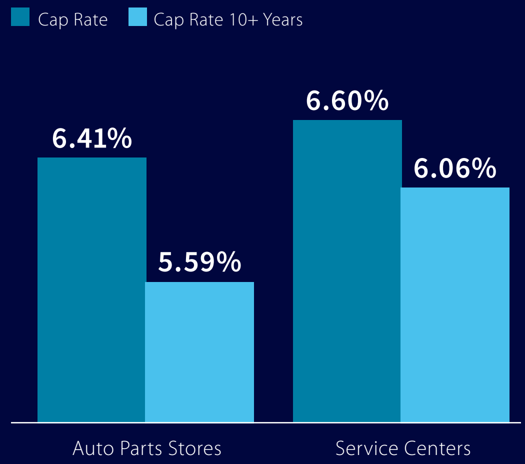
AVISON YOUNG

AUTOMOTIVE SECTOR

Average Automotive Cap Rates
(Past 12 Months)



Quick Stats

$1.6M
Average price of an auto parts store within the last 12 months

$2.7M
Average price of a service center within the last 12 months

15-20 Years
The average lease term with options

3 Players
The largest tenants in this sector are Advance Auto Parts, AutoZone and O'Reilly Auto Parts.

The net lease automotive sector includes a diverse group of tenants, most of whom fall into one of two groups: auto part stores, including Advance Auto Parts, AutoZone, and O'Reilly Auto Parts; and service centers, such as Jiffy Lube, Caliber Collision, and Firestone. The unifying factor is their importance to the auto industry, which positions both groups for strong performance in the future. Auto part stores will continue to fill a need for the parts, fluids and tools that are essential for keeping a car running no matter what the future holds in terms of electric or self-driving cars. Service centers will also hold their value well into the future, as demand for professional maintenance will only continue to grow as cars become increasingly complex.

The auto sector offers an attractive price point that is within reach of private investors. Over the last 12 months, auto part stores have sold near the $1.6 million mark, while the service centers have averaged roughly $2.7 million.

Auto part stores and service centers offer investors two distinct styles of building, each of which has its benefits and drawbacks. Auto part stores have layouts similar to most other retailers. This makes them easier to re-tenant with different retailers if a tenant chooses to vacate, but because there is little specialized investment in a store's buildout, a tenant can easily relocate to a competing retail space. By contrast, service centers have specialized buildings, with service bays and car lifts, which make them difficult to repurpose and re-tenant. However, the cost of installing this specialized equipment leads tenants to stay for the long term. Service centers carry a minor environmental risk due to spilled or improperly discarded oil, but their relatively large plots of land give the owner flexibility with the future use of the property if the structure is demolished.

The largest tenants in the auto sector, Advance Auto Parts, AutoZone, and O'Reilly Auto Parts, offer an investment grade corporate guarantee. Across the three, they have nearly identical credit ratings.

Cap Rates by Tenant

The auto part retailers make up the largest part of the automotive sector and tend to trade at varying cap rates. Advance Auto Parts has traded at the highest average cap rate over the last 12 months due to its typical double-net lease structure and having the fewest average lease years remaining. (Figure 1)

Cap Rates by Term Remaining

Over the last 12 months, the average length of remaining term on leases has had a small impact on average cap rates. Properties with longer leases tend to sell at a price premium to assets with fewer lease years remaining, resulting in lower cap rates. The rental income from the long-term leases offers investors a stable cash flow. (Figure 2)

