CAPITAL AUTOMOTIVE REIT
Form PREM14A
October 14, 2005

Table of Contents

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14A INFORMATION
(RULE 14A-101)
PROXY STATEMENT PURSUANT TO SECTION 14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:
ý Preliminary Proxy Statement

o Confidential, for use of the Commission Only (as permitted by Rule 14a-6(e)(2))

o Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Under Rule 14a-12

CAPITAL AUTOMOTIVE REIT
(Name of Registrant as Specified in its Charter)

Payment of Filing Fee (Check the appropriate box):
o No fee required.

þ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11

(1) Title of each class of securities to which transaction applies:

Common shares of beneficial interest, par value $.01 per share

(2) Aggregate number of securities to which transaction applies:

54,569,905 common shares, including in-the-money share options to purchase common shares, restricted shares, phantom shares and common shares issuable upon exchange of common units of limited partnership interest in Capital Automotive L.P.

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

The proposed maximum aggregate value of the transaction for purposes of calculating the filing fee is $2,109,771,222. The maximum aggregate value of the transaction represents the sum of (1) the product of the merger consideration of $38.75 per common share multiplied by the aggregate

number of common shares, including restricted shares, phantom shares and common units of limited partnership interest, entitled to receive cash consideration in the merger, plus (2) the aggregate amount to be paid to holders of in-the-money common share options (based upon the difference between $38.75 per share and the exercise price of such options). The filing fee was calculated by multiplying the maximum aggregate value of the transaction by .0001177 (which represents the filing fee of $117.70 per $1,000,000).

(4) Proposed maximum aggregate value of transaction:

$2,109,771,222

(5) Total fee paid:

$248,321

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No:

(3) Filing party:

(4) Date Filed:

Table of Contents

SUBJECT TO COMPLETION DATED OCTOBER 14, 2005

, 2005

Merger Proposal Your Vote Is Very Important

Dear Common Shareholder:

You are cordially invited to attend a special meeting of shareholders of Capital Automotive REIT, a Maryland real estate investment trust, to be held on , , 2005 at a.m. local time at the .

On September 2, 2005, we entered into a merger agreement with Flag Fund V LLC, a Delaware limited liability company advised by DRA Advisors LLC, pursuant to which CA Acquisition REIT, a wholly-owned subsidiary of Flag Fund V, will merge with and into us and we will be the surviving REIT, with all of our common shares owned by Flag Fund V. If the merger is completed, our common shareholders will receive cash consideration of $38.75 per common share. The $38.75 share price represents a premium of approximately 8.6% compared to the average closing price of our common shares during the ten-day trading period prior to September 2, 2005, the date on which we entered into the merger agreement. On , 2005, the last trading day prior to the printing of the proxy statement that accompanies this letter, the closing price of our common shares on the Nasdaq National Market was $ per share. At the special meeting of shareholders, we will ask you to consider and vote on the approval of the merger agreement and the merger.

An independent special committee formed by our board of trustees, together with its advisors, negotiated the $38.75 share price and other terms of the merger with Flag Fund V and its parent. The special committee consists of four members of the board of trustees who are not employees of, or otherwise affiliated with us, our affiliates, Flag Fund V or its affiliates.

Upon the unanimous recommendation of the special committee, and after careful consideration, our board of trustees unanimously approved the merger agreement and the merger and determined that the merger is advisable, fair to and in the best interests of our company and our shareholders. **Our board of trustees unanimously recommends that you vote FOR the proposal to approve the merger agreement and the merger.**

In arriving at its recommendation, our board of trustees gave careful consideration to a number of factors described in the accompanying proxy statement, including an opinion from Wachovia Capital Markets, LLC, the special committee s financial advisor, that the $38.75 in cash per common share to be received by you pursuant to the merger agreement is fair, from a financial point of view, to you, as a holder of our common shares. A copy of the fairness opinion is attached as Annex B to the accompanying proxy statement.

Your vote is important. The merger agreement and the merger must be approved by the affirmative vote of holders of at least a majority of our outstanding common shares that are entitled to vote at the special meeting. The completion of the merger is also subject to the satisfaction or waiver of customary closing conditions. More information about the merger is contained in the accompanying proxy statement. We encourage you to read the accompanying proxy statement in its entirety because it describes the terms of the proposed merger, the documents related to the merger and related transactions and provides specific information about the special meeting.

Whether or not you plan to attend the special meeting, please sign, date and promptly return the proxy card in the enclosed prepaid return envelope, or, if you would prefer, follow the instructions on your proxy card for telephonic or Internet proxy authorization, as soon as possible. If your shares are held in an account at a brokerage firm or bank or by another nominee, you should instruct your broker, bank or other nominee how to vote by following the voting instruction form furnished by your broker, bank or other nominee. **If you do not**

Table of Contents

vote or do not instruct your broker, bank or other nominee how to vote, it will have the same effect as voting against the approval of the merger agreement and the merger.

If you sign, date and send us your proxy but do not indicate how you want to vote, your proxy will be voted FOR the approval of the merger agreement and the merger.

On behalf of our board of trustees, we thank you for your continued support of our company and urge you to vote for the approval of the merger agreement and the merger.

Sincerely,

John J. Pohanka
Chairman of the Board

Thomas D. Eckert
President and Chief Executive Officer

This proxy statement is dated , 2005 and is first being mailed to shareholders on or about , 2005.

Table of Contents

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
To Be Held , 2005

To the Common Shareholders of Capital Automotive REIT:

A special meeting of the shareholders of Capital Automotive REIT, a Maryland real estate investment trust, will be held on , , 2005, at a.m., local time, at the , to consider and vote on the following proposals:

1. To approve the Agreement and Plan of Merger, dated as of September 2, 2005, by and among Capital Automotive REIT, Flag Fund V LLC, CA Acquisition REIT, Capital Automotive L.P. and CALP Merger L.P., and to approve the merger; and

2. To transact any other business that may properly come before the special meeting or any adjournment or postponement of the special meeting.

Only holders of record of our common shares at the close of business on , 2005, the record date for the special meeting, may vote at the special meeting and any adjournments or postponements of the special meeting. In accordance with our declaration of trust, as amended, holders of our Series A preferred shares and Series B preferred shares are not entitled to notice of or to vote at the special meeting. **Your vote is very important. Please submit your proxy or voting instructions as soon as possible to make sure that your shares are represented and voted at the special meeting, whether or not you plan to attend the special meeting.**

You may revoke a proxy at any time before it is voted. If you are the record holder of your common shares, you may revoke the proxy: (a) by filing with our corporate secretary a duly executed revocation of proxy; (b) by submitting a duly executed proxy with a later date to our corporate secretary; or (c) by appearing at the special meeting and voting in person. Attendance at the special meeting without voting will not itself revoke a proxy. If your shares are held in an account at a brokerage firm, bank or other nominee, you must contact your broker, bank or nominee to revoke your proxy.

For more information about the special meeting, the proposed merger and the other transactions contemplated by the merger agreement, please review the accompanying proxy statement and the merger agreement attached to it as Annex A. If you have any questions or need special assistance, please call our proxy solicitor, Morrow & Co., Inc., at (800) 607-0088.

By Order of the Board of Trustees,

John M. Weaver
Senior Vice President, General Counsel and Secretary

McLean, Virginia
, 2005

Table of Contents

TABLE OF CONTENTS

Table of Contents

Table of Contents

SUMMARY

This summary highlights selected information from this proxy statement and may not contain all the information about the merger that is important to you. To understand the merger fully and for a more complete description of the legal terms of the merger, you should read carefully this proxy statement in its entirety, including the annexes and the other documents to which we have referred you, including the merger agreement.

The information contained on our website is not incorporated into, and does not form a part of, this proxy statement or any other report or document on file with or furnished to the Securities and Exchange Commission, or SEC.

The Parties

Capital Automotive REIT

Capital Automotive REIT (referred to sometimes in this proxy statement as we, us, our, or our company), headquartered in McLean, Virginia, is a self-administered, self-managed Maryland real estate investment trust. Our primary strategy is to acquire real property and improvements used by operators of multi-site, multi-franchised automotive dealerships and related businesses. Additional information on us is available on our website at http://www.capitalautomotive.com. Our common shares are quoted on the Nasdaq National Market under the symbol CARS. Our principal executive offices are located at 8270 Greensboro Drive, Suite 950, McLean, Virginia 22102, and our telephone number is (703) 288-3075. For additional information about us and our business, see Where You Can Find More Information on page 54.

Capital Automotive L.P.

Capital Automotive L.P. is a Delaware limited partnership, referred to in this proxy statement as our operating partnership, through which we conduct substantially all of our business and own, either directly or indirectly through subsidiaries, substantially all of our assets. Where the context requires, references to we, us, our or our company als include our operating partnership.

Flag Fund V LLC

Flag Fund V LLC is a Delaware limited liability company advised by DRA Advisors LLC, a registered investment advisor specializing in real estate investment management services for institutional and private investors. Flag Fund V s principal executive offices are located at 220 East 42nd Street, 27th Floor, New York, New York 10017, and its telephone number is (212) 697-4740.

DRA Advisors LLC

DRA Advisors LLC, founded in 1986, is a New York-based registered investment advisor specializing in real estate investment management services for institutional and private investors, including pension funds, university endowments, foundations and insurance companies. DRA s principal executive offices are located at 220 East 42nd Street, 27th Floor, New York, New York 10017, and its telephone number is (212) 697-4740.

CA Acquisition REIT

CA Acquisition REIT, a Maryland real estate investment trust and a wholly-owned subsidiary of Flag Fund V, was formed in 2005 solely for the purpose of facilitating Flag Fund V s acquisition of our company. CA Acquisition REIT has not carried on any activities to date other than those incident to its formation and the negotiation and execution of the merger agreement. CA Acquisition REIT s principal executive offices are located at 220 East 42nd Street, 27th Floor, New York, New York 10017, and its telephone number is (212) 697-4740.

Table of Contents

CALP Merger L.P.

