

NATIONAL ASKING CAP RATES

Sector	Q1 2021 (Previous)	Q2 2021 (Current)	Basis Point Change
Retail	5.91%	6.02%	+11
Office	6.95%	6.95%	0
Industrial	6.71%	6.89%	+18

**NUMBER OF PROPERTIES
ON THE MARKET**

Sector	Q1 2021 (Previous)	Q2 2021 (Current)	Percentage Change
Retail	3,353	3,221	-3.94%
Office	453	442	-2.43%
Industrial	393	418	6.36%

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

Sector	Q1 2020 (Previous)	Q2 2021 (Current)	Basis Point Change
Retail	18	16	-2
Office	23	27	+4
Industrial	23	19	-4

MARKET OVERVIEW

Cap rates in the single tenant net lease sector rose slightly in the second quarter of 2021 after hitting historic low levels in the previous quarter. Single tenant retail cap rates increased by 11 basis points to 6.02% while industrial increased by 18 basis points to 6.89%. Office cap rates remained unchanged. Following a quarter of historic pricing for the net lease sector, owners of lower quality assets brought properties to the market in attempt to take advantage of current cap rate levels. The increased concentration of lower quality assets was the primary contributing factor for the rise in cap rates in the second quarter of 2021.

Despite a decrease of approximately three percent in supply of net lease assets, lower quality assets (short term leases and less desirable tenant credits) made up a larger concentration of the market in the second quarter. The supply of assets with long term leases to credit tenants remains limited. In the second quarter of 2021, only 22% of the property supply had more than 15 years of lease term remaining. Accordingly, cap rate compression for these assets exists in the current market. Demand for the perceived high-quality assets including McDonald's, 7-Eleven and CVS heavily outweighs supply creating an extremely competitive market for these properties. In the second quarter the bid-ask spread for net lease retail and industrial assets decreased by 2 and 4 basis points respectively.

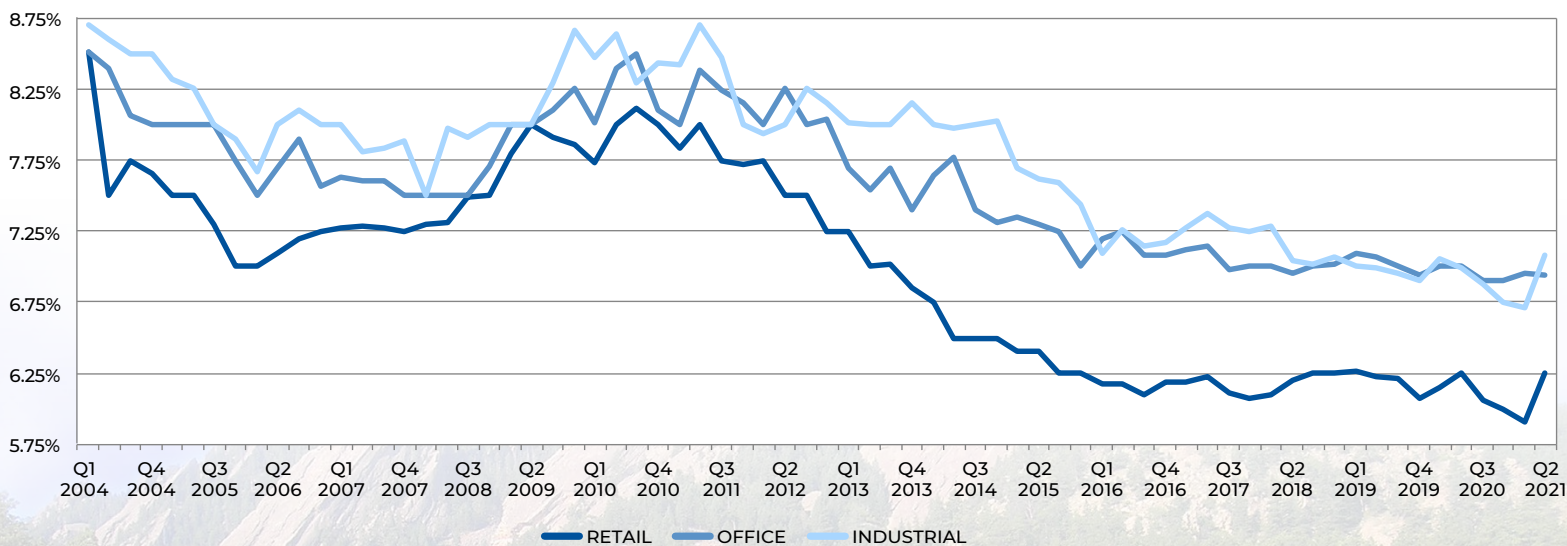
Significant competition for a limited amount of assets caused investors to seek alternatives in net lease. In a search for yield, some net lease investors have shifted focus to shorter term leases or tenants which we previously not in as high of demand (daycare, Rite Aid, etc.) in the first half of 2021. The increased demand for net lease assets has provided a boost to liquidity for more speculative assets.

