Treasury Circular

TC20-02

2 April 2020

AASB 16 *Leases* Subsequent Measurement of Right of Use Assets

AASB 16 *Leases* comes into effect in FY2019-20 which brings leases that were previously recognised as operating expenses on balance sheet as a right of use asset and lease liability. This Circular provides guidance on the subsequent measurement of the right of use assets, which are to be recorded at fair value.

This Circular applies to all NSW public sector agencies, including State Owned Corporations.

Application

This guidance is issued as a Treasurer's Direction under section 9 of the *Public Finance and Audit Act 1983* (the Act) and therefore applies to all entities that are required to prepare general purpose financial statements under the Act. Treasury may subsequently limit or vary application of this Direction pursuant to section 9(3) of the Act.

Background

Treasury has mandated the option under AASB 16 to measure right of use assets (ROUA) recognised by lessees at fair value, except for concessionary leases (i.e. leases that have significantly below-market terms and conditions principally to enable a not-for-profit entity to further its objectives).

Treasury acknowledges obtaining external valuations for ROUA recognised under AASB 16 by lessees will increase costs for agencies and in some circumstances may provide little benefit. Therefore, in this guidance Treasury has provided practical expedients for when assets require an external valuation, allowing in some instances for an asset's depreciated cost to be a proxy for fair value This is consistent with the current accounting policy in the Total State Sector Accounts in Note 13 that states "Non-specialised assets with short useful lives are measured at depreciated historical cost, as an estimate for fair value".

Note: agencies are still required to assess at the end of each reporting date whether there are any indicators of impairment in accordance with AASB 136 *Impairment* as well as any general indicators the ROUA carrying amount materially differs from fair value.

NSW Treasury has mandated the option under AASB 16 to measure concessionary leases at initial recognition and subsequently at cost. Therefore, this circular does not apply to concessionary leases.

Transition Considerations

On transition, most ROUAs are equal to the lease liability, as the modified retrospective approach in AASB16.C8(b)(ii) has been elected in accordance with TC18-05 AASB 16 *Leases Transition Elections*, with the only exception any ROUAs that have accelerated depreciation. For ROUAs that have accelerated depreciation, the option in AASB16.C8(b)(i) may be used, that requires the ROUA to be measured at the transition date at its carrying amount as if the Standard had always been applied since the commencement date. Post transition, for new leases the initial measurement for ROUAs will generally be equal to the lease liability plus any lease payments made at or before the commencement date, any initial direct costs and dismantling and removal costs, less any lease incentives received.

Treasury's view is this ROUA value of new leases post transition is an appropriate proxy for fair value upon initial recognition. This is consistent with how an acquired asset is currently valued. The ROUA will be reflected in the underlying class of assets and will be subject to the same asset revaluation cycle as the existing assets in that class. However, NSW public sector agencies are allowed to use the following practical expedients when assessing ROUA fair value.

Practical Expedients by Asset Type

Property

- For property leases less than five years or greater than five years but substantially shorter than the asset's useful life (e.g. the lease term is 10 years while the useful life of the leased property is 60 years), valuations will be based on indices published by Property NSW. This will reduce the instances of obtaining an external valuation. This will apply to property leases held by Property NSW or external lessors.
- For property leases greater than five years where the ROUA tenure is closely aligned to the asset's useful life, the agency will be required to obtain external valuations consistent with owned property i.e. be subject to a comprehensive revaluation every three years in line with TPP 14-01 *Valuation of Physical Non-Current Assets at Fair Value*.
- The carrying amount of right-of-use assets arising from property leases as at 1 July 2019 is deemed as fair value.

Motor vehicles excluding specialised motor vehicles[1]

- As motor vehicles are expected to depreciate over their useful life without significant upward or downward movements in fair value, motor vehicles will be excluded from requiring formal valuations over the lease term of the ROUA.
- As noted in the background of this document, agencies are required to consider indicators of impairment and agencies will need to consider whether the depreciated cost is an appropriate proxy for fair value of their motor vehicles. This may require additional analysis if motor vehicle asset leases are longer than a standard 3-5 years' lease term, including accelerated depreciation considerations i.e. where a ROUA should incur more depreciation at the beginning of its term, are likely to be more relevant.

[1] Specialised motor vehicles are considered those where a significant value of the asset is derived from the modifications or specifications made to the general motor vehicle asset. Management will need to exercise their judgement whether their motor vehicles would fall into this category.

