New Strategies Required for Lessor Leased Asset Portfolios

IASB and FASB Update Notice
21 July 2011

At the conclusion of the July 2011 Lease Accounting Standards meeting, it was announced the entire August 2010 Exposure Draft would be re-exposed for public review and comment with a potential publishing of the new exposure document sometime after the Q3 2011 IASB & FASB deliberation meetings.

click page link

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Exhibit A - Original Comparison of Old and New Rules — Page 16

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New Strategies Required for Lessor Leased Asset Portfolios

Will You Be Ready?

Forthcoming Changes to Accounting Procedures Will Affect
Leases of Real and Personal Property, Plant and Equipment

a white paper presented by

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Executive Summary.....from the view point of a Real Estate Lessor

Accounting of Investment Real Estate (IRE) leases is about to undergo massive changes that will dramatically alter how senior management view their real estate investments; and how the IRE professionals in the future will be managing their respective organizations.

On or about January 2012 a new IASB / FASB Lease Accounting Standard will go into effect, with the results affecting all corporations, large and small, public and private. With the resulting changes in accounting and reporting, leverage and capital ratios may be affected from the striking changes to the balance sheets.

These massive changes will affect not only leased commercial real property such as offices, retail facilities and industrial warehouses, but also leases of non-real or personal property. This includes such items as: furniture and fixtures, computers, copiers, automobiles, delivery trucks, manufacturing plant and equipment, as well as any material items that are leased by businesses. Paraphrasing a PriceWaterhouseCoopers statement:

> Beginning in 2012 the IASB / FASB will utilize a completely new model for lease accounting under which the lessor's rights and obligations under [ALL] leases, existing and new, would be added to the balance sheet. [1]

This will parallel similar requirements of Corporate Lessees. When implemented as the new "Lease Accounting Standard," it will eliminate all operating leases utilizing the existing off-balance sheet accounting rules. With the capitalization of all leases, the newly defined "Right-To-Receive" leased assets and liabilities will be brought onto the lessor's balance sheet.

> Currently corporate real estate (CRE) leasing accounts for roughly two-thirds of all leasing activity. This CRE leased property value is estimated by the U.S. Securities and Exchange Commission (SEC) as $1.0 to $1.3 trillion. Typically, real estate and related facilities

expenses account for 20% of an organization's income statement, and for roughly 60% of all corporations, it is the 2nd or 3rd highest expense. [2]

A lease from the lessor's view point will be defined as:

> A contract in which the right to use a specified asset is conveyed, for a period of time, in exchange for the right to receive consideration. Such a contract will apply to assets including property, plant and equipment. Additionally, the right to use an asset is conveyed if the contract conveys the right to use and to control the use of the underlying asset. [3]

There will be NO "grandfathering" of existing lease agreements. Any leases in place on the effective date will have to be re-accounted for the remaining lease term. The only exception will be those leases whose maximum possible lease term is less than12 months.

There are a few exceptions to this definition, including intangible assets, natural resources, biological assets, and contracts that represent the purchase or sale of the underlying assets. Leases for non-core assets or for long term leases of land are also not a part of the scope of exceptions.

Here is a quick example of the first year financial impact as a result of the new Lease Accounting Standard rule changes:

Let's assume a Real Estate Lessor has a 50,000 sf facility leased for 10 years to either a single third party corporate lessee or multiple corporate lessees at a flat "net" lease rate of $25 per sf per year equaling a total of $1.25 million per year in rental income. Lessor's yield or CAP rate on the property is 9%. Under current operating lease accounting rules the above lease or set of leases has a P & L rental income in the amount of $1.25 million per year.

Under the new Lease Accounting Standard rules, this same lease or set of leases would have a Net Present Value of $8,022,072 resulting in a first year "Right-To-Receive" lease income straight-line amortization of $802,207 and a "Right-To-Receive" imputed interest income of $721,987 for a total EBITDA income of $1,524,194.

