



School of Business
Economics and Law
GÖTEBORG UNIVERSITY

Handelshögskolans Civilekonomprogram
Bachelor Thesis, ICU2007:29

Disclosure Requirements related to Investment Property

Bachelor Thesis

Peter Aronsson, 830611

Anders Sjöström, 830603

Tutor:

Marie Lumsden

**Business Administration/
Accounting**

Spring semester 2007

Abstract

Examination paper in Business Administration, School of Business, Economics and Law at Göteborg University, Accounting, Bachelor thesis, Spring semester 2007

Authors: Peter Aronsson and Anders Sjöström

Title: Disclosure Requirements related to Investment Property

Background and problem: The IFRS/IAS standards resulted in changes of required information from quoted companies. The standard IAS 40 implicated a possibility of valuing investment property at fair value, which has contributed to new disclosure requirements connected to the fair value model. We found it interesting to examine the real estate companies' fulfilment of the new disclosure requirements and the resources needed to fulfil the requirements. The users' opinion about disclosed information was considered interesting to examine and whether the information emanating from the new disclosure requirements ameliorated the users' possibility to value investment property.

Purpose: The thesis should describe and analyze the disclosed information regarding investment property provided by the real estate industry. To be able to fulfil the main purpose the study will examine the fulfilment of the disclosure requirements, describe resources demanded to meet the increased demand of information and examine if the disclosed information by the real estate companies corresponds to the users' needs.

Method: The study has a combined quantitative and qualitative approach. Secondary data sources consisted of the annual reports from the 15 real estate companies quoted on OMX Nordic Exchange Stockholm holding investment property. Primary data consisted of six interviews representing real estate companies, banks and analysts.

Results and conclusions: The fulfilment of the disclosure requirements varies. The balancing of carrying amounts is an area where the companies are proficient in disclosing essential information. The examination has also found four areas where shortages could be distinguished: (1) the criteria to separate investment property, (2) specification of direct costs contributed or not to rentals, (3) variables used in the valuation model and (4) disclosing essential risks and uncertainties. The resources needed to meet the increased demand for information have increased and the study has found the solutions being reallocation, rationalization and consulting external experts. The users are mainly satisfied with the disclosed information but would like more information related to the valuation of investment property and project property. Sensitivity analysis is a tool enabling a quick overview of the company's influencing factors but a standardisation of the parameters would be preferable.

Recommendations for future research: Three areas where demands for future research have been distinguished are: What expenditures related to investment property should be capitalized? How should an appropriate formation of tax on investment property be formulated? Should sensitivity analyses be required and is a standardisation feasible?

Preface

We would like to thank our tutor, Marie Lumsden, for her excellent guidance and useful advices during this thesis' journey. We would also like to thank all the participants at the seminars for rewarding discussions. Last but not least, we would like to thank the respondents for their contribution to this thesis.

Göteborg, 1st of June 2007

Peter Aronsson

Anders Sjöström

Wordlist and Definitions

Cost	<i>The amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction.</i>
Disclosures	<i>Process of divulging accounting information so that the content of financial statements is understood.</i>
Fair value	<i>The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.</i>
Investment Property	<i>Property held to earn rentals or for capital appreciation or both.</i>
Real Estate Companies	<i>Companies holding Investment Property and being quoted on the OMX Nordic Exchange Stockholm.</i>
Sensitivity Analysis	<i>A presentation of important factors influencing the company's result, cash flow or the value changes of property.</i>

Abbreviations

IASB	<i>International Accounting Standards Board</i>
IFRS/IAS	<i>International Financial Reporting Standards/International Accounting Standards</i>
IP	<i>Investment Property</i>
SFI	<i>Swedish Property Index</i>

Table of contents

1 INTRODUCTION	1
1.1 BACKGROUND	1
1.2 PROBLEM DISCUSSION	2
1.3 PROBLEM DEFINITION	3
1.4 PURPOSE	4
1.5 DELIMITATIONS	4
2 METHOD	5
2.1 CHOICE OF METHOD.....	5
2.2 CHOICE OF COMPANIES	6
2.3 CHOICE OF RESPONDENTS	6
2.4 DATA COLLECTION AND INTERVIEWS	7
2.5 ANALYSIS	9
2.6 RELIABILITY AND VALIDITY	9
3 THEORETICAL FRAMEWORK	11
3.1 APPROACHES TO STANDARD SETTING	11
3.2 THE DEMAND FOR DISCLOSURE.....	12
3.3 THEORY OF SCARCE RESOURCES.....	13
3.4 CAPITAL COST AND THE COST OF DISCLOSURE.....	13
3.5 IASB'S FRAMEWORK AND IAS 1 PRESENTATION OF FINANCIAL STATEMENTS.....	14
3.6 IAS 40 INVESTMENT PROPERTY	15
3.7 ADDITIONAL SWEDISH REQUIREMENTS	18
3.8 EARLIER LEGISLATION	18
3.9 SUMMARY AND COUPLING TO THE PROBLEM DEFINITION	19
4 EMPIRICAL RESULTS	20
4.1 EXAMINATION RESULTS FROM THE QUANTITATIVE RESEARCH	20
4.1.1 <i>Disclosures applicable to all investment properties</i>	20
4.1.2 <i>Disclosures applicable to investment property valued according to the fair value model</i>	22
4.1.3 <i>Disclosures applicable to investment property valued according to the cost model</i>	23
4.1.4 <i>Additional Swedish requirements</i>	23
4.2 INTERVIEWS REAL ESTATE COMPANIES	24
4.3 INTERVIEWS USERS	25
4.3.1 <i>Banks</i>	25
4.3.2 <i>Analysts</i>	26
5 ANALYSIS	29
5.1 THE FULFILMENT OF DISCLOSURE REQUIREMENTS RELATED TO INVESTMENT PROPERTY	29
5.2 DEMANDED RESOURCES TO MEET THE INCREASED DEMAND FOR INFORMATION.....	31
5.3 THE CORRESPONDENCE BETWEEN THE DISCLOSED INFORMATION AND THE USERS' NEEDS.....	32
6 CONCLUSION	36
6.1 CONCLUSIONS OF RESEARCH QUESTIONS	36
6.2 FINAL DISCUSSION AND RECOMMENDATIONS FOR FUTURE RESEARCH.....	38
7 REFERENCES	40
APPENDIX 1 QUANTITATIVE RESEARCH	I
APPENDIX 2 PARAMETERS USED IN SENSITIVITY ANALYSIS	XVII
APPENDIX 3 QUESTIONS TO RESPONDENTS	XVIII

Index of tables and figures

Tables

Table 1 Selected companies.....	6
Table 2 Disclosures applicable to all investment properties.....	20
Table 3 Disclosures applicable to all investment properties (continued).....	21
Table 4 Used methods and applied important assumptions when determining the fair value.....	21
Table 5 Variables used in the valuation model.....	22
Table 6 Disclosures applicable to investment property valued according to the fair value model.....	23
Table 7 Additional Swedish requirements.....	24

Figures

Figure 1 The production possibility frontier.....	13
---	----

1 Introduction

The opening chapter of this thesis presents background and discussion of the examined problem. The problem discussion is followed by the problem definition. The chapter is completed with a description of the purpose of the study and the delimitations we have made.

1.1 Background

Accounting has traditionally been regulated on a national level but during the past few years globalization has created a demand for harmonization of the national standards. Two schools have been developed with different users in mind: the Anglo-Saxon focusing on investors and the Continental focusing on creditors. The Continental tradition has its origin in Roman law and is based on written laws while the Anglo-Saxon tradition has its origin in practice and norms. During the second half of the 20th century, globalization has involved a diminution of domestic boundaries regarding capital markets. Some particularly important factors why there has been a demand for harmonization are (1) the creation of multinational companies, (2) listing of shares on several markets and (3) the development of new financial instruments. Due to this harmonization, the importance of these traditions has today decreased. The fact that Great Britain entered the European Union (EU) has further contributed to this development and created a link between the two different accounting schools.¹

The International Accounting Standards Board (IASB) has gained a unique position in the harmonization process being an accounting standard-setter while these standards at the same time are given a legal status with the adaptation by the EU.² The IASB is an independent and privately-financed organization who issues International Financial Reporting Standards (IFRS) previously named International Accounting Standards (IAS).³ To visualise the intentions of the standards, the IASB has created a Framework for the Preparation and Presentation of Financial Statements where general principles and purposes can be found.⁴ With the implementation of the IFRS/IAS, Swedish accounting is turning towards the Anglo-Saxon accounting tradition. Due to this implementation, accounting principles and disclosure requirements are changed to better reflect the regulators' demands for true and fair values of companies.⁵

Along with the implementation of new accounting standards, a discussion regarding disclosures has arisen. This discussion is due to the fact that the new accounting standards involve increased disclosure requirements and concerns the effects of different approaches and the reasons behind disclosing and not disclosing the company's private information. The disclosure requirements have the main intention of complementing the

¹ Smith 2006

² European Commission 11 April 2007

³ IASB 11 April 2007

⁴ IASB's Framework

⁵ Smith 2006

balance and income statements with useful and necessary information for interested parties.⁶

The standard IAS 40 Investment Property has the main purpose of treating the accounting methods concerning investment property and related disclosure requirements. According to the standard, investment property can be valued either with a fair value model or a cost model. The possibility to include price changes of investment property in companies' statements is however connected to some difficulties in valuation methods. The cost model has a business transaction as a basis while the fair value model is mainly based on judgements. The option to use different methods in the fair value model can create an uncertainty in accounting, which can result in less comparable financial reports. The disclosed information then plays an important role in this case for interested parties in their decision-making. The disclosure requirements in IAS 40 are, however, extensive and not very precise.⁷

1.2 Problem discussion

The increased requirements in disclosures with the IFRS/IAS implementation have created a discussion about how much information is necessary in the financial reports. Advocates for more extensive disclosures as well as less extensive disclosures have addressed their issues. The advocates of extensive disclosure emphasize the negative correlation between the cost of capital and the cost of extended disclosures⁸. In response to this, the advocates of less disclosure stress the tendency of an overproduction of information.⁹

The companies concerned with increased disclosure requirements may have been obligated to increase their resources to provide the demanded information. If, then the users of the information do not really find it applicable, the disclosure is produced only to meet the requirements. With the IASB's Framework in mind and especially the principle of costs and benefits this matter can be challenged. Concerning the recentness of the IFRS/IAS implementation the accomplishment of meeting the requirements can vary between companies resulting in variations in the quality of the disclosures.

In addition to the IFRS/IAS disclosure requirements, quoted Swedish companies are supposed to apply the Swedish accounting standard RR 30¹⁰. According to this recommendation, the companies are directed to follow some clauses in the Swedish Annual Accounts Act (ÅRL)¹¹. One of those directions concerns the administration report which is compulsory through Swedish law. The administration report should present the company's future development including information about risks associated with the company's operations. The risk presentation could, for example, be illustrated with a

⁶ Botosan 2006

⁷ International Accounting Standards Committee 2000

⁸ Healy & Palepu 2001

⁹ Kam 1990

¹⁰ RR 30

¹¹ Årsredovisningslag (1995:1554)

sensitivity analysis. Without any restrictions, the companies are free to make their own interpretations of the formation of risk information.

The primary users of financial reports are creditors and investors according to IASB-FASB Joint Meeting April 2005¹² and the disclosed information is supposed to facilitate their decision-making. To be able to accomplish this, it is important that the disclosed information corresponds to the users' needs of information. According to the discussion of more or less information, this matter is not secured.

1.3 Problem definition

IAS 40 increases the demand for information regarding the valuation of investment property and this demand needs to be met by the real estate companies. From a Swedish horizon, the demand of an administration report in RR 30 further increases these requirements. After two years of practice with the new legislation the real estate companies have been able to make their choices how to value and how to disclose information related to investment property. We find it interesting to examine if the Swedish real estate companies fulfil laws and standards from a producer's viewpoint.

To meet the increased demands of information, more resources usually needs to be exploited. Whether this is true and what these resources is something we would like to examine in connection with the fulfilment of disclosure requirements. These two problems follow in our first research question:

Do Real Estate Companies fulfil the Disclosure Requirements associated with Investment Properties, what strengths and shortages could be distinguished and what resources are demanded to satisfy these demands?

From the user horizon financial reports are used to make decisions. To creditors and investors the transition to IAS 40 means more information to analyze and use in their decision process. In addition to the requirements in IAS 40, Swedish companies are obliged to follow RR 30 and the requirements of the administration report. Connected to the requirements in IAS 40, especially the requirement of a presentation of risks and uncertainties is interesting. This presentation is often illustrated with a sensitivity analysis. With this background we consider it interesting to examine how the disclosed information is used and if it matches users' demands. With this in mind, our second research question is:

Does the disclosed information correspond to users' needs? If not, what is the gap between the available and the demanded information?

The question above includes whether the disclosed information is sufficient or abundant from the users' horizon.

¹² IAS Plus 26 April 2007

1.4 Purpose

The main purpose of this thesis is to describe and analyze the disclosed information regarding investment property provided by the real estate industry. To be able to fulfil the main purpose three partial purposes can be defined: (1) to examine if the real estate companies fulfil the disclosure requirements related to investment property in their financial reports, (2) to describe what resources are demanded from the real estate companies to meet the increased demand for information and (3) to examine if the information provided by the real estate companies corresponds to the users' needs.

With this study we would like to contribute to research and discussions regarding how much information, connected to IASB's requirements of disclosures and the relationship between costs and benefits, companies should disclose in their financial reports. Our contribution to this discussion also includes how this information should be formulated. This particular study will contribute with an IAS 40 horizon dealing with adequate disclosure requirements. The study could also be used by real estate companies to meet users' demand for information.

There has been little investigation of how the real estate companies as well as the stakeholders experience the increased disclosure requirements related to investment property. With lack of knowledge in this field, we find this study motivated.

1.5 Delimitations

This thesis examines the disclosure requirements associated with investment property regarding real estate companies quoted on the OMX Nordic Exchange Stockholm. Since the thesis takes a Swedish horizon we concentrate our study on disclosure requirements in IAS 40 and additional accounting requirements dealing with risks, uncertainties and taxable values for investment property in RR 30. Due to the individuality of leasing, the disclosure requirements in IAS 40 dealing with leasing will not be encompassed. By these delimitations we refrain from estimating how companies should value and define their properties by instead concentrating on the disclosure requirements in the standard. Financial reports have more users than creditors and investors, but since these two groups are the most important ones for quoted Swedish companies we will delimitate users in this study to these two groups.

2 Method

The Method chapter illustrates the thesis' approach, motivations behind method choices and what affects these have on the thesis. The purpose of this chapter is to describe the procedure of the study to make it possible for the reader to judge the study's credibility.

