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Sustainability Performance Assessment Report: NNN REIT, Inc.

Executive Summary

NNN REIT, Inc. is a U.S. single tenant net lease real estate investment trust. The company's sustainability profile is shaped by a structural feature of the net lease model. Tenants typically control building operations and the associated environmental and workplace impacts, while the landlord controls underwriting, lease terms, capital allocation, and portfolio level risk management. This division creates a persistent gap between responsibility and operational control. It also explains why sustainability performance in this sector depends less on landlord operated building retrofits and more on whether sustainability is embedded into leasing, acquisition discipline, and governance processes. NNN positions portfolio stability as a core value proposition. This narrative is visible in its reported long-run occupancy performance relative to the broader REIT sector, which it uses to signal resilience and disciplined risk management (Figure 1).

NNN's Strategy Results in Higher Occupancy and Less Volatility



From 2006 – 2025, NNN's occupancy never fell below 96.4% while the REIT industry average never rose above 93.7%

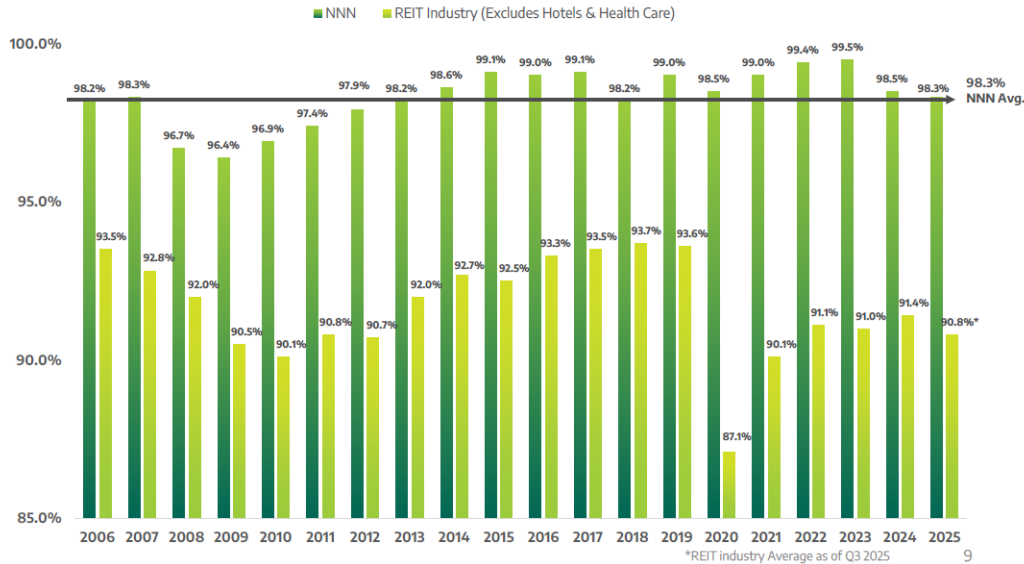


Figure 1. NNN occupancy compared with the REIT industry average, 2006–2025. Note. Reproduced from *Institutional Investor Presentation* (p. 9), by NNN REIT, Inc. (2026).

This assessment identifies three material sustainability issues: the structural decarbonization of downstream leased assets, the evolving physical risks associated with climate change and insurance markets, and the ecological externalities of retail-centric sprawl. Evaluation across the four criteria suggests that NNN's sustainability approach is best characterized as late isolated with emerging embedded elements, particularly through lease-based requirements and standardized risk management. However, disclosures provide limited evidence that these mechanisms have been translated into measurable portfolio-level outcomes, particularly through lease-based requirements and standardized risk management. However, available disclosures

provide limited evidence that these mechanisms have been translated into measurable decarbonization or resilience outcomes at scale.

1. Material Social and Ecological Issues in the Net-Lease REIT Industry

In accordance with materiality principles, a sustainability issue is defined by the tension between societal welfare and the firm’s financial objectives. For NNN, these tensions are not merely operational but are embedded in the legal architecture of the net-lease industry.

Table 1: Material Sustainability Issues & Structural Tensions

Table 1 identifies the core conflicts between societal needs and NNN’s business model.

