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CAPITAL AUTOMOTIVE REIT  
Form 10-Q  
May 11, 2001

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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 March 31, 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  
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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 April 30, 2001 was 21,655,202.

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CAPITAL AUTOMOTIVE REIT  
CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS, EXCEPT SHARE DATA)

MARCH 31  
2001

(UNAUDITED)

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## ASSETS

### Real estate:

|                            |    |     |
|----------------------------|----|-----|
| Land                       | \$ | 4   |
| Buildings and improvements |    | 6   |
| Accumulated depreciation   |    | (   |
|                            |    | 1,0 |

Cash and cash equivalents

Other assets, net

|              |    |     |
|--------------|----|-----|
| TOTAL ASSETS | \$ | 1,0 |
|--------------|----|-----|

## LIABILITIES AND SHAREHOLDERS' EQUITY

### LIABILITIES:

|                                       |    |   |
|---------------------------------------|----|---|
| Mortgage loans                        | \$ | 5 |
| Borrowings under credit facilities    |    |   |
| Accounts payable and accrued expenses |    |   |
| Security deposits payable             |    |   |

|                   |  |   |
|-------------------|--|---|
| TOTAL LIABILITIES |  | 6 |
|-------------------|--|---|

Minority Interest

### SHAREHOLDERS' EQUITY

Preferred shares, \$.01 par value; 20,000,000 shares authorized;  
none outstanding

Common shares, \$.01 par value; 100,000,000 shares authorized;  
21,653,622 shares issued and outstanding at March 31, 2001 and  
21,185,240 shares issued and outstanding at December 31, 2000

Additional paid-in-capital

Accumulated deficit

|                            |  |   |
|----------------------------|--|---|
| TOTAL SHAREHOLDERS' EQUITY |  | 3 |
|----------------------------|--|---|

|                                            |    |     |
|--------------------------------------------|----|-----|
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ | 1,0 |
|--------------------------------------------|----|-----|

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,

2001

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|                                                                               |           |    |
|-------------------------------------------------------------------------------|-----------|----|
| Revenue:                                                                      |           |    |
| Rental                                                                        | \$ 27,999 | \$ |
| Interest and other                                                            | 61        |    |
| Total revenue                                                                 | 28,060    |    |
| Expenses:                                                                     |           |    |
| Depreciation and amortization                                                 | 5,035     |    |
| General and administrative                                                    | 1,719     |    |
| Interest                                                                      | 11,874    |    |
| Total expenses                                                                | 18,628    |    |
| Net income before minority interest                                           | 9,432     |    |
| Minority interest                                                             | (2,624)   |    |
| Net income                                                                    | \$ 6,808  | \$ |
| Shares of common stock outstanding used to compute basic earnings per share   | 21,485    |    |
| Basic earnings per share                                                      | \$ 0.32   | \$ |
| Shares of common stock outstanding used to compute diluted earnings per share | 21,862    |    |
| Diluted earnings per share                                                    | \$ 0.31   | \$ |

See accompanying Notes to Consolidated Financial Statements.

## CAPITAL AUTOMOTIVE REIT UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS (IN THOUSANDS)

CASH FLOWS FROM OPERATING ACTIVITIES:  
Net income

\$ 6

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|                                                                                   |       |
|-----------------------------------------------------------------------------------|-------|
| Adjustments to reconcile net income to net cash provided by operating activities: |       |
| Depreciation and amortization                                                     | 5     |
| Income applicable to minority interest                                            | 2     |
| Increase in other assets                                                          | (1)   |
| Decrease in accounts payable and accrued expenses                                 | (6)   |
| Increase (decrease) in security deposits payable                                  |       |
|                                                                                   | ----- |
| Net cash provided by operating activities                                         | 6     |
|                                                                                   | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES:                                             |       |
| Purchase of furniture and equipment, net of disposals                             |       |
| Real estate acquisitions, net of sales                                            | (18)  |
|                                                                                   | ----- |
| Net cash used in investing activities                                             | (18)  |
|                                                                                   | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES:                                             |       |
| Proceeds from borrowings under credit facilities                                  | 39    |
| Proceeds from mortgage loans                                                      |       |
| Repayment of borrowings under credit facilities                                   | (24)  |
| Mortgage principal payments                                                       | (4)   |
| Payment of cash dividend                                                          | (8)   |
| Payment of partner distribution                                                   | (3)   |
| Repurchase of common shares                                                       |       |
| Issuance of common shares, net of fees                                            | 6     |
|                                                                                   | ----- |
| Net cash provided by (used in) financing activities                               | 6     |
|                                                                                   | ----- |
| NET DECREASE IN CASH AND CASH EQUIVALENTS                                         | (5)   |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD                                  | 6     |
|                                                                                   | ----- |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD                                        | \$    |
|                                                                                   | ===== |
| SUPPLEMENTAL DATA:                                                                |       |
| Real estate acquisitions in exchange for equity issuance                          | \$    |
|                                                                                   | ===== |
| Interest paid during the period                                                   | \$ 17 |
|                                                                                   | ===== |

See accompanying Notes to Consolidated Financial Statements.

