



Houlihan  
Lokey

# Net Lease: From Bricks to Balance Sheets

December 2025

# It's Getting HOT in HERE...

With more than \$44.6 billion in net lease investment volume through September 30, 2025—up 21% YoY—and cap rates stabilizing around ~6.5%, the sector is attracting a wave of institutional capital, credit-focused strategies, and roll-up platforms.

## Core CRE Sectors Are Cooling Off



Multi-family rent growth is forecast at just 2.6% for 2025 year-end—well below its historical average, as **oversupply and affordability pressures mount**.



Office is still reeling, with vacancy at 19.6% and values down 14% to 26% YoY. **It's now a pure value play.**



Retail is holding steady with 4.2% vacancy, **but growth is uneven, and tenant risk remains.**



**Industrial is showing signs of fatigue:** rent growth has slowed to 1.7%, and vacancy has crept up to 7.5%.



**As traditional asset classes face headwinds, net lease stands out for its resilience and income stability, offering cap rates between 6.5% and 7.85%.**

Sources: CBRE, CRE Daily, NAR, Moody's, Freddie Mac, Starwood, BlackRock.

## New Entrants Joining the Space

Major sponsors like **KKR, Ares, Starwood, and Carlyle** have launched or acquired net lease platforms, each targeting portfolios exceeding \$3 billion.



**BlackRock added \$7.3 billion in net lease assets via its acquisition of ElmTree Funds**, integrating it into its private credit strategy.

**Starwood Property Trust acquired Fundamental Income Properties for \$2.2 billion**, adding 467 net lease assets across 44 states to its portfolio, expanding its platform and diversifying earnings.

**Net lease investment volume reached \$43.7 billion in 2024**, with industrial assets comprising 64% of total activity.

**Net lease is no longer niche—it's a core allocation target for institutional capital across geographies and strategies.**

## Net Lease as a Credit Strategy



Investors are increasingly underwriting net lease deals based on tenant creditworthiness, lease duration, and coverage ratios, rather than on asset value only.



Credit Tenant Lease (CTL) structures are gaining traction, using lease income as collateral.



Multistrat funds now allocate net lease across CRE, infrastructure, and private credit, recognizing its hybrid nature and inflation-linked cash flows.



Net lease is evolving into a cross-asset credit instrument, bridging real estate and fixed income.



As the expectation for a declining interest rate environment grows, net lease investors increasingly expect returns to be boosted in the long run, as they will then be able to staple on accretive financing options. Building off this thesis, recent conversations have surfaced multiple smaller groups that are trying to build portfolios of small net lease deals by approaching small owner-occupied buildings and competing in the 1031 market with all cash offers. These deals, potentially (but not always—see Realty Income's purchasing history of sub \$20 million deals) overlooked by larger investors, once aggregated into a sizeable nine- or 10-figure portfolio, coupled with a lower cost of borrowing in the future, could serve as an attractive future net lease investment opportunity for large sponsors/REITs.

# And the Funds Keep Flowing

From \$11.9 billion in 1031 exchanges to more than \$7.3 billion in institutional platform acquisitions, net lease is attracting capital across the spectrum. Its structure—long-term, credit-backed, and income-generating—is aligning perfectly with the needs of investors navigating retirement, policy shifts, and macro uncertainty.

## Boomers and 1031 Exchanges Fuel Retail Demand



- The 1031 exchange market remains robust, **driven by retiring Boomers** reallocating wealth and recycling inherited capital.
- Investors are shifting **from management-heavy assets to passive net lease vehicles**, especially DSTs for long-term income and tax deferral.
- **Reverse and build-to-suit exchanges** are gaining traction amid limited inventory and high interest rates.
- The demographic tailwind is real—retirement-driven capital is flowing into **net lease investments for their passive, tax-efficient structures**.

## Public REITs Are Doubling Down



- **W.P. Carey closed \$1.6 billion in acquisitions in 2024**, including **\$840 million in Q4 2024 alone**, and is currently valued by the market at a premium to NAV—signaling strong growth expectations.
- **Realty Income** deployed \$1.2 billion in Q2 2025, focusing on retail and industrial assets.
- **Four Corners Property Trust** acquired \$344 million over the past 12 months, with cap rates averaging 6.8%.
- **Public REITs are actively scaling portfolios**, validating net lease as a core growth engine.

