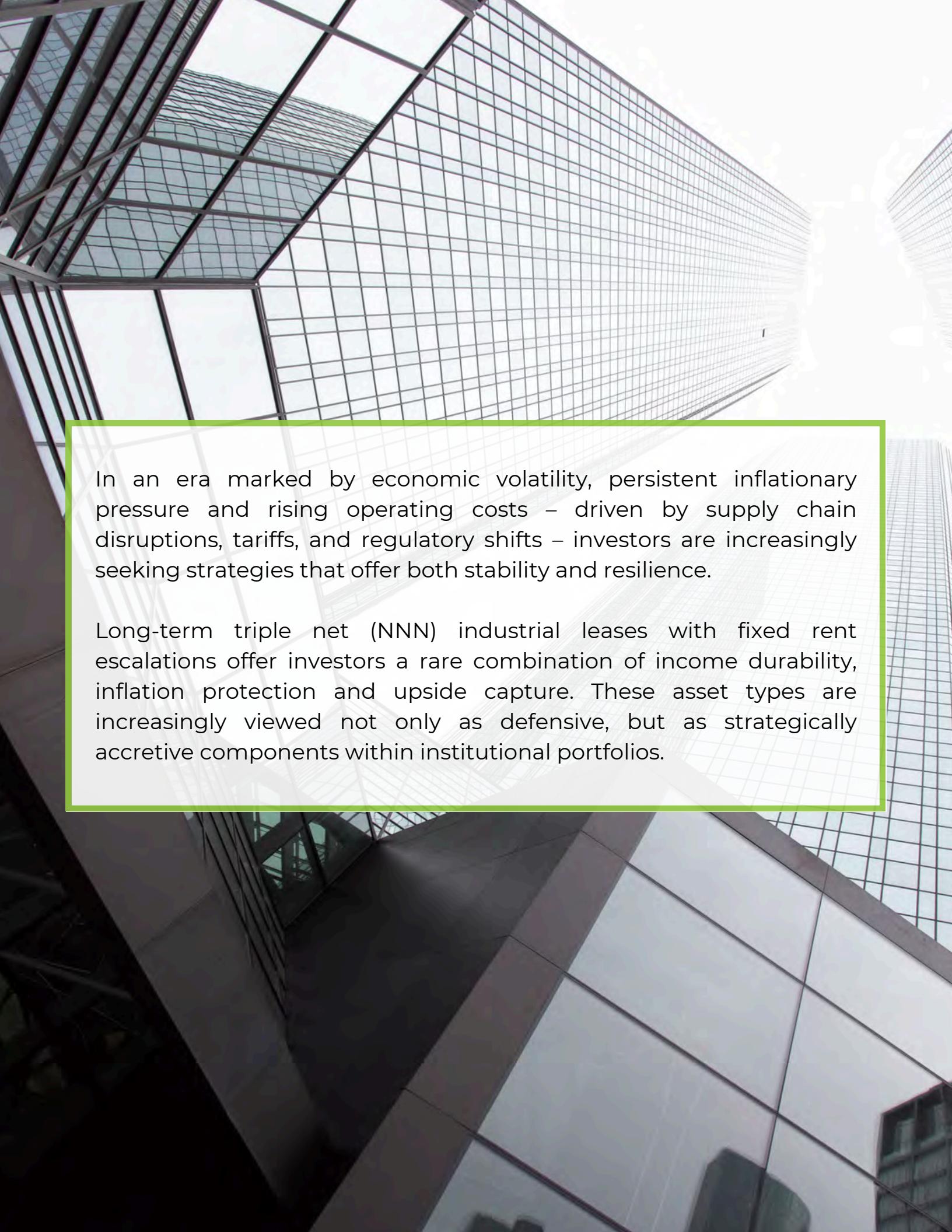


# FIXED FOR THE FUTURE: THE STRATEGIC VALUE OF LONG TERM NNN LEASE

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In an era marked by economic volatility, persistent inflationary pressure and rising operating costs – driven by supply chain disruptions, tariffs, and regulatory shifts – investors are increasingly seeking strategies that offer both stability and resilience.

Long-term triple net (NNN) industrial leases with fixed rent escalations offer investors a rare combination of income durability, inflation protection and upside capture. These asset types are increasingly viewed not only as defensive, but as strategically accretive components within institutional portfolios.

# Why Fixed Escalations in Long-Term NNN Leases Often Outperform CPI-Based Alternatives

A common question we receive from investors is why prioritize long-term NNN leases with fixed annual rent escalations – typically around 3% – over leases indexed to the Consumer Price Index (CPI)?

At first glance, CPI-based adjustments may appear more aligned with inflation. However, the data – and the underlying structural advantages of fixed-NNN leases – tell a different story.

