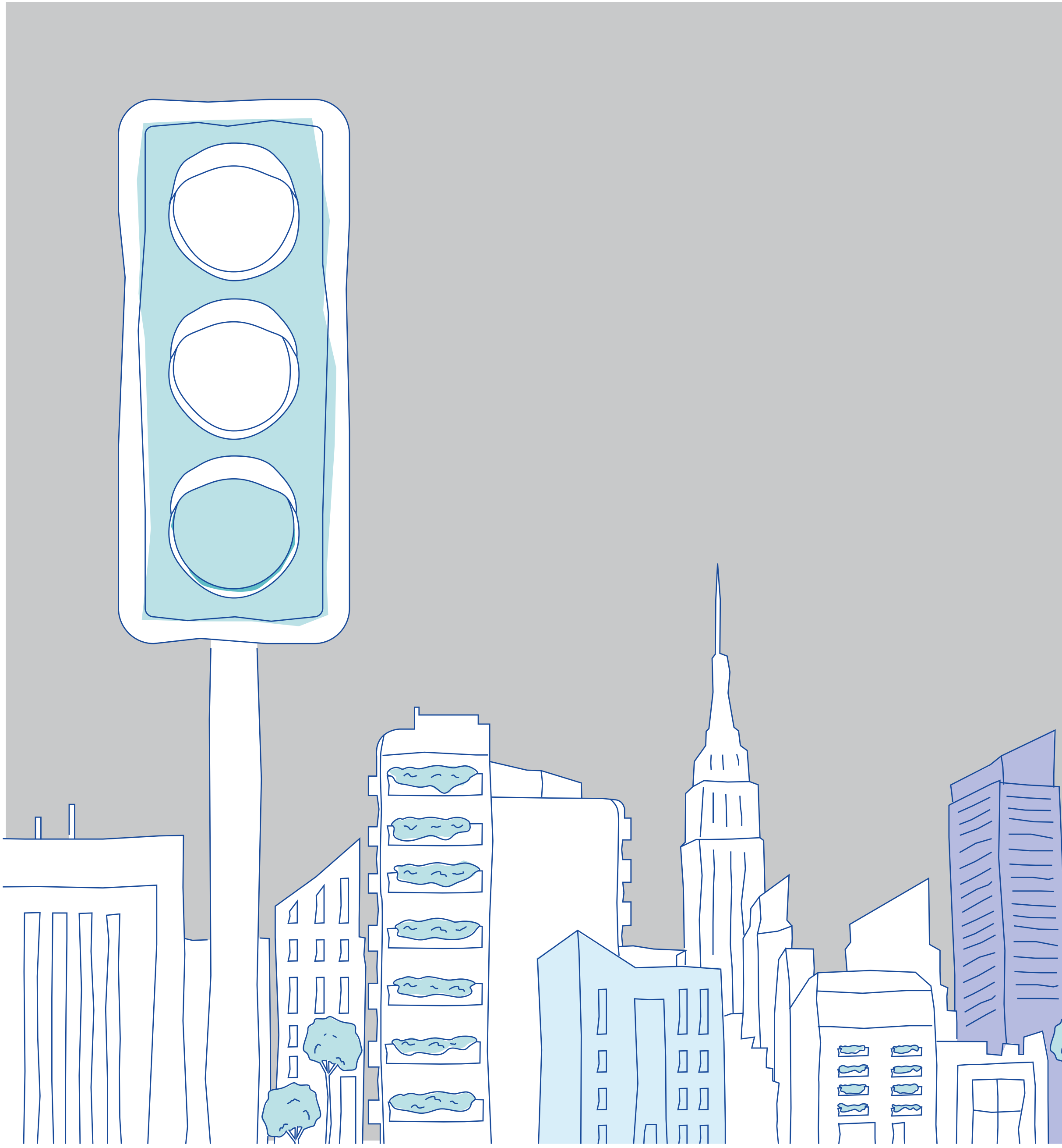


INREV Guidelines: Custom Build

Professional Standards

0. INREV GUIDELINES

0.1. INTRODUCTION TO INREV GUIDELINES

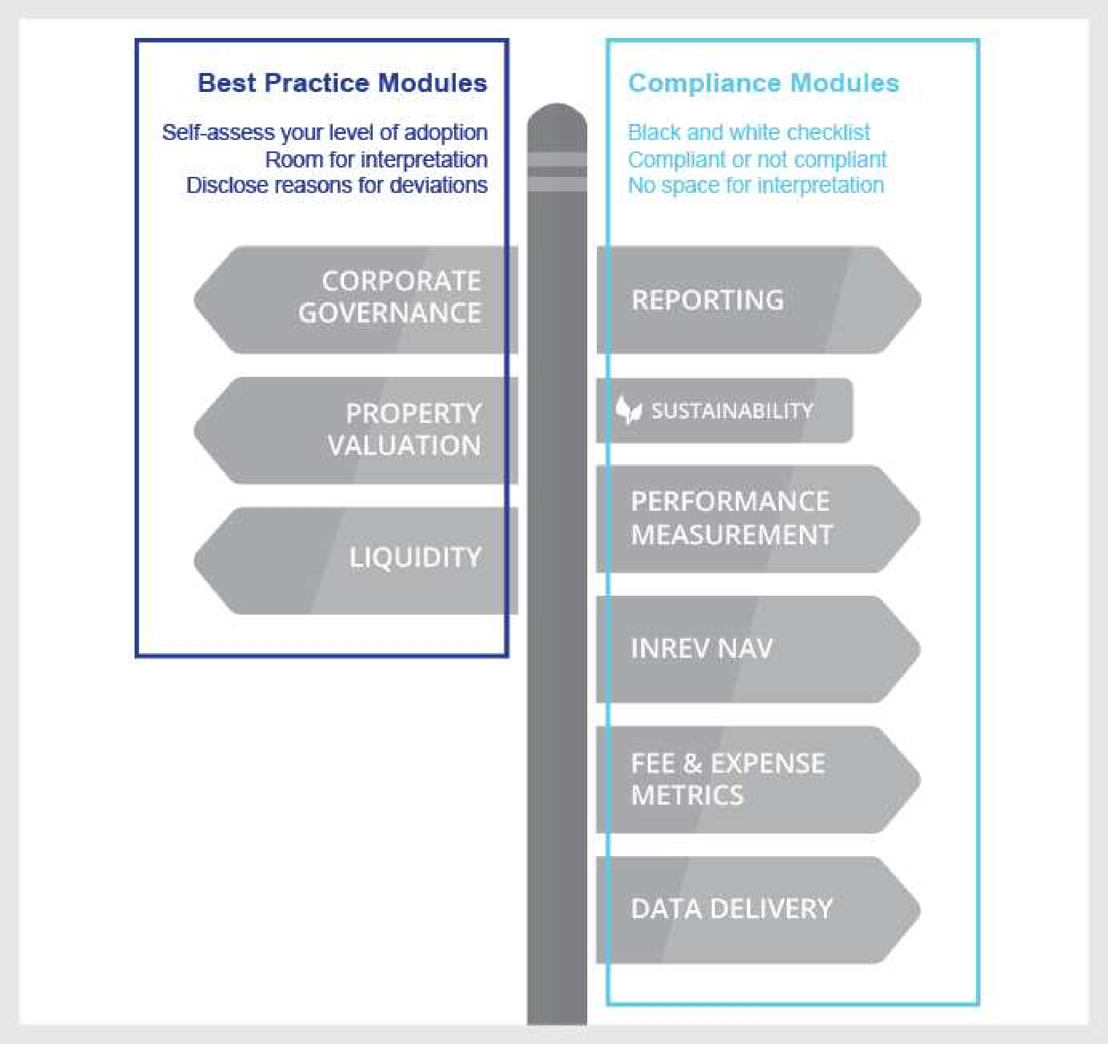
GL01 INREV aims to improve the transparency of and promote best practice and professionalism in the sector. INREV members have encouraged and strongly supported the establishment of industry guidelines over the past few years and developed an integrated set of principles and recommendations including tools and examples for governance and information provision for investors and investment managers and investors of non-listed real estate vehicles. The objectives of the INREV Guidelines are:

