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U.S. Capital Markets Report | Single-Tenant Net Lease

Institutional Interest Sends STNL Sales Sky High

Second Half Review 2021



Overview

Business is booming in the single-tenant and net lease (STNL) space. A wave of investors, from domestic players to those abroad, are jumping on opportunities to add STNL's to their portfolios.

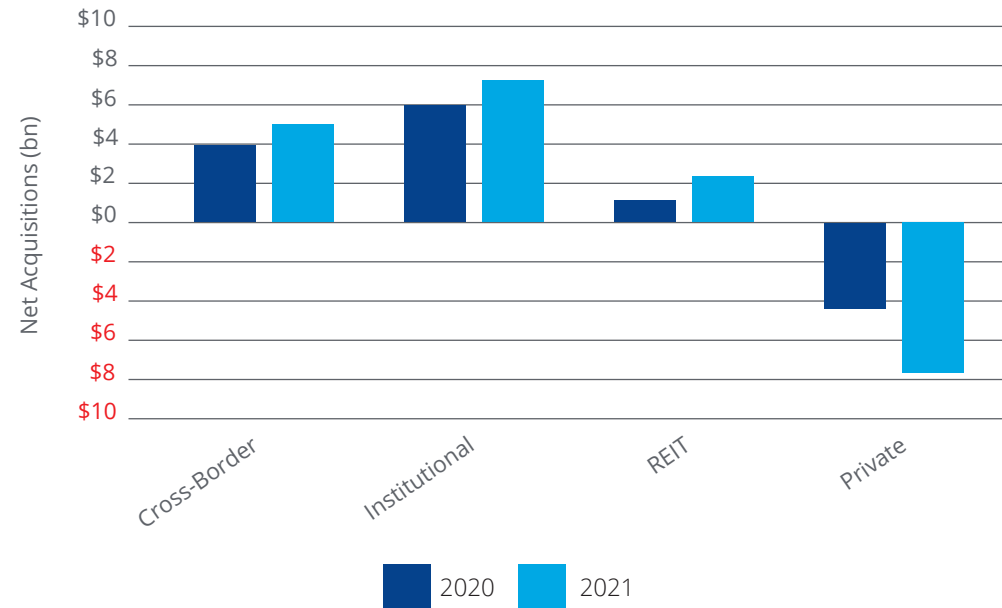
In 2021, second-half sales volume pushed \$64 billion, nearly 40% above 2019's numbers during the same period. In addition, nearly \$100 billion worth of single-tenant and net lease deals were completed last year, a new record.

Institutional capital, particularly private equity, is pouring into the space, a trend expected to continue. KKR's Strategic Lease Partners kicked off spending its \$3 billion war chest with six deals totaling \$780 million. Blackstone and Brookfield continue to invest in this low-volatility space after several headline-making transactions last year. In addition, Carlyle has announced its plans to acquire an 18.3 million square foot net lease portfolio from iStar for \$3.07 billion.

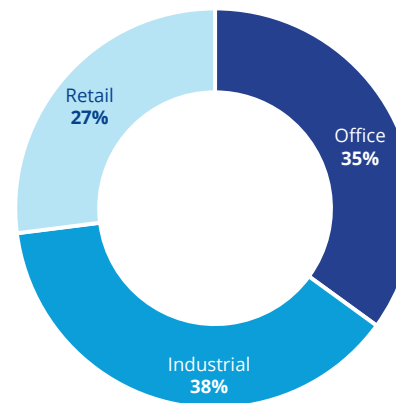
The STNL space is more institutional than the overall market. In 2021, nearly 60% of all acquisition volume came from cross-border, institutional, or REIT capital sources. These groups drove close to 43% of the broader market's acquisition volume. Private capital remains a major player, too, despite accounting for 37% of volume last year, its lowest share since 2015.

STNL assets' lower cost of operation, consistent and reliable cash flow, and credit-worthy tenancy appeal to a wide range of investors. In a rising interest rate environment, this steady, predictable cash flow will remain attractive to buyers looking to mitigate risk.