Material Issue	Societal/Ecological Interest	Business Interest (NNN REIT)	The Central Tension
Operational Decarbonization	Reducing the carbon footprint of the built environment to meet global net-zero targets.	Maintaining a low-overhead, passive investment model with minimal capital expenditure.	The "Split Incentive": NNN owns the asset but lacks the operational mandate to upgrade systems, while tenants lack ownership to justify long-term green investments.

Material Issue	Societal/Ecological Interest	Business Interest (NNN REIT)	The Central Tension
Physical Climate Resilience	Hardening infrastructure to protect local communities and ensure post-disaster economic continuity.	Protecting the balance sheet and ensuring uninterrupted dividend distributions.	Financial Insulation vs. Physical Resilience: NNN relies on contractual insurance mandates to transfer risk, which protects capital but does not prevent physical asset degradation.
Sustainable Urbanism	Promoting dense, transit-oriented, and walkable urban developments to reduce car dependency.	Expanding a profitable portfolio of freestanding, single-tenant retail outposts.	Sprawl vs. Sustainability: NNN's growth formula is historically tied to land-intensive, automotive-centric retail (e.g., convenience stores and drive-thrus), which conflicts with low-carbon land use.

Issue 1: The Decarbonization of Scope 3 Downstream Leased Assets

The built environment is responsible for approximately 40% of global carbon emissions, and society therefore has a strong interest in rapid decarbonization to align with Paris Agreement trajectories. In the net-lease REIT sector, however, the split-incentive problem is structural.

NNN's portfolio comprises roughly 3,700 properties, and under triple-net leases tenants retain

operational control over energy, water, and waste decisions. While stakeholders increasingly expect asset owners to use their capital and influence to accelerate deep energy retrofits, NNN’s model is designed to remain operationally light and to limit landlord capital expenditure. More direct intervention in tenant operations can introduce frictions that may affect tenant retention and property competitiveness, creating a tension between the societal need for a net-zero building stock and the firm’s preference for low-friction, predictable cash flows.

To make this structural tension analytically tractable, it is useful to examine how NNN’s reported emissions profile is distributed across scopes. As shown in Figure 2, the vast majority of reported emissions are associated with downstream leased assets in Scope 3, consistent with the control-responsibility mismatch inherent to net-lease portfolios (NNN REIT, Inc., 2025).

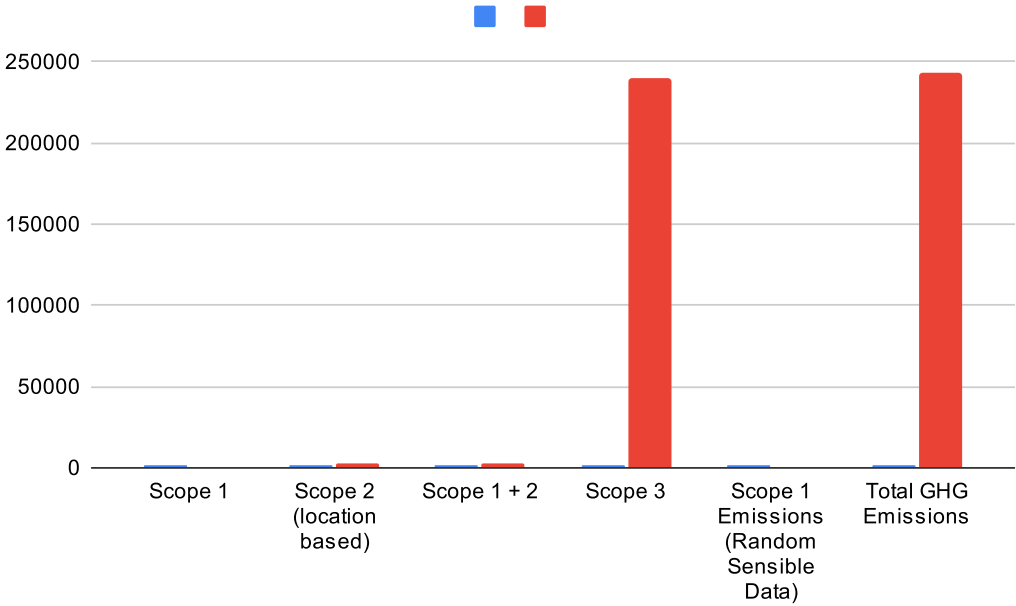


Figure 2. GHG emissions by scope (Scopes 1, 2, and 3—Category 13), FY2024. *Note.* Data are from NNN REIT, Inc. (2025). Scope 3 values are estimates based on CBECS and eGRID emission factors as reported by the company. Figure prepared by author.

