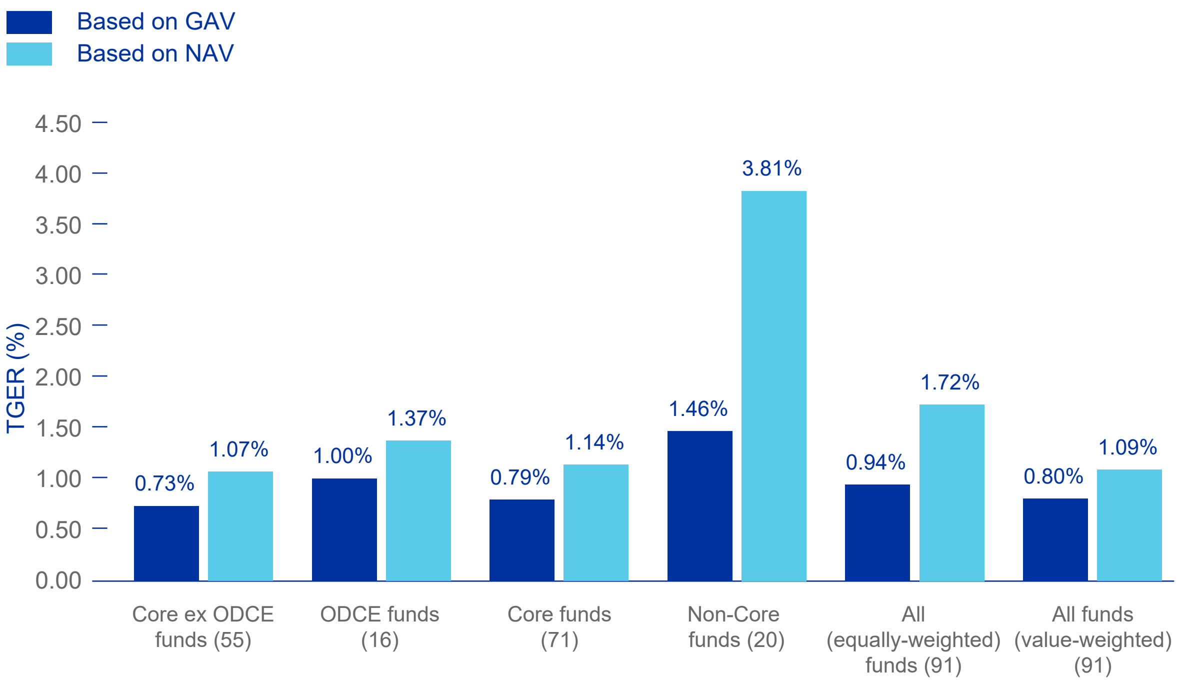
ODCE funds show a high level of uniformity and consistency in fees and costs

> The average reported Total Global Expense Ratio (TGER) for ODCE funds in 2023 was 1.00% based on GAV and 1.37% based on NAV
> ODCE funds exhibit notably lower TGERs than the average for other Multi country – Multi sector funds
> The average 2023 management fees remained stable while vehicle costs increased year-on-year
> ODCE segment shows a high level of uniformity and consistency in fees and costs

Figure 1: Average TGER by Style[1]



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

INREV is pleased that all 16 ODCE funds, as of the end of 2023, have participated in this year's ODCE Management Fees and Terms publication. This publication is a subset of the broader Management Fees and Terms Study. This year's equally-weighted TGER based on GAV increased by 3 bps from 0.97% in 2022 to 1.00%, while the TGER based on NAV increased by 7 bps from 1.30% to 1.37%.

Offering country and sector diversification, a group of core open-end diversified funds - the European ODCE funds, are designed to be accessible to smaller and medium sized investors. As confirmed by the latest results, this group has lower TGER characteristics than an average Multi country – Multi sector fund. The average reported TGER for ODCE funds for 2023 of 1.00% based on GAV and 1.37% based on NAV is considerably below the average for other Multi country – Multi sector fund TGER of 1.49% on GAV and 3.71% on NAV.

The core excluding ODCE funds group reported lower results, with an average TGER of 0.73% on GAV and 1.07% on NAV. This can be explained by the fact that a notable proportion of the funds in this category follow a single country strategy, which tends to have lower TGERs than when investing in multiple jurisdictions.

