NET LEASE PROPERTY REPORT

Q1 : 2022

Los Angeles
Orange County
Portland
San Diego
San Francisco

NetAdvisors

2022 CAP RATES DROP TO HISTORIC LOWS

Q1 Cap Rates Reach Lowest Point on Record

2022 Q1 Cap Rates ended the quarter at all-time lows. Both median and average cap rates dropped 15 basis points from the prior quarter to 5.39% and 5.53%, respectively. Days on market remained consistent at 143 days, while the average base term remaining on completed transactions rose by almost 1 full year. Both median and average cap rates have dropped a full 1% since the beginning of the COVID-19 pandemic in Q1 of 2020, resulting in the most substantial net lease property cap rate compression period of all time.

All time low quarterly cap rates were achieved in Q1 for every product sector. This includes sectors that have been increasingly pressured by ongoing eCommerce trends such as remote banking for Banks and direct prescription delivery for Drug Stores. The only sector that did not achieve all-time lows this past quarter was Sit-Down Restaurants. They finished the quarter at 5.7%, second only to their all-time low of 5.5%, which was achieved 5 years ago in Q1 of 2017.

Surprisingly, the lowest cap rates recorded in Q1 were for Bank properties, which finished the quarter at 4.7%. This comes as a huge surprise as remote banking skyrocketed during the pandemic, resulting in further decreasing demand for brick and mortar bank branches. If you dig into the details, it is noted that there has been a rapid decrease in the percentage of bank properties that are moving from listed to sold. Bank properties that are actually selling are located in strong locations, have long term leases, feature high credit tenants, and most importantly, are high deposit locations. Demand has greatly diminished for bank branches with lower deposit levels, shorter term leases, and secondary locations.

(continued on pg. 3)

Q1 2022
Sold Property Data

Median Cap Rate

5.39% (↓15 bps)

Average Cap Rate

5.53% (↓15 bps)

Average Days On Market

143 Days (↓1)

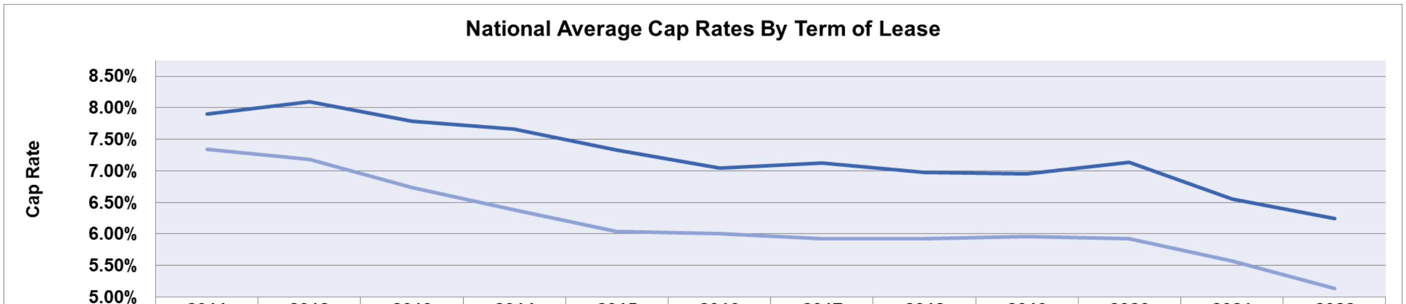
Average Base Term

11.6 Years (↑0.9)

Ask Price vs. Sales Price

2.54% Under Asking (↓17 bps)