2.1 Choice of method

The first question, regarding the fulfilment of the disclosure requirements related to investment property and increased resources, should be answered by investigating the quoted Swedish real estate companies and interviewing respondents involved in the accounting issues at some of those companies. The second question, regarding the users' needs for information, should be answered by interviewing respondents working with credit processes at banks and analysts at investment banks.

There are principally two types of methods within the social science branch named qualitative and quantitative methods. The qualitative methods have a primary target of understanding the investigated problem by collecting data. Quantitative methods have rather an explaining purpose and primary used sources of data are statistics and mathematics.¹³ The set-up of the investigation is different depending on the used method. For a quantitative method a structured approach is common with a standardized set-up which enables generalizable conclusions. When using qualitative methods it is of importance to have a flexible approach to be able to use the achieved experiences. It can, for example, be necessary to revise questions to interviewees to receive adequate results. Quantitative and qualitative methods can be combined in a favourable way since different approaches resulting in the same conclusions increase the credibility of the investigation.¹⁴ The best indication of the most appropriate method for the collected data is however what the content of the data is. An interview can, for example, have segments of qualitative as well as quantitative methods.¹⁵

The thesis is built on a descriptive approach since the thesis describes the disclosure situation related to investment property and explains the gap between users' needs and the disclosed information. The thesis also has some normative features since the purpose includes a contribution to how the disclosed information should be formulated. We have chosen a quantitative method for the part of the problem definition containing investigating and analyzing quoted real estate companies' financial reports included in the selection. The motivation for choosing a quantitative method for this part is that a structural approach is of significant importance when investigating such quantitative material as financial reports. This results in the possibility to generalize the outcome of the study. The quantitative study consisted of first classifying each company with regard to which valuation method they had used and thereafter investigating the companies' fulfilment of disclosure requirements divided into four different types: (1) disclosures

¹³ Andersen 1998

¹⁴ Holme & Solvang 1997

¹⁵ Andersen 1998

applicable to all investment properties, (2) disclosures applicable to investment property valued according to the fair value model, (3) disclosures applicable to investment property valued according to the cost model and (4) additional Swedish requirements. When variables and assumptions in the IAS 40 were not stated precisely we emanated from the valuation guidelines issued by the Swedish Property Index (SFI) to be able to distinguish variables and assumptions.

To be able to answer the research questions, we needed to complement the quantitative part with a qualitative part. We intended to carry out interviews with persons at real estate companies as well as with various interested persons of the financial report. For this part we have been using a qualitative method since flexibility is more important than structure for this area of our thesis. Since we were forced to make a selection of the respondents, the results of the qualitative part will not create a possibility to generalize the outcome. Another approach could be to perform a questionnaire study with the real estate companies. This method was however not chosen since we regarded it as too time-consuming and we preferred to receive more developed answers that are considered to be achieved by interviews. Finally, it is important to state that both methods are combined in this thesis.

2.2 Choice of companies

The selection of companies in the study started with the quoted Swedish real estate companies' financial reports. Here we proceeded from the OMX Nordic Stockholm and identified the 17 companies belonging to the real estate industry.¹⁶ During this first selection, we investigated which of these companies held investment property and if there could be any further problems if each of the companies should be included in the study. There were two companies we did not proceed with; *JM* which does not hold any investment property and *Huvfudstaden* which is included in the Lundbergs group. After this first selection, we ended up with 15 real estate companies constituting our selection. In table 1 these 15 companies can be found.

Real Estate Companies		
Balder	Diös	Kungsleden
Brinova	Fabege	Ljungberggruppen
Castellum	Fast Partner	Lundbergs
Catena	HEBA	Wallenstam
Din Bostad	Klövern	Wihlborgs

Table 1. Selected companies.

2.3 Choice of respondents

Since this thesis has been written under time limits we needed to make a selection of respondents both of real estate companies and stakeholders. We found it appropriate to interview two respondents at real estate companies and after the first initiated classification we contacted the real estate companies with regard to the companies' use of

¹⁶ OMX Group 9 april 2007

internal and/or external valuation, location of the companies and accessibility of the contact persons. The respondent on the real estate company needed to be familiar with the accounting process related to investment property. Therefore, such a person was asked for, first at the switchboard and later also with a direct question to the respondent. One of the interviews was performed face-to-face while the other one was performed over the phone. Since one of the respondents requested to be anonymous we decided both respondents at the real estate companies should be anonymous. The results from the selection process was a personal interview with the Financial Manager and a Controller at Company A and a phone interview with the Accounting Manager at Company B.

The selection of respondents corresponding to stakeholders regards both creditors and investors. For creditors, we have been concentrated upon banks since we were interested in a professional point of view and thereby used one of the authors' contacts within two of the main Swedish banks to find appropriate bankers to interview. Through these contacts, with insight into the selected banks, we were able to interview persons with very good knowledge of the real estate industry. We were given, through the contacts, recommendations about which employee would be the most adequate respondent. Since one of the respondents requested to be anonymous we decided both respondents at the banks should be anonymous. The results from the selection process were phone interviews with a Manager of Real Estate at Bank 1 and a Manager of Corporate Market at Bank 2. By this method, we were able to find more appropriate and reliable respondents in a shorter time period. Representing the investors, we were interested in a professional point of view, so we turned to analysts at investment banks. When contacting the investment banks, we were looking for an analyst with a broad perspective and with experience of the real estate industry and accounting as well as an analyst specialized on the real estate industry, so the choice of respondents fell on Peter Malmqvist, Chief Analyst at Nordnet and Andreas Daag, Real Estate Analyst at Swedbank Markets. Malmqvist was chosen because of his reputation and cognition as an analyst as well as because of his background as an authorized auditor and Daag was chosen because of his presence as an official analyst of several quoted Swedish real estate companies and his presence in business articles¹⁷ in this area. In the study the respondents will be referred to as Analyst X and Analyst Y without specifying which of the analysts is Analyst X and Analyst Y respectively. The reason of this structure is that we consider it important to declare which analysts we have interviewed but of less interest to know which opinions belongs to each analyst. In our first selection of analysts, the planned interview with one analyst never occurred so this respondent was replaced by another analyst and thereby we were able to keep the same number of respondents.

2.4 Data collection and interviews

As mentioned above, the study is built partly on a quantitative and partly on a qualitative method. To meet these ambitions both primary and secondary data is needed. Primary data is information where the researcher has contributed to the collection while secondary data is information collected by other persons¹⁸.

¹⁷ See for example Hammarström 2007

¹⁸ Andersen 1998

Initially secondary data was collected to create a solid base for further research and the right background to handle primary data. The study emanates from IAS 40, so this standard was studied with focus on the disclosure requirements presented in article 74 to article 79. Also, the Swedish addition RR 30 was studied. To deepen our understanding in the current subject we searched widely for articles and studies. The search emanated from data bases at the Göteborg University Library homepage where Gunda, Libris, Artikelsök and Business Source Premier were used. We have in our searches used the following keywords: *accounting, regulation, IASB, IAS 40, investment property, disclosures, disclosure requirements, voluntary disclosures and scarce resources.*

The information concerning disclosures from real estate companies were collected by reading annual reports from the examined companies. The annual reports were downloaded electronically from the companies' homepages, which we regarded as a more suitable format.

With enough background in the subject, primary data was collected corresponding to the qualitative part of the thesis. We carried out interviews both with the real estate companies and with different interested persons of the companies' financial reports. Since we had logistical limits and our respondents had accessibility limits we needed to conduct different approaches in the interviews. We have in this thesis used personal interviews when it has been possible but since some of the respondents were situated at other locations we have also used phone interviews as a way of collecting data. Before the interviews we have prepared standard questions for the interviews depending on whether the respondent was a user or a producer of information. The personal interview was realized with both authors present being able to ask attendant questions. During the interview we took notes and directly after we summarized the interview. The phone interviews were realized with both authors present, but with only one posing questions to the respondents. Some of the phone interviews were recorded with the permission of the respondents and made it possible to subsequently reproduce the interview in printing. With this method we were able to listen carefully instead of taking notes and made it possible to pose appropriate attendant questions. A risk of recording an interview is that it may create insecurity with the respondent¹⁹. We consequently offered the respondents to remain anonymous and made sure they were able to comment on the content of the thesis before the final edition. Through this, we were able to receive appropriate answers. In those cases where the phone interviews were not recorded, we summarized them directly after each interview. The respondents were also offered to receive the questions ahead of the interviews. The real estate companies felt secure concerning the examined subject and did not wish to receive the questions in advance while the banks and investment banks, perhaps involved in many industries, accepted the offer and thereby received the questions. The personal interview lasted for one hour while the phone interviews lasted for 15 to 30 minutes. The personal interview involved a lot of information and was consequently satisfying. The phone interviews were more precise but could implicate follow-up questions, so we decreased the possibility of missing important information by asking for permission to return to the respondents if necessary. We used standard

¹⁹ Patel & Davidson 2003

questions but we had at the date of the interviews obtained required knowledge and were thereby able to be flexible during the interviews. By this, we combined standardization and flexibility.

2.5 Analysis

The analysis was carried out through analyzing the empirical results with the theoretical framework. Due to the fact that the interviews have been performed continuously during the study process we needed to make some analyzing continuously, which was preferable since we were able to achieve better interviews. The analysis emanated from the thesis' two research questions divided into three main sections: (1) the fulfilment of disclosure requirements related to investment property, (2) demanded resources to meet the increased demand of information and (3) the correspondence between the disclosed information and the users' needs. This structure was chosen to clearly connect the analysis to the problem definition since the analysis has the target to create a foundation to be able to draw conclusions answering the research questions. Within the sections we have arranged the content along the structure used in the chapter Empirical results.

The analysis has been performed by emanating from the empirical results and those results have been compared with the theoretical framework to identify connections explaining the answers to the research questions. In addition to this, we have analyzed the connections and differences and tried to present our opinions about why the situation is as presented in the empirical research. The references in the analysis regard solely theories and principles affecting the disclosures but not the disclosure requirements themselves. The collocation of the analysis was accomplished when the collection of the empirical material was finished. This approach was chosen to achieve an overall analysis and to avoid biases towards individual opinions.

2.6 Reliability and validity

In order to be able to claim how representative the used information is, reliability is used as a measure of how consistent it is.²⁰ Complete reliability is obtained when the same result of the investigation is repeated several times.²¹ This is connected to the quantitative part of the investigation where our classification is based on public information, and by using the same variables, identical results should be received. An important factor also increasing reliability is that secondary information is compiled by other persons than the authors. Another factor increasing the reliability was that the quantitative study emanated from the disclosure requirements which are a part of the legal framework and can be regarded as reliable. The qualitative part is different when it is based on a selection of respondents. With the use of either different respondents or another number of respondents, a different outcome could be the consequence. Reliability increased since we chose to interview two respondents in every respondent group resulting in a broader quality of the investigation. The possibility given to the respondents to remain anonymous in this thesis increases the reliability since the answers then can be assumed

²⁰ Holme & Solvang 1997

²¹ Andersen 1998

to be more honest. This compensates for the fact that most of the interviews were recorded which could have decreased reliability due to more careful answers given by the respondents. We have tried to include only current sources, for example financial reports solely regard 2006. The standards, legislation and literature were at the time only the latest edition. We have used articles that are mainly referred to in other articles and publicized the latest years but the interest of the article has been prioritized instead of the relevance.

Validity is a definition of how well the researcher, the measuring device, measures what is intended to be measured, the measurement. The concept of validity can be divided into internal and external validity. Internal validity explains the relationship between the searched concept and the measuring device. External validity explains the relationship between the measuring device and the measurement's affect from external factors.²² Internal validity increased since (1) we have gone through the financial reports three times to minimize the risk of committing any errors, (2) the quantitative study emanated from the legal framework and decreased our influence on the study, (3) the interviews were conducted when the theoretical framework almost was finalized and the interviewers thereby possessed the knowledge to ask the correct questions and (4) all interviews were conducted with both authors present, so the outcome of the interviews should be more valid. External validity increased since (1) the quantitative study was based on the investigated companies' financial reports composed of audited information, (2) we secured before the interviews that the respondents were familiar with the investigated subject and (3) the questions were sent in advance to the respondents if they were needed for the preparation.

²² Arbnor & Bjerke 1994

3 Theoretical framework

The Theoretical framework emanates from the theories connected to the examined subject. Thereafter the IASB's Framework is presented along with the standard IAS 40 Investment Property, Additional Swedish requirements and Earlier legislation. Finally, a summary of the Theoretical framework is presented. The Theoretical framework has the purpose of explaining the problem definition and is a foundation for the interpretation of the chapter Empirical results.

3.1 Approaches to standard setting

With the ambition of harmonizing the legislation of accounting, the issue of how this accounting should be regulated has been revealed. Mainly, there exist two different approaches to this issue: a free market approach and a regulatory approach.

The advocates of the free market approach view accounting as a market where the companies supply information and where a demand of information from the stakeholders exists. According to this approach the usual market mechanisms are in operation which will lead to an equilibrium price on accounting information. The free market approach is closely related to the agency theory and according to this theory the market determines what information the principal is willing to pay for and consequently no mandatory disclosures are needed. The advocates of this approach believe that regulated disclosures requirements will lead to an overproduction of information since the cost of information is not borne by the users and the market attributes are changed. The affect of this will be higher demands which will mislead the authorities.²³

According to the advocates of the regulatory approach market imperfections exist on the accounting information market. The main factors of this imperfection are the following two: (1) when accounting information is released it will become a public good since the buyer is unable to control it, (2) since the company has a monopoly in the supply of information it will tend to under-produce. With the mentioned market imperfections research supports regulation to adjust the failures.²⁴ Clear guidelines for reporting, verification and overseeing purposes for producers, auditors and regulatory authorities respectively are being stressed as a possibility of regulated accounting.²⁵

Connected to the two approaches to standard setting there exists a discussion of the quality of disclosure and the level of regulation. The literature discusses at least five different factors affecting the decisions of the manager to disclose information. The first factor is the cost of capital which is further discussed in section 3.4. The second factor is about managers trying to avoid undervaluation of stocks, exposed to the risk of losing their position. Such undervaluation can be unfavourable to the manager since they often are held responsible for the current stock performance by investors and board directors.

