

NATIONAL ASKING CAP RATES

Sector	Q3 2018 (Previous)	Q4 2018 (Current)	Basis Point Change
Retail	6.25%	6.25%	0
Office	7.00%	7.02%	+2
Industrial	7.02%	7.07%	+5

NUMBER OF PROPERTIES ON THE MARKET

Sector	Q3 2018 (Previous)	Q4 2018 (Current)	Percentage Change
Retail	4,347	4,766	9.63%
Office	504	472	-6.45%
Industrial	384	361	-5.96%

MEDIAN NATIONAL ASKING VS CLOSED CAP RATE SPREAD

Sector	Q3 2018 (Previous)	Q4 2018 (Current)	Basis Point Change
Retail	30	31	+1
Office	35	29	-6
Industrial	33	26	-7

MARKET OVERVIEW

Cap rates in the single tenant net lease retail sector remained unchanged (6.25%) in the fourth quarter of 2018 when compared to the prior quarter. Cap rates for the office and industrial sectors increased by 2 and 5 basis points respectively. As the Federal Reserve continues to implement its monetary policy there is investor expectation that cap rates should trend upward in 2019.

The majority of property owners believe we are in the last stages of the current real estate cycle. Accordingly, property owners are supplying the current market with their non-core net lease holdings in order to take advantage of the historically low cap rate environment. In the fourth quarter of 2018, the net lease sector experienced an increase in supply of approximately 7%.

The net lease market strongly favored sellers in recent years; however the market has shifted into more of a neutral position. In the fourth quarter of 2018, the spread between asking and closed cap rates was 31 basis points, the largest spread since the second quarter of 2017. Furthermore, the same spread for short term leased properties with non-investment grade tenants was even greater (51 basis points) in the fourth quarter of 2018. Investors who are willing to take on the risk of shorter term leases have been able to take advantage of this shift. Properties with short term leases and without investment grade tenants or strong residual real estate had the greatest change in cap rates in the current rising rate environment.

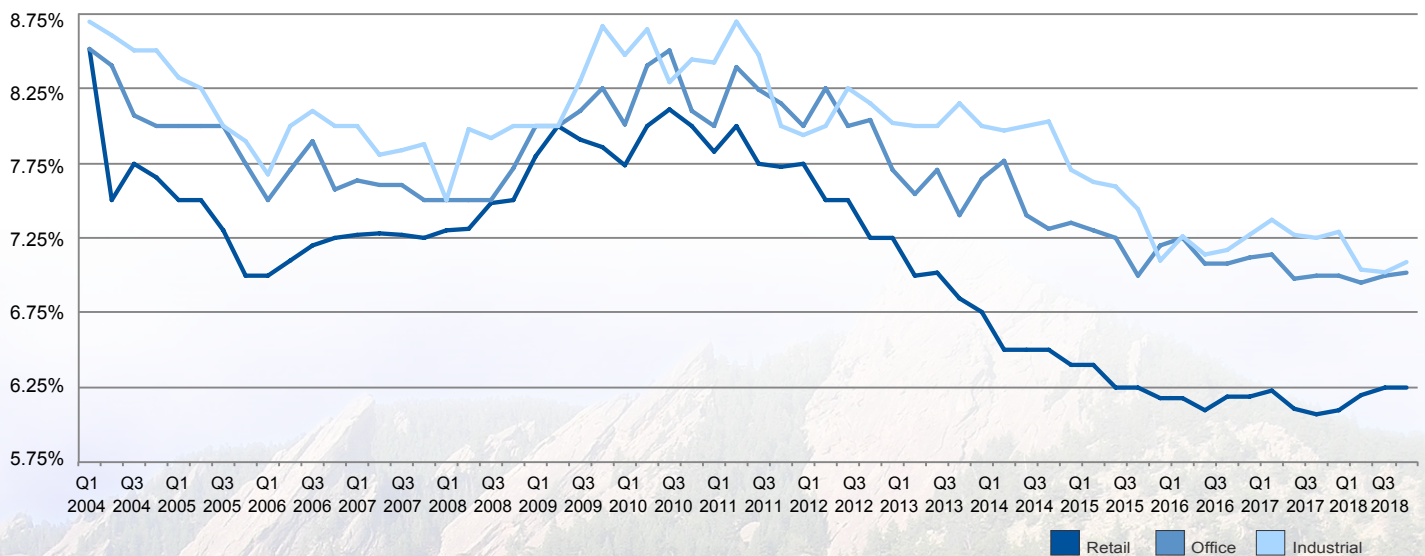
As alternative investments including the stock market have experienced recent volatility, net lease assets perceived as the safest and most secure are still commanding historically low cap rates. Cap rates for strong credit tenants in recently constructed properties represent the lowest in the sector.

Investor demand for the net lease assets remains strong and the net lease market is expected to remain active in 2019. However, the projection is that there will likely be upward movement in cap rates moving forward. In a recent national survey conducted by The Boulder Group, the vast majority of active net lease participants expect cap rates to rise in 2019. The largest segment of net lease participants predict cap rates to increase between 25 and 49 basis points by the end of 2019. Investors will carefully monitor the capital markets and the effect on pricing as more rate hikes are expected from the Federal Reserve in 2019.

