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REPORT

2023 Commercial Real Estate & Leasing Trend Report

Shifting Real Estate Priorities in Today's Business Climate

Contents

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Executive Summary

Today, corporate real estate planning is more complicated than ever. Businesses across all industries are in cash-conservation mode, looking to cut costs and remain agile in response to the current economic climate.

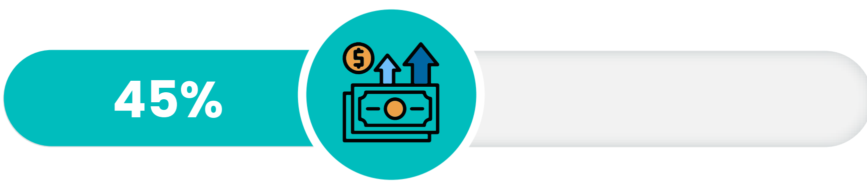
In fact, 88% of companies are now planning for physical space needs just one year (or less) in advance, which is a 151% increase from 2022*.[1]

Amidst this shift, businesses are simultaneously grappling with ongoing lease accounting and management challenges.

Nearly three-quarters (71%) of private companies are not entirely confident they know how much their leases cost their business.

(2022 Lease Market Analysis)

Why is this lack of visibility such an issue?



45% of senior Real Estate Executives share that their companies have overpaid rent or expenses due to inadequate lease controls.

Consider this: most businesses are acutely aware of what they're spending in terms of people-related costs (payroll, benefits, paid time off, etc.), as this is typically the largest expense line item in their budgets. They have ample systems and processes in place to gate and report on their personnel expense, as well as the return on investment.

Unfortunately, companies do not place the same rigor and controls around the management of their lease portfolios, which is surprising given leases are usually a business's second-largest expense. This knowledge gap is attributed to the fact that **83% of senior Real Estate Executives report that their companies are not prioritizing investing in the dedicated technology, people and processes required to successfully manage their lease-related expenses as much as they should be.**

This is problematic because without the right level of visibility into the terms of these dynamic agreements, lease portfolios become volatile, risky business assets – especially in the wake of the new lease accounting standards (ASC 842, GASB 87 and IFRS 16), which require companies to keep track of all changes to their leases to accurately report them on the balance sheet within audits.

In this report, industry experts from Visual Lease and other organizations such as Toshiba America Business Solutions, American Axle and Manufacturing and HomeServices of America will break down:

- The terms organizations are prioritizing in new leases
- How the post-pandemic economy and workplace are impacting corporate real estate decisions
- The repercussions of poor lease management
- How Environmental, Social and Governance (ESG) priorities are influencing corporate real estate decisions
- The benefits of optimizing a lease portfolio to identify the risks and opportunities within the investments

2023 Commercial Real Estate Analysis

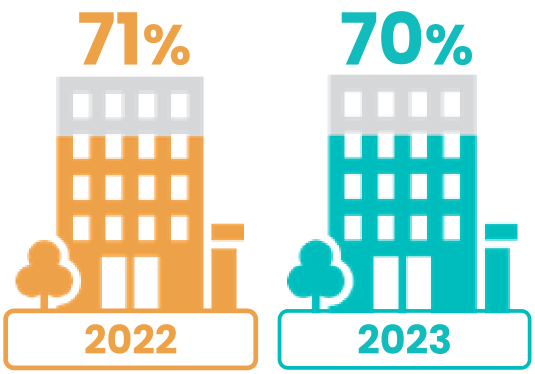
In 2023, businesses are facing a range of unique challenges and circumstances including a changing economy, the ripple effect of digital transformation, the evolution of the workplace and the looming pressures to adopt Environmental, Social and Governance (ESG) initiatives.

To address these competing priorities, companies are taking a closer look at their real estate needs and existing leases to identify potential gaps and opportunities to save time and money.

As a result, the following trends have emerged:

1 Companies are still leasing, but are prioritizing their ability to remain agile.

In the midst of economic uncertainty, and in a post-pandemic workplace, businesses want to be certain that their leases will allow them to make quick decisions and adjustments when needed.



