NET LEASE PROPERTY REPORT

Q1 : 2023

Los Angeles
Orange County
Portland
San Diego
San Francisco

NetAdvisors

2023 CAP RATES CONTINUE THEIR RISE

Q1 Cap Rates Rise for the 3rd Straight Quarter

2023 Cap Rates began the year by maintaining a rising trend. Median Cap Rates moved higher by 21 basis points to 5.71%, while Average Cap Rates moved higher by 26 basis points to 5.82%. Average Days on Market increased by 6 days to 156 days, while the Average Base Term remaining on sold property rose by 0.3 years, to 11.9 years. The spread between asking price and sales price rose to 8.51%, which is the largest spread that we have noted on record. This spread typically averages in the 4% range. This measure is indicative of the spread between the pricing that seller’s hope to achieve and the reality of the current marketplace.

Net Lease Cap Rates bottomed out in Q2 2022 and have been on the rise ever since. We expect this rise to continue as cap rates slowly catch up to the increased costs of capital. One trend that seems to be stretching this process out is that the supply of dependable net lease investments has been decreasing. Historical Net Lease staples such as Banks and Drug Stores have become less reliable for producing long term cash flow and appreciation. Both sectors have been affected dramatically by changes in consumer behavior that have resulted in large amounts of branch and store closures. The number of bank and drug store transactions in the Net Lease market has dropped dramatically over the past two years and we expect that this trend will continue forward. You are now left with fewer attractive sectors of Net Lease and the result is increased pricing for those that remain in favor, such as Quick Service Restaurants, Convenience Stores, Medical Offices, and better located Dollar Stores.

Q1 2023

Sold Property Data

Median Cap Rate

5.71% (↑21bps)

Average Cap Rate

5.82% (↑26 bps)

Average Days On Market

156 Days (↑6)

Average Base Term

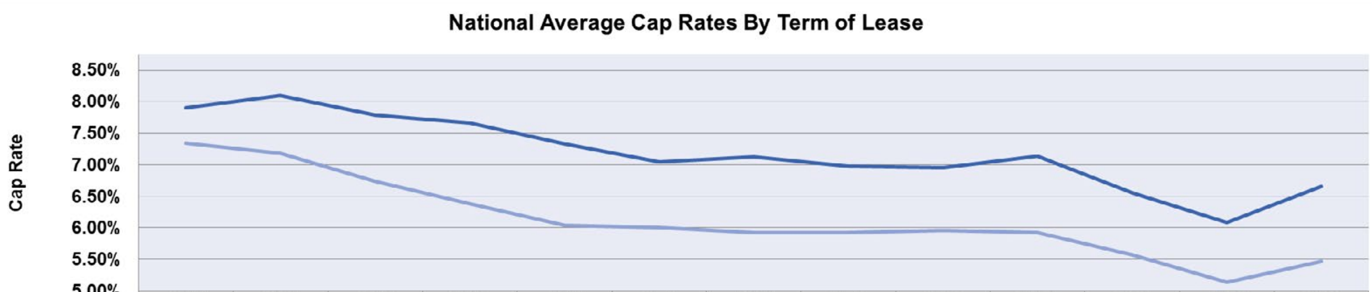
11.9 Years (↑0.3)

Ask Price vs. Sales Price

8.51% Under Asking (↑206 bps)

(continued on pg. 3)

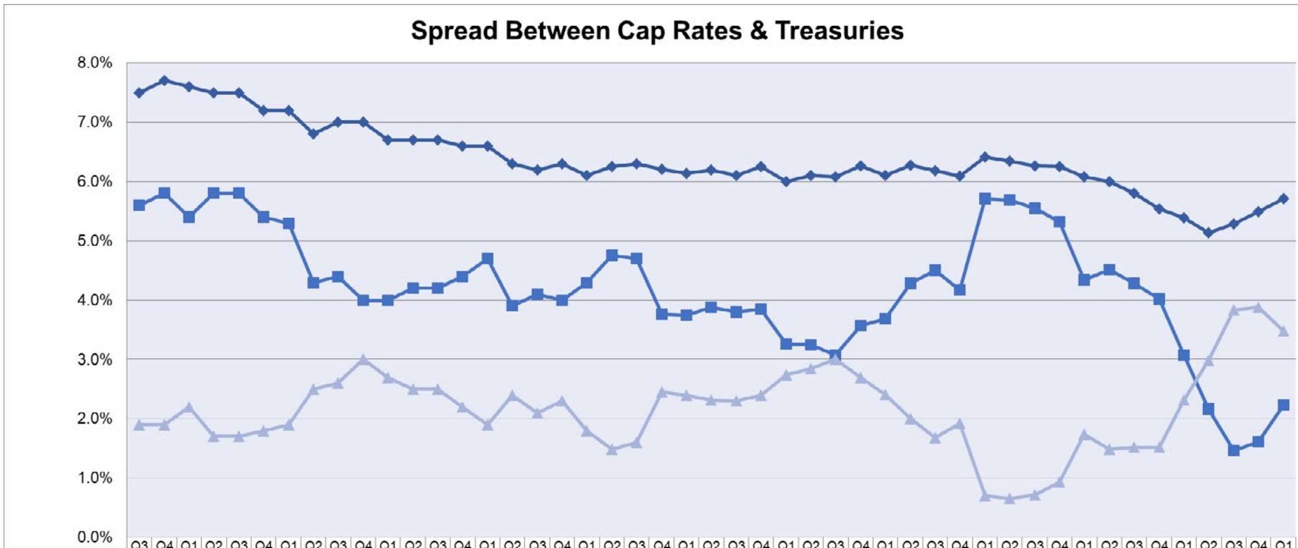
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Median	7.50%	7.43%	7.05%	6.86%	6.30%	6.23%	6.15%	6.13%	6.21%	6.30%	5.92%	5.31%	5.71%
Average	7.49%	7.46%	7.18%	6.70%	6.53%	6.38%	6.34%	6.27%	6.32%	6.41%	6.03%	5.48%	5.82%



