



Management Fees and Terms Study
2019

Research

INREV is the European Association for Investors in Non-Listed Real Estate Vehicles. Our aim is to build a competitive and sustainable asset class for institutional investors by promoting greater transparency, accessibility, professionalism and standards of best practice.

INREV is Europe's leading platform for the sharing and dissemination of knowledge on the non-listed real estate industry.

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Executive summary

- > TERs before and after performance fees are higher in Asia Pacific than in Europe
- > Core funds in Asia Pacific have lower TERs than in Europe
- > REERs are on average lower in Asia Pacific than in Europe

This report compares the Total Expense Ratios (TERs) and Real Estate Expense Ratios (REERs) of 155 non-listed real estate funds in Europe and 49 in Asia Pacific.

On average, TERs before and after performance fees are higher in Asia Pacific than in Europe whether on a GAV or NAV basis. The average TER in Asia Pacific was 1.04% on a GAV basis and 1.68% on a NAV basis before performance fees and respectively 1.15% and 1.86% after performance fees. This is compared to average TERs in Europe of 0.86% and 1.27% before performance fees and 0.88% and 1.30% after. However, on a weighted basis, the all vehicles TER average is smaller in Asia Pacific based on GAV, with a TER of 0.60% compared with 0.67% for European vehicles.

By style, Asia Pacific core funds have a considerably lower TER average than those in Europe, respectively 0.58% and 0.79% on a GAV basis and 0.77% and 1.12% on a NAV basis. In contrast, TERs for value added funds are higher in Asia Pacific than in Europe respectively 1.81% and 1.19% on a GAV basis and 3.18% and 1.93% on a NAV basis.

By structure, TERs for open end funds are similar in both regions, whereas TERs for closed end funds are higher in Asia Pacific.

We found the same pattern in Asia Pacific and Europe on TERs by year of first closing: younger vehicles tend to have higher TERs than older vintages. Similarly, large funds have smaller TERs compared with smaller funds.

Regardless of the region, the dominant component of the TERs were management fees, whether based on GAV or based on NAV, before or after performance fees.

In Asia Pacific, the management fees comprised 89% of the TER on a GAV basis before performance fees and 11% for fund expenses. However, fund expenses in Europe represent a higher proportion of the TER, at 38%, compared with 62% for management fees.

Looking at REERs, the average for all vehicles in Asia Pacific was 1.08%, and 1.16% in Europe. By style core funds in both regions have very similar REERs, recording 1.04% and 1.02% respectively in Asia Pacific and in Europe. However, value added funds in Asia Pacific have a lower REER than in Europe, respectively 1.26% and 1.50%.

Introduction

This study compares the fees and cost structures of non-listed real estate investment funds in Asia Pacific and Europe with a focus on total expense ratios (TERs) and real estate expense ratios (REERs). The report is based on the regional studies conducted by ANREV and INREV during 2018.

The management fees and terms studies are based on data provided directly to ANREV and INREV by fund managers.

The comparison study is now published for the sixth time. For Asia Pacific, the data set contains 49 vehicles that provided information on their 2017 TER including 28 who updated their 2017 REER. For Europe, 155 non-listed real estate vehicles delivered data on their TER, of which 111 have provided data on REER.

To ensure data confidentiality, the average fee levels or other statistical indicators are only reported when data is available on at least three funds, managed by a minimum of three fund managers. When a fund manager has reported a range of possible fee levels, for example 0.5-1.0% of gross asset value (GAV), the average of the range of values (0.75%) has been used in the calculation of average fee levels.

Definitions can be found in the glossary. For more information about fees and expenses, see the INREV Guidelines on Fee and Expense Metrics.

The regional reports for Asia Pacific and Europe are available for download at ANREV and INREV's websites.

Use

The results of the Management Fees and Terms comparison study may be used for research and information purposes only.

They may not be used for the following:

- To determine the value of a fund
- To determine the value of a financial instrument
- To determine the amount payable under a financial instrument
- To determine the amount payable under a financial contract
- To calculate performance fees
- To define the allocation of a portfolio

It is important to note that the sample size and its composition varies year by year. As such, historical comparisons should be treated with caution.

Total Expense Ratio (TER)

The TER represents vehicle fees and costs (including or excluding performance fees) as a percentage of average NAV or average GAV. Asia Pacific's sample by style includes 21 core funds, 15 value added and 13 opportunity funds. The European sample includes 113 core and 28 valued added funds.

On an equally weighted basis, non-listed real estate funds in Asia Pacific have on

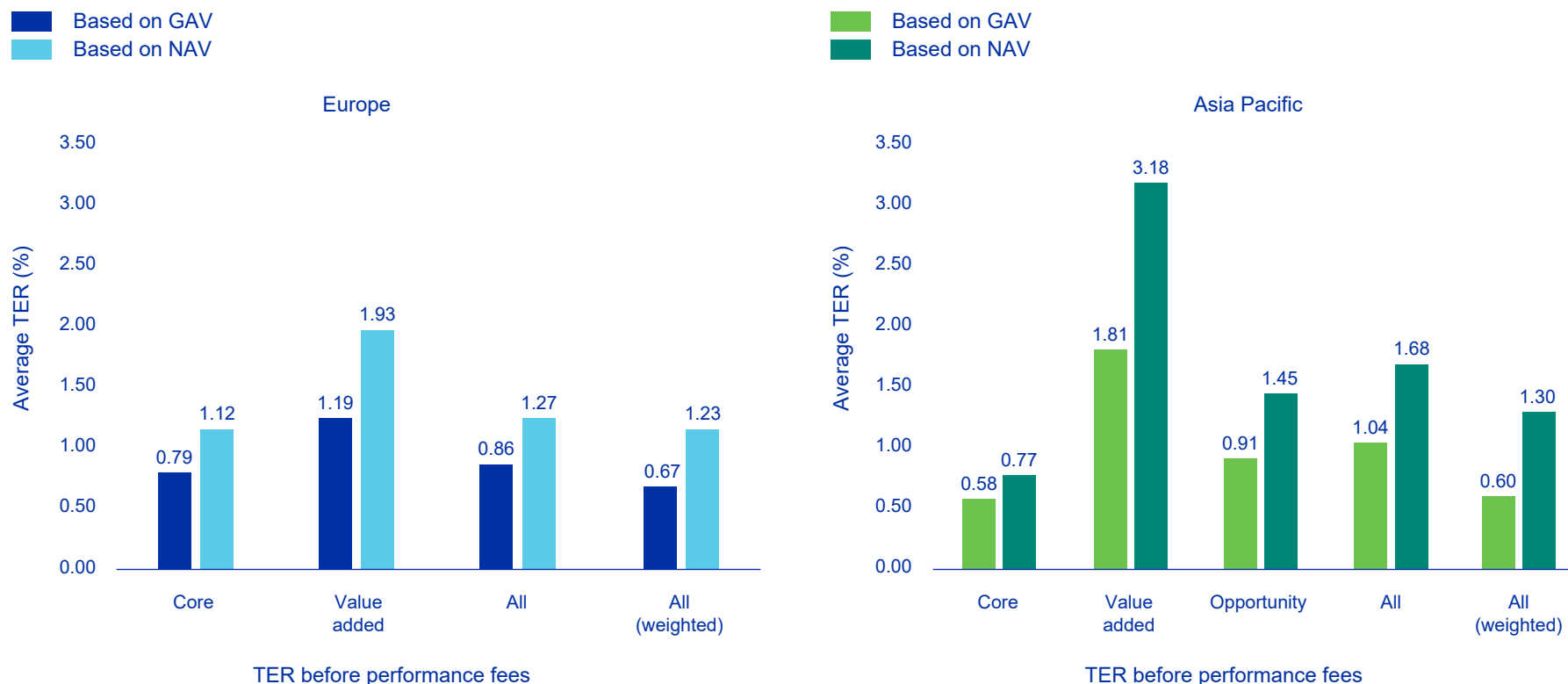
a higher TER, before performance fees, than their European counterparts. The average TER in Asia Pacific was 1.04% on a GAV basis and 1.68% on a NAV basis, compared to 0.86% and 1.27% in Europe.

