Walgreens, CVS or Rite-Aid: Which Tenant Is Best?

By David V. Tran

There are 3 major drugstore chains in the US: Walgreens, CVS, and Rite Aid. Below are some key statistics about the 3 major drugstore chains as of 2012:

1. Walgreens ranks first with market cap of $28.51 Billion, $72.2 Billion in 2011 total revenue ($45.1B from prescription revenues), and an S&P rating of A. According to Walgreens, 75% of the US population lives within 3 miles from its stores. In April 2010, it acquired 258 Duane Reade drug stores in New York Metropolitan area which brings a total of 7841 drug stores Walgreens operates as of February 2012, including 137 hospital on-site pharmacies.
2. CVS ranks second with market cap of $56.56 Billion, $107.1 Billion in revenue ($40.5 Billion from CVS prescription revenues and $16.1B from its Caremark prescription mail order revenue), and an S&P rating of BBB+. As of December 31, 2011, CVS operates 7404 drug stores.
3. Rite Aid ranks third (fourth, behind Walmart in terms of prescription revenues) with market cap of $1.49 Billion, $26.1 Billion in revenue ($17.1B from prescription revenues), operates 4714 drug stores as of February 2011 and has an S&P rating of B-.

Investors purchase properties occupied by these drugstore chains for the following reasons:

1. The drugstore business is very recession-insensitive. People need medicine when they are sick, regardless of the state of the economy. Both rich and poor people in the US have access to medicine. Some even argue that low-income people use more medicine due to free or low-cost drugs offered by government-assisted programs. So the tenants should do well during tough time and have money to pay rent to landlords.
2. The drugstore business has a good prospect in the US:

- People are living longer and need more medicine to sustain longevity, e.g. Actonel for osteoporosis, Aricept for Alzheimer's symptoms. Older people tend to use more medicine than younger ones as they often have more medical problems. As the 78 million baby boomers are getting closer to retiring age starting from 2008, the drugstore chains anticipate the demand for medicine to increase in next 20 years.
- The drug market continues to expand as the US population continues to grow. More and more Americans suffer from various diseases. The number of Americans suffers from seasonal allergies doubled in the last 15 years to 37 million people per Fortune magazine. They spent $5.4 Billion in 2009 for allergy drugs. As their waist lines balloon (75% of Americans are forecasted to be either overweight or obese by 2020), more Americans are diagnosed with diabetes, along with high cholesterol at younger and younger ages. In addition, doctors also recommend treating various diseases sooner than later due to better understanding about the diseases. For example, doctors now prescribe antiretroviral drugs for patients soon after infected with HIV virus instead of waiting for the infection to become AIDS. More doctors combine insulin with oral medicines to treat type-2 Diabetes instead of just oral medicines alone. All these factors increase the size of the drug market.
- Advance in genetic engineering has introduced various new genetic DNA testing kits which allow the genetic diagnosis of vulnerabilities to inherited diseases and disorders. Genetic testing is currently the highest growth segment in the diagnostics industry. Some of these genetic tests will probably transform into direct-to-consumer testing kits available in drug stores in the near future. Upon FDA approval, these new products will potentially bring in additional revenue for drug stores.
- Using a new method of tailoring molecules called structure-based design; drug companies come up with new medicines that they might not have discovered otherwise, e.g. Xalkori by Pfizer to treat lung cancer.
- The passage of Health Care Reform Bill on March 23, 2010 provides insurance coverage to an estimated 33 million more American. This is a great present to the drugstore industry.

David V. Tran, ext-201
Chief Investment Advisor

Eric Zhang
Investment Advisor
CA DRE# 01459848
408-480-7263 (Direct)

