



EPRA

EUROPEAN PUBLIC
REAL ESTATE ASSOCIATION

Best Practices Recommendations

Q & A

August
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1. Introduction

Having a specific question that is not covered in the EPRA Best Practices Recommendations (BPR) guidelines? This Q & A document is intended to provide additional information and to facilitate the wider use of the BPR even if not formally part of the BPR. It includes questions submitted by EPRA member property companies, auditors and/or reporting teams and their respective answers provided by the BPR panel of experts. Hence, this guidance should be considered as a 'live' document, to which regular updates will be made as each topic develops.

The latest update was made in August 2022. It is focused on providing additional guidance on the correct application and/or interpretation of the February 2022 BPR Guidelines which introduced the new EPRA LTV metric.

I would like to take this opportunity to thank the EPRA finance team and the members of the BPR panel of experts for their contribution in compiling this document. I hope you will find it useful. I encourage all the members to submit any additional questions they may have via the BPR Adviser Tool. Please therefore get in contact with the EPRA's Reporting & Accounting Department. We will be very pleased to assist you.

Giacomo Balzarini

CEO PSP SWISS PROPERTY AG

AUGUST 2022

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General Recommendations

The following are general considerations for companies applying the BPR.



2.1 Materiality

The BPR calculations reflect the adjustments needed to satisfy the objectives of each performance measure. In making EPRA adjustments companies should apply a level of materiality (materiality threshold) that is consistent with the materiality principle under IFRS, their knowledge of the business and whether or not the inclusion or omission of an adjustment would influence the decisions of users.

2.2 BPR scope - Investment Property Companies

The BPR are specifically developed for investment property companies and accordingly, there is an assumption that the core business of these companies is to earn income through rent and capital appreciation on investment property held for the long term (commercial and residential buildings e.g. offices, apartments, shopping centres). Companies should consider this when interpreting the BPR and when considering the rationale behind the EPRA adjustments. Examples may include:

- **EPRA Earnings:** Exclusion of profits/losses from trading properties. If management considers that trading is a core recurring part of the business activity this could be added back as a company specific adjustment to show 'company adjusted Earnings'.
- **EPRA NIY:** Exclusion of marketing costs. For retail outlets, there may be certain costs labelled as 'marketing costs' that clearly represent day-to-day costs, directly linked to the operation of the property and which will not be recovered via higher future income, or recharges. Management may therefore view these as deductible costs for the EPRA NIY.

2.3 Reporting the BPR

To enhance comparability and transparency we recommend that companies include in their annual reports a summary table with the EPRA performance measures calculated. In addition, companies should provide full calculations (e.g. for EPRA EPS, NAVs) and explanations thereof. EPRA does not specifically require that the BPR disclosures, including the EPRA performance measures, should be audited. However, to the extent that they form part of the director's report, auditors are required to check for consistency with the financial statements.

2.4 Interpreting the BPR calculations

For the avoidance of doubt – where a calculation on the table indicates that an entity should 'include' an item, that item should be in the KPI. Similarly, where it indicates 'exclude' – items should not be in the KPI. For example, in the NAV calculations we should replace the book value of investment property at cost and add in the fair value (or simply add in the net difference).

2.5 Overriding principle: disclosure

Where companies are unable to determine the precise treatment of a particular item under the EPRA BPR, EPRA recommend that the companies disclose the approach taken so that this is transparent to users. In this respect, reconciliations of company specific measures and IFRS measures to the EPRA measures are helpful to users and therefore recommended.

3

EPRA Earnings



General description

Why are EPRA Earnings important?

The basis for EPRA Earnings was developed in consultation with preparers, advisors, and institutional investors. Investors and analysts spend considerable time identifying non-core items such as profits/losses from trading, disposals and revaluations to determine the ‘core’ underlying result. EPRA Earnings is especially important for investors who want to assess the extent to which dividends are supported by recurring income. Like all EPRA performance measures, EPRA Earnings enhances transparency and comparability within the industry by setting clear guidelines for companies to report core recurring income in a consistent and reliable manner.

EPRA Earnings is a measure of the underlying operating performance of an investment property company excluding fair value gains, investment property disposals and limited other items that are not considered to be part of the core activity of an investment property company. It has its basis firmly in IFRS earnings (operational earnings) with limited specific adjustments. It therefore does provide a measure of recurring income, but does not, for example, exclude ‘exceptional’ items that are part of IFRS earnings. EPRA Earnings is intended to provide a common baseline measure for performance that is relevant to investors in investment property companies. To ensure that all adjustments reflect the net result to the parent company’s shareholders taxes and minority interests in respect of all adjustments are also taken out.

Note

- EPRA Earnings is not a pure cash flow measure as it has its basis in IFRS earnings. For example, it includes certain depreciation and amortisation costs.
- The EPRA Reporting and Accounting Committee promotes strict adherence to the EPRA calculation. Consequently, only items specifically identified in the BPR should be adjusted for in calculating EPRA Earnings. All other adjustments, which are not considered part of recurring income, should be made as company specific adjustments outside the EPRA definition (i.e. ‘below the line’).

Q&A

3.1 Is there an EPRA definition of FFO (Funds from Operations) under IFRS?

No. To avoid confusion with the various FFO measures EPRA has avoided using FFO terminology. EPRA Earnings is similar to NAREIT FFO, with similar adjustments aimed at providing an indication of core recurring earnings, but is not identical because it has its foundations in IFRS rather than US GAAP. For example, EPRA Earnings incorporates both cost accounting and fair value accounting under IFRS (not currently available in US GAAP).

3.2 The EPRA Earnings calculation makes an adjustment to exclude “profits/costs associated with early closeout of financial instruments”. Does this mean that we exclude one-off gains/losses if we realise some interest rate swaps before their maturity and pay out the gain/ loss to the counterparty?

Yes, early closeout costs or profits such as those described should be excluded. The only exception to this is the early closeout of financial instruments with a maturity date ending within the current reporting period. In such circumstances, the cost of early closeout of the financial instrument should not be adjusted as the fair value difference would have been recognised in the current year’s earnings through the interest line and therefore including the cost of early closeout should not significantly change EPRA Earnings for that year. This is consistent with the guidance given on the early closeout of debt instruments as outlined in Q3.3 below.

3.3 Given 3.2, how should we treat the cost of early closeout of debt instruments (e.g. bonds)?

The cost of early closeout of debt instruments is very similar to the cost of early closeout of financial instruments for hedging purposes. In the event that a debt instrument (e.g. a bond) is closed out early, this will crystallise any fair value gain or loss within the income statement. These can be large amounts, especially if the debt instrument to be closed out early still has significant time to maturity. Including early closeout costs of debt instruments within EPRA Earnings does not provide consistent comparability across companies, as the closeout cost reflects the NPV of the future years’ interest differential between the market rate of debt and the debt instrument being closed out early, therefore bringing future years’ interest costs into the current year’s earnings.

We therefore confirm that the cost of early closeout of debt instruments should also be adjusted for when calculating EPRA Earnings, consistent with the treatment of the cost of early closeout for hedging instruments.

The only exception to this is the early closeout of debt instruments with a maturity date ending within the current reporting period. In these instances, the fair value difference would have been recognised in the current year’s earnings through the interest line and therefore including the cost of early closeout should not significantly change EPRA Earnings for that year. In such circumstances, the cost of early closeout of the debt instrument should not be adjusted out of EPRA Earnings.

3.4 If a company has a net share settled convertible bond (i.e. bond is not bifurcated into debt and equity, and the instrument is entirely accounted for as debt with a MTM of the whole instrument up to maturity), would the MTM of the convertible bond every period that runs in the P&L be included or excluded from EPRA Earnings?

Following extensive consultations and discussions with various stakeholders, the BPR Committee unanimously agreed in January 2014 that the ‘Mark to Market’ (MTM) changes of convertible bonds as well as any related transaction costs should be adjusted for in calculating EPRA Earnings. Companies that have such instruments must also disclose EPRA Earnings on a diluted basis (in accordance with IFRS and Q 4.16) to take into account the dilution effects of any convertibles that are in the money.

The primary reason for adjusting the MTM changes is that they contribute to increased volatility and are not considered part of core underlying earnings. Furthermore, if the convertible bond does not convert then the volatility will have reflected a cost that while it will net to zero over the life of the instrument will never in fact be incurred by the company. If it does convert, the future (diluted) EPS will reflect the impact of additional shares being issued.

We note that concern remains that the option to convert embedded within this instrument artificially reduces the interest charge.

3.5 Should we adjust for gains/losses due to IFRS 3? We recently purchased 50% of the shares in a property company below NAV and fair valued the property which resulted in an IFRS 3 gain equal to 15-20% of our net income.

When a company enters into a business combination under IFRS 3 and there is a difference (positive or negative) between the price paid and the fair value of net assets acquired, the difference is either goodwill or a discount on acquisition. In all cases, it is important to fully understand why the difference arises. However, any goodwill impairment or discount on acquisition recognised in earnings should be excluded from EPRA Earnings as a one-off item that is not part of recurring operating earnings (adjustment ‘v’ in EPRA Earnings calculation in the BPR).

3.6 Should we exclude property related unrealised currency valuation gains/losses from IFRS earnings in arriving at EPRA Earnings?

No, EPRA Earnings is intended to reflect any unhedged foreign exchange gains/losses and this includes unhedged positions on property. A currency gain or loss will occur only when a company has acquired a property in a country with a different functional currency [e.g. a UK company (sterling functional currency) acquires a property in France (Euros)] and have not hedged this position. There is no basis for excluding such gains or losses from EPRA Earnings.

Using the example above, ordinarily, a group may set up a company in France to acquire the property, with euro as the functional currency and when it consolidates this company, any exchange differences occur on translation and are therefore recognised directly in equity rather than through earnings. Alternatively, the exposure could be hedged through using euro debt, other euro liabilities or derivatives, such that the currency gains/losses on property will be offset by currency gains/losses on the corresponding liabilities.

3.7 Our results include significant currency gains/losses due to a foreign currency denominated loan held by one of our subsidiaries. We have recognised these currency changes in Net Financial Expenses in IFRS but have excluded these from EPRA Earnings. Is this correct or should we adjust for these in calculating EPRA Earnings?

No – see Q3.6 above. Foreign exchange gains/losses on loans should not be adjusted for as this would indicate a company is only adjusting one element of the position (the liability side) or that it has an unhedged position. There are a number of ways to structure loans to avoid exchange exposure, should a company choose to.

3.8 Our IFRS earnings include income from surrender premiums, should we exclude these in calculating EPRA Earnings?

No, this is not identified as an EPRA adjustment and should not be taken out if it is part of IFRS earnings. As mentioned in the General Description above, EPRA Earnings is not intended to exclude exceptional/non-recurring items if they are part of normal operating results. To the extent that a company’s management consider this to be a significant non-recurring item they should adjust for this below EPRA Earnings.

3.9 We have previously interpreted the recommendations so that EPRA Earnings per share should be based on the diluted number of shares – in the same way that EPRA NAVs are based on diluted number of shares. Is this correct, and if so, why is the treatment for EPRA EPS different to EPRA NAVs?

No, EPRA EPS should be calculated on the basis of basic number of shares (in line with IFRS earnings). Companies may additionally report EPRA EPS based on the diluted number of shares although this should be clearly identified as “Diluted EPRA EPS”. The main reason for this is that EPRA Earnings and the dividends, to which they give rise, accrue to current shareholders and therefore it is more appropriate to use the basic number of shares. In contrast, future shareholders will be entitled to EPRA NAVs which is why EPRA requires this to be based on the diluted number of shares.

3.10 How should we treat deferred tax income due to reductions in the rate of corporation tax? Since this is not a core activity, should this be excluded in arriving at EPRA Earnings?

It depends on what underlying activity the tax impact (arising from the change in tax rate) relates to. However, on the basis that most of what a company does is its ‘core’ activity, a practical approach would be to leave this in EPRA Earnings. However, if the major tax impact of the rate change was due to an item such as future tax on a disposal, the rate change impact should be excluded.

3.11 Our IFRS results include a one-off write down of deferred tax assets? Can we exclude this from EPRA Earnings as we do not consider this to be part of recurring earnings?

This depends on what the deferred tax relates to. The BPR excludes all deferred tax in relation to future disposals of property and EPRA adjustments (e.g. fair value gains/losses, profits/losses on disposals) and goodwill impairments are also excluded from the calculation (adjustment viii in BPR). Deferred tax and other tax charges are not excluded simply on the basis that they are ‘exceptional’.

3.12 Our company recently converted to REIT status and there is a tax charge arising due to the tax on conversion. Should we exclude this from EPRA Earnings?

See Questions 3.10 and 3.11 above. Assuming the REIT conversion charge is intended to settle the latent capital gains on property, the conversion charge should be excluded.

3.13 Should the tax related to share write-downs be excluded in arriving at EPRA Earnings?

This would depend on whether management view the underlying activity of the investment in shares as a ‘core’ activity. If the acquisition of property (either directly or via shares in a company owning property) is the objective and the tax related to revaluations of the property are taken out of EPRA Earnings, then so should the tax on the share write-downs.

3.14 Should we exclude depreciation on investment property at cost?

The EPRA BPR is based on an assumption that the fair value model is used for investment property. If this is not the case, then yes, depreciation charges on investment property should be excluded for EPRA Earnings.

3.15 Should we exclude depreciation on own-occupied buildings?

No, this is not identified as an EPRA adjustment.

3.16 Should we exclude the fair value movements on non-hedging financial instruments?

No – only changes in the fair value of financial instruments used for hedging purposes and convertible bonds (see Q3.4 and Q4.11) should be excluded.

3.17 A company has a substantial number of PV-projects ('Photovoltaics') in operation and under IAS 16 has to show a depreciation component through its result. This item is neutralized in the equity, after which the full revaluation of the solar panels is reflected in a separate line in the reserves. Hence, economically one may argue that part of the revaluation of the solar panels is reflected through P&L although it is technically a non-real estate depreciation as the solar panels are reflected on the balance sheet under 'other fixed assets'. In order to translate the IFRS P&L into our analytical P&L, we essentially make three adjustments: IAS 40 (portfolio result), IAS 16 (depreciation solar panels) and IAS 39 (revaluation of financial instruments) to arrive at the EPRA net result (no further adjustments are required, apart from corrections for joint ventures). Should the depreciation be allocated to (i) 'Changes in value of investment properties, development properties held for investment and other interests'?

The treatment of non-core activities is always a bit tricky. EPRA Earnings "is intended to provide an indicator of the underlying income performance generated from the leasing and management of the property portfolio, but will also include earnings from non-property operating activity should a real estate company be involved in such activity."

Based on that description, we would not expect to have any adjustments for the PV-Projects in the calculation of EPRA Earnings. Company specific adjustments may be made below EPRA Earnings to disclose an Adjusted Earnings.

Companies make an adjustment at the beginning of the calculation to exclude non-real estate activities (if a small proportion). But we would see this case as being different, because this type of groups includes significant part of other businesses.

Regarding the specific case PV, IAS16 applies to PV assets and the calculation records a depreciation component. But it seems that there is also a revaluation of these assets. Based on the BPR, we would not adjust the calculation of EPRA Earnings by the amount of the depreciation. The adjustment should be done as a specific one.

3.18 Regarding the instruments that mature beyond the current reporting period (i.e. the period from the date of early closeout to the end of the current reporting period), should the part of the profits/costs corresponding to the 'current period' be excluded from the EPRA Earnings?

It is clear in the recommendations that material profits/costs associated with the early closeout of financial instruments used for hedging and/or debt instruments should also be excluded from EPRA Earnings.

The only exception to this is the early closeout of financial instruments or debt with a maturity date ending within the current reporting period. In such circumstances, the cost of early closeout should not be adjusted, as the fair value difference would have been recognized in the current year's earnings through the interest line and therefore including the cost of early closeout should not significantly change EPRA Earnings for that year.

- 3.19 A company has an unhedged foreign exchange gain in a joint venture entity associated with an intercompany loan which fully eliminates on consolidation. Under IAS21, the foreign exchange on the loan in the lending entity is recognised in the income statement (rather than in reserves) as it is not deemed to meet the criteria to be included under the net investment in the subsidiary undertaking, because the intercompany loan document contains a fixed repayment date. This has created a FX gain, when on an economic basis no commercial benefit/ loss has occurred within the joint venture group. Should this be a valid EPRA Earnings adjustment?**

The FX impact on EPRA Earnings needs to be balanced, i.e. if the FX loss is adjusted out of EPRA Earnings, then the FX gain should also be adjusted out.

Further to this, EPRA BPR Q&A (Nov 2016) S.3 (Notes) state that “only items specifically identified in the BPR should be adjusted for in calculating EPRA Earnings. All other adjustments, which are not considered part of recurring income, should be made as company specific adjustments outside the EPRA definition (i.e. ‘below line’)”. This means that any adjustment should be done below the EPRA Earnings, to be part of adjusted earnings specific to the company (company specific adjustment 1).

- 3.20 A company is undertaking a one-off transaction which involves ‘buying-out’ one of its pension schemes. In effect, the company is settling the pension scheme early and making a payment for another company to take on the pension scheme going forward. Should the loss on early closeout of the pension scheme be considered as a loss on disposal of other non-current investment interests and therefore adjusted out of EPRA Earnings?**

EPRA BPR Q&A (Oct 2019) S.3 (Notes) mentions “only items specifically identified in the BPR should be adjusted for in calculating EPRA Earnings. All other adjustments, which are not considered part of recurring income, should be made as company specific adjustments outside the EPRA definition (i.e. ‘below line’)”.

The cost of pension scheme settlement which has to be recorded in the P&L statement is not part of recurring income. In order to be adjusted to the EPRA Earnings it has to be one of the ten adjustments from the Earnings per IFRS financial statements to the EPRA Earnings. In our view, this does not seem to be the case. Therefore, we believe this adjustment should be done below the EPRA Earnings to be part of adjusted earnings specific to the company (company specific adjustment 1).

- 3.21 Under IFRS 11, if a company determines its joint arrangement not to be a joint venture and accounts for it accordingly as a joint operation, are the costs related to the setup of the structure still to be excluded? Specifically, costs related to legal and other advice in setting up the joint venture SPVs and co-ownership arrangements? “Acquisition costs related to share deals and joint ventures should be excluded.” (BPR3.1.vii) Paragraph vii uses “joint venture” while IFRS uses “joint arrangement” which may be either a joint venture or a joint operation. Should costs related to setting up a structure around a joint arrangement, which is technically not a joint venture under IFRS but which has the intention to operate as such, be excluded even if, strictly speaking, not treated as a share deal under IFRS 3?**

EPRA BPR (Oct 2019) 3.1 elaborates “EPRA Earnings is used to measure the operational performance; it excludes all components not relevant to the underlying net income performance of the portfolio”. In the case of joint ventures, BPR 3.1.vii further reinforces the concept by elaborating “acquisition costs related to share deals and joint ventures should be excluded.”

Following the logic of EPRA Earnings and BPR 3.1.vii, we advise to exclude the ‘joint arrangement’ costs as it is not relevant to the underlying net income performance of the company, similar to BPR 3.1.vii.

The interesting part would be where to make the adjustment for the ‘joint arrangement’ cost i.e. under a) BPR3.1.vii, or, b) company specific adjustment 1. The BPR Additional Guidance of Oct 2019 is very specific on this, “only items specifically identified in the BPR should be adjusted for in calculating EPRA Earnings” and a joint arrangement can either be a joint venture or a joint operation. Following the strict interpretation, we recommend adjusting the joint arrangement costs ‘below the line’ under company specific adjustment 1. This is due to ‘joint arrangement’ and ‘joint operation’ not being explicitly identified in the list of 10 allowed adjustments for calculating EPRA Earnings.

3.22 A company holds an investment property portfolio and is currently planning to buy some land options. The land options will be held at cost within prepayments and reviewed periodically for impairment.

If the company manages to obtain the required planning to develop the land, it will acquire the land and reclassify the costs into investment/ development properties, as these will be accounted under IAS40.

If the company does not manage to get the planning, that would mean that the land option may need to be impaired and written off to the P&L. The question is whether this write-off to the P&L would be included within EPRA Earnings or adjusted out?

This loss could be seen either as abortive costs or a change in value. In the first case, our understanding is that abortive costs are kept within the EPRA Earnings i.e. included.

In the second case, such a loss will need to be excluded in the EPRA Earnings adjustments. Land options, in our view, is covered under ‘other interests’ as identified under EPRA BPR Oct 2019 Guidelines S 3.1.

We advise the adjustment to be under: 3.1 (i) Changes in value of investment properties, development properties held for investment and other interests.

The reasoning for the write off to be adjusted under 3.1(i) and not 3.1 (ii) lies on the basis that the event triggering the loss is not an active disposal but a potential lack of planning permission. This is supported by the company’s periodic review of the option for impairment which will classify it under ‘changes in value’ (S 3.1 (i)).

3.23 In the BPR Guidelines issued in December 2014, the table for the calculation of the EPRA Earnings quoted in the adjustment (vi) “Changes in fair value of financial instruments and associated closeout costs”. However, in the explanation of adjustments below the table, the paragraph explaining the adjustment is named as follows: “Changes in fair value of financial instruments, debt and associated closeout costs”. Considering the changes in fair value of debt instruments are included in the Earnings per IFRS statement, we suppose that the idea is indeed to exclude these changes in the calculation of the EPRA Earnings. Could you please confirm?

Indeed, changes in fair value of debt instruments are to be excluded when calculating EPRA Earnings.

3.24 How should one-off costs for acquisitions (advisory fees etc.) be treated if the acquisition is not successful? In case of success, most of transaction costs get capitalized but if the transaction does not come through, there is a one-off loss in the P&L. Is this to be adjusted in the EPRA Earnings?

One-off costs for a failed acquisition are not to be adjusted in EPRA Earnings. Market research, reviewing potential acquisitions and actual costs made in an acquisition process are all part of normal operations. The fact that costs are one-off is not relevant. These kinds of costs are part of usual abortive costs. If the amount is very significant, the company may adjust below the EPRA Earnings as ‘company specific adjustment’.

3.25 Company A acquires a stake in Company B, which possesses land accounted for as inventory under IAS 2. Company B has a provision for this land. If this provision gets reduced during the period from the acquisition date until the closing date, this results in an income for Company A. Should an income that arises from a provision reversion, be excluded from the EPRA Earnings calculation?

This adjustment should fall in ‘(i) change in value of investment properties’. When an asset gets depreciated, it is accounted for at fair value and the changes of fair value are recorded as allowance or reversion of the provision. The rationale of EPRA Earnings is to exclude such changes related to fair value adjustments; this reversal is a fair value adjustment.

3.26 Should a company take into account the dilutive effect of a financial instrument, only if this financial instrument is ‘in the money’? The IFRS guidance states that we have to include in the diluted EPS calculation a financial instrument conversion, if and only if, the conversion decreases the EPS (dilutive effect).

