

SEC Number: CS200613870
File Number: _____

AREIT, INC.

(Company's Full Name)

28F, Tower One, Ayala Triangle
Ayala Avenue, Makati City 1226

(Company Address)

(632) 7908-3804

(Telephone Number)

September 30, 2022

(Quarter Ending)

SEC Form 17-Q Quarterly Report

(Form Type)

-

(Amendments)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE
SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended **September 30, 2022**
2. Commission Identification Number **CS200613870**
3. BIR Tax Identification No. **006-346-689-00000**
4. Exact name of issuer as specified in its charter: **AREIT, INC.**
5. Province, Country, or other jurisdiction of incorporation or organization:
Makati City, Philippines
6. Industry Classification Code: _____ (SEC Use Only)
7. Address of issuer's principal office and postal code:
28F, Tower One, Ayala Triangle, Ayala Avenue, Makati City 1226
8. Issuer's telephone number, including area code: **(632) 7908-3804**
9. Former name, former address, former fiscal year: **Not applicable**
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

As of September 30, 2022

<u>Title of each class</u>	<u>Number of shares issued and outstanding</u>
Common shares	1,508,910,810

11. Are any or all of the securities listed on a Stock Exchange?

Yes No

Stock Exchange: **Philippine Stock Exchange**

Securities listed: **Common shares**

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding 12 months (or for such shorter period that the registrant was required to file such reports):

Yes No

(b) has been subject to such filing requirements for the past 90 days:

Yes No

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PART I – FINANCIAL INFORMATION
Item 1. Financial Statements

AREIT, INC.

STATEMENTS OF FINANCIAL POSITION

	September 30, 2022 Unaudited	December 31, 2021 Audited
ASSETS		
Current Assets		
Cash (Note 4)	P226,002,298	P92,010,744
Receivables (Note 5)	1,438,507,672	1,320,940,578
Other current assets (Note 6)	191,940,765	110,291,205
Total Current Assets	1,856,450,735	1,523,242,527
Noncurrent Assets		
Noncurrent portion of receivables (Note 5)	3,148,418,120	3,063,077,918
Investment properties	50,173,483,074	50,081,060,761
Property and equipment	361,618	309,716
Other noncurrent assets (Note 6)	1,757,435,754	1,835,836,322
Total Noncurrent Assets	55,079,698,566	54,980,284,717
	56,936,149,301	56,503,527,244
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Note 7)	P1,032,581,046	P530,622,799
Short-term loans Payable (Note 8)	440,000,000	890,000,000
Current portion of deposits, other liabilities (Note 9)	788,187,039	735,086,847
Current portion of lease liability	50,290,868	42,967,375
Construction bonds	53,185,672	58,579,640
Total Current Liabilities	2,364,244,625	2,257,256,661
Noncurrent Liabilities		
Long-term debt	2,973,442,166	2,957,472,367
Deposits, other liabilities, net of current portion (Note 9)	1,281,471,164	1,290,194,773
Lease liability- net of current portion	1,162,570,128	1,111,013,455
Total Noncurrent Liabilities	5,417,483,458	5,358,680,595
Total Liabilities	7,781,728,083	7,615,937,256
Equity (Note 10)		
Paid-up capital	15,762,407,800	15,762,407,800
Treasury shares	(673,299,700)	(673,299,700)
Additional paid-in capital	11,333,074,693	11,333,074,693
Retained earnings	22,732,238,425	22,465,407,195
Total Equity	49,154,421,218	48,887,589,988
	56,936,149,301	P56,503,527,244

AREIT, INC.**INTERIM STATEMENTS OF COMPREHENSIVE INCOME**

	2022 Unaudited		2021 Unaudited	
	July 1 to September 30	January 1 to September 30	July 1 to September 30	January 1 to September 30
REVENUE				
Rental income	₱896,567,595	₱2,639,205,689	528,456,101	₱1,595,523,549
Dues- net	238,397,060	749,891,260	129,037,756	386,602,528
Interest income from finance lease receivables	56,037,282	166,284,544	45,865,295	134,843,608
	1,191,001,937	3,555,381,493	703,359,152	2,116,969,685
NET FAIR VALUE CHANGE IN INVESTMENT PROPERTIES				
	7,385,251	23,921,250	(3,400,799)	304,472,395
COSTS AND EXPENSES				
Direct operating expenses	328,441,892	955,139,803	174,008,320	517,838,710
General and administrative expenses	12,430,014	50,715,889	9,928,765	32,972,697
	340,871,906	1,005,855,692	183,937,085	550,811,407
OTHER INCOME (CHARGES) - Net				
Gain under finance lease	-	-	-	28,309,398
Interest income	8,249,541	20,901,823	490,452	4,416,843
Interest expense and other charges	(41,225,074)	(158,564,137)	(26,277,022)	(107,156,820)
Other income (charges)	(10,298,772)	3,940,719	(8,928,650)	41,034
	(43,274,305)	(133,721,595)	(34,715,220)	(74,389,545)
INCOME BEFORE INCOME TAX	814,240,977	2,439,725,456	481,306,048	1,796,241,128
PROVISION FOR INCOME TAX	28,877	62,659	6,445	31,898
NET INCOME	814,212,100	2,439,662,797	481,299,603	1,796,209,230
OTHER COMPREHENSIVE INCOME	-	-	-	-
TOTAL COMPREHENSIVE INCOME	₱814,212,100	₱2,439,662,797	₱481,299,603	₱1,796,209,230
Basic/Diluted Earnings Per Share	₱0.54	₱1.62	₱0.47	₱1.75

AREIT, INC.**INTERIM STATEMENTS OF CHANGES IN EQUITY**

	September 30, 2022	September 30, 2021
	Unaudited	Unaudited
PAID-UP CAPITAL		
Common Shares - ₱10 par value		
Balance at beginning and end of period	₱15,762,407,800	₱10,929,864,050
ADDITIONAL PAID-IN CAPITAL		
Balance at beginning and end of period	11,333,074,693	785,681,404
TREASURY SHARES		
Balance at beginning and end of period	(673,299,700)	(673,299,700)
RETAINED EARNINGS		
Balance at beginning of year	22,465,407,195	21,765,499,530
Total comprehensive income/Net income	2,439,662,796	1,796,209,230
Cash dividends	(2,172,831,566)	(1,282,070,544)
Balance at end of period	22,732,238,425	22,279,638,216
	49,154,421,218	33,321,883,970

AREIT, INC.**INTERIM STATEMENTS OF CASH FLOWS**

	Nine Months Ended September 30	
	2022	2021
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱2,439,725,455	₱1,796,241,129
Adjustments for:		
Net fair value change in investment properties	(23,921,250)	(304,472,395)
Depreciation and amortization	59,790	23,049
Interest expense	147,508,602	107,156,820
Gain under finance lease	–	(28,309,398)
Interest income from finance lease receivables	(166,284,544)	(134,843,608)
Interest income	(20,901,823)	(4,416,843)
Operating income before working capital changes	2,376,186,230	1,431,378,754
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables	226,158,915	(57,427,437)
Other assets	(172,924,155)	(888,374,611)
Increase (decrease) in:		
Accounts and other payables	499,847,095	2,643,123
Deposits and other liabilities	33,325,027	297,833,311
Construction bonds	(5,393,968)	224,215
Cash generated from (used in) operations	2,957,199,144	786,277,355
Interest received	187,186,367	139,260,451
Interest paid	(75,465,726)	(51,612,016)
Income tax paid	(62,660)	(31,899)
Net cash flows provided by (used in) operating activities	3,068,857,125	873,893,891
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in due from related parties	(219,500,000)	2,073,938,726
Payments for additions to investment properties	(92,534,005)	(5,721,056,881)
Payments for additions to property and equipment	–	(339,705)
Net cash flows provided by (used in) investing activities	(312,034,005)	(3,647,457,860)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of dividends	(2,172,831,566)	(1,282,070,544)
Availment (repayment) of loans	(450,000,000)	4,049,000,000
Payments of principal portion of lease liability	–	(17,081,739)
Net cash flows provided by (used) financing activities	(2,622,831,566)	2,749,847,717
NET INCREASE (DECREASE) IN CASH	133,991,554	(23,716,252)
CASH AT BEGINNING OF PERIOD	92,010,744	58,977,547
CASH AT END OF PERIOD	₱226,002,298	₱35,261,295

AREIT, INC.

