

# ANREV

## REVIEW OF REPORTING BEST PRACTICE ASIA

PROFESSIONAL STANDARDS

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## 1. EXECUTIVE SUMMARY

An important component of the implementation of the INREV Guidelines in the Asian non-listed property funds sector has been to review and understand current levels of adoption. This third annual Review of Reporting Best Practice Asia continues to provide that analysis for the following aspects of the Guidelines:

- General Information
- Manager's Report
- Property Report
- Financial Report
- Valuer's Statement
- Financial Statements

Overall, 76% of the 2010 reports had adopted more than 75% of the INREV Guidelines which is relatively similar to the findings for 2009 reports from the survey carried out in 2010. The results show that industry practice complies with the Guidelines in many areas, reflecting the adoption of a more common, consistent and transparent approach to reporting among property funds.

Whilst the overall level of compliance with the Guidelines was similar to the prior year, there were several specific areas of reporting which saw greater improvements:

- General Information – 65% of 2010 reports complied with at least 75% of the INREV Guidelines on General Information, compared to 42% of the 2009 reports reviewed.
- Property Report – 71% of the 2010 reports complied with at least 75% of the INREV Guidelines concerning the Property Report, compared to 56% of the 2009 reports reviewed.

Nonetheless, this year's review indicates there are still areas where there is scope for improving the level of adoption of the INREV Guidelines in the Asian market. Disclosures of the INREV Net Asset Value (NAV) and information on fee metrics were rarely made in the survey sample. Only three funds in the sample specifically mentioned that they have followed the key principles in the INREV Guidelines to arrive at an effective INREV NAV, while only two funds disclosed

fee metrics. However, following the issue of the ANREV Guide to the INREV Guidelines in June 2011, it is expected that the level of adoption for these areas should increase in the coming year.

In addition, the Valuer's Statement continues to be an area for improvement. Many reports in the sample did not disclose any details concerning the independence and competency of the appraisers and/or information on the valuation methods used by the fund, as well as applicable inputs and market assumptions.

The number of property funds participating in the survey remained relatively consistent with 34 participating funds in 2010 when compared to 36 in 2009. It was noted that the levels of compliance with the INREV Guidelines have improved for many aspects in this year's review. This trend is expected to continue with the increase in awareness of reporting best practice for non-listed real estate funds on the part of fund managers and investors.

## 2. INTRODUCTION

ANREV entered into a cooperation agreement with INREV, its sister organisation in Europe, to endorse the INREV Guidelines in Asia in 2009. Since then, ANREV has undertaken a number of initiatives to raise awareness of the INREV Guidelines and encourage their adoption. This study, undertaken by Deloitte Touche Tohmatsu in Hong Kong (Deloitte), now in its third year, is a key part of that programme to raise awareness.

In the study, Deloitte have reviewed the reporting practices of a sample of non-listed real estate funds in the region and compared them to the INREV Guidelines. Since the first study performed in 2009, feedback from members has consistently shown that investors and other players in the market find it useful to know which funds comply with the INREV Guidelines. Fund managers also confirm that the adoption of the INREV Guidelines assists in the marketing of a fund to investors, who increasingly expect the disclosures and transparency offered by the INREV Guidelines. The study enables fund managers and investors to benchmark reporting practices against the market trend.

## 2.1 Purpose of this research

The objective of this review is to provide insights into market practice for non-listed real estate fund reporting and how this compares to the INREV Guidelines on reporting.

The results of this review will help ANREV to support the promotion of best practice in several ways:

- It will give ANREV and its members insights into the level of compliance with the INREV Guidelines by the industry in 2010 reports and how funds report on their compliance;
- The results will form part of ANREV's work to understand any regional variations in the adoption of the guidelines, which were originally developed for the European market; and
- The information gathered and outcome of the research may be used as input for future updates of the INREV Guidelines.

## 2.2 Basis of the research

The review focuses on funds' annual and/or quarterly reporting and the relevant parts of the INREV Guidelines which relate to this topic. The reports have been analysed using a questionnaire developed for INREV for this purpose and which also form the basis of a self-assessment tool.

As for 2009, results from the review of 2010 reports have been determined based on a scoring scheme which reflects disclosures in areas including General Information, the Manager's Report, the Property Report, the Financial Report, the Valuer's Statement and the Financial Statements. Such scoring scheme was prepared in line with the INREV review of reporting best practice in Europe.

In order to accommodate the different types of reporting produced by fund managers for their investors on an annual basis, the analysis has not only included annual reports but has additionally taken into consideration quarterly reports, investor updates and other relevant reports. Accordingly, the findings should be based on as complete a picture as possible of funds' reporting.

The INREV Guidelines have been designed for non-listed real estate funds for institutional investors. Since the underlying strategy, size and complexity of funds can differ considerably, the guidelines do not differentiate between fund styles, either for the general principles or the best practice requirements. Accordingly, we acknowledge that reporting best practice may differ by fund type, style and the launch year. These factors have been taken into account in our review.

We have analysed the level of adoption for the following guidelines:

- Reporting guidelines;
- INREV NAV; and
- Fee metrics

## 3. REVIEW FRAMEWORK AND SAMPLE

### 3.1 Approach

The review has been performed as a quantitative research study in which the degree of adoption is determined based on scores for each of the guidelines. Where possible, the review takes into account qualitative factors to help distinguish between different degrees of adoption for certain guidelines. This approach is intended to ensure a high level of consistency and fairness across the funds participating in the review.

Some of the best practice requirements concern specific topics or issues which may not be relevant for all participating funds, such as joint ventures and development assets. For example, not all funds have assets under development or hold an interest in a jointly controlled entity. Therefore, the recommended disclosures on these subjects are not applicable for these funds. In appraising the level of non-compliance, an item marked as "not applicable" has been treated as compliant, in order not to skew the final scores and to encourage the adoption of the best practice.