²³ Kam 1990

²⁴ Ibid

²⁵ Mathews & Perera 1996

With unevaluated stock performance the company is also more exposed to hostile takeovers with the usual affect of management turnover. The third factor is that managers rewarded by stock compensation programs have incentives to provide voluntary disclosures to meet restrictions imposed by insider trading, increase the liquidity of the stock and share the interest of existing shareholders. The fourth factor is that managers are exposed to threats of shareholder litigation by leaving insufficient disclosures but also when leaving incorrect forecasts. The fifth factor is that the risk of spill-over effects from voluntary disclosure could affect the company's competitive position on the market.²⁶

3.2 The demand for disclosure

The main reasons why accounting information and disclosures are needed in the first place depend on the situation where the investor and the entrepreneur are two different persons and there is a demand for an efficient allocation of resources. The entrepreneur-investor relation has two main problems which need to be solved: (1) the information asymmetry problem and (2) the agency problem. Dealing with the solutions of these information problems the Positively Accounting theory has been developed.²⁷

The information asymmetry problem is explained in a famous example dealing with the automobile sales market. In this example, there exist only four kinds of cars; the cars are either new or used and are of good (called peaches) or bad (lemons) quality. There is an owner of a car, who knows the quality of it, and there is a buyer, who according to this theory does not have any knowledge of the quality. With this information asymmetry between the seller and the buyer, the seller will only sell bad cars and the buyer will have to pay the price of a good car. This will lead to a situation where all cars are sold on an average price, with the result that lemons are over-represented on the market.²⁸ This situation is translatable to capital markets where we instead of the buyer-seller relation have an investor-entrepreneur relation accrued when the investor searches for a successful investment. In the literature there exist several solutions to this problem including (1) establishment of optimal contracts providing incentives to full disclosure between entrepreneur and investor, (2) regulation requiring full disclosure of private information and (3) information intermediaries. The different solutions are preferable in different situations where factors such as the ability of optimal contracts, proprietary costs, regulatory imperfections and incentive problems related to intermediaries determine which solution is the best. Common in these solutions is investor demand of information from the entrepreneur.²⁹

The second problem, the agency problem, comes into existence when the investor already has invested his capital. According to this theory one person, the principal, engages another person, the agent, to manage a project on the principal's behalf. Assuming both parties will maximize their own utility, it is believable the agent sometimes will not act in the interest of the principal.³⁰ Also, the agency problem has several solutions including

²⁶ Healy & Palepu 2001

²⁷ Ibid

²⁸ Akerlof 1970

²⁹ Healy & Palepu 2001

³⁰ Jensen & Meckling 1976

(1) optimal contracts with incentives trying to align the agent with the interest of the investor, (2) a board of directors monitoring the agent and (3) information intermediaries. The effectiveness of the different solutions is determined according to the attributes of the situation. As in, the information asymmetry problem, the investor needs sufficient information from the entrepreneur to solve the agency problem.³¹

3.3 Theory of scarce resources

Economics is often referred to as the administration of resources.³² This also encompasses the companies' accounting. Accounting is a cost and according to IASB costs and benefits should be valued against each other.³³ In connection to this the theory of scarce resources could be emphasized. This theory, emphasized in the international trade theory, claims that when coping with scarce resources the country needs to

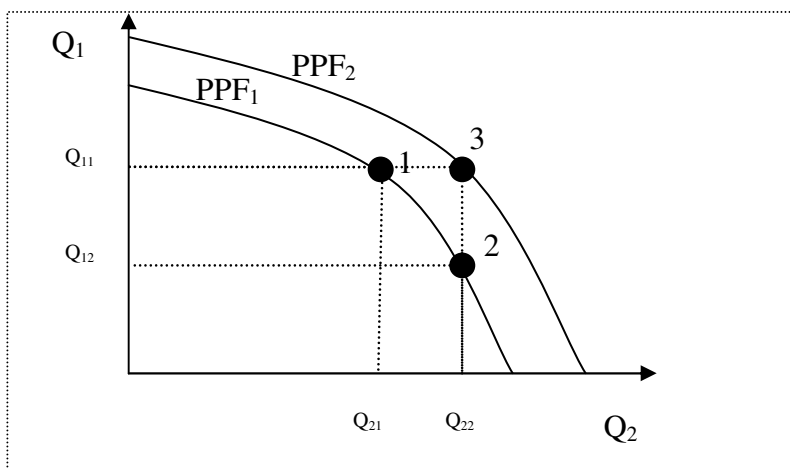


Figure 1. The production possibility frontier.

optimally distribute their resources to maximize their output. This situation could be translated to a company's situation. Having several choices where to distribute their resources the company is met by opportunity costs and will allocate their resources where the opportunity costs are smallest. A production possibility frontier, PPF, illustrates

the company's choices when the company is exposed to constrained choices, opportunity costs and scarcity (see figure 1). With a given demand with quantities Q_1 and Q_2 the company will distribute their resources such that point 1 on the PPF_1 will be fulfilled. If the government imposes quantitative regulation, Q_{22} , ceteris paribus, the company will need to produce in another point than the market demands and resources will be reallocated to instead fulfil this point (see point 2). An alternative solution to meet the quantitative regulation would be to increase the company's total resources and by this shift the frontier to PPF_2 and then being able to meet the market demands of Q_1 and produce in point 3.³⁴

3.4 Capital cost and the cost of disclosure

Emanating from the information problem there exists a sizable discussion concerning the relationship between the cost of capital and the cost of disclosure. The academic research

³¹ Healy & Palepu 2001

³² Lange 1945

³³ IASB's Framework

³⁴ Gandolfo 1998

in this subject mainly concerns equity capital even if debt capital also has been researched. When it comes to equity capital there exists two main reasons why capital cost decreases with higher disclosure costs. The first reason is that with more information the risk of estimations is assumed to decrease. This phenomenon is illustrated with two companies with the same expected return but with different availability of disclosed information. With this situation the forecasts of the investors will be better concerning the informing company while the risk will increase in their forecasts on the other. If risk is non-diversifiable this will mean a higher cost of capital for the less informing company. The second reason is the relationship between transaction cost, information asymmetry and the cost of capital. According to the literature, companies with a larger proportion of private information experience higher transaction costs with lower interests from investors to pay high prices for the stock as a result.³⁵ This relationship has been explored by several authors arguing higher transactions costs will lead to larger bid-ask spread³⁶ and investor tendencies to refrain from large trades³⁷. Recent research shows a link where investors require compensation when they are uninformed of a company, this compensation decreases the demand and consequently the stock price decreases.³⁸ Lower stock prices mean higher cost of equity capital since lower stock prices implicate lower demand of the stock, *ceteris paribus*, and thereby the company's ability to receive capital diminishes. Much of the research dealing with disclosure and information asymmetry is based on the assumption that public disclosure mitigates the problem of information asymmetry.³⁹ This assumption has not been able to bely, instead research shows that public disclosure and private disclosure complement each other.⁴⁰

3.5 IASB's Framework and IAS 1 Presentation of Financial Statements

The IASB's Framework treats the concepts and main principles concerning the formulation of financial reports intended for external users.⁴¹ One of the purposes of financial reports is to supply information about a company's financial situation as well as changes in the economical position. The supplied information is supposed to be useful for the stakeholders and to be a part of their decision-making.⁴² It is stated in the framework that the qualitative characteristics provide the financial reports with useful information for the stakeholders. The four most important of those are intelligibility, relevance, reliability and comparability.⁴³ Intelligibility is important in the financial reports to make the information easy to use for the stakeholders. However, the stakeholders need to have some kind of reasonable knowledge of business and accounting and the information should be studied with reasonable accuracy.⁴⁴ The information is relevant if it is supposed

³⁵ Botosan 2006

³⁶ Amihud & Mendelson 1988

³⁷ Diamond & Verrecchia 1991

³⁸ Easley & O'Hara 2004

³⁹ Botosan 2006

⁴⁰ Lundholm 1988

⁴¹ IASB's Framework, art. 1

⁴² IASB's Framework, art. 12

⁴³ IASB's Framework, art. 24

⁴⁴ IASB's Framework, art. 25

to have an influence on the stakeholders' decision-making.⁴⁵ The information is reliable when there are no essential errors and the information is not angled.⁴⁶ Comparability is achieved when the stakeholders can compare the company's financial reports over time and with other companies' financial reports. It is thereby important that principles of accounting are uniformed between companies and over time. It is also important that information is available on which principles have been used as well as if there have been any changes in principles during the period.⁴⁷ It should, however, not prevent the company from adapting improved accounting standards.⁴⁸ IASB stresses the importance of the relationship between costs and benefits and that the company must consider how much information to supply in their financial reports. The benefit of the information should be larger than the cost of supplying it.⁴⁹

IAS 1 Presentation of Financial Statements has the purpose to specify how the financial statements should be formulated. Relevant for this thesis is the statement that the disclosures should be disclosed either in the balance and income sheets or in the notes. This is applicable if nothing else is stated in relevant standards. The financial statements should also be distinguished from the other parts of the financial reports.⁵⁰ The principle of essentiality states that a certain disclosure requirement not needs to be fulfilled if the information is not essential.⁵¹ Whether the information is essential or not should be considered upon the users' qualifications.⁵²

3.6 IAS 40 Investment Property

The standard IAS 40 Investment Property has the purpose of prescribing how investment property should be treated in the accounting and required disclosures connected to this treatment.⁵³ As defined in the beginning of this thesis, investment property is property not owned for use in the companies' own business or for sale in an own business but rather held to earn rentals or/and for capital appreciation. According to the standard, it "should be applied in the recognition, measurement and disclosure of investment property"⁵⁴. The standard also covers leasing and especially how investment property in the form of operating leases is to be treated.

As for all types of assets, the main rule is that it should be recognized when it becomes probable that the future economic benefits associated with the assets will accrue the company and the cost value can be measured in a reliable way. This is indeed applicable to investment property. In general, this recognition occurs when the property is acquired or constructed by the company itself. The initial measurement should be at cost value,

⁴⁵ IASB's Framework, art. 26

⁴⁶ IASB's Framework, art. 31

⁴⁷ IASB's Framework, art. 39, 40

⁴⁸ IASB's Framework, art. 41

⁴⁹ IASB's Framework, art. 44

⁵⁰ IAS 1, art. 43, 44

⁵¹ IAS 1, art. 31

⁵² IAS 1, art. 12

⁵³ IAS 40, art. 1

⁵⁴ IAS 40, art. 2

which is equal to the fair value. The cost value should also constitute expenditures related to the acquisition. Subsequent expenditures may be capitalized if they are related to the investment property and it is probable they will increase the future economic benefits of the investment property.⁵⁵ After the initial measurement, the company can choose either to account its investment property to fair value or to the historical cost minus accumulated depreciations. If the historical cost minus accumulated depreciations is used the fair value must be disclosed. If fair value is used, all property should be accounted at fair value unless any exceptions according to article 53 in IAS 40 are applicable. Transfers to or from investment property should only be done when there are any changes in the possible use of the investment property. Regarding disposals, the investment property should be derecognized and thereby eliminated from the balance sheet when it is sold or no future economic benefits are related to the property.⁵⁶

IAS 40 regulates, as explained earlier, disclosure requirements for companies holding investment property. We will sort the requirements by three types: (1) disclosures applicable to all investment properties, (2) disclosures applicable to investment property valued according to the fair value model, and (3) disclosures applicable to investment property valued according to the cost model.

Disclosures applicable to all investment properties

There are disclosures that are to be applied irrespective of with which valuation model is being used. The first information to be disclosed is if the fair value model or cost model has been used when measuring the value of the investment property and also which criteria the company has used to separate investment property from owner-occupied property and property held for sale in the company's ordinary operations, when this is regarded as difficult. It should also be disclosed what methods were used and which important assumptions applied when the company did determine the fair value of the investment property. Connected to the important assumptions, SFI has issued guidelines about how the valuation model should be formulated including discounted years, residual value and important assumptions. SFI's proposal includes: (1) inflation, (2) assumptions on rent levels, (3) operation and maintenance costs, (4) property tax, (5) valuation yields, (6) long-term vacancy levels, (7) discount rate, (8) interest subsidies and (9) ground rent.⁵⁷ A statement regarding whether the determination is based on actual transactions in the market or whether it is based on other factors, should be added. Other factors are, for example, special conditions of the investment property or lack of comparable data from the market. If so, this should be declared. Another important requirement is to disclose to what extent the fair value of investment property is based on valuations of independent valuers with recognized and relevant qualifications and with knowledge that is current for the property of the present type and location. If this is not done, it should be declared. The company in question should also disclose information about the amounts in the income statement with regard to (1) rentals, (2) direct costs for the company's investment property which has contributed to rentals during the current period, (3) direct costs for the company's investment property which has not contributed to rentals during the current

⁵⁵ Epstein 2005

⁵⁶ Ibid

⁵⁷ SFI 15 May 2007

period, (4) the accumulated change in fair value accounted in the result due to a transfer of investment property between a group of assets valued according to different value models. Also necessary to disclose are (1) the occurrence and the amounts regarding limitations in the right of selling an investment property or to dispose the rentals and the remuneration of the sale and (2) the contractual commitments to purchase, construct or exploit investment property or for repairs, maintenance or enhancements.⁵⁸

Disclosures applicable to investment property valued according to the fair value model

If a company has valued its investment property according to the fair value model there are some additional disclosure requirements than those above. The company should disclose a balancing of the carrying amounts of investment property between the beginning and the end of the period. Information that should be included in this balancing is additions divided into whether they are resulting from acquisitions, mergers or capitalized expenditures added to the carrying amount. The disclosure should also include information about remunerations, results from adjustments to fair value, the net of exchange differences, transfers between different kind of assets, and any other changes.⁵⁹ When a real estate company has made an essential adjustment of the valuation obtained for an investment property, for example to avoid double counting of assets and debts accounted as separate ones according to article 50, the company should account a balancing between justified value and obtained fair value.⁶⁰ If a company, according to article 53, can not measure the fair value of an investment property in a reliable way, this investment property should be separated from the others in the above balancing and the information should be complemented with (1) a description about the investment property, (2) an explanation of why fair value can not be estimated in a reliable way, (3) if possible, a range of estimated values that the investment property is likely to lie within and (4) information about whether sold investment property not has been measured using the fair value model, including the carrying amount of the investment property and the amount accounted in the income statement corresponding to the investment property.⁶¹

Disclosures applicable to investment property valued according to the cost model

Besides the general disclosure requirements, real estate companies holding investment property measured by using the cost model should provide information regarding used depreciation methods, the useful lives or used depreciation rates, the gross carrying amount and the accumulated depreciation at the beginning and at the end of the period. A balancing between balance brought forward and carried forward should also be disclosed regarding the investment property showing additions divided upon whether they are resulting from acquisitions, mergers or capitalized expenditures added to the carrying amount, disposals, depreciations, impairment losses recognized and reversed, the net of exchange differences, transfers between different kind of assets and any other changes. The company should also disclose the fair value of the investment property. If the company cannot measure the fair value of an investment property in a reliable way, according to article 53 in the standard, the company should disclose (1) a description of

