



Net Lease Real Estate: Resilient by Design

Key Points

- Net lease rental properties, in which the tenant assumes responsibility for some or all of the property's operating costs and other expenses, have historically supported income generation in a real estate investor's portfolio.
- Net leases appeal to certain tenants conducting business, as they provide operational flexibility and long-term occupancy.
- The sector has historically exhibited defensive characteristics, including lower operating costs and contractual lease income for properties, with underlying tenant credit quality considered a key factor contributing to income sustainability.

Introduction: Growing Interest in Owning Net Lease Properties

In an environment of elevated economic uncertainty and market volatility, investors often turn to real estate in search of potential diversification benefits and differentiated return characteristics.¹ These characteristics are underpinned by real estate's historical ability to perform across market cycles.

Within the asset class, net lease properties have become an increasingly important segment. Investor interest in net lease properties is supported by three key potential benefits:

- The potential to generate contractual cash flows
- Reduced operating expense exposure for landlords
- Relatively lower volatility historically than certain other real estate sectors

For these reasons, investors often view net lease properties as a defensive real estate sector that may contribute to portfolio diversification.

Net Lease Properties: Shifting Expenses to Tenants

A net lease is a commercial real estate lease in which the tenant assumes responsibility for some or all of the operating costs on top of base rent, including property taxes, property insurance, and maintenance/operating expenses. The word “net” in real estate leasing refers to the costs the tenant bears beyond base rent.

Rental property designations comprise four basic types. In a gross lease, the tenant pays only the base rent. A single-net lease adds property taxes, a double-net lease adds insurance, and a triple-net lease also includes maintenance—making most operating costs the responsibility of the tenant (**Figure 1**).

Figure 1: Tenant Cost Responsibilities by Lease Type

Expenses Tenant Responsible for	Gross	Single (N)	Double (NN)	Triple (NNN)
Base Rent	✓	✓	✓	✓
Property Taxes		✓	✓	✓
Insurance			✓	✓
Maintenance				✓

Lease terms and expense responsibilities vary by agreement and jurisdiction. The table is a simplified illustration of common lease structures.

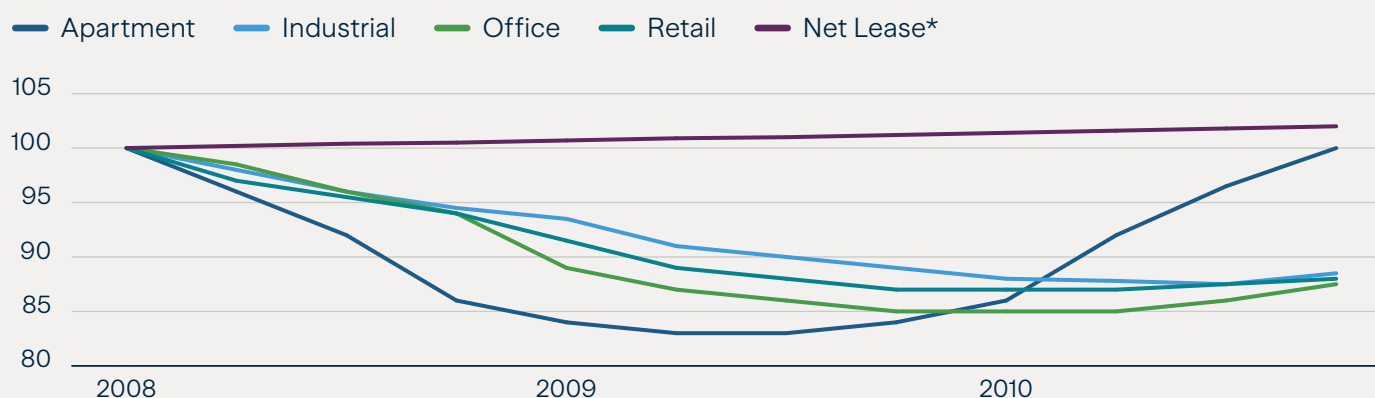
Net Lease Offers Portfolio Benefits

There are several key reasons why net lease properties can potentially provide benefits to an investor's portfolio.

