NET LEASE forum
From the editors of Real Estate Forum and GlobeSt.com

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TOP STORY: Securities Vs. Real Estate Issue Heats Up TICA Conference

By Michelle Napoli

The issue of whether or not tenant-in-common investments are securities for securities law purposes was, perhaps not surprisingly, the hot topic at the **Tenant-in-Common Association's** annual conference last Wednesday and Thursday, held at the MGM Grand Hotel on the famed Las Vegas strip. While most experts acknowledge that TIC deals can be structured and sold as either securities or real estate, vocal industry participants also insist that most TIC deals out there today should be treated as securities.

As reported in the previous issue of *NET LEASE forum*, the **National Association of Securities Dealers** recently requested information on TIC deals from member broker-dealers. But the scrutiny from securities regulators isn't just taking place at the national level. "Let's just say there are state division of securities people who are looking at this issue," Greg Paul, president of Salt Lake City, UT-based **Omni Brokerage Inc.**, recently told *NET LEASE forum*. "They're no longer oblivious to this."

The speaker at last week's conference who arguably generated the most buzz was Michael Hines, director of enforcement for Utah's securities division, who, with other speakers, may have struck some fear in attendees by talking about prison terms for violating securities laws.

"I can envision this transaction being sold as real estate," Hines said in his speech, "but the way I see it [being] sold, it's a security. . .The securities industry does not have an open mind if you are violating the law. . .If you are the example the state takes, your freedom is in jeopardy."

Hines also said that "states have a really good relationship with the NASD," with tips of possible violations being passed on for state-level investigation. "They do talk, they work together," added Kevin Bradburn, chief compliance officer and COO of Omni Brokerage. Two factors complicating the whole issue: Each state defines securities differently, and there can be considerable turf battles between states' securities and real estate divisions, each of which might want both the control and the income associated with governing these deals.

Beyond the securities vs. real estate debate is the issue of who can be properly compensated for referring or placing clients into TIC deals (*see separate story below, "TIC, QI Industries Await Rulings"*). But again, the possibility of securities law violations loom, which is why industry members are asking appropriate authorities for guidance on these issues. "Someone is breaking the law one way or another," said Rob Hannah, president and CEO of Chicago-based sponsor **TSG Real Estate LLC** and a TICA board member. "If someone doesn't go and get guidance, people in this room are going to start going to jail," he told a standing-room-only TICA conference audience.

Hannah and fellow TICA board member Tim Snodgrass, president of San Juan Capistrano, CA–based sponsor **Argus Realty Investors LP**, were among those who also discussed various aspects of the TIC business at the **Federation of Exchange Accommodators** annual conference, which immediately followed the TICA meeting on Friday and Saturday. They urged the qualified intermediary audience to scrutinize the acquisition criteria, business models and expertise of TIC sponsors when assisting a client.

Joining them was Gary Beynon, founder and CEO of Omni Brokerage, who noted that securities broker-dealers "operate in a highly regulated world." Not only must sellers of securities be licensed, he said, but investors must be accredited. That said, he added that accreditation does not necessarily mean an investor is suitable for a tenant-in-common investment.

Further, Beynon warned that QIs need to be careful about being inserted into the TIC sales process when representing their clients. “There is a possibility of regulators looking into that,” he said.

INSIDER: Atlantic Exchange Co.'s J. Patrick Dowdall

By Michelle Napoli

***J. Patrick Dowdall** is managing director and co-founder of **Atlantic Exchange Co.**, a Boston-based qualified intermediary and provider of 1031 exchange consulting and related services, as well as president of law firm **Dowdall & Associates PC**. **NET LEASE forum** editor Michelle Napoli sat down with Dowdall just prior to his taking office as president of the **Federation of Exchange Accommodators** at the organization’s annual conference in Las Vegas last week. This year marks the 15th anniversary of FEA, which began with about a dozen members and now has several hundred.*

I'm the first FEA president east of the Rocky Mountains, which is symbolic of some changes, says Dowdall

Q: You’re an attorney—I take it that’s how you got into 1031 exchange work?
A: I started doing 1031 exchanges in 1979, when there were very few transactions occurring. It was before the deferred exchange regulations came out. So from ’79 till 1994, I was an active attorney and did 1031s as well. Then they started to pick up. In 1998, I and another former partner started Atlantic Exchange because we thought that the time was right in terms of it really spreading. We started initially part-time and practicing law otherwise; currently we have 13 employees and expect to do about 500 exchanges for the year. We’ve seen this rise and exchanges becoming quite well-known.