Convertible bonds’ dilutive effect must be taken into account if the instrument is ‘in the money’. Consequently, the dilutive effect should not be taken into account if the instrument is ‘out of the money’.

Reference: S 3.1 Pg. 8 of the EPRA Guidelines Oct 2019 “Note that where a company has net share settled convertible bonds (not bifurcated between debt and equity instruments) then the disclosure of Diluted EPRA EPS is mandatory and must take into account the dilution effects of any convertible instruments that are in the money.”

Please note that if a convertible bond is viewed as dilutive, companies should adjust both the net asset value for the effects of conversion of the bond and the number of potential ordinary shares (the denominator).

3.27 Should a company with extensive tax loss carryforward, which stems from insolvency issues the company faced in the past, make a special adjustment in order to calculate EPRA Earnings?

We advise you to adjust the ‘one-off effect of tax loss carry forwards’ below the line i.e. under ‘company specific adjustment 1’. For EPRA Earnings calculation, it is recommended to only adjust items which are part of the 10 mentioned adjustments. It is not allowed to make any additional adjustments. This is also applicable for future one-off TILCF adjustments.

3.28 How do the BPR Guidelines suggest handling the deferred tax impact from the loss recognition provided against future profits?

The BPR is clear that you should exclude any deferred tax asset or liability in respect of the difference between the fair value and the book value of properties. If the tax asset is included to offset the tax liability linked to valuation uplift, then it is within the BPR Guidelines to exclude both asset and liability related to this.

3.29 If a company's accounts are based on historical cost and not fair value, is there a need to deduct the amortization of the portfolio from the EPRA Earnings?

No, depreciation is not deducted if the historical cost method is used.

3.30 Is it correct for a company to exclude any deferred tax recognised to offset future losses? In effect, there are two stages of deferred tax assets, one to offset the deferred liability and any remaining portion to set against future profits. The aim is not to overstate the company's results this year and vice versa understate next year's results by this unusual circumstance of a non-prescriptive exclusion under EPRA, from what is a non-recurring balance.

Items cannot be excluded just because it is non-recurring, so the fact that it may improve EPRA EPS and NAVs this year, but reduce next year is not a determining factor.

The tax losses recognized as an asset to offset against future gains need to be analysed to determine if they will offset against future EPRA or non-EPRA profit. If they will be used to offset future EPRA profit, then they should remain within EPRA NAVs and Earnings, however if they can clearly demonstrate they will be used to offset other non-EPRA items e.g. a gain on disposal of a property or other activity that is more capital in activity, then it would make sense to adjust out the impact of recognizing such tax losses accordingly.

3.31 How should the tax on disposals be calculated? Would deducting the tax property value from the IFRS turnover of sold properties and applying the company tax rate on this result be an appropriate method?

In respect of calculating the tax on profit or losses arising on disposal, BPR states:

(iv) Tax on profits or losses on disposals

“The tax charge or credit relating to profits or losses on investment properties, development properties and other investments sold in the period, and profits and losses on sale of trading properties, calculated consistently with (ii) and (iii) above.”

That implies that a company should calculate and exclude the tax which applies to profits or losses on disposals. Although there is no specific guidance, tax would be calculated (whether current or deferred) as the incremental tax, i.e., the difference between the total tax charge which applies to income before tax with and without the profit/ loss on disposal. That rate would be expected to be the notional tax rate unless the profit/ loss is exempted from taxation or the company has significant unvalued tax losses and exclusion only results in a Delta of these unvalued losses.

3.32 Should treasury shares be taken into account for EPRA Earnings calculation?

EPRA Earnings is based on the basic numbers of shares (which is in line with IFRS earnings per share calculations; See BPR Guidance 3.5). IFRS calculates EPS on the basis of outstanding shares (IFRS 33.10). Therefore, exclude treasury shares both under IFRS and EPRA from EPS (no difference in that respect).

3.33 Are both earnings per IFRS and EPRA Earnings calculations taken into account on an annualized basis?

EPRA follows IFRS. IAS 34.11 states: “In the statement that presents the components of profit or loss for an interim period, an entity shall present basic and diluted earnings per share for that period when the entity is within the scope of IAS 33 Earnings per Share”.

In our view, ‘for that period’ does not mean annualized. So the answer is no.

3.34 In reference to the adjustment ‘Change in Fair Value of Financial Instruments, Debt and Associated early closeout costs’, could you please clarify the following:**Do ‘financial instruments’ only refer to derivatives?**

No, it refers to all financial instruments falling under the definition of IAS 32: A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Should derivatives that are designated as hedging instruments in a Cash Flow Hedge relationship, not be included in this adjustment due to its changes in fair value? (recognized in OCI)

EPRA Earnings only indicates what to exclude, not what to include: If changes in fair value of financial instruments are recognized in OCI, they do not have to be adjusted (excluded) for EPRA Earnings calculations, as they are already excluded from the IFRS Statement of Profit and Loss (starting point for EPRA Earnings). Also under IFRS, OCI items always have been excluded from EPS calculations.

Does ‘debt’ only refer to financial debt? Is it the case that only financial liabilities classified as ‘Liabilities at fair value through P&L’ could originate this kind of adjustment?

No, not necessarily. For the purpose of calculating EPRA Earnings, all fair value changes need to be excluded from the IFRS Statement of the P&L. So if there are other liabilities reported at fair value, then also their fair value adjustments need to be excluded as they also would not meet the definition of recurring income. But conversely, if fair value changes are directly reported in equity, they do not have to be excluded from the IFRS Statement of the P&L as they were also not included.

3.35 Regarding the adjustments related to deferred tax, should a REIT with a 0% tax rate make any adjustments? Also, what happens if this REIT has some Tax Receivable and Payable accounts due to VAT for the same amounts? Should this be taken into account for any adjustment?

You should only exclude the deferred tax that is in the of P&L statement with respect to these adjustments. Again, you should only exclude something if it was included in the first place. In addition, tax relates to income taxes and not VAT.

- 3.36** We are a REIT externally managed. At end of the year we pay two different fees to our Manager (base and performance fee). Performance fee is an incentive to our Manager, which depends on the annual return generated to our shareholders. Once the Performance Fee is paid to our Manager, they shall reinvest this payment (after deduction of corporate income tax and any other taxes applicable thereto) in our Company (more or less, 75% of the fee is reinvested). So, the performance fee amount will be allocated to the acquisition of new shares issued by our company via a share capital increase. In order to calculate the EPRA Earnings of our company, we start by first line “Earnings per IFRS income statement” which is the profit for the period by IFRS standards. In this profit, performance fee is deducted. Taking into account that the performance fee will be reinvested in our company by our Manager, should we start the EPRA Earnings calculation by the “Earnings per IFRS income statement”, not deducting the % of the performance fee reinvested by our Manager in our company?

The EPRA BPR Guidelines clearly indicate that EPRA Earnings should be calculated starting with the IFRS earnings as reported in the company’s IFRS accounts. If an adjustment to the EPRA Earnings regarding the reinvested performance fee should be done, this should be ‘below the line’ (after the EPRA Earnings have been calculated) and labelled as ‘Adjusted EPRA Earnings’. The adjustment(s) to arrive to this metric should be clearly disclosed and a further explanation of the rationale is strongly encouraged by EPRA.

- 3.37** Where a company has significant rent adjustments for RPI or fixed uplifts that are being spread as required under IFRS could an adjustment be included as part of EPRA earnings to remove this from revenue to align revenue more closely to the cash income? If not, would this be more appropriately shown as a company only adjustment if the company wanted to reflect this in its earnings measures?

Given the current adjustments described in the guidelines, we recommend that the adjustment regarding fixed rent uplifts be made as company-specific adjustment outside the EPRA definition (i.e. below the line).

- 3.38** In July 2017 the IASB (‘Board’) confirmed the accounting for modifications of financial liabilities under IFRS 9. That is, when a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss should be recognized in profit or loss. The gain or loss is calculated as difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate (IFRS 9, paragraph B5.4.6).

IFRS 9 is required to be applied retrospectively, therefore modification gains and losses arising from financial liabilities that are still recognized at the date of initial application (e.g. 1 January 2018 for calendar year end companies) would need to be calculated and adjusted through opening retained earnings on transition.

For example: in the event we exchange a Bond with a new issue at better interest rate we could have a “profit” arising in the first-year income statement. Subsequently for the following years we would have the costs related to the amortisation of the initial “gain” (for the duration of the new financial instrument).

Is it correct to exclude in EPRA Earnings in the first year the gain and subsequently for the follow years the amortised costs? In our opinion this modification of financial liabilities is comparable to “Change in fair value of financial instruments”, it is not recurring, and we would exclude it when calculating EPRA earnings.

In our view, this is not a situation that would require to be adjusted in order to calculate EPRA Earnings. This is because any result arising from this IFRS 9 accounting change (retrospective application) would go directly to retained earnings and will not affect the income statement. Moreover, the described situation is not a fair value adjustment, therefore it is not permitted under the EPRA Earnings adjustments. In any case, changes as a result of new or revised accounting standards should be treated per the applicable IFRS rules.

3.39 The question concerns the deferred tax asset (and corresponding credit to earnings) which arises from share based payments.

Specifically, when a share option is recognised as an expense, under IFRS 2 it is recorded at fair value at grant date. However, the deferred tax asset (and credit to earnings) associated with the share option is calculated at each reporting date based on the market value of the Company's share. Accordingly, should there be a marked appreciation / depreciation in the share price, and given the magnitude of certain of our shortand long-term incentive plans, the deferred tax asset, at 19%, may be a large number (hundreds of thousands).

Given that this impact to earnings is driven by a market value change in the underlying share, would this be included or excluded from EPRA earnings? It feels that it should be excluded given that FV changes in property and swaps are also excluded but I thought that I would check.

EPRA Earnings is used to measure the company's operational performance, i.e. reflect the income generated from the leasing and management of the property portfolio. This is why changes in value of IP, any gains/losses on sale of property, and FV movements of hedging and debt instruments are excluded.

Taking the above into account, as well as the fact that EPRA Earnings is intended to provide a common baseline measure among IP companies, any incentive plans that the companies have put in place do not fall under the metric's scope and should not be adjusted. Furthermore, the credit (and the related tax asset, if any) is recognized over the vesting period. Hence the charge is included in the EPRA earnings and does not need to be adjusted. Therefore, no adjustment nor company-specific adjustment is needed.

3.40 My question is whether a non cash expense due to CPI adjustment to finance lease can be adjusted for EPRA earning calculation. We have engaged in a long-term finance lease (above 100 years) of a hotel property. The lease bears a fixed interest which is linked to the CPI with a cap (4%) and a floor (2%). The floor and the cap represent a regular linkage to the CPI (expected to increase by 3% per year) and the rationale behind including them in the agreement is to provide a defence mechanism both for the borrower and the lender. From accounting perspective (IFRS), since this floor and the cap are within market range, this component should be treated as "closely related" embedded derivative which cannot be separated from host. In accordance with that, the floor of 2% is included in our minimal payment which results in increasing our finance expenses compared to a situation where we would have engaged in a lease with a linkage to the CPI but without a floor and a cap. The reason for this increase is that basically at day one we are including the floor indexation impact of the future years of the lease. The outcome is a significant non cash item we that we have under our finance expenses. Should we adjust this non cash item from EPRA earnings calculation (separate the floor cap component from the lease liability)?

The described situation does not fall under any of the recommended EPRA Earnings adjustments, therefore no adjustment within EPRA Earnings should be made. However, given its nature, we would recommend that you adjust for this item under a company-specific adjustment, below the EPRA Earnings. The new metric should be labelled differently (e.g. "Adjusted EPRA Earnings") and the reasoning behind the company-specific adjustment should be clearly disclosed for the benefit of the users of the financial statements.

3.41 We are a London stock exchange listed REIT which invests in affordable housing including shared ownership. The property holder purchases a minimum of 25% of the property and typically providing funding for the balance of 75%, on which we receive monthly rent from the property owner. The rent income is included in our net rent income on the P&L.

The shared ownership property holder then also has a right to purchase additional increments of the property (known as “staircasing”) – i.e. a % of the open market value of the property. Currently our shared ownership portfolio is at early stages of development, and we have not had much staircasing.

The question arises however, when we do have staircasing, how will this impact our EPRA Earnings? Under EPRA Guidelines relating to EPRA earnings (below), we would need to remove the profit or loss on sale of properties from net income (as highlighted). However given the nature of shared ownership investment, I would think staircasing profits/losses should be considered part of net income.

‘As EPRA Earnings is used to measure the operational performance, it excludes all components not relevant to the underlying net income performance of the portfolio, such as the change in value of the underlying investments and any gains or losses from the sales of properties. In effect, what is left as EPRA Earnings is the income return generated by the investment, rather than the change in value or capital return on investments.’

Are you able to provide further guidance as to how we should treat gains/losses on staircasing please? Have you had any experience or similar queries from organisations like ours which invest in shared ownership properties?

Our understanding is that when the company sells additional shares of a property, it is very similar to a disposal (it is a partial disposal). The company is no longer entitled to any revenue related to the shares sold.

We suppose that the assets subject to staircasing are considered as investment properties and therefore accounted for as at FV under IFRS. The result of a staircasing transaction is by nature a fair value loss or gain. Because of its nature, staircasing does not generate a recurring income. For this reason, our view is that staircasing profits/losses should not be considered part of EPRA Earnings.

Please also refer to this extract of the EPRA Earnings BPR guidelines (that you can find on our website): “As EPRA Earnings is used to measure the operational performance, it excludes all components not relevant to the underlying net income performance of the portfolio, such as the change in value of the underlying investments and any gains or losses from the sales of properties. In effect, what is left as EPRA Earnings is the income return generated by the investment, rather than the change in value or capital return on investments.”

3.42 How should we calculate the EPRA earnings. Since for the EPRA earnings we can also only take into account the earnings from investment properties and the earnings from the development of offices. We struggle then with the fact that we cannot allocate our financing costs since we have balance sheet financing we cannot indicate which loans are particular for which building or development. Do you have any experience with this problem? And how can we solve this? Also for the corporate operating charges we have the same problem.

You are right, indeed, the EPRA Earnings (and the other EPRA BPRs) are only designed for income-producing properties. Unfortunately, no adjustment has to be made. The EPRA Earnings BPR is defined by the guidance and it includes no adjustment for this particular case. Applying IAS 23 should help reducing the impact of financial costs related to development projects on EPRA Earnings (IFRS also provides guidance on

the capitalisation of overheads). Now, this being said, we observed other members disclosing an adjustment below the EPRA Earnings and we believe this would be the clearest and best way to do it.

3.43 I would like to confirm the following adjustment to the EPRA earnings.

We are planning to sell a group of investment properties for Euro 100m. The investment properties are recorded in the books at fair value, under IFRS 13, at Euro 95m with an underlying depreciated tax value of Euro 60m. The deferred tax liability balance at the disposal date was 5.6m ($95-60 \times 16\%$). There will be income tax expense, payable in cash, at a disposal date of euro 6.4m ($100-60 \times 16\%$). Furthermore, based on IFRS rules, the Company will record a gain on disposal for Euro 5m and a deferred tax income (credit) of Euro 5.6m by reversing the deferred tax liability balance at the disposal date.

Based on EPRA guidelines, we believe that the Company should deduct or add back the following amounts (related to the above transaction) from IFRS earnings to calculate the EPRA earnings for the year. Looking forward for your comments if you agree or suggest otherwise.

| | Euro million |
|---|--------------|
| IFRS earnings attributable to the Company | 1,320 |
| Deduct: | |
| Gain on disposal of properties | (5.0) |
| Deferred tax income/ (credit) on disposal | (5.6) |
| Add: | |
| Income tax expense on disposal | 6.4 |
| Other customary EPRA adjustments | 200 |
| IFRS earnings of the Company | 1,515.8 |

Please see below the EPRA guidelines:

(ii) Profits or losses on disposals of investment properties, development properties held for investment purposes and other non-current and current investment interests

The profit or loss on disposal of investment properties, development properties held for investment and other current and non-current investment interests.

(iv) Tax on profits or losses on disposals

The tax charge or credit relating to profits or losses on investment properties, development properties and other investments sold in the period, and profits and losses on sale of trading properties, calculated consistently with (ii) and (iii) above.

Indeed, as EPRA Earnings is used to measure the operational performance, it excludes all components not relevant to the underlying net income performance of the portfolio, such as the change in value of the underlying investments and any gains or losses from the sales of properties. A company should calculate and exclude the tax which applies to profits or losses on disposals. Although there is no specific guidance, tax would be calculated (whether current or deferred) as the incremental tax, i.e., the difference between the total tax charge which applies to income before tax with and without the profit/ loss on disposal. That rate would be expected to be the notional tax rate unless the profit/ loss is exempted from taxation, or the company has significant unvalued tax losses and exclusion only results in a Delta of these unvalued losses. [Q&A 3.31].

However, determining the accuracy of the numbers of these adjustments would be a matter for the company.

3.44 For EPRA earnings, adjustment vii) in relation to acquisition costs on share dealings, does this include costs in relation to the purchase of 100% of a property owning business where it is simply an investment vehicle as these costs are capitalised against the property (in the same way as our typical acquisition fees if we buy the property as an asset as opposed to it being in a corporate entity) so the fair value movement on the property being excluded in adjustment i) will already account for this?

The guidelines state: “Acquisition costs related to share deals (IFRS 3) and joint venture interests are, under IFRS, recognised in the profit and loss account when incurred. Property-related acquisition costs are first capitalised and subsequently recognised in the profit and loss account as a revaluation movement. To achieve consistency, acquisition costs related to share deals and joint venture interests should be excluded to arrive at EPRA Earnings.”

Hence the rationale is clear. Costs of share deals need to be eliminated from EPRA Earnings to treat them in the same way as direct property acquisitions, which are not acquired under a share deal. Under the circumstance that you have treated these costs already as cost related to property related acquisitions, it is capitalising and subsequent recognition in profit and loss as part of the fair value movement, there is no need to eliminate them twice. On the contrary, that would result in an overstatement of EPRA Earnings.

3.45 The question is specifically with regard to the exclusion from EPRA earnings of goodwill impairment/amortisation of intangibles as detailed below in the BPR guidelines:

(v) Negative goodwill / goodwill impairment

The excess of the fair value of assets acquired over their cost of acquisition, which IFRS requires to be recognised immediately in the income statement, together with any impairment charges in respect of positive goodwill and amortisation of intangibles.

The question we have is in relation to adjusting for amortisation/impairment of intangibles. We are currently undertaking a large one-off IT project to build and deploy an ERP/accounting system (c£4m). We are creating an intangible asset for this under IAS38 and subsequently posting impairment charges through the income statement. We understand from the EPRA guidance that this impairment of intangibles is envisaged by EPRA to be an adjustment to EPRA earnings as per note (v) from the guidelines, above. Please could you confirm that our understanding is correct?

We understand that the adjustment also relates to goodwill associated with acquisitions and business combinations but the wording in note (v) also prescribes the same treatment for intangibles, hence our treatment.

EPRA earnings is a metric to measure recurring income. The BPR guidelines state in this respect: “EPRA Earnings is especially important for investors who want to assess the extent to which dividends are supported by recurring income.” And: “As EPRA Earnings is used to measure the operational performance, it excludes all components not relevant to the underlying net income performance of the portfolio.”

You are correct that adjustment V also refers to impairment and amortization of intangibles. But the above-mentioned underlying principle to recurring income suggests that if amortization is recurring, e.g., an IT project is amortized over 5 years and in year 6 a new replacement IT project is started, such amortization is a recurring item and does not qualify for adjustment.

4

EPRA NAVs (NRV, NTA, NDV)



General description

Why is the set of EPRA NAV metrics important?

Investors and analysts want to know the fair value of an investment property company's assets and liabilities, taking into account the specific nature of an investment property company's business model. The set of EPRA NAV metrics (NRV, NTA, NDV) provide a measure of the fair value of a company and therefore they are a useful tool to compare against any investment and/or quoted share price. For example, this may be a good indicator of the extent to which the fair value of the (net) assets of the company is reflected in the share price. Also, through the NAVs calculation investors can see the impact of any material revaluations of trading property and other investments held at cost which can help them to assess future profits or losses from sales and/or disposals of these assets.

EPRA Net Reinstatement Value (NRV) highlights the value of net assets on a long-term basis. Assets and liabilities that are not expected to crystallise in normal circumstances such as the fair value movements on financial derivatives and deferred taxes on property valuation surpluses are therefore excluded. Since the aim of the metric is to also reflect what would be needed to recreate the company through the investment markets based on its current capital and financing structure, related costs such as real estate transfer taxes should be included.

EPRA Net Tangible Assets (NTA) is focused on reflecting a company's tangible assets and assumes that entities buy and sell assets, thereby crystallising certain levels of deferred tax liability.

EPRA Net Disposal Value (NDV) aims to represent the shareholders' value under an orderly sale of business, where deferred tax, financial instruments and certain other adjustments are calculated to the full extent of their liability, net of any resulting tax. This helps shareholders in understanding the full extent of liabilities and resulting shareholder value if company assets are sold and/or if liabilities are not held until maturity, however NDV should not be viewed as "liquidation NAV" because, in many cases, fair values do not represent liquidation values.

All three new NAV metrics share the same starting point, namely IFRS Equity attributable to shareholders.

Q&A

4.1 The guidance indicates that real estate transaction tax ("RETT") should be added back whereas later it indicates all purchase costs should be added back. In the UK the RETT is 5% but overall purchase costs in the valuation are 6.8%, so what number is the correct one to add back under EPRA NRV?

The basis when calculating RETT (adjustment xi.) under EPRA NRV, is the Valuation Certificate. Meaning, the purchasers' costs - which include transfer tax and other fees - that are deducted in the Valuation Certificate should be added back - and not the notional amount - when those two differ.

This is under the assumption that the IFRS financial statements follow the Valuation Certificate, meaning that the IFRS statements reflect the value after the deduction of the purchasers' costs (transfer tax & other fees). Whatsoever, the adjustment should be calculated in such a way that after the adjustment the property values in the NRV are gross.

4.2 Not all appraisals show the gross value in the valuation certificate. What assumptions should be made in this respect, especially in cases where it is common practice to avoid such taxes. Can you also confirm whether only property transfer taxes should be addressed and that all other compulsory fees (e.g. notary fees) and other usual expenses (e.g. for intermediaries) should be disregarded for both NRV and NTA purposes?

As far as the valuation reports are concerned, the external appraisers should be asked to perform a valuation that is consistent with IFRS, such that the valuator should assume an asset deal (practice is different among different jurisdictions). That also means that the valuator should provide a gross and net value, applying the nominal Real Estate Transfer Tax (RETT). Having said that, the Guidelines assume that both the Gross Value and the Net Values are provided within the Valuation reports, along with purchasers' costs (including RETT). In the case where the above does not hold and there are difficulties in isolating the transaction cost component, then we would recommend to liaise with your appraiser in order to retrieve all relevant information, where possible.