CALP Merger L.P., a Delaware limited partnership and a wholly owned subsidiary of Flag Fund V, was formed in 2005 solely for the purpose of facilitating Flag Fund V s acquisition of our operating partnership. CALP Merger L.P. has not carried on any activities to date other than those incident to its formation and the negotiation and execution of the merger agreement. CALP Merger L.P. s principal executive offices are located at 220 East 42nd Street, 27th Floor, New York, New York 10017, and its telephone number is (212) 697-4740.

The Mergers (page 39)

Company Merger

Flag Fund V has agreed to acquire our company under the terms of the merger agreement that is described in this proxy statement and attached as Annex A to this proxy statement. We encourage you to read the merger agreement carefully and in its entirety. It is the principal document governing the merger.

Under the terms of the merger agreement, CA Acquisition REIT will merge with and into us and we will be the surviving real estate investment trust, or REIT, with all of our common shares owned by Flag Fund V. We sometimes use the term surviving REIT in this proxy statement to describe Capital Automotive as the surviving entity following the merger. Under the merger agreement, each of our common shares, par value $0.01 per share (other than common shares owned by Flag Fund V and its subsidiaries, which will be cancelled, and which we collectively refer to as the unconverted shares), will be converted into the right to receive cash consideration of $38.75, without interest, less any required withholding for taxes (we sometimes refer in this proxy statement to the consideration to be paid for each common share outstanding at the time of the merger as the merger consideration). Our existing Series A preferred shares and Series B preferred shares will remain issued and outstanding as preferred shares of the surviving REIT. The surviving REIT will continue to pay the required quarterly dividends on our preferred shares. However, in a letter to us, Flag Fund V has indicated that it intends to offer to purchase our Series A preferred shares and Series B preferred shares for cash, at par, effective upon the completion of the merger or within a reasonable time thereafter, subject to, among other things, its ability to obtain sufficient funds to purchase the preferred shares.

Upon consummation of the merger, each of our common shares outstanding immediately prior to the merger will cease to be outstanding and will be cancelled and will cease to exist. Each holder of our common shares, other than unconverted shares, will cease to have any rights with respect to such shares other than the right to receive the merger consideration. Each certificate evidencing our common shares, other than unconverted shares, will thereafter represent the right to receive the merger consideration. In addition, each outstanding share of CA Acquisition REIT will be converted into a common share of the surviving REIT.

In accordance with the terms of the original compensation awards, all outstanding unvested options to purchase our common shares will be accelerated so that these options will be fully vested immediately prior to the consummation of the merger. Upon consummation of the merger, all unexercised options to purchase our common shares will be cancelled and converted into the right to receive the merger consideration, less the exercise price for each common share underlying the options.

Also in accordance with the terms of the original compensation awards, all outstanding restricted shares, phantom shares and deferred restricted shares will vest in full immediately prior to the consummation of the merger and will be considered for all purposes of the merger agreement to be outstanding common shares entitled to receive the same per share merger consideration as our other common shares.

A more complete description of the effect of the merger on our common share options, restricted shares, phantom shares and deferred restricted shares is contained in Approval of the Merger Agreement and the Merger Interests of Our Trustees and Executive Officers in the Merger Treatment of Share Options; Restricted Shares; Phantom Shares and Deferred Restricted Shares on page 31.

Table of Contents

Partnership Merger

In the partnership merger, CALP Merger L.P. will merge with and into our operating partnership, with our operating partnership surviving the partnership merger as the surviving partnership. We sometimes use the term surviving partnership in this proxy statement to describe Capital Automotive L.P. as the surviving entity following the partnership merger.

Under the terms of the limited partnership agreement of our operating partnership, each limited partner, other than us, that owns common units of limited partnership interest has the right to require the operating partnership to redeem each of the partner s common units for cash equivalent to one of our common shares. We may elect to assume that obligation of the operating partnership and acquire the common units by issuing our common shares to the partner on the basis of one common share for each common unit acquired.

In the partnership merger, each common unit of limited partnership interest in our operating partnership, other than common units held by us, will be converted into and cancelled in exchange for the right to receive either $38.75 per common unit or, if a holder of a common unit of limited partnership interest so elects, subject to certain conditions, a membership interest in a newly formed Delaware limited liability company that will be an affiliate of Flag Fund V and will own as its sole asset after the partnership merger a common limited partnership interest in the surviving partnership. The ability of one or more of the holders of common units of limited partnership interest in our operating partnership to receive membership interests in the newly formed affiliate of Flag Fund V will depend upon the availability of an exemption from registration for the offering of the membership interests under federal and state securities laws.

Sequence of Transactions

We expect that the company merger and the partnership merger will occur on the same day, with the company merger occurring first and the partnership merger occurring second.

Dividends (page 40)

The merger agreement authorizes us to continue to declare and pay regular quarterly dividends to holders of record of our common shares for each full fiscal quarter that ends prior to the closing of the merger. There will be no prorated dividend paid on our common shares for the quarter in which the closing occurs. If the closing occurs prior to February 7, 2006, which is our previously scheduled record date for the fourth quarter of 2005, you will not receive a dividend for the fourth quarter of 2005. If the closing occurs on or after February 7, 2006, you will receive a dividend for the fourth quarter of 2005. We currently expect that the closing will occur promptly following the special meeting, on or about , 2005, in which case you will not receive a dividend for the fourth quarter of 2005.

Recommendation of Our Board of Trustees (page 25)

On September 2, 2005, after careful consideration of the factors described in Approval of the Merger Agreement and the Merger Factors Considered by Our Board of Trustees and Reasons for the Merger on page 23, our board of trustees, upon the unanimous recommendation of the special committee of the board of trustees, unanimously:

- determined that it was advisable, fair to and in the best interests of our company and our shareholders for us to enter into the merger agreement and consummate the merger and the other transactions contemplated by the merger agreement; and

- approved the merger agreement and the merger.

In addition, our board of trustees unanimously agreed to recommend to our shareholders that the shareholders vote for the approval of the merger agreement and the merger.

The background and reasons for the merger are described in detail on pages 18 through 25.

Table of Contents

The Special Meeting (page 15)

The special meeting of our shareholders will be held at the , at a.m., local time, on , , 2005. At the special meeting, you will be asked to:

vote to approve the merger agreement and the merger; and

consider and act upon such other business that may properly come before the special meeting or any adjournment or postponement of the special meeting.

Merger Vote Requirement; Shareholders Entitled to Vote; Vote Required (page 15)

The merger agreement and the merger must be approved by the affirmative vote of holders of at least a majority of our outstanding common shares that are entitled to vote at the special meeting. You may vote at the special meeting if you owned our common shares at the close of business on , 2005, the record date for the special meeting. In accordance with our declaration of trust, as amended, and applicable law, holders of our Series A preferred shares and Series B preferred shares are not entitled to notice of or to vote at the special meeting. On the record date, there were common shares outstanding and entitled to vote. You have one vote for each common share that you owned on the record date.

Partnership Merger Vote Requirement (page 16)

Our consent, as the general partner of our operating partnership, and the consent of the holders of two-thirds of the outstanding common units of limited partnership interest in our operating partnership are required to approve the partnership merger. Since we hold, and expect to hold as of the date of the vote to approve the partnership merger, 100% of the general partnership interests in our operating partnership and more than two-thirds of the outstanding common units of limited partnership interest in our operating partnership, the partnership merger will be approved if we approve it, without the need for any other holder of common units of limited partnership interest to approve the partnership merger. Provided we do not accept a superior proposal, we have indicated to Flag Fund V that we intend to vote our common units of limited partnership interest in our operating partnership FOR the approval of the partnership merger.

Opinion of Our Financial Advisor (page 25)

Wachovia Capital Markets, LLC, which we sometimes refer to in this proxy statement as Wachovia Securities, rendered its oral opinion, which was subsequently confirmed in writing, to the special committee of our board of trustees that, as of September 2, 2005, the $38.75 in cash per common share to be received by holders of our common shares pursuant to the merger agreement was fair, from a financial point of view, to such holders.

The full text of Wachovia Securities written opinion, dated September 2, 2005, which sets forth, among other things, the assumptions made, procedures followed, matters considered and limitations on the opinion and the review undertaken in connection with the opinion, is attached as Annex B to, and is incorporated by reference in, this proxy statement. The opinion of Wachovia Securities as to the fairness of the merger consideration to the common shareholders does not constitute a recommendation as to how you should vote with respect to the merger agreement, the merger or any other matter related thereto. You should carefully read the opinion in its entirety.

Interests of Our Trustees and Executive Officers in the Merger (page 31)

Members of our board of trustees and our executive officers have interests in the merger that differ from, or are in addition to, those of other shareholders. For example:

in accordance with the terms of the original compensation awards, each outstanding option to purchase our common shares held by our trustees will be accelerated so that these options will be fully vested immediately prior to the consummation of the merger, and, at the time the merger is consummated,

Table of Contents

will be converted into the right to receive an amount in cash equal to the $38.75 per share merger consideration, less the exercise price for each common share underlying the option;

our executive officers hold restricted shares as to which, in accordance with the terms of the original compensation awards, the restrictions will lapse and the restricted shares will vest in full immediately prior to the effective time of the merger, so that each restricted share will, at the completion of the merger, be converted into the right to receive the $38.75 per share merger consideration;

our executive officers hold phantom shares and deferred restricted shares which will vest in full immediately prior to the completion of the merger and, therefore, will be considered outstanding common shares entitled to receive the $38.75 per share merger consideration for each phantom share or deferred restricted share;

our executive officers will receive, as a result of the merger, change of control benefits consisting of lump sum cash payments and the continuation of medical benefits, as provided for under their existing employment agreements with us;

our executive officers have agreed, conditioned upon the completion of the merger, to enter into new employment agreements with the surviving partnership or a management entity providing for employment with the surviving partnership or such management entity following the completion of the merger;

certain of our executive officers are involved in negotiations with Flag Fund V with respect to the executives making an equity investment in the surviving partnership that would entitle them to receive their share of partnership profits distributed to all unit holders of the surviving partnership and, in addition, if the return to all unit holders exceeds a specified percentage, a preferential return;

certain of our trustees will be entitled to receive payment of their interests in our deferred compensation plan for trustees, upon termination as a trustee which is expected to occur as a result of the merger;

our trustees and officers will continue to be indemnified for six years after the completion of the merger and will have the benefit of directors and officers liability insurance for six years after completion of the merger; and

our trustees who own common units of limited partnership in our operating partnership will, as a result of the merger, have the right to receive either $38.75 per common unit or a membership interest in a newly formed limited liability company that will be an affiliate of Flag Fund V and will own as its sole asset after the partnership merger a common limited partnership interest in the surviving partnership.

