EPRA
EUROPEAN PUBLIC
REAL ESTATE ASSOCIATION

LTV
FAQ

AUGUST
2022

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1. WHY AN EPRA LTV?

Currently, companies are disclosing an LTV metric which is not consistent across the board. The reported LTV is often a company's own LTV or one which is required by banks or rating agencies. The objective was to build a metric that would be more relevant for the equity holders, i.e. a shareholder's gearing metric.

2. AS PART OF THE HYBRID INSTRUMENTS ADJUSTMENT, WHICH TYPE OF SHARES SHOULD BE ADJUSTED IN THE 'L' PART FOR THE EPRA LTV DISCLOSURE?

Only those issued shares which are considered senior in the case of a liquidation event to the company's common shares are to be included in the 'L' part of EPRA LTV. Shares that are treated pari passu to common shares in the case of liquidation are therefore not to be included in the 'L' part of the EPRA LTV calculation and are considered as equity. Dividend priority of the share is not relevant for the assessment of the EPRA LTV inclusion. This rule applies in particular for Class D shares as found in some companies in Nordic countries.

3. HOW IS THE EPRA LTV DIFFERENT FROM THE OTHER LTV ALREADY EXISTING ON THE MARKET (I.E.BANK COVENANTS, RATING AGENCIES)?

There are quite a few changes compared to existing LTVs. One of the main one is related to the classification of hybrid debt instruments. Under the EPRA LTV, instruments such as convertible bonds are treated as debt until the moment of conversion. On the other hand, due to the complexity of the matter, rating agencies follow a different approach that consists of treating hybrids on a 50:50 basis (equity to debt).

Another change involves the EPRA LTV to be calculated on a proportionate consolidation basis. This implies that the EPRA LTV includes the Group's share in the net debt and net assets of joint venture or material associates.

4. OVER WHAT TIME FRAME WILL THE CHANGES COME INTO EFFECT?

These recommendations are effective for accounting periods starting on (or after) January 1st, 2022 and will be considered as part of EPRA's BPR Awards survey in 2023 and beyond. The schedule in Annex 1 illustrates the effective adoption date for various fiscal year ends.

5. WHY NOW?

The EPRA LTV discussion has been on the table for many years. Investors and analysts have been demanding a consistent, comparable LTV metric for some time. After the update of EPRA NAV metrics in 2019, this metric was deemed to be one of the last important remaining BPR metric. Various stakeholders were involved in the discussion throughout 2021, which resulted in the publication of this consensus driven EPRA LTV metric.

6. IS THERE AN EXAMPLE AVAILABLE THAT WILL HELP UNDERSTAND HOW TO COMPUTE THE METRIC?

Yes, please refer to Annex 2 for the illustrated example of the EPRA LTV using alstria office REIT AG's figures based on their 12.31.2020 annual report.

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7. HOW WILL THE BPR AWARDS SURVEY BE IMPACTED?

The EPRA LTV will be included in the Guidelines as part of the EPRA BPR Performance Measures.

8. HOW ARE YOU GOING TO EDUCATE THE LISTED REAL ESTATE SECTOR INTO UNDERSTANDING THIS NEW BPR METRIC?

We will communicate the launch of the new metric to the EPRA membership and relevant stakeholders by providing an overview of the changes, the thorough consultation process that took place and the timeline for the adoption of the new metric.

EPRA is planning to conduct workshops in collaboration with the Big 4 accounting firms as well as local real estate associations starting in Q2 2022 and continuing until the market fully adopts the new BPR. EPRA's Reporting & Accounting staff will be available to provide ad-hoc support and clarify any matters throughout the entire uptake period for 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.

9. WHY IS IT IMPORTANT FOR MORE TRANSPARENT BEST PRACTICE REPORTING?

The EPRA Best Practices Recommendations are a cornerstone non-GAAP framework for the listed real estate industry, and as the sector is expanding, we are ensuring that the main indicators evolve with it. The recent introduction of the LTV metric has increased the focus on the quality of reporting and will bring further benefits to the overall transparency of the sector.

