Management Fees and Terms Study **2023**

Research

INREV is the European Association for Investors in Non-Listed Real Estate Vehicles. Our aim is to improve the accessibility of non-listed real estate vehicles for institutional investors by promoting greater transparency, accessibility, professionalism and standards of best practice.

As a pan European body, INREV represents an excellent platform for the sharing and dissemination of knowledge on the non-listed real estate industry.

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Executive summary

The average reported Total Global Expense Ratio (TGER) for 2022 was 1.01% based on GAV and 1.75% based on NAV

Core funds, large funds, and those with single country strategies and single sector strategies report lower TGERs

ODCE funds exhibit notably lower TGERs than the average for all other funds with a multi country – multi sector strategy

The Real Estate Expense Ratio (REER) has the strongest linkage with the single country strategy, driven by the variations in costs split between landlord and tenant as defined in the rental agreements

Large funds have lower TGER
This year's study, based on a sample of 83 funds, recorded an average[1] TGER of 1.01% based on GAV and 1.75% on NAV, as reported for 2022. When accounting for vehicles' size, the value-weighted average TGER was 0.75% based on GAV and 0.97% based on NAV. This indicates that larger vehicles have lower TGERs, on both NAV and GAV basis. The highest TGERs are amongst the recently launched closed end funds as they are still relatively small and tend to have higher gearing levels.

Core – Open end funds report lower expense ratios
The distinction between core and non-core funds closely parallels the breakdown by open end and closed end structures as all open ended funds in this year' study follow a core investment approach. Closed end funds, in the sample, maintain diverse investment strategies. When both style and structural characteristics are taken into consideration, core open end funds exhibit a lower average and a smaller range of TGERs compared to the groups of core closed end funds and non-core closed end funds.

Core funds, regardless of their size, continue to exhibit limited variations in TGERs. However, size does play a role as large core funds, on average, have lower TGERs. In contrast, non-core funds, primarily composed of smaller funds with gross asset values (GAV) below €500 million, maintain a higher average and a wider range of TGERs.

Disparities based on vintage biased by sample composition
Older vintage groups show the lowest range of TGERs compared to the more recently launched funds. However, when corrected for the sample composition, differences between the vintage groups decrease.

Multi country and multi sector funds show higher TGERs
Funds with a multi country strategy demonstrate higher TGERs as they operate in multiple jurisdictions, regardless of if combined with a single sector or multi sector strategy. On the other hand, multi sector funds are more expensive, independent of if they are single country or multi country. Multi country – Multi sector strategies exhibit the highest TGERs. Of those funds with a single sector strategy, retail-focused funds show the lowest TGERs.

ODCE funds exhibit lowest TGERs for Multi sector – Multi country strategies
At 0.97% on GAV and 1.30% on NAV, the average TGER for the 16 ODCE funds is higher compared to the 51 core funds excluding ODCE funds equivalents of 0.77% and 1.09%, respectively. On the other hand, TGERs for ODCE funds are low compared to the average for all other 15 funds with a Core Multi country – Multi sector strategy. For that group, the average TGER is 1.99% on GAV and 4.68% on NAV. The minimal variance in TGERs among European ODCE funds reflects a high degree of uniformity and transparency in the fee and cost structures within the segment.

Different country strategy has the highest impact on REER
This year's study, based on a sample of 81 funds, recorded an average equally weighted REER of 0.94% based on GAV. When comparing across style, vintage, strategies and size the main driver of REER is the single country strategy, which is linked to the costs split between landlord and tenant as defined in the rental agreements. In the Nordics the costs are relatively high due to the inclusion of a large portion of utility costs, while in the UK they are low due to low maintenance costs.

1 In this report, average corresponds to an equally weighted average, unless stated otherwise

Chapter 1

Introduction

The INREV Management Fees and Terms Study explores the fee and cost structures within the European non-listed real estate vehicles, with a primary focus on Total Global Expense Ratios (TGERs) and Real Estate Expense Ratios (REERs). It is important to highlight that in 2020, INREV, ANREV, NCREIF and PREA, introduced the Total Global Expense Ratio (TGER) as a new global standard aimed at streamlining the measurement of total fees and costs associated with non-listed real estate investment vehicles.

The study was initiated in 2007 and is now published at least every two years, in September-October. This year's study includes 83 out of a sample of 365 vehicles that reported performance for 2022 in the INREV Data Platform and provided information on their actual fees as reported for 2022.

These 83 vehicles collectively represent a total net asset value (NAV) of €115.0 billion and gross asset value (GAV) of €153.5 billion as of the end of 2022 and are managed by 36 managers. A comparison between the samples of this year's Management Fees and Terms Study and the previous 2018, 2020 and 2022 editions is included in the Appendix 4.

Due to insufficient information, two vehicles are excluded from the analysis of REERs.

The results of this study are based on data provided by managers directly to INREV.

In 2022, an additional analysis was conducted to provide the latest insights into management fees of the European open end diversified core equity (ODCE) funds, which is now an annual publication.

INREV does not use publicly available information, and both members and non-members can provide data for the study. INREV would like to thank all participants of the Management and Fees Terms Study 2023. For more information about fees and expenses, see the INREV Fee and Expense Metrics guidelines module.

Use

The results of the Management Fees and Terms Study may be used for research and information purposes only.

They may not be used for the following:

(i) To determine the value of a fund

(ii) To determine the value of a financial instrument

(iii) To determine the amount payable under a financial instrument

(iv) To determine the amount payable under a financial contract

(v) To calculate performance fees

(vi) To define the allocation of a portfolio

It is important to note that the sample size and its composition varies year by year. As such, a historical comparison should be treated with caution.

Chapter 2

Total Global Expense Ratios

Large funds exhibit lower TGERs

Total global expense ratio (TGER) represents vehicle-level fees and costs before tax, including fund management fees, performance fees and vehicle costs (before tax) expressed as a percentage of the average gross asset value (GAV) or the average net asset value (NAV).

The sample of 83 funds is split into three groups: 16 open end diversified core equity (ODCE) funds with an equally-weighted gearing of 25.3%[2], 51 Core funds excluding ODCE funds with a gearing of 21.4% and 16 Non-Core funds with a gearing of 53.7%. The Non-Core group includes both, 14 value add and two opportunistic style funds, all of which are closed end by structure.

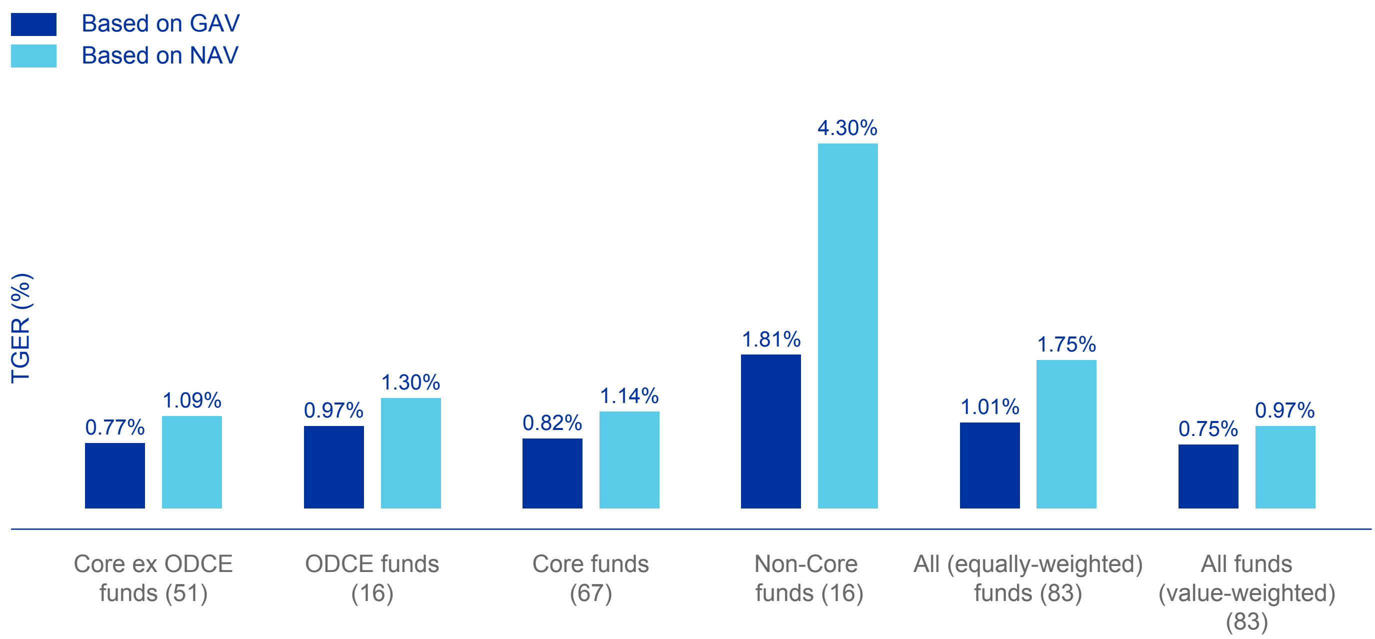
For the reporting year 2022, the equally-weighted average TGER stands at 1.01% based on GAV while on a value-weighted basis[3] it is 0.75% across the 83 funds participating in the study. The equally weighted TGER based on NAV is notably higher at 1.75% while on a value-weighted basis the equivalent is 0.97%. This suggests that larger funds have lower TGERs compared to smaller ones. As a comparison, the 2021 TGER based on GAV (incl. performance fees) was 0.95% on an equally weighted basis and 1.02% on a value-weighted basis. Due to differences in sample size and composition, it is important to note that historical comparison should be treated with caution.

Non-Core funds have higher TGERs and have larger disparities between NAVs and GAVs. These disparities show a strong relation with the actual reported gearing levels and therefore are largely explained by the differences in gearing[4]. The relatively high TGER based on GAV for Non-Core Closed end funds could be down to more intensive asset management strategies, including (re)development of assets, but also due to a relative short lifetime of the funds.

2 In this publication the gearing is calculated by (Average GAV – Average NAV) / Average GAV
3 Value weighted is based on the fund's Gross Asset Value and Net Asset Value respectively.

4 Differences between NAV and GAV can also be caused by other assets on the balance sheet, such as other liabilities.
5 In this report, average corresponds to an equally weighted average, unless stated otherwise.

Figure 1: Average TGER by Style[5]



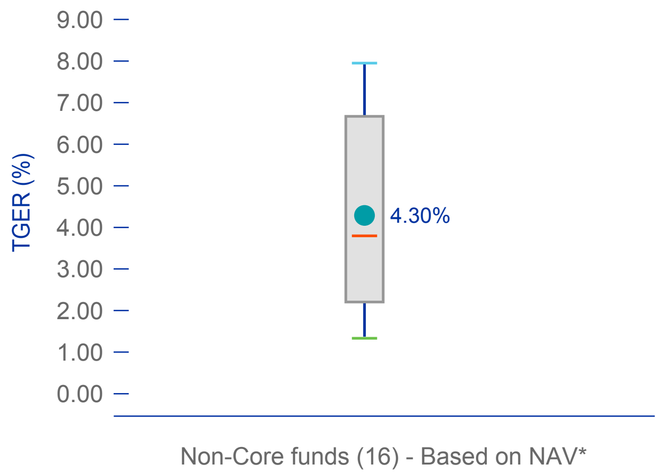
Core – Open end funds report lowest TGERs

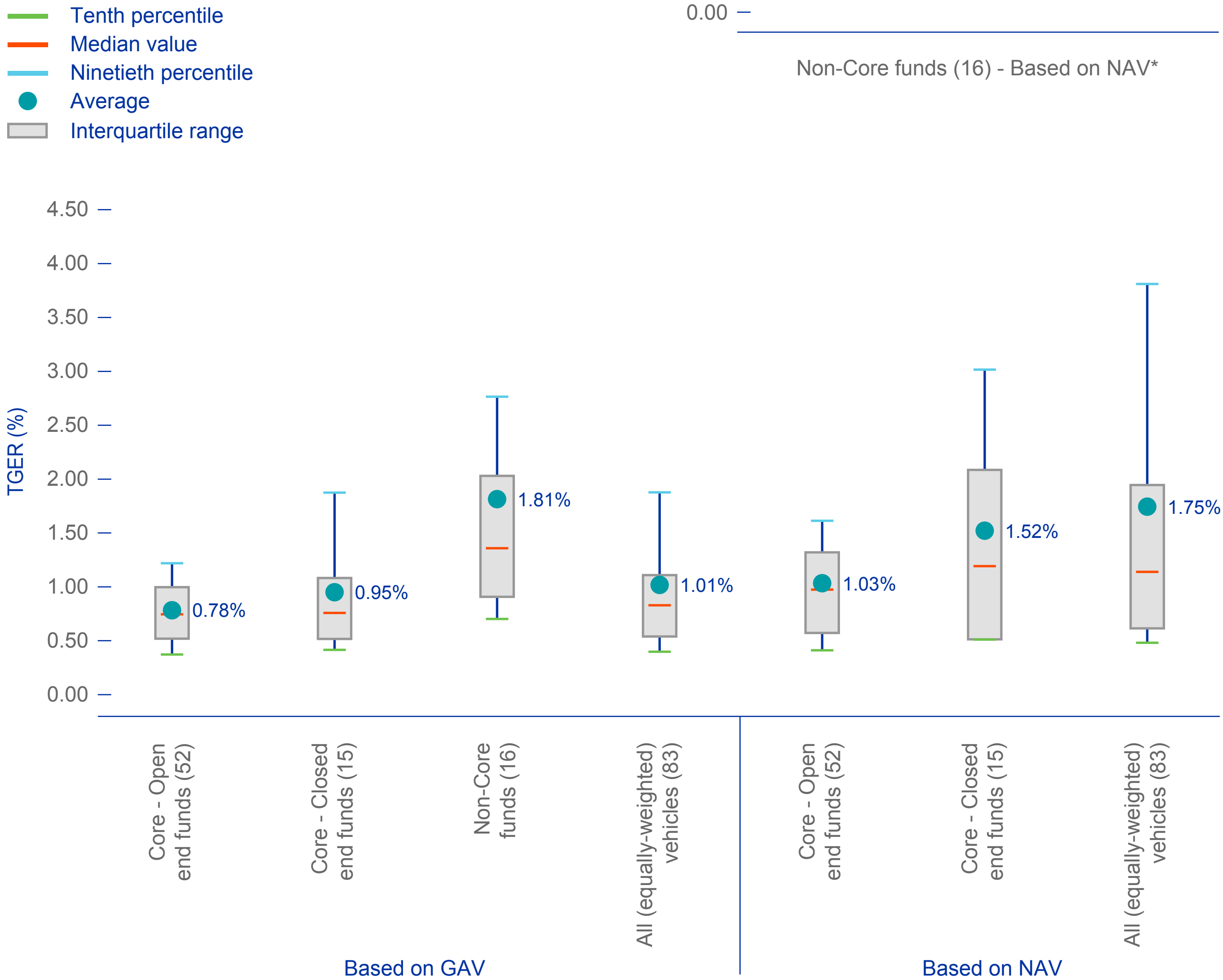
Based on a sample of 52 funds, the group of Core – Open end funds exhibits the lowest range of TGERs, as well as the lowest average of 0.78% on GAV and 1.03% on NAV. This group includes the [European open end diversified core equity (ODCE) funds](), which tend to be relatively large in size, invest pan-Europe and across sectors with a cost effective approach, and attract investors targeting passive, diversified, low risk strategies.

