CALKAIN COMPANIES | AMERICA'S NET LEASE COMPANY®

2Q15 STNL
CAP RATE REPORT

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KEY TAKEAWAYS:

- Dollar Stores experienced a significant drop in average cap rates in 2Q15, primarily due to newer supply and a change in buyer profile from institutional investors to private individuals.
- Rite Aid is masking a flat or upward cap rate trend in the Pharmacy sector, as cap rates continue to compress amid strong corporate performance.
- More Rite Aid owners are selling their properties. The tenant constituted 38.7% of Pharmacy sales in 2Q15, up from 12.1% in the first quarter. However, we expect this number to decrease going forward as more seasoned Walgreens and CVS stores are brought to market.
- Auto Parts and QSR pricing was flat. Bank cap rates decreased amid newer supply.

I. 2Q15 OVERVIEW

Table I below reports average cap rates and lease years at sale for each tenant category in 1Q15 and 2Q15, along with a low and high cap rate range. The two end columns in red show quarter-over-quarter change in cap rates and average lease years.

TABLE I

TENANT CATEGORY	1Q15					2Q15					CAP RATE (AVG)	LEASE YEARS (AVG)
	LOW	AVG. CAP	HIGH	(1) AVG. LEASE	SAMPLE SIZE	LOW	AVG. CAP	HIGH	(1) AVG. LEASE	SAMPLE SIZE		
Auto Parts	4.70%	6.55%	10.59%	8.5	31	4.53%	6.49%	9.50%	8.9	24	-0.06	+ 0.4
Bank*	4.15%	5.59%	7.25%	7.2	25	3.67%	4.83%	6.57%	10.4	12	-0.76	+ 3.2
Bank excl. CA*	4.15%	5.72%	7.25%	6.1	21	3.94%	5.22%	6.57%	10.0	7	-0.50	+ 3.9
C-Store*	4.17%	5.18%	6.00%	13.4	12	3.29%	5.45%	8.25%	12.4	17	+ 0.27	-1.0
Dollar Store	5.80%	7.29%	12.00%	10.6	51	6.00%	6.99%	9.33%	11.4	32	-0.30	+ 0.9
Dollar General Only	6.10%	7.45%	12.00%	10.9	30	6.00%	6.85%	8.45%	12.4	25	-0.60	+ 1.5
Pharmacy	4.50%	6.33%	11.72%	12.6	58	4.40%	6.39%	9.50%	11.1	31	+ 0.06	-1.5
Pharmacy excl. Rite Aid	4.50%	6.23%	11.72%	13.7	51	5.35%	6.33%	8.55%	12.1	19	+ 0.1	-1.6
QSR	3.75%	6.20%	9.11%	13.7	69	2.30%	6.15%	13.14%	12.7	100	-0.05	-1.1
AVERAGE/ TOTAL		**6.39%**		**11.7**	**246**		**6.22%**		**11.8**	**216**	**-0.17**	**+ 0.1**

(1) Avg. Lease Years is the average lease years remaining at sale for properties sold in the category. We are able to obtain lease year data for appx. 71% of comps.
An increase in average lease years is an indication of supply change, primarily new construction or lease renogtiation
In theory, we would expect a change in Avg. Cap Rate and change in Avg. Lease Years to be directionally opposite.
* As asterik indicates the sample size was too small to achieve a 95% confidence level. Reference "Methodology and Disclosures."

AUTO PARTS

Cap rates for auto related STNL properties, primarily Advance Auto, Autozone, O' Reilly, and PepBoys, were flat, with a small decline of -6 basis points from the first quarter. Average lease years at sale were up slightly by + 0.4 years.

BANK

As a category, average cap rates for banks were down -76 basis points. Much of this is due to newer properties being sold, with average lease years at sale up +3.2 years. A large number of Citibanks were sold in CA during the 2nd quarter, distorting the average. If California bank sales are removed, average cap rates are down -50 basis points while lease years are up +3.9.

DOLLAR STORE

Average cap rates for Dollar Stores declined a remarkable -30 basis points in the 2nd quarter. This was due to two reasons. First, a dramatic increase in the supply of newly constructed Dollar Generals coming to market. Average lease years at sale for Dollar Generals shot up +1.5 years, reflecting the increased presence of new 15-year NNN deals, while average cap rates decreased -60 basis points. Dollar Generals constituted 78% of the Dollar Store category in 2Q15.

Second, REITs, by in-large, have stopped purchasing Dollar Stores, with only legacy forward commitments trading. With no wholesale exit for developers, they are relying on private buyers to sell properties. This is more work, but it also yields a lower cap rate, creating downward demand-side pressure on average cap rates.

