NET LEASE PROPERTY REPORT

Q2 : 2024

Los Angeles
Orange County
Portland
San Diego
San Francisco

NNNetAdvisors

NET LEASE CAP RATES REACH 9 YEAR HIGHS

STNL Property Values Continue to Fall

Q2 2024 Net Lease Cap Rates continued their decline as Median Cap Rates increased by 33 basis points to 6.58% and Average Cap Rates increased by 16 basis points to 6.61%. These are the highest Cap Rates that we have seen since 2015. Average Days on Market increased by 43 days to 204 days as Net Lease inventory continues to rise and the market remains sluggish. The spread between Asking Price and Sales Price increased by 123 basis points as sellers are having to come to terms with the reality of market pricing in a softening market.

Interest rates stayed mostly flat throughout Q2 as the 10 year treasury started the quarter at 4.33% and ended at 4.36%. Cap rates are finally starting to catch up to the increased cost of capital and we expect that to continue throughout the year, even if interest rates begin to decrease slightly. There could be a favorable acquisition window in the last quarter of this year if interest rates begin to decrease, as there exists a plethora of net lease inventory and seller's continue to adjust their pricing demands lower in the attempt to transact. With that said, deal volume remained lower than average in Q2 and can be attributed to both a decrease in the pool of 1031 exchange buyers and the continuing higher costs of capital.

(continued on pg. 3)

Q2 2024

Sold Property Data

Median Cap Rate

6.58% (↑33bps)

Average Cap Rate

6.61% (↑16 bps)

Average Days On Market

204 Days (↑43)

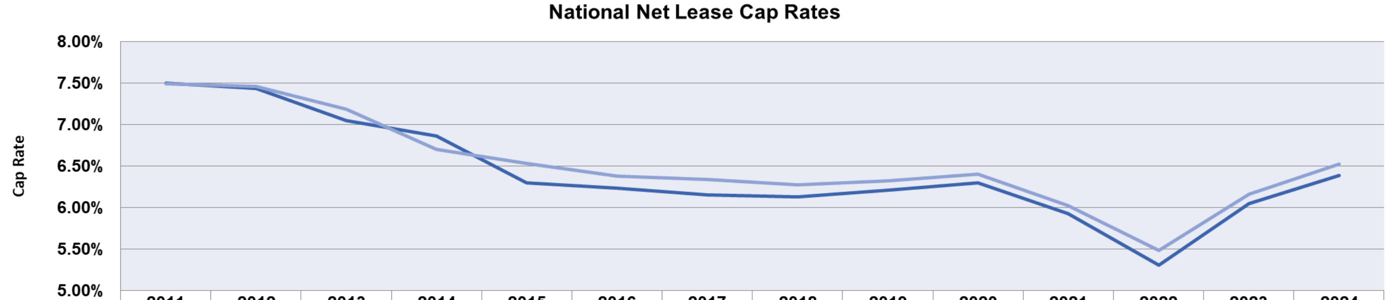
Average Base Term

10.9 Years (↓0.7)

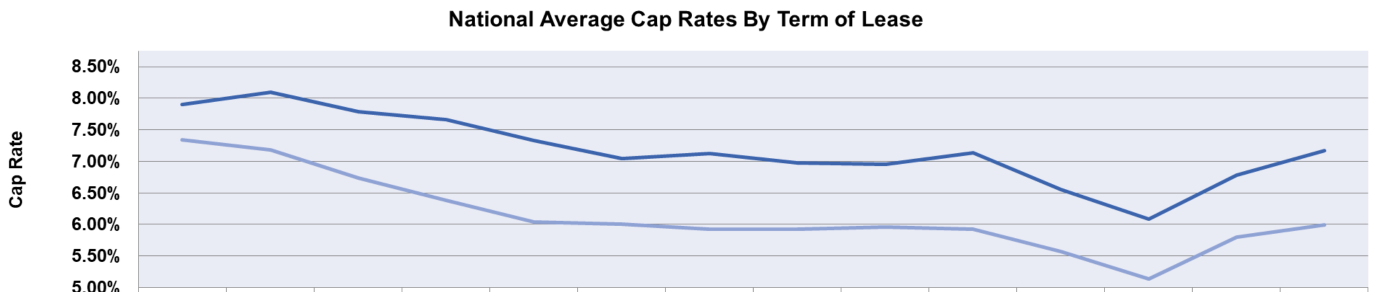
Ask Price vs. Sales Price

7.76% Under Asking (↑123 bps)