- **Potential income growth:** Net leases commonly include built-in periodic rent escalators tied to the Consumer Price Index (CPI), or fixed percentage increases, which may help support income generation over time while also offering some potential protection against inflation.
- **Reduced operating expenses exposure:** Beyond providing contractual rental income, net leases can potentially reduce a landlord's exposure to rising operating expenses. This is particularly important, as property expenses have increased in recent years. Industrial property taxes have grown by an average of 21% over the past five years across 11 major U.S. and Canadian markets.² Property insurance costs relative to income more than doubled, from ~1.0% to 2.4%, in the five-year period ending in 2024.³
- **Lower capital expenditures:** Because maintenance and property-related responsibilities are shifted to the tenant, landlords face lower capital expenditures (capex). The average capex as a percentage of net operating income is 3% for net lease properties, compared with 14% for industrial and 20% for office leases.⁴
- **Stable cash flows:** Net lease properties have historically exhibited relatively consistent cash flow characteristics across various market environments, helping to provide diversification benefits within a portfolio. This can be seen in the relative stability of net operating income (NOI) during periods of market uncertainty, including the Global Financial Crisis, when many other real estate sectors experienced greater declines (**Figure 2**).

Figure 2: Net Lease NOI Performance During the Global Financial Crisis

NOI Index: Q1 2008–Q4 2010 (2008 = 100)



The Q1 2008–Q4 2010 period was selected to illustrate real estate performance during the Great Financial Crisis. NOI values are indexed to 100 as of January 1, 2008. The sectors shown may differ in composition and other characteristics and may not be directly comparable. Other periods may produce different results. **Past performance is not indicative of future results.**

*Net lease properties leased to tenants with investment-grade credit ratings.

In summary, due to these characteristics, investors consider net lease properties to be a defensive real estate sector that has the ability to provide potential income growth, reduced operating expense exposure, and diversification.

The Tenants Behind the Lease

Underlying tenant credit is one of the most important factors in net lease investing, because the property's value is closely tied to the tenant's ability to pay rent over a long period of time. In many cases, investors evaluating a net lease property are underwriting the tenant's credit quality as much as they are underwriting the real estate itself. A tenant with strong credit is more likely to continue making rent payments throughout the lease term, providing investors with stable and predictable cash flows.

Net lease properties leased to investment-grade or otherwise financially strong tenants often command higher valuations (lower capitalization rates). Investors are typically willing to accept a lower yield in exchange for potentially more reliable cash flows. During periods of economic uncertainty, financially strong tenants are generally better positioned to continue to operate and meet their lease obligations. This can make cash flows more resilient during downturns. In turn, tenants are attracted to net leases essentially for the increased long-term stability and flexibility, despite assuming greater responsibility for property upkeep and operating costs.

Net leases are typically structured with lower base rents and longer lease terms, often 10 to 25 years, with pre-established rent escalators throughout the lease term. This provides tenants with greater visibility and predictability around occupancy costs while allowing them to allocate additional capital toward operating, maintaining, and customizing the property. The longer-term nature of these leases also gives tenants greater confidence to invest in property improvements tailored to operational needs that require specialized buildouts or property-specific modifications.

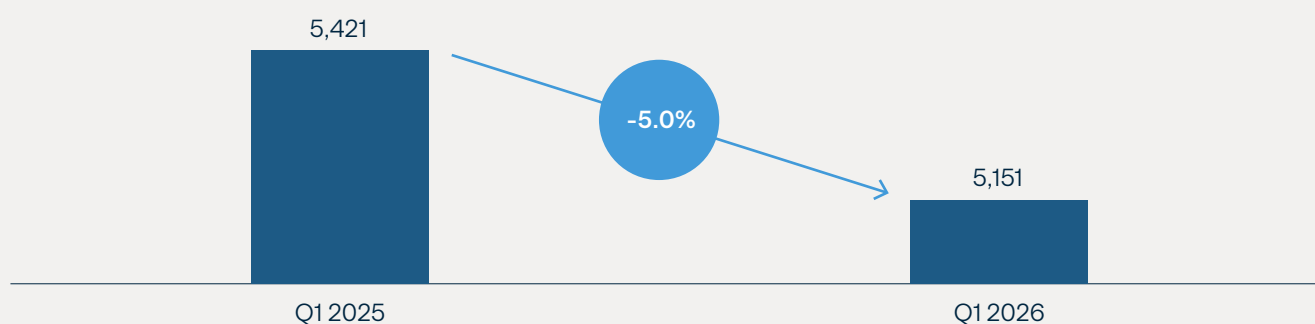
In summary, net lease properties can create a symbiotic relationship between tenants and investors: They potentially provide investors with durable, long-term income supported by strong tenant credit, while offering tenants greater occupancy stability, cost predictability and the flexibility to invest in properties that support their operational needs.



