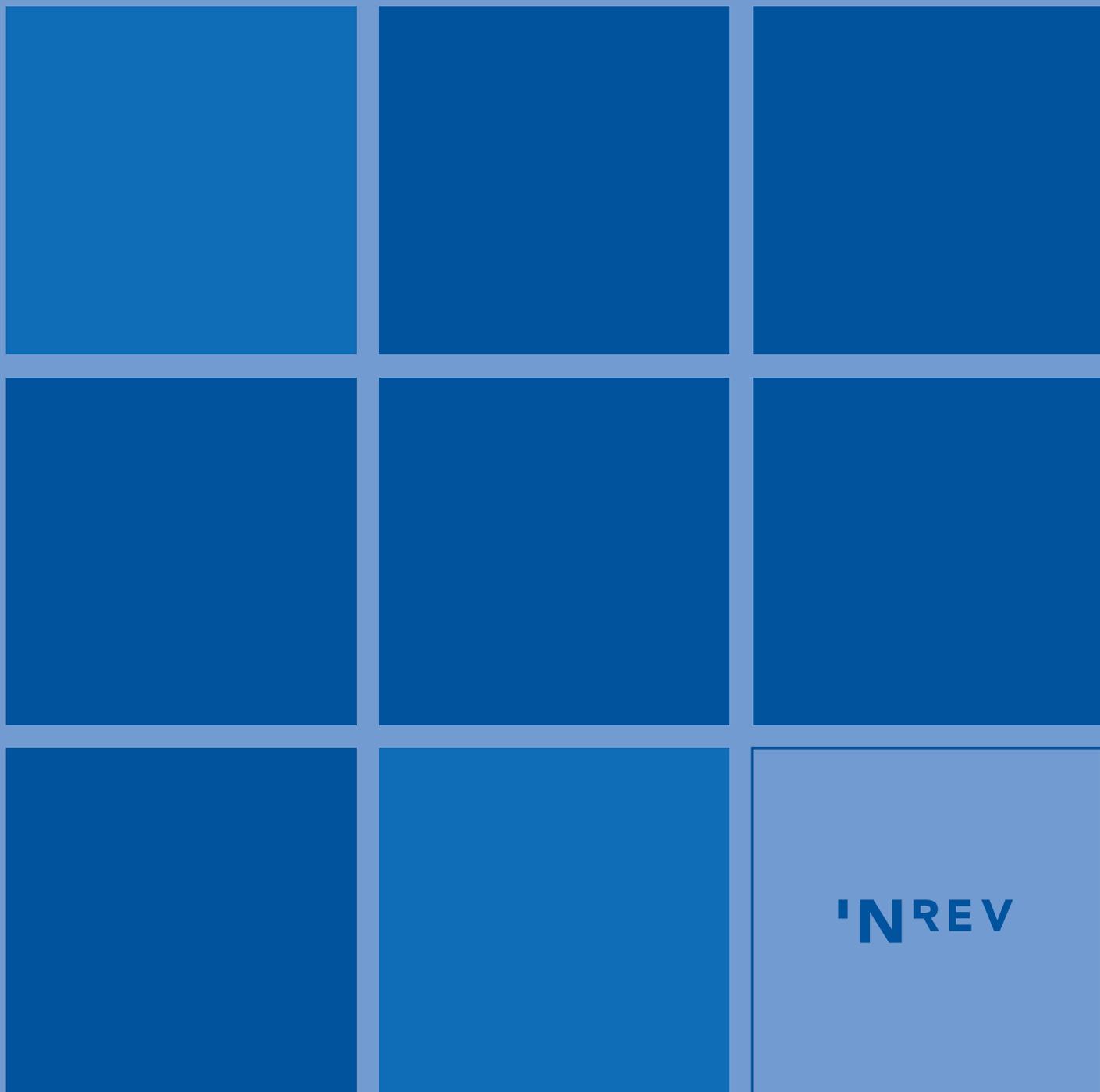


INREV RESEARCH & MARKET INFORMATION

# MANAGEMENT FEES AND TERMS STUDY 2011



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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. The association's primary focus is on institutional investors, although other market participants such as fund managers, investment banks, lawyers and other advisors provide additional support.

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## EXECUTIVE SUMMARY

- This report summarises the key findings of the 2011 INREV Management Fees and Terms Study. The sample contains detailed information of the fee structure of 260 non-listed real estate vehicles targeted at institutional investors. The sample covers 55% of the INREV universe by number of funds and 52% by current gross asset value (GAV). Nearly half of the sample funds invest in single countries only, the other half have a wider target location. Also, nearly half of the funds invest in a single property sector and the other half have multi-sector investments.
- Total expense ratio (TER) is reported to investors by 38% of the funds who delivered information this year; 25% reported the TER in line with INREV fee metrics and 12.5% reported another TER, not in line with the INREV fee metrics. Almost all of the value added funds reporting TER calculate an INREV TER (92%), whereas less than 50% of the core funds use an INREV TER. The average INREV TER based on GAV was reported at 0.99% for core funds and 1.12% for value added funds.
- An annual fund management fee is charged by 87.3% of the funds. Gross asset value is the most commonly used fee basis for core and value added funds, while opportunity funds apply more varied fee bases. The average management fee rate is almost the same for core (0.61%) and value added (0.62%) funds with GAV as the basis. When comparing funds by first closing year, fee rates have come down annually for core funds launched in 2005 onwards, whereas value added funds have had a peak in fee rates for funds with a first closing in 2007.
- When looking at the funds' target sectors, multi-sector funds have higher management fee rates than funds investing in only one property sector. Of the single-sector funds, retail funds have the highest management fee rates. The impact of the fund's size on management fees is inconclusive. Funds investing in several countries have slightly higher management fees than the ones investing in only one country.
- Performance fees are used in 81% of all funds; most commonly in opportunity and value added funds. Of the 50 funds which do not apply performance fees, 45 are core in style. 34% of the funds apply performance fees only at termination, and 19% at both termination and periodically during the life of the fund. The first hurdle rate for periodic performance fees is slightly higher for value added funds (10.3%) than for opportunity funds (10.0%), but the performance fee rates are higher for opportunity funds. For core funds the periodic hurdle rate is 9.2% and performance fee 21.3%. Hurdle rates are clearly below targeted returns for all styles.
- This year's special topic looked at the current use of TER and other return reduction calculations. This kind of metrics are most typically used for investor communication, although 52% of respondents who do not calculate a TER stated that there is no demand for a TER or other return reduction metrics from the investors' side. Another reason for not calculating a TER, especially the one in line with INREV Guidelines was the application of other guidelines (BVI, AREF). However, a wide range of different methods is being applied in order to estimate the total leakage of funds. The problem with TER calculations is that they are quite heavily based on estimations and therefore the result can vary a lot depending on the assumptions used. More standardisation is needed in order to make different TERs comparable with each other.

# 1 INTRODUCTION

This paper reports the results of the seventh INREV Management Fees and Terms Study. The aim of the study is to analyse as well as compare the fee structures and fee levels of European non-listed real estate funds to increase transparency in this topic.

The INREV Fee Metrics Guideline provide a methodology for the disclosure of fees and expenses of non-listed real estate funds. The aim of these guidelines is to allow for the comparison of fees and other costs of funds. These guidelines split fees and costs into five different categories: initial charges, management fees, performance fees, fund expenses and property-specific costs.

Since 2007, the INREV Fee Metrics which includes the INREV TER calculation have been used to structure the survey. These fee metrics serve as a common methodology to disclose fees and expenses in non-listed real estate funds. More information about the INREV Fee Metrics can be found in the INREV Guidelines at [www.inrev.org](http://www.inrev.org)

Each year the study focuses on a special topic. This year's topic was designed to look more closely into the use, or non-use, of the INREV Total Expense Ratio (TER) or any other TER or fund return reduction calculations.

This report presents the key findings of the analysis on management fees and performance fees in Chapter 2 with reference to the key data in Chapter 4. This year's Special Topic is discussed in Chapter 3. The Appendices include detailed information of the study method, sample, data validation and participating companies. An example of TER calculation can be found in Appendix 2 and the fees glossary in Appendix 3. This report discusses the highlights of the study, and the full results are available in the Management Fees and Terms Study Supplement 2011.

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

In some cases, average 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 average fee levels for other smaller sample groups with less coverage. These cases are marked with an asterisk (\*). Where a fund manager has reported a range of possible fee levels e.g. 0.5 – 1.0% of GAV, the average of the range of values (0.75%) has been used in the calculation of average fee levels.

The INREV universe for this study consists of the 476 non-listed real estate funds listed in the INREV Vehicles Database (September 2011) of which 260 funds participated in the study.

## 2 ANALYSIS

### 2.1 Total Expense Ratio

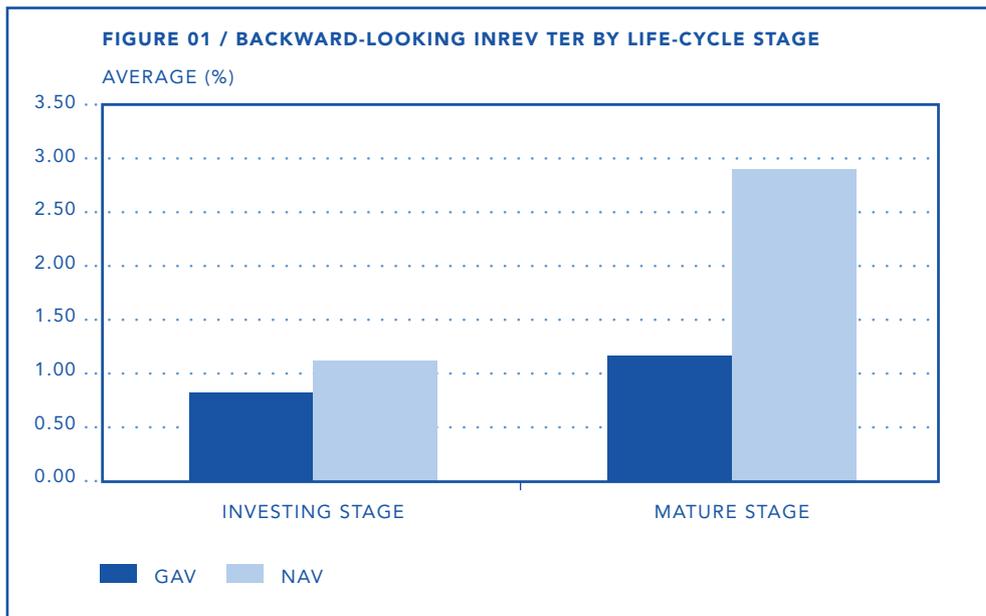
The Total Expense Ratio (TER) is part of the INREV Fee Metrics Guidelines and expresses annual operating costs borne by a fund over one year as a proportion of average fund assets. In the INREV TER calculations operating costs include management fees and fund expenses. The calculation does not include initial charges, property specific costs or performance fees. An example TER calculation can be found in Appendix 2.

