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Should you Invest In a Single-tenant or Multi-tenant Property?

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To answer this question, it is important for an investor to consider the following aspects:

1. Property management:
   - For single-tenant properties, there are minimal or no landlord responsibilities. All you do is take the rent check and deposit it to your bank account. Sometimes the tenant may pay rent by wiring it to your bank account; hence making this a truly passive investment. If you are really busy with your career and/or wish to have little landlord responsibilities, this is an investment opportunity worth considering.
   - For multi-tenant properties, even when there is a local property manager, you need to get involve in various decisions about whom to lease to, and various maintenance issues. Each month you have to review the management report.
2. Risks:
   - For single-tenant properties, your investment risk is essentially "putting all your eggs in one basket". If the tenant does not renew the lease, you could potentially lose 100% of rental income. There could be potential depreciation in value if rent is flat for 20-25 years. When lease has a few years left, you will need to increase the cap rate to sell. For example, a Walgreens with new 25 year lease offers 6% cap. However, when there is 9 years left on the lease, the cap is 7.5% or 20% depreciation.
   - For multi-tenant properties, the risk involved is minimal. If one tenant does not renew the lease, you lose just a portion of the total income and still have money from the other tenants to pay the mortgage.

   And so for multi-tenant properties, you are likely to have smaller issues. For single-tenant properties, an issue can potentially translate to a big one as noted above.
3. Lease terms:
   - For single-tenant properties, the lease is typically long termed, e.g.10-25 years. It's normally an absolute NNN lease for most desirable location and NN otherwise. The rent is flat for national tenant with strong S&P rating, e.g. Walgreens during primary 20-25 years term and options. For national tenant with lower S&P ratings, e.g. O'Reilly, Family Dollar, the rent is flat during the primary term of 10-15 years) and modest rent bumps of 5-10% during 5-10 year options. For franchisee or mom & pop leases, the rent bumps of 5%-10% for every 5 years is typical.
   - For multi-tenant properties, the lease is typically 1-5 year long. NNN if the location is desirable, gross lease or NN or even gross otherwise. The leases often have annual rent bumps of 1%-3%, or bumps of 5%-10% during options for more desirable locations. The rent could be flat for less desirable locations.
4. Lease Guaranty:
   - For single-tenant properties, the lease may have guaranty from the corporations, e.g. Walgreens, Rite Aid. The quality of the guaranty depends on the S&P ratings of the corporation. As rule of thumb, the stronger the S&P rating, the lower the cap rate.

     The lease could be guaranteed by a subsidiary of the corporation. For example DaVita lease could be under DST Renal, one of several dozen subsidiaries wholly-owned by DaVita. While this guaranty is not as strong as Walgreens, its business stability is probably stronger than Walgreens. When someone needs dialysis services, they have to go there for face severe medical consequences. So the stronger business stability could make up for a weaker guaranty.

     The lease could be under a single-entity LLC which is not as desirable as a single-entity does not have much asset compared to the parent company. Many CVS drug store leases are structured this way.
   - For multi-tenant properties, the leases have various guaranties, from mom & pop to corporations. Attractive locations tend to attract better brand-name tenants and thus better guaranties. Similarly, less attractive locations have to settle with less desirable mom & pop tenants with weaker guaranties.
5. Ease of Re-tenant:
   - For single-tenant properties, you must find a tenant in the same line of business. The properties tend to be for special-purpose properties with specific business requirements, e.g. banks, or restaurants. It's not easy to convert a former Bank of America with a bank vault into a Burger King with a commercial kitchen. And so it's more challenging to find a replacement. Because of this, investors tend to shy away from single-tenant properties with a few years left on the lease.
   - For multi-tenant properties, it's easier to find tenants especially for smaller units.

In summary, single-tenant and multi-tenant properties make great investments. Given the above aspects that are involved in either investment, one just needs to understand the pros and cons and chooses a property that's best suited for his/her investment portfolio/strategy.