Across Sectors: Supporting Mission-Critical Real Estate

Net lease structures are well suited to mission-critical properties, where significant tenant investment and high relocation costs may contribute to longer occupancy periods, which in turn may provide consistent rental income. Industrial and logistics properties represent the largest share of net lease investment volume, accounting for more than 50% of activity in 2025.⁵ The increase in net investment volume is reflected in the low supply of properties in the market (**Figure 3**).

Figure 3: Supply of Net Lease Properties Listed on Market for Sale



Properties listed for sale on market reflects net lease properties listed through The Boulder Group. The figures shown represent Q1 2025 and Q1 2026 and may not be representative of other periods or the broader net lease market. Market availability may vary over time.

Source: The Boulder Group. As of April 2026.

Key sectors include:

- **Industrial and Logistics:** Warehouses, distribution facilities, cold storage centers, data centers, manufacturing facilities and production sites
- **Retail:** Restaurant franchises, auto parts retailers, gas stations, and grocery chains
- **Medical:** Healthcare offices, including urgent care clinics, outpatient surgical centers, and medical office buildings

Logistics and data infrastructure facilities typically utilize a net lease structure because these properties often require significant tenant investment, and benefit from long-term occupancy and cost certainty.

For logistics, tenants may invest heavily in racking, automation, distribution systems and other improvements tailored to their operations. For data infrastructure, such as data centers, facilities require substantial investment in power infrastructure, cooling, connectivity, security and specialized equipment.

Moving critical operating machinery and computing infrastructure can be complex and expensive, which can further reinforce the importance of long-term occupancy. Once a facility is integrated into a company's distribution network, relocating can be costly and disruptive, potentially supporting longer tenant retention.

Longer net leases give tenants greater confidence to make investments, and also provide more predictable occupancy costs, helping to maintain highly specialized facilities and allow control over property operations.

The Brookfield Advantage

Unlocking the benefits of a net lease property for investors critically depends on the experience and skills of the investment manager. Brookfield is well-positioned to deliver for three key reasons:

Scale: As one of the world's largest real estate investors, with approximately \$280 billion in assets under management and approximately 24,000 operating employees, Brookfield has extensive owner-operator expertise and the ability to manage every aspect of its properties.⁶

Strong local presence: Brookfield has more than 650 real estate specialists on the ground worldwide, providing the firm with access to the real-time sector and regional market data required for investing in the net lease sector.⁶

Expertise in tenant selection: Successful investments in net lease properties heavily depend on the ability to partner with stable, financially strong tenants. With more than a century of hands-on experience managing real assets, Brookfield has access to extensive market and historical property data. This allows the firm to conduct rigorous tenant underwriting to support occupancy stability, rental collections and the potential for long-term cash flows from investment-grade tenants.

Net lease real estate can offer the potential for durable income and resilience across market cycles, but realizing these benefits requires disciplined asset selection, rigorous tenant underwriting and experienced property management. Brookfield leverages its global scale, local market insights and more than a century of real estate operating experience to identify opportunities and actively manage properties with a focus on generating stable, long-term cash flows for investors.

Endnotes

1. Diversification does not guarantee a profit or protect against loss.
2. MSCI, U.S. Quarterly Property Index, December 9, 2024.
3. Savills, June 20, 2024.
4. Greenstreet, March 20, 2026.
5. CBRE, February 13, 2026.
6. Assets under management for Brookfield and its affiliates as of June 30, 2026. Number of operating employees includes investment and operating professionals across all of Brookfield's real estate platform as of December 31, 2025.

A Word About Risk

Investments in real estate-related instruments may be affected by economic, legal or environmental factors that affect property values, rents or occupancies of real estate.

Investments in net lease real estate involve risks and uncertainties. Tenant financial condition, lease expirations, non-renewals, defaults, vacancies and re-leasing challenges may adversely affect property income and values. In addition, changes in interest rates, capitalization rates, economic conditions, real estate market fundamentals and tenant or geographic concentrations may impact investment performance. Although long-term lease structures and contractual rental arrangements may provide greater visibility into expected cash flows, they do not guarantee future occupancy, rental income, property values or investment results.

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