⁵⁸ IAS 40, art. 75

⁵⁹ IAS 40, art. 76

⁶⁰ IAS 40, art. 77

⁶¹ IAS 40, art. 78

the investment property, (2) an explanation of why fair value cannot be estimated in a reliable way and (3) if possible, a range of estimated values that the investment property is likely to lie within.⁶²

3.7 Additional Swedish Requirements

The Swedish Financial Reporting Board manages the formation of accounting standards for quoted companies in Sweden. It was established on 1st of April 2007 and replaced the Association for the Development of Generally Accepted Accounting Principles (Redovisningsrådet).⁶³ The standard RR 30 is supposed to be applied by quoted Swedish companies and is consequently an additional national standard to the international standards. RR 30 states that according to 7:32 in ÅRL companies applying the IFRS/IAS standards are obliged to follow some of the clauses in ÅRL as an addition to the IFRS/IAS standards. The disclosure requirements related to investment property regarding the administration report is pertinent and states the following: “the administration report should include a true and fair overview regarding the development of the company’s operations, position and result”⁶⁴. A part of this is that the company should present “the company’s future development including a description of essential risks and elements of uncertainty the company is facing”⁶⁵. Of importance in this thesis is also the disclosure requirements regarding taxable values. Taxable values for investment property situated in Sweden should be disclosed.⁶⁶

3.8 Earlier legislation

Before the implementation of the standard IAS 40 in Sweden, consequently between January 2003 and January 2005, quoted companies should apply the ÅRL and the accounting standard RR 24 Investment Property. RR 24 is based on IAS 40 and is today applicable to non-quoted Swedish companies. The value model in this standard is solely the cost model⁶⁷ and the companies are recommended to provide information about the fair value of the property⁶⁸. The disclosure requirements in RR 24 correspond to the disclosure requirements applicable to all investment property in IAS 40.⁶⁹ The disclosure requirements in IAS 40 are more extensive since RR 24 does not allow valuation to fair value and consequently there are no disclosure requirements applicable to this model. Disclosures regarding the cost model are to be found in RR 12 Property, Plant and Equipment.⁷⁰

⁶² IAS 40, art. 79

⁶³ The Swedish Financial Reporting Board 7 May 2007

⁶⁴ ÅRL, 6:1

⁶⁵ ÅRL, 6:1:3

⁶⁶ RR 30, art. 10

⁶⁷ ÅRL, 4:3

⁶⁸ RR 24, art. 25, 56

⁶⁹ RR 24, art. 54

⁷⁰ RR 24, art. 55, RR 12, art. 38-43

3.9 Summary and coupling to the problem definition

Facing the increased disclosure requirements with the implementation of IAS 40, the theory of scarce resources is of importance to understand the company's behaviour vis-à-vis the new circumstances. The alternative possibilities coping with regulation will open to different approaches. The part concerning the capital cost and the cost of disclosure develops the perspective of resources applying the benefits of disclosure from a producer view. According to these theories the cost of disclosure is negatively related to the cost of capital. Regarding the issued international standards in the area and additional Swedish requirements, it is essential to structure the information in the standards and especially the disclosure requirements to be able to fulfil an appropriate investigation of the quoted real estate company's financial reports. The earlier legislation is important to the comparability of disclosure requirements before and after the implementation to be able to show that the extended disclosure requirements actually are more extended today. These parts of the theoretical framework are important to answer our first question in the problem definition:

Do Real Estate Companies fulfil the Disclosure Requirements associated with Investment Properties, what strengths and shortages could be distinguished and what resources are demanded to satisfy these demands?

From a user horizon, different approaches to standard setting implicate different circumstances to the user. Depending on which approach, the production of information differs both in numbers and in content and how to cope with this is connected to the beliefs whether market imperfections exist or if the market can supply enough information by itself. The approach to voluntary disclosure presents motives behind manager's actions when it comes to providing such information and this is connected to the quality of information. Emanating from the entrepreneur-investor relation there are two problems with the demand for disclosure: (1) the information asymmetry problem and (2) the agency problem. These are solved by sufficient information from the entrepreneur to the investor wherefore there exists a demand for such information. The standards and legislation in accounting formulate the reports the users could use in their decision-making. These parts of the theoretical framework are important in order to answer our second question in the problem definition:

Does the disclosed information correspond to the users' needs? If not, what is the gap between the available and the demanded information?

4 Empirical results

This chapter presents the collected data arising from the quantitative and qualitative research. The chapter is divided upon our problem definition and the disclosure requirements stated in the IAS 40. Further, the sections emanate from the three research groups: (1) the real estate companies, (2) banks and (3) analysts.

4.1 Examination results from the quantitative research

4.1.1 Disclosures applicable to all investment properties

The companies coherently disclose their choice of accounting and all examined companies value investment property according to the fair value model. The requirement of disclosing information about difficulties to separate investment property from other property has solely been disclosed in a guiding way by one company. Several other companies have mentioned these difficulties but their information about separating criteria are not sufficiently detailed. 14 of the 15 examined companies have used an external valuation. The external valuation is used to confirm the company's internal valuation with exception of one company which does not value its property internally for the year 2006 due to a merger with another company.⁷¹ Of the companies conducting external valuation three have chosen not to disclose the valuator. The proportion of the external valuation lies within a range from 20 % to 100 %.⁷²

<i>Disclosures applicable to all investment properties</i>			
	Yes	No	Total
Choice of accounting	15	0	15
Used criteria to separate investment property from other property	1	14	15
External valuation	14	1	15
Specified valuator when external valuation is used	11	3	14

Table 2. Disclosures applicable to all investment properties.

The extent of information about amounts in the income statement that should be disclosed varies between companies. Rentals are disclosed by all companies, but the placement in the annual report varies. The observed placements have been in the note regarding investment property (in five cases), in a separate note for rent incomes (in eight cases) and in the note segment report (in two cases).⁷³ The disclosed information of direct costs is narrow, all companies have provided information about property costs but few have specified if they are direct or indirect and if they are contributing or not to rentals. Companies fulfilling the parts of the requirement concerning both rentals and direct costs have created a table in their investment property note including these objects and the requested specification of direct costs. Regarding transfers between different valuation groups no information could be found in the annual reports and consequently no

⁷¹ Appendix 1

⁷² Ibid

⁷³ Ibid

accumulated change in fair value due to this was disclosed. Only one company disclosed information about limitations which in their case was equal to bonded property.⁷⁴ Regarding contractual commitments, four companies provided information about this which in all cases was ongoing investments and one company declared no contractual commitments occurred at the moment.⁷⁵

<i>Disclosures applicable to all investment properties (continued)</i>			
	Yes	No	Total
Information in the income statement about the amounts of:			
Rentals	15	0	15
Direct costs contributed to rentals	4	11	15
Direct costs not contributed to rentals	4	11	15
The accumulated change in fair value due to transfers between different valuation groups	0	15	15
Information about the occurrence and the amounts of limitations in the right of selling an investment property or to dispose the rentals and the remuneration of the sale	1	14	15
Information about contractual commitments to purchase, construct or exploit investment property or for repairs, maintenance or enhancements	6	9	15

Table 3. Disclosures applicable to all investment properties (continued).

All companies used the yield model as a method to determine the fair value of its investment property. Years and residual value are stated in twelve and ten cases respectively. In addition to the yield model, three companies also used the location price model to confirm their estimated values. A statement of basis for the determination of the value method is disclosed by seven companies.

<i>Used methods and applied important assumptions when determining the fair value</i>			
	Yes	No	Total
Yield method	15	0	15
Years	12	3	15
Residual value	10	5	15
Location price method	3	12	15
Statement of basis	7	8	15

Table 4. Used methods and applied important assumptions when determining the fair value.

Companies are expected to provide important assumptions connected to the yield model. Where the assumptions are stated differ between companies and one of them refers to another part than the financial statements and in alignment with IAS 1 we have interpreted this disclosed information as a non-fulfilment of the disclosure requirements. Also, another company has provided the requested information in other parts than in the financial statements and thereby not fulfilled the requirement. The details of the provided assumptions vary between the examined companies. Emanating from the SFI guidelines, the variable valuation yields is the most common to disclose. Operation and maintenance

⁷⁴ Appendix 1

⁷⁵ Ibid

costs, inflation, discount rate and assumptions on rent levels are assumptions disclosed by several companies. Some variables are more common to disclose including actual figures. These are valuation yields, inflation and discount rate. Other used variables which are not specified in the SFI guidelines are financial lease rate, property costs, planned investments and larger repairs, present value of temporary additions and location additions.⁷⁶

Variables used in the valuation model				
	Yes	Yes with actual figures	No	Total
Inflation	0	8	7	15
Assumptions on rent levels	7	0	8	15
Operation and maintenance costs	7	2	6	15
Property tax	3	0	12	15
Valuation yields	0	11	4	15
Long-term vacancy	1	4	10	15
Discount rate	2	6	7	15
Interest subsidies	1	0	14	15
Ground rent	3	0	12	15

Table 5. Variables used in the valuation model.

4.1.2 Disclosures applicable to investment property valued according to the fair value model

The information about the balancing of the carrying amount of investment property is often presented in a table in the financial reports. However, the use of the different variables varies. Acquisitions, capitalized expenditures, adjustments of fair value are disclosed by most companies. Most companies have also provided information concerning other changes, most often equal to divested property.⁷⁷ Net of exchange differences and transfers between different kinds of assets have been disclosed in few cases while mergers only have been disclosed by one company. No information has been disclosed concerning the balancing between justified and obtained fair value and the companies' inability to measure fair value respectively.

⁷⁶ Appendix 1

⁷⁷ Ibid

<i>Disclosures applicable to investment property valued according to the fair value model</i>			
	Yes	No	Total
Balancing of the carrying amount of investment property			
Additions of acquisitions	13	2	15
Additions of mergers	1	14	15
Additions of capitalized expenditures	14	1	15
Adjustment of fair value	15	0	15
Net exchange differences	4	11	15
Transfers between different kind of assets	5	10	15
Other changes	13	2	15
Balancing between justified value and obtained fair value	0	15	15
If not able to measure the fair value this should be disclosed	0	15	15

Table 6. Disclosures applicable to investment property valued according to the fair value model.

4.1.3 Disclosures applicable to investment property valued according to the cost model

The classification of the real estate companies had the outcome that all companies were using the fair value model and by this choice the fulfilment of the disclosures applicable to investment property valued according to the cost model were consequently fulfilled.⁷⁸

4.1.4 Additional Swedish requirements

Essential risks and uncertainty factors in the administration report are disclosed by eleven companies. However, the companies not leaving this information in the administration report do disclose this in other parts than the financial statements.⁷⁹ One other company has chosen to encompass all their non-financial material into their administration report and by this fulfilled this requirement. In 13 companies' annual reports, sensitivity analyses are disclosed, but the used parameters differ. However, there is no company neither leaving information about risks and uncertainties nor leaving a sensitivity analysis.⁸⁰ The parameters used in the sensitivity analyses and observed in the quantitative research were rentals (13 cases), property costs (nine cases), interest level (seven cases), lease rate (six cases), value changes in investment property (five cases), vacancy (five cases), interest costs (four cases), operation and maintenance costs (four cases) and yield demand (two cases). Occasional observations were made for the following parameters: value changes in share holding, asset value and solidity.⁸¹ Taxable values are reported by all companies.

⁷⁸ Appendix 1

⁷⁹ Ibid

⁸⁰ Ibid

⁸¹ Appendix 2

<i>Additional Swedish requirements</i>			
	Yes	No	Total
Essential risks and uncertainty factors	11	4	15
Sensitivity analysis	13	2	15
Taxable values	15	0	15

Table 7. Additional Swedish requirements.

4.2 Interviews Real Estate Companies

Opinions about the disclosure requirements in IAS 40

Company A states that IAS 40 is just one part of many when it comes to extended requirements. The Swedish Code for Corporate Governance and the complete converting to IFRS/IAS has also contributed to extended production of information. Company B has chosen to disclose at a minimum level from a legal point of view although they do not regard the requirements as too extended. From a competition perspective Company A regards some requirements sensitive to disclose, an example of this is the requirement of essential commitments. Regarding the absence of requirements, Company A demands guidelines for (1) income taxes on investment property and (2) what expenditures real estate companies should capitalize. Further, Company A would like more regulations concerning the disclosure of assumptions in the valuation model. The possibility to use different models makes the comparability of companies difficult and the user consequently needs the assumptions specified. With concealed assumptions it is easier for the real estate companies to manipulate the assumptions in order to receive a desired result. With today's requirements Company A questions what will happen with the openness of details in the valuation models if the market experiences a downswing. However, the company has chosen not to disclose actual figures in their financial report concerning the valuation model but presents an extended example illustrating the company's valuation model. This choice is taken due to motives of competition. Company B was not able to state some missing requirements but questioned if the user receives enough information. Both Company A and Company B found the increased requirements beneficial since the companies have been able to decrease the properties' overvalues. According to Company B, the stock market regards the market value of Company B as being above the external valuation of the investment property. Company A expressed their disclosed valuations as restrictive and aimed at receiving as few negative value changes as possible in the future.

Resource effects

As a parent company, Company A has not increased their own resources to fulfil the disclosure requirements. The daughter companies have, however, obtained additional work with the creating of final accounts both for the group and for the body corporate including different requirements considering valuation method. The reason for being able to maintain the number of employees is that Company A has rationalized in other accounting areas. Company B pointed to the fact that the old regulation did not implicate scantily done work. The technical part of accounting is according to Company B easier today when depreciations only are made by the body corporate and the consolidation

process is easier. Company B has since the implementation of IFRS/IAS increased their number of employees working with group accounting. Regarding the disclosure requirements connected to IAS 40, the company has increased their external resources in form of consultants composed by auditors and especially the auditing firm's technical expertise. The IFRS/IAS converting process resulted in an increased work load but has today returned to a normal level.

Sensitivity analysis

The sensitivity analysis, according to Company A, does not contribute to a better financial report. Reasons for this are that (1) the analysis is built on hypothetical and irrelevant assumptions and (2) the understanding of the analysis depends on the user's skills. The assumptions are irrelevant since they assume immediate changes. An example is an interest rate change resulting in cash flow changes which in reality are hedged in the lease contract by index clauses and minimum clauses. A user with sufficient skills could easily create their own analysis while a user with insufficient skills cannot create and does not understand the meaning of the analysis. Company B does find the sensitivity analysis important but also points to the fact that a user with sufficient skills easily can create their own analysis. The variables of Company A are chosen considering the influence on the cash flow and the asset value respectively and are based on the assumption of essentiality and risk. An example is the vacancy which has an immediate impact on the cash flow. Company B also chooses their variables with consideration to essential influence.