NOTES TO INTERIM FINANCIAL STATEMENTS

1. Corporate Information

AREIT, Inc., (formerly, One Dela Rosa Property Development, Inc.) (the Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on September 4, 2006, with a corporate life of 50 years. On September 26, 2018, the Company amended its Articles of Incorporation to engage in the business of a real estate investment trust (REIT), as provided under Republic Act No. 9856 (the Real Estate Investment Trust Act of 2009), and its implementing rules and regulations (the REIT Act). The Company was organized primarily to engage in the business, which includes the following: (1) to own, invest in, purchase, acquire, hold, possess, lease, construct, develop, alter, improve, operate, manage, administer, sell, assign, convey, encumber, in whole or in part, or otherwise deal in and dispose of, income-generating real estate, whether freehold or leasehold, within or outside the Philippines with or to such persons and entities and under such terms and conditions as may be permitted by law; (2) to invest in, purchase, acquire own, hold, sell, assign, transfer, mortgage, pledge, exchange or otherwise dispose of real estate and managed funds; (3) to receive, collect and dispose of the rent, interest, dividends and income rising from its property and investments; and (4) to exercise, carry on or undertake such other powers, acts, activities and transactions as may be deemed necessary, convenient or incidental to or implied from the purposes herein mentioned. On April 12, 2019, the Company changed its name to AyalaLand REIT, Inc., and further amended its name to AREIT, Inc. on June 28, 2019.

As of December 31, 2021, the Company is publicly-listed, 47.34%-owned by Ayala Land Inc. (ALI), 6.38%-owned by AyalaLand Offices, Inc. (ALOI), 2.48%-owned by Westview Commercial Ventures Corp. (WCVVC), a wholly-owned subsidiary of ALI, 4.12%-owned by Glensworth Development, Inc. (GDI), a wholly owned subsidiary of ALOI, and the rest by the public. ALI's parent is Ayala Corporation (AC). AC is 47.87%-owned by Mermac, Inc., and the rest by the public. Both ALI and AC are publicly listed companies domiciled and incorporated in the Philippines.

The Company's registered office address and principal place of business is 28th Floor, Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City.

The Company's common stock was listed in The Philippine Stock Exchange on August 13, 2020, as a Real Estate Investment Trust (REIT) entity.

As a REIT entity, the Company is entitled to the following: (a) not subject to 2% minimum corporate income tax (MCIT), (b) exemption from value-added tax (VAT) and documentary stamp tax (DST) on the transfer of property in exchange of its shares, (c) deductibility of dividend distribution from its taxable income, and (d) fifty percent (50%) of the standard DST rate on the transfer of real property into the Company, including the sale or transfer of any security interest thereto, provided they have complied with the requirements under Republic Act (RA) No. 9856 and Implementing Rules and Regulations (IRR) of RA No. 9856.

The operational and administrative functions of the Company are handled by ALI before its listing. Beginning August 13, 2020, AREIT Fund Managers, Inc., and AREIT Property Managers, Inc., handled the fund manager functions and property management functions of the Company.

2. Basis of Financial Statement Preparation

The accompanying unaudited interim financial statements have been prepared following Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. Accordingly, the unaudited interim financial statements do not include all of the information and disclosures required in the December 31, 2021, annual audited financial statements.

The accompanying unaudited interim financial statements have been prepared under the going concern assumption. The Company believes that its businesses would remain relevant despite challenges posed by the COVID-19 pandemic.

The unaudited interim financial statements are presented in Philippine peso (Php), the Company's functional currency. All amounts are rounded to the nearest peso unit unless otherwise indicated.

On October 27, 2022, the Audit Committee approved and authorized the release of the accompanying unaudited interim financial statements of AREIT, Inc.

3. Summary of Significant Accounting Policies

Change to Fair Value Model

In 2021, the Company voluntarily changed its accounting policy on its investment properties from cost model to fair value model.

Under fair value accounting, investment properties are stated at fair value, reflecting market conditions at the reporting date. Independent real estate valuation experts determine the fair value of investment properties using the "income approach," based on each property's discounted future cash flows. The gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the period in which they arise. Investment properties are derecognized when either they have been disposed of or when the investment properties are permanently withdrawn from use, and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the asset's carrying amount is recognized as profit or loss in the period of derecognition.

As a result of the change, the comparative December 31, 2021 audited statement of financial position and the comparative interim statement of comprehensive income and statement of changes in equity for the nine-month period ended September 30, 2021 were restated to reflect the effect of the voluntary change.

The change will provide the users of the financial statements with more relevant information as it reflects the company's current valuation as a REIT entity.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2020. Adoption of these pronouncements did not significantly impact the Company's financial position or performance unless otherwise indicated.

- Amendments to PFRS 16, *COVID-19-related Rent Concessions*

The amendments relieve lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

- The rent concession is a direct consequence of COVID-19;
- The change in lease payments results in a revised lease consideration that is substantially the same or less than the lease consideration immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
- There is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

The amendments are effective for annual reporting periods beginning on or after June 1, 2020. Early adoption is permitted.

This amendment does not apply to the Company as there are no rent concessions granted to the Company as a lessee.

- Amendments to PFRS 3, *Definition of a Business*

The amendments to PFRS 3 clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together, significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs.

These amendments apply to the recent acquisition of building of the Company. See Notes 3 and 7 for the related disclosures.

- Amendments to PFRS 7, *Financial Instruments: Disclosures* and PFRS 9, *Financial Instruments, Interest Rate Benchmark Reform*

The amendments to PFRS 9 provide several reliefs which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no significant impact on the financial statements of the Company.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

The amendments provide a new definition stating “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make based on those financial statements, which provide financial information about a specific reporting entity.”

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the content of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the financial statements, nor is there expected to be any future impact on the Company.

- Conceptual Framework for Financial Reporting issued on March 29, 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the International Accounting Standards Board in developing standards, help preparers develop consistent accounting policies where there is no applicable standard in place, and assist all parties in understanding and interpreting the standards.

The revised Conceptual Framework includes new concepts, provides updated definitions and recognition criteria for assets and liabilities, and clarifies important concepts. These amendments had no impact on the financial statements of the Company.

- PIC Q&A 2018-12, PFRS 15 – Accounting for Common Usage Service (CUSA) Charges

The Company adopted PIC Q&A 2018-12, PFRS 15 – Accounting for CUSA retroactive January 1, 2021, which concludes that real estate developers are generally acting as principals for CUSA. The impact of the adoption is applied retrospectively.

As a result of the adoption, the Company presented the revenue from CUSA and air-conditioning charges at gross amounts and the related costs as part of costs and expenses which were previously presented together on a net basis as part of revenues.

The Company assessed itself (a) as principal on Buildings for CUSA, (b) as agent on Condominium Units for CUSA, and (c) as agent for electricity and water usage.

Standards and Interpretations Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. The Company intends to adopt the following pronouncements when they become effective. Adoption of these pronouncements is not expected to have a significant impact on the Company's financial statements.

Effective beginning on or after January 1, 2021

- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*

Effective beginning on or after January 1, 2022

- Amendments to PFRS 3, *Reference to the Conceptual Framework*
- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*
- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*
- *Annual Improvements to PFRSs 2018-2020 Cycle*
 - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*
 - Amendments to PFRS 9, *Financial Instruments, Fees in the “10 percent” test for derecognition of financial liabilities*
 - Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

Effective beginning on or after January 1, 2023

- Amendments to PAS 1, *Classification of Liabilities as Current or Noncurrent*
- PFRS 17, *Insurance Contracts*

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

4. Cash

This account consists of:

	September 30, 2022	December 31, 2021
	(Unaudited)	(Audited)
Cash on hand	₱72,500	₱22,500
Cash in banks	225,929,798	91,968,244
	226,002,298	₱91,990,744

Cash in banks earns interest from the respective bank deposit rates. Interest income earned from cash in banks amounted to ₱0.31 million and ₱0.16 million for the nine months ended September 30, 2022 and 2021, respectively.

