BEST PRACTICE RECOMMENDATIONS

SECOND EDITION | MARCH 2019

[DRAFT FOR COMMENT]

Contents

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1. SA REIT Accounting and JSE Committee:

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Leon Kok (Redefine)
Andrew Wooler (Investec)
Gerald Volkel (Growthpoint)
Greg Booyens (Emira)
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Mara de Lima (Hospitality)
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Invitees:

Andrew Bird (JAVA Capital)
Nick Hanekom (Resilient)
Laila Razack / Chris Guattari-Stafford (Equites)

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2. Foreword

The South African Real Estate Investment Trust Association (SA REIT) is a representative umbrella body comprised of voluntary members of South African listed REIT companies and trusts. SA REIT was established from the pre-existing Property Loan Stock Association (PLSA) and Association of Property Unit Trusts (APUT), when REIT legislation was introduced in South Africa in 2013.

The first edition of the SA REIT Best Practice Recommendations (SA REIT BPR) was published in 2016 and was the culmination of discussions and meetings between members of the SA REIT's Accounting and JSE Committee (the Committee) and members of the association. While the first edition of the BPR took a much-needed step in the right direction, this second edition aims to further improve transparency and consistency in the industry.

The Committee embarked on a consultation process in the second half of 2018 with key stakeholders including SA REIT members, sell-side analysts, buy-side analysts, technical partners from the large accounting firms and representative members from corporate sponsors. The consultation process was aimed at identifying shortcomings in current REIT reporting and disclosures. The Committee also reviewed guidelines and recommendations issued by representative bodies in other jurisdictions.

This document is split into three distinct areas:

- **Supplemental performance measures**
  The first section of the document deals with supplemental performance measures; this provides insight into the rationale for presenting these metrics and standardised templates to enhance comparability across REITs. These are non-IFRS financial measures.

- **Sector specific matters**
  This section details some of the complex IFRS issues that arise in the property sector and useful publications which provide guidance on accounting for these transactions.

- **Disclosures**
  The last section of the document details specific disclosure which is mandatory in terms of the best practice guide.

All recommendations and guidelines have been provided in the context of IFRS, the JSE Listing Requirements, commonly-used financial and operating ratios, and the treatment of specific accounting and financial reporting matters in the REIT sector. The document has focused on areas of reporting that are of most relevance to investors and where more consistent reporting would bring the greatest benefits to the sector as a whole.

The Committee will continue to track sector-specific developments and update this document as changes in accounting standards, requirements or legislation call for certain issues to be revisited. We encourage feedback from members and other stakeholders to ensure the recommendations remain relevant and representative of the views of both the preparers and users of financial statements.

The Committee is confident that the recommendations contained in this document will take the next steps in providing enhanced disclosure and reporting amongst South African REITs. We believe it will move the sector forward in the areas of disclosure and governance and positively influence how the sector is assessed and viewed by relevant stakeholders.

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3. Compliance with best practice

SA REIT encourages full compliance with the best practice recommendations set out in this document. This document recommends the disclosure of certain non-IFRS financial measures – many of which are already common in the financial statements of South African REITs, although not always calculated or disclosed in a consistent manner. Whereas such disclosures are currently mostly included in the notes to the annual financial statements, **this edition of the BPR now recommends that they are clearly bifurcated into an annexure.**

This annexure should include all the recommended non-IFRS financial measures in the **standardised form** that is included in this document and will also be available in Excel format.

As part of the annual verification process, the company's external auditors will be required to provide assurance on the accuracy, validity and completeness of the financial information presented in the annexure. The auditor would be required to provide assurance under ISAE 3000 as special purpose information. The metrics presented will be assessed in light of the audited financial statements and the SA REIT guidance. **This document, therefore, also acts as the framework against which this information is externally audited.**

Companies who adopt SA REIT recommendations must comply with all of the recommendations or explain why they have chosen not to. In certain circumstances, legal, regulatory or other restrictions may make compliance with some recommendations in this document impractical and in this case, the company should explain in sufficient detail the circumstances surrounding this non-compliance. **This document introduces a number of branded supplemental financial performance measures, such as SA REIT DPS, which may only be used if they are computed entirely in line with this document and the company is a member of the SA REIT Association and is in good standing.**

This second edition is effective for financial year ends commencing on or after 1 January 2020 but early adoption is encouraged. On first time adoption, comparative figures must be computed and disclosed on the same basis as the current financial period.

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4. Supplemental performance measures

IFRS financial statements provide useful information for general purpose financial reporting. However, SA REIT has identified supplemental performance measures which it considers to be relevant for the purposes of evaluating the financial performance and position specifically for REITs.

This section includes a number of examples to assist in understanding the practical implications of the principles. The examples focus on particular aspects of a transaction and are not a comprehensive discussion of all the factors that might impact the recognition of an adjustment for the purposes of determining any of the SA REIT supplemental performance measures.

4.1. SA REIT Distributable Earnings per share (SA REIT DPS)

Distribution per share is one of the key performance measures by which South African REITs are compared. To ensure consistency of this measure, SA REIT has introduced a supplemental reporting measure, SA REIT DPS. SA REIT DPS is intended to measure the operational performance of a REIT by assessing the income return on investments that it has made with equity and debt capital deployed.

While the SA REIT DPS is not necessarily comparable to Funds from Operations (FFO) reported by REITs in other jurisdictions as required by other REIT associations such as the National Association of Real Estate Investment Trusts (NAREIT), both metrics are intended to achieve a similar objective i.e. to provide an indication of a REIT's core earnings. However, both metrics are subject to specific adjustments which may or may not be equivalent.

Shareholders typically want to understand the relationship between distributable earnings and cash from operations – 6.1.2 below introduces recommended disclosure in this regard.

As only the specific reconciling items detailed below are allowed in the determination of SA REIT DPS, **a company that chooses to make further adjustments to determine its dividend declared, shall still disclose the SA REIT DPS and detail the additional adjustments as set out below.**

The detailed calculation of SA REIT DPS is outlined below.

SA REIT DPS		**CU'000**
Profit or loss per IFRS Statement of Comprehensive Income (SOCI) attributable to the parent		A
Adjusted for:-		
Non-cash items/accounting adjustments:-		B
Fair value adjustments to:	(i)	
o Investment property		
o Debt and equity instruments held at fair value through profit or loss		
Depreciation and amortisation expense	(ii)	
Impairment of goodwill or the recognition of a bargain purchase gain	(iii)	
Asset impairments (excluding goodwill) and reversals of impairment	(iv)	
Impact of asset reclassifications and asset transfers on profit or loss	(v)	
Gains or losses on the modification of financial instruments	(vi)	
Deferred tax movement recognised in profit or loss	(vii)	
Equity-settled share-based payment expense	(viii)	
Straight-lining operating lease adjustment	(ix)	
Transaction costs expensed in accounting for a business combination	(x)	

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Adjustments to dividends from equity interests in property companies	(xi)	
Adjustments arising from investing activities:-		C
Gains or losses on disposal of:	(xii)	
○ Investment property and property, plant and equipment		
○ Debt and equity instruments		
○ Subsidiaries and equity-accounted entities		
Current tax on profits or losses from the disposal of items above	(xiii)	
Foreign exchange and hedging items:-		D
Fair value adjustments on derivative financial instruments employed solely for hedging purposes	(xiv)	
Reclassified foreign currency translation reserve upon disposal of a foreign operation	(xv)	
Adjustments to amounts recognised in profit or loss relating to derivative financial instruments	(xvi)	
Foreign exchange gains or loss relating to capital items – realised and unrealised	(xvii)	
Other adjustments:-		E
Adjustments made for equity-accounted entities	(xviii)	
Non-controlling interests in respect of the above adjustments	(xix)	
Antecedent earnings adjustment	(xx)	
SA REIT Distributable Earnings: (A + B + C + D + E)		**XXX**
Number of shares outstanding at end of period (net of treasury shares)		F
SA REIT DPS: (A + B + C + D + E) / F		**XX**
Company specific adjustments		**X/(X)**
Company adjustment (a)		
Company adjustment (b)		
Dividend per share:		**XX**

Adjustment (i): Fair value adjustments to investment property and debt and equity instruments held at fair value through profit or loss

Fair value adjustments arising from either revaluing investment property, including, but not limited to, completed properties, properties under construction and other properties held for development, or due to changes in the mark-to-market of debt and equity instruments held at fair value through profit or loss shall be added back as these are non-cash in nature.

Adjustment (ii): Depreciation and amortisation expense

Depreciation and amortisation expense in relation to property, plant and equipment and intangible assets respectively shall be added back as non-cash items.

Adjustment (iii): Impairment of goodwill or the recognition of a bargain purchase gain

The impairment of goodwill and the excess of the fair value of the net assets acquired over the aggregate of the consideration transferred which is recognised in profit or loss on the acquisition date (referred to typically as a 'bargain purchase gain') shall both be added back as these are non-cash items.

