



The **FUTURE** is now  
within your reach.

February 22 - 25, 2011  
Las Vegas Convention Center

[Register Now!](#)

The National Real Estate  
Investor and Retail Traffic  
**Commercial  
Real Estate  
Sourcebook**

# RETAILTRAFFIC

Where real estate, retail and development meet

[RSS](#) [NEWS ARCHIVE](#) [RESEARCH](#) [LOGIN](#)

SEARCH

[Subscribe](#) [About Us](#) [Advertise](#)

SORTED BY  Date  Relevancy

[Design](#) [Development](#) [Retailing](#) [Management/Marketing](#) [Finance & Investment](#) [Traffic Court Blog](#)

JANUARY 18, 2011 [Home](#) » [Features](#) » [Vanishing Buyers for Triple Net Lease Deals](#)

[SAVE THIS](#) [EMAIL THIS](#) [PRINT THIS](#) [MOST POPULAR](#)  
[RSS](#) [MY YAHOO!](#) [NEWSGATOR](#) [Bloglines](#)

## VANISHING BUYERS FOR TRIPLE NET LEASE DEALS (2/26)

FEB 26, 2009 11:32 AM, BY BETH MATTSON-TEIG

The abundant supply of net lease properties for sale is doing little to spark investor enthusiasm. Net lease real estate sales dropped sharply in 2008 with even lower sales predicted for 2009.

A number of factors have stymied deal flow in a market where buyers are nervous about making a misstep as the economy and financial markets remain in crisis. The continued gap between bid and ask prices and a shakeout in the retail industry are creating a drag on sales activity, while the biggest stumbling block remains the lack of available financing.



In the fourth quarter of 2008, 2,411 net lease properties sold—a 63 percent decrease compared to the fourth quarter in 2007, according to a research report by Boulder Net Lease Funds, an investment firm in Northbrook, Ill. Retail properties represented 53 percent of those transactions with 1,277 individual sales.

Capital constraints are impeding investment sales as buyers struggle to find financing or instead opt to preserve capital amid the uncertain market conditions. "We're still investing capital, but just at a slower rate right now until we see the capital markets open up again," says Steve Horn, senior vice president of acquisitions for National Retail Properties (NYSE: NNN), an Orlando-based REIT that buys single-tenant retail properties.

National Retail Properties has issued guidance for a conservative target acquisition volume of just \$60 million in 2009, well below the \$355 million it spent in 2008 for 109 properties. "That's not because the opportunities aren't there. It's because we are getting stricter on the underwriting side of things because we are uncertain as to where retail sales are going," Horn says. "We have always been conservative, but even that much more scrutiny is going into the deal. So it is tougher to close on a property in today's environment."

Even though sales volume is down, there are a number of opportunistic buyers combing the market as competition wanes and cap rates rise. "If you're a buyer and liquid, there are some excellent buys out there," says Christian Marabella, president of Marabella Commercial Finance, a Carlsbad, Calif.-based firm that specializes in arranging financing for 1031 exchange commercial investment properties.

### Surplus inventory

Buyers are able to shop from a wide variety of properties. While retailer expansion has indeed slowed, there are still a number of projects in the pipeline boosting supply. "Inventory levels are continuing to go up because there is not enough velocity to take deals off the market," says Daniel Herrold, regional director for the Houston office of the Stan Johnson Co., a commercial real estate brokerage.

ADVERTISEMENT

# WHAT'S YOUR DREAM APP FOR THE IPAD?



## Traffic Court Blog

**Inside the World's Largest Ghost Mall**  
1/14/2011

What happens when you build a giant mall and nobody comes? That's what they're finding out in Dongguan, China...

**New Retail REIT on the Market (Thursday's News & Notes)**  
1/13/2011

It looks like the number of publicly traded retail REITs might grow a bit this year. Today, news emerged...

**The Best Chains on Main**  
1/12/2011

Recently, I had the opportunity to serve as one of the judges for first annual 'Best Chain on Main'...

### Retail Traffic Photo Galleries



#### Design Without Borders

America may have brought the world the regional mall. But now innovative projects popping up overseas are

taking that and other retail concepts into new and innovative directions, setting a lead that U.S. firms may increasingly want to follow...



#### 2010 SADI Galleries

The regional mall is supposed to be a dead concept. Open-air centers are what customers want.

