ITRA GLOBAL | Corporate Real Estate Strategies

Carrie S. Holstead Real Estate Consultants | Pittsburgh

International Law Firm Turns To Carrie Holstead

to Explain Impact of Changes Governing Corporate Real Estate Leases

Carrie S. Holstead recently provided a critical briefing for the global real estate practice group of Reed Smith about the impact of the most sweeping rule changes to hit the national and international commercial real estate markets.

Carrie S. Holstead
President & CEO

"The global accounting rule changes will bring corporate real estate leases onto company balance sheets for the first time ever," explains Holstead. "This will impact every organization currently following the Generally Accepted Accounting Principles or International Financial Reporting Standards, with leases longer than twelve months".

Despite the rules going into effect in 2019 for public companies and 2020 for private companies, with a lookback reporting period required two years prior to the effective date, a recent study by ITRA Global reveals that most companies are not prepared for this change.

Carrie is President and CEO of the longest established tenant representation firm in Pittsburgh, Pennsylvania, and Chairman Emeritus of ITRA Global with experience representing tenants and buyers in the leasing, acquisition, and disposition of office space in nearly 300 markets around the world. To learn the corporate real estate insights your company needs to know about the new accounting rules, or to find out how her firm has resolved the corporate real estate needs of others that may be facing similar issues to your company, contact Carrie at +1 (412) 255-3737.

To receive the *Insider's View To Corporate Real Estate* electronically, sign up at www.carrieholstead.com .

Brexit Dilemma and Opportunity!

By Fred-Anton Knoop, Principal
AREA Occupier Solutions / ITRA Global
Amsterdam, Netherlands

The United Kingdom has held a pivotal position in European venture capital as a hub for both investors and start-ups, and that's particularly true in categories where it has been strong, including financial technology (fintech), games, and biotech.

The decision by U.K. voters to leave the European Union will have significant ripple effects on the venture capital landscape—both in Europe and beyond.

When it comes to fintech, Marcelo Ballvé, Research Director of CB Insights, recently wrote: "London could fade as a fintech hub: The category most under threat is arguably London's thriving fintech scene. As part of the EU, London's advantages were clear: the status of London as a pre-eminent global finance hub, the abundance of European talent, and the uniformity of regulations that allowed London-based companies to easily roll out products Europe-wide. With Brexit, all the comparative advantages are thrown at least partly into question."

Other aspiring fintech hubs, some of which are already using tax breaks to lure fintech start-ups—including Frankfurt, Amsterdam, Dublin, Switzerland, and New York—could see more investment and entrepreneurship shift in their direction as London's advantages are eroded.

When it comes to banking, Martin Arnold, Emma Dunkley, and Laura Noonan wrote in *The Financial Times* that until now, most global banks have done business in the EU by setting up regulated businesses in the U.K. and using their right to "passport" into the rest of the 28-member bloc. London also serves as a major center for clearing and settling trades involving EU securities. France's central bank governor François Villeroy de Galhau made it clear that is no longer going to work: "If Britain is not part of the single market, the City [of London] cannot keep this European passport, and clearing houses cannot be located in London either." But so far banks have been quiet on their contingency plans because of the political sensitivity of the issue.

Once Brexit happens, EU banks from France and Germany may come under pressure from their own regulators to move jobs home. At the same time, U.K. regulators may compel the biggest ones—such as Deutsche Bank—to establish a full-scale U.K. subsidiary to have closer oversight of their activity and force them to hold more capital in the country. The U.S. has already done something similar, forcing big foreign-owned banks to set up separately capitalized holding companies. But this could backfire—driving more jobs and operations elsewhere.

Moves are not likely to be made in haste, however. Relocating investment banking operations and people is costly and complex. And London still boasts many advantages: language, legal system, and the talent

Continued on page 5

Tight Real Estate Market? Try a Sale/Leaseback

By Tim Sleeper, Principal
Logical Move / ITRA Global
Salt Lake City, Utah USA

Finding the right space for your business is a complicated process involving a number of moving targets. Everyone is familiar with the old adage of "Location, Location, Location," but timing and pricing will also dominate the decision-making process during your next commercial property acquisition.