## Policy Tailwinds and Retail Fund Flow



- A recent **executive order encourages broader access to alternative assets**, including real estate, in retirement plans, potentially unlocking more than \$100 billion in new capital flows.
- **Realty Income's portfolio now spans 15,600+ properties with 98.5% occupancy**, delivering consistent monthly dividends to retail investors.
- **Self-directed IRAs and Solo 401(k)s** are increasingly used to invest in net lease assets, offering tax-deferred or tax-free growth under Roth structures.
- Net lease's **long-term leases and credit-backed cash flows** make it a natural fit for retirement-focused vehicles, especially in volatile rate environments.

Sources: WJHL, BlackRock, IPX1031, Realty Income, Business Wire, U.S. Department of Labor, Morninstar, BFI, Ainvest, REIT.com, Starwood.



# Net Lease... A Flavor for Every Taste

The net lease market continues to show resilience and sectoral divergence, with industrial and retail assets leading investment activity in 2025. Each sector has its own level of attractiveness, drawing attention from different investors as discussed below.

## Car Washes



- **Car wash companies in need of expansion** capital are looking to portfolio sale-leasebacks, offering high rent coverage and potentially a strong credit profile.
- **Mister Car Wash**, the nation's leading car wash brand, had **477 car wash leases as of Q3 2025** versus 447 leases as of Q2 2024, anticipating completing **\$40 million to \$50 million** in total sale-leaseback transactions for the fiscal year 2025.
- **Tidal Wave**, a growing car wash brand, has completed **more than \$100 million in sale-leaseback transactions** with **W.P. Carey** involving over 20 retail properties in the past few years.

Sources: CBRE, CRE Daily, Remedy Medical Properties, Broadstone Net Lease, ICSC, Automotive News, Boulder Group, Net-Trade.Com, Mister Car Wash, J.P. Morgan.

## Healthcare



- Healthcare net lease structures **leverage PropCo/OpCo models to separate real estate ownership from operations**, unlocking value by giving investors exposure to healthcare assets while relieving operators of property obligations. This mutually beneficial approach is especially common in seniors housing, outpatient care, and specialty clinics with high operational intensity.
- **Remedy Medical Properties and Kayne Anderson** acquired **37 healthcare properties from Broadstone Net Lease** in 2024, totaling 708,000 SF across 13 states for \$252 million, all 100% leased. The portfolio featured prominent tenants such as Advocate, IU Health, and Tampa General, with specialty uses, including ambulatory surgery centers (ASCs) and imaging centers—facilities known for their high build-out costs and strong renewal potential.

## Industrial



- **Industrial net lease remains dominant**, with **1H 2025 leasing activity up 8.5% YoY to 424.2 million SF**, driven **by 3PLs and manufacturers**. Transactions led the market in 2024 and 2025, accounting for **64% of total net lease volume in 2024** and maintaining dominance in 2025.
- **J.P. Morgan Real Estate Income Trust (JPMREIT)** expanded its \$1.2 billion portfolio with a **\$95.2 million acquisition of a 16-property industrial outdoor storage (IOS) portfolio** through a sale-leaseback agreement major transportation provider.

## Spotlight On...



- Blue Owl focuses on acquiring free-standing properties with investment-grade tenants across different asset classes, such as industrial, healthcare, essential retail, and data centers.
- The firm also has a history of structuring sale-leasebacks of mission-critical assets to provide companies, such as Bed Bath & Beyond and Big Lots, with alternative financing sources.
- Per public filings, Blue Owl currently has 800+ tenant relationships across five different net lease focused funds. These funds have AUM of ~\$30 billion, with strong recent fundraising track records given both the potential for current income as well as capital appreciation the asset class provides.



- Realty Income is the largest global net lease REIT, known for its monthly dividend and scale across retail, industrial, and experiential sectors. Its approach emphasizes long-term leases with strong credit tenants and disciplined expansion into new geographies and asset classes.
- The company owns more than 15,000 properties across retail, industrial, and experiential sectors, generating \$4.5 billion in annualized rent. Realty Income has also accelerated growth in Europe, where acquisition yields are roughly 100 bps higher than comparable U.S. properties.



