



# CAP RATE REPORT

## Q1 2017

### **CALKAIN**

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## Q1 2017 Overview

The 1st Quarter of 2017, on the whole, was fairly quiet seeing a very slight compression of 11 bps in cap rates.

SECTORS	Q4 2016					Q1 2017					AVG CAP RATE (BPS)	LEASE YEARS (REM)
	AVG CAP	LOW	HIGH	AVG LEASE YEARS	SAMPLE SIZE	AVG CAP	LOW	HIGH	AVG LEASE YEARS	SAMPLE SIZE		
Automotive	6.68%	4.26%	9.00%	10.2	33	6.68%	5.00%	9.06%	10.8	57	-0.2	0.6
Bank	5.64%	4.36%	7.93%	10.5	15	5.27%	2.99%	8.50%	9.1	33	-37.4	(1.4)
Big-Box	7.08%	4.85%	9.14%	9.8	13	6.62%	4.93%	10.10%	10.0	27	-45.4	0.2
Casual Dining	6.18%	4.10%	12.00%	13.7	36	6.04%	4.25%	13.30%	13.3	61	-14.3	(0.4)
C-Store	6.14%	4.50%	9.17%	12.1	16	5.58%	4.50%	7.59%	11.3	15	-55.8	(0.9)
Dollar Store	7.11%	5.50%	10.04%	10.8	50	6.96%	5.23%	12.00%	11.0	85	-15.8	0.2
Educational	6.89%	6.47%	7.70%	7.8	3	7.38%	6.03%	8.50%	10.1	13	49.1	2.3
Medical	6.57%	5.58%	7.94%	12.4	4	6.38%	4.36%	8.00%	14.2	14	-18.7	1.9
Pharmacy	5.95%	4.62%	10.02%	16.0	36	5.96%	4.25%	9.01%	13.9	71	0.2	(2.1)
QSR	5.85%	3.28%	11.01%	12.9	84	5.69%	3.45%	13.00%	14.5	145	-16.5	1.6
Other Retail <sup>1</sup>	6.62%	4.74%	8.73%	11.9	24	6.94%	4.00%	15.00%	9.3	81	31.2	(2.6)
<b>Average</b>	<b>6.43%</b>			<b>11.6</b>		<b>6.32%</b>			<b>11.6</b>		<b>-11.2</b>	<b>(0.1)</b>
<b>Total Sample Size</b>					<b>314</b>					<b>602</b>		

<sup>1</sup>Other retail includes retailers who don't otherwise neatly fit into one of the above categories such as grocery stores, cellular stores, mattress stores, and fitness centers.

#### DISCLOSURES:

As part of our market research, we collect sales price, cap rate, and lease years remaining for all publicly advertised and sold STNL properties.

- We are not able to capture 100% of the off-market transactions that occur; however the nature of off-market transactions typically limits their value as true market comps.
- Sources include public records, sales announcements, Calkain sales, and appraiser obtained sales amongst others.
- Our collection process, while thorough, is not all encompassing and there may be biases in the data as it relates to geography, tenancy, or brokers involved in the transaction.
- Public records often lag behind when transactions actually close, months in some cases. Consequently the data supplied here for any given quarter is likely to miss a material amount of transactions that actually closed in it.

## Key Takeaways

### Bank

The banking sector saw falling cap rates and fewer years remaining. These are usually inversely related. In Q1, over a third the banks sold were in California, which typically has cap rates much lower than that of the rest of the country. This served to drag down the average.

### Big-Box

The Big-Box sector saw a compression of cap rates while years remaining stayed near constant. The driving factor in this change was the credit profile of the tenants. More higher credit rated deals traded hands.

### C-Store

In the C-Store sector, there was significant movement of the cap rate, (decrease of 56 bps). This was caused by an increase in the number of Wawa trades during Q1. Wawa's typically trade at a lower cap rate than other C-stores due to long term ground leases with a corporate guarantee from a very in demand tenant.

