

## INTRODUCTION

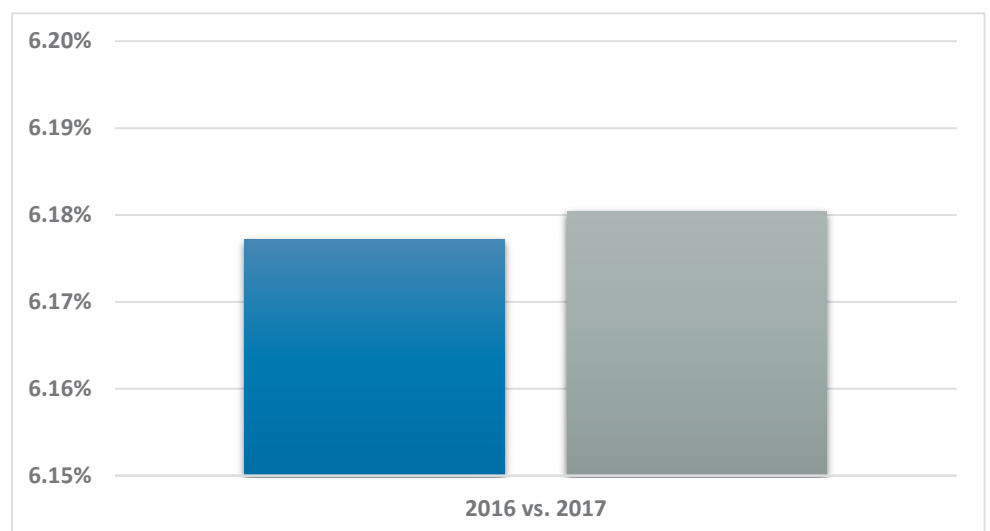
With attention grabbing headlines, strong market performance and ever-changing business landscapes, commercial real estate has been in the process of **reinventing itself to accommodate tech-motivated changes** in business operations as well as changes in retail shopping habits and restaurant dining. Although the rate of change is quick and widely felt, it is the most exciting and interesting time to be involved in commercial real estate with **stable cap rates from 2016 to 2017**.

Even with all the turmoil and perceived “the demise of retail” across the country, sales of single-tenant and small multi-tenant commercial properties held firm with both **manageable and acceptable increases and dips in cap rates that followed market and news trends**. For individuals who bought and sold single tenant deals, it was business as usual during this time.

## MARKET OVERVIEW

**National single-tenant net-leased cap rates in Q1-Q3 in 2017 stayed approximately the same as Q1-Q3 2016, with only a minor basis point increase.**

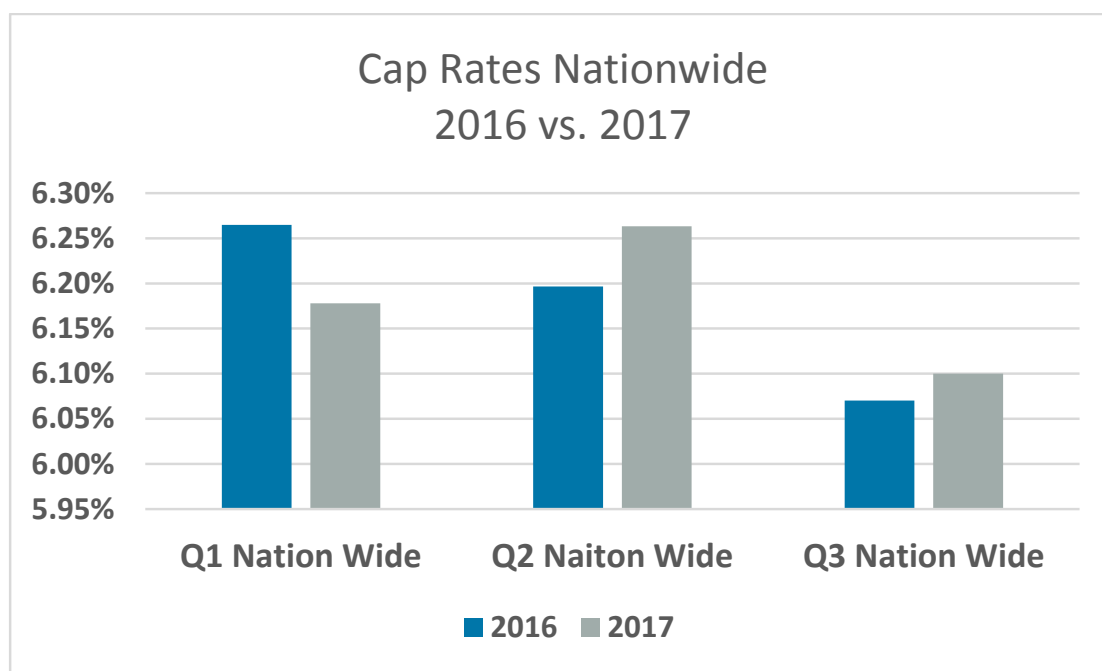
Fluctuations in cap rates varied quarter-to-quarter, but on average single-tenant properties traded at 6.18%. From 2016 Q3 to 2017 Q3, buyers have been more risk adverse due to macro market changes.



