The Balance Sheet and Valuation Treatment of Retirement Living and Aged Care Assets

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Abstract

Accounting standards, legislative framework and industry conventions govern how investment vehicles report their financial position. The aim is for transparent and timely reporting, enabling investors to make decisions. Australian real estate investment vehicles follow these standards, framework and conventions. Retirement Living and Aged Care (RLAC) investment vehicles are an emerging asset sector, particularly on the institutional investment market. While entities in the sector are required to follow accounting standards and legislative framework they are in a position to adopt conventions more in line with their asset sector.

The RLAC sector comprises disparate property sectors, each with their own selection of asset classification and accounting treatment. Analysis of balance sheet treatment and valuations in the financial reports of Australian listed RLAC entities shows a greater reliance on directors’ (non-independent) valuations compared to listed real estate investment vehicles in conventional (commercial, industrial and retail) sectors. This has implications for the level of transparency in the RLAC sector. The current industry trend of increasing the delivery of care services to residents in retirement living assets has the potential to further increase the reliance on directors’ valuations.

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Keywords: Directors’ Valuations, Retirement Villages, Aged Care

Introduction

The efficiency of capital markets requires information to be communicated in a timely and accurate manner. Underpinning this, particularly for listed markets, is the reliability of financial accounting standards which govern how entities report their financial position and on the basis investment analysis and decisions are made (International Accounting Standards Board, 2010). The legislative framework and industry
conventions also govern participants. Australian real estate investment vehicles (listed/unlisted) operate under these accounting standards, legal framework and industry conventions. The issue arises when new and emerging real estate asset sectors commence sourcing funds from listed and/or institutional investors and account for and report asset values under different conventions.

Australian Retirement Living and Aged Care (RLAC) assets are an established real estate sector comprising retirement villages, rental villages, land lease communities (LLCs) and residential aged care (RAC) (Towart, 2017). These are specialised properties where it is difficult to separate the real estate from the operational business, unlike conventional office, retail and industrial assets. The convention of regular independent valuations prevailing in investment vehicles focused on conventional sectors does not necessarily apply to RLAC assets, instead internal or directors’ valuations are often used. There is nothing untoward in a directors’ valuation; standard business practice has these undertaken by appropriately qualified internal staff often with external input. Directors, usually through the Audit and Risk Committee (or equivalent), sign off on these valuations in addition to reviewing independent valuations.

The real estate investment industry has a number of accepted conventions regarding valuations; in part these have been established due to historical (but no longer in force) legislation. Land and buildings are a significant component of the assets of RLAC entities; however these entities classify assets and undertake valuations following different conventions from the real estate investment industry.

This lack of independent valuations has implications for constructing a meaningful index of the sector. Issues with creating a market index for the sector have been
identified (Towart, 2017); these include a highly heterogeneous asset class and considerable dynamism in the business model. The leading index provider for unlisted real estate investment, MSCI, requires that data contributors provide independent professional valuations for each of their assets (MSCI, 2017). If RLAC investors are not obtaining independent valuations for financial reporting purposes, they are unlikely to commission and pay for them to participate in an index.

This paper evaluates the asset classification and accounting models leading to the frequency and types of valuations being used for financial reporting purposes in the RLAC sector. This is in reference to accounting standards, the legislative framework and industry conventions.

**Accounting Standards & Legislative Framework**

In Australia, entities report according to standards developed and applied by the Australian Accounting Standards Board (AASB) which brings Australia in line (with exceptions) with International Financial Reporting Standards (IFRS) developed by the International Accounting Standards Board (IASB). Australian real estate investment vehicles comprise a range of structures including trusts, stapled vehicles and companies, the majority report their asset values according to AASB 140 – Investment Property (AASB 140)\(^1\). This standard includes definitions of investment property and owner occupied property. Investment property is defined as property held to earn rentals and/or for capital appreciation, excluding properties which are used in production,

\(^1\) AASBs are regularly updated, this paper refers to AASB 140 1 January 2018, AASB 116 1 January 2018 & AASB 13 August 2015. There is a difference between versions; in the context of this paper these differences are not considered material.
supplying goods and services, for administrative purposes or held for resale as in the case of development property. Owner occupied property is defined as property held by the owner for use in producing or supplying goods or services or for administration purposes. In Australia there is a further exclusion for Not-For-Profit (NFP) entities where property is held for strategic purposes or to provide a social service, such properties not being defined as investment properties. For entities holding property not classified as investment property these are accounted for under AASB 116 – Property, Plant and Equipment (AASB116).