In this report TER reporting has been limited to those funds that updated their fees data this year as the total expense ratio is calculated quarterly or annually and can show significant variation over time. INREV TER can be reported based on gross asset value, net asset value or both with INREV recommending that both GAV and NAV based metrics are reported. In the 2011 sample, 25% or 45 funds of the 175 funds which updated their data this year reported calculating a TER in line with the INREV Fee Metrics Guideline. Another 22 funds in the sample calculate a TER, which is not in line with the INREV Fee Metrics Guideline. The total number of funds that report a TER (67, or 38%) has been slowly increasing but is still very low. As such this year's special topic looks at this in more details in Chapter 4.

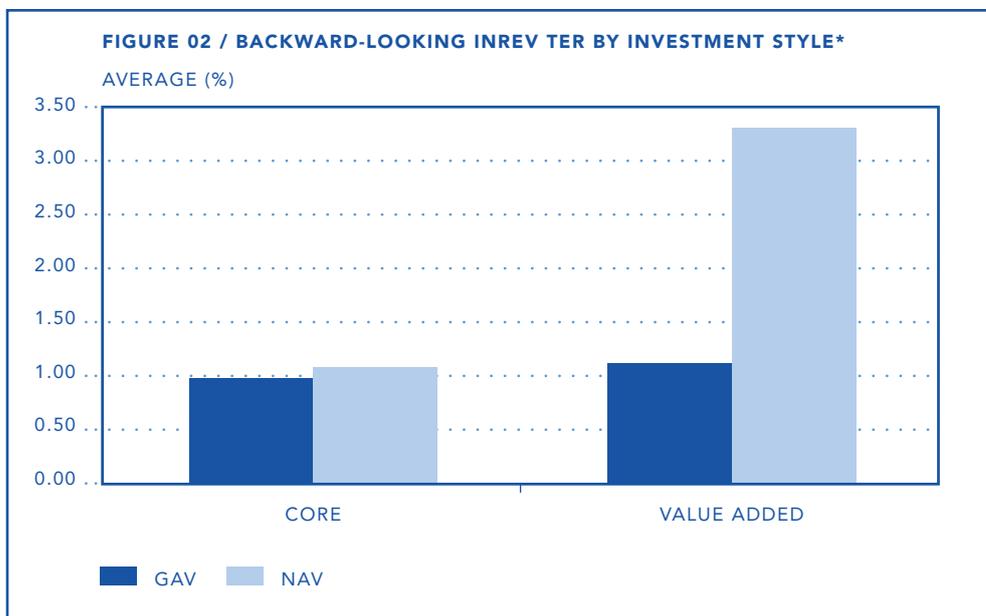
Backward-looking INREV TER is more commonly used, only four funds reported calculating a forward-looking INREV TER only and one fund calculated both. Further analysis focuses on backward-looking INREV TER rates. Of the funds reporting a backward-looking INREV TER, 17 reported a GAV-based figure to this study and 29 an NAV-based figure. Only a third of the funds (14 funds) reported both GAV- and NAV-based figures which is recommended in the INREV Guidelines. The NAV-based INREV TERs are highly affected by the current leverage of the fund, and this should be kept in mind when looking at the figures. Some leverage-based figures for INREV NAV-based TERs are presented at the end of this Chapter.

The INREV TER is most widely used among value added funds, of which 92% report an INREV TER. Of the core funds less than 50% calculate and report an INREV TER.

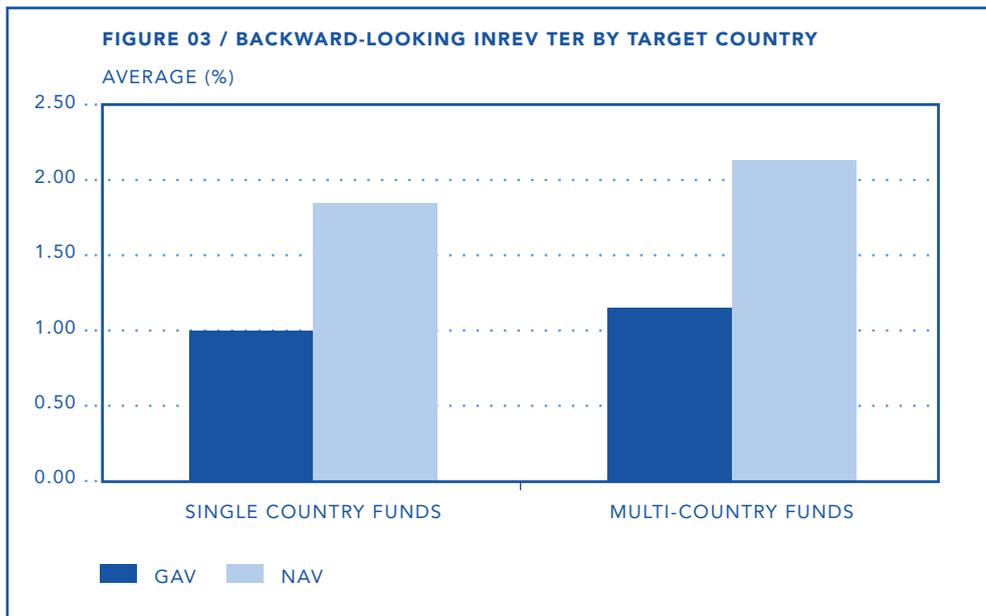
When breaking the sample down by different life-cycle stages, as in the graph (page 06), it can be seen that the INREV TER for mature stage funds is higher than for investing staged funds. Compared to last year's study the INREV TER for mature stage funds is lower, but also for funds currently investing. Mature funds could be expected to have lower TERs than funds that are investing, due to set-up costs. However, the higher TER might be explained by the mature stage funds in the sample being mostly value added and opportunity by style. GAV-based TERs of mature stage funds in the sample are quite harmonised, the inter-quartile range (difference between upper quartile and lower quartile) being only 0.3 percentages. Due to the effect of leverage, the range for TERs based on NAV is much wider. More detailed tables on the TER reporting (Table 03 – 10) can be found in Chapter 4.



As can be expected, INREV TERs for value added funds are higher than for core funds. This indicates a more active fund management style for value added funds. Due to the impact of leverage, there is quite some variation in the NAV-based INREV TERs of value added funds. The GAV-based INREV TERs for value added funds are more aligned, the inter-quartile range is only 0.39.



The sample shows that multi-country funds reported higher TERs than funds investing in only one country, suggesting that management of a multi-country fund requires more resources.



The impact of gearing on the INREV TERs based on NAV is illustrated by the table below, where average TERs have been grouped depending on the gearing level (under or over 40%).

**TABLE 01 / BACKWARD-LOOKING NAV-BASED INREV TER BY TARGET GEARING**

	TOTAL	
	# FUNDS	AVG (%)
GEARING UNDER 40%	14	0.96
GEARING OVER 40%	13	2.86

Additional analysis of TER can be found in Chapter 3: Feature Study, Chapter 4: Reference data and the Management Fees and Terms Study Supplement 2011.

## 2.2 Management fees

In the INREV Guidelines the fund management fee is defined as ‘a charge paid to a fund’s manager for their fund management services to the fund’ which covers activities such as: managing the fund level structure, arrangement of financing, fund administration, fund reporting and investor relations.

About a third of the funds (34%) charge different fund management fees during the commitment period, which is the period of time after the first closing during which an investor is obliged to contribute capital upon receiving a drawdown notice from the fund manager, than after that period.

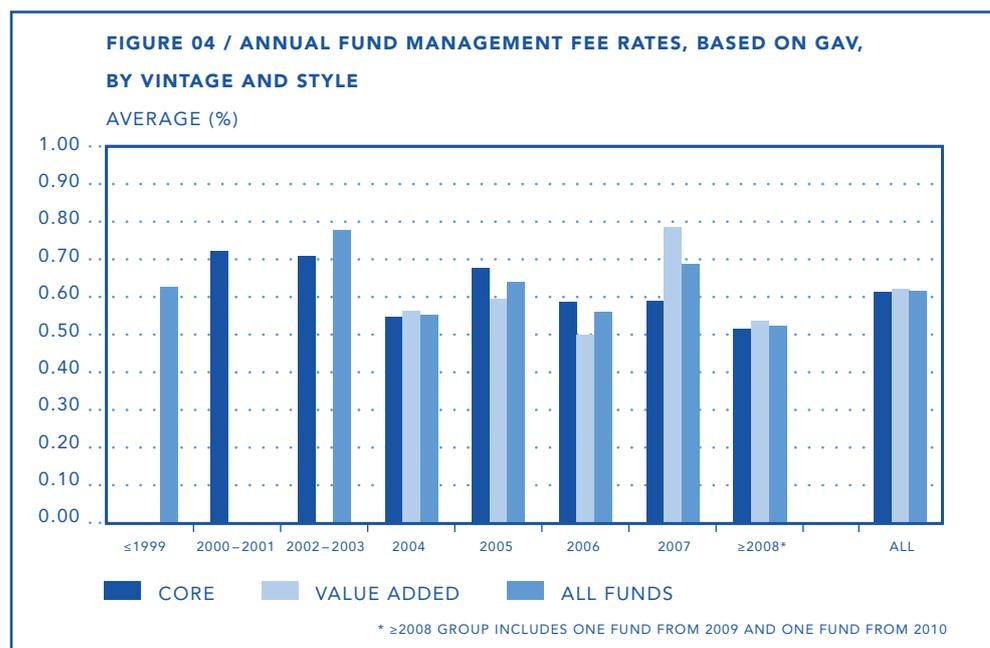
Fund management fees are the applied fees and are charged by 87% of funds in the sample. Most of those that do not charge a fund management fee report charging asset management fees. The basis on which these fees are charged could influence the fund manager’s behaviour, and are thus an important factor to be analysed. The most common base for annual fund management fees is GAV, used by 45% of the funds in the sample. NAV is

used as basis by 13% of the funds. Core and value added funds in particular apply fees based on gross or net asset value. Opportunity funds typically charge fund management fees based on drawn commitment.

