

Net Lease Update

As we round out 2023, the net lease retail market is staying on trend for the year, with cap rates continuing to rise. It is not all doom and gloom for Sellers though – there has been an increase in activity in the market over the last six weeks of 2023. This uptick can be attributed to multiple factors, including the Fed signaling to keep rates flat and potentially reduce during the first half of 2024, the 10-year treasury dipping back into the low 4%’s, and asset pricing becoming more attractive.

During the 3rd quarter of 2023, transaction volume was down 38% compared to the 3rd quarter of 2022. During this same period, cap rates were 66 basis points higher, on average. Over the past 30 days, asking cap rates have increased noticeably, with some notable trends being the new construction Wawa product asking 5% or above and the new construction Starbucks listed at 6% and above.

Until a large portion of the inventory on the market is cleared out, and interest rates begin to come down, cap rates can be expected to continue to rise slowly in 2024. As pricing becomes more attractive, many of the buyers that have been sidelined over 2023 will become active, and transaction volume will increase towards previous year levels.

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LISTING SPOTLIGHT



Wawa | Franklinville, NJ

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INDUSTRY NEWS

Steve Ells, founder of the fast casual food giant Chipotle, is plotting a return to the industry early next year with a new vegetarian fast food startup. Ells is scheduled to open a chain of restaurants called Kernel, with the first location expected to open in Manhattan and plans for at least a dozen more over the next two years.

For buyers and sellers of retail real estate, market knowledge such as this is crucial in order to maximize your investment capital. New retailer tenants provide a wealth of opportunity for owners of commercial real estate properties. www.NNNTrends.com is the best resource for continuously updated national and regional cap rates, consumer traffic, and comparable sales for dozens of national retail tenants.

EQUITY RETAIL BROKERS
NNN TRENDS

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LISTING SPOTLIGHT

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Wawa | Franklinville, NJ



Pep Boys | Havertown, PA



PNC | Pittsburgh, PA



Ducklings | Wallingford, PA



Plymouth Meeting Mall | Plymouth Meeting, PA



Dollar General | Stratford, NJ



KFC / Taco Bell | Wilmington, DE (Under Contract)

STOCK SUMMARY

Equity's Net Lease REIT Stock Index - Some Publicly Traded REITS With A NNN Focus

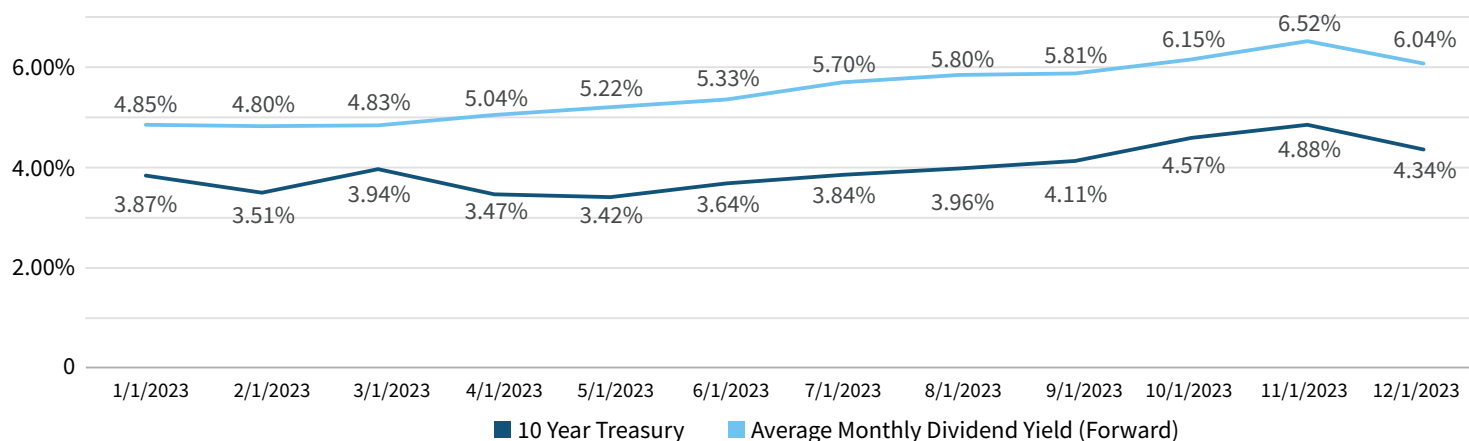
From Close of Business 1/1/2022 to 11/30/2023 (23 Months)