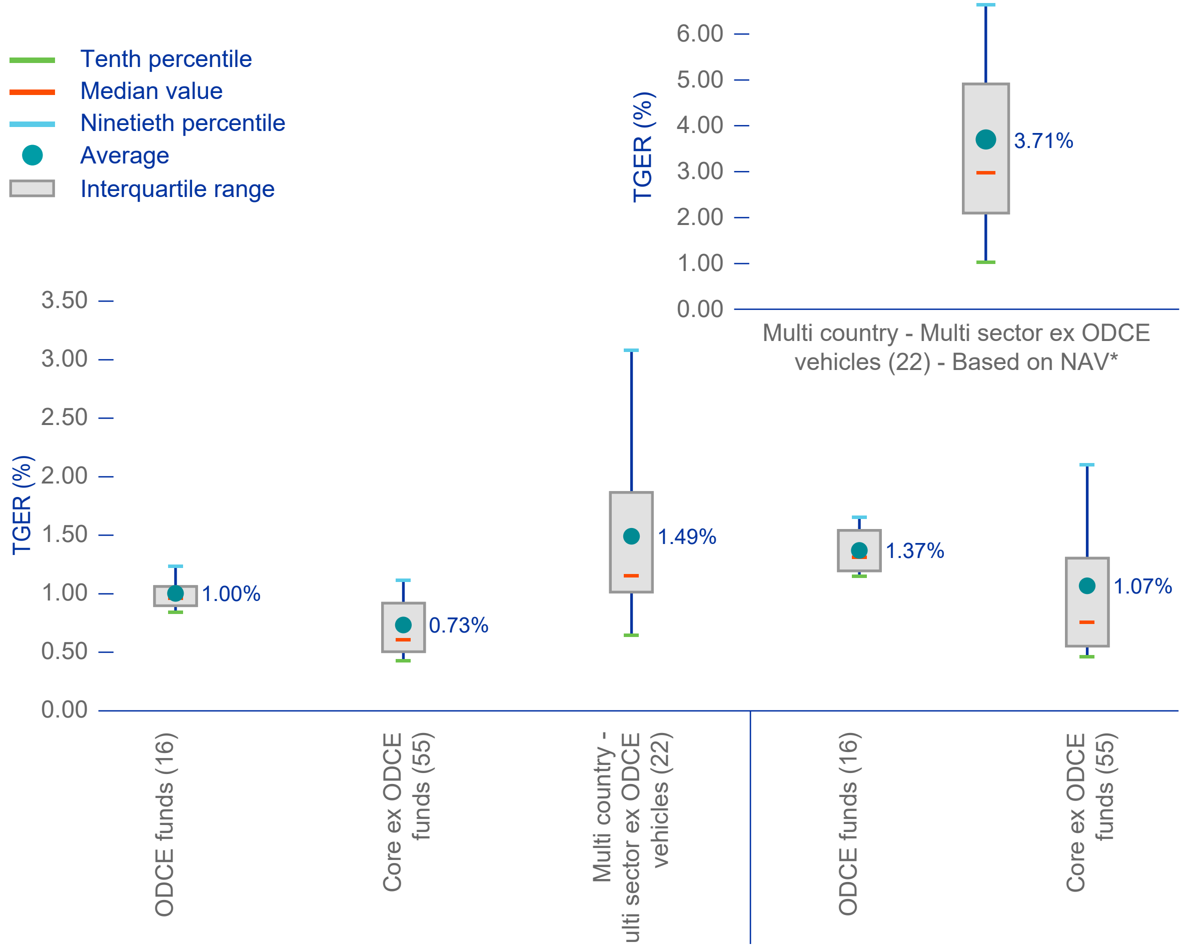
Hardly any dispersion in TGERs amongst European ODCE funds

European ODCE funds[2] combine a mix of characteristics related to both lower and higher TGERs. These funds have a Core - Open end structure and are usually large in size, a characteristic which is typically associated with lower TGERs. However, ODCE funds employ Multi country - Multi sector strategies, leading to higher expense ratios.

ODCE funds reported an average TGER of 1.00% on GAV, which is higher than the average for core excluding ODCE funds at 0.73%. This is due to the fact that a notable proportion of the funds in the latter category follow a single country strategy. The TGER range for ODCE funds is narrower, with respective interquartile and interpercentile ranges of 16 bps and 40 bps based on GAV, respectively, indicating uniformity in fees and vehicle costs. In contrast, the core excluding ODCE funds group displayed much wider interquartile and interpercentile ranges of 41 bps and 69 bps based on GAV, respectively.