In the INREV Guidelines, a distinction is made between the Manager's Report, the Property Report and the Financial Report. As noted during the review, this distinction may not be made for the reports of some fund managers. Some financial reports are published in a free form in which managers' reports are included. In such cases we have taken into consideration the various reports as a whole and checked whether the requirements of the INREV Guidelines have been detailed in the free form report.

Some of the participating fund managers submitted quarterly or half-yearly reports for the review. In all cases, the INREV Guidelines for annual reports were adopted as the basis for the review and compared with one year's worth of managers' reports.

The review work was primarily carried out between July and November 2011 and comprised the following steps for each fund:

- Fund managers delivered their funds' annual and/or quarterly reports and other documents to Deloitte;
- Reports were initially reviewed by the Deloitte project team and questionnaires completed;
- Completed questionnaires were given to the fund managers for review and comments;
- Fund manager feedback was reviewed by Deloitte and adjustments were made where necessary; and
- Statistical analysis was completed based on the final questionnaires.

Participating managers will also receive individual feedback showing the final scoring of their funds compared to the sample, which will highlight potential areas for improvement. This feedback focuses on areas of improvement for specific parts of the INREV Guidelines with reference to best practice examples from the non-listed market.

Furthermore, if an adjusted NAV is provided, Deloitte will provide recommendations to the fund manager to enhance the level of disclosures in this area.



## 3.2 Sample

A request to 175 fund managers to provide their latest annual reports resulted in reports being supplied for 34 funds from 24 fund managers. These included not only annual reports but also some quarterly and half-yearly reports. Of the 34 funds who participated in our research, 20 were recurring from last year, representing approximately 59%. In comparison to the previous study, the number of funds remained roughly the same, there being 36 participants last year. Furthermore, there was no significant change in the number of participating funds for each fund style. However, more fund managers were represented in the study this year (24 compared to 19 in the previous study).

In analysing the findings of the review, we focused on the following three fund characteristics:

- Fund style
- Fund strategy
- Vintage

The following tables show the breakdown of the sample of 2010 reports by these characteristics compared to the review of 2009 reports.

### *Fund style*

Table 1

Fund style	2010		2009	
	Number	%	Number	%
Core	14	41	16	45
Value added	5	15	7	19
Opportunity	15	44	13	36
Total	34	100	36	100

*Fund strategy*

Table 2

Fund strategy	2010		2009	
	Number	%	Number	%
Single country	24	71	19	53
Multi-country	10	29	17	47
Total	34	100	36	100

*Vintage*

Table 3

Vintage	2010		2009	
	Number	%	Number	%
≤ 2000	4	12	3	8
2001 – 2005	10	29	14	39
> 2005	20	59	19	53
Total	34	100	36	100

## 4. ACCOUNTING STANDARDS AND REPORTING

### 4.1 Accounting standards

Around 68% of the reports adopted International Financial Reporting Standard (IFRS) as their accounting standard, while the remaining 32% used other accounting standards: Generally Accepted Accounting Principles in Australia (Australian GAAP), Generally Accepted Accounting Principles in the US (US GAAP), and Generally Accepted Accounting Policies in Japan (Japan GAAP). Although it is noted based on table 4 that some reports have adopted Australian GAAP and Singapore FRS, it is understood that Australian GAAP and Singapore FRS are in compliance with IFRS.

Table 4

	Single country		Multi-country		≤ 2000		2001-2005		> 2005		Total Review 2010		Total Review 2009	
IFRS	14	59%	9	90%	1	25%	5	50%	17	85%	23	68%	21	58%
Australian GAAP	7	29%	0	0%	3	75%	3	30%	1	5%	7	23%	10	28%
Singapore FRS	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	1	3%
US GAAP	2	8%	1	10%	0	0%	2	20%	1	5%	3	9%	4	11%
Japan GAAP	1	4%	0	0%	0	0%	0	20%	1	5%	1	3%	0	0%
Total	24	100%	10	100%	4	100%	10	100%	20	100%	34	100%	36	100%

Table 4 shows that IFRS is the most popular accounting standard applied in the funds' financial reporting. For the funds established after 2005, 85% adopted IFRS compared to 50% of funds established before 2005.

IFRS is used in more than 100 countries worldwide. Certain countries, such as Australia, Singapore, South Korea and Hong Kong, have adopted their own local reporting requirements which are known to be completely identical to IFRS issued by the International Accounting Standard Board with the minor exception of timing differences for newly published IFRS. IFRS is not currently mandated for certain countries such as Japan, the United States and the People's Republic of China, although some standards are based on similar principles to IFRS. IFRS requires the application of consistent accounting policies across a consolidated group, which provides entities with an opportunity to streamline their statutory reporting. Given the ongoing convergence project between IFRS and other accounting practices, such as US GAAP, it is expected that more and more property funds will choose IFRS as the appropriate accounting standards for their financial reporting.

## 4.2 Frequency of reporting

At 71%, the majority of managers' reports and financial reports were presented on an annual basis, with 50% of those funds also presenting quarterly reports as well. The remaining 29% of fund managers prepared quarterly reports.

## 5. INREV GUIDELINES ON REPORTING

The INREV Guidelines on reporting consists of seven sections:

- General information
- Manager's report
- Property report
- Financial report
- Valuer's statement
- Corporate governance
- Financial statements

The results show that the level of compliance with the best practice requirements in the INREV Guidelines is high. Table 5 shows that the overall proportion of funds that comply with between 75% and 100% of the INREV Guidelines is 26 funds, or 76%, compared to 27 funds or 75% in the 2009 reports.

