

CAPITAL AUTOMOTIVE REIT

Form 10-Q

May 09, 2005

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For quarterly period ended March 31, 2005

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

COMMISSION FILE NUMBER 000-23733

CAPITAL AUTOMOTIVE REIT

(Exact name of registrant as specified in its charter)

Maryland
(State of organization)

54-1870224
(I.R.S. Employer Identification Number)

8270 Greensboro Drive, Suite 950, McLean, Virginia 22102
(Address of principal executive offices and zip code)

(703) 288-3075
(Registrant's telephone Number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Number of common shares of beneficial interest outstanding as of April 30, 2005 was 43,684,272.

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PART I FINANCIAL INFORMATION
ITEM I FINANCIAL STATEMENTS
CAPITAL AUTOMOTIVE REIT
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	March 31, 2005 (unaudited)	December 31, 2004
ASSETS		
Real estate:		
Land	\$ 872,971	\$ 866,480
Buildings and improvements	1,363,717	1,330,843
Accumulated depreciation	(153,833)	(143,886)
	2,082,855	2,053,437
Cash and cash equivalents	40,816	8,332
Other assets, net	96,579	96,388
Total Assets	\$ 2,220,250	\$ 2,158,157
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Mortgage debt	\$ 547,146	\$ 634,365
Unsecured debt	555,148	381,592
Borrowings under credit facilities		30,000
Accounts payable and accrued expenses	22,565	23,731
Security deposits payable	10,128	9,665
Total Liabilities	1,134,987	1,079,353
Minority Interest	145,428	144,877
Shareholders Equity		
Preferred shares, par value \$.01 per share; 20 million shares authorized, 3,950,000 Series A Cumulative Redeemable Preferred Shares issued and outstanding as of March 31, 2005 and December 31, 2004	40	40
2,600,000 Series B Cumulative Redeemable Preferred Shares issued and outstanding as of March 31, 2005 and December 31, 2004	26	26
Common shares, par value \$.01 per share; 100 million shares authorized, 43,682,563 shares issued and outstanding as of March 31, 2005 and 43,406,280 shares issued and outstanding as of December 31, 2004	437	434
Additional paid-in capital	966,045	957,938

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Deferred compensation	(7,737)	(3,816)
Accumulated other comprehensive loss		
Distributions in excess of accumulated earnings	(18,976)	(20,695)
Total Shareholders Equity	939,835	933,927
Total Liabilities and Shareholders Equity	\$ 2,220,250	\$ 2,158,157

See accompanying Notes to Consolidated Financial Statements.

CAPITAL AUTOMOTIVE REIT
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Three Months Ended	
	March 31,	
	2005	2004
Revenue:		
Rental	\$ 55,568	\$ 46,505
Interest and other	1,087	970
Total revenue	56,655	47,475
Expenses:		
Depreciation and amortization	10,133	8,575
General and administrative	3,284	2,741
Interest	15,976	17,005
Total expenses	29,393	28,321
Income from continuing operations before minority interest	27,262	19,154
Minority interest	(3,810)	(3,215)
Income from continuing operations	23,452	15,939
Income from discontinued operations, net of minority interest	88	1,654
Gain on sale of real estate, net of minority interest	84	953
Total discontinued operations	172	2,607
Net income	23,624	18,546
Preferred share dividends	(3,152)	(1,852)
Net income available to common shareholders - basic and diluted	\$ 20,472	\$ 16,694
Common shares outstanding used to compute basic earnings per common share	43,235	34,049
Basic earnings per common share:		
Income from continuing operations	\$ 0.47	\$ 0.41
Net income	\$ 0.47	\$ 0.49

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Common shares outstanding used to compute diluted earnings per common share	43,538	34,673
Diluted earnings per common share:		
Income from continuing operations	\$ 0.47	\$ 0.41
Net income	\$ 0.47	\$ 0.48
Dividends declared per common share	\$ 0.4305	\$ 0.4165

See accompanying Notes to Consolidated Financial Statements.

CAPITAL AUTOMOTIVE REIT
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Three Months Ended March	
	31,	
	2005	2004
Cash flows from operating activities:		
Net income	\$ 23,624	\$ 18,546
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on disposition of real estate net of minority interest	(84)	(953)
Stock compensation expense	576	328
Depreciation and amortization	11,056	9,587
Minority interest expense including amounts attributable to discontinued operations	3,826	3,592
Changes in operating assets and liabilities:		
Increase in other assets	(1,074)	(2,540)
(Decrease) increase in accounts payable and accrued expenses	(1,715)	2,844
Increase in security deposits payable	463	55
Net cash provided by operating activities	36,672	31,459
Cash flows from investing activities:		
Purchase of furniture and equipment, net of disposals	(41)	(12)
Property acquisitions and improvements	(40,443)	(35,989)
Investments in mortgage notes receivable and construction advances	(7,875)	(5,891)
Proceeds from mortgage notes receivable and construction advances	10,872	
Property dispositions	986	16,501
Net cash used in investing activities	(36,501)	(25,391)
Cash flows from financing activities:		
Proceeds from borrowings under credit facilities	95,000	23,000
Proceeds from debt issuance	175,000	11,900
Repayment of borrowings under credit facilities	(125,000)	(80,000)
Repayment of debt	(81,465)	
Debt principal payments	(5,754)	(6,852)
Payments for debt issuance costs	(1,347)	(311)
Increase in restricted cash	(2,142)	(317)
Payment of common share dividends	(15,410)	(11,544)
Payment of preferred share dividends	(3,152)	(1,029)
Distributions to minority partners	(3,477)	(3,229)
Series A Cumulative Redeemable Preferred Shares issuance costs		(93)
Proceeds from the issuance of common shares, net of costs and forfeitures	60	61,638
Net cash provided by (used in) financing activities	32,313	(6,837)

Net increase (decrease) in cash and cash equivalents	32,484	(769)
Cash and cash equivalents at beginning of period	8,332	13,352
Cash and cash equivalents at end of period	\$ 40,816	\$ 12,583
Supplemental Data:		
Real estate acquisitions in exchange for like-kind property	\$	\$ 14,968
Interest paid during the period	\$ 12,735	\$ 11,067
Dividends and distributions reinvested to purchase common shares	\$ 3,351	\$ 3,069
Change in valuation of fair value swap	\$ (1,444)	\$ (1,146)

See accompanying Notes to Consolidated Financial Statements.

