

NET LEASE PROPERTY REPORT

Q4 : 2023

Los Angeles
Orange County
Portland
San Diego
San Francisco



CAP RATES CONTINUE TO RISE IN Q4

2023 Cap Rates Finish Higher For the Year

Q4 Median Net Lease Cap Rates increased 14 basis points to 6.25% while Average Cap Rates increased 17 basis points to 6.36%. This represents the 6th consecutive quarter with increasing Cap Rates. Average days on market decreased by 11 days to 174 days, while the average base term on closed deals remained mostly steady at 11.9 years. The spread between asking price and sales price increased to 8.07% as buyers and sellers continue their struggle to come to terms in a softening market.

Interest rates showed some downward movement as the 10 Year Treasury moved from 4.59% at the end of Q3 to 3.88% at the end of Q4. The general prediction for 2024 interest rates is that the Fed will indeed be cutting rates. Some think this will begin in the first half of the year, while others believe that cuts will not take place until the second half. We expect that the first half of the year will bring more of what we observed in Q4 in terms of Net Lease Cap Rates continuing their slow but steady rise.

Lenders for Net Lease properties continue to remain conservative in their underwriting. They are currently feeling pressure from loans that are coming due or that have adjustable rates resetting to the current, much higher interest rate environment. To hedge their downside risk, they continue to focus on credit worthy deals at conservative loan to value ratios and avoid segments of the market that are facing headwinds such as office and struggling retail tenants.

Q4 2023

Sold Property Data

Median Cap Rate

6.25% (↑14 bps)

Average Cap Rate

6.36% (↑17 bps)

Average Days On Market

174 Days (↓11)

Average Base Term

11.9 Years (↑0.2)

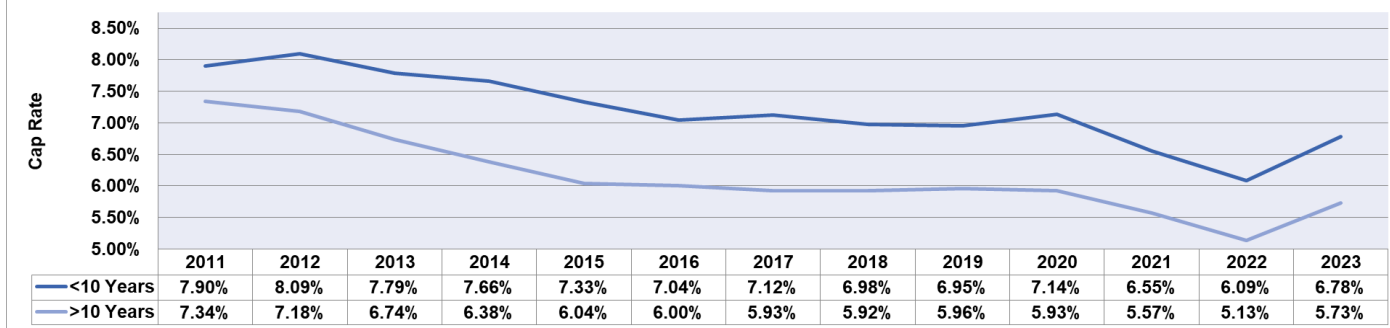
Ask Price vs. Sales Price

8.07% Under Asking (↑72 bps)

(continued on pg. 3)



National Average Cap Rates By Term of Lease



2023 Cap Rates increased for all Net Lease product types. Surprisingly, the smallest Cap Rate increase was for Bank properties, which only increased by 49 basis points. The biggest change in the Bank sector is that the total number of transactions has decreased rapidly over each of the past 4 years. So while Cap Rates have increased the least for this sector, it must be noted that only the best possible Bank locations are trading at all, hence the premium being paid relative to the market for properties with strong real estate fundamentals.

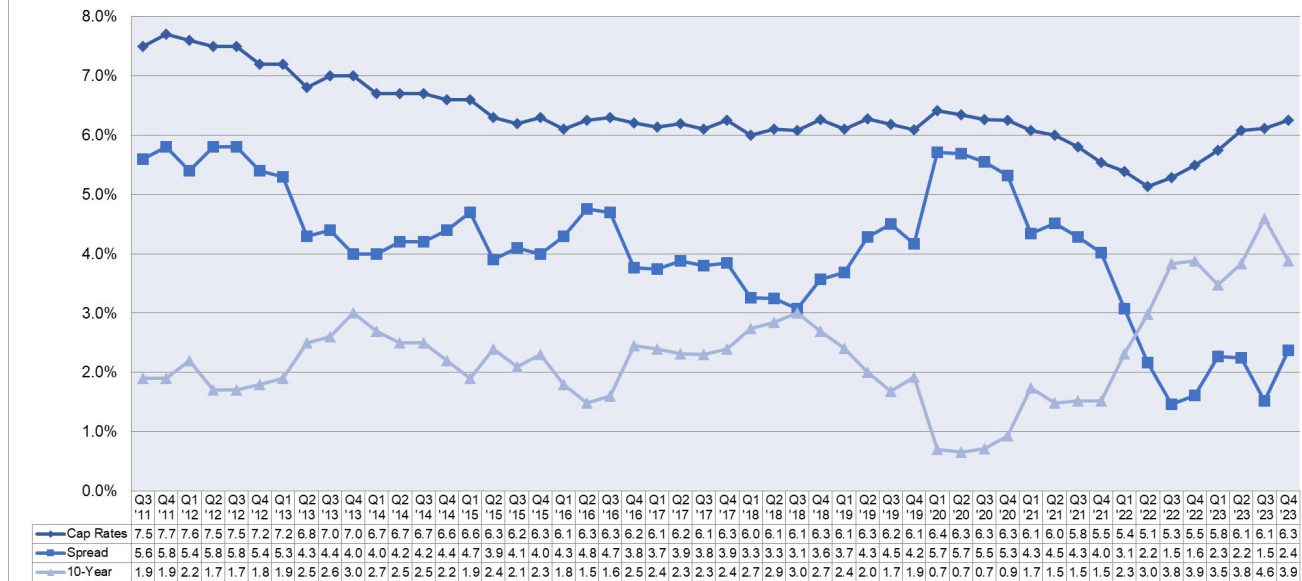
The next smallest Cap Rate increase in 2023 was for Restaurant properties. This is not that surprising, as Quick Service Restaurant's remain one of the most sought after Net Lease sectors. Casual Dining Restaurants only saw modest Cap Rate increases this year as investors seem to be less concerned about sit down dining concepts now that Covid fears have somewhat eased.