However, on a weighted basis, the all vehicles TER average is smaller in Asia Pacific based on GAV, with a TER of 0.60% compared with 0.67% for European vehicles.

Looking at TERs by fund's style, Asia Pacific core funds have a considerably lower TER average than those in Europe, respectively 0.58% and 0.79% on a GAV basis and 0.77% and 1.12% on a NAV basis.

In contrast, TERs for value added funds are higher in Asia Pacific than in Europe respectively 1.81% and 1.19% on a GAV basis and 3.18% and 1.93% on a NAV basis.

Figure 1: TER by style before performance fees



Taking into account the effect of performance fees, on an equally weighted basis, non-listed real estate funds in Asia Pacific have on average higher TERs than their European counterparts regardless of GAV or NAV, respectively 1.15% and 1.86% in Asia Pacific compared to 0.88% and 1.30% in Europe.

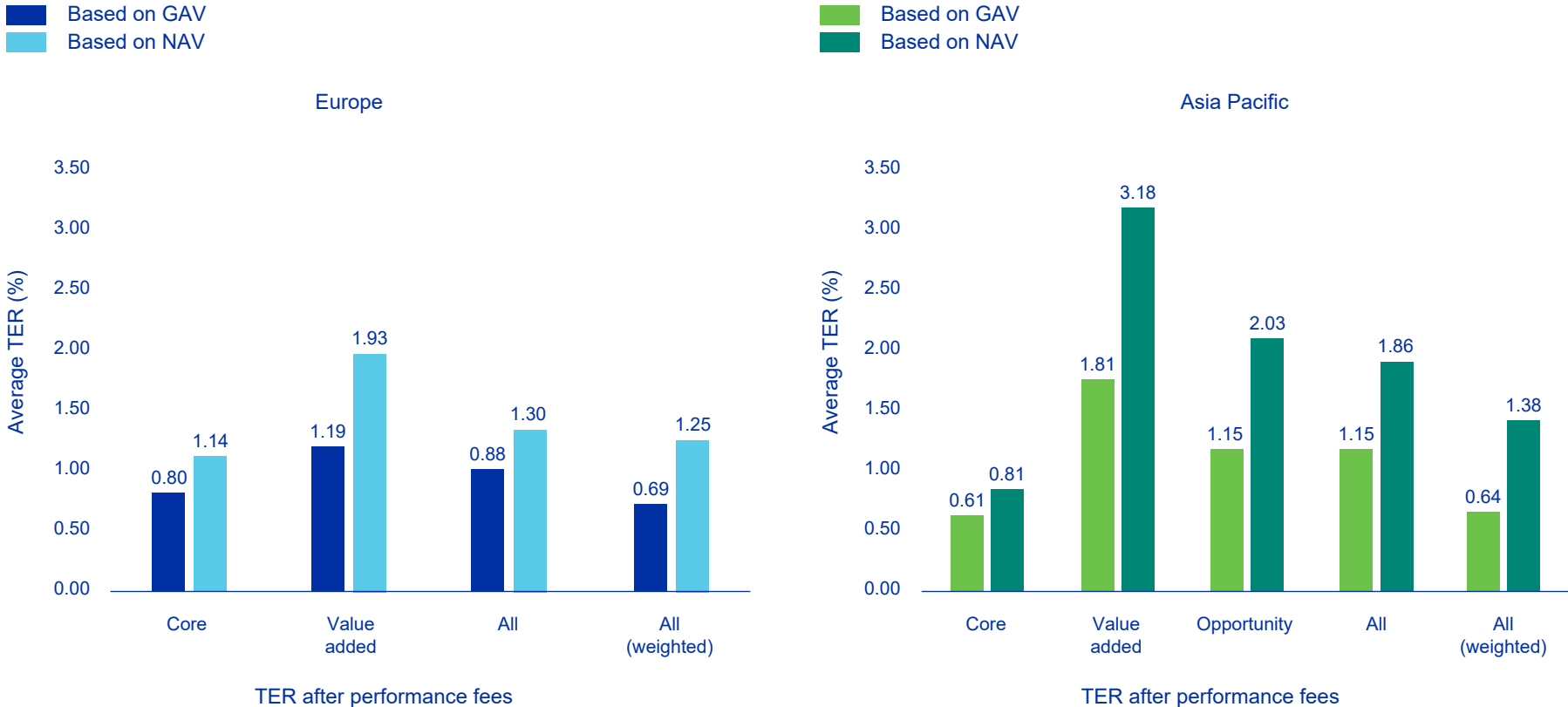
However, on a weighted basis, the all vehicles TER average is smaller in Asia Pacific based on GAV, 0.64% compared with 0.69% for European vehicles.

Looking at TERs after performance fees by fund's style, Asia Pacific core funds have a lower TER average than those in

Europe, respectively 0.61% and 0.80% on a GAV basis and more so on a NAV basis, respectively 0.81% and 1.14%.

In contrast, TERs for value added funds after performance fees are higher in Asia Pacific than in Europe respectively 1.81% and 1.19% on a GAV basis and 3.18% and 1.93% on a NAV basis.

Figure 2: TER by style after performance fees



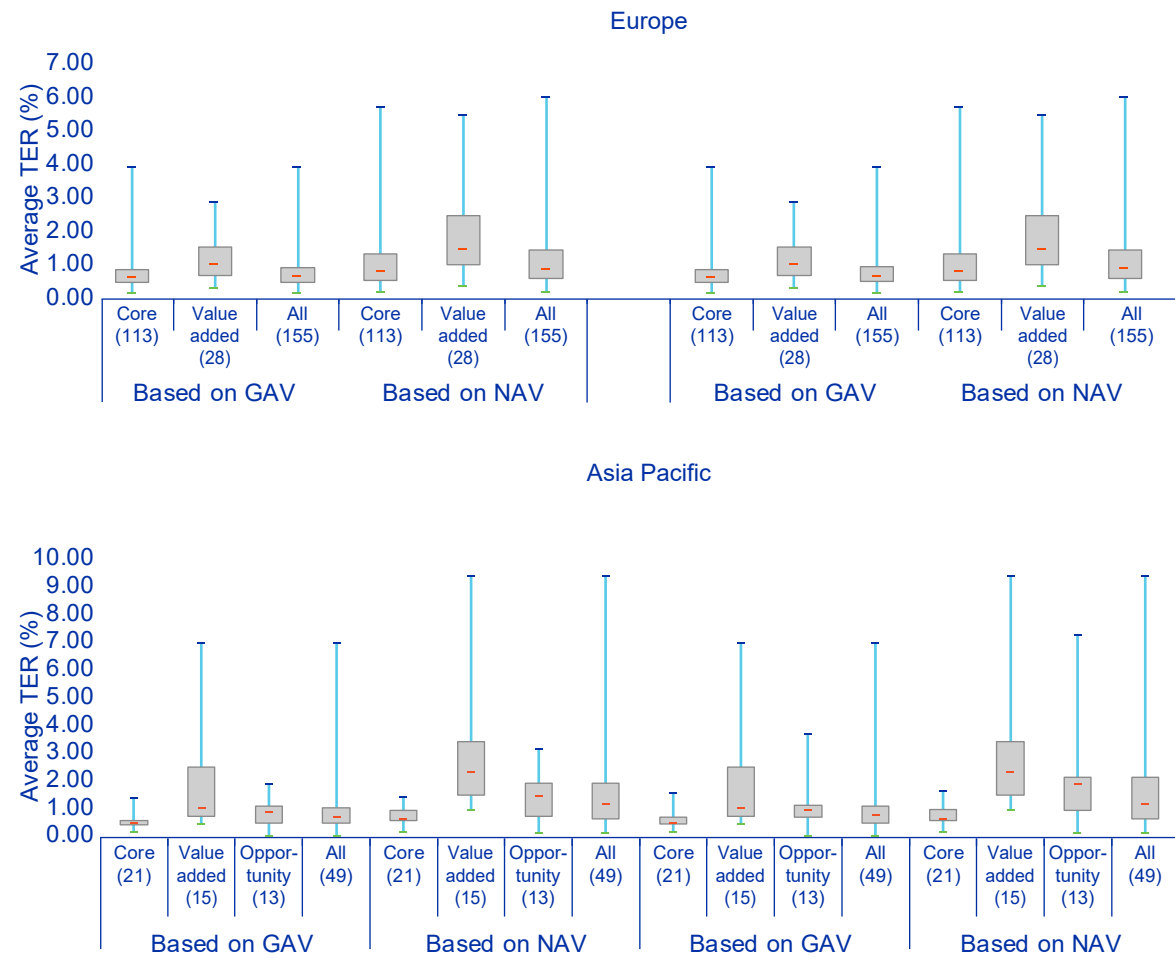
For each category, the quartiles were analysed in order to better understand the variability among the individual TERs. Dispersion was measured in two ways. Firstly, by range, which is the difference between the maximum and minimum TERs. Secondly, by interquartile range (IQR), which is the difference between the upper quartile and the lower quartile, and which is less sensitive to outliers than the range or the standard deviation measure.

