



Insider's View to Corporate Real Estate



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The New Accounting Rules From A Corporate Real Estate Perspective: What You Need To Know Now!

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Last month I had the pleasure of being the keynote speaker at a corporate real estate seminar hosted by Reed Smith in New York City to talk about the subject of this article. Below I have shared the top ten takeaways from the seminar that you need to know now to protect your company. For additional information, please feel free to contact me.

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- 1.) **Understand what is changing.** With few exceptions, the new accounting rules will require corporate real estate leases that are longer than twelve months to be recorded on the balance sheet for every organization currently following Generally Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS). In the past, only purchases were recorded.
- 2.) **Know when companies need to be prepared.** Rules take effect in 2019 for public companies and in 2020 for private companies. However, the lookback reporting period (during which leases are to be recorded under both the existing and new lease accounting standards) starts in 2017 for public companies and in 2018 for private companies.
- 3.) **Develop the best corporate real estate strategy** that has the input of the CEO, CFO, CRE, Human Resources & Information Technology executives, and provide ample opportunity for implementation.
- 4.) **Assess the benefits and drawbacks of your corporate real estate strategy.** For example, if it is determined that short term leases will be done to reduce the impact on the balance sheet, make sure the benefits of this strategy will not be offset by high construction costs, rising rental rates and risk management.

- 5.) **Avoid a one size fits all approach** and instead provide the flexibility to respond to market conditions, particularly as markets tighten.
- 6.) **Understand the big surprise that is coming for those following IASB accounting standards.** While most leases are classified as operating leases, the new accounting standards under IASB will classify all leases as finance leases. I am aware of two companies for whom this reclassification will reduce the company revenue by more than one hundred million dollars.
- 7.) **Check debt to equity ratios required by your bank loan agreements** to make sure these ratios will not be exceeded by your new indebtedness.
- 8.) **Learn what to do with a renewal option** and how to determine on day one of the lease if it is reasonably certain your company will exercise this renewal option.
- 9.) **Understand what to do with a sublease** and if it will be more attractive to complete a sublease before or after the new rules take effect.
- 10.) **Know when a sale leaseback should be completed** and if it will be far more advantageous to your P&L to complete a sale leaseback prior to or after the new accounting rules go into effect.

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About the Author

Carrie S. Holstead is the Chairman Emeritus of ITRA Global with experience representing users of corporate real estate in nearly 300 markets around the world. She is also the Founder, President and CEO of the longest established tenant representation and advisory firm in Pittsburgh, Pennsylvania. Carrie was recently honored as a Woman of Influence by *Real Estate Forum Magazine*, is the acclaimed author of the monthly *Insider's View To Corporate Real Estate*, and is a frequent speaker. If your company has a local or global corporate real estate need, contact Carrie Holstead at **+1 (412) 255-3737**. To receive the *Insider's View To Corporate Real Estate* electronically, sign up at www.carrieholstead.com.