



## **The Rouse Company (1994)<sup>1</sup>**

In 1994, the Rouse Company was engaged in the acquisition, development and management of income-producing properties. The Company was also involved in land development and sales. The Company had a diversified portfolio of properties located in major regions of the United States. For example, Rouse developed the “Westlake Mall” in Seattle, Washington and “Pioneer Place” in Portland, Oregon. Rouse’s largest development to date was their planned community, Columbia City, Maryland. To learn out more about The Rouse Company, see their web site at ‘[www.therousecompany.com](http://www.therousecompany.com).’

### **Does conventional accounting report the underlying economics of the business?**

As chairman of the Securities and Exchange Commission (SEC) from 1993 to 2001, Arthur Levitt warned that weak corporate governance, poor accounting practices and conflicts of interest could damage investors’ confidence in the integrity of the U.S. capital markets. The recent wave of accounting scandals made Levitt’s remarks appear omniscient. In a March 2003 speech, Levitt advised financial executives on how to restore confidence in corporate accounting.<sup>2</sup> Number one on his list of recommendations was that corporate executives “select accounting principles from those that best reflect – from the view of the investor – the actual economics of the underlying business transaction.”

For many years, the Rouse Company had been a rare critic of generally accepted accounting principles (GAAP) and a leader in providing alternative financial reporting that, in the view of Company management, better represented the economics of their real estate business. As a result of management’s concern about the quality of typical cost basis accounting, the Rouse Company provided financial statements that were unusual in two key aspects: 1) they

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<sup>1</sup> Prepared by Robert M. Bowen for discussion purposes only. The comments of Jane Kennedy are appreciated. Revised September 4, 2003.

<sup>2</sup> Reprinted under the title, “You are the guardians,” CFO Magazine, May 1, 2003.

provided “current value” balance sheets to supplement the required “historical cost” statements, and 2) they emphasized earnings *before* depreciation rather than the typical net earnings (a.k.a., net income).<sup>3</sup> Current values reflected management estimates of the value of company properties. The metric, earnings before depreciation, was an early example of ‘pro forma’ reporting where conventional earnings are adjusted to achieve an arguably more useful number. Pro forma reporting became popular in the late 1990s, especially among newer high technology firms, e.g., internet companies.

### **The Board meeting reviewing annual performance**

The case questions below assume you are a new Board member of the Rouse Company. You are meeting to evaluate the Company’s 1994 performance and approve dividends for the year. In so doing, you need to understand the Company’s multiple performance metrics and two alternative valuation methods: historical cost and current value. While some of the information you need is included within each case question, the exhibits listed below (from the Company’s 1994 Form 10-K filed with the Securities and Exchange Commission) also contain useful information:

- *Independent Auditor’s Report* (p. 5)
- *Report of Independent Real Estate Consultants* (p. 6)
- *Consolidated Cost-basis and Current Value-basis Balance Sheets* for fiscal years ended December 31, 1993 and 1994 (pp. 7-8)
- *Consolidated Cost basis Statements of Operations* for fiscal years ended December 31, 1992, 1993 and 1994 (p. 9)
- *Consolidated Cost basis Statements of Cash Flows* for fiscal years ended December 31, 1992, 1993 and 1994 (p. 10-11)
- *Notes to the Consolidated Financial Statements: (1) Current value basis financial statements* (pp. 12-13)
- *Five-Year Comparison of Selected Financial Data* (p. 14)
- *Five-Year Comparison of Earnings Before Depreciation and Deferred Taxes from Operations, and Net Earnings (Loss)* (pp. 15-16)

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<sup>3</sup> Also, the Company’s balance sheet did not provide the usual breakdown between current and non-current assets. In fact, opposite to the typical practice, assets were listed from least liquid (at the top) to most liquid (at the bottom).

