FINANCIAL REPORTING BY LISTED REAL ESTATE COMPANIES IN EUROPE

2014 fiscal year
L’IMPACT DE LA NOUVELLE NORME IFRS 13 SUR LA JUSTE VALEUR DES DERIVES CHEZ LES CORPORATE

All rights reserved - Mazars - June 2015

Any complete or partial representation or reproduction, without the agreement of Mazars or Mazars’ successors or assigns, is illicit (cf. paragraph 1 of article 40 of the French law dated 11 March 1957).

Any such representation or reproduction, by any means whatsoever, would constitute an infringement sanctioned by articles L335-2 and following of the French code of intellectual property law.

Paragraphs 2 and 3a of article L122-5 of that code only authorise “copies or reproductions strictly reserved for the copier’s personal use and not destined for any collective use” as well as “analyses and concise quotations” for purposes of example and illustration.
CONTENTS

INTRODUCTION

1. POSITIONING OF THE REAL ESTATE COMPANIES IN THE SAMPLE AND USE OF KEY PERFORMANCE INDICATORS

2. FINANCIAL REPORTING ON ASSET PORTFOLIOS

3. FINANCING STRATEGIES

CONCLUSION
INTRODUCTION

The word cloud below was generated from the earnings press releases published in 2014 by the French real estate companies in our sample. The size of the word indicates the number of times it occurred in the press releases.

acquisition assets share fall leases offices centres disposals commerce commercial comparable current price cost growth debt development dividend rights EPRA euros real-estate increase building impact investments rent market maturity transactions Paris property scope pipeline portfolio projects relationship recurrent regions returns profit profits rates value

This word cloud provides a summary of the market events that occurred in 2014. The press releases published by the sector showed a balance between acquisitions, investments and disposals, as well as major transactions involving shopping centres (Beaugrenelle, Carrefour and the Klépierre – Corio merger).

Falls in rates had a negative impact on asset values, but also generated continued refinancing activity. The bond market also continued to see very high levels of activity.

Our survey looks at how these events have been represented in companies’ financial reporting.

Furthermore, the positive market conditions are reflected by the terms “croissance” (growth) and “développement” (development). We therefore also analysed financial reporting and market expectations regarding projects in the pipeline, and the outlook more generally.

We hope you will find the survey interesting.
Scope of the survey

The purpose of this survey is to analyse the financial reporting of a sample of listed European real estate companies. For this fifth edition of the survey, we have paid particular attention to real estate companies' positioning and their use of key performance indicators. We also analysed their reporting on their asset portfolios and financing strategies.

Constitution of the sample

Our survey covered the annual reports and press releases of fifteen listed European real estate companies, including the ten foremost French companies:

The inclusion of British and Dutch real estate companies in the sample has allowed us to compare practices across different markets.
Key data on the sample

€54bn in investment properties

€90bn in stock market capitalisation

Structure and average size of the real estate companies’ annual reports

The average size of annual report has risen steeply since 2003. This increase in volume is not necessarily due to an increase in the amount of financial data provided. Rather, it reflects greater emphasis on corporate social and environmental responsibility and more extensive coverage of entities’ governance and operations.

Great attention is now also paid to the aesthetic appeal and overall attractiveness of the annual report, which has transcended its role as a regulatory financial report to become a fully-fledged vector of communication addressing the main features of companies’ strategic orientations.
Rapidity of publication for 2014

The fifteen real estate companies published their annual earnings press release within three months of the end of the financial year (with a range of between 28 and 63 days and an average of 47 days).

There was greater disparity for publication of the annual report, with an average time-lag of 75 days after the year-end.

The average values and ranges are very similar to those observed for the companies of the STOXX Europe 50 stock market index (44 days for the annual results and 75 for the annual report).

Limitations of the survey

Our survey is not intended to cover the whole range of issues raised by listed real estate companies’ financial reporting, or to provide any opinion as to the quality of the financial information published by the companies included in the survey.

The content of the survey and the opinions expressed therein are the sole responsibility of Mazars.
1. POSITIONING OF THE REAL ESTATE COMPANIES IN THE SAMPLE AND USE OF KEY PERFORMANCE INDICATORS

1.1. BUSINESS SEGMENT AND GEOGRAPHICAL POSITIONING
1.2. TRENDS IN MARKET CAPITALISATIONS
1.3. SHAREHOLDER COMPOSITION / DISTRIBUTION OF DIVIDENDS
1.4. SHARE PRICE DISCOUNT/PREMIUM TO NAV
1.5. COMPLIANCE WITH EPRA INDICATORS
1.6. NEW IFRS REQUIREMENTS
1.1. Business segment and geographical positioning

Changes in the value of asset portfolios by business segment

The graph below shows changes in the value of asset portfolios for each business segment since 2009. This was the first year in which companies were required to apply IFRS 8, which aimed to standardise the presentation of segment information in financial reporting.

Fair value in €bn

The asset portfolios of the companies in our sample are primarily invested in shopping centres and offices. The market share of the two segments has remained relatively stable since 2009, accounting for 88% of the fair value of asset portfolios at 31 December 2014.
As would be expected given the composition of the sample, which includes 10 French real estate companies and 4 British ones, more than 80% of the fair value of the asset portfolios is located in France or the UK.
Changes in business segment and geographical positioning

The companies’ geographical and business segment positioning has remained broadly the same since 2009.

Four profiles can be identified, as follows:

- The single-segment, single-country profile, including companies such as Altarea-Cogedim and Mercyalis.
- The single-segment, multi-country profile, including companies such as Klépierre, Unibail and Hammerson, which own shopping centres in several different countries.

Real estate companies that focus on shopping centres are more likely to implement a ‘pure player’ strategy than companies that focus on offices.

