



«Sind Sie bereit? Noch 15 Monate bis zur Umsetzung des neuen IFRS-Standards zur Bilanzierung von Mietverträgen.»

Guten Morgen und herzlich willkommen!

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Kirsten Rust Head Tenant and Landlord Representation

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Partner, Occupier Finance bei Cushman & Wakefield

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WAKEFIELD

A new era for lease accounting:
Are you ready?



Agenda

1. The Need for Change
2. The Future of Lease Accounting
3. Impacts on Financial Reporting
4. New definition of a Lease
5. Implementation and Implications for CRE
6. Transitional Approaches
7. Impacts on CRE Strategy
8. Impacts on Industry Sectors

Lease Accounting Changes

The Need for Change

How are leases currently recognised?

- Finance leases
- Operating leases

Why the need for change?

- × Lack of transparency
- × Lack of comparability

How are these issues being addressed?

- IASB and FASB joint project
- 2 new standards:
 1. IASB published IFRS 16 in Jan 2016
 2. FASB published standard in Feb 2016

\$3.3tn lease commitments




85% operating leases

1 in 2 companies impacted

Change is coming **January 2019**

Lease Accounting Changes

The Future of Lease Accounting: Balance Sheet

	Current Standard IAS 17 / US GAAP		New Standard IFRS 16 / US GAAP
	Finance Leases	Operating Leases	All Leases
Assets		-	
Liabilities	£ \$ €	-	£ \$ €
Off Balance Sheet Obligations			

Exclusions:

- 1) Short term leases <1 year
- 2) Low value leases, assets <\$5,000

Lease Accounting Changes

The Future of Lease Accounting: P&L

	Current Standard IAS 17		New Standard IFRS 16
	Finance Leases	Operating Leases	All Leases
Operating Costs	-	£ \$ €	-
Depreciation / Amortisation	£ \$ €	-	£ \$ €
Finance Costs	£ \$ €	-	£ \$ €

	Current Standard US GAAP		New Standard US GAAP	
	Finance Leases	Operating Leases	Type A Leases	Type B Leases
Operating Costs	-	£ \$ €	-	£ \$ €
Depreciation / Amortisation	£ \$ €	-	£ \$ €	-
Finance Costs	£ \$ €	-	£ \$ €	-

Lease Accounting Changes

Impacts on financial reporting: Balance Sheet

All leases result in:

1. 'Right-of-use' asset
2. Lease liability

Equal at lease start.

Calculated as PV of future lease payments.

Assets



Liabilities



Equity



Balance Sheet Impact: Opening Balance



All leases reported **'on Balance Sheet'**

Lease Accounting Changes

Impacts on financial reporting: P&L

All leases result in:

