



# A Deloitte survey on the FASB's proposed changes to lease accounting standards

How prepared is your  
organization to cope with  
these new standards?

February 2011



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# Overview

- A Deloitte survey of the proposed lease accounting standards contained in the August 2010 Exposure Draft by the Financial Accounting Standards Board (FASB) found that these new standards would have significant impacts and pose major implementation challenges.
- Given the significant financial impacts of the new lease accounting standards and the complexity of implementation, companies should be actively engaged in planning the changes in business processes and technology systems required to implement the new standards and how they will affect their financial statements and real estate strategy.

## Major impacts expected

- Deloitte's survey found that these proposed changes could have a major impact on the financial statements of lessees and on the real estate market for rental property.
- When asked about the likely affect of the new lease accounting standards, many respondents expected significant impacts including:
  - Impact debt to equity ratios (68%)
  - Affect existing debt covenants (44%)
  - Make it more difficult to obtain financing (40%)
  - Lead towards shorter-term leases (40%)
  - Encourage lessees to purchase rather than lease their space (25%)
- If the new standards lead lessees to seek leases with shorter terms, respondents believed lessors may try to increase rents to recoup their investments on tenant improvements and other rent concessions.

# Overview

## Implementation challenges

- Implementation will be a major undertaking, especially at companies with large lease portfolios.
- Yet, more than 90% of respondents said their companies were *not* well prepared to implement the new lease accounting standards.
- In addition:
  - Only 34% of companies either had a pro forma balance sheet and P&L statement to determine overall impact on their company, or expected to have one by mid-2011, Yet, 41% of companies only expected to develop these by the second half of 2011 or later, while 25% were not planning to create them.
  - 43% of companies with 1,000 leases or more expected to make major changes to their lease data gathering procedures.
  - 39% of companies with 1,000 leases or more anticipated major upgrades to their technology systems, while 27% expected to acquire a new system
  - 65% of respondents were not very confident in the integrity of the lease data to comply with the new standard.
  - 68% of respondents did not know the tax consequences of the new standard.

## Investment property

- Lessors did not support applying the new standards to investment property--75% favored fair value accounting versus the proposed new standard.

# Introduction

- In August 2010, the FASB issued an exposure draft containing major revisions to accounting for leases, including real estate leases.
  - The proposed revisions would eliminate the concept of an operating lease and bring off-balance-sheet leases onto the balance sheet, among other changes.
  - The proposed revisions could affect aspects of a company's financial statements and the means and methods to account for leases.
  - The final standard is expected to be approved around mid-2011.
- An analysis by Credit Suisse estimated that the off-balance-sheet lease liability for the S&P 500 companies was at least \$549 billion in total. In addition, they found that 34 companies had an estimated operating lease liability that was more than 25% of their market capitalization. ("Leases Landing on the Balance Sheet," Americas/United States Equity Research, Credit Suisse, August 17, 2010.)
- Deloitte surveyed 284 executives to assess the potential impact of the proposed revisions to lease accounting on their company and the broader real estate market.
  - The online survey was conducted for Deloitte by Bayer Consulting from December 1, 2010 to January 3, 2011.

# Introduction

- The survey was completed by executives at companies in the following categories:
  - Lessees: 178 respondents
    - Included among the lessees were 132 lessees with retail leases.
  - Lessors: 81 respondents
  - Service Providers: 46 respondents
    - Note: 24 respondents were from companies that were both service providers and also lessors.
    - Service providers were instructed to answer the questions based on the expected actions and profile of their typical clients.
- Respondents came from companies that managed a range of different sized lease portfolios:
  - Less than 100 leases: 82 respondents
  - 100 – 999 leases: 97 respondents
  - 1,000 or more leases: 92 respondents
- Respondents represented a wide range of industries including real estate (33%), retail (20%), financial services (10%), manufacturing (8%), professional services (6%), and technology, telecommunications, and media (6%).

# Key findings

## Impact of new lease accounting standard

- Roughly half of the respondents said they were extremely or very familiar with FASB's draft revisions to lease accounting standards.
  - Roughly three quarters of respondents at companies with 1,000 or more leases were extremely or very familiar with the draft revisions, compared to 58% of those from companies with 100 to 999 leases and 37% at those from companies with less than 100 leases.
    - Note: Since professionals who were not familiar with the draft revisions were less likely to have taken the survey, these survey results may not represent the level of knowledge of the draft revisions among all real estate professionals.
- Many respondents from lessees and service providers expected the draft revisions to have major or significant impact on:
  - Balance sheet (64%)
  - Financial ratios (53%)
  - Income statement (48%)
- Among those with 1,000 or more leases, 81% expected major or significant impacts on the balance sheet, 68% on the income statement, and 69% on financial ratios.

# Key findings

- Many respondents expected the new lease accounting standards would have material impacts on the following financial ratios:
  - Debt to Equity (68%)
  - Return on Assets (49%)
  - Enterprise Value/EBITDA (41%)
  - Interest Coverage (40%)
  - Operating Margins (37%)
- In addition, 44% of respondents believed that the impacts on financial ratios from the new standards would affect their company's existing debt covenants.
  - This may lead to renegotiation of outstanding debt instruments, which could provide a potential opportunity to exact more concession from lenders or borrowers, depending on the condition. Reviewing debt covenants now may help prepare for these possibilities.
- When asked how they expected their company's ability to secure financing would be affected by the impact on their financial ratios of the new lease accounting standard, 35% predicted that bankers would adjust the language in the debt covenants.
  - However, fully 37% of respondents said they did not know what the impact would be on their company's ability to secure financing, indicating that many companies may need to examine the implications of the new accounting standard more carefully.

# Key findings

- Among those at companies with 1,000 or more leases, half thought the new standards would hinder their operations by requiring them to revise performance metrics that rely on meeting EBITDA or operating margin targets.
  - Currently, companies use straight-line accounting for leases, resulting in level occupancy charges each year. Under the new standard, however, leases will be more expensive in the early years due to interest and less expensive in later years.
  - In order to consistently measure departmental or store performance metrics, companies may choose to maintain straight-line rent charge-backs rather than apply the new standard for internal purposes.
- Roughly 40% of respondents thought the new lease standards would lead to more leases with shorter terms.
  - However, only 12% of lessees and service providers expected that their companies would make major or significant reductions in lease terms and renewal options, while 37% expected some reductions. These expectations did not vary significantly by the size of the lease portfolio.
- Roughly 25% of respondents each expected the new standard would lead to:
  - More potential lessees purchasing rather than leasing
  - Lower valuations due to higher capitalization rates and discount rates
  - Higher interest rates and/or lower loan-to-values to finance buildings
- These views of respondents of the likely impacts of the new lease accounting standard were similar across those from companies with small, medium, and large lease portfolios.

# Key findings

- If shorter lease terms are requested by tenants, roughly 40% of respondents expected that lessors would seek to raise rents to recover investments in tenant improvements, while roughly one quarter expected that rent concessions would be reduced or not offered, and one quarter thought the cost would be paid directly by tenants.
- Roughly 75% of respondents thought the new standards would lead lessees to reduce or eliminate lease renewal options, although only 34% expected a major or significant reduction.
  - Roughly 25% of respondents thought it was extremely or very likely that lessees would seek to add lease options to terminate early or contract space, while about 50% thought this was somewhat likely.
  - Roughly 63% of respondents believed that tenants were likely to renew in more than half of their leases with renewal options. Under the new rules in the Exposure Draft, these likely renewals may need to be reflected on the balance sheet.
- Roughly 40% of respondents thought that lease capitalization would increase their companies' liabilities on the balance sheet by less than 15%, while another 33% anticipated increased liabilities of 15% to 49%.
- More than 80% of respondents believed that the lease accounting standards would place a significant burden on financial reporting for tenants and also for property owners.
  - More than 40% of respondents believed the new standards would make it more difficult to obtain financing.

# Key findings

## Characteristics of lease portfolio

- Roughly two thirds of respondents said their companies had CPI-based contingent rent provisions.
- Roughly 50% of respondents said their average lease term was between 6 and 15 years, while 40% said it was between 1 and 5 years.
  - More than 40% of respondents reported that three quarters of their companies' leases had renewal or early termination clauses.
- Roughly two thirds of respondents reported that less than 25% of their companies' leases required Fair Market Value determinations.
- On average, lease portfolios were roughly evenly split between full service/gross leases and net leases.
  - Roughly half of the respondents with full service/gross leases believed that the operating expense component was *not* readily determinable.
    - Determining these carve outs may require a close evaluation of the lease types to determine if they are structured as base years, base stops, modified gross, etc.

# Key findings

## Retail leases

- Among respondents at companies that had retail leases with percentage rent clauses based on store sales, 30% update the sales projections semi-annually or annually, while 18% do so quarterly, and 17% monthly.
  - However, 24% only update sales projections as needed, and 12% reported that they never do so.
- Among respondents with retail leases with percentage rent clauses, roughly 70% said that 34% or less of these leases currently trigger percentage rent payments.
- Almost 50% of these respondents only project sales for the percentage rent clauses for the current year.
  - If the contingent rent provision remains in the final standard, retail companies will likely need to develop significantly more robust modeling and estimating programs than are currently in use to project rents over the lease term.

# Key findings

## Implementation

- Only 7% of respondents felt their companies were extremely or very prepared to comply with the new lease accounting standards, while another 37% believed they were somewhat prepared.
- Roughly one third of respondents said their companies had, or would develop, pro forma balance sheets and P&L by the first half of 2011 to study the impact of the new rules, while an additional 41% said they would do so in the second half of 2011 or later.
  - In Deloitte's experience, many financial officers at companies are attempting to determine in advance of the effective date of the standard the effect on the balance sheet and the impact on P&L might have on prospective financing and/or whether restructuring current debt covenants may be necessary.
- Fully 96% of respondents said that the Finance and Accounting function would be primarily responsible for implementing the new standards.
  - In addition, 21% of respondents said that Corporate Real Estate would play a leading role, while 14% cited Property Management.
    - Note: These percentages total to more than 100 because respondents could choose multiple departments.
  - Although corporate real estate departments have historically been the general gate keeper of tenant leases at many companies, this survey suggests that CFOs may keep a closer focus on the lease information since it will now directly affect the balance sheet.

# Key findings

- Implementation is expected to take some time, especially for companies with larger lease portfolios. Half the respondents at companies with 1,000 leases or more expected that implementation would take one year or longer.
- Roughly 25% of respondents—including more than 40% at companies with 1,000 or more leases—expected the new standards would lead them to make major changes to their lease data gathering procedures.
- Three quarters of respondents said their companies would provide training to employees on implementing the new lease accounting standards.

# Key findings

- The new lease standards will also require many companies to upgrade or replace their information technology systems.
  - To comply with the new standards, 25% of respondents said their companies would make a major upgrade to their information technology systems, while 20% said they would acquire a new system.
    - Among those at companies with 1,000 or more leases, 39% expected the new standards would lead to a major upgrade to their technology systems, while 27% expected to acquire a new system.
    - Although no one can know for sure, once the standard is finalized there could be a bottleneck of peak demand to support the higher volume of technology implementation and conversion requirements.
- In addition, many executives were not confident in the integrity of their lease data, as well as the capabilities of their information technology providers, to comply with the new requirements.
  - Roughly 65% of respondents said they were not very confident in the integrity of the lease data required to comply with the new accounting standards.
  - Even more striking, almost 80% of respondents said they were not very confident in capability of their companies' information technology providers to comply.
  - Inspecting the integrity of lease data now may help in the overall timeline for implementation. Testing the quality of the lease data regardless of the new standard is likely to be beneficial in any event.

# Key findings

- Only one third of respondents said their lease database information systems had the ability to interface with the general ledger in order to calculate accounting entries and adjustments; although, this was the case at 50% of the respondent from companies with the largest lease portfolios.
- When it came to the tax consequences of the new lease accounting standard, two thirds of respondents said they did not know they would be, indicating a need for more attention to the tax implications.
  - Companies may benefit by taking steps to understand the impact on deferred taxes in advance of the effective date.

## Investment property

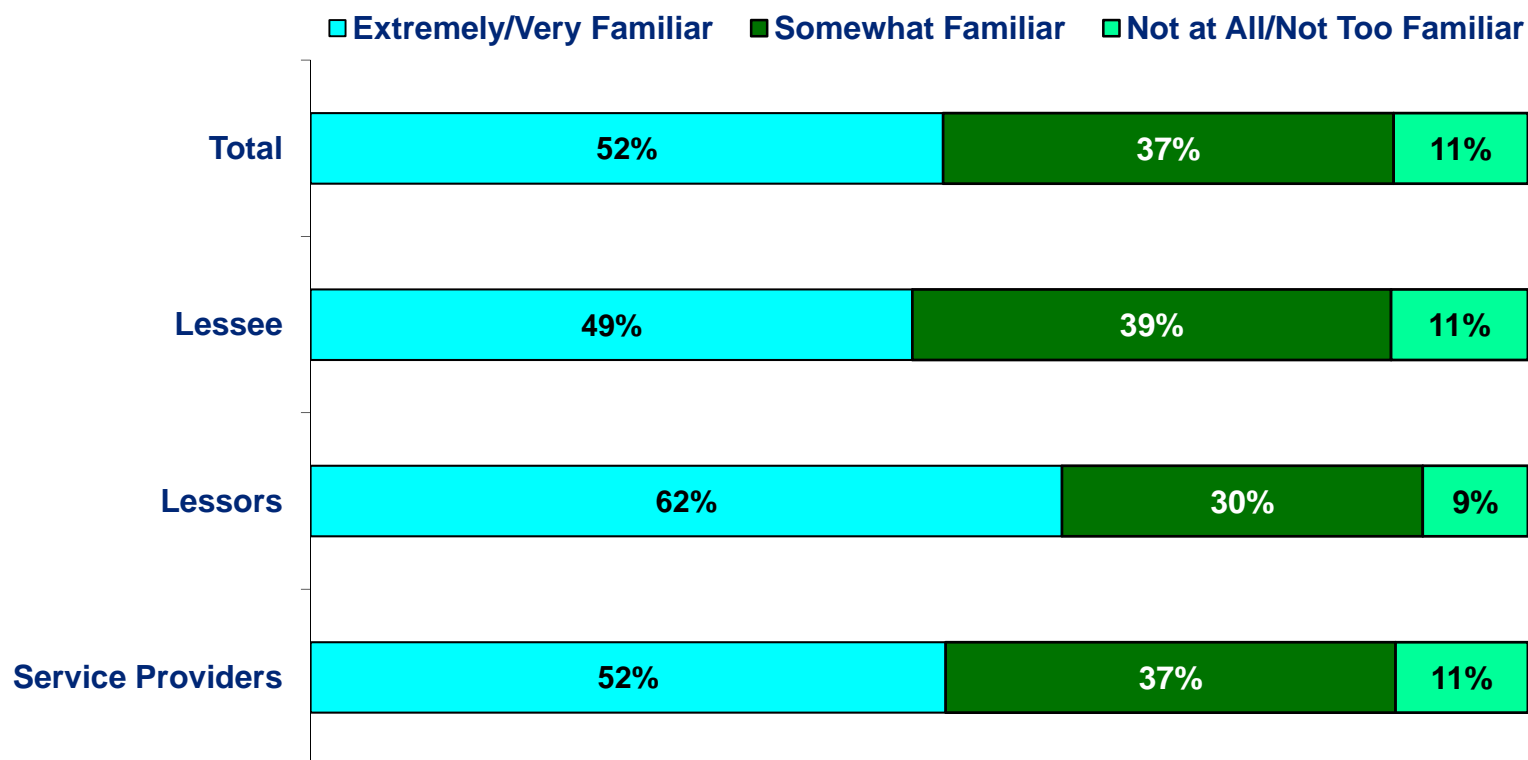
- Lessors and service providers were divided on the most appropriate approach to accounting for investment property, with 41% favoring fair value accounting, 32% historical cost accounting, and 27% an option to apply either fair value or historical cost accounting.
- However, if FASB decides to change lease accounting standards for investment property, roughly three quarters of lessors and service providers favored fair value accounting with straight-line accounting for leases.
- Half of the lessors and service providers predicted that, if adopted for investment property, the new standards would have a major or significant impact on the balance sheet at their companies, while 44% anticipated the same impact on the income statement.
  - Among lessors and service providers with 1,000 or more leases, roughly two thirds expected a major or significant impact on their balance sheet and 60% on their income statement.

# **Impact of new lease accounting standards**

**Roughly half the respondents said they were extremely or very familiar with the draft revisions to the lease accounting standard, including almost two thirds of those at lessors.**

**How familiar are you with FASB's exposure draft revisions to lease accounting standards?**

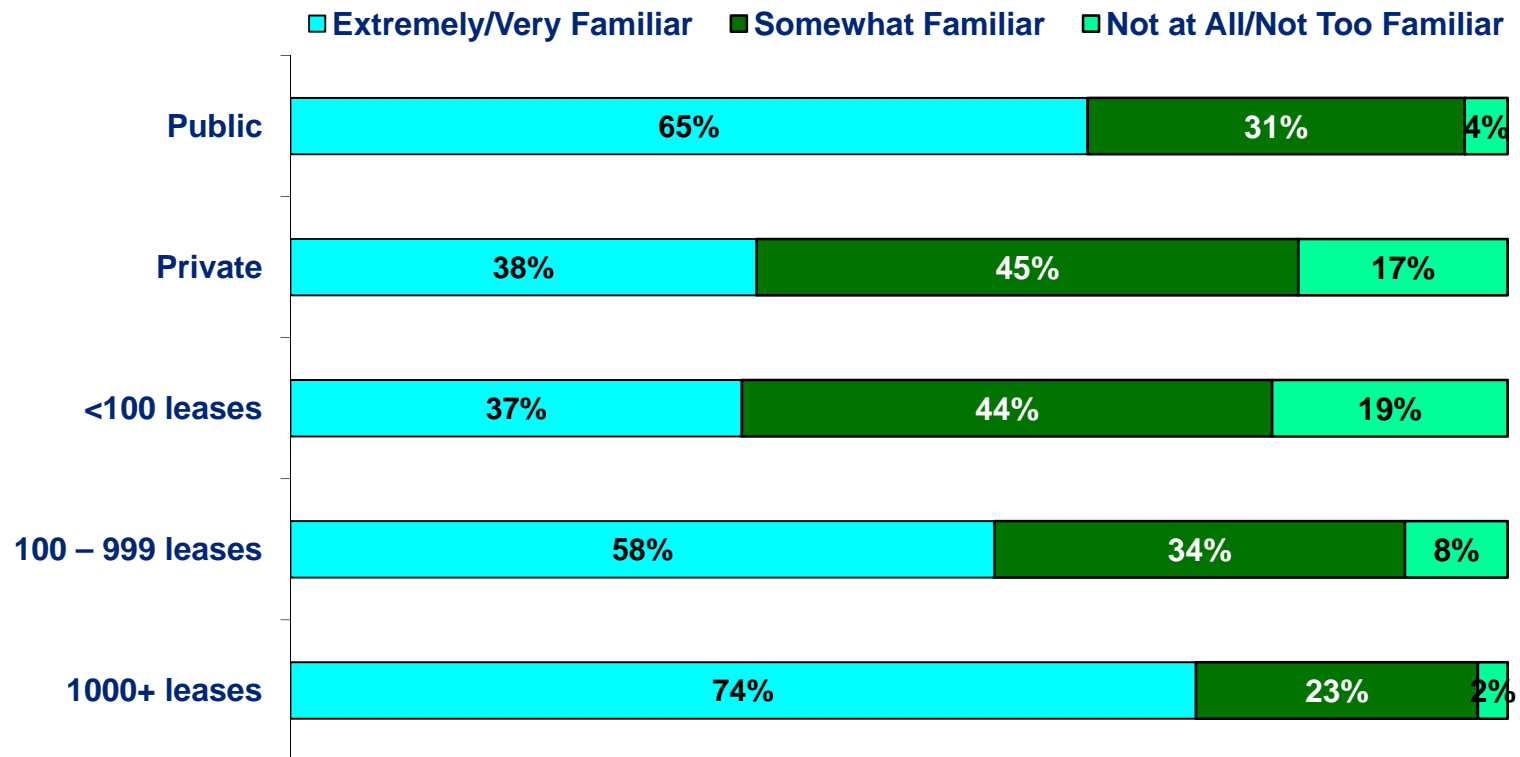
Base = All Respondents



**Respondents at public companies and at companies with a larger portfolio of leases were more familiar with the FASB draft revisions.**

