



REIT Wise[®] 2015

March 31- April 2

REIT
INVESTMENT

NAREIT's Law, Accounting
& Finance Conference

JW Marriott Desert Ridge Resort & Spa
Phoenix, AZ

NOI/FFO as GAAP - a possibility

April 2, 2015

Session Faculty

- ◆ George Yungmann, moderator, SVP-Financial Standards
- ◆ Marc Siegel, Board Member, FASB
- ◆ David Smetana, Managing Director, Morgan Stanley

Topics to be Discussed

- ◆ FASB Project -- *Financial Performance Reporting*
- ◆ An analyst's use of the current GAAP income statement and the importance that non-GAAP metrics and other information be supported by amounts reported in the GAAP income statement
- ◆ Might important industry metrics be reported in a statement of operating performance – a management approach to reporting
- ◆ The importance of input to the FASB from investors and preparers

Introduction and Context

- ◆ Industry non-GAAP metrics, like *net operating income* and *funds from operations* have served the industry well for over 20 years
- ◆ The industry has provided investors solid returns over those years using non-GAAP metrics and supplemental information
- ◆ Why would the industry like to report industry metrics under GAAP
- ◆ The global industry's 2007 consensus for a statement of comprehensive income

An Analyst's Use of the Current GAAP Income Statement and the Importance of Linkage to Audited GAAP Reporting

What We Focus On

- ◆ Addition of Net Property Income line-item further solidifies the view that REITs are proxies for real estate
 - ◆ We are not a collection of leases or financing arrangements
 - ◆ NPI or NOI is a staple in calculating cap-rates and NAV calculations
 - ◆ General and Administrative expenses need to be considered
- ◆ Revenues
 - ◆ Cash vs. Non-cash (straight-line rent and FAS 141)
 - ◆ Recurring vs. Non-recurring (lease termination fees and credit losses)
 - ◆ TRS activities (billboards, outparcel sales, etc.)
- ◆ Expenses
 - ◆ Property operating expenses vs. general and administrative
 - ◆ Allocations vary widely by company
 - ◆ We compare G/A as a % of Assets – 60 bps on average
 - ◆ Capitalized expenses

What we would like to see...

- ◆ More uniform definition of same-store NOI (SSNOI)
 - ◆ Wide-range of definitions
 - ◆ Basic description in the financials of the policy; what is in the pool and what is not
 - ◆ Treatment of re-developments (compare a center with 120k sf to 100k sf?)
- ◆ SSNOI Revenue and Expense line items broken-out separately
 - ◆ Best practices to date show each line-items on I/S (Cash and GAAP)
 - ◆ Some firms still quote in text a SSNOI number with no tie to audited financial
- ◆ Cap-Ex with Same-store NOI
 - ◆ How much cap-ex was spent on the properties in each year