

NATIONAL ASKING CAP RATES

Sector	Q3 2017 (Previous)	Q4 2017 (Current)	Basis Point Change
Retail	6.11%	6.07%	-4
Office	6.98%	7.00%	+2
Industrial	7.27%	7.25%	-2

**NUMBER OF PROPERTIES
ON THE MARKET**

Sector	Q3 2017 (Previous)	Q4 2017 (Current)	Percentage Change
Retail	3,789	3,822	+0.9%
Office	408	492	+20.5%
Industrial	380	452	+18.9%

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

Sector	Q3 2017 (Previous)	Q4 2017 (Current)	Basis Point Change
Retail	21	23	+2
Office	32	38	+6
Industrial	22	26	+4

MARKET OVERVIEW

Cap rates in the fourth quarter of 2017 for the single tenant net lease retail sector reached a new historic low rate of 6.07%. During the same time period, cap rates for the office sector increased by 2 basis points to 7.00% and cap rates for the industrial sector decreased by 2 basis points to 7.25%. Cap rates in the fourth quarter of 2017 represented the lowest point of the year for all three sectors.

While cap rates in the fourth quarter were the lowest experienced in 2017, the majority of demand remains for the higher quality assets. The overall sentiment is that the market is in the late stages of the current real estate cycle. Accordingly, property owners are attempting to sell assets in the current market to take advantage of the historically low cap rate environment regardless of asset quality. However, with the exception of high quality properties, the consensus is that the market generally is no longer seller orientated in regard to asset pricing. In recent years, sellers were perceived to have the upper hand, however most active net lease participants believe there has been a move to neutral.

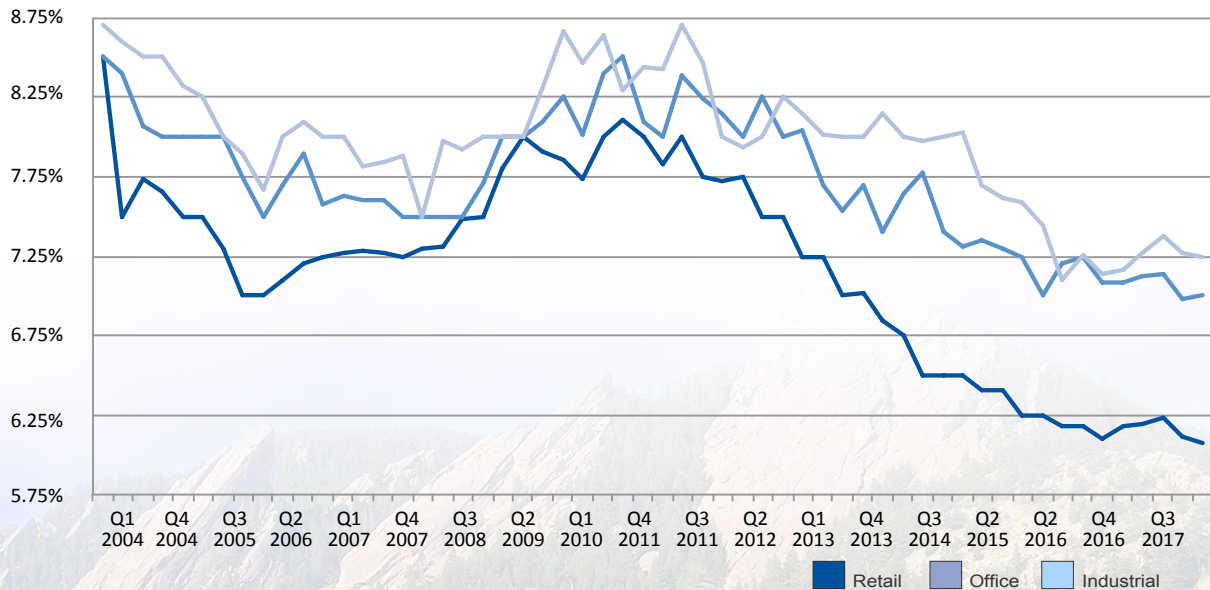
Despite a slight rise in the supply of net lease properties in the market, there is a lack of new construction properties with long term leases. Accordingly, during the fourth quarter cap rates for recently constructed properties tenanted by 7-Eleven, DaVita and McDonalds compressed by an average of 13 basis points. All three of these tenants are e-commerce resistant, which has been a point of emphasis for a growing number of net lease investors.