How property is classified for accounting purposes determines how it is valued for financial reporting. Except for development assets and property held for resale, real estate investment vehicles predominantly classify their assets as investment property, either as a single asset or with part ownership under the equity accounting method. When a property is classified as investment property an entity has a choice in accounting policy of either the fair value model or the cost model. Under AASB 140, the fair value model defines the asset value as the price that would be paid in an orderly transaction between market participants at the measurement date. AASB 13 Fair Value Measurement (AASB 13) adds further detail to this definition. As to the requirements for an independent valuation, AASB 140 paragraph 32 states.

“An entity is encouraged, but not required to determine the fair value of investment property on the basis of a valuation by an independent valuer . . . .”

Where the fair value model is adopted AASB 140 paragraph 75(e) requires the reporting entity to disclose the extent to which the value is.

“. . . based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and..."
category of the investment property being valued. If there has been no such valuation, that fact should be disclosed."

Property assets accounted for under AASB 116 are initially (at recognition) measured at cost; after recognition, the entity can choose either the cost model or the revaluation model. The cost model measures value at cost less any accumulated depreciation and impairments. The revaluation model is applied where it is possible to measure fair value reliably and is measured as the fair value at the date of revaluation less any accumulated depreciation and impairments. The standard specifies that revaluations should be made with sufficient regularity to ensure that the carrying amount does not differ materially from measurement based on fair value. AASB 116 acknowledges that where there are significant and volatile changes in fair value, this would necessitate annual revaluation. Where there are insignificant changes in fair value it may be necessary to revalue assets every three or five years. Where there are portfolio holdings, this standard requires that if one item is revalued then the entire class should also be revalued. Where assets are reported at revalued amounts the entity is required to disclose whether an independent valuer was involved and the carrying amount if reported under the cost model².

Interpretation/application of these accounting standards suggests that valuations are undertaken annually, however the standards themselves are silent on a requirement for frequency. In the past, legislation has been prescriptive under the (no longer in force) Corporations (Unlisted Property Trust) Regulations 1992 regarding frequency and independence of valuations. Current legislation is silent on these matters instead putting the onus on directors and auditors to report the financial position accurately.

² Disclosure of the carrying amount is not required for NFP entities
Real estate investment vehicles whether they are trusts, stapled vehicles or companies are managed investment schemes. These are regulated by the Australian Securities and Investment Commission (ASIC) through enforcing the *Corporations Act 2001*. Sections 308 and 309 cover the auditor’s report where the auditor states that the financial statements represent a true and fair position of that entity. While legislation is silent on frequency of valuations, if asset values were significantly different from those reported in financial statements then the auditor (and directors) would be in breach of this legislation.

Entities which are listed on the Australian Securities Exchange (ASX) are required under the ASX listing rules to disclose matters of a material influence through requirements for periodic and/or continuous disclosure. The ASX stipulates principles of corporate governance standards including timely and balanced disclosure (Australian Securities Exchange, 2014). Unlisted property trusts are also required to make disclosures under Regulatory Guide 46 Unlisted Property Schemes improving disclosure for retail investors (RG 46). These disclosures require regular valuations to be undertaken by an independent and appropriately qualified party. Therefore the onus goes back to the directors and auditors to report accurately on the material position of an entity.

Under Regulatory Guide 77 Property Trusts and Property Syndicates (RG 77)³ external valuations are required every 12 months for fixed term unlisted property trusts where there is a buyback obligation. Where there is no buyback obligation the requirement is for an external valuation every three years. Few RLAC assets are held in a retail property trust structure, the two notable investments are Australian Unity Healthcare

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³ This refers to the historic *Corporations (Unlisted Property Trust) Regulations 1992*
Property Trust which has one RAC asset in the portfolio and Heathley Aged Care Property Fund No. 1 with five RAC assets.

The impact of NFP entities on the sector cannot be overlooked; unlike general property investment this group comprises a significant number of owners and operators. 40.1% of retirement village sites are operated by NFP entities and 59.9% are operated by for-profit entities (Grant Thornton, 2014). 61.6% of RAC places are operated by NFP entities and 38.4% are operated by for-profit entities (Department of Health, 2016). Approximately 50% of the RLAC sector is held by NFP entities which account for assets under AASB 116 and have the choice of reporting under the fair value model or the cost model.

