



- Which Markets Offer Net-Lease Yield?
Last Updated: May 21, 2015

EXCLUSIVE

Which Markets Offer Net-Lease Yield?

By [Carrie Rossenfeld](#) | Orange County

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IRVINE, CA—The **net lease sector** is so competitive that investors are looking toward markets that include Albuquerque, Kansas City, Little Rock and Boise for the cap rates they want, **Colliers International's Eric Carlton** of the **Snyder/Carlton NNN** team tells GlobeSt.com. With **ICSC** in full swing, we spoke with Carlton about where investors can go for yield in such a competitive market. ***GlobeSt.com: The net-lease sector has grown so strong that investors are searching hard for yield. Where can it be found?***

Carlton: Investors who typically prefer creditworthy properties in prime markets are now combing over secondary and even tertiary markets. Assets with strong credit are often available for sale in lesser-known markets for relatively attractive cap rates. This process is also resulting in a breakdown of "investment discipline," meaning that investors are beginning to take on additional risk

in order to capture yield. Markets such as Albuquerque, Kansas City, Little Rock and Boise, for example, are starting to experience higher net-lease **investment** activity. Like back in 2005 and 2006, consequently we are seeing the spreads from corporate credit to franchisee also shrink for many tenants while buyers look to assets with shorter terms in order to pick up better returns.

GlobeSt.com: Do you believe that more properties will “become” net-lease investments since there’s such a lack of supply to satisfy the demand?

Carlton: A greater appetite for long-term NNN investments has already shifted a host of **developers’** strategies concerning the exit value of their assets. As long as the **capital markets** remain highly liquid and demand exceeds supply of net-lease properties, increasing pressure will exist to either build net-lease assets or convert existing leases into net-lease format. There are other factors that would obviously affect this evolution, such as tenants’ operating models, but we certainly believe developers will seek to strike net leases with tenants of all types. Larger institutions, **REITs** and national groups are also surveying the net-lease market and are willing to sell outparcels of their existing centers, whereas a few years ago it wasn’t even part of their business model.

GlobeSt.com: What trends are you noticing in the net-lease sector?

Carlton: We are noticing that buyers are willing to look more at secondary markets for net-lease assets and toward tenants with lesser credit quality. Many buyers, especially **1031-exchange** buyers, are seeking better yield than what is typically available for national-credit, long-term leases. Also, financing continues to affect appetites for certain tenants and users, such as **Walgreens**. Conduit debt or insurance lenders have lent a huge amount of capital to drugstores and are looking to diversify their loan pool. From a macro perspective, the **Baby-Boomer** generation continues to look at this asset class for estate planning and wealth preservation. Demand only continues to grow as we see this segment of the population grow. Even as inflation comes down the road, the net-lease sector should continue to thrive and transact.

GlobeSt.com: What else should our readers know about this sector?

Carlton: The net-lease sector continues to experience robust activity and will remain so for the foreseeable future. I would expect this sector to thrive for the next few years, especially through the next downturn. New profiles of investors seem to be looking at net-lease assets as a tool to invest, moving away from more-traditional vehicles such as laddered-bond portfolios, stocks and commodities.

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Carrie Rossenfeld is a reporter for the West Coast region of GlobeSt.com and Real Estate Forum. She was a trade-magazine and newsletter editor in New York City before moving to Southern California to become a freelance writer and editor for magazines, books and websites. Rossenfeld has written extensively on topics including commercial real estate, running a medical practice, intellectual-property licensing and giftware. She has edited books about profiting from real estate and has ghostwritten a book about starting a home-based business.

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