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Adjustment (iv): Asset impairments (excluding goodwill) and reversals of impairment

Impairment losses and reversals of impairment recognised in relation to assets recognised by a REIT (excluding goodwill which is dealt with in adjustment (iii) above) shall be excluded as these are non-cash items. However, to the extent applicable, the following impairment losses and reversals of impairment shall not be excluded as they relate to the ongoing, core rental operations of a REIT:

- Amounts recognised in profit or loss relating to the write-off or recovery of trade receivables recognised in terms of IFRS 9; and
- The write down or reversal of a write down of inventories from cost to net realisable value.

Adjustment (v): Impact of asset reclassifications and asset transfers on profit or loss

The impact of asset reclassifications and transfers between the asset classes which results in the recognition of an amount in profit or loss shall be excluded as these are non-cash items. This includes, but is not limited to:

- The reclassification of financial assets from amortised cost to fair value through profit or loss in terms of IFRS 9; and
- The transfer of inventory to investment property measured on the fair value model in terms of IAS 40.

Adjustment (vi): Gains or losses on the modification of financial instruments

Gains or losses on the modification or extinguishment of financial instruments recognised in profit or loss shall be added back as being unrelated to a REIT's underlying operational activities.

Adjustment (vii): Deferred tax movement recognised in profit or loss

Deferred tax recognised in profit or loss represents a non-cash item in the current period and therefore shall be added back. Current tax, on the other hand, typically reflects the imposition of foreign taxes imposed by a source country which results in an economic double taxation on the ultimate shareholder of a REIT and shall not be added back.

Adjustment (viii): Equity-settled share-based payment expense

An equity-settled share-based payment expense represents a non-cash item in a REIT's SOCI and therefore shall be added back.

Adjustment (ix): Straight-lining operating lease adjustment

The straight-lining lease adjustment arising from the recognition by lessors of fixed payments (as defined in IFRS 16) from operating leases as income on a straight-line basis reflects a non-cash item in the current period and therefore shall be added back.

Adjustment (x): Transaction costs expensed in accounting for a business combination

The distinction between the recognition of an asset at an initial cost which includes transaction costs and the combination of a business in which transaction costs are expensed can distort comparability between REITs. Therefore, the transaction costs from a business combination expensed in profit or loss shall be added back to enhance comparability between the two potential accounting treatments of this transaction. For the avoidance of doubt, no other transaction costs shall be added back in the determination of SA REIT Distributable Earnings.

Adjustment (xi): Adjustments to dividends from equity interests in property companies

Where a REIT has an equity interest in a property company, the earnings of that REIT in relation to its equity interest for IFRS purposes may differ from the underlying economic earnings of the net income of the properties held by the property company because of timing differences artificially created by financial reporting periods.

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The general principle is that the SA REIT Distributable Earnings of a REIT shall reflect an income return (by way of dividend income) on an underlying equity interest which is coterminous with the period in which that REIT has had to fund its investment either through debt or equity but only to the extent that that dividend has been declared by that equity interest up until the date on which the financial statements are authorised for issue. The income return on an equity interest in a property company cannot be recognised unless there is a legal obligation on that property company to pay a dividend which would typically follow from a resolution by its board of directors.

Where this is the case, an adjustment is required to either increase or decrease the IFRS earnings of that REIT due to its equity interest in a property company to derive its SA REIT Distributable Earnings. The following three instances, while not exhaustive, reflect where timing differences may distort the underlying economic performance of a REIT.

Acquisition of a property company ex-dividend in anticipation of dividend declaration

Where an equity interest in a property company is acquired cum-dividend, the appropriate IFRS treatment would be to recognise the right to receive the declared dividend as a separate asset which is realised upon receipt of the dividend. However, had that equity interest been acquired ex-dividend, no separate asset would be recognised for the right to receive dividends as this right would not exist on the date of initial recognition.

Where a REIT acquires an equity interest in a property company ex-dividend, and that property company subsequently declares a dividend to its shareholders, the pro-rata amount of the dividend declared that reflects the underlying earnings generated during a period for which the REIT did not hold its equity interest in that property company shall be deducted in determining its SA REIT Distributable Earnings to the extent that it is included in the calculation of earnings per share as outlined in IAS33. A similar adjustment should be made where a company acquires its own shares *cum dividend* as detailed below.

Illustrative example 1:

REIT A, an entity with a financial year-ended 28 February, acquires a 5% equity interest in REIT B, an entity with a 31 December financial year end, for CU360m on 21 November 20x2. REIT B declared a dividend of CU0.50 per share on 14 February 20x3 in respect of the six-month period ended 31 December 20x2. REIT B had 570 million shares outstanding on the record date.

The impact on REIT A's SA REIT Distributable Earnings is as follows:

28 February 20x3	**CU'000**
Dividend income: (570m x CU0.50 x 5%)	14 250
Adjustment:	
Adjustment to dividends from equity interests in property companies: (CU14.25m x (184 – 41) / 184)	(11 075)
Incremental SA REIT Distributable Earnings	**3 175**

The fact that the equity interest was acquired ex-dividend is irrelevant as the dividend declared pertains to underlying earnings generated both prior to and post the acquisition of that equity interest. The adjustment therefore achieves the same result as if the equity interest had been acquired partially cum-dividend.

Property company dividend declared after reporting period

To the extent that a property company, in which a REIT has an equity interest, declares a dividend after the reporting period of that REIT, it would constitute a non-adjusting subsequent event for IFRS purposes. However, as this reflects the REIT's return on its invested capital (or the movement in its return on invested capital where this occurs in two subsequent periods), an adjustment shall be made

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to reflect the actual return of that REIT in relation to its equity interest irrespective of the fact that IFRS does not allow for that dividend income to be recognised in that REIT's current reporting period.

Illustrative example 2:

REIT A, an entity with a 28 February financial year end, acquired a 7.5% equity interest in PropCo B Ltd, an entity with a financial year ended 31 December, on 7 July 20x2. PropCo B Ltd declared a dividend relating to the six-month period ended 31 December 20x2 of CU135m on 7 March 20x3, a month before REIT A's financial statements are authorised for issue.

Accordingly, when REIT A determines its dividend income (for IFRS purposes) for its financial year ended 28 February 20x3, it does not recognise the dividend declared by PropCo B Ltd on 7 March 20x3 as dividend income despite it having held its equity interest in that property company for the majority of the period in which that income was generated. However, for SA REIT Distributable Earnings purposes, REIT A includes an adjustment to its dividend income to reflect the return on its invested capital as follows:

28 February 20x3	**CU'000**
Dividend income recognised in terms of IFRS	-
Adjustment:	
Adjustment to dividends from equity interests in property companies: (CU135m x (184-6)/184 x 7.5%)	9 795
Incremental SA REIT Distributable Earnings	**9 795**

Despite not recognising dividend income for IFRS purposes, SA REIT Distributable Earnings depicts the actual return on REIT A's investment in PropCo B Ltd for its financial year ended 28 February 20x3.

Disposal of a property company ex-dividend in anticipation of dividend declaration

Where an equity interest in a property company is disposed of cum-dividend, the appropriate IFRS treatment would be to recognise part of the proceeds as a realisation of the right to receive the impending dividend. However, the proceeds from the disposal of an equity interest ex-dividend would typically be reflected solely as a realisation of a capital asset even though a dividend on the equity interest may be declared shortly after the disposal date.

Where that equity interest is disposed of ex-dividend, but the dividend is subsequently declared during a REIT's current reporting period, the amount of the dividend that reflects the period for which that REIT held its equity interest in that property company shall be included for SA REIT Distributable Earnings purposes.

Illustrative example 3:

REIT A, an entity with a financial year-ended 31 December, disposed of an 8% equity interest in REIT B for CU270m on 3 October 20x2. It had classified its equity interest in REIT B at fair value through profit or loss and recognised it at its fair value of CU253m at 31 December 20x1. REIT B declared a dividend of CU129m and CU135m on 6 August 20x2 and 2 February 20x3 (before REIT A's financial statements were authorised for issue) in respect of the six-month periods ended 30 June 20x2 and 31 December 20x2 respectively.

The impact on REIT A's SA REIT Distributable Earnings is as follows:

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31 December 20x2	CU'000
Gain on disposal of equity interest: (CU270m – CU253m)	17 000
Dividend income: (CU129m x 8%)	10 320
Adjustments:	
Gain on disposal of equity interest: (as per adjustment (xii))	(17 000)
Adjustment to dividends received from equity interests in property companies: (CU135m x (184 – 90)/ 184) x 8%)	5 517
Incremental SA REIT Distributable Earnings	**15 837**

Adjustment (xii): Gains or losses on disposal of investment property, property, plant and equipment, debt and equity instruments and subsidiaries and equity-accounted entities

Gains or losses on the disposal of investment property, property, plant and equipment, debt and equity instruments, and on the disposal or partial disposal (to the extent that it impacts profit or loss) of subsidiaries and equity-accounted entities reflect the capital appreciation or diminution in the underlying asset(s) in excess of the carrying amount of the disposed asset(s) on the date of disposal. These gains or losses are therefore part of the capital base of the REIT and shall be excluded from the calculation of SA REIT Distributable Earnings.

