



**AVISON
YOUNG**

YTD 2018

U.S. Net Lease Bank Market Report

Market Summary

Banks with significant remaining lease term continue to command premiums, as do bank properties subject to ground leases, as opposed to fee simple lease structures. Average closed cap rates through the second half of 2018 rose by 5 basis points over the first half of the year. Asking cap rates vs. sold cap rates show little correlation by tenant or geography. This indicates that the quality of the underlying real estate has begun to heavily influence investor decision-making. It is also worth noting that the net lease bank market trades very favorably compared to the overall net lease retail market. The average bank cap rate of 5.72% weighed against the national retail average of 6.44%¹ indicates that, even in times of uncertainty, strong tenant credit and well-selected real estate offer significant upside to risk averse investors. As the market begins to settle, buyers will continue to rely heavily on remaining lease term and tenant credit in their prospective investments, and sellers across this asset class will benefit from the credit of their tenants and strength of their leases.

2018 CAP RATES		
1st Half '18 Sold	2nd Half '18 Sold ²	Spread
5.67%	5.72%	+5 bps

- More ground leased banks sold over the last year than those subject to fee simple leases. The opposite relationship exists among available properties. This indicates a stronger investor preference towards ground leased banks.
- Average cap rates of closed sales showed a modest increase, while average remaining term showed negligible change.
- Asking cap rates vs sold cap rates show a small spread of 8 basis points. However, asking vs. sold cap rates for ground leased properties show a much wider spread of 36 basis points. The larger difference denotes a discrepancy between seller expectations and market pricing.

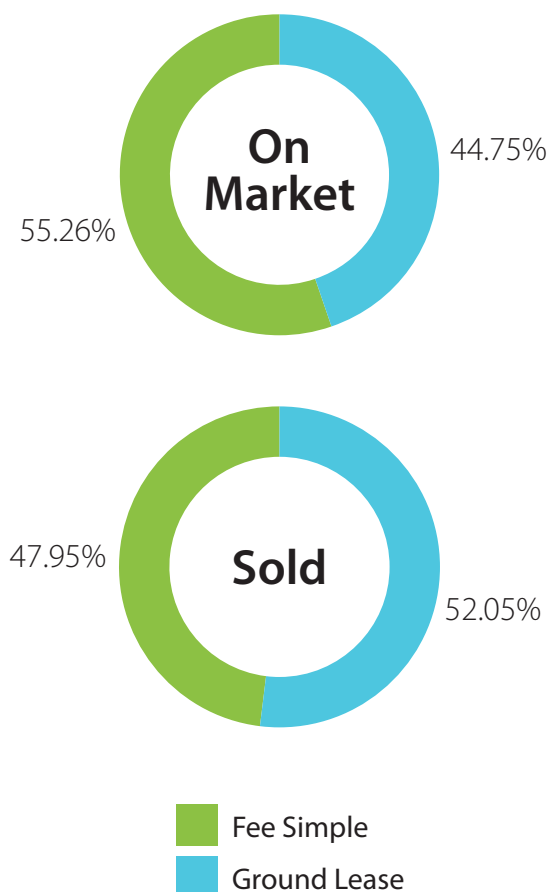
CAP RATES BY LEASE TYPE			
	On Market	Sold	Spread
Avg Cap Rate	5.64%	5.72%	+8 bps
Avg Ground Lease Cap Rate	5.18%	5.54%	+36 bps
Avg Fee Simple Cap Rate	6.00%	5.91%	-9 bps
Avg Remaining Term	8.8 Years	8.4 Years	0.4 Years

¹ As reported in the Avison Young 3Q18 U.S. Net Lease Sales Report

² Through Dec 1, 2018

³ Dec 2017 - present

2018 Market Statistics by Lease Type³





CAP RATES BY REMAINING LEASE TERM

Remaining Lease Term	On Market	Sold	Spread
0-4 Years	6.14%	6.16%	+2 bps
5-9 Years	5.80%	5.84%	+4 bps
10+ Years	5.13%	5.13%	Flat

- The data indicates a negligible spread between asking and sold cap rates, regardless of remaining lease term. This shows that sellers understand that long-term leases command a premium in the current market.
- A massive 50 basis point difference between the 5-9 year properties and the 10+ year properties demonstrates the importance of long-term security to investors purchasing banks.