Maria Martinez
Property Manager
CA DRE# 01729060

- There are new drugs to treat previously untreatable illnesses, and new diseases, e.g. Viagra for men's unhappiness, Zoloft for depression, Avastin for colon cancer, Herceptin for breast cancer, Nicotine patches for smokers to kick the habit, Tamiflu for a potential bird flu pandemic, vaccine for swine (H1N1) flu pandemic, Tekturna/Rasilez for hypertension and various new drugs for AIDS and Attention Deficit Disorder (ADD). The new medicines are very expensive, e.g. a year's supply of Avastin costs about $55,000. Eli Lilly has sold about $4.8 billion of Zyprexa in 2007 for schizophrenia and yet most people have never heard of this medicine.
- There are existing drugs now approved to treat new illnesses and thus increase their sales revenue. For example, Lyrica was originally intended to treat pain caused by nerve damage in people with diabetes. It is now approved by FDA to treat Fibromyalgia which affects 5.8 million Americans per WebMD.
- Big advances in genetics, biology and stem cells research are expected to produce a new class of drugs to treat diabetes, Parkinson's and various rare genetic disorders. For example the new drug Ilaris from Novartis targets genetic causes of an inherited disorder that there are only 7000 known cases worldwide. However, Novartis hopes to gradually broaden its drugs to a blockbuster drug to more common disorders caused by similar genetics.
- Technology and modern life introduce and require new products, e.g. pregnancy test kits, Lamisil for stronger clearer toe nails, Latisse for longer & thicker eyelashes, Propecia for male hair loss, Premarin for menopausal symptoms, diabetic monitors, electronic toothbrushes, contact lenses, lenses cleaners, diet pills, vitamins, birth-control pills, IUDs, nutrition supplements and Cholesterol-lowering pills (Americans spent nearly $26B in 2006 on Cholesterol medications alone per IMS Health, a Connecticut-based consulting company that monitors pharmaceutical sales.) There are also more surgeries: C-sections, Kidney transplants, open-heart triple by-pass, and breast augmentations. More surgeries mean more medicines are needed such as Vicodin for pain management and Warfarin to prevent blood clots in surgeries.
- Before the customers can get to the medicine aisles or pharmacy counters, they have to pass by chocolates, sodas, digital cameras, watches, toys, dolls, beers and wines, cosmetics, video games, flowers, fragrances, and greeting cards. Drug stores hope you use the one-hour photos services and exchange your liquid propane tanks there. The stores also carry seasonal items, e.g. Halloween costumes, and "As Seen on TV" merchandise, e.g. Shamwow. As a result, customers buy more than their prescriptions and medicine in these drugstores. Rite Aid sells more 28,000 non-pharmacy items in its stores while Walgreens has 22,000 different items on store shelves. CVS reported that non-pharmacy sales represented 30% of the company's total sales in January of 2007. The figure for Walgreens is 34% and 37% for Rite Aid. Many pharmacy locations are in effect convenience stores especially ones that are in residential or rural areas. And so Walgreens hopes that customers also pick up WD-40, and screwdrivers at its stores instead of at Home Depot; Thai Jasmine rice, and fish sauce to avoid a trip to Safeway or Kroger Supermarkets. During the recession, sales of these non-drug items are down as customers buy what they need and not what they want. Walgreens tries to reduce the number of items by 4000. It also introduces its own private label which has higher profit margins.
- There are more and more generic medications on the market as a number of enormously popular brand-name blockbusters lose their 20-year long patents, e.g. Lipitor (best selling drug in the world to lower cholesterol) in 2010, Viagra in 2012. Drugstores prefer to sell generic drugs to customers due to higher profit margins than the brand-name medications.
- Many people are addicted to pain killers, e.g. Hydrocodone/Oxycodone and consume a large amount of them, e.g. 30-day dosage in a day to get high. According to testimony from the National Institute on Drug Abuse, US retail pharmacies dispensed nearly 180 million prescriptions in 2007 for opiates, e.g. Hydrocodone. A high percentage of these prescriptions are probably not used for any legitimate medical purposes. Per the DEA in 2012, there are 1.5 million American addicted to cocaine but 7 million addicted to prescription drugs.
- This author estimates that at least 10% of the dispensed prescription drugs are not used at all and sit idle in the medicine cabinets. They are eventually expired and thrown away.

3. 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 a S&P "A" rating. In fact, these properties are sometimes referred to as investment-grade properties. Once the drugstore chains sign the lease, they pay the rent promptly and timely. This author is 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 133 stores in 2011), these companies may sublease the properties to other companies, e.g. Advance Auto Parts and continue to pay rents on the master leases.