- W. P. Carey is one of the largest diversified net lease REITs, specializing in single-tenant sale-leasebacks and build-to-suit transactions across the U.S. and Europe.
- The firm owns 1,400+ properties totaling more than 170 million SF with long-term leases and contractual rent escalations. In 2024, W. P. Carey invested \$1.6 billion at ~7.5% cap rates and reported near-100% rent collections, supported by investment-grade tenants and a diversified portfolio.

# Net Lease... A Flavor for Every Taste (cont.)

## Infrastructure



- Infrastructure net lease deals are **gaining momentum as investors seek long-duration, inflation-protected assets**. By separating land from operations—**via ground leases or full-property structures**—operators unlock capital and strengthen balance sheets. When coverage ratios align, these deals create strategic partnerships and resilient income streams for both sides.
- **DigitalBridge partnered with IFM Investors** to acquire a **\$1.2 billion fiber network portfolio**, structured as a long-term leaseback with 20-year terms and CPI-linked escalations.

## Office



- **Office net lease investments are increasingly bifurcated**: office REITs and family offices continue to be active in the market, often targeting trophy assets or purpose-built single tenant net lease buildings for credit tenants under long duration leases with fixed rent steps; in contrast, older buildings or short-term leases face headwinds.

## Retail



- **Single-tenant net lease retail**, a long-time stalwart of the sector, has shuffled its top performers. Once darling subsectors like drugstores and dollar stores are struggling—the former with vacancy rates nearing 5% (the highest since 2000) and the latter remaining sluggish due to shaking consumer demand, store closures, and consolidation.
- **Quick-service restaurants (QSR)** continue to shine with vacancy rates below 2% (a 15-year trend) and continued strong investor appetite. QSR, along with car washes and other improvement-heavy sectors are also expected to benefit from the **bonus depreciation** provisions contained in the **One Big Beautiful Bill**.

## Emerging Niches



- Investors are increasingly targeting once niche or “odd ball” sectors, such as **urgent care centers, veterinary clinics, and convenience stores**, due to attractive leases and essential service status.
- Urgent care +centers typically sign 15-year leases, with fixed rent steps, often backed by corporate guarantees, and benefit from healthcare spending that accounts for 18% of U.S. GDP.
- Veterinary clinics often benefit from similar dynamics as urgent care centers; however, they have the added benefit of being closely tied to the local community and having the local pet doctors bound to the physical location. Furthermore, the recent private equity focus on this sector has increased the credit quality of the average vet clinic and therefore the applicable cap rates.
- Data centers are a significant and rapidly evolving asset class, often with long-term net leases; however, they are not discussed in detail here due to their scale and complexity. For deeper insights, refer to Houlihan Lokey’s dedicated publications on the sector.

Sources: CBRE, CRE Daily, Remedy Medical Properties, Broadstone Net Lease, ICSC, Automotive News, Boulder Group, Net-Trade.Com, Crow Holdings, CSP Daily, Yesway.

# Net Lease: Not Just a Lease, It's All About the Credit

In a potentially declining interest rate environment, investors are seeking to lock in “fixed income-like” investments, while maintaining exposure to the real estate sector, and are increasingly looking at net lease deals with fixed annual escalations.



At the policy meetings in the Fall of 2025 **the Federal Reserve lowered the target rate by 25 bps, landing between 3.75% and 4.00%.**



This was the **Fed's first consecutive rate reduction since December 2024** framed by Jerome Powell as “risk management,” following jobs reports that were softer than anticipated. Per the September minutes of the Federal Open Market Committee, “most judged that it likely would be appropriate to ease policy further over the remainder of this year.” This suggested a potential rate **as low as the mid-threes by the end of this year or early next year**, the first time that the target rate has been below 4.00% since October 2022. There is, however, a perceived policy divide if another rate cut will come before year end.



In a lower interest rate environment, the relatively high and stable returns potentially offered by net lease assets become more appealing as investors search for yield, particularly in an uncertain economic time. Inherent in a net lease investment is a double layer of protection that serves as a draw for institutional investors: **if a tenant's credit holds, the expected income stream is secure; if the credit falters, the investor still holds a valuable real estate asset.**



For 12 months ending June 30, 2025, net lease investment volume **increased by 27% to \$46.7 billion** compared with the same period a year ago, per CBRE. Per Bank of America Global Research, net lease strategies are attracting increasing amounts of private capital. Companies in their coverage universe have observed heightened involvement from private capital in the transaction markets, especially bidding on large portfolios.



