

IASB Exposure Draft – Covid-19 Related Rent Concessions



To: Commentletters@ifrs.org
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Introduction

1. The British Property Federation ('BPF') represents the real estate sector; we promote the interests of those with a stake in the UK built environment, and our membership comprises a broad range of owners, managers, and developers of real estate as well as those who support them. Their investments help drive the UK's economic success, provide essential infrastructure, and create great places where people can live, work, and relax.
2. We welcome the opportunity to respond to the IASB's exposure draft: *Covid-19 Related Rent Concessions*, and are supportive of the proposals to allow optionality of accounting treatment for tenants to help ease the administrative burden on them during these unprecedented times. However, given the scale of the disruption for landlords, we consider that it would also be appropriate to extend the same optionality in accounting treatment to lessors at this time.

UK commercial real estate market

3. The necessary and swift actions taken by governments in recent months to address the public health crisis, including closing or restricting the use of many retail, hospitality, and leisure premises have had enormous implications for huge swathes of our economy and could have implications for the way we live, work, and socialise for a significant period of time.
4. Landlords have sought to support their tenants through this significant disruption in a number of ways, such as offering rent deferrals, a change from quarterly to monthly payment dates to help with cash flow, and rent waivers in some cases. The March quarterly rent collection statistics in the UK give a sense for the scale of the disruption in the UK – with initial reports¹ of rent collection rates at 47%, 71%, and 62% from retail, offices, and logistics respectively. It is expected that the implications for rent collection and the need for further lease negotiations will be even greater in respect of the forthcoming June quarterly payment date.
5. Given the significant impact on rent in only a short space of time, we believe that it would be right to extend the same optionality to lessors as has been proposed to lessees, to reflect the financial impact of these Covid-related rent concessions in the year in which they happen, providing more timely and relevant information to users of financial statements.
6. We set out within the appendix a summary of the main justifications for extending to lessors the option to recognise Covid-related rent concessions in the period in which they happen. We would be pleased to respond to any follow up queries you may have in respect of our response.

Yours sincerely,

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¹ <https://www.propertyweek.com/news-analysis/rent-collection-rates-plummet-across-board-during-lockdown/5107381.article>

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Appendix: Justifications to extend the optionality to lessors to recognise Covid related rent concessions in the current period

Support lessors at a time of significant business disruption

7. As noted above, the scale of the rent concessions and lease negotiations being entered into by landlords in the UK is significant and completely unprecedented. Therefore, we would want to dispel the notion in section BC3 of the exposure draft that “lessors are not expected to face the same practical challenges as lessees in accounting for covid-19-related rent concessions”.
8. While lease renegotiations are generally an intrinsic part of a landlord’s business, the scale of the negotiations being embarked on at the current time is completely unprecedented. Furthermore, contrary to some misconceptions, most landlord and tenant lease negotiations are individual to the business and circumstances, therefore, it will take significant time and resource to consider whether each lease renegotiation is deemed to be a “modification” (per the accounting rules), in order to determine the correct accounting treatment. At a time when there are significant demands on both time and resource in many other areas of the business, additional optionality in how lease concessions are treated would be incredibly helpful for lessor businesses, in the same way as it will be for lessee businesses.

Better reflect commercial reality

9. The proposed method for lessors (to treat a number of the rent concessions as lease modifications) would result in the impact of Covid-19 support being spread over the remaining life of the lease - which for some leases could be 15-20 years. We do not think this would reflect the commercial reality in many cases and it would not be helpful for the user of the accounts to understand the performance of the business and the full impact of Covid-19 related rent concessions at that point in time.

Fairer tax outcome for lessors

10. In the UK, the tax of rental income is broadly based on what has been recognised in the accounts. Given the scale of the reduction in rental income in the current period, it would be preferable for landlords to be taxed, as close as possible, on the actual rent they have received, to avoid exacerbating the cash flow impact of Covid-related rent concessions on landlords’ businesses. Allowing a lessor to recognise rent concessions in the current period would address this concern, and ensure fairer taxation on landlords in light of current events.

Better alignment of distributions from tax transparent funds with cash received

11. For many tax transparent funds, the obligation to distribute to investors is based on income recognised in the accounts, rather than actual sums received, which creates a mismatch as there is an obligation to pay accounting profits to investors which are not matched by cash receipts. While reductions can be made for bad debts, that is not helpful for rent waivers or deferrals. To that end, it would be helpful if the optionality in rent recognition as a result of Covid-related rent concessions could apply to deferrals as well as waivers of rents, to ensure that the rent that is distributable to investors is more closely aligned with cash received.