Having said that, the basis when calculating RETT (adjustment xi.) under EPRA NRV, is the Valuation Certificate. Meaning, the purchasers' costs - which include transfer tax and other fees - that are deducted in the Valuation Certificate (i.e. the difference between the gross property values and the net property values) should be added back - and not the notional amount - when those two differ. Since the aim of NRV is to reflect what would be needed to recreate the company through the investment markets based on its current capital and financing structure, related costs such as real estate transfer taxes (i.e. purchasers' costs based on the Valuation Report) should be included.

For example, in the scenario where the gross property value in the Valuation Certificate is 100CU and the RETT is 6%, then the net value (after purchasers' costs - i.e. transfer tax & other fees) usually reflected in the IFRS financial statements is 94CU. In this case, the amount that was deducted (i.e. 6CU) should be added back for the purposes of EPRA NRV.

Now for EPRA NTA, there are two options:

- a) For NTA purposes, follow the IFRS value, i.e. no adjustment for RETT is made (i.e. value equals to zero).
- b) For NTA optimisation purposes, use an effective transfer tax rate. For example, if the past has proven that 50% of property transactions has been done via a share deal, thereby avoiding transfer tax, and, the other 50% have been asset transactions whereby the full notional amount of transfer tax was paid by the buyer, then the optimisation option would suggest an adjustment of 50% (i.e. - in the above example the RETT adjustment would be 3CU). Nevertheless, this is again under the assumption that the full amount of RETT has been deducted from the gross property values for financial statement purposes.
- c) If option b) is chosen, then the company should be providing additional information on the optimised RETT adjustment. A way to justify the adjustment would be for a company to show that it has consistently achieved over the past periods lower transfer tax on its real estate transactions. The average transfer tax achieved could then be used.

4.3 With regards to the NTAs, the guidelines mention that consideration should be given to whether a company ‘has consistently achieved lower transfer taxes on its real estate transactions in previous periods’. For companies that are diversified across many different countries there may be little historical data - can you please explain what EPRA considers consistent / sufficiently consistent in this respect?

NTA optimisation is an option, not a requirement. Companies could choose instead to make no adjustment and, thus, follow the IFRS Value.

Having said that, the Guidelines state: *“Companies will have the option to use a transfer tax optimisation adjustment to gross-up their Net Values if they can justify this and provide sufficient disclosure. A way to justify the adjustment would be for a company to show that it has consistently achieved over the past periods lower transfer tax on its real estate transactions. The average transfer tax achieved could then be used”*.

EPRA is not prescriptive either on what is ‘consistent/sufficient’ or for the minimum number of past periods where a lower transfer tax was achieved in previous real estate transactions. Instead, the objective/purpose for the NTA optimisation adjustment is to allow companies to provide a narrative on the matter. Meaning that, if NTA was optimised, instead of following the IFRS Values (i.e. no adjustment), then the company should disclose all underlying information behind this choice. Ultimately, the key is clear and transparent disclosure around what is included in each adjustment.

To that end, it should be the company’s assessment whether such adjustment is either feasible or relevant, as long as appropriate disclosure has been provided.

4.4 We are a hospitality company that holds hotels and in line with previous experience, we are not disposing of any assets. Can we assume and disclose that we are not expecting to dispose any of our assets in the foreseeable future? That way the only difference between the EPRA NRV and EPRA NTA would be the exclusion of the intangible assets.

For EPRA NTA, there are three options in relation to adjusting for DTL:

- Option 1: When the company has clearly identified (part of) its portfolio as long-term hold, then exclude 100% DTL for such (part of the) portfolio
- Option 2: If based on its track record, the company can support partial DTL on sale, then that is the percentage to use
- Option 3: In all other cases, deduct 50% of DTL.
- Overall, it is up to company to decide which of the above options to choose, based on its business model. Nevertheless, the expectation is to document the option chosen and provide the necessary disclosure.

Despite the fact that the guidelines imply that option 1 may be applied for part of a company’s portfolio (and not for 100% of the portfolio), as long as the company clearly discloses the intention not to sell any of the assets in the near future (note that the Guidelines make no reference to IFRS 5), then it should be fine to exclude all DTL (100% DTL) for the entirety of the portfolio - thus, making the DTL adjustment for NTA and NRV to be equal. This intention could also be backed by the past experience of not selling any assets in the past x number of years.

Alternatively, option 3 may be followed 50% of DTL may be adjusted.

In either case, the chosen option (either 1 or 3 in this case) will have to be disclosed as well as the additional disclosure requirements.

- 4.5** In the UK, when a REIT sells a development asset within three years of completion it is required to pay tax on the gain (we hold development properties at fair value). This amount is not provided for in the accounts as by simply holding the asset through this period the tax will not become payable. My question is should this tax charge be deducted from EPRA NDV? In addition, should deferred tax liabilities, that are not recognised in the balance sheet for reasons of applying the initial recognition exemption in accordance with IAS 12.15(b), be included in NDV (lowering its value)?

Off-balance sheet DTL should not be adjusted under any of the new NAV metrics, including NDV. Instead, entities should comply with the additional requirement mentioned in the Guidelines and disclose - but not adjust - off-balance sheet DTL, if applicable.

The additional disclosure requirement for off balance sheet deferred tax liabilities reads as follows: Companies are expected to disclose the types of assets to which the initial recognition exemption under IAS 12 has been applied as well as the associated amount of deferred tax liabilities that were not recognised in the IFRS balance sheet. However, off balance sheet deferred tax liabilities should not be adjusted under any of the three NAV metrics.

Therefore, any potential taxes linked with the three-year clearance period for development properties in the UK would not fall within the scope of NDV's adjustments.e

- 4.6** A UK prop co has recently acquired the benefit on a number of land option contracts between the Company and a third party landowner. The land options give the Company the right to acquire the land at a future date from the landowner, subject to certain conditions being met. IFRS does not explicitly cover land options and following certain accounting advice received, the Company classifies these as a 'Non-Current Asset – Land Options' on the balance sheet, separate to Investment Property. The land options are held in the balance sheet at cost less impairment charges. It is also the view that land options could meet the definition of an intangible asset. Over time, as the options are exercised and the land is drawn down from the landowner and physically owned by the Company, the value in the options will move from Non-Current Asset – Land Options to Investment Property. At this point, in accordance with IFRS, the land or buildings will be held at fair value. We (the Company) are seeking guidance over the treatment of land options within the new EPRA NAV metrics.

In reference to land options, the IFRS classification and denomination should be considered as a starting point. If the land options are recorded on the IFRS Balance Sheet as intangible assets, then we would recommend that the recommendations applicable to intangible assets are followed for the new EPRA NAV metrics.

On the other hand, if the land options are recorded on the IFRS Balance Sheet as prepayments (such as described in question 3.22 the BPR 2019 Q&A) or as other non-current investments (i.e. different than intangibles), then we would recommend following the recommendation applicable to such non-current investments - adjustment "ii.c) Revaluation of other non-current investments" in the new NAV metrics table. Adjustment ii.c) refers to the conversion of non-current investments to fair value and reads as follows: Include the valuation increase/decrease to fair value of any other non-current asset where fair value can be reliably determined. The basis of valuation, and, in particular, whether or not a third-party appraiser was involved will need to be disclosed.

4.7 Is a package premium on the share price to be taken into account when adjusting for hidden reserves in investments under NRV, NTA and NDV or is the pure share price used?

The query is related to adjustment ii.c) Revaluation of other non-current investments (p.13), while the BPR mention (p.14): Include the valuation increase/decrease to fair value of any other non-current asset where fair value can be reliably determined. The basis of valuation, and, in particular, whether or not a third-party appraiser was involved will need to be disclosed. Based on that general principle, our answer is further provided below.

First, the question is not fully clear and depends on the nature of investments we are talking about. Investments accounted for under IFRS under the equity method, or IFRS 9 based equity investments accounted for at fair value? If the latter is the case, then no adjustment is needed as the investment is already accounted for at fair value in the IFRS financial statements. If it is an IAS 28 associate that holds its properties at fair value, also no adjustment is required. If it is an IAS 28 associate that holds its properties at cost, an adjustment to fair value is required.

Secondly, we understand your question is about package premiums in relation to such investments.

There are two of such premiums:

- a) A control premium payable on a certain minimum amount of shares/ shareholding. If such premium is present, a professional valuer should, in line with the general principle of reliability provided above, certify that the package of shares has a higher value than your share in the NAV (based on fair value of the properties) or the proportionate market value in case the shares are listed on a stock exchange. However, if it is an IFRS 9 equity investment, then that premium, if marketable, would again already be included in the IFRS financial statements. EPRA principally does not have different fair value definitions than IFRS; and
- b) A portfolio premium on a portfolio of real estate properties which is normally not taken account under the IFRS fair value principle and thus also not under the EPRA principles as EPRA is not meant to redefine IFRS fair value definitions

As the adjustment to other non-current assets/investments relates to all three metrics, so does the answer provided above. Last, as far as IFRS 13 is concerned, these shall not be considered under IFRS 13 fair value definition and therefore no premium should be taken into account.

- 4.8** According to IFRS, there are cases in which both deferred taxes on properties and on properties with an outside basis have to be taken into account, although it is clear that only one of the two - usually the difference with an outside basis - will have an effect. How should such cases be treated for the purposes of the EPRA NRV, NTA and NDV calculation? Normally one would expect that the internal base difference would still be deducted as it never needs to be paid and it is doubtful whether a buyer would include such deferred taxes in his calculations (depends on market conditions and jurisdictions).

IFRIC concluded in its July 2011 pronouncement:

“The Committee, considering the guidance in paragraphs 35-39 of IAS 12, noted that the requirements in IAS 12 are clear that the expected manner of recovery should reflect recovery of both:

- a) investment property when measuring a deferred tax liability for the investment property itself (i.e., an inside basis difference);
- b) investment in a corporate wrapper when measuring a deferred tax liability for investment in the corporate wrapper (i.e., an outside basis difference).”

The principle of deferred tax on inside and outside differences is not different for any of the EPRA metrics, as set out below for each of the NAV metrics as further specified below.

1. NRV: Exclude the deferred tax as per the IFRS balance sheet in respect of the difference between the fair value and the tax book value of investment property, development property held for investment, intangible assets, or other non-current investments as this would only become payable if the assets were sold.

Additional EPRA comment: On the principle as set out above, exclude all deferred tax, thus both deferred tax on inside and outside differences.

2. NTA: EPRA NTA allows the following options according to page 15 of the BPR, with additional explanatory comments provided in italics:
 - (i) When a company has clearly and specifically identified in its reporting part of its portfolio that it intends to hold and does not intend in the long run to sell, exclude such deferred taxes which are attributable to such part of the portfolio.

EPRA comment: This then would relate to both the deferred taxes on the inside and outside differences relating to that part of the portfolio which is intended to be held to maturity only and if only if holding to maturity would not trigger deferred tax on any of the difference.

- (ii) A company may specifically identify, based on its track record and/or tax structuring, that deferred tax which will only partially crystallise for part of its portfolio. In this case, the deferred tax can be reduced by a specific percentage for such part of the portfolio. For the avoidance of doubt, deferred taxes are supposed to have crystallised whether it is paid as an actual tax, or as part of a purchase price reduction, or in any other shape or form (whether cash or not)¹. In such case, the company must disclose the basis and methodology for such treatment in the EPRA Net Tangible Asset calculation. This must include the disclosure of the way the percentage of saving has been calculated, as well as the disclosure of the most recent percentage of saving achieved in similar transaction.

EPRA comment: For each of the properties the company holds, it must determine:

- a) If deferred tax on the inside or outside difference or both would crystallize on sale; and
- b) The amount of deferred tax that would crystallize on either selling the asset or the shares, both in terms of the discount granted to the purchaser for latent deferred tax and the amount of capital gain tax that the company itself would have to pay on disposal of the shares; and
- c) Which of these taxes would apply or both.

Please note that this analysis is to be made on an asset-by-asset basis, if the analysis would differ property by property.

As an example, suppose a company is domiciled in a tax jurisdiction where capital gains on selling shares are taxable but only if the shares are sold, the company would on disposal of a particular asset choose to sell the asset itself and retain the shelf (a single asset entity before sale) in which the asset is held, any buyer is expected to be granted a 50% discount on the deferred tax relating to the inside difference, and, selling the asset is a more likely exit scenario than selling the shares of the single asset entity. In this case the full amount of deferred tax on the outside differences as accounted for on the IFRS financial statements would be eliminated and an EPRA adjustment of 50% is to be made on the IFRS amount of deferred tax on the inside differences.

- (iii) In any other cases, exclude 50% of the deferred taxes.

EPRA comment: This guidance is unambiguous and therefore 50% would then apply to both inside and outside differences

- 3. NDV: Under EPRA NDV the deferred tax as per the IFRS balance sheet is expected to crystallise, therefore, no adjustment is needed according to EPRA BPR. This is based on the sales of all the assets [emphasis added] and settlement of all the liability of the entity.

EPRA comment: However, if the expectation is sale of the asset, deferred tax on outside difference could be eliminated but only and if only, if liquidation or sale of the asset (retention is not an option as this is a disposal scenario), would not trigger tax on the outside differences and the crystallization mentioned above would thus not occur for the outside difference, which would seldomly be the case. In case of any doubt, please ask your tax advisor which amount of tax would crystallize if the assets would be sold and the empty shelf would be liquidated.

4.9 How should deferred tax assets on losses carryforwards, which are only justified by the existence of deferred tax liabilities on properties, be treated in all NAV calculations? It would be good to have specific EPRA guidelines on this topic to ensure consistent application on this.

NRV: In our opinion tax losses carried forward which have been capitalised on the basis of existing deferred tax liabilities arising from temporary difference on the FV valuation of Investment Property (IP) should also be excluded under line v) as these will only be realised if the asset will be sold and therefore directly relate to the deferred tax liability arising from the FV valuation of IP.

Or, in other words, as per the BPR, companies should exclude any deferred tax asset or liability in respect of the difference between the fair value and the book value of properties. If the tax asset is included to offset the tax liability linked to positive valuation difference (FV in excess of tax base), then it is within the BPR Guidelines to exclude both the asset and liability related to this.

NTA: If the deferred tax asset is equal to the deferred tax liability, under each of the three options provided under this metric, the balance would remain nil, with exception only for option b) if the chosen exit strategy would cause tax losses to (partially) evaporate.

To the extent the deferred tax liability is in excess of the deferred tax asset, the guidance under the NTA metric should be followed (see page 15 of the BPR guidance).

NDV: As under the NDV all deferred tax is expected to crystallise, no adjustment is needed according to EPRA BPR. This relates both to the IFRS deferred tax asset and liability.

4.10 For the calculation of EPRA net tangible assets, the terms “available for sale in the long term” and “company’s track record” are used in the instructions for adjusting deferred taxes. What is the definition behind these terms, i.e. what if the track record consists of 2 sales in the last 5 years in a particular jurisdiction? Is this considered reliable enough? By the way, deferred taxes are often not a specific topic in the purchase price discussion, so it is not always transparent what assumptions a buyer makes regarding deferred taxes. I think it would be better to give a specific rule without room for discussion to make the published figures comparable and accept the disadvantage that they may not accurately represent the business model of a particular company, also because it is very difficult for a third party to judge whether the underlying assumptions are justified.

This is not a question per se but rather a feedback with regards to the three different scenarios in relation to the Deferred Tax adjustment for NTA.

Having said that, we understand that the suggestion is to make the rule stricter or better defined, without giving much freedom on companies on the adjustment. Per your question, the negative side effect would be that, although EPRA NTA could not perfectly describe the business model of certain entities, it would enable comparative figures and uniform calculation across the market.

In response to your question, EPRA is not prescriptive either on what is ‘track record/for sale in the long run’ or for the minimum number of past periods where a similar transaction has occurred. Instead, the objective/purpose for the DT adjustment for NTA is to allow companies to provide a narrative on the matter.

Meaning that, if DT for NTA was reduced by a specific percentage, linked to that part of the portfolio where that DT will partially crystallise, then the company should disclose all underlying information behind this choice. Ultimately, the key is clear and transparent disclosure around what is included in each bucket. Listed RE Entities should perform an internal assessment to evaluate which option for DT treatment for NTA is more representative of their business model and develop their own rules. The underlying information behind their choice is expected to be disclosed for transparency purposes.

4.11 Should we fair value own-occupied buildings and other property measured at cost?

Companies should fair value own-occupied buildings and other property (typically operational property not meeting the investment property definition – for example owned hotels or serviced offices) measured at cost under IFRS if this constitutes a material adjustment. The BPR does not explicitly require this as there is an assumption that own-occupied buildings represent an insignificant portion of the portfolio.

4.12 Does the adjustment for joint venture interests also apply for associates?

Yes, it does.

4.13 In the EPRA NRV and NTA calculation should we exclude/add-back mark-to-market values of financial instruments recognised in Other Comprehensive Income (and deferred taxes on the revaluations)?

A company should exclude the fair value adjustment to all hedging derivatives. This includes derivatives whose fair value adjustment is recorded in 'other comprehensive income' and the deferred taxes on that fair value adjustment.

4.14 Can we exclude the mark-to-market adjustment to the value of financial instruments that are not derivatives (i.e. assets held for trading)?

No – companies should only exclude the fair value adjustments relating to financial instruments used for hedging.

4.15 If a company has a variable to fixed swap (under which it pays 5% interest) which is significantly 'out of the money' and enters into a new fixed to variable swap (receives 2% fixed) – it has effectively locked into a 3% fixed rate since the variable payments cancel out. In this case should the company still take out the MTM value of both swaps (EPRA NRV and NTA adjustments) – even though the company has locked into a fixed rate which will not reverse out?

The EPRA BPR is clear that the fair value of hedging instruments should be taken out in the EPRA NRV and NTA calculation. If a part of a swap portfolio can be clearly identified as no longer being used for hedging purposes, the fair value of that part should not be excluded in arriving at EPRA NAV as per the BPR guidance. However, if all the instruments are used for hedging purposes (even if there is a degree of offset), the NAVs should be adjusted for the fair value.

In the example in the question, whilst we can understand the rationale for including the swaps (that the net position is more akin to securing a fixed rate vs. hedging), the original intention was to hedge the instrument and the reversing swap is a reaction to the market value of that swap – rather than an intention to be actively trading in derivatives. Depending on the terms of the swaps and market conditions, the fair values are unlikely to be equal and opposite and so there would still be volatility in the income statement and the balance sheet. Since the intention is to hold the swaps until the end of their contractual duration (i.e. maturity), any fair value loss on the balance sheet will not crystallise immediately and rather will be incurred over the life of the swap. For these reasons the swaps should be treated as usual for EPRA BPR purposes.

4.16 Should the EPRA NAV metrics (NRV, NTA, NDV) be calculated on a diluted or a non diluted basis? What is the intention behind adjustment (i) hybrid instruments? Does this mean that all convertible bonds should be adjusted for - including financial instruments that are far out of the money (accretive) i.e. where the conversion price is at a premium?

EPRA NAVs should be calculated on a diluted basis i.e. assuming the exercise of all options and convertibles that are dilutive. This is the adjustment (i) in the BPR, named as "Hybrid instruments". If a convertible bond is viewed as dilutive (see below) companies should adjust both the net asset value for the effects of conversion of the bond and the number of potential ordinary shares (the denominator).

For convertibles that are "out-of-money", exclude the portion of the convertible which is classified as equity under IFRS. With this approach, these convertibles will be treated as if they were entirely debt.

For convertibles that are “in-the-money”, include the part that is classified as debt under IFRS. With this approach, these convertibles will be treated as if they were entirely equity.

Under IAS 33, share options are considered dilutive if they are ‘in the money’ (i.e. the share price is above the conversion price). IAS 33 does not make a similar distinction when assessing the dilutive effect of convertible bonds. This anomaly could lead to a convertible bond being assessed as dilutive even when no rational investor would choose conversion (i.e. the share price is below the conversion price). We would expect companies to follow a similar approach to determine whether convertible bonds are dilutive or accretive and therefore only take into account those that are in the money at the balance sheet date.

Therefore for the purposes of all three EPRA NAV metrics (NRV, NTA, NDV) a convertible bond is viewed as dilutive provided that the following criteria are satisfied:

- a) The convertible bond is dilutive in accordance with IAS 33 para 50 and
- b) The share price at the balance sheet date exceeds the conversion price.

4.17 If a company has a net share settled convertible bond (i.e. bond is not bifurcated into debt and equity, and the instrument is entirely accounted for as debt with a MtM of the whole instrument up to maturity), would the MtM of the convertible bond be excluded from the EPRA NAVs (NRV, NTA, NDV)?

Yes, as EPRA NAVs (NRV, NTA, NDV) are on a diluted basis (see Q4.16), the mark to market of the convertible debt should be excluded from the net assets. A diluted calculation already treats the debt as if it converts and therefore the mark to market asset or liability would not exist.

4.18 The EPRA BPR notes that the fair value of financial instruments (derivatives) used for hedging purposes should be adjusted for EPRA NRV and NTA purposes. This makes sense for interest rate swaps, but should this apply to foreign currency hedging – either fair value hedges or net investment hedges (where the hedged item market value changes are also reflected in the balance sheet)? If the movement in NAV for the underlying item hedged remains within EPRA NRV/NTA, then removing the fair value of the derivative hedging this movement would create a mismatch when calculating EPRA NRV/NTA, which defeats the purpose of hedging this exposure in the first place. This is different to interest rate swaps as the fair value of the debt is not included in EPRA NAV, therefore removing the fair value of interest rate swap derivatives makes sense as it aligns it with the debt treatment.

We agree that the fair value of derivatives used to hedge currency movements (fair value or net investment hedges) should not be adjusted for when calculating EPRA NRV & EPRA NTA and should remain within EPRA NRV & EPRA NTA to offset the movement in the underlying investment being hedged.

- 4.19** An entity has acquired 50% of a company (non-controlling interest) that is accounted following the equity method at a consolidated level. The asset of this 50% acquired company includes (i) land that is held for sale in the short term and (ii) property intended for sale in the near future. Both land and property are registered under IAS 2 (inventories) and therefore are measured at the lower of cost and net realisable value. Additionally, land includes a significant write-down as the difference between cost and net realizable value. Do these assets have any impact or adjustment for both EPRA NAVs and EPRA Earnings purposes? More precisely, should any possible revaluation be taken into account?

EPRA NAV metrics' guidance states that adjustments have to be made for non-current assets also as elaborated by Section 3.2(i) of BPR Oct 2019:

- Include the valuation increase/decrease to fair value of any other non-current asset where

fair value can be reliably determined. The basis of valuation will need to be disclosed.

- Financial valuation adjustments are however not part of EPRA Earnings, hence it may impact NAV, not Earnings.

