

THE NET LEASE MARKET REPORT

NATIONAL ASKING CAP RATES

Sector	Q2 2019 (Previous)	Q3 2019 (Current)	Basis Point Change
Retail	6.23%	6.21%	-2
Office	7.07%	7.00%	-7
Industrial	6.99%	6.95%	-4

NUMBER OF PROPERTIES ON THE MARKET

Sector	Q2 2019 (Previous)	Q3 2019 (Current)	Percentage Change
Retail	4,253	4,306	1.25%
Office	512	547	6.84%
Industrial	392	377	-3.83%

MEDIAN NATIONAL ASKING VS CLOSED CAP RATE SPREAD

Sector	Q2 2019 (Previous)	Q3 2019 (Current)	Basis Point Change
Retail	26	22	-4
Office	24	28	+4
Industrial	22	23	+1

MARKET OVERVIEW

Cap rates for the single tenant net lease sector decreased across all three major sectors (retail, office and industrial) in the third quarter of 2019. The retail and office sectors compressed by 2 and 7 basis points to 6.21% and 7.00% respectively. Cap rates for single tenant industrial properties reached an all-time low of 6.95% resulting from limited supply and the continued growth of e-commerce. The decrease in cap rates can best be related to the Federal Reserve's monetary policy objectives. Following the recent rate cut provided by the Federal Reserve in early September, most prognosticators expect one additional cut in the prior to year-end. The current monetary policy has increased the buying power of investors due to favorable cost of capital and debt terms.

The 10 Year Treasury Yield continued to decline in the third quarter of 2019, bottoming out in early September at 1.46% after starting the third quarter at 2.03%. However, the 10 Year Treasury Yield has since increased and ended the third quarter at 1.67%. This figure still represented a rate that was lower than any other point throughout the first two quarters of 2019. As a point of reference, the 10 Year Treasury Yield has not been below 1.50% since July 2016. Accordingly, the net lease market strongly favors sellers after falling into a neutral position earlier this year.

Despite the low cap rate environment, some investors have shifted their focus to atypical investment strategies. Historically, investors were willing to sacrifice quality for location and lease term in the quest for higher yield. However, more recently some investors feel more comfortable with the risk-reward of speculative credits in primary markets with strong real estate or store level profitability. Recent examples of these speculative credits include Tesla, Rite Aid, Applebee's and other franchisee leased properties.

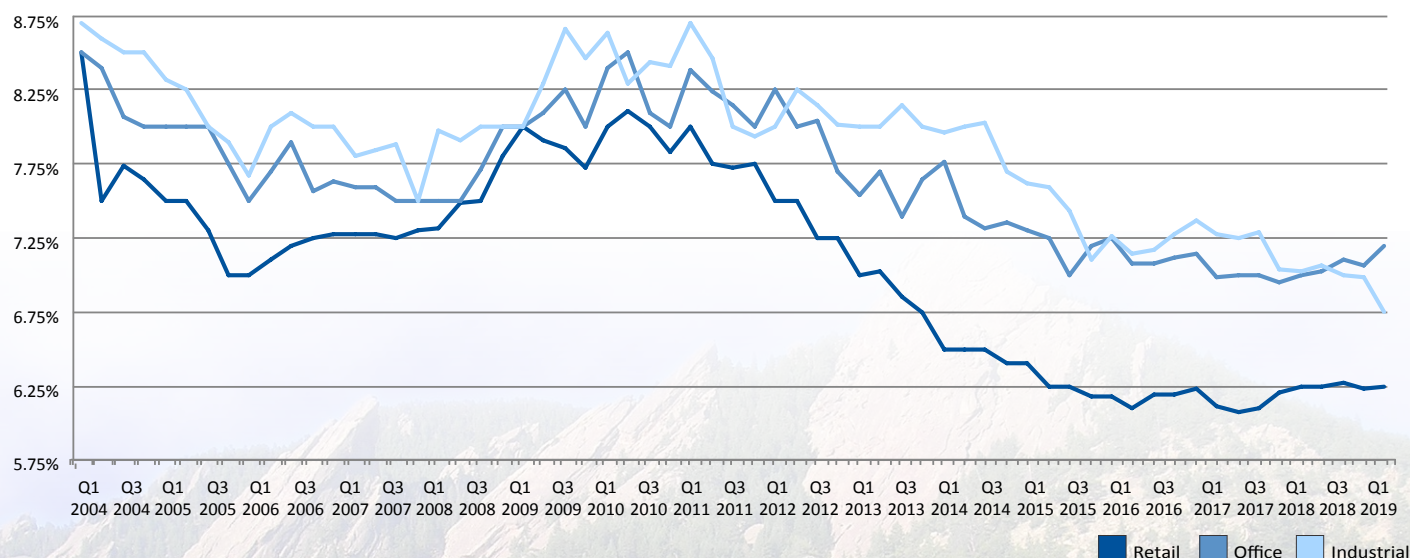
While many net lease participants feel that we are in the late stages of the real estate cycle, there is no expectation of transaction volume slowdown for the remainder of 2019. Historically, the 4th quarter represents that largest quarter in terms of transaction volume as institutional investors look to meet annual acquisition targets. As a low interest rate environment is expected to remain for the near term, investors will continue to seek the stability and predictable cash flows that this investment class offers.

