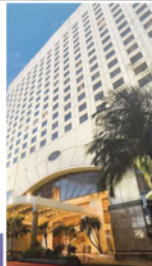


TENANT CREDIT RATINGS: 3RD QUARTER 2011

"Transforming retail into revenue since 1985"



Moody's

**STANDARD
& POOR'S**



**WEISS
RATINGS**



EGAN-JONES



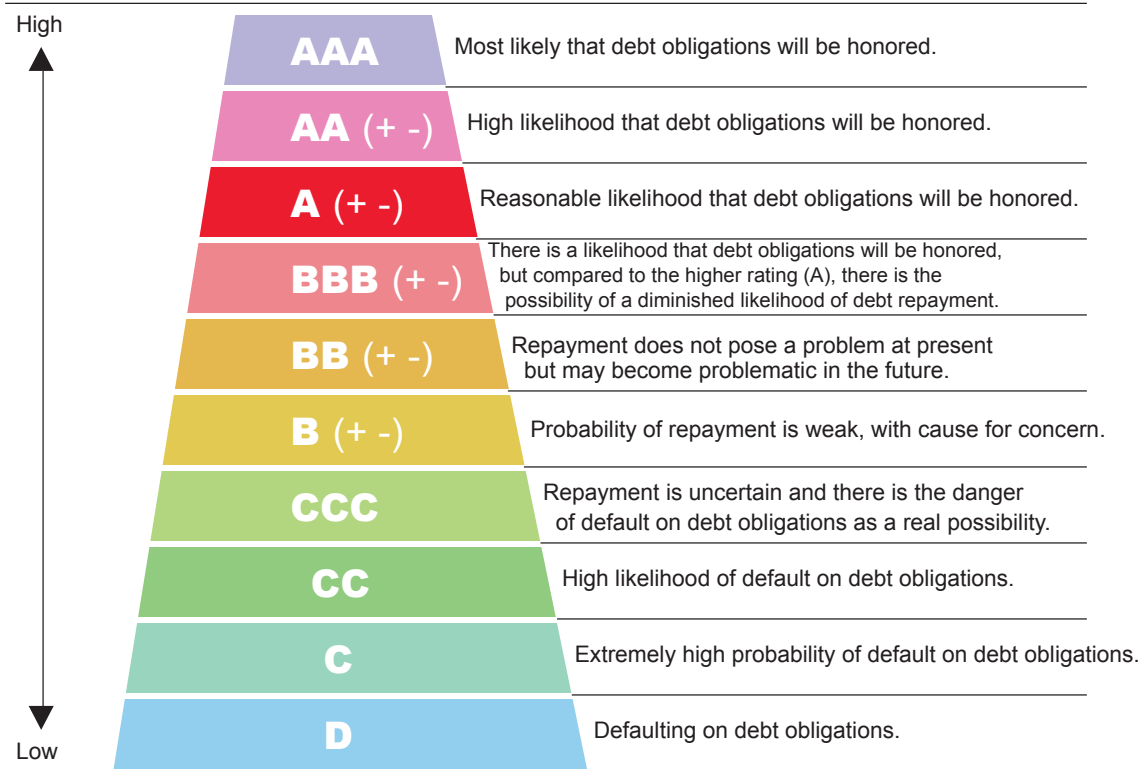
TRADER JOE'S



NORDSTROM

**Fitch
Ratings**

Rating Marks for Long-Term Bonds



Note: Credit ratings range from AAA to D, and are further subdivided into a total of 20 ratings (see chart) by the use of plus and minus signs for ratings AA to B.

Credit Ratings: Are you overpaying for the rating?