Furthermore, ODCE funds report lower TGERs than the other Multi country – Multi sector funds, where the average TGER is 1.49% on GAV and 3.71% on NAV. This category comprises a mixture of closed end and open end funds and are generally smaller in size than the ODCE funds. The ODCE funds, with an average GAV of €2.6 billion, are larger in size compared to the average GAV for other Multi country – Multi sector funds (€1.0 billion).

Figure 2: TGER for ODCE Funds



**The Multi country – Multi sector ex ODCE vehicles (22) - Based on NAV are shown separately for better visualisation purposes.*

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

Management fees remained unchanged in 2023, while vehicle costs increased

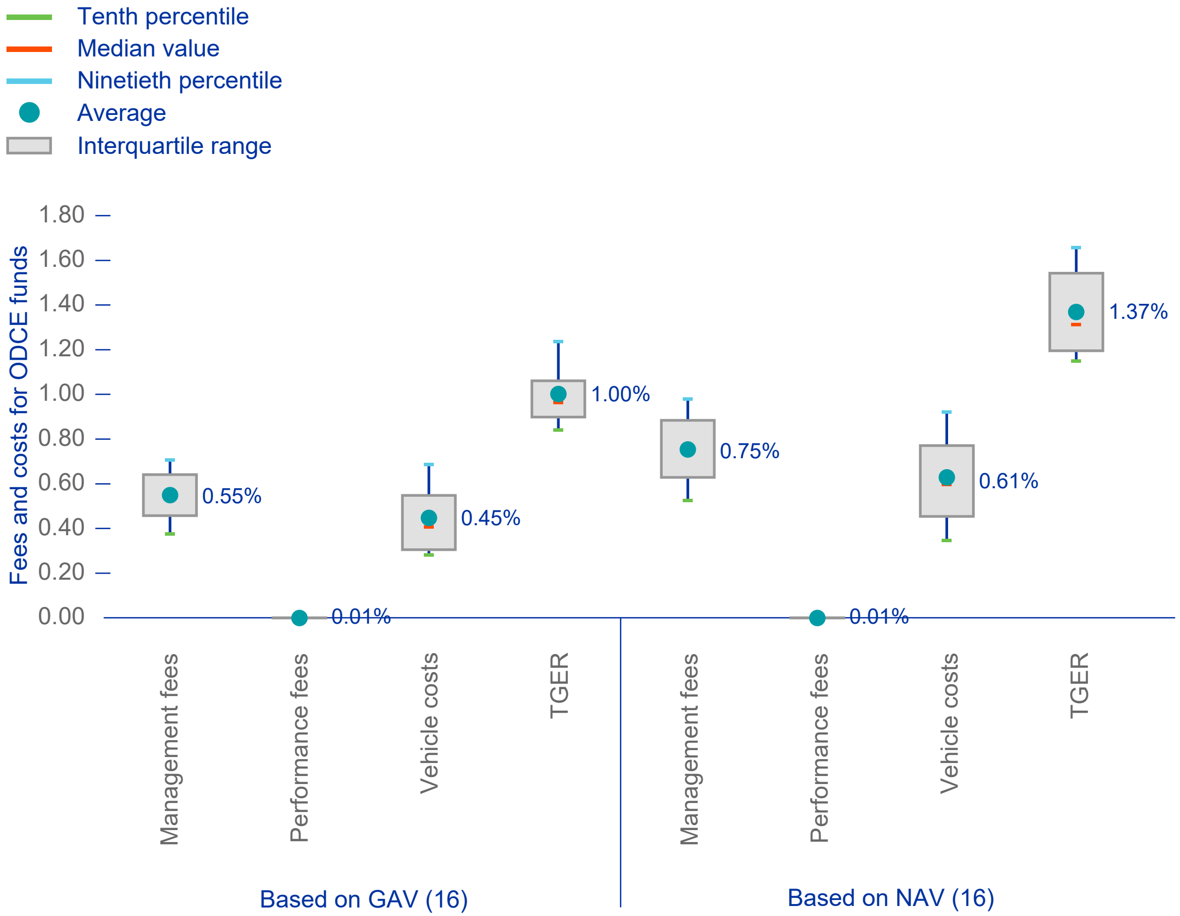
The average ODCE funds' management fees based on GAV decreased by 1 bps, from 0.56% in 2022 to 0.55% in 2023, staying unchanged at 0.75% based on NAV. As most management fees are linked to the NAV and/or equity committed, they are not impacted by market conditions, hence, there is little change compared to the previous year.