- The multi-segment, single-country profile, including countries such as British Land and Land Securities that have a broad presence in their country across several business segments.
- The multi-segment, multi-country profile, of which Foncière des Régions is the single representative.
In our previous survey, we found that the majority of real estate companies were refocusing on ‘prime’ or ‘core’ assets. The trend continues this year, with the weighting of the main business focus remaining stable or increasing from the previous year.
1.2. Trends in market capitalisations

There are two clearly discernible phases in the evolution of the stock market capitalisations of the sample.

The 2007 financial crisis caused the sample’s market capitalisations to plummet, reaching their lowest point in 2008. During that financial period, real estate companies such as Corio, Foncière des Régions and Klépierre saw their market capitalisations fall by more than €1bn.

Since then, there has been a steady upward trend, with the exception of a slight drop in 2011 due to the sovereign debt crisis. Total market capitalisation reached €90bn at the end of 2014, an increase of more than 80% from 2008 and an improvement on pre-crisis levels.

The average free float currently stands at 49%. However, the composition of the shareholder basis varies substantially from one real estate company to another.
1.3. Shareholder composition and distribution of dividends

Shareholder composition

There are three distinct profiles of shareholder composition:
- for the first group, more than 70% of market capitalisation is made up of free float;
- for the second group, market capitalisation is between 40% and 50% free float, i.e. 20 percentage points less than the first group;
- finally, the companies with market capitalisation of less than €2bn have less than 20% free float.
The identifiable shareholder base of the French real estate companies is primarily European, and two-thirds French.

As the graph above shows, there is a correlation between net asset value (NAV) and the level of free float. All these listed French real estate companies benefit from the “SIIC” (REIT) regime and make use of the market as a financing tool.
Dividends distributed and equity returns

**Average equity return:** the sample average for the dividend per share / share closing price ratio

The cumulative amount of dividends distributed since 2007 varies between €2.7bn and €3.7bn and has been rising steadily since 2011.

The average equity return, calculated as the dividend paid on the share closing price, has stayed relatively stable between 5% and 6% since 2009.

As these companies are all Real Estate Investment Trusts (REITs, or SIICs in France), they are obliged to pay substantial dividends to shareholders. Although the level of dividend payments rose by more than 4% in 2015, the average returns in 2014 slumped due to the companies’ stock market performance.

Real estate companies use dividends as an indicator, maintaining a level of dividend payments that is independent of stock market performance.
Time taken for share price to recover

Dividends paid in 2014 on profits generated in 2013

Dividend payments have an immediate impact on the share price of real estate companies. The price drops by 5% over the day following the dividend payment.

Although the time taken for the share price to recover varied from one company to another, the average recovery time for the sample was one month. This is a quicker and steadier recovery than is the case in other sectors. The share price of real estate companies such as Corio or Unibail-Rodamco has already passed its pre-dividend level three weeks after payment of the dividend.

Comment from Benoît FAURE-JARROSSON, a financial analyst at Invest Securities

Do you think the share price of real estate companies recovers more quickly than is the case in other sectors?

“This is often the case for real estate companies, as their returns are higher than is the case in other sectors, and valuation approaches often fail to take account of the dividend accrued.

However, it should be noted that the phenomenon has been less marked in 2015, due to lower returns and to upward pressure on interest rates in the spring.”
1.4. Share price discount/premium to NAV

At the end of 2008, market discounts reached their lowest point at -32%. In 2014, companies in the sample were trading at a premium for the first time since 2006.

As of 31 December 2014, eleven of the real estate companies were trading at a premium:
- Unibail-Rodamco was trading at a premium of 41%. This performance reflects both the liquidity of the stock and the development project portfolio, valued at €8bn at year-end 2014.
- We can clearly see the impact of Klépierre’s bid for Corio. The share price of the latter was 20% higher than its NAV at year-end 2014, whereas it was trading at a discount at year-end 2013.

Comment from Benoît FAURE-JARROSSON, a financial analyst at Invest Securities

Does NAV have a time lag compared with the real estate market?

“Experts observe what is going on before they announce it, so there will naturally be a time lag.

It is also interesting to look at the data collected by IPD, i.e. valuations and benchmarking of sales against these valuations. The database shows that valuations are usually within 10% of the sales price.

The law of large numbers should also be borne in mind when considering this 10% discrepancy: positive and negative differences balance each other out to an extent when you look at all the transactions over the year, giving a discrepancy of around 2% to 3%. The discrepancy is also affected by the pace of the market, with bigger discrepancies when the market is moving quickly, a negative discrepancy when the market falls and a positive discrepancy when the market rises, which confirms that valuations are lagging behind somewhat.

As regards 2013, the valuation discrepancy was 7%, corrected pro rata temporis. The share price premium to NAV was partly due to the time lag on NAV, but this was not the only factor, as we can see from the extreme case of Unibail. This company was trading at a premium of €10bn to its NAV, which could not be solely explained by its €8bn pipeline, masking a potential margin of a few billion.”
1.5. Compliance with EPRA (European Public Real Estate Association) indicators

Compliance with EPRA recommendations

EPRA's indicators seek to improve the transparency and comparability of the financial statements of listed real estate companies in Europe. The key finding here is that the companies in our sample presented disclosures on these indicators, including information on their cost ratio (an indicator introduced by EPRA in July 2013). Moreover, 13 out of the 15 real estate companies in the sample communicated on their EPRA earnings in 2014.

Like-for-like rental income
In its December 2014 recommendations, EPRA stated that companies should report their rental income on a like-for-like basis, excluding the impact of acquisitions and disposals.

Growth in rental income may be due to several factors:

- indexation of rental income;
- changes in the vacancy rate due to new tenancy agreements or notice given on existing agreements;
- changes in non-recoverable property expenses;
- renegotiation of rents with existing or new tenants.