**How familiar are you with FASB's exposure draft revisions to lease accounting standards?**

Base = All Respondents

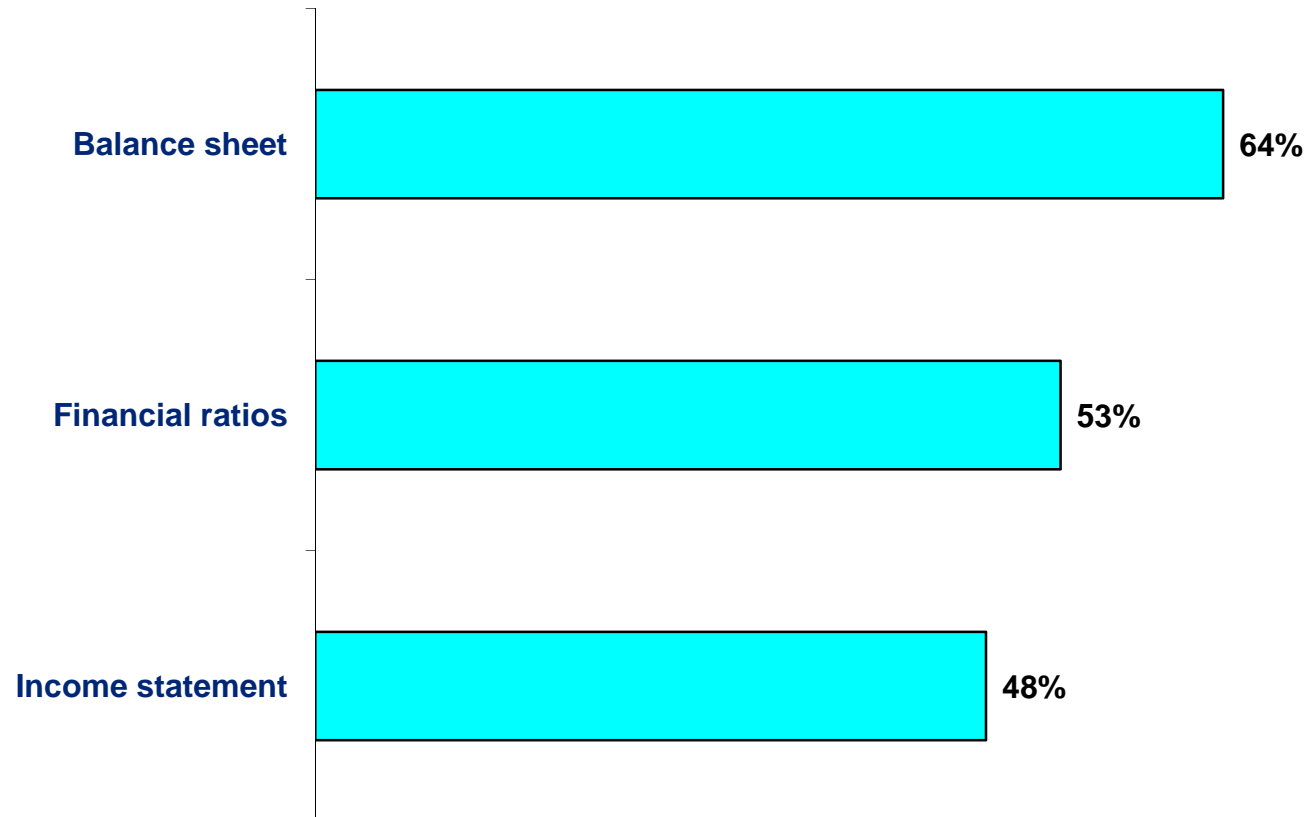


**Roughly two thirds of lessees and service providers believed the new standards would have a major or significant impact on their balance sheet, while roughly half said the same about impacts on financial ratios and the income statement.**

**How much of an impact do you expect the new lease accounting standards will have on your company in the following areas?**

**Percent Rated Major or Significant Impact**

Base = Lessees and Service Providers

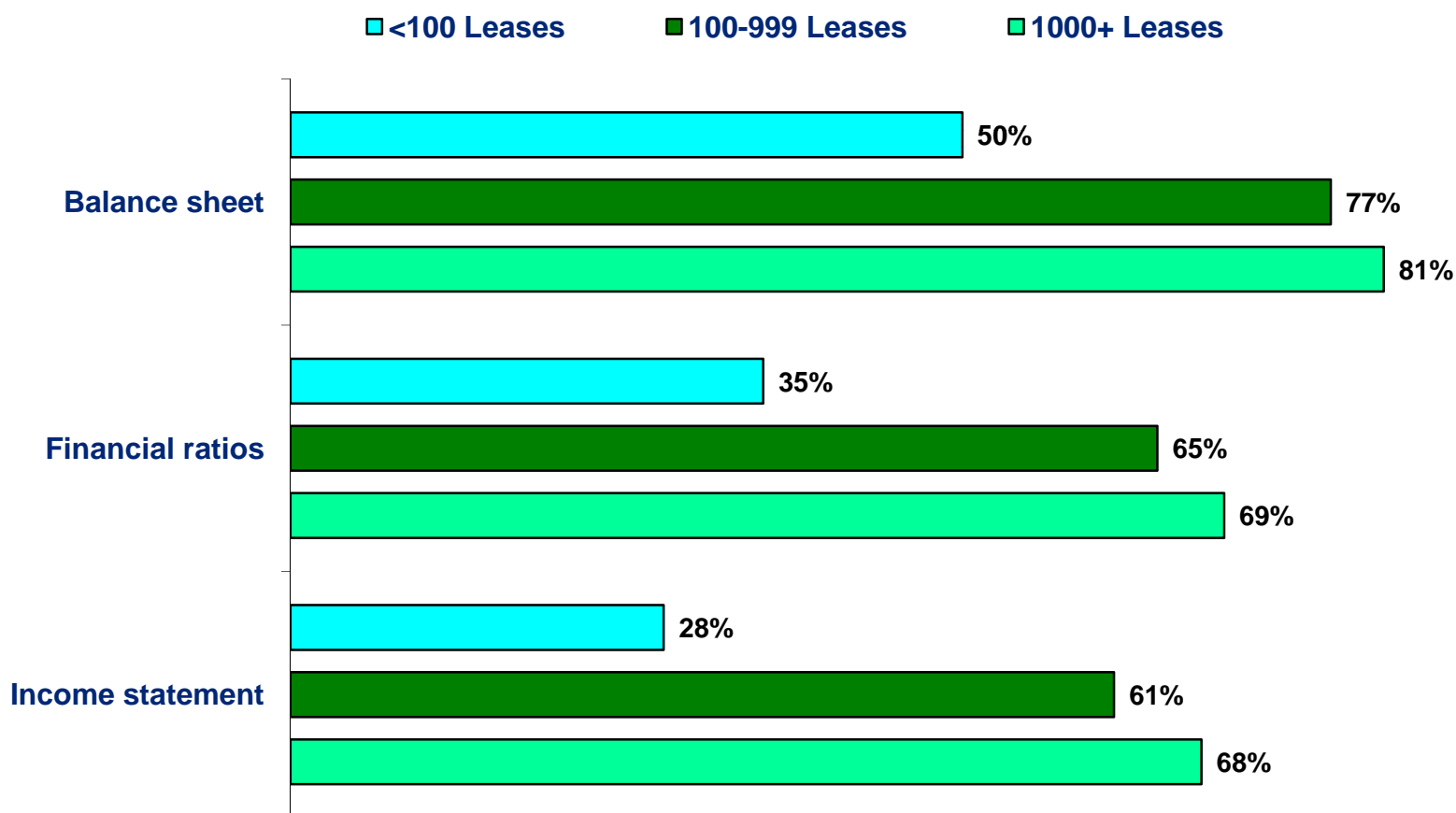


**Lessees and service providers that had more than 100 leases were much more likely to expect major/significant impacts from the draft standards.**

**How much of an impact do you expect the new lease accounting standards will have on your company in the following areas?**

**Percent Rated Major or Significant Impact**

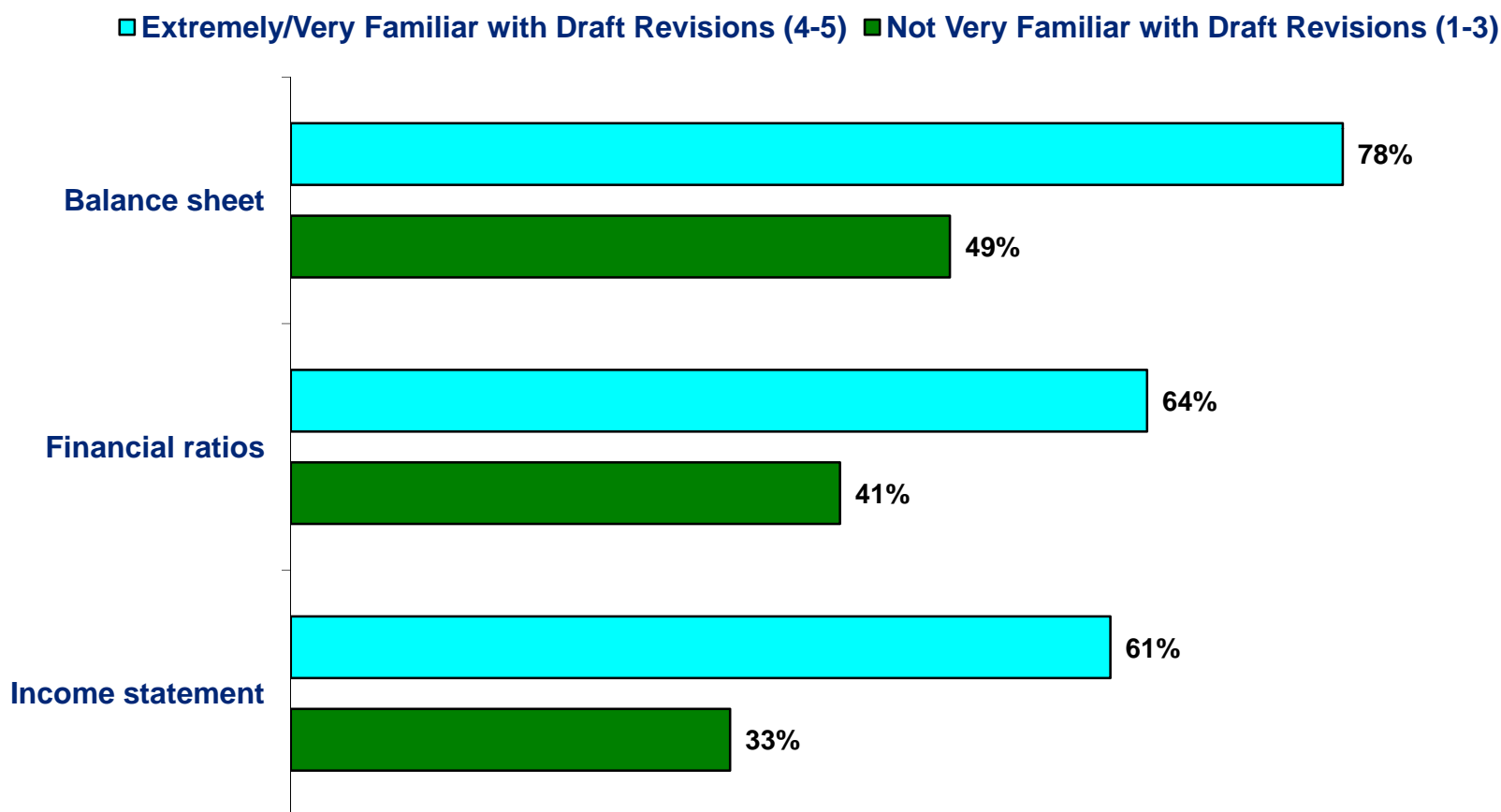
Base = Lessees and Service Providers



**Respondents who were very familiar with the draft revisions were much more likely to anticipate they would have major/significant impacts.**

**How much of an impact do you expect the new lease accounting standards will have on your company in the following areas?**

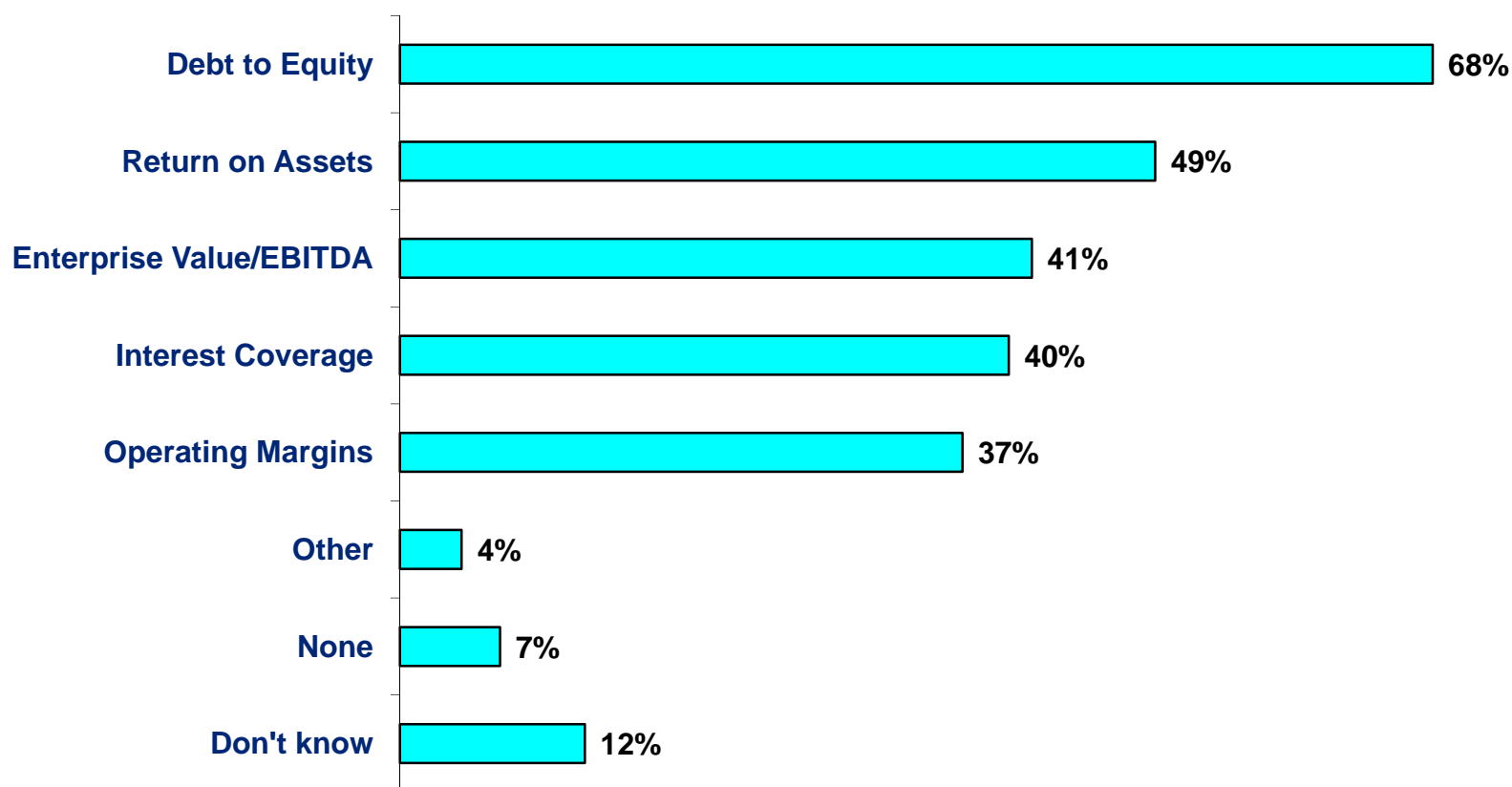
**Rated Major or Significant Impact**  
Base = Lessees and Service Providers



**Among those who expected impacts on their financial ratios, roughly two thirds anticipated impacts on Debt to Equity and half on Return on Assets.**

**Which of the following financial ratios do you think will be materially affected at your company by the new lease accounting standards?**

Base = Lessees and Service Providers Expecting Some Impact from New Standards

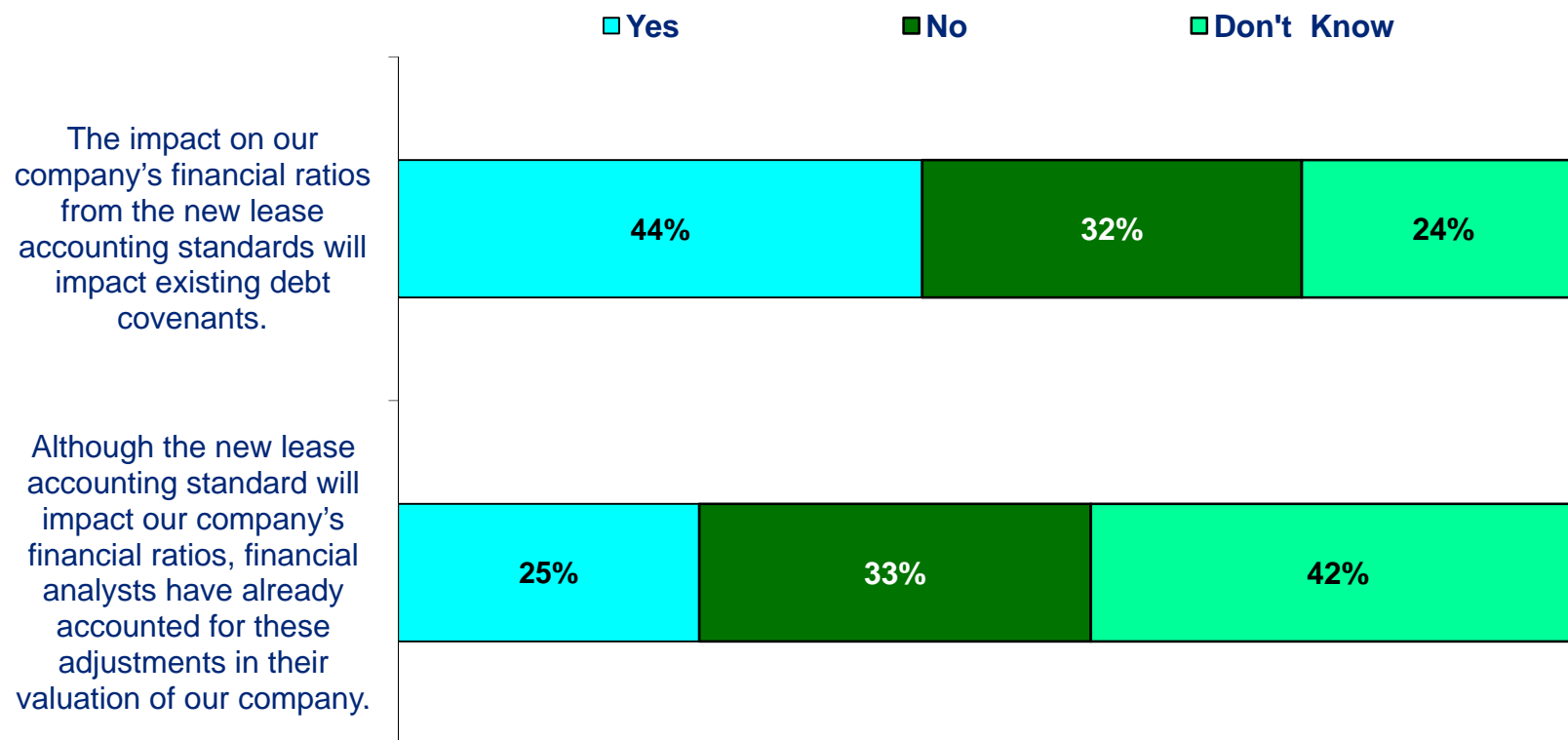


Note: Percentages do not total to 100% since respondents could make multiple selections.

