

DRUG STORE PROPERTIES
MEDIAN ASKING CAP RATES

Tenant	Q3 2017 (Previous)	Q3 2018 (Current)	Basis Point Change
Walgreens	6.00%	6.15%	+15
CVS	5.65%	5.65%	0
Rite Aid	7.25%	7.32%	+7

Note: Above numbers include properties with all lease lengths.

DRUG STORE PROPERTIES
ON THE MARKET

Tenant	Q3 2017 (Previous)	Q3 2018 (Current)	Percentage Change
Walgreens	192	158	-17.7%
CVS	120	98	-18.3%
Rite Aid	65	58	-10.8%

DRUG STORE PROPERTIES
MEDIAN ASKING PRICE

Tenant	Median Asking Price	Median Price Per Foot
Walgreens	\$5,561,618	\$388
CVS	\$5,165,000	\$385
Rite Aid	\$3,823,022	\$310

MARKET OVERVIEW

Cap rates for the single tenant drug store sector increased by 11 basis points in the third quarter of 2018 to 6.21% over last year. Cap rates for CVS properties remained unchanged (5.65%) while Walgreens and Rite Aid properties experienced increases of 15 and 7 basis points to 6.15% and 7.32% respectively. The increase in cap rates experienced by Walgreens and Rite Aid properties can be best attributed to uncertainty surrounding Rite Aid's long term viability and the store closures associated with Walgreens acquisition of approximately 1,900 Rite Aid locations.

Transaction volume in the drug store sector slowed significantly in the first three quarters of 2018 and was down more than 40% when compared to each individual year between 2013 and 2017. Recent events in the drug store sector including the pending CVS and Aetna merger, Walgreens acquisition of approximately 1,900 Rite Aid stores and the failed merger between Rite Aid and Albertsons caused concern for investors. The spread between asking and closed cap rates for drug stores widened for all three tenants in the third quarter of 2018 when compared to the prior year. This illustrates pushback sellers are receiving for drug store valuations from net lease investors.

The supply of drug store assets decreased in the third quarter of 2018 when compared to the prior year by more than 16%. In recent years, the drug store sector supply increased as investors took advantage of "blend and extend" scenarios. In a blend and extend scenario, property owners offer the tenant an incentive in order to increase the lease term creating an arbitrage situation. In the past 18 months, tenants became increasingly more selective of blend and extend scenarios, causing a decrease in supply across the drug store sector.

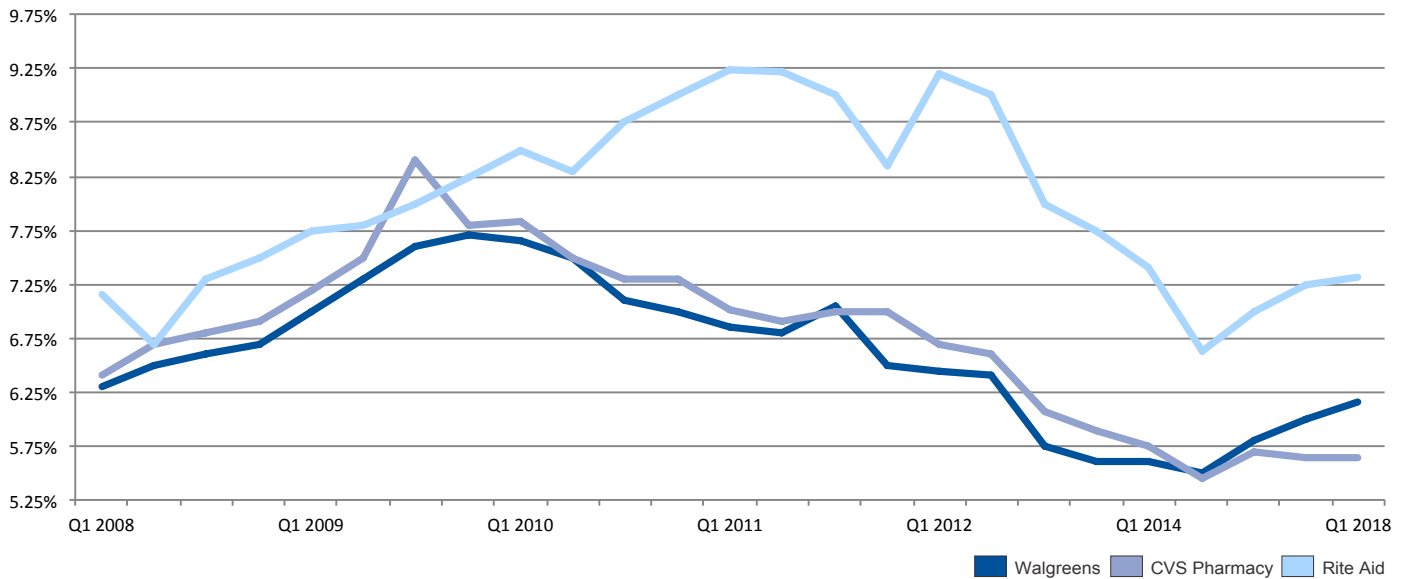
Transaction velocity for the remainder of 2018 in the net lease drug store sector should remain at a similar pace to the current year. Investors will be carefully monitoring the store closure list that resulted from Walgreens acquisition of approximately 1,900 Rite Aid store as well as the CVS and Aetna merger. Private and 1031 investors will continue to be the primary buyer of drug store assets. The vast majority of transactions will consist of stores with high quality real estate and superior store sales as investor concern lingers surrounding the potential Amazon effect in this sector.



