Uncovering the Benefits of Net Lease Asset Investments

Why invest in net lease assets?

Abstract

Investments in real estate that limit the landlord's responsibilities and mitigate financial downside exposure are highly sought after by investors in order to diversify their portfolios and hedge against uncertain economic conditions – especially during the COVID-19 pandemic. Net lease assets are considered low-risk investments that yield a reliable stream of income with no (or limited) owner responsibility.

The COVID-19 pandemic has caused unprecedented health and economic hardship to people across the globe. The markets reacted to the economic downturn and the commercial real estate market has been negatively impacted. But, despite the closures of non-essential retailers such as restaurants, service retailers and dry retail stores, there were a few sectors that performed well and even thrived. Among the brick-and-mortar concepts that over performed during the pandemic were grocery stores, pharmacies, dollar stores, medical centers with testing and analysis, and quick service restaurants with drive-through operations.

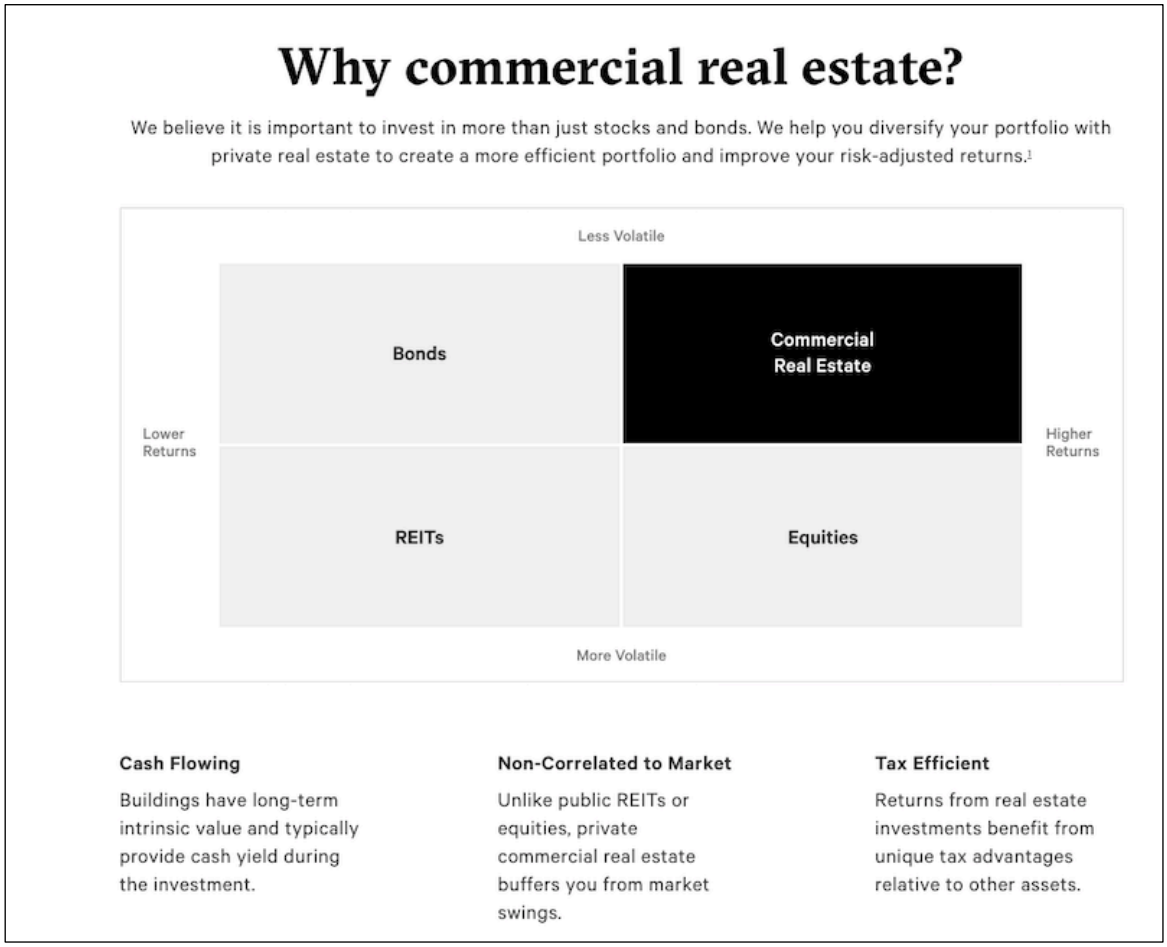
Although quick service restaurants (QSRs) have had to stop offering dine-in service, most were able to remain open with carry out, delivery and drive-through operations during the shelter-in-place orders. QSRs with drive-through operations were affected significantly less than restaurants without a drive-through offering. For example, Subway and Five Guys (concepts without drive-through) informed their landlords that they would stop paying rent altogether until they were able to safely open again. Although Five Guys informed their landlords that they would slowly reimburse lost rent once they were fully operational, Subway did not provide landlords with the same assurances.

