

Morgan Stanley

INVESTMENT MANAGEMENT

# What is Net Lease Investing?

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A net lease is a long-term, single-tenant lease where the tenant pays base rent and—depending on the lease type—some or most of the property-level operating expenses like taxes, insurance, and maintenance.


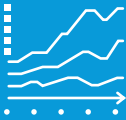


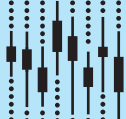
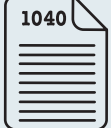
## Key Components

- Net Lease can be done on almost any type of commercial property. You'll see net lease on industrial and logistics properties, retail spaces, offices, medical facilities, and specialty assets.
- The type of lease matters, N vs NN vs NNN, these are all types of net lease structures.
- A Net Lease is not a bond, the lease creates a contractual payment stream, but the investment still depends on the real estate being viable over time.

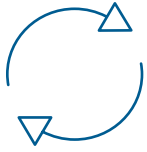
## Net Lease Types

LEASE TYPE	Single Net (N)	Double Net (NN)	Triple Net (NNN)
TAXES	✓	✓	✓
INSURANCE	—	✓	✓
MAINTENANCE	—	—	✓

## Why Do Real Estate Investors Like Net Lease Strategies?

 <p><b>PREDICTABLE CONTRACTUAL CASH FLOW</b></p>	 <p><b>APPRECIATION POTENTIAL</b></p>	 <p><b>NO PREPAYMENT RISK</b></p>
 <p><b>SECURITY</b></p>	 <p><b>POTENTIAL INFLATION HEDGE</b></p>	 <p><b>TAX ADVANTAGES/ TAX EQUIVALENT YIELDS</b></p>

## Transaction Types



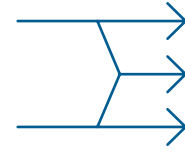
### SALE LEASEBACK

- Company sells the real estate it owns and leases it back, usually long-term
- Real estate investor buys the property and simultaneously signs a long-term lease
- Many reasons to enter into a sale-leaseback



### BUILD TO SUIT

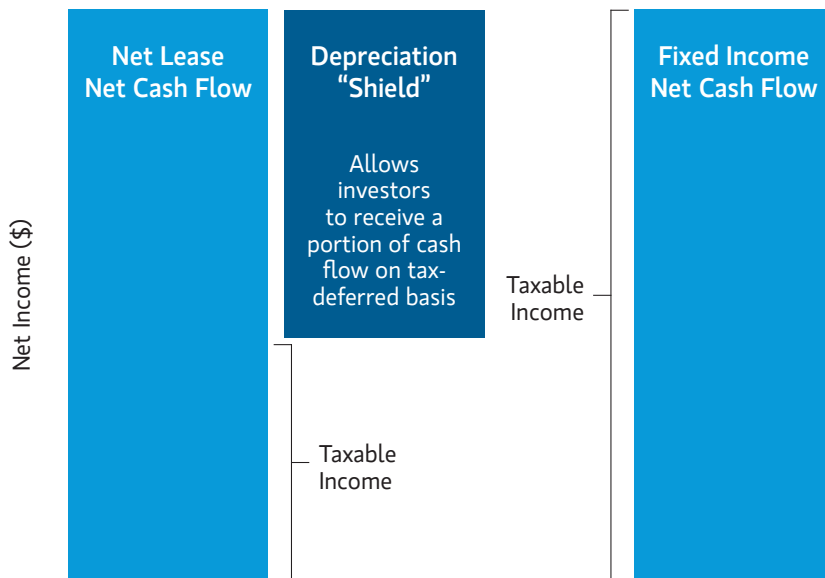
- New facilities that are developed specifically for a tenant
- Can be attractive because the building is often modern and purpose-built



### ACQUISITION

- Investor buys an existing, single-tenant net leased asset
- Lease is already in place; you're underwriting what you're buying and the terms that you're inheriting

## Potential Tax Advantages and Implications



- Net lease and fixed income may have similar cash flows, but their after-tax outcomes can differ meaningfully
- Net lease benefits from depreciation, which can defer a portion of cash flow from current taxation
- Depreciation does not eliminate taxes on net cash flow, but rather defers them and changes their classification from ordinary income to long term capital gains
- Net lease investors may use unique tools like a Section 1031 exchange to defer capital gains taxes by reinvesting the proceeds into another qualifying real estate asset

# How Net Lease Can Fit Into Your Portfolio

## Tax Advantaged, Inflation Mitigated Income with Appreciation Potential<sup>1</sup>

	FIXED INCOME	NET LEASE <sup>2</sup>	BROADER PRIVATE REAL ESTATE <sup>3</sup>
<b>Investment Objective</b>	Current income	Current income + capital appreciation	Capital appreciation (and to a lesser extent current income)
<b>Cash Flow</b>	Contractual at interest rate	Contractual and escalating	Variable
<b>Creditworthiness</b>	High	High	Variable
<b>Inflation Hedge</b>	Low	High	High
<b>Return Volatility</b>	Low	Low	High
<b>Tax Efficiency of Income</b>	Low	High	High
<b>Primary Risks</b>	Corporate credit/ bankruptcy	Tenant credit/bankruptcy Asset selection	New supply, Growing expenses, Asset selection, Tenant credit, Vacancy

For illustrative and informational purposes only. Past performance is not indicative of future results. There is no guarantee that the investment objectives will be achieved.

<sup>1</sup> Past performance is not indicative of future results. All investments are subject to risk, including the loss of principal amount invested

<sup>2</sup> Net lease strategies are subject to risks generally attributable to the ownership of real property, including, without limitation, the primary risks of tenant credit / bankruptcies. All of these risks are generally beyond the control of Morgan Stanley, and, accordingly, any negative changes in the status of a tenant (including, without limitation, tenant credit / bankruptcies) could have a material adverse effect on the Cash Flow, Creditworthiness and Return Volatility parameters described above

<sup>3</sup> Based on views and opinions of the investment team as of the date of the presentation on broader diversified private real estate investment vehicles across core-plus, value-add and opportunistic strategies. Returns, potential risks and investment outcomes will vary based on multiple factors

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