

NET LEASE PROPERTY REPORT

Q4 : 2021

Los Angeles

Portland

San Diego

San Francisco



2021 CAP RATES SET RECORD LOWS

Q4 Cap Rates Set All Time Quarterly Lows

Q4 Cap Rates set all-time lows as investors continue to pay historical premiums for net lease properties. The quarterly median cap rate dropped 32 basis points to an all-time low of 5.48% while quarterly average cap rates had a similar drop of 34 basis points to their all-time lowest point of 5.60%. Average days on market decreased by 39 days as both buyers and sellers scrambled to complete transactions before the end of the year.

Investors continue to seek out long term leases as ongoing COVID related turmoil in the short run continues to deter investors from taking any lease up risk in the near future. The average base term for completed transactions in Q4 increased by 0.6 years to 11.1 years. The spread between ask price and sales price decreased by 49 basis points to 2.71% below ask.

Convenience stores hit their lowest average cap rate levels on record, finishing at 4.72%. While we believe in the long term relevance of this sector, some questions must be asked when it comes to the future of electric vehicles and general demand for traditional fueling stations. While the US continues to promote usage of the EV, it seems that without large scale investment in alternative power sources, it will remain cost prohibitive for most consumers to switch to EV's until the price of EV's is close to or equal to their combustion engine counterparts. At that point, what percentage of consumers will choose to charge their EV's at home as opposed to outside of the home? As we have already seen, EV charging stations can be installed almost anywhere, as the highly regulated use of UST's becomes irrelevant. With this said, what will be the long term demand for C Stores once traditional refueling demand decreases?

Q4 2021 Sold Property Data

Median Cap Rate

5.48% (↓32bps)

Average Cap Rate

5.60% (↓34 bps)

Average Days On Market

144 Days (↓39)

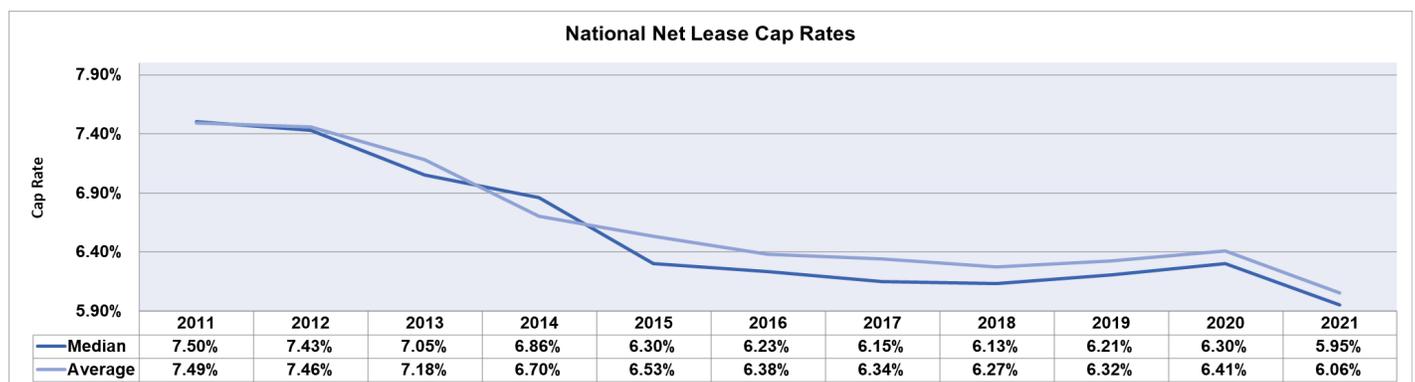
Average Base Term

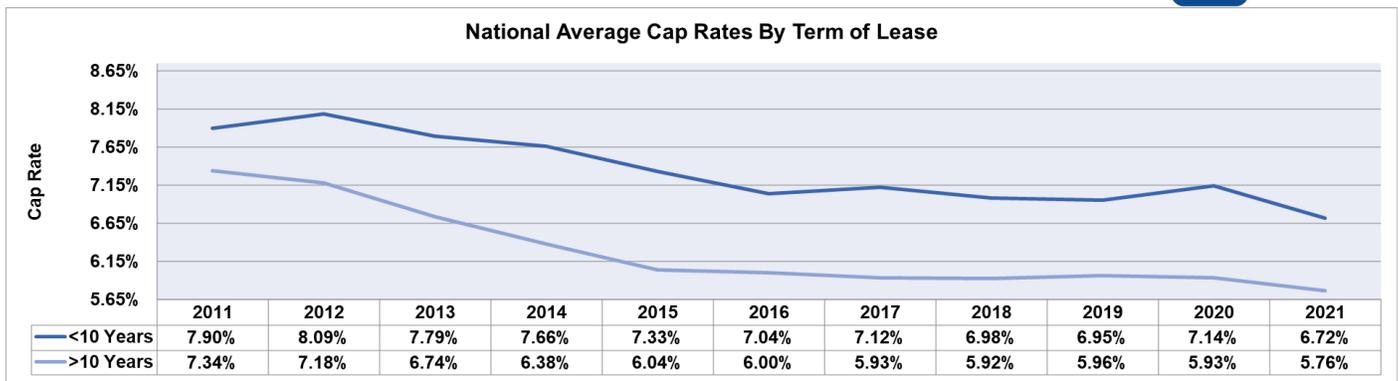
11.1 Years (↑0.6)

