

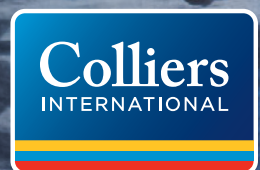
U.S. RESEARCH REPORT | SINGLE TENANT NET LEASE RETAIL

NET LEASE SECTOR REMAINS HEALTHY DESPITE CHALLENGES IMPOSED BY COVID-19

MIDYEAR REVIEW 2020



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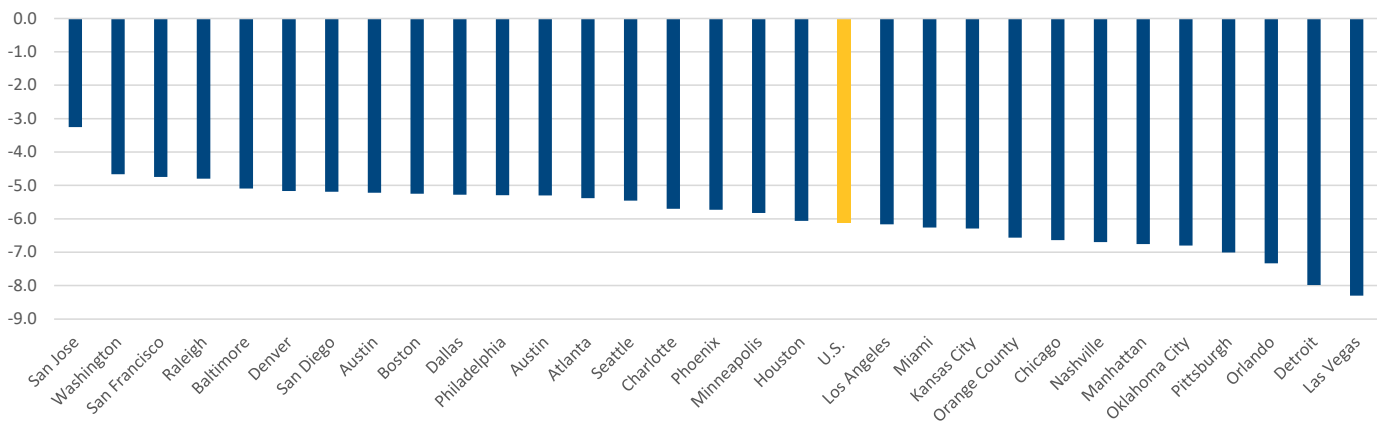




Net Lease Sector Remains Healthy Despite Challenges Imposed by COVID-19

- ▶ “Unprecedented,” “black swan,” “once-in-a-lifetime.” All of these terms have been used to describe the events of the first half of 2020. Whatever you choose to call it, it has been a period unlike any other. The COVID-19 pandemic has negatively impacted employment, manufacturing production, retail sales and consumer sentiment across the country and around the globe. While seemingly all facets of the retail sector have been disrupted, the severity and impact on retailers has varied from sector to sector and region to region. Without question, non-essential retailers like clothing stores, movie theatres and bars have borne the brunt of social distancing and lockdown measures while many essential retailers like grocery and home improvement stores experienced little to no decline in sales.
- ▶ With a country yearning for a return to normalcy, strong retail sales figures and an unemployment rate that is retreating from historic highs are providing a modicum of optimism. However, with the trajectory of the pandemic still very much in doubt, and the potential arrival of a second wave later this fall, the economy’s recovery remains in a fragile state. As a result, we expect the pace of the recovery to be gradual and uneven across the U.S. as states continue to reopen with varying degrees of caution and success.
- ▶ To mitigate the negative effects of the pandemic on the economy, the Federal Reserve acted swiftly earlier this year and slashed interest rates to near zero. In addition to providing guidance that suggests they plan on keeping rates there for a couple of years, the Fed also implemented multiple financial instruments to assist businesses of all shapes and sizes. As a result, **most economists are projecting Gross Domestic Product (GDP) contraction in the range of 4-6% in 2020 and then seeing an expansion of 3-5% in 2021.**
- ▶ With social distancing and lockdown measures implemented, all U.S. metros shrank in terms of GDP and employment growth in the second quarter. We expect most metropolitan areas will return to pre-pandemic GDP output levels by the end of 2021, however, **employment growth will take longer to recover and it is estimated that almost half of all metros will not return to pre-pandemic levels by 2024.**

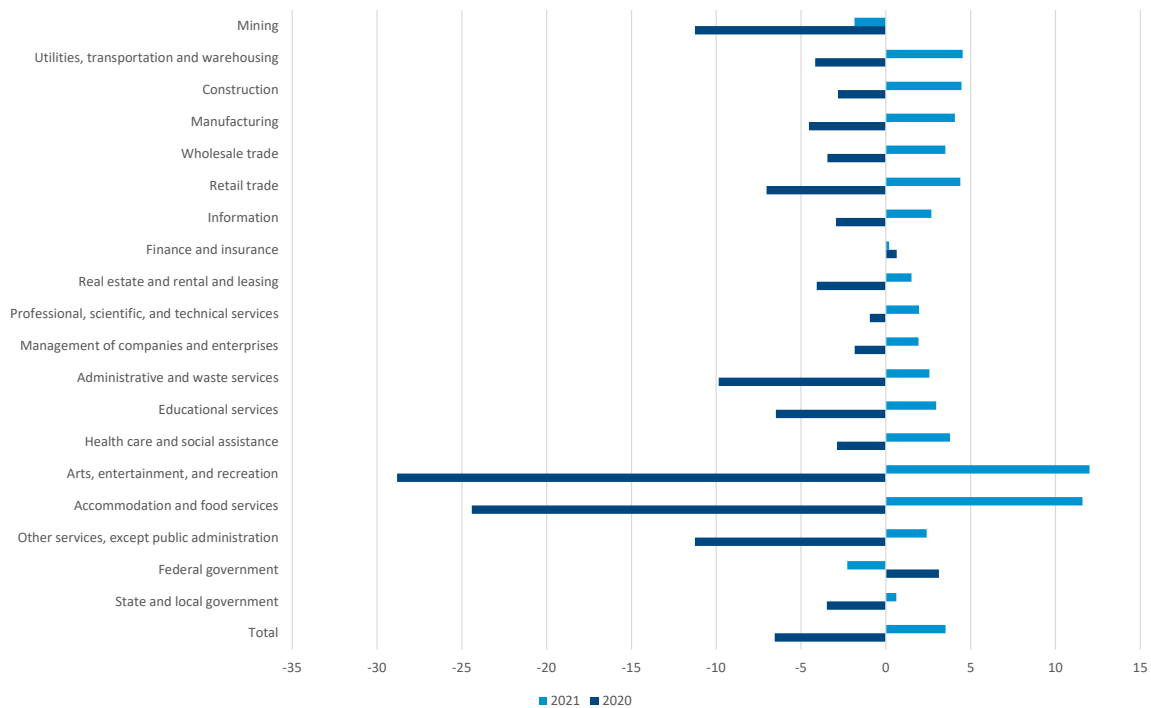
GDP 2020, % Change





- While the arts-entertainment-recreation sector and the accommodation-food services sector are projected to lead the nation in overall job growth in 2021, the scale of devastation in 2020 will keep these sectors well below their pre-pandemic employment levels.