**Roughly 40% of respondents thought the new standards would affect their existing debt covenants, while one quarter believed that analysts had already incorporated their impacts.**

**Which statement best describes how your note holders will be affected by the impact on your financial ratios from the new lease accounting standards?**

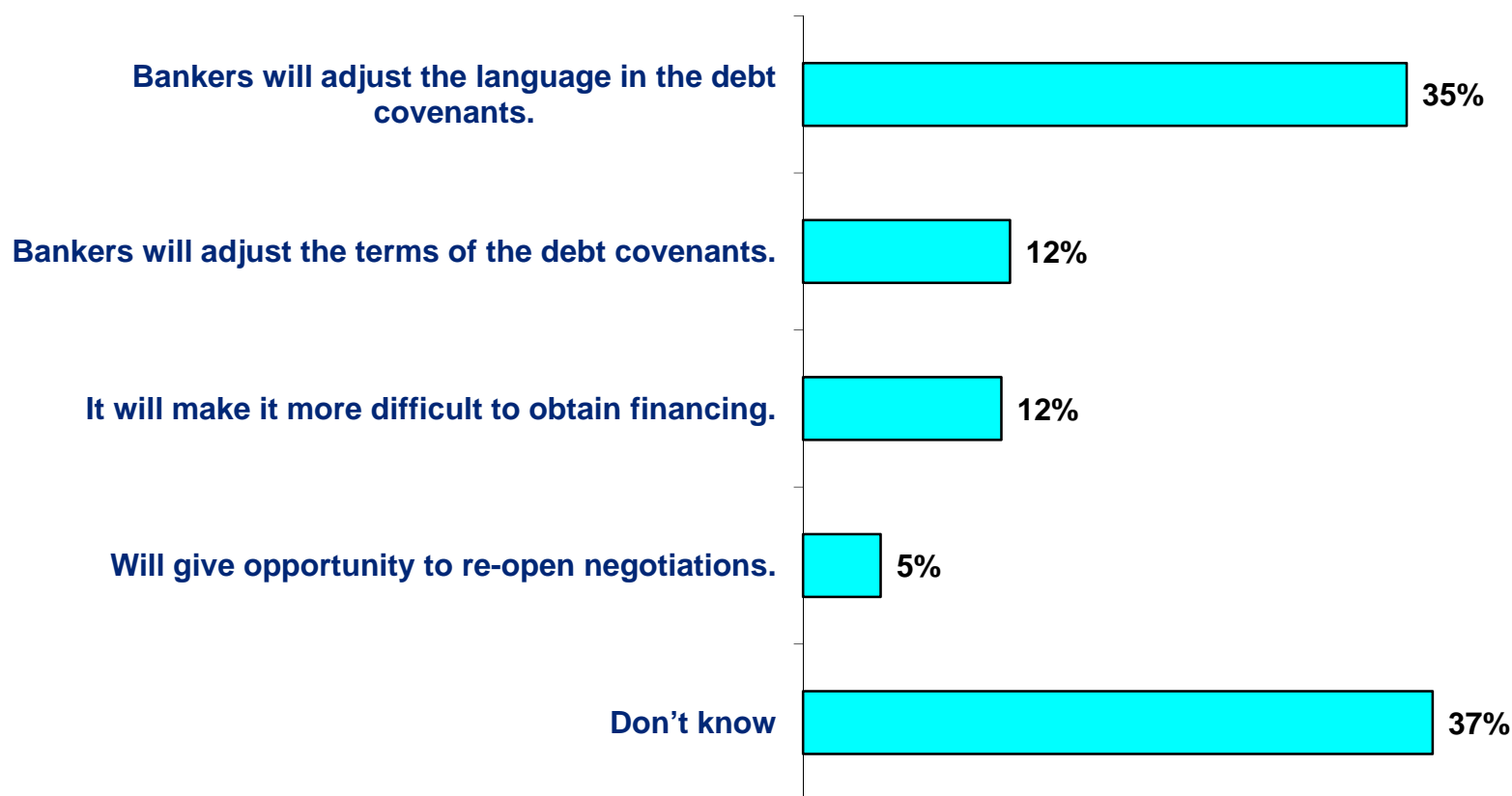
Base = Lessees and Service Providers Expecting Some Impact from New Standards



**When asked about the impact on the ability to secure financing, respondents were most likely to expect that bankers would adjust the debt covenants in light of the new standards.**

**How do you expect that your company's ability to secure financing will be affected by the impact on your financial ratios from the new lease accounting standard?**

Base = Lessees and Service Providers Expecting Some Impact from New Standards



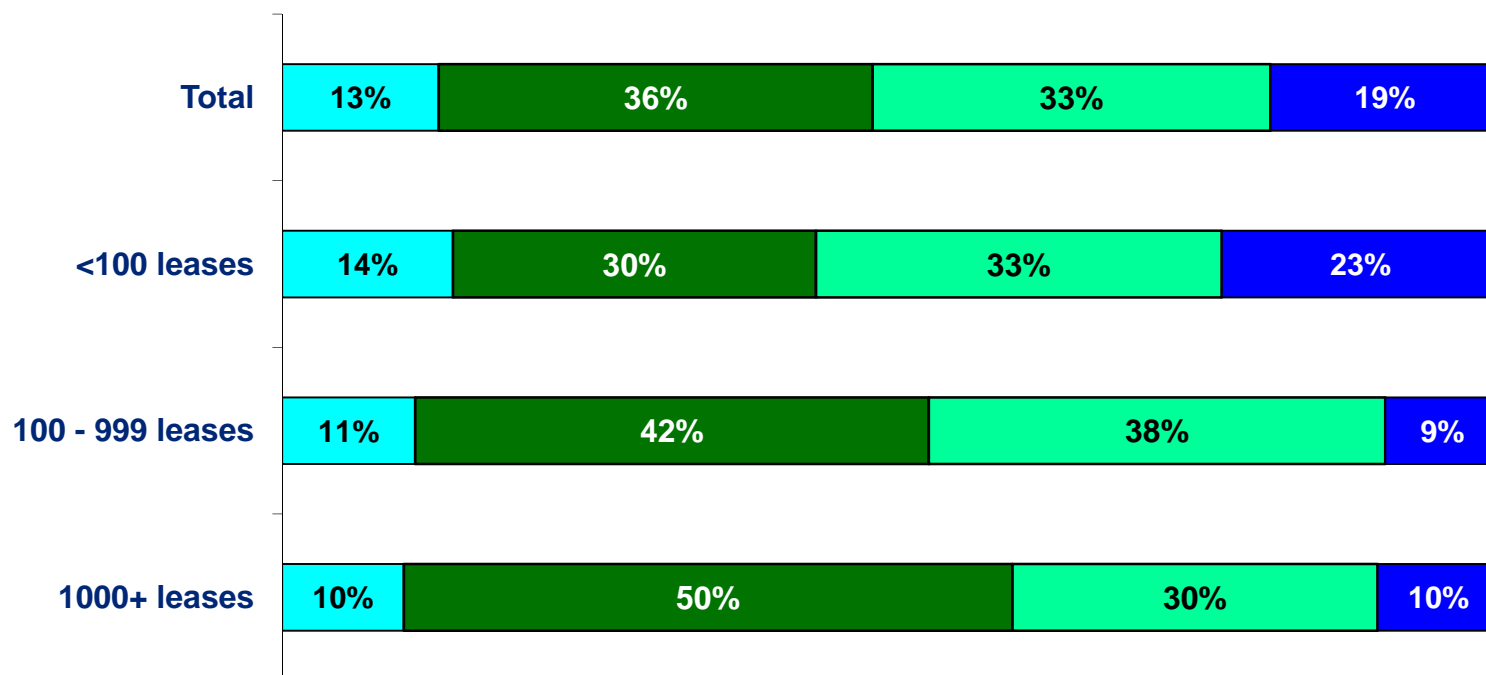
Note: Percentages do not total to 100% since respondents could make multiple selections.

**Lessees and service providers with more than 1,000 leases were significantly more likely to expect a negative impact on operating margin targets.**

**What will be the impact of the new lease accounting standard on your company's internal performance metrics and on the performance metrics used by investors/equity analysts that are dependent on meeting EBITDA or operating margin targets?**

Base = Lessees and Service Providers

■ Benefit Operations ■ Hinder Operations, Causing Resetting of Metrics ■ Little/No Impact ■ NA/No Metrics Affected

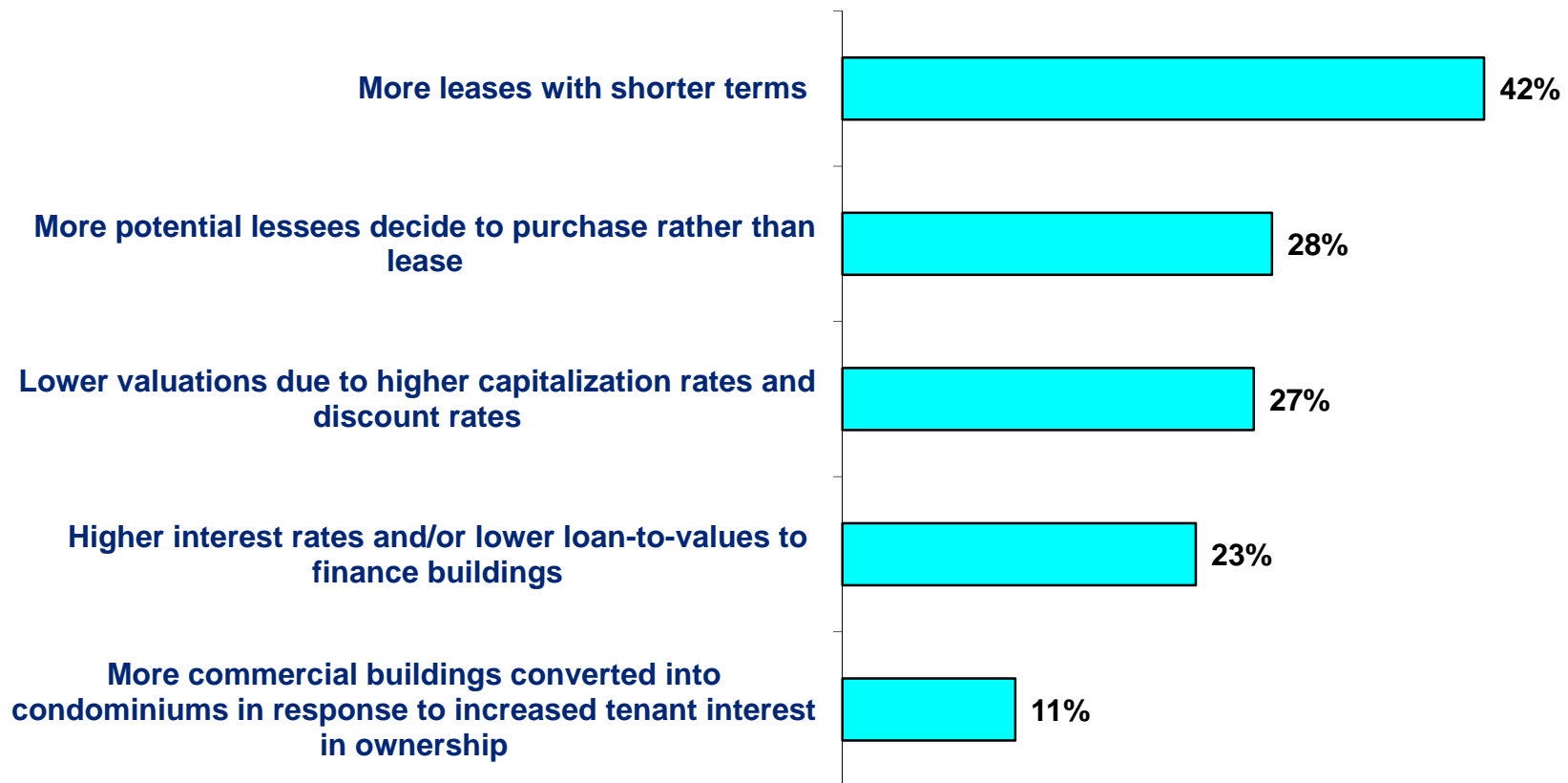


**Respondents were most likely to expect that the new standards would lead to leases with shorter terms.**

**How likely do you think it is that the new accounting standards will result in each of the following changes?**

Percent Rated Extremely or Very Likely

Base = All Respondents

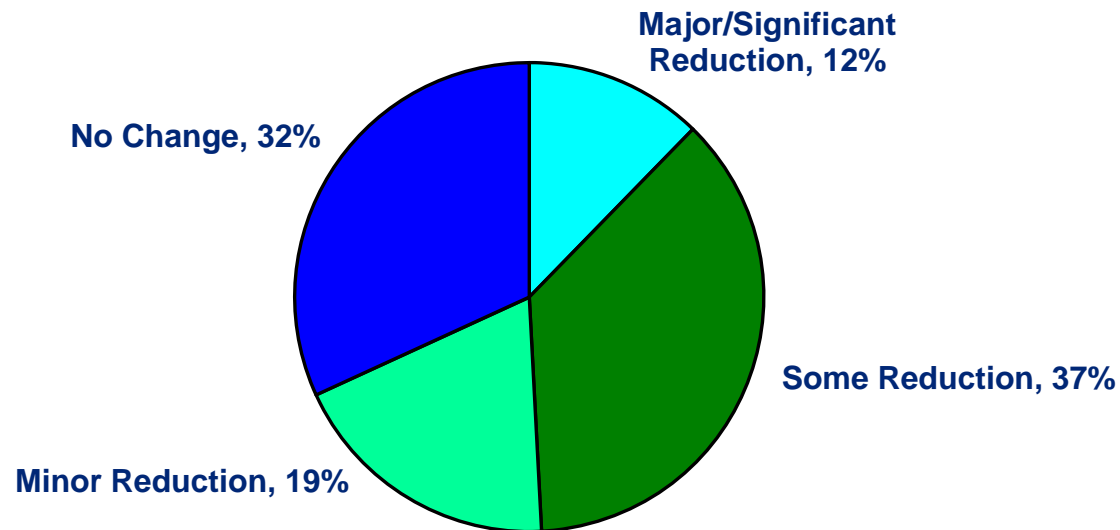


Note: Percentages do not total to 100% since respondents could make multiple selections.

**Almost half of the respondents thought that their company would at least make some reductions in its lease terms and renewal options as a result of the new standards.**

**Since shorter term leases will likely have less impact on the balance sheet, to what extent do you think your company will reduce its lease terms and renewal options for new transactions?**

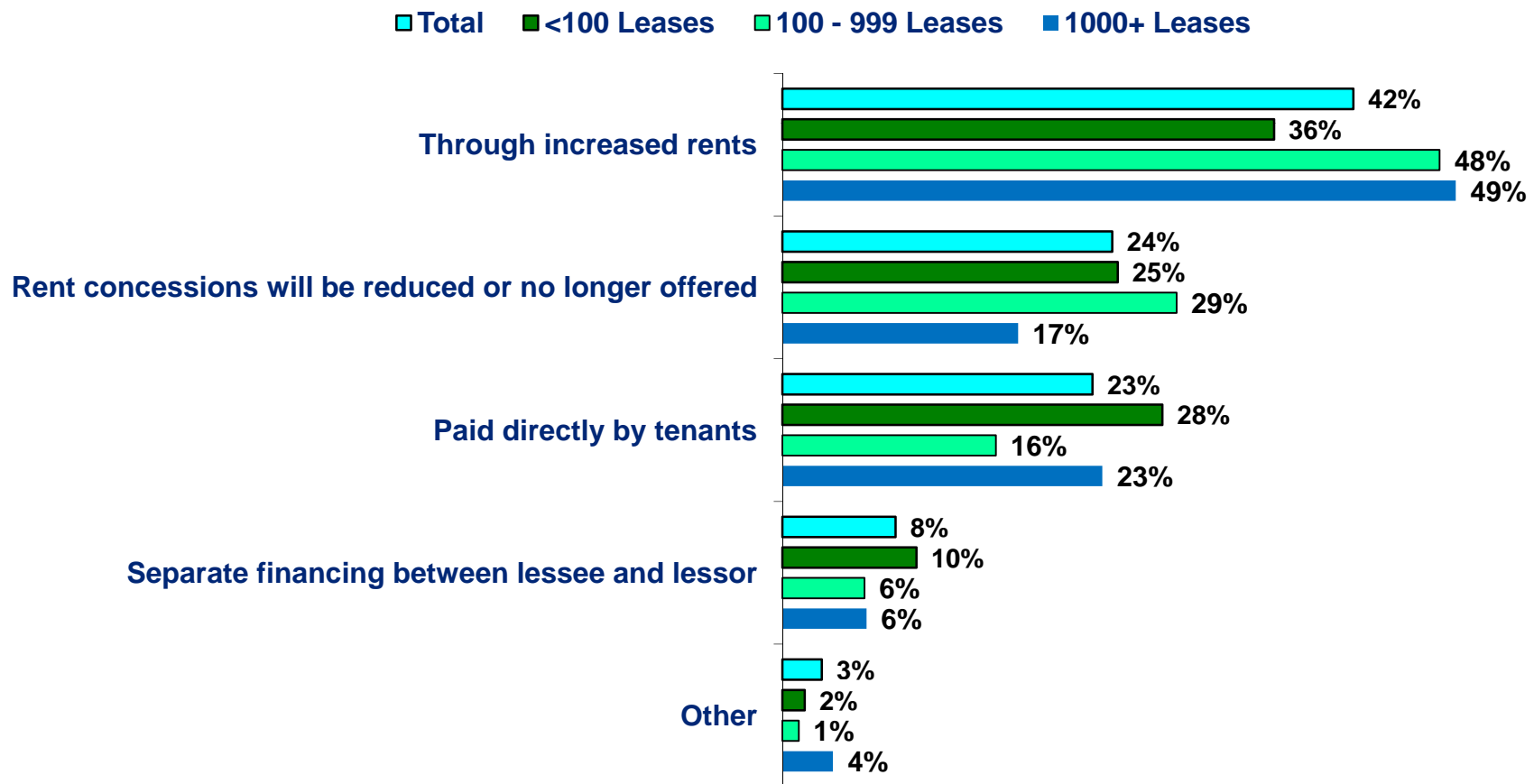
Base = Lessees and Service Providers



**Respondents were most likely to expect lessors to raise rents if lease terms are reduced.**

**If lessees request leases with shorter lease terms, which is the most likely way that lessors will seek to recover investments in tenant improvements (and other rent concessions)?**

