Net-Lease Investment Market Improves in Q2

▲ $9.0 B	▼ $369 M	▲ 6.6%	▲ 4.3%
Q2 Investment Volume	Q2 Cross-Border Capital	Average Cap Rate	10-Year Treasury Yield*

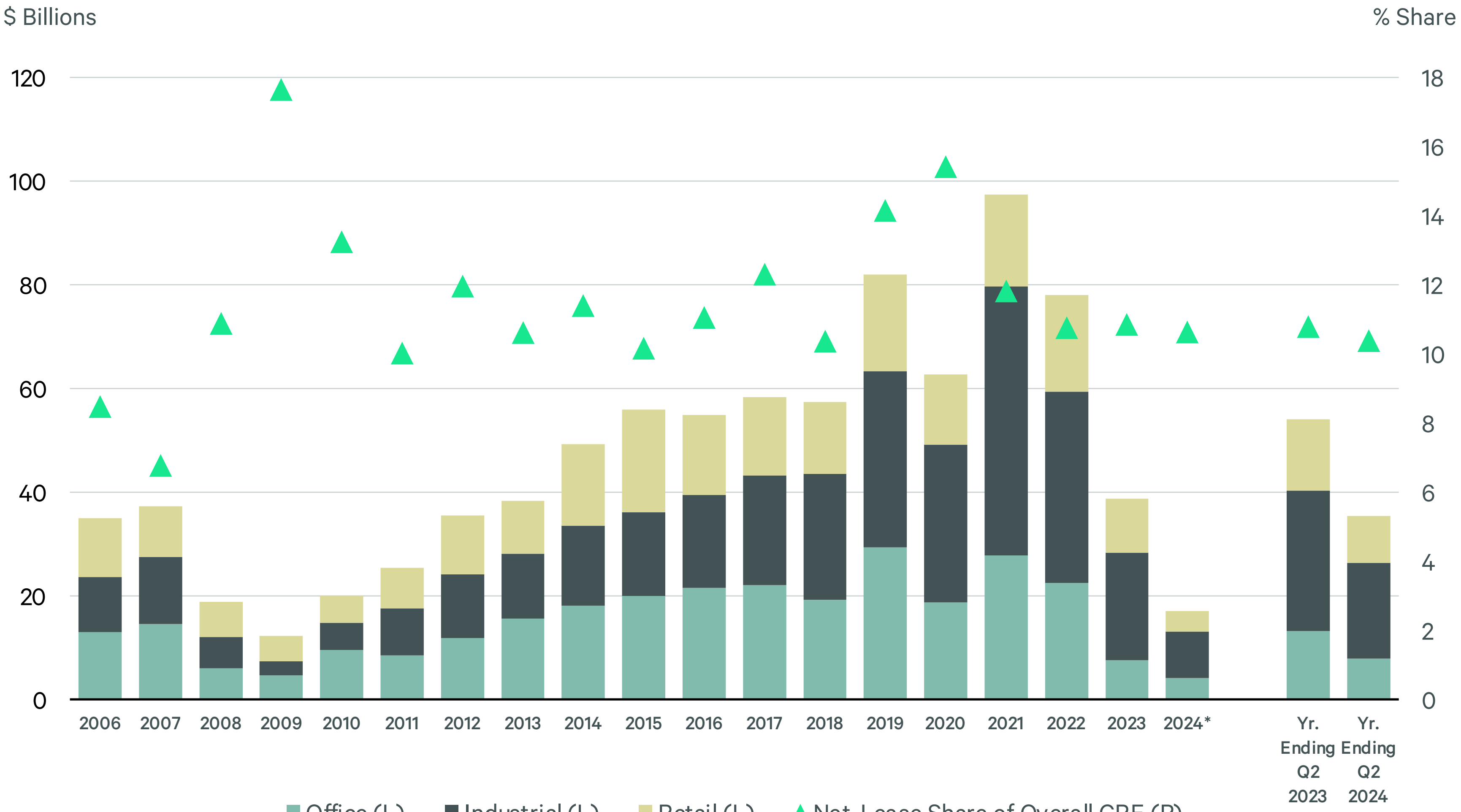
Note: Arrows indicate change from the same quarter in the previous year. *Quarterly average.

