Investment Market

Investment market continues to gain momentum

The market for retail investment properties remains highly competitive amid a low inventory of available assets. While sales activity in metro Denver decreased 16% on an annual basis in 2020, the number of closings recorded during the last three months of 2020 ranked as the strongest fourth quarter for deal flow in the past six years. The first quarter of 2021 saw a continuation in sales velocity at an above-trend pace.

■ **Private real estate investors increase dominance over buyer pool.** The trend of private buyers comprising a larger share of commercial real estate transaction volume intensified in 2020 as institutional investors moved to the sidelines. In 2020, 67% of dollar volume for retail investment sales was from private buyers. The trend is not limited to smaller transactions either, with sales in the $15 million to $50 million price range seeing a dramatic increase in private buyer interest. Private buyers will continue to expand their acquisition parameters and target properties across a broad spectrum of asset types and markets.

■ **Single-tenant net-lease assets attract investor interest.** During the pandemic, single-tenant net-lease assets received the most attention, followed by grocery-anchored and core infill multitenant assets. In metro Denver, restaurant sales accounted for nearly one-fourth of all transactions since last March. While demand is strong, the lack of new development and tenant expansion has limited the amount of net-lease listings on the market, resulting in cap rate compression.

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In the near- and long-term outlooks, single-tenant properties are viewed as uniquely positioned to benefit from the acceleration of existing retail trends. Retailers are implementing aggressive growth plans and seeking properties that accommodate evolving consumer behavior and shifting demographic trends.

New development and leasing activity will result in more net-lease listings on the market. The amount of capital targeting passive long-term fixed-income investments is unlikely to decrease, so an increase in supply should be insufficient to significantly alter market dynamics.

■ **Catalysts emerge for stabilization of multitenant retail assets.** March retail sales signaled a dramatic economic turnaround as consumer spending surged due to the rollback of business restrictions, wide distribution of the vaccine and government stimulus. Core retail sales increased 8.2% from February to March, with every major retail category advancing.

Vaccines now are available to nearly every American adult, which will encourage companies to reopen offices and schools to resume in-person education, providing consumers to areas that were among the hardest hit during the downturn. Retailers that weathered the pandemic are well positioned to benefit from increasing consumer spending and less competition.

Pecos Square and Burger King at 1777 W. 38th Ave. in Denver sold for $5.15 million in late April.

Market fundamentals are aligning for an increase in investment sales transaction velocity in the second half of the year. As the dust settles in the retail sector, property operating forecasts will be clearer and price equilibrium between buyers and sellers will be easier to achieve. The prevailing trend will be buyers and sellers having more flexibility in expectations and being more willing to transact as more competition enters the market and more trades occur.

■ **Bifurcated outlook due to fragmented retail recovery.** Retail will experience accelerated transformation and consolidation for the foreseeable future. Property performance will fluctuate based on market, tenant mix and building type.

Grocery stores are expected to continue to outperform and are the most targeted category by institutional and shopping center investors. Quick-service restaurants top net-lease investors' wish lists as properties with a drive-thru are highly sought after. Pharmacy, fuel-convenience, auto maintenance, auto repair, auto parts, discount, bank and medical tenants are viewed favorably. The wild-card category remains casual dining restaurants, which were severely damaged by the pandemic but now will

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