> NOTE: See comments below for different methodologies that may be used.
>
> NOTE: See Exhibit A - Comparison of Existing and New Lease Accounting Standard Rules from the Lessor View Point

When compared to the current accounting rules, this results in a first year EBITDA income budget increase of almost 22%. If there were any lease renewal options in the lease agreements, and are "most likely" to be exercised, the first year's percentage increase will be much larger as a result of the implied longer lease terms. *Are your forthcoming 2012/2013 budgets prepared for a 10% to 25% increase in first year lease incomes?*

The breakdown of the normal rental income into two categories: 1) a "Right-To-Receive" lease income; and 2) a "Right-To-Receive" Imputed Interest Income parallels the new requirements of Corporate Lessees in their recalculations of the Net Present Value of the entire "most likely" lease rental period or term, including any option periods.

Many Corporate Lessees in recalculating their own individual lease payment calculations under the new Lease Accounting Standard will also most likely see their initial first year lease expense budgets increase by 10% to 25% or higher, depending on the length of the “mostly likely” lease terms.

See our related article from the view point of a Corporate Lessee, titled *“New Strategies Required for CRE Portfolios - Will You Be Ready?* July 2010. It can be found at the following link:

http://www.james-t-saint-ccim.com/publishedarticles.htm

As a result of the new Lease Accounting Standard being implemented, Real Estate Lessors will need to take a new fresh look at all the factors relating to their investment real estate leasing strategies. Economic conditions, operational issues, financing abilities, regulatory issues, tax apportioning considerations for international, federal and state facilities, governance and budgetary issues all play a factor in their third party corporate tenants determining whether to continue to lease or own their real estate facilities.

As the coming months and available time to gather the information slowly evaporates, anxiety, work overload and even outright panic will begin to develop. Suddenly realization will set in – “your” corporation just does not have the appropriate staff and talent to get the job done. Many Real Estate Lessors are not going to be able to comply by the anticipated January 2012 effective date. **Will you be ready? If not, now what are you going to do?**

A little history...

In March 2009, the International Accounting Standards Board, (IASB - www.iasb.org) based in London, England and the Financial Accounting Standards Board, (FASB - www.fasb.org) based in Norwalk, Connecticut began a process of soliciting comments on what was proposed as changes to how worldwide corporations accounted for all leased property. The stated project objective is:

> The objective is to create common lease accounting requirements to ensure that the assets and liabilities arising from lease contracts are recognized in the statement of financial position. [3]

Under current accounting rules, when a business enters into a lease agreement for any item: be it real estate, computers, land, copiers, vehicles, etc, management utilizes a rule called FAS 13 to first determine if the company essentially owns the item in question.

If the answer was “yes”, the business capitalized the lease to simulate ownership and a loan, with the appropriate asset and liability entries on the Balance Sheet.

If the answer was “no”, the business utilized “off-balance sheet” financing incorporating a simple accrual straight-line expense on the P & L Statements.

Then comes the IASB and FASB in March 2009 with their Discussion Paper proposing worldwide lease rule changes seeking comments from the public and industry on the principals of the proposal in order to assess impact and determine strategy. The comment period ended in July 2009, leading to deliberations between the principals of IASB and FASB which began October 2009 and ended July 2010. The result for far is the Exposure Draft recently published on 17 August 2010.

The next step in the project process will be for the public and industry to review the proposed details and submit comments on the details of the proposal which will establish policies and prepare financial results. This should take place in the fourth quarter 2010 ending on 15 December 2010.

The goal of IASB and FASB will be to distill down the accumulated comments, thereafter coming to a mutual agreement between the two organizations, resulting in a unified new Lease Accounting Standard. The target date for this new Lease Accounting Standard to be issued is presently estimated to be mid-2011.

> NOTE: If after reading the enclosed information, you would like to comment on or disagree with the concepts, you are **HIGHLY ENCOURAGED** to submit your comments to the IASB via th following link:
>
> http://www.ifrs.org/current+projects/iasb+projects/leases/ed10/cl/cl.htm
>
> Or to the FASB via the following email address:
>
> director @ fasb.org Subject: File Ref. No. 1850-100
>
> Either way, all comments will end up on the IASB web site and be reviewed by both IASB and FASB.

