

NATIONAL ASKING CAP RATES

Sector	Q1 2022 (Previous)	Q2 2022 (Current)	Basis Point Change
Retail	5.75%	5.80%	+5
Office	6.70%	6.77%	+7
Industrial	6.60%	6.60%	0

NUMBER OF PROPERTIES ON THE MARKET

Sector	Q1 2022 (Previous)	Q2 2022 (Current)	Percentage Change
Retail	3,605	3,478	-3.52%
Office	633	709	12.01%
Industrial	435	400	-8.05%

MEDIAN NATIONAL ASKING VS CLOSED CAP RATE SPREAD

Sector	Q1 2022 (Previous)	Q2 2022 (Current)	Basis Point Change
Retail	20	21	+1
Office	25	29	+4
Industrial	13	16	+3

MARKET OVERVIEW

Cap rates in the single tenant net lease sector increased slightly or were unchanged in the second quarter of 2022. Following record low cap rate levels for all three asset classes in the first quarter of 2022, the increase in borrowing costs and the current inflationary environment were the main determining factors for the change in cap rates. Single tenant cap rates increased by 5, and 7 basis points for the retail and office categories respectively. Cap rates for single tenant industrial remained at the prior quarter's level.

During the second quarter of 2022, the Federal Reserve announced two rate hikes. One in May for 50 basis points and another in June of 75 basis points – the Federal Reserve's largest rate hike since 1994. Accordingly, for the first time since late 2018, the 10-year treasury yield surpassed 3.00%, peaking near 3.50% in mid-June. This correlated to higher borrowing costs and created a pause for some net lease investors looking to acquire assets at higher cap rates. Additionally, some sellers may choose to hold assets versus a sale given a decline in value. Consequently, transaction volume in the second quarter of 2022 was down approximately 15% when compared the same time period in 2021.

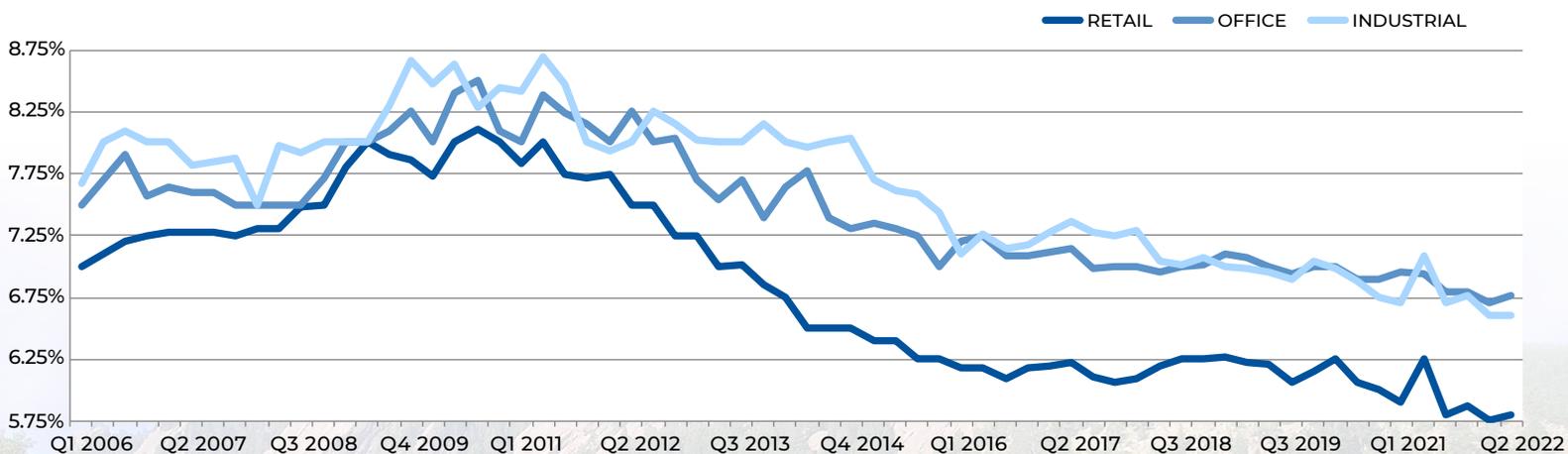
Lower priced net lease properties experienced less impact in pricing due to the higher likelihood of cash purchasers. Inversely, higher priced properties faced more upward cap rate pressure as net lease investors saw diminished leveraged returns for these assets as borrowing costs increased. Aside from CMBS lending which remains volatile, net lease lending terms remained status quo with the exception of interest rates. Rising rates caused lenders to constrain loan proceeds, limiting loan-to-value in order to keep healthy debt service coverage ratios.

