

# Survey Results on SEC Pro Rata Elimination

## Survey Says: More Disclosure = Greater Transparency

- **We Conducted a Survey of Both Investors and REITs** — In light of the SEC’s new guidelines to eliminate pro rata financial statements and other disclosure to take effect this earnings season (see our detailed note on the topic [here](#)), we surveyed investors and REIT management teams last week looking for their views on the change. Results showed that both groups overwhelmingly disagree with the SEC’s new stance. It’s clear through the responses that investors use and value this information, and the change will impact the supplemental disclosure of a large number of REITs. While most investors and many REITs do not intend to take direct action with the SEC on this issue, they see industry reps like NAREIT, auditors and us being able to represent their views. As such, we hope these survey results act as a conduit through which the SEC can hear opinions of financial statement users. The surveys had a good response rate with ~80 investors and ~60 corporates.
- **Impact and Relevance** — Over 90% of investors say that pro rata financial statements and other pro rata disclosure is important to their analysis of REITs and is used often. They also say they use full pro rata statements in their models for the REITs that provide them. 42% of REIT respondents publish full pro rata financial statements, consistent with the 38% who claim that the SEC’s decision would be either “very” or “meaningfully” impactful to their supplemental disclosure. 36% of REITs say it will not impact them at all, reflective of those that have no JVs or funds.
- **Agreement and Action, A Stark Contrast** — Investors and REITs overwhelmingly disagree with the SEC’s new guidelines to eliminate pro rata disclosure. Notably, more investors disagree (at 97%) than do REITs (at 92%). What this tells us is that generally regardless of whether investors use the data or REITs provide the data, they disagree with the decision to restrict the disclosure. However, we are surprised by how few investors (85%) and REITs (68%) intend to take action to try to change the SEC’s decision. Our sense is that most believe action *should* be taken, but that NAREIT and the auditors should represent them and take action on this issue.
- **Our View** — As we wrote in our [“Mysterious Ways”](#) note a week ago, we disagree with the elimination of this info as we see pro rata disclosure as crucial, allowing financial statement users greater transparency into REIT performance (especially those with JVs / funds). We believe that the SEC, with a primary mission to “protect investors,” fundamentally promotes transparency as well – which is why the decision was so surprising and confusing to us. Providing the components to calculate pro rata is a reasonable solution (92% of investors agree), and a better alternative than eliminating the info altogether. But we also see the point that this raises the level of “complexity” in analyzing REITs – something we are trying to avoid in an effort to attract more “generalist” investors to the space post the GICS change. In this regard, keeping the full pro rata disclosure would be ideal.
- **Survey Results & Comments Herein** — See the results and our analysis of the survey herein (p. 2-6), as well as direct comments from investors and REITs (p. 7).

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## Question 1: Impact

**Q (Investors):** How important to your analysis of REITs is the disclosure of pro rata financial statements and other pro rata numbers and metrics (scale of 1 to 5)?

**A:** Over 90% say it's important: 5 – It's important to my analysis (75%) or 4 – I use it often (16%)

**Q (REITs):** How much does the SEC's new stance eliminating pro rata disclosure impact your supplemental disclosure (scale of 1 to 5)?

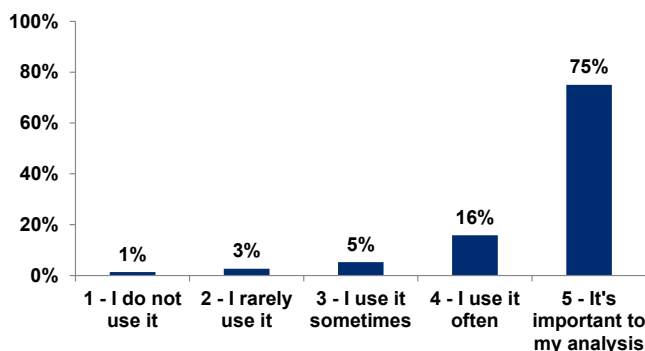
**A:** Mixed

**Investors:** Among investors – the financial statement users – the response was overwhelmingly in the camp that pro rata financial statements, numbers and metrics are an important part of their analysis of REITs (see Figure 1). A majority (at 75%) say it's important to their analysis while 16% use it often. Another 5% use it sometimes while only 4% of respondents don't or rarely use pro rata disclosure in REIT supplementals.

