REVIEW OF REPORTING BEST PRACTICE 2012 SNAPSHOT

GUIDELINES

Standard levels of adoption remain strong ahead of INREV Guidelines revision

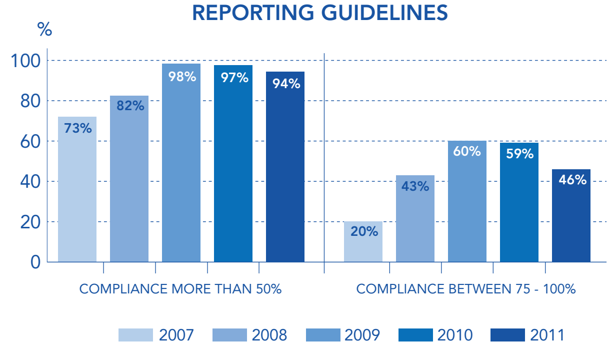
- Results show strong general levels of adoption but top-end compliance slows
- Consistency in the use and disclosure of INREV NAV but still variety in calculations
- Room for improvement for Fee Metrics and property valuations
- INREV Guidelines revision is underway and will pave the way for improved adoption

This year's Review of Reporting Best Practice shows that the industry has settled into a strong standard level of adoption of the INREV Guidelines but has slowed in terms of the incremental improvements at the top end of best practice.

The results of the review, which provides insights into market practice for non-listed real estate fund reporting and how this compares to the INREV Guidelines, show that compliance with the Guidelines remains strong. In 46% of funds' reporting, some reference is made to topics such as INREV Net Asset Value, INREV Fee Metrics, INREV compliance or the INREV fund style classifications. Of this 46%, 59% refer to INREV more than once.

When looking at how annual reporting compares with the INREV Guidelines, the 2011 results show that after years of growth, adoption levels have stabilised or, in some cases, fallen slightly. For this reporting year, 94% of the fund complied with 50% or more of the annual reporting guidelines compared with 97% last year while adoption levels for compliance of 75% or more was at 46% compared with 59%, as shown in the below graph.

ADOPTION OF BEST PRACTICE REPORTING GUIDELINES



This pattern of strong levels of adoption for 50% or more of the annual reporting guidelines but falling levels for 75% or more is repeated in other aspects of annual reporting such as General Information, the Property Report, Management Report and Financial Report.

This trend can in part be attributed to the sample which included a number of reports from fund managers new to the survey and less familiar with the Guidelines. In addition, the sample contained many more quarterly reports, which are more difficult to analyse for compliance, as well as a high incidence of reports that provided only the legally required information. This may have contributed to the lower levels of compliance this year.

The slowing levels of compliance at the higher end may also be reflective of the natural levels of adoption under this version of the Guidelines. INREV has started a review of the Guidelines, which will result in a new version of the industry standards by the end of 2013. This will see weaker areas improved which should pave the way for stronger adoption levels in the future.

One of these areas of improvement continues to be Fee Metrics, which showed no significant change in the review from last year. Across the results of the last five years, fund managers have been critical about the expense ratios. Only 20% of funds disclose a total expense ratio (TER) or other fee metric-related items, which is slightly higher compared with the 18% in the 2010 review.

A second area of improvement is property valuations, which are a major driver of fund performance and NAV. The results of the review show that the current disclosures in the funds' reporting is not always sufficient to determine whether fund managers have acted in accordance with the valuation guidelines.

Information on the valuation of properties is often spread throughout the documents and not compiled in one disclosure note. There could also be improvements for disclosures relating to the valuation method used for properties under construction, and for investment and ground leases, as well as applicable input and market assumptions.

There has been consistency for the use and disclosure of INREV NAV in this reporting year. The number of references made to INREV NAV was in line with the results of the 2010 review. Nevertheless, a variety of ways is still used to disclose the economic value of a fund covered by IFRS or local accounting standards. This diversity has not yet resulted in widespread comparability and transparency in reporting adjusted NAV.

Fund managers are still not always fully aware of the disclosure requirements for INREV NAV. However, compared with last year, progress has been made in the levels of disclosure on specific adjustments with more fund managers increasing the level of explanation and background.

For the review, INREV received 123 reports from 66 fund managers, which was an increase on 2010 levels. Of the 123 reports received, 70 were included in the 2011 review. No more than two reports from the same fund manager were included as fund reporting is likely to be standard across a manager's range of funds.

The full report is available to members at www.inrev.org
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OTHER KEY HIGHLIGHTS

- Fund size influences adoption levels with smaller funds finding compliance more challenging
- Results influenced by trend of offering investors a wider variety of report types
- Variety in how INREV NAV adjustments are being complied with across the industry

GUIDELINES