Today, 70% of senior Real Estate Executives claim their companies are looking to add space as a part of their real estate strategy for 2023.

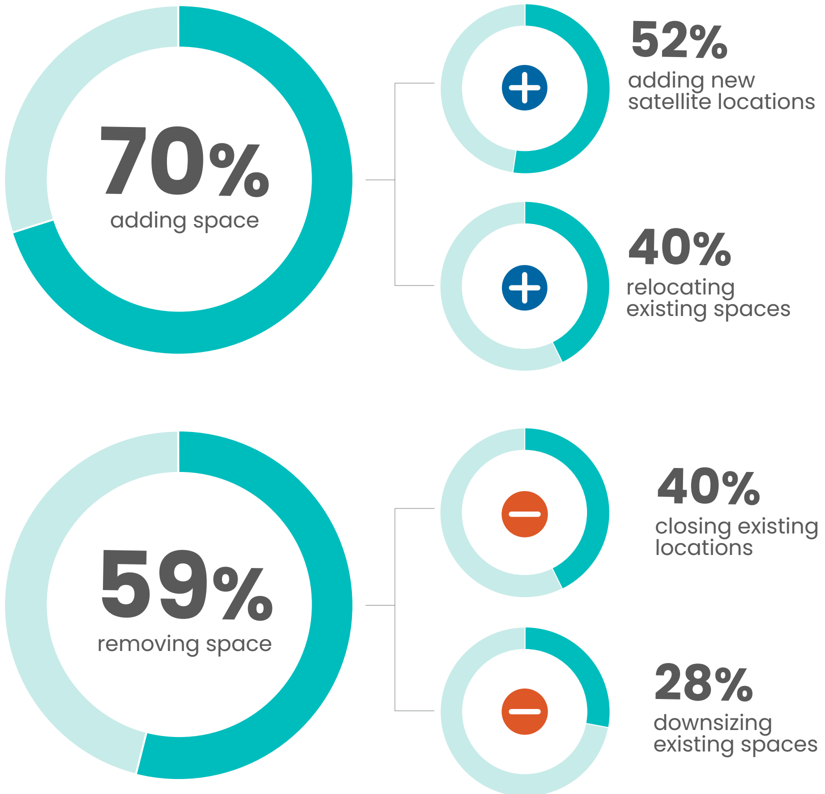
This is on par with findings from last year's survey, where **71% of senior Accounting and Finance professionals** reported that their companies were looking to add space as a part of their company's real estate strategy for 2022.

However, 88% of senior Real Estate Executives share that their companies are planning for their physical space needs just one year (or less) in advance, which is a 151% increase from the previous year*.

In looking a year out, organizations are protecting their ability to pivot should any unforeseen circumstances arise, a lesson learned from the COVID-19 pandemic.

While a large percentage of companies **(70%)** are looking to expand their real estate footprints by adding new satellite locations **(52%)** and relocating existing spaces **(40%)**, **59%** of those same companies are also looking for ways to remove space by closing **(40%)** and downsizing **(28%)** existing locations.

This behavior suggests that as organizations terminate old leases and enter into new agreements, they're seeking arrangements that support new ways of working.



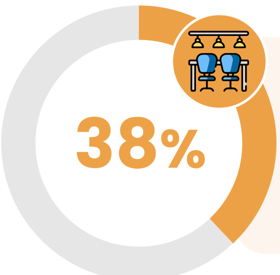
In addition to prioritizing flexibility, businesses are erring on the side of caution, with **71% of senior Real Estate Executives reporting that their companies are extremely likely to put off making needed upgrades or moving facilities in the coming year due to the state of the economy.**

Despite the fact that businesses may be hesitant to enter into new real estate agreements, **99% of senior Real Estate Executives say that their companies are likely to increase their equipment leases to maintain operations,** which might be driven by the equipment needs of organizations with distributed workforces.