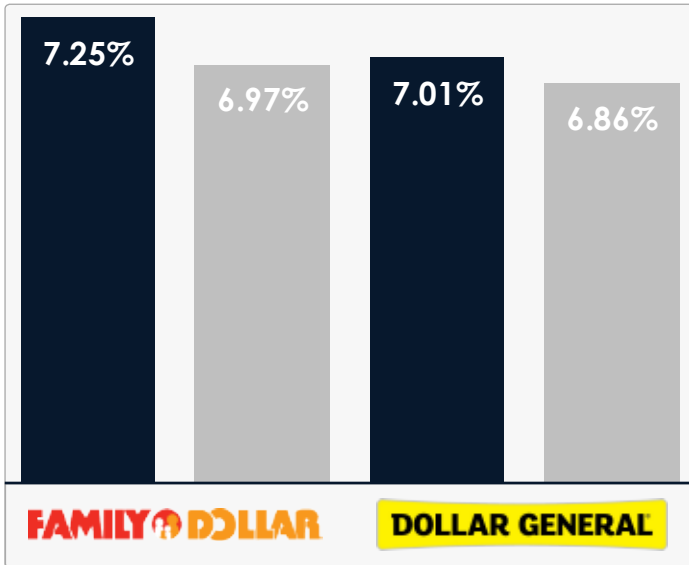
### QSR

The QSR sector saw a drop of 16.5 bps. This downward movement correlates closely with an increase in the number of lease years remaining on the deals that traded.

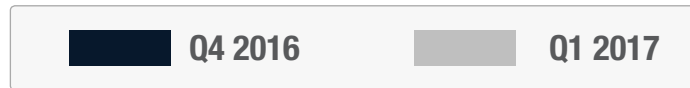
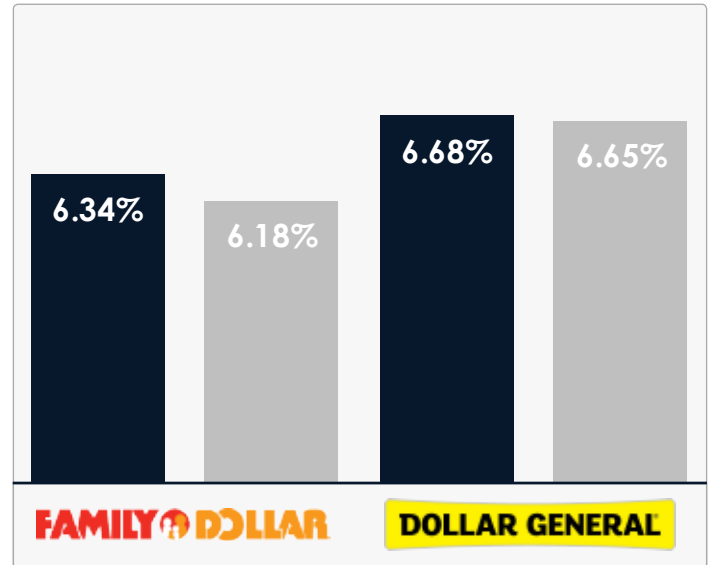


## Dollar Store

**National Average Cap Rates  
by Dollar Store**



**National Average Cap Rates  
(10+ Years Remaining)**



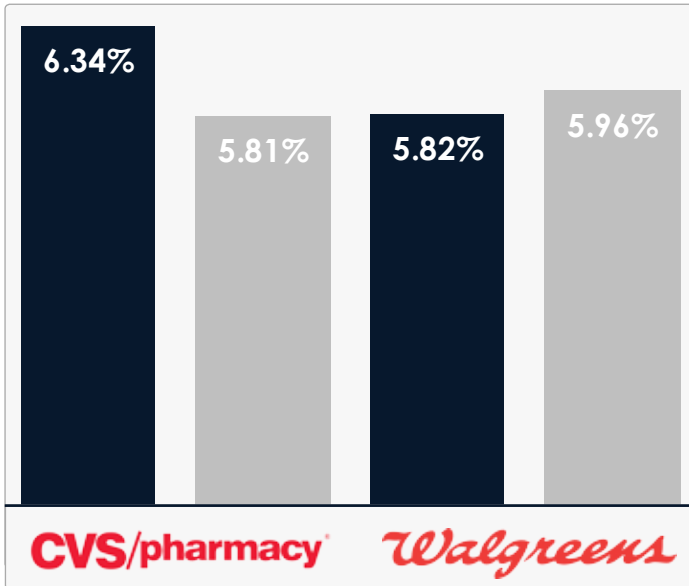
The Dollar Store sector average fell 15.8 bps while the number of years remaining stayed flat. The overall dollar store chart shown here is slightly misleading in that when we look closer we see that Family Dollar fell by 28 bps and Dollar General fell by 15 bps.

