



**NET LEASE REPORT April 2018**  
**AUTO SECTOR**

The auto industry has seen unbelievable change since the first Model Ts rolled off the assembly line. And it is clear that watershed changes will continue, thanks to ever-advancing technologies. However, in the midst of these decades of change, there is one constant: the need for parts and service has remained, and will remain, ever present. Needless to say, as long as the US has its love affair with the car, no matter what it looks like or how it drives, the service centers and parts retailers that make up the Net Lease Automotive Sector are well-positioned for the future.

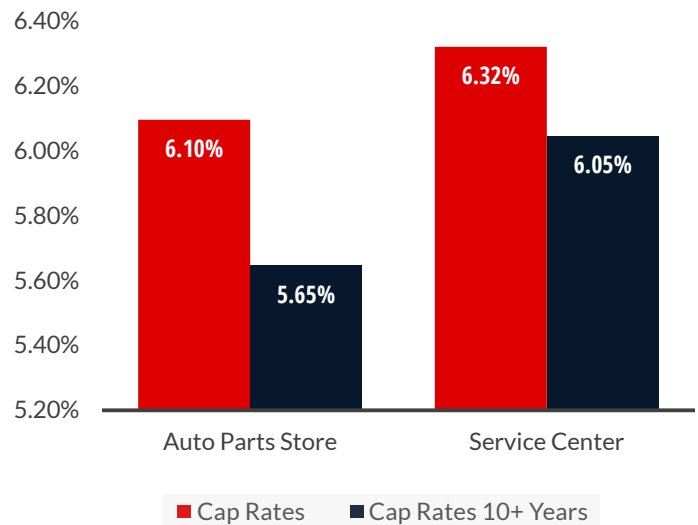
This high demand has led to lower cap rates in the state of California when compared to the rest of the country.

Over the past 12 months, service center properties have sold at an average price of \$2.2 million and auto parts stores have sold around the \$1.8 million mark, both providing attractive price points for private investors.

For service center locations, investors need to be aware of any potential environmental issues, such as spilled or improperly discarded oil. In addition, service centers can come in unusual sizes, which may cause difficulties when trying to backfill the space with a new tenant from a different industry. The auto parts stores, by contrast, are clean assets of more traditional retail configurations and so are relatively easy to retenant.

The auto parts subsector is dominated by Advance Auto Parts, AutoZone, and O'Reilly Auto Parts. These tenants offer investors investment-grade corporate guarantees and solid locations.

