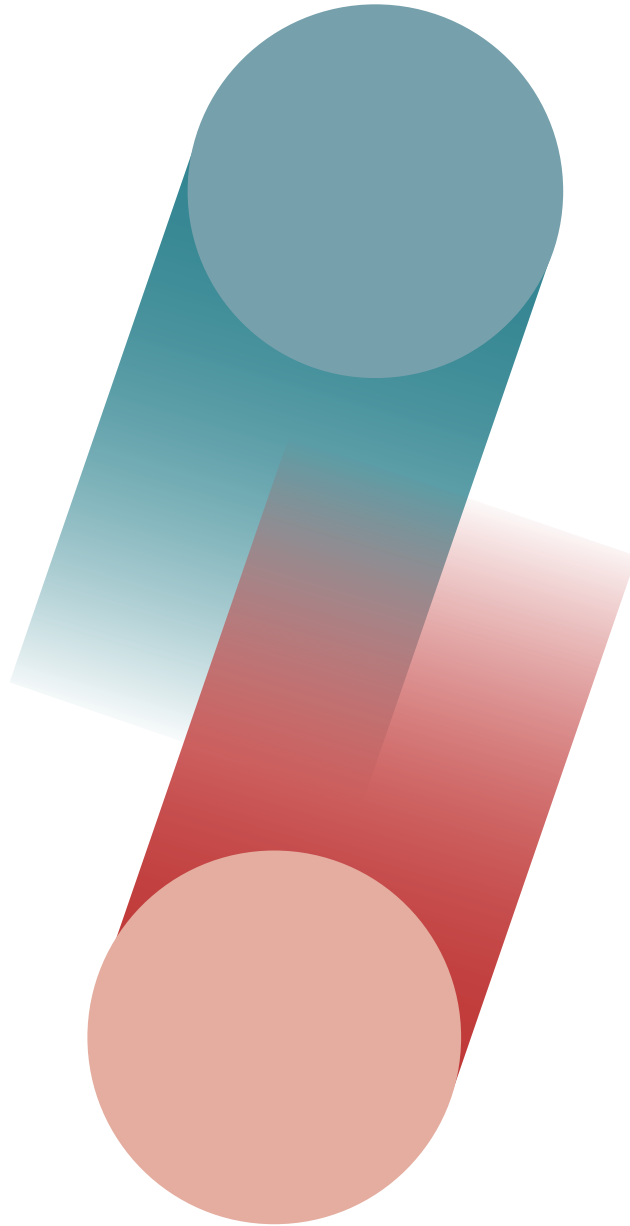


INFLATION FIGHTERS



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Amid an extended period of uncertainty, mission-critical triple-net lease (NNN) investing has emerged as a compelling strategy, offering predictable income, contractual rent escalations, and insulation from expense inflation.

Persistent inflation has challenged institutional investors across asset classes. Fixed-income returns have been eroded, equities have become more volatile, and many real estate sectors are struggling with rising operating costs.

Amid this uncertainty, mission-critical triple-net lease (NNN) investing has emerged as a compelling strategy, offering predictable income, contractual rent escalations and insulation from expense inflation. Reshoring and onshoring trends create a unique opportunity to develop or acquire highly functional assets leased to investment-grade tenants for lease terms exceeding ten years.

For global allocators, NNN investments represent a rare opportunity: combining the stability of bond-like income with the upside potential of real assets. Further, cash yields exceed those of the bonds of the underlying tenant while providing long-term upside. By aligning with essential, mission-critical tenants under long-term contracts, NNN provides the inflation protection and resilience that institutional portfolios increasingly require.

THE INFLATION CHALLENGE FOR INSTITUTIONAL INVESTORS

Inflation has reasserted itself as a persistent feature of the global economy. Even as central banks raise rates, core inflation in developed markets remains above policy targets. In emerging economies, energy and commodity price volatility has exacerbated inflationary pressures.

For institutional investors, the consequences are clear:

- Fixed income: Real yields on government bonds remain depressed when adjusted for inflation.
- Equities: Rising wages, materials and energy costs compress corporate margins and amplify earnings volatility.

- Real estate: While real assets are traditionally viewed as an inflation hedge, not all sectors are equally protected. Multifamily and office owners, for example, face higher property taxes, insurance premiums, and maintenance costs, which landlords must absorb, reducing net operating income and depressing valuations.

The challenge is to identify asset classes within real estate that truly hedge inflation. Mission-critical NNN investing is one of the few strategies that delivers this protection consistently.

EXHIBIT 1: THE BENEFITS TO INVESTORS OF NNN LEASES

TENANT PAYS FOR PROPERTY EXPENSES



TAXES



INSURANCE



MAINTENANCE & REPAIRS

INVESTOR BENEFITS



Long-term stable income created through contractual rental payments with fixed or CPI-based escalations



Inflation hedge provided by tenant responsibility for operating expenses that dilute net operation income of other asset classes



Limited or no landlord duties allowing for scale and geographic diversification



Breadth of asset options provides opportunity to diversify portfolio industries and geographies



Real estate protection in a downside scenario with upside provided through capital appreciation and credit migration

Source: PRP Real Assets

WHAT IS MISSIONCRITICAL NNN INVESTING?

