

NATIONAL ASKING CAP RATES

Sector	Q2 2017 (Previous)	Q3 2017 (Current)	Basis Point Change
Retail	6.23%	6.11%	-12
Office	7.14%	6.98%	-16
Industrial	7.37%	7.27%	-10

NUMBER OF PROPERTIES ON THE MARKET

Sector	Q2 2017 (Previous)	Q3 2017 (Current)	Percentage Change
Retail	3,968	3,789	-4.51%
Office	357	408	+14.29%
Industrial	368	380	+3.26%

MEDIAN NATIONAL ASKING VS CLOSED CAP RATE SPREAD

Sector	Q2 2017 (Previous)	Q3 2017 (Current)	Basis Point Change
Retail	35	21	-14
Office	31	32	+1
Industrial	32	22	-10

MARKET OVERVIEW

Cap rates in the third quarter of 2017 in the single tenant net lease sector decreased across all asset classes when compared to the previous quarter. Cap rates for retail properties decreased by 12 basis points to 6.11%. This represented the lowest level in the net lease retail sector since the third quarter of 2016 when cap rates were at a historical low of 6.10%. Cap rates for net lease office and industrial properties decreased by 16 and 10 basis points to 6.98% and 7.27% respectively.

After two consecutive quarters of increasing cap rates, cap rates decreased across all three sectors. Throughout the course of the third quarter, the 10-year treasury yield reached its lowest level of the year (2.06) before ending the quarter at 2.33. Competition for retail assets increased in the third quarter as evidenced by the spread between asking and closed cap rates. In the third quarter of 2017, this spread decreased by 14 basis points to 21 basis points. While cap rates compressed among all of the net lease sectors, premium pricing for single tenant properties is concentrated in top tier assets with long term leases, credit tenants and core markets. Some investors seeking yield in a compressed cap rate environment have turned to shorter term leases or tenants with credit concerns if the underlying real estate fundamentals warrant the risk.

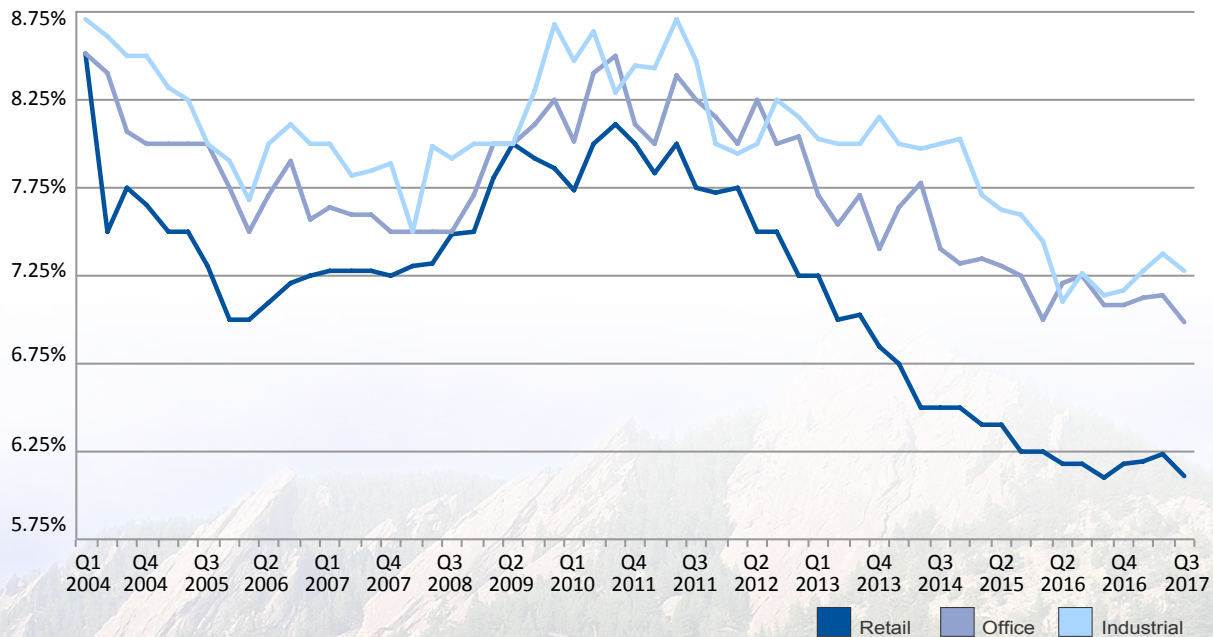
Private and 1031 buyers will continue to aggressively seek net leased investments as the passive nature of the leases and tax deferral remains appealing. In the third quarter of 2017, 1031 and private buyers accounted for approximately 70% of single tenant retail transactions. Furthermore, the 1031 and private buyer pool accounted for more than 85% of the transactions that were priced below a 6% cap rate. This illustrates the premium that private investors are willing to pay when seeking top tier properties with long term leases and strong credit tenants.