Executive Summary

- Net-lease investment volume increased by 11% quarter-over-quarter in Q2 to $9.0 billion but fell by 14% year-over-year. Total commercial real estate investment volume increased by 14% quarter-over-quarter to $85.7 billion, down by 3% year-over-year.
- For the year ending Q2 2024, net-lease investment volume decreased by 34% from the comparable period in 2023 to $35.4 billion. Total commercial real estate volume over the same period fell by 32%.
- The industrial & logistics sector's share of net-lease investment volume increased to 57% in Q2 2024 from 54% a year earlier. Retail's share remained relatively unchanged at 21%, while the office share decreased to 22% from 24%.
- Although 68 basis points (bps) higher than a year ago, the average net-lease cap rate increased by only 10 bps quarter-over-quarter—indicating that cap rates are stabilizing for the first time in more than two years. Retail assets accounted for nearly all of the slight quarter-over-quarter increase in Q2.
- The average 10-year Treasury yield increased by 56 bps year-over-year to 4.3% but has since fallen below 4%. The spread between the 10-year yield and average net-lease cap rate remained stable at 230 bps.
- We expect that moderating inflation and economic growth will prompt the Fed to begin cutting rates in September. This, combined with the 10-year Treasury yield remaining near 4%, will lead to increased investment activity later this year and into 2025.

Figure 1
Net-lease investment volume

- Q2 net-lease investment volume—using single-tenant asset sales as a proxy—fell by 14% year-over-year to $9.0 billion.
- For the year ending Q2 2024, net-lease investment volume decreased by 34% from the comparable period in 2023 to $35.4 billion and accounted for 10% of total commercial real estate investment volume.
- We expect that capital market conditions will turn more favorable in the second half of 2024 and into 2025. This is based on our belief that moderating inflation will allow the Fed to adopt a less restrictive policy stance and that the 10-year Treasury yield will remain near 4%.
- Net-lease investment will remain particularly attractive given its less risky nature amid somewhat uncertain market conditions.



Note: 2024* is YTD value. Single-tenant asset investments used as a proxy for net-lease investment sales. Overall CRE Volume include entity-level transactions.
Source: CBRE Research, MSCI Real Assets, Q2 2024.

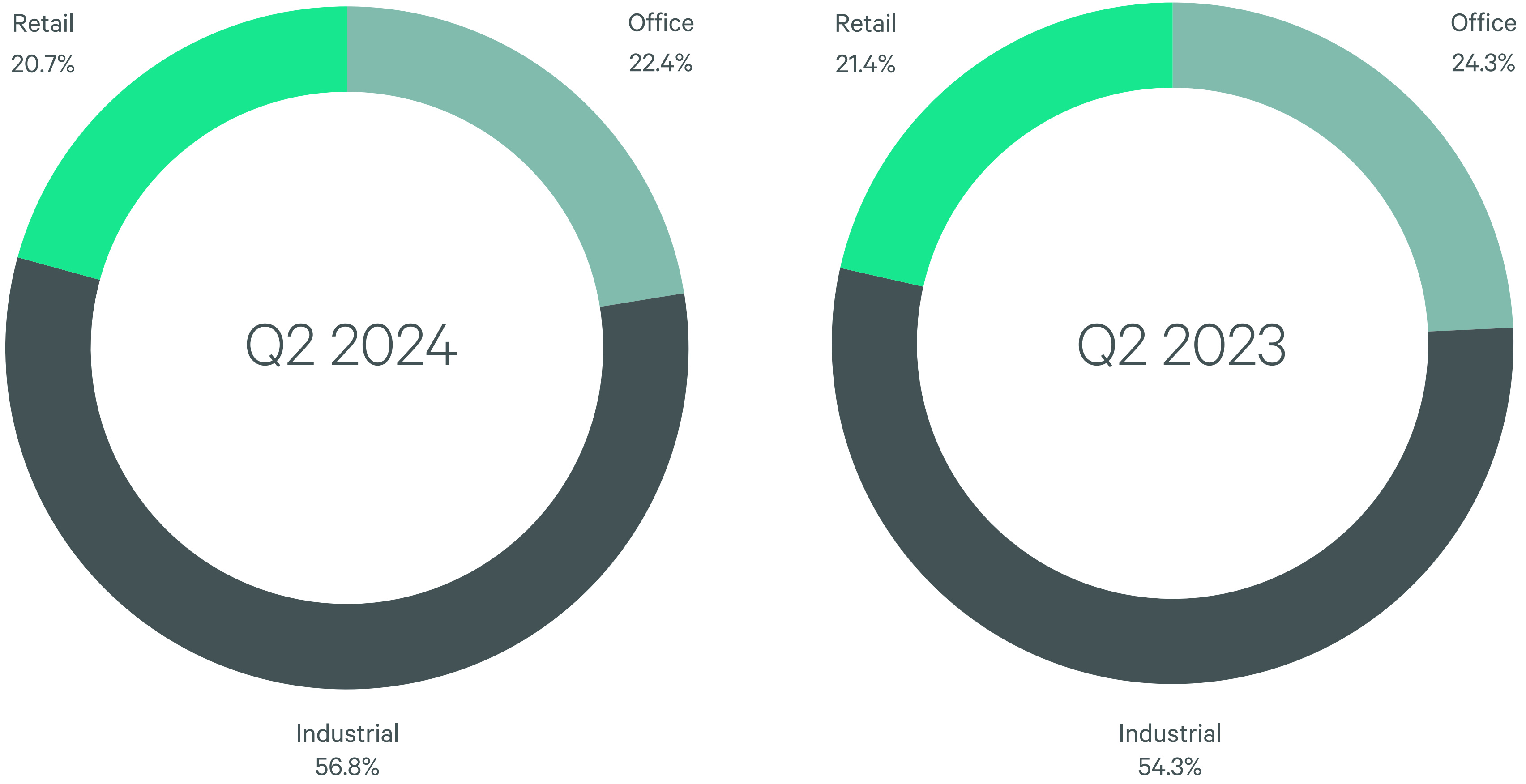
Figure 2
Net-lease investment volume by major property type