**REITs:** The distribution of REIT responses to the question of whether or not the SEC's change impacts their supplemental disclosure looked more like a barbell (see Figure 2). 36% of respondents claim it will have no impact at all – these are likely the REITs that have little to no assets held in JVs or funds. But on the other end of the spectrum, 38% of respondents claim that the change will be "very" or "significantly" impactful to the supplemental disclosure. These are likely the REITs that provide full pro rata financial statements (see Question 2). The remaining 26% claim they will have some modest impact – likely those REITs that disclose some pro rata information but not full pro rata financial statements. Notably, these proportions are similar to our experience with the disclosure of the ~80 REITs in our coverage universe. Some REITs do not have any JVs or funds, while among those that do, some provide full pro rata statements while others provide more limited pro rata information.

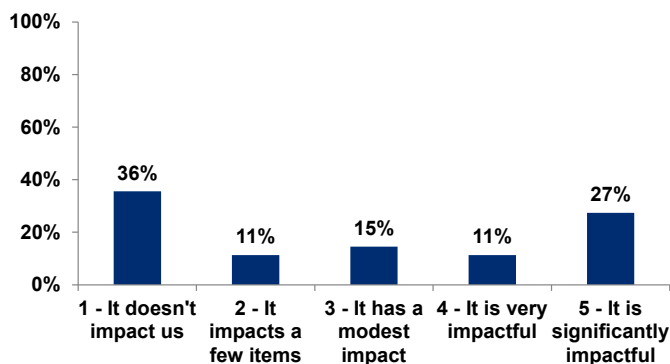
**Overall, the decision appears to impact mostly ALL investors who look at REITs, and about half the corporates.** Given the SEC's primary mission to "protect investors," we think all pro rata information should stay in.

Figure 1. **Investors:** How important to your analysis of REITs is the disclosure of pro rata financial statements and other pro rata numbers and metrics?



Source: Citi Research

Figure 2. **REITs:** How much does the SEC's new stance eliminating pro rata disclosure impact your supplemental disclosure?



Source: Citi Research

## Question 2: Relevance

**Q (Investors):** For the REITs that publish them, do you use the full pro rata share financial statements (income statement and balance sheet) in your modeling and valuation analysis?

**A: Yes (91%)**

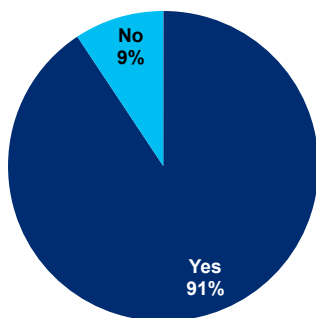
**Q (REITs):** Do you publish full pro rata financial statements (income statement and balance sheet) in your supplement?

**A: 42% Yes / 58% No**

**Investors:** While not all REITs provide these statements, the overwhelming majority of investor respondents to the survey (at 91%) do use the pro rata financial statements when they are provided – see Figure 3. These statements are used not only for financial statement analysis and more accurate forecasting, but for more precise Net Asset Value (NAV) calculations. As REIT stock performance has historically tended to correlate with NAV over time, precise calculations are vital.

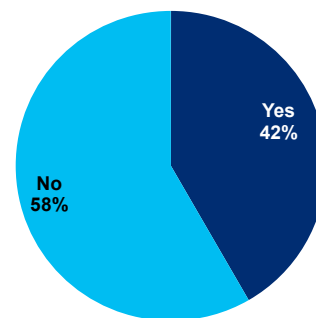
**REITs:** Consistent with the REITs' answers to Question 1 about the impact to supplemental disclosure, 42% of REIT respondents DO publish full pro rata financial statements (vs. the 38% who claimed in Question 1 that it was either “very” or “meaningfully” impactful). See Figure 4. 58% of respondents DO NOT publish full statements, although we know that some proportion of those do provide some level of pro rata disclosure, including pro rata unconsolidated JV statements.

Figure 3. **Investors:** Do you use full pro rata share financial statements in your modeling and valuation analysis?



Source: Citi Research

Figure 4. **REITs:** Do you publish full pro rata financial statements in your supplement?



Source: Citi Research

### Question 3: Agreement

**Q: Do you agree or disagree with the SEC’s new guidelines to eliminate pro rata disclosure on the basis that it combines GAAP and non-GAAP numbers?**

***A (Investors): Disagree (97%)***

***A (REITs): Disagree (92%)***

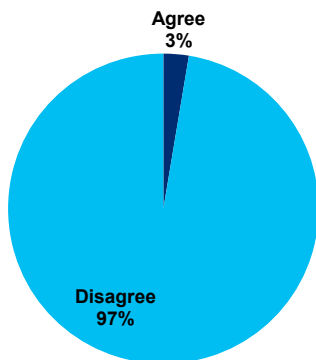
There was no confusion about the consensus view on this one – both investors and REITs overwhelmingly disagree with the SEC’s new guidelines to eliminate pro rata disclosure (see Figures 5 and 6). Notably, more investors disagree (at 97%) than do REITs (at 92%).