As a group, Core – Closed end funds (sample of 15) shows a slightly higher range of TGERs, with an average of 0.95% on GAV and 1.52% on NAV. Non-Core funds exhibit the highest range of TGERs with an average of 1.81% based on GAV. The high TGER for Non-Core funds could be due to more intensive asset management and shorter lifetime. All Non-Core funds are closed end funds, and closed end funds generally have shorter lifetimes than open end funds.

The average TGER based on the NAV for the overall Non-Core funds group is 4.30%, which could be due to the relatively high average equally-weighted gearing of 54%, relative to 22% for all Core funds, and an even lower equivalent for the Core - Open end funds, at 20%.

Figure 2: TGER by style and structure*





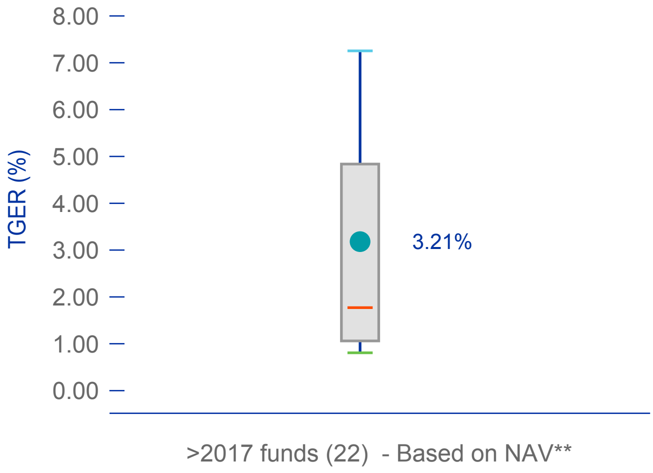
**The Non-Core funds (16) - Based on NAV are shown separately for better visualisation purposes.*

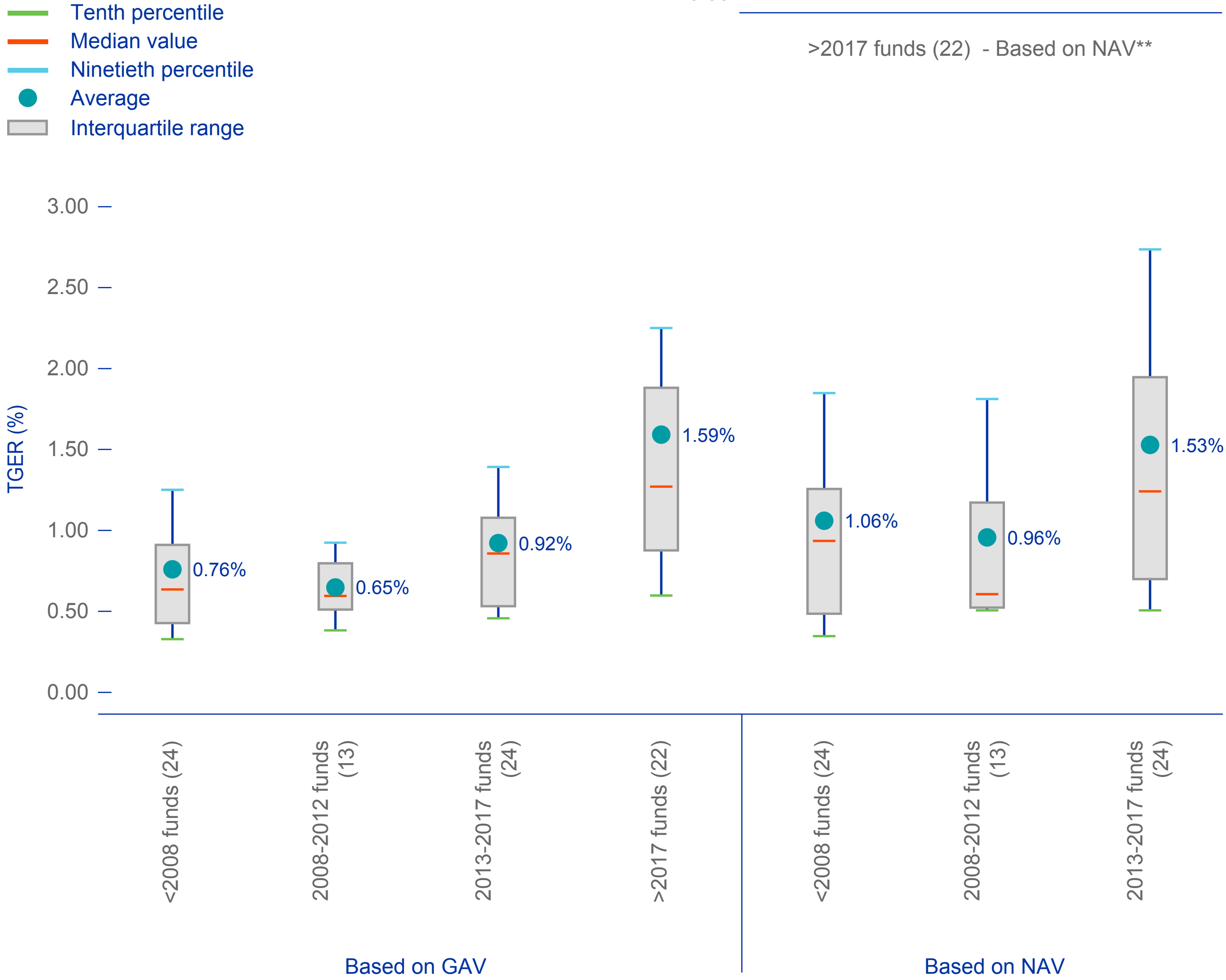
Older vintage groups report lower TGERs

TGERs vary depending on the year of the fund's initial closing. Funds with more recent vintages, specifically those closed between 2013 and 2017, and those closed after 2017, tend to exhibit higher TGERs, both in their ranges and averages. These differences are more pronounced when TGERs are calculated based on NAV, suggesting that funds with a first close after 2012, on average, employ higher leverage. For funds that closed prior to 2008, the reported average gearing is 23%. At 22%, this figure is similar for funds in the 2008-2012 vintage group but increases to 31% for those funds first closed between 2013 and 2017. The highest reported average gearing is observed for funds closed after 2017, standing at 36%.

There are notable composition differences across the groups. Older vintage groups mainly comprise of (Core) Open end funds, as most closed end funds liquidate as time passes. By contrast, younger vintage groups are a mix of Open end and Closed end structures.

Figure 3: TGER by year of first closing*





** For this analysis, the year of the first closing is used as a proxy for fund vintage. The 83 funds that are included in the sample are grouped into four categories: those that first closed before 2008 (24), funds that first closed between 2008 – 2012 (13), funds that closed first between 2013 – 2017 (24) and funds that first closed after 2017 (22).*

***The >2017 funds (22) - Based on NAV are shown separately for better visualisation purposes.*

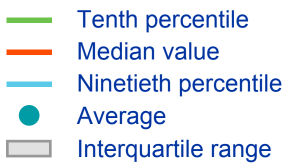
Younger Closed end funds show high TGER disparity

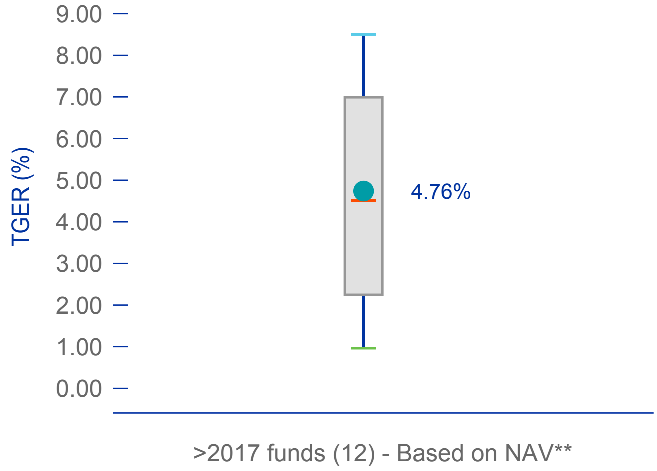
When focusing on the Closed end funds, there is substantial variation in TGERs by first year of closing. Those with the first closing post-2017 exhibit a high average TGER of 2.01%, with an interquartile and interpercentile ranges of 82bps and 259bps, respectively. The next highest average TGER of 1.15% is for funds first closed between 2013 and 2017. For this group, the interquartile and interpercentile ranges are notably narrower at 56bps and 153bps, respectively, when calculated based on GAV.

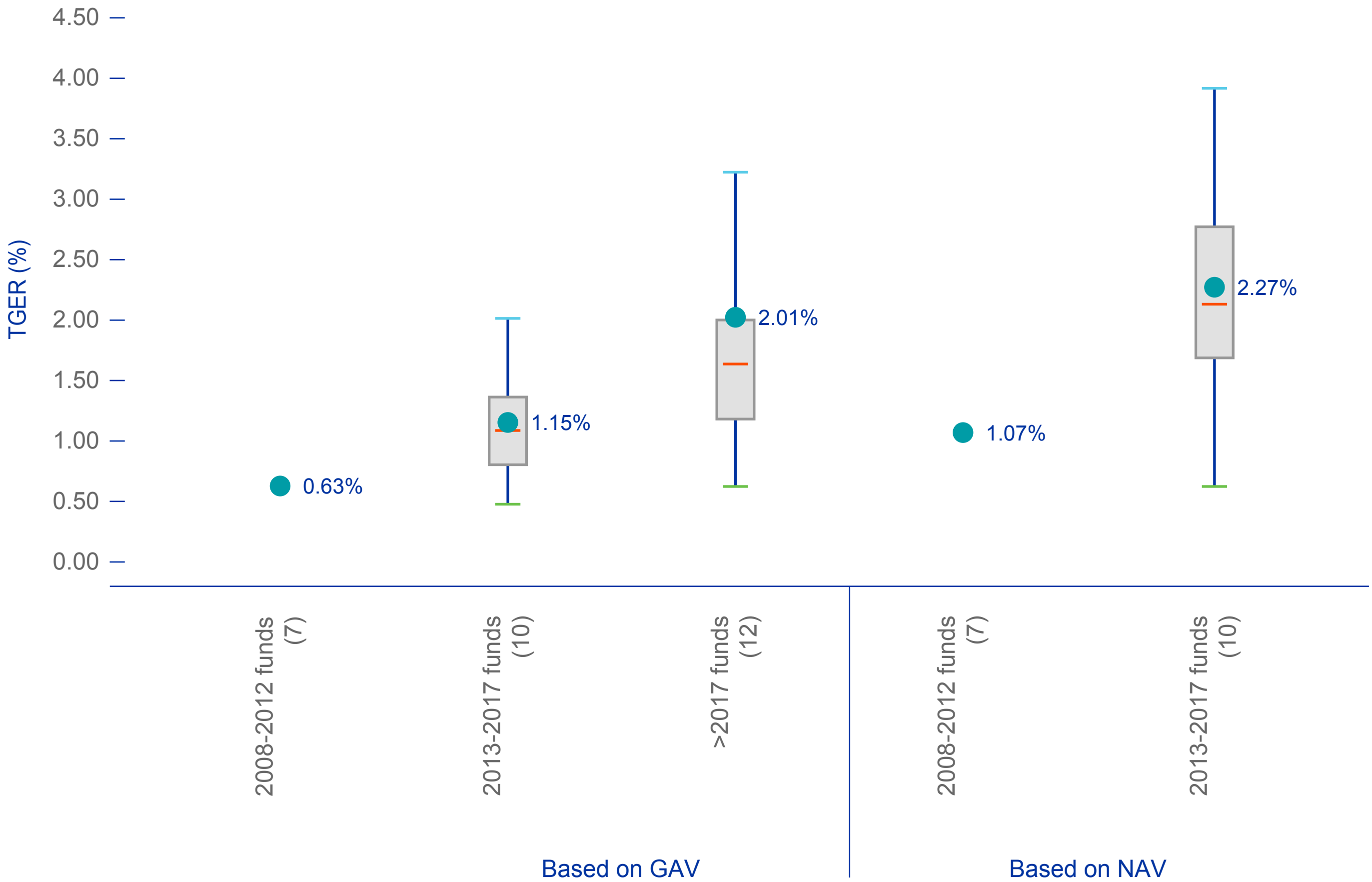
This substantial gap in average TGERs could be partly explained by the difference in composition across the vintage groups. While the 2008-2012 vintage group mainly comprises of Core funds, most funds with closing after 2017 are Non-Core funds. In general, Non-Core funds have shorter lifetime than Core funds, most of which are open ended by structure.

When considering average TGERs based on NAV, the picture changes due to gearing. Funds closed after 2017 now exhibit an average TGER of 4.76% an increase from the 2.01% based on GAV. Additionally, the 2013-2017 group shows an average TGER of 2.27% an increase from the 1.15% based on GAV.

Figure 4: Closed end funds: TGER by year of first closing*







** For this analysis, the year of the first closing is used as a proxy for fund vintage.*
***The >2017 funds (12) - Based on NAV are shown separately for better visualisation purposes.*

Large funds report lower TGERs and smaller dispersion

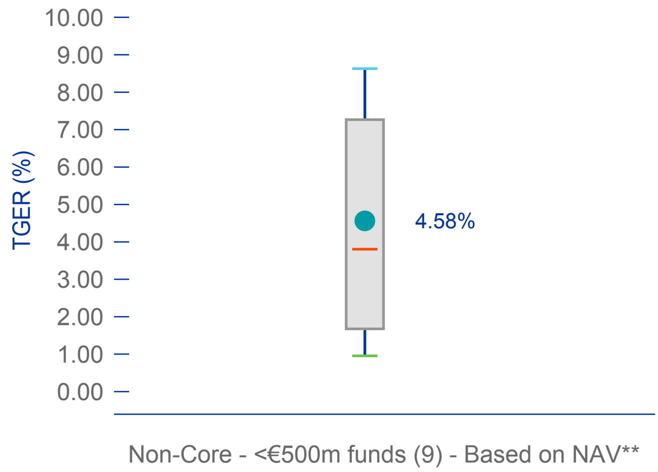
Non-Core funds with a GAV of less than €500 million show the largest range of TGERs and highest averages, both based on GAV and NAV. For these funds, the average TGER based on GAV is 1.99% compared to the equivalent for the larger Non-Core funds of 1.48%.

