

Hearing the Market

**Dialogue with Sell-Side to
improve FIBRAs disclosure**

AMERFIBRA CFO's Committee engaged with six sell-side analysts to help improving disclosure standards. The sell-side analysts worked together and shared their consensus to the Committee showing what should be standardized among the FIBRAs and their concerns.

We are thankful with the sell-side analysts' participation and the positive outcome the FIBRAs could have because of the potential improvements.

Based on reports published by the sell side, we are presenting each recommendation with an example to help with disclosure, under the understanding that this is not a mandatory requirement for the sector.

1. Rent growth on rollovers and Same Store disclosure.

The disclosure should include a measure of the leased area signed during the quarter and some color on the regions in which it was leased, this could provide a better idea of the performance and understand better the trends in the organic growth. Rent growth is an indicator of pricing ability and revenues trends. Some examples of best practices that were mentioned during the session include disclosing rent growth on rollovers on a nominal basis, metrics that gives them economic value of a rent, and differences between in-place and market rents.

What is intended? To show the economic value of the new rents executed, not under a letter of intent or negotiation, as a comparison to the previous economic value per sqft or m2 in the same period. Economic value should be understood as all the gross rent affected by the concessions, fixed increases (not CPI or inflation based) and any other metric that would impact the real value per sqft or m2 of the lease agreement.

Example from Scotiabank's report:

"In our example, we assume the issuer is reporting SS rent growth on 1.0M sf at 3.0% to US\$5.00/sf and that the entire portfolio has a tenor of four years, with a retention rate of 100%. But the problem is what is not disclosed: the tenants for the entire portfolio receive one month for free in their space, and thus the issuer will not receive ~8% (one-twelfth) of the revenues corresponding to the agreed price (USD/sf) in Year 1. And there is more: 25% of leased GLA (we will call this the "underperformer" portfolio) is updating its lease with a step-up structure, and in our example, that implies a discount because that tenant was paying just prior to renovation US\$5.00/sf and in Year 1 it will be paying US\$4.50/sf. Add the concession of one month rent-free, and the effective lease paid in Year 1 is US\$4.13. Solving for the "overperformer," that portfolio will earn US\$5.29/sf, including the effect of renting one month free in Year 1, or US\$5.77/sf without that adjustment. In Year 2, the tenant of the underperformer portfolio will pay US\$5.00/sf (the step-up), while the tenant of the overperformer portfolio will pay 3% more of the lease agreed in Year 1. All tenants will pay for 12 months in Year 2. For the rest of the two years, the tenant leases will grow by 3% each year."

2. Improve details on acquisition cap rates.

To disclose the components that included in the numerator and denominator. In addition, land to be excluded and provided separately for modeling reasons and to reach a good conclusion. The analyst would like for all the FIBRAs to provide the same information: land separately, net operative income (LTM), occupancy assumptions, all costs related to the transaction, including broker fees or related party fees, and how much is being paid with debt.

As Scotiabank mentioned in its report related to this initiative and regarding this point “To begin with, it is important to understand if an issuer is sharing a cap rate based on its expectation of how the asset might perform once under its control or if the issuer is sharing a cap rate based on the current per-

formance of an asset it just started to control, before any value-enhancing strategies identified in the due diligence, if any.”

Example: FIBRA MTY was referred as an example, please find a press release available in their website.

FIBRA MTY ANNOUNCES THE SUCCESSFUL ACQUISITION OF AN INDUSTRIAL PROPERTY WITH A 15-YEAR LEASE TERM

Monterrey, Nuevo Leon, Mexico – November 19th, 2021 – Fibra Mty (BMV: FMTY14), the first real estate investment trust 100% internally advised and managed, informs the investing public that it has successfully completed the acquisition of an industrial building located in Cienega de Flores, Nuevo Leon. The transaction totaled US\$20.4 million, plus VAT on construction and other taxes and acquisition costs.

The property has a Gross Leasable Area (“GLA”) of 30,194 m² and is 100% leased under a triple net contract (NNN), whereby, the tenant covers operating expenses, insurance, and property taxes in addition to the rent. The lease is denominated in U.S. dollars, with a remaining term of 15 years at the date of acquisition. The tenant is a leading global supplier of partition walls for interior spaces.

Fibra Mty expects that this property will generate an estimated Net Operating Income (“NOI”) of US\$1.63 million during the twelve months following the acquisition.

This transaction was executed in compliance with the applicable provisions of Trust 2157 and other relevant legal dispositions.

Another example discussed with the sell-side:

Numerator: NOI which can be: (i) if vacant, NOI calculated at market rent with 95% occupancy as stabilization or (ii) if occupied adjust NOI to 95% occupancy with current rent or adding market rent for the remaining space to be leased.

Denominator: Total real estate acquisition cost (construction + land), closing costs (legal, notary, transfer tax), future investments (in case building will require additional capital), any fee paid to third party or related party in relation to the acquisition and any costs related to the acquisition.

3. Appraisal values and book asset values.

Disclosure on historical investment value of assets to improve returns comparability and the appraisals metrology to understand what drives current valuations.

Example used in Credit Suisse's report: FIBRA MQ.

