

**BIG BOX ASKING CAP RATE COMPARISON**

Q4 2017 (Previous)	Q4 2018 (Current)	Basis Point Change
6.75%	7.04%	+29

**BIG BOX VS. NET LEASE SECTOR MEDIAN ASKING PRICE**

Sector	Q4 2017 (Previous)	Q4 2018 (Current)
Big Box	6.75%	7.04%
Retail Net Lease Market	6.07%	6.25%
Differential (bps)	+68	+79

**BIG BOX PROPERTIES MEDIAN ASKING PRICE**

Sector	Average Price	Average Price Per SF
Investment Grade	\$10,510,612	\$176 PSF
Non-Investment Grade	\$5,496,774	\$141 PSF

**BIG BOX MEDIAN ASKING CAP RATE BY CREDIT RATING**

Investment Grade Cap Rate	Non-Investment Grade Cap Rate	Basis Point Spread
6.50%	7.18%	+68

**MARKET OVERVIEW**

Cap rates in the single tenant net lease big box sector increased by 29 basis points to 7.04% from the fourth quarter of 2017 to the fourth quarter of 2018. The rise in cap rates can be primarily attributed to investor concern about the evolving retail environment, store footprints for big box retailers and the cost associated with backfilling big box properties. Over the past year, a variety of tenant bankruptcies and store closure lists from well-known retailers including Toys R Us, Orchard Supply (Lowe's), Sears/Kmart and Shopko increased the vacancy in the sector.

Cap rates for the sector increased to a greater extent than the overall net lease retail sector. In the fourth quarter of 2018, net lease big box properties were priced at a 79 basis point discount to the overall net lease market. This represented an 11 basis point increase from the prior year. Despite the issues for non-credit tenants within the big box retail space, big box properties in primary retail corridors with strong real estate fundamentals remain in demand among institutional investors and large 1031 exchange buyers. Expanding retailers including Burlington, TJ Maxx/HomeGoods and Hobby Lobby and real estate investors were quick to acquire or lease the more desirable real estate vacancies left behind by retailer bankruptcies in 2018. Transaction volume in the net lease big box sector in 2018 reflected a similar pace to 2017.

Tenant quality and financial health has become increasingly more important for income investors in the net lease big box sector. Investment grade tenants including Walmart, Costco, Whole Foods and others, are garnering a significant premium over non-investment grade users. In the fourth quarter of 2018, investment grade tenants in the big box sector were commanding a 68 basis point premium. This is more than double the premium associated with this category one year earlier.

The single tenant net lease big box sector will remain active as both individual and institutional investors seek net leased properties to fulfill larger acquisition targets and 1031 exchanges. With higher yields than the overall net lease retail sector, many investors will be targeting assets with strong real estate fundamental after careful underwriting and understanding of local retail markets. However, big box properties with issues related to tenant health and financial strength and properties with irreplaceable rents or tertiary locations will be in less demand.

**THE NET LEASE BIG BOX REPORT**

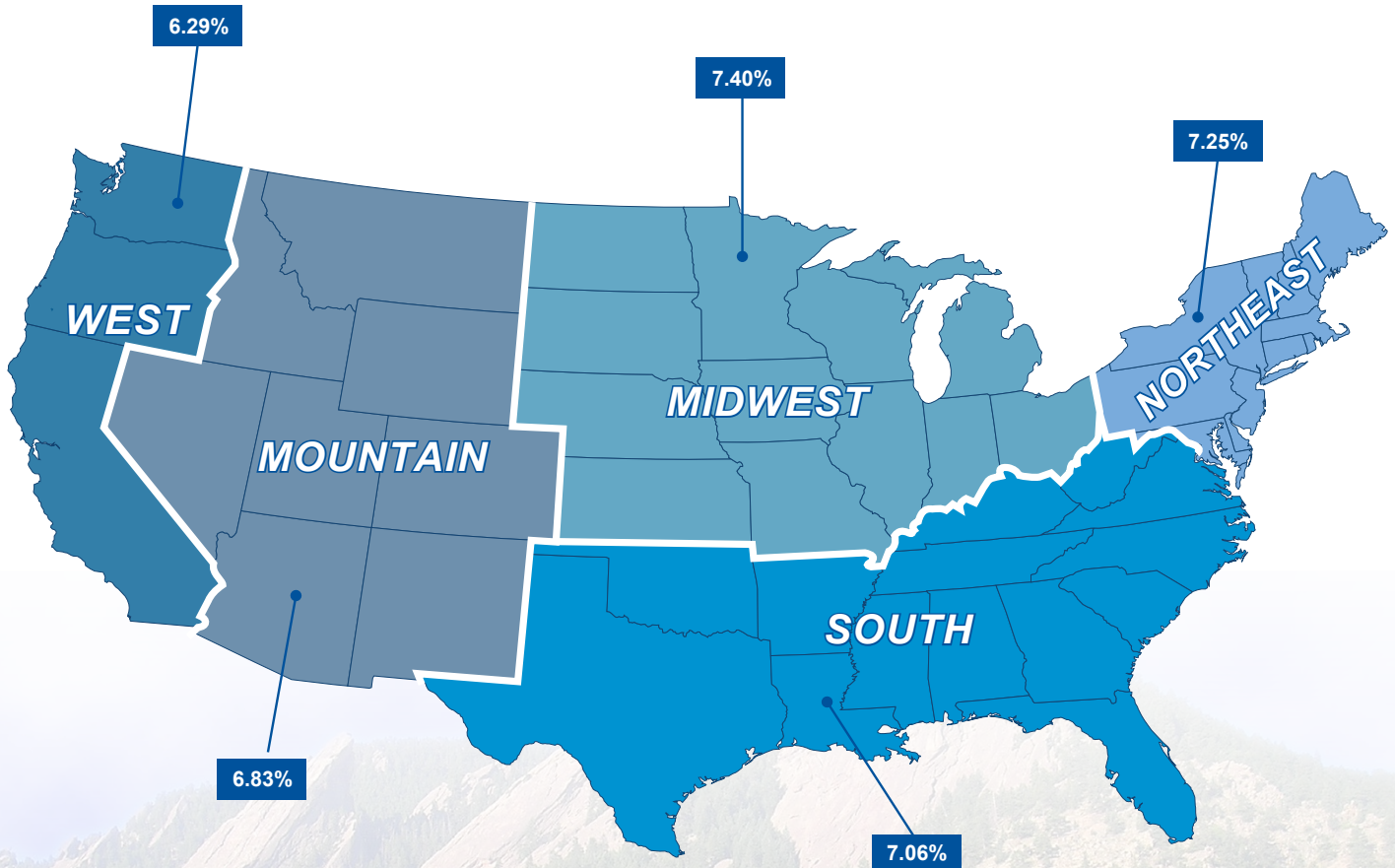
**MEDIAN ASKING CAP RATES BY SQUARE FOOTAGE**