5. Receivables

This account consists of:

	September 30, 2022	December 31, 2021
	(Unaudited)	(Audited)
Finance lease receivable	₱3,370,792,965	₱3,285,820,422
Due from related parties	999,569,576	914,114,901
Trade receivables – billed	260,656,268	220,680,256
Other receivables	674,759	858,963
	4,631,693,568	4,421,474,542
Less allowance for credit losses	44,767,776	37,456,046
	4,586,925,792	4,384,018,496
Less noncurrent portion of finance lease receivable	3,148,418,120	3,063,077,918
	₱1,438,507,672	₱1,320,940,578

Other receivables pertain to noninterest-bearing advances to contractors which are subject to liquidation upon completion.

Billed receivables arise mainly from tenants for rentals of office and retail spaces and recovery charges for common areas and utilities. These are noninterest-bearing and are generally collectible on a 30-day term.

As of September 30, 2022, the aging of analysis of the Company's receivables presented per class is as follow:

	Neither Past Due nor Impaired	Past due but not impaired				Impaired	Total
		<30 days	31-60 days	61-90 days	>90 Days		
Finance lease receivable	₱3,370,792,965	₱-	₱-	₱-	₱-	₱-	₱3,370,792,965
Due from related parties	951,728,744	1,263,690	35,461,181	8,892,768	2,223,193	-	999,569,576
Trade receivables – billed	21,535,160	104,196,130	20,425,437	15,748,519	53,983,246	44,767,776	260,656,268
Other receivables	674,759	-	-	-	-	-	674,759
Total	₱4,344,731,628	₱105,459,820	₱55,886,618	₱24,641,287	₱56,206,440	₱44,767,776	₱4,631,693,569

The movements in allowance for credit losses follows:

	September 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Balance at beginning of year	₱37,456,046	₱14,923,759
Additions	7,311,730	22,532,287
Balance at end of year	₱44,767,776	₱37,456,046

6. Other Assets

Other Current Assets

This account consists of:

	September 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Input VAT	₱91,313,147	₱97,794,584
Prepaid expenses	85,862,803	-
Recoverable deposits	14,764,815	12,496,621
	₱191,940,765	₱110,291,205

Input VAT is applied against output VAT within 12 months. This includes input VAT claimed for a refund amounting to ₱6.39 million, which is awaiting approval from the BIR.

Prepaid expenses pertain to payments of business taxes and real property taxes which is amortized over a year. This includes also payment of local transfer taxes for the Property-for-share swap assets which will be capitalized upon effectivity of the Property-for-share swap transaction.

Recoverable deposits pertain to various utility deposits.

Other Noncurrent Assets

This account consists of:

	September 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Input VAT	₱789,472,896	₱885,255,771
Deferred input VAT	858,491,692	861,813,729
Creditable withholding taxes	171,721,166	118,587,338
Advances to contractors	-	3,179,484
	1,819,685,754	1,868,836,322
Less allowance for possible losses	62,250,000	33,000,000
	₱1,757,435,754	₱1,835,836,322

Deferred input VAT pertains to input tax on the Company's purchases of capital goods exceeding ₱1.0 million per transaction, which is available for offset against the Company's future output VAT.

The remaining balance of input VAT and deferred input VAT is recoverable in future periods.

Creditable withholding taxes represent the amount withheld by the Company. These are recognized upon collection of the related lease receivable and are utilized as tax credits against income tax due. The Company recognized allowance for probable loss on CWT amounting to ₱19.50 million in 2022 and ₱33.0 million in 2021.

Advances to contractors are recouped upon every progress billing payment depending on the percentage of accomplishment or delivery.

7. Investment Properties

	September 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Beginning of the period	P50,081,060,761	P29,189,674,985
Acquisitions and Improvements	92,422,313	21,577,487,178
Property under finance lease	-	(886,240,458)
Gain on fair value adjustment	-	200,139,056
End of the period	P50,173,483,074	P50,081,060,761

On January 5, 2021, the Company entered into a Deed of Absolute Sale with Technopark Land, Inc (TLI), a subsidiary of Ayala Corporation (AC), to acquire 98,179 square meters (sqm) of land for P987.98 million, exclusive of VAT. The acquired parcels of land are currently being leased out to Integrated Micro-Electronics, Inc. (IMI) for eight years, starting from January 1, 2020, to December 31, 2027. The subject properties are the four (4) parcels of land located at Barrio Biñan, Laguna.

On January 15, 2021, the Company entered into a Deed of Sale with ALI to acquire The 30th for P4.56 billion (VAT exclusive). ALI has an existing land lease contract with MBS Development Corporation (MBS) which will expire on September 1, 2056, and such contract of lease was assigned to the Company as part of the sale of the building. Simultaneous to the acquisition, the Company and North Eastern Commercial Corp. (NECC), a wholly-owned subsidiary of ALI under the Ayala Malls brand, entered into a lease agreement for the retail podium of The 30th, that is payable on a monthly guaranteed lease for a period of 36 years. NECC operates the retail podium. NECC will pay a monthly guaranteed building lease to the Company for 36 years, in line with the land lease term of the property. The Company derecognized the portion of the property under a finance lease.

On October 7, 2021, SEC approved the property-for-share-swap transaction of the Company. This were acquired from ALI, GDI and WVCV and involves six commercial properties namely:

- Vertis North Commercial Development – A mixed-use development located at the heart of Quezon City. It is composed of three (3) office towers with a total GLA of 125,507.39 sq. m. and a retail podium with a GLA of 39,305.76 sq.m.
- Evotech One and Two – Evotech One and Two consists of two (2) office buildings situated in Lakeside Evozone, Nuvali, Laguna. The property caters to the special demands of IT and BPO companies looking to establish themselves in the south of Metro Manila.
- Bacolod Capitol Corporate Center – A five-storey PEZA-accredited corporate center in Bacolod City comprised of 11,313.14 sq. m. of leasable office space.
- Ayala Northpoint Technohub – A two-storey PEZA-accredited technohub in Bacolod City with a GLA of 4,653.50 sq. m. of office space.
- BPI-Philam Life Makati – BPI Philam Life Makati Building is a 32-storey office tower at the intersection of Ayala Avenue and Gil Puyat Avenue. The property-for-share swap transaction covers three (3) condominium office units of the property.
- BPI-Philam Life Alabang – BPI Philam Life Alabang is a corporate center in Madrigal Business Park, Alabang, Muntinlupa City. The Building is a 14-storey corporate center office that caters to all employees, primarily corporate professionals. The property-for-share swap transaction covers six (6) condominium office units of the property.

As of September 30, 2022, the investment properties are composed of seven (7) stand-alone buildings, ~~two~~ three (3) mixed-used properties, nine (9) condominium office units, and four (4) land parcels. The stand-alone buildings are Solaris One and McKinley Exchange located in Makati City, Teleperformance

Cebu located at Cebu I.T. Park, Cebu City, Evotech One and Two consisting of two (2) office buildings situated in Laguna, Bacolod Capitol Corporate Center and Ayala Northpoint Technohub located in Bacolod City. The mixed-used properties are Ayala North Exchange, The 30th Commercial Development, and Vertis North Commercial Development. Ayala North Exchange is located along Ayala Avenue, Makati composed of two office towers, a retail podium and serviced apartments; The 30th Commercial Development features a 19-storey office building complemented by a four-storey retail podium; while Vertis North Commercial Development is a mixed-use development composed of three (3) office towers and a retail podium located in Quezon City. The condominium office units are BPI-Philam Life Makati composed of three (3) condominium office units located at the intersection of Ayala Avenue and Gil Puyat Avenue, and BPI-Philam Life Alabang composed of six (6) condominium office units located at Madrigal Business Park, Alabang, Muntinlupa City. The four land parcels in Laguna Technopark are being leased to IMI.

The Company presents its investment properties at fair value and changes on such are recognized in profit or loss. The fair value of the investment properties was determined by management and independent and professionally qualified appraiser.

