

# Net Takeaways

## Bold Predictions for 2021



With 2020 officially in our rearview mirror, we take a moment to look ahead with our Annual Bold Predictions newsletter in which we make predictions about the net lease market in the year ahead and guarantee ourselves embarrassment and shame in 12 months when we look back at how our prognostications really held up. So without further ado, let's take a look at our predictions from one year ago:

### Bold Predictions 2020 Recap

- 2020 Net Lease Volume will be Flat
- Net Lease Cap Rates will Rise 10 to 25 Basis Points in 2020
- Net Lease "Alternative Tenants" will get Substantial Traction in 2020

After a 3/3 performance on our 2019 predictions, we have to grade ourselves a 1.5/3 for our 2020 predictions. No doubt the insanity that was 2020 would have been impossible to predict or account for in January of last year. While we do not have the final numbers for 2020 deal volume and cap rates, through Q3, the market was standing at \$37.59 billion compared to \$58.34 billion (for three quarters). While the Q3 2020 number will be revised and should rise, and Q4 2020 was a solid quarter, it seems unlikely that deal volume surpassed the 2019 highwater mark of \$79.57 billion. Our best estimate is that the year closed out somewhere in the \$55 billion range. Thus it is fair to say we missed this one by a wide margin!

In terms of cap rates through Q3 2020, cap rates were actually pretty flat with 2019 numbers, which had an average cap rate of 6.19 percent. While it would be natural to view substantial upward pressure on cap rates in 2020 from massive retail headwinds, the truth is - distressed retail didn't sell that much at all, and the retail that did sell was deemed "essential," keeping cap rates from exploding higher. No shocker that industrial cap rates moved lower by +/-20 basis points as investors flocked to the segment.

Lastly, we predicted that alternative tenants would get far more traction in 2020, and we certainly saw that in uses like car washes and urgent care retailers. That being said, some segments like fitness centers struggled to get any meaningful market engagement as COVID-19 disrupted their businesses substantially.

### Now we move on to our Bold Predictions for 2021

- Net Lease Cap Rates Compress Slightly in the 10 to 20 Basis Points Range
- Net Lease Deal Volume Increases Meaningfully
- Net Lease Retail Development Accelerates in the Warm Weather States

We look forward to the first week of 2022, so we can look back and see the total wins and losses.

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