Symbol	Company	Forward Annual Div Yield 12/1/2023	Close of Business 01/01/2022	Close of Business 11/30/2023	% Change From 01/01/2022 to 11/30/2023	52-Wk High -As of Close of Business 11/30/2023	52-Wk Low -As of Close of Business 11/30/2023	Price/Book As of Close of Business 11/30/2023
ADC	Agree Realty Corporation	5.08%	70.93	59.21	-0.17%	75.71	52.69	1.17
PINE	Alpine Income Property Trust	6.80%	19.08	16.36	-0.14%	20.79	14.25	0.86
BNL	Broadstone Net Lease	7.18%	16.21	15.98	-0.01%	18.54	13.68	0.96
EPR	EPR Properties	7.43%	37.72	44.63	0.18%	47.71	33.92	1.36
EPRT	Essential Properties Realty Trust	4.76%	23.47	23.74	0.01%	26.43	20.49	1.31
FCPT	Four Corners Property Trust	6.04%	25.93	23.00	-0.11%	29.30	20.51	1.66
GTY	Getty Realty Corp.	6.22%	33.85	29.44	-0.13%	36.49	25.95	1.68
NTST	NETSTREIT Corp.	5.35%	18.33	15.37	-0.16%	20.64	13.49	0.86
NNN	NNN REIT	5.65%	45.76	40.62	-0.11%	48.21	34.38	1.78
O	Realty Income Corporation	5.72%	63.43	53.96	-0.15%	68.85	45.04	1.23
SRC	Spirit Realty Capital	6.54%	39.93	41.29	0.03%	44.65	32.22	1.35

These REITS, on average, are currently paying a 6.04% dividend to attract investors. The yield to lure investors has steadily increased from the first quarter of 2022. The dividend Yield paid by these REITS correlates to the yield sellers can achieve in the market today.

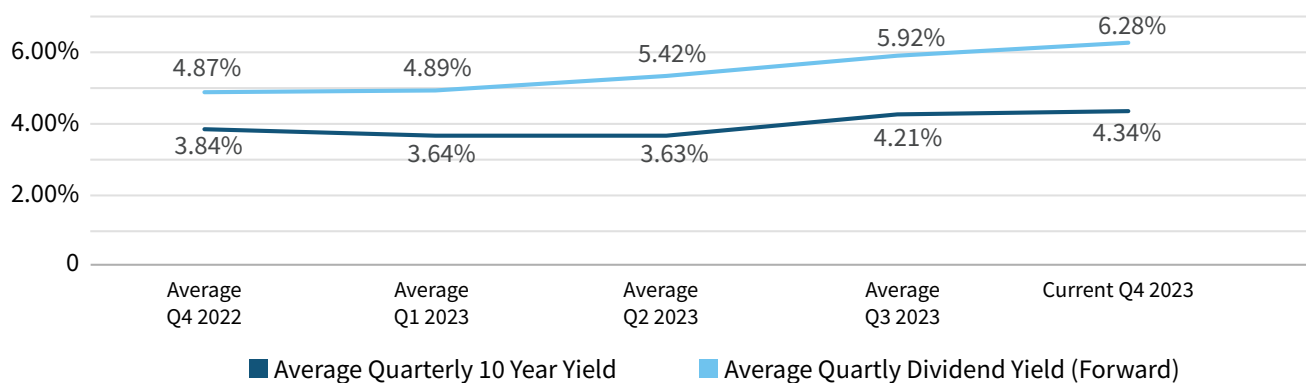
Equity Retail Brokers' Net Lease REIT Index