National Net Lease Cap Rates



	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%	6.39%
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%

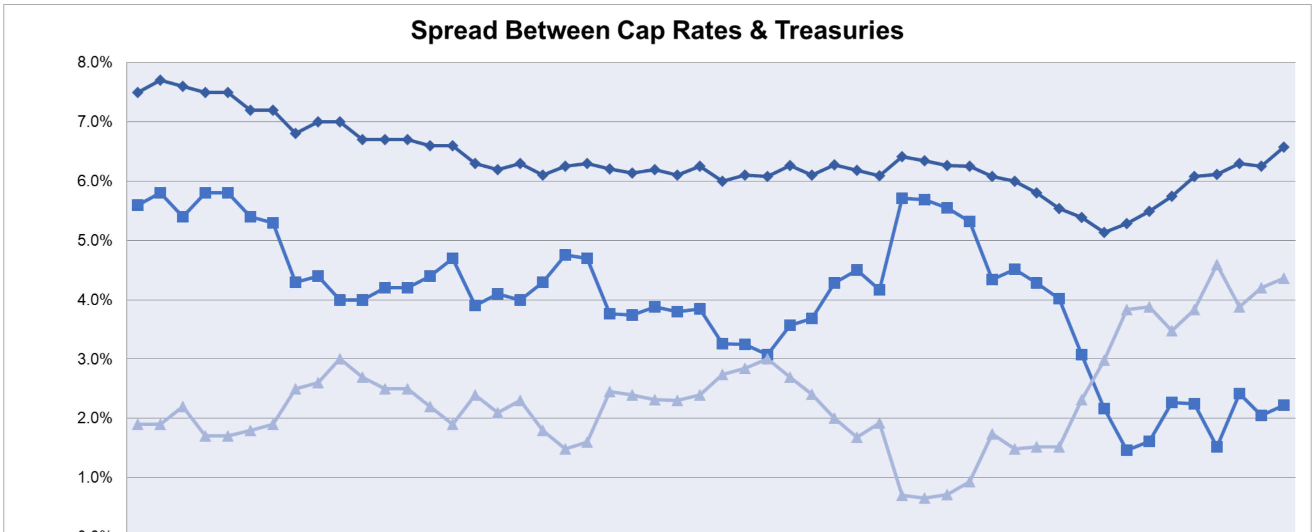


	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<10 Years	7.90%	8.09%	7.79%	7.66%	7.33%	7.04%	7.12%	6.98%	6.95%	7.14%	6.55%	6.09%	6.79%	7.17%
>10 Years	7.34%	7.18%	6.74%	6.38%	6.04%	6.00%	5.93%	5.92%	5.96%	5.93%	5.57%	5.13%	5.80%	5.99%

Discount stores and drug stores have seen the largest increases in cap rate over the past 1-2 years. While the market in general has reverted to 2015 pricing, both discount stores and drug stores have gone back to 2013 pricing, when cap rates were even higher. The market is currently flooded with Dollar Stores and due to this excess of supply, we expect the softening in this sector to continue. As for Drug Stores, there are fewer new builds coming to market as compared to past years as Drug Stores continue to close more locations than they open.

Moving into the second half of the year, there does seem to be some good news for Net Lease. After more than two years of increasing interest rates, the Net Lease market has finally seemed to have adjusted to this change. We think that there still might be a bit more upward Cap Rate movement in the second half of the year, but believe that we are already most of the way there. As mentioned earlier in this report, we could be entering the first favorable acquisition window that we have seen in a good while. The primary reasons for this are that for one, Net Lease assets are now being priced in line with historical Cap Rate metrics, secondly, there exists a gluttony of supply, with many seller's currently marketing their properties for 6 months or more with few buyer prospects, and lastly, interest rates seemed to have peaked, so even if you take on debt now, you will have an excellent opportunity to refinance at better terms in the near future. Morningstar predicts that the federal funds rate will move from the current range of 5.25%-5.5% to 4.75%-5.00% by the end of 2024, 3.00%-3.25% by the end of 2025, and 1.75%-2.00% by the end of 2026, after which the Fed will be done cutting. Likewise, they expect the 10-year Treasury yield to move down to an average of 2.75% in 2027 from its current yield of 4.20%.