Of the 16 ODCE funds, only three indicated that a performance fee is applicable. Of those three, only one provided a performance fee value for 2023.

The based on GAV vehicle costs increased by 4 bps from 0.41% in 2022 to 0.45% in 2023 and by 6 bps from 0.55% to 0.61% based on NAV. Most vehicle costs are not linked to the funds' NAV or GAV and might have increased due to the negative capital growth in 2023.

The ODCE funds' management fees as well as the vehicle costs are slightly higher compared to all core funds within the broader [Management Fees and Terms Study](). The management fees on average are 5 bps higher, and the vehicle costs are 17 bps higher based on GAV. This is linked to a multi country strategy, which tends to have higher TGERs due to higher costs associated with operating in multiple jurisdictions. In the wider group of core funds, the majority operates in a single jurisdiction.

Figure 3: Fees and costs for ODCE funds

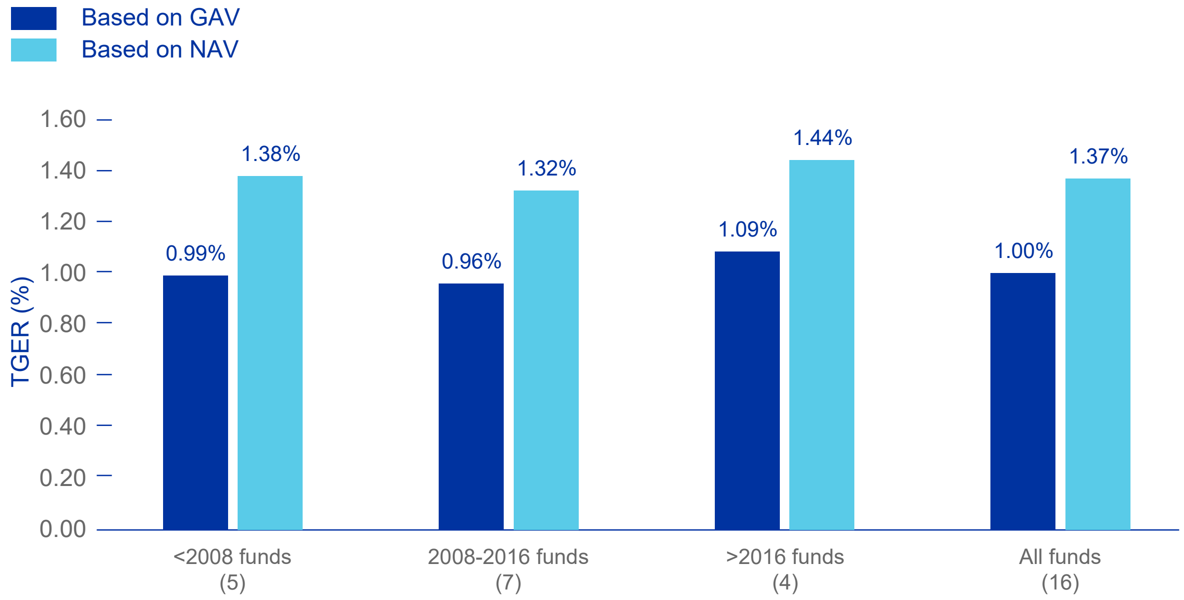


Larger ODCE funds report lower TGERs

There is relative uniformity in TGERs for funds based on the year of first closing. Based on the year of first closing, the TGER varies by 10 bps based on GAV and by 12 bps based on NAV.

In 2023, the European ODCE funds that first closed after 2016 showed the highest average TGER of 1.09% on GAV and 1.44% on NAV. The lowest average TGERs recorded on GAV and NAV were for those funds that closed between 2008 and 2016, at 0.96% and 1.32%, respectively, highlighting that size matters. The average GAV for funds launched before 2008 is €2.6 billion compared to the average GAV of €1.1 billion for funds closed after 2016. The average fund size for the 2008-2016 vintage group was €3.5 billion. Based on the average fund size per category and the average TGERs it suggests that fund size has an impact on the TGER. This is similar to the conclusion stating that large Core funds have a lower TGER compared to their smaller peers. This is explored in more detail in the main [Management Fees and Terms Study](#) (see pp.10, 18 and 19).