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<10 Years	7.90%	8.09%	7.79%	7.66%	7.33%	7.04%	7.12%	6.98%	6.95%	7.14%	6.55%	6.09%	6.66%
>10 Years	7.34%	7.18%	6.74%	6.38%	6.04%	6.00%	5.93%	5.92%	5.96%	5.93%	5.57%	5.13%	5.47%

All Net Lease sectors saw increases in Cap Rates in Q1 except for Convenience Stores. While C Stores remain a viable option for Net Lease investors, there does remain uncertainty in the future as it relates to fuel demand at these locations as hybrid and electric vehicles reduce the need for refueling visits. 7 Eleven recently announced their intent to develop a new proprietary EV charging network and app that delivers fast-charging experience at select stores in the US and Canada. Their new initiative, 7Charge, has set a lofty goal of becoming one of the largest fast-charging networks of any retailer in North America. On one hand, this seems like 7 Eleven is on the front line of supporting the continuing trend of EV adoption, while on the other hand, you have to wonder if a convenience store is the preferred place for consumers to charge their vehicles. Estimates by the US Department of Energy state that EV owners complete 80 or 90 percent of their charging overnight at home or during the day at work. This only leaves 10 to 20 percent of charging time left for charging stations. On average, it takes 20 minutes to 1 hour to fast charge an electric car at a public charging station. Unless you are on a road trip, it seems to make more sense to charge your EV at a Grocery Store or other retail center so that you can multitask while your car is charging. The average time spent in a Convenience Store is only 3 to 4 minutes.

California had the highest rates of new light-duty vehicle sales in 2022, coming in at 16%. The 12 other states that have adopted the Calfornia zero-emission vehicle standard saw EV sales of 9% in 2022. The other 37 states averaged only 3.38% of EV sales in 2022. Regardless, EV sales continue to grow each year in all states. All of this data translates to decreasing total visits to gas pumps across the country. In terms of Net Lease and convenience stores, investors need to keep this in mind. We expect that the value of C Stores will decrease in those locations that depend on fueling visits, while those sites that see adequate foot traffic from customers without fueling demands, will become the most valuable locations over time.

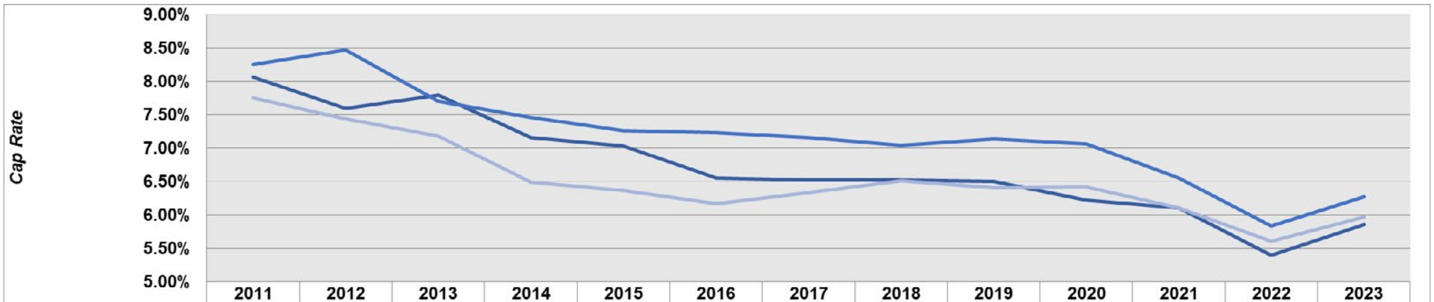


	Q3 '11	Q4 '11	Q1 '12	Q2 '12	Q3 '12	Q4 '12	Q1 '13	Q2 '13	Q3 '13	Q4 '13	Q1 '14	Q2 '14	Q3 '14	Q4 '14	Q1 '15	Q2 '15
Cap Rates	7.5	7.7	7.6	7.5	7.5	7.2	7.2	6.8	7.0	7.0	6.7	6.7	6.7	6.6	6.6	6.3
Spread	5.6	5.8	5.4	5.8	5.8	5.4	5.3	4.3	4.4	4.0	4.0	4.2	4.2	4.4	4.7	3.9
10-Year	1.9	1.9	2.2	1.7	1.7	1.8	1.9	2.5	2.6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