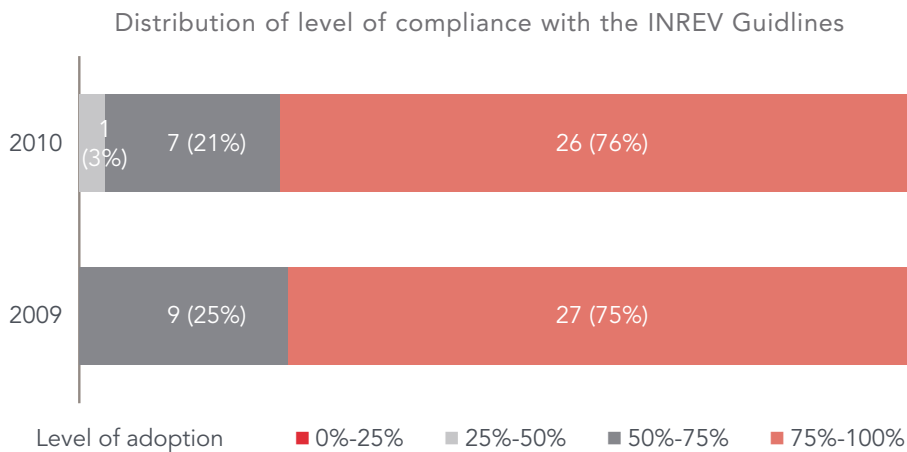
It is important to note that these results are only based on 34 reports out of the 175 fund managers who were requested to participate. Thus the results are derived from a relatively small sample. Higher levels of adoption could partly be due to the submission of annual reports from international fund managers active in Asia that may have a higher awareness of the INREV Guidelines from their adoption in Europe. On the other hand, results may show lower levels of adoption due to the increased number of annual reports submitted being for funds that have not previously participated in the study, whose fund managers are less likely to be aware of the INREV Guidelines. However, this research is itself one way in which Asian fund managers can gain insight to the guidelines.

Based on the results, improvements have been particularly notable for the General Information and Property Report sections of the Guidelines, where there have been an increased proportion of funds complying with at least 75% of the Guidelines. Slight improvements have been noted for the Financial Report section. However, there still appears to be room for further improvement in those areas for which less than 75% of the participants complied with more than 75% of the applicable INREV Guidelines. These include the General Information, Financial Statements, Financial Report and Property Report, as well as the Valuer's Statement. An overview of the results for each section of the INREV Guidelines is set out below.

Table 5

Reporting Guidelines	FY	0%-25%		25%-50%		50%-75%		75%-100%	
		Count	Percentage	Count	Percentage	Count	Percentage	Count	Percentage
General information	2010	1	3%	0	0%	11	32%	22	65%
	2009	0	0%	1	3%	20	55%	15	42%
Manager’s Report	2010	0	0%	0	0%	4	12%	30	88%
	2009	0	0%	0	0%	0	0%	16	100%
Property Report	2010	0	0%	0	0%	10	29%	24	71%
	2009	0	0%	0	0%	16	44%	20	56%
Financial Report	2010	1	3%	3	9%	9	26%	21	62%
	2009	1	3%	4	11%	9	25%	22	61%
Valuer’s Statement	2010	5	15%	0	0%	9	26%	20	59%
	2009	9	25%	0	0%	9	25%	18	50%
Financial Statements	2010	2	6%	0	0%	7	20%	25	74%
	2009	0	0%	0	0%	6	17%	30	83%
Overall	2010	0	0%	1	3%	7	21%	26	76%
	2009	0	0%	0	0%	9	25%	27	75%

Graph A



In order to obtain an in-depth understanding of whether fund managers have gained a better understanding and are keen to comply with the INREV Guidelines, an overview of the results for each section for recurring participants in this year's study is set out in table 6, whereas table 7 sets out the overview results for new participants. For recurring participants, there has been an improvement in all areas with the exception of the Manager's Report which has resulted in all participants complying with at least 75% of the Guidelines.

Table 6

Reporting Guidelines	FY	0%-25%		25%-50%		50%-75%		75%-100%	
General information	2010	0	0%	0	0%	6	30%	14	70%
	2009	0	0%	1	5%	10	50%	9	45%
Manager's Report	2010	0	0%	0	0%	0	0%	20	100%
	2009	0	0%	0	0%	0	0%	20	100%
Property Report	2010	0	0%	0	0%	5	25%	15	75%
	2009	0	0%	0	0%	9	45%	11	55%
Financial Report	2010	0	0%	2	10%	4	20%	14	70%
	2009	1	5%	3	15%	3	15%	13	65%
Valuer's Statement	2010	3	15%	0	0%	4	20%	13	65%
	2009	4	20%	0	0%	4	20%	12	60%
Financial Statements	2010	0	0%	0	0%	2	10%	18	90%
	2009	0	0%	0	0%	4	20%	16	80%
Overall	2010	0	0%	0	0%	2	10%	18	90%
	2009	0	0%	0	0%	5	25%	15	75%

Table 7

Reporting Guidelines	FY	0%-25%		25%-50%		50%-75%		75%-100%	
General information	2010	1	7%	0	0%	5	36%	8	57%
Manager's Report	2010	0	0%	0	0%	4	29%	10	71%
Property Report	2010	0	0%	0	0%	5	36%	9	64%
Financial Report	2010	1	7%	1	7%	5	36%	7	50%
Valuer's Statement	2010	2	14%	0	0%	6	43%	6	43%
Financial Statements	2010	2	14%	0	0%	5	36%	7	50%
Overall	2010	0	0%	1	7%	5	36%	8	57%

Fund managers also provided feedback on reasons why they do not comply with the best practice requirements in some cases. These include situations:

- When compliance with a recommendation would lead to substantial additional costs in gathering the information required;
- When disclosures for compliance with guidelines were not relevant to investors' focus;
- When a recommendation relates to an amount or item that is of immaterial significance for the property fund's operations; and
- When local GAAP or regulations have no such requirement for compliance with the recommendation.

