casual dining, dollar stores and experiential retailers, have been in higher demand than others.

Single-tenant retail investment trends

- Companies continue to execute sale leaseback deals in order to unlock equity locked in real estate.
- Recent examples of large publicly reported sale leaseback deals include Sherwin Williams, Brinker International (Chili's) and Albertsons.
- The Tax Cuts and Jobs Act of 2017 now limits the deductibility of interest expense for businesses to 30 percent of adjusted taxable income. Operating rent expense remains 100 percent deductible.
- Given the continued low-interest-rate environment, capital focused on single-tenant net-lease retail continues to enjoy wide positive spreads (between the 10-year U.S. Treasury and cap rates) in the neighborhood of 350 basis points to 400 basis points, double that of 2006–2007 (per Real Capital Analytics).
- Liquidity remains robust in net lease, as private buyers and those in 1031 exchanges drive demand.
- Per RCA/JLL, private buyers represented 42.5 percent of net-lease acquisition volume in 2018, up from 35.4 percent in 2017, and generally represented five-year averages in the low– to mid–30 percent range.
- According to the U.S. Census Bureau, despite the impressive growth rates, e-commerce sales in the fourth quarter of 2018 still only accounted for 11.2 percent of total retail sales.

One solution for an investor looking to enter the retail net-lease sector would be to invest in an established vehicle that has broad diversification, such as many of the private funds or public REITs.

— Chris Czarnecki, Broadstone Real Estate

Popular industrial assets see yields shrink, but rents continue to rise

We have seen strong demand across the industrial product types, including manufacturing operations, food processing, and distribution. The demand for quality manufacturing space that is well located and proximate to employment centers has driven industrial vacancy to unheard of lows in many markets.

With this growth, net-leased investment has expanded in the industrial market. This is due both to the high-quality credit of many of the tenants in the sector, but also the highly functional and reusable space occupied by these tenants. Capital markets have invested in this sector aggressively, seeing an opportunity to capture a higher yield on a quality credit compared to a yield that might be obtainable in the debt markets. This has pushed underwritten yields down to the 4 percent range in core markets for quality credit.

In spite of available capital, which helps drive down the cost of construction financing and improves yields on exit, the costs of actual construction continue to rise. Driven mainly by a shortage of labor, overall construction costs have risen by as much as 30–40 percent over the past five years. The increased replacement cost, coupled with historically low vacancy, has driven rents for new space to new highs. The Northern California market, for example, has seen rents increase by 40 percent or more over the past three to five years after a decade that saw significant decline and stagnation. With increasing costs driving rent growth, tenants are increasingly considering class B options in the market, but the supply is very limited. This in turn drives rent increases for these alternatives. The increased costs may prove to slow down the demand as this cycle extends.

While demand in the market may temper from the heated pace we have seen over the past few years, it is still very strong. This demand, in the face of low vacancy, has driven significant industrial development. Our firm has brought 2 million square feet of industrial space to market over the past two years and continues to see demand from users looking for well-located quality space. Overall, net absorption in the Central Valley and Sacramento approached 5 million square feet in 2018. Users continue to expand into these areas to serve the Bay Area market and handle port deliveries. Industrial growth is expected to continue through 2019, and capital markets will continue to find steady demand in the sector.

— Frank Myers, LDK Ventures

Tenant demand remains strong for warehouse/distribution properties

With low vacancy rates, steadily improving rental rates and long-term triple net leases, industrial properties are at the forefront of investor demand. While once seen as too "dirty" of an asset class filled with sub-investment-grade merchant warehouse operators, today's industrial market participants hail from Fortune 500 roots. With long-term net leases and low maintenance structures, industrial assets are prime for STNL market trade. Many assets, specifically credit-tenant leased facilities in core markets, are trading near or slightly above 4.0 percent capitalization rates, capitalization rates similar to their bigger brothers, the net-lease retail and net-lease office asset classes. In addition, with limited future capital requirements upon tenant expiration and relatively low leasing costs, industrial assets may carry less long-term cash flow volatility.