CAPITAL AUTOMOTIVE REIT
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AND OTHER
COMPREHENSIVE INCOME
(in thousands, except share data)

	Preferred Shares		Common Shares	Preferred Shares		Additional Paid-in Capital	Distributions in Excess of Accumulated Earnings	Deferred Compensation	Accumulated Other Comprehensive Income	Total
	Series A	Series B		Value	Par					
December 31, 2004	3,950,000	2,600,000	43,406,280	\$ 40	\$ 26	\$ 434	\$ 957,938	\$ (20,695)	\$ (3,816)	\$ 933,920
of minority interest Partnership							(195)			(195)
2004 common share follow-on issuance costs							(37)			(37)
Common shares from dividend and share purchase plan, net			112,840			1	3,703			3,703
Restricted shares, net of			124,621			2	4,172	(4,467)		(292)
of deferred compensation phantom shares, net of								546		546
Common share options compensation			18,572				128			128
Share dividends			20,250				306			306
Share dividends							30			30
Share dividends								(3,152)		(3,152)
Share dividends								(18,753)		(18,753)
								23,624		23,624
March 31, 2005 (unaudited)	3,950,000	2,600,000	43,682,563	\$ 40	\$ 26	\$ 437	\$ 966,045	\$ (18,976)	\$ (7,737)	\$ 939,835

See accompanying Notes to Consolidated Financial Statements.

CAPITAL AUTOMOTIVE REIT
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

Capital Automotive REIT, which we refer to as the Company, is a Maryland real estate investment trust formed in October 1997. We own interests in real estate and conduct our operations, directly or indirectly, through Capital Automotive L.P., which we refer to as the Partnership, and its subsidiaries. We are the sole general partner of the Partnership and, as of March 31, 2005, owned approximately 84.2% of the common units of limited partnership interest in the Partnership, which we refer to as Common Units, as well as 100% of the Series A and Series B preferred units of limited partnership interest in the Partnership, which we refer to as Preferred Units. References to we, us and our refer to the Company or, if the context requires, the Partnership and our business and operations conducted through the Partnership and/or directly or indirectly owned subsidiaries.

Our primary business strategy is to purchase real estate (land, buildings and other improvements) or leasehold interests therein, which we simultaneously lease to operators of franchised automobile dealerships and motor vehicle service, repair or parts businesses, used vehicle businesses and other related businesses under long-term, triple-net leases. In addition, we provide mortgages, facility improvements, construction financing and takeout commitments in certain circumstances. Triple-net leases typically require the tenant to pay all operating expenses of a property, including, but not limited to, all real estate taxes, assessments and other government charges, insurance, utilities, repairs and maintenance. We use (i) the term dealerships to refer to these types of businesses that are operated on our properties and (ii) the terms dealer group, tenant or operators of dealerships to refer to the persons and entities that lease our properties from us or mortgage their properties with us. We focus on leasing properties or providing mortgages to dealer groups that have a long history of operating multi-site, multi-franchised dealerships, generally targeting the largest dealer groups in terms of revenues in the largest metropolitan areas in the U.S. in terms of population.

As of March 31, 2005, we had real estate investments of nearly \$2.3 billion, primarily consisting of interests in 343 properties located in 31 states, including approximately 2,594 acres of land and containing approximately 15.0 million square feet of buildings and improvements. Our tenants operate 505 motor vehicle franchises on our properties, representing 44 brands of motor vehicles, which include all of the top selling brands in the U.S. The initial lease terms generally range from 10 to 20 years (with a weighted average initial lease term for leases entered into during the quarter ended March 31, 2005 of 17.7 years), with our entire portfolio having a weighted average initial lease term of approximately 15.1 years. As of March 31, 2005, our portfolio had a weighted average remaining lease term of approximately 11.7 years. The leases typically have options to renew upon generally the same terms and conditions for one or more additional periods of five to 10 years each, exercisable at the option of the tenants (with renewal options typically ranging from a total of five to 40 years).

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States, commonly referred to as GAAP, for interim financial information and in conformity with the rules and regulations of the Securities and Exchange Commission, commonly referred to as the SEC. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for

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the three months ended March 31, 2005, are not necessarily indicative of the results that may be expected for the full year. These financial statements should be read in conjunction with our audited consolidated financial statements and footnotes thereto, included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements of the Company have been prepared in accordance with GAAP and include the accounts of the Company, its wholly-owned subsidiaries, and other entities where the Company has a majority ownership, all of which it controls. The equity interests of other limited partners are reflected as minority interest. All significant intercompany transactions and balances have been eliminated in consolidation.

Real Estate and Depreciation

The purchase price of real estate properties acquired is allocated to the various components, such as land, buildings and improvements, and in-place leases as appropriate, in accordance with the Financial Accounting Standards Board, commonly referred to as the FASB, Statement of Financial Accounting Standards, commonly referred to as SFAS, No. 142, Goodwill and Other Intangible Assets. The purchase price is allocated based on the fair value of each component at the time of acquisition. The fair value of the buildings and improvements are recorded at the cost of our acquisition which we believe approximates their replacement costs. We generally do not acquire real estate assets that have in-place leases. We typically execute our leases simultaneously with the purchase of the real estate, and because of this, no value has been ascribed to any in-place leases because we do not believe any exist. Therefore, we have not recorded any lease intangible assets or liabilities on our consolidated balance sheets as of March 31, 2005 and December 31, 2004.

Depreciation is computed on our buildings and improvements or leasehold interest assets using the straight-line method over the lesser of the estimated useful life or ground lease term, generally 20 to 45 years. Real estate depreciation expense, including depreciation expense related to discontinued operations, was approximately \$10.0 million and \$8.8 million for the three months ended March 31, 2005 and 2004, respectively.

Furniture, Fixtures and Equipment

Furniture, fixtures and equipment are recorded at cost. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, ranging from three to five years. Total depreciation expense related to our furniture, fixtures and equipment was approximately \$30,000 and \$17,000 for the three months ended March 31, 2005 and 2004, respectively.

Facility Improvements

From time to time, we fund facility improvements on our existing properties. Improvements include costs incurred on facilities during which the tenant's business continues to operate. Facility improvements are recorded as buildings and improvements on our consolidated balance sheets and the rents charged to the tenant on these improvements during the project are recorded as rental revenue. Once the project is completed, the remaining useful life of the buildings and improvements is determined and depreciation expense is adjusted accordingly on a prospective basis.

Construction Financing

We may provide construction financing to our tenants in circumstances in which we own or have a ground lease on the underlying land, which in either case is leased to the tenant. Construction financing includes fundings for the construction of new facilities for which operations have not commenced or fundings for major improvements to existing facilities that cause operations to cease during the construction period. Fundings are recorded as construction advances during the period of construction and the amounts charged to our tenant during that time are recorded as interest income. After completion of the project, the construction advances are paid down simultaneously with our purchase of the buildings and improvements. We are not obligated to purchase the property if certain conditions are not met. The buildings and improvements are acquired at fair market value and recorded as real estate on our consolidated financial statements. Construction advances are included in other assets and totaled approximately \$12.9 million and \$12.1 million as of March 31, 2005 and December 31, 2004, respectively.