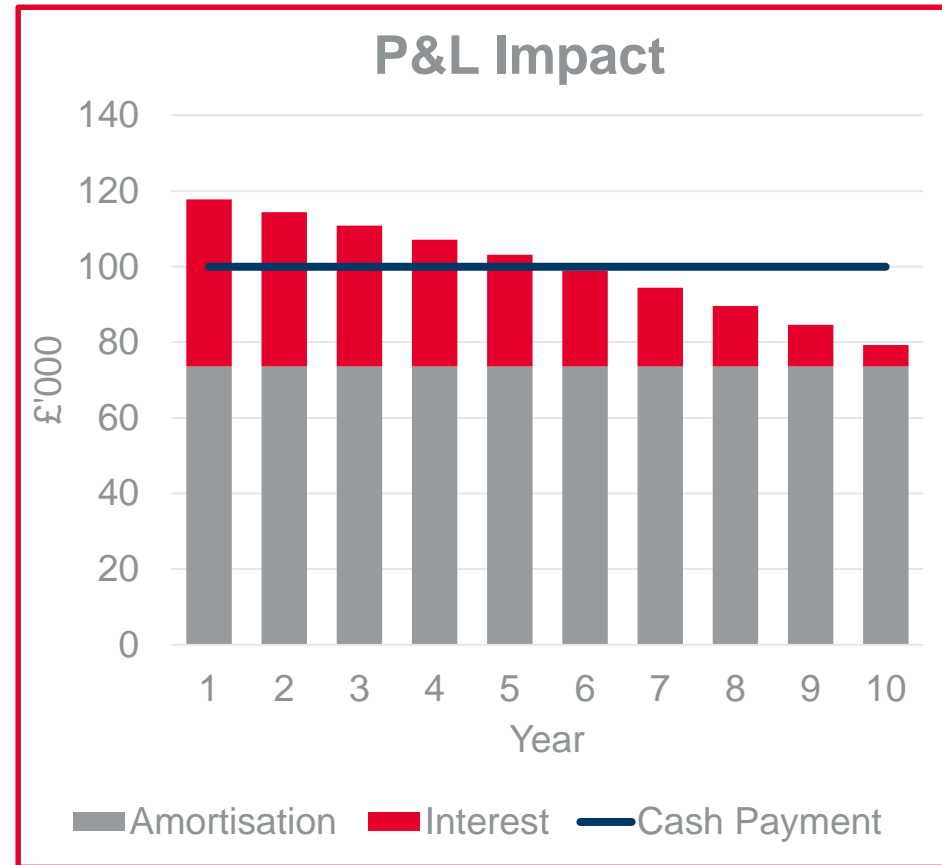
1. Amortisation
2. Interest payment

Front-loaded expense over first half of lease term.

EBITDA



Profit before Tax



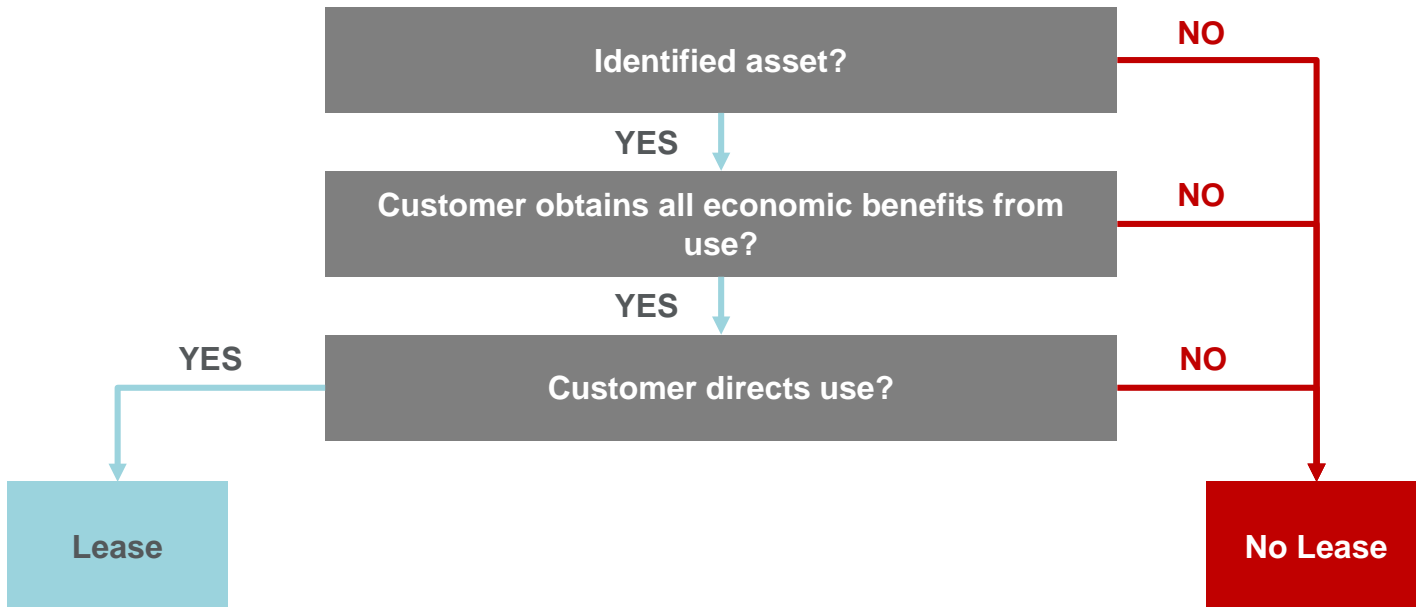
At lease start, ***P&L impact > rent*** payment

Lease Accounting Changes

New definition of a Lease

A CONTRACT IS (OR CONTAINS) A LEASE:

“If the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.”