## 5.1 General information

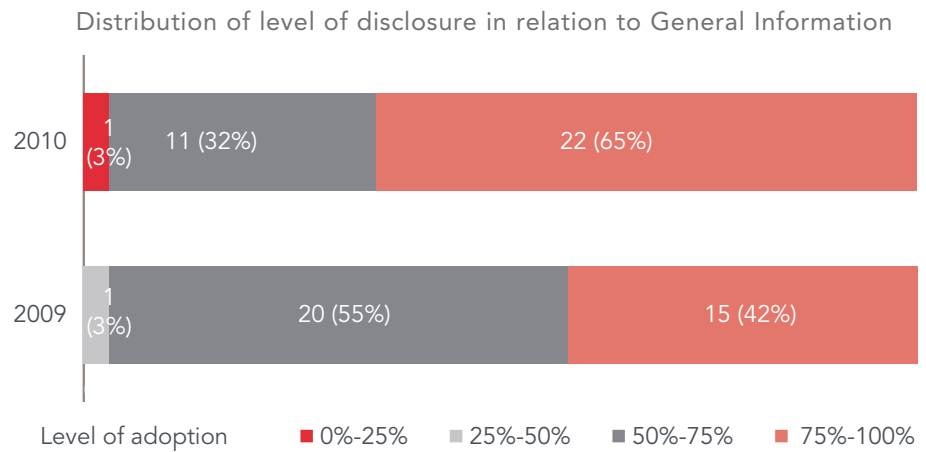
The INREV Guidelines under the General Information section cover disclosure in relation to:

- Governance, management and administration
- Domicile, legal form and structure of the fund
- Investment stage of the fund by geography and/or segment
- Current monetary commitment of the investors to the fund
- Key milestone dates

The general information disclosure showed a high level of adoption in the 2010 reports with 65% of reports adopting more than 75% of the individual best practice requirements in this section compared to 42% in the 2009 reports. (Graph B).

Table 8 shows that core and opportunity funds show high levels of adoption, with the majority demonstrating adopting 75%-100% of the best practice requirements. Value added funds indicate more room for improvement with only 20% achieving compliance within the 75% to 100% range.

Graph B



*Fund style*

Table 8

General Information	FY	0%-25%		25%-50%		50%-75%		75%-100%	
		Count	Percentage	Count	Percentage	Count	Percentage	Count	Percentage
Core	2010	1	7%	0	0%	1	7%	12	86%
	2009	0	0%	1	6%	3	19%	12	75%
Value added	2010	0	0%	0	0%	4	80%	1	20%
	2009	0	0%	0	0%	6	86%	1	14%
Opportunity	2010	0	0%	0	0%	6	40%	9	60%
	2009	0	0%	0	0%	11	85%	2	15%



*Fund strategy*

Table 9

General Information	FY	0%-25%		25%-50%		50%-75%		75%-100%	
Single country	2010	1	4%	0	0%	7	29%	16	67%
	2009	0	0%	1	5%	10	53%	8	42%
Multi-country	2010	0	0%	0	0%	4	40%	6	60%
	2009	0	0%	0	0%	10	59%	7	41%

*Vintage*

Table 10

General Information	FY	0%-25%		25%-50%		50%-75%		75%-100%	
≤ 2000	2010	1	25%	0	0%	0	0%	3	75%
	2009	0	0%	0	0%	0	0%	3	100%
2001 – 2005	2010	0	0%	0	0%	3	30%	7	70%
	2009	0	0%	0	0%	9	64%	5	36%
>2005	2010	0	0%	0	0%	8	40%	12	60%
	2009	0	0%	1	5%	11	58%	7	37%

Table 11

General Information	FY	Total		Core		Value added		Opportunity		Single country		Multi-country	
Governance, management and administration	2010	32	94%	13	93%	4	80%	15	100%	22	92%	10	100%
	2009	34	94%	16	100%	7	100%	11	85%	18	95%	16	94%
Domicile, legal form and structure of the fund	2010	34	100%	14	100%	5	100%	15	100%	24	100%	10	100%
	2009	34	94%	15	94%	7	100%	12	92%	17	89%	17	100%
Investment stage	2010	31	91%	11	79%	5	100%	15	100%	21	88%	10	100%
	2009	31	86%	13	81%	5	71%	13	100%	17	89%	14	82%
Current monetary commitments	2010	29	85%	11	79%	5	100%	13	87%	20	83%	9	90%
	2009	35	97%	16	100%	6	86%	13	100%	18	95%	17	100%
Key milestone dates	2010	24	71%	9	64%	4	80%	11	73%	15	63%	9	90%
	2009	23	64%	10	63%	6	86%	7	54%	12	63%	11	65%

Table 11 displays the level of compliance with each component of the General Information disclosure. Proportions are calculated within their own segment for total funds, each fund style and each fund characteristic. Based on the results, the majority of components have been disclosed in compliance with the Guidelines, resulting in over 90% adoption levels for disclosures on governance, management and administration, domicile, legal form and structure of the fund and the investment stage in the current year. Disclosures for key milestone dates show more room for improvement with 71% of total funds including such information.