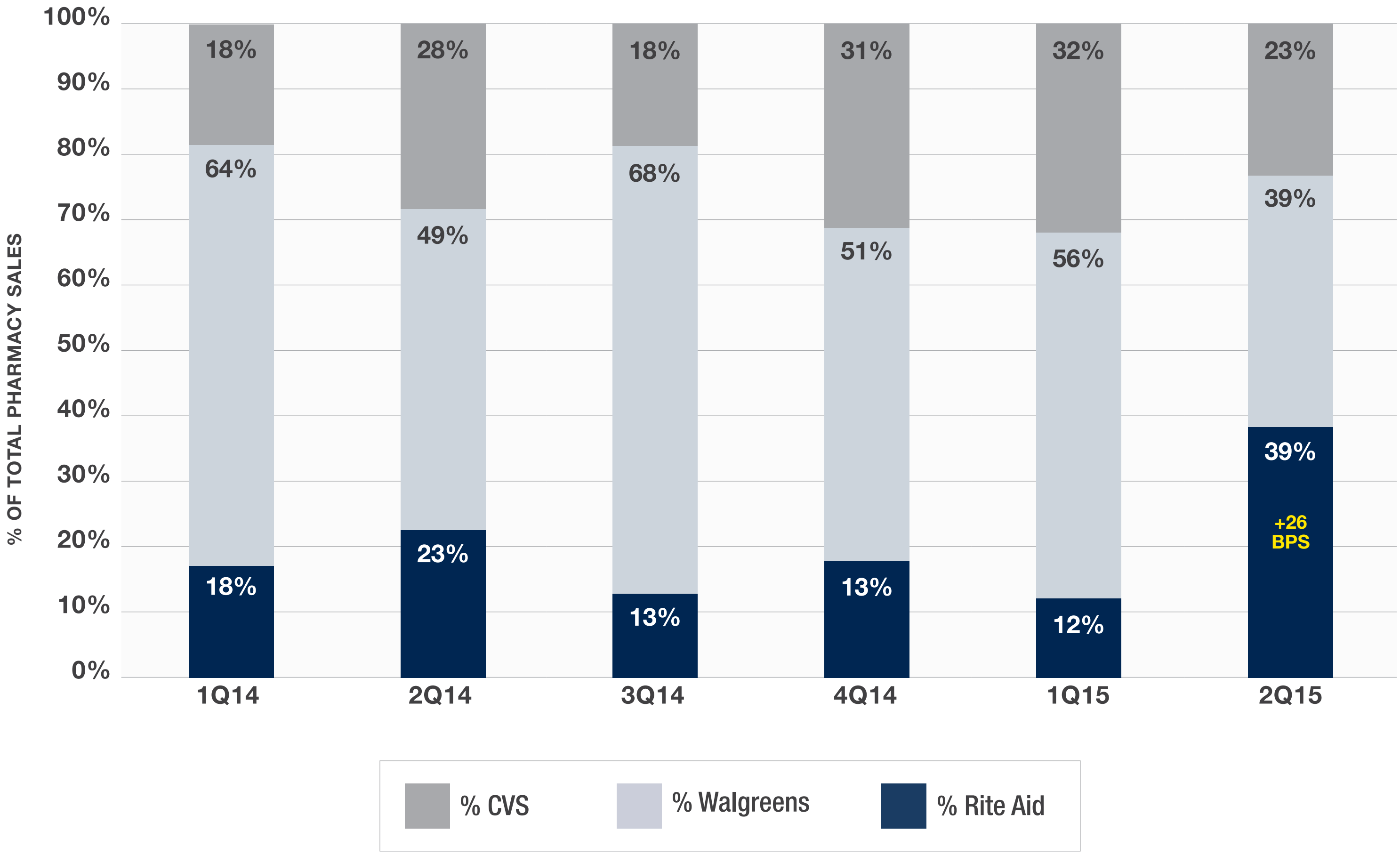
Finally, Family Dollar stores experienced some compression due to an increase in deals with 3-year rent bumps and 15-year NNN terms. However, sales velocity is down due to uncertainty over the Dollar Tree/Family Dollar merger.

PHARMACY

As a category, Pharmacy remained relatively flat in the 2nd quarter, with cap rates increasing +6 basis points. However, average lease years at sale decreased a significant - 1.5 years, indicating limited new construction or supply growth. If you remove Rite Aid, looking only at CVS and Walgreens, average lease years at sale in the second quarter fell -1.6 years, but cap rates increased a significant +10 basis points. We believe this indicates continued declines in Rite Aid cap rates are masking flat, or possibly increasing, cap rates for CVS and Walgreens, especially in lieu of recently announced store closings. Moreover, Rite Aid owners are beginning to capitalize on attractive rates by selling their properties, and the tenant's share of Pharmacy sector sales increased precipitously in the 2nd quarter. Still, with Walgreens announcing a number of corporate changes, such as merging with Boots Alliance, and older supply entering the market, we expect the pendulum to swing away from Rite Aid later in the second half of the year. **Chart I** summarizes this trend quantitatively.

