

**QSR (CORPORATE) PROPERTIES
MEDIAN ASKING CAP RATES**

Tenant	Q2 2019 (Previous)	Q2 2020 (Current)	Basis Point Change
All Corporate QSR	5.20%	5.20%	0
Chick Fil A (Ground Lease)	4.05%	4.03%	-2
McDonald's (Ground Lease)	4.08%	4.00%	-8
Panera Bread	4.86%	5.08%	+22
Starbucks	5.30%	5.33%	+3

**QSR (FRANCHISEE) PROPERTIES
MEDIAN ASKING PRICE**

Tenant	Q2 2019 (Previous)	Q2 2020 (Current)	Basis Point Change
All Franchisee QSR	5.68%	5.83%	+15
Burger King	5.80%	5.70%	-10
Dunkin'	5.50%	5.58%	+8
KFC	5.95%	5.90%	-5
Pizza Hut	6.57%	6.73%	+16
Taco Bell	5.43%	5.40%	-3
Wendy's	5.50%	5.55%	+5

**QSR PROPERTIES MEDIAN ASKING
PRICE**

Tenant	Median Price
All QSR	\$1,995,000
Burger King	\$1,831,000
Chick Fil A (Ground Lease)	\$3,745,000
Dunkin'	\$1,350,000
KFC	\$1,615,000
McDonald's (Ground Lease)	\$2,053,000
Panera Bread	\$3,111,000
Pizza Hut	\$1,335,000
Starbucks	\$2,390,000
Taco Bell	\$2,437,000
Wendy's	\$2,364,000

MARKET OVERVIEW

Cap rates in the net lease quick service restaurant (QSR) sector increased to 5.65% in the second quarter of 2020 representing a 30-basis point increase when compared to the prior year. Cap rates for corporate leased QSR properties were unchanged at a 5.20% cap rate while QSR properties leased to franchisees increased by 15 basis points to a 5.83% cap rate. In the second quarter of 2020, franchisee leased properties accounted for more than 70% of the market. The primary reason for the 30-basis point increase in QSR cap rates can be attributed to the significant supply of franchisee leased properties in the market. Franchised locations make up the majority of QSR sector as primary brands including Burger King and KFC look to franchisees to fuel their growth models.

During the current Covid-19 pandemic, drive thru lanes allowed most QSR operators to limit the impact of reduced in-store dining on their businesses. Consumers of the QSR sector during this time favor drive thru locations as they are convenient and provide the ability to avoid larger crowds during the pandemic. Brands like Panera Bread stated that drive thru sales doubled during this pandemic and their preference to increase locations with drive thru lanes increased significantly.

Beginning in March, the Covid-19 pandemic's effect on the QSR sector impacted the acquisition criteria of net lease investors. During this timeframe, 1031 exchange and private net lease investors became more conservative and narrowly focused on tenant credit and lease term. Accordingly, new construction McDonald's and Chick-Fil-A properties continue to represent the lowest cap rates in the sector (4.00% and 4.03% respectively). In the second quarter of 2020, properties leased to corporate entities were priced at a 63-basis point premium over franchisee related properties. The expectation is that this gap will continue to widen throughout the remainder of 2020. A recent poll conducted in August by The Boulder Group surveyed market participants regarding cap rate expectations for smaller franchisee backed leases. The overwhelming majority (59%) expect cap rates to rise by more than 15 basis point for properties leased to smaller franchisees (less than 25 locations) by the end of 2020.

