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NNN Property – A Safe Harbor in a Stormy Economy

As winds of change in the economic cycle grow, investors increasingly seek safe harbor in NNN properties. NNN properties in their purest form are single tenant properties with credit-worthy tenants, long-term leases and no landlord responsibilities. Capitalization rates often range from 4% to 7%, providing investors stable returns over longer periods. The nature of NNN properties, their lease terms and tenant profiles provide added security for investors looking to ride out the storm of challenging economic conditions.

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The real estate fundamentals of NNN properties provide the first line of security. NNN properties typically have high-traffic, high visibility locations which appeal to a broad range of prospective tenants. NNN properties often have stylized box buildings with regular site layouts and signage rights. These features help occupying businesses maintain viable operations through economic cycles and appeal to a multitude of tenants or buyers on the lease turn or disposal of the asset.

NNN properties offer a second line of security in their long lease durations and lease terms. NNN property leases range from 5 - 20 years, often with rent increases throughout. These timeframes span economic cycles providing stable or escalating income over time. They provide attractive returns relative to government and corporate securities and avoid the volatility of equity markets.

The third line of security comes from the nature of the tenants occupying NNN properties. Tenants typically consist of publicly traded companies or strong privately held companies. The corporate-backed nature of NNN property leases reduces vacancy risk for investors. Should an occupying business fail, NNN property lease terms obligate the tenant to continue rent payments throughout the lease term. Only a corporate bankruptcy can void the lease, which, while not a zero-chance risk, is a lower probability event that is easier for investors to assess than the vacancy risk seen across residential, office or industrial properties occupied by non-credit-worthy tenants.

Many NNN property tenants are in recession-resistant business verticals. Fast food chains, dollar stores and auto repair/auto part stores all benefit from the "flight to affordability" that occurs as consumers seek out value menus, chase deals on daily necessities and switch to "do-it-yourself" mode. This is evident in historical financials: McDonalds had 3.8%, 5.0% and 5.6% comparable store sales growth in 2009, 2010 and 2011. AutoZone had 6.6%, 5.4% and 6.3% and Dollar Tree had 4.1%, 6.3% and 6.0% comparable store sales growth across the same period.

NNN property tenants are often well capitalized and have efficient operations that are able to withstand slower economic conditions. For instance, fast food operators have finely tuned business operations and employ cutting-edge supply chain and customer experience automation. These tenants are skilled at managing cost and optimizing customer experience, making them well positioned to maintain profits as the economy falters.

Since NNN properties are well-suited to ride-out tough economic times, many investors choose to seek out these properties as equity markets become less-certain. Working with a trusted advisor such as the brokers of 1031tax.com will increase the chance of finding the optimal combination of property, tenant and lease to provide the best security/return mix. With billions of dollars in nationwide NNN property transactions, spanning multiple economic cycles, the brokers of 1031tax.com are highly skilled at identifying the best NNN opportunities and guiding clients to a successful closing so they can ride out the next storm in relative comfort.

Geoff Hauer is an independent real estate broker and part of 1031tax.com. Visit 1031tax.com or call Geoff at 1-800-454-0015 x6 to receive a nationwide list of NNN properties and learn more about our comprehensive guide on investing in NNN properties: The NNN Triple Net Property Book. ■