



Informing Canadian Corporate
Real Estate Professionals

Connect.

Welcome to *Connect*, the quarterly newsletter of the Canadian Chapter of CoreNet Global.

The mission of the Canadian Chapter is to connect groups of professionals, end users and service providers in order to advance knowledge, promote personal excellence and add value to each individual and their respective enterprises. The newsletter team has developed a new format to keep our members connected and aware of industry trends and the diverse chapter events held nationally.

If you have any white papers, articles or ideas you would like to submit for future newsletters, please contact one of the team members listed on page 2.

Inside this issue

Impact of FASB Changes	1
Feature Articles & Reports	3
Membership Updates	4
Events	5

The Impact on Corporate Real Estate of FASB Changes to Lease Accounting Standards

Marc E. Betesh and Sholem Prasow

What to Expect in 2014-2017

Over the past few years, there has been much discussion about how real estate and other leases will be reported in a company's annual financial statements under generally accepted accounting principles (GAAP). The Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB), the accounting industry's two primary governing boards, have been determining a way to best treat leases so that investors and others who use financial statements can get an accurate picture of an entity's financial health. With this emphasis on improved lease accounting and reporting companies will need help to manage these intricacies.

Rationale

Despite the economic similarities, under current GAAP, long-term operating leases and financed purchases are

treated very differently in financial statements, which can result in potential under-reporting of the former and misleading financial results. Currently, lease payments made under operating leases (i.e., non-financing leases) are recorded as expenses on the income statement as incurred, and nothing is recorded on the balance sheet. In contrast, for actual financed purchases and capital (financing) leases, an asset and corresponding loan is recorded on the balance sheet and depreciation and interest are recorded as expenses on the income statement. These differing treatments have led to a lack of comparability and created undue complexity.

Exposure Drafts: From 2010 - 2013

The Boards came to the conclusion that uniform treatment for leases would make it easier for investors and others to make more rational investment, credit and other decisions. Accordingly, on August 17, 2010 they issued a proposed set of rule changes (an Exposure Draft) governing the accounting for all lease transactions. After much public comment and further deliberations by the Boards, they issued a revised Exposure Draft on May 16, 2013.

continued on page 2...

FASB Changes continued from page 1

Under both Exposure Drafts, all off-balance sheet transactions regarding operating leases (which include most real estate leases) are being eliminated. Leases will appear on company (lessee) financial statements as though the company had purchased and then financed the leased asset (the equipment, in the case of equipment leases, or the block of space, in the case of real estate leases). This asset will appear on the balance sheet as a "right-of-use" (ROU) asset with a corresponding liability for the rent payments.

The key difference in the two Exposure Drafts is in the measurement of the lessee's annual expense arising from those leases. The 2013 revision now provides for two different treatments on the lessee's income statement depending on the type of lease being reported. For **Type A Leases** (most non-real estate leases), both interest expense associated with the established liability and straight-line depreciation expense of the ROU asset will be reported. For **Type B Leases** (most real estate leases), only a single, straight-lined lease cost (rent expense) will be reported. This Type-B treatment has a very similar impact on company expenses to the current FASB straight-line basis for operating lease accounting, although it requires several new sets of calculations to get there.

Additional Complexities to Consider

Operating Expenses and Common Area Maintenance (CAM)

The ROU asset covers only the pure use of the asset, not the costs to service it, so in the case of commercial real estate leases, it will be necessary to separate out service costs like CAM changes, taxes, and insurance from the right to use the space.

Option Periods

Under the revised proposal, the lease term used to value the ROU asset and corresponding liability to make lease payments will be the non-cancellable period for which lessee has the right to use the underlying asset, plus extension option periods, if lessee has a significant economic incentive to exercise the option (and ignoring early termination periods if lessee has a significant economic incentive not to exercise the option).

Lease Payments

Per the revised Exposure Draft, lease payments include, but are not limited to fixed payments, variable payments,

purchase option terms, termination penalties and residual value guarantees. To make things even more complicated, the tenant must continually re-evaluate these variables as well as re-measure lease liability after the commencement date.

Timing

The Boards are just now (February 2014) beginning to re-deliberate all significant issues raised by the public comments received regarding the revised Exposure Draft. A final pronouncement, at the earliest, is not expected until later in 2014, in which case, the effective date of the changes will be no earlier than 2017, in order to give companies appropriate time to comply with the new rules.

What Companies should do in 2014

Wait

The final draft resulting from re-deliberations is not out yet. The IASB and FASB have been signaling strongly that one could expect simplifications in many of the more onerous reporting requirements.

While Waiting

Work with your CFO to assess the real impact of the changes publicly known on your company's financial statements and on business decision processes -- based on your unique portfolio. The impact may not be what you may have feared from reading some of the more strident industry press articles.