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## 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 March 31, 2001 owned approximately 71.9% of the units of limited partnership interest in the Operating Partnership ("Units"). The Company completed its initial public offering of common shares and began generating rental income in February 1998. 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 the Company's and the Operating Partnership's directly and indirectly owned subsidiaries.

Our primary business strategy is to invest in real estate (land, buildings and other improvements) and at the same time enter into long-term, triple-net leases with operators of franchised automobile dealerships, motor vehicle service, repair or parts businesses and related businesses. We focus on acquiring real estate used by multi-site, multi-franchised dealerships located primarily in major metropolitan areas throughout the United States. In addition, we also provide facility improvement and expansion funding, construction financing and takeout commitments in certain situations. 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 operator of dealerships to refer to the related persons and companies that lease our properties.

### 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. 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 ended March 31, 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 have been prepared in accordance with GAAP and include our accounts, net of minority interest as defined in Note 7 herein. All intercompany balances and transactions 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 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 30 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 revolving secured credit facilities and issuance of mortgage notes through March 31, 2001 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 expenses associated with the operations of the real estate, including, but not limited to, taxes, assessments and other government charges, insurance, utilities, service, repairs, maintenance and other expenses. All leases are accounted for as operating leases. Rental income attributable to leases is recorded when due from tenants. Certain of the leases provide for fixed minimum escalators, which are recognized on a straight-line basis over the initial term of the lease. Straight-lined rents are included in other assets.

#### 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

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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.

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### 3. ACQUISITIONS

During the three months ended March 31, 2001, we completed approximately \$19.0 million of acquisitions, which included four dealership properties that are leased to existing tenants. Consideration for the properties consisted of approximately 37,000 Units (valued at approximately \$512,000 at the time of the acquisition) and the remainder from a combination of funds drawn down on the Company's short-term credit facilities and cash on hand. We anticipate that the funds drawn down on the Company's short-term credit facilities will be replaced with permanent financing within the next six months. The properties acquired added approximately 132,000 square feet of buildings and improvements on approximately 103 acres of land and are located in four states (Louisiana, New Jersey, Texas and Virginia). These properties have initial lease terms ranging from 15 to 20 years (with a weighted average initial lease term of 17.4 years), and have renewal options exercisable at the option of the tenant (ranging from a total of 10 to 30 years).

As of March 31, 2001, we owned 248 dealership properties, representing 370 automotive franchises, with a total investment of approximately \$1.06 billion. These properties total approximately 9.0 million square feet of buildings and improvements on approximately 1,621 acres of land and are located in 27 states. The initial lease terms generally range from 10 to 20 years, with a weighted average initial lease term of approximately 13.7 years, and 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. EARNINGS PER SHARE

Basic earnings per share is computed as net income divided by the weighted average common shares outstanding for the period. Diluted earnings per share is computed as net income divided by the weighted average common shares outstanding for the period plus the effect of dilutive common equivalent shares outstanding for the period, based on the treasury stock method. Dilutive common equivalent shares include restricted shares, restricted phantom shares, options and warrants. The impact of dilution of common equivalent shares for the three months ended March 31, 2001 and March 31, 2000 was approximately 377,000 and 78,000, respectively.

### 5. MORTGAGE LOANS AND CREDIT FACILITIES

As of March 31, 2001, we had total debt outstanding of \$597.6 million. Of this debt, approximately \$568.2 million (consisting of \$478.9 million of fixed rate indebtedness and \$89.3 million of variable rate indebtedness) was mortgage indebtedness secured by approximately 210 of our dealership properties. In addition, we had \$29.4 million outstanding on our revolving credit facilities.

