NET LEASE PROPERTY REPORT

Q3 : 2023

Los Angeles
Orange County
Portland
San Diego
San Francisco

NNNetAdvisors

2023 Q3 CAP RATES HOLD FIRM

Q3 Net Lease Cap Rates Remain Around 6%

Net Lease Cap Rates remained at similar levels as compared to the prior quarter. Median Cap Rates ended at 5.99% while Average Cap Rates finalized at 6.12%. Days on Market increased by 14 days to 184 days and the Average Base Term remaining on closed transactions rose by 0.8 years to 12.2 years. The spread between asking prices and sale prices narrowed by 86 basis points to 7.42% below asking. Sellers are continue to drop prices in the attempt to attract a shrinking pool of Net Lease buyers.

2023 Cap Rates currently sit at levels similar to those of 2021. Increasing costs of capital continue to push prices downward as investors struggle to make sense of cap rates that are far below interest rates. Net Lease loans are currently being funded in the low 6% to mid-7% range. If you compare that to average current cap rate levels, it is plain to see that were are in a severe negative leverage environment. The 10 Year Treasury currently sits in the high 4% range. This is the highest point that we have seen since 2007 when it was over 5%. Net Lease Cap Rates at that time were well above where they are today. Current interest rate predictions are that there will be a minor decrease in rates next year, with larger decreases not surfacing until 2025 and 2026. Expect Cap Rates to continue to increase this year and next with some chance of flattening out and possibly decreasing modestly in the years that follow.

Q3 2023

Sold Property Data

Median Cap Rate

5.99% (↓3bps)

Average Cap Rate

6.12% (↑1 bps)

Average Days On Market

184 Days (↑14)

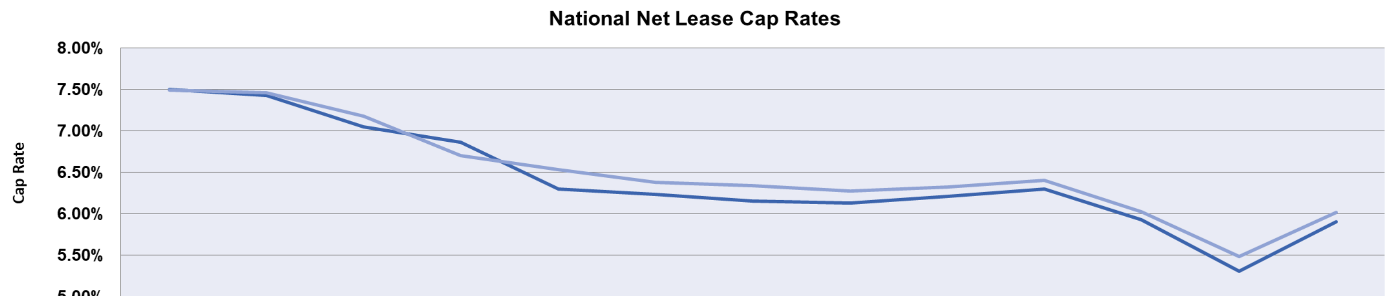
Average Base Term

12.2 Years (↑0.8)

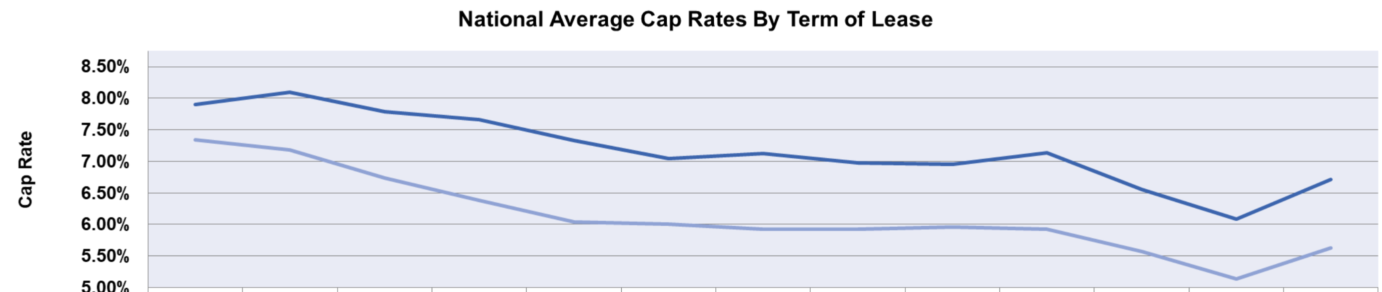
Ask Price vs. Sales Price

7.42% Under Asking (↓86 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%	5.90%
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%	6.02%