Issue 2: Climate-Related Physical Risk and the Limitations of Risk Transfer

Portfolio-level exposure is partly shaped by geographic distribution. NNN emphasizes nationwide diversification, which can reduce concentrated loss risk from single events. The company's regional mix provides an initial lens for considering how physical hazards may be distributed across the portfolio (see Figure 3). The pace at which stronger climate-related clauses can diffuse across the portfolio is also shaped by lease turnover, which is reflected in the lease expiration profile (see Figure 4).

Diversification Reduces Risk



Nationwide Reach

(As a percentage of annual base rent – December 31, 2025)

Properties 3,692
Tenants 400+
Lines of Trade 35+

Top States by Number of Properties

Texas 594
Florida 270
Ohio 215
Illinois 179
Georgia 172

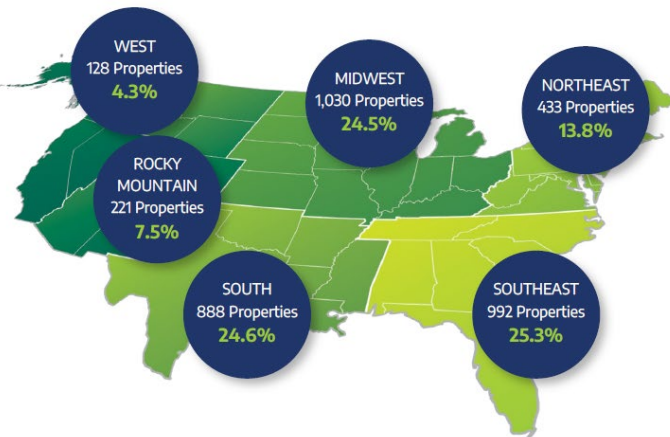


Figure 3. Portfolio geographic diversification and regional rent mix (United States).

Note. Reproduced from Institutional Investor Presentation (p. 29), by NNN REIT, Inc. (2026).

Lease Expirations



(As a percentage of annual base rent – December 31, 2025)

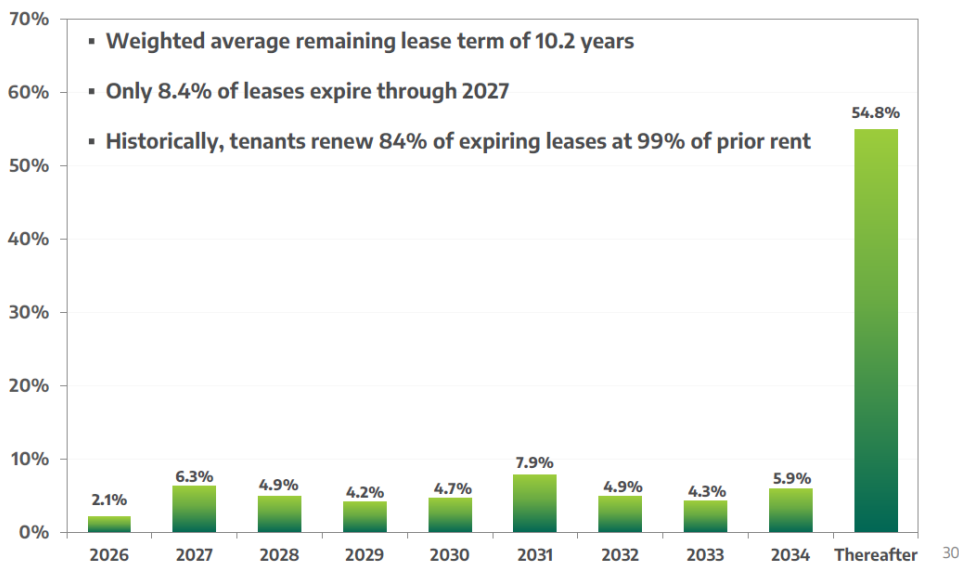


Figure 4. Lease expiration schedule (annual ABR percentage by year).