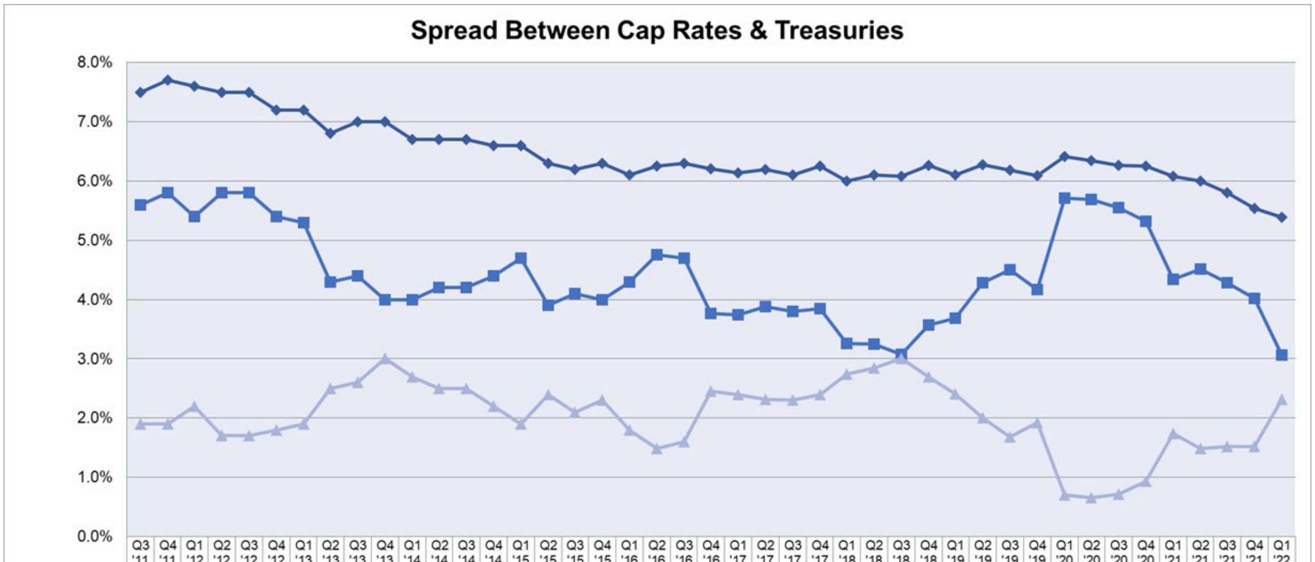
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Median	7.50%	7.43%	7.05%	6.86%	6.30%	6.23%	6.15%	6.13%	6.21%	6.30%	5.92%	5.39%
Average	7.49%	7.46%	7.18%	6.70%	6.53%	6.38%	6.34%	6.27%	6.32%	6.41%	6.03%	5.53%



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<10 Years	7.90%	8.09%	7.79%	7.66%	7.33%	7.04%	7.12%	6.98%	6.95%	7.14%	6.55%	6.24%
>10 Years	7.34%	7.18%	6.74%	6.38%	6.04%	6.00%	5.93%	5.92%	5.96%	5.93%	5.57%	5.14%

Average cap rates for Discount Stores dropped below 6% for the first time on record, finishing the quarter at 5.9%. Discount Stores historically trade well above net lease market cap rate averages. Current Discount Store cap rates are 30% lower than their highest levels ten years ago. To put this in perspective, a new build Dollar General with an NOI of $100K was worth $1.16M in 2012, and is worth roughly $1.71M if built today. That may seem reasonable from an appreciation or inflation perspective, but you have to factor in that $100K in rent in 2012 is only worth $81K in today's dollars. In inflationary terms, the current cap rate for this property when compared to 10 years ago is not 5.9%, but rather 4.8%. With an understanding that Dollar General leases feature flat rent for 15 years and are generally located in tertiary markets, coupled with rising cap rates and skyrocketing inflation, it is hard to be optimistic about any future value appreciation for new build locations.

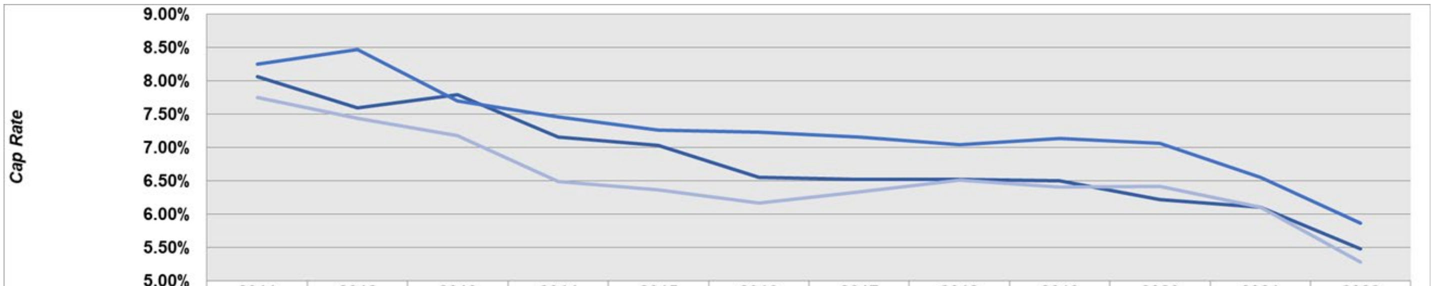
The Fed is expected to increase interest rates roughly seven times over the course of 2022. 10 Year Treasury Rates ended the quarter at 2.32%, which was an 80 basis point increase over the prior quarter. The resulting rise in borrowing costs creates negative leverage on an increasingly larger pool of net lease properties. We expect these higher costs of capital to put upward pressure on cap rates at some point this year, but what remains to be seen, is when this actually begins to happen.