14 out of 15 companies in the sample presented information on changes in like-for-like rental income, and nearly all of them explained these changes in terms of the factors identified by EFRA. Six real estate companies also provided a geographical breakdown.

Extract from 2014 registration document – Corio

<table>
<thead>
<tr>
<th>Tenant sales</th>
<th>FY 2014</th>
<th>FY 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio average</td>
<td>0.1</td>
<td>-1.2</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>France</td>
<td>-1.1</td>
<td>-2.3</td>
</tr>
<tr>
<td>Italy</td>
<td>-1.2</td>
<td>0.6</td>
</tr>
<tr>
<td>Germany</td>
<td>-1.5</td>
<td>-1.0</td>
</tr>
<tr>
<td>Spain / Portugal</td>
<td>-0.7</td>
<td>-7.5</td>
</tr>
<tr>
<td>Turkey</td>
<td>6.9</td>
<td>1.5</td>
</tr>
</tbody>
</table>

* The like-for-like change in tenant sales compares sales growth of stores that have been consistently in operation during comparable periods.
1.6. New IFRS\(^1\) requirements

IFRIC\(^2\) 21

The IFRIC 21 interpretation on levies became mandatory in 2015, following its adoption by the European Union in June 2014. The obligating event that gives rise to the recognition of a liability is the activity that triggers the payment of the levy, as identified by the legislation.

Thus, the 2015 interim (i.e. quarterly and half-yearly) financial statements will be affected by this interpretation. For example, IFRIC 21 applies to levies such as:

- property tax. If this is payable on 1 January N, 100% of the levy is recognised in the accounts at 31 March N;
- CVAE tax (a contribution based on companies’ value added): if the company has not identified this as an income tax falling within the scope of IAS 12, the contribution is spread over financial period N as value added is created, once the minimum threshold has been reached.

Like any change in accounting method, this interpretation is applicable retrospectively.

The sample showed a great diversity of practice as regards IFRIC 21 disclosures at year-end 2014, with a third of the companies not mentioning the standard at all:

In the interim financial statements for the first quarter of 2015, only one real estate company presented information on the impact of IFRIC 21.

---

\(^1\) International Financial Reporting Standards

\(^2\) International Financial Reporting Interpretations Committee
IFRS 15 and IFRS 9 are not yet applicable, with European adoption scheduled for the end of 2015.

As a reminder, IFRS 15 is the new standard on revenue that will replace IAS 11 – *Construction Contracts* and IAS 18 – *Revenue* from 1 January 2017, to be applied retrospectively. This standard is not expected to have a substantial impact on the financial statements of real estate companies.

IFRS 9 is the new standard on financial instruments, published by the IASB in July 2014, that will replace IAS 39 from 1 January 2018, subject to adoption by the European Union. As the aim of this standard is to improve the quality of financial information provided to investors, additional disclosures will be required in the notes. This standard will have a particularly large impact on banks, as they will have to revise the classification and measurement of all their financial assets.

**Mazars publications:**

- “IFRS 15: an overview of the new principles of revenue recognition”

- “Implementation of IFRS 9: an overview of the progress made by French banks and the key challenges facing them” (currently available in French only)
  [www.mazars.fr/etudeIFRS9](http://www.mazars.fr/etudeIFRS9)

At 31 December 2014, most of the companies in our sample mentioned these two standards, but did not specify their expected impact:
1.7. Targets or forecasts identified in annual press releases

<table>
<thead>
<tr>
<th></th>
<th>LTV</th>
<th>Earnings*</th>
<th>Disposals</th>
<th>Rental Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quantitative figure</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
</tr>
<tr>
<td>Trend</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

|                  | 7%        | 7%        | 33%       | 13%           |
|                  | 7%        | 0%        | 27%       | 0%            |
|                  |           |           |           | 7%            |
|                  |           |           |           | 13%           |
|                  |           |           |           | 7%            |
|                  |           |           |           | 13%           |

*Earnings, net current cash flow or FFO

This analysis of companies’ communication on their future targets is based on the press releases published when the 2014 financial results were announced.

There was a great deal of variation between the companies in the sample. European companies (based outside France) gave very little specific information on their outlook, while French companies tended to indicate trends rather than provide quantitative data.

60% of the real estate companies provided information on their earnings, compared with 50% last year.
2. FINANCIAL REPORTING ON ASSET PORTFOLIOS

2.1 VALUATION OF INVESTMENT PROPERTY
2.2. TABLE OF CHANGES IN THE PROPERTY PORTFOLIO
2.3. ASSETS HELD FOR SALE
2.4. DEVELOPMENT ASSETS
2.5. CONCENTRATION OF TENANTS
2.6. RESIDUAL DURATION OF LEASES
2.1. Valuation of investment property

It is essential for real estate companies to publish high-quality information on their assets. In our previous survey, we focused on debt and hedging. The recent focus on real estate companies’ investment property is due to the current favourable economic environment and highly attractive interest rates.

2.1.1. Choice of accounting policy

According to IAS 40, investment property may be accounted for using either the fair value model or the amortised cost model.

EPRA recommends that real estate companies should measure investment property at fair value. If they elect to apply the amortised cost model, the rationale for this should be explained.

The survey shows that only four of the real estate companies in the sample opted for the amortised cost model. In 2014, Eurosic changed its accounting policy, and will henceforth measure its investment property at fair value.

