



NNN, NN, & NET LEASED INVESTMENTS

Gregory Garver – President

Brokers USA

1160 Mission St, Suite 812


San Francisco, CA 94103

Tel: (415) 968-6065 Fax: (415) 520-6589

greg@nnnbrokersusa.com



NNN Leased Investments

- Single Tenant Net Lease Types
 - Single Tenant Lease Components & Value
 - CAP Rates vs. Interest Rates
 - Market Updates on NNN Net Leases
 - Net Lease Planning as an Investment Tool
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Single Tenant Net Lease Types

- Developer/Landlord Negotiates Lease Terms with Tenant
- Landlord and Tenant Responsibilities Determined by Lease
- Single Tenant Lease Terms and Types (NNN vs. NN)

(Tenant Pays all Three Expenses in a True Absolute NNN Lease, Landlord Collects the Rent)

N - Property Taxes

N - Insurance

N - Maintenance



Single Tenant Net Lease Components

Value of Your Net Leased Investment is Determined by:

- Value of the Real Estate
 - Land Value, Building Value (Age of Building and Type of Construction)
 - Location & Barriers of Entry to the Market
 - Is it Truly a Single Tenant, or Multiple Tenants Wrapped into a Single Tenant Net Lease Structure
- Value of the Credit Tenant
 - Current Credit Rating
 - Future Financial Expectancy
 - Past Financial Reports
- Value of the Lease Itself
 - Landlord Responsibility for Expenses (NNN vs. NN vs. N)
 - Length of the Lease
 - Options to Renew
 - Rental Increases in the Lease
 - Current Market Rents



Value of the Credit Tenant

Tenant Locations & Fundamentals

AutoZone 4,200 stores in the US, Puerto Rico, and Mexico, founded in 1979

Advanced Auto 3,400+ stores in 39 continental states, Puerto Rico and the Virgin Islands

O'Reilly's 3,421 stores in 38 states, founded in 1957, went public in 1993

Competitors

Get Coi

DIRECT COMPETITOR COMPARISON					
	ORLY	AAP	AZO	GPC	Industry
Market Cap:	5.88B	4.03B	8.55B	6.80B	3.99B
Employees:	30,379	29,000	34,200	29,000	30.38K
Qtrly Rev Growth (yoy):	5.30%	-4.10%	4.00%	-1.90%	4.90%
Revenue (ttm):	4.85B	5.41B	6.99B	10.06B	4.85B
Gross Margin (ttm):	48.00%	48.85%	50.24%	29.93%	48.00%
EBITDA (ttm):	685.80M	611.02M	1.40B	761.36M	611.02M
Oper Margins (ttm):	11.09%	8.50%	17.37%	6.67%	5.03%
Net Income (ttm):	307.50M	268.99M	676.45M	399.58M	N/A
EPS (ttm):	2.230	2.828	12.953	2.502	2.23
P/E (ttm):	19.17	15.43	13.45	17.13	18.83
PEG (5 yr expected):	1.02	0.96	0.93	2.13	1.02
P/S (ttm):	1.19	0.74	1.21	0.66	1.19

[AAP](#) = Advance Auto Parts Inc.

