

THE NET LEASE MARKET REPORT

NATIONAL ASKING CAP RATES

| Sector | Q1 2019 (Previous) | Q2 2019 (Current) | Basis Point Change |
|------------|-----------------------|----------------------|-----------------------|
| Retail | 6.27% | 6.23% | -4 |
| Office | 7.10% | 7.07% | -3 |
| Industrial | 7.00% | 6.99% | -1 |

NUMBER OF PROPERTIES ON THE MARKET

| Sector | Q1 2019 (Previous) | Q2 2019 (Current) | Percentage Change |
|------------|-----------------------|----------------------|----------------------|
| Retail | 4,358 | 4,253 | -2.41% |
| Office | 479 | 512 | +6.89% |
| Industrial | 352 | 392 | +11.36% |

MEDIAN NATIONAL ASKING VS CLOSED CAP RATE SPREAD

| Sector | Q1 2019 (Previous) | Q2 2019 (Current) | Basis Point Change |
|------------|-----------------------|----------------------|-----------------------|
| Retail | 35 | 26 | -9 |
| Office | 30 | 24 | -6 |
| Industrial | 29 | 22 | -7 |

MARKET OVERVIEW

Cap rates for the single tenant net lease sector decreased across all three major sectors (retail, office and industrial) in the second quarter of 2019. The retail sector experienced the greatest compression by 4 basis points to 6.23%. Cap rates in the office and industrial sectors compressed by 3 and 1 basis points respectively. This was the first quarter of downward cap rate movement for the retail sector following five consecutive quarters of upward movement. The downward cap rate pressure associated with the second quarter of 2019, was largely attributed to the change in the Federal Reserve's monetary policy objectives. A rate cut is expected at the Fed's upcoming July meeting and the majority of prognosticators expect at least one additional cut in the near future. At the end of the second quarter of 2019, the ten-year treasury was 2.00% after reaching levels as high as 3.24% in the past 12 months.

As the retail industry continues to evolve amid negative headlines, investors of net lease retail properties are putting greater emphasis on tenant credit quality and lease length. Furthermore, as many believe we are in the late stages of the real estate cycle, investors are targeting properties that can withstand a recession or uncertainty in the market. Accordingly, new construction 7-Eleven properties experienced the greatest quarter over quarter compression of 12 basis points to 4.88%.

With downward pressure on cap rates in all three sectors, the spread between asking and closed cap rates saw a decline when compared to the prior quarter. The spread between asking and closed cap rates decreased by 14, 6 and 7 basis points for retail, office and industrial net lease properties respectively. This illustrates the current competitive marketplace for net lease properties.

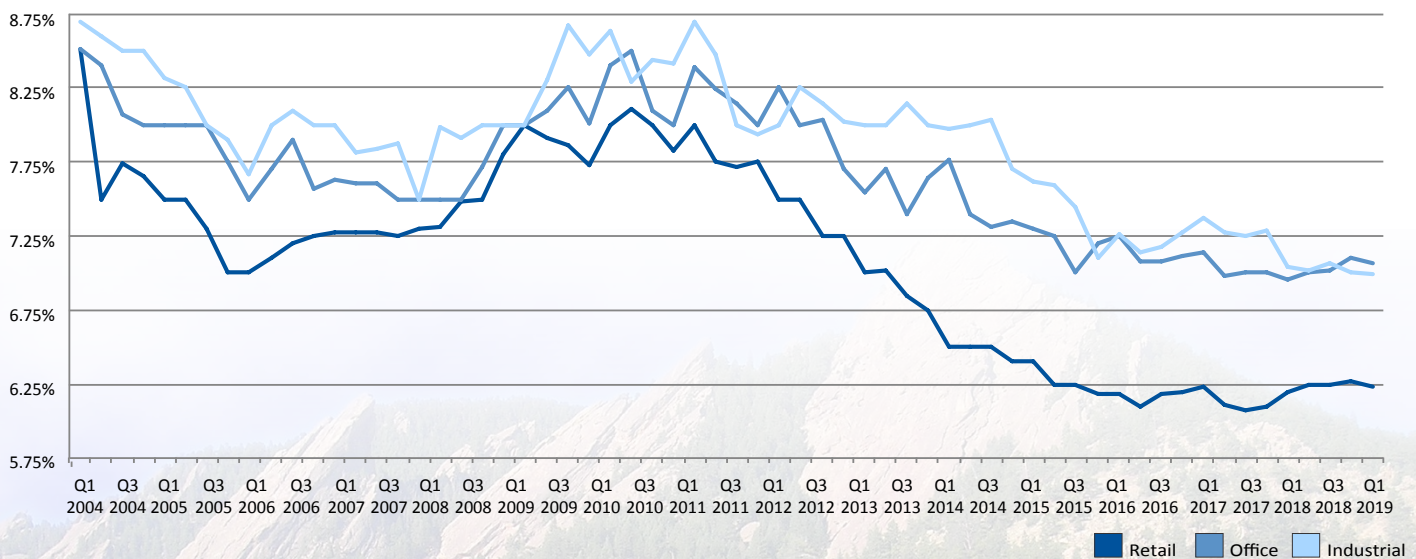
Investor demand for the net lease market should exceed transaction volume expectations initially forecast for 2019 with sale velocity increasing as the year progresses. Cap rates in the net lease sector should experience downward pressure, but remain relatively stable throughout 2019. Accordingly, net lease property investors will carefully monitor the capital markets and the effect on pricing as the market expects multiple rate cuts from the Federal Reserve in 2019 and 2020.

