

Stable, Safer Havens In a Turbulent Market

Posted: January 07, 2011 at 6:15 PM by Realistiq Support

How many times have you heard a real estate success story and thought, "I would LOVE to invest in real estate, BUT...I have heard it is risky, and how will I find a deal?" This article will address a particular investment tool that provides investors the higher returns associated with real estate while at the same time removing some of the risk associated with commercial real estate investments.

Absolute triple-net properties are great portfolio additions for the veteran real estate investor or the first time buyer because they are typically very stable, provide a strong yield, and require almost no management efforts on behalf of the investor after acquisition. The term "Absolute triple-net (NNN)" indicates that the tenant is responsible for all cost associated with the property including operations, taxes, insurance, common area maintenance, repairs and improvements.

These properties consist primarily of single-tenant, freestanding buildings, which range from Dollar General's and fast food restaurants to drug stores and Home Depot's. NNN properties are some of the most stable investments and possess advantages that the stock market and other real estate investments lack.

Stability and Long Leases

NNN properties typically have the longest leases of any real estate property type, generally 10 to 25 years with options to renew. Once the tenant is secured, the landlord isn't exposed to vacancy issues, tenant improvement cost, or leasing fees that are associated with other investments. These long leases eliminate tenant turnover and provide consistent cash flows over the long term. For example, drug stores often sign 25 year leases with ten (10)-5 year options to renew. The landlord is guaranteed rent for 25 years.

The stability of these assets make them more eligible for third party financing, even in the more stringent capital market we face today. Banks want to make loans on stable, income producing properties.

"In this volatile economy, the underwriting requirements for financing leased commercial property have changed very little. Most medium-to-small conventional banks still have a good appetite for financing income producing commercial real estate. Banks are always looking for

good loans."

Joe Hoelscher, Assistant Vice President, The American Bank of Commerce

Rent Escalations

Rent escalations make NNN properties advantageous because they hedge against the eroding power of inflation and keep rents at market rates throughout the life of the lease and renewal options. Rent escalations also raise the rate of return on your initial investment.

Location Location Location

NNN properties are primarily located in prime retail locations that provide great demographics, visibility, and traffic counts. These locations attract national and regional credit tenants and franchisee's who thrive on great locations, allowing for a high residual value and a liquid investment.

No Management

Most real estate investments need quality management whether it is by the owner or a third party management company. NNN are the least management intensive, as the landlord is only responsible for receiving a check in the mail. The tenant is responsible for all operating expenses associated with the property.

1031 Exchange

NNN properties are great assets for buyers who have 1031 exchange money to defer capital gains tax. With the possibility that the capital gains tax could nearly double over the next few years, 1031 exchanges will become increasingly important in real estate investments.

As with any investment, there are positive and negative attributes. The basic principle of risk and return proves true as these properties typically yield a smaller return than properties with greater risk. Many investors prefer, however, to acquire a stable investment without any hassles or headaches and receive a stable but strong return.