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# BDO CORPORATE REAL ESTATE ADVISORY

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Q&A with [Michael Pappas](#), Senior Managing Director, Corporate Real Estate Advisory Services, BDO USA, LLP & [Tom Stringer](#), National Site Selection & Business Incentives Service Leader, BDO USA, LLP

**Commercial real estate prices continued to rise in most major markets during 2015. How long will they continue to climb upward and what is the outlook for growth in 2016?**

The real estate market is highly sensitive to a wide range of factors, and we are starting to see prices begin to back down from their previous peaks. If one thing is certain for 2016, it is uncertainty. Stock price swings, global tensions and the presidential election cycle all contribute to market tension. Another data point that warrants monitoring is the commercial mortgage-backed securities (CMBS) market, which tracks secured loans on commercial properties. The index was at \$3.3 billion in January 2016, its lowest level since August 2012. This follows a highly active 2015 during which \$101 billion in CMBS were issued, its highest level since 2007.

Construction activity was also robust in 2015, which means more properties will be hitting the market in the near future, freeing up space and alleviating some of the pricing pressure.

**Does this present companies with opportunities to evaluate their current footprints and consider renewing existing leases or relocating operations? What if a current lease contract doesn't expire for several years?**

There's always an opportunity to negotiate; even if you still have time on a lease, landlords want to keep their tenants in place when prices are dropping and more space is hitting the market. Likewise states and municipalities are often eager to work with companies to retain their operations. Relocations are always a fast and significant cost savings measure in times when margins are tight, and proactive landlords and economic development groups leverage these tactics to keep tenants in place.

Whether it's an existing lease or a new lease you're negotiating, the old adage "an ounce of prevention is worth a pound of cure" holds true. It's a critical time to have a knowledgeable third-party advisor on your side who knows the right levers to pull that can help you avoid excess costs and access relevant state and local incentives programs. The opportunity is even larger when the decision has been made to move to new space.

**What are some of the biggest trends you're seeing with commercial office properties right now?**

There is a shift toward more urban environments for corporate offices to accommodate the tastes and work habits of the millennial generation. Big name brands like GE and ConAgra are ditching their sprawling suburban campuses to head into downtown locations. To maintain their appeal, more suburban developments are becoming "urbanized," centralized in higher density areas that are in walking distance to other amenities. Additionally, workplace amenities are increasing in an effort to both retain talent and keep them productive longer.

Changing workforce dynamics are also leading many companies to downsize their space. More people are working from home, so companies are creating offices with more fluid and collaborative spaces that can be used for multiple purposes.



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## What are some of the big regulatory developments that are shifting dynamics in the real estate market?

There is always a steady barrage of new regulations, but two recent developments with longer-term implications are being closely watched.

One is a new lease-accounting overhaul rule that could effectively boost the debt that companies must report on their balance sheets by tens of billions of dollars. For many businesses, lease obligations are the largest asset and liability on their books. The move may prompt more corporations to build up their ownership of real estate assets and shift away from leasing. The rule doesn't go into effect until 2018, but corporations are starting to think through possible changes in strategy now.

Another major development is the Protecting Americans from Tax Hikes (PATH) Act of 2015, a new law that included major reforms to the Foreign Investment in Real Property Tax Act (FIRPTA) of 1980. Some of the changes are designed to encourage foreign investment in U.S. real estate, which has been on the upswing in recent years. A survey of the Association of Foreign Investors in Real Estate found that 64 percent of members expect to have modest or major increases in their investment in U.S. real estate in 2016, with the United States listed as the most stable and secure market globally for real estate investments and for providing the best opportunity for capital appreciation. Global uncertainty overseas certainly could continue to make the United States a safe haven for FDI and real estate investment dollars.

## How can BDO offer companies an advantage?

The real estate industry is plagued by a lack of transparency and the typical real estate service providers often have conflicting agendas that don't always serve their clients' best interests. BDO offers a powerful combination of unique objectivity and professionals with deep experience in all facets of real estate including site selection and business incentives, lease escalation and utility audits, construction oversight, and janitorial consulting. These services are provided in a manner that aligns our interests precisely in line with those of our clients.

We offer advisory services spanning the whole lifecycle of the real estate asset management process, all the way from early planning stages to facility acquisition and operation, leading to significant savings opportunities for clients. BDO's professionals have collectively achieved over \$2 billion dollars in savings over the past 20 years.

## What are some of the things that are commonly overlooked during these negotiations?

Clients are often not familiar with the state and municipal incentives available to them, nor do they recognize the economic value they bring to a municipality. They trust that the landlords and government will be transparent about these incentives. Consequently, they overlook the discretionary incentives, retention credits and the different forms and packages available to them. We work with clients to ensure that they are proactive in seeking out every possible avenue for cost savings when acquiring a new property.

## What differentiates your service from others in the marketplace?

Our Industry is plagued by conflicts of interest, segmentation, and a lack of transparency. We bring a truly disruptive approach to the traditional way of conducting business by delivering a powerful combination of unique objectivity, full suite of integrated services and professionals with deep experience in all facets of real estate consulting. While most of our competitors take a transactional approach to real estate advisory, we approach it from a holistic perspective, which requires additional planning and resources but, in the long run, helps reduce (or eliminate) chaos, confusion and missed opportunities.

Further, at every step of the way, our interests are exclusively aligned with our clients' interests, aimed at producing results that exceed their expectations.

All in all, by combining our market leading practices with decades of experience under the Corporate Real Estate Advisory Services umbrella, we are presenting options to our clients that are currently not available in the market.

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