EXCERPTS OF RECENT MEDIA COVERAGE

REAL ESTATE PRACTICE

A SAMPLING OF BDO THOUGHT LEADERSHIP IN THE MEDIA FOR Q2 2014

COMMERCIAL PROPERTY EXECUTIVE

TOP RISKS FOR REITS IN 2014

By **Stuart Eisenberg**

The REIT landscape is constantly shifting, with new and evolving risks impacting the industry. The BDO RiskFactor Report for REITs is a yearly study that analyzes the risk factors cited by the 100 largest publicly traded REITs in the U.S. in their most recent 10-K filings. The study, which is now in its third year, examines the most commonly noted risks and ranks them by order of frequency cited.

In this year's study, 94 percent of REITs say competition for lessees and prime real estate is a top risk, ranking it the third most frequently cited risk for a second consecutive year. With healthier market activity, more businesses may be able to expand into new or larger office spaces, creating a greater pool of potential lessees over which REITs' property owners may compete. The multi-family sector, on the other hand, may see more prospective tenants looking to rent if people remain cautious about job security, stray from home ownership or prefer to live in more urban environments…

Many REITs are also paying close attention to the financial condition of their tenants, a steadily growing risk. This year, 79 percent of REITs cite this as a risk, up from 75 percent last year and 71 percent in 2012's study. This is likely linked to difficulty of attracting financially stable tenants. Going hand-in-hand with this concern is the threat of property foreclosure and bankruptcy, which 73 percent of REITs say is a risk, up from 65 percent last year.

Finally, while the general consensus agrees that the real estate industry has made a solid post-recession recovery, 74 percent of REITs still cite declines or stagnation in business and real estate values as a serious concern, up from 64 percent in 2012. As REITs continue to adjust to the new landscape, it is evident that some trepidation remains.

REAL ESTATE FORUM

FOLLOW THE MONEY

By Carrie Rossenfeld

In the search for yield, many US-based healthcare investors are looking at investing abroad. **Jeff Walraven, a partner at international accounting firm BDO USA LLP**, tells Forum that overseas, healthcare real estate capital is also being spread among a broad base of assets, but

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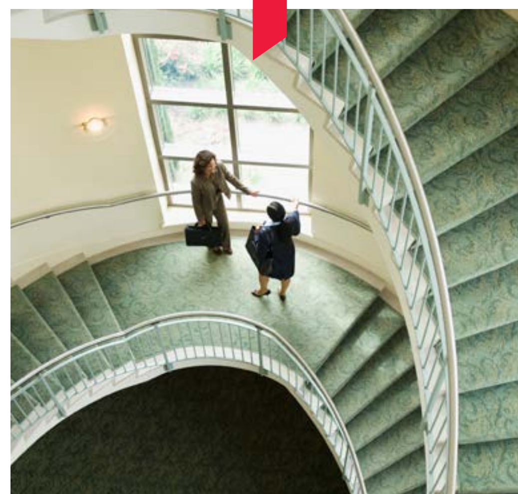

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large transactions have occurred in the senior housing continuum and the acute/post-acute care continuum…

Trends among investors of overseas healthcare real estate echo what is happening domestically. According to Walraven, "Much of the foreign investment is being made by the traded and non-traded public healthcare REITs. Additionally, the private real estate funds are picking up their activity."…

All types of real estate are being sought by investors in this asset class, but experts see trends in a variety of categories. Overseas, Walraven says senior housing and acute/post-acute care assets are in demand, and foreign investors—particularly Canadians—are also seeking those assets here in the US. Meanwhile, domestically the targets vary depending on whom you ask…

It's hard to find a more steadily performing asset class than healthcare. While the jury is still out on long-term performance of foreign healthcare assets, according to Walraven, domestically the sector's strength continues to be proven.

COMMERCIAL PROPERTY EXECUTIVE

TEMPERED OPTIMISM AROUND M-F REITs

By **Christopher Tower**

Multi-family REITs, along with much of the real estate industry, seem to be slowly but successfully climbing out of the throes of uncertainty and volatility. An improving economy and healthier real estate fundamentals are both fueling this positive upswing. However, while the multi-family REIT sector may be experiencing a moment of stability, certain looming industry factors may pose future challenges…

Multi-family REITs' revenue and net-operating-income (NOI) growth began tapering in late 2013, according to a Morgan Stanley report in *Barron's*. There are several contributing factors at play, including, but not limited to, supply growth and increasing operating expenses.

