

NATIONAL ASKING CAP RATES

Sector	Q4 2013 (Previous)	Q1 2014 (Current)	Basis Point Change
Retail	6.85%	6.75%	-10
Office	7.40%	7.64%	+24
Industrial	8.15%	8.00%	-15

NUMBER OF PROPERTIES ADDED TO MARKET IN Q1

Sector	Q4 2013 (Previous)	Q1 2014 (Current)	Percent Change
Retail	2,184	2,609	+19.46%
Office	246	288	+17.07%
Industrial	189	177	-6.35%

MEDIAN NATIONAL ASKING VS. CLOSED CAP RATE SPREAD

Sector	Q4 2013 (Previous)	Q1 2014 (Current)	Basis Point Change
Retail	34	23	-11
Office	49	59	+10
Industrial	40	33	-7

MARKET OVERVIEW

Cap rates for the single tenant net leased retail market continued their downward trend to 6.75% in the first quarter of 2014, surpassing the previous quarter's historically low rate of 6.85%. During the same time period cap rates for the industrial sector compressed by 15 basis points. The main factor contributing to cap rate compression in the industrial sector can be attributed to competition amongst institutional investors for this product. The higher average price point for this asset class allows institutional investors to allocate larger pools of funds in single transactions rather than multiple smaller transactions.

Following a dynamic 2013 with over \$44 billion of net lease transactions, according to Real Capital Analytics, the net lease market experienced a significant amount of additional supply in the first quarter of 2014. The supply of net lease properties increased to over 3,000 properties available in the first quarter, a 17% rise when compared to the previous quarter. Owners of lower quality assets, with shorter lease term or limited credit, have added supply to the market to take advantage of the low cap rate environment as the consensus of net lease participants believe that the market strongly favors sellers.

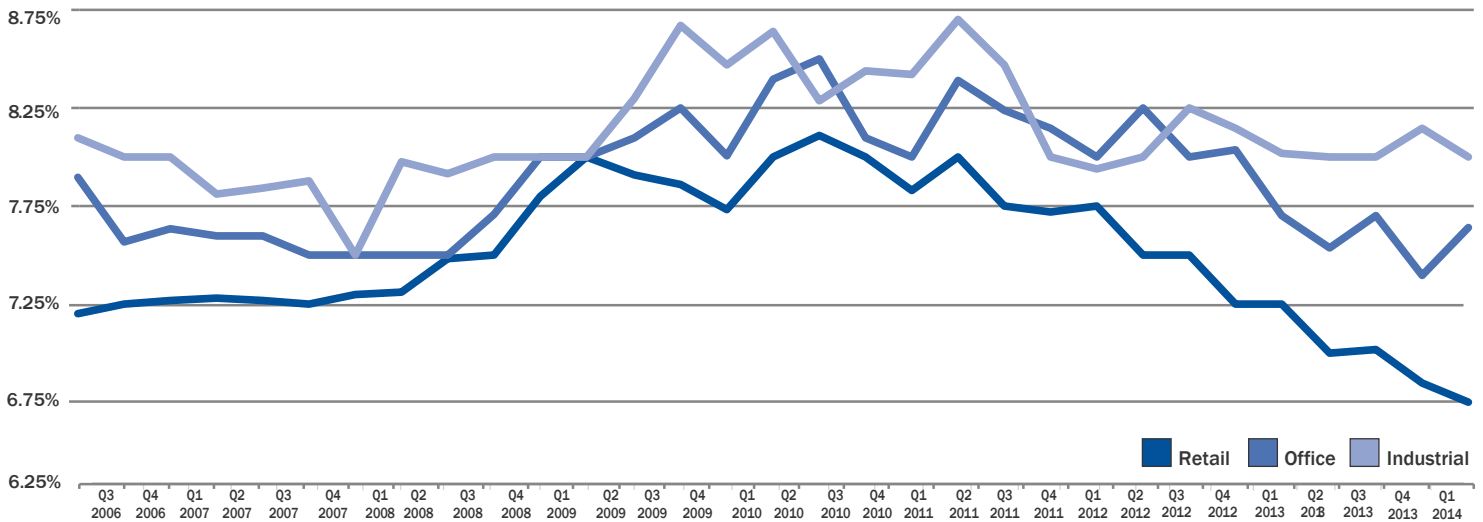
Despite the influx of supply, a lack of quality offerings remains in the single tenant market across all sectors. The main challenge facing investors is the limited pipeline of properties with long term leases to investment grade tenants in primary markets. Even with lower quality retail assets more prevalent in the market, cap rates for the entire net lease retail market continued to decline to historically low levels. After vigorous fund raising years and accommodating capital markets, investors are struggling to acquire assets that fit acquisition criteria while meeting return thresholds.

