NET LEASE forum

The On-Line Newsletter
from the Editors of
Real Estate Forum and GlobeSt.com
December 2, 2003 Vol 1. No.19

INDUSTRY UPDATE

Capital Lease Funding Files For $230M IPO

New York-based **Capital Lease Funding LLC** plans to go public as a REIT with a $230-million IPO. The new company, to be called **Capital Lease Funding Inc.**, will be traded on the New York Stock Exchange. It will expand beyond its historic focus as a debt financier for credit-tenant-leased properties to target all pieces of the capital structure and expand its fee-based financial advisory services.

"We intend to invest across the net-lease market through a variety of structures, including development, acquisition and ownership of net-lease properties, joint ventures to develop and acquire net-lease properties, first mortgage financing, junior and mezzanine financing for owners of net-lease properties and corporate credit notes, a proprietary 10-year credit-tenant loan product that we developed," the company says in its Securities and Exchange Commission filing.

"Historically, we have sold substantially all of the loans we originated," the filing further states. "Following this offering, we intend to retain ownership of a significant portion of our assets, and finance those assets primarily through long-term fixed-rate financing structures. Many of our net-lease assets and securities investments are expected to be term-financed through the use of collateralized debt obligations or CDOs. We may use long-term mortgage debt to finance our equity net-lease investments." Paul McDowell, CEO of the company, declined to comment while the SEC reviews its filing.

Paul McDowell, CEO of Capital Lease Funding

CLF has originated, structured and closed more than $2.4 billion in net-lease transactions since 1996, including participating in four securitizations totaling $1.5 billion. It boasts no defaults or delinquencies in its past transactions. The company's portfolio had a total of $53.47 million of loans at the end of the third quarter, with many-fold more in the due diligence, pipeline or term sheet stages. Portfolio tenants include **Albertson's Inc.**, **CVS Corp.**, the **United States Postal Service** and **Walgreen Co.**

The company is currently owned by senior management; **Wachovia Investors Inc.**, an affiliate of Charlotte-based Wachovia Bank NA; its chairman, **Lewis S. Ranieri**; and **Hyperion Partners II LP**, one of a family of investment funds controlled by Ranieri with offices in New York City and Uniondale, NY. Assuming the IPO hits the market, the offering will be the second of a net-lease-focused REIT within a year for Ranieri, who is also chairman of Jenkintown, PA-based **American Financial Realty Trust**, which is focused on net-leased bank and financial institution properties.

CLF's offering is being underwritten by **Friedman Billings Ramsey Co.** and **Wachovia Securities**. The number and price of shares have not been determined. The company filed for an IPO back in 1998 with a very different business model that would have focused on originating loans and then securitizing them, essentially serving as a CMBS conduit. But after the debt market meltdown that fall, the plans were postponed and eventually withdrawn.

▸▸▸ Continued on page 2

NETLEASE INSIDER

Barclay G. Jones III

New York City-based REIT ***iStar Financial Inc.*** *has grown its corporate tenant lease assets from just 9% of its portfolio at the end of 1998 to almost 42% at the end of the third quarter of 2003.* ***NET LEASE forum*** *spoke with EVP Barclay G. Jones III about the company's strategy and investment activity.*

Q: What was the strategy behind pumping up the CTL business line?

A: It's a very complementary line to the original business of iStar for a couple of reasons. One is that it really provides a very long-term stream of earnings, so the duration of that portfolio is much greater than the duration of the debt portfolio. That's pretty significant, because one of the ways we got to that 42% of assets is that we bought **TriNet Corporate Realty Trust Inc**. And TriNet's leases were under five years by the time the

▸▸▸ Continued on page 5

INDUSTRY UPDATE Continued from page 1

BentleyForbes Expands Scope Beyond Single-Tenant Assets

Citing a desire to double its portfolio in a few years, Los Angeles-based **BentleyForbes** has expanded its investment horizons beyond its traditional net-lease focus. The privately funded company is targeting multi-tenant as well as single-tenant properties to achieve its expansion goals in the midst of an investment market in which buyers are paying significant premiums for well-leased properties.

"We're trying, over the next three years, to increase our assets to $3 billion, and we are not sure that we can do that all from the net-lease side," says president C. Frederick Wehba III. "It's not that we don't like triple-nets—we love them—but it's just not always easy to get them."

The company recently purchased eight suburban office buildings totaling about 700,000 sf from the **Evergreen Co.** for $134 million. Of the eight assets, which are located in Roseville, Folsom and Rancho Cordova, CA, six are single-tenant properties leased to tenants like **Agilent Technologies**, **Verizon Wireless** and the **State of California**.

It is also disposing of older assets to redeploy the capital into new acquisitions, and recently sold a 200,000-sf manufacturing facility leased to **Gruma Corp.** in City of Commerce, CA, to **CDC Acquisitions LLC** for about $15.75 million.

