

Net Takeaways with Feller, Harf, and Team

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Starting the New Year with Clarity and Resolve

The start of a new year often feels like a balancing act—brimming with opportunities yet demanding careful navigation. 2025 opens with an abundance of optimism and complexity, where headwinds and tailwinds are woven into a nuanced market tapestry. This is a time to think creatively, act intentionally, and stay ahead of evolving dynamics.

Current Market Insights: Navigating Rising Rates and Shifting Landscapes

2025 is kicking off in a unique financial climate. The 10-year Treasury has climbed to 4.65%, rising substantially in the past month despite the Federal Reserve's continued rate-cutting campaign, which has reduced rates by 75 basis points so far. This divergence has sparked inflationary questions, casting uncertainty over pricing and underwriting. Buyers and sellers are moving cautiously, but transaction activity is picking up as pent-up demand begins to unlock.

On the tenant side, landlords must be more strategic than ever. Thoughtful lease structures, particularly around rental escalations, are critical given the current landscape. The balance of flexibility and discipline will be essential for long-term success.

A Note on Our Predictions

The predictions we make for 2025 are grounded in real-time observations of market trends and behaviors. However, we acknowledge that the marketplace is fluid and can shift quickly in response to economic, political, or global factors. While these insights provide a roadmap for what we believe is most likely, adaptability will remain key for all participants in the months ahead.

Predictions for 2025: A Year of Transformation and Opportunity

1. Transactional Volume to Increase by 20%

- Elevated net lease inventory suggests that more sellers will need to transact in 2025, driven by refinancing pressures and portfolio optimization.
- Pent-up buyer demand is expected to rise as liquidity flows back into upstream asset classes like apartments and land, fueling 1031 exchange activity.

2. Single-Tenant Net Lease Construction Volume to Decline by 10%

- Developers face mounting challenges as cap rate expansion over the past 18 months demands higher development yields.
- With construction costs remaining elevated, new projects will require sharper pencils, and higher rents, making ground-up development relatively less feasible.

3. Cap Rates to Rise by 35 Basis Points

- High inventory levels in the net lease marketplace will necessitate cap rate adjustments to clear the market.
- Tenant-specific weaknesses—particularly in pharmacy, coffee, and dollar stores—will also apply upward pressure on cap rates.

4. Further Market Trifurcation

- The market will increasingly divide into three categories: highly desirable assets, mediocre properties, and assets that are becoming illiquid.
- Differentiating which category assets fall into will be critical for brokers and principals alike. Success in 2025 will hinge on precise evaluations of risk and opportunity.

5. The Return of Big NNN Transactions

- 2024 was marked by smaller transactions, typically under \$10 million, often below even \$5 million. We anticipate a return of larger NNN deals as maturity-driven sales and institutional demand for larger assets increase.
- Elevated institutional fundraising in late 2024 will push these players toward larger transaction sizes in 2025.

6. A Year of Resilient Institutions

- Institutional players, including public and private REITs, funds, and other large vehicles, are poised for greater activity this year.
- Strong fundraising momentum in the second half of 2024 positions these groups to capitalize on opportunities across the net lease landscape.

Predictions for 2025: A Year of Transformation and Opportunity

As we embark on 2025, our team is committed to guiding you through this transformative period. Whether you're navigating rising rates, exploring new opportunities, or repositioning assets, we're here to provide the insights and support you need to succeed.

Here's to a year of resilience, opportunity, and shared success.