The long-term fundamentals for STNL industrial properties look strong. Consumer-driven speed-to-market demand has pushed retailers to shift from a traditional bricks-and-mortar distribution to rapid-fulfillment online platforms and larger, more prominent distributions facilities. While the newest generation of industrial facilities boasts 35-foot-plus clear height, precast concrete construction and high dock-door ratios, even older product fundamentals have tightened, offering attractive investment opportunities for any class of investor. Planning and zoning restrictions in many key markets of the country are stifling development, acting as a development buffer, but running contrary to increasing last-mile transportation costs amid rising wages.

Despite tight investment market conditions, upside may exist for those bold enough to capitalize. One such example is the adaptive re-purpose of former big-box stores and once-bustling, but now vacant, shopping malls. These properties are well located, offer large floorplates, and provide a unique distribution platform.

— Alan Lincoln, Mick Law P.C.

Recent single-tenant net-lease transactions

Tenant	Location	Price ($M)	Price/SF	Cap rate	Lease term
Automotive					
Advance Auto Parts	Cary, NC	$2.20	$317.00	6.75%	5 Years
AutoZone	Mckinleyville, CA	$2.46	$348.66	5.00%	N/A
Clear Sky Car Wash	Scottsdale, AZ	$3.46	$1,129.00	6.50%	N/A
Clear Sky Car Wash	Phoenix, AZ	$3.33	$1,210.00	6.75%	N/A
Drivetime	Union City, GA	$5.00	$1,773.00	6.75%	N/A
O'Reilly	Middletown, OH	$2.41	$260.95	5.70%	N/A
O'Reilly	Parker, AZ	$2.32	$311.95	5.65%	N/A
Tesla	Wexford, PA	$6.80	$370.00	8.38%	5 Years
Tire Discounter	Hilliard, OH	$1.26	$213.31	5.75%	N/A
Banks					
Bank of America (GL)	Henderson, NV	$2.21	N/A	6.00%	6 Years
Bank of the Ozarks	Hot Springs Village, AR	$1.03	569.93	5.75%	N/A
BB&T Bank	Bradenton, FL	$1.96	$506.19	5.49%	N/A
BBVA Compass Bank	Arvada, CO	$2.12	$333.49	5.50%	N/A
Chase	Brooksville, FL	$2.94	N/A	4.25%	20 Years
Citizens Bank	University Heights, OH	$1.92	$754.50	5.50%	N/A
Citizens Bank	Belleville, MI	$1.29	329.75	8.14%	N/A
Suntrust Bank (GL)	Purcellville,VA	$7.00	N/A	5.50%	14 Years
TCF Bank	St. Cloud, MN	$3.10	N/A	N/A	N/A
TCF Bank (GL)	Richfield, MN	$2.92	N/A	6.25%	9 Years
Wells Fargo	Jacksonville, FL	$4.07	$269.92	6.50%	N/A
Wells Fargo (GL)	District Heights, MD	$3.90	N/A	6.43%	9 Years
Big Box					
Best Buy	Lafayette, LA	$6.10	$136.88	8.00%	N/A
BJ's Wholesale	Revere, MA	$19.37	$161.00	5.90%	5 Years
ShopKo	Sturgis, SD	$2.05	$67.28	N/A	N/A
Walmart	Columbia, SC	$11.87	$283.36	5.25%	N/A
Casual Dining					
Applebee's	California, MD	$3.15	N/A	7.50%	10 Years
Bar Louie	Orlando, FL	$3.84	$629.50	6.25%	N/A
Burger King	Sevierville, TN	$1.66	N/A	5.75%	15 Years
Chicken Salad Chick	Augusta, GA	$1.57	N/A	6.10%	7 Years
Cracker Barrel	Front Royal, VA	$2.58	N/A	5.00%	N/A
Golden Corral	Largo, FL	$5.66	$569.43	6.00%	N/A
Mediterraneo Restaurant	White Plains, NY	$4.25	$557.00	5.90%	N/A
O'Charley's	Florence, KY	$4.70	$586.52	6.00%	N/A
Raising Cane's	Boerne, TX	$3.87	$1,086.00	6.00%	N/A