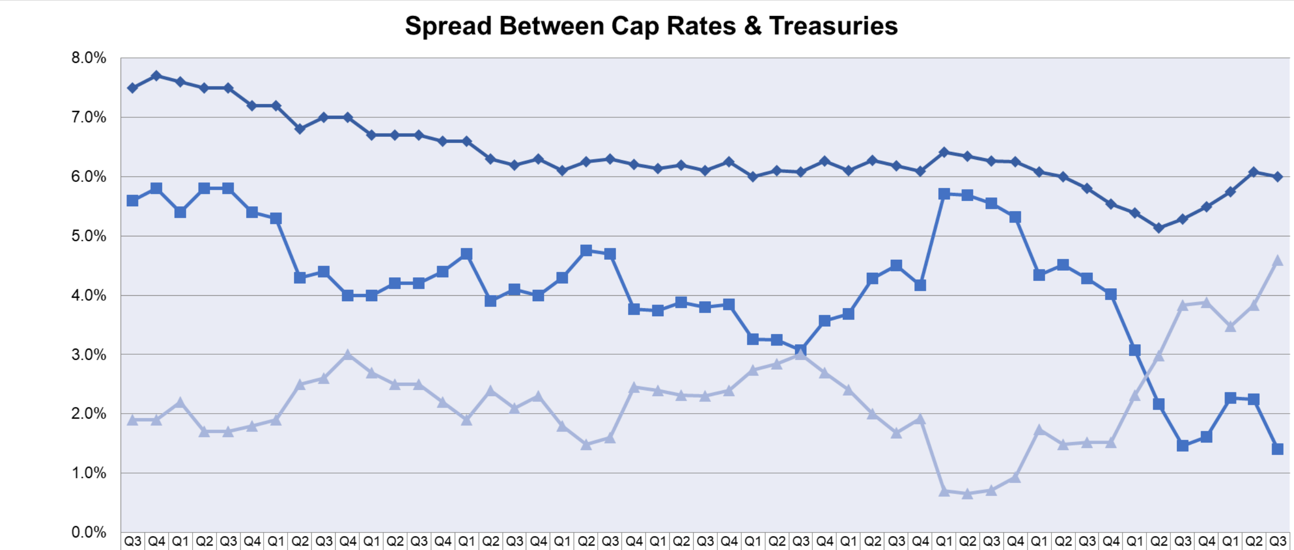


	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<10 Years	7.90%	8.09%	7.79%	7.66%	7.33%	7.04%	7.12%	6.98%	6.95%	7.14%	6.55%	6.09%	6.71%
>10 Years	7.34%	7.18%	6.74%	6.38%	6.04%	6.00%	5.93%	5.92%	5.96%	5.93%	5.57%	5.13%	5.63%

One of the few sectors that saw a decrease in Cap Rates in Q3 was Drug Stores. Drug stores, along with Banks, are the two sectors that have seen the sharpest drop-offs in sales volume over the past few years. Surprisingly, cap rates for closed transactions for both of these sectors remain in line with the general net lease market. What seems to be happening with these two sectors is that only a small fraction of the available product is actually selling, while many of it is proving to be nearly illiquid. The sold properties are generally on longer term leases, have a history of strong sales or large deposits, and have strong real estate fundamentals. The properties falling into the illiquid category generally have shorter leases, a history of below average until level sales or deposits, and are located in tertiary locations. The only buyers that are currently taking any interest in this latter group are owner/user's or those with the ability to redevelop the site. The decreased demand for these second rate Drug Store and Bank properties is due to both an inability to secure financing and a general fear of continued Drug Store and Bank closings. Drug stores and Banks were once the cornerstone of Net Lease, holding true up until the past 10 or so years. While sales volume in these sectors decreases rapidly, it is effectively steering net lease investors to other Net Lease sectors that have proven to be more resilient in the face of rapidly changing technology.

The next question is what is the next sector at risk? Our feeling is that convenience stores with gas stations is one sector to keep your eye on. You may not feel the rise of the EV where you live, but it is on the way. Like all technologies, over time, it becomes more accessible, more efficient, and cheaper. At some point, as the costs of EV's decrease, it will make little sense to take on the extra expense of fueling your car, changing the oil, and maintaining a transmission. This will not happen in the next couple of years, but it will happen eventually.

As a net lease investor, one of the primary allures of this type of real estate investment is passive ownership. That said, there is nothing passive about a dark building that is nearly impossible to re-tenant. If your C-Store relies primarily on fuel sales, you need to give some serious thought about the long term viability of the property.