Focusing on just the deals that closed with at least 10 years remaining though (i.e. new or newer stores) we see that the cap rates were relatively flat. Family Dollar fell by 16 bps while Dollar General had almost no movement (decrease of 3 bps).

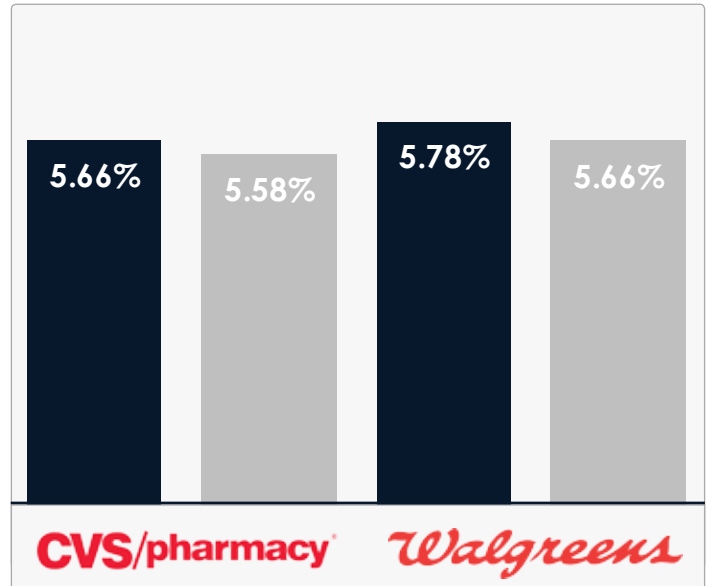


## Pharmacy

**National Average Cap Rates  
by Pharmacy**



**National Average Cap Rates  
(10+ Years Remaining)**



This sector's, overall, cap rates had little movement while the years remaining decreased by 2.1 years.

Looked at individually, CVS had a major cap rate compression while Walgreens gained 14 bps. These are very different from the little movement of the sector overall. When looking at prime deals that closed (10+ lease years remaining) CVS and Walgreens cap rate movement mirrors the sectors overall movement. CVS had an 8 bps cap rate compression while Walgreens had a slightly larger decrease of 12 bps.

The increase in the Walgreens cap rate can be attributed largely to its rise in the sales with less than 10 lease years remaining. In Q4, 20% of the sales of pharmacies with less than 10 years remaining were Walgreens while in Q1 nearly 60% of all shorter term deals were Walgreens. After filtering out these, the slight downward trend for Walgreens cap rates is indicative of the market overall.

Q4 2016

Q1 2017



## STNL Tenant Change in Average Cap Rates Quarter Over Quarter

TENANTS	Q4 2016	Q1 2017	CHANGE IN AVG CAP RATE (BPS)
	CAP RATE	CAP RATE	
Advance Auto Parts	6.10%	5.66%	-43.7
O'Reilly Auto Parts	5.90%	6.47%	57.2
Applebee's	5.44%	6.08%	64.7
Bob Evans	4.81%	4.75%	-6.0
Carrabba's	5.40%	5.14%	-26.3
Wawa	4.53%	4.53%	0.8
Dollar General	6.68%	6.65%	-3.1
Dollar Tree	7.10%	6.18%	-92.5
Family Dollar	6.34%	6.18%	-15.9
CVS	5.66%	5.58%	-8.4
Walgreens	5.78%	5.66%	-12.3
Arby's	6.30%	5.65%	-65.2
Burger King	5.79%	5.74%	-5.0
Dairy Queen	6.36%	6.11%	-24.5
Starbucks	5.19%	4.46%	-73.2
Wendy's	7.09%	5.29%	-179.1

\*All calculations are based upon available comps for each specific quarter with 10+ year lease term remaining. The total number of sale comps for respective tenants in each quarter also varies significantly.

### Advance Auto Parts



Advance Auto Parts Q1 trades had on average one more year remaining on lease term than their Q4 counterparts.

### O'Reilly Auto Parts



O'Reilly Auto Parts increase in cap rates is primarily due to older deals trading.

### Carrabba's



The Carrabba's trades in the past

two quarters have been 15 year NNN deals, as part of sale lease back effort by Bloomin' Brands.

### Dollar Tree



The Dollar Tree deals that closed in Q1 were primarily in high traffic areas, while the deals from Q4 were in locations with a significantly lower population and traffic count.

