

ANREV

ANREV Guide to the INREV Guidelines

PROFESSIONAL STANDARDS

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ANREV is the Asian Association for Investors in Non-listed Real Estate Vehicles Limited. ANREV is a not-for-profit organisation driven by institutional investors in Asian Non-listed Real Estate Vehicles.

Our aim is to serve as a platform for investors who guide the association's strategy in a bid to improve transparency and accessibility of market information, promoting professionalism and best practices, sharing and spreading knowledge. Fund managers, investment banks, lawyers and other advisors provide support in addressing key issues facing the Asian non-listed private equity real estate fund markets.

ANREV now has 118 members companies in fourteen countries.

FOREWORD

ANREV is pleased to present the ANREV Guide to the INREV Guidelines. This Guide provides ANREV members with additional information when looking to adopt the INREV Guidelines in the region.

ANREV is proud of its association with INREV, and, in particular, the co-operation to endorse the INREV Guidelines in the region. Feedback from members confirms the appetite from across the region for this framework to improve transparency and standardisation for reporting, corporate governance and information provision.

It is an ANREV priority to ensure that the Guidelines quickly become industry standard and this Guide along with other initiatives such as professional standards training courses are a measure of our commitment to improving adoption in the region.

I would like to thank the members of the Professional Standards Committee for their hard work in completing this Guide. Additional support was also invaluable from two members who agreed to joined the working groups to offer advice in their specialist areas.

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ANREV and the committee welcome any feedback you have on this Guide or any other aspects of the INREV Guidelines.

Nicholas Loup, ANREV Chairman
 June 2011

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INTRODUCTION AND AIMS

In December 2009, ANREV signed a co-operation agreement with INREV to endorse the INREV Guidelines in Asia Pacific.

The co-operation was the start of a mutually beneficial relationship. For ANREV, it enabled the Association to promote an established set of Guidelines which had been specifically developed for the non-listed property funds sector. This provided its members with guidance on important issues such as corporate governance, reporting and data provision.

For INREV, the use of its Guidelines in a second region extended their status as the industry standard. It also supported the ambitions of its members with international activities who now find that the INREV Guidelines are the common language for the industry in two regions.

During 2010, ANREV's activities around the Guidelines focused on increasing their profile in the region among members and within the wider industry. Workshops were held in Hong Kong, Singapore, Sydney, Melbourne, Tokyo and Seoul to discuss the implications and relevance of the Guidelines in the Asia Pacific non-listed property funds industry. Early in 2011, ANREV increased its practical support to members with the start of a training programme focused on the Guidelines.

The ANREV Professional Standards Committee also began work to ensure that the details of the Guidelines were relevant and applicable in the region. The fund-level approach of the Guidelines means that they are broad enough to be as applicable in Asia Pacific as they are in Europe. However, the committee felt a review was important to offer guidance on any areas of regional variation or market practice. This publication is a result of this work.

The committee has seen little need for changes, which reinforces the relevance of the Guidelines in the region and supports one of its main principles of standardisation. Instead, this Guide aims to offer mainly application advice, recognising that market practice will vary in Asia Pacific and background as to how the Guidelines fits into this can be a useful support to those approaching them for the first time.

In addition, the committee has also gathered its views on the existing Guidelines, which it will feedback to INREV to be considered for any future revision of the Guidelines. This extends to the structure of the Guidelines and areas where further guidance for the Asia Pacific region would be useful.

A second project sees the same review process being undertaken for one of the appendices to the Guidelines, the Due Diligence Questionnaire. An ANREV guide to the questionnaire with additional questions for specific investor groups in the region will be made available to members.

HOW TO USE THIS GUIDE

The ANREV Guide is designed to be used in conjunction with the INREV Guidelines. Sections in this guide align with the numbered sections in the INREV Guidelines and are designed to be read as additional application notes.

Those adopting the Guidelines should see these notes as background on market variations and not further instructions on how to apply these Guidelines in the region.