Table 13 and Figure 11 in Chapter 4 present fund management fee reporting figures and fee bases in more detail. The highest annual management fee rates seem to be based on drawn commitment and were reported by value added and opportunity funds. GAV-based management fees are almost the same for core (0.61%) and value added funds (0.62%), but when NAV is used as a basis, value added funds (0.93%) have a higher management fee than core funds (0.77%), due to typically higher leverage.

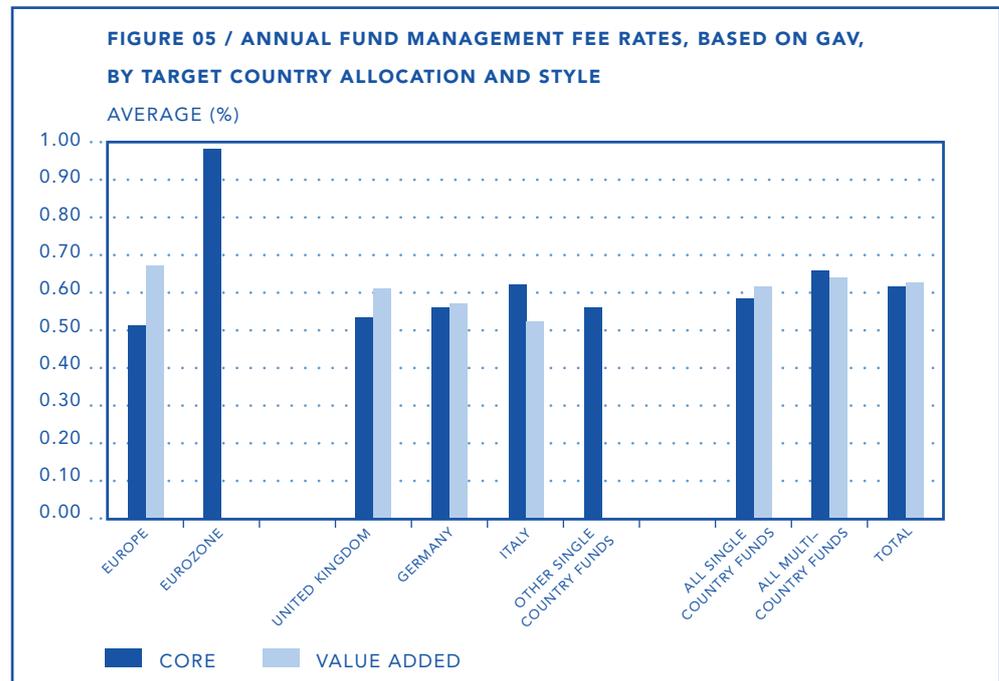
TABLE 02 / FUND MANAGEMENT FEES BY MOST USED FEE BASIS						
	CORE		VALUE ADDED		OPPORTUNITY	
	# FUNDS	AVG (%)	# FUNDS	AVG (%)	# FUNDS	AVG (%)
DRAWN COMMITMENT	1	–	8	1.61	6	1.58
GAV	70	0.61	45	0.62	1	–
NAV	27	0.77	7	0.93	0	–
PROPERTY VALUE	10	0.48	3	–	0	–

When comparing annual fund management fees by vintage (year of first closing), it can be seen that fee rates for core funds have come down every year since 2005, whereas value added funds have more variation in the annual fee levels. Value added funds with first closing in 2007 clearly showed the highest fees. Too few funds were launched in 2009 & 2010 to see the impact of changing market conditions. Core funds which had the first closing in 2005 and 2006 have higher fee rates than value added funds with the same first closing years, otherwise value added funds have higher management fee rates than core funds.

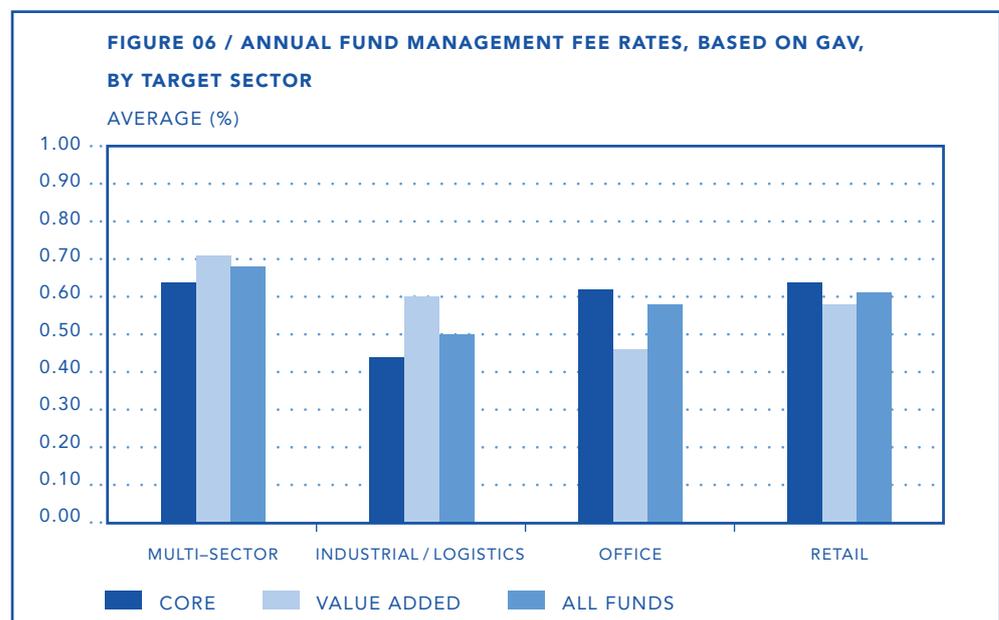


The highest fund management fee rates by target country/countries are charged by funds investing in the Eurozone area. The lowest fee rates are at UK core funds and Italian value

added funds. The UK is the most competitive market, which places downward pressure on fees. The low fees for Italian value added funds are more likely the result of the small sample.



When analysing GAV-based management fee rates by target sector, it can be seen that multi-sector funds have higher fee rates than funds investing in only one property sector. Of the single sector funds, retail funds report higher fee rates than funds investing in offices or industrial properties. Core single sector funds have very harmonised management fee rates, the difference between the upper and lower quartile is only 0.15 percentages, whereas for core multi-sector funds the inter-quartile range is 0.35. For value added funds the average single and multi-sector fee rates are more aligned (0.61% vs 0.64%). It is interesting to note that core office and retail funds have higher average management fee rates than value added office and retail funds.



Fund size does not always correlate with the fund management fee. The lowest fee rate in the sample is in funds with target GAV of €1500 – 1599 million (fee rate 0.49% based on GAV) while the larger funds (target GAV over €2000 million) have an average management fee rate of 0.69% of GAV. Surprisingly low fee rates can also be found in both core and value added funds with target GAV under €500 million (fee rate 0.53% of GAV). Fund structure (finite or infinite) or asset management arrangement (in-house or external asset management) does not seem to have a differentiating effect on the management fees. The GAV-based average fee range for both core and value added funds is 0.60% – 0.63% regardless of the fund structure or asset management arrangement.

Additional analysis of fund management fees can be found in Chapter 4: Reference data and the Management Fees and Terms Study Supplement 2011.

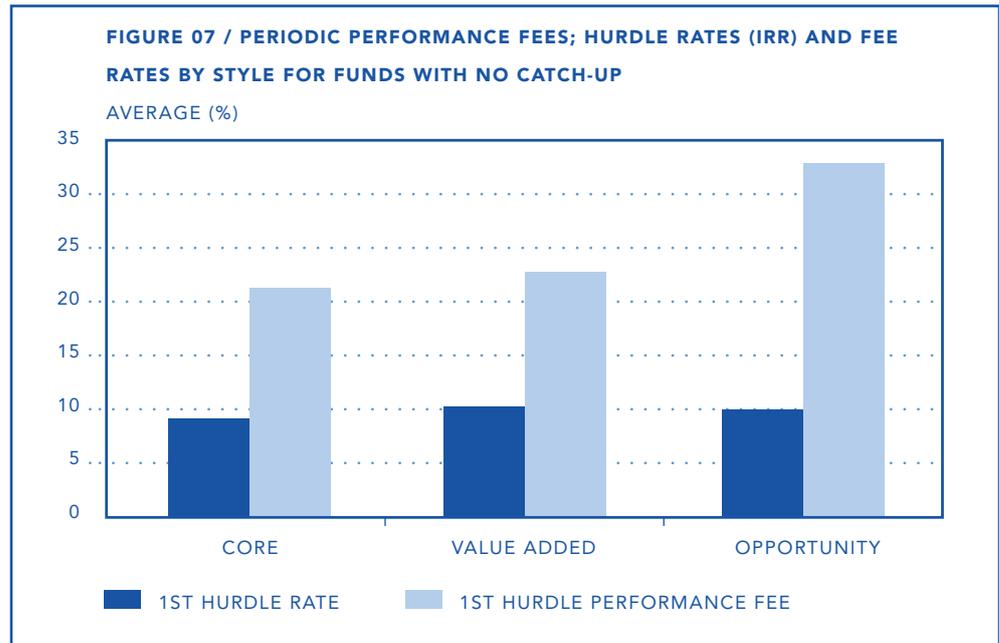
## 2.3 Performance fees

A performance fee is the fee payable out of the returns achieved by the fund to the fund manager where the fee is calculated, either during the life of the fund or at the termination of the fund, as a percentage of the fund's performance over a designated hurdle rate. Periodic performance fees are performance fees which are calculated during the life of the fund e.g. on a rolling basis or on a per deal basis.