**Summary**

Except for some types of unlisted property trusts, accounting standards and the legislative framework are silent on the frequency of and the requirement for independent valuations. There are statements of recommendation and encouragement, but no prescriptive requirements. The onus is on directors and auditors to accurately report the financial position of an entity.

**Review of Literature**

**Accounting Theory**

The IASB Conceptual Framework for Financial Reporting states that their primary purpose is to provide a user a basis for decisions on financial issues. These users are assumed to be current and potential investors with a focus on those providing risk capital (International Accounting Standards Board, 2010).
There are a number of established accounting theories which aim to explain different accounting points of view (Godfrey et al., 2010). Theories of relevance to this paper will include commander theory, investor theory and enterprise theory.

Commander theory advocates that the financial reports are prepared as a statement of stewardship as opposed to ownership. These reports show how management of the entity has utilised resources entrusted to them. The income statement shows the performance by this commander in any given period. This is a management view of accounting.

Investor theory maintains that the purpose of accounting and financial reports is to provide suppliers of debt and equity capital required information. These capital suppliers want to be able to forecast future investment performance. The focus is on the needs of external equity providers (shareholders) who have little power to influence company decisions and make decisions based on financial reports (Godfrey et al., 2010).

Enterprise theory widens this external viewpoint to include a range of stakeholders including investors, creditors, customers, suppliers, employees, and society. This wider approach views entities as a social institution making decisions which can affect a range of stakeholders. Adding value for equity investors is widened to include adding value to employees as wages and salaries, to creditors as interest payments and to the public sector as taxation (Godfrey et al., 2010).

From these frameworks there is a clear association between current IASB framework and the focus of investor theory. While there are connections between the evaluation of management performance and commander theory, the dominant purpose of accounting reports is to supply investors’ requirements for information to make financial decisions.
Moreover financial reports and the accounting that supplies them are expected to meet qualitative requirements including relevance, reliability, consistency and timeliness (Scott, 2015). The Conceptual Framework for Financial Reporting includes all these four characteristics (International Accounting Standards Board, 2010).

The major informative characteristics of financial reports comprise relevance and reliability. This is information that has the capacity to affect the opinion of investors regarding future performance. Information reliability presents what it intends to measure namely it is precise and free from bias (Nordlund, 2010; Scott, 2015).

Moreover the benefits derived from financial accounts should not exceed the cost of provision; however it is acknowledged that the evaluation of costs and benefits is a subjective process (International Accounting Standards Board, 2010).

Reporting on real estate assets in financial statements is essentially prescribed by the relevant accounting standards; much of the research literature reiterates these accounting standards. Research into government (state and commonwealth) and large corporate entities that were owner occupiers of real estate indicated that the majority adopted to account for assets under AASB 116 (Parker, 2007). Further research into large listed corporations indicated that there was little convergence of practice or of disclosure around aspects of frequency, date and valuation method (Parker, 2008). This analysis was for a range of entities, some of which were classified as Real Estate (Global Industry Classification Standard (GICS)) others included Financials, Materials and Consumer Staples. There may well be convergence of practice within a GICS; however the sample showed a range. In addition there was also a range in the proportional contribution of land and buildings to the balance sheet.

A major component of balance sheet assets of RLAC entities comprise land and
buildings, understanding how these assets are accounted for and whether they follow established conventions for real estate investment vehicles has not been established.

**Valuation Theory (RLAC Assets)**

There is overall consensus as to the principal methods of valuation of RLAC assets where a market valuation is required. Operational retirement villages are valued on the basis of a Discounted Cash Flow (DCF) analysis; this method incorporates the unevenness of a village’s projected cash flows. This method relies on the veracity of the variables, namely discount rate, growth rates and length of stay (Moschione, 1992; Hatcher and O’Leary, 1994). Residential aged care is valued on a going concern basis using stabilised net operating income and/or rental (Aitken, 1994; Lister, 2001; Towart, 2017). Land lease communities, showing their evolution from caravan parks, are valued using the capitalisation method using stabilised net operating income and/or rental (Kelly, 1994; Towart, 2017).

Even where directors elect not to use an independent market valuation, these valuation conventions are followed.