The market saw changes in interest rates and banks deleveraging, making it more difficult to get financing on a variety of asset classes. Buyers are not purchasing extremely low cap rates in the same volume as in previous years. **1031 exchange buyers will continue to seek net-leased single-tenant assets due to its tax benefits and passive income benefits.** Bifurcation of the attraction of properties will occur with a couple key factors such as length of term, credit of tenants and location. Premium pricing occurs with longer lease terms, better credit tenants and dense urban locations.

## NATIONWIDE CAP RATES QUARTER BY QUARTER 2016 VS. 2017: A COMPARISON

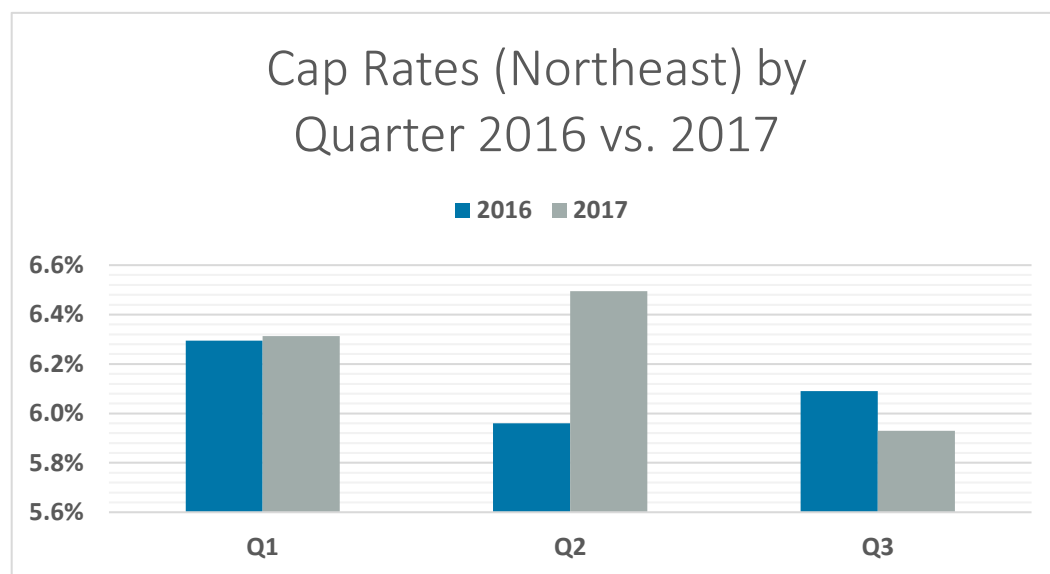
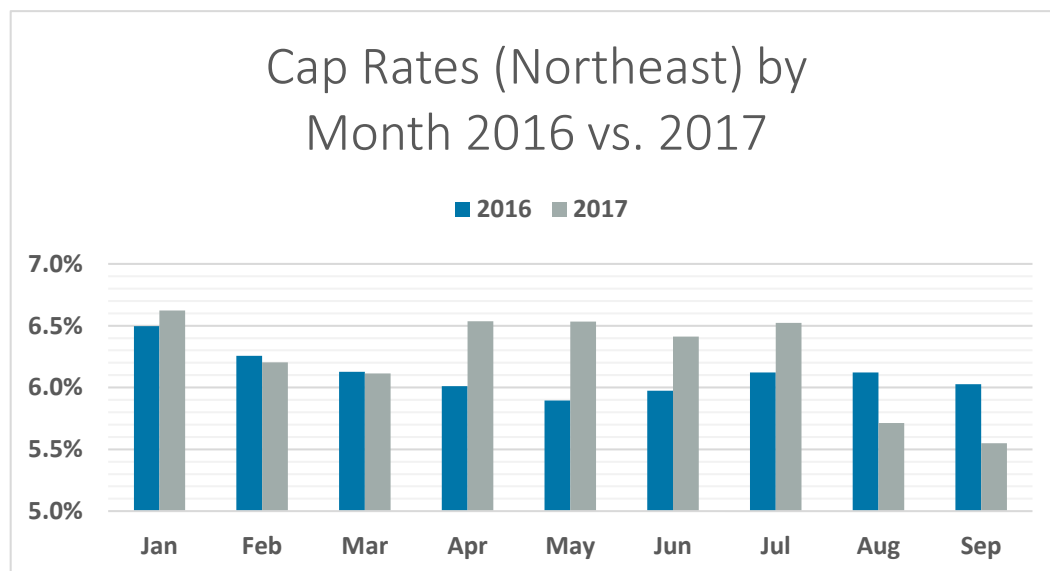
**Nationwide cap rates on average were stable between 2016 and 2017 with the average change less than 1 basis point.** However, the variability in cap rate quarter to quarter can be stated as fluctuation in market perception. Comparing Q1 '16 and Q1 '17, the cap rates decreased by 8 basis point. Comparing Q2 '16 and Q2 '17, cap rates increased 6 basis points. Comparing Q3 '16 and Q3 '17, cap rates increased 3 basis points.