Note. Reproduced from *Institutional Investor Presentation* (p. 30), by NNN REIT, Inc. (2026).

Diversification, however, is only a first-order risk mitigant. Climate change increasingly threatens real estate through acute hazards, particularly flooding and severe storms, and stakeholder expectations extend beyond financial resilience to include the protection of local economies and essential community services. In this context, the central question is whether risk management strategies reduce underlying vulnerability or primarily reallocate financial consequences after a loss.

NNN's disclosed approach is largely implemented through contractual and insurance-related mechanisms, including lease provisions that require tenants to maintain full replacement cost

coverage and, where applicable, flood insurance. These measures can help protect the landlord's cash-flow continuity and limit balance-sheet exposure. At the same time, an insurance-centered posture does not necessarily demonstrate physical risk reduction at the asset level, nor does it resolve the risk that properties in higher-hazard areas may face rising premiums, higher deductibles, or limited coverage availability over time. As hazards intensify, these dynamics can increase operating stress for tenants and indirectly affect the landlord through higher vacancy risk or weaker tenant credit.

Accordingly, diversification reduces concentration risk, but it does not substitute for hazard-specific disclosure, such as the share of assets located in designated flood zones or other high-risk coastal areas.

Issue 3: Land-Use Externalities and the Promotion of Automotive-Centric Sprawl

Sustainable urbanism advocates for density, transit-oriented development, and the preservation of greenfields. NNN's acquisition strategy, however, focuses on freestanding, single-tenant properties, often located in suburban corridors. The portfolio is heavily weighted toward automotive-dependent lines of trade. The company reports that convenience stores represent 17.3 percent of annual rent, alongside substantial exposure to quick-service restaurants and automotive service categories (NNN REIT, Inc., 2026). There is a fundamental tension between the societal drive toward walkable, low-carbon communities and NNN's growth-by-acquisition model, which perpetuates land-intensive, car-dependent retail infrastructure. Reorienting the portfolio toward sustainable urban forms would require a total reconfiguration of NNN's core competencies in property sourcing and underwriting.

2. Performance Assessment Using the Four Criteria

Table 2: Performance Assessment

Table 2 summarizes evaluation determines NNN’s current strategic classification.

Criterion	Analysis of NNN REIT Performance	Strategic Alignment
Purpose	Sustainability is framed as a risk management function and a tool for maintaining investor confidence and "social license."	Isolated (with early embedded signals)
Measurement	Relies on high-level CBECS/eGRID estimations for Scope 3 emissions; lacks primary asset-level utility data.	Isolated (with early embedded signals)
Targets	Focused on headquarters-level certifications (ENERGY STAR) rather than quantitative portfolio-wide decarbonization.	Primarily isolated; embedded mechanisms not yet outcome-linked
Legitimacy	Derived from procedural alignment with GRI and SASB frameworks; lacks independent third-party data assurance.	Isolated Strategy

2.1 Purpose: Risk Mitigation vs. Value Transformation

A review of NNN's 2024-25 *Corporate Sustainability Report* suggests that the purpose of its sustainability disclosure is primarily defensive and stakeholder-oriented. The firm explicitly links ESG performance to its long-term financial consistency and its status as a "Dividend Aristocrat." While NNN frames sustainability as a pillar of its corporate culture, the reporting does not indicate that sustainability is a primary driver of investment decisions. Instead, sustainability serves as a mechanism to protect the firm's social license to operate and to ensure continued access to institutional capital, which increasingly mandates ESG transparency.

2.2 Measurement: The Gap Between Estimation and Actual Impact

Measurement and Performance

For Issue 1, NNN reports emissions by scope and provides an approach for estimating tenant related emissions associated with downstream leased assets. This level of disclosure is a meaningful step because it creates a portfolio baseline and acknowledges that the material footprint sits in tenant operations. Nonetheless, measurement quality depends on data coverage, methodological stability, and comparability over time. When Scope 3 is estimated using benchmark intensities and grid factors, changes across years can reflect portfolio composition changes or methodological updates as well as operational improvements. A rigorous assessment should therefore treat reported reductions as improvements in the disclosed footprint rather than as definitive proof of reduced tenant level emissions, unless tenant level energy data coverage and assurance improve over time. This baseline is complemented by the company's multi-year disclosures, which allow a limited trend analysis of the reported footprint. Figure 5 summarizes the Scope 3 trajectory reported across NNN's 2021, 2023–24, and 2024–25 disclosures.