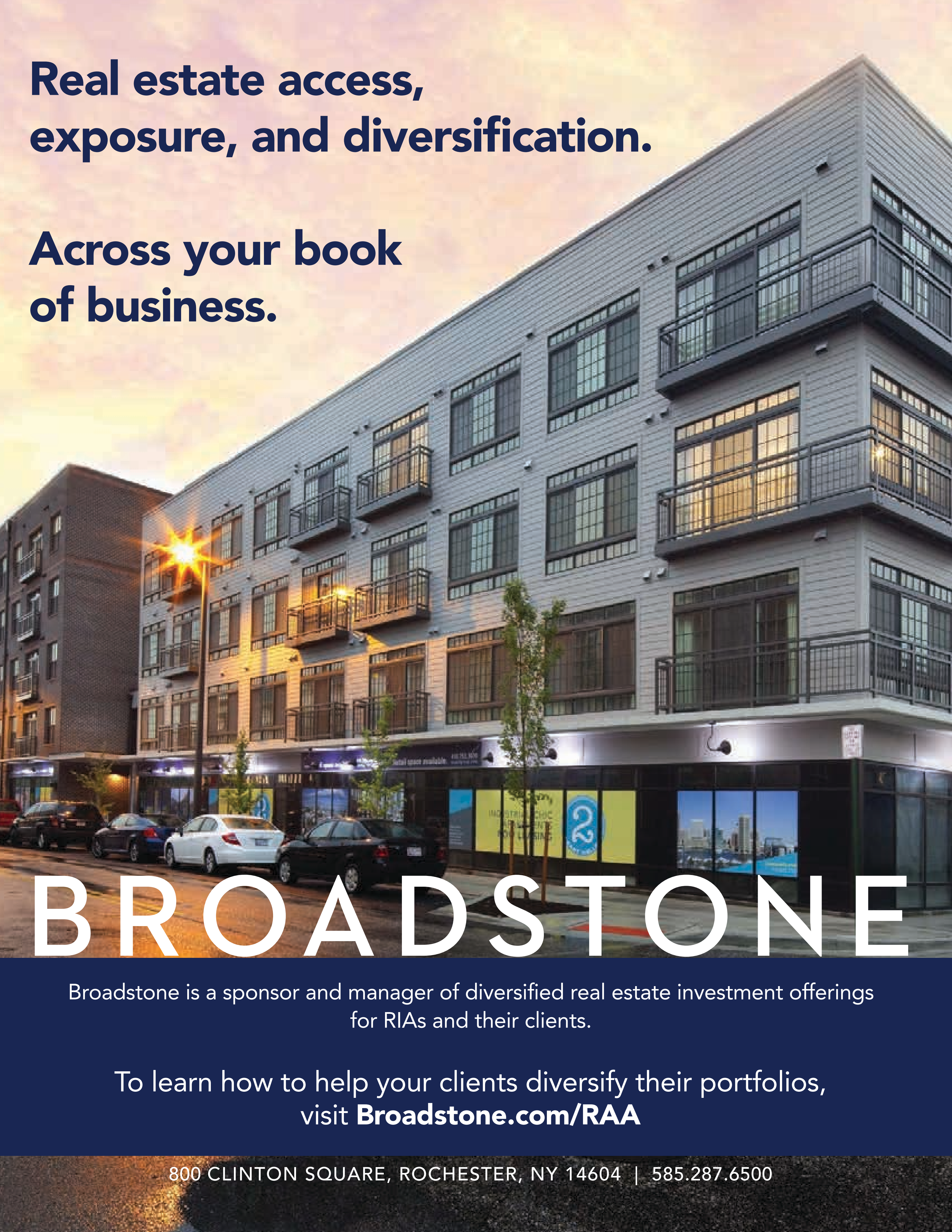
Recent single-tenant net-lease transactions