**Average Automotive Cap Rates From the Past 12 Months**

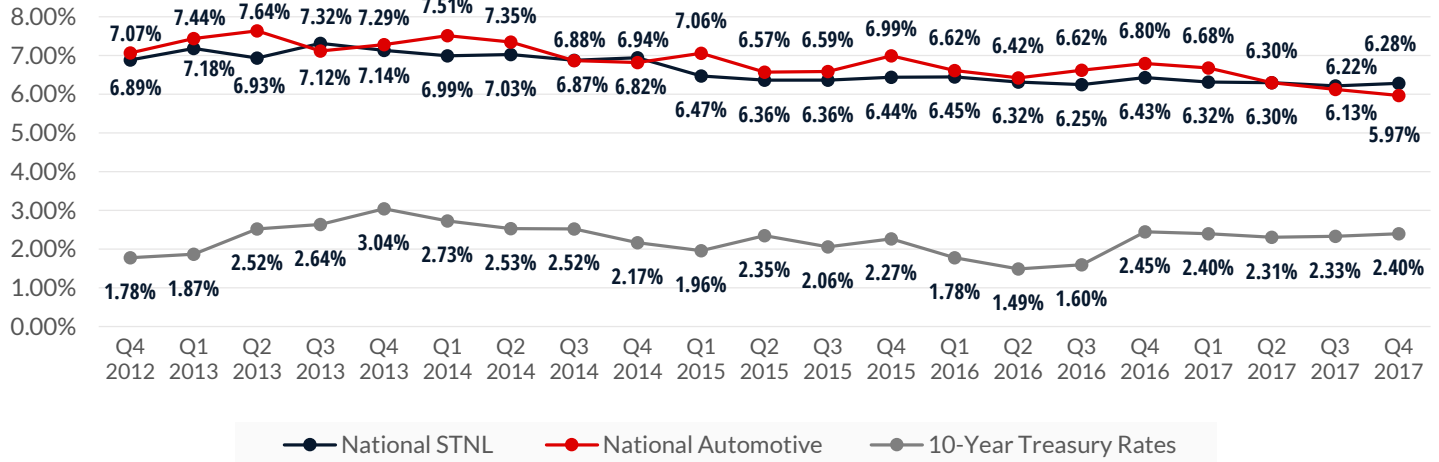


Credit Ratings	S&P	Moody's
	BBB-	Baa2
	BBB	Baa1
	BBB+	Baa1



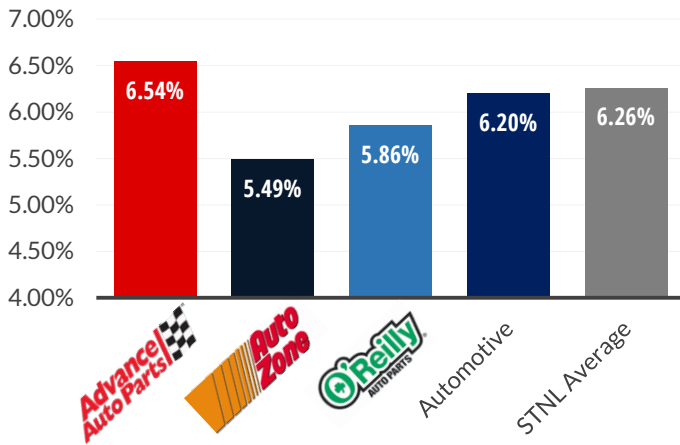


## STNL Cap Rates vs Automotive Cap Rates vs 10-Year Treasury Rates



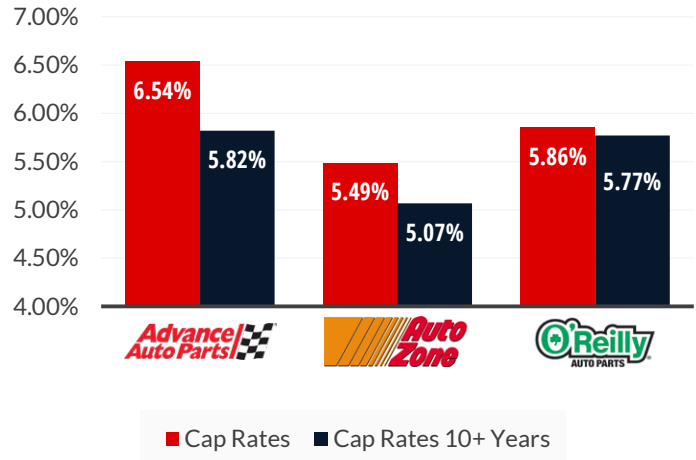
## Cap Rate by Tenant

Average Automotive Cap Rates From the Past 12 Months



## Cap Rate by Term Remaining

Average Automotive Cap Rates From the Past 12 Months



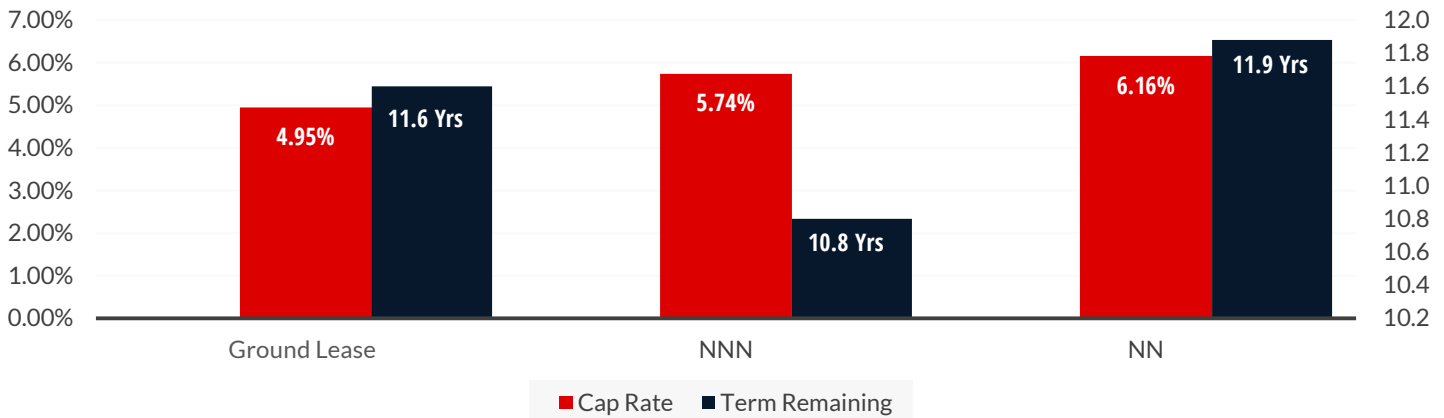
As the top retailers in the sector, Advance, AutoZone and O'Reilly all offer significant upside to the investor. Comparatively, AutoZone and O'Reilly Auto Parts trade at a premium to the Single Tenant Net Lease (STNL) average. Advance Auto Parts currently trades at a discount, due in part to having the fewest lease years remaining on average.

The number of years remaining on a lease will have a large impact on the cap rate at which properties sell. The premium investors pay for a property will increase along with the remaining lease years. The upside is rental income for a longer term and the security associated with a long-term, stabilized asset.



## Cap Rate by Lease Type

Average Cap Rates by Lease Type From the Past 12 Months



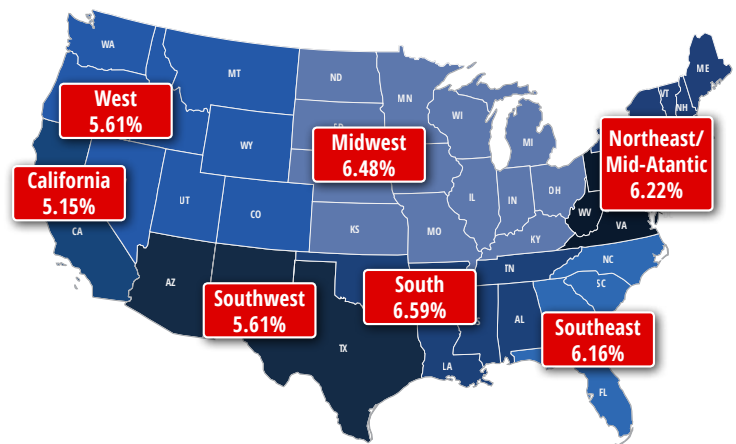
The auto parts subsector features a variety of lease types, which tend to trade at different cap rates. Ground Lease (GL) tenants are leasing the land from passive investors, and these tend to trade at the lowest cap rates due to two common factors: First, GLs require no landlord responsibilities and are longer than other types of leases. Second, GL tenants have to build and maintain their own improvements. With such a large upfront cost, tenants typically sign long leases with options to extend.

Triple Net Leases (NNN) also offer a passive investment in which the investor owns the land and building, while the tenant is responsible for maintenance, taxes and insurance.

Double Net Leases (NN) trade at the highest cap rates. Double net leases require some form of landlord responsibility, such as maintaining or replacing the roof and structure. These possible expenses push cap rates higher than their triple net counterparts.

## Cap Rate by Region

The demand for net lease properties in California has kept cap rates low, even though the state was home to assets with the fewest number of lease years remaining on average. As the chart shows, cap rates rise from there on a regional basis, until we enter the South, where cap rates hit a national high of 6.59%.



### CALKAIN | Research

12930 Worldgate Dr | Suite 150  
Herndon, VA 20170  
703.787.4714

*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.*