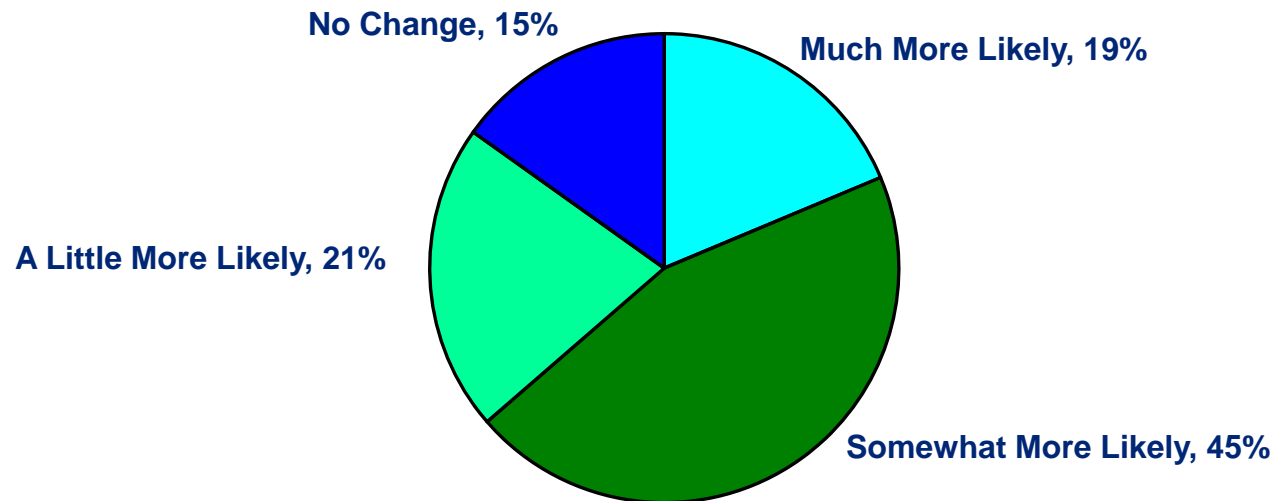
Base = All Respondents



**Roughly two thirds of respondents believed that lessees renting single tenant occupied facilities under sale lease back arrangement will become either much more likely (19%) or somewhat more likely (45%) to purchase.**

**For lessees renting single tenant occupied facilities under current sale lease back arrangements, do you think the new lease accounting standard will make them more likely to buy the property?**

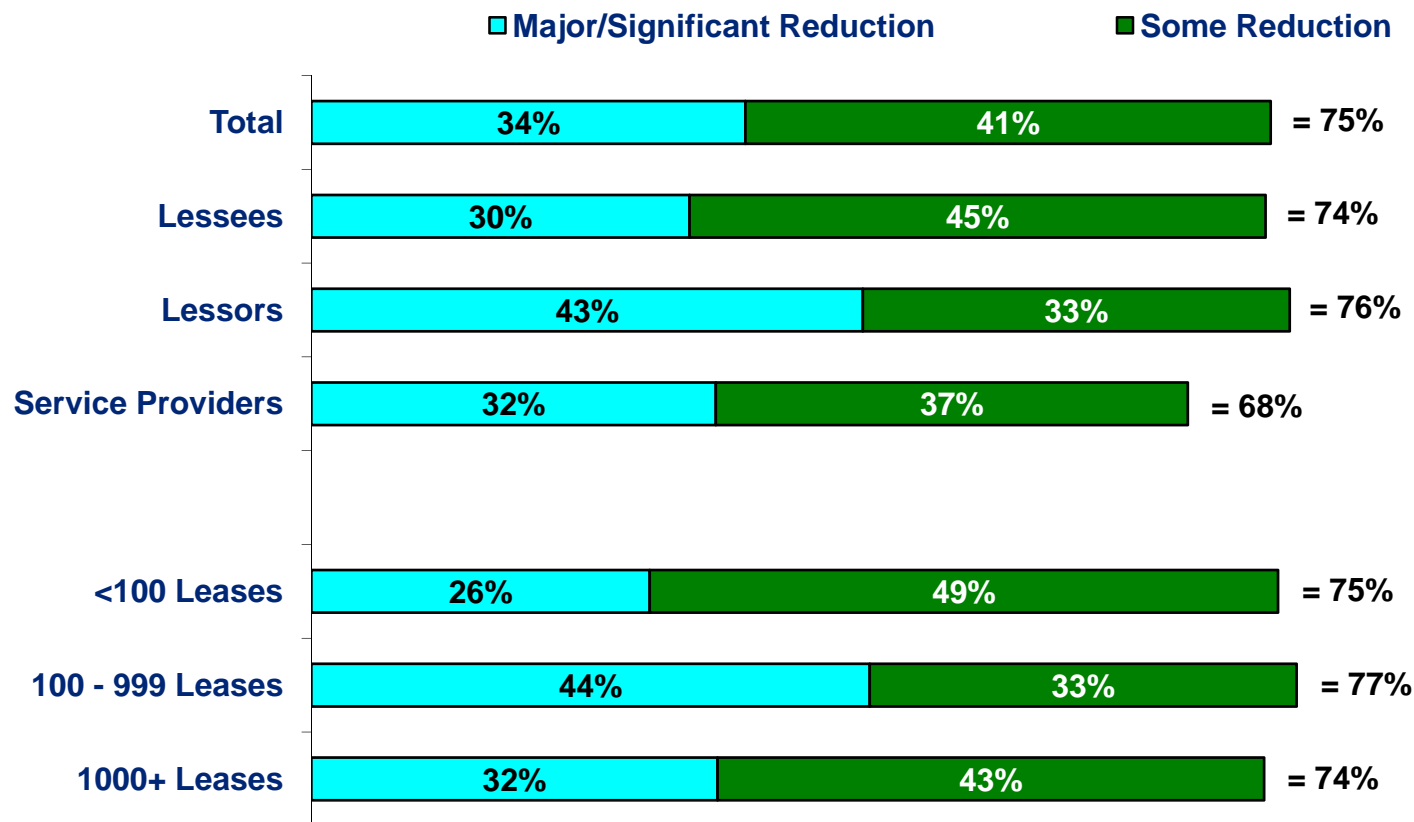
Base = All Respondents



**Three quarters of respondents expected that lessees will reduce or eliminate lease renewal options, with 42% of lessors expecting major or significant reductions.**

**To what extent will the proposed lease accounting standard lead lessees to reduce or eliminate lease renewal options to minimize liabilities on the balance sheet?**

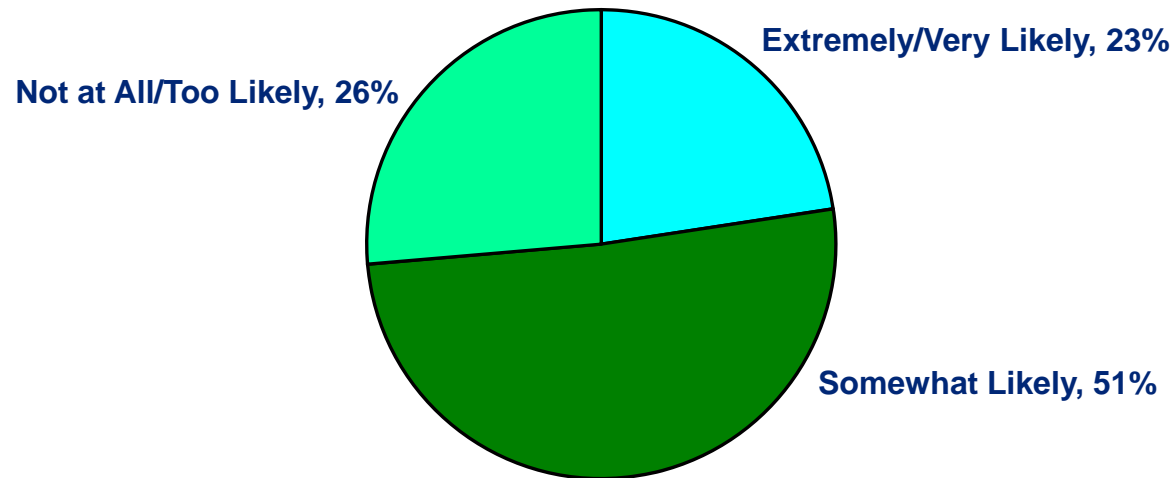
Base = All Respondents



**Roughly three quarters of respondents thought it was at least somewhat likely that the new standards would lead lessees to add lease options to terminate early.**

**How likely do you think it is that the new lease accounting standard will lead lessees to add lease options to terminate early and/or contract space in order to minimize liabilities on their balance sheet?**

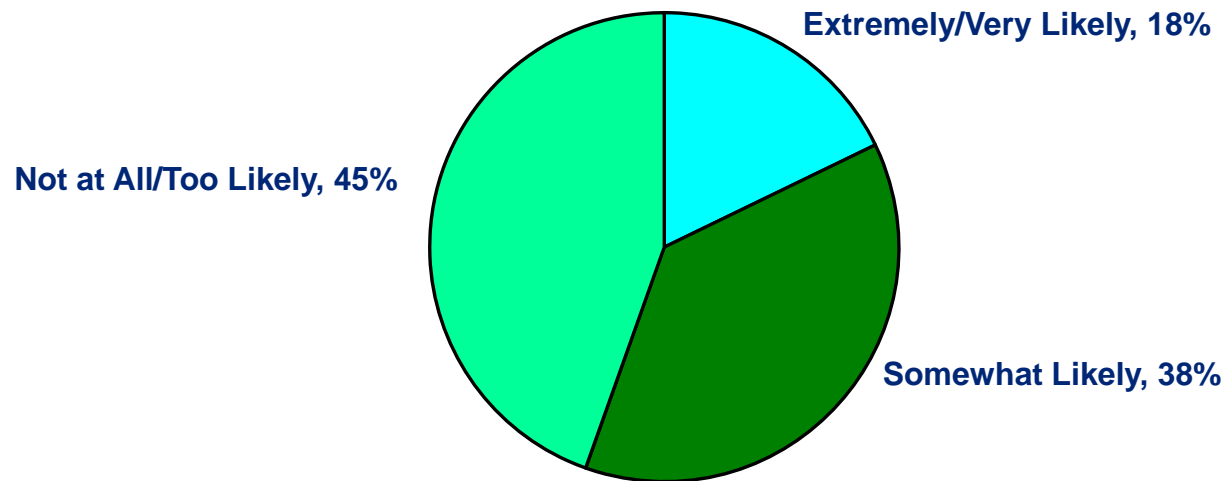
Base = All Respondents



**Only 18% of lessees and service providers thought it was extremely or very likely that they would try to negotiate shorter lease terms, while almost half thought this was not at all or not too likely.**

**How likely do you think it is that the new lease accounting standard will lead your company to try to negotiate shorter terms on new leases?**

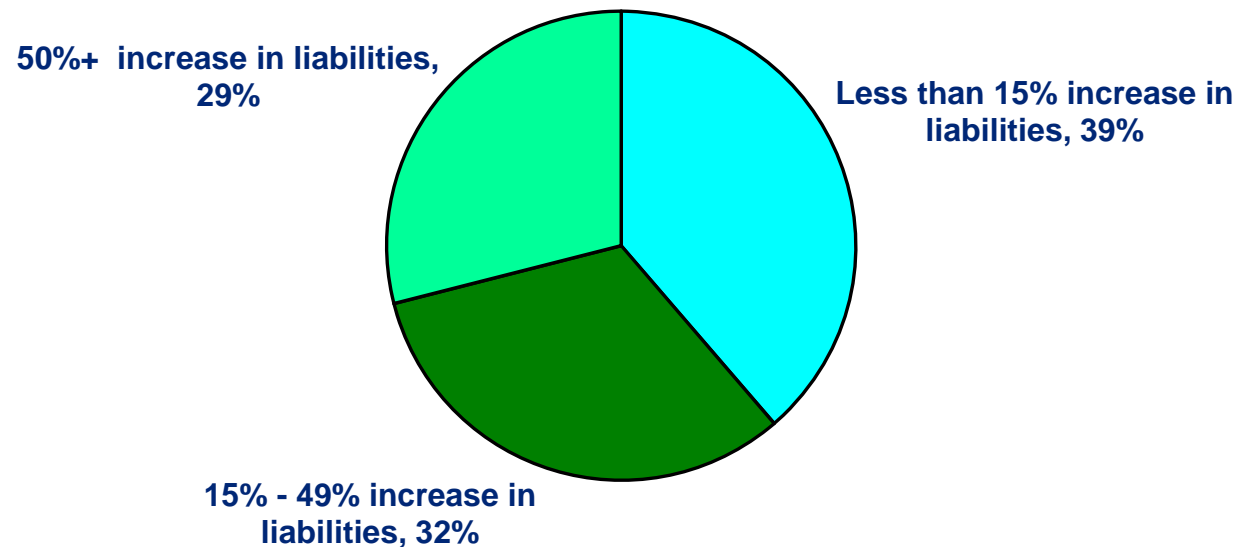
Base = Lessees and Service Providers



**More than half the respondents expected an increase of liabilities of 15% or more, with 29% expected an increase of 50% or more.**

**When initial lease capitalization becomes effective, what do you expect the percentage increase in liabilities will be on your company's (or client's) balance sheet?**

Base = All Respondents

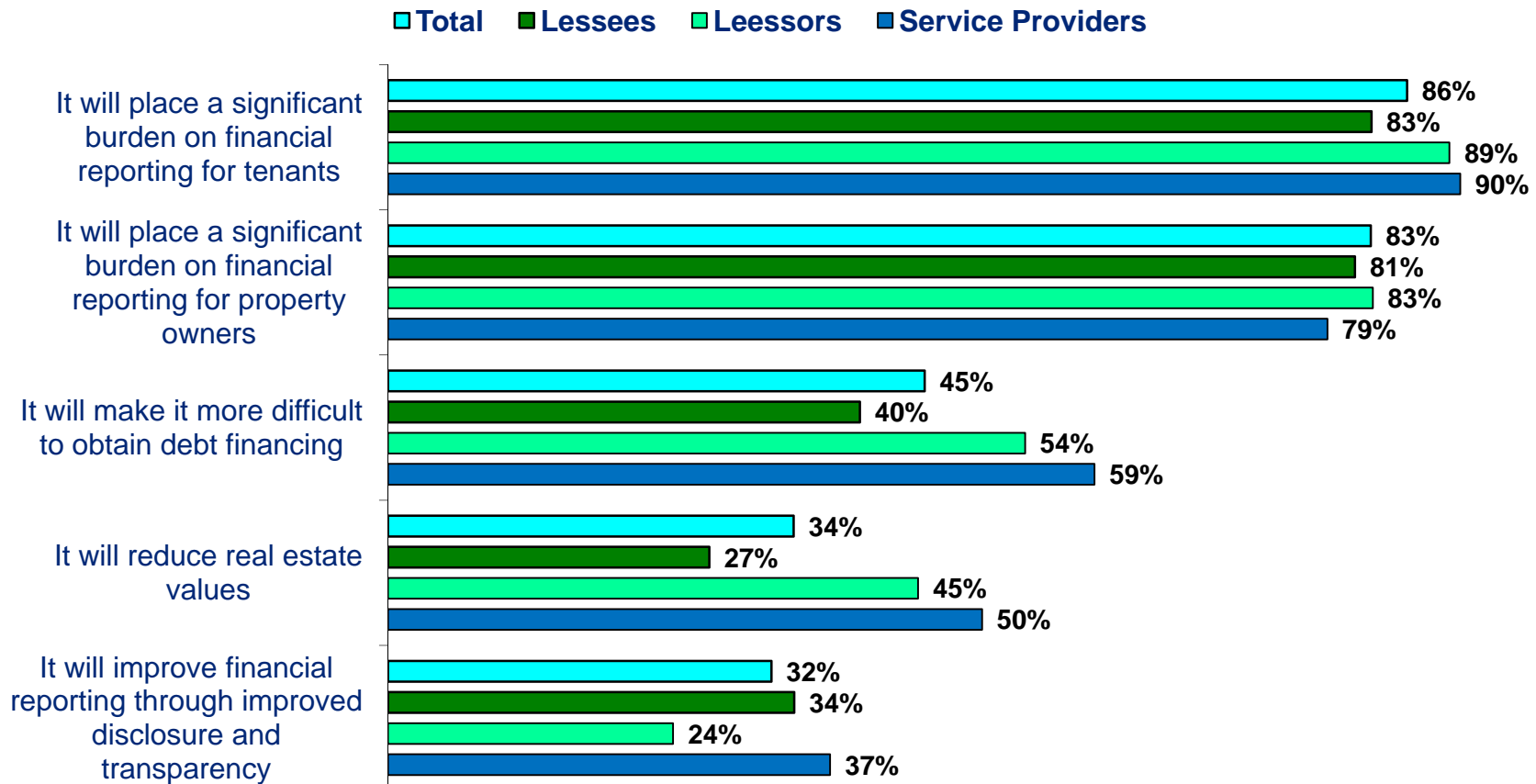


**More than 80% of respondents believed the new lease accounting standards would place significant burdens on financial reporting both for tenants and for property owners. Lessors were more concerned than others about the impacts on access to financing and on property values.**

**How much do you agree or disagree with the following statements about the new lease accounting standard?**

Percent Responding "Agree"

Base = All Respondents



# Significant respondent comments

Please describe what you expect will be the most important impacts of the new lease accounting standard on your company:

## Sample responses

### Lessors

- “More honest assessment in lease vs. buy analysis, if company is treating leases as on-balance sheet.” (Lessor)
- “Debt covenants must be re-negotiated; Inadequate staffing for implementation and tracking; Insufficient capital for systems upgrade.” (Lessor)
- “Extra work for GL without any gain in quality of information provided. Actually, it will cause an extra set of financial statements to be created because the new ones being mandated will be of no use to management.” (Lessor)
- “It will cause the average life of a lease to be shorter, thus making it harder to finance built-to-suit projects.” (Lessor)
- “Prospective tenants looking to lease the entire building or a significant portion of the building are now asking for purchase option quotes when requesting lease quotes. Eventually single tenant buildings will go the way of the dodo. There will be some increased interest in office condos, which will cause problems under present REIT rules.” (Lessor)

### Service providers

- “Maintaining accounting records that don't reflect the way investors/analysts evaluate the company.” (Lessor/Service Provider)
- “Will require additional analysis of our leases and have an impact on reporting, but I think lenders will quickly adjust and there will be little/no impact on lending market. Likely will decrease the sale/leaseback of single-tenant projects since one of the primary benefits (off-balance sheet financing) will be removed.” (Lessor/Service Provider)

# Significant respondent comments (cont.)

Please describe what you expect will be the most important impacts of the new lease accounting standard on your company.

