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REAL ESTATE PRACTICE

A SAMPLING OF BDO THOUGHT LEADERSHIP IN THE MEDIA FOR Q4 2013

COMMERCIAL PROPERTY EXECUTIVE

U.S. HEALTHCARE REITS FIND OPPORTUNITY OVERSEAS

By **Jeff Walraven**

Recently, some U.S. healthcare REITs have been looking for opportunities in foreign territories to acquire prime assets. For REITs, securing seniors housing and other healthcare asset property types abroad can offer increased portfolio diversity, international presence and exposure to new, emerging markets.

Some U.S. healthcare REITs are looking for investment opportunities in Canada and the United Kingdom. These countries' high-quality properties, well-established operating partners, prosperous areas and surging seniors' populations make them very attractive markets…

Other European countries, such as Germany, are attracting investment interest as well…Both the private and public sectors in Germany have heavily invested in their healthcare industry, and the country guarantees its citizens health insurance coverage. The importance and quality of German healthcare assets creates an appealing landscape for U.S. healthcare REITs looking to generate returns for their investors.

Targeting BRICS nations for potential acquisitions may also be a rising trend for U.S.-based healthcare REITs. With the rapid economic and societal shifts taking place in these countries, there may be opportunity for U.S. healthcare REITs to invest. For example, China is experiencing an initial surge of seniors housing and healthcare development, as the aging population grows and multi-generational homes become less of a cultural norm. As more Chinese developers look for capital, U.S. healthcare REITs may consider working with them to diversify their portfolios.

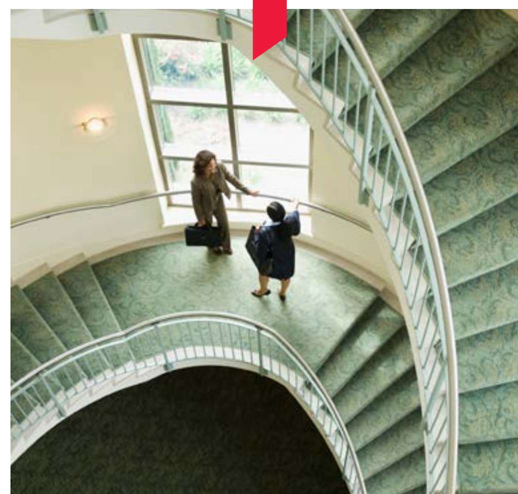
REAL ESTATE FORUM

TRACKING CMBS' DO-OVER

By Erika Morphy

CMBS, though, has always been known for its rigidity. Borrowers deal with it or not. More worrisome for the space is the still giant question mark over future processes due to the Dodd-Frank Act.

In August the industry breathed a collective sigh of relief when the Board of Governors of the Federal Reserve System,



BDO's Real Estate industry practice provides assurance, tax and advisory services to all sectors of the real estate industry in the United States and globally. BDO's international reach and extensive experience in addressing the business and compliance issues applicable to REITs and other real estate structures is supported by a network of of 1,264 offices in 144 countries.

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the Department of Housing Corp., the Federal Housing Finance Agency, the Office of the Comptroller of the Currency, and the Securities and Exchange Commission issued a collective proposal—or rather, re-proposal—of a Dodd-Frank rule that loosened the requirement that issuers of mortgage-backed securities had to keep some so-called skin in the game and retain 5% of the bond's credit risk on their books…

The practical effect is that it would have kept CMBS lenders from claiming profits up front on such transactions until all other blonds have been paid off…

The direction of interest rates is also a concern for the industry, says **Stuart Eisenberg, national director of the real estate practice at BDO USA**.

One driver behind CMBS' resurgence from the recession was the fact that these securities presented a nice return for yield-hungry investors. "CMBS have been delivering a nice yield for a low interest rate environment," Eisenberg says. If rates rise, the dynamics could quickly change.

