

**NATIONAL ASKING CAP RATES**

Sector	Q1 2014 (Previous)	Q2 2014 (Current)	Basis Point Change
Retail	6.75%	6.50%	-25
Office	7.64%	7.77%	+13
Industrial	8.00%	7.97%	-3

**NUMBER OF PROPERTIES ON THE MARKET**

Sector	Q1 2014 (Previous)	Q2 2014 (Current)	Percent Change
Retail	2,609	3,058	+17.2%
Office	288	304	+5.5%
Industrial	177	210	+18.6%

**MEDIAN NATIONAL ASKING VS. CLOSED CAP RATE SPREAD**

Sector	Q1 2014 (Previous)	Q2 2014 (Current)	Basis Point Change
Retail	23	18	-5
Office	59	51	-8
Industrial	33	35	+2

**MARKET OVERVIEW**

Cap rates in the second quarter of 2014 for the single tenant net leased retail sector reached a new historic low rate of 6.50%. Cap rates for the industrial sector compressed minimally by three basis points to 7.97% while cap rates in the office sector rose 13 basis points to 7.77% during the quarter. The retail sector experienced the third straight quarter of historically low cap rates as a result of increased demand and the continually growing investor pool seeking the stable yield of the asset class. The office sector experienced its second consecutive quarter of rising cap rates due to the residual concern of ongoing vacancy challenges facing the suburban and secondary office markets.

Retail net lease assets remain the most desired property type in the net lease market as evidenced by the cap rate premium of 127 and 147 basis points over the office and industrial sectors respectively. The spread between retail and office/industrial properties is the largest spread in the past fifteen years. Investors favor retail assets as they typically have longer initial lease terms and investors have a familiarity with the tenants and a preference for the typical passive nature of the leases.

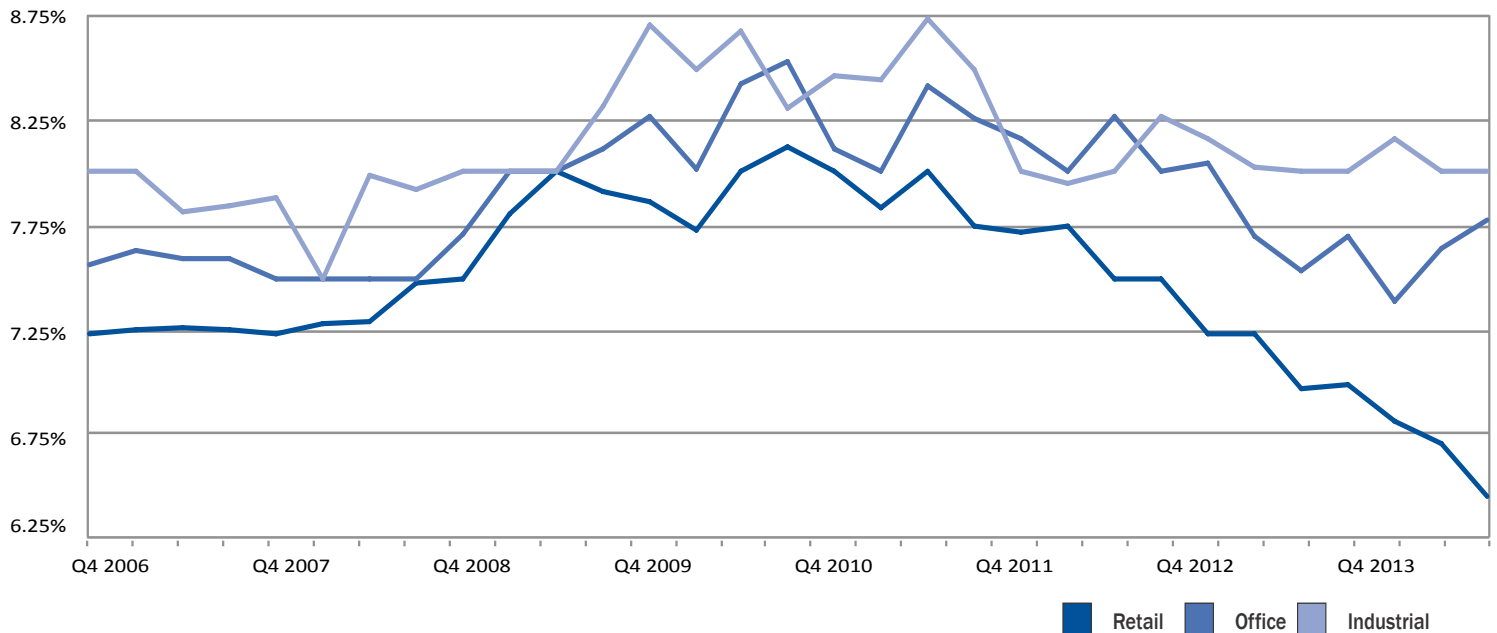
Despite the 16% increase in supply of net lease offerings in the second quarter, quality offerings with long term leases to investment grade rated tenants remain in limited supply. The majority of buyers acquiring low cap rate properties, including 1031 exchange investors, are seeking new construction assets with investment grade tenants. For example newly constructed Walgreens, Chase Bank and 7-Eleven properties experienced cap rate compression of 10, 25 and 25 basis points respectively.

