INREV

MANAGEMENT FEES & TERMS 2012 SNAPSHOT

Variety still exists among non-listed fund fee structures

- Total Expense Ratios (TER) are reported to investors by 41% of funds
- Two thirds of those funds reporting a TER do so according to INREV Fee Metrics guidelines
- The fund management fee is the most commonly charged annual fee applied by 86% of funds
- Charging performance fees at the termination of the fund has grown from 39% to 62% since the financial crisis in 2007

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The results of the ninth Management Fees and Terms study show that there is still a wide variety of different fees structures applied by fund managers in the European non-listed real estate funds industry but the use of INREV Total Expense Ratios (TER) continues to grow.

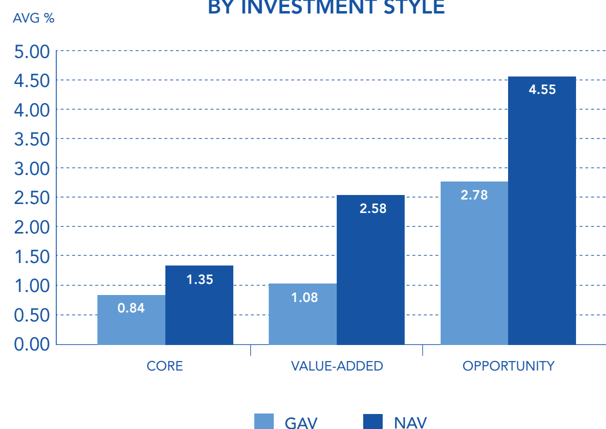
The study, which compares the fee structures and fee levels of funds to increase transparency on this topic, examines initial charges, management fees, performance fees, fund expenses and property-specific costs. In total 252 funds participated in the survey.

The use of the INREV TER continues to grow and is now used by 41% of the total study sample. TER expresses annual operating costs of a fund across one year as a proportion of average fund assets. Its use means that while there is a variety in fee bases, this calculation brings consistency and comparability for investors.

Two thirds of those funds reporting a TER do so according to INREV Fee Metrics guidelines with the remainder using another calculation. The INREV TER most commonly calculated is backward-looking and based on gross asset value (GAV). A few funds calculate both backward- and forward-looking TERs and use net asset value (NAV) in addition to GAV as a basis, which is in line with the INREV Guidelines.

Analysis by style shows that funds in the higher risk spectrum have a higher TER compared to funds with a lower risk strategy. Core funds report an average GAV based TER of 0.84% with 1.08% for value added funds and 2.78% for opportunity funds (Figure 1). The use of leverage inflates the NAV based TER calculations to more than double of the GAV based calculation in value added funds.

FIGURE 1: BACKWARD-LOOKING INREV TER BY INVESTMENT STYLE



All funds charge annual management fees with the fund management fee being the most commonly applied by 86% of funds. GAV is the most common base for the fund management fees and is used by 47% of the funds in the sample followed by NAV, which is used by 13%. The average GAV based fund management fee for core funds is 0.60% and 0.65% for value added funds.

With respect to country allocation, almost 60% of the funds that report management fees based on GAV are single country funds. These have an average management fee of 0.58%. Multi-country funds have an average management fee of 0.57%.

Performance fees are calculated and charged by all opportunity funds, 94% of value added funds and 72% of core funds. Charging performance fees only at the termination of the fund - versus during the lifetime of the fund - has become more popular among closed end funds since the financial crisis. This has grown from 39% to 62% when comparing funds with first closings before and after the global financial crisis in 2007.

For funds that charge periodic performance fees, the average hurdle rate stays within approximately one percentage point across the three styles. Counter intuitively, hurdle rates range from 9.32% for core funds to 10.37% for value added funds with opportunity funds in the middle at 9.75% (Figure 2). However, when it comes to the performance fee, the perceived risk associated to fund investing style influences the performance fee charged. Opportunity funds demand on average a seven percentage point higher performance fee than core funds. The spread between the performance fees for core and value added funds is significantly smaller at only 1.38 percentage points.

Funds that charge performance fees at termination of the fund more commonly report second hurdle rates. Core and value added funds have similar performance fees after achieving a second hurdle but for value added

THE REPORT ALSO INCLUDES:

- Information on initial charges, fund expenses and property specific costs
- A look at preferential rights for first close and large investors and co-investment opportunities for investors
- Update on the Fund of Funds Fees Study with information on 44 vehicles

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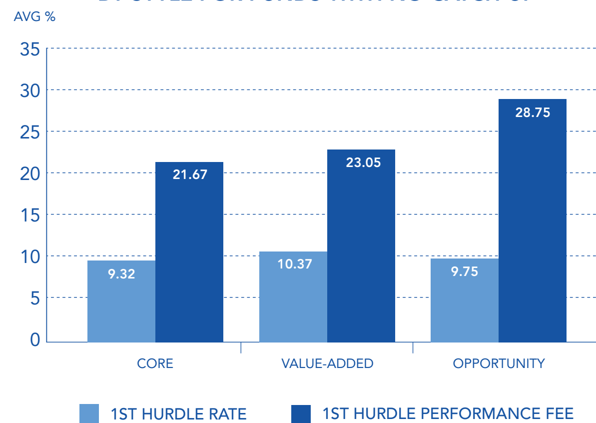
FIGURE 2: PERIODIC PERFORMANCE FEES; HURDLE RATES (IRR BASED) AND FEE RATES BY STYLE FOR FUNDS WITH NO CATCH-UP



funds the second hurdle is on average higher than for core funds. However, the number of core and value added funds that report having a second hurdle rate drops significantly compared with a first hurdle. The majority of opportunity funds that report a first hurdle at termination also report a second hurdle and on average charge more for both hurdles than core or value added funds.

Less than 15% of respondents apply catch-up clauses. Clawback clauses, although more common, were only applied by less than 20% of the funds. Both of these are predominately used by opportunity funds. Further examination of funds split in two vintage groups - pre financial crisis and post financial crisis - does not reveal a significant change in the application of catch-up or clawback clauses. The use of catch-up clauses has fallen only 2.9 percentage points while clawbacks are 4.3 percentage points more common.

This year's special topic of the report focused on preferential rights for first close and large investors, and co-investment opportunities offered to investors. Only 9% of the funds reported offering any special rights, and these are mostly fee discounts or advisory board seats offered to large investors. Offering preferential rights to first close investors was not very common. In addition, offering co-investment opportunities to investors was also reported by only a small proportion of funds.

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