Ask Price vs. Sales Price

2.71% Under Asking (↓49 bps)

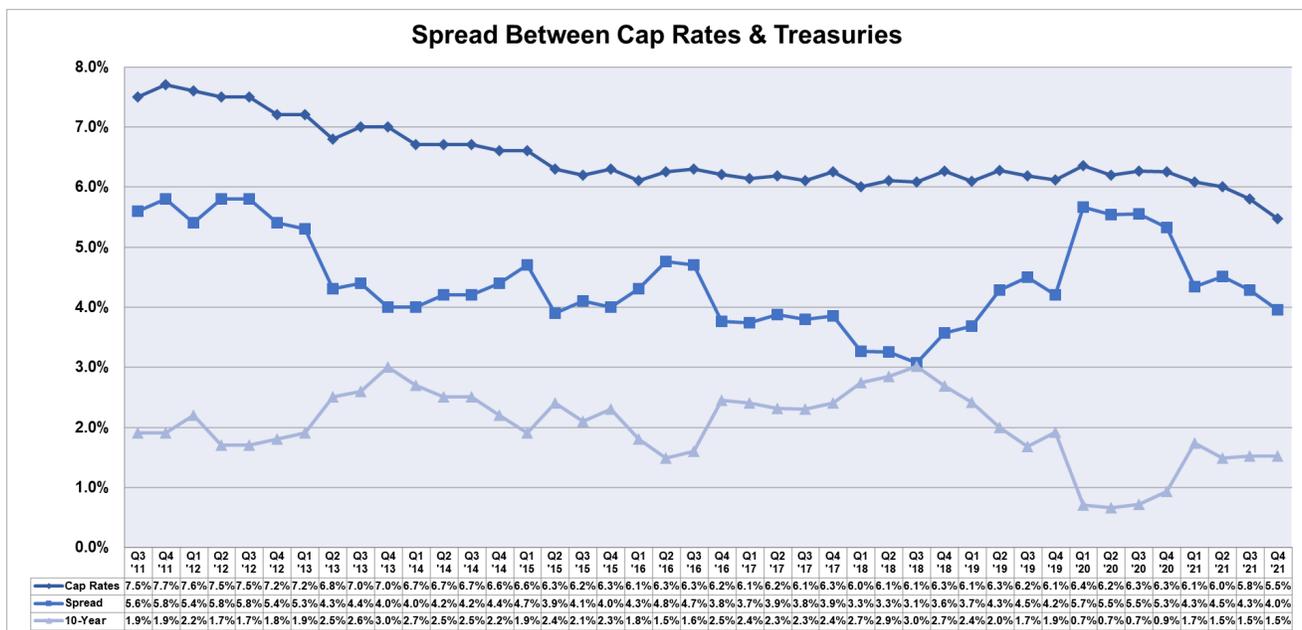
(continued on pg. 3)



