AMEFIBRA'S FFO

Guidelines for the voluntary adoption of a financial metric for the determination of organic performance: AMEFIBRA FFO

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I. Purpose:

The purpose of this document is to promote a guide and criteria for the determination of a financial metric focused in the organic performance of real estate entities, referred to as AMEFIBRA FFO and enable its voluntary, standard and generalized incorporation in the financial reporting practice of these entities.

AMEFIBRA FFO is conceptualized as a supplementary financial metric in addition to those the accounting itself provides. It is in the use of the overall set of metrics, and not in substitution of one over the other, that AMEFIBRA considers greater clarity and understanding is achieved in assessing the organic performance of real estate entities managing investment property activities. For the same reason attempting to compare the operational performance of different real estate entities through any one single metric would be insufficient.

AMEFIBRA considers that achieving such purpose is of merited interest to facilitate and improve the comprehension of results reported in the financial reports of its members within the overall public investing community, and also to facilitate comparing the organic performance of the different entities.

II. Background:

With a view to the above-mentioned objectives is that AMEFIBRA developed this document based mainly on the contributions of its members, its shared interests and a common effort to achieve best practices in the usage of the supplementary financial information that the sector produces. This is not unlike the objectives and practices that have been similarly adopted in the international real estate practice through the guides and methodologies fostered by its sector coordination bodies.

In our case, as in other markets, the domestic and international investing community effectively expects real estate entities and their financial reports to contribute standardized information consistent with respect to the use of financial metrics as well as quality in the disclosure of calculations and the components that were applied for their determination. With the same motivation, it is not uncommon to hear from different agents of the investing community the request to also see in Mexico a common practice in the use of financial metrics supplementary to those derived from financial statements.

It is worth to mention the starting points of this AMEFIBRA effort as they comprise background pillars of the work developed in this document:

(i) while AMEFIBRA is enabling and coalescing this effort, the conviction of establishing a common practice takes origin in its member base which nurtured the initiative constituting dedicated work teams that jointly with AMEFIBRA'S advisors, derived the guidelines and recommendations established herein.

(ii) the guidance outlined in this document conforms a suggested practice for the consideration by the managers of each real estate entity in the form of "best practices" but ultimately it's in the management of each entity where the responsibility and authority to enforce it resides within its framework regulating supplementary financial information activities. These guidelines are complementary to those deriving from the financial information procured by the accounting standards and regulatory requirements and do not seek to establish an mandatory directive within the financial reports that are prepared by real estate entities.

II. Background:

AMEFIBRA acknowledges that precisely these managers decide adopting the guidelines set forth in this document in which case, AMEFIBRA affirmatively calls for the determination of AMEFIBRA FFO to be calculated and disclosed for comparison purposes per the guidelines contained herein. Subsequently, from this point if applicable and deemed appropriate, entity specific adjustments to the AMEFIBRA FFO may be accommodated provided they are clearly shown in the financial report, and the reasoning of each of these subsequent adjustments is discussed.. The resulting subsequent financial metric must be designated with a different name, presenting it as "AMEFIBRA FFO Adjusted By", followed by the name or ID of the entity that performs such subsequent adjustments.

It is important to mention that the central purpose of AMEFIBRA FFO is the gauging the organic performance of the reporting entity and that the use of this metric does not focus in the generation of cash of the entity nor its capacity to perform distributions.

With the objective to arrive to additional financial metrics focused on the generation of recurrent flows, it is common that different real estate entities develop additional financial metrics that derive from an organic performance metric and that are normally attached with the "AFFO" designator. However, going beyond an approach focused on recurrent flows to pursue a metric that attempts to assess the distribution capacity of an entity is unlikely within reach. AMEFIBRA considers that whatever that metric may be, the actual distribution activity takes into account specific economic environment and capital structure considerations, the business strategy and the risk profile adopted in a specific business model, all elements that are the domain of the management of each entity.

Noting the international and local real estate practice incorporates the usage of different supplementary financial metrics, in this first document AMEFIBRA focuses only in one of them, the AMEFIBRA FFO.

III. Guidelines for the determination of the metric AMEFIBRA FFO:

The specific purpose of this metric, as in other markets where the "FFO" designator is used is with respect to the profitability derived from management of investment properties in a broad organic frame of performance. The term "investment properties" it is used in the sense international financial reporting standards, "IFRS" use it, that is, real estate that is developed and operated with the intention of earning a return on the investment either through rental income activities, the future resale of the property, or both. This term is used herein to distinguish it from real estate entities that develop, acquire and sell properties mainly to generate transactional profit in the activity of development/ purchase and sale. The AMEFIBRA FFO metric is not intended to address the organic performance of this type of entities.