Figure 4: TGER by year of first closing



Professional services remain the highest vehicle cost

The value-weighted vehicle costs are lower than the equally-weighted vehicle costs, highlighting that larger funds generally have lower vehicle costs as a percentage of GAV. The value-weighted vehicle costs for ODCE funds are 37 bps on GAV before tax and 28 bps on GAV after tax, compared to an equally-weighted vehicle costs before tax of 45 bps based on GAV and 43 bps on GAV after tax as some funds reported negative deferred tax amounts.

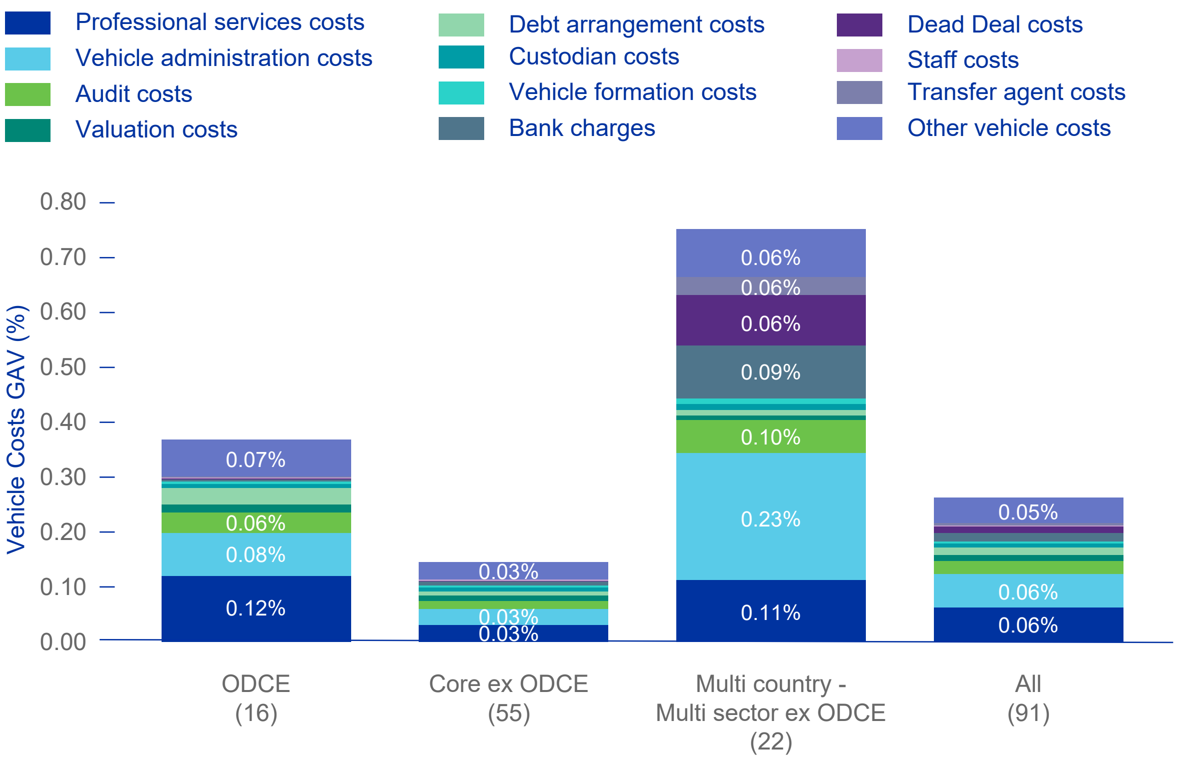
On a value-weighted basis, the professional service costs are the largest cost component for ODCE funds, at 12 bps of the GAV. The professional services comprise costs for professional advice and could include higher costs related to ESG. The higher professional service costs tend to be linked to multi country strategies.

Beyond the professional services, vehicle administration costs, audit costs, valuation costs and debt arrangement costs are the only vehicle costs before tax that exceed 1 bps of the GAV for the ODCE funds. The Other vehicle costs are 7 bps of the GAV and comprise actual costs that could not be included in any other cost categories or, in some instances, simply could not be reported on a more granular basis.

All the data in the study has been reported before tax, including the TGER. However, a tax could also be classified as an additional vehicle cost for funds, including corporate income taxes, as well as deferred taxes, especially for multinational funds such as ODCE. The average ODCE fund corporate income tax is relatively high, with 6.9 bps on the GAV, while the average equivalent for the core excluding ODCE funds is 3.1 bps.

