

## Walgreens, CVS or Rite-Aid: Which Tenant Is Best?&nbsp;&nbsp;&nbsp;

These companies sign very long-term, NNN leases, guaranteed by their corporate assets. This makes the investment in the underlying property fairly low risk, especially for Walgreens with an A+ debt rating. In fact, these properties are sometimes referred to as investment-grade properties. Once the drugstore chains sign the lease, they will pay the rent no matter what. The authors are not aware of any properties leased by one of these drugstore chains in which the tenants failed to pay rents. Even when the stores are closed due to weak sales (Walgreens closed 119 stores last quarter), these companies may sublease to another company and continue to pay on the main lease.

**Walgreens:** Walgreen Company was founded in 1901 by Charles Walgreen, Sr. in Chicago. While the company has existed for more than 100 years, most stores are only 5-10 years old. The company plans to open 500 new stores in 2007. This is the best managed company among the three drugstore chains and also among the most admired public companies in the US. Due to its superior financial strength and premium locations, properties with leases from Walgreens get the highest price per square foot among the 3 drugstore chains. In addition, Walgreens gets a flat rent or very low rent increase for 20 to 30 years. The cap rate is often in the 5% range for properties in California and up to 6.5% outside of California. Investors who buy properties leased by Walgreens look for a safe investment. They often compare the returns on their investment with the returns from US treasury bonds or Certificate of Deposits from banks.

**CVS Pharmacy:** CVS Corporation was founded in 1963 in Lowell, MA by Stanley Goldstein, Sidney Goldstein, and Ralph Hoagland. The name CVS stands for "Consumer Value Stores". It now has close to 6,200 stores in the US, mostly through acquisitions. In 2004, CVS bought 1,200 Eckerd Drugstores mostly in Texas and Florida. In 2006, CVS bought 700 Savon and Osco drugstores mostly in Southern California. It is also buying Caremark, the largest pharmaceutical services company. When CVS bought 1,200 Eckerd stores, it formed a single-entity LLC to own each Eckerd store. Each LLC signs the lease with the property owner. In the event of a default, the owner collects only from the assets of the LLC and not from any other CVS-owned assets. Although the owner loses the security from CVS corporate assets, the authors are not aware of any incident where CVS closes a store and does not pay rent.

**Rite-Aid:** Rite Aid opened its first store in 1962 as "Thrift Discount Center" in Scranton, Pennsylvania. It officially incorporated as Rite Aid Corporation in 1968. Rite Aid is the weakest financially among the 3 drugstore chains. It had serious financial problems just a few years ago. However, the worst seems to be over. Rite-Aid is acquiring (as of Feb 07) about 1,850 Brooks and Eckerd drugstores, mostly along the East coast to catch up with Walgreens and CVS. After the acquisition, Rite-Aid will have about 5,000 stores and nearly \$27 Billion in revenues.

## About the Author

Tools and information let you track your food intake, nutrition and exercise. Share your diet experiences and find a fitness.

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