EPRA NAV FAQ

1. **Why has the EPRA NAV been changed?**

   When the EPRA NAV was discussed and established in 2003, France had barely launched its SIIC reform and the UK and Germany were still four years away from introducing their own REIT regime. Since then, the important work done by EPRA has resulted in the introduction of REIT regimes in most European countries. This fundamental change in public asset ownership has evolved property companies from long-term passive asset owners into active asset managers and capital allocators. As such, more than 16 years after the first introduction of the EPRA Best Practices Recommendations (BPR) Guidelines, a review of its main KPI was necessary.

2. **Who has decided to make the changes? Who helped develop the methodology?**

   The changes are the result of meticulous debate, extensive consultation and collaboration between the EPRA membership and industry stakeholders, including property companies, investors, analysts and the Big 4 over the last two years. These updates reflect a consensus driven view that change is needed in response to the profound evolution of property companies' business model and have involved numerous discussions and debates within the EPRA Board and Reporting & Accounting Committee.

3. **What do the changes include?**

   There are three new features of the Net Asset Valuation metrics, namely EPRA Net Reinstatement Value (NRV), EPRA Net Tangible Assets (NTA) and EPRA Net Disposal Value (NDV), which have been introduced in replacement of the EPRA NAV and EPRA NNNAV.

   New adjustments include the fair value of intangibles (optional), add back Real Estate Transfer Tax (RETT), the revision of Hybrid Instruments adjustment, and Goodwill/Intangibles per IFRS Balance Sheet. For a comparison between the previous and updated set of NAV metrics, please refer to Annex 1.

   The EPRA NRV scenario, aims to represent the value required to rebuild the entity and assumes that no selling of assets takes place. The EPRA NTA is focused on reflecting a company's tangible assets and assumes that entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred tax liability. Last, EPRA 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. All three new NAV metrics share the same starting point, namely IFRS Equity attributable to shareholders.

4. **With the methodology changing, will reporting comparisons before and after 2019 be different?**

   Upon adoption of the new BPR Guidelines, based on the schedule outlined in Annex 2, companies are expected to provide a bridge between the previous EPRA NAV metrics and the new ones for both the current and comparative accounting period in order to assist the users of their financial statements.

   Financial reporting standards are always evolving (e.g. IFRS 16) in order to more accurately reflect companies' financial statements. The market has always been adopting to such changes. To that end, an update to the EPRA BPR was necessary to remain aligned with both IFRS developments and the evolution of property companies' business.

5. **Why now?**

   The changes come 16 years after the first introduction of the EPRA NAV in the BPR. They reflect the evolution of the sector and follow a two-year consultation with EPRA members and external stakeholders, including property companies, investors, analysts and the Big 4, under the guidance of the EPRA Reporting & Accounting Committee and the EPRA Board of Directors.

6. **Will this mean that the Best Practices Recommendations results and Award ratings for some companies will change?**

   We are currently examining potential changes to the scoring system. This is expected to be finalised in the first half of November 2019. Any amendments will be communicated by EPRA to all relevant stakeholders. The new NAV disclosure will be assessed and awarded during the 2021 BPR Awards period and beyond.

7. **What will the changes mean for the listed real estate sector?**

   Given that active capital recycling and dynamic portfolio management are now taken into consideration when calculating the metric, the new NAV metrics provide investors with a clearer picture of property companies' underlying operations and business models. For example, one of the 'issues' of the old EPRA NAV was due to its design to ignore the latent capital gain tax liability that existed on the balance sheet, arguing that this would 'never' crystalize, as the asset would 'never' be sold. As such, the three new NAV metrics provide three alternative scenarios for the latent capital gain tax liability effect.

   In addition, the updated NAV Guidelines provide a more refined approach on the matter as they better reflect the differences between a REIT and a non-REIT (e.g. Deferred tax treatment), which in turn could encourage synergies (e.g. M&A) between the two types of entities. Overall, EPRA's Board and the wider EPRA membership are confident that, after an initial period of transitioning to the new Guidelines, the updates will help further improving transparency, comparability and relevance of financial reporting in the industry.

8. **Will this change how companies are valued overall in the EPRA NAVs methodology?**

The changes to the NAV methodology do not necessarily mean that how companies are valued overall will change. For equity analysis, NAVs, as non-cash flow measures, are only one of the variables taken into consideration when a stock valuation of a Property Company takes place. REITs have different business models, with some focusing more on cash flow (earnings) and others more on capital returns (NAVs). The same reasoning applies for investor sensitivity.