The fair value of the Company's investment properties was determined using the Income Approach which is a method in which the appraiser derives an indication of value for income-producing property by converting anticipated future benefits into current property value. The fair value is sensitive to the unobservable inputs of lease income growth rate and discount rate. Significant increases (decreases) in discount rate would result in a significantly lower (higher) fair value measurement while a change in the assumption used for the lease income growth rate is accompanied by a directionally similar change in the Company's fair value of investment properties.

Teleperformance Cebu building was appraised on December 31, 2021 while the fair value of the other investment properties as of December 31, 2021 were updated from the June 30, 2021 appraisal report to reflect changes in the assumptions as of December 31, 2021.

8. Accounts and Other Payables

This account consists of:

	September 30, 2022	December 31, 2021
	(Unaudited)	(Audited)
Due to related parties	₱743,707,490	₱299,429,900
Accounts payable	97,414,497	99,045,078
Accrued expenses		
Light and water	41,848,381	22,492,161
Rent	24,956,211	13,413,162
Repairs and maintenance	14,040,220	7,546,168
Others	43,658,602	23,971,364
Taxes payable	62,228,452	61,777,639
Retention payable	3,752,276	2,041,577
Interest payable	974,917	905,750
	₱1,032,581,046	₱530,622,799

Accounts payable arises from regular transactions with suppliers and service providers. These are noninterest-bearing and are normally settled on 15- to 60-day terms.

Accrued expenses include accruals for professional fees, postal and communication, supplies, transportation and travel, security, insurance, and representation. These accruals are noninterest-bearing.

Taxes payable consist of amounts payable to the taxing authority on expanded withholding taxes.

Retention payable pertains to the portion of the contractor’s progress billings withheld by the Company released after the satisfactory completion of the contractor’s work. The retention payable serves as a security from the contractor should there be defects in the project. These are noninterest-bearing and are normally settled upon completion of the relevant contract.

9. Short-term Debt and Long-term Debt

The Company obtained short-term loans from various local banks during the period.

The outstanding short-term loans payable amounting to P440.00 million as of September 30, 2022 and P890.00 million as of December 31, 2021 pertains to unsecured and interest bearing 30-day loans with average interest rate of 2.91% as of September 30, 2022 and 2.11% as of December 31, 2021.

Philippine Peso 2-year bonds due 2023

On December 28, 2021, the Company issued a total of P3.0 billion fixed bonds due 2023 at a rate equivalent to 3.0445% p.a. The Bonds represent the first tranche of debt securities issued under the Company’s P15.0 billion Debt Securities Program registered with the SEC and the first REIT in the Philippines to list a bond issued to public investors. The Bonds have been rated PRS Aaa by PhilRatings, indicating that obligor’s capacity to meet its financial commitment on the obligation is extremely strong.

The loan agreements contain the following restrictions: material changes in nature of business; maintenance of aggregate leverage limit; payment of dividends and additional loans maturing beyond a year which will result to non-compliance of the required aggregate leverage limit; merger or consolidation where the Company is not the surviving corporation; guarantees or advances; encumbrance for borrowed money; and sale of substantially all assets. These restrictions and requirements were complied with by the Company as of September 30, 2022 and December 31, 2021.

Debt issue costs amounted to P42.70 million in 2021. Amortization amounted to P15.97 million in 2022 and P0.18 million in 2021 and included under “Other charges”.

10. Construction Bonds

Construction bonds represent cash bonds to be used as a guarantee against damages to properties resulting from the construction, renovation or improvements being undertaken therein by the lessee. The bond will be refunded after full completion of the construction, renovation or improvements and inspection by the Company.

The carrying value of the Company’s construction bonds amounted to P53.19 million as of September 30, 2022 and P58.58 million as of December 31, 2021.

11. Deposits and Other Liabilities

This account consists of:

	September 30, 2022	December 31, 2021
	(Unaudited)	(Audited)
Advance rentals	P941,467,342	P999,233,922
Security deposits	991,434,094	942,749,081
Deferred credits	136,756,767	83,298,617
	2,069,658,203	2,025,281,620

Less current portion	788,187,039	735,086,847
	₱1,281,471,164	₱1,290,194,773

The current portion of these accounts follows:

	September 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Security deposits	₱459,444,195	₱436,882,890
Advance rentals	252,314,737	286,265,507
Deferred credits	76,428,107	11,938,450
	₱788,187,039	₱735,086,847

Advance rentals

Advance rentals from lessees represent cash received in advance representing three (3) months' rent which will be applied to the last three (3) months' rentals on the related lease contracts.

Security deposits

Security deposits represent deposits from lessees to secure faithful compliance by lessees of their obligation under the lease contract. These are equivalent to three (3) months' rent and will be refunded to the lessee at the end of the lease term.

12. Equity

Capital stock

The details of the Company's capital stock as of September 30, 2022, and December 31, 2020, follow:

	September 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Authorized	2,950,000,000	2,950,000,000
Par value per share	₱10.00	₱10.00
Issued and outstanding shares	1,508,910,810	1,508,910,810

The changes in the number of shares are as follows:

	September 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Authorized number of shares		
Balance at beginning of year at ₱10 par value	2,950,000,000	1,174,000,000
Increase in authorized capital stock at ₱10 par value	-	1,776,000,000
Balance at end of period	2,950,000,000	2,950,000,000
Issued shares		
Balance at beginning of year	1,576,240,780	1,092,986,405
Issuance of new shares	-	483,254,375
Balance at end of period	1,576,240,780	1,576,240,780
Treasury shares		
Balance at beginning and end of period	(67,329,970)	(67,329,970)
Outstanding	1,508,910,810	1,508,910,810

On October 7, 2021, the SEC approved the increase in authorized capital stock of 1,776,000,000 common shares with a par value of ₱10 per share and approved subscriptions of ALI, WCVL and GDI

of shares in exchange for the identified properties for 483,254,375 common shares with an exchange price of ₱32 per share.

Additional Paid-in Capital (APIC)

In 2021, the Company recorded APIC amounting to ₱10,583.27 million, net of transaction costs. The Company incurred transaction costs incidental to the property-for-share swap transaction that is directly attributable to the issuance of new shares amounting to ₱48.33 million in 2021.

Retained Earnings

On February 24, 2021, the Company's BOD approved the declaration of cash dividends for the fourth quarter of 2020 amounting to ₱0.39 per outstanding common share to stockholders on the record date as of March 15, 2021 amounting to ₱400.01 million. The cash dividend was paid on March 25, 2021.

On May 26, 2021, the Company's BOD approved the declaration of cash dividends for the first quarter of 2021, amounting to ₱0.42 per outstanding common share to stockholders on record as of June 11, 2021, amounting to ₱430.78 million. The cash dividend was paid on June 25, 2021.

On August 12, 2021, the Company's BOD approved the declaration of cash dividends for the second quarter of 2021, amounting to ₱0.44 per outstanding common share to stockholders on record as of August 26, 2021, amounting to ₱451.29 million. The cash dividend was paid on September 10, 2021, to stockholders.

On September 22, 2021, the Company's BOD approved the declaration of cash dividends for the third quarter of 2021, amounting to ₱0.44 per outstanding common share to stockholders on record as of October 06, 2021, amounting to ₱451.29 million. The cash dividend was paid on October 22, 2021, to stockholders.

On February 24, 2022, the Company's BOD approved the declaration of cash dividends for the fourth quarter of 2021, amounting to ₱0.47 per outstanding common share to stockholders on record as of March 11, 2022, amounting to ₱709.19 million. The cash dividend was paid on March 25, 2022, to stockholders.

On May 19, 2022, the Company's BOD approved the declaration of cash dividends for the first quarter of 2022, amounting to ₱0.48 per outstanding common share to stockholders on record as of June 02, 2022, amounting to ₱724.28 million. The cash dividend was paid on June 17, 2022, to stockholders.

On August 12, 2022, the Company's BOD approved the declaration of cash dividends for the second quarter of 2022, amounting to ₱0.49 per outstanding common share to stockholders on record as of August 26, 2022, amounting to ₱739.37 million. The cash dividend was paid on September 09, 2022, to stockholders.