DISTRIBUTION OF PHARMACY SALES TO RITE AID, WALGREENS & CVS

CHART I



Across all categories, retail cap rates decreased slightly by -17 basis points, while lease years remained flat. We believe this confirms the view of generally decreasing cap rates and limited overall supply growth.

II. MACROECONOMIC OUTLOOK

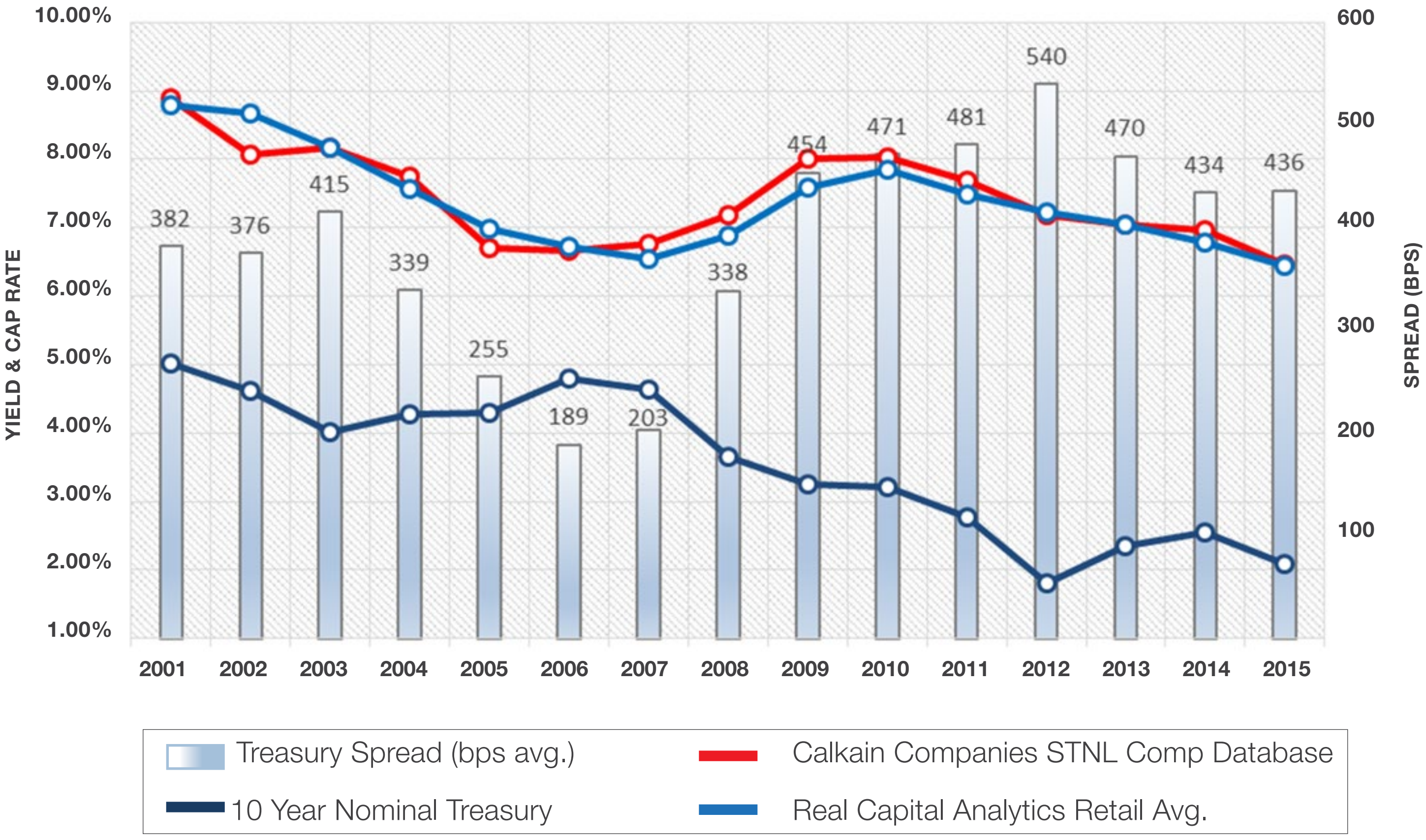
From a macroeconomic perspective, **Chart II** indicates a number of trends, notably focusing on spreads between STNL cap rates and Treasury securities. While cap rates are at all-time lows, and conventional wisdom would seem to indicate they're not likely to go lower; given that Treasuries are yielding rates that effectively can't go any lower, one conclusion you could draw is that cap rates could actually compress further if spreads returned to historical norms.

That being said, we don't believe more than incremental cap rate compression from this point forward in the absence of some extraordinary event.