4.3 Interviews users

4.3.1 Banks

The need for and use of disclosures regarding investment property in the decision process
Bank 1 states that the valuation model is important to be able to perform a correct credit granting. According to both Bank 1 and Bank 2 the banks proceed from the financial reports to collect information but if there is any information missing they collect this from the companies to be able to make a reasonable decision. Both responding banks focus on the property portfolio in their decision process. Important variables for Bank 1 to make a correct judgement of the value of the portfolio and the company's future cash flow are localisation, sort of property, the tenant structure and the contract structure. Bank 2 regards the variables sort of property, localisation and the status of the localisation as important. External valuation is regarded as an important factor to both Bank 1 and Bank 2 in the decision-making to have a second-opinion of the fair values of the investment property. Which valuator is consulted plays an important role for Bank 1 as well as the extent of the valuation. Bank 1 has, however, a comprehension that it is expensive to value all property externally and consequently the confidence with the bank's customer is essential in this case allowing a lower level of external valuation with well-known customers. Bank 1 makes a plausibility judgment of the companies' own valuation, the external valuation and the bank's own considerations. This judgement secures the bank with a correct valuation of the customer's property portfolio. Bank 2 has own valuers to be able to receive an own apprehension of the valuation of the customer's property and this secures Bank 2's credit granting since the company's own

valuation never stands alone as a foundation. Bank 1 states that the more information that could be found in the financial reports the better, but argues the relationship between the bank and the customer is of importance in the decision process wherefore further information always is demanded.

Sensitivity analysis

Bank 1 always produces their own sensitivity analyses to be secure about the company's long term cash flow. However, the sensitivity analyses produced by the real estate companies simplify their own credit process. Bank 1 finds all such information valuable but regards standardization as difficult to realize since there exist differences between properties. Bank 2 agrees on the difficulties to realize standardization of the sensitivity analysis and also states they do not use the disclosed sensitivity analyses but some parts of them can be useful. Bank 2 produces their own sensitivity analyses based on the normalized operation net consisting of the vacancy level, the rental development, and the level of operation and maintenance costs. According to Bank 2, the operation and maintenance costs disclosed by the companies are regarded as unclear. The bank feels insecure about what is included in this object and consequently uses generalized amounts for the real estate industry. The analyses disclosed by the companies are of interest for Bank 2 to receive the customers' perspective on interesting variables.

4.3.2 Analysts

The need for and use of disclosures regarding investment property in the decision process

Analyst Y considers much of the information disclosed by the real estate companies as corresponding to their demands. Analyst X regards it as important to gain specification of how the real estate companies value investment property. In addition to this Analyst X considers the development during the period important and especially the investment and value changes. The treatment of these changes in the balancing is of interest to create an opinion about the company's accounting of these objects in the income statement and by this understand the company's yield demand. An example of an area where it is interesting to understand the company's accounting behaviour is if expenditures are being capitalized or seen as maintenance costs. For Analyst Y examples of important information in order to be able to estimate future cash flow are the average interest costs, average duration on credits and average maturity of contracts. According to Analyst X, it is important to receive information about whether the valuation is done by the fair value model. Analyst Y points to the importance of including the possibilities of fair value, demanded by the new accounting regulation, in the analysis. Today, the companies use the fair value model which delivers a market value. The market valuation was earlier done by analysts but with a disclosed market value from the company, analysts are often limited to these values due to their presence. Even when external valuers are consulted, the received market values are subjective, since the valuations are on behalf of companies. The valuation becomes dependent upon the situation whether the requestor wants a low or high valuation, so the valuator is of low importance to the analyst. The main function for the analyst today has become to reach an opinion about the correctness of the disclosed market value. According to Analyst X, an internal valuation could be subjective but an external valuation is to be trusted since it is built on actual transactions on the market. However, there exists a risk that external valuation can be subjective but

this risk is small since it is in the real estate companies' interest to maintain a good reputation and the market would recognize the plausibility of the valuation. The valuation is, however, based on judgements and a definitive fair value is only achieved when the property is sold. Trusting the external valuator's, Analyst X demands information on whether the property is valued externally as a complement to the internal valuation. External valuation is preferable since the internal value then has been balanced with experts. Even though the real estate companies are experts in this area, Analyst X has noticed a fear within the real estate companies regarding appreciating the values on the basis of only internal valuation. The affect of this fear has become that an appreciation is done at the balancing date with external valuation as a support. Which external valuator has been consulted is of less importance to Analyst X, what is of importance is if an external valuation is performed.

Analyst X uses the disclosed information when analyzing the properties' value. There are two important areas of information: (1) the cash flow generated by the properties, an example of important factors is rent incomes and operation costs and (2) the asset value where Analyst X proceeds from the disclosed valuation. This valuation is based on judgements and consequently it is necessary to make adjustments depending on the company's yield demand. However, it is also important to consider the portfolio premium as well as deferred tax liabilities which usually correspond to 10 % instead of the disclosed 28 % due to the possibility of selling investment property by disposing of a daughter company holding the actual property without capital gain taxes.

Despite the extended disclosure requirements none of the responding analysts consider that the real estate companies disclose excess information. Analyst X states that it is preferable to disclose as much information as possible. This is according to Analyst X not a problem since the real estate companies are doing well in selecting accurate and relevant information. Generally, Analyst X considers it is of importance financial reports are arranged in a usable structure, however Analyst X has not experienced this to be a problem with the real estate companies' financial reports since they are systematically arranged. Analyst Y states it is important for the users to easily find relevant information in the disclosure requirements and preferably in one place. Regarding a lack of disclosed information, Analyst X states it is preferable to know exactly how the valuation is performed to create an own opinion about the property value. To create an opinion about the valuation Analyst Y misses explanations to the assumptions used in the valuation model. Analyst Y refers to cases where some parameters demand unreasonable underlying assumptions. An example is where the yield increases because of a higher growth in rentals which only could be valid if the growth is eternal. This assumption is according to Analyst Y not very realistic. Further, Analyst Y regards the parameters difficult to standardize since companies are different. Important to disclose are, however, the actual amounts connected to the parameters to be able to receive an appropriate picture of the companies' estimations of, for example, economic growth and yield. Analyst X regards the variables used in the valuation model as important but has a great confidence with the valuator's since they have more knowledge connected to the valuation of the actual property than the analyst has. According to Analyst X the actual figures presented by the company are not very important but interesting to be able to achieve a picture about the company's opinions concerning, for example, yield demand and

inflation. Analyst X points to the fact it is not only the value that is of importance but also the cash flow generated by the property. Analyst X states that property in a portfolio is sold at a higher value and is an important addition in this area. This phenomenon implies the fair value is low compared to the market value. In addition to the lack of information concerning the valuation, Analyst X also misses information regarding the valuation process of project properties, which are not valued according to the fair value model. Consequently, there exists a value potential and Analyst X demands more information about the project properties and their potential. Analyst X illuminate the situation when an analyst has further demands than the public information and the limited possibilities to receive such information since the company then is obliged to make such information public and thereby the analyst is referred to the financial reports and press releases.

Sensitivity analysis

According to both analysts, sensitivity analysis is useful to gain a quick apprehension of how the value change affects the company. Analyst Y also adds the possibility to get an opinion of the company's own standpoint as an important use of the sensibility analyses. Analyst X believes an experienced analyst with adequate own opinions produces his own sensitivity analyses but for investors with lack of time the sensitivity analysis is a helpful tool. Analyst X considers the affection of variables such as interest rate and vacancy interesting for minor investors. Analyst X regards standardization of the sensitivity analysis as great since the comparability between companies then would increase. Analyst Y argues that the disclosed sensitivity analysis should be in a central position of the financial reports.

5 Analysis

This chapter should analyze the empirical results with the theoretical framework in mind. The presentation of the analysis has emanated from our two research questions divided into three sections: (1) the fulfilment of disclosure requirements related to investment property, (2) demanded resources to meet the increased demand of information and (3) the correspondence between the disclosed information and the users' needs.

5.1 The fulfilment of disclosure requirements related to investment property

The disclosure requirements presented in the theoretical framework can be interpreted in different ways. The companies could consider a requirement fulfilled by not disclosing non-existing objects, which is supported by the essentiality criterion.⁸² For example, eleven of 15 companies have not disclosed net exchange differences which may be that they did not observe to disclose this or did not have any property abroad during the period. The obligation to illustrate the important influencing factors in the administration report contributes with a possibility to control non-occurring objects. The absence of the required objects in the administration report should then confirm this non-occurrence. However, some of the requirements could be considered more essential to receiving a good overview of the company since the controlling possibility is minor and the information would preferably be fulfilled even when such objects do not occur.

All companies have, as ascertained before, valued its investment property according to the fair value model and consequently explored the intentions and opportunities IAS 40 supplies. The disclosure requirements are applicable when valuing to fair value implicates that the company needs to acquire new skills and knowledge to be able to use the fair value model. The disclosures applicable when valuing to cost value are, however, similar to the earlier Swedish legislation and companies could have had motives to maintain this valuation model since working routines already were in operation. The discrepancy that has occurred between the market values and the earlier carrying values pointed to the need for introduction of valuation models that create better accordance between carrying values and the real values. The choice to adapt the fair value model instead of the earlier required cost model proves that the companies regard the benefits of using the fair value model as exceeding the costs of the process and required disclosures illustrating a preferable accomplishment of the principle of costs and benefits.⁸³

A general statement of how to separate investment property from other property has been mentioned by most companies in their financial reports. The disclosure requirement asks for a criteria how this separation is performed when found difficult. Whether a company finds it difficult or not is a question of judgement and in our research we observed one company with a clear criterion stated. However, since more companies seem to have these difficulties we argue more detailed criteria are preferable to increase the

⁸² IAS 1, art. 31

⁸³ IASB's Framework, art. 44

intelligibility of the information.⁸⁴ External valuation is according to the disclosure consulted by 14 of 15 companies but the requirement demands more information about the valuator wherefore the company should disclose whether the fair value is based on valuations by independent valutors with acknowledged and relevant qualities and with present skills. Those companies not disclosing the valuator do not in our opinion fulfil this requirement and by this the competence of the valuator stays unknown.

The fulfilment of the disclosure requirement concerning amounts in the income statement is deficient regarding the specification of direct costs contributing or not to rentals. Companies fulfilling this requirement and disclosing the information in a table give a higher usability than the companies trying to fulfil the requirement by disclosing the information in separate notes. By presenting the objects together it seems like the companies better understand the importance of the requirement. The existence of limitations and contractual commitments is unclear since most companies chose not to disclose this. Generally, companies disclosing these objects also have them in their operations but the company which has disclosed no occurrence of contractual commitments proves the possibility of leaving information about none-existent limitations and contractual commitments.

Eight of 15 companies have not disclosed any statement of the basis for the determination of fair value, consequently we find a lack in the fulfilment and the reason for this is that the companies believe it is fulfilled by presenting the valuation model. This requirement should, however, be fulfilled by disclosing whether transactions are the base or if any other basis is used, which most companies fail to disclose. Due to the fact that all companies use the yield method and build this on assumptions similar to those stated by SFI⁸⁵, this similarity should enable high comparability of these models. Since most companies are cautious about leaving too detailed information, the assumptions are often rather general with a lack of figures and this diminishes the comparability and thereby the companies deviate from the overall principle of comparability.⁸⁶ The disclosure requirements do not specify the level of details for assumptions why this is voluntary and the companies' incentives to disclose detailed assumptions need to be evaluated from a cost and benefit perspective.⁸⁷ One of the real estate companies argued that not disclosing complete details about their assumptions was due to motives of competition which follows the theory of voluntary disclosure.⁸⁸ On the contrary, the benefits of a transparent dialog with the users should be considered with regard to the relationship between the cost of disclosures and the cost of capital.⁸⁹ To maintain these benefits it is important to secure that the provided information is relevant in the users' decision-making.⁹⁰ The requirement of disclosing important assumptions in the financial statements is not fulfilled legally⁹¹ by two companies but from a user perspective it is doubtful if the other

⁸⁴ IASB's Framework, art. 25

⁸⁵ SFI 15 May 2007

⁸⁶ IASB's Framework, art. 39, 40

⁸⁷ IASB's Framework, art. 44

⁸⁸ Healy & Palepu 2001

⁸⁹ Botosan 2006, Easley & O'Hara 2004

⁹⁰ IASB's Framework, art. 26

⁹¹ IAS 1, art. 43, 44

placements diminish the usability since the assumptions are highlighted in more central parts.

The balancing of the current amount related to the investment property is fulfilled by all companies but the amounts included vary between them. The objects more seldom occurring are not essential or valid to all companies' situation. Even though the objects do not occur, it would be possible to disclose them, but this should be seen from the principle of costs and benefits.⁹² In this area, the real estate companies are performing well, the tables give a good overview of different transactions during the period. This disclosure requirement is the main requirement when valuing investment property at fair value and has consequently a high essentiality. The earlier/national legislation and the disclosure requirements in IAS 40 dealing with investment property valued to cost value have similar requirements, which could imply the companies already had functioning accounting routines when the implementation of IAS 40 occurred.

The information about essential risks and uncertainty factors not disclosed by 4 of 15 companies in their administration reports, has, however, been presented in other parts, mainly central, of the annual reports. The choice of presenting the demanded information in other parts than the administration reports could be explained with the will to emphasize the information to facilitate for the users. Being a Swedish phenomenon, the administration report could be unclear from an international perspective, and companies can thereby tend to move information to more central parts of the annual report. One company has, for example, solved this problem by naming all parts not belonging to the financial statements' administration reports. 13 of 15 companies have chosen to illustrate the information about essential risks and uncertainty factors with a sensitivity analysis to better illustrate the company's dependence upon, for the company, important parameters. Considering the ordinariness of leaving such voluntary sensitivity analyses, the companies regard it as an action resulting in benefits exceeding costs and have a belief in an increase of the usability of the report which according to the relationship between capital cost and the cost of disclosures increases the value of the company, *ceteris paribus*.⁹³ However, we found in our research that parameters with the same meaning often are named differently which decreases the comparability between companies. The fact that taxable values for Swedish investment property are disclosed by all companies points at the harmlessness of disclosing information which is easy to collect by the users themselves and thereby does not affect the disclosing companies' competitive positions by generating spill-over effects.⁹⁴

5.2 Demanded resources to meet the increased demand for information

Even though the respondents at the real estate companies themselves did not experience increasing resources due to the increased disclosure requirements, both corporate groups have increased their resources to fulfil the requirements. The different views concerning the areas occupying the increased resources shows different focuses of management. The

⁹² IASB's Framework, art. 44

⁹³ Botosan 2006

⁹⁴ Healy & Palepu 2001

different approaches of handling the fulfilment could be connected to the different solutions supplied by the theory of scarce resources.⁹⁵ Without increasing the resources, Company A has changed their focus by deputising additional work related to IAS 40 to the daughter companies, which is connected to the reallocation of resources. This reallocation of resources has been simplified by continuous rationalization. The effects of the rationalization can be that other areas, where the same level of legislation remains, suffer by not being prioritized and the information quality is not developed. In the long run this may implicate new market imperfections the legislator should focus on. Company B, on the contrary, has increased their resources in the form of external expertise and is consequently able to maintain the same focus on other areas. The two solutions above conducted by the selected companies show the possibilities of individual choices of how to fulfil the requirements. The different solutions have, however, different effects. Consulting external expertise economical resources will be needed and there exists a possibility the company will be dependent on the experts. To instead reallocate resources the skills are held in the company but continuous reallocations and rationalizations may implicate organizational problems. The implementation of IAS 40 also has a negative affect on the demanded resources since the market value of investment property is included in the carrying amount by the fair value model and consequently the existing overvalues are diminished. From a technical perspective this has resulted in a simplification of the consolidation of the group's accountancies but increased the demand of technical expertise to be able to deliver correct values. The implementation of IAS 40 occurred at the same time as the whole implementation of IFRS/IAS and it may be difficult for the companies to distinguish which extended disclosure requirements have been demanding increasing resources. It is important to state, however, that the implementation of IAS 40 has implicated increased requirements which in the real estate industry needs to be seen as a key area. Since the level of disclosed information before the implementation of IAS 40 was rather extensive, the companies were consequently well-prepared for the new requirements.