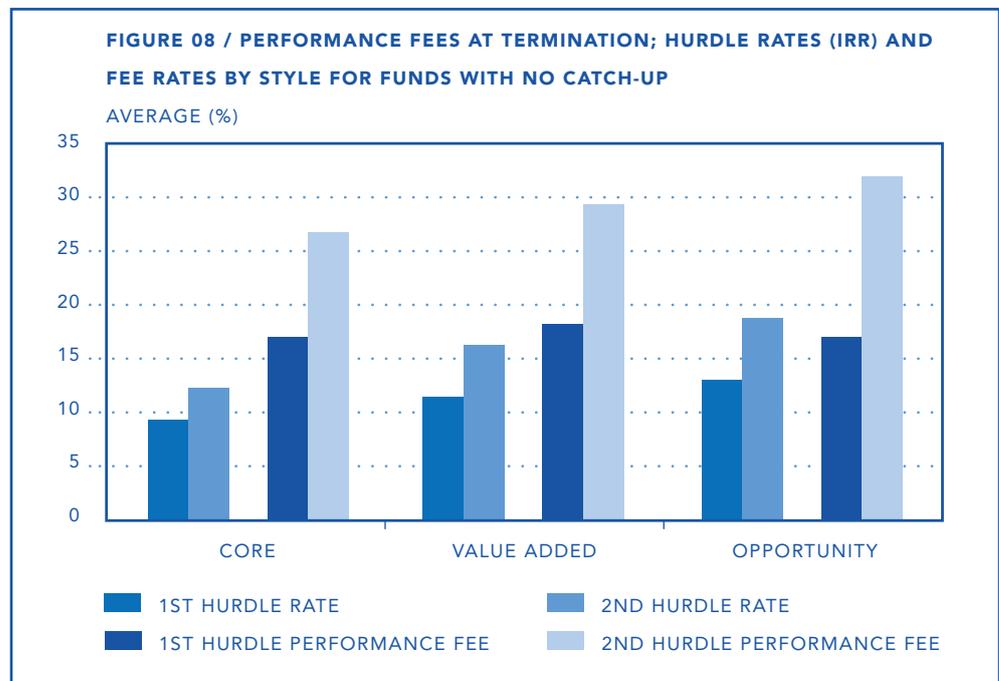
Performance fees are charged by 210 funds (81%) in the sample, the majority of these are value added or opportunity funds. Of the 50 funds which do not apply performance fees, 45 (90%) are core in style.

Periodic performance fees are applied by two-third of the funds in the sample. The other third apply performance fee only at the termination of the fund. IRR is clearly the most typical basis for hurdle rates reported by 41% of the funds. Another common basis is a return measure relative to a benchmark, reported by 22% of the funds. Additional analysis on performance fee reporting can be found in tables 17 – 23 in Chapter 4.

Hurdle rates of periodic performance fees do not seem to vary significantly across the different fund styles, ranging from 9.17% for core funds to 10.31% for value added funds. As can be expected, the highest performance fee rates can be found at opportunity funds (33%). For value added funds the average fee rate is 22.78% and for core funds 21.32%. The use of second hurdles is not common among funds applying periodic performance fees.

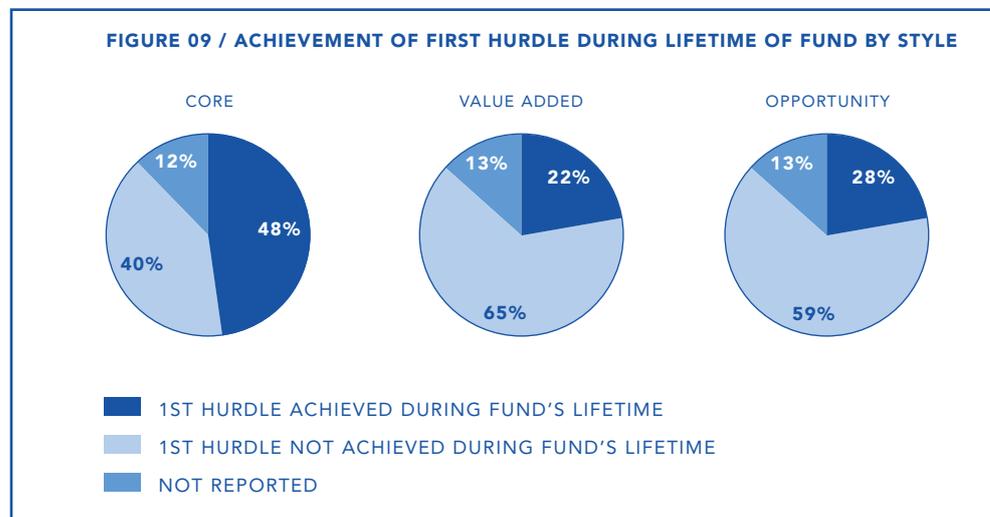


For funds that apply performance fees at termination only, the second hurdle rate is used much more often as 50% of core and value added funds have also a second hurdle and fee rate. Perhaps surprisingly, the first hurdle performance fee is higher for value added funds (18.17%) than for opportunity funds (17.0%). The difference between the first and second hurdle increases when moving from core funds to value added and opportunity funds. This also applies to the difference between the first and second performance fee, as can be expected.



When comparing periodic performance fees and fees at termination, the sample shows that while benchmarks are quite commonly used with periodic fees, IRR is the most commonly used basis for performance fees at termination. As can be seen in the graph

below, almost 50% of core funds have reached the first hurdle during the lifetime of the fund, while for value added and opportunity funds the figure is significant lower, 22 and 28%, respectively.



Clawback clauses are provisions by which investors may reclaim a portion of proceeds earned during the life of the fund, if there is lower than targeted performance at the end of the fund's life. Catch-up clauses are provisions for when investors' returns reach a predefined hurdle rate; this gives them an agreed level of preferred return. The fund manager enters a catch-up period, in which it may receive all or the majority of further returns until the return split determined by the carried interest agreement is reached.

Clawback and catch-up clauses are not very widely used by European non-listed funds. Only 14.3% of the funds applying performance fees have a clawback clause and 21.4% have catch-up clauses. For clawback clauses the most common way to operate is to hold 50% of the performance fee in an escrow account, which is then released at exit if the hurdle rate is achieved. The profit split for catch-up clauses varies mostly between a range of 50/50 to 70/30 and the catch-up rate is between 8% and 13%.

Additional analysis of performance fees can be found in Chapter 4: Reference data and the Management Fees and Terms Study Supplement 2011.

## 2.4 Other fees

In addition to a fund management fee funds can charge other annual management fees such as asset management fees, acquisition fees and disposal fees. The use of these other fees can be seen in Table 12 in Chapter 4.

Asset management fees can either be included in the fund management fee (60 funds) or charged separately (22 funds). Separate asset management fee rates based on GAV are lower (0.45%) than fees included and specified in the fund management fee, which are reported at 0.55%. The most common basis for the asset management fee is GAV, but property values and rents are also used as a basis. Asset management fee rates based on rents are reported at 2.51% on average whereas asset management fees based on GAV and property value are reported at 0.51% and 0.53%, respectively.

When looking at the relationship between asset management fees and fund management fees, the data shows that the average GAV-based fund management fee is 0.63% when the asset management fee is included and 0.52% when the asset management fee is not included in the fund management fee. This indicates quite a large total fee being charged when the asset management fee is charged separately from the fund management fee.

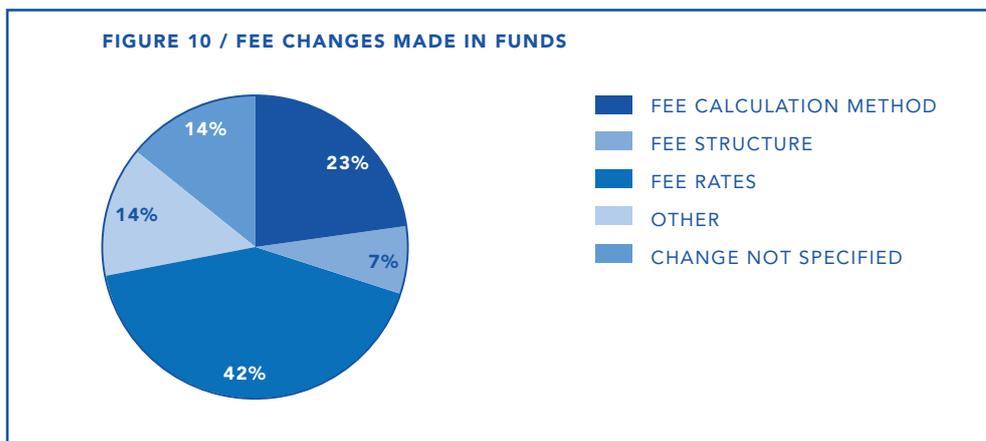
Acquisition fees are mostly based on the transaction price (63%), and the average rate for the 69 funds is 0.96%. Disposal fees are also commonly based on the transaction price but even more often on GAV, where the fee is slightly higher (0.94%) than the transaction-based fee (0.79%).

Additional analysis of other fees can be found in Tables 24-28 in Chapter 4: Reference data.

## 2.5 Other issues

The survey had also a section where managers were asked whether the fee structure has been changed lately or whether managers anticipate that the fee structure will be changed in the near future. The structure had been changed for 43 funds or 16.5% of the respondents. The changes affected mostly the management fee level, which was reported by 23 funds or 53.5% of the funds who had made changes. Other reported changes affected performance fees, fund structure, leverage or were not reported.

Fee rates were the most common component which had been changed (42%), mostly this meant lowering the management fee. Nearly a quarter of the changes affected the fee calculation method; some have changed the performance fee calculation methods, or then the coverage of the management fee had been changed to include more fund level costs, among other things.



Only nine funds anticipated the fee structure to be changed in the near future. The expected changes would most commonly affect management fees or performance fees. The main motivation for the changes is to re-align interests or to get fees in line with the market rates.

### 3 FEATURE STUDY – TOTAL EXPENSE RATIO

Each year the study focuses on a special topic related to fees. The number of funds that report a total expense ratio (TER) is very low and has been over the years. This year only 67 funds (38% of funds that have up-dated their data this year) report the use of a TER, which is slightly up from last year's rate, 29%. Of these only 45 funds (25%) calculate the INREV TER. This is an area of attention for INREV and as such this year's topic was designed to look more closely into the use, or non-use, of the INREV TER, any other TER or fund return reduction calculations. The aim of this section is to find out whether or not the current methods are sufficient for INREV members, or if other calculation methodologies are used or would be required. The research for this section is based on the survey results answered by fund managers and discussions with 18 investors.

Funds were asked about the reasons for not reporting an INREV TER, and over half of them (52%) reported that there was no demand from the investors' side (See Chapter 4, Table 10). Another reason for not reporting an INREV TER was that some funds apply other guidelines (BVI, AREF) or national legislation. This was reported by 42% of the participating funds. Some funds are planning to start reporting an INREV TER in the near future. A small minority, 4%, reported no internal demand and 2% did not have enough resources to complete the calculation.