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

| DESCRIPTION OF DEBT                                   | ORIGINAL<br>DEBT ISSUED | PRINCIPAL<br>BALANCE AS OF<br>MARCH 31, 2001 | PRINCIPAL BALANCE<br>AS OF DECEMBER<br>31, 2000 |
|-------------------------------------------------------|-------------------------|----------------------------------------------|-------------------------------------------------|
| 7.59% fixed rate debt due 12/1/08                     | \$ 38,050               | \$ 36,798                                    | \$ 37,103                                       |
| 7.635% fixed rate debt due 10/1/14                    | 111,950                 | 102,686                                      | 103,749                                         |
| 8.05% fixed rate debt due 10/1/14                     | 85,000                  | 80,752                                       | 81,560                                          |
| 7.54% fixed rate debt due 7/6/11                      | 100,000                 | 97,315                                       | 98,093                                          |
| 8.03% fixed rate debt due 9/29/11                     | 150,000                 | 150,000                                      | 150,000                                         |
| 7.50% fixed rate debt due 1/20/03                     | 12,000                  | 11,342                                       | 11,421                                          |
| Total Mortgage Fixed Rate Debt                        | \$ 497,000              | \$ 478,893                                   | \$ 481,926                                      |
| Various variable rate debt (1)                        | 90,762                  | 89,285                                       | 89,593                                          |
| TOTAL MORTGAGE DEBT                                   | \$ 587,762              | \$ 568,178                                   | \$ 571,519                                      |
| \$50 million revolving partially secured facility (2) |                         | 20,900                                       | 14,198                                          |
| \$100 million revolving secured facility (3)          |                         | 8,502                                        | 2                                               |
| TOTAL CREDIT FACILITIES                               |                         | \$ 29,402                                    | \$ 14,200                                       |
| TOTAL DEBT OUTSTANDING                                |                         | \$ 597,580                                   | \$ 585,719                                      |

\* Includes deferred loan fees amortized over the life of the loans.

- (1) These loans bear interest at variable rates ranging from 200 to 215 basis points per annum above the A1-P1 Commercial Paper Rate and have maturity dates ranging from December 22, 2009 to December 18, 2012. The terms of the various loans require quarterly interest payments and level principal payments.
- (2) This facility bears interest equal to the 30-day LIBOR rate plus 175 basis points and requires the repayment of secured borrowings within 12 months and unsecured borrowings within 150 days. The facility matures on March 3, 2002.
- (3) This facility bears interest equal to the 30-day LIBOR rate plus 225 basis points and requires the repayment of principal within 150 days. The facility has a one-year term, which terminates on March 21, 2002, and is renewable annually.
- (4) Payments are interest only until January 2002.

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As of March 31, 2001, we were in compliance with all of the loan covenants related to our mortgage indebtedness and credit facilities.

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Aggregate annual principal maturities (which includes principal amortization) of mortgage indebtedness as of March 31, 2001 are as follows (in thousands):

FOR THE YEAR ENDED DECEMBER 31,

|                 |            |
|-----------------|------------|
| 2001.....       | \$ 9,307   |
| 2002.....       | 16,910     |
| 2003.....       | 28,410     |
| 2004.....       | 18,694     |
| 2005.....       | 20,031     |
| Thereafter..... | 474,826    |
|                 | -----      |
| Total.....      | \$ 568,178 |
|                 | =====      |

### 6. NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement was originally effective for all fiscal quarters of fiscal years beginning after June 15, 1999; however, during the second quarter of 1999 the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133," which deferred the effective date until June 15, 2000. In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," an amendment to SFAS No. 133, which required that all companies be in compliance with SFAS No. 133 as of January 1, 2001. SFAS No. 133 does not require restatement of financial statements from prior periods. SFAS No. 133 requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The adoption of SFAS No. 133 and its related amendments has not had a significant impact on our consolidated financial position, results of operations or cash flows as we currently do not maintain any derivative instruments.

### 7. MINORITY INTEREST

Minority interest is calculated at approximately 28.1% of the Operating Partnership's partners' capital as of March 31, 2001 and approximately 27.8% of the Operating Partnership's partners' net income for the three months ended March 31, 2001. The ownership of the Operating Partnership as of March 31, 2001 is as follows (Units in thousands):

| Units | Percent |
|-------|---------|
| ----- | -----   |

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|                    |          |        |
|--------------------|----------|--------|
| Partners' capital: |          |        |
| Limited Partners   | 8,454.8  | 28.1%  |
| The Company        | 21,653.6 | 71.9%  |
|                    | -----    | -----  |
| Total              | 30,108.4 | 100.0% |
|                    | =====    | =====  |

## 8. 401(K) PLAN

During 1998, we adopted the Capital Automotive L.P. Employee 401(k) Plan (the "401(k) Plan"). Employees who are at least 21 years of age are eligible to participate in the 401(k) Plan after three months

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of service. Participants may contribute up to 20% of their earnings, on a pre-tax basis, subject to annual limitations imposed by the Code. We may make matching or discretionary contributions to the 401(k) Plan at the discretion of our management. These contributions will vest ratably over five years from each employee's date of service. During December 2000, we approved a 20% match of the participant's elected deferral contribution during 2001 (subject to maximum limits).