Given the credit-like nature of the sector, alternative asset managers realize they possess the tools to execute on such “triple net” lease deals. Investors can also determine if they want to invest in portfolios with **investment grade tenants (more comfortable to underwrite) or noninvestment grade tenants, offering higher risk but greater reward.** Investors can also participate in **primary investments (executing on a sale-leaseback with a company directly, for example) or “secondary” investments by acquiring properties with leases in place**, which may be more common for new entrants.



From an allocation perspective, potential new entrants to the sector can choose to **participate in an industry of their interest or focus, while at the same time maintaining the characteristic income-driven return**, given the variety of property types available under this strategy. Net lease real estate encompasses the broader verticals of office, industrial and retail, as well as more niche property types such as grocery stores, pharmacies, quick-service dining, gaming properties, healthcare and even automotive dealerships (as highlighted by Ares' purchase of Capital Automotive, a 250+ asset portfolio).



Monetization strategies go well beyond the obvious “**coupon clipping**” that some may think of when they consider net lease investments. For example, renewal rates, and, therefore, **durability of cash flows**, may be more confident with a particular credit-worthy tenant or a mission-critical location-specific operation underpinning a particular lease, or yield arbitrage if net leases can be acquired in bulk and selectively monetized into less efficient markets.



These structures enable investors to **target industry exposure through a credit-driven, real-asset framework.**

Sources: Bank of America's Net Lease REIT Quarterly 2Q 25, CBRE, Leveraged Breakdowns Sector Series: Net Lease, Minutes of the Federal Open Market Committee, September 16-17, 2025, PERE News, The Wells Fargo REIT Primer, August 8, 2024.



# Net Lease: Not Just a Lease, It's All About the Credit (cont.)

Underwriting a net lease often includes a credit component. Key metrics, therefore, do not include rent coverage ratios, loan-to-value, etc., but also free cash flow, credit rating, and other “bond-like” metrics that may be not be as relevant when underwriting other traditional real estate leases.

## Net Lease Characteristics

The net lease space is unique within real estate as it's **characterized by lease structure rather than its property type**. Therefore, the net lease structure can encompass a broad range of property types.

The namesake feature of such investments is that the tenant is subject to what is known as a “net lease.” The tenant, often the single occupant of a property, pays a “**net rent**,” being responsible for covering the operating expenses of the property, often the taxes, insurance, and maintenance costs, under a “triple net lease” and even the capital expenditures under an “absolute net lease,” making the arrangement even more bond-like from the property owner’s perspective.

**Properties are often standalone** (whether office, industrial, retail, or other) and the **leases are longer in duration** (commonly 15+ years). **Longer-weighted average** lease terms (WALTs) generally imply a reduced risk of vacancy and therefore trade at lower cap rates than shorter lease terms.

Leases include annual rent increases to maintain income growth, most often negotiated as a fixed percentage (e.g., 2%) or tied to inflation (e.g., CPI).



Like bonds with fixed coupon payments, net lease real estate generates highly predictable cash flows from long-term leases with contracted rent payments.

Just as a **bond investors analyze issuer credit worthiness, net lease investors focus on tenant credit quality** as a primary risk in a net lease investment, which is the tenant’s ability to continue paying rent. Net lease yields are often viewed as a spread above the respective corporate debt rate, where observable. As such, credit enhancements, like corporate guarantees, listing a parent company/affiliate sponsor on the lease itself, or using a credit-boosted SPV, are not uncommon. Investors executing a short-duration net lease strategy (focused on capturing mark-to-market rents or the real estate’s intrinsic value at lease expiration) are, as expected, less credit concerned.

## Valuation Metrics: Credit Play Over Asset Play

Although the underlying real estate is certainly irrelevant, certain metrics more often associated with credit investments are emphasized in the net lease sector, given the importance of the tenant being able to honor long-term lease obligations to maintain the attractive recurring cash flows.