Q: Given that you’re in the Northeast, do you have any thoughts as to why the 1031/QI business, and more recently the tenant-in-common business, is more prevalent on the West Coast?
A: Going back to 1984, when the deferred exchange provisions were enacted, escrow companies were the ones who did the closings in the West, particularly California. I guess out of history they started developing these transactions. . .and that just began the culture of it. You never had real estate closings like that, that were much more attorney-oriented, in the Northeast. At least, that’s the way it’s been explained to me, and I think it makes a lot of sense.

In terms of the tenancy-in-common industry, I think that’s followed in terms of the comparison of the number of transactions; there are more in the West. Also, there has never been that much tenancy-in-common product in the Northeast. We just had a closing that I believe was the first offering in New England, in the Boston area. There’s a number of reasons. There’s not as much growth in the Northeast as in other parts of the country. Also, land values and property values are very high in the Northeast, so it makes it more difficult to find good deals to make work as a tenancy-in-common. But in terms of the 1031, the Northeast is clearly catching on. In terms of the growth in the FEA, we’re looking at the East being the major source of growth. I’m the first president east of the Rocky Mountains, which is symbolic of some of the changes.

Q: So do you see interest among your QI clients in these deals?
A: I think there’s clearly an interest on the part of the clients. Like triple-net leased properties, they’re passive, coupon-clipping type investments. When we talk to our clients who want us to help them find property, we ask them a lot of questions, including geographic preference. And the overwhelming majority begin with, ‘I would like it to be within a three-hour drive.’ Most people, even if they’re not operating it, like to be in a position where they can take their friends and drive over and show them that ‘this is my property,’ or just to see how it’s going. So there’s that psychology at work, and as a result there’s tremendous demand, but there has not been the product to meet that demand. I think there will be, though how quickly that will happen, I’m not sure. I’ve talked to some sponsors who are looking at properties that they hope to do.

Q: Does the tenant-in-common business come up much as an issue for the FEA’s membership?

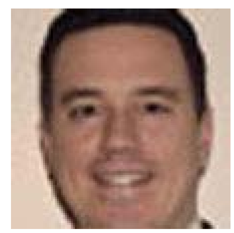
A: You have some qualified intermediaries that are involved in looking for properties for clients. For those who don't, they are solicited by sponsors, maybe brokers, so they're very much aware of it and their clients may be looking at the properties and asking them what they think.

Q: Are there any particular topics especially timely now for the QI industry, anything on the minds of your membership?
A: The rules are always being developed; we've had within the last several months several significant IRS pronouncements that came out. That's something the QIs need to keep up with. In terms of any hot-button issues, Representative [Amo] Houghton (R-NY) introduced a provision that would have provided for a rollover rather than a qualified intermediary; that would have put qualified intermediaries out of business, but he has dropped that provision.

Q: What's on the FEA's agenda going forward?
A: For the FEA, the focus is on more professionalization. We are an unregulated industry, so we are trying to boost the standards of people in the business. In the next year I see a continuation of that.

TIC, QI Industries Await Regulatory Rulings

By Michelle Napoli



If they give us guidance, we'll have something to discuss on compliance, notes Hannah

The tenant-in-common industry awaits the **Securities and Exchange Commission**'s response to a request for a no-action letter allowing payment of fees to real estate brokers who refer their clients to TIC deals as long as there are also licensed securities dealers involved in the transactions. The request was made by Rob Hannah, president and CEO of Chicago-based sponsor **TSG Real Estate LLC**, who discussed it during last week's **Tenant-in-Common Association** annual conference in Las Vegas, and the SEC's response is expected soon.

