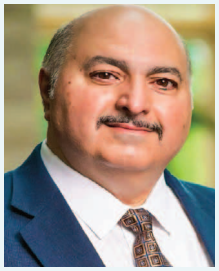
Finding REPORTING best practices *at the* asset level

The NCREIF PREA Reporting Standards initiative was launched in 1993 for the purpose of providing consistent reporting of information within the NPI. Since then, the Reporting Standards have created a global database of definitions, agreed how to report fee and expenses worldwide, streamlined methodologies and much more while remaining true to the mission of comparability and transparency within reported information. The impact hasn't just been felt in the back offices of real estate investment management firms — but by transaction, portfolio and asset managers and institutional investors alike.

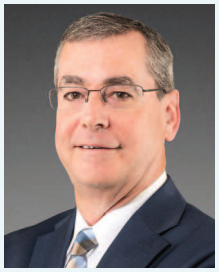
Standardization may feel like a somewhat dull topic, but it's critical to understanding exposures and therefore risk.

The Reporting Standards is now expanding its work to look at asset and investment-level performance and attribution reporting. **John Caruso, Marybeth Kronenwetter** *and* **Joseph Nahas, Jr.** *speak with NAREIM about the Reporting Standards' new task force to create best practices around asset-level reporting, where some low-hanging fruit potentially lies and what the benefit to investors and managers will be.*



John Caruso is Global Head of Fund Finance at Nuveen Real Estate and Chairman of the NCREIF PREA Reporting Standards Council. John is responsible for internal and external reporting activities including investor reporting, operational and financial analysis, property- and portfolio-level performance returns, and strategic management metrics at Nuveen. He leads global efforts related to fund finance and is a voting member of the Americas Investment Committee, OpCom and Executive Leadership Team. Prior to joining TIAA/Nuveen, John served as CFO and COO for both domestic and international firms engaged in various aspects of the real estate industry. He holds a BS in Accounting from Brooklyn College and received his CPA certification from New York State.

Marybeth Kronenwetter is Director of the NCREIF PREA Reporting Standards initiative. As a Director, Marybeth directs and supports the development, content management and maintenance of the NCREIF PREA Reporting Standards, related communications and other materials necessary for the NCREIF PREA Reporting Standards to fulfill its mission to facilitate investment decision-making for the institutional real estate investment industry. Previously Marybeth was the President of Real Estate Investment Advisors, Inc. Before her consulting career began, Marybeth was a Vice President with JMB Institutional Realty Corporation and on the audit staff of Deloitte. Marybeth is a CPA and received a BBA from St. Mary's College, Notre Dame, Indiana.



Joseph Nahas, Jr. is SVP, Institutional Marketing and Investor Relations at Equus Capital Partners and member of the Reporting Standards Council. Joe is responsible for institutional capital raising and investor relations activities for Equus. He serves on various committees and task forces with NCREIF, including its Performance Measurement committee, Close End Value Add Index task force and its Reporting Standards Valuation task force. Joe is an adjunct professor lecturing in Commercial Real Estate Investments at Villanova University School of Business and Temple University Fox School of Business. He holds the CRE designation from the Counselors of Real Estate. Joe holds an MBA in Real Estate Finance and a BBA in Economics from Temple University.

What are you doing? What are the goals of the Reporting Standards' new asset-level reporting task force?

John Caruso (JC): The overall goal of the Reporting Standards (RS) is to increase transparency and deliver consistent information to institutional investors so they can make informed investment decisions. What that really means is that we're trying to give investors more clarity into their funds and investments, so they have the ability to compare funds and investments on an apples-to-apples basis.

