National Policy Bulletin

FFO White Paper Disclosures

Updated February 2004

Introduction

NAREIT's Best Financial Practices Council was formed in 1998 in an effort to enhance the quality and effectiveness of industry financial practices. This includes financial reporting and disclosure practices required by generally accepted accounting principles (GAAP), as well as practices related to the industry's supplemental performance measure - Funds From Operations (FFO). The Council consists of 18 industry participants, including nine corporate members representing nearly all industry sectors, as well as investors, analysts, and auditors.

During the review of FFO in 1999, the Council and a Task Force organized to evaluate FFO and related disclosures, determined that appropriate disclosures accompanying FFO are critical to understanding the real profitability of REITs and other publicly traded real estate companies, as well as to what extent FFO differs from GAAP net income. The Council and Task Force also concluded that, although the FFO White Paper provides a clear description of important disclosures, some companies do not report the information described. As a result, to enhance the usefulness and effectiveness of FFO, as well as other industry disclosure practices, the Council recommended that NAREIT develop "best practices" disclosure models.

The Council continues to believe that consistency in financial reporting among member companies could be advanced by providing "best practices" disclosure models - especially related to certain items of particular importance to real estate investment trust (REIT) or real estate company financial or operations reporting. This National Policy Bulletin is expected to be the first in a series of Bulletins providing guidelines on "best practices" disclosure models. Although the disclosure models presented are designed to be applicable to the majority of companies/sectors in the industry, they should not be considered exhaustive. NAREIT believes that the specific content and manner in which the disclosure models presented are utilized should be based on the business judgement of the management of each company.

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White Paper Disclosures

A discussion about certain disclosures contained in the FFO White Paper, as originally written in 1995, and unchanged in 1999 and 2002 during the review of FFO, addresses the following:

1. FFO/GAAP net income reconciliation
2. Capital Expenditures - Tenant improvements/allowances, leasing commissions, expansions, major renovations, acquisitions, etc.
3. Straight-Line Rents

Excerpts from the White Paper related to the foregoing disclosures are located in the Appendix to this Bulletin.

The Council recommends that, at a minimum, the disclosures for I, II and III below be presented for the current and prior-year period:

I. FFO/GAAP Net Income Reconciliation

Net income (Note 1)	$x,xxx,xxx
Adjustments:	
Depreciation of real estate assets	x,xxx,xxx
Amortization of tenant improvements and tenant allowances	xxx,xxx
Amortization of deferred leasing costs	xxx,xxx
Gains/losses from sales of depreciable real estate	xxx,xxx
Gains/losses from sales of other real estate and securities (Note 2)	xxx,xxx
Other items:	
Discontinued operations	xxx,xxx
Extraordinary items	xxx,xxx
Cumulative effect of accounting change	xxx,xxx
Adjustments for minority interests - consolidated affiliates (Note 3)	xxx,xxx
Adjustments for unconsolidated affiliates (Note 3)	xxx,xxx
FFO	$x,xxx,xxx
Weighted average shares and units:	
Basic	x,xxx,xxx
Diluted	x,xxx,xxx

Note 1 - For practical purposes, some companies begin the reconciliation with income from continuing operations. This practice eliminates the need to provide certain adjustments for discontinued operations, extraordinary items, cumulative effect of accounting changes, and minority interests. The above format attempts to display all the potential adjustments that may be necessary in the calculation of basic and diluted FFO.

Note 2 - Section III.E., Gains and Losses on Property Sales, of the White Paper provides guidance on gains/losses from sales of other real estate and securities. This section states, in part:

The prohibition against the inclusion of gains or losses on property sales in FFO was not meant to address this kind of activity, but rather the gain or loss on previously depreciated operating properties.

The White Paper allows companies to choose whether to include such gains or losses from the sale of securities or land in FFO:

> Those REITs that choose to include such gains or losses on sales of securities or undepreciated land in their FFO should disclose the amount of such gains or losses for each applicable reporting period. Those that do not should address the amount of such gains or losses in their reconciliation of net income to FFO.

Note 3 - "Adjustments for minority interests - consolidated affiliates" includes all adjustments to eliminate the minority interests' share of adjustments to convert net income to FFO. "Adjustments for unconsolidated affiliates" includes all adjustments to convert the company's share of net income from unconsolidated affiliates to FFO.

II. Summary of Capital Expenditures

The FFO White Paper describes certain capital expenditures that are known to be of particular interest with respect to certain property types. These include, but are not limited to, tenant improvements, tenant allowances, and leasing commissions for office, retail, and industrial properties, and floor coverings and appliances for apartment properties. Other capital expenditures may be of particular interest regardless of the property type. These include, but are not limited to, corporate/administrative items, equipment replacement, capital maintenance, expansions, major renovations, and acquisitions.

Some capital expenditures of particular interest may be similarly grouped regardless of the property type. For example, the industry utilizes the nomenclature revenue enhancing vs. non-revenue enhancing capital expenditures, or acquisition vs. recurring capital expenditures. The Council recommends that, if these terms are used, each company disclose how they are defined.