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid instruments purchased with original maturities of three months or less.

Restricted Cash

Restricted cash consists primarily of cash reserved to fund debt service payments and funds held in cash collateral accounts. The purpose of the cash collateral accounts is to hold funds, generally in the amount of the interest rate swap valuations at any point in time, to protect lenders in case of an early termination of the existing swaps by us. The cash collateral accounts are controlled by the lenders; however, we earn interest on the funds invested. Restricted cash is included in other assets and totaled approximately \$7.2 million and \$5.0 million as of March 31, 2005 and December 31, 2004, respectively.

Deferred Loan Costs

Certain costs incurred in connection with the issuance of debt instruments are capitalized and generally amortized over the terms of the respective issuance using the effective interest method or on a straight-line basis, which approximates the effective interest method. Deferred loan costs include lender fees and other third party costs. These costs, net of accumulated amortization, are included in other assets and totaled approximately \$23.2 million and \$22.7 million as of March 31, 2005 and December 31, 2004, respectively. Loan cost amortization expense was approximately \$921,000 and \$764,000 for the three months ended March 31, 2005 and 2004, respectively. Upon the early extinguishment of debt instruments, we expense any associated unamortized deferred loan costs in the period the debt is retired. We did not have any such expenses during the three months ended March 31, 2005 and 2004.

Capitalized Leasing Costs

Certain direct costs incurred by us in negotiating and consummating a successful lease are capitalized and generally amortized over the initial base term of the lease. Capitalized leasing costs include employee compensation and payroll-related fringe benefits directly related to time spent performing successful leasing-related activities. These activities include evaluating the financial condition of prospective clients, evaluating and recording guarantees, collateral and other security arrangements, negotiating lease terms, preparing lease documents and closing the transaction. These costs, net of accumulated amortization, are included in other assets and totaled approximately \$1.9 million and \$1.8 million as of March 31, 2005 and December 31, 2004, respectively. Leasing cost amortization expense was approximately \$55,000 and \$49,000 for the three months ended March 31, 2005 and 2004, respectively.

Income Taxes

We believe we are qualified and will continue to qualify as a real estate investment trust, commonly referred to as a REIT, under the provisions of the Internal Revenue Code of 1986, as amended. As a REIT, we are required to distribute at least 90% of our taxable income (excluding any net capital gains) to our shareholders and comply with certain other requirements. We generally will not be subject to federal income tax on taxable income that we distribute to our shareholders. The Company is subject to certain state and local income and franchise taxes.

Rental Revenue Recognition

We lease our real estate pursuant to long-term, triple-net leases, under which the tenants typically pay all operating expenses of a property, including, but not limited to, all real estate taxes, assessments and other government charges, insurance, utilities, repairs and maintenance. Our leases are recorded as operating leases under SFAS No. 13,

Accounting for Leases, for financial reporting purposes. As such, the leased assets remain on our balance sheet and we depreciate them based on their estimated useful lives. Rental income attributable to the leases is recorded monthly when due from tenants. Rental income attributable to the majority of our leases is fixed by the lease agreement. However, under our variable rate lease program, monthly base rent is calculated based on a spread over an applicable index, typically LIBOR. As of March 31, 2005, approximately \$404 million of our real estate portfolio, or 18%, was subject to variable rate leases. This compares to \$412 million of our real estate portfolio, or 21%, that was subject to variable rate leases as of March 31, 2004. The vast majority of our variable rate lease agreements contain minimum lease rates, generally between 8% and 9%, and fixed rate conversion features generally with minimum rates of 10.0% to 10.25%, and none of these leases contain a maximum rate.

Our leases typically provide for upward periodic adjustments in base rent due from our tenants, usually based on a factor of the change in the consumer price index, commonly referred to as CPI. In addition, certain of our leases are subject to fixed minimum and/or maximum rent escalators during the initial lease term and extension periods. Our leases typically reset to market during certain renewal periods. The fixed minimum rent escalations are straight-lined into rental income over the initial lease term. Any rent adjustments above the fixed minimum escalations are recorded as revenue in the period they are due from the tenants. Straight-lined rents are included in other assets and totaled approximately \$21.1 million and \$20.2 million as of March 31, 2005 and December 31, 2004, respectively. Straight-lined rental revenue, including revenue related to discontinued operations, was approximately \$939,000 and \$1.1 million for the three months ended March 31, 2005 and 2004, respectively.

Interest Rate Swaps

During the normal course of business, we are exposed to certain financial market risks, including fluctuations in interest rates. In general, our strategy of match-funding our long-term debt to our leases reduces our exposure to interest rate fluctuations by substantially locking in our investment spreads during the initial term of the leases. As part of this strategy, we have used and may continue to use interest rate swap arrangements to manage or hedge our risk related to the effect of interest rate fluctuations on our investment spreads. We do not enter into interest rate swap arrangements for speculative purposes. We will either hedge our variable rate debt to convert it to a fixed interest rate, designating such hedge as a cash flow hedge, or hedge our fixed rate debt to convert it to a variable interest rate, designating such hedge as a fair value hedge.

The cash flow and fair value hedges were designed to mirror the underlying debt in terms of index, spread, reset, amortization, compounding and maturity. Due to the identical nature of the terms of the swap arrangements and the underlying terms of the debt, the swap arrangements we have entered into with third parties were designated as highly effective at the inception of the swap arrangements.

For all swap arrangements, we are required to post collateral, generally in the amount of the swap valuations at any point in time, to protect the lenders in case of an early termination by us. The collateral posted by us related to our hedges, totaling approximately \$5.9 million and \$3.3 million as of March 31, 2005 and December 31, 2004, respectively, is included in other assets on our consolidated balance sheets.

For a derivative qualifying as a cash flow hedge, the change in the unrealized gain or loss is recorded as a component of accumulated other comprehensive income (loss) within shareholders' equity on our consolidated balance sheets. The fair value of the swap is recorded as either an asset or liability on our consolidated balance sheets.

As of March 31, 2005 and December 31, 2004, we did not have any outstanding interest rate swap arrangements designated as cash flow hedges. Therefore, we did not have any associated unrealized gains or losses as of March 31, 2005 and December 31, 2004. Total comprehensive income for the three months ended March 31, 2005 and 2004 was approximately \$23.6 million and \$14.9 million, respectively. Total comprehensive income equaled net income for the three months ended March 31, 2005.

For a derivative qualifying as a fair value hedge, the change in the net unrealized gain or loss upon measuring the fair value hedge and the fair value of the debt instrument being hedged is recorded on our consolidated statements of operations. Generally, these amounts offset each other. The fair value of the swap is recorded as either an asset or liability, with a corresponding increase or decrease recorded to the carrying value of the debt instrument being hedged on our consolidated balance sheets.