	Total ($ Billions)				Total ($ Billions)			
	Q2 2024	Q2 2023	Change (%)	Market Share (%)	Year Ending Q2 2024	Year Ending Q2 2023	Change (%)	Market Share (%)
All Types of Investments								
Office	2.0	2.5	-20.6	22.4	7.9	13.2	-40.6	22.2
Industrial	5.1	5.7	-10.1	56.8	18.4	27.1	-31.9	52.0
Retail	1.9	2.2	-17.1	20.7	9.1	13.7	-33.4	25.8
Other	0.0	0.0	-	0.0	0.0	0.0	-	0.0
Total	**9.0**	**10.5**	**-14.2**	**100.0**	**35.4**	**54.0**	**-34.4**	**100.0**
Single-Asset Investments Only								
Office	1.4	1.9	-27.5	19.0	5.9	10.3	-42.1	21.1
Industrial	4.1	3.5	15.9	56.7	14.5	19.9	-27.4	51.5
Retail	1.7	2.0	-13.9	24.3	7.7	11.0	-30.3	27.3
Other	0.0	0.0	-	0.0	0.00	0.00	-	0.0
Total	**7.2**	**7.4**	**-3.2**	**100.0**	**28.1**	**41.2**	**-31.8**	**100.0**
Portfolio Investments Only								
Office	0.7	0.7	-1.3	35.9	1.9	3.0	-35.5	26.2
Industrial	1.1	2.2	-51.8	57.4	3.9	7.1	-44.5	53.9
Retail	0.1	0.2	-45.4	6.7	1.5	2.7	-46.2	19.9
Other	0.0	0.0	-	0.0	0.0	0.0	-	0.0
Total	**1.8**	**3.1**	**-40.4**	**100.0**	**7.3**	**12.8**	**-42.8**	**100.0**

Note: Some numbers may not total due to rounding. Single-tenant asset transactions used as a proxy for net-lease investment sales..
Source: CBRE Research, MSCI Real Assets, Q2 2024.

Figure 3
Net-lease market share by major property type

- Industrial & logistics assets accounted for $5.1 billion or 57% of total net-lease investment volume in Q2, up from 54% a year ago.
- The office sector's share declined to $2.0 billion or 22% from 24% a year ago, while the retail sector's $1.9 billion kept its 21% share relatively unchanged.
- On a year-over-year basis, Q2 net-lease investment volume fell by 10% for industrial, 17% for retail and 21% for office assets.



Note: MSCI Real Assets only tracks properties and portfolios of $2.5+ million. Therefore, the total net-leas investment volume is understated, especially since a sizable share of retail transactions are below $2.5 million.
Source: CBRE Research, MSCI Real Assets, Q2 2024.