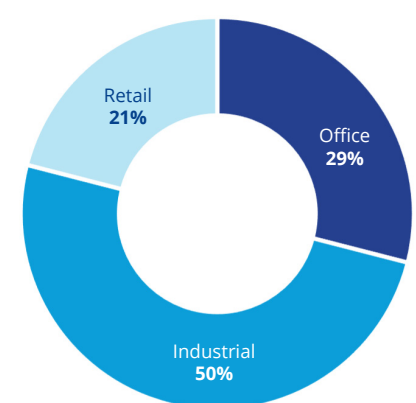
Net Acquisitions by Capital Source



Prior 10 Year Average



2021



Retail

Retail investors continue targeting single-tenant net lease assets, fueling a record-breaking year-end sales push. Volume in the fourth quarter topped \$9.5 billion, well ahead of previous totals. Annual volume totaling \$21.2 billion also beat the previous highwater mark set in 2015. Cap rate compression was quick in the second half of 2021, with median cap rates falling to 5.6%, an all-time low. Top quartile deals ended the year at sub-5%. STNL assets showed the strongest cap rate compression of all retail subtypes.

Overall retail price gains were more substantial than single-tenant and drug store properties. These assets are less volatile due to their safety and performance throughout cycles. Still, this did not dissuade investors, as volume for both asset types was higher than one year prior. In 2021, single-tenant retail saw a price appreciation of 7.5%, while drug stores increased in value by 3.8%. Grocery gained 18.5%. Overall retail price growth clocked in at 21.5%, as investors were willing to move out along the risk spectrum in the second half of the year.

Private capital still drives the majority of acquisitions, but 2021 marked the strongest year for REIT investment share since 2013. Over the year, 31% of purchases were REIT-driven. Institutional investors were net sellers in 2021, cross-border investors were net buyers, and private capital was a wash.