Right? It turns out that in this case the old dog can be taught new tricks. The story of Retail Traffic's 21st Annual Superior Achievement in Design and Imaging (SADI) awards...

[View more galleries.](#)

Lubefast in Montgomery, Ala., listed at a 10 percent cap rate to a Walgreens in Valdosta, Ga., offered at a 6.5 percent cap.

Despite an abundance of listings, there are not a lot of "fresh" properties coming on-line. Rather than put properties up for sale in a soft market, owners have chosen to hold onto them. In the fourth quarter, 34 percent of the total assets available were new to the market compared to a historical quarterly average of 43 percent being new, Boulder reports.

**Prices slow to adjust**

A deterrent to transactions being completed is sellers' reluctance to reduce their prices. Buyers are experiencing a disconnect between what they see as overinflated prices for properties amid deteriorating market conditions. Still reeling from a dismal 2008 holiday season and the downturn in consumer confidence, the ICSC forecasts same-store sales could be negative through June of this year after the first negative holiday shopping season on record. "I think retail is the worst of the three sectors, at the moment, in terms of fundamentals—store closings, consumer spending, et cetera," says Randy Blankstein, president of Boulder Net Lease Funds.

Many prospective buyers say retail properties are still priced too high in this environment. Retail cap rates have started to inch up and are likely to continue as the year progresses. "I think there is going to be a big movement in retail cap rates this year, and I see them ending the year higher than office and industrial," Blankstein says. Retail cap rates are expected to increase at least 50 basis points for quality properties and upwards of 150 basis points for properties of lesser quality. Net lease retail properties posted average cap rates of 7.5 percent during the fourth quarter, which were lower than office at 7.7 percent and industrial at 8.0 percent, according to Boulder.

"Pricing has shifted a little bit, but not enough to spark deal flow," Horn says. "Sellers haven't completely come full circle to realize how bad it is out there."

There are some better prices to be found among developers who are trying to get out of deals, he adds; although some sellers are still stuck on 2006 prices.

Even "A" credit retailers like Walgreens are not immune to the pricing shift. A year ago, Walgreens stores were selling at cap rates of 6.25 percent regardless of their location. Today, those Walgreens are closing at cap rates of 7.25 percent and even 7.5 percent, notes Herrold.

"Those cap rates continue to move up simply because there is a growing supply of inventory and buyers can be picky and choose the premier locations," Herrold estimates there are between 200 and 250 Walgreens for sale compared to less than 100 in mid-2007.

**Quality vs. opportunity**

The net lease properties that are trading are split into two categories and are at opposite ends of the spectrum. On the one end are opportunistic buyers chasing stressed properties or those in which the owner is being forced to sell at a discount. On the opposite end are those investors seeking "A" quality properties in top-tier locations. Few of the "middle market" properties are trading, in large part because their prices haven't dropped enough to spark investor interest.

The flight to quality is not a surprise in this volatile market. Buyers are targeting high-credit tenants in major metro areas and retailers who sell necessities such as groceries and gas. "We always like the convenience store industry," says Horn. "That is one industry that has not been significantly impacted by the economic downturn." National Retail Properties closed on the purchase of several Stripes convenience stores in Houston and Lubbock, Texas, in December. National Retail Properties also likes solid-performing quick service restaurants like Taco Bell.

Buyers are also scouring the market for distressed properties that could be potential bargains. "We think there are going to be some great opportunities later in the year. But the ability to take advantage of those opportunities is going to be tougher than what people think, because it is going to be harder to raise capital," says Jon McClure, principal at Chesapeake Cos., a Minnetonka, Minn.-based developer of net lease properties.

Franchise leased properties are examples of properties that are very difficult to underwrite in the present market. "We could do about as many franchise deals as we wanted right now, because there is a lot of demand from franchise operators, says McClure. "The ultimate question is—are they bankable?"

The biggest and best franchise groups with a great track record and solid brand, such as McDonald's, will continue to find financing. It is the smaller, less established franchise groups and individual franchisees that are struggling to get deals done in the current market environment.