- to ensure that investors in non-listed real estate vehicles obtain consistent, understandable, easily accessible and reliable information that can be compared across investments and between different periods;
- to establish requirements and best practices within the industry and to help investment managers implement them in practice.

The INREV Guidelines are presented in an online format, allowing visitors to easily navigate and search through and view tailored guidelines for example for open end funds.

It is possible to download a full version of the Guidelines or to create a custom version module by module in a PDF format in our Guidelines section.

The INREV Guidelines are organised into eight modules.



The Guidelines are embedded in an Adoption and Compliance Framework which allows investment managers and investors to evaluate their implementation of the INREV Guidelines, module by module. To determine ways of implementation and add a hierarchy to the guidelines' requirements and best practices it is important to understand the underlying terminology:

Principles

Principles serve as a basis for the requirements and best practices.

Best practices

Best practices have been developed by INREV to enable investors and investment managers to design vehicle products with an effective corporate governance framework aligned with industry best practices and at the same time relevant to specific needs. Investment managers should evaluate themselves against such best practice frameworks and disclose their level of adoption.

Tools and Examples

Tools and examples are meant to assist in the application of the INREV Guidelines. Tools support market participants in assessing specific situations and in complying efficiently with INREV Guidelines and standards. Examples serve as a pattern to be followed by market participants to illustrate a certain standard.

Definitions

INREV definitions ('Global Definitions') were developed to achieve consistency of meaning and terminology within the non-listed real estate industry. Global definitions are being created via the collaboration with the NCREIF PREA Reporting Standards. They are gradually replacing the INREV Definitions.

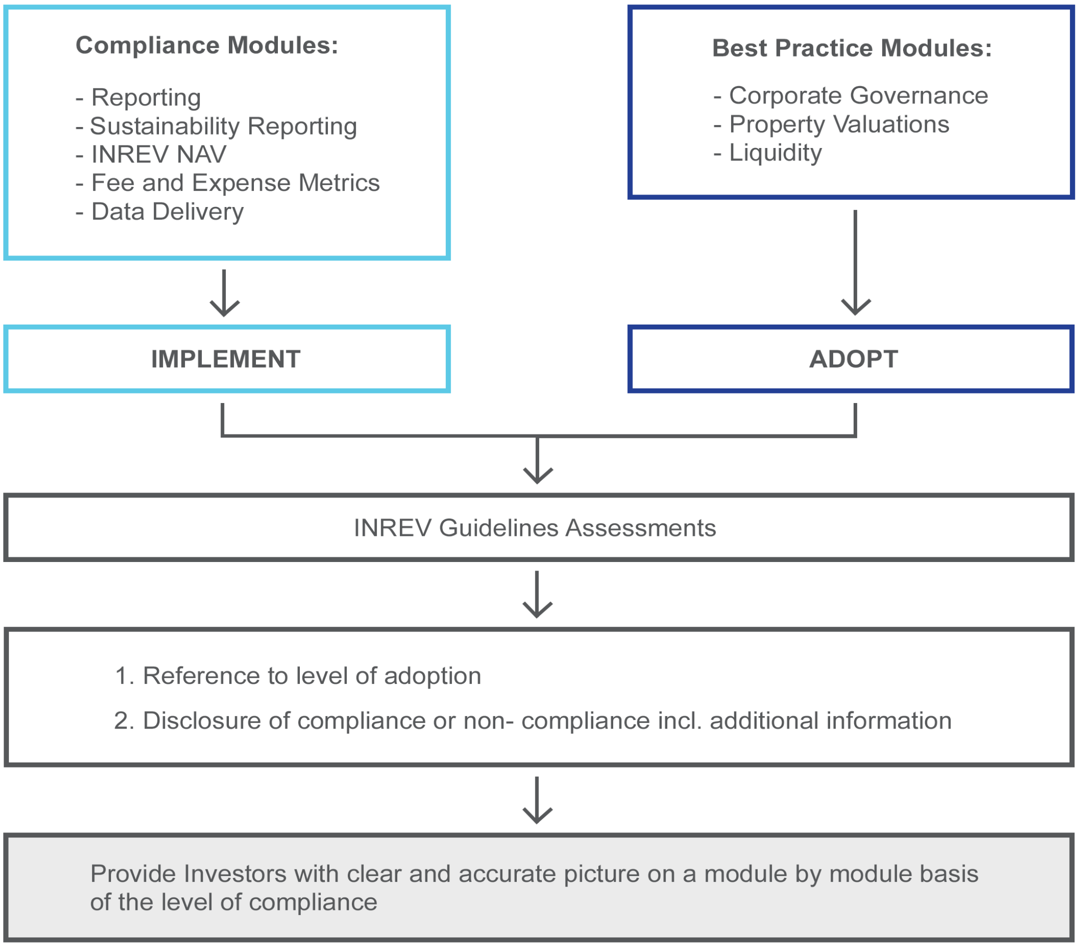
0.2. ADOPTION AND COMPLIANCE FRAMEWORK

GL02 The INREV Guidelines are designed for non-listed real estate vehicles for institutional investors. Since non-listed vehicles can differ considerably, INREV provides a modular approach to guide investors and managers in agreeing on an appropriate level of adoption of INREV best practices and in deciding on the level of compliance with INREV requirements for individual modules.

