Morgan Stanley

INVESTMENT MANAGEMENT

What is Net Lease Investing?

MORGAN STANLEY INVESTMENT MANAGEMENT

What is Net Lease?

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?

- PREDICTABLE CONTRACTUAL CASH FLOW
- APPRECIATION POTENTIAL
- NO PREPAYMENT RISK
- SECURITY
- POTENTIAL INFLATION HEDGE
- TAX ADVANTAGES/ TAX EQUIVALENT YIELDS

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

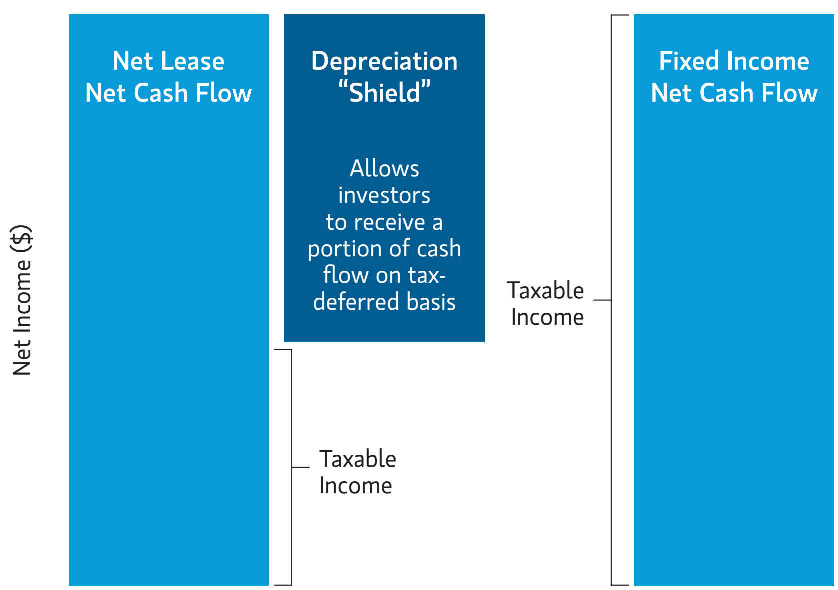
BUILD TO SUIT

- 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[1]

	FIXED INCOME	NET LEASE[2]	BROADER PRIVATE REAL ESTATE[3]
Investment Objective	Current income	Current income + capital appreciation	Capital appreciation (and to a lesser extent current income)
Cash Flow	Contractual at interest rate	Contractual and escalating	Variable
Creditworthiness	High	High	Variable
Inflation Hedge	Low	High	High
Return Volatility	Low	Low	High
Tax Efficiency of Income	Low	High	High
Primary Risks	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.

[1] Past performance is not indicative of future results. All investments are subject to risk, including the loss of principal amount invested

[2] 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

[3] 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

Risk Considerations

Portfolios are subject to market risk, which is the possibility that the market values of securities owned by the portfolio will decline and that the value of portfolio shares may therefore be less than what you paid for them. This is a general communication, which is not impartial and has been prepared solely for informational and educational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy. The information herein has not been based on a consideration of any individual investor circumstances and is not investment advice, nor should it be construed in any way as tax, accounting, legal or regulatory advice. To that end, investors should seek independent legal and financial advice, including advice as to tax consequences, before making any investment decision. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events. Accordingly, you can lose money investing in this portfolio. Please be aware that this portfolio may be subject to certain additional risks. In general, equities securities' values also fluctuate in response to activities specific to a company.

Alternative investments typically have higher fees and expenses than other investment vehicles, and such fees and expenses will lower returns achieved by investors. Alternative investment funds are often unregulated, are not subject to the same regulatory requirements as mutual funds, and are not required to provide periodic pricing or valuation information to investors. The investment strategies described in the preceding pages may not be suitable for the recipient's specific circumstances; accordingly, you should consult your own tax, legal or other advisors, both at the outset of any transaction and on an ongoing basis, to determine such suitability. This material is a general communication, which is not impartial and all information provided has been prepared solely for informational and educational purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy.

EMEA

This material is for Professional Clients/Accredited Investors only.

In the EU, MSIM materials are issued by MSIM Fund Management (Ireland) Limited ("FMIL"). FMIL is regulated by the Central Bank of Ireland and is incorporated in Ireland as a private company limited by shares with company registration number 616661 and has its registered address at 24-26 City Quay, Dublin 2, DO2 NY19, Ireland.