While experts say the ruling will have no effect on the broader securities vs. real estate debate, it is potentially significant in terms of sponsors' ability to source 1031 exchange investors working with real estate brokers on their relinquished and replacement properties. The **National Association of Realtors—**notably, the largest lobby in the country—has no official position on the TIC fees topic but is researching and discussing the matter internally.

Not only are there questions as to whether real estate brokers can appropriately receive any kind of compensation for helping place a client in a TIC deal, there is equal question as to whether securities dealers should also be real estate-licensed, given the dual nature of TIC investments, Hannah said while participating in a panel discussion at the TICA conference. "We're trying to get guidance," said Hannah, who plans to share the SEC's response to the request with TICA members, though he stressed that his company, and not the association, has pursued and paid for the effort. "If they give us guidance, we'll have something to discuss on compliance."

A very small minority of TICA conference attendees—just two, according to a show of hands—expressed displeasure that the request was made at all. But while most industry participants are more than curious to find out what the SEC will rule on the request, sponsors other than TSG will not necessarily rely on it for their own deals. "A no-action letter has no precedential value," said Michael Fieweger, a partner in the corporate and securities group of Chicago law firm **Baker & McKenzie**.

At least one TIC sponsor is under review by the **National Association of Securities Dealers** with regard to referral fees. Long Beach, CA attorney David Griffith, who declined to name a client that is involved, tells *NET LEASE forum* that the review has to do with possible violation of NASD rules that prohibit member firms from participating in syndications with non-securities-licensed representatives. "A number of sponsors have been paying commissions [to real estate licensees]," says Griffith. "My client has a licensed real estate entity that is paying licensed real estate brokers real estate commissions. He's not having a securities firm pay real estate brokers securities commissions."

Griffith was interviewed under oath by the NASD several weeks ago and awaits the outcome. “I’ve written a 15-page letter to the NASD on why I think they ought to get on top of this issue and cooperate with the industry, and create a safe harbor so that real estate brokers can participate in the process,” Griffith adds. “There ought to be a way that both sides can earn transaction-based compensation.”

Meanwhile, the qualified intermediary industry is awaiting final **Internal Revenue Service** regulations on reporting requirements for interest earned on 1031 exchange funds held in escrow while the completion of exchange transactions are completed. Andrew G. Potter, an Irvine, CA attorney speaking at the **Federation of Exchange Accommodators** annual conference last week, said the final regulations had been expected prior to the conference, but that since they were not complete, scheduled speaker A. Kathie Kiss of the IRS did not attend.

“They have told us they are ready to roll out something and they have told everybody will be sort of unhappy,” Potter said. “We don’t know what that means.”

TICA Conference Attendees Take Home Advice On Entering Market

By Michelle Napoli

More than 50 attendees sat in on a “New Sponsor Orientation” panel at the **Tenant-in-Common Association**’s conference last week to hear advice on getting into the TIC market, which continues to get more crowded by the quarter.

According to the discussion’s moderator and panelist, **Omni Brokerage Inc.** president Greg Paul, in the third quarter there were about 42 sponsors selling TICs through the securities broker-dealer distribution channel; they raised a combined $385 million of equity during the quarter. If fourth-quarter projections of $585 million of equity are realized—actual equity raised has fallen short of projections for several consecutive quarters—that would put the industry on target for $1.5 billion of equity raised during 2004. And that, Paul noted, would still be less than earlier projections. “Think of those numbers what you want,” Paul said at the conference. “There are more sponsors and less money being raised [than projected].”

For those considering entering the TIC market, the panel offered extensive advice. Among the speakers and their advice:

- Jim Shaw, president and CEO of **CapHarbor LLC** of Beverly Hills, CA, recommended that among the attributes sponsors should have are a focused approach with a specialization in property type, solid relationships to source deals, established lending sources with experience in financing TIC deals and the financial capability to fund deals as sponsors. “There’s a whole layer of additional costs,” Shaw noted, including securities-related fees and the costs of preparing private placement memorandums—the latter being “not an easy undertaking.” He also advised: “TIC properties are securities for sales purposes. Get over it—if you can’t, don’t get in this business.”