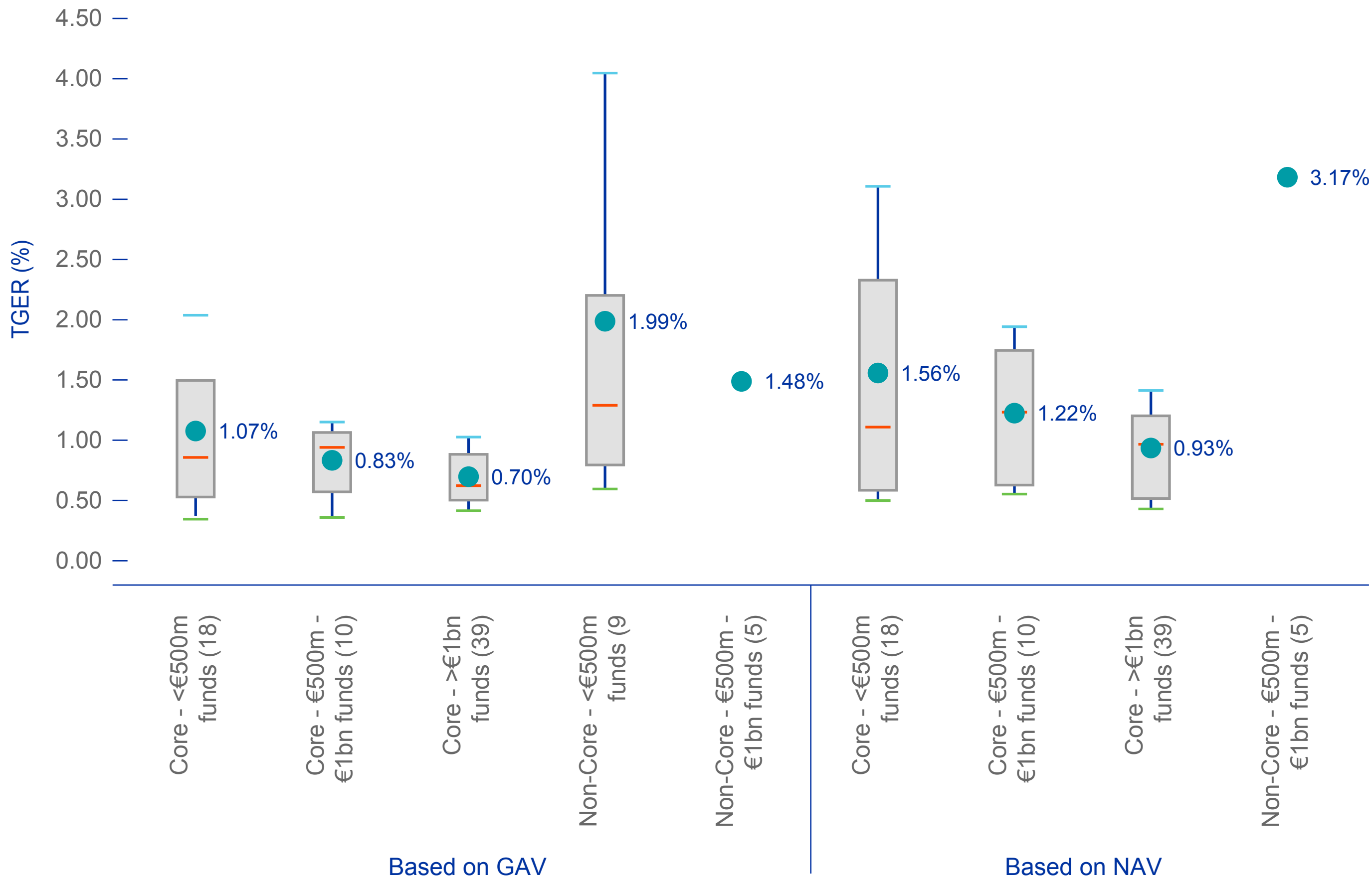
The three groups of Core funds, no matter the size, show lower levels and smaller ranges. In particular, the group of Core funds with a GAV of more than €1 billion shows a smaller range of TGERs and the lowest average TGER on NAV (0.93%). However, size is not the only explanatory factor as demonstrated by the average TGER based on GAV for smaller Core funds with a GAV of less than €500 million (1.07%), compared to Non-Core funds with a similar size (1.56%).

Size seems to matter for both the Core and Non-Core funds, where larger funds (based on average GAV in 2022) have lower TGERs, based on both, GAV and NAV. The interquartile range also decreases for the groups of langer funds.

Figure 5: TGER by style and fund size*

Tenth percentile
Median value
Ninetieth percentile
Average
Interquartile range





** The sample is grouped into four categories based on the fund's reported average GAV in 2022: Core funds with a GAV of less than €500 million (18), Core funds with a GAV between €500 million and up to €1 billion (10), Core funds with a GAV larger than €1 billion (39), Non-Core funds with a GAV of less than €500 million (9), and Non-Core funds with a GAV between €500 million and up to €1 billion (5).*
***The Non-Core - <€500m (9) - Based on NAV are shown separately for better visualisation purposes.*

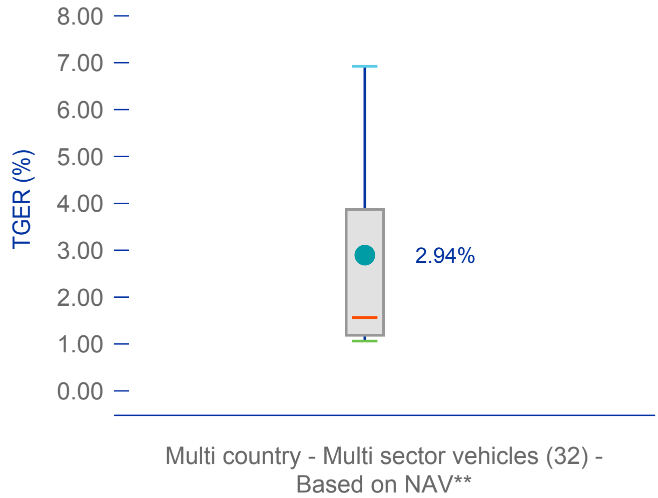
Single sector and Single country strategies have lower TGERs

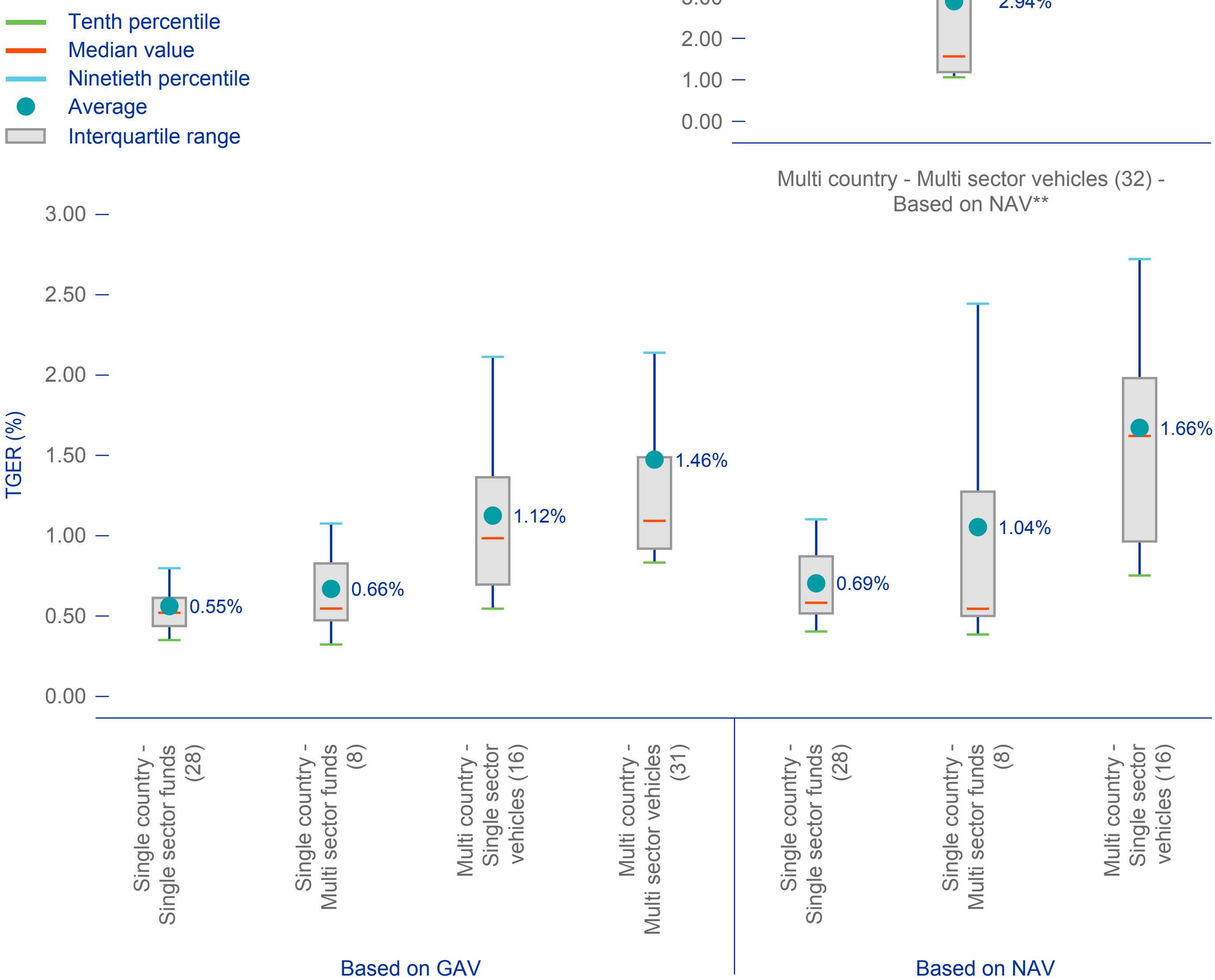
Single country strategy funds, whether Single or Multi sector, report lower average TGERs than their Multi country counterparts, likely to be related to the absence of costs associated with investing in multiple jurisdictions. The return ranges are also smaller for Single country funds compared to their Multi country peers. The differences between the two groups become more pronounced when measured based on NAV, with Multi country funds showing higher average leverage.

Sector strategies also have an impact on TGER variations. Single sector funds exhibit lower average TGERs regardless of country strategy. However, the impact of Single sector versus Multi sector strategy is smaller than the impact of Single versus Multi country strategy. The highest average TGER is for the Multi country - Multi sector funds, which include the [European ODCE funds](), designed for smaller and medium sized investors.

The lowest average TGERs based on GAV are for Single country - Single sector funds, with both the lowest results and narrower ranges. Their interquartile and interpercentile ranges are 18bps and 45bps, respectively.

Figure 6: TGER by country and sector strategy*





**By combining country and sector strategies, the sample can be split into four groups: those funds that follow a Single country – Single sector strategy (28), funds that follow a Single country – Multi sector strategy (8), funds that follow a Multi country – Single sector strategy (16) and funds that follow a Multi country – Multi sector strategy (31).*
***The Multi country – Multi sector vehicles (32) - Based on NAV are shown separately for better visualisation purposes.*

Low level and small dispersion for the Netherlands-focused funds

The Netherlands-focused funds demonstrate a small spread of TGERs as a percentage of NAV, with an interquartile range of 18bps and an interpercentile range of 44bps. Their average TGER stands at 0.51% based on GAV. This is likely related to the relative uniformity of type of funds in the Dutch market, which tend to be Core - Single sector, and for the vast majority of an open end structure.

All other single country funds include those with strategies to invest in Finland (4), France (2), Portugal (2) Denmark (1), Ireland (1) and Sweden (1) and are comprised of Core (7) and Non-Core (4) funds. The five UK-focused funds report slightly higher average TGERs than their single country counterparts based on GAV. However, the TGERs based on NAV is lower compared to the 11 Other Single country funds, mainly due to the lower gearing of 5% for the UK-focused funds compared to 40% for the Other Single country funds. Multi country funds exhibit higher TGERs compared to Single country funds and have the most substantial dispersion of TGERs as a percentage of NAV, with an interquartile range of 178bps. This can be attributed to the diverse nature of Multi country funds that invest across several jurisdictions and their cost dynamics.

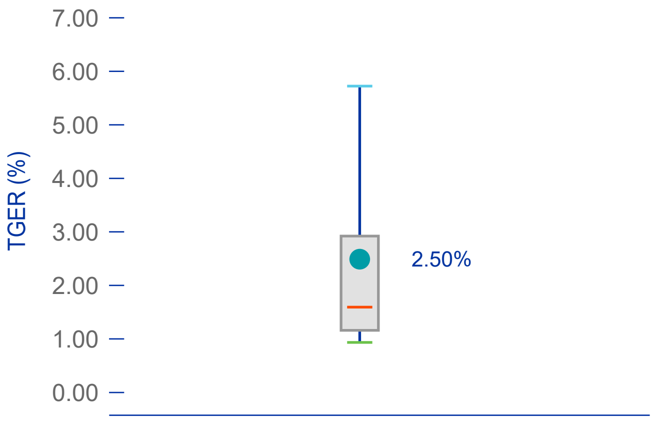
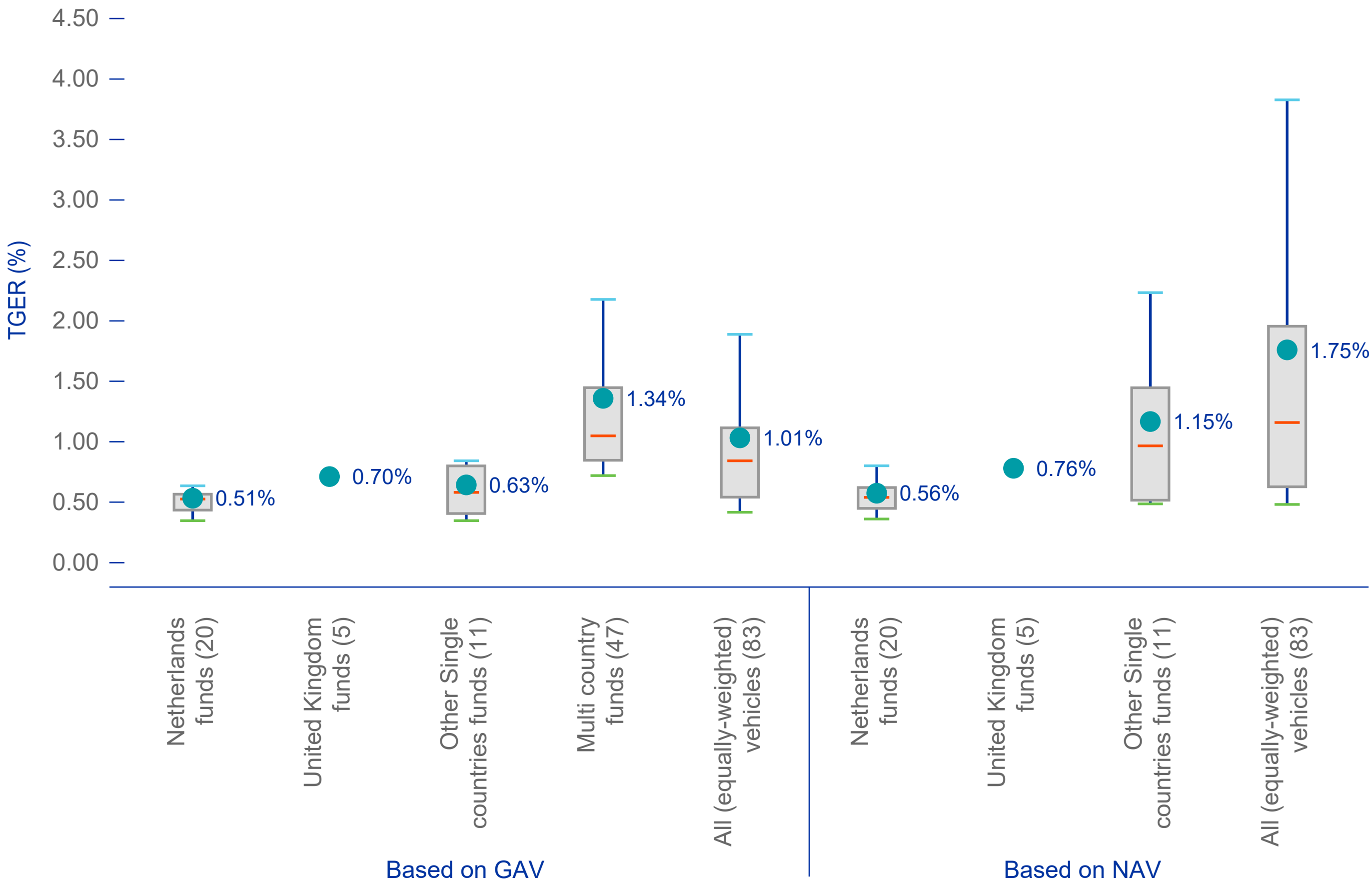