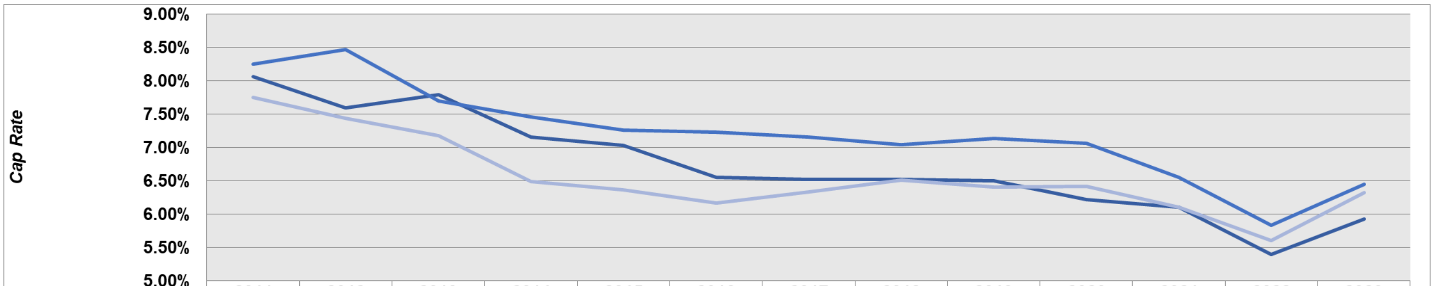


	Q3 '11	Q4 '11	Q1 '12	Q2 '12	Q3 '12	Q4 '12	Q1 '13	Q2 '13	Q3 '13	Q4 '13	Q1 '14	Q2 '14	Q3 '14	Q4 '14	Q1 '15	Q2 '15
Cap Rates	7.5	7.7	7.6	7.5	7.5	7.2	7.2	6.8	7.0	7.0	6.7	6.7	6.7	6.6	6.6	6.3
Spread	5.6	5.8	5.4	5.8	5.8	5.4	5.3	4.3	4.4	4.0	4.0	4.2	4.2	4.4	4.7	3.9
10-Year	1.9	1.9	2.2	1.7	1.7	1.8	1.9	2.5	2.6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

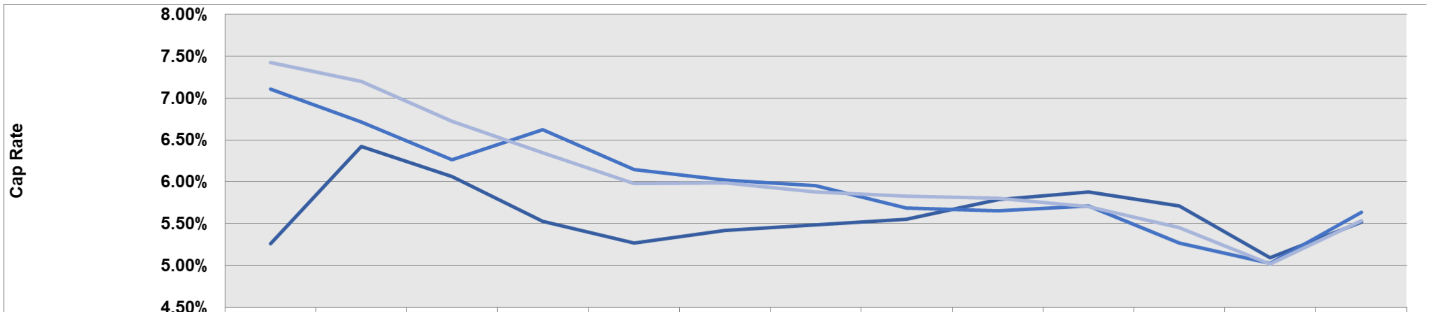
	Q3 '19	Q4 '19	Q1 '20	Q2 '20	Q3 '20	Q4 '20	Q1 '21	Q2 '21	Q3 '21	Q4 '21	Q1 '22	Q2 '22	Q3 '22	Q4 '22	Q1 '23	Q2 '23	Q3 '23
Cap Rates	6.2	6.1	6.4	6.3	6.3	6.3	6.1	6.0	5.8	5.5	5.4	5.1	5.3	5.5	5.8	6.1	6.0
Spread	4.5	4.2	5.7	5.7	5.5	5.3	4.3	4.5	4.3	4.0	3.1	2.2	1.5	1.6	2.3	2.2	1.4
10-Year	1.7	1.9	0.7	0.7	0.7	0.9	1.7	1.5	1.5	1.5	2.3	3.0	3.8	3.9	3.5	3.8	4.6

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%	5.93%
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%	6.44%
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%	6.32%

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%	5.52%
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%	5.64%
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%	5.54%

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