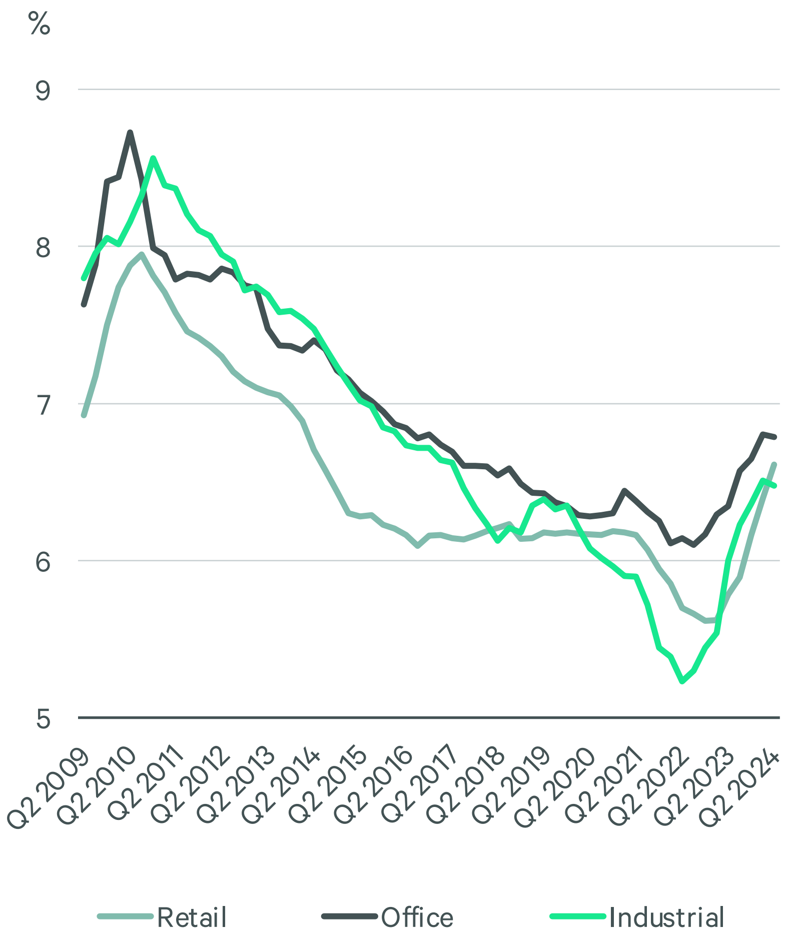
Figure 4
Top 20 markets for net-lease investment volume, Q2 2024