Tenant	Location	Price ($M)	Price/SF	Cap rate	Lease term
Raising Cane's	Temple, TX	$3.69	$1,034.00	5.65%	N/A
Red Robin	Colorado Springs, CO	$5.73	$793.93	6.25%	N/A
Sierra Gold	Las Vegas, NV	$6.40	$833.11	6.00%	N/A
Starbucks	Westminster, CA	$3.80	$1,795.00	3.80%	N/A
Texas Roadhouse	Naperville, IL	$3.20	$444.87	N/A	N/A
Wendy's	Stuart, FL	$1.97	N/A	6.50%	5 Years
C-Stores					
7-Eleven	Aurora, CO	$2.80	$930.23	5.12%	N/A
7-Eleven	Lakeland, FL	$3.41	N/A	4.75%	15 Years
Bj's Gas	Hyannis, MA	$2.72	$2,727.00	5.50%	N/A
Cumberland Farms	Ft. Lauderdale, FL	$5.00	N/A	4.50%	19 Years
Dollar General	Marksville, LA	$1.18	$130.21	N/A	N/A
Dollar General	Clarksville, TN	$1.20	$132.45	6.50%	N/A
Family Dollar	Del Rio, TX	$1.16	$127.31	8.00%	N/A
General					
Ashley Furniture	St. Louis, MO	$10.00	$84.00	7.20%	5 Years
Dick's Sporting Goods	Appleton, WI	$6.00	$115.00	7.80%	6 Years
FedEx Freight	Bloomingdale, GA	$13.72	$349.00	5.60%	12 Years
Kindercare	Mansfield, TX	$2.64	$246.60	7.00%	N/A
LA Fitness	Edina, MN	$13.65	$217.00	6.70%	12 Years
Men's Warehouse	Bakersfield, CA	$10.80	$49.00	6.76%	6 Years
Sketchers	Overland Park, KS	$1.47	N/A	N/A	N/A
Tutor Time	Chandler, AZ	$6.50	$433.47	7.00%	N/A
Grocery					
Aldi	Palm Beach County, FL	$3.60	$161.48	4.75%	20 Years
Fresh Thyme	Omaha, NE	$9.20	$317.00	7.18%	13 Years
Grocery Outlet	Riverside, CA	$5.30	$296.00	N/A	15 Years
Jewel-Osco	Barrington, IL	$12.80	$213.74	N/A	N/A
Marsh Supermarket	Cincinnati, OH	$5.62	$175.00	7.25%	N/A
Schnucks Grocery	Rockford, IL	$14.73	$113.33	6.75%	N/A
Sprouts	Lees Summit, MO	$6.90	$258.00	6.50%	7 Years
Medical					
DaVita	Alhambra, CA	$14.78	$1,047.00	5.35%	15 Years
Fresenius Medical Care	Hephzibah, GA	$3.33	$538.27	6.00%	N/A
NextCare Urgent Care	Gilbert, AZ	$2.97	$660.82	5.75%	N/A
The Emergency Center	Arlington, TX	$7.20	$986.30	6.25%	N/A

Recent single-tenant net-lease transactions

Tenant	Location	Price ($M)	Price/SF	Cap rate	Lease term
Pharmacies					
CVS Pharmacy	River Forest, IL	$6.77	$622.24	N/A	N/A
CVS Pharmacy	Newburgh, NY	$4.80	$352.94	N/A	N/A
CVS Pharmacy	Miami Beach, FL	$18.32	$1,472.00	4.78%	16 Years
CVS Pharmacy	North Olmsted, OH	$5.20	$474.00	5.37%	20 Years
CVS Pharmacy	Taylorville, IL	$4.40	$331.00	N/A	22 Years
CVS Pharmacy	Conroe, TX	$9.20	$634.65	4.50%	N/A
Rite Aid	Kingston, WA	$6.00	$347.00	7.49%	9 Years
Walgreens	Powell, OH	$6.60	$445.00	6.14%	15 Years
Walgreens	Hot Springs, AR	$1.66	$125.21	N/A	N/A
Walgreens	Park Ridge, IL	$12.00	$776.00	5.83%	17 Years
Walgreens	Riverside, CA	$9.90	$773.97	5.00%	N/A
Walgreens	Vernon, CT	$6.20	$453.58	6.50%	N/A

Source: Institutional Real Estate, Inc.


Real estate access, exposure, and diversification.
Across your book of business.
BROADSTONE
Broadstone is a sponsor and manager of diversified real estate investment offerings for RIAs and their clients.
To learn how to help your clients diversify their portfolios, visit Broadstone.com/RAA
800 CLINTON SQUARE, ROCHESTER, NY 14604 | 585.287.6500