

SALE LEASEBACKS : THE SUPERIOR PRIVATE CREDIT STRATEGY

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Introduction

Over the past few years, institutional investors have chased private credit with remarkable intensity – seeking enhanced yield, income predictability, and perceived downside protection at a time when equity markets have been volatile and bond returns muted. By mid-2025, private credit sector AUM reached over \$1.7 trillion globally, up from less than \$400 billion a decade ago.

The momentum in capital moving towards yield-oriented alternatives accelerated during the past two years as monetary and market forces converged: notably, (1) the Fed's pivot from a tightening bias to an accommodative stance in mid-2024, and (2) the nearly 20% correction in U.S. equity indices during spring 2025.

Between June 2024 and June 2025 alone, more than \$200 billion flowed into private credit funds. The appeal is clear: predictable income, a yield premium over bonds, and negotiated seniority within the capital stack.

For real estate investors seeking the same desirable attributes of private credit investments, long-term, single-tenant sale-leasebacks on critical assets can deliver all of these benefits – plus advantages private credit cannot.

How Sale-Leasebacks Deliver Enhanced Private Credit Characteristics

Predictable, Secure, Current

- Rent is paid monthly for the life of the lease
- Triple-net leases pass all operating expenses to the tenant insulating the Landlord from operating expenses and associated inflation
- 2-3% contractual annual rent escalations predictably compound yield
- Tenant has no option to refinance if spreads tighten or credit improves, ensuring the landlord retains the full benefit of the contracted lease term

Yield Premium

- Sale-leaseback unleveraged year 1 yields often start at 7-9%; meaningfully higher than high-yield bonds (<7%)
- Annual escalations of 2-3% further increase current returns: cash flow can be 16% higher in just 5 years and continues compounding annually for 15-20+ years

Security

- In addition to the underlying credit, sale-leaseback investors own hard assets – land, buildings, and improvements
- Since properties are often fundamental to tenants' business operations, rent is prioritized above all other obligations



Where Sale-Leasebacks Outperform Private Credit

1. Equity Multiple / Upside

- Private credit is capped at par + interest
- Sale-leasebacks benefit from: escalations, market growth, tenant credit upgrades
- Rising construction costs and inflation support long-term asset appreciation
- Landlord controls exit timing to maximize value

2. Tax Efficiency

- Private credit income is fully taxed at ordinary rates
- Sale-leasebacks are real estate investments where depreciation shields current income and profits upon exit can be taxed at favorable capital gains rates
- Resulting after-tax returns can be 20–30% higher for sale-leasebacks

3. Credit Enhancement for Tenants

- Sale-leasebacks can strengthen a tenant's credit profile, as proceeds are often used to reduce debt or reinvest in the business
- By contrast, private credit generally adds to or refinances existing leverage

4. Superior Inflation Protection

- Tenant bears all operating expenses, insulating investors from cost inflation
- Rental escalations grow and compound annually, outpacing CPI over time
- Underlying real estate values generally rise in inflationary environments

Conclusion

Private credit's appeal is clear: predictable income, premium yields and an enhanced position in the borrower's capital structure. Fortunately for real estate investors, sale-leasebacks can offer all these desirable benefits plus advantages private credit cannot:

- **Growing cash flow through annual escalations**
- **Upside participation through appreciation and improving credit**
- **Control of duration with no prepayment risk**
- **Hard-asset collateral**
- **Superior income tax treatment**

For investors seeking the cash flow profile of private credit with a greater total return potential, long-term sale-leasebacks with strong tenants in critical locations may prove the superior strategy.

References

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