All other assets

- It is expected in most instances, assets would depreciate over their useful life with minimal instances of an upward or downward revaluation. Thus, for leases of five years or less, agencies are not required to undertake a valuation either by management or externally.
- For leases greater than five years, but where the lease term is substantially shorter than the asset's useful life: management will be required, in line with the underlying class of assets' cycle, to perform a formal management assessment of the value. This should consider a condition assessment of the ROUA, including whether there is an expected material difference between the ROUA's current recorded value and its expected fair value. This is to be documented appropriately. Where fair value could be materially different eg due to market conditions, management is then to obtain data to support the market value – for example an external valuation.
- For leases greater than five years and where the ROUA tenure is closely aligned to the asset's useful life, the agency will be required to obtain external valuations consistent with owned assets i.e. be subject to a comprehensive revaluation every three or five years depending on asset type in line with TPP 14-01 *Valuation of Physical Non-Current Assets at Fair Value*.

Appropriateness of the practical expedients

- Agencies should ensure they have reasonable documentation to demonstrate the appropriateness of using the practical expedients above, in their circumstances. However, if agencies have been applying and documenting similar practical expedients in applying TPP14-01 (e.g. the use of depreciated historical cost as an surrogate for fair value for non-specialised assets with short useful lives in section 7.5 of TPP14-01) to their owned assets in the same asset class, there is no need for additional documentation.

Fair Value Hierarchy

Unless there is evidence to suggest otherwise, the inputs to the valuation techniques used to measure fair value of right-of-use assets are usually Level 3 inputs (i.e. unobservable inputs) defined by AASB 13 *Fair Value Measurement*. This is because:

- the discount rate used is normally not observable from an active market,
- judgement is applied on whether it is reasonably certain to exercise an option to extend or terminate a lease.

Appendix A Guidance for Valuation of Property Leases

PROPERTY NSW – ROUA FAIR VALUE REMEASUREMENT

Executive summary

Property New South Wales (PNSW) provides financial information to the NSW State Government (the Government) on a periodic basis. Such financial information requires certain adjustments to the carrying amount of assets and liabilities including fair value adjustments. Since AASB 16 *Leases* is applicable to all agencies from 1 July 2019, right of use assets (ROUA) and a corresponding lease liability shall be recorded by all agencies. For the purposes of Government reporting, PNSW measures all non-current assets at fair value and hence these ROUA will also be measured accordingly.

In accordance with the application of Fair Value methodology to other asset classes, there will be a requirement to perform Fair Value measurements at sufficient periodic intervals to ensure that the carrying value of ROUAs is not materially different to their Fair Value. PNSW has identified the following points in the life cycle of a lease where Fair Value should be assessed:

- Initial recognition
- End of lease term
- At the time of a market rent reviews
- Between any two of the above points (eg between initial recognition and a market rent review)

For convenience, when an annual Fair Value assessment is undertaken (other than a re-assessment event) it would typically be done as part of the 31 March Early Close. The process for determination of fair value under each of the above categories is summarised below:

- ROUA is initially recorded at an amount equivalent to the lease liability, which is a reasonable proxy of fair value given that AASB 16 uses a discounted cash flow model for measurement at initial recognition. Hence all ROUAs will be considered to be stated at fair value at the time of initial recognition / lease commencement.
- ROUAs will be reduced to nil at the end of the lease term. Given the nature of the interest in a leased asset, where the lessee holds no interest in the residual value, we know that the measurement of ROUAs at the end of the lease term will be nil and also equal to FV at that time.
- When a periodic market rent review occurs, the lease payments attributed to that lease will be reset to a "market" rate at that time. Therefore, where a remeasurement is undertaken as a result of a market rent review, the ROUA will therefore automatically be referencing measurement inputs that are considered to be market value. AASB 16 requires remeasurement of the ROUA where a lease is subject to market rent reviews or rentals change in accordance with an index or rate (eg CPI). The remeasurement methodology required by AASB 16 is considered by management to be consistent with the current replacement cost (CRC) method, which is an approach frequently used by not-for-profit entities to determine the value in use of assets.
- Where a market rent review has not occurred recently (i.e. in the last 12 months), whatever payment mechanism exists (whether that is a fixed payment or fixed increase, or CPI based increase) can only be described as a proxy for market, and will inevitably be different to the market movement in that period. In situations where a lease has not been subject to a recent market rent review, PNSW will establish a matrix of valuation indices based on market rent per square meter by geographic area that provide an appropriate basis for determining a fair value adjustment factor at each Government reporting date.