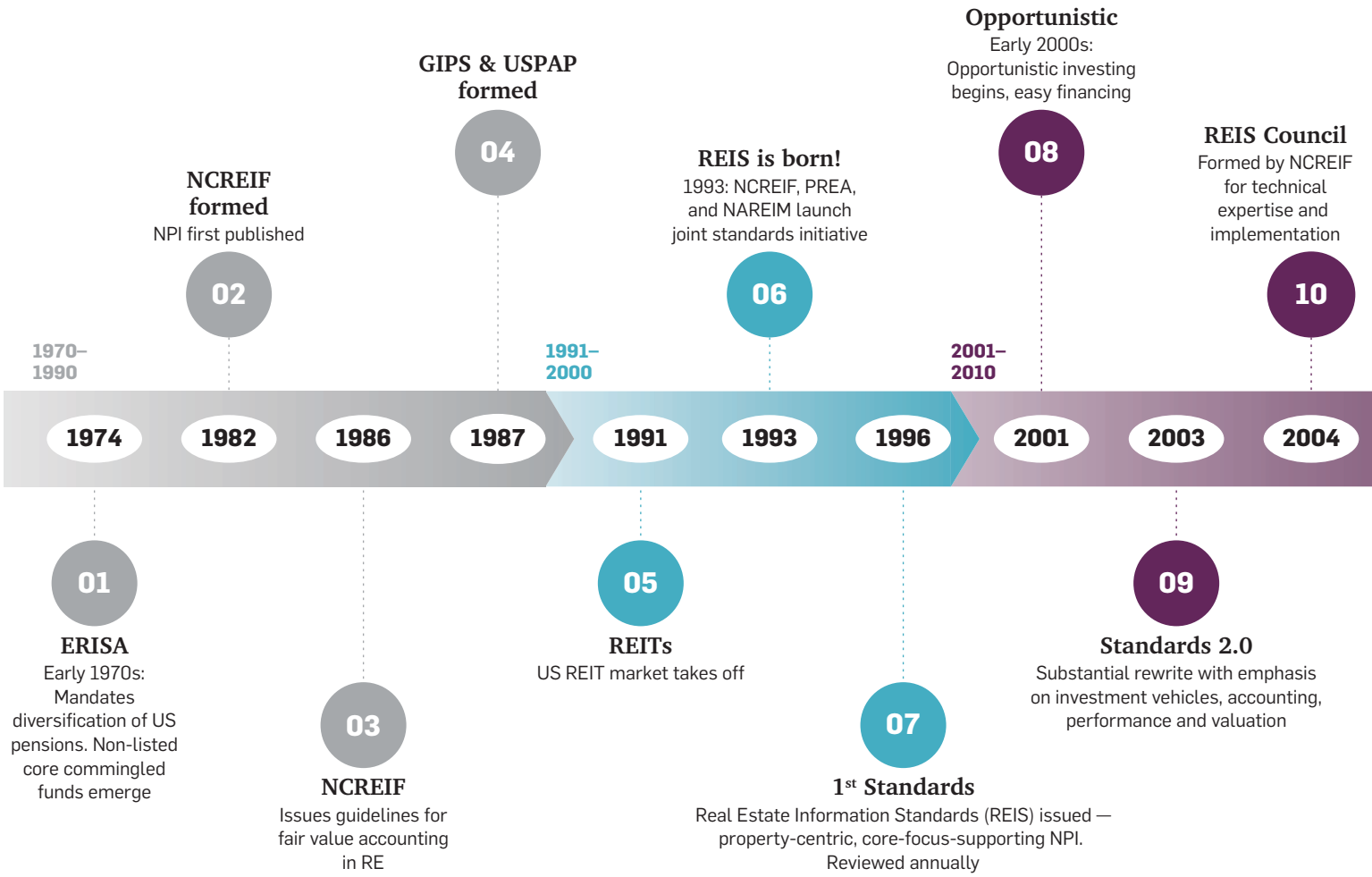
RS has traditionally focused on fund-level reporting, disclosures and information relating to performance. But we've seen more and more investors asking for performance and other data at the asset level.

What investors are trying to do is compile a view of their entire exposure to real estate across many different managers. And the only real way to do that is to get granular. Investors need to see how asset-level data rolls up into their overall portfolios and how it fits into their overall investment strategy, risk profile and investment goals.

Yet we all know that a significant pain point for investors is the sheer volume of inconsistent information they get from different managers. That's no one's fault. The inconsistencies can be related to different definitions or calculations, or because different countries have different accounting methods. And so we thought this should be an issue the Reporting Standards takes up.

"What investors are trying to do is compile a view of their entire exposure to real estate across many different managers. And the only real way to do that is to get granular."

History of the NCREIF PREA Reporting Standards



Asset-level reporting would naturally provide insight into what's happening at the asset level. Would this then give investors the opportunity to see the attribution of returns more clearly, to see what is driving manager alpha?

Marybeth Kronenwetter (MK): One of the significant goals we're looking to understand relates to the drivers of performance. How are drivers to performance identified? Through attribution. Absolutely, attribution will help identify asset-level reporting elements to drill into.