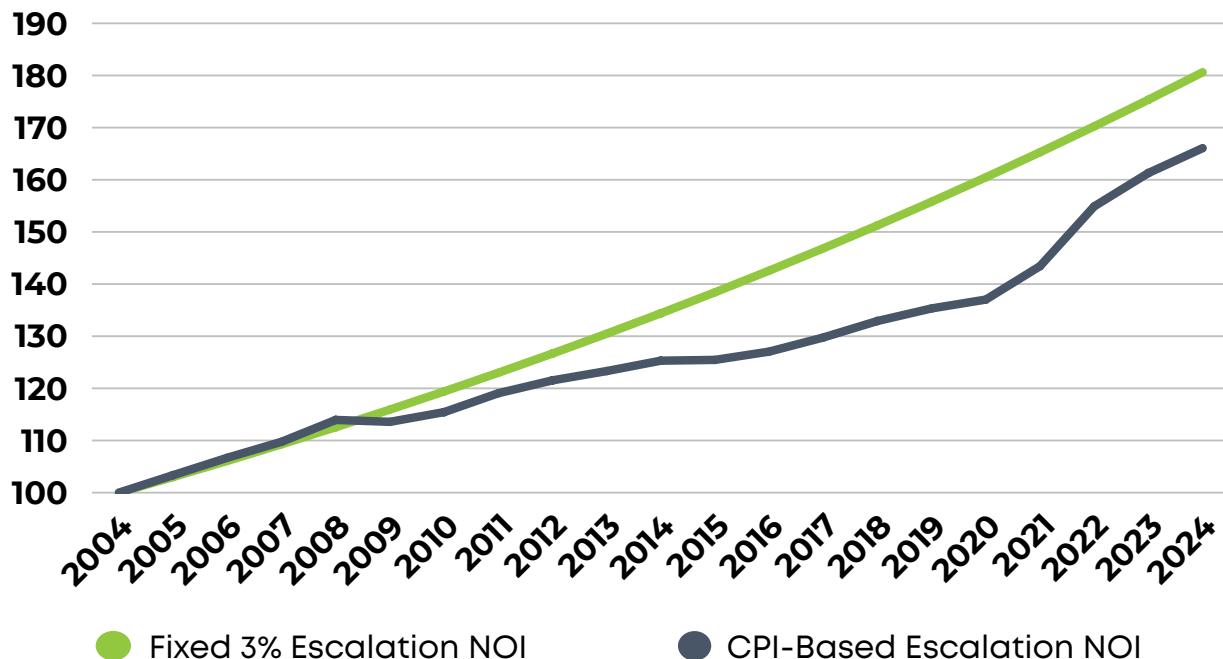
## 1. Complete Insulation from Operating Cost Inflation

The first layer of inflation protection in a true NNN lease lies in its structure:

- All operating expenses – including property taxes, insurance, maintenance and capital expenditures – are the tenant's responsibility.
- This structure shields the landlord from expense inflation and preserves net operating income (NOI), regardless of volatility under tax regimes, insurance markets, or utility costs.

### Illustrative NOI Growth: Fixed 3% Escalation vs. CPI-Based Escalation (2004–2024)

Despite periods of elevated inflation, fixed annual increases has consistently outperformed CPI-based escalations the past two decades.



Source: U.S. Bureau of Labor Statistics via FRED®

## **2. Predictable, Compounding NOI Growth**

With fixed 3% annual escalations over a 15–20 year lease term, investors benefit from stable, compounding NOI growth – without the volatility of CPI or the risk associated with lease rollover:

- Over a 20-year lease, this structure can double NOI without requiring asset-level intervention.
- CPI-based leases, by contrast, often include annual caps, floors and occasionally even downward adjustments. This introduces income variability and may weaken debt coverage ratios.
- Moreover, lenders and prospective buyers tend to underwrite CPI escalations conservatively (i.e. using the annual floor), resulting in less efficient financing and lower residual value when compared to fixed escalations.