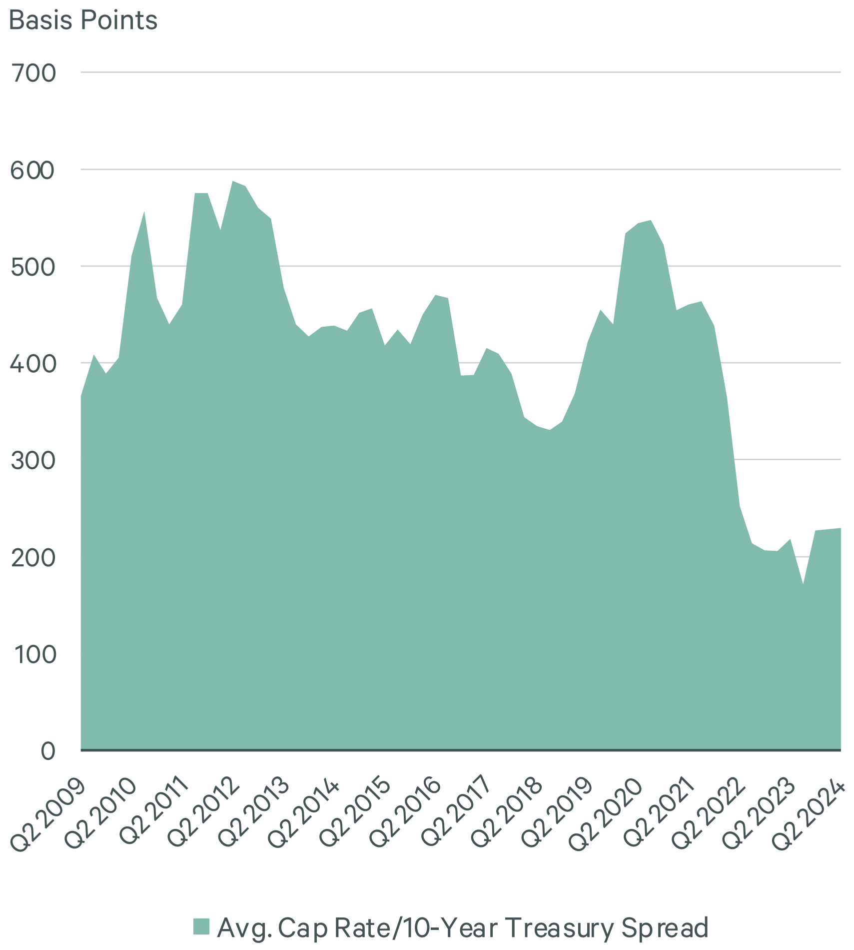
Rank	Market	Q2 2024 ($ Millions)	Q2 2023 ($ Millions)	Change ($ Millions)	Change (%)	Yr. Ending Q2 2024 ($ Millions)	Yr. Ending Q2 2023 ($ Millions)	Change ($ Millions)	Change (%)
1	Los Angeles	443	362	80	22.1	2,096	2,517	-421	-16.7
2	Charlotte	365	92	273	296.7	848	646	202	31.3
3	Atlanta	358	326	32	9.7	1,108	2,032	-924	-45.5
4	Phoenix	331	232	99	42.5	949	935	14	1.5
5	Seattle	285	71	214	300.8	605	618	-13	-2.1
6	Dallas-Ft. Worth	235	505	-271	-53.6	1,177	2,435	-1,258	-51.7
7	Minneapolis	232	138	93	67.2	578	752	-174	-23.1
8	N. New Jersey	226	469	-244	-51.9	929	1,536	-607	-39.5
9	Tampa	217	38	179	474.8	612	442	170	38.4
10	Houston	209	307	-99	-32.1	1,077	1,102	-25	-2.2
11	West Palm Beach	192	44	148	336.1	269	241	28	11.8
12	Greenville	188	42	147	351.2	298	215	84	39.0
13	San Jose	183	328	-145	-44.3	955	1,072	-117	-10.9
14	East Bay	173	376	-203	-54.0	620	1,034	-414	-40.0
15	Chicago	173	597	-424	-	1,008	2,665	-1,657	-
16	Inland Empire	164	219	-55	-25.1	1,021	3,169	-2,149	-67.8
17	Northern Virginia	158	104	55	52.6	329	452	-122	-27.1
18	Sacramento	151	135	16	11.5	306	284	22	7.6
19	Boston	148	405	-257	-63.5	1,173	2,388	-1,215	-50.9
20	Denver	146	359	-213	-	339	755	-416	-55.1

Source: CBRE Research, MSCI Real Assets, Q2 2024.

Figure 5
Cap rates & spreads between 10-year Treasury yield

- While the average net-lease cap rate increased by 68 bps year-over-year, it showed signs of stabilizing in Q2 with an increase of just 10 bps from Q1.
- The 10-year Treasury yield closed Q2 at 4.3% from 3.8% a year ago, although it has since fallen to below 4%. The spread between the average net-lease cap rate and 10-year Treasury yield has remained relatively stable at 230 bps over the past three months, up from 218 bps a year ago.
- The average net-lease cap rate for retail assets increased to 6.6% from 6.4% in Q1 while those for industrial and office assets were unchanged at 6.5% and 6.8%, respectively. This is the first quarter in over two years that net-lease cap rates showed signs of stabilization.
- We expect that cap rates will continue to stabilize and, in some cases, fall across markets in the coming months.