Outside the EU, MSIM materials are issued by Morgan Stanley Investment Management Limited (MSIM Ltd) is authorised and regulated by the Financial Conduct Authority. Registered in England. Registered No. 1981121. Registered Office: 25 Cabot Square, Canary Wharf, London E14 4QA.

In Switzerland, MSIM materials are issued by Morgan Stanley & Co. International plc, London (Zurich Branch) Authorised and regulated by the Eidgenössische Finanzmarktaufsicht ("FINMA"). Registered Office: Beethovenstrasse 33, 8002 Zurich, Switzerland.

Italy: MSIM FMIL (Milan Branch), (Sede Secondaria di Milano) Palazzo Serbelloni Corso Venezia, 16 20121 Milano, Italy. The **Netherlands**: MSIM FMIL (Amsterdam Branch), Rembrandt Tower, 11th Floor Amstelplein 1 1096HA, Netherlands. **France**: MSIM FMIL (Paris Branch), 61 rue de Monceau 75008 Paris, France. **Spain**: MSIM FMIL (Madrid Branch), Calle Serrano 55, 28006, Madrid, Spain. **Germany**: MSIM FMIL Frankfurt Branch, Große Gallusstraße 18, 60312 Frankfurt am Main, Germany (Gattung: Zweigniederlassung (FDI) gem. § 53b KWG). **Denmark**: MSIM FMIL (Copenhagen Branch), Gorrissen Federspiel, Axel Towers, Axeltorv2, 1609 Copenhagen V, Denmark.

MIDDLE EAST

Dubai International Financial Centre: This information does not constitute or form part of any offer to issue or sell, or any solicitation of any offer to subscribe for or purchase, any securities or investment products in the UAE (including the Dubai International Financial Centre and the Abu Dhabi Global Market) and accordingly should not be construed as such. Furthermore, this information is being made available on the basis that the recipient acknowledges and understands that the entities and securities to which it may relate have not been approved, licensed by or registered with the UAE Central Bank, the Dubai Financial Services Authority, the UAE Securities and Commodities Authority, the Financial Services Regulatory Authority or any other relevant licensing authority or government agency in the UAE. The content of this report has not been approved by or filed with the UAE Central Bank, the Dubai Financial Services Authority, the UAE Securities and Commodities Authority or the Financial Services Regulatory Authority.

Saudi Arabia

This financial promotion was issued and approved for use in Saudi Arabia by Morgan Stanley Saudi Arabia, Al Rashid Tower, Kings Sand Street, Riyadh, Saudi Arabia, authorized and regulated by the Capital Market Authority license number 06044-37.

U.S.

NOT FDIC INSURED. OFFER NO BANK GUARANTEE. MAY LOSE VALUE. NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY. NOT A DEPOSIT.

ASIA PACIFIC

Hong Kong: This document has been issued by Morgan Stanley Asia Limited, CE No. AAD291, for use in Hong Kong and shall only be made available to "professional investors" as defined under the Securities and Futures Ordinance of Hong Kong (Cap 571). The contents of this document have not been reviewed nor approved by any regulatory authority including the Securities and Futures Commission in Hong Kong. Accordingly, save where an exemption is available under the relevant law, this document shall not be issued, circulated, distributed, directed at, or made available to, the public in Hong Kong.

Singapore: This material is disseminated by Morgan Stanley Investment Management Company, Registration No. 199002743C. This material may not be circulated or distributed, whether directly or indirectly, to persons in Singapore other than to (i) an accredited investor , (ii) an institutional investor as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore ("SFA"); or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. This publication has not been reviewed by the Monetary Authority of Singapore.

Australia: This material is provided by Morgan Stanley Investment Management (Australia) Pty Ltd ABN 22122040037, AFSL No. 314182 and its affiliates and does not constitute an offer of interests. Morgan Stanley Investment Management (Australia) Pty Limited arranges for MSIM affiliates to provide financial services to Australian wholesale clients. This material will not be lodged with the Australian Securities and Investments Commission.

Japan

This material may not be circulated or distributed, whether directly or indirectly, to persons in Japan other than to (i) a professional investor as defined in Article 2 of the Financial Instruments and Exchange Act ("FIEA") or (ii) otherwise pursuant to, and in accordance with the conditions of, any other allocable provision of the FIEA. This material is disseminated in Japan by Morgan Stanley Investment Management (Japan) Co., Ltd., Registered No. 410 (Director of Kanto Local Finance Bureau (Financial Instruments Firms)), Membership: the Japan Securities Dealers Association, The Investment Trusts Association, Japan, the Japan Investment Advisers Association and the Type II Financial Instruments Firms Association.

morganstanley.com/im