

PERE CFO: Global standardized reporting 'crucial'

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By: **Annabelle Ju**

Speakers at the PERE CFOs and COOs Forum emphasized the importance of creating an even playing field for private real estate investors across regions.

While investing in private real estate is a local strategy, the capital flowing into the asset class is international, making a global standardized reporting crucial, according to panelists speaking at the PERE CFOs and COOs Forum in New York on Tuesday.

“Real estate capital knows no boundaries, so having standardized reporting globally helps investment managers across the world compare themselves side-by-side,” John Caruso, managing director and head of finance in the Americas at TH Real Estate and co-chair of NCREIF/PREA/INREV global initiative said, noting that there are currently discrepancies across regions.

For example, he said, there are standardized due diligence questionnaires in Europe and Asia that are not used in the US, and the US’s focus on risk management is less emphasized in other regions.

One of the most important items for standardization, he said, is the measurement of fees and expenses, as the differences in fee structures, disclosures and calculation methods all need streamlining.

Another attendee agreed.

“You should be able to look at certain pieces of information, come up with a ratio that says there's this expense load on this fund and this much on another,” said Barbara Flusk, head of global real estate fund services at Citco and the co-chair of the joint fee and expense workgroup initiative. “When we first started [these efforts around industry standardization], it was about defining and aligning.”

She said the working group she co-chairs addressed the basics first, defining management fees, advisory fees and appraisal costs in a global context. Once the definitions were clarified, the next step was to use them to establish a global metric.

“Phase two was about creating one global expense ratio,” she said. “Anything that can help investors.”

Caruso added that this was important for creating a level playing field across regions. Before this effort, some investors in the US were counting fees as part of overall fund metrics, whereas those in Europe and Asia were not.

“We had to create a level playing field for investors, no matter what part of the world they are investing from,” he said.

Flusk explained: “This was essential also because the differences they found among firms were not so much about their sizes but more about their geographic regions, the fund administrator added. For example, the regulatory regime in Europe with the AIFMD is much more onerous.”

It’s important to remember not to become overbearing with these standards, according to Marybeth Kronenwetter, director of reporting standards at NCREIF.

“When we created reporting standards, we created them with the intent to create a minimum level of standardization,” Kronenwetter said. “That doesn’t mean minimal; it means minimum. We tried to get the most common elements of information within reporting standards, such as internal rate of return and multiples. Beyond that, there are not significantly more standards that we need to provide.”

There is already a standardized fee reporting template in the private equity asset class, created by Institutional Limited Partners Association and released in January 2016. According to Kronenwetter, there are currently efforts to support real estate funds adapt the ILPA template for real estate-specific reporting.

“It’ll be an LP push,” she said. “LPs are getting data in different ways, so I think it’s natural to push to adopt a set of standards.”