Figure 7: TGER by country strategy

Tenth percentile
Median value
Ninetieth percentile
Average
Interquartile range



**The Multi country funds (47) - Based on NAV are shown separately for better visualisation purposes.*

Retail and residential have lowest TGERs amongst single sector funds

The average TGER across the 44 Single sector strategy funds is below the equivalent of Multi sector funds (1.30% on GAV, 2.55% on NAV). The highest average TGERs are reported for Industrial/logistics funds (1.42% on GAV, 1.95% on NAV) and Other single sector funds (0.98% on GAV, 1.26% on NAV). The eight Single Sector funds encompass Health Care (3), Aged Care (2), Hotel (1) and Other single sector funds (2).

Retail-focused funds display below-average TGERs at 0.55% on GAV and 0.84% on NAV compared to the Other Single sector strategies, with a narrow dispersion of 16bps between the lowest and highest quartiles. Funds investing in Residential properties report an average TGER of 0.72% on GAV and 0.95% on NAV.

Most Single-sector residential and retail funds in the sample follow a single country strategy, contributing to the lower TGERs, while a considerable proportion of Office and Industrial/logistics funds adopt a Multi country strategy.

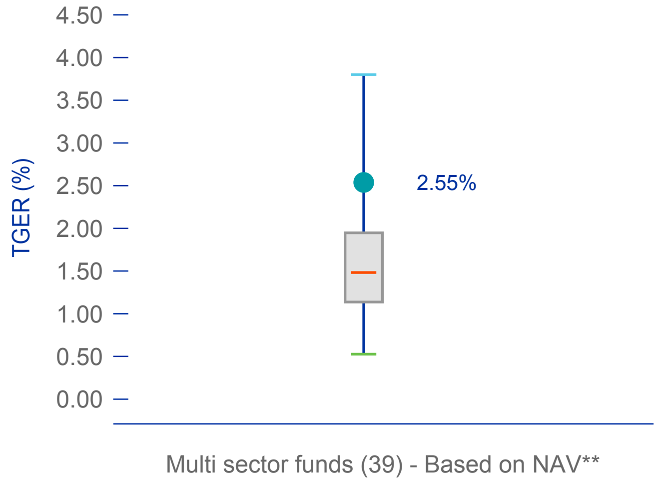
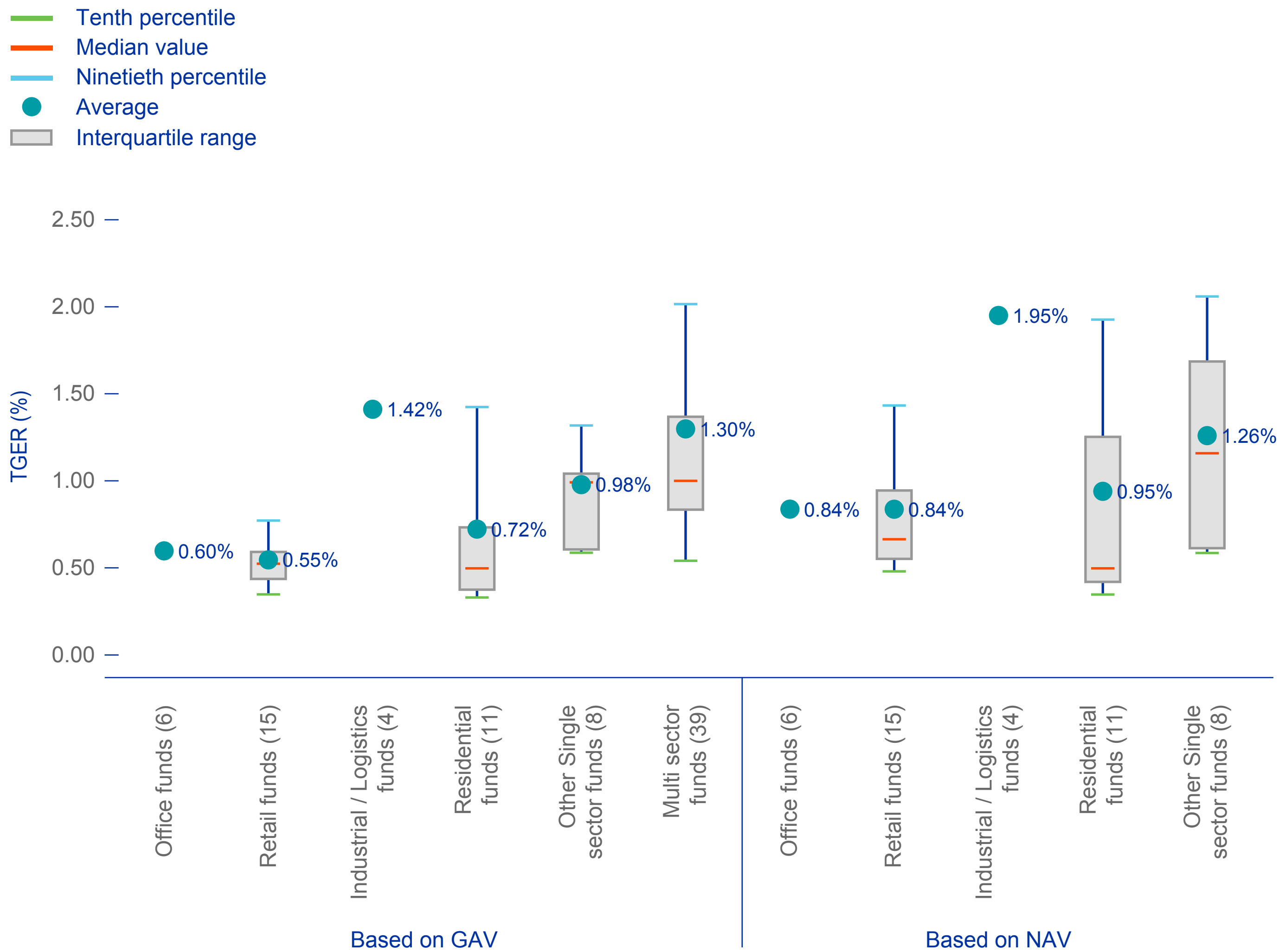


Figure 8: TGER by sector strategy*



**Ranges of TGERs are only displayed for those categories that meet the required minimum of eight funds. Where this requirement is not met, only the average TGER is displayed*
***The Multi sector funds (39) - Based on NAV are shown separately for better visualisation purposes.*

Little dispersion in TGERs amongst European ODCE funds

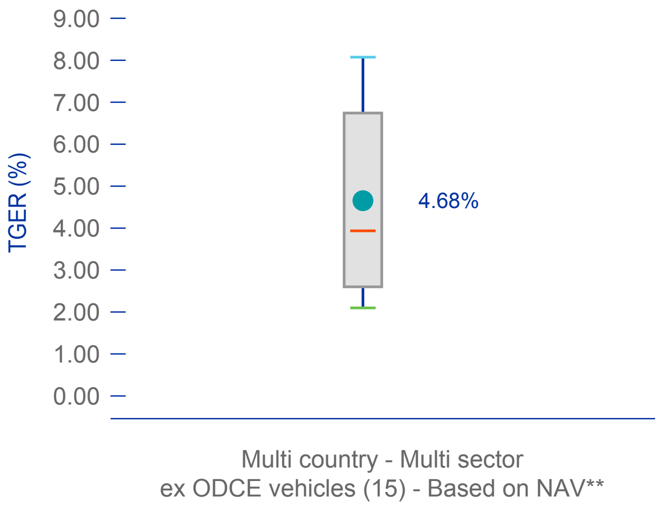
European ODCE[6] funds combine a mix of characteristics related to both lower and higher TGERs. These funds have a Core - Open end structure and their relatively large average size is typically associated with lower TGERs. That said, their Multi country - Multi sector strategy is linked to higher expense ratios.

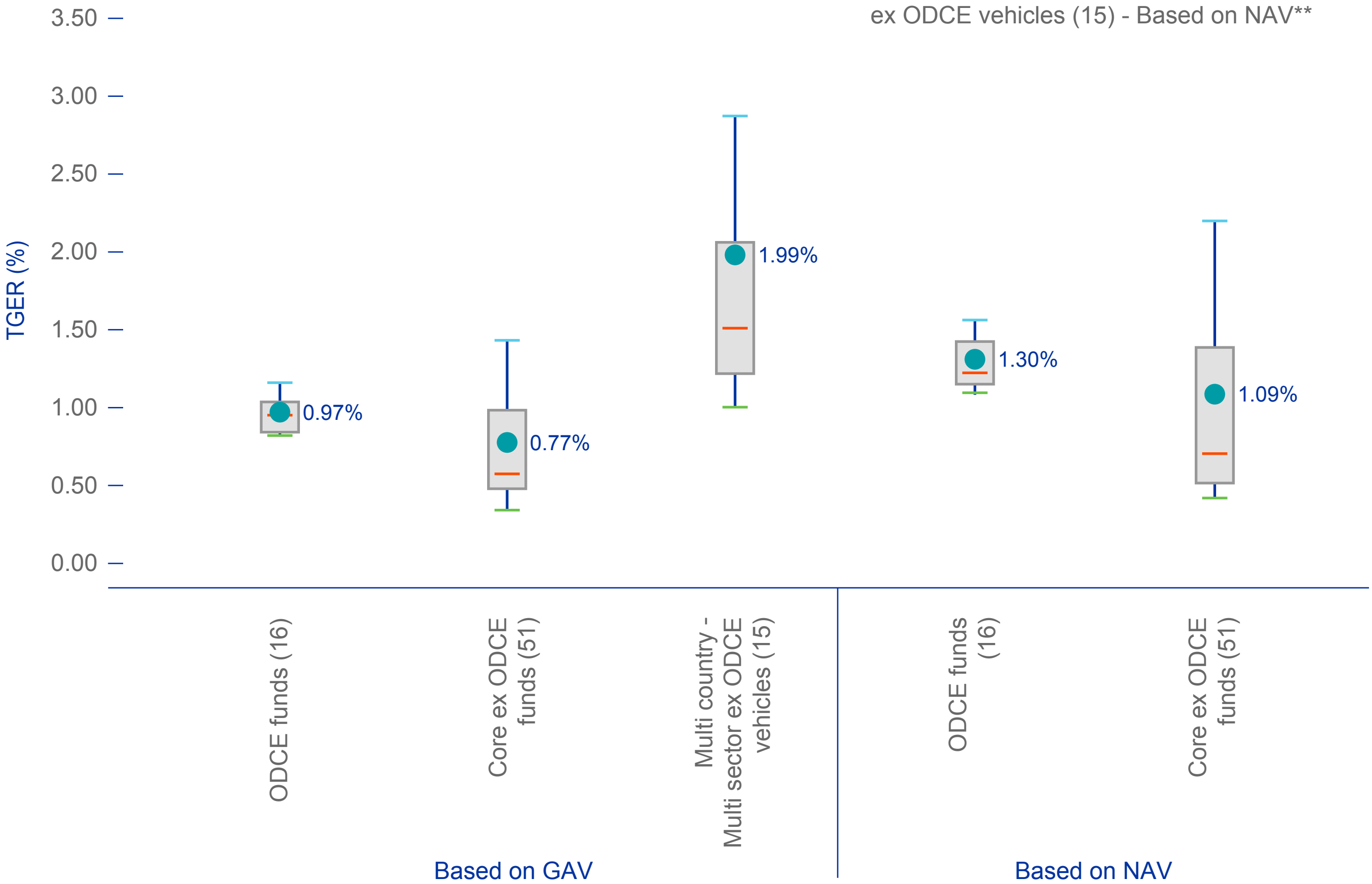
For 2022, ODCE funds reported an average TGER of 0.97% on GAV. This is higher than the Core funds excluding ODCE funds group, at 0.77%. Despite this, TGERs of the ODCE funds show narrow interquartile and interpercentile ranges of 19bps and 34bps based on GAV, indicating uniformity in fees and vehicle costs. In contrast, the Core funds excluding ODCE funds group displays wider interquartile and interpercentile ranges of 50bps and 109bps based on GAV.

All ODCE funds report significantly lower TGERs than the average for other Multi country – Multi sector funds, where the average TGER is 1.99% on GAV and 4.68% on NAV. The Multi country – Multi sector funds category comprises of a mixture of Closed end and Open end funds, with a generally smaller average size (GAV €582 million at the end of 2022) than the €2,8 billion average for the ODCE funds.