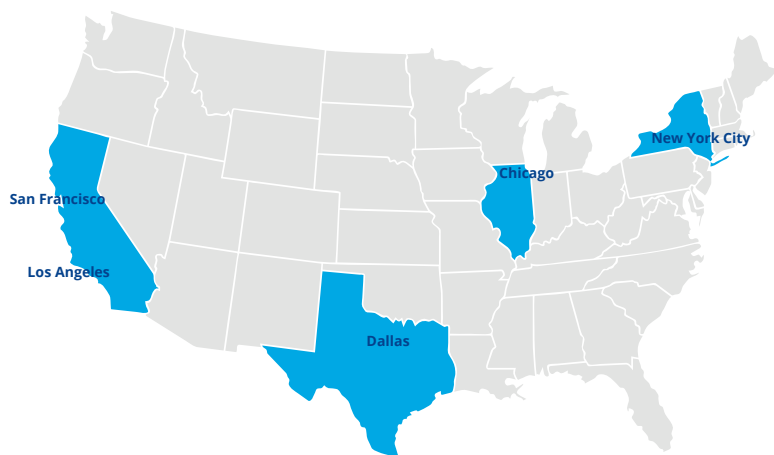
Key Statistics

\$13.3 B ↑
2H 2021 Volume

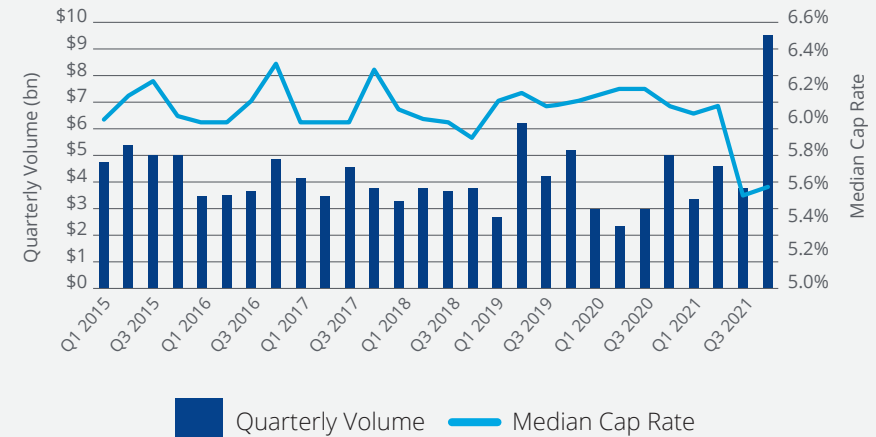
5.6% ↓
Median Cap Rate

\$211/SF ↓
Median \$/SF

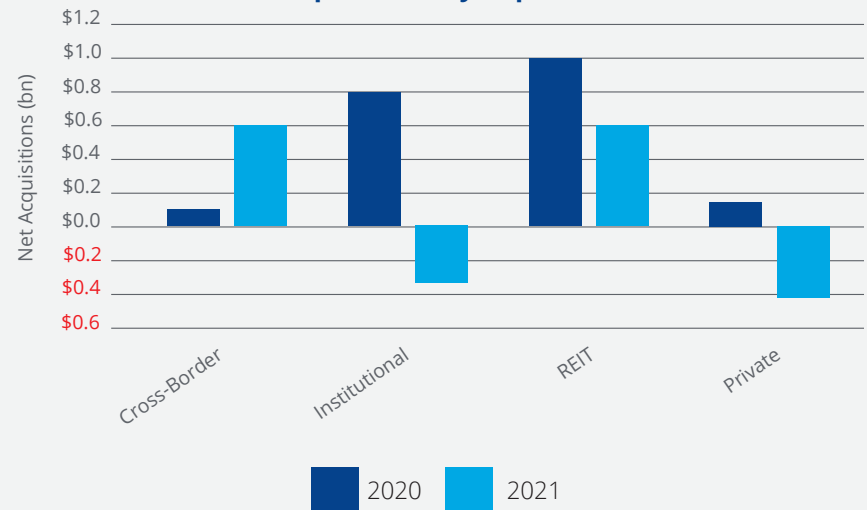
2021 Top Volume Metros



Pricing and Cap Rates Over Time



Net Acquisitions by Capital Source



Industrial

Industrial sales shattered records in the back half of 2021, with volume skyrocketing to \$32.7 billion. A total of \$49.4 billion in annual volume was nearly 50% higher than 2019 levels. Cap rates have compressed rapidly due to this robust sales performance, with the top quartile of deals hovering in the low-to-mid 4% range. Industrial is also pulling in a higher share of STNL sales volume thanks to rock-solid fundamentals. In fact, in 2021, industrial saw nearly half of all STNL transactions.

Pricing across the industrial landscape is nothing short of astounding. Overall industrial pricing increased 29.2% last year, while single-tenant pricing kept in lockstep, rising 25.6%.

Nearly 60% of acquisitions came from significant sources of capital: cross-border, institutional, or REITs. All three sources were net buyers in 2021, with cross-border sources seeing annual gains nearly every year since 2015. Institutional sources have been the largest net acquirers in recent years, leaving private capital investors as net sellers for the second year in a row. Occupiers are finding strong interest in their properties and drove 17% of sales last year, although this number is down compared to the past several years.

