

SINGLE TENANT NET LEASE MARKET TRENDS 2025-2026



The single tenant net lease (STNL) market has faced a period of recalibration amid rising interest rates, evolving buyer pools, and shifting development strategies. Despite the recent shift in the STNL market, over the past three years Slatt Capital has continued to have success in the space, having secured financing for over 200 single tenant properties representing approximately \$500 million.

To illuminate current trends and future outlooks, Michael Kaplan, President of Slatt Capital, interviewed leading experts-Daniel E. Herrold of Northmarq Commercial, Chris Sheldon of Cushman & Wakefield, and Putnam Daily of Fisher James Capital. Their insights reveal both consensus and unique opinions on market conditions, investor behavior, and the forces shaping STNL transactions as we head into 2026.

BY:
Michael Kaplan
President, Slatt Capital

1. How would you characterize the current market for STNL investments, including cap rates and transaction volumes across different asset types? Has there been a particular resurgence in product or are we seeing a general rebound that is asset class agnostic?

Daniel E. Herrold, Senior Vice President, Northmarq Commercial

The market is stable but still slow. Through Q3 2025, single-tenant volume sits around \$9.9 billion across all product types, down about 15% year over year. Retail came in at \$2.2 billion for the quarter, off 17% from last year, with average cap rates at 6.93% compared to 6.80% a year ago. Industrial continues to lead the space, accounting for just over half of all single-tenant trades. Retail cap rates are averaging 6.9% compared to roughly 6.5% for industrial and 7.7% for office.

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- Daniel E. Herrold, Senior Vice President, Northmarq Commercial

The buyer pool has thinned out, largely because 1031 exchange activity hasn't returned to pre-2021 levels. Back then, those buyers were driving nonstop deal flow. Today, they make up a much smaller share of the market, which has taken a lot of momentum out of the space. Smaller deal sizes are trading more easily because of the broader private and 1031 buyer pool, while larger assets are seeing limited liquidity. The buyers still active are cherry picking the best real estate and the cleanest deal terms. Volume is lower, timelines are longer, and the market feels far more selective than it did a few years ago.

Christopher Sheldon, Executive Managing Director, Capital Markets | Net Lease Group, Cushman & Wakefield

The market is consistent, not good or bad, in my opinion. We are seeing enough activity to get properties sold that are priced appropriately, and currently we are amid the annual seasonal uptick in 1031 buyer activity that reliably occurs as we head into year's end (Q4 and Q1). Development activity has slowed the last few years (especially in larger build-to-suit properties) since the rise in interest rates and the high costs of construction, land, etc. Therefore, with the limited inventory of quality, appropriately priced NNN properties, we are seeing enough buyer activity/demand to transact on

most quality deals. Cap rates have stayed mostly flat, and the 1031 buyer activity in the market is largely situational (death, divorce, lifestyle change, management reduction). We have yet to see real macro velocity of 1031 buyers in the net lease market due to slower transactional activity in other asset classes such as multi-family, residential development, office, land, etc. that are typically conduits of 1031 buyers into the net lease market.

Putnam Daily, Managing Partner, Fisher James Capital

The single-tenant net lease market has continued to warm since the 100% bonus depreciation in year one legislation took effect in early July. When paired with recent rate cuts, lower bond yields have strengthened borrowing power and reignited capital flow into commercial real estate. Each passing month has brought more investment activity, particularly as 1031-exchange buyers reemerge alongside improving transaction volumes in multifamily, owner-user, industrial, and land sales - the feeder assets that provide recycled capital for the net lease space. Cap rates have stabilized across most credit profiles, even as elevated supply will take time to be fully absorbed. Perhaps the most notable development in recent months has been renewed absorption in the \$10-50 million range, driven largely by private investors who had been sidelined for the past two years. These buyers are now stepping up to compete directly with public and private REITs, well-capitalized funds, and DST-sponsored investment groups. It's a broad-based rebound across asset classes rather than a narrow resurgence in any single product type.

2. How is the market expected to evolve in 2026, and what macroeconomic factors are likely to influence investment activity?

Daniel E. Herrold, Senior Vice President, Northmarq Commercial

The year 2026 should bring more activity, but it will take time to show up. Transactions always lag rate movement. As borrowing costs come down, we expect more 1031 buyers to re-enter the market. Most of them are moderate leverage or all cash, so their return is less about interest rates and more about basic supply and demand.