1. Background:

The new leasing standard (AASB 16) is effective for reporting periods beginning on or after 1 January 2019. For New South Wales Government agencies that is financial year ending 30 June 2020.

A "right of use" model replaces the "risks and rewards" model under AASB 16, that requires lessees to recognise nearly all leases on their balance sheet to reflect their right to use an asset for a period of time and the associated liability for payments. This change eliminates nearly all off balance sheet accounting for lessees. Although the impact on net assets will be relatively small, there will be an increase in total assets and total liabilities by the amount of right of use assets (ROUAs) and lease liabilities. There is an exemption for low value leases (Treasury determined these being leases of assets that are valued at $10,000 or under when new) or leases with a term up to 12 months, which are considered short term leases. For Property Leases this will include leases in "Holdover" status which are leases with no fixed term that extend on a month to month basis.

2. Purpose:

PNSW is required to measure all non-current ROUAs, where PNSW is the lessee, at fair value in its financial statements. This information must also be reported to NSW Treasury for the whole-of-government Total State sector Accounts.

In addition, PNSW is required to provide information on subleases to NSW Government agencies, where PNSW is the lessor. This includes information on fair value of each lessees' ROUAs.

Both the right of use ROUAs on PNSW's balance sheet, and those on individual agencies' balance sheets (in respect of subleases) will need to be measured at fair value at regular intervals in order to comply with the requirements of Treasury Policy Paper TPP 14-01. This paper sets out the principles that PNSW will follow to determine the fair value of those ROUAs.

The approach set out in this paper should be applied to all ROU property lease assets recorded on balance sheets of GSF Agencies (defined in the *Government Sector Finance Act 2018*), except property leases greater than five years where the ROUA tenure is closely aligned to the asset's useful life (eg 52 Martin Place, Sydney – 124 years lease term).

3. Principles on Fair Value:

The definition of fair value in AASB 13 paragraph 9 is "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". In the case of a leased property asset, the lessee of the ROUA is typically using that asset as part of its own operations, rather than as a cash-flow generating or income producing asset.

AASB 13 sets out three widely used valuation techniques to determine fair value, being the market approach, the cost approach and the income approach. For the purposes of this paper it has been determined that the approach that best maximises the use of relevant observable inputs for the Property leased asset class, is the cost approach.

AASB 13 paragraph B8 explains that "the cost approach reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost)". It is worth noting that in applying the cost approach, it is necessary to take into account the fact that in assessing the value of the asset there will be amounts that have not been paid (the remaining lease payments). Therefore, the fair value of a lease is best determined by assessing any difference in contractual cash flows of a lease and what the contractual cash flow profile would be if the lease were negotiated at market rates at the date of the valuation.

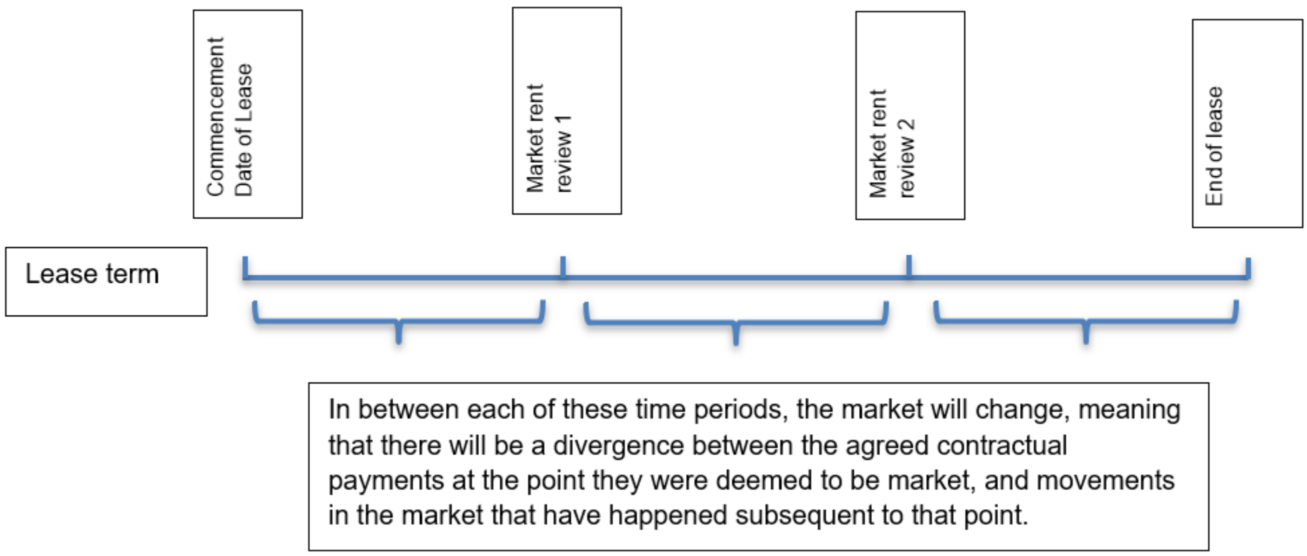
4. Accounting analysis:

