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TOP STORY: New TIC Sponsor, Gibraltar, Closes First Deal

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A new entrant in tenant-in-common sponsor circles, **Gibraltar Holdings LLC**, has closed its first deal: a 100,551-sf **Edwards** movie theater with 18 auditoriums in San Marcos, CA. The property was sold to Gibraltar for \$21 million by sister company **Captec Financial Group Inc.** and then syndicated to 29 investors, 28 of which were completing 1031 exchanges.

Gibraltar managing member Russell Geyser, based in San Diego, says the company is in the process of closing its second TIC investment, a \$42-million apartment property. While it has a potential source of properties in the inventory of Captec, Geyser says the company is sourcing deals from other sellers as well. It is not, however, looking to crank out as many TIC deals as it can find investors for, especially given today's investment market supply and demand dynamics.

"There are so many people bringing to market product that I'm not enamored with. And people will buy it, because they're at the end of their identification period or they just believe in the yield, and we see ridiculous assumptions," says Geyser. "We're not attempting to become a machine. We know there are a lot of sponsors out there who create a lot of overhead and are looking to do more and more business. That's not our business plan—our business plan is strictly two to four truly compelling opportunities [a year], things that we personally would love to own a piece of, and bring in people to own it with us."

According to Geyser, who was a founding partner of real estate developer **Wilton Partners**, that's pretty much how Gibraltar was formed. "I saw this phenomenal movie theater where we go to take our kids to the movies and I said, 'I would just love to own this,'" Geyser relates. "And a friend of mine who's a broker in the Bay Area said, 'Well, I know who owns that. It's (Captec chairman and CEO Patrick) Beach.'.... When I met with Pat, Pat said, 'I actually considered doing a TIC deal on that.' And I said, 'Well I've been studying that market for about a year and a half. I think it's a great business, I'm just not sure what product to start it with.' And he said, 'Well, let's start it with this one.'"



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TIC interests in the Edwards property (the fifth-highest grossing theater in **Regal Entertainment Group's** chains, according to Geyser) were sold through Salt Lake City-based **OMNI Brokerage Inc.** Gibraltar's TICs are structured as securities for their marketing and sales, based on the company's legal advice. "It adds a lot of costs, which is a big negative," Geyser says. "Our attorney just doesn't feel comfortable with it as a real estate model, he feels comfortable with it as a security model."

For Captec, an Ann Arbor, MI-based company which buys and sells net-leased properties among its real estate investments, the growing TIC business is another valuable exit strategy, says managing director Joanna Zabriskie: "It's a great additional disposition exposure for our larger assets." —*Michelle Napoli*

INSIDER: Case Study: Central Garden & Pet Co.

*For all the benefits that can be had from investing in single-tenant, net-leased properties, nothing quite drives home their risks like the prospect of a tenant leaving a building wholly vacant. In this **NET LEASE forum** case study, we examine a recent renegotiation of an industrial property lease otherwise set to expire on Memorial Day.*

The **Central Pet** division of Lafayette, CA-based **Central Garden & Pet Co.** has had one of its major distribution centers in the 210,000-sf building at 301 Island Rd., Mahwah, NJ, since 1996. That was the year it acquired another pet supplies company, **Kenlin Pet**, which already distributed from the location. Through the acquisition it inherited use of the property and its lease, which was set to expire on May 31 without the exercise of two- and three-year renewal options that would have kept its rental payments at an above-market rate.



Central Pet's distribution facility

Two years ago, the company engaged **Newmark & Co. Real Estate Inc.** to examine a series of fairly typical corporate real estate questions: Do we stay in this location and renew our lease? Or is there another location from which we can operate more efficiently and at a cost savings? And just how do we make those determinations?

Newmark was brought on board via Nick Cangemi, associate director of the real estate

services firm's Long Island office, through Cangemi's acquaintance with a Central Pet executive at the time. Newmark began studying the company's business—looking at its books for the past few years, examining its trucking routes and customer locations and analyzing what kind of figures it needed to generate. The facility serves an area as far east as Ohio, north up to the Canadian border and south to Virginia.