Adjustment (xiii): Current tax on profits or losses from the disposal of items above

All current tax arising as a result of the disposal of any asset identified in adjustment (xii) above shall be added back.

Adjustment (xiv): Fair value adjustments on derivative financial instruments employed solely for hedging purposes

Fair value adjustments on derivative financial instruments employed solely for hedging purposes would usually be hedge accounted for in terms of IFRS 9. Where hedge accounting is applied, the fair value adjustment associated with changes in the hedging instrument (depending on what is designated as the hedging instrument) is typically recognised in other comprehensive income for cash flow hedges and net investment hedges and therefore no fair value adjustment is recognised in profit or loss save for any ineffective portion, where applicable.

However, the adoption of hedge accounting is an election that not all REITs make, and discrimination based on whether a REIT has made this election does not appear justified. SA REIT Distributable Earnings should be comparable across REITs whether hedge accounting has been applied or not. Therefore, an adjustment shall be made to reverse all fair value adjustments recognised in profit or loss to the extent that these adjustments relate to movements in the mark-to-market of derivative financial instruments employed solely for hedging purposes.

Adjustment (xv): Reclassified foreign currency translation reserve upon disposal of a foreign operation

On disposal (or partial disposal) of a foreign operation that is accounted for in terms of IAS 21, a reclassification adjustment from other comprehensive income to profit or loss is required equal to the cumulative amount of the exchange differences relating to that foreign operation recognised in other comprehensive income and accumulated in a separate component of equity. The amount recognised in profit or loss reflects a capital profit or loss on the disposal and shall be excluded for the purposes of determining SA REIT Distributable Earnings.

Adjustment (xvi): Adjustments to amounts recognised in profit or loss relating to derivative financial instruments

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Where a REIT closes out a derivative financial instrument early and/or modifies the contractual cash flows of the original derivative financial instrument, an adjustment shall be required to include an amount that reflects the original effective interest rate in the calculation of SA REIT DPS. Furthermore, the amount recognised in profit or loss in respect of amounts incurred or accrued in relation to derivative financial instruments should reflect a market-related amount determined by the underlying variable being hedged together with a swap dealer's charges (including execution, capital and credit charges).

Early close-out

The early close-out of a derivative financial instrument would be encouraged where the contractual cashflows as outlined in the terms of the agreement are less preferential than the prevailing market rate. Therefore, an adjustment is required to make a REIT indifferent between, on the one hand, closing out a derivative financial instrument and entering into a new derivative financial instrument at a more preferential level and, on the other hand, holding the existing derivative financial instrument to maturity.

Illustrative example 4:

REIT A, an entity with a 31 December financial year, enters into a 3M IBAR interest rate swap with the following terms:

Nominal amount:	CU500 million
Trade date:	1 January 20x4
Termination date:	1 January 20x7
Fixed, market-related rate:	8.50%

On 1 January 20x5, following a flattening of the 3M IBAR interest rate yield curve, REIT A closed out its existing interest rate swap and entered into a new interest rate swap at a fixed, market-related, interest rate of 8.10% without altering any of the other salient features of the interest rate swap.

The impact on the 31 December 20x4 and 31 December 20x5 financial year-ends is illustrated below.

31 December 20x4	**CU'000**
Finance costs: (CU500m x 8.50%)	(42 500)
Adjustments:	
Adjustments to amounts recognised in profit or loss relating to derivative instruments:	-
Incremental SA REIT Distributable Earnings	**(42 500)**

31 December 20x5	**CU'000**
Finance costs: (CU500m x 8.10%)	(40 500)
Adjustments:	
Adjustments to amounts recognised in profit or loss relating to derivative instruments: (CU500m x (8.10% - 8.50%)) (see note A below)	(2 000)
Incremental SA REIT Distributable Earnings	**(42 500)**

Note A:

The fair value of the interest rate swap at 31 December 20x4 should reflect the difference between a market-related forward interest rate and the contractual interest rate. As the 3M IBAR interest rate yield curve has flattened, it is expected that the fair value would be negative from the perspective of the REIT.

The early close-out of the interest rate swap would be settled through a cash payment equal to the discounted, above-market interest cashflows required to be settled for the unexpired period of the swap. The purpose of this adjustment, therefore, is to ensure REITs are indifferent to closing out this position and entering into a new interest rate swap at a lower fixed interest rate.

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Adjustments required in relation to specific financial risks

The two most common financial risks hedged by REITs are interest rate risk and foreign exchange rate risk and specific application has been considered for these two financial risks below.

Interest rate risk

A hedge of interest rate risk by means of an interest rate swap should be determined with reference to the relevant interest rate swap yield curve together with the swap dealer's charges at the time of entering into the derivative financial instrument. Similarly, had this risk been hedged through an interest rate cap, the impact on SA REIT Distributable Earnings should reflect the unwinding of the option premium paid as a cost of hedging over the life of the option. Therefore, the lower the strike interest rate of the option, ceteris paribus, the higher the option premium paid, the higher the impact of the unwinding should be in the calculation of SA REIT Distributable Earnings. Where this option premium is included within the fair value adjustment of the derivative financial instrument and added back through the adjustment (xiv) above, this amount shall be deducted from that REIT's SA REIT Distributable Earnings calculation as part of this adjustment.

Illustrative example 5:

REIT A, an entity with a 31 December financial year, enters into a 3M IBAR interest rate swap with the following terms:

Nominal amount:	CU500 million
Trade date:	1 July 20x2
Termination date:	1 July 20x5
Fixed rate:	7.95%

At the time of entering into the interest rate swap, the 3-year fixed 3M IBAR interest rate was quoted as 8.60% including the swap dealer's charge of 8 basis points.

31 December 20x2	**CU'000**
Finance costs: (CU500m x 7.95% x 184/365)	(20 038)
Adjustments:	
Adjustments to amounts recognised in profit or loss relating to derivative instruments: (CU500m x (8.60% - 7.95%) x 184/365)	(1 638)
Incremental SA REIT Distributable Earnings	**(21 676)**

Foreign exchange rate risk

A hedge of foreign exchange rate risk should be determined with reference to the relevant interest rate differential, basis spread of the currency pair and the swap dealer's charges at the time of entering into the derivative financial instrument and this benefit or cost should be recognised in the appropriate period without artificially accelerating or deferring the recognition of economic costs or benefits to achieve a particular return. Therefore, the amount included within SA REIT Distributable Earnings should depict the impact of this benefit or cost of hedging and all other amounts, whether cash or otherwise, shall be excluded.

Illustrative example 6:

REIT A, an entity with a 31 December financial year-end, acquires a property in Country Y on 1 January 20x2 which has a local currency, YU, for YU50m at an initial yield of 5.00%. The spot YU/CU exchange rate on the date of acquisition was 10.00.
The acquisition was funded through a 50% local CU debt and 50% local CU equity. The local CU debt was raised via a 3-year term loan facility at an all-in fixed interest rate of 8.95%.

On the same day, REIT A entered into a cross-currency interest rate swap ('CCIRS') with the following details:

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Nominal amount (YU):	25 million
Nominal amount (CU):	250 million
Trade date:	1 January 20x2
Termination date:	31 December 20x6
Fixed rate (YU): (paid by REIT A)	2.75%
Fixed rate (CU): (received by REIT A)	
January 20x2 - December 20x2	7.50%
January 20x3 - December 20x3	8.25%
January 20x4 - December 20x4	9.10%
January 20x5 - December 20x5	9.95%
January 20x6 - December 20x6	10.65%

The relevant YU/CU exchange rates are outlined below.

Date	Spot	Average
31 December 20x2	10.68	10.40
31 December 20x3	11.10	10.60
31 December 20x4	12.10	11.67
31 December 20x5	11.43	11.89
31 December 20x6	11.84	11.67

The incremental SA REIT Distributable Earnings over the life of the cross-currency interest rate swap is as follows:

CU'm	31 Dec 20x2	31 Dec 20x3	31 Dec 20x4	31 Dec 20x5	31 Dec 20x6
Rental income:	26.00	26.50	29.18	29.73	29.18
Net finance costs:	- 10.78	- 9.04	- 7.65	- 5.67	- 3.77
Net income:	**15.22**	**17.46**	**21.53**	**24.06**	**25.41**
Net income growth:		14.72%	23.31%	11.75%	5.61%
Adjustments to amounts recognised in profit or loss relating to derivative financial instruments: (see below)	3.63	1.76	- 0.37	- 2.49	- 4.24
SA REIT Distributable Earnings:	**18.85**	**19.22**	**21.16**	**21.57**	**21.17**
SA REIT Distributable Earnings growth:		1.92%	10.09%	1.88%	-1.85%
YU/CU currency movement:		1.92%	10.09%	1.89%	-1.85%

The calculation of the adjustment requires an assessment of the effective fixed interest rate implied by the stepped fixed rates.

