NET LEASE PROPERTY REPORT

Q1 : 2024

Los Angeles
Orange County
Portland
San Diego
San Francisco

NNNetAdvisors

A SLOW START FOR NET LEASE IN 2024

Net Lease Property Sales Volume Remains Sluggish

Q1 2024 Net Lease numbers are in and it has been more of what we saw last year. The theme remains fewer transactions and a continued upward creep in Cap Rates. While Median Cap Rates actually saw a 10 basis point drop to 6.2%, Average Cap Rates increased by 4 basis points to 6.44%. Both Average Days on Market and Average Base Terms remained steady at 162 and 11.8, respectively. There was a decrease in the spread between asking prices and sales prices as seller's have begun to lower initial asking prices to better compete in a slow market.

The sectors that saw the largest increases in Cap Rate were Dollar Stores and Drug Stores. A few characteristics that these sectors have in common are a recent history of a large numbers of store closings, flat rent structures, and decreasing customer visits. Dollar Stores have begun to revert back to their typical Net Lease position of higher credit deals in more tertiary locations that feature the highest range of cap rates amongst the Net Lease sectors. The past number of years have seen Dollar Stores being closing at low Cap Rates, sometimes in the mid 5% range. Historically, Dollar Stores trade in the mid-7 to low 8 cap range, and they are now reverting back to that with an average Cap Rate of 7.7%, up from 5.8% in 2022. Drug Stores continue to face the onslaught of online prescription competition and decreasing same store sales. Cap Rates for Drug Stores hit in all time low in 2022 at 5.6% and now sit at 7.2%, which represents an increase of 29% in the space of just over 1 year.

(continued on pg. 3)

Q1 2024

Sold Property Data

Median Cap Rate

6.20% (↓10bps)

Average Cap Rate

6.44% (↑4 bps)

Average Days On Market

162 Days (↓2)

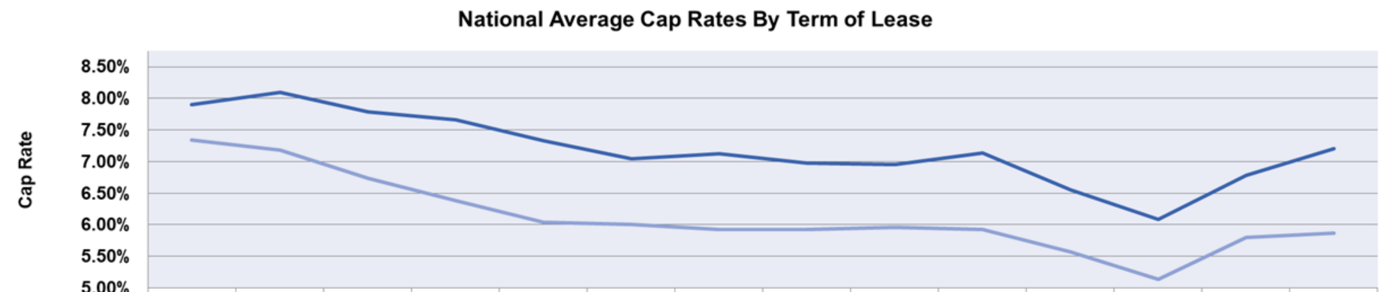
Average Base Term

11.8 Years (↑0.2)

Ask Price vs. Sales Price

6.58% Under Asking (↑141 bps)