Figure 3: FibraMQ 4Q21 supplementary information report

Market / Shopping Center	# of Projects	Investment Type	Additional GLA ('000 sqft)	Investment (US\$e '000s)	Projected NOI Yield ²
2014	3		126	7,301	11.8%
Industrial	3		126	7,301	11.8%
2015	3		92	4,830	11.1%
Industrial	3		92	4,830	11.1%
2016	11		414	17,441	12.3%
Industrial	7		281	13,024	12.3%
Retail	4		133	4,417	12.2%
2017	8		394	19,618	10.1%
Industrial	7		391	18,590	10.2%
Retail	1		3	1,028	8.2%
2018	3		110	5,131	13.5%
Industrial	3		110	5,131	13.5%
2019	3		271	11,954	13.7%
Industrial	2		247	11,342	11.6%
Retail	1		24	611	54.4%
2020	2		255	12,540	11.3%
Industrial	2		255	12,540	11.3%
2021	6		996	58,402	9.0%-11.0%
Industrial	4		963	56,991	9.0%-11.0%
In Progress	4		693	41,372	9.0%- 11.0%
MCMA		Development	510	28,550	9.0%-11.0%
MCMA		Development	225	13,600	9.0%-11.0%
Hermosillo		Expansion	46	2,020	9.0%-11.0%
Monterrey		Development	183	12,822	9.0%-11.0%
Retail	2		33	1,410	11.4%
In Progress/Completed	2		33	1,410	11.4%
Power Center Coacalco		Expansion	10	509	10.3%
Multiplaza del Valle (Guadalajara)		Expansion	23	901	12.0%
Total	39		2,658	137,215	10.7%

Note: Includes original investment and resulting NOI yield. Source: Company data

Alternative: as all FIBRAs are under IFRS balance sheet shows appraised value of the total portfolio, as such each FIBRA could disclose the historic value of the portfolio in lieu of asset by asset or region.

4. A direct-method calculation of FFO/AFFO.

Sell-side would like to see the calculation from revenues and not net income. There is an existing AMEFIBRA FFO calculation that not all issuers report.

Credit Suisse mentioned in its report: "Why: Enhance the ease of understanding of RE-specific metrics for generalists. We understand the rationale for using the indirect method: demonstrating that FFO is consistent with accounting net income. Still, the direct method can explain directly what happened between revenue generation and FFO/AFFO generation. We believe investors would, thus, better understand why NOI/FFO are the correct metrics to assess Fibra's performance."

Example used in Credit Suisse's report: FIBRA Dahnos.

Figure 4: Fibra Danhos 1Q22 report – Earnings detail.

Mexican Pesos	March 31, 2022	March 31, 2021
Base Rent	920,357,566	863,617,641
Credit notes invoiced by COVID-19	(16,694,345)	(67,988,675)
Credit note reserve COVID-19	(135,833)	(99,408,688)
Base Rent (Post-discounts COVID-19)	903,527,388	696,220,278
Overage	37,193,324	27,429,790
Tenant Admission Payments	75,286,001	86,281,661
Parking	83,728,951	38,454,867
Maintenance, operation, advertising and other	202,564,203	177,694,799
Total operating revenues	1,302,299,868	1,026,081,415
Maintenance, operation, advertising and other expenses	177,841,280	118,108,200
Leasing Administration Fee	26,471,205	16,923,580
Property tax	36,654,320	34,668,088
Insurance	11,001,973	9,917,460
Total operating expenses	251,968,778	179,617,325
Net Operating Income (inc. TAP)	1,050,331,090	846,464,090
NOI margin (inc. TAP)	80.7%	82.5%
Net Operating Income (exc. TAP)	975,045,089	760,182,409
NOI margin (exc. TAP)	79.5%	80.9%
Advisory Fee	161,775,732	160,395,317
Administration Expenses	25,361,802	24,408,304
EBITDA (inc. TAP)	863,193,557	661,660,469
EBITDA margin (inc. TAP)	66.3%	64.5%
EBITDA (exc. TAP)	787,907,555	575,378,788
EBITDA margin (exc. TAP)	64.2%	61.2%
Interest income	8,455,758	2,957,473
Interest expense	88,512,312	85,420,307
Exchange rate gain - net	4,944,583	19,212,273
Income taxes from the subsidiary	(10,181,555)	-
Net Income	777,900,030	598,409,908
Exchange rate gain - net	1,251,409	15,110,654
Adjustments to fair value of investment properties - Net	(10,181,555)	-
FFO	786,830,176	583,299,253
Net Tenant Admission Payments	(36,816,472)	(66,655,759)
Net anticipated rents	64,473,191	46,362,655
Net straight-line effect	2,079,673	4,842,982
Net property tax and insurance unaccrued	(145,993,559)	(123,320,893)
Net Advisory and Leasing Admin. Fee	170,414,525	167,878,103
AFFO	840,987,534	612,406,341

Note: Although it is not exactly a direct-method FFO calculation, Danhos' reporting provides visibility from revenues to AFFO on a single page.
Source: Company data, Credit Suisse estimates

5. Disclosure on total fees paid to management and how they are derived.

Breakdown of the fees that are paid to the externally adviser on a quarterly basis in a single table. For internally managed companies, a disclosure of their compensation.

Example: FIBRA Prologis was referred as an example, the information is available in their website in an investor presentation.

Fee Structure

Transparent and Aligned

	Fee Type	Calculation		Payment Frequency	
Operating Fees	Property Management	3% x collected revenues		Monthly	
	Leasing Commission <i>Only when no broker is involved</i>	<i>New leases: 5% x lease value for <5 yrs; 2.5% x lease value for 5-10 yrs; 1.25% x lease value for > 10 yrs</i> <i>Renewals: 50% of new lease schedule</i>		½ at closing ½ at occupancy	
	Construction Fee / Development Fee	4% x property and tenant improvements and construction cost		Project completion	
Administration Fees	Asset Management	0.75% annual x appraised asset value		Quarterly	
	Incentive	Hurdle rate	9%		Annually at IPO anniversary
		High watermark	Yes		
		Fee	10%		
		Currency	100% in CBFIs		
		Lock up	6 months		