INREV RESEARCH & MARKET INFORMATION

MANAGEMENT FEES AND TERMS: A GLOBAL COMPARISON STUDY

INREV

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INREV is the European Association for Investors in Non-Listed Real Estate Vehicles. Our aim is to improve the accessibility of non-listed real estate funds for institutional investors by promoting greater transparency, accessibility, professionalism and standards of best practice.

As a pan European body, INREV represents an excellent platform for the sharing and dissemination of knowledge on the non-listed real estate funds market.

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EXECUTIVE SUMMARY

This paper analyses and compares the fee structures and fee levels of non-listed property funds in Europe, Asia and the US. It is based on individual Management Fees and Terms Studies by INREV, ANREV and PREA.

Nearly all of the funds in the three studies charge an annual fund management fee, with the most common bases for fund management fees varying across regions. In Europe, gross asset value (GAV) is the most favoured basis, whereas in Asia commitment, drawn commitment and GAV are used equally as much. In the US, invested equity was the most common basis for the fund management fee.

In Europe, 53% use GAV as a fund management fee basis, driven by 48% of the core funds and 56% of the value added funds. In Asia only core funds use GAV as a basis, and therefore GAV-based fee rates were lowest in Asia compared to the other regions, as core funds tend to have lower fee rates than value added funds.

Performance fees are commonly charged in all three regions. In Europe the figure is slightly less than in other regions, due to the higher portion of core funds in the sample. European funds tend to distribute performance fees more periodically and not only at the termination of the fund compared to the Asian and US samples.

In order to analyse the effect of the global financial crisis on performance fee structures, the sample was split between funds launched before 2007 and those launched in 2007 and after. The results show there is a clear shift in all three regions towards distributing performance fees at termination only at the expense of the distribution a periodic performance fee or a combination of both.

The first hurdle rates are lower for periodic performance fees compared to performance fees at termination with the exception of the non-US (PREA) sample. The first hurdle rates are set below the funds' target IRRs in all three regions.

The hurdle rates for periodic performance fees are at quite similar levels in Europe and the US samples; Asian funds, on the other hand, had a lower first hurdle rate. European funds report the highest share of the outperformance paid to the manager for periodic performance fees and the US only sample the lowest. Asian funds have the highest share of outperformance for performance fees paid at the termination of the fund and European funds the lowest.

Measures to estimate the total fee load such as Total Expense Ratios (TER) are not used as widely as would be expected in today's cost conscious environment. In Europe, the use of TER was higher than in other regions while Asian and US funds used return reduction or other measures. In all three regions these measures are mainly used for investor communication and, to some extent, for in-house and external comparisons.

The main reason for not using return reduction metrics is the inconsistency in calculating the total fee measures, which complicates comparability of the figures. Standardisation and guidelines are needed, but also fund-specific features such as life-cycle, style, pricing, currency need to be taken into account when interpreting figures.

1 INTRODUCTION

This is the second report to compare the Management Fees and Terms Study findings from three regions: Europe, Asia and the US.

INREV, the European Association for Investors in Non-listed Real Estate Vehicles, originated a fees study in 2005 to improve the transparency and comparability of fee structures and levels of non-listed real estate funds in Europe. The results also helped increase the understanding of the challenges and limitations the non-listed property fund industry faces in analysing and comparing fee structures and levels.

Management Fees and Terms Studies have been conducted annually in Europe by INREV for seven years. Similar studies have been completed by PREA, the Pension Real Estate Association, in the US from 2009 onwards and by ANREV, the Asian Association for Investors in Non-listed Real Estate Vehicles, in Asia in 2011 and 2012. The three associations have each published more detailed reports for their individual studies. An overview of all three organisations can be found in the appendix.

KTI Finland carries out the three regional studies using a consistent approach which enables an analysis of fee practices globally.

2 SAMPLE

The INREV and PREA studies were conducted in the autumn of 2011 while the ANREV study was carried out in spring 2012. The INREV and ANREV studies cover the fee structures and levels of non-listed real estate funds targeting European and Asian Pacific assets respectively. Separate accounts and joint ventures are excluded. The INREV study included 260 funds, which was 55% of the funds in the INREV Vehicles Database, while the ANREV study included 103 funds.

The PREA study received responses from 264 vehicles, which included separate account mandates and joint ventures. It takes a slightly different approach compared to the European and Asian study as it includes funds targeting US investors, independent of their target geographical market. It was not possible to estimate the overall coverage of the PREA study, as the survey targeted the investment manager members of PREA rather than a universe of specific vehicles.

TABLE 01 / INREV, ANREV AND PREA STUDY SAMPLES

	# FUNDS	TOTAL CURRENT GAV (USD BILLION)
INREV*	260	176.2
ANREV	103	99.7
PREA	264	244.5

*EURO/USD EXCHANGE RATE 1.2939 (30 DECEMBER 2011)

To enable comparisons across regional markets, this study uses two subsets of the PREA study sample: one that includes only those funds that target assets in the US market (US only sample) and another that includes those vehicles that invest either partially or fully outside of the US (non-US sample). Joint ventures and separate accounts have been excluded from the PREA samples.