At -16 bps on GAV, the average deferred tax costs for the ODCE funds were below zero in contrast to the equivalent for the core excluding ODCE funds category which reported actual costs (+4 bps). It should be noted that several ODCE funds reported a negative deferred tax in 2023. This irregularity is due to differences in valuations of assets for tax and financial reporting purposes, leading to a reduction in deferred tax liability when capital values experience a notable fall.

Figure 5: Vehicle costs by detailed costs type (value-weighted)*



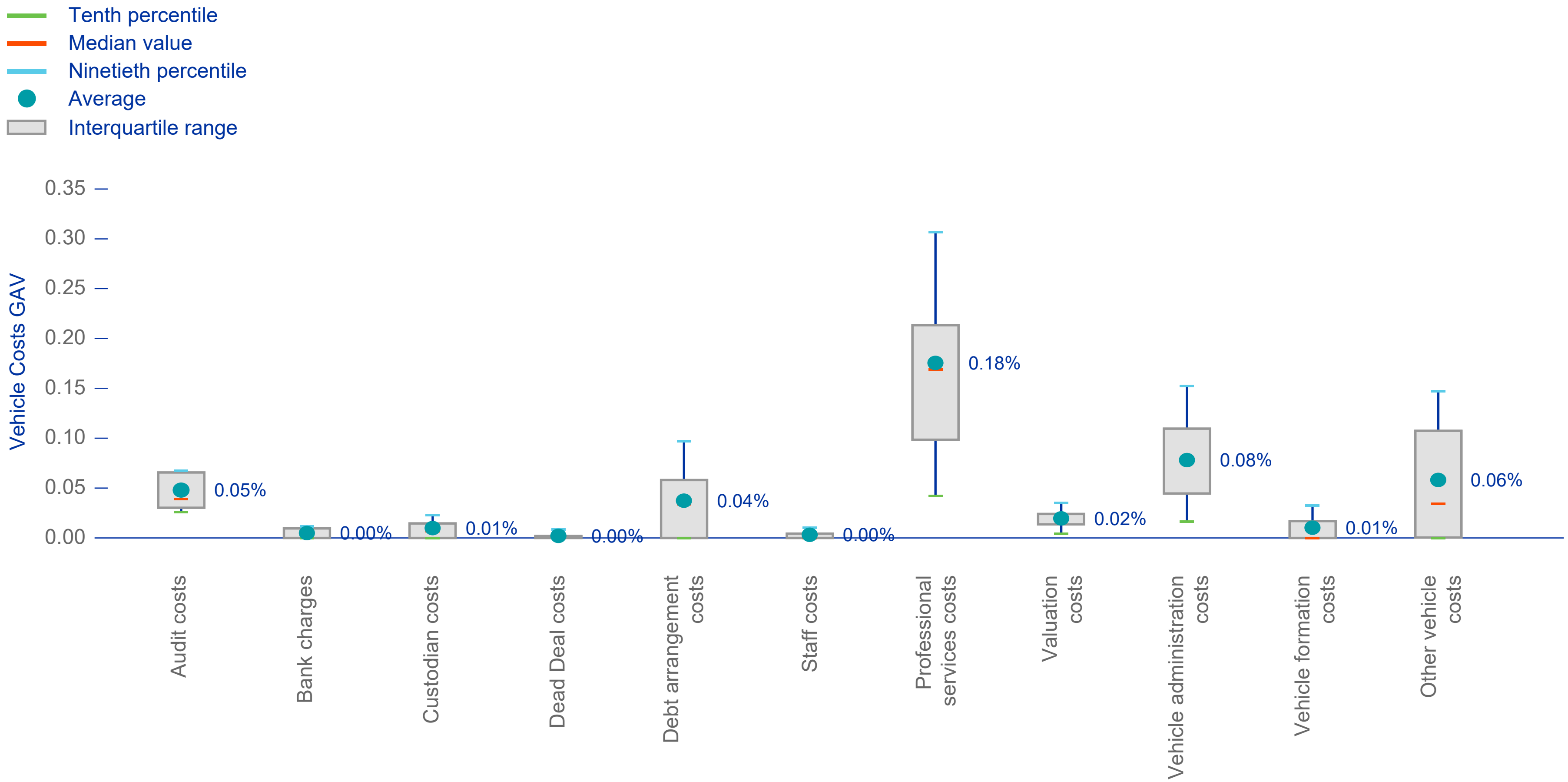
**The detailed vehicle cost data in the chart can be found in the supporting Excel supplement.*

Professional services and administration costs are most dispersed

In 2023, the interquartile and interpercentile ranges for the professional services costs were 11 bps and 26 bps respectively, with the average standing at 0.18% based on GAV. This is the highest dispersion of any vehicle cost type. Vehicle administration costs saw the next highest dispersion, however the interquartile and interpercentile ranges were 6 bps and 14 bps respectively, well below the professional services costs.