Mazars publication:

“IFRS 13 ‘Fair Value Measurement’: Key points of the new standard in 40 questions and answers”
2.1.2. Valuation method used

All the real estate companies in the sample provided satisfactory disclosures on the valuation methods used by their appraisers. Of those companies that used several methods, two out of 12 presented disclosures on the method used to calculate fair value (preferential method, arithmetic mean of several methods, etc.), which may vary depending on the business segment.
2.1.3. Disclosures on appraisers

Eight real estate companies presented disclosures on the rotation of appraisers, and six of these presented the rotation criteria. Only three companies presented information on valuations broken down by asset type.

The real estate companies use a variety of different rotation criteria. Appraisers are replaced:

- for a portion of the asset portfolio each year (e.g. 10%);
- for each asset after a given period (varying between 3 and 7 years);
- after a set number of consecutive valuations for the client.

At half of the companies, a single appraiser is responsible for valuing more than 50% of the asset portfolio.
2.1.4. Disclosures on fees paid to appraisers

EPRA recommends:

- use of an external appraiser at least annually;
- disclosure of the names of the firms undertaking the valuation;
- the basis for the appraiser’s fees (which should not be related to the type of asset valued);
- disclosure of the fees paid to appraisers (other than those paid for the annual valuations);
- whether the fee paid to a particular appraiser accounts for more than 10% of that appraiser’s turnover.

These recommendations were generally met by the companies in the sample, as all of them used external appraisers at least twice a year, and disclosed the names of all appraisers.

There was substantial variation in the amount of information provided on the fees paid to appraisers, and in how this information was presented:

> The property valuation fees are billed to Icade based on a flat remuneration, taking into account the specifics of the buildings (number of units, number of square meters, number of current leases, etc.) and independent of the value of the assets.

---

Extract from 2014 registration document – Icade
2.1.5. IFRS 13: Unobservable quantitative data

The real estate companies in the sample all chose to categorise the fair value of their investment property at Level 3, largely due to unobservable inputs used by the appraisers (rates of return, discount rates, and certain market-based rental values).

However, there was substantial variation in the quality of the disclosures.

<table>
<thead>
<tr>
<th>Shopping centers 12/31/2014</th>
<th>Yield rate</th>
<th>Discount rate*</th>
<th>Capitalization yield**</th>
</tr>
</thead>
<tbody>
<tr>
<td>France / Belgium</td>
<td>Max</td>
<td>9.0%</td>
<td>11.0%</td>
</tr>
<tr>
<td></td>
<td>Min</td>
<td>4.3%</td>
<td>5.8%</td>
</tr>
<tr>
<td></td>
<td>Weighted average</td>
<td>5.3%</td>
<td>6.8%</td>
</tr>
<tr>
<td>Iberia (Spain, Portugal)</td>
<td>Max</td>
<td>10.5%</td>
<td>12.5%</td>
</tr>
<tr>
<td></td>
<td>Min</td>
<td>5.8%</td>
<td>6.5%</td>
</tr>
<tr>
<td></td>
<td>Weighted average</td>
<td>6.9%</td>
<td>7.7%</td>
</tr>
<tr>
<td>Central Europe (Hungary, Poland, République)</td>
<td>Max</td>
<td>11.4%</td>
<td>12.8%</td>
</tr>
<tr>
<td></td>
<td>Min</td>
<td>5.7%</td>
<td>7.0%</td>
</tr>
<tr>
<td></td>
<td>Weighted average</td>
<td>6.9%</td>
<td>8.0%</td>
</tr>
<tr>
<td>Scandinavia (Norway, Sweden, Denmark)</td>
<td>Max</td>
<td>6.8%</td>
<td>16.2%</td>
</tr>
<tr>
<td></td>
<td>Min</td>
<td>5.0%</td>
<td>7.3%</td>
</tr>
<tr>
<td></td>
<td>Weighted average</td>
<td>5.4%</td>
<td>8.1%</td>
</tr>
<tr>
<td>Italy</td>
<td>Max</td>
<td>13.3%</td>
<td>16.0%</td>
</tr>
<tr>
<td></td>
<td>Min</td>
<td>5.8%</td>
<td>6.9%</td>
</tr>
<tr>
<td></td>
<td>Weighted average</td>
<td>6.4%</td>
<td>7.4%</td>
</tr>
<tr>
<td>Other countries (Greece, Slovakia)</td>
<td>Max</td>
<td>10.8%</td>
<td>14.3%</td>
</tr>
<tr>
<td></td>
<td>Min</td>
<td>9.3%</td>
<td>10.6%</td>
</tr>
<tr>
<td></td>
<td>Weighted average</td>
<td>9.9%</td>
<td>11.4%</td>
</tr>
</tbody>
</table>

*Rate used to calculate the net present value of future cash flows.

**Rate used to capitalize the extent to determine the exit value of an asset (at 100% and not in group share).

Extract from 2014 registration document – Klépierre
2.1.6. IFRS 13: Sensitivity tests

Sensitivity testing of key parameters should be carried out in order to assess the volatility of valuations.

Eight real estate companies carried out tests to assess the sensitivity of valuations to changes in rates of return. However, the number of stress scenarios varied substantially between companies. The French market authority (Autorité des Marché Financiers, or AMF) recommends that rental values and occupancy rates should also be subject to sensitivity testing.

Of the real estate companies that used the amortised cost model, half disclosed the results of their sensitivity test.

*Combined with a +/- 10% change in rental income

For example, in the event of annual appraised rental income of Euro 161 million and a capitalization rate of 5.6%:
- a 0.5% decrease in this rate and a 10% increase in appraised rental incomes would have a positive impact of Euro 602.3 million;
- a 0.5% decrease in this rate and a 10% drop in appraised rental incomes would have a negative impact of Euro 33.3 million;
- a 0.5% increase in this rate and a 10% increase in appraised rental incomes would have a positive impact of Euro 27.9 million;
- a 0.5% increase in this rate and a 10% drop in appraised rental incomes would have a negative impact of Euro 503.3 million.