TABLE 02 / TWO SUBSETS OF THE PREA SAMPLE EXCLUDING SEPARATE ACCOUNTS AND JOINT VENTURES

	# VEHICLES	CURRENT GAV (USD BILLION)
US ONLY	133	129.7
NON-US (PREA)*	67	67.5

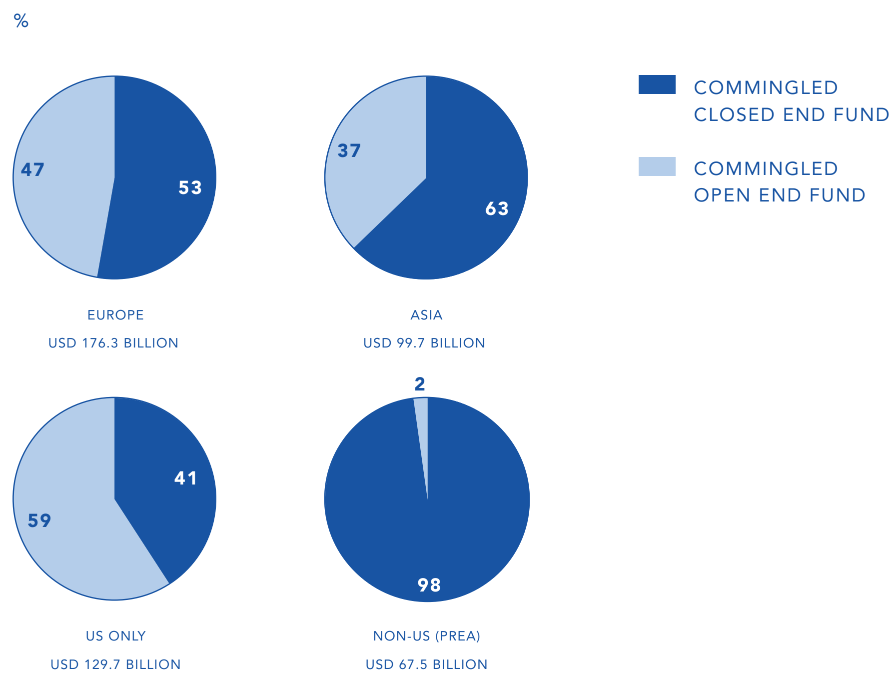
*TO REMOVE OVERLAP BETWEEN THE THREE STUDIES, THOSE 15 FUNDS THAT HAVE ALSO CONTRIBUTED TO THE ANREV OR INREV STUDIES HAVE BEEN EXCLUDED FROM THE NON-US SAMPLE

To ensure data confidentiality, only mean fee levels or other statistical indicators are reported when data is available on at least four funds managed by a minimum of three fund managers. In cases where this is not possible, these are marked with a dash (–).

In other cases, mean fee rates of groups with more than three fund managers and four funds have not been reported as it would have been possible to cross-calculate mean fee levels for other smaller sample groups with less coverage. These cases are marked with an asterisk (*).

Commingled closed end and open end funds represent the fund types in the PREA sample while in the INREV and ANREV studies, the funds are categorised as finite and infinite. While the two terms “finite life” and “commingled closed end funds” are closely related they are not identical but for the sake of comparison, these are regarded as equal in this study.[1]

FIGURE 01 / SAMPLES BY FUND STRUCTURE, CURRENT GAV (USD BILLION)

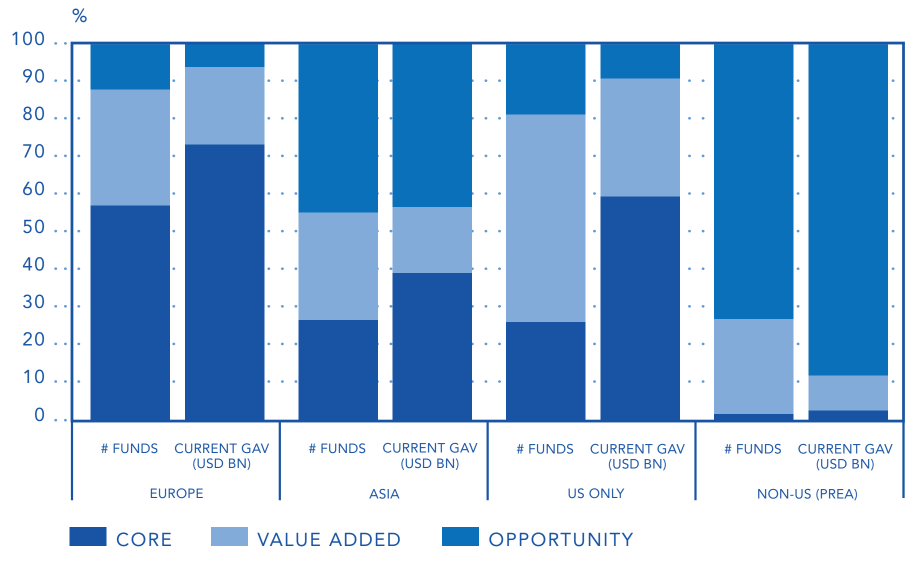


[1] A closed end fund has a formal limit for the maximum amount of capital that may be accepted without existing investors’ consent, and has a finite life. An open end fund can either have a finite or infinite life, but it typically is infinite.

Investment style is one of the key factors which reflect the risk bundle of funds and has an important impact on their fee structures. In all three studies, funds are classified as core, value added or opportunity. Division into the different styles is based on each fund manager's self-classification for the particular fund.

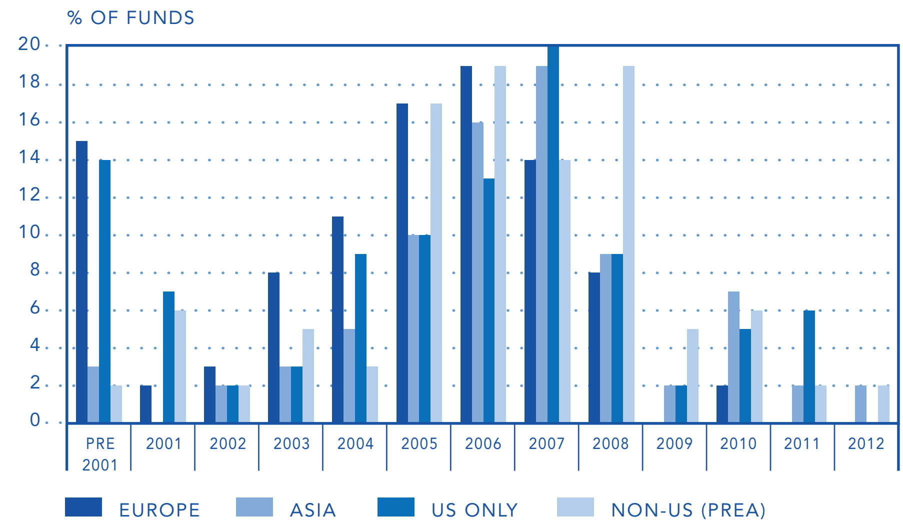
Core funds dominate the European sample measured by both number of funds and current gross asset value (GAV), whereas in the Asian and PREA non-US samples, opportunity funds dominate the sample. In the US only sample, core funds represent 60% measured by current GAV while only 25% by number of funds. In the US core funds tended to be larger in size.