"We wanted to make sure that, based on our current sales patterns and existing customer base and their locations, we were in the right geographic location," notes Mark Cavanaugh, president of Central Pet. "And also, within the geographic location, what were market rates on leases?"

That process led the firm to consider a roughly 300-mile radius from the Mahwah property. Ultimately, Newmark concluded that Central Pet should relocate to northeastern Pennsylvania. Doing so, says Cangemi, would have meant lower rents, cheaper wages, various state incentives and the opportunity to build a bigger and better distribution facility. "It made sense all the way down the line," says Cangemi.

Not so fast. As it turns out, Central Pet, which has grown over the years through corporate acquisitions, may very well pursue more in the future. Taking on a new 10-year obligation wasn't necessarily the best idea for the company.

And so Cangemi, with the help of Dan Frankel, principal in Newmark's Woodbridge, NJ office, began looking even closer at the distribution space marketplace in the Mahwah vicinity and approached 301 Island Rd.'s owner about renegotiating a new lease.

The location "works real well," says Cavanaugh. "We came to the conclusion that if we could get the right deal in Mahwah, we should stay; if not, we should move." And, he adds: "We needed to be positioned for the next seven to 10 years."

What resulted from negotiations with attorney Robert Lang, who was representing the owner, the estate of his father Meyer Lang (who once owned Kenlin Pet and had originally bought the property for the business), was essentially a new triple-net lease. The seven-year lease required the landlord to make certain improvements to the property, such as new lighting, landscaping and updating some of the loading docks in exchange for keeping its tenant in place, but also gave Central Pet what it really wanted: a cheaper rental rate and the flexibility of a lease that can be canceled after the first three years. In order to exercise that right, Central Pet must give the landlord six months' notice plus advance payment of six months' rent.

"We went to the landlord and said, 'Look, give us these numbers and we will stay. Fix the building and we will stay. And that way everyone's happy. But, we also need some flexibility,'" says Cangemi. "Should we need to move in three years, you've got to give us

the ability to get out without too much penalty.”

“Obviously having one tenant has advantages and disadvantages,” says Lang. “The advantages are that you don’t have to chase several people, you only have one person you’re dealing with, and so long as they’re creditworthy, you’re in good shape. The bad thing is that you have a decision to make when a lease comes due or there’s an option as to whether or not you want to say, ‘You can stay’ or ‘You can leave.’ It all depends. Certainly you don’t maximize the potential income as a result of it necessarily, but by the same token, an entire building empty for a significant period of time can have a serious effect on your cash flow.”

“At a different time and a different place I may have done something else,” Lang adds. “But this worked out fine.”—*MN*

One Lincoln Street Loan To Be Securitized

Standard & Poor’s Ratings Services has assigned preliminary ratings for \$311 million of One Lincoln Street Commercial Mortgage Trust certificates. The securities, to be sold to qualified institutional buyers and international investors, are backed by a **Lehman Brothers** first mortgage on the Boston property. The new office building was acquired by **American Financial Realty Trust** four months ago and is now known as State Street Financial Center, named after its sole occupant, **State Street Corp.**

The preliminary ratings range from AA- to AAA. Lehman provided a total of \$520 million of debt financing for the \$705.4 million buy and, according to S&P, another \$209 million will be included in future securitization transactions.

Although AFR worked with State Street to renegotiate terms of its then-gross lease, S&P’s pre-sale report notes the building obligations still borne by the owner. “The borrower is responsible for capital expenditures to the base building, including the roof, exterior, load-bearing walls, foundation, life safety, alarm and security systems, heating ventilation and air conditioning and other building systems,” the report states. “In addition, the borrower is responsible for maintenance of the building structure and replacement of the garage concrete slab, if required.” The new lease, which requires State Street to pay all operating expenses above an annual \$16.4-million cap, expires on Sept. 30, 2023, not including renewal options.—*MN*

Sector Watch: Supermarkets: Competitive Pressures Mounting

While some supermarket chains are growing—**Publix Super Markets Inc.**, for one, plans to open 57 new stores before the year is done—others are shrinking, like **Winn-Dixie Stores Inc.**, which is closing or selling 156 stores to try to boost its bottom line. But expanding or contracting, supermarket chains from the Big Three on down all face an increasing competitive challenge from less-than-traditional sources.

