

NET LEASE PROPERTY REPORT

Q1 : 2025

Los Angeles
Orange County
Portland
San Diego
San Francisco



NET LEASE CAP RATES HOLD STEADY IN Q1

2025 Begins With only Moderate Cap Rate Increases

Q1 2025 Median Cap Rates increased by 5 basis points to 6.50% while Average Cap Rates increased by 8 basis points to 6.64%. Median Cap Rates have remained in the 6.5% range over the past four consecutive quarters, while Average Cap Rates have stayed around 6.6%. Average days on market decreased by 7 days to 173 days while the average base term remaining on closed deals moved higher, to 11.7 years. The spread between asking prices and sale prices increased by 13 basis points to 6.02%.

The 10 Year Treasury Yield ended the quarter lower at 4.23%. The spread between the 10 Year Treasury Yield and Median Cap Rates rose from 1.9% to 2.3%. While this is a good sign for investors seeking out leverage options, this figure still sits well below the 15 year average of 3.9%. The current 5 year prediction for the 10 Year Treasury Yield is that it will move slowly towards 4% over the next year and hold steady at that point for another 4 years. With that said, Median Cap Rates would need to move upwards to approximately 7.9% to reach that 15 year moving average. Based on the flattening of cap rates over the past 12 months, this scenario seems unlikely.

Q1 2025 Sold Property Data

Median Cap Rate

6.50% (↑5bps)

Average Cap Rate

6.64% (↑8 bps)

Average Days On Market

173 Days (↓7)

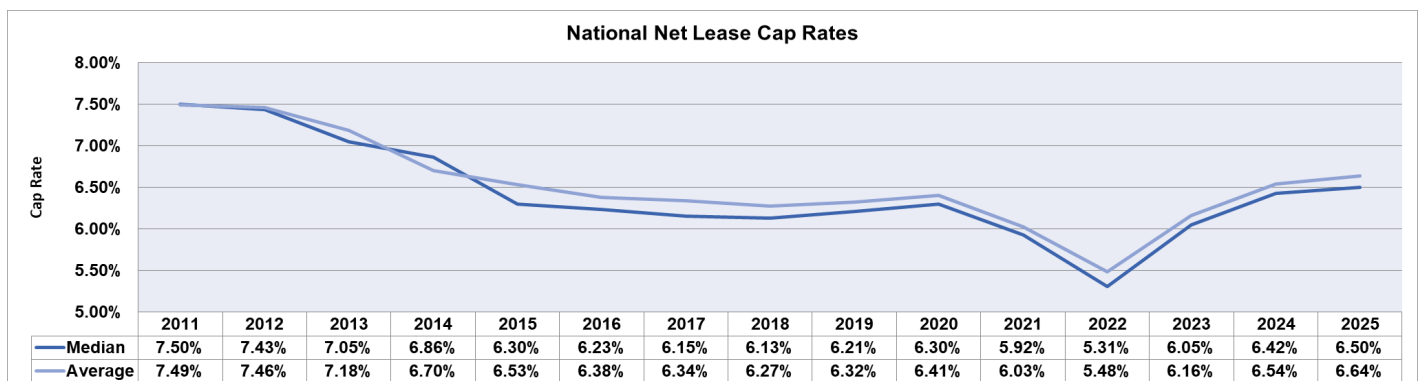
Average Base Term

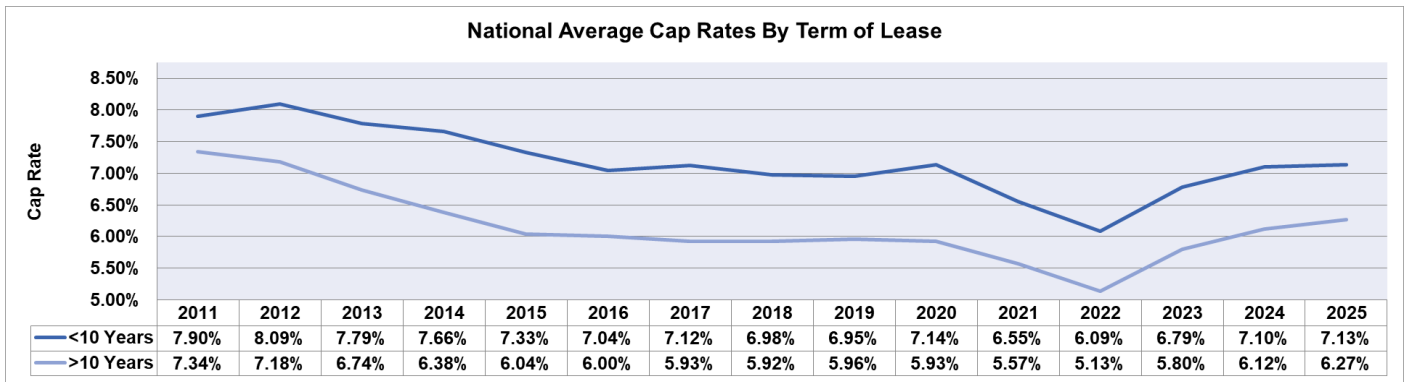
11.7 Years (↑0.3)