On October 11, 2022, the Company's BOD approved the declaration of cash dividends for the third quarter of 2022, amounting to ₱0.49 per outstanding common share to stockholders on record as of October 25, 2022, amounting to ₱739.37 million. The cash dividend will be payable on November 10, 2022, to stockholders.

Distributable Income

The computation of the distributable income of the Company as of September 30, 2022, is shown below:

	September 30, 2022
	(Unaudited)
Net income	₱2,439,662,796
Add (Less): Unrealized gain on fair value change in investment properties	(23,921,250)

Distribution adjustments	-
Distributable Income	P2,415,741,546

Capital Management

The primary objectives of the Company's capital management policies are to afford the financial flexibility to support its business initiatives while providing a sufficient cushion to absorb cyclical industry risks and to maximize stakeholder value. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. The Company considers its total equity as capital.

The Company's sources of capital as of September 30, 2022 and December 31, 2021, follow:

	September 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Paid-up capital	P15,762,407,800	P15,762,407,800
Additional paid- in capital	11,333,074,693	11,333,074,693
Treasury shares	(673,299,700)	(673,299,700)
Retained earnings	22,732,238,425	22,465,407,195
	P49,154,421,218	P48,887,589,988

13. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered related if they are subject to common control or common significant influence, including affiliates.

Terms and Conditions of Transactions with Related Parties

In its regular conduct of business, the Company has entered into transactions with related parties consisting of advances and development, management, marketing and leasing, and administrative service agreements. These are based on terms agreed by the parties.

Outstanding balances at yearend are unsecured, noninterest-bearing, and settlement occur in cash unless otherwise indicated. There have been no guarantees provided or received for any related party receivables or payables.

The following tables provide the value and outstanding balances of transactions that have been entered into with related parties for the relevant financial year:

Related Party Category	September 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Due from related parties		
Parent Company		
Ayala Land, Inc.	P53,205,246	P290,385,878
Affiliates*	4,303,941,944	3,909,549,445
Other related parties		
Integrated Microelectronics Inc	12,989,082	
Globe Telecom, Inc.	80,712	-
	13,069,794	
	P4,370,216,984	P4,199,935,323

*Entities under common control

Related Party Category	September 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Due to related parties		
Parent Company		
Ayala Land, Inc.	P150,740,151	P47,566,230
Affiliates*	584,952,460	249,812,235
Other related parties		
Manila Water Company Inc	7,266,376	2,051,435
Manila Water Philippine Ventures, Inc.	612,503	-
Globe Telecom, Inc.	96,158	-
Innove Communications	29,742	-
Bank of the Philippine Islands	10,100	-
	8,014,879	2,051,435
	P743,707,490	P299,429,900

*Entities under common control

14. Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise cash, receivables, accounts, and other payables and security deposits that arise directly from the conduct of its operations. The main risks arising from the use of financial instruments are liquidity risk and credit risk.

The Company reviews policies for managing each of these risks. The Company monitors market price risk from all financial instruments and regularly reports financial management activities and the results to the BOD.

Exposure to credit, interest rate, and liquidity risks arise in the ordinary course of the Company's business activities. The main objectives of the Company's financial risk management follow:

- to identify and monitor such risks on an ongoing basis;
- to minimize and mitigate such risks; and
- to provide a degree of certainty about costs.

Before the Company's listing, ALI's financing and treasury function operates as a centralized service for managing financial risks and activities as well as providing optimum investment yield and cost-efficient funding for the Company. Effective August 13, 2020, AREIT Fund Manager's, Inc. handles fund manager functions of the Company.

Liquidity risk

The Company actively manages its liquidity position so as to ensure that all operating, investing and financing needs are met. The Company's policy is to maintain a level of cash deemed sufficient to fund its monthly cash requirements, at least for the next two months. Capital expenditures are funded through long-term debt, while working capital requirements are sufficiently funded through cash collections and capital infusion by stockholders.

Through scenario analysis and contingency planning, the Company also assesses its ability to withstand both temporary and longer-term disruptions relative to its capacity to finance its activities and commitments in a timely manner and at reasonable cost and ensures the availability of ample unused credit facilities as back-up liquidity.

The Company's cash is maintained at a level that will enable it to fund its operations as well as to have additional funds as buffer for any opportunities or emergencies that may arise. To manage the Company's liquidity, credit line facilities with designated local banks, as approved by the Board of Directors, were obtained.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company's credit risks are primarily attributable to cash, receivables and other financial assets. To manage credit risks, the Company maintains defined credit policies and monitors on a continuous basis its exposure to credit risks.

Credit risk arising from rental income from leased properties is primarily managed through a tenant selection process. In accordance with the provisions of the lease contracts, the lessees are required to deposit with the Company security deposits and advance rentals which helps reduce the Company's credit risk exposure in case of defaults by the tenants. For existing tenants, the Company has put in place a monitoring and follow-up system. Receivables are aged and analyzed on a continuous basis to minimize credit risk associated with these receivables. Regular meetings with tenants are also undertaken to provide opportunities for counseling and further assessment of financial capacity. Except for the trade receivables, the maximum exposure to credit risk of all financial assets is equal to their carrying amounts.

15. Fair Value Hierarchy

Fair Value Information

Except for the Company's security deposits and long-term debt, which are disclosed below, carrying values of the other financial instruments of the Company approximate their fair values due to the short-term nature of the transactions.

	September 30, 2022 (Unaudited)		December 31, 2021 (Audited)	
	Carrying value	Fair value	Carrying value	Fair value
Security deposits	₱991,434,094	₱991,434,094	₱942,749,081	₱864,953,175
Long-term debt	2,973,442,166	2,973,442,166	2,957,472,367	2,844,051,163

As of September 30, 2022 and December 31, 2021, the Company has no financial instrument measured at fair value. In 2022 and 2021, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

The fair value of the Company's security deposits and long-term debt is categorized under Level 3 in the fair value hierarchy.

16. Notes to Interim Statements of Cash Flow

The Company's noncash operating and investing activities are as follows:

Operating

- Interest income from finance lease amounting to ₱166.28 million and ₱134.84 million for nine months ended September 30, 2022 and 2021.
- Noncash movement in "Receivables" the ₱28.31 million gains on finance lease receivables from the lease agreement with NECC in 2021 (nil in 2022).

Investing

- Noncash movement in "Investment Properties" amounting to ₱389.97 million arising from lease agreement with NECC in 2021.

Financing

Interest expense on the accretion of interest related to lease liabilities amounting to ₱60.99 million and ₱42.79 million for nine months ended September 30, 2022, and 2021.

17. Segment Reporting

The Company has determined that it is currently operating as one operating segment. Based on management's assessment, no part or component of the business of the Company meets the qualifications of an operating segment as defined by PFRS 8, *Operating Segments*.

The Company's four parcels of land, nine condominium office units and thirteen-building lease operations are its only income-generating activity, and such is the measure used by the management in allocating resources.

18. Seasonality of Operations

There were no operations subject to seasonality or cyclicity except for the retail operations of the Company. The Company generates a relatively stable stream of revenues throughout the year, with higher sales experiences in the fourth quarter of every year from shopping centers due to holiday spending. This information is provided to allow for a better understanding of the results; however, management has concluded that this is not 'highly seasonal' under PAS 34.

19. Events After Financial Reporting Date

On October 11, 2022 the Board of Directors of AREIT, Inc. (AREIT), at its regular meeting, approved the declaration of cash dividends of Php0.49 per outstanding common share for the third quarter of 2022. The cash dividends will be payable on November 10, 2022 to stockholders of record as of October 25, 2022.

Item 2. Management's Discussion and Analysis on the Results of Operation and Financial Condition

Review of 9M 2022 operations vs 9M 2021

AREIT, Inc. net income after tax increased by 36% from ₱1,796.21 million in 2021 to ₱2,439.66 million in 2022. Net income after tax adjusted to exclude the change in fair value of investment properties and one time gain on finance lease increased by 65% at P2,415.80 million in 2022 from ₱1,463.46 million in 2021. The increase in net income after tax is due to the acquisition of new properties in October 2021 as well as rental escalations.