## Sample responses

### Lessees

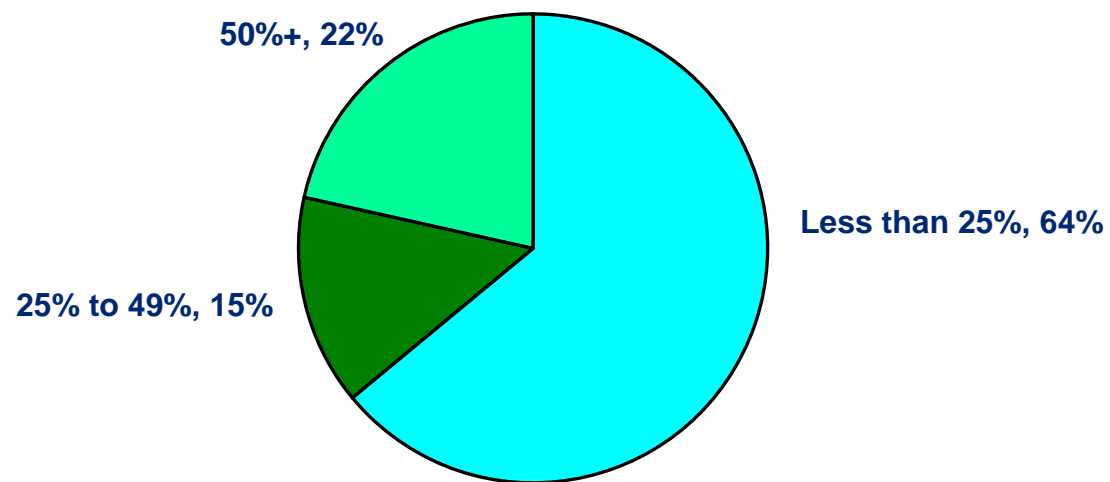
- ““Impact to debt ratios, making it more difficult to secure financing.” (Lessee)
- “Increase administration and financial forecasting workload and increase subjectivity in financials.” (Lessee)
- “We will need to purchase new lease accounting software as our current system will not support this proposed accounting.” (Lessee)
- “The cost and time to produce the data. The lack of relevance of the data. Since management has no intent to use this data in running the company, the financial statements and segment disclosures will have a huge disconnect between reality and the requirements of accounting theorists. In short, we are strongly opposed to this standard and feel it is of no aid to the company, shareholders, lenders, analysts or any other user of our financial statements and will produce unreliable data that will confuse readers as to the actual performance of the company.” (Lessee)
- “Will need to design and implement new processes to assess and reassess optional renewal terms and contingent rents on a large portfolio of leases. It is expected that this will be a large operational burden. Also need to implement a tracking system for leases. Currently, all leases are tracked in Excel. However, the requirement to reassess and track assets and liabilities will necessitate the use of new software for tracking.” (Lessee)

# Characteristics of lease portfolio

**Roughly two thirds of respondents reported that their leases contain CPI-based contingent rent provisions.**

**What percentage of your company's leases contain  
CPI-based contingent rent provisions?**

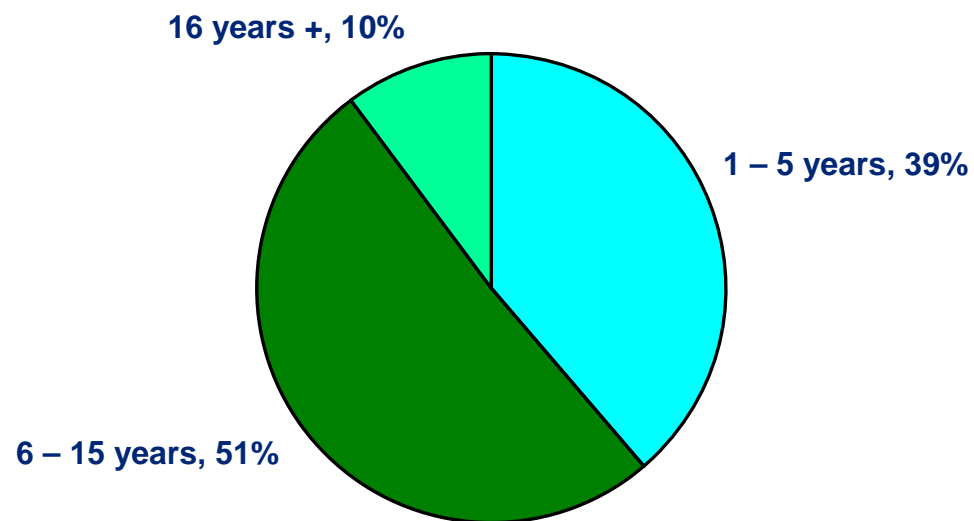
Base = All Respondents



**The most common average lease term was six to 15 years, cited by roughly half the respondents.**

**What is the average lease term (excluding renewal options) for the leases in your company's portfolio?**

Base = All Respondents

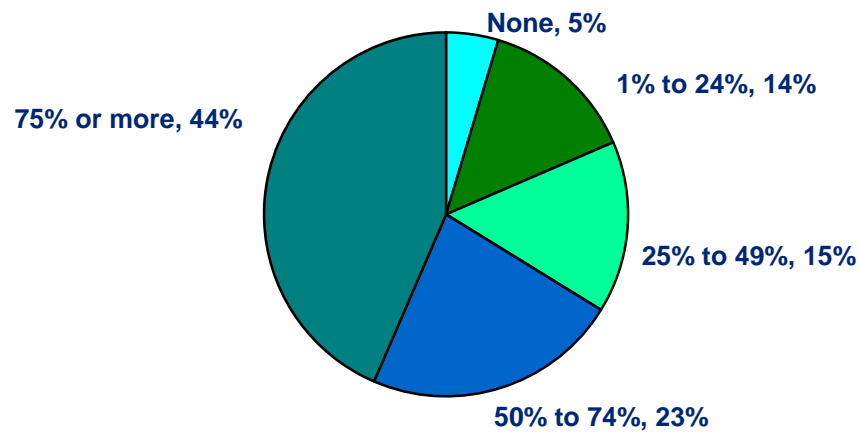


**Almost half the respondents said that 75% or more of their leases contain renewal or early termination options. Leases most often contained one or two option terms.**

### **Renewal or Early Termination Options**

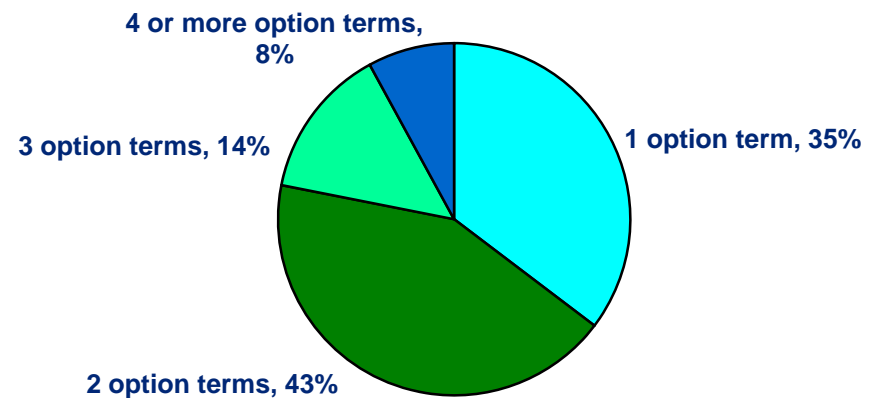
**What percentage of your company's leases contain renewal or early termination options?**

Base = All Respondents



**What is the typical number of renewal options in your company's leases?**

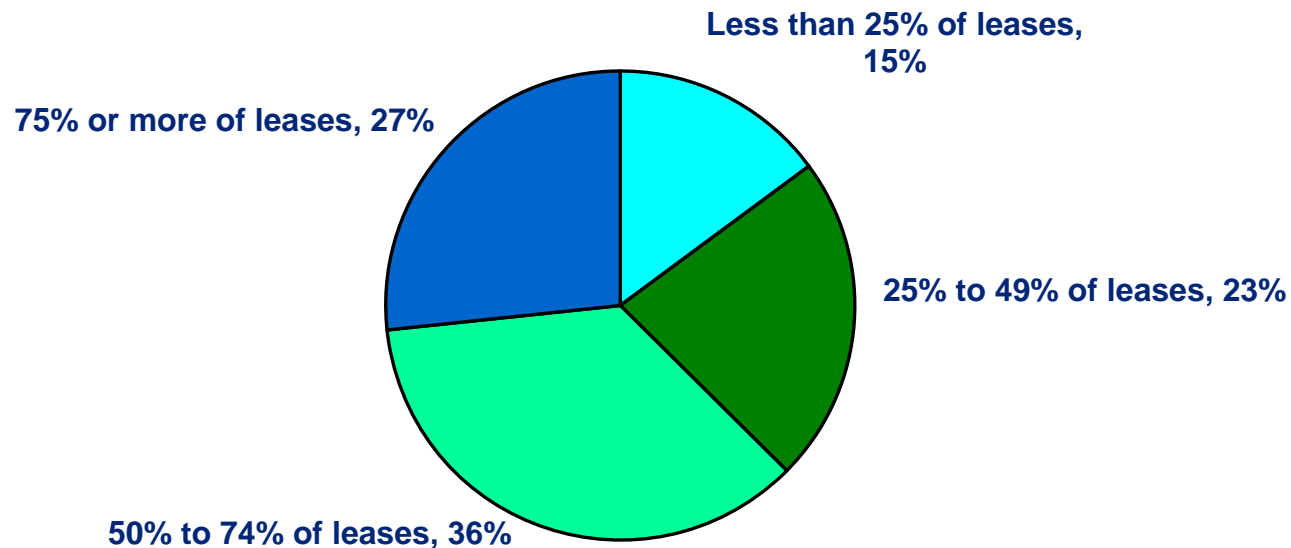
Base = Respondents with Renewal or Early Termination Options



**More than 60% of respondents believed that in more than half their leases with renewal options that the lessee was likely to exercise the options—36% said in 50% to 75% of their leases and 27% said in 75% or more of their leases.**

**What percentage of your company's leases have renewal options where you think the lessee has more than a 50% likelihood to exercise the next option?**

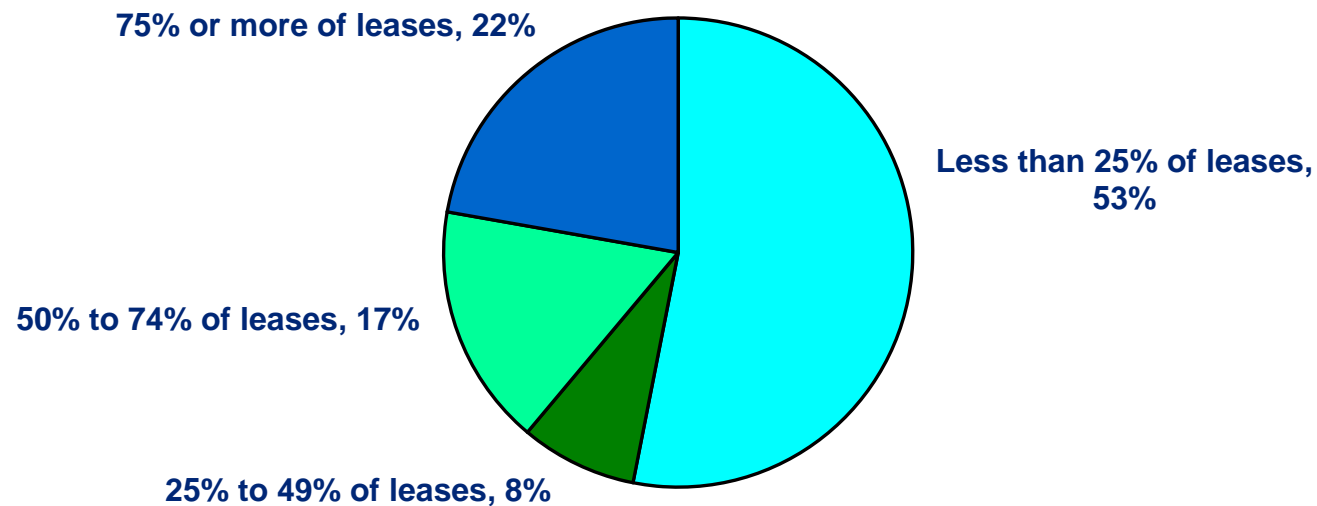
Base = Respondents with Renewal or Early Termination Options



**Roughly half the respondents said that less than one quarter of their renewal options rents required fair market value determinations.**

**What percentage of your renewal options rents require  
Fair Market Value determinations?**

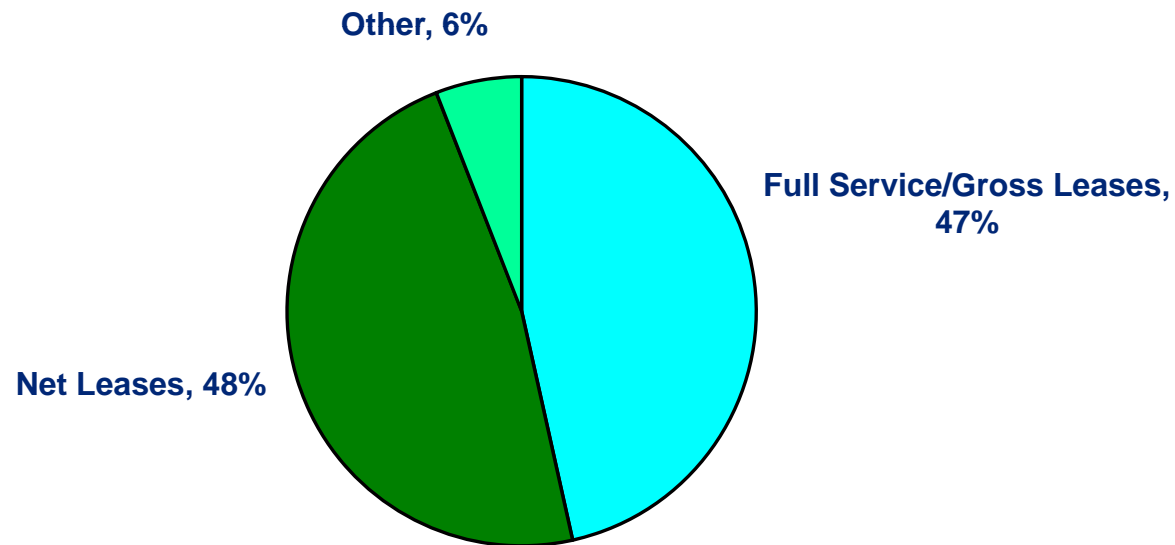
Base = Respondents with Renewal or Early Termination Options



**On average, respondents reported that their lease portfolios were evenly split between full service/gross leases and net leases.**

**What percentages of your lease portfolio are  
Full Service/Gross Leases and Net Leases?**

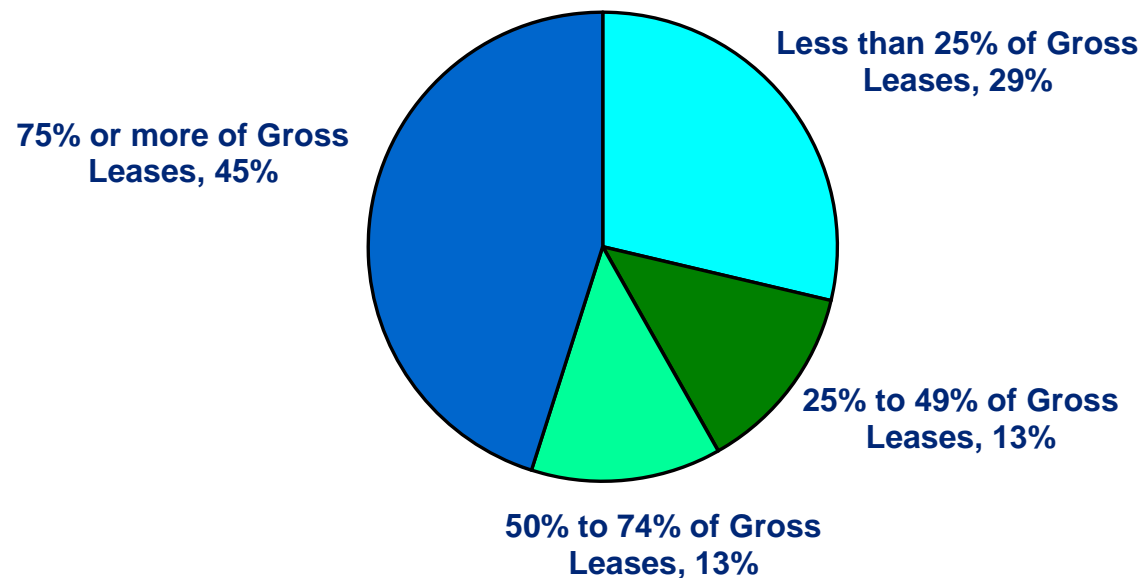
**Mean Percentage**  
Base = All Respondents



**Almost half of respondents said the operating expense component was *not* readily determinable in 75% or more of their full service/gross leases.**

**For what percentage of your company's Full Service/Gross leases do you think the operating expense (service) component is readily determinable?**

Base = Respondents with Full Service/Gross Leases

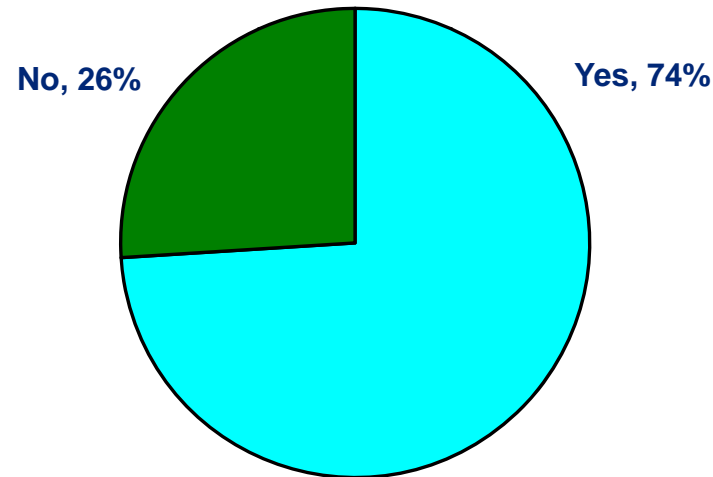


## Retail leases

**Roughly three quarters of lessees and service providers with retail leases reported having leases with percentage rent clauses.**

**Do some of your company's retail leases have percentage rent clauses based on store sales?**

Base = Lessees, Lessors, and Service Providers with Retail Leases

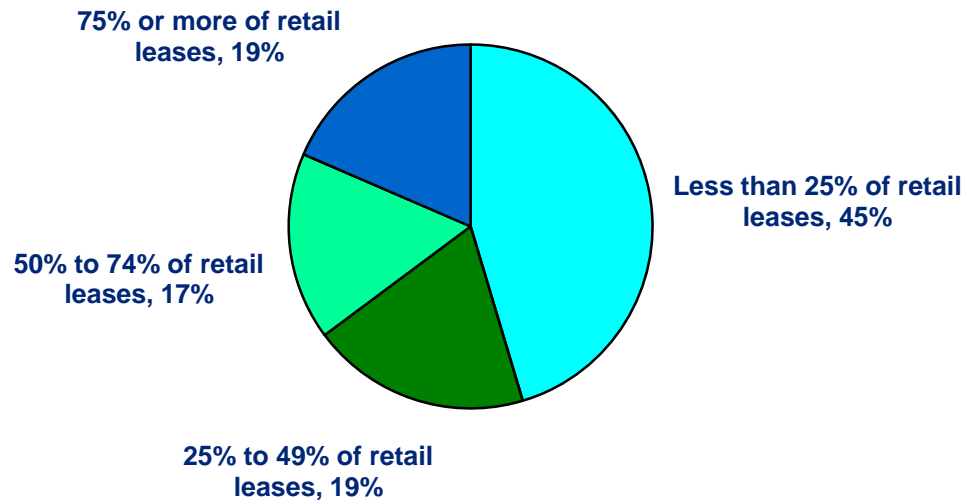


**Roughly two thirds of lessees and service providers said that less than half their retail leases had percentage rent clauses. There was a range of timetables for updating sales projections, from monthly to as needed.**