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SELECTED SINGLE TENANT SALES COMPARABLES

| Sale Date | Sector | Tenant | City | State | Price | Price Per SF | Cap Rate | Lease Term Remaining |
|-----------|------------|----------------------------|---------------|-------|--------------|--------------|----------|----------------------|
| Apr-19 | Office | Siemens | Orlando | FL | \$53,750,000 | \$237 | 6.40% | 10 |
| May-19 | Office | Royal Caribbean | Miramar | FL | \$45,000,000 | \$350 | 6.70% | 9 |
| Jun-19 | Office | Verizon (Call Center) | Murfreesboro | TN | \$30,589,200 | \$193 | 7.50% | 9 |
| May-19 | Industrial | Kansas City Star Newspaper | Kansas City | MO | \$30,100,000 | \$71 | 9.25% | 15 |
| Apr-19 | Retail | Whole Foods | Exton | PA | \$22,140,368 | \$405 | 4.91% | 19 |
| May-19 | Retail | 24 Hour Fitness | Falls Church | VA | \$21,250,000 | \$462 | 6.25% | 9 |
| May-19 | Retail | Lowe's (GL) | Gainesville | FL | \$18,250,000 | -- | 5.74% | 24 |
| Apr-19 | Industrial | FedEx | Pacheco | CA | \$15,150,000 | \$215 | 4.50% | 16 |
| Jun-19 | Industrial | RoadSafe Traffic Systems | Centennial | CO | \$12,375,000 | \$238 | 6.73 | 15 |
| Apr-19 | Retail | Maggiano's | Englewood | CO | \$12,300,000 | \$736 | 5.73% | 15 |
| May-19 | Industrial | FedEx | Columbia | MO | \$10,850,000 | \$129 | 6.88% | 6 |
| Apr-19 | Retail | Academy Sports | Mansfield | TX | \$9,450,000 | \$132 | 7.21% | 15 |
| Apr-19 | Retail | Dick's Sporting Goods | Wausau | WI | \$7,305,195 | \$162 | 7.85% | 9 |
| Jun-19 | Retail | Wawa (GL) | Delray Beach | FL | \$6,840,000 | -- | 4.53% | 20 |
| Apr-19 | Retail | Walgreens | Brooklyn Park | MD | \$5,960,000 | \$402 | 6.54% | 15 |
| May-19 | Retail | CVS | Carefree | AZ | \$5,750,000 | \$416 | 7.60% | 4 |
| Apr-19 | Retail | Red Lobster | Bridgeton | MO | \$5,327,492 | \$624 | 6.44% | 16 |

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 | 4.88% | 5.50% | 6.00% | 6.30% |
| Advance Auto Parts | 6.00% | 6.80% | 7.15% | 7.85% |
| AutoZone | 5.33% | 5.57% | 6.10% | 7.02% |
| Bank of America | 4.95% | 5.80% | 6.20% | 7.10% |
| Chase Bank | 4.50% | 4.60% | 5.20% | 6.00% |
| CVS Pharmacy | 5.15% | 5.75% | 6.10% | 7.10% |
| DaVita Dialysis Center | 6.05% | 6.45% | 6.75% | 7.30% |
| Dollar General | 7.10% | 7.60% | 8.00% | 8.50% |
| Family Dollar | 7.00% | 7.65% | 8.15% | 8.50% |
| FedEx | 6.10% | 6.55% | 6.80% | 7.25% |
| Fresenius | 6.00% | 6.50% | 6.65% | 7.23% |
| McDonald's (GL) | 4.00% | 4.30% | 4.73% | 4.96% |
| O'Reilly Auto Parts | 5.30% | 5.40% | 6.15% | 6.95% |
| Rite Aid | 6.65% | 6.90% | 7.35% | 8.67% |
| Starbucks | 5.23% | 5.70% | 6.30% | 6.75% |
| Walgreens | 5.40% | 5.65% | 6.35% | 7.30% |

FOR MORE INFORMATION

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