

NEW RISK ALERT: (PLD)

Prologis Recognizes Revenue From Rental Payments Not Yet Made

Latest 10-K reveals warehouse and logistics company continued to count deferred rent payments as revenue.

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This alert compares the language used in the company's latest filing with the period before. [Research](#) suggests changes in language, particularly in the risk factor section, is a powerful indicator of future performance. Companies that change filing language, according to research, underperform those that don't by 30-50 basis points per month for the following year.

Deferred Rent Did Not Impact Revenue Recognition

Prologis, a logistics and fulfillment firm, is riding the ecommerce boom and the prioritization of supply chain resiliency over efficiency. The future was less certain at the height of the pandemic though as companies requested rent concessions after businesses were forced to close.

In its 2020 [10-K](#), Prologis revealed it still recognized as revenue the deferred rental payments it granted during the pandemic:

“The deferral of rental payments did not impact revenue recognized from those leases.”

The Financial Accountability Standards Board (FASB) issued [guidance](#) giving lessors broad discretion in how they account for deferred rent. In situations where deferrals affect the timing of rental payments, but not the total lease amount agreed upon in the original contract, FASB offered two ways to account for deferrals:

1. *Account for the concessions as if **no changes to the lease contract were made**. Under that accounting, a lessor would increase its lease receivable, and a lessee would increase its accounts payable as receivables/payments accrue. In its income statement, **a lessor would continue to recognize income**, and a lessee would continue to recognize expense during the deferral period.*
2. *Account for the deferred payments as variable lease payments.*

In the footnotes, Prologis disclosed it will account for modifications differently if a lease modification is significant:

“If we grant concessions to a customer that modify the terms and significantly change the underlying cash flows of the original lease for the remaining term, we will account for these changes as a lease modification in accordance with U.S. GAAP.”

It's clear FASB has blessed Prologis' treatment of deferred rental payments. What's not immediately clear is why a discrepancy exists in the amounts of deferred rent Prologis reports. In management's summary, Prologis disclosed the following:

*“During 2020, on an O&M (owned and managed) basis we deferred **\$45 million** of rental payments...”*

In the footnotes, Prologis discloses a smaller number:

*“During 2020, we deferred approximately **\$23 million** of rental payments...”*

It may be that the \$45 million figure is annualized and the \$23 million is the actual deferral made in the 8-9 months following forced business closures. Either way, Prologis says the deferrals are less than 1% of revenue. In management's summary, Prologis disclosed that as of January 25, 2021:

*“...we had **collected \$33 million, or 98%**, of the deferred payments due at December 31st, with the remainder due in 2021.”*

In the footnotes, Prologis provides a different number:

*“...we had **collected approximately \$16 million, or 98%**, of the deferred payments due at December 31st, with the remainder due in 2021.”*