Lease Accounting Changes

Implementation and implications for CRE: Data

On 'day 1' lessee will need to determine:

**'Non-cancellable'
lease term**



Requires judgement to
determine

Discount rate



IBR or IRR?

**Unavoidable future
lease payments**



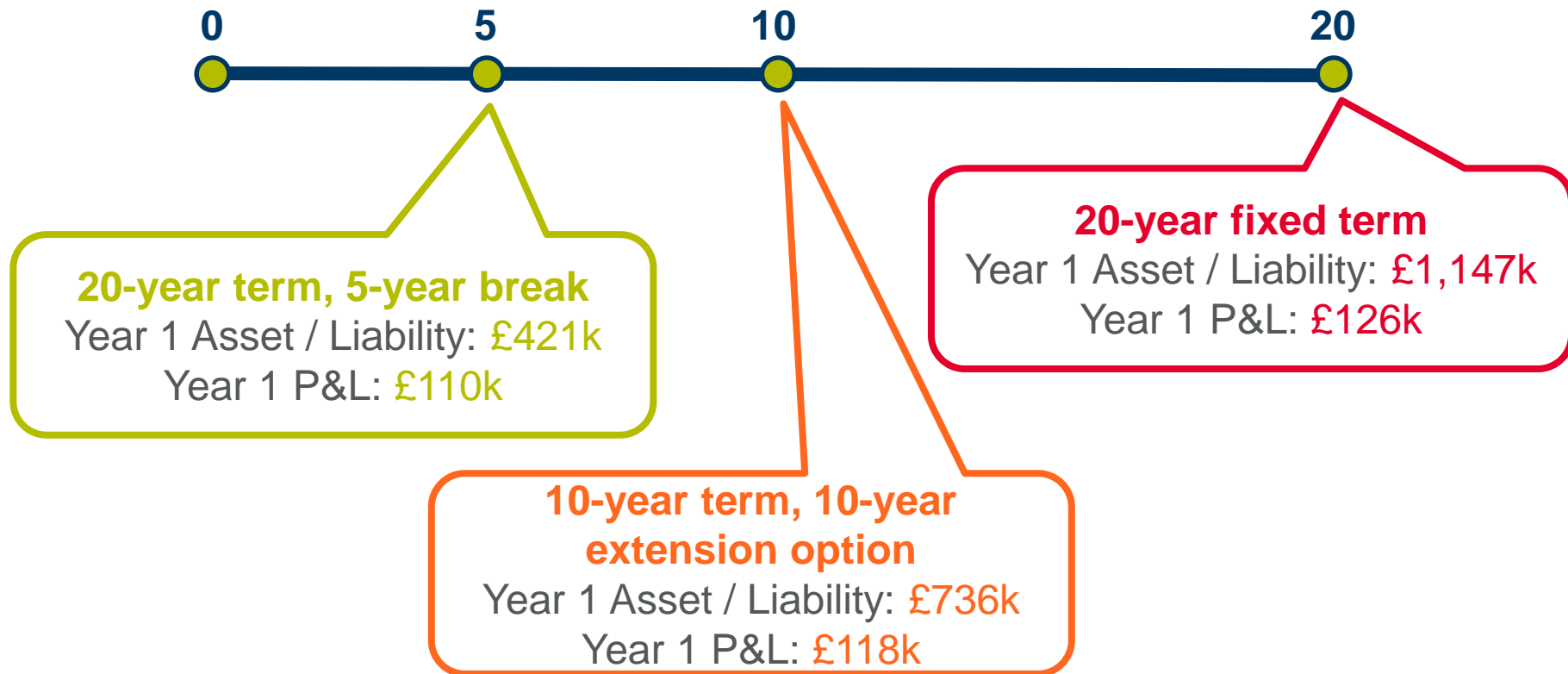
Depends on lease
terms

Perfect property data is the starting point

Lease Accounting Changes

Implementation and implications for CRE: 'Non-cancellable' lease term

Impact on 'day 1' depends on the lease term.



