

Whitepaper

# The Case for NNN- Leased Investments in Your Portfolio

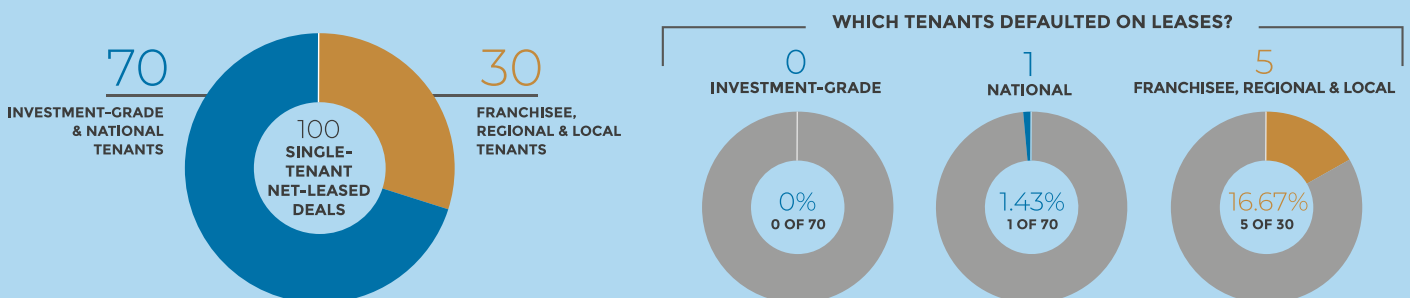
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When I tell people that at InCommercial Property Group we focus primarily on triple net properties, leased on a long-term basis with an investment-grade guarantor, they often tell me that they are boring, and not “sexy.” Okay, fair enough, but investors, particularly 1031 Exchange investors, are increasingly seeking predictable and durable income as their investment property of choice, especially in today’s turbulent and unpredictable economic environment.

When viewed objectively, there can be no doubt that the one asset class that is most predictable and durable is long-term, single-tenant, absolute triple net-leased properties with an investment-grade guarantor.

The CCIM Institute published a lease-default analysis of 100 single-tenant, net-leased deals consisting of 70 investment-grade and national tenants and 30 franchisee, regional and local tenants located nationwide. Of the 70, no investment-grade tenants defaulted on their leases (0.00%) and only one national tenant defaulted (1.43%). Of the 30 franchisee, regional and local tenants, five defaulted (16.67%) <sup>(1)</sup>.

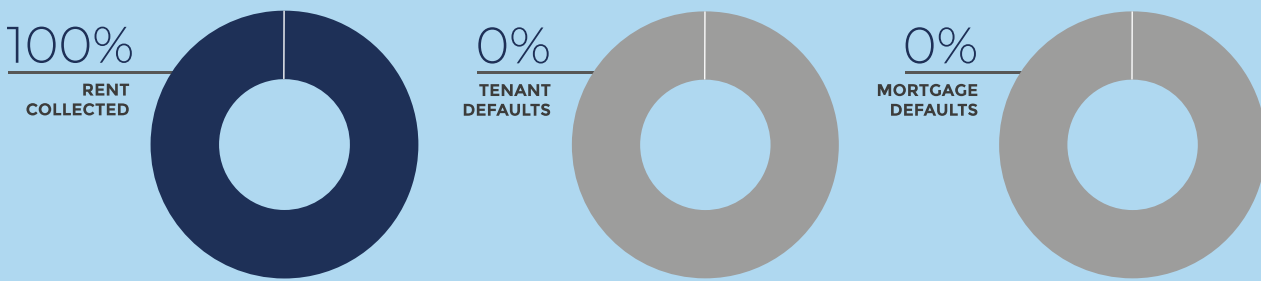
### CCIM Institute Lease-Default Analysis <sup>1</sup>



A 40-year study by Standard & Poor’s of corporate bond defaults between 1981 and 2021 (which included several recessions, including the Great Recession) found that corporations with an investment-grade rating experienced bond defaults at a rate of only 0.075% per year <sup>(2)</sup>.

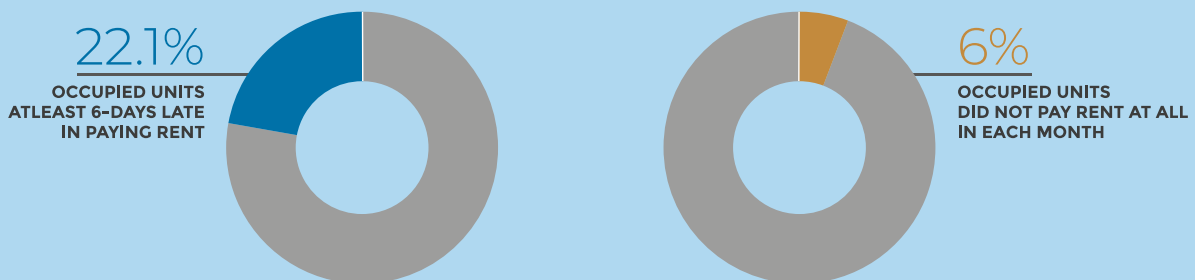
Looking at the portfolios of triple-net properties leased to tenants with an investment-grade guarantor owned and/or managed by InCommercial, there have been zero tenant defaults and zero mortgage defaults. Even during the peak of the pandemic, with the economy at a virtual standstill. We experienced 100% collection of contracted rents in our portfolios of net-leased properties with investment-grade guarantors <sup>(3)</sup>. We are not aware of any other real estate asset class that can make a similar claim.

**InCommercial Portfolios of Triple-Net Properties <sup>3</sup>  
Leased to Tenants with Investment-Grade Guarantor**



For comparison, the National Multi Housing Council conducted a study of more than eleven million apartment units between April 2019 and December 2021 <sup>(4)</sup>. They found that for occupied units, during all of 2021 (when the pandemic was waning) 22.1% were at least six days late in paying rent and 6.00% did not pay their rent at all in each month. Add that to the actual or projected vacancy rate and even an asset class perceived to be as low risk at apartment properties is not quite as predictable in its income stream as investment-grade, triple-net leased properties.

**National Multi Housing Council Study <sup>4</sup>  
11 Million Apartment Units | April 2019 - December 2021**



The predictable income streams of investment-grade net-leased properties are also durable. Typical lease terms for these properties range from 10 to 25 years and almost always contain tenant-controlled options to renew for multiple terms, potentially creating generational income streams. The net operating income from these properties is equally predictable as the tenants pay all expenses, including repairs and maintenance in an absolute net lease like those that make up most of the properties in our portfolios.

But what happens when single-tenant, net-leases do mature (expire)? InCommercial has managed more than one hundred lease maturity events <sup>(5)</sup>. Of those we had ninety-nine successful renewals with an increase in rent; one non-renewal where the property was sold at a profit; one non-renewal that was re-tenanted and still owned; one non-renewal sold at a loss; and one non-renewal which is vacant and still owned.

Unpredictable and flashy may be exciting to some. So, label us boring if you wish but predictable certainty makes for a good night's sleep and happy investors. Frankly, in today's economic environment, that is just fine with us.

### Sources:

- (1) <https://www.ccim.com/cire-magazine/articles/323688/2014/11/net-leased-single-tenant-risks/>
- (2) <https://www.maalot.co.il/Publications/TS20220424121828.PDF>
- (3) InCommercial Property Group Portfolio Data
- (4) <https://www.nmhc.org/research-insight/nmhc-rent-payment-tracker/>
- (5) InCommercial Property Group Portfolio Data

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