The AMEFIBRA FFO metric is supplementary to other measures that the accounting provides as it focuses on the performance of the lease activities within the broad frame of the entity that manages it, that is, also takes into account among others the costs of its management structure (whether internal or external), its sources of funding (including funding costs) and if applicable fiscal costs. This better illustrates the term "organic performance" referred to herein. AMEFIBRA FFO parts from the comprehensive income of the IFRS normativity segregating the different valuation and other effects hereinafter described, and that are not part of the organic performance of the lease activity referred to in this document.

The specific reference made t to the lease activities is the distinct focus the AMEFIBRA FFO metric has in gauging the integral performance component derived from managing lease activities, and exclude the performance component derived from trading investment property.

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III. Guidelines for the determination of the metric AMEFIBRA FFO:

Attending to best practices, AMEFIBRA FFO takes as starting point a well-known and standard profitability measure that is common for all issuers, is also reasonably determined under the IFRS norms and may be audited. This starting point is no other than the IFRS consolidated comprehensive income of the real estate entity. From this profitability measure a series of adjustments are performed that seek to eliminate accounting applications that are not directly related to the lease activities organically integrated in the real estate entity where such activity is performed. Hence, AMEFIBRA FFO seeks to adjust the IFRS consolidated comprehensive income resulting from a general normativity to reflect in its final result only those elements that have a direct association with an organization intrinsic activities of leasing investment property. Therefore AMEFIBRA discourages its members to perform supplementary adjustments within the "FFO" metric designator that are not directly related with representing the organic operation of the lease activity of investment properties.

In addition to the conceptual criteria of AMEFIBRA FFO already mentioned, it is also noted that the metric is not delimited by a recurrence or frequency criteria to dismiss income or expenses derived from the organic lease activity. To illustrate this point, examples are expenses derived from natural events (floods, earthquakes, hurricanes) or financial expenses derived from financings, which, irrespective of their recurrence must be part of AMEFIBRA FFO.

Once the framework of the AMEFIBRA FFO metric has been discussed, below herein is presented the mechanics for its determination and reconciliation to the IFRS consolidated comprehensive income:

IFRS profit/(loss) for the reporting period adjusted for the following items:		
(i)	Unrealized changes (gains or losses) in the fair value of investment properties held for investment.	-/+
(ii)	As applicable, depreciation of real estate assets classified as investment properties pursuant to IAS40	+
(iii)	Amortization of capitalized leasing costs (including brokerage fees) and capitalized tenant allowances treated as capital improvements. Amortization of tenant allowances and landlord´s work spent for the fit out of tenant improvements and amortized as a reduction of revenues. For abundance of clarification, pre-operating investment expensed in development properties are considered landlord's work spent for the fit out of the property. It is suggested that an individual disclosure is considered for each of these items these items.	+
(iv)	Impairment losses or (reversals) recognized on real estate assets (land and depreciable real estate) excluding properties used solely for administrative purposes	+/-
(v)	Realized (gains) or losses from sales on real estate (investment and owner occupied) included gains or losses from discontinued operations	-/+
(vi)	Transaction costs expensed as a result of the purchase of a property being accounted for as a business combination	+
(vii)	Tax on profits or losses on disposals of properties, deferred taxes derived from any of the other AMEFIBRA FFO adjustments	+
(viii)	Unrealized foreign currency (gains) or losses on monetary assets and liabilities. Includes, if applicable, the unrealized conversion effects of the functional currency to the reporting (unrealized currency translation adjustments, including UDIs)	-/+
(ix)	Unrealized changes (gains) or losses in the fair value mark to market of derivative	-/+
(x)	Unrealized changes (gains) or losses in the fair value of financial instruments, either classified as debt or equity borrowings, as applicable.	-/+

III. Guidelines for the determination of the metric AMEFIBRA FFO:

(xi)	Impairment of goodwill or impairment and amortization of intangibles (includes right-of-use assets)	+
(xii)	Dedicated internal leasing & development costs	+
(xiii)	Provisions on executive compensation (including "promotes", incentive fees and carried interests) specifically paid in CBFI's	+
(xiv)	JVs and Non-controlling interests in respect of all items on this list. As applicable, minority interests with respect to all the previous items. For disclosure purposes, it may be discretionally considered to open this adjustment to reveal its main components.	+/-

Important to mention that the adjustments of this AMEFIBRA FFO determination mechanic apply to the extent the items referred to in (i) to (xiv) are effectively components of the IFRS consolidated comprehensive income that is subject to such adjustments.

Also, important to note than when performing and revealing the adjustments required in the determination of the AMEFIBRA FFO, an appropriate level of materiality is exercised consistent with the IFRS criteria for materiality.

IV. Additional Methodological Comments

i) Refers to the non-realized accounting gains or losses resulting from changes in the determination of the reasonable value of investment properties. The consideration for this adjustment is based on that AMEFIBRA FFO focuses on the productivity that derives from the lease activity of an investment property and therefore excludes changes in the fair value of investment property.

ii) Refers to the accounting depreciation solely related to the lease activity of investment properties. For abundance and clarity, depreciation of assets or equipment not directly related to a lease agreement or a investment property is not included in this adjustment. Examples include properties for exclusive use for the entity's management, central office equipment, general equipment, computer and transportation equipment not directly related to the lease of investment properties.