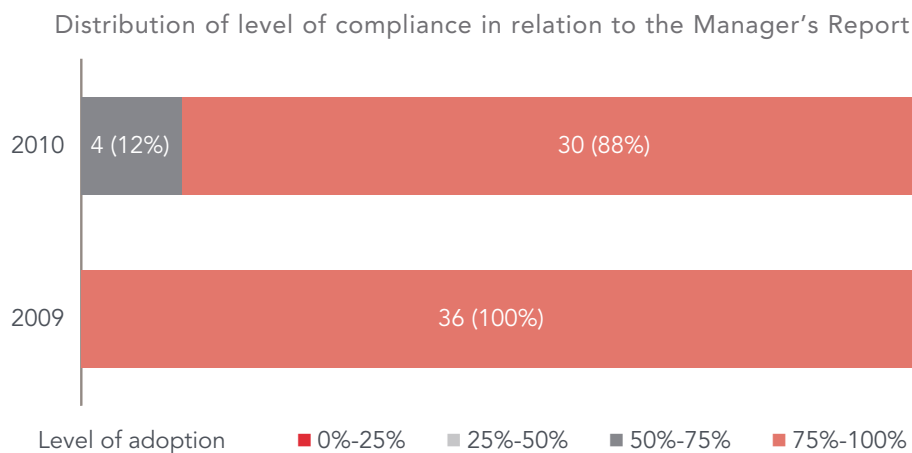
Furthermore, in the current year's review, although value added and opportunity funds showed a high level of compliance for the investment stage disclosures, core funds are slightly weaker in this area. Overall, single country funds' level of compliance in both years is slightly weaker in comparison to multi-country funds.

## 5.2 Manager's report

Neither IFRS nor local financial reporting standards address the requirements for information to be included in a manager's report. These requirements are generally determined by local laws and regulations and are therefore not included in the INREV Guidelines. The INREV Guidelines on reporting recommend that the manager's report should contain information relevant to gaining an understanding of the overall performance of the fund and factors that may affect performance in the future. The core principles related to the Manager's Report consists of disclosures such as:

- Principal activities and review of business
- Future developments
- Macroeconomic factors
- Risks and opportunities
- Post balance sheet events

Graph C



*Fund style*

Table 12

Manager's Report	FY	0%-25%		25%-50%		50%-75%		75%-100%	
Core	2010	0	0%	0	0%	0	0%	14	100%
	2009	0	0%	0	0%	0	0%	16	100%
Value added	2010	0	0%	0	0%	1	20%	4	80%
	2009	0	0%	0	0%	0	0%	7	100%
Opportunity	2010	0	0%	0	0%	3	20%	12	80%
	2009	0	0%	0	0%	0	0%	13	100%

*Fund strategy*

Table 13

Manager's Report	FY	0%-25%		25%-50%		50%-75%		75%-100%	
Single country	2010	0	0%	0	0%	3	12%	21	88%
	2009	0	0%	0	0%	0	0%	19	100%
Multi-country	2009	0	0%	0	0%	1	10%	9	90%
	2009	0	0%	0	0%	0	0%	17	100%

*Vintage*

Table 14

Manager's Report	FY	0%-25%		25%-50%		50%-75%		75%-100%	
≤ 2000	2010	0	0%	0	0%	0	0%	4	100%
	2009	0	0%	0	0%	0	0%	3	100%
2001 – 2005	2010	0	0%	0	0%	1	10%	9	90%
	2009	0	0%	0	0%	0	0%	14	100%
>2005	2010	0	0%	0	0%	3	15%	17	85%
	2009	0	0%	0	0%	0	0%	19	100%

The results show that 88% of the 2010 reports in the sample population have

adopted more than 75% of the Guidelines compared to all funds in 2009.

With reference to table 6, all recurring participants in the current year's review demonstrated compliance with 75% or more of the INREV Guidelines and accordingly the decrease in the proportion of funds complying within the 75% to 100% range may be due to the new participants' lack of knowledge concerning the reporting guidelines.

In this area, the top relevant disclosures that were adopted in the manager's report related to:

- Information on the principal activities of the fund
- Analysis of the development and performance of the fund
- Discussion of new investments, realisations and significant changes in valuations of investments
- Discussion of the current development of the fund's investment property portfolio in each segment
- Indication of the likely future developments in the fund's business
- Discussion of macro-economic factors which may have effected and have a future effect on the results of the fund

The information provided on principal activities of the fund, analysis of the development and performance of the fund and macroeconomic factors are areas in which the fund managers have provided extensive discussions in both the current and prior years. Information providing a discussion of new investments, realisations and significant changes in the valuations of investments has shown to be most discussed with 94% of 2010 reports containing either brief or extensive discussions compared to 83% in 2009. These increased and improved discussions in reporting undoubtedly reflect investor concerns on any changes of the fund's operations and factors which affect the fund given economic uncertainty in Asia.

It is notable that fund managers would ensure the financial information included in the manager's report agreed with the detailed property and financial reports as included in the financial statements.

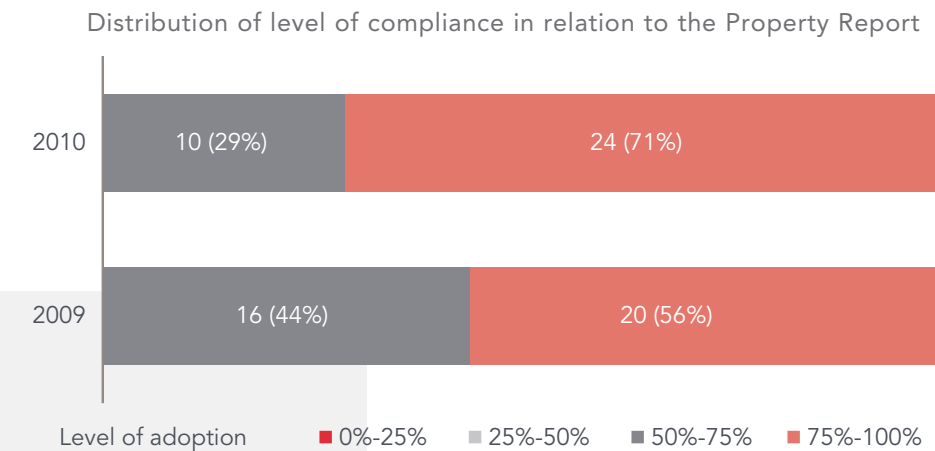
## 5.3 Property report

This section concentrates on reporting performance at the asset level. The best practice requirements in this area focus on the different nature of properties from investment properties to development properties.