- A typical Walgreens lease consists of 20-25 year primary term plus 8-10 five-year options. During primary term and options, there will be no rent increases in most of the leases. This is the main disadvantage of investing in Walgreens drugstores.
- A typical CVS lease consists of 20-25 year primary term plus 4-5 five-year options. The rent is normally flat during the primary term and then there is a 2.5%-10% rent increase in each 5-year option.
- A typical Rite Aid lease consists of 20-25 year primary term plus 4-8 five-year options. The lease often has a rent increase every 5-10 years.

Investment Risks

Although the pharmacy business in general is recession-insensitive, there are risks involved in your investment:

1. The main downside about investing in pharmacies is there is little or no rent bump for a long time, e.g. 20-50 years, especially for Walgreens. So the rent is effectively reduced after inflation is factored in. This is one of the main reasons these properties do not appeal to younger investors, especially when the cap rate is low.
2. The 3 drugstore chains now have a new formidable competitor, Wal-mart. Wal-mart sells prescription drugs in more than 4000 Wal-mart, Sam's Club and Neighborhood Market stores in 49 states. As of 2012, Wal-mart is the third largest drug retailer with $17.4B in prescription sales, just ahead of Rite Aid with $17.1B in prescription sales. The retail giant is known for launching in 2006 a highly-publicized $4 generic prescription drug program which now sells 350 generic medications for a 30-day supply. The actual number of medications is less as the medications with different strengths are counted as different medications. For example, Metformin 500 mg, 850 mg, and 1000 mg are counted as 3 medications. Wal-mart probably makes very little profits on these medications if any. However, the marketing campaign--created by Bill Simon, the President and CEO of Wal-mart US, generates a lot of publicity for Wal-mart. Wal-mart hopes to draw customers to its stores with other prescriptions where it has higher profit margins. In an unscientific survey with just one brand-name prescription of Lyrica, this author finds the lowest price at Costco, the highest price at Walgreens and Wal-mart

at the middle. Other drug chains try to counter Wal-mart in different ways. Target now offers the same 350 generic medications for $4 for a 30-day supply. Walgreens has a Prescription drugs club with membership fee which offers 1400 generic medications for as little as $1/week. CVS says it will match any offers from its competitors.

3. Chief Business Correspondent Rick Newman from US World & News Report predicted that Rite Aid might not survive in 2009. Rite Aid is still around in 2012. The prediction seems to go away in 2012 as Rite Aid as it was able to refinance the long terms debts and sales revenue has increased.

4. Drugs are also sold in thousands of supermarkets, Target stores, and Costco warehouses. However, there are no drive-thru windows at these stores or Walmart to conveniently drop off the prescriptions and pick up medicines. Customers will not be able to pick up their prescriptions during lunch hour or after 7PM at Target stores or supermarkets. They need to have membership to buy medicines at Costco. Others may not fill their prescriptions at Walmart because they don't want to mingle with typical Walmart customers who are in lower income brackets. And some baby boomers don't want their prescriptions filled at Target or Walmart because there are no comfortable chairs for them to sit down and wait for their medicines.

5. Drugs retail business to some degree is controlled by the Pharmacy Benefits Managers (PBMs). Customers normally get prescription coverage from their health insurance companies, e.g. Blue Cross. These PBM manage prescription benefits on behalf of the insurance companies. In 2012 Walgreens lost a contract valued at over $5 Billion with Express Scripts, a major PBM. Walgreen revenue was immediately fallen in the first quarter of 2012 as Express Scripts customers cannot fill their prescriptions at Walgreens. The PBMs are also in the drugs retail business via mail orders which do not require leasing expensive retail spaces. The prescription mail orders currently capture over 20% market share of the total prescription revenue. Should customers change their prescription purchase habits to mail orders (there is no such evidence in 2012), it could have negative impact to the business of drugstore chains.

6. Many leases are NNN leases with the landlord responsible the roof. So if the roof needs to be replaced, you will have to pay for the expenses.

7. The tenant may move to a new location down the road or across the street when the lease expires. This risk is high when the property is located in small town where there is low barrier for entry, i.e. lots of vacant & developable land.

8. The tenant may ask for rent concession to improve its bottom line during tough times. The possibility is higher if the tenant is Rite Aid and if the store has low sales revenue and/or higher than market rent.

