



EXCERPTS OF RECENT MEDIA COVERAGE

REAL ESTATE PRACTICE

A SAMPLING OF BDO THOUGHT LEADERSHIP IN THE MEDIA FOR Q3 2013

► REAL ESTATE FINANCE INTELLIGENCE

APPETITE FOR MIXED-USE REAL ESTATE ON THE RISE

By Max Adams

Demand for mixed-use commercial properties, from tenants to developers to lenders, is on the rise throughout the U.S. The dynamics of developing space in which retail, office and residential all feed off one another appeals to a wide range of market participants,



according to **Stuart Eisenberg, partner and head of the real estate practice at accounting firm BDO USA.** "This is a nationwide trend. Cities like it because

it creates jobs and opportunities. Many places are offering incentives for this kind of development," he added, noting that many localities are offering favorable tax treatment for this kind of development.

On the tenant side, retailers like the foot traffic from office and residential, while office tenants can attract workers to a location with more amenities nearby. "It comes from having the right developer first. A specialist in this kind of project can entice people to come there," Eisenberg said. Lenders like the projects because they offer a diverse tenant base. There are hazards,

however. The need for more infrastructure in mixed-use development means more money is needed, and even when the project goes up, location is key. "A city needs local markets and submarkets and the businesses to support these projects. The right demographics are also important," Eisenberg added.

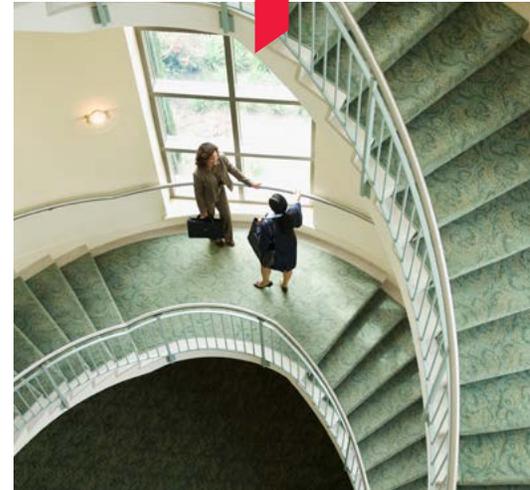
► COMMERCIAL PROPERTY EXECUTIVE

NICHE PERFORMANCE

By **Stuart Eisenberg**

Despite some turmoil late in the second quarter, the REIT market continues to demonstrate the ability to adjust to the impact of rising short-term interest rates and the immediate challenges posed by investor and government scrutiny. Without ignoring the impact of those realities, niche industry markets may be a better focal point to look for positive growth. While the latent potential in secondary and tertiary markets is driving interest from select REITs, lack of financing remains a hurdle to jumpstart projects...

Supply and demand, access to and deployment of capital, employment and regulation changes all impact the performance of REITs as an asset class. However, sector-specific factors that affect broader economic concepts vary



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by property sector. For example, senior housing REITs may be uniquely impacted by healthcare reform, while multi-family housing REITs' performance may change as a result of the volume of single family home purchases and mortgage regulation changes...

Secondary Markets Still Uncertain

Financing issues continue to broadly stifle movement in secondary and tertiary markets. However, REITs in certain industries that are able to secure financing could try to take advantage of a less competitive market landscape and the demand in those markets for newer developments. REITs that successfully tap into those areas could continue to produce favorable dividend yields for investors. Mall REITs, in particular, may be ready to pursue opportunities in these non-gateway, non-prime markets where time and economic conditions may have left scars on existing regional malls and shopping centers...

The REIT market, like all others, ebbs and flows. Performance can be fickle and subject to not only interest rate and financing changes, but also to more emotional factors, such as reactive investor confidence

and the media. Therefore, there may be a strong tendency among investors to hastily deem REITs lemons. However, it is likely that, despite the recent price volatility, REITs with strong management and a proven history of success will endure challenging times.

► COSTAR

ROLLING UP REITs: PRIVATE EQUITY, NON-LISTED FIRMS MERGING TO GAIN SCALE AND ENTRY TO PUBLIC MARKETS

By Randy Drummer

Call it the Great REIT Roll-up of 2013. This year's crop of REIT mergers, initial public offerings and conversions includes a number of large deals in which companies have rolled up funds and non-traded REITs into publicly traded or non-traded entities -- in many cases to create liquidity events for long-time shareholders...

"The majority of the IPOs this year have been roll-ups of some type of portfolio into

a new entity," noted **Stuart Eisenberg, real estate practice leader for accounting and consulting company BDO USA, LLP.** "The consensus is that investors would like to have a portfolio they're investing in, as opposed to just giving a management team the go-ahead to start a fund and go buy property."

Eisenberg expects strong activity on this front for the rest of 2013, with existing REITs raising equity as needed from the public markets, and investors continuing to put additional IPO deals in the pipeline.

"The question is whether the pricing and the volume of proceeds in these offerings will be acceptable to some of those who are anticipating going public," he said. "Also, the upward movement of interest rates and international volatility is having a bit of an effect on the markets."

► COMMERCIAL PROPERTY EXECUTIVE

PERKS, PITFALLS OF M-U PROPERTIES

By **Stuart Eisenberg**

As people increasingly choose to live, work and play in centralized locations, developers and investors are taking advantage of this trend by building more mixed-use properties. These properties can be extremely profitable as their various sectors—retail, office, residential—build in a set customer base for each other and can have a positive impact on the town. To that end, some governments have taken note and, thus, have decided to provide monetary incentives for developers to build mixed-use properties. However, these projects can be challenging and without the right market analysis, planning and team in place can be subject to a number of pitfalls.

Growth in Secondary, Tertiary Markets

Identifying locations with the right tenants available, meaning people interested in living in mixed-use properties that can also support the commercial component, is often vital to a mixed-use development's



profitability. Cities, with their limited space and naturally close quarters, have been long-time targets for these types of properties. Many developers are now looking to build in secondary and tertiary markets, catering to a suburban population with the desire to have the convenience of urban centers...

Benefits for All

While people may find the convenience of mixed-use properties appealing, local communities and developers are benefiting as well. Strategically choosing complementary tenants can help drive traffic and, as a result, boost local economies. As a result, the community has a vested interest in the success of these projects. Many local governments, particularly in depressed areas, provide debt financing or favorable tax incentives to support these real estate initiatives...

Asking the Right Questions

While mixed-use properties can be profitable, they can also be exposed to the volatility of each real estate market they touch. If one sector fails, then others can be adversely affected. Thus, it is crucial for developers and investors to take a number of considerations into account before diving into any project. A thorough risk analysis of the local markets and demographics must be done to ensure that the property and tenants will be competitive. Plans for a profitable blend of tenants, along with the appropriate corresponding infrastructure, should be in place...It is also important to keep in mind that securing financing for mixed-use properties can be complex, since, for borrowing purposes, the buildings are typically considered commercial developments and, therefore, may be subject to lower loan-to-value ratios and to higher loan rates than single sector developments.

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