

Defining the NNN Lease

We commercial Realtors tend to throw out terms that we think everyone understands.

One of these is the triple net lease. And interestingly, there is a wide range of types of so-called "triple net leases" or "NNN leases", also called "carefree leases".

These leases generally apply to single tenant properties and originated long ago. In its purest form, a triple net lease is a lease of a property in which the Landlord leases a property to a single Tenant and the tenant becomes responsible for not only the payment of rent to the Landlord, but also for the direct payment of real estate taxes, insurance on the building, and maintenance of the interior, exterior, roof, parking lot, grounds etc. of the entire property.

Commonly found on single tenant office, industrial, warehouse and retail buildings, a triple net lease might pertain to a Coca Cola manufacturing plant, a Dell Computer Warehouse, a medical office building, a Best Buy, McDonald's or a Kroger retail property.

If this sounds like a good deal for the Landlord, it is.

And that is why it is sometimes called a "Carefree Lease". The Landlord can arrange such a lease, then head off to Jamaica and lay on the beach. He does not have to be concerned with property maintenance, real estate taxes or even the loss of the building. In fact he might return after his years on the beach only to discover that his building burned to the ground last year and was completely rebuilt, without him even knowing about it. Now that's carefree.

NNN leases are designed to create a long term predictable investment for the Landlord and to free up cash for the Tenant that otherwise would have to be tied up in real estate. They give the Tenant the full use of the building and capability to operate and maintain the building as they choose.

A lot of other leases of property are also called triple net leases, but they are often not exactly what is described above. In the case of a multi-tenant retail, office or industrial building, the rental rate is often quoted as triple net, and in these cases some of the

same costs are passed through to the tenant on a per square foot basis.

In these modified triple net leases, real estate taxes, exterior maintenance, common utilities and property insurance are all managed and paid for by the Landlord, but the costs are passed through to the tenants on a monthly, quarterly or yearly basis. They may also be adjusted periodically for changes in costs. A management group handles day to day maintenance on the exterior of the building, lot sweeping, landscaping, exterior utilities, snow plowing, window washing, etc. They also pay the real estate taxes, building insurance and other expenses, and keep the books on the property.

These leases need to be drafted carefully and understood clearly by both Landlord and Tenant so that each understands who is doing what and who is paying for it. Capital replacements of roofs, parking lots or structural replacements are often carved out of triple net leases and remain the responsibility of the landlord, especially in the case of second generation space where the Tenant does wish to share in the risk of how long a roof or HVAC equipment may last.

Some leases are negotiated as gross leases and these leases include the base rent and all of the other costs associated with a triple net lease in one monthly amount. This shifts the risk of those variable costs – real estate taxes, maintenance, insurance, etc. to the Landlord.

A gross lease may sound like a better deal for a Tenant, and sometimes they are. But a Landlord may charge a higher estimate for his triple net costs within a gross lease to cover his risk. And a Tenant must bear in mind that when the Landlord is responsible for maintenance under a gross lease, he is more inclined to cut costs to increase his return.

As you can see, negotiating either type of lease can be complicated. A commercial Realtor can guide you through the issues facing a Landlord or a Tenant when negotiating a triple net lease, a gross lease or modifications of such leases.

By John Thompson, Sr. Vice President



9912 Carver Road
Suite 100
Cincinnati, OH 45242

TEL: 513-769-2500
FAX: 513-769-2512

www.everestrealstate.com



*Are you looking for our listing information?
Or would you like to talk with one of our agents about Successful
Real Estate Solutions?
Call our office at 513-769-2500*