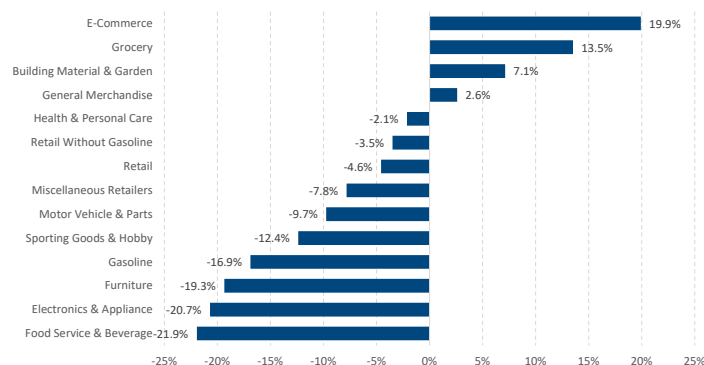
U.S. Employment Growth



COVID-19's Impact on the Retail Sector

- The resulting shutdowns impacted retailers to varying degrees. Large national stores like Walmart, Target and Home Depot that could remain open, have benefited over the last few months by offering essential goods and services. Meanwhile, businesses like Domino's and Papa John's have flourished as a result of their already established omni-channel platform. On the other hand, smaller retailers, many of whom did not provide essential goods and/or were in the beginning stages of e-commerce integration, have languished behind.
- **The restaurant industry as a whole posted a 21.9% decline in sales** when comparing the first half of 2020 to the first half of 2019. However, Quick Service Restaurants (QSR) were better positioned for social distancing restrictions than their casual and upscale counterparts, as they benefited from take-out and drive-thru options and had already established relationships with delivery vendors such as GrubHub and Door Dash.
- Although the rate at which consumers have been shifting towards e-commerce has steadily grown year-over-year, the pandemic has been a boon for this sector, posting a nearly 20% growth rate. Grocery stores experienced a surge in sales as well, as consumers stocked up on supplies particularly in the beginning stages of state lockdowns.

Retail Sales Growth – H1 2019 vs H1 2020

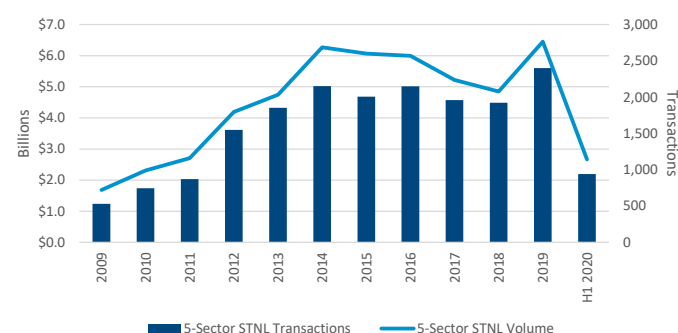


- With a sector exhibiting traits of being in the late stages of a real estate cycle, towards the end of 2019, the net lease market began to experience an approximate 10% decrease in available inventory. This limited buying opportunities, particularly those of high-quality. As we turn the page on the first half of 2020, the pandemic has negatively impacted the commercial real estate sector. The industry experienced a 29.5% decline in sales volume from 1H 2019 to 1H 2020. To no one's surprise, the **retail sector fared even worse, posting nearly a 40% decline in sales volume.**

Transactions & Volume Decline

- When looking at the net lease sector for quick service and casual restaurants along with drug, dollar and auto part stores, the five combined sectors are trailing 2019's record setting pace which featured 2,400 transactions totaling \$6.4 billion. To date, 940 deals have been completed totaling \$2.7 billion. However, while off last year's record pace, the single-tenant sector looks healthy when compared to the entire commercial real estate landscape as the total sales volume only declined 2.6%.

Total Sales & Volume Drop



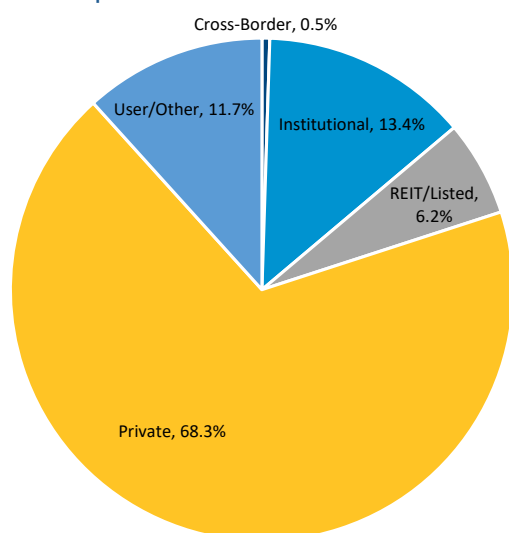
Investors Shift Towards Essential Businesses

- Investor sentiment has shifted towards a flight to quality and essential services. To better insulate themselves from a high degree of economic uncertainty, investors are now heavily favoring high-quality credit tenants that provide vital goods and services from "A" locations.

COVID-19's Impact on the Retail Sector (continued)

- During the second quarter, investors primarily focused on essential businesses that were open such as grocery and c-stores, pharmacies, dollar stores and QSRs. Non-essential businesses like fitness, theatres and full-service dining were closed and investors shied away to see what financial impacts are in-store for those tenants.
- Nearly 70% of the capital invested in single-tenant net lease properties in the first half of 2020 came from private investors, 13.4% from institutional, 11.7% from owner-users, 6.2% from REITs and less than 1% from cross-border investors. 92% of the single-tenant net lease properties that sold in the first half of this year were located in suburban markets, while 8% of these properties were located in CBD/urban markets.

Capital Composition

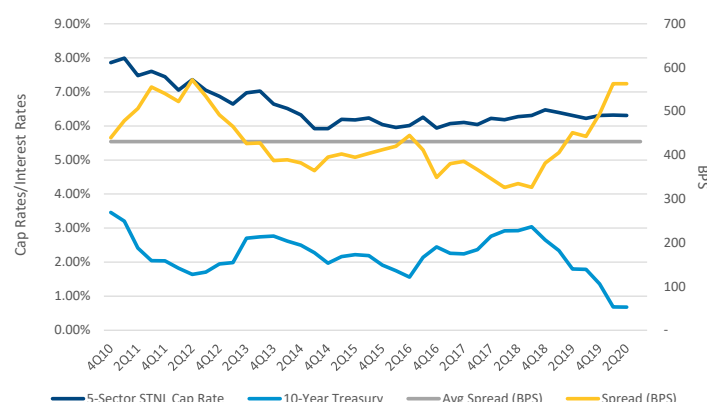


- While private investors have dominated the activity throughout 2020, there is plenty of interest from large institutional investors for net lease transactions with an appetite for larger deals. We expect to see a larger amount of transactions to trade in the second half of the year, as there will be a big drive to get pent-up capital into the market.