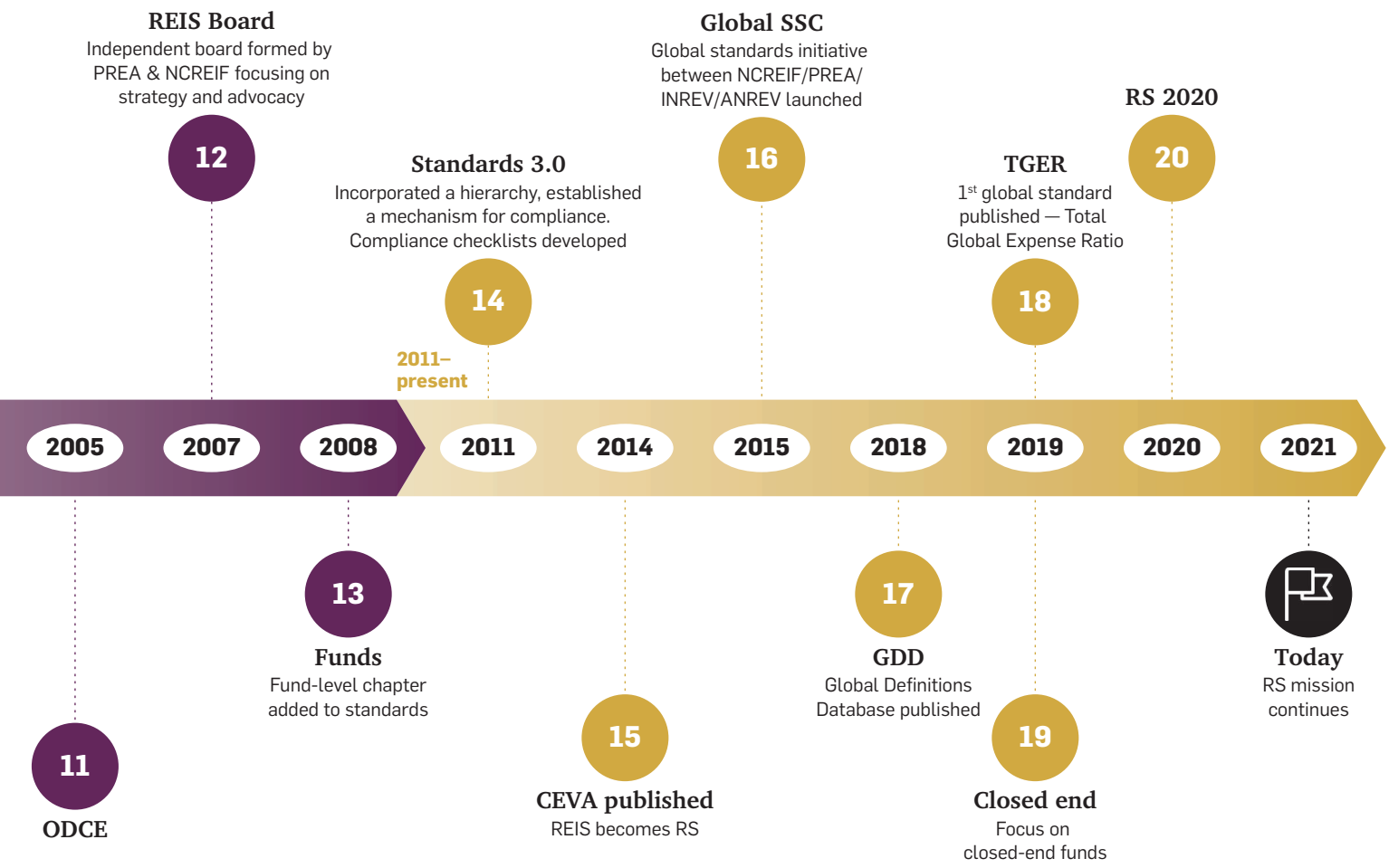
Joseph Nahas, Jr. (JN): It will be contingent or conditioned upon there being a standard. Even if we have data coming out at the asset level, if it's not standardized, then the attribution won't mean much. I think attribution would be an end result of the standardization at the asset level.

JC: One thing we're going to have to remind investors is that the performance on the asset level does not necessarily translate to performance at the fund level. Even on a gross return, performance is measured and computed differently. It approximates return at the gross level, but your net return is going to be different because you have fund-level expenses and fees. We always remind investors that there's that little bit of disconnect. As for what is driving the overall fund return, the asset-level attribution is a driver for it, but you can't line it up precisely.

TASK FORCE GOALS

What is your ambition for 2021?

MK: After we identify the task force members, we'll be looking at our existing work within the Reporting Standards and



identifying where we already have aggregated information at the property, asset and investment level. We can then prioritize our focus and decide whether we look to asset-level reporting based on issues such as diversification or performance.

Let me give you an example of the IRR. The fund level says if you're reporting for a closed-end fund, you have to report an IRR for the fund. The open-end funds don't have that requirement, but there isn't an investment where the IRR isn't looked at. Then it's a matter of which IRR: Are you looking at the target IRR? Are you looking at the IRR in place? Which is the most meaningful?