If corporate tenants have a **credit rating** available, the **percentage of investment grade tenants as a portion of the overall portfolio** is a commonly reported metric among the publicly traded net lease REITs (such as Agree Realty, Broadstone, Essential Properties, Four Corners, NETSREIT, NNN, Realty Income, and W.P. Carey). Public REITs will also often report top corporate tenants with investment grade ratings (e.g., Home Depot, Walmart).

Assessing tenant rent coverage or credit quality involves scrutinizing the financial health of underlying operations. Metrics to review can include (but are not limited to):

- ➔ **EBITDAR or EBITDARM/Rent** (EBITDAR and EBITDARM being the familiar “EBITDA,” but then adding Rent and Maintenance costs, respectively.)
- ➔ **Debt Service Coverage Ratio** (i.e., NOI/Rent)
- ➔ **Free Cash Flow**
- ➔ **EBITDAR Margins** and Other **Profitability Metrics**
- ➔ **Operational Metrics**, Such as Same-Store Sales or Average Unit Volume

For noninvestment grade tenants, traditional real estate underwriting with a focus on the property (land value, replacement cost, demographics, etc.) becomes more important as the landlord must more heavily consider the risk of nonpayment or default, and, therefore, the retenanting scenarios and local market dynamics.

Sources: Bank of America's Net Lease REIT Quarterly 2Q 25, CBRE, Leveraged Breakdowns Sector Series: Net Lease, Minutes of the Federal Open Market Committee, September 16-17, 2025, PERE News, The Wells Fargo REIT Primer, August 8, 2024.



# A Net Lease Is a Lease, After All

Credit matters, but a net lease is secured by real estate; therefore, understanding of real estate is key to underwriting such investments.



**Tenant credit is just the starting point:** While tenant credit ratings (e.g., investment-grade versus speculative) are a key driver of pricing, they do not tell the full story. Investors must look **beyond the lease and assess the tenant’s business model, sector trends, and operational health**. A high-credit tenant in a declining industry may still pose long-term risk.



**Cap rate compression reflects market sentiment:** Sub-6% cap rates for top-tier tenants (such as select national banks and fast-food chains) reflect investor confidence and demand. However, **this compression can mask underlying risks** if the real estate fundamentals are weak or rents are above market. Investors must ask: **is the pricing justified by both credit and asset quality?**



**Real estate fundamentals anchor value:** The intrinsic value of the land and building—**its location, zoning, and redevelopment potential**—can be more important than the lease itself in default scenarios. Properties in dense urban corridors or infill locations offer stronger residual value and liquidity, even if the tenant vacates.



**Rent coverage ratios reveal operational strength:** A tenant’s ability to cover rent from operating income (EBITDAR) is a key indicator of lease sustainability. Some healthcare investors, according to the NIC, report that a coverage ratio of 1.3x or lower may signal stress as margins are thin and competition is fierce. For more niche sectors, investors demand even higher coverage ratios and those below 2.0x or higher may pose problems due to more variable income and less certainty around the future.

## A Quick Round-Up: Glossary of Metrics

Metric	Definition
Cap Rate	Ratio of net operating income (NOI) to the purchase price of the property.
Implied Discount Rate	The investor’s required rate of return based on projected lease cash flows and risk profile.
EBITDAR	Earnings Before Income Taxes Depreciation Amortization and Rent
Mark-to-Market Rent	Comparison of the current lease rent to prevailing market rent for similar properties.
Residual Value	Estimated value of the property at the end of the lease term or in a default scenario.
Replacement Cost	The cost to rebuild the property today, including materials, labor, and permitting.

Sources: CBRE, U.S. Bank, J.P. Morgan, CRE Daily, SLB Capital Advisors, Investor Hangout, Net Trade, Knight Frank, Commercial Search, Colliers, Truist, Urban Land, NIC, Bridge Investment Group, Frazier Capital.

# A Net Lease Is a Lease, After All (cont.)



## Mark-to-market rents influence renewal risk:

If current lease rents are significantly **above market**, the **tenant may seek concessions or vacate at renewal**. Conversely, **below-market rents offer upside potential**. Understanding this dynamic is crucial for long-term cash flow forecasting.



## Replacement cost and land value provide downside protection:

Properties priced **below replacement cost** or with **high land value** offer a safety net in distressed scenarios. Investors should compare acquisition price to what it would cost to rebuild or repurpose the asset, especially in volatile markets.