Average Monthly Dividend Yield (Forward) Required To Attracted Investors



Equity Retail Brokers' Net Lease REIT Index






Average Quarterly Dividend Yield (Forward) Required To Attracted Investors



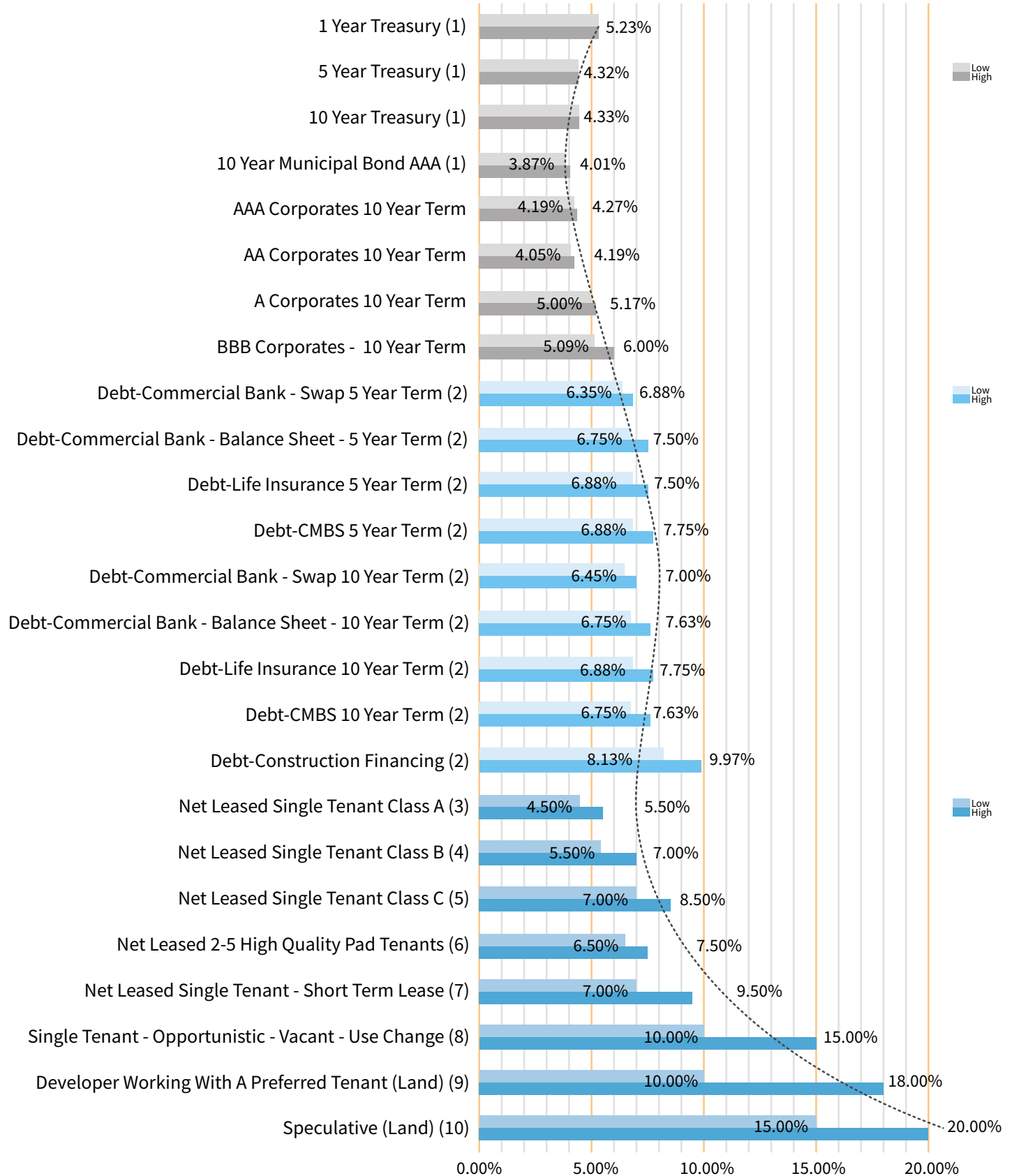
CAP RATE COMPARISON

Tenant	Credit Rating		Historic Cap Rates				Current For Sale Inventory - As of 12/1/2023		
	S&P	Moody's	Average Cap Rate 2022 Q3	Average Term Remaining 2022 Q3	Average Cap Rate 2023 Q3	Average Term Remaining 2023 Q3	Average Asking Cap Rate	Average Asking Price	Average Term Remaining
7-ELEVEN	AA-	Baa1	4.34%	12.82	5.54%	12.40	5.25%	\$5,569,334	12.04
Advance Auto Parts	BBB-	Baa2	6.21%	6.82	6.95%	5.95	6.57%	\$1,699,084	7.52
ALDI	N/A	N/A	4.50%	16.00	N/A	N/A	4.85%	\$4,083,750	17.95
Applebees	N/A	N/A	5.93%	10.83	6.24%	7.09	N/A	N/A	N/A
Arby's	N/A	N/A	4.91%	14.54	6.09%	12.60	5.52%	\$2,286,793	14.36
AutoZone	BBB	Baa1	5.00%	10.40	5.30%	12.55	4.93%	\$1,917,793	11.92
BANK OF AMERICA	A-	A1	4.44%	14.12	5.65%	5.40	5.65%	\$5,071,702	8.85
Bojangles	N/A	N/A	5.40%	11.50	5.84%	8.03	5.63%	\$2,814,186	13.22
Bridgestone Firestone	A	A2	4.73%	11.13	N/A	N/A	5.74%	\$2,705,607	7.71
BUFFALO WILD WINGS	N/A	N/A	6.53%	12.20	6.10%	8.70	5.99%	\$3,240,839	7.80
BURGER KING	BB-	N/A	5.27%	16.75	6.07%	14.44	5.95%	\$2,124,955	13.16
CALIBER COLLISION	N/A	N/A	6.31%	10.07	6.04%	11.57	N/A	N/A	N/A
CHASE	A+	Aa2	4.79%	12.67	5.73%	13.50	4.80%	\$3,894,025	10.66
