Net Takeaways with Feller, Harf, and Team

Written by: **BJ Feller** | Senior Vice President & Managing Director | bfeller@northmarq.com

March 2025 Market Commentary

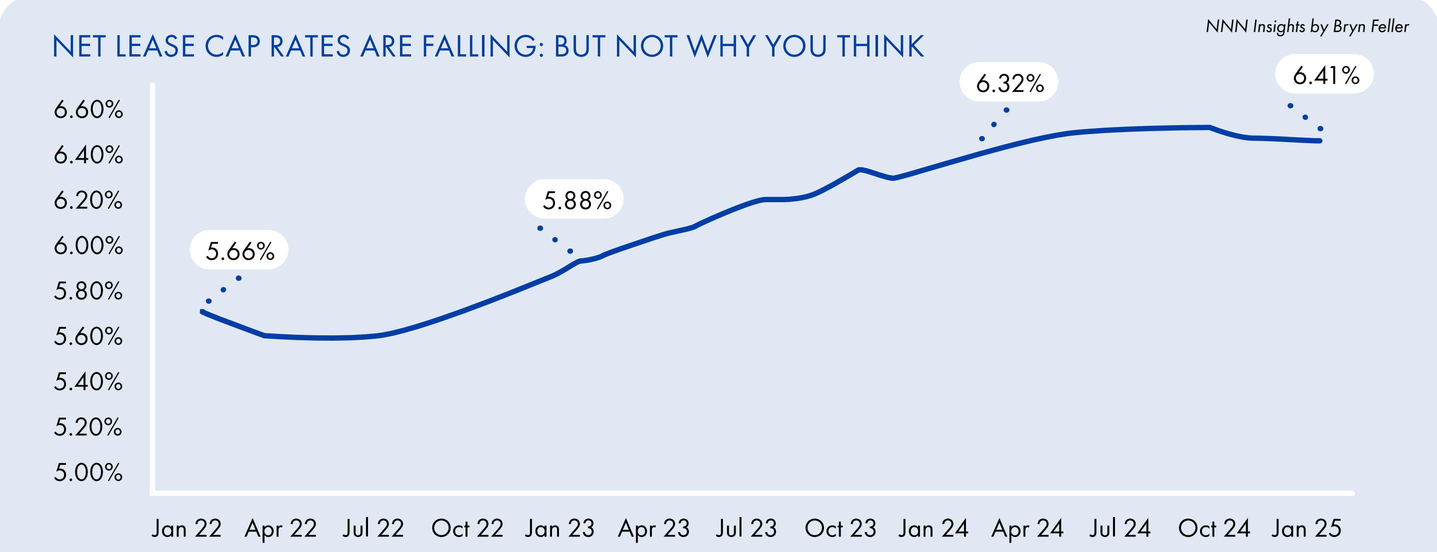
Cap Rates: The Market Says Stability—The Data Says Otherwise

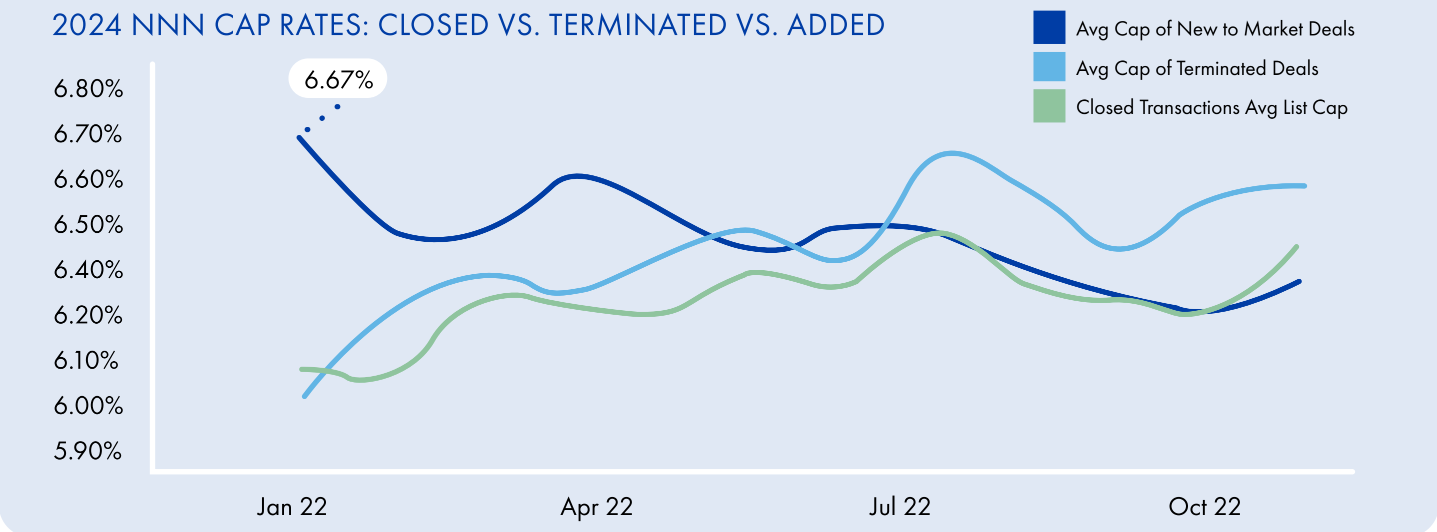
If you've been listening to the industry chatter, you'd think cap rates have stabilized. A nice, tidy narrative. Unfortunately, **it's wrong.**

Here's what's really happening:

- Cap rates on new listings appear flat.
- Cap rates on closed deals are still rising.
- Cap rates on terminated deals? Jumping even higher.