Fees accounted for by Mercyalis for appraisals in respect of the work detailed above amounted to Euro 165,000 for the fiscal year ended December 31, 2014.

Extract from 2014 registration document – Mercyalis
2.2. Table of changes in the property portfolio

All the companies in the sample disclosed information on changes in their portfolio of investment property. However, EPRA recommends that the line item ‘Property additions’ should be further broken down as follows:

- acquisitions;
- expenditure;
- business combination.

Not all the companies in the sample provided this detailed breakdown:

<table>
<thead>
<tr>
<th>Property additions</th>
<th>Geria</th>
<th>Icast</th>
<th>Kilpouri</th>
<th>Unidad Rodamco</th>
<th>Faroils des Regions</th>
<th>Almarea Cooperativa</th>
<th>Mercuía</th>
<th>Sociedad Fenix Montalbo</th>
<th>Eurosic</th>
<th>Faroils de Paris</th>
<th>British Land</th>
<th>Ili Properties</th>
<th>Hambrecht Land Securities</th>
<th>Coast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisitions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenditure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business combination</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disposals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amortisation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Impairment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfers between levels of the fair value hierarchy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfers between categories</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
2.2.1. Companies that opted for the fair value model

The bridge below shows changes in the value of the property portfolios of the companies that opted for the fair value model, over the course of 2014:

The companies’ property portfolios are heavily weighted towards ‘prime’ assets. The trend for companies to focus more on these assets has naturally led to a positive increase in the fair value of investment property (+4%). This increase is also partially an automatic effect of the fall in interest rates. For example, the yield on OAT Treasury bonds fell from 2.5% in 2013 to 0.9% in 2014.

The ‘Other variations’ column primarily relates to capital expenditures.

Companies that opted for the fair value model were net investors in 2014, with asset acquisitions totalling €6.8bn. Two of the eleven companies that opted for the fair value model were net disinvestors in 2014.
Companies that opted for the amortised cost model were also net investors in 2014. It is also notable that the companies made net provisions for impairment, reflecting the difficulties experienced by real estate companies on the so-called ‘secondary’ market. Paradoxically, the amortised cost model ‘forced’ the companies that chose this model to focus on their most sensitive assets. Half of the companies in the sample were net disinvestors in 2014.
2.3. Assets held for sale

2.3.1. Criteria for classifying assets under IFRS 5

Only French companies include property under valuation/brokerage as a separate line item in the statement of financial position.

The classification varies substantially between the companies in the sample. British companies, for example, appear to only apply this standard to discontinued operations.

2.3.2. Turnover rate of assets over the past three years

The average portfolio turnover rate for the sample was 7% in 2014, compared with 3% in 2013.

The investment market saw some large transactions worth over €500m, notably including the sale of Beaugrenelle by Gecina and the sale of shopping centres by Klépierre and Unibail-Rodamco.
1.9. Non-current assets held for sale and discontinued operations

In accordance with IFRS 5, a non-current asset is classified as “held for sale” if its carrying amount is to be recovered primarily through a sale transaction rather than through ongoing use.

This is the case if the asset is available for immediate sale in its current state, subject only to the usual and customary conditions for the sale of such an asset, and if its sale is highly probable.

Extract from 2014 registration document – Altarea-Cogedim


2.4. Development assets

There is substantial variation in the extent to which companies have complied with EPRA’s recommendations in their disclosures on development assets.

It is notable that fewer companies present disclosures on the more strategic criteria. However, investors find these EPRA criteria very useful when assessing changes in real estate companies’ NAV.
Development assets are those on which work has already begun, while the pipeline represents amounts not yet committed.

In 2014, 11 out of 15 real estate companies presented disclosures on the total value of their pipeline, but the amount of information provided varied significantly from one company to another, particularly as regards the level of certainty on pipeline projects.
Examples of pipeline disclosures:

### DEVELOPMENT PIPELINE

#### Development pipeline financial summary

<table>
<thead>
<tr>
<th>developments left and transferred or sold</th>
<th>cumulative movements on the development programme to 31 March 2014</th>
<th>Total scheme details</th>
<th>valuation surplus for the year ended 31 March 2014 in £m</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Market value at start of scheme £m</td>
<td>Capital expenditure incurred £m</td>
<td>Capitalised interest to date £m</td>
</tr>
<tr>
<td>Shopping centres and shops</td>
<td>97.5</td>
<td>304.5</td>
<td>22.0</td>
</tr>
<tr>
<td>Retail warehouses and food stores</td>
<td>15.5</td>
<td>38.0</td>
<td>1.3</td>
</tr>
<tr>
<td>London Portfolio</td>
<td>113.0</td>
<td>343.1</td>
<td>23.9</td>
</tr>
<tr>
<td>developments after practical completion, approved or in progress</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shopping centres and shops</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Retail warehouses and food stores</td>
<td>18.0</td>
<td>9.2</td>
<td>0.2</td>
</tr>
<tr>
<td>London Portfolio</td>
<td>551.4</td>
<td>485.9</td>
<td>31.9</td>
</tr>
<tr>
<td>Land</td>
<td>569.4</td>
<td>495.1</td>
<td>32.1</td>
</tr>
</tbody>
</table>

Extract from 2014 registration document – Land Securities

#### 2.2.8. A secured and flexible development pipeline

The table below shows the evolution of the development pipeline since December 31, 2013 by commitment categories:

<table>
<thead>
<tr>
<th>#Un</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;Committed&quot; projects</td>
<td>2.1</td>
<td>2.2</td>
</tr>
<tr>
<td>&quot;Controlled&quot; projects</td>
<td>4.3</td>
<td>3.7</td>
</tr>
<tr>
<td>&quot;Secured Exclusivity&quot; projects</td>
<td>1.5</td>
<td>1.1</td>
</tr>
</tbody>
</table>

**CONSOLIDATED TOTAL INVESTMENT COST**

8.0  6.9

Figures may not add up due to rounding.