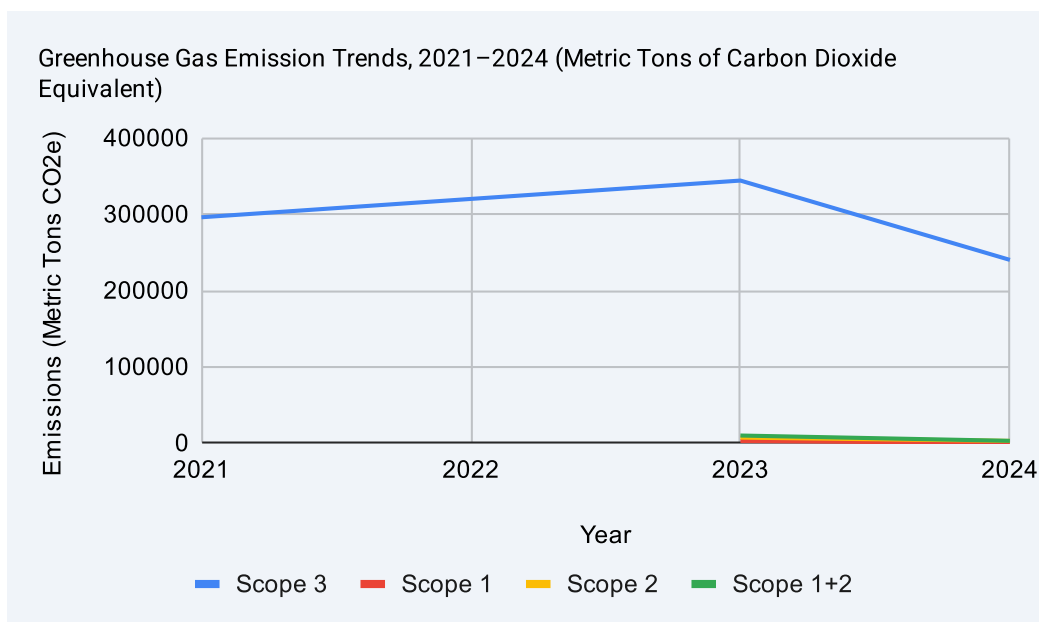


Figure 5. GHG emissions by scope, FY2021–FY2024 (MT CO_{2e}).

Note. Compiled by author from NNN REIT, Inc. (2021, 2023, 2025). Scope 3 (downstream leased assets) is estimated as reported.

For Issue 2, NNN’s policy tools demonstrate attention to physical risk through contractual insurance requirements and monitoring practices. These tools are relevant and consistent with net lease norms. The measurement challenge is that policies do not directly reveal outcomes. External evaluation would be strengthened by quantitative disclosure on hazard exposure, the proportion of assets in designated flood zones, the evolution of premiums and deductibles, loss experience, and the performance of recovery after events. Without these data, performance evaluation remains incomplete. It is possible for a policy regime to be well designed yet insufficient under rapid changes in climate risk and insurance market dynamics.

For Issue 3, the company’s strength likely lies in underwriting discipline and risk screening, as suggested by its emphasis on conservative investment processes. Still, sustainability measurement would benefit from clearer reporting on the extent of environmental due diligence

coverage, the frequency and severity of environmental incidents, remediation obligations, and the role of resource stress in acquisition decisions. In an acquisition driven model, performance is partly reflected in avoided risks. Such avoidance is difficult to observe without disclosure of screening outcomes and rejected transactions.