Date	CU'm
1 January 20x2	- 250.00
31 December 20x2	18.75
31 December 20x3	20.63
31 December 20x4	22.75
31 December 20x5	24.88
31 December 20x6	276.63
Effective fixed interest rate (CU): (received by REIT A)	**8.953%**

Adjustment to amounts recognised in profit or loss relating to derivative financial instruments:

	31 Dec 20x2	31 Dec 20x3	31 Dec 20x4	31 Dec 20x5	31 Dec 20x6
Interest differential - effective fixed interest rate less contractual fixed interest rate	1.453%	0.703%	-0.147%	-0.997%	-1.697%

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Applied to the principal CU leg of the cross-currency interest rate swap: (CU'm)	3.63	1.76	- 0.37	- 2.49	- 4.24

The impact of the adjustment therefore is to reflect the appropriate net finance cost without artificially deferring the recognition of net income into a subsequent period to create an earnings profile not reflective of the underlying economic substance of the transaction.

Adjustment (xvii): Foreign exchange gains or loss relating to capital items – realised and unrealised

Foreign exchange gains or loss relating to items of a capital nature, whether realised or unrealised, shall be added back in the determination of SA REIT Distributable Earnings. All other foreign exchange differences shall remain with the calculation of SA REIT Distributable Earnings.

Adjustment (xviii): Adjustments made for equity-accounted entities

The equity accounted share of the profit or loss of an associate or joint venture shall be adjusted for the above adjustments necessary to convert the IFRS profit or loss of an REIT's investment in an associate or joint venture to determine its SA REIT Distributable Earnings.

Adjustment (xix): Non-controlling interests in respect of the above adjustments

Non-controlling interests in a REIT are excluded from the calculation of SA REIT Distributable Earnings. Therefore, SA REIT Distributable Earnings shall be adjusted for the impact of non-controlling interest on each of the adjustments above.

Adjustment (xx): Antecedent earnings adjustment

An adjustment shall be made where equity capital is raised or repurchased, whether directly or indirectly, during the current financial year to avoid diluting the returns of existing shareholders in the case of an equity raise or inflating the returns of the remaining shareholders in the case of a share repurchase. The use of the respective financial year-ends is required as the basis on which the antecedent earnings adjustment is calculated as the intention in determining SA REIT DPS is to assess a REIT's ability to generate returns from capital employed (both debt and equity) over a coterminous period. In most circumstances, the difference between applying the weighted average number of shares outstanding during the period (as is the case in the calculation of earnings per share for IAS33 purposes) and the inclusion of an antecedent earnings adjustment is likely to be immaterial. This has been explored through the following two illustrative examples.

Illustrative example 7:

REIT A, an entity with a 31 December year-end, raises CU1bn through an equity raise on 1 July 20x2 at a share issue price of CU25.00. The salient details relating to REIT A's financial performance for its 20x2 financial year is as follows:

SA REIT Distributable Earnings (before adjustment (xx)):	**CU'm**
1 January 20x2 - 30 June 20x2	443.0
1 July 20x2 - 31 December 20x2	493.7
Total	**936.7**
Number of shares in issue at 1 January 20x2:	350m
Calculated weighted average number of shares (WANOS) outstanding during 20x2 financial year: (350m + (CU1,000m/CU25) x 6/12)	370m
	Cents
Based on the closing number of shares outstanding and applying an antecedent adjustment:	
SA REIT DPS (based on number of shares outstanding at 31 December 20x2): (CU936.7m/ ((350m + CU1,000m/CU25)) x 100	240.18
Antecedent earnings adjustment: (253.16 cents - 240.18 cents)	12.98

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SA REIT DPS - 1 January 20x2 - 30 June 20x2: (CU443.0m/350m) x 100	126.57
SA REIT DPS - 1 July 20x2 - 31 December 20x2: (CU493.7m/390m) x 100	126.59
Total SA REIT DPS	**253.16**
Based on the WANOS outstanding:	
Total SA REIT DPS: (CU936.7m/370m) x 100	**253.16**
Difference:	**-**

As demonstrated above, the impact of the inclusion of an antecedent earnings adjustment in respect of an equity raise is largely akin to weighting the number of shares outstanding during the period.

Illustrative example 8:

REIT A, an entity with a 31 December year-end, repurchased 20 million of its own shares through a share repurchase scheme on 1 July 20x2 at a share issue price of CU25.00. The salient details relating to REIT A's financial performance for its 20x2 financial year is as follows:

SA REIT Distributable Earnings (before adjustment (xx)):	**CU'm**
1 January 20x2 - 30 June 20x2	443.0
1 July 20x2 - 31 December 20x2	417.7
Total	**860.7**
Number of shares in issue at 1 January 20x2:	350m
Calculated WANOS outstanding during 20x2 financial year: (350m - (20m x 6/12))	340m
	Cents
Based on the closing number of shares outstanding and applying an antecedent adjustment:	
SA REIT DPS (based on number of shares outstanding at 31 December 20x2): (CU860.7m / (350m – 20m)) x 100	260.82
Antecedent earnings adjustment: (253.15 cents – 260.82 cents)	(7.67)
SA REIT DPS - 1 January 20x2 - 30 June 20x2: (CU443.0m/350m) x 100	126.57
SA REIT DPS - 1 July 20x2 - 31 December 20x2: (CU417.7m/330m) x 100	126.58
Total SA REIT DPS	**253.15**
Based on the WANOS outstanding:	
Total SA REIT DPS: (CU860.7m/340m) x 100	**253.15**
Difference:	**-**

Company-specific adjustments:

In reconciling the SA REIT DPS to the distribution per share, all company-specific adjustments should be clearly defined, and a detailed calculation be presented to explain the reconciling item.

4.2. SA REIT Net asset value (SA REIT NAV) per share

Net asset value (NAV) is the value of an entity's assets minus the value of its liabilities and is a key measure of performance as it reflects an entity's net worth.

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SA REIT NAV proposes adjustments to IFRS-reported NAV, considering the fair values of assets and liabilities on an ongoing basis. The objective of performing these adjustments is to arrive at the fair value of net assets which will be realised in the ordinary course of business (rather than crystallising over a longer term). This is congruous with the original objective in the formation of a REIT, namely that a REIT would mimic a situation in which the investor holds a direct stake in an underlying property (or portfolio of properties) and would therefore expect to have a longer-term investment horizon.

To enhance comparability, SA REIT NAV further suggests the exclusion of items which are intangible in nature and are unlikely to be realised in the ordinary course of a REIT's business. This metric closely resembles a "tangible NAV" which most counters calculate and disclose.

SA REIT NAV		**CU'000**
Reported NAV attributable to the parent		**XXX**
Adjustments:		
Add:-		
Fair value adjustment of investment property if assets are measured on cost model	(i)	X
Fair value adjustment of equity-accounted investments	(ii)	X/(X)
Less:-		
Dividend to be declared	(iii)	(X)
Fair value of certain derivative financial instruments	(iv)	X
Goodwill	(v)	(X)
Deferred tax	(vi)	(X)
SA REIT NAV	**A**	**XXX**
Shares outstanding		
Number of shares in issue at period end (net of treasury shares)		X
Effect of dilutive instruments (options, convertibles and equity interests)	(vii)	X
Dilutive number of shares in issue	**B**	**XXX**
SA REIT NAV per share	**A/B**	**XXX**

Adjustment (i): Fair value adjustment of investment property if assets are measured on cost model

IAS 40 allows an entity to account for investment property under either the cost model or the fair value model. Where a REIT has elected to account for investment property under the cost model, this adjustment is required to state its investment property at fair value to achieve consistency.

This fair value adjustment shall also be applied to any assets under development and land which are not measured at fair value.

Adjustment (ii): Fair value adjustment of equity-accounted investments

In terms of IAS 28, associates and joint ventures are accounted for by applying the equity method. The carrying amount of investments in associates and joint ventures that are equity-accounted may not necessarily reflect the underlying fair value of those equity interests. Where this is the case, a fair value adjustment shall be applied to include the fair value of equity-accounted investments in SA REIT NAV.

