NET LEASE PROPERTY REPORT

Q3 : 2024

Los Angeles
Orange County
Portland
San Diego
San Francisco

NNNetAdvisors

NET LEASE CAP RATES CONTINUE TO RISE

Q3 Cap Rates Creep Higher While Interest Rates Fall

Q3 2024 Average Cap Rates rose by 10 basis points to 6.63% while Median Cap Rates stayed relatively flat with only a 1 basis point increase, rising to 6.53%. Median Cap Rates currently sit at their highest point in the past 10 years. Days on Market decreased by 23 days to 173 days while, on average, properties are selling for 6.31% under asking, which reflects a 39 basis point decrease over the past quarter. These two metrics reveal that sellers have become more accepting of market conditions and are listing properties at higher cap rates.

In September, the Federal Reserve cut the target range of the Fed Funds Rate by 50 basis points, to 4.75-5%. This was the first rate cut that we have seen since the 100 basis point rate cut in March 2020 that brought the target range to 0-0.25%. In the long-term, the United States Fed Funds Rate is projected to trend around 3.5% in 2025 and 3% in 2026. The 10 Year Treasury Yield began the quarter at 4.36% and ended at 3.81%, which was a drop of 45 basis points. The spread between the 10 Year and Average Net Lease Cap Rate rose from 2.2% to 2.7%, which is the largest spread we have seen since Q1 of 2022. The average spread between the 10 Year and Average Net Lease Cap Rates over the past 15 years is 4%, so the current figure still sits well below the average. The combination of increasingly higher cap rates and lower interest rates will likely move this metric back towards average levels. Net Lease Cap Rates bottomed out in Q2 2022 and have been on the rise ever since.

Q3 2024

Sold Property Data

Median Cap Rate

6.53% (↑1bps)

Average Cap Rate

6.63% (↑10 bps)

Average Days On Market

173 Days (↓23)

Average Base Term

10.8 Years (↓0.72)

Ask Price vs. Sales Price

6.31% Under Asking (↓39 bps)

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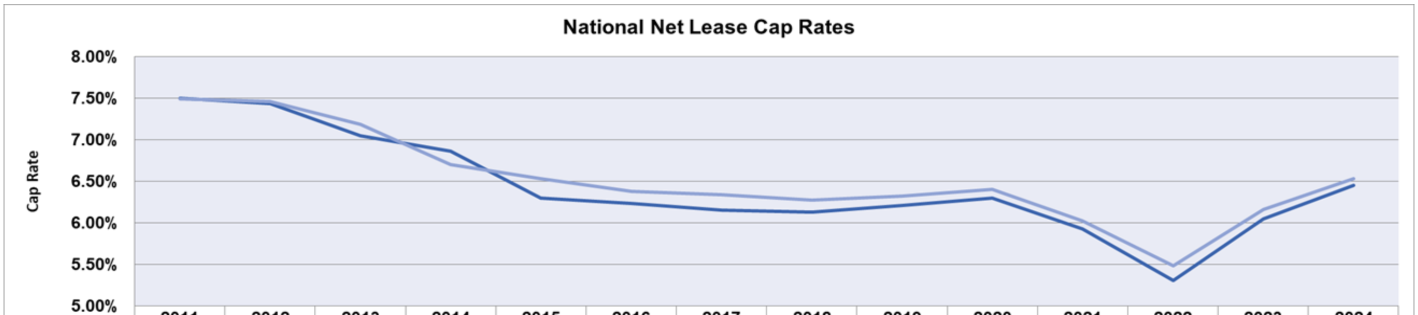


	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Median	7.50%	7.43%	7.05%	6.86%	6.30%	6.23%	6.15%	6.13%	6.21%	6.30%	5.92%	5.31%	6.05%	6.45%
Average	7.49%	7.46%	7.18%	6.70%	6.53%	6.38%	6.34%	6.27%	6.32%	6.41%	6.03%	5.48%	6.16%	6.53%

National Average Cap Rates By Term of Lease

	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%	7.13%
>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%	6.06%

Over the past 10 years, both Restaurant and Auto Related properties have outperformed the market. Banks and Drugs Stores have underperformed the market, while Discount Stores and Convenience Stores have performed in line with the overall Net Lease market.