The special committee and our board of trustees were informed of the foregoing interests of our trustees and executive officers in the merger and considered them when they approved the merger agreement and the merger.

Delisting and Deregistration of Our Shares (page 38)

If the merger is completed, our common shares will no longer be listed on the Nasdaq National Market and will be deregistered under the Securities Exchange Act of 1934, as amended (the Exchange Act). Our Series A preferred shares and Series B preferred shares will continue to be registered and listed on the Nasdaq National Market. However, in a letter to us, Flag Fund V has indicated that it intends to offer to purchase our Series A preferred shares and Series B preferred shares for cash, at par, effective upon the completion of the merger or within a reasonable time thereafter, subject to, among other things, its ability to obtain sufficient funds to purchase the preferred shares. Once the merger has been consummated, for such time as the preferred shares remain outstanding, Flag Fund V may seek to deregister our Series A preferred shares and Series B preferred shares under the Exchange Act and delist our Series A preferred shares and Series B preferred shares from the Nasdaq National Market. In addition, if the Nasdaq National Market advises the surviving REIT that it believes that either our Series A preferred shares or Series B preferred shares, or both, do not meet Nasdaq s listing requirements, Flag Fund V has indicated that it does not intend to contest

any

Table of Contents

threatened delisting, nor does it intend to seek to list these shares on another trading market. For these reasons, there is no assurance that an active trading market for either our Series A preferred shares or Series B preferred shares will continue to exist, although the terms and requirements of those securities will remain the same.

The Merger Agreement

Conditions to the Merger (page 44)

Completion of the merger depends upon meeting or waiving a number of conditions including:

approval of the merger agreement and the merger by our common shareholders;

receipt of a legal opinion regarding our qualification as a REIT for federal income tax purposes;

continued accuracy of the respective representations and warranties and compliance with the covenants made by us and Flag Fund V in the merger agreement;

there has been no event, change or occurrence that has had a material adverse effect on our company; and

other customary closing conditions.

Where the law permits, Flag Fund V, on the one hand, or we, on the other hand, could decide to complete the merger even though one or more conditions were not satisfied. By law, neither Flag Fund V nor we can waive:

the requirement that our common shareholders approve the merger agreement and the merger; or

any court order or law preventing the closing of the merger.

Whether any of the other conditions would be waived would depend on the facts and circumstances as determined by the reasonable business judgment of the managers of Flag Fund V or our board of trustees, as the case may be.

Termination of the Merger Agreement (page 47)

Flag Fund V and we can jointly agree to terminate the merger agreement at any time, even if our common shareholders have approved the merger. In addition, either Flag Fund V or we can decide, without the consent of the other, to terminate the merger agreement if:

the required approval by our common shareholders has not been obtained at the special meeting;

any order, decree, ruling or other action of a governmental entity permanently restraining, enjoining or otherwise prohibiting the merger has become final and non-appealable; or

the merger has not been completed by February 3, 2006, provided, however, that in the event that, on or before December 26, 2005, this proxy statement has not been cleared by the SEC for dissemination, the February 3, 2006 date may be extended by either Flag Fund V or us through a date on or before March 31, 2006; provided further, however, that in such event the closing of the merger will not occur prior to March 15, 2006 unless the parties otherwise agree (we sometimes refer to the February 3, 2006 date or the extension date, as applicable, as the final closing date).

Flag Fund V may unilaterally terminate the merger agreement if:

we have breached or failed to perform in any material respect any of our representations, warranties or covenants contained in the merger agreement, which would lead to the failure of a condition to the completion of the merger that is incapable of being cured prior to the final closing date;

Flag Fund V has not, as of the closing of the merger, received a legal opinion from our tax counsel regarding our qualification as a REIT for federal income tax purposes; or

Table of Contents

our board of trustees fails to recommend in this proxy statement that our common shareholders approve the merger agreement and the merger, withdraws or modifies its recommendation of the merger agreement and the merger, or recommends that shareholders accept or approve a third-party acquisition proposal.

We may unilaterally terminate the merger agreement if:

Flag Fund V has breached or failed to perform in any material respect any of its representations, warranties or covenants contained in the merger agreement, which would lead to the failure of a condition to the completion of the merger that is incapable of being cured prior to the applicable final closing date; or

we enter into a definitive agreement to effect a superior proposal with a third party, provided that we have given Flag Fund V at least three business days prior written notice and we pay Flag Fund V the termination fee described below under Termination Fee and Expenses.

Termination Fee and Expenses (page 48)

The merger agreement provides that, in specified circumstances, we may be required to pay to Flag Fund V a termination fee of up to $40.0 million. In addition, the merger agreement provides that we may be obligated under specified circumstances to reimburse up to $7.5 million of Flag Fund V s expenses if the merger agreement is terminated (up to $5.0 million if the termination results from shareholder approval not being obtained at the special meeting), subject to an overall cap on the termination fee and expense reimbursement of $40.0 million.

Litigation Relating to the Merger (page 35)

We are aware of a class action lawsuit relating to the merger filed against us and each of our trustees in the Circuit Court for Baltimore, Maryland. The lawsuit alleges, among other things, that the merger consideration to be paid to our common shareholders in the merger is unfair and inadequate and unfairly favors insiders. The complaint seeks, among other relief, certification of the lawsuit as a class action, a declaration that the merger agreement was entered into in breach of our board s fiduciary duties, and an injunction preventing completion of the merger unless and until we adopt and implement a process such as an auction to obtain the highest possible price for the company.

Material United States Federal Income Tax Consequences (page 36)

The receipt of the merger consideration in cash for each of our common shares pursuant to the merger will be a taxable transaction for United States federal income tax purposes. Generally for United States federal income tax purposes, you will recognize gain or loss as a result of the merger measured by the difference, if any, between the merger consideration per share and your adjusted tax basis in that share. Tax matters can be complicated, and the tax consequences of the merger to you will depend on your particular tax situation. **We urge you to consult your tax advisor regarding the tax consequences of the merger to you.**

You should read Approval of the Merger Agreement and the Merger Material United States Federal Income Tax Consequences on page 36 for a more complete discussion of the federal income tax consequences of the merger.

Financing and Guaranty (page 47)

Flag Fund V has represented to us that at the closing of the merger it will have sufficient funds to pay the aggregate merger consideration and to pay any and all fees and expenses in connection with the merger and the financing thereof. Additionally, DRA Growth & Income Fund V LLC, an affiliate of Flag Fund V, has guaranteed the obligations of Flag Fund V, CA Acquisition REIT and CALP Merger L.P. under the merger agreement, including but not limited to their payment obligations, pursuant to a written guaranty dated September 2, 2005 executed in favor of us and our operating partnership. Flag Fund V expects to obtain debt

Table of Contents

and equity financing from third parties, on its own behalf or on behalf of the surviving REIT or surviving partnership, in order to satisfy these payment obligations.

Regulatory Matters (page 35)

No material federal or state regulatory requirements, other than the filing and distribution of this proxy statement, must be complied with or approvals obtained by us or Flag Fund V in connection with the merger.

Exchange Agent (page 41)

American Stock Transfer & Trust Company will act as the exchange agent in connection with the merger.

Dissenters Rights (page 35)

We are organized as a REIT under Maryland law. Under Maryland law, because our common shares and preferred shares are quoted on the Nasdaq National Market and our preferred shares are not entitled to vote on the merger, holders of our common shares and preferred shares who object to the merger do not have any appraisal rights or dissenters rights in connection with the merger.

QUESTIONS AND ANSWERS ABOUT THE MERGER

Q: What matters will be voted on at the special meeting?

A: You are being asked to:

approve the Agreement and Plan of Merger, dated as of September 2, 2005, by and among Capital Automotive REIT, Flag Fund V LLC, CA Acquisition REIT, Capital Automotive L.P. and CALP Merger L.P., and approve the merger; and

transact any other business that may properly come before the special meeting or any adjournment or postponement of the special meeting.

Q: What is the proposed merger transaction?

A: The proposed merger is the acquisition of all of our common shares by Flag Fund V pursuant to the merger agreement you are being asked to approve. Once the merger agreement and the merger have been approved by our common shareholders and the other closing conditions under the merger agreement have been satisfied or waived, CA Acquisition REIT will merge with and into us. We will be the surviving REIT in the merger and all of our issued and outstanding common shares will be owned by Flag Fund V. For additional information about the merger, please review the merger agreement attached to this proxy statement as Annex A. We encourage you to read the merger agreement carefully and in its entirety. It is the principal document governing the merger.

Q: As a common shareholder, what will I receive in the merger?

A: Our common shareholders will receive cash consideration for each outstanding common share of $38.75, without interest, less any required withholding for taxes.

Q: When and where is the special meeting of our shareholders?

A: The special meeting of shareholders will take place on , , 2005, at a.m. local time, at the .

Table of Contents

Q: Who can vote and attend the special meeting?

A: All holders of record of our common shares as of the close of business on , 2005, the record date for the special meeting, are entitled to receive notice of and to attend and vote at the special meeting, or any postponement or adjournment thereof. In accordance with our declaration of trust, as amended, holders of our Series A preferred shares and Series B preferred shares are not entitled to notice of or to vote at the special meeting.

Q: What vote of our shareholders is required to approve the merger agreement and the merger?

A: Approval of the merger requires the affirmative vote of at least a majority of our outstanding common shares that are entitled to vote at the special meeting. We urge you to complete, execute and return the enclosed proxy card, or follow the instructions on your proxy card for telephonic or Internet proxy authorization, to assure the representation of your shares at the special meeting. The merger does not require the approval of the holders of units of limited partnership interest of Capital Automotive L.P., our operating partnership (other than from us in our capacity as general partner and limited partner of the operating partnership), or the approval of any holders of our preferred shares.

