

NATIONAL ASKING CAP RATES

Sector	Q1 2017 (Previous)	Q2 2017 (Current)	Basis Point Change
Retail	6.19%	6.23%	+4
Office	7.12%	7.14%	+2
Industrial	7.27%	7.37%	+10

NUMBER OF PROPERTIES ON THE MARKET

Sector	Q1 2017 (Previous)	Q2 2017 (Current)	Percentage Change
Retail	3,788	3,968	+4.75%
Office	395	357	-9.62%
Industrial	359	368	+2.51%

MEDIAN NATIONAL ASKING VS CLOSED CAP RATE SPREAD

Sector	Q1 2017 (Previous)	Q2 2017 (Current)	Basis Point Change
Retail	29	35	+6
Office	26	31	+5
Industrial	26	32	+6

MARKET OVERVIEW

Cap rates in the second quarter of 2017 in the single tenant net lease sector increased across all asset classes when compared to the previous quarter. Cap rates for retail and office properties increased slightly by three and two basis points to 6.23% and 7.14% respectively. Cap rates for net lease industrial properties increased by 10 basis points to 7.37%.

Despite widespread anticipation regarding instant cap rate expansion due to the Federal Reserve's recent monetary policy changes, an immediate effect on cap rates did not occur. In fact, after announcing three rate hikes since December 2016, the 10-year treasury yield declined since the beginning of 2017.

With an expectation of cap rates rising between 25 and 50 basis points by the end of 2017, there is some push back on pricing due to the historically low cap rate environment. In the second quarter of 2017, the spread between asking and closed cap rates widened across all three sectors. The spread increased by 6 basis points for both the net lease retail and industrial sectors to 35 and 32 basis points respectively. The spread in the net lease office sector increased by 5 basis points to 31 during the same time period. After years of the market being perceived as more favorable to sellers than buyers, the widening spread combined with a change of investor sentiment has shifted the market back to neutral.

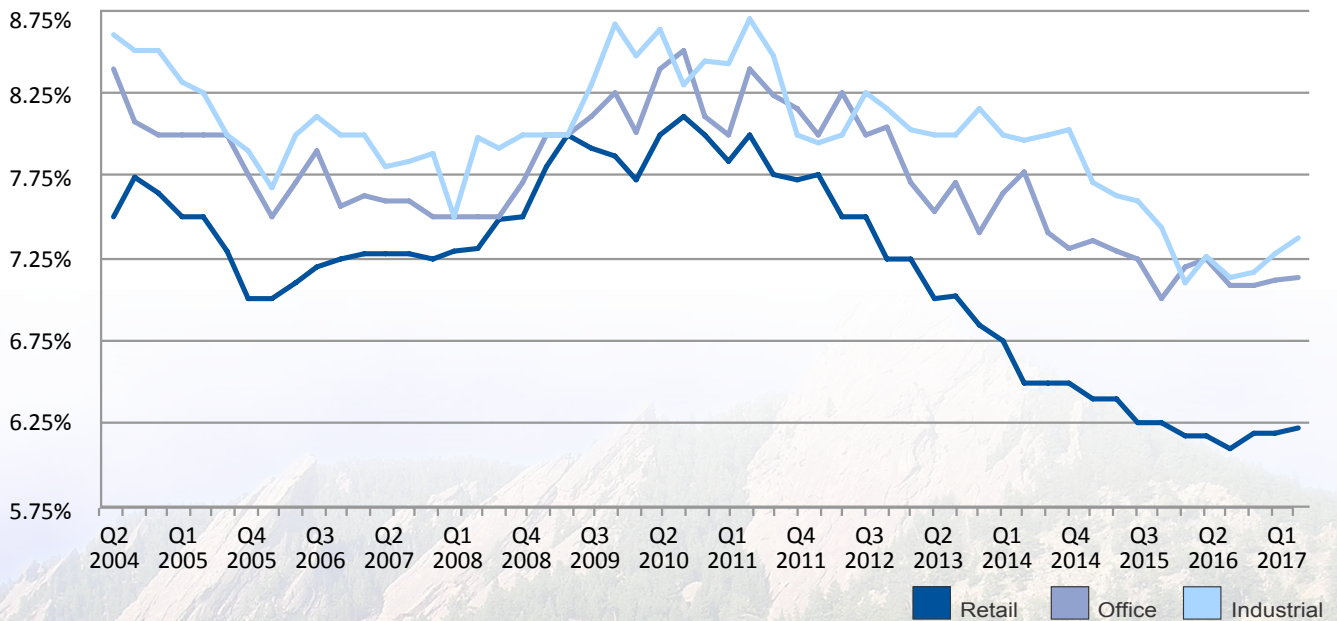
Regardless of the negative press surrounding bricks and mortar retail, the majority of the failed retailers occurred outside of the single tenant realm. The problem tenants and product types have largely been isolated to department stores and tenants frequently located in enclosed shopping malls. As a result, the net lease market is benefitting as capital continues to enter the net lease market. The net lease market remains active with 1031 and private investors due to the passive nature of the leases and stable and predictable investment returns that the net lease asset class provide.