The next highest average cost bracket was taken by debt arrangement costs and audit costs, with 0.04% and 0.05%, respectively. Bank charges, dead deal costs and staff costs all averaged at 0.00% on GAV. The average custodian costs and vehicle formation costs both were at 0.01%.

Figure 6: Detailed vehicle costs (dispersion)



Core – Open end funds report lowest REERs

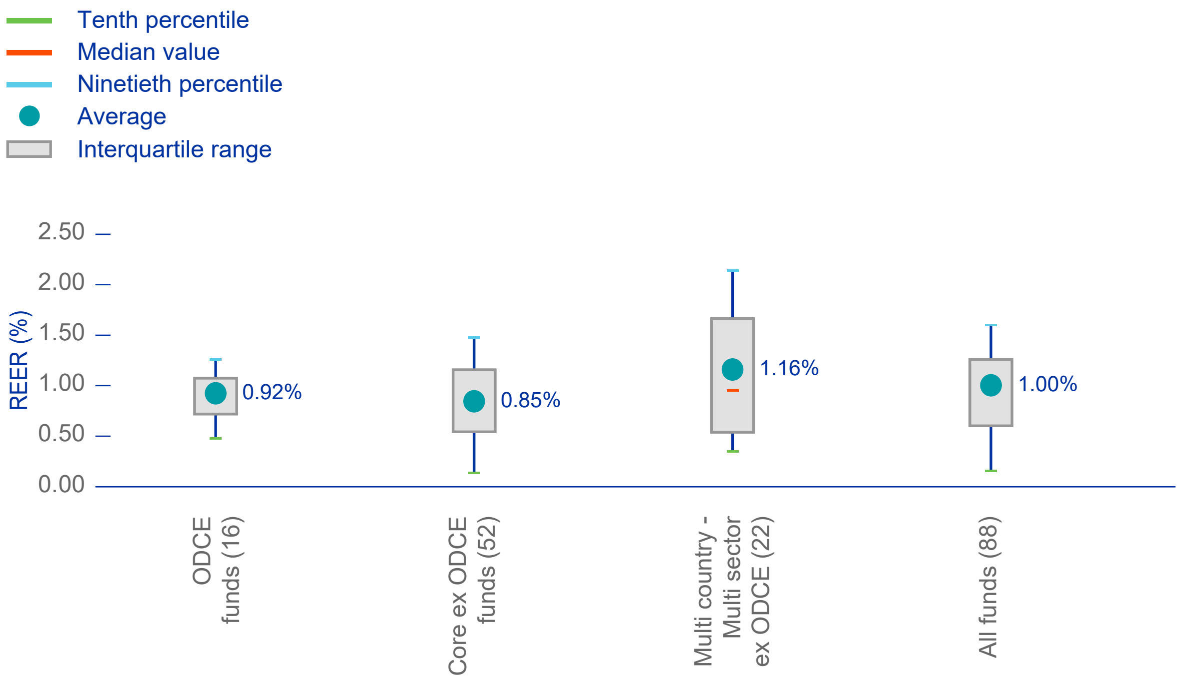
This section of the report focuses on the Real Estate Expense Ratio (REER) and is based on a sample of all 16 ODCE funds that provided data on their real estate expenses for the reporting year of 2023.

The REER is based on incurred property specific costs, including external leasing commissions, property acquisitions, insurance, property management, repairs and maintenance, utilities 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.

Based on GAV, the REER increased by 3 bps, from 0.89% in 2022 to 0.92% in 2023. The increase in REER could be linked to a rise in real estate expenses, which is due to the relatively high inflation in 2023, as well as lower capital values (and GAVs) due to poor European non-listed real estate market conditions.