The market isn't stabilizing—it's splitting in two.
The reason? Selective selling. We ran the numbers across $28 billion in NNN inventory and found that the high-cap, high-risk deals—the ones that should be driving cap rates upward—aren't making it to market. Instead, they're quietly disappearing, either getting pulled or never listed in the first place.





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On paper, cap rates look stable. In reality, the composition of what's selling has changed. The only deals trading are the ones investors actually want—long-term leases, bulletproof tenants, prime locations.

So when you see data that says "cap rates have peaked," take a beat. The reality is that cap rates are still rising on transactions that close, and weaker deals are simply opting out of the game.

NNN Inventory Has Doubled—And No One's Tracking It

Here's a fun fact: Over the past 36 months, NNN retail inventory has skyrocketed from $13.1 billion to $28.0 billion. But if you go looking for a consolidated dataset from major research firms? Good luck.

So we built it ourselves.

What we're seeing:

- More product than ever is hitting the market
- Transaction volume hasn't kept pace.
- More deals are sitting, more sellers are pulling back.

The industry is treating this like a normal market slowdown. It's not. It's an inventory explosion, and it's reshaping liquidity in real-time. The days of a "just list it and it will trade" mentality? Gone.

The Economic Crosswinds: Interest Rates, Consumer Sentiment, and Walmart's Reality Check

If cap rates are the market's heartbeat, interest rates are the blood pressure monitor. And right now, inflation is kicking rates right back up.

- Inflation just reaccelerated. Not what the Fed wanted to see.
- Consumer sentiment just dropped to a 4-year low. Also not great.
- Walmart's earnings confirmed that consumers are pulling back on discretionary spending.

None of these bode well for leveraged acquisitions, and none of them suggest that rate cuts are around the corner. For those waiting on 5% money to come back: pack a lunch.

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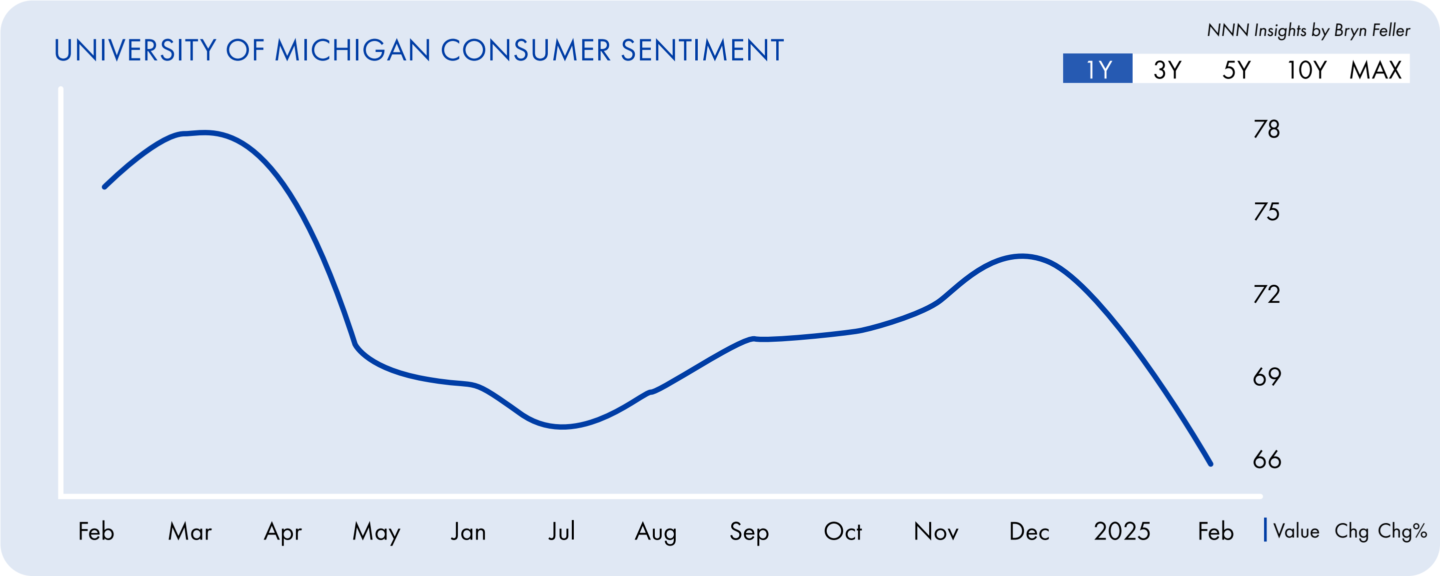

Why Walmart's Earnings Matter for Developers & Institutional Owners

Walmart is the most powerful economic indicator that isn't on the Fed's dashboard. If middle America is struggling, Walmart knows before anyone else. And their latest earnings? A study in adaptation.

- Grocery is carrying the business. People still need to eat.
- Discretionary spending? Weak. Not great news for apparel-heavy retail landlords.
- E-commerce is their secret weapon. If you don't have a tenant with an omnichannel strategy, start asking harder questions.

For net lease, this means:

- Grocery-anchored retail is still king.
- Retailers selling wants over needs are feeling the squeeze.
- E-commerce is their secret weapon. If you don't have a tenant with an omnichannel strategy, start asking harder questions.

Final Takeaways: What the Smart Money is Doing Now

In times like this, capital flows toward quality and certainty—and that's exactly what's happening in net lease.

- Top-tier locations, credit tenants, long leases? They still trade.
- Second-tier assets? Liquidity is drying up.

Sellers: If your asset isn't A+ caliber, the market isn't going to reward you for just being "realistic." The only thing that's moving are deals that check every box.

Buyers: If you're waiting for the great repricing, look at the right data set. Cap rates aren't flattening—they're rising on what's actually closing.

This market isn't about patience. It's about positioning. If you're on the right side of the bifurcation, you're winning. If you're not—you're waiting.

LET'S TALK.

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