INREV NAV Case Study

Balance sheet as per 31 December 2020

Assets	Notes	Amount	Liabilities and Equity	Notes	Amount
Investment property	1	4,500	Vehicle capital (NAV)	7	1,000
Investment property under construction	2	350	Deferred tax liability	8	100
Inventory property	3	250	Fixed rated debt	9	3,000
Finance lease	4	100	Shareholder Loans	10	2,245
Deferred tax asset	5	25	Derivative financial instruments		100
Investment property held for sale	6	1,275	Other liabilities	11	55
Total		6,500	Total		6,500

Summary of accounting principles and notes

Note: the example does not include all disclosures but provides a summary.

1) Investment property

The investment property is valued at fair value under the fair value option of IAS 40. The current fair value of the property based on an independent valuation report is 4,500. The vehicle is structured as far as possible as a tax neutral structure. All investment properties are held by special purpose vehicles (SPVs). Management's strategy is to sell all properties through the sale of the shares in the relevant SPVs. It is estimated that this method will save the potential purchaser approximately 200 of transfer taxes.

2) Investment property under construction

Investment property under construction is composed of a self-constructed or developed investment property valued at cost until construction or development is complete. The current fair value of the property under construction based on an independent valuation report is 400.

3) Inventory

Property classified as inventory is measured at the lower of cost or net realisable value. Currently, such inventory is carried at cost in the balance sheet. The current fair value of the property held for sale based on an independent valuation report and including a provision for disposal costs is 300.

4) Finance lease

Property that is leased to tenants under a finance lease is initially measured at the initial net investment and subsequently re-measured based on an amortisation pattern reflecting a constant rate of return.

Key assumptions include: Lease contract rent: 6%. Current rent: 7%. The current fair value of the finance lease based on current market interest rate conditions is 125.

5) Deferred tax asset

The deferred tax asset is measured in the financial statements at the nominal statutory tax rate. The nominal tax rate is 25%. This deferred tax asset relates to the revaluation of the derivative financial instruments. Management's opinion is that this tax rate of 25% can be used to reflect the fair value of the deferred tax position concerning the derivative financial instruments.

6) Investment property held for sale

The vehicle is in the process of selling a property located in Euroland. The property has been reclassified as investment property held for sale and is measured at fair value in accordance with IAS 40 which does not include disposal costs of 30.

7) Vehicle equity (NAV)

The vehicle capital structure does not include any options, convertibles and other equity interests other than shareholder loans (see below).

Details of the equity structure of the vehicle are as follows:

In addition to the performance fee arrangement included as a contractual liability, the manager of the vehicle, shareholder A, has a preferred right to an additional 10% of the profit of the year when an IRR hurdle rate is reached. The hurdle rate was reached for the first time in 2020. The profit for 2020 amounts to 100.

The vehicle shareholders are as follows:

	Units	%
Shareholder A	1	0.1
Shareholder B	333	33.3
Shareholder C	333	33.3
Shareholder D	333	33.3
Total units issued	1,000	100

8) Deferred tax liability

The deferred tax liability is measured in the financial statements at the nominal statutory tax rate. The nominal tax rate is 25%. This deferred tax liability relates to the revaluation of the investment property. The vehicle is structured as a tax neutral structure. All investment properties are held by special purpose vehicles (SPVs). Management's strategy is to sell all properties through the sale of the shares in the relevant SPVs. It is currently estimated that the sale will not lead to any payments to tax authorities but the deferred tax liability will be settled between the seller and the purchaser. Current market practice for this settlement is estimated to be 50% of the nominal rate.

9) Fixed rate debt

Debt is initially recognised at fair value net of transaction costs and subsequently measured at amortised cost using the effective interest rate method.

Key assumptions include: Debt interest 5%. Current interest 5.25%. The current fair value of the fixed rate debt is estimated to be 2,850.

10) Shareholder loans

The financial statements under IFRS show shareholder loans of 2,275. The shareholder loans are judged to form part of the long term interest of the vehicle's shareholders.

11) Other liabilities

Under the vehicle's constitution, a component of income in a period is contractually required to be paid out to shareholders. Consequently, other liabilities include undistributed dividends of 30.

12) Set-up costs

Set-up costs are expensed immediately at the inception of the vehicle. The total amount of set-up costs is 100. The vehicle was incorporated in 2017. It is assumed that set-up costs are not deductible.

13) Acquisition expenses

Under the fair value model, acquisition expenses of an investment property are charged to income as a component of fair value changes at the first subsequent measurement date after acquisition. The acquisition costs are incurred on 1 January each year.

	Building	Amount	Year of acquisition
1	A	50	2017
2	B	70	2018
3	C	30	2019
4	D	60	2020

14) Contractual fees

Under the other liabilities an obligation is recorded in relation to the fair value of potential performance fees for an amount of 10.

15) Subsidiaries with negative net equity

The vehicle holds a 100% interest in a subsidiary which is in a position of negative equity. The vehicle currently has no intention or constructive obligation to fund the losses. The current accumulated negative equity (including shareholder loans) included in the consolidated accounts relating to this subsidiary is 100.