**Questions:**

1. Participants in the equity markets use company accounting data to help estimate the value of stockholders' equity, i.e., stock prices. Given the Rouse Company produced balance sheets using two alternative valuation approaches, cost basis and current value basis, which is closer to investors' valuations?

a. Fill in the values below for the Rouse Company:

<u>Alternative valuation bases for shareholders' equity</u>	<u>Total at 12/31/94</u>	<u>Per share at 12/31/94</u>	<u>Total at 12/31/94</u>	<u>Per share at 12/31/94</u>
(1) Cost basis	_____	_____	_____	_____
(2) Current value basis	_____	_____	_____	_____
(3) Market value	_____	\$19.25	_____	\$17.75

Note that per share amounts are provided in the attached company disclosures. If you wish to verify any of these per share numbers, you need to assume that all of the Series A Convertible Preferred stock is converted into common stock. This *adds* the following amounts to those already shown under common stock in the balance sheets: 10,600,000 common shares at year-end 1994 and 9,500,000 shares at year-end 1993. Further assume that the stock market sets the price *as if* all preferred shares are converted into common shares.

b. Briefly speculate as to why the above three valuations differ.

2. Evaluate the financial performance of the Rouse Company in 1994 against 1993 and your common knowledge of corporate profitability. Rouse provides at least four alternative definitions of "earnings" that are summarized below. Speculate as to why the Company reports each of these 'earnings' numbers. Which metric would you emphasize in evaluating the Company's performance?

<u>Earning definition</u>	<u>location</u>	<u>1994 Amount</u>	<u>1994 ROE</u>	<u>1993 Amount</u>	<u>1993 ROE</u>
Earnings before depr & deferred income tax	5-yr comparison	\$ 94,710	91.0%	\$ 78,281	199.9%
Earnings from continuing operations	5-year comp. I/S	\$ 6,606	6.3%	\$ (1,291)	-3.3%
Net earnings	I/S	\$ 2,159	2.1%	\$ (9,342)	-23.9%
Net loss applicable to common shareholders	I/S	\$ (10,922)	-10.5%	\$ (20,723)	-52.9%
Average cost basis shareholders' equity	5-yr comp., B/S	\$ 104,089		\$ 39,152	

Note: *Average* cost basis shareholders' equity for 1994 is determined by taking the average of ending shareholders' equity for 1994 and 1993, respectively. Similarly, the average cost basis shareholders' equity for 1993 is determined by averaging ending shareholders' equity for 1993 and 1992, respectively. The 1992 ending balance is not provided, but the average shown above is not a typo.

3. In 1994, the Rouse Company paid total dividends of \$45,430 (\$13,081 to preferred shareholders and \$32,349 to common shareholders). In 1993, the Company paid total dividends of \$40,785 (\$11,381 to preferred shareholders and \$29,404 to common shareholders). Given the Company's performance in 1994 and 1993, what is your view of their dividend policy?
4. Note 1(c) states: "The aggregate difference between the current value basis and the cost basis of the Company's assets and liabilities is reported as revaluation equity in the shareholders' equity section of the consolidated current value basis balance sheets."
  - a. How did the Company estimate the current value of its operating properties? (Hint: Did the Company use current replacement cost (entry values), current net realizable value (exit values), or estimate the present value of future cash flows?)
  - b. Calculate the change in the "revaluation equity" account for 1994. What does the change in this account represent?
  - c. The Rouse Company did not provide current value basis income statements. Despite this, estimate "current value" net income for 1994. (Hint: See your answer to part 4b above, and do not try to reproduce the entire income statement.)
  - d. Compute return on common equity (defined as "net income"/"beginning common shareholders' equity") for 1994 on a historical cost and on a current value basis. Discuss why these ratios are different.
5. The Rouse Company incurred additional costs to produce current value basis balance sheets including additional financial analysis, audit fees and appraisal fees. Speculate as to why the Rouse Company voluntarily reported estimates of current values in its balance sheets?
6. What other types of companies might look very different on a current value, as compared to a historical cost, basis?

**INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders  
The Rouse Company:

We have audited the consolidated cost basis financial statements and the related financial statement schedules of The Rouse Company and subsidiaries as listed in the accompanying index. We have also audited the supplemental consolidated current value basis financial statements listed in the index. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated cost basis financial statements referred to above present fairly, in all material respects, the financial position of The Rouse Company and subsidiaries as of December 31, 1994 and 1993, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1994, in conformity with generally accepted accounting principles. Also in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated cost basis financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As more fully described in note 1 to the consolidated financial statements, the supplemental consolidated current value basis financial statements referred to above have been prepared by management to present relevant financial information about The Rouse Company and its subsidiaries which is not provided by the cost basis financial statements and are not intended to be a presentation in conformity with generally accepted accounting principles. In addition, as more fully described in note 1, the supplemental consolidated current value basis financial statements do not purport to present the net realizable, liquidation or market value of the Company as a whole. Furthermore, amounts ultimately realized by the Company from the disposal of properties may vary from the current values presented.

In our opinion, the supplemental consolidated current value basis financial statements referred to above present fairly, in all material respects, the information set forth therein on the basis of accounting described in note 1 to the consolidated financial statements.

KPMG Peat Marwick LLP

Baltimore, Maryland  
February 21, 1995

REPORT OF INDEPENDENT REAL ESTATE CONSULTANTS

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Landauer Associates, Inc.  
666 Fifth Avenue  
New York, New York 10103  
212-621-9500

KPMG Peat Marwick LLP and  
The Board of Directors and Shareholders  
The Rouse Company:

We have reviewed estimates of the market value of equity and other interests in certain real property owned and/or managed by The Rouse Company (the Company) and its subsidiaries as of December 31, 1994 and 1993. The properties reviewed at December 31, 1994 include all the projects identified as "In Operation" on the "Projects of The Rouse Company" table on pages 54 through 58 of the Annual Report for 1994, properties held for development and sale, and certain parcels of land in development. The properties reviewed at December 31, 1993 were the same, except for the properties which were disposed of during 1994.

The total values of its equity and other interests estimated by the Company were \$2,338,624,000 and \$2,227,151,000 as of December 31, 1994 and 1993, respectively.

Based upon our review, we concur with the Company's estimates of the total value of the property interests appraised. In our opinion, the aggregate value estimated by the Company varies less than 10% from the aggregate value we would estimate in a full and complete appraisal of the same interests. A variation of less than 10% between appraisers implies substantial agreement as to the most probable market value of such property interests.

The data used in our review were supplied to us in summary form by the Company. We have relied upon the Company's interpretation and summaries of leases, operating agreements, mortgages and partnership, joint venture and management agreements. We have had complete and unrestricted access to all underlying documents and have confirmed certain information by reference to such documents. We have found no discrepancies in the data and, to the best of our knowledge, believe all such data to be accurate and complete. The basic assumptions used by the Company and the individual value estimates prepared by the Company were, in our opinion, fair and reasonable. No assumption has been made with respect to a bulk sale of the entire holdings or groups of property interests. We have also physically inspected, within the past three years, substantially all of the properties which were reviewed.

We certify that neither Landauer Associates, Inc. nor the undersigned have any present or prospective interest in the Company's properties, and we have no personal interest or bias with respect to the parties involved. To the best of our knowledge and belief, the facts upon which the analysis and conclusions were based are materially true and correct. No one, other than the undersigned assisted by members of our staff, performed the analyses and reached the conclusions resulting in the opinion expressed in this letter. Our fee for this assignment was not contingent on any action or event resulting from the analysis, opinions, or conclusions in, or the use of, this review. Our review has been prepared in conformity with the Uniform Standards of Professional Appraisal Practice.

Sincerely,  
Landauer Associates, Inc.