Sector	SF Range	Cap Rate	Percentage of Market
Junior Big Box	20,000 - 40,000	7.02%	51%
Mid Box	40,000 - 80,000	7.15%	39%
Large Format	Over 80,000	6.70%	10%

**MEDIAN ASKING CAP RATE BY LEASE TERM REMAINING**

Years Remaining	Investment Grade	Non-Investment Grade
16-20 Years	5.50%	6.00%
11-15 Years	6.20%	7.00%
6-10 Years	6.65%	7.23%
5 Years & Under	7.05%	7.70%

**BIG BOX MEDIAN ASKING CAP RATE BY REGION**



**SELECTED SINGLE TENANT BIG BOX CLOSED TRANSACTIONS**

Sale Date	Tenant	City	State	Price	Price/SF	Cap Rate	Lease Term Remaining
Nov-18	Safeway	Olney	MD	\$25,921,000	\$434	5.78%	19
Oct-18	Mariano's	Crystal Lake	IL	\$25,200,000	\$337	5.88%	20
Nov-18	Stop & Shop	Mount Vernon	NY	\$22,250,000	\$276	6.98%	5
Jul-18	Art Van Furniture	Downers Grove	IL	\$20,232,000	\$165	7.25%	19
Aug-18	Kohl's	Centerville	UT	\$17,700,000	\$197	7.37%	11
Nov-18	Jewel Osco	Oak Lawn	IL	\$16,000,000	\$338	5.80%	19
Oct-18	Target	Skokie	IL	\$13,850,000	\$419	5.29%	14
Oct-18	Lowe's (GL)	Clovis	CA	\$12,409,500	\$76	5.56%	10
Aug-18	Best Buy	Woodland Park	NJ	\$12,000,000	\$267	8.69%	4
Oct-18	Floor & Décor	Oklahoma City	OK	\$11,000,000	\$146	7.37%	15
Nov-18	Albertsons	Alrington	TX	\$10,358,110	\$166	6.40%	12
Oct-18	24 Hour Fitness	Austin	TX	\$9,857,142	\$329	7.00%	9
Nov-18	Ashley Furniture	Green Bay	WI	\$9,250,000	\$184	6.88%	10
Nov-18	Academy Sports & Outdoors	Liberty	MO	\$5,700,000	\$91	8.55%	15
Oct-18	24 Hour Fitness	Taylorsville	UT	\$5,300,000	\$151	7.25%	16

**COMPANY COMPARISON**

Tenant	Total Number of Stores	Credit Rating
24 Hour Fitness	400+	B
Academy Sports + Outdoors	290	Not Rated
Albertsons	2,328	B+
Bed Bath & Beyond	1,550	BB+
Best Buy	1,250+	BBB
BJ's Wholesale	216	B
Dick's Sporting Goods	850	Not Rated
Hobby Lobby	822	Not Rated
Kohl's	1,158	BBB-
Kroger	3,028	BBB
LA Fitness	690+	B+
Lowe's Home Improvement	2,394	BBB+
Petco	1,500	CCC+
PetSmart	1,500	CCC
Ross Dress for Less	1,412	A-
Staples	1,131	B+
TJMaxx	1,000+	A+
The Home Depot	2,000	A
Walmart Stores	6,363	AA
Whole Foods Market	479	A+

**FOR MORE INFORMATION**

**AUTHOR**

**John Feeny**  
Senior Vice President  
[john@bouldergroup.com](mailto:john@bouldergroup.com)

**CONTRIBUTORS**

Randy Blankstein   President <a href="mailto:randy@bouldergroup.com">randy@bouldergroup.com</a>	Jimmy Goodman   Partner <a href="mailto:jimmy@bouldergroup.com">jimmy@bouldergroup.com</a>
Scott Harris   Senior Analyst <a href="mailto:scott@bouldergroup.com">scott@bouldergroup.com</a>	Jeff Weil   Analyst <a href="mailto:jeff@bouldergroup.com">jeff@bouldergroup.com</a>

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