Falling 10-Year Widening Spread

- Single-tenant cap rates have been relatively flat over the last five years, hovering within a 25-basis point (bps) range of the current overall average rate of 6.31%. However, with the 10-year at record lows, the spread increased by 22% year-over-year to 553 bps.

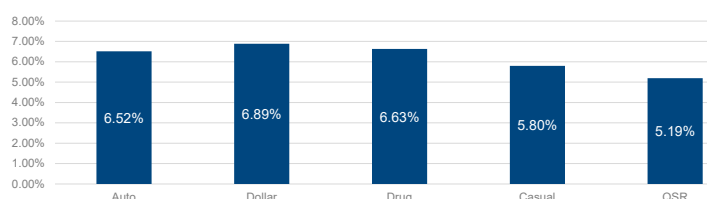
Spread Between 10 Year Treasury & Cap Rates Widens



Cap Rates Continue to Compress

- Despite the pandemic, we continue to see cap rates holding steady and even compressing particularly when essential retailers are involved. However, **the market is significantly bifurcated between corporate and large financially sound franchisees and everyone else.** With investors chasing a limited supply of quality credit deals on the market, the gap between a corporate owned QSR, for example, and even a 10-unit operator is widening by the day.
- During the first half of the year, cap rates for QSRs dropped 44 bps year-over-year to 5.19% while casuals declined 59 bps to 5.80%. Despite providing essential goods, Auto, Dollar and Drug stores all witnessed a mild uptick in their cap rates over the same time span, however, that had more to do with the quality of the assets that sold than being a referendum on the sector as a whole.

Cap Rates by Net Lease Sector

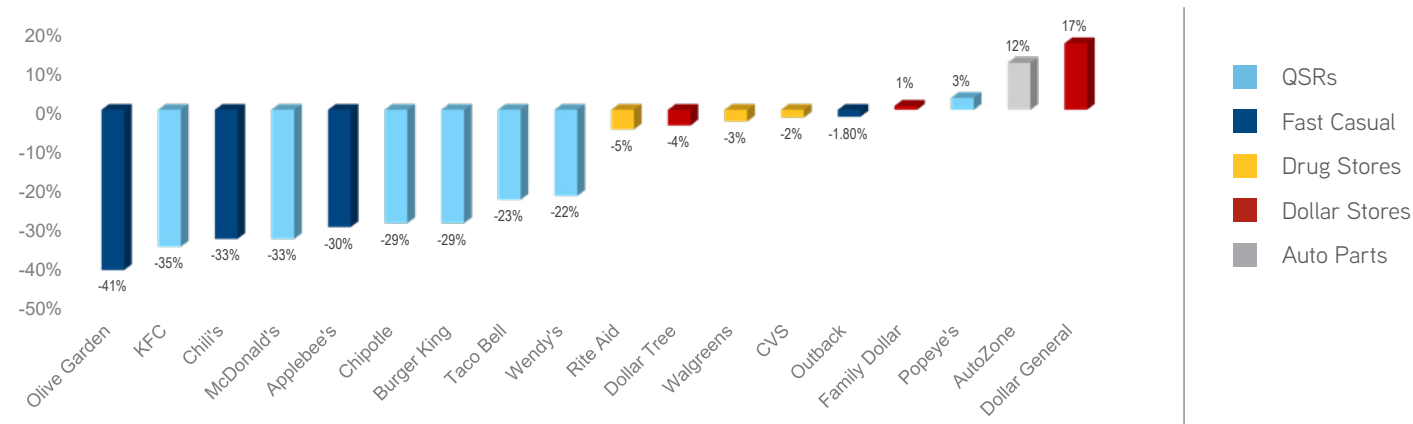


COVID-19's Impact on the Retail Sector (continued)

Foot Traffic Still Lagging

- As businesses and offices continue to re-open and with consumers heading back to work and school, mobility data suggests that we are getting out more. However, looking at year-over-year foot traffic for a sampling of net lease tenants, traffic is by and large still down. Not surprisingly, **restaurants are lagging behind other retail sectors by a considerable margin.**

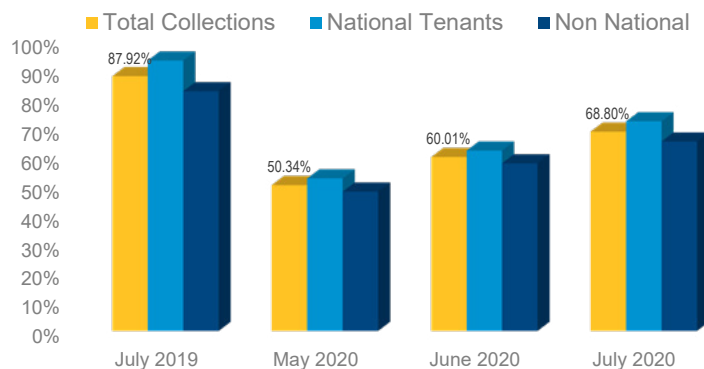
Foot Traffic Remains Sporadic



July Retail Rent Collections Rise

- Fortunately, despite the continued decline in foot traffic, **total retail rent collections have increased 56% from the beginning of quarantine** (April 10) to July 15. On average national tenants have been paying rent more frequently than non-nationals, 72.3% vs. 65.4%. While there remains a negative 22% difference in total rent collections year-over-year, retailers are slowly rebounding, and that number will hopefully continue to decline.

July Rent Collections



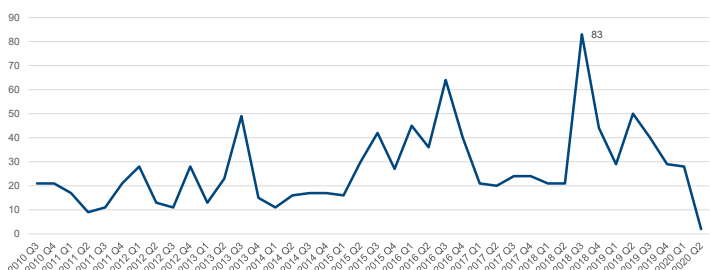
Casual Restaurants

- Seemingly overnight, casual restaurants began to feel the full effects of COVID-19 as states issued safer-at-home mandates. Sales plummeted as restaurants had to pivot away from dine-in and focus their attention on delivery and carryout. While most states have begun to loosen their restrictions and are now allowing patio dining, as well as limited capacity indoor dining, casual restaurants remain in a tenuous position.
- All four brands reduced the number of units from a year ago. On the low end, Outback showed a net loss of three locations, whereas on the other end, Applebee's showed a net loss of 142 locations.

Investors Hit the Brakes

- Unlike QSRs, which did not need to shut down for a period of time and to a large degree were better positioned to contend with social distancing restrictions, investors took a wait and see approach with casual restaurants throughout the second quarter. While the number of sales transactions has steadily declined since the 164 store highwater mark in 3Q 18, 2Q 20 saw only seven transactions recorded.