Besides the INREV TER, a wide range of other calculation methods is used to estimate the reductions in the return of a fund. Compared to TER, these usually also include performance fees and/or property specific costs. Almost a quarter (23%) of funds reported that investors do not ask to see any estimate of the total 'leakage' of a fund, whereas 39% report that investors ask to see a TER.

When asked about the fund features that could explain the difference between funds' total 'leakage', fund managers see style as the most influencing feature, reported by 12% of the funds. All of the other features listed (structure, size, lifecycle, target sector, target country) were seen to have an impact on the leakage.

The discussions with investors revealed that the usefulness of a TER for them depends on the strategy, focus and size of the fund. The expenses of a fund are more important in core funds with a lower expected return. Having said this, the results of this year's survey are showing a different picture with a higher percentage of value added funds (92%) reporting a TER than core funds, of which less than half report a TER.

There were several issues with the current INREV TER mentioned by both fund managers and investors which affected, or even prevented the calculation of it. One of the main issues was the lack of clear standardisation resulting in fund managers being reluctant to provide an INREV TER.

Investors mentioned that a TER is commonly used during the due diligence process, e.g. a forward-looking TER, but that it can lose its significance due to the large amount of information which is collected at that point. Hardly any of the investors ask for a TER after the due diligence process and once they are invested in the funds. The calculation of a forward-looking TER is based on estimated figures and therefore subject to changes and subjective assumptions. Another issue is the calculating the INREV NAV, which seems to be the most challenging part of the INREV TER calculation, leaving still too much room for different interpretations. As such managers have concerns how their INREV TER relates to the market and their competitors' TERs which might not include all the same items and therefore the comparison would be unfair.

As TERs can vary significantly between the years and over the life-cycle of a fund, an opinion was raised in the discussions that TER could be calculated over a five year period or over the life of the fund, since a one year TER may show an unfair figure.

The survey results show that other 'leakage' measures funds are providing to investors include tax leakage, gross to net model, gross to net IRR, management expense ratio, non-recoverable cost percentages as a percentage of income and net cash generated. Investors themselves mentioned that some calculate TER according to their own definitions, since getting data from fund managers is sometimes difficult.

Fund 'leakage' measures are most commonly used by funds for their investor communication, reported by 36% of the funds. A small minority, 9% of the funds, use these measures to compare their funds with competitors' real estate funds. Some fund respondents also make comparisons in-house and between funds investing in different asset classes.

Investors hold some diverse opinions whether TER is needed for comparisons with other asset classes or not, partly reflected by the investors' background, i.e. multi-assets investor or true real estate investors e.g working in dedicated asset class teams.

Those who do not see comparing real estate funds' TER with other asset classes as an important feature would prefer a full-inclusive TER to compare only property investment funds. In that case, REER (Real Estate Expense Ratio) was seen to be a more comparable figure than TER.

Despite the low use and difficulties with the calculations the INREV TER it is seen as a useful metric particularly for core funds, since the expenses of a fund are relatively more important in a fund with lower expected return. Across Europe more and more investors are required to show their funds' expenses making the need for a truly standardise use of the INREV TER even more important. The main priority for now is to improve the use of reporting standards and redefining the standards. In order to be useful for all styles, the different components of the INREV TER should be analysed in more detail and the fund style must be taken into consideration when interpreting the figures.

## 4 REFERENCE DATA

### 4.1 Total Expense Ratio

<b>TABLE 03 / TER REPORTING</b>		
	<b># FUNDS</b>	<b>% OF FUNDS</b>
REPORT TER TO INVESTORS	63	36.0
REPORT TER TO THIS STUDY BUT NOT TO INVESTORS	4	2.0
DO NOT REPORT TER	97	55.4
NO ANSWER REPORTED	11	6.3
<b>TOTAL</b>	<b>175</b>	<b>100.0</b>

<b>TABLE 04 / INREV TER REPORTING BY STYLE</b>								
	<b>CORE</b>		<b>VALUE ADDED</b>		<b>OPPORTUNITY</b>		<b>ALL FUNDS</b>	
	<b># FUNDS</b>	<b>% OF STYLE</b>	<b># FUNDS</b>	<b>% OF STYLE</b>	<b># FUNDS</b>	<b>% OF STYLE</b>	<b># FUNDS</b>	<b>% OF FUNDS</b>
REPORT INREV TER	22	48.89	12	92.31	7	77.78	41	61.19
REPORT INREV BACKWARD-LOOKING TER ONLY	20	44.44	12	92.31	6	66.67	38	56.72
REPORT INREV FORWARD-LOOKING TER ONLY	2	4.44	0	0.00	2	22.22	4	5.97
REPORT BOTH	0	0.00	0	0.00	1	11.11	1	1.49
REPORT TER TO THIS STUDY BUT NOT TO INVESTORS	4	8.89	0	0.00	0	0.00	4	5.97
REPORT NON-INREV TER ONLY	19	42.22	1	7.69	2	22.22	22	32.84
<b>TOTAL</b>	<b>45</b>	<b>100.00</b>	<b>13</b>	<b>100.00</b>	<b>9</b>	<b>100.00</b>	<b>67</b>	<b>100.00</b>

<b>TABLE 05 / BASIS OF BACKWARD-LOOKING INREV TER</b>		
	<b># FUNDS</b>	<b>% OF FUNDS</b>
REPORT BACKWARD-LOOKING INREV TER BASED ON GAV ONLY	3	8
REPORT BACKWARD-LOOKING INREV TER BASED ON NAV ONLY	15	38
REPORT BACKWARD-LOOKING INREV TER BASED ON BOTH	14	35
DO NOT REPORT A TER RATE TO THIS STUDY	8	20
<b>TOTAL</b>	<b>40</b>	<b>100</b>

**TABLE 06 / BACKWARD-LOOKING INREV TER RATES BY VEHICLE LIFE-CYCLE STAGE**

	INVESTING STAGE		MATURE STAGE		DISINVESTING		NOT REPORTED		ALL FUNDS	
	# FUNDS	AVG (%)	# FUNDS	AVG (%)	# FUNDS	AVG (%)	# FUNDS	AVG (%)	# FUNDS	AVG (%)
GAV	4	0.79	12	1.14	0	-	1	-	17	*
NAV	12	1.12	13	2.87	1	-	3	-	29	*

**TABLE 07 / BACKWARD-LOOKING INREV TER RATES BY STYLE**

	CORE		VALUE ADDED		OPPORTUNITY		ALL FUNDS	
	# FUNDS	AVG (%)	# FUNDS	AVG (%)	# FUNDS	AVG (%)	# FUNDS	AVG (%)
GAV	7	0.99	8	1.12	2	-	17	*
NAV	18	1.08	10	3.31	1	-	29	*

**TABLE 08 / BACKWARD-LOOKING INREV TER RATES BY TARGET COUNTRY**

	SINGLE COUNTRY FUNDS		MULTI-COUNTRY FUNDS		ALL FUNDS	
	# FUNDS	AVG (%)	# FUNDS	AVG (%)	# FUNDS	AVG (%)
GAV	8	1.00	9	1.16	17	*
NAV	15	1.84	14	2.14	29	*

**TABLE 09 / BACKWARD-LOOKING INREV TER RATES BY FUND STRUCTURE**

	FINITE		INFINITE		ALL FUNDS	
	# FUNDS	AVG (%)	# FUNDS	AVG (%)	# FUNDS	AVG (%)
GAV	11	1.10	6	1.05	17	*
NAV	12	3.14	17	1.17	29	*

**TABLE 10 / REASONS FOR NOT REPORTING INREV TER**

	# FUNDS	% OF FUNDS
NO DEMAND FROM INVESTOR SIDE	50	51.5
NO DEMAND INTERNALLY	4	4.1
NOT ENOUGH RESOURCES	2	2.1
OTHER REASONS	41	42.3
<b>TOTAL</b>	<b>97</b>	<b>100.0</b>

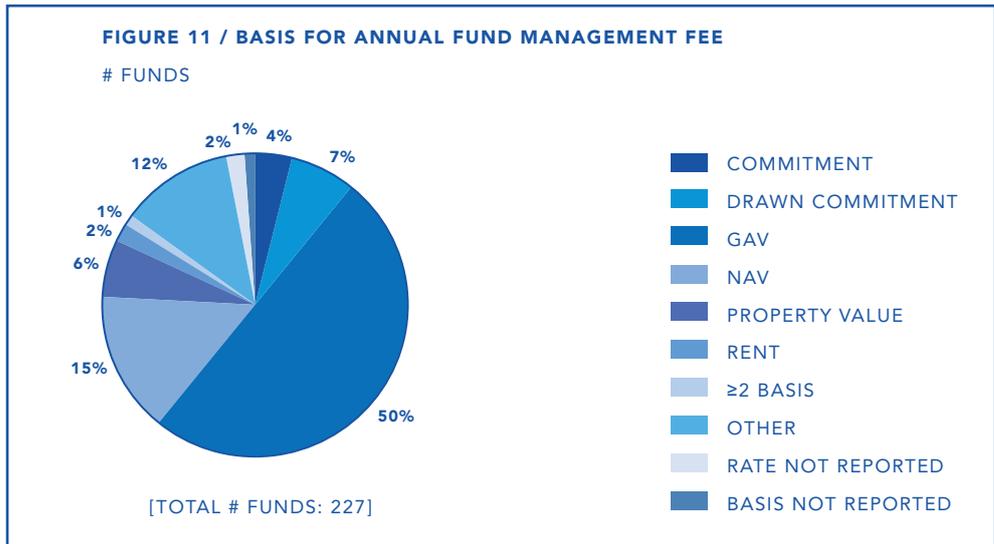
## 4.2 Management fees

TABLE 11 / FUNDS THAT CHARGE DIFFERENT FEES DURING AND AFTER THE COMMITMENT PERIOD								
	CORE		VALUE ADDED		OPPORTUNITY		ALL FUNDS	
	# FUNDS	% OF STYLE	# FUNDS	% OF STYLE	# FUNDS	% OF STYLE	# FUNDS	% OF FUNDS
REPORT SEPARATE COMMITMENT PERIOD	36	24.49	37	46.25	17	51.52	90	34.62
REPORT SEPARATE FEE STRUCTURE DURING COMMITMENT PERIOD	8	5.44	10	12.50	12	36.36	30	11.54
DO NOT REPORT SEPARATE FEE STRUCTURE DURING COMMITMENT PERIOD	28	19.05	27	33.75	5	15.15	60	23.08
DO NOT REPORT SEPARATE COMMITMENT PERIOD	111	75.51	43	53.75	16	48.48	170	65.38
<b>TOTAL</b>	<b>147</b>	<b>100.00</b>	<b>80</b>	<b>100.00</b>	<b>33</b>	<b>100.00</b>	<b>260</b>	<b>100.00</b>

