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Net Lease Market Still Going Strong

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Zakin: “Walgreens has changed and isn’t looking so attractive for the relatively sophisticated 1031 buyer.”

NEW YORK CITY—While the credit profile of some traditional net lease investments has shifted, there’s no shortage of other properties for buyers to pick up. Clearly though, the supply available and its appeal varies by region, according to a group of net lease professionals who spoke EXCLUSIVELY to GlobeSt.com in advance of a panel discussion at RealShare Net Lease on investments and transactions.

“Walgreens has been the fail safe strategy for 1031 exchange investors for many years and it is somewhat of a barometer for pricing of net lease retail sales,” says Kenneth Zakin, senior managing director, NGKF Capital Markets. “But it has changed and isn’t looking so attractive for the relatively sophisticated 1031 buyer.”

Instead, he reveals, Walmart is the apple of investors' eyes. "It's very attractive. The credit is great—it's A quality—and the lease is 15 years with bumps every five years. The markets might not be as good as Wallgreens because they're corners, so the properties may be in secondary or tertiary locations. But who's going to go into those markets to challenge Walmart? No one."

Numerous fast casual restaurants have whet the appetites of Marcus & Millichap's clients, according to Glen Kunofsky, EVP, investments.

"We're selling about $450 million worth of Red Lobster around the country, with 25-year leases and demand has been off the charts," he states. "We sell a lot of Panera and investors love it. We also are selling Burger Kings and Popeyes restaurants; they're $1.5 to 2 million properties, and the REITs like buying them."

Other types of properties have their suitors too, he adds. "We work on a lot of healthcare sale-leasebacks. We're working on imaging facilities where there are a lot of tools and the tenants have a big commitment to the site. They aren't going to put in a $1 to $2 million dollar machine where they're not committed."

For some players, particularly foreign buyers, cap rate is what seals the deal. "**Since we're on the West Coast, we have Pacific Rim investors," says Sean O'Shea, managing director, The O'Shea Net Lease Advisory, a BRC Company. "For the countries there, net lease properties in the US are a safe harbor. They can accept a 2% to 3% cap rate, that sustains some of the compressed cap rate environment."**

Clark: "We're seeing 6% or 7% cap rates on European deals because there are fewer players."

Yet some US based buyers are looking overseas. "The bulk of our clients have been buying European assets, mainly because they want to get money out the door and it's too much brain damage to find deals in the US and then find a credit tenant," claims Brooks Clark, shareholder, Polsinelli. "We're seeing 6% or 7% cap rates on the European deals because there are fewer players."

But for those who look at domestic options, regional differences guide investment decisions. "In the Northeast, there's a lack of retail net lease property so people are trying to branch out into industrial and office," declares Stanley Wyrwicz, *s*enior managing director, Calkain Companies.

"But because there's so little property in the region," he continues, "stuff is being marketed at very low cap rates. Conversely, cap rates were higher on the West Coast but that seems to have slowed from a year ago."

The overall pace of the market appears to have slowed though, Wyrwicz says. "It's taking deals a little longer to close than a year ago, some come off the market and then come back on, buyers are being more cautious."