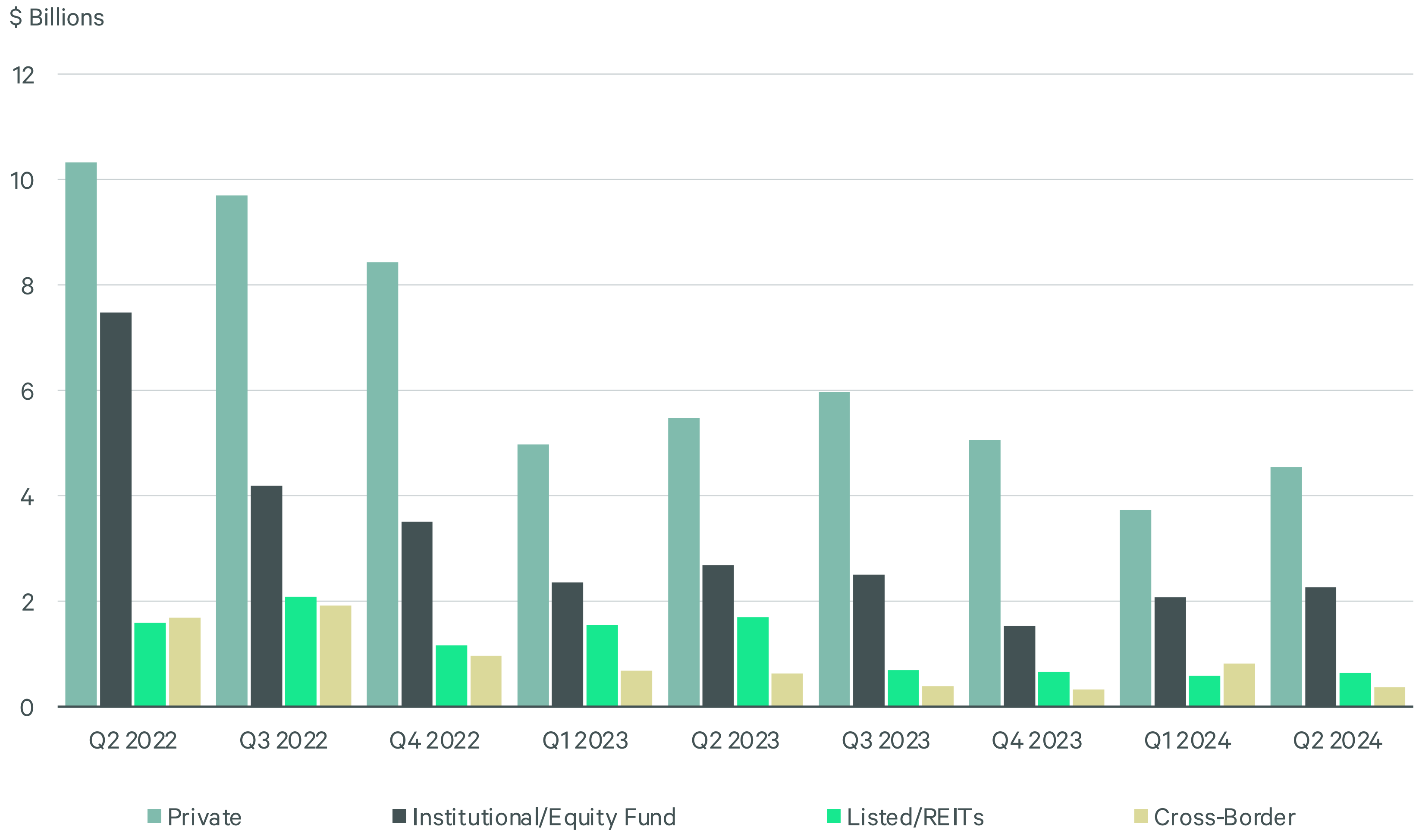




Source: CBRE Research, MSCI Real Assets, U.S. Department of the Treasury, Q2 2024.