Chick-fil-z	N/A	N/A	3.55%	14.50	4.08%	12.33	4.18%	\$4,539,362	15.51
chijis	BB+	Ba1	5.03%	9.40	N/A	N/A	5.78%	\$3,506,165	8.28
CHIPOTLE	N/A	N/A	4.10%	13.17	4.55%	13.00	4.83%	\$3,007,324	14.06
Christian Brothers	N/A	N/A	5.10%	14.00	N/A	N/A	5.76%	\$4,012,500	13.72
CIRCLE K	BBB	Baa2	5.11%	14.63	6.58%	5.66	5.14%	\$3,677,024	14.62
Citizens	A-	Baa1	8.06%	5.10	N/A	N/A	7.18%	\$1,661,340	4.33
CVS pharmacy	BBB	Baa2	5.52%	13.69	6.12%	11.81	6.16%	\$5,399,355	9.97
DQ	AA	Aa2	5.41%	17.17	N/A	N/A	5.92%	\$2,351,145	13.99
Davita	BB	Ba2	6.34%	7.62	6.43%	8.35	6.60%	\$4,178,354	8.77
DEL TACO	N/A	Caa1	4.77%	10.71	5.21%	5.66	4.92%	\$2,880,047	19.8
Denny's	N/A	N/A	4.93%	15.67	6.29%	9.88	5.69%	\$2,303,580	12.88
DOLLAR GENERAL	BBB	Baa2	5.84%	10.51	6.48%	11.28	6.46%	\$1,773,775	11.86
DOLLAR TREE	BBB-	Baa3	6.18%	7.35	6.72%	5.05	6.76%	\$2,055,703	7.79
DUNKIN'	N/A	N/A	4.43%	15.00	5.15%	12.90	5.39%	\$2,043,291	13.73
FAMILY DOLLAR	BBB-	Baa3	6.73%	4.95	8.07%	4.54	7.32%	\$1,442,520	5.41
Freddy's	N/A	N/A	6.27%	11.50	5.50%	16.17	5.81%	\$2,767,363	17.98
FRESENIUS MEDICAL CARE	BBB	Baa3	5.60%	7.07	6.35%	7.28	6.17%	\$3,798,915	7.64
Goodwill	N/A	N/A	5.75%	7.67	6.45%	6.37	6.31%	\$4,254,741	7.59
Hardee's	N/A	N/A	5.17%	10.25	8.03%	7.78	6.17%	\$1,854,070	14.16
HOOTERS	N/A	N/A	7.40%	9.00	6.86%	12.00	6.28%	\$3,255,862	11.55
IHOP	N/A	N/A	5.19%	7.93	7.60%	11.37	6.39%	\$2,889,982	9.77