The following outlines the information to be included in the disclosure:

- Company definitions of terms used to categorize capital expenditures, such as revenue enhancing and non-revenue enhancing capital expenditures.

- Units of measurement (e.g., rentable square feet, units, rooms, sites, beds, etc.) in period:
  - Total in portfolio
  - New tenants
  - Renewal tenants

The following types of expenditures should be provided in the aggregate ($) and per unit of measurement for both new and renewal tenants.

New tenants:
- Tenant improvements and tenant allowances
- Leasing commissions

Renewal tenants:
- Tenant improvements and tenant allowances
- Leasing commissions

The following types of expenditures should be provided in the aggregate and/or per unit of measurement (rentable square feet, units, rooms, etc.).

Corporate/administrative items:
- Company office renovations, furniture, fixtures, equipment, computers, etc

Existing properties:
- Equipment
- Capital Maintenance
- Building renovations
- Rentable square feet, units, rooms, etc.

Development properties:
- Building expansions
- Rentable square feet, units, rooms, etc.

- Building renovations
- Rentable square feet, units, rooms, etc.

Acquisitions:
- Investment (total cost)
- Rentable square feet, units, rooms, etc.

III. Other Information

For each period presented, the following may be used to develop stabilized cash flow/valuation metrics (i.e., Adjusted Funds from Operations (AFFO), Cash or Funds Available for Distribution (CAD/FAD)):

- Straight-line rents in excess of (less than) contract rents......................... $ xx,xxx
- Amortization of deferred financing costs.. $ xx,xxx
- Amortization of stock compensation... $ xx,xxx
- Deferred taxes... $ xx,xxx
- Deferred contingent rents... $ xx,xxx
- Gains/(losses) on sales of securities or property included in FFO .... $ xx,xxx
- Other significant unusual and/or non-cash items.................................... $ xx,xxx

Appendix

The following are excerpts from the White Paper related to disclosures for:

1. FFO/GAAP net income reconciliation
2. Capital Expenditures - Tenant improvements/allowances, leasing commissions, expansions, major renovations, acquisitions, etc.
3. Straight-Line Rents

1. FFO/GAAP net income reconciliation:

The format for the statement of FFO should reconcile to net income from the GAAP statement of operations and include a line-item breakdown of each of the adjustments being used in the calculation of FFO. The reconciliation should be sufficiently detailed to provide readers with a clear understanding of the material differences between GAAP net income and FFO.

In addition to depreciation of real estate, examples of important items that should be considered for inclusion in the reconciliation itemized both for wholly owned entities and partially owned entities, when applicable, include the following:

-- separate itemized listing of each of the following: amortization or depreciation of tenant allowances, tenant improvements, or capitalized leasing costs;

-- adjustments for extraordinary items, results of discontinued operations and cumulative effects of accounting changes - all as defined by GAAP;

-- gains or losses on asset dispositions, to the extent not included in both net income and FFO; and

-- distributions to minority interests, if applicable.

2. Capital Expenditures:

More detailed disclosures regarding capital spending and certain other items would allow REIT financial statement users who wish to estimate Funds (Cash) Available for Distribution to make the adjustments to reported FFO that they consider useful to investors for that purpose. When applicable, this disclosure should reflect the pro rata share of such expenditures by consolidated and unconsolidated entities in which the REIT holds a direct or indirect interest.

NAREIT encourages member firms to provide supplemental disclosure that provides useful insights into material capital expenditures. The total of capital expenditures should be broken down between amounts being spent on corporate items, existing properties, development of new properties, and acquisitions. The nature of the expenditures should be characterized as thoroughly as is practical. Aggregate, rather than property-by-property, totals should be provided, but REITs owning more than one property type should disclose the following information separately for each type of property.

Items that are known to be of particular interest to readers include the following that generally apply to retail, office, and industrial properties:

-- separate itemized listing of expenditures on tenant improvements or allowances, both in the aggregate and per square foot, separated into expenditures on new and renewal tenants;

-- expenditures on other capitalized leasing costs, including leasing commissions, both in the aggregate and per square foot, and separated by new and renewal tenants; and

-- expenditures on expansions and major renovations.

Items generally considered to be of particular interest with respect to apartment properties include the following, to the extent that they are capitalized:

-- expenditures on floor covering, both in the aggregate and per unit owned during the period, and per unit improved;

-- expenditures on appliances, both in the aggregate and per unit owned during the period, and per unit improved; and

-- expenditures on exterior preparation and painting, both in the aggregate and per unit owned during the period, and per unit improved.

3. Straight-Line Rents:

Depending on individual circumstances, GAAP reporting may or may not require "straight lining" of rents in the calculation of net income. In order to provide an opportunity for consistent analysis of operating results among REITs, NAREIT encourages those reporting FFO to make supplemental disclosure of the non-cash effect of straight line rents, if any, affecting their results for each period.