

NATIONAL ASKING CAP RATES

Sector	Q4 2022 (Previous)	Q1 2023 (Current)	Basis Point Change
Retail	5.95%	6.05%	+10
Office	6.95%	7.00%	+5
Industrial	6.65%	6.77%	+12

NUMBER OF PROPERTIES ON THE MARKET

Sector	Q4 2022 (Previous)	Q1 2023 (Current)	Percentage Change
Retail	3,371	3,079	-8.66%
Office	677	667	-1.48%
Industrial	394	412	4.57%

MEDIAN NATIONAL ASKING VS CLOSED CAP RATE SPREAD

Sector	Q4 2022 (Previous)	Q1 2023 (Current)	Basis Point Change
Retail	28	30	+2
Office	37	40	+3
Industrial	22	27	+5

MARKET OVERVIEW

Cap rates in the single tenant net lease sector increased for the fourth consecutive quarter within all three sectors in Q1 2023. Single tenant cap rates increased to 6.05% (+10 bps) for retail, 7.00% (+5 bps) for office and 6.77% (+12 bps) for industrial in Q1 2023. Cap rates in Q1 2023 represented the highest levels since Q3 2020 for both the single tenant retail and office sectors. A decrease in transaction volume for the greater real estate market continues to limit 1031 exchange buyers transitioning into net lease properties. Transaction volume in 2022 lagged 2021 and experienced more than a 25% decrease for the net lease sector.

After years of historically low cap rates for all three asset classes, interest rates put increased pressure on cap rates. Financing costs currently create greater negative leverage situations for most net lease assets than typical in recent years. Until the spread between borrowing costs and cap rates decrease, transaction volume will continue to be impacted. When compared to Q4 2022, the overall supply of net lease properties decreased by more than 6%. The decline in property supply is largely attributed to less motivated sellers removing their properties from the market.

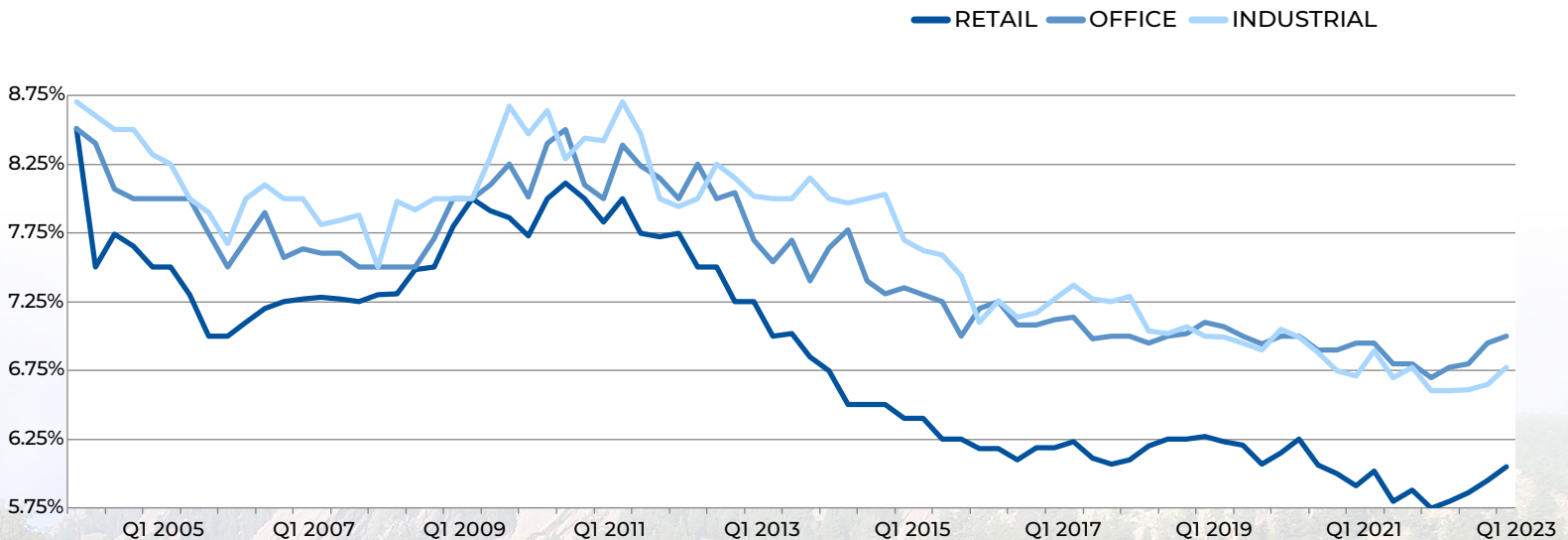
With economic uncertainty looming, investors are targeting resilient tenants with long term leases. Accordingly, new construction properties with recession proof tenants including 7-Eleven and McDonald's represent some of the lowest cap rates in the sector. However, these tenants are not immune to upward cap rate pressure. In Q1 2023, cap rates for new construction 7-Eleven and McDonald's properties increased by 35 and 15 basis points respectively. Furthermore, the spread between asking and closed cap rate increased for all three asset classes. The spread rose to 30 basis points for retail, 40 for office and 27 for industrial.

