CALKAIN
AMERICA'S NET LEASE COMPANY®

NET LEASE REPORT

PHARMACY SECTOR

DECEMBER 2019

Amongst the various sectors in the net lease world, the pharmacy sector continues to be a reliable and safe area for investors to put their money. Factors such as long-term leases with guarantees from rated companies and multiple options for the tenant to extend their lease all point to why investors are drawn into the pharmacy sector. Currently we have Walgreens, CVS, and Rite Aid as the three largest tenants in the sector, each with their own draw for people looking to get involved in the sector.

These three tenants will sign long-term leases (20+ years), with additional options that can stretch out to 50 years on some deals. These tenants do differ however on the subject of rental escalations throughout the initial term though. Rite Aid is more likely to have these increases in the initial term, usually increases of 5% every 5-10 years as well as in the options, while CVS and Walgreens will typically have increases built into just the options. Additionally, the types of deals will vary between triple-net (NNN) and double-net (NN), requiring investors to weigh the risks and rewards of both when making their decision on which property to purchase.

Credit wise, Walgreens and CVS are the two largest companies and are rated very similar, BBB by S&P and Baa2 by Moody's, with the only difference being that Moody's outlook is negative for CVS while it is stable for Walgreens. Coming off the major sale of almost 2,000 stores last year, Rite Aid is still trying to clean itself up financially, and we can see this with their higher than average cap rates on sales. Rite Aid is rated B by S&P meaning that they are not considered investment grade.

Data shows that the sector is well positioned going into the future. They will remain a part of Americans' everyday lives as they continue to need to fill and pick up prescriptions.

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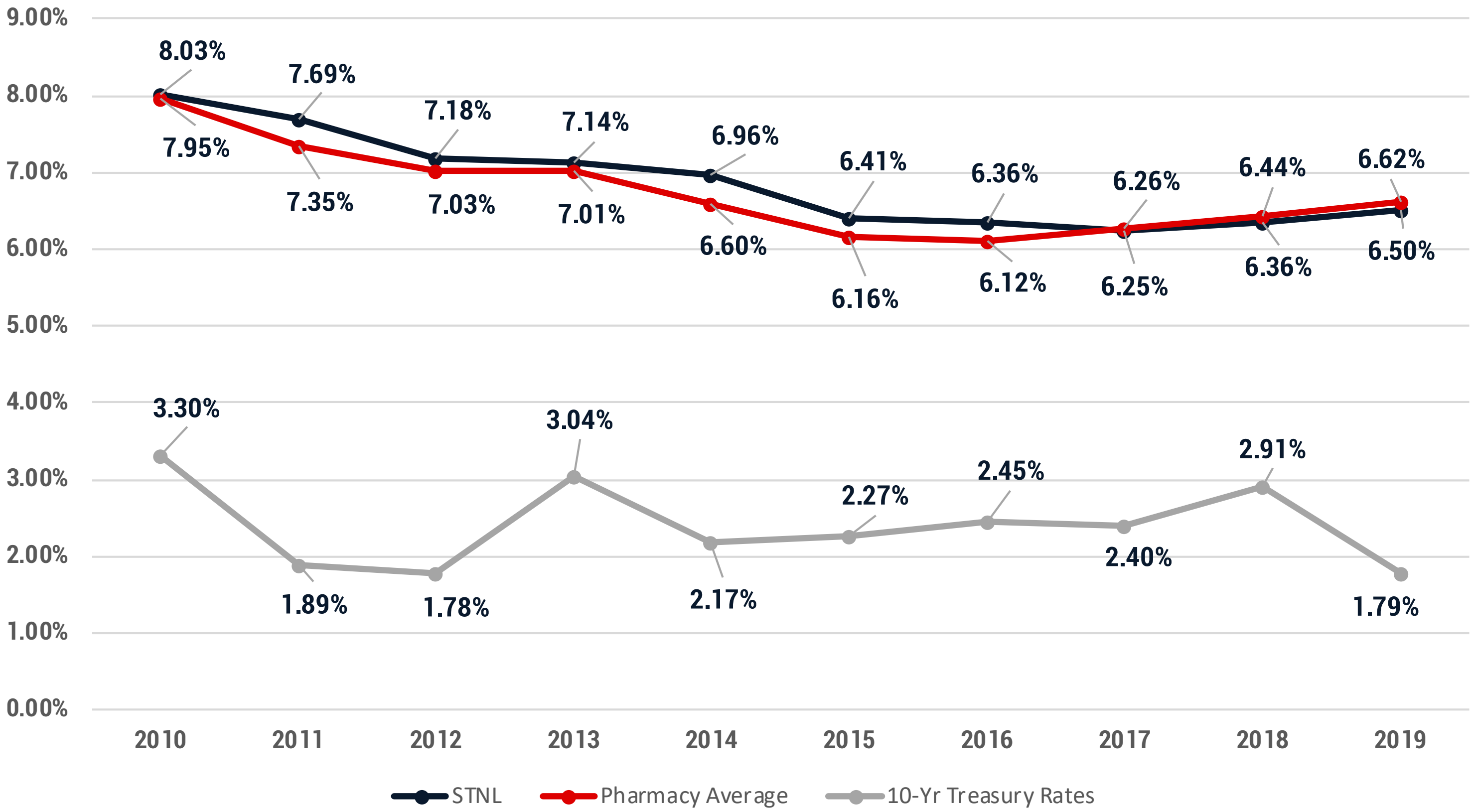
STNL Cap Rates vs. Pharmacy Sector Average vs. 10-Year Treasury Rates