MEDIAN ASKING CAP RATE BY LEASE TERM REMAINING

Term Remaining	Walgreens	CVS	Rite Aid
20+ Years	5.30%	5.30%	N/A
15-19 Years	5.80%	5.70%	7.00%
10-14 Years	6.15%	6.00%	7.30%
6-9 Years	6.85%	6.60%	7.95%
5 Years & Under	7.25%	7.10%	8.50%

CAP RATE DRUG STORE TRENDS



MEDIAN NATIONAL ASKING VS. CLOSED CAP RATE SPREAD

Tenant	Closed	Asking	Spread (bps)
Walgreens	6.45%	6.15%	+30
CVS	5.98%	5.65%	+33
Rite Aid	7.72%	7.32%	+40

DRUG STORE VS. RETAIL NET LEASE MARKET CAP RATE

Sector	Q3 2017 (Previous)	Q3 2018 (Current)
Drug Store	6.10%	6.21%
Market	6.11%	6.25%
Drug Store Premium (bps)	1	4

SELECTED SINGLE TENANT SALES COMPARABLES

Sale Date	Tenant	City	State	Price	Price Per SF	Cap Rate	Lease Term Remaining
Jul-18	Walgreens	Chestertown	MD	\$9,787,500	\$655	5.50%	16
Aug-18	Walgreens	Teaneck	NJ	\$9,500,000	\$646	5.62%	18
Sep-18	Walgreens	Montgomery	NY	\$9,333,333	\$717	6.00%	17
Apr-18	CVS	Hampton	VA	\$8,525,000	\$627	5.19%	22
Jun-18	Walgreens	Sarasota	FL	\$8,150,000	\$475	5.86%	11
Aug-18	Walgreens	Rocky Mount	VA	\$8,037,000	\$556	6.70%	17
Jul-18	Walgreens	Aurora	IL	\$7,525,000	\$607	6.30%	12
Jun-18	CVS	Johnston	RI	\$7,366,100	\$540	5.15%	18
Sep-18	CVS	Naples	FL	\$7,300,000	\$528	6.06%	5
Aug-18	CVS	St. Augustine	FL	\$6,369,000	\$494	5.77%	15
Aug-18	CVS	DeKalb	IL	\$6,348,584	\$480	5.50%	20
Jul-18	Walgreens	Hamden	CT	\$6,300,000	\$437	6.17%	13
Jul-18	Walgreens	Lansing	MI	\$6,250,000	\$430	6.10%	12
Jun-18	Walgreens	Red Bluff	CA	\$5,760,000	\$425	6.25%	11
Aug-18	Walgreens	Westford	MA	\$5,750,000	\$388	8.00%	13
Aug-18	Rite Aid	Suffolk	VA	\$5,495,000	\$494	6.29%	20
Jun-18	Walgreens	Maineville	OH	\$5,478,500	\$370	6.21%	13
Jul-18	Walgreens	Port Allen	LA	\$5,430,000	\$373	5.95%	15
Aug-18	Walgreens	Machesney Park	IL	\$5,225,000	\$361	6.43%	15
Apr-18	CVS	Orlando	FL	\$4,700,000	\$419	6.01%	10
Jul-18	Walgreens	Franklin	LA	\$4,450,000	\$300	6.74%	20
Jul-18	Walgreens	Clinton Township	MI	\$4,320,000	\$313	6.25%	12
Jun-18	Rite Aid	Xenia	OH	\$4,250,000	\$292	9.28%	9
Jun-18	CVS	Lake Wales	FL	\$4,100,000	\$366	6.25%	6
Jul-18	Walgreens	Vero Beach	FL	\$4,000,000	\$258	6.13%	7
Oct-18	CVS	Fort Pierce	FL	\$3,560,000	\$318	5.95%	19
Jul-18	Walgreens	New Smyrna Beach	FL	\$3,073,000	\$228	6.25%	5
Jun-18	Rite Aid	Enon	OH	\$2,925,000	\$261	8.41%	7
Aug-18	CVS	Apex	NC	\$2,889,720	\$261	5.35%	20
Jun-18	CVS	Kokomo	IN	\$2,888,000	\$176	8.00%	5
Jul-18	Rite Aid	Griffin	GA	\$2,000,000	\$183	9.00%	2



COMPANY AND LEASE OVERVIEW

	Walgreens	CVS Pharmacy	Rite Aid
Credit Rating:	BBB	BBB+	B
Market Cap:	\$71 billion	\$71 billion	\$1.1 billion
Revenue:	\$131 billion	\$186 billion	\$21.5 billion
Number of Stores:	9,560	9,800	2,548
Typical Lease Term:	20 year primary term with fifty years of options	25 year primary term with six 5-year options	20 year primary term with six 5-year options
Typical Rent Increases:	None	"None in primary 10% increases in option periods"	Increases of 10% every 10 years



FOR MORE INFORMATION

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