The actual effective date of the new Lease Accounting Standard is currently listed by the IASB and FASB as "to be determined". Knowledgeable industry personnel are indicating the **target effective date could be as early as January 2012, less than 15 months away**. Or, it could be delayed into 2013, or worst case into early 2014, depending on when the actual Lease Accounting Standard is published by the IASB and FASB.

Two Lessor Accounting Models .....

There are two different lease models for lessors to choose from depending on certain circumstances. A lessor may choose either: 1) the performance obligation approach; or 2) the derecognition approach.

Real Estate Lessors will most likely be obligated to use the performance obligation approach, but for educational purposes we are providing information about the derecognition approach also.

Under the derecognition approach, a lessor must identify that part of the investment property they no longer control and "derecognize" it from the balance sheet.

This will result in an immediate (day one) profit or loss. Under this approach the lessor must split his investment property between a lease receivable asset and the residual value of the property.

Under the performance obligation approach, the Real Estate Lessor retains the significant risks or benefits associated with the leased asset. Under this approach the lessor's investment asset is re-named on the balance sheet as one or more "net leased assets" depending on the number of leased properties owned consisting of:

Net Lease Asset - Property X
The leased real property's building portion;
(-) less the current and accumulated depreciation;

(+) plus the leased real property's land portion;

(+) plus the Right-To-Receive (R-T-R) lease asset;
(-) less the current and accumulated amortization;

(-) less the Right-To-Receive (R-T-R) lease liability (or performance obligation);
(+) plus the current and accumulated amortization;

Total Net Lease Asset - Property X - (sum of all the above)

However, there "may be", again we say, "may be" one other option.

> Under IFRS, certain real estate properties held to earn rentals or for capital appreciation (investment property) can be measured at either amortized cost or fair value. The IASB decided to exclude investment property measured at fair value from the scope of the proposed model for leases. That is, lessors would not apply the proposed model to leases of investment property. No special accounting for investment property exists under US GAAP. However, the FASB is working on a project to consider providing special accounting for such assets and has tentatively concluded to require fair value accounting for investment property.
>
> If the FASB requires fair value accounting for investment property, the accounting model for lessors of investment property will change significantly and the proposed guidance for lessor accounting would not be applied by lessors to the leases of these properties. Based on the definition of investment property under IFRS and the preliminary decisions made to date by the FASB in its project on investment properties, many entities, including those outside of the real estate industry, would be affected. Entities should closely monitor the progress on the project.[4]

So, ... **IF** ... FASB incorporates and requires the concept of investment property fair value under US GAAP, then none of this will apply to Real Estate Lessors.

BUT THE CONCEPT DOES NOT EXIST TODAY!

Practical Applications of New Rules .....

Given that this new Lease Accounting Standard applies to all lessor's leased items of a material nature, a couple of questions may occur to you.

What is a material item you ask? So far that definition seems to be somewhat discretionary, but to paraphrase one commentary:

> "One leased computer may be immaterial, but [1,000 or] 10,000 leased computers might be material depending on the size of the organization". [1]

Another question may be, how long is my remaining lease term?

> Under the new standards, the recognized lease term is defined as the longest possible lease term that is more likely than not to occur. In other words, the lease term is the longest term with a greater than 50% probability of occurring. Determining the lease term involves a two-step process:
>
> Step 1: Identify each possible lease term taking into account the effect of any options to extend or terminate the lease.
>
> Step 2: Estimate the probability of occurrence of each possible lease term. In order to do so, an entity must estimate the probability of each possible lease term taking into consideration:
>
> - Contractual factors
> - Non-contractual factors
> - Business factors
> - Other lessee-specific factors [4]

In addition, Real Estate Lessors will periodically need to reassess their lease holdings, and make adjustments as needed. Periodically could be quarterly, semi-annually or annually depending on the organization and the dynamics of their real estate portfolios.

