CORPORATE REAL ESTATE EXECUTIVES WILL NOT SIGNIFICANTLY ALTER LEASING STRATEGIES, BUT THERE ARE DATA CHALLENGES AHEAD IN LIGHT OF SWEEPING ACCOUNTING CHANGES

New survey from CBRE and PwC finds few executives anticipate reducing the average term of their leases and space leased, but many expect challenges around data collection and systems

June 22, 2016 –While many corporate real estate executives are not currently expecting to significantly change their companies' leasing strategies in light of the new lease accounting standard issued by the Financial Accounting Standards Board (FASB), initial assessments have found that they are anticipating challenges in managing lease data, according to a new survey from CBRE Group, Inc. and PwC US.

The new FASB standard requires virtually all leases to be recorded on a company's balance sheet by 2019 (2020 for privately-held companies). Based on CBRE and PwC's survey results, 56 percent of respondents stated they lease more than half of their real estate. In fact, almost a quarter of our respondents (23 percent) said they own no real estate at all and only four percent of respondents said they own all their real estate assets outright, implying that almost all companies will need to confront the new standard head-on. Despite this, only 10 percent of the more than 500 executives surveyed said they would reduce the average lease term of new leases, while only 2 percent said they would reduce the amount of space they lease.

Even though the new standard will most likely require information to be provided by various business units within a company, 43 percent said they do not expect any change in their process and/or level of approvals. At the same time, 26 percent anticipate the overall leasing process could take longer as a result of the new standard.

Some analysts anticipate the new standard could enhance the appeal of owning real estate since one of the chief benefits of leasing real estate – keeping the lease liability off of the balance sheet – will be eliminated. However, only 8 percent of executives surveyed said they expect to change their lease vs. own strategy.

While the new standard might appear to be an accounting issue at heart, 53 percent of respondents said that implementing accounting *policy* changes will not be difficult for them. Instead, the executives said that the key implementation challenges lie in managing lease information, with challenges involving systems and data issues. Prior to adoption, management will need to catalogue and thoroughly abstract existing leases to accurately identify and account for all of their leases accurately on the balance sheet.

Seventy-five percent of executives said systems implementation issues will be very or somewhat difficult and 73 percent said data collection will be very or somewhat difficult.

"Having the right leasing data is critical in companies preparing for future implementation considerations and staging for integration with longer term solutions," said Sheri Wyatt, Managing Director within PwC's Capital Markets & Accounting Advisory Services practice. "Organizations should take a measured, phased approach, starting with a current state assessment that focuses on lease inventory, accounting process, data and system capabilities, which will help yield the greatest value across their businesses."

Gathering and analyzing the information could take considerable time and effort depending on the number of leases, the variety and complexity of the lease portfolio and the availability of records. In many cases, original records may be difficult to find or may not be available. Other factors, like identifying leases embedded in contracts, will become more important as they will have to be recorded on balance sheet.

Additionally, 68 percent of respondents are still accounting for their leases of corporate real estate using spreadsheets with no formal corporate real estate asset management system. Given the various requirements of the new standard, those companies with a significant number of leases may find that spreadsheets will no longer meet the needs of the new standard.

For companies with significant lease portfolios, trying to adopt the new standard without system upgrades or integration could be a missed opportunity to automate labor-intensive activities and free up valuable resources. Companies that track leases on spreadsheets and manage leases in a decentralized manner may face significant challenges in gathering data. Even for the more sophisticated corporate real estate groups that have asset management systems, these systems are often freestanding and utilized more for lease administration purposes, with no integration with the company's accounting systems.

"The size and complexity of companies' lease portfolios will determine the challenge of transitioning to the new standard," said Jeff Beatty, Senior Managing Director of CBRE's Financial Consulting Group and leader of the company's Global Lease Accounting Task Force. "We believe that after companies formalize the process of gathering the relevant data, they will be surprised to find that they may have more leases than they originally thought. Again, the new standard applies to all leases, not just real estate leases. Prudent companies will plan to put time on their side by at least starting the transition process in 2016."

For the full survey results, key findings and methodology, click here.