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REAL ESTATE WEEKLY

TOP FIVE TRENDS TO HAVE ON YOUR 2015 REIT RADAR

By **Stuart Eisenberg**

As we settle into the New Year, now is the time to look at what 2015 holds for commercial real estate…

With a bright outlook forecast for the commercial real estate industry as a whole, what are those specific REIT trends worth paying attention to in 2015? The following are five to put on your 2015 REIT radar.

1. Sovereign Funds and CMBS Loans Feel Ongoing Impact From Declining Oil Prices: While consumers are cheering for cheaper prices at the pump the current price per barrel may not bode well for commercial real estate and real estate financing. Why?

    - Sovereign Funds: The countries that have profited from energy being their primary export are now feeling the pinch as the price per barrel falls and they are forced to draw on windfalls from their sovereign funds…

    - CMBS Loans: When refineries slow production to reverse the devaluation of oil, the need for a large workforce decreases. Boomtowns could then become ghost towns, and new assets – from hotels to multifamily complexes – funded by CMBS loans and developed to accommodate rising populations are no longer needed. This decreased demand could potentially place these assets in a position to default.

2. Gateway Cities, Safe Bet for Foreign Investors: The gateway cities, which include New York, Boston, San Francisco and Los Angeles among others, are where the money is, and real estate prices reflect that.

    These markets are attracting foreign investors and will continue to this year since they are highly liquid markets and offer investments that investors feel comfortable in pursuing and allocating money towards…

    While this trend is set to continue throughout 2015, there will also be an increasing interest in secondary markets…

3. Single Family REITS are Poised To Succeed: Despite initial uncertainty surrounding the long-term viability of the single-family REIT sector, it has enjoyed strong momentum, and investors have shown an appetite, which will continue in 2015, for this asset class…

4. Demand Continues for Mixed-Use Real Estate: The dynamics of developing space in which retail, office and residential all feed off one another appeals to a

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wide range of market participants and makes work, live and play environments a nationwide trend that will live on this year…

5. Despite E-commerce Boom, Brick-and-Mortar Retail Remains Relevant: While the brick-and-mortar retail sector continues to grapple with a slow recovery in sales and competition from e-commerce, it will remain relevant and continue the resurgence it started in 2014…

MAINST.

WHY AMERICANS MOVE CLOSER TO THEIR JOBS OR NEIGHBORHOODS WHERE THEY CAN WALK

By Ellen Chang

Americans still believe that the location of their home ranks as most important among their real estate criteria. And the prospect of walking-distance proximity to their most important locales motivates their real estate decisions.

People are moving to be closer to their jobs, to live in more diverse neighborhoods or to be within walking distance of stores, according to a report conducted by The Demand Institute, a New York-based non-profit think tank jointly operated by The Conference Board and Nielsen…

The appeal of living in a city is increasing for many residents who prefer the ease of walking to their local deli or to run an errand…

"More people are opting to live in neighborhoods where they can walk often, if not daily. Walking is becoming more important as car ownership decreases and becomes less of a priority, especially for younger people," said **Stuart Eisenberg, real estate practice leader and partner at BDO USA**, the Chicago professional services firm. From 2007 to 2011, the number of cars purchased by people ages 18 to 34 fell almost 30%, according to a study from the AAA Foundation for Traffic Safety.

"Today people are opting to live more mindfully as they crave a sense of ease, and walking helps contribute to this," Eisenberg said. "Transit-oriented developments continue to be built in response to a demand for work, live and play communities."

Buying a home is becoming less of a priority for many consumers, so many American are opting to be renters, which also impacts where they live, Eisenberg said…

COMMERCIAL PROPERTY EXECUTIVE

CHEAPER GAS: GOOD FOR CONSUMERS, TROUBLE FOR CRE?

By **Stuart Eisenberg**

Today a barrel of oil is under $55, which is a substantial decline from the $112 per barrel price of last summer…

Exactly how plummeting oil prices will impact real estate and commercial real estate financing is hard to pinpoint because for real damage to be done the price per barrel would have to stay below the average break-even point for six months. However, the most likely casualties would include sovereign wealth funds, real estate-backed loans (including CMBS) and energy-driven markets.

- **Sovereign Wealth Funds:** Energy-exporting countries that have stashed billions in windfalls in sovereign investment funds could be forced to draw down on them as oil revenues shrink, rattling the stock, bond and property markets throughout the globe…
- **CMBS Loans:** When refineries slow production to reverse the devaluation of oil, the need for a large workforce could decrease. Boomtowns could then become ghost towns, and highly leveraged assets – from hotels to multi-family complexes – funded by construction and permanent financing (including CMBS loans) could struggle to find tenants willing to pay a premium, or even tenants at all. The decrease in demand could potentially place these assets in delinquency…
- **Demand in Energy-Driven States:** As oil production is cut and consolidations occur to reverse the price drop, it could lead to more than just unemployment. These markets could also experience increased vacancy in all asset categories that had been flourishing prior to the steep decline…

How do you think the collapse in oil prices will affect commercial real estate and financing?

COMMERCIAL PROPERTY EXECUTIVE

COULD MILLENNIALS' BELIEF SYSTEM BUILD NEW CRE FUTURE?

By **Stuart Eisenberg**

By 2025, Millennials are expected to occupy 75 percent of the workforce, and it is estimated that by 2015 they will have a combined purchasing power of $2.45 trillion worldwide…

Why does this generation stand to completely change the CRE landscape? It could be attributed to the digital revolution that Millennials grew up in and that forever transformed society. This era of radical innovation molded a new Millennial behavior set and belief system that is worlds apart from previous generations. Some of the most notable Millennial viewpoints disrupting how this generation works, lives and plays, and that could eventually impact CRE, include:

- Urban not Suburban Living: Millennials favor living at the intersection of where they work, live and play…
- Digitally Driven Living: Tethered to their devices, Millennials are sleeping with their smartphone, and according to Nielsen, 83 percent literally do…

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- Residents of the World: Flexibility and freedom are at the heart of Millennial living…

So what CRE sectors could experience the greatest transformations as a result of the Millennial value system? A few examples include:

- Office: As Millennials increasingly opt to live in densely populated and energetic urban centers, as well as work from and near their homes there could be a dramatic shift in how office space is utilized…
- Retail: While arguably the most technologically savvy generation, Millennials still would rather shop in-store – according to a new study by OpinionLab, Millennials prefer shopping malls over shopping carts. However, to develop the more personalized and seamless shopping experience Millennials long for, brick-and-mortar retailers are reshaping their physical space to offer more of an experience.
- Industrial: While studies have shown Millennials have a penchant for in-store shopping, they still rely on e-commerce…
- Residential Development: Historically disenchanted with home ownership, many Millennials continue to rent versus buy…

How do you think Millennials will affect commercial real estate and financing in the future?

CONTACT:

STUART EISENBERG
New York
212-885-8431 / seisenberg@bdo.com

BRENT HORAK
Dallas
214-665-0661 / lhorak@bdo.com

ALBERT LOPEZ
Miami
305-381-8000 / alopez@bdo.com

JAMES NESBITT
Washington, D.C.
301-634-0223 / jnesbitt@bdo.com

JOHN RAINIS
Chicago
312-616-4644 / jrainis@bdo.com

CHRISTOPHER TOWER
Orange County
714-668-7320 / ctower@bdo.com