

# Q2 2020 Cap Rate Report



## Quick Stats



**6.39%**

Average Cap



**13.5 Yrs**

Average Lease  
Years (2020)

## Just a Few 'Essential' Sectors Unscathed Amid Widespread Volume Decline

The impacts of the global coronavirus pandemic continued to set in during the second quarter of 2020, with volume falling significantly for the second straight quarter. In Q1, at the onset of the pandemic, fear-stricken investors decreased their activity across all sectors. In Q2, with three additional months' experience operating in a pandemic, investors are proceeding with caution in sectors that are deemed highly essential and are dominated by strong credit tenants.

Overall activity fell 37% in Q2, from 416 to 264 trades, piling onto the 27% drop in Q1, but cap rates held surprisingly steady and rose only 3 basis points on average. The fact that cap rates haven't risen in the face of such chilled activity suggests that investors and lenders are proceeding on only the highest-credit and best-leased deals. Supporting that theory, average remaining lease terms increased for every major sector, and in most sectors, the largest industry player accounted for an elevated share of activity.

The sectors that fared the best were Dollar Stores and Pharmacies. Both are deemed essential businesses virtually everywhere, and both are dominated by a few large, credit tenants, both of which increase their appeal during an economic crisis and particularly a pandemic.

## Sectors in Brief

	Q1 2020					Q2 2020						
Sectors	Avg Cap Rate	Low	High	Avg Lease Yrs	Sample Size	Avg Cap Rate	Low	High	Avg Lease Yrs	Sample Size	Δ Avg Cap Rates (bps)	Δ Lease Years (Rem)
Automotive	6.38%	4.00%	11.90%	10.4	52	6.29%	4.81%	9.26%	11.2	21	-8.7	0.8
Bank	6.03%	4.55%	8.23%	8.3	18	6.15%	4.42%	8.40%	9.8	14	12.1	1.5
Big-Box	7.28%	6.05%	10.01%	5.5	9	No Trades Observed						
Casual Dining	6.30%	4.49%	7.83%	14.2	31	6.40%	4.89%	7.70%	16.0	7	10.2	1.8
C-Store	5.00%	4.03%	6.50%	12.5	19	6.14%	4.00%	10.80%	13.0	13	113.8	0.5
Dollar Store	6.94%	5.85%	9.23%	11.8	64	7.11%	5.74%	10.34%	12.8	77	17.1	1.0
Educational	6.48%	5.87%	7.09%	15.0	2	No Trades Observed						
Medical	7.22%	5.44%	9.40%	9.2	23	6.92%	5.80%	7.85%	12.7	7	-29.4	3.5
Pharmacy	6.93%	4.70%	15.40%	13.4	43	6.31%	4.67%	9.00%	13.8	43	-62.9	0.4
QSR	5.57%	3.12%	9.10%	14.5	123	5.72%	4.10%	7.73%	16.6	49	15.2	2.1
Other Retail	7.45%	4.56%	12.39%	12.3	32	6.44%	4.24%	8.75%	10.6	32	-100.3	-1.7
Average	6.36%			10.5		6.39%			13.5		-11.7	0.8
Sample Size					416					264		

<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.

The Dollar Store average cap rate increased 17.1 basis points despite a 1-year increase in average remaining lease term. This was the only sector to see an increase in activity quarter-over-quarter, from 64 trades to 77, and it overtook QSR as the largest sector by volume.

Pharmacies saw a drop of 62.9 basis points in average cap rate while average lease term increased by 0.4 years. The sector had 43 sales, equaling last quarter and making it the only sector besides Dollar Stores that did not slow down in Q2.

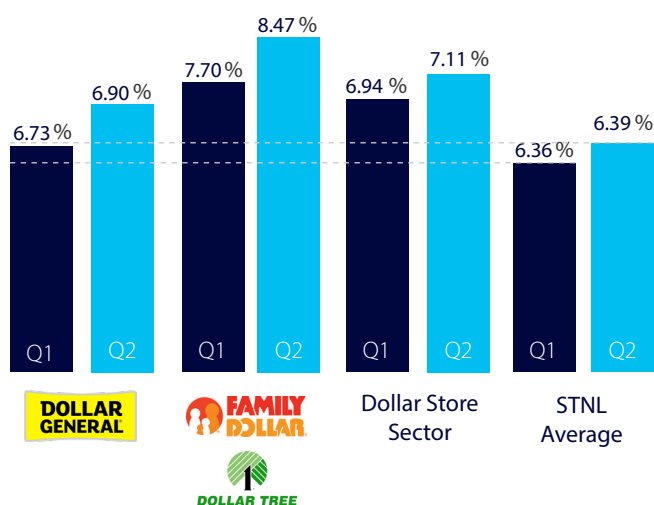
Cap rates on Automotive sales decreased 8.7 basis points, as average term increased 0.8 years. This sector saw one of the sharpest declines in activity, from 52 trades in Q1 to just 21 in Q2.

