Blue Owl

Unlocking long-term growth through net lease

Chase McWhorter, Institutional Real Estate, Inc.'s managing director, Americas, spoke in February with **Colleen Collins** and **Sean Sullivan,** managing directors and members of Blue Owl's Net Lease Investment Team, about the many ways sale-leasebacks and build-to-suit can support critical strategic objectives, and why investment-grade companies are drawn to Blue Owl for capital solutions. Following is an excerpt of that conversation.

Why do firms, particularly investment-grade firms, pursue sale-leasebacks with Blue Owl? What are they solving for?

Sean Sullivan: The overarching dynamic is that as shareholders gain greater transparency into corporate operations, companies are being more efficient with balance sheets and capital. It's not efficient for a non–real estate business to own billions and billions of dollars of corporate real assets, including mission-critical properties and other infrastructure, when they could liberate capital and unlock cash, redeploy it into an earning asset that drives value for shareholders, and still maintain site control for 100 years.

Peeling that broad dynamic back a bit, there are some specific problems that motivate some of the best investment-grade companies to engage with us for capital solutions. One is that capex funding is increasing as a percentage of overall cash flow, becoming a critical consideration for even the largest of them. We can help manage capex obligations by entering into an agreement to fund capex on their behalf. We bake it into our overall valuation of the asset so they can avoid recognition of cash outlays used to fund renovations.

Capex considerations are key to build-to-suit as well. Companies sometimes need sites where the cost to build can be equivalent to their entire company EBITDA or cash flow. These are generally huge capex outlays. When we buy the land and construct the facility, all that disappears from the cash flow statement. That can be a creative way to manage capex and it can directly impact stock price.

Colleen Collins: Our efficiency in closing helps drive these transactions as well. For example, one of our tenants selects a couple of assets and does business with us every quarter, for a wide variety of financial reasons. Our business seems pretty simple — sale-leasebacks of real estate. But from a capital stack perspective we are solving for highly critical and strategic objectives. That's how we think of ourselves, as part of their bank group. Effective and efficient transactions, quarter over quarter, have really helped us win.

How do these firms benefit from executing an SLB or BTS?

Sean Sullivan: A compelling benefit is it typically captures valuation arbitrage that is otherwise unrecognized in market value, credit rating, and so on. A well-run investment-grade grocery company for example, might trade for five times EBITDA in the public market. If we buy their real estate at 14 times EBITDA or roughly a seven percent cap rate, there's a massive valuation arbitrage between that real estate and the marketplace value of their business operations.

Another valuable benefit is that it can deleverage their balance sheet, which is a key component of maintaining an investment-grade rating. Debt from issuing bonds or bank loans has to be refinanced in perpetuity. Leasebacks and build-to-suits are typically structured with fully amortizing lease liability, so it burns off.

Colleen Collins: Historically, our pipeline was much heavier sale-leaseback relative to build-to-suit. However today, we are seeing far more transaction opportunities in the build-to-suit space, given that our capital is accretive because we can fund construction. We believe using our capital is the most efficient way to fund a build-to-suit because we allow companies to accrue rent during construction. Our investors are generally making a yield. Companies usually don't begin to pay until they take occupancy, which aligns the leverage ratio of their expenses with their EBITDA. Otherwise, with these massive capex spends on builds that take more than 2 or 3 years to complete, they carry all that leverage without any EBITDA to drive it. It can really put their leverage ratio out of whack.

There are even potential benefits for mergers and acquisitions. Target companies sometimes hold over 50 percent of their enterprise value in real estate, so an acquisitive company can finance an entire take-private with a sale-leaseback.

Outside of traditional property types, can you give us a sense of some of the lesser-known sectors you invest in?

Colleen Collins: We underwrite the credit quality of our tenants as much as the hard assets, so we can be a flexible solutions provider. Many of our peers prefer to buy in primary locations, and may have credit as a secondary consideration. If we are confident in the underlying credit, we'll buy in primary, secondary, tertiary markets, and we'll buy across asset classes. We invest in everything from cold storage facilities to healthcare assets to pharmacies. However, we are being selective in what sectors we choose to invest in. For example, retail is an area we have historically favored, but today the bar for inclusion is even higher, and we want to be in the most essential of the essentials like grocery or pharmacy.

Sean Sullivan: We've been investing in investment-grade long-term-lease bank branches since pre-COVID. After rates moved up materially in 2022–2023, many independent regional banks had to mark their balance sheets to market. We stepped in as a capital partner to about seven or eight of them, varying in size from almost $500 million down to roughly $20 million. We did portfolio sale-leasebacks for many liquid bank branch assets. That helps clean up their balance sheets, restructuring lower-yielding securities and assets in an offensive-minded, forward-thinking way that positions them to increase future earnings. They've used the proceeds to pay down liabilities. They've acquired other banks. Some have repurchased stock. It's been an excellent strategic and financial move for these banks and a great investment strategy for us.

How does Blue Owl decide what sectors or property types to pursue? Do macro market trends factor into those decisions?