Adjustment (iii): Dividend to be declared

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The declaration of a dividend triggers a present obligation to distribute a predetermined amount of cash or shares to shareholders. This obligation becomes unconditional at the point at which the dividend is declared (which is typically after the reporting date in respect of the current financial period) and would therefore generally be disclosed as a subsequent event in terms of IAS 10 but would correctly not be recognised as a liability in terms of IFRS. As this declaration will result in an outflow soon after the reporting period and that outflow pertains to underlying rental net cashflows generated during that said period, it shall be excluded from the SA REIT NAV.

Adjustment (iv): Fair value of certain derivative financial instruments

This adjustment only applies to derivative financial instruments where the fair value is not expected to crystalize over the life of the instrument. The fair value of derivative financial instruments typically reflects, inter alia, the impact of higher or lower cashflows over the life of that instrument until expiry. By the expiry date, the fair value would normally be unwound, and the gain or loss therefore be nil. Accordingly, the fair value of all financial instruments which are employed for hedging purposes and where the intention is to keep the hedge in place until expiry shall be excluded from SA REIT NAV. Whether or not the company has chosen to apply hedge accounting under IFRS 9 is irrelevant.

For example, interest rate hedges are entered into to hedge uncertain future cashflows on floating rate debt. Usually, these instruments are held to maturity and the benefits are expected to unwind over the contractual term. As these instruments are held until maturity, the theoretical mark-to-market will be realised over the life of the hedge (in the form of higher or lower interest cashflows) and this shall therefore be excluded from the SA REIT NAV calculation.

The only exception to this is where the carrying amount of an underlying hedged item (which is an economic hedge whether or not hedge accounting under IFRS 9 is applied) is reflected on the statement of financial position and included within the SA REIT NAV. In this instance, movements in the fair value of the hedging instrument is expected to bear a relationship to the hedged item that is close to a perfect negative correlation and therefore omitting the hedging instrument from the SA REIT NAV is nonsensical. For example, a derivative financial instrument entered into to hedge foreign currency movements on balances recognised on the statement of financial position shall remain within SA REIT NAV as movements in the hedging instrument would typically be offset by a movement in the opposite direction on the underlying hedged item.

Adjustment (v): Goodwill

The accounting consequences of a property acquisition differs depending on whether the acquisition is determined to be a business combination or not.

The application of IFRS 3 may result in a REIT recognising goodwill on its statement of financial position. Goodwill is an intangible asset that arises as a result of a business combination in which the purchase price exceeds the fair value of the assets and liabilities at the acquisition date. In this regard, it is important that a REIT considers whether all of the tangible and intangible assets have been specifically identified, recognised and correctly valued before determining whether goodwill has been acquired and what the quantum of that goodwill is.

SA REIT requires a REIT to exclude goodwill from its SA REIT NAV calculation. The primary reason for the exclusion of goodwill from the SA REIT NAV is to enhance comparability between REITs that treat a property acquisition under IAS 40 and those that treat it under IFRS 3.

Illustrative example 9:

REIT A, an entity with a 31 December financial year-end, acquires a property with a fair value of CU100m on 1 January 20X1. The fair value of the consideration transferred in respect of the

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acquisition, issued through a combination of cash and shares, was determined to be CU105m. REIT A did not identify any other assets or liabilities as part of the acquisition.

At 31 December 20x1, the property was independently valued at CU135m.

The impact on the NAV of REIT A is as follows:

At 1 January 20x1:

CU'm	Business combination	Property acquisition
Investment property	100	105
Goodwill	5	-
Total assets acquired	**105**	**105**
Consideration transferred	(105)	(105)
Impact on NAV	**-**	**-**

At 31 December 20x1:

CU'm	Business combination	Property acquisition
Investment property	135	135
Goodwill	5	-
Total assets	**140**	**135**
Consideration transferred	(105)	(105)
Impact on NAV	**35**	**30**

The NAV is CU5m higher if the acquisition was accounted for as a business combination because of the recognition of goodwill that is not impaired. This restricts comparability between REITs and therefore shall be adjusted.

SA REIT acknowledges that the definition of a business in terms of IFRS 3 has been amended effective from 1 January 2020 which should result in goodwill being recognised less often in respect of property transactions concluded by REITs. However, the divergence in practice in accounting for property acquisitions concluded prior to the adoption of these amendments to IFRS 3 could still be problematic from this perspective.

Adjustment (vi): Deferred tax

In the case of REITs, deferred tax included in the financial statements in respect of the difference between the fair value and the book value of investment property shall be excluded from the SA REIT NAV calculation as this will only become payable if the assets are sold. This includes any deferred tax relating to wear and tear allowances or capital allowances which could reverse on disposal of the property.

The deferred tax asset or liability related to other assets or liabilities which would not be realised unless the asset is sold, or liability is settled shall also be added back.

Adjustment (vii): Effect of dilutive instruments

Dilutive instruments include financial instruments or other contracts which may entitle its holder to ordinary shares. These include convertible debt, convertible preference shares, share options, share rights, etc.

The adjustment to the number of shares in issue at period end for the effect of dilutive instruments is the difference between weighted average number of shares and dilutive weighted average number of shares.

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4.3. SA REIT cost and operational ratios

Cost and operational ratios are established to perform a thorough evaluation and analysis of REITs. SA REIT has received feedback from various stakeholders that these ratios are not consistently defined and calculated across the sector which reduces comparability. The cost and operational ratios are therefore aimed at providing greater consistency.

As a starting point, SA REIT has identified key ratios to be presented for each REIT adopting this guidance. This section illustrates a definition of each ratio and the detailed calculation required to be performed to determine it.

Should a REIT wish to disclose additional or alternative ratios, these should be disclosed in conjunction with those set out below, without giving the alternative ratio undue prominence. The company should also explain how such alternative ratios are calculated, as applicable.

4.3.1. SA REIT cost ratios

4.3.1.1. SA REIT cost to income ratio

Cost-to-income ratios in the SA REIT sector have historically been disclosed on both a gross basis and a net basis. On a gross basis, utility and other operating recoveries are included with revenue (in the denominator), and utility expenses are included with property expenses in the numerator. On a net basis, utility expenses are deducted from utility recoveries, with only the net amount included in total property expenses.

We now recommend that this ratio should be disclosed on a gross basis, as calculated below:

SA REIT cost to income ratio		CU'000
Expenses		
Operating expenses per IFRS income statement (includes municipal expenses)		XX
Administrative expenses per IFRS income statement		XX
Other expenses, if directly related to property operations, with clear explanations of these items		XX
Other expense 1 – nature and description		X
Other expense 2 – nature and description		X
Exclude:		
Depreciation and amortisation expense		(X)
Operating costs	**A**	**XXX**
Rental income		
Contractual rental income per IFRS income statement		XX
Utility and operating recoveries per IFRS income statement		XX
Gross rental income	**B**	**XXX**
SA REIT cost to income ratio	**(A/B)**	**%**

A. Operating costs

These costs represent the ongoing operational costs of the property portfolio and include all direct vacancy costs. It is important that the total, gross operating cost of maintaining a REIT's property portfolio are included within operating costs. All other costs associated with generating rental income, including bad debts expense and expected credit losses, are included within operating costs.

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Where a REIT presents an income statement by nature (rather than by function), it is necessary to split the nature of each cost according to its function for the purposes of determining the total operating cost of maintaining the property portfolio.

B. Gross rental income

Gross rental income shall only include the contractual rentals for the period (including all recoveries) and therefore exclude straight-lining rental income.

4.3.1.2. SA REIT administrative cost to income ratio

The administrative cost to income ratio provides insight into the level of administrative overhead costs required to support a given level of revenue. While this ratio is not directly linked to property expenses, it provides insight into how well the fixed costs are being managed to ensure optimal operational performance.

The ratio should be calculated and disclosed as illustrated below:

SA REIT administrative cost to income ratio		CU'000
Expenses		
Administrative expenses as per IFRS income statement		XX
Other identified administrative expenses, with clear explanations of these items		XX
Other administrative expense 1 – nature and description		
Other administrative expense 2 – nature and description		
Administrative costs	**A**	**XX**
Rental income		
Contractual rental income per IFRS income statement		XX
Utility and operating recoveries per IFRS income statement		XX
Gross rental income	**B**	**XXX**
SA REIT administrative cost to income ratio	**(A/B)**	**%**

A. Administrative costs

These costs represent the administrative costs associated with supporting the underlying rental cashflows generated from the property portfolio. Administrative costs include all costs which are not directly attributable to properties which include, inter alia; legal costs, accounting costs, marketing costs, executive salaries and all other centralised or head office costs.

B. Gross rental income

Gross rental income shall only include the contractual rentals for the period (including all recoveries) and therefore exclude straight-lining rental income.

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4.3.2. SA REIT operational ratios

4.3.2.1. SA REIT vacancy rate

The vacancy rate should be computed as the estimated rental value ('ERV') of all vacant properties divided by the sum of the contractual rental income of income-producing properties excluding recoveries and the ERV of vacant space – expressed as a percentage.