Valuations of retirement housing and residential aged care are complex, consequently they can be expensive to commission and time-consuming to undertake. An entity with a portfolio of 50+ properties may find that obtaining annual independent market valuations prohibitively expensive.

**Data and Method**

This research is focused on entities currently listed on the ASX that are either solely focused on one or more of the RLAC sectors or have a significant quantum of RLAC assets. Ten entities were identified and these are listed in Table 1 (current names are...
used throughout).

**Table 1: RLAC Entities**

<table>
<thead>
<tr>
<th>Entity</th>
<th>Net RLAC Assets $M *</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aveo Group (Aveo)</td>
<td>1,944.2</td>
<td>Owner and operator of retirement villages, RAC and care services, divesting of non-RLAC assets</td>
</tr>
<tr>
<td>Estia Health Limited (Estia)</td>
<td>313.5</td>
<td>RAC owner and operator</td>
</tr>
<tr>
<td>Eureka Group (Eureka)</td>
<td>86.9</td>
<td>Rental village owner and operator and asset/fund manager</td>
</tr>
<tr>
<td>Gateway Lifestyle Group (Gateway)</td>
<td>516.1</td>
<td>LLC owner and operator</td>
</tr>
<tr>
<td>Ingenia Communities Group (Ingenia)</td>
<td>503.3</td>
<td>Owner and operator of retirement villages, rental villages and LLCs</td>
</tr>
<tr>
<td>Japara Healthcare Limited (Japara)</td>
<td>459.3</td>
<td>RAC owner and operator</td>
</tr>
<tr>
<td>Lifestyle Communities Ltd (Lifestyle)</td>
<td>165.7</td>
<td>LLC owner and operator</td>
</tr>
<tr>
<td>LendLease Group (LendLease)</td>
<td>1,623.6</td>
<td>International company involved in the development, construction, investment management at ownership of property and infrastructure assets</td>
</tr>
<tr>
<td>Regis Healthcare Limited (Regis)</td>
<td>271.2</td>
<td>RAC owner and operator</td>
</tr>
<tr>
<td>Stockland</td>
<td>1,149.0</td>
<td>Diversified property group, developing, owning and managing property assets</td>
</tr>
</tbody>
</table>

* As at 30 June 2017

Net RLAC assets comprise investment property, equity accounted investments and/or as property plant and equipment. In addition RAC accounts for resident places (previously called Bed Licences) as intangible assets. Goodwill is attributed to the potential uplift in value of an asset following acquisition which can be credited to more commercial management. Against these are liabilities directly attributable to the asset class these include resident loans (current & non-current) and Refundable Accommodation Deposits (RADs).

Of these entities, information from financial statements in the filed annual reports back
to 2011 were accessed. Where an entity had listed after 2011 the Product Disclosure Statement (PDS) was accessed. The balance sheet and the notes to accounts were analysed to determine the current and historical extent of the accounting treatment and reporting of the valuation process. Information on these RLAC entities was compared with similar information from six ASX 200 real estate entities that held retail, commercial and industrial assets.

Results and Discussion

The RLAC sector is noted for considerable heterogeneity and changing business models (Towart, 2017); this has implications for the accounting treatment of assets and the valuation method used. Information for the asset classification, accounting model and valuation method for the period 2011 – 2016 is contained in Table 2 in Appendix 1. While there are considerable differences across the sector, there are some convergences in asset classification and accounting model used.

As a generalisation, retirement villages, rental villages and LLCs are classified as investment property using the fair value model (with the exception of Regis). RAC is classified as property plant and equipment using the cost model. Two entities, Eureka and Estia made changes to asset classification and/or accounting models during the period of analysis. These changes appear to be more correlated with changes in strategy, either internally generated or in response to external forces.

Directors’ Valuations

With the exception of one retirement village owned by Estia, all entities classifying assets as investment property reported directors’ valuations. The differences between entities included how independent valuations and independent advice are used in
deriving these directors’ valuations and the degree of detail in reporting these valuations. Entities used a combination of independent valuations with varying frequencies (every two – three years) plus input on key assumptions from independent experts.

The valuation of retirement villages is complex and requires veracity of inputs, many of which are only obtainable through operational activity in the sector (Towart, 2017). Annual independent valuations would be time-consuming and expensive to obtain. This would require an operator to provide a considerable amount of commercial in confidence data; while valuers maintain confidentiality, operators prefer to keep this information private. Moreover the three largest operators, Aveo, LendLease and Stockland, hold approximately 225 retirement villages. If they were to all commission valuations for 30 June, finding capacity in appropriately qualified valuation firms across Australia could be problematic. Given portfolios of this size, these operators have considerable amounts of up-to-date operational data used in valuation calculations.

