NET LEASE PROPERTY REPORT

Q3 : 2020

Los Angeles
Portland
San Francisco
San Diego
Tampa

NNNetAdvisors

Q3 CAP RATES REMAIN STABLE

2020 Likely to See Only a Moderate Cap Rate Increase

Net lease sales volume and cap rates increased over the previous quarter. Average days on market and average lease term remaining has leveled out while investors continue to seek out properties that provide risk adjusted returns in both the short and long run.

Investor acquisition parameters in Q3 largely mirrored the parameters that most lenders are currently favoring. This includes properties with at least 5-10 years remaining on the base term, investment grade and larger credit tenants, and concepts that should survive both the short term reality of the pandemic and the ongoing threat of eCommerce. These properties are mostly located in dense infill locations, with the one exception to this rule being new build Dollar General locations. The strength of Dollar General's business model and credit helps to ensure that they are a safe bet during their initial lease term, but many of these properties are located in tertiary markets and run a high risk of significant value loss if Dollar General does not renew at the end of their initial 15 year base term.

One of the surprising data points that emerged in Q3 was reduced cap rates for the Drug Stores sector. Both CVS and Walgreens saw large drops in their cap rates with CVS finishing the quarter at 5.6% (down from 6.4%) and Walgreens at 6.0% (down from 6.6%). Drug Stores have been lumped into the category of essential, and henceforth, are expected to whether the pandemic. The looming question for Drug Store properties is their long term relevance and plan to capitalize on a market that continues to shift

(continued on pg. 3)

Q3 2020

Sold Property Data

Median Cap Rate

6.25% (↓5bps)

Average Cap Rate

6.34% (↑8 bps)

