



News

CONTACT:

Richard Kadzis, CoreNet Global
+1.404.589.3200
rkadzis@corenetglobal.org

Aaron Cohen, Imre Communications
+1 .202.547.0500
cell +1.301.633.6773
aaronc@imrecommunications.com

Walk the Walk: Corporate Real Estate Tenants and Landlords Should Cooperate on Flexible Lease Terms More Often

Major New CoreNet Global Study says they only Talk the Talk

PHILADELPHIA and ATLANTA – April 24, 2006 – Corporate real estate tenants and landlords should cooperate more regularly to adopt flexible lease terms as both parties to the transaction have a lot to gain from what's called real options analysis, according to the first major report from CoreNet Global's new Applied Research Center. The report, based on a survey of corporate real estate executives, was released at the CoreNet Global Summit in Philadelphia today.

The report concludes that, while 93 percent of survey respondents say they are willing to pay for flexibility, they don't have the real options analysis tools or the processes to explicitly value flexibility. Also, the report concludes that tenants perceive landlords as a barrier to obtaining flexibility. Despite that, 92 percent of respondents anticipated the level of flexibility required would increase by 2010.

Real options analysis is a major progression from a method called discounted cash flow (DCF) as a way to value flexibility in CRE. Real options treats as investments in flexibility based on changing market conditions while DCF treats every project as a now or never decision.

The report was based on a survey conducted in March 2006 of 48 industry experts identified by the Applied Research Center and makes a number of recommendations for tenants and landlords.

"The CRE industry gets high marks for the progress it's made toward use of real options analysis since CoreNet Global's report, "Corporate Real Estate 2010: Enabling Work in a Networked World," was released in 2004. But our research concludes that tenants and landlords still don't see eye to eye on flexible lease terms," says Eric Bowles, Director of Global Research at CoreNet Global's Applied Research Center.

The Applied Research Center report recommends tenants:

- Increase their knowledge about the value of flexibility in leasing

- Gather data on flexibility options in existing leases and research options where they do presently exist
- Establish processes to evaluate the currently needed level of flexibility
- Develop or acquire tools and expertise to assess the value of flexibility for new leases
- Make decisions and tradeoffs that increase the availability of flexibility at a reasonable cost

The Applied Research Center report recommends landlords:

- Structure, manage, and appropriately price flexibility and encourage flexibility options as a normal part of their business
- Educate brokers about economics, programs and tools related to flexibility
- Structure leases to reduce the cost of flexibility, while still providing the necessary benefits
- Provide flexibility in multi property or master lease agreements
- Seek appraisers and lenders that understand options pricing and how to value flexibility options in leases
- Ensure that information systems accurately gather and maintain vast information about flexible leases

“Flexibility in leasing is a lot like diet and exercise: they are great concepts, but better if you practice what you preach. That’s why our recommendations would be better turned into action.” Bowles adds.

The Applied Research Center surveyed experts with global responsibility for CRE and direct knowledge of real options. More than 85% of the survey respondents were from Fortune 500 firms or their global equivalents, 17% were from outside North America, and 6% have academic backgrounds with specialization in corporate real estate and options valuation.

CoreNet Global members manage US \$1.2 trillion in worldwide corporate assets consisting of owned and leased office, industrial and other space. With 7,500 members representing large corporations around the world, CoreNet Global (www.corenetglobal.org) operates in five global regions: Asia, Australia, Europe, Latin America and North America, including Canada.

###