1. "Committed" projects: projects currently under construction, for which Unibail-Rodamco owns the land or building rights and has obtained all necessary administrative authorizations and permits.
2. "Controlled" projects: projects in an advanced stage of studies, for which Unibail-Rodamco controls the land or building rights, but where not all administrative authorizations have been obtained yet.
3. "Secured exclusivity" projects: projects for which Unibail-Rodamco has the exclusivity but where negotiations for building rights or project definition are still underway.

Extract from 2014 registration document – Unibail-Rodamco
2.5. Concentration of tenants

60% of the real estate companies presented disclosures on the percentage of rental income contributed by the main tenants.

These are primarily companies that focus on the office property market (which involves greater dependence on a smaller number of tenants).

1/3 of the real estate companies list their major clients by name, primarily shopping centre occupiers (well-known brands, etc.).

The percentage of rental income accounted for by the top 10 clients varies substantially depending on the company’s main business segment. Thus, there is significant diversity in terms of strategy.
The quality of disclosures is satisfactory.

There follow two examples of disclosures on concentration of tenants:

**Rent from Main Tenants (€ million)**

<table>
<thead>
<tr>
<th>Tenant</th>
<th>Rent (€ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occtrole de Socié</td>
<td>33.5</td>
</tr>
<tr>
<td>BNP Paribas</td>
<td>18.5</td>
</tr>
<tr>
<td>Orange Gestion</td>
<td>15.5</td>
</tr>
<tr>
<td>Lloyds</td>
<td>14.6</td>
</tr>
<tr>
<td>Atos</td>
<td>13.7</td>
</tr>
<tr>
<td>Dyo</td>
<td>11.7</td>
</tr>
<tr>
<td>Japan Post</td>
<td>11.7</td>
</tr>
<tr>
<td>Liberty</td>
<td>9.1</td>
</tr>
<tr>
<td>Record</td>
<td>8.3</td>
</tr>
<tr>
<td>Saga</td>
<td>7.8</td>
</tr>
<tr>
<td>Decathlon</td>
<td>6.6</td>
</tr>
<tr>
<td>Maltex</td>
<td>6.4</td>
</tr>
<tr>
<td>Capgemini</td>
<td>5.8</td>
</tr>
<tr>
<td>Gecina</td>
<td>5.8</td>
</tr>
<tr>
<td>Asus</td>
<td>5.6</td>
</tr>
<tr>
<td>French</td>
<td>5.5</td>
</tr>
<tr>
<td>Banque</td>
<td>5.3</td>
</tr>
<tr>
<td>Gecina</td>
<td>5.3</td>
</tr>
</tbody>
</table>

Gecina’s top 20 tenants in 2014 accounted for 38% of Group’s annualized rental income. The 10 biggest tenants account for 27% of the Group’s annualized rental income.

**High-Quality Occupiers Top 10**

<table>
<thead>
<tr>
<th>Tenant</th>
<th>% Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tesco</td>
<td>7.7</td>
</tr>
<tr>
<td>Sainsbury’s</td>
<td>6.0</td>
</tr>
<tr>
<td>Debenhams</td>
<td>5.8</td>
</tr>
<tr>
<td>UBS</td>
<td>3.2</td>
</tr>
<tr>
<td>Home Retail Group</td>
<td>2.7</td>
</tr>
<tr>
<td>Kingfisher (B&amp;Q)</td>
<td>2.7</td>
</tr>
<tr>
<td>HM Government</td>
<td>2.5</td>
</tr>
<tr>
<td>Next plc</td>
<td>2.4</td>
</tr>
<tr>
<td>Virgin Active</td>
<td>2.0</td>
</tr>
<tr>
<td>Arcadia Group</td>
<td>2.0</td>
</tr>
</tbody>
</table>

Extract from 2014 registration document – Gecina
2.6. Average residual duration of leases

---

60%: First break option disclosed

60%: Residual duration of leases directly visible

27%: Tenants’ rent to turnover ratio

Estimated retailer sales in our centres were up 3.1 per cent in the second half of 2014 giving a year-on-year increase of 2.5 per cent. The ratio of rents to estimated sales for standard units reduced in the year to 12.5 per cent, continuing the trend of the previous few years.

Extract from 2014 registration document – Intu Properties
Real estate companies’ reporting on average residual duration of leases:

**1.5.2.1. Annualised lease expirations: 7.9 years of residual term leases (5.8 years firm)**

<table>
<thead>
<tr>
<th>Year</th>
<th>By lease end date</th>
<th>% of total</th>
<th>By lease end date</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>31.6</td>
<td>8%</td>
<td>21.9</td>
<td>5%</td>
</tr>
<tr>
<td>2016</td>
<td>29.4</td>
<td>7%</td>
<td>2.6</td>
<td>1%</td>
</tr>
<tr>
<td>2017</td>
<td>39.7</td>
<td>9%</td>
<td>25.9</td>
<td>6%</td>
</tr>
<tr>
<td>2018</td>
<td>43.7</td>
<td>10%</td>
<td>30.0</td>
<td>7%</td>
</tr>
<tr>
<td>2019</td>
<td>47.1</td>
<td>11%</td>
<td>45.0</td>
<td>11%</td>
</tr>
<tr>
<td>2020</td>
<td>30.0</td>
<td>7%</td>
<td>30.0</td>
<td>7%</td>
</tr>
<tr>
<td>2021</td>
<td>76.1</td>
<td>18%</td>
<td>37.0</td>
<td>9%</td>
</tr>
<tr>
<td>2022</td>
<td>33.9</td>
<td>8%</td>
<td>37.8</td>
<td>9%</td>
</tr>
<tr>
<td>2023</td>
<td>35.6</td>
<td>8%</td>
<td>45.4</td>
<td>11%</td>
</tr>
<tr>
<td>2024</td>
<td>6.7</td>
<td>2%</td>
<td>9.2</td>
<td>2%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>419.9</td>
<td>100%</td>
<td>419.9</td>
<td>100%</td>
</tr>
</tbody>
</table>