INREV's best practice frameworks developed for the modules of corporate governance, liquidity and property valuation, are qualitative in nature and individual vehicles will adopt them in different ways. INREV's objective is to ensure that investors are provided with a clear and accurate description of the corporate governance, liquidity and property valuation frameworks of a given non-listed vehicle. The INREV Guidelines Assessments have been developed to assess the compliance with these modules for managers as well as for investors. The assessment for the property valuation module will be added soon.

In contrast to best practices, INREV's requirements in the modules covering reporting, including sustainability reporting, performance measurement, INREV NAV, fee and expense metrics and INREV data delivery, are more technical in nature. These requirements leave no room for different interpretation: the requirements are either followed, or not. In addition, in the Reporting module, Performance Measurement module and Fee and expense module, some of the INREV Guidelines are recommendations rather than requirements. Although INREV would encourage members to follow such recommendations, they are not required to be followed in order to claim full compliance with the INREV reporting module. The INREV Guidelines Assessments include questionnaires to measure compliance with the Reporting module, the Sustainability reporting module, INREV NAV module and Fees and expense metrics module. The assessment for the Performance measurement module will be added soon.

The level of compliance can be assessed with the help of the INREV Guidelines Assessments. The online assessments include all the requirements that need to be followed to be in compliance with the guidelines, as well as providing an overview of the applicable recommendations. If all of the requirements for an individual module are fully implemented, the manager can disclose full compliance with the relevant module. If the requirements of a module are not fully met, the manager should disclose that the vehicle does not fully comply with that module of the INREV Guidelines and state the reasons for deviation including any additional information relevant to investors.



In all cases, investment managers should present investors with a clear and accurate picture of the level of compliance with the INREV Guidelines. The vehicle documentation should describe, on a module by module basis, the extent to which the vehicle aims to be in compliance with INREV Guidelines.

The level of adoption and compliance with the INREV Guidelines is a matter to be discussed during the launch process of the vehicle. INREV does not provide any assurance on the degree of adoption of best practices or on the level of compliance with requirements for individual vehicles.

The legal framework applicable to individual vehicles may require third party assurance on elements of compliance with INREV Guidelines, for instance where the legal NAV of the vehicle is the INREV NAV. We recommend that investors and managers discuss and agree the nature of such assurance as part of the launch process.

The INREV adoption and compliance framework is summarised below. The framework includes references to tools which can be used to assist in the application of the guidelines.

0.2.1. BEST PRACTICE MODULES

GL03

COMPLIANCE OBJECTIVE	SELF-ASSESSMENT PROCESS	DISCLOSURE	OVERSIGHT AND ASSURANCE

1. Corporate governance			
Managers should evaluate the level of adoption of INREV best practices using the Corporate Governance INREV Guidelines Assessment Tool.	Managers and investors should refer to and consider adopting INREV corporate governance best practices when designing and implementing an oversight framework for a specific vehicle.	Managers should describe in their annual report and vehicle documentation their corporate governance practices and the degree to which they adopt INREV best practices.	Management and non-executive officers should review the adequacy of the description of the corporate governance framework.
3. Property valuation			
Managers should follow the valuation best practices when determining the fair value of the property portfolio and prepare required disclosures to investors.	Managers should evaluate the level of adoption of INREV property valuation best practices.	Managers should describe their property valuation policies and the degree to which they have adopted INREV valuation best practices in their annual report and vehicle documentation.	Management and non-executive officers should review the basis and adequacy of disclosure to investors summarising the level of adoption with the property valuation best practices.
7. Liquidity			
Managers and investors should refer to and consider adopting INREV liquidity best practices when designing non-listed vehicle products.	Managers should evaluate, using the Liquidity Guidelines Assessment, the level of adoption of INREV liquidity best practices.	Managers should describe their liquidity policies and the degree to which they have adopted INREV best practices in their annual report and vehicle documentation.	Management and non-executive officers should review the basis and adequacy of disclosure to investors summarising the level of adoption with the liquidity best practices.

0.2.2. COMPLIANCE FRAMEWORK

GL04

COMPLIANCE OBJECTIVE	SELF-ASSESSMENT PROCESS	DISCLOSURE	OVERSIGHT AND ASSURANCE
2.1 Reporting			
Managers should make disclosure corresponding to all relevant INREV reporting requirements and recommendations as a component of their annual or interim reports to investors.	Managers should evaluate the level of compliance with INREV requirements and recommendations, using the Reporting Guidelines Assessment.	Managers should include all information corresponding to applicable INREV reporting requirements and recommendations in their annual and interim reports.	Management and non-executive officers should review the adequacy of the compliance disclosure to investors summarising the level of compliance with reporting requirements. Auditors could give negative assurance on the degree to which INREV reporting requirements and recommendations are complied with.
2.2 Sustainability Reporting			
Managers should make disclosure corresponding to all relevant INREV sustainability reporting requirements and recommendations as a component of their annual or interim reports to investors.	Managers should evaluate the level of compliance with INREV requirements and recommendations, using the Sustainability Reporting Guidelines Assessment.	Managers should include all information corresponding to applicable INREV sustainability reporting requirements and recommendations in their annual and interim reports.	Management and non-executive officers should review the adequacy of the compliance disclosure to investors summarising the level of compliance with sustainability reporting requirements. Auditors could give negative assurance on the degree to which INREV sustainability reporting requirements and recommendations are complied with.
4. Performance Measurement			

Managers should disclose all relevant INREV performance measures in accordance with performance measurement requirements.	Managers should evaluate the level of compliance with INREV requirements and recommendations.	Managers should include all information corresponding to applicable INREV performance measurement requirements and recommendations in their annual and interim reports.	Management and non-executive officers should review the adequacy of the compliance disclosure to investors summarising the level of compliance with performance measurement requirements. Auditors could give negative assurance on the degree to which INREV performance measurement requirements and recommendations are complied with.
5. INREV NAV			
Managers should calculate and disclose an INREV NAV in accordance with INREV requirements.	Managers should evaluate the level of compliance with INREV NAV requirements, using the INREV NAV Guidelines Assessment.	Managers should include the INREV NAV in their annual and interim reports along with required disclosures. Vehicle documentation should include the required information.	Management and non-executive officers should review the basis and adequacy of disclosure to investors summarising the level of compliance with INREV NAV requirements. Depending on circumstances, auditors can give assurance or negative assurance on the INREV NAV and level of compliance with related disclosure requirements.
6. Fee and expense metrics			

Managers should calculate and disclose fee and expense metrics in accordance with fee and expense metrics requirements.	Managers should evaluate the level of compliance with INREV fee and expense metrics requirements using the INREV Fee and Expense Metrics Guidelines Assessment.	Managers should include information corresponding to INREV fee and expense metrics requirements in their annual reports and in the vehicle documentation.	Management and non-executive officers should review the basis and adequacy of disclosure to investors summarising the level of compliance with fee and expense metrics requirements. Auditors could give negative assurance on the level of compliance with fee and expense metrics requirements.
8. INREV data delivery			
Managers should provide information to INREV in accordance with INREV data delivery requirements.	Managers should evaluate the level of compliance with INREV data delivery requirements.	Managers should provide INREV with all relevant information corresponding to INREV data delivery requirements.	Management and non-executive officers should review the basis and appropriateness of the compliance with INREV data delivery requirement disclosure to INREV.