Ask Price vs. Sales Price

6.02% Under Asking (↑13 bps)

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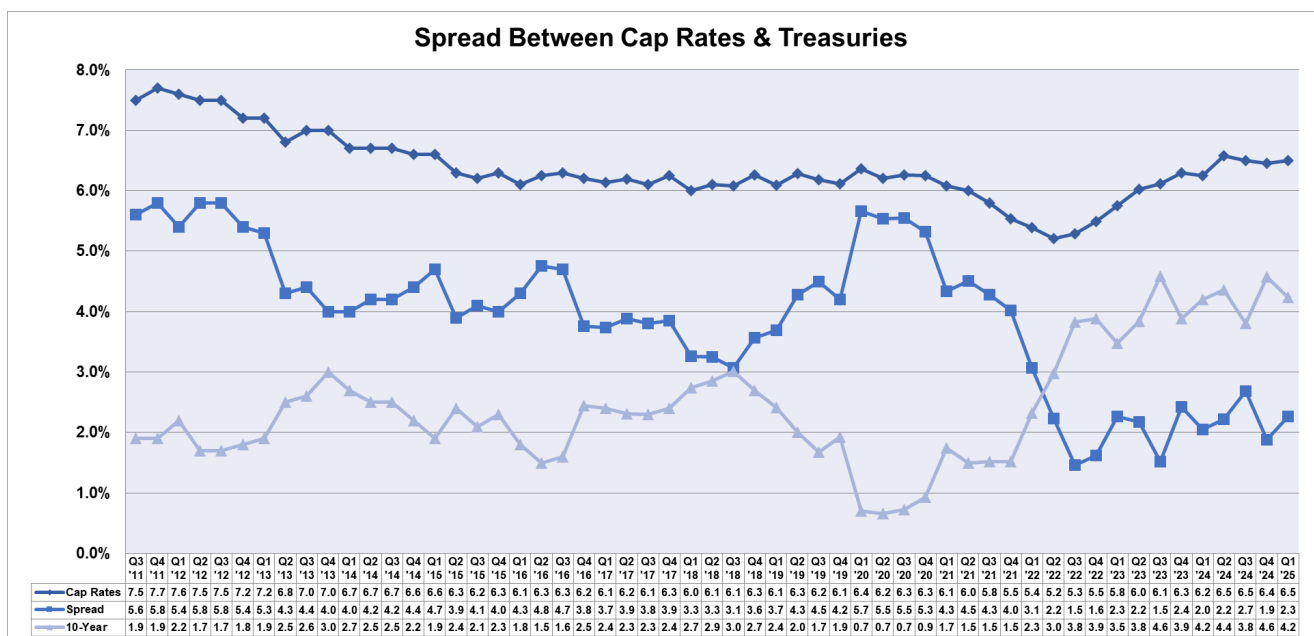




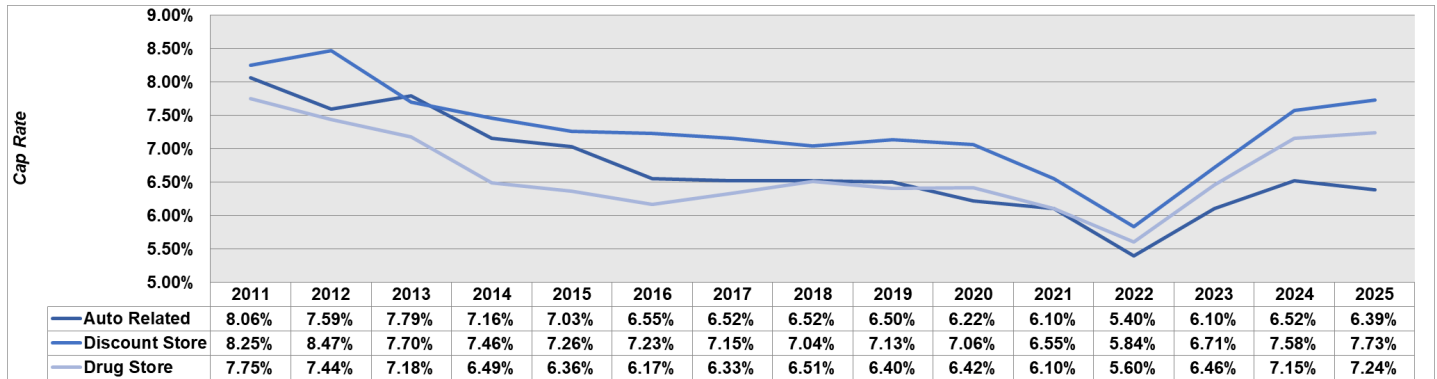
Over the past 5 years, the one sector of Net Lease that has softened the most has been Drug Stores. The rise of eCommerce, direct prescription delivery, and overall decreasing foot traffic has led to major disruption within the Drug Store sector. Drug Store cap rates were at 6.42% 5 Years ago, while they sit at 7.24% today. They did have a slight resurgence during the Covid pandemic, dropping as low as 5.60% in 2022 as consumers increased drug store visits for vaccines and symptom related remedies.