Additional metrics, such as those based on GLA, are encouraged, but should be clearly distinguishable.

The vacancy rate should be calculated and disclosed as illustrated below:

SA REIT vacancy rate		
Estimated rental value of vacant space (based on market rentals)	**A**	**X**
Contractual rental income of income-producing properties, excluding recoveries	**B**	**XXX**
SA REIT vacancy rate	**(A/(A+B))**	**%**

A. Estimated rental value of vacant space

The ERV should be calculated with reference to the closest comparable observable market data. In estimating the ERV, counters should consider the asset class, the geographic location, condition of the building and tenant profile and compare this to a similar with similar characteristics.

The ERV should be calculated as the rental rate/m² at the reporting date, multiplied by the GLA of the building, annualised to reflect the impact for a full year.

When performing the above calculation, it is necessary to treat all completed buildings which are not generating rental income as vacancies. Assets under development are excluded from this calculation as long as they are not available for their intended use. Buildings are generally considered complete once a building has obtained a certificate of practical completion as this is a generally accepted milestone which indicates that the property is ready for use. Beneficial occupation is not classified as a vacancy provided there is a signed lease in place which governs this period of beneficial occupation.

A building which is designated as a refurbishment shall be classified as "properties under development" once construction or remedial works on the site commence and shall not form part of the numerator or denominator from the date construction commences until the point when the building is available for its intended use.

For the avoidance of doubt, a property that is recognised as an asset held for sale (or part of a disposal group) in terms of IFRS 5 would still be included in the calculation of the vacancy rate.

B. Contractual rental income of income-producing properties, excluding recoveries

This amount shall reflect the contractual rental income (excluding recoveries) as reported in the IFRS financial statements.

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4.4. Cost of debt

All-in weighted average cost of debt

The all-in weighted average cost of debt should reflect the actual economic cost of funding a REIT's debt capital for a particular reporting period including the impact of interest rate derivatives, cross currency interest rate swaps and the amortised transaction costs imputed into the effective interest rate of all financial liabilities subsequently measured at amortised cost.

	Note	%
Variable interest-rate borrowings		
Floating reference rate plus weighted average margin	A	
Fixed interest-rate borrowings		
Weighted average fixed rate	A	
Pre-adjusted weighted average cost of debt - CU:	B	**W%**
Adjustments:		
Impact of interest rate derivatives	C	±X%
Impact of cross currency interest rate swaps	D	±Y%
Amortised transaction costs imputed into the effective interest rate	E	Z%
All-in weighted average cost of debt - CU:		**W% ± X% ± Y% + Z%**

The all-in weighted average cost of debt should be determined in relation to a particular currency. Where a REIT operates in more than one jurisdiction, the all-in weighted average cost of debt should be determined and disclosed for all relevant currencies.

Note A: Floating reference rate plus weighted average margin and weighted average fixed rate

The floating reference rate plus weighted average margin over the reference rate and the weighted average fixed rate would both largely be drawn from concluded loan agreements with a common settlement currency. In South Africa, the reference rate would typically either be JIBAR or the Prime Rate. The floating reference rate plus weighted average margin and the fixed interest rate shall be derived directly from loan agreements that were enforceable during any part of a particular reporting period and appropriately adjusted for the differences in compounding periods.

The differences in compounding periods is required to appropriately align the reference rate across a series of loan agreements with different interest repayment profiles.

The weighted average margin and weighted average fixed rate shall be calculated with reference to the quantum of the average outstanding balance of the relevant loan agreements.

Illustrative example 10:

REIT A, an entity with a 31 December year-end, had the following loans outstanding at each reporting period:

Loan contract	**Interest rate (per agreement)**	**Loan balance (CU'm) 31 Dec 20x1**	**31 Dec 20x2**
1250430	3M IBAR + 165 basis points (bps)	180	220
1560332	3M IBAR + 180 bps	820	980
3348754	9.25% fixed	850	430
3348755	8.95% fixed	225	355

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The weighted average margin for the financial year ended 31 December 20x2 would therefore be 177 bps determined as:

Loan contract	Margin (bps)	Average balance (CU'm)	% of total average
1250430	165	200	18.2%
1560332	180	900	81.8%
		1 100	
Weighted average margin:	**177 bps**	(165 x 18.2% + 180 x 81.8%)	

Should the outstanding loan balances fluctuate significantly during the year, it may be more appropriate to determine the arithmetic average on a monthly basis.

Note B: Pre-adjusted weighted average cost of debt

The pre-adjusted weighted average cost of debt should be determined as the product of weighting the ratio of the average outstanding balance of the total fixed and floating interest-rate borrowings, the floating reference rate plus the weighted average margin and the weighted average fixed interest rate.

Illustrative example 11:

Applying the facts from illustrative example 10 and assuming further that the average 3M IBAR rate over the reporting period was 6.85%, the pre-adjusted weighted average cost of debt would be determined as follows:

	Weighted interest rate	Average balance (CU'm)	% of total average
Floating reference rate plus weighted average margin	8.62%	1 100	54.2%
Weighted average fixed rate	9.16%	930	45.8%
Total average balance:		**2 030**	
Pre-adjusted weighted average cost of debt:	**8.87%**	(8.62% x 54.2% + 9.16% x 45.8%)	

Note C: Impact of interest rate derivatives

The incremental cost or benefit associated with interest rate derivatives (including swaps, options and other derivatives) entered into to hedge future variable interest cashflows shall be included in the calculation of the all-in weighted average cost of debt. Furthermore, where a cost is incurred to execute the trade (e.g. a premium paid on an option contract), this shall be amortised over the life of the instrument and included within this adjustment.

Illustrative example 12:

REIT A, an entity with a 31 December year-end, entered into two loan agreements with Bank X with the following salient terms:

Contract 1090601:	
Capital:	CU400m
Interest rate:	3M IBAR + 170 bps
Effective date:	1 January 20x1
Term:	3 years
Contract 4571220:	

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Capital:	CU600m
Interest rate:	9.70% fixed
Effective date:	1 January 20x1
Term:	5 years

At the same time, REIT A entered into a 3-year interest rate swap to fix the interest rate on the CU400m to 9.18%. The average 3M IBAR rate for the reporting period ended 31 December 20x1 was 7.15%.

The all-in weighted average cost of debt would therefore be determined as follows:

All-in weighted average cost of debt - CU	
Pre-adjusted weighted average cost of debt: (40% x 8.85% + 60% x 9.70%)	9.36%
Adjustments:	
Impact of interest rate derivatives: (9.18% - 8.85%) x 40%	0.13%
All-in weighted average cost of debt – CU:	**9.49%**

Note D: Impact of cross currency interest rate swaps

Cross currency interest rate swaps have the impact of transforming a financial liability from one currency to another. This is achieved by swapping the principal and interest to create a synthetic financial liability in another currency. Where a REIT has entered into a cross currency interest rate swap to transform interest and principal payments into another currency, this should be reflected in the all-in weighted average cost of debt of that other currency. Furthermore, the pre-adjusted weighted average cost of debt of the currency in which the original financial liability is held shall also be adjusted to remove the impact of the financial liability which has been swapped into a synthetic financial liability in another currency.

Illustrative example 13:

Assume the facts from illustrative example 12 except that REIT A employed the CU600m from Contract 4571220 to fund an offshore acquisition in Country Y with a YU currency.

On 1 January 20x1, REIT A entered into a cross-currency interest rate swap with the following details:

Nominal amount (YU):	30 million
Nominal amount (CU):	600 million
Trade date:	1 January 20x2
Termination date:	1 January 20x5
Fixed rate (YU): (paid by REIT A)	3.25%
Fixed rate (CU): (received by REIT A)	9.70%

All-in weighted average cost of debt - CU	
Pre-adjusted weighted average cost of debt: (40% x 8.85% + 60% x 9.70%)	9.36%
Adjustments:	
Impact of interest rate derivatives: (9.18% - 8.85%) x 40%	0.13%
Impact of cross currency interest rate swaps: (-9.70% x 60% + 9.18% x 60%)	-0.31%
All-in weighted average cost of debt - CU:	**9.18%**

All-in weighted average cost of debt - YU

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Pre-adjusted weighted average cost of debt:	0.00%
Adjustments:	
Impact of cross currency interest rate swaps:	3.25%
All-in weighted average cost of debt - YU:	**3.25%**

Note E: Amortised transaction costs imputed into the effective interest rate

In terms of IFRS 9: 5.1.1, a financial liability is measured initially at its fair value plus or minus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the issue of that financial liability. Furthermore, interest expense recognised in relation to all financial liabilities subsequently measured at amortised cost should be performed based on the effective interest rate which recognises the initial transaction costs in profit or loss over the life of the financial instrument. The impact of the amortisation of the initial transaction costs imputed in the effective interest rate shall be added to the pre-adjusted weighted average cost of debt. The calculation of the amortised transaction costs shall be weighted for the outstanding balance of each loan agreement enforceable during the reporting period.