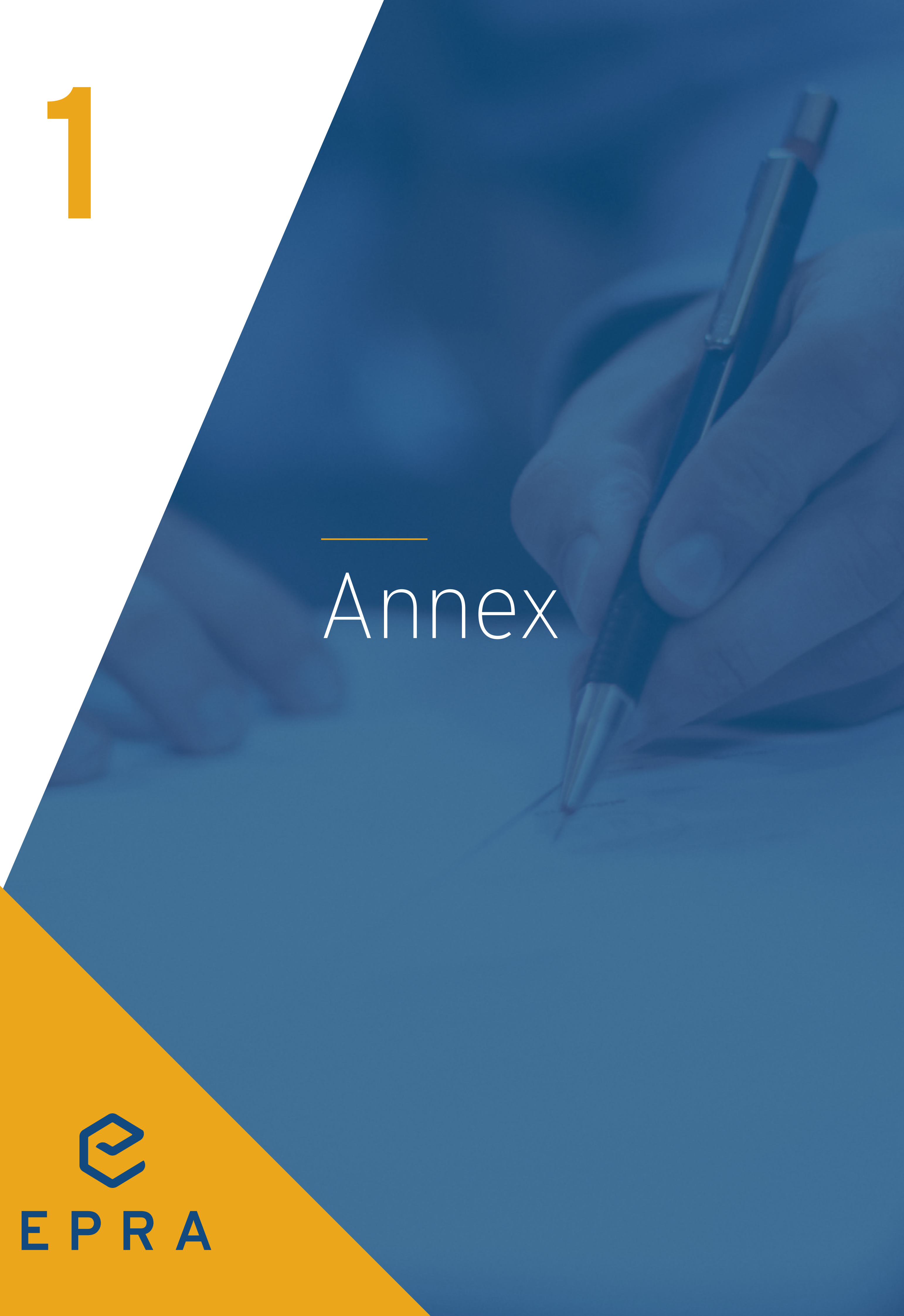
Transparency builds trust and trust is the cornerstone and the driving force not only for the financial markets but for any business. As the voice of the industry, our primary purpose is to increase the sector's trustworthiness.

10. SHOULD PROVISIONS ON DEFERRED TAX LIABILITIES BE ADDED ON THE NET PAYABLES ADJUSTMENT LINE?

The guidelines are quite clear, all payables as per balance sheet should be considered. However, as an exception, provisions on deferred tax liabilities are not to be included in the EPRA LTV. As a matter of fact, deferred tax liabilities are not included in the L of the EPRA LTV, the same way deferred tax assets are not included in the V. The rationale is that on market practice, these deferred tax liabilities are never settled and therefore, do not reflect payables by substance.

1

Annex



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1. Effective adoption date for EPRA LTV

The EPRA LTV is effective for accounting periods starting on (or after) January 1st, 2022 and will be considered as part of the EPRA's BPR Awards in 2023 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.

Below is the timeframe outlining the adoption dates based on the different fiscal year-ends.

Property Company	Fiscal YE	Q1-22			Q2-22			Q3-22			Q4-22			Q1-23			Q2-23			Q3-23			Q4-24		
		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	31/12/2022																								
company B	31/03/2023																								
company C	30/06/2023																								
company D	30/09/2023																								

2. Illustrated Corporate Example

Please see below the EPRA LTV disclosure using alstria office REIT AG's figures based on their 12.31.2020 annual report:

		Proportionate Consolidation			
	Group € M as reported	Share of joint Ventures € M	Share of Material Associates € M	Non-Controlling Interests € M	Combined € M
Borrowings from Financial Institutions	283	-	-	-	283
Bond Loans	1.413	-	-	-	1.413
Net Payables (2)	59	-	-	-	59
Exclude:					
Cash and cash equivalents	452	-	-	-	452
Net Debt (a)	1.303	-	-	-	1.303
Owned-occupied property (3)	17	-	-	-	17
Investment properties at fair value	4.556	-	-	-	4.556
Total Property Value (b)	4.573	-	-	-	4.573
LTV (a/b)	**28,49%**				**28,49%**

The first column called "Group as reported" includes all the adjustments according to the EPRA LTV guidelines.