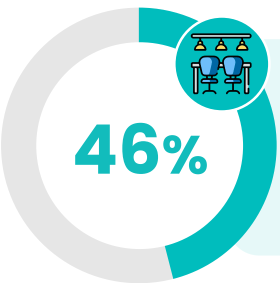
This shift highlights just how much the quintessential workspace has changed since the pandemic, and as a result, how companies are recognizing leasing as a way to stay flexible and evolve their businesses.

2 Leasing plans showcase the priorities of a new workforce.

This shift to satellite locations is indicative of a larger trend in which companies have reimagined the workplace. Hybrid work arrangements, fully remote hires and shared workspaces are here to stay as professionals across all industries value flexibility just as much as the businesses they work for do.



In fact, last year, **38% of senior Accounting and Finance professionals** reported that shared desks/offices booked as needed created the best office working environment for their companies.



This year, **46% of senior Real Estate Executives** report that shared desks/offices booked as needed created the best office working environment for their companies.

Additionally, senior Real Estate Executives identify the ability to sublease, communal building amenities and flexible lease termination as top factors to negotiate into future leases to support today's economic climate – all of which enable organizations to cater to the needs of their workforce, as well as emerging business priorities.

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3 Mismanaged leases are costing businesses big time.

Historically, companies have operated under the belief that once a lease was signed by all parties, the process was complete. This has resulted in most lease portfolios going largely overlooked and undermanaged.

Nearly three-quarters (71%) of private companies are not entirely confident they know how much their leases cost their business.

In fact, **45% of senior Real Estate Executives** share that their companies have overpaid rent or expenses due to inadequate lease controls.

This knowledge gap is attributed to the fact that 83% of senior Real Estate Executives report that their companies are not investing in the dedicated technology, people and processes required to successfully manage their lease-related expenses. This is problematic because without the right level of visibility into the terms of these agreements, companies will inevitably overspend.

4 ESG is not just a buzzword – it's already impacting real estate decisions.

In addition to anticipating the ongoing impacts of the current economy, businesses are contemplating their Environmental, Social and Governance (ESG) programs – not only the initiatives they have or plan to put into place, but also, how they'll report on their efforts.

ESG adoption is being driven by its increasingly critical role in the perception of internal and external stakeholders.

According to Marsh & McLennan, organizations with the highest employee satisfaction had ESG scores 14% higher than the global average, likely due to their strong environmental performance.

And S&P Global found that 53% of revenues of the 500 largest US companies and 49% of revenues of the 1,200 largest global companies come from business activities that support sustainable development goals.

When executed correctly, a company's ESG program can have strong societal and financial health impacts.

Thus, ESG priorities are having large implications on how companies evaluate and enter new lease agreements. However, these Executives are facing challenges in being successful as they are not thoroughly integrated into the ESG reporting process.

99% of senior Real Estate Executives believe it is important for their company's future leases to reduce its carbon footprint.

55% of senior Real Estate Executives have little to no involvement in ESG reporting at their company.

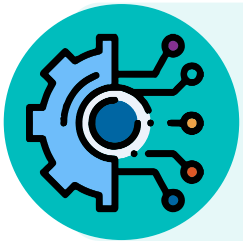
This could be a big issue as Real Estate teams are privy to all the details found within an organization's lease portfolio. If this data isn't complete and accurate, it will not only skew financial reporting and potentially result in fees and fines, but also, prevent the ability for organizations to make informed decisions on this front, as well as impede investors' ability to evaluate an organization's ESG data.

VISUAL LEASE

How Lease Controls Can Empower You to Optimize Your Lease Portfolio

For Real Estate teams to be able to effectively negotiate leases that accommodate and anticipate their company's needs, they need full visibility into the details of their existing leases. By understanding the gaps and opportunities within, they'll make better informed decisions about what is required of future leases.

However, the ability to optimize a company's lease portfolio hinges on the strength of its leases controls ecosystem, which encompasses the policies, procedures, standards and processes that management has established within the organization. For many, there's substantial room for improvement in this regard and the path toward implementing strong lease controls starts with technology that can effectively enforce your organization's policies.



83% of senior Real Estate Executives believe their company is not prioritizing investments for dedicated technology, people and processes needed to successfully manage their lease-related expenses.