Assessment by quartiles show that funds in Asia Pacific had a wider interquartile range, than those in Europe, except for core funds where the dispersion was considerably smaller in Asia Pacific, on both a GAV and a NAV basis, and before performance fees.

A similar conclusion can be drawn when the spread is assessed by range, ie the difference between the maximum and minimum TERs, which shows that funds in Asia Pacific, compared to funds in Europe, had a much wider range for all styles except core, on both a GAV and a NAV basis.

Figure 3: TER by style and quartiles

- Minimum value
- Median value
- Maximum value



When looking at funds split by structure, the sample is made up of 21 open end funds in Asia Pacific and 82 in Europe and 28 closed end funds in Asia Pacific and 62 in Europe.

The average TER for open end funds in Asia Pacific and in Europe are very similar, respectively 0.70% and 0.66% on a GAV basis and 0.88% and 0.86% before performance fees.

After taking into account performance fees, TERs of open end funds in the two regions remain very similar: 0.73% in Asia Pacific and 0.66% in Europe on a NAV basis and respectively 0.93% and 0.86% on a GAV basis.

There are more differences when looking at TERs for closed end funds. TERs before performance fees are higher for Asia Pacific closed end funds, 1.30% on a NAV basis

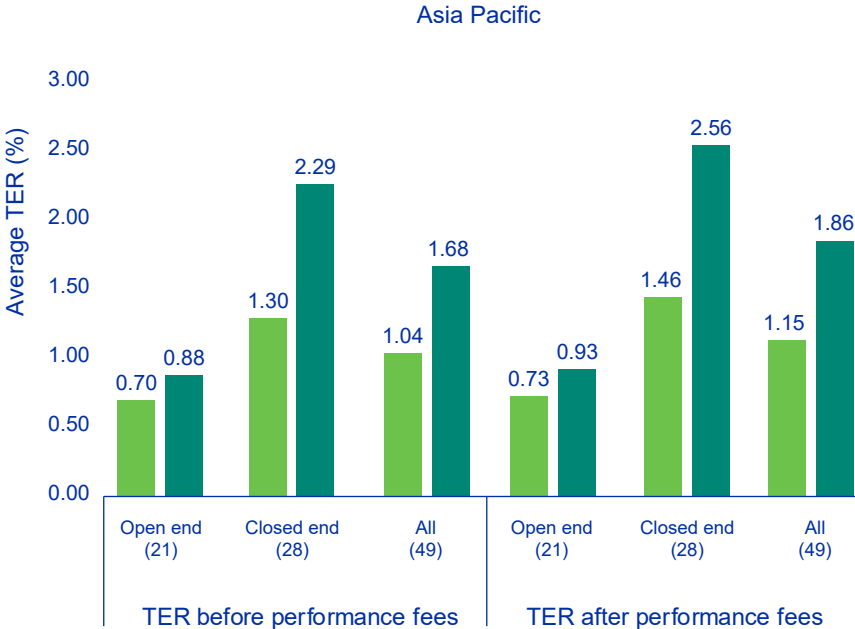
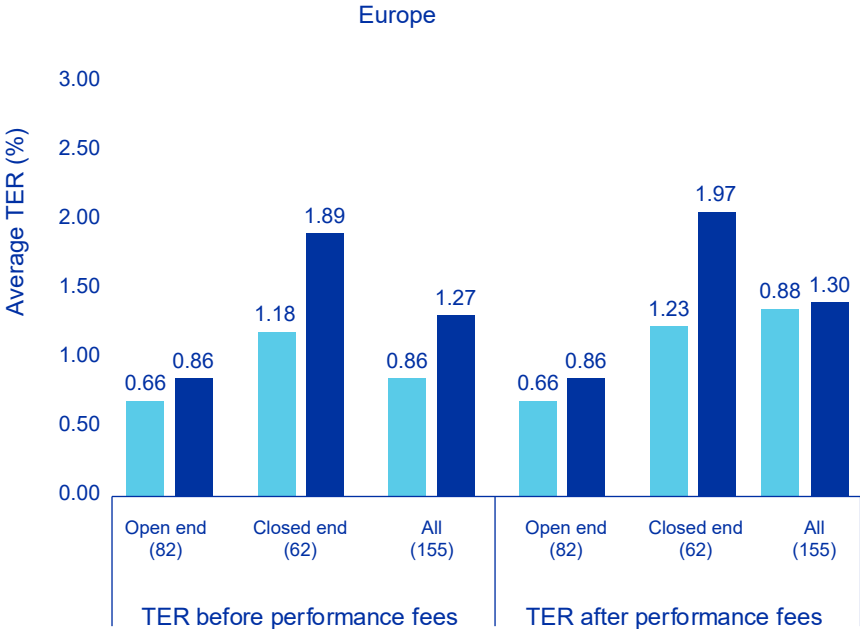
compared with 1.18% for Europe and the difference is even higher on a NAV basis: 2.29% in Asia Pacific compared with 1.89% in Europe. The same observation can be made for TERs after performance fees.

In both regions TERs by structure are also largely influenced by the style of the funds as the majority of open end funds are core (Asia Pacific: 20 out of 21; Europe: 81 out of 82).

Figure 4: TER by structure

Based on GAV
Based on NAV

Based on GAV
Based on NAV



The year of first closing is used as a proxy for vehicle vintage.

For this analysis the funds in the sample are grouped into four categories: those with a year of first close prior to 2007, those launched between 2007 – 2008, those launched between 2009 and 2014 and those launched after 2014.

We find the same pattern in Asia Pacific and Europe with older funds having a lower TER than funds launched more recently. Funds launched prior to 2007 have an average TER of 0.54% based on GAV in Asia Pacific compared with 0.77% in Europe. The TERs are very similar for the vintage 2007-2008 in both regions.

Funds launched after the GFC tend to have a higher TER in Asia Pacific than Europe, respectively 1.14% and 0.83% based on GAV.

At the other end of the spectrum, younger vintage funds recorded the highest average TERs in Asia Pacific, 1.64% on a GAV basis compared with 1.34% in Europe.

Figure 5: TER by year of first closing



When looking at funds split by target gearing, the sample is made up of 15 funds in Asia Pacific and 36 in Europe with a target gearing of less than 40%, 17 funds in Asia Pacific and 52 in Europe with a target gearing between 40 and 60% and 5 funds in Asia Pacific and 7 in Europe with a target gearing of more than 60%.

The analysis by leverage level shows that funds with lower target gearing have a similar TER in both Asia Pacific and Europe before and after management fees.

Funds with target gearing between 40% and 60% have higher TERs in Asia Pacific compared to Europe.

However, funds with more than 60% target gearing have lower TERs in Asia Pacific than in Europe both before and after management fees.

