

EVOLUTION OF THE NCREIF PREA REPORTING STANDARDS

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This is a story of forging new ground. Constant evolution of the real estate markets, the capital markets, and technology; and the importance of the responsive, dynamic, and interdisciplinary perspective embedded in the Reporting Standards initiative. Consistent, transparent, and comparable data and information provided within the Reporting Standards plays an ever-increasing role across our industry today as we move rapidly in pursuit of the best information for decision-making. That wasn't always the case. Evolution requires pioneers. Many pioneering organizations became more institutional as markets evolved and transparency took hold.

The road to reporting standards began in the 1970's. The passage of ERISA in 1974 contributed to an ongoing series of pension fund changes including expanding the investment universe from fixed income into the equity markets during the 1960s. The real estate open-end fund business began during the 1970's. Banks and insurance companies developed the initial products. In the late 1970s, Blake Eagle, NCREIF's founder, was leading the Frank Russell Company's real estate practice and encouraging its corporate pension fund client base to consider investing in real estate as an alternative asset class.

Blake's goal was to apply knowledge from other asset classes to real estate. A key lesson was that data supported investment decisions. Blake realized that his ability to persuade investors would be facilitated if he could gather relevant information to support the initial decision-making process and measure progress. Beginning in 1979, he gathered a group of representatives from the open-end fund sponsors to discuss voluntary contribution of information to a database that would be used to help grow the nascent institutional real estate investment industry.

Unsurprisingly, it took several meetings for the group to agree to contribute what had previously been viewed as proprietary information. After significant deliberation, information beginning with 1978 was collected for what would become the NCREIF Property Index (NPI).

The first meeting of NCREIF was held in 1981. As the organization took shape, the accounting, research, and valuation committees were created. Blake believed that industry credibility could be established if this data set were reliable and independent of the influence of any one investment manager.

During the 1980s, the committees worked diligently to develop industry specific policies for accounting and valuation and identified research topics to demonstrate the value of the NPI. It became apparent that a standards initiative was vital as governing literature at that time was quite broad and the NPI effort needed to establish industry credibility.

As an example, fair value reporting was an ERISA requirement, unfortunately, there were no relevant accounting pronouncements to provide guidance. Appraisals were expensive, frequency varied, and data availability for appraisers was a challenge. Finding a path to meet investor requirements while homogenizing the data set was no small task. The NCREIF consensus-oriented approach was hatched during this time. This slowed the standards development process, but increased buy-in.

NCREIF stood alone in the pursuit of standards development until the market decline of the early 1990s, when PREA and NAREIM joined the process.

The downturn precipitated investor information requests to their investment advisors seeking to understand the impact of the downturn on their investments. Realizing that reporting

varied across the industry, and responding to investor interest, the three industry associations joined forces to formalize standards development. Deloitte was commissioned to codify industry standards, resulting in the Real Estate Information Standards (REIS). NCREIF assumed responsibility for monitoring the standards and updating as appropriate. NAREIM dropped its sponsorship during the 1990s.

In 2003, NCREIF formalized the standard setting process, creating what today is known as the Reporting Standards Council. In 2007 an independent Reporting Standards Board was created. These governance changes crystallized the standards process. The committees remained an integral part of the equation, however their role shifted to supporting the standards process by working closely with the Council. The Council develops and manages the Reporting Standards. Its members represent a cross-section of interdisciplinary and discipline-specific expertise from a broad range of investment managers, investors, and industry service providers, ensuring that the standards development process consider industry stakeholder perspectives, but does not contradict standards established by the FASB, GIPS®, and the Appraisal Foundation. The Board is accountable to the sponsors, NCREIF and PREA. The Board members develop and approve the strategic direction of the Reporting Standards and are its primary advocates.

Over the next decade, several formative changes occurred:

- Expanded the Reporting Standards from solely focused on index production to comprehensive investor reporting, facilitating decision-making.
- Established a Reporting Standards hierarchy: Volume I-top level required and recommended practices which must be followed to claim compliance; and Volume II-guidance which further supports the compliance process.
- Created checklists for Funds and Separately Managed Accounts to facilitate determining compliance.
- Established a strategic alliance with INREV and ANREV to develop global reporting standards in recognition of the global nature of our business.

Today, the Reporting Standards continue to support new NCREIF indices and benchmarks. Collaboration with related industry associations is increasing as investors in private markets seek to better understand both similarities and important distinctions of various types of real estate investments within the private market investment asset class. Our work continues as global real estate capital flows freely. The Reporting Standards team is currently considering establishing standards and best practices reporting for our industry related to ESG and private debt investment. The Standards effort has the support of sponsors and their members, growing recognition within the private market real estate investment industry and the structure and people to continue to be proactive and responsive for many years to come.

The notion that data would support the expansion of the institutional real estate industry has proven prescient. The industry thrives in part due to the confidence it has in the available data. This confidence is directly attributable to the Reporting Standards.

Many people contributed to this effort over the past forty years. Blake's vision has become a reality. We should all send him a thank you note.