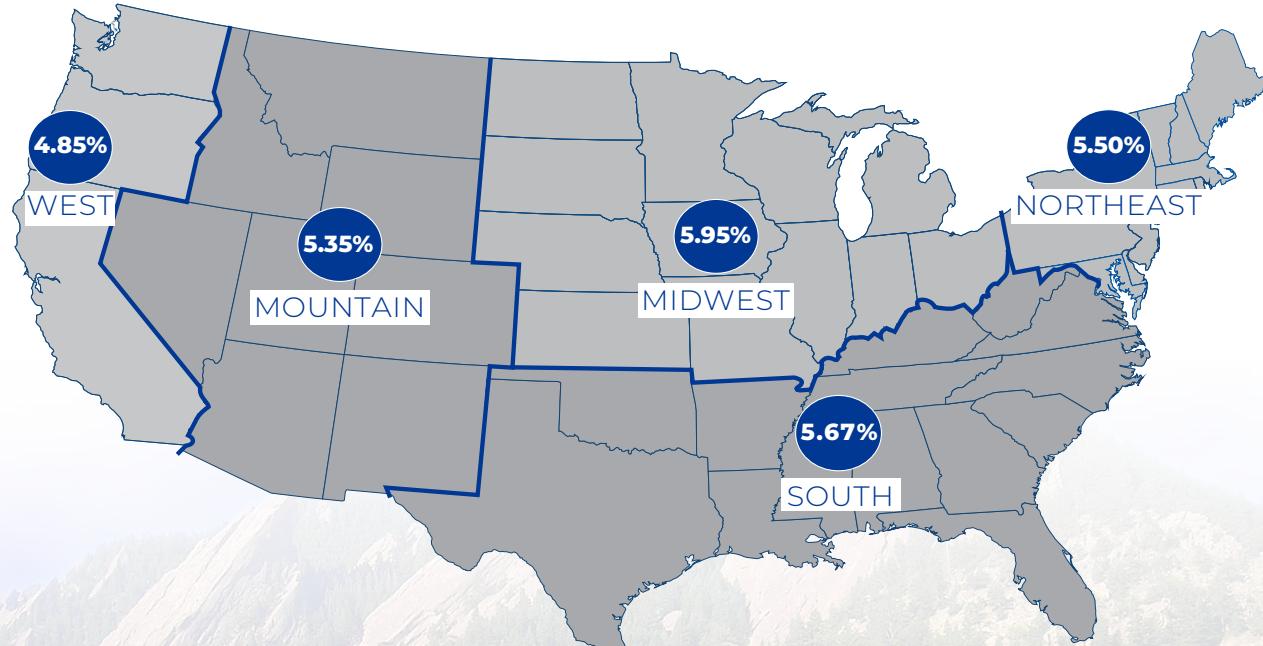
The single tenant QSR sector will continue to garner demand as investors seek net lease investments backed by tenants whose business model was minimally impacted as a result of Covid-19. There will continue to be a bifurcation between corporate/large franchisees and smaller franchisees as a flight to quality continues in this sector. Institutional investors will remain primarily interested in sale leaseback portfolios in order to achieve economies of scale. Investors will be monitoring store prototypes as certain chains including Shake Shack launch their first drive thru locations and several existing tenants explore drive thru only formats.

SELECTED COMPANY COMPARISON

Tenant	Number of Locations	Ticker Symbol	Market Cap
Arby's	3,472	Private	Private
Burger King	17,796	QSR	\$16.7 B
Carl's Jr.	1,490	Private	Private
Chick Fil A	2,605	Private	Private
Chipotle	2,622	CMG	\$35.9 B
Dunkin'	12,871	DNKN	\$6.2 B
Hardee's	1,944	Private	Private
Jack in the Box	2,200	JACK	\$1.9 B
KFC	22,621	YUM	\$28.9 B
McDonald's	38,695	MCD	\$159.3 B
Panda Express	2,200	Private	Private
Panera Bread	2,100	PNRA	Private
Pizza Hut	18,703	YUM	\$28.9 B
Popeyes	3,102	Private	Private
Sonic Drive-In	3,510	SONC	Private
Starbucks	31,256	SBUX	\$97.2 B
Taco Bell	7,072	YUM	\$28.9 B
Wendy's	6,711	WEN	\$4.9 B
Whataburger	824	Private	Private
Taco Bell	7,072	YUM	\$36 B
Wendy's	6,711	WEN	\$4.6 B
Whataburger	824	Private	Private

Leases can be guaranteed by franchisees or corporations.

NET LEASE QSR PROPERTIES MEDIAN ASKING CAP RATE BY REGION



QSR VS RETAIL NET LEASE MARKET
CAP RATES

Sector	Q2 2019 (Previous)	Q2 2020 (Current)
QSR Sector	5.39%	5.65%
Retail Net Lease Market	6.23%	6.25%
QSR Premium (bps)	84	60

MEDIAN ASKING CAP RATE BY
LEASE TERM REMAINING

Lease Term Remaining	Cap Rate
20+	5.35%
15-19	5.50%
10-14	5.85%
Under 10	6.45%

MEDIAN NATIONAL CLOSED CAP
RATE SPREAD

Tenant	Closing	Asking	Spread (bps)
QSR	5.85%	5.65%	+20

QSR ASKING CAP RATE BY
GUARANTOR

Tenant	Corporate Cap Rate	Franchise Cap Rate	Spread (bps)
QSR Sector	5.20%	5.83%	+63

FOR MORE INFORMATION

AUTHOR

JOHN FEENEY

SENIOR VICE PRESIDENT

john@bouldergroup.com

CONTRIBUTORS

RANDY BLANKSTEIN

PRESIDENT

randy@bouldergroup.com

JIMMY GOODMAN

PARTNER

jimmy@bouldergroup.com

JEFF WEIL

VICE PRESIDENT

jeff@bouldergroup.com

CARTER HIMLEY

ANALYST

carter@bouldergroup.com

© 2020. The Boulder Group. Information herein has been obtained from databases owned and maintained by The Boulder Group as well as third party sources. We have not verified the information and we make no guarantee, warranty or representation about it. This information is provided for general illustrative purposes and not for any specific recommendation or purpose nor under any circumstances shall any of the above information be deemed legal advice or counsel. Reliance on this information is at the risk of the reader and The Boulder Group expressly disclaims any liability arising from the use of such information. This information is designed exclusively for use by The Boulder Group clients and cannot be reproduced, retransmitted or distributed without the express written consent of The Boulder Group.