FIGURE 02 / SAMPLES BY INVESTMENT STYLE, NUMBER OF FUNDS AND CURRENT GAV



By vintage, the European and both PREA samples include a higher percentage of funds launched before 2001 compared to the Asian sample, which only includes four funds with such a long history. In all studies, the highest number of funds was launched between 2005 and 2007. Fewer funds have been launched since 2008 and they are smaller in size, mainly because they are not fully invested yet.

FIGURE 03 / SAMPLE BY VINTAGE, NUMBER OF FUNDS

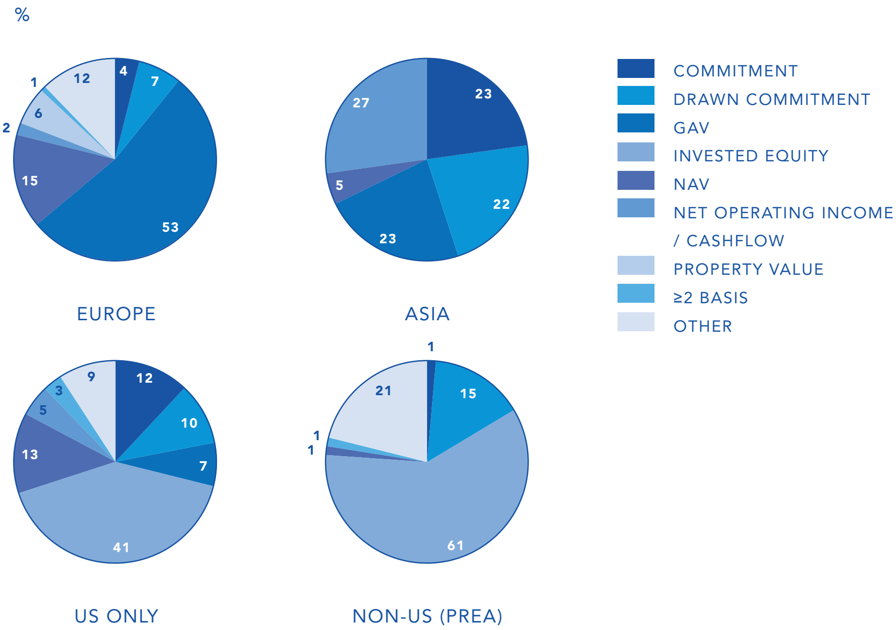


3 ANNUAL MANAGEMENT FEES

Nearly all the funds from the three studies charge at least one type of annual management fee, most commonly a fund management fee. Funds also charge several other types of annual management fees, which most commonly include asset management fees, acquisition and disposal fees and project management fees.

The fee base used for the annual fund management fee varies in all three regions. GAV is used as a basis by 53% of all funds in the European sample and 23% of the Asian sample, compared to only 7% for the US sample and none of the non-US sample. In both US samples, invested equity is the most common base for annual management fees applied by 41% of the US and 61% of the non-US sample. Net asset value (NAV) is used as a basis for the fund management fee by 15% of European funds, 13% of US only funds, but only 5% of Asian funds.

FIGURE 04 / FEE BASE OF THE ANNUAL FUND MANAGEMENT FEE



In Europe and Asia, most core funds base their fund management fee on GAV (48% in Europe and 74% in Asia), but in Europe 56% of value added funds also use GAV as a basis. In the European sample, opportunity funds typically use commitment and drawn commitment. GAV is widely used as a basis in Asia by core funds, drawn commitment by value added funds and commitment by opportunity funds, with shares of 74%, 46% and 44% respectively. In the US-only sample, NAV is the most typical fee basis for core funds, whereas invested equity is the most commonly applied basis for all other styles within the US samples.

TABLE 03 / MOST COMMON FUND MANAGEMENT FEE BASE BY INVESTMENT STYLE

	CORE		VALUE ADDED		OPPORTUNITY	
	FEE BASE	% OF STYLE	FEE BASE	% OF STYLE	FEE BASE	% OF STYLE
EUROPE	GAV	48	GAV	56	DRAWN COMMITMENT	18
ASIA	GAV	74	DRAWN COMMITMENT	46	COMMITMENT	44
US ONLY	NAV	39	INVESTED EQUITY	43	INVESTED EQUITY	64
NON-US (PREA)	–	–	INVESTED EQUITY	65	INVESTED EQUITY	59

Table 04 shows the annual fund management fees by region for different bases. GAV-based fund management fees are highest in the European market at 0.62% and the lowest in Asia at 0.40%, with US only funds falling in the middle at 0.60%. The lower fees applied in Asia can be partly explained by investment style as GAV is most typically applied by core funds (74%) in Asia, whereas in Europe and US, this fee basis is commonly applied by both core and value added funds. For commitment and drawn commitments, it is interesting to see that the fee levels are lower in the US compared to Asia and Europe.

TABLE 04 / ANNUAL FUND MANAGEMENT FEE BASIS AND RATES

	EUROPE		ASIA		US ONLY		NON-US (PREA)	
	# FUNDS	AVG (%)	# FUNDS	AVG (%)	# FUNDS	AVG (%)	# FUNDS	AVG (%)
COMMITMENT	5*	1.87	21	1.88	16	1.15	1	–
DRAWN COMMITMENT	14**	1.60	19	1.46	13	1.39	10	1.29
GAV	115***	0.62	21	0.40	9	0.60	0	–
NAV	34	0.80	4	1.36	17	0.92	1	–
INVESTED EQUITY	0	–	0	–	55	1.35	40	1.39

NON-US AVERAGES NOT REPORTED TO MAINTAIN DATA CONFIDENTIALITY
*EXCLUDING THREE FUNDS TO MAINTAIN DATA CONFIDENTIALITY
**EXCLUDING ONE FUND TO MAINTAIN DATA CONFIDENTIALITY
***EXCLUDING ONE FUND TO MAINTAIN DATA CONFIDENTIALITY

Table 05 (page 09) shows the annual fund management fees for European single country and multi-country funds. The results show that for both core and value added funds the fees are lower for single country funds compared to multi-country funds. It is interesting to note that the annual fund management fee for value added funds is almost the same as core funds even though higher fees would be expected to be applied to value added funds. However, this might be compensated by higher performance fees.