Okay, how is this actually going to affect the accounting of my real estate investment?

Good question, below is a simplified example of how "present" Lease Accounting is handling the rental income as compared to what the "new" Lease Accounting Standard will handle the new R-T-R rental income using the performance obligation approach.

Our simplified assumptions and example are as follows:

Length of Lease Term:	4 years
Net Rent per Year:	$12,000 per year
CRE Property Value: (Bldg = $100,000 / Land = $33,300)	$133,300 - (no loan and does not include annual building depreciation)
Property Yield or IRR%:	9% – (imputed interest rate)
Balance Sheet Numbers:	As at the beginning of the year

NOTE: R-T-R equals Right-To-Receive

Financial Statements	**Present Operating Lease Accounting**				
	Year	1	2	3	4
Cash Flow Stmt	Rental Income	12,000	12,000	12,000	12,000
P & L Statement	Rental Income	12,000	12,000	12,000	12,000
P & L Statement	P & L Total	12,000	12,000	12,000	12,000
Balance Sheet	Assets				
	CRE Bldg	100,000	100,000	100,000	100,000
	CRE Land	33,300	33,300	33,300	33,300
Balance Sheet	Liability	0	0	0	0

New Capitalized Lease Accounting				
Year	1	2	3	4
Rental Income	12,000	12,000	12,000	12,000
R-T-R Rental Income	9,719	9,719	9,719	9,719
R-T-R Imputed Interest	3,499	2,734	1,900	991
P & L Total	13,218	12,453	11,619	10,710
% Increase	10.2%	3.8%	-3.2%	-10.8%
Assets				
Net Lease Asset				
CRE Bldg	100,000	100,000	100,000	100,000
CRE Land	33,300	33,300	33,300	33,300
R-T-R Lse Asset	38,876	30,375	21,109	11,009
R-T-R Lse Liability	-38,876	-29,157	-19,438	-9,719
Total Net Lse Asset	133,300	134,518	134,971	134,590
Liability	0	0	0	0

NOTE: Lease rental income will be higher in the earlier lease years under the new Lease Accounting Standard.

See Exhibit A - Comparison of Existing and New Lease Accounting Standard Rules from the Lessor View Point.

> As a result of the new Lease Accounting Standard being proposed, the percentage of increase in P & L [income] the first year could range from roughly 2.7% for a two year lease up to as high as 23.0% or higher for a 15 year lease. The exact percentage will depend on how long a lease term is remaining at the beginning of the effective date under the new Lease Accounting Standards.[2]

Referring to the definition of the "most likely" length of a lease term above, here are a few examples:

1. A business unit lessee in one of Lessor's properties has a normal five year lease term, **PLUS** has three 5-year lease options or first rights to renew incorporated into the lease document. Based on the lessor's corporate leasing strategy and past experiences with this type of lessee, such lessee is stable on a long term basis.

   For our purposes here, this business lessee's lease term would be accounted by Lessor as a 20 year lease term.

2. A business unit lessee in one of lessor's properties has a normal three year lease term, **WITH** two 1-year lease options or first rights to renew incorporated into the lease document. Based on the lessor's corporate leasing strategy and past experiences with this type of lessee, such lessee is stable on a mid-long term basis.

   For our purposes here, this business lessee's lease term would be accounted by Lessor as a five year lease term.

3. A business unit lessee in one of lessor's properties has a normal five year lease term, **PLUS** has one 5-year lease option or first right to renew, **AND** has an early termination clause with the ability to terminate their lease with one year's notice anytime after completing three years of the original lease term incorporated into the lease document. Based on the lessor's corporate leasing strategy and past experiences with this type of lessee, such lessee will probably out grow their existing space late in the 3rd year or early 4th year, and need to substantially expand their facility in another location.

   For our purposes here, this business lessee's lease term would be accounted by Lessor as a four year lease term.