Medical cap rates dropped 29.4 basis points on average. Volume dropped from 23 sales to 7 quarter-over-quarter, but the average lease term among those that did trade was 12.7 years, 3.5 years longer than last quarter.

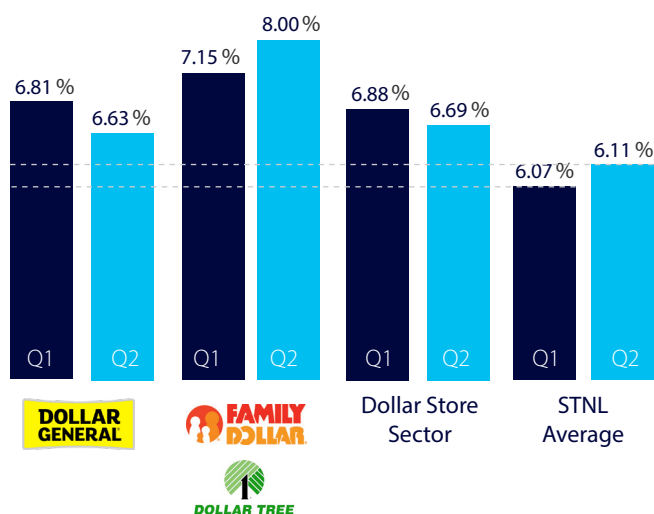
## Markets in Depth | Dollar Store

Cap rates in the Dollar Store sector rose 17 basis points to 7.11%, though cap rates on 10+ year deals fell 19 basis points to 6.69%. Dollar Stores became the largest sector by volume with 77 trades, and Dollar General, the biggest name in the business, accounted for an increased share – 84% compared to 78% last quarter.

### Dollar Store Cap Rates



### Dollar Store Cap Rates w/ 10+ Years

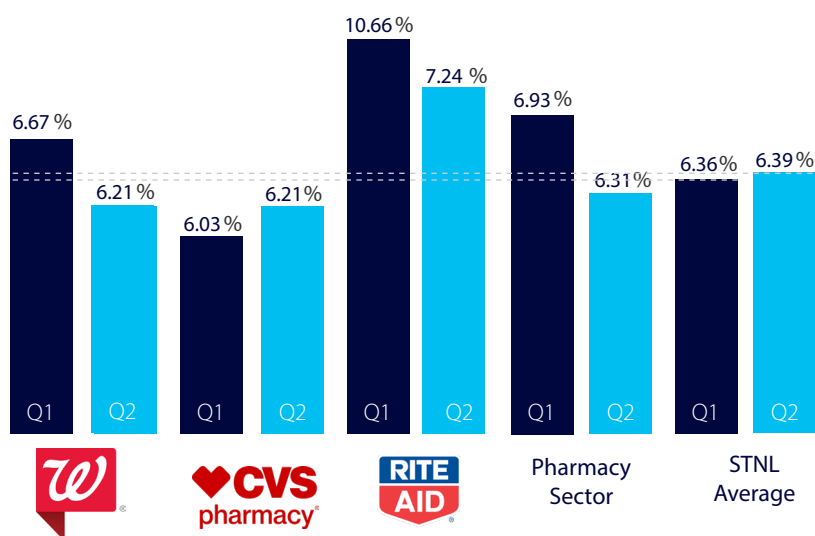


## Markets in Depth | Pharmacy

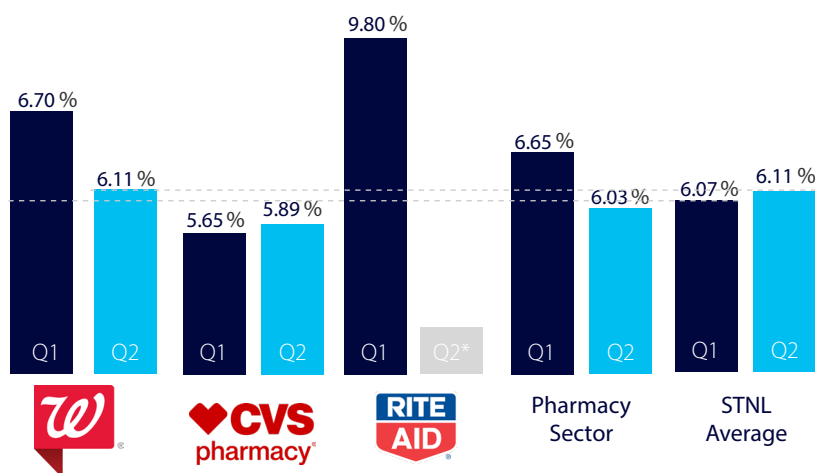
Cap rates in the pharmacy sector overall dropped 62 bps to 6.31%. Among long-term deals, cap rates also fell 62 bps but to an average of 6.03%. As with the dollar stores, pharmacies are likely to benefit from this crisis. We are already seeing asking prices on pharmacies deals stubbornly staying in low 5% for newer stores and with some of the best credit in the STNL world and good locations to boot, look to this sector to outperform in Q2 and the remainder of the year.