In a competitive leasing market, which describes most major cities over the last 24 months, multiple corporate users will often be competing for the same space when it becomes available. Unless absolutely necessary, you should never enter a bidding war with other prospective tenants for office space that may determine the next seven-plus years of your company's success. The presence of other potential occupants for a site greatly diminishes your ability to negotiate with the landlord.

A Better Alternative

If your company's business model, tax strategy, or leadership requires all corporate facilities to be leased, then how does one create additional opportunities that are being overlooked by the rest of the market? I recently found a solution for a client by utilizing the Sale/Leaseback concept. Also known as the "Walgreens" model, a Sale/Leaseback transaction allows a company to utilize its credit-worthiness to establish the best possible rental rate and terms. It also increases the total number of potential available sites, including purchase opportunities in a given target area.

Essentially, a Sale/Leaseback follows this four-step process:

1. A company identifies a location for sale that will meet the requirements of its business operations.
2. The company makes an offer and places the property under contract.
3. During the usual due diligence period while under contract, the company prepares a lease document for the property that will meet its long-term cost objectives and liability considerations.
4. A third-party investor is brought in that offers to purchase the same property for a price based on the value of the lease arranged by the company.

Justin Crowley, CFO at Select Portfolio Servicing (SPS), had been struggling to find a suitable expansion location for the company for years. SPS is a nationally recognized mortgage services provider specializing in single-family residential mortgages. It is headquartered in Salt Lake City with an office in Jacksonville, Florida. They had traditionally expanded operations by leasing new sections of space in close proximity to existing facilities as they became available for lease.

SPS searched for 150,000 square feet of replacement headquarters space in Salt Lake for their growing company. Since they operate as a call center, SPS also needed 2,000 parking spaces at the new location.

"We just couldn't put all of the necessary puzzle pieces together as we pored through the leasable office locations on the market," says Crowley. "We would find one with the right parking requirement, but the location would be too far from our employees. Then we'd find one with the right price and location, but the parking would be non-existent."

Charging Ahead

After analyzing every possible leasable location on the market, I was able to identify a site that would not normally appear on the radar for a company looking to lease traditional office space. Even though the site met many of the needed conditions that SPS required, such as parking and location, the property was a retail facility that was only available for sale. By understanding the process involved with a Sale/Leaseback transaction, I knew that the cost basis of the site would allow SPS to capitalize on a long-term lease commitment. By carefully tracking the available properties on the market, our firm ensured SPS was first in line to control the property with a purchase offer. We also negotiated offering terms such as refundable earnest money, a lengthy due diligence period, and an offer of assignability that would allow the Sale/Leaseback scenario to unfold.

The purchase price of the facility and expected improvement costs to convert the interior of the building into an office use were combined, resulting in a total cost of the project. This value was then used to calculate a lease rate for SPS based on a potential investment sale and current market conditions. Our firm utilized its industry connections to attract a number of investment buyers to the property based on the outstanding credentials of SPS and the stable cash flow offered by their long-term lease commitment. A viable investment group came to the table with an offer to fully fund the project, which involved an assignment of the original purchase offer, and the process advanced.

"We were able to retain a rental rate that was about half the price of the rest of the market," Crowley explains. "When we first made our offer, there was an available site on our radar that was just 300 yards down the street from our new location. They asked $19.50 per square foot, which was more than double our $9.45 rate that we achieved by using a Sale/Leaseback. Through Logical Move, we were also able to negotiate parking and city incentives to help us out during our renovation. Since we are occupying more than 150,000 square feet, Logical Move literally saved us millions of dollars throughout the term of our new lease."