9. More Americans are walking away from their prescriptions, especially the most expensive brand-name medicines. This may have negative impact on the sales revenue and profits of drug stores and consequently may cause drug store closures. According to Wolters Kluwer Pharma Solution, a health-care data company, nearly 1 in 10 new prescriptions for brand-name drugs were abandoned by people with commercial health plans in 2010. This is up 88% compared to 4 years ago just before the recession began. This trend is driven in part by higher and higher co-pays for brand name drugs as employers are shifting more insurance costs to their employees.

Among 3 drugstore chains, Walgreens and CVS pharmacies in general have the best locations—at major intersections while Rite Aid has less than premium locations. Walgreens tends to hire only the top graduates from pharmacy schools while Rite Aid settles with bottom graduates to save costs. When possible, all drugstore chains try to fill the prescriptions with generic medications which have higher profit margins.

1. Walgreens: the 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. This is the best managed company among the three drugstore chains and also among the most admired public companies in the US. The company has been run by executives with proven track records and hires the top graduates from universities. Due to its superior financial strength--S&P A rating-- and premium irreplaceable locations, properties with leases from Walgreens get the highest price per square foot and/or the lowest cap rate among the 3 drugstore chains. In addition, Walgreens gets flat rent or very low rent increases for 20 to 60 years. The cap rate is often in the low 5% to 6.5% range in 2012. Investors who buy Walgreens tend to be more mature, i.e. closer to retirement age. They are looking for a safe investment where it's more important to get the rent check than to get appreciation. They often compare the returns on their Walgreens investment with the lower returns from US treasury bonds or Certificate of Deposits from banks. Walgreens opened over 600 new stores a year in 2008 and 2009 and thus you see many new Walgreens stores for sale. It slowed down this expansion to 388 and 261 new stores in 2010, and 2011, respectively and is focusing on renovation of existing stores instead.

2. 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". As of 2009, CVS has about 6300 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. And in 2008 CVS acquired 521 Longs Drugs stores in California, Hawaii, Nevada and Arizona for $2.9B dollars. The acquisition of Long Drugs appears to be a good one as it CVS did not have any stores in Northern CA and Arizona. Besides, the price also included real estate. It is also bought Caremark, one of the largest PBMs and changed the corporation name to CVS Caremark. When CVS bought 1,200 Eckerd stores, it formed a single-entity LLC (Limited Liability Company) to own each Eckerd store. Each LLC signs the lease with the property owner. In the event of a default, the owner can only legally go after the assets of the LLC and not from any other CVS-owned assets. Although the owner loses the guaranty security from CVS corporate assets, this author is not aware of any incident where CVS closes a store and does not pay rent.

3. Rite-Aid: Rite Aid was founded by Alex Grass (he just passed away on Aug 27, 2009 at the age of 82) and opened its first store in 1962 as "Thrif D Discount Center" in Scranton, Pennsylvania. It officially incorporated as Rite Aid Corporation and went public in 1968. By the time Alex Grass stepped down as the company's chairman and chief executive officer in 1995, Rite Aid was the nation's largest drugstore chain in terms of total stores and No. 2 in terms of revenue. His son, Martin Grass, took over but was ousted in 1999 for overstatement of Rite Aid's earnings in the late 1990s. Rite Aid is now the weakest financially among the 3 drugstore chains. In 2007, Rite-Aid acquired about 1,850 Brooks and Eckerd drugstores, mostly along the East coast to catch up with Walgreens and CVS. In the process, it added a huge long term debt and is the most leveraged drugstore chain based on its market value. The integration of Brooks and Eckerd did not seem to go well. Revenue from some of these stores went down as much as 20% after they change the sign to Rite Aid. In 2009, Rite-Aid had

over 4900 stores and over $26 Billion in revenues. The figures went down in 2010 to 4780 stores and $25.53 billion in revenue. On January 21, 2009 Moody's Investor Services downgraded Rite Aid from "Caa1" to "Caa2", eight notches below investment grade. Both ratings are "junk" which indicate very high credit risk. Rite Aid contacted a number of its landlords in 2009 trying to get rent concession to improve the bottom line. In June 2009, Rite Aid successfully completed refinancing $1.9 Billion of its debts. In 2012, Rite Aid benefits from Walgreens contract problem with Express Scripts. Same store sales increased 2.2%, 3.2%, and 3.6% for January, February and March of 2012, respectively. Rite Aid is still losing money in fiscal year 2012 which ended in March 3, 2012. However, it is losing less, $0.43 per share in 2012 versus $0.64 per share in fiscal year 2011. The company expects better outlook in fiscal year 2013.