Conversely, concepts such as Wendy's, Taco Bell and Starbucks that stayed open with limited staff to service the drive through operations continued to pay rent on time or, in some cases, requested reduced rent during the closure. In fact, according to the YUM brands first quarter report, Taco Bell reported positive same-store sales growth during the first quarter of the year. Drive-thrus are critical to QSR's ability to perform well pre and post COVID-19. Drive-thru pickup accounted for approximately 70 percent of QSRs' sales totals in 2018, and that share was holding steady during the pandemic. QSRs with drive-through operations were among the very best performing brick-and-mortar retailers during this unexpected economic hardship.

An April 8, 2020 New York Times article stated that, "Restaurant analysts estimate that 75% of the independent restaurants that close during the pandemic may not reopen, even with intervention from local and state governments. The analysis states that a post-pandemic scenario may mean a homogeneous restaurant culture dominated entirely by corporate chains."

Net lease assets are considered a strong way to balance any investor's portfolio. Commercial real estate, and net lease assets in particular, not only provide a consistent cash flow, but also offer

unique tax benefits that make the returns much more attractive than the stock market. In the example we use in this white paper (NNN Taco Bell in Jacksonville, FL), the asset achieves a post tax Internal Rate of Return (IRR) of 10.44% and an Equity Multiple of 2.31x. Owners of commercial real estate properties can mitigate their tax liability by depreciating the building's useful life – which the IRS states is 39 years for commercial properties. Furthermore, utilizing positive leverage and reducing interest payments from the asset's taxable income also helps to increase the after-tax yield.



What are net lease investments?

Net lease refers to a contractual agreement where a lessee pays rent plus a portion or all the property taxes, property insurance premiums and maintenance costs. Net lease investors can rely on a stable stream of income since lease terms often span several decades. Acquiring the "right" net lease asset can be a low-risk investment.

Other commercial properties may offer higher cap rates, but they usually require significantly more landlord involvement and a more robust time commitment.

The Net Lease real estate sector has been providing outsized returns to investors for years. Examples of Net Lease assets are your neighborhood pharmacy, gas station, late night drive-thru restaurant, Movie Theater, gym, or local day care. Net Lease assets are all around you and an integral part of your daily life. Many of these kinds of businesses lease their property under a net lease structure.

Long lease terms combined with built-in rent escalations make revenue projections straightforward and understandable. Net Lease tenants tend to be operationally efficient, highly transparent, and have repeatable business models. Most importantly, the lease structure shifts nearly all costs and uncertainty to the tenant, relieving the landlord from expense and shielding it from expenses that may rise over the life of the lease.

Net lease investment benefits

Not every net leased asset is a good investment. It is important to understand the strengths and weaknesses of each net lease property being evaluated.

Commercial real estate offers financial benefits that other investment options do not. The most important one is depreciation. Owners of commercial real estate can reduce their tax expense by depreciating the value of their property over 39 years. Be mindful that depreciation of a building is permitted on a fee simple investment but not on a ground lease. Owners can also reduce taxes by deducting the annual interest paid with debt service. (See comparative analysis of the Taco Bell as a Levered Net Leased Asset, Unlevered Net Leased Asset and as compared to a Stock/Equity Investment in Appendix A).