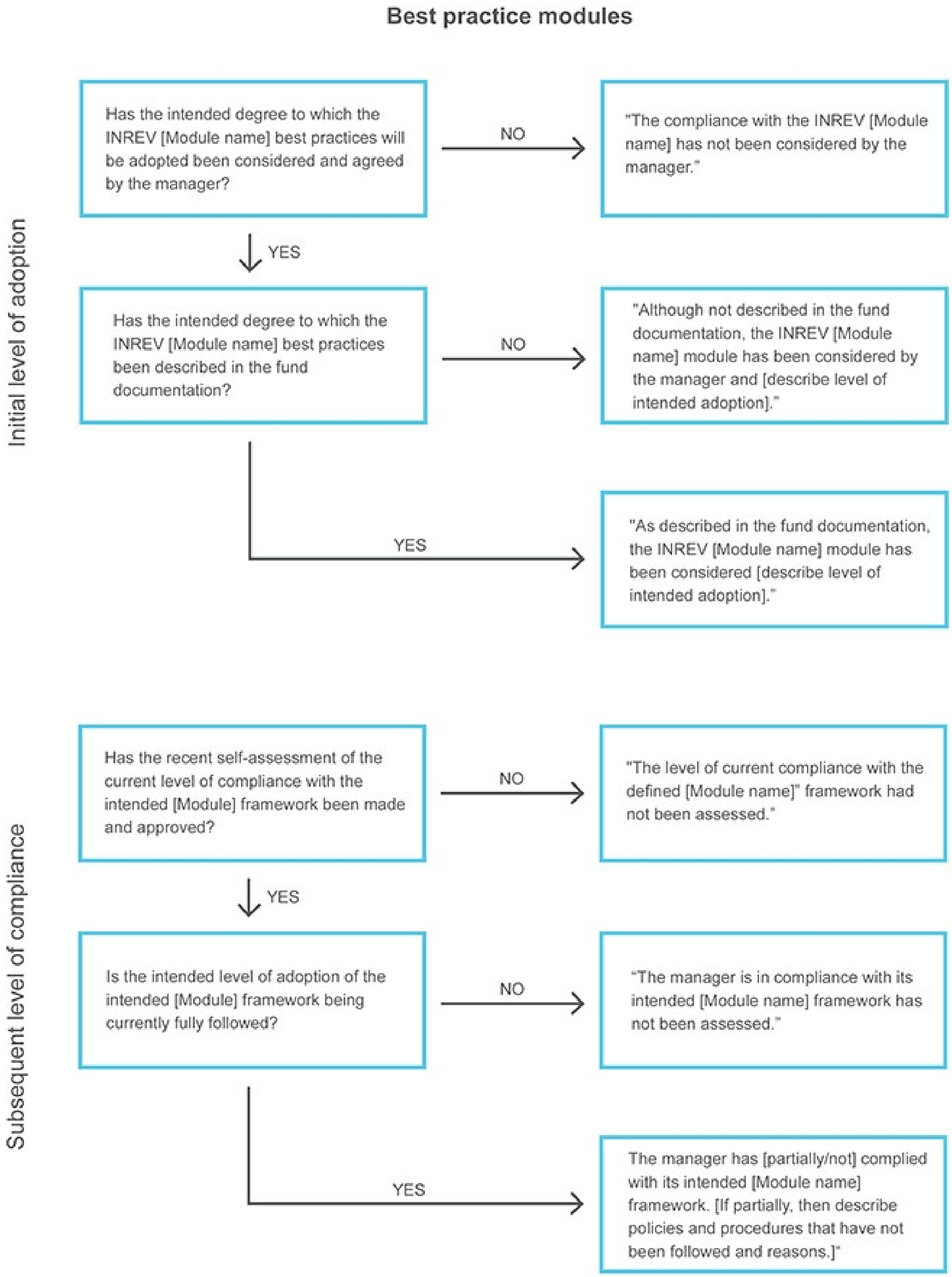
0.3. REVISION AND CHANGE PROCEDURE

GL05 Since the launch of the revised Guidelines in April 2014, INREV received a growing number of questions and comments from members and non-members regarding the interpretation, adoption and implementation of the Guidelines. A document below describes the change procedure for updates to the INREV Guidelines.

- **Download the INREV Guidelines Revision and Change Procedure**

0.4. TOOLS AND EXAMPLES

GL06 **Example - Statement of level of adoption of INREV Guidelines**



Management has assessed the degree to which the best practices of INREV's corporate governance, property valuation and liquidity frameworks have been adopted and followed by the vehicle. In addition, Management has assessed the level of compliance with INREV's reporting, sustainability reporting, performance measurement, INREV NAV and fee and expense metrics frameworks. The results of such assessment are summarised below:

MODULE	GUIDELINES	LEVEL OF ADOPTION OR COMPLIANCE

1	Corporate governance	Although not described in the vehicle documentation, the INREV corporate governance module has been considered by the manager. The intended framework partially complies with the INREV corporate governance best practices. All best practices have been adopted except for the fact that investors are not able to terminate the contract of the manager without cause. The vehicle formally assessed at the end of the financial year that it is currently following its intended corporate governance framework.
2.1	Reporting	Although not detailed in the vehicle documentation, the INREV reporting module has been considered by the manager. The manager has complied with all the requirements of the INREV reporting module.
2.2	Sustainability Reporting	Although not detailed in the vehicle documentation, the INREV sustainability reporting requirements have been considered by the manager. The results of the INREV Guidelines assessment show that the manager has complied with all the requirements of the INREV sustainability reporting module.
3	Property valuation	As described in the vehicle documentation, the INREV property valuation framework module has been considered. The manager has defined a valuation framework which fully adopts INREV valuation best practices. The level of current compliance with the defined valuation framework was last formally assessed during the financial year when it was determined that the vehicle was in compliance with all elements of the intended valuation framework.
4	Performance Measurement	The manager has disclosed all relevant INREV performance measures in accordance with the requirements of the INREV Performance Measurement module.
5	INREV NAV	The manager has complied with all the requirements of the INREV NAV module, except for the fact that assumptions used to determine the fair value of deferred taxes are not fully disclosed for confidentiality reasons.