Average Days On Market

206 Days (↓4)

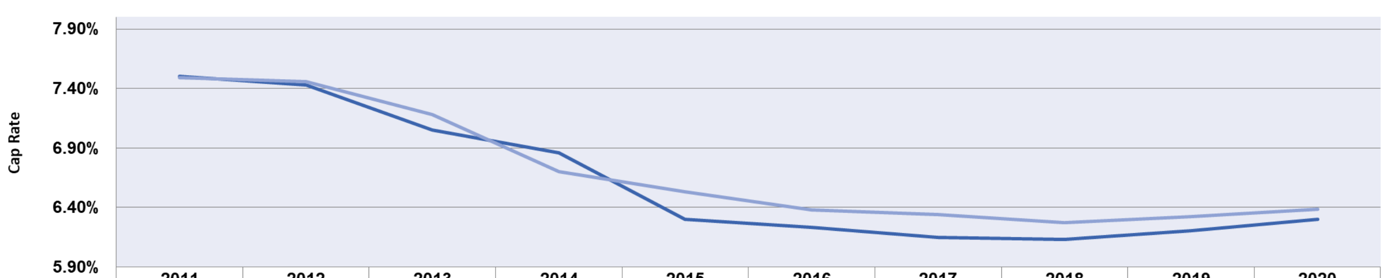
Average Base Term

11.2 Years (↓0.8)

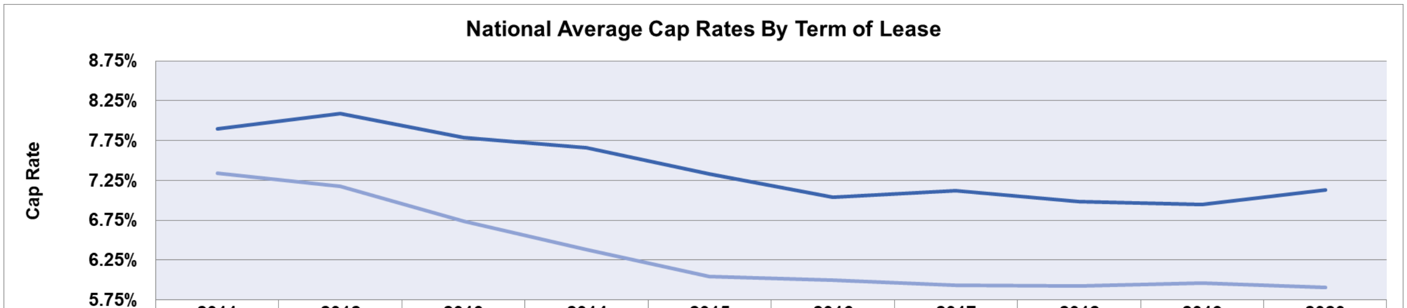
Ask Price vs. Sales Price

5.26% Under Asking (↓22 bps)

National Net Lease Cap Rates



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Median	7.50%	7.43%	7.05%	6.86%	6.30%	6.23%	6.15%	6.13%	6.21%	6.30%
Average	7.49%	7.46%	7.18%	6.70%	6.53%	6.38%	6.34%	6.27%	6.32%	6.39%

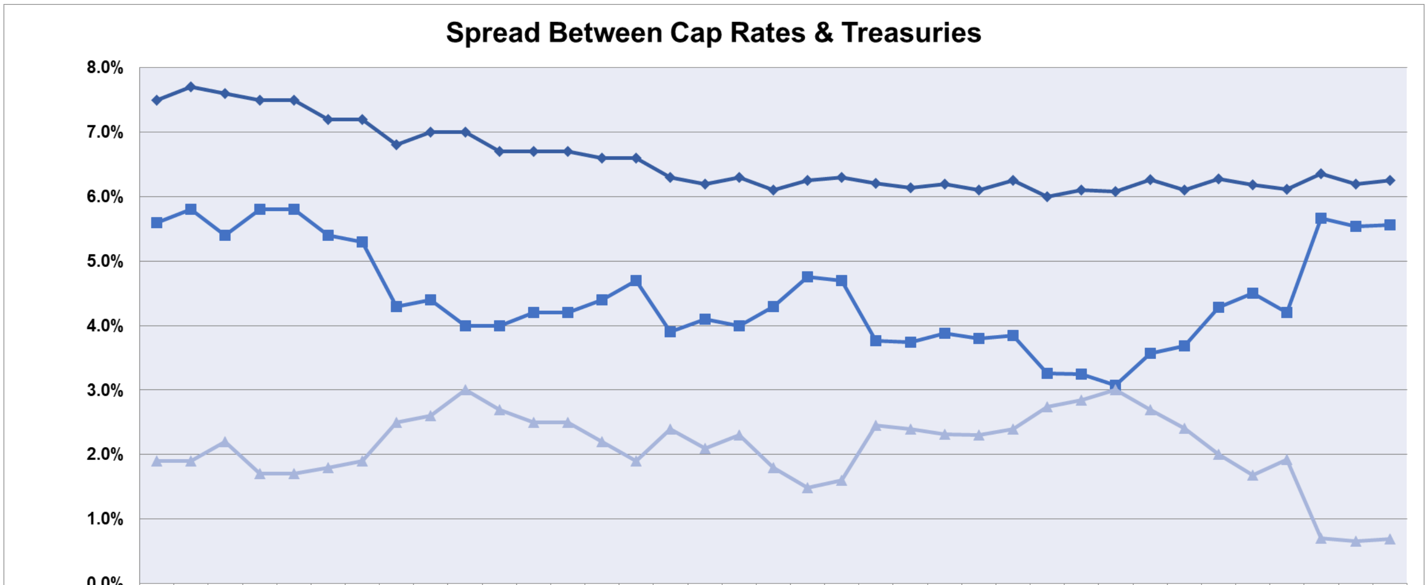


	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<10 Years	7.90%	8.09%	7.79%	7.66%	7.33%	7.04%	7.12%	6.98%	6.95%	7.13%
>10 Years	7.34%	7.18%	6.74%	6.38%	6.04%	6.00%	5.93%	5.92%	5.96%	5.91%

towards direct delivery for prescriptions. This has proved especially true for recurring prescriptions and increasingly true for periodic prescription needs. Decreased demand for in person prescription pick up continues to reduce Drug Store foot traffic and is resulting in decreasing merchandise sales.