Longer lease term = greater P&L impact

Lease Accounting Changes

Implementation and implications for CRE: Discount Rate

Two approaches to discount rate.

Rate implicit in the lease

- Valuation exercise to determine market inputs
- Includes consideration of lessor's costs
- Includes consideration of residual value to the lessor



Incremental Borrowing Rate

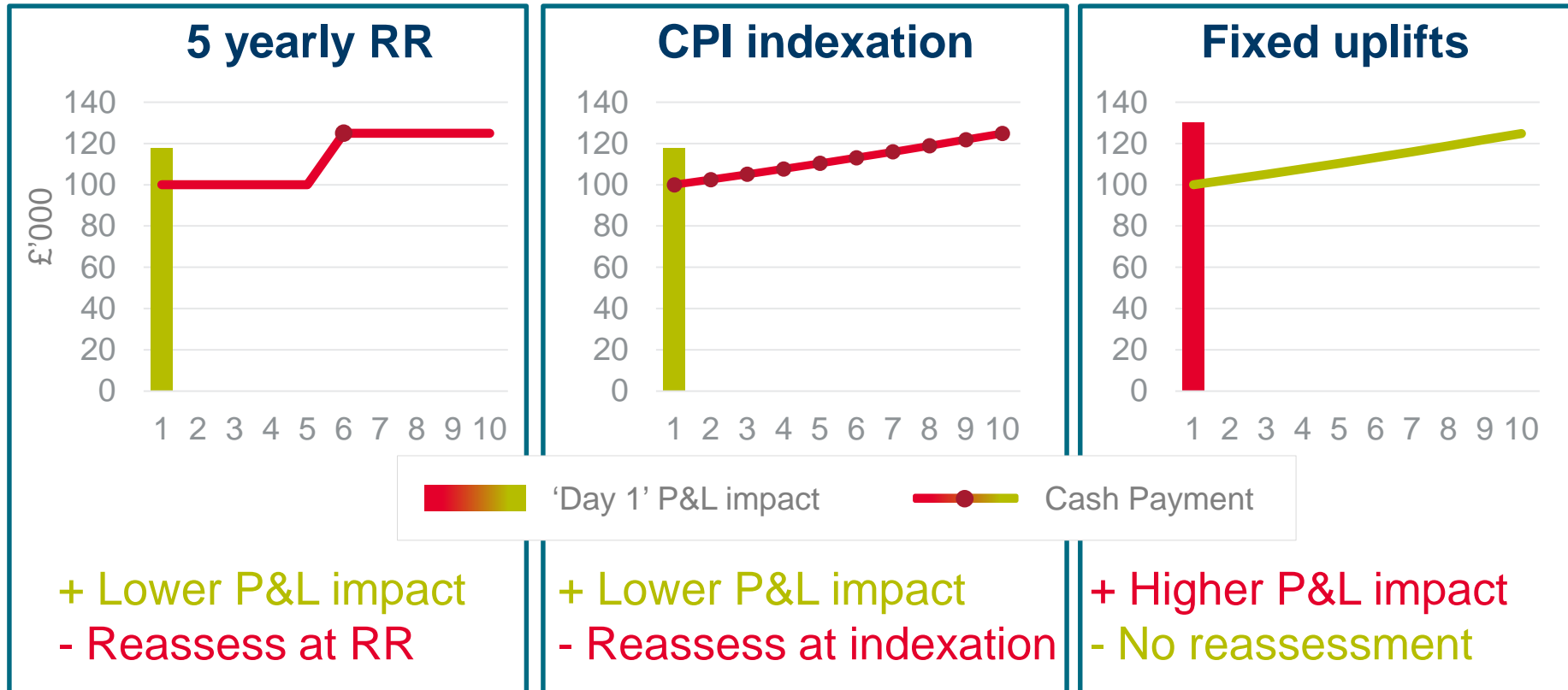
- Rate for equivalent financing
- Includes consideration of type of underlying asset
- Property yield may be used as a proxy

Choices impact B/S and P&L

Lease Accounting Changes

Implementation and implications for CRE: Future lease payments

P&L impact on 'day 1' depends on rent review mechanism.