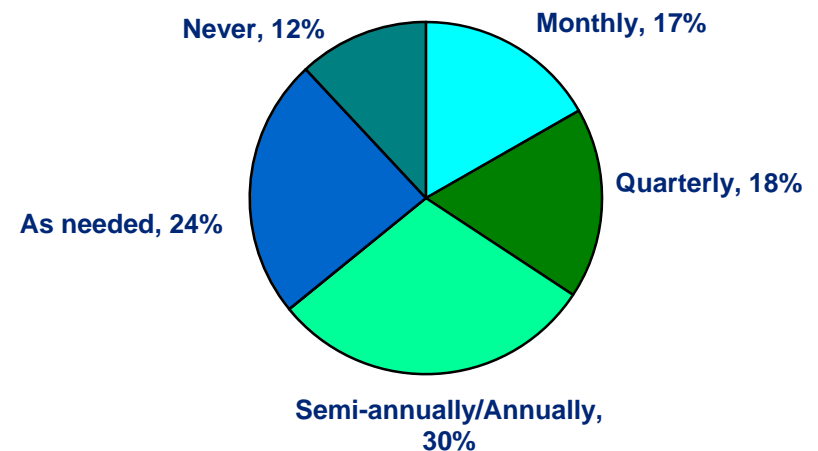
### **Percentage Rent Clauses**

Base- = Lessees, Lessors. and Service Providers with Retail Leases with  
Percentage Rent Clauses Based on Store Sales

**What percentage of your company's retail leases  
have percentage rent clauses  
based on store sales?**



**How frequently does your company typically  
update the sales projections in percentage rent  
clauses for retail leases?**

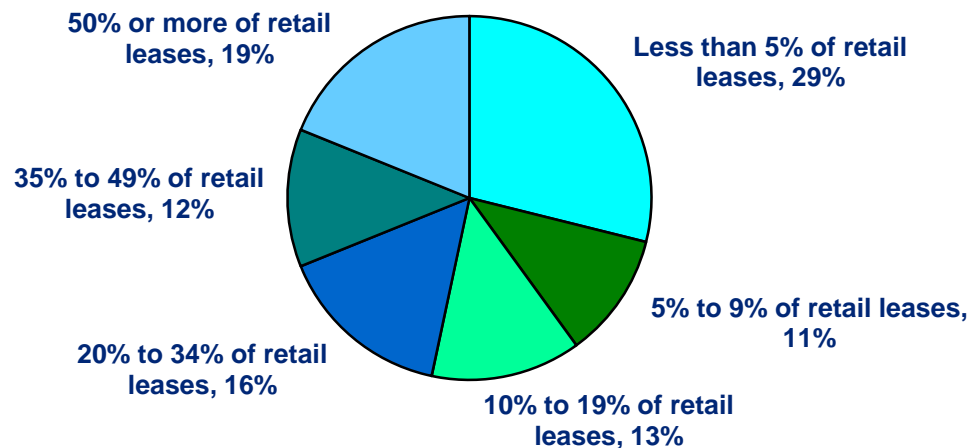


**Roughly 30% of respondents reported that 35% or more of their retail leases with percentage rent clauses currently trigger rent payments. Almost half said they only project sales for the current year.**

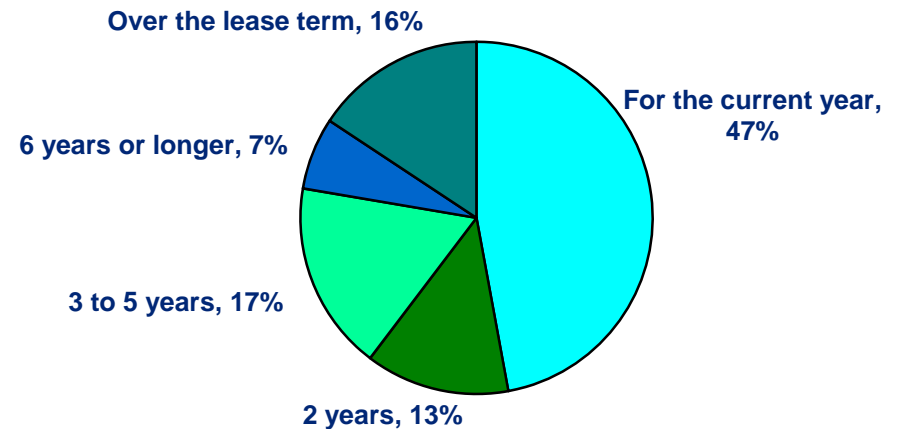
### **Percentage Rent Clauses**

Base- = Lessees, Lessors, and Service Providers with Retail Leases with Percentage Rent Clauses Based on Store Sales

**What percentage of your company's retail leases with percentage rent clauses currently trigger percentage rent payments?**



**When planning, how many years in the future does your company project sales for the percentage rent clauses for retail leases?**

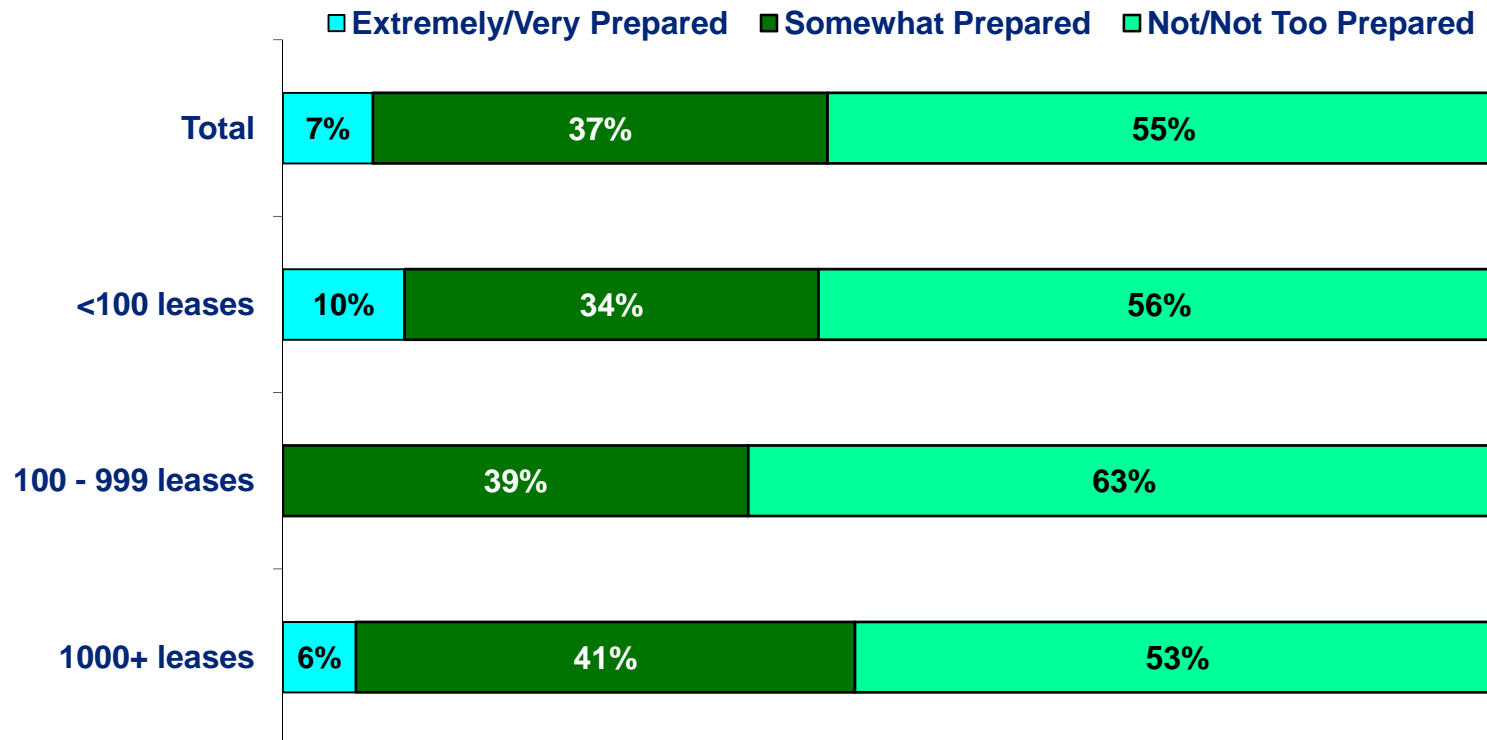


# Implementation

**Only 7% of respondents felt their companies were extremely or very prepared to comply with the new lease accounting standards. More than half said they were not at all or not too prepared to comply. Even among companies with large lease portfolios, few respondents believed they were very prepared.**

**How prepared is your company to comply with the new lease accounting standards?**

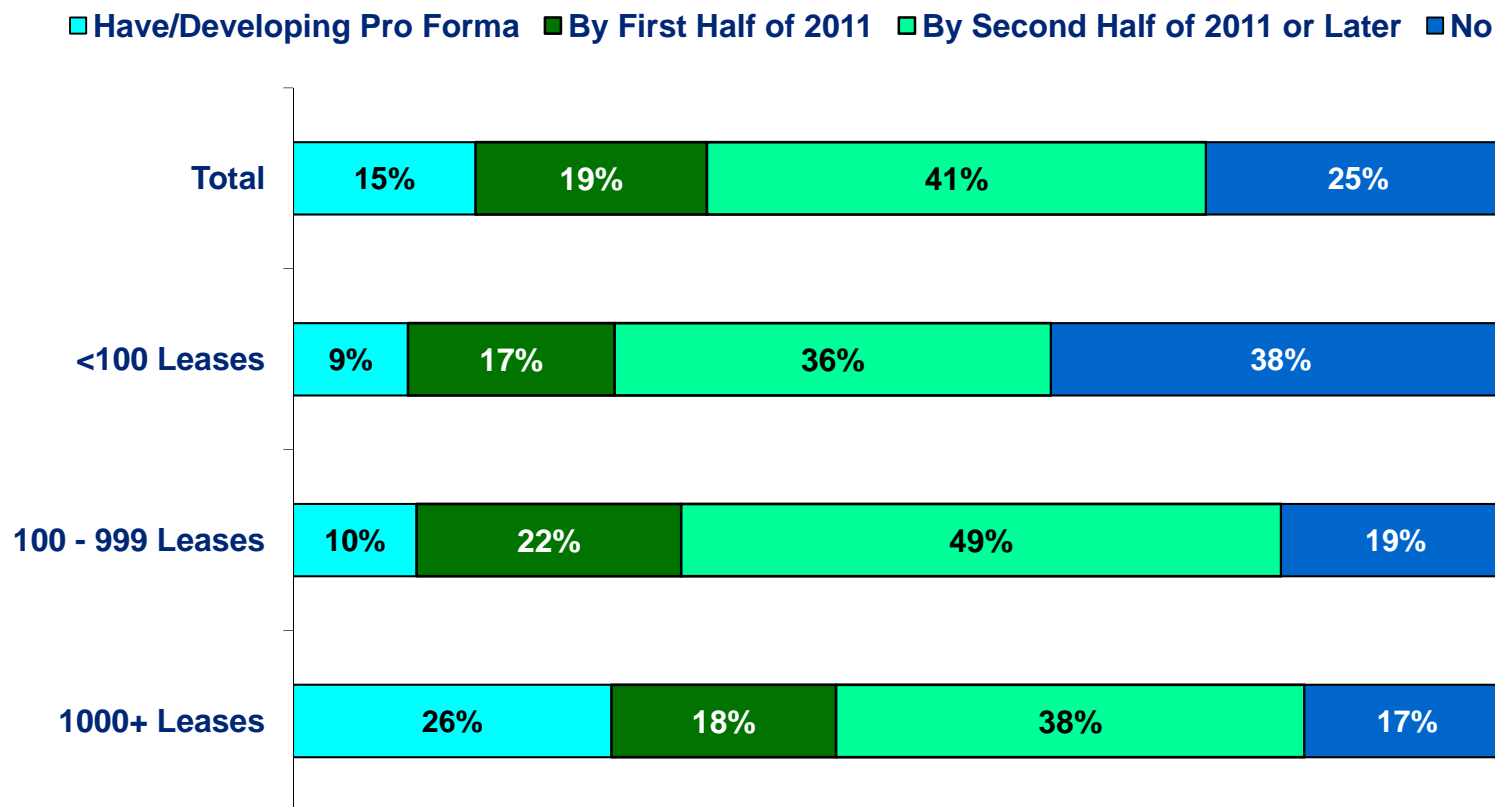
Base = All Respondents



**Only about one third of respondents have developed pro forma balance sheets and P&Ls to assess the new standards or plan to do so by the first half of 2011. Companies with 1,000 or more leases were much more likely to be planning to develop such pro formas in the near future.**

**Does your company plan to create pro forma balance sheets and P&L to study the impact of the new lease accounting rules before the effective date?**

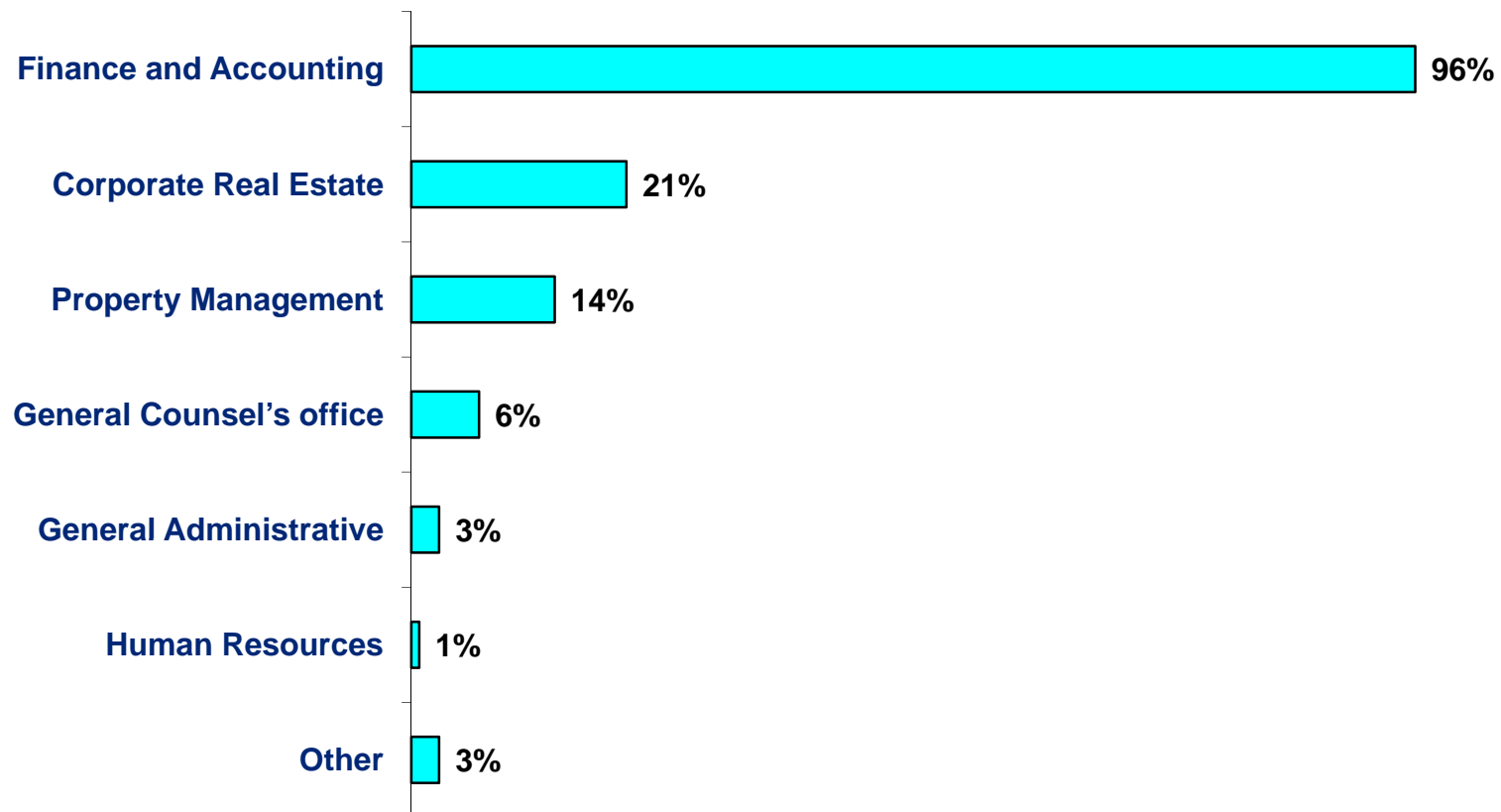
Base = All Respondents



**Almost all respondents said that Finance and Accounting would be responsible for implementation, while roughly one fifth also cited the Corporate Real Estate function.**

**What department(s) at your company will primarily be responsible for implementation of the new lease accounting standard?**

Base = All Respondents

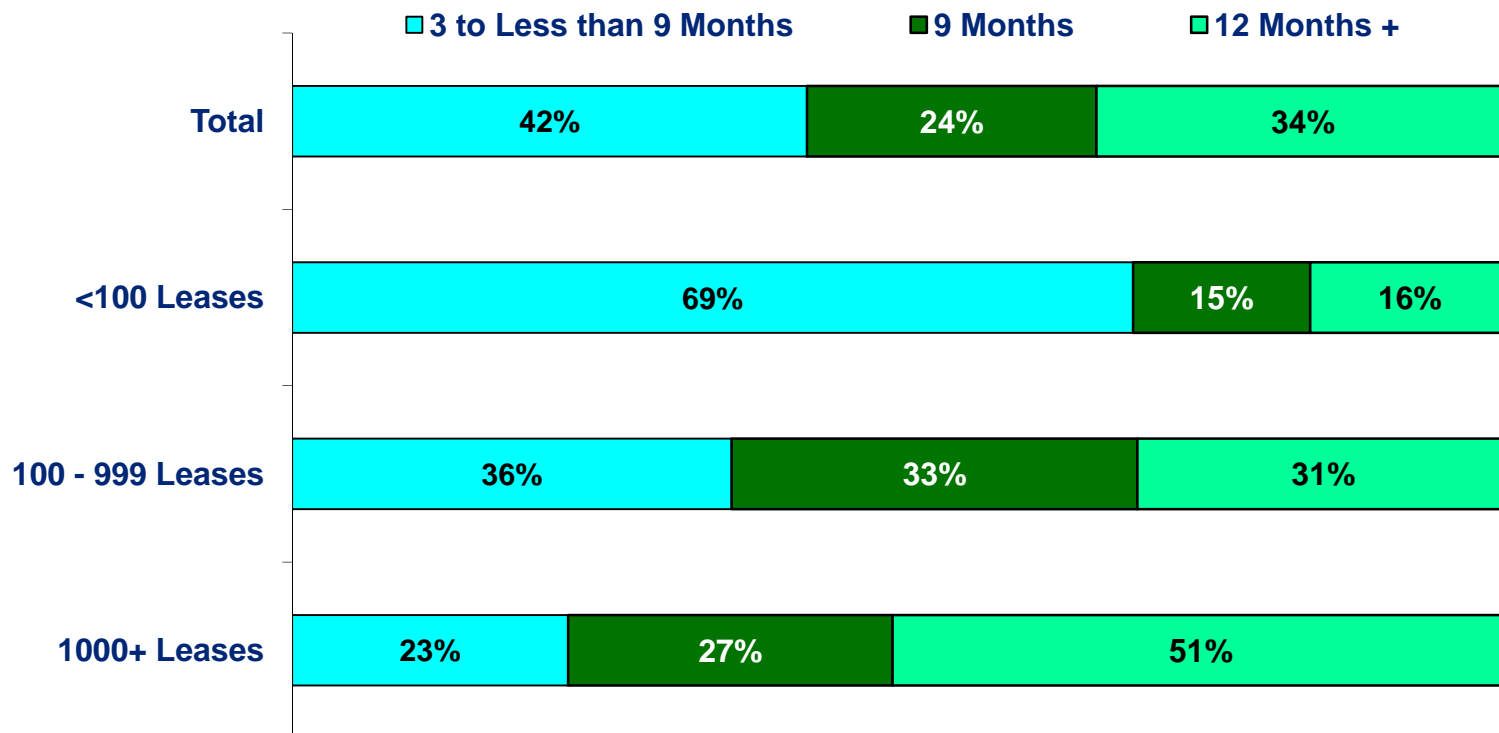


Note: Percentages do not total to 100% since respondents could make multiple selections.