The net lease market should remain active throughout the remainder of the year as institutional and fund investors look to meet fund allocations by year end. Furthermore, the 1031 exchange buyer pool will continue to create competition amongst net lease investors. Net lease investors will continue to carefully monitor the capital markets and continue their disciplined acquisitions as most believe in a likelihood of more favorable pricing in the future.

SELECTED SINGLE TENANT SALES COMPARABLES

Sale Date	Sector	Tenant	City	State	Price	Price Per SF	Cap Rate	Lease Term Remaining
Jul-17	Industrial	FedEx	Durham	NC	\$44,900,000	\$189	6.06%	15
Jul-17	Retail	Walgreens	Honolulu	HI	\$42,250,000	\$1,172	4.70%	13
Sep-17	Office	County of San Diego	San Diego	CA	\$21,250,000	\$307	7.00%	7
Sep-17	Office	Unify Credit Union	Torrance	CA	\$19,000,000	\$251	7.30%	10
Jul-17	Office	Anthem Blue Cross Blue Shield	Cincinnati	OH	\$18,191,850	\$226	6.87%	10
Aug-17	Retail	Pick 'n Save	West Bend	WI	\$18,186,840	\$288	6.25%	12
Aug-17	Industrial	Novelis	Kennesaw	GA	\$16,125,000	\$99	6.75%	10
Jul-17	Retail	Walgreens	Soldotna	AK	\$10,595,000	\$614	6.00%	18
Aug-17	Retail	Kohl's	Neenah	WI	\$10,000,000	\$115	7.30%	13
Aug-17	Retail	Walgreens	Charleston	SC	\$9,664,000	\$605	5.20%	15
Jul-17	Retail	CVS	Ambler	PA	\$9,650,000	\$748	5.25%	20
Aug-17	Retail	Best Buy	San Bernardino	CA	\$9,500,000	\$163	6.10%	8
Aug-17	Medical Office	Fresenius	Chicago	IL	\$8,237,000	\$525	5.90%	15
Sep-17	Retail	Wawa (GL)	Riviera Beach	FL	\$6,915,000	--	4.63%	20
Aug-17	Retail	Walgreens	Waukesha	WI	\$6,400,000	\$408	6.50%	12
Aug-17	Medical Office	Fresenius	Winter Haven	FL	\$6,105,385	\$546	5.45%	15
Aug-17	Retail	Red Lobster	Stockton	CA	\$5,250,000	\$624	6.00%	22
Aug-17	Retail	Verizon	Columbia	SC	\$5,190,348	\$840	6.35%	10

NET LEASE CAP RATE TRENDS



MEDIAN ASKING CAP RATES BY YEAR BUILT

Tenant	2012-2017	2005-2011	2000-2004	Pre 2000
7-Eleven	4.95%	5.11%	5.85%	6.40%
Advance Auto Parts	5.75%	6.63%	7.50%	8.40%
AutoZone	5.00%	5.44%	5.65%	5.90%
Bank of America	4.50%	5.00%	5.57%	5.75%
Chase Bank	4.40%	4.90%	5.00%	5.50%
CVS Pharmacy	4.75%	5.40%	6.03%	6.45%
DaVita Dialysis Center	5.65%	6.40%	7.00%	7.75%
Dollar General	6.75%	7.35%	8.00%	9.00%
Family Dollar	6.60%	7.35%	8.00%	8.85%
FedEx	6.00%	6.50%	7.00%	7.40%
Fresenius	5.70%	6.40%	6.75%	8.00%
McDonald's (GL)	4.00%	4.25%	4.75%	5.00%
O'Reilly Auto Parts	5.50%	5.88%	6.15%	6.75%
Rite Aid	6.25%	6.85%	7.75%	8.25%
Starbucks	5.00%	5.25%	6.05%	6.70%
Walgreens	5.45%	5.85%	6.65%	7.20%

FOR MORE INFORMATION

AUTHOR

John Feeney | Vice President

john@bouldergroup.com

CONTRIBUTORS

Randy Blankstein | President

randy@bouldergroup.com

Jimmy Goodman | Partner

jimmy@bouldergroup.com

Asher Wenig | Vice President

asher@bouldergroup.com

Scott Harris | Analyst

scott@bouldergroup.com

© 2017. The Boulder Group. Information herein has been obtained from databases owned and maintained by The Boulder Group as well as third party sources. We have not verified the information and we make no guarantee, warranty or representation about it. This information is provided for general illustrative purposes and not for any specific recommendation or purpose nor under any circumstances shall any of the above information be deemed legal advice or counsel. Reliance on this information is at the risk of the reader and The Boulder Group expressly disclaims any liability arising from the use of such information. This information is designed exclusively for use by The Boulder Group clients and cannot be reproduced, retransmitted or distributed without the express written consent of The Boulder Group.