DEY STREET
CAPITAL

Q1 2026 Net Lease Market Outlook

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Executive takeaways

- **Net lease pricing looks steadier than it has in years.** National asking cap rates moved just **+1 bp in Q4 2025 to 6.81%**, the third straight quarter of minimal change, which suggests the market has largely found a "new normal" price level.
- **More product is finally on the shelf.** Net lease listings rose **2.5% to 5,710 properties**, the highest level in more than a decade, creating more choice for disciplined buyers.
- **Private capital is driving liquidity, especially in retail.** Single-tenant net lease retail deals were up **18% year-over-year through the first three quarters of 2025**, with **private investors representing about 71%** of transactions. (CommercialSearch)

The backdrop: rates, spreads, and why net lease still works

The Federal Reserve ended 2025 with the policy rate in the **3.50% to 3.75%** range. (Federal Reserve) In early January 2026, the **10-year Treasury** has been trading around the **mid-4% range** (roughly **4.17% to 4.18%**), keeping financing costs meaningful, but not "dislocated." (AP News)

The important point for net lease investors is that **cap rates have not been moving lockstep with rate cuts**. In 2025, cap rates were "largely unaffected" despite multiple cuts, reinforcing that **tenant credit, lease term, and real estate fundamentals** are doing more of the pricing work today than headline rates.

Where pricing is today

From The Boulder Group's Q4 2025 data:

- **Retail:** 6.55% (down 2 bps)
- **Industrial:** 7.20% (flat)
- **Office:** 8.00% (up 10 bps)
- **Overall:** 6.81% (up 1 bp)

What that means in plain English: **the market is paying up for "clean" income** (strong tenant, longer lease term, good location), while demanding a bigger yield for anything with **rollover risk or operational uncertainty**.

Why we're cautiously optimistic in Q1 2026

1) Bid-ask spreads are tightening.
Buyer and seller expectations are aligning, which is usually what unlocks transaction volume.

2) Selection has improved.
With listings at **5,710 properties** nationally, buyers can be more selective, and selectivity is how returns get protected in "stable but not cheap" markets.

3) Private buyers are active again.
The single-tenant retail recovery has been led by private investors, attracted to predictable cash flow and low management intensity. (CommercialSearch)

4) Tax policy is supportive for many investors.
The IRS has guidance reflecting the restoration of **100% bonus depreciation** for qualified property placed in service after **January 19, 2025** (with certain transition rules). While net lease real estate is not "bonus depreciation" in the same way equipment is, the broader business investment environment matters for tenants and transaction activity. (IRS)

Dey Street's view: how we position in this environment

In Q1 2026, we think the best risk-adjusted opportunities in net lease come from being **boringly disciplined**:

What we like

- **Longer lease term, clearer cash flow:** Properties where income visibility is high and lease structure is investor-friendly.
- **Higher-quality tenant profiles:** We believe "credit and lease term" will continue to drive pricing more than macro headlines.
- **Everyday-use categories:** Retail and service concepts that remain relevant across economic cycles, plus select industrial where the real estate is operationally important to the tenant.

What we underwrite carefully

- **Near-term rollover:** Shorter remaining lease term can be fine, but only if the yield compensates for the work and risk.
- **Office exposure:** Cap rates have moved out meaningfully here, reflecting higher uncertainty, so we treat it as "case-by-case," not a default.

Our practical edge in Q1 2026

- A market with **more listings** and **better price discovery** tends to reward teams that can source, underwrite, and close consistently, without stretching on tenant quality or lease structure.

Risks we're watching

- **Rates staying higher for longer:** Could keep borrowing costs elevated and limit cap rate compression. We underwrite deals to work on fundamentals, not on hoping rates bail out pricing. (Federal Reserve)
- **Economic slowdown:** Would pressure weaker operators first, which is why tenant selection and unit-level diligence matter. (Reuters)
- **Policy uncertainty:** Markets can reprice quickly around trade and fiscal headlines; we focus on durable cash flow and diversification to reduce single-variable risk. (Reuters)

Bottom line

For Q1 2026, we see a net lease market with **stabilized pricing, improved inventory, and returning liquidity**, especially among private buyers. That combination tends to create a healthy window to deploy capital into well-structured, income-oriented real estate, with a strong emphasis on **tenant quality, lease term, and underwriting discipline**.

Disclosure: This is general market commentary for informational purposes only and is not investment advice. Forward-looking views are subject to change.