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EXCLUSIVE

Why Net Lease Owners May Need Support

By [Carrie Rossenfeld](#) | San Diego

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Paeske: "Ownership will want to ensure that the tenant is maintaining their property because some day they may get it back without a tenant."

SAN DIEGO—Overall, **net-leased properties** have limited management responsibilities, but this is not the case for all such properties, and owners may also need a host of administrative services. **Net Leased Management's** EVP/principal **Mike Paeske**, CCIM, tells GlobeSt.com. We caught up with Paeske for an exclusive interview to discuss what his firm has to offer and why its services are so relevant to the net-lease community.

GlobeSt.com: What is Net Leased Management?

Paeske: Net Leased Management is a cost-effective administrative and management support solution for net-leased property owners. For a small monthly fee, Net Leased Management provides accounting services, monthly financial reporting, lease administration, property-tax compliance and insurance compliance; handles any landlord obligations; and conducts site visits as needed. We also provide access to a master insurance policy for investors to capitalize on bulk pricing and increased limits.

GlobeSt.com: Tell us more about how it works.

Paeske: Our pricing varies depending on the structure of the lease. Our clients are owners of **single-tenant** and **dual-tenant, modified-net, double-net** and **triple-net-leased** properties. In the case of modified or double-net-leased property, or triple-net-leased but subject to billing and tenant reimbursements, we will handle all landlord responsibilities to create a virtually triple-net-leased investment experience. In the case of true triple-net-leased properties, we are typically hired to handle a portfolio of properties to provide consolidated **financial** management, and we are also finding a huge need for cash-flow management/distribution in the case of multiple partners or multiple trust beneficiaries where none of the partners or heirs wants to handle the responsibilities, or a private fiduciary or trustee has been appointed to a trust that owns the real estate and they need to outsource the financial management and cash-flow distribution requirement. We handle properties throughout the US.

GlobeSt.com: Why would an owner need your services for an inherently management-free investment?

Paeske: Overall, net-leased properties have limited management responsibilities. That is certainly not the case for a modified-net or double-net-leased investment, since the landlord will have responsibilities such as roof or parking-lot maintenance, just to name a few examples. Or, the landlord may be required to pay property taxes, handle property insurance or other property-related costs and then pass the expense on to the tenant. Somebody has to handle the reconciliation and billing. Properties with modified and double-net leases, or properties subject to billing and reimbursement, tend to be a perfect fit for Net Leased Management. However, to say that there is absolutely nothing to do for the entire range of net-leased properties is completely incorrect.

Upon purchasing a net-leased investment, ownership will have an initial point-of-contact period to get everything set up with the tenant. Ownership will need to obtain the appropriate proof of insurance with endorsements and update on an annual basis, track property-tax payments, handle any tenant requests that arise and ensure the tenant is abiding by the requirements of their lease, such as required maintenance contracts for mechanical, roof or parking lot. And finally, ownership will want to ensure that the tenant is maintaining their property because some day they may get it back without a tenant. It has been our experience that in many situations the above items that ownership should be doing just simply aren't being done. This exposes the ownership to increased risk.

GlobeSt.com: Can you provide some examples where ownership responsibilities were not being handled?

Paeske: I could give you an example from every single project that we manage. From modified-net, double-net and even triple-net properties, there are situations where we had to step in and deal with something unique about the project. And if we weren't involved, the ownership would have been required to step in, and the concept of "nothing to do" would have dissipated.

One example is a triple-net-leased property with a national **retail** tenant, a newly built property and purchased from the **developer** by our client within the building-warranty period. A letter comes from the tenant: "Landlord, you fix this." This requires coordination with the builder, an inspection of the work and tenant satisfaction that the work has been completed properly.

Another example is a triple-net property leased by a national **fast-food tenant**. We conducted our inspection to find a huge pool of water in the parking lot and signs of parking-lot deterioration were evident. We learned from the **restaurant** manager that it had been that way since he started six months

prior. We eventually discovered when the irrigation was pressurized each morning the entire amount of water that was intended for landscaping was ending up in the parking lot. None of the restaurant employees had pride of ownership to identify an issue, no facilities manager for the tenant was conducting inspections, and customers were parking and stepping in a huge pool of water each morning, which detracted from the customer experience. Lastly, and most importantly, the landlord's property was being damaged.

A third example involves tenant reimbursements on a modified net lease. Although the lease was clear that the tenant shall reimburse for property taxes, insurance and some landlord maintenance, this particular tenant (a major national tenant that we all know) tried to find every excuse to reduce, debate an act like an insurance company and tell us why they shouldn't have to pay. Then, erroneous payments would arrive.

A final example is a triple-net lease with a major national retail tenant that is on nearly every corner in the US that missed their property-tax payment.

None of the above requires a Ph.D. to resolve, and in most cases resolution is typically, but not always, well defined in the lease. But it takes time to get to resolution, which is exactly what a net-lease investor does not want to spend.

GlobeSt.com: What is Management Leverage?

Paeske: Management Leverage is the concept of purchasing a property and utilizing management services to fill the landlord responsibilities of a modified, double-net or triple-net lease with tenant billing and reimbursement requirements, and with such purchase obtain a greater investment return. In many, but not all, cases, a modified-net-leased property will sell at a higher cap rate than a true triple-net-leased property. A modified-net-leased property may be deemed less desirable because of the associated landlord responsibilities. Therefore, there may be less demand for the investment with landlord responsibilities, and it will have to be priced higher than its triple-net-leased peer, which will provide for a greater return.

Management Leverage increases the return and creates a virtual triple-net experience. In the current triple-net environment with high demand and low inventory, Management Leverage is broadening the investment options for all investors who are looking to sell their **multitenant** retail or **apartment** property and exchange into hassle-free passive income.

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About Our Columnist



Carrie Rossenfeld is a reporter for the West Coast region of GlobeSt.com and Real Estate Forum. She was a trade-magazine and newsletter editor in New York City before moving to Southern California to become a freelance writer and editor for magazines, books and websites. Rossenfeld has written extensively on topics including commercial real estate, running a medical practice, intellectual-property licensing and giftware. She has edited books about profiting from real estate and has ghostwritten a book about starting a home-based business.

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