

Net Takeaways with Feller, Harf, and Team

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November 2024 Key Takeaways

- 1. Market Reengagement Post-Election:** With the 2024 U.S. election behind us, many market participants who had held off on transactions due to election uncertainty are returning to action. We are observing an increased appetite among buyers and sellers alike, as the political landscape solidifies.
- 2. Rising Interest Rate Pressures:** The interest rate environment has tightened further, with the 10-year Treasury now approaching 4.5%. This shift has pushed borrowing costs to the 6.75% range, adding headwinds for aggressive cap rate transactions. Buyers are finding it challenging to make deals pencil out under these higher implied interest rates.
- 3. Elevated Market Engagement:** The marketplace is experiencing its most favorable transaction environment since late 2023. There is clear pent-up demand as we close out the year and enter 2025, though buyers remain selective. Sellers showing flexibility in pricing are likely to capture this wave of heightened buyer interest.
- 4. Shifting Tenant Fortunes:** Market dynamics are changing for certain tenants that have been historically favored. Starbucks and national dollar store operators, both previously in high demand, are now encountering some resistance. These shifts reflect broader market recalibrations that are likely to influence lease negotiations and occupancy strategies heading into the new year.

Market Musings: The Market Giveth... and the Treasury Taketh Away

As we look toward 2025, the market landscape reflects a unique blend of optimism tempered by rising costs. The end of the 2024 election cycle has unlocked a wave of pent-up activity, with market participants who had previously held back now ready to transact. However, just as momentum builds, the 10-year Treasury yield is inching closer to 4.5%, tightening the screws on financing and making high cap rate deals more challenging.

Adding fuel to the fire, inflation edged up from 2.4% in September to 2.6% in October, sparking renewed questions about whether this uptick marks the beginning of a sustained trend. With inflation concerns back on the table, Treasury rates are reflecting the uncertainty, leading to more conservative pricing and cautious optimism.

Yet, engagement remains strong, and buyers are seeking opportunities with sellers willing to adjust expectations in light of current financing realities. This selective vibrancy suggests that while the market giveth opportunities, it also taketh away in the form of rising costs. As we close out the year, a balanced approach will be essential for navigating the tightrope between enthusiasm and caution.