Net lease investors will be carefully monitoring the Federal Reserve's monetary policy and its impact on the capital markets. Transaction activity will remain dependent on the velocity of 1031 buyers motivated by tax consequences and seller's willingness to move to pricing that meets non-1031 buyer's return thresholds. Cap rates will continue to face upward pressure as additional rate hikes from the Federal Reserve are expected in 2022. However, the limited supply of properties with long term leases to credit tenants will keep competition amongst investors.

SELECTED SINGLE TENANT SALES COMPARABLES

Sale Date	Sector	Tenant	City	State	Price	Price Per SF	Cap Rate	Lease Term Remaining
Apr-22	Industrial	Kewaunee Scientific	Statesville	NC	\$30,275,000	\$73	6.26%	20
May-22	Office	United Health Care Services	San Antonio	TX	\$26,260,000	\$184	8.96%	2
Apr-22	Retail	Walgreens	Saint Paul	MN	\$19,000,000	\$1,215	5.25%	14
May-22	Retail	Best Buy	Miami	FL	\$17,800,000	\$396	7.70%	3
May-22	Industrial	Williams Scotsman	Orlando	FL	\$16,000,000	\$261	5.11%	5
May-22	Industrial	FedEx Ground	Carol Stream	IL	\$15,450,000	\$267	4.20%	6
May-22	Retail	7-Eleven	Westlake	FL	\$13,570,000	\$3,016	5.07%	15
Jun-22	Retail	Scheels	Great Falls	MT	\$12,600,000	\$127	5.50%	15
Jun-22	Retail	CVS Pharmacy	Bridgewater	NJ	\$10,906,000	\$743	4.20%	18
Apr-22	Retail	Walgreens	Dallas	TX	\$10,125,000	\$625	4.00%	12
Apr-22	Office	Group Health Cooperative	Madison	WI	\$10,100,000	\$153	6.50%	10
Apr-22	Retail	LA Fitness	Oxnard	CA	\$9,937,500	\$265	7.52%	11
Apr-22	Retail	Carvana	Orlando	FL	\$9,014,900	\$1,058	5.00%	18
Apr-22	Retail	CVS Pharmacy	Norman	OK	\$9,000,000	\$608	4.80%	15
May-22	Retail	Caliber Collision	San Antonio	TX	\$7,100,000	\$306	4.75%	12
Jun-22	Office	Carfax	Columbia	MO	\$6,500,000	\$176	11.12%	5
Apr-22	Retail	Dollar General	North Myrtle Beach	SC	\$1,849,231	\$376	5.75%	11
Apr-22	Retail	Starbucks	Carlsbad	NM	\$1,801,845	\$819	5.19%	6

NET LEASE CAP RATE TRENDS



MEDIAN ASKING CAP RATES BY YEAR BUILT

Tenant	2017-2022	2011-2016	2005-2010	Pre 2005
7-Eleven	4.30%	4.90%	5.35%	5.60%
Advance Auto Parts	5.70%	6.00%	6.75%	7.35%
AutoZone	4.65%	5.10%	5.50%	6.50%
Bank of America	4.70%	5.03%	6.00%	6.30%
Chase Bank	4.15%	4.35%	4.80%	5.60%
CVS Pharmacy	4.50%	5.00%	6.30%	6.85%
DaVita Dialysis Center	5.25%	6.00%	6.65%	6.85%
Dollar General	5.30%	5.80%	6.20%	7.00%
Family Dollar	6.25%	6.50%	6.90%	7.65%
FedEx	5.15%	5.50%	6.35%	6.90%
Fresenius	5.25%	5.90%	6.60%	7.05%
McDonald's (GL)	3.50%	3.90%	4.20%	4.50%
O'Reilly Auto Parts	5.00%	5.65%	5.90%	6.30%
Rite Aid	NA	7.15%	7.80%	8.25%
Starbucks	4.95%	5.40%	5.80%	6.10%
Walgreens	4.90%	5.00%	6.30%	6.80%

FOR MORE INFORMATION

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