## **3. Historical Performance Favors Fixed Escalations**

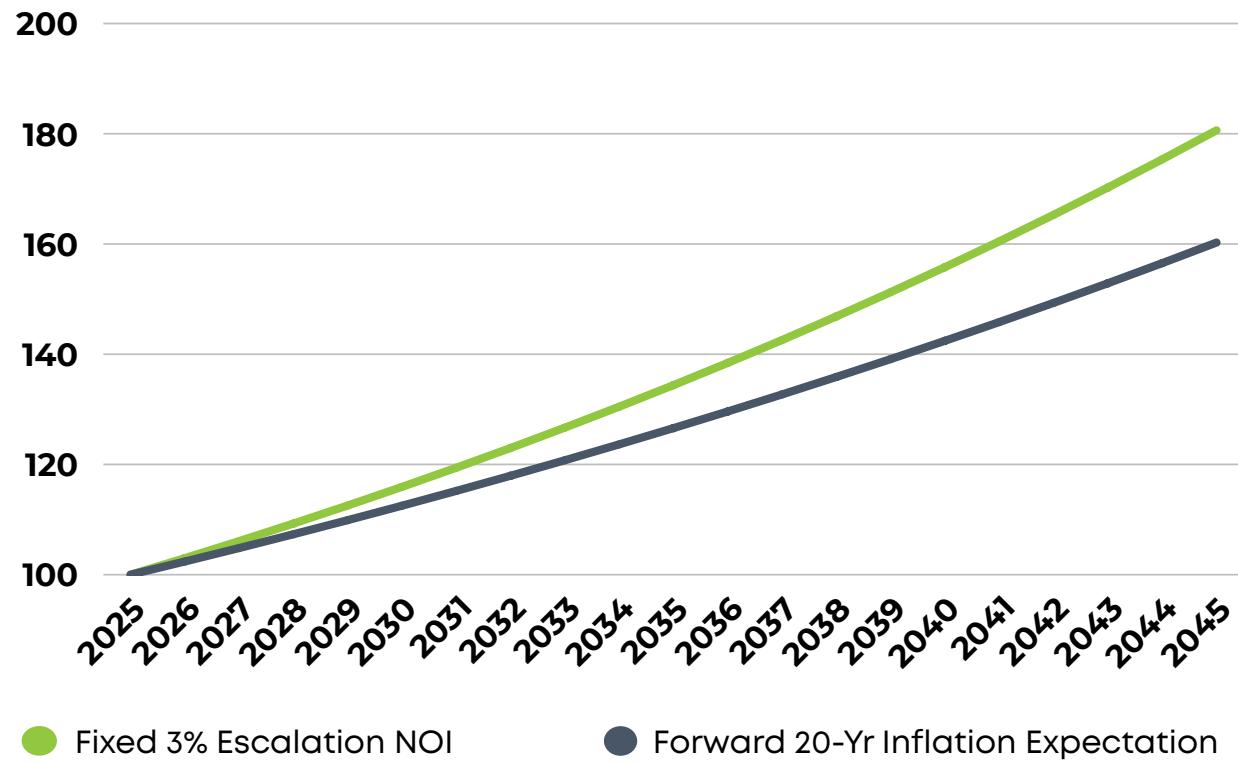
National historical CPI data and forward-looking forecasts reinforce the case for fixed escalations:

- Over the past 40 years, recorded CPI inflation exceeded 3% in fewer than 10 individual years.
- Since the 1990s, there has not been a single 10-year period where CPI averaged over 3% annually.
- Since the end of the Great Inflation in 1982, CPI has never compounded above 3% over any 20-year period.
- General consensus among economists suggests average CPI will remain below 3% over the next two decades.

When CPI-based leases are structured with floors and caps – as most tenants now require – the CPI-based lease further truncates upside while saddling the landlord with downside risk. This asymmetry further reduces their appeal from a total return perspective.

## Projected NOI Growth: Fixed 3% Escalation vs. Forward Inflation Expectations (2025–2045)

Fixed Escalations Poised to Outperform Inflation-Linked Rent Growth Based on the Cleveland Fed's 20-Year Inflation Forecast



Source: Federal Reserve Bank of Cleveland

## Long-Term Leases Capture Residual Value as a Bonus

An under-appreciated advantage of long-term NNN leases is how they can create embedded value at lease maturity.

- If market rents outpace the fixed escalations during the lease term – a likely outcome in high-demand logistics corridors – this delta translates into upside upon renewal or sale;
- At lease maturity, the asset can be marked to market, often resulting in significant value creation.
- The spread between in-place rent and market rent is realized either through re-leasing at market terms or by capitalizing that spread in a sale process.

This built-in future arbitrage opportunity is rarely factored into the initial underwriting, but can meaningfully enhance long-term IRRs.

## **Conclusion: Income Durability, Inflation Protection, and Strategic Optionality**

In a climate where inflation dynamics are uncertain and cost structures for industrial properties continue to rise, long-term NNN leases with fixed escalations provide investors a rare blend of:

- Reliable and compounding NOI growth**
- Full pass-through of all operating and capital expense risk**
- Underwriting certainty and improved financing leverage**
- Optionality for long-term value capture through lease rollover or disposition**

We believe long-term NNN leases with fixed escalations offer a more compelling risk-adjusted return profile compared to CPI-based leases or shorter-term leasing strategies that require ongoing capital and leasing risk.

We welcome the opportunity to discuss how this strategy aligns with your investment objectives and can provide ballast in an increasingly complex macroeconomic environment.

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