**Investors:** What this tells us – when taken in context with the results from Questions 1 and 2 – is that regardless of whether or not an investor uses the data or it’s important to their analysis, 97% disagree with the SEC’s stance on eliminating pro rata disclosure from the supplementals. It’s our view that the SEC believes that this change needs to be made to protect investors by eliminating confusion over GAAP vs. non-GAAP statements. **These results tell us that institutional investors are not confused, and understand the distinction.**

We acknowledge that these survey results are not representative of retail investors, and in that regard the issue over the “prominence” of disclosure comes into play. But within the REIT sector we’ve not seen any instances where pro rata statements are displayed more prominently than GAAP statements, or where the labeling of such statements is unclear and causes confusion.

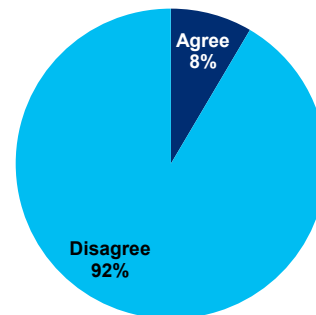
**REITs:** Similarly, it’s telling to us that while 58% of REITs do not provide full pro rata financial statements and 36% say this change does not impact them at all (meaning they likely have no JVs or funds), a majority (at 92%) of the REIT respondents disagree with the SEC’s decision to eliminate this disclosure.

Figure 5. **Investors:** Do you agree or disagree with the SEC’s new guidelines to eliminate pro rata disclosure?



Source: Citi Research

Figure 6. **REITs:** Do you agree or disagree with the SEC’s new guidelines to eliminate pro rata disclosure?



Source: Citi Research

## Question 4: Solution

**Q:** If the disclosure of pro rata numbers and metrics is no longer permitted, do you believe that providing the components of the pro rata calculations on separate pages from the GAAP numbers is an appropriate solution?

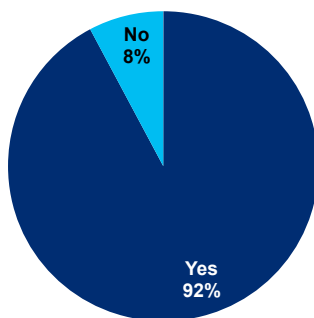
**A (Investors):** Yes (92%)

**A (REITs):** Yes (75%)

**Investors:** A majority of investors (at 92%) believe that if pro rata disclosure is no longer permitted, then providing the components of the calculations would be an acceptable solution – see Figure 7. We agree with this view. Faced with not receiving the information at all – as long as we have the information to do the math ourselves, we’re fine. Of course, we’d like for the REITs to be able to provide the pro rata information so that we don’t have to go the extra step, but we’ll live. However, we also point out that the more work investors have to do to get to the right answer, the less transparent the disclosure – still a step backwards in our view. The pro rata disclosure was always for the benefit of investors, to reduce the complexity of the REIT business model. As such, in a post-GICS change world, greater complexity doesn’t help REITs attract more “generalist” investors to the space.

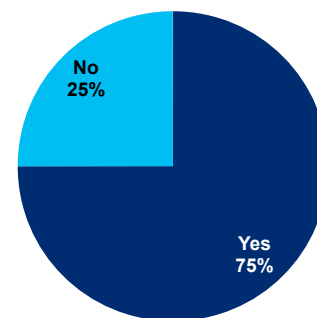
**REITs:** While still a majority, a lower percentage (at 75%) of REITs believe that providing the components on separate pages is a good solution – see Figure 8. Given that 92% of the REIT respondents disagree with the SEC’s guidelines (Question 3) and some intend to take action (Question 5), we think the lower % on this question is reflective of those that still firmly believe that REITs should be able to provide the full statements on a pro rata basis and anything else is unacceptable.

Figure 7. **Investors:** If the disclosure of pro rata numbers and metrics is no longer permitted, do you believe that providing the components of the pro rata calculations on separate pages from the GAAP numbers is an appropriate solution?



Source: Citi Research

Figure 8. **REITs:** If the disclosure of pro rata numbers and metrics is no longer permitted, do you believe that providing the components of the pro rata calculations on separate pages from the GAAP numbers is an appropriate solution?