All other sectors saw about a 75 basis point Cap Rate increase for the year. This includes Drug Stores, Discount Stores, Convenience Stores, and Auto related properties which includes car washes, auto parts stores, and auto repair.

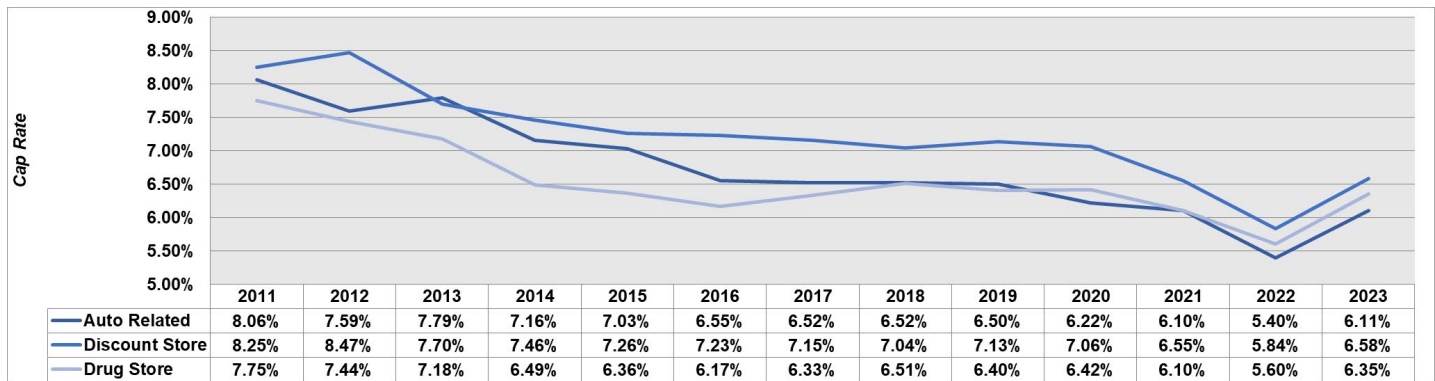
We do expect to see some additional softening in the market across all sectors as we move into the new year. One indicator of this trend is that the spread between Median Cap Rates and the 10 Year Treasury remains well below the long term average. In our research, only when this spread is greater than 3%, do we generally see increased activity in the market. This measure currently sits at 2.4%, so not until Cap Rates increase further or the 10 Year decreases, do we expect Net Lease transaction volume to increase by any significant measure.

In summary, 2023 was a year of moderately increasing Cap Rates and rapidly decreasing transaction volume, as transaction levels dropped drastically as compared to the prior year. While we don't expect to reach 2021 transaction levels anytime soon, we do expect 2024 transaction totals to be at least 25% - 50% higher than 2023 coupled with modest Cap Rate increases.

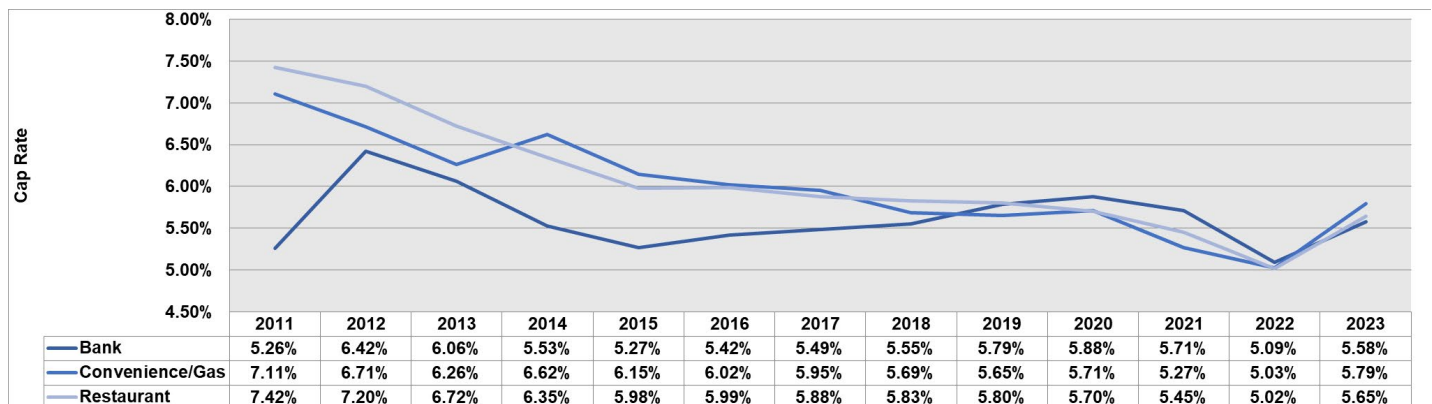
Spread Between Cap Rates & Treasuries



Auto Related | Discount Store | Drug Store



Bank | Convenience / Gas | Restaurant



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