6	Fee and expense metrics	As described in the vehicle documentation, the INREV fee and expense metrics framework module has been considered The manager has fully complied with the requirements and recommendations of the INREV fee and expense metrics module.
7	Liquidity	As described in the vehicle documentation, the INREV liquidity framework module has been considered. The manager has defined a liquidity framework which fully adopts INREV liquidity best practices. The manager formally assessed in at the end of the financial year that it currently follows the defined liquidity framework.
8	INREV data delivery	The manager is in compliance with the INREV data delivery module.

As described in the vehicle documentation the results of the INREV Guidelines Assessments should be disclosed in investor reporting.

Extract from results page of the INREV Guidelines Assessments:

Copy + paste the following statement into your annual and interim reports

INREV Guidelines Compliance Statement

The European Association for Investors in Non-Listed Real Estate Vehicles (INREV) published the revised INREV Guidelines in 2014 incorporating industry standards in the fields of Corporate Governance, Reporting, Property Valuation, Performance Measurement, INREV NAV, Fees and Expense Metrics, Liquidity and Sustainability Reporting. The Assessments follow these guidelines

INREV provides an Assessment Tool to determine a vehicles compliance rate with the INREV Guidelines as a whole and its modules in particular.

THE OVERALL INREV GUIDELINES COMPLIANCE RATE OF THE ANNE IS 90.8%, BASED ON 12 OUT OF 6 ASSESSMENTS

The compliance rate for each completed module is:

CORPORATE GOVERNANCE GUIDELINES IS 92.86%, BASED ON 49 / 49 QUESTIONS APPLICABLE.
REPORTING GUIDELINES IS 83.53%, BASED ON 249 / 268 QUESTIONS APPLICABLE.
INREV NAV GUIDELINES IS 95.12%, BASED ON 41 / 42 QUESTIONS APPLICABLE.
FEE AND EXPENSE METRICS GUIDELINES IS 94.12%, BASED ON 17 / 17 QUESTIONS APPLICABLE.
SUSTAINABILITY REPORTING GUIDELINES IS 90%, BASED ON 50 / 55 QUESTIONS APPLICABLE.
LIQUIDITY GUIDELINES IS 89.19%, BASED ON 37 / 39 QUESTIONS APPLICABLE.

6. FEE AND EXPENSE METRICS

6.1. INTRODUCTION FEE AND EXPENSE METRICS

FEM-I01 The objective of this module is to clarify the calculation and disclosure of the INREV fee and expense metrics: the Total Expense Ratio (“TER”) and the Real Estate Expense Ratio (“REER”). These form part of the standard measures included in the regular reporting of overall performance to investors in a vehicle. When analysed in the context of vehicle style, investment strategy and underlying risks, these fee and expense metrics will help those involved in the non-listed real estate market – both institutional investors and managers – to compare fee and cost structures between different non-listed vehicles and with other investment structures.

INREV aims to improve consistency in the presentation and categorisation of fees and costs when comparing vehicles from different domiciles. While it may not be possible to achieve complete consistency in breaking down expenses, the aim is to provide the greatest possible comparability while also maximising the availability of relevant information in fee and expense metrics. INREV fee and expense metrics have been designed to be straightforward, easy to understand and compatible with the vehicle’s normal reporting cycle.

Fee and expense metrics should reflect the nature of the expenses concerned, in line with the various types of services for which managers charge fees, and the basis on which they charge them.

It is important to analyse and explain the INREV metrics in their correct context. For instance, the TER for different vehicles should be compared taking account of historical and forecasted return.

At vehicle launch, investors have a particular interest in understanding its forward-looking or projected operating expenses compared to the amount of invested capital, as well as the potential impact of the cost structure on the overall investment return. Accordingly, INREV supports the principle of including forward-looking expenses in the vehicle’s launch documentation.

The principles and guidelines for reporting fee and expense metrics are listed below. Where appropriate, further explanation is provided to enhance the reader’s understanding. In addition, the Tools and Examples section includes a typical calculation of INREV fee and expense metrics.

6.2. PRINCIPLES

FEM-P01 **Comparability - Fees and costs should be consistently categorised and presented, to enable investors and managers to compare fee and cost structures between non-listed real estate vehicles.**

FEM-P02 **Transparency - There should be clear and appropriate disclosure of the fees and costs charged to the vehicle. Communication of all relevant information should be open, accessible and easy to understand.**

6.3. GUIDELINES

6.3.1. VEHICLE DOCUMENTATION FOR FEE AND EXPENSE METRICS FRAMEWORK

FEM01 **Vehicle documentation should include a statement of the level of compliance with this module and of the fee and expense metrics that are expected to be disclosed to investors by the manager.**

6.3.2. FEE AND EXPENSE METRIC REQUIREMENT

FEM02 **Fees and costs should be measured in line with the principles defined under INREV NAV and INREV GAV.**

FEM03 **Fees describe charges borne by the vehicle for services provided by the manager and costs describe charges to a vehicle by external service providers. Fees charged by the manager directly to their investors are not taken into account, with the exception of fees charged for services rendered to the vehicle.**

FEM04 **Where a single fee is charged to cover a variety of activities, the constituent elements will need to be identified, allocated to the appropriate cost category and disclosed appropriately.**

Historic Total Expense Ratio

FEM05 **An historic TER, including and excluding performance fees, based on both the time-weighted average INREV GAV and the time-weighted average INREV NAV of the vehicle over one year, should be provided annually.**

TER is expressed as a percentage of time-weighted average INREV NAV. However, the degree of leverage within a vehicle distorts the comparability of the measure when it is based on NAV. It is therefore also expressed as a percentage of INREV GAV.

The components of the numerator include the vehicle fees and costs for the reporting period, as defined below.

The components of the numerator include the vehicle fees and costs for the reporting period, as defined below.

Some fees, such as property-level fees charged by the manager, should not be included when calculating the TER; they do however form part of the REER (see below). If the manager charges a single fee covering both property and vehicle management activities, it should be split into its constituent elements.

TER should be disclosed both including and excluding performance fees, due to various structural methods of distribution, and each calculation should be separately disclosed.

