

Strategies

Digital Realty Negotiates Revolver

Digital Realty Trust has better terms than ever after its last loan refinancing. "It's a little higher than the market. We pushed it," said Bill Stein, cfo, on the REIT's new leverage coverage covenant in particular. The leverage covenant allows the public company to extend debt out to 65% of its total balance sheet value and allows two financial quarters where that ratio can exceed 70%. The old covenant test was 60% of its total balance sheet value, Stein explained. The company has taken on several new facilities after going public in 2004. Its new credit closed Aug. 31.

The new \$650 million revolver is a three-year loan with two, one-year extensions (and is expandable by another \$100 million). Digital had a year left before the end of the life of the loan, when it chose to do this refinancing, he said. As part of the new loan, the REIT also reduced its fixed coverage charge covenant. It lowered that to 1.4 times, down from 1.75 times, he said.

The facility includes tiered pricing based on leverage. New pricing means a low of LIBOR plus 110 basis points and a high of LIBOR plus 200 bps, on a grid. Pricing is currently at 120 bps, Stein said. That is 12 1/2 to 25 bps lower in pricing than the last facility.

The new cash will help with new redevelopment project in London, Paris and Dublin. The company also recently bought properties in St. Louis, a new market for the company, he said.

The REIT worked with 16 banks — up from 13 — for the new loan. Its lead banks were Citigroup, Key Bank, Merrill Lynch, Bank of America and RBS. Digital Realty has worked with Citi and Merrill since its initial public offering in 2004, Stein said. The banks committed \$425 million up front as part of the deal, Stein explained. "I think we had a very good bank group," he said.

Stiles Expanding In Florida Retail

Stiles Retail Group is rapidly expanding in all parts of Florida, particularly in the Tampa Bay market. The company recently purchased a 31-acre site in Hernando County for a new shopping center. It is also close to completing the Shoppes in St. Lucie County, an upscale retail center in South Jacksonville. Additional retail sites are under contract in Charlotte, Hillsboro, Hernando and Lee counties and the company is on target to acquire seven retail centers totaling \$100 million, said Bob Breslau, president.

Breslau said Stiles Retail Group has a number of other acquisitions planned for this year and 2008. Many parts of Florida have seen retail growth as a result of expanding populations. As long as Florida is not badly affected by subprime volatility, Breslau said he feels there will continue to be many investment opportunities. After initially investing mainly in South Florida, Stiles has begun expanding in the Tampa Bay, Orlando and Jacksonville regions in growing secondary submarkets with

favorable demographic trends. "We try to predict where the growth is going to be and get in the way," he added.

Stiles' projects range from supermarket-anchored neighborhood centers to lifestyle centers, power centers and big box projects, as well as urban redevelopment projects. Stiles normally acquires projects solo but has on occasion sought partners, including a joint venture with Publix to develop a supermarket-anchored retail center at the County Line Road interchange with Suncoast Parkway in Hernando County. Stiles generally holds properties for one to three years. Properties range in size from 80,000 to 200,000 square feet. Breslau would not disclose leverage or targeted returns. Financing for the firm's investments are arranged in-house by Stiles Capital Group through traditional CMBS lenders, according to Breslau.

NBS Sees Large Demand For Small Loans

NBS Real Estate Capital is seeing big demand for small loans. The Portland, Or.-based company recently provided \$1.9 million in secondary financing to a partnership to acquire Harbor Towne Center, a 70,104-square-foot grocery-anchored retail center in Oak Harbor, Wash. The financing is part of a \$9.8 million acquisition and redevelopment of the property, said Rance Gregory, ceo. As a result of more conservative standards in the commercial mortgage-backed securities market, NBS has been able to capitalize on borrowers seeking loans of less than \$5 million since larger packages are harder to come by for borrowers. "We're very busy filling that gap," he said.

The Harbor Towne Center is 100% leased and anchored by a Saar's Marketplace with Kmart as another major tenant. NBS has made \$350 million of investments in office, retail, industrial and multifamily properties throughout the western United States. The company invests on behalf of institutional investors such as pension funds, foundations and trusts as well as high-net worth individuals. Gregory added that the company has a busy pipeline for the remainder of this year and into 2008 with many loans between \$2 million and \$3 million on the schedule. The firm also acquires properties with 65% of its business geared toward direct ownership and 35% used for secondary financing, Gregory said. "We're a really flexible shop," he said.

NBS and its partners usually hold properties for three to five years. The company also makes bridge loans of 12 to 18 months. NBS seeks properties of at least 100,000 square feet. Gregory's firm tries to avoid major U.S. cities and instead targets secondary markets such as Portland in order to take advantage of higher cap rates. The company has the ability to allocate 25% of its capital outside the western U.S., he added.