4. A business unit lessee in one of lessor's properties has a normal five year lease term, **PLUS** has three 5-year lease options or first rights to renew incorporated into the lease document. Based on the lessor's corporate leasing strategy and past experiences with this type of lessee, such lessee will generally remain fixed for 10 years, then are relocated to newer facilities with an upgraded ambiance.

For our purposes here, this business lessee's lease term would be accounted by Lessor as a 10 year lease term.

Below is an example of a real estate investment building with three leases currently in effect with one vacancy, and how on the effective date the new Lease Accounting Standard information would be reflected.

Our simplified assumptions and example are as follows:

Real Estate Lessor Building Lease Portfolio:	Three (3) existing leases in place, with one (1) additional lease planned on filling a vacancy to be added in the near future
Length of Original Lease Terms:	3, 5 and 10 years
Length of Remaining Lease Terms:	1, 4 and 6 years respectfully
New Lease Added:	A new five year term lease added beginning of 2nd year after effective date
Net Rent per Year:	$12,000 per year (no annual rent increases shown)
Property Yield or IRR%:	9% – (imputed interest rate)
Renewal Assumptions:	Lessor's corporate leasing strategy is to timely renew each lease for the same length as original lease term
Lease Renewal Options:	None provided for in the lease documents

NOTE: Annual numbers below reflect the "total combination" of the Right-To-Receive Lease Income Amortization portion and the Right-To-Receive Imputed Interest portion.

Effective Date

			New Lease Accounting Standard Applications										
Lease Term	RLT	Present Acct'g	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
3 Yr Lse	1	12,000	12,000	12,859	12,025	11,116	12,859	12,025	11,116	12,859	12,025	11,116	12,859
			1 Yr Remain	3 Year Lease Renewal			3 Year Lease Renewal			3 Year Lease Renewal			3 Yr Lse first yr
5 Yr Lse	4	12,000	13,218	12,453	11,619	10,710	13,536	12,834	12,069	11,235	10,326	13,536	12,834
			4 Years Remaining Lease Term				5 year Lease Renewal					5 Year Renewal 2 Yrs Shown	
New 5 Yr Lse		12,000	NA	13,218	12,453	12,069	11,235	10,326	13,218	12,453	12,069	11,235	10,326
				New 5 Year Lease Term					5 Year Lease Renewal				
10 Yr Lse	6	12,000	13,817	13,172	12,471	11,706	10,872	9,962	14,632	14,176	13,679	13,137	12,546
			6 Years Remaining Lease Term						10 Year Lease Renewal only 5 years shown				
Yearly Totals		48,000	39,035	51,702	48,568	45,601	48,502	45,147	51,035	50,723	48,099	49,024	48,565
% Increase over Present Acct'g			8.4%	7.7%	1.2%	-5.0%	0.1%	-5.9%	6.3%	5.7%	0.2%	2.1%	1.2%

RLT = Remaining Lease Term

NOTE:

1st Yr yearly cash income total is only $36,000, with new lease addition in 2nd year, cash income increases to the $48,000 as shown; 1st Yr percentage based on $36,000

On the effective date, leases accounted for as if they were new leases over the remaining existing lease term.

The biggest increases in P & L rental income may not occur until leases are renewed.

For many Investment Real Estate portfolios, depending on the timing of renewals, the new Lease Accounting Standard will increase lease income, semi-permanently.

New Strategies to Consider .....

As a result of the new Lease Accounting Standard being implemented, Real Estate Lessors will need to take a new fresh look at all the factors relating to their corporate real estate leasing strategies. Economic conditions, operational issues, financing abilities, regulatory issues, tax apportioning considerations for international, federal and state facilities, governance and budgetary issues all play a factor in determining whether your current Corporate Lessees will continue to lease or own their real estate facilities.