Compliance should be approached as directed by the Guidelines and it should be clear that fund managers in the region are adopting the INREV Guidelines, as endorsed by ANREV in the region, and not ANREV Guidelines. There is one caveat in that under the Data Delivery (module seven), information should be delivered to ANREV rather than INREV, where appropriate. Any decision not to comply with the Guidelines should be as part of negotiations between the fund manager and investor at the fund launch or subsequent investments. More information on this process can be found in section 1.3 Compliance Framework of the INREV Guidelines.

Readers should also be aware of additional guidance available in the appendices to the INREV Guidelines, which are on the ANREV website www.anrev.org.

Like the INREV Guidelines, this guide splits its information into four sections: introduction, launch, operations and exit. If no guidance is offered on particular sections of the Guidelines, this is as it was felt that no clarification was required.



Introduction

Section of the INREV Guidelines	Application notes
1.3 Compliance Framework	Module 7 Data Delivery requires fund managers to contribute data for inclusion in the INREV Vehicles Database and the INREV Index. These initiatives are European in scope so it is recommended that where the fund's scope is Asia Pacific, the data is delivered to the ANREV Funds Database and ANREV Index.
1.7 INREV Website	The ANREV website at www.anrev.org should also be considered a useful reference tool. The committee intends to develop best practice examples for the region. Any additional material will be available on the website.

Launch

Section of the INREV Guidelines	Application notes
2.2 Corporate Governance	<p>The majority of active investors in Asia Pacific non-listed property funds are currently American and European so standards of governance are likely to be in line with those found in Europe. Fund managers in the region working with international investors tend to follow the same approach as European counterparts.</p> <p>One area of difference may be where, in the governance of a fund, investors are expected to act in an oversight role on behalf of themselves or other investors on an advisory board, for example. In Asia Pacific, with many investors investing outside their domestic regions, they may be reluctant to take a role which gives them oversight or responsibilities on behalf of other investors. Despite this, advisory boards can be larger than those seen in Europe with in some rare cases up to 20 participants.</p> <p>The Guidelines are geared towards fund managers working with corporate structures in Europe, which include the use of non-executive functions. This is rarer in Asia Pacific, which tend to be more partnerships, which do not lend themselves automatically to include a non-executive governance layer. The common principles of the Guidelines apply in both cases so this should not be a barrier to adoption.</p>

Section of the INREV Guidelines	Application notes
2.2.2 Corporate Governance Framework	<p>In many cases, there is no non-executive function for Asia Pacific funds so investor participation is at the advisory committee level, which then does not take this type of responsibility. Where there are non-executive directors, it is likely that they would look to take a less pro-active role for funds in Asia Pacific. Rather than “ensure” that the manager has undertaken certain tasks and put in place processes, they are more likely to rely on the manager to put these in place and raise any issues with the non-executives where necessary. In some cases, non-executives ensure that the funds have compliance managers to support in the oversight of these issues.</p>
2.2.5 Secondary market transactions	<p>There are fewer secondary market transactions in the Asia Pacific region so this guidance is currently less relevant in the market. It is common that if there is reference to secondary market transactions in the fund documentation then they are subject to consent by the manager. There is expected to be some change in the interest in, and use of, the secondary market by investors who are looking for more liquidity options following the crisis.</p> <p>Principle 10 – striking the balance between the confidentiality and providing the right amount of information for secondary transactions is seen as challenging, with fund managers having similar experiences in Europe.</p>
2.2.7 Third party service providers	<p>Third parties service providers in Asia Pacific are less likely to be as developed as those in Europe so there would be less evidence of conforming to SAS 70/ISAE3402 reports or other official certification documents.</p> <p>Managers in the region are raising the awareness of the importance of compliance and accountability with local third party service providers to raise the use of local expertise in funds. However, some managers use international service providers where possible to assure quality and reliability.</p>