Illustrative example 14:

Applying the facts from illustrative example 12 and assuming further that Bank X charged a structuring fee of 30 bps and 50 bps for Contract 1090601 and Contract 4571220 respectively and legal and other costs directly attributable to the two Contracts was CU0.8m and CU0.7m respectively.

The incremental impact of the amortised transaction costs imputed into the effective interest rate is as follows:

Date	**Contract 1090601**	**Contract 4571220**
	CU'm	
1 January 20x1	398.0	596.3
31 December 20x1	- 36.7	- 58.2
31 December 20x2	- 36.7	- 58.2
31 December 20x3	- 436.7	- 58.2
31 December 20x4		- 58.2
31 December 20x5		- 658.2
Effective interest rate:	**9.38%**	**9.86%**

The all-in weighted average cost of debt would be determined as follows:

All-in weighted average cost of debt	
Pre-adjusted weighted average cost of debt: (as above)	9.36%
Adjustments:	
Impact of interest rate derivatives (as above)	0.13%
Amortised transaction costs imputed into the effective interest rate: ((9.38% x 40% + 9.86% x 60%) - 9.49%)	0.18%
All-in weighted average cost of debt – CU:	**9.67%**

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4.5. Loan-to-value

Loan-to-value is a primary indicator of the financial health of a REIT. It depicts the level of financial risk employed by a REIT to generate geared returns for its shareholders.

Achieving consistency with regards to the determination of the ratio will enhance comparability across the sector and allow shareholders and potential investors to assess the level of financial risk with a greater degree of certainty. Therefore, a standardised calculation to determine loan-to-value has been delineated below.

4.5.1. SA REIT loan-to-value

	Note	CU'000
Gross debt	A	XXX
Less:		
Cash and cash equivalents	B	(X)
Add/Less:		
Derivative financial instruments	C	X/(X)
Net debt		**XX**
Total assets – per Statement of Financial Position		XXX
Less:		
Cash and cash equivalents	B	(X)
Derivative financial assets	D	(X)
Goodwill and intangible assets	E	(X)
Trade and other receivables	F	(X)
Fair value of property-related assets		**XX**
SA REIT loan-to-value ("SA REIT LTV")	**%**	**Net debt / Fair value of property-related assets**

Note A: Gross debt

Gross debt is the sum of all interest-bearing financial liabilities, whether through bank loans, bonds, commercial paper or any other means as reflected in the statement of financial position. Financial liabilities are defined in IFRS 9 and this definition should be followed when including amounts in gross debt. For example, a preference share that is defined as a financial liability in terms of IAS 32 shall be included in gross debt despite it paying an income return in the form of dividends to its shareholders.

Note B: Cash and cash equivalents

Cash and cash equivalents are held with the intention of being used to meet short-term cash commitments rather than for investment or other purposes. These funds are therefore deducted from gross debt to determine the net debt of a REIT to the extent that they are not restricted.

Note C: Derivative financial instruments

Derivative financial instruments are typically employed to hedge a market risk linked to a REIT's financing activities. Therefore, the fair value of derivative financial instruments shall be added or deducted to the gross debt of a REIT to determine its net debt.

Note D: Derivative financial assets

As derivative financial assets are included within the numerator, they are excluded from total assets to calculate the fair value of property-related assets.

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Note E: Goodwill and intangible assets

Goodwill and intangible assets are not directly related to a REIT's core operations and therefore are excluded from the fair value of property-related assets.

Note F: Trade and other receivables

Trade and other receivables are typically a part of a REIT's working capital and therefore are not part of the capital asset base.

4.5.2. SA REIT look-through loan-to-value

	Note	CU'000
Net debt	A	XXX
Add:		
Impact of equity interests held	B	XX
Net debt – "look-through"		**XX**
Fair value of property-related assets	A	XXX
Add:		
Impact of equity interests held	B	XX
Fair value of property-related assets – "look-through"		**XX**
"Look-through" loan-to-value ("SA REIT LLTV")	**%**	**Net debt – "look-through"/ Fair value of property-related assets – "look-through"**

Note A: Net debt

Net debt and the fair value of property-related assets are determined in accordance with the calculation in section 4.5.2. above.

Note B: Impact of equity interests held

Equity interests in property companies held by a REIT typically employ some level of financial leverage to generate geared equity returns. Where that equity interest is not consolidated in terms of IFRS 10, reflecting that interest on the statement of financial position of a REIT either its fair value (in the case of equity instruments held at fair value through profit or loss or other comprehensive income) or at its proportionate share of the net assets (including goodwill) of that property company could mask the degree to which financial risk is employed to generate returns. Therefore, a REIT shall "look-through" its investment in all equity interests and present a LTV which effectively proportionately consolidates these investments.

Illustrative example 15:

REIT A, an entity with a December year-end, acquires 30% of Property Company B for CU900m on 3 July 20x1 which was funded 50% through existing debt facilities and 50% through an equity issuance. REIT A concludes that it does not control Property Company B.

Immediately prior to the acquisition, REIT A had a LTV ratio of 32.5% with net debt of CU1,950m and Property Company B had a LTV ratio of 50.0% with net debt of CU3,000m.

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The LTV of REIT A with and without looking-through its investment in Property Company B immediately after the acquisition would be as follows:

	Net debt	Fair value of property assets	LTV
REIT A: (CU1,950m / 32.5%)	1 950	6 000	32.5%
Add:			
Acquisition of investment in equity interest: (CU900m x 50%; CU900m)	450	900	50.0%
REIT A SA REIT LTV post acquisition:	**2 400**	**6 900**	**34.8%**
Add:			
Impact of equity interests held:	900	900	
Eliminate initial investment		- 900	
Add: proportionate share of equity interest (CU3,000m x 30%; CU3,000m / 50% x 30%)	900	1 800	50.0%
REIT A SA REIT look-through LTV post acquisition:	**3 300**	**7 800**	**42.3%**

A REIT shall publish LTV based on a look-through approach as this better reflects the financial risk that the REIT has employed to generate equity returns to its shareholders.

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4.6. Initial yield

REITs disclose the initial yield or exit yield on material transactions and include the average portfolio yield in the annual financial statements as required by Section 13 of the JSE Listings Requirements. REITs may also elect to disclose yields on material transactions or to provide information to shareholders about movements in the portfolio. To enhance comparability and to improve consistency in the disclosure of such yields, calculation guidelines are set out below.

An asset's yield essentially represents its economic return. In simple terms, the yield determines how much return an investment is expected to generate. It is important to note that yields and capitalisation rates (cap rates) are separate and distinct concepts. Technically, an asset's yield is the resultant rate of return from a net income/capital value relationship while the capitalisation rate is the rate of return used to capitalise the net income to determine the value or price.

4.6.1. Initial yield on property acquisitions and exit yield on property disposals

An initial yield on a property acquisition or exit yield on a property disposal could be determined on a gross or net basis. As outlined below, SA REIT recommends disclosing the initial and exit yield on a net basis as this better reflects the economic return on an investment.

Illustrative example 16:

Entity A acquires a property on 1 January 20x1 for CU100m excluding transaction costs. The transaction costs directly related to the acquisition amount to CU5m and include legal costs, stamp/transfer duty and other fees. The property is leased to a tenant with a contractual annual rental of CU9m and annual, non-recoverable expenses are expected to be incurred from 1 January 20x1 to 31 December 20x1 of CU500,000.

The initial yield can be presented as a gross or net initial yield as follows:

Gross initial yield: (CU9m/CU100m)	9.00%
Net initial yield: (CU9m - CU0.5m)/(CU100m + CU5m)	8.10%

The gross initial yield distorts the economic return on the investment in the asset and it is therefore not appropriate to disclose this yield. The net initial yield accurately reflects the economic return and should rather be disclosed.

4.6.2. Net initial yield on property portfolio

As per s13.18(h) of the JSE Listing Requirements, a JSE-listed entity is required to disclose the average annualised property yield as part of its annual reporting. In addition, SA REIT requires the disclosure of a net initial yield across each REIT's property portfolio at each reporting period.

The net initial yield is calculated using the 12-month forward rental income based on the property's underlying cash rental at the date which the calculation is performed ("reporting date"), less any non-recoverable property related expenses, divided by the grossed up value of the property portfolio as illustrated below.