The average equally-weighted REER for ODCE funds is slightly higher than the equivalent for the core funds excluding the ODCE category (0.85%). ODCE funds show a smaller range of REERs with an interquartile range of 35 bps on GAV than the 61 bps for the core excluding ODCE funds. The reason for this is that the underlying ODCE funds' assets are spread across multiple jurisdictions. This is in contrast to the core excluding ODCE funds group, where 31 out of 52 funds follow a single country strategy. A geographic allocation has an impact on the REER due to differences in the rental agreements, where in some markets and for certain sectors all-in rents are a common practice. However, in other markets tenants are responsible for the maintenance. Smaller fund size can also be a factor as explored in more detail in the main [Management Fees and Terms Study](#) (see p.21).

Figure 7: REER for ODCE funds

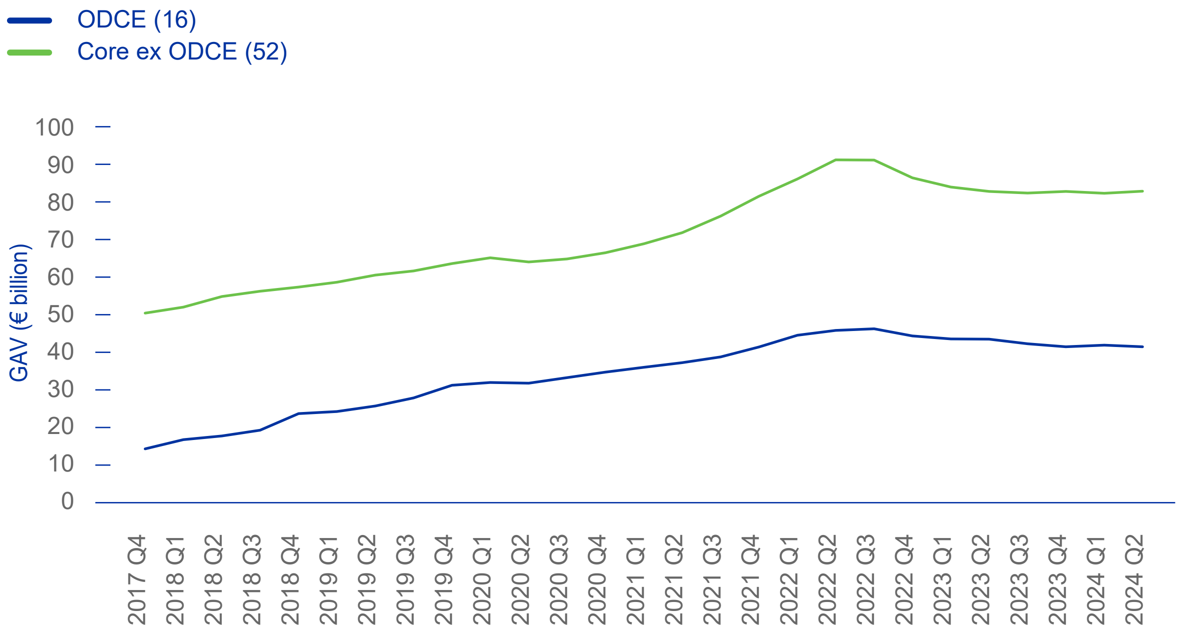


Property acquisition costs contribute approximately one-third of REER

The largest real estate expense for the ODCE funds is the property acquisition cost, which fell by 5 bps from 0.37% of the GAV in 2022 to 0.32% in 2023. It is worth highlighting that the ODCE funds reported a total €1.2 billion net inflow of capital in 2023 at the index level. Due to challenging market conditions, this was significantly lower than the previous year's inflow of €3.1 billion. Property acquisition costs do not decrease rapidly due to the amortised nature of how they are calculated[3], even though there has been a significant fall in new acquisitions. The average property acquisition costs for the core excluding ODCE funds in 2023 were only 0.07% of the GAV.

From Q4 2018 to Q4 2023, ODCE funds have witnessed remarkable expansion, with their GAV surging from €24 billion to €42 billion (an increase of 75%). Meanwhile, the funds in the core excluding ODCE category have also experienced significant growth, increasing from €58 billion to €83 billion (an increase of 43%) over the same period. This rapid expansion of the ODCE funds is reflected in the higher acquisition costs.

Figure 8: Evolution of ODCE funds



Source: INREV ODCE Index

3 Based on the INREV Guidelines for Fee and Expense Metrics, property acquisition expenses should be capitalised and amortised over the first five years after the acquisition of the property