## 9. SUBSEQUENT EVENTS

### Declaration of Dividend

On April 17, 2001, our Board of Trustees declared a cash dividend of \$0.3860 per share, which will be paid on May 18, 2001 to shareholders of record as of May 10, 2001.

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## CAPITAL AUTOMOTIVE REIT ITEM II - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - THREE MONTHS ENDED MARCH 31, 2001 AND MARCH 31, 2000

The following discussion should be read in conjunction with the accompanying unaudited consolidated financial statements and notes thereto.

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Also, documents that we subsequently file with the Securities and Exchange Commission

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will contain forward-looking statements. When we refer to forward-looking statements or information, sometimes we use words such as "may," "will," "could," "should," "plans," "intends," "expects," "believes," "estimates," "anticipates" and "continues." In particular, Item II and Item III of Part I of this Form 10-Q describe forward-looking information. The statements made herein are not all inclusive, particularly with respect to possible future events, and should be read together with other filings made by the Company under the Securities Act and the Exchange Act, including the risks and other risk factors contained in the Company's Form 8-K/A filed on January 19, 2001. Other parts of this Form 10-Q may also describe forward-looking information. Many things can happen that can cause our actual results to be very different than those described. These factors include:

- risks that our growth will be limited if we cannot obtain additional capital;
- risks of financing, such as the ability to meet existing financial covenants and our ability to consummate additional financings on terms that are acceptable to us;
- risks that the Company's tenants will not pay rent or that the Company's operating costs will be higher than expected;
- risks that additional acquisitions may not be consummated;
- risks related to the automotive industry, such as the ability of our tenants to compete effectively in the automotive retail industry and the ability of our tenants to perform their lease obligations as a result of changes in manufacturer's production, inventory, marketing or other practices;
- environmental and other risks associated with the acquisition and leasing of automotive properties; and
- risks related to the Company's status as a REIT for federal income tax purposes, such as the existence of complex regulations relating to the Company's status as a REIT, the effect of future changes in REIT requirements as a result of new legislation and the adverse consequences of a failure to qualify as a REIT.

Given these uncertainties, readers are cautioned not to place undue reliance on these forward-looking statements. We also make no promise to update any of the forward-looking statements, or to publicly release the results if we revise any of them.

### OVERVIEW

Our primary business strategy is to invest in real estate (land, buildings and other improvements) and at the same time enter into long-term, triple-net leases with operators of franchised automobile dealerships, motor vehicle service, repair or parts businesses and related businesses. We focus on acquiring real estate used by multi-site, multi-franchised dealerships located primarily in major metropolitan areas throughout the United States. In addition, we also provide facility improvement and expansion funding, construction

financing and takeout commitments in certain situations. As of March 31, 2001,

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we owned 248 dealership properties, representing 370 automotive franchises, with a total investment of approximately \$1.06 billion. These properties total approximately 9.0 million square feet of buildings and improvements on approximately 1,621 acres of land and are located in 27 states.

Substantially all of our properties are leased pursuant to long-term, triple-net leases, under which the tenants typically pay substantially all operating expenses of a property, including, but not limited to, taxes, assessments and other government charges, insurance, utilities, service, repairs, maintenance and other expenses. The initial lease terms generally range from 10 to 20 years, with a weighted average initial lease term of approximately 13.7 years, and 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).

Substantially all of our revenues are derived from (1) rents received or accrued under long-term, triple-net leases; and (2) interest earned from the temporary investment of funds in short-term investments.

We incur general and administrative expenses including, principally, compensation expense for our executive officers and other employees, professional fees and various expenses incurred in the process of identifying and acquiring additional properties. We are self-administered and managed by our trustees, executive officers and other employees. Our primary non-cash expense is the depreciation of our properties. We depreciate buildings and improvements on our properties over a 40-year period for tax purposes and a 20-year to 30-year period for financial reporting purposes. We do not own or lease any significant personal property, furniture or equipment at any property we currently own.