Balancing *P&L impact* vs *admin burden*

Lease Accounting Changes

Implementation and implications for CRE: Future lease payments

Liability is lower

Turnover Rent

£80k base rent
+ £20k turnover rent

= £100k cash payment

'Day 1' liability
= **£589k**

Liability is higher

Fixed Rent

£100k fixed rent

= £100k cash payment

'Day 1' liability
= **£736k**

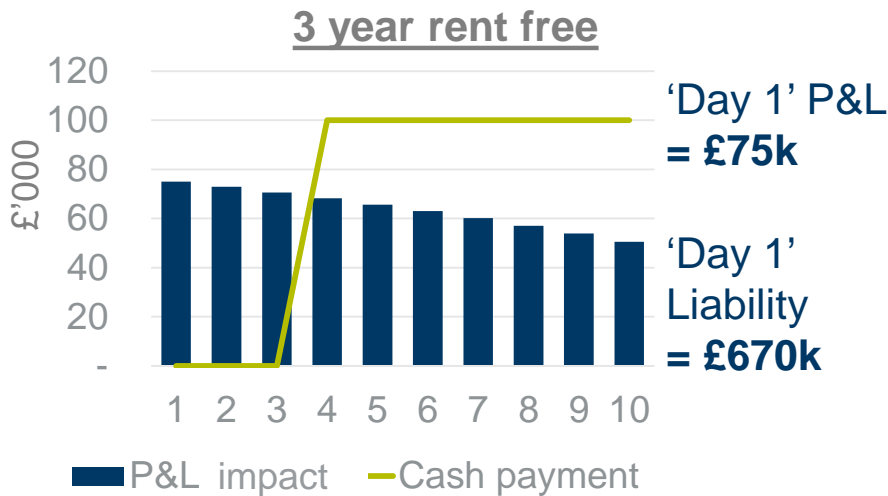
Turnover rent = lower liability

Lease Accounting Changes

Implementation and implications for CRE: Future lease payments

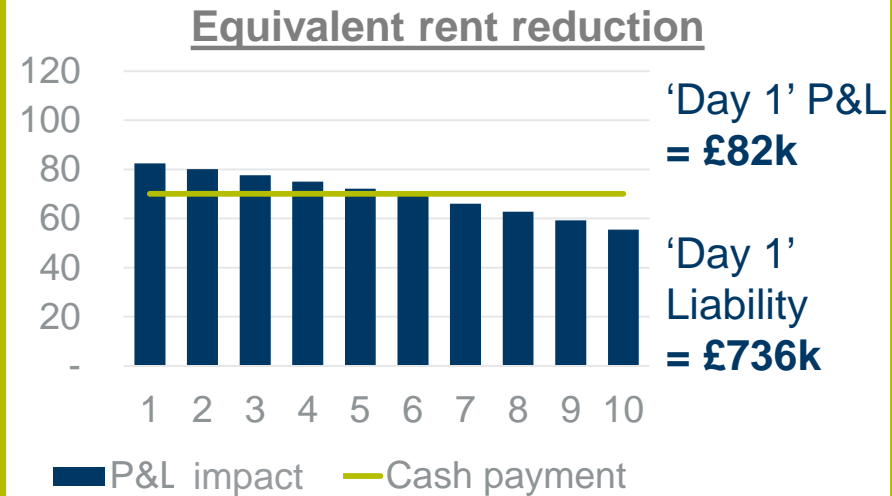
Upfront incentives

✓ Smaller 'day 1' P&L



Blended incentives

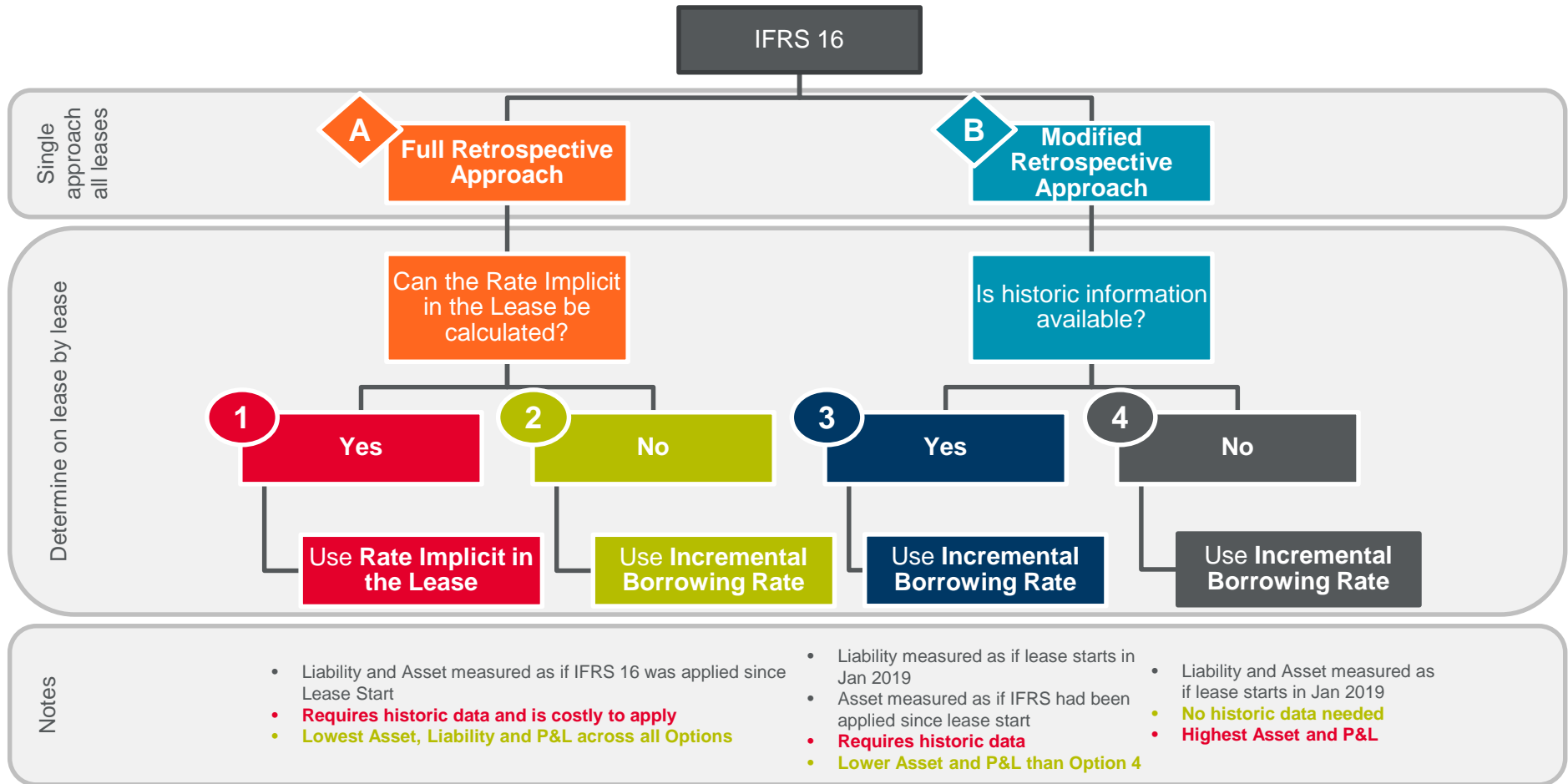
✗ Greater 'day 1' P&L