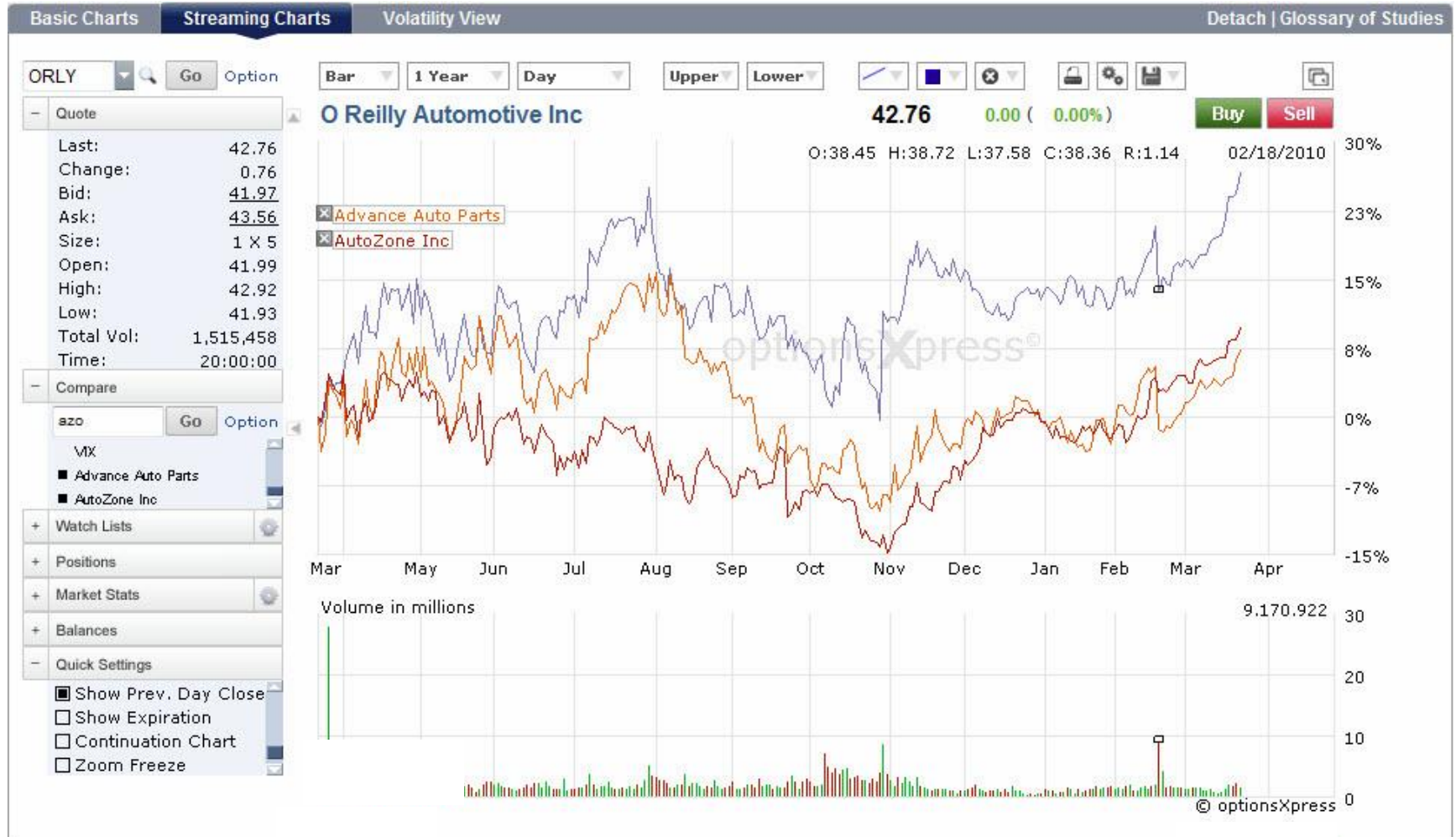
[AZO](#) = AutoZone Inc.

[GPC](#) = Genuine Parts Company

[Industry](#) = Auto Parts Stores

Value of the Credit Tenant

Tenant Stock Performance



Value of the Real Estate

Not All CVS Pharmacies are Created Equal:

- Age and Quality of the Construction
- Development Planned in the Surrounding Area
- Current and Future Demographic Trends of the Location
- Hours of Operation

Example: **CVS in Ft. Myers, FL**

- Good Demographics
- Excellent Site
- Drive-Thru
- Sold by the Developer
- Brand New Construction