Things to consider when invested in a pharmacy

If you are interested in investing in a property leased by drugstore chains, here are a few things to consider:

1. If you want a low risk investment, go with Walgreens. In stable or growing areas, the degree of safety is the same whether the property is in California where you get a 5.5% cap or Texas where you may get a 6.5% cap. So, there is no significant advantage to invest in properties in California as the property value is based primarily on the cap rate. In 2012, the offered cap rate for Walgreens seems to come down from 7.5%-8.4% in 2009 to 5.5%-6.5% for new stores.
2. If you are willing to take more risk, then go with Rite-Aid. Some properties outside of California may offer up to 9% cap rate in 2012. However, among the 3 drug chains, Rite Aid has 10.5% chance of going under in 2010. Should it declare bankruptcy, Rite Aid has the option to pick and choose which locations to keep open and which locations to terminate the lease. To minimize the risk that the store is shuttered, choose a location with strong sales and low rent to revenue ratio.
3. Financing should be an important consideration. While the cap rate is lower for Walgreens than Rite Aid, you will be able to get the best rates and terms for Walgreens.
4. If you are not a conservative investor or risk taker, you may want to consider a CVS pharmacy. It has BBB+ S&P credit rating. Its cap rate is higher than Walgreens but lower than Rite Aid. Some leases may offer better rent bumps. On the other hand, some CVS leases, especially for properties in hurricane areas, e.g. Florida are not truly NNN leases where landlords are responsible for the roof and structure. So make sure you adjust the cap rate down accordingly. Some of the CVS locations have onsite Minuteclinic staffed by registered nurses. Since this clinic idea was introduced recently, it's not clear having a clinic inside CVS is a plus or minus to the bottom line of the store.
5. All 3 drugstore chains have similar requirements. They all want highly visible, standalone, rectangular property around 10,000 - 14,500 SF on a 1.5 - 2 acre lot, preferably at a corner with about 75 - 80 parking spaces in a growing and high traffic location. They all require the property to have a drive-thru. Hence, you should avoid purchasing an inline property, i.e. not standalone and property with no drive-thru windows (about 20% of Walgreens locations do not have drive-thru windows). There is a chance that these drugstores may not want to renew the lease unless the property is located in a densely-populated area with no vacant land nearby. In addition, if you acquire a property that does not meet the new requirements, for example a drive-thru, you may have a problem getting financing as lenders are aware of these requirements.
6. If the drugstore is opened 24 hours a day, it is in a better location. About 20% of Walgreens stores open 24 hours a day. Drugstore chains do not open the store 24 hours day unless the location draws customers.
7. Many properties may have a percentage lease, i.e. the landlord can get additional rent when the store's annual revenue exceeds a certain figure, e.g. $5M. However, the revenue used to compute percentage rent often excludes a page-long list of items, e.g. wine and sodas, tobacco products, items sold after 10 PM, drugs paid by governmental programs. The excluded sales revenue could account for as much as 70% of store's gross revenue. As a result, this author has seen only 2 stores in which the landlord is able to collect additional percentage rent. The store with a percentage rent is required to report its annual sales to the landlord. As an investors, you want to invest in a store with strong gross sales, e.g. over $500 per square foot a year. In addition, you also want to check the rent to revenue ratio. If the figure is in the 2-4% range, the store is likely to be very profitable so the chance the store is shut down is low.
8. It does not matter how good the tenants are, avoid investing in declining, e.g. Detroit and/or low-income areas or small towns with less than 30,000 residents within 5 miles ring. In a small town, it may be the only drug store in town and captures most of the market share. However, if a competitor opens a new location in the area, revenue may be severely affected. In addition, the tenant can always moves to a new building down the road when the lease expires since there is low barrier to entry in a small town. These properties are easy to buy now and hard to sell later. When the credit market is tight, you may have problems finding a lender to finance these properties.
9. Many properties have an existing loan that the buyer must assume. If you have a 1031 exchange, think twice about buying this property. You should clearly understand loan assumption requirements of the lenders before moving forward. Should you fail to assume the existing loan (assuming an existing loan is a lot more difficult than getting a new loan), you may run out of time for a 1031 exchange and may be liable to pay capital gain.
10. With few exceptions, drugstore chains do not own the stores they occupy for several reasons. Here are just a couple of them:
   - They know the pharmacy business but don't know real estate. Stock investors also don't want Walgreens to become a real estate investment company.
   - Owning the real estate will require them to carry lots of long term debts which is not a brilliant idea for a publicly-traded company.
11. About 10% of the drugstore properties for sale and typically CVS pharmacies require very small amount of equity to acquire, e.g. 10% of the purchase price. However, you are required to assume an existing fully-amortized loan with zero cash flow. That is, all of the rent paid by the tenant must be used to pay down the loan. The cap rate may be in the 7-9% range, and the interest rate on the loan could be attractive in the 5.5% to 6% range. Hence, the investor pays off the loan in 10 to 20 years. However, you have no positive cash flow. This requires you to come up with outside cash to pay income tax on the rental profits (the difference between the rent and mortgage interest). The longer you own the property, the more outside cash you will need to pay income taxes as the mortgage interest will get less and less toward the end. So who would buy this kind of property?
   - The investors who have substantial losses from other investment properties. By acquiring this zero cash flow property, they may offset the income from the drugstore tenant against the losses from other investment properties. For example, a property has $105,000 of rental profits a year, and the investor also has losses of

