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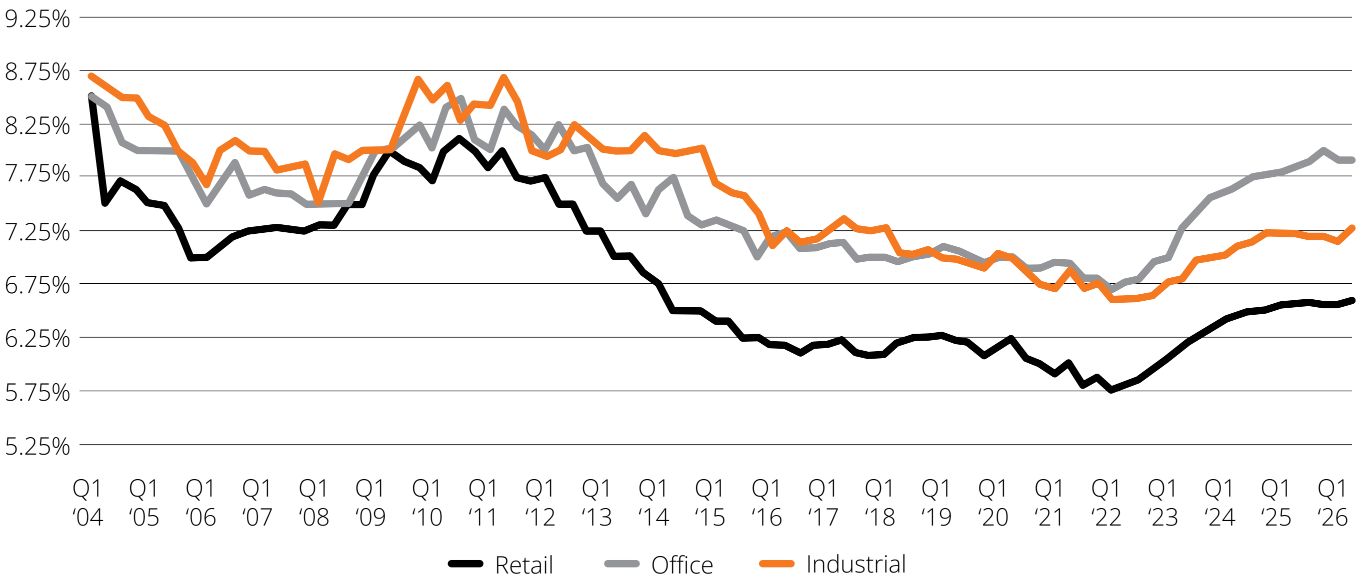
National Net-Lease Market Review

According to the Q2 2026 National Net Lease Report, released in July by The Boulder Group, capitalization rates for single-tenant, net leased retail, office and industrial properties increased by 5 basis points, remained stable and increased by 10 basis points, respectively, during the second quarter of 2026.

PROPERTY TYPE	Q1 2026	Q2 2026	BASIS POINT CHANGE
Retail	6.55%	6.60%	+5
Office	7.90%	7.90%	0
Industrial	7.15%	7.25%	+10

Overall, cap rates in the single-tenant net lease sector experienced minimal changes in the second quarter of 2026, increasing just two basis points to 6.82% over the first quarter of the year; and unchanged from the second quarter of 2025. This is the fifth straight quarter of a minimal movement in overall cap rates, indicating stability after three years of consistent cap rate increases. Cap rates have begun to stabilize as buyer and seller pricing expectations have moved closer together following a period of significant adjustment.

HISTORICAL SUMMARY OF CAP RATES



Source: The Boulder Group | Net Lease Market Report

Overall market supply increased by 12.5% to 5,800 properties, which represented the highest level in over a decade. This increase was driven overwhelmingly by the retail sector, where supply surged 16.2%. The supply of retail assets remains concentrated in non-credit tenants, which account for a disproportionate share of available inventory. In contrast, the supply of high-quality net lease assets with long term leases and investment-grade tenants remained limited (less than 10% of overall retail supply) even as the broader pool of listings increased.