Figure 6
Net-lease investment by investor type

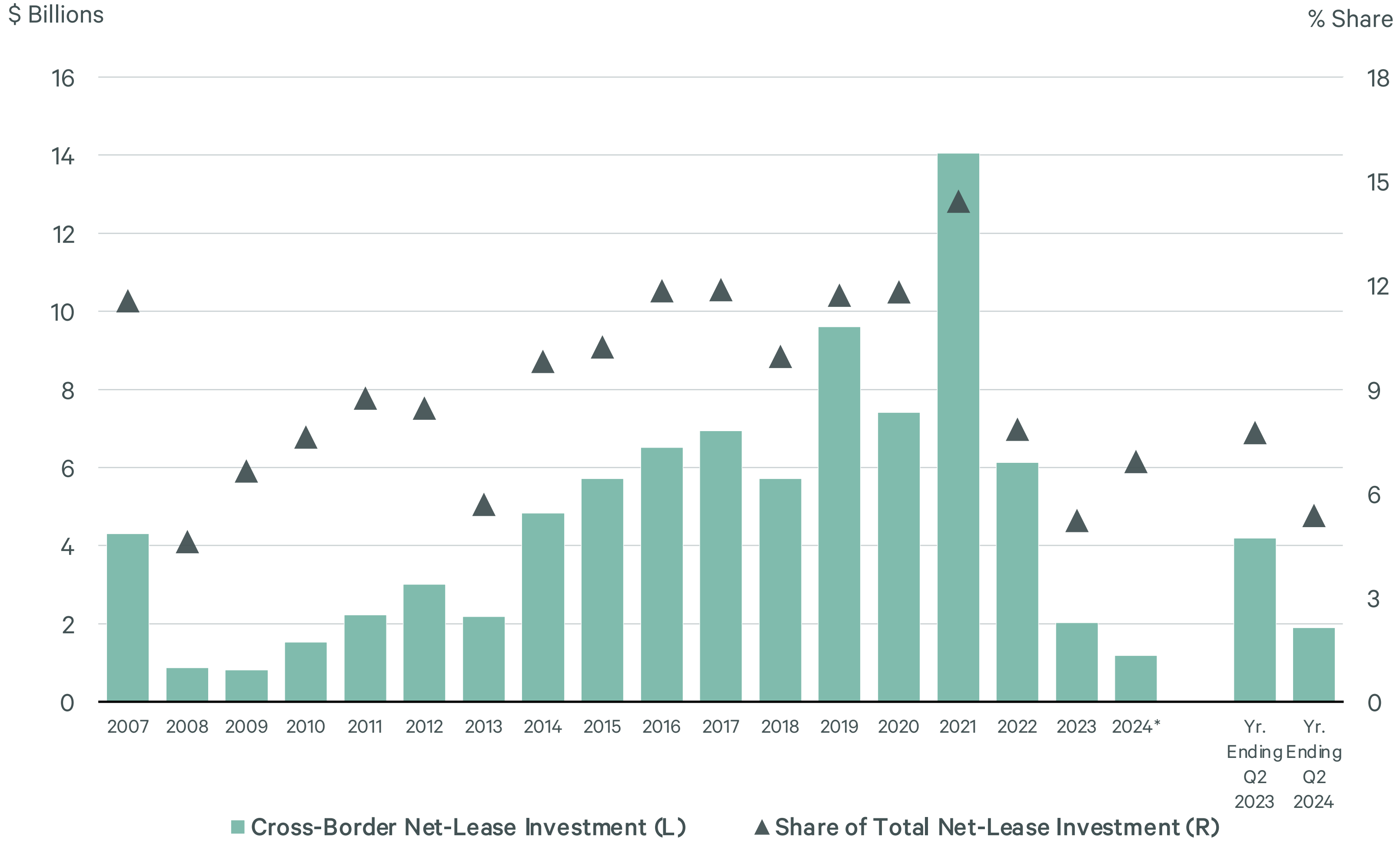
- Private investors remained the largest buyer group for net-lease investment. While total private capital volume fell by 17% year-over-year in Q2 to $4.5 billion, it was up by 22% from Q1.
- Institutional investors and equity funds accounted for $2.3 billion in Q2 net-lease investment volume, down by 15% year-over-year but up by 9% quarter-over-quarter.
- Net-lease investment by REITs increased by 9% from Q1 to $637 million but was down by 63% year-over-year.
- Cross-border net-lease investment fell by 42% year-over-year and 55% quarter-over-quarter to $369 million. The decrease was skewed by a sovereign wealth fund's $221 million life science property investment boosting Q1 volume.



Note: Investor types reflect transactions reported to MSCI Real Assets and may not fully reflect market activity.
Source: CBRE Research, MSCI Real Assets, Q2 2024.

Figure 7
Cross-border net-lease investment

- For the year-ending Q2 2024, cross-border net-lease investment fell by 55% to $2 billion compared with the same period in 2023.
- International buyers accounted for 5% of total U.S. net-lease investment volume for the year ending Q2 2024, down from 8% over the same period in 2023.