Pros:

- Cash Flowing: Consistent monthly income with periodic increases from in-place tenant
- No or limited maintenance, operations or management concerns or costs
- Long-term leases that offer stable income for the duration of the lease
- Attractive financing options (leverage) that generate more favorable returns and after tax yields than other investments (stocks, bonds, etc.)
- Tax Efficient: Unique tax benefits through depreciation that only real estate provides
- Possibility to use a 1031 tax deferred exchange and defer taxes
- Ownership of land and any existing structures on that land
- More liquid than most other real estate assets
- Possibility of re-developing the site in the future
- A safer way for investors to diversity their portfolio and hedge against uncertain economic conditions

Cons:

- Understand the sources of risk: tenant's credit; guarantees; industry; trade area, demographics, local market conditions; building size, lease terms, etc.
- Risk of vacancy (i.e., leasing risk, cost of re-tenanting)
- Lower overall returns than value add deals
- Unforeseen economic conditions

How to identify strong net lease assets

There are several factors to consider when identifying a strong net lease asset. Some of the factors are external (location, strength of tenant, etc.), but many are associated with the lease itself. Understanding the nuts and bolts of the lease and the terms previously agreed to by the tenant are just as important.

EXTERNAL FACTORS

Acquisition Criteria

First and foremost, an investor must clearly define his/her acquisition criteria. In order to formulate sound acquisition criteria it is critical to spend time understanding and identifying one's goals. Some investors will not fully define their acquisition criteria until they are presented with various opportunities to review, compare and consider. Only then will most novice investors be able to understand what they want and DON'T want. Investors that spend ample time on this phase with their brokers and/or investment advisors will be well positioned to source, analyze and close on the right opportunities.

The acquisition criteria may vary drastically from one investor to another. Some investors may prefer to buy a property for the immediate cash flow but with plans to redevelop once the lease expires; others may be searching for long-term leases with no management responsibilities for years to come. Some investors may want to acquire a property close to home or in a market they

are familiar with while others would consider regional or national acquisitions in markets with greater growth potential. Others may shy away from double net lease assets because they prefer not to have any additional financial responsibility during the term of the lease; while others may want to avoid certain tenants such as gas stations due to the potential environmental contamination of the land.

Location

As we all know, location is a key factor for any real estate investment. There are various factors that are key to understanding the market that can affect the value of your long-term real estate investment:

- Population growth / Job growth *
- Household income
- Demographics
- Consumer spending habits (which retail options are best for a given population)
- Traffic counts
- Signalized intersection or main arteries
- Visibility
- Accessibility
- Parking (requirements are higher for medical and restaurants)
- Retail corridor (proximity to national brands) or out parcel to power center/strong strip center
- Proximity to traffic generators (hospital, college, business park, transit centers)
- Strong residual value for re-tenanting or re-development

*Look in areas that are experiencing a higher than usual influx of new residents. Investors should consider population growth over the past 10 years as well as expected population influxes in the future to determine the best locations for net lease investments.

Credit tenants

By definition a credit tenant is a tenant that was awarded an investment grade rating based on its size and financial strength. Moody's, Fitch, and Standard & Poor's are the three major credit rating agencies. An investment grade rating is significant to investors because it provides greater security. The tenant should have the means to continue paying rent (or make up for lost rent in the case of COVID-19), even in a volatile economy. One of the advantages for leasing to a credit tenant is financing. Lenders are more apt to provide favorable financing terms for national credit tenants.

Internet-proof concepts

Internet-proof businesses offer unique customer experiences not available online. Car washes, coffee shops, urgent care centers, gyms, nail and hair salons, and restaurants are all examples of what's considered mostly Internet-proof. They are attractive to investors not only because of their inherent Internet-resistance but also because they should generate reliable revenue streams even if other retailers suffer in the future.