The key items for investment properties are disclosures relating to market value, valuation changes, investments and divestments, rental growth and yields. The key items in relation to development properties are development strategy, development activities, changes in the development portfolio and committed expenditure for the development properties.

For the property report, 71% of the 2010 reports in the sample complied with more than 75% of the best practice requirements (as shown in Graph D) compared with 56% of funds in the 2009 reports.

Graph D



Fund style

Table 15

Property Report	FY	0%-25%		25%-50%		50%-75%		75%-100%	
Core	2010	0	0%	0	0%	5	36%	9	64%
	2009	0	0%	0	0%	6	38%	10	62%
Value added	2010	0	0%	0	0%	3	60%	2	40%
	2009	0	0%	0	0%	4	57%	3	43%
Opportunity	2010	0	0%	0	0%	2	13%	13	87%
	2009	0	0%	0	0%	6	46%	7	54%

*Fund strategy*

Table 16

Property Report	FY	0%-25%		25%-50%		50%-75%		75%-100%	
Single country	2010	0	0%	0	0%	7	29%	17	71%
	2009	0	0%	0	0%	7	37%	12	63%
Multi-country	2010	0	0%	0	0%	3	30%	7	70%
	2009	0	0%	0	0%	9	53%	8	47%

*Vintage*

Table 17

Property Report	FY	0%-25%		25%-50%		50%-75%		75%-100%	
≤ 2000	2010	0	0%	0	0%	4	100%	0	0%
	2009	0	0%	0	0%	3	100%	0	0%
2001 – 2005	2010	0	0%	0	0%	1	10%	9	90%
	2009	0	0%	0	0%	5	36%	9	64%
>2005	2010	0	0%	0	0%	5	25%	15	75%
	2009	0	0%	0	0%	8	42%	11	58%

For the individual best practice requirements as shown in table 18, the highest adoption levels were recorded for disclosing a summary of the properties and their market value, and showing the portfolio broken down into segments relevant to the funds, for example, by segment and geography. Additionally, high levels of adoption were also recorded in the following disclosure areas by reason of being not applicable to many of the funds:

- Disclosure of gains and losses on disposals of buildings
- Description of the development portfolio
- Quantification of the property development undertaken
- Quantification of property development being transferred to investment properties
- Quantification of the property development being sold during the year

However, information on movements in rental income, contracted rental increases, trends in new leases, incentives offered, the basis on which the voids in the portfolio have been calculated, and tenant concentration, by either theoretical (Estimated Rental Value) or actual rental, are considered areas for further improvement.

Table 18

REF *	Best practice requirements	2010 % **	2009 % **
32	A summary of the properties and their market value	97	94
33	Disclose the total property revaluation amount and the significant buildings separately	97	94
34	Provide an analysis of like for like movements of the valuation and by rental income on property held in current and comparative year		
	– Valuation	94	86
	– Rental income	50	47
35	Disclose gains and losses on disposals of buildings	91	100
36	Provide commentary on rental growth	76	72
37	Disclose the lease renewal profile, and include details of contracted rental increases		
	– Lease renewal profile	71	72
	– Contracted rental increases	47	44



REF *	Best practice requirements	2010 % **	2009 % **
38	Explain the trends new leases and incentives offered		
	– Provide commentary on new leases	74	81
	– Incentives offered	44	53
39	A summary of the voids within the portfolios should be disclosed and the basis on which the void has been calculated		
	– A summary of the voids within the portfolios should be disclosed	91	89
	– The basis on which the void has been calculated	59	47
40	Depending on the materiality of the development portfolio, the activity should be described	100	97
41	Discuss the development strategy	94	92
	And pipeline	88	89
42	Quantify the amount of property development being undertaken, the amount transferred to investment properties and the amount sold during the year		
	– Being undertaken	97	86
	– Amount transferred to investment property	100	100
	– Amount sold the year	100	97
43	Discuss developments being undertaken at existing properties, for example, renovations, extensions and improvements	97	89
44	Quantify the cost and committed expenditures for key development properties	91	69
45	Show the portfolio broken down into segments relevant to the fund, e.g., by sector and geography	94	94
46	Disclose tenant concentration, by either theoretical (ERV) or actual rental	68	61

\* Reference number refers to the INREV Guidelines

\*\* % of Reports complying with the individual guideline

Table 19

REF *	Further Guidance	2010 % **	2009 % **
47	Provide an analysis of rental income by type/ industry etc. of occupier in order to identify concentration risk	50	53
48	Provide an analysis of (gross and net) rental income by sector and/or location	56	53
49	Disclose average yields achieved, broken down to relevant segments	59	69
50	If significant, disclose details of service charge recoveries, debt write-offs, outstanding rent reviews and vacancy rates	71	94
51	Provide an analysis of life for like movements of the valuation by systematic and market yield movement to distinguish value movement between general cap rate movements and that derived by the manager	35	22

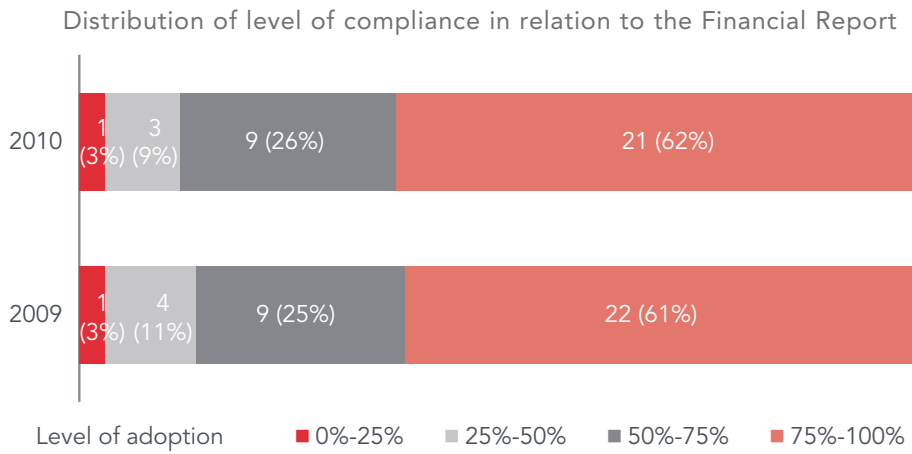
\* Reference number refers to the INREV Guidelines

\*\* % of Reports complying with the individual guideline

## 5.4 Financial Report

The best practice requirements for financial reports encourage funds to include a management review that describes and explains the main features of the fund's financial performance and position. This covers the NAV of the fund and its debt structure, together with a risk analysis which relates to interest rate risk, foreign exchange exposures, and financial instruments.