TABLE 05 / ANNUAL FUND MANAGEMENT FEE RATES BASED ON GAV BY REGIONAL STRATEGY AND STYLE FOR EUROPEAN FUNDS*

	CORE		VALUE ADDED		ALL FUNDS	
	# FUNDS	AVG (%)	# FUNDS	AVG (%)	# FUNDS	AVG (%)
EASTERN AND CENTRAL EUROPE	4	–	3	–	**7**	**0.83**
EUROPE	17	0.51	10	0.67	**27**	**0.57**
EUROZONE	5	0.98	2	–	**7**	*****
OTHER MULTI-COUNTRY FUNDS	7	–	3	–	**10**	**0.65**
ALL MULTI-COUNTRY FUNDS	***33***	***0.65***	***18***	***0.64***	***51***	***0.65***
UK	4	0.53	11	0.61	**15**	**0.59**
THE NETHERLANDS	10	–	1	–	**11**	**–**
GERMANY	6	0.56	7	0.57	**13**	**0.56**
ITALY	9	0.62	5	0.52	**14**	**0.58**
OTHER SINGLE COUNTRY FUNDS	7	0.56	3	–	**10**	*****
ALL SINGLE COUNTRY FUNDS	***36***	***0.58***	***27***	***0.61***	***63***	***0.60***
TOTAL	**69**	**0.61**	**45**	**0.62**	**114**	**0.62**

*EXCLUDING ONE OPPORTUNITY FUND TO PRESERVE DATA CONFIDENTIALITY

In Asia, drawn commitment based fees differ only one basis point when comparing single country and multi-country funds while commitment-based fund management fees are lower for multi-country funds (1.71%) than for single country funds (1.96%).

Asia does not follow the trend in Europe where single country funds have lower fees than multi-country funds. This is because in Asia single country funds are mostly opportunity funds investing in China while the multi-country funds have a more core or value added strategy. The small sample size means it is not possible to split the single country funds in Asia into individual countries.

TABLE 06 / ANNUAL FUND MANAGEMENT FEE RATES BY REGIONAL STRATEGY FOR ASIAN FUNDS

	SINGLE COUNTRY		MULTI-COUNTRY	
	# FUNDS	% (AVERAGE)	# FUNDS	% (AVERAGE)
COMMITMENT	14	1.96	7	1.71
DRAWN COMMITMENT*	12	1.46	7	1.47
GROSS ASSET VALUE	18	*	3	–

*ONE DRAWN COMMITMENT BASED FUND DID NOT REPORT A FEE RATE

4 PERFORMANCE FEES

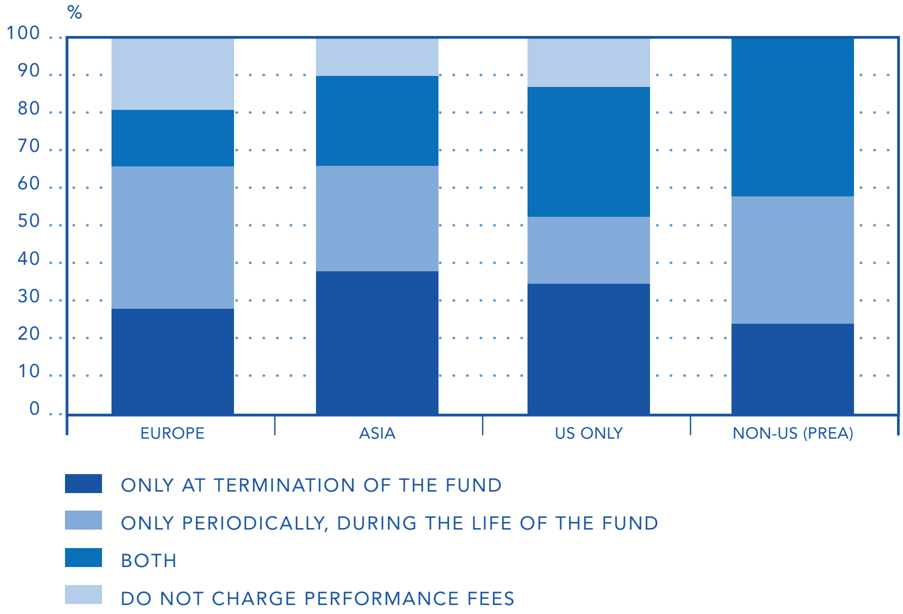
Performance fees, or incentive fees as they are called in the US, are commonly charged by funds across all three regions. Performance fees are most typical for value added and opportunity funds. Table 07 shows the percentage of funds from the three studies that report a performance fee.

TABLE 07 / PERCENTAGE OF SAMPLE REPORTING PERFORMANCE FEES BY INVESTMENT STYLE

	EUROPE %	ASIA %	US ONLY %	NON-US (PREA) %
CORE	69	68	64	100
VALUE ADDED	95	100	96	100
OPPORTUNITY	97	100	96	100
TOTAL	**81**	**87**	**88**	**100**

Performance fees are applied in three ways: periodic, meaning they are calculated and distributed either during the life of the fund, at termination so when capital is returned to investors at the end of the fund's life, or a combination of both. Figure 05 illustrates that periodic performance fees are most commonly applied in Europe whereas a combination of the two is more typical in both US samples. In Europe, the higher incidence of core funds and open end structures results in it having the largest percentage of funds not applying performance fees or only applying a periodic performance fee.