SELECTED SINGLE TENANT SALES COMPARABLES

Sale Date	Sector	Tenant	City	State	Price	Price Per SF	Cap Rate	Lease Term Remaining
Nov-18	Industrial	Penske Logistics	Romulus	MI	\$126,600,000	\$209	6.18%	10
Nov-18	Industrial	FedEx	Boylston	MA	\$93,870,000	\$259	6.15%	15
Oct-18	Office	Fidelity Investments	Albuquerque	NM	\$44,000,000	\$210	7.95%	10
Oct-18	Retail	Mariano's (Kroger)	Crystal Lake	IL	\$25,200,000	\$337	5.88%	20
Oct-18	Office	Federal Bureau of Investigation	Saint Louis	MO	\$21,000,000	\$234	8.20%	9
Oct-18	Retail	Giant Eagle	Medina	OH	\$15,100,000	\$167	7.59%	5
Oct-18	Retail	At Home	Pearland	TX	\$14,715,172	\$135	6.72%	15
Oct-18	Retail	Target	Skokie	IL	\$13,850,000	\$419	5.29%	15
Nov-18	Retail	Walmart Neighborhood Market	Palm Desert	CA	\$13,500,000	\$296	5.00%	9
Nov-18	Retail	LA Fitness	Temecula	CA	\$13,000,000	\$351	6.13%	15
Oct-18	Retail	Lowe's	Clovis	CA	\$12,409,500	\$75	5.56%	10
Nov-18	Retail	Jewel-Osco	Huntley	IL	\$11,995,000	\$187	5.98%	20
Oct-18	Retail	Floor & Décor	Oklahoma City	OK	\$11,000,000	\$146	7.37%	15
Oct-18	Industrial	Domino's Distribution Facility	New Boston	MI	\$10,850,000	\$290	6.00%	15
Dec-18	Industrial	Men's Warehouse	Bakersfield	CA	\$10,850,000	\$49	6.76%	6
Dec-18	Industrial	Ashley Furniture	St. Louis	MO	\$10,000,000	\$84	7.20%	5
Oct-18	Retail	24 Hour Fitness	Austin	TX	\$9,857,142	\$329	7.00%	9
Oct-18	Office	SecureData	Canton	OH	\$9,425,000	\$315	7.96%	11
Dec-18	Retail	Walgreens	Powell	OH	\$6,600,000	\$445	6.14%	15
Nov-18	Retail	Academy Sports	Liberty	MO	\$5,700,000	\$91	8.55%	15

NET LEASE CAP RATE TRENDS

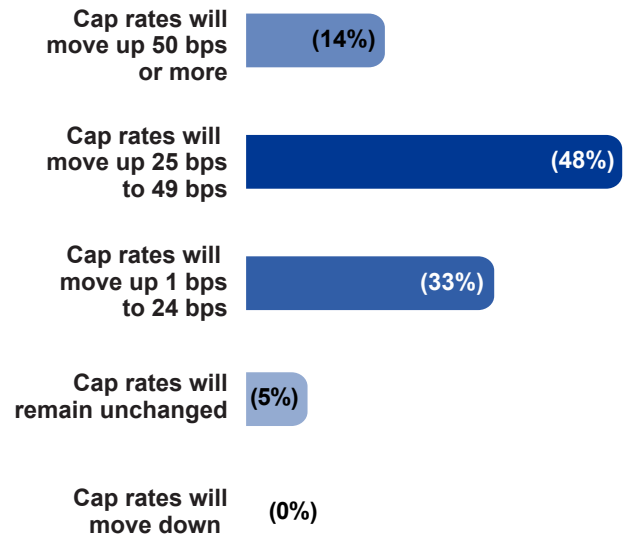


MEDIAN ASKING CAP RATES BY YEAR BUILT

Tenant	2012-2018	2005-2011	2000-2005	Pre 2000
7-Eleven	4.93%	5.25%	6.00%	6.30%
Advance Auto Parts	6.00%	6.90%	7.43%	7.95%
AutoZone	5.25%	5.90%	6.40%	7.10%
Bank of America	N/A	5.25%	6.00%	6.75%
Chase Bank	4.50%	4.70%	5.00%	5.50%
CVS Pharmacy	5.35%	5.73%	6.15%	7.00%
DaVita Dialysis Center	6.00%	6.30%	6.90%	7.25%
Dollar General	7.00%	7.73%	8.00%	8.70%
Family Dollar	7.25%	7.95%	8.25%	8.75%
FedEx	6.00%	6.50%	7.00%	7.25%
Fresenius	5.90%	6.50%	6.80%	7.34%
McDonald's (GL)	4.15%	4.40%	4.70%	5.00%
O'Reilly Auto Parts	5.50%	6.02%	6.50%	7.00%
Rite Aid	N/A	7.00%	7.75%	8.65%
Starbucks	5.25%	5.50%	6.10%	6.70%
Walgreens	5.57%	6.10%	7.00%	7.35%

THE BOULDER GROUP CAP RATE POLL

WHERE DO YOU EXPECT CAP RATES TO MOVE BY THE END OF 2019?



FOR MORE INFORMATION

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