Conclusion

The Sale/Leaseback acquisition model is an excellent way for tenants to capitalize on their long-term lease commitments. Using this model, you can either achieve long-term, below market rents, or you can negotiate a cash payout upon occupancy as a way to fuel your company's growth. You need time, experience, and accurate market information to complete a successful Sale/Leaseback transaction. Contact your local ITRA Global representative at least nine months before your next lease expiration date to determine if this process and path will be beneficial for your business.

Select ITRA Global Transactions

- **Selinger Enterprises, Inc. / ITRA Long Island** represented EC Infosystems, Inc. for its new 20,774 square foot office lease at Mitchel Field, New York.
- **The Stevens Group / ITRA Boston** completed a new 50,000 square foot office lease for TraceLink Inc. in the suburbs of Boston, Massachusetts.
- **Michigan Commercial Space Advisors / ITRA Grand Rapids** and **Compass Commercial, LLC / ITRA Detroit** completed a 75,000 square foot industrial lease for the BLM Group, USA Corporation in Wixom, Michigan.
- **Stagman Commercial Real Estate Advisors / ITRA Fort Lauderdale** represented Solstice Benefits in its lease of 17,000 square feet in Plantation, Florida.
- **Cox Oddo Commercial / ITRA Austin** represented Mirna Therapeutics, Inc. in the lease of a 23,630 square foot headquarters office/lab space in Austin, Texas.
- **Union Street Corporate Real Estate, LLC / ITRA Seattle** represented Harman in the renewal of its 9,300 square foot office in Bellevue, Washington.
- **Tatham Property Solutions / ITRA Paris** represented IMPRIMA in leasing 114 m² / 1,224 square foot head office at 32 Avenue de l'Opéra, 2nd arrondissement, Paris, France.
- **Sloan Street Advisors, Inc. / ITRA Washington, D.C.** completed a 120,000 square foot office lease renewal for a U.S. Government agency in Greenbelt, Maryland.
- **The Levy Group / ITRA London** negotiated the surrender and re-gear of Datapipe Europe Limited's 6,000 square foot office leases in East India Dock, E14, London, England.

The ITRA™ GLOBAL Advantage | Services

Tenant Representation

- Regional, National, International Headquarters
- Research & Development
- Life Sciences
- Warehouse / Distribution
- Manufacturing

Real Estate Market Analysis

- Acquisitions
- Dispositions
- Lease Renewals

Negotiations

- Proposals
- Leases
- Dispositions
- Acquisition Contracts
- State & Local Incentives
- Sale / Leasebacks
- Work Letters
- Operating Expense & Tax Audits
- Architectural / Engineering Contracts
- Developer Agreements

State & Local Incentive Negotiations

- Statutory and Negotiated Incentives
- Cash Grants
- Infrastructure
- Tax Credits and Abatements
- Workforce Grants and Training
- Subsidized Land and Building Costs

Lease Management

- Lease Abstracting
- Financial Reports
- Tax & Operating Expenses

Strategic Planning

- Model Development
- Acquisition/Consolidation Analysis
- Policies & Procedures Manuals
- Space Planning

Location Analysis

- Labor Market Analysis
- Transportation Costs
- Utility Costs & Availability
- Quality of Life
- Taxation
- Market Accessibility

Financial Analysis

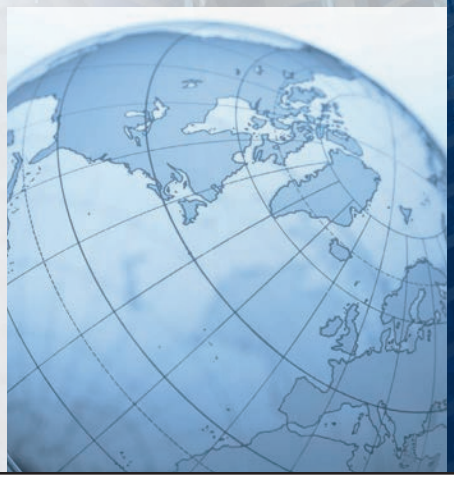
- Buy vs. Lease
- Build-to-Suit
- Equity Participation
- Sale / Leasebacks

Surplus Property Analysis

- Marketability
- Highest & Best Use
- Disposition Strategies

Project Management

- Needs Assessment
- Project Budget Management
- Selection and Oversight of Design Team Contractors and Vendors
- Move Coordination



ITRA GLOBAL | Office Markets Survey

Contact your regional ITRA Global representative for Industrial and Retail market statistics.

