

NATIONAL ASKING CAP RATES

Sector	Q4 2019 (Previous)	Q1 2020 (Current)	Basis Point Change
Retail	6.07%	6.15%	+8
Office	6.94%	7.00%	+6
Industrial	6.90%	7.05%	+15

**NUMBER OF PROPERTIES
ON THE MARKET**

Sector	Q4 2019 (Previous)	Q1 2020 (Current)	Percentage Change
Retail	3,895	3,264	-16.20%
Office	475	380	-20.00%
Industrial	358	315	-12.01%

**MEDIAN NATIONAL ASKING VS
CLOSED CAP RATE SPREAD**

Sector	Q4 2019 (Previous)	Q1 2020 (Current)	Basis Point Change
Retail	28	30	+2
Office	30	34	+4
Industrial	20	25	+5

MARKET OVERVIEW

**This report is based on events that occurred throughout the first quarter of 2020 which does not fully take into account the evolving Covid-19 situation and its effect on the net lease market.*

Cap rates in the single tenant net lease sector increased across all three asset classes in the first quarter of 2020 when compared to the fourth quarter of 2019. Cap rates for net lease retail, office and industrial increased by 8, 6 and 15 basis points respectively. Regardless of this change in cap rate, net lease transaction volume in 2019 finished in excess of \$80 billion which was more than a 35% increase when compared to 2018.

Following a robust 2019, net lease transaction momentum continued into the first two months of 2020. However, late in the first quarter overall net lease activity was reduced and the supply of net lease properties declined late in the quarter. In the final two weeks of the quarter, the supply of assets being added to the market declined by more than 20% when compared to the first two weeks of March. The decline in supply for the first quarter was 16% when compared to the fourth quarter of 2019.

The fallout from Covid-19 pandemic started in mid-March and the 10 Year Treasury Yield fell as low as 0.39% as the Federal Reserve slashed rates. The public markets began to deteriorate and publicly traded net lease institutions saw significant declines in their public valuations. The ETF focused on net lease (NYSEArca: NETL) saw a 30.8% decline over the course of the first quarter. Accordingly, many institutional investors have cancelled transactions or placed pause on acquisitions during this time of instability and market volatility.

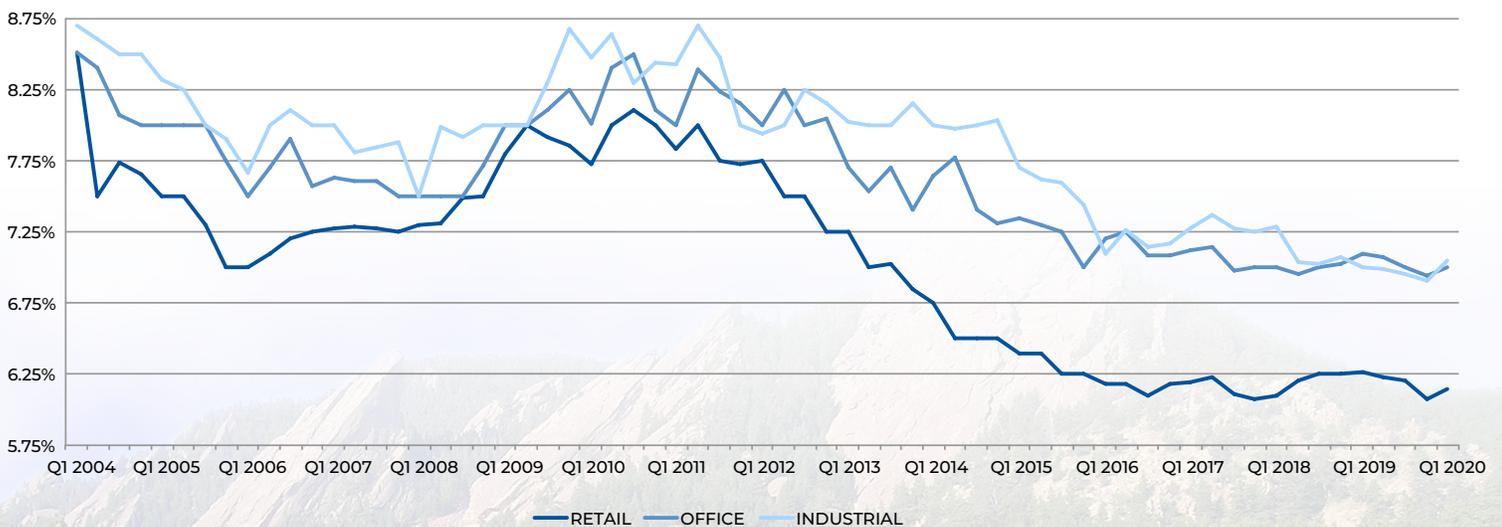
At the end of the first quarter, the primary interest from net lease investors was from private investors and 1031 exchange buyers. 1031 investors will continue to seek stable cash flows from this asset class while sheltering their capital gain. Additionally, properties targeted by these investors are from the essential businesses that are less impacted by Covid-19; pharmacies, c-stores, dollar stores and grocery stores with investment grade rated tenants. As a result of the market's bifurcation between essential and non-essential businesses during the Covid-19 pandemic, there will be limited investor interest in properties that fall in the non-essential category until there is further stability.

