



NET LEASE REPORT February 2017

AUTOMOTIVE SECTOR

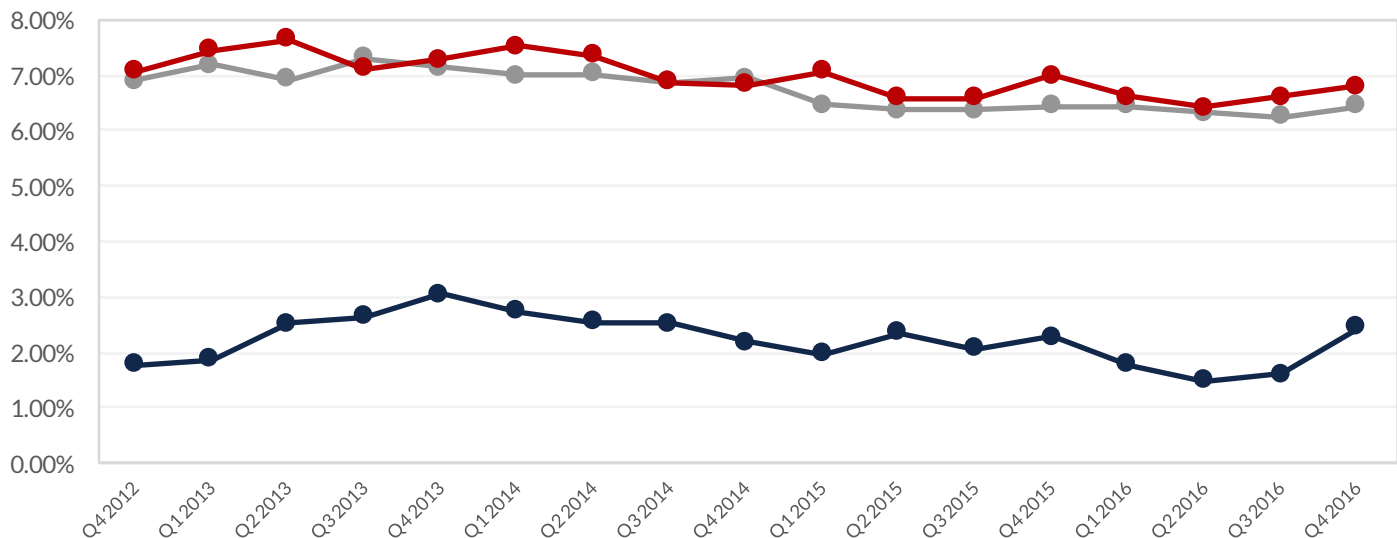
As the economy has recovered from the 2009 recession, the service industry has expanded rapidly. The automotive sector has been steadily growing over the years with the expectation of more growth in the future, particularly for the auto parts industry. This is attributed to consumers maintaining vehicles longer, creating opportunities for dual-store retailers catering to “Do It Yourself” (DIY) consumers and “Do It For Me” (DIFM) service providers such as AutoZone, O’Reilly Auto Parts and Advance Auto Parts.

Under the Trump administration, 2017 is likely to bring a few changes to the auto industry including possible tariffs on imported vehicles and parts. However, the auto industry has proven adaptable to political changes and regulations over the years. The automotive sector will remain stable because there will always be demand for car repair during all economic cycles.

The automotive sector includes auto parts, tires and oil change stores. A majority of sales comps used were auto parts stores such as AutoZone, Advance Auto Parts and O’Reilly Auto Parts. The average national automotive cap rates closely mirrored the STNL cap rates over the past several quarters with slight variation. The national average cap rates for all STNL retail was 6.41% and 6.80% for the automotive sector, a delta of about 40 bps between the two in 2015. There was a spread of 25 bps in 2016 with a national average for STNL retail at 6.36% and 6.61% for automotive.

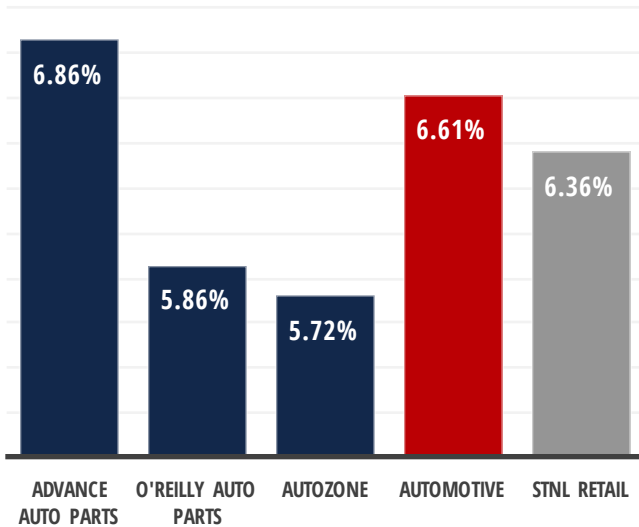
We expect to see more interest rate hikes in 2017, however, the impact on STNL cap rates is projected to be minor.

