



Net-Leased Properties

A single tenant, net leased investment is usually a freestanding commercial property that is leased and occupied by one company. Normally the tenant has committed to a long-term lease with increasing rent over the term. In addition to rent, the tenant is required to pay utilities, real estate taxes, insurance premiums, common area maintenance and repairs. This type of investment is appealing to a wide variety of buyers; individuals, companies, real estate investment trusts and investors needing a 1031 tax-deferred exchange.

Advantages

- Maintains value in most circumstances
- Fewest owner responsibilities as tenant pays for most of the operating costs
- Typically have long term leases with increasing rent
- Access to better debt financing due to expected cash flows
- Property type preferred by investors

Disadvantages

- Cash flow depends on single tenant
- May be more expensive to build-out
- Could take more time to re-tenant
- Heavy competition for this property type
- Tenant's creditworthiness and investment in the property are important to long-term success

Valuation

In addition to the physical building and location, the property's value is determined by considering the tenant's credit, the length of the lease and rental escalations over the term.

For more information:

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