ShineWing AUSTRALIA
Advisors & Accountants

Take the lead

Commercial considerations for financial reporting

Real estate investment

Year end: June 2020

For those in real estate investment, the financial reporting period for the year ending 30 June 2020 will bring back memories. Many will refer to the anecdotes of 2008 during the Global Financial Crisis (GFC) assuming 'what was old, will be new again'. Twelve years on from the GFC, the issues may be similar however reporting standards have changed.

Since the GFC, we've seen the introduction of two key accounting standards impacting the sector, *AASB 9 Financial Instruments* and *AASB 13 Fair Value Measurement*. We've also seen the arrival of globally adopted valuation standards.

Our experts have put together our Top 10 commercial considerations for financial reporting in the real estate investment sector.

Commercial issue	Description and considerations for financial reporting	Entity Type						
		Real Estate Investment Entities					Managers & Trustees	
		REIT	UCPF	UPDF	UMGF	URSF	Managers	RE&T
Valuations	• Reduced transactional activity may result in less direct valuation evidence. There is likely to be greater reliance on discounted cash flow valuations • When adopting valuations, expanded disclosures in financial reports may be required to provide appropriate sensitivities and highlight estimation uncertainty • Physical access to real estate given social distancing measures may create practical limitations for valuers • Significant uncertainty disclosed in independent valuations may require additional disclosure in financial and auditors reports	✓	✓			✓		
Rent relief - Mandatory Code of Conduct	• Rent relief granted according to the mandatory code of conduct for commercial leases will impact returns in current and future periods • Revised lease arrangements may result in downwards pressure on asset values and fund performance • Deferred rent relief granted and recognised as income will need to be assessed for recoverability • Straight line rent calculations need to be updated for rent relief	✓	✓			✓		

UCPF Unlisted commercial property funds
UPDF Unlisted development funds
UMGF Unlisted mortgage funds
URSF Unlisted real estate securities funds
RE&T Responsible Entities and Trustees
REIT Real Estate Investment Trusts

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Income arrears	• The likelihood of higher arrears and slower collections may result in higher provisioning and impact returns. Enhanced disclosures may be required, including any concentration of credit risk	✓	✓		✓			
Debt	• Softening asset values and/or reduced returns may result in pressure on debt covenants • Capacity to refinance and/or roll facilities may be challenging where facilities expire over the next 12 months • Reclassification of borrowings from non-current to current, additional disclosures on covenant compliance and going concern disclosures may be required in financial and audit reports	✓	✓	✓				
Delay in construction and development	• Delays may result in reduced development profit given increased holding costs and/or costs to complete. This may create downward pressure on development inventory where net realisable value may decrease below cost	✓		✓		✓		
Interest rates	• Recent reductions in the cash rate have resulted in fixed rate interest rate swaps moving further 'out of the money' decreasing NTA	✓	✓	✓	✓	✓		
Redemptions and unit pricing	• Funds with a liquidity mechanism may experience an increase in redemption requests. Unit pricing policies should be up to date and pricing reflective of current financial circumstances	✓	✓	✓	✓	✓		
Government stimulus package: JobKeeper	• The government has provided assistance to businesses in the form of the JobKeeper stimulus package which can significantly boost cash flow in these difficult times • The application of the legislation and financial reporting implications is not straight forward and additional care should be taken in implementation						✓	

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		Real Estate Investment Entities					Managers & Trustees	
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Events subsequent to reporting date	• COVID-19 related events that occur after the financial reporting date may require either adjustment to reported balances or additional disclosures	✓	✓	✓	✓	✓	✓	✓
Management and performance fees - reductions, deferrals	• Reduced underlying fund performance may result in trustees and managers receiving less income and/or waiving or deferring fees. This may have consequences for AFSL NTA requirements (where relevant) and require further analysis on fee recoverability • Performance fee calculations and accruals may need to be re-assessed given the change in the economic environment • Additional disclosures to ensure financial statement users are appropriately informed of material, estimates and judgements	✓	✓	✓	✓	✓	✓	✓

Get in touch

Our specialist advisory team, who work every day with their clients on these issues are here to help you navigate through this reporting cycle.

Whether it be supporting organisations to understand the impact of commercial issues on financial reporting, preparing advice and technical position papers, calculations, disclosures, financial statements we can help.

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