- 4.20** The liability of a 50% acquired company includes a significant intercompany loan provided by its parent company (shareholder). NAV ratio under IFRS calculated at individual level is negative (due to the significant write-down mentioned above and registered in the previous year). Should the intercompany loan be considered as equity instead of liability for EPRA NAV metrics' (NRV, NTA) purposes?

If the intercompany loan is not equity under IFRS, it will also not be considered as equity under EPRA.

- 4.21** Should treasury shares be adjusted in EPRA NRV and NTA calculation, as they are considered financial instruments which have a negative impact on equity?

EPRA follows IFRS with respect to classification of equity instruments and number of shares outstanding. Treasury shares are deducted from IFRS equity (according to IAS32) and are not recognized as a financial asset (IAS32 AG 36).

As the BPR does not specifically address the particular case of treasury shares and as it does not fit in the EPRA NDV calculation, we would not recommend any adjustment.

- 4.22** A company has several subsidiaries with latent capital gains and intends to merge with those companies within 12 months. However, the formal decision for the mergers has yet to be taken. On the moment of a merger, the payment of an exit tax becomes due. Instead of booking a deferred tax liability, the company makes a provision for the exit tax. Should these exit tax provisions be added to the company's equity in the calculation of EPRA NAV?

This is more an IFRS-related question. Formally, exit tax only becomes current tax if it is a liability. Until that moment it remains deferred tax and should be excluded from EPRA NAVs. Under IFRS a liability is defined as: - present obligation, - arising from a past event, the settlement of which is expected to lead to an outflow of future economic benefits from the entity. However, if there is an intention to really restructure, we would recommend making a company specific adjustment to EPRA NAVs (thus not to reverse the exit tax liability).

- 4.23** If the financial instrument is ‘in the money’, does a company only have to account for it in the calculation of the NAVs, if the effect is dilutive on the NAV? Also, since sometimes the share price is close to the conversion price, it could mean that a financial instrument changes from ‘in the money’ to ‘out of the money’ during the year. This would result to a different way of NAV calculation between two reporting periods.

For all EPRA NAV metrics, namely NRV, NTA, NDV, calculation, the following rationale applies.

For convertibles that are “out-of-money”, exclude the portion of the convertible which is classified as equity under IFRS. With this approach, these convertibles will be treated as if they were entirely debt.

For convertibles that are “in-the-money”, include the part that is classified as debt under IFRS. With this approach, these convertibles will be treated as if they were entirely equity.

As stated in question 4.16, “We would expect companies to follow a similar approach to determine whether convertible bonds are dilutive or accretive and therefore only take into account those that are in the money at the balance sheet date.”

- 4.24** Company A acquired a stake in Company B, which possessed land accounted for as inventory under IAS 2. Company B aimed to develop a property on this land. At closing date, development of the property has not yet started. Book value (acquisition cost) amounted to €100 million and fair value amounted to €130 million. At the next closing date (one year later), property development has started. Book value of the property development amounted to €115 million and fair value amounted to €150 million. Should Company A include the revaluation in EPRA NAVs as ‘revaluation of other non-current investments (i.c)’ in both closing dates?

The revaluation of the development property should be included under EPRA NAVs calculation. You can include the revaluation under section B (iii) on pages 13-14 of the EPRA BPR Guidelines (Oct 2019). This is explained in the guidelines under the heading of ‘Revaluation of trading properties’ and states ‘The surplus arising on the revaluation to market value of properties held for trading, which are included in the IFRS balance sheet at the lower of cost and net realisable value.’

- 4.25** Should a convertible that is in the money on the reporting date be treated as equity (exercise assumed)? Consequently, are out of the money convertibles not treated as exercised? Secondly, do you recommend to recognize convertibles at market values (stock price) or at nominal values?

In relation to equity instruments, EPRA’s BPR follows IFRS, both in respect to classification and to valuation. So starting with NAV under IFRS, there is no expectation of any adjustment for convertibles to arrive at the three EPRA NAVs.

- 4.26** Is it the case that preference shares (which will be accounted for as equity) and goodwill created by acquisitions, should be included in EPRA NAV metrics (NRV, NTA, NDV)?

- a) Under IFRS, preferred shares can either be classified as debt, equity, or both. EPRA NAV metrics (NRV, NTA, NDV) follow IFRS classification of equity. If it is thus equity under IFRS, it is also equity under the EPRA NAVs. If it is debt under IFRS, it is also debt under EPRA NAVs.

- b) The only adjustment applicable to all three EPRA NAV metrics (NRV, NTA, NDV) in respect of goodwill, is goodwill which relates to deferred tax but only because also the deferred tax itself is eliminated from the EPRA NAVs – see adjustment vii) Goodwill as a result of deferred tax. This situation can occur if a company acquires another property company and the deferred tax is negotiated at a discounted rate, e.g. at 50%. On acquisition, if a business combination lies under IFRS 3, the acquiring company needs to top up the deferred tax to 100%. In order to avoid a day one loss, some accounting firms do allow offsetting the top up adjustment by goodwill. It is (only) this goodwill which is eliminated in the EPRA NAVs as also the deferred tax is eliminated, where applicable (NRV & NTA).

With respect to b), please do note that positive or negative goodwill charged or credited to earnings, is adjusted though for EPRA Earnings calculation.

Any other Goodwill as per the IFRS balance sheet should be adjusted under line item viii.a) Goodwill as per the IFRS balance sheet.

4.27 EPRA NAV metrics include the “effect of exercise of options, convertibles and other equity interest (diluted basis)”. How does this affect the existence of stock options plans in this ratio?

NAV per share is calculated on a diluted basis, including impact of options, convertibles etc. that are dilutive. Dilutive is as in IAS 33. Hence for the purpose of calculating EPRA NAVs:

- a) $\text{NAV} = \text{NAV per financial statements} + \text{the NAV effect of the conversion/ exercise of dilutive stock schemes (for example the net cash inflow from issue of new shares under these dilutive schemes)} + \text{all other adjustments referred to in 3.2 of the BPR.}$
- b) $\text{Number of shares} = \text{number of outstanding shares} + \text{the number of shares which are considered dilutive under the existing conversion plans, exercise of options etc.}$

A stock option plan normally has exercise prices. If dilutive and settled in cash: NAV increases with the cash inflow, and the number of shares by the new shares issued under the plan.

4.28 For calculating the EPRA NAVs, the EPRA Guidelines suggest excluding any deferred tax included in the financial statements under IFRS in respect of the difference between the fair value and book value of investment property, as this would only become payable if the assets were sold. In this regard, should deferred tax on Investment Property held for sale in accordance with IFRS 5 be excluded in the calculation of NRV and NTA? When considering the disposal of the investment property, should one consider the disposal of all investment property or only the investment property which is generally intended to be sold in the near or far future (planned deals)?

The reclassification made under IFRS 5 should have no impact on the three NAVs (NRV, NTA, NDV) in terms of the required adjustments that need to be made. Deferred taxes related to the assets held for sale are still on the balance sheet, but shown in a different line. In essence, the same approach/logic is followed for entities accounted for under the equity method. Therefore, deferred taxes that are part of the disposal group should be taken into account when calculating EPRA NRV and EPRA NTA.

4.29 Do we only fair value publicly traded debt or all debt including bank loans and non-traded debt under EPRA NDV?

Companies should include the fair value of all debt. EPRA recognises that this may be more difficult to determine in the case of non-traded debt although this can be done, for example, with reference to the latest terms that could be obtained for a similar type of financing, or through discounted cashflow techniques. Note that floating rate debt is usually valued at par, an exception would be where the margin is no longer available in the current market – but fixed rate debt usually has a fair value different to par.

4.30 For the RETT to determine the EPRA NRV do we need to take into account also the RETT of the properties in these joint ventures?

The investment properties held by JV are measured at FV for the purpose of EPRA NRV calculation (either directly under IFRS within the shares in companies accounted for using the equity method on the balance sheet or as an adjustment to FV in the rare cases where IP would be held at cost)

Thus, it is appropriate to adjust RETT of the properties in the joint ventures for the purpose of EPRA NRV calculation (at group share of course).

4.31 The starting point in the EPRA calculation scheme is IFRS Equity attributable to shareholders. Under IFRS, decided but not yet paid out dividend is accounted for as debt. The question at hand is Whether this decided upon but not yet paid out dividend should be added back to equity as an adjustment in the NAV calculation?

The rationale behind the question is that if you buy shares in the company before dividend is paid out you have a full stake in this, accordingly, adjusted equity. It is becoming more and more common that dividend cash flows are split into more than one term.

This adjustment is not included in the guideline applicable to calculate the EPRA NAV, so this is not an EPRA NAV adjustment and the amount should not be added back.

4.32 Here is a question on the revaluation of inventories, which of the following option applies?

I mean our inventories are held in the balance sheet at cost and therefore our attributable equity value doesn't reflect any value embedded.

We have 1.5bn inventory cost and the GAV amounts to €2.1 so implicitly the latent capital gains are 600mn. On which we will have to pay taxes.

| B. EPRA Net Asset Value Metrics | EPRA NRV | EPRA NTA | EPRA NDV |
|--|------------|------------|------------|
| IFRS Equity attributable to shareholders | xxx | xxx | xxx |
| Include / Exclude*: | | | |
| i) Hybrid instruments | x | x | x |
| Diluted NAV | xxx | xxx | xxx |
| Include*: | | | |
| ii.a) Revaluation of IP (if IAS 40 cost option is used) | x | x | x |
| ii.b) Revaluation of IPUC ¹ (if IAS 40 cost option is used) | x | x | x |
| ii.c) Revaluation of other non-current investments ² | x | x | x |
| iii) Revaluation of tenant leases held as finance leases ³ | x | x | x |
| iv) Revaluation of trading properties ⁴ | x | x | x |
| Diluted NAV at Fair Value | xxx | xxx | xxx |

We suppose that inventories are accounted for at cost according to IAS 2 and are composed of property assets held for trading purposes. EPRA NAV metrics' guidance states that adjustments have to be made for the "difference between trading properties held on the balance sheet at cost (IAS 2) and the fair value of those trading properties" (see the line "iv)" in the template above).

4.33 Option for the acquisition of investment property and the inclusion in the EPRA equity metrics:

As of 30 June 2021 we signed an conditional agreement for the purchase of certain assets. The fixed purchase price for these assets is lower than the market price of these assets.

The fair value of the option to acquire these assets below market price increases our equity attributable to shareholders significant as the option itself had no purchase price.

The option was accounted for as an non financial asset and in consideration of the own use exemption in accordance with IFRS 9.

Because of that we would include the value of the option in the EPRA equity metrics EPRA NTA, NRV and NDV.

What is your opinion on that ?

You are right, the option should be accounted for as a non-financial asset. It does not meet the definition of a financial asset under IAS 32.11 [i.e. a contractual right to receive cash or another financial asset from another entity]. Therefore, the option FV should be included as part of the point ii.a) of the EPRA NAV Metrics table.

- 4.34 Our advisors told us that it is common practice to adjust the EPRA NRV just for real estate transfer tax (meaning adding RETT of valuation of GAV to the figure) and adjust the EPRA NTA either for real estate transfer tax nor acquisition costs (meaning to not add any of both to the figure).

As I could not read that out of the guidelines or Q&A, I would like to ask you to confirm that approach.

For EPRA NRV, no, both the RETT and other fees (that are deducted in the valuation certificate, i.e., the difference between the gross and the net property values should be added back. Since the aim of NRV is to reflect what would be needed to recreate the company through the investment markets based on its current capital and financing structure, related costs such as real estate transfer taxes (i.e. purchasers' costs based on the Valuation Report) should be included. Now, for NTA, as outlined in the BPR guidelines dated October 2019 companies are recommended to use the IFRS values (usually the Net Value in the Valuation Certificate, i.e. the property value net of any purchasers' costs and adjusted for any items addressed in § IAS40.50). Companies also have the option to use the optimised net property value if it can reasonably demonstrate that it can actually achieve this optimization on a consistent basis. Companies will have the option to use a transfer tax optimisation adjustment to gross-up their Net Values if they can justify this and provide sufficient disclosure. A way to justify the adjustment would be for a company to show that it has consistently achieved over the past periods lower transfer tax on its real estate transactions. The average transfer tax achieved could then be used.

- 4.35 Just clarifying one point on the below, the concept of assessing whether an instrument is 'dilutive' or not for EPRA NAV metrics against the company's share price at the balance sheet date – does this apply to convertible instruments only or to both convertible and other instruments such as share options?

When we say share options, we mean those options held by employees as part of their remuneration packages (as opposed to convertible options that can be redeemed for a par cash amount etc.).

Just wanted to check that you were comfortable that these type of employee share options should be tested for dilution against the period end closing share price too?

Employee Share Options are subject to IAS 33 when calculating their dilutive effect and therefore the average share price over the period should be used.

- 4.36 I have one question regarding the Effect of “exercise of options, convertibles and other equity interests (diluted basis)” adjustment. When I’m checking if an option is dilutive, do I refer to the listed share price or to the EPRA NAV per share value? So let’s take the following example:

Exercise price of the options – 10
Listed share price as of 31.12.20- 7
EPRA NRV for 31.12.20- 15

Do I consider this option as dilutive?

We would like to point out the following:

- Whether an option is dilutive or not is dependent on IFRS, which states that generally options are dilutive if they are in-the-money – i.e., the exercised price (including the fair value of any goods or services to be

supplied to the entity in the future) is lower than the average market price of the ordinary shares. Please refer to IAS 33, Earnings per Share. EPRA follows IFRS in this respect with no exception.

- There is no relationship whatsoever between any of the EPRA NAV metrics and the dilutive aspect of the option.

4.37 I am reaching out because I have a couple of questions about the RETT treatment on the calculation of the EPRA NTA with which I hope you could help me.

a) Should the company use their own estimates of transfer taxes?

b) How does the deal structure play out on the NTA calculation? Can the company use and optimized RETT level based on the fact that they do both asset and share deals?

c) How much evidence is required to use an optimization of RETT?

d) Must the evidence come from transaction carried out by the company or can it be based on overall market?

e) Do you have any specific guidelines on the “sufficient disclosure” level in addition to what is mentioned in BPR Guideline (p17)?

According to the guidelines on EPRA Net Tangible Assets: *“Companies are recommended to use the IFRS values (usually the Net Value in the Valuation Certificate, i.e., the property value net of any purchasers’ costs and adjusted for any items addressed in § IAS40.50). Companies also have the option to use the optimised net property value if it can reasonably demonstrate that it can actually achieve this optimization on a consistent basis. Companies will have the option to use a transfer tax optimisation adjustment to gross-up their Net Values if they can justify this and provide sufficient disclosure. A way to justify the adjustment would be for a company to show that it has consistently achieved over the past periods lower transfer tax on its real estate transactions. The average transfer tax achieved could then be used.”*

a) Yes, the criteria for using the relative advantage of share deals as a basis to calculate the optimization adjustment, which indirectly follow from BPR 2019, are:

- share deals effectively must result in lower RETT; and
- the company has a history of successfully completing share deals; and
- there is a reasonable expectation that it can also do so in the future.

If all these criteria are met on a cumulative basis the possibility to dispose properties by means of share deals may, taking all circumstances into account, be a justification for an optimization adjustment but never in excess of average RETT savings achieved in the past. The latter follows from the last sentence. from the above quote from BPR 2019. See also our answer on sub question 3.

b) EPRA BPR talks about “can reasonably demonstrate”. What is reasonable is a matter of judgment but the additional guidance on “consistent achievement” and average past RETT “savings” achieved on deal structuring, provides some indicative answers. In this respect a saving should be defined as the positive difference between the net proceeds realized on selling a property in a share deal, often referred to as the sale of a property in a corporate wrapper, compared to the net proceeds that would have been realized in an asset deal.

c) The guidance is clear on this matter. The above reference to savings achieved explains that the evidence must be primarily company specific. The company must thus have successfully achieved savings on

RETT in the past by having concluded share deals. However, the inclusion of “may” suggests that one should still critically review all facts and circumstances including but not limited to:

- as to whether the past is representative for the future.
 - whether the current portfolio offers the same structuring possibilities to conclude share deals as in the past;
 - whether prevailing tax law is still facilitating share deals in a manner comparable with the past;
 - whether the market appetite for share deals is just as high as it was in the past; and
 - whether in percentage terms (meaning expressed as an average for the portfolio as whole) the same benefit can still be achieved as actually achieved in the past on share deals.
- d) The objective of any disclosure requirements is to provide sufficient information to enable users of financial statements to obtain an understanding of how a particular number, whether an amount, estimate, subtotal, adjustment, percentage etc. has been arrived at. What is sufficient in this respect is a matter of judgement. EPRA provides no guidance on this matter but within IFRSs you can find numerous definitions of sufficient disclosures. Please note in this respect that IFRSs addresses sufficiency in a negative way, i.e., a disclosure is insufficient if it does not enable the user to understand the impact of transactions, other events and conditions on the entity’s financial position and financial performance (IAS 1).

4.38 I have a general question on the treatment of deferred taxes on the statement and on their scope. Do you only refer to property related deferred taxes or do you include other types as well (such as deferred taxes with respect to convertibles etc.) and how shall tax loss carry forwards be treated in that context (related effects excluded or included)? Is there any guidance in addition to the BPR document on taxes? There is a number of technicalities which are not comprehensively covered by the guidelines.

EPRA BPR makes numerous references to deferred tax, among others:

With respect to EPRA Earnings:

Companies should exclude the deferred tax charge or credit in the period which only relates to the above items and which would not crystallise until or unless the property, investment or financial instrument is sold. This would typically include deferred tax on revaluation surpluses and tax depreciation (in the UK capital allowances) on real estate which could reverse on disposal of the asset.

With respect to NAV metrics:

EPRA Net Reinstatement Value: “Assets and liabilities that are not expected to crystallise in normal circumstances such as the fair value movements on financial derivatives and deferred taxes on property valuation surpluses are therefore excluded.”

From the above it is clear that deferred tax exclusions do not only relate to properties.

a) EPRA earnings excludes all deferred tax income or expense that only crystallises when the underlying item is sold or settled, thus also in relation to financial instruments and other items than property investments or financial instruments.

b) EPRA NTA follows a similar approach: exclude all balance sheet deferred tax positions that only crystallise when the underlying item is sold or settled.

Hence the treatment of deferred tax in the EPRA metrics is almost a principle-based approach. Exclude any deferred tax income or expense relating to items that are not part of recurring earnings and exclude any deferred tax position (EPRA NRV) that will only crystallise when the underlying item is sold or settled.

In that respect, deferred tax positions with respect to tax losses carried forward shall not be excluded from EPRA NTA and NRV as these are not related to any item that will be sold or settled but independently represent an economic value to the company. They may however have to be excluded from NDV if the value will not be recovered on disposal, e.g., if they are neither collectible by the company after disposal nor transferrable to a prospective buyer if company assets are sold and/or if liabilities are not held until maturity.

4.39 The goal of the NRV is to reflect what would be necessary to found the company on the basis of its current capital and financing structure. Therefore the RETT (and other acquisition costs) needs to be taken into account. What happens, when we have in some of our propco's RETT Blockers to avoid RETT? Can we make a generalised assumption and only take the RETT into account, that would definitely apply?

Example: RETT according to valuation report € 1m; RETT that could be avoided (via RETT Blockers) € 0.2m -> Add back RETT = € 0.8m? Or is it not possible to account for RETT Blockers here and we have to add the whole € 1m back?

EPRA BPR guidelines state on page 17: “EPRA Net Reinstatement Value: Companies will use the gross value as provided in the Valuation Certificate (i.e., the value prior to any deduction of purchasers' costs).” And: “EPRA Net Tangible Assets: Companies are recommended to use the IFRS values (usually the Net Value in the Valuation Certificate, i.e., the property value net of any purchasers' costs and adjusted for any items addressed in § IAS40.50). Companies also have the option to use the optimised net property value if it can reasonably demonstrate that it can achieve this optimization on a consistent basis. Companies will have the option to use a transfer tax optimisation adjustment to gross-up their Net Values if they can justify this and provide sufficient disclosure. A way to justify the adjustment would be for a company to show that it has consistently achieved over the past periods lower transfer tax on its real estate transactions. The average transfer tax achieved could then be used.”

Basically, RETT mirrors the treatment of deferred tax (if option 2 is followed for NTA). Thus

a) For NRV purposes add back all RETT deducted in the IFRS financial statements, which assumably follows the RETT deduction made by the valuer as IFRS requires valuation on a net basis.

b) For NTA purposes only add back the RETT that cannot be avoided in an optimized deal structure. For practical purposes, BPR allows to make an adjustment based on the average transfer tax savings achieved in the past.

If we understand your example correctly, the valuer has deducted CU 1M and you believe that 0.2M. hereof can be avoided in an optimized deal structure, leaving CU 0.8 million payable. In this situation you would add back CU 1M in the EPRA NRV calculations and CU 0.2M in the EPRA NTA calculation. Thus, an upward adjustment on the fair value with 20% of the RETT deducted by the valuer. That however does not automatically imply that you can make a similar adjustment on the entire portfolio as according to BPR you must be able to demonstrate that that percentage has consistently been achieved over the past periods and is also likely to be achieved in the future. You stated that you want to add back CU 0.8 M but that essentially assumes a RETT blocker of 0.8M. What needs to be added back from the net value is the effective deduction on full RETT after optimization.

Example:

| Gross Value | 100 | EPRA | NRV | NTA |
|--|-----|--------------|-----|-----|
| Full RETT as deducted by value: 10% | 10 | IFRS amount | 90 | 90 |
| Net IFRS value (ignoring transaction cost) | 90 | Add back | 10 | 2 |
| | | Adjusted NAV | 100 | 92 |
| Full RETT | 10 | | | |
| RETT that could be avoided on optimization | 2 | OR | | |
| Net RETT | 8 | Gross value | 100 | 100 |
| | | Deduct | 0 | 8 |
| | | Adjusted NAV | 100 | 92 |

- 4.40 According to the EPRA guideline, one can choose among two approaches in terms of the RETT: either take the IFRS figures from the valuation report (no adjustment) or use an optimised calculation (“optimised net property value”), which justifies, that lower RETT was applicable in the past.

We would go with the second option and make the assumption, that IFRS 5 revenues would immediately be reinvested in real estate. Accordingly, the calculation would be: IFRS 5 selling price x average RETT. Is such an assumption possible?