STNL Cap Rates vs Automotive Cap Rates vs 10 Year Treasury Rates

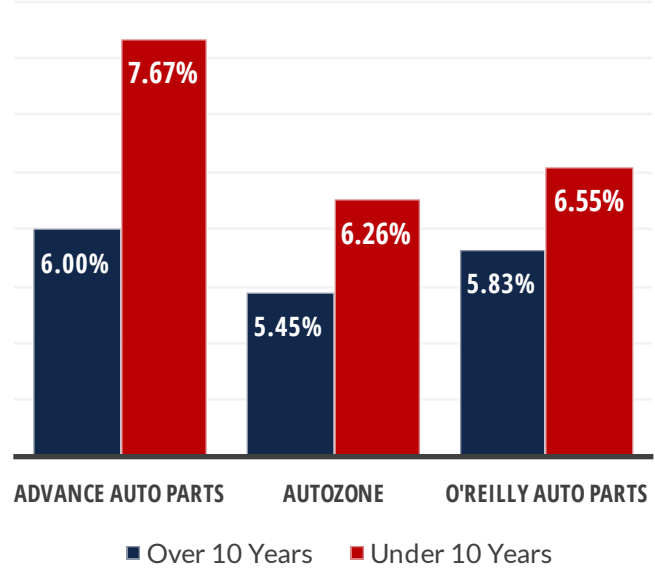


Quarter	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
National STNL Cap Rates	6.89%	7.18%	6.93%	7.32%	7.14%	6.99%	7.03%	6.88%	6.94%	6.47%	6.36%	6.36%	6.44%	6.45%	6.32%	6.25%	6.43%
National Auto Cap Rates	7.07%	7.44%	7.64%	7.12%	7.29%	7.51%	7.35%	6.87%	6.82%	7.06%	6.57%	6.59%	6.99%	6.62%	6.42%	6.62%	6.80%
10 Year Treasury Rates	1.78%	1.87%	2.52%	2.64%	3.04%	2.73%	2.53%	2.52%	2.17%	1.96%	2.35%	2.06%	2.27%	1.78%	1.49%	1.60%	2.45%

2016 Average Automotive Cap Rates



2016 Average Cap Rates: Over vs Under 10 Years



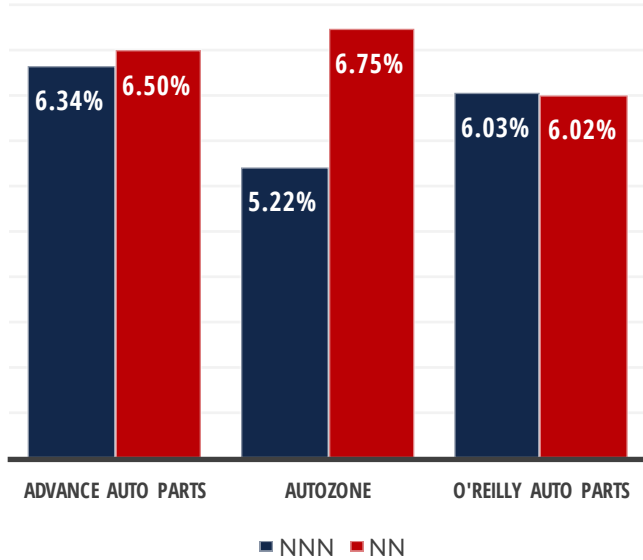
AutoZone, Advance Auto Parts, and O'Reilly Auto Parts are the top three auto parts retailers in the country. AutoZone has a current credit rating of BBB from S&P and Baa1 from Moody's. Advance Auto Parts has BBB- from S&P and Baa2 from Moody's, while O'Reilly Auto Parts has BBB+ and Baa1 respectively. These are among the very few STNL properties that trade at a relatively low price with an average of \$1.6 million in 2016 given the investment grade credit. In comparison to dollar stores that also offer a low price for investment grade credit, auto parts stores are generally located on premium real estate with high traffic counts.

AutoZone traded at an average of 5.72% in 2016. They opened 16 new stores in 2016, bringing their store count to 5,313, making them the largest auto parts retailer. O'Reilly Auto Parts traded at an average of 5.86% this year, and currently operate 4,712 stores. Advance Auto Parts traded at an average of 6.86% in 2016. The company acquired General Parts in 2013 and is still catching up to AutoZone and O'Reilly Auto Parts which operate 5,058 stores.

Our sample data excludes California for this chart as properties in California usually trade at a lower cap rate than rest of the nation. O'Reilly Auto Parts and AutoZone had lease terms ranging from 15-20 years.