Historical # of Transactions



1,668 Units
\$450 Sales/SF



1,204 Units
\$425 Sales/SF



874 Units
\$600 Sales/SF



719 Units
\$590 Sales/SF

Total Industry Revenue

\$ 138.8B
REVENUE

0.4%

ANNUAL GROWTH
2015-2020

2.5%

ANNUAL GROWTH
2020-2025

Key Trends



Menus are evolving as consumers seek healthier alternatives



Fast casual restaurants offering quick, high-quality food will continue to erode revenue



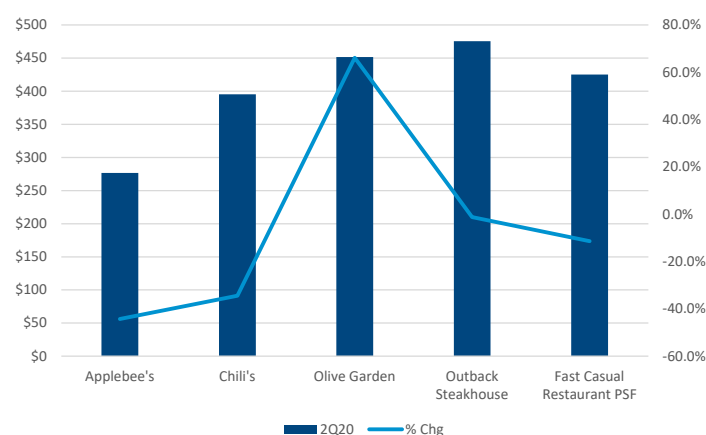
Major chains will amplify overseas expansion

Casual Restaurants (continued)

Price Per Square Foot Declines

- The overall average price per square foot declined year-over-year, by 11.4% when comparing the first half of 2019 to 2020. With regard to the year-over-year percentage change, Applebee's and Olive Garden featured dramatic swings in opposite directions, with Olive Garden seeing a 66.2% increase and Applebee's posting a 34.4% decline. However, we believe this has more to do with a limited sample size than current investor sentiment.

Price/SF & Year-Over-Year % Change



CAP Rates Stabilized, for Now

- Cap rates overall remained relatively unchanged during this same period, dropping 4 bps to 6.32%. With the majority of the first half of 2020 transactions closing during the first quarter, we expect to see cap rate expansion moving forward.

Historical CAP Rates

Tenant	2Q19	2Q20	BPS Chg
Applebee's	7.15%	6.70%	-45
Chili's	7.00%	8.30%	130
Olive Garden	6.65%	5.80%	-85
Outback Steakhouse	5.60%	5.40%	-20
Fast Casual Restaurant Cap Rate	6.36%	6.32%	-4

Notable Casual Sales

Tenant	Address	City	State	Sale Price	Cap Rate
Olive Garden	3480 East West Hwy	Hyattsville	MD	\$6,800,000	-
Applebee's	45305 Seeley Dr	La Quinta	CA	\$3,750,000	6.01%
Outback Steakhouse	3201 Horizon Dr	Springfield	IL	\$3,750,000	-
Applebee's	14678 Cedar Ave	Apple Valley	MN	\$3,670,000	7.10%

Outlook

- Strong headwinds are likely to continue for casual restaurants for the foreseeable future. Restaurants are operating well below pre-pandemic levels and although communities have begun granting temporary variances to allow for more outside dining, this remains a seasonal solution. While takeout and delivery have mitigated some of the financial toll, a return to normalcy is unlikely until social distancing guidelines are no longer needed. Nevertheless, annualized revenue growth is forecasted at 2.5% over the next five years as many national chains push operations to emerging economies. The number of industry locations is expected to grow at an annualized rate of 1.9% and as a result, consolidations are expected to continue. Cap rate expansion is expected across all brands and we should see that trend push well into 2021.



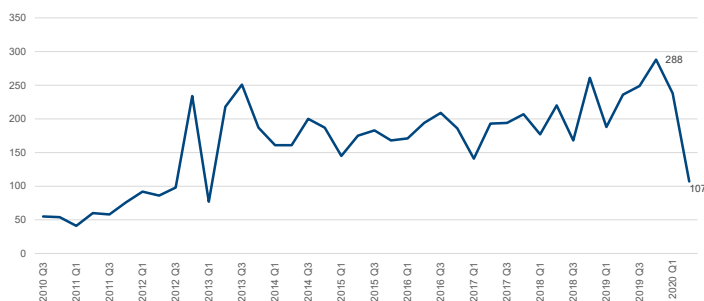
Quick Service Restaurants (QSR)

- Over the years, QSRs have been a net lease mainstay and have provided a path for many small investors to get started in commercial real estate. While the pandemic has impacted QSRs bottom line, QSRs have been more resilient than full-service restaurants, as a significant portion of their business already came via drive-thru and carryout business. In addition, the majority of QSRs were either exempt from many of the restricting local ordinances that impacted full-service restaurants, or they did not apply.
- Within the QSR arena, there was a wide disparity in the sales per square foot of each chain during the first half of 2020. Starbucks led the way at \$925/SF, followed by Chipotle at \$885/SF and McDonalds at \$715/SF. At the lower end were Pizza Hut at \$345/SF and Arby's at \$378/SF.
- Not surprisingly, Starbucks also led the field in store growth, expanding by an additional 331 locations since 2Q 19. Going the other way, Pizza Hut consolidated 205 locations as they continue to evolve into a delivery/carry-out model.

Activity Stalls Due to COVID-19

- As expected, there was an appreciable decline in the number of QSR sales transactions given the uncertainties of the pandemic and difficulty scheduling site visits due to travel restrictions. Sales plummeted from an all-time high of 288 transactions posted year-end 2019, to 107 sales in the second quarter of 2020.

Total Transactions



 15,174 Units \$925 Sales/SF	 13,844 Units \$715 Sales/SF	 7,321 Units \$650 Sales/SF
 7,277 Units \$415 Sales/SF	 6,289 Units \$540 Sales/SF	 5,741 Units \$345 Sales/SF
 4,062 Units \$420 Sales/SF	 3,407 Units \$378 Sales/SF	 2,916 Units \$416 Sales/SF
 2,655 Units \$455 Sales/SF	 2,617 Units \$885 Sales/SF	 2,238 Units \$600 Sales/SF

Total Industry Revenue

\$ 293.1B
REVENUE

3.8%

ANNUAL GROWTH
2015-2020

2.4%

ANNUAL GROWTH
2020-2025

Key Trends



Consumers preference shift towards healthier options continues to impact revenue



Labor shortages remain problematic



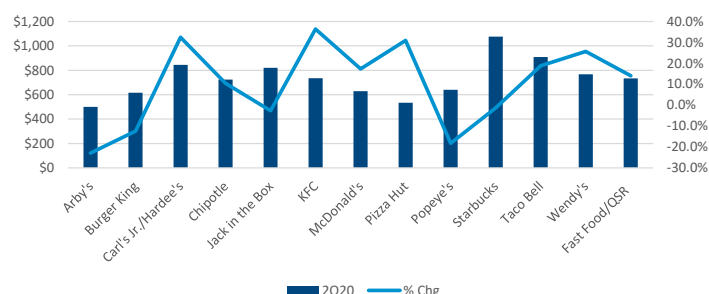
Competition is expected to intensify, and stores will look for technological advantages

Quick Service Restaurants (continued)

Price Appreciation Varies by Chain

- Overall, the average price per square foot for all QSRs increased over 14% from the previous year, rising from \$643/SF to \$743/SF. KFC led all brands increasing by 36.4%, followed by Hardee's and Pizza Hut. On the other end, Arby's saw its price decline by 22.9%.