### FIRST QUARTER ACQUISITIONS

During the three months ended March 31, 2001, we completed approximately \$19.0 million of acquisitions, which included four dealership properties that are leased to existing tenants. Consideration for the properties consisted of approximately 37,000 Units (valued at approximately \$512,000 at the time of the acquisition) and the remainder from a combination of funds drawn down on the Company's short-term credit facilities and cash on hand. We anticipate that the funds drawn down on the Company's short-term credit facilities will be replaced with permanent financing within the next six months. The properties acquired added approximately 132,000 square feet of buildings and improvements on approximately 103 acres of land and are located in four states (Louisiana, New Jersey, Texas and Virginia). These properties have initial lease terms ranging from 15 to 20 years (with a weighted average initial lease term of 17.4 years), and have renewal options exercisable at the option of the tenant (ranging from a total of 10 to 30 years).

### RESULTS OF OPERATIONS

Rental revenue for the three months ended March 31, 2001 increased 13% to \$28.0 million, as compared to \$24.7 million for the same quarter in 2000. The increase was primarily attributable to the growth of our real estate portfolio and the timing of our property acquisitions, from which we generate our rental income. We owned 248 properties as of March 31, 2001 versus 230 properties as of March 31, 2000. In addition, included in rental revenue for the three months ended March 31, 2001 were straight-lined rents totaling \$779,000, as compared to straight-lined rents of \$510,000 for the three months ended March 31, 2000.

Interest and other income for the three months ended March 31, 2001 decreased 87% to \$61,000 from \$457,000 for the same quarter in 2000. The decrease was the

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result of no property dispositions in the first quarter of 2001 versus total gain on the sale of properties of \$294,000 in the same period of 2000, as well

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as a decrease in interest earned on temporary investments.

Depreciation and amortization for the three months ended March 31, 2001 increased 17% to \$5.0 million from \$4.3 million for the same quarter in 2000. Depreciation and amortization consisted primarily of depreciation on buildings and improvements owned during those periods. The increase is attributable to the growth of our real estate portfolio, resulting in an increase in our depreciable assets.

General and administrative expenses for the three months ended March 31, 2001 increased 3% to \$1.72 million, as compared to \$1.67 million for the same quarter in 2000. The increase in general and administrative expenses was primarily due to: (1) an increase in payroll and related expenses attributable to the issuance of additional stock based compensation awarded to employees; (2) an increase in state income taxes due to the growth in our real estate portfolio during 1999 and 2000; and (3) additional costs associated with our marketing and investor relations program.

Interest expense for the three months ended March 31, 2001 increased 16% to \$11.9 million, as compared to \$10.2 million for the same quarter in 2000. The increase was due to an increase in debt outstanding during that time period (including mortgage debt and borrowings under our credit facilities), which was obtained to finance the acquisition of properties. Debt outstanding as of March 31, 2001 was approximately \$597.6 million (consisting of approximately \$568.2 million of mortgage debt and approximately \$29.4 million of borrowings under our credit facilities) compared to approximately \$515.8 million (consisting of approximately \$515.8 million of mortgage debt and no borrowings under our credit facilities) as of March 31, 2000.

### LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were \$900,000 and \$4.6 million at March 31, 2001 and March 31, 2000, respectively. The changes in cash and cash equivalents during the three months ended March 31, 2001 and 2000 were attributable to operating, investing and financing activities, as described below.

#### Operating Activities

Cash provided by operating activities for the three months ended March 31, 2001 and March 31, 2000 was \$6.7 million and \$7.4 million, respectively, and represents, in both years, cash received primarily from rents under long-term, triple-net leases, plus interest and other income, less normal recurring general and administrative expenses and interest payments on debt outstanding.

#### Investing Activities

Cash used in investing activities for the three months ended March 31, 2001 and March 31, 2000 was \$18.5 million and \$8.3 million, respectively, and primarily reflects the acquisition of dealership properties and facility improvements and expansions, net of sales, during those periods.

#### Financing Activities

Cash provided by financing activities for the three months ended March 31, 2001 was \$6.4 million and cash used in financing activities for the three months

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ended March 31, 2000 was \$6.3 million.

Cash provided by financing activities for the three months ended March 31, 2001 primarily reflects:

- \$39.8 million of proceeds received from borrowings on our short-term credit facilities;
- \$661,000 of proceeds received from long-term mortgage loans closed during the quarter; and
- \$6.1 million of proceeds received from the issuance of common shares, net of fees.