Strong categories to consider:

- **Auto:** Auto Zone, Goodyear, Firestone, CarMax, Tire Kingdom, Goodyear, O'Reilly, Big Tires
- QSRs/C-Stores: 2nd generation restaurant space is a highly coveted retail asset. Starbucks, 7-Eleven, Wawa, Wendy's, Taco Bell, etc.
- **Markets:** Aldi, Trader Joe's, etc.
- **Medical:** Our population is aging and in poor health. Doctor practice groups, surgery centers, dentists, veterinarians and dialysis centers are very good options. The default rate for medical tenants is less than 5%.

Below is a recent list of tenants that are well positioned to thrive duting the next 10+ years:

- Dollar Stores
- Grocery Stores
- Starbucks
- CVS
- Lowe's
- Chick Fil-A and QSRs like Burger King, Taco Bell, Wendy's, etc. - best with drive-thrus
- Home Depot
- UPS
- Advance Auto Parts

Tenants that might not survive or could consolidate stores during the next 10 years:

- Soft goods retailers like clothing stores
- Kohls
- Target
- Walgreens
- Banks: Bank of America will reduce their national footprint by 30% by 2025. Bank buildings require a much larger investment to convert their facilities to an alternate use. Typically located on signalized intersections, but their future is questionable.

Strong performer

To ensure the longevity of the tenant, reviewing the sales history is recommended. Owners of high performing stores will want to renew leases. Compare performance of the tenant to other brands and same store sales to ensure it's a strong performer. Review financials of the individual, entity or corporation. Obtain annual financial statements from the retailer, all guarantors and the entity.

Fee simple investment vs. Ground lease

One of the benefits of commercial real estate is depreciation. Net leased properties are sold as either fee simple investments or as ground leases.

Fee simple is a legal term describing a form of absolute property ownership with unlimited property rights that can be transferred or inherited. The tax benefit of depreciating the building can only be realized when owning both the land and the building – through a fee simple investment but not through a ground lease.

A ground lease is an agreement between the leased fee owner (the "landlord"), who owns the land, and the leasehold owner (the "tenant"), who owns improvements/building sitting on the land

during a lease period. In a ground lease, the landlord cannot take depreciation. In fact, depending on where the property is located, using a ground lease may have higher tax implications for a landlord. That is because rent is considered income and can be taxed at the ordinary rate, which may increase the tax burden. A ground lease does enjoy a long term advantage: since it allows all improvements on the land to be turned over to the property (land) owner upon lease expiration, the landlord may sell the property at a higher rate. However, since ground leases do not enjoy the benefit of depreciation and can, in fact, increase the tax burden, they are generally less attractive as investment vehicles.

The after-tax benefits of depreciation are tremendous. The depreciation period for commercial properties is 39 years. Depreciation reduces a commercial property's taxable income each year and could even offer the owner a tax-free income from a property that generates a handsome profit.

LEASE TERMS

Guaranty

A strong guaranty is a must, however, there are many different types of guarantees. For example, corporate, corporate guaranty at the entity level (i.e. Miami-Dade County), franchisee, shell guaranty with stores, personal guaranty, guaranty cap with sunset clause, rolling guaranty, and so on. Corporate or multi-tenant franchisee guarantees with strong financials are highly sought-after assets. When a store is described as Local or Regional, tenants are often considered a higher risk due to a number of limitations, mostly financial.

Rent

Leases in which the tenant is paying below market rents could be attractive, especially if the tenant is well into their lease term and the investor is open to reletting upon lease expiration. If the trade area market rents are lower than the tenant's current rent, it may be problematic when re-tenanting.

Rent factor - Rent as a percentage of gross revenue is an important metric used to gauge the health of the tenant. A rent ratio under 10-15% is healthy in most primary markets.

Rental Increases

Typically net lease assets have annual increases in rent or periodic increases every 5 years. They can be pre-determined (i.e., 10% increases every 5 years; 3% annual increases, etc.) or the can be tied to the Consumer Price Index (CPI). Regular predictable rental increases vs CPI-based increases tend to more desirable.