18 Residential and Logistics excluded.

**Tablo Fig 84**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Rents passing that expire/break in</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td></td>
</tr>
<tr>
<td>United Kingdom</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shopping centres</td>
<td>21.3</td>
<td>7.9</td>
<td>8.9</td>
<td>25.9</td>
<td>7.5</td>
<td>9.1</td>
</tr>
<tr>
<td>Retail parks</td>
<td>7.7</td>
<td>1.0</td>
<td>2.0</td>
<td>8.1</td>
<td>1.1</td>
<td>1.9</td>
</tr>
<tr>
<td>Other</td>
<td>3.4</td>
<td>0.7</td>
<td>0.9</td>
<td>4.2</td>
<td>0.6</td>
<td>0.9</td>
</tr>
<tr>
<td>Total</td>
<td>32.9</td>
<td>9.6</td>
<td>11.8</td>
<td>39.2</td>
<td>9.2</td>
<td>11.9</td>
</tr>
<tr>
<td>France</td>
<td>13.8</td>
<td>4.4</td>
<td>5.5</td>
<td>14.9</td>
<td>4.4</td>
<td>5.8</td>
</tr>
<tr>
<td>Total investment portfolio</td>
<td>46.7</td>
<td>14.0</td>
<td>17.3</td>
<td>54.1</td>
<td>13.6</td>
<td>17.7</td>
</tr>
</tbody>
</table>

**Comment from Benoît FAURE-JARROSSON, a financial analyst at Invest Securities**

Disclosures on investment property are dense and complicated. How do you tackle this huge amount of data when carrying out your analyses?

“The most important thing is to look ahead. From this perspective, the indicators with most room for improvement are rates of return and vacancy rates, which are currently manipulated by real estate companies in order to show themselves in the best light. For example, rates of return are calculated based on occupied properties only, and vacancy rates exclude buildings undergoing refurbishment. We therefore take a prudent approach to these rather vague and shadowy indicators, as they mask high levels of inconsistency in financial reporting.”
3. FINANCING STRATEGIES

3.1. SOURCES OF FINANCING
3.2. DEBT STRUCTURE
3.3. ANALYSIS OF BOND ISSUE SPREADS
3.4. CHANGES IN LTV RATIO
3.5. AVERAGE COST OF DEBT
3.6. AVERAGE HEDGE RATIO
3.7. DISCLOSURES ON HEDGING DERIVATIVES
Although financing was less of a central theme in financial reporting in 2014, there were still a significant number of bond issues over the period, which is unsurprising in a context of low rates. As was the case last year, much can be learned from a historical analysis of financing obtained by the companies in the sample.

3.1. Sources of financing


It is noticeable that there have been two peak financing periods spread over 7 years, which is the standard maturity period in real estate. Thus, issues over the past three years (+50% for bond debt between 2013 and 2014) have been driven by the opportunity effect of the low-rate environment, combined with a structural need for refinancing.
### 3.2. Debt structure

#### Debt structure of real estate companies

The structure of the companies’ debt portfolios is dependent on their access to sources of financing. Thus, the companies can be divided into three groups:

- **Bond portion > 60%**
- **Bond portion between 30% and 50%**
- **Bond portion < 30%**

Real estate companies’ ability to access the debt market is directly correlated with their market capitalisation and asset portfolio (which naturally generates a need for financing).

Generally speaking, real estate companies with less than 30% of their debt in bonds have market capitalisations of less than €2bn. Similarly, those with between 30% and 50% of their debt in bonds have market capitalisations of less than €5bn.

Mercialys and SFL are the exception to this, with very easy access to the debt market despite low market capitalisations of around €1.7bn.
3.3. Analysis of bond issue spreads

In a context of low rates, the top-rated real estate companies have benefited from a fall in spreads. The figures for the most recent 7-year and 10-year issues show widening spreads in line with market ratings.

3.4. Changes in LTV ratio

All the real estate companies in the sample presented satisfactory disclosures on their LTV (Loan to Value) ratio.

The graph shows a decrease in both the LTV ratio and the rate of return on assets. Real estate companies have profited from the low-rate environment to reduce their level of debt and boost leverage, as the fall in the ratio is smaller than the increase in asset value.
3.5. **Average cost of debt**

The fall in market rates has automatically resulted in a fall in the average cost of debt for all the real estate companies. Furthermore, British real estate companies reported higher costs of debt than French ones. British companies are able to access much longer-term financing than French ones, with maturities of up to 30 years.

However, this fall in the cost of debt was accompanied by a continuing fall in the rate of return on assets. Thus, the improved market conditions primarily served to allow real estate companies to protect their margins.
3.6. Average hedge ratio

As recent debt issues took the form of fixed-rate bonds, the hedge ratio has fallen since 2012.

However, there is variation between the different market players:
- The fall in the average hedge ratio followed large fixed-rate issues by just three real estate companies;
- Eight real estate companies actually increased their hedge ratios, primarily to lock in the relatively low yields on floating-rate debt.

Real estate companies' hedge ratios are nonetheless still very high, varying between 65% and 97%.
3.7. Disclosures on hedging derivatives

The macro-hedging strategy used by real estate companies does not permit them to use a particular instrument to hedge a specific asset. However, nine out of the 15 companies in the sample applied hedge accounting at least partially. Where hedge accounting was partially applied, it is not possible to identify the hedged items.