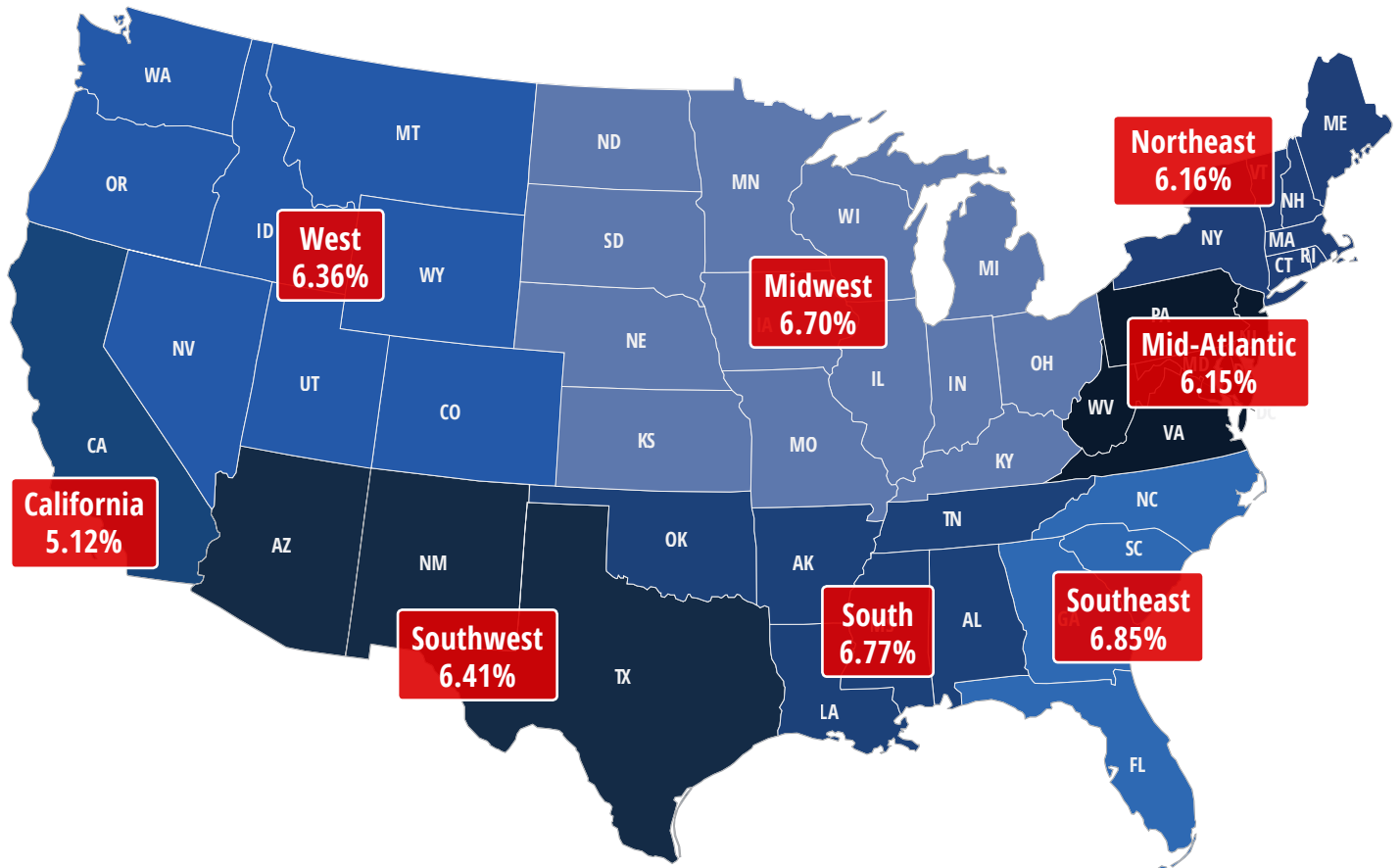
AutoZone had few ground lease deals traded in 2016 which decreased their cap rate average. Advance Auto Parts tends to have a lease term between 10-15 years, resulting in sales with a higher cap rate than the other two auto parts retailers.

2016 Average Cap Rates: NNN vs NN Lease



Our sample data again excludes California for this chart as properties in California usually trade at a lower cap rate than other areas of the country. In NNN leases, the tenant has control over all of the expenses which is why the rent and therefore, the cap rate is lower. In comparison to a NN lease where the landlord is held responsible for some or all property expenses. We are able to see that for both Advance Auto Parts and AutoZone in the chart. However, O'Reilly Auto Parts had a few sales anomalies this year where most of the NNN lease properties were older stores with short lease terms, resulting in trading at a higher cap rate. A majority of NN O'Reilly Auto Parts leases had between 15-20 years remaining and ended up trading at a lower cap rate.

2016 Average Regional Cap Rates





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. a) 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. b) Sources include public records, sales announcements, Calkain sales, and appraiser obtained sales amongst others. c) 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. d) 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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