Impact of Innovative Technologies

Once lease information is part of a company's financial statements, Sarbanes-Oxley requires corporate officers to certify its accuracy of and to certify the effectiveness of corporate controls over it. You will require a Lease Management System to give the CFO the confidence he/she needs to sign off on the financial statements. Begin to look into new cloud-based solutions focused on Lease Management – as well as looking at the traditional Integrated Workplace Management Systems that include Lease Management.

About the authors



Marc E. Betesh

An attorney and veteran lease negotiator, Marc is Founder and President of Visual Lease, as well as Founder and President of KBA Lease Services in New York.



Sholem Prasow

Sholem is a Founding Director of Insight Management of Toronto, a Serraview Business Partner. He was formerly Vice President, Business Development at Teknion.

Connect Newsletter Team

Lisa Fulford-Roy - lisa.fulford-roy@hok.com
 Lisa Thorsteinson - lisathorsteinson@officemaxcanada.com
 Dar Lei - dar.lei@cbre.com

Feature Articles & Reports

To view articles hosted on the CoreNet Global Knowledge Center, login using your CoreNet Global account credentials.



The Canadian Quartet: Playing on the World Stage

April 2014 | [download report](#)

Cities in Canada are collectively entering a newly **energized, globally connected and impactful era**. Of its 12 main commercial hubs, four cities - **Montreal, Toronto, Calgary** and **Vancouver** - have been identified in JLL's latest research as having the strongest potential and most opportunities for global real estate players.

Infrastructure 2014: Shaping the Competitive City

May 2014 | [download report](#)

Around the world, communities are investing in infrastructure. Hundreds of billions are spent each year by countries around the globe maintaining existing infrastructure and expanding and enhancing systems. Despite the activity, there is always more to do, and nearly everywhere there is a sense that resources lag far behind the need. But what does it all add up to? **What role does infrastructure play in the great quest for growth and development**, and what do the people who plan and build communities want from infrastructure?

This year, for Infrastructure 2014: Shaping the Competitive City, EY decided to conduct a survey of global real estate and civic leaders. The annual report seek to **lay out the infrastructure state of play**, to **distill broad trends**, and to **share the best advice from leaders and experts** from around the world.

Canada's Airports Drive Relocations

January 2014 | [download article](#)

International corporations are increasingly looking to **Canada as an expansion and relocation destination**, and Montréal, with its blend of North American and European influences, is gaining special attention. Stéphanie Lepage, Assistant Director of Public Relations and Advertising for Aéroports de Montréal (ADM), says the area's **two world-class airports**, Montréal - Trudeau and Montréal - Mirabel, help to make the city an ideal candidate for corporate relocation - particularly for aerospace and related industries.

Wetaskiwin, Alberta: Welcome to Canada's 'Hills of Peace'

January 2014 | [download article](#)

Wetaskiwin, Alberta, Canada sits about 40 miles from Edmonton and more than 2,000 miles from Toronto.

Ron Holland, Economic Development Manager, Wetaskiwin, has been in his current role since 2010. As he puts it, "Wetaskiwin is where I came to retire, but **I got tired of sitting on my deck and looking at the ducks in the pond.**"

2014 Workplace Trends

January 2014 | [download report](#)

In this year's report from Sodexo you'll find a diverse array of workplace and employee quality of life factors represented; these include trends related to the **built environment, technological advances and the workforce**. Each of the trends, by definition, has the ability to improve the quality of life of people and their communities. As one would expect, however, organizational commitment to its people - both on a professional and personal level - remains a central theme among all of our trends. With **more employees viewing their work and life as one**, it can only benefit an organization to become acquainted with the workplace trends that will engage and retain the workforce of 2014.

Canadian Market Outlook 2014

February 2014 | [download report](#)

Steady and stable may be the overall conjecture for Canada's commercial real estate market in 2014, but that's not to say there won't be dynamic elements. In addition to tremendous development in many industrial markets across the country, pockets of retail and office space are expected to **record increased demand for space in the coming year**. For the first time in decades, multi-housing construction is on the rise and rental stock is growing in various markets across the board.

12 Changes Likely Affecting Commercial Real Estate in 2014

February 2014 | [download report](#)

Newmark Grubb Knight Frank has aggregated the **extensive changes set to kick in during 2014** in this document and provides a brief analysis of their impact on the industry. Several of the changes were implemented on January 1, 2014, while others occur later in the year.

Membership Updates

The Canadian Chapter of CoreNet Global would like to welcome the following new members who joined us since October 2013.