Figure 9: TGER for ODCE Funds

Tenth percentile
Median value
Ninetieth percentile
Average
Interquartile range





**The Multi country – Multi sector ex ODCE vehicles (15) - Based on NAV are shown separately for better visualisation purposes.*

6 More information about the criteria for ODCE inclusion and their performance is available on https://www.inrev.org/market-information/indices/odce-index

Chapter 3

TGER split by components

Management fees is the biggest contributor to TGER

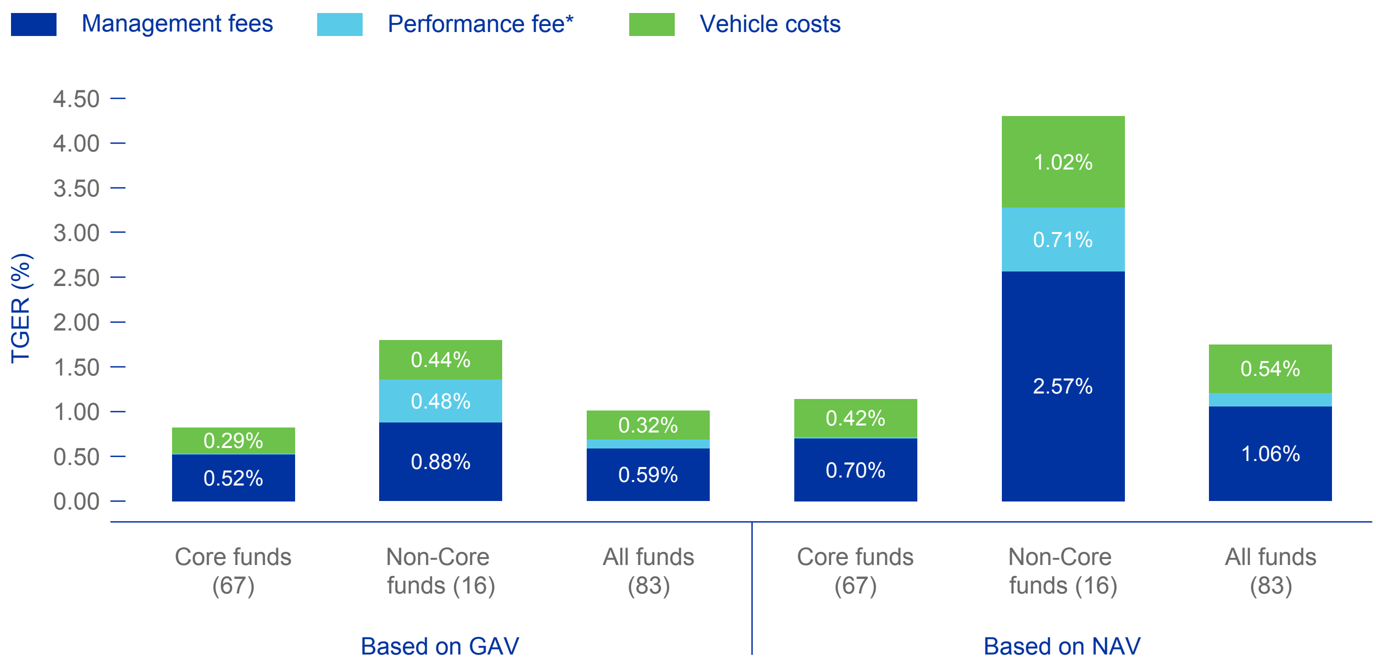
TGER is the sum of management fees, performance fees and vehicle costs (before tax) expressed in relation to gross or net asset value. To better understand the contribution of the components, average TGER across the 83 funds that reported to the study is split into the contribution of different fees and costs.

For the 83 funds included in the sample, management fees is the largest component on an equally-weighted basis. Its share is 58% of the total average TGER based on GAV and 61% based on NAV. Broken down by underlying elements and on a value-weighted basis, 70% of the management fees comprises fund management fees, another 26% consists of vehicle level asset management fees, while the remaining 3% is spread across property acquisition fees, property disposition fees, financing debt arrangement fees and not specified fees.

Four of the 83 funds are internally managed and, therefore, are not charged a management fee by an external investment management company. However, for comparison purposes the costs associated with the fund and asset management activities, are included as fund management costs for these four funds. This improves the comparability of both management fees and vehicle costs with a broader group of funds and has no impact on the TGER, albeit it might deviate from the financial reporting.

Across the contributing 83 funds, 29 indicated that a performance fee is applicable. Of the 29, only seven provided a value, suggesting that number of funds reporting performance fees decline compared to last year when eight funds reported a performance fee out of the 61 funds in total[7]. Seven funds with a performance in this year's study comprise of four Core and three Non-Core funds. On an equally-weighted basis the performance fees were approximately 10% of the total average TGER. However, for Core funds this was only 1% on average, while the average for Non-Core funds was 17%.

Figure 10: Average TGER split by fee and cost type



**Performance fee, promotes and carried interest*

7 Historical comparison should be treated with caution as sample size and its composition vary year by year.

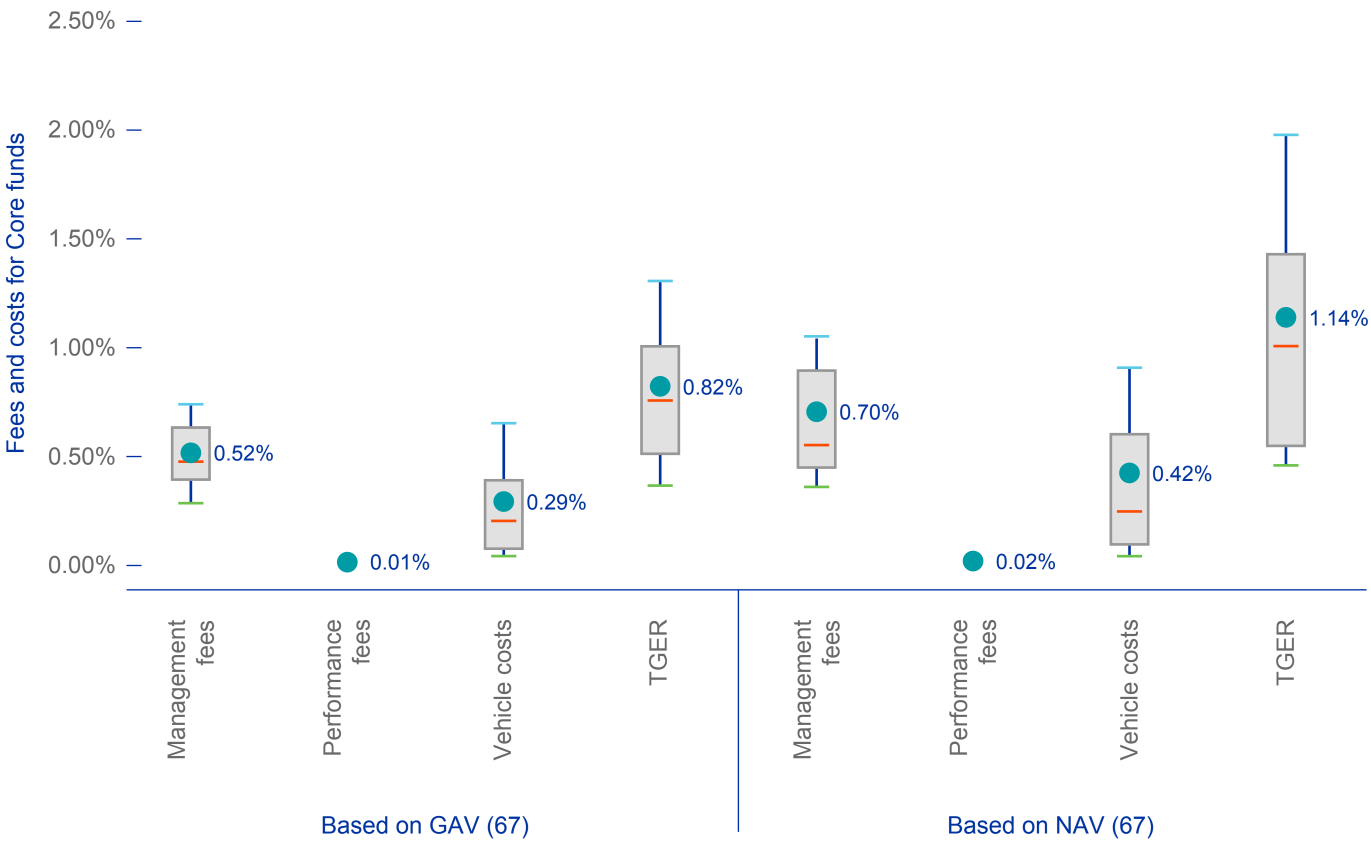
Vehicle costs form the second largest contribution to the value-weighted average TGER for all funds. They account for 32% of the average TGER on GAV and 31% on NAV across the 83 funds covered in this year's study (see a more granular vehicle coast analysis on page 18).

For Core funds, management fees account for 63% of the average TGER based on GAV and 62% based on NAV, while performance fees add up to 1%. Only four Core funds reported an actual performance fee for 2022 from the total of 17 Core funds that indicated performance fees are applicable.

For the group of Non-Core funds, management fees account for 49% of the average TGER based on GAV and 60% based on NAV. For this group, the share of performance fees is 17% based on GAV, with four out of 12 funds reporting a performance fee. Nonetheless, for the Non-Core funds, performance fees is the second largest component of the TGER based on GAV.

Figure 11: Fees and costs for Core funds

Tenth percentile
Median value
Ninetieth percentile
Average
Interquartile range



Low dispersion in management fees and hardly any performance fees for Core funds

On an equally-weighted basis, the average management fees for the group of Core funds are 0.52% based on GAV and 0.70% based on NAV. The management fees show a small dispersion with an interquartile range of 24bps based on GAV and 45bps on NAV.

On a sample of 67 Core funds, 17 indicated a performance fee is applicable. Of those 17, only four provided a value. The range shows that on an equally weighted basis, the average performance fee dropped this year to 0.01% of the GAV and 0.02% based on the NAV. As a comparison[8], for the 2021 results the average contribution of the performance was 0.08% of the GAV. The decrease in performance fees is likely reflecting the changes within the real estate investment market.

On an equally-weighted basis, vehicle costs for Core funds amount to an average of 0.29% on GAV and 0.42% on NAV. In contrast to management fees, the range for vehicle costs shows more dispersion with an interquartile range of 32bps on GAV and 51bps on NAV.

8 Historical comparison should be treated with caution as sample size and its composition vary year by year.

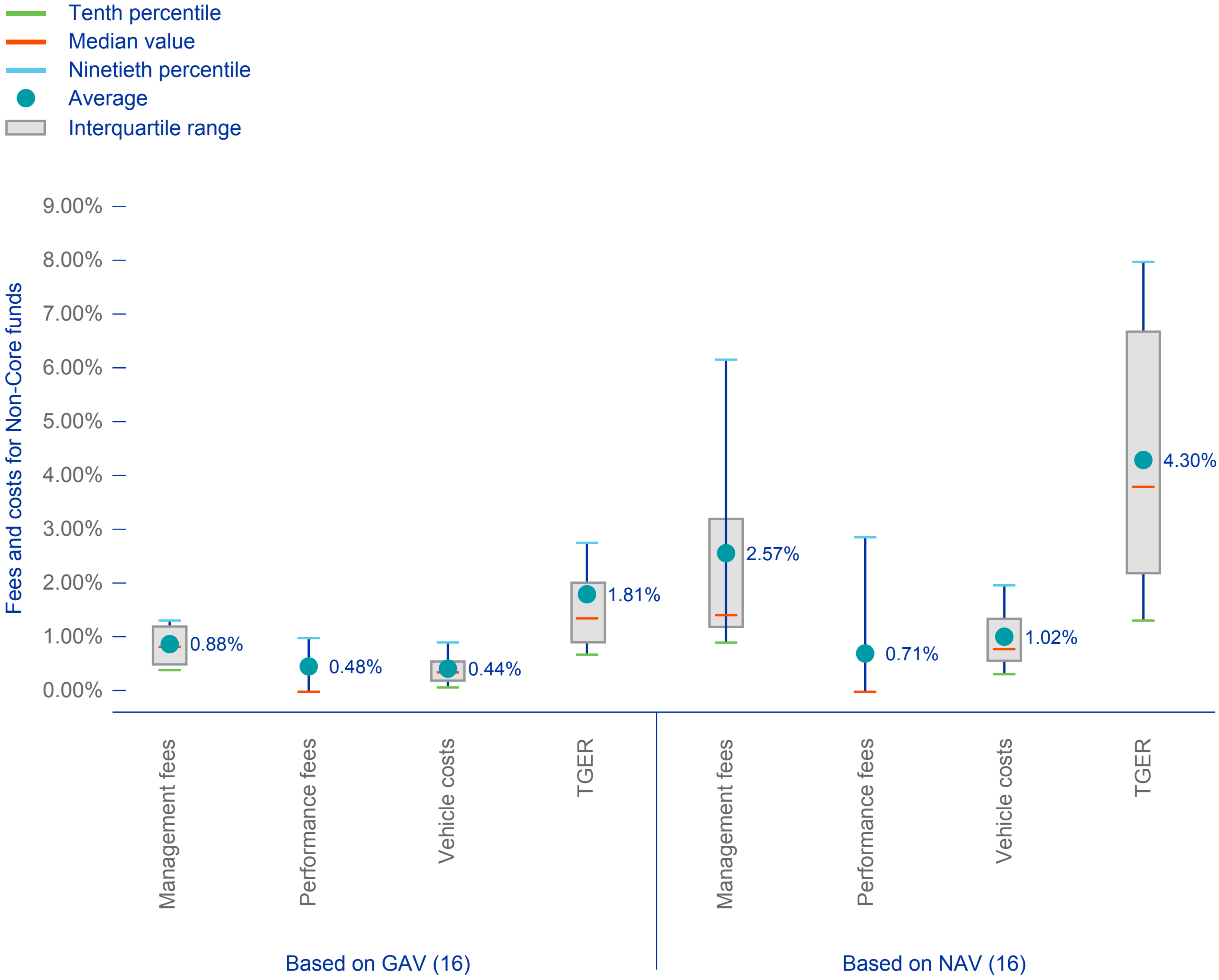
Management fees vary notably across Non-Core funds

On an equally-weighted basis, the average management fees for Non-Core funds are 0.88% based on GAV and 2.57% based on NAV. The management fees show a large dispersion with an interquartile range of 71bps based on GAV and 201bps on NAV, which is a larger spread compared to Core funds (24bps and 45bps, respectively).

On a sample of 16 Non-Core funds, 12 indicated a performance fees is applicable. Of those 12, only three provided a performance fee value. On an equally-weighted basis the average performance fee this year is 0.48% of the GAV and 0.71% based on the NAV. As a comparison[9], for the 2022 study the average contribution of the performance was 0.25% of the GAV and was below this year's average.