2.3 Targets: The Absence of Portfolio-Level Accountability

Targets are an essential bridge between measurement and performance. In net lease real estate, a major concern is alignment between targets and the material footprint. Targets focused primarily on corporate operations can appear misaligned when the dominant footprint is in tenant operations. NNN's reporting provides a foundation for tracking, but the public materials do not consistently present time bound trajectories that connect Scope 3 estimation to an actionable pathway. A more mature target structure would include interim milestones, tenant data coverage goals, and indicators tied to lease updates and acquisition screening.

For physical risk, targets should be oriented toward resilience outcomes. Examples include reducing expected loss for high hazard exposures, increasing the share of assets assessed with standardized physical risk tools, or establishing portfolio thresholds for exposure to flood zones. Insurance requirements alone are not targets because they do not demonstrate risk reduction. A credible progress narrative requires evidence that exposure is being monitored, that underwriting standards adjust to changing hazard profiles, and that assets and tenants can recover effectively after events.

For environmental liability and resource stress, targets might focus on due diligence completeness, screening criteria, and continuous improvement in acquisition governance.

Progress is best demonstrated through consistent processes, transparent reporting on risk

incidents, and clear articulation of how environmental and resource considerations influence investment decisions.

2.4 Legitimacy: Procedural Compliance over Substantive Outcome

Legitimacy depends on objectivity, transparency, and the extent to which claims can be verified. NNN's disclosures increase credibility when they describe methods for estimating tenant related emissions and when they align reporting with recognized frameworks. This enhances auditability of what is included and what is excluded. Legitimacy would be further strengthened by third party assurance, by stable year to year definitions, and by public reporting of data coverage rates and limitations.

In the climate risk domain, legitimacy is constrained by limited outcome disclosure. A reader can understand what insurance is required, but cannot readily evaluate whether the approach reduces vulnerability under future conditions. In addition, insurance markets themselves are evolving, so the continued feasibility of insurance based risk transfer is not guaranteed. These dynamics make it important for legitimacy to be grounded in transparent metrics that capture exposure, costs, and resilience outcomes. Without such evidence, a comprehensive policy can still be seen as primarily procedural.

3. Sustainability Strategy Classification: Isolated Strategy

NNN's approach is best described as transitioning from isolated practices toward early embedded practices. Isolated practices are characterized by sustainability programs and reporting that sit alongside core business operations. Embedded practices occur when sustainability is integrated into the firm's operating system, meaning the routines and standards that determine how assets are acquired, leased, and managed.

NNN's strongest embedded signals are in the use of standardized policies and lease mechanisms that formalize expectations and allocate responsibilities. These tools scale across a large portfolio and can influence tenant behavior over time. The main reason the assessment does not classify the approach as transformational is the limited evidence of sector level rule changing behavior or shared infrastructure that overcomes split incentives at scale. Transformational strategies in this context would typically involve new market mechanisms that unlock tenant retrofits, standardized tenant data protocols across major tenant categories, or collaborative financing and performance programs that materially reshape how sustainability is delivered in the net lease ecosystem.

4. Institutional Forces

The persistence of an isolated sustainability strategy in the net-lease REIT sector can be explained by a reinforcing set of cognitive, normative, and regulatory forces. Together, these forces produce a sector-specific logic of stability, in which success is defined primarily by predictable cash flows, low operating involvement, and contractual risk transfer. Within this institutional context, sustainability initiatives tend to remain additive rather than fully integrated into core value creation, unless they can be implemented through scalable contractual mechanisms.

NNN's recent policy updates provide a useful illustration of both progress and constraint. In its Corporate Sustainability Policy, the company reports that it received Green Lease Leader Silver recognition and that more than 300 tenants are currently required to submit sustainability data, with the company expecting that number to rise as updated form leases are adopted. This

indicates a deliberate effort to embed sustainability into leasing practices, which is one of the few scalable levers available to a landlord in a triple-net structure. At the same time, the same disclosure highlights the structural limitation of the sector: the landlord’s influence depends on the extent to which tenants are contractually required to share data and adopt practices, and therefore sustainability performance can remain coverage-limited and uneven across a diversified portfolio when adoption is incremental and tied to lease renewal and acquisition cycles (NNN REIT, Inc., 2024).

Table 3: Institutional Forces Driving Strategic Inertia, explains why the industry remains in a Defensive or Isolated posture.