Figure 6: TER by target gearing

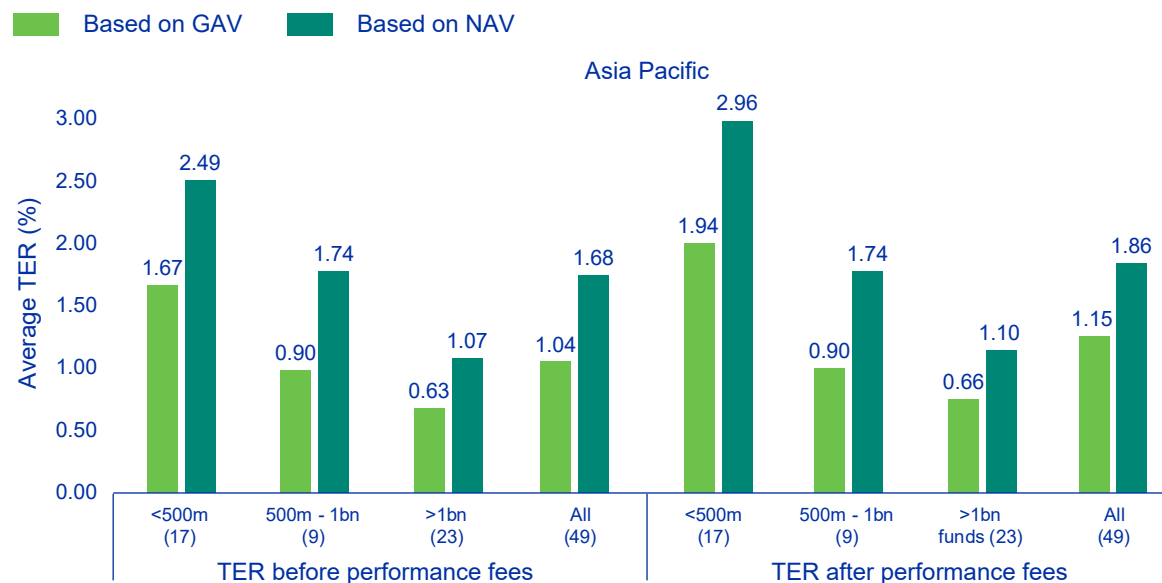
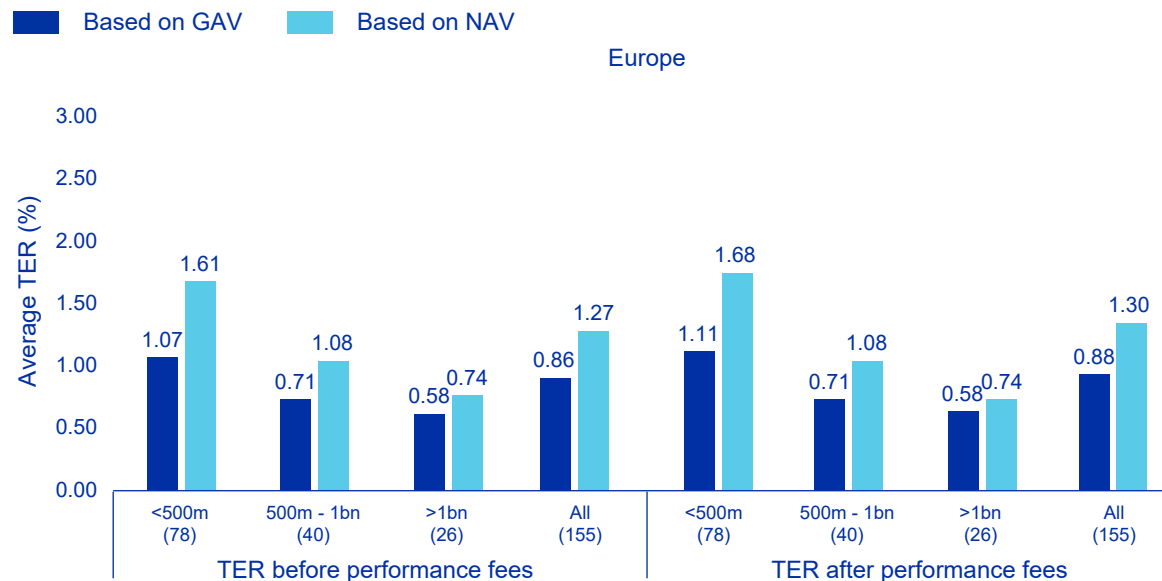


Funds were grouped into three discreet size categories based on their reported GAVs. For funds in Asia Pacific, US Dollar was used as the base currency, while for European funds, Euro was used as the base currency.

Large funds TERs, respectively more than 1 billion USD and euros have similar TERs in both regions, although in Asia Pacific it is slightly higher, respectively 0.63% and 0.58% based on GAV before performance fees. The gap is bigger based on NAV where TERs of large funds in Asia Pacific are at 1.07% on average compared with 0.74% in Europe.

Smaller funds and medium-sized funds TERs are higher in Asia Pacific than in Europe.

Figure 7: TER by fund size



When split by country strategy the sample is made up of 24 single country strategy funds in Asia Pacific and 73 in Europe and 25 and 71 multi country strategy funds in Asia Pacific and Europe respectively.

In both regions single country strategy funds tend to have lower TERs than multi country, however the gap is more pronounced in Europe than in Asia Pacific.

Based on GAV, the TER before performance fees of single country funds in Asia Pacific is 0.95% vs 0.67% in Europe, this is very similar for multi country strategy funds with a TER of 1.13% in Asia Pacific and 1.10% in Europe. The difference is higher when TERs are based on NAV.

The TERs after performance fees are considerably higher in Asia Pacific versus Europe both based on NAV and GAV.

Figure 8: TER by country strategy

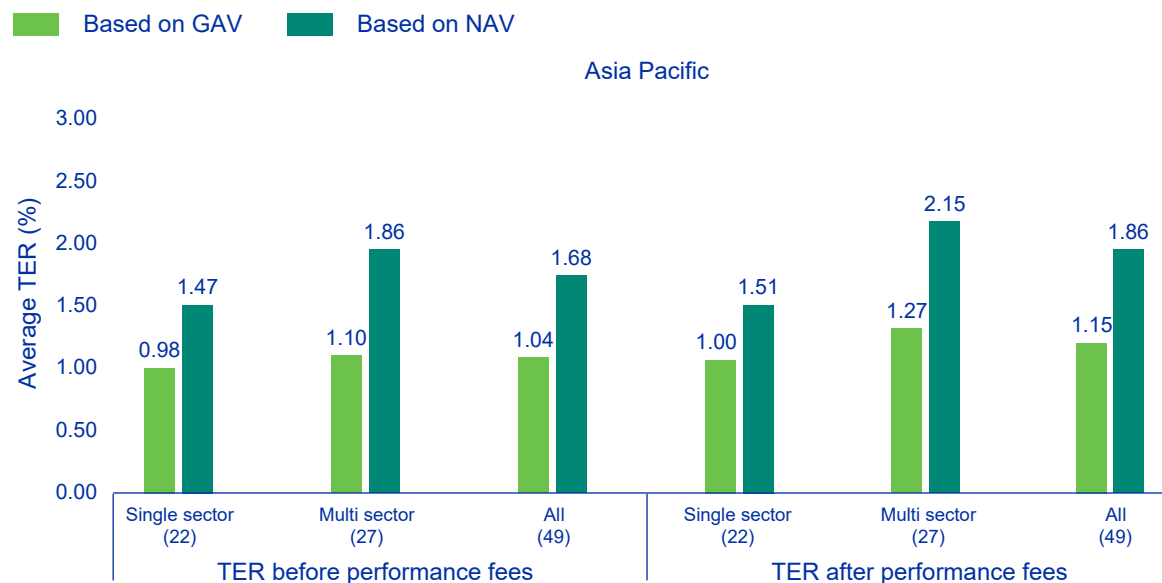
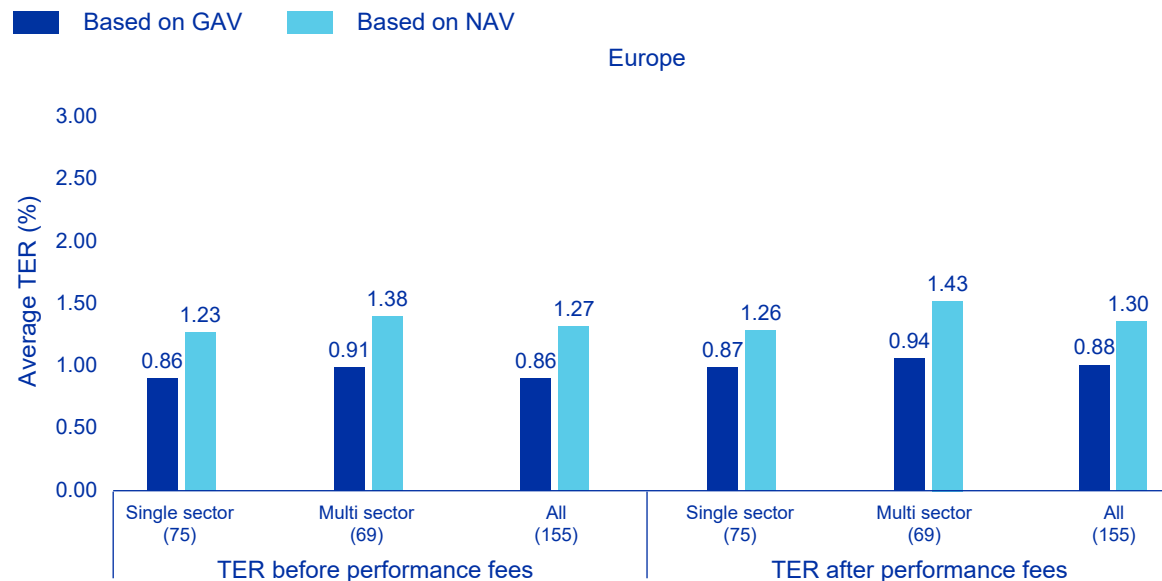