**Respondents at companies with more leases anticipate implementation to take much longer than those at companies with a smaller real estate portfolio.**

**How long do you think it will take to  
fully implement the new lease accounting standard in your company?**

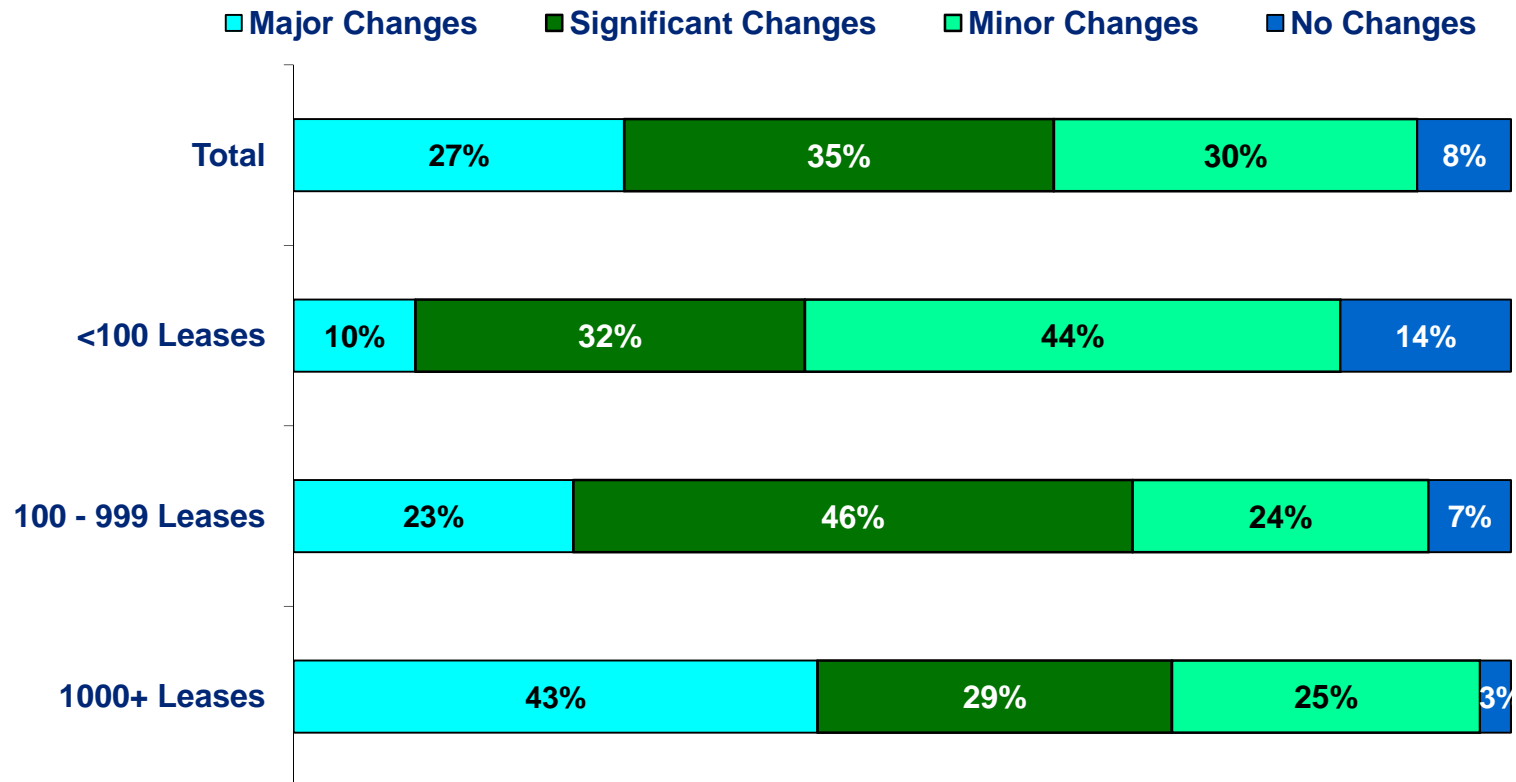
Base = All Respondents



**Roughly one quarter of respondents expect that major changes to their data procedures will be needed, while about one third anticipate significant changes. Among companies with 1,000 leases or more, more than 40% foresee major changes.**

**Will the new lease accounting standards cause your company to redesign its lease data gathering process and procedures?**

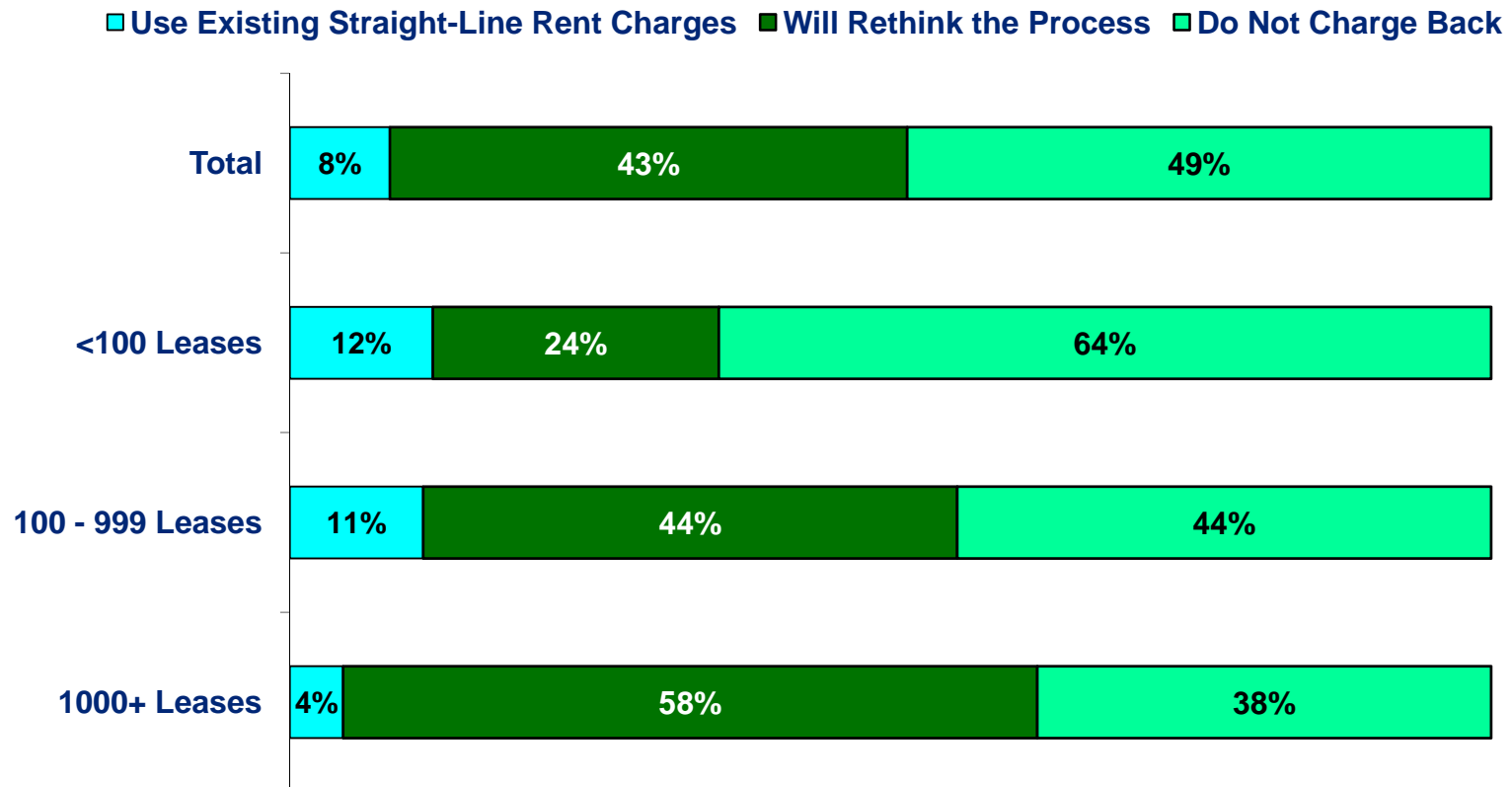
Base = All Respondents



**Roughly half the respondents said they do not charge back space costs. Among those that do, most expect to rethink the process, especially among companies with larger portfolios.**

**How will your company charge back space costs to various subsidiaries or departments for allocation purposes?**

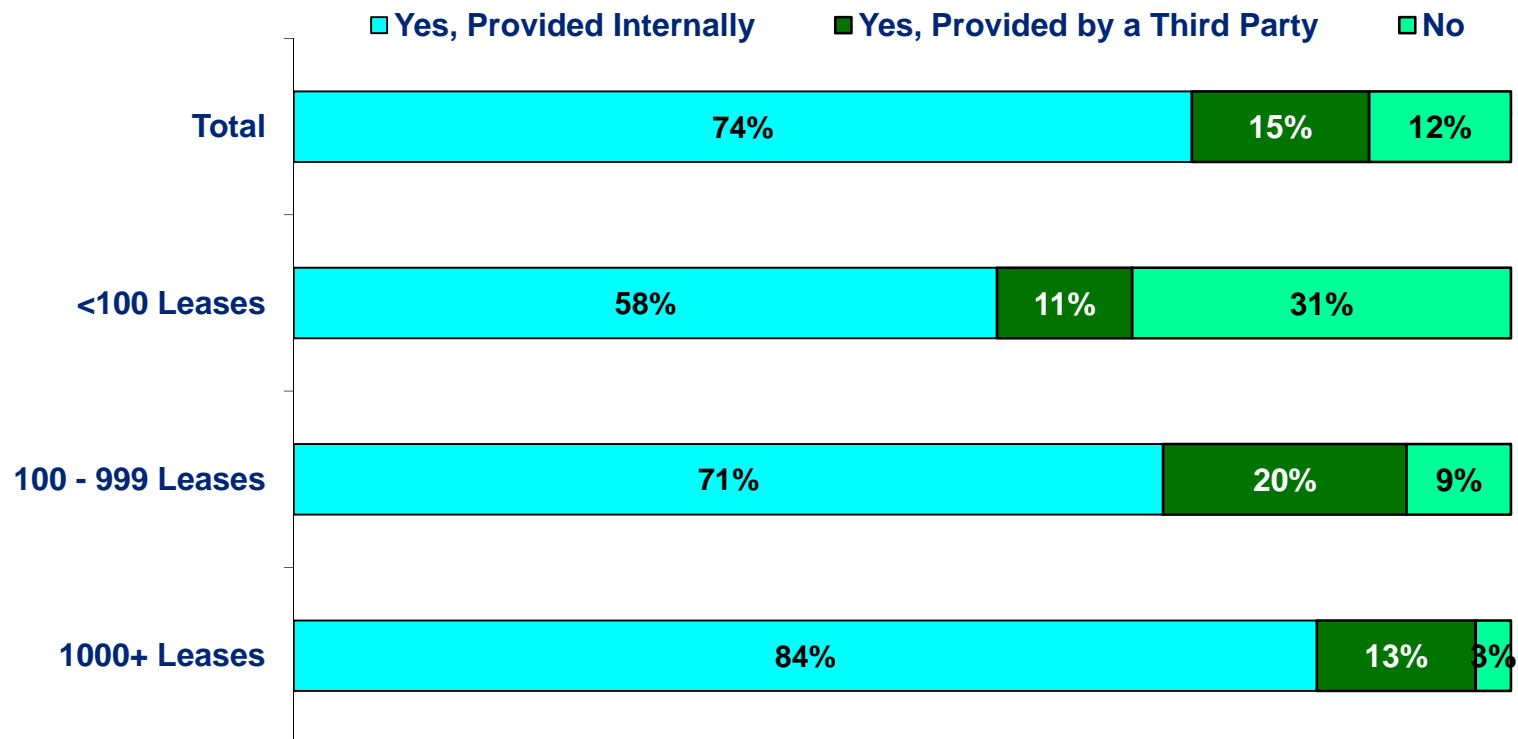
Base = Lessors and Service Providers



**Almost 90% of respondents—including 97% at companies with 1,000 or more leases—said they would provide training to employees on implementing the new standard.**

**Will your company provide training to its employees on how to implement and account for the new accounting standard?**

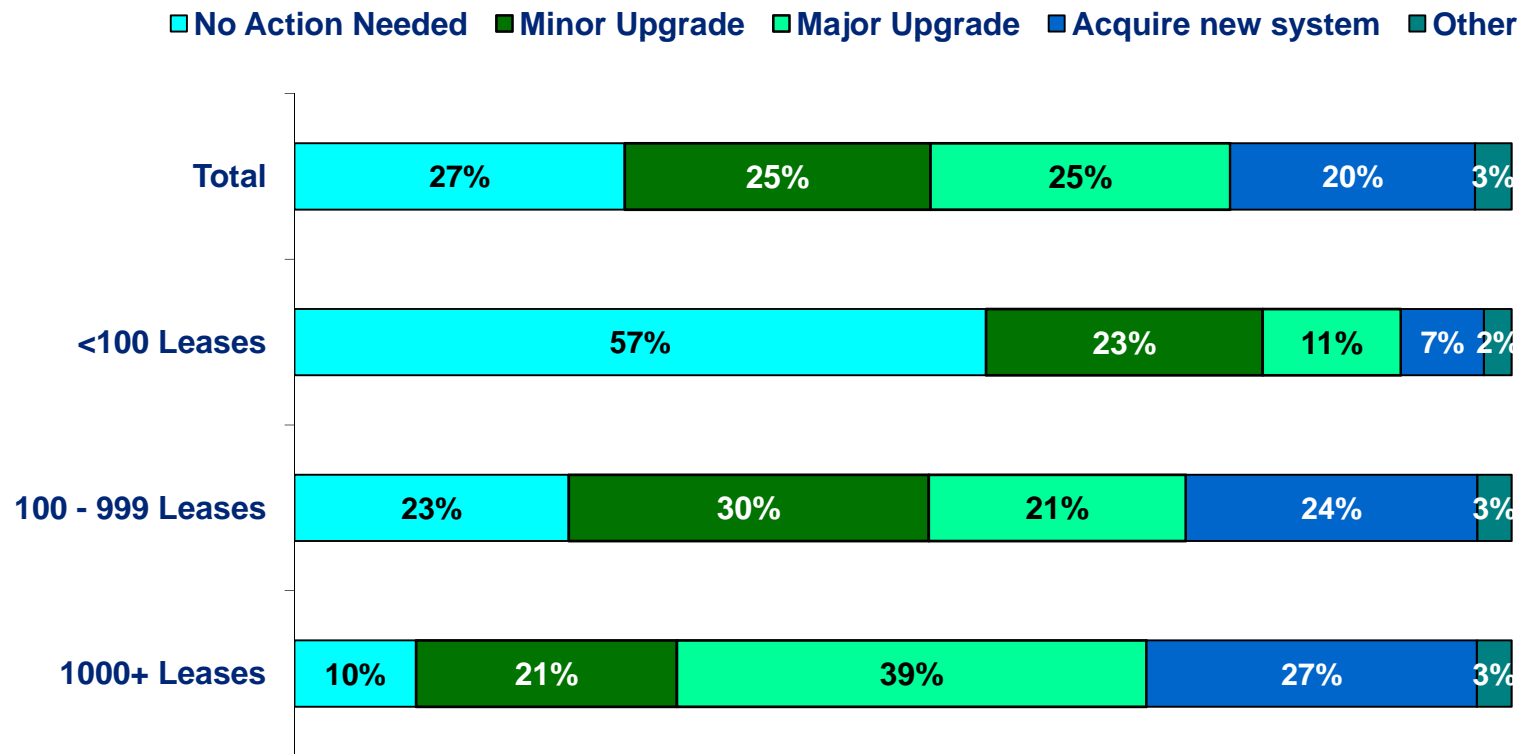
Base – All Respondents



**Companies with larger lease portfolios are much more likely to anticipate making upgrades or acquiring new technology systems to comply with the new lease accounting standards.**

**Which is the most likely action regarding  
your real estate information technology systems to  
comply with the new lease accounting standard?**

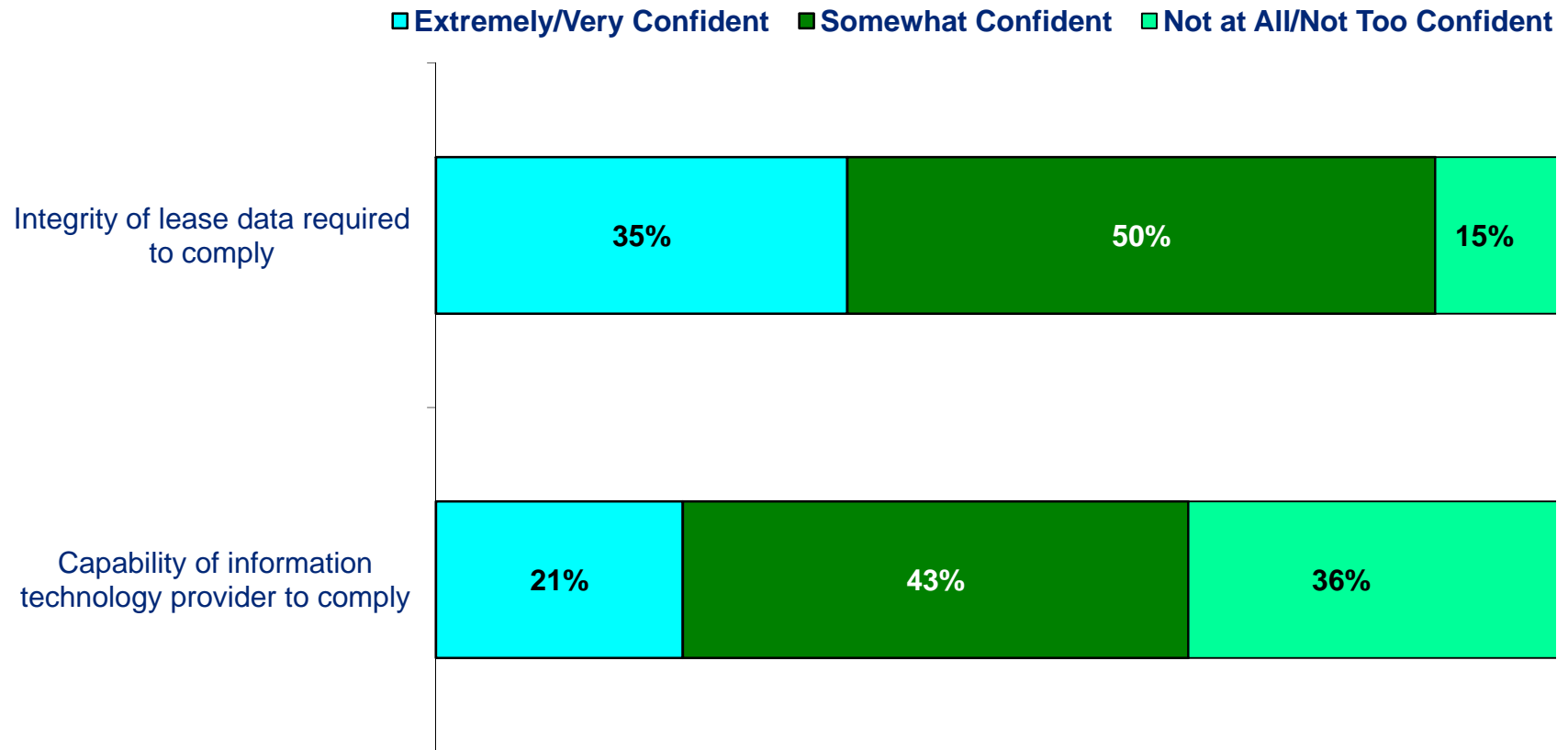
Base = All Respondents



**Only about one third of respondents were extremely or very confident in the integrity of their company's lease data required to comply and only one fifth in the capabilities of their IT provider.**