Transaction volume for the single tenant net lease market for 2014 is expected to be on par with 2013 assuming the 10 year treasury remains stable. Regardless of the increase in supply of assets, current demand greatly exceeds today's inventory levels. Demand should remain consistent as positive price and transaction momentum continues to attract investors.

SELECTED SINGLE TENANT SALES COMPARABLES

Sale Date	Sector	Tenant	City	State	Price	Price Per SF	Cap Rate	Lease Term Remaining
Jan-14	Retail	Mariano's Fresh Market	Chicago	IL	\$40,500,000	\$618	5.83%	20
Mar-14	Retail	Forever XXI	Chicago	IL	\$14,800,000	\$925	4.86%	10
Jan-14	Retail	Walgreens	Chicago	IL	\$13,025,000	\$879	4.875%	25
Jan-14	Retail	Walgreens	Uniondale	NY	\$12,350,000	\$963	5.65%	23
Feb-14	Retail	LA Fitness	Little Rock	AR	\$11,985,000	\$252	7.13%	15
Jan-14	Industrial	Kraft Foods	Mason City	IA	\$10,144,198	\$90	9.00%	5
Feb-14	Retail	Harris Teeter (GL)	Asheville	NC	\$9,900,000	N/A	6.06%	10
Feb-14	Retail	Pick 'N Save	Wausau	WI	\$8,200,000	\$120	8.10%	9
Jan-14	Office	GSA - DEA	Homestead	FL	\$8,165,000	\$271	8.37%	15
Mar-14	Office	Northwestern Memorial Hospital	Deerfield	IL	\$7,350,000	\$433	5.56%	14
Feb-14	Retail	CVS	South Lyon	MI	\$5,635,000	\$437	5.95%	20
Feb-14	Office	Hitachi	Twinsburg	OH	\$5,600,000	\$115	7.99%	6
Jan-14	Retail	Walgreens	Las Vegas	NV	\$5,200,000	\$349	7.14%	4

NET LEASED CAP RATE TRENDS



MEDIAN ASKING CAP RATES BY YEAR BUILT

Tenant	2010-2014	2005-2009	2000-2004	Pre 2000
Walgreens	5.50%	5.57%	6.00%	7.75%
CVS	5.58%	5.90%	6.50%	8.10%
Rite Aid	N/A	7.28%	8.50%	9.50%
Advance Auto Parts	6.46%	6.62%	7.68%	8.50%
AutoZone	5.75%	5.98%	7.15%	N/A
O'Reilly Auto Parts	6.00%	6.38%	7.00%	N/A
Dollar General	6.55%	7.75%	8.25%	9.40%
Family Dollar	7.53%	7.88%	8.40%	9.75%
McDonald's (GL)	4.00%	4.50%	4.88%	5.00%
FedEx	6.45%	7.15%	8.38%	8.95%
GSA	7.05%	7.80%	8.00%	9.00%
Chase (GL)	4.50%	5.00%	5.25%	6.00%
Bank of America (GL)	4.50%	5.75%	N/A	N/A
PNC (GL)	4.70%	5.25%	N/A	5.75%
Wells Fargo (GL)	4.83%	5.00%	5.20%	5.75%
7-Eleven	5.50%	5.60%	6.00%	6.25%
DaVita	6.50%	7.00%	7.50%	8.28%
Fresenius	6.50%	6.75%	8.30%	9.15%

GL = Ground Lease

FOR MORE INFORMATION

AUTHOR

John Feeney | Research Director

john@bouldergroup.com

CONTRIBUTORS

Randy Blankstein | President

rblank@bouldergroup.com

Jimmy Goodman | Partner

jimmy@bouldergroup.com

Zach Wright | Research Analyst

zach@bouldergroup.com

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