When split by sector strategy the sample is made up of 22 single sector strategy funds in Asia Pacific and 75 in Europe and 27 and 69 multi sector strategy funds in Asia Pacific and Europe respectively

When assessed by sector strategy, the differences in the average TER were moderate in both regions, with multi sector funds having a slightly higher TER.

For single or multi sector funds, before and after performance fees, the TERs are higher in Asia Pacific than in Europe, however the gap is less for single sector funds.

Figure 9: TER by sector strategy



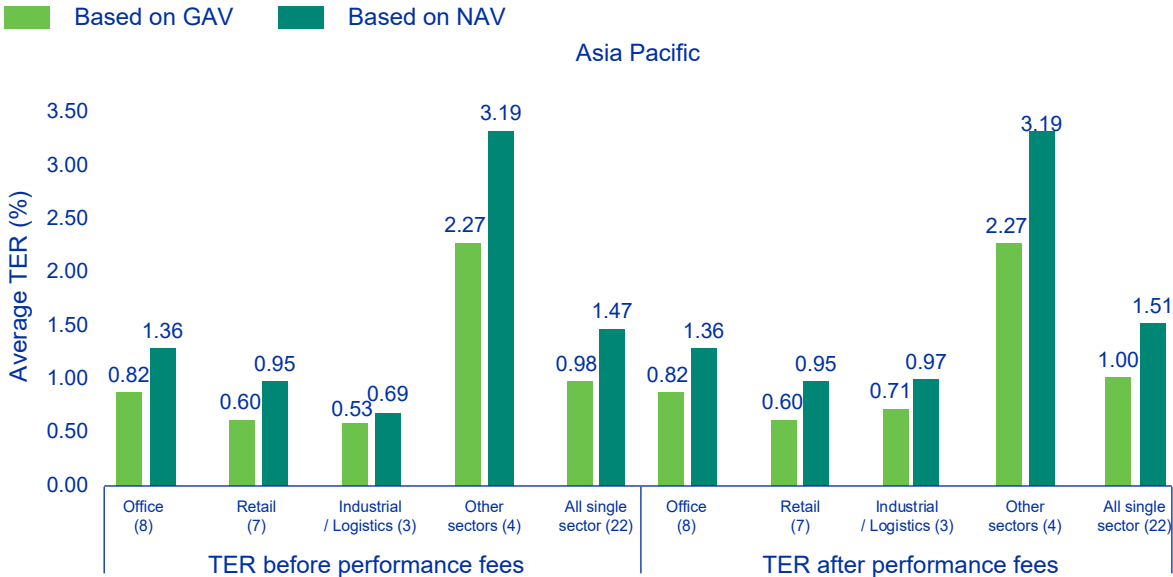
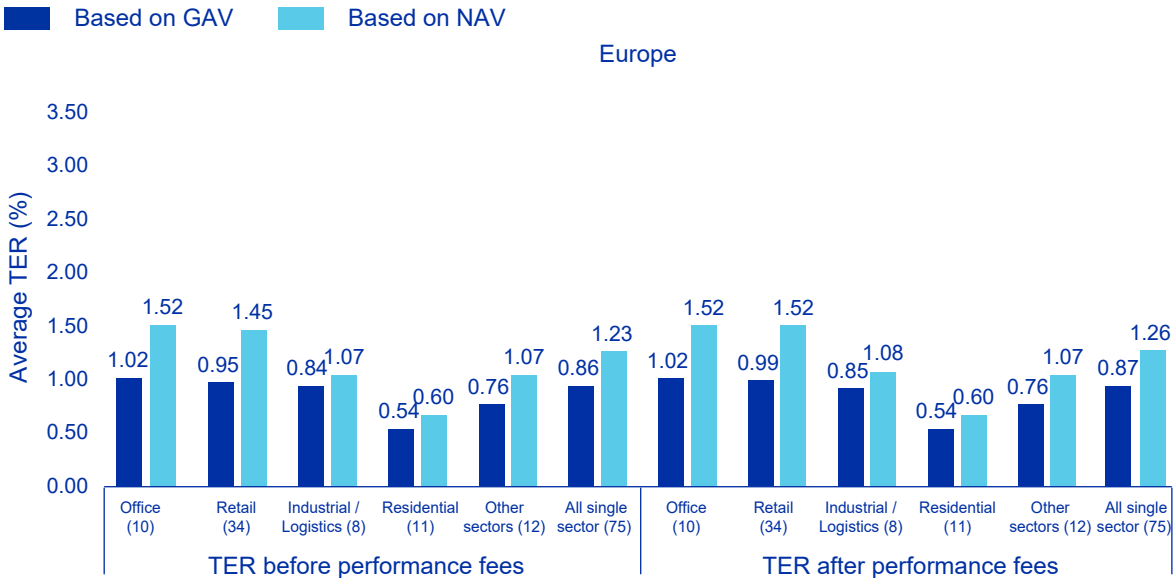
Looking into more details on the single sector strategy, the sample is comprised of 8 office funds in Asia Pacific and 10 in Europe, 7 and 34 retail funds and 3 and 8 industrial and logistics funds respectively

Interestingly all traditional sector funds in Asia Pacific have smaller TERs than in Europe when looking at both NAV and GAV basis and before and after performance fees.

The gap is particularly important for retail and industrial and logistic funds, where based on GAV the TERs are 0.60% in Asia Pacific and 0.95% in Europe for retail funds before performance fees and 0.53% vs 0.84% for industrial and logistic funds in Asia Pacific and Europe respectively.

However other sectors have much higher TERs in Asia Pacific than in Europe.

Figure 10: TER by single sector strategy



The TERs were split by fee type in order to better understand the different components that they were comprised of.

Across the board, the dominant component of the TERs were management fees, whether based on GAV or based on NAV, before or

after performance fees, and in Asia Pacific or in Europe.

The split, however, varied substantially across regions. In Asia Pacific, at the all vehicles level the management fees comprised 89% of the TER, on a GAV basis before performance fees.

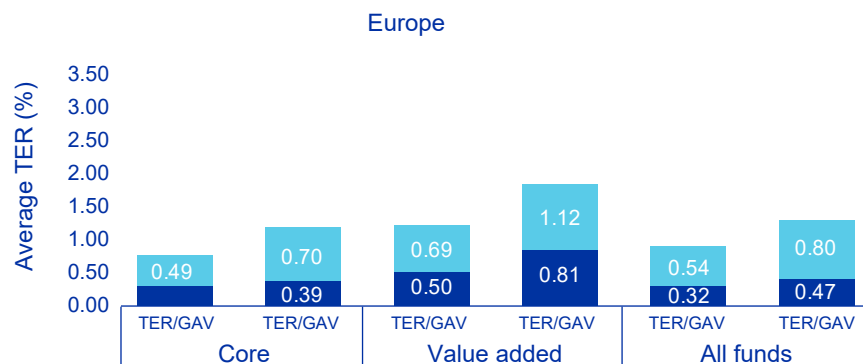
Fund expenses made up the remaining 11%.