Some may elect to not continue to lease in your building, or for that matter, anyone's building. Questions they will be asking themselves will be along then lines of:

> *If we have to have imputed interest, and we have a higher effective lease expenses in the early years of our "short" or "long" term lease, why should we not buy instead of lease?*

As a direct result of the upcoming lease accounting changes on the financial statements, the down stream effect of those changes could change how:

1. A Real Estate Lessor's budgets are generated;
2. Building vacancies are be considered;
3. Existing and new debt covenants are viewed by lenders;
4. Third party cost plus contracts are priced;
5. Income and associated taxes are apportioned for international, federal and state operations; and
6. Performance metrics are calculated which in turn could affect corporate bonuses at all levels.

For many Corporate Lessees, the driving decisions to lease a particular asset versus buying it are no longer going to be relevant. Will it be cheaper to own a real estate asset using the Corporate Lessee's potentially cheaper cost of funds? Or will the operational flexibility associated with short to long term leasing continue to be the desirable method used?

Both have strong debating points. When a Corporate Lessee's long term property needs are unclear, leasing appears to be the stronger position to be in. But when corporate stability is apparent, property ownership may prove to be a better solution.

How Real Estate Lessors respond in the future to their Corporate Lessees on these questions, will have a corresponding affect as to the resulting future vacancies of their buildings.

With our current economic disruption anticipated to continue for quite some time, opportunities for Corporate Lessees to negotiate existing lease rental rates to lower levels certainly exist. In addition, opportunities to purchase real estate that has been foreclosed on, or is in financial difficulties also exist in many metropolitan areas.

IRE Property and Asset Management Department personnel will be very active in the coming months re-analyzing their entire leased real estate portfolios.

Depending on the size of the organization, existing IRE Property and Asset Management Departments may be very hard pressed in the next few months to gather and verify all the lease information out of where ever they have been stored to determine:

1. What actually has been leased;
2. Confirming accuracy of the lease terms and forthcoming rental increases;
3. The structure of the associated CAM and other lease expenses - gross, modified gross or net leases;
4. What documented renewal or termination options may be available;
5. What are the anticipated physical space vacancies in the coming years;
6. What their IRE leasing strategy will be in creating, documenting and maintaining written policies about lease renewals, rental terms, lease structures, contingencies and other related items;
7. How to seamlessly interface the massive accumulated IRE information with the accounting department for further input into the financial statements; and
8. What automated technology applications are available to assist the entire process.

All of this will be necessary in order to properly evaluate what financial impact any one and collectively all the real estate leases will have when the new Lease Accounting Standard rule changes goes into effect.

> Any processes created or revised to account for leases must comply with provisions of the Sarbanes-Oxley Act (SOX). In order to become SOX compliant, processes must be documented and tested prior to implementation within the business.
>
> [Author's Note: Above paragraph only applies if your company is required to comply with SOX.]
>
> The lease accounting process can be broken down into five sub-processes:
>
> Sub-process #1: Collect and record lease information
>
> The goal of this sub-process is to create a complete inventory of leases and verify that all required lease information is accurately recorded for use by other sub-processes.
>
> Sub-process #2: Account for capital and impaired leases
>
> Present accounting for capital leases and impaired leases that are already on the balance sheet will need to be collated with the lease inventory from sub-process #1 to make sure that these leases are not double-counted.
>
> Sub-process #3: Make necessary lease assumptions
>
> Determining lease assumptions may require the involvement of different groups within the company beyond the real estate and finance groups. For example, [local third party property] managers may be integral to make sound assumptions about the likelihood of [current tenants] exercising [their] renewal rights for a given lease.

Sub-process #4: Financial projections and calculations

Based on the information and assumptions made available in the previous three sub-processes, the next step in the lease accounting process is to calculate the present value of each lease [income steam] and create the amortization schedule necessary to account for the lease liability.

Sub-process #5: Make accounting entries

The final step in the lease accounting process is to enter data into the financial accounting system. [Real Estate Lessors] will need to invest a significant amount of manpower and talent to design a lease accounting process. Companies will be challenged to design a process that will allow information to move accurately and efficiently from one sub-process to the next.