BentleyForbes' expansion beyond single-tenant properties isn't necessarily indicative of a greater trend among net-lease investors. "In general, I don't see guys who are in the triple-net business switching over to the multi-tenant business, unless it's a very long-term strategic plan for them," says Steven P. Bardsley, first vice president of **CB Richard Ellis**. "You're not going to do it short-term. The infrastructure makes it really tough to do that—you become a real estate management company."

Net-Lease Supply at 10-Year Low; 2 Years Until Catch Up With Demand

As of mid-November, the **Boulder Group** was tracking 3,198 net-leased office, industrial and retail properties on the market. But that $11.2 billion in properties isn't enough to satiate investor appetite, according to the Northbrook, IL company's fourth-quarter report, which says the net-lease market "is at least two years away from catching up with the demand."

Investors with large amounts of equity to invest stand to have the biggest choice among potential investments, since the report notes that 62.7% of the overall pool of available properties is priced at more than $3 million. For investors with small amounts of equity, their most ample opportunities are within the retail sector, where approximately 75% of available properties is priced at less than $3 million. That compares to the industrial sector,

▸▸▸ Continued on page 3

RECENT TRANSACTIONS

▸ **Triple Net Properties** and 21 tenants-in-common purchased the 286,780-sf Parkway Corporate Plaza in Roseville, CA for $63.65 million. Triple Net was represented in-house and **CB Richard Ellis** sat in for the seller, **Parkway Corporate Plaza LLC.** Financing from **Bear, Stearns & Co.** was arranged by Triple Net and **L.J. Melody & Co.**

▸ **CenterPoint Properties Trust** will construct a 700,000-sf build-to-suit for **DSC Logistics** at CenterPoint Intermodal Center in Elwood, IL. The building is scheduled to be completed in July 2004.

▸ The 16-screen **Consolidated Harbour View Grande** in Suffolk, VA was purchased by **Entertainment Properties Trust** for $12 million. Consolidated Theatres continues to operate the megaplex.

▸ **CarrAmerica Realty Corp.** paid $51 million for **Cell Genesys Inc.'s** office and lab building at 500 Forbes Blvd. in South San Francisco. The firm continues to occupy the building.

▸ An almost $3.2-million construction loan was arranged by **Cohen Financial** for a 15,348-sf single-tenant retail property in Rohnert Park, CA. The two-year loan features an 80% LTV and pricing based on the one-month Libor.

▸ **CNL Retirement Properties Inc.** agreed to buy 22 seniors-housing facilities from **EdenCare Senior Living Services LP** for $171 million. **Harbor Retirement Associates LLC** will be the tenant and **Sunrise Senior Living Inc.** will manage the properties. Separately, CNL agreed to buy three more properties from EdenCare for $27 million; those will be leased and operated by Harbor.

▸ A $1.3-million refinance loan was arranged by **BMC Mortgage** for a **Wendy's** in Escondido, CA. The 15-year fixed-rate loan, with a 25-year amortization, was priced at Prime plus 0.25%.

▸ **Inland Retail Real Estate Trust Inc.** acquired three triple-net leased grocery stores. It paid the **Mallie Bert Storey Family LP** $4.05 million for a 41,581-sf **BI-LO** supermarket in Greenwood, SC. And it bought two **Super Stop & Shops** from **Eastern Development**, paying $11.04 million for an 80,713-sf supermarket in Seekonk, MA and $13.1 million for a 68,509-sf store in Manchester, CT.

INDUSTRY UPDATE Continued from page 2

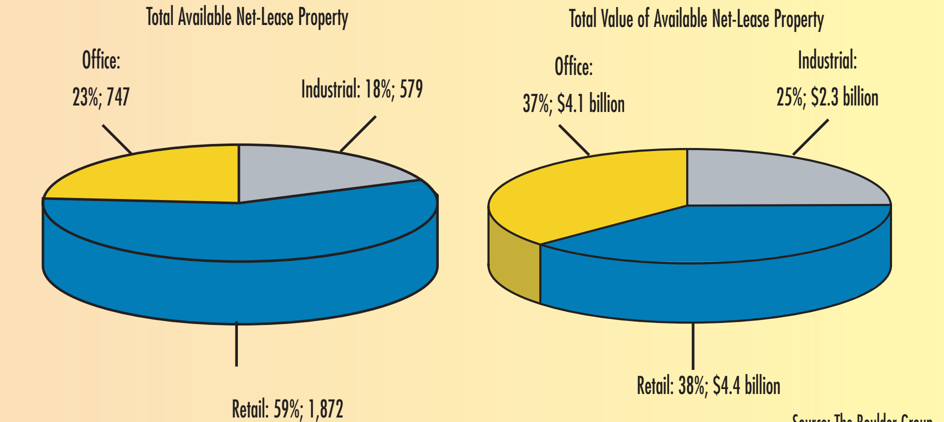
where more than 53% is less than $3 million, and the office sector, where less than 50% is priced at less than $3 million.