When looking at a particular cap rate, one must ask what that rate represents in terms of credit risk and whether the associated cap rate is worth the actual risk assumed. With the proper research one may enhance yield without taking on disproportionate additional risk. What makes this month's topic so timely is the current compression of cap rates, as the increase in the value of the core assets (BBB+ and A ratings) makes it more important to now look at companies in the BB and BBB categories for attractive investment opportunities. Start with the notion that an investor wishes to purchase of a Walgreens at a 6.5 cap rate with a flat lease for 70 years due to the tenant having an "A" rating. Of obvious concern is the probability of default or bankruptcy by the tenant's parent company and the effect of either event on the credit quality of the lease, being careful to first distinguish between the probability of default and the perception of such only. Finally, an investor should question what the quantitative risk of default actually is, the implied average historical time to default and what should be paid to the investor seeking each additional degree of safety. In gauging the prospect of tenant default in the absence of previously filed bankruptcies, according to Standard and Poor's 2010 U.S. Regional Corporate Defaults Report only two of the defaulting retail/restaurant companies filed for Chapter 11 protection and the remaining retailers with the exception of A&P had speculative credit ratings immediately prior to default. It is noteworthy that the time between A&P's first credit rating to its default status was over 23 years and the average time for speculative rated companies from first rating to default is 5.3 years.



Here are a few other examples:

Default Data Summary

Defaults hit a 30 year high of 191 in 2009 due to the recession and then declined in 2010 to 58. Companies who were first rated speculative grade at inception accounted for 91% of the 2010 defaults.	Brookstone Inc.	First Rating B - Next to last rating:	CC
	A & P Markets	First Rating A - Next to last rating:	CC
	Loehmann's Holdings Inc.	First Rating B+ - Next to Last Rating:	CC
	Uno Restaurant Holdings Corp. Chapter 11	First Rating B - Next To Last Rating:	NR
	Blockbuster Inc.	First Rating BB - Next to last rating:	CC
	Sagittarius Restaurants (Del Taco- Long John Silvers)	First Rating B - Next to last rating:	CC

The numbers can be misleading as the overall default rate for speculative rated companies was only 3.3% for 2010 and the average time from first rating to default was 5.33 years. The average time to default for investment grade companies is over 20 years. Of the 58 defaults in 2010, 55 were of companies previously rated 'B' and 'CCC'/C'.

Conclusion

Each investor has different motivations behind his decision and asset pricing reflects, among other things, national sentiment of perceived vs. quantitative risk. This discrepancy provides opportunities for investors who are seeking higher returns without substantially increasing credit scale risk. It is noteworthy that a bond payment default does not necessarily cause a default on a tenant rent payment. Additionally, investors need to weigh the quality of the real estate, sales to rent ratio and market penetration of the company in order to fully analyze the investment opportunity.

(%)	AAA	AA	A	BBB	BB	B	CCC/C
2000	0	0	0.26	0.37	1.25	7.73	34.12
2001	0	0	0.35	0.33	3.13	11.24	44.55
2002	0	0	0	1.01	2.81	8.11	44.12
2003	0	0	0	0.23	0.56	4.01	32.93
2004	0	0	0.08	0	0.53	1.56	15.33
2005	0	0	0	0.07	0.2	1.73	8.94
2006	0	0	0	0	0.3	0.81	12.38
2007	0	0	0	0	0.19	0.25	15.09
2008	0	0.38	0.38	0.48	0.78	3.98	26.26
2009	0	0	0.22	0.54	0.72	10.38	48.68
2010	0	0	0	0	0.55	0.8	22.27

STANDARD & POORS

MOODY'S

COMPANY	LONG TERM	SHORT TERM	MOODY'S
Advance Auto Parts	BBB-		Baa3 - Not on Watch
AutoZone, Inc.	BBB	A-2	Baa2 - Not on Watch
Bridgestone Corp	NR	NR	A3 - Not on Watch
Genuine Parts Company (Napa Auto)			NR
O'Reilly Automotive	BBB-	BBB-	Baa3 - Not on Watch
Pep Boys	B		B1 - Not on Watch
Sumitomo (Big O Tires, Tire Kingdom, National A		A-1	A2 - Not on Watch

