

NATIONAL ASKING CAP RATES

Sector	Q4 2016 (Previous)	Q1 2017 (Current)	Basis Point Change
Retail	6.19%	6.19%	0
Office	7.08%	7.12%	+4
Industrial	7.17%	7.27%	+10

NUMBER OF PROPERTIES ON THE MARKET

Sector	Q4 2016 (Previous)	Q1 2017 (Current)	Percentage Change
Retail	3,045	3,788	+24.4%
Office	384	395	+2.8%
Industrial	363	359	-1.2%

MEDIAN NATIONAL ASKING VS CLOSED CAP RATE SPREAD

Sector	Q4 2016 (Previous)	Q1 2017 (Current)	Basis Point Change
Retail	31	29	-2
Office	31	26	-5
Industrial	32	26	-6

MARKET OVERVIEW

Cap rates in the first quarter of 2017 for the single tenant net lease retail sector remained at 6.19% after experiencing their first increase since the third quarter of 2013 in the prior quarter. Cap rates for the office and industrial sectors increased by 4 and 10 basis points to 7.12% and 7.27% respectively. Following a robust 2015 with over \$58 billion in net lease sales, 2016 experienced a slight decline in transaction volume of approximately 7% to approximately \$54 billion according to CoStar. The slowdown in 2016 transaction volume can be mostly attributed to the uncertainty surrounding rising interest rates and the future results of the 2016 election.

In the first quarter of 2017, the net lease market experienced a significant new supply of properties to the market. The overall market increased its supply by approximately 20% when compared to the fourth quarter of 2016. The majority of the supply increase came from the retail sector which increased by 24%. The overall sentiment is that we are in the late stages of this real estate cycle. Accordingly, property owners are selling assets in the current market to take advantage of the historically low cap rate environment.

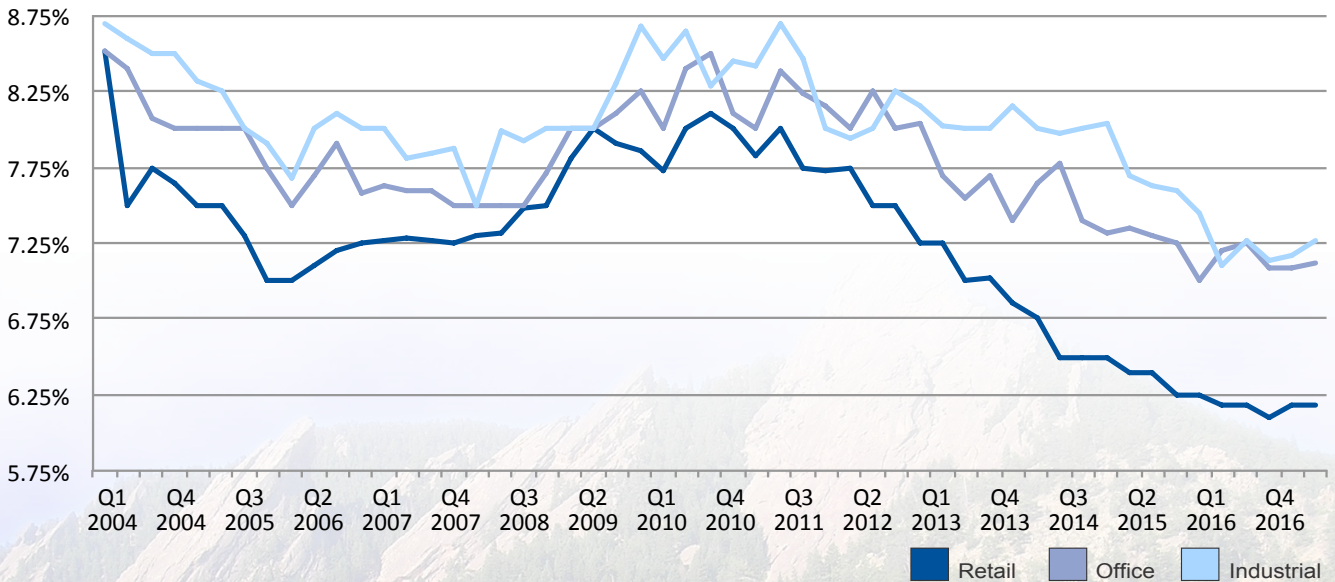
The overall net lease market remains active with 1031 and private investors due to the passive nature of the leases and stable investment returns that the net lease asset class can provide. In 2016, the majority of all transactions were facilitated by private investors. Private investors typically prefer long term leases to credit tenants. Accordingly, during the first quarter cap rates for recently constructed properties tenanted by Advance Auto Parts and CVS compressed by 15 and 25 basis points, respectively, despite the overall market.