Upfront incentives = smaller B/S and P&L

Lease Accounting Changes

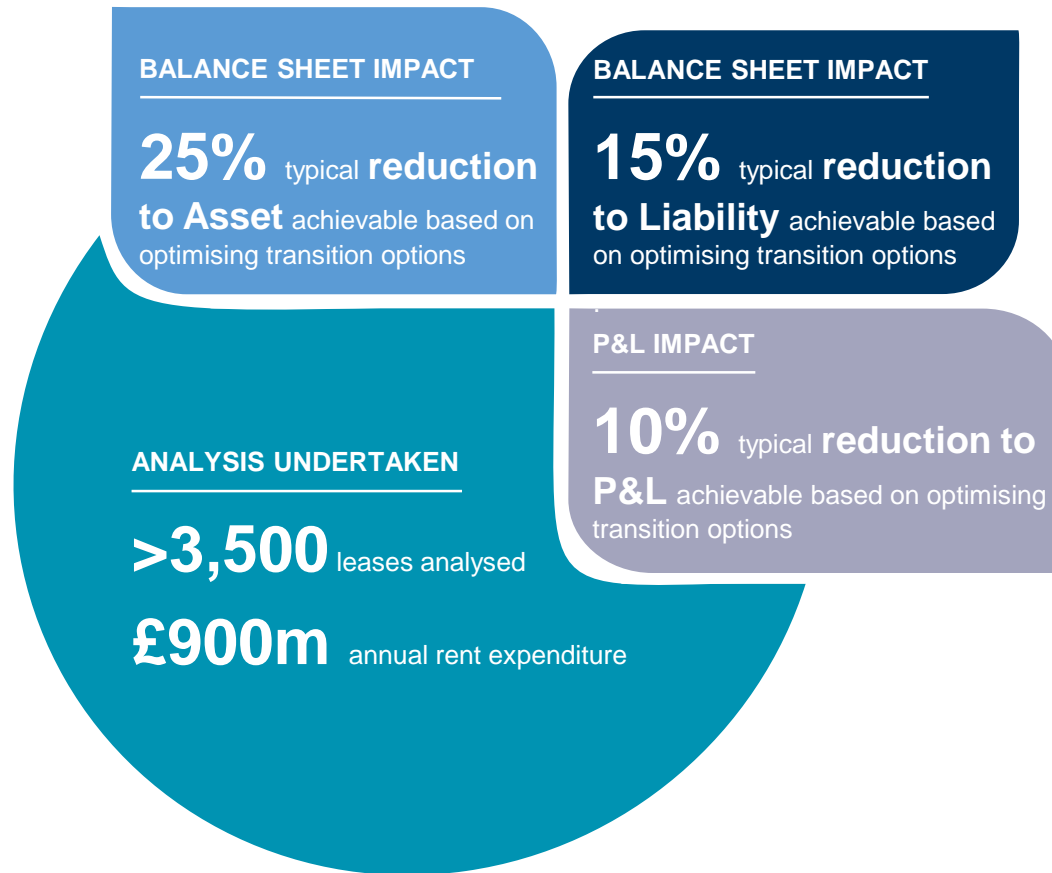
Transitional Approaches



Choices impact B/S and P&L

Transitional Options

Cushman & Wakefield Track Record



Lease Accounting Changes

Impacts on CRE: Own vs Lease Strategy

Owning and leasing to have similar impacts:

	Owned Property	Leased Property
Assets		
Liabilities	£ \$ €	£ \$ €

Practical benefits of leasing assets remain:

- ✓ Effective deployment of capital
- ✓ Operational flexibility
- ✓ Regular, fixed lease payments
- ✓ Reduced residual risk
- ✓ Alternative source of finance

To lease or not to lease?

Lease Accounting Changes

Impacts on CRE: Sale & Leasebacks

Recognition of Sale and Leasebacks is changing.

	<u>Pre-Jan 2019</u>	<u>Post-Jan 2019</u>
'Off Balance Sheet' financing	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Profit recognition	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Effective deployment of capital	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Alternative source of finance	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Source of long term finance	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

Now is the time for **Sale & Leasebacks!**

Lease Accounting Changes

Impacts on Industry Sectors

Airlines
Retailers
Travel & Leisure
Transport
Telecomms
Energy
Media
Distributors
IT
Healthcare