	Q3 '15	Q4 '15	Q1 '16	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
Cap Rates	6.2	6.3	6.1	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
Spread	4.1	4.0	4.3	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
10-Year	2.1	2.3	1.8	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

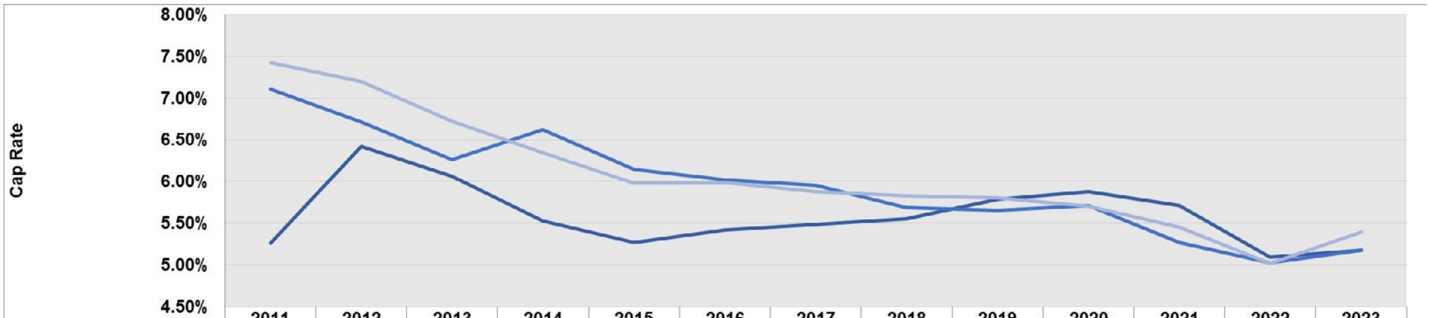
	Q3 '19	Q4 '19	Q1 '20	Q2 '20	Q3 '20	Q4 '20	Q1 '21	Q2 '21	Q3 '21	Q4 '21	Q1 '22	Q2 '22	Q3 '22	Q4 '22	Q1 '23
Cap Rates	6.2	6.1	6.4	6.3	6.3	6.3	6.1	6.0	5.8	5.5	5.4	5.1	5.3	5.5	5.7
Spread	4.5	4.2	5.7	5.7	5.5	5.3	4.3	4.5	4.3	4.0	3.1	2.2	1.5	1.6	2.2
10-Year	1.7	1.9	0.7	0.7	0.7	0.9	1.7	1.5	1.5	1.5	2.3	3.0	3.8	3.9	3.5

Auto Related | Discount Store | Drug Store



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Auto Related	8.06%	7.59%	7.79%	7.16%	7.03%	6.55%	6.52%	6.52%	6.50%	6.22%	6.10%	5.40%	5.85%
Discount Store	8.25%	8.47%	7.70%	7.46%	7.26%	7.23%	7.15%	7.04%	7.13%	7.06%	6.55%	5.84%	6.27%
Drug Store	7.75%	7.44%	7.18%	6.49%	6.36%	6.17%	6.33%	6.51%	6.40%	6.42%	6.10%	5.60%	5.97%

Bank | Convenience / Gas | Restaurant



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Bank	5.26%	6.42%	6.06%	5.53%	5.27%	5.42%	5.49%	5.55%	5.79%	5.88%	5.71%	5.09%	5.18%
Convenience/Gas	7.11%	6.71%	6.26%	6.62%	6.15%	6.02%	5.95%	5.69%	5.65%	5.71%	5.27%	5.03%	5.18%
Restaurant	7.42%	7.20%	6.72%	6.35%	5.98%	5.99%	5.88%	5.83%	5.80%	5.70%	5.45%	5.02%	5.40%

NNNetAdvisors

CONTACT OUR PROFESSIONALS

Simo Amzil
Partner
+1.800.791.6320 X 102
SAmzil@NNNetAdvisors.com
Orange County, CA

Geoffrey Faulkner
CCIM, Managing Partner
+1 800.791.6320 x100
GFaulkner@NNNetAdvisors.com
San Francisco, CA

Paul Green
Partner
+1 800.791.6320 x106
PGreen@NNNetAdvisors.com
Los Angeles, CA

Joe You
Partner
+1 800.791.6320x105
JYou@NNNetAdvisors.com
San Diego, CA

Josh Veentjer
Managing Partner
+1 800.791.6320 x101
JoshV@NNNetAdvisors.com
Portland, OR

NNNetAdvisors

The National Net Lease Network
150 Sutter Street #555
San Francisco, CA 94104