Comment from Benoît FAURE-JARROSSON, a financial analyst at Invest Securities

What do you think of the quality of disclosures on hedging strategy presented by real estate companies?

“They do state the hedge ratio, but it is often rather difficult to interpret what this actually means, in terms of the duration and effectiveness of the hedge, and the type of derivative involved.”

Moreover, the fall in rates is causing real estate companies to divest themselves of their hedging instruments. Termination costs are not recognised in recurring earnings, whereas profits resulting from the fall in rates are clearly visible. This asymmetry means that disclosures could be misleading.”

Mazars Breakfast Meeting – Financial Reporting by Real Estate Companies in Europe – 2 June 2015
CONCLUSION

Real estate companies have continued to make progress in terms of standardising their financial reporting, but there are some areas where there are still divergences in practice. The latitude permitted to companies on the real estate market means that investors need to look critically at all the data presented, rather than taking it at face value.

Once again, the favourable market conditions have permitted real estate companies to increase their asset values and decrease the cost of debt, by gradually restructuring their financing. Bond debt accounts for an ever larger proportion of real estate companies’ debt portfolios, thus securing access to liquidity. Companies have also refocused their property portfolios on core assets, again improving access to liquidity.

The increases in asset values and the savings related to the lower cost of debt mean that many real estate companies are trading at a premium to their NAV. However, it is not easy to assess either the magnitude of these effects or the time lag.

Finally, the limited disclosures on pipeline projects make it difficult to accurately assess the value of these operations. Perhaps real estate companies will work on improving these disclosures in 2015, once they have completed their refinancing operations. It is not an unreasonable request.
Mazars is present in five continents.

## CONTACTS

### GROUP REAL ESTATE PRACTICE

**Shahab Moreh**, CPA Partner  
Tel: +1 212 375 6791  
shahab.moreh@weisermazars.com

**Belgium**  
Xavier Doyen, CPA Partner  
Tel: +32 (0)2 779 02 02  
xavier.doyen@mazars.be

**China**  
Julie Laulusa, Partner  
Tel: +86 21 6168 1088  
julie.laulusa@mazars.cn

Stephen Weatherseed, Partner  
Tel: +852 2909 5699  
stephen.weatherseed@mazars.hk

**Czech Republic**  
Milan Prokopius, Partner  
Tel: +420 224 835 730  
milan.prokopius@mazars.cz

**Denmark**  
Kurt Christensen, Partner  
Tel: +45 35 26 52 22  
kurt.christensen@mazars.dk

**France**  
Baptiste Kalasz, Partner  
Tel: +33 (0)1 49 97 67 75  
baptiste.kalasz@mazars.fr

**Germany**  
Stefan Kirchmann, Partner, Certified Tax Advisor  
Tel: +49 69 96765 1203  
stefan.kirchmann@mazars.de

Andrews Lichel, Partner  
Tel: +49 30 20 888 1000  
Email: andreas.lichel@mazars.de

**India**  
Vira Mehta, Director  
Tel: +91 22 6158 7200  
vira.mehta@mazars.in

**Iran**  
Bharat Dhawan, Partner  
Tel: +91 (124) 481 4444  
bharat.dhawan@mazars.co.in

**Ireland**  
Mark Kennedy, Partner  
Tel: +353 1 449 4442  
mkennedy@mazars.ie

**Italy**  
Olivier Rombaut, Partner  
Tel: +39 02 58 20 10  
olivier.rombaut@mazars.it

**Japan**  
Emmanuel Thierry, Partner  
Tel: +81 (0)3 4500 6497  
emmanuel.thierry@mazars.jp

**Lebanon**  
Jacques Saade, Partner  
Tel: +961 4 52 42 18  
jacques.saade@mazars.com.lb

**Luxembourg**  
Pierre Friderich, Partner  
Tel: +352 27 114-301  
pierre.friderich@mazars.lu

**Morocco**  
Kamal Mokdad, Partner  
Tel: +212 5 22 423 425  
kamal.mokdad@mazars.ma

**Netherlands**  
Carel Van Oldenbeek, Director  
Tel: +31 88 277 24 67  
carel.vanoldenbeek@mazars.nl

**Norway**  
Jan Olav Poulsen, Partner  
Tel: +47 23 19 63 00  
poulsen@mazars.no

**Poland**  
Olivier Degand, Partner  
Tel: +48 22 25 55 272  
o.degand@mazars.pl

**Portugal**  
Fernando Vieira, Partner  
Tel: +351 217 210 183  
fernandovieira@mazars.pt

**Russia**  
Anastasia Terekhina, Senior Manager  
Tel: +7 (495) 792 52 45  
anastasia.terekhina@mazars.ru

**Spain**  
Carlos Marcos, Partner  
Tel: +34 915 624 030  
carlos.marcos@mazars.es

**Sweden**  
Åsa Andersson Eneberg, Partner  
Tel: +46 707 33 35 82  
as.andersson@mazars.se

**Switzerland**  
Philippe Rubin, Partner  
Tel: +41 21 310 49 02  
philippe.rubin@mazars.ch

**United Arab Emirates**  
Samir Bitar, Partner  
Tel: +971 4 357 3730  
sbitar@mazars.ae

**United Kingdom**  
Richard Metcalfe, Partner  
Tel: +44 20 7063 4401  
richard.metcalfe@mazars.co.uk

**United States of America**  
Demetri Yatrakis, Partner  
Tel: +1 212 375 6619  
demetri.yatrakis@weisermazars.com

---

Photos: © Thinkstock - Istock  
More information on www.mazars.com