

Non-Listed REIT Investments Near \$4 Billion in 2014, Cap Rates Decline to 7.2%

Non-listed REITs acquired \$3.8 billion of core commercial real estate in 2014, bringing their year-to-date acquisitions to \$9.2 billion. With significant cash balances and several non-listed REIT liquidity events expected in the second half of 2014, non-listed REITs are poised for another strong year of acquisitions that could approach their record \$24 billion acquired in 2013. Non-listed REITs continue to establish their presence as significant investors in the commercial real estate market.

From a commercial real estate sector standpoint, non-listed REITs had the strongest focus on the retail and office sectors with \$1.2 billion and \$800 million invested respectively in 2014. The largest retail investors were Cole Credit Property Trust IV and Phillips-Edison ARC Shopping Center REIT, each with more than \$300 million in acquisitions in 2014. Griffin Capital Essential Asset REIT and Cole Corporate Income Trust were the largest office investors with \$339 million and \$118 million acquired respectively.

In 2014, non-listed REIT cap rates decreased to 7.24%. For the first half of 2014, non-listed REIT cap rates were 7.25% compared to 7.33% in 2013. Since their peak in 2009, non-listed REIT cap rates have declined by 20%, which reflects the rising commercial real estate prices over the last few years. Commercial real estate pricing markets are demand driven, and low interest rates on long-term debt are fueling the growing demand for the high leveraged equity yields of core commercial real estate.

Non-listed REIT cap rates vary significantly by commercial

real estate sector. In 2014, the medical office sector had the highest cap rates of 8.57%. The higher cap rates reflect both favorable medical office pricing as well as higher market and tenant risks. Non-listed REIT retail and office investments had moderate cap rates of 7.05% and 6.91% respectively. Non-listed REITs also continue to obtain inexpensive intermediate-term and long-term financing to generate high leveraged equity yields.

MTS Research is an industry go-to source for cap rate, interest rate, and cap rate spread market data for non-listed REITs. Their Non-Listed REIT Market Intelligence Reports, which are available by subscription, provide invaluable insights into investment and financing trends for non-listed REITs.

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MTS Research Advisors is a provider of data and analytics for non-traded REITs and BDCs.

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