

NET LEASE PROPERTY REPORT

Q1 : 2021

Los Angeles

Portland

San Diego

San Francisco

Tampa



2021 STARTS OFF STRONG

Average Net Lease Cap Rates Reach All Time Lows

The 2021 net lease market has come out of the gates at a full sprint. Average net lease cap rates reached their lowest point on record, ending the quarter at 5.23%. Amidst an economy that is fighting to recover from a pandemic, net lease assets remain in high demand. The most sought after properties feature tenants that were able to not only survive the pandemic, but thrive. These tenants include convenience stores, dollar stores, drug stores, grocery stores, and quick service restaurants.

The market is flanked by buyers looking for pandemic resistant properties and sellers that are struggling to make sense of selling a performing property. If you add to this, the fuel of historically low interest rates, you get the seller's market that we are seeing right now. The spread between asking prices and sale prices reached all time lows, with a spread of only 1.81%, which is a large drop from a number that usually ranges between 5% - 7%.

Another trend that has emerged, is that buyers have run out of adequate long term options and have begun to put as much weight on the term of the lease and credit as to whether or not the tenant has held up during the pandemic. The main indicators of this, is that leases with less than 10 years remaining on the base term have reached all time lows of 6.75%, while franchisee credit restaurants also reached all time lows of 5.97%.

The net lease market is becoming a case of the haves and the have nots. While tenants that have survived the pandemic remain in high demand, others face lingering headwinds, such as experience based retail

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Q1 2021 Sold Property Data

Median Cap Rate

6.15% (↓10bps)

Average Cap Rate

6.23% (↑13 bps)

Average Days On Market

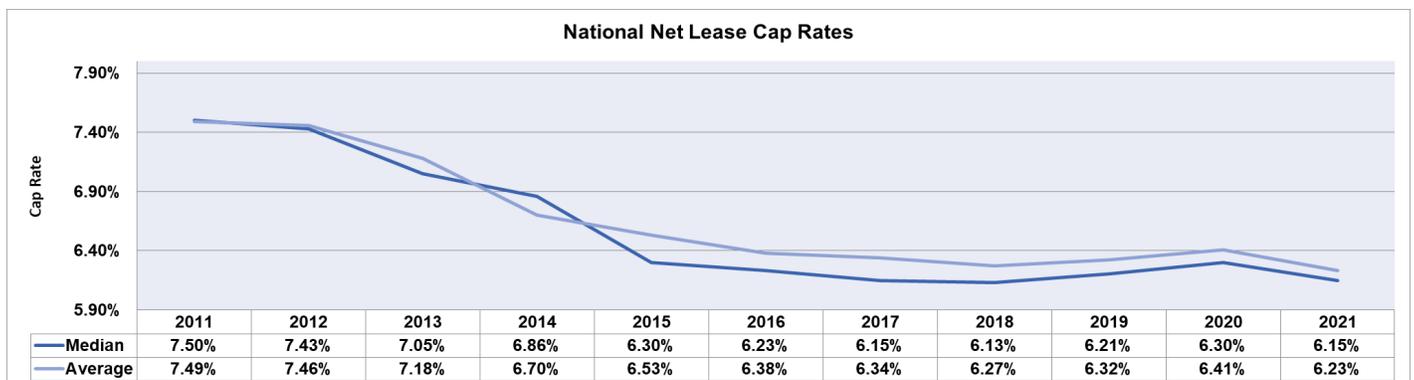
182 Days (↓7)

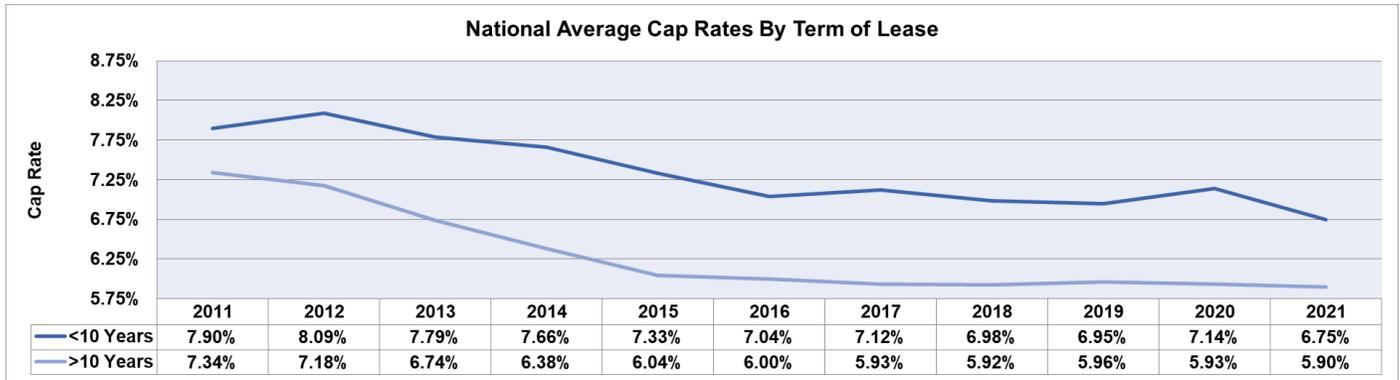
Average Base Term

11.3 Years (↑0.5)

Ask Price vs. Sales Price

1.81% Under Asking (↑316 bps)