*Tesco's
net debt to
increase*

£17.6bn

£8.6bn

What's the *impact* on *your business?*



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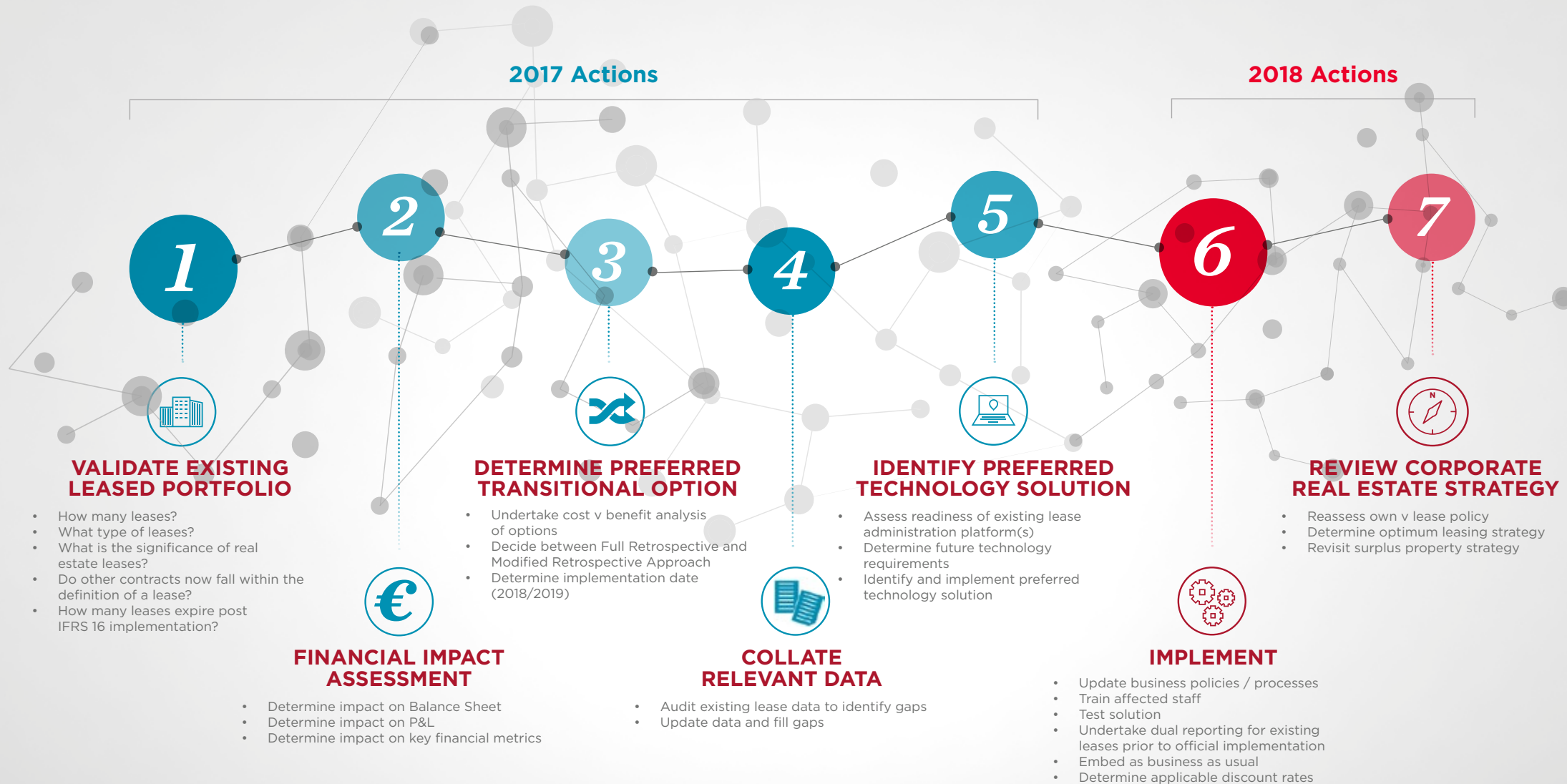
Auf Wiedersehen am **SPGIntercity *TALK***
vom **9. November 2017**

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LEASE ACCOUNTING

The clock is ticking. Are you on track for IFRS 16 implementation?



For more information on changes to lease accounting under IFRS contact:

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