### Arby's



Arby's has seen a 65.2 bps decrease in cap rates, this major swing can be attributed to a few factors; the average lease term remaining increased by nearly 2 years, there were more corporate guaranteed leases that closed during Q1, and a ground lease closed in Q1, all putting downward pressure on the cap rate.

### Dairy Queen



In Q1, Dairy Queen's traded in Florida and the west coast premium markets, causing the cap rate to drop 24.5 bps.

### Starbucks



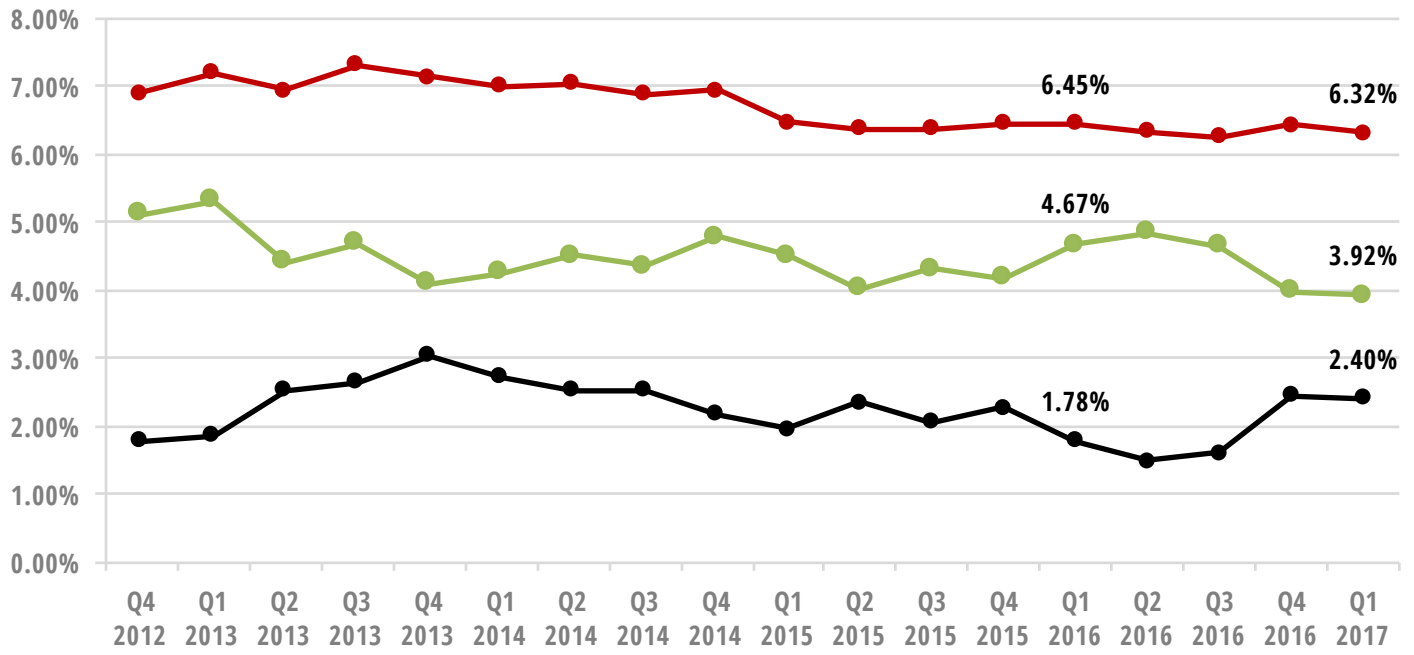
In Q1, Starbucks deals that closed were all in premium locations, resulting in very low cap rates.

### Wendy's



While it appears that Wendy's had a major cap rate compression, this is mainly the result of a single corporate ground lease transaction in California. Additionally, the Q4 number is artificially high due to one outlier in a small sample size.

## STNL Cap Rates vs 10 Year Treasury Rates



—●— STNL CAP RATES

—●— 10 YEAR TREASURY RATES

—●— Spread

### Cap Rates vs. 10 Year T-Bills

Single Tenant Net Lease (STNL) cap rate movement almost mirrored the 10 Year Treasury rates in this quarter.

Over the previous 4 quarters, the spread of STNL cap rates and 10 Year Treasury rates has been narrowing. The year over year spread has fallen by 75 bps.

Q1 marks the second quarter in a row with a spread below 4%.



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