

Should You Invest in Triple Net Leases (NNN) in the Midwest?

If you're a real estate investor seeking a steady income, relatively low risk, and passive cash flow, triple net leased (NNN) properties should be a focus in your portfolio. NNN leased properties provide steady cash flow from tenants and are significantly less hands-on with managing the property itself.

The secret is out on triple net leases, and investors are on the hunt for growing markets. Here are the reasons you should look for triple net retail investments in the Midwest.

What Is Triple Net Lease (NNN)?

A triple net lease, also known as an NNN (net net net) lease, is one of the most popular leases for the commercial retail space. This type of lease is often a long-term contract with a commercial retail tenant. This could include multi-tenant shopping centers, industrial business parks, or free-standing buildings operated by single tenants ranging from Wells Fargo to McDonald's.

Typical lease terms are between 10-25 years. Triple net lease agreements are considered low risk because the tenant pays a large percentage, if not all, of the property's "net" expenses: property taxes, building insurance, and maintenance—plus rent and utilities.

What Are My Responsibilities As Landlord?

In most standard commercial lease agreements, some or all of the property's expenses and maintenance would be the landlord's responsibility, which can dip into your cash flow.

While *absolute* triple net leases with single tenants require little to nothing from the landlord, there are other instances when the landlord retains some management responsibilities. For example, if you were to purchase an outdoor retail center, there would likely be "common areas" or CAM (Common Area Maintenance) expenses that you (the landlord) would be responsible for.

Common areas in commercial real estate are spaces on the property that all tenants use or benefit from. With NNN leases, the most common CAM expenses landlords are responsible for would be the building's structure, the roof, and occasionally the parking lots and road repair. This is something to keep in mind as you consider potential tenants and lease terms. The landlord and the tenant's responsibility terms

need to be clearly defined in the lease. Make sure you have a legal professional examine all documents to spot cunningly-worded clauses that remove the zero responsibility charm investors are looking for.

Benefits of NNN

You can buy a property and not pay the majority of the expenses? You've got to be kidding.

I'm not. It really can be that easy with NNN leases. Beyond the obvious benefit of the tenant absorbing some (if not all) of the land and building expenses, there are a few other valuable features of using a triple net lease.

Long-Term Tenants

A long-term lease contract is a significant benefit that provides steady cash flow and the possibility of capital appreciation of the property. With long-term tenants, you can invest in high-end real estate without worrying about vacancies, improvement costs, or leasing fees while making a profit.

1031 Exchanges

You can utilize a 1031 exchange to roll your capital into another triple-net-lease investment without paying capital gains taxes when you're ready to sell your property. Deferring taxes will allow you to keep money in your wallet while growing your portfolio.

Low Overhead, High ROI

A triple net lease done right can be a dependable source of income because there are minimal overhead costs. Suppose your lease requires the tenant to be responsible for all property expenses. In that case, you'd be free from dealing with municipality, utility, and insurance companies, among other tedious property management tasks.

Every property, tenant, and lease will be unique, so it is essential to be specific about the terms if you want a hands-off property. Leasing to a single tenant makes it easier to include terms that obligate them to pay all the expenses described above. With absolute triple net leases, you'll have limited to no financial responsibilities (not even CAM) for the property during the lease term. Just sit back and reap the capital benefits from rent and property appreciation.

No Property Management

Using a NNN lease can allow you to be hands-off, which is excellent for out-of-state investors. The best option is to have an absolute lease with a single tenant. This will leave the tenant solely in charge of managing the property. That means no late-night calls about burst pipes, no need to plan for snow plowing, and no need to worry about housekeeping or maintenance. Not having to manage the property

or hire a property manager saves you time and keeps cash in your pocket, making it an excellent option for passive investors.

Of course, there are circumstances with certain types of properties and tenants that will require some management from the landlord. Outdoor shopping centers, malls, or multi-tenant properties may have common spaces (as mentioned above) for which the landlord may be responsible. In these cases, hiring a local property management team is best. It is also common for the landlord to be responsible for structural damages and maintenance. However, structural issues are few and far between.

Risks

Triple net leased properties are relatively low risk, but that doesn't mean zero. One of the risks to consider is vacancy. There will always be the risk of losing a tenant at the end of the lease or losing tenant(s) due to unforeseen circumstances such as bankruptcy. Also, because the landlord has limited control of the building, you must trust that the tenant is properly maintaining your investment. This is especially prevalent after a tenant leaves.

If the tenant leaves the property in disarray, you may need to reconfigure or spruce up the building to accommodate another tenant. This can lead to significant construction costs. However, even in these cases, many new tenants will take on most construction costs to configure the building to their specific needs. Triple net leases offer many solutions that help with or negate loss in previous scenarios, even with the potential risks.

NNN Retail Landscape In The Midwest

If you're living (or investing) in a major city in, say, California, you already know major cities have been hit with huge tax hikes. It's wise to take a gander at properties across the nation. Currently, some states in the Midwest are seeing population growth and net employment rates exceeding the national average.

Economic growth follows as more people flock to the Midwest for affordable housing. Retailers appear to be experiencing less of a strain in areas like Kansas City than in other regions of the U.S., likely credited to shorter COVID-19 lockdowns and a lower cost of living.

When residents experience a lower expense load, it opens up their budgets for spending — making the Midwest market easier for retailers to succeed. This is ideal for investors looking to obtain NNN retail properties via a 1031 exchange because there are interested tenants that are likely to succeed. Be sure to check out the greater Kansas City area for your next investment.

Finding the Right Area to Invest

Location, location, location! Whether you're a first-time investor or have been in the game for years, one of the critical elements to consider is the location of your investment properties.

Conduct sufficient due diligence and market analysis to avoid suffering expensive consequences. Take a deep dive into the market data when you spot a property. Look for the average price per square foot, median household income brackets, rent rates, crime rates, and other socioeconomic statistics.

This analysis isn't to deem a neighborhood good or bad. Instead, it allows you to make wise investments by setting expectations, spotting growing markets, and discovering diamonds in the rough.

Conclusion

To put it plainly, it's a great time to get in the NNN game as the landscape is becoming increasingly competitive. If you're hesitant about purchasing a property out-of-state—don't be. There are very few limits or downsides to purchasing NNN retail properties in another state. With the right team and little to no landlord responsibilities, living in the same location as your investment property is unnecessary.

There are multiple Midwest cities like Kansas City experiencing population and economic growth that have NNN properties prime for the picking. Utilize a real estate broker to help you learn more about the current market and aid you in finding an NNN investment that aligns with your goals.