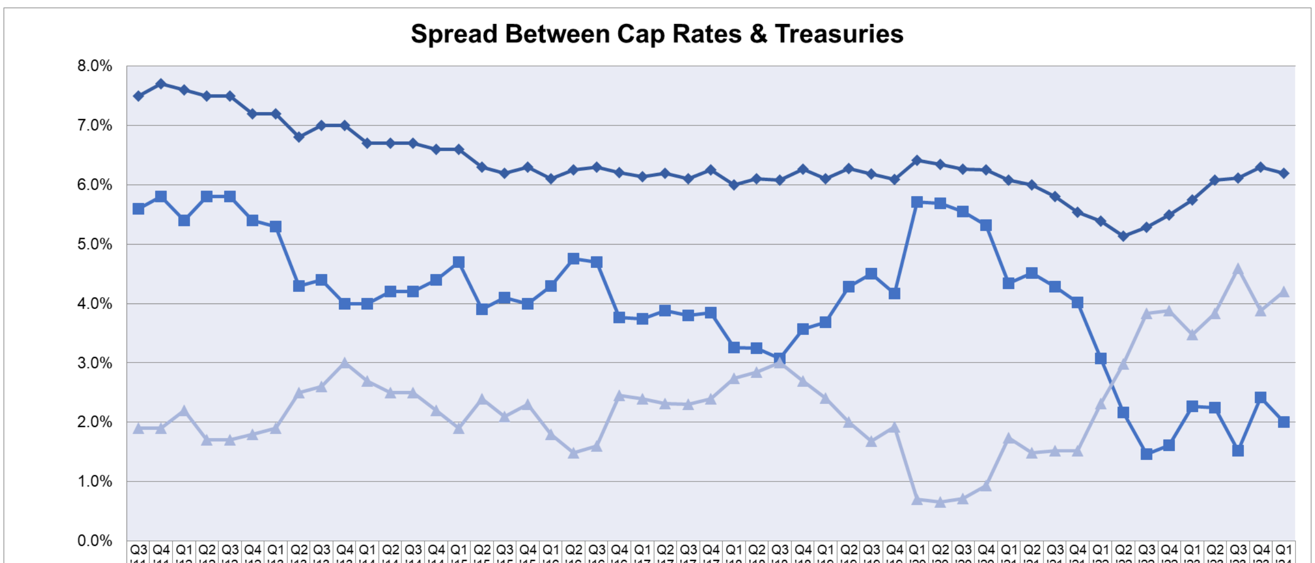
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Median	7.50%	7.43%	7.05%	6.86%	6.30%	6.23%	6.15%	6.13%	6.21%	6.30%	5.92%	5.31%	6.05%	6.20%
Average	7.49%	7.46%	7.18%	6.70%	6.53%	6.38%	6.34%	6.27%	6.32%	6.41%	6.03%	5.48%	6.16%	6.44%



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<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%	6.79%	7.20%
>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%	5.80%	5.87%

The sectors that continue to withstand the headwinds in the current marketplace are Banks, Convenience Stores, and Restaurants. Banks are the most surprising here, as by this point, we have seen Bank branches closing in droves and understand how quickly remote banking is being adopted. The trend to understand about Banks is that the number of transactions are down and the only banks that are selling are those in excellent locations with strong deposits. C-Stores represent a bit of a conundrum. While they generally feature strong credit and have historically performed well, the elephant in the room is the rise of EV and the impact of the long term demand for this sector. Lastly, Restaurants, and primarily QSR's, remain the darling of Net Lease. These have become the most predictable of the bunch, thriving in all market cycles and they continue to be in the great demand amongst Net Lease investors.

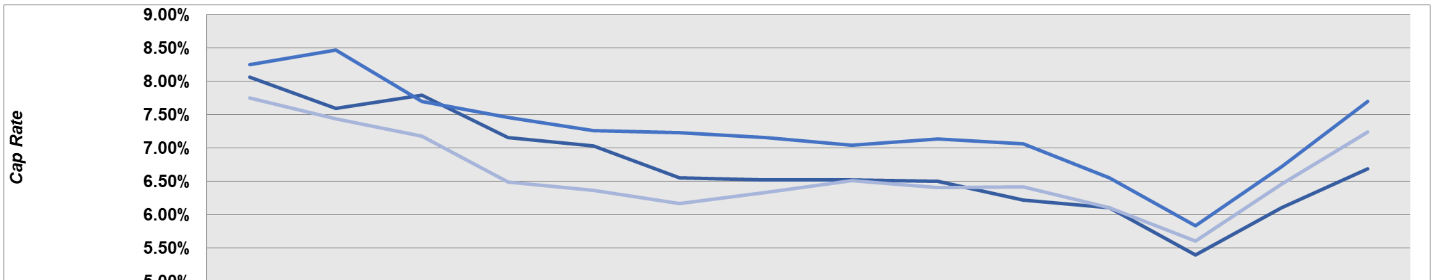
With Net Lease operating as a bond like investment, it rises and falls with the tide of the current interest rate environment. Early predictions for Net Lease in 2024 were that while the first half of the year would be more of the same, that once interest cuts began happening in the middle of Q2, that Cap Rates would begin to follow suit and began to move lower. Now that we are a quarter into the year, the narrative has begun to change a bit. Job reports keep coming in slightly better than expected while higher inflation numbers keep hanging around. The Fed is facing increasing pressure to push back future interest rate cuts until at least July. We have even read some reports that promote the idea that the Fed will need to begin increasing rates. This all remains to be seen, but what we do know at this point, is that for the foreseeable future in Net Lease, we should expect to see continued depressed demand and a gluttony of supply. The winners in this current scenario will be all cash buyers looking to secure long term holdings in excellent locations. The losers will be mostly everybody else, at least in the short run. This includes seller's that are desperate to sell for any variety of reasons such as debt coming due or resetting at much higher rates, as well as buyer's that are reliant on debt to complete their acquisitions. The vast majority of all Net Lease property for sale represents a negative leverage scenario for investors borrowing at current market rates. Our current expectations for the Net Lease market in 2024 is continued slower transaction volume and supply greatly outweighing demand through the end of the year and possibly into early 2025.



