NET-LEASED PROPERTY INVESTMENT

What is a triple net?

An investment in a triple net property (NNN property) qualifies, as like kind property in a 1031 exchange, but the investor has no management obligations. When you buy net leased property, you own the land and the building. The tenant leases the property from you and operates their business from your property. NNN properties are often single-tenant retail properties, but they may have any commercial use and may have multiple tenants, such as a shopping center. A NNN property is considered desirable by many real estate exchangers because it provides a minimum of management and maintenance concerns while providing a fixed rate of return from an established credit.

How long are the leases?

The lease usually has a long primary term ranging from 10 to 30 years) with cost-of-living increases in the rent. In addition, the tenant may have certain options to extend for successive five year periods following the expiration of the primary term.

Who are the tenants?

Tenants are usually large publicly traded corporations that frequently (but not always) have an "investment grade credit" rating, defined as a Standard and Poor's debt rating of BBB- and above. Some examples of net-lease tenants are: Walgreens, RiteAid, CVS, Golden Corral, Arby's, Sherwin Williams Paint, Staples, U.S. Government, Taco Bell, O'Reilly AutoParts, Checker Auto Parts, Goodyear Tire, Jiffy Lube, HomeDepot, Federal Express, Applebees, Denny's, Marie Calendar, Dollar General, Jack-In-The-Box, Wendy;s, Popeyes, BurgerKing, El Pollo Loco, Hardees/Carl's Jr.

What does triple net, NNN, mean?

A triple-net lease is one in which the tenant pays all of the ongoing operating expenses. The landlord receives a net rent, because the tenant is responsible for paying the property taxes, utilities, insurance premiums, maintenance and repairs.

INSTALLMENT SALE

Generally, when a taxpayer sells appreciated real estate and does not choose a vehicle to eliminate or defer capital gain recognition, the gain from the sale is taxable in the year the sale is completed and escrow closes. However, if you are a cash basis taxpayer, you can create an installment sale whereby you sell your apartment property and agree to lend or "carryback" a portion of the sales price and receive this amount in the future (over at least two years).

When the sale qualifies as an installment sale, you can use the installment method of accounting to defer recognition of the gain until you actually receive payment of the principal portion of the installment note. You can structure the note to receive principal payments according to your cash needs and tax planning objectives. For example, principal payments could be due monthly, annually or only at the end of the term.

Your capital gain tax is due only as you collect principal payments on the seller financing. In conclusion, installment sales, with proper planning, can be very advantageous for a seller who wishes to liquidate investment real estate and generate maximum amounts of current interest income.

Advantages

The most important advantage of an installment sale is that it allows a taxpayer to dispose of his investment real estate and not pay income taxes currently on the portion of the sales proceeds that the seller lends to the buyer. As a result, the taxpayer is able to earn interest income on his deferred income tax liability.
Often a Seller can obtain a higher sale price when financing is provided to the Buyer.

Disadvantages

An installment sale puts the seller in the position of being a lender. The seller will usually lend a substantial portion of the sales price to the buyer, up to 80 or 90 percent in some cases. It is probably not prudent for the seller to lend much more than 80 percent of the sales price because the buyer should have sufficient equity in the property in case the seller has to foreclose and take over the property. The buyer's equity in the property protects the seller from suffering a loss from the costs of foreclosing on the property and reselling it.

Conclusion

In conclusion, installment sales, with proper planning, can be very advantageous for a seller who wishes to liquidate investment real estate and generate maximum amounts of current interest income. Owners should not enter into an installment sale until they have first discussed it thoroughly with their tax and legal advisors.

DELAWARE STATUTORY TRUST (DST)

Investors desiring the tax deferral benefits of §1031 exchanges coupled with the advantages of fractional ownership increasingly are seeking the popular alternatives of tenant-in-common ("TIC") or Delaware Statutory Trust ("DST") co-ownership. Recently, DSTs have been gaining in popularity for a number of reasons including the ability to secure financing more easily and attract more investors with lower minimum investment threshold amounts.

Benefits of Buying Interests in Delaware Statutory Trusts (DSTs)

You should also carefully consider and evaluate the merits of co-ownership or fractional ownership interests in real estate such as the Delaware Statutory Trust or DST Investment, Tenant-In-Common or TIC Investment Property (compare DSTs to TICs) or other forms of co-ownership interests in real estate (CORE), when looking for suitable replacement properties for your 1031 Exchange, especially before rushing into an acquisition that may not make financial and economic sense.

Fractional or Co-ownership Interests in Real Estate

Simply stated, fractional, or co-ownership, interests in real estate allows you to acquire, together with other investors, a larger, potentially more stable, secure and profitable real property asset than what you could have acquired and afforded on your own. In addition, you can generally better diversify your real estate investment portfolio by acquiring interests in several Delaware Statutory Trusts or DSTs. You can achieve greater diversification and improved overall quality in your real estate investment portfolio through the use of the Delaware Statutory Trust or DST.

Some of the most attractive features of TIC or DST ownership you should consider include:

No Property Management. You are not responsible for any property management. Professional managers are already in place and controlled by the TIC program sponsor.

More Options You can purchase an interest in a large, Class A property that might otherwise be too large an investment individually.

Low Minimum Investment The minimum interest can be as low as $100,000, and there is no maximum.

Diversification Instead of owning just one property, you can diversify your holdings into different markets and property types. For example, you could buy part of an office building in Chicago, and apartment building in Phoenix, and research facility in San Diego. You can diversify geographically, by property type (commercial, residential, office, etc.), and by type of tenant (high tech, retail, manufacturing, residential, medical, etc). Partial ownership of several different types of properties in different locations can bring greater stability and less risk for future income streams.

Greater Choices There are many sponsors of TIC and DST programs, so you always have a wide variety to choose from during the time you have to identify a replacement like kind property. It takes the pressure off.

High Quality Properties. There are many choices available. TIC or DST programs can include nationally anchored restaurants and drug stores, apartment communities, shopping centers, industrial and office complexes and others.

Flexibility After you sell your down-leg, you can identify one or more TIC or DST programs as replacement property, while you search for another apartment property to buy. You can then put some or all of your proceeds into a TIC or DST program that qualifies for 1031 treatment, or you can purchase another property outright with some of the proceeds, and invest the remainder in a TIC or DST. Again, it takes the pressure off.

Financing Already in Place Usually TIC or DST properties already have financing in place and the portion related to the interest you purchase can be assumed without qualification or loan assumption fees. No time lost to credit checks, loan applications or appraisals so that a TIC or DST purchase can close in a matter of days if necessary.