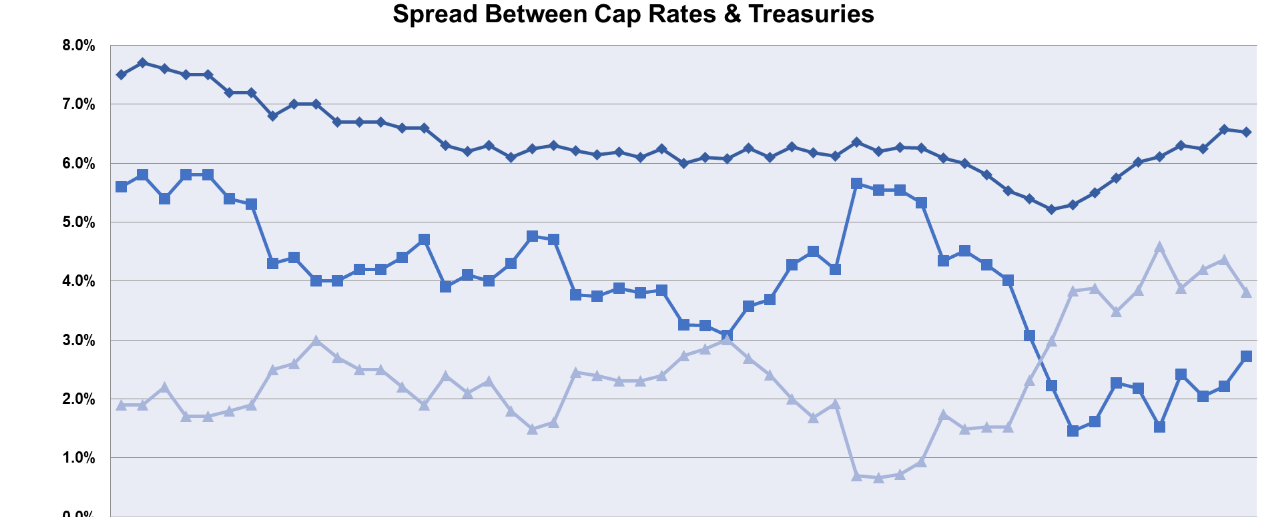
Restaurant properties continue to be in strong demand and perform better than most sectors of Net Lease. Sit down dining locations have mostly recovered since the COVID era, while QSR's in general continue to thrive. Auto Related properties also have outperformed other property types over the past 10 years. Within this sector, we have seen a weakening in the Cap Rates of Auto Parts locations while car servicing and repair locations continue to command the most aggressive Cap Rates.

Bank Cap Rates have risen the most of any Net Lease category. This sector has been plagued by branch closings and lower demand for in person services due to the widespread adoption of mobile banking. Many bank sites are being redeveloped, while those with high deposit levels and long term leases being the sites that continue to stay in demand amongst investors. Drug Stores, which used to be a dependable Net Lease staple, have faced serious headwinds in the recent past. Declining store sales, overexpansion, and online prescription services have greatly reduced the unit level profitability and relevance of these properties.

Discount Stores have performed in line with the market over the past 10 years. When interest rates were near net zero, these properties outperformed the market as they were easy to finance with aggressively low rates. Now that interest rates have increased, Discount Store Cap Rates have moved back in line with historical trends. Convenience Store Cap Rates have also followed the general trends of Net Lease as investor demand has remained steady. Moving forward, it is worth watching how the C-Store market adjusts to bonus depreciation phase outs and further consumer EV adoption.

While demand for Net Lease has remained steady relative to other property types, demand for product types within Net Lease continues to shift. Evolving consumer patterns impact Net Lease property viability and need to be reevaluated often in order to ensure long term predictable cash flows.