$100,000 from other properties. As a result, the combined taxable profits are only $5,000.

- The uninformed investors who fail to consider that they have to raise additional cash to pay income taxes.

Out of the Box Thinking

If you put too much weight on the S&P rating of the tenants, you may end up either taking a lot of risks or passing up good opportunities.

1. A Good location should be the key in your decision on which drug store to invest in. It's often said a lousy business should do well at a great location while the best tenant will fail at a lousy location. A Walgreens store that is closed down later on (yes, Walgreens closed 133, 120, and 129 stores in 2011, 2010, and 2009, respectively) is still a bad investment even though Walgreens continues paying rent on time. So you don't want to blindly invest in a drug store simply because it has a Walgreens sign on the building.

2. No company is crazy enough to close a profitable location. It does not take rocket science to understand that a financially-weak company like Rite Aid will make every effort to keep a profitable location open. On the other hand, a financially-strong Walgreens will need justifications to keep an unprofitable location open. So how do you determine if a drug store location is profitable or not if the tenant is not required to disclose its profit & loss statement? The answer is you cannot. However, you can make an educated guess based on the store's annual gross revenue which is often reported to the landlord as required by the percentage clause in the lease. With the gross revenue, you can determine the rent to income ratio. The lower the ratio, the more likely the store is profitable. For example, if the annual base rent is $250,000 while the store's gross revenue is $5M then the rent to income ratio is 5%. As a rule of thumb, it's hard to make a profit if this ratio is more than 8%. So if you see a Rite Aid with 3% rent to income ratio then you know it's likely a very profitable location. In the event Rite Aid declares bankruptcy, it will keep this location open and continue paying rent. If you see a Rite Aid drug store with 3% rent to income ratio offering 10% cap, chances are it's a low risk investment with good returns and the tenant will most likely to renew the lease. The weakness of corporate guaranty from Rite Aid is probably not as critical and the risk of having Rite Aid as a tenant is not really that significant.

3. Drug stores with new 25 years leases tend to sell at lower cap, e.g. 6-7% cap on new stores versus 8.0-8.5% cap on established locations with 5-10 years remaining on the lease. This is because investors are afraid that the tenants may not renew the leases. Unfortunately, lenders also have the same fear! As a result, many lenders will not finance drug stores with 2-3 years left on the leases. The fact that drugstores with new leases have a premium on the price means they have potential of 20% depreciation (buying new at 6% cap and selling at 7.5% cap when the leases have 8 year left). Some investors will not consider investing in drug stores with 5-10 years left on the lease. They might simply ignore the fact that the established stores may be at irreplaceable locations with very strong sales. Tenants simply have no other choices other than renewing the lease.