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	S&P	Moody's	Average Cap Rate 2022 Q3	Average Term Remaining 2022 Q3	Average Cap Rate 2023 Q3	Average Term Remaining 2023 Q3	Average Asking Cap Rate	Average Asking Price	Average Term Remaining
	BB	Ba3	4.67%	13.81	5.56%	14.09	5.63%	\$1,595,508	10.38
	N/A	N/A	6.75%	13.70	6.87%	11.50	6.53%	\$14,464,775	10.56
	N/A	N/A	6.40%	7.40	5.57%	19.50	6.52%	\$2,534,389	6.28
	BBB+	Baa1	3.27%	13.08	N/A	N/A	N/A	N/A	N/A
	N/A	N/A	6.30%	2.00	6.88%	13.00	N/A	N/A	N/A
	BBB+	Baa1	5.13%	7.80	5.40%	10.12	5.59%	\$2,343,579	12.07
	BBB	Baa2	4.50%	7.05	N/A	N/A	5.12%	\$3,184,628	7.52
	N/A	N/A	4.92%	12.61	4.62%	15.00	5.03%	\$4,052,740	11.70
	A	A2	5.50%	8.75	N/A	N/A	6.21%	\$2,543,890	4.21
	N/A	N/A	N/A	N/A	4.66%	7.55	N/A	N/A	N/A
	BB-	N/A	4.50%	13.36	5.41%	15.63	5.71%	\$2,656,995	16.69
	N/A	N/A	4.71%	10.75	4.25%	15.00	4.46%	\$4,921,307	13.25
	N/A	Caa1	5.45%	17.29	6.39%	17.00	6.16%	\$5,229,489	16.50
	N/A	N/A	N/A	N/A	6.52%	5.80	6.13%	\$3,245,000	10.93
	CCC+	Caa1	6.66%	7.83	7.61%	7.13	7.84%	\$3,944,423	7.06
	N/A	N/A	N/A	N/A	6.38%	10.00	6.58%	\$2,870,333	12.60
	N/A	N/A	4.65%	11.60	5.59%	6.00	5.24%	\$3,383,880	14.50
	A	Baa2	5.29%	7.43	6.15%	6.08	5.62%	\$2,496,127	8.90
	N/A	N/A	5.30%	16.00	6.08%	12.10	5.86%	\$1,846,799	12.98
	BBB+	Baa1	4.78%	8.05	5.31%	8.97	5.31%	\$2,705,246	10.07
	CCC	Caa2	N/A	N/A	7.14%	3.55	N/A	N/A	N/A
	BB	Ba3	5.14%	15.67	5.24%	19.08	5.27%	\$2,452,582	18.10
	AA-	A1	5.18%	6.57	N/A%	N/A	4.97%	\$3,806,384	8.9
	N/A	N/A	4.69%	13.60	N/A%	N/A	5.17%	\$3,038,659	11.71
	N/A	N/A	6.84%	13.00	6.96%	11.80	6.74%	\$5,548,668	15.16
	N/A	N/A	5.17%	12.57	5.66%	11.82	5.71%	\$5,538,803	12.10
	A-	Baa1	N/A	N/A	5.84%	5.08	6.69%	\$2,551,484	3.68
	BBB+	Baa1	6.31%	6.50	6.35%	8.50	6.36%	\$1,804,602	4.86
	BBB	Baa2	5.43%	10.26	6.05%	12.28	6.27%	\$5,328,855	11.2
	N/A	N/A	4.50%	16.16	4.63%	15.50	4.74%	\$5,821,715	17.61
	A+	Aa2	4.75%	2.50	7.43%	5.10	5.70%	\$3,446,802	3.52
	B	B2	4.65%	14.60	5.58%	19.17	5.24%	\$2,523,433	15.52
	N/A	N/A	5.35%	19.67	6.00%	15.00	6.59%	\$2,479,202	18.73
AVERAGE			5.35%	11.23	6.06%	10.61	5.82%	\$3,400,341	11.41

