

We all recognize the almost predictable cyclical nature of economic markets, and in times of unbridled prosperity such as those recently experienced, we tend to ignore the signals of impending correction. Today, it is more expensive to run a company. People, energy and technology, which change with regularity, are more expensive, and unforeseen competition can undermine sales at any moment. Simultaneously, the seemingly limitless stores of capital markets resources have all but vaporized, while cash flow and earnings pressures continue to mount. Whether your firm is a publicly traded company or privately held, it will be under

tremendous pressure to perform. Companies are required to achieve immediate and sustained earnings, in a tough, fiercely competitive and often uncertain environment, where change occurs with unsettling regularity. Companies committed not just to survive, but to prosper in a reduced-resource environment, will be characterized by the quality and timeliness of the many decisions they will be required to make. One such critical decision is assuring that corporate capital is positioned efficiently to provide the highest yield for core business activities, while minimizing its impact on the balance sheet and continuing to support operational demands.

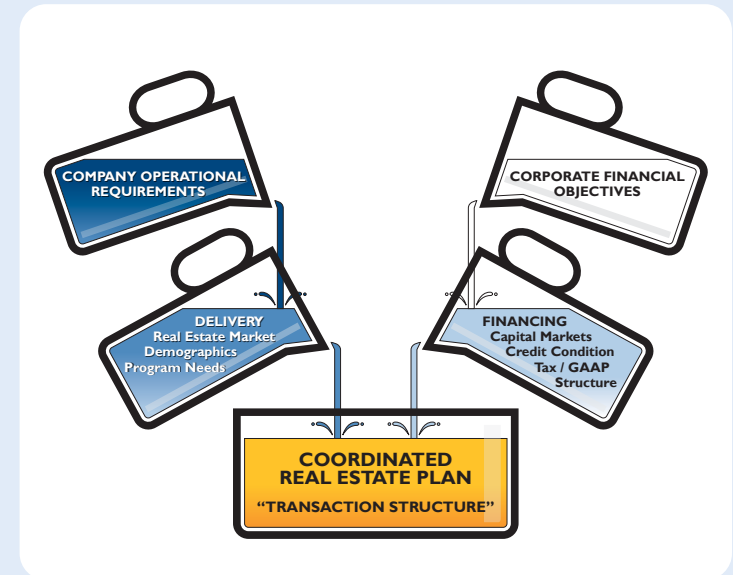
Real Estate: Historically an Overlooked Asset by the Corporate Community

Often times, a major use of capital are the corporate real estate holdings of a company. Surprisingly, these assets are often not properly structured to reflect the operational requirements and financial needs of the organization. In essence, the company becomes hostage to its real estate decisions. Evidence of this is plentiful:

- decisions related to leasing, ownership or other hybrid structures are often not seriously considered;
- design decisions are made without consideration for an exit strategy;
- vast amounts of profits are left in the hands of developers that could be used to reduce occupancy costs; and
- capital is often kept stranded in owned assets, when it is better suited for higher-yield core operations.

Why Shouldn't Real Estate be Overlooked?

To truly fulfill a company's overall operational and financial objectives, the structure and financing of corporate real estate holdings should support and reflect core business fundamentals. Regardless of a company's size or age, and even if corporate real estate plays a minor role in your company's capital structure, properly planned, structured and executed real estate finance alternatives will maximize efficiency, allow control of assets in such a manner to fulfill core business strategies, and minimize its overall costs of occupancy. As depicted on the right, when a company is able to obtain an alignment between the needs of the COO and the CFO, within the context of the local and capital markets, the result can be a successful coordinated strategic real estate plan.



The Underlying Purpose of Real Estate Structured Finance Alternatives

Real estate structured finance alternatives often benefit businesses of all sizes and age that need to reallocate or control corporate capital. Your company may be seeking to restructure assets to enhance performance measurements and obtain cash for core business opportunities, or it may be experiencing immediate real estate needs that demand financing alternatives with minimal effect on earnings, cash flow and the balance sheet. In any case, real estate holdings have to possess a balance between flexibility and stability. To achieve the appropriate balance, you must be equipped with guidelines on how you acquire and manage your real estate portfolio.

It is generally safe to say that the simple lease-versus-own analysis is not sufficient to address the many real estate challenges facing a company. In most all situations, the numerous factors that influence the decision-making process cause a more in-depth analysis to be warranted. Understanding such factors is a precursor to structuring any transaction and will intelligently influence the decisions behind the repositioning of your current portfolio or the structuring of future acquisitions.

Mature/Stabilized Company vs. Start-up/ High Growth Company

While the capital demands of a mature company versus a high growth company may differ, the methods used in real estate decisions are not considerably different.

Mature Companies

In general, a mature company will look for ways to monetize its real estate assets using structured finance alternatives for solutions that offer the greatest control and return on investment. More specifically, mature companies will use alternative financing structures to unlock access to corporate capital, reduce impact of assets on the corporate balance sheet, and enhance short and long-term earnings.

Start-up Companies

A start-up company is generally focused on supporting expansion without negatively impacting earnings and cash flow. The most advantageous financing solutions minimize initial corporate capital outlay, access lower cost of capital, and accommodate current operations, while allowing for scalability and a reduction in real estate acquisition cycle time. By aggressively managing the balance sheet, a company can improve financial performance and enhance its perception in the investment community.

Creating Value Through Corporate Real Estate Structured Finance

A wide range of financial structures are available which allow a company to more readily achieve its overall corporate objectives while maintaining the integrity of its real estate portfolio. Some of the more widely used structures today include:

- Structured Debt Financing
- Sale/Leaseback Financing
- Real Estate Based Lease (“REBL”) Financing
- Credit Tenant Lease (“CTL”) Financing
- Real Estate Investment Trust (“REIT”) and UPREIT Contributions
- Joint Venture Financing
- Tax Ownership Operating Lease (“TOOL”)
- 1031 and Other Tax-Deferral Strategies

There are complex book and tax issues imposed by GAAP, federal, state and local tax codes as well as other legal, regulatory and internal finance considerations which must be dealt with in analyzing and structuring the appropriate corporate real estate finance transaction. In our future submissions we will review each of these and how they may fit within a company’s business strategy.

When properly utilized and employed, corporate real estate executives can benefit from this array of structures to create potent strategies. At the end of the day, these approaches can be a key to effectively allocating capital and unlocking real estate asset value not realized previously. For managers and executives operating under the corporate microscope, these quality and timely decisions will assuredly stand-up to the scrutiny of executive management, corporate boards, and shareholders.

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