In determining the optimization amount we do not think it is appropriate to make a comparison to IFRS 5. IFRS 5 relates to properties held for sale. The NTA and NTV guidelines referred to above relate to properties not held for sale but for properties held under continuing operations. The basis of IFRS 5 is to value the properties at fair value less cost to sell on an asset-by-asset basis. That would not necessarily reflect the optimization that can be achieved as referred to in EPRA BPR. EPRA BPR states on page 17: “Companies also have the option to use the optimised net property value if it can reasonably demonstrate that it can achieve this optimization on a consistent basis. Companies will have the option to use a transfer tax optimisation adjustment to gross-up their Net Values if they can justify this and provide sufficient disclosure. A way to justify the adjustment would be for a company to show that it has consistently achieved over the past periods lower transfer tax on its real estate transactions. The average transfer tax achieved could then be used.” Hence, the basis is the effective RETT saving achieved in the past as a result of optimization (i.e., deal structuring). If it is realistic to assume that that saving can on average also be achieved going forward than that average is the basis for calculating EPRA NTA. See example below:

| Gross Value | 100 | EPRA | NRV | NTA |
|--|-----|--------------|-----|-----|
| Full RETT as deducted by value: 10% | 10 | IFRS amount | 90 | 90 |
| Net IFRS value (ignoring transaction cost) | 90 | Add back | 10 | 2 |
| | | Adjusted NAV | 100 | 92 |
| Full RETT | 10 | | | |
| RETT that could be avoided on optimization | 2 | OR | | |
| Net RETT | 8 | Gross value | 100 | 100 |
| | | Deduct | 0 | 8 |
| | | Adjusted NAV | 100 | 92 |

4.41 For the calculation of EPRA-NTA we have the option to exclude the deferred taxes that relate to the part of the portfolio that is held long term (and is not expected to be sold). That is why we made that assumption, that only IFRS 5 properties are not being held long term and are expected to be sold. Hence, we would exclude the deferred taxes that relate to IFRS 5 properties for the purpose of this calculation. Is this possible?

The EPRA BPR guidelines state on page 11: *“The underlying assumption behind the EPRA Net Tangible Assets calculation assumes entities buy and sell assets, thereby crystallising certain levels of deferred tax liability.”*

Further explanation is provided on page 15: *“EPRA Net Tangible Assets: Use any of the following options to adjust for deferred tax in EPRA Net Tangible Assets. Disclose the below table to provide further information on your chosen option.*

(i) When a company has clearly and specifically identified in its reporting part of its portfolio that it intends to hold and does not intend in the long run to sell, exclude such deferred taxes which are attributable to such part of the portfolio.

(ii) A company may specifically identify, based on its track record and/or tax structuring, that deferred tax which will only partially crystallise for part of its portfolio. In this case, the deferred tax can be reduced by a specific percentage for such part of the portfolio. For the avoidance of doubt, deferred taxes are supposed to have crystallised whether it is paid as an actual tax, or as part of a purchase price reduction, or in any other shape or form (whether cash or not)¹. In such case, the company must disclose the basis and methodology for such treatment in the EPRA Net Tangible Asset calculation. This must include the disclosure of the way the percentage of saving has been calculated, as well as the disclosure of the most recent percentage of saving achieved in similar transaction.

(iii) In any other cases, exclude 50% of the deferred taxes.

In addition, in Question 4.4. of the EPRA BPR Q&A 2020 (page 22) it is stated that:

Despite the fact that the guidelines imply that option 1 may be applied for part of a company’s portfolio (and not for 100% of the portfolio), as long as the company clearly discloses the intention not to sell any of the assets in the near future (note that the Guidelines make no reference to IFRS 5), then it should be fine to exclude all DTL (100% DTL) for the entirety of the portfolio - thus, making the DTL adjustment for NTA and NRV to be equal. This intention could also be backed by the experience of not selling any assets in the past x number of years.”

The last statement indirectly implies that that a company that has actively bought and sold assets in the past may find it difficult to classify its entire portfolio as held for the long run. Secondly, just labelling all non IFRS 5 asset as long term is not the intention of the BPR guidelines. The bars to classify a property as an IFRS 5 asset are set quite high by IFRSs. IFRS 5 states that an asset is to be classified as held for sale only if the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale is highly probable. Therefore, if a company has not identified any assets held for (immediate) sale that does not automatically classify the entire portfolio as *“intended to be held for the long run”*. The classification of *“intended to be held in the long run”*, much more depends on the long-term investment strategy rather than a tactical decision to classify certain assets as available for (immediate) sale. Examples of portfolio’s that may not in its entirety classify as *“intended to be held in the long run”* are:

a) An investor in shopping malls only want to invest in premium malls, yet it classifies part of its portfolio as non-premium.

b) A residential property company targets a portfolio with units younger than 25 years, yet part of its portfolio is older than 25 years.

c) An office investor only wants to invest in core cities, yet it holds some assets in non-core cities.

In any of the cases describe above no IFRS 5 assets may have been identified, yet it may be difficult to demonstrate that the entire portfolio is “*intended to be hold for the long run*”.

5

EPRA Net Initial Yield



General description

Why is EPRA Net Initial Yield important?

Net yield is one of the key performance measures used by investment property companies and investors to appraise investments. For investors, the yield that an investment property company achieves is a good indicator of the ‘quality’ of the property portfolio in terms of its ability to generate rents. One of the biggest challenges they face is the wide variation in methods used to calculate yields and the lack of adequate disclosures. The EPRA net yield measures have been developed in order to provide consistent yield definitions that are relevant to investors in investment property companies.

EPRA Net Initial Yield is a measure of the yield based on the annualised cash rents passing at the balance sheet date less non recoverable operating costs (e.g. service charges, property taxes, ground rents) divided by the gross portfolio value.

Q&A

- 5.1 A company has a development site which is currently occupied at below market rent whilst the tenant (former owner) is waiting to move into their new property – at which point the company plans to start the development (in about 3 years). This has been included as a let property in the EPRA vacancy calculation as it is occupied. Should this be excluded from NIY if it is considered to be development property and the rental is only part of the purchase agreement?**

The intention behind the EPRA NIY calculation is to show the yield on the ‘completed property portfolio’ excluding ‘undeveloped land’ and ‘construction in progress’. This would normally suggest that if a property is let and that the development has not actually commenced (or planned to commence imminently), it should not be excluded.

If the property is clearly not treated as part of the completed portfolio and treated as development property in other areas of the financial statements (including other BPR

disclosures such as like-for-like rent) then it should not be in the NIY calculation. Similarly, the EPRA Vacancy Rate should be calculated for ‘all completed properties’ (investment, trading property etc) i.e. property which is ‘under development’ or not ‘lettable’ is specifically excluded in the BPR.

We would normally expect that where property is considered a ‘development’ for the purposes of EPRA NIY then it should be treated accordingly for the EPRA Vacancy Rate calculation and like-for-like rent (i.e. consistent treatment for all metrics).

In this case, we have concerns with the fact that the property is not currently being developed, it is tenanted for a considerable period, and it is included as rented in the EPRA Vacancy measure. Although we appreciate that this is not always clear cut (for example in this case where the rent is below market and the property has been purchased with a view to develop), our general preference is to try and encourage consistency between BPR measures, and our current view is therefore that it would not be appropriate to exclude the property from the NIY calculation.

5.2 The fair values of our properties do not include a deduction for purchasers' transaction costs, which is the common practice in our markets. Should we deduct transaction costs in the EPRA net yield calculation, even though they are deducted in determining the balance sheet fair values?

The value of properties in the EPRA NIY calculation should be 'grossed up' for any purchaser's costs which been deducted in arriving at the property values. The EPRA NIY reflects how the investment is viewed by the market and represents the yield based on the gross investment (or 'entry price') including purchase costs. In contrast, the IFRS fair value reflects the 'exit price' at which the property could be sold and is after deducting purchaser's costs.

5.3 Investment Property fair values are reported net of transaction costs. Are we required to adjust for purchasers' costs gross up? What is the logic behind this?

See Q5.2 above. The EPRA NIYs are based on the Gross market value including purchasers' costs. They present the yields in relation to the current market value after making appropriate assumptions for the market practices/estimates of transaction costs.

5.4 In our initial yield calculation, we have not deducted repair costs as, according to the external valuer, this is the common practice in our markets. Can repairs be excluded in EPRA Net Yield calculation?

Repair costs are generally considered operating expenses to be deducted in arriving at EPRA NIY and are distinct from capital expenditure (which is not deducted in calculating the EPRA Net Yield). We are not aware of an argument to justify excluding a deduction for repair costs from the NIY calculation.

5.5 Can we deduct marketing costs when calculating EPRA NIY, if these costs are included in our property valuations NRI and therefore our market values?

The EPRA definition is clear that marketing costs are not deducted in arriving at EPRA NIY. The question of whether these constitute day-to-day operating costs is a grey area with retail

centres, where it is common practice to deduct certain costs labelled as marketing costs. It is difficult to be prescriptive on this, but if marketing costs were deducted in the NIY a company would need to be confident that they represent operating costs required to operate the asset on a day-to-day basis rather than marketing of vacant space, for example. If the marketing income is considered 'recurring operational income' and is included in annualised rent, then it would make sense to deduct the marketing costs associated with the marketing income.

5.6 Since the EPRA NIY takes into account rent uplifts (e.g. indexation, reviews) to which the landlord is entitled at the balance sheet date, would it be okay for us to use our 1-year forecast rent as the numerator?

The EPRA NIY is not a forward looking (or "forecast") yield measure. The adjustments described in the EPRA BPR Net Initial Yield calculation (such as inflation, rent review adjustments) relate to rental income to which the company is contractually entitled at the balance sheet date. The approach using forecast earnings would not comply with the EPRA calculation. The issue is that this approach would take into account future budgeted rent increases to which the company is not contractually entitled at the balance sheet date and therefore would not be comparable to those that have applied the EPRA calculation.

5.7 Should we adjust for rent abatements?

The adjustment should be made for all cash incentives (e.g. rent free, discounted rent, etc).

5.8 Regarding the topped-up NIY, should the annualised cash passing rental income include the entry fees / key money and variable rent?

The BPR EPRA NIY guidance clearly states that the annualised cash rent passing should be adjusted for “Estimated turnover rents and car parking income or other recurring operational income... for the avoidance of doubt, excluding key money received and surrender premiums received.” The latter are excluded as they are considered non-recurring items.

5.9 Should the variable rent adjustment be calculated on the basis of the past year or on a projected basis?

The BPR does not prescribe how to determine this (for good reason!) so an assessment is needed of whether past year’s variable rent gives a reasonable estimate of the future ‘recurring’ level of variable rent, or if it should be adjusted upwards or downwards accordingly. If in doubt the variable rent passing at the balance sheet date should be used.

5.10 Why do we include trading properties in the Net Initial Yield calculation given that these properties are non-income generating?

The BPR are focused on the most important adjustments which are relevant to investment property companies. There is a working presumption that trading properties form an insignificant portion of the property portfolio of investment property companies and that non income producing properties (such as trading property) are held temporarily. Thus, trading property is included in the valuation since it is relevant to investors who want to see the rent being generated by the whole portfolio.

5.11 Why are doubtful debts expenses excluded if we are sure that they will not be recovered?

EPRA NIY is based on the cash rent passing. Any rental income relating to debtors (doubtful or not) does not form part of the ‘annualised rent’ used in the yield calculation; hence there is no need to deduct this.

5.12 Why is this referred to as ‘Net’ Initial Yield?

As outlined in the EPRA BPR the EPRA NIY it is based on the initial (or passing) rental income net of nonrecoverable operating costs.

5.13 It is mentioned in the BPR Guidelines that non-recoverable property operating expenses (also named property outgoings) shall be deducted from the calculated rent. Should a company include the cost as property outgoings that are also deducted from the rental income to get the NOI in the P&L (except for the costs that are explicitly excluded in the BPR)? In addition to the enumeration in the BPR this would mean to include e.g. repairs and maintenance.

In this respect the EPRA BPR is clear; all property operating costs are outgoings.

- 5.14 According to the BPR the rents shall be based on the contract terms (annualised) that are applicable at the end of the period (instead of booked rental income during the period). What shall be the calculation base for the property outgoings? We would use the actually booked amounts of the reporting period, because we consider these numbers more reliable than an estimate. Would that be in line with the intention of the EPRA BPR?**

The intention is to also make an estimate, otherwise there could be a huge discrepancy between rents and outgoings. If a contract has been concluded on December 1 for 1000 a month with 90k expenses a month, it would be strange to annualize rent to 12000 and leave outgoings unchanged at 90k. This method would therefore distort NIY calculations.

- 5.15 Some costs (payroll costs, fees related to the activity of syndicates and costs related to projects on building held in portfolio) are not directly attributable to a building. Therefore, should a company exclude them for the calculation of the EPRA NIY?**

The mentioned costs should be excluded from EPRA NIY calculations as these costs are not directly related to operating a property.

- 5.16 Should a company declare its maintenance costs (collected once a year with a one-off payment) with regard to property costs? Could you provide some examples of maintenance and repair costs?**

The costs related to property maintenance are property operating costs, which are to be deducted from the NRI. As the maintenance costs do not contribute to achieving current rents, they should be excluded (deducted) when calculating topped-up NIY.

Maintenance and repairs costs may involve; snow removal, trash removal, janitorial service, pest control, and lawn care etc.

- 5.17 Confirmation that “annualized cash passing rental income” is inclusive of income obtained from reimbursement of operating expenses (e.g. recoverable expenses income); but “property outgoings” is exclusive of recoverable expenses (e.g. only non-recoverable expenses). It would seem counter-intuitive to include “recoveries” in rental income, but not the associated expense in property outgoings. Should recoveries & recoverable expenses be excluded from both?**

Income related to reimbursement of operating expenses should not be included in the “annualised cash passing rental income” as it does not constitute a revenue generating activity. Also, as stated in the EPRA BPR Guidelines, non-recoverable property operating expenses should be excluded in order to arrive to EPRA NIY. To conclude, both income from recoveries and recoverable expenses should be excluded.

- 5.18 The definition for “Annualised cash passing rental income” includes “step-rents”. Can we get further clarification on the definition and the calculation for determining the amount of step-rents? For example, if an existing lease has a term for a rent “step-up” in 2/3years, should that be used to calculate the annualized amount for the current period?**

Since EPRA NIY is not a forward-looking yield measure, an adjustment should be made only if the rent “step-up” takes place within the fiscal period that is discussed in the company’s report.

5.19 The EPRA BPR Guidelines intend that the measurement of the property outgoings for the annualised net rents as of reporting date can include estimates as the reported property outgoings not match the annualised cash passing rental income at the end of the period.

We calculated a property outgoing ratio in % with our reported figures (Service charge income-Expenses from real estate operation)/(Gross rental income) and set this in relation to the annualised cash passing rental income.

Is this in your opinion a sufficient way to calculate the figure?

The EPRA NIY does not provide a calculation of the estimate, but it requires the company to disclose the description and details behind the estimate.

5.20 For the EPRA topped-up NIY calculation should the allowance for purchasers' costs be estimated as a percentage of the wholly owned portfolio or the completed portfolio?

Hence, it follows that purchasers' cost should be calculated over the sum of the IFRS fair values of the Wholly Owned portfolio, plus the share in JV's less the Development Portfolio. That sum is equal to the subtotal referred to as Completed Portfolio in the table (refer to guidelines). If that amount is X and purchasers' cost on average would be Y % (percentage under one hundred), then Y should be calculated over X. The (net) value of the completed portfolio increased by the purchasers' cost, subsequently totals to Gross Market Value. Example:

| | |
|---------------------|---------|
| Gross market value: | 100 |
| Purchaser's cost: | 2 |
| Net market value: | 98 |
| Y= | 2,0408% |

The more accurate alternative obviously is to compare all gross market values of the properties with the IFRS carrying amounts and calculate the difference on that basis. Our experience is that most property companies have these values readily available on a property-by-property basis in a spreadsheet or other environment.

5.21 Regarding the calculation of EPRA yields and costs ratios. Should these both include the movement in the provision for doubtful debts or exclude them?

EPRA yield is based on contractual cash passing rent. That means there is no adjustment for rents that remain uncollected, other than by contractual agreement (unless the yield is topped up in which case the rent will be used hat applies at the expiry of the lease incentives) or is foreseen to be not collectible. That is also clear from the BPR that states:

For avoidance of doubt, the following operating costs are not deducted in arriving at the EPRA Net Initial Yield:

- letting and rent review fees (including letting fees payable to brokers)
- provision for doubtful debtors

Regarding the Cost ratios:

The cost ratio is another story. In contrast to yield calculations, any costs relating to doubtful debt expenses should be included. EPRA BPR page 21 states:

Operating expenses include all property costs which are taken through the income statement such as bad debt expenses, maintenance expenditure, development costs written off, and non-recoverable costs. However, investment property depreciation, ground rent expenses and vacancy costs should be excluded (deducted from the reported IFRS costs).

EPRA ‘topped-up’ Net Initial Yield

General description

Why is the EPRA Topped-up Net Initial Yield important?

The topped-up net initial yield is useful in that it allows investors/analysts to see the yield based on the full rent that is contracted at the balance sheet date. When it is presented alongside EPRA Net Yield it allows users to see the impact of lease incentives on the yield.

This measure is very similar to the EPRA Net Initial Yield except that the cash rent is ‘topped-up’ to reflect the rent after the expiry of incentives such as rent-free periods and discounted rents.

Q&A

5.22 Is the notional rent that is added to the rent up to the level of the straight-lined rent (the rent in the accounts according to IFRS) or up to the level of the headline rent in the contract that is received after the rent-free period?

The EPRA ‘topped-up’ NIY is based on the cash rents that will pass at the end of the rent-free period. Because this is based on the rental cash flows and not the accounting rent shown in the income statement, companies should reflect the headline rent as stipulated in the lease contract.

5.23 Is there a limit for the period of rent frees/discounted rent that should be topped up?

No, the BPR states that all leases should be topped up to the expiry of rent frees without a defined limit. However, companies should clearly disclose the period for which the topped-up adjustment is applied.

5.24 The EPRA ‘Topped-UP’ NIY requires adjusting for the expiry of the rent-free period. Is a similar adjustment required for straight line rent?

According to the BPR the EPRA ‘topped up’ NIY should be calculated by making an adjustment to the EPRA NIY for the expiry of rent frees or other unexpired lease incentives such as discounted rents. EPRA NIY is based on the (annualised) cash rent passing at the balance sheet date – adjusted for any increases to which the company is contractually entitled at the balance sheet date due to indexation or rent review.

The EPRA BPR use as a starting reference the cash rent passing at the balance sheet date used in the EPRA NIY calculation – not the IFRS figures which would need to be adjusted for the smoothing (rent averaging) to arrive at the full annualised rent on expiry. Accordingly, no adjustment should be made.

5.25 To the extent that the RPI or fixed increase calculations are not included in EPRA NIY, could you please confirm whether these implicit increases to the balance sheet date should be included in the EPRA ‘topped-up’ NIY?

Yields should be calculated over appraisal values, i.e. fair value as at balance sheet date. These are after grossing up for any purchaser’s cost deducted by the appraiser.

Example:

Gross Fair Value shown in appraisal report: 1000 Deducted: purchaser’s cost (2%): 20

IFRS fair value/ Exit value: 980 EPRA gross value: 1000

One thus adjusts for prospective costs and not for retrospective costs.

In this respect, we cannot see how under IFRS any acquisition costs can be capitalized.

5.26 The difference between the EPRA NIY and the EPRA ‘topped-up’ NIY is the add of the notional rent expiration of rent-free periods or other lease incentives. Appropriate to the footnote the adjustment should include the annualised cash rent that will apply at the expiry of the lease incentive. In this case the definition of annualised cash rent (here for rent free) is not clear. The average of the rent-free periods for our company is distinctly under 12 months. The Q&A (5.19) for the BPR contain the definition that [“The EPRA ‘topped-up’ NIY is based on the cash rents that will pass at the end of the rent-free period...”]. The question is which amount should be added, the annualised passing net rent (net rent x 12) or the exactly passing net rent (net rent x remaining rent free periods)?

Footnote 2. of the EPRA NIY table is clear regarding the addition of this specific adjustment that “includes the annualised cash rent that will apply at the expiry of the lease incentive”. Furthermore, this adjustment refers to a notional (estimated, not currently existing) amount that is added on top of the “annualised net rents” in order to arrive to the “topped-up net annualised rent”. Also, the EPRA ‘topped-up’ yield should be determined based on the yearly net headline rent, which should be the cash net rent at the end of the rent free (or step rent) period.

5.19 of the BPR Q&A refers to the notional rent added, therefore it is safe to assume that the “cash rents that will pass at the end of the rent free period” are connected to an annualised amount.

5.27 For the purposes of calculating EPRA NIY and EPRA ‘topped-up’ NIY, we have come across the following case, involving “pre-lets” where we would like your help on.

What we would like to understand is how we should treat spaces, where we have a contract in place, which however the lease commences after the reference day of the analysis.

Simplifying:

- EPRA NIY and Top Up Yield Reference date: 31 Dec ‘18
- Contract signing date: 1 Nov ‘18
- Lease Start Date: 1 Feb ‘19

The question is how we should treat the contracted rent, the void and other non-recoverable expenses.

On the basis that the lease is signed, we are considering the following approach:

- Include the contracted rent in the “Topped-up net annualised rent” line
- Exclude the leakage of permanent void and operational expenses from the “Property outgoings” lines as this leakage is only temporary as the space is leased on a triple-net contact that covers all costs

In addition,

- The valuation performed has already taken into account the elements of the signed lease commencing at a later date, and also
- if we were to sell the asset the new buyer would be acquiring it with the aforementioned signed lease in place.

EPRA ‘topped-up’ NIY adjusts the cash rent to reflect the rent after the expiry of incentives such as rent-free periods and discounted rents. Since the described situation is not a lease incentive (the lease has not commenced), and, also, no revenue is recognised under IFRS before the lease start date, the rent should not be included in the calculation.

On the second point, as per the EPRA BPR Guidelines, the ‘Property operating expenses’ should include non-recoverable property OpEx that is connected to vacant property.

5.28 We have some agreements that we sign today for a lease that will only start at a later date. We take account of these agreements in the category “Other unexpired lease incentives such as discounted rent periods and step rents”.

This practice is in contrast with the basis of the calculation of the EPRA yields, which are “based on the cash rent passing at the balance sheet date”. If the leases have yet to commence then they should not be included within the EPRA yields. (We are assuming that these agreed-upon rents are starting after the 31st of December, hence no cash flow has been received as of the balance sheet date from these rental agreements).

5.29 We want to confirm with you how a step rent is included in the topped-up calculation:

Shall we include the “highest step” or an average of all rents (when 3 rents are signed, one per year)?

If average is the right answer, how do we proceed during the third year? Shall we exclude the difference between the highest step and the average?

The EPRA BPR QA guidance states that “The topped-up net initial yield is useful in that it allows investors/analysts to see the yield based on the full rent that is contracted at the balance sheet date. When it is presented alongside EPRA Net Yield it allows users to see the impact of lease incentives on the yield. This measure is very similar to the EPRA Net Initial Yield except that the cash rent is ‘topped-up’ to reflect the rent after the expiry of incentives such as rent-free periods and discounted rents.”