Price/SF & Year-Over-Year % Change



Cap Rates Decline, But Not Across the Board

- Overall cap rates declined from 5.6% to 5.3% year-over-year; however, Arby's, Carl's Jr and Chipotle saw their cap rates rise between 19 and 45 bps. Meanwhile, KFC, which saw the largest price appreciation, posted the largest decline dropping 45 bps.

Historical CAP Rates

Tenant	2Q19	2Q20	BPS Chg
Arby's	5.75%	6.20%	45
Burger King	5.90%	5.60%	-30
Carl's Jr./Hardee's	5.39%	5.58%	19
Chipotle	5.15%	5.50%	35
Jack in the Box	5.30%	5.25%	-5
KFC	5.90%	5.45%	-45
McDonald's	4.75%	4.35%	-40
Pizza Hut	6.05%	6.00%	-5
Popeye's	5.95%	5.85%	-10
Starbucks	5.20%	4.95%	-25
Taco Bell	5.55%	5.55%	0
Wendy's	5.85%	5.70%	-15
Fast Food/QSR Cap Rate	5.60%	5.31%	-29

Notable QSR Sales

Tenant	Address	City	State	Sale Price	Cap Rate
Starbucks	1000 Post Rd E	Westport	CT	\$6,790,400	4.03%
Starbucks	21532 Brookhurst St	Huntington Beach	CA	\$5,974,025	3.85%
Carl's Jr.	4770 Irvine Blvd	Irvine	CA	\$5,908,737	-
Wendy's	2201 N Bellflower Blvd	Long Beach	CA	\$5,555,500	4.50%

Colliers Sales Spotlight



Jack In The Box
4565 Holt Blvd
Montclair, CA
Sale Price: \$2,630,000
Price PSF: \$872.88

McDonald's
3201 Broadway St
Quincy, IL
Sale Price: \$2,352,900
Price PSF: \$512.50

Starbucks
1252 S Country Club Dr
Mesa, AZ
Sale Price: \$2,690,000
Price PSF: \$1,120.83

Outlook

- While the fast food industry has been evolving over the last several years as consumers seek healthier options, pandemic or not, QSRs will continue to play a vital role in the restaurant landscape. Activity is anticipated to rebound nicely but will need some time to return to the record-breaking pre-pandemic levels exhibited at the end of 2019. Consolidations of smaller brands and operators will continue. Overall, we expect to see further compression of cap rates, but it will not be uniform across all brands. Investor staples such as Starbucks and McDonald's are expected to remain in favor heading into 2021.



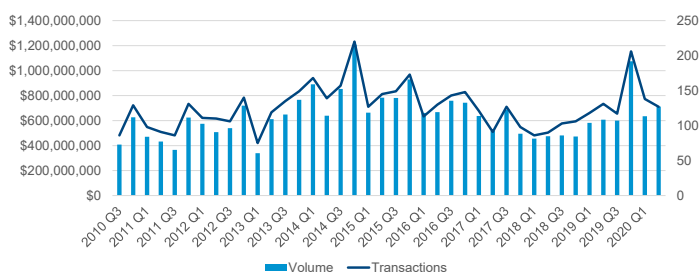
Drug Stores

- As an essential retailer, drug stores have long been an investor mainstay. But drug stores began to fall out of favor in 2015 when Walgreens announced that it was acquiring Rite Aid and speculation swirled regarding further industry consolidations and more store closings. With the arrival of COVID-19, drug stores saw an immediate boost in sales as consumers stockpiled supplies, but that appeared to be short lived as Walgreens announced in late July that the pandemic resulted in roughly \$750 million in negative operating income.
- The sector saw a significant increase in inventory overall despite the contraction of CVS & Rite Aid, whose footprints shrank by 59 and 18 stores, respectively. Walgreens tipped the scales into positive territory by showing a net gain of 303 locations over the last four quarters.

Demand for Drug Stores Remains Strong

- With health concerns top of mind during the pandemic, demand from both consumers and investors remained strong. While off from the near record setting pace of the second half of 2019, investor activity was up from both a sales volume and transaction perspective when comparing the first half of 2019 to 2020.

Transaction & Sales Volume



Walgreens & CVS Property Values Rise

- When looking at the year-over-year price per square foot growth, CVS & Walgreens continued to shine, posting growth of 22.2% and 9.1%. Meanwhile, Rite Aid dropped 7.5% from \$295/SF to \$273/SF.

Walgreens

8,961 Units
BBB
\$810 Sales/SF

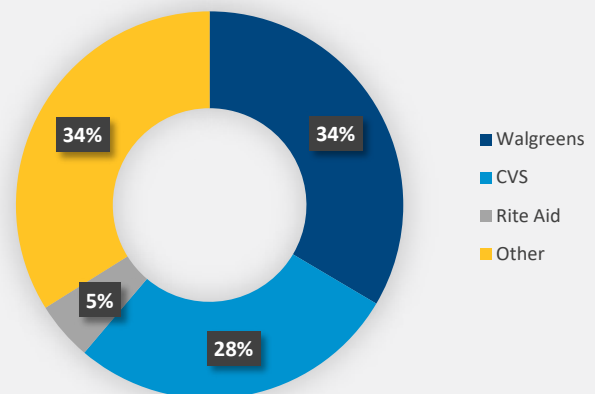
CVS
pharmacy

8,131 Units
BBB
\$720 Sales/SF



2,508 Units
CCC+
\$465 Sales/SF

Major Players as % Revenue



Key Trends



Competition from online and mail-order pharmacies will intensify



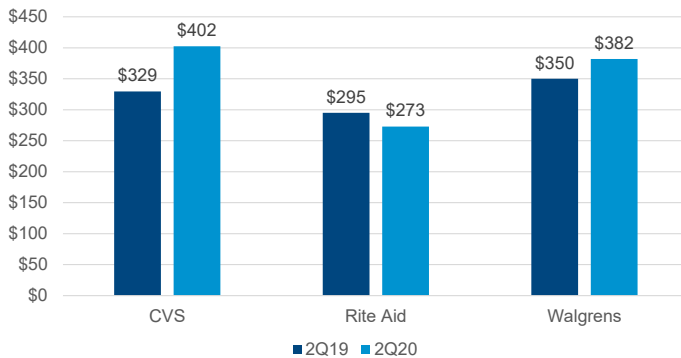
The integration of healthcare clinics into local stores will increase



Aging population will keep demand high

Drug Stores (continued)

Year-Over-Year Price/SF



Cap Rates See Tick Up Overall

- Like other net lease sectors, the spread between the 10-year treasury and the average drug store cap rate widened. Walgreens and Rite Aid both compressed by 5 bps year-over-year to 6.6% and 7.8%, meanwhile CVS increased to 6.3%, a 50 bps increase.

