

NATIONAL ASKING CAP RATES

Sector	Q2 2022 (Previous)	Q3 2022 (Current)	Basis Point Change
Retail	5.80%	5.86%	+6
Office	6.77%	6.80%	+3
Industrial	6.60%	6.61%	+1

**NUMBER OF PROPERTIES
ON THE MARKET**

Sector	Q2 2022 (Previous)	Q3 2022 (Current)	Percentage Change
Retail	3,478	3,017	-13.25%
Office	709	645	-9.03%
Industrial	400	352	-12.00%

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

Sector	Q2 2022 (Previous)	Q3 2022 (Current)	Basis Point Change
Retail	21	22	+1
Office	29	36	+7
Industrial	16	18	+2

MARKET OVERVIEW

Cap rates in the single tenant net lease sector increased slightly for all three sectors in the third quarter of 2022. For the first time in the past two years, cap rates increased for two straight consecutive quarters. Single tenant cap rates increased to 5.86% (+6 bps) for retail, 6.80% (+3 bps) for office and 6.61% (+1 bps) for industrial in the third quarter of 2022. As the Federal Reserve continues to increase rates in attempt to curb inflation, debt costs have increasingly put upward pressure on cap rates for buyers of net lease properties.

As economic pressure mounts, formerly opportunistic sellers removed properties from the market that were attempting to take advantage of the historically low cap rate environment. In the third quarter of 2022, the supply of net lease properties decreased by more than 12% when compared to the prior quarter. Furthermore, buyers and sellers have yet to agree on pricing levels given the current environment and a period of price discovery continues. The spread between asking cap rates and confirmed sale cap rates increased slightly in the third quarter, but not in a meaningful amount. Accordingly, sale transactions in the third quarter of 2022 were more than 30% lower than in the third quarter of 2021. The expectation from market participants is that the bid ask spread will widen as price discovery plays out in the fourth quarter and into 2023.

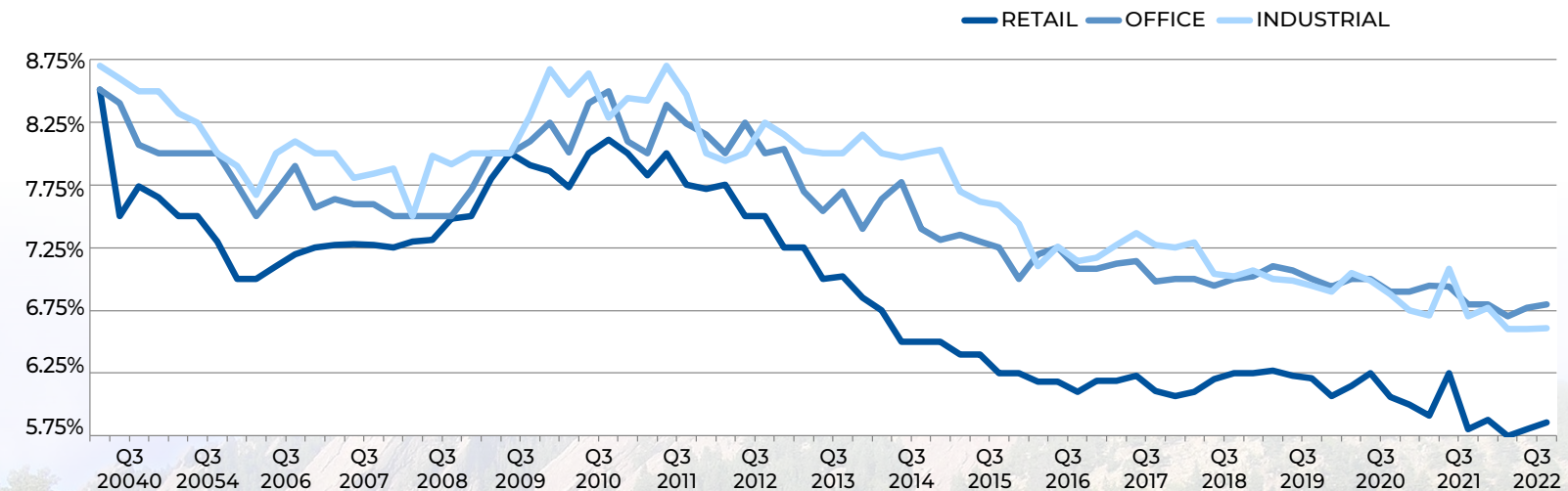
The rising rate and inflationary environment impacted acquisition criteria for net lease buyers. Investor demand for properties with rent growth or the ability to increase rents in the near term are in the greatest demand. Accordingly, demand for properties with limited or no rental escalations are limited to properties with above market yields or strong underlying real estate. Investors expected cap rates to widen for non-core net lease deals with short term leases, lesser tenants or secondary markets. This has yet to occur on a wider scale, causing a wait and see approach for many investors. As the quarter came to a close, institutional investors and publicly traded net lease REITs raised the cap rate floors for future acquisitions as their cost of capital increased.