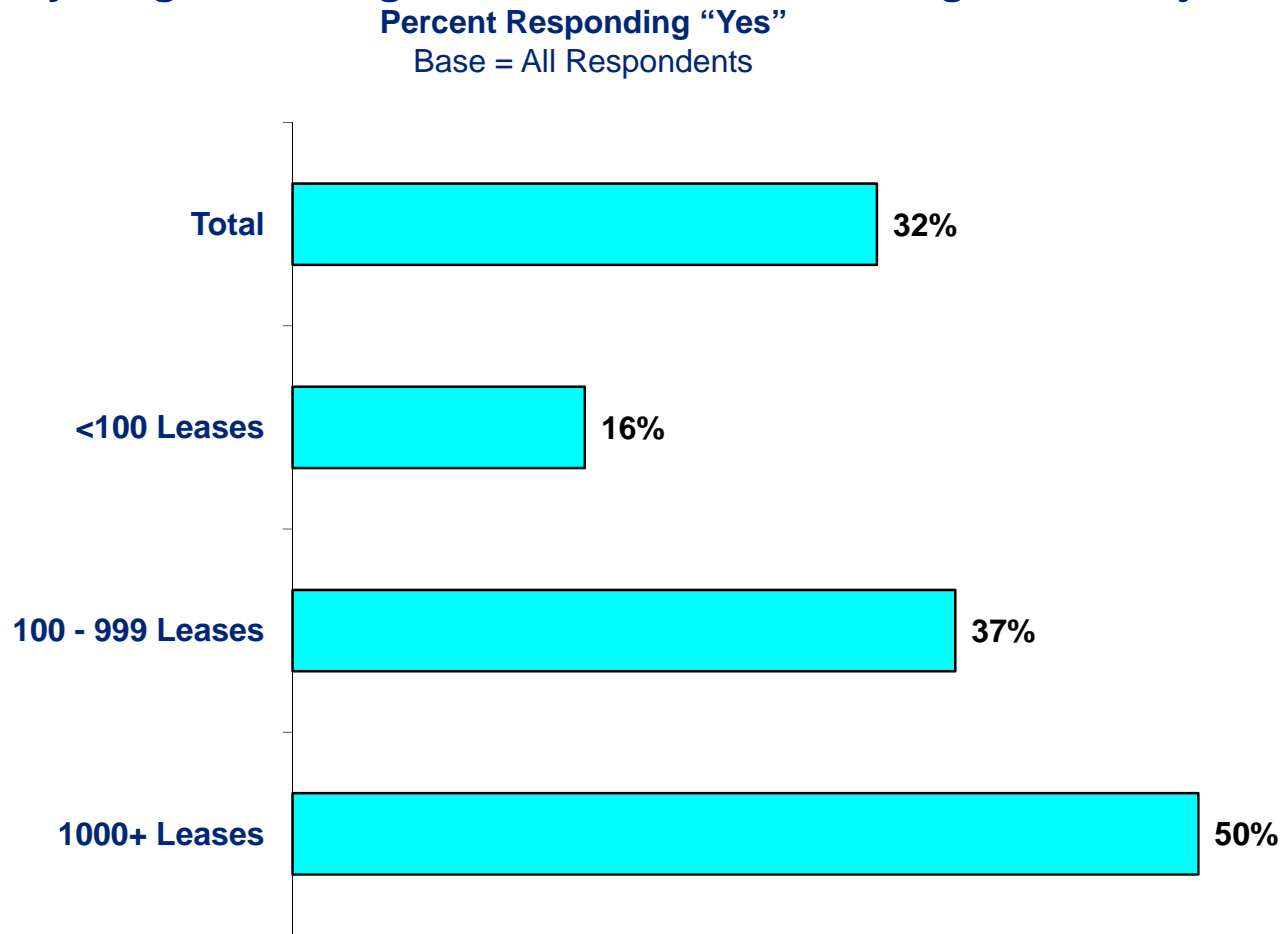
### **Level of Confidence in Integrity of Lease Data and in Technology Provider**

Base = All Respondents



**Only one third of respondents said their lease information systems could interface adequately with the general ledger; although, this was more common with companies with larger portfolios.**

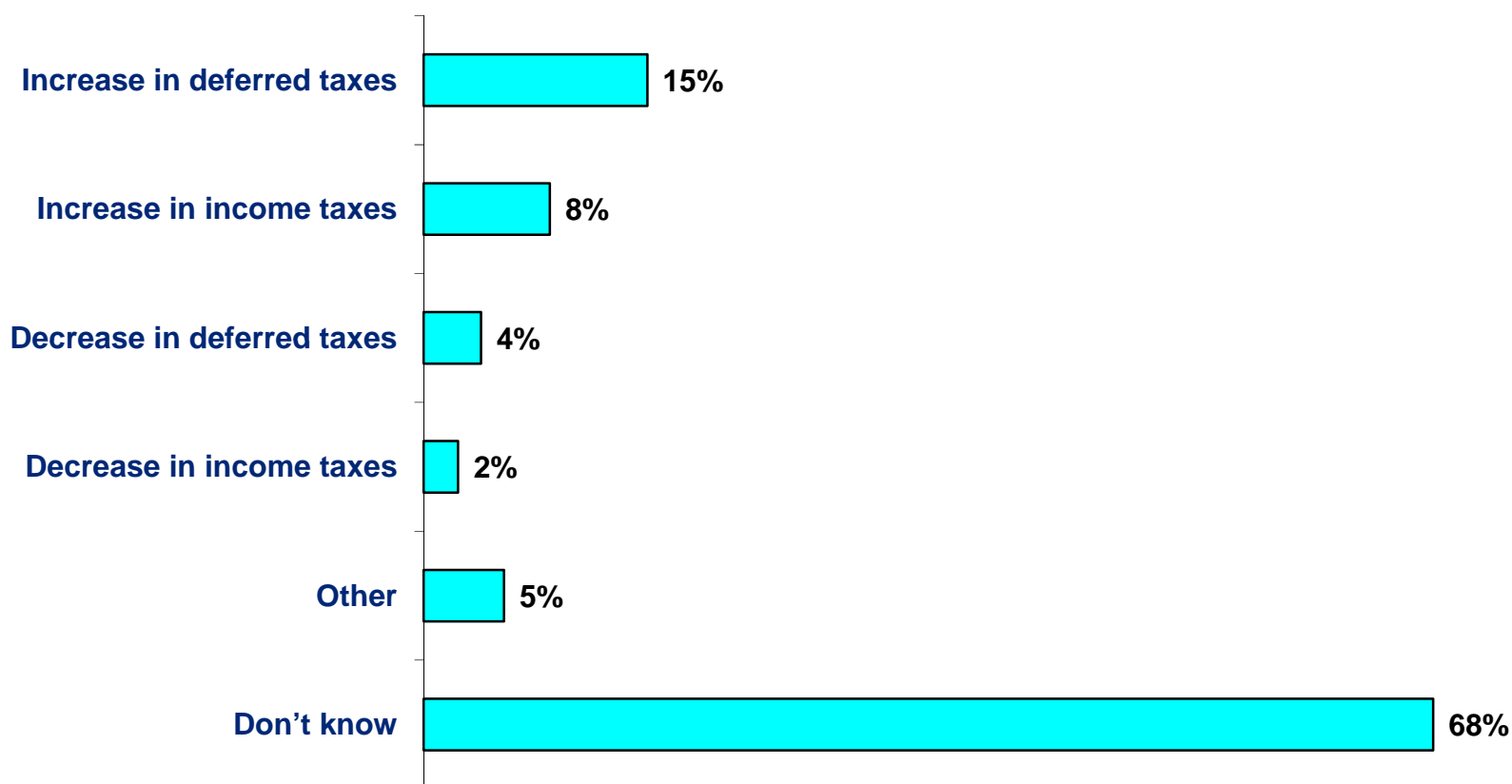
**Do your company's lease database information systems currently have the ability to interface with your general ledger and calculate accounting entries/adjustments?**



## Two thirds of respondents did not know what tax consequences would result from the new lease accounting standard.

Which of the following tax consequences do you expect from the new lease accounting standard?

Percent Responded "Yes"  
Base = Lessees and Lessors



Note: Percentages do not total to 100% since respondents could make multiple selections.

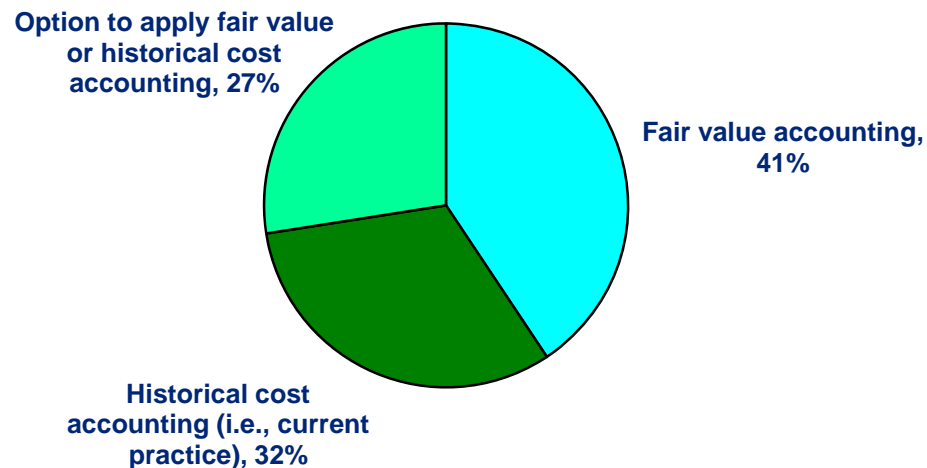
**Investment property**

**Lessors and service providers were split on the most appropriate approach to lease accounting for investment property. If FASB changes the standards, however, roughly three quarters would prefer fair value accounting with straight-line accounting for leases.**

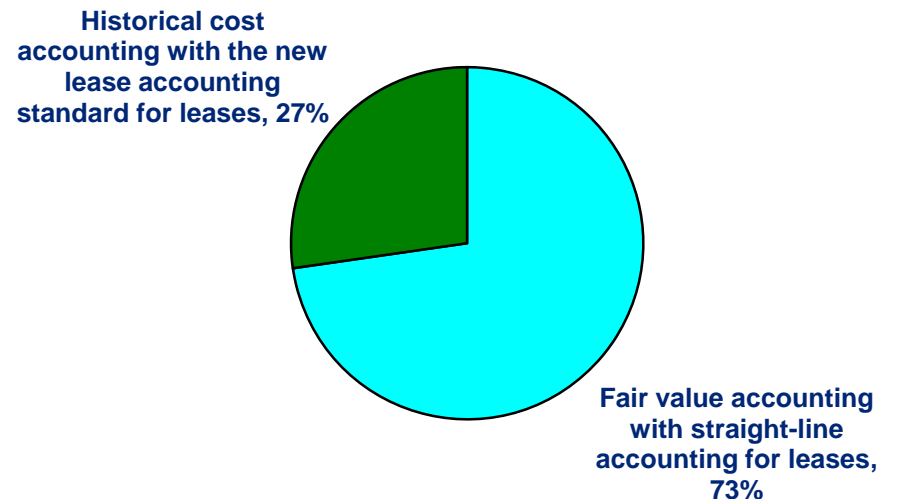
### **Lease Standards for Investment Property**

Base = Lessors and Service Providers

**Which do you believe would be the most appropriate approach to accounting for investment property?**



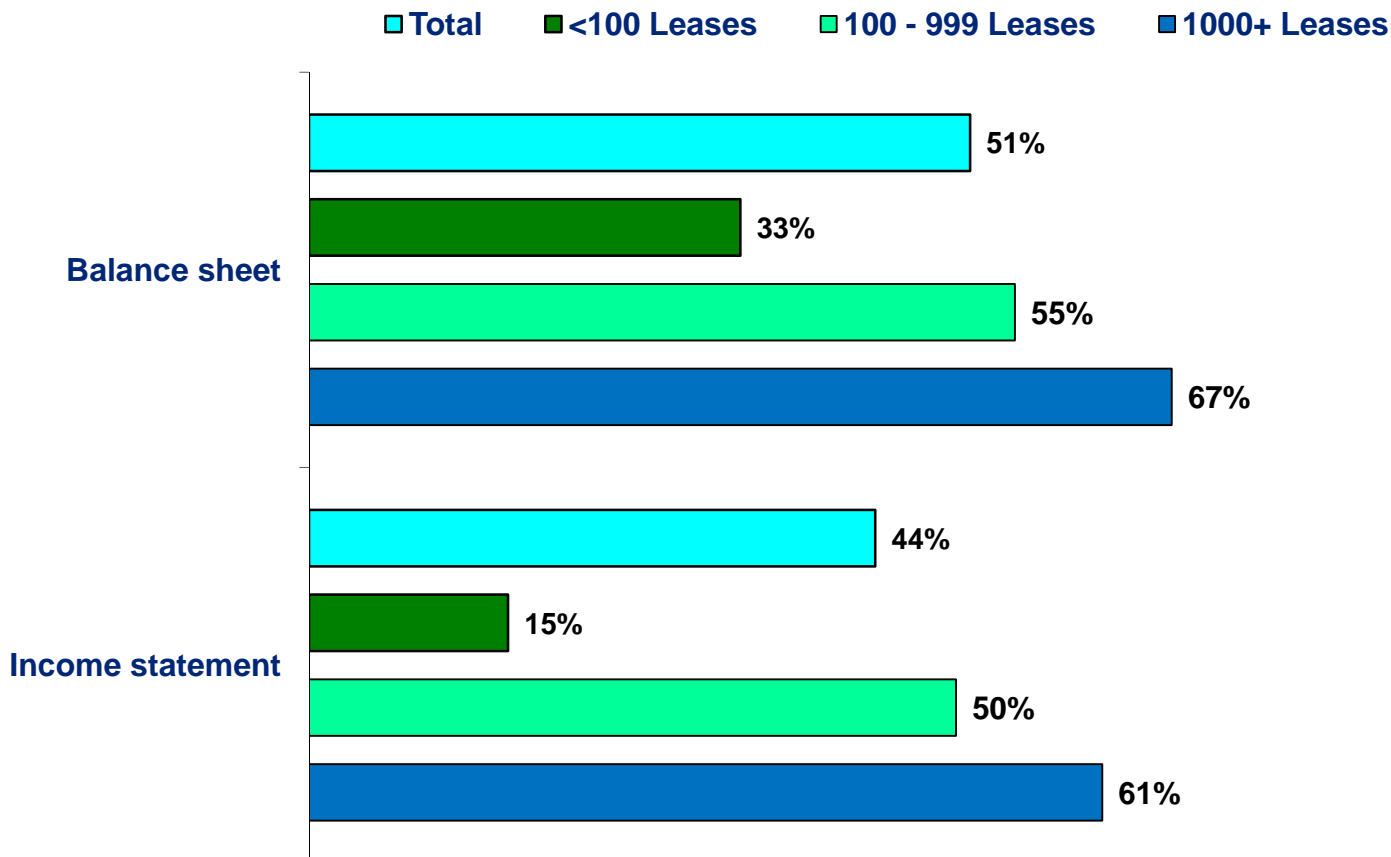
**If FASB decides to change the accounting standards for investment property, which would your company prefer?**



**Roughly half the respondents predicted a major or significant impact on their balance sheet and income statement if FASB required the new lease standard for investment property.**

**If required for investment property, how much of an impact do you expect the new standard would have on your company in the following areas?**

**Percent Rated Major/Significant Impact**  
Base = Lessors and Service Providers



# **Profiles of respondents**

# Respondent profile

Primary industry	
Real estate	33%
Retail	20%
Financial services	10%
Manufacturing	8%
Professional services	6%
Technology + Telecommunications + Media	6%
Life sciences and health care	3%
Energy and resources	1%
Public sector	1%
Other	12%
Top retail channels	
Base = retail respondents	
Apparel/fashion	39%
Specialty stores	32%
E-commerce	23%
Grocery	18%
Leisure goods	14%
Mass merchandising/supercenters	13%
Wholesale & distribution: Non-durable	13%
Home furnishings	11%
Electronics	11%
Wholesale & distribution: Durable	9%
Drug stores	9%
Convenience	9%

Real estate activities	
Base = real estate respondents	
Own commercial rental buildings	77%
Provide real estate services	46%
Developer	42%
Own residential rental buildings	26%
Own rental buildings of other types	16%
Real estate services	
Base = service providers	
Real estate consulting/advisory/appraisal	58%
Property manager	53%
Real estate brokerage	44%
Multiple real estate services	33%
Construction	26%
Capital provider (debt/equity)	21%
Accounting and tax services	14%
Architecture	7%
Engineering	7%
Other	2%

# Respondent profile

<b>Type of company</b> Base = Lessors		<b>Market capitalization</b> Base = lessees and service providers	
REIT	28%	Less than \$5 billion	43%
Other publicly-traded company	14%	\$5 billion to less than \$20 billion	27%
Private company	50%	\$20 billion to less than \$50 billion	13%
Real estate investment fund	9%	\$50 billion or more	17%
<b>Market capitalization</b> Base = lessors		<b>Location of leases</b> (mean % of total) Base = all respondents	
Less than \$1 billion	27%	United States	88%
\$1 billion to less than \$2 billion	12%	Other countries	12%
\$2 billion to less than \$5 billion	37%	<b>Type of properties</b> Base = all respondents	
\$5 billion or more	24%	Mostly single tenant space	29%
<b>Asset size of real estate investment fund</b> Base = real estate investment funds		Mostly multi-tenant space	34%
Less than \$1 billion	44%	A mixture of both	37%
\$1 billion to less than \$2 billion	22%	<b>Average square feet of leases in portfolio</b> Base = all respondents	
\$2 billion to less than \$5 billion	11%	Less than 2,500 sf	14%
\$5 billion or more	22%	2,500 - 5,000 sf	19%
<b>Publicly traded or private</b> Base = lessees and service providers		5,000 - 10,000 sf	19%
Publicly traded	56%	10,000 - 20,000 sf	18%
Private	44%	20,000 - 50,000 sf	12%
		50,000 - 100,000 sf	9%
		100,000+ sf	10%

	Number of leases in portfolio		
	<100 Leases	100 – 999 Leases	1000+ Leases
<b>Total Leases</b>	28%	36%	36%
<b>Industrial</b>	75%	20%	6%
<b>Office</b>	67%	21%	12%
<b>Retail</b>	47%	28%	26%
<b>Healthcare</b>	89%	8%	3%
<b>Other</b>	55%	23%	23%



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