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KW Commercial - Retail: STNL vs. Multi-Tenant

March 29, 2012 - Front Section

NCREIF reports the most recent Q4 Executive Summary that retail was the second best sector in the fourth quarter in 2011. While the financial indicators are hardly robust on a year over year basis, the report does give us a preview of growth anticipation to this sector. Single Tenant Net Leased (STNL) properties continue to be very attractive and in vogue. With the capital markets giving historic low returns, smart money has continued to pursue this attractive market sector and all for some very good reasons. STNL properties offer an easy to facilitate transaction, a uncomplicated single lease, a lower price point offering a larger pool of buyer/investors, a quick escrow: 30-60 days, appealing commissions, and a focus for portfolio opportunities meaning possible multiple transactions.

Multi-tenant (grocery + drug anchored centers) also are offering good growth potential too, but prove to be more challenging when compared to STNL. The deals are larger in size, which means HUGE investor demand, more tenants meaning lower risk as vacancies occur, more sophisticated buyers and sellers, longer transaction length: 60/180 days, and a product that is less local and more regional in focus. NCREIF states that the well managed neighborhood and community centers are performing best with regional malls and centers are among the worst. Discovering or uncovering opportunity in retail properties look for length of ownerships (those may be seeking exit), seek properties with high traffic count, identify buildings with deferred maintenance, look for lease or re-lease potential, seek buildings with absentee owners, and those properties with below-market rents. The lack of new construction will provide for fundamental growth as existing Retailers judge the current growth as sustainable creating continued opportunity in the sector.

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