In Europe, the split was more balanced, with management fees comprising 62% of the TER on a GAV basis showing that fund expenses are more important in Europe both based on GAV or NAV, before and after management fees.

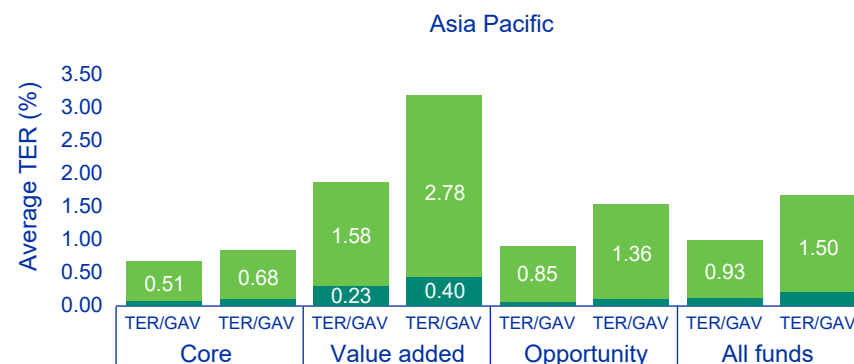
Figure 11: TER split by type of fees

■ Fund expenses ■ Management fees

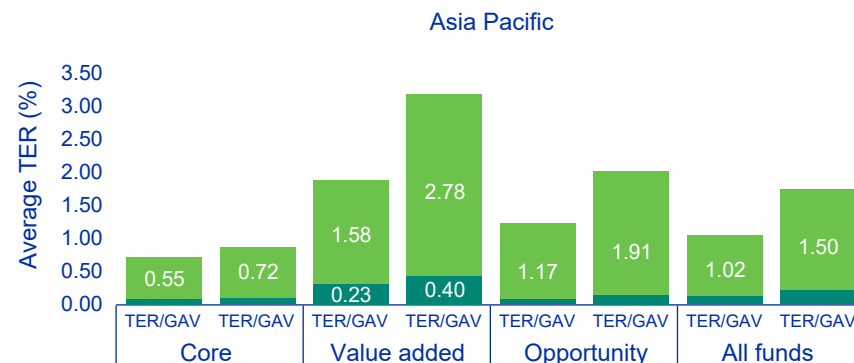
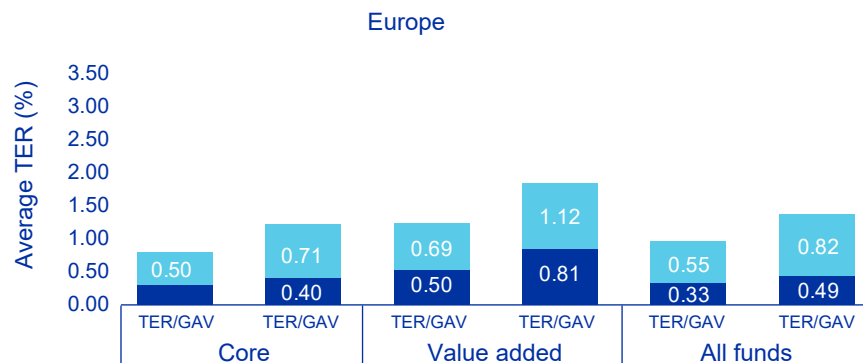
Before performance fees



■ Fund expenses ■ Management fees



After performance fees



Real Estate Expense Ratios (REER)

The Real Estate Expense Ratio (REER) captures the costs that relate to the management of the real estate assets.

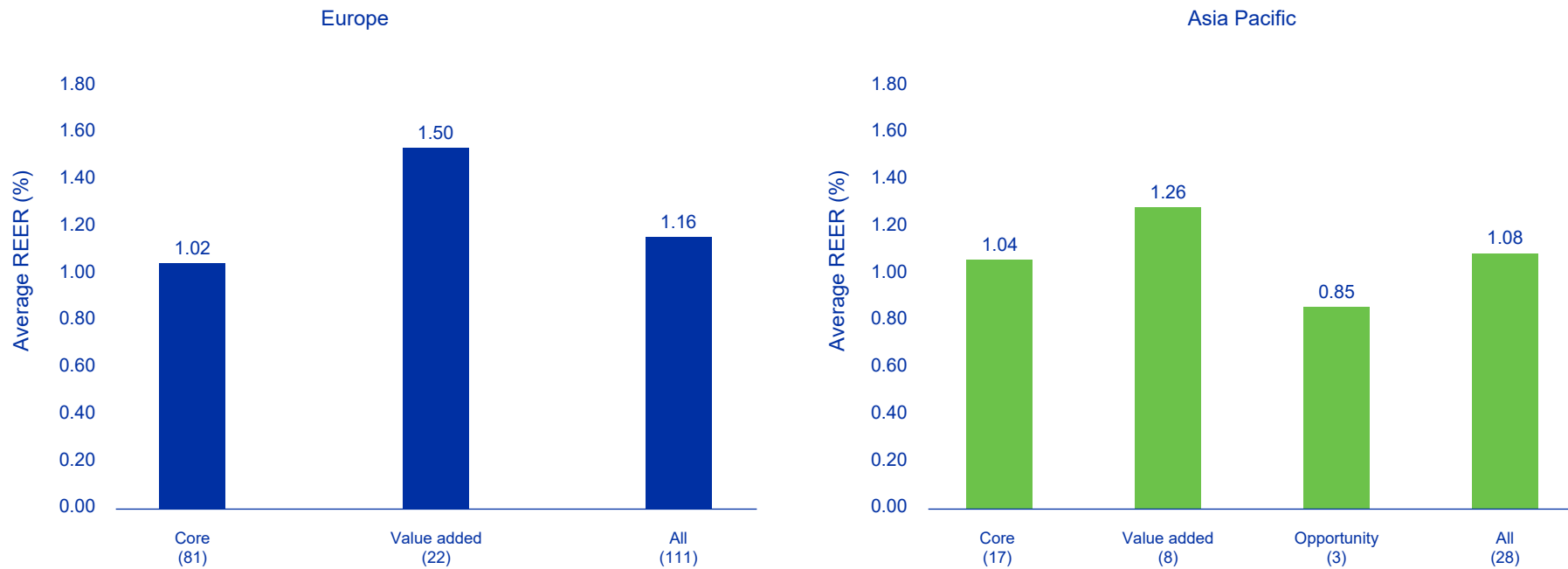
The REER is based on input to property specific costs including external leasing commissions, property acquisitions, insurance, management, repairs and

maintenance, utilities costs as well as taxes on property related activities and other miscellaneous / sundry property costs.

Property level costs are presented as a percentage of GAV. The average REER of all vehicles in Asia Pacific was 1.08%, and in Europe the figure was slightly higher at 1.16%.

Looking at style, both Asia Pacific and European core funds have very similar REERs, recording 1.04% and 1.02% respectively. However value added funds in Asia Pacific have a lower REER than in Europe, respectively 1.26% and 1.50%. Opportunity funds in Asia Pacific recorded the lowest average REER, while the European sample does not include opportunity funds.

Figure 12: REER by style



Considering REER by structure, some slight differences emerged. In Asia Pacific, the average open end funds' ratio was 1.04% compared with 0.97% for the same structure in Europe. Whereas closed end funds in Asia Pacific have an average REER of 1.15% compared with 1.37% in Europe.

Looking at REER by year of first closing, older funds in Asia Pacific recorded the lowest average REER, whereas in Europe the same is only true for funds launched after 2014.