	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	Q1 '17	Q2 '17	Q3 '17	Q4 '17
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	6.1	6.2	6.1	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	4.1	4.0	4.3	4.8	4.7	3.8	3.7	3.9	3.8	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	2.1	2.3	1.8	1.5	1.6	2.5	2.4	2.3	2.3	2.4

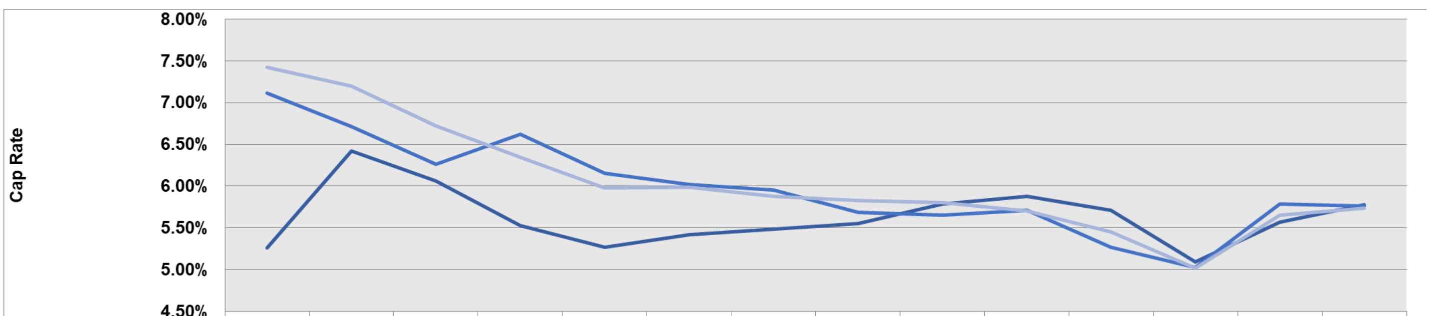
	Q1 '18	Q2 '18	Q3 '18	Q4 '18	Q1 '19	Q2 '19	Q3 '19	Q4 '19	Q1 '20	Q2 '20	Q3 '20	Q4 '20	Q1 '21	Q2 '21	Q3 '21	Q4 '21	Q1 '22	Q2 '22	Q3 '22	Q4 '22	Q1 '23	Q2 '23	Q3 '23	Q4 '23	Q1 '24
Cap Rates	6.0	6.1	6.1	6.3	6.1	6.3	6.2	6.1	6.4	6.3	6.3	6.3	6.1	6.0	5.8	5.5	5.4	5.1	5.3	5.5	5.8	6.1	6.1	6.3	6.2
Spread	3.3	3.3	3.1	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	2.2	1.5	1.6	2.3	2.2	1.5	2.4	2.0
10-Year	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	3.0	3.8	3.9	3.5	3.8	4.6	3.9	4.2

Auto Related | Discount Store | Drug Store



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
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%	6.10%	6.69%
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%	6.71%	7.70%
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%	6.46%	7.24%

Bank | Convenience / Gas | Restaurant



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
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%	5.57%	5.78%
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%	5.78%	5.76%
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%	5.65%	5.74%

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