According the EPRA BPR QA related to the rent free periods: “Companies should reflect the headline rent as stipulated in the lease contract that is received after the rent-free period because the EPRA ‘topped-up’

NIY is based on the rental cash flows and not the accounting rent shown in the income statement. [...] EPRA ‘topped-up’ yield should be determined based on the yearly net headline rent, which should be the cash net rent at the end of the rent free (or step rent) period. [Q5.23] ”

EPRA ‘topped-up’ yield should then be determined based on the yearly net headline rent, which should be the cash net rent at the end of the step rent period i.e., the highest step rent if the 3 step rents are included in the lease and the lease has commenced before year-end.

6

EPRA Vacancy Rate



General description

Why is the EPRA Vacancy Rate important?

Consistent disclosure of vacancy measures will always be a challenge between companies because property markets around Europe have different characteristics and each measure can serve a different purpose.

In order to encourage the provision of comparable and consistent disclosure of vacancy measures, EPRA has identified a single vacancy measure that can be clearly defined, should be widely used by all participants in the direct real estate market and comparable from one company to the next.

EPRA Vacancy Rate should be expressed as a percentage being the ERV of vacant space divided by ERV of the whole portfolio. Vacancy Rate should only be calculated for all completed properties (investment, trading and including share of joint ventures' vacancy), but excluding those properties which are under development.

Q&A

6.1 If a company has some vacant space which is being refurbished or renovated, should this be included in the calculation?

The BPR defines vacancy as 'unrented lettable space' and only properties 'under development' are specifically excluded from the EPRA Vacancy Rate calculation. 'Lettable' is defined as "any part of a property that can be leased to a tenant" (BPR page 33). Property under refurbishment is not identified as an item to be excluded in the BPR and should normally be included in the EPRA Vacancy Rate calculation. This is to avoid the risk that companies exclude vacant space from the calculation simply by classifying this as 'under refurbishment' which could undermine the credibility and consistency of the EPRA Vacancy Rate.

Nevertheless, we appreciate that there may be exceptional circumstances where the scale of refurbishment is such that the property cannot be considered lettable. For example, if the refurbishment is so extensive and for such a long period of time, then there may be a case for excluding. In this case, we would recommend a company make clear disclosure of its policy where a property has been excluded due to a significant refurbishment or renovation and apply such definitions consistently across the portfolio. For example, if a property has been excluded from EPRA Vacancy because it is a significant refurbishment it should be treated as if it were a development in the like-for-like earnings disclosures and excluded from the EPRA NIY calculation.

6.2 Should we include property vacated in advance of development (pre-development)?

The BPR only specifically excludes development properties from EPRA Vacancy Rate. Therefore, unless the property is currently considered a development property for other BPR metrics (e.g. yield and like for like rent) a pre-development property should continue to be included in the EPRA Vacancy calculation.

6.3 Should we treat as vacant property where the lease is signed but has not yet commenced?

According to the BPR definition any 'lettable' space should normally be included in the calculation. If the lease has not commenced as at the Balance Sheet date, then it should be included in the calculation.

If a lease is signed there could be a case for treating this as not 'lettable' (and excluded from the calculation) if the timing until the lease commencement would mean that practically the property is not 'lettable'. Again a company should indicate that the property has been excluded because the lease is signed and considered 'not lettable' in the period until commencement. We recognise that there are different views on this, with some considering the property unlettable once a lease is signed and others considering it lettable, and therefore providing clear disclosure is most appropriate.

6.4 If a company has some properties that are let under temporary arrangements e.g. to recover some of the property costs. Should these be treated as 'vacant'?

According to the BPR definition vacant property is 'unrented lettable space'. Whilst we would normally expect that any rented property should not be treated as 'vacant', this may not be so in the case of short-term arrangements e.g. to generate short term income or manage vacant costs while the company may continue to actively market the property for longer term occupation. Our view is that such temporary arrangements are likely to be immaterial and given the highly subjective nature and differences in the types of such arrangements (which may well be genuine lettings), rather than be prescriptive on a specific treatment for all, we would encourage companies to 1) make a reasonable assessment of which temporary arrangements are considered to be let and 2) clearly disclose their policy in relation to short term lets for vacancy purposes. If vacancy includes short term lets (i.e. they are treated as occupied and not vacant) then consistent application with other EPRA metrics needs to apply (e.g. property included in Net Initial Yield and like-for-like rent calculation).

6.5 Is Vacancy Rate a year-to-date figure or the rate at a specific date (reporting date)?

According to the BPR, companies should "disclose EPRA Vacancy Rate at the reporting date" (page 20) based on the vacant property and the completed portfolio at that date.

6.6 How does EPRA define the ERV (Estimated Rental Value)? Do you have some specific guidance and is the understanding correct, that the ERV excludes compensations or temporary rent reductions?

The EPRA BPR defines estimated rental value as the ERV 'at which space would be let in the market conditions prevailing at the date of valuation (normally the balance sheet date)' (see Glossary Page 33). The EPRA BPR are based on the IFRS accounts and therefore as a general rule we would recommend using the ERV figures used in the IFRS reported valuations.

6.7 What are the guidelines for calculating EPRA vacancy rate: is it including or excluding strategic vacancy?

The guidelines for calculating EPRA vacancy rate state that “EPRA Vacancy Rate should be expressed as a percentage being the ERV of vacant space divided by ERV of the whole portfolio”.

Strategic vacancy is not taken into account for calculating EPRA vacancy rate. All vacant areas (for all completed properties -investment, trading and including share of joint ventures’ vacancy - but excluding those properties which are under development) should be included in the calculation of the vacancy rate.

For further clarification, the EPRA BPR are based on the IFRS accounts and therefore as a general rule we would recommend using the ERV figures used in the IFRS reported valuations. Further to this EPRA encourages companies to provide “additional commentary and analysis to explain any significant or distorting factors or likely future trends in the vacancy rate.”

6.8 EPRA Vacancy Rate is described as “a percentage being the ERV of vacant space divided by ERV of the whole portfolio”. We would like to know if the ERV from Car Parking Spaces (and other income such as Corporate Signages or antennas) should be included in such calculation. We have seen that some investors compare (ERV of the whole portfolio less ERV of Vacant Space) with the reported Annualised Gross Rental Income in order to see if the company is under rented or over rented. In Spain ERV from car parking spaces normally accounts for ca. 10% of the rent in office buildings so is a significant part of our rental income.

‘ERV of the whole portfolio’ should include all the investment properties that generate or have the potential to generate rental income for the real estate company. Therefore, if your company is generating ERV from car parking spaces then it should be included in such calculation.

6.9 Is a physically vacant property on which a rental guarantee applies (an obligation by the previous owner to cover for rent shortfall in case the property is empty), considered as vacant or occupied from an EPRA Vacancy perspective?

Often a rental guarantee is treated under IFRS as an adjustment to the sales/acquisition price and is therefore not considered as rent. Also, a rental guarantee exists usually for a limited period of time and it ends or is decreased once the space is actually rented. The conclusion is that space for which a rental guarantee applies usually is available to let.

Taking into account all of the above, we propose that the property should be considered as unoccupied for the purposes of calculating EPRA vacancy rate. In case the effect is material, we suggest adding a specific comment.

6.10 We are an income fund that has property investments across the continent of Africa with our reporting currency being USD. For that reason, some of our ERVs are in country local currency, which we then convert to USD at the reporting date closing rate for the calculation of vacant ERV and building ERV. Therefore, on a month to month due to the constant FX fluctuations against the USD we see the FX impact on the EPRA vacancy month to month. These movements need to be broken down for disclosure purposes.

In terms of breaking down the movements by contribution from month to month, in the form of a waterfall bridge from last reporting month to current month we would then disclose:

Opening EPRA vacancy

1. Movement in GLA vacancies
2. Change in ERV rate (should there be a valuation done) normally bi-annually
3. FX rate change monthly

Closing EPRA vacancy

Is this something widely practiced? Or is it best to freeze the FX rate and thus eliminating any FX movements, therefore our 2 factors resulting in EPRA vacancy change would be movement in GLA vacancies and ERV change.”

Although it might be interesting to explain changes in vacancy rate, the EPRA Vacancy Rate BPR does not specifically address this matter. Therefore, there is no specific guidance on how to explain variances. However, we understand the FX impact on the EPRA Vacancy Rate is related to the weighted average impact of each potential currency in your calculation. Considering useful from an investor/FS reader perspective to disclose the rationale behind EPRA Vacancy Rate variations, we believe that identifying the FX impact on a constant currency basis would be relevant and we would suggest to present it on a separate line in order to make it the clearest possible. For that purpose, there is no need to do the calculation on a month-to-month basis but rather on the whole financial period.

- 6.11
1. Is there a hurdle: e.g. 99% of the spaces of a property are under development (not generating income), but 1% are generating incoming. How to handle this? The predominate space of the property is not generating income.
 2. Spaces under development (regardless of their percentage within the respective property) are not generating income. Can we exclude them and define as “spaces under development”?

No, we do not refer to any standard here. The guidelines are clear here given they state “ Vacancy Rate should only be calculated for all completed properties (investment, trading and including share of joint ventures’ vacancy), but excluding those properties which are under development. “. Now, whether or not a company presents any type of adjusted measure is ultimately for the company to decide. In any case, a key point is that the company provides clear disclosure on its basis of calculation.

7

EPRA Cost Ratios



General description

Why are EPRA Cost Ratios important?

EPRA has received feedback that investors and analysts would like to see more transparency over operating costs incurred by property companies – including overheads capitalised, joint venture expenses and management fees. EPRA Cost Ratios encourage the provision of clearer and more comparable disclosure of total costs, as they can be calculated on a consistent basis for property investment companies whose primary business is the long-term ownership, leasing and management of investment property for the accumulation of rental income and capital appreciation.

The purpose of these ratios is to reflect the relevant overhead and operating costs of the business and provide a recognised and understood reference point for analysis of a company's costs. EPRA recognise that there is a wide spectrum of sectors and business models that have long term ownership and management of property as their core activity. This fact, combined with limited requirement by IFRS regarding the classification of operating, administration, overheads and capital costs, results in difficulties in providing clear and consistent information to investors.

Q&A

7.1 Should operating costs charged to tenants be excluded from the cost basis and from the rental income?

That is correct. The notes (i) and (ii) on page 6 of the EPRA Cost Ratios Guidelines (July 2013), provide comments on these points.

7.2 Should maintenance costs be included in the calculation of the cost ratios?

Correct. The recommendation on page 21 of the EPRA Cost Ratios Guidelines (Oct 2019) provides comments on this point: “Operating expenses include all property costs which are taken through the income statement such as bad debt expenses, maintenance expenditure, development costs written off, and non-recoverable costs.”

7.3 Should staffing costs be included in the calculation of the cost ratios?

Page 24 of the EPRA BPR Guidelines specifically refers to staff costs under the additional disclosure headline as follows:

“As an additional disclosure EPRA recommends that companies disclose the amount of any directly attributable overhead and operating costs capitalised during the year (even if nil). These are costs that would normally be classified as overhead or administrative costs (predominantly staff costs). The disclosed amount should include the proportionate share of joint venture costs capitalised in this manner.”

- 7.4** In the EPRA BPR Guidelines, it is stated that certain expense lines of the IFRS P&L shall be summed up with the exact amounts as they can be found in the IFRS income statement [(i) of the commentary]. “Companies should not exclude items purely because they are considered ‘exceptional’. Do you share this point of view regarding the EPRA Cost Ratio calculation?

EPRA agrees with point of view taken.

- 7.5** If a company’s vacancy costs are determined by the yearly service charge reconciliation and the reconciliation for a property cannot be finished before all service charge invoices have been sent out, how should this company determine the vacancy costs? Are estimates/ approximates allowed?

In absence of a final settlement of service charges best estimate/ approximate is indeed what should be taken into account. Any non-recoverable costs are then a next year expense item.

- 7.6** Should general expenses such as legal advisory services, audit services, asset management fees, etc. be excluded from EPRA Cost Ratio calculation? No revenues assigned to ‘Head Office and other’ are identified.

These general expenses are not to be excluded. EPRA requires administrative and overhead expenses to be included in Cost Ratio. This is clarified under Section 3.6 (i) of BPR Guidelines Oct 2019 as:

“Include all of the ‘overhead’ and ‘operating’ expense lines (including property related expenditure) in the IFRS Income Statement between revenue and the net operating result. Service charge expenses should be recorded net of service charge fees (see item ii) For the avoidance of doubt the following costs are excluded: - Corporate income tax, - Fair value gains/losses, - Discounts on acquisition/goodwill impairments, - Finance costs, - Gains/losses on sale of properties & disposals. Companies should not exclude items purely because they are considered ‘exceptional’.”

- 7.7** When calculating EPRA Cost Ratios, should a company exclude one- off transaction costs relating to an acquisition and a reduction adjustment regarding goodwill resulted from the acquisition?

Normal operational costs made in the process of an acquisition i.e. market research, reviewing and actual acquisition cost etc. should be included in EPRA Cost Ratios calculation under section 3.1 (i). It is further mentioned that “Companies should not exclude items purely because they are considered exceptional”. As elaborated under the same section, goodwill impairment should be excluded.

- 7.8** Should share based performance fees payable to an external manager be included as a cost in the EPRA Cost Ratio calculation? The company is externally managed, so it has no employees or employee costs. The fees payable to the external manager are (1) a base fee of 1% of NAV per annum, paid in cash quarterly, and (2) a performance fee which is a function of NAV growth in a financial year, where if a hurdle is exceeded the manager is entitled to a performance fee. This is settled by the issuance of new shares to the manager, i.e. it is a share-based payment, and is non-recurring in nature unless NAV grows by in excess of the hurdle % in a year. The settlement of the fee by the issuance of new shares is NAV neutral, in that no assets leave the business, but it does dilute existing shareholders. For interim results purposes we are required to look forward to the end of that financial year, and if the calculations estimate that a performance fee will be payable, 50% of that fee is provided for at half-year end. Both the base fee and performance fee (if payable) are included in our profit and loss account. My question is regarding the treatment of the performance fee for the purposes of calculating the EPRA Cost Ratio.

Since EPRA Cost Ratio should “include all administrative and operating expenses in the IFRS statements” (EPRA BPR Guidelines Oct 2019, p.21) and connecting to the fact that “Both the base fee and performance fee (if payable) are included in “our profit and loss account” as you previously described, EPRA recommends that the performance fee should be included in the EPRA Cost Ratio calculations.

The above position is further supported by the extract from the EPRA BPR guidelines (p.20, section 3.5 ¶2) – i.e. “The EPRA Cost Ratios are not intended to be used to directly compare with other industry sectors like the unlisted fund sector. INREV recommendations such as the Total Expense Ratio (TER) do not include property expenses and management ‘performance fee’ costs and are not comparable to the EPRA measure, which includes all property expenses, management fee costs and remuneration”. This suggests -although not completely clear - that the management performance fee should be part of the EPRA Cost Ratio calculations.

- 7.9** The EPRA BPR guidelines appear to be silent on the treatment of costs incurred in relation to a business combination which are expensed in accordance with IFRS 3. If the cost ratio is to provide a consistent baseline for investors it would seem reasonable that business combination costs expensed in accordance with IFRS 3 should be excluded from the cost ratio, as they are in the calculation of EPRA EPS.

I note that the Q&A (7.7) does mention that “normal operational costs” incurred in relation to an acquisition should be included in the cost ratio, however it is not clear whether this is referring to IFRS 3 costs or not, which in most circumstances would not be considered to be normal operating costs. Should the costs of a business combination which are expensed in accordance with IFRS 3 be excluded from the calculation of EPRA costs?

The EPRA Cost Ratios include all administrative and operating expenses as per the IFRS financial statements. Therefore, it depends on the classification of the costs by the company, i.e. if the costs related to the business combination have been included in the OpEx then they will also be included for the calculation of the EPRA costs.

7.10 Looking at the best practice guidance on EPRA cost ratios, I am unclear as to whether dilapidations receipts should be included within gross rental income. I have seen different REITs take different approaches so I would be grateful if you could confirm the intended approach?

As a general rule, the dilapidation income should not be part of the (x) Gross Rental Income in the Cost Ratio calculation. Instead, dilapidation receipts may be included under adjustment (iv) Other Operating Income/recharges.

However, it is key to note that whether or not the amounts received in relation to dilapidation obligations is treated as rental income or other income, could also depend on the lease contract. For example, there can be some situations where amounts related to dilapidated obligations or to damages at the end or during the term of lease could represent rental income. In such a scenario, the dilapidation income can be treated as Gross Rental Income for the EPRA Cost ratio purposes, in line with the IFRS accounts.

In the scenario where dilapidation related income is not incorporated in the gross rental income in the accounts, then adjustment (iv) Other Operating Income/recharges should be used.

7.11 Main discussion/question is on the EPRA cost ratio: the definition of gross rental income is as per IFRS. In our case, it is excluding any rental guarantee/license fee during development/vacant period. We would like to explore the possibility of having another additional ratio which would expand the definition further to capture the missing rental guarantee. Being an income generating fund, we recognise the rental guarantee as part of our adjusted earnings and it is really relevant to how we operate. Hence it would really benefit us if we can seek clarification on this topic.

If you wish to present alternative measures to those outlined in the EPRA BPR, then it would be a company level decision to make. As for instance, you could disclose an “adjusted” EPRA cost ratio that would include the rental guarantees, but it will not be labelled EPRA cost ratio.

8

EPRA LTV



Q&A

8.1 Regarding bond loans, could you please confirm whether any unamortized portion of the debt financing cost should be deducted or not?

The bonds should be considered at nominal amount because one of the main overarching concepts that are introduced by the EPRA LTV is that net debt is at 'nominal value'. That means that any unamortized portion of the debt financing cost should not be deducted.

8.2 Regarding the net payables / net receivables line item, should we read that we present an amount either in net payables or net receivables depending on which one is higher?

Correct, the net amount should be disclosed in either L or V part.

8.3 In our financial statements, "Trade and other payables and deferred revenue" includes deferred revenue. Does it make sense to withhold deferred revenue when determining net payables for EPRA LTV?

Even though the deferred income is not typically viewed as debt, it should be included in the net payables section because "all payables as per the balance sheet" should be considered according to the guidelines.

8.4 "Properties under development": EPRA LTV guidance requires us to fair value all IPUC. We however do not fair value the projects for which we have not yet obtained the permits. How do we handle this? These are typically small amounts (a couple of €'000K)

We agree in this example that the IPUC is measured at cost as its fair value is not reliably measurable and these are small amounts. However, if your policy is to hold investment property at FV then this should include IPUC.

8.5 Must NCI be presented as a negative amount in this column? I.e., is it the purpose that column "Group € M as reported" includes NCI and that NCI is removed or the opposite?

The NCI column refers to 3rd party NCI (for which the company reporting the LTV owns a major stake) and therefore need to be excluded from the LTV calculation. i.e., the amounts should be presented as negative.

8.6 Should we include the negative value of our IRS in the net debt (this is clear for foreign currency derivatives but not for interest rate swaps)?

No, EPRA LTV limits derivative adjustments to foreign currency derivatives. EPRA BPR states:

'Foreign currency derivatives (futures, swaps, options, and forwards): Adjust for all foreign currency derivatives (exclusively related to property-financing loans) which should be denominated in the reporting currency of the company and not the foreign currency. This also includes related costs for any such FX instruments.'

A similar statement is not made for interest rate derivatives. Hence, no adjustment is made for these derivatives.

- 8.7** The EPRA BPR states that the fair value of all properties that are being constructed or developed for future use as investment property under IAS 40, should be included in Net Assets. There is however no guidance on properties that do not meet the definition of investment properties in IAS 40, e.g. because they are acquired with the intention to develop residential properties. Certain of our land plots that will be developed into residential properties are currently yielding office buildings, that is expected to be yielding for a few more years. The financing of such properties are for some of the properties partly inseparable from the financing of our other properties. Please confirm that such properties under construction or development may be included in Net Assets.

The guidelines are quite clear on this one - only fair value of all properties that are being constructed or developed for future use as investment property under IAS 40, should be included in Net Assets.

- 8.8** Can you confirm that accrued charges and deferred income are not a part of the net payables (or net receivables, if applicable)?

Yes, accrued charges and deferred income should be included in the net payables/receivables adjustment line.

- 8.9** Regarding the owner-occupied property debt: we have only financing on group level (not for specific assets). How should we then present the debt related to corporate HQ, percentage wise? And should that % then be based on surface area of the portfolio or book value or fair value? And, if we determined how to show this, then this part of the debt can be deducted from the “borrowings from financial institutions” component? (so mere trade-off)?

The percentage of the owner-occupied asset related debt should be made based on asset FV. Therefore, yes, the total borrowings should be reduced for that amount (that will appear in a separate line). Disclosing the owner-occupied asset and related debt into different line items should have no impact on the LTV.

- 8.10** Can you confirm that the owner-occupied property (corporate HQ) should be included at fair value? Also in cases where corporate HQ would be presented at cost in the books? (so difference in presentation can occur between published data and data in the metric)

The Guidelines are quite clear on this one - “Include the fair value of the owner-occupied property (corporate HQ) if that has been accounted for as owner/occupied property under IAS 16.” Therefore, yes, the FV is to be considered.

- 8.11** In case there are tangible assets for own use (office equipment, furniture, etc), should we classify these also under owner-occupied property or do you have another classification suggestion?

No, only the building is to be considered under that adjustment line. A owner-occupied property includes the land and the components of construction but not the office equipment, furniture, etc.

- 8.12** We hold an equity investment of 40% in ABC. As written in the 2021 Financial Report, “To determine the proper accounting treatment of the interest in ABC, as required by IFRS 10, given the fund’s governance structure and decision-making process as defined in its regulations and in consideration of applicable law, once the Fund’s objectives were defined, its relevant activities were identified along with the persons who make decisions regarding those activities and the nature of the parties’ rights in order to determine whether they are substantive or protective. Moreover, we analysed the variability of returns to which the parties are exposed as a function of their decision-making power. On the basis of these assessments, management believes that our company’s powers are limited and geared mainly towards protecting its investment, so in accordance with IAS §28.10, in the consolidated financial statements, we will recognize the investment in ABC as an associate using the equity method”. All that said, would it be correct to add the equity value of the participation among investment properties? Or shall we add 40% to both debt and investment properties, although we are not consolidating them proportionally in our balance sheet?

Indeed, the proportionate consolidation should be applied and 40% of the debt and value should be considered. However, given this is an associate, a reference to whether this is a material associate or not should be made.

- 8.13** IFRS 16: we have some right-of use IFRS16 among investment properties: are they to be included in the EPRA LTV calculation or not? If yes, we would put their fair value in the row “Investment properties at fair value”, is that correct? In 2021 the right-of use IFRS16 assets had an amortized cost value of 36,733 €mn while a FV value of 31,116 €mn. Can we adjust the debt value so that we report the amortized cost values equal to asset value?

If you are referring to leased investment property then it should already be measured at FV as you imply your policy is to measure IP at FV. This being said, yes, IFRS 16 leasing need to be included, guidelines are clear, no adjustment should be made regarding IFRS 16.