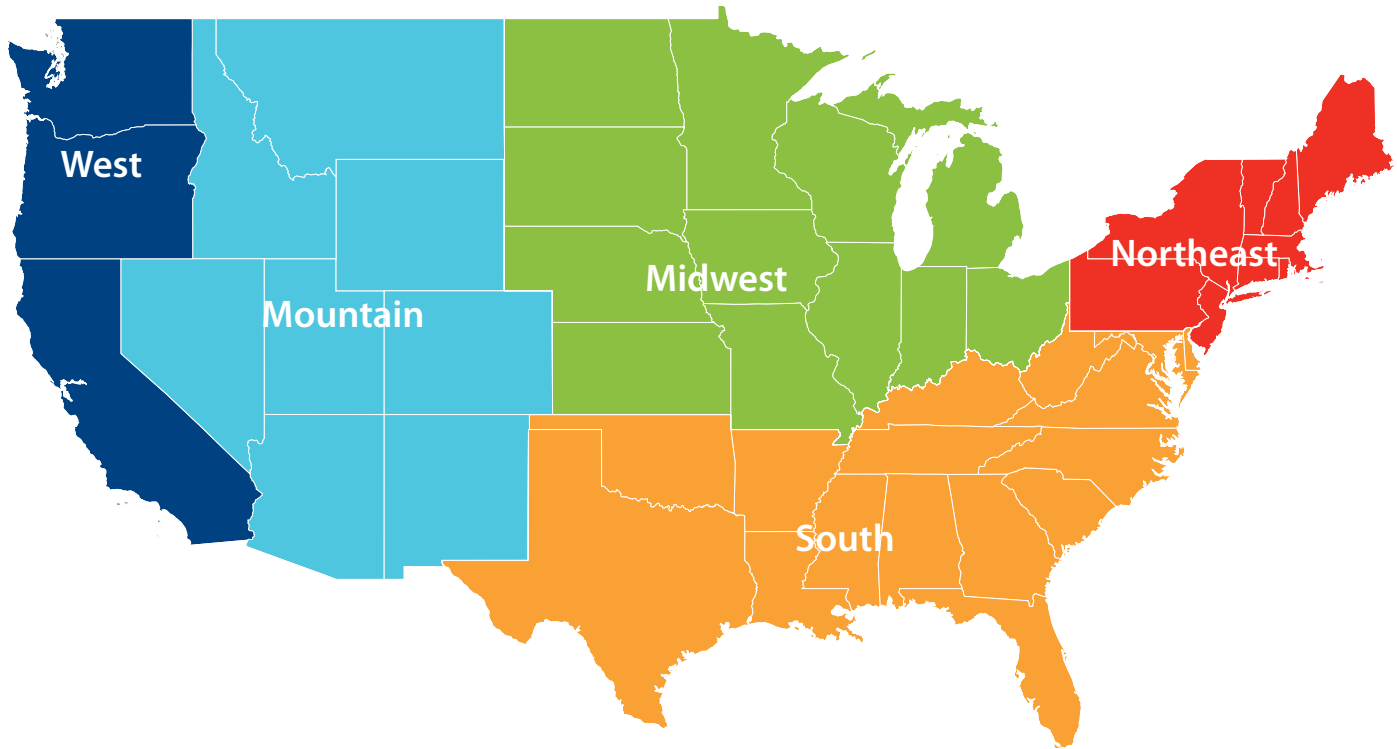
CAP RATES BY REMAINING LEASE TERM

		On Market		Sold		
	Credit (S&P)	Avg Cap Rate	Avg Remaining Term	Avg Cap Rate	Avg Remaining Term	Cap Rate Spread
SunTrust	A-	5.71%	9.8 Years	5.70%	7.8 Years	-1 bps
Bank of America	A+	5.86%	5.8 Years	5.50%	8 Years	-35 bps
BB&T	A-	6.61%	4.6 Years	6.06%	8.9 Years	-55 bps
BMO Harris	A+	6.23%	9.1 Years	6.22%	7.1 Years	-1 bps
Chase	A+	4.69%	11.9 Years	5.02%	10.7 Years	+32 bps
PNC	A	5.54%	10.3 Years	6.45%	9.3 Years	+91 bps
TD	AA-	4.69%	10.4 Years	5.55%	9.6 Years	+86 bps
Wells Fargo	A-	5.61%	6.8 Years	5.31%	8.0 Years	-30 bps

- Strong, investment grade credit continues to keep cap rates well below the national retail average across the net lease bank sector.
- Chase Bank and TD Bank continue to command premiums, as strong company financials and quality underlying real estate fundamentals offer investors greater security. Large asking vs. sold cap rate spreads for these two banks show that sellers are aware of the value of these assets and are intent on capitalizing.
- Average sold cap rates for Bank of America were heavily influenced by six closed sales on the West Coast, which reduced this figure significantly.
- Bank of America, BB&T and Wells Fargo counter-intuitively show higher values (lower cap rates) for sold properties than for properties currently on market. This makes sense when the average remaining lease terms are considered. In all three cases, the average remaining lease term of the properties sold was significantly higher than the remaining lease term of properties on the market.
- Investors are showing continued risk aversion by choosing to pay a higher price (lower cap rate) for secure long-term investments rather than paying less for a more speculative, short-term investment.



Average Bank Cap Rates by Region



Region	On Market	Sold	Spread
Northeast	5.18%	5.72%	+54 bps
South	5.79%	5.65%	-14 bps
Midwest	5.79%	6.20%	+41 bps
Mountain	5.61%	5.89%	+28 bps
West	4.25%	5.19%	+94 bps

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