

# INDUSTRY EXPERT OPINION REPORT

*Bob Micera from Cole Real Estate Investments*

**C**ole Real Estate Investments (“Cole”) is a commercial real estate investment management firm founded in 1979 by Chris Cole. Cole’s investment programs are built on a strategy of acquiring income-producing, single-tenant properties that are net leased to credit-worthy tenants, while deploying a conservative amount of leverage. Cole has introduced more than 100 investment programs, acquired nearly \$7 billion in commercial real estate assets and maintains a portfolio of over 1,170 properties in 46 states. Its most current offerings are public, non-traded REITs which raise their capital through the retail investor market. In 2010, Cole was one of the nation’s most active buyers of high-quality, income-producing commercial real estate assets, acquiring approximately \$2.5 billion of property.

## HOW DO YOU VIEW THE CURRENT CLIMATE IN RELATION TO OFFICE AND INDUSTRIAL INVESTING TODAY? ONE YEAR?

**MICERA:** Current valuations, combined with improving market fundamentals, create a solid buying opportunity that we believe will continue well into 2011. More office and industrial product came to market the last six months of 2010 and we expect volume levels will increase in 2011 based on the following key factors:

- » Sellers, who had been holding off bringing product to market, are now encouraged by the current “compressed cap rate environment” and by the brokerage community to bring their assets to market;
- » The low interest rate environment is facilitating buyers’ ability to acquire quality assets at lower cap rates;
- » More readily available debt, particularly CMBS, is allowing more buyers to return to the market; and

- » A slowly improving economy will allow corporations to grow which should result in increased build-to-suits, sale-leasebacks, corporate acquisitions and refinancings, mergers, and expansions – all of which contributes to increased commercial real estate sale activity.

As more commercial product comes to market and diminishes the “2010 scarcity premium,” it would not be surprising to see cap rates stabilize, or even increase, especially if mortgage interest rates continue to increase or remain somewhat volatile. While the overall economy continues to improve and we see more evidence of consistent job growth, companies will consider expansion opportunities. This will lead to an increase in build-to-suits and sale-leasebacks. We have already started to see evidence of this increased build-to-suit activity in 2010. Also, manufacturing production has been increasing which means companies are building inventories again to address increased demand.

## WHAT (IF ANY) REGIONS ARE YOU FOCUSING YOUR INVESTMENT ACTIVITY IN?

**MICERA:** Cole pursues acquisitions throughout the United States. Currently we own properties in 46 states. Our acquisition criteria focuses efforts on long-term, single-tenant assets (office, industrial and retail) net-leased to high-quality, creditworthy tenants. We look at assets in major markets, as well as secondary and tertiary markets, especially if the asset is strategically important to the growth and operation of a company. For smaller markets, we typically require 15 to 20 year triple net leases with annual rental increases.

## WHAT TYPES OF PROPERTY ARE YOU FOCUSING ON?

**MICERA:** Cole focuses primarily on acquiring single-tenant office, industrial and retail assets that are leased to creditworthy tenants under long-term net leases. Cole also acquires multi-tenant retail, such as power centers and grocery anchored centers, where the majority of space is leased to one or more creditworthy anchor tenants. Our current portfolio of properties maintains approximately 20% allocation to the office and industrial sector, and the remaining properties are retail assets. Our typical deal size ranges from as low as \$5 million to as large as several hundred million dollars.

## WHEN DO YOU THINK THE OFFICE AND INDUSTRIAL MARKETS WILL BE FULLY RECOVERED?

**MICERA:** With respect to single-tenant office and industrial product, the recovery for this segment of the real estate industry is already in progress given that this asset class is in demand. The lack of supply of quality single-tenant office and industrial assets caused cap rates to compress in 2010. As mentioned before, build-to-suit activity is increasing which is a sign that companies are beginning to regain confidence about an improving economy and are making decisions to expand their businesses. These build-to-suit assets include bulk distribution, regional warehouses, corporate and regional headquarters, and call centers.

The recovery for multi-tenant office and industrial product will be market specific and take longer depending on the individual market's job growth, absorption of available office/industrial space and the return of that specific market's rental growth. One major factor is how quickly job growth recovers. If job growth remains soft for the first half of 2011, the market may not fully recover until early 2012. It will definitely take time for market rents and market growth assumptions to approach the levels last seen in 2007. Because of these factors, I do not anticipate much speculative development for office or industrial during the next few years.

## WHAT IS YOUR INVESTMENT STRATEGY FOR NEXT YEAR?

**MICERA:** In 2010, Cole acquired approximately \$2.5 billion of properties with about \$1.3 billion representing single-tenant retail, about \$500 million representing multi-tenant retail and about \$700 million representing office and industrial assets.

In 2011 our strategy is to continue to acquire stable, single-tenant assets, net-leased long-term to creditworthy tenants. We will also consider sale-leasebacks and build-to-suit opportunities.



## NOTABLE COLE ACQUISITIONS:

- » \$310 million acquisition of the Microsoft Bing headquarters in Bellevue, Wash.
- » \$277 million, 32-store portfolio sale-leaseback of Albertson's grocery stores
- » \$88 million portfolio sale-leaseback of On the Border restaurants
- » \$30 million Home Depot rapid deployment warehouse facility in Tolleson, Ariz.
- » \$83 million acquisition of Whittwood Town Center in Whittier, Calif.
- » \$56.5 million acquisition of Atascocita Commons in Houston, Texas.

## FOR MORE INFORMATION

### ROBERT J. MICERA

Chief Investment Officer, Office and Industrial  
Cole Real Estate Investments  
Tel. (602) 952-4409 | Fax (480) 449-7040  
rmicera@colecapi.com

### WINSTON ORZECOWSKI

Research Analyst  
Calkain Companies, Inc.  
Tel. (703) 787-4714 | Fax (703) 787-4783  
worzechowski@calkain.com

CALKAIN  
COMPANIES,  
INC.

WASHINGTON, DC  
FLORIDA  
MARYLAND  
DELAWARE