The net lease market remained bifurcated between assets of varying quality. Competition amongst investors for high quality net lease products can be evidenced by the tightening bid-ask spread. In the second quarter, the spread between asking and closed cap rates tightened by one and three basis points for retail and industrial properties respectively, narrowing both to 22 basis points. Premium, long-term assets continued to attract aggressive pricing across investor classes, with ground lease product for tenants such as McDonald's and Chick-fil-A asking the lowest cap rates in the sector at 4.45%. With some uncertainty surrounding the broader economy and The Federal Reserve System's interest rate outlook, investors are more carefully scrutinizing tenant financials and asset level performance when reviewing investment opportunities.

The Fed held interest rates stable at its July 2026 meeting, the fifth consecutive meeting without a rate adjustment. The decision to hold steady was not without opposition from three members. The Fed moved interest rates down 75 basis points during the final meetings of 2025 to a target rate of 3.5% to 3.75%. At the time, the Fed cited rising downside risks to employment and a weakening labor market. The Fed officials rejected the widely believed sentiment at year-end 2025 that rates would fall, with several now indicating rates would need to increase to bring inflation back to 2% amid uncertain impacts from the conflict with Iran. The latest CPI report, published July 14, 2026, showed consumer prices increased 3.5% over the 12 months ending in June, down 70 basis points from 4.2% in May but up 80 basis points from 2.7% in June 2025. Inflation remains down significantly from the June 2022 peak of 9.1%, however, the Fed has failed to reach the 2% target inflation for the past five years.

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Capital Gains Exclusion for Private Equity Investors Under IRC §1202: How It Works and Where It Makes Sense

As transactional advisers and taxpayers, we are all familiar with the leading capital gains provisions of the Internal Revenue Code, such as like-kind exchanges under IRC §1031 and qualified opportunity funds under IRC §1400Z-2. Less familiar is IRC §1202, which offers a significant federal income tax benefit to investors in qualified small business stock (QSBS). A 2025 expansion of the provision broadens its potential reach to private equity.

Congress enacted §1202 in 1993 to encourage investment in small businesses. Since 2010, qualifying stock held for more than five years has been eligible for a 100% gain exclusion. On July 4, 2025, Congress expanded the provision again, adding partial exclusions before the five-year mark, a higher per-issuer gain limitation, and a higher issuer asset ceiling for stock acquired after that date.

IRC §1202 AFTER THE 2025 EXPANSION

	PRIOR RULES	STOCK ACQUIRED AFTER JULY 4, 2025
Minimum holding period	More than five years	At least three years
Gain exclusion	100% after five years*	50% after three years 75% after four years 100% after five years
Fixed per-issuer limit	$10 million	$15 million
Alternative limit	10 times basis	10 times basis
Issuer gross-assets ceiling	$50 million	$75 million**

*Applies to qualifying stock acquired after September 27, 2010 and on or before July 4, 2025.

**Applies to qualifying stock issued after July 4, 2025. The $15 million and $75 million amounts are subject to inflation adjustments beginning after 2026.

HOW IRC §1202 WORKS

QSBS is stock issued by a domestic C corporation that meets certain requirements, including the applicable gross-assets ceiling and the use of at least 80 percent of its assets in an active trade or business. An eligible noncorporate taxpayer who holds the stock for the required period may exclude some or all of the resulting gain, subject to a per-issuer limitation equal to the greater of $15 million or 10 times basis for stock acquired after July 4, 2025.

Consider an investor who acquires QSBS after that date with a $1 million basis and later sells it for $20 million. Because the $15 million limit exceeds 10 times basis, up to $15 million is available for the exclusion, rising from $7.5 million after three years to $11.25 million after four years and $15 million after five years.

REQUIREMENTS AND WHERE IT FITS

Several requirements must be strictly followed. The stock must be acquired at original issuance directly from the corporation and sold while the issuer remains a C corporation, which can complicate exits structured as asset sales. The company must also be engaged in a qualified trade or business. Section 1202 excludes many service, financial,farming, natural-resource, and hospitality businesses, which begs the question of what qualifies. Manufacturing, technology, research and development, and software companies commonly fall within permitted commerce.

