CAPITAL AUTOMOTIVE REIT
Form 10-Q
November 13, 2001

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

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

For quarterly period ended September 30, 2001

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

1420 Spring Hill Road, Suite 525, 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 X No

Number of common shares of beneficial interest outstanding as of October 31, 2001 was 26,003,523.

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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)

	September 30, 2001	December 31, 2000
	(Unaudited)	
ASSETS		
Real estate:		
Land	$ 501,964	$ 446,418
Buildings and improvements	700,478	591,452
Accumulated depreciation	(54,007)	(38,644)
	1,148,435	999,226
Cash and cash equivalents	1,540	6,298
Other assets, net	17,537	16,065
Total Assets	$1,167,512	$1,021,589
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Mortgage debt	$ 645,090	$ 571,519
Borrowings under credit facilities	21,708	14,200
Accounts payable and accrued expenses	13,513	24,254
Security deposits payable	6,931	5,855
Total Liabilities	687,242	615,828
Minority Interest	113,696	115,728
Shareholders Equity		
Preferred shares, par value $.01 per share; 20 million shares authorized, no shares issued or outstanding		
Common shares, par value $.01 per share; 100 million shares authorized, 25,985,108 shares issued and outstanding at September 30, 2001 and 21,185,240 shares issued and outstanding at December 31, 2000	260	212
Additional paid-in-capital	381,103	307,715
Distributions in excess of accumulated earnings	(14,789)	(17,894)
Total Shareholders Equity	366,574	290,033
Total Liabilities and Shareholders Equity	$1,167,512	$1,021,589

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
Revenue:				
Rental	$30,155	$25,612	$86,543	$75,378
Interest and other	182	156	275	830
Total revenue	30,337	25,768	86,818	76,208
Expenses:				
Depreciation and amortization	5,476	4,421	15,631	13,075
General and administrative	1,790	1,646	5,235	4,970
Interest	12,015	10,595	35,510	31,227
Total expenses	19,281	16,662	56,376	49,272
Net income before minority interest and extraordinary item	11,056	9,106	30,442	26,936
Minority interest	(2,763)	(2,619)	(8,212)	(7,711)
Net income before extraordinary item	8,293	6,487	22,230	19,225
Extraordinary item Significant modification of debt	(526)		(526)	
Net income	$ 7,767	$ 6,487	$21,704	$19,225
Shares of common stock outstanding used to compute basic earnings per share	24,305	20,811	22,493	20,867
Basic earnings per share before extraordinary item	$ 0.34	$ 0.31	$ 0.99	$ 0.92
Basic earnings per share	$ 0.32	$ 0.31	$ 0.96	$ 0.92
Shares of common stock outstanding used to compute diluted earnings per share	25,635	21,096	23,360	21,061
Diluted earnings per share before extraordinary item	$ 0.33	$ 0.31	$ 0.96	$ 0.91
Diluted earnings per share	$ 0.31	$ 0.31	$ 0.94	$ 0.91

See accompanying Notes to Consolidated Financial Statements.

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

	Nine Months Ended September 30, 2001	2000
Cash flows from operating activities:		
Net income	$ 21,704	$ 19,225
Adjustments to reconcile net income to net cash provided by operating activities:		
Extraordinary item	526	
Depreciation and amortization	16,537	13,826
Income applicable to minority interest	8,212	7,711
Increase in other assets	(3,185)	(1,119)
Increase (decrease) in accounts payable and accrued expenses	1,299	(2,497)
Increase in security deposits payable	1,076	393
Net cash provided by operating activities	46,169	37,539
Cash flows from investing activities:		
Purchase of furniture and equipment, net of disposals	(26)	(25)
Real estate acquisitions	(170,907)	(48,698)
Proceeds from the dispositions of real estate	7,411	4,811
Net cash used in investing activities	(163,522)	(43,912)
Cash flows from financing activities:		
Proceeds from borrowings under credit facilities	121,238	44,500
Proceeds from mortgage debt	83,261	13,962
Repayment of borrowings under credit facilities	(113,730)	(11,700)
Mortgage principal payments	(9,690)	(7,932)
Payment of cash dividend	(26,599)	(23,182)
Distributions to minority partners	(9,680)	(9,133)
Repurchase of common shares	(142)	(9,863)
Proceeds from follow-on offering, net of costs	61,264	
Issuance of other common shares, net of costs	6,673	1,984
Net cash provided by (used in) financing activities	112,595	(1,364)
Net decrease in cash and cash equivalents	(4,758)	(7,737)
Cash and cash equivalents at beginning of period	6,298	11,886
Cash and cash equivalents at end of period	$ 1,540	$ 4,149
Supplemental Data:		
Real estate acquisitions in exchange for equity issuance	$ 1,212	$ 1,897
Interest paid during the period	$ 33,737	$ 35,526