Reconciling items[1]:

The borrowings from financial institutions are composed of Mortgage Loans for EUR 195,729k, non-current Schuldschein loan for EUR 76,865k and total current interests for EUR 10,325 EUR.

The net payables are the difference between the payables for EUR 73,327 (composed of other current liabilities and non-current for EUR 62,576k, other provisions for EUR 2,030, income tax liabilities for EUR 4,780 and trade payables for EUR 3,943) and the receivables for EUR 14,564 (composed of trade receivables for EUR 4,572, income tax receivables for EUR 1,230 and other receivables for EUR 8,762).

1 Please refer to the EPRA BPR Guidelines p.25 which require that every LTV component (line item) that cannot be directly traced to financial statements, should be reconciled below the table.

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3. Illustrated Calculation Example

EPRA requires that members disclose the EPRA LTV table as below. We understand companies already disclosed LTV as defined by rating agencies or banks and therefore we built the below example to help preparers when calculating the EPRA LTV. In this example, the figures have been selected randomly: the table below is meant to provide companies with a practical approach to calculating the EPRA LTV with detailed explanations for reference purposes. Please note the format to be published in AR is the one shown in the latest BPR guidelines.

	Columns to help during calculation but that are not required to be			Columns to be disclosed as part of the EPRA LTV guidelines				
		1)			2)	2)	3)	
	According to IFRS balance sheet	Adjustments to arrive at EPRA Group LTV € M		Group EPRA LTV as reported € M before share of JV´S, material associates and NCI adjustment	Share of Joint Ventures € M	Share of Material Assicuates € M	Non Controlling Interests (NCI) € M	Combined € M and adjusted
Include:								
Borrowings from Financial Institutions	4.332			4.332	458	200	- 499	4.491
Commercial paper	200			200			- 20	180
Hybrids (including Convertibles, preference shares, debt, options, perpetuals)	400	800	4)	1.200			- 120	1.080
Bond Loans	1.200			1.200			- 120	1.080
Foreign Currency Derivatives (futures, swaps, options and forwards)	50		5)	50			- 5	45
Net Payables	46		6)	46	-		- 5	41
Owner-occupied property (debt)	500		7)	500			- 50	450
Current accounts (equity characteristic)	300	- 150	8)	150			- 15	135
Exclude:								
Cash and Cash equivalents	1.345		9)	- 1.345	- 23	- 10	138	- 1.240
Net Debt (a)	8.373	650		6.333	435	190	- 696	6.262
Owner Occupied property	1.000		7)	1.000			- 100	900
Investment properties at fair value	11.800	50	10)	11.850	920		- 1.277	11.493
Properties held for sale	1.660	50	10)	1.710			- 171	1.539
Properties under development	26	10	10)	36	4		- 4	36
Intangibles		100	11)	100			- 10	90
Net Receivables	-		12)	0			0	-
Financial Assets	150		13)	150		50	- 20	180
Total Property Value (b)	14.636	210		14.846	924	50	- 1.582	14.238
LTV (a/b)				**42,7%**				**44,0%**

Explanatory notes (for guidance only)

1) Adjustments to IFRS balance sheet to arrive at EPRA LTV at group level.
2) Adjustments made based on proportion of JV´s and material associates owned by the Group.
3) It is assumed that every subsidiary has a 10% minority interest and that all assets and liabilities are held by these subsidiaries. Under this assumption the Group also has a 10% non controlling interest in aggregate. For EPRA LTV purposes adjustment should be made for the percentage of non-controlling interest which are material to the company's business. Hence, 10% of all amounts in the previous columns are deducted. The equity that remains in column VII then represents the equity attributable to equity holders of the parent.
4) This represents the equity part of a hybrid under IFRS which is to be reclassified to debt under EPRA LTV guidelines. The result being that the debt is (again) included at nominal value.
5) Fair value of a foreign currency swap related to the loan portfolio.
6) Negative balance between accounts receivable and all other accounts payable. The net payables are the difference between the payables for EUR 61 EUR (composed of other current liabilities for EUR 50, other provisions for EUR 2, income tax liabilities for EUR 5 and trade payables for EUR 4) and the receivables for EUR 13 (composed of trade receivables for EUR 4, income tax receivables for EUR 1 and other receivables for EUR 8). Please note that, as an exception, provisions on deferred tax liabilities had to be excluded (-2).
7) Inclusion of the fair value of the entity's headquarter, assuming the corporate HQ is 50% financed and that financing is not yet included in the net debt figure reported by the entity under the IFRS LTV.
8) Current account financing provided by 3rd party investors. 50% of this is assumed to be an extension of equity of the entity.
9) Cash and cash equivalents included as negative as the EPRA LTV is net of cash.
10) Adjustments to arrive at fair value for those properties carried at cost.
11) All on balance sheet intangibles other than goodwill increased by the off balance sheet fair value of third party asset management business as assessed by an external appraiser.
12) As the company is in a net payable position, see 6), the amount is zero (either there is a net receivable or a net payable but not both).
13) Loan granted to joint venture; the financial asset corresponding to that part of the loan which is not included in the proportional consolidation of the joint ventures and associates in column IV.

EPRA

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