The effort required to design the process will be large. While some sub-processes might be outsourced, selecting an outsourced provider should be done carefully. Any outsourced provider selected will need internal processes that comply with Sarbanes-Oxley. [2]

Many CEO's and COO's have not always viewed their internal or third party real estate management departments as a material element contributing to the success of the IRE corporation. As a result, the previous role of a property management director or vice president may not have been as operationally effective as they potentially could have been, or has been viewed as a necessary, but largely an administrative function. This view point will change as a result of the accounting rule changes. Additionally, this is not just an accounting department problem to be solved.

IRE Property and Asset Management personnel along with other stakeholder representatives of the organization, including, but not limited to: CFO / Accounting Department, Legal and Regulatory Departments, COO / Operational divisions, Human Resources, IT / Information Systems will all need to gather together, possibly by forming a steering committee, to evaluate the impact of the new Lease Accounting Standard will have in affecting the real estate investing organization's future financial and operational status.

IRE Property and Asset Management personnel are the experts in how their respective corporate lessees utilize and maintain existing facilities, as well as making recommendations to add or reduce the overall exposure of the real estate investment portfolio. IRE Property and Asset Management personnel will need to become more active in their real estate investor's decision making process.

As a result of the new lease accounting rule changes, IRE senior management will need to target their real estate leasing strategies and operations for a major renovation and update in order to be able to comply with the new accounting requirements, as well as being more flexible in the current economic climate.

IRE Property and Asset Management departments will require new technology, additional personnel and tools to create new processes of managing the existing real estate information, as well as obtaining new volumes of information going forward. All the IRE information will need to be seamlessly integrated with the accounting functions.

With better information available from the IRE Property and Asset Management Departments, Real Estate Lessors will be better informed and able to make the correct corporate investment and leasing strategy decisions going forward.

Last point .....

DON"T WAIT, January 2012 is less than 15 months away. Many investment real estate operations, large and small, are going to be hard pressed to comply with the new Lease Accounting Standard, and many organizations are still in denial or think that this does not affect them.

And remember, this new Lease Accounting Standard affects not only leased real estate, but also affects ALL items leased by a organization, including manufacturing plant and equipment, furniture and fixtures, vehicles and delivery trucks, just to name a few. Anything that is of a material nature and is leased will be affected.

As indicated above, as the coming months and available time to gather the information slowly evaporates, anxiety, work overload and even outright panic will begin to develop. Suddenly realization will set in – "your" corporation just does not have the appropriate staff and talent to get the job done. Many corporations are not going to be able to comply by the anticipated January 2012 effective date.

Will you be ready? If not, now what are you going to do?

As a result of not being ready, the negative financial results of non-compliance will be ..... Well, I will leave that to your individual imaginations to determine your own cataclysmic scenario.

Author's Note: James T. Saint is a CCIM, (Certified Commercial Investment Member), one of a network of 9,000 professionals across North America and 30 international countries holding one of the most coveted and respected designations in the industry, and often referred to as the "Ph.D of commercial real estate". In addition, Mr Saint holds a MRICS designation and is a Chartered Facilities Management Surveyor, as conveyed by the London, England based Royal Institute of Chartered Surveyors (RICS).

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References

The following references have been used in the above article:

[1] – PriceWaterhouseCoopers (www.pwc.com) white paper, dtd May 2010
entitled - *"The overhaul of lease accounting: Catalyst for change in corporate real estate"*
[2] – Bob Cook, Real Estate Consultant, Cook & Associates webinars, dtd June 2010, held on behalf of Tririga, Inc (www.tririga.com) and associated white paper, dtd July 2010
both entitled - *"The New Lease Accounting and You"*
[3] – IASB / FASB Exposure Draft, dtd 17 August 2010
entitled - *"Leases"*
[4] – Ernst & Young financial update publication, dtd September 2010
entitled - *"Financial reporting development - Proposed accounting for leases"*

Encl 1 Exhibit A - Comparison of Existing and New Lease Accounting Standard Rules from the Lessor View Point