Section of the INREV Guidelines	Application notes
2.3 Valuation and reporting framework	<p>It is common practice for fund managers to issue unaudited figures within a certain period (often around 45-75 days) after the end of year, with full audited figures followed up (usually within 90-120 days). Fund managers need to be mindful that investors may also be completing their year-end figures.</p> <p>It is also not unusual for investors to ask for estimates of net asset value (NAV) based on the relevant accounting standards within a short period after the end of the year (and also each quarter for quarterly reports). Any changes from unaudited to audited figures should also be clearly reconciled in the INREV NAV figure presented to investors.</p> <p>Investment entities in Japan, Australia and India do not necessarily report based on the calendar year. In these cases, investors may have particular requirements as to how figures need to be reported at the calendar year-end but fund managers are likely to be asked for unaudited figures in the first instance. This information is usually specified in the Limited Partners Agreement.</p>
2.3.1 Property valuations	<p>The INREV Guidelines do not prescribe or recommend a valuation approach which allows different approaches in Asia Pacific to be recognised. For example, Japan and Korea have approaches which are very specific to their markets and regulatory standards in those countries. The Guidelines do not provide any guidance on adopting valuations prepared under specific country standards relative to more “international” standards such as IVS or RICS. Further guidance is to adopt IVS or RICS but the ability to do this does also depend on local regulatory requirements. They are designed to ensure that the asset level valuations which feed into the INREV NAV are provided on a consistent basis with an independent valuer.</p> <p>Investors receive information on the internal and external valuations but with the exception of Australia, the property valuations report is sometimes not disclosed to investors, which results in a lack of disclosure of the basis and assumptions upon which the valuation has been carried out. ANREV would encourage managers to be transparent on this process by ensuring there is information on the key valuation assumptions and that these disclosure arrangements are agreed at the launch stage.</p>

Section of the INREV Guidelines	Application notes
2.3.2 INREV Net Asset Value (INREV NAV)	<p>The INREV Guidelines do not prescribe a specific accounting framework. In Europe there is a wide variety in the use of IFRS and local GAAP. In Asia Pacific, there tends to be more consistency with IFRS as the preferred framework with fewer cases of local GAAP, although US GAAP is a notable exception.</p> <p>INREV NAV can be derived from both an IFRS and US GAAP, which are the most common frameworks in the region.</p> <p>US GAAP is an increasingly popular approach in Asia Pacific compared to IFRS as it is seen as less time-consuming and expensive as there is typically no requirement for consolidation for partnerships. US GAAP uses a fair value approach at the property level.</p> <p>There is a similar high correlation to IFRS from many of the local financial standards including the Singapore Financial Reporting Standards or Hong Kong Financial Reporting Standards.</p> <p>The current prevalence of IFRS in the Asian Pacific non-listed property funds industry might also be due to the cross-border nature of capital sources for these funds. Funds which target mostly domestic capital are likely to consider a local GAAP for financial reporting such as Japan GAAP or PRC GAAP. INREV NAV is still derivable from these local GAAP frameworks.</p> <p>INREV NAV is not commonly reported in the Asia Pacific region currently and fund managers may have agreed to NAV calculation methodology with specific investors on a different basis. This is a similar situation to European funds which were launched prior to INREV NAV's introduction in 2007. In these cases, fund managers have commonly reported INREV NAV alongside the existing NAV calculation to enable investors to make comparisons. This approach is encouraged in Asia Pacific as well.</p>
2.3.3 INREV Fee Metrics	<p>INREV Fee Metrics has had relatively low levels of take up in Europe. Nevertheless, ANREV, like INREV, supports the principles of fee metrics to provide transparency of fees for investors and standardisation to enable comparability across funds. INREV is working on improvements to this section of the Guidelines in 2011 including updating definitions and further guidance on which fee items should be included under which category in.</p> <p>The focus for implementation in Europe has been the Total Expense Ratio (TER), which has resulted in lower levels of adoption for the Real Estate Expense Ratio (REER) and the Return Reduction Metric (RRM).</p>