DRIVE-THRU PHARMACY
FULL SERVICE

CVS
PHARMACY

CVS
PHARMACY
DRIVE-THRU PHARMACY
FULL SERVICE

CVS
PHARMACY
EXIT

Value of the Real Estate

Location, Location, Location



Cap Rates vs. Interest Rates

- **Politics and Future of Our Economy**
 - **1031 Exchange Timing and Capital Gains Rate**
 - We expect Capital Gains rate to go up under the present political Administration.
 - Market CAP rates follow interest rates (when interest rates rise so do CAP rates).
 - Keeping the Net Operating Income (NOI) of a property constant, higher prices translate to lower capitalization rates. (when CAP rates rise, prices drop).
 - $\text{Price} = \text{NOI} / \text{CAP}$
 - CAP Rate Decompression



Market Updates on NNN Net Leases

- Demographic Influences
 - Unemployment Rate
 - Population Growth
 - Household Income
- Inflation
- Consumer Confidence



NNN Lease Planning as an Investment Tool

- Essentially Inflation Protected Bonds
 - The Real Estate Protects Against Inflation
 - The Tenant Guarantees the Lease
 - Tax Benefits
- Estate Planning & Retirement Planning
 - Less Complicated Investment for Heirs
 - Less Management for Heirs
 - Long Term Fixed Income with Rental Increases
- Portfolio Diversification
 - Ability to Blend Yields with Lower Risk Investments
 - For Some, a Tool to Achieve More Desirable Tax Positions



What is a single tenant bondable/true/absolute triple net lease?

Essentially a single tenant bondable lease (also known as a single tenant true triple net lease or a single tenant absolute triple net lease) is a lease in which there is one single tenant and this single tenant takes responsibility for every fathomable real estate risk related to the property and is responsible for every single property related expense.

Single Tenant	Bondable (True or Absolute)	Triple Net (NNN)
(There is only one single tenant)	(The tenant accepts all real estate risks related to the property)	Tenant pays all expenses
		N - Property Taxes, N – Insurance, N - Maintenance

An example of property related expenses the tenant is responsible for but not limited to are the property taxes, insurance, and maintenance (often referred to as the three nets thus the term net-net-net, triple net, or NNN). Common real estate related risks which the tenant is responsible for, but not limited to, are the obligation to rebuild after a casualty (acts of God included) or to continue paying rent should the property be condemned. Further, the tenant cannot terminate the lease or seek any rent abatements.

Lets pause and review an example of a single tenant bondable (absolute/true) triple net lease (ideally the tenant will be an investment grade credit tenant such as Walgreen's): You as a landlord/investor just bought a brand new Walgreen's sitting on 2 acres of land for 3 million dollars. Walgreen's does not own this building or the dirt it sits on, but has agreed to pay you the owner of the building and land \$210,000 dollars a year for the next 25 to 75 years as well as paying all the property related expenses. They have also agreed to take responsibility for all the property's real estate related risks as previously mentioned. Though Walgreen's may not be the best example in regards to the protection single tenant absolute triple net properties provide the landlord/investor against inflation, which is about soar, many single tenant absolute triple net properties will protect you from inflation (an example would be an single tenant absolute triple net lease that had rental escalations of 5% every 5 years).

Lets review what this inflation protection means to you: Visualize that you, the landlord/investor, just purchased a single tenant absolute triple net leased property for a term of 20 years with 5% bumps (rent escalations) every 5 years. As inflation/CPI/Cost of Living rise, so do real estate expenses (do not worry, your tenant, i.e. Walgreen's, CVS, AutoZone, etc., has agreed to pick up the tab). All you have to do is collect the rent from them, which will increase over time.

Rent Schedule:

- Years 1 – 5: \$210,000 per year (\$1,050,000)
- Years 6 – 10: \$220,500 per year (\$1,102,500)
- Years 11 -15: \$231,525 per year (\$1,157,625)
- Years 16-20: \$243,101 per year (\$1,215,506)

Your protection against inflation does not end here. As inflation rises, so does the value/cost/price of real estate, even dirt lots. Land brokers have been utilizing this principle for years. The 2 Acres you own along with the Walgreen's building will be worth much more in 25 years, or even 10 years for that matter. If you have purchased in an up and coming location or market, Walgreens may want to stay your tenant indefinitely.

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President

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