Institutional Force	Logic in the Net-Lease REIT Sector	NNN’s Contribution/Reinforcement
Cognitive	<p>The "Hands-Off" Model:</p> <p>The landlord is perceived strictly as a capital provider, not an operator.</p>	<p>NNN’s investor narrative emphasizes operational simplicity and stability, which can reinforce a sector-wide tendency to treat operational stewardship as tenant responsibility rather than an owner-led value creation lever.</p>
Normative	<p>The Dividend Standard:</p> <p>Success is defined by the length of the dividend increase streak (NNN’s 36-year record).</p>	<p>By prioritizing 36 years of dividend growth as its primary achievement, NNN sets a benchmark that views green capital diversion as a fiduciary risk.</p>

Institutional Force	Logic in the Net-Lease REIT Sector	NNN's Contribution/Reinforcement
Regulatory	<p>Contractual Sovereignty:</p> <p>Triple-net leases legally codify the total transfer of environmental liability to the tenant.</p>	<p>NNN utilizes standardized lease templates that institutionalize the separation of owner and operator, ensuring the split incentive remains legally binding.</p>

5. Critical Analysis of Physical Risk and Resilience Management

Table 4: Critique of Physical Risk & Insurance Strategy, addresses the limits of NNN's current resilience approach.

Critique Point	Description / Implication for NNN
The Transparency Gap	<p>While policies mandate insurance, public materials do not disclose portfolio-level metrics on the actual percentage of assets in 100-year flood zones or historical loss data.</p>
Insurance Market Volatility	<p>NNN's strategy assumes permanent insurance availability. If premiums in high-risk zones become cost-prohibitive, tenants may default, returning the liability to NNN.</p>
Transfer vs. Mitigation	<p>Contractual insurance (Risk Transfer) is not a substitute for physical hardening (Risk Mitigation). NNN protects its cash flow but leaves the physical asset vulnerable.</p>

Critique Point	Description / Implication for NNN
Residual Landlord Risk	Even with insured tenants, NNN faces indirect costs such as rent interruption, re-leasing delays, and longer-term valuation impacts.

A central feature of NNN’s sustainability policy is its management of physical hazards through insurance mandates. While the firm presents this as a robust risk management framework, a critical analysis reveals several systemic vulnerabilities:

The Outcome Transparency Gap: NNN’s policies focus on the *process* of insurance rather than the *outcomes* of resilience. The firm provides no public data on the actual flood exposure of its assets or the impact of past weather events on rent collection. Stakeholders are forced to rely on NNN’s underwriting process without independent verification of the portfolio's physical vulnerability.

Actuarial Reality and Insurance Volatility: NNN’s strategy assumes that insurance will remain available and affordable for its tenants. However, as climate change intensifies, insurers are increasingly withdrawing from high-risk markets or dramatically raising premiums. If insurance becomes cost-prohibitive for a retail tenant, the contractual risk transfer fails, and the financial liability reverts to NNN through tenant default or asset impairment.

Transfer vs. Mitigation: There is a clear distinction between financial risk transfer and physical risk reduction. NNN’s strategy is heavily weighted toward the former. A more advanced strategy would include quantified targets for physical hardening, such as floodproofing or on-site

renewable energy, to ensure the asset remains functional regardless of the insurance market's stability.

6. Conclusion

NNN REIT represents the archetype of financial success in the net-lease industry, but its sustainability performance highlights the profound limitations of the triple-net model. The firm has successfully transitioned from a *Defensive* to an *Isolated* strategy by institutionalizing ESG reporting and lease-level risk transfer policies. However, the structural barriers of the split incentive and the industry's normative focus on dividend growth prevent NNN from achieving a truly *Embedded* sustainability strategy.

To evolve, NNN must move beyond the estimation of its footprint and the mere transfer of risk. This would require Institutional Entrepreneurship, challenging the existing cognitive and regulatory forces by pioneering new lease structures that mandate data sharing and facilitate co-investment in energy efficiency. Until portfolio-level decarbonization and resilience outcomes are measured and managed as part of core investment discipline, NNN's sustainability posture will remain stronger in process design than in demonstrable performance. For the net-lease REIT sector, the difficult next step is to translate contractual levers into verified outcomes without eroding tenant competitiveness or cash-flow stability.

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