Section of the INREV Guidelines	Application notes
	<p>At this stage, ANREV recommends a similar approach for members in Asia Pacific. While there are implementation issues with the TER, this part is seen as valuable first step and will provide investors with a transparent and relevant overview of fees and costs. ANREV does not wish to discourage adoption of the REER and RRM but recommends TER as a higher priority.</p> <p>If fund managers do want to consider calculating REER to understand the real estate expenses of the assets in the fund, then they need to be aware of the role currency factors play. It should be calculated based on the fund currency, in which case it will relate better to the TER but be subject to currency impact. This approach is recommended as the TER calculation is based on items in the fund's profit and loss statement. The alternative would be to base it on local currency, in which case it would better reflect the property's true performance. However, it is difficult to tie this to a TER as the fund would need to allocate different fee costs across the currencies. Fund managers should make clear their approach to investors and the limitations of the REER based on the fund's currency.</p> <p>For private equity funds in the region, there is some question over how relevant REER is when minority stakes in companies/assets are purchased by funds. In this case, the fund manager needs to consider the value of the metric to investors.</p>
2.3.3.1 Forward looking Total Expense Ratio (TER)	<p>Estimating fees for a Forward looking TER should only be included in the fund documentation for the launch phase. The Guidelines recommend that this should be done for the first three years of a fund's life, however, ANREV considers that including a forward-looking TER for the first 12 months should be sufficient, due to the challenges associated with making assumptions for future costs of funds.</p>
2.3.3.3 Return Reduction Metric	<p>The RRM is a calculation that broadly looks to quantify the difference between gross NAV and net NAV and therefore to consider the efficiency of fund structures.</p> <p>This analysis can be challenging as it is difficult to "undo" inter-related drivers such as fees, taxes etc. In Asia Pacific, this analysis might be less useful due to the greater variety in funds by geography and strategy compared to Europe so the comparison of fund structures will be less meaningful.</p> <p>There is merit in understanding the drivers, that will result in the difference between gross and net NAV and this can be built into the due diligence stage with less focus on qualification or on ongoing reporting.</p>
2.3.4 Annual reporting	<p>See section 3.7.4 for further information on the topic</p>

Section of the INREV Guidelines	Application notes
2.4.2 Questionnaire for Investment Valuation	The Questionnaire for Investment Valuation is more commonly known as the Due Diligence Questionnaire. The most recent version is June 2010. ANREV has also provided some additional guidance for this important tool. For more information, please go to the ANREV website www.anrev.org

Operations

Section of the INREV Guidelines	Application notes
3.2 Ongoing Corporate Governance	See note 2.2 Corporate Governance for further notes on the principles relating to this topic.
3.7.1 Property Valuations	<p>See note 2.3.1 Property Valuations for further notes on the principles relating to this topic for the fund launch stage.</p> <p>IFRS outlines that the methods and significant assumptions in determining fair value are disclosed as well as whether this was determined by market evidence or was more heavily based on other factors because of the nature of the property and lack of comparable market data.</p> <p>Valuation principle 3 ensures that the fund manager is provided with a single valuation from a valuer rather than a range or number of values.</p> <p>Valuation principle 5 states that external property valuations should be performed at least once a year for all properties. Current market practice for this includes the splitting of the portfolio into four sections, one of which is externally valued each quarter with that information feeding into a desktop valuation for the entire portfolio.</p>

Section of the INREV Guidelines

Application notes

3.7.2 INREV Net Asset Value (NAV)

See note 2.3.2 INREV NAV for further notes on the principles relating to this topic.

Capitalisation and amortisation of acquisition costs: for the Asia Pacific region, this adjustment of acquisition costs can appear quite core-centric. Opportunity funds are much more likely to sell assets after a two or three year period which means that a large proportion of initial expenses have not been recognised. This results in an inflated NAV being reported in the early stages of the investment. Further guidance from INREV suggests that a shorter amortisation period can be taken into account, which is still in line with INREV NAV. Fund managers should consider looking at the average hold expectations for assets in the fund for a guide as to the period over which to amortise the costs but this period should not be longer than five years, which would result in the adjustment not being in line with INREV NAV. Any deviation from this adjustment should be discussed with investors.