For the purposes of determining an appropriate methodology for fair value measurement, we have considered the fair value impact at the following key points in the life cycle of the RoU:

- Initial recognition
- End of lease term
- At the time of market rent reviews
- Between any two of the above points (eg between initial recognition and a market rent review) ie an annual fair value re-measurement

These events are illustrated in the following example:

On the assumption that at each of these points in time in the lease term, there is an arm's length negotiation between the parties, the agreed rent at each of the following points in the lease are deemed to be "at market".



4.1 Initial recognition:

AASB 16 requires the ROUA to be measured initially at cost, which is determined by reference to the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement (less any lease incentives received), any initial direct costs incurred and an estimate of make good expenses required at the end of the lease. The lease liability is initially measured at the present value of the lease payments, which in the case of PNSW, will generally be discounted at the lessee's incremental borrowing rate. Discount rates implicit in the lease should be used where these can be identified or can be calculated from the contracts. Lease payments include any fixed increase in cash flows agreed at the inception of the lease. However, in a situation where lease payments are variable subject to a rate or index or periodic rent reviews, AASB 16 requires the measurement of those future cash flows to be based on the payments at the commencement date of the lease.

At initial recognition it is reasonable to assume the lessee is paying a "market" rent, given it has been negotiated at arm's length. Therefore, the measurement of the ROUA at commencement of the lease will be based on the present value of future cash flows. Given that there is some constraint imposed by the standard on the cashflows that are included in that initial recognition (due to the fact that future increases due to changes in CPI or market rent reviews are excluded), it is reasonable to consider whether this is an appropriate representation of the Fair Value of the ROUAs. It is widely accepted that the initial recognition of an asset under the cost model is equivalent to fair value at inception, and it would be unusual to record a FV adjustment on initial recognition unless there was clear evidence of an above or below market feature of the lease. This is also consistent with the "Current Replacement Cost" (CRC) Fair Value methodology that would establish the initial cost of an asset as determined by the relevant accounting standards as a basis for the Fair Value measurement.

4.2 End of lease term:

It is self-evident to state that the value of the ROUA at the end of the lease term will be nil. The basis of any lease arrangement is that the lessee holds no residual interest in the asset beyond the contractual term of the lease because the asset will usually be returned to the lessor. This means that the FV is "known" at the end of the term and must be recorded at nil.

4.3 At the time of market rent reviews:

AASB 16 requires remeasurement of the ROUA and lease liability if there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, including for example, a change to reflect changes in market rental rates following a market rent review. Hence an entity is required to remeasure the lease liability based on revised cash flows at the remeasurement date and adjust the ROUA.

Consistent with the situation at the initial recognition of a lease, at the time of a market rent review - what is known at that point is that the remaining lease payments for that lease will be reset to a rate agreed between the parties, and therefore considered to be "arm's length" and therefore at market. Given that AASB 16 will require a remeasurement of the ROUA at this time to reflect the revised contractual cashflows - this is akin to an indexation event that is required by the CRC valuation methodology in order to bring the asset value to "current cost". As a result, at each remeasurement date that arises due to a market rent review adjustment, the revised carrying amount of the ROUA will represent the "current replacement cost (CRC)".

CRC is a commonly used method to determine the value in use of the assets in not-for-profit entities, where the future economic benefits of an asset are not primarily dependent on the asset's ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits. CRC is defined as the current replacement cost of an asset less, where applicable, accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset.