Q: Besides the vote of our shareholders, what are the other conditions to the completion of the merger?

A: The merger agreement provides for a number of other conditions to the completion of the merger, and these conditions are described in this proxy statement under The Merger Agreement Conditions to the Merger. These conditions include, among other things, the absence of a material adverse change to our company, the correctness and accuracy, as of the closing of the merger, of both parties representations and warranties contained in the merger agreement, and the receipt by Flag Fund V of an opinion, dated as of the closing of the merger, from our tax counsel relating to our qualification as a REIT.

Q: How does our board of trustees recommend that I vote?

A: Our board of trustees unanimously recommends that our shareholders vote **FOR** the proposal to approve the merger agreement and the merger.

Q: Why is our board of trustees recommending that I vote in favor of the proposal to approve the merger agreement and the merger?

A: Upon the unanimous recommendation of the special committee of our board of trustees, consisting of four of our independent trustees, none of whom is an employee of, or otherwise affiliated with us, our affiliates, Flag Fund V or its affiliates, and after careful consideration, our board of trustees unanimously approved the merger agreement and the merger, and unanimously determined that the merger is advisable, fair to and in the best interests of our company and our shareholders. In reaching its decision to approve the merger agreement and the merger and to recommend the approval of the merger agreement and the merger by our shareholders, our board of trustees consulted with the special committee and management, as well as with our, and the special committee s, legal and financial advisors, and considered the terms of the proposed merger agreement and the transactions contemplated by the merger agreement. Our board of trustees also considered each of the items set forth on pages 23 through 25 under Approval of the Merger Agreement and the Merger Factors Considered by Our Board of Trustees and Reasons for the Merger.

Q: Why was the special committee of our board of trustees appointed?

A: Certain of our trustees and executive officers have interests in the merger and the other transactions contemplated by the merger agreement that differ from those of our other shareholders. In order to limit or eliminate any possible effect that those potential conflicts of interest might have in connection with the evaluation by our board of trustees and management of the merger and the related transactions, our board of trustees appointed a special committee, consisting of four of our independent trustees, none of whom is an employee of, or otherwise affiliated with us, our affiliates, Flag Fund V or its affiliates, to review and

Table of Contents

evaluate the proposed merger and the related transactions. For more information about the interests of our trustees and executive officers, you should read Approval of the Merger Agreement and the Merger Interests of Our Trustees and Executive Officers in the Merger on page 31.

Q: How do I cast my vote?

A: If you were a holder of record of our common shares on , 2005, you may vote in person at the special meeting or submit a proxy for the special meeting. You can submit your proxy by completing, signing, dating and returning the enclosed proxy card in the accompanying pre-addressed, postage paid envelope or, if you would prefer, follow the instructions on your proxy card for telephonic or Internet proxy authorization.

If you sign, date and send your proxy and do not indicate how you want to vote, your proxy will be voted **FOR** the approval of the merger agreement and the merger.

Q: How do I cast my vote if my common shares are held of record in street name by my bank, broker or another nominee?

A: If your shares are held of record by a broker, bank or other nominee, which is often referred to as holding your shares in street name, you must obtain a proxy form from the broker, bank or other nominee that is the record holder of your shares and provide the record holder of your shares with instructions on how to vote your shares in accordance with the voting directions provided by your broker, bank or nominee. If you do not provide the record holder of your shares with instructions on how to vote your shares, the record holder generally will not be permitted to vote your shares. The inability of your record holder to vote your shares, often referred to as a broker non-vote, will have the same effect as a vote against the approval of the merger agreement and the merger. If your shares are held in street name, please refer to the voting instruction card used by your broker, bank or other nominee, or contact them directly, to see if you may submit voting instructions using the Internet or telephone.

Q: What will happen if I abstain from voting or fail to vote?

A: If you abstain from voting, fail to cast your vote in person or by proxy or fail to give voting instructions to the record holder of your shares, it will have the same effect as a vote against approval of the merger agreement and the merger.

Q: Can I change my vote after I have delivered my proxy?

A: Yes. If you are a record holder, you can change your vote at any time before your proxy is voted at the special meeting by delivering a later-dated, signed proxy card to our corporate secretary, by authorizing a subsequent proxy telephonically or over the Internet, or by attending the special meeting in person and voting. You also may revoke your proxy by delivering a notice of revocation to our corporate secretary prior to the vote at the special meeting. If your shares are held in street name, you must contact your broker, bank or nominee to determine how to revoke your proxy. In general, submitting a subsequent proxy executed by the party that executed the original proxy will revoke the earlier proxy.

Q: What should I do if I receive more than one set of voting materials?

A: You may receive more than one set of voting materials, including multiple copies of this proxy statement and multiple proxy cards or voting instruction cards. For example, if you hold your shares in more than one brokerage account, you will receive a separate voting instruction card for each brokerage account in which you hold shares. If you are a holder of record and your shares are registered in more than one name, you will receive more than one proxy card. Please complete, sign, date and return each proxy card and voting instruction card that you receive. You may also follow the instructions on the proxy cards for telephonic or Internet proxy authorization for each proxy card that you receive.

Table of Contents

Q: Does Capital Automotive expect to continue to pay regular quarterly dividends on its common shares?

A: Yes, we will continue to declare and pay regular quarterly dividends to holders of record of our common shares for each full fiscal quarter ending prior to the closing of the merger. There will be no pro rated dividend paid for the quarter in which the closing occurs. If the closing occurs prior to February 7, 2006, which is our previously scheduled record date for the fourth quarter of 2005, you will not receive a dividend for the fourth quarter of 2005. If the closing occurs on or after February 7, 2006, you will receive a dividend for the fourth quarter of 2005. We currently expect that the closing will occur promptly following the special meeting, on or about , 2005, in which case you will not receive a dividend for the fourth quarter of 2005.

Q: Do common or preferred shareholders who object to the merger have dissenters rights or appraisal rights with respect to the merger?

A: No. We are organized as a REIT under Maryland law. Under Maryland law, because our common shares and preferred shares are quoted on the Nasdaq National Market and our preferred shares are not entitled to vote on the merger, holders of our common shares and preferred shares who object to the merger do not have any appraisal rights or dissenters rights in connection with the merger.

Q: Is the merger expected to be taxable to me?

A: Generally, yes. The receipt of the merger consideration in cash for each of our common shares pursuant to the merger will be a taxable transaction for United States federal income tax purposes. Generally for United States federal income tax purposes, you will recognize gain or loss as a result of the merger measured by the difference, if any, between the merger consideration per share and your adjusted tax basis in that share.

You should read Approval of the Merger Agreement and the Merger Material United States Federal Income Tax Consequences on page 36 for a more complete discussion of the United States federal income tax consequences of the merger. Tax matters can be complicated, and the tax consequences of the merger to you will depend on your particular tax situation. **We urge you to consult your tax advisor regarding the tax consequences of the merger to you.**

Q: Should I send in my common share certificates now?

A: No. Promptly after the merger is completed, each holder of record of our common shares at the effective time of the merger will be sent written instructions for exchanging your share certificates for the $38.75 per share merger consideration payable to you. These instructions will tell you how and where to send in your certificates in return for the merger consideration.

Q: When do you expect the merger to be completed?

A: We are working to complete the merger as quickly as possible. We currently expect to complete the merger on or about , 2005. However, we cannot predict the exact timing of the merger because the merger is subject to specified closing conditions. See The Merger Agreement Conditions to the Merger.

Table of Contents

Q: Who can help answer my questions?

A: If you have any questions about the proposals or how to submit your proxy, or if you need additional copies of this proxy statement or the enclosed proxy card, you should contact:

Capital Automotive REIT
8270 Greensboro Drive, Suite 950
McLean, Virginia 22102
(703) 288-3075
Attention: Investor Relations
E-mail: capauto.ir@capitalautomotive.com
or
Morrow & Co., Inc.
470 West Avenue
Stamford, Connecticut 06902
(800) 607-0088
E-mail: cars.info@morrowco.com

Table of Contents

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This proxy statement contains forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Words such as estimate, project, intend, anticipate, expect, b will, may, should, would, and similar expressions are intended to identify forward-looking statements. These statements are based on the current expectations and beliefs of our management and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. These statements are not guarantees of future performance, involve certain risks, uncertainties and assumptions that are difficult to predict, and are based upon assumptions as to future events that may not prove accurate. Therefore, actual outcomes and results may differ materially from what is expressed in a forward-looking statement.

In any forward-looking statement in which we express an expectation or belief as to future results, that expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the statement or expectation or belief will result or be achieved or accomplished. Risks and uncertainties pertaining to the following factors, among others, could cause actual results to differ materially from those described in the forward-looking statements:

- the possibility that the proposed merger will not be consummated on the terms described in this proxy statement, or at all;
- the potential adverse effect on our business and operations of the covenants we made in the merger agreement;
- the decrease in the amount of time and attention that management can devote to our business while also devoting its attention to effectuating the proposed merger;
- increases in operating costs resulting from the expenses related to the proposed merger;
- our inability to retain and, if necessary, attract key employees, particularly in light of the proposed merger;
- risks resulting from any lawsuits that may arise out of the proposed merger;
- risks that our tenants will not pay rent;
- risks related to the mortgage loans in our portfolio, such as the risk that our borrowers will not pay the principal or interest or otherwise default, the level of interest income generated by the mortgage loans, the market value of the mortgage loans and of the properties securing the loans, and provisions of federal, state and local law that may delay or limit our ability to enforce our rights against a borrower or guarantor in the event of a default under a loan;
- risks related to our reliance on a small number of dealer groups for a significant portion of our revenue;
- risks of financing, such as increases in interest rates and our ability to meet existing financial covenants, to maintain our investment-grade senior unsecured debt ratings and to consummate planned and additional financings on terms that are acceptable to us;
- risks that our growth will be limited if we cannot obtain additional capital or refinance our maturing debt;
- risks that planned and additional real estate investments may not be consummated;
- risks that competition for future real estate investments could result in less favorable terms for us;

risks relating to the automotive industry, such as the ability of our tenants to compete effectively in the automotive retail industry or operate profitably and the ability of our tenants to perform their lease obligations as a result of changes in any manufacturer s production, supply, vehicle financing, incentives, warranty programs, marketing or other practices, or changes in the economy generally;

Table of Contents

- risks generally incident to the ownership of real property, including adverse changes in economic conditions, changes in the investment climate for real estate, changes in real estate taxes and other operating expenses, adverse changes in governmental rules and fiscal policies and the relative illiquidity of real estate;

- risks related to our financing of new construction and improvements;

- environmental and other risks associated with the acquisition and leasing of automotive properties; and

- risks related to our status as a REIT for federal income tax purposes, such as the existence of complex regulations relating to our status as a REIT, the effect of future changes in REIT requirements as a result of new legislation and the adverse consequences of the failure to qualify as a REIT.