This reliance on directors’ valuations has implications for valuation firms. This group had predicted that the ageing demographic would result in greater for profit ownership resulting in opportunities for valuation firms (Carter, 2007). Some valuation firms expecting this requirement invested in personnel and data.

In FY 2016 Estia purchased a retirement village in Bendigo, Victoria, as part of a portfolio. Estia is the only entity to stipulate an annual independent valuation of retirement village assets. It is noted for the 2016 financial accounts the purchase price of $1.5 million was recorded rather than obtain an independent valuation. Estia has been noted for less than transparent accounts (Jacobs, 2015) and minimal details were available through ASX reporting and the annual report.
Eureka and Ingenia both hold rental villages and classify these as investment property. Both entities used directors’ valuations annually with independent valuations every two (Ingenia) or three (Eureka) years. Plus both provided a list of individual assets, most recent independent valuation and date of this valuation. Eureka had previously classified rental village assets as property plant and equipment. In 2014 Eureka changed their strategy from one based on funds management where investors owned rental village units and Eureka owned village manager’s units. Under the new strategy a policy of purchasing rental village units commenced and Eureka changed their strategy more in line with that of Ingenia focusing on ownership and operation of rental retirement villages.

Gateway, Ingenia and Lifestyle held LLCs and classified these as investment property. There was divergence in the valuation method as Lifestyle charges a Deferred Management Fee (DMF) fee on exit whereas Gateway and Ingenia do not. This DMF fee adds complexity to the valuation as it is undertaken in a similar way to a retirement village. Lifestyle used a combination of independent and directors’ valuations coupled with input from industry specialists. Gateway and Ingenia confirm their directors’ valuations with input from an independent valuation/valuer; again both provided a list of individual assets, most recent independent valuation and date of this valuation.

Information Provided

Previously, the legal framework was more prescriptive with requirements for regular independent valuations. This created an industry convention whereby many property vehicles provide a list of assets with most recent independent valuation, the date of this valuation and the valuation firm used in the financial reports. Currently this information is not a legal requirement.
In keeping with AASB 140 requirements, all entities reporting fair values on investment property provided valuation metrics including discount rates, price growth, resident duration (retirement village) and capitalisation rates. In addition Eureka, Gateway and Ingenia (three of the ten) provided a list of assets with the most recent independent valuation at the date of this valuation plus the carrying value (directors’ valuation plus adjustments). Other entities did not provide this level of information.

**Property Plant and Equipment**

All the RAC entities listed in 2014 and had a strategy of growth by acquisition and development. The sector has faced headwinds in 2016 through changes in government funding, resulting in revenue declines, particularly for providers of Complex Health Care. Estia had higher gearing levels than Japara and Regis, consequently was more affected by these changes (Jacobs, 2016). In 2016 Estia changed the accounting model of RAC assets from fair value to cost bringing them in line with Japara and Regis.

**Intangible Assets**

Entities with resident places all classify these as intangible assets and use the cost or fair value accounting model, some acknowledged reviewing these for reporting purposes. Resident places receive Commonwealth funding for provision of care services and comprise the current system of regulating the supply of RAC in Australia. If this system were to change or to be disbanded the value attributed to resident places would have to be accounted for using an alternative asset allocation and accounting model.

**Comparison with Real Estate**

Information on six ASX 200 real estate investment vehicles for 2015 and 2016 is contained in Table 3 in Appendix 2. All real estate investment vehicles classify their
assets as investment property and used the fair value accounting model. There was
variety in the use of directors’ and independent valuations, particularly the frequency of
independent valuations. Some, GPT Group Stapled and SCentre Group, commissioned
annual independent valuations although they reported directors’ valuations. Industry
convention (from previous legislation) has been for financial reports to contain a list of
all assets with valuation information. Four of the six entities followed this convention
for either or both 2015 and 2016 annual reports.

In comparison to RLAC entities, real estate investment vehicles make more regular use
of independent valuations and were more likely to report valuation figures for
individual properties. A greater proportion of the reported valuations were independent
as opposed to directors’ valuations.