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The cash provided by financing activities was partially offset by:

- the repayment of borrowings on our short-term credit facilities totaling \$24.6 million;
- payments of principal on outstanding long-term mortgage loans totaling \$4.0 million;
- distributions made to shareholders and limited partners during the quarter totaling \$11.4 million; and
- the repurchase of common shares totaling \$142,000.

Cash used in financing activities for the three months ended March 31, 2000 primarily reflects:

- payments of principal on outstanding long-term mortgage loans totaling \$2.7 million;
- distributions made to shareholders and limited partners during the quarter totaling \$10.8 million; and
- the repurchase of common shares totaling \$9.9 million.

The cash used in financing activities was partially offset by:

- \$8.6 million of proceeds received from borrowings on our short-term credit facilities; and
- \$8.4 million of proceeds received from long-term mortgage loans closed during the quarter.

### Mortgage Indebtedness and Credit Facilities

As of March 31, 2001, we had total debt outstanding of \$597.6 million. Of this debt, approximately \$568.2 million (consisting of \$478.9 million of fixed rate indebtedness and \$89.3 million of variable rate indebtedness) was mortgage indebtedness secured by approximately 210 of our dealership properties. In addition, we had \$29.4 million outstanding on our revolving credit facilities.

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

| DESCRIPTION OF DEBT                                   | ORIGINAL<br>DEBT ISSUED | PRINCIPAL<br>BALANCE AS OF<br>MARCH 31, 2001 | PRINCIPAL BALANCE<br>AS OF DECEMBER<br>31, 2000 |
|-------------------------------------------------------|-------------------------|----------------------------------------------|-------------------------------------------------|
| 7.59% fixed rate debt due 12/1/08                     | \$ 38,050               | \$ 36,798                                    | \$ 37,103                                       |
| 7.635% fixed rate debt due 10/1/14                    | 111,950                 | 102,686                                      | 103,749                                         |
| 8.05% fixed rate debt due 10/1/14                     | 85,000                  | 80,752                                       | 81,560                                          |
| 7.54% fixed rate debt due 7/6/11                      | 100,000                 | 97,315                                       | 98,093                                          |
| 8.03% fixed rate debt due 9/29/11                     | 150,000                 | 150,000                                      | 150,000                                         |
| 7.50% fixed rate debt due 1/20/03                     | 12,000                  | 11,342                                       | 11,421                                          |
| Total Mortgage Fixed Rate Debt                        | \$ 497,000              | \$ 478,893                                   | \$ 481,926                                      |
| Various variable rate debt (1)                        | 90,762                  | 89,285                                       | 89,593                                          |
| TOTAL MORTGAGE DEBT                                   | \$ 587,762              | \$ 568,178                                   | \$ 571,519                                      |
| \$50 million revolving partially secured facility (2) |                         | 20,900                                       | 14,198                                          |
| \$100 million revolving secured facility (3)          |                         | 8,502                                        | 2                                               |
| TOTAL CREDIT FACILITIES                               |                         | \$ 29,402                                    | \$ 14,200                                       |
| TOTAL DEBT OUTSTANDING                                |                         | \$ 597,580                                   | \$ 585,719                                      |

\* Includes deferred loan fees amortized over the life of the loans.

- (1) These loans bear interest at variable rates ranging from 200 to 215 basis points per annum above the A1-P1 Commercial Paper Rate and have maturity dates ranging from December 22, 2009 to December 18, 2012. The terms of the various loans require quarterly interest payments and level principal payments.
- (2) This facility bears interest equal to the 30-day LIBOR rate plus 175 basis points and requires the repayment of secured borrowings within 12 months and unsecured borrowings within 150 days. The facility matures on March 3, 2002.
- (3) This facility bears interest equal to the 30-day LIBOR rate plus 225 basis points and requires the repayment of principal within 150 days. The facility has a one-year term, which terminates on March 21, 2002,

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and is renewable annually.

(4) Payments are interest only until January 2002.

As of March 31, 2001, we were in compliance with all of the loan covenants related to our mortgage indebtedness and credit facilities.

### Liquidity Requirements

Short-term liquidity requirements consist primarily of normal recurring operating expenses, regular debt service requirements (including debt service relating to additional and replacement debt), recurring corporate expenditures, distributions to shareholders and holders of Units ("Unitholders"), and amounts required for additional property acquisitions and facility

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improvements and expansions. We expect to meet these requirements (other than amounts required for additional property acquisitions and facility improvements and expansions) through cash provided by operating and financing activities. We anticipate that any additional acquisition of properties or facility improvements and expansions during the next 12 months will be funded with amounts available under our existing credit facilities, future long-term secured and unsecured debt and the issuance of common or preferred equity or Units. Acquisitions of property and facility improvements and expansions will be made subject to our investment objectives and policies with the intention of maximizing both current income and long-term growth in income.

