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The lure of the lease

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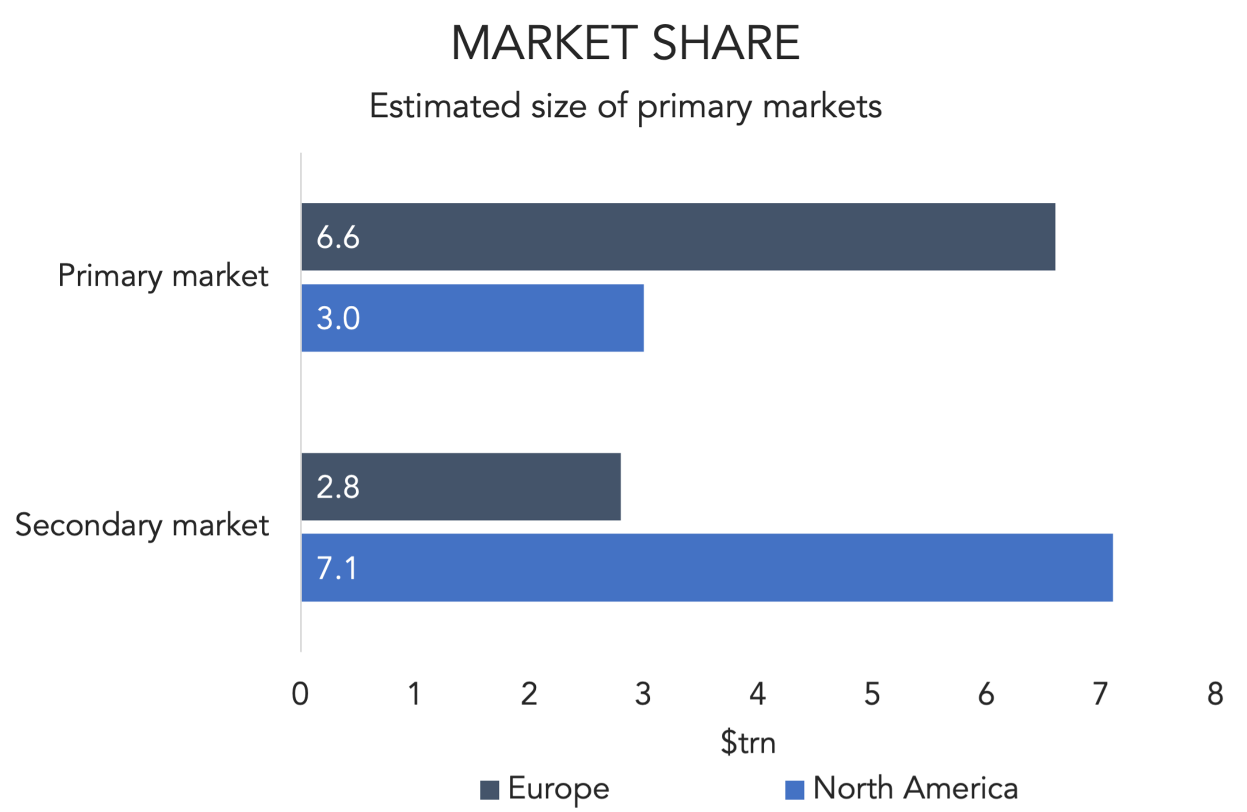

Source: LCN Capital Partners

As the hunt for yield gathers even more intensity, the triple-net lease strategy is winning support.

With the prospect of sustained inflation likely to further erode already diminishing fixed income yields, the hunt for yield and attractive risk-return is becoming even more urgent. Against this backdrop, increasing numbers of investors are turning their attention to triple-net lease investing. It's a strategy that has been around for some time but has picked up steam in the last few years with Carlyle's acquisition of a net lease business from iStar for $3 billion grabbing attention in early February.

Triple net leases involve a corporate tenant paying all the expenses of a property in addition to the rent such as real estate taxes, insurance and utility bills – some of which would normally be the responsibility of a landlord. If you take these payments and structure them in an optimal way, you can end up with a bond-like stream of cash flows backed by the corporate credit of the tenant.

In a feature for the March 2022 issue of *Private Debt Investor*, Edward LaPuma and Maxwell Eliot of LCN Capital Partners take a look at the current state of the triple net lease market and compare the primary and secondary markets. In their view, the secondary market has more volume and is more easily accessible, while the primary market has huge potential and higher yields. Another advantage of the primary market, they say, is the more direct relationship between the investor and the tenant – a line of communication that could help in the event of a potential downside scenario.

Announcing the iStar deal, Carlyle head of global credit Mark Jenkins said: “We expect to grow this net lease strategy into a $10 billion business with a focus on making the product available to the retail channel over time.” It’s a bold statement of intent, and one increasingly shared by other managers as net lease makes its way into the mainstream.

(Past performance is no guarantee of future results.)