

NET LEASE PROPERTY REPORT

Q2 : 2023

Los Angeles
Orange County
Portland
San Diego
San Francisco



2023 CAP RATES CONTINUE TO SOAR HIGHER

Q2 Cap Rates Rise for the 4th Straight Quarter

Net Lease Cap Rates continued their rise in the 2nd quarter of 2023. Cap Rates have now been increasing for one full year. Q2 Median Cap Rates increased 34 basis points to 6.09% while Average Cap Rates increased 30 basis points to 6.14%. Average Days on Market increased by 15 days, to 171 days, while the Average Base Term remaining on closed transactions decreased by 0.8 years, to 11.3 years. Net Lease properties sold for 8.32% under the asking price in Q2. As noted in the previous quarter, this spread generally tracks closer to 4%. There still exists a large divide between seller's expectations and the pricing reality of the current marketplace.

Auto Related tenants performed the strongest in Q2 and proved to be the only concept that saw a decrease in Cap Rates. Restaurant tenants performed strongly as well in Q2, only seeing a modest increase in Cap Rates. Banks, Convenience Stores, Discount Stores, and Drug Stores all saw sizeable cap rate increases from the prior quarter. As we have noted in prior quarters, each of these concepts face headwinds unique to their business that is giving investors a pause as they determine which type of tenant is the most reliable for long term rental income streams. Just 15 years ago, you could purchase only Banks and Drug Stores and enjoy years of secure rental payments backed by strong credit. Today, it has become a challenge to predict which Banks or Drug Store locations will still be here in 10 years.

Q2 2023 Sold Property Data

Median Cap Rate

6.09% (↑34 bps)

Average Cap Rate

6.14% (↑30 bps)