BANKS / FINANCIAL INSTITUTIONS

Bank of America	A	A-1	A2 - Not on Watch
Bank of New York Mellon	AA-	A-1+	A2 - Not on Watch
Bank of New York Mellon	AA	A-1+	A2 - Not on Watch
BB & T	A	A-1	A2 - Not on Watch
Capital One	BBB		Baa1 - Possible Downgrade
Citigroup	A	A-1	A3 - Not on Watch
Citigroup	A	A-1	A3 - Not on Watch
Citigroup	A	A-1	A3 - Not on Watch
Comerica	A-	A-2	A1 - Not on Watch
Compass Bank	A	A-1	Baa1 - Not on Watch
HSBC Bank USA	AA	A-1+	Aa3 - Not on Watch
JP Morgan/Chase	A+	A-1	Aa3 - Not on Watch
PNC	NR	NR	A2 - Not on Watch
National City Bank	NR	NR	A2 - Not on Watch
Northern Trust Corporation	AA-	A-1+	A1 - Not on Watch
Suntrust Bank	BBB	A-2	Baa1 - Not on Watch

STANDARD & POORS

MOODY'S

COMPANY	LONG TERM	SHORT TERM	MOODY'S
TD Bank	AA-	A-1+	Aa2 - Not on Watch
Union Bank	A+	A-1	Aa2 - Not on Watch
US Bank	A+	A-1	Aa3 - Not on Watch
Wells Fargo Bank	AA-	A-1+	A2 - Not on Watch
Zion's Bancorp	BBB-	A-3	B2 - Not on Watch

DEPARTMENT STORES / APPAREL RETAILERS

American Apparel	NR	NR	NR
Bebe	NR	NR	NR
Burlington Coat Factory	B-	B-	B3 - Not on Watch
Charming Shops Inc	B-		NR
Collective Brands Inc	B+		B1 - Not on Watch
Dillard's Inc	BB-		B1 - Not on Watch
Eddie Bauer Corp.	NR	NR	NR
Gap, Inc.	BB+		NR
Guess	NR	NR	NR
J. Crew	B		B2 - Not on Watch
JC Penney	BB+		Ba1 - Not on Watch
Jo-Ann Stores, Inc.	B		B2 - Not on Watch
Kohl's Corporation	BBB+		Baa1 - Not on Watch
Macy's, Inc.	BBB-		Ba1 - Not on Watch
Men's Wearhouse, Inc.	NR	NR	NR
Nordstrom Inc.	A-	A-2	Baa1 - Not on Watch
Polo Ralph Lauren	A-		A3 - Not on Watch
Retail Ventures Inc	NR	NR	NR

STANDARD & POORS

MOODY'S

COMPANY	LONG TERM	SHORT TERM	MOODY'S
Saks Inc.	BB		B1 - Not on Watch
Sears Holdings	B+		Ba3 - Not on Watch
Shoe Carnival	NR	NR	NR
Target Corporation	A+	A-1	A2 - Not on Watch
The Bon Ton	B		B3 - Not on Watch
Urban Outfitters	NR	NR	NR

DISCOUNT RETAILERS

99 Cents Only Stores, Inc.	NR	NR	NR
Big Lots	BBB		NR
Costco Wholesale Corp.	A+	A-1	A2 - Not on Watch
Dollar General	BB+		Ba2 - Not on Watch
Dollar Tree Stores, Inc.	NR	NR	NR
Family Dollar Stores, Inc.	BBB-		Baa3 - Not on Watch
Ross Stores Inc.	BBB+		NR
TJ Maxx Companies, Inc.	A	A-1	NR

DRUG STORES

CVS Caremark Corporation	BBB+	A-2	Baa2 - Not on Watch
Rite Aid	B-		Caa2 - Not on Watch
Walgreen Co.	A	A-1	A2 - Not on Watch

GROCERY STORES

Delhaize Group	NR	NR	Baa3 - Not on Watch
Ingles	BBB-		Ba2 - Not on Watch
Kroger Company	BBB	A-2	Baa2 - Not on Watch
Safeway, Inc.	BBB	A-2	Baa2 - Not on Watch

STANDARD & POORS

MOODY'S

COMPANY	LONG TERM	SHORT TERM	MOODY'S
Smart & Final	B-	B-	Ba2 - Not on Watch
SuperValu, Inc.	B+		B1 - Not on Watch
Stater Brothers	B+	B+	NR
Tesco, PLC (Fresh & Easy)	NR	NR	A3 - Not on Watch
Wal-Mart Stores, Inc.	AA	A-1+	Aa2 - Not on Watch
Whole Foods Market, Inc.	BB+		NR
Winn Dixie	NR	NR	NR