Short-term leases often found in the multi-family sector could offer protection from rising costs. However, by raising rental rates for their tenants faster than sectors with long-term leases, the multi-family sector may be able to rapidly mitigate these negative effects.

Single-family homeownership also has a huge impact on the multi-family sector. While there has been some positive movement in the single-family market, the shift to homeownership from apartment rentals does not appear to be moving at an unmanageable rate…

While multi-family REITs have performed well so far this year, there are many shifting industry factors that will continue to impact stability. Industry professionals and investors will be keeping a close eye on supply-and-demand levels, as well as how multi-family REITs leverage their short-term leases to counteract interest rate and operating costs risk.

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CAPEX WORRIES LOOM LARGER FOR REITs

By Paul Bubny

Although general economic conditions and failure to qualify as a REIT remain the risk factors most likely to keep investment trusts' leadership up at night, the executives have also been paying more attention to risks stemming from operating expenses and costs of capital improvements. That's among the findings of locally based **BDO USA LLP** in its "***2014 BDO RiskFactor Report for REITs***," based on analysis of the most recent 10-K filings from the 100 largest publicly traded companies in the sector.

The report found OpEx and CapEx in 82% of the 10-Ks this year, up from 77% in 2013. Also on the rise were concerns about the financial health of tenants, cited by 79% as a risk factor, compared to 75% the year prior…

"Successful real estate properties are often dependent on two factors: the ability to secure strong lessees and the ability to

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secure adequate financing," says **Stuart Eisenberg, partner and real estate practice leader at BDO USA**. "In the recent past, high unemployment numbers, low spending, limited capital and generally poor economic conditions exacerbated these risks across the entire industry. In this emergence period, we are seeing strong competition among real estate segments like high-end retail."

BDO's analysis addressed some of the other REIT bugbears, such as rising interest rates. Ninety percent of the 10-Ks analyzed by the firm cited this as a risk, up from 88% last year. "There are several concerns around the impact of rising interest rates as a result of the Federal Reserve's tapering of quantitative easing practices," according to BDO...

"However, a gradual move in interest rates is expected," which would allow time for upward adjustments in rent and NOI, thereby mitigating the impact of increases in interest rates and cap rates.

Another risk cited more frequently in 2014 is illiquidity and an inability to sell properties quickly..., which figured in 89% of 10-Ks this year compared to 82% a year ago. "Intensifying this risk is the increase in pricing rates," according to BDO. "Properties are likely being priced to hedge against unfavorable cap rate adjustments, and appetites on the buy side may be lacking or unwilling to accept the pricing increase."

The liquidity issues are "dichotomous" when comparing prime markets to secondary and tertiary ones. "In recent years, prime A markets, like New York and Chicago, offered attractive pricing on properties that were also likely able to continue to perform in a troubled economy," BDO states. "Post recession, stability can be found in these markets but pricing may be inflated for current demand. Secondary and tertiary markets continue to face illiquidity challenges of an entirely different ilk—one in which debt financing remains scarce, even to acquire desirable assets."

COMMERCIAL PROPERTY EXECUTIVE

E-COMMERCE, TECHNOLOGY PUSH INDUSTRIAL RENTS UPWARDS

By Anna Spiewak

While multi-family facilities might still be the crown jewel of commercial real estate, there is another category that has a strong second following: industrial real estate.

As the e-commerce revolution becomes more mainstream in retail and in people's buying habits, with shopping online reaching 6 percent in total sales, the need for faster delivery nationwide is spiking demand in warehouse distribution centers, indicating a likely increase in industrial rents.

"(Industrial) activity and demand are increasing and the supply is overwhelming right now," **Stuart Eisenberg, Real Estate practice leader & partner at BDO USA** told *Commercial Property Executive*. "More groups need more regional distribution hubs and they need space to put the goods in, so they can ship them regionally; that's going to drive a big piece of the demand."

As a result of this greater warehousing demand and low industrial construction supply, vacancy rates have dropped below 10 percent in several core markets, according to Avison Young's recent Investment in the U.S. study.

"There are good indicators that rents and occupancies are going to improve," Eisenberg added.

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