FIGURE 05 / PERCENTAGE OF SAMPLE REPORTING DIFFERENT TYPES OF PERFORMANCE FEES

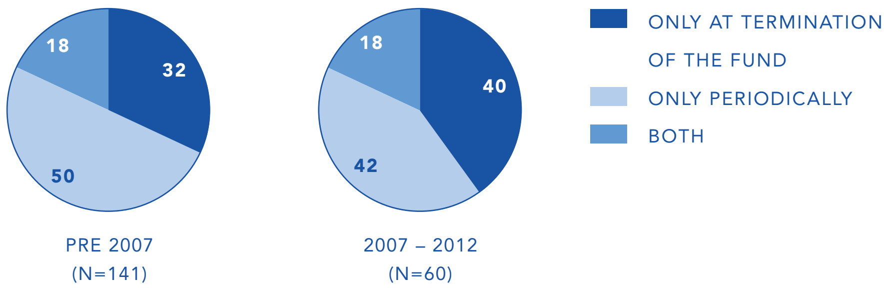


To look at performance fees by vintage, the sample is split in two: funds launched before 2007 and those launched after 2006. This analysis is done in order to examine the possible effect of the global financial crisis on performance fee structures of non-listed real estate funds.

Figure 06 shows that for European funds, fees at termination are now more popular for funds launched in 2007 – 2012 compared to those before the financial crisis. This is at the expense periodic performance fees.

FIGURE 06 / TYPE OF PERFORMANCE FEES IN EUROPEAN SAMPLE BY VINTAGE GROUP

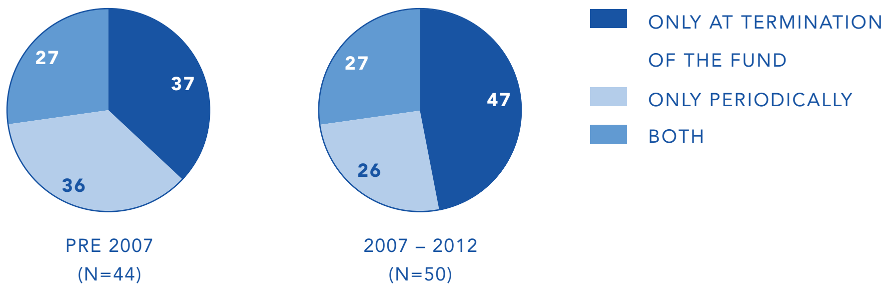
% OF EUROPE



For Asian funds the same trend is emerging. They have a clear preference for applying performance fees at termination for newly launched funds compared to those launched before 2007. The use of periodical performance fees has also dropped from 36% to 26% when comparing funds launched before and after the global financial crisis.

FIGURE 07 / TYPE OF PERFORMANCE FEES IN ASIAN SAMPLE BY VINTAGE GROUP

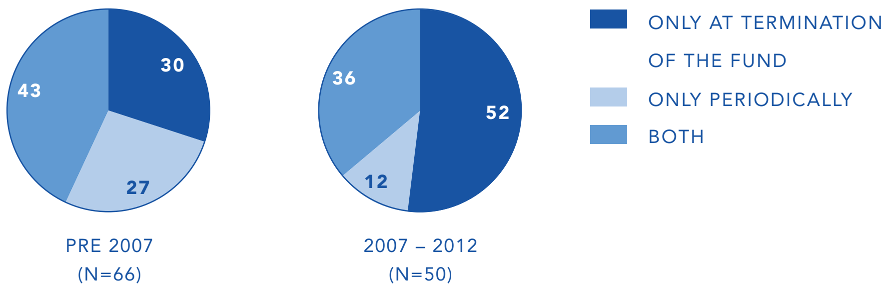
% OF ASIA



In the US only sample, the trend of applying only a performance fee at termination is even stronger. The use of performance fees at termination only has grown to 52% for funds launched between 2007 and 2012 compared to 30% for funds launched before 2007. The use of periodic performance fees has dropped from 27% to 12%. The percentage of funds applying both fees dropped from 43% to 36%.

FIGURE 08 / TYPE OF PERFORMANCE FEES IN US ONLY SAMPLE BY VINTAGE GROUP

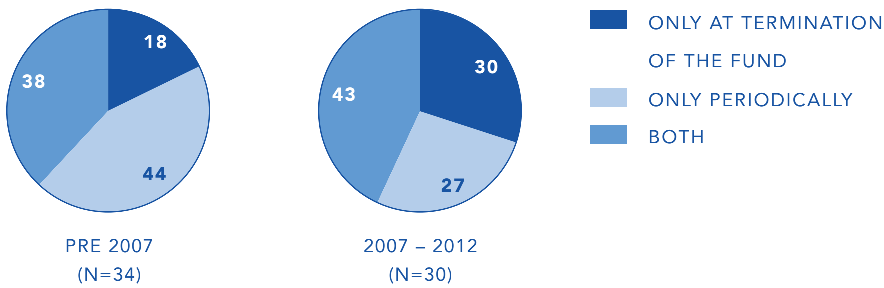
% OF US ONLY



For the non-US sample (Figure 09), there is also an increase in the use of performance fees at termination with the proportion increasing from 18% for funds launched before 2007 to 30% for those funds launched between 2007 and 2012. Periodic performance fees are applied by 44% of the non-US sample before 2007 and by 27% of funds launched between 2007 and 2012.

FIGURE 09 / TYPE OF PERFORMANCE FEES IN NON-US SAMPLE BY VINTAGE GROUP

% OF NON-US (PREA)



Overall, there is a clear trend that recently launched funds, especially in Asia and US, have moved towards applying performance fees at termination, compared to applying them periodically. The results indicate that the global financial crisis has clearly had an effect on the performance fee structure of non-listed property funds.

Periodic performance fees can be based on realised returns, unrealised returns or both. In the European sample 16% of funds launched before 2007 calculated periodic performance fees based on unrealised returns only, compared to only 8% for funds launched in the period 2007 – 2012. The proportion basing it on realised returns has increased from 44% to 51%. The proportion applying both has remained the same.

The same trend can be seen in Asia, though the use of both realised and unrealised has not been as common as in Europe. In this region the percentage of funds using realised returns has grown from 64% before 2007 to 86% in the period after that. Again, this is a clear reflection of the global financial crisis as investors look for more safety in a quickly changing environment where returns could differ substantially each year.

Contrary to the European and Asian results, the percentage of US only funds using realised returns as a basis is not increasing. However, at 91% this figure was already high.