United States — Second Quarter 2016

	CITY	Total Square Feet	Vacancy	Available Space	Average Rent
1	Atlanta	303.7M	12.0%	36.6M	$21.28
2	Austin	95.1M	8.2%	7.8M	$31.43
3	Baltimore	140.0M	10.3%	14.4M	$22.24
4	Boston	394.4M	8.5%	33.7M	$20.47
5	Charlotte	101.7M	8.2%	8.3M	$22.56
6	Chicago	468.3M	13.1%	61.5M	$23.28
7	Colorado Springs	28.7M	11.0%	3.2M	$16.48
8	Dallas/Ft. Worth	355.9M	14.3%	50.9M	$23.76
9	Denver	195.9M	9.3%	18.2M	$25.11
10	Detroit	197.5M	13.3%	26.2M	$18.78
11	Ft. Lauderdale / Broward Co.	69.3M	10.3%	7.1M	$25.50
12	Grand Rapids / West MI	79.9M	7.6%	6.0M	$12.98
13	Houston	302.6M	14.1%	42.6M	$27.70
14	Indianapolis	102.3M	7.7%	7.9M	$16.96
15	Kansas City	115.2M	9.7%	11.2M	$17.93
16	Long Island	176.6M	7.5%	13.2M	$27.30
17	Los Angeles	431.0M	10.6%	45.8M	$32.23
18	Miami / Dade Co.	100.6M	10.1%	10.1M	$32.10
19	Minneapolis	192.2M	7.7%	14.8M	$18.71
20	Nashville	78.3M	4.8%	3.7M	$21.14
21	New York City	557.4M	7.8%	43.6M	$60.26
22	`Northern New Jersey	363.5M	14.1%	51.3M	$24.75
23	Orlando	103.4M	9.4%	9.7M	$19.30
24	Orange County (CA)	154.0M	9.6%	14.9M	$27.61
25	Philadelphia	415.2M	9.3%	38.7M	$22.16
26	Phoenix	169.7M	15.7%	26.7M	$22.76
27	Pittsburgh	126.0M	7.7%	9.6M	$20.40
28	Salt Lake City	95.6M	6.7%	6.4M	$20.09
29	San Diego	114.1M	11.2%	12.7M	$29.61
30	San Francisco	166.6M	6.8%	11.3M	$54.16
31	Seattle/Puget Sound	191.1M	7.4%	14.1M	$30.28
32	Tucson	25.3M	11.9%	3.0M	$18.62
33	Washington, D.C. Metro	469.7M	14.9%	70.0M	$35.09
34	W Palm Beach / Palm Beach Co.	54.7M	12.6%	6.9M	$27.65

* The above data set includes all buildings, including government, owner-occupied, and small (less than 5,000 SF) buildings.

Toronto — Second Quarter 2016

	Total Square Feet	Vacancy	Available Space	Average Rent
35	73.2M	8.3%	6.10M	$22.55

London — Second Quarter 2016

	DISTRICTS	Take Up	Prime Rent
36	City Core	0.86M	£70.00
37	London Docklands	0.13M	£47.50
38	London Southbank	0.24M	£67.50
39	London West End	0.67M	£120.00
40	London Midtown	0.49M	£70.00

Definitions for London: *"Take Up" – Space absorbed in the previous quarter / "GBP" – British Pounds / per SF.