> "On July 4, 2025, Congress expanded the provision again, adding partial exclusions before the five-year mark, a higher per-issuer gain limitation, and a higher issuer asset ceiling for stock acquired after that date."

A private equity or venture capital fund organized as a partnership may hold QSBS and pass qualifying gain through to eligible partners, though the original-issuance requirement means that traditional buyouts of existing shares generally will not qualify. IRC §1045 remains a useful companion, allowing a taxpayer who has held QSBS for at least six months to defer gain by rolling the proceeds into replacement QSBS.

A small number of sponsors have begun structuring retail offerings around the exclusion. The Wyoming Reserve Opportunity Zone Fund Corporation closed a roughly $26 million Regulation D offering in 2025 that pairs qualified opportunity zone and QSBS treatment in a precious-metals vaulting business, and in 2026 Goodfin launched a venture fund that screens its portfolio companies for §1202 eligibility before investment.

CONCLUSION

For years, §1031-compatible products and qualified opportunity funds have dominated the tax-advantaged alternatives space. The 2025 expansion positions §1202 as an alternative. A higher asset ceiling reaches more companies, and partial exclusions after three and four years align with common private equity holding periods. The benefit depends on strict compliance at the company, fund, and investor levels.

Where Does Independent Due Diligence Fit in the DOL's Proposed 401(k) Safe Harbor?

The United States Department of Labor has proposed a rule clarifying the process fiduciaries may follow when selecting investment options for participant-directed retirement plans. The proposal, "Fiduciary Duties in Selecting Designated Investment Alternatives," appeared in the Federal Register on March 31, 2026. The public comment period closed on June 1, 2026, and the proposed rule's unified agenda indicates comments will be analyzed in August.

The rule establishes a process-based safe harbor. Under the proposed safe harbor, a fiduciary that objectively, thoroughly and analytically considers the applicable factors and makes the required determinations would receive a presumption that its judgment concerning those factors satisfied the duty of prudence under the Employee Retirement Income Security Act. The six factors are performance, fees, liquidity, valuation, performance benchmark, and complexity, which the department describes as non-exhaustive. The proposal also includes 20 examples illustrating how the factors apply. The safe harbor is asset-neutral. It governs the process a fiduciary follows rather than the products a plan may offer, and it applies to any designated investment alternative, not only to alternative investments.

The proposal raises a question of where the underlying diligence originates. In some liquidity and valuation examples, the proposal permits the fiduciary to begin with written representations from the person responsible for managing the investment. The fiduciary must evaluate the representations against other available information, including organizational documents, investment agreements, and public disclosures, and consult a qualified professional where appropriate.

The safe harbor creates an incentive to develop a clear, factor-by-factor record, and it does not contemplate passive reliance on the manager's account. Independent, offering-level review is one way to build and test that record using analysis from a source other than the party managing or offering the investment. The proposal does not require such a review, but the structure of the safe harbor gives independent analysis a defined role in supporting a fiduciary's process.

One item the rule leaves open is ongoing oversight. The proposal addresses the selection of an investment alternative but not the duty to monitor it after it enters a plan's menu. The department has signaled that separate guidance on monitoring will follow. Until it does, the diligence obligation that attaches after selection remains unsettled.

Recent Opinions

PG St. Louis Industrial DST

7/28/2026

Canyon State Minerals, LLC

7/20/2026

CEDARst OZ Fund II, LLC

7/7/2026

CS1031 Colony at Centerpoint DST

6/24/2026

Upcoming Events

OPAL FAMILY OFFICE & PRIVATE WEALTH LEGACY SUMMIT | August 25-26, 2026, Water Mill, NY

ADISA ANNUAL CONFERENCE & TRADE SHOW | October 5-7, 2026, Las Vegas, NV

MICK LAW REAL ESTATE SYMPOSIUM

October 18-20, 2026, Tempe, AZ

QUESTIONS?

For questions regarding sponsor opinions, or for all other inquiries, kindly contact **David Sengstock**, president, at dsengstock@micklawpc.com, or **Zia Sabir**, vice president, at zsabir@micklawpc.com.