

HOLM &
O'HARA
LLP

Triple Net (NNN)

Leased Properties

NATIONWIDE INVESTMENT
OPPORTUNITIES

PHARMACIES ■ RESTAURANTS ■ CONVENIENCE STORES ■ BANKS etc.

Triple net lease properties are a good choice for many investors because they:

- ▶ Are often acquired with **quality, financially stable tenants** in place.
- ▶ Require **minimal management**.
- ▶ **Shift operating expenses** to the tenant.
- ▶ Are often located in **commercially vibrant, high-traffic areas**.
- ▶ Provide **steady, reliable income**.

The three “nets” are variable operating expenses that can significantly alter a property’s profit margins:

- ▶ **Real estate taxes**
- ▶ **Maintenance and management fees**
- ▶ **Building insurance**

Under an NNN lease, **the tenant agrees to pay rent and to cover all three nets**, leaving the property owner with minimal expenses associated with the property.

Is NNN right for you? It could be if you would like to:

- Leverage equity to increase income and reduce taxes.
- Eliminate management responsibilities.
- Benefit from a more predictable income stream.
- Reduce unpredictable or rapidly rising expenses.
- Manage tax implications of appreciated investment property.
- Diversify your real estate holdings.
- Take your first steps in real estate investing.

Working with a nationwide team of brokers, financial experts, and local attorneys, Holm & O’Hara LLP can help you make informed decisions that satisfy your immediate and longer-term goals.

5 Key Factors in Evaluating NNN Investment Opportunities

- **Location:** Region; State; City; Neighborhood
- **Industry:** Pharmacy; Restaurant; Convenience Store; Bank; Department Store; Discount Store; Specialty Retail
- **National Tenant:** Creditworthiness; Long-Term Economic Prospects; Corporate Guaranty
- **Property:** CAP Rate; Price; Building Size; Lot Size; Construction or Remodel Date; Reusability if Tenant Does Not Renew
- **Lease Terms:** Built-In Increases; Renewal Terms; Length of Lease; Owner Responsibility

Nationwide Opportunities, Superior Tenants:

NNN investment properties are available in virtually every area of the country. They are often recently renovated or newly constructed structures in active, high-traffic commercial areas where tenants have done the research to assure successful location. Tenants generally include banks, pharmacies, restaurants, discount stores, gas stations, department stores, and specialty retail and grocery stores.

In many cases, they are franchises or local outlets of nationally known corporations and are backed by the economic power and security of their parent organizations. These tenants strategically select sites based on their target demographic and invest considerable sums in construction or remodeling of the properties. This increases the likelihood that they will renew, rather than relocate.



The five case studies ▶ on the opposite page are based on hypothetical circumstances derived from composite client experiences.

They show how NNN properties can be an excellent way to achieve a wide range of investment objectives.



Objectives:

- Diversify investment
- Dissociate from prior LLC partners
- Integrate estate planning

CASE STUDY 1:	
PRIOR INVESTMENT PROPERTY:	4 Commercial Properties
NNN PROPERTIES PURCHASED:	9
GEOGRAPHIC REGIONS:	South, Southwest, Northeast
PURCHASE PRICE:	\$35,000,000.00
OPERATING EXPENSE SAVINGS:	\$575,000.00
NET ANNUAL OPERATING INCOME:	\$1,925,000.00
AVERAGE CAP RATE:	5.5%

Objectives:

- Leverage equity to increase income
- Eliminate management responsibilities
- Diversify investment

CASE STUDY 2:	
PRIOR INVESTMENT PROPERTY:	1 Multi-Family Apartment Building
NNN PROPERTIES PURCHASED:	5
GEOGRAPHIC REGIONS:	Northeast, Mid-Atlantic, South, Southwest
PURCHASE PRICE:	\$22,000,000.00
OPERATING EXPENSE SAVINGS:	\$490,000.00
LOAN AMOUNT:	\$5,000,000.00
LOAN INTEREST RATE (3.5%):	\$175,000.00
NET ANNUAL OPERATING INCOME:	\$1,255,000.00
AVERAGE CAP RATE:	6.5%

Objectives:

- Decrease management responsibilities
- Increase/stabilize income
- Plan for intergenerational succession