Paris — Second Quarter 2016

	DISTRICTS	Take Up*	Vacancy	Prime Yield	Prime Rent*
41	Paris Central Business District (CBD)	0.305M	4.1%	3.50% - 4.10%	€750
42	Paris Central Districts excluding CBD	0.157M	4.4%	4.50% - 5.10%	€520
43	La Défense	0.175M	8.9%	4.50% - 6.10%	€540
43	Western Suburbs	0.217M	12.1%	5.00% - 6.10%	€495

Definitions for Paris: *"Take Up" – Space absorbed in the previous quarter in m²/ "Grade A Vacancy" – Available Space / Euros / m²

Amsterdam — Second Quarter 2016

	Total Square Feet	Vacancy	Available Space	Average Rent*
45	73.78M	16.40%	12.10M	$20.00

Definitions for Amsterdam: Average Rent $USD per SF, Class A Rental Average $36USD per SF

Warsaw* — Second Quarter 2016

	Total Office Stock*	Take Up*	Vacancy Rate	Rental Rate*
46	4.98M	.360M	15.40%	€276.00

Definitions for Warsaw: Total Office Stock, Take Up in m/2, Rental Rate in m/2 per annum

Brisbane — Second Quarter 2016

	Total Square Metres	Vacancy	Available Space	Average Rent*
47	2.26M	16.9%	0.383M	$572.00

*Definitions for Brisbane: Average Gross Rent/$USD

Perth — Second Quarter 2016

	Total Square Metres	Vacancy	Available Space	Average Rent*
48	1.76M	21.8%	0.385M	$490.00

*Definitions for Perth: Average Gross Rent/$USD

ITRA Global Expands its Worldwide Network

ITRA Global continues to assemble a nimble team of independent and unbiased advisory firms throughout the world with the addition of affiliates in Seattle, Washington; Orlando, Florida; and Amsterdam, Netherlands. With coverage in major markets around the world, ITRA Global is one of the largest organizations dedicated to representing tenants and occupiers of commercial real estate.

The three new ITRA Global affiliate offices are:

- **Union Street Corporate Real Estate, LLC / ITRA Seattle.** Founder and Designated Broker Derek Hermsen brings over 16 years of tenant representation experience to the table on behalf of his select clients. Building his company based on principles of sustainable practices, innovative uses of technology, and useful market data, he provides clients with best-in-class service and superior lease provisions for highly favorable economics, rights, and protections. Derek is driven by making his clients more successful at their businesses through their real estate strategies, whether it's through operational efficiencies, recruitment, staff retention, growth projections, or a host of other underlying factors impacted by real estate decisions.

  Seattle is a unique market, which has most of its office market statistics and headlines driven by the technology sector. However, Derek makes a point to go beyond the tech sector and truly understands what is really relevant to the majority of the other tenants in the Seattle office market. He is an invaluable guide that can navigate an ever-changing and fast-paced Seattle office market landscape.
- **York Property Company / ITRA Orlando.** President Jeff York has over thirty years of experience working in corporate real estate. He is recognized as one of the leading tenant rep advisors in Central Florida. With a strong commitment to developing personal relationships and providing superior service, Jeff's primary focus is on the sale and leasing of industrial and office properties. He has been active throughout Florida since 1984 and has negotiated millions of square feet of transactions statewide. Jeff has a proven track record in representing local and national clients in lease, purchase, and build-to-suit transactions.

  The metro Orlando area has a $13.4 billion technology industry employing 53,000 people and a nationally recognized cluster of innovation in digital media, technology, aviation, aerospace, and software design. More than 150 international companies, representing approximately 20 countries, have facilities in metro Orlando.
- **AREA Occupier Solutions / ITRA Amsterdam.** Founded in 2015 by Fred-Anton Knoop and Stephan Buis as a firm strictly dedicated to tenants and occupiers of commercial real estate, the company is committed to a 100 percent "conflict-free" business model and creates, delivers, and manages effective and supportive real estate solutions.