It's important to understand the implications of annual increases vs. increases every 5 years in the valuation of the property in year 10 or 15. The delta between these two options could significantly affect the valuation of the property and thus your exit strategy.

Some leases are subject to flat leases during the initial lease term. That can become problematic during periods of high inflation. Walgreens and CVS are notorious for not having any rental increases for 10-20 years. Annual rental bumps provide financial protection especially when inflation is considered. However, these investments tend to attract investors who are interested in re-developing the site upon lease expiration.

Lease Term
As a general rule, the longer the lease, the better. A property with a 20-year lease term remaining will be worth more than a property with 10 years remaining.

Typically, our clients prefer to invest in assets that have a minimum of 7-10 years remaining on the lease plus options. However, if an investor is looking for a redevelopment play in the near future, shorter terms are obviously more desirable.

Triple Net v NN leases
Net lease investments are triple net (NNN), double net (NN) or modified NNN.

Triple net leases are by far the most common. In triple net investments, landlords have zero responsibilities as tenants/lessees are obligated to pay taxes, insurance and maintenance costs.

A triple net lease (triple-Net or NNN) is a lease agreement on a property where the tenant or lessee agrees to pay all real estate taxes, building insurance, and maintenance (the three "nets") on the property in addition to any normal fees that are expected under the agreement (rent, utilities, etc.). This means even the costs of structural maintenance and repairs must be paid by the tenant. A NNN lease absolves the landlord/owner of the most risk of any net lease. Because these additional expenses are passed on to the tenant, the landlord may sometimes charge a lower base rent.

If the building is in good condition, then maintenance will be minimal and the tenant benefits from lower rent. If the building is in disrepair, such as needing a new roof, then the landlord has the advantage since he does not have maintenance expenses. However, this scenario depends on the tenant maintaining the property in good condition. If the tenant does not report building damage in order to avoid paying the associated costs under the triple net lease, the landlord will have a building in a deteriorated condition. Most triple net leases are long-term leases, lasting for more than 10 years, and generally include concessions for rent increases.

Double net leases, which are also called net-net or NN leases, require the tenant or lessee to pay property taxes and insurance premiums in addition to the rent, but the landlord/owner has some responsibility, such as maintaining the parking, the roof or structure of building, paying part of the taxes, etc. The lease agreement will specify the landlord's responsibilities.

The base rent payable for the space itself is generally lower because of the additional expenses the tenant must bear.

Security Deposit or Letter of Credit:
If the tenant goes "dark", it results in 100% vacancy. If the tenant then files for bankruptcy (i.e., Circuit City, Sears, Radio Shack, Borders and Blockbuster), it will be nearly impossible to obtain lost rent. The security deposit or Letter of Credit (LOC) is the only compensation.

MOVE FAST
While net lease assets can be scarce in high growth markets, the ones that do hit the market at reasonable economics generally sell quickly and for a premium. Buyers need to be quick to identify, evaluate and submit offers on the ones that meet their acquisition criteria.

Evaluating net lease properties

There are 4 key retail investment metrics used to analyze a retail deal:

1) Cap Rate
2) Cash on Cash Return (CoC)
3) Internal Rate of Return (IRR)
4) Retail Equity Multiple

Cap Rate

Investors usually buy net lease properties on the basis of their returns. To calculate the return on these investments, called a capitalization (cap) rate, divide the annual net operating income (NOI) by the purchase price.

NOI ÷ Purchase Price = Cap Rate

A cap rate is defined as: *A rate of return on a real estate investment property based on the expected income that the property will generate.* For example, a property that has annual rental income or NOI of $175,000 and a purchase price of $3,500,000 has a 5.0% cap rate.

Cap rates can vary drastically from market to market and tenant to tenant. For example, investors should expect lower cap rates for the highest credit tenants on a new or fully renovated and stabilized asset in a primary market. Higher cap rates are often attributed to less credit worthy tenants or those with shorter lease terms. Investment advisors should use market data, the type of property, credit worthiness, the growth potential of the market, etc. to calculate what a "good" Cap Rate should be.