Net initial yield		CU'000
Investment property	A	XXX
Add:		
Assumed purchaser's costs	B	X
Less:		
Properties under development	A	(X)
Grossed up property value	**X**	**XXX**
Property income		
Contractual cash rentals	C	XX
Add:		

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Notional rental for rent-free periods, discounted rentals, stepped rentals and lease incentives	D	XX
Less:		
Non-recoverable property expenses	E	(XX)
Annualised net rentals	**Y**	**XXX**
Net initial yield	**Y/X**	**X%**

Note A: Investment property

This refers to the fair value of the property portfolio, as reported in the statement of financial position. Note that any undeveloped land and construction in progress shall both be excluded from the denominator.

Note B: Assumed purchaser's costs

Assumed purchaser's costs include all costs that are expected to be incurred in the acquisition of a REIT's property portfolio. This includes, inter alia; legal costs, transfer or stamp duty and any other incremental costs involved in the transfer of the property portfolio. The rationale for the inclusion of these costs is that the net initial yield represents the yield at which the property portfolio could reasonably be expected to be sold.

Note C: Contractual cash rentals

For the purposes of calculating the net initial yield, the contractual cash rental refers to the 12-month forward passing rent in respect of the property portfolio. This passing rental is defined as the cash rental income being received at a particular date and for the purposes of this calculation shall be adjusted to include the following:

- Estimate for any turnover rentals based on historically observed actual turnover of the lessee or turnover projections for the upcoming period;
- Indexation adjustments to which the company is contractually entitled to, based on latest available data;
- Contractual escalations which the lessor is entitled to during the period; and
- The best estimate of any rent reviews which are to be concluded in the period.

Note D: Notional rental for rent-free periods, discounted rentals, stepped rentals and lease incentives

A rent-free period refers to a period of occupancy where no passing rent is demanded, usually used as an incentive to attract a new tenant at the commencement of a lease. Lessors may also offer new tenants discounted rentals or stepped rentals as a lease incentive. For the purposes of calculating the net initial yield, where the cash passing rent is reduced as a result of a rent-free period, stepped rental or lease incentive, the calculation shall include the cash rental that would apply at the expiry of the lease incentive. These adjustments only relate to amounts which are contractually fixed at the reporting date and do not include any future rent review assumptions or indexation uplifts.

Note E: Non-recoverable property expenses

Property expenses shall include the total operating costs associated with the day-to-day operations of the facility which are borne by the landlord and not recovered from the lessee. Such costs include administrative costs if directly linked to the property, management fees, rates, land taxes, income taxes, insurances, electricity, fuel, security, cleaning, etc.

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5. Sector specific IFRS matters

This BPR document has been drafted to address matters not specifically addressed by IFRS but which are relevant for REITs. There are several, easily accessible publications issued by IFRS technical specialists which provide relevant insight into the application of IFRS specifically for the property sector.

These publications competently address several complex IFRS issues that arise in this industry, including, but not limited to;

- Property acquisition or business combination;
- Owner-occupied property or investment property;
- Fair value measurement of investment property in construction;
- Subsequent expenditure on investment property;
- Consolidation of structured entities;
- Joint arrangements;
- Lease incentives; and
- Modifications to lease agreements.

SA REIT encourages its members to familiarise themselves with these publications and apply them consistently in accounting for transactions that arise.

The following publications provide useful interpretations of some of the above complex IFRS issues:

Author	Title	Link
PwC	Applying IFRS for the real estate industry	https://www.pwc.com/gx/en/audit-services/ifrs/applying-ifrs-for-the-real-estate%20industry-2018.pdf
EY	Applying IFRS in Real Estate	https://www.eyjapan.jp/services/assurance/ifrs/issue/ifrs-others/other/pdf/2013-Applying-IFRS-in-Real-Estate.pdf
KPMG	Real estate valuation for IFRS purposes	https://assets.kpmg/content/dam/kpmg/pdf/2014/10/Val_5e_upd.pdf
Deloitte	Industry insights for IFRS 15	https://www2.deloitte.com/content/dam/Deloitte/ca/Documents/audit/ca-en-audit-ifrs15-realestate.pdf

Drafting comment: SA REIT invites IFRS technical specialists to submit references to other publications which deal with specific IFRS issues as they relate to REITs. These will be considered for inclusion in this document.

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6. SA REIT Association Disclosure Guidelines

One of the primary purposes of this document is to enhancing comparability and transparency across REITs. The disclosures detailed below are focused on providing more insight into reported metrics, reconciling these to IFRS-reported numbers and improving the quality of property specific information.

6.1. Detailed financial disclosures

6.1.1. Reconciliation of distribution statement

Where a REIT presents a distribution statement, SA REIT recommends that this statement is reconciled to the most comparable IFRS statement which would typically be the income statement. The adjustments required to reconcile these statements should be derived from the calculation of SA REIT Distributable Earnings and then include any specific company adjustments which are clearly explained.

6.1.2. Distributable Earnings to cash generated from operations

Distributable earnings should be reflective of the operational net cashflows generated by a REIT. Therefore, SA REIT recommends that a reconciliation is performed between a REIT's distributable earnings and the cash that it generates from its operational activities. This reconciliation shall include appropriate categories of reconciling items (e.g. working capital movements, antecedent earnings, non-controlling interest etc.) and all reconciling items shall be clearly explained.

6.2. Detailed property disclosures

While Section 13 of the JSE Listing Requirements prescribes certain important disclosures applicable to property counters, SA REIT recommends that its members disclose the following additional information (which may or may not be required in terms of Section 13 of the JSE Listing Requirements) to provide users with more granular detail of the underlying properties in adherence to the original intention of the formation of REIT legislation, namely, to give investors the opportunity to fully understand the underlying properties that they invest in through the purchase and sale of a REIT's shares.

6.2.1. Completed investment properties (including properties held for sale)

By sub-sector (required for all interim reports, provisional reports, preliminary reports, abridged reports and annual financial statements):

- Valuation at period-end,
- GLA at period-end, split between occupied and vacant (where REITs elect an alternative basis of measure to GLA area where appropriate, including but not limited to number of rooms and number of beds. Such policy adoption should be disclosed)
- Number of properties
- Monthly average passing gross rental per square metre at period-end
- Gross rental revenue for the period
- Average annualised yield (as determined in accordance with the portfolio net initial yield calculation outlined in section 4.6.2.)

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- Average lease length in years at period-end, differentiating between period to lease expiry and period to first lease review/ break clause, if applicable
- Weighted average lease expiry from period-end (weighted by GLA and passing rental), differentiating between period to lease expiry and period to first lease review/ break clause, if applicable:
    - Profile by year, for at least the next 5 years from period-end
    - In years
- Rental escalation profile by sector and by basis of escalation (e.g. fixed escalations, inflation-based escalations, market-related escalations), based on existing leases at period end by passing rental
- Tenant profile (A, B or C grading):
    - by gross rental revenue for the period
    - by GLA at period-end
    - the basis by which tenants are graded
- Building grade profile:
    - by valuation at period-end
    - by GLA at period-end
    - the basis by which buildings are graded

To be disclosed for the portfolio (required for all interim reports, provisional reports, preliminary reports, abridged reports and annual financial statements):

Top 10 tenants by gross rental revenue for the period (including disclosure thereof)

- Reconciliation of valuation at commencement of period to valuation at end of period, including at least the following reconciling items:
    - Capital expenditure, separately disclosing capitalised interest
    - Acquisitions
    - Disposals
    - Exchange rate movements
    - Revaluations

By individual investment property (required for annual financial statements):

- Type of property (split by sub-sector classification where applicable)
- Percentage ownership and form of ownership (freehold/leasehold)
- Location
- Land area
- Valuation at period-end, indicating date of last external valuation

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- GLA at period-end, split between occupied and vacant
- Building grade
- Major tenant(s)
- Monthly average passing rental per square metre at period-end (in the case of single-tenanted buildings, can disclose as a weighted-average for all of the single-tenanted buildings in a sub-sector)
- Completion date (or date of redevelopment if subject to major redevelopment)
- Acquisition date

6.2.2. Investment properties held for development and under development (including development properties held for sale)

By sub-sector (required for all interim reports, provisional reports, preliminary reports, abridged reports and annual financial statements):

- Number of properties
- Valuation at period-end, split between internally-valued and externally valued
- Cost to date at period-end
- Estimated cost to completion, including capitalised interest
- Estimated GLA at completion (including GLA that has been let at period-end)
- Reconciliation of valuation at commencement of period to valuation at end of period, including at least the following reconciling items:
    - Capital expenditure, separately disclosing capitalised interest
    - Acquisitions
    - Disposals
    - Exchange rate movements
    - Revaluations

By material individual investment property (required for annual financial statements):

- Type of property (split by sub-sector classification where applicable)
- Percentage ownership and form of ownership (freehold/leasehold)
- Building grade
- Location
- Land area
- Status (e.g. vacant land, planning permission obtained, under construction)
- Valuation at period-end, indicating date of last external valuation
- Major tenant(s), if contracted
- Estimated completion date
- Estimated cost to completion
- Acquisition date

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