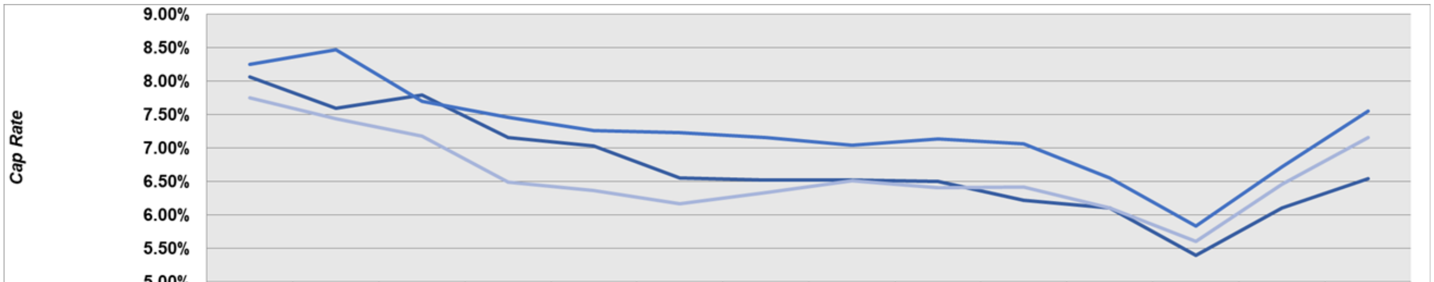
Spread Between Cap Rates & Treasuries



	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
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
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
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

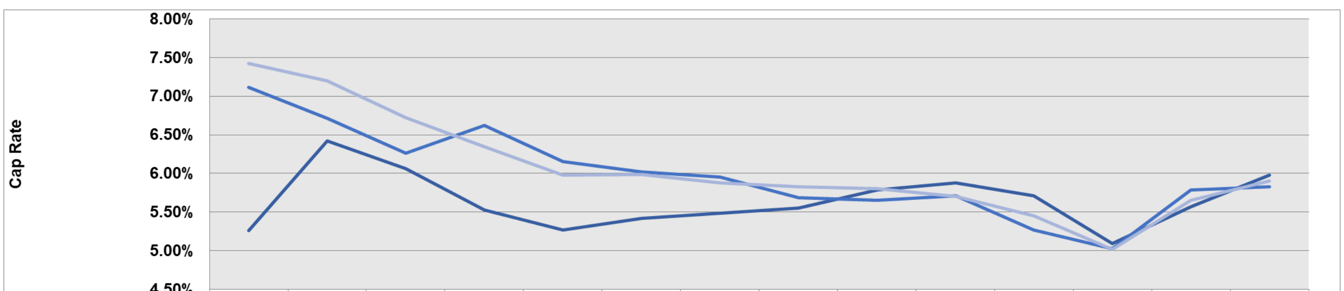
	Q4 '17	Q1 '18	Q2 '18	Q3 '18	Q4 '18	Q1 '19	Q2 '19	Q3 '19	Q4 '19	Q1 '20	Q2 '20	Q3 '20	Q4 '20	Q1 '21	Q2 '21	Q3 '21	Q4 '21	Q1 '22	Q2 '22	Q3 '22	Q4 '22	Q1 '23	Q2 '23	Q3 '23	Q4 '23	Q1 '24	Q2 '24	Q3 '24
Cap Rates	6.3	6.0	6.1	6.1	6.3	6.1	6.3	6.2	6.1	6.4	6.2	6.3	6.3	6.1	6.0	5.8	5.5	5.4	5.2	5.3	5.5	5.8	6.0	6.1	6.3	6.2	6.5	6.5
Spread	3.9	3.3	3.3	3.1	3.6	3.7	4.3	4.5	4.2	5.7	5.5	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	2.2	2.7
10-Year	2.4	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	4.4	3.8

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%	6.54%
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%	7.55%
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%	7.16%

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%	5.98%
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%	5.83%
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%	5.91%

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