### Pharmacy Cap Rates



### Pharmacy Rates Cap Rates w/ 10+ Years



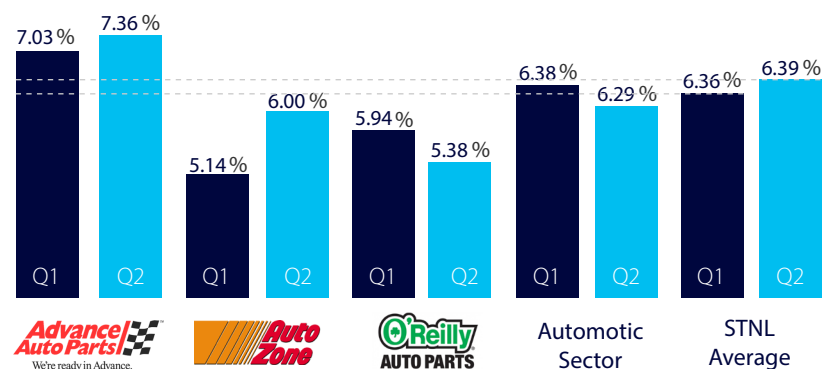
\*No trades observed



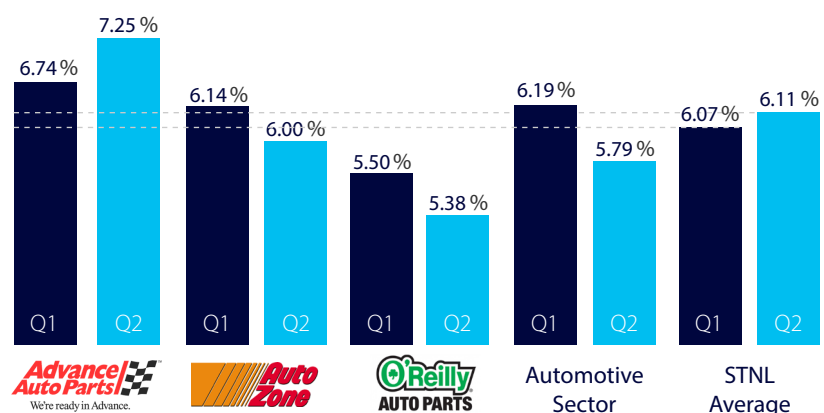
## Markets in Depth | Automotive

Cap rates in the Automotive sector dropped 8.7 basis points, as average remaining lease term increased by 0.8 years. Cap rates on 10+ year deals dropped more substantially, from 6.19% to 5.79%. The largest tenant in the sector, Advance Auto Parts, accounted for 24% of trades, up from 13% in Q1.

### Automotive Cap Rates



### Automotive Cap Rates w/ 10+ Years

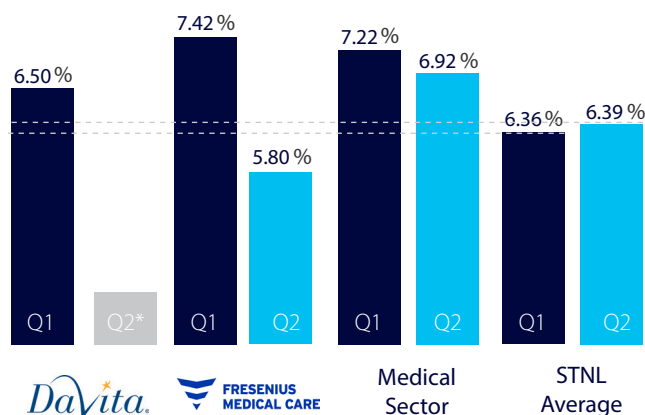


## Markets in Depth | Medical

Medical cap rates dropped 29.4 basis points to 6.92% as average lease term increased by 3.5 years. It is worth noting, however, that the sample size in the medical sector decreased from a healthy 23 trades in Q1 to just 7 in Q2. DaVita Dialysis, the most frequently traded medical net lease tenant, was notably absent from sales in the second quarter.