As mentioned earlier, a remeasurement of the ROUA could be triggered either by a change in index or rate or by market rent reviews. The remeasurement adjustment based on market rents would be a reasonable proxy of CRC and hence reflective of the fair value of the ROUA at the remeasurement date. However, an adjustment due to any other change of index (e.g., CPI) or a rate (e.g., LIBOR) will not always represent market rent and hence cannot be used as FV in the same way as proposed for a market rent review. As a CPI adjustment is only used as a way of determining an increase in rents based on broader economic conditions - it is not sufficiently equivalent to an alignment to a market rent. Therefore, these remeasurement events would still be subject to an additional adjustment to determine the fair value of the underlying ROUAs as set out in section 4.4 below.

4.4 Between market rent reviews

This section covers PNSW's approach to determine the fair value of the ROUA for the purposes of Government reporting, in a situation where the underlying lease is not subject to a recent market rent review and hence the ROUA is not stated at CRC. For these leases, the ROUA will need to be adjusted to reflect market changes since the last market review date, in order to meet the fair value measurement principle. Accordingly, PNSW will determine an adjustment index suitable for each Government reporting date that bridges the gap between market rents. The adjustment index will reflect the changes to expected/forecasted market movements at different points in time.

Appropriate adjustment indexes will be developed that reflect the market movements for different geographic regions (by sub-market of metropolitan Sydney, such as Sydney CBD, North Sydney, Parramatta and etc). The percentage movement of the total forecasted rental per square metre for the remaining lease term is used to calculate the adjustment indexes. Please refer to the examples of subsequent measurement calculation for the illustrative purpose in Appendix C.

At the end of each financial year (or 31 March), the carrying value of the ROUA will be adjusted to fair value based on the adjustment indexes, if the adjustment indexes indicate a material change in market rents (please refer to section 4.5 as below for the materiality threshold).

4.5 Practical expedients of ROUA fair value adjustments

- Leases for which the commencement date or the latest market rent review date is within the past 12 months

  As discussed above, the carrying amount/revised carrying amount of ROUAs represent the current replacement cost as at the lease commencement date and the market rent review. Usually there are no significant changes in market rents within 12 months. Therefore, entities are not required to have fair value adjustment for leases whose commencement date or latest market rent review date is within the past 12 months, unless there is an indicator or a significant movement in market rents.

- Threshold for a material change in market rents

  It is considered that there has been a material change in market rents if the adjustment index (i.e., the percentage movement of the total forecasted rental per square metre for the remaining lease term) is above 10 percent.

  The percentage movement calculates the accumulative difference between the latest market rent in the relevant geographic region and that as at the ROUAs latest fair value adjustment date or market rent review date (or the lease commencement date if there has been no fair value adjustment or market rent review).

- Market movements in regional areas

  The regional market is relatively small and the market rent data is not available. As a practical shortcut, percentage of movements in weighted average of metropolitan market rents will be used as a basis for assessment for ROUAs in regional areas.

Appendix B Worked examples at Commencement Date

In these scenarios, the calculation represents the starting value of the ROUA and Lease Liability. As per the premise of this paper, even though the application of the leasing standard will result in a different calculation methodology for each of these leases, the ROUA value at inception will be considered to be equal to Fair Value.

Determining ROU Asset value at inception

Discount rate 5%

Scenario 1A - no change to payments

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
At lease inception	100	100	100	100	100	100	100	100	100	100
ROU Asset @ inception	$772.17									
Lease Liability @ inception	$772.17									

Scenario 1B - Fixed increases

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
At lease inception	100.0	103.0	106.1	109.3	112.6	115.9	119.4	123.0	126.7	130.5
ROU Asset @ inception	$874.76									
Lease Liability @ inception	$874.76									

Scenario 1C - CPI increases

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
At lease inception	100	100	100	100	100	100	100	100	100	100
ROU Asset @ inception	$772.17									
Lease Liability @ inception	$772.17									

Scenario 1D - Rent Free period incentive in Year 1

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
At lease inception	0	100	100	100	100	100	100	100	100	100
ROU Asset @ inception	$676.94									
Lease Liability @ inception	$676.94									

Scenario 1E - Fixed increase (3%) with a Market Rent Review in year 6, fixed increase (3%) for remainder of term.