Cash on Cash Returns

If you are financing the property, a Cash-on-Cash (CoC) Return is used to calculate the return you will earn on the capital invested. COC is defined as:

Annual Cash Flow (NOI) ÷ Equity Invested (Initial Cash Invested) = Cash-on-Cash Return

CoC will vary depending on the financing terms used to acquire the property. The return will fluctuate depending on the expense associated with the debt service. Thus, it is important to understand the financing terms available to each buyer in order to properly evaluate the CoC or true returns on the property for each particular buyer.

Internal Rate of Return (IRR)

IRR is one of the most important investment metrics because it takes into account the time value of money, including all of your cash flows, and allows you to compare this real estate investment to

other investment vehicles. Various factors need to be included in the model (i.e., debt, loan terms, NOI growth, exit cap rate, disposition expenses, and so on.) in order to obtain an accurate IRR.

In this model, it is important to compare the after tax yield of this asset to other investment options (such as stocks).

Equity Multiple
Along with the IRR, equity multiple is another important metric that investors will want to know. The **equity multiple** is defined as the total cash distributions received from an investment, divided by the total **equity** invested.

Total Cash Distributions ÷ Total Equity Invested = Equity Multiple

Net lease assets are not risk-free

There are inherent risks in buying retail properties. Key factors to consider:

- Tenant Risk (guaranty if tenant goes "dark")
- Leasing Risk (can one re-let the space at desirable terms)
- Unforeseen economic conditions (e-commerce or COVID-19 impacts)

One can mitigate the potential risks associated with available space if a tenant vacates but investors must carefully analyze each property to understand the sources of risk.

Conclusion

Net leased assets can be stellar investments and an excellent way to diversify an investment portfolio. The "right" net lease property can provide a consistent cash flow with no management responsibilities, as well as unique tax benefits that make returns even more attractive than the stock market. However, like any investment, they aren't without risk. If you fully analyze your options, buy with a long-term vision, and move decisively, you will benefit from these highly sought-after investment opportunities. It would be challenging to find another similar risk-adjusted investment that would generate a higher after tax yield than a leveraged net lease asset.

Beacon Hill Property Group is committed to working with investors to source, evaluate and close on investment opportunities during and after the pandemic.

WHY WORK WITH US?
Beacon Hill Property Group

- Our Net Lease team of investment advisors focuses solely on buyer-side representation of single- or multi-tenant net lease retail investment properties.
- Investment advisors focused on buy-side representation are best aligned to source the most optimal opportunity for an investor.
- Brokers representing buyers are able to consider all opportunities that best fit the buyer's acquisition criteria without the limitations imposed by those firms focused solely on seller-representation. Brokers focused on buy-side representation are not limited in their search to those assets marketed by their firm.
- We help investors understand their investment goals and formulate sound acquisition criteria.
- We analyze hundreds of net lease assets (on and off-market) and present only those that meet our clients' investment goals.
- We find the right opportunity for you!
- You save time because we present only the properties that achieve your goals.

If you would like more information about how net lease assets can work for you, contact us TODAY:

Lisa Martinez
Vice President
Beacon Hill Property Group
305-798-7218
lisa@beaconhillpg.com

BEACON HILL | PROPERTY GROUP

4100 Salzedo Street, Suite 19 | Coral Gables, Florida 33146 | Telephone (305) 798-7218

CASE STUDY
Taco Bell

Property Facts:

- Single Tenant: Taco Bell
- Absolute NNN (no landlord responsibilities)
- National credit and internet-proof tenant
- Purchase Price: $3.1M
- Cap rate: 5.65%
- Solid Term: 8+ years remaining on initial lease + four 5-yr options: although not a long term initial lease, the store has reported sales significantly above regional and national average Taco Bell stores which gives us confidence that the tenant would exercise their option extensions
- 5% rental increases every 5 years including options years
- Strong operator with above average sales
- Strong lease guaranty: 58-unit Taco Bell owner operator
- Major Market: Jacksonville
- Excellent retail location on an outparcel to 24/7 Walmart and 1M SF mall, the largest in north Jacksonville; surrounded by other strong brands (Tire Kingdom, Chick Fil A, Arby's, Wendy's, McDonald's, Subway, etc.)
- Built in 2008 but any future repairs required to the building are the responsibility of the tenant