- Timothy C. Nichols, president of Atlanta-based **Realty Services of America Inc.**, expanded on the costs of being a TIC sponsor. Critical to the business, he said, is a deep organization of people dedicated solely to TICs as well as systems and procedures in place. “There is just so much minutiae involved in bringing one of these deals to the market,” he said, “that if you don’t have clear processes, you’re going to screw it up.”

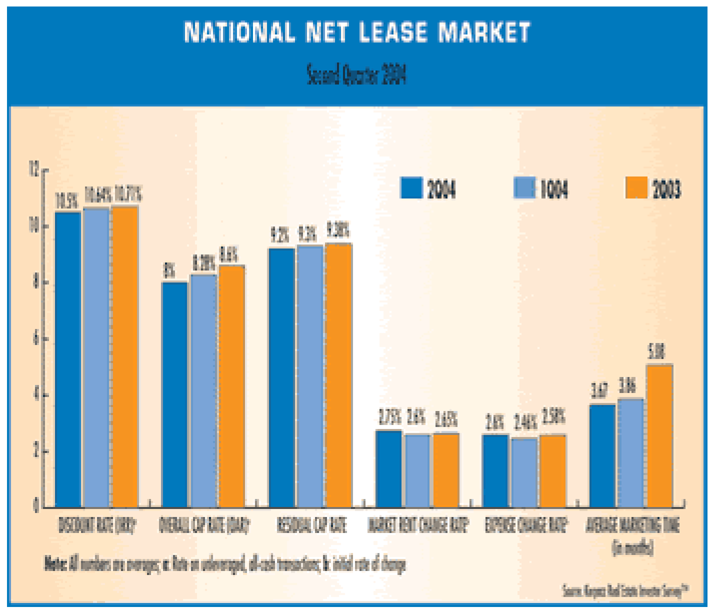
- Kevin Bradburn, chief compliance officer and COO of **Omni Brokerage Inc.**, told the audience that the time line for becoming a sponsor and bringing a deal to market is “longer than you think.” Having established relationships with qualified counsel and broker-dealers is important, he said, and having third-party due diligence done on a deal can be time consuming. While demand for TIC product is increasing, so too is the number of sponsors, he said, suggesting that the day will come when it will not be as easy to raise equity as it has been.

- Todd Harrison, senior consultant with **Snyder Due Diligence Services** in Columbia, MD, detailed the kinds of information third-part due diligence providers review, saying such a process “can be a high hurdle.” Reputation, track record and policies and procedures are key, he said, and such a review should be taken very seriously. His clients want sponsors to be investor-focused, trustworthy, have good communication and an established track record and expertise.

- Finally, Louis J. Rogers, president of **Triple Net Properties LLC** in Santa Ana, CA, stressed the importance of a well-done private placement memorandum, which he likened to an insurance policy for sponsors. “Done appropriately, it only puts your investor to sleep. Done better, it kills them,” he said. “Somewhere in the middle, there is full and fair disclosure.” In addition to going over the basic sections of a PPM, he also noted that if something should change after a PPM is completed, say a financing rate is locked in or a tenant goes dark, a supplement to the PPM must be prepared.

Chart: National Net Lease Market 2Q 2004

The latest, second-quarter figures from the Korpacz Real Estate Investor Survey are relatively unchanged from those of the first quarter. The average marketing time for net-leased properties continues to fall, down to 3.67 months from 3.86 months in the first quarter. Just one year before, the average marketing time was 5.08 months. Cap rates continued to slide, down to 8% from 8.28% in the first quarter 2004 and 8.6% in the second quarter of 2003.



Short Takes

By Michelle Napoli

Toys “R” Us Sells NJ Asset

Corporate trading firm **Active International** and partners purchased the former **Toys “R” Us** operations center at 225 Summit Ave. in Montvale, NJ for $15.4 million. The toy retailer—currently in the throes of reconfiguring its business—purchased the 130,000-sf office property in 1998 with plans to move its corporate headquarters there, but ultimately relocated its HQ to Wayne, NJ in 2002. The 37-acre site can accommodate another 200,000 sf of office, already approved. In addition to Active, the purchasing entity includes **Paragon Realty Group, Ivy Realty** and **Urdang Associates**. Toys “R” Us was represented by **CB Richard Ellis**.