CASE STUDY 3:	
PRIOR INVESTMENT PROPERTY:	1 Mixed-Use Building
NNN PROPERTIES PURCHASED:	1
GEOGRAPHIC REGIONS:	Midwest
PURCHASE PRICE:	\$8,900,000.00
OPERATING EXPENSE SAVINGS:	\$400,000.00
NET ANNUAL OPERATING INCOME:	\$440,000.00
AVERAGE CAP RATE:	5%

Objectives:

- Eliminate management responsibilities
- Increase/stabilize income
- Relocate

CASE STUDY 4:	
PRIOR INVESTMENT PROPERTY:	1 Multi-Family Apartment Building
NNN PROPERTIES PURCHASED:	2
GEOGRAPHIC REGIONS:	Northeast, West Coast
PURCHASE PRICE:	\$8,700,000.00
OPERATING EXPENSE SAVINGS:	\$360,000.00
NET ANNUAL OPERATING INCOME:	\$495,000.00
AVERAGE CAP RATE:	6.05%

Objectives:

- Capture liquidity
- Reinvest securely
- Secure tax advantages

CASE STUDY 5:	
PRIOR INVESTMENT PROPERTY:	1 Mixed-Use Commercial Building
NNN PROPERTIES PURCHASED:	3
GEOGRAPHIC REGIONS:	Southwest, Southeast
PURCHASE PRICE:	\$11,000,000.00
OPERATING EXPENSE SAVINGS:	\$354,000.00
NET ANNUAL OPERATING INCOME:	\$620,000.00
AVERAGE CAP RATE:	5.4%

Potential Advantages of NNN Investment Opportunities:

Secure

- Long-term leases
- Quality tenants, often backed by corporate guaranty
- Variable expenses and risks assumed by tenants

Profitable

- Predictable positive cash flow
- Great for tax-advantaged §1031 exchanges
- Depreciation deductible on personal tax returns (except for ground leases)
- Easier to finance for leveraged increased income

Straightforward

- No or minimal management responsibilities
- New, well-maintained or newly renovated construction built to tenant specifications
- Easy diversification of portfolio

Glossary of Terms:

- **Base Rent:** Minimum rent as set forth in the lease, typically with escalation clauses.
- **Capitalization Rate (“Cap Rate”):** A formula used to determine and value an investment. The usual calculation is Net Income divided by Purchase Price.
- **Escalation Clause:** A clause in a lease which provides for regular rent increases. Most NNN leases include an escalation clause.
- **Fixed Costs:** Costs, such as rent, insurance, etc., which do not fluctuate in proportion to the level of sales or production.
- **Guaranty:** A promise to cover any demands for payment provided certain conditions are met. Some NNN leases are secured by national corporate tenants.
- **Gross Lease:** A lease in which the tenant pays a flat sum for rent out of which the landlord must pay all expenses, such as taxes, insurance, maintenance, utilities, etc.
- **Leverage:** The use of various financial instruments or borrowed capital, such as a mortgage or margin, to increase the potential return of an investment.

Holm & O’Hara LLP offers strategic legal support for complex real estate transactions and trusts and estates (and matters that include aspects of both), as well as comprehensive legal services for corporations, closely held businesses and their owners. We work efficiently, using teams to provide the personal attention our clients require. In every instance, we strive to secure the most favorable results for our clients; to apply our knowledge and experience to create solutions that endure beyond the immediate need; and to provide sound counsel to protect our clients’ interests.

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- **Letter of Credit:** Commitment by a bank or other entity to honor demands for payment subject to certain conditions.
- **Long-Term Lease:** Typically, a lease that runs at least 15-20 years from initial lease commencement to expiration or renewal option. Most NNN leases are long term, assuring minimal turnover and reducing the potential for income disruption.
- **Net Lease:** A lease that provides for the tenant to pay base rent plus some operating costs, such as property taxes, insurance, repairs, utilities, or maintenance.
- **Renewal Option:** A clause giving a tenant the right to extend the term of a lease, usually for a stated period of time and at a rent amount as provided for in the option language. Many NNN leases include renewal options.
- **1031 Exchange:** A legal way to defer all or part of capital gains taxes when investment property/ies (including real estate, artwork, and other items) is sold and exchanged for others within a fixed timeframe following certain steps.
- **Triple Net (NNN) Lease:** A lease in which the tenant pays base rent plus all or most of the operating expenses. These may include property taxes, insurance premiums, repairs, utilities, and maintenance. See also “net lease” and “gross lease.”



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