OTHER RETAIL

24 Hour Fitness	BBB-		NR
AMC Entertainment (Amc Theaters)	B	B	B1 - Not on Watch
AT&T	A-	A-2	A2 - Possible Downgrade
Bally's Total Fitness	NR	NR	NR
Barnes & Noble, Inc.	NR	NR	NR
Bed Bath & Beyond, Inc.	BBB+		NR
Best Buy Company, Inc.	BBB-		Baa2 - Not on Watch
Big 5 Sporting Goods	NR	NR	NR
Caterpillar	A	A-1	A2 - Not on Watch
Cinemark	BB-		B1 - Not on Watch
Cost Plus	NR	NR	NR
Dell Inc.	A-	A-1	A2 - Not on Watch
Dick's Sporting Goods	NR	NR	NR
Disney Stores	A	A-1	A2 - Not on Watch
Federal Express	BBB		Baa2 - Not on Watch
Federal Express	BBB	A-2	Baa2 - Not on Watch

STANDARD & POORS

MOODY'S

COMPANY	LONG TERM	SHORT TERM	MOODY'S
H&R Block	BBB	A-2	NR
Home Depot, Inc.	BBB+	A-2	A3 - Not on Watch
Krispy Kreme	NR	NR	NR
L.A. Fitness	NR	NR	NR
Lowe's Companies, Inc.	A	A-1	A1 - Not on Watch
Nike	A+	A-1	A1 - Not on Watch
Office Depot, Inc.	B-		B2 - Not on Watch
OfficeMax	B-		B1 - Not on Watch
PetSmart Inc.	BB		NR
RadioShack	BB		Ba1 - Not on Watch
Regal Entertainment Group	B+		B3 - Not on Watch
Rent-A Center Inc.	BB		Ba2 - Not on Watch
Seven - 11 Japan Co LTD	AA-	A-1+	Baa1 - Not on Watch
Sherwin-Williams Company	A	A-1	A3 - Not on Watch
Sprint - Nextel Corp	BB-		Ba3 - Not on Watch
Staples, Inc.	BBB	A-2	Baa2 - Not on Watch
Tiffany & Co	NR	NR	NR
Verizon	A-	A-2	A3 - Not on Watch

RESTAURANTS (CORPORATE BACKED)

AFC Enterprises (Popeyes Chicken)	BB-	BB-	NR
Arby's Restaurant Group	B+	B+	NR
Brinker International	BBB-		Ba1 - Not on Watch
Buffets Inc. (Hometown Buffet, Old Country Buf	CCC	CCC	Caa2 - Not on Watch
Burger King Corporation	B	B	B2 - Not on Watch

STANDARD & POORS

MOODY'S

COMPANY	LONG TERM	SHORT TERM	MOODY'S
California Pizza Kitchen	NR	NR	NR
Chipotle	NR	NR	NR
CKE Restaurants	B-		B2 - Not on Watch
Dairy Queen	NR	NR	NR
Darden Restaurants, Inc.	BBB	A-2	Baa2 - Not on Watch
Denny's Corp	B+		B1
DineEquity, Inc	B		B2 - Not on Watch
Domino's Pizza	NR	NR	NR
Einstein Noah Restrnt Group	NR	NR	NR
El Pollo Loco	B-	B-	Caa1 - Not on Watch
Jack In The Box, Inc.	NR		NR
Landry's Restaurants	B		B3 - Not on Watch
McDonald's Corporation	A	A-1	A2 - Not on Watch
P. F. Chang's China Bistro	NR	NR	NR
Panera Bread Company	NR	NR	NR
Papa John's International Inc	NR	NR	NR
Perkins & Marie Calendar's	NR	NR	NR
Red Robin Gourmet Burgers	NR	NR	NR
Rubio's Restaurants	NR	NR	NR
Starbucks Corporation	BBB+	A-2	Baa3 - Not on Watch
Texas Roadhouse, Inc	NR	NR	NR
The Cheesecake Factory	NR	NR	NR
Wendy's/Arby's Group	B+		B2 - Not on Watch
Yum! Brand's	BBB-		Baa3 - Not on Watch