



Real Estate Issues for SIORs to Consider in the November Election

October 25, 2012



Our Panel

Tim Feemster
Senior Managing
Director



Ed Konjoyan
Senior Vice President



Ed Lawler
Managing Director



Vijay Yadlapati
Commercial Policy
Representative



Kevin McGowan CCIM, SIOR
Moderator





Diving into the Issues

Our discussion will touch on the following issues but not be limited to just these points:

- Basel III, Dodd-Frank,
- Qualified Commercial Real Estate (QCRE) loans
- Tax reform
- Lease accounting
- Important Takeaways for your clients with FASB changes
- RPAC – Influencing Elections, Investing in RPAC, Candidate Endorsements



Basel III

Raises bank capital requirements

– 7% of total assets

- Higher risk weight for ACD loans
- Result: fewer loans made by banks

Dodd-Frank

Requires 5% risk retention

- QCRE exemption very rigid
 - 99.9% of CRE loans would not qualify
- Results in lower credit capacity



Tax Reform

- Status of “tax extenders”
 - Capital gains
 - Income tax
 - Leasehold improvements
 - Carried interest



Big change is coming.

And it will change everything for leases of real estate and other assets.

- THE ECONOMIC IMPACT OF THE CURRENT IASB AND FASB EXPOSURE DRAFT ON LEASES. February 2012
-Chang & Adams Consulting



Context

Why?

- Financial statements don't reflect the underlying economics of most lease transactions
- Increase balance sheet transparency and comparability
- Make US GAAP more consistent with international standards
- Move from *rules-based* to *principles-based* methodology

What?

- Main concept: Virtually all leases go on balance sheet
- Extensive footnotes
- Lease accounting for financial reporting (Note: will not effect tax or cash)



Context

Who?

- Financial Accounting Standards Board (FASB)
- International Accounting Standards Board (IASB)

Whom?

- Anyone who uses GAAP or IFRS
 - ✓ All public companies
 - ✓ Most large private companies
 - ✓ Others

Context

Accounting change appears inevitable

Discussion Paper

March 2009

Proposed overall principle of putting leases on balance sheet. **COMPLETE**



Exposure Draft

August 2010

Outlined details of proposed new accounting. **COMPLETE**



Final Standard

Q1 of 2013

Will establish the new accounting. **FASB/IASB TARGET = end of 2011**



Effective Date

TBD

Date after which financial statements must use the new accounting. **probably not until 2017**

BUT

Re-deliberations still underway

- Lease definition
- Renewal periods
- Contingent Rents
- Pattern of expense recognition
- Lessor accounting



Context

For all practical purposes, accounting change is already here

- **Grandfathering of existing leases is unlikely.**
Implication: Today's decisions must be made through lens of new accounting.
- **Companies must apply accounting retrospectively to comparative years presented in financial statements.**
Implication: For most companies, an effective date in 2017 will require that the standard be retrospectively applied to leases starting in 2013.
- **Establishing compliance processes and new strategies will take time.**
Implication: Start now.

This is a “today” issue.



Boards' Revised Data

Components to the Capitalization for a Lessee

Components	Comments
Original Lease Term	<i>Non-cancelable period</i>
Amount of Rent	<i>Only net rent portion included</i>
Expenses Included in Rent	<i>Expensed as paid</i>
Termination Payments	<i>Capitalized if expected to exercise (Note: if included non-cancelable period will reflect)</i>
Renewal Terms	<i>Included if there is significant economic incentive to renew (Reassessment occurs if factors change significantly)</i>
Variable Rent	<i>When dependent on index or rate</i>
Contingent Rent	<i>If it can be reasonably estimated</i>
Type of Lease (under deliberation)	<i>Financing or Non-financing (i.e. operating)</i>



Impact On Logistics

FASB is reviewing the distinction between a lease and a service contract

- Direction is inconclusive
- Focus is on the definition of whether or not a contract contains the right to control the use of a specified asset

Likely exclusions:

- Where an asset is incidental to a service
- Where the asset component of a contract is insignificant



Impact On Logistics

Embedded or implicit leases will be material issues under the new standard.

Example: Company A outsources logistics to 3PL and agrees to pay 3PL a certain amount each month. Under the currently proposed guidance, it is probable that:

- The balance sheet of Company A would reflect the PV of the net rent expense as a liability and an asset.
- 3PL would account for that portion of the contract as a sublease.



Impact On Logistics

What might this mean to the logistics industry?