The formulae for TER are:

$$\text{NAV TER before performance fees} = \frac{\text{Vehicle fees and costs (excluding performance fees)}}{\text{Time weighted average INREV NAV}}$$

$$\text{GAV TER before performance fees} = \frac{\text{Vehicle fees and costs (excluding performance fees)}}{\text{Time weighted average INREV GAV}}$$

$$\text{NAV TER after performance fees} = \frac{\text{Vehicle fees and costs (including performance fees)}}{\text{Time weighted average INREV NAV}}$$

$$\text{GAV TER after performance fees} = \frac{\text{Vehicle fees and costs (including performance fees)}}{\text{Time weighted average INREV GAV}}$$

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

Historic Real Estate Expense Ratio

FEM06 **An historic REER, based on the time-weighted average INREV GAV of the vehicle over one year, should be disclosed annually.**

While the TER relates to the operating costs borne by the vehicle, the REER captures only those costs that relate to the management of the real estate assets. The REER includes the property-specific costs described below.

The numerator should include the fees and costs associated with managing the properties, while the denominator should be the time-weighted average INREV GAV.

The formula for REER is:

$$\text{REER} = \frac{\text{Property fees and costs}}{\text{Time weighted average INREV GAV}}$$

Forward-looking ratios

FEM07 **Forward-looking ratios and metrics are useful items in the vehicle documentation. However, they are ‘theoretical’, in that they are based on estimated costs, anticipated numbers of assets, and assumptions such as growth rate, vehicle life and tax structuring. Requirements for forward-looking fee and expense metrics at the vehicle launch stage are described below. Once the vehicle has commenced operations, there should be no further requirement for forward-looking metrics as historic metrics based on historic data should then be available.**

Forward-looking total expense ratio

FEM08 **A forward-looking TER, based on both the time-weighted average INREV GAV and the time-weighted average INREV NAV for the first year when the vehicle is expected to be stabilised, should be provided in the documentation. These measures should be**

calculated following the same methodology as for an historic TER, although they will be based on estimates.

The forward-looking TER is calculated after performance fees, such that all vehicle costs as set out below are taken into account.

FEM09 **The forward-looking TER should be accompanied by disclosure of the estimates used to calculate this metric.**

Forward-looking real estate expense ratio

FEM10 **A forward-looking REER, based on the time-weighted average INREV GAV of the vehicle for the first year when the vehicle is expected to be stabilised, should be provided in the documentation. This should be calculated following the same methodology as for an historic REER, although it will be based on estimates.**

FEM11 **The forward-looking REER should be accompanied by a disclosure of the estimates used to calculate this metric.**

6.3.3. FEE AND EXPENSE METRICS CALCULATION

Expense ratio cost classification

FEM12 **Fees and costs should be classified consistently for the purpose of calculating the INREV fee and expense metrics.**

They should be classified as follows:

Vehicle fees included in the TER comprise:

- Asset management fees (certain services);
- Fund management fees;
- Performance fees (including carried interest);
- Wind-up fees.

Vehicle costs included in the TER comprise:

- Audit costs;
- Bank charges;
- Custodian costs;
- Dead deal costs;
- Other/miscellaneous vehicle costs;
- Other professional service costs;
- Transfer agent costs;
- Valuation costs;
- Vehicle administration costs;
- Vehicle formation costs (amortisation for the period).

The costs incurred by Special Purpose Vehicles (“SPVs”), which sit above the acquisition structure in the holding structure, are included in vehicle expenses. Costs of this nature that are charged to the acquisition vehicle should also be included in this category.

Property fees included in the REER are directly attributable to the management and the maintenance of specific properties. These fees comprise:

- Asset management fees (certain services not included in the TER);
- Internal leasing commissions;
- Property acquisition fees (amortisation for the period);
- Property management fees.

Property costs included in the REER are directly attributable to the management and the maintenance of specific properties. These costs comprise:

- External leasing commissions;
- Property acquisition costs (amortisation for the period);
- Other/miscellaneous/sundry costs;
- Property insurance costs;
- Property management costs;
- Repairs and maintenance costs;
- Taxes on property-related activities;
- Utilities costs (non-rechargeable portion).

Fees and costs excluded from the TER and REER comprise:

- Deferred taxes on property-related activities
- Development costs;
- Disposition costs;
- Fair value adjustments;
- Financing costs;
- Financing fees charged by managers;
- Gain/loss on currency exchange rates;
- Gain/loss on investment disposition;
- Goodwill write-off;
- Impairment of goodwill;
- Losses on disposal of subsidiaries;
- Payments related to financial derivatives;
- Project management fees;
- Provisions and allowances;
- Receivables write-off costs;
- Rent free/discounts;
- Securities handling charges;
- Share of losses of associates and joint ventures;
- Taxes on real estate transactions;
- Unwinding of discounts and effect of changes in discount rate on provisions.

6.3.4. FEE AND EXPENSE METRICS DISCLOSURES

FEM13 **The constituent elements of the metrics calculations should be disclosed annually.**

Disclosure table	% NAV	% GAV

TER before performance fees (note A)		
TER after performance fees (note B)		
REER (note C)	-	

The following notes clarify the components of each fee and expense metric and should also be read in conjunction with the classifications shown in the fees and costs matrix.

Constituent elements		**Currency**
Vehicle fees Vehicle costs Performance fee Property fees Property costs Time weighted average INREV NAV Time weighted average INREV GAV		

A. Includes vehicle fees and costs

B. Includes vehicle fees and costs, and any performance fees which have either been paid, accrued, or disclosed as a potential liability, and were included in the INREV NAV and INREV GAV

C. Includes property fees and costs

FEM14 **There should also be a clear disclosure of all the fees charged by the manager and the activity to which they relate. A disclosure table should be presented annually providing an analysis of all components of the fees (including any element of performance fee) earned by the manager or by any other affiliate or related party of the manager, for the management of the vehicle.**

Fees earned by the manager disclosures	**20XX Currency**	**20XX Currency**
Asset management fees		
Fund management fees		
Performance fees		
Wind-up fees		
Internal leasing commission fees		
Property management fees		
Financing fees		
Project management fees		
Property acquisition fees		

Property disposition fees		
Other related fees		
Total fees earned by the manager		

The fees included in this table should be accounted for in the financial statements for the financial reporting period concerned, in accordance with accounting conventions used by the vehicle.

6.4. TOOLS AND EXAMPLES

FEM-T01 **Related Tools & Examples**

- Example - Calculation and presentation of the INREV fee and expense metrics
- Fee and Expense Metrics Tutorial
- Example - List of fees and costs
- Example - Flow and charging of services to the vehicle and its investors

6.5. Q&A

6.5.1. HOW SHOULD THE INREV GAV BE CALCULATED FOR THE INREV TOTAL EXPENSE RATIO (TER) AND THE REAL ESTATE EXPENSE RATIO (REER)?