It's a trend that shows no sign of letting up.

Results from the Washington, DC-based **Food Marketing Institute's** 2004 report, *Trends in the United States: Consumer Attitudes & the Supermarket*, offer quantitative proof of the trend. "Compared with 2003, the move to discount shopping continues to grow," the report states. "In 2004, Trends finds that only 72% of the shoppers name a traditional supermarket as their primary grocery store. For about one of five shoppers (21%), their primary grocery store is a discount store or supercenter. Discount stores and supercenters have made the greatest inroads in the South and the Midwest."

"The proportion of consumers who regularly shop at discount stores for grocery items has risen slightly but steadily since 2000," the report also states. "Three out of 10 shoppers now say they shop for groceries at discount stores or supercenters pretty much every time they shop or fairly often."

"In terms of the Wal-Mart factor, it will continue," says Mary Lou Burde, a director at **Standard & Poor's Ratings Services** in New York. "They're the single biggest threat, and they're opening 230 supercenters a year in the country. So that's clearly for the next several years going to continue to be an issue."

Elaine Francolino, a VP and senior credit officer with **Moody's Investors Service** in New York, agrees. "You're going to have more competition from the discounters just by virtue of the fact that they'll be growing," she says, adding: "Oftentimes when discounters move into a market, they're more likely to take share from smaller chains than larger chains. But the issue for the larger chains is that they also still compete with each other. We've seen the larger chains saying that they ultimately have to reduce the gap between their prices and Wal-Mart's. So we've seen margins be impacted by that. And there's every reason to think



Increasing competition from stores like Wal-Mart is putting pressure on traditional grocery stores.

that this will all continue, although some inflation and the return of good economic times will certainly help the supermarkets.”

In addition to discount giant Wal-Mart, supermarkets are competing more and more with other kinds of retailers for consumers’ grocery dollars. Dollar stores constitute one segment. Other discounters are another; Burde notes that **Target** is adding more food even to its basic store format. Convenience stores are yet another. And then there are the drug stores adding foodstuffs to their aisles.

“To the extent that you can get your quart of milk at **7-Eleven** or at a dollar store or at a drugstore, that is potentially reducing the number of times you’re in the supermarket,” notes Francolino. “All of those are serious competitors.”

“It’s an attractive market, and I think stores that figure that they can sell a little incremental food are going to get more customers in the door and more sales,” adds Burde.

Supermarkets are working on countering the trend. The Big Three chains in particular—**Kroger, Albertsons** and **Safeway**—are focusing on narrowing the pricing gap, cutting costs elsewhere in their operations to offset price reductions and differentiating themselves with, say, better perishables, convenient store layouts and better service. They also are examining which markets are giving them the best results.

“Certainly, all the players are looking at beefing up the markets where they think they can win, leaving markets where they think they can’t,” says Burde. “That’s what Winn-Dixie did. And even the strongest players have exited selected markets.”—*MN*