An NNN lease is a contractual structure in which the tenant, not the landlord, is responsible for property taxes, insurance and maintenance, among all other operating expenses. This structure shifts virtually all operating cost risk away from the property owner. Key features include:

- **Long-term leases:** Typically 10–20 years, these provide long-term optionality for investors.
- **Creditworthy tenants:** By focusing on investment-grade counterparties, investors can acquire assets with long-term credit protection.
- **Predictable cash flow:** Rental payments are contractual, not contingent on variable property-level expenses.

By insulating owners from operating cost volatility, NNN investments deliver a level of income predictability that other real estate sectors cannot match.

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WHY NNN WORKS IN HIGHINFLATION ENVIRONMENTS

- **Built-in rent escalations:** NNN leases typically include fixed annual increases of 2.5% or more, or in some cases escalations tied to CPI. These mechanisms provide a direct hedge against inflation by ensuring income grows over time. Unlike a bond coupon, which remains fixed, NNN income streams maintain or increase their real value.
- **Tenant credit quality:** Some mission-critical NNN assets are leased to investment-grade corporates or essential operators. The facilities are mission critical to the tenant's business, reducing the likelihood of default or relocation: for example, a manufacturing facility leased to a Fortune 500 operator that has invested significant capital into the facility or chose the specific location due to its proximity to consumers or suppliers.
- **Expense passthroughs:** Property taxes, insurance premiums, and maintenance costs, all of which rise during inflationary periods, are paid by tenants. This shields net operating income from erosion.
- **Resilience across cycles:** As mission-critical NNN assets are tied to operations rather than discretionary activities, tenants prioritize maintaining occupancy and lease payments even during downturns. This operational necessity adds a layer of resilience uncommon in other sectors. This resilience was proven when PRP experienced 100% rent collections during the COVID-induced recession within its NNN portfolio of more than twenty investment-grade tenants.

SECTOR EXAMPLES OF NNN RESILIENCE

- **Logistics and distribution:** The growth of ecommerce and the reconfiguration of supply chains through reshoring and nearshoring have created demand for logistics facilities and shifted demand across the United States. In inflationary environments, transportation and fuel costs rise, further increasing the importance of strategically located warehouses. NNN structures lock in tenant commitments, with inflation protection built into the lease.
- **Manufacturing:** Industrial policy in the US and Europe, from the Inflation Reduction Act, CHIPS Act, and One Big Beautiful Bill Act, has incentivized billions in reshoring and continues to provide a tailwind to mission-critical net lease investing. Manufacturers invest heavily in their facilities, embedding specialized machinery and automation that make relocation costly. NNN leases on these properties create sticky tenant relationships and long-term income security.
- **Data centers:** Digital transformation, cloud migration and AI are driving unprecedented demand for data center capacity. Rising utility and maintenance costs are borne by tenants in NNN structures, while landlords collect stable, escalating rents. With hyperscale tenants often committing to long-term leases, data centers under NNN structures provide one of the strongest inflation hedges in real estate.
- **Healthcare and pharmaceutical manufacturing:** Labs and pharmaceutical and biomanufacturing facilities are capital intensive, highly regulated, and difficult to replicate. Even as healthcare wages and supply costs rise, landlords remain insulated through passthrough structures. For institutions, NNN healthcare manufacturing and logistics investments combine social utility with defensive income.

EXHIBIT 2: COMPARING MISSION-CRITICAL AND LEGACY NNN LEASE STRATEGIES

MISSION-CRITICAL NNN STRATEGY

Tier 1 IG tenants within 'new economy'

Opportunistic hold period to maximize value

New generation class A assets

Primary markets with strong rent growth

Multiple exit strategies

Focus on asset classes with strongest macro-tailwinds

VS



LEGACY NNN STRATEGY

Sponsor-backed middle-market with high leverage

Perpetual hold

Class B/C tertiary product with high obsolescence risk

Tertiary and secondary markets with limited upside

Perpetual hold creating orphaned asset risk

Asset class agnostic

Source: PRP Real Assets

NOT ALL NNN IS CREATED EQUAL

NNN investing spans asset classes, regions and credit quality. Assets such as hospitals, retail, and office may be structured under NNN leases. Further, many NNN leases are with unrated or sub-investment-grade tenants, creating default risk and the potential for complete loss of income. In a period of high inflation and elevated interest rates, these sub-investment-grade tenants with high leverage levels are exposed to rising interest expense and refinance risk, eroding credit quality. Finally, legacy assets may be mission critical to an underlying operation, but they face significant functional obsolescence if they do not boast modern configurations with adequate power, clear heights, column spacing and truck-court depth.

By focusing on recently constructed or build-to-suit assets leased to investment-grade counterparties, a focus on mission-critical NNN assets mitigates many of the risks associated with legacy NNN investments.