Historical CAP Rates

Tenant	2Q19	2Q20	BPS Chg
CVS	5.80%	6.30%	50
Rite Aid	7.85%	7.80%	-5
Walgreens	6.70%	6.65%	-5
Drug Store Cap Rate	6.46%	6.72%	26

Notable Drug Store Sales

Tenant	Address	City	State	Sale Price	Cap Rate
CVS	1755 Columbia Rd NW	Washington	DC	\$17,325,000	-
CVS	4051-4055 Hylan Blvd	Staten Island	NY	\$11,920,000	5.83%
Walgreens	21880 State Road 7	Boca Raton	FL	\$11,626,306	-
Walgreens	1835 W Sand Lake Rd	Orlando	FL	\$11,600,000	5.57%

Colliers Sales Spotlight



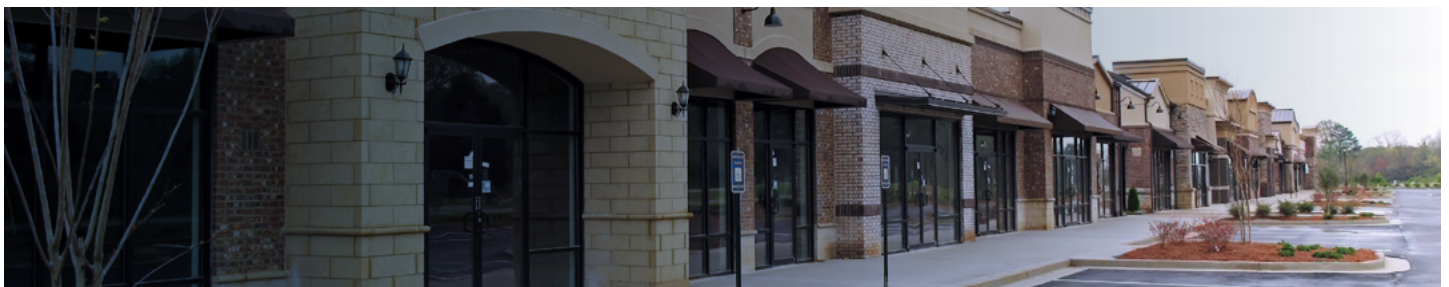
Walgreens
189 W Northwest Hwy
Barrington, IL
Sale Price: \$11,500,000
Price PSF: \$793.65

Walgreens
2000 S Mill Ave
Tempe, AZ
Sale Price: \$9,050,000
Price PSF: \$624.57

Rite Aid
3130 Simpson Ave
Hoquiam, WA
Sale Price: \$7,500,000
Price PSF: \$432.55

Outlook

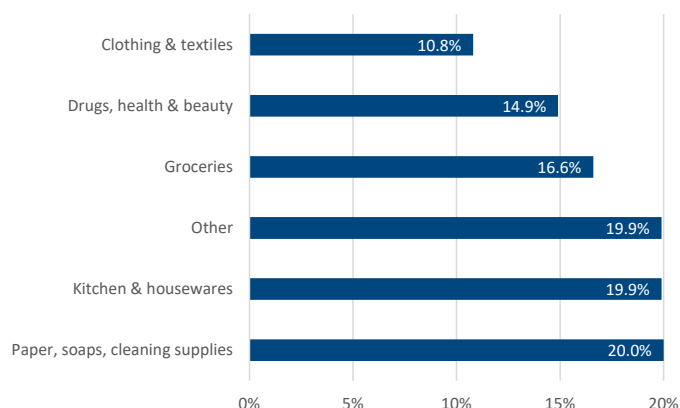
- With a medically induced recession, no other net lease investment seems better suited to thrive in these types of conditions than drug stores. However, additional store closings appear on the horizon as Walgreens announced additional cost containment measures in their latest earnings call. In addition, with Amazon acquiring PillPack, pharmacies will see increased competition for prescriptions in the not so distant future. But, as the healthcare industry continues to evolve, the expansion of primary-care in-store clinics should be a positive, as it will further cement these stores as a one-stop location.
- About 10,000 baby-boomers turn 65 each day and by 2030, all boomers will be 65 or older. According to data from IMS Health, individuals aged 65 to 79 used about five times the number of drugs as adults aged 19 to 25. As a result, drug stores are expected to expand their footprint by about 2.4% annualized over the next several years and revenues are projected to average 2.7% annualized. Due to market volatility, we expect to see cap rate expansion heading into 2021.



Dollar Stores

- During the Global Financial Crisis recession, dollar stores outperformed other net lease investments, and based on investment activity, investors believe this trend will continue. In addition to all three brands being investment grade tenants, investors have a strong affinity for dollar stores as many of them feature newer construction.
- Dollar General expanded its national footprint by 2.6%, gaining 426 locations. Dollar Tree & Family Dollar posted a more modest expansion, gaining 51 units.

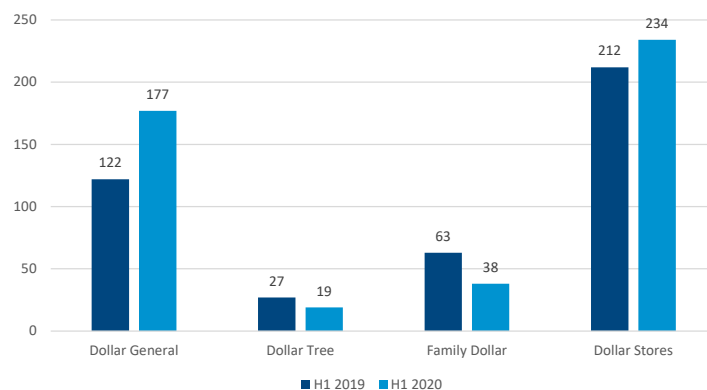
Product Sales as % Revenue



Sales Activity Increases

- Considered an essential business sector, dollar stores saw increased traffic and investment activity trending higher during the first half of 2020 compared to the first half of 2019. From a real estate perspective, overall sales activity increased by 10% to 234 sales, as investors favored Dollar General over Dollar Tree and Family Dollar. Overall sales volume increased by 8% to \$361 million.