Following feedback received from the investment community during our consultation, the new EPRA NAV metrics include additional adjustments which not only provide more granular and standardised disclosure, but also accommodate analysis of different scenarios. One of the objectives is to provide a range of values to the market as it is up investors to decide which standardised valuation methodology to adopt and which feature is more relevant to their investment process.

9. **Does your membership support these changes to the EPRA NAV?**

The updates are the result of meticulous debate, within the EPRA Board of Directors as well as between the membership and external stakeholders. The changes are the effect of a consensus between all parties and have been unanimously approved by the EPRA Reporting & Accounting Committee as well as by the EPRA Board of Directors in September 2019.

10. **Over what time frame will the changes come into effect?**

These recommendations are effective for accounting periods starting on January 1st, 2020 and will be the basis of EPRA's BPR Awards in 2021 and beyond. The schedule in Annex 2 illustrates the effective adoption date for various fiscal year ends. It is worth noting that upon adoption, and to assist the users of their financial statements, companies are expected to provide a bridge between the previous EPRA NAVs metrics and the new ones for both the current and comparative accounting periods.

11. **How are you going to educate the listed real estate sector into understanding these changes?**

EPRA is planning to conduct workshops in key European markets in collaboration with the Big 4 as well as local Real Estate Associations starting in Q1 2020 and continuing until the market fully adopts the new KPIs. EPRA Reporting & Accounting staff will be available to provide ad-hoc support and clarify any matters throughout the entire transition period to the new BPR Guidelines. Future workshops or training will be communicated by EPRA to stakeholders accordingly. In the meantime, should you have any questions, please contact randa@epra.com.

12. **What are the benefits of these changes?**

In summary:

- Three defined and standardised NAV features for investors to choose based on their criteria;
- Better reflection of property companies' business model evolution and underlying operations;
- More up-to-date with IFRS developments;
- Objective consensus driven view from industry stakeholders.

For more details please refer to Questions 3, 7 and 8.

13. **Why is it important for more transparent best practice reporting?**

The EPRA Best Practices Recommendations are a cornerstone framework for the listed real estate industry, and as the sector is expanding, we are ensuring that the main indicators evolve with it. Today's changes to the NAV have increased the focus on the quality of reporting and will bring further benefits to the overall transparency of the sector.

Transparency builds trust and trust is the cornerstone and the driving force not only for the financial markets but for any business. As the voice of the industry, our primary purpose is to increase the sector's trustworthiness.

14. **How will you be communicating these changes to stakeholders?**

EPRA has formulated a robust communication plan both for its members as well for as any stakeholders concerned, in order to raise awareness on the matter. Some examples include, sponsored messages in specialised media, mass mailouts to members, webinars co-hosted with third parties as well as inclusion of the updates within analysts' newsletters.

Upon the launch of the new EPRA NAV metrics, we will be issuing a press release to all relevant external media outlets and stakeholders, EPRA membership and interested parties, providing an overview of the changes, the thorough consultation process that took place and timeline for the adoption of the new metrics. We have a dedicated communications team, who are supported by Fleishman Hillard Fishburn. They will be handling any media enquiries but also supporting with briefings to the external real estate community.

15. **Will the changes make reporting more onerous for corporates? Will it be more onerous for analysts, particularly if they must change their financial models?**

We do not think that this will be the case. In addition, EPRA has put a robust education plan in place, including workshops in key European markets with the Big 4 and local associations, (FSIF, ZIA, BE-REIT, ASIPA), as well as regular webinars in partnership with service providers and ad-hoc one-on-one meetings.

For more information please see Question 4.