Revenues

Total revenues increased by 68% from ₱2,116.97 million in 2021 to ₱3,555.38 million in 2022. This was mainly driven by higher rental income and dues-net in line with the additional properties acquired in October 2021.

Rental Income increased by 65% from ₱1,595.52 million in 2021 to ₱2,639.21 million in 2022. The increase was primarily attributable to the additional properties namely, Vertis Offices and Mall, One and Two Evotech, BPI-Philam Makati, BPI-Philam Alabang, Bacolod Capitol and Ayala Northpoint, which were added to the Company's portfolio in October 2021.

Dues increased by 94% from ₱386.60 million in 2021 to ₱749.89 million in 2022. The increase was attributable to the operations of new properties acquired in October 2021.

Interest income from finance lease, increased by 23% from ₱134.84 million in 2021 and ₱166.28 million in 2022. This pertains to the long-term lease of North Eastern Commercial Corp with the Company, for Vertis Mall building lease which commenced in October 1, 2021.

Net Fair Value Change in Investment Property

In 2021, the Company voluntarily changed its accounting policy on investment properties from cost model to fair value model which requires restatement of previous financial statements. The change will provide the users of the financial statements a more relevant information as it reflects the current valuation of the Company as a REIT entity.

The Company recognized a net fair value change in investment property of ₱23.92 million in 2022 and ₱304.47 million in 2021.

Cost and Expenses

Direct operating expenses increased by 84% from ₱517.84 million in 2021 to ₱955.14 million in 2022. The increase is in line with the additional properties acquired in October 2021.

General and administrative expenses increased by 54%, from ₱32.97 million in 2021 to ₱50.72 million in 2022.

Other Income (charges)

Gain under finance lease amounted to ₱28.31 million in 2021. In January 2021, our Company entered into a long-term building lease agreement with North Eastern Commercial Corp. for the lease of the retail podium of The 30th development. North Eastern Commercial Corp. is wholly owned by Ayala Land, Inc. The Company classified the agreement as a finance lease. Our Company remains to be the legal owner of the portion of the building under a finance lease.

Interest Income increased by 373% from ₱4.42 million in 2021 to ₱20.90 million in 2022. The increase was mainly due to the increase in interest income from intercompany lending in 2022.

Interest expense increased by 38% from ₱107.16 million in 2021 to ₱147.98 million in 2022. The increase was primarily attributable to the recognition of interest expense on short-term and long-term debt and accretion of security deposit.

Other income (charges), composed of income earned from interest and penalties arising from late payments and amortization of bond issue cost.

Provision for Income Tax

Provision for income tax, increased by 96% from ₱31,898 in 2021 to ₱62,659 million in 2022. This pertains to final tax on interest income from banks.

Causes for any material changes (+/- 5% or more) in the financial statements

Balance Sheet items- September 30, 2022 versus December 31, 2021

Cash increased by 146% primarily due to higher collections.

Receivables increased by 9% primarily due to contribution of new properties acquired in Oct 2021.

Other current assets increased by 74% mainly due to higher prepaid expenses pertaining to payments of business taxes and real property taxes, which are being amortized for the year.

Property and equipment decreased by 17% mainly due to depreciation of existing office equipment.

Short-term debt decreased by 51% due to repayment of short-term debt amounting to ₱450.00 million, which was paid thru excess cash from operations.

Accounts and other payables increased by 95%, in line with the increase in operations due to additional properties.

Current portion of deposits and other liabilities increased by 7% due to higher advance rental collection.

Construction bonds decreased by 9% due to refund to tenants for bonds collected to be used as guarantee against damages to properties resulting from construction, renovation or improvements being undertaken.

Lease liability increased by 5% due to additional lease liability for the lease agreements entered by the Company related to land leases of One and Two Evotech and Bacolod Capitol. The rent is payable at a fixed monthly rate, subject to annual escalation rate.

Financial Condition

The Company's balance sheet remains healthy to support the financial and operational requirements during this period.

Total current assets, including cash, current portion of receivable, input VAT, prepaid expenses, and recoverable deposits, stood at ₱1,856.45 million, resulting in a current ratio of 0.67:1.

Total debt registered at P3.41 billion which translated to a debt-to-equity ratio of 0.07:1 and a net debt-to-equity ratio of 0.06:1.

Return on equity is at 7% as of September 30, 2022.

Key Financial Ratios	2022	2021
Current Ratio ⁽¹⁾	0.79	0.67
Debt to Equity ⁽²⁾	0.07	0.08
Profitability Ratios		
Return on Asset ⁽³⁾	6%	6%
Return on Equity ⁽⁴⁾	7%	5%
Asset to Equity Ratio ⁽⁵⁾	1.16	1.16

⁽¹⁾ Current assets/current liabilities

⁽²⁾ Total debt/Average Stockholder's equity

⁽³⁾ Total Net Income/Total Average Assets

⁽⁴⁾ Total Net Income/Average Stockholder's equity

⁽⁵⁾ Total asset/Total Stockholder's equity

- Due to the Company's sound financial condition, there is no foreseeable trend or event which may have a material impact on its short-term or long-term liquidity.
- There is no material commitment for capital expenditures other than those performed in the ordinary course of trade or business
- There is no known trend, event or uncertainty that have had or that are reasonably expected to have a material impact on the net sales or revenues or income from continuing operations.
- There is no significant element of income arising from continuing operations.
- There have not been any seasonal aspects that had a material effect on the financial condition or results of the Company's operations.
- There were no known events and uncertainties that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.
- There were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationship of the Company with unconsolidated entities or other persons created during the reporting period.

**Property Performance as of September
30, 2022**

Property	Location	Valuation Date	Valuation cost² (in Pesos, millions)	Total gross leasable area (GLA) (in sq.m)	Occupied GLA (in sq.m)	Occupancy rate	Remaining Land lease term	Rental Income (in Pesos, millions)	Gross Revenues (in Pesos, millions)
Solaris	Makati	June 2021	12,170	46,768	45,740	98%	26	441	614
Ayala North Exchange ¹	Makati	June 2021	13,656	95,300	94,562	99%	36	671	793
MECC	Makati	June 2021	1,940	10,688	10,593	99%	32	85	107
TP Cebu	Cebu	Dec 2021	2,599	18,093	18,093	100%	29	125	156
The 30th ¹	Pasig	June 2021	4,643	74,704	69,080	92%	34	295	375
Laguna Technopark Land	Laguna	June 2021	1,087	98,179	98,179	100%	n/a	58	58
Vertis ¹	Quezon City	June 2021	11,978	164,628	158,114	96%	35	895	1,118
BPI- Philam Makati	Makati	June 2021	236	1,072	-	0%	n/a	9	11
BPI- Philam Alabang	Muntinlupa	June 2021	63	551	551	100%	n/a	4	6
Bacolod Capitol	Negros Occidental	June 2021	893	11,313	11,313	100%	40	51	66
Ayala Northpoint	Negros Occidental	June 2021	297	4,654	4,654	100%	36	19	23
Evotech	Laguna	June 2021	1,999	23,727	23,517	99%	36	152	228

⁽¹⁾ Does not include portion of ANE Seda, The 30th Mall and Vertis Mall which are accounted for under finance lease

⁽²⁾ Valuation based on latest appraisal reports using Income approach except for Laguna Technopark land which was based on Market approach