Sales Transactions



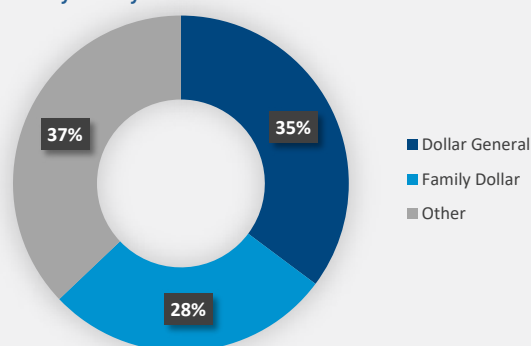
DOLLAR GENERAL

16,540 Units
BBB
\$190 Sales/SF



15,288 Units
BBB
\$160 Sales/SF

Major Players by % Revenue



Total Industry Revenue

\$ 85.6B
REVENUE

2.5%

ANNUAL GROWTH
2015-2020

3.4%

ANNUAL GROWTH
2020-2025

Key Trends



Expanding reach to attract suburban middle-class consumers



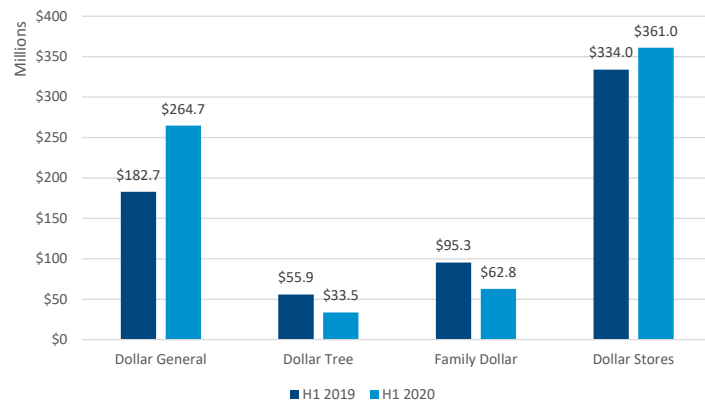
Beginning to compete with discount retailers as product offering increases



Smaller operators will be acquired by larger ones

Dollar Stores (continued)

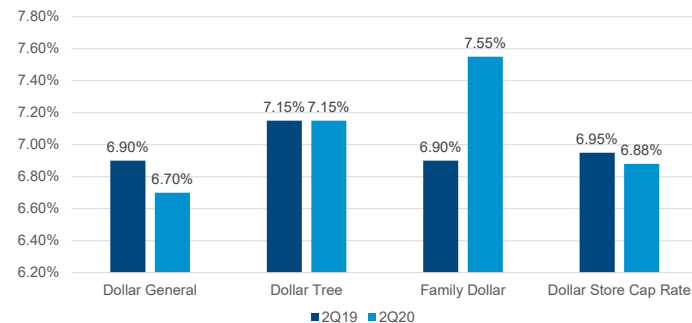
Sales Volume



Prices Per Square Foot Rises, but Cap Rate Compression Varies by Brand

- The overall sales price per square foot increased by \$2.24/SF on a two-quarter moving average to \$164.55/SF. Family Dollar led the pack at \$183.83/SF.
- While Dollar General saw its cap rate decline 20 bps to 6.7%, Family Dollar increased by 65 bps to 7.55% year-over-year. Nevertheless, the overall cap rate for dollar stores declined 7 bps to 6.88% due to a larger percentage of Dollar General sales.

CAP Rate Comparison



Notable Dollar Store Sales

Tenant	Address	City	State	Sale Price	Cap Rate
Family Dollar	543 Us Route 4	Enfield	NH	\$5,551,800	-
Dollar General	62088 29 Palms Hwy	Joshua Tree	CA	\$3,600,000	5.90%
Dollar Tree	5977 E County Road 462	Wildwood	FL	\$3,043,000	5.75%
Family Dollar	13470 Cedar Rd	University Heights	OH	\$3,000,000	-

Colliers Sales Spotlight



Dollar General
130 LA-640
Edgard, LA
Sale Price: \$1,360,000
Price PSF: \$149.458

Dollar General
315 NE Front St
Dongola, IL
Sale Price: \$1,064,842
Price PSF: \$117.02

Family Dollar
1108 W Main St
Fremont, MI
Sale Price: \$620,000
Price PSF: \$72.30

Outlook

- Dollar stores will continue to remain in investors favor as they provide value to their customers, typically feature newer construction and consist of investment grade tenants. Activity is expected to remain brisk as this recession resistant sector should continue to see mild cap rate compression pushing well into 2021. Revenue forecasts to 2025 project an annualized growth of 3.4%. Aggressive growth strategies are on tap; however, a significant portion of market share will be captured through acquisitions of smaller chains that will be unable to compete with the buying and marketing power of the larger operators.



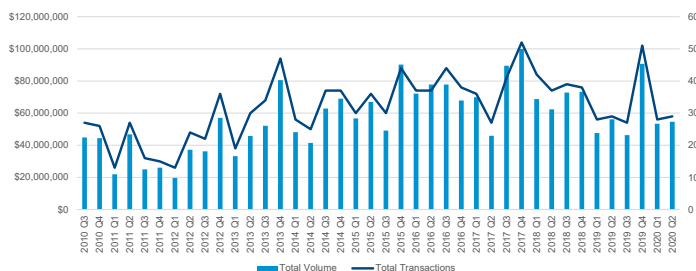
Auto Part Stores

- Historically during recessionary times, new car sales decline as consumers hold onto their existing cars longer and as a result, demand for auto parts increase. However, the start to this recession has been anything but typical. With consumers largely staying at home, people were not putting nearly as many miles on their car, and therefore had less need for repairs and parts.
- However, since the early days of the pandemic, we have seen a substantial rise in automobile traffic. Looking at Apple's mobility trends, not only has auto traffic returned to pre-pandemic levels, there has been a 35% increase over the baseline, which was established on January 13, 2020. The rise in automobile traffic comes at the expenses of mass-transit, which remains 45% below the baseline.
- While revenue has remained relatively stagnant since 2015, increasing a nominal 0.5% per year on average, the industry saw substantial consolidation with advancements in market share for the largest operators. Overall, the industry continued to see strong penetration as O'Reilly & AutoZone showed net store growth over the past year of 258 and 26 stores, respectively. Meanwhile, Advance Auto contracted by 19 locations.

Auto Parts Resilient to Pandemic

- Deemed an essential retailer in multiple states, many auto part stores remained opened during the early stages of the pandemic and as a result investor interest did not wane. Over the last decade, the sector has averaged 31.2 sales transactions per quarter. During 2Q 20, 29 sales were transacted, which was one sale higher than the first quarter.

Sales Transactions & Volume Stabilize



AutoZone

5,832 Units
BBB
\$280 Sales/SF

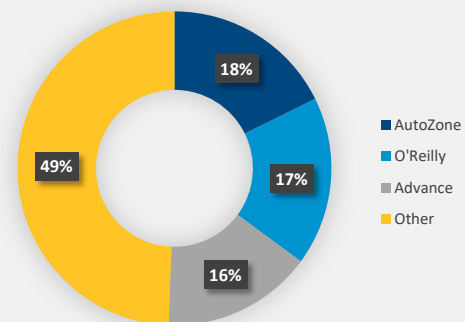
O'Reilly AUTO PARTS

5,477 Units
BBB
\$255 Sales/SF

Advance Auto Parts

4,264 Units
BBB-
\$235 Sales/SF

Major Players as % of Revenue



Total Industry Revenue

\$ 61.9B
REVENUE

0.5%

ANNUAL GROWTH
2015-2020

1.5%

ANNUAL GROWTH
2020-2025

Key Trends



Consumers are putting more miles on their cars and keeping them longer, pushing up demand for repairs and parts



Major players are gaining market share



E-commerce and repair shops ordering direct from the manufacturers are eroding revenue

Auto Part Stores (continued)

Cap Rate Compression Stalls

- Cap rates have steadily been declining over the last decade. However, when comparing 2Q 20 to 2Q 19, overall rates ticked up by 3 bps. Advanced Auto has consistently carried a higher cap, and finished the quarter at 7.3%, compared to AutoZone at 6.4% and O'Reilly at 6%. Of the three brands, O'Reilly was the only store that posted compression, declining 30 bps, year-over-year.