The net lease market is expected to remain active in 2017 as investors continue to favor this asset class. A key event occurred in the net lease market in late June as the potential Walgreens and Rite Aid merger was called off and Walgreens announced a definitive agreement to acquire 2,186 stores from Rite Aid. Following a year of gridlock associated with the merger, pharmacy transaction volume should experience a surge as the uncertainty surrounding this transaction has ended. With continued upward pressure on interest rates, investors will be carefully monitoring the capital markets as the majority of net lease participants expect cap rates to increase in the coming year.

SELECTED SINGLE TENANT SALES COMPARABLES

Sale Date	Sector	Tenant	City	State	Price	Price Per SF	Cap Rate	Lease Term Remaining
Apr-17	Office	Apple	Austin	TX	\$96,000,000	\$443	5.40%	11
Jun-17	Office	Manpower Inc.	Milwaukee	WI	\$66,500,000	\$237	6.53%	14
Apr-17	Office	ADP	Norfolk	VA	\$57,000,000	\$197	7.00%	10
May-17	Industrial	General Electric	Charleston	TN	\$34,400,000	\$40	7.10%	7
May-17	Retail	Walmart Supercenter	Randallstown	MD	\$28,500,000	\$177	6.01%	15
Apr-17	Industrial	Indiana University Health	Plainfield	IN	\$21,250,000	\$72	5.50%	10
May-17	Industrial	CVS	Fredericksburg	VA	\$21,250,000	\$43	7.29%	7
May-17	Retail	Walgreens	Valley Stream	NY	\$13,962,264	\$1,055	5.30%	24
Apr-17	Retail	LA Fitness	Rowlett	TX	\$11,942,215	\$265	6.50%	15
May-17	Retail	CVS	New Orleans	LA	\$11,350,000	\$835	5.40%	24
Apr-17	Retail	Walmart Neighborhood Market	Saint Peters	MO	\$10,572,960	\$252	5.65%	14
May-17	Retail	Hy-Vee	Omaha	NE	\$10,480,000	\$150	6.60%	10
Jun-17	Retail	Walgreens	Cherry Hill	NJ	\$8,900,000	\$637	5.49%	18
Jun-17	Retail	Wawa (Ground Lease)	Lake Worth	FL	\$7,300,000	N/A	4.86%	20
Apr-17	Retail	Red Lobster	Fresno	CA	\$6,426,500	\$759	6.00%	23
Apr-17	Retail	Walgreens	Lakeville	MN	\$5,900,000	\$407	6.10%	10
May-17	Medical Office	Fresenius	Pasadena	TX	\$5,630,000	\$486	6.10%	15
Apr-17	Retail	Outback Steakhouse	Richmond	VA	\$5,543,485	\$901	5.25%	15
May-17	Retail	Verizon Wireless	Pittsburgh	PA	\$5,280,000	\$754	6.10%	10

NET LEASE CAP RATE TRENDS



MEDIAN ASKING CAP RATES BY YEAR BUILT

Tenant	2012-2017	2005-2011	2000-2004	Pre 2000
7-Eleven	4.85%	5.10%	5.75%	6.35%
Advance Auto Parts	5.70%	6.60%	7.35%	8.60%
AutoZone	5.00%	5.50%	5.75%	6.00%
Bank of America	4.60%	5.00%	5.55%	5.60%
Chase Bank	4.40%	4.85%	5.05%	5.30%
CVS Pharmacy	4.75%	5.55%	6.00%	6.45%
DaVita Dialysis Center	5.75%	6.30%	6.90%	8.05%
Dollar General	6.70%	7.30%	8.10%	9.10%
Family Dollar	6.65%	7.50%	8.03%	9.00%
FedEx	6.00%	6.50%	7.02%	7.37%
Fresenius	5.73%	6.42%	6.75%	8.10%
McDonald's (GL)	4.00%	4.18%	4.75%	4.95%
O'Reilly Auto Parts	5.50%	6.05%	6.30%	6.85%
Rite Aid	6.15%	7.00%	7.80%	8.45%
Starbucks	5.00%	5.19%	6.15%	6.75%
Walgreens	5.35%	5.85%	6.20%	7.15%

FOR MORE INFORMATION

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