Apache Corporation

Tina Ritsco, Manager, Facilities & Office Services

ATB Financial **Melinda White**, Project Advisor

Alberta Health Services **Sherry Russell**, Director Real Estate

Avison Young **Karnie Vertz**, Principal

BRG **Thierry Yuen**, Senior Business Consultant

Brigholme Interiors Group

Lisa Gushue, Marketing Communications Manager

Brookfield Johnson Controls

Kathy Paul, Manager, Strategic Workspace Management

Roma Malik, Energy & Sustainability Analyst

Capital One **Scott Bennett**

Cisco Systems **Chris Wheeldon**, Industry Manager

Colliers International **Brian Kriter**, SVP, Business Development

Cushman & Wakefield **Erik Langburt**, Associate Vice President, Leasing & Investment Sales

Department of Foreign Affairs Trade and Development Canada **Todd Sandroek**, Deputy Director

Devimco **Nicholas Kassis**, Leasing Agent

DTZ

Jim Brown, Senior Vice President

Daniel Hubert, Vice President

Christopher Ridabock, CEO

Ehsan Zaeem, Broker

Evton Matheson Investments

Olga Voitchenko, Property Manager

Flynn Canada

Chris Welch, National Service Business Development

Infrastructure Ontario

Crystal Gotfryd, Client Solutions Manager

Bill Hebburn, VP, Client Program Delivery

David Lemieux, Client Solutions Manager

Angela Taylor, VP, Program Management Office

Inscape Solutions

Heather Newman, Business Development Manager

InterfaceFLOR

William Potalivo, RVP Global & National Accounts

Ivanhoe Cambridge

Julie Martineau, Vice President, Office Leasing - Quebec

Mars Drinks **Steve Chodat**, Director, Business Development

MartensGroup **Sharon Martens**, Principal

Matrix Search Group

Micheline Bentley, Talent Liaison Associate

Chandran Fernando, Principal

Eddy Goh, Business Development & Talent Associate

Alicia Sarra, Director, Talent Recruitment

McLure White Commercial Flooring

Leslie Krajewski, Sales/Project Manager

Christopher Ridley, Sales Representative

Robert Sanderson, President/Owner

Brendan Swail, Sales Representative

mform Construction **Jason Shapiro**, Director

Morguard Investments

Rina Zigler, Development Analyst & Project Coordinator

Newmark Grubb Knight Frank

Gregg Wassmansdorf, Senior Managing Director

Oxford Properties **Jamie Petch**, Director, Office Leasing

Plan B Office **Tessa Bain**, Sales Executive

POI Business Interiors **Carla Gusek**, Sales Executive

Public Works and Government Services Canada

Cindy Davidson, Regional Manager, Portfolio Management

Craig Mills, Regional Manager, Accommodation Management

RBC Financial Group

Eva Sim, Manager, Operations & Strategy

Walter Wallace, Director, Critical Environments

Rogers Communications

Roberta Diachok, Sr. Manager, Architecture & Interior Design

Schulich School of Business

Dougal Bruce

Christopher Gilbert

Shaw Industries

Henri Biber, Strategic Accounts Manager

Shell Canada **Tannis Arnason**, Territory Manager Real Estate

Stadia Industries **Karen Holmes**, Sales

Stantec **Kathleen McCabe**, Director, Corporate Real Estate

Sun Life Financial **Krista Neu**, Sr. Analyst, Metrics & Service

Teknion **Anna-Lisa Elefano**, Account Manager

TELUS Communications **Flavia Santo**, Sr. Real Estate Manager

David Lawrance, Consultant

Alexandra Juzkiw

New Member Welcome Luncheon

We have a new member welcome lunch event coming up on Tuesday, May 28 at the Rosewater, 19 Toronto Street. Take this opportunity to ask questions and understand everything CoreNet Global has to offer you, and meet the Chapter Leaders

Who is Eligible: All new members who have joined in 2014, or joined in 2013 but were unable to attend the new member luncheons last year.

Visit our website to register or for more details.

Recent Events

REmmy Winners' Innovation Showcase May 6, 2014 The National Club, Toronto, ON



(Pre) St. Patrick's Day Social March 4, 2014 Quinn's Steakhouse and Irish Bar, Toronto, ON



Implementing Strategy February 27, 2014 Inscape Solutions, 119 Spadina, Toronto, ON



Upcoming Events

Calgary Event - Navigating the New Normal: Are You Prepared for the Next Disaster?

When: May 20 11:30 AM - 2:00 PM MST
Where: Westin Hotel, Calgary

Toronto Event: New Members Welcome
When: May 28, 12:00 PM - 1:30 PM EST
Where: The Rosewater, Toronto

Toronto Event: CoreNet Canada Golf Classic

When: June 3, 10:30 AM - 0:00 PM EST
Where: Lionhead Club, Brampton

Toronto Event - Young Leaders Summer Social

When: Jul 10, 5:30 PM - 8:30 PM MST
Where: Cube Nightclub, Toronto

Montreal Event - Developing Workplace and Mobility Strategies

When: August 20 - 21
Where: TBA, Montreal, QC

2014 AGM & RE Emmy Awards Gala

When: Oct 1, 5:00 PM - 9:00 PM EST
Where: Toronto Board of Trade, Toronto

Social Media

Click on the icons below to follow us on Facebook and LinkedIn!



facebook.com/CorenetGlobalCanadianChapter



linkedin.com/groups/CoreNet-Global-Canadian-Chapter-Young-2361200