Transaction activity in the net lease sector will remain active through 2021. However, the supply pipeline will determine if transaction volume will outpace 2020 or even the high-water mark of 2019. As the country continues to reopen, investors will carefully be monitoring assets classes that were not trading during the pandemic (fitness, theaters, etc.). Furthermore, the industry will pay careful attention to any potential tax code changes including the 1031 exchange proposed by the current administration and its potential impact on real estate and strategies moving forward.

SELECTED SINGLE TENANT SALES COMPARABLES

Sale Date	Sector	Tenant	City	State	Price	Price Per SF	Cap Rate	Lease Term Remaining
May-21	Office	Northrop Grumman	Gilbert	AZ	\$43,100,000	\$358	5.51%	10
May-21	Office	Zovio	Chandler	AZ	\$34,235,000	\$262	6.67%	9
Jun-21	Industrial	World Depot	Jessup	MD	\$34,218,000	\$165	4.50%	5
Apr-21	Retail	WMD International	Brea	CA	\$20,925,000	\$210	4.54%	5
Apr-21	Industrial	Tri Tool	Rancho Cordova	CA	\$15,000,000	\$115	6.25%	14
May-21	Retail	Tesla	Loveland	CO	\$10,443,000	\$235	5.50%	10
May-21	Retail	Kohl's	Menomonee Falls	WI	\$9,826,000	\$100	7.00%	11
May-21	Medical	DaVita	Antioch	CA	\$7,750,000	\$672	5.33%	10
Apr-21	Retail	7-Eleven	Wildwood	FL	\$7,247,000	\$1,611	4.65%	14
Apr-21	Retail	Pick 'N Save	Appleton	WI	\$7,000,000	\$129	6.55%	6
May-21	Retail	Kindercare	Henderson	NV	\$6,926,667	\$516	6.35%	15
May-21	Retail	PriceRite	Fall River	MA	\$6,600,000	\$209	7.97%	4
May-21	Retail	JoAnn	Kennesaw	GA	\$6,550,000	\$156	7.71%	15
May-21	Retail	Walgreens	Davenport	IA	\$6,541,000	\$441	6.65%	13
Apr-21	Retail	PNC Bank (GL)	Lake Zurich	IL	\$5,840,000	--	5.65%	13
Apr-21	Retail	Caliber Collision	Sanford	FL	\$5,610,000	\$332	5.70%	14
Apr-21	Retail	Big Lots	Everett	WA	\$5,550,000	\$125	6.00%	10
May-21	Retail	Bank of America (GL)	Lakewood	CO	\$5,350,000	--	4.20%	15
May-21	Retail	Caliber Collision	Frisco	TX	\$5,200,000	\$347	6.01%	8
May-21	Retail	Walgreens	Decatur	GA	\$3,521,000	\$451	6.24%	7

NET LEASE CAP RATE TRENDS



MEDIAN ASKING CAP RATES BY YEAR BUILT

Tenant	2017-2021	2011-2016	2005-2010	Pre 2005
7-Eleven	4.80%	5.00%	5.50%	5.75%
Advance Auto Parts	6.00%	6.40%	6.90%	7.85%
AutoZone	5.15%	5.45%	5.90%	7.00%
Bank of America	5.00%	5.20%	6.05%	6.80%
Chase Bank	4.35%	4.70%	5.15%	6.00%
CVS Pharmacy	4.90%	5.40%	6.25%	6.85%
DaVita Dialysis Center	5.55%	6.25%	6.85%	7.60%
Dollar General	5.85%	6.20%	7.00%	7.85%
Family Dollar	6.75%	7.25%	7.75%	8.35%
FedEx	5.50%	6.00%	6.75%	7.25%
Fresenius	5.60%	6.25%	6.75%	7.40%
McDonald's (GL)	3.85%	4.00%	4.60%	4.75%
O'Reilly Auto Parts	5.15%	5.85%	6.00%	6.75%
Rite Aid	NA	7.20%	7.90%	8.65%
Starbucks	5.00%	5.40%	5.85%	6.35%
Walgreens	5.10%	5.65%	6.85%	7.45%

FOR MORE INFORMATION

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