The capital markets will continue to impact the overall net lease market. Investors will be carefully monitoring the Federal Reserve's monetary policy and its impact on their borrowing costs. Year end transaction volume will be impacted by the capital markets and the decrease in activity driven by 1031 exchange investors.

SELECTED SINGLE TENANT SALES COMPARABLES

Sale Date	Sector	Tenant	City	State	Price	Price Per SF	Cap Rate	Lease Term Remaining
Jul-22	Retail	Pick 'n Save	Milwaukee	WI	\$20,000,000	\$196	6.37%	7
Jul-22	Retail	At Home	Peabody	MN	\$15,000,000	\$156	6.40%	9
Jul-22	Industrial	Worthington Steel	Bowling Green	KY	\$12,874,000	\$154	5.00%	18
Jul-22	Office	USF Holland	Holland	MI	\$10,300,000	\$122	5.95%	7
Jul-22	Retail	7-Eleven	San Antonio	TX	\$10,115,500	\$2,135	4.15%	14
Jul-22	Office	Collins Aerospace	Cedar Rapids	IA	\$10,000,000	\$100	8.81%	2
Aug-22	Industrial	FedEx	Emporia	VA	\$9,610,000	\$190	5.80%	3
Sep-22	Retail	Trader Joe's	Gilbert	AZ	\$8,785,000	\$617	4.53%	7
Jul-22	Retail	Firestone	Foxfield	CO	\$8,409,000	\$591	4.75%	5
Sep-22	Retail	CVS	El Paso	TX	\$7,569,231	\$567	5.15%	16
Aug-22	Industrial	Protect-All Inc	Darien	WI	\$7,000,000	\$66	6.30%	13
Aug-22	Office	US Dept. of Agriculture	Alturas	CA	\$6,800,000	\$267	9.00%	6
Sep-22	Office	Cimarex Energy	Carlsbad	CA	\$6,767,500	\$424	6.06%	13
Sep-22	Retail	Walgreens	Lowell	MI	\$5,625,000	\$412	5.33%	12
Aug-22	Retail	7-Eleven	Fort Salonga	NY	\$5,486,000	\$1,933	4.37%	15
Aug-22	Retail	Walgreens	Edmond	OK	\$5,410,000	\$396	4.70%	15
Aug-22	Retail	Raising Cane's	Irving	TX	\$5,200,000	\$1,908	5.19%	3

NET LEASE CAP RATE TRENDS



MEDIAN ASKING CAP RATES BY YEAR BUILT

Tenant	2017-2022	2011-2016	2005-2010	Pre 2005
7-Eleven	4.30%	5.00%	5.42%	5.60%
Advance Auto Parts	5.70%	6.05%	7.00%	7.55%
AutoZone	4.75%	5.00%	5.65%	6.50%
Bank of America	4.90%	5.20%	5.95%	6.20%
Chase Bank	4.30%	4.40%	5.00%	5.60%
CVS Pharmacy	4.85%	5.00%	6.50%	7.00%
DaVita Dialysis Center	5.25%	5.90%	6.50%	7.00%
Dollar General	5.40%	5.80%	6.40%	7.00%
Family Dollar	6.25%	6.60%	7.00%	7.65%
FedEx	5.15%	5.50%	6.35%	6.90%
Fresenius	5.25%	6.00%	6.45%	7.10%
McDonald's (GL)	3.75%	4.00%	4.20%	4.50%
O'Reilly Auto Parts	5.00%	5.65%	5.90%	6.30%
Rite Aid	NA	7.15%	7.80%	8.25%
Starbucks	5.00%	5.40%	6.00%	6.20%
Walgreens	5.00%	5.14%	6.60%	7.00%

FOR MORE INFORMATION

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