On an equally-weighted basis, vehicle costs for Non-Core funds amount to an average of 0.44% on GAV and 1.02% on NAV. In contrast to management fees, the range for vehicle costs shows a smaller dispersion with an interquartile range of 37bps on GAV and 80bps on NAV and the level and spreads are relatively similar to Core funds based on GAV.

Figure 12: Fees and costs for Non-Core funds



9 However, is important to note that the sample size and its composition varies year by year and therefore, historical comparison should be treated with caution.

Professional services is the highest vehicle cost

The value-weighted vehicle costs are lower than the equally-weighted vehicle costs, highlighting that larger funds in general have lower vehicle costs as a percentage of GAV.

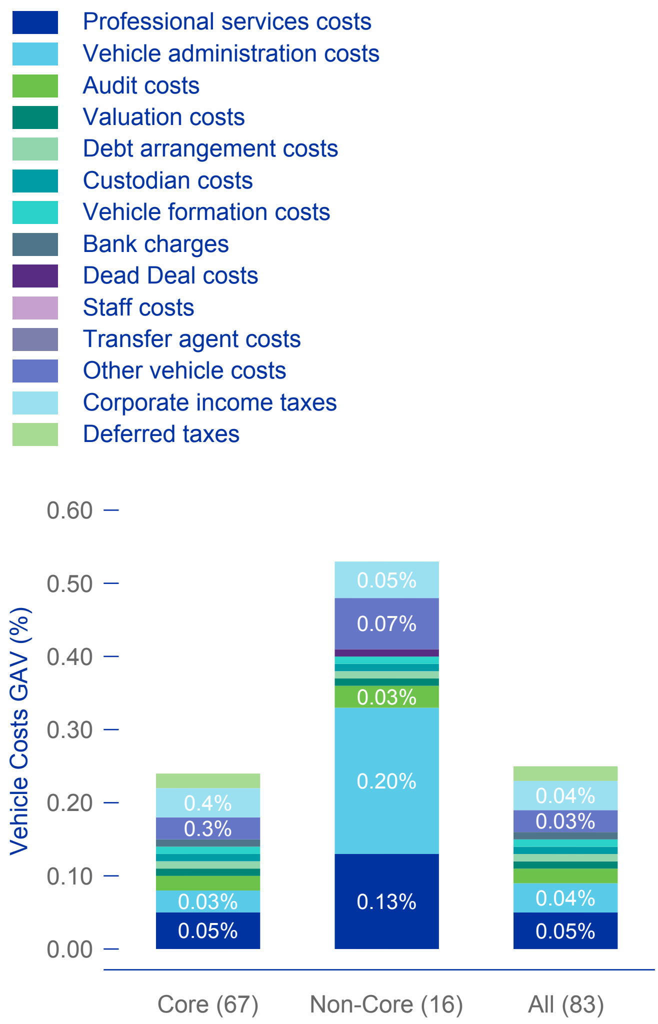
On a value-weighted basis the professional service costs is the largest costs component for all funds and are 5.5bps of the GAV. The professional services typically comprise of costs for professional advice and could include (increased) costs related to ESG and might involve costs for building certifications, data collection, strategy, and analysis. Moreover, transparency is paramount, typically entailing third-party audits and compliance with several reporting standards.

Beyond professional services, vehicle administration costs, audit costs and valuation costs are the only detailed costs before tax that exceed 1bps of the GAV at the all funds level. The other vehicle costs are 3.2bps and comprise actual costs that could not be included in the other cost categories or, in certain instances, simply could not be provided with more granularity.

All the data in the study are reported on a before tax basis, including the TGER. However, tax could be an additional vehicle level cost for funds and comprises of corporate income taxes as well as deferred taxes. The average corporate income tax is relatively high, with 3.6bps of the GAV at the all funds level but differs considerably by jurisdiction. The average deferred tax is 2.1bps of the GAV at the all funds level and varies a lot. Several funds reported negative deferred. This exception arises from a few varying valuations of assets for tax and financial reporting purposes, leading to a reduction in deferred tax liability when capital values decrease.

Core vehicles exhibit the lowest vehicle costs, comprising 0.17% of GAV before tax and 0.23% of GAV after tax. Non-Core vehicles exhibit higher vehicle costs, comprising 0.47% of GAV before tax and 0.52% of GAV after tax. For the Non-Core vehicles, the vehicle administration cost type is the largest vehicle cost component, accounting for 0.20% of GAV, followed closely by professional services costs at 0.13%.

Figure 13: Vehicle costs by detailed costs type (value-weighted)*



**The detailed data on the vehicle costs in the chart could be found in Excel supplement available on the INREV website.*

Chapter 4

Real Estate Expense Ratios

Core - Open end funds report lowest average REER

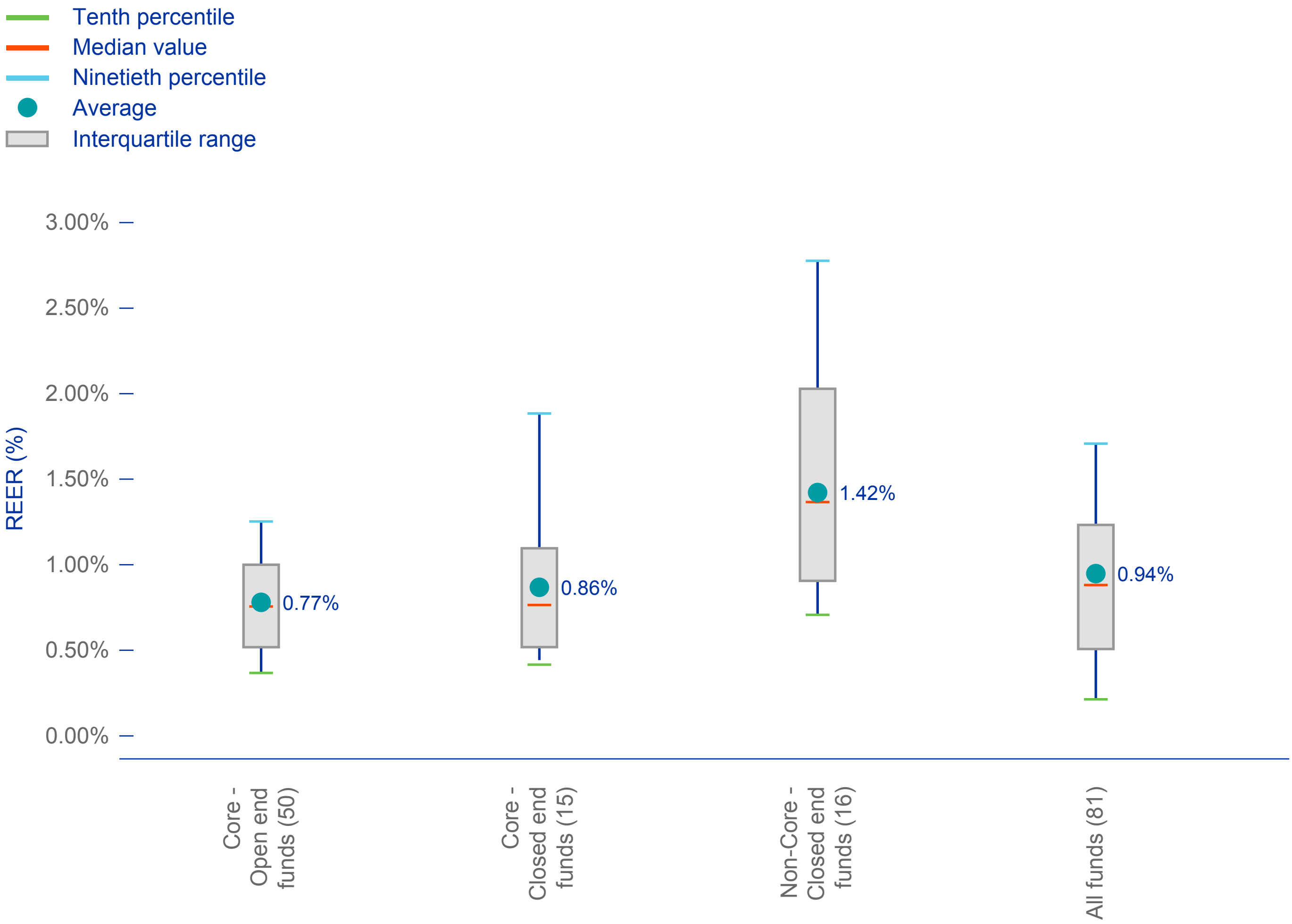
This section of the report focuses on the Real Estate Expense Ratio (REER) and is based on a sample of 81 funds that provided data on their real estate expenses for the reporting year 2022.

The REER is based on incurred property specific costs, including external leasing commissions, property acquisitions, insurance, property management, repairs and maintenance, utility costs, as well as taxes on property related activities and other / miscellaneous / sundry property costs. Property level costs are presented as a percentage of GAV.

As a group, Core – Open end funds show the lowest level and range of REERs. The range for Core – Closed end funds is slightly higher, while the results are the highest, with the largest dispersion.

The Core – Open end funds show the lowest equally-weighted average REER of 0.77%, followed by the Core – Closed end group (0.86%) and the group of Non-Core Closed end funds (1.42%). The average REER for all funds is 0.94%. One of the reasons that the Non-Core funds have higher REERs is the large concentration of funds active in the Nordic markets, including both single country and regional strategy funds. In general, those markets have higher costs, particularly for non-rechargeable utility costs due to having more all-in rental agreements.

Figure 14: REER by style and structure*



** For the analysis by style and structure, the sample of 81 funds is split into three categories: Core – Open end funds (50), Core – Closed end funds (15) and Non-Core – Closed end funds (16). The sample does not include any Non-Core –Open End funds.*

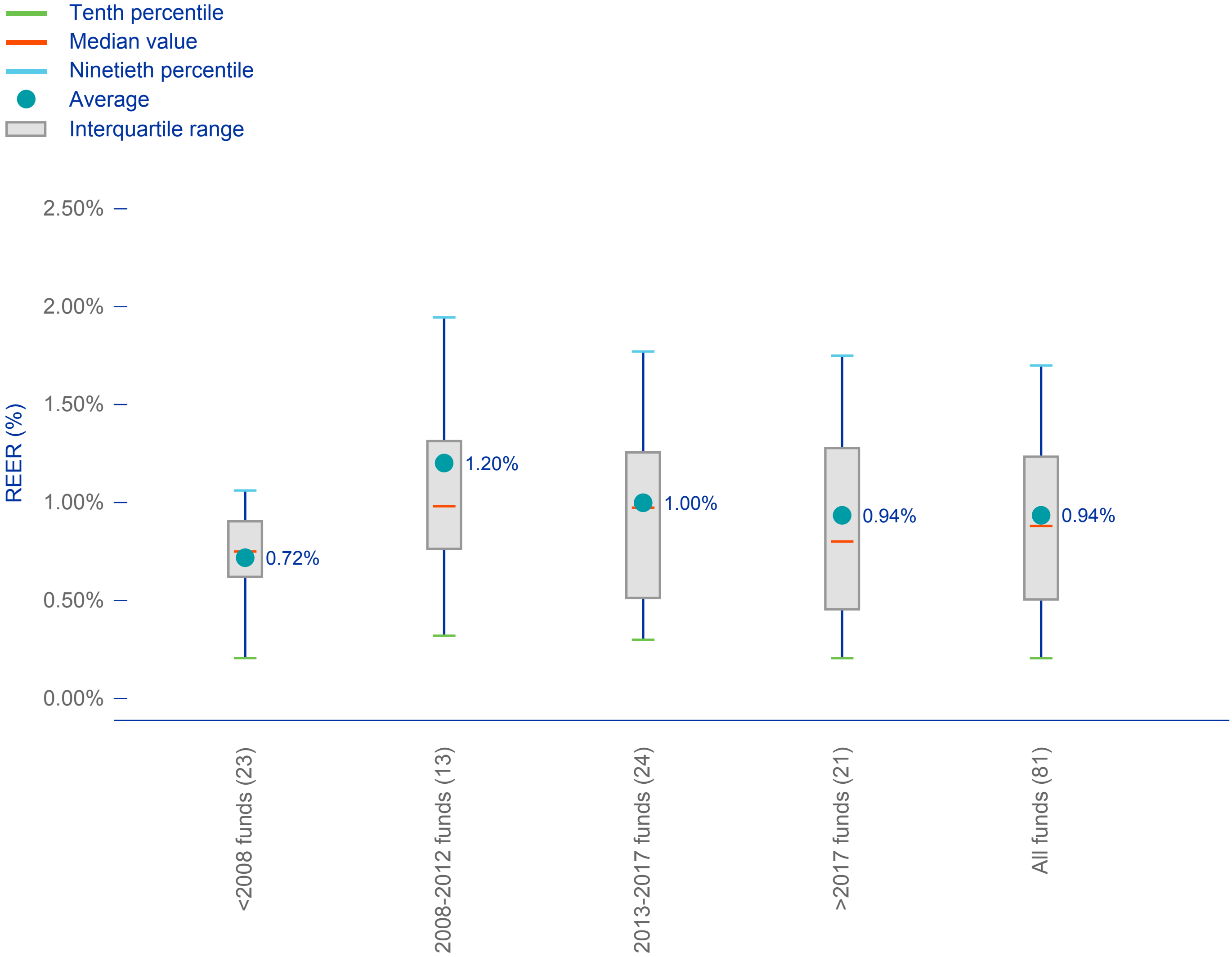
Limited differences in REERs by vintage year

REERs may differ across years of the first closing of the fund. Older vintage funds, more precisely those first closed before 2008, show a smaller range and lower averages for REER. Funds that first closed between 2008 – 2012 and those first closed between 2013 – 2017 display larger ranges. On the other hand, the level of REERs is smaller for those funds that first closed after 2017, although this group shows the largest dispersion.

It is worth noting that four funds fall under the category of Net Lease, and as such, they have hardly any operating costs. These funds are included in the REER analyses and have an impact on the dispersion of the REER, particularly for the tenth percentile.

As in the analysis for TGERs by the year of first closing, differences exist in the composition of vintage groups. Once again, the REERs for the older vintage groups are impacted by the high concentration of (large) open end funds as most of the closed end funds liquidate as time passes. By contrast, younger vintage groups are more equally divided between open end and closed end structures. Therefore, it is not surprising that older vintage groups show the lowest range of REERs while for funds that first closed more recently REERs are in a higher range.