Key Statistics

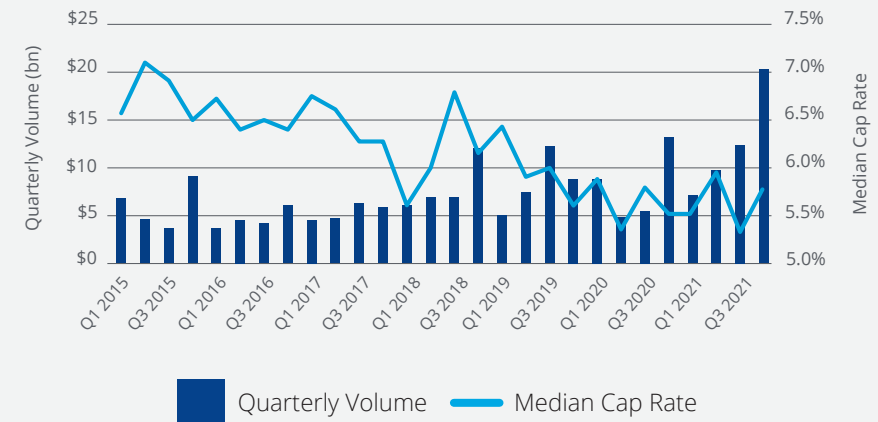
\$32.7 B ↑ 2H 2021 Volume

5.8% — Median Cap Rate

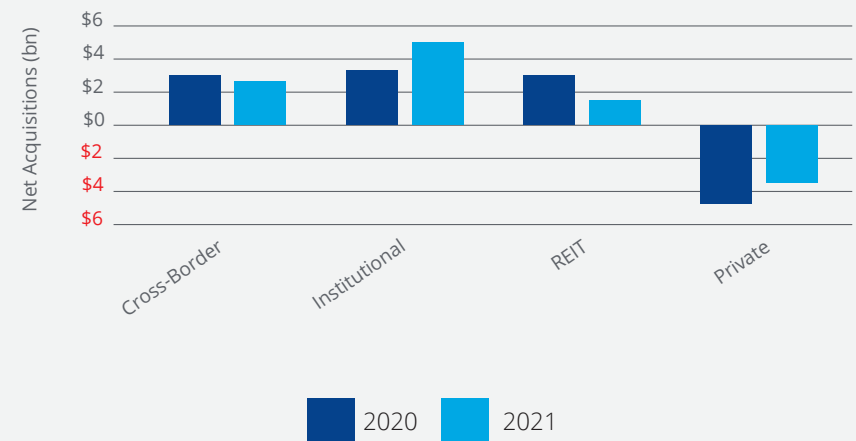
\$112/SF ↑ Median \$/SF



Pricing and Cap Rates Over Time



Net Acquisitions by Capital Source



Office

Office investors are branching out to value-add transactions but are still seeking the safety of long-term leased assets with stable cash flow. Unsurprisingly, single-tenant office sales jumped 53% year-over-year. Median cap rates compressed 20 basis points to 5.9%, while the top quartile of deals shows cap rates in the low 5% range. With total STNL volume just shy of \$29 billion, 2021 sales were in line with 2019 levels. In the second half of the year, volume totaled \$17.7 billion, marking the strongest close to a year on record.

Pricing remains on the rise, with single-tenant assets increasing 13.3% over the course of 2021. This surge is broadly in line with office overall, which shot up 14.1%, besting the six major metros, CBD office, and medical office price growth.

Single-tenant office is the most institutional of the asset classes. In 2021, cross-border, institutional, or REIT capital drove 68% of all acquisitions, the highest aggregate share in at least a decade. All three groups were net buyers on the year, with private sources seeing capital outflows. With life science gaining considerable attention in institutional circles, expect more capital to chase this asset class and its net lease structure.

Key Statistics

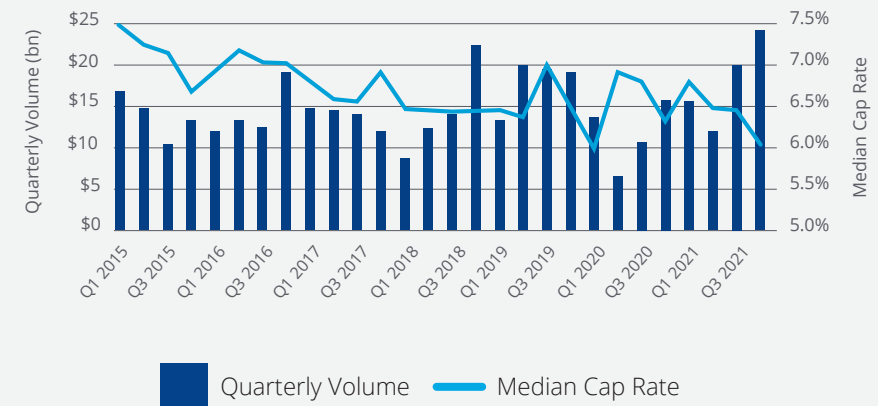
\$17.7 B ↑
2H 2021 Volume

5.9% ↓
Median Cap Rate

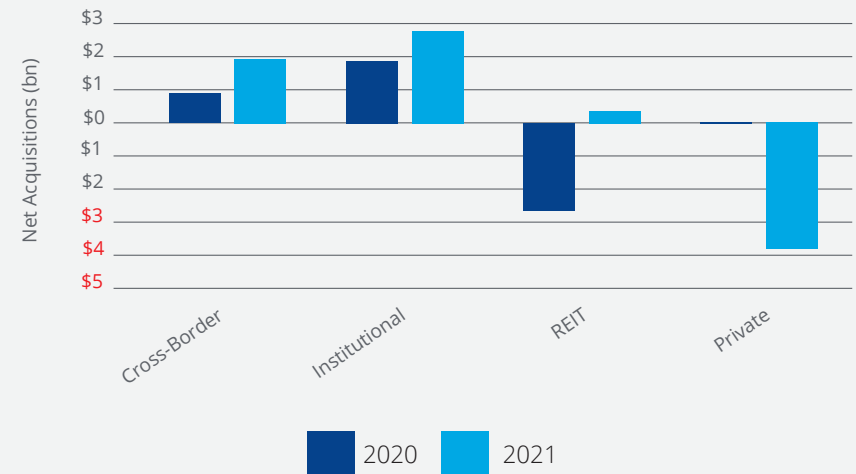
\$291/SF ↑
Median \$/SF



Pricing and Cap Rates Over Time



Net Acquisitions by Capital Source



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