There is no shortage of product. A lot of build-to-suit inventory has been sitting on the market for months, with average days on market now over six months. That has to clear before we see any meaningful pricing movement. As that backlog works through and exchange buyers get more active, we should see better liquidity, but cap rates will likely hold steady rather than compress. By mid-2026, I think we will see a more balanced market, not a boom, but healthier trading and better alignment between buyers and sellers.

**Christopher Sheldon, Executive Managing Director,
Capital Markets | Net Lease Group, Cushman & Wakefield**

Tough to say how the market will evolve in 2026. I don't expect investment activity to increase substantially, despite the re-engagement of some institutional buyers, and I do think we will have an inventory problem with reduced new development activity. If we see the 10-year treasury stabilize and the possibility of other asset classes like multi-family, office and residential development (land) start to heat back up, we may see more velocity of 1031 buyers entering the net lease market, which will be interesting (and welcomed!) with the lack of new quality inventory.

**Putnam Daily, Managing Partner,
Fisher James Capital**

Looking ahead, the bonus depreciation legislation is expected to continue pulling investors toward hard assets throughout 2026. If interest rates trend lower over the next quarter or two, that momentum should build, leading to higher absorption and healthier demand across the single-tenant sector. By late 2026 or early 2027, we could see equilibrium return between supply and demand for many credit profiles, especially as the market works through the heavy pipeline created by tenant expansion and muted transaction volumes over the last couple of years. In short, the combination of improved capital costs and favorable tax treatment sets the stage for a more balanced and active marketplace over the next 18 months.

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- Putnam Daily, Managing Partner,
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3. What trends are emerging among buyers in the STNL space, and how are different investor groups (private investor, REIT, or institutional buyers) behaving?

**Daniel E. Herrold, Senior Vice President,
Northmarq Commercial**

Private buyers continue to drive most of the activity, making up close to 70% of retail volume. They are still buying but being much more selective, focusing on strong real estate and clean lease structures. The 1031 exchange buyer that used to move quickly and chase deals is now cautious and taking more time.

Institutional and REIT activity remains limited. For most REITs, their dividend payout and overall cost of capital make it hard to justify buying below a 7% cap rate. They still buy, but it is very selective and they are typically tied to scale or strategic portfolios. Liquidity is strongest in smaller deal sizes, where private and exchange buyers dominate. Larger assets are trading more slowly because the institutional and REIT buyer pool is thinner and capital is more expensive. The buyers still active are disciplined and focused on quality.

**Christopher Sheldon, Executive Managing Director,
Capital Markets | Net Lease Group, Cushman & Wakefield**

Fundamentals are more important than credit. This is the opposite of what I have typically seen throughout my career, and it is due to how expensive it has become to develop. We often see buyers now prefer lesser credit with solid fundamentals than investment grade credit at over market rent. We have started to see some REITs and funds that have largely been inactive for the last couple years start to gear up for investment. It will be interesting to see where they find product as it seems there is not much new development happening due to the construction cost headwinds.

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Buyers today are keenly aware of their leverage in a higher-supply environment. They're being more selective, achieving stronger yields, and focusing on functionality and location quality. After two decades of change driven by e-commerce and COVID-era shifts, investors of all types - private, REIT, and institutional - have become more confident in assessing what aligns with their own risk appetite and yield requirements. There's more transparency now around what "works," both from a credit and operational standpoint, than there was five or even 15 years ago. The recent improvement in short-term borrowing costs has also leveled the playing field, allowing institutional buyers to compete more aggressively with historically lower-cost private investors. As supply begins to be absorbed, this dynamic will likely continue to evolve, pushing more private capital toward the best-in-class locations and tenants.

4. After a couple of years of challenges in the greater STNL market, what are developers doing in response to current market conditions, and how is current inventory and future development being affected?

Daniel E. Herrold, Senior Vice President, Northmarq Commercial

Developers are still active, but the focus has shifted. Many have leaned toward ground lease deals because construction costs remain high and the yield-on-cost math for new build-to-suit projects is still tight. Tenants are finally starting to give in on higher rents to keep expansion plans moving, but the gap hasn't fully closed.

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- Daniel E. Herrold, Senior Vice President, Northmarq Commercial

At the same time, many developers are sitting on a backlog of inventory that hasn't sold, and some are feeling pressure from construction lenders. That combination has made the development environment more cautious. Build-to-suit activity continues, but it is selective, and the emphasis is on projects where the rent structure, credit, and exit values all make sense.

Christopher Sheldon, Executive Managing Director, Capital Markets | Net Lease Group, Cushman & Wakefield

It is clear how difficult it is to develop currently, with higher interest rates and elevated construction costs. It seems that most new build-to-suit developments do not pencil from a fundamental standpoint as developers assess exit strategy. Even ground leases, which have been a solution the past couple years, are getting harder to make work with the elevated land costs. It's unclear how this will play out going forward, but it seems developers (and tenants) need to get creative to make future developments work and be confident in their exit strategy.