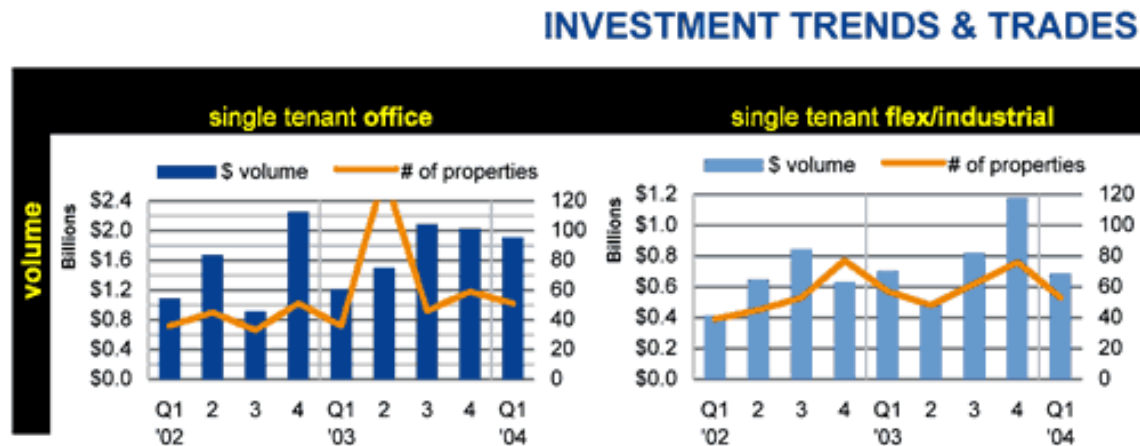
Short Takes: CVS Corp., American Financial Realty Trust, Lexington Corporate Properties Trust

- While Woonsocket, RI-based **CVS Corp.** may be planning on closing a few hundred of the **Eckerd** stores it is buying, it is also entering the state of California. And its acquisition of part of the Eckerd chain is expected to have “a dramatic increase in the number of credit tenant, net-leased drugstores on the market,” according to a recent research report from the **Boulder Group** of Northbrook, IL. “CVS traditionally does not have a large number of stores available due to their widely criticized corporate real estate strategy and the number of zero cash flow deals that such strategy generates,” the report states.
- **American Financial Realty Trust** president and CEO Nicholas Schorsch and **Bank of**

America SVP Robert Patterson presented “Case Study: Asset Management and Portfolio Optimization,” an analysis of their major transaction last summer, at the recent **CoreNet Global** Summit in Chicago. The transaction between the Jenkintown, PA-based REIT and the bank, headquartered in Charlotte, NC, was studied as part of CoreNet’s “Corporate Real Estate 2010: Enabling Work in a Networked World” research and leadership development initiative.

- The board of trustees of **Lexington Corporate Properties Trust**, New York City, recently reconfirmed its previous authorization to repurchase outstanding common shares. The original repurchase authorization, from November 1999, was for up to 1 million shares, of which 439,421 have been acquired.—*MN*

Chart: Single-Tenant Office & Industrial



1Q Single-Tenant Office and Industrial Properties

The first quarter saw a decline in both the dollar volume and the number of single-tenant office and industrial properties changing hands as compared to the previous quarter. The data, from New York-based **Real Capital Analytics**, reflects properties and portfolios of \$5 million or greater.

Source: Real Capital Analytics

Recent Transactions

- **ARC Properties Inc.** has purchased both condominium interests in Center City Philadelphia’s Allman Building on Rittenhouse Square. One acquisition, on behalf of **ARC**

Wheeler Group, involved 33,000 sf on the top five floors, which serve as the corporate headquarters of retailer **Urban Outfitters** and is leased through 2011. The other, on behalf of **ARC Corporate Realty Trust**, involved the remaining 23,000 sf on the first three floors of the building, leased to **Barnes & Noble** through 2017.