TABLE 12 / ANNUAL FUND MANAGEMENT FEES REPORTED BY STYLE								
	CORE		VALUE ADDED		OPPORTUNITY		ALL FUNDS	
	# FUNDS	% OF STYLE	# FUNDS	% OF STYLE	# FUNDS	% OF STYLE	# FUNDS	% OF FUNDS
ACQUISITION FEES	71	48.30	41	51.25	6	18.18	118	45.38
ASSET MANAGEMENT FEES	58	39.46	38	47.50	7	21.21	103	39.62
COMMITMENT FEES	7	4.76	3	3.75	1	3.03	11	4.23
DEBT ARRANGEMENT FEES	9	6.12	4	5.00	4	12.12	17	6.54
DISPOSAL FEES	55	37.41	18	22.50	5	15.15	78	30.00
FUND MANAGEMENT FEES	125	85.03	74	92.50	28	84.85	227	87.31
PROJECT MANAGEMENT FEES	36	24.49	9	11.25	6	18.18	51	19.62
PROPERTY ADVISER FEES	22	14.97	11	13.75	3	9.09	36	13.85
DEAD DEAL FEES	12	8.16	6	7.50	6	18.18	24	9.23
<b>TOTAL</b>	<b>147</b>	<b>100.00</b>	<b>80</b>	<b>100.00</b>	<b>33</b>	<b>100.00</b>	<b>260</b>	<b>100.00</b>

**TABLE 13 / ANNUAL FUND MANAGEMENT FEE RATES AND BASIS BY STYLE**

	CORE		VALUE ADDED		OPPORTUNITY		ALL FUNDS	
BASIS	# FUNDS	AVG (%)	# FUNDS	AVG (%)	# FUNDS	AVG (%)	# FUNDS	AVG (%)
COMMITMENT	1	-	2	-	5	1.87	8	*
DRAWN COMMITMENT	1	-	8	1.61	6	1.58	15	*
GAV	70	0.61	45	0.62	1	-	116	*
NAV	27	0.77	7	0.93	0	-	34	0.80
PROPERTY VALUE	10	0.48	3	-	0	-	13	*
RENT	2	-	2	-	1	-	5	-
≥2 BASIS	1	-	0	-	1	-	2	-
OTHER	10	-	5	-	12	-	27	-
RATE NOT REPORTED	2	-	2	-	1	-	5	-
BASIS NOT REPORTED	1	-	0	-	1	-	2	-
NO FUND MANAGEMENT FEE	22	-	6	-	5	-	33	-
<b>TOTAL</b>	<b>147</b>		<b>80</b>		<b>33</b>		<b>260</b>	



**TABLE 14 / ANNUAL FUND MANAGEMENT FEE RATES, BASED ON GAV, BY VINTAGE AND STYLE**

	CORE		VALUE ADDED		ALL FUNDS	
VINTAGE	# FUNDS	AVG (%)	# FUNDS	AVG (%)	# FUNDS	AVG (%)
≤1999	4	-	2	-	6	0.63
2000 – 2001	5	0.73	2	-	7	*
2002 – 2003	8	0.71	3	-	11	0.77
2004	10	0.55	4	0.56	14	0.55
2005	10	0.68	10	0.60	20	0.64
2006	14	0.59	7	0.50	21	0.56
2007	10	0.59	10	0.79	20	0.69
≥2008*	9	0.52	5	0.54	14	0.52
YEAR NOT REPORTED	0	-	2	-	2	-
<b>TOTAL</b>	<b>70</b>	<b>0.61</b>	<b>45</b>	<b>0.62</b>	<b>115</b>	<b>0.62</b>

\* 2008> GROUP INCLUDES ONE FUND FROM 2009 AND ONE FUND FROM 2010

**TABLE 15 / ANNUAL FUND MANAGEMENT FEE RATES, BASED ON GAV, BY COUNTRY ALLOCATION AND STYLE**

	CORE		VALUE ADDED		ALL FUNDS	
COUNTRY ALLOCATION	# 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
<b>TOTAL</b>	<b>69</b>	<b>0.61</b>	<b>45</b>	<b>0.62</b>	<b>115</b>	<b>0.62</b>

**TABLE 16 / ANNUAL FUND MANAGEMENT FEE RATES, BASED ON GAV, BY TARGET SECTOR AND STYLE**

	CORE		VALUE ADDED		ALL FUNDS	
TARGET SECTOR	# FUNDS	AVG (%)	# FUNDS	AVG (%)	# FUNDS	AVG (%)
MULTI-SECTOR	25	0.64	22	0.71	47	0.68
INDUSTRIAL / LOGISTICS	6	0.44	4	0.60	10	0.50
OFFICE	15	0.62	5	0.46	20	0.58
RESIDENTIAL	6	-	1	-	7	0.54
RETAIL	16	0.64	11	0.58	27	0.61
OTHER SINGLE SECTOR	2	-	2	-	4	0.55
<b>TOTAL</b>	<b>70</b>	<b>0.61</b>	<b>45</b>	<b>0.62</b>	<b>115</b>	<b>0.62</b>

### 4.3 Performance fees

TABLE 17 / CHARGING OF PERFORMANCE FEES BY STYLE								
	CORE		VALUE ADDED		OPPORTUNITY		ALL FUNDS	
	# FUNDS	% OF STYLE	# FUNDS	% OF STYLE	# FUNDS	% OF STYLE	# FUNDS	% OF FUNDS
CHARGE PERFORMANCE FEES	102	69	76	95	32	97	210	81
DO NOT CHARGE PERFORMANCE FEES	45	31	4	5	1	3	50	19
<b>TOTAL</b>	<b>147</b>	<b>100</b>	<b>80</b>	<b>100</b>	<b>33</b>	<b>100</b>	<b>260</b>	<b>100</b>

TABLE 18 / REPORTING OF PERFORMANCE FEES BY FUND STRUCTURE						
	FINITE		INFINITE		ALL FUNDS	
	# FUNDS	% OF STRUCTURE	# FUNDS	% OF STRUCTURE	# FUNDS	% OF FUNDS
ONLY AT TERMINATION OF THE FUND	72	44	0	0	72	34.29
ONLY PERIODICALLY	53	33	45	94	98	46.67
BOTH	37	23	3	6	40	19.05
<b>TOTAL</b>	<b>162</b>	<b>100</b>	<b>48</b>	<b>100</b>	<b>210</b>	<b>100.00</b>

TABLE 19 / PERIODIC PERFORMANCE FEES, HURDLE RATES BASES BY STYLE								
	CORE		VALUE ADDED		OPPORTUNITY		ALL FUNDS	
	# FUNDS	% OF STYLE	# FUNDS	% OF STYLE	# FUNDS	% OF STYLE	# FUNDS	% OF FUNDS
IRR	20	26.32	21	55.26	15	62.50	56	40.58
TOTAL RETURN	12	15.79	7	18.42	5	20.83	24	17.39
IRR / TOTAL RETURN RELATIVE TO BENCHMARK	25	32.89	5	13.16	0	0.00	30	21.74
INCOME RETURN	3	3.95	0	0.00	0	0.00	3	2.17
OTHER	13	17.11	5	13.16	2	8.33	20	14.49
BASIS OF HURDLE NOT REPORTED	3	3.95	0	0.00	2	8.33	5	3.62
<b>TOTAL</b>	<b>76</b>	<b>100.00</b>	<b>38</b>	<b>100.00</b>	<b>24</b>	<b>100.00</b>	<b>138</b>	<b>100.00</b>

**TABLE 20 / PERIODIC HURDLE RATES (IRR) BY STYLE FOR FUNDS WITH NO CATCH-UP**

	CORE		VALUE ADDED		OPPORTUNITY		ALL FUNDS	
IRR	# FUNDS	AVG (%)	# FUNDS	AVG (%)	# FUNDS	AVG (%)	# FUNDS	AVG (%)
1ST HURDLE RATE	19	9.17	17	10.31	5	10.00	41	9.74
1ST HURDLE PERFORMANCE FEE	19	21.32	15	22.78	5	33.00	39	23.38
2ND HURDLE RATE	0	-	2	-	0	-	2	-
2ND HURDLE PERFORMANCE FEE	0	-	2	-	0	-	2	-

**TABLE 21 / HURDLE RATES (IRR) AT TERMINATION BY STYLE FOR FUNDS WITH NO CATCH-UP**

	CORE		VALUE ADDED		OPPORTUNITY		ALL FUNDS	
IRR	# FUNDS	AVG (%)	# FUNDS	AVG (%)	# FUNDS	AVG (%)	# FUNDS	AVG (%)
1ST HURDLE RATE	21	9.26	19	11.45	5	13.00	45	10.60
1ST HURDLE PERFORMANCE FEE	21	16.86	18	18.17	5	17.00	44	17.41
2ND HURDLE RATE	10	12.20	9	16.33	5	18.70	24	15.10
2ND HURDLE PERFORMANCE FEE	9	26.67	9	29.26	5	32.00	23	28.84

**TABLE 22 / APPLICATION OF CATCH-UP AND CLAWBACK CLAUSES**

	CATCH-UP CLAUSES		CLAWBACK CLAUSES	
	# FUNDS	% OF FUNDS	# FUNDS	% OF FUNDS
YES	30	14.3	45	21.4
NO	180	85.2	165	78.6
<b>TOTAL</b>	<b>210</b>	<b>100.0</b>	<b>210</b>	<b>100.0</b>

**TABLE 23 / ACHIEVEMENT OF FIRST HURDLE DURING LIFETIME OF FUND**

	CORE		VALUE ADDED		OPPORTUNITY	
	# FUNDS	% OF FUNDS	# FUNDS	% OF FUNDS	# FUNDS	% OF FUNDS
1ST HURDLE ACHIEVED DURING FUND'S LIFETIME	49	48.0	17	22.4	9	28.1
1ST HURDLE NOT ACHIEVED DURING FUND'S LIFETIME	41	40.2	49	64.5	19	59.4
NOT REPORTED	12	11.8	10	13.2	4	12.5
<b>TOTAL</b>	<b>102</b>	<b>100.0</b>	<b>76</b>	<b>100.0</b>	<b>32</b>	<b>100.0</b>