Investors will continue to follow the Federal Reserve's monetary policy. Investors largely believe there will be an end to the larger rate increases, of 50 basis points or more, in the near future. Transactions will be driven by low leverage or all cash 1031 buyers for the highest quality product. However, given the overall uncertainty in the broader real estate market, the depth of the 1031 buyer pool will be limited when compared to historical standards. Sellers with a level of motivation (i.e. debt maturity, backfilled development pipeline, etc.) will continue to move pricing to attract buyers that can offer high certainty of execution.

SELECTED SINGLE TENANT SALES COMPARABLES

Sale Date	Sector	Tenant	City	State	Price	Price Per SF	Cap Rate	Lease Term Remaining
Jan-23	Industrial	Murphy Logistics	Eagan	MN	\$25,000,000	\$70	6.80%	10
Jan-23	Industrial	FedEx	Lansing	MI	\$24,785,202	\$168	5.44%	10
Jan-23	Retail	Chase Bank	Woodbury	NY	\$11,325,000	\$2,323	4.00%	14
Feb-23	Retail	Chick-Fil-A	White Plains	NY	\$10,800,000	\$2,160	3.75%	15
Jan-23	Retail	Hobby Lobby	Fresno	CA	\$10,425,000	\$190	5.58%	9
Feb-23	Retail	Walmart Neighborhood Market	Miami	FL	\$9,700,000	\$167	4.12%	11
Mar-23	Retail	LA Fitness	League City	TX	\$8,700,000	\$203	6.78%	11
Jan-23	Office	SpiritCom	Orlando	FL	\$7,200,000	\$274	6.31%	5
Feb-23	Retail	7-Eleven	Mission	TX	\$6,505,500	\$1,344	4.75%	14
Jan-23	Retail	Mavis Tires	Atlanta	GA	\$6,000,000	\$366	5.25%	14
Feb-23	Retail	Shake Shack	Centennial	CO	\$5,943,000	\$1,807	4.00%	14
Feb-23	Retail	Walgreens	Wichita	KS	\$5,158,000	\$348	6.00%	7
Jan-23	Retail	CVS	Orrville	OH	\$5,127,327	\$423	5.51%	15
Mar-23	Retail	Walgreens	Fort Wayne	IN	\$5,100,000	\$354	7.30%	5
Jan-23	Retail	Goodwill	Flagstaff	AZ	\$5,100,000	\$161	5.90%	4

NET LEASE CAP RATE TRENDS



MEDIAN ASKING CAP RATES BY YEAR BUILT

Tenant	2017-2023	2011-2016	2005-2010	Pre 2005
7-Eleven	4.90%	5.35%	5.65%	5.75%
Advance Auto Parts	6.00%	6.45%	6.85%	7.25%
AutoZone	4.90%	5.15%	6.00%	6.65%
Bank of America	5.00%	5.45%	6.00%	6.60%
Chase Bank	4.40%	4.85%	5.35%	6.00%
CVS Pharmacy	5.00%	5.35%	6.65%	7.25%
DaVita Dialysis Center	5.60%	6.00%	6.80%	7.00%
Dollar General	6.00%	6.40%	7.00%	7.40%
Family Dollar	6.40%	6.90%	7.40%	8.00%
FedEx	5.50%	5.90%	6.50%	7.10%
Fresenius	5.70%	6.20%	6.70%	7.00%
McDonald's (GL)	4.00%	4.15%	4.35%	4.90%
O'Reilly Auto Parts	5.15%	5.50%	6.10%	6.65%
Rite Aid	NA	7.55%	8.10%	8.30%
Starbucks	5.25%	5.85%	6.00%	6.25%
Walgreens	5.20%	5.70%	6.80%	7.20%

FOR MORE INFORMATION

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