

NATIONAL ASKING CAP RATES

Sector	Q2 2020 (Previous)	Q3 2020 (Current)	Basis Point Change
Retail	6.25%	6.06%	-19
Office	7.00%	6.90%	-10
Industrial	6.99%	6.88%	-11

NUMBER OF PROPERTIES ON THE MARKET

Sector	Q2 2020 (Previous)	Q3 2020 (Current)	Percentage Change
Retail	3,480	3,102	-10.86%
Office	393	380	-3.31%
Industrial	354	381	+7.57%

MEDIAN NATIONAL ASKING VS CLOSED CAP RATE SPREAD

Sector	Q2 2020 (Previous)	Q3 2020 (Current)	Basis Point Change
Retail	22	24	+2
Office	40	50	+10
Industrial	16	13	-3

MARKET OVERVIEW

Cap rates in the single tenant net lease retail, office and industrial sectors reached a new all-time low in the third quarter of 2020. When compared to the second quarter of 2020, cap rates compressed by 19, 10 and 11 basis points respectively for retail, office and industrial. The cap rate compression in the third quarter of 2020 can be primarily attributed to the recent announcement by the Federal Reserve which suggested interest rates will remain near zero at least through 2023. Combining this with a “flight to quality” by real estate investors caused cap rate compression, especially for strong credit and essential net leased assets.

As Covid-19 continues to impact the real estate market, net lease investors are limiting the type of properties they are willing to acquire. Sellers of retail assets that experienced the greatest negative impact included movie theaters, gyms and second tier casual dining. Accordingly, owners of these assets are holding from the market as they are uninterested in selling at unfavorable pricing. Accordingly, the supply of net lease properties experienced a sharp decline of approximately 9% in the third quarter.

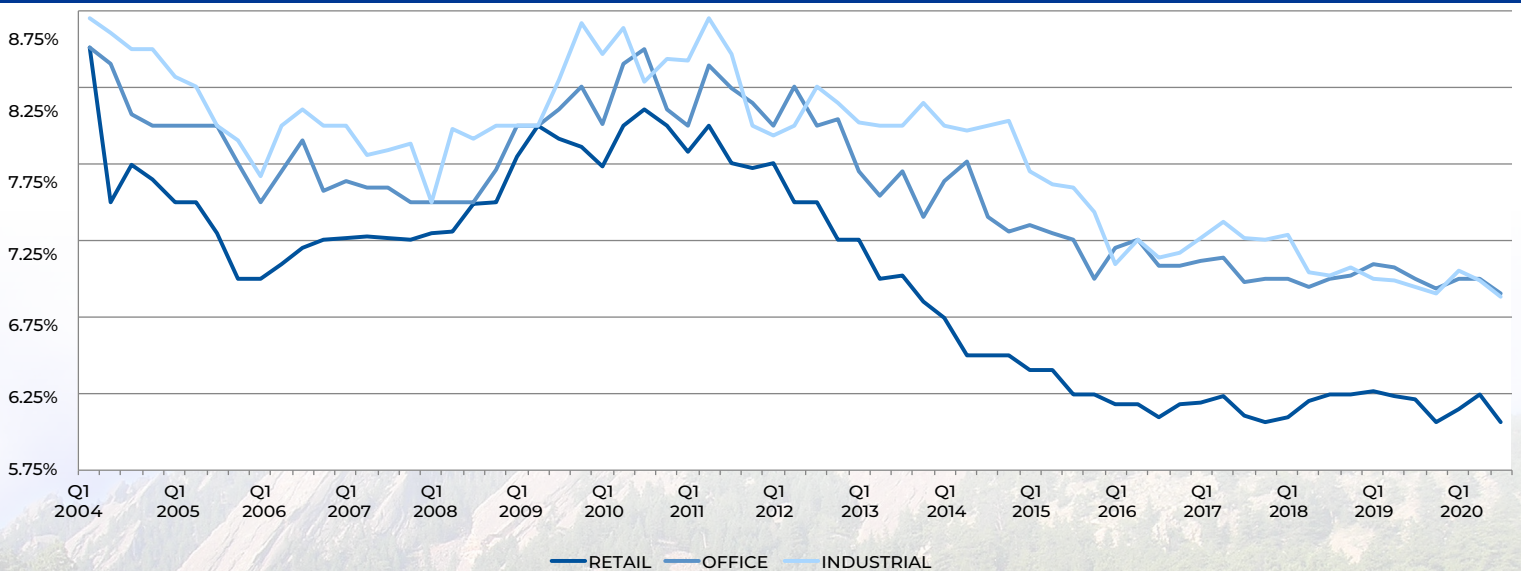
As supply decreased, an investor move toward assets with high quality tenants and long term leases continued in the net lease sector. Properties with long term leases to investment grade tenants are in the highest demand. The retail sector experienced its largest cap rate move since 2014 as private and 1031 exchange investors aggressively sought the lower priced assets this sector provided. Consequently, sellers of high-quality net lease properties priced assets to a level not previously seen as they look to take advantage of investors more conservative acquisition criteria.