McKNIGHT'S LONG-TERM CARE NEWS & ASSISTED LIVING

HEALTHCARE REITs SEEK OPPORTUNITY ABROAD

By **Jeff Walraven**

While there are many reasons that U.S. healthcare REITs may look overseas for opportunity, one of the biggest advantages of this strategy is portfolio diversity in high quality core assets. REITs are always seeking creative, new ways to expand and diversify their investments, and they currently have capital available to do so. While the growth of the available pool of domestic healthcare assets has recently been slowing, more affordable quality assets are becoming available in foreign markets. This makes international investment extremely attractive to industry professionals. With increased portfolio diversity comes a larger international presence and exposure to new, favorable markets. This not only opens U.S. healthcare REITs up to potential new acquisitions overseas, but also broadens their pipeline to future opportunities as new development occurs…

While there are many advantages for U.S. healthcare REITs seeking opportunity abroad, other factors of such acquisitions are important to consider. First, investing in new markets always poses some degree of risk, and the REIT landscape overseas is no different. While U.S. healthcare REITs may be competitive players in foreign markets, they should also be prepared to react to and protect themselves from a less familiar market environment. When considering acquiring a potential asset, a balance of potential return versus the amount of market risk needs to be in place. Furthermore, U.S. healthcare REITs' activity abroad may create competitive pressure for relatively expensive domestic properties. While this has yet to occur, it may be something to look out for in the coming new year.

MORTGAGE BANKING MAGAZINE

THE STATE OF PLAY IN COMMERCIAL REAL ESTATE

By **Stuart Eisenberg**

All sectors of the commercial real estate industry have had to continually adapt to an ever-evolving and decidedly challenging landscape. The challenges have ranged from interest-rate uncertainty brought on by the Federal Reserve announcing earlier this year plans to cut back on its stimulus efforts to risks inherent in exploring new markets and investment models. While some segments—such as the commercial mortgage-backed security (CMBS) and mixed-use property sectors—have seen positive movement, others, like retail, continue to be stifled by the prolonged impact of the economic crisis. However, real estate operators and developers, as well as investors, may be able to better prepare for the coming year by gathering critical market intelligence, taking necessary steps to plan for pending regulations and projects, and conducting careful risk assessments…

Retail and Industrial sectors still slow

…Continued low consumer confidence has delayed significant retail recovery. Many professionals in the sector are exercising caution as they take steps to boost activity. Given the choice between a profitable, yet expensive, location and a more affordable property in a secondary or tertiary market, most professionals are leaning toward the better location.

Even traditionally large stores such as Walmart and Target are adapting to this trend by opening up smaller stores in prime locations. The age-old adage that a prime location is priceless seems to be the safe notion that developers are generally sticking to.

The industrial real estate market is making a slow recovery. The continued momentum of e-commerce has posed a challenge for the industrial sector as well as for the retail industry, but has also reacted more industrial demand at the same time…

Emerging single-family REIT sector

A relatively new REIT subsector on the scene is the single-family REIT. During the mortgage crisis, many real estate operators and investors purchased bundles of single-family houses in distress or foreclosure, or took advantage of markets where supply greatly outstripped demand by buying up the excess inventory…

Because many single-family REITs established themselves amid a troubled residential industry and are currently growing, that nascent REIT sector is one to watch—but also one without historical performance proofs yet.

Timing is not the only challenge these REITs face. Geographical dispersion is yet another obstacle. Unlike certain multifamily REITs that have all of their properties concentrated in a development in one location, these new REITs can have their homes spread miles and states apart. This can become both burdensome and extremely expensive when trying to

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effectively manage the renovation and maintenance of these units…

Additionally, it is unclear what a flourishing single-family REIT sector would mean for the multifamily industry, as the two are seemingly in competition with one another.

LAW360

SHRINKING US INVENTORY PUSHES US HEALTH CARE REITs OVERSEAS

By Kaitlin Ugolick

Historically picky real estate investment trusts with a focus on health care properties have gobbled up much of the domestic property they deem worthy, so many are setting their sights abroad, on places like the U.K., other European countries, and even China and India, for new high-end, high-yield opportunities.

While the U.S. still holds plenty of health care inventory, with more expected to be built in the coming years, the top public health care REITs pride themselves on going after only the highest-quality products, which make up only about 10 percent of health care real estate in the country, experts say…

"They focus toward the better end or top end of that [asset class], and as that inventory starts to constrict ... they're now starting to turn their eyes toward Europe," said **Jeff Walraven, an assurance partner with professional services firm BDO USA LLP**…

Barriers to entry are especially high in China and India, but some REITs are beginning to try deals there thanks to operators that are willing to take the risk, according to Walraven.

"There's a little bit of a quiet movement out there," he said, noting that while the Indian government has made it very difficult for foreign companies to do business there, China has been working with foreign investors in order to meet its own changing domestic needs.

The tradition in China of parents living with their children when reaching old age has begun to shift, Walraven said, and the resulting demand for assisted living and acute senior care facilities is ballooning.

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