/s/ James C. Kafes  
James C. Kafes, MAI, CRE  
Managing Director

/s/ Deborah A. Jackson  
Deborah A. Jackson  
Senior Vice President  
Director of Retail Valuation

February 21, 1995

The Rouse Company and Subsidiaries

**CONSOLIDATED COST BASIS AND  
CURRENT VALUE BASIS BALANCE SHEETS**

December 31, 1994 and 1993 (in thousands)

	1994		1993	
	Current Value Basis (note 1)	Cost Basis	Current Value Basis (note 1)	Cost Basis
<b>Assets</b>				
Property (notes 4, 5, 6, 10 and 16):				
Operating properties:				
Property and deferred costs of projects.....	\$4,232,913	\$2,937,565	\$4,070,962	\$2,821,303
Less accumulated depreciation and amortization.....		490,158		429,070
	4,232,913	2,447,407	4,070,962	2,392,233
Properties in development.....	70,866	65,348	59,836	57,065
Properties held for development and sale.....	162,446	141,102	154,911	131,827
Total property.....	4,466,225	2,653,857	4,285,709	2,581,125
Prepaid expenses, deferred charges and other assets.....	112,987	104,254	117,042	107,972
Accounts and notes receivable (note 7).....	78,202	78,202	77,926	77,926
Investments in marketable securities.....	30,149	30,149	34,403	34,403
Cash and cash equivalents.....	49,398	49,398	73,556	73,556
Total.....	\$4,736,961	\$2,915,860	\$4,588,636	\$2,874,982

The accompanying notes are an integral part of these statements.

## The Rouse Company and Subsidiaries

**CONSOLIDATED COST BASIS AND  
CURRENT VALUE BASIS BALANCE SHEETS  
(continued)**

December 31, 1994 and 1993 (in thousands)

	1994		1993	
	Current Value Basis (note 1)	Cost Basis	Current Value Basis (note 1)	Cost Basis
<b>Liabilities</b>				
<b>Debt (note 10):</b>				
Property debt not carrying a Parent Company guarantee of repayment.....	\$1,998,445	\$1,998,445	\$1,886,257	\$1,886,257
Parent Company debt and debt carrying a Parent Company guarantee of repayment:				
Property debt.....	223,731	223,731	273,540	273,540
Convertible subordinated debentures.....	105,950	130,000	122,850	130,000
Other debt.....	116,500	120,700	131,668	120,700
	446,181	474,431	528,058	524,240
<b>Total debt.....</b>	<b>2,444,626</b>	<b>2,472,876</b>	<b>2,414,315</b>	<b>2,410,497</b>
Obligations under capital leases (note 16).....	60,044	60,044	63,099	63,099
Accounts payable, accrued expenses and other liabilities.....	205,317	205,317	209,256	209,256
Deferred income taxes (note 12).....	412,729	82,597	376,360	78,979
<b>Shareholders' equity (notes 14, 15 and 18)</b>				
Series A Convertible Preferred stock with a liquidation preference of \$225,252 in 1994 and \$201,250 in 1993.....	45	45	40	40
Common stock of 1c par value per share; 250,000,000 shares authorized; issued 47,571,046 shares in 1994 and 47,562,226 shares in 1993.....	476	476	476	476
Additional paid-in capital.....	306,674	306,674	281,533	281,533
Accumulated deficit.....	(212,169)	(212,169)	(168,898)	(168,898)
Revaluation equity.....	1,519,219	--	1,412,455	--
<b>Total shareholders' equity.....</b>	<b>1,614,245</b>	<b>95,026</b>	<b>1,525,606</b>	<b>113,151</b>
<b>Commitments and contingencies (notes 16 and 17)</b>				
<b>Total.....</b>	<b>\$4,736,961</b>	<b>\$2,915,860</b>	<b>\$4,588,636</b>	<b>\$2,874,982</b>

## The Rouse Company and Subsidiaries

## CONSOLIDATED COST BASIS STATEMENTS OF OPERATIONS

Years ended December 31, 1994, 1993 and 1992  
(in thousands, except per share data)

