

# IFRS 18: What it means for real estate investment companies

## A focus on presentation in the Income Statement

IFRS 18, effective for periods beginning on or after 1 January 2027, introduces a new structure for the income statement.

Real estate companies will be required to present their income statement using the new mandatory operating, investing and financing categories, together with new subtotals such as operating profit.

### Specified Main Business Activities

IFRS 18 requires companies to assess whether they engage in certain specified main business activities, including activities where the entity primarily invests in assets to generate returns such as dividends, interest or capital appreciation.

Real estate investment companies typically meet this definition because they:

- ▶ invest in property for rental income, and
- ▶ hold property for capital appreciation.

This classification isn't just a technicality; it fundamentally shapes where items appear in the income statement. For example:

- ▶ Fair-value changes on investment property arising from a specified main business activity of investing in assets will be presented within Operating.
- ▶ Income and expenses from financial investments not tied to property activities will sit in Investing.
- ▶ Interest costs will sit in Financing because obtaining funding is not a real estate investment company's main business activity.



### Operating income and expenses

For a company invested in commercial or residential properties, the Operating category now captures the full cycle of generating and managing rental income.

#### Rental and service income

All rental income—including fixed, variable and turnover rent—sits in Operating. Service-related income such as service charges, management fees and ancillary property income also belongs here.

#### Property operating costs

Direct costs such as utilities, repairs, maintenance, insurance and property taxes remain in Operating, as do costs associated with running multi-tenant assets or common areas.

#### Fair-value gains and losses on Investment Properties

Valuation movements on investment properties sit within Operating. Whether values move because of yield changes, rental reversion or market sentiment, the result is reported as part of Operating performance.

#### Results on disposal

Selling assets is part of the normal lifecycle of a real estate company. Gains or losses from the disposal of investment properties therefore appear in Operating as well.

#### Central and corporate costs

Head office costs, staff expenses, marketing and professional fees all continue to sit in Operating because they support the company's main business activity.

### Equity-accounted investments under IFRS 18

Income and expenses from equity-accounted investments should always be classified in the investing category. This will represent a change for some groups.

Even where a real estate investment company's investment in joint ventures or associates are integral to its real estate strategy—for example, co-invested vehicles, club deals or long-term partnerships—the share of result must still appear in Investing, not Operating.

This creates a clear distinction:

- ▶ Property performance from assets held directly appears in Operating.
- ▶ Property performance arising through equity-accounted structures appears in Investing.

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### Financing income and expenses

Income and expenses relating to liabilities arising from transactions that involve only the raising of finance will be classified in the financing category. For real estate companies this will typically include:

- ▶ Interest costs on bank facilities and bonds
- ▶ Gains and losses recognised on the modification of borrowings

Real estate companies will often hold interest rate swaps or caps to manage interest rate risk on variable rate borrowings. For such instruments, IFRS 18 requires the gains and losses to be classified in the same category as the income and expenses affected by the risks that the financial instrument is used to manage, regardless of whether the instrument is designated as a hedging instrument. Gains and losses on interest rate swaps/caps held to manage interest rate risk will therefore be classified within financing being the same place as the interest expense on the related borrowings.

In respect of liabilities that arise other than from transactions that involve only the raising of finance, the following income and expenses are required to be presented in the financing category if the entity identifies such income and expenses for the purpose of applying other requirements in IFRS Accounting Standards:

- a) Interest income and expenses; and
- b) Income and expenses arising from changes in interest rates.

This means that the interest expense on lease liabilities will be categorised as financing.

### Sub-totals

IFRS 18 mandates the presentation of certain subtotals:

- ▶ 'operating profit or loss', comprising all income and expenses classified in the operating category;
- ▶ 'profit or loss before financing and income taxes', which comprises operating profit or loss and all income and expenses classified in the investing category; and
- ▶ 'profit or loss', which is the sum of all income and expenses in the statement of profit or loss; this excludes income and expenses presented in the statement presenting comprehensive income.

IFRS 18 requires entities to present additional line items (including subtotals) if such presentation is necessary for a primary financial statement to provide a useful structured summary.

However, any additional line items (and subtotals) must:

- a) comprise amounts recognised and measured in accordance with IFRS Accounting Standards;
- b) be compatible with the statement structure required by IFRS 18;
- c) be consistent from period to period; and
- d) be displayed no more prominently than the totals and subtotals required by IFRS Accounting Standards



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### Preparing for implementation

IFRS 18 is effective for periods beginning on or after 1 January 2027, with comparatives restated. Companies that prepare condensed interim financial statements in accordance with IAS 34 will need to present each heading it expects to use in applying IFRS 18 and the subtotals required by IFRS 18 in any interim period commencing on or after 1 January 2027, with comparatives restated. Reconciliations will also need to be disclosed to reconcile line items previously presented under IAS 1 to the items presented in accordance with IFRS 18.

With IFRS 18 fundamentally reshaping how performance is presented, real estate investment companies should begin assessing the impact early—mapping existing income-statement line items to the new categories, identifying where judgment will be required, and considering how the new subtotals may influence KPIs, internal reporting and investor messaging.

Early planning will make the transition smoother and help ensure that the first IFRS 18-compliant results provide a clear and consistent picture of performance.

Find out more in our comprehensive guide [IFRS Accounting Standards in Practice - IFRS 18](#).

### Illustrative Example of Income Statement for a real estate company

Gross rental income	Operating
Service charge income	
Service charge expense	
Direct property expenses	
Expected credit loss on rent receivables	
Net rental income	Additional subtotal
Administrative and other expenses	Operating
Change in fair value of investment property	
Gain/(loss) on disposal of investment properties	Mandatory subtotal
Operating Profit	
Share or profit of associates and joint ventures	Investing
Interest income	
Fair value gain/(loss) on equity investments	
Profit before financing and income taxes	Mandatory subtotal
Interest expense on borrowings	Financing
Interest expense on lease liabilities	
Fair value gain/(loss) on derivative - interest rate swap	
Profit before income taxes	Additional subtotal
Income tax expense	Tax
Profit from continuing operations	Additional subtotal
Profit / (loss) from discontinued operations	Discontinued operations
Profit or loss	Mandatory total

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