**Future Trends**

A recent trend following the introduction of the recent reforms to the aged care sector
has been for an expansion of care services. This is resulting in a more hybrid model
between a retirement village and RAC. The RLAC operator provides the
accommodation in a retirement village setting and care services on an as needed (and
funded) basis. In February 2016 Aveo purchased Freedom Aged Care comprising a
portfolio of 15 retirement villages with such a care delivery model (Aveo Group, 2016).
LendLease received an allocation of resident places in June 2017 and was reported to be
seeking a care delivery partner. It remains to be seen what asset classification is used
for this new hybrid model as it appears to sit halfway between a retirement village and
RAC.
Summary

How individual assets are classified and the accounting model used dictates what valuation method. There is some consensus with retirement villages, rental villages and LLC classified as investment property, RAC classified as property plant and equipment and resident places classified as intangible assets. There is little consensus regarding the use of directors and independent valuations with each entity adopting an individual model.

Conclusion

The requirement for directors and their auditors to report the true and fair financial position of an entity appears to be the overarching framework rather than relying on independent market valuations. This has implications for transparency and diminished usefulness.

The industry structure has further ramifications in that approximately 50% of the RLAC sector comprises NFP entities. They account for properties under AASB 116 and have the choice to account for at cost or fair value. RAC entities have moved to consensus in all adopting the cost model as opposed to fair value.

The industry trend of increasing the provision of care services particularly by entities which had historically focused on retirement villages and rental villages has the ability to create a hybrid asset which is more in line to RAC. This has the potential for these entities to reclassify their assets as property plant and equipment and follow the consensus with the existing RAC entities and use the cost accounting model.

The RLAC sector has less reliance on independent valuations compared with more conventional sectors. These are assets which are considerably more complex with more
financial inputs compared to other asset types. Current trends indicate even less reliance on independent valuations in the future.