The sector experiencing the biggest slowdown over the past two quarters has been Casual Dining restaurants. This slowing trend has been developing over the past few years and the pandemic has accelerated the decreased demand for these properties. The franchises that typically dominate this sector including Applebees, Chili's, Red Lobster, TGI Friday's, IHOP, and Hooters have all had to deal with a business model that relies on getting customers through their doors in an environment where state and local restrictions along with consumer risk preferences have made this anywhere from difficult to impossible. All of these factors have effectively reduced the active buyer pool of Casual Dining properties to a point that only a handful have traded each of the last two quarters.

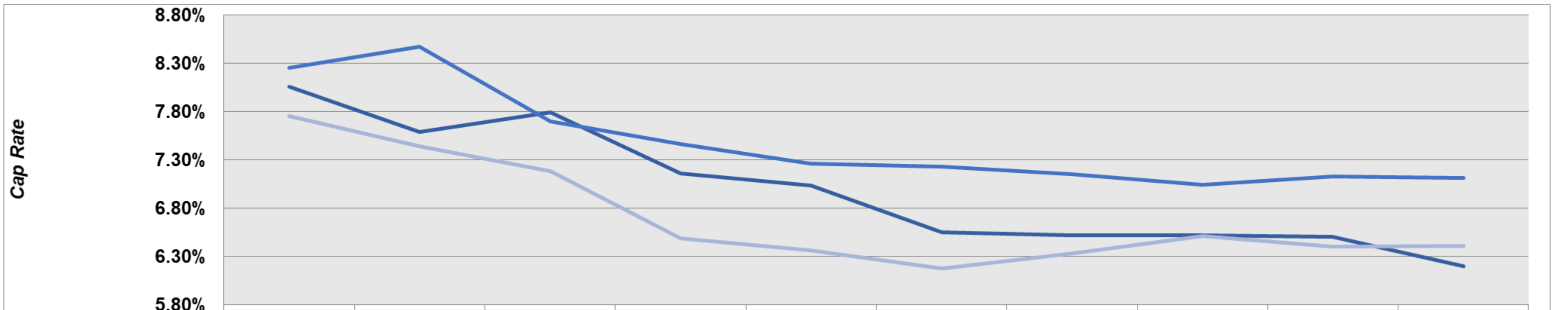
Moving into the last quarter of 2020, we expect more of the same. The silver lining in a changing world for net lease investors remains both the likelihood of a prolonged period of cheap debt, and hopefully, a clearer understanding of which tenants are worth investing in for the long run.



	Q3 '11	Q4 '11	Q1 '12	Q2 '12	Q3 '12	Q4 '12	Q1 '13	Q2 '13	Q3 '13	Q4 '13	Q1 '14	Q2 '14	Q3 '14	Q4 '14	Q1 '15	Q2 '15	Q3 '15	Q4 '15	Q1 '16
Cap Rates	7.5%	7.7%	7.6%	7.5%	7.5%	7.2%	7.2%	6.8%	7.0%	7.0%	6.7%	6.7%	6.7%	6.6%	6.6%	6.3%	6.2%	6.3%	6.1%
Spread	5.6%	5.8%	5.4%	5.8%	5.8%	5.4%	5.3%	4.3%	4.4%	4.0%	4.0%	4.2%	4.2%	4.4%	4.7%	3.9%	4.1%	4.0%	4.3%
10-Year	1.9%	1.9%	2.2%	1.7%	1.7%	1.8%	1.9%	2.5%	2.6%	3.0%	2.7%	2.5%	2.5%	2.2%	1.9%	2.4%	2.1%	2.3%	1.8%