TABLE 08 / CALCULATION BASIS FOR PERIODIC PERFORMANCE FEES

	PRE 2007		2007 – 2012		TOTAL	
EUROPE	# FUNDS	% OF FUNDS	# FUNDS	% OF FUNDS	# FUNDS	% OF FUNDS
REALISED RETURNS	45	44	20	51	**65**	**46**
UNREALISED RETURNS	16	16	3	8	**19**	**13**
BOTH	41	40	16	41	**57**	**40**
ASIA						
REALISED RETURNS	23	64	36	86	**59**	**76**
UNREALISED RETURNS	6	17	1	2	**7**	**9**
BOTH	7	19	5	12	**12**	**15**
US ONLY						
REALISED RETURNS	59	91	43	86	**102**	**89**
UNREALISED RETURNS	0	0	1	2	**1**	**1**
BOTH	6	9	6	12	**12**	**10**
NON-US (PREA)						
REALISED RETURNS	28	82	22	73	**50**	**78**
UNREALISED RETURNS	0	0	0	0	**0**	**0**
BOTH	6	18	8	27	**14**	**22**

In all three studies, the majority of funds reported a performance fee structure with a hurdle rate based on a fixed internal rate of return (IRR) or total return and a set share of the outperformance above this hurdle rate that is paid to the fund manager. Table 09 (page 14) shows the hurdle rates and the share of outperformance paid to managers for funds with IRR-based hurdle rates for both periodic performance fees as well as performance fees at termination.

The hurdle rates for periodic performance fees are at similar levels in Europe and in the US samples. Asian funds, however, have a lower first hurdle rate. The first hurdle rates are lower for periodic performance fees compared to those at termination in all samples except the non-US sample. In the US only sample, the differences between the first hurdle rate of periodic performance fees and performance fees at termination are the smallest at 14 basis points.

For the levels of performance fees, it can be seen that European funds report the highest share of the outperformance paid to the manager for periodic performance fees and the lowest rates for performance fees at termination. The non-US sample has the lowest share of the outperformance paid to the manager for periodic performance fees and Asian funds have the highest for performance fees paid at the termination.

TABLE 09 / PERIODIC PERFORMANCE FEE AND PERFORMANCE FEE AT TERMINATION HURDLE RATES AND SHARES OF THE OUTPERFORMANCE PAID TO THE MANAGER (NO CATCH-UP)

	EUROPE	ASIA	US ONLY	NON-US (PREA)
PERIODIC PERFORMANCE FEES				
1ST HURDLE (% OF IRR)	9.74	8.75	9.43	10.27
SHARE OF THE OUTPERFORMANCE PAID TO MANAGER (%)	23.38	20.00	20.64	18.75
PERFORMANCE FEES AT TERMINATION				
1ST HURDLE (% OF IRR)	10.08	9.78	9.57	9.77
SHARE OF THE OUTPERFORMANCE PAID TO MANAGER (%)	18.35	20.35	19.81	18.75

Table 10 shows the target IRRs and first hurdle rates of funds for periodic performance fees and performance fees at termination. The samples include those funds that report both a target IRR and a first hurdle rate and are therefore smaller than Table 09. The first hurdle rates are set below the funds' target IRRs in all the categories where the sample size enabled the calculation. The non-US and US only funds show larger average differences between the target IRRs and first hurdles.

TABLE 10 / TARGET IRRS AND FIRST HURDLE RATES FOR PERFORMANCE FEES (NO CATCH-UP)

	PERFORMANCE FEES AT TERMINATION				PERIODIC PERFORMANCE FEES			
	EUROPE %	ASIA %	US ONLY %	NON-US (PREA) %	EUROPE %	ASIA %	US ONLY %	NON-US (PREA) %
TARGET IRR	11.69	12.06	13.74	15.38	11.44	–	**13.21**	**16.92**
1ST HURDLE	10.12	8.46	9.60	9.42	9.94	–	**9.46**	**9.92**
DIFFERENTIAL	1.58	3.60	4.15	5.96	1.50	–	**3.75**	**7.00**

Table 11 (page 15) shows the application of catch-up clauses by vintage groups among funds applying performance fees. In Europe there has not been much change over time, while in Asia the use of catch-up clauses has become more popular with recently launched funds. The percentage of funds applying catch-up clauses has grown from 33% applying them when launched pre 2007 to 58% applying them when launched from 2007 to 2012. US funds exhibit the same trend as Asian funds increasing from 28% to 47%, whereas the non-US sample has a high percentage of funds applying catch-up clauses across the vintages. The high number of funds applying catch up clauses in the US and Asia can be explained by the relatively large number of value added and opportunity funds in these regions compared to Europe.

TABLE 11 / APPLICATION OF CATCH-UP CLAUSES BY VINTAGE GROUPS

	PRE 2007		2007 – 2012		TOTAL	
EUROPE	# FUNDS	% OF FUNDS	# FUNDS	% OF FUNDS	# FUNDS	% OF FUNDS
YES	19	14	9	15	**28**	**14**
NO	120	86	51	85	**171**	**86**
TOTAL	**139**	**100**	**60**	**100**	**199**	**100**
ASIA						
YES	14	33	28	58	**42**	**46**
NO	29	67	20	42	**49**	**54**
TOTAL	**43**	**100**	**48**	**100**	**91**	**100**
US ONLY						
YES	19	28	24	47	**43**	**36**
NO	50	72	27	53	**77**	**64**
TOTAL	**69**	**100**	**51**	**100**	**120**	**100**
NON-US (PREA)						
YES	26	76	22	73	**48**	**75**
NO	8	24	8	27	**16**	**25**
TOTAL	**34**	**100**	**30**	**100**	**64**	**100**

The use of clawback clauses has also changed over time, though not as clearly as with catch-up clauses. This trend is the most distinctive in the US only sample with 33% of funds applying clawback clauses before 2007 and 59% between 2007 and 2012.

In Europe, 19% use clawback clauses for funds launched before 2007 compared to 27% after the global financial crisis. In Asia there was also a slight upward moving trend and 44% of newer funds apply clawback clauses compared to 39% of funds launched before 2007.