The unrealized loss on our fair value hedge was approximately \$4.9 million and \$3.4 million as of March 31, 2005 and December 31, 2004, respectively. The net unrealized gain or loss on our fair value hedge and the debt being hedged had no impact on our net income for the three months ended March 31, 2005 and 2004, respectively. We have evaluated our fair value hedge as of March 31, 2005 and believe it continues to be highly effective.

Upon the early termination of swap arrangements or when we believe it is probable we are not subject to interest rate risk, we recognize the realized gain or loss in our results of operations in the period of the swap breakage. We did not have any such expenses during the three months ended March 31, 2005 and 2004.

Share-Based Compensation

The Capital Automotive Group Second Amended and Restated 1998 Equity Incentive Plan, which we refer to as the Plan, provides equity compensation to our employees, officers, non-employee trustees and certain other service providers. At March 31, 2005, we accounted for our Plan under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. All options granted under this Plan had exercise prices equal to or greater than the market value of the underlying common stock on the date of grant. Therefore, no compensation expense is reflected in net income for stock option-based awards.

In December 2004, the FASB issued a revision to SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 123(R), Share-Based Payment, supercedes APB Opinion No. 25 and its related Interpretations and was to be effective for the first interim or annual period that begins after June 15, 2005 for public companies (other than those filing as small business issuers). In April 2005, the SEC amended the effective date of SFAS No. 123(R) to require adoption of this Statement to commence in the first annual period that begins after June 15, 2005 (other than those filing as small business issuers). SFAS No. 123(R) requires the fair-value-based recognition method to be applied to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. In addition, the cumulative effect of initially applying this Statement, if any, must be recognized as of the effective date. The adoption of SFAS No. 123(R) is not expected to have a significant impact on our financial condition or results of operations.

The following table illustrates the effect on net income and earnings per share if we had applied the fair-value-based recognition method (in thousands, except per share data).

	For the Three Months Ended March 31,	
	2005	2004
Net income available to common shareholders, as reported	\$ 20,472	\$ 16,694
Add: Share-based compensation expense included in reported net income, net of minority interest	484	267
Deduct: Total share-based compensation expense determined under the fair-value-based method for all awards, net of minority interest	(522)	(303)
 Pro forma net income	 \$ 20,434	 \$ 16,658
 Basic earnings per common share:		
As reported	\$ 0.47	\$ 0.49
Pro forma	\$ 0.47	\$ 0.49
 Diluted earnings per common share:		
As reported	\$ 0.47	\$ 0.48
Pro forma	\$ 0.47	\$ 0.48

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the 2004 consolidated financial statements have been reclassified to conform with the current year presentation.

3. REAL ESTATE INVESTMENTS

During the first quarter of 2005, we increased our net real estate investments by approximately \$36.0 million. The first quarter real estate investments consisted of approximately \$48.3 million in real estate investments transacted with six existing tenants, partially offset by \$12.4 million in real estate property and mortgage note dispositions and repayments of mortgage notes receivable and construction advances.

These investments were located in eight states and include two auto retail properties, facility improvements, advances on one mortgage note receivable and construction advances. The investments were funded with cash on hand and the issuance of long-term debt. The real estate investments contain five automobile franchises and have initial lease terms generally ranging from 15 to 20 years, with a weighted average initial lease term of 17.7 years. The leases have multiple renewal options, which generally are subject to the same terms and conditions and which are exercisable at the option of the tenants.

The following is a summary of our real estate investments as of March 31, 2005 and December 31, 2004 (dollars in thousands):

	Balance as of	
	March 31, 2005	December 31, 2004
Land	\$ 872,971	\$ 866,480
Buildings and improvements	1,363,717	1,330,843
Mortgage notes receivable	27,057	31,242
Construction advances	12,907	12,136
Total real estate investments	\$ 2,276,652	\$ 2,240,701

Mortgage notes receivable and construction advances are included in other assets on our consolidated balance sheets. These notes require monthly interest payments, which are included in interest and other income on our consolidated statements of operations.

4. DISCONTINUED OPERATIONS

Beginning in 2002, SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, requires that gains and losses from dispositions of properties and all operating earnings from these properties be reported as discontinued operations. This also requires that all past earnings applicable to a property disposed of subsequent to January 1, 2002 be reported as discontinued operations. As a result, previously reported income from continuing operations will be updated each time a property is sold. This requirement is for presentation only and has no impact on net income.

During the first quarter of 2005, we sold one auto retail location and a mortgage note receivable for approximately \$6.4 million in sale proceeds, net of commissions and other costs, and recognized approximately \$100,000 of a previously deferred gain. In addition, in exchange for early termination of the lease, we also received a lease termination fee totaling approximately \$93,000, which was recorded during the first quarter. The earnings generated from the real estate disposition, including the lease termination fee, and the gain related to the sale of the mortgage note receivable have been reported as discontinued operations.

The following table sets forth the components of discontinued operations related to the real estate dispositions subsequent to January 1, 2004 (in thousands):

	For the three months ended March 31,	
	2005	2004
Revenue:		
Rental	\$ 13	\$ 1,332
Other	93	1,248
Total revenue	106	2,580
Expenses:		
Depreciation	2	248
Interest		301
Total expenses	2	549
Income from discontinued operations before gain on sale of real estate and minority interest	104	2,031
Gain on sale of real estate	100	1,171
Income related to discontinued operations before minority interest	204	3,202
Minority interest related to discontinued operations	(32)	(595)
Total discontinued operations, net of minority interest	\$ 172	\$ 2,607

5. DEBT OUTSTANDING

The following is a summary of our total debt outstanding as of March 31, 2005 and December 31, 2004 (dollars in thousands):

Description of Debt	Original Debt Issued	Principal Balance as of March 31, 2005	Principal Balance as of December 31, 2004	Effective Term/	
				Interest Rate*	Amortization Schedule
7.59% fixed rate debt due 12/1/08 (1)	38,050	\$ 31,101	\$ 31,513		10 yr/17 yr
5.84% fixed rate debt due 2/1/14 (2)	11,900	11,673	11,728		10 yr/25 yr
Triple Net Lease Mortgage Notes, Series 2002 (3)	325,000	288,922	292,557		(3)
Triple Net Lease Mortgage Notes, Series 2003-1 (4)	228,000	215,450	217,102		(4)
Various variable rate debt (5)	91,320		81,465		(5)
TOTAL MORTGAGE DEBT (6)		\$ 547,146	\$ 634,365	6.83%	
Variable rate term loan due 8/20/09 (7)	150,000	150,000	150,000		(7)
5.46% Senior Notes due 2/24/15 (8)	175,000	175,000			(8)
6.75% Monthly Income Notes due 4/15/19 (9)	125,000	125,000(10)	125,000(10)		(9)
6% Convertible Notes due 5/15/24 (11)	110,000	110,000	110,000		(11)
TOTAL UNSECURED DEBT		\$ 560,000	\$ 385,000	5.16%	
\$250 million revolving unsecured facility (7)			30,000		(7)
TOTAL CREDIT FACILITIES		\$	\$ 30,000	4.14%	
TOTAL DEBT OUTSTANDING		\$ 1,107,146(10)	\$ 1,049,365(10)	6.03%	

* For the quarter ended March 31, 2005. Includes deferred loan fees amortized over the life of the loans.