Measurement of deferred tax liabilities and assets at fair value: this adjustment can bring inconsistencies into the NAV calculation depending on the chosen settlement for investments and the tax treatment of that. Reporting around this adjustment should be very clear about the assumed exit and the impact of that on the tax treatment.

Recognition of contractual fees: contractual fees only relate to items not yet included in accounts drawn up under the relevant GAAP. This adjustment can be problematic due to the uncertainty of contractual fees which are related to a future disposition (e.g. brokerage commissions, manager's disposition fee). These need to be tied to a sale price that is unknown and only estimated at today's prices. In the region, this can be further complicated by currency issues if the reporting currency is different to the currency in which the contractual fees will be charged. Fund managers should focus on the current valuation price as a starting point.

INREV offers additional adjustments that may be required by investors as well as recommendations for NAV for property performance measurement and one for a theoretical liquidation. As a first step ANREV would encourage fund managers to follow the standard NAV calculation only.

Section of the INREV Guidelines	Application notes
3.7.3 INREV Fee Metrics	See note 2.3.3 INRV Fee Metrics for further notes on the principles relating to this topic in the launch phase.
3.7.3.4 Other considerations NAV and GAV	For a further definition of Gross Asset Value (GAV), refer to Appendix 5.1 Definitions on the ANREV website www.anrev.org
3.7.3.6 Fee and expense classification matrix	FM.19 One notable addition for the region in terms of fees and expenses are those related to travel. Due to travel distances, these costs can be more significant for fund managers compared to Europe. If travel expenses are associated with the pipeline of future assets then they should be included under fund expenses. They should be allocated under property specific costs only if they can be attributed to a specific asset.
3.7.4 Guidelines for Annual Reporting	<p>The Guidelines on annual reporting, while providing a clear structure for reporting, are more tailored for core funds with stabilised assets. Those running opportunity funds in the region should take this into account when referring to this section. This may involve discussions with investors as to which items are not relevant for this type of fund.</p> <p>Likely outcomes of this include expecting information on topics such as development and pipeline issues to be fuller than, for example, commentary on rental growth.</p> <p>Fund managers should also be confident to reorder the material required for the annual report depending on the style and strategy of the fund. For example, issues which are seen as “risks” for core funds such as a lease expiry and redevelopment exposure will more likely form part of a day-to-day strategy of an opportunity fund.</p>
3.7.4.2 Manager’s Report	Unlike many funds in Europe, Asia Pacific — based funds tend to be structured more like limited partnerships. If they are not structured as companies but as limited partnerships, this means that the company law approach of corporate entities does not apply. The scope of law for the reporting for these limited partnership entities will be stated in the Limited Partners Agreement and side letters.
3.7.4.2.5 Risks and opportunities	For opportunity funds, this section is likely to be more discussed in the “Review of business” section (3.7.4.2.1) as these factors will be core to the fund’s strategy.

Section of the INREV Guidelines	Application notes
3.7.4.3 Property Report	Items in this section may be less relevant for non-core funds. Any exclusion of these items should be discussed with investors. Fund managers with non-core funds might also find they need to offer more expansive sections on information related to development strategy and pipeline, for example, RG.41 Discuss the development strategy and pipeline or RG.43 Discuss developments being undertaken at existing properties, for example, renovations extensions and improvements.
3.8 Data Delivery	The INREV Vehicles Database and INREV Index are for funds active in Europe. Fund managers on Asia Pacific following this recommendation should supply ANREV with information for the ANREV Funds Database and the ANREV Index, which is under development.

Exit

4.2	See note 2.2.5 Secondary market transactions for further notes on the principles relating to this topic.
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