

Drugstores: Healthy Tenants, But Maybe A Little Nauseous

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CVS reported net income of \$1.9B, or \$1.49 per share, up from a net loss of \$2.56B, or \$2.52 per share, in the second quarter of last year. On an adjusted basis, CVS reported earnings per share of \$1.89 for Q2 2019. While good news from CVS soothed market fears, drugstores are vulnerable in the face of competition from Amazon, other online retailers and the retail community's rapidly changing consumer expectations.

A February report from JLL on the single-tenant net lease market showed landlords still desire single-tenant retailers. But JLL researchers waved a few red flags when it came to single-tenant pharmacies like CVS and Walgreens. "The uncertainty continues to mount within the pharmacy space with continued pressure from Amazon and other internet retailers who are taking market share and have spent significant amounts of capital to compete in this space," the JLL report concluded. Despite challenges ahead for drugstores, Wall Street is indicating store closings reported by Walgreens in August, and CVS in May, actually prove these two retailers remain aware of how to rightsize their store footprints in the face of online competition and changing market dynamics.

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