Many of these and other important factors are detailed in this proxy statement or in various SEC filings made periodically by us, particularly our most recent report on Form 10-K and subsequent reports on Form 10-Q as well as our Current Report on Form 8-K/ A filed on March 11, 2005, copies of which are available from us without charge or online at http://www.capitalautomotive.com. Please review this proxy statement and these filings and do not place undue reliance on these forward-looking statements.

You should consider the cautionary statements contained or referred to in this section in connection with any subsequent written or oral forward-looking statements that may be issued by us or persons acting on our behalf. We do not undertake any obligation to release publicly any revisions to any forward-looking statements contained in this proxy statement to reflect events or circumstances that occur after the date of this proxy statement or to reflect the occurrence of unanticipated events.

Table of Contents

THE SPECIAL MEETING

We are furnishing this proxy statement to our shareholders as part of the solicitation of proxies by our board of trustees in connection with the special meeting of our shareholders.

Date, Time and Place

We will hold the special meeting on , , 2005, at a.m., local time, at the .

Purpose of the Special Meeting

At the special meeting, we are asking holders of record of our common shares to consider and vote on the following proposals:

- The approval of the Agreement and Plan of Merger, dated as of September 2, 2005, by and among Capital Automotive REIT, Flag Fund V LLC, CA Acquisition REIT, Capital Automotive L.P. and CALP Merger L.P., and the approval of the merger (see Approval of the Merger Agreement and the Merger on page 18 and The Merger Agreement on page 39); and

- The transaction of any other business that properly comes before the special meeting or any adjournment or postponement of the special meeting.

Recommendation of Our Board of Trustees

Upon the unanimous recommendation of the special committee of our board of trustees, consisting of four of our independent trustees, none of whom is an employee of, or otherwise affiliated with us, our affiliates, Flag Fund V or its affiliates, our board of trustees has unanimously determined that it is advisable, fair to and in the best interests of our company and our shareholders for our company to enter into the merger agreement and consummate the merger and the other transactions contemplated by the merger agreement.

Our board of trustees unanimously recommends that our shareholders vote FOR the approval of the merger agreement and the merger.

Record Date; Shareholders Entitled to Vote; Quorum

Only holders of record of our common shares at the close of business on , 2005, the record date, are entitled to notice of and to vote at the special meeting. In accordance with our declaration of trust, as amended, holders of our Series A preferred shares and Series B preferred shares are not entitled to notice of or to vote at the special meeting. On the record date, of our common shares were issued and outstanding and held by holders of record. Holders of record of our common shares on the record date are entitled to one vote per share on any proposal at the special meeting.

A quorum is necessary to hold a valid special meeting. A quorum will be present if the holders of a majority of our common shares are present at the special meeting, either in person or by proxy. If a quorum is not present, a vote cannot occur. In deciding whether a quorum is present, abstentions and any broker non-votes will be counted as shares that are represented at the special meeting.

Vote Required for Approval of the Merger Agreement and the Merger

The approval of the merger agreement and the merger by our shareholders requires the affirmative vote of the holders of a majority of our outstanding common shares that are entitled to vote at the special meeting. Because the vote is based on the number of shares outstanding rather than the number of votes cast, a failure to vote your shares, an abstention and a broker non-vote each will have the same effect as voting against the approval of the merger agreement and the merger.

Table of Contents

Partnership Merger Vote Requirement

Our consent, as the general partner of our operating partnership, and the consent of the holders of two-thirds of the outstanding common units of limited partnership interest in our operating partnership, is required to approve the partnership merger. Since we hold, and expect to hold as of the date of the vote to approve the partnership merger, 100% of the general partnership interests in our operating partnership and more than two-thirds of the outstanding common units of limited partnership interest in our operating partnership, the partnership merger will be approved if we approve it, without the need for any other holder of common units of limited partnership interest to approve the partnership merger. Provided we do not accept a superior proposal, we have indicated to Flag Fund V that we intend to vote our common units of limited partnership interest in our operating partnership FOR the approval of the partnership merger.

Voting; Proxies

At the special meeting, you may vote by proxy or, if you are the record holder of your shares, in person.

Voting in Person

If you plan to attend the special meeting and wish to vote in person, you will be given a ballot at the special meeting. Please note, however, that if your shares are held on your behalf by a broker, bank or other nominee as record holder (often referred to as being held in street name) and you wish to vote at the special meeting, you must contact your broker, bank or other nominee to vote your proxy.

Voting by Proxy

All shares represented by properly executed proxies received in time for the special meeting will be voted at the special meeting in the manner specified by the shareholders giving those proxies. Properly executed proxies that do not contain voting instructions will be voted FOR the approval of the merger agreement and the merger.

Only shares affirmatively voted for the approval of the merger agreement and the merger and properly executed proxies that do not contain voting instructions will be counted as favorable votes for the merger proposal. Common shares held by persons attending the special meeting but not voting, and common shares for which we received proxies but with respect to which holders of those shares have abstained from voting or failed to provide instructions to their brokers resulting in a broker non-vote, will have the same effect as votes against the approval of the merger agreement and the merger.

Adjournments; Other Business

Adjournments of the special meeting may be made for the purpose of, among other things, soliciting additional proxies. An adjournment may be made from time to time by approval of the holders of shares representing a majority of the votes present in person or by proxy at the special meeting, whether or not a quorum exists, without further notice other than by an announcement made at the special meeting of the date, time and place at which the meeting will be reconvened. If the adjournment is to a date more than 120 days from the initially established record date for the special meeting, or if after the adjournment a new record date is fixed by our board of trustees for the adjourned meeting, a notice of the adjourned meeting will be given to each shareholder of record on the new record date and entitled to vote at the meeting. We do not currently intend to seek an adjournment of the special meeting.

We do not expect that any matter other than the proposal to approve the merger agreement and the merger will be brought before the special meeting. If, however, other matters are properly presented at the special meeting, the persons named as proxies will vote in accordance with their discretion with respect to those matters.

Table of Contents

Revocation of Proxies

Submitting a proxy on the enclosed form does not preclude a shareholder of record from voting in person at the special meeting. A shareholder of record may revoke a proxy at any time before it is voted by filing with our corporate secretary a duly executed revocation of proxy, by submitting a duly executed proxy to our corporate secretary with a later date or by appearing at the special meeting and voting in person. A shareholder of record may revoke a proxy by any of these methods, regardless of the method used to deliver the shareholder s previous proxy. Attendance at the special meeting without voting will not itself revoke a proxy. If your shares are held in street name, you must contact your broker, bank or other nominee to revoke your proxy.

Solicitation of Proxies

We are soliciting proxies for the special meeting from our shareholders. We will bear the entire cost of soliciting proxies from our shareholders. We will pay approximately [$] (plus reimbursement of out-of-pocket expenses) to Morrow & Co., Inc., our proxy solicitor. In addition to the solicitation of proxies by mail, we will request that banks, brokers and other record holders send proxies and proxy materials to the beneficial owners of our common shares held by them and secure their voting instructions if necessary. We will reimburse those record holders for their reasonable expenses in so doing. Some of our regular employees or trustees, who will not be specially compensated, may solicit proxies from our shareholders, either personally or by telephone, Internet, telegram, facsimile or special delivery letter.

Dissenters Rights

We are organized as a REIT under Maryland law. Under Maryland law, because our common shares and preferred shares are quoted on the Nasdaq National Market and our preferred shares are not entitled to vote on the merger, holders of our common shares and preferred shares who object to the merger do not have any appraisal rights or dissenters rights in connection with the merger.

Assistance

If you need assistance in completing your proxy card or authorizing your proxy telephonically or over the Internet, or if you have questions regarding our special meeting, please contact:

Capital Automotive REIT
8270 Greensboro Drive, Suite 950
McLean, Virginia 22102
(703)288-3075
Attention: Investor Relations
E-mail: capauto.ir@capitalautomotive.com
or
Morrow & Co., Inc.
470 West Avenue
Stamford, Connecticut 06902
(800)607-0088
E-mail: cars.info@morrowco.com

Table of Contents

APPROVAL OF THE MERGER AGREEMENT AND THE MERGER

The following is a description of the material aspects of the merger. While we believe that the following description covers the material terms of the merger, the description may not contain all of the information that is important to you. We encourage you to read carefully this proxy statement, including the merger agreement attached as Annex A, for a more complete understanding of the merger. The following description is subject to, and is qualified in its entirety by reference to, the merger agreement.

General Description of the Merger

Under the merger agreement, CA Acquisition REIT will merge with and into us and we will be the surviving REIT, with all of our common shares owned by Flag Fund V. Pursuant to the merger agreement, each of our outstanding common shares, par value $0.01 per share (other than shares owned by Flag Fund V and its subsidiaries, which will be cancelled, and which we collectively refer to as the unconverted shares), will be converted into the right to receive cash consideration of $38.75, without interest, less any required withholding for taxes (we sometimes refer in this proxy statement to the aggregate consideration to be received by our common shareholders as the merger consideration). Our existing Series A preferred shares and Series B preferred shares will remain issued and outstanding as preferred shares of the surviving REIT. The surviving REIT will continue to pay the required quarterly dividends on our preferred shares. However, in a letter to us, Flag Fund V has indicated that it intends to offer to purchase our Series A preferred shares and Series B preferred shares for cash, at par, effective upon the completion of the merger or within a reasonable time thereafter, subject to, among other things, its ability to obtain sufficient funds to purchase the preferred shares.