## Implied discount rates help benchmark returns:

Cap rates alone do not capture the full return profile. Investors should calculate the **implied discount rate** based on **lease cash flows, tenant risk, and exit assumptions**. This helps benchmark net lease assets against other fixed-income or real estate alternatives and provides a consistent basis of comparison of net lease assets with differing lease terms.



## LTV and debt terms shape investment risk:

**Loan-to-value ratios** and debt covenants affect the **risk profile** of the investment. High leverage may amplify returns, if accretive, but also **increases exposure in downturns**. Investors should assess whether the **debt structure aligns with the asset's stability and lease term**.



**Dual lens underwriting is essential:** The most resilient net lease investments are those that perform well under **both lenses: tenant credit and real estate fundamentals**. A strong tenant on weak real estate, or vice versa, creates asymmetrical risk. **Balanced underwriting ensures long-term value preservation**.



**Lease structure drives risk and return:** Long-term leases (many are **20-year, with four or five-year renewal options**) with no termination clauses and strong rent escalations are attractive; however, investors must also assess **renewal probability**, co-tenancy clauses, and termination rights. A lease is only as good as the tenant's willingness and ability to stay.

## Sector-Specific Spotlight



### 1. Traditional Sectors (Office, Industrial, Retail)

- **Income-generating assets with long-term leases and predictable cash flows.**
- Key metrics: Cap rates, IRRs, LTVs, mark-to-market rents, and replacement costs.

### 2. Operationally Intensive (Senior Housing, Healthcare, Clinics, Infrastructure, Casinos and Gaming)

- Assets closely to **operating businesses**, intertwined with **tenant performance**.
- Key metrics: Coverage ratio, EBITDAR, tenant investment, tenant credit, market depth, retenuing costs, alternative uses, replacement cost, and industry-specific metrics.

### 3. Emerging Sectors (Data Centers, Car Washes, Cold Storage, RV/Boat Storage)

- **Driven by specialized demand** (e.g., AI, logistics, consumer services).
- Key metrics: Credit, cap rates/multiples, construction costs, atypical metrics.

### 4. Others (Auto Dealerships, Manufacturing Facilities)

- Mission-critical assets with **high tenant investment**. Valuation depends on **operational viability and competitive positioning**.
- Key metrics: Coverage ratio (often >2.0x), tenant credit, tenant investment, trade area analysis, replacement cost.

Sources: CBRE, U.S. Bank, J.P. Morgan, CRE Daily, SLB Capital Advisors, Investor Hangout, Net Trade, Knight Frank, Commercial Search, Colliers, Truist, Urban Land, NIC, Bridge Investment Group, Frazier Capital.



# Houlihan Lokey's Real Estate Expertise

Houlihan Lokey has significant recent and relevant experience in the net lease sector, working with both corporate owners/users and financial investors who have net lease investment portfolios.

## Valuation and Advisory Services



We have deep valuation expertise in investment, financial reporting, and tax matters.



Leveraging our accounting and real estate expertise, we help clients with transaction advisory services related to real estate equity and debt investments.

## Investment Banking



We have a track record of structuring and executing value-optimizing transactions for our clients.



Our team of experienced financial professionals has an extensive and expansive reach of traditional and nontraditional real estate debt and equity investors around the world.



We advise boards of directors and special committees as they navigate a range of strategic situations and challenges.



Our bench of experts includes dispute resolution counselors to advise on valuation matters involving disputes, mediation, arbitration, and litigation.



We run efficient, momentum-driven processes that drive results in M&A and capital raising for both healthy corporate finance and restructuring transactions.



We are well versed in crafting tailored solutions to achieve client objectives, with deep experience across sectors, company types, and market cycles.



We value large portfolios of real estate equity and debt positions and offer bespoke valuation services (e.g., positive assurance) to help clients mitigate valuation risk.



We provide fairness opinions, solvency opinions, and valuation opinions to clients across a variety of property- and entity-level transactions.



We advise clients on strategic alternatives that enable them to accomplish next-level strategic goals—whether the aim is accelerated growth or divestiture—for PropCo and/or OpCo structures.



We are uniquely positioned to help address special situations, ranging from liquidity management to recapitalizations.

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