As of March 31, 2001, long-term liquidity requirements consisted primarily of maturities under our long-term debt. We anticipate that long-term liquidity requirements will also include amounts required for acquisition of properties and facility improvements and expansions. We expect to meet long-term liquidity requirements through long-term secured and unsecured borrowings and other debt and equity financing alternatives. The availability and terms of any such financing will depend upon market and other conditions.

Our liquidity requirements with respect to future acquisitions of properties and facility improvements and expansions may be reduced to the extent that we use Units as consideration for such purchases.

We offer our tenants the option of utilizing our variable rate lease program. Under this program, base rent payments change monthly based upon a fixed spread over an applicable index, generally LIBOR. In addition, the rent is adjusted upward periodically based on a factor of the change in the consumer price index ("CPI"). The tenant has the ability to fix the base rent during the initial lease term. The fixed base rent typically continues to be adjusted upward periodically based on a factor of the change in the CPI. Such leases generally are or will be financed with long-term, variable rate debt thereby fixing our investment spread. As of March 31, 2001, approximately \$84.7 million of our total portfolio utilized the variable rate lease program.

We have adopted a policy to limit debt to approximately 65% of our assets (calculated as total assets plus accumulated depreciation). As of March 31, 2001, our debt was approximately 56% of our assets. This policy may be changed by our Board of Trustees at any time without shareholder approval. In addition, to minimize interest rate risk, we generally match the term of the lease with that of the debt as well as the type of lease with the type of debt (fixed or variable) in order to maintain an investment spread over the lease term ("match-funding"). We currently intend to substantially match-fund at least 85% of our total outstanding long-term debt with long-term leases. Approximately 88%

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of our debt outstanding as of March 31, 2001 is substantially match-funded, non-recourse debt. We may change the 85% target at any time without shareholder approval.

In light of our current balance sheet position, we believe that we are able to obtain additional financing for our short-term and long-term capital needs without exceeding our debt to asset ratio policy. However, there can be no assurance that additional financing or capital will be available, or that the terms will be acceptable or advantageous to us.

### Common Share Repurchase Program

During 1998, we announced that our Board of Trustees had authorized the repurchase of up to 6.0 million common shares. Purchases have been and will be made from time to time in open market transactions at prevailing prices or in negotiated private transactions at the discretion of our management. During the three months ended March 31, 2001, we repurchased 10,000 common shares at an average price of \$14.19 per common share. From the inception of the share repurchase program through March 31, 2001, a total of 4,094,700 shares have been repurchased at an average price of \$10.62 per share. In conjunction with the common share repurchases, the Operating Partnership redeemed an equivalent number of Units from the Company for equivalent purchase prices.

### Dividend Reinvestment and Share Purchase Plan

During April 2000, the Company implemented a Dividend Reinvestment and Share Purchase Plan, which

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was subsequently amended in March 2001 (the "DRIP"). Under the DRIP, current shareholders and Unitholders are permitted to elect to reinvest all, a portion or none of their cash dividends or distributions to purchase common shares. The DRIP also allows both new investors and existing shareholders and Unitholders to make optional cash payments to purchase common shares.

The DRIP permits current shareholders, Unitholders and new investors to invest a minimum of \$500 up to a maximum of \$10,000 in common shares per month. The DRIP also allows us to raise additional capital by waiving the limitations on the \$10,000 maximum per month, as more fully described in the Prospectus relating to the DRIP. Shares purchased under the DRIP through reinvestment of dividends are purchased at a discount (currently 3%). Shares purchased under the DRIP through optional cash payments of \$10,000 or less are purchased at market price.

Common shares may be purchased directly from the Company or in open market or privately negotiated transactions, as determined from time to time by the Company, to fulfill the requirements for the DRIP. For the three months ended March 31, 2001, we issued approximately 443,000 common shares under the DRIP and received approximately \$6.2 million in proceeds.

### FUNDS FROM OPERATIONS

Funds From Operations ("FFO") is defined under the revised definition adopted in October 1999 by the National Association of Real Estate Investment Trusts (NAREIT) as net income (loss) before minority interest (computed in accordance with generally accepted accounting principles) excluding gains (or losses) from sales of property plus depreciation and amortization of assets unique to the real estate industry, and after adjustments for unconsolidated partnerships and joint ventures.