TENANTS	MOODY'S	S & P	AVERAGE CAP
CVS	Baa2	BBB	6.13%
RITE AID	B3	B	7.94%
Walgreens	Baa2	BBB	6.55%

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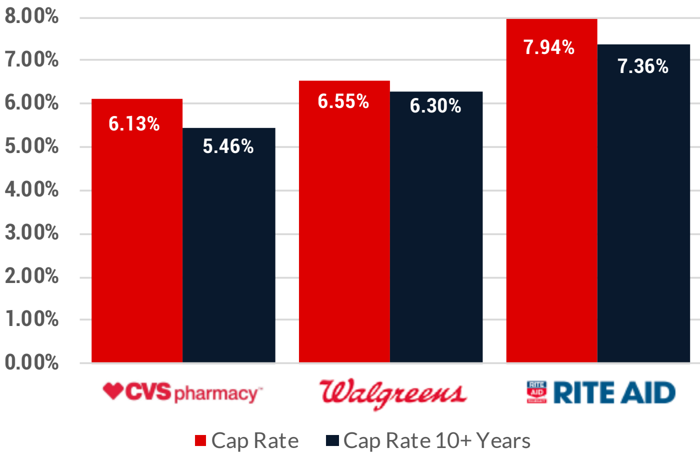
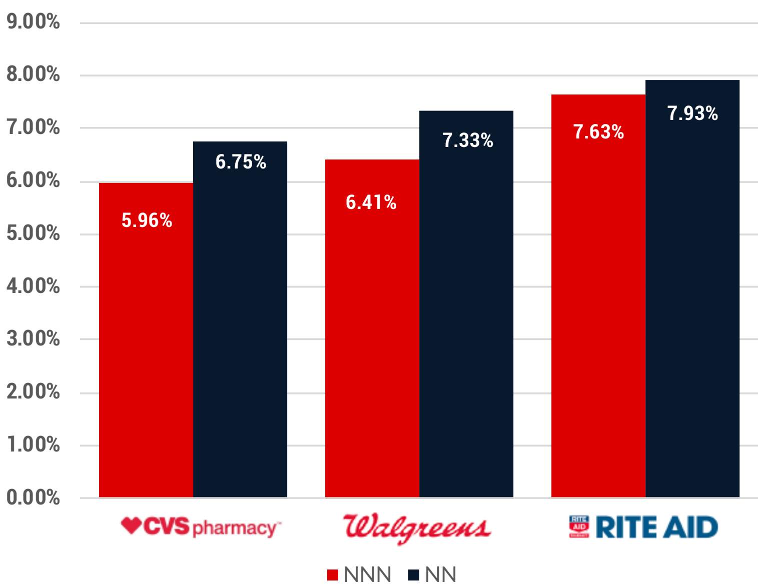
Cap Rates vs Cap Rates with 10+ Years



Cap Rates by Tenant:

As mentioned earlier, Rite Aids have been trading at a higher cap rate compared to competitors due to financial concerns, but they also have a shorter average term remaining on their deals at 7.79 years. This is compared to the average term length of Walgreens at 11.5 years, and CVS at 15.4 years thus causing even more of a premium for those two tenants. Another factor that helps bring down Walgreens and CVS average cap rates is that they had significantly more stores sold in premium markets, such as Florida and California, compared to Rite Aid.