AFR Moves Ahead On Two Bank Portfolios; Sells Debt

American Financial Realty Trust has made progress with two previously announced portfolio acquisitions. It completed its deal with **Wachovia Bank NA**, although in a revised and smaller form than what was initially publicized; it has purchased 140 properties totaling about 7.6 million sf for $511.9 million. The portfolio is concentrated in the East with 93 bank branches and large and small office buildings; Wachovia will lease back about 4.7 million sf for 20 years and another 1 million sf on a short-term basis. Separately, AFR signed a definitive agreement for the acquisition—also slightly revised—of a major portfolio from **Bank of America NA**. This deal will give the REIT 252 bank branch and office properties totaling about 7.7 million sf for $570 million and was expected to close by press time. BofA will lease back about 4.7 million sf for 15 years. Meanwhile, AFR plans to sell in a private offering $125 million of 4.375% convertible senior notes due 2024, with an option to the purchaser to buy an additional $25 million of convertible notes. Net proceeds are intended principally for the acquisition of additional properties, according to the company.

Legislation Eliminates Risk In Italian Lease-Backed Securitizations

According to a recent report from **Moody’s Investors Service**, recent legislation that eliminates rejection risk in

Italian lease-backed securitizations has helped increase transparency of these deals and may stimulate the market, which has recently suffered a decline in volume despite a record year in 2002. The law, which went into effect in February, "should prove to be a very positive development for lease-backed securitizations in general, and for transactions involving sub-investment grade originators in particular," according to Valentina Varola, Moody's assistant vice president and analyst and author of the report. "Prior to the latest legislative amendment, Moody's factored rejection risk into its analysis of Italian lease-backed securitizations. This typically led to the most senior class being penalized, due in large part to the losses realized in default scenarios that most affected the Aaa class," Varola notes.

Recent Transactions

TENANT-IN-COMMON

An Atlanta warehouse and office building was the subject of the latest TIC deal put together by **Macfarlan Real Estate Investment Management**. The seller of the building, with 407,981 sf of distribution warehouse space and 33,388 sf of office space, was **Empire Distributors Inc.**, which leased it back. The purchase price was reportedly $12 million.

University Marketplace

SCI Real Estate Investments purchased University Marketplace (*see picture, right*), a 125,704-sf retail property in Pembroke Pines, FL, along with 10 TIC investors completing 1031 exchanges. The purchase price for the 85%-occupied property was $15.09 million, including almost $5.13 million of equity. The deal was sold as real estate; the TICs selected **Continental Real Estate Cos.** as their third-party property manager. SCI represented the buyers while **Black Rock Realty** represented the seller, **Regency Centers**.

FINANCE

First mortgage financing of $1.2 million was arranged by **Marabella Commercial Finance Inc.** for the purchase of a **Kindercare Learning Center Inc.** property. Borrower and lender were not identified. The partial-recourse loan has a seven-year term and a rate of 6.125%, and is interest-only for two years, then amortizes over 22 years for the final five years before maturity.

INVESTMENT SALES

As part of a reverse 1031 exchange, **SL Green Realty Corp.** has agreed to sell 17 Battery Place North in Manhattan to the **Moinian Group** for $70 million, or about $170 per sf. SL Green is similarly selling 1466 Broadway in Manhattan, and "substantially all resulting taxable income will be deferred through a reverse 1031 exchange into 750 Third Ave., a property acquired by the company in July 2004," according to the REIT. **Cushman & Wakefield** acted as SL Green's advisor in the sale of the Battery Park building.