Non-institutional investor demand throughout the net lease market will grow as the flight to the stable yields generated by this asset class should continue. As the individual investor demand continues to accelerate, some of the perennial institutional net lease buyers are finding it difficult to compete with their non-institutional counterparts. For instance, a leading global net lease REIT W.P. Carey has decided that the valuations of net lease assets are no longer attractive and is accordingly moving to other sectors. The expectation is for some other institutions to follow as valuations are well above historic levels and competition among private investors continues to drive prices.

**SELECTED SINGLE TENANT SALES COMPARABLES**

Sale Date	Sector	Tenant	City	State	Price	Price Per SF	Cap Rate	Lease Term Remaining
Jun-14	Retail	CVS (Ground Lease)	Tyson Corner	VA	\$24,700,000	N/A	4.97%	25
Apr-14	Retail	Wal-Mart	Mobile	AL	\$18,400,000	\$92	5.85%	15
Apr-14	Retail	Whole Foods	Park Ridge	IL	\$16,600,000	\$434	5.13%	20
May-14	Industrial	Kehe Foods	Elkton	FL	\$14,500,000	\$58	8.91%	7
Jun-14	Retail	Kohl's (Ground Lease)	Palm Coast	FL	\$13,675,000	\$153	6.20%	16
May-14	Retail	Walgreens	Evergreen Park	IL	\$10,833,333	\$730	5.40%	20
May-14	Industrial	Smart Warehousing	Houston	TX	\$8,590,000	\$56	8.97%	8
Apr-14	Retail	Trader Joe's	Tampa	FL	\$8,200,000	\$792	5.67%	10
Mar-14	Office	Department of Economic Security	Yuma	AZ	\$7,600,000	\$190	9.00%	6
Apr-14	Retail	Home Depot (Ground Lease)	Carol Stream	IL	\$7,200,000	N/A	5.95%	10
Jun-14	Retail	Walgreens	Lakemoor	IL	\$6,725,000	\$453	5.69%	25
May-14	Retail	CVS	Bessemer	AL	\$5,879,083	\$540	6.55%	10
May-14	Retail	Bank of America (Ground Lease)	Mount Airy	MD	\$5,210,000	N/A	5.91%	14

**NET LEASED CAP RATE TRENDS**



**MEDIAN ASKING CAP RATES BY YEAR BUILT**

Tenant	2010-2014	2005-2009	2000-2004	Pre 2000
Walgreens	5.40%	5.60%	5.95%	7.25%
CVS	5.50%	5.70%	6.18%	7.30%
Rite Aid	N/A	7.00%	7.70%	8.25%
Advance Auto Parts	6.00%	6.41%	7.78%	8.00%
AutoZone	5.50%	6.10%	7.00%	8.00%
O'Reilly Auto Parts	5.75%	6.23%	6.60%	7.00%
Dollar General	6.50%	7.40%	8.00%	9.00%
Family Dollar	7.25%	7.63%	8.29%	9.50%
McDonald's (GL)	4.00%	4.33%	4.75%	5.00%
FedEx	6.50%	7.25%	8.25%	9.00%
GSA	7.00%	7.75%	8.00%	8.60%
Chase (GL)	4.25%	4.70%	5.00%	N/A
Bank of America (GL)	4.50%	5.00%	5.75%	5.90%
PNC (GL)	4.40%	5.00%	5.40%	N/A
Wells Fargo (GL)	4.65%	4.75%	5.25%	5.60%
7-Eleven	5.25%	5.50%	6.00%	6.47%
DaVita	6.60%	6.90%	7.25%	8.00%
Fresenius	6.65%	6.85%	7.40%	8.00%

**FOR MORE INFORMATION**

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