(1)

This loan requires monthly payments of principal and interest with a final payment at maturity of approximately \$24.2 million. The Partnership has provided a guaranty of collection limited to approximately \$8.9 million of this loan, contingent upon the lender first making written demand upon and proceeding against the borrower, including obtaining judgment and foreclosing upon all collateral. All amounts recovered from the borrower or collateral following a default reduce such guarantee.

- (2) This loan requires monthly level payments of principal and interest with a final payment at maturity of approximately \$9.2 million.

- (3) During 2002, we issued \$325 million in four classes of Triple Net Lease Mortgage Notes, Series 2002. CARS Loan Servicer L.L.C., one of our subsidiaries, is servicer of the notes on behalf of the noteholders. The following is a breakdown of the Triple Net Lease Mortgage Notes, Series 2002 by class:

Class	Original Principal Balance	Current Principal Balance	Maturity Date
A-1a	164,136	139,209	8/15/14
A-1b	9,064	9,064	7/15/15
A-2	75,900	64,749	7/15/15
A-3	75,900	75,900	6/15/22

Classes A-1a and A-1b are fully-amortizing in succession over their respective terms and Classes A-2 and A-3 are fully-amortizing in succession over 20 years. The notes have a weighted average effective interest rate (including deferred loan fees amortized over the life of the notes) of approximately 7.7%. The Partnership has provided a guaranty of collection limited to approximately \$35 million of this loan, contingent upon the trustee first making written demand upon and proceeding against the borrower, including obtaining judgment and foreclosing upon all collateral. All amounts recovered from the borrower or collateral following a default reduce such guarantee. In connection with the issuance of this debt, the Company guarantees certain customary, non-recourse, carveout indemnities. Additionally, in conjunction with the servicing of the debt, the Company guarantees CARS Loan Servicer L.L.C.'s obligations to make certain principal, interest and property protection advances.

- (4) During 2003, we issued \$228 million in two classes of Triple Net Lease Mortgage Notes, Series 2003-1. CARS Loan Servicer L.L.C. is servicer of the notes on behalf of the noteholders. The following is a breakdown of the Triple Net Lease Mortgage Notes, Series 2003-1 by class:

Class	Original Principal Balance	Current Principal Balance	Maturity Date
A-1	109,000	96,450	9/25/15
A-2	119,000	119,000	3/25/19

The notes amortize in succession over a 20-year amortization schedule with the Class A-1 notes fully-amortizing and the Class A-2 notes requiring a final payment at maturity of approximately \$70.8 million. The notes have a weighted average effective interest rate (including deferred loan fees amortized over the life of the notes) of approximately 5.86%. In connection with the issuance of this debt, the Company guarantees certain customary, non-recourse, carveout indemnities. Additionally, in conjunction with the servicing of the debt, the Company guarantees CARS Loan Servicer L.L.C.'s obligations to make certain principal, interest and property protection advances.

- (5) This represents debt that was outstanding with one lender, of which approximately \$81 million was repaid during the first quarter of 2005. Approximately \$73 million of the debt repaid had a spread over the 30-day LIBOR of 175 basis points with a remaining maturity of approximately 8.6 years. We had previously entered into an interest rate swap arrangement with a third party to fix the interest rate on this loan to 7.5%. We terminated the swap arrangement during the fourth quarter of 2004 in anticipation of the debt repayment during the first quarter of 2005. The remaining debt repaid had a spread over the three-month LIBOR of 225 basis points with a remaining maturity of approximately 9.6 years. The debt was repaid with borrowings on our unsecured credit facility, which were subsequently repaid with the proceeds received from the 5.46% senior

unsecured note offering described in footnote (8).

- (6) Our mortgage debt is subject to prepayment penalties.
- (7) During 2004, we closed on a syndicated unsecured revolving credit and term loan facility. The revolving credit portion of the facility is \$250 million with an initial three-year term and an option to extend the term for an additional one-year period. The term loan portion of the facility is a \$150 million five-year unsecured term loan and requires interest-only payments until maturity, at which time the loan requires a final payment totaling \$150 million. The facility bears interest at a spread, generally over LIBOR, and adjusts over time, based upon our debt rating or leverage. As of March 31, 2005, the borrowings under the facility bear interest, based upon our debt rating, equal to the 30-day LIBOR rate plus 95 basis points.
- (8) On February 24, 2005, the Partnership entered into a note purchase agreement to sell \$175 million in aggregate principal amount of 5.46% senior unsecured notes in a private offering to institutional accredited investors within the meaning of Regulation D under the Securities Act of 1933. Pursuant to the agreement, the Partnership issued \$100 million of the notes on February 24, 2005 and an additional \$75 million on March 30, 2005. The Company has guaranteed the Partnership's obligations under the notes. Interest on the notes is payable semi-annually. The notes

have a 10-year term. The Partnership may, at its option, prepay the notes, at any time, in whole or, from time to time, in part, in an amount equal to at least \$5 million of the aggregate principal amount then outstanding, at 100% of the principal amount to be prepaid, plus any make-whole amount due in connection with the prepayment. In general, the make-whole amount is the amount by which the discounted value of the remaining payments relating to the principal amount to be prepaid (determined in accordance with the terms of the note purchase agreement) exceeds the principal amount to be prepaid. The net proceeds to the Company, after deducting the expenses of the offering, totaled approximately \$174 million. A portion of the net proceeds were used to repay borrowings outstanding on our syndicated unsecured credit facility and to fund acquisitions. The remainder of the net proceeds will be used to fund future real estate investments and for general corporate purposes.