If applicable, the depreciation that might derive from improvements to the property or due to equipment specifically acquired to cause the occupation of an investment property, is effectively included in this adjustment. Examples of the above are the so called "tenant improvements" or personal property and equipment that an investment property requires for lodging.

iii) Similarly, to the extent that in causing the occupation of the investment property has derived expenses or investments that are being amortized within comprehensive income of the entity's financial statements, such amortization is effectively included in this adjustment. The main items that comprise this adjustment and for which AMEFIBRA FFO suggests an individual disclosure consideration are:

a) Brokerage commissions
b) Awards to tenants for lease
c) Improvements to the property to incentivize leases
d) Pre-operational expenses of real estate assets

iv) Refers to losses or reversions for deterioration in the value of investment properties excluding those related to properties exclusively occupied by the owner and dedicated to the owner's administrative services. As in point (i) above, the reason for this adjustment is based in that the AMEFIBRA FFO metric is focused on the productivity that derives from the lease activity of an investment property.

IV. Additional Methodological Comments

v) Refers to gains or losses resulting from the trading real estate assets (investment property or owner occupied real estate), including gains or losses resulting from discontinuing operations. As in point (i) above, this adjustment is based on the AMEFIBRA FFO metric focuses in productivity that derives from the lease activity of an investment property and therefore segregate that which derives from profits or losses resulting from trading real estate assets.

vi) Refers to, as applicable adding transactional costs for the acquisition of assets performed under the modality of business combinations (which transactional cost is normally expensed as incurred) . This adjustment has the purpose of maintaining consistency with respect to the asset acquisition costs made e modality of purchase of assets (which transactional costs are normally capitalized within the total cost of the asset being acquired).

vii) Refers to profit tax due to the disposition of investment properties as well as taxes associated with any other adjustment involved in the determination of the AMEFIBRA FFO. The reason being that, upon adjusting for gains or losses related to the disposition of investment properties, naturally it follows that it also an adjustment has to be done correspondingly with respect to sales tax that might result from the same act. This same reasoning applies with respect to profit taxes related to any of the adjustments to determine the AMEFIBRA FFO.

viii) Refers to the unrealized gains losses in the value of monetary assets and liabilities resulting from fluctuations in the exchange rate. While, this adjustment is not directly included in international practices for the determination of FFO that are not exposes to volatility of their exchange rate, in our case we believe the adjustment is necessary to reflect in the organic performance metric only the effect of the exchange rate effectively realized and exclude the unrealized effect that for measurement and comparison purposes is not considered to correspond to the assessment of the organic performance of the period.

ix) Refers to non-realized gains or losses in the reasonable value of hedging instruments consistent with the consideration in the previous point.

x) Refers to non-realized profits or losses in the reasonable value of financial instruments (includes debt and equity related instruments) that, as applicable, derive from accounting guidelines with respect to the fair value determination of these instruments in the financial statements of the real estate entity.

xi) Refers to the loss for the deterioration in the value of goodwill resulting from transactions that qualify as business combination and the amortization of other intangible assets.

xii) Refers to internal costs directly related to the origination and lease renewals team (internal brokerage) and civil works teams that correspondingly might be reasonably and directly attributed to executed lease agreements and to investment property works and that otherwise would be capitalized if incurred through third parties. This adjustment pursues the comparability between real estate entities that have dedicated internal lease and civil works teams and those who outsource it.

xiii) Refers to the impact of compensation that is payable in CBFIs and consequently to its dilutive implications. This adjustment seeks to address, for comparison purposes, the double effect these compensation arrangements have on cost provisions and number of CBFIs. Variable compensation that is payable as monetary incentive, does not qualify for this adjustment.

xiv) Refers to excluding the minority interest effects related to any of the AMEFIBRA FFO adjustments outlined above. The organic performance the metric focuses on being the one that corresponds to ownership of the real estate entity that reports it, therefore, if applicable, the necessary adjustments are be made with respect to minority interests for all items of adjustment of the AMEFIBRA FFO mentioned above. For disclosure purposes, the main components of this adjustment may be revealed on a discretionary basis.

Additionally, attending the common interest of the AMEFIBRA members in the understanding of this financial metric and also on the basis of the materiality principle, the AMEFIBRA FFO may be presented revealing and excluding from the IFRS comprehensive income the debt costs arising from entering or terminating debt.

V. Implementation:

As mentioned above, the inclusion of the AMEFIBRA FFO metric in the supplements of the financial reports of real estate entities is not mandatory and is subject to the consideration of its management. AMEFIBRA reiterates the merit of the standardized and generalized use of the AMEFIBRA FFO and adopting it as a best practice.