	1994	1993	1992
Revenues.....	\$671,171	\$646,805	\$597,105
Operating expenses, exclusive of provision for bad debts, depreciation and amortization.....	356,958	352,217	331,365
Interest expense (note 10).....	213,583	210,806	206,809
Provision for bad debts.....	5,185	4,741	6,297
Depreciation and amortization (note 4).....	74,186	70,200	68,163
Gain (loss) on dispositions of assets and other provisions, net (note 13)	(7,923)	(5,769)	(5,254)
Earnings (loss) before income taxes and extraordinary losses.....	13,336	3,072	(20,783)
Income tax benefit (provision) (note 12):			
Current--primarily state.....	(735)	(760)	(352)
Deferred--primarily Federal.....	(5,995)	(3,603)	5,286
	(6,730)	(4,363)	4,934
Earnings (loss) before extraordinary losses.....	6,606	(1,291)	(15,849)
Extraordinary losses, net of related income tax benefits (note 10).....	(4,447)	(8,051)	(348)
Net earnings (loss).....	\$ 2,159	\$ (9,342)	\$ (16,197)
Net loss applicable to common shareholders.....	\$ (10,922)	\$ (20,723)	\$ (16,197)
Loss per share of common stock after provision for dividends on Preferred stock (notes 14 and 18):			
Loss before extraordinary losses.....	\$ (.14)	\$ (.27)	\$ (.33)
Extraordinary losses.....	(.09)	(.17)	(.01)
Total.....	\$ (.23)	\$ (.44)	\$ (.34)

The accompanying notes are an integral part of these statements.

## The Rouse Company and Subsidiaries

## CONSOLIDATED COST BASIS STATEMENTS OF CASH FLOWS

Years ended December 31, 1994, 1993 and 1992 (in thousands)

	1994	1993	1992
Cash flows from operating activities			
Rents and other revenues received.....	\$ 622,033	\$ 600,594	\$ 556,510
Proceeds from land sales.....	37,482	33,830	29,670
Interest received.....	10,297	9,712	10,220
Land development expenditures.....	(16,760)	(20,407)	(19,988)
Operating expenditures:			
Operating properties.....	(315,607)	(309,130)	(298,672)
Land sales, development and corporate.....	(11,880)	(9,034)	(9,776)
Interest paid:			
Operating properties.....	(195,751)	(184,278)	(179,140)
Land sales, development and corporate.....	(16,039)	(20,138)	(22,194)
Net cash provided by operating activities.....	113,775	101,149	66,630
Cash flows from investing activities			
Expenditures for properties in development and improvements to existing properties funded by debt.....	(78,628)	(87,243)	(83,377)
Expenditures for property acquisitions.....	(94,113)	(34,967)	(38,806)
Expenditures for improvements to existing properties funded by cash provided by operating activities:			
Tenant leasing and remerchandising.....	(8,121)	(7,374)	(10,468)
Building and equipment.....	(5,155)	(5,967)	(13,508)
Purchases of marketable securities.....	(70,189)	(88,594)	(21,421)
Proceeds from redemptions or sales of marketable securities.....	74,443	72,400	28,217
Other.....	3,212	(2,701)	(5,473)
Net cash used in investing activities.....	(178,551)	(154,446)	(144,836)
Cash flows from financing activities			
Proceeds from issuance of property debt.....	446,628	358,995	206,298
Repayments of property debt:			
Scheduled principal payments.....	(46,750)	(20,735)	(17,907)
Other payments.....	(304,977)	(405,772)	(73,494)
Proceeds from issuance of other debt.....	--	120,329	16,033
Repayments of other debt.....	(8,968)	(160,657)	(3,912)
Proceeds from issuance of Preferred stock.....	--	195,609	--
Proceeds from exercise of stock options.....	108	449	579
Dividends paid.....	(45,423)	(41,150)	(28,683)
Net cash provided by financing activities.....	40,618	47,068	98,914
Net increase (decrease) in cash and cash equivalents.....	(24,158)	(6,229)	20,708
Cash and cash equivalents at beginning of year.....	73,556	79,785	59,077
Cash and cash equivalents at end of year.....	\$ 49,398	\$ 73,556	\$ 79,785

The accompanying notes are an integral part of these statements.