All outstanding unvested options to purchase our common shares will be accelerated so that these options will be fully vested prior to the consummation of the merger. Upon consummation of the merger, all unexercised options to purchase our common shares will be cancelled and converted into the right to receive the merger consideration in cash, less the exercise price for each common share underlying the options.

All outstanding restricted shares, phantom shares and deferred restricted shares will vest in full immediately prior to the effective time of the merger and will be considered for all purposes of the merger agreement to be outstanding common shares that will receive the same per share merger consideration as our other common shares.

Background of the Merger

The chronology of events and actions of our board of trustees, the special committee and management leading to the proposed merger is outlined below. Each meeting of our board of trustees or the special committee, as the case may be, was attended by at least a majority of our trustees or a majority of our trustees who are members of the special committee. Certain of our board of trustees or special committee meetings were also attended by our key executive officers and our and the special committee s outside advisors, including Wachovia Securities and legal counsel.

In pursuing its objective of enhancing shareholder value, our board of trustees has from time to time considered opportunities for a variety of transactions involving our company, including business combinations and other strategic transactions. Over the course of the past several years, our company has had informal discussions with various parties for the purpose of exploring their potential interest in, and the feasibility of, a strategic business combination or other strategic transaction with the objective of enhancing shareholder value. In addition, our board of trustees and management have considered diversification of our business lines and asset type. However, our board of trustees and management determined that diversification was not in our company s or our shareholders best interests because, among other factors, diversification was counter to management s expertise and our strategic objectives and would likely not enhance shareholder value.

During a meeting of our board of trustees on July 27, 2004, a financial advisor to our company made a presentation to our board of trustees during which it discussed the benefits and risks of pursuing a strategic

Table of Contents

transaction or diversifying our business lines and asset type and recommending, among other items, that the company market itself to a limited target list of potential buyers. Our board subsequently instructed our management to investigate these potential strategic transactions.

From 2003 through February 2005, our management had informal discussions with five entities, including a commercial finance company, a pension fund and a public REIT, regarding potential strategic transactions. For various reasons primarily associated with the size of our company and the specialty nature of our assets, none of the entities was interested in pursuing a strategic transaction with us.

During March and April 2005, our management had discussions with DRA Advisors and a public REIT which together were considering a joint venture to acquire our company. During that time, our management also had discussions with two public net-lease REITs about a non-cash merger. Our management determined that a merger with either of these companies would be dilutive to our shareholder value, in that the companies were in separate and distinct asset classes from our company and were trading at lower multiples than our company or lacked sufficient financial resources to engage in a transaction with us, and therefore did not further pursue these alternatives. Discussions with DRA Advisors and its proposed joint venture partner continued.

On May 9, 2005, Thomas D. Eckert, our president and chief executive officer, received a call from DRA Advisors potential joint venture partner explaining that it had completed its investment committee process and determined not to move forward with an offer because its preliminary analysis was that a joint venture would not generate sufficient returns for its investors.

On May 10, 2005, during our board of trustees annual meeting, Mr. Eckert informed our board of the discussions with DRA Advisors and its potential joint venture partner. Our board of trustees considered various factors relating to whether a merger or other sale of our company was advisable, including the near and long term value of our company, increased competition and rising interest rates. At this meeting, our board of trustees determined that it should consider *bona fide* proposals to acquire our company and, to avoid any issues of independence in evaluating a proposed transaction, the board resolved to form a special committee of our board of trustees that would consist of trustees who were neither part of our management nor holders of units of limited partnership interest in our operating partnership. The board then appointed Paul M. Higbee, William E. Hoglund, David B. Kay and R. Michael McCullough as the members of the special committee, to evaluate and investigate *bona fide* offers, negotiate with any prospective purchaser and do whatever else is necessary or appropriate to act in our shareholders best interests.

On May 19, 2005, Mr. Eckert sent to our board of trustees a memorandum summarizing discussions that our management had with David Luski, executive vice president, and Brian Summers, chief financial officer, of DRA Advisors on May 18, 2005. Mr. Eckert informed our board of trustees that DRA Advisors was interested in acquiring not only our existing portfolio but that any offer would be expressly contingent upon our management and other key personnel committing to remain with the surviving REIT for an extended period of time in order to manage and continue to grow the portfolio.

On June 9, 2005, Mr. Eckert and David S. Kay, our senior vice president and chief financial officer (no relation to David B. Kay), met with Messrs. Luski and Summers of DRA Advisors in New York to discuss a potential merger transaction. Later that same day, DRA Advisors submitted an offer (in the form of a non-binding term sheet) to acquire all of our outstanding common shares of beneficial interest at a price of $38.00 per share. On June 10, 2005, Mr. Eckert forwarded that offer to the special committee for their evaluation. Our management informed DRA Advisors that a special committee had been formed and was evaluating the offer.

On June 13, 2005, the special committee held its first meeting during which it discussed the need for the special committee to hire a financial advisor and to potentially hire counsel independent of management and our company.

On June 15, 2005, the special committee held a meeting during which it discussed with Latham & Watkins LLP its role as legal counsel to our company and the importance of the special committee engaging independent counsel.

Table of Contents

On June 16, 2005, Mr. Higbee, on behalf of the special committee, contacted Venable LLP and engaged Venable to act as independent special legal counsel to the special committee. Between June 16, 2005 and June 22, 2005, members of our management, Mr. Higbee, Latham & Watkins and Venable had discussions regarding the DRA Advisors offer and the process to be followed in evaluating and considering the DRA Advisors offer.

On June 22, 2005, the special committee held a meeting during which it discussed DRA Advisors offer, the respective roles of legal counsel in assisting our company and the special committee and the engagement of a financial advisor.

On each of June 27, 2005 and June 28, 2005, the special committee held a meeting during which it considered several potential financial advisors, including a financial advisor recommended by our management. Although not the financial advisor recommended by our management, the special committee determined to engage Wachovia Securities as its financial advisor based on its experience in the market, reputation and the fact that Wachovia Securities did not have a substantial prior business relationship with our company or our management. In considering potential financial advisors, the special committee considered but determined not to engage two financial advisors solely because of their significant prior business relationship with our company and our management.

Commencing on June 28, 2005, Mr. Higbee and Venable, with assistance from our management and Latham & Watkins and after consultation with the other members of the special committee, had discussions with Wachovia Securities regarding its representation of the special committee and the scope of its engagement. Wachovia Securities was engaged on June 30, 2005 to assist the special committee in reviewing and evaluating the various strategic alternatives available to our company and, in connection with such review, to perform valuation analyses with respect to our company.

On July 7, 2005, the special committee held a meeting during which the independence of and standard of conduct applicable to the special committee members were considered. At the meeting, Mr. Higbee was appointed chair of the special committee. In addition, Mr. Eckert, at the request of the special committee, participated in a portion of the meeting and gave a presentation to the special committee regarding his view on whether our company should consider a change of control transaction. Mr. Eckert summarized the reasons supporting the pursuit of a change of control transaction, including that the REIT market was experiencing historically high multiples of funds from operations and dividend yields were extremely low by historical measures. Additionally, the emergence of increased competition and the resulting lower investment yields, combined with rising interest rates, created significantly more potential down-side risk for our shareholders in the foreseeable future. Overall, Mr. Eckert asserted that he believed our share price was high in correlation to our peers, and our net asset value and our share price could be significantly lower in the near term if interest rates were to increase.

On July 12, 2005, the special committee held a meeting. Wachovia Securities reviewed the strategic alternatives available to our company and discussed its preliminary valuation analyses of the company. Wachovia Securities also provided a list of other potential bidders, which included a cross-section of pension funds, pension fund advisors, commingled/closed-end funds and buyout funds as well as potential strategic bidders, consisting primarily of other REITs. The special committee directed Wachovia Securities to contact potential bidders and to simultaneously pursue negotiations with DRA Advisors regarding its proposal.

Following the July 12, 2005 meeting of the special committee, Wachovia Securities and our management contacted DRA Advisors and stated that the special committee had determined to pursue negotiations regarding the sale of our company and had directed management and Wachovia Securities to lead the negotiations on its behalf.

On July 15, 2005, Blank Rome LLP, legal counsel to DRA Advisors, sent a draft merger agreement to Latham & Watkins.

Between July 18, 2005 and July 20, 2005, management, Wachovia Securities, Latham & Watkins and Venable had numerous discussions regarding the proposed merger agreement and, on July 20, 2005, a revised draft of the merger agreement which included aggregate comments was sent to Blank Rome. Open issues in

Table of Contents

the merger agreement included, among others, the price, the structure of the merger with regard to our operating partnership, the level of representations being made by our company, the need for DRA Advisors to have its financing guaranteed, the conduct of business between execution of the merger agreement and closing, and the degree to which our board of trustees could consider alternative proposals to the merger with DRA Advisors after execution of the merger agreement. This draft of the merger agreement was provided to the special committee on July 21, 2005.

During July 2005 and while the negotiations with DRA Advisors were proceeding, Wachovia Securities contacted seven potential bidders previously identified to the special committee. Five of the seven parties contacted expressed no interest in moving forward with a transaction, citing valuation concerns, a lack of available capital to engage in an acquisition of our size and the specialty nature of our assets. We provided publicly available information to a sixth bidder, which ultimately decided not to proceed in view of our existing share price and the size of the required financial commitment to a specialty sector.

On July 19, 2005, the seventh potential bidder entered into a confidentiality agreement with our company and commenced due diligence. On July 26, 2005, this bidder informed Wachovia Securities that our recent share trading ranges were too high in its view, and that it was not willing to pursue a transaction.

Between July 20, 2005 and July 27, 2005, Wachovia Securities, Latham & Watkins and our management had numerous negotiations with DRA Advisors and its counsel regarding various aspects of the merger agreement and proposed merger. The special committee and Venable were provided with status updates and consulted with on aspects of the negotiations by our management.