Figure 13: REER by structure

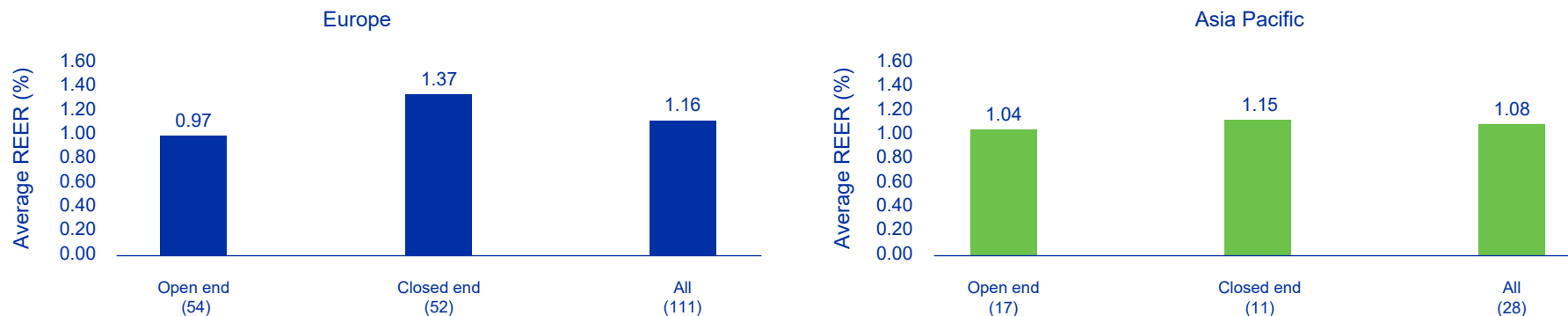
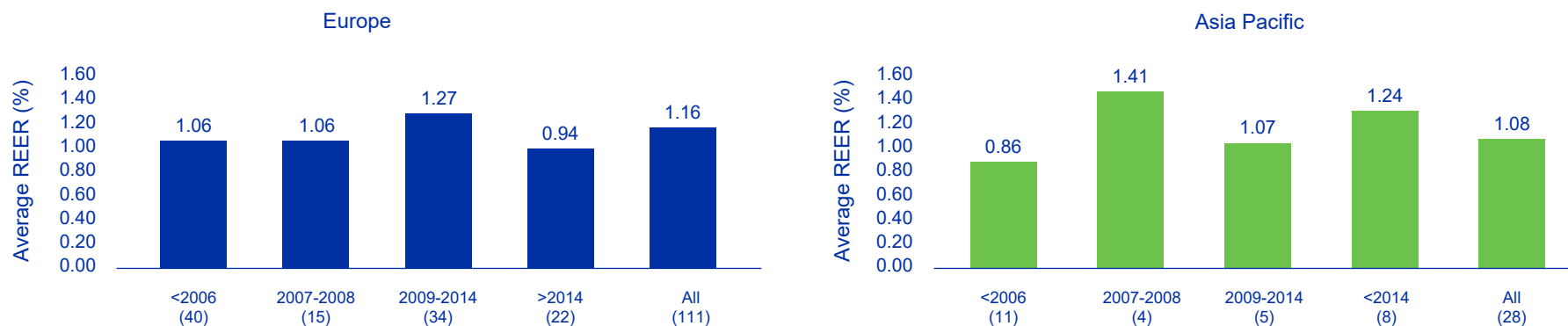


Figure 14: REER by year of first closing



Looking at REER averages by fund size, small funds in Asia Pacific had a lower average REER of 1.12% compared with their European peers which are at 1.27%. The sample for medium-sized Asia Pacific funds is too small to disclose an average.

On the other hand, large funds share a similar average REER in both regions, in Asia Pacific, the average was 0.98%, while in Europe, it was 0.95%.

Considering now the REERs of funds by target regional strategies, average REER of single country funds in Asia Pacific was 0.99% whereas in Europe it was 1.19%. However, for multi-country funds in Asia Pacific, average REER was 1.28%, which was higher than their European counterparts, who have an average level of 1.13%.

Figure 15: REER by size

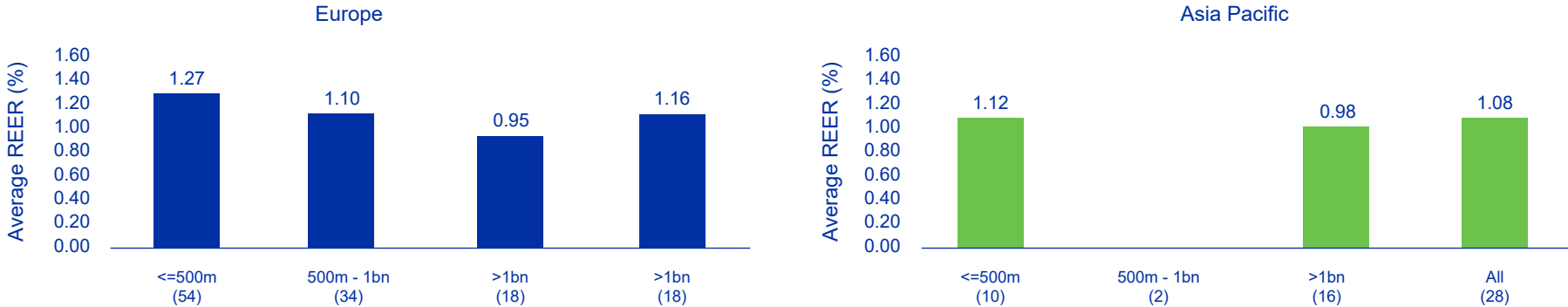
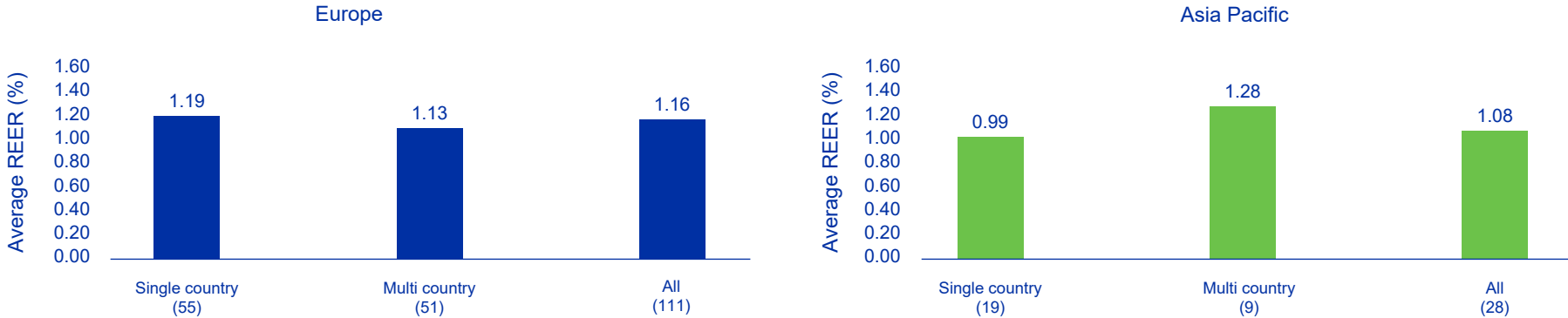


Figure 16: REER by country strategy



When REER is broken down by sector strategy, we can observe that multi sector funds have a similar level of REER in both Asia Pacific and Europe, respectively 1.20% and 1.19%, whereas single sector in Asia Pacific show a lower REER than in Europe: 1.01% and 1.14%.

However, when we investigate the details of each single sector, all major sectors' funds, including Office, Retail funds, and Industrial / Logistics funds, have a much smaller REER in Asia Pacific than in Europe, respectively 0.82%, 1.04%, and 1.29% compared with 1.26%, 1.23%, and 1.45%.