## 4.4 Other fees

<b>TABLE 24 / CHARGING OF ANNUAL ASSET MANAGEMENT FEE</b>	
	<b># FUNDS</b>
CHARGED SEPARATELY	22
INCLUDED IN FUND MANAGEMENT FEE	60

<b>TABLE 25 / ANNUAL ASSET MANAGEMENT FEE</b>		
	<b># FUNDS</b>	<b>AVERAGE (%)</b>
COMMITMENT	2	–
DRAWN COMMITMENT	3	–
GAV	27	0.51
NAV	1	–
PROPERTY VALUE	8	0.53
RENT	8	2.51
OTHER	7	0.77

<b>TABLE 26 / ASSET MANAGEMENT AND FUND MANAGEMENT FEES PAID TO MANAGER</b>		
	<b># FUNDS</b>	<b>AVERAGE (%)</b>
ASSET MANAGEMENT FEE RATE, WHEN:		
– IT IS INCLUDED IN THE FUND MANAGEMENT FEE	8	0.55
– IT IS CHARGED SEPARATELY	10	0.45
FUND MANAGEMENT FEE RATE, WHEN ASSET MANAGEMENT:		
– IT IS INCLUDED IN THE FUND MANAGEMENT FEE	27	0.63
– IT IS CHARGED SEPARATELY	10	0.53

<b>TABLE 27 / ACQUISITION FEES PAID TO MANAGER</b>		
	<b># FUNDS</b>	<b>AVERAGE (%)</b>
GAV	24	1.06
NAV	2	–
PROPERTY VALUE	8	0.94
TRANSACTION PRICE	69	0.96
OTHER	6	–

<b>TABLE 28 / DISPOSAL FEES PAID TO MANAGER</b>		
	<b># FUNDS</b>	<b>AVERAGE (%)</b>
DRAWN COMMITMENT	1	-
GAV	20	0.94
SALE PRICE	13	0.79
PROPERTY VALUE	2	-
≥2 MORE BASIS	2	-
OTHER	5	-

## APPENDIX 1

### Method

Data was gathered through a survey questionnaire sent to fund managers of non-listed European real estate funds in September 2011. Fee levels reported in the study are based on the general agreement with investors which can be found in the final fund documents. Fees are thus not based on special agreements with, for example, larger investors which are agreed in side letters.

Pre-filled questionnaires were sent to fund managers who had participated in previous studies with a request to check and update their data as well as answer some additional questions, mainly in regards to this year's special topic.

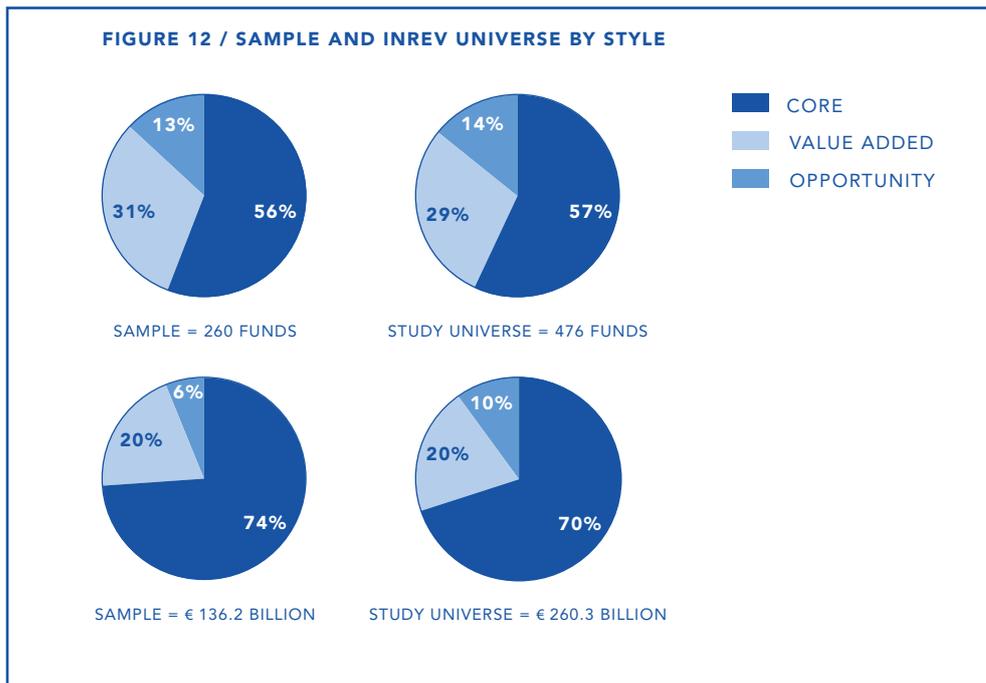
### Sample

The INREV Universe for this study consists of the 467 non-listed real estate funds listed in the INREV Vehicles Database (September 2011). Responses were also received from nine funds not currently listed in the Database, therefore increasing the INREV Universe to 476 funds with a total gross asset value (GAV) of €260.3 billion.

The 260 funds which participated in the study currently represent €136.2 billion GAV. This sample consists of 17 funds that contributed information for the first time this year, 158 funds that updated their information from the 2010 study and 85 funds that did not update their data this year but did update their data during the 2009 – 2010 studies.

Overall the sample covers 55% of the INREV Universe by number of funds and 52% by current GAV. Coverage by number of funds is highest for value added funds. Coverage in terms of GAV is the highest for core funds. The lowest coverage for both number of funds and GAV is for opportunity funds.

	<b>SAMPLE</b>		<b>INREV UNIVERSE</b>		<b>COVERAGE</b>	
<b>INVESTMENT STYLE</b>	<b># FUNDS</b>	<b>GAV (€BN)</b>	<b># FUNDS</b>	<b>GAV (€BN)</b>	<b># FUNDS</b>	<b>GAV (€BN)</b>
CORE	147	100.2	266	184.3	55%	54%
VALUE ADDED	80	27.3	135	50.8	69%	54%
OPPORTUNITY	33	8.8	66	25.3	50%	35%
<b>TOTAL</b>	<b>260</b>	<b>136.2</b>	<b>476</b>	<b>260.3</b>	<b>56%</b>	<b>52%</b>



**TABLE 30 / DEVELOPMENT OF THE SAMPLE AND INREV UNIVERSE**

	# FUNDS		COVERAGE
	SAMPLE	INREV UNIVERSE	%
2005 SPRING	116	300	38.70
2005 AUTUMN	160	345	46.40
2006	184	406	45.30
2007	160	449	35.60
2008	243	489	49.70
2009	268	486	55.10
2010	284	479	59.30
2011	260	476	54.62

## Data validation

In 2011 20 funds were approached for data validation. Data was validated by sending a summary of responses from selected funds to current investors in these funds who were chosen in cooperation with the fund manager. A copy of the relevant sections of the fund’s annual reports was also accepted as a means of validating data. Including the validated funds from previous years the fees database now includes 47 validated funds managed by 25 companies. This represented 18% of the funds and 36% of the contributing fund managers in the study. The number of validated funds has decreased from last year, since some of the previously validated funds no longer have up-to-date data in the sample or have been terminated.

## Contributing companies\* in 2011

Aberdeen Asset Management  
AEW Europe  
Altera Vastgoed  
Amvest  
Apollo EU Real Estate Management II, L.P  
Aviva Investors  
AXA Real Estate Investment Managers  
BNL Fondi Immobiliari SGR  
BNP Paribas REIM  
Bouwfonds International Real Estate Fund Services Luxembourg S.a.r.l.  
BPT Asset Management A / S  
CapMan  
Catalyst Capital LLP  
CB Richard Ellis Investors  
Commerz Real Spezialfondsgesellschaft mbH  
Cordea Savills  
Cornerstone Real Estate Advisers  
Europa Capital LLP  
Exilion Capital Oy  
F& C REIT Asset Management and OFI REIM  
Fimit SGR S.p.A.  
GELF Management S.à r.l.  
Generali Immobiliare Italia SGR SpA  
Genesta Property Nordic  
Grosvenor Fund Management  
Heitman LLC  
Henderson Global Investors  
Horizon French Property Partnership Management Sàrl  
IBUS Asset Management BV  
Imorendimento  
ING Real Estate Investment Management  
Internos Real Investors  
INVESCO Real Estate GmbH  
Kristensen Properties A / S  
LaSalle Investment Management  
Legal & General Investment Management  
Meyer Bergman  
MGPA  
Niam AB  
Nordic Real Estate Partners  
NORFIN  
Orco Property Group  
Palmer Capital Partners  
Pradera – AM PLC  
Prelios SGR S.p.A.  
ProLogis Management II S.a.r.l.  
Quantum Immobilien Kapitalanlagegesellschaft mbH  
RREEF Investment GmbH  
Schroder Property Managers (Jersey) Limited  
Scottish Widows Investment Partnership  
Sierra Asset Management – Gestão de Activos SA

SPF – Sierra Portugal (100% subsidiary of Sonae Sierra)  
Standard Life Investments  
Sveafastigheter  
Threadneedle  
Valad Property Group  
Warburg – Henderson Kapitalanlagegesellschaft für Immobilien mbH, Hamburg  
Vesteda Groep bv

\* The list includes only those fund managers that updated their information this year and have permitted the publication of their name. In total the report is based on the data provided by 73 fund managers.