- (9) During 2004, we closed on a public offering of \$125 million 6.75% senior unsecured monthly income notes at par. Interest on the notes is payable monthly. The notes have a 15-year term and are redeemable at the Company's option after five years at par. On March 18, 2004, which was the date the Company priced the notes, we entered into an interest rate swap arrangement with a third party to cause the interest rate on \$100 million of the notes effectively to be at a floating rate of the three-month LIBOR plus 162.4 basis points. The unrealized loss on our fair value hedge was approximately \$4.9 million and \$3.4 million as of March 31, 2005 and December 31, 2004, respectively, as further described in the Summary of Significant Accounting Policies Interest Rate Swaps footnote herein.
- (10) Although the principal balance of the \$125 million 6.75% senior unsecured monthly income notes was \$125 million as of March 31, 2005 and December 31, 2004, in accordance with GAAP, the carrying value of the debt on our balance sheet has been reduced by \$4.9 million and \$3.4 million, respectively, representing the change in the fair value of the swap described in footnote (9) and as more fully described in the Summary of Significant Accounting Policies Interest Rate Swaps footnote herein.
- (11) During 2004, we closed on a public offering of \$110 million 6% convertible notes. The notes have a 20-year term and are convertible, at the option of the holder, into the Company's common shares under certain circumstances, at an initial conversion price of \$35.5679 per share, subject to certain adjustments. The initial price is equivalent to a conversion rate of 28.1152 shares per \$1,000 principal amount of notes and was equivalent to a premium of 30% at the closing. The conversion rate will be adjusted under certain circumstances, including common stock splits, common stock issuances as dividends and increases in the dividend rate. The Company may, at its option, redeem the notes for cash on or after May 15, 2009, at any time, in whole or, from time to time, in part, at a redemption price equal to 100% of the principal amount to be redeemed plus accrued and unpaid interest. The noteholders may require us to repurchase all or part of the notes on May 15, 2009, May 15, 2014 and May 15, 2019, or upon a change in control, at a price equal to 100% of the principal amount plus accrued and unpaid interest. The notes require semi-annual interest payments. The deferred loan fees associated with this debt are being amortized over a five-year period. Additionally, during the first quarter of 2005, we terminated two secured credit facilities, totaling \$200 million, which were replaced by our syndicated unsecured revolving credit facility as further described above.

Our unsecured debt generally contains various restrictive covenants. The covenants in our unsecured debt include, among others, provisions restricting our ability to:

incur or guarantee additional debt;

make certain distributions, investments and other restricted payments, including distribution payments on our outstanding common and preferred shares;

limit the ability of restricted subsidiaries to make payments to us;

enter into transactions with certain affiliates;

create certain liens; and

consolidate, merge or sell our assets.

Our secured debt generally contains customary covenants, including, among others, provisions:

- relating to the maintenance of the property securing the debt;
- restricting our ability to sell, assign or further encumber the properties securing the debt;
- restricting our ability to incur additional debt;
- restricting our ability to amend or modify existing leases; and

relating to certain prepayment restrictions.

Our ability to meet some of the covenants in our debt, including covenants related to the condition of the property or payment of real estate taxes, may be dependent on the performance by our tenants under their leases.

In addition, certain financial covenants in our debt, including our \$250 million unsecured revolving credit facility, require us and our subsidiaries, among other things, to:

- limit the amount of debt to a certain percentage of total assets;
- limit the amount of secured debt to a certain percentage of total assets;
- maintain certain minimum interest and debt service coverage ratios; and
- maintain a certain level of unencumbered assets.

As of March 31, 2005, we were in compliance with all of the debt covenants related to our debt outstanding.

Aggregate annual repayments of our debt outstanding as of March 31, 2005 are as follows (in thousands):

For the Year Ended December 31,

	Principal Amortization	Maturities	Total
2005	\$ 17,678	\$	\$ 17,678
2006	25,142		25,142
2007	26,979		26,979
2008	28,735	24,211	52,946
2009	28,810	260,000	288,810
Thereafter	315,594	379,997	695,591
Total	\$ 442,938	\$ 664,208	\$ 1,107,146

6. PREFERRED EQUITY

Set forth below is a summary of our preferred shares of beneficial interest:

Series of Preferred Share of Beneficial Interest	# of Shares Issued	Month of Issuance	Annual Dividend Yield (1)	Annual Dividend Per Share	Earliest Redemption Date
Series A	3,950,000	December 2003	7.5%	\$ 1.875	12/11/08
Series B	2,600,000	April/May 2004	8.0%	2.000	4/27/09

(1) Yield computed based on \$25.00 per share redemption price.

All of the classes of preferred shares set forth in the table above are non-voting and redeemable for cash, at \$25.00 per share plus any accrued and unpaid dividends, at our option only on or after the earliest redemption date, unless in limited circumstances in which early redemption is necessary to preserve our status as a real estate investment trust for federal income tax purposes. The preferred shares have no stated maturity and are not subject to any sinking fund provisions. Additionally, the shares are not convertible into or exchangeable for any other security unless conversion is necessary to maintain our status as a real estate investment trust. Holders of these shares are entitled to cumulative dividends, payable quarterly. In the case of each series of preferred shares, there is a series of Preferred Units owned by us that carries substantially the same terms.

7. MINORITY INTEREST

Assets and liabilities allocated to the limited partners (other than the Company), which we describe as the Minority Interest, are based on their ownership percentage of the Partnership at the end of the period. The ownership percentage is determined by dividing the number of Common Units held by the Minority Interest at the end of the period by the total Common Units outstanding at the end of the period, excluding derivative securities. The full redemption amount of the Preferred Units is deducted from the Partnership's equity prior to applying the ownership percentage to calculate Minority Interest. The Minority Interest ownership percentage in the Partnership's equity was 15.8% as of March 31, 2005 and December 31, 2004.

Income before minority interest is allocated to the limited partners based on their weighted average ownership during the period. The ownership percentage is determined by dividing the weighted average number of Common Units held by the Minority Interest by the total weighted average number of Common Units outstanding during the period, excluding derivative securities. Income before minority interest is reduced by Preferred Unit dividends prior to applying the ownership percentage. The Minority Interest ownership percentage in income of the Partnership was 15.8% and 18.6% for the three months ended March 31, 2005 and 2004, respectively.

Holders of Common Units, which we refer to as Unitholders, are entitled to quarterly distributions which are equivalent to the quarterly dividend distributions received by holders of common shares. There were 8.1 million Common Units as of March 31, 2005 and December 31, 2004, not held by the Company, which were outstanding and could be exchanged for common shares of the Company on a one-for-one basis in specified circumstances. When a Unitholder converts Common Units to common shares, an adjustment is recorded to equity to reflect the change in the Minority Interest ownership in the Partnership. When the Company issues common shares from an underwritten public offering, its share-based compensation plan and its Dividend Reinvestment and Share Purchase Plan, the net

proceeds from these issuances are contributed to the Partnership in exchange for Common Units and an adjustment is recorded to equity to reflect the change in the Minority Interest ownership in the Partnership.

8. EARNINGS PER COMMON SHARE

Basic earnings per common share is computed as net income available to common shareholders divided by the weighted average common shares, excluding restricted shares, outstanding for the period. Diluted earnings per common share is computed as net income available to common shareholders, adjusted to reflect the change in the income allocated to minority interest calculated as if the dilutive securities were outstanding, divided by the weighted average common shares outstanding for the period plus the effect of dilutive securities outstanding for the period, based on the treasury stock method. Dilutive securities include options, phantom shares and restricted shares.