Graph E



*Fund style*

Table 20

Financial Report	FY	0%-25%		25%-50%		50%-75%		75%-100%	
Core	2010	0	0%	2	14%	3	22%	9	64%
	2009	0	0%	1	6%	1	6%	14	88%
Value added	2010	0	0%	0	0%	4	80%	1	20%
	2009	0	0%	1	14%	4	57%	2	29%
Opportunity	2010	1	7%	1	7%	2	13%	11	73%
	2009	1	8%	2	15%	4	31%	6	46%

*Fund strategy*

Table 21

Financial Report	FY	0%-25%		25%-50%		50%-75%		75%-100%	
Single country	2010	0	0%	3	13%	7	29%	14	58%
	2009	1	5%	3	16%	3	16%	12	63%
Multi-country	2010	1	10%	0	0%	2	20%	7	70%
	2009	0	0%	1	6%	6	35%	10	59%

*Vintage*

Table 22

Financial Report	FY	0%-25%		25%-50%		50%-75%		75%-100%	
≤ 2000	2010	0	0%	2	50%	0	0%	2	50%
	2009	0	0%	1	33%	0	0%	2	67%
2001 – 2005	2010	0	0%	0	0%	1	10%	9	90%
	2009	0	0%	0	0%	4	29%	10	71%
> 2005	2010	1	5%	1	5%	8	40%	10	50%
	2009	1	5%	3	16%	5	26%	10	53%

For this section of the INREV Guidelines, the level of adoption has stabilised, with 62% of the sample complying with at least 75% of the best practice requirements, compared to 61% in 2009. However, the level of adoption has improved for recurring participants with an increase to 70% complying with at least 75% of the best practice requirements in comparison to 65% in 2009. It is believed that fund managers will continue to consider improving their disclosures over the coming years.

Opportunity funds' financial reporting has recorded improvements with 73% of the sample complying with at least 75% of the best practice requirements, compared to 46% in 2009. For value-added funds, there is still room for further improvement.

Funds established during the period from 2001 to 2005 have exhibited improvements with 90% of the sample complying with at least 75% of the best practice requirements from 71% in 2009. Funds established during the period after year 2005 have also shown improvements with the sample population generally shifting to higher levels of compliance.

Table 23 shows that the highest adoption levels relate to disclosures of discussions in relation to operating profit, valuation movements and realised profits on disposal of assets, and discussions of the total amount of debt and changes from the previous year. Fund managers have also included more disclosures on the fund's maturity and the interest rate profile of outstanding debt. Areas where there is scope for improvement are the disclosure of the

results and net assets split by sector/geography, explanation of the fund's gearing policy, and discussion of the fund's financial ratios, for example, interest cover, debt to asset ratios and the fund's general compliance with particular ratios.

Analysis of the best practice requirements shows that the majority of the funds did not adopt the INREV NAV and consequently there were no disclosures showing the INREV NAV adjustments. This remains an area for further improvement.

Table 23

REF *	Best practice requirements	2010 % **	2009 % **
52	All significant components of profits should be analysed and discussed. For example, operating profit, valuations movement and realised profits on disposal of assets	94	92
53	Distributions per ownership interest	76	72
54	Adjusted NAV showing adjustments made	9	3
55	Details of the results and net asset split (by sector/geography etc.) as relevant to the fund	62	47
56	Disclose new debt arranged during the year, including structure and security	82	89
57	Discuss the total amount of debt and change from prior year	97	94
58	Explain the fund's gearing policy	65	69
59	Discuss the debt strategy of the fund, for example, extent of reliance on asset specific secured bank financing, unsecured bond issues, available facility, how much debt is non-recourse, etc.	76	78
60	Disclose and/or discuss the different combinations of debt	88	89

REF *	Best practice requirements	2010 % **	2009 % **
61	Discuss fund financial ratios, for example, interest cover, debt to asset ratios and the fund's general compliance with these: – Interest coverage – Debt to asset ratios – The fund's general compliance	56 79 65	61 50 53
62	Discuss maturity and interest rate profile of debt, for example. Weighted average term of debt, weighted average interest rate, percentage amount of fixed or floating debt, and any actions taken by the fund to address expiries	91	92
63	Discuss the fair value of financial instruments, movement year on year, reasons for movement, and the impact on net assets per share	74	86
64	Discuss foreign exchange exposures – Amounts and why they arise – Use of foreign exchange contracts, cross currency interest rate swaps, and matching of assets and liabilities in the same currency	88 91	89 89
65	Include a summary of interest rate instruments (e.g., a table detailing principals and rates of swaps outstanding for 1-year and 5-years)	88	81

\* Reference number refers to the INREV Guidelines

\*\* % of Reports complying with the individual guideline

## 5.5 Valuer's Statement

This best practice requirement focuses on disclosures of the proportion of property that has been subject to an independent external valuation. This includes references to the name and qualifications of the valuers for each property, the dates of the valuations and valuation methods.

