



Research Proposal Invitation, August 2015

## COST TRANSPARENCY IN EUROPEAN LISTED AND NON-LISTED REAL ESTATE

### 1. ASSOCIATIONS BACKGROUND

INREV is the European Association for Investors in Non-Listed Real Estate Vehicles with a membership of over 350 across Europe, Asia Pacific and North America. INREV's goal is to improve transparency, professionalism and best practice across the sector, making the asset class more accessible and attractive to investors. For more information about INREV please visit [www.inrev.org](http://www.inrev.org)

AREF is the Association of Real Estate Funds. AREF is a UK based body that represents the interests of real estate funds and their managers. It has about 70 member funds with a collective net asset value of over £50 billion under management on behalf of their investors. For more information about AREF please visit <http://www.aref.org.uk/>

### 2. PROJECT BACKGROUND

Real estate investors invest in a wide range of real estate vehicles, including listed and non-listed real estate. The decision making process on whether to invest in listed or non-listed real estate is based on both quantitative models and qualitative 'beliefs'. However, information and data availability is still limited for the real estate industry when compared with other asset classes and especially for metrics such as fees and costs where greater transparency is much needed. With greater focus on fees and costs in general, and especially from supervisory bodies, a better understanding of these metrics will help to improve transparency for both the listed and the non-listed real estate industry.

The aim of this project is to improve the understanding of fee and cost structures of listed and non-listed real estate helping to increase transparency in the listed and non-listed real estate industry. The study seeks to explore the components of fee and cost structures, with particular focus on expense and cost ratios, such as the INREV TERs, the AREF TERs and the EPRA cost ratios.

These metrics are part of the regular reporting cycle and form part of the overall performance measures made available to investors. Greater clarity and transparency in this area will support investors in making better informed decisions for their listed and non-listed real estate investments.

#### INREV Total Expense Ratio

In 2014 INREV updated their TER calculation methodology in the INREV Guidelines. INREV collected cost data on management fees, fund expenses and performance fees, according to the updated Guidelines, allowing them to directly calculate the TER using the components of the ratio, instead of

requesting an estimate of TER as had been done previously – a step forwards towards consistency of TERs across non-listed real estate funds. For further information please visit

<https://www.inrev.org/guidelines-tool/site/module>

## **AREF Total Expense Ratio**

The AREF guidance on expense ratios provides a code of practice for the principles, basis of calculation and presentation of expense ratios for non-listed real estate funds. The guidance applies to all AREF member funds and publication of fee metrics has been a requirement of the Code of Practice since 2009. Some members of AREF are authorised funds, and these must follow FSA rules on the preparation of expense ratios. For real estate funds the rules have been interpreted by the IMA, and for authorised funds the FSA's requirements take priority over the framework in the guidance note. For further information please visit

<http://www.aref.org.uk/sites/default/files/newsletters/Finalised%20TER%20Guidance.pdf>

## **EPRA Cost Ratio**

For the listed real estate sector, cost can be calculated using the EPRA Cost Ratios methodology. EPRA has developed guidance for reporting two EPRA Cost Ratios which can be calculated on a consistent basis for property investment companies whose primary business is the long-term ownership, leasing and management of investment property. The purpose of these ratios is to reflect the relevant overhead and operating costs of business and provide a recognised and understood reference point for the analysis of company's costs. For further information please visit

[http://www.epra.com/media/EPRA\\_Cost\\_Ratios\\_2013\\_1373630636279.pdf](http://www.epra.com/media/EPRA_Cost_Ratios_2013_1373630636279.pdf)

## **3. AIM OF THE PROJECT**

The aim of this study is gain a better understanding of the composition and calculation of selected fee and expense metrics, exploring fee and cost structures, and with a focus on total expense ratios (TER) for non-listed and cost ratios for listed. The findings of the study should increase the information flow in this area and provide greater clarity and transparency for market participants.

In addressing the research objective the study will seek to explore the following:

- Definitions
  - Definitions of fee and cost structures for listed and non-listed real estate
  - Definitions for TERs and cost ratios
- Composition
  - Components of TERs and cost ratios
  - The effect of each component on an overall ratio
- Methodology and calculation
  - Methodology for calculation of TERs and cost ratios
  - What approach do fund managers take in calculating expense and cost ratios?
  - What approach do investors take in comparing expense and cost ratios?
- Comparison
  - Differences between the compositions of TERs and cost ratios

- How can expense and cost ratios be more comparable?
- Are there any general differences in costs between the listed and non-listed sector, or is it only a different investment structure?
- Improving transparency
  - How can transparency be improved for fee and expense metrics, and corresponding expense and cost ratios?
  - How can information flow be improved for fee and expense metrics?

The researcher should take into account the following:

- Variations across jurisdictions, and the drivers of these variations?
- Is it possible to create a single cost ratio metric that enables investors to compare listed with non-listed real estate vehicles, so that investments can be compared on a like-for-like basis?

## 4. OUTPUT

The main output of this project will be a report and its results should be presented in descriptive (e.g. text) and visual manners (e.g. charts, graphs). In terms of research context, the report should provide market participants with a comprehensive understanding of fee and expense metrics, their structures and the resulting total expense ratios for non-listed and cost ratios for listed real estate.

The research output will be made available to INREV and AREF members as well as the general real estate investment community via a snapshot.

## PROJECT REQUIREMENTS

The project would be based on an academic approach to understanding fee and cost structures, and related expense and cost ratios. It is targeted at the European real estate sector.

The project will be supported by a focus group including representatives from the INREV research committee, the AREF management committee and the INREV reporting committee.

The researcher must demonstrate a strong understanding and experience of the listed and non-listed real estate sectors, and satisfy the following requirements:

- Academic from a leading European real estate academic institution
- A robust understanding of fees and costs structures, and expense and cost ratios
- A robust understanding of the listed real estate sector
- A robust understanding of the non-listed real estate sector
- An independent with no preference/linkage to any organisation and/or sponsored seat

## 5. PROPOSAL REQUIREMENTS

The following topics should be covered in the proposal:

- Research questions

- Methodology
- Team composition and qualification
- Timeframe

## 7. REVIEW PROCEDURES AND DEADLINES

The deadline for expressions of interest is **17.00 CET on Wednesday 7 October 2015**. Research proposals will be reviewed by the focus group who will shortlist the proposals. Successful researcher(s) will be asked to submit a more detailed proposal and to address further queries from the focus group before the final selection is made.

Papers should represent, in the opinion of the focus group high quality research that addresses the research question. Researcher(s) are expected to work closely with the focus group.

The project should start immediately upon signing of contract. The findings of the study should be written up in a final report by **Friday 8 April 2016**. Publication and presentation of the results at the INREV Annual Conference 2016 is scheduled for **Wednesday 20 April 2016**.

## 8. BUDGET

The budget available for the project is €30,000. Payment will be upon satisfactory completion of the project. The fee includes all costs including the researcher fee and expenses to present the results at the INREV annual conference 2016, and other events where appropriate and necessary.

## 6. CONTACT DETAILS

Proposals should be submitted in writing to [Annisa.prima@inrev.org](mailto:Annisa.prima@inrev.org).

INREV standard Terms and Conditions apply to the project.