

FINANCIAL DIGEST

By Jim Slinkard, 1031tax.com

The Risk and Reality of NNN Income Properties

New buyers often request a NNN income property with a high cap rate, high credit and long-term lease. My response to the buyer is: "How much risk are you willing to take?" Of course everyone wants the highest possible return when they purchase a NNN income property, but the reality is there's no free lunch. The greater the cap rate, the greater the risk.



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I send a daily email of NNN properties to my clients with the newest and best NNN properties that come to market. The email is concise. It details the tenant, price, cap rate, state, lease type, lease guarantor, years on lease and rent increases.

When my client sees a possible match, he or she calls or sends an email requesting a full marketing package that we can review together.

Now let's talk about corporate guaranteed NNN properties versus franchise guaranteed NNN properties. A corporate guaranteed lease has the identical security credit rating and financial strength as a corporate bond issued by the same parent company. For example, a lease guaranteed by Walgreens or Chase Bank would have the same strength as their corporate bonds. With a franchise guaranteed lease, the backing is normally less strong than a corporate lease. Investors seek a seasoned franchise operator with a consistent track record, sufficient financial strength and additional properties backing the lease. When the franchise guarantee is backed by the personal guarantee of an operator with solid financials, the guarantee becomes even stronger.

Location, location, location – a quality NNN property is more about location than who guarantees the lease. I tell my clients that it is better to own a property in a great

location with an average tenant than a property with a great tenant in an average location. What do the demographics look like? Is there a history of population growth within 1, 3 and 5 miles? Is the property on a major retail corridor or on a pad site adjacent to a Wal-Mart, Home Depot or Safeway? What is the traffic count? Is the property easily seen and found by its potential customers? Do other national tenants surround the property? When the tenant vacates in 20, 30 or 40 years, can the property be easily converted to the needs of new potential tenants? Answers to these questions will help determine the strength of a property's location.

Let's look at ground leases and fee simple income properties. Fee simple property owners enjoy the tax benefit of building depreciation. Ground leased property owners are not able to depreciate their property. However, their tenant builds, pays for and

maintains the property on the landlord's parcel. The residual building often reverts to the landlord when the tenant's lease expires, yielding great upside for the landlord. Please contact me if you would like to discuss additional pros and cons of ground lease and fee simple properties.

NNN property buyers must look at these and other criteria when deciding which NNN property to purchase. I have helped clients purchase and sell investment properties for almost 40 years. It will be my pleasure to discuss the advantages and disadvantages of various properties and guide you through the purchase of a NNN property. It is also important for you to work with an experienced real estate attorney and CPA.

Jim Slinkard is an independent real estate broker, associated with Alan Fruitman and Elizabeth Laesecke of 1031tax.com. ■