In September 2004, the Emerging Issues Task Force, commonly referred to as the EITF, reached a final consensus affirming their June 2004 tentative conclusion (with modifications) on EITF Issue No. 04-8, *The Effect of Contingently Convertible Instruments on Diluted Earnings Per Share*. Contingently convertible debt instruments, which are commonly referred to as Co-Cos and include our \$110 million 6% convertible notes, combine the features of contingently issuable shares with a convertible debt instrument. These instruments generally become convertible into common stock only if one or more specified contingencies occur, and at least one of the contingencies is based on the market price of the issuer's shares. The EITF concluded that Co-Cos should be included in diluted earnings per share computations using the if-converted method regardless of whether the market price trigger or other contingent feature has been met. Under the if-converted method, the instrument is considered converted, with the resulting number of shares included in the denominator of the earnings per common share calculation and the interest expense, net of tax, added back to the numerator of the earnings per common share calculation. In applying the if-converted method, conversion shall not be assumed for purposes of computing diluted earnings per share if the effect would be anti-dilutive.

The FASB plans to issue an amendment to SFAS No. 128, *Earnings Per Share*, during the first six months of 2005. The effective date of the September 2004 consensus was originally to coincide with the effective date of the proposed amendment. As a result of the delay in the amendment of SFAS No. 128, in November 2004, the EITF agreed to change the transition provisions of the consensus reached to require that the guidance be applied to reporting periods ending after December 15, 2004. The consensus must be applied by restating all periods during which the contingently convertible debt instrument was outstanding.

During the second quarter of 2004, we closed on a public offering of \$110 million 6% convertible notes, as further described in the *Debt Outstanding* footnote herein. The notes have a 20-year term and are convertible, at the option of the holder, into the Company's common shares under certain circumstances, at an initial conversion price of \$35.5679 per share, subject to certain adjustments. The result of the potential conversion of the \$110 million 6% convertible notes was not included in the calculation of diluted earnings per share because it would have been anti-dilutive for the three months ended March 31, 2005.

A reconciliation of income and weighted average common shares used to calculate basic and diluted earnings per common share for the three months ended March 31, 2005 and 2004 is as follows (in thousands, except per share data):

	Three Months Ended	
	March 31,	
	2005	2004
Income from continuing operations	\$ 23,452	\$ 15,939
Preferred share dividends	(3,152)	(1,852)
Income from continuing operations used to calculate basic earnings per common share	20,300	14,087
Impact of dilutive securities	22	48
Income from continuing operations used to calculate diluted earnings per common share	\$ 20,322	\$ 14,135
Basic earnings per common share	\$ 0.47	\$ 0.41
Diluted earnings per common share	\$ 0.47	\$ 0.41
Net income available to common shareholders	\$ 20,472	\$ 16,694
Impact of dilutive securities	21	58
Net income used to calculate diluted earnings per common share	\$ 20,493	\$ 16,752
Basic earnings per common share	\$ 0.47	\$ 0.49
Diluted earnings per common share	\$ 0.47	\$ 0.48
<i>Weighted average shares:</i>		
Common shares outstanding used to compute basic earnings per common share	43,235	34,049
Impact of dilutive securities	303	624
Common shares outstanding used to compute diluted earnings per common share	43,538	34,673

9. DIVIDENDS DECLARED PER SHARE

The following table summarizes any activity related to our dividends during the three months ended March 31, 2005:

	Record Date	Date Payable	Per Share
Common Shares:			
Fourth Quarter 2004	February 7, 2005	February 18, 2005	\$ 0.43050
First Quarter 2005	May 10, 2005	May 20, 2005	\$ 0.43800
Series A Preferred Shares:			
November 1, 2004 - January 31, 2005	February 1, 2005	February 15, 2005	\$ 0.46875
February 1, 2005 - April 30, 2005	May 2, 2005	May 16, 2005	\$ 0.46875
Series B Preferred Shares:			
November 1, 2004 - January 31, 2005	February 1, 2005	February 15, 2005	\$ 0.50000
February 1, 2005 - April 30, 2005	May 2, 2005	May 16, 2005	\$ 0.50000

10. COMMITMENTS

We currently have contractual commitments to fund facility improvements and construction with several tenants generally on properties we own. Such commitments are subject to typical construction terms and conditions. Improvements include costs incurred by tenants on facilities during which the tenant's business continues to operate without interruption. Construction financings include advances for the construction of new facilities by tenants for which operations have not commenced or fundings for major improvements to existing facilities that cause operations to cease during the construction period. As of March 31, 2005, these commitments totaled approximately \$130 million. The majority of these projects are expected to be completed during the next two years.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

We begin Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) with our primary business strategy to give the reader an overview of the goals of our business. This is followed by a discussion of our recent developments beginning on page 24. In the next section, beginning on page 25, we discuss our results of operations for the periods presented. We then provide, beginning on page 29, an analysis of our liquidity and capital resources, including discussions of our cash flows, financing strategy, debt arrangements, sources of capital and financial commitments. Finally, on page 38, we discuss funds from operations, or FFO, which is a relative non-GAAP financial measure of performance of a REIT used by the REIT industry.

The MD&A should be read in conjunction with the other sections of this Quarterly Report on Form 10-Q, including the consolidated financial statements and notes thereto appearing in Item 1 of this report, disclosures about our market risk appearing in Item 3 of this report and the subsection captioned "Forward-Looking Statements" herein.

OVERVIEW

Our primary business strategy is to purchase real estate (land, buildings and other improvements) or leasehold interests therein, which we simultaneously lease to operators of franchised automobile dealerships and motor vehicle service, repair or parts businesses, used vehicle businesses and other related businesses under long-term, triple-net leases. In addition, we provide mortgages, fund facility improvements, construction financing and takeout commitments in certain circumstances. We use (i) the term "dealerships" to refer to these types of businesses that are operated on our properties and (ii) the terms "dealer group," "tenant" or "operators of dealerships" to refer to the persons and entities that lease our properties from us or mortgage their properties with us. We focus on leasing properties or providing mortgages to dealer groups that have a long history of operating multi-site, multi-franchised dealerships, generally targeting the largest dealer groups in terms of revenues in the largest metropolitan areas in the U.S. in terms of population. As of March 31, 2005, we had real estate investments of nearly \$2.3 billion, primarily consisting of interests in 343 properties located in 31 states, including approximately 2,594 acres of land and containing approximately 15.0 million square feet of buildings and improvements. Our tenants operate 505 motor vehicle franchises on our properties, representing 44 brands of motor vehicles, which include all of the top selling brands in the U.S.