	1994	1993	1992
Reconciliation of Net Earnings (Loss) to Net Cash Provided by Operating Activities			
Net earnings (loss).....	\$ 2,159	\$ (9,342)	\$(16,197)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Depreciation and amortization.....	74,186	70,200	68,163
(Gain) loss of dispositions of assets and other provisions, net.....	7,923	5,769	5,254
Extraordinary losses, net of related income tax benefits.....	4,447	8,051	348
Additions to pre-construction reserve.....	3,400	2,900	3,050
Provision for bad debts.....	5,185	4,741	6,297
Decrease (increase) in:			
Accounts and notes receivable.....	(5,209)	(3,010)	(7,273)
Other assets.....	7,382	(770)	(6,414)
Increase in accounts payable, accrued expenses and other liabilities.....	5,754	21,437	14,105
Deferred income taxes (benefit).....	5,995	3,603	(5,286)
Other.....	2,553	(2,430)	4,583
Net cash provided by operating activities.....	\$113,775	\$101,149	\$ 66,630

	1994	1993	1992
Schedule of Non-Cash Investing and Financing Activities			
Series A Convertible Preferred stock issued in satisfaction of mortgage debt.....	\$ 23,000	\$ --	\$ --
Mortgage debt extinguished on disposition of an interest in a property.....	15,681	--	--
Capital lease obligations incurred.....	613	1,541	2,509
Value of non-cash consideration given in connection with acquisitions of interests in properties.....	1,129	13,416	--
Mortgage and other debt assumed in connection with acquisitions of interests in properties.....	--	71,995	--
Capital lease obligation terminated on disposition of an interest in a property.....	--	--	17,000
Debt issued in connection with purchase of common stock of the Company.....	--	--	12,000
Reduction in a capital lease obligation due to a modification of terms.....	--	--	4,139

The Rouse Company and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 1994, 1993 and 1992

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(1) Current value basis financial statements

(a) Current value reporting

The Company's interests in operating properties, properties held for development and sale and certain other assets have appreciated in value and, accordingly, their aggregate current value substantially exceeds their aggregate cost basis net book value determined in conformity with generally accepted accounting principles. The current value basis financial statements present information about the current values to the Company of its assets and liabilities and the changes in such values. The current value basis financial statements are not intended to present the current liquidation values of assets or liabilities of the Company or its net assets taken as a whole.

Management believes that the current value basis financial statements more realistically reflect the underlying financial strength of the Company. The current values of the Company's interests in operating properties, including interests in unconsolidated real estate ventures, represent management's estimates of the value of these assets primarily as investments. These values will generally be realized through future cash flows generated by the operation of these properties over their economic lives. The current values of properties held for development and sale represent management's estimates of the value of these assets under long-term development and sales programs.

Shareholders' equity on a current value basis was \$1,614,245,000 or \$27.75 per share of common stock at December 31, 1994 and \$1,525,606,000 or \$26.75 per share of common stock at December 31, 1993. The per share calculations at December 31, 1994 and 1993 assume the conversion of the Preferred stock.

The process for estimating the current values of the Company's assets and liabilities requires significant estimates and judgments by management. These estimates and judgments are made based on information and assumptions considered by management to be adequate and appropriate in the circumstances; however, they are not subject to precise quantification or verification and may change from time to time as economic and market factors, and management's evaluation of them, change.

The current value basis financial statements have been and will continue to be an integral part of the Company's annual report to shareholders but, consistent with previous practice, current value information will not be presented as part of the Company's quarterly reports to shareholders. The extensive market research, financial analysis and testing of results required to produce reliable current value information make it impractical to report this information on an interim basis.