  Fred-Anton, with over 18 years of experience in advising tenants and occupiers of commercial real estate, and Stephan, a 10-year veteran, are service rather than transaction oriented. They want to support clients during the whole lifecycle of their real estate experience and cultivate long-term thinking to enable clients to clearly identify long-term goals and financial objectives. AREA Occupier Solutions / ITRA Amsterdam provides high-quality advisory services in tenant representation, strategic consulting, and project management throughout the Netherlands and Belgium.

Brexit Dilemma and Opportunity! *Continued from page 1*

pool have long been a boon to the City, as well as more intangible draws such as housing, schools, restaurants, and cultural delights. Many top traders will be asking themselves, Do I really want to live in Frankfurt or Dublin?

Amsterdam Advantage

Without question, our Netherlands-based corporate real estate firm believes Amsterdam is—and will be—an option for any company that considers relocation from the U.K. to the Continent. We offer many business and cultural benefits:

- Amsterdam has one of Europe's best airports, ranked just behind Frankfurt and Vienna, and an excellent rail network connecting major European capitals, including London. It's also a short train ride to Brussels, the capital of the European Union. The financial district is only seven minutes from the airport compared to the 60-90-minute commute in London.
- Approximately 90 percent of the Dutch speak English. Our schools are ranked the best in Europe, and there are plenty of English-language options. We're not only fluent in English, but we also speak Dutch, French, and German (to some extent). Sure, people make fun of our accent, but we don't really have many other options if we want to continue to speak in our native tongue.
- Amsterdam has beautiful architecture and housing options, picturesque canals, excellent restaurants, music and theatre, lively night life, and a cosmopolitan and tolerant attitude cultivated over centuries as a major global trading center. Our roads are highly-rated, smooth as velvet.
- We're also frontrunners when it comes to adopting new technologies. We were among the first countries connected to broadband internet, cell phones, and smartphones. To this day, we're early adopters. We're one of the largest internet exchanges in the world.
- The overall quality of life in Amsterdam and the Netherlands has been applauded by the global community.
- The Netherlands maintains favorable tax treaties and intellectual property laws, many of which you probably already know. We are very attractive for large companies.
- Equally important, we're also a nation of entrepreneurs. Our history as a naval merchant-war state closely resembles that of the U.S. What brought us to the height of our power is what brought America to the height of hers. Don't believe me? We invented the multinational firm, the stock exchange, insurance companies, short selling, futures, and many other innovations that are at the core of U.S. economic dominance of the past 30 years.
- Amsterdam is less than an hour away from London by plane.

Conclusion

The coming months will be challenging for many companies doing business in the U.K. or that are headquartered in London. For those companies, like Brexit itself, staying or leaving is an important decision that may impact the bottom line for many years. Being flexible and understanding the nuances of relocating to another European city are vitally important to weathering the impact of Brexit. That's why it's crucial to obtain representation from your nearest ITRA Global office, such as AREA Occupier Solutions. The principals of AREA are seasoned professionals with over 18 years of experience in helping companies understand and relocate to Amsterdam. As an ITRA Global office, Area Occupier Solutions provides conflict-free representation with total objectivity.

Issue 40

Inside

Brexit Dilemma and Opportunity! ..... Page 1
Tight Real Estate Market? Try a Sale/Leaseback ..... Page 2
Select ITRA Global Transactions ..... Page 3
Office Markets Survey ..... Page 4
ITRA Global Expands its Worldwide Network ..... Page 5