Average Days On Market

171 Days (↑15)

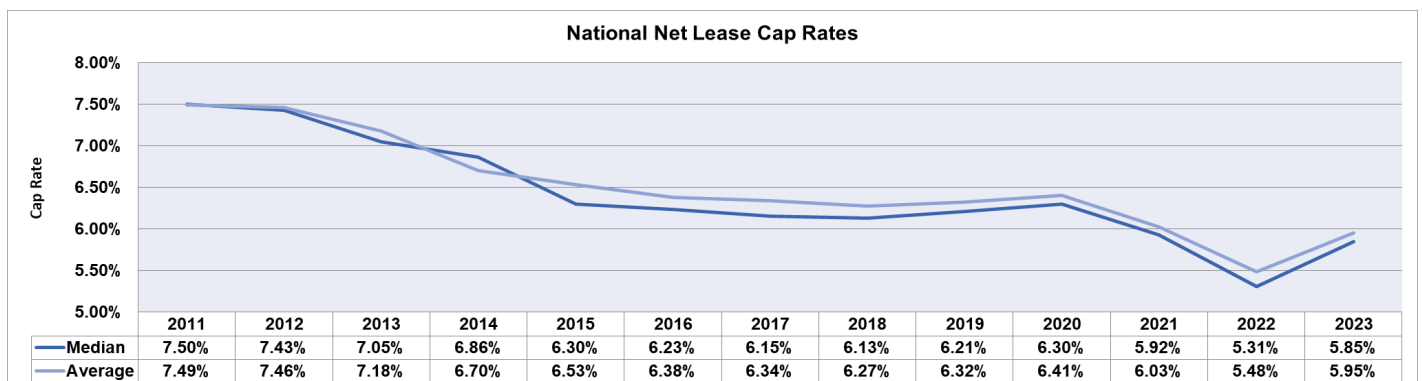
Average Base Term

11.3 Years (↓0.8)

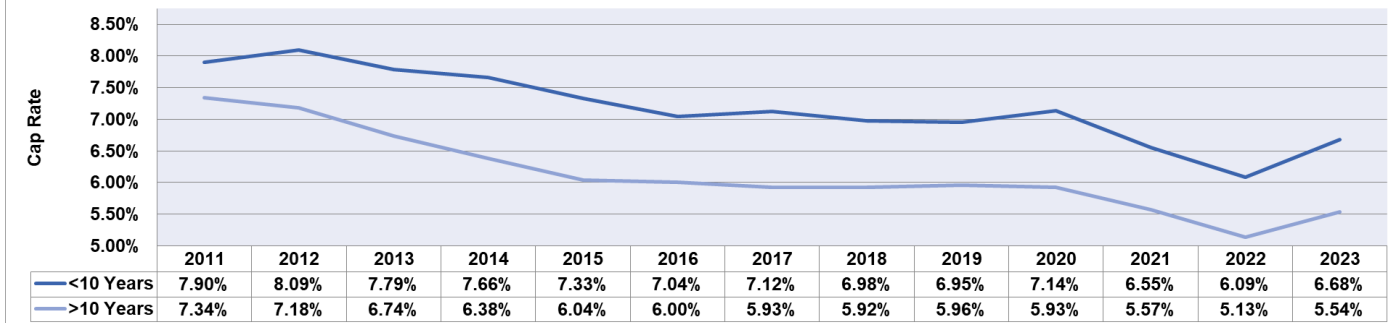
Ask Price vs. Sales Price

8.32% Under Asking (↑8 bps)

(continued on pg. 3)



National Average Cap Rates By Term of Lease



Cap Rates for Drug Stores continue to increase rapidly. CVS Cap Rates rose to 6.2%, and besides the short period of Cap Rate spikes during the outbreak of COVID, this is their highest point since 2019. Walgreens Cap Rate rose to 6.6%, which is a 3 year high. We expect Cap Rates for Drug Stores to continue to rise for the foreseeable future.

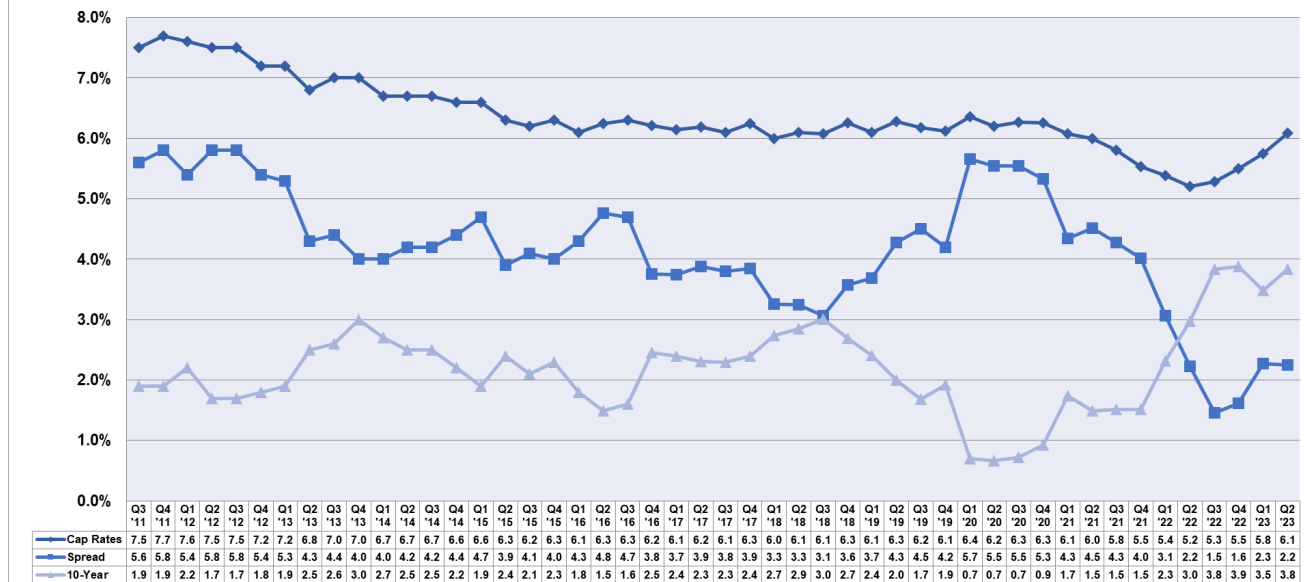
Bank properties continue to remain largely out of favor amongst Net Lease investors. What was once a secure safe haven for long term Net Lease investing has become the focal point of decreasing transactions and rising Cap Rates. Cap Rates for Banks pushed to over 5.9% in Q2 and we remain mostly confident that they will push over 6% in Q3

Convenience Store Cap Rates finished near 6% for the first time in 5 years. The cost of capital is pushing all Cap Rates up, but we also believe that investors are beginning to digest the reality of the future for EV's into this equation as well. This sector will remain a very interesting one to watch.