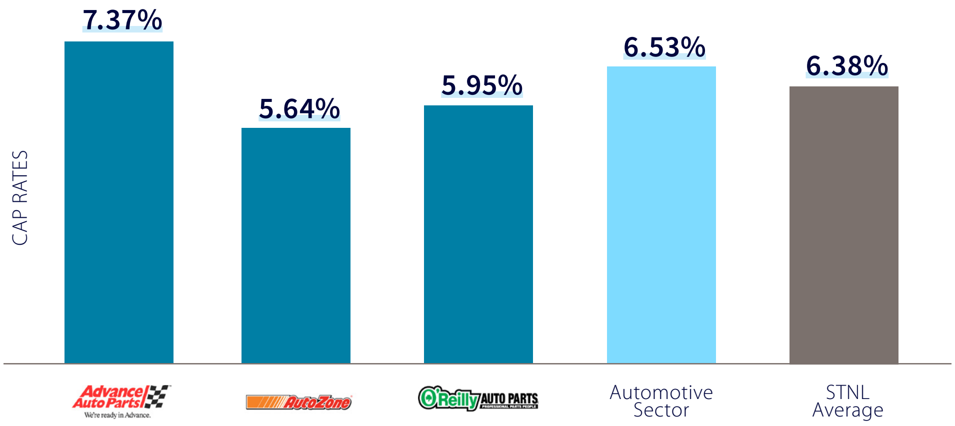
Cap Rates by Lease Type

Tenants in the automotive sector sign leases with various structures that differ in the levels of risk and responsibility that fall on the landlord, and they trade at yields that reflect those risks. The least risky type of lease for investors, Ground Lease, requires the tenant to build its own improvements and absolves the owner of any landlord responsibilities. Because of their ease and security, ground leases typically trade at the lowest cap rates. However, because the ground leases that traded hands in the past 12 months had a relatively short average remaining lease term, their average cap rate was similar to that of Triple-net (NNN) leases. Double-net (NN) leases have traded at the highest average cap rate over the last 12 months. These leases hold the owner responsible for some form of landlord responsibility, commonly roof and structure. (Figure 3)

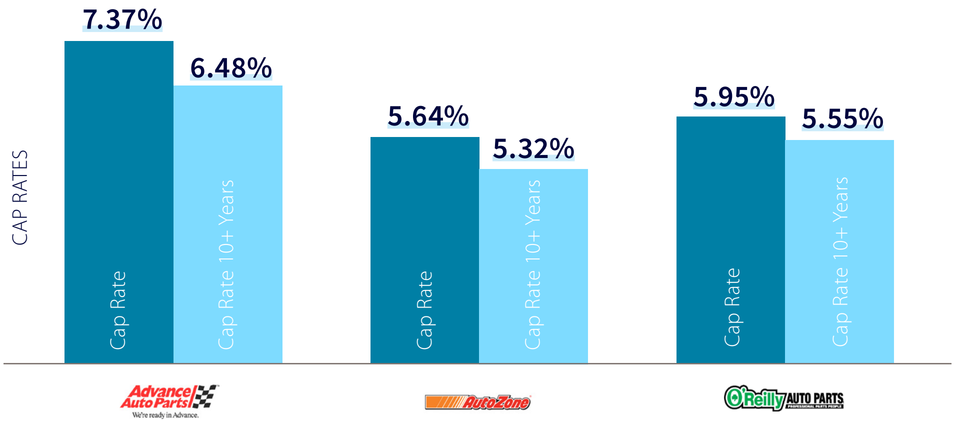
Automotive Sector Cap Rate Charts

These graphs below represent the cap rate trends of the past 12 months based off of tenants, term remaining and lease type respectively.

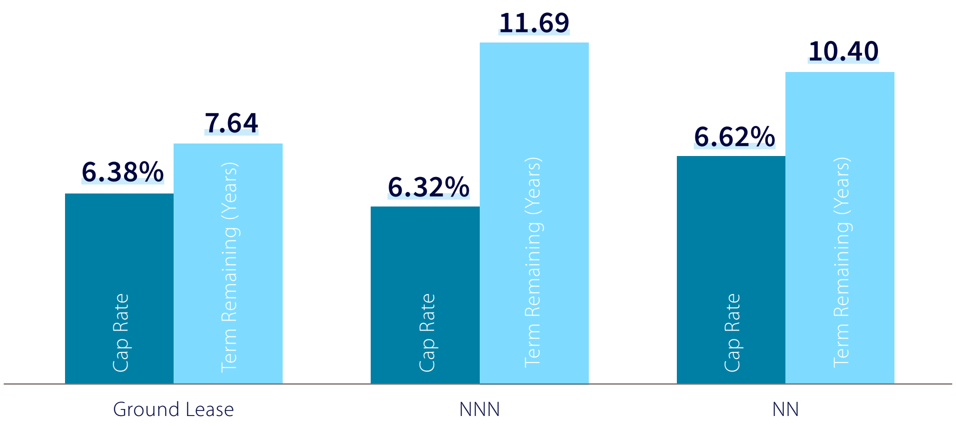
Average Cap Rates by Tenant (Figure 1)