References


## Appendix 1

### Table 2: RLAC Asset Classification and Valuation Method 2011 – 2016

<table>
<thead>
<tr>
<th>Entity</th>
<th>Asset Classification &amp; Accounting Model</th>
<th>Valuation Methods</th>
</tr>
</thead>
</table>
| Aveo     | Retirement villages – investment property, initially at cost subsequently at fair value  
RAC – property plant & equipment, cost less depreciation  
Resident Places – intangible assets, at cost or fair value | Retirement villages – directors’ valuation using DCF methodology. Independent valuations are undertaken every three years, these valuations and the valuation firm were not stated. Valuation metrics – discount rate, price growth and duration were stated  
RAC & resident places – not stated |
| Estia    | Retirement villages – investment property, initially at cost subsequently at fair value  
RAC – property plant & equipment, 2016 - at cost net of depreciation  
2015 – initially at cost subsequently at fair value  
Resident Places – intangible assets, at cost or fair value | Retirement villages – annually determined by an accredited external independent valuer. As the single asset was purchased in the 2016 financial year, the accounts recorded the purchase price.  
RAC – external valuations for the initial listing and purchases, the valuation firm was not stated. Valuation firm & valuation metrics not stated.  
Resident places – for the initial listing directors’ valuation using known industry measures. Latter years carried at historical cost |
| Eureka   | Rental villages  
2015 – 2016 – investment property, fair value  
2011 – 2014 – property plant & equipment, at cost | Following a change of strategy in FY 2014 village assets were purchased and reclassified as investment property  
2015 – 2016 independently valued every three years, directors’ valuations may be undertaken annually. Three villages were valued June 2016, this and further independent experts information was used as the basis for determining directors’ valuations. List of individual assets and values provided 2016 |
<table>
<thead>
<tr>
<th>Entity</th>
<th>Asset Classification &amp; Accounting Model</th>
<th>Valuation Methods</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gateway</td>
<td>LLC – investment property, initially at cost subsequently fair value</td>
<td>2015 – 2016 – directors’ valuations annually, periodically confirmed by an independent valuer. Valuation metrics – capitalisation rate &amp; comparison were stated. List of individual assets with valuation and date of most recent independent valuation provided 2016. Initial listing – cost model, details on valuation policy included</td>
</tr>
<tr>
<td>Ingenia</td>
<td>Retirement villages, Rental villages &amp; LLCs – investment property, initially at cost subsequently fair value</td>
<td>2013 – 2016 – independently valued every two years, directors’ valuations annually. List of individual assets with valuation and date of most recent independent valuation provided 2016. 2011 – 2012 – independently valued every three years, directors’ valuations annually Valuation metrics – capitalisation rate rates, discount rate, property price growth, resident duration were stated</td>
</tr>
<tr>
<td>Japara</td>
<td>Retirement villages – investment property, initially at cost, subsequently fair value RAC – property plant &amp; equipment, at cost Resident places – intangible assets, at cost or fair value</td>
<td>Retirement villages – directors’ valuations based on evidence within the portfolio, acquisitions in 2015 were independently valued RAC – carrying amount reviewed annually</td>
</tr>
<tr>
<td>Lifestyle</td>
<td>LLCs – investment property, initially at cost, subsequently fair value</td>
<td>Lifestyle divides assets into DMF annuity streams, land and undeveloped land. From 2011 – 2016 a combination of independent valuations and directors’ valuations with input from industry specialists and independent valuations have been used. 2014 – 2016 – Valuation metrics, capitalisation rates, discount rates were stated 2014 &amp; 2015 Independent valuations obtained every two years, other financial years not stated</td>
</tr>
<tr>
<td>LendLease</td>
<td>Retirement villages – investment property, initially at cost, subsequently fair value RAC – property plant and equipment, cost. Assets sold in FY 2013</td>
<td>Retirement villages – 2011 – 2014 independently valued every three years, directors’ valuations annually. 2015 – 2016 directors’ valuations derived from market evidence. Valuation metrics – discount rate, growth rate, duration were stated</td>
</tr>
<tr>
<td>Entity</td>
<td>Asset Classification &amp; Accounting Model</td>
<td>Valuation Methods</td>
</tr>
<tr>
<td>----------</td>
<td>--------------------------------------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------</td>
</tr>
</tbody>
</table>
| Regis    | Retirement villages – investment property, cost  
RAC – property plant & equipment, at cost  
Resident places – intangible assets, at cost or fair value | Retirement villages – purchased in FY2016 accounted for at cost  
RAC – 2016 – not stated  
Initial listing – externally valued on a rotational basis every three years |
| Stockland| Retirement villages – investment property, fair value                                                 | 2014 – 2016 – directors’ valuations with assurance on key assumptions provided by an independent valuer  
2013 – independent valuations every two years, directors’ valuations annually. 2012 – independently valued every three years, directors’ valuations annually. 2011 independent valuations were commissioned, the directors valuations utilised key assumptions on these documents  
Valuation metrics – discount rate, growth rate & duration were stated 2012 – 2016 |
## Appendix 2

Table 3 Listed Real Estate Entities Asset Classification and Valuation Method 2015 & 2016

<table>
<thead>
<tr>
<th>Entity</th>
<th>Asset Classification &amp; Accounting Model *</th>
<th>Valuation Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dexus</td>
<td>Investment property, fair value</td>
<td>Independent valuations every three years, directors’ valuations every six months, unless independently valued. Valuation metrics stated.</td>
</tr>
<tr>
<td>Goodman</td>
<td>Investment property, fair value</td>
<td>&gt;90% of investment properties were independently valued. Valuation metrics stated.</td>
</tr>
<tr>
<td>GPT Group</td>
<td>Investment property, fair value</td>
<td>Directors’ valuations informed by the latest independent valuations (annually). List of individual assets, fair value, date of last independent valuation and valuation firm. Valuation metrics stated.</td>
</tr>
<tr>
<td>Mirvac Group</td>
<td>Investment property, fair value</td>
<td>Independent valuations for 50% of the portfolio, directors’ valuations for remainder. List of individual assets, most recent independent valuation and date, carrying amount and individual valuation metrics for 2015. Valuation metrics stated for 2016.</td>
</tr>
<tr>
<td>SCentre Group</td>
<td>Investment property, fair value</td>
<td>Directors’ valuations taking into account independent valuations prepared annually, valuation firms listed. List of individual properties, carrying amount and individual valuation metrics.</td>
</tr>
<tr>
<td>Vicinity Centres Stapled</td>
<td>Investment property, fair value</td>
<td>External valuations commissioned when six monthly internal reviews show more than 10% difference from carrying value. List of individual assets, carrying value, valuation type (independent/directors), valuations and dates provided for 2016. Valuation metrics stated.</td>
</tr>
</tbody>
</table>

* Completed properties, not development assets