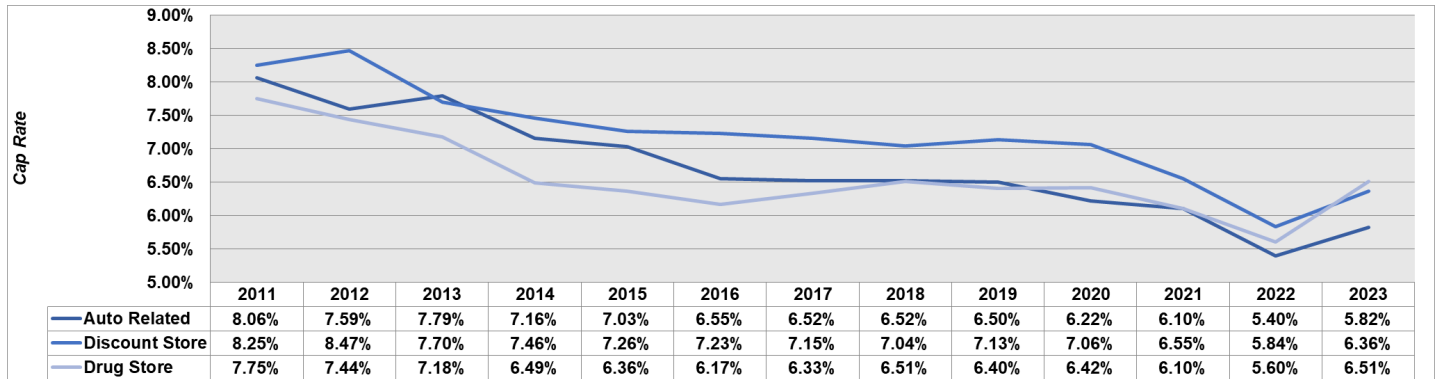
In the Restaurant sector, Casual Dining properties continue to struggle while QSR's continue to remain in high demand. Casual Dining concepts finished the quarter at an average Cap Rate of 6.96%. This is the highest cap rate for this subsector in the past 9 years.

Overall, the Net Lease market saw cap rate increases across the board. Investors that are not in 1031 exchanges continue to be burdened by the increased costs of capital. Also, liquid investment alternatives are currently producing stronger returns than they have in years, from savings accounts, to bonds, to dividend paying stocks. The 1031 buyer market, which traditionally fuels a large portion of Net Lease transactions has largely decreased and buyers in general have become less motivated. As we enter into the second half of the year, we expect that Cap Rates will continue to increase and trade volume will continue to hover around current levels.

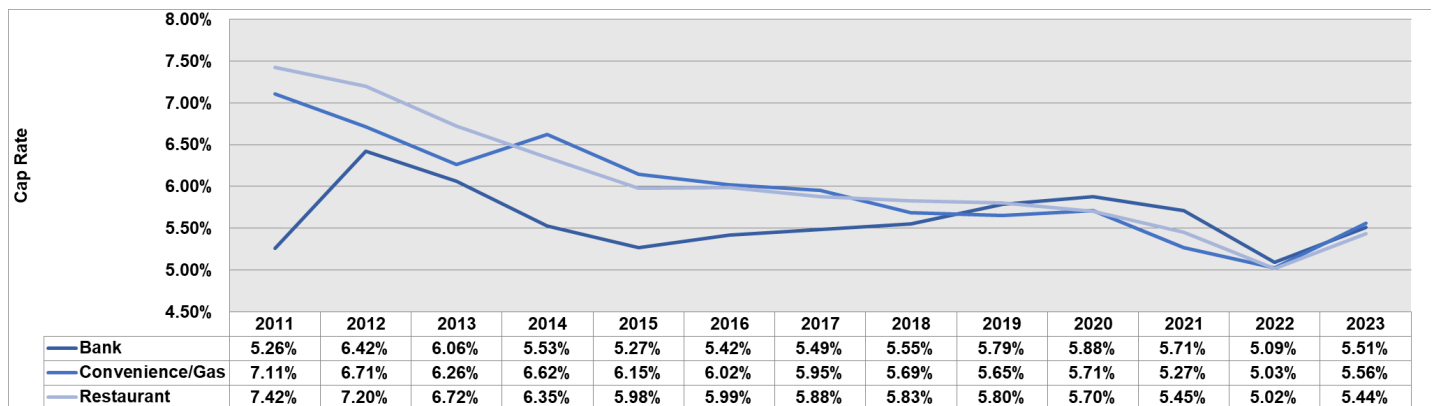
Spread Between Cap Rates & Treasuries



Auto Related | Discount Store | Drug Store



Bank | Convenience / Gas | Restaurant



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