- 8.14** Regarding the Net payables line item, should we consider the following examples to be included: Provisions for risks and future charges, Provisions for employee severance indemnities, payables for security deposits, etc..?

Yes, all payables as per balance sheet should be considered. Only provisions on deferred tax/assets would be excluded.

- 8.15** I would like to know what treatment should be applied for shares held in companies that are not part of consolidation scope. If we own shares in another company that cannot be consolidated due to our lack of significant influence on the company, should we add the value of these shares in the calculation? If so, on which line of the example below should we add them?

Please refer to the illustrative example in our LTV FAQ document. Both the L and V components should include the proportionate share of the entity in the participations/ shares held if material. Hence there would not be a financial asset.

- 8.16** We do include in its GAV the “inventory at disbursed price” within our investment’s properties. E.g. net of pending amounts and advanced payments from the pre-sold land plots. Please confirm that this is correct. Otherwise, we could include this as a financial asset.

Investment property under construction should be included at fair value. However, you are referring to inventories. Inventories basically reflects properties held for sale. Advances received would then be a financial liability.

- 8.17** We value our non-material associates by its attributable NAV. Please confirm that this is correct.

If not material, not in scope.

- 8.18** According to the guidelines, “No adjustment related to IFRS 16 is proposed for the purposes of calculating the EPRA LTV”. We have 2 assets (leaseholds) subject to IFRS16 provisions. So far, we have considered the GAV as per the “net value”. E.g. one of our assets is valued at approximately €84m net value and approximately €93m gross value (prior to deducting the leasehold charge). Shall we include the value as per the Balance Sheet (€93m) or as per the net value (€84m)?

No IFRS 16 adjustment shall be made. Hence the 93 is part of the V component, 9 (difference between 93 and 84) is part of L component.

- 8.19** The V component includes investment properties including properties under development, and also properties held for sale. Does “properties held for sale” refer exclusively to the terminology of IFRS 5? Or does this item also include trading properties as defined in your glossary?

To our mind, trading properties should also be included. Project development might require a significant amount of time and a significant financing activity, thus having a commercial impact on the leverage of the business. We would recommend to add a definition of the term “properties held for sale” to your glossary.

The property held for sale adjustment refers to the value of all the properties held for the intent to be sold in the future. The IFRS definition is not used here. Therefore, trading properties classified under inventories should also be included.

- 8.20** According to the newly introduced overarching concepts, the L component shall include net debt at nominal value. The amounts from the balance sheet, however, are based on the effective interest method and also include accrued interest. Regarding commercial paper, your guidelines instruct to include the carrying value as reported in the b/s. This is a deliberate breach of the overarching concept? Does it make sense then to include borrowings from financial institutions and/or bond loans at their carrying amounts, too?

In the case you should show nominal values for a specific line item, should accrued interest be shown on top of that value? Or should accrued interest be shown within net payables?

Yes, all debt is to be included at nominal value. Indeed, for commercial paper the BPR mentions the IFRS carrying amount, assuming there is no material difference with the nominal amount. Accrued interest only becomes relevant if there is debt extension but then it is included in the new nominal amount. All other accrued interest is also under IFRS included in payables/ accrued expenses and therefore should be considered as part of the net payables which is the place where they are normally recorded unless there is a specific situation that accrued interest of a previous loan is included in refinancing.

8.21 Our solar panels are not included in the value of our investment properties but are classified as other tangible fixed assets and included in our balance sheet at fair value (in accordance with IAS 16). So this means that our investments in solar panels will have to be excluded from the V side if not included in the same line item as “Investment property at FV”.. What about the L side then, can we make an adjustment to the debt side for the amount of debt financing used for the investments in solar panels? Note that this is crucial for us (and I think for the entire sector). Our solar panels represent a total fair value of ca. 160 million euros (based on a total capacity of ca. 100 MWp). Moreover we aim to grow our solar panel portfolio to a capacity of 250 MWp by 2025. Next to that other potential investments in sustainability (such as batteries) are being investigated.

According to the guidelines, only the investment properties (and other adjustments as disclosed in the EPRA LTV table) are to be included. If the solar panels are included in the investment property value as reported in the balance sheet), then yes, the FV is to included in the V component. If the solar panels are presented as a single line item and do not qualify as investment property, they should not be included in the V side of the LTV. The adjustment on the L side seems relevant and appropriate as all debt should be included, regardless of the financing purpose.

Please note that you have not explained why the panels are not included but we assume that they do not meet the definition of Investment Property under IFRS. Also please note that this definition issue is already being discussed since 2012 when the IASB staff was given the question whether cell towers could meet the definition of Investment Property.



Investment Property Reporting and additional disclosures



General description

The ‘Investment Property Reporting’ and ‘Additional Recommended Disclosures’ sections provide further recommendations on the reporting of valuation, investments and other portfolio information.

Investment Property companies should include the following information as part of their reporting:

- **Valuation Information and Procedures:** disclosure of valuation procedures, inclusion of valuation report which reconciles to published figures. Companies should undertake valuations twice a year by an external valuer and fees should not be based on the outcome of the valuation.
- **Investment Assets:** information on completed investment properties: Area in square metres, rent per square metre, market rents (ERV) assuming fully let, Net Rental Income, Market Value, Vacancy rate, top ten tenants by rental income, etc.
- **Development Assets:** Development costs (costs to date/to completion), ERV at the completion of the development, proportion of development let, and lettable area according to region/usage.
- **Like-for-like Rental Growth:** for each geographical/business segment, growth to be shown in absolute amounts and as a percentage (assuming fixed foreign exchange rates), and the size of the total portfolio or investment portfolio on which like-for-like rental growth is based. The proforma in chapter 7 is only intended as guidance; the important thing is that companies disclose some form of like-for-like comparison.

Q&A

9.1 Does EPRA still have a pro forma income statement? Can we use this and can we call it an EPRA income statement?

No. The EPRA BPR have been significantly simplified and refocused on the ‘core’ BPR and as part of this effort the EPRA income statement has been removed from the BPR. However, companies may continue to use the 2009 EPRA BPR for guidance only and provided they take account of the revised IAS 1 requirement to disclose Other Comprehensive Income.

9.2 Are property management costs – expenses for property and facilities management – included in the Net Rental Income calculation (Section 4.3 of BPR requires recording of ‘Net Rental Income’)?

This depends on which property management costs we are referring to. The NRI should deduct property operating expenses that are directly related to a property, e.g. that arise as part of the owner providing the leased building. These will vary depending on the asset (i.e. retail shopping centre vs. offices). Only costs to operate the asset on a day-to-day basis to achieve current rents are deducted, whereas costs that relate to increasing future rental income and general income (leasing fees, rent review fees, internal administration costs, etc.) are not deducted. Generally, property operating costs will include items such as ground rent payable, non-recoverable service charges (permanent shortfall), service charge shortfall related to vacant space, local property taxes (when the property is vacant) and insurance.

9.3 Can we refer to other balance sheet measures as ‘EPRA’ measures (e.g. ‘EPRA net debt’) if the existing EPRA balance sheet adjustments are made?

No – only performance measures specifically identified by the EPRA BPR should be identified as EPRA measures.

9.4 Why are the ‘like for like’ Rent figures changing each year?

According to the BPR, companies should report the comparative like-for-like Net (or Gross) rental income figures i.e. the current year and prior NRI (or GRI) from properties owned throughout the current and prior years. The like-for-like NRI (GRI) figure should not be confused with the total NRI (GRI) reported in the income statement.

Since the properties owned throughout any two given years will normally not be constant from year to year (due to acquisitions, disposals, foreign exchange rates or developments), the like-for-like NRI/GRI will constantly be changing. To enhance comparability, the previous year’s like-for-like figures should also be recalculated using constant foreign exchange rates.

9.5 Based on the BPR, should we include the rental uplift on properties that have been refurbished or renovated? Should LFL rental growth be calculated simply on same sqm basis or should we also exclude properties under refurbishment or renovation?

The BPR currently only exclude property under development. If the nature and size of the refurbishment or renovation is such that management, consider this to be a serious property development (or redevelopment) then it may be excluded. If on the other hand it is a normal refurbishment or renovation (e.g. of worn-out property) then it should not be excluded from your like- for-like figures.

9.6 On the table ‘Investment Property – Lease Data’ (below), what is meant by ‘Lease expiry data’ and ‘Lease review data’. What is the difference between these two notions?

The reference to ‘lease expiry’ data refers to the end of the lease whereas the ‘lease review’ data refers to the first break clause. The key aim is to enhance transparency over the leases that are subject to break/ expiry in the next few years and therefore potentially subject to rent review or cancellation/expiry. At the end of this document are some examples of the disclosures made by a sample of companies. Please note that the template in the BPR is a ‘suggested format’ and that different formats may be appropriate (for the purposes of the BPR).

Investment Property - Lease Data

| SEGMENT | Average lease length | | Lease expiry data | | | | | | Lease review data | | | | | |
|----------------------------|----------------------|-----------|-------------------------------------|------|---------|----------------------------|------|---------|------------------------------------|------|---------|---|------|---------|
| | | | Passing rent of leases expiring in: | | | ERV of leases expiring in: | | | Passing rent subject to review in: | | | ERV of passing rent subject to review in: | | |
| | To break | To expiry | yr 1 | yr 2 | yrs 3-5 | yr 1 | yr 2 | yrs 3-5 | yr 1 | yr 2 | yrs 3-5 | yr 1 | yr 2 | yrs 3-5 |
| France - offices | | | | | | | | | | | | | | |
| France - retail | | | | | | | | | | | | | | |
| Segment 1 - France | | | | | | | | | | | | | | |
| Germany - offices | | | | | | | | | | | | | | |
| Germany - industrial | | | | | | | | | | | | | | |
| Segment 2 - Germany | | | | | | | | | | | | | | |
| UK - offices | | | | | | | | | | | | | | |
| UK - retail warehouses | | | | | | | | | | | | | | |
| Segment 3 - UK | | | | | | | | | | | | | | |
| Segment etc | | | | | | | | | | | | | | |
| Total | | | | | | | | | | | | | | |

9.7 Some of our costs (payroll costs, fees related to the activity of syndic and costs related to projects on building held in portfolio) are not directly attributable to a building. Shall we therefore exclude it for the calculation of the EPRA like for like revenues?

From the information provided, it is not entirely clear the nature of the costs which are being referred to. However, as per our understanding of your question, you mention that the stated costs are not directly related to building operation. If that is correct, then these costs should not be included in calculating Net Rental Income for the purposes of LfL.

9.8 Should the Acquisitions line include the whole amount invested to acquire new investments or just the Capex invested after the acquisition?

The 'Acquisitions' line should include the amount invested to acquire new assets and the Capex invested after the acquisition until the closing date of the reporting period. If the additional Capex occurred during the reporting year post acquisition is significant, a specific comment may be added.

9.9 Where does Maintenance Capex go in the table please? This is for maintaining a unit as is (e.g. lift, air conditioning) rather than enhancing.

Maintenance capex would be on the line "No incremental lettable space" even if they are only "maintaining" and not enhancing existing space. Please note that the use of additional lines and footnotes below the CapEx table is encouraged where necessary to explain the adopted disclosure.

9.10 During 2021 we invested money in a Mall including some infrastructure work, some fit out contributions to some tenants, redesign of internal area of certain units. Are these tenant incentives?

The fit-out contributions to some tenants and the contribution to redesigning internal area of certain units are “tenant incentives” if the leasehold improvements constructed by the lessee are its own assets and if the lessee is then the accounting owner. The infrastructure work is not an incentive if it is an asset controlled by the lessor and booked in the financial statements of the lessor. The infrastructure work would be then on the line “development”.

9.11 In the BPR guide is mentioned that conversion to cash amounts is encouraged if it is possible to reconcile balances directly to the Cash Flow statement. We would also like to add this suggestion. However, our EPRA CapEx table cannot be reconciled 1>1 to our cash flow statement (cash flow related to investing activities). IFRS requires us to present the gross interest charges (so without taking into account capitalised interests booked) in the cash flow statement as operating or financing activity. So in our cash flow statement capitalised interests is not included as net cash flow from investment activities, while these capitalised interests are part of the EPRA CapEx table.

What is your advice on this? Should we solve this with a footnote, in order to explain that the difference with the cash flow statement is attributable to the capitalised interests?

The guidelines state: “*Conversion to cash amounts is encouraged if it is possible to reconcile balances directly to the Cash Flow statement. To facilitate further analysis, companies should disclose data for the previous year as a comparative.*” And: “*Capitalised interest: If included in the definition of Capex in the financial statements, capitalized finance costs added to the carrying value of investment properties should also be included in the analysis.*”

Under IFRS, if borrowing costs are capitalised to ‘qualifying assets’ in accordance with IAS 23 Borrowing Costs, the related cash flows must be classified as well. However, IFRS does not provide further guidance. Practice shows diversity in this respect. EPRA promotes reconciliations of key metrics to financial statements. Therefore, explanatory comments which provides a reconciliation of the calculation of key metrics to the primary financial statements are highly recommend.

10

EPRA BPR reporting examples

The following section includes examples of the EPRA BPR used in property company financial reports. They were selected mainly from companies that achieved a Gold award in the EPRA BPR Awards. The examples are not intended to be pro forma for the BPR, nor an endorsement of the specific formats used.



10.1 EPRA Performance Measures – Summary Table

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1.2.3. Performance indicators based on the EPRA standard¹

| (in EUR per share) | 30.06.2020 | 30.06.2019 |
|---|------------|------------|
| EPRA Earnings* | 3.40 | 3.23 |
| EPRA Diluted earnings* | 3.40 | 3.23 |
| (in EUR per share) | 30.06.2020 | 31.12.2019 |
| EPRA Net Asset Value (NAV)* | 99.81 | 100.69 |
| EPRA Triple Net Asset Value (NNNAV)* | 96.06 | 97.56 |
| EPRA Net Reinstatement Value (NRV)* (new indicator) | 106.76 | 107.67 |
| EPRA Net Tangible Assets (NTA)* (new indicator) | 99.36 | 100.13 |
| EPRA Net Disposal Value (NDV)* (new indicator) | 94.32 | 95.36 |
| | 30.06.2020 | 31.12.2019 |
| EPRA Net Initial Yield (NIY)* | 5.7% | 5.6% |
| EPRA 'Topped-up' NIY* | 5.7% | 5.6% |
| EPRA Vacancy Rate* | 2.6% | 3.0% |
| EPRA cost ratio (direct vacancy costs included)* | 20.0% | 22.2% |
| EPRA cost ratio (direct vacancy costs excluded)* | 17.1% | 18.0% |

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| EPRA PERFORMANCE INDICATORS | | (€ THOUSAND) | | PER SHARE (€) | |
|---|--------|--------------|-------------------|---------------|----------|
| EPRA performance indicator | Table | HY1 2020 | HY1 2019 | HY1 2020 | HY1 2019 |
| EPRA Earnings | 1 | 14,637 | 16,668 | 0.85 | 0.96 |
| EPRA NRV | 2 | 858,257 | 894,830 | 50.04 | 52.17 |
| EPRA NTA | 2 | 775,958 | 807,681 | 45.24 | 47.09 |
| EPRA NDV | 2 | 746,732 | 780,858 | 43.54 | 45.53 |
| EPRA NAV | 2 | 775,505 | 807,681 | 45.21 | 47.08 |
| EPRA NNNAV | 2 | 750,487 | 786,214 | 43.76 | 45.84 |
| EPRA Net Initial Yield (NIY) | 3 (i) | 3.9% | 3.7% ¹ | | |
| EPRA topped-up NIY | 3 (ii) | 4.2% | 4.0% ¹ | | |
| EPRA Vacancy Rate | 4 | 2.6% | 2.0% ¹ | | |
| EPRA Cost Ratio (including direct vacancy costs) | 5 (i) | 28.6% | 24.1% | | |
| EPRA Cost Ratio (excluding direct vacancy costs) | 5 (ii) | 27.7% | 23.3% | | |
| Capital expenditure | 6 | 1,156 | 12,130 | | |

¹ 31 December 2019

SEGRO

TABLE 1: EPRA PERFORMANCE MEASURES SUMMARY

| | Notes | Half year to 30 June 2020 | | Half year to 30 June 2019 | | Year to 31 December 2019 | |
|---|---------|---------------------------|-----------------|---------------------------|-----------------|--------------------------|-----------------|
| | | £m | Pence per share | £m | Pence per share | £m | Pence per share |
| EPRA Earnings | Table 2 | 138.8 | 12.5 | 130.6 | 12.2 | 264.1 | 24.4 |
| EPRA NTA (Adjusted NAV) | Table 4 | 8,568.8 | 718 | 7,314.5 | 666 | 7,712.1 | 700 |
| EPRA NRV | Table 4 | 9,281.7 | 778 | 7,917.8 | 721 | 8,370.7 | 760 |
| EPRA NDV | Table 4 | 8,290.2 | 695 | 7,131.7 | 650 | 7,425.8 | 674 |
| EPRA net initial yield | Table 6 | | 3.7% | | 3.9% | | 3.8% |
| EPRA 'topped up' net initial yield | Table 6 | | 4.0% | | 4.4% | | 4.3% |
| EPRA vacancy rate | Table 7 | | 5.2% | | 4.8% | | 4.0% |
| EPRA cost ratio (including vacant property costs) | Table 8 | | 21.2% | | 22.0% | | 22.9% |
| EPRA cost ratio (excluding vacant property costs) | Table 8 | | 20.0% | | 20.5% | | 21.5% |

10.2 EPRA Earnings

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Bridge between Earnings per IFRS Statement of income and EPRA Recurring Earnings:

| | | |
|--|-------------|-------------|
| Recurring Earnings per share | 2019 | 2018 |
| Net result of the period attributable to the holders of the Stapled Shares (€Mn) | 1,103.3 | 1,031.1 |
| <i>Adjustments to calculate EPRA Recurring Earnings, exclude:</i> | | |
| (i) Changes in value of investment properties, development properties held for investment and other interests | (1,102.4) | 62.2 |
| (ii) Profits or losses on disposal of investment properties, development properties held for investment and other interests | 68.6 | 83.1 |
| (iii) Profits or losses on sales of trading properties including impairment charges in respect of trading properties | | 0.0 |
| (iv) Tax on profits or losses on disposals | (210.1) | (33.7) |
| (v) Negative goodwill/goodwill impairment | (7.1) | (4.9) |
| (vi) Changes in fair value of financial instruments and associated close-out costs | (351.8) | (289.8) |
| (vii) Acquisition costs on share deals and non-controlling joint venture interests | (45.8) | (268.7) |
| (viii) Deferred tax in respect of EPRA adjustments | 1,324.9 | (53.4) |
| (ix) Adjustments (i) to (viii) above in respect of joint ventures (unless already included under proportional consolidation) | (533.4) | (65.2) |
| (x) Non-controlling interests in respect of the above | 200.7 | (8.4) |
| EPRA Recurring Earnings | 1,759.7 | 1,609.8 |
| Average number of shares and ORA | 138,354,383 | 122,412,784 |
| EPRA Recurring Earnings per Share (REPS) | 12.72 € | 13.15 € |
| EPRA Recurring Earnings per Share growth | (3.3%) | 9.1% |

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| in EUR k | 01/01/2015- 31/12/2015 | 01/01/2014- 31/12/2014 |
|---|---------------------------|---------------------------|
| Net income | 130,862 | 88,650 |
| Result from the remeasurement of investment property | -87,856 | -52,694 |
| Result from the disposal of investment property ¹ | -8,088 | -3,291 |
| Result from the disposal of real estate inventory | -771 | -7,320 |
| Taxes on profits or losses on disposals/aperiodic tax | -4,407 | -36,661 |
| Result from the valuation of derivative financial instruments | 848 | 2,129 |
| Acquisition costs of share deals | 0 | 172 |
| Deferred and actual taxes in respect of EPRA adjustments | 34,583 | 59,129 |
| Non-controlling interests | -242 | -62 |
| EPRA Earnings | 64,929 | 50,052 |
| Average number of shares on issue (in thousands) ² | 62,041 | 53,794 |
| EPRA Earnings per share (in EUR) | 1.05 | 0.93 |

Icade

| (in millions of euros) | 12/31/2015 | 12/31/2014 restated | Year-on-year % change |
|---|----------------|------------------------|--------------------------|
| Net profit/(loss) | (180.2) | 172.8 | |
| Net profit/(loss) – Other activities ^(a) | 1.9 | 39.9 | |
| (a) Net profit/(loss) from Property Investment ^(a) | (182.1) | 132.9 | |
| (i) Change in value of investment properties and depreciation allowance | (582.2) | (270.6) | |
| (ii) Profit/(loss) from asset disposals | 128.5 | 98.6 | |
| (iii) Profit/(loss) from acquisitions | (0.3) | | |
| (iv) Tax on profits from disposals and impairments | | | |
| (v) Negative goodwill on acquisition/goodwill impairment | | - | |
| (vi) Change in fair value of financial instruments | 2.2 | (5.3) | |
| (vii) Acquisition cost for shares | | - | |
| (viii) Tax charge related to EPRA adjustments | (37.0) | (0.2) | |
| (ix) Adjustment for equity-accounted companies | (22.6) | (6.6) | |
| (x) Minority interests (Healthcare Property Investment) | 56.4 | 47.0 | |
| (b) Total adjustments | (455.0) | (136.9) | |
| (A-B) EPRA EARNINGS FROM PROPERTY INVESTMENT | 273.0 | 269.9 | 1.2% |
| Average number of diluted shares outstanding used in the calculation | 73,737,524 | 73,735,312 | |
| EPRA EARNINGS FROM PROPERTY INVESTMENT IN EUROS PER SHARE | €3.70 | €3.66 | 1.1% |

(a) The other activities are: property development, discontinued operations and intra-group transactions.

(b) Profit/(loss) from the continuing operations of the Commercial Property Investment and Healthcare Property Investment Divisions.