Putnam Daily, Managing Partner, Fisher James Capital

In our experience, particularly within the retail landscape, this phase of the market is being driven as much by tenant behavior as by developer strategy. With consumer headwinds emerging for the first time in several years, tenants are

growing more cautious about expansion, which naturally means fewer new projects for developers to pursue. This isn't surprising after an extended inflationary period when construction and financing costs soared, much of which was passed along to tenants competing for consumer dollars during an economic upswing. Now, with consumer spending softening and employment data creating uncertainty, the ability of many tenants to justify yesterday's rents and construction costs is waning. As a result, new development pipelines are shrinking, and this slowdown should allow for positive absorption of existing retail inventory through 2026.

5. Which asset types and tenant categories are attracting the most investor interest, and why?

Daniel E. Herrold, Senior Vice President, Northmarq Commercial

Most of the activity is centered around necessity retail and drive-thru users. Quick-service restaurants, convenience stores, auto service, and discount retailers continue to see the most demand. These are everyday-needs tenants with strong sales and real estate that stays relevant.

Pharmacy has become almost illiquid outside of CVS. Buyers are steering clear of the category unless it is a top credit with long-term stability. Across the board, investors are cherry picking the best real estate locations and clean lease structures such as 15-year NNN leases with solid credit and real rents.

Investors are also paying much closer attention to retailer earnings, especially same-store sales, to gauge performance and potential headwinds. Starbucks is a good example. Weaker sales trends combined with shorter 10-year lease terms have made investors more cautious, especially when compared to Dutch Bros or 7 Brew, which typically offer 15-year NNN leases. The focus right now is on tenants with healthy store economics, long lease terms, and strong real estate.

Christopher Sheldon, Executive Managing Director, Capital Markets | Net Lease Group, Cushman & Wakefield

Fundamentally sound properties are attracting the most interest. Historically investors have wanted passivity with investment grade credit and absolute net leases, but we are seeing investors prefer fundamentals over credit and absolute net leases if they are forced to decide between them. Many of the top credit, absolute net lease properties developed over the last few years have high rents in relation to market (particularly build-to-suits), and we have seen those properties languish a bit on the market (i.e. high rent QSR properties in B locations). Still, a fundamentally sound, credit tenant, absolute net property is still the most attractive....if you can find it.

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Functional real estate with drive-thru capability remains highly sought after, but we're also seeing newer concepts gaining credibility as performance data strengthens. At the same time, some of the long-established credit tenants - names like Starbucks and Chipotle - are facing more investor scrutiny due to store closures and softer earnings reports. A growing number of investors are also exploring multi-tenant product as a diversification strategy, attracted by better yields and improving financing terms relative to single-tenant opportunities. Broadly speaking, buyers are pursuing functional real estate that can be easily re-leased across multiple tenant types while maintaining a preference for strong credit operators. Beyond retail, both industrial and medical net-lease assets are drawing increased attention from private investors seeking stability and long-term demand drivers.

SLATT CAPITAL'S POINT OF VIEW & PRACTICAL IMPLICATIONS

We view the current STNL market as one of cautious optimism. The expert consensus points to stability, selectivity, and gradual improvement, but not a rapid rebound. Investors and lenders should consider the following:

- **Focus on Fundamentals:** Prioritize assets with strong real estate, clean lease structures, and necessity-based tenants. Fundamentals are outweighing credit in buyer decisions.
- **Monitor Macro Trends:** Watch for further rate cuts, bonus depreciation impacts, and shifts in 1031 exchange activity, as these will drive liquidity and absorption.
- **Be Selective and Patient:** With inventory backlogs and longer timelines, patience and selectivity are key. Smaller deals offer more liquidity, while larger assets may require creative structuring.
- **Adapt to Development Challenges:** Developers and lenders should anticipate continued caution, with ground leases and selective build-to-suit projects prevailing until

construction costs and tenant demand realign.

- **Diversify and Innovate:** Consider multi-tenant and alternative asset types for diversification and yield enhancement, especially as investor preferences evolve.

By leveraging these insights, investors and lenders can navigate the STNL market's evolving landscape with greater confidence, positioning themselves for success as the market moves toward a more balanced and active phase in 2026. emerging for the first time in several years, tenants are growing more cautious about expansion, which naturally means fewer new projects for developers to pursue.



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