PART II- OTHER INFORMATION

Item 3. Developments as of September 30, 2022

- | | | | | | | | | | | | | | | | | | |
|--|---|----------------------------|----------|----------------|-----------------|--------------------|------------------------|-----------------------|------------------------|------------------------|------------------------|--------------|---------------------------|----------------|----------------------|--------------------|----------------------|
| A. New project or investments in another line of business or corporation | None | | | | | | | | | | | | | | | | |
| B. Composition of Board of Directors (as of April 22, 2022) | <table border="0" style="width: 100%;"> <tr> <td style="width: 60%;">Jose Emmanuel H. Jalandoni</td> <td>Chairman</td> </tr> <tr> <td>Carol T. Mills</td> <td>President & CEO</td> </tr> <tr> <td>Augusto D. Bengzon</td> <td>Non-Executive Director</td> </tr> <tr> <td>Bernard Vincent O. Dy</td> <td>Non-Executive Director</td> </tr> <tr> <td>Mariana Zobel de Ayala</td> <td>Non-Executive Director</td> </tr> <tr> <td>Omar T. Cruz</td> <td>Lead Independent Director</td> </tr> <tr> <td>Enrico S. Cruz</td> <td>Independent Director</td> </tr> <tr> <td>Jessie D. Cabaluna</td> <td>Independent Director</td> </tr> </table> | Jose Emmanuel H. Jalandoni | Chairman | Carol T. Mills | President & CEO | Augusto D. Bengzon | Non-Executive Director | Bernard Vincent O. Dy | Non-Executive Director | Mariana Zobel de Ayala | Non-Executive Director | Omar T. Cruz | Lead Independent Director | Enrico S. Cruz | Independent Director | Jessie D. Cabaluna | Independent Director |
| Jose Emmanuel H. Jalandoni | Chairman | | | | | | | | | | | | | | | | |
| Carol T. Mills | President & CEO | | | | | | | | | | | | | | | | |
| Augusto D. Bengzon | Non-Executive Director | | | | | | | | | | | | | | | | |
| Bernard Vincent O. Dy | Non-Executive Director | | | | | | | | | | | | | | | | |
| Mariana Zobel de Ayala | Non-Executive Director | | | | | | | | | | | | | | | | |
| Omar T. Cruz | Lead Independent Director | | | | | | | | | | | | | | | | |
| Enrico S. Cruz | Independent Director | | | | | | | | | | | | | | | | |
| Jessie D. Cabaluna | Independent Director | | | | | | | | | | | | | | | | |
| C. Performance of the corporation or result/progress of operations | Please see unaudited financial statements and management’s discussion on the results of operations. | | | | | | | | | | | | | | | | |
| D. Declaration of dividends | <p>₱0.47 cash dividend per outstanding common share
 Declaration date: February 24, 2022
 Record date: March 11, 2022
 Payment date: March 25, 2022</p> <p>₱0.48 cash dividend per outstanding common share
 Declaration date: May 19, 2022
 Record date: June 2, 2022
 Payment date: June 17, 2022</p> <p>₱0.49 cash dividend per outstanding common share
 Declaration date: August 12, 2022
 Record date: August 26, 2022
 Payment date: September 9, 2022</p> | | | | | | | | | | | | | | | | |
| E. Contracts of merger, consolidation, or joint venture; contract of management, licensing, marketing, distributorship, technical assistance, or similar agreements | None | | | | | | | | | | | | | | | | |
| F. Offering of rights, granting of Stock Options and corresponding plans therefore | None | | | | | | | | | | | | | | | | |
| G. Acquisition of additional mining claims or other capital assets or patents, formula, real estate | None | | | | | | | | | | | | | | | | |

- | | |
|---|------|
| H. Other information, material events, or happenings that may have affected or may affect the market price of the security | None |
| I. Transferring of assets, except in the normal course of business | None |

Item 4. Other Notes to 9M 2022 Operations and Financials

- | | |
|---|---|
| J. Nature and amount of items affecting assets, liabilities, equity, or net income that are unusual because of their nature, size, or incidents | Please see Item 2: Management's Discussion on Results of Operations and Analysis. |
| K. Nature and amount of changes in estimates of amounts reported in prior periods and their material effect in the current period | Please see page 26: Causes for any material changes (+/- 5% or more) in the financial statements |
| L. New financing through loans / Issuances, repurchases, and repayments of debt and equity securities | None |
| M. Material events subsequent to the end of the interim period that has not been reflected in the financial statements for the interim period | On October 11, 2022 , the Board of Directors of AREIT, Inc. (AREIT), at its regular meeting, approved the declaration of cash dividends of Php0.49 per outstanding common share for the third quarter of 2022. The cash dividends will be payable on November 10, 2022 to stockholders of record as of October 25, 2022. |
| N. The effect of changes in the composition of the issuer during the interim period including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations | None |
| O. Changes in contingent liabilities or contingent assets since the last annual balance sheet date | None |
| P. Other material events or transactions during the interim period | On June 24, 2022 , in consideration of the property-for-share swap transaction involving the issuance of 252,136,383 primary common shares of AREIT, Inc. (AREIT) to be received by Ayala Land, Inc., AREIT submitted its request for confirmation of exemption from registration of securities and confirmation of valuation of property subject of the swap to the Securities and Exchange Commission (SEC), pursuant to |

Section 10.1.5 of the Implementing Rules and Regulations of the Securities Regulation Code.

On July 1, 2022, AREIT, Inc. (AREIT or the Company) secured the Philippine Stock Exchange's (PSE) approval of its application to list the additional 483,254,375 common shares (Swap Shares) covering the Company's property-for-share swap transaction with its sponsor, Ayala Land, Inc. (ALI), and its subsidiaries.

On August 12, 2022, the Board of Directors of AREIT, Inc. (AREIT), at its regular meeting, approved the declaration of cash dividends of Php0.49 per outstanding common share for the second quarter of 2022. The cash dividends will be payable on September 9, 2022 to stockholders of record as of August 26, 2022.

On September 8, 2022, the Swap Shares were listed with the PSE and shall thereafter be subject to a lock-up period of 180 days with BPI Securities Corp. as Escrow Agent

- | | |
|---|---|
| Q. Existence of material contingencies during the interim period; events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation | None |
| R. Material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period | None |
| S. Material commitments for capital expenditures, general-purpose and expected sources of funds | None |
| T. Known trends, events, or uncertainties that have had or that are reasonably expected to have an impact on sales/revenues/ income from continuing operations | AREIT's performance will be dependent on the state of the Philippine Office Sector. |
| U. Significant elements of income or loss that did not arise from continuing operations | None |

- | | |
|--|---|
| V. Causes for any material change/s from period to period, in one, or more line items of the financial statements | Please see Notes to Financial Statements (Item 2: Management's Discussion on Results of Operations and Analysis). |
| W. Seasonal aspects that had a material effect on the financial condition or results of operations | None |
| X. Disclosures not made under SEC Form 17-C | None. |

Item 5. Performance Indicators

The table below shows AREIT's performance indicators:

	End-September 2022 (Unaudited)	End-December 2021 (Audited)
Current ratio ¹	0.79:1	0.67:1
Debt-to-equity ratio ²	0.07:1	0.08:1
Net debt-to-equity ratio ³	0.06:1	0.08:1
Profitability Ratios:		
Return on assets ⁴	6%	6%
Return on equity ⁵	7%	5%
Asset to Equity ratio ⁶	1.16:1	1.16:1

Notes:

- (1) *The current ratio is derived by dividing current assets by current liabilities at the end of a given period. The current ratio measures our ability to pay short-term obligations.*
- (2) *The debt to equity ratio is derived by dividing our total loans and borrowings by total equity. The debt to equity ratio measures the degree of our financial leverage.*
- (3) *The net debt to equity ratio is derived by dividing our total loans and borrowings less cash by total equity.*
- (4) *Return on assets is derived by annualized net income by total assets*
- (5) *Return on equity is derived by dividing annualized net income by average shareholders' equity. Return on equity measures how profitable we are at generating profit from each unit of shareholder equity.*
- (6) *The asset to equity ratio is derived by dividing total assets by shareholders' equity. Asset to equity ratio measures our financial leverage and long-term solvency.*

SIGNATURE

Pursuant to the requirements of the Securities Regulation Code, the Issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer: **AREIT, INC.**

By:



MA. TERESA R. FAMY

Treasurer, Chief Finance Officer and Chief Compliance Officer

Date: November 10, 2022

October 13, 2022

THE PHILIPPINE STOCK EXCHANGE

Philippine Stock Exchange Plaza
6th Floor, PSE Tower
Bonifacio Global City, Taguig

Attention: Alexandra D. Tom Wong
Officer-in-Charge, Disclosure Department

Subject: 2022 Third Quarter Progress Report on the Disbursement of Proceeds from the Sale of
87.37 million AREIT Shares

Dear Ms. Tom Wong,

We are pleased to submit our Progress Report on the Application of Proceeds for the Third Quarter of 2022, duly certified by our external auditors, in compliance with the disclosure requirements of the Philippine Stock Exchange.