Strong lease management isn't just a crucial part of the puzzle when it comes to entering into new leases.

100%

of senior Real Estate Executives believe it is impossible to sustain lease accounting compliance (e.g., ASC 842, IFRS 16, GASB 87) without proper lease administration practices **in place.**

This mutual need for the Real Estate teams and Finance teams presents a unique opportunity for both parties to further strengthen their working relationship as there's room for improvement.

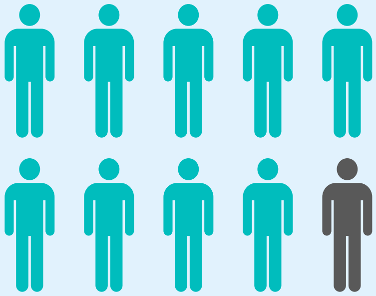
68%

Senior Real Estate Executives do not believe they are currently very collaborative with their company's Finance teams.

Greater collaboration can be achieved when a company aligns its lease controls with its internal systems. This will ensure the right level of permission and access are available to the proper stakeholders throughout the lease management and reporting lifecycles, greatly reducing the risk of these organizations having inaccurate or incomplete lease data.

Not only will having clean lease data facilitate accurate reporting, but it will also empower Finance and Real Estate professionals to integrate their lease data with other FinTech systems to draw valuable insights from their systems.

This focus on lease controls will provide Real Estate and Finance teams with better confidence in their data, as well as visibility into the insights they need to make more strategic decisions to drive greater efficiency and effectiveness while also reducing costs and risk.



This is a huge area of opportunity, as **90% of senior Real Estate Executives** do not believe they have full access to the data they need to make an informed decision about their company's lease portfolio.

By prioritizing technology that enables robust lease controls, such as Visual Lease, a company can safeguard its lease portfolio - an area of the business that is heavily invested in, and also, exposed to several teams at any given point. If they neglect to do so, they'll expose their organization to risks including the inability to respond to changing circumstances, missing deadlines and options, miscalculating lease costs, missing incentives and reimbursements, failing an audit and even overpaying and assuming responsibilities that belonged with your lessor.

LEE EBAUGH
Director of Real Estate
and Business Continuity

After I open my email, I open up Visual Lease. That's one of the first things I get into on a daily basis. I look for lease details, evaluate facilities, plan for space and conduct market research. We go in depth on every single transaction. All of the data we use to make those business decisions comes from Visual Lease.

TOSHIBA

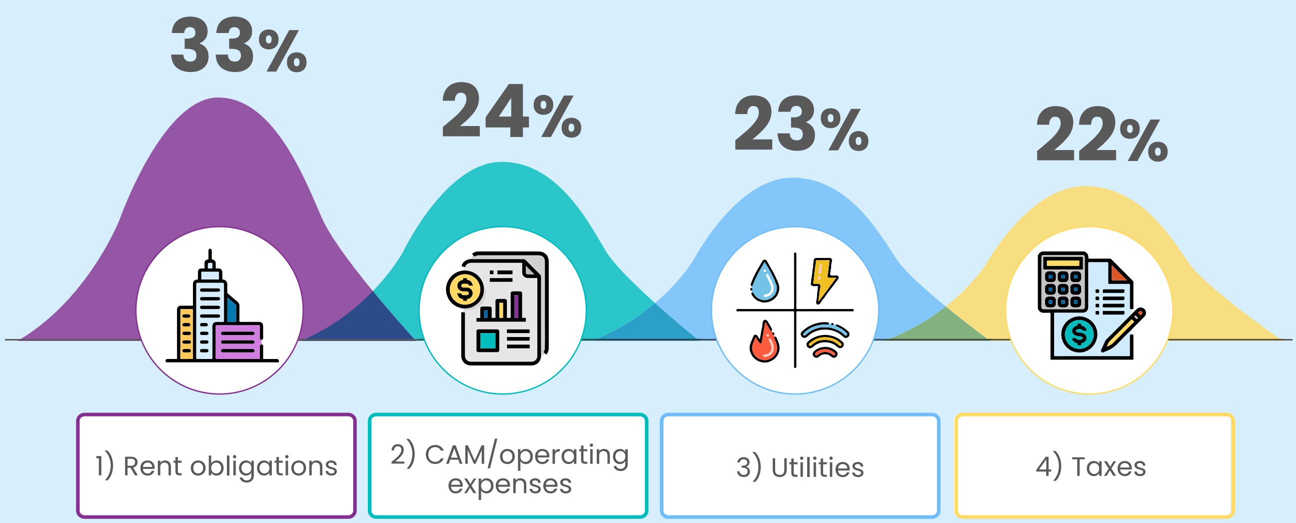
A Lesson Learned: It's Time for Real Estate & Finance Departments to Lock Arms