Source: Citi Research

## Question 5: Action

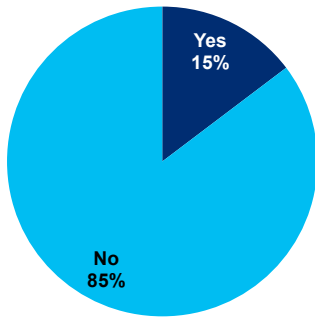
**Q: Do you intend to take action to try to change the SEC's decision?**

**A (Investors): No (85%)**

**A (REITs): No (68%)**

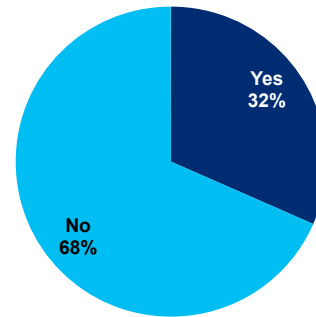
We were initially surprised by these results – how few investors (15%) and REITs (32%) intend to take action to try to change the SEC's decision (see Figures 9 and 10). However, our sense from the comments (see the next few pages), as well as our recent conversations with both investors and REITs on this topic, is that most believe that action should be taken on this issue. This is also evident in the results in Question 3 showing that most disagree with the SEC's decision. But the results to Question 6 likely reflect that many REITs and most investors believe that NAREIT and the auditors should and will represent them and take action on this issue.

Figure 9. Investors: Do you intend to take action to try to change the SEC's decision?



Source: Citi Research

Figure 10. REITs: Do you intend to take action to try to change the SEC's decision?



Source: Citi Research

## Question 6: Additional Comments

In addition to the 5 questions above, we asked both groups to provide any additional comments they might have. Below we've included many of those comments. We've left out some of the more inflammatory ones, of which there were a few – it's clear that the removal of disclosure is a topic about which many in the REIT sector are passionate. Notably, we did not receive any comments in favor of the SEC's decision to eliminate pro rata disclosure or financial statements.

### Investor Comments

- “Prefer requirement to show each – GAAP only and consolidated non-GAAP statements, as well as all components in line-by-line format to reconcile GAAP to non-GAAP – reporting needs to be consistent across companies.”
- “This is very important for bond investors given the JV carve-out for bond unencumbered asset test.”
- “Terrible move – understand focus on GAAP and comparable figures but pro rata #s are key to valuing many of our companies appropriately. Think it impacts the "complexity discount" if it stays in place – and thus impacts value creating opportunities for companies – hope to see it overturned and that the companies supply more than enough data to arrive at the pro rata #s. Please help with this endeavor as one of the REIT space's top thinkers.”
- “Why eliminate more disclosure?”
- “Not only is this ruling unhelpful for investors, but also I honestly can't think of a single way in which this ruling would be helpful for investors.”
- “NAREIT's accounting committee should put this item at the top of their agenda!”
- “The disclosure of pro-rata metrics is essential to building NAV models for REITs. My job will be more difficult and tedious without such disclosures.”
- “More information is better than none.”
- “It doesn't make sense why they are trying to limit disclosure.”

### REIT Comments

- “While providing the components will help, it is not the best answer. We should be able to mark these as unaudited and for informational purposes only and be able to provide the same info we have been.”
- “Action by the investment community, as the end users of our disclosures, would be more compelling to the SEC than the opinions of registrants.”
- “We believe that the current disclosure is more effective than the option provided in #4 above.”
- “We have reached out to audit firm and NAREIT officials in support of their efforts to communicate with the SEC. We do not plan direct contact.”
- “We oppose the SEC's bent on limited use of non-GAAP data, since GAAP information is inadequate to alone interpret performance and because we believe analysts and investors wish to see the non-GAAP numbers which strongly complement the GAAP financials.”

- “Though this particular example does not impact us, the SEC’s recent comments on non-GAAP measure disclosures may impact us. We supplementally provide non-GAAP measures in order to provide disclosures that investors and analysts find informative. I think the SEC should not undo disclosures that have been commonly accepted in an industry and that investors/analysts seek out.”
- “If the SEC has the goal of increasing transparency and communicating risks to investors, eliminating these metrics will not accomplish this goal.”
- “Simply put, the SEC got this one wrong. Shareholders are materially worse off without this disclosure in understanding true economic exposure for subject companies.”
- “These changes will hamper an investor’s ability to value a company with minority JV interests.”
- “The decision to allow pro-rata calculations on separate pages is far from optimal but the best alternative that exists.”
- “Regarding #5 we would work with NAREIT to take action with the SEC to change disclosure limitations. We believe pro rata information is more relevant information for our investors.”
- “The pro-rata information is critical for the investment community to understand the true earnings and cash flow generation of the REIT. It needs to be included in some way, shape or form in a quarterly supplemental.”
- “...counterproductive to transparency from the REIT perspective and seems to have been released with one of the shortest potential “fuses” I can remember.”
- “The SEC is way off the mark on this one and has created yet another unnecessary complexity for the investing public to work through.”



## Appendix A-1

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