Krausz Cos. purchased the 264,000-sf Crossroads Marketplace in Chino Hills, CA on the up-leg of a 1031 exchange. **Faris Lee Investments** represented both the buyer and the seller, **Steadfast Cos.**, in the deal. Challenges in the deal included finding a 1031 buyer able to pony up more than $23 million of equity capital and assume a $39-million conduit loan already in place, according to the brokerage firm. The property's tenants include **Bed Bath & Beyond, Best Buy** and **PetsMart**, and an additional pad currently under construction has not yet been fully leased.

Inland Real Estate Sales Inc. brokered the disposition of a **Big Kmart** store in Eureka, CA for **Eureka Mart LLC**. **Sebanc Family Trust**, represented by **Marcus & Millichap**, purchased the property for $3.9 million. The store is triple-net leased through mid-July 2013, with four five-year renewal options.

Recent deals for **Lexington Corporate Properties Trust** include the $29-million purchase of an office asset in Fort Mill, SC. The newly built 169,218-sf office building is net-leased to **Wells Fargo Bank NA** through May 2014.

First mortgage financing of $20.3 million bears a 5.37% fixed rate.

Government Properties Trust recently closed on two properties leased to the **General Services Administration** in separate deals. It paid $5.9 million—down from the $6.8 million it went into contract for—to an unidentified seller for the Veterans Administration Outpatient Clinic in Baton Rouge, LA. Construction of the 30,000-sf facility was recently completed and the clinic began operations in June; the **Veterans Administration** occupies it under a modified gross lease through June 2019. Separately, GPT paid about $19 million for the Hollings Judicial Center Annex in Charleston, SC. The GSA was reportedly the seller of the 61,000-sf building, part of the government-owned Charleston Federal District Courthouse complex. It is occupied by the **Department of Justice** under a modified gross lease that runs through July 2019, with two 10-year renewal options available thereafter.

First Union Real Estate Equity and Mortgage Investments has agreed to buy up to 16 triple-net leased properties totaling approximately 2.5 million sf in a portfolio deal. The seller is reportedly **Finova Capital Corp.** The purchase price of about $91 million would include the assumption of roughly $31 million of debt. The deal is the up-leg of a 1031 exchange; the equity will come from the net proceeds of the $77.5 million sale of Park Plaza in Little Rock, AR.

SALE-LEASEBACKS

Senior Housing Properties Trust agreed to purchase 35 private-pay senior-housing properties in the Southeast, with a total of 1,880 independent and assisted-living units, and lease them back to **Five Star Quality Care Inc.** in a $165-million deal. Five Star will continue to operate the properties under long-term, triple-net leases; rent payable will be $14.9 million a year with increases beginning in 2006. The transaction will not be complete until Five Star has finished its $208-million acquisition of **LTA Holdings Inc.**, formerly known as **LifeTrust America Inc.** and a private owner and operator of senior-living assets in the Southeast; the 35 properties are part of the LTA portfolio.

W.P. Carey & Co., on behalf of **Corporate Properties Associates 16-Global**, paid $37.7 million for a portfolio of eight manufacturing facilities; seven are in the US and one is in Calgary, Alberta. According to Carey, the sale-leaseback is providing acquisition financing to the tenant, identified only as a leading North American manufacturer of residential exterior building products.

Astrex Inc. sold its 22,000-sf Plainview, NY headquarters building for $1.5 million and continues to occupy it under a 10-year triple-net lease with a five-year renewal option. The buyer was **PlainVest LLC**, of which a majority of members are related to the company, including its chairman, CEO and president, and CFO. Initial base rent is $8 per sf annually.

The **Midtown Niki Group** and **Jack in the Box Inc.** closed on a $40-million restaurant property sale-leaseback. The purchase was financed with an acquisition facility from **California Bank & Trust**, while permanent financing was placed through **Standard Insurance Co.** Jack in the Box exercised purchase options on about 80 leased properties earlier in the year; including the deal with Midtown Niki, the restaurant chain operator and franchisor has disposed of all of them via sale-leasebacks “at more favorable rates,” according to the company. **Upland Real Estate Group Inc.** recently brokered a Jack in the Box sale-leaseback for a private individual buying the property as part of a 1031 exchange. The 2,809-sf asset, in Rosamond, CA, sold for $2.9 million.