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
At lease inception	100.0	103.0	106.1	109.3	112.6	100.0	103.0	106.1	109.3	112.6
ROU Asset @ inception	$817.55									
Lease Liability @ inception	$817.55									

Scenario 1F - Fixed increase (3%) with a Market Rent Review in year 6 (with a floor being prior period rent), fixed increase (3%) for remainder of term.

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
At lease inception	100.0	103.0	106.1	109.3	112.6	112.6	115.9	119.4	123.0	126.7
ROU Asset @ inception	$862.63									
Lease Liability @ inception	$862.63									

Appendix C Worked examples for subsequent measurement of property leases

Note: For simplicity, the examples do not include the impact of discounting. The fixed annual rental increase index is 4% in these examples.

Example 1: the accumulative movement of market rent is below the 10% threshold during the lease term

End of Year	Annual Rent	Opening ROUA	Depre -ciation	ROUA Book Value before Revaluation	Proposed Revaluation Required	ROUA Book Value after Revaluation	latest revaluation adjustment or market rent review (or initial recognition if no previous revaluation adjustments or market rent review)	*Historical* or Latest Rental Forecast	Cumulative Rental forecast at the latest revaluation adjustment or market rent review for the remaining lease term	Cumulative latest rental forecast for the remaining lease term	Cumulative change in Rental forecast	Cumulative change % in Rental forecast	Meets the threshold for recognition of revaluation (+/- 10%)	Revaluation adjustment
Example 1: the accumulative movement of market rent is below the 10% threshold during the lease term														
EXAMPLE 1 - END OF YEAR 1														
1	100.00	541.63	-108.33	433.31	0.00	433.31	100.00	*100.00*						
2	104.00	433.31	-108.33	324.98		324.98	104.00	104.00						
3	108.16	324.98	-108.33	216.65		216.65	108.16	108.16						
4	112.49	216.65	-108.33	108.33		108.33	112.49	112.49						
5	116.99	108.33	-108.33	0.00		0.00	116.99	116.99						
							541.63	541.63	441.63	441.63	0.00	0.00%	No	0.00
EXAMPLE 1 - END OF YEAR 2														
1	100.00	541.63	-108.33	433.31	0.00	433.31	100.00	*100.00*						
2	104.00	433.31	-108.33	324.98	0.00	324.98	104.00	*104.00*						
3	108.16	324.98	-108.33	216.65		216.65	108.16	108.16						
4	112.49	216.65	-108.33	108.33		108.33	112.49	112.49						
5	116.99	108.33	-108.33	0.00		0.00	116.99	116.99						
							541.63	541.63	337.63	337.63	0.00	0.00%	No	0.00
EXAMPLE 1 - END OF YEAR 3														
1	100.00	541.63	-108.33	433.31	0.00	433.31	100.00	*100.00*						
2	104.00	433.31	-108.33	324.98	0.00	324.98	104.00	*104.00*						
3	108.16	324.98	-108.33	216.65	0.00	216.65	108.16	*108.16*						
4	112.49	216.65	-108.33	108.33		108.33	112.49	112.49						
5	116.99	108.33	-108.33	0.00		0.00	116.99	116.99						
							541.63	541.63	229.47	229.47	0.00	0.00%	No	0.00
EXAMPLE 1 - END OF YEAR 4														
1	100.00	541.63	-108.33	433.31	0.00	433.31	100.00	*100.00*						
2	104.00	433.31	-108.33	324.98	0.00	324.98	104.00	*104.00*						
3	108.16	324.98	-108.33	216.65	0.00	216.65	108.16	*108.16*						
4	112.49	216.65	-108.33	108.33	0.00	108.33	112.49	*112.49*						
5	116.99	108.33	-108.33	0.00		0.00	116.99	116.99						
							541.63	541.63	116.99	116.99	0.00	0.00%	No	0.00

Example 2: the accumulative movement of market rent reaches the 10% adjustment threshold at the end of second last year of the lease