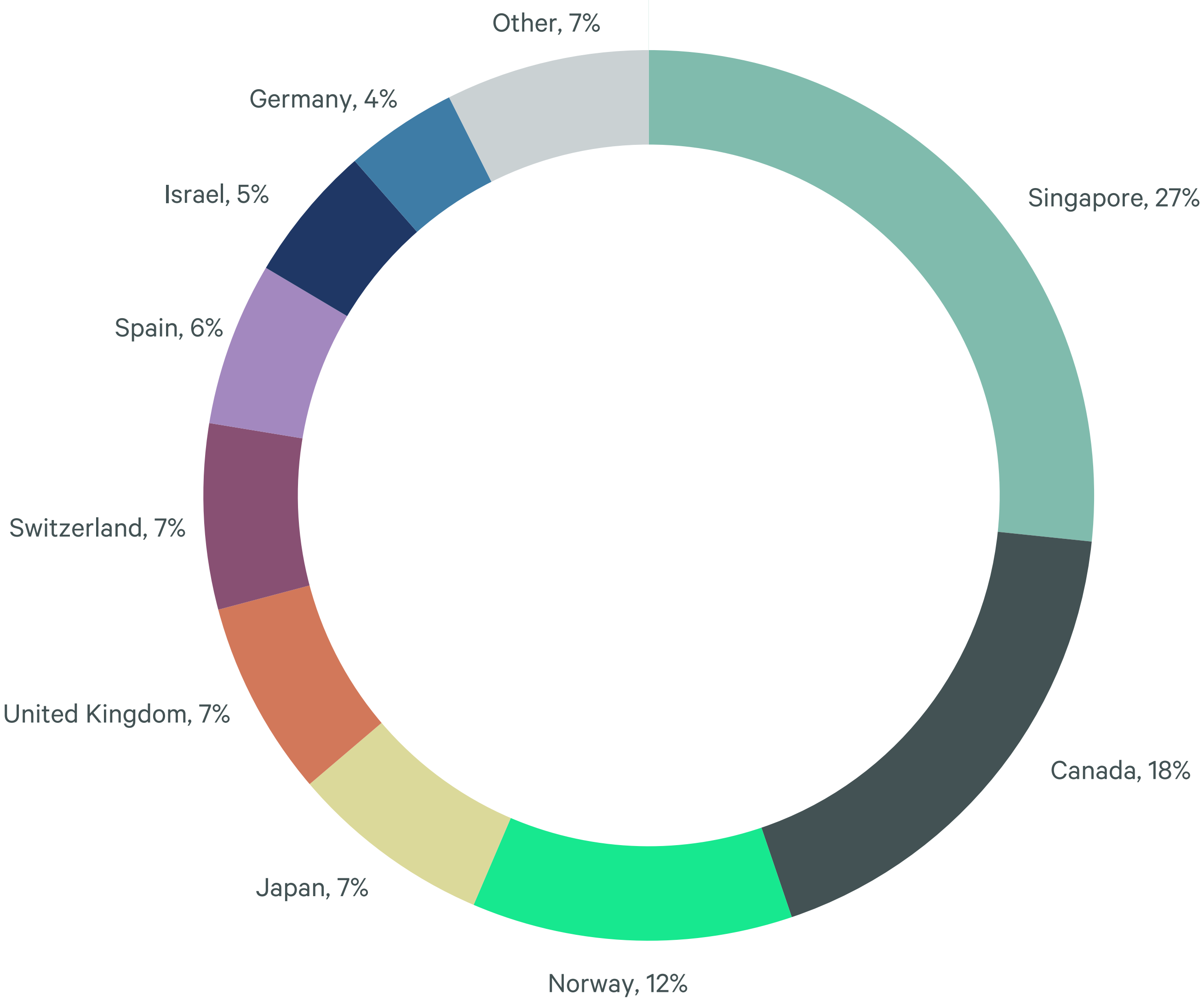


*Year to date.
Source: CBRE Research, MSCI Real Assets, Q2 2024.

Figure 8
Cross-border net-lease investment by country of origin, year ending Q2 2024

– Singapore, Canada, Norway, Japan and the United Kingdom were the top five countries for international investment in U.S. net-lease properties for the year ending Q2 2024. Together, they accounted for 71% of total cross-border investment volume.

– Singapore and Canada accounted for 45% of all cross-border net-lease volume over the past four quarters.



Source: CBRE Research, MSCI Real Assets, Q2 2024.

Figure 9
Sale/leaseback net-lease investment volume

- Sale/leaseback net-lease investment volume fell by 40% to $5.3 billion for the year ending Q2 2024.
- Sale/leasebacks accounted for 15% of all net-lease transactions for the year ending Q2 2024, down from 16% in Q2 2023 but on par with the five-year pre-pandemic average of 15%.
- Demand for sale/leasebacks remains favorable, as owners actively explore alternative options for capital raising and accessing liquidity given high borrowing costs.
- CBRE expects that net-lease investment activity will begin to see moderate improvement in the second half of 2024 due to attractive risk-adjusted returns and lower interest rates.

Note: *2024 is YTD value. Investor types reflect transactions reported to MSCI Real Assets and may not fully reflect market activity.
Source: CBRE Research, MSCI Real Assets, Q2 2024

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