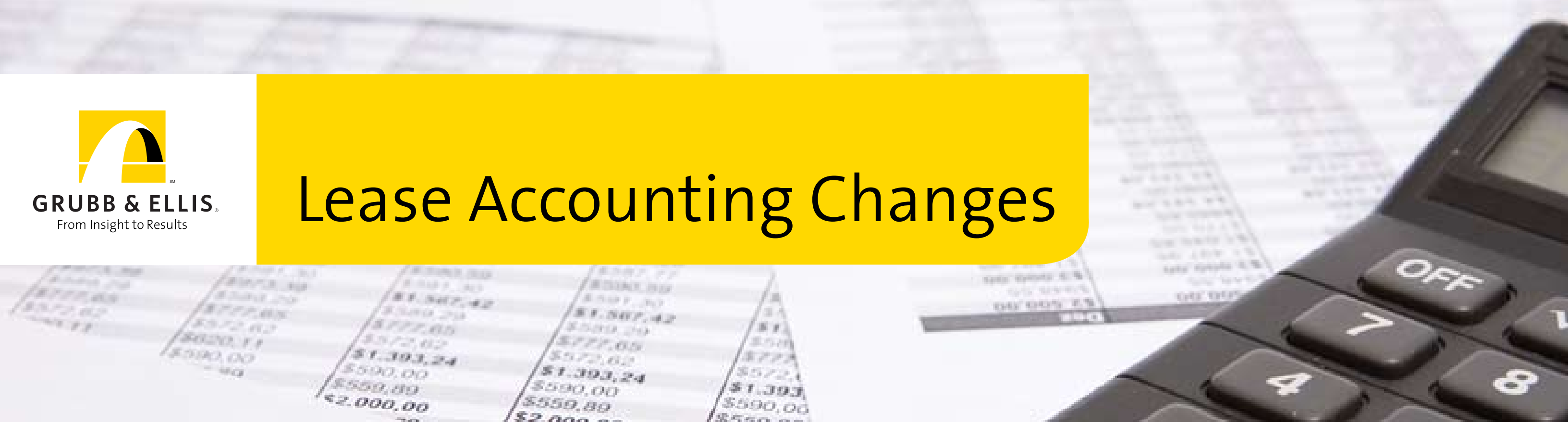

GRUBB & ELLIS
From Insight to Results

Lease Accounting Changes

Today an operating lease does not appear on the balance sheet

- Rent payments are treated as an operating expense and are shown on the income statement
- Rent is NOT added back to income to arrive at EBITDA
- Details of lease commitment are in the notes to the financial statements

Under the proposed guidance, all leases will be place on the balance sheet of the Lessee (Recently FASB has begun consideration of carve-out for some leases – not intended for real estate)

- Right of Use Asset
  - Written off evenly over the life of the lease
  - Write off is recognized as amortization expense on the Income Statement
  - Amortization NOT included in EBITDA

- Obligation to Pay Liability
  - Rent payment is treated like a mortgage and split between interest and principal
  - Principal component of the payment reduces liability
  - The interest burden is heavier in the early years
  - Interest portion flows to the Income Statement
  - Interest NOT included in EBITDA

- Initial valuation of both the asset and liability will be at the PV of the minimum lease payments discounted at the lessee's incremental rate of borrowing

Leases will be recorded like loans, so new presentation will increase debt on Lessees' balance sheets

- Could affect metrics used in debt covenants
  - Return on Assets
  - Return on Equity
  - Debt to Equity Ratio

- May lead Tenants to lean toward shorter leases
  - Shorter terms will lessen Balance Sheet effect (i.e. less debt)
  - Shorter lease terms may mean higher rents
  - Market will strike a balance between term and rate

Initial recognition may include extension term(s)

- If renewal term is deemed likely by the Lessee it's included in initial valuation
- If during a lease the likely term changes, it will reflected in the asset and liability
- Contingent rents will be recognized at the outset of the lease (i.e. sales in a retail lease)

Exposure Draft of the new guidance expected first half of 2010, revised standard in 2011, and compliance in late 2012 or 2013

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