One of **Lexington Corporate Properties Trust**’s joint venture investment programs closed on the sale-leaseback of **Specialty Laboratories Inc.**’s Santa Clarita, CA headquarters. The 187,262-sf office, R&D and laboratory facility, net-leased back for 20 years, cost $47 million. First mortgage financing of $28.2 million bears a floating rate of 250 basis points over Libor through the end of 2004, and then a fixed rate of 4.75% through maturity on Oct. 1, 2009.—*Michelle Napoli*

Executive Postings

Louis J. Rogers, well-known as one of the leading experts in the field of 1031 exchanges and tenant-in-common investments, has joined Santa Ana, CA-based **Triple Net Properties LLC** as president. He had served as the company's outside legal counsel since its formation in 1998. Rogers remains a shareholder of law firm **Hirschler Fleisher**, where he founded and headed its real estate securities practice group. He serves as a chair of the section 1031 committee of the **Investment Program Association** and chair of the legislative and regulatory committee of the **Tenant-in-Common Association**, and was recently appointed chair of the new syndications subcommittee of the **American Bar Association** tax section. In another hire, **Scott Peters** has joined Triple Net Properties and several REIT affiliates as SVP and CFO; he is responsible for all areas of finance and serves as liaison to institutional investors. He was previously SVP and CFO of **Golf Trust of America Inc.** since 1996 and helped take the company public.


Robert Micera

First Industrial Realty Trust Inc. has brought on board **Robert Micera** (*see picture, above right*) as SVP and national head of net-lease investments. In his new role, Micera is responsible for working on sale-leasebacks through the REIT's corporate real estate solutions program, and originating and developing net-lease investment opportunities for the $425-million net-lease fund the company has with the **Kuwait Finance House**. He was most recently managing director in **Ernst & Young**'s real estate advisory services group and was responsible for expanding the firm's corporate real estate capital markets advisory business.—*Michelle Napoli*

Ratings Update

● The BB corporate credit and other ratings of **Central Garden & Pet Co.** were affirmed by **Standard & Poor's Ratings Services**, which removed the company from CreditWatch. The outlook is negative. The ratings reflect "strong competition in the company's business segments, significant seasonality in the lawn and garden business, customer concentration and the company's stepped-up acquisition strategy," says S&P. "These risks are somewhat mitigated by the company's broad product portfolio and currently moderate financial profile."

● The ratings of **Koninklijke Ahold NV** were upgraded by **Moody's Investors Service**, including the senior unsecured bond rating to Ba3 from B1. The outlook is positive. The upgrade "takes account, firstly, of Ahold's achievements in completing a significant part of its planned exit from South America and Asia and the agency's estimate of EUR850 million of proceeds generate through the disposal program to date," says Moody's, which anticipates further significant proceeds from its asset disposal program over the next 18 months. "The second key reason. . .is Moody's expectation that Ahold's financial profile will undergo further improvements over the intermediate term. . .Nonetheless, the anticipated improvement in operating margins also factors in the agency's expectation that Ahold's US food retail segment—the group's principal operating cash-flow generator—will continue to face a challenging operating environment. In Moody's view, this is likely to constrain top-line growth and may lead to some pressure on this segment's operating margins going forward."

● "Recent profit warnings issued by European consumer goods companies **Unilever** and **Cadbury Schweppes** do not prejudice the sound profile of these companies," says **Fitch Ratings**, "and are to be seen more as a realistic guidance on sales growth than a real credit concern." Fitch says that Unilever, **Nestle**, Cadbury Schweppes and others "have a greater chance of protecting their cash flow than peers producing unbranded products," despite the fact that consumers are increasingly encouraged to reduce purchases of branded products. Meanwhile, Moody's revised its outlook on the Unilever Group to negative from stable, though it affirmed its ratings. "The change of outlook to negative reflects the concern that Unilever's business performance may continue to be affected by challenging market conditions, and that the rebuilding of credit metrics improvement may be slower going forward and remain below the expectations for the category in the intermediate term."—*Michelle Napoli*

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