5.3 The correspondence between the disclosed information and the users' needs

During the interviews with respondents at the real estate companies the relevance of the disclosure requirements related to investment property were discussed. Their general opinion was that the disclosure requirements are adequate but there exist some areas where the respondents consider more specified requirements necessary. One such area is what expenditures are supposed to be capitalized. Without guidelines in this area, the reliability of the disclosed value is low and it is important the companies disclose explanations of how their expenditures are capitalized.⁹⁶ Refraining from doing this, the comparability between real estate companies diminishes since different judgements are done by the companies.⁹⁷

⁹⁵ Gandolfo 1998

⁹⁶ IASB's Framework, art. 31

⁹⁷ IASB's Framework, art. 39, 40

Both the respondents at the banks as well as the analysts regard none of the disclosed information as unnecessary and find it positive with extensive information and as detailed as possible. The positive attitude towards information delivered by the users confirms a regulatory approach as well as the fact that users find deficient information which could be solved by clearer guidelines.⁹⁸ The user respondents' answers could be seen from a Swedish perspective where the regulatory approach has had a great impact on the accounting. The banks have a unique relationship with their customers and have thereby great possibilities to collect additional information if needed. This creates a possibility to provide sensitive information to banks due to the banking secrecy so demands for such information conveniently are treated between real estate companies and banks. The investors have, however, a more difficult position since they cannot receive any information that is not public and according to one of the analysts they are often directed to the public information. This confirms the difference in ability of receiving additional information between creditors and analysts. Consequently, the banks have a greater possibility to diminish the existing information asymmetry problem between them and the real estate companies.⁹⁹

Assumptions used in the valuation model are experienced important by the users and the respondents regard the information behind the assumptions as deficient. As we mentioned earlier, the reason could be that the producers have motives of competition but the concept of presenting the valuation model to support the disclosed value of the company's investment property loses its relevance when the users cannot control the validity of the valuation model. The users' level of confidence with the valuator and the users' ability to make own valuations are essential to whether the users demand the assumptions used in the valuation model. If the level of confidence is high, the need for the assumptions is low because the users then accept the disclosed valuation. Having less knowledge of the property valuation than external valuers, one of the analyst states that the confidence with the valuator is high. An inexperienced investor, with even less knowledge of this area, probably attaches even more confidence to the disclosed valuations. Consequently, the value of detailed assumptions is positively correlated with experience. The analyst plays an important role as an advisor both for experienced and inexperienced investors and the analyst's opinions could consequently be applied to both types of investors. However, this avoidance of delivering important details that are demanded by the users confirm the hypothesis of market imperfection treated in the regulatory approach, by the market approach the market would have solved this imperfection by disclosing the demanded information without regulation.¹⁰⁰ The gap between the demanded information and the disclosed information emphasizes a situation where an agency problem¹⁰¹ exists and where uncertainties regarding real values could affect the cost of capital¹⁰².

The opinions of the respondents regarding the importance of external valuation are dependent upon whether they consider the external valuator to be objective or not.

⁹⁸ Kam 1990, Mathews & Perera 1996

⁹⁹ Akerlof 1970, Healy & Palepu 2001

¹⁰⁰ Kam 1990

¹⁰¹ Jensen & Meckling 1976

¹⁰² Botosan 2006, Easley & O'Hara 2004, Amihud & Mendelson 1998, Diamond & Verrecchia 1991

Independent of whether external valuation is considered objective or subjective, it plays an important role in determining the fair value of investment property. Since the valuations are made individually for each property and there occurs, according to one of the respondents, a property portfolio premium, the market value of the company's property portfolio is higher than the disclosed fair value. In addition to this, the real estate companies seem to behave restrictive when revaluating their properties. The higher market value of the company can, however, imply the stock markets' credence to the company's management but could also be explained by an insecurity of the basis of the valuation. The experienced restrictive accounting when measuring fair value implicates the disclosed value is a low fair value. The real estate industry is characterized by conservatism implying secure values are more important than market values, which can have the purpose of triggering the share. This conservative behaviour could decrease the importance of share-related disclosure actions and confidence is regarded as more important by the real estate companies. The agency problem is occurring in the relation between real estate companies and users, especially the investors, since the disclosed values are below the stock markets' values of the property.¹⁰³ However, with the conservative attitude of the real estate companies there seems to be an upside in the disclosed valuations of the property. With clearer disclosed valuation models, the gap between the stock markets valuations and the real estate companies' valuations should according to the positively accounting school decrease.¹⁰⁴ This shortage of disclosed information confirms a situation where the cost of disclosure should be negatively correlated with the cost of capital.¹⁰⁵ To increase the validity of external valuations it is of importance to disclose the name of the valuator so the users can make an apprehension about the valuator's competence. The information used by the banks' connected to the property portfolio, aggravates the companies' situation if disclosed together with the valuation model. If doing this, the real estate companies would simplify the competitors' possibility to take advantage of the disclosed information, for example in market transactions.

The banks and analysts use the disclosed information to be able to create an opinion about the company's valuation. Of interest is that the users have different approaches to value the company and its investment property, none of the approaches implicate though that the users agree completely with the companies' disclosed valuations. The disclosed valuations are always controlled by the users and are thereby balanced with the users' apprehensions. The valuation, either performed by the producer or the user, is always an estimated value, since it is based on individual assumptions and judgements. The banks' possibilities to receive additional information should implicate, *ceteris paribus*, that their values are closer to reality since information is seen as the appropriate device to diminish the information asymmetry problem.¹⁰⁶

The users regard the disclosed information as relevant in the decision process and according to our interviews the requested information is also used by the creditors and

¹⁰³ Jensen & Meckling 1976

¹⁰⁴ Healy & Palepu 2001

¹⁰⁵ Botosan 2006, Easley & O'Hara 2004, Amihud & Mendelson 1998, Diamond & Verrecchia 1991

¹⁰⁶ Healy & Palepu 2001

investors. The disclosed information is mainly used to obtain an opinion about the company's cash flow and future cash flow. It is thereby natural that the demanded and used information are connected to these areas and the lack of information regards consequently also these areas where more disclosed information about projects' property would be interesting for the user to receive since project properties can strongly affect future cash flow. The accounting of this is, however, a challenging area where guidelines are missing. The lack of information regarding project properties or investment property under construction can be grounded on the fear of disclosing too much information from a competitive perspective but also from a reputation perspective where the real estate companies regard it as important not to convey uncertain expectations about the company's future financial situation.

The use of the sensitivity analysis is questioned due to the fact the analysis could easily be produced by an experienced user. According to Company A, the parameters are chosen upon essentiality and risk affecting the individual company. As analyzed above, we did in our research find that the parameters differ between companies but also that parameters with the same meaning often are named differently, which decreases the comparability between companies and confuses the users and thereby deviates from the principles of comparability and intelligibility.¹⁰⁷ With regard to the similarity of the provided parameters, a standardisation would be preferable where a recommendation of important and commonly used parameters would guide the companies in the creation of sensitivity analysis. Such a standardisation of sensitivity analyses has different opinions between the user respondents where the companies' individuality is opposed by the possibility to increase the comparability between companies. Comparability is preferred by all user respondents but whether a desired level of similarity between the real estate companies is achieved could be questioned. The difference between the producer and user view on the utility of sensitivity analyses is interesting since the producers' doubts are opposed by the users' positive attitude. However, the users believe the usefulness of the sensitivity analyses could be even higher with a standardisation. Since the sensitivity analysis is included in neither the international nor the Swedish standards, the responsible body of a standardisation is not obvious. In addition, Company A regards the phenomenon sensitivity analysis as diffuse to an inexperienced user. The banks and analysts however find the analysis important in order to build an opinion of important factors affecting the company. Leaving these important factors in a sensitivity analysis provides a good overview. However, the experienced users create their own sensitivity analyses with other factors, so the importance of the disclosed factors from an analyzing point of view could be questioned. We do further question the usability of these factors since they are built on irrelevant assumptions according to Company A. However, the pedagogy with immediate changes makes the analysis easier to understand even if these changes probably would not occur during these short time periods. Of interest is that one of the banks produces their sensitivity analysis including normal operating costs which could be seen as if they reject the companies' presentation of costs. With better disclosures of how direct costs affect rentals, more individualized analyses could be performed.

¹⁰⁷ IASB's Framework, art. 25, 39, 40

6 Conclusion

This chapter has the purpose of answering the thesis' problem definition with the help of the above presented information and analysis. The presentation is divided upon the research questions. The chapter also covers a final discussion and recommendations for future research.

6.1 Conclusions of research questions

In the introduction to this thesis we formulated two research questions that emanated from our problem discussion. In the following section, our answers to these questions will be presented.

Do Real Estate Companies fulfil the Disclosure Requirements associated with Investment Properties, what strengths and shortages could be distinguished and what resources are demanded to satisfy these demands?

By the implementation of the IAS 40, the disclosure requirements has increased concerning investment property and the choice to value at fair value shows an area where the companies experience more benefits than costs and thereby have motives for applying the new opportunities that emerged with IAS 40 instead of applying the traditional cost model. In our research we have discovered some areas where the real estate companies perform well and some areas where shortages in the fulfilment of the disclosure requirements have been distinguished. Some shortages are, however, less important than others due to the essentiality of their existence in their reports because of their non-existence in the accounting. Occurrences not specified in the administration report, should consequently not have happened, and could from the essentiality perspective not be considered relevant to disclose. This is connected to the principle of benefits and costs since the costs should exceed the received benefits.

The balancing of the carrying amounts is an area where all companies perform well illustrating the essential amounts connected to occurrences during the period. The important shortages of disclosed information that we regard as essential to present could be traced to four areas. The first area is the requirement to state the criteria to separate investment property from other types of property when the company regards this as difficult. It seems to be difficult to more companies than actually are providing these criteria since we, during the investigation, found general information in the companies' annual reports interpreting that they regarded this as difficult but refrained to disclose used criteria. Presenting general information of separation the companies show a will to fulfil this requirement, however not presenting detailed information implicates an uncertainty how this separation should be performed. The second area regards the requirement to specify what direct costs contributed or not to rentals. This requirement is regarded as important since it is essential to be able to estimate the companies' cash flow. The presentation most used is to present the direct cost consolidated or even to consolidate direct costs with other costs resulting in difficulties to distinguish the impact of direct costs not contributing to rentals and thereby influencing the company's financial

situation in a negative manner. The reason behind the shortage could be that the companies are secure they have fulfilled the requirement in the belief their direct costs are all contributing to rentals and it is consequently not essential to disclose a specification. Illustrating rental together with separated direct costs in a table, we believe the companies would fulfil the requirement. The third area concerns the variables used in the valuation model which has the purpose to give the users a picture of how the company values its investment property. The discovered shortage is an overall shortage in leaving enough information enabling the creation of this picture. The reason is probably a fear of disclosing important information that could be taken advantage of by competitors. To be able to fulfil this requirement, enough information enabling the possibility of controlling the values should be disclosed. The fourth area where shortages have been distinguished are the disclosing of essential risks and uncertainty factors in the administration report that has been placed in other parts than the administration report or the financial statements. Since all companies have, however, provided the information, we find it probable that the company finds it relevant to emphasize this information to more central parts of the financial reports. All these shortages have to be seen from the relationship between costs and benefits but the valuation model is in this situation special. Disclosing more detailed assumptions should increase the confidence with the companies' valuation models and thereby decrease the cost of capital. On the contrary, disclosing more detailed assumptions implies important information is provided to the competitors.

The more extensive disclosure requirements have been contributing to the increased amount of disclosed information and the real estate companies' solutions to meet this increased demand confirms the theory of scarce resources. The identified increases of resources are reallocation, rationalization and consulting external experts. The exact size of the increase due to the implementation of IAS 40 is difficult to distinguish, even for the real estate companies, since it occurred coincidentally with the implementation of the IFRS/IAS. The implementation of IAS 40 has, however, not only implicated increased resources but also simplified the consolidation process and decreased overvalues of the investment property.

Does the disclosed information correspond to the users' needs? If not, what is the gap between the available and the demanded information?

The users' needs are focused to the areas concerning the valuation model, the property portfolio, the balancing of carrying amounts and other factors influencing the company's financial situation. The needed information is used by the creditors and investors in the valuation process of the real estate company and to determine the value of the property portfolio. The users perform own valuations based on the disclosed information and additional information if the user is a bank. The results are then compared to the company's disclosed values. The purpose of the process is to estimate the future cash flows and the future development of the company.

The results from the investigation confirms the users are in most areas satisfied with the disclosed information and do not regard any of the information disclosed by the real estate companies unnecessary. By this, there is no produced information not demanded

by the users. However, there is information not disclosed that the users regard as necessary in their decision process. The users do consider the information deficient regarding the valuation of the investment property and regards this as a problem when conducting an own valuation in order to be able to compare the values. Another valuation problem concerns the investment property under construction, also called project property, which is valued according to the cost model. The users consider these properties essential to the future development of the company and would like to receive more information about the status and the potential of the property from the real estate companies. A third area, not expressed as a shortage by the users but regarded as important, is the specification of the external valuator. This shortage has, however, been discovered in the quantitative research where some companies consulting external valuers have chosen not to disclose it. We would recommend the companies to specify the valuator to increase the users' confidence for the disclosed valuations.