COMPARISON TO OTHER ASSET CLASSES

- Bonds: While bonds provide fixed coupons vulnerable to inflation erosion, NNN assets offer contractual income with built-in growth, plus the potential for capital appreciation.
- Equities: Public equities may deliver higher nominal growth but are subject to significant volatility during inflationary cycles. NNN returns are contractual, not dependent on market sentiment.
- Other real assets: Multifamily landlords absorb rising property expenses. Office owners face weak demand, capital expenditure burdens, gross leases (providing operating expense exposure) and tenant improvement costs. Industrial owners without NNN structures remain exposed to expense volatility. Mission-critical NNN stands apart as the most insulated model.

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THE INSTITUTIONAL ALLOCATION CASE

For global allocators, mission-critical NNN investing offers several advantages:

- **Diversification:** Exposure can be spread across industries, geographies and tenant credit profiles.
- **Scalability:** Mission-critical NNN transaction sizes often exceed \$50 million, allowing for efficient deployment of institutional capital.
- **Stagflation hedge:** When both equities and bonds underperform, NNN provides stable, growing income streams.
- **Global relevance:** Global investors are increasingly pursuing strategies that deliver income with inflation protection and long-term upside. Mission-critical NNN delivers on this mandate.

By acting as an income-producing real asset investment within alternatives allocations, NNN can stabilize portfolio returns in volatile macroeconomic environments.

For institutional investors navigating this environment, NNN investing provides a rare combination: bond-like stability, contractual growth and insulation from operating expense inflation.

RISKS AND MITIGANTS

Like any strategy, NNN investing carries risks, but these can be mitigated through disciplined underwriting:

- **Tenant credit risk:** Mitigated by focusing on investment-grade tenants and essential operating assets. Further, this can be mitigated by focusing on growth and avoiding potential fallen angels.
- **Sector obsolescence:** Addressed by targeting logistics, manufacturing and digital infrastructure that benefit from long-term megatrends and are recently constructed or to-be-built assets that are highly functional for today's users.
- **Illiquidity:** Reduced through portfolio diversification and exit optionality, including sales to REITs or recapitalizations.
- **Escalation limits:** Fixed escalations may trail actual inflation in extreme environments; inflation-driven rent growth may provide mark-to-market opportunities upon the renewal of the lease.

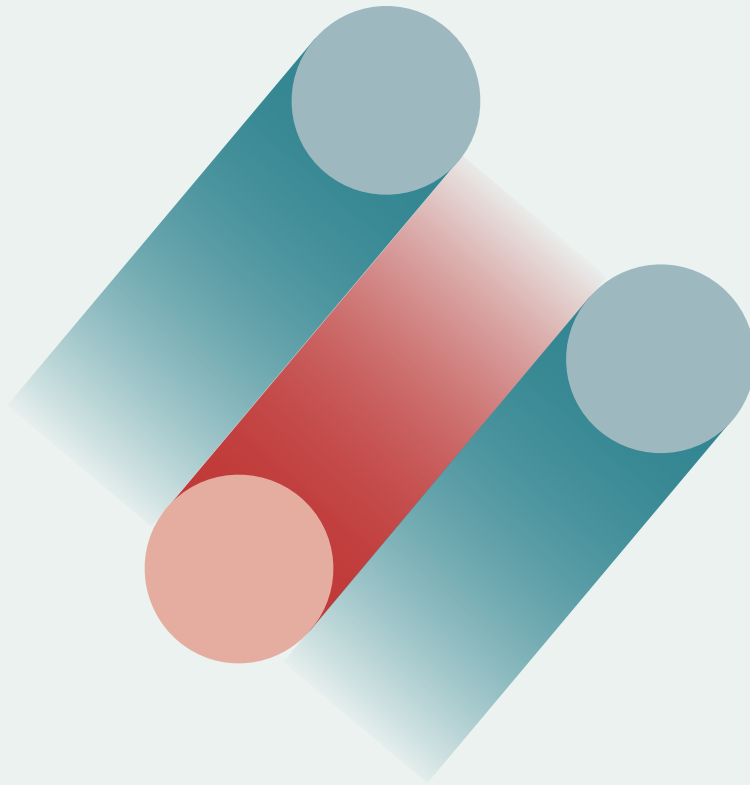
MISSIONCRITICAL NNN AS THE 'INFLATION BUSTER'

Inflation is once again a defining feature of global capital markets. For institutional investors navigating this environment, NNN investing provides a rare combination: bond-like stability, contractual growth and insulation from operating expense inflation. Anchored by essential, mission-critical properties, NNN assets are uniquely positioned to deliver predictable, long-term yield with upside potential.

In short, NNN investing is not only an alternative allocation, but also a true “inflation buster,” offering the defensive resilience institutions need in an era of persistent macroeconomic volatility.

ABOUT THE AUTHOR

EJ Wislar is Managing Director, Mission-Critical Assets for PRP Real Assets, which specializes in the acquisition, development, and asset management of high-conviction real estate investments across the US.



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