Price Appreciation Witnessed Sector Wide

- All three auto part stores showed year-over-year appreciation on price per square foot basis, averaging 14.6%. O'Reilly showed dramatic movement, increasing 22.9% to \$308.38/SF over the last four quarters. AutoZone, showed minimal appreciation, increasing by nine-tenths of a percent and Advance Auto increased by 5.2%

Price/SF Sales Appreciation

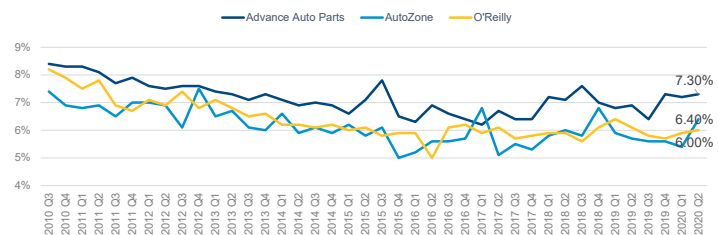
Tenant	2Q19	2Q20	BPS Chg
Advance Auto Parts	\$232.46	\$244.44	5.2%
AutoZone	\$253.05	\$255.40	0.9%
O'Reilly Auto Parts	\$250.92	\$308.38	22.9%
Auto Parts Store PSF	\$235.56	\$270.05	14.6%

Notable Auto Part Stores Sales

Tenant	Address	City	State	Sale Price	Cap Rate
Advance Auto Parts	1605 S Missouri Ave	Clearwater	FL	\$3,987,000	5.75%
AutoZone	5870 Crenshaw Blvd	Los Angeles	CA	\$3,777,233	-
AutoZone	2060 Gatlin Blvd	Port Saint Lucie	FL	\$3,200,000	-
Advance Auto Parts	103 E Center St	Kyle	TX	\$2,910,000	5.13%



Historical Cap Rates



Colliers Sales Spotlight



O'Reilly Auto Parts
6815 Chapel Hill Rd
Raleigh, NC
Sale Price: \$2,629,000
Price PSF: \$331.19

O'Reilly Auto Parts
961 Bethel St
Clover, SC
Sale Price: \$2,000,000
Price PSF: \$276.71

AutoZone
712 N 1st St
Sale Price: \$1,065,000
Price PSF: \$155.70

Outlook

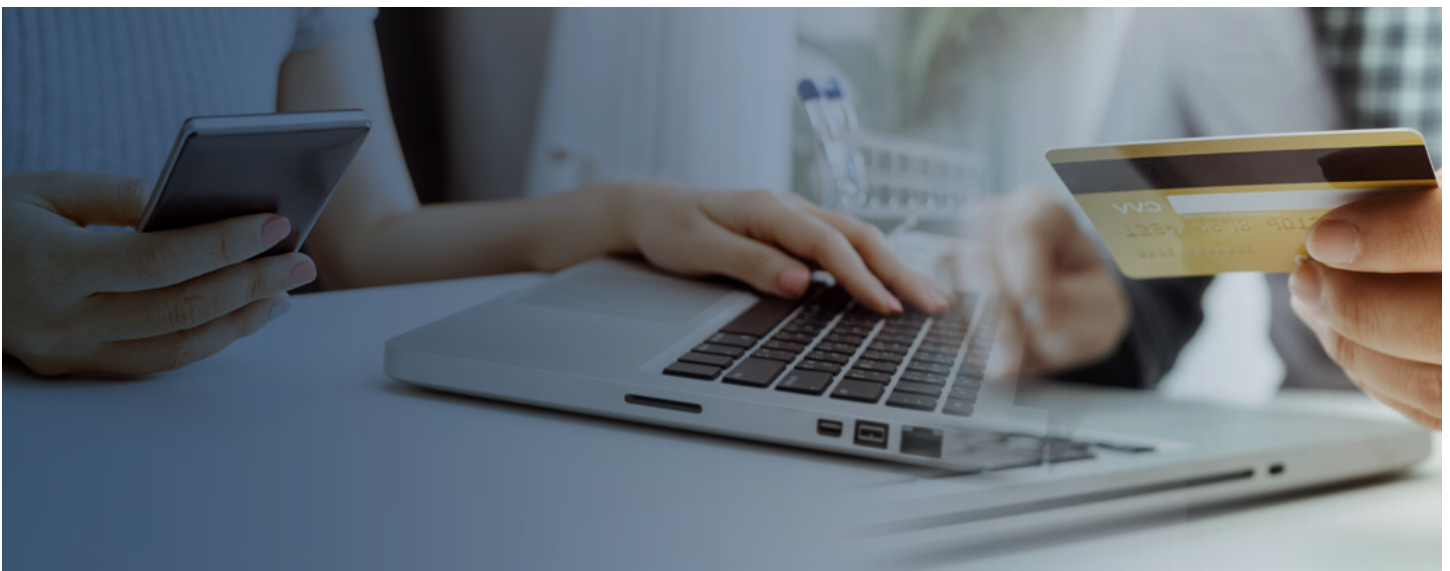
- As long as there are cars, there will always be a need for auto parts. Because the reliability of cars has dramatically increased over the years, cars are staying on the road longer and reaching 200,000 miles is no longer an anomaly. This bodes well for the auto part sector. However, while all three brands have an e-commerce component to their business, we foresee increased competition from Amazon and other e-commerce specialty providers. In addition, over the long run, the increased technological sophistication of cars could impact the demand for retail parts as the number of repairs and the average consumer would have the skillset to complete on their own declines.
- Consolidations and new developments will benefit the industry as the dominant players will be able to use their brand and financial resources to reach a larger audience. As a result, industry revenue and store counts are forecasted to rise by approximately 1.5% and 0.7%, respectively, on an annualized basis through 2025. As such, we anticipate continued cap rate stabilization heading into 2021.

Summary

- Retail has been evolving over the last several decades and will continue to evolve for decades to come.
- Retailers will look to rationalize the number of stores and cut back on physical space. The migration of brick-and-mortar retail towards experiences and services is likely to continue once the pandemic abates.
- Retailers were forced to adapt their business model over the past few months, and those that can offer a seamless omni-channel approach will thrive moving forward.
- By 2025, analysts at UBS forecast 100,000 brick-and-mortar stores will permanently close and that online sales will account for 25% of total retail sales.
- As for the net lease sector, properties with investment grade rated tenants that are minimally impacted by COVID-19 will remain in favor. We expect to see continued competition among investors for high-quality net lease properties. With the stabilization of the 10-year treasury, at least for the next few years, investors should continue to garner higher leveraged returns. Net leases will remain an active vehicle for 1031 exchanges and we anticipate that cap rate expansion or contraction will continue to be largely driven by sector, location, and quality of the tenant.

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