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SELECTED SINGLE TENANT SALES COMPARABLES

Sale Date	Sector	Tenant	City	State	Price	Price Per SF	Cap Rate	Lease Term Remaining
Sep-19	Retail	Home Depot	Lodi	NJ	\$53,000,000	\$360	6.50%	10
Aug-19	Office	Aspen Dental	Chicago	IL	\$33,000,000	\$647	5.90%	12
Aug-19	Retail	AMC Theatres	San Diego	CA	\$32,334,000	\$530	6.99%	10
Jul-19	Industrial	Royal Paper Converting	Phoenix	AZ	\$29,500,000	\$92	6.10%	9
Jul-19	Retail	24 Hour Fitness	Highlands Ranch	CO	\$22,750,000	\$500	7.38%	16
Sep-19	Retail	Dick's Sporting Goods	Charlotte	NC	\$16,825,000	\$200	7.59%	10
Aug-19	Industrial	Saval Foods	Elkridge	MD	\$15,450,000	\$129	6.48%	3
Sep-19	Retail	LA Fitness	Stoughton	MA	\$14,935,000	\$332	7.13%	8
Aug-19	Retail	Walmart	Cranberry	PA	\$14,146,000	\$81	6.15%	10
Sep-19	Industrial	HC Companies	Sparks	NV	\$12,700,000	\$69	6.78%	14
Jul-19	Industrial	Anheuser-Busch	Arlington	WA	\$12,200,000	\$130	6.70%	10
Aug-19	Retail	Publix	Bonaire	GA	\$11,000,000	\$241	5.70%	19
Aug-19	Retail	Walmart Neighborhood Market	Albany	GA	\$10,650,000	\$254	5.54%	18
Aug-19	Office	Sentry Insurance	Davenport	IA	\$9,850,000	\$130	7.68%	9
Sep-19	Retail	Walgreens	Orlando	FL	\$8,450,000	\$581	5.21%	14
Jul-19	Retail	Fresh Thyme	Muncie	IN	\$8,446,000	\$294	7.25%	14
Aug-19	Retail	Academy Sports	Paducah	KY	\$7,782,000	\$122	8.00%	13
Sep-19	Retail	HomeGoods	Mount Kisco	NY	\$6,823,000	\$275	6.00%	10
Aug-19	Retail	Walgreens	Indianapolis	IN	\$6,500,000	\$500	5.65%	19

NET LEASE CAP RATE TRENDS



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MEDIAN ASKING CAP RATES BY YEAR BUILT

Tenant	2012-2019	2005-2011	2000-2005	Pre 2000
7-Eleven	4.85%	5.50%	5.90%	6.25%
Advance Auto Parts	6.00%	6.85%	7.20%	8.00%
AutoZone	5.40%	5.60%	6.00%	6.85%
Bank of America	5.00%	5.75%	6.25%	7.00%
Chase Bank	4.50%	4.62%	5.25%	6.10%
CVS Pharmacy	5.20%	5.68%	6.00%	7.00%
DaVita Dialysis Center	5.85%	6.20%	6.85%	7.40%
Dollar General	7.10%	7.50%	7.95%	8.40%
Family Dollar	7.20%	7.65%	8.05%	8.40%
FedEx	6.10%	6.50%	6.75%	7.15%
Fresenius	6.00%	6.40%	6.70%	7.20%
McDonald's (GL)	4.00%	4.25%	4.70%	5.00%
O'Reilly Auto Parts	5.35%	5.50%	6.10%	6.90%
Rite Aid	6.75%	7.00%	7.75%	8.85%
Starbucks	5.20%	5.75%	6.25%	6.70%
Walgreens	5.50%	5.70%	6.30%	7.30%

FOR MORE INFORMATION

AUTHOR

John Feeney
Senior Vice President
john@bouldergroup.com

CONTRIBUTORS

Randy Blankstein | President
randy@bouldergroup.com

Scott Harris | Vice President
scott@bouldergroup.com

Jimmy Goodman | Partner
jimmy@bouldergroup.com

Jeff Weil | Vice President
jeff@bouldergroup.com

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