Net lease transaction volume for 2020 is expected to be significantly lower than 2019 as a result of the impact of Covid-19. Following the economic stress from Covid-19 some tenants during this time period may experience significant financial stress causing investor concern. Net lease investors will be carefully monitoring tenant health and the greater economic impact of recent events on the economy. As this situation evolves, forecasts from investors will vary widely due to the rapidly changing and unprecedented health crisis.

SELECTED SINGLE TENANT SALES COMPARABLES

Sale Date	Sector	Tenant	City	State	Price	Price Per SF	Cap Rate	Lease Term Remaining
Jan-20	Industrial	Jacmar Foodservice Distribution	City Of Industry	CA	\$61,035,224	\$265	4.07%	10
Jan-20	Retail	Fleet Farm	Oconomowoc	WI	\$36,400,000	\$166	7.25%	20
Mar-20	Industrial	GE Appliances	Crandall	GA	\$30,300,000	\$60	6.30%	10
Feb-20	Office	Cornerstone Healthcare	High Point	NC	\$24,750,000	\$253	7.25%	3
Jan-20	Retail	Bass Pro Shops	Leeds	AL	\$20,000,000	\$155	6.48%	25
Feb-20	Industrial	Big Beverage Contract Manufacturing	Huntersville	NC	\$16,400,000	\$97	5.60%	10
Jan-20	Retail	Safeway	Denver	CO	\$16,383,490	\$317	5.10%	19
Jan-20	Industrial	Johnstone Supply	Portland	OR	\$16,200,000	\$128	5.15%	4
Jan-20	Office	US Land Management Bureau	Reno	NV	\$11,200,000	\$196	7.21%	5
Mar-20	Office	Vertex	Chandler	AZ	\$9,900,000	\$351	5.87%	15
Jan-20	Industrial	American Tire	Rochester	NY	\$8,500,000	\$68	11.80%	3
Jan-20	Retail	Winn Dixie	Tampa	FL	\$7,075,000	\$128	8.73%	7
Jan-20	Office	First American Home Warranty Corp.	Santa Rosa	CA	\$7,050,000	\$197	6.71%	7
Mar-20	Retail	Harley-Davidson	Sherman	TX	\$5,900,000	\$295	7.83%	5
Feb-20	Retail	7-Eleven	Arlington	TX	\$4,630,000	\$1,538	4.83%	14
Mar-20	Retail	Chase (GL)	Gilbert	AZ	\$4,628,000	\$1,074	5.15%	9
Mar-20	Retail	Walgreens	Rogers	MN	\$3,625,000	\$249	8.00%	9
Jan-20	Retail	Rite Aid	Gloucester City	NJ	\$3,482,474	\$319	6.75%	10
Jan-20	Retail	Walgreens	Marion	IA	\$3,400,000	\$247	7.22%	8
Feb-20	Office	Anthem Health	Tampa	FL	\$3,200,000	\$147	11.93%	2

NET LEASE CAP RATE TRENDS



MEDIAN ASKING CAP RATES BY YEAR BUILT

Tenant	2017-2019	2011-2016	2005-2010	Pre 2005
7-Eleven	4.97%	5.15%	5.65%	6.25%
Advance Auto Parts	6.00%	6.65%	7.25%	8.00%
AutoZone	5.40%	5.60%	7.00%	7.50%
Bank of America	5.05%	5.62%	6.25%	6.90%
Chase Bank	4.55%	4.80%	5.50%	6.25%
CVS Pharmacy	5.15%	5.60%	6.00%	7.02%
DaVita Dialysis Center	5.75%	6.12%	6.95%	7.40%
Dollar General	6.75%	7.25%	7.90%	8.20%
Family Dollar	6.90%	7.40%	7.90%	8.40%
FedEx	6.10%	6.42%	6.85%	7.15%
Fresenius	5.90%	6.30%	6.90%	7.22%
McDonald's (GL)	4.00%	4.25%	4.70%	5.00%
O'Reilly Auto Parts	5.40%	5.70%	6.10%	6.75%
Rite Aid	N/A	7.00%	7.90%	9.00%
Starbucks	5.10%	5.70%	6.15%	6.45%
Walgreens	5.50%	5.70%	6.45%	7.40%

FOR MORE INFORMATION

AUTHOR

JOHN FEENEY

SENIOR VICE PRESIDENT

john@bouldergroup.com

CONTRIBUTORS

RANDY BLANKSTEIN

PRESIDENT

randy@bouldergroup.com

SCOTT HARRIS

VICE PRESIDENT

scott@bouldergroup.com

JIMMY GOODMAN

PARTNER

jimmy@bouldergroup.com

JEFF WEIL

VICE PRESIDENT

jeff@bouldergroup.com

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