

DRUG STORE PROPERTIES ASKING CAP RATES

Tenant	Q1 2011 (Previous)	Q2 2011 (Current)	Basis Point Change
Walgreens	6.85%	6.80%	-5
CVS	7.01%	6.90%	-11
Rite Aid	9.24%	9.23%	-1

DRUG STORES PROPERTIES ON THE MARKET

Tenant	Number	Percent of Market
Walgreens	140	49%
CVS	75	26%
Rite Aid	71	25%

MEDIAN ASKING PRICE

Tenant	Average Price	Average Price Per Foot
Walgreens	\$5,465,000	\$369
CVS	\$3,919,500	\$310
Rite Aid	\$2,883,390	\$254

MARKET OVERVIEW

Cap rates in the single tenant net leased drug store sector continue to compress from the first to second quarter of 2011, with the median asking cap rate declining by 11 basis points. The compression is being derived by the anemic growth of new drug store development from both Walgreens and CVS compared to prior years. Both these category leaders have decreased their year over year development of new stores by over 10%. This lack of new development combined with the continued low interest rate environment and increased use of 1031 exchanges is driving the rising valuations. A further contributing factor enabling cap rates to decrease is investors in the single tenant sector are demanding low risk assets with long term leases to investment grade rated tenants. Among low risk properties, Walgreens and CVS are rare investment grade retailers with lease terms of over twenty years. Investor demand for the higher quality properties in this asset class can be illustrated by the cap rate spread of drug stores vs. the net lease retail market as a whole. In the second quarter, drug stores were transacting at a 110 basis point premium vs. the net lease retail market as a whole.

While Walgreens and CVS remain the center of investment activity within the net lease drug store sector, Rite Aid is seeing a nascent resurgence of investor interest. Transaction volume for Rite Aid properties has increased 23% on a year over year basis. Despite Rite Aid's long term leases, there has been limited demand from investors as Rite Aid is a non-investment grade rated tenant. However, with a long term lease and a current median yield of 9.23%, investors are emerging to selectively pursue locations in primary metropolitan areas with strong store sales.

The single tenant net lease drug store sector will continue to remain active as private investors seek the safety of this asset class. Transaction volume remains heavily concentrated in Walgreens and CVS properties. However, as Walgreens and CVS development pipeline remains below historical standards; our expectation is for new property demand to outpace supply until at least the end of 2012. This supply constraint will cause some investors to seek drug store assets with shorter term leases or pursue other investment grade related single tenant investments.



MEDIAN ASKING CAP RATE BY BUILDING AGE




Year Built	Walgreens	CVS	Rite Aid
2011	6.50%	6.40%	N/A
2010	6.50%	6.95%	8.80%
2009	6.75%	7.69%	8.63%
2008	6.50%	5.88%	8.75%
2007	6.75%	6.00%	9.00%
2006	6.85%	8.69%	8.00%
2005	6.98%	6.18%	8.16%
2000 - 2004	7.50%	7.07%	9.09%
1995 - 1999	8.00%	7.60%	9.50%
Before 1994	9.00%	8.00%	10.00%

MEDIAN ASKING CAP RATES BY PROPERTY TYPE

Property Type	Walgreens	CVS	Rite Aid
Fee Simple	6.85%	6.90%	9.23%
Ground Lease	6.00%	5.73%	7.47%
Leasehold	7.50%	8.69%	10.00%



COMPANY AND LEASE OVERVIEW

	Walgreens	CVS	Rite Aid
Credit Rating	A (Stable)	BBB+ (Stable)	B- (Stable)
Market Cap	\$32 Billion	\$49 Billion	\$1 Billion
Revenue	\$71 Billion	\$101 Billion	\$25 Billion
2011 Stores Built	208	238	0
Number of Stores	7,715	7,266	4,714
Typical Lease Terms	25 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	Not in the primary term, 10% in option periods	Increases every 10 years of 10%
			

FOR MORE INFORMATION:

AUTHOR:

John Feeny | Research Director
john@bouldergroup.com

CONTRIBUTORS:

Randy Blankstein | President Jimmy Goodman | Partner
randy@bouldergroup.com jimmy@bouldergroup.com

© 2011. 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.