Northmarq

VIEWPOINT

Stability, Execution and Timing:

The New Playbook for 1031 Exchange Investors

July 2026

VIEWPOINT

July 2026

For years, many net lease investors relied on a straightforward formula during a 1031 exchange: identify a replacement property, secure financing, close the transaction and defer taxes. Today, the process is far more nuanced.

Higher interest rates, expanded inventory and tighter lending standards have changed the way investors evaluate opportunities. While tax deferral remains the primary motivation, investors are increasingly focused on something equally important: ensuring the replacement asset can deliver long-term stability and hold its value through changing market conditions.

The result is a more selective, more disciplined approach to identifying and executing 1031 exchange transactions.

A buyer's market is raising the bar

As cap rates have expanded and inventory has increased across many net lease property types, investors have gained something they lacked during the highly competitive years of 2021 and 2022: choice.

More options have led to greater scrutiny. Rather than focusing solely on day-one yield, investors are spending more time evaluating the underlying fundamentals that support long-term performance.

Many investors learned hard lessons during the recent interest rate cycle. Assets that appeared attractive when debt was inexpensive became much harder to finance and operate as borrowing costs rose. Today, buyers are prioritizing properties that can withstand future market shifts.

That means focusing on:

- Strong, growing locations with durable demand drivers
- Creditworthy tenants with proven operating performance
- In-place rents that are supportable by the market
- Real estate fundamentals that remain attractive even if capital markets change

For many net lease investors, the question is no longer, "What's the highest yield available today?" It's, "Which asset will still make sense five or ten years from now?"

VIEWPOINT

Why waiting can put an exchange at risk

One of the most common mistakes investors make is underestimating how much of the 1031 exchange transaction depends on parties outside their control.

A seller may take longer than expected to respond to offers. Due diligence can uncover unexpected issues. Financing approvals can take longer than anticipated.

Every delay consumes valuable time within the exchange timeline. That's why successful investors increasingly begin their replacement property search before the relinquished asset closes.

In practice, that often means evaluating opportunities two to four weeks before the downleg transaction becomes nonrefundable and submitting letters of intent before the sale closes. Doing so creates time for negotiation and increases the likelihood that a purchase agreement can be executed shortly after the sale of the relinquished property.

Getting ahead of the process also provides an important advantage: investors have a primary target instead of scrambling to identify backup options after the 45-day clock starts.

Financing has become an execution issue

In today's market, the biggest risk in many 1031 transactions isn't finding a property. It's successfully financing it.

Lenders have become more selective, placing greater emphasis on property fundamentals, debt coverage, tenant quality and sponsorship. As a result, an asset that appears attractive on paper may not qualify for financing under current lending standards.

Bringing financing partners into the process early can prevent investors from wasting critical exchange days pursuing deals that ultimately cannot close.

Execution has always mattered in a 1031 exchange, but in today's environment, it may be the most important factor of all. An exchange only delivers its intended benefit if the replacement transaction closes successfully.

> *Predictable cash flow, reduced management responsibilities and limited surprise expenses have become particularly attractive in an environment where operating costs continue to rise.*

Shaan Dadlani
Commercial Investment Sales

Adapting to higher interest rates

Many investors are also facing a new reality: replacing low-interest-rate debt with financing that carries significantly higher borrowing costs.

Rather than chasing yield to offset those higher costs, some investors are now prioritizing stability and financeability.

The rationale is simple. A property offering a higher yield may look attractive initially, but if tenant performance weakens or market conditions change, that advantage can disappear quickly. Investors increasingly recognize that protecting downside risk can be more valuable than maximizing short-term returns.

As a result, long-term asset quality is often winning out over aggressive yield assumptions.

Simplicity is gaining value

Tax deferral remains the primary objective of 1031 exchange transactions, but investors are also now looking for ways to simplify ownership as well.

Many are migrating from double net structures that expose them to roof and structural responsibilities into absolute triple net investments that shift those obligations to tenants. Predictable cash flow, reduced management responsibilities and limited surprise expenses have become particularly attractive in an environment where operating costs continue to rise.

Investors are also paying close attention to tax planning opportunities. The return of 100% bonus depreciation has renewed interest in strategies that can enhance after-tax returns, making depreciation benefits an increasingly important part of exchange conversations.

VIEWPOINT

What will matter most over the next 18 months

What will matter most over the next 18 months

While economic and capital market uncertainty remains, net lease investor priorities are becoming clearer. Three themes are likely to drive 1031 decision-making in the months ahead:

1	**Location will matter more than ever**	Investors continue to favor markets with strong population growth, healthy employment trends and durable demand drivers.
2	**Tenant quality will remain a key differentiator**	Demand remains strongest for assets leased to tenants that help mitigate risk, including many market-leading retailers and essential-service operators.
3	**Rent fundamentals will face greater scrutiny**	Buyers are paying closer attention to whether existing rents are supported by the market. If a tenant vacates, investors want confidence that the space can be re-leased at comparable economics.

Ultimately, successful 1031 exchange investors are focusing less on finding any replacement property and more on finding the right one. In a market defined by choice, discipline and execution, the investors who start early and prioritize long-term fundamentals are positioning themselves for the greatest success.

For more information please contact:

Shaan Dadlani | *Commercial Investment Sales*
sdadlani@northmarq.com | (646) 845-8426

Lanie Beck | *Senior Director, Content Strategy*
lbeck@northmarq.com | (918) 494-2690

Bianca Farrington | *Content Manager, Marketing*
bfarrington@northmarq.com | (972) 637-2159

Northmarq

3500 American Blvd W
Suite 500
Minneapolis, MN 55431
(952) 356-0100
www.northmarq.com

©2026 Northmarq. All rights reserved. No part of this publication may be reproduced by any means without prior written permission of Northmarq. The information contained in this publication has been compiled from sources believed to be reliable. Northmarq accepts no liability or responsibility for the accuracy or completeness of the information contained herein and no reliance should be placed on the information contained in this publication. An excerpt of this article has been published by Urban Land Institute.