Average Cap Rates by Term Remaining (Figure 2)



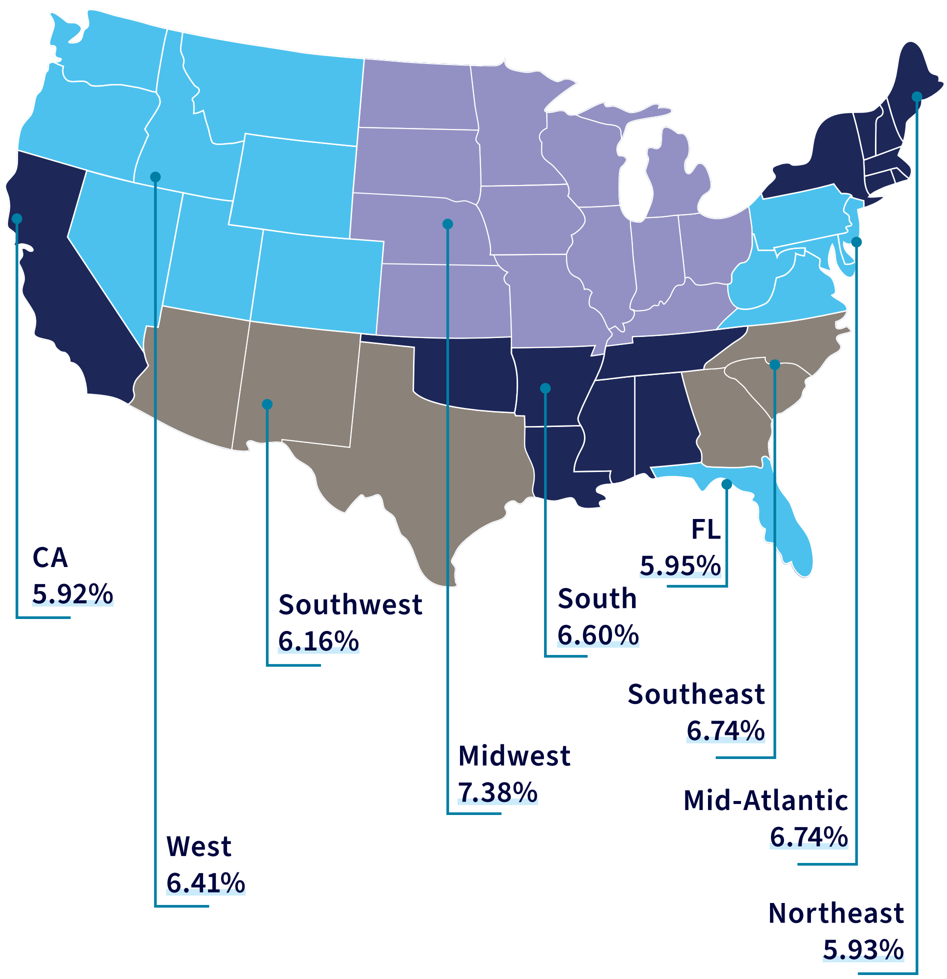
Average Cap Rates by Lease Type (Figure 3)



Tenant	S&P	Moody's
Advance Auto Parts — We're ready in Advance.	BBB-	Baa2
AutoZone	BBB	Baa1
O'Reilly Auto Parts	BBB	Baa1

Top 3 Tenant Credit Ratings

Average Cap Rates by Region in the Last 12 Months (Figure 4)



Cap Rates by Region

The West Coast and Florida have seen a high demand for real estate. This demand has translated to lower cap rates in these regions compared to the rest of the US. California has been the leader in this respect, with the average cap rate of an automotive net lease property trading at 5.92%. (Figure 4)

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