On July 26, 2005, our board of trustees held a meeting. During the meeting, Wachovia Securities presented to the entire board the materials it previously presented to the special committee on July 12, 2005. In addition, our board of trustees, at the request of the special committee, adopted resolutions further clarifying the scope of authority of the committee.

On July 27, 2005, Blank Rome circulated a revised draft of the merger agreement.

On August 1, 2005, the special committee held a meeting. During the meeting, Wachovia Securities updated the special committee on the results of its contacts with potential bidders, other than DRA Advisors, and its views on whether other potential bidders existed. After discussion, the special committee determined that the risks associated with contacting a broader group of potential bidders, including the associated risk that DRA Advisors might withdraw its offer, outweighed the potential benefit that an alternative bidder would emerge. During this meeting, Wachovia Securities also updated the special committee as to the status of negotiations with DRA Advisors. Legal counsel advised the special committee that any employment arrangement between our management and DRA Advisors should be fully negotiated prior to our company entering into a merger agreement with DRA Advisors, so that the special committee could fully evaluate all components of the transaction before deciding how to proceed.

On August 3, 2005, a revised draft of the merger agreement was sent to DRA Advisors and its counsel including comments from management, Latham & Watkins, Venable and Wachovia Securities. Issues related to the structure of the merger of our operating partnership, pricing, the termination provisions (including the breakup fee and expense reimbursement, and the circumstances under which such amounts would be payable) and certain other items remained outstanding.

Between August 3, 2005 and August 10, 2005, negotiations continued with DRA Advisors.

On August 10, 2005, Mr. Higbee, in his role as chair of the special committee, Wachovia Securities and Venable engaged in discussions regarding the status of negotiations with DRA Advisors and negotiation strategy.

Between August 11, 2005 and August 19, 2005, management, Wachovia Securities, Latham & Watkins and Venable engaged in discussions regarding open issues in the merger agreement and revised drafts of the merger agreement were circulated, including to the special committee.

Table of Contents

Throughout the second half of August 2005, our management, along with their advisors, negotiated new forms of employment agreements with DRA Advisors providing terms of employment with the surviving partnership or a management entity following the merger.

Also in late August 2005, John J. Pohanka, one of our trustees and a significant holder of units of limited partnership interest in our operating partnership, met with DRA Advisors in New York to discuss the form of consideration to be offered to the holders of units in our operating partnership. In addition, representatives of DRA Advisors met with Robert M. Rosenthal, another trustee and significant unit holder of the company, in Nantucket to discuss the same. In addition, David S. Kay and John M. Weaver, our senior vice president, general counsel and secretary, met with Mr. Summers and Jean Marie Apruzzese of DRA Advisors to continue the negotiation of the employment agreements to be entered into by our management as a condition of their employment following the merger.

On August 29, 2005, our management provided the special committee a summary of the proposed compensation to be received by our management from DRA Advisors following the merger as well as the change of control payments to our management arising under their current employment agreements as a result of the merger. On August 31, 2005, our management provided the special committee with a form of employment agreement to be entered into by Messrs. Eckert, Kay, Weaver and Ferriero and Ms. Clements in connection with their continued employment following the merger.

On August 30, 2005, Mr. Higbee, Wachovia Securities and Venable discussed the status of price negotiations with DRA Advisors. Wachovia Securities explained that price discussions had been ongoing for several weeks, but that a final agreement had not yet been reached. Wachovia Securities further explained that DRA Advisors had recently indicated to our management that $38.50 per share was the highest price it could pay. Mr. Higbee instructed Wachovia Securities to contact DRA Advisors regarding the possibility of increasing its offer price.

From August 30, 2005 through September 1, 2005, Wachovia Securities and Messrs. Eckert and Kay engaged in discussions with DRA Advisors regarding the offer price. Wachovia Securities also reviewed DRA Advisors expected acquisition financing terms as a means of assessing the ability of DRA Advisors to raise its offer price. As a result of these discussions, DRA Advisors increased its offer price to $38.75 per share. Concurrently with these discussions, legal counsel to the company and DRA Advisors discussed the remaining open issues in the merger agreement, including the termination provisions. Based on these discussions, DRA Advisors agreed, among other things, to reduce the expense reimbursement payable if the merger agreement is terminated under specified circumstances from a maximum amount of $10.0 million to $7.5 million (or $5.0 million if the termination results from shareholder approval not being obtained at the special meeting).

On September 2, 2005, the special committee held a meeting to consider the merger. In advance of the meeting, each member of the special committee received a copy of the merger agreement and related documents. At the meeting, Venable reviewed the terms of the proposed merger agreement and our board s standard of conduct under Maryland law. During the meeting, Wachovia Securities presented its financial analysis of the merger to the special committee. Wachovia Securities rendered an oral opinion to the committee (and subsequently to our board of trustees), later confirmed in writing, that as of that date and based upon and subject to various considerations and assumptions described in the written opinion, the consideration to be received by the holders of our common shares pursuant to the merger agreement was fair from a financial point of view to such holders. Mr. Eckert, at the request of the committee, participated in a portion of the meeting to provide his views on the merger and to answer questions from the special committee regarding the merger negotiations and our management s compensation following the merger. Mr. Eckert summarized prior discussions that our management had with other potential bidders and other strategic options for our company that were considered. The special committee unanimously determined to recommend that our board of trustees approve the merger.

On September 2, 2005, our board of trustees held a meeting following the special committee meeting. In advance of the meeting, each trustee received a copy of the merger agreement and related documents. At the meeting, Wachovia Securities reviewed its financial analysis of the merger with our board of trustees. Latham & Watkins reviewed the terms of the proposed merger agreement and our board s standard of conduct

22

Table of Contents

under Maryland law. Our board of trustees discussed at length the terms of the proposed merger and a variety of positive and negative considerations concerning the transaction and the overall strategic alternatives available to our company. (These factors are described in more detail below under Factors Considered by Our Board of Trustees and Reasons for the Merger.) Wachovia Securities rendered an oral opinion to our board of trustees, subsequently confirmed in writing, that as of that date and based upon and subject to various considerations and assumptions described in the written opinion, the consideration to be received by the holders of our common shares pursuant to the merger agreement was fair, from a financial point of view, to such holders. Our board of trustees then unanimously approved the merger, the merger agreement and the other transactions contemplated by the merger agreement and directed that they be submitted for consideration by the holders of our common shares at a special meeting of shareholders.

Later in the afternoon of September 2, 2005, after the special meeting of our board of trustees had concluded and counsel had resolved the remaining open issues, the parties executed the merger agreement. On September 6, 2005, prior to the opening of the financial markets, we issued a press release announcing the merger.

Factors Considered by Our Board of Trustees and Reasons for the Merger

In reaching its decision to approve the merger agreement and the merger and to recommend that our shareholders approve the merger agreement and the merger, our board of trustees consulted with the special committee of independent trustees and management as well as with its, and the special committee s, legal and financial advisors. These consultations included discussions regarding our strategic business plan, the historical prices of our stock, our past and current business operations and financial condition, our future prospects, the potential merger with Flag Fund V and other strategic alternatives. Our board of trustees also consulted with Wachovia Securities as to the fairness, from a financial point of view, to our common shareholders of the merger consideration.

Our board of trustees identified and considered a number of potentially positive factors in its deliberations, including:

- the current and historical market prices of our common shares relative to the merger consideration, including the fact that the merger consideration represented a premium of 8.6% over the prior ten trading day average share price, a premium of 5.3% over the average closing price of our common shares during the 90-trading day period ended on September 1, 2005 (the day before the merger agreement was signed), a premium of 10.1% over the average closing price of our common shares during the 180-trading day period ended on September 1, 2005, and a premium of 12.8% over the average closing price of our common shares during the twelve-month period ended on September 1, 2005;

- the fact that the merger consideration is all cash, which provides certainty of value to holders of our common shares, compared to a transaction in which shareholders would receive non-cash consideration, such as stock, which would be subject to changes in value;

- the opinion of Wachovia Securities delivered on September 2, 2005 to the special committee of our board of trustees that, as of that date, based upon and subject to the considerations set forth in its opinion, the $38.75 per share merger consideration to be received by our common shareholders in the merger was fair, from a financial point of view, to such holders (for more information about the opinion of Wachovia Securities, please see Opinion of Our Financial Advisor on page 25);

- the fact that the merger would be subject to the approval of our common shareholders and that our common shareholders would be free to reject the transaction with Flag Fund V (although we would be required to pay Flag Fund V a termination fee if the merger agreement were terminated under specified circumstances) by voting against the merger for any reason such as, for example, if a higher offer were to be made prior to the special meeting and the merger agreement had not been terminated;

Table of Contents

the risks and uncertainties associated with the other strategic options available to us, including remaining independent and continuing to implement our growth strategy or pursuing other strategic alternatives;

the terms of the merger agreement, as reviewed by our board of trustees with our legal advisors, including:

the representation of Flag Fund V that it has or will have access to and, at the closing, will have sufficient funds available to pay the merger consideration and the guaranty provided by an affiliate of DRA Advisors, which guarantees Flag Fund V s performance of its obligations under the merger agreement through the closing;

the absence of a condition to the closing of the merger that would allow Flag Fund V to refuse to complete the merger even if neither it nor its guarantor is able to obtain the financing necessary to fulfill its obligations under the merger agreement; and

our ability, even following execution of the merger agreement, to furnish information to and conduct negotiations with a third party, and to terminate the merger agreement if a third party makes a superior proposal for a business combination or acquisition, as more fully described below under The Merger Agreement No Solicitation on page 46, The Merger Agreement Termination of the Merger Agreement on page 47 and Annex A Merger Agreement;

management s assessment, after discussion with our financial advisor, among others, that Flag Fund V has the financial capability to complete the merger;

the results of discussions with other potential bidders contacted by Wachovia Securities;

a rising interest rate environment which could result in a decreased valuation of our company;

increased competition in the market for automotive dealership and related properties; and

the current trading price of our common shares and the likelihood that the trading price could decrease if interest rates were to increase.