It appears the Federal Reserve may well make a move on interest rates in the 3Q however it's likely to be a token gesture, if at all.

STNL RETAIL CAP RATES VS. 10 YEAR NOMINAL T-BILLS

CHART II



A NOTE TO OUR READERS

Calkain has dramatically changed the format of its cap rate report to make it more useful, consistent, and transparent. Our trend reports will now be released quarterly, using the procedures and comp sources highlighted in the "Methodology and Disclosures" section.

Previously, our reports only covered changes in cap rate. We now track lease years remaining at sale as well, to understand how the supply of STNL properties is changing. Finally, we added sample sizes to give context to our numbers. If you have any questions or suggestions for improvement, please email our Research Analyst, **Hamza Rashid** at **research@calkain.com.**

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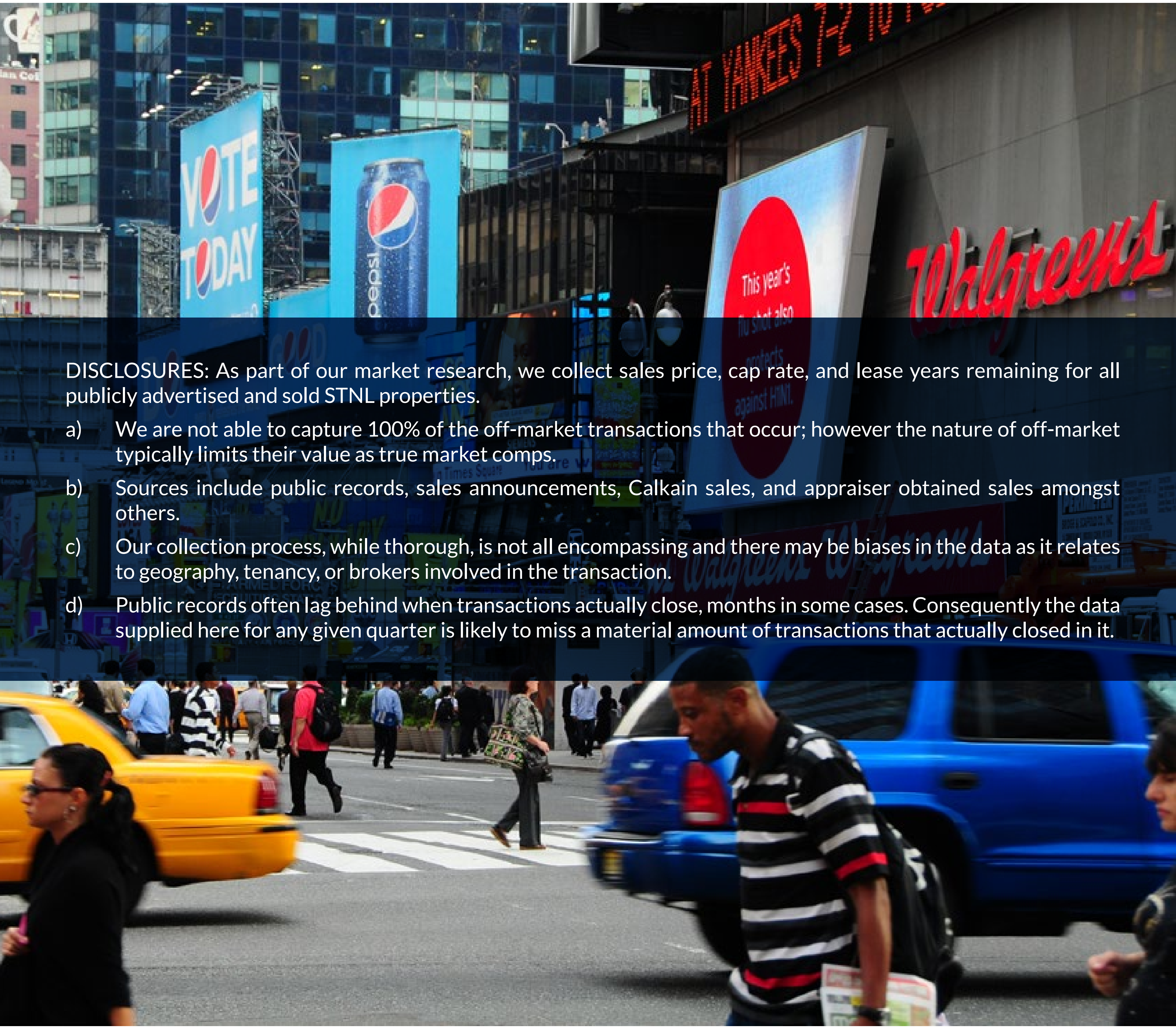

DISCLOSURES: As part of our market research, we collect sales price, cap rate, and lease years remaining for all publicly advertised and sold STNL properties.

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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