

BIG BOX ASKING CAP RATE COMPARISON

Q4 2016 (Previous)	Q4 2017 (Current)	Basis Point Change
6.50%	6.75%	+25

BIG BOX VS. NET LEASE SECTOR MEDIAN ASKING PRICE

Sector	Q4 2016 (Previous)	Q4 2017 (Current)
Big Box	6.50%	6.75%
Retail Net Lease Market	6.19%	6.07%
Differential (bps)	+31	+68

BIG BOX PROPERTIES MEDIAN ASKING PRICE

Sector	Average Price	Average Price Per SF
Investment Grade	\$11,423,432	\$124 PSF
Non-Investment Grade	\$8,257,000	\$176 PSF

BIG BOX MEDIAN ASKING CAP RATE BY CREDIT RATING

Investment Grade Cap Rate	Non-Investment Grade Cap Rate	Basis Point Spread
6.42%	6.75%	33

MARKET OVERVIEW

Cap rates in the single tenant net lease big box sector increased by 25 basis points to 6.75% from the fourth quarter of 2016 to the fourth quarter of 2017. The rise in cap rates can be primarily attributed to investor concern about the evolving square footage demands for big box retailers. For example, Kohl's announced that they were decreasing the footprint of their stores and would plan on bolstering their digital offerings.

With investor concern lingering over big box properties, tenant credit proved to play a big role in investor demand. Big box properties leased to investment grade properties were priced at a 33 basis point premium over non-investment grade properties. This spread more than doubled from the prior year. In the fourth quarter of 2017, investment grade big box properties only accounted for 25% of the total supply. Other investor concerns include the backfill potential of big box properties. The re-leasing costs associated with big box properties tend to be higher due to required tenant improvement allowances and the possibility of dividing space for multiple smaller tenants in the future.

As cap rates continued to rise for big box properties in the fourth quarter of 2017, the spread between net lease big box properties and cap rates for the overall net lease retail market widened. In the fourth quarter of 2017, big box properties were priced at a 68 basis point discount to the overall net lease retail market, up from 31 basis points the prior year. Furthermore, their high price points limit the size of the buyer pool. The median asking price for net lease big box properties was \$8.9 million in the fourth quarter of 2017.

The single tenant net lease big box sector will remain active as both individual and institutional investors seek net leased properties with higher yields than the overall net lease retail sector. However, concern for many big box retailers will force investors to carefully scrutinize the residual real estate and alternative uses the properties can achieve. Additionally, investors will carefully monitor retailer's store prototypes, especially as it relates to square footage as retailers continually shift the size of their stores.

THE NET LEASE BIG BOX REPORT

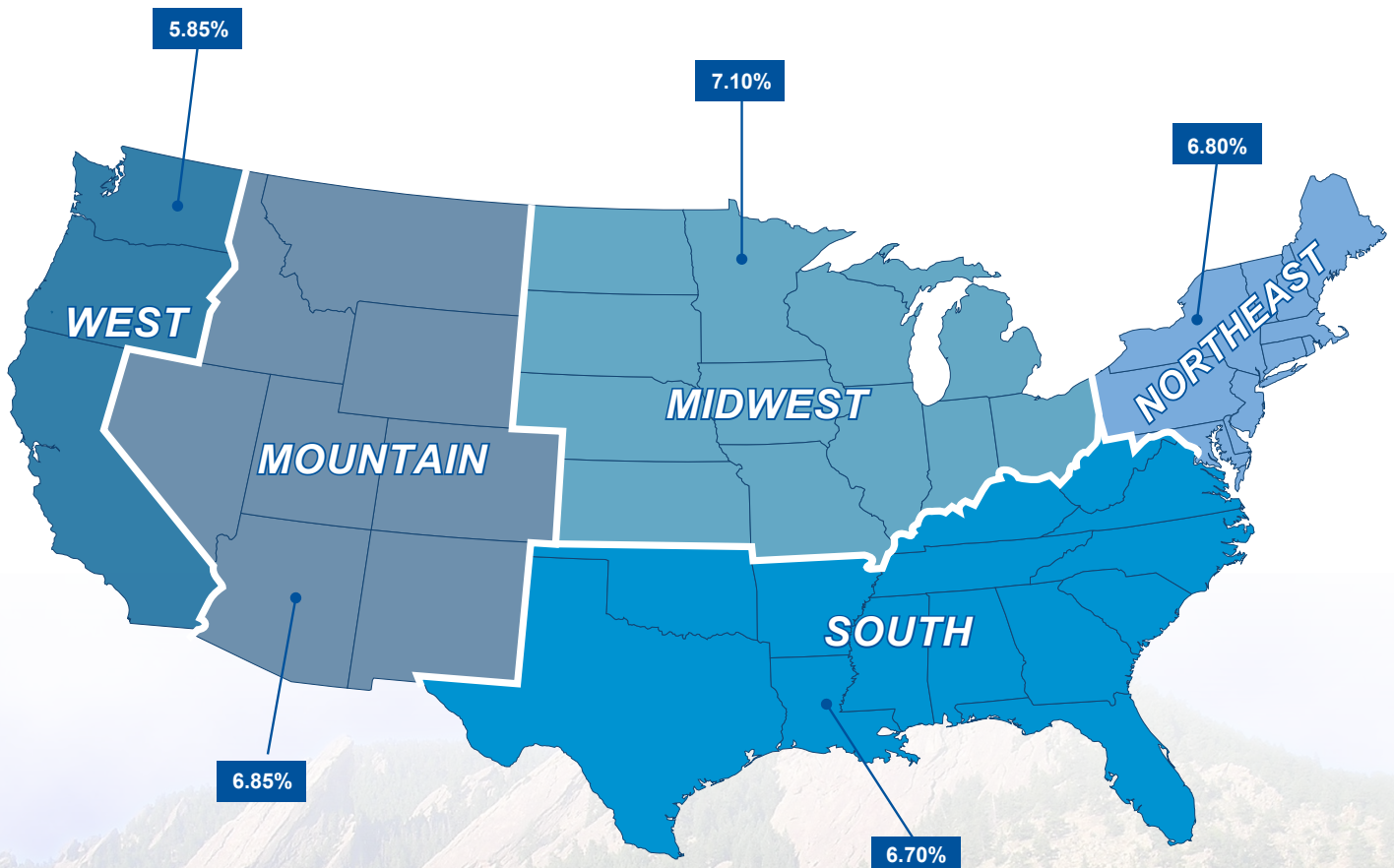
MEDIAN ASKING CAP RATES BY SQUARE FOOTAGE