NAREIT developed FFO as a relative measure of performance and liquidity of an

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equity REIT in order to recognize that income-producing real estate historically has not depreciated on the basis determined under GAAP. FFO does not represent cash flows from operating activities in accordance with generally accepted accounting principles (which, unlike FFO, generally reflects all cash effects of transactions and other events in the determination of net income) and should not be considered an alternative to net income as an indication of our performance or to cash flow as a measure of liquidity or ability to make distributions. We consider FFO a meaningful, additional measure of operating performance because it primarily excludes the assumption that the value of the real estate assets diminishes predictably over time, and because industry analysts have accepted it as a performance measure. Comparison of our presentation of FFO, using the NAREIT definition, to similarly titled measures for other REITs may not necessarily be meaningful due to possible differences in the application of the NAREIT definition used by such REITs.

FFO for the three months ended March 31, 2001 and March 31, 2000 is computed as follows (in thousands):

|                                                                                                   | Three Months Ended<br>March 31, |                    |
|---------------------------------------------------------------------------------------------------|---------------------------------|--------------------|
|                                                                                                   | 2001<br>----                    | 2000<br>----       |
| Net Income before Minority Interest                                                               | \$ 9,432                        | \$ 8,952           |
| Real Estate Depreciation and Amortization                                                         | 5,016                           | 4,287              |
| Gain on Sale of Assets                                                                            | -                               | (294)              |
|                                                                                                   | -----                           | -----              |
| Funds From Operations                                                                             | \$ 14,448<br>=====              | \$ 12,945<br>===== |
| Weighted Average Number of Common Shares and Units Used<br>to Compute Basic FFO per Share         | 29,946<br>=====                 | 29,392<br>=====    |
| Weighted Average Number of Common Shares and Units Used<br>to Compute Fully Diluted FFO per Share | 30,323<br>=====                 | 29,469<br>=====    |

### ITEM III. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to certain financial market risks, the most predominant being fluctuations in interest rates. Interest rate fluctuations are monitored by our management as an integral part of our overall risk management program, which recognizes the unpredictability of financial markets and seeks to reduce the potentially adverse effect on our results of operations.

Since December 31, 2000, there have been no material changes in the information regarding market risk that was provided in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

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During the three months ended March 31, 2001, our fixed-rate debt decreased from \$481.9 million at December 31, 2000 to \$478.9 million as of March 31, 2001. Interest rate fluctuations may affect the fair value of our fixed rate debt instruments. If interest rates on our fixed rate debt instruments at March 31, 2001 had been one percentage point higher or lower, the fair value of those debt instruments on that date would have decreased or increased, respectively, by approximately \$28.2 million. During the three months ended March 31, 2001, our variable-rate debt increased from \$103.8 million as of December 31, 2000 to \$118.7 million as of March 31, 2001. Interest rate fluctuations may affect our annual interest expense on our variable rate debt. If interest rates on our variable rate debt instruments outstanding at March 31, 2001 had been one percentage point higher or lower, our annual interest expense relating to those debt instruments would have increased or decreased, respectively, by approximately \$1.2 million, based on balances at March 31, 2001.

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### CAPITAL AUTOMOTIVE REIT PART II-OTHER INFORMATION

#### Item 1. Legal Proceedings

Not applicable.

#### Item 2. Changes in Securities

On January 22, 2001, the Operating Partnership issued 36,540 Units to Carlos R. Hoz de Vila, as partial consideration for the acquisition of a parcel of real property and improvements located thereon in Burlington Township, New Jersey. The Units will be eligible for redemption beginning on January 31, 2002 for cash by the Operating Partnership, or at the option of the Company, common shares on a one for one basis. The issuance of such Units was effected in reliance on an exemption from registration under Section 4(2) of the Securities Act.

#### Item 3. Defaults Upon Senior Securities

Not applicable.

#### Item 4. Submission of Matters to Vote of Security Holders

Not applicable.

#### Item 5. Other Information

Not applicable.

#### Item 6. Exhibits and Reports on Form 8-K

##### (a) Exhibits:

Not applicable.

##### (b) Reports on Form 8-K

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Not applicable.

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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CAPITAL AUTOMOTIVE REIT  
(Registrant)

BY: /s/ Thomas D. Eckert

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Thomas D. Eckert  
President and Chief Executive Officer  
(principal executive officer)

BY: /s/ David S. Kay

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David S. Kay  
Vice President and Chief Financial Officer  
(principal financial and accounting officer)

Dated: May 11, 2001

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