Our board of trustees also identified and considered a number of potentially negative factors in its deliberations concerning the merger, including:

that we would no longer exist as an independent company and our common shareholders would no longer participate in our growth;

that, under the terms of the merger agreement, we would not be permitted to solicit other acquisition proposals and would have to pay to Flag Fund V a termination fee if the merger agreement were terminated under specified circumstances, which might deter others from proposing an alternative transaction that might be more advantageous to our shareholders;

the fact that gains from an all-cash transaction would be taxable to our shareholders for United States federal income tax purposes;

that, following the merger, our Series A preferred shares and Series B preferred shares may be deregistered under the Exchange Act and delisted from the Nasdaq National Market, reducing the liquidity of such shares for our preferred holders, although the terms and requirements of those securities will remain the same;

that, while the merger was expected to be completed, there could be no assurance that all conditions to the parties obligations to complete the merger would be satisfied, and as a result, it was possible that the merger might not be completed even if approved by our shareholders (see The Merger Agreement Conditions to the Merger on

page 44) or might be significantly delayed;

that if the merger did not close, we would have incurred significant expenses and our employees would have expended extensive efforts to attempt to complete the transaction and would have experienced

Table of Contents

significant distractions from their work during the pendency of the transaction, and as a result, we might experience adverse effects on our operating results, our ability to attract or retain employees, and our general competitive position in our markets; and

that certain of our trustees and executive officers have interests in the merger that are, or may be, different from, or in addition to, those of the shareholders generally, as described under Interests of Our Trustees and Executive Officers in the Merger on page 31.

Our board of trustees concluded, however, that the potentially negative factors could be managed or mitigated by us or were unlikely to have a material impact on the completion of the merger or on our company or its shareholders, and that, overall, the potentially negative factors associated with the merger were outweighed by the benefits of the merger.

The above discussion of the factors considered by our board of trustees is not intended to be exhaustive, but does set forth the principal factors considered by our board of trustees. Our board of trustees reached the conclusion to approve the merger agreement and the merger in light of the various factors described above and other factors that each member of our board of trustees felt were appropriate. In view of the wide variety of factors considered by our board of trustees in connection with its evaluation of the merger and the complexity of these matters, our board of trustees did not consider it practical, and did not attempt, to quantify, rank or otherwise assign relative weights to the specific factors it considered in reaching its decision. Rather, our board of trustees made its recommendation based on the totality of information presented to, and the investigation conducted by, our board of trustees. In considering the factors discussed above, individual trustees may have given different weight to different factors.

Recommendation of Our Board of Trustees

Our board of trustees, at a special meeting held on September 2, 2005, after due consideration and upon recommendation of the special committee of our board of trustees, unanimously:

determined that it was advisable, fair to and in the best interests of our company and our shareholders for us to enter into the merger agreement and consummate the merger and the other transactions contemplated by the merger agreement; and

approved the merger agreement and the merger and directed that they be submitted for consideration by the holders of our common shares at a special meeting of shareholders.

Our board of trustees unanimously recommends that our shareholders vote FOR the approval of the merger agreement and the merger.

Opinion of Our Financial Advisor

The special committee of our board of trustees retained Wachovia Securities to act as its exclusive financial advisor with respect to a possible sale of our company. The special committee selected Wachovia Securities to act as its exclusive financial advisor based on Wachovia Securities qualifications, expertise and reputation. Wachovia Securities rendered its oral opinion to the special committee of our board of trustees and our board of trustees and subsequently confirmed it with its written opinion that, as of September 2, 2005, subject to and based on the assumptions made, procedures followed, matters considered and limitations on the opinion and the review undertaken, as set forth in its opinion, the $38.75 in cash per common share to be received by holders of our common shares pursuant to the merger agreement was fair, from a financial point of view, to such holders.

The full text of Wachovia Securities written opinion, dated September 2, 2005, which sets forth, among other things, the assumptions made, procedures followed, matters considered and limitations on the opinion and the review undertaken in connection with the opinion, is attached as Annex B to this proxy statement. You should carefully read the opinion. This summary is qualified in its entirety by reference to the full text of the opinion.

Table of Contents

Wachovia Securities opinion did not address the merits of the underlying business decision to enter into the merger agreement and does not constitute a recommendation to any holder of our common shares as to how such holder should vote in connection with the merger agreement.

In arriving at its opinion, Wachovia Securities, among other things:

- reviewed the merger agreement, including the financial terms of the merger agreement;
- reviewed annual reports to shareholders and annual reports on Form 10-K for our company for the five years ended December 31, 2004;
- reviewed certain interim reports to shareholders and quarterly reports on Form 10-Q for our company;
- reviewed certain business, financial and other information, including financial forecasts, regarding our company (a portion of which was publicly available and a portion of which was furnished to Wachovia Securities by our management), and discussed the business and prospects of our company with our management;
- participated in discussions and negotiations among representatives of our company and Flag Fund V and their financial and legal advisors;
- reviewed the reported prices and trading history for our common shares;
- considered certain financial data for our company and compared that data with similar data regarding certain other publicly traded companies that Wachovia Securities deemed to be relevant;
- compared the proposed financial terms of the merger agreement with the financial terms of certain other business combinations and transactions that Wachovia Securities deemed to be relevant; and
- considered other information such as financial studies, analyses and investigations, as well as financial and economic and market criteria that Wachovia Securities deemed to be relevant.

In connection with its review, Wachovia Securities relied upon the accuracy and completeness of the foregoing financial and other information, including all accounting, legal and tax information and did not assume any responsibility for any independent verification of such information and assumed such accuracy and completeness for purposes of its opinion. With respect to financial forecasts furnished to Wachovia Securities by our management, Wachovia Securities assumed that they were reasonably prepared and reflected the best current estimates and judgments of management as to our future financial performance. Wachovia Securities assumed no responsibility for and expressed no view as to our financial forecasts or the assumptions upon which they are based. In arriving at its opinion, Wachovia Securities did not prepare or obtain any independent evaluations or appraisals of our assets or liabilities, including any contingent liabilities.

In rendering its opinion, Wachovia Securities assumed that the merger will be consummated on the terms described in the merger agreement, without waiver of any material terms or conditions, and that in the course of obtaining any necessary legal, regulatory or third-party consents and/or approvals, no restrictions will be imposed or other actions will be taken that will have an adverse effect on the merger or other actions contemplated by the merger agreement in any way meaningful to its analysis.

Wachovia Securities opinion is necessarily based on economic, market, financial and other conditions and the information made available to Wachovia Securities as of the date of its opinion. In addition, Wachovia Securities expressed no view on the terms of the transaction related to the partnership merger and expressed no view on whether any holder of common units of limited partnership interest in our operating partnership should exchange its common units of limited partnership interest for membership interests being offered by the affiliate of DRA Advisors. Additionally, Wachovia Securities expressed no view on whether any holder of common units of limited partnership

interest in our operating partnership should convert or exchange its common units of limited partnership interest into or for our common shares. Wachovia Securities opinion does not address the relative merits of the merger or other actions contemplated by the merger agreement compared with other business strategies or transactions that may have been considered by our management, or our board of trustees or any committee thereof. Wachovia Securities did not consider for the purposes of its

Table of Contents

opinion the prices at which our common shares might trade following the announcement of the merger. Although subsequent developments may affect Wachovia Securities opinion, Wachovia Securities does not have an obligation to update, revise or reaffirm its opinion.

The summary set forth below does not purport to be a complete description of the analyses performed by Wachovia Securities, but describes, in summary form, the material analyses of Wachovia Securities in connection with its fairness opinion. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to a partial analysis or summary description. In arriving at its fairness opinion, Wachovia Securities considered the results of all its analyses as a whole and did not attribute any particular weight to any analysis or factors considered by it. Accordingly, the analyses listed in the tables and described below must be considered as a whole. Considering any portion of such analyses and the factors considered, without considering all analyses and factors, could create a misleading or incomplete view of the process underlying Wachovia Securities opinion.

Historical Stock Trading Analysis

Wachovia Securities reviewed publicly available historical trading prices and volumes for our common shares for the twelve-month period ended September 1, 2005. In the twelve-month period preceding the announcement, the high closing price for our common shares was $40.07 (on July 11, 2005) and the low closing price for our common shares was $30.00 (on September 14, 2004). In addition, Wachovia Securities compared the $38.75 in cash per common share to be received by holders of our common shares pursuant to the merger agreement to the closing trading price of our common shares on September 1, 2005 and the average closing trading prices of our common shares during the 10-day, 30-day, 60-day, 90-day, and 180-day periods preceding the announcement of the merger. The $38.75 per share offer price represents a premium to the average closing prices of our common shares as follows:

	Average Closing Price	Premium To Average Closing Price
September 1, 2005	$ 35.44	9.3%
10-Day Average	$ 35.64	8.7%
30-Day Average	$ 37.16	4.3%
60-Day Average	$ 37.78	2.6%
90-Day Average	$ 36.81	5.3%
180-Day Average	$ 35.19	10.1%
Twelve Month Average	$ 34.34	12.8%

Comparable Companies Analysis

Wachovia Securities compared our financial, operating and stock market data to the following publicly traded REITs that own or operate net leased properties:

American Financial Realty Trust
Commercial Net Lease Realty, Inc.
Entertainment Properties Trust
Getty Realty Corp.
iStar Financial, Inc.
Realty Income Corporation
Spirit Finance Corporation

Wachovia Securities calculated, among other things, the multiple of per share closing prices to projected funds from operations (FFO) for 2006 for the comparable companies, based upon projected financial information from the SNL Financial (SNL) consensus estimates and closing share prices on September 1, 2005. Wachovia Securities calculated a range consisting of the high, mean, median and low multiples of per share price to projected FFO for the

comparable companies and applied this range to our management s and SNL s consensus estimates of projected FFO for 2006. This analysis produced an implied per share value

Table of Contents

range for our common shares of $32.29 to $44.63. The range of implied share prices for our common shares is outlined below:

	2006 FFO Multiple	Implied Common Share Price Based on Management s 2006 Estimated FFO	Implied Common Share Price Based on SNL 2006 Estimated FFO
High	15.2x	$ 43.97	$ 44.63
Mean	12.7x	$ 36.92	$ 37.47
Median	12.6x	$ 36.57	$ 37.12
Low	11.1x	$ 32.29&n	