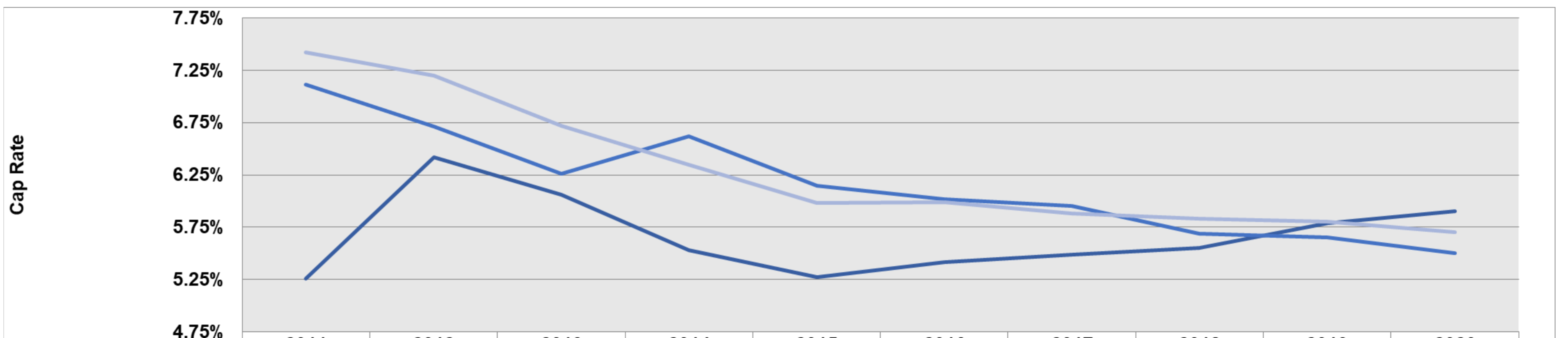
	Q2 '16	Q3 '16	Q4 '16	Q1 '17	Q2 '17	Q3 '17	Q4 '17	Q1 '18	Q2 '18	Q3 '18	Q4 '18	Q1 '19	Q2 '19	Q3 '19	Q4 '19	Q1 '20	Q2 '20	Q3 '20
Cap Rates	6.3%	6.3%	6.2%	6.1%	6.2%	6.1%	6.3%	6.0%	6.1%	6.1%	6.3%	6.1%	6.3%	6.2%	6.1%	6.4%	6.2%	6.3%
Spread	4.8%	4.7%	3.8%	3.7%	3.9%	3.8%	3.9%	3.3%	3.3%	3.1%	3.6%	3.7%	4.3%	4.5%	4.2%	5.7%	5.5%	5.6%
10-Year	1.5%	1.6%	2.5%	2.4%	2.3%	2.3%	2.4%	2.7%	2.9%	3.0%	2.7%	2.4%	2.0%	1.7%	1.9%	0.7%	0.7%	0.7%

Auto Related | Discount Store | Drug Store



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Auto Related	8.06%	7.59%	7.79%	7.16%	7.03%	6.55%	6.52%	6.52%	6.50%	6.20%
Discount Store	8.25%	8.47%	7.70%	7.46%	7.26%	7.23%	7.15%	7.04%	7.13%	7.11%
Drug Store	7.75%	7.44%	7.18%	6.49%	6.36%	6.17%	6.33%	6.51%	6.40%	6.41%

Bank | Convenience / Gas | Restaurant



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Bank	5.26%	6.42%	6.06%	5.53%	5.27%	5.42%	5.49%	5.55%	5.79%	5.90%
Convenience/Gas	7.11%	6.71%	6.26%	6.62%	6.15%	6.02%	5.95%	5.69%	5.65%	5.50%
Restaurant	7.42%	7.20%	6.72%	6.35%	5.98%	5.99%	5.88%	5.83%	5.80%	5.70%

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