The net lease market is expected to remain active in 2017 as investor demand, especially private investor demand, for this asset class remains. As noted in a recent national survey conducted by The Boulder Group, the effect of interest rates on cap rate volatility will be the primary focus for net lease participants, as most net lease participants believe that cap rates will increase by the end of 2017.

SELECTED SINGLE TENANT SALES COMPARABLES

Sale Date	Sector	Tenant	City	State	Price	Price Per SF	Cap Rate	Lease Term Remaining
Jan-17	Office	Kaiser Permanente	Cupertino	CA	\$66,865,000	\$666	6.00%	6
Feb-17	Industrial	Best Buy	Findlay	OH	\$46,000,000	\$45	7.00%	9
Jan-17	Office	Comcast Corporation	Miramar	FL	\$22,750,000	\$247	6.75%	9
Jan-17	Retail	BJ's Warehouse	Tampa	FL	\$17,966,578	\$150	6.75%	10
Mar-17	Retail	Home Depot	Memphis	TN	\$15,692,308	\$154	6.50%	10
Jan-17	Office	Allstate Insurance Company	Lone Tree	CO	\$14,750,000	\$210	7.04%	9
Feb-17	Industrial	Amazon.com	New Century	KS	\$14,400,000	\$32	5.99%	9
Jan-17	Retail	Walgreens	Wayzata	MN	\$11,720,000	\$774	5.25%	19
Feb-17	Retail	CVS Pharmacy	Brockton	MA	\$9,050,000	\$702	5.13%	25
Feb-17	Retail	Walgreens	Spring Hill	FL	\$7,780,000	\$471	5.03%	20
Feb-17	Office	Social Security Administration (SSA)	Wichita	KS	\$6,350,000	\$258	8.33%	7
Jan-17	Retail	Walgreens	Spring	TX	\$6,300,000	\$433	5.40%	11
Jan-17	Industrial	FedEx Ground	Rock Springs	WY	\$5,705,000	\$213	6.75%	9
Feb-17	Retail	Wal-Mart Supercenter	Orangevale	CA	\$5,446,000	\$56	5.00%	9
Feb-17	Retail	Goodwill	Henderson	NV	\$5,100,000	\$300	6.61%	15
Mar-17	Retail	Tractor Supply Co.	New Windsor	NY	\$5,000,000	\$262	6.10%	15

NET LEASE CAP RATE TRENDS



MEDIAN ASKING CAP RATES BY YEAR BUILT

Tenant	2012-2017	2005-2011	2000-2004	Pre 2000
7-Eleven	4.75%	5.10%	5.70%	6.30%
Advance Auto Parts	5.50%	6.60%	7.30%	8.60%
AutoZone	5.00%	5.50%	5.70%	6.00%
Bank of America	4.50%	5.00%	5.40%	5.60%
Chase Bank	4.40%	4.80%	5.10%	5.30%
CVS Pharmacy	4.75%	5.60%	6.00%	6.35%
DaVita Dialysis Center	5.70%	6.31%	6.90%	8.00%
Dollar General	6.70%	7.25%	8.00%	9.10%
Family Dollar	6.60%	7.40%	8.10%	9.00%
FedEx	6.00%	6.45%	7.15%	7.50%
Fresenius	5.80%	6.50%	6.75%	8.00%
McDonald's (GL)	4.00%	4.40%	4.70%	N/A
O'Reilly Auto Parts	5.50%	6.00%	6.25%	6.80%
Rite Aid	6.10%	7.04%	7.85%	8.40%
Starbucks	5.00%	5.18%	6.10%	6.90%
Walgreens	5.30%	5.90%	6.25%	7.00%

FOR MORE INFORMATION

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