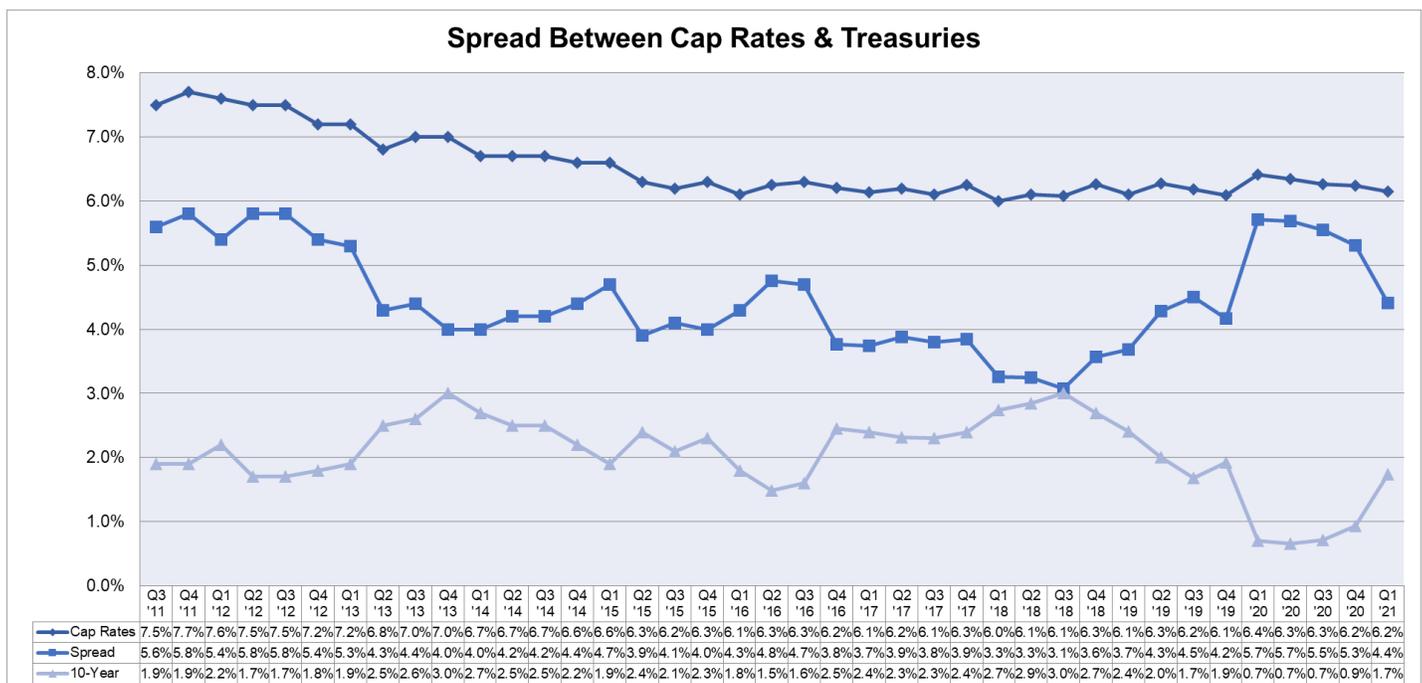




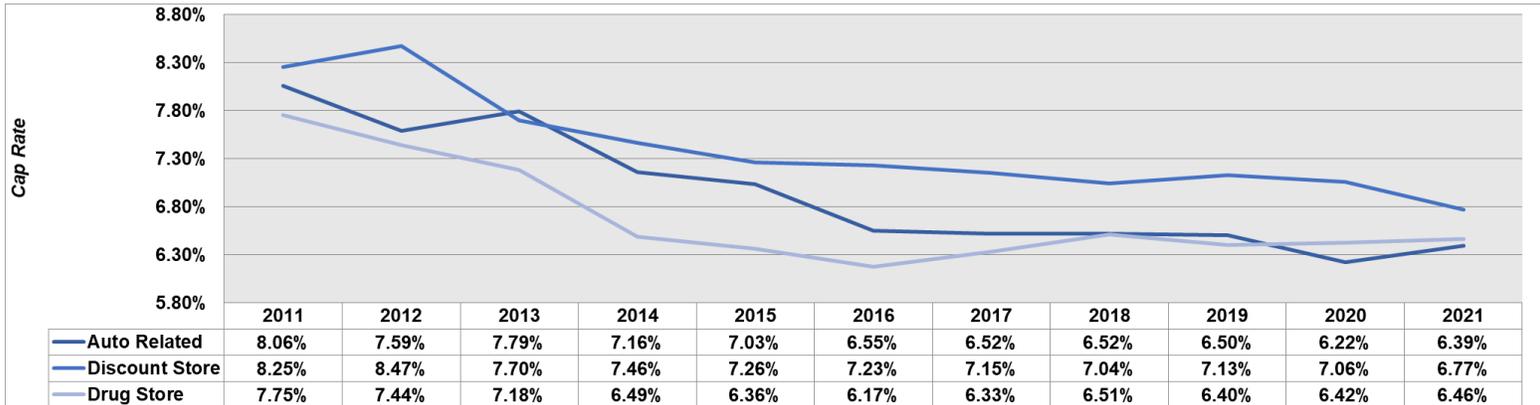
including movie theaters, theme parks, indoor malls, along with sit down only restaurants and office properties. Bank properties have been a unique case study during the pandemic. Bank property transactions have slowed immensely, but at the same time, bank cap rates have dropped to an all time low of 5.02%. Buyers continue to seek out well located bank properties with high deposit levels and longer lease terms. Transactions featuring banks that do not have a strong deposit history or a long term lease have ground to a halt. While most sit down restaurants will likely return to 100% occupancy capabilities across the country within the year, casual dining transaction volume is down sharply and cap rates reached their highest point since 2014 at 6.59%.

As mentioned prior, properties featuring tenants that have thrived during the pandemic continue to drive rock bottom cap rates. Walgreens properties hit their lowest cap rate average since 2017, coming in at 6.18%. CVS cap rates did see an uptick from what we