Figure 15: REER by year of first closing*



** The year of the first closing is used as a proxy for fund vintage. The 81 funds that are included in the sample are grouped into four categories: those that first closed before 2008 (23), funds that first closed between 2008 – 2012 (13), funds that closed first between 2013 – 2017 (24) and funds that first closed after 2017 (21).*

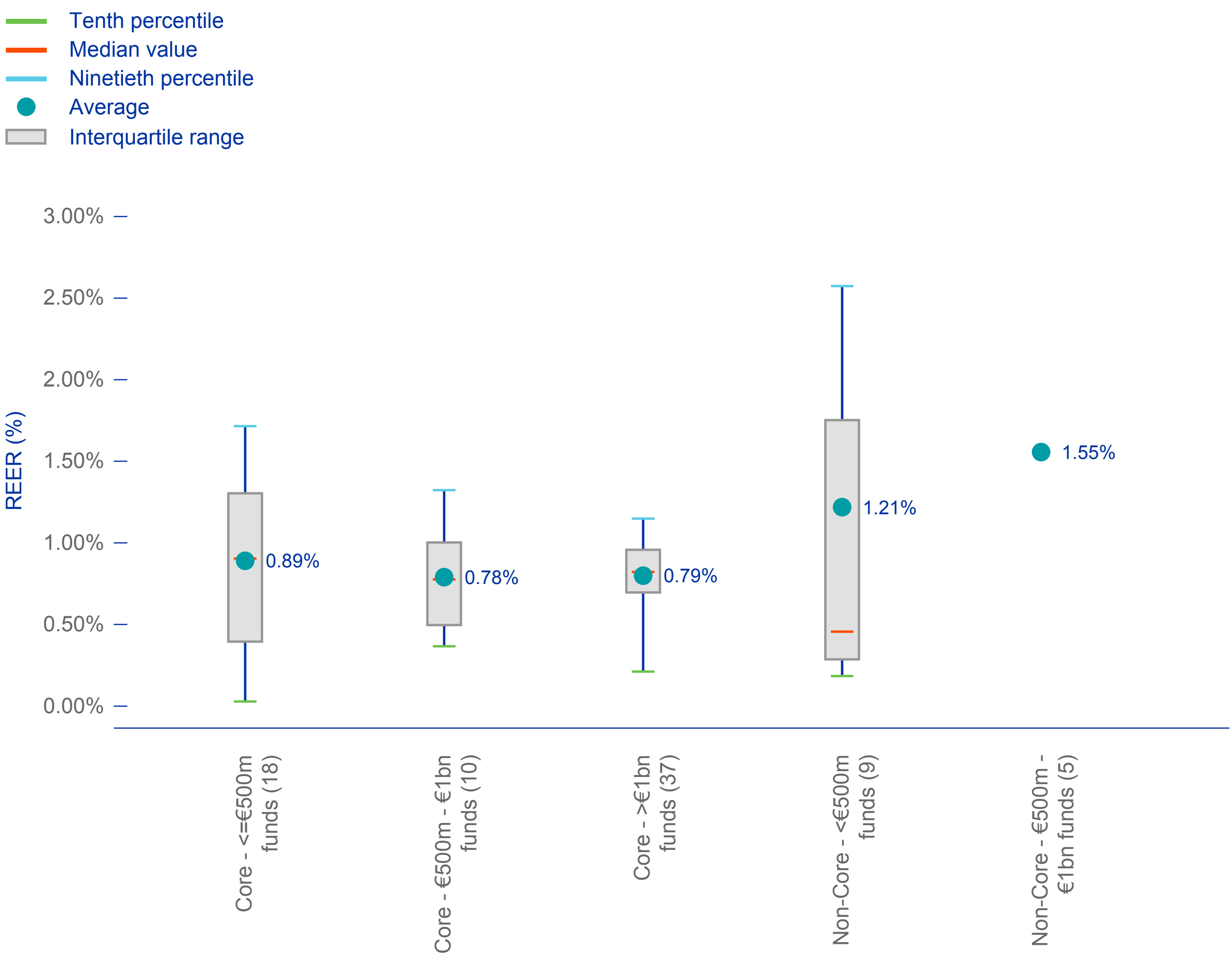
Smaller Core and Non-Core funds display large range of REERs

The differences in average REERs based on GAV do not tend to be significant, except for the Non-Core funds, which report a substantially higher average REER, at 1.21%. One of the reasons that the Non-Core funds have higher REERs is likely to be related to the large concentration of funds active in the Nordic markets (see the Core - Open end funds report lowest average REER section of the report).

The results are more interesting when looking at the ranges of REERs based on GAV, as evident by the three groups of Core funds. For the group of Core funds with a GAV of above €1 billion, REERs are the least dispersed, with an interquartile and interpercentile ranges of 27bps and 94bps, respectively. This suggests consistency and uniformity in cost structures among larger Core funds.

These ranges increase to 51bps and 96bps, respectively, for Core funds with a GAV between €500 million to €1 billion, indicating more variability in expense ratios. The highest range is shown by the Core funds with a GAV of less than €500 million, with the respective interquartile and interpercentile ranges of 92bps and 169bps. This reflects a broader spectrum of cost management approaches or cost structures but may also be due to the asset-specific impact in smaller portfolios.

Figure 16: REER by style and size

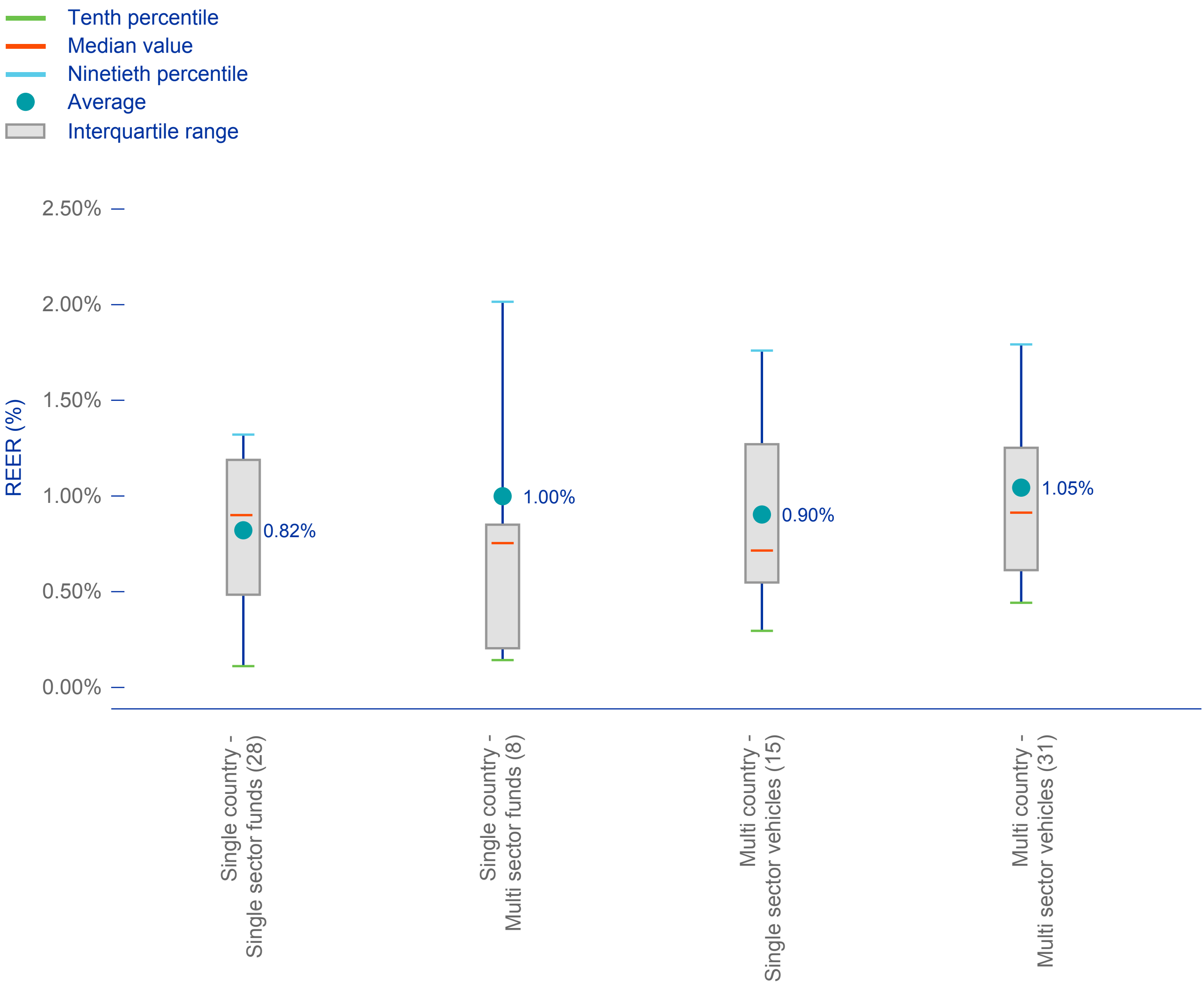


Different country and sector strategies have a limited impact on REER

The average REER is the lowest for the group of funds with a Single country – Single sector strategy. This group is also the most homogenous in terms of REERs, with an interquartile and interpercentile range of 71bps and 121bps, respectively. The dispersion based on the interquartile range does not vary a lot for the different groups. The Multi country – Multi sector strategy funds shows the highest average REER of 1.05%.

For the two groups with a single country strategy the differences are smaller. The Single country – Single sector funds show an average REER of 0.82%, compared to 1.00% for the Single country – Multi sector funds. The two groups of multi sector funds show a slightly higher average REERs compared to their single sector equivalents, but the differences are small.

Figure 17: REER by country and sector strategy



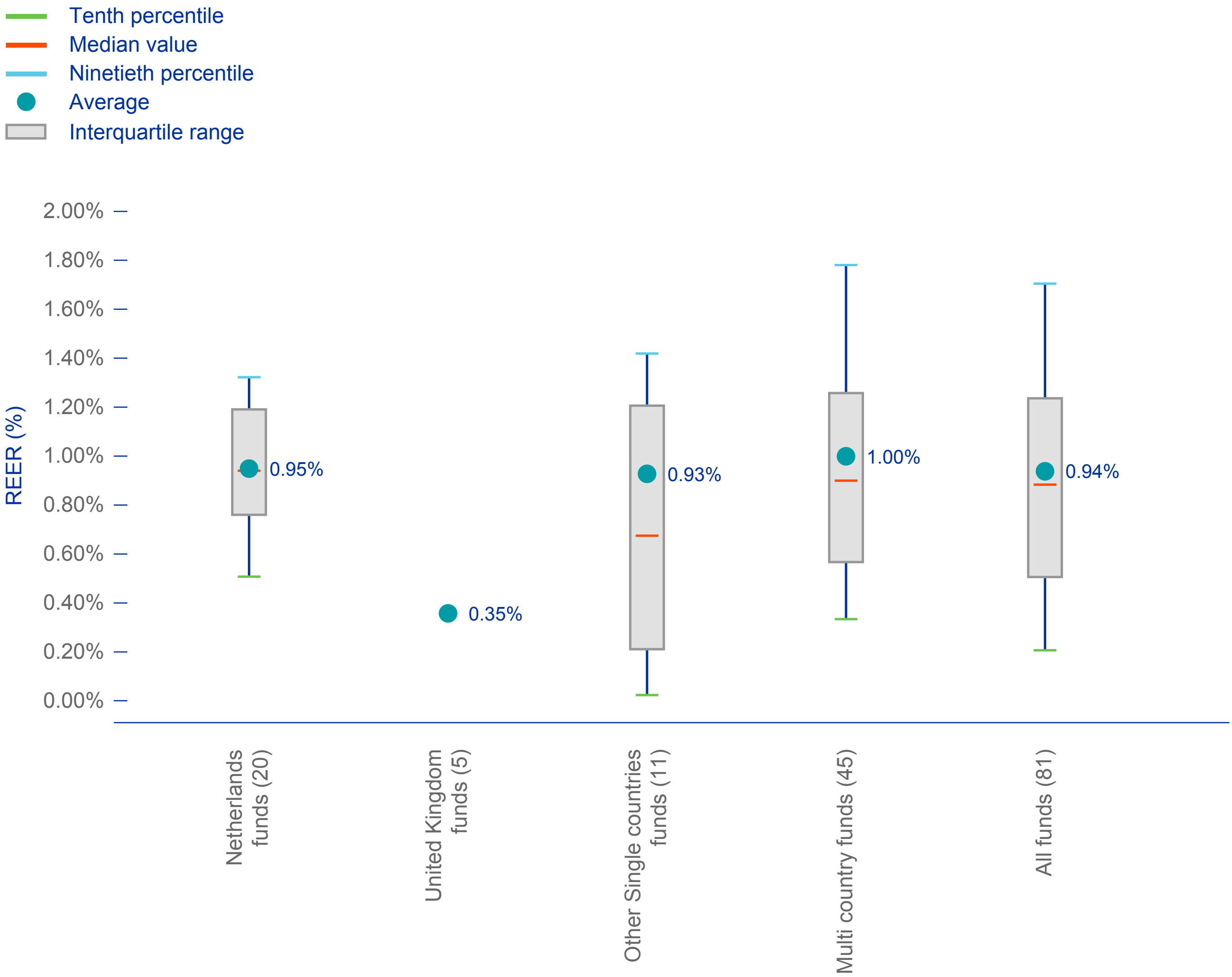
UK-focused funds have lowest REER amongst single country funds

The single country strategies in this report include the Netherlands-focused funds, those focusing on the UK and the Other single country funds, as well as Multi country funds. The Other single country funds include funds with strategies to invest in Finland (4), France (2), Portugal (2) Denmark (1), Ireland (1) and Sweden (1), and comprise of seven Core and four Non-Core funds.

The Netherlands-focused funds dominate, with 20 out of the 36 single country funds in total. They exhibit the highest average REER among the single country funds, at 0.95%. The Netherlands-focused funds also show homogeneity, as the interquartile and interpercentile ranges are 43bps and 81bps, respectively. This suggests a degree of consistency in real estate expenses.

Across All funds, including Multi country funds, REER variations are relatively modest, with an average REER of 0.94%, where multi country funds have an average REER of 1.00%. The UK-focused funds are an exception to this, displaying a notably lower average REER of 0.35%. This is due to the nature of the rental agreements in the UK, where more expenses are usually paid by tenants and net lease agreements are common.