CVS has seen their stock price rise 7% over the past 5 years. They remain the strongest of the Drug Store tenants, but their store count has decreased from 9,962 to 9,160 over the past 5 years. This represents a decrease of 8.1%. CVS plans to close approximately 270 more stores this year. Walgreens has seen their stock price drop 75% over the past 5 years. Their store count has decreased from 9,000 to 8,363 over the past 5 years. This represents a decrease of 7.1%. In 2024, Walgreens announced plans to close 1,200 stores over the next few years, including 500 in 2025. In March of this year, the private equity firm Sycamore Partners entered into an agreement with Walgreens to take the company private. This highly leveraged transaction, which is being valued at a cost of at least \$22B, involves financing that amounts to roughly 83% of the value. This is well above the average debt level that PE firms used to acquire companies in 2024, which was 41%. In 2018, Walgreens purchased 1,932 Rite Aid stores, which were then converted to Walgreens stores. Rite Aid, which had 2,451 stores in 2020, closed over 800 stores in 2023 as part of its bankruptcy filing. Rite Aid continues to operate 1,250 stores under its own name and as a private company. Earlier this month, it was reported that Rite Aid was preparing to file for Chapter 11 bankruptcy for the second time in 2 years after a failed restructuring.

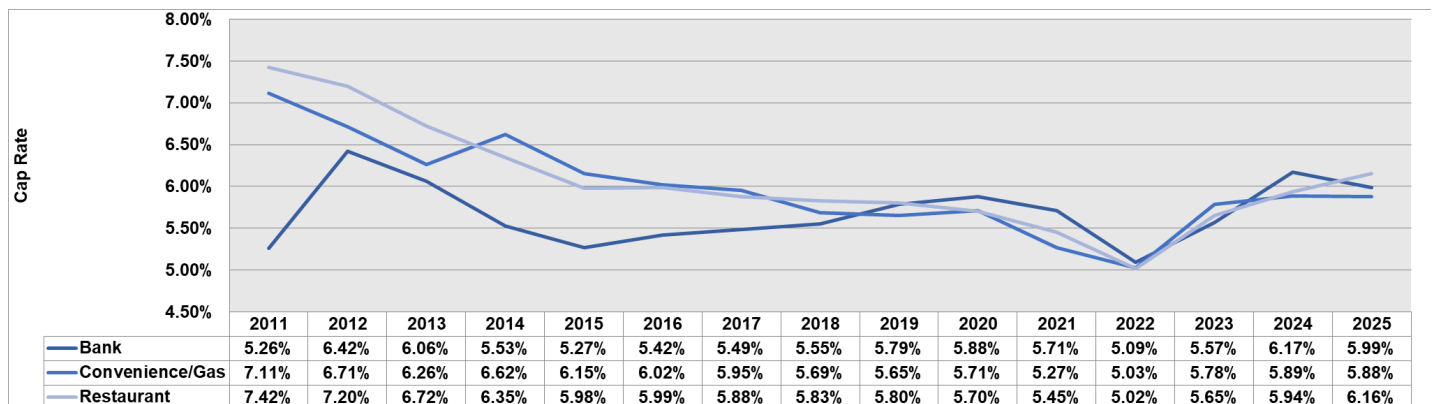
Contrary to all of this doom and gloom, there are plenty of Drug Store locations that remain valuable. The two primary factors that indicate long term success for existing Drug Store sites are strong store sales and market level rents.



Auto Related | Discount Store | Drug Store



Bank | Convenience / Gas | Restaurant



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