While analyzing this particular asset, we compared this investment against the stock market and a non-levered scenario. Assuming an LTV of 70%, our investor must achieve a 8.16% yield in equities in order to obtain the similar after tax yield as with the levered Taco Bell investment. It would be challenging to find another similar risk-adjusted investment that would generate a higher after tax yield than this leveraged net lease asset.

Even though the unleveraged (all cash scenario) does not look as favorable as the leverage option, there are many advantages to buying all cash. First of all, buyers are in a more advantageous position to negotiate with the Seller versus buyers who require a finance contingency. Also, buyers that pay in cash could refinance the property once the loan is seasoned (6-12 months). Net lease assets are appealing to lenders who tend to provide favorable financing terms for low-risk credit tenants. For example, an investor that acquires $10M+ worth of NNN properties in cash can re-finance the portfolio 12 months later at a 65-75% LTV in order to acquire additional real estate assets.

Financial Benchmarks Achieved:

- Cap rate: 5.65%
- Cash on Cash Analysis – After Tax Yield (leveraged): 5.30%
- IRR: 10.44%
- Equity Multiple: 2.31x

APPENDIX A: Financial Models for Taco Bell

Cash on Cash Analysis – After Tax Yield

Unlevered / Stock Market / Levered Investment Options

Cash on Cash Comparison - Year 1

Assumptions:	
Purchase Price	$3,123,600
Cap Rate	5.65%
Year 1 NOI	**$176,483**

Loan Amount (70% LTV)	$2,186,520
Equity Invested	**$937,080**

Interest Rate	3.75%
Total Interest Year 1	$81,308
Amortization	30 Years
Annual Loan Payment	$121,513
Cash Flow After Debt Service	**$54,970**

Assumed Income Tax Rate	**35%**

Taco Bell - Unlevered	
Purchase Price	$3,123,600
Net Operating Income	$176,483
Cap Rate	5.65%
Gross Operating Income	$176,483
Property Taxes	$0
Insurance	$0
Maintenance	$0
Management Fee	$0
Reserves for Replacement	$0
Other expenses	$0
Total Expenses	$0
Net Operating Income	$176,483
After Tax Calculations	
Net Operating Income	$176,483
Less Depreciation (39 years)	-$63,503
Taxable Income	$112,980
Income Tax (35%)	$39,543
Unlevered after tax cash flow	$136,940
Effective tax rate after depreciation	22.41%
After Tax Yield	**4.38%**

Stock Market	
Initial investment	$937,080
Net Operating Income	0
Yield	8.16%
Annual Yield	$76,466
After Tax Calculations	
Annual Yield	$76,466
Less Depreciation (N/A)	$0.00
Taxable Income	$76,466
Income Tax (35%)	$26,763
After tax cash flow	$49,703
Effective tax rate	35.0%
After Tax Yield	**5.30%**

Taco Bell NNN - Levered	
Purchase Price	$3,123,600
Net Operating Income	$176,483
Cap Rate	5.65%
Gross Operating Income	$176,483
Property Taxes	$0
Insurance	$0
Maintenance	$0
Management Fee	$0
Reserves for Replacement	$0
Other expenses	$0
Total Expenses	$0
Net Operating Income	$176,483
Less Loan Payment	-$121,513
Net Operating Cash Flow	$54,970
After Tax Calculations	
Net Operating Income	$176,483
Less Depreciation (39 years)	-$80,089
Less Annual Interest Payment	-$81,308
Taxable Income	$15,086
Income Tax (35%)	$5,280
Levered after tax cash flow	$49,689
Effective tax rate after depreciation	3.0%
After Tax Yield	**5.30%**

IRR and Equity Multiple Analysis

Assumptions:	
Purchase Price	$3,123,600
Going-In Cap Rate	5.65%
Annual NOI Growth *	