Net lease transaction volume for 2020 is expected to be significantly lower than 2019 as a result of Covid-19’s impact on the real estate sector. Investors will be carefully monitoring Covid-19, the economy and the upcoming election as each individual aspect could significantly alter the net lease landscape. Despite the normal hesitancy of buyers during an election year, the majority of net lease participants expect fourth quarter transaction volume to be the strongest quarter of the year.

SELECTED SINGLE TENANT SALES COMPARABLES

Sale Date	Sector	Tenant	City	State	Price	Price Per SF	Cap Rate	Lease Term Remaining
Jul-20	Industrial	Café Valley Bakery	Phoenix	AZ	\$42,000,000	\$147	6.36%	18
Aug-20	Industrial	Dollar General	Hazelwood	MO	\$32,200,000	\$138	6.10%	9
Aug-20	Office	Ford Motor Credit Company	Tampa	FL	\$26,900,000	\$223	8.40%	5
Jul-20	Industrial	Ardagh Glass	Vineland	NJ	\$23,200,000	\$58	6.55%	10
Jul-20	Office	Spectrum Healthcare	Fairfax	VA	\$17,625,000	\$239	7.00%	9
Jul-20	Retail	CVS	Ridgewood	NY	\$17,000,000	\$1,261	5.05%	16
Aug-20	Industrial	BlueLinx Corporation	Denver	CO	\$11,000,000	\$78	7.35%	5
Sep-20	Retail	Hobby Lobby	Antioch	CA	\$11,000,000	\$140	6.45%	10
Jul-20	Retail	CVS	Bakersfield	CA	\$9,180,000	\$623	6.54%	16
Aug-20	Retail	Walgreens	Lauderdale Lakes	WI	\$8,142,000	\$541	5.20%	15
Jul-20	Retail	AAA	Phoenix	AZ	\$7,000,000	\$792	5.71%	10
Aug-20	Retail	Chick-Fil-A (GL)	Las Vegas	NV	\$6,900,000	--	3.69%	20
Aug-20	Retail	CVS	Cumming	GA	\$5,700,000	\$390	5.60%	12
Aug-20	Retail	Walgreens	Ellenton	FL	\$5,438,000	\$377	5.42%	14
Jul-20	Retail	7-Eleven	Colorado Springs	CO	\$5,327,000	\$1,770	4.50%	15
Sep-20	Retail	7-Eleven	Denver	CO	\$5,250,000	\$1,768	5.05%	15
Sep-20	Retail	Wawa (GL)	Vero Beach	FL	\$5,181,000	--	4.75%	16

NET LEASE CAP RATE TRENDS



MEDIAN ASKING CAP RATES BY YEAR BUILT

Tenant	2017-2020	2011-2016	2005-2010	Pre 2005
7-Eleven	4.95%	5.25%	5.75%	6.10%
Advance Auto Parts	6.00%	6.55%	7.12%	7.75%
AutoZone	5.40%	5.60%	6.05%	7.20%
Bank of America	5.00%	5.30%	6.00%	6.75%
Chase Bank	4.50%	4.80%	5.25%	5.90%
CVS Pharmacy	5.10%	5.70%	6.45%	7.10%
DaVita Dialysis Center	5.75%	6.50%	7.00%	7.50%
Dollar General	6.60%	7.00%	7.35%	8.00%
Family Dollar	7.25%	7.62%	7.93%	8.35%
FedEx	6.00%	6.30%	7.00%	7.30%
Fresenius	5.85%	6.40%	6.95%	7.40%
McDonald's (GL)	3.90%	4.20%	4.70%	5.00%
O'Reilly Auto Parts	5.40%	5.90%	6.30%	6.75%
Rite Aid	NA	7.15%	8.00%	9.00%
Starbucks	5.15%	5.65%	6.05%	6.50%
Walgreens	5.50%	6.00%	6.85%	7.50%

FOR MORE INFORMATION

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