Sensitivity analysis is regarded by an experienced user as a relevant tool both for experienced and inexperienced when it comes to receiving a quick overview of the company's financial situation and its opinions about important parameters. It is, however, regarded as more useful for the inexperienced users since the experienced users perform their own sensitivity analysis. The comparability of the sensitivity analyses between the companies is low since the parameters are named differently but contain the same substance. We consider a standardisation of the parameters in the sensitivity analysis to increase the comparability.

6.2 Final discussion and recommendations for future research

Before this study, our knowledge in the area was limited and consequently our expectations of the study were narrow. With some insight, we believed the users would find the disclosed information about fair values important. This turned out to be correct. We also had an opinion that the users could find some of the produced information redundant, which seemed not to be the case. However, the occurrence of excess information could be difficult to identify for the users and we cannot exclude the possibility of unnecessary information.

Our analysis and conclusions are focused on objects not fulfilled by the real estate companies, since these differences are more explicit to distinguish. In an overall perspective though, the real estate companies supply relevant information concerning investment property. With our conclusions in mind, the real estate companies' financial reports should fulfil both the requirements and users' demands.

Concerning the partial purposes regarding (1) the real estate companies' fulfilment of the disclosure requirements related to investment property and (3) the correspondence between the disclosed information and users' needs, we have been able to accomplish this in a satisfactory way. The partial purpose dealing with the demanded resources to meet the increased disclosure requirements has been accomplished, although an approach where you follow the companies during the implementation would have been preferable to secure the exact increases.

During the thesis' journey we have been able to identify some areas where future research could be interesting. The real estate companies have expressed their insecurity about capitalized expenditures and what expenditures should be regarded as investment and maintenance respectively. This area is also interesting from a user point of view where guidelines are demanded. Further, the real estate companies demand Swedish directives of how to handle taxes on investment property which have been adopted in other countries. We also assume this is of interest for the users having expressed their use of another tax rate in their valuation models than that which is regulated. Sensitivity analysis is another area where future research is recommended. Is it preferable to adopt the sensitivity analysis as a requirement? Is a standardisation of the parameters used in the sensitivity analysis feasible? The users' positive attitude towards sensitivity analyses makes it interesting to examine the future structure of sensitivity analyses.

7 References

Literature

- Andersen, I. (1998), *Den uppenbara verkligheten – Val av samhällsvetenskap metod*, Studentlitteratur, Lund.
- Arbnor, I., Bjerke, B. (1994), *Företagsekonomisk metodlära*, Studentlitteratur, Lund.
- Epstein, B. J. (2005), *Wiley IFRS 2005: interpretation and application of International Accounting and Financial Reporting Standards 2005*, Wiley, New Jersey.
- Gandolfo, G. (1998), *International Trade Theory and Policy*, Springer, New York.
- Holme, I. M., Solvang, B. K. (1997), *Forskningsmetodik – Om kvalitativa och kvantitativa metoder*, Studentlitteratur, Lund.
- International Accounting Standards Committee (2000), *International Accounting Standard – Investment Property*, IASC, London.
- Kam, V. (1990), *Accounting Theory*, Wiley, New York.
- Mathews, M. R., Perera, M.H.B. (1996), *Accounting theory & development*, Nelson, Australia.
- Patel, R., Davidson, B. (2003), *Forskningsmetodikens grunder - Att planera, genomföra och rapportera en undersökning*, Studentlitteratur, Lund.
- Smith, D. (2006), *Redovisningens språk*, Studentlitteratur, Lund.

Standards and legislation

International standards (International Accounting Standards Board)
IASB's Framework for the Preparation and Presentation of Financial Statements
IAS 1 Presentation of Financial Statements
IAS 40 Investment Property

Swedish standards (The Swedish Financial Reporting Board)
RR 12 Property, Plant and Equipment
RR 24 Investment Property
RR 30 Additional Accounting Rules for Groups

Swedish law
Årsredovisningslag (1995:1554)

Scientific articles

Akerlof, G. (1970), *The market for 'lemons': quality uncertainty and the market mechanism*, Quarterly Journal of Economics # 90.

Amihud, Y. and Mendelson, H. (1988), *Liquidity and asset prices: financial management implications*, Financial Management # 17.

Botosan, C. A. (2006), *Disclosure and the cost of capital: what do we know?*, Accounting and Business Research.

Diamond, D., Verrecchia, R. (1991), *Disclosure, liquidity and the cost of capital*, The Journal of Finance, # 46.

Easley, D., O'Hara, M. (2004), *Information and the cost of capital*, The Journal of Finance # 59 Issue 4.

Healy, P. M., Palepu, K. G. (2001), *Information asymmetry, corporate disclosure, and the capital markets: A review of the empirical disclosure literature*, Journal of Accounting and Economics.

Jensen, M., Meckling, W., (1976) *Theory of the firm: managerial behavior, agency costs and ownership structure*, Journal of Financial Economics # 3.

Lange, O. (1945), *The Scope and Method of Economics*, The Review of Economic Studies

Lundholm, R. (1988), *Price-signal relations in the presence of correlated public and private information*, Journal of Accounting Research # 36.

Daily paper articles

Hammarström, M. (2007), *Fastighetsaktierna sticker åt olika håll*, Dagens Industri # 112.

Financial reports

Balder 2006

Brinova 2006

Castellum 2006

Catena 2006

Din Bostad 2006

Diös 2006

Fabege 2006

Fast Partner 2006

HEBA 2006

Hufvudstaden 2006
JM 2006
Klövern 2006
Kungsleden 2006
Ljungberggruppen 2006
Lundbergs 2006
Wallenstam 2006
Wihlborgs 2006

Internet

European Commission (visited 11 April 2007)
http://ec.europa.eu/internal_market/accounting/ias_en.htm

IASB (visited 11 April 2007)
<http://www.iasb.org/About+Us/About+Us.htm>

IAS Plus (visited 26 April 2007)
<http://www.iasplus.com/agenda/framework.htm>

OMX Group (visited 9 April 2007)
<http://www.omxgroup.com/nordicexchange/marknaden/kursinformation/aktier/>

The Swedish Financial Reporting Board (visited 7 May 2007)
<http://finansiell.webdoc.nu/files/pdf/Pressmeddelande%5FRadet%5Ffor%5FFinansiell%5Frapportering%5Fdefinitiv.pdf>

SFI - Swedish Property Index (visited 15 May 2007)
http://www.fastighetsindex.se/swe/sfi_ipd_val_guide06.pdf

Interviews

Company A, Financial Manager and Controller, Personal interview, 8 May 2007

Company B, Accounting Manager, Phone interview, 9 May 2007

Bank 1, Manager of Real Estate, Phone interview, 24 April 2007

Bank 2, Manager of Corporate Market, Phone interview, 10 May 2007

Peter Malmqvist, Chief Analyst Nordnet, Phone interview, 15 May 2007

Andreas Daag, Real Estate Analyst Swedbank Markets, Phone interview, 24 May 2007

Appendix 1 Quantitative research

Disclosure / Company	<i>Disclosures applicable to all investment properties</i>		
	Choice of accounting	Used criteria to separate investment property from other property when the separation is difficult to execute	Used methods and applied important assumptions when determining the fair value including a statement of the basis of this determination Disclosed assumptions and if actual figure (#) is stated: (1) inflation (2) assumptions on rent levels (3) operation and maintenance costs (4) property tax (5) valuation yields (6) long-term vacancy level (7) discount rate (8) interest subsidies (9) ground rent (10) other variables
Balder	Yes. Fair value	No	Yes. Yield model cash flow (6 years and residual value) and location price model. <i>Statement of basis</i> : Yes. <i>Assumptions</i> : (1) Yes # (2) Yes (3) Yes # (4) No (5) Yes # (6) Yes (7) Yes # (8) No (9) No (10) No
Brinova	Yes. Fair value	No	Yes. Yield model cash flow (6 years). <i>Statement of basis</i> : Yes. (1) No (2) Yes (3) Yes (4) No (5) No (6) No (7) No (8) No (9) No (10) No
Castellum	Yes. Fair value	No	Yes. Yield model cash flow (10 years and residual value). <i>Statement of basis</i> : No. (1) Yes # (2) Yes (3) Yes (4) Yes (5) Yes # (6) No (7) No (8) No (9) No (10) Yes: financial lease rate and property costs.
Catena	Yes. Fair value	No	Yes. Yield model cash flow (10 years and residual value). <i>Statement of basis</i> : No. (1) No (2) Yes (3) Yes (4) No (5) No (6) No (7) Yes (8) No (9) No (10) No

Disclosure Company	<i>Disclosures applicable to all investment properties</i>		
	Choice of accounting	Used criteria to separate investment property from other property when the separation is difficult to execute	Used methods and applied important assumptions when determining the fair value including a statement of the basis of this determination Disclosed assumptions and if actual figure (#) is stated: (1) inflation (2) assumptions on rent levels (3) operation and maintenance costs (4) property tax (5) valuation yields (6) long-term vacancy level (7) discount rate (8) interest subsidies (9) ground rent (10) other variables
Din Bostad	Yes. Fair value	No	Yes. Yield model cash flow (5 years and residual value). <i>Statement of basis</i> : No. (1) No (2) No (3) No (4) No (5) No (6) No (7) No (8) No (9) No (10) No <i>Comments</i> : some assumptions are stated in the qualitative part of the annual report.
Diös	Yes. Fair value	No	Yes. Yield model cash flow (6 years and residual value). <i>Statement of basis</i> : No. (1) Yes # (2) Yes (3) Yes (4) No (5) Yes # (6) No (7) Yes (8) No (9) No (10) No
Fabege	Yes. Fair value	No	Yes. Yield model cash flow (5 years and residual value). <i>Statement of basis</i> : No. (1) Yes # (2) Yes (3) Yes # (4) No (5) Yes # (6) Yes # (7) Yes # (8) No (9) Yes (10) No
Fast Partner	Yes. Fair value	No	Yes. Yield model cash flow (10 years and residual value). <i>Statement of basis</i> : Yes. (1) No (2) No (3) No (4) No (5) Yes # (6) Yes # (7) Yes # (8) No (9) No (10) No
HEBA	Yes. Fair value	No	Yes. Yield model cash flow (5 years and residual value). <i>Statement of basis</i> : Yes. (1) Yes # (2) No (3) No (4) No (5) Yes # (6) No (7) Yes # (8) No (9) No (10) No <i>Comments</i> : Rental development stated but not market precipitation.

Disclosure / Company	<i>Disclosures applicable to all investment properties</i>		
	Choice of accounting	Used criteria to separate investment property from other property when the separation is difficult to execute	Used methods and applied important assumptions when determining the fair value including a statement of the basis of this determination Disclosed assumptions and if actual figure (#) is stated: (1) inflation (2) assumptions on rent levels (3) operation and maintenance costs (4) property tax (5) valuation yields (6) long-term vacancy level (7) discount rate (8) interest subsidies (9) ground rent (10) other variables
Klövern	Yes. Fair value	No	Yes. Yield model cash flow (5 years and residual value) and location price model. <i>Statement of basis</i> : Yes. (1) Yes # (2) Yes (3) Yes (4) Yes (5) Yes # (6) Yes # (7) Yes # (8) No (9) Yes (10) No
Kungsleden	Yes. Fair value	No	Yes. Yield model cash flow (years and residual value not stated). <i>Statement of basis</i> : No. (1) Yes # (2) No (3) Yes (4) No (5) Yes # (6) Yes # (7) No (8) No (9) Yes (10) No
Ljungberg- gruppen	Yes. Fair value	No	Yes. Yield model cash flow (years and residual value not stated). <i>Statement of basis</i> : No. (1) No (2) No (3) No (4) No (5) Yes # (6) No (7) No (8) No (9) No (10) No <i>Comments</i> : No internal valuation.
Lundbergs	Yes. Fair value	No	Yes. Yield model cash flow (10 years) and location price model. <i>Statement of basis</i> : Yes. (1) Yes # (2) No (3) Yes (4) No (5) Yes # (6) No (7) Yes # (8) No (9) No (10) No <i>Comments</i> : <i>Regarding Hufvudstaden</i> : Yes. Yield model dividend.

Disclosure / Company	<i>Disclosures applicable to all investment properties</i>		
	Choice of accounting	Used criteria to separate investment property from other property when the separation is difficult to execute	Used methods and applied important assumptions when determining the fair value including a statement of the basis of this determination Disclosed assumptions and if actual figure (#) is stated: (1) inflation (2) assumptions on rent levels (3) operation and maintenance costs (4) property tax (5) valuation yields (6) long-term vacancy level (7) discount rate (8) interest subsidies (9) ground rent (10) other variables
Wallenstam	Yes. Fair value	No	Yes. Yield model dividend (years and residual value not stated). <i>Statement of basis</i> : Yes. (1) No (2) No (3) No (4) Yes (5) Yes # (6) No (7) No (8) Yes (9) No (10) Yes: Planned investment and larger repairs, present value of temporary additions/deductions, location additions.
Wihlborgs	Yes. Fair value	Yes	Yes. Yield model cash flow (years and residual value not stated). <i>Statement of basis</i> : No. (1) No (2) No (3) No (4) No (5) No (6) No (7) No (8) No (9) No (10) No <i>Comments</i> : The assumptions are stated in the qualitative part of the annual report: Yield model cash flow (5 years and residual value). <i>Statement of basis</i> : No. (1) No (2) Yes (3) Yes (4) No (5) Yes (6) Yes (7) Yes (8) No (9) No (10) Yes: type of property.