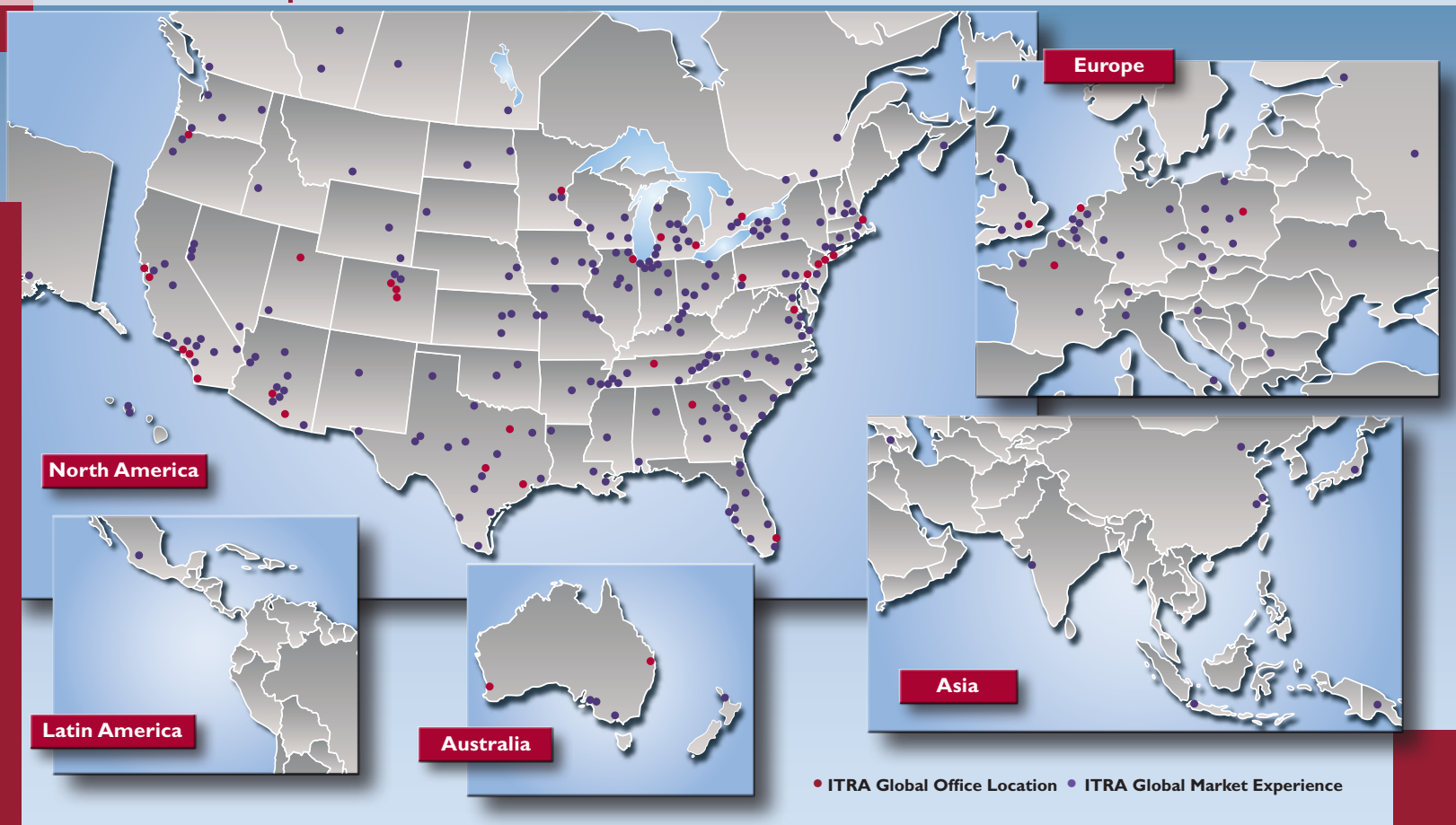
ITRA GLOBAL | Corporate Real Estate Strategies

Carrie S. Holstead Real Estate Consultants | Pittsburgh

One Oxford Centre
301 Grant Street, Suite 4300
Pittsburgh, PA 15219
phone +1 (412) 255-3737
carrie@carrieholstead.com
www.carrieholstead.com

ITRA Global provides corporate real estate services for tenants and buyers throughout the world.

PRST STD
US POSTAGE
PAID
MAILED FROM ZIP 30548
PERMIT NO. 36

RETURN SERVICE REQUESTED

ITRA GLOBAL | Global Coverage