The results show that 59% of the 2010 reports in the sample disclosed the required information to comply with at least 75% of the best practice requirements. This result is 9% higher than last year. However, there are still certain funds in the sample who have not made any disclosures regarding the valuers, valuation of the properties or the valuation method used.

## 5.6 Financial Statements

The review found 74% of the 2010 reports complied with at least 75% of the best practice requirements in this area and 76% of the 2010 reports contained full GAAP financial statements as opposed to either a summary or simplified financial statements, including:

- Statement of financial position
- Statement of comprehensive income
- Statement of changes in equity
- Statement of cash flows
- Notes to the financial statements

The review also found that 21% of the funds made disclosures regarding the accrual of carried interest and 71% of the funds did not have any carried interest. The remaining 8% of the funds have not disclosed any carried interest. Lastly the review showed that 35% of the funds are subject to performance fees, and of those 83% included disclosures regarding the performance fee.

## 6. INREV NAV AND FEE METRICS GUIDELINES

In order to promote transparency and consistency in financial reporting in the financial reports for non-listed real estate funds, the INREV Guidelines include disclosure of the fund NAV calculated using INREV's property valuation principals as a best practice requirement. This is known as the INREV NAV.

The INREV fee metrics are included in the INREV Guidelines as further guidance, which is considered best practice but is not required to be adopted or disclosed to comply with the INREV Guidelines. The objective of the INREV fee metrics is to provide guidelines on the calculation and disclosure of selected fee metrics, including both a return reduction metric and total expense ratios, in order to assist the non-listed real estate funds industry, both institutional investors and fund managers, in comparing fees and cost structures between non-listed

real estate funds. Both the INREV NAV and INREV fee metrics are to promote common principles for the disclosure of various ratios or indicators to enable comparable performance to be assessed. As in the previous review, this year we have looked at the extent to which funds made disclosures in these two particular areas of interest:

- Disclosure of INREV NAV
- Disclosure of fee metrics and calculation of various expense ratios

## 6.1 Net Asset Value

INREV has issued guidelines to fund managers on how to calculate and disclose an adjusted NAV (INREV NAV) in the financial statements of their European non-listed real estate funds.

In the current year's review, there were three reports disclosing an adjusted INREV NAV. This is a slight improvement from the previous study, where only one report was found to have made such disclosure. However, in general fund managers still use a variety of ways to disclose the economic value of a fund covered by IFRS or local accounting standards and have not considered it necessary to shift towards consistent use of the INREV NAV. In addition, fund managers are not always fully aware of the necessity of the disclosure requirements of the INREV NAV.

## 6.2 Fee metrics

In the 2010 review, there was no significant improvement in the use of the INREV fee metrics. Based on our sample, there were only two cases in which the reporting followed the key principles of the INREV Guidelines to calculate the fee metrics. In the previous study, none of the reports were found to have complied with the INREV Guidelines on fee metrics.

INREV has been considering revision of the INREV fee metrics because of the low level of disclosures made by funds in this area over the last three years and because of the fact that international fund managers have been critical regarding the expense ratios. In addition such revision is considered in order to support better comparability between funds and ensure better take-up among funds since, from discussion, fund managers find many aspects of this topic unclear.



## 7. CONCLUSIONS AND NEXT STEPS

The results of this study have shown that the INREV Guidelines continue to be widely adopted by non-listed real estate funds in Asia with 76% of the reports covered in the 2010 survey adhering to at least 75% of the INREV Guidelines. This has demonstrated the high standards maintained by the fund managers. The areas in which fund managers have the highest levels of compliance are disclosures of information within the Manager's Report regarding the overall performance of the funds and the factors that may affect performance in the future.

Notable areas of improvement this year include an increase in the disclosures within the general information section of information regarding the governance, management and administration, domicile, legal form and structure of the fund, investment stages, current monetary commitment of the investors, and key milestone dates. Nevertheless, there is still scope for further improvement in this area.

Scope for improvement can also be found in the Financial Report and Valuer's Statement sections of the Guidelines, with a range of 12% to 15% of the funds who have complied with below 50% of the best practice requirements in these areas. Compliance with the Guidelines for the Financial Report and Valuer's Statement fall short at 62% and 59%, respectively, when looking at how many funds comply with 75% or more of the best practice requirements.

Further progress could be made in the Property Report section, although the fact that 71% of the funds complied with at least 75% of the best practice requirements is encouraging.

As mentioned there is scope for improvement with regard to the Valuer's Statement. Valuation has become more important as investors want to ensure that valuation methods are comparable. Fund managers therefore should consider making more disclosures in relation to the valuation methods used for their properties as well as providing information on the inputs and market assumptions. Accordingly, the greatest scope for improvement lies with this section.

Adoption of the INREV NAV remains exceptional, which is consistent with last year, as are disclosures regarding fee metrics. These are therefore areas in which fund managers clearly have an opportunity to differentiate themselves in the market by improving their level of disclosure.

Over the last three years there has been increasing numbers of investors in Asia who have developed a better understanding and appreciation of the INREV Guidelines. The quality of reporting by fund managers is anticipated to continue to improve. Having provided individual feedback to the fund managers, they have acknowledged a better understanding of the need for more consistent adoption of the guidelines. It is recommended that fund managers also consider using the compliance framework to demonstrate their adoption.

#### *Next steps*

As part of ANREV's endorsement of the INREV Guidelines in Asia, ANREV has an active programme of events to inform and educate the market.

In June 2011, ANREV issued the ANREV Guide to the INREV Guidelines to help ensure that the details of the Guidelines are relevant and applicable in the Asia region. The ANREV Professional Standards Committee has seen little need for changes in the Guidelines to permit compliance in the Asia region. It is hoped therefore that this publication will help to make fund managers in the Asia region more aware of the Guidelines and more likely to comply with the Guidelines.

The individual feedback provided to the fund managers who are new participants in this study should also help them to increase their level of compliance with the INREV Guidelines.



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