- Two freestanding single-tenant retail buildings in Athen, GA were purchased by **One Liberty Properties Inc.** for \$5.63 million cash. Totaling 41,280 sf, the buildings are leased to **Michaels Stores Inc.** and **Office Depot Inc.**, both expiring in 2014.
- **Capital Lease Funding Inc.** recently logged more than \$85 million of forward-funding commitments and/or rate locks in a month's time. The commitments and locks, ranging from four to 15 months, are for borrowers and sellers of net-leased properties with such tenants as **Walgreens**, **Kohl's** and **Best Buy**.
- The sale-leaseback of two **KinderCare Learning Centers**—a \$2.4-million, 9,897-sf property in Colorado Springs and a \$2.97-million, 10,500-sf property in West Windsor, NJ—was brokered by **Upland Real Estate Group Inc.** Both were sold to individual 1031 exchange investors.
- **AMLI Residential Property Trust** purchased two properties—what are now called AMLI at Ibis in West Palm Beach, FL and AMLI on Eldridge Parkway in Houston—as replacements in 1031 exchanges. The properties total 902 units.
- A 15-year, triple-net master lease resulted in the sale-leaseback of the **Big Dog Motorcycles Houston** dealership property in west Houston, GlobeSt.com reports. The **Ber/Lee Group Inc.** sold the property for close to \$4.4 million at a 10% cap rate in a deal brokered by the local office of **Marcus & Millichap Real Estate Investment Brokerage Co.** The buyer was a 1031 investor in California.
- **Triple Net Properties LLC** acquired Enterprise Technology Center on behalf of tenant-in-common investors and its **NNN 2003 Value Fund LLC**. Purchased from **Scanlan Kemper Bard Cos.** and **Praedium Group LLC**, the asset is a 352,759-sf multi-tenant office property in Scotts Valley, CA. It is 88.4% leased. **CB Richard Ellis** represented the sellers and Triple Net repped the buyers. Acquisition financing was provided by **UBS** and arranged by **Holliday Fenoglio Fowler LP**.
- **Vrionis Arizona Properties LP** completed a 1031 exchange with the acquisition of a 15,300-sf retail property in Anthem, AZ. The property, a Walgreens drugstore, was sold by **Evergreen Devco** for \$5.6 million at a 6.85% cap rate. **Grubb & Ellis'** San Francisco office represented the buyer.—MN

Executive Postings

- **William L. Exeter** was promoted to president and CEO of **Diversified Exchange Corp., Diversified Reverse Exchange Corp. and Diversified Retirement Services Corp.** He was previously president and COO of the La Jolla, CA-based companies since May 2002.
- **Inland Real Estate Corp.**, which expects to list on the New York Stock exchange on June 9, has hired **Brett A. Brown** as CFO. He will have responsibility for all accounting and other financial matters, while **Mark E. Zalatoris**, the former CFO, continues with the company as EVP, COO and treasurer. Brown was previously SVP of financial reporting for **Great Lakes REIT** and is a certified public accountant.—*MN*

Ratings Update

- **Standard & Poor's Ratings Services** revised its outlook on **Carrols Corp.** to stable from negative, given that there has been no evidence that last December's discovery of a cow infected with what is commonly called mad cow disease has had a negative effect on its results. Its ratings, including its B+ corporate credit, were affirmed. Carrols is one of the largest **Burger King** franchisees and also operates numerous **Pollo Tropical** and **Taco Cabana** restaurants.
- The BBB senior unsecured rating of **Comcast Corp.** and its subsidiaries was affirmed by **Fitch Ratings**. Its positive rating outlook on the company "reflects Comcast's strengthened financial performance and capital structure, which have driven steady improvement in the company's credit metrics over the past two years, as well as Fitch's expectation of continued positive operating trends and sustainable free cash flow generation."
- Fitch initiated a BBB senior unsecured debt rating on **Marriott International**. The rating reflects Marriott's "diversified portfolio of leading brands ..., relatively stable business model that performed well during the recent lodging downturn, healthy new unit growth, strong cash flow generation which exceeds capital and investment spending, leading position in the timeshare business and improving lodging fundamentals," says Fitch.
- **Moody's Investors Service** upgraded the ratings of **Gap Inc.**, including its senior

unsecured debt to Ba2 from Ba3, and assigned a positive outlook. Moody's says the upgrade "is based upon the company's progress in improving its operating performance, free cash flow and credit metrics as a result of a more disciplined approach to its operations in key areas such as product assortment, inventory management and real estate."

- The ratings of **Citigroup Inc.** and its subsidiaries were affirmed by Moody's following its announcement of a \$4.95-billion special charge related to its **WorldCom** class action litigation settlement and an increase in existing litigation reserves. The outlook is stable. —
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