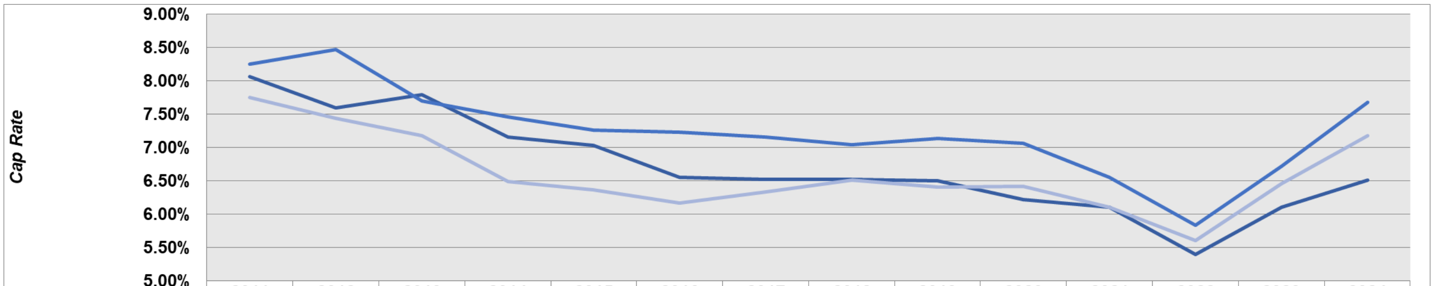
In summary, from a buyer's standpoint, there exists plenty of Net Lease supply to choose from, Cap Rates have moved towards historical norms, and interest rates look to be lowering in the near future. For seller's, while it has been hard to stomach decreasing asset values, but values are now beginning to flatten out, and the buyer pool should become more active once interest rates begin to decrease. We expect a slight uptick in transaction volume in the second half of this year and a more stable Net Lease market both in terms of transaction volume and asset pricing over the next 2 to 3 years.



	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
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
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
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

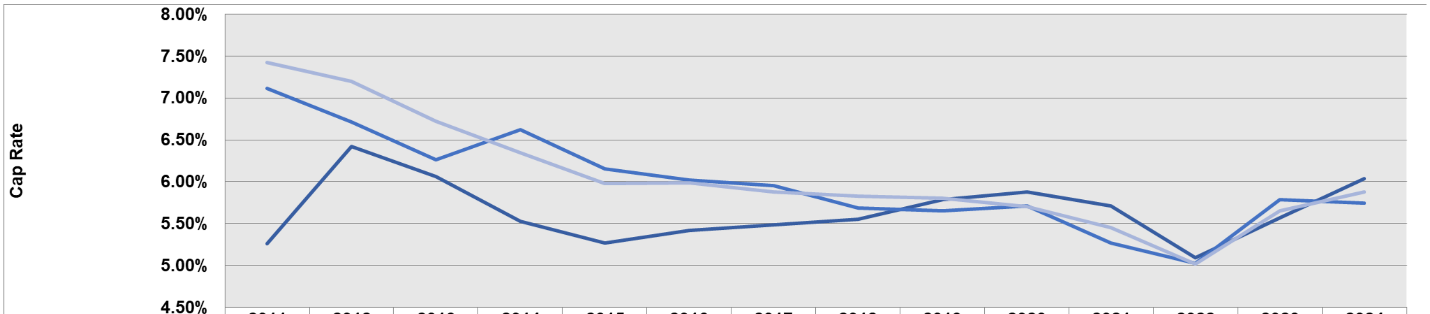
	Q1 '17	Q2 '17	Q3 '17	Q4 '17	Q1 '18	Q2 '18	Q3 '18	Q4 '18	Q1 '19	Q2 '19	Q3 '19	Q4 '19	Q1 '20	Q2 '20	Q3 '20	Q4 '20	Q1 '21	Q2 '21	Q3 '21	Q4 '21	Q1 '22	Q2 '22	Q3 '22	Q4 '22	Q1 '23	Q2 '23	Q3 '23	Q4 '23	Q1 '24	Q2 '24
Cap Rates	6.1	6.2	6.1	6.3	6.0	6.1	6.1	6.3	6.1	6.3	6.2	6.1	6.4	6.3	6.3	6.3	6.1	6.0	5.8	5.5	5.4	5.1	5.3	5.5	5.8	6.1	6.1	6.3	6.2	6.5
Spread	3.7	3.9	3.8	3.9	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	2.2
10-Year	2.4	2.3	2.3	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

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%	6.50%
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%	7.68%
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%	7.18%

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%	6.04%
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%	5.75%
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%	5.88%

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