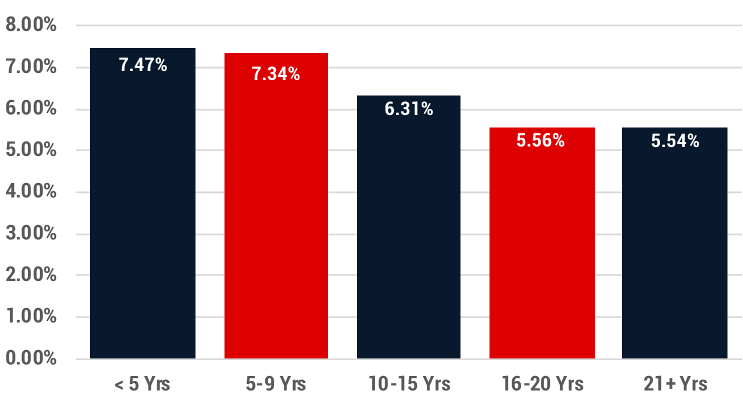
NNN vs NN Average Cap Rates



Cap Rates by Lease Type:

When dealing with Pharmacies, investors will most likely be dealing with either NNN or NN leases. NNN leases will absolve the owner of any responsibilities pertaining to the maintenance of the roof, structure, and parking lot while NN leases will typically require the owners to be responsible for at least maintaining the roof and structure. As a result, it is easy to see why NNN and NN deals will generally trade at different cap rates, with a premium for NNN deals. The age of the property, which we can infer from the time remaining on the lease, is also a significant consideration when evaluating a NN property. Roofs and parking lots have lifespans that range from 15-20 years depending upon geographical location and how well they are maintained.

Cap Rates by Term Length



Cap Rates by Term Remaining:

When looking at properties to invest their money in, one of the first things buyers will look at is how much time is left on the lease. With a longer lease, obviously, there is more time to collect a guaranteed stream of rent. This also means delaying any concerns about what may happen should the tenant leave and having to replace them. Having the cushion of a longer remaining term generally means that investors are willing to pay more, which will drive the cap rate down.

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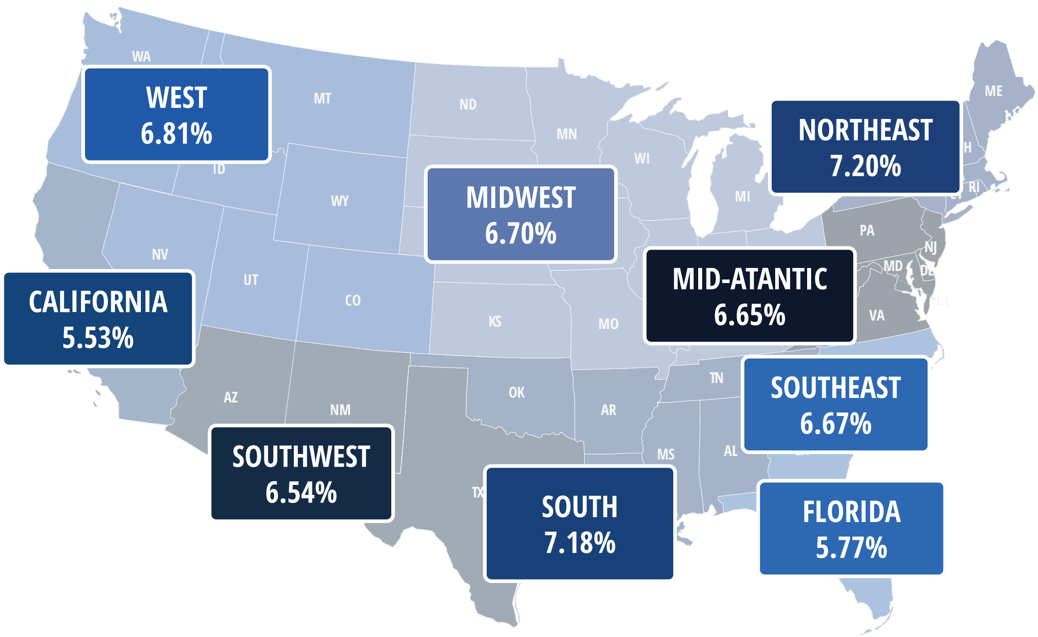
DECEMBER 2019

Cap Rates by Region:

In 2019, California continues to have the lowest cap rates at 5.53% as it is one of the most premium markets the country along with Florida, who had the second lowest rate at 5.77%. These two did not have the highest average term remaining, but constant demand for properties in these states will keep rates low. We can also see the Southeast and Southwest regions being on the lower side of the cap rate range as well, and that can stem from the fact that both of those regions average term remaining was 10+ years. markets, such as Florida and California, compared to Rite Aid.



Looking to Buy or Sell a Pharmacy?

Click Here to Contact Our Experts.

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 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.

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