## CAP RATES 2016 VS. 2017 A COMPARISON BY REGION

### NORTHEAST

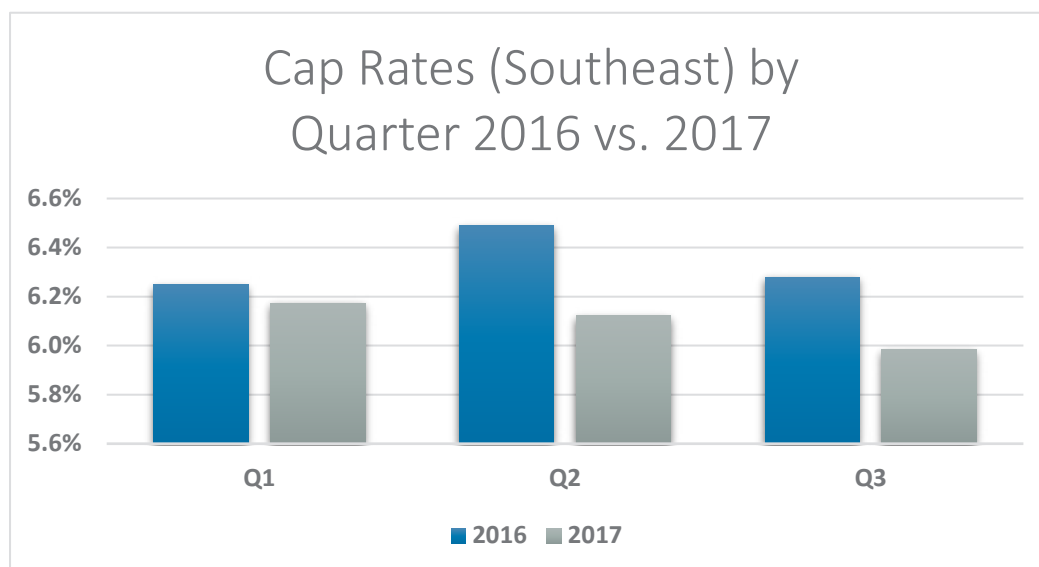
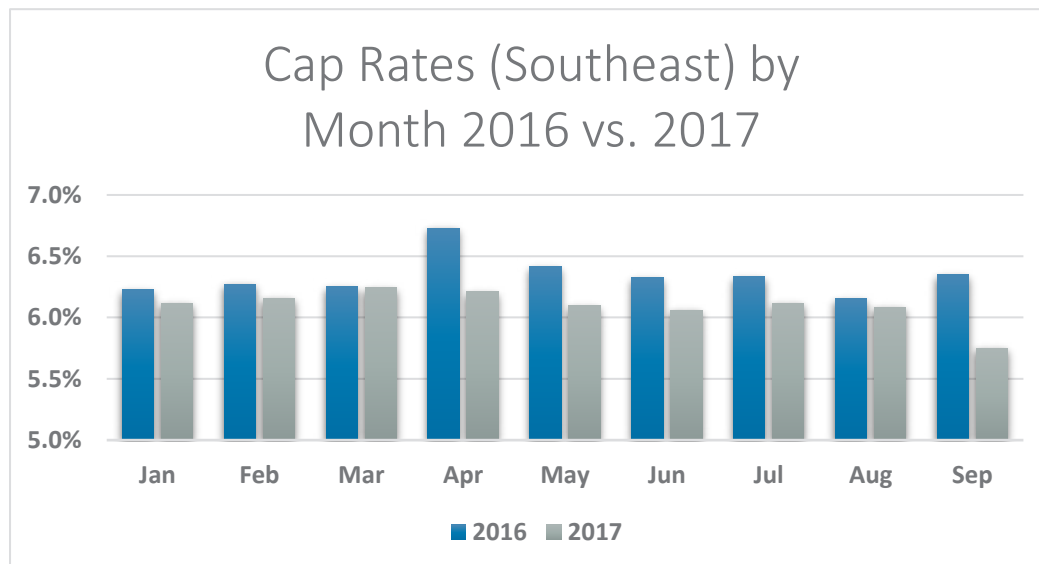
Net-leased sales in the Northeast were primarily in pharmacies, banks and dollar store sectors. Comparing Q1 '16 and Q1 '17, the cap rates increase by 2 basis point. Comparing Q2 '16 and Q2 '17, cap rates increased significantly by 53 basis points. Comparing Q3 '16 and Q3 '17, cap rates decreased 18 basis points.