NNN RETAIL COMMERCIAL REAL ESTATE INVESTMENT SPECTRUM



NNN RETAIL COMMERCIAL REAL ESTATE INVESTMENT SPECTRUM - NOTES

The information provided serves as a general guideline for investors in retail real estate. The NNN real estate market is constantly changing and subject to outside economic factors. Key economic factors include interest rates, construction costs, and tenant expansion demand.

We hope the material helps make investment and financing decisions easier. Real estate is not a “sure thing” like any other investment. All investors should consult all appropriate professionals. Speaking with your accountant, attorney, and financial advisor before making any real estate investment is well advised.

Note 1: Treasury Yields, the 10-year Municipal Bond Yield, and Corporate Bond Yields are estimates. They are aggregated from various financial websites. The yields on these investments have always been a benchmark for making other investments, including real estate. Investors need a meaningful gain above these investments to invest in real estate. Real estate comes with additional risk and is not a liquid investment.

Note 2: Life Insurance, CMBS, Commercial Bank Swaps, and Commercial Bank Balance Sheet debt rates are provided by our Capital Markets Commercial Real Estate Network affiliates. Rates should be used as a general guideline and vary depending on the sponsor’s strength, loan to value, tenant credit, and property quality.

Note 3 - Net Leased Single Tenant Class A: Investment Grade Tenants or Strong Private Companies w/ 15+ Years of Lease Term Located in Primary Markets. Sample of some tenants - Aldi, AutoZone, Bank of America, Chase Bank, Chick-Fil-A, CVS, Firestone, McDonald’s and Wawa.

Note 4 - Net Leased Single Tenant Class B: Investment Grade Tenants w/ 10-15 Years of lease term. Investment grade tenant in secondary markets with 15 -20 years of lease term. Non-Investment Grade Tenants with 15+ Years.

Note 5 - Net Leased Single Tenant Class C: Investment Grade with less than 5 years. Investment Grade Tenant in a rural markets with 5-10 years of lease term. Non-Investment Grade Tenants with 5-10 Years.

Note 6 - Net Lease 2-5 High Quality Pad Tenants: Properties with multiple high-quality credit tenants align more with the investor pool of single-tenant net lease properties than other retail properties. These properties are predominantly located on signalized intersections, with excellent visibility, ingress, and egress. While you have additional management issues, your income is diversified amongst multiple tenants. You generally have the same income predictability of long-term leases, usually on a NNN basis.