(b) Bases of valuation

Interests in operating properties--The current value of the Company's interests in operating properties is the Company's share, based on its underlying ownership interest, of each property's equity value (i.e., the present value of its forecasted net cash flow and residual value, if applicable, after deducting payments on the debt specifically related to the property) plus the outstanding balance of related debt. The current value of the Company's interests in unconsolidated real estate ventures is the present value of the Company's share of forecasted net cash flow, including incentive management fees, and residual value of the respective real estate ventures.

The forecasts of net cash flow generally cover periods of eleven years, are based on an evaluation of the history and future of each property and are supported by market studies, analyses of tenant lease terms and projected sales performance and detailed estimates of revenues and operating expenses.

The present values of forecasted net cash flows are determined using internal rates of return which vary by project and between years as investor yield requirements change. The resulting values recognize the considerable differences between properties in terms of quality, age, outlook and risk as well as the prevailing yield requirements of investors for income-producing properties.

Properties in development--Properties in development are carried at the same amounts as in the cost basis financial statements except that certain parcels of land are carried at their estimated current values. Management believes that properties in development have values in excess of stated costs, but has followed a practice of not recognizing any value increment until these properties are completed and operating.

Properties held for development and sale--The current value of properties held for development and sale is based on the present value of forecasted net cash flows under development and sales programs. These programs set forth the proposed timing and cost of all improvements necessary to bring the properties to saleable condition, the pace and price of sales and the costs to administer the programs and sell the properties.

Debt--Debt and obligations under capital leases specifically related to interests in operating properties are carried at the same amount as in the cost basis balance sheets since the value of the Company's equity interest in each property is based on net cash flow after payments on the debt or leases. The current values of publicly-traded debt not specifically related to interests in properties are determined using quoted market prices. The current values of other debt and obligations under capital leases are carried at the same amount as in the cost basis balance sheets since the difference between the stated and estimated market interest rates for such obligations is not material.

Deferred income taxes--Because the current value basis financial statements presume that values will generally be realized over the long-term through operating cash flows and not through liquidation, the deferred income tax obligation on a current value basis represents an estimate of the present value of income tax payments which may be made based on projections of taxable income through 2047. The projections of taxable income reflect all allowable deductions permitted under the Internal Revenue Code. The discount rates used to compute the present value of income tax payments are based on the internal rates of return used to compute the current values of assets, adjusted to reflect the Company's assessment of the greater uncertainty with respect to the ultimate timing and amounts of income tax payments.

Other assets and liabilities--Substantially all other assets and liabilities are carried in the current value basis balance sheets at the lower of cost or net realizable value--the same stated value as in the cost basis balance sheets.

(c) Revaluation equity

The aggregate difference between the current value basis and cost basis of the Company's assets and liabilities is reported as revaluation equity in the shareholders' equity section of the consolidated current value basis balance sheets. The components of revaluation equity at December 31, 1994 and 1993 are as follows (in thousands):

	1994	1993
	-----	-----
Value of interests in operating properties:		
Retail centers.....	\$1,981,731	\$1,908,831
Office, mixed-use and other.....	202,450	175,556
Value of properties held for development and sale.....	143,919	132,387
Value of land in development.....	10,524	10,377
	-----	-----
Total equity value.....	2,338,624	2,227,151
Debt related to equity interests.....	2,142,510	2,088,787
	-----	-----
Total asset value.....	4,481,134	4,315,938
Depreciated cost of interests in operating properties and costs of properties held for development and sale, land in development and certain other assets.....	(2,668,766)	(2,611,354)
Present value of potential income taxes related to revaluation equity, net of cost basis deferred income taxes.....	(330,132)	(297,381)
Other, net.....	36,983	5,252
	-----	-----
Total revaluation equity.....	\$1,519,219	\$1,412,455
	=====	=====