King & Huffines
Attorneys At Law

What is a Triple Net Lease?

In the commercial real estate, sometimes the Landlord and Tenant will agree to a lease that is referred to as a “triple net” or “triple carry” lease. This is just a term describing the duties and responsibilities within the lease between the parties.
Typically, in a standard commercial lease, the Landlord and Tenant negotiate over various terms and conditions. These negotiations can go over a wide array of topics, but I think the foundational “big three” in terms of what can a Tenant expect to pay are 1. Rent 2. Insurance and 3. Taxes.

RENT

Rent is simply the amount paid by Tenant to occupy the space. Rent can be as simple as a flat rate per month, i.e. “$1,500.00/month” or rent can be tied to a Tenant’s potential sales, i.e. “3% of gross sales/month”
The parties could also agree on a hybrid model where the Landlord gets a flat rate on rent and also gets a percent of gross sales above a certain threshold.
Example:
Landlord receives $1,000.00/mo and gets 3% of any gross sales over 1 million per year. If Tenant did 1.5 million in gross sales, Landlord would be entitled to 3% of $500,000.00 (the amount above the 1 million floor) so an additional $15,000.00.

INSURANCE AND TAXES

Insurance and Taxes are broad terms and can have many implications in a lease, but in this context, we are discussing the insurance premiums and property taxes. Specifically, the insurance premiums paid by Landlord to insure the property and the property taxes paid by Landlord on the property.
If a lease is considered triple net, this means the Tenant pays these premiums and property taxes to the Landlord. This amount can be determined in two ways:
First, the Landlord and Tenant can agree on a flat rate for these amounts. For example, Tenant pays to Landlord $500.00 per month to cover insurance premiums and real estate taxes.
Second, the Landlord and Tenant can agree that Tenant will cover their proportionate share of the premiums and taxes. A proportionate share is a term meaning Tenant will pay a percentage of the premiums and taxes directly correlated to how much square footage they occupy on the premises. This is easier to illustrate with an example
(We’ll use whole numbers to make the math easier)

Example
Landlord has a 1,000 square foot building. Tenant A occupies 500 sq ft of the premises. Tenant’s proportionate share would be 50% as they occupy 50% of the premises. If Tenant occupied 250 sq ft of the premises, their proportionate share would be 25%.
If a lease is considered a “triple carry”, it really just means the Tenant will be paying rent, their share of the insurance premiums, and their share of the real estate taxes. Generally, but not always, this will result in Landlord collecting rent, having their premiums paid, and having their taxes paid all by their Tenant. Many Landlords find this method of leasing appealing as it makes it easier to determine their profit/loss on the space and limits their day to day duties as well.
If you plan on renting or owning commercial space and have questions about your commercial lease, give us a call at 724 242 0230 for a review of your commercial lease!