Understanding the Trade-Offs

There Is No Perfect Investment. Only the Right Fit for Your Goals.

Every real estate investment involves a series of trade-offs.

Some strategies prioritize stable income and predictability. Others seek greater appreciation potential and long-term growth. Some rely on debt to amplify returns, while others focus on preserving capital through lower leverage and reduced risk.

For investors completing a 1031 exchange, the decision often extends beyond simply selecting a property. The structure of the investment, the source of income, the use of leverage, and the underlying business plan can all influence both performance and risk.

The objective is not to identify a universally "better" investment. The objective is to understand how different approaches align with your income needs, liquidity goals, risk tolerance, and long-term objectives.

The following pages explore some of the key differences between multifamily and triple net lease investments, as well as the role debt can play in shaping both opportunity and risk.

INVESTMENT DECISIONS ARE OFTEN BUILT AROUND FOUR CORE CONSIDERATIONS

QUESTIONS WORTH CONSIDERING

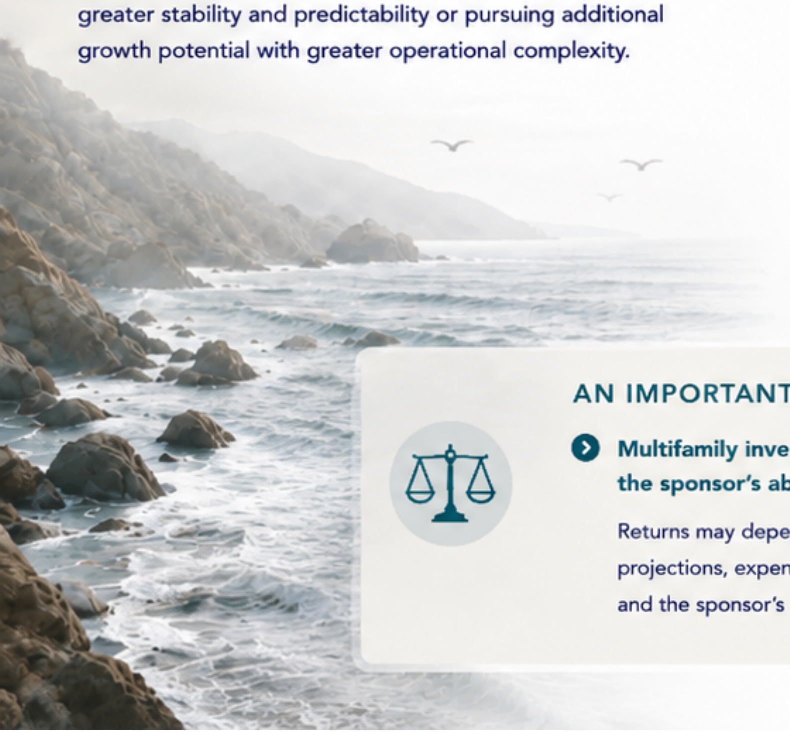
- Is dependable income or growth potential more important to me?
- How comfortable am I with leverage?
- Do I value simplicity or operational upside?
- What role does risk play in my investment decisions?
- How important is capital preservation?

Understanding the Trade-Offs

Every real estate investment involves a balance between income, growth, stability, and risk.

The objective is not to identify a universally "better" investment. The objective is to identify the investment approach that best aligns with your goals, income needs, risk tolerance, and long-term strategy.

For many investors completing a 1031 Exchange, the decision often comes down to choosing between greater stability and predictability or pursuing additional growth potential with greater operational complexity.



Multifamily

Growth-Oriented

Often selected by investors seeking:

- Greater appreciation potential
- Rent growth opportunities
- Inflation participation
- Value-add upside

Considerations:

- Occupancy fluctuations
- Operating expenses
- Property management oversight
- Potentially greater income variability
- Often includes leverage

Triple Net Lease

Stability-Oriented

Often selected by investors seeking:

- Predictable income
- Long-term lease structures
- Reduced management responsibilities
- Corporate-backed tenancy

Considerations:

- More modest appreciation expectations
- Less participation in rent growth
- Longer-term commitment to existing lease terms
- Greater emphasis on income stability than growth

An Important Distinction

Multifamily investments are often driven by the sponsor's ability to execute a business plan.