Disclosure / Company	<i>Disclosures applicable to all investment properties</i>		
	External valuations regarding fair value, and the relevance of the valuator	Information in the income statement about the amounts of: (1) rentals, (2) direct costs contributed to rentals, (3) direct costs not contributed to rentals and (4) the accumulated change in fair value due to transfers between different valuation groups	Information about (1) the occurrence and the amounts of limitations in the right of selling an IP or to dispose the rentals and the remuneration of the sale, (2) contractual commitments to purchase, construct or exploit IP or for repairs, maintenance or enhancements
Balder	Yes. Extent : 20 % Valuator : Newsec.	(1) Yes (2) Yes (3) No (4) No	(1) No (2) No
Brinova	Yes. Extent : 39 %. Valuator : No.	(1) Yes (2) Yes (3) Yes (4) No	(1) No (2) No
Castellum	Yes. Extent : 51 %. Valuator : NAI Svefa.	(1) Yes (2) No (3) No (4) No Comments : Property costs declared but not specified.	(1) No (2) Yes
Catena	Yes. Extent : 100 %. Valuator : Forum Fastighetsekonomi.	(1) Yes (2) No (3) No (4) No Comments : Disclosure about rentals placed in a separate note.	(1) No (2) No

Disclosure Company	<i>Disclosures applicable to all investment properties</i>		
	External valuations regarding fair value, and the relevance of the valuator	Information in the income statement about the amounts of: (1) rentals, (2) direct costs contributed to rentals, (3) direct costs not contributed to rentals and (4) the accumulated change in fair value due to transfers between different valuation groups	Information about (1) the occurrence and the amounts of limitations in the right of selling an IP or to dispose the rentals and the remuneration of the sale, (2) contractual commitments to purchase, construct or exploit IP or for repairs, maintenance or enhancements
Din Bostad	Yes. Extent : 100 %. <i>Valuator :</i> Ernst & Young.	(1) Yes (2) No (3) No (4) No <i>Comments :</i> Disclosure about rentals placed in a separate note.	(1) No (2) Yes <i>Comments :</i> Contractual commitments are 180.
Diös	Yes. Extent : 100%. <i>Valuator :</i> Ernst & Young and Savills.	(1) Yes (2) No (3) No (4) No <i>Comments :</i> Disclosure about rentals placed in a separate note.	(1) No (2) Yes <i>Comments:</i> Contractual commitments are ongoing investments 22000.
Fabege	Yes. Extent : 100 %. <i>Valuator :</i> Newsec (50 %), DTZ (50 %).	(1) Yes (2) No (3) No (4) No <i>Comments :</i> Disclosure about rentals placed in a separate note.	(1) Yes (2) No <i>Comments :</i> Limitations are bonded properties 14261.
Fast Partner	Yes. Extent : 30 %. <i>Valuator :</i> No	(1) Yes (2) No (3) No (4) No <i>Comments :</i> Disclosure about rentals placed in a separate note.	(1) No (2) Yes <i>Comments :</i> Contractual commitments are to fulfil ongoing obligations of investment 15 million.
HEBA	Yes. Extent : 100 %. <i>Valuator :</i> Forum Fastighetsekonomi.	(1) Yes (2) No (3) No (4) No <i>Comments :</i> Disclosure about rentals placed in the segment report.	(1) No (2) No

Disclosure/ Company	<i>Disclosures applicable to all investment properties</i>		
	External valuations regarding fair value, and the relevance of the valuator	Information in the income statement about the amounts of: (1) rentals, (2) direct costs contributed to rentals, (3) direct costs not contributed to rentals and (4) the accumulated change in fair value due to transfers between different valuation groups	Information about (1) the occurrence and the amounts of limitations in the right of selling an IP or to dispose the rentals and the remuneration of the sale, (2) contractual commitments to purchase, construct or exploit IP or for repairs, maintenance or enhancements
Klövern	Yes. Extent : 25 % each Q. Valuator : DTZ Sweden.	(1) Yes (2) Yes (3) Yes (4) No	(1) No (2) No
Kungsleden	Yes. Extent : 70 % every 3 year. Valuator : Newsec.	(1) Yes (2) Yes (3) Yes (4) No	(1) No (2) No
Ljungberg- gruppen	Yes. Extent : 100 %. Valuator : Forum Fastighetsekonomi.	(1) Yes (2) No (3) No (4) No Comments : Disclosure about rentals placed in the segment report.	(1) No (2) No
Lundbergs	Lundbergs : Yes. Extent : 40 %. Valuator: No. Hufvudstaden : Yes. Extent : 35 %. Valuator : No. Comments : Valuator for Hufvudstaden stated in their annual report: DTZ and FS.	(1) Yes (2) No (3) No (4) No Comments : Disclosure about rentals placed in a separate note.	(1) No (2) No

Disclosure Company	<i>Disclosures applicable to all investment properties</i>		
	External valuations regarding fair value, and the relevance of the valuator	Information in the income statement about the amounts of: (1) rentals, (2) direct costs contributed to rentals, (3) direct costs not contributed to rentals and (4) the accumulated change in fair value due to transfers between different valuation groups	Information about (1) the occurrence and the amounts of limitations in the right of selling an IP or to dispose the rentals and the remuneration of the sale, (2) contractual commitments to purchase, construct or exploit IP or for repairs, maintenance or enhancements
Wallenstam	No. <i>Comments</i> : The company argues that it has enough transactions on the market to be able to estimate property values.	(1) Yes (2) No (3) Yes (4) No <i>Comments</i> : Disclosed that the amount of direct costs not contributing to rentals is essential./Rentals disclosed in separate note	(1) No (2) Yes <i>Comments</i> : Contractual commitments are 109.
Wihlborgs	Yes. <i>Extent</i> : 100 %. <i>Valuator</i> : Malmöbyggen Fastighetsekonomi, Savills Sweden (Sweden), DTZ (Denmark) and Collier Property Partners (Germany).	(1) Yes (2) No (3) No (4) No <i>Comments</i> : a cost for property not leased is disclosed. Rentals disclosed in a separate note.	(1) No (2) No

Disclosure / Company	<i>Disclosures applicable when measuring according to the fair value model</i>		
	Balancing of the carrying amount of IP: additions of (1) acquisitions, (2) mergers, (3) capitalized expenditures and (4) adjustments of fair value, (5) net of exchange differences, (6) transfers between different kind of assets, (7) other changes	Balancing between justified value and obtained fair value	If not able to measure the fair value in a reliable way the IP should be separated and it should be disclosed (1) description of IP, (2) explanation of why fair value can not be estimated in a reliable way, (3) if possible a range of estimated values that the IP is likely to lie within, (4) information if sold IP not have been measured using the fair value method
Balder	(1) Yes (2) No (3) Yes (4) Yes (5) No (6) No (7) No	No	No
Brinova	(1) Yes (2) No (3) Yes (4) Yes (5) No (6) Yes (7) Yes: sales, realized value changes, value changes on properties sold during the period.	No	No
Castellum	(1) Yes (2) No (3) Yes (4) Yes (5) No (6) No (7) Yes: sales, specified the part of capitalized interest costs included in capitalized expenditures.	No	No
Catena	(1) Yes (2) No (3) Yes (4) Yes (5) Yes (6) Yes (7) Yes: reclassified from resigned costs on property owned by another part and property option: 607, specified the part of capitalized interest costs included in capitalized expenditures.	No	No

Disclosure / Company	<i>Disclosures applicable when measuring according to the fair value model</i>		
	Balancing of the carrying amount of IP: additions of (1) acquisitions, (2) mergers, (3) capitalized expenditures and (4) adjustments of fair value, (5) net of exchange differences, (6) transfers between different kind of assets, (7) other changes	Balancing between justified value and obtained fair value	If not able to measure the fair value in a reliable way the IP should be separated and it should be disclosed (1) description of IP, (2) explanation of why fair value can not be estimated in a reliable way, (3) if possible a range of estimated values that the IP is likely to lie within, (4) information if sold IP not have been measured using the fair value method
Din Bostad	(1) Yes (2) No (3) Yes (4) Yes (5) No (6) No (7) Yes: carrying amount on divested properties.	No	No. <i>Comments</i> : Investment Property under construction is valued to cost value.
Diös	(1) Yes (2) No (3) Yes (4) Yes (5) No (6) No (7) Yes: sales. <i>Comments</i> : amounts not specified at same place.	No	No
Fabege	(1) Yes (2) No (3) Yes (4) Yes (5) Yes (6) No (7) Yes: sales, dividend of daughter company and consequently its IP.	No	No
Fast Partner	(1) Yes (2) No (3) Yes (4) Yes (5) Yes (6) No (7) Yes: sales, ongoing work.	No	No
HEBA	(1) No (2) No (3) Yes (4) Yes (5) No (6) No (7) Yes: sales.	No	No

Disclosure Company	<i>Disclosures applicable when measuring according to the fair value model</i>		
	Balancing of the carrying amount of IP: additions of (1) acquisitions, (2) mergers, (3) capitalized expenditures and (4) adjustments of fair value, (5) net of exchange differences, (6) transfers between different kind of assets, (7) other changes	Balancing between justified value and obtained fair value	If not able to measure the fair value in a reliable way the IP should be separated and it should be disclosed (1) description of IP, (2) explanation of why fair value can not be estimated in a reliable way, (3) if possible a range of estimated values that the IP is likely to lie within, (4) information if sold IP not have been measured using the fair value method
Klövern	(1) Yes (2) No (3) Yes (4) Yes (5) No (6) No (7) Yes: sales, realized adjustment of value.	No	No
Kungsleden	(1) Yes (2) Yes (3) Yes (4) Yes (5) No (6) Yes (7) Yes: divested property, re-valuation effects on divested property.	No	No
Ljungberg-gruppen	(1) No (2) No (3) No (4) Yes (5) No (6) Yes (7) No. <i>Comments</i> : Separated values for buildings respectively land. Have specified acquisitions for land, but acquisitions and capitalized expenditures concerning buildings are specified together.	No	No
Lundbergs	(1) Yes (2) No (3) Yes (4) Yes (5) No (6) Yes (7) Yes: sales. <i>Comments</i> : Concerning acquisitions and transfers, these amounts are not specified for 2006 but for 2005.	No	No

Disclosure Company	<i>Disclosures applicable when measuring according to the fair value model</i>		
	Balancing of the carrying amount of IP: additions of (1) acquisitions, (2) mergers, (3) capitalized expenditures and (4) adjustments of fair value, (5) net of exchange differences, (6) transfers between different kind of assets, (7) other changes	Balancing between justified value and obtained fair value	If not able to measure the fair value in a reliable way the IP should be separated and it should be disclosed (1) description of IP, (2) explanation of why fair value can not be estimated in a reliable way, (3) if possible a range of estimated values that the IP is likely to lie within, (4) information if sold IP not have been measured using the fair value method
Wallenstam	(1) Yes (2) No (3) Yes (4) Yes (5) No (6) Yes (7) Yes: sales. <i>Comments</i> : engineering project.	No	No
Wihlborgs	(1) Yes (2) No (3) Yes (4) Yes (5) Yes (6) No (7) Yes: sales	No	No

Disclosure/ Company	<i>Additional Swedish requirements</i>		
	Essential risks and uncertainty factors	Sensitivity Analysis and used variables	Taxable values for property located in Sweden
Balder	Yes	Yes. <i>Form</i> : table. <i>Variables</i> : Rent incomes, financial lease rate, interest rate level of interest-bearing liabilities, property costs, value changes on property.	Yes
Brinova	No. <i>Comments</i> : reference to the qualitative part.	Yes. <i>Form</i> : table. <i>Variables</i> : property revenues, financial lease rate, interest rate level of interest bearing liabilities, property costs, value changes of IP, value changes of share holdings.	Yes
Castellum	Yes	Yes. <i>Form</i> : table. <i>Variables</i> : <i>Asset value</i> : asset value with and without deferred taxes. <i>Cash flow</i> : rental level, vacancy, property costs, interest costs. <i>Value changes of IP</i> : value changes before taxes, solidity, advance ration.	Yes
Catena	Yes	Yes. <i>Form</i> : table. <i>Variables</i> : rent incomes, lease rate, interest rate level of property loans and property costs.	Yes

Disclosure/ Company	<i>Additional Swedish requirements</i>		
	Essential risks and uncertainty factors	Sensitivity Analysis and used variables	Taxable values for property located in Sweden
Din Bostad	Yes	Yes. <i>Form</i> : table. <i>Variables</i> : change of rentals, level of vacancy, operation costs, change in property tax, loan rates, value changes in properties.	Yes
Diös	No	Yes. <i>Form</i> : table. <i>Variables</i> : rent incomes, financial lease rate, interest rate level on interest bearing liabilities, property costs, value change in investment properties.	Yes
Fabege	Yes	Yes. <i>Form</i> : table. <i>Variables</i> : rental level (commercial & residential), financial lease rate, property costs, interest costs (2007 & long term).	Yes
Fast Partner	Yes	No	Yes
HEBA	Yes	Yes. <i>Form</i> : table. <i>Variables</i> : rental level, operation and maintenance costs, interest rate level.	Yes

Disclosure/ Company	<i>Additional Swedish requirements</i>		
	Essential risks and uncertainty factors	Sensitivity Analysis and used variables	Taxable values for property located in Sweden
Klövern	No	Yes. <i>Form</i> : table. <i>Variables</i> : financial lease rate, rent incomes, property cost, loan interest rate.	Yes
Kungsleden	Yes	Yes. <i>Form</i> : table. <i>Variables</i> : rental revenue, economic vacancy, property costs, funding costs upon changed interest level.	Yes
Ljungberg-gruppen	Yes	Yes. <i>Form</i> : table. <i>Variables</i> : rental level, operation costs, yield demand and long term vacancy.	Yes. <i>Comments</i> : The values not disclosed in the IP note.
Lundbergs	Yes	No	Yes

Disclosure/ Company	<i>Additional Swedish requirements</i>		
	Essential risks and uncertainty factors	Sensitivity Analysis and used variables	Taxable values for property located in Sweden
Wallenstam	Yes	Yes. <i>Form</i> : table. <i>Variables</i> : Rent changes (residences & commercials), operation costs, property tax, loan interest rate and yield demand (extended information).	Yes
Wihlborgs	No	Yes. <i>Form</i> : table. <i>Variables</i> : rentals, vacancy, property costs and interest costs.	Yes. <i>Comments</i> : Disclosed in the note Real Estate.

Appendix 2 Parameters used in sensitivity analysis

Parameters	Number of occurrences
Rentals	13
Rent incomes	4
Rental level	4
Changes of rentals	2
Property revenues	1
Rentals	1
Rental revenue	1
Property costs	9
Property costs	9
Interest level	7
Interest rate level of interest-bearing liabilities	3
Interest rate level	1
Loan Interest rate	1
Interest rate level of property loan	1
Loan rate	1
Lease rate	6
Financial lease rate	5
Lease rate	1
Value changes in IP	5
Value changes in IP	5
Vacancy	5
Vacancy	2
Economic vacancy	1
Level of vacancy	1
Long term vacancy	1
Interest costs	4
Interest costs	3
Funding costs upon changed interest level	1
Operation and maintenance costs	4
Operation costs	3
Operation and maintenance costs	1
Change in property tax	2
Change in property tax	2
Yield demand	2
Yield demand	2
Value changes in share holding	1
Value changes in share holding	1
Asset value	1
Asset value	1
Solidity	1
Solidity	1

Appendix 3 Questions to respondents

Questions to real estate companies

- What is your opinion about the disclosure requirements in IAS 40?
- Where you forced to increase the resources during the last years to be able to fulfil the extended disclosure requirements?
- What is your opinion about the possibility to disclose sensitivity analyses?

Questions to banks and analysts

- What needs of disclosure regarding investment property do you have in your decision process?
- How do you use the information about investment property disclosed in financial reports by quoted real estate companies?
- Do you use the sensitivity analyses related to investment property if occurring in the financial reports?