

NATIONAL ASKING CAP RATES

Sector	Q1 2020 (Previous)	Q2 2020 (Current)	Basis Point Change
Retail	6.15%	6.25%	+10
Office	7.00%	7.00%	0
Industrial	7.05%	6.99%	-6

NUMBER OF PROPERTIES ON THE MARKET

Sector	Q1 2020 (Previous)	Q2 2020 (Current)	Percentage Change
Retail	3,264	3,480	6.61%
Office	380	393	3.42%
Industrial	315	354	12.44%

MEDIAN NATIONAL ASKING VS CLOSED CAP RATE SPREAD

Sector	Q1 2020 (Previous)	Q2 2020 (Current)	Basis Point Change
Retail	30	22	-8
Office	34	40	+6
Industrial	25	16	-9

MARKET OVERVIEW

Cap rates in the single tenant net lease retail sector increased by 10 basis points to 6.25% in the second quarter of 2020 when compared to the prior quarter. Cap rates for net lease office properties were unchanged at 7.00% while industrial properties compressed by 6 basis points to 6.99%. Throughout the second quarter, transaction velocity was greatly impacted by Covid-19 and the effects it had on business resulting from government mandated shutdowns. Transaction volume in the first half of 2020 declined in excess of 20% when compared to 2019 in the net lease sector.

In a recent national survey conducted by The Boulder Group, 80% of net lease participants expect cap rates to increase by the end of 2020; with 43% expecting an increase of up to 19 basis points. As investors become more conservative, properties with investment grade rated tenants and minimal impact from Covid-19 are more in favor within the net lease sector.

In the second quarter of 2020 the net lease market was bifurcated between essential and non-essential businesses. Investor interest was largely focused on essential businesses that were open and operational including pharmacies, quick service restaurants, grocery, c-stores and dollar stores. Businesses labeled non-essential and largely shut down or significantly impacted include movie theaters, fitness centers, soft goods retailers and sit down dining. Investors backed away from non-essential businesses while waiting to see if the financial stress continues to effect tenants.

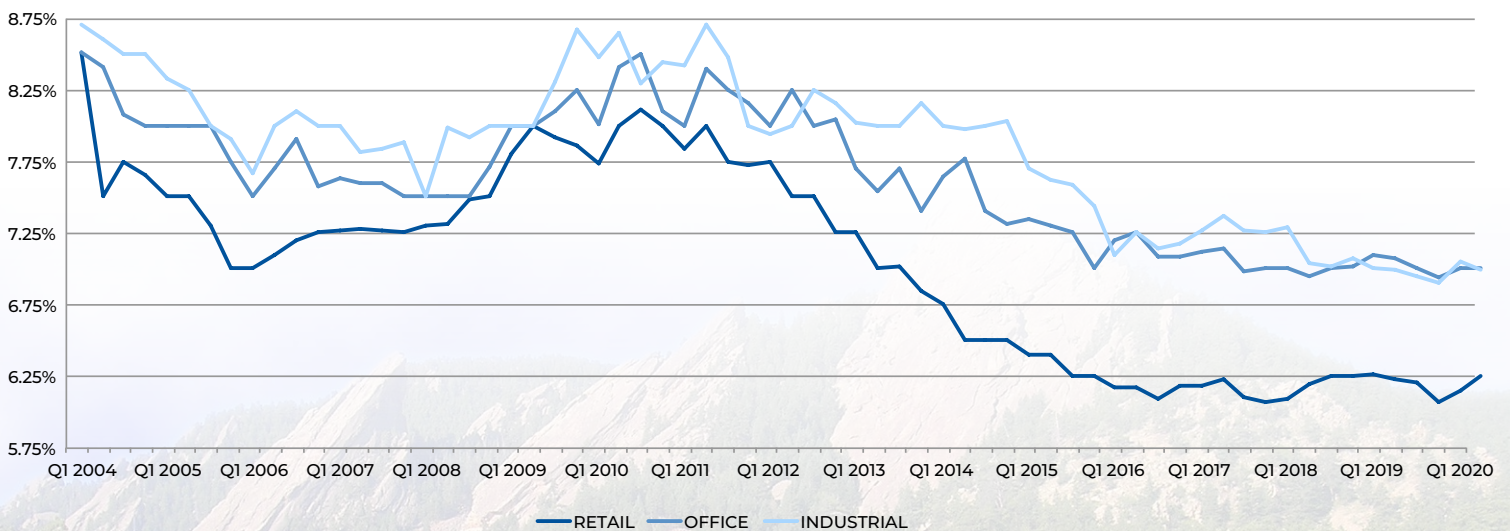
There was a significant flight to quality by private investors who were looking to avoid the volatility of alternative investment vehicles and the stock market. Long term leases to credit tenants including 7-Eleven, CVS and McDonald's represented some of the lowest cap rates in the sector in the second quarter. Competition amongst investors for high quality net lease product can be evidenced by the bid-ask spread in the second quarter of 2020. The spread between asking and closed cap rates compressed by 8 and 9 basis points respectively for retail and industrial sectors.