Note 7 - Net Leased Single Tenant - Older Property - Short Term Lease - 2 to 3 Years of Remaining Lease Term: The yield varies depending on the quality of the real estate. The investors will accept a lower yield if they have a specific tenant in mind, feel there is limited releasing risk, and feel there is a reasonable chance the tenant will renew the lease. Without a particular tenant in mind, most investors today are cautious and need an attractive yield. They need to consider current interest rates, time to obtain a new tenant, current construction cost, and other capital cost to attract a tenant. Our yield range assumes there is a reasonable chance of attracting a tenant.

Note 8 - Single Tenant - Opportunistic - Vacant - Use change (8): We consider any property with less than a year of lease term and a reasonable chance of vacating the space as vacant. Investors will accept a lower yield if they have a specific tenant in mind or feel there is a fair chance they can attract a replacement tenant.

Because the space is vacant, the investor has to consider the additional risk associated with an empty building. This is especially true in urban properties today. Like above, investors must consider current interest rates, time to obtain a new tenant, construction costs, and other capital costs required to attract a tenant. Our yield range assumes there is a reasonable chance of attracting a tenant.

Note 9 - Developer Working With A Preferred Tenant (Land) (9): It is challenging to come up with a pure yield in this category. In calculating our projected gain, we allocate a certain percentage of the overall project cost to the developers’ corporate overhead. It also assumes the tenant allows the developer to develop at a yield-to-cost of approximately 1.5% to 2.0%. From observation, the professionals of a development firm bring a unique, unreplaceable skill set to each project. Developers today receive a much lower yield due to increased construction costs, carrying costs, and higher cap rates. There is a widespread. As the saying goes, “Some days, you can buy the parking lot; other days, you can’t afford to park.”

Note 10 - Speculative Land: Only some investors will invest in land without entitlements and substantial preleasing commitments. The time to get approvals and permits today can take years, even without the need for any variances. Traffic, stormwater management, and impact studies all take time and cost substantial money.

INDUSTRY NEWS

Connect with NNN Trends:



Rite Aid signals that it could just be getting started on slashing its store portfolio - more closings are expected as the chain warns it may be forced to liquidate. While the first round of brick-and-mortar shut-downs were announced, the retailer is beginning attempts to renegotiate better terms for leases with landlords on other locations, while warning that an additional 400 or more store closures may be on the books. However, if Rite Aid's Chapter 11 petition fails, liquidation and the closure of ALL Rite Aid locations could occur.



Aldi's 'No Frills' Approach Is Helping It Dominate The US Market: ALDI USA has been growing at a rate of about 100 stores per year since the 2008 recession. In 2023, though, it has added an additional 120 stores — and in 2024, with Aldi's acquisition of Winn-Dixie and Harvey's stores, it will grow by another 400 stores in the Southeastern U.S. alone.



Arby's is a quick-service restaurant, owned by Inspire Brands (Roark Capital Group) known for sandwiches and curly fries. Currently, Arby's has over 3,400 locations and is the third-largest sandwich chain in the United States. Arby's also has plans to expand and open an additional 400 locations by 2025. The prototypical restaurant is on average 3,000 square feet with a drive thru, on 1 acre of land. The lease term and escalations vary but in general, investors can expect to have a 20 year lease term with escalations of up to 10% every 5 years.



Average Cap Rate (past 12 months) 5.48%



NOI Range \$90,000 - \$140,000



Locations (nationwide) 3,400+



Equity Retail Brokers recently sold Dickson City Commons in Dickson City, Pennsylvania (Scranton- Wilkes Barre metro area). The 110,254 square foot regional shopping center has a strong mix of national tenants including Marshalls, Famous Footwear, Michael's, Mattress Firm, Comcast, and T-Mobile, and strong regional tenants such as Pets Supplies Plus. Shadow-anchored by Target and adjacent to Walmart, it is in a dominant market position.

Bart Delfiner, Ken McEvoy, Edward Ginn and Kenneth Yanni represented the sellers who were the property's original developers.

The sale completed the divestiture of the seller's multi-tenant assets, previously sold by Equity in 2021 and 2022.

NOVEMBER 2023

EQUITY RETAIL BROKERS

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