## CAP RATES 2016 VS. 2017 A COMPARISON BY REGION

### SOUTHEAST

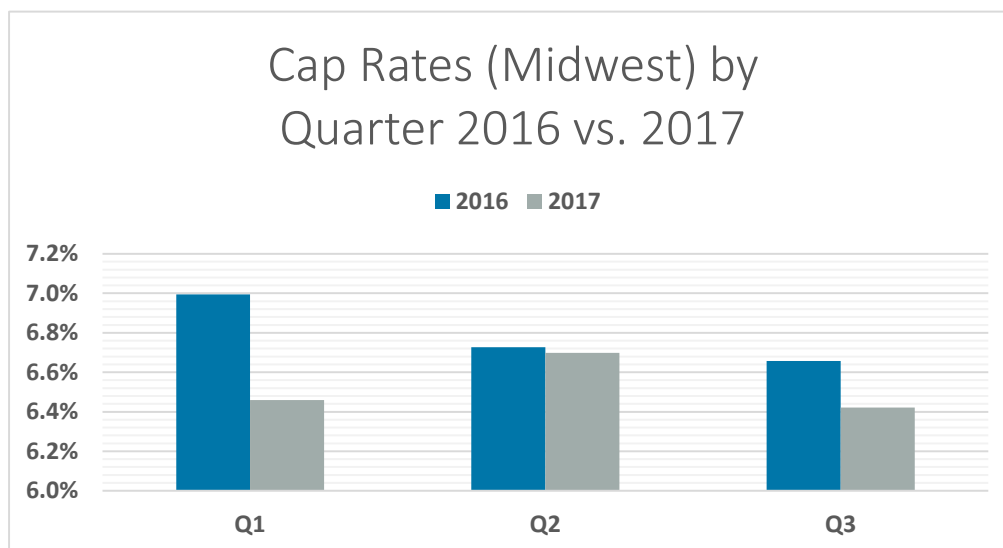
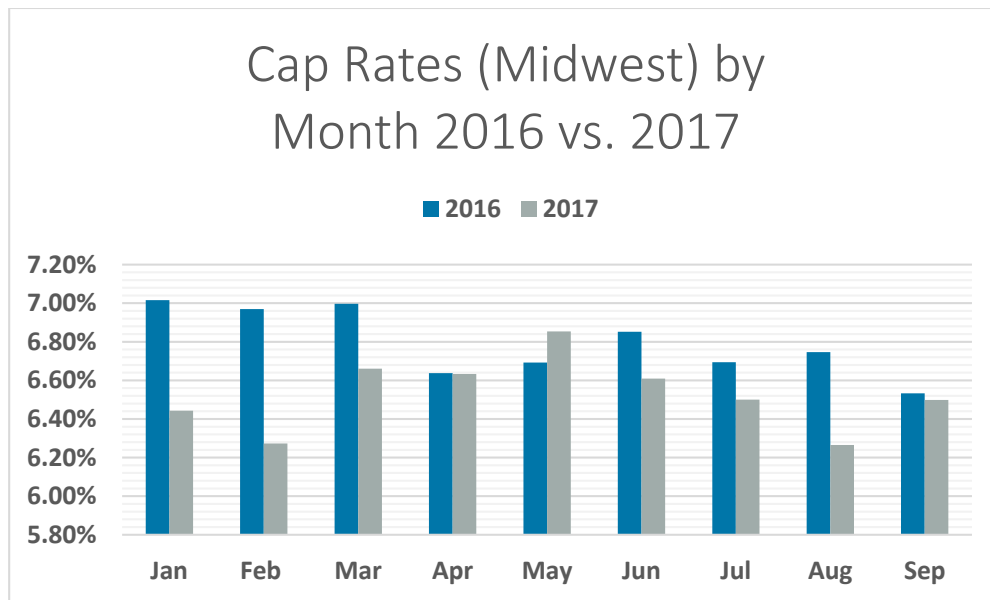
Net-leased sales in the Southeast were primarily in QSR and dollar store sectors. Comparing Q1 '16 and Q1 '17, the cap rates decreased by 8 basis point. Comparing Q2 '16 and Q2 '17, cap rates decreased significantly by 37 basis points. Comparing Q3 '16 and Q3 '17, cap rates decreased 29 basis points.