FEM-Q01 For the disclosure of the INREV TER and REER a calculation based on INREV NAV and INREV GAV is required.

In using/preparing the INREV TER and REER the question might arise about which components should be included in calculating the (INREV GAV) denominator of these ratios.

The fund manager should be transparent in its reporting to investors and explain the methodology and assumptions used for the calculation of the GAV, as required by both INREV NAV and Fee and Expense Metrics modules.

The Total Assets derived from Generally Accepted Accounting Principles (GAAP), including IFRS, could be used as a starting point in the calculation of the denominator of the ratios presented in the Fee and Expense Metrics module.

INREV suggests to start from the same accounting framework as it was used in calculating the INREV NAV, i.e., IFRS, local GAAP or other vehicle specific GAAP.
From there, the various adjustments should be included, or excluded, to come to an INREV GAV that can be used in the calculation of the INREV TER and REER.

In preparing this Q&A the guidance provided to the users should be read in light of the requirements included in the Fee and Expense Metrics module.

It should be noted that the INREV GAV used for the INREV TER and REER calculation might be different than an adjusted GAV used for performance measurement or other disclosure requirements. Additional adjustments could be included, or excluded, to come to an adjusted GAV to better suit a particular purpose.

The INREV GAV guidance overrides the accounting principles by making adjustments to the results arrived at by following the chosen GAAP.

INREV GAV adjustments require some material judgment by the manager. Consequently, it is important to include sufficient disclosures to allow investors to understand positions taken by the manager.

In this Q&A, direct links will be made to IFRS as a basis for calculating the required adjustments, and if needed, to other fair value concepts. If another basis of GAAP is used as a starting point, further adjustments may be required to align with IFRS for determining the INREV GAV. References to further guidance by INREV on the interpretation of fair value and provision accounting are also included.

For the use of calculating the INREV TER and REER, a vehicle GAV calculated in accordance with IFRS should be adjusted for the following items:

INREV GAV adjustment table:

	Total
GAV per the IFRS financial statements (Total Assets)	**x**
Fair value of assets	
a) Revaluation to fair value of investment properties	x/(x
b) Revaluation to fair value of self-constructed or developed investment property	x/(x)
c) Revaluation to fair value of investment property held for sale	x/(x)
d) Revaluation to fair value of property that is leased to tenants under a finance lease	x/(x)
e) Revaluation to fair value of real estate held as inventory	x/(x)
f) Revaluation to fair value of other investments in real assets	x/(x)
g) Recognition to fair value of indirect investments not consolidated	x/(x)
h) Revaluation to fair value of financial assets	x/(x)
i) Revaluation to fair value of construction contracts for third parties	x/(x)
j) Set-up costs	x/(x)
k) Acquisition expenses	x/(x)

Effects of the expected manner of settlement of sales/vehicle unwinding	
l) Revaluation to fair value of savings of purchaser’s costs such as transfer taxes	x/(x)
Other adjustments	
m) Goodwill	x(x)
n) Derecognition of financial derivatives	x/(x)
o) Derecognition of deferred tax assets	x/(x)
INREV GAV	**x**

Fair value of assets

a) Revaluation to fair value of investment properties

If a real estate vehicle uses the option to account for investment properties under the cost model, this adjustment represents the impact on GAV of the revaluation of the investment property to fair value under the fair value option of IAS 40.

The effect of straight-lining of lease incentives, rent guarantees, insurance claims (for damages, lost rent, etc.) should be taken into account when valuing the property at fair value in accordance with IAS 40 and SIC 15 to ensure that any asset is not double counted in the GAV.

b) Revaluation to fair value of self-constructed or developed investment property

If a real estate vehicle uses the option to account for self-constructed or developed investment property under the cost model, the adjustment represents the impact on GAV of the revaluation of the self-constructed or developed investment property to fair value under the fair value option of IAS 40.

c) Revaluation to fair value of investment property held for sale

Some investment properties may be classified as assets held for sale or as a group of assets held for sale. The carrying value of such investment properties depends on the chosen accounting treatment under IAS 40 (either fair value or cost).

The adjustment represents the impact on GAV of the revaluation of the investment property intended for sale, measured at fair value or cost, to the net realisable value (fair value less disposition costs).

d) Revaluation to fair value of property that is leased to tenants under a finance lease

Property that is leased to tenants under a finance lease is initially measured on a net investment basis and subsequently re-measured based on an amortisation pattern reflecting a constant rate of return.

The adjustment represents the impact on GAV of the revaluation of the finance lease receivable to fair value.

e) Revaluation to fair value of real estate held as inventory

Properties intended for sale and accounted for under IAS 2 (Inventory) are measured at the lower of cost or net realisable value in the financial statements. This adjustment represents the impact on the GAV of the revaluation of such properties to net realizable value (fair value less disposition costs). This adjustment should be included under the caption ‘revaluation to fair value of real estate held as inventory’.

Where the likely disposition date is more than one year from the date of the GAV computation, disposition costs should not be deducted from fair value in calculating this adjustment..

f) Revaluation to fair value of other investments in real assets

Under IAS16 other investments in real assets are normally accounted for at cost.

The adjustment represents the impact on GAV of the revaluation of other investments in real assets to fair value in accordance with the fair value assumptions under IFRS 13.

g) Recognition to fair value of indirect investments not consolidated

Indirect investments in real estate, such as investments in associations and joint ventures, have different accounting treatments and carrying values under IFRS. Such investments can be valued at cost, fair value or NAV.

The adjustment represents the impact on GAV of the recognition of indirect investments not consolidated and depending on the type of investment at fair value.

Under this adjustment, two situations can be identified:

1. Investments for which fees and costs are proportionally taken into consideration in the calculation of the fee and expense metrics

The adjustment represents the impact on GAV when including the proportional GAV of the associations and joint ventures based on the share that the vehicle holds.

In this case, all assets should be included proportionally for the share that the vehicle holds in the assets of the associations or joint venture. These assets should be valued in accordance with the guidance provided herein. All corrections should be taken into consideration and should be reflected, as applicable, when calculating the INREV GAV for the purpose of preparing the INREV TER and REER.