TABLE 12 / APPLICATION OF CLAWBACK CLAUSES BY VINTAGE GROUPS

	PRE 2007		2007 – 2012		TOTAL	
EUROPE	# FUNDS	% OF FUNDS	# FUNDS	% OF FUNDS	# FUNDS	% OF FUNDS
YES	26	19	16	27	**42**	**21**
NO	114	81	44	73	**158**	**79**
TOTAL	**140**	**100**	**60**	**100**	**200**	**100**
ASIA						
YES	17	39	22	44	**39**	**41**
NO	27	61	28	56	**55**	**59**
TOTAL	**44**	**100**	**50**	**100**	**94**	**100**
US ONLY						
YES	23	33	30	59	**53**	**44**
NO	46	67	21	41	**67**	**56**
TOTAL	**69**	**100**	**51**	**100**	**120**	**100**
NON-US (PREA)						
YES	11	32	17	57	**28**	**44**
NO	23	68	13	43	**36**	**56**
TOTAL	**34**	**100**	**30**	**100**	**64**	**100**

5 OTHER FEES

The study questionnaires also covers a variety of other fees and expenses charged to investors including, but not limited to, transaction fees, leasing fees, property management fees, bank charges, debt arrangement fees and development fees.

US funds report charging fewer fees in addition to the annual fund management fee compared to the European and Asian funds. For example, bank charges are charged separately by 79% of European funds, 89% of Asian funds but only by 11% of US only funds.

Acquisition fees are found to be fairly typical in all three studies, and they are mainly charged based on either GAV or the transaction price.

TABLE 13 / ACQUISITION AND PROPERTY MANAGEMENT FEES RATE CHARGED

	EUROPE	ASIA	US ONLY
ACQUISITION FEE PAID TO MANAGER (% OF GAV)	0.97	0.75	0.66
ACQUISITION FEE PAID TO MANAGER (% OF TRANSACTION PRICE)	0.98	0.72	1.04
PROPERTY MANAGEMENT FEE (% OF RENTAL INCOME)	2.92	–	3.22

6 RETURN REDUCTION METRICS

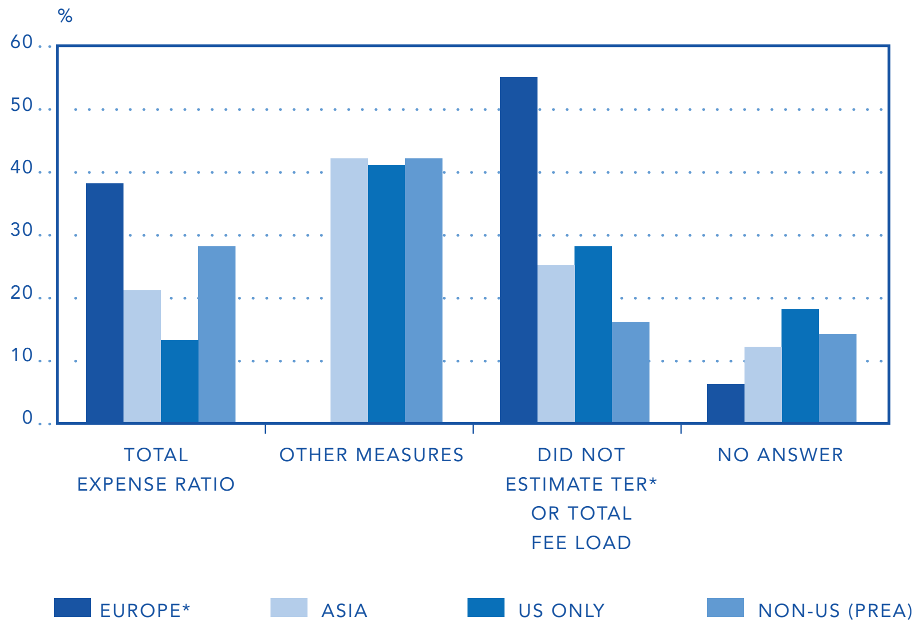
The final section of each study examined how total fee measures are used in each of the three regions. Fund managers were asked to provide information about how to measure total fees, including the total expense ratio (TER).

TER expresses categorised annual operating costs borne by a fund over one year as a proportion of the weighted average fund assets or NAV. The TER calculation includes management fees and fund expenses, can be backward-looking or forward-looking and be based on GAV or NAV. A backward-looking TER can be calculated using historic realised values of management fees and fund expenses. Forward-looking TER requires estimates of management fees and fund expenses and for several years ahead.

Currently, measures to estimate the total fee load of a fund (TER or others) are not used extensively. A wide range of calculation methods other than TER are used to estimate the reductions in the return of a fund. These metrics usually include performance fees and/or property specific costs. Other measures funds provide to investors include tax leakage, management expense ratios, non-recoverable cost percentages as a percentage of income, net cash generated and gross to net IRR.

The European study's special topic on fee loads studied the use of TER in particular rather than other measures. In the other regions, fund managers were asked about the use of other total measures as well. The US sample has the lowest rate of funds calculating TER, but over 40% of the US and Asia samples funds use other measures to estimate other fees.

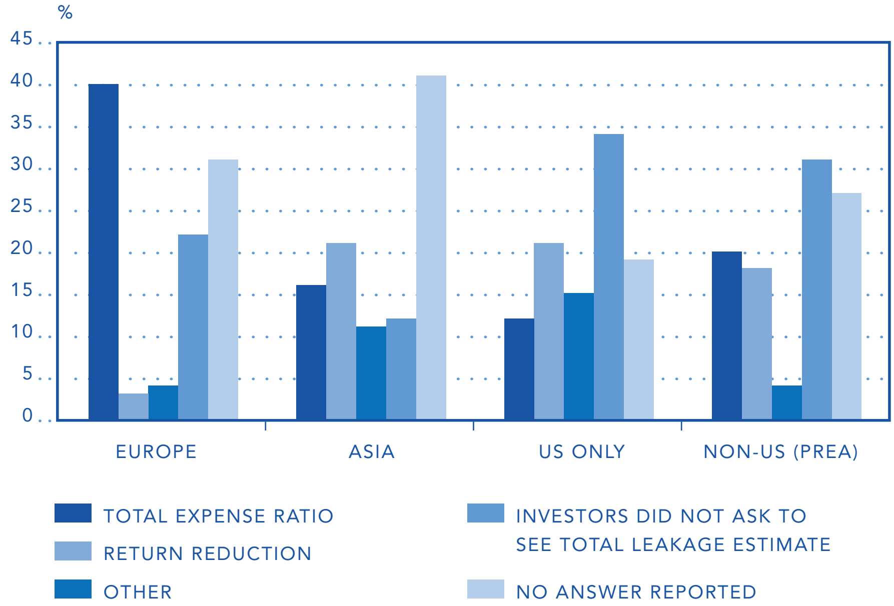
FIGURE 10 / MEASUREMENT OF TOTAL FEES OF A FUND



