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November 2024 Key Takeaways

- 1. Elevated Market Engagement:** Marketing engagement has reached its highest level since Q3 2023. Notably, heightened interest is concentrated on deals where buyers perceive that sellers are motivated for expedited closings before year-end.
- 2. Aggressive Buying Activity Among REITs:** REITs continue an aggressive acquisition pace, benefiting from compressed capital costs. Their focus remains on assets with perceived seller motivation, positioning themselves for timely closed deals
- 3. Interest Rate Rebound:** Following a brief dip to 3.7% post-Fed rate cut, the 10-year Treasury rate has returned to 4.25%, nearly matching levels seen throughout the year. With borrowing costs now around 6.5% to 7%, the limited outlook for additional rate cuts will likely impact market activity significantly
- 4. Persistent Inventory Imbalance:** Inventory remains high, with approximately \$24 billion currently on the market compared to 2022. Motivated sellers are increasing as maturities loom and cap rates continue to rise
- 5. Strong Sustained Demand for High-Quality Assets:** Investors remain keen on assets that align well with market criteria: prime location, strong lease terms, transaction sizes under \$5 million, attractive cap rates, and favorable industries. These transactions continue to command strong buyer interest, often leading to competitive pricing

Market Commentary:

Here's what's happening in the market right now: at long last, the Federal Reserve delivered its long-anticipated rate cut—the first in several years. Many had expected this shift in early 2024, but persistent inflation and strong job numbers delayed it until September. This brief rate relief initially brought a boost, with the 10-year Treasury dropping to 3.7%. However, just 30 days later, all those gains have reversed, with the Treasury yield now back up to 4.25% following resilient job data and the Fed's cautious stance on future rate cuts.

So where does that leave us? On the positive side, market engagement is higher than at any point since Q3 2023. However, this engagement is unevenly spread across the market—premium deals are attracting strong interest, while other assets face a more challenging liquidity landscape. The supply-demand imbalance has also intensified: there's now \$24 billion in inventory compared to \$9 billion just two years ago, reflecting a buildup that's becoming more pronounced as we approach 2025.

With more active buyers in the market, there's a renewed sense of optimism for what 2025 might bring. Yet, this optimism requires a measured perspective. Capital costs remain high compared to current cap rates, and the pool of new 1031 buyers expected in the near term appears limited. As we close out the year, it will be crucial for market participants to approach opportunities with both strategic positioning and realistic expectations about the costs and constraints shaping the landscape.

10-YEAR TREASURY CHART



Source, Board of Governors of the Federal Reserve System (US)