Net lease transaction volume for 2020 is expected to be significantly lower than 2019 as a result of the impact of Covid-19. Investors will carefully monitor the economy's reopening and the financial health of tenants. The stabilization of the 10 Year Treasury Yield in the second quarter will provide investors with an enticing yield spread for the net lease sector.

SELECTED SINGLE TENANT SALES COMPARABLES

Sale Date	Sector	Tenant	City	State	Price	Price Per SF	Cap Rate	Lease Term Remaining
May-20	Retail	Pick 'N Save	Menomonee Falls	WI	\$28,428,268	\$274	6.00%	11
Apr-20	Industrial	Material Science Corporation	Elk Grove Village	IL	\$17,935,000	\$90	6.50%	11
Mar-20	Office	Amazon	Huntington	WV	\$16,851,771	\$245	7.00%	7
Jan-00	Office	US Bank	Marshall	MN	\$13,487,000	\$142	8.39%	6
May-20	Retail	Walmart	Sylacauga	AL	\$12,850,000	\$72	6.30%	10
Apr-20	Industrial	Shore Education Collaborative	Chelsea	MA	\$10,400,000	\$327	6.50%	13
May-20	Office	CVS	Knoxville	TN	\$10,250,000	\$172	7.85%	8
May-20	Retail	CVS	Bowie	MD	\$9,550,000	\$722	4.94%	21
Jun-20	Retail	Walgreens	Greensboro	NC	\$9,525,000	\$698	6.19%	15
May-20	Retail	Walmart	Newark	NY	\$9,150,000	\$55	6.52%	14
May-20	Office	GSA - Homeland Security	Reno	NV	\$9,100,000	\$499	7.20%	5
May-20	Retail	CVS	Washington	DC	\$7,960,000	\$687	5.00%	17
Jun-20	Industrial	PepsiCo	Capitol Heights	MD	\$7,785,000	\$390	5.50%	10
Apr-20	Industrial	Wilbert Plastic Services	Harrisburg	NC	\$7,500,000	\$59	7.25%	10
Jun-20	Retail	7-Eleven	Venice	FL	\$6,513,026	\$2,164	4.99%	15
Jun-20	Retail	7-Eleven	Richmond	VA	\$6,500,000	\$1,890	5.20%	15
Apr-20	Retail	Citibank	Skokie	IL	\$6,450,000	\$1,808	5.60%	10
Apr-20	Retail	Wawa (GL)	Daytona Beach	FL	\$6,050,500	\$989	4.71%	20
Jun-20	Retail	Walgreens	Gilbert	AZ	\$5,625,000	\$380	6.76%	10
Apr-20	Retail	Caliber Collision	Mount Pleasant	SC	\$5,300,000	\$362	6.11%	15

NET LEASE CAP RATE TRENDS



MEDIAN ASKING CAP RATES BY YEAR BUILT

Tenant	2017-2020	2011-2016	2005-2010	Pre 2005
7-Eleven	4.90%	5.10%	5.50%	6.05%
Advance Auto Parts	6.00%	6.50%	6.80%	7.15%
AutoZone	5.50%	5.65%	6.85%	7.35%
Bank of America	5.00%	5.60%	6.10%	6.75%
Chase Bank	4.50%	4.75%	5.55%	6.20%
CVS Pharmacy	5.05%	5.50%	5.85%	7.00%
DaVita Dialysis Center	5.85%	6.10%	6.90%	7.30%
Dollar General	6.60%	7.00%	7.75%	8.25%
Family Dollar	7.00%	7.15%	8.00%	8.50%
FedEx	6.00%	6.50%	6.75%	7.25%
Fresenius	5.88%	6.15%	6.80%	7.25%
McDonald's (GL)	3.90%	4.15%	4.50%	5.00%
O'Reilly Auto Parts	5.40%	5.85%	6.00%	6.75%
Rite Aid	N/A	7.15%	8.00%	9.00%
Starbucks	5.15%	5.75%	6.15%	6.40%
Walgreens	5.50%	5.75%	6.50%	7.35%

FOR MORE INFORMATION

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