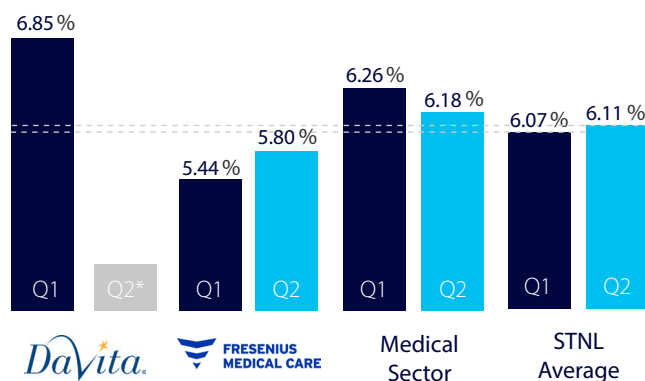


### Medical Cap Rates



\*No trades observed

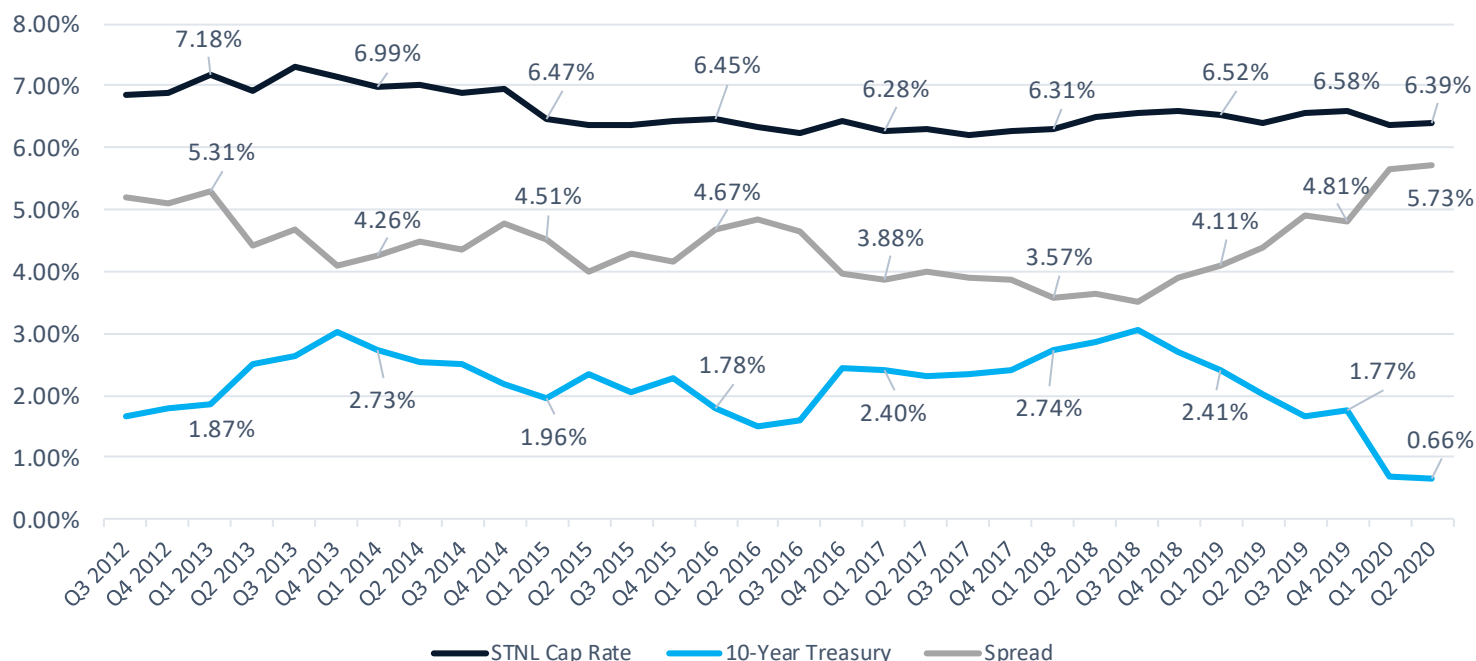
### Medical Rates Cap Rates w/ 10+ Years



\*No trades observed

## STNL Cap Rates Vs. 10-Year Treasury Rates

In summary, this quarter's results reflect a wider trend in the economy during the second quarter; that is to say, it was low on activity and yet a lot of the metrics it produced looked much like they did at the end of the first quarter. Save for employment numbers, the stock market and the 10-year are very much like they were as the COVID-19 pandemic started to take hold. While predicting the future is impossible, particularly now, it's fair to say that absent some other shock to the system, we have likely hit the nadir of transactional activity and we expect an uptick from here. While uncertainty exists surrounding the upcoming election, we believe that the last half of the year to have more transactional activity than the first half regardless of the outcome. There are billions of dollars that have been sitting on the sideline this year that still need to be invested.



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