## APPENDIX 2

## Example Total Expense Ratio calculation

<b>TABEL A01 / TOTAL EXPENSE RATIO CALCULATION</b>		
An example of a calculation of a TER:		
<b>CLASSIFICATION</b>	<b>FEE / EXPENSE ITEM</b>	<b>AMOUNT (€)</b>
Management Fees	Fund Management Fee	3,903,387
	Asset Management Fee	8,249,511
Fund Expenses	Valuers Fees	720,156
	Audit Fees	76,500
	Bank Charges	33,337
	Other Administration Expenses	305,498
<b>SUBTOTAL EXPENSES (MANAGEMENT FEES, FUND EXPENSES)</b>		<b>13,288,389</b>
Property-specific Costs	Amortisation of acquisition costs	475,312
	Dead deal costs (related to specific property)	8,657
	Marketing expenses	999,428
	Staff costs	769,669
	Non-recoverable costs	33,421,784
	Property management fees	1,359,189
<b>TOTAL EXPENSES (MANAGEMENT FEES, FUND EXPENSES, PROPERTY COSTS)</b>		<b>50,322,428</b>
Exempt	Interest on Bank Loan	73,302,793
Performance Fees	Performance Fee Accrued	47,100,966
Performance Fee structure	(Details of structure should be provided here)	
Average Net Assets	Average of Opening and Closing NAV	1,465,411,000
Average Gross Assets	Average of Opening and Closing GAV	2,731,150,000
<b>Total Expense Ratio</b>	Subtotal Fund Expenses / Average NAV	0.91%
	Subtotal Fund Expenses / Average GAV	0.49%
<b>Real Estate Expense Ratio</b>	Total Expenses / Average NAV	3.43%
	Total Expenses / Average GAV	1.84%
<b>Performance Fees Charged</b>	Performance Fee / Average NAV	2.93%
	Performance Fee / Average GAV	1.72%

SOURCE: INREV FEE METRICS GUIDELINES

## APPENDIX 3

### Fees glossary

*This glossary is structured in line with the INREV Fee Metrics Guidelines.*

*For more information see INREV Guidelines at [www.inrev.org](http://www.inrev.org)*

#### 1. MANAGEMENT FEES

**Various fees paid to the fund managers for their management services, apart from third party services which managers recharge to the fund.**

##### ACQUISITION FEES PAID TO MANAGER

Acquisition and disposal fees are the fees that are charged to a *fund* on the acquisition and disposal of assets.

##### Notes

- The acquisition and disposal fees are either apportioned between the fund manager and asset manager or paid to the asset manager alone.
- The fees can either be a percentage of the gross value of the asset or a fee that is paid at the discretion of the fund manager.
- Acquisition fees are not typically charged in the case where a property developer / operator contribute assets to a fund.

In some funds, the fund manager does not charge additional fees for acquisition and disposals. However, fees for external advisors (i.e. property agents) are passed onto the fund at cost.

##### ASSET MANAGEMENT FEES

A charge paid to a fund's manager for their services to manage the assets on behalf of the *fund*.

##### Notes

Asset management fees generally cover services such as:

- strategic input and production of asset level business plans;
- management of assets including development and refurbishment;
- appointment of third party service providers; and
- reporting to the fund manager.

The asset management fee is generally a fixed percentage of NAV or GAV. In some circumstances, a manager will charge a development fee which can be a percentage of costs, or costs plus land value. There is generally a minimum development fee per project. Where the manager is also responsible for asset management, there will usually be a single fund management fee.

##### COMMITMENT FEES

A commitment fee is a charge to investors on undrawn committed capital for the duration of the commitment period.

##### Note

These fees are charged instead of acquisition fees and enable the fund manager to employ the required level of resources during the acquisition phase without being subject to undue pressure to invest.

#### DEBT ARRANGEMENT FEES PAID TO MANAGER

A fee paid to the manager for its services for arranging debt for asset purchases or refinancing. This fee would be in addition to any arrangement fees paid to debt providers.

#### DISPOSAL FEES PAID TO MANAGER

See 'Acquisition fees paid to manager'.

#### FUND MANAGEMENT FEES

A charge paid to a fund's manager for their fund management services to the fund.

##### Notes

Fund management fees generally cover services such as:

- managing the fund level structure;
- arrangement of financing;
- fund administration;
- fund reporting; and
- investor relations.

The fund management fee is generally a fixed percentage of NAV or GAV.

#### PROJECT MANAGEMENT FEES – STRATEGIC MANAGEMENT ADVICE

A fee paid to the fund manager for its strategic advice on project management during the life of the fund.

#### PROPERTY ADVISOR FEES

A fee paid to the fund manager for strategic property advice.

#### DEAD DEAL COSTS /REJECTED INVESTMENT PROJECT COSTS

A fee paid for work undertaken for projects which are later rejected by the fund's investment committee.

Dead deal costs can be classified either as management fees, fund expenses or property specific costs depending on their nature. External dead deal fees related to unsuccessful transactions are generally charged as Fund Expenses, whereas the dead deal costs charged by the manager are generally included under Management Fees. Finally, it is possible, although rarely, that certain costs related to the preparation of an asset for disposal could be charged to Property-specific Costs.

## 2. FUND EXPENSES

### **Expenses incurred predominantly at fund level to maintain the fund operations.**

#### ADMINISTRATION AND SECRETARIAL FEES

Fees (usually paid to a fund administrator) for maintaining fund book keeping and documentation and for administration support of the fund.

#### AMORTISATION OF FORMATION EXPENSES

A charge made to profit and loss account to reduce the value of the capitalised costs which are directly attributable to setting up of a fund (usually over five years as required by INREV NAV).

**AUDIT FEES**

Fees charged for audit services provided to the fund. Typically, these are costs passed through to the investor from the service provider so are a third party cost borne by the fund.

**BANK CHARGES**

Costs charged for banking services related to the fund.

**CUSTODIAN FEES**

Fees paid to a custodian bank (which is usually required by regulated funds especially in Luxembourg). These are usually a direct third party cost borne by the Fund.

**DEPOSITORY FEES**

Fees charged for bank depository services.

**DIRECTORS' EXPENSES /FEES**

Fees and expenses related to services provided by directors for their role in the governance of the fund.

**DISTRIBUTION FEES**

Distribution fee is a charge levied on investors when distributing the fund returns.

**LEGAL FEES (NOT PROPERTY-SPECIFIC)**

Fees charged for legal services to the fund not related to specific properties. This could be a service provided in-house or by a third party provider.

**MARKETING FEES**

Fees paid to the third parties for the service in promoting / marketing a fund as opposed to any specific project / property.

**OTHER /MISCELLANEOUS /SUNDRY EXPENSES**

Any other fund level expenses not falling under previous expense categories.

**PRINTING /PUBLICATION FEES**

Costs relating to the printing and publication of documents relating to the fund.

**PROFESSIONAL FEES**

Fees for the services of other professionals (e.g. tax advisers) not falling under other categories of fund expenses.

**REGULATORY /STATUTORY FEES**

Fees paid to regulatory authority (e.g. CSSF in Luxembourg). These are usually a direct third party costs borne by the fund.

**SET-UP FEES**

Set-up fees cover all costs that relate directly to the structuring and establishment of a viable fund.

**Note**

Set-up costs are those costs that are directly attributable to the setting up of the fund. These costs include, for example, legal fees, tax advisory fees, structuring fees and administration costs.

#### TAXES ON THE FUND

Taxes which are charged in relation to the funds' structure e.g. *taxe d'abonnement* but excluding capitalrelated taxes such as withholding tax.

#### TRUSTEE FEES

Fees paid (usually to trust companies) for administrating and managing the fund or certain fund activities.

#### VALUATION FEES

Fees for valuation services relating to existing portfolio of properties rather than as part of an asset purchase or disposal.

#### WIND-UP FEES

Fees relating to the termination of the fund but not including those related to the disposal of assets for this purpose.

### 3. PROPERTY-SPECIFIC COSTS

#### **Operating expenses directly attributable to the acquisition, management or disposal of a specific property.**

#### ACQUISITION /DISPOSAL RELATED COSTS

Costs related specifically to the acquisition and disposal of properties for the fund. These fees could be paid to the fund manger or be passed through to third parties, excluding any acquisition / disposal fees payable to the manager.

#### DEBT FINANCING FEES

Fee paid to the third party for arranging external financing of a fund. Commitment or facility fees paid to lenders or finance brokers may be borne out of this amount.

#### DEBT VALUATION FEES

Fee paid to a third party for valuation of the loans or other financial instruments.

#### DEVELOPMENT FEES

Fee paid to a fund manager for its services in supervising / project management the development of a property. Fees may be a proportion of total development cost / capital expenditure.

#### LETTING AND LEASE RENEWAL FEES

Fee paid to a fund manager for its services in supervising the letting or re-letting of a property.

#### MARKETING OF VACANT SPACE

Fees paid to the fund manager to market available space in the portfolio.

#### PROPERTY INSURANCE

Expenses related to insuring properties within the fund's portfolio.

#### PROPERTY MANAGEMENT FEES

A charge paid to a property manager for managing the operations of individual assets within a fund.

##### Note

Property management fees generally cover services such as:

- collection of rents;
- payment of outgoings;
- maintenance including repair;
- provision of services, insurance and supervision of staff employed for services; and
- negotiations with tenants or prospective tenants.

#### SERVICE CHARGES SHORTFALL

An excess of property maintenance expenses over the expenses recharged to the tenants.

#### TAXES ON PROPERTIES, EXCLUDING TRANSFER TAXES THAT ARE NOT EMBEDDED IN NAV

Property taxes other than those reflected in the property valuation as transfer taxes.

### 4. PERFORMANCE FEES

**A fee payable out of the returns achieved by the fund to the fund manager.**

#### PERFORMANCE FEES

A performance fee is the fee payable out of the returns achieved by the fund to the fund manager where the fee is calculated, either during the life of the fund or at the termination of the fund, as a percentage of the fund's performance over a designated hurdle rate.

#### CARRIED INTEREST

A carried interest is equivalent to the share of a fund's profit that will accrue to the general partner.

### 5. INITIAL CHARGES

**Expenses directly associated with the launch of the fund.**

#### PLACEMENT FEES

The fee paid to join the fund, which is usually subtracted from the agreed equity amount. A fee paid to a placement agent may be borne directly by the manager.

#### SUBSCRIPTION FEES

A subscription fee is a charge levied on investors subscribing for units in a fund by the fund manager.

## 6. OTHER DEFINITIONS

### CATCH-UP

When investors' returns reach the defined hurdle rate, giving them an agreed level of preferred return, the fund manager enters a catch-up period, in which it may receive an agreed percentage of the profit until the profit split determined by the carried interest agreement is reached.

### CLAWBACK

Clawback is an arrangement in which either the investors / fund manager in a fund agree to use their prior dividends / performance fees received to, in the case of investors, cover any subsequent cash deficiencies for performance fees and, in the case of the fund manager, to cover poor performance over the entire life of the fund.

### HURDLE RATE

The hurdle rate is the annualised percentage return beyond which the outperformance of net investor returns are shared with the fund manager.

### PASS-THROUGH ITEM

An item for which the fund managers charges a fee but this amount is passed through to third party providers.

*Please note that more information on some of these definitions is available in the INREV Core Definitions paper. Please visit to [www.inrev.org](http://www.inrev.org) to download a copy.*

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