In addition to the Real Estate teams who handle sourcing, executing on and managing leases, Finance teams are also heavily involved in the accounting and reporting of these high-stakes business assets.

With today's business challenges in mind, it's evident that Finance and Real Estate teams have never been under more pressure – in addition to performing their usual day-to-day activities, they're being tasked with adding even more strategic value to their companies, and likely with fewer resources.

Beyond ensuring companies stay within budget, financial professionals are being tasked with identifying opportunities for savings.

Senior Real Estate Executives were asked to rank the following expenses by how much of a concern they are when entering into new leases:



Real Estate teams are expected to help their companies enter flexible lease agreements that will provide them with the agility required to respond to changing circumstances.

Both functional areas are also feeling the effects of digital transformation as they're required to quickly adopt new technology to help facilitate different aspects of their expanded responsibilities – while this technology is essential, it can create additional stress and delays if not properly evaluated, selected and implemented.

By integrating the right technology that supports robust lease controls into its tech stack, Finance and Real Estate teams can finally lock arms, benefitting from:

- Accurate and complete lease data
- Confident, sustained lease accounting compliance
- Clearly defined roles and responsibilities
- Strong communication and collaboration
- Access to unique insights to inform more strategic business decisions

By coming together, these two functional areas will empower their companies to quickly pivot – a capability that was often lacking during the onset of the pandemic, but one that can undoubtedly help sustain organizations through an uncertain economy.

Herb Cohen
Director of Corporate Services, Treasury & Risk

Visual Lease has given us visibility and reliable reporting, which helps us with budgeting and forecasting. It gives us more intel. We track lots of metrics – so we can see high-level information and then go into the weeds to make sound decisions.

HomeServices of America

Arianne Ault
Director, Treasury & Capital Markets

Making decisions with visibility into that data makes you feel much more confident. Our CFO looks to us to administer the software and train new users in the field. Leases are part of our quarterly treasury reviews where we show a full picture of our lease portfolio, trends, expenses, and cash flows. All of that information is getting much more attention now that it's not just collected annually for a year-end disclosure.

Data Institute™

About The Visual Lease Data Institute:

The Visual Lease Data Institute is a collection of market-leading data, trends and insights on lease accounting, management and optimization created and curated by Visual Lease, provider of the #1 lease optimization software. The Institute was founded on 35 years of experience managing lease data and financials, and was created to arm organizations with the knowledge required to achieve and maintain lease accounting compliance and leverage their leases as strategic business assets.

Methodological Notes:

The Visual Lease Survey was conducted by Wakefield Research (www.wakefieldresearch.com) among 200 US senior Real Estate Executives, with a seniority of Director+, at companies of 1,000+ employees, who manage their organizations leases, between December 14th, 2022, and December 22nd, 2022, using an email invitation and an online survey. Private, public and government organizations were qualified for the survey.

Footnotes:

[1] In a study conducted for The Visual Lease Data Institute's "Commercial Real Estate in 2022: Outlook for an Industry in Recovery," 35% of US Senior Accounting & Finance professionals reported that their companies were planning for physical space needs one year or less in advance. In the study conducted for "The Visual Lease Data Institute's 2023 Commercial Real Estate & Leasing Trend Report," 88% of US Senior Real Estate Executives reported that their companies were planning for physical space needs one year or less in advance.