The report also discusses the availability of properties at various price points and cap rates. Based on those numbers and other factors, it concludes that now may be an ideal time to sell net-leased industrial assets, and indicates that investors may get the best returns on office properties either under $5 million or over $10 million. Among the report's other findings is that Georgia, Arizona, Florida, California and Texas have the greatest number—more than 56%—of available properties relative to their size by population. New York, New Jersey, Michigan, Pennsylvania and Massachusetts, on the other hand, have the smallest number of net-lease investment opportunities, together representing just 2.7% of properties on the market.

For details, see chart below.

MARKET OVERVIEW: NET-LEASE PROPERTIES

More than 3,000 net-lease properties worth $11.2 billion aren't enough to satisfy investor demand. Here's a look at how they break down:



Source: The Boulder Group

PlainsCapital Adds QI Expertise With Assurance 1031 Purchase

As the use of 1031 exchanges to defer capital-gains taxes on investment-property sales continues to grow, so too do the companies looking to offer qualified-intermediary services to help facilitate these transactions. The latest case in point: Dallas-based financial services firm **PlainsCapital Corp.** has acquired qualified-intermediary **Assurance 1031 Exchange LLC**, previously based in nearby Euless, TX.

Assurance has been folded into PlainsCapital as a subsidiary of its title insurance company, **Capital Title of Texas**. Both are headed up by CEO Marc Miller, while Assurance 1031 Exchange co-founder Peggy Krauss will serve as president of the QI. The company handled more than $60 million in exchange proceeds for clients around the country since its 2001 formation, and expects to handle more than $100 million in 2004.

"They really know the market. We have some built-in success there."

▸ **Alan B. White**
PlainsCapital Corp.

According to PlainsCapital chairman and CEO Alan B. White, the 1031 exchange expertise was a natural fit for his company as it expands to serve the needs of its affluent individual, business and real estate investor clients. "We're in the financial service business. A lot of what we do is in the real estate lending business and asset management." He adds of Assurance 1031 Exchange: "They really know the market. We have some built-in success there."

Followup: O'Charley's Leaseback CNL Restaurant Capital Is Buyer

The Nov. 18 issue of ***NET LEASE forum*** reported on a $50-million sale-leaseback by Nashville-based restaurant operator **O'Charley's Inc.** While we suspected who the buyer was, we couldn't confirm it by press time. But sure enough, the acquirer was **CNL Restaurant Capital LP**, a subsidiary of non-traded REIT **CNL Restaurant Properties Inc.** and part of Orlando-based **CNL Financial Group Inc.**

A CNL Restaurant Capital executive couldn't comment on any transactions, but the company issued a statement after our inquiries. In it, EVP and national sales manager Robb Chapin said, "O'Charley's is an outstanding operation and CNL is excited to assist them in their overall strategic development by providing one of the largest sale-leaseback programs in recent years in the restaurant industry." CNL Restaurant Capital is a partnership with **Bank of America** that provides financial and real estate services to franchise restaurants.

RATINGS UPDATE

▸ Fitch Ratings affirmed its BB+ senior unsecured rating of **Toys "R" Us Inc.** but changed its outlook to negative from stable. The change "reflects persistent weakness in the company's US toy business, and growing competitive pressure from **Wal-Mart** and **Target**," according to Fitch, and followed the company's announcement that it will close its 146 **Kids "R" Us** and 36 **Imaginarium** freestanding stores. Standard & Poor's Ratings Services also affirmed the retailer's ratings and revised its outlook to negative.

▸ The short- and long-term debt ratings of **Nissan Motor Co.** and subsidiaries were placed on review for a possible upgrade by Moody's Investors Service, which cited "Nissan's continued good operating performance, rapidly improving leverage and cash flow coverage ratios."

▸ S&P changed its outlook for **Home Depot Inc.** and **Lowe's Cos. Inc.** The former was revised to stable from negative, while the latter was revised to positive from stable. "The outlook revisions reflect a continued favorable outlook for the sector and strong sales performance by both companies in the third quarter," according to S&P.

▸ Fitch downgraded the senior unsecured rating of **Schering-Plough Corp.** to A- from A+ "in light of many operational challenges existing for the company through the long term." The outlook is negative. Moody's, however, affirmed its ratings and has a stable outlook for the company.

▸ S&P revised its outlook on **Dillard's Inc.** to negative from stable, reflecting "disappointing sales and earnings for the fiscal third quarter." Its ratings were affirmed.

▸ Moody's affirmed the ratings of **El Paso Corp.** but changed its outlook to negative from developing. "The confirmation acknowledges El Paso's current liquidity position and recent moderation of its cash burn rate," according to Moody's. "Nevertheless, the reduction in outlook reflects concerns about the continuing erosion in cash flows from operations before working capital changes."

