Behringer Harvard REIT I, Inc.

Behringer Harvard REIT I, Inc. became effective in 2003 and invests in institutional quality real estate. As of the third quarter 2012, the REIT had $3.2 billion in assets in 52 properties totaling 20.6 million square feet. The REIT closed to new investments in December 2008 and is in the Maturing Lifestage of Closed REITS that is marked by a refinement of the portfolio through dispositions, strategic acquisitions and debt. The investment style of this REIT is considered to be "Core," which is typically defined as a REIT that generates a high percentage of its total return from income and a modest percentage from asset appreciation. REITs in this category are also expected to exhibit low volatility in asset values.

Key Highlights

- In August, the REIT became self managed and internalized the advisory function and personnel previously provided by Behringer Advisors in return for 10,000 shares of Convertible Preferred Stock worth approximately $2.7 million at the end of the quarter.
- A significant portion of the REIT's outstanding debt is due to be repaid before 2017 exposing the portfolio to potential interest rate and refinance risks.
- Continuing a trend from 2011, the REIT has completed two foreclosure sales, losing all equity on those investments. At quarter end, six loans are in default in the portfolio with a combined loan balance of $158.8 million.
- Problems are exacerbated by a debt level above its Board of Director's policy to limit borrowings to 55% and low cash on hand to pay for tenant improvements, leasing commissions, loan payoffs and other cash needs.
- The issues being faced by the REIT are demonstrated in its 1% distribution rate and $4.64 per share valuation. To support the distribution and cash availability, the previous sponsor waived certain fees for more than three years.

Capital Stack Review

- Debt – with a debt ratio of 67.1%, the REIT is well above the median for the Maturing LifeStage. 97% of the REITs debt is fixed rate.
- Debt Maturity – 90% of the company's debt is due to be repaid before 2017.
- Loan Activity - Minnesota Center was foreclosed upon by the lender in January and the REIT's TIC interest in St. Louis Place was foreclosed upon in February. Six loans are in default in the portfolio with a combined loan balance of $158.8 million.
- Cash on Hand – 0.1%, well below median.

Metrics

- Distribution – 1%, which has been maintained for nine quarters.
- Distribution Source – Paid from operating cash flow and borrowings.
- MFFO Payout Ratio – 62% year-to-date down from 69% at year-end 2011.
- Fee Waivers and Deferrals – $5.7 million in asset management fees were waived by the advisor prior to the internalization of management.
- Interest Coverage Ratio – 1.5 which is below median compared to other REITs in this LifeStage.
- Impairments – $24.5 million in losses were reported year-to-date, down from $47.8 million taken in 2011.

Real Estate

- Acquisitions – None completed this year; however, the development of Two BriarLake Plaza, a 318,000 square foot office building in Houston, TX, was started this year.
- Occupancy – 85%, up 1% from year-end.
- Lease Expirations – 51% of the REITs tenants expire in 2018 or later.
- Dispositions – Three properties have been sold in 2012 totaling $189.6 million ($238 per square foot) including:
- One City Centre in Houston for $131 million ($215 per square foot).
- Two properties were sold in the second quarter on the West coast with proceeds used to pay down debt.
- The REIT's TIC interest in Alamo Plaza was sold in October for a $5 million loss.
- Diversification – Chicago, Houston and Philadelphia represent over 45% of the net operating income of the REIT.