Possible answers include:

- No impact
- Company A leases space directly
- More public warehouse use

Where we are headed

Remaining issues for FASB and IASB





Process Implications

Scope and scale of Impact

- More than explicit leases
- Process design complicated; more than explicit real estate leases

	Scale	Explicit	Implicit
Real Estate	Likely 80% to 90% of dollars Likely many fewer contracts than for equipment	Lease inventory and abstracts probably available	New issue for companies
Equipment & Other	Likely 10% to 20% of dollars Likely many more contracts than for real estate	Lease abstracts and inventory may not be readily available	New issue for companies



Important Takeaways- FASB Changes

1. Changes will be made to the FASB lease accounting rules by year end
2. Put an internal project team together that includes real estate, finance, operations, and senior management
3. Start to look at your leases to prepare for future reporting
4. Determine your strategy on leasing vs. buy for various types of assets- trucks, forklifts, racking, real estate, trailers, etc.
5. Look for implied leases imbedded in service contracts
6. For users, address the strategy of 3PL outsourcing as it relates to these accounting changes
7. For 3PLs, open up a dialogue with your clients to understand their real estate strategy
8. Make the necessary process and technology changes to be ready
9. Rules are not final so keep abreast to changes as FASB releases them
10. Keep in touch with an expert to guide you



RPAC

How do we influence legislation?

Lobbyists

Volunteers

Membership

Invest



RPAC

The REALTOR[®] Party

Vote

ACT

Invest



RPAC

Investing in RPAC

30% NAR 70% State and Local

Any Amount Helps

Major Investor

President's Circle



RPAC

Candidate Endorsements

Republican and Democrat

Key Committee Leaders

TIM FEEMSTER

Senior Managing Director



TIM FEEMSTER
SENIOR MANAGING DIRECTOR

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YEARS OF EXPERIENCE
40+ Years

AREAS OF SPECIALIZATION

- Supply Chain and Distribution Strategy
- Network Design and Planning
- Economic Development Business Planning
- Supply Chain Cost Reduction
- Operations Management
- Distribution Center Consolidations and Greenfield Design
- Lean Six Sigma Process Improvement
- Real Estate Portfolio Strategy
- Meeting Facilitation

PROFESSIONAL BACKGROUND

With over 40 years of industry and consulting experience, Mr. Feemster specializes in supply chain and distribution network strategy, operations management in manufacturing and distribution environment, supply chain cost improvement, distribution center master planning, and economic development business planning.

Before joining Newmark Grubb Knight Frank, Feemster was a senior manager in three manufacturing companies, a consultant, an executive in two third-party logistics providers and a practice group leader in a real estate company.

He has been exposed to the manufacturing, logistics and supply chain issues facing many industries and involving both refrigerated and dry channels. These experiences include specific assignments in over 40 warehouse and/or transportation project start-ups, facility layout and design, logistics systems development, purchasing strategy, business planning, carrier rationalization, warehouse network analysis, and third party qualification and selection.

In addition, Feemster has been responsible for warehouse operations, strategic planning, marketing, site selection, inventory planning and deployment, Lean Six Sigma quality management, project management, and transportation and private fleet management. Tim is quoted frequently in both supply chain and real estate industry press and makes over 20 presentations a year to professional organizations, university students, and economic development groups. He was honored as one of the 2010 Rainmakers by DC Velocity magazine.

A sample of clients include Alpo Pet Foods, Cisco Systems (US & Mexico), Coke, Disney, Federal Express, Frito Lay, Georgia Pacific, GM (US and Mexico), HP (US & Canada), Ingersoll Rand (US & Europe), Nike Golf (US & Europe), Nissan, Philip Morris, Ricoh, NCR, and Quaker Oats.

EDUCATION

Mr. Feemster holds an M.B.A. with distinction, in Marketing and Operations Research from the Ross School of Business, University of Michigan in Ann Arbor, MI. He received his Bachelor's degree in Mathematics from DePauw University, Greencastle, IN.

PROFESSIONAL ASSOCIATIONS

Warehouse Education Research Council (WERC) – Past President
Council of Supply Chain Management Professionals (CSCMP) – Registration Committee
Industrial Asset Management Council (IAMC) – Program Delivery Committee
International Council of Shopping Centers (ICSC)
Intermodal Association of North America (IANA)
International Association of Refrigerated Warehouses (IARW)
Retail Industry Leaders Association (RILA)
Global Cold Chain Alliance (GCCA)

ED KONJOYAN

Vice President



ED KONJOYAN

SENIOR VICE PRESIDENT

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PROFESSIONAL BACKGROUND

Mr. Konjoyan joined Majestic in 2004 and today oversees the development of master-planned business parks, development on ground leased land and partnerships with governmental organizations including Tribal Nations. He has served as President and as Chairman of Legislative Affairs of NAIOP Inland Empire. Under his leadership, NAIOP Inland Empire twice received the National Chapter Merit Award for Governmental Affairs. Mr. Konjoyan is a licensed Real Estate Broker and a member of the State Bar of California. He holds degrees in Law from Georgetown University and Business Administration (Real Estate Development and Finance emphasis) from the University of Southern California.