NET LEASE forum
The On-Line Newsletter from the Editors of *Real Estate Forum* and *GlobeSt.com*

NET LEASE forum Vol.1 No. 19 December 2, 2003

President & CEO: Jonathan A. Schein
Group Managing Director: Michael G. Desiato

REAL ESTATE MEDIA ONLINE NEWLETTER DIVISION
Vice President: Anthony Karwoski
Editorial Director: Jackie Day
Editor: Michelle Napoli
Creative Director: Scott Thompson

For Editorial Feedback & News Leads:
Contact Michelle Napoli at 212.628.9254 or netleaseforum-feedback@remediainc.com

Subscriptions: $395 per year (24 issues)
Subscribe online at https://secure.remediainc.com/app/newsletter/index.jsp or contact Wendi Grinnell at 212.255.3620.

For Advertisement Opportunities:
Contact Anthony Karwoski at 212.645.3825 or akarwoski@remediainc.com

For Reprints:
For quantities of 500 or more, please contact our Reprint Division, via email at reprints@remediainc.com

Real Estate Media Online Newsletters:
NET LEASE forum; MULTI HOUSING forum; GlobeSt. WEEK; COMMERCIAL DESIGN forum.

Other Real Estate Media Products:
Real Estate Forum, GlobeSt.com, Real Estate Mid-America, Real Estate New Jersey, Real Estate New York, Real Estate Southern California, RealShare Conference Series, Forum PLUS Leadership Guides

Executive Office
520 8th Ave.,Floor 17, New York, NY 10018
T: 212.929.6900 • F: 212.929.7124

NETLEASE INSIDER Continued from page 1

deal closed, so we've really pushed that duration out since that acquisition.

Q: You joined the company through American Corporate Real Estate LLC not long after. With this expertise in-house, is iStar able to grow this business more organically?

A: Very much so, and the way we've been able to lengthen our lease duration is, essentially, we've sold off some TriNet assets, and in direct negotiation with our existing portfolio we've lengthened leases. And where we've bought assets, we have essentially longer duration assets with 15- or 20-lease terms.

Q: Is 42% a target or do you expect to grow the CTL business more?

A: It's pretty close to our target. The business is one you have to balance. Right now short rates and long rates are very low, so for us to go out and load the boat, so to speak, with long-term net-lease assets—we have to be careful about that. We're seeing cap rates the lowest they've been at least in my career. I'm not saying they can't go lower, but based on my experience the probability is they'll be higher. We have a sizeable component where we can look through and see corporate credit in our debt portfolio as well—not necessarily that we're lending against bond-type net-lease deals, but where we're lending against an office building with significant long-term credit anchoring it.

Q: You do both equity investments and debt financing for net-lease properties. Does one have more focus?

A: No, we view them as very complementary, because what we're trying to do is find the best-priced piece of the capital structure by risk vs. reward.

Q: How competitive do you consider the net-lease acquisition environment today?

A: I guess I've always seen it as very competitive. I've never particularly viewed my competition as one buyer or another; that's always your competition to some extent, but remember we're dealing with large corporations that have a multitude of financial alternatives available to them. So we've always had competition in terms of debt rates, the subordinated debt market, the long-term unsecured bond market, banks—almost any corporate finance vehicle out there.

We have seen more competition on the actual purchase of net-lease properties, but we've also seen an awful lot of companies become more willing or accepting of doing some kind of structured finance for their real estate portfolio. The two have happened in concert. I think inherently we have a cost-of-capital advantage over most other vehicles or real estate operators. The guys that will "beat" us on something that we would like to buy more often than not have some kind of tax angle or motivation. That element has always been out there, but I think it's much more prevalent.

Q: Tell us about your recent acquisition of the Plaza 10 at Harborside Financial Center in Jersey City, which the tenant is subleasing.

A: That was a win-win for us and [tenant] **Charles Schwab & Co.** and probably for [seller] **Mack-Cali Realty Corp.** as well. They got to sell at a pretty good price, and we got to buy what we thought was a good long-term A credit.

From a residual standpoint we thought that, relative to a lot of what we see out in the market, there was a pretty low risk residual component. And from Schwab's perspective what they're seeing is that it's a lot easier to retenant a facility that you aren't going to occupy—at least not to the extent you thought you were when you signed the lease—if you can have an unfettered right to do that without competing with your landlord. They've been able to announce a string of deals and we think that's healthy for us as the owner of the property.

We've got Schwab's credit, which is good, plus we have the credit of their subtenants, so we've got double protection. From our perspective, if something happened to Schwab, we'd like to have it fully leased to a bunch of other tenants. But ultimately Schwab is responsible for paying the rent. We entered into a modified lease that is effectively a triple-net; it was not when Mack-Cali had it.