The net lease market is expected to remain active in 2018 as investor demand for this asset class remains strong. The expectation is that there will likely be upward movement in cap rates moving forward. In a recent national survey conducted by The Boulder Group, the vast majority of active net lease participants expect cap rates to rise in 2018. The largest segment of net lease participants expect cap rates to increase between 25 and 49 basis points by the end of 2018. With more rate hikes expected by the Federal Reserve in 2018, investors will carefully monitor the capital markets and the effect on pricing.

SELECTED SINGLE TENANT SALES COMPARABLES

Sale Date	Sector	Tenant	City	State	Price	Price Per SF	Cap Rate	Lease Term Remaining
Oct-17	Office	Arrow Electronics	Centennial	CO	\$87,000,000	\$383	5.70%	15
Oct-17	Industrial	FedEx	Wayne	NJ	\$43,263,000	\$265	5.79%	15
Oct-17	Industrial	CVS/Caremark	Vero Beach	FL	\$32,506,215	\$79	6.55%	14
Dec-17	Industrial	Home Depot	Phoenix	AZ	\$31,200,000	\$78	5.00%	5
Oct-17	Office	Orbital	Gilbert	AZ	\$17,763,561	\$295	6.15%	10
Nov-17	Retail	Walmart Supercenter	Pocomoke City	MD	\$13,033,467	\$87	7.40%	10
Dec-17	Retail	Shopko	Rice Lake	WI	\$6,378,560	\$72	7.85%	18
Nov-17	Retail	LA Fitness	Tampa	FL	\$9,000,000	\$257	6.61%	14
Dec-17	Retail	Walgreens	San Antonio	TX	\$8,796,000	\$644	5.40%	20
Dec-17	Industrial	FedEx	Fredericksburg	VA	\$8,400,000	\$130	7.82%	5
Nov-17	Retail	Sprouts Farmers Market	Lawrence	KS	\$8,127,766	\$298	6.19%	13
Oct-17	Industrial	Memphis Industrial	Memphis	TN	\$8,000,000	\$36	7.16%	10
Nov-17	Retail	Walgreens	Chicago	IL	\$6,967,213	\$380	6.14%	10
Oct-17	Retail	CVS Pharmacy	Richmond	VA	\$6,287,620	\$629	5.00%	19
Oct-17	Retail	Giant Eagle	Columbus	OH	\$5,350,000	\$180	7.08%	4

NET LEASE CAP RATE TRENDS



MEDIAN ASKING CAP RATES BY YEAR BUILT

Tenant	2011-2017	2005-2010	2000-2005	Pre 2000
7-Eleven	4.80%	5.30%	5.70%	6.15%
Advance Auto Parts	6.00%	6.40%	7.05%	7.64%
AutoZone	5.32%	5.75%	6.35%	6.85%
Bank of America	N/A	5.05%	6.00%	6.20%
Chase Bank	N/A	5.00%	5.10%	5.50%
CVS Pharmacy	4.90%	5.93%	6.26%	7.00%
DaVita Dialysis Center	5.50%	6.10%	6.60%	7.03%
Dollar General	6.80%	7.50%	7.70%	8.25%
Family Dollar	7.00%	7.50%	8.00%	8.50%
FedEx	6.00%	6.60%	7.10%	7.50%
Fresenius	5.70%	6.35%	6.75%	7.60%
McDonald's (GL)	3.90%	4.31%	4.65%	5.00%
O'Reilly Auto Parts	5.40%	5.99%	6.15%	7.00%
Rite Aid	N/A	7.00%	7.75%	8.50%
Starbucks	5.00%	5.35%	5.80%	6.60%
Walgreens	5.50%	5.90%	6.70%	7.15%

THE BOULDER GROUP CAP RATE POLL

WHERE DO YOU EXPECT CAP RATES TO MOVE BY THE END OF 2018?

Cap rates will move up 50 bps or more (22%)

Cap rates will move up 25 bps to 49 bps (39%)

Cap rates will move up 1 bps to 24 bps (13%)

Cap rates will remain unchanged (17%)

Cap rates will move down (9%)

FOR MORE INFORMATION

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