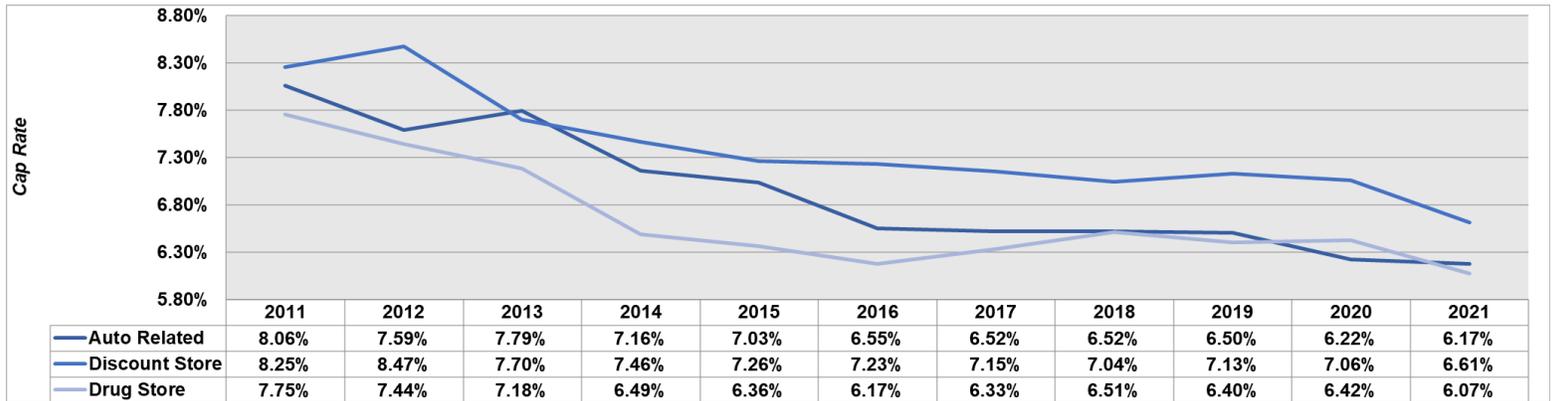


Dollar stores set all time low cap rate numbers in Q4, finishing at 6.19% on average. Not more than a year or two ago, it was rare to see a new build dollar store listed below a 6% cap rate, even for mid-sized markets. Now, new build dollar stores are being listed in the low 5 cap range for tertiary offerings, while secondary locations are being listed in the high 4 cap range. While there still exists a positive spread between the cost of debt and these cap rates, the long run implications for price appreciation on newly built dollar stores are dim at best, especially considering the typical lease structure of these offerings, which only contain rent increases in the option periods. Yes, they offer reasonable and secure cash flow in the short run, but it comes at the cost of inflation rapidly eroding the true value of these cash flows and little to no chance of price appreciation over the long run as cap rates push upwards due to both decreasing lease terms and general upward pressure on cap rates as historically low interest rates eventually rise.

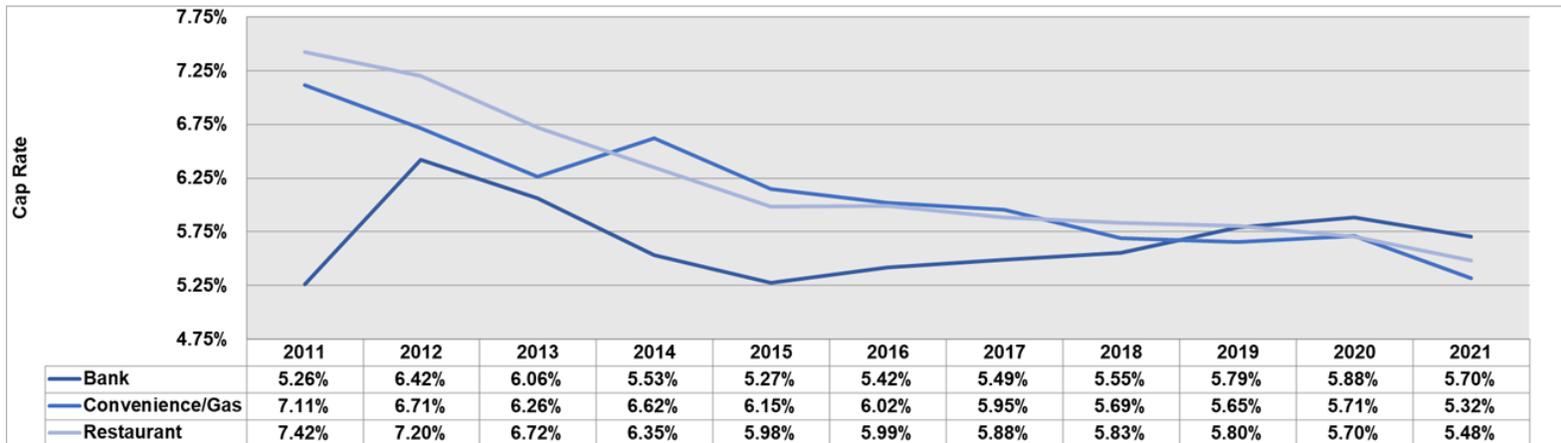
The 2021 net lease sector saw heavy transaction volume, with multiple sources noting that it was the highest trading volume year on record. Median cap rates ended the year sub 6% for the first time ever, at 5.95%. Average cap rates finished just above 6% at 6.06%. The spread between the 10 year treasury and median cap rates remained steady all year at around 1.5%. The Fed is tapering the pace of its monthly bond purchases and an interest rate hike is likely in March, which would be the first rate increase in three years. These actions will put upward pressure on the cost of capital and eventually, upward pressure on cap rates as well. We expect that 2022 will see similar trading volumes for net lease product, albeit at slightly higher cap rates.



Auto Related | Discount Store | Drug Store



Bank | Convenience / Gas | Restaurant



CONTACT OUR PROFESSIONALS



Geoffrey Faulkner

CCIM, Managing Partner

+1 800.791.6320 x100

G Faulkner@NNNetAdvisors.com

San Francisco, CA



Josh Veentjer

Managing Partner

+1 800.791.6320 x101

JoshV@NNNetAdvisors.com

Portland, OR



The National Net Lease Network

150 Sutter Street #555

San Francisco, CA 94104



Joe You

Partner

+1 800.791.6320x105

JYou@NNNetAdvisors.com

San Diego, CA



Paul Green

Partner

+1 800.791.6320 x106

PGreen@NNNetAdvisors.com

Los Angeles, CA