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What's A Saver To Do?

By Jim West November 29, 2013

I wrote a blog post several months back called, "The Brutal Double Edged Sword of Low Interest Rates" and it can be found in full at www.yourfuture-own-it.com. In summary, I shared how the Fed's sustained low interest rates have brutalized anyone who relies on income from savings – essentially reducing incomes by 80 percent.

Perhaps, lost in all the turmoil of this virtual "cage match" between Congress and the president (and the market gyrations it set off) is the fact that Chairman Bernake has stated that we will continue this policy through mid-2013. That's two more years!

I view this edge of the sword (sustained low interest rates) as an outstanding opportunity for investors who want to pursue owning commercial property. Reduced land and building prices are creating values out there in all sectors: office, industrial, multi-family and even retail. Locking in a low interest rate will enhance property cash flows and eventually make them even more valuable when it's time to sell. Many savvy investors are laying a good foundation for the future.

However, the vital question today is this: What options does a "saver" have to generate a stable income? The aftershocks that roiled the stock market made equity income investors ill with apprehension. You may get a nice five percent dividend on the stocks your financial planner picked, but when you watch your capital ride the 10 to 20 percent surges up and down over the course of 10 days like a ride at Six Flags, insomnia becomes part your life. Do you expect things to get less volatile as we move through the election cycle over the next fifteen months? Is there a better way? Is there a sleep-well-at-night plan?

The clear answer is commercial real estate.

Let's assume that you have no desire to be an active "hands-on" property manager, spending a huge amount of time sorting through a large selection of buildings in an effort to pick a winner. Instead, your goal is to have an investment that produces a steady income, an asset that remains stable in value and something that requires minimal work.

This is where I'd like to tell you about a product the commercial real estate industry currently has available to help this goal become a tangible reality. It's called a Single Tenant Triple Net Leased Property (NNN). These are properties where one person or entity owns the real estate, land or building, and leases to a tenant for a period of 10 to as much as 25 years. The tenant agrees to occupy the property, operate their business on the premises, as well as pay increasing rents over the life of the term. Further, the tenant pays all operating expenses such as taxes, insurance, utilities and repairs.

There are basically three categories of NNN properties, the first being fast food restaurants. This is actually a very large category, and highly dependable with companies like Wendy's, Burger King, Jack in the Box and Applebee's on this list. Rarely do these companies own their real estate. Often, they are owned by high-net worth individuals seeking stable income, some appreciation potential and minimal management.

The second type of NNN includes small, medium and big box retailers. Best Buy, Dollar Tree, Walmart and 7-Eleven are well known strong brands that fit into this category. Lastly, the third type features pharmacies like Walgreens, CSV and Rite Aid type drugstores.

Yields on these types of investments can range from six to nine percent. Credit worthiness of the tenant, costs of development, lease terms and locations can all play a factor in the return. Some of the best acqusition opportunities are actually found in secondary markets spread across the US. Institutional investors are seldom attracted to these smaller markets and there is actually a nice selection in the Clark County/Portland Metro area.

Through the recent recession, these NNN properties held up well. As the recovery has continued, strong national credit tenants have actually been expanding their market share. They are creating and increasing supply of product on the market as they build their new locations. As with all challenging economic times, there are always companies who prove to thrive. Why not partner with them and increase your income with a long-term return on investment?

You may be wondering who typically invests in this type of a property. They are individuals just like you in that they appeal to such a wide variety of buyers. From high-net worth individuals, to institutions like life insurance companies and pension funds – organizations that need to generate predictable returns. Some investors even use them for their IRA dollars.

Taking Chairman Bernake at his word, low fixed interest rates are going to be the policy of the Fed through mid 2013. Your CD's and government bonds will generate one to two percent. Inflation, in spite of the anemic recovery, ate up 3.6 percent of your purchasing power over the past 12 months. I believe you are guaranteed a loss if you stay where you are.

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