Returns may depend on leasing assumptions, rent growth projections, expense management, financing strategy, and the sponsor's operational expertise.

Triple Net Lease investments are often driven by the tenant's ability to meet its lease obligations.

Rather than underwriting a future business plan, investors are typically evaluating the credit quality of the tenant, lease structure, and remaining lease term.

Risk Profile

UNDERSTANDING RISK IS KEY TO BUILDING CONFIDENCE.

Every investment involves trade-offs between risk, return, liquidity, and control. Understanding those trade-offs is often more important than simply pursuing the highest projected return.

Our role is to help investors evaluate potential risks before making a decision, including debt exposure, tenant quality, lease structure, market conditions, sponsor strength, and liquidity considerations.

By identifying both strengths and vulnerabilities upfront, investors can make decisions with greater confidence and clarity.

LESS RISK

NO DEBT
Eliminates debt service obligations and reduces financial pressure.

CORPORATE GUARANTEE
Strengthens reliability with added financial backing.

NO VARIABLE EXPENSES
Provides stability and predictability in operating costs.

LONG-TERM LEASE
Secures consistent income with a committed tenant.

MORE RISK

DEBT SERVICE
Borrowing increases financial obligations and risk exposure.

OCCUPANCY FLUCTUATIONS
Vacancies or turnover can impact cash flow and performance.

VARIABLE COSTS
Expenses that change over time can affect net operating income.

FINANCIAL ASSUMPTIONS
Projections and forecasts carry inherent uncertainty.

The Risk Spectrum

DIFFERENT PROPERTIES. DIFFERENT RISK PROFILES. ONE GOAL: LONG-TERM PERFORMANCE.

Every real estate investment involves a balance between income stability, growth potential, operational complexity, and risk. Understanding where an investment falls on the risk spectrum can help investors align their 1031 exchange strategy with their objectives for income, appreciation, and capital preservation.

While no investment is inherently “better,” different property types often produce different outcomes. Factors such as tenant structure, property operations, lease terms, and the use of leverage can all influence an investment’s risk and return profile.

NO DEBT
Lower Risk / Lower Appreciation Potential

LEVERAGE

HIGH DEBT
Higher Risk / Higher Appreciation Potential

CORPORATE GUARANTEED NNN PROPERTIES

- Investment Grade Tenants
- Long-Term NNN Leases
- No Property-Level Debt
- Corporate Guarantee
- Lower Income Variability

MULTIFAMILY PROPERTIES

- Individual Residents
- Occupancy Variability
- Variable Expenses
- Operational Execution Required
- Often Utilizes Leverage

GENERAL DISCLOSURE:

All investing involves risk of loss of some or all principal invested. Past performance is not indicative of future performance. There can be no guarantee that any investment or strategy will achieve its stated objectives. Speak to your tax and/or financial professional prior to investing. Securities and advisory services through Emerson Equity LLC, member FINRA and SIPC and a registered investment adviser. Emerson is not affiliated with any other entity identified herein.

REAL ESTATE / 1031 RISK DISCLOSURE:

- **There is no guarantee** — that any strategy will be successful or achieve investment objectives.
- **Potential for property value loss** — All real estate investments have the potential to lose value during the life of the investments.
- **Change of tax status** — The income stream and depreciation schedule for any investment property may affect the property owner's income bracket and/or tax status. An unfavorable tax ruling may cancel deferral of capital gains and result in immediate tax liabilities.
- **Potential for foreclosure** — All financed real estate investments have potential for foreclosure.
- **Illiquidity** — These assets are commonly offered through private placement offerings and are illiquid securities. There is no secondary market for these investments.
- **Reduction or Elimination of Monthly Cash Flow Distributions** — Like any investment in real estate, if a property unexpectedly loses tenants or sustains substantial damage, there is potential for suspension of cash flow distributions.
- **Impact of fees/expenses** — Costs associated with the transaction may impact investors' returns and may outweigh the tax benefits.
- **Stated tax benefits** — Any stated tax benefits are not guaranteed and are subject to changes in the tax code. Speak to your tax professional prior to investing.