2. Investments for which fees and costs are not taken into consideration in the calculation of the fee and expense metrics

The adjustment represents the impact on GAV of the revaluation of indirect investments to fair value, if not yet accounted for at fair value. Reference is made to the INREV NAV guidelines, and more specifically to Q&A-4 of the **INREV NAV module**.

h) Revaluation to fair value of financial assets

Financial assets are generally measured at amortised cost, taking into account any impairments (when applicable). The adjustment represents the impact on GAV of the revaluation of financial assets to fair value, as determined in accordance with IFRS, if not yet accounted for at fair value.

i) Revaluation to fair value of construction contracts for third parties

Under IAS11, construction contracts for third parties are normally accounted for based on the stage of completion.

The adjustment represents the impact on GAV of the revaluation of construction contracts for third parties to fair value in accordance with the fair value principles of IFRS 13.

Adjustments to reflect the spreading of one-off costs

As described in further detail below, set-up costs and acquisition expenses should be capitalised and amortised. The rationale for these adjustments is to spread these costs over a defined period of time to smoothen the immediate impact of costs on the vehicle's performance. Furthermore, it is a simple mechanism to spread costs between different investor groups entering or leaving the vehicle's equity at different times. Such adjustments are taken into account in the calculation of the ratio numerator included in the Fee and Expense Metrics module.

Since the INREV GAV is primarily intended to facilitate comparability between different vehicles, the INREV approach is a simple but stable methodology where these capitalised costs are subject to an impairment test each time the GAV is calculated and therefore should always be recoverable over time.

j) Set-up costs

Under IFRS, vehicle set-up costs are charged immediately to income after the inception of a vehicle. Such costs should be capitalised and amortised over the first five years of the term of the vehicle.

The rationale for capitalising and amortising set-up costs is to better reflect the duration of the economic benefits to the vehicle. Furthermore these costs are taken into account in the calculation of the ratio numerator included in the Fee and Expense Metrics module.

When capitalising and amortising set-up costs, a possible impairment test should be taken into account every time the adjusted GAV is calculated when market circumstances change and it is not expected that the capitalised set-up costs can be recovered through the sale of units of a vehicle. For instance, when a decision is made to liquidate the vehicle or stakeholders no longer expect to recover the economic benefit of such capitalised expenses, they should be written off.

k) Acquisition expenses

Under the fair value model, acquisition expenses of an investment property are effectively charged to income when fair value is calculated at the first subsequent measurement date after acquisition. This results in the fair value of a property on subsequent fair value measurement being lower than the total purchase price of the property, all other things being equal.

Property acquisition expenses should be capitalised and amortised over the first five years after acquisition of the property.

The rationale for capitalising and amortising acquisition expenses is to better reflect the duration of the economic benefits to the vehicle of these costs. Furthermore these cost are taken into account in the calculation of the ratio numerator included in the Fee and Expense Metrics module. When capitalising and amortising acquisition costs, a possible impairment test should be taken into account each time the adjusted GAV is calculated when market circumstances change and it is not expected that the capitalised acquisition costs can be recovered through the sale of units of a vehicle. When a property is sold during the amortisation period, or is classified as held for sale, the balance of capitalised acquisition expenses of that property should be expensed.

Effects of the expected manner of settlement of sales/vehicle unwinding

l) Revaluation to fair value of savings of purchaser's costs such as transfer taxes

Transfer taxes and purchaser's costs which would be incurred by the purchaser when acquiring a property are generally deducted when determining the fair value of investment properties under IAS 40.

The effect of an intended sale of shares in a property-owning vehicle, rather than the property itself, should be taken into account when determining the amount of the deduction of transfer taxes and purchaser's costs, to the extent this saving is expected to accrue to the seller when the property is sold.

The adjustment therefore represents the positive impact on the GAV of the possible reduction of the transfer taxes and purchaser's costs for the benefit of the seller based on the expected sale of shares in the property-owning vehicle.

Disclosure should be made on how the estimate of the amount the manager expects to benefit from intended disposition strategies has been made. Reference should be made to both the current structure and prevailing market conditions.

Other adjustments

m) Goodwill

At acquisition of an entity which is determined to be a business combination, goodwill may arise as a result of a purchase price allocation exercise. Often a major component of such goodwill in property vehicles reflects the difference between the full recognition of deferred tax, purchaser's costs or similar items in the IFRS accounts (which does not generally take account of the likely or intended method of subsequent exit), and the economic value attributed to such items in the actual purchase price.

Except where such components of goodwill have already been written off in the GAV as determined under IFRS, they should be written off in the INREV GAV.

n) Financial derivatives

This adjustment relates to the derecognition of any financial derivatives which are reported on the asset side of the balance sheet.

This relates to all financial derivatives as interest instruments, cash flow instruments and or currency exchange instruments. The rationale is that all the expenses/charges in respect to these instruments are linked to a liability or exempted for the calculation of the ratio numerator included in the Fee and Expense Metrics module.

o) Deferred tax assets

This adjustment relates to the derecognition of any deferred tax assets which are reported on the asset side of the balance sheet. The rationale is that all the expenses/charges in respect to taxes are linked to a liability or exempted for the calculation of the ratio numerator included in the Fee and Expense Metrics module.

6.5.2. HOW SHOULD STAFF COSTS BE ALLOCATED TO THE TER AND THE REER?

FEM-Q02 It may happen that some vehicles have hired employees. Related staff costs should be allocated based on the activity of the employees.

For instance, the wage and related costs of employees working on property related matters should be allocated to property expenses and therefore included in the REER.

6.5.3. DETERMINATION AND DISCLOSURE OF QUARTERLY RATIOS

FEM-Q03 How should fee and expense metrics be determined in case a fund manager wishes to disclose quarterly ratios?

INREV Guidelines require the computation of the fee and expense metrics on an annual basis. Fund managers may provide investors with quarterly ratios. INREV Guidelines do not propose any methodology to compute quarterly ratios.

Fund managers can indeed disclose quarterly fee and expense metrics to investors. The methodology should be consistent with the methodology used for the fee and expense metrics in the annual reports, particularly on the cost classification and computation methodology.

The quarterly metrics should be presented on a rolling four quarter basis.

The fund manager should be transparent in its reporting to investors and explain the methodology and assumptions used.

In case a fund manager discloses quarterly ratios, the fund manager is still required to disclose the annual metrics in the annual report to comply with requirements included in the fee and expense metrics.

6.6. UPDATES

FEM-U01 The latest update: July 2016

FEM-U02 The module has been updated to clarify the calculation and disclosure of key fee and expense metrics: the Total Expense Ratio (TER) and the Real Estate Expense Ratio (REER). Improvements include further clarity to the components of TER and REER together with a detailed list of allocation of fees and costs. This update is based on the joint efforts of INREV, ANREV, NCREIF and PREA towards producing global reporting standards.

FEM-U03 We will update you as soon as we have new plans for the Fees and Expense Metrics Module.