ED LAWLER

Managing Director



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YEARS OF EXPERIENCE
35+ Years

PROFESSIONAL BACKGROUND

Ed has been affiliated with NAR for over 35 years. He spent 32 years as a REALTOR® Broker and managed five RE/MAX companies for 12 years.

He also served on several state REALTOR® committees supporting advocacy and fundraising efforts including the Colorado State PAC as both treasurer and committee chair.

Ed was a Federal Political Coordinator and testified before a Congressional committee on behalf of NAR supporting Small Business and Association Health Plans.

He was awarded the State of Colorado's Political Service Award in 2002 for outstanding political involvement.

He joined NAR in June of 2008 and helped successfully launch and grow the Broker Involvement Program, enhancing NAR's overall advocacy influence.

In June 2011 Ed was promoted to NAR's Managing Director of RPAC fundraising.

VIJAY YADLAPATI

Associate



VIJAY YADLAPATI
COMMERCIAL POLICY REPRESENTATIVE

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PROFESSIONAL BACKGROUND

Presentation

Vijay Yadlapati will be briefing NCCAR members on the credit crisis facing the commercial real estate industry. Specifically, Vijay will provide members with information on the current state of commercial real estate markets across the country and reasons for the credit problems plaguing the industry. Additionally, Vijay will speak on NAR's direct and grassroots lobbying efforts to help thaw the nearly frozen commercial credit markets. Furthermore, Vijay will offer his thoughts on the current political climate on Capitol Hill as well as critical tax issues that Congress will be debating over the next year.

Role

As NAR's Associate Commercial Policy Representative, Vijay monitors and analyzes federal legislative and regulatory developments in order to shape the direction of today's policies. Vijay also lobbies the U.S. Congress and federal regulatory agencies to ensure that the interests of the commercial real estate industry are addressed. Additionally, Vijay keeps membership up-to-date on key legislative/regulatory issues through a number of online resources and publications.

Experience

Vijay has lobbied for several different organizations, including the United Way, while working at Government Affairs Specialists Inc., a contract lobbying firm. Vijay also lobbied for a not-for-profit association called State Universities Annuitants Association, where he fought for pension and health care benefits for retirees. Soon thereafter, Vijay worked as a policy analyst for the Illinois Department of Commerce and Economic Opportunity.

Prior to his arrival at NAR, Vijay also worked as the Institute of Real Estate Management's Senior Legislative Liaison. Additionally, Vijay ran CCIM Institute's federal and state legislative/regulatory advocacy efforts as its Government Affairs Manager.

Education

Vijay earned his B.S. in Political Science as well as an M.A. in Political Studies from the University of Illinois. He also received a J.D. from Georgetown University. Vijay is a registered federal lobbyist.

KEVIN MCGOWAN, CCIM, SIOR

Director



KEVIN MCGOWAN, CCIM, SIOR
DIRECTOR

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PROFESSIONAL BACKGROUND

Kevin's primary focus with Newmark Knight Frank Smith Mack is in the industrial market within the Greater Philadelphia region, with a strong concentration in the Lehigh Valley and Central Pennsylvania. He has worked in the industrial market since 2004.

DEAL HIGHLIGHTS

Kevin has been involved in hundreds of transactions that have included many land deals, industrial and office leases, and the sale of a number of leased investments. He was the driving force behind the creation of the first Newmark Knight Frank National Industrial Market Leadership conference call and he serves on the Newmark Knight Frank Industrial Market Leaders Executive Committee. Kevin was retained by Winco Foods to complete an 87-acre industrial land purchase to build an 800,000 square foot distribution facility. He also organized SIOR's tour of Bethlehem's Intermodal for the Pennsylvania and New Jersey industrial brokerage community.

Kevin has earned both the SIOR and CCIM designations. He was named one of nine international "CCIM rising stars" in July 2007's CIRE magazine and most recently was named a recipient of "40 Under 40" by the Philadelphia Business Journal for 2011.

COMMUNITY INVOLVEMENT

St. Joseph's Prep Alumni Board of Governors
ULI Lehigh Valley Council
Princeton Club of Philadelphia Board of Directors
Friends of Gesu School
Former State Legislative Candidate
Victorious U.S. Congressional Campaign Manager
Young Friends of the Philadelphia Art Museum

PROFESSIONAL ASSOCIATIONS

Society of Industrial and Office Realtors (SIOR)
Certified Commercial Industrial Member (CCIM)
Board Member PA/NJ/DE Chapter
2012 NAR Commercial Legislation and Regulatory Subcommittee
2012 NAR Land Use Property Rights and Environment Committee
Pennsylvania Association of Realtors Vice Chair Commercial, Industrial &-
Investment Committee
Philadelphia Real Estate Council Board of Directors
Warehouse Education Research Council (WERC) - Philadelphia/Delaware Valley-
Board Member
Foreign Policy Research Institute
Urban Land Institute



Questions?

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