End of Year	Annual Rent	Opening ROUA	Drepre -ciation	ROUA Book Value before Revaluation	Proposed Revaluation Required	ROUA Book Value after Revaluation	latest revaluation adjustment or market rent review (or initial recognition if no previous revaluation adjustments or market rent review)	*Historical* or Latest Rental Forecast	Cumulative Rental forecast at the latest revaluation adjustment or market rent review for the remaining lease term	Cumulative latest rental forecast for the remaining lease term	Cumulative change in Rental forecast	Cumulative change % in Rental forecast	Meets the threshold for recognition of revaluation (+/- 10%)	Revaluation adjustment
							541.63	541.63	116.99	116.99	0.00	0.00%	No	0.00
Example 2: the accumulative movement of market rent reaches the 10% adjustment threshold at the end of second last year of the lease														
EXAMPLE 2 - END OF YEAR 1														
1	100.00	541.63	-108.33	433.31	0.00	433.31	100.00	*105.00*						
2	104.00	433.31	-108.33	324.98		324.98	104.00	109.00						
3	108.16	324.98	-108.33	216.65		216.65	108.16	115.00						
4	112.49	216.65	-108.33	108.33		108.33	112.49	120.00						
5	116.99	108.33	-108.33	0.00		0.00	116.99	125.00						
							541.63	574.00	441.63	469.00	27.37	6.20%	No	0.00
EXAMPLE 2 - END OF YEAR 2														
1	100.00	541.63	-108.33	433.31	0.00	433.31	100.00	*105.00*						
2	104.00	433.31	-108.33	324.98	0.00	324.98	104.00	*111.00*						
3	108.16	324.98	-108.33	216.65		216.65	108.16	116.00						
4	112.49	216.65	-108.33	108.33		108.33	112.49	125.00						
5	116.99	108.33	-108.33	0.00		0.00	116.99	130.00						
							541.63	587.00	337.63	371.00	33.37	9.88%	No	0.00
EXAMPLE 2 - END OF YEAR 3														
1	100.00	541.63	-108.33	433.31	0.00	433.31	100.00	*105.00*						
2	104.00	433.31	-108.33	324.98	0.00	324.98	104.00	*111.00*						
3	108.16	324.98	-108.33	216.65	0.00	216.65	108.16	*113.00*						
4	112.49	216.65	-108.33	108.33		108.33	112.49	121.00						
5	116.99	108.33	-108.33	0.00		0.00	116.99	128.00						
							541.63	578.00	229.47	249.00	19.53	8.51%	No	0.00
EXAMPLE 2 - END OF YEAR 4														
1	100.00	541.63	-108.33	433.31	0.00	433.31	100.00	*105.00*						
2	104.00	433.31	-108.33	324.98	0.00	324.98	104.00	*111.00*						
3	108.16	324.98	-108.33	216.65	0.00	216.65	108.16	*113.00*						
4	112.49	216.65	-108.33	108.33	21.31	129.64	112.49	*128.00*						
5	116.99	129.64	-129.64	0.00		0.00	116.99	140.00						
							541.63	597.00	116.99	140.00	23.01	19.67%	Yes	21.31

Example 3: the accumulative movement of market rent reaches the 10% adjustment threshold in the middle of the lease

End of Year	Annual Rent	Opening ROUA	Deprre -ciation	ROUA Book Value before Revaluation	Proposed Revaluation Required	ROUA Book Value after Revaluation	latest revaluation adjustment or market rent review (or initial recognition if no previous revaluation adjustments or market rent review)	*Historical* or Latest Rental Forecast	Cumulative Rental forecast at the latest revaluation adjustment or market rent review for the remaining lease term	Cumulative latest rental forecast for the remaining lease term	Cumulative change in Rental forecast	Cumulative change % in Rental forecast	Meets the threshold for recognition of revaluation (+/- 10%)	Revaluation adjustment
							541.63	597.00	116.99	140.00	23.01	19.67%	Yes	21.31
Example 3: the accumulative movement of market rent reaches the 10% adjustment threshold in the middle of the lease														
EXAMPLE 3 - END OF YEAR 1														
1	100.00	541.63	-108.33	433.31	0.00	433.31	100.00	*109.00*						
2	104.00	433.31	-108.33	324.98		324.98	104.00	110.00						
3	108.16	324.98	-108.33	216.65		216.65	108.16	115.00						
4	112.49	216.65	-108.33	108.33		108.33	112.49	121.00						
5	116.99	108.33	-108.33	0.00		0.00	116.99	126.00						
							541.63	581.00	441.63	472.00	30.37	6.88%	No	0.00
EXAMPLE 3 - END OF YEAR 2														
1	100.00	541.63	-108.33	433.31	0.00	433.31	100.00	*109.00*						
2	104.00	433.31	-108.33	324.98	41.74	366.72	104.00	*115.00*						
3	108.16	366.72	-122.24	244.48		244.48	108.16	121.00						
4	112.49	244.48	-122.24	122.24		122.24	112.49	128.00						
5	116.99	122.24	-122.24	0.00		0.00	116.99	132.00						
							541.63	605.00	337.63	381.00	43.37	12.84%	Yes	41.74
EXAMPLE 3 - END OF YEAR 3														
1	100.00	541.63	-108.33	433.31	0.00	433.31								
2	104.00	433.31	-108.33	324.98	41.74	366.72	115.00	118.00						
3	108.16	366.72	-122.24	244.48	0.00	244.48	121.00	123.00						
4	112.49	244.48	-122.24	122.24		122.24	128.00	131.00						
5	116.99	122.24	-122.24	0.00		0.00	132.00	139.00						
							496.00	511.00	260.00	270.00	10.00	3.85%	No	0.00
EXAMPLE 3 - END OF YEAR 4														
1	100.00	541.63	-108.33	433.31	0.00	433.31								
2	104.00	433.31	-108.33	324.98	41.74	366.72	115.00	118.00						
3	108.16	366.72	-122.24	244.48	0.00	244.48	121.00	*123.00*						
4	112.49	244.48	-122.24	122.24	0.00	122.24	128.00	*130.00*						
5	116.99	122.24	-122.24	0.00		0.00	132.00	139.00						
							496.00	510.00	132.00	139.00	7.00	5.30%	No	0.00