	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	Q2 '16	Q3 '16	Q4 '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	6.3	6.3	6.2
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	4.8	4.7	3.8
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	1.5	1.6	2.5

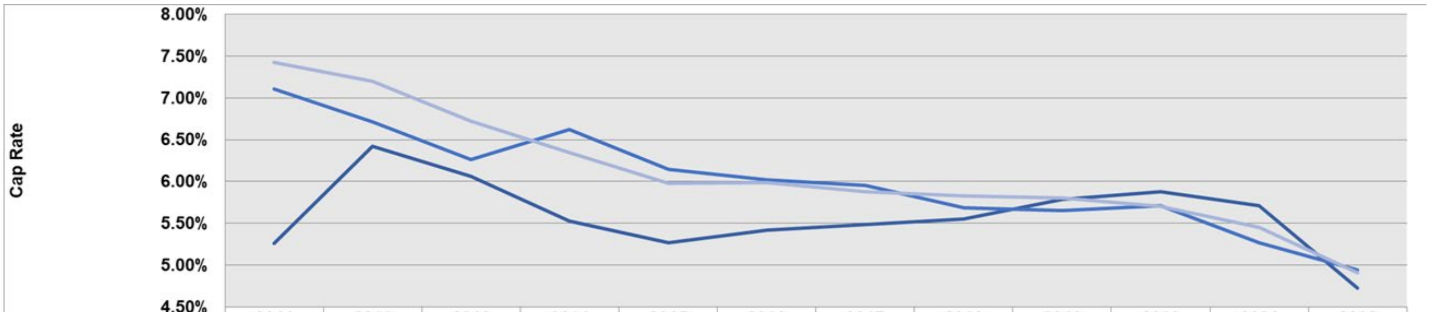
	Q1 '17	Q2 '17	Q3 '17	Q4 '17	Q1 '18	Q2 '18	Q3 '18	Q4 '18	Q1 '19	Q2 '19	Q3 '19	Q4 '19	Q1 '20	Q2 '20	Q3 '20	Q4 '20	Q1 '21	Q2 '21	Q3 '21	Q4 '21	Q1 '22
Cap Rates	6.1	6.2	6.1	6.3	6.0	6.1	6.1	6.3	6.1	6.3	6.2	6.1	6.4	6.3	6.3	6.3	6.1	6.0	5.8	5.5	5.4
Spread	3.7	3.9	3.8	3.9	3.3	3.3	3.1	3.6	3.7	4.3	4.5	4.2	5.7	5.7	5.5	5.3	4.3	4.5	4.3	4.0	3.1
10-Year	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	0.9	1.7	1.5	1.5	1.5	2.3

Auto Related | Discount Store | Drug Store



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Auto Related	8.06%	7.59%	7.79%	7.16%	7.03%	6.55%	6.52%	6.52%	6.50%	6.22%	6.10%	5.48%
Discount Store	8.25%	8.47%	7.70%	7.46%	7.26%	7.23%	7.15%	7.04%	7.13%	7.06%	6.55%	5.86%
Drug Store	7.75%	7.44%	7.18%	6.49%	6.36%	6.17%	6.33%	6.51%	6.40%	6.42%	6.10%	5.28%

Bank | Convenience / Gas | Restaurant



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Bank	5.26%	6.42%	6.06%	5.53%	5.27%	5.42%	5.49%	5.55%	5.79%	5.88%	5.71%	4.73%
Convenience/Gas	7.11%	6.71%	6.26%	6.62%	6.15%	6.02%	5.95%	5.69%	5.65%	5.71%	5.27%	4.94%
Restaurant	7.42%	7.20%	6.72%	6.35%	5.98%	5.99%	5.88%	5.83%	5.80%	5.70%	5.45%	4.91%

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