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Annex

1. Comparison between previous and new set of NAV metrics.

Current form EPRA NAV/NNNAV | **EPRA NAV metrics - Comparison** | **New NAV Metrics**

	EPRA Net Asset Value	
	NAV per the financial statements	xxx
	Effect of exercise of options, convertibles and other equity interests (diluted basis)[1]	x
	Diluted NAV, after the exercise of options, convertibles and other equity interests	
	Include*:	
(i.a)	Revaluation of investment properties (if IAS 40 cost option is used)	x
(i.b)	Revaluation of investment property under construction (IPUC)[2] (if IAS 40 cost option is used)	x
(i.c)	Revaluation of other non-current investments	x
(ii)	Revaluation of tenant leases held as finance leases[3]	x
(iii)	Revaluation of trading properties[4]	x
	Exclude*:	
(iv)	Fair value of financial instruments[5]	x
(v.a)	Deferred tax	x
(v.b)	Goodwill as a result of deferred tax	x
	EPRA NAV	xxx
	Fully diluted number of shares	x
	EPRA NAV per share	xxx

	EPRA Triple Net Asset Value (NNNAV)	
	EPRA NAV	
	Include:	
(i)	Fair value of financial instruments	(x)
(ii)	Fair value of debt[1]	(x)
(iii)	Deferred tax[2]	(x)
	EPRA NNNAV	xxx
	Fully diluted number of shares	x
	EPRA NNNAV per share	xxx

Common starting point for ALL 3 NAVs	NEW EPRA NRV	NEW EPRA NTA	NEW EPRA NDV
IFRS Equity attributable to shareholders	xxx	xxx	xxx
Include / Exclude*:			
i) Hybrid instruments (1)	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 (if IAS 40 cost option is used)	x	x	x
ii.c) Revaluation of other non-current investments	x	x	x
iii) Revaluation of tenant leases held as finance leases	x	x	x
iv) Revaluation of trading properties	x	x	x
Diluted NAV at Fair Value	xxx	xxx	xxx
Exclude*:			
v) Deferred tax in relation to fair value gains of IP (2)	x	x	
vi) Fair value of financial instruments	x	x	
vii) Goodwill as a result of deferred tax	x	x	x
viii.a) Goodwill as per the IFRS balance sheet (3)		x	x
viii.b) Intangibles as per the IFRS balance sheet		x	
Include*:			
viii) Fair value of fixed interest rate debt			x
ix) Revaluation of intangibles to fair value (4)	x		
x) Real estate transfer tax (5)	x	x	
NAV	xxx	xxx	xxx
Fully diluted number of shares			
NAV per share	xxx	xxx	xxx

Colour key & Main changes
- Remains the same
- Revised
- New

1 Exclusion of hybrids that do not add to the share capital attributable to owners of the parent. Applicable to all three NAVs

2 EPRA Net Reinstatement Value: All DT (IFRS value) is added back
EPRA Net Tangible Assets: Rules-based approach with three options for adding back a certain percentage of DT
EPRA Net Disposal Value: No DT is added back

3 Exclusion of Goodwill and other Intangibles as per the IFRS balance sheet

4 Inclusion of the fair value of the intangibles, based on an external valuation (optional)

5 EPRA NRV: Use the value from the Valuation Certificate
EPRA Net Tangibles Assets: Recommendation to use IFRS Values or use the optimized net property value

Annex

2. Effective adoption date for October 2019 EPRA BPR Guidelines.

The new EPRA BPR are effective for accounting periods starting on January 1st, 2020 and will be the basis of EPRA's BPR Awards in 2021 and beyond. All European public real estate companies are encouraged to use and adopt the BPR for the purposes of their financial reporting and publication of their annual report. During the first year of implementation, companies should provide the EPRA Performance Measures (EPM) for the current year and prior year comparable and a table showing the EPM in a prominent place in the annual report.

The new set of NAV metrics will also come into full effect for accounting periods starting on January 1st, 2020. Upon adoption, and to assist the users of their financial statements, companies should additionally provide a bridge between the previous EPRA NAV metrics, as calculated in line with the November 2016 BPR, and the updated NAV measures as set out in the October 2019 BPR Guidelines for both the current and comparative accounting periods.

Below is an example schedule, outlining the adoption dates based on various fiscal year-ends.

Effective adoption date for October, 2019 EPRA Best Practices Recommendations (BPR)

Property Company	Fiscal Year-end	Q4 2019			Q1 2020			Q2 2020			Q3 2020			Q4 2020			Q1 2021			Q2 2021			Q3 2021			Q4 2021		
		Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Company A	31/12/2019															Y	31/12/2020											
Company B	31/03/2020																		Y	31/03/2021								
Company C	30/06/2020																					Y	30/06/2021					
Company D	30/09/2020																								Y	30/09/2021		

Y: First annual accounting period to adopt the new BPR