Example 4: the accumulative movement of market rent reaches the 10% adjustment threshold more than once in the middle of the lease

End of Year	Annual Rent	Opening ROUA	Drepre -ciation	ROUA Book Value before Revaluation	Proposed Revaluation Required	ROUA Book Value after Revaluation	latest revaluation adjustment or market rent review (or initial recognition if no previous revaluation adjustments or market rent review)	*Historical* or Latest Rental Forecast	Cumulative Rental forecast at the latest revaluation adjustment or market rent review for the remaining lease term	Cumulative latest rental forecast for the remaining lease term	Cumulative change in Rental forecast	Cumulative change % in Rental forecast	Meets the threshold for recognition of revaluation (+/- 10%)	Revaluation adjustment
EXAMPLE 4 - END OF YEAR 1														
1	100.00	541.63	-108.33	433.31	-66.36	366.95	100.00	*85.00*						
2	104.00	366.95	-91.74	275.21		275.21	104.00	88.00						
3	108.16	275.21	-91.74	183.47		183.47	108.16	92.00						
4	112.49	183.47	-91.74	91.74		91.74	112.49	95.00						
5	116.99	91.74	-91.74	0.00		0.00	116.99	99.00						
							541.63	459.00	441.63	374.00	-67.63	-15.31%	Yes	-66.36
EXAMPLE 4 - END OF YEAR 2														
1	100.00	541.63	-108.33	433.31	-66.36	366.95								
2	104.00	366.95	-91.74	275.21	0.00	275.21	88.00	*90.00*						
3	108.16	275.21	-91.74	183.47		183.47	92.00	95.00						
4	112.49	183.47	-91.74	91.74		91.74	95.00	99.00						
5	116.99	91.74	-91.74	0.00		0.00	99.00	110.00						
							374.00	394.00	286.00	304.00	18.00	6.29%	No	0.00
EXAMPLE 4 - END OF YEAR 3														
1	100.00	541.63	-108.33	433.31	-66.36	366.95								
2	104.00	366.95	-91.74	275.21	0.00	275.21	88.00	*90.00*						
3	108.16	275.21	-91.74	183.47	34.05	217.52	92.00	*98.00*						
4	112.49	217.52	-108.76	108.76		108.76	95.00	109.00						
5	116.99	108.76	-108.76	0.00		0.00	99.00	121.00						
							374.00	418.00	194.00	230.00	36.00	18.56%	Yes	34.05
EXAMPLE 4 - END OF YEAR 4														
1	100.00	541.63	-108.33	433.31	-66.36	366.95								
2	104.00	366.95	-91.74	275.21	0.00	275.21	*90.00*	*94.00*						
3	108.16	275.21	-91.74	183.47	34.05	217.52	*98.00*	*111.00*						
4	112.49	217.52	-108.76	108.76	0.00	108.76	109.00	*115.00*						
5	116.99	108.76	-108.76	0.00		0.00	121.00	130.00						
							418.00	450.00	121.00	130.00	9.00	7.44%	No	0.00