Sean Sullivan: As Colleen mentioned, the role of credit is of paramount importance to us. Do we like an industry's trajectory? Do we like a company's credit profile? First, we identify dynamic industry trends that can create opportunities for us to be a value-added partner. Once we know where the opportunities are, then we consider which property types we like in that industry. That's when we get into the specifics with our team: What's the profile of the assets we are looking at? What do we like most and least? What makes us comfortable or uncomfortable? What's the liquidity profile if we want to exit down the road at some point? How much would we be paying per square foot? All that gets factored into our decision-making process.

Colleen Collins: Part of our job is creating our own transactions by following industry credit news. Our capital chases the need for it. In our past funds, you can see a trend emerge from a specific thesis about the market. So yes, absolutely, we track market trends and we capitalize on them. A massive turnover is expected in cold storage; we're following that trend and we plan to materialize on it. The burgeoning scale of healthcare manufacturing assets is another big trend. A large pharmaceutical company is building an $11 billion facility, which is enormous, even for them. Their initial reaction to us was to say they didn't need our capital. But changes in the industry are throwing their leverage ratio off-kilter, and suddenly our solutions are starting to make sense.

What makes SLB activity attractive to Blue Owl?

Colleen Collins: The risk-adjusted return profile is attractive in today's environment. Imagine we're swinging a baseball bat. We're doing deals with investment-grade rated tenants, so when we step up to the plate, the probability of default is already very low. Even if we do swing a strike with a bad call on credit, bankruptcy law in the U.S. is friendly to landlords, and the vast majority of the few investment-grade companies that file for bankruptcy tend to emerge from it and reorganize. Now, in bankruptcy, companies have a choice: they can accept your lease and continue making payments, or they can reject it and terminate your contract. Then you would be stuck selling the building – strike two. That's why we only seek mission-critical assets that can help drive EBITDA; we know they would likely accept our lease. We also link multiple assets like bank branches together with master leases that require them to accept or reject all the leases collectively. If there did happen to be a nonessential lease or two in there, they still can't reject them. Finally, even if you swing and miss, third strike, and all those protections fail somehow, you still have an asset to sell. It's hard to strike out when you've strategically aimed to mitigate potential risks. It's mind-blowing when you think about it.

Blue Owl has raised considerable capital in the space over the last few years. What advantage does that bring Blue Owl and investors?

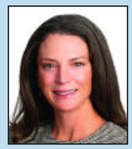
Sean Sullivan: With the scale at which we're operating now and the amount of equity we can raise for any individual vehicle, the spectrum of companies we can partner with has broadened significantly. We still love $50 million to $100 million sale-leasebacks. But if we tapped out at $100 million, we wouldn't be able to partner effectively with a company that has a $100 billion market cap. While smaller-profile companies continue to be fantastic business for us, now we can also approach very large companies with some of the best credit profiles out there. We are in a position to provide our rapidly expanding tenants with multimillion-dollar solutions to all the capital problems we have just been discussing.

Colleen Collins: As our funds have grown, people often ask, "Does the bigger fund scare you?" It's the exact opposite. It gives me confidence. We're calling on investment-grade rated entities. If we called a leading blue-chip company with a $200 million deal, they're not picking up the phone. But when we do a $5 billion deal, or a $24 billion deal, we are a real part of the capital stack and potentially of their total solution. That's been a boon for our business.

In summary, we believe Blue Owl's triple-net-lease strategy is competitively advantaged by its focus on mission-critical property types leased to creditworthy tenants, combining long-duration contractual cash flows, minimal landlord expense risk, and industry expertise that creates sourcing, underwriting, and pricing advantages difficult for our competitors or general investors to replicate.

1. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time. For complete ratings definitions please visit www.standardandpoors.com. Investment-grade companies must have a BBB rating or higher by S&P or an equivalent rating from a nationally recognized statistical rating organization (NRSRO).

CONTRIBUTORS



Colleen Collins

Managing Director

Colleen Collins is a managing director at Blue Owl. She serves as a member of Blue Owl's Net Lease Investment Team, responsible for sourcing single-tenant triple-net lease real estate assets. Before joining Blue Owl, Colleen was with GE Capital for over 15 years, where she held various corporate finance leadership roles. She earned a B.S. in Finance and Economics, summa cum laude, from Georgetown University and an M.B.A. from Northwestern University's Kellogg School of Management.

Sean Sullivan

Managing Director

Sean Sullivan is a managing director and member of the Net Lease Investment Team at Blue Owl. In his role, Sean is a member of the Investment Committee and focuses on sourcing and structuring net lease investments. He also contributes to due diligence and capital markets efforts. Before joining Blue Owl, Sean was a vice president at Piper Sandler. He holds a B.S. in Business Administration from Babson College as well as an M.A. in Real Estate from Georgetown University.

COMPANY OVERVIEW

Blue Owl (NYSE: OWL) is a leading asset manager that is redefining alternatives®. With over $307 billion in assets under management as of December 31, 2025, Blue Owl invests across three multi-strategy platforms: Credit, Real Assets and GP Strategic Capital. Anchored by a strong permanent capital base, they provide businesses with private capital solutions to drive long-term growth and offer institutional investors, individual investors and insurance companies differentiated alternative investment opportunities that aim to deliver strong performance, risk-adjusted returns and capital preservation. Together with approximately 1,365 experienced professionals globally, Blue Owl brings the vision and discipline to create the exceptional.

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