Figure 17: REER by sector strategy

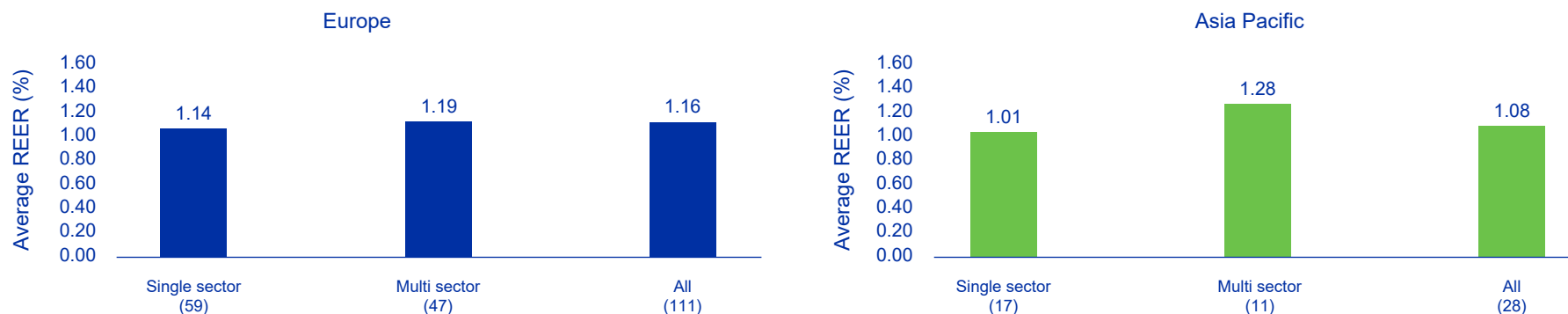
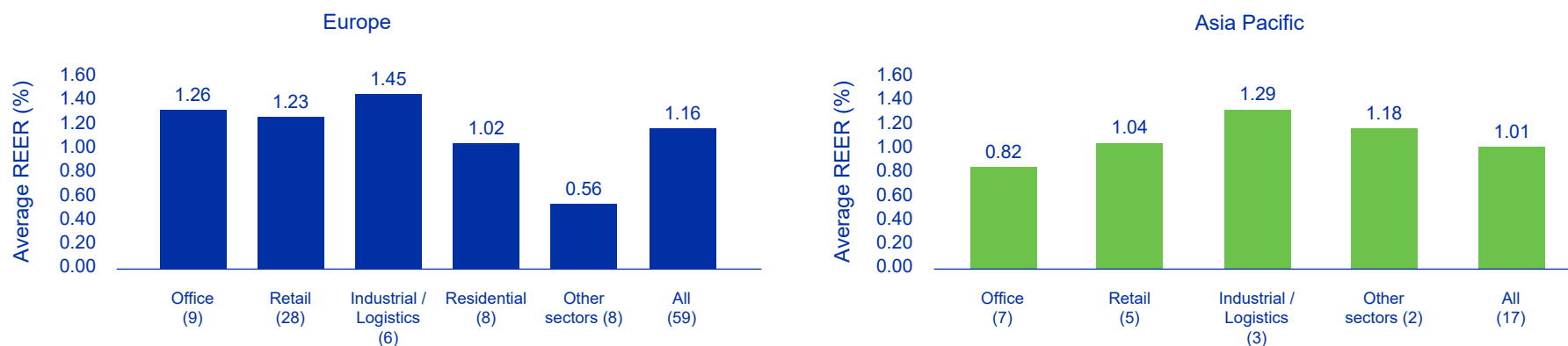


Figure 18: REER by single sector strategy



Glossary

Asset management fee

Fee typically charged by investment advisors, or managers, for their services regarding the management of the vehicle's assets. Asset management fees generally cover services such as:

- strategic input and production of asset level business plans;
- management of assets including refurbishment;
- appointment of third party service providers at asset level;
- reporting activities at asset level.

Occasionally, asset management fee and fund management fee are combined.

Performance fee

Also known as incentive fees, promote or carried interest, are fees charged by investment advisors, or managers, after a predetermined investment performance has been attained. Carried interest represents a re-allocation of equity and should be treated accordingly for accounting, tax or regulatory purposes.

Wind-up fee

Also known as liquidation fee, it is typically found in liquidating trusts, upon termination and dissolution of the vehicle. The sponsor is responsible for liquidating the partnership in an orderly manner.

Fund management fee

Also known as Investment Management or Investment Advisory fees, Fund Management fees are typically charged by investment advisors, or managers, for their services regarding the management of the vehicle. They generally cover services such as:

- appointment of third party service providers
- reporting activities to investors
- cash management and dividend payment
- managing the vehicle level structure
- arrangement of financing
- fund administration
- investor relations

Occasionally, fund management fee and asset management fee are combined.

Audit costs

Costs associated with annual external audit engagements and other audit services provided (both paid to independent third party firms or manager/advisor).

Bank Charges

Costs charged by a financial institution to manage and maintain the cash accounts of the vehicle, or in relation to debt issuance and overdrawing an account. Amounts can be charged on a periodic or transactional basis.

Custodian costs

Also known as depository costs, these are charged by a fiduciary entity entrusted with holding and safeguarding securities or assets, deposit transactions and keeping records for institutional clients.

Dead deal costs

Costs usually charged by third parties concerning work undertaken for acquisition/disposition projects which do not ultimately close. Such costs cannot be capitalised, and thus must be expensed. Services undertaken by the advisor/manager are passed through as an expense.

Transfer agent costs

Costs charged by trustees who are responsible for managing the assets owned by a trust for the trust's beneficiaries. This is most relevant in a REIT structure where trustees act on behalf of all unit holders.

Valuation costs

Costs in connection with the external (third party) appraisal of the real estate assets and liabilities owned by the vehicle. Appraisals may be performed routinely or ad-hoc which can be triggered by certain provisions in the vehicle agreement.

Vehicle administration costs

Costs related to bookkeeping activities either paid to a 3rd party service provider or the manager/advisor.

Glossary

Vehicle formation costs

Also known as set-up costs, these charges are incurred at the launch of a vehicle, and do not relate to the portfolio acquisition and financing structure. These include organisational costs (typically legal & notary services) as well as syndication costs, various marketing costs, including printing / publication, and initial subscription fees.

Internal leasing commissions

Commissions charged by investment advisors, or managers, after a new lease or a renewal lease is signed. These include marketing of vacant space. Commission ranges vary and may depend on the market and/or the value of the transaction.

Property acquisition fee

Fee charged by investment advisors, or managers, associated with the closing of a new investment. The fee compensates the real estate investment advisor, or manager, for services rendered in an investment acquisition, including sourcing, negotiating and closing the deal.

Property management fee

Fee charged by investment advisors, or managers, for the administration, technical and commercial management of real estate. A property management engagement typically involves the managing of property that is owned by another party or entity. This includes property advisory services.

Property disposition costs

Also known as disposal costs, they represent the costs of selling an investment property. Disposition costs are typically charged to the seller, and consist of legal fees, title fees and insurance, disposition fees, and broker commissions. Disposition costs include only direct costs related to a property-specific disposal and do not include costs of running an disposition program such as general and administrative costs, costs incurred in analysing proposals that are rejected, joint-venture organization costs or fees paid to the manager for execution of the deal.

Project management fee

A fee charged to the vehicle by the advisor, or manager, for guiding the design, approval, and execution of a renovation project, as well as construction process of a development project. These costs may be expensed or capitalised at the property level.

For more definitions visit the [Global Definitions Database](#).

Fee And Expense Metrics Calculation

Fee and expense metrics

Fees and costs should be measured in line with the principles defined under INREV NAV and INREV GAV.

Fees describe charges borne by the vehicle for services provided by the manager and costs describe charges to a vehicle by external service providers. Fees charged by the manager directly to their investors are not taken into account, with the exception of fees charged for services rendered to the vehicle.

Where a single fee is charged to cover a variety of activities, the constituent elements will need to be identified, allocated to the appropriate cost category and disclosed appropriately.

Historic Total Expense Ratio

The TER is an historic or 'actual' figure, based on data published annually. Consequently, newly launched vehicles cannot have an historic TER.

The formulae for TER are:

$$\text{NAV TER before performance fees} = \frac{\text{Vehicle fees and costs (excluding performance fees)}}{\text{Average NAV}}$$

$$\text{GAV TER before performance fees} = \frac{\text{Vehicle fees and costs (excluding performance fees)}}{\text{Average GAV}}$$

$$\text{NAV TER after performance fees} = \frac{\text{Vehicle fees and costs (including performance fees)}}{\text{Average NAV}}$$

$$\text{GAV TER after performance fees} = \frac{\text{Vehicle fees and costs (including performance fees)}}{\text{Average GAV}}$$

The formula for REER is:

$$\text{REER} = \frac{\text{Property fees and costs}}{\text{Average GAV}}$$