Substantially all of our properties are leased pursuant to long-term, triple-net leases, under which the tenants typically pay all operating expenses of a property, including, but not limited to, all real estate taxes, assessments and other government charges, insurance, utilities, repairs and maintenance. The initial lease terms generally range from 10 to 20 years (with a weighted average initial lease term for leases entered into during the quarter ended March 31, 2005 of 17.7 years), with our entire portfolio having a weighted average initial lease term of approximately 15.1 years. As of March 31, 2005, our portfolio had a weighted average remaining lease term of approximately 11.7 years. The leases typically have options to renew upon generally the same terms and conditions for one or more additional periods of five to 10 years each, exercisable at the option of the tenants (with renewal options typically ranging from a total of five to 40 years).

Substantially all of our revenues are derived from (1) rents received or accrued under long-term, triple-net leases; (2) interest earned on mortgage notes or construction advances secured by real estate; (3) interest earned from the temporary investment of funds in short-term investments; and (4) other fee income.

We are a self-administered and self-managed real estate company operating as a real estate investment trust, or a REIT, for federal income tax purposes. Our general and administrative expenses consist primarily of compensation expense for our executive officers and other employees, professional fees, office administration expenses (including rent), business taxes and insurance and various other expenses incurred in managing our business. Our primary non-cash expense is the depreciation of our properties. We depreciate buildings and improvements on our properties or leasehold interests over a nine-year to 40-year period for tax purposes and generally a 20-year to 45-year period for financial reporting purposes. We do not own or lease any significant personal property, furniture or equipment at any property we own.

RECENT DEVELOPMENTS

Real Estate Investments

During the first quarter of 2005, we increased our net real estate investments by approximately \$36.0 million. The first quarter real estate investments consisted of approximately \$48.3 million in real estate investments transacted with six existing tenants, partially offset by \$12.4 million in real estate property and mortgage note dispositions and repayments of mortgage notes receivable and construction advances.

These investments were located in eight states and include two auto retail properties, facility improvements, advances on one mortgage note receivable and construction advances. The investments were funded with cash on hand and the issuance of long-term debt. The real estate investments contain five automobile franchises and have initial lease terms generally ranging from 15 to 20 years, with a weighted average initial lease term of 17.7 years. The leases have multiple renewal options, which generally are subject to the same terms and conditions and which are exercisable at the option of the tenants.

Financing

During the first quarter of 2005, we completed the following transactions:

On January 27, 2005, we repaid \$73.0 million of secured variable rate debt. The secured debt repaid had a spread over the 30-day LIBOR of 175 basis points with a remaining maturity of 8.6 years. We had previously entered into an interest rate swap arrangement with a third party to fix the interest rate on this loan to 7.5%. We terminated the swap arrangement during the fourth quarter of 2004 in anticipation of the debt repayment during the first quarter of 2005. The debt was repaid with borrowings on our unsecured credit facility, which were subsequently repaid with the proceeds received from the 5.46% senior unsecured note offering described below;

On February 24, 2005, we entered into a note purchase agreement to sell \$175 million in aggregate principal amount of senior unsecured notes in a private offering to institutional accredited investors within the meaning of Regulation D under the Securities Act of 1933. The notes bear interest at a fixed rate of 5.46% per annum and mature on February 24, 2015. Pursuant to the agreement, the Partnership issued \$100 million of the notes on February 24, 2005 and an additional \$75 million on March 30, 2005. A portion of the \$174 million in net proceeds were used to repay borrowings outstanding on our unsecured credit facility and to fund acquisitions. The remainder of the net proceeds will be used to fund future real estate investments and for general corporate purposes; and

On March 24, 2005, we repaid \$8.5 million of secured variable rate debt. The secured debt repaid had a spread over the three-month LIBOR of 225 basis points with a remaining maturity of 9.6 years. The debt was repaid with borrowings on our unsecured credit facility, which were subsequently repaid with the proceeds received from the 5.46% senior unsecured note offering described above.

RESULTS OF OPERATIONS

Revenue

This section should be read in conjunction with the section captioned *Liquidity and Capital Resources - Variable Rate Lease Program* herein.

<i>(dollars in thousands)</i>	For the three months		% Change
	ended March 31, 2005	ended March 31, 2004	
Revenue			
Rental	\$ 55,568	\$ 46,505	19%
Interest and other	1,087	970	12%
Total	\$ 56,655	\$ 47,475	19%

Rental. The increase in rental revenue from the three months ended March 31, 2004 to the three months ended March 31, 2005 was primarily attributable to the growth of our real estate portfolio from sale-leaseback transactions and facility improvements from which we generate our rental income. The following table demonstrates the growth of our real estate portfolio for the periods indicated. Excluded in the periods presented are property dispositions that have occurred through March 31, 2005. The results of operations related to these properties were reclassified from rental revenue to discontinued operations for all periods presented as further described under the *Discontinued Operations* section herein.

As of	Real Estate before			Total Square Footage (in millions)
	Accumulated Depreciation (in thousands)	Number of Properties	Total Land Acreage	
December 31, 2003	\$ 1,801,510	302	2,232	13.0
March 31, 2004	1,877,968	307	2,292	13.4
December 31, 2004	2,196,245	341	2,582	14.9
March 31, 2005	2,236,688	343	2,594	15.0

The increase in rental income was also attributable to an increase from rent adjustments above the fixed minimum escalators, which are recorded as revenue in the period they are due from the tenants.

Interest and Other. The increase in interest and other income from the three months ended March 31, 2004 to the three months ended March 31, 2005 was primarily due to interest earned on mortgage notes and construction advances secured by real estate. Mortgage notes and construction advances totaled approximately \$40.0 million and \$10.9 million as of March 31, 2005 and 2004, respectively. The increase was partially offset by lease assignment fees earned during the three months ended March 31, 2004. There were no lease assignment fees during the three months ended March 31, 2005.

Expenses

<i>(dollars in thousands)</i>	For the three months ended March 31,		%
	2005	2004	Change
Expenses			
Depreciation and amortization	\$ 10,133	\$ 8,575	18%
General and administrative	3,284	2,741	20%
Interest	15,976	17,005	(6%)
Total	\$ 29,393	\$ 28,321	4%

Depreciation and Amortization. Depreciation and amortization consisted primarily of depreciation on buildings and improvements we owned or had a leasehold interest in during the periods indicated above. The increases are primarily attributable to the growth of our real estate portfolio described under *Revenue Rental* above, resulting in an increase in our depreciable assets.

General and Administrative. General and administrative expenses increased from the three months ended March 31, 2004 to the three months ended March 31, 2005 due primarily to an increase in payroll and related expenses primarily attributable to an increase in overall compensation and an increase in the number of employees as well as an increase in professional fees related to information technology consultation services. This increase was partially offset by a decrease in legal fees related to expenses recognized during the three months ended March 31, 2004 related to the litigation that was settled during the fourth quarter of 2004.

Interest. The following table sets forth certain information regarding our debt as of the periods indicated.