



FFO and AFFO

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Funds from Operations (FFO)

	2018
Rental and other property	\$ 1,285,723
Management and other fees from affiliates	8,278
Total Revenue	1,294,001
Property operating expenses (incl. RE taxes)	358,817
Corporate-level property management expenses	30,110
Depreciation and amortization	441,682
Earnings from operations	463,392
Net interest expense	219,654
Equity income from co-investments	48,698
Gain on other real estate transactions	150,151
Net income	442,587
Net Income Attributable to non-controlling interest	(9,944)
Net income to parent	\$432,643

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Funds from Operations (FFO)



Net Income

+

Depreciation/Amortization

+

Losses (Gains) on sale of real
estate assets

+/-

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The Issues with FFO

Wear and tear on apartment, office, retail buildings lead to maintenance capital expenditures

Many amortization expenses are real costs that benefit a single tenant and do not enhance long term building value

- Leasing commissions
- Financing costs
- Tenant improvements

There are still accounting peculiarities such as straight-line rent increases that actual distort earnings growth

Despite attempts to standardize the definition of FFO, not all REITs account for and report items the same

Adjusted Funds from Operations (AFFO)

FFO	+
Maintenance capex	-
Amortization of leasing commissions, tenant improvements	-
Removal of straight-line rent expense	+/-
Adjustments for financing costs and gains/losses on early retirement of debt	+/-

How Straight-line Rent Adjustments Work

		Year 1	Year 2	Year 3	Year 4	Year 5
Economic lease recognition						
Lease/Year		100.0	103.5	107.1	110.9	114.8
Increase (annual)			3.5%	3.5%	3.5%	3.5%
Straight line lease recognition under GAAP						
Total lease payments (life of lease)	536.3					
Lease years	5.0					
Annual lease amount recognized	107.3					
Lease/Year Straight-line GAAP		107.3	107.3	107.3	107.3	107.3
Non-cash income overstated/(understated)		7.3	3.8	0.2	(3.6)	(7.5)
Sum of (overstated)/understated amounts	(0.0)					

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