Sector	SF Range	Cap Rate	Percentage of Market
Junior Big Box	20,000 - 40,000	6.75%	46%
Mid Box	40,000 - 80,000	6.49%	29%
Large Format	Over 80,000	6.75%	25%

MEDIAN ASKING CAP RATE BY LEASE TERM REMAINING

Years Remaining	Investment Grade	Non-Investment Grade
16-20 Years	5.50%	5.75%
11-15 Years	5.80%	6.45%
6-10 Years	6.60%	6.90%
5 Years & Under	7.50%	8.10%

BIG BOX MEDIAN ASKING CAP RATE BY REGION



MEDIAN ASKING CAP RATES BY YEAR BUILT

Sale Date	Tenant	City	State	Price	Price/SF	Cap Rate	Lease Term Remaining
Nov-17	Lowe's Home Improvement	Torrance	CA	\$47,500,000	\$373	5.00%	11
Nov-17	Mariano's Fresh Market (Kroger)	Palatine	IL	\$29,025,000	\$407	5.76%	16
Oct-17	LA Fitness	Baldwin Park	CA	\$15,800,000	\$351	5.01%	20
Dec-17	Lowe's Home Improvement	Wheelersburg	OH	\$12,100,000	\$93	6.26%	9
Oct-17	Walmart Neighborhood Market	Albany	GA	\$10,559,000	\$252	5.60%	16
Nov-17	The Home Depot	Midland	MI	\$10,200,000	\$100	7.85%	6
Dec-17	Sprouts Farmers Market	Arvada	CO	\$10,100,000	\$361	5.50%	14
Nov-17	LA Fitness	Tampa	FL	\$9,000,000	\$257	6.61%	14
Dec-17	Hobby Lobby	Warner Robins	GA	\$7,192,307	\$131	6.50%	10
Dec-17	Tractor Supply Co.	Turlock	CA	\$6,500,000	\$299	5.75%	13
Oct-17	Giant Eagle	Columbus	OH	\$5,350,000	\$180	7.08%	4
Oct-17	Tractor Supply Co	Tucson	AZ	\$5,075,000	\$234	6.00%	15
Oct-17	Hobby Lobby	Cincinnati	OH	\$4,300,000	\$75	6.99%	10
Oct-17	Harbor Freight	Palmdale	CA	\$2,650,000	\$107	6.32%	11
Nov-17	Office Depot	London	KY	\$2,648,800	\$129	8.50%	8

BIG BOX ASKING CAP RATE COMPARISON

Tenant	Total Number of Stores	Credit Rating
24 Hour Fitness	400+	B
Academy Sports + Outdoors	250+	Not Rated
Albertsons	2,300+	B+
Bed Bath & Beyond	1,000+	BBB
Best Buy	1,250+	BBB-
BJ's Wholesale	215	B-
Dick's Sporting Goods	700	Not Rated
Hobby Lobby	800+	Not Rated
Kmart	478	CC
Kohl's	1,155	BBB-
Kroger	4,400	BBB
LA Fitness	695	Not Rated
Lowe's Home Improvement	1,860	A-
Petco	1,400+	B-
PetSmart	1,322	CCC+
Ross Dress for Less	1,627	A-
Shopko	382	Not Rated
Staples	1,200+	B+
The Home Depot	2,250	A
Walmart Stores	4,672	AA
Whole Foods Market	470+	A+

FOR MORE INFORMATION

AUTHOR

John Feeney | Vice President
john@bouldergroup.com

CONTRIBUTORS

Randy Blankstein | President
randy@bouldergroup.com

Jimmy Goodman | Partner
jimmy@bouldergroup.com

Asher Wenig | Vice President
asher@bouldergroup.com

Scott Harris | Analyst
scott@bouldergroup.com

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