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 (the Company) is a Maryland real estate investment trust formed in October 1997. The Company owns interests in real estate through Capital Automotive L.P. (the Operating Partnership) and its subsidiaries. The Company is the sole general partner of the Operating Partnership, and as of September 30, 2001 owned approximately 76.3% of the units of limited partnership interest in the Operating Partnership (Units). References to we, us and our refer to the Company or, if the context otherwise requires, the Operating Partnership and our business and operations conducted through the Operating Partnership and/or directly or indirectly owned subsidiaries.

Our primary business strategy is to purchase real estate (land, buildings and other improvements), which we simultaneously lease to operators of franchised automobile dealerships and motor vehicle service, repair, parts or other related businesses under long-term, triple-net leases. We use (i) the term dealerships to refer to these types of businesses that are operated on our properties, (ii) the term dealer group to refer to a group of related persons and companies who sell us properties, and (iii) the term dealer group, tenant, lessee or operators of dealerships to refer to the related persons and companies that lease our properties. We focus on buying properties from 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. In addition, we also provide facility improvement and expansion funding, construction financing and takeout commitments in certain situations.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared by our management in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and in conformity with the rules and regulations of the Securities and Exchange Commission (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 the three months and nine months ended September 30, 2001, 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, 2000.

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 investors are reflected as minority interest. All significant intercompany transactions and balances have been eliminated in consolidation.

Real Estate and Depreciation

Real estate assets are recorded at cost. External acquisition costs directly related to each property are capitalized as a cost of the respective property. The cost of real estate properties acquired is allocated between land and buildings and improvements based upon estimated market values at the time of acquisition. Depreciation is computed using the straight-line method over an estimated useful life of 20 to 40 years for the buildings and improvements.

Cash and Cash Equivalents

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

Deferred Loan Costs

Certain costs incurred in connection with obtaining our credit facilities and issuance of mortgage notes are capitalized and generally amortized over the terms of the respective credit facilities or notes on a straight-line basis (which approximates the effective interest method).

Capitalized Leasing Costs

Certain initial 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. These costs, net of accumulated amortization, are included in other assets. Capitalized leasing costs include employee compensation and payroll related fringe benefits directly related to time spent performing leasing related activities. Such activities include evaluating the prospective tenant s financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating lease terms, preparing lease documents and closing the transaction.

Income Taxes

We are qualified as a real estate investment trust under the provisions of the Internal Revenue Code of 1986, as amended (the Code). As a real estate investment trust, we are generally not subject to federal income tax to the extent that we distribute annually at least 90% of our taxable income to our shareholders and comply with certain other requirements.

Rental Revenue Recognition

We lease our real estate pursuant to long-term, triple-net leases that typically require the tenants to pay substantially all operating expenses of a property, including, but not limited to, real estate taxes, assessments and other government charges, insurance, utilities, repairs, maintenance and other expenses. All leases are accounted for as operating leases and rental income attributable to the leases is recorded monthly when due from tenants. Rental income attributable to the majority of our leases is fixed per the lease agreement. However, under our variable rate lease program, rental income attributable to our leases is variable, and monthly base rent is calculated based on a spread over an applicable index, generally LIBOR. As of September 30, 2001, $288.0 million of our $1.2 billion real estate portfolio, or 24%, was subject to variable rate leases. Of the total variable rate leases, the majority of the lease agreements contain minimum cap rates and fixed rate conversion features.

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 (CPI). Certain of our leases also or alternatively provide for a fixed minimum and/or maximum periodic adjustment during the initial lease term, generally based on a fixed percentage of the base rent. We straight-line the fixed minimum escalator rental income over the initial lease term. Any rent adjustments above the fixed minimum escalators are recorded as revenue in the period they are due from the tenants. Straight-lined rents are included in other assets.

In December 1999, the SEC issued Staff Accounting Bulletin (SAB) No. 101, Revenue Recognition in Financial Statements. This SAB summarizes certain views in applying GAAP to revenue recognition in financial statements. We adopted SAB 101 in the fourth quarter of 2000. The adoption and implementation of the policies of SAB 101 has not had any impact on our revenue recognition policies, financial condition or results of operations.

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.