*THE INREV STUDY STUDIED ONLY THE USE OF TER AND NOT OTHER MEASURES. THE USE OF TER WAS DIVIDED INTO CALCULATING TER ACCORDING TO INREV GUIDELINES OR OTHER GUIDELINES

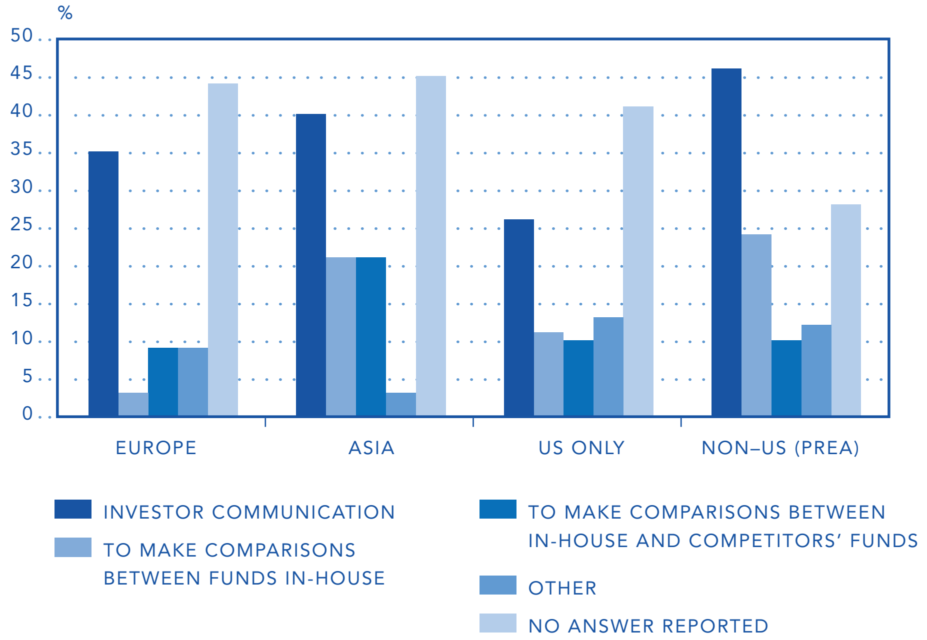
Fund managers were asked what measures investors ask for, and as can be seen in Figure 11, TER is more frequently requested in Europe than in other regions. In both US samples over 30% of investors did not ask to see any total fee load measures. In Asia and in the US, TER is not as commonly known as in Europe, and, therefore, other return reduction metrics are requested more frequently by investors.

FIGURE 11 / INVESTOR REQUEST ON ESTIMATION OF FEE LOAD



Fee load measures are mostly used for investor communication in all three regions. They are also used to make in-house comparisons by 24% of the non-US sample while Asian funds used the measures to make comparisons between both in-house and competitors' funds.

FIGURE 12 / USE OF ESTIMATED FEE LOAD



Fund managers mention several types of issues and problems related to the calculation and use of TER and other fee load measures. A major challenge seen for the return reduction metrics was the inconsistency in calculating the total fee measures. As there is a variety of ways to measure fees and expenses with fund managers using different approaches, the comparability of the figures is limited.

In all regions participants in the studies said there is a need for standards and guidelines for total fee measures, which should be transparent and all-inclusive. Ideally, a uniform approach from all fund managers would provide the best level of transparency and comparability. This would also have to deal with issues such as the fact that expense ratios fluctuate depending on the fund's life-cycle and that fees can be charged on a fund level but also for multiple special purpose vehicles and in multiple jurisdictions.

APPENDIX

ABOUT INREV, ANREV AND PREA

INREV

INREV, the European Association for Investors in Non-listed Real Estate Vehicles, was launched in May 2003 to act for investors and other participants in the growing non-listed real estate vehicles sector. The non-profit association is based in Amsterdam, the Netherlands. INREV created a forum for the sector and aims at increasing the transparency and accessibility of non-listed vehicles, to promote professionalism and clarify best practice and to share and spread knowledge.

INREV currently has over 347 members drawn from leading institutional investors, fund of funds managers, fund managers, promoters and advisors across Europe and elsewhere. Investor members in INREV represent real estate assets under management of over €140 billion.

ANREV

ANREV is the Asian Association for Investors in Non-listed Real Estate Vehicles Limited. ANREV is a not-for-profit organisation driven by institutional investors in Asian Non-listed Real Estate Vehicles.

ANREV aims to serve as a platform for investors who guide the ssociation's strategy in a bid to improve transparency and accessibility of market information, promoting professionalism and best practices, sharing and spreading knowledge. Fund managers, investment banks, lawyers and other advisors provide support in addressing key issues facing the Asian non-listed private equity real estate fund markets.

ANREV members include 150 key companies across Asia Pacific, Europe and North America.

PREA

The Pension Real Estate Association is a non-profit trade association for the global institutional real estate investment industry. PREA currently lists over 600 corporate member firms across the United States, Canada, Europe, and Asia. PREA members include public and corporate pension funds, endowments, foundations, Taft-Hartley funds, insurance companies, investment advisory firms, REITs, developers, real estate operating companies, and industry service providers.

PREA's mission is to serve its members engaged in institutional real estate investment through the sponsorship of objective forums for education, research initiatives, membership interaction, and the exchange of information.