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## Commercial Real Estate

### Why Investors Are Turning to Single-Tenant Triple-Net Properties

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As the nation's commercial real estate markets continue to recover from the deep recession and its aftermath, properties located in primary markets like Washington, D.C. and New York City have attracted the lion's share of capital due to their high barriers to entry, lack of new construction and transparent valuation levels. However, this popularity has come at a cost, as investors are bidding up prices on trophy assets to pre-recession levels in many cases.

Given the increased popularity of primary markets, many investors, including Cole Real Estate Investments, are purchasing single-tenant, triple-net properties. Investors in single-tenant properties typically are seeking consistent returns and income generated by buildings with long-term, high-quality, creditworthy tenants, preferably with annual rent increases incorporated into the leases.

Some of the best single-tenant acquisition opportunities are found in secondary markets spread across the U.S. These markets typically do not attract the attention of institutional investors due to their isolated nature and reduced barriers to entry for substantial levels of new construction. Sourcing acquisition opportunities outside the primary markets takes a larger investment in time and effort, but the rewards are readily evident.

#### Single-tenant performs

Throughout the recent recession in particular, single-tenant properties have performed well from the perspective of stability of income and occupancy. And simply put, single-tenant office and industrial properties today are achieving higher yields than their multi-tenant counterparts.

Through the first quarter of 2011, single-tenant office and industrial properties have been trading at higher spreads to 10-year U.S. Treasuries, and at higher cap rates, when compared to multi-tenant office and industrial properties:

Property Type	Average Cap Rate (based on prior 12 months)
Single-tenant Office	7.9%
Multi-tenant CBD Office	6.5%
Single-tenant Industrial	8.3%
Multi-tenant Industrial	8.1%

Source: Real Capital Analytics

In addition to higher yields, the supply of single-tenant office and industrial assets continues to increase, which not only provides a greater amount of opportunities, but also eliminates the scarcity premium, which can drive down cap rates when there is too little supply.

On the sales front, \$8.4 billion worth of single-tenant office properties changed hands in 2010. This accounted for 20% of all office investment sales, a 135% increase from 2009.

In the fourth quarter of 2010, single-tenant office sales volume almost tripled year-over-year. Demand was clearly strong, as single-tenant office property sellers achieved 93% of their asking price, a 4% climb from 89% in 2009.

The story is similar in the industrial marketplace, with single-tenant industrial sales totaling \$4.7 billion for all of 2010, which represented 28% of total industrial property sales. This volume represented a 90% increase from 2009 single-tenant sales. Also, 2010 was a good year for sellers of single-tenant industrial properties. On average, these properties achieved 91% of their asking price, which is a 2% gain over 2009.

The dynamic among buyers is constantly changing, however. In 2011, institutional buyers have stepped up their purchases of single-tenant retail, as more portfolios have traded. Institutions grew their share of the total single-tenant retail investment market from just 6% in 2010 to 20% in the first quarter of 2011.

Similarly, publicly traded real estate investment trusts also have accelerated their purchases, increasing their market share from 7% of total single-tenant retail transactions in 2010 to 29% in the first half of 2011.

Sale-leasebacks, which account for about 20% of the overall single-tenant marketplace, are experiencing more activity as well. Many companies are seeking to leverage the lower debt environment, and the ability to lock in lower rents by selling their owned real estate and leasing it back is an increasingly viable option.

Sale-leaseback transactions can be an attractive form of capital, especially when other capital sources are not readily available such as the equity market, debt market or banks. As we continue to emerge from the recent recessionary period and companies begin to expand, this is a viable choice for them to consider.

Thanks to their inherent attributes - triple-net, long-term leases, creditworthy tenants, and the potential for long-term capital appreciation - single-tenant commercial properties are growing in importance as a long-term income generator for many commercial real estate investors.