10.3 EPRA NRV, NTA, NDV

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Table 27: New EPRA NAV metrics



| EUR k | EPRA NRV | EPRA NTA | EPRA NDV |
|--|------------------|------------------|------------------|
| IFRS equity attributable to shareholders | 3,175,555 | 3,175,555 | 3,175,555 |
| Include / exclude | | | |
| I) Hybrid instruments | 0 | 0 | 0 |
| Dilluted NAV | 3,175,555 | 3,175,555 | 3,175,555 |
| Include: | | | |
| II. a) Revaluation of IP (if IAS 40 cost option is used) | 5,746 | 5,746 | 5,746 |
| II. b) Revaluation of IPUC (if IAS 40 cost option is used) | 0 | 0 | 0 |
| II. c) Revaluation of other non-current investments | 0 | 0 | 0 |
| III.) Revaluation of tenent leases held as finance leases | 0 | 0 | 0 |
| IV.) Revaluation of trading properties | 0 | 0 | 0 |
| Dilluted NAV at fair value | 3,181,301 | 3,181,301 | 3,181,301 |
| Exclude: | | | |
| V) Deferred tax in relation to fair value gains of IP | 0 | 0 | – |
| VI) Fair value of financial instruments | – 177 | – 177 | – |
| VII) Goodwill as a result of deferred tax | 0 | 0 | 0 |
| VIII. a) Goodwill as per the IFRS balance sheet | – | 0 | 0 |
| VIII. b) Intangibles as per the IFRS balance sheet | – | – 232 | – |
| Include: | | | |
| IX) Fair value of fixed interest rate debt | – | – | – 53,204 |
| X) Revaluation of intangibles to fair value | 0 | – | – |
| XI) Real estate transfer tax / acquisition costs | 311,497 | 0 | – |
| NAV | 3,492,621 | 3,180,892 | 3,128,097 |
| Fully diluted number of shares | 177,593 | 177,593 | 177,593 |
| NAV per share | 19.67 | 17.91 | 17.61 |

Cofinimmo

As at 30.06.2020:

| (x 1,000 EUR) | EPRA NRV | EPRA NTA | EPRA NDV | EPRA NAV | EPRA NNNAV |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| IFRS Equity attributable to shareholders | 2,511,326 | 2,511,326 | 2,511,326 | 2,511,326 | 2,511,326 |
| Include/Exclude: | | | | | |
| i) Hybrid instruments | 0 | 0 | 0 | 0 | 0 |
| Diluted net asset value (NAV) | 2,511,326 | 2,511,326 | 2,511,326 | 2,511,326 | 2,511,326 |
| Include: | | | | | |
| ii.a) Revaluation of IP (if IAS 40 cost option is used) | 0 | 0 | 0 | 0 | 0 |
| ii.b) Revaluation of IPUC (if IAS 40 cost option is used) | 0 | 0 | 0 | 0 | 0 |
| ii.c) Revaluation of other non-current investments | 0 | 0 | 0 | 0 | 0 |
| iii) Revaluation of tenant leases held as finance leases | 91,297 | 91,297 | 91,297 | 91,297 | 91,297 |
| iv) Revaluation of trading properties | 0 | 0 | 0 | 0 | 0 |
| Diluted NAV at Fair Value | 2,602,623 | 2,602,623 | 2,602,623 | 2,602,623 | 2,602,623 |
| Exclude: | | | | | |
| v) Deferred tax in relation to fair value gains of IP | 44,086 | 44,086 | | 44,086 | |
| vi) Fair value of financial instruments | 87,322 | 87,322 | | 87,322 | |
| vii) Goodwill as a result of deferred tax | -35,782 | -35,782 | -35,782 | -35,782 | |
| viii.a) Goodwill as per the IFRS balance sheet | | -11,045 | -11,045 | | |
| viii.b) Intangibles as per the IFRS balance sheet | | -1,156 | | | |
| Include: | | | | | |
| ix) Fair value of fixed interest rate debt | | | -5,840 | | -5,840 |
| x) Revaluation of intangibles to fair value | 0 | | | | |
| xi) Real estate transfer tax | 187,924 | 0 | | | |
| NAV | 2,886,174 | 2,686,050 | 2,549,956 | 2,698,250 | 2,596,783 |
| <i>Fully diluted number of shares</i> | <i>27,033,753</i> | <i>27,033,753</i> | <i>27,033,753</i> | <i>27,033,753</i> | <i>27,033,753</i> |
| NAV per share (in EUR/share) | 106.76 | 99.36 | 94.32 | 99.81 | 96.06 |

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| | June 30, 2020 | | |
|--|----------------|----------------|----------------|
| | EPRA NRV | EPRA NTA | EPRA NDV |
| Equity attributable to the holders of the Stapled Shares (IFRS) | 21,539 | 21,539 | 21,539 |
| <i>Include / Exclude*:</i> | | | |
| i) Hybrid instruments | - | - | - |
| Diluted NAV | 21,539 | 21,539 | 21,539 |
| <i>Include*:</i> | | | |
| ii.a) Revaluation of IP (if IAS 40 cost option is used) | 54 | 54 | 54 |
| ii.b) Revaluation of IPUC ⁽¹⁾ (if IAS 40 cost option is used) | 0 | 0 | 0 |
| ii.c) Revaluation of other non-current investments ⁽²⁾ | 0 | 0 | 0 |
| iii) Revaluation of tenant leases held as finance leases ⁽³⁾ | 0 | 0 | 0 |
| iv) Revaluation of trading properties ⁽⁴⁾ | 0 | 0 | 0 |
| Diluted NAV at Fair Value | 21,593 | 21,593 | 21,593 |
| <i>Exclude*:</i> | | | |
| v) Deferred tax in relation to fair value gains of IP ⁽⁵⁾ detailed below: | | | |
| v.a) Reversal of deferred taxes on Balance sheet | 2,156 | 2,156 | - |
| v.b) Effective deferred taxes on capital gains | - | 1,078 | - |
| vi) Fair value of financial instruments | 1,154 | 1,154 | - |
| vii) Goodwill as a result of deferred tax | 205 | 205 | 205 |
| viii.a) Goodwill as per the IFRS balance sheet (net of vii)) | - | 1,914 | 1,914 |
| viii.b) Intangibles as per the IFRS balance sheet | - | 923 | - |
| <i>Include*:</i> | | | |
| ix) Fair value of fixed interest rate debt | - | - | 730 |
| x) Revaluation of intangibles to fair value | 703 | - | - |
| xi) Real estate transfer tax ⁽⁶⁾ | 1,962 | 597 | - |
| NAV | 27,362 | 21,379 | 20,203 |
| Fully diluted number of shares | 138,882,932 | 138,882,932 | 138,882,932 |
| NAV per share | €197.00 | €153.90 | €145.50 |

10.4 EPRA Net Initial Yield & 'Topped-Up' Initial Yield

British Land

| | 2016 £m | 2015 £m |
|---|---------------|---------------|
| Investment property – wholly-owned | 9,787 | 9,068 |
| Investment property – share of joint ventures and funds | 4,861 | 4,569 |
| Less developments, residential and land | (894) | (1,148) |
| Completed property portfolio | 13,754 | 12,489 |
| Allowance for estimated purchasers' costs | 985 | 784 |
| Gross up completed property portfolio valuation | 14,739 | 13,273 |
| Annualised cash passing rental income | 607 | 575 |
| Property outgoings | (8) | (8) |
| Annualised net rents | 599 | 567 |
| Rent expiration of rent-free periods and fixed uplifts ¹ | 63 | 64 |
| 'Topped-up' net annualised rent | 662 | 631 |
| EPRA Net Initial Yield | 4.1% | 4.3% |
| EPRA 'topped-up' Net Initial Yield | 4.5% | 4.8% |

Derwent London

Net initial yield and 'topped-up' net initial yield

| | 2015 £m | 2014 £m |
|--|------------|------------|
| Property portfolio – wholly owned | 4,954.5 | 4,168.1 |
| Share of joint ventures | 33.9 | 10.5 |
| Less non-EPRA properties ¹ | (855.4) | (679.8) |
| Completed property portfolio | 4,133.0 | 3,498.8 |
| Allowance for: | | |
| Estimated purchasers' costs | 239.7 | 202.9 |
| Estimated costs to complete | 0.1 | 0.1 |
| EPRA property portfolio valuation (A) | 4,372.8 | 3,701.8 |
| Annualised contracted rental income, net of ground rents | 136.1 | 131.7 |
| Share of joint ventures | 1.0 | 0.8 |
| Less non-EPRA properties ¹ | (2.2) | (7.6) |
| Add outstanding rent reviews | 1.7 | 2.2 |
| Less estimate of non-recoverable expenses | (3.1) | (1.9) |
| | (3.6) | (7.3) |
| Current income net of non-recoverable expenses (B) | 133.5 | 125.2 |
| Contractual rental increases across the portfolio | 35.5 | 32.0 |
| Less non-EPRA properties ¹ | (4.9) | (9.3) |
| Contractual rental increases across the EPRA portfolio | 30.6 | 22.7 |
| 'Topped-up' net annualised rent (C) | 164.1 | 147.9 |
| EPRA net initial yield (B/A) | 3.1% | 3.4% |
| EPRA 'topped-up' net initial yield (C/A) | 3.8% | 4.0% |

¹ In accordance with EPRA best practice guidelines, deductions are made for development properties, land and long-dated reversions.

TLG Immobilien

| in EUR k | 31/12/2015 | 31/12/2014 |
|--|------------|------------|
| Investment property | 1,739,474 | 1,489,597 |
| Real estate inventory | 1,104 | 1,477 |
| Properties classified as held for sale | 15,912 | 21,991 |
| Property portfolio (net) | 1,756,490 | 1,513,065 |
| Estimated transaction costs | 125,899 | 103,466 |
| Property portfolio (gross) | 1,882,389 | 1,616,531 |
| Annualised cash passing rental income | 131,097 | 118,832 |
| Property outgoing | -16,533 | -12,818 |
| Annualised net rents | 114,564 | 106,015 |
| Notional rent for ongoing rent-free periods | 280 | 25 |
| Annualised "topped-up" net rent | 114,844 | 106,040 |
| EPRA Net Initial Yield (NIY) in % | 6.1 | 6.6 |
| EPRA "topped-up" Net Initial Yield in % | 6.1 | 6.6 |

10.5 EPRA Vacancy Rate

Citycon

| MEUR | 31 December 2015 | 31 December 2014 |
|---|------------------|------------------|
| Annualised potential rental value of vacant premises | 10.2 | 8.6 |
| ./ Annualised potential rental value for the whole property portfolio | 313.7 | 230.1 |
| EPRA vacancy rate (%) | 3.2 | 3.7 |

Derwent London

Vacancy rate

| | 2015 £m | 2014 £m |
|--|------------|------------|
| Annualised estimated rental value of vacant premises | 2.5 | 7.1 |
| Portfolio estimated rental value | 278.1 | 216.5 |
| Less non-EPRA properties ¹ | (83.6) | (43.9) |
| | 194.5 | 172.6 |
| EPRA vacancy rate | 1.3% | 4.1% |

¹ In accordance with EPRA best practice guidelines, deductions are made for development properties, land and long-dated reversions.

Klépierre

EPRA Vacancy Rate is calculated by dividing the market rents of vacant spaces by the market rents of the total space of the whole property portfolio (including vacant spaces).

| In thousands euros | France-Belgium | Italy | Scandinavia | Iberia | CEE and Turkey | Netherlands | Germany | TOTAL |
|------------------------------|----------------|---------|-------------|---------|----------------|-------------|---------|-----------|
| Estimated rental value (ERV) | 455,566 | 250,923 | 196,533 | 122,696 | 113,857 | 35,036 | 54,486 | 1,229,096 |
| ERV of vacant space | 13,765 | 5,288 | 8,908 | 7,766 | 5,970 | 1,166 | 4,384 | 47,247 |
| EPRA VACANCY RATE | 3.0% | 2.1% | 4.5% | 6.3% | 5.2% | 3.3% | 8.0% | 3.8% |

10.6 EPRA Cost Ratios

Cofinimmo

| (x 1,000 EUR) | 31.12.2015 | 31.12.2014 |
|--|----------------|----------------|
| (I) Administrative/operational expenses per IFRS income statement | -41,494 | -36,955 |
| Cost of rent-free periods | -3,718 | -2,932 |
| Charges and taxes not recovered from the tenant on let properties | -3,478 | -2,513 |
| Net redecoration expenses | -1,105 | -928 |
| Technical costs | -5,643 | -3,802 |
| Commercial costs | -950 | -1,138 |
| Taxes and charges on unlet properties | -3,451 | -3,922 |
| Property management costs | -15,343 | -14,544 |
| Corporate management costs | -7,806 | -7,176 |
| (V) Share of joint venture expenses | -31 | -32 |
| EPRA COST RATIO (DIRECT VACANCY COSTS INCLUDED) (A) | -41,525 | -36,987 |
| (IX) Direct vacancy costs | 5,059 | 5,219 |
| EPRA COSTS (DIRECT VACANCY COSTS EXCLUDED) (B) | -36,466 | -31,768 |
| (X) Gross rental income less ground rent costs | 205,622 | 198,759 |
| (XII) Share of joint venture gross rental income | 691 | 689 |
| GROSS RENTAL INCOME (C) | 206,313 | 199,448 |
| EPRA cost ratio (direct vacancy costs included) (A/C) | 20.13% | 18.54% |
| EPRA cost ratio (direct vacancy costs excluded) (B/C) | 17.68% | 15.93% |
| * Overhead and operational expenses capitalised (including share of joint ventures) | 1,887 | 2,269 |

Citycon

| MEUR | 2015 | 2014 | |
|---|-------|-------|------|
| Include: | | | |
| Administrative expenses ¹⁾ | 29.3 | 20.7 | |
| Property operating expenses and other expenses from leasing operations less service charge costs | 71.9 | 51.2 | |
| Net service charge costs/fees | 13.0 | 16.3 | |
| Management fees less actual/estimated profit element | -4.3 | -2.0 | |
| Other operating income/recharges intended to cover costs less any related profit | -9.9 | -4.9 | |
| Share of joint venture expenses | 5.5 | 6.4 | |
| Exclude: | | | |
| Ground rent costs | -4.3 | -1.8 | |
| Service charge costs recovered through rents but not separately invoiced ²⁾ | -50.6 | -42.6 | |
| Share of joint venture investment property depreciation, ground rent costs and service charge costs recovered through rents but not separately invoiced | -1.9 | -3.5 | |
| EPRA Costs (including direct vacancy costs) (A) | 48.4 | 39.9 | |
| Direct vacancy costs | -4.3 | -3.6 | |
| EPRA Costs (excluding direct vacancy costs) (B) | 44.2 | 36.3 | |
| Gross rental income less ground rent costs ²⁾ | 270.2 | 230.2 | |
| Less: service fee and service charge cost components of Gross Rental Income ²⁾ | -50.6 | -42.6 | |
| Add: share of joint ventures (Gross rental income less ground rent costs less service fees in GRI) | 19.4 | 17.5 | |
| Gross Rental Income (C) ²⁾ | 239.0 | 205.1 | |
| EPRA Cost Ratio (including direct vacancy costs) (A/C) | % | 20.3 | 19.4 |
| EPRA Cost Ratio (excluding direct vacancy costs) (B/C) | % | 18.5 | 17.7 |

1) Non-recurring transaction costs of EUR 7.5 million are excluded from the administrative expenses in 2015. Administrative expenses are net of costs capitalised of EUR 2.3 in 2015 and EUR 1.5 million in 2014. Citycon's policy is to capitalise, for example, expenses related to property development projects and major software development projects.

2) Citycon has changed its income statement format to exclude turnover row and to reclassify maintenance rents (EUR 53.4 million 2015 and EUR 42.6 million in 2014) from the gross rental income to service charges. This change didn't impact the EPRA Cost Ratio calculations.

Colonial

| E. EPRA Cost Ratios | | 12/2015 | 12/2014 |
|--|------------|--------------|--------------|
| <i>Figures in €m</i> | | | |
| (i) Administrative/operating expense line per IFRS income statement ⁽¹⁾ | | 35 | 35 |
| (ii) Net service charge costs/fees | | 23 | 21 |
| (iii) Management fees less actual/estimated profit element | | 0 | (1) |
| (iv) Other operating income/recharges intended to cover overhead expenses less any related profits | | (0) | (0) |
| (v) Share of Joint Ventures expenses | | 0 | 2 |
| Exclude (if part of the above): | | | |
| (vi) Investment Property depreciation | | na | na |
| (vii) Ground rent costs | | na | na |
| (viii) Service charge costs recovered through rents but not separately invoiced | | (5) | (2) |
| EPRA Costs (including direct vacancy costs) | A | 52 | 54 |
| (ix) Direct vacancy costs | | (9) | (9) |
| EPRA Costs (excluding direct vacancy costs) | B | 43 | 45 |
| (x) Gross Rental Income less ground rent costs - per IFRS | | 231 | 211 |
| (xi) Less: service fee and service charge costs components of Gross Rental Income (if relevant) | | (6) | (3) |
| (xii) Add: share of Joint Ventures (Gross Rental Income less ground rent costs) | | 0 | 9 |
| Gross Rental Income | C | 225 | 217 |
| EPRA Cost Ratio (including direct vacancy costs) (A/C) | A/C | 23.3% | 25.1% |
| EPRA Cost Ratio (excluding direct vacancy costs) (B/C) | B/C | 19.1% | 20.9% |

10.7 CAPEX disclosure

Gecina

2.9.6 Capital expenditure

| <i>In million euros</i> | 06/30/2020 | | | 06/30/2019 | | |
|---------------------------------------|------------|----------------|------------|------------|----------------|------------|
| | Group | Joint-ventures | Total | Group | Joint-ventures | Total |
| Acquisitions | 56 | n/a | 56 | 0 | n/a | 0 |
| Development | 58 | n/a | 58 | 60 | n/a | 60 |
| o.w capitalized interests | 2 | n/a | 2 | 5 | n/a | 5 |
| Maintenance capex | 28 | n/a | 28 | 42 | n/a | 42 |
| Incremental lettable space | 0 | n/a | 0 | 0 | n/a | 0 |
| No incremental lettable space | 24 | n/a | 24 | 40 | n/a | 40 |
| Tenant incentives | 4 | n/a | 4 | 1 | n/a | 1 |
| Other material non-allocated | 0 | n/a | 0 | 2 | n/a | 2 |
| Capitalized interest | 0 | n/a | 0 | 0 | n/a | 0 |
| TOTAL CAPEX | 142 | n/a | 142 | 102 | n/a | 102 |
| Conversion from accrual to cash basis | 20 | n/a | 20 | 35 | n/a | 35 |
| TOTAL CAPEX ON CASH BASIS | 162 | n/a | 162 | 137 | n/a | 137 |

British Land

Table D: Property related capital expenditure

| | Six months ended 30 September 2020 | | | Year ended 31 March 2020 | | |
|---|------------------------------------|--------------------------|------------|--------------------------|--------------------------|------------|
| | Group | Joint ventures and funds | Total | Group | Joint ventures and funds | Total |
| Acquisitions | – | – | – | 94 | 54 | 148 |
| Development | 45 | 25 | 70 | 156 | 126 | 282 |
| Investment properties | | | | | | |
| Incremental lettable space | 1 | – | 1 | 1 | – | 1 |
| No incremental lettable space | 21 | 17 | 38 | 82 | 20 | 102 |
| Tenant incentives | 2 | 1 | 3 | 9 | 6 | 15 |
| Other material non-allocated types of expenditure | 3 | – | 3 | 5 | 1 | 6 |
| Capitalised interest | 2 | 2 | 4 | 4 | 4 | 8 |
| Total property related capex | 74 | 45 | 119 | 351 | 211 | 562 |
| Conversion from accrual to cash basis | 5 | – | 5 | 9 | 11 | 20 |
| Total property related capex on cash basis | 79 | 45 | 124 | 360 | 222 | 582 |

The above is presented on a proportionally consolidated basis, excluding non-controlling interests and business combinations. The 'Other material non-allocated types of expenditure' category contains capitalised staff costs of £3m (31 March 2020: £6m).

10.8 Like-for-like Rental Income

Aedifica

Investment properties - Rental data (x €1,000)

| | 30 June 2015 | | | | | | |
|---|---------------------------|---------------------------|-------------------------------------|--------------------------------|--|------------------------------|--------------------------|
| | Gross rental income | Net rental income | Lettable space (in m ²) | Contractual rents ³ | Estimated rental value (ERV) on empty spaces | Estimated rental value (ERV) | EPRA Vacancy rate (in %) |
| Segment | | | | | | | |
| Senior housing | 34,081 | 33,828 | 340,400 | 41,038 | 0 | 45,803 | 0 |
| Apartment buildings | 11,900 | 6,959 | 101,626 | 11,866 | 1,118 | 12,356 ⁴ | 9 |
| Hotels and other | 3,986 | 3,949 | 37,377 | 4,538 | 32 | 4,264 | 1 |
| Non-allocated | 0 | -473 | | | | | |
| Intersegment items | -114 | -115 | | | | | |
| Total marketable investment properties | 49,853 | 44,148 | 479,403 | 57,442 | 1,150 | 62,423 | 2 |
| Reconciliation to income statement | | | | | | | |
| Properties sold during the 2014/2015 financial year | 0 | 0 | | | | | |
| Properties held for sale | 0 | 0 | | | | | |
| Other Adjustments | 0 | 0 | | | | | |
| Total marketable investment properties | 49,853¹ | 44,148² | | | | | |
| | | | | | | | |
| | 30 June 2014 | | | | | | |
| | Gross rental income | Net rental income | Lettable space (in m ²) | Contractual rents ³ | Estimated rental value (ERV) on empty spaces | Estimated rental value (ERV) | EPRA Vacancy rate (in %) |
| Segment | | | | | | | |
| Senior housing | 24,565 | 24,546 | 235,232 | 28,725 | 0 | 32,809 | 0 |
| Apartment buildings | 12,024 | 7,126 | 101,626 | 12,425 | 947 | 12,238 ⁴ | 8 |
| Hotels and other | 4,132 | 4,094 | 39,208 | 4,564 | 63 | 4,312 | 1 |
| Non-allocated | 0 | -69 | | | | | |
| Intersegment items | -108 | -106 | | | | | |
| Total marketable investment properties | 40,613 | 35,591 | 376,065 | 45,714 | 1,010 | 49,359 | 2 |
| Reconciliation to income statement | | | | | | | |
| Properties sold during the 2013/2014 financial year | 0 | 0 | | | | | |
| Properties held for sale | 0 | 0 | | | | | |
| Other Adjustments | 0 | 0 | | | | | |
| Total marketable investment properties | 40,613¹ | 35,591² | | | | | |

1. The total "gross rental income" defined in EPRA Best Practices, reconciled with the consolidated IFRS income statement, corresponds to the "net rental income" of the consolidated IFRS accounts.

2. The total "net rental income" defined in EPRA Best Practices, reconciled with the consolidated IFRS income statement, corresponds to the "property operating result" of the consolidated IFRS accounts.

3. The current rent at the closing date plus future rent on leases signed as at 30 June 2014 or 30 June 2015.

4. This ERV does not take into account a furnished occupancy.

Capital and Countries Properties

3. ANALYSIS OF NET RENTAL INCOME FOR THE YEAR

| | 2015 €m | 2014 €m | Increase/ (decrease) |
|---|--------------|------------|-------------------------|
| Like-for-like net rental income | | | |
| Covent Garden | 34.8 | 33.3 | 4.4% |
| Earls Court Properties | 17.6 | 17.3 | 2.1% |
| Venues | 19.3 | 15.3 | 26.0% |
| Other | (0.5) | - | |
| Total like-for-like net rental income | 71.2 | 65.9 | 8.0% |
| Like-for-like investment and development property | 71.2 | 65.9 | 8.0% |
| Like-for-like trading property | - | - | |

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