saw in 2019 and 2020, but this was due mainly to the fact that those years saw large pools of newly renegotiated long term CVS leases, and we are now seeing shorter CVS lease terms on average. Both convenience stores and dollar stores ended the first quarter at all time low cap rates, coming in a 5.21% and 6.77%, respectively.

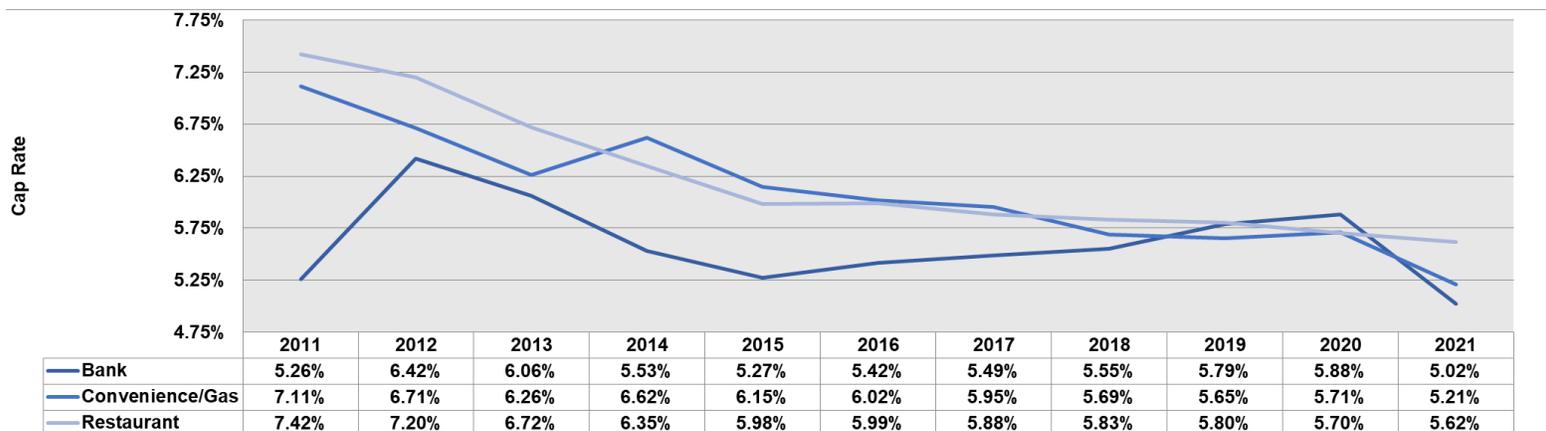
While we have focused thus far on the historically low net lease cap rates in Q1 2021, it must be noted that interest rates have begun to push higher. The spread between average cap rates and the 10 year treasury increased to 1.7%, which is close to the pre-pandemic level of 1.9% at the end of 2019. This increasing cost of capital will put additional pressure on buyers trying to navigate this low cap rate environment while sifting through a limited number of quality offerings. All indicators are that net lease cap rates will remain relatively flat to slightly higher throughout the year.



Auto Related | Discount Store | Drug Store



Bank | Convenience / Gas | Restaurant



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