Loan Amount	$2,186,520
Interest Rate	3.75%
Amortization	30 Years

Exit Cap Rate	6.00%

	1/31/19 Acquisition	1/31/20 Year 1	1/31/21 Year 2	1/31/22 Year 3	1/31/23 Year 4	1/31/24 Year 5	1/31/25 Year 6	1/31/26 Year 7	1/31/27 Year 8	1/31/28 Year 9	1/31/29 Year 10	1/31/30 Year 11
Purchase Price	3,123,600											
NOI		176,483	176,483	176,483	185,220	185,220	185,220	185,220	185,220	194,481	194,481	194,481
Sale Proceeds											3,241,350	
Unlevered Net Cash Flow	3,123,600	176,483	176,483	176,483	185,220	185,220	185,220	185,220	185,220	194,481	3,435,831	
Loan Proceeds	2,186,520											
Principal Payment		40,205	41,739	43,332	44,985	46,701	48,483	50,332	52,253	54,246	56,316	
Interest Payment		81,308	79,774	78,182	76,529	74,812	73,031	71,181	69,261	67,267	65,198	
Loan Payoff											1,707,930	
Levered Net Cash Flow	937,080	54,970	54,970	54,970	63,707	63,707	63,707	63,707	63,707	72,968	1,606,388	
Levered Cash-on-Cash		*5.87%*	*5.87%*	*5.87%*	*6.80%*	*6.80%*	*6.80%*	*6.80%*	*6.80%*	*7.79%*	*7.79%*	

Average Cash-on-Cash	6.72%
Internal Rate of Return	10.44%
Equity Multiple	2.31x

Cash on Cash Return

Cash-on-Cash - Taco Bell	
Purchase Price	$3,123,600
Cap Rate	5.65%
Year 1 NOI	$176,483

Loan Amount	$2,186,520
Equity Invested	$937,080

Interest Rate	3.75%
Amortization	30 Years
Annual Loan Payment	$121,512
Total Cash Flow After Debt Service	$54,971

Year 1 Cash-on-Cash Return	5.87%

References

Beck, Lanie. *2019 Net Lease Retail Sales Volume & Cap Rates*. Commercial Property Executive, 2020. https://www.cpexecutive.com/post/2019-net-lease-retail-sales-volume-cap-rates/

Boone, Ali. "*Cap Rate and Cash-on-Cash Return: A Definitive Guide*". Bigger Pockets. https://www.biggerpockets.com/blog/2014-05-10-cap-rates-cash-cash-returns-explained

Chen, James. "*Real Estate Investing: Ground Lease*". Investopedia. November 21, 2019. https://www.investopedia.com/terms/g/ground-lease.asp

Ellinger, Tyler. "*The Market for Net Lease Investments Is Still Going Strong into 2019*". Sands Investment Group. 2019. https://signnn.com/the-market-for-net-lease-investments-is-still-going-strong-into-2019/

Jemmett, Phil. "*Is a National Credit Tenant the Best Choice for My Retail Property*?" Huffpost. 2013. https://www.huffpost.com/entry/is-a-national-credit-tenant_b_4171368

Lucas, Amelia. "*Taco Bell owner's same-store sales drop 7% in first three months of year, says trends improving in April*." CNBC. April 29, 2020. https://www.cnbc.com/2020/04/29/yum-brands-yum-q1-2020-earnings.html

Rao, Tejal. "*Is My Takeout Risking Lives or Saving Restaurants*?" New York Times. April 8, 2020. https://www.nytimes.com/2020/04/08/dining/takeout-restaurant-ethics-coronavirus.html

Sadler, Kristin. "*Are Triple Net Investments Better Than the Stock Market*?" Westwood Net Lease Advisors. https://westwoodnetlease.com/are-triple-net-investments-better-than-the-stock-market/

Udemy. "*The Complete Guide To Real Estate Investing*". 2020. https://www.udemy.com/course/retail-real-estate-investing-masters/learn/lecture/13346296#overview