## CAP RATES 2016 VS. 2017 A COMPARISON BY REGION

### MIDWEST

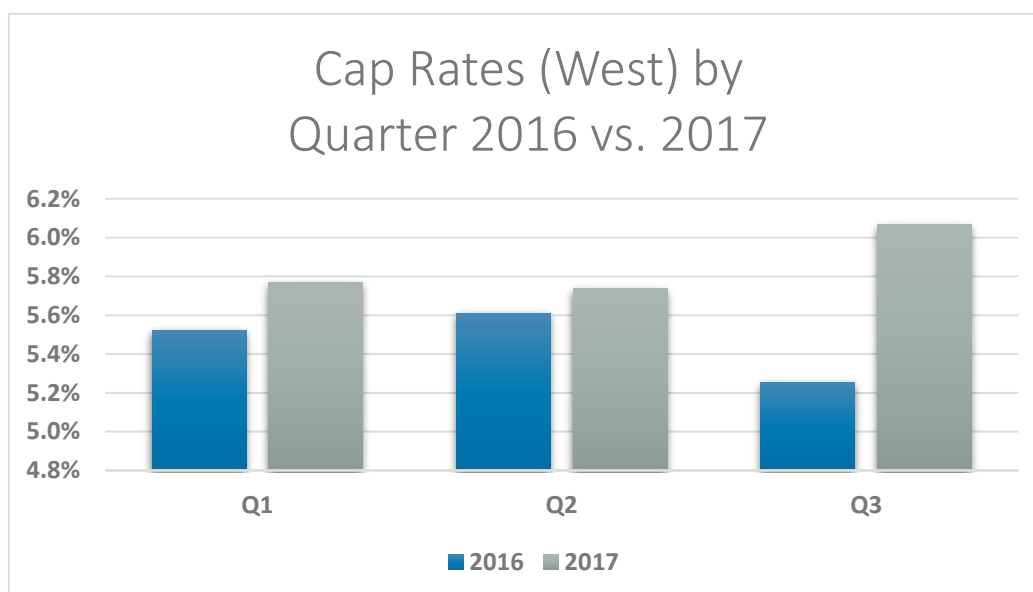
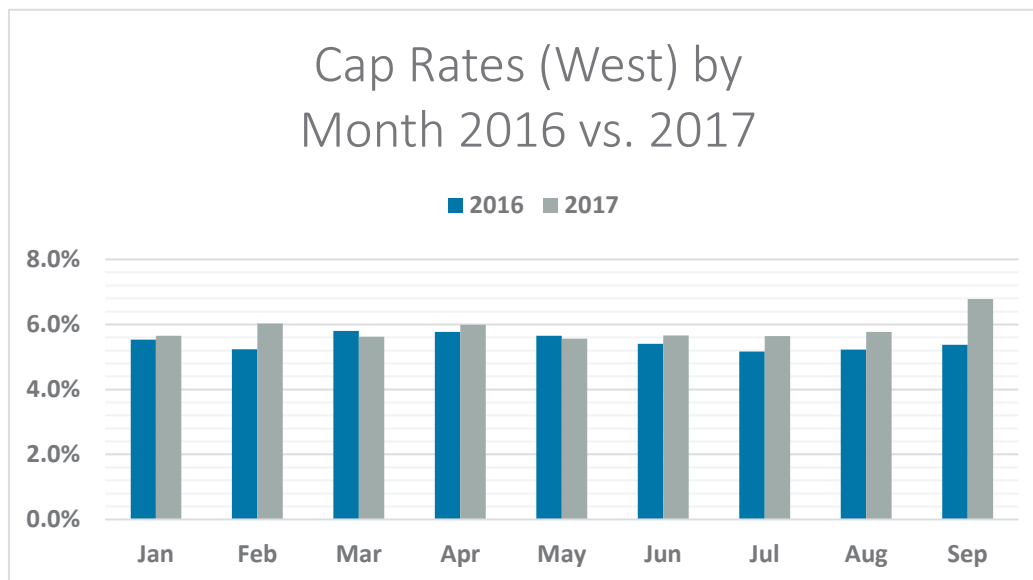
2016 net-leased sales in the Midwest leaned heavily on the dollar store, QSR and pharmacy sectors. 2017 net-leased sales in the Midwest were primarily pharmacies and casual dining restaurants. Comparing Q1 '16 and Q1 '17, the cap rates decreased significantly by 54 basis point. Comparing Q2 '16 and Q2 '17, cap rates decreased by 3 basis points. Comparing Q3 '16 and Q3 '17, cap rates decreased 24 basis points.



## CAP RATES 2016 VS. 2017 A COMPARISON BY REGION

### WEST

2016 net-leased sales in the West were primarily dollar stores, QSR and pharmacies. 2017 net-leased sales in the West were primarily pharmacies and casual dining restaurants. Comparing Q1 '16 and Q1 '17, the cap rates increased by 24 basis point. Comparing Q2 '16 and Q2 '17, cap rates increased by 13 basis points. Comparing Q3 '16 and Q3 '17, cap rates increased significantly by 81 basis points.



## IN SUMMARY

- Cap rates have held stable on average between Q1-Q3 '16 and Q1-Q3 '17
- Fluctuation in cap rates occurred region to region, with the west on average seeing a 40 basis point cap rate increase from '16 to '17
- Midwest and Southeast markets saw cap rates on average decrease by 26 basis points from '16 to '17
- The Northeast saw cap rates increase 53 basis points comparing Q2 '16 to Q2 '17; decrease 18 basis points Q3 '16 to Q3 '17
- Overall, single-tenant net-leased properties with **stable tenants remain a safe asset class**
- Though volume has decreased, 1031 exchange buyers looking for tax benefits and stable passive income will **continue to drive demand for this asset class**