Caution is one thing all net lease investors have in common. In the past, net lease buyers would commit to deals based largely on the credit quality of the tenant. That is not the case anymore. Buyers are scrutinizing the real estate fundamentals, property and market conditions and neighboring vacancies, not to mention the surrounding tenant mix and

**Shopping Center and Mall Fundamentals Stable, But Challenges Remain**

**Kmart store closings -- the complete list**

**Retail Real Estate's 2010 in Review**

**CB Richard Ellis Off to Busy Start in 2011**

**Resources**

**[Blog](#) [Rankings](#) [ENews](#) [Webinars](#) [Podcast](#)**

- Top 100 Rankings**
- Top Markets**
- Top 100 Owners**
- Top 100 Managers**
- Development Plans**
- Top Contractors**
- Top Lenders**

**Interactive Green Directory**  
**Interactive Green Directory**  
**Get Listed!**

**Retail Traffic Current Issue**



**The Golden Rule**

**After Three Years on the Brink, Retail Real Estate is Set to Recover in 2011**

**Roundtable: Industry Experts Have High Hopes for**

**2011**

**View the full issue**

**More ways to stay informed**



**Related Sites**

- National Real Estate Investor**
- Lodging Hospitality**
- Supermarket News**
- Multichannel Merchant**
- Restaurant Hospitality**
- Trusts & Estates**
- Registered Rep.**



David Bodamer

**RetailTraffic**

Best Chains on Main  
**<http://goo.gl/fb/hfeKa>**  
**#bestchainsonmain**  
4 hours ago · reply

Brookfield and Fairholme Fund Reach Agreement on GGP Shares  
**[#deals](http://goo.gl/fb/VrCiw)**  
4 hours ago · reply

@CoyDavidsonCRE Here's what we wrote about the South China Mall three years ago:  
**[#CRE #retailtraffic](http://bit.ly/gCtNBF)**  
4 days ago · reply

Colliers International Buys San Francisco Brokerage Firm **[#people](http://goo.gl/fb/rPblt)**  
4 days ago · reply

Inside the World's Largest Ghost Mall  
**[#retailtraffic #cre](http://goo.gl/fb/Ymt5t)**  
4 days ago · reply

**Join the conversation**

demographic patterns.

Developers, in particular, are careful in their underwriting of deals. For example, Chesapeake is working on a 24,000-square-foot development in Waterford, Conn., that is 94 percent pre-leased. The short list of prospective tenants are best-in-class, national brand operators. In the past, Chesapeake has done deals with names such as Darden Restaurants, Buffalo Wild Wings and Jared the Galleria of Jewelry. "We have to be cautious to make sure we are picking someone that is going to be there at the end of this froth," says McClure. "There are not going to be a lot of deals that make sense."

Opportunities in the market will continue to emerge as cap rates rise. The question remains whether those opportunities will be enough to bolster sluggish sales. A recovery in both the economy and capital markets may be the only key to restoring investor confidence, and many industry experts don't expect an improvement this year.

"I think 2009 is going to be very similar to the second half of 2008 in that transaction volume is going to remain depressed," Blankstein says. "The impetus that we really need to see is the debt market turn, and I don't see a clear way out of the debt market issue this year."

**Retail Properties**

Cap Rate Bracket	Average Price	Average Cost per sq. ft.	Percent of Deals
0.00%-6.99%	\$3,079,686.39	\$395.29	28.84%
7.00-7.99	3,063,336.47	316.27	31.84
8.00-8.99	2,271,331.86	228.76	22.11
9.00-9.99	1,670,835.52	190.07	8.1
10.00-10.99	1,215,464.73	175.56	5.71
11.00+	1,322,389.99	193.32	3.41

Source: Boulder Net Lease Funds LLC

**Related from Retail Traffic**

**BUSINESS DEALS**

Jul 7, 2010

**Business Deals | American Continental Properties, ING Clarion Partners LLC,...**

Jul 1, 2010

**Business Deals: CB Richard Ellis**

Jul 8, 2010

**Related Articles**

**Buy Back Program from Best Buy Deals with Buyer's Remorse**

ZDNet Blogs - 7 days ago

**Stronach set to give up control of real estate firm**

Reuters - 28 days ago

**Miami Beach Real Estate Market Awash in Foreign Cash Buyers**

Housing Watch - Jul 29, 2010

**Acceptable Use Policy**

Add New Comment

Type your comment here.

Post as ...

Showing 0 comments

Sort by Popular now   **Subscribe by email**  **Subscribe by RSS**

blog comments powered by DISQUS

Want to use this article? Click here for options!  
© 2011 Penton Media Inc.

**Most Recent Story**

**BEST CHAINS ON MAIN**

Jan 18, 2011 11:26 AM