3. ACQUISITIONS

During the three months ended September 30, 2001, we completed a total of approximately $120.5 million of acquisitions in nine separate transactions. These acquisitions included 11 dealership properties, one of which is operated by an existing tenant, and facility improvements and construction fundings with existing tenants. We funded the acquisitions with net proceeds from our underwritten public equity offering that closed during the third quarter, the issuance of long-term debt drawn under a $150 million commitment from Toyota Financial Services and funds drawn down on our short-term credit facilities. These acquisitions added approximately 538,000 square feet of buildings and improvements on approximately 127 acres of land in 11 states (Alabama, California, Florida, Georgia, Maryland, New Jersey, Ohio, South Carolina, Tennessee, Texas and Virginia). These properties have initial lease terms ranging from 15 to 20 years, with a weighted average initial lease term of 15.2 years. The leases have renewal options exercisable at the option of the tenant ranging from a total of 20 to 30 years.

Included in the third quarter acquisitions were nine automotive retail properties totaling approximately $102.4 million from CarMax (NYSE: KMX), a division of Circuit City Stores, Inc. (NYSE: CC) (the CarMax acquisition). This acquisition added approximately 413,000 square feet of buildings and improvements on approximately 116 acres of land in seven states (California, Florida, Maryland, South Carolina, Tennessee, Texas and Virginia). Eight used-car superstores and five new-car franchises are operated on these nine properties including Toyota, Mitsubishi and Nissan. These properties have initial lease terms of 15 years and multiple renewal options.

As of September 30, 2001, we had invested approximately $1.2 billion in 260 properties located in 27 states, comprising approximately 1,767 acres of land and containing approximately 9.7 million square feet of buildings and improvements. Our tenants operate 364 motor vehicle franchises on our properties, representing 37 brands of motor vehicles. The initial lease terms generally range from 10 to 20 years, with a weighted average initial lease term of approximately 13.8 years, and generally have options to renew under the same terms and conditions for one or more additional periods of five to 10 years exercisable at the option of the tenant (ranging from a total of five to 40 years).

4. MORTGAGE LOANS AND CREDIT FACILITIES

As of September 30, 2001, we had total debt outstanding of $666.8 million. Of this debt, approximately $645.1 million (consisting of $324.1 million of fixed rate and $321.0 million of variable rate debt) was mortgage debt secured by approximately 220 of our properties. In addition, we had $21.7 million outstanding on our credit facilities.

The following is a summary of our total debt outstanding as of September 30, 2001 and December 31, 2000 (dollars in thousands):

Description of Debt	Original Debt Issued	Principal Balance as of September 30, 2001	Principal Balance as of December 31, 2000	Effective Interest Rate*	Term/ Amortization Schedule
7.59% fixed rate debt due 12/1/08	$ 38,050	$ 36,201	$ 37,103	8.00%	10 yr/17 yr
7.635% fixed rate debt due 10/1/14	111,950	100,585	103,749	7.93%	15 yr/15 yr
8.05% fixed rate debt due 10/1/14	85,000	79,159	81,560	8.33%	15 yr/15 yr
7.54% fixed rate debt due 7/6/11	100,000	96,915	98,093	7.71%	12 yr/25 yr
8.03% fixed rate debt due 9/29/11 (1)	150,000		150,000		
7.50% fixed rate debt due 1/20/03	12,000	11,214	11,421	7.76%	4.25 yr/20 yr
Total Mortgage Fixed Rate Debt	$497,000	$324,074	$481,926	7.96%	
Variable rate debt due 9/29/11 (1)	$150,000	$150,000		7.31%	12 yr/25 yr, level payments
Variable rate debt due 8/10/13 (2)	82,600	82,600		4.72%	12 yr/30 yr, level principal
Various variable rate debt (3)	90,554	88,416	89,593	5.93%	10 to 12 yr/25 to 30 yr, level principal
Total Mortgage Variable Rate Debt	$323,154	$321,016	$ 89,593	6.57%	
TOTAL MORTGAGE DEBT		$645,090	$571,519	7.08%	
$50 million revolving partially secured facility (4)		13,900	14,198	5.66%	3 yr
$100 million revolving secured facility (5)		7,808	2	6.29%	1 yr
TOTAL CREDIT FACILITIES		$ 21,708	$ 14,200	6.08%	
TOTAL DEBT OUTSTANDING		**$666,798**	**$585,719**	**7.27%**	

* For the quarter ended September 30, 2001. Includes deferred loan fees amortized over the life of the loans.