Figure 18: REER by country strategy

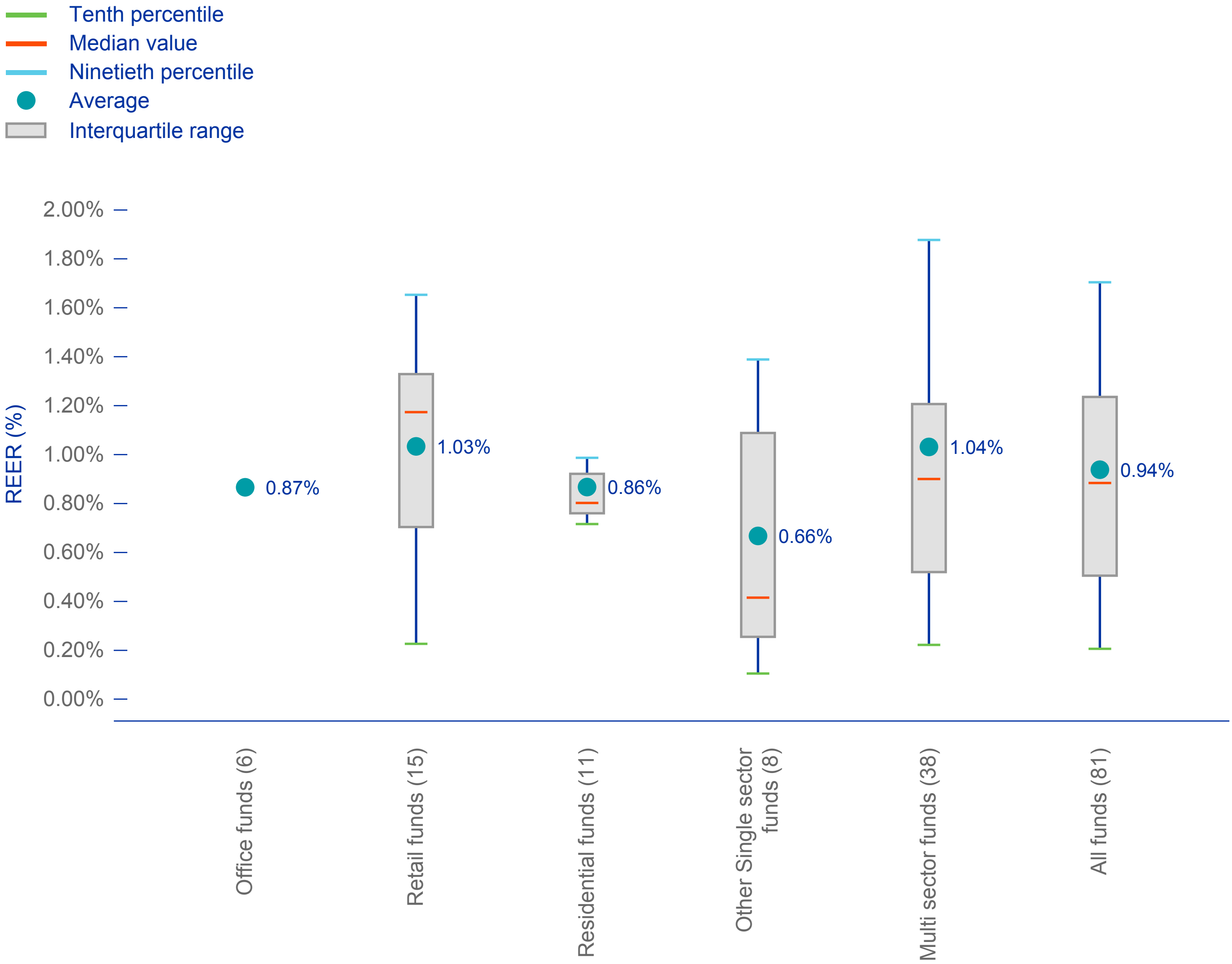


Relative consistency across sectors

On average, REER values across all sector strategies exhibit a relatively consistent range, fluctuating between 0.66% for other single sector funds and 1.04% for multi sector funds. Notably, among the single sector peers, funds focused on retail sector report the highest average REER, at 1.03%. Retail assets often demand extensive maintenance and tenant management, leading to relatively higher expense ratios. However, the same retail sector focused funds reported the lowest TGER.

In contrast, funds focused on residential sector show the lowest REER, at 0.86%. The interquartile and interpercentile ranges of residential funds are the smallest, at 17bps and 27bps, respectively, emphasising the consistency in expense ratios for the sector. Retail, Other Single sector (encompassing health care, aged care, and hotels funds) and Multi sector funds show similar interquartile and interpercentile ranges.

Figure 19: REER by sector strategy



Utility costs show the largest deviation between Core and Non-Core funds

The value-weighted analysis of REER contribution by detailed cost type reveals that Non-Core funds exhibit the highest REER as a percentage of GAV, at 1.57%. In contrast, Core funds have a lower REER as a percentage of GAV, with an average of 0.80%.

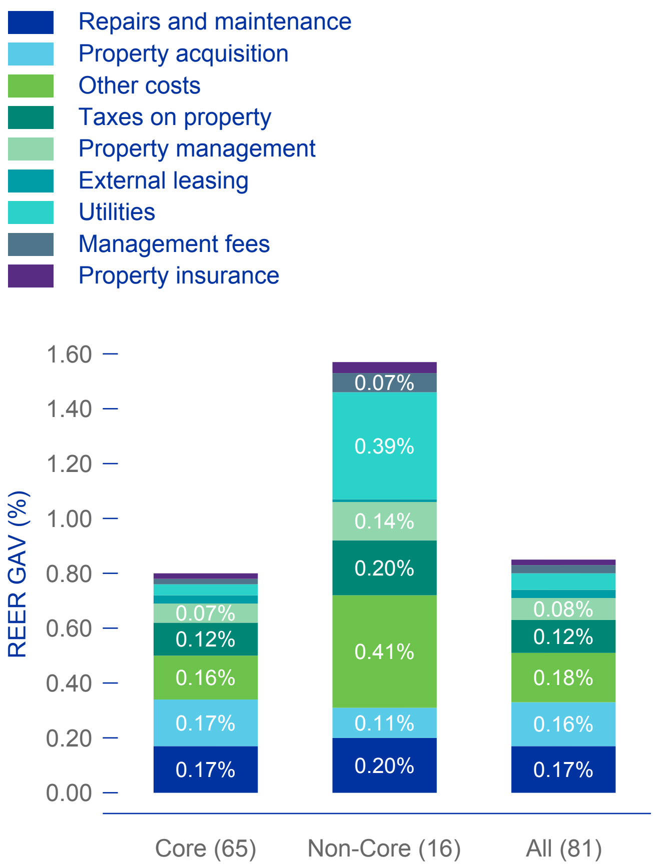
The largest costs are the repair and maintenance costs. For all funds these are 0.17% of the GAV or 20% of the overall costs. The repair and maintenance costs are relatively similar for Core and Non-Core funds. The second largest component is the property acquisition costs. Even though the investment market is quiet, they will take time to reduce due to the amortised nature of how they are calculated.

The Other remaining vehicle costs is 0.18% of the GAV for All funds. These costs comprise costs that could not be included in the other cost categories or, in certain instances, simply could not be provided with more granularity. For the Non-Core funds this is the largest cost category as well.

The difference in utility costs between these two categories of funds is notable. Non-Core funds have relatively high utility costs at 0.39%, ranking as the second highest cost bracket. This difference is particularly noticeable in the Nordics, where utility costs are known to be consistently high linked to the costs split between landlord and tenant as defined in the rental agreements. Utility costs are notably lower for Core funds, representing only 0.04% of the REER.

Additional cost categories such as taxes on property and property management costs are the next highest for both, Non-Core and Core funds. Conversely, management fees, external leasing costs, and property insurance costs are relatively insignificant in comparison, combined, accounting for 0.07% of GAV for Core vehicles and 0.12% of GAV for Non-Core vehicles.

Figure 20: REER by detailed cost type (value-weighted)*



*The detailed data on the REER in the chart could be found in Excel supplement available on the INREV website.

Appendix 1

Participants

a.s.r. real estate
abrdn
Achmea Real Estate
Altera Vastgoed N.V.
Amundi Asset Management
Amvest Management B.V.
Areim AB
AXA IM Alts
Barings
Bouwinvest Real Estate Investors
CBRE Investment Management
DEAS Asset Management
DWS
Europa
Exilion
FIL Investments International
Fokus Asset Management A/S
GELF Management (Lux) Sàrl
Genesta
Hines
Invesco Real Estate Europe
IPUT plc
LaSalle Investment Management
M&G Real Estate
Morgan Stanley Real Estate Investing
Niam AB
Northern Horizon Capital A/S
Nuveen Real Estate
Octopus Investment
PATRIZIA
PGIM Real Estate
Prologis Management Services S.a.r.l
Sirius Capital Partners
Sonae Sierra SGPS
Tishman Speyer
Vesteda

Appendix 2

Glossary

Asset management fee
Fee typically charged by investment advisors, or managers, for their services regarding the management of the vehicle's assets. Asset management fees generally cover services such as:

- strategic input and production of asset level business plans;
- management of assets including refurbishment;
- appointment of third party service providers at asset level;
- reporting activities at asset level.

Asset management fee and fund management fee could be combined.

Performance fee
Also known as incentive fees, promote or carried interest, are fees charged by investment advisors, or managers, after a predetermined investment performance has been attained. Carried interest represents a re-allocation of equity and should be treated accordingly for accounting, tax, or regulatory purposes.

Wind-up fee
Also known as liquidation fee, it is typically found in liquidating trusts, upon termination and dissolution of the vehicle. The sponsor is responsible for liquidating the partnership in an orderly manner.

Fund management fee
Also known as Investment Management or Investment Advisory fees, Fund Management fees are typically charged by investment advisors, or managers, for their services regarding the management of the vehicle. They generally cover services such as:

- appointment of third party service providers
- reporting activities to investors
- cash management and dividend payment
- managing the vehicle level structure
- arrangement of financing
- fund administration
- investor relations

Fund management fee and asset management fee could be combined.

Audit costs
Costs associated with external audit engagements and other audit services provided (both paid to independent third party firms or manager/advisor).

Bank Charges
Costs charged by a financial institution to manage and maintain the cash accounts of the vehicle, or in relation to debt issuance and overdrawing an account. Amounts can be charged on a periodic or transactional basis.

Custodian costs
Also known as depository costs, these are charged by a fiduciary entity entrusted with holding and safeguarding securities or assets, deposit transactions and keeping records for institutional clients.

Dead deal costs
Costs usually charged by third parties concerning work undertaken for acquisition/disposition projects which do not ultimately close. Such costs cannot be capitalised, and thus must be expensed. Services undertaken by the advisor/manager are passed through as an expense.

Transfer agent costs
Costs charged by trustees who are responsible for managing the assets owned by a trust for the trust's beneficiaries. This is most relevant in a REIT structure where trustees act on behalf of all unit holders.

Valuation costs
Costs in connection with the external (third party) appraisal of the real estate assets and liabilities owned by the vehicle. Appraisals may be performed routinely or ad-hoc which can be triggered by certain provisions in the vehicle agreement.

Vehicle administration costs
Costs related to bookkeeping activities either paid to a 3rd party service provider or the manager/advisor.

Vehicle formation costs
Also known as set-up costs, these charges are incurred at the launch of a vehicle, and do not relate to the portfolio acquisition and financing structure. These include organisational costs (typically legal & notary services) as well as syndication costs, various marketing costs, including printing/publication, and initial subscription fees.

Internal leasing commissions
Commissions charged by investment advisors, or managers, after a new lease or a renewal lease is signed. These include marketing of vacant space. Commission ranges vary and may depend on the market and/or the value of the transaction.

Property acquisition fee
Fee charged by investment advisors, or managers, associated with the closing of a new investment. The fee compensates the real estate investment advisor, or manager, for services rendered in an investment acquisition, including sourcing, negotiating, and closing the deal.

Property management fee
Fee charged by investment advisors, or managers, for the administration, technical and commercial management of real estate. A property management engagement typically involves the managing of property that is owned by another party or entity. This includes property advisory services.

Property disposition costs
Also known as disposal costs, they represent the costs of selling an investment property. Disposition costs are typically charged to the seller, and consist of legal fees, title fees and insurance, disposition fees, and broker commissions. Disposition costs include only direct costs related to a property-specific disposal and do not include costs of running a disposition program such as general and administrative costs, costs incurred in analysing proposals that are rejected, joint venture organization costs or fees paid to the manager for execution of the deal.

Project management fee
A fee charged to the vehicle by the advisor, or manager, for guiding the design, approval, and execution of a renovation project, as well as construction process of a development project. These costs may be expensed or capitalised at the property level.

Appendix 3

Fund and expense metrics calculation

Fee and expense metric requirement
Fees and costs should be measured in line with the principles defined under INREV NAV and INREV GAV.

Fees describe charges borne by the vehicle for services provided by the manager and costs describe charges to a vehicle by external service providers. Fees charged by the manager directly to their investors are not considered, except for fees charged for services rendered to the vehicle.

Where a single fee is charged to cover a variety of activities, the constituent elements will need to be identified, allocated to the appropriate cost category, and disclosed appropriately.

The formulae for TGER are:
TGER based on GAV = Vehicle fees and costs before tax / Time weighted average GAV

TGER based on NAV = Vehicle fees and costs before tax / Time weighted average NAV

The formula for REER is:
REER = Property fees and costs / Time weighted average GAV

Appendix 4

Sample comparison 2018 – 2020 – 2022 – 2023

TER / TGER

Category	2018	2020	2022	2023
All sample	155	90	68	83
Style				
Core	113	75	55	67
Value added	28	12	10	14
Opportunity	3	3	3	2
Other	11			
Structure				
Open end	82	57	39	52
Closed end	62	33	29	31
Other	11			
Country strategy				
Multi country	71	49	45	47
Single Country	73	41	23	36
Germany	15	2	1	
Netherlands	17	19	15	20
United Kingdom	21	15	1	5
Other	20	5	7	11
Sector strategy				
Multi Sector	69	45	31	39
Single Sector	75	45	37	44
Office	10	3	3	6
Retail	34	16	13	15
Industrial / Logistics	8	10	6	4
Residential	11	10	10	11
Other	12	6	5	8
Target gearing				
<40%	36	35	54	63
40% - 60%	52	27	14	18
>60%	7	3		2
Other	11			
Size				
<€500m	78	32	24	27
€500m - €1bn	40	28	15	15
>€1bn	26	30	29	41
Other	11			

TER / TGER (€ billion)	2018	2020	2022	2023
Total NAV	80.6	87.5	91.1	115.0
Total GAV	103.5	112.6	123.6	153.5

REER

Category	2018	2020	2022	2023
All sample	111	82	68	81
Style				
Core	81	69	55	65
Value added	22	12	10	14
Opportunity	3	1	3	2
Other	5			
Structure				
Open end	54	53	39	50
Closed end	52	29	29	31
Other	5			
Country strategy				
Multi country	51	45	45	47
Single Country	55	37	23	36
Germany	10	1		
Netherlands	16	19	15	20
United Kingdom	15	13	1	5
Other	14	4	7	11
Sector strategy				
Multi Sector	47	42	31	38
Single Sector	59	40	37	43
Office	9	3	3	6
Retail	28	14	13	15
Industrial / Logistics	6	7	6	3
Residential	8	10	10	11
Other	8	6	5	8
Target gearing				
<40%	27	34	54	61
40% - 60%	41	22	14	18
>60%	4	3		2
Other	5			
Size				
<500m	54	25	24	27
500m - 1bn	34	28	15	15
>1bn	18	29	29	39
Other	5			

REER (€ billion)	2018	2020	2022	2023
Total NAV	55.0	78.4	76.8	100.6
Total GAV	71.7	99.9	102.5	131.4

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