Please be advised that as of September 30, 2022, the remaining balance of the proceeds from the sale of 87.37 million AREIT Shares, amounts to One Billion One Hundred Sixty Million Eight Hundred Fifty Seven Thousand Seven Hundred Ninety Four and Fifty Two Centavos (Php1,160,857,794.52).

The details of the disbursement for the Third Quarter of 2022 are as follows:

Balance of Proceeds from sale of AREIT Shares as of June 30, 2022	Php1,175,814,997.98
Less: Disbursements from July 1, 2022 to September 30, 2022 (Annex A)	<u>14,957,203.46</u>
Balance of Proceeds from sale of AREIT Shares as of September 30, 2022	<u>1,160,857,794.52</u>

Thank you.

Very truly yours,



Augusto D. Bengzon
Ayala Land, Inc.
Treasurer and Chief Finance Officer



Ma. Teresa R. Famy
AREIT, Inc.
Chief Finance and Compliance Officer

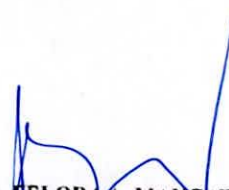
SUBSCRIBED AND SWORN to before me this OCT 13 2022 at Makati City, affiants exhibiting to me their identification documents as follows:

Name	Competent Evidence of Identity	Date and Place Issued
AYALA LAND, INC. <i>Represented by:</i> Augusto D. Bengzon	TIN: 000-153-790-000 Passport No. P4323352B	 08 Jan 2020/ DFA NCR East
AREIT, Inc. <i>Represented by:</i> Ma. Teresa R. Famy	TIN: 006-346-689-000 Driver's License No. D06-97-186463	 Expiration Date 05 Dec 2023

Doc No. 127 ;
Page No. 27 ;
Book No. IV ;
Series of 2022 ;

Notarial DST pursuant to
Sec. 188 of the Tax Code
Affixed on Notary Public's copy




MA. FELORA A. MANGAWANG
Notary Public - Makati City
Appt. No. M-257 until December 31, 2023
Roll of Attorneys No. 64804
Lifetime IBP No. 013749 - Makati City
PTR No. MKT8862851 - 01/11/2022 - Makati City
MCLE Compliance No. VII -0006702 - 11/18/2021
28th Floor, Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines

ANNEX A- Disbursements from July 1 to September 30, 2022

Disbursing Entity	Project Name	Amount (in PHP)
Ayala Land Inc.	One Vertis Plaza	11,026,165.24
Ayala Land Inc.	Andacillo	3,931,038.22
TOTAL		14,957,203.46

STRICTLY CONFIDENTIAL

REPORT OF FACTUAL FINDINGS

AYALA LAND, INC.

31st Floor, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue, Makati City

Attention: **Mr. Augusto D. Bengzon**
Chief Finance Officer

Dear Mr. Bengzon:

We have performed the procedures agreed with you and enumerated below with respect to the attached Quarterly Progress Report as at **September 30, 2022** on the use of the proceeds received by **Ayala Land, Inc.** (the "Company") from the block sale of its shares in **AREIT, Inc.** ("AREIT") on **May 2, 2022**. The procedures were performed solely to enable the Company to comply with the Philippine Stock Exchange, Inc.'s (PSE) requirement to submit an external auditor's certification on the information being presented by the Company relating to the use of proceeds. Our engagement was undertaken in accordance with the Philippine Standard on Related Services 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*. These agreed-upon procedures and results thereof are summarized as follows:

1. Obtain the Quarterly Progress Summary Report on Use of Proceeds from the Block Sale of AREIT Shares (the "Schedule") and perform the following:
 - Check the mathematical accuracy of the Schedule;
 - Check whether there are additions and disbursements in the schedule and compare with the schedule of application of proceeds;
 - On a sample basis, trace additions and disbursements to the supporting documents such as progress billings, bank statements, invoices, and official receipts, and agree the amount to the accounting records;
 - On a sample basis, inquire into and identify the nature of the additions and disbursements. Check if the disbursements were classified consistently according to its nature based on the schedule of planned use of proceeds from the block sale of AREIT shares.

We report our findings below:

1. We checked the mathematical accuracy of the Schedule, no exceptions noted.
2. We compared the additions and disbursements in the Schedule with the schedule of application of proceeds. No exceptions noted.

- 2 -

3. On a sample basis, we also traced the amounts disbursed for the following projects amounting to P14.96 million for the periods from July 1, 2022 up to September 30, 2022 to the progress billings, invoices and official receipts and agreed the amount to the accounting records. No exceptions noted.

<u>Distributing Entity</u>	<u>Project Name</u>	<u>Amount</u>
	One Vertis Plaza	P11,026,165
Ayala Land, Inc.	Andacillo	3,931,038
		P14,957,203

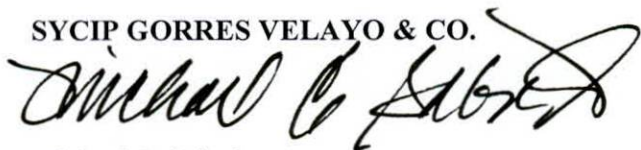
4. On a sample basis, we inquired into and identified the nature of the disbursements. We have noted the Reinvestment Plan dated May 2, 2022 included the proceeds from the block sale of AREIT. We also checked if the disbursements were classified consistently according to its nature based on the schedule of planned use proceeds from the block sale of AREIT shares as documented in the Reinvestment Plan. We have noted that the abovementioned entity and the related projects were included in the Reinvestment Plan, and the amounts disbursed to the entity have not exceeded the planned use. No exceptions noted.

Because the above procedures do not constitute either an audit or a review made in accordance with Philippine Standards on Auditing (PSA) or Philippine Standards on Review Engagements (PSRE), respectively, we do not express any assurance on the accounts of the Company or its financial statements, taken as a whole.

Had we performed additional procedures or performed an audit or review of the financial statements in accordance with PSA or PSRE, other matters might have come to our attention that would have been reported to you.

Our report is intended solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. This report relates only to the report on the Company's use of proceeds from the offering and items specified above and do not extend to any financial statements of the Company taken as a whole.

SYCIP GORRES VELAYO & CO.



Michael C. Sabado

Partner

CPA Certificate No. 89336

Tax Identification No. 160-302-865

BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024

SEC Partner Accreditation No. 0664-AR-4 (Group A)

November 11, 2019, valid until November 10, 2022

SEC Firm Accreditation No. 0001-SEC (Group A)

Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions

BIR Accreditation No. 08-001998-073-2020, December 3, 2020, valid until December 2, 2023

PTR No. 8854360, January 3, 2022, Makati City

ACKNOWLEDGMENT

REPUBLIC OF THE PHILIPPINES)
MAKATI CITY) S.S.

I certify that on **OCT 13 2022** before me a notary public duly authorized in the city named above to take acknowledgments, personally appeared:

Name	Competent Evidence of Identity	Date / Place Issued
Michael C. Sabado	P1178919B	March 25, 2019/DFA

who were identified by me through competent evidence of identity to be the same person described in the foregoing instrument, who acknowledged before me that their signatures on the instrument were voluntarily affixed by them for the purposes stated therein, and who declared to me that they have executed the instrument as their free and voluntary act and deed.

IN WITNESS WHEREOF, I hereunto set my hand and affix my notarial seal on the date and at the place above written.

Doc. No. 317 ;
Page No. 65 ;
Book No. 29 ;
Series of 2022.

JR
ATTY. JOSHUA P. LAPUZ
Notary Public for Makati City
Appointment No. M-19 until 12/31/2023
Roll No. 45790 / IBP Life No. 04897 / 07-03-03
PTR - O.R. No. 8852510 / 01-03-22 / Makati City
MCLE No VI-0016565 / 01-14-19
G/F Fedman Suites, 199 Salcedo Street,
Legaspi Village, Makati City