REAL ESTATE EXPLAINED

Triple Net Lease (NNN)

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What is a triple net lease (NNN)?

A lease agreement in which the tenant pays property taxes, building insurance, and maintenance expenses may provide contractual rental income with reduced variable operating expenses for the landowner. Typical tenants could include retail brands, drugstores and convenience stores, quick-service and casual dining restaurants, and industrial and logistics users. Here are the three “Nets” explained:

Property Taxes
Tenant pays all real estate taxes assessed on the property.

Insurance
Tenant covers property insurance, including casualty and liability policies.

Maintenance
Tenant is responsible for repairs, utilities, upkeep, and operating costs.

Landowner Benefits

Potential For More Cash Flow: Because expenses are passed through to the tenant, landowners have fewer variable costs

Reduced Day-to-Day Operational Responsibilities: Minimal day-to-day involvement compared to other lease types

Tenant Benefits

Greater Control Over the Property: Tenants have more control over property operations, maintenance, and day-to-day decision-making

Clear Total Occupancy Costs: Defined lease expenses give better visibility into overall occupancy costs

NNN Risks

Triple net leases carry risks for landowners and tenants alike. Landowners face tenant credit issues, potential exposure to major capital costs if leases are poorly drafted, and longer vacancies with single-tenant properties. Tenants risk losing investments in improvements if the lease isn’t renewed and must manage all property expenses and maintenance obligations.

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