It's identifying common elements that are in the Reporting Standards today and asking which ones are reasonable to disaggregate, before trying to apply those concepts to the investment or asset level.

JN: Equus is a closed-end fund manager. At the fund level, there are differences between what's required and what's recommended by vehicle. I suspect there'll be fewer differences of what's reported at the asset level than at the fund level. But whether you're an investor in an open-end fund or closed-end fund or a separate account, you want to get consistent information at the asset level from your managers.

Will there be major differences between how managers report asset-level performance?

MK: While there are more elements to report at the asset level, I believe there is more commonality in terms of reporting than what we find at the fund level.

JC: Where you're going to find the differences at the asset level is the differences between the four sectors. Information that's important for the retail sector, like sales per square foot, doesn't exist in the other three sectors. Measuring vacancies in

> “Investors know the types of information they want and they ask for it consistently. What is frustrating for the manager is when investors ask for it in different formats; having said that, they’re asking for the same data.”

residential is different than measuring vacancies in an office building, square feet versus units.

What are the key challenges ahead?

JC: Everybody does things a little differently. Trying to get consensus on which practice is the best practice or the best way to do it — or even what is a recommended way to do something — is a challenge.

JN: Investors know the types of information they want and they ask for it consistently. What is frustrating for the manager is when investors ask for it in different formats; having said that, they’re asking for the same data.

Investors are now drilling down to the next level because they’re aware of the obvious — as a manager, I couldn’t be reporting at the fund level if I didn’t already have all the property data. I have to roll it up in some form or fashion to get to my fund. They’re not yet consistently asking for the same data the way they’ve arrived at the fund level.

Helping investors understand the low-hanging fruit that we managers can produce in a standard format and in a standard report at the asset level will help LPs further define their requests, and maybe move them towards asking for the same thing of all managers. The key is for everyone, managers and investors alike, to not have to pull their hair out the way we all did before the Reporting Standards came into being.

GETTING QUICK WINS

What are examples of those low-hanging fruit?

JN: At the fund level, we report on lease expirations,

schedules and rollovers. We do the same with debt — we provide a debt schedule consistently, with fixed and floating rates and yields on each property. In the time of Covid-19, we’re also starting to get questions about covenants. For us, these are prime examples of low-hanging fruit available at the asset level that we could regularly report on and create consistency around.

JC: I’m glad you mentioned Covid, Joe, because Covid has really put a spotlight on the asset level. We’re getting calls from investors about rent collections, deferrals and abatements, and not just from our separate account clients.

During Covid, we and every other manager had to be able to pivot quickly and to track that information. We got down to the lease level, to lease charges and collections. Being able to get that granular and pivot on a dime was thanks in part to technology, but being able to provide that information to our investors and asset managers allows us to manage the asset better.

Some investors, particularly pension plans, are looking for exposure. They'll look at the AUM of assets regionally, by city, by sector. Investors will also look to asset-level performance, not just like the NPI return on the asset, but comparing that to the benchmark, and then in some cases, actual versus budget on things such as net operating income or capital expenditures. We are also reporting on sustainability at the asset level.

JN: Another area we're seeing requests for more information is about diversity and inclusion, not just related to our organization, but also the vendors, property managers and leasing brokers that we use for our assets. Do they have these policies in effect?

There are a lot of areas where you could target your work. How do you narrow that down to a core set of metrics?

> "Another issue is the deliverable. Until such time that there's a mechanized way of reporting and delivering to the person who is requesting the information, usually the investor, we're faced with tons of challenges."

MK: There's a lot here; what are we going to pick first?

It's also difficult to figure out what do you have to do versus what's nice to have. That does depend on the investors and their needs. It also depends on the type of fund, although less so now than it used to be because investors are asking for more information on commingled funds when they didn't before. There are a lot of uncontrollables, but everybody's got to be moving along the same objective.

Another issue is the deliverable. Until such time that there's a mechanized way of reporting and delivering to the person who is requesting the information, usually the investor, we're faced with tons of challenges. It will be important to coordinate with software providers, fund administrators and others on what the final report looks like. Otherwise, what we develop is just going to sit on the shelf, as a nice to have.

COLLABORATION EFFORTS

The challenge that the reporting standards is trying to solve is bringing the managers together to say, "We need some consistency." But what about vendors, technology providers and other service providers? Where do they fit in?

JN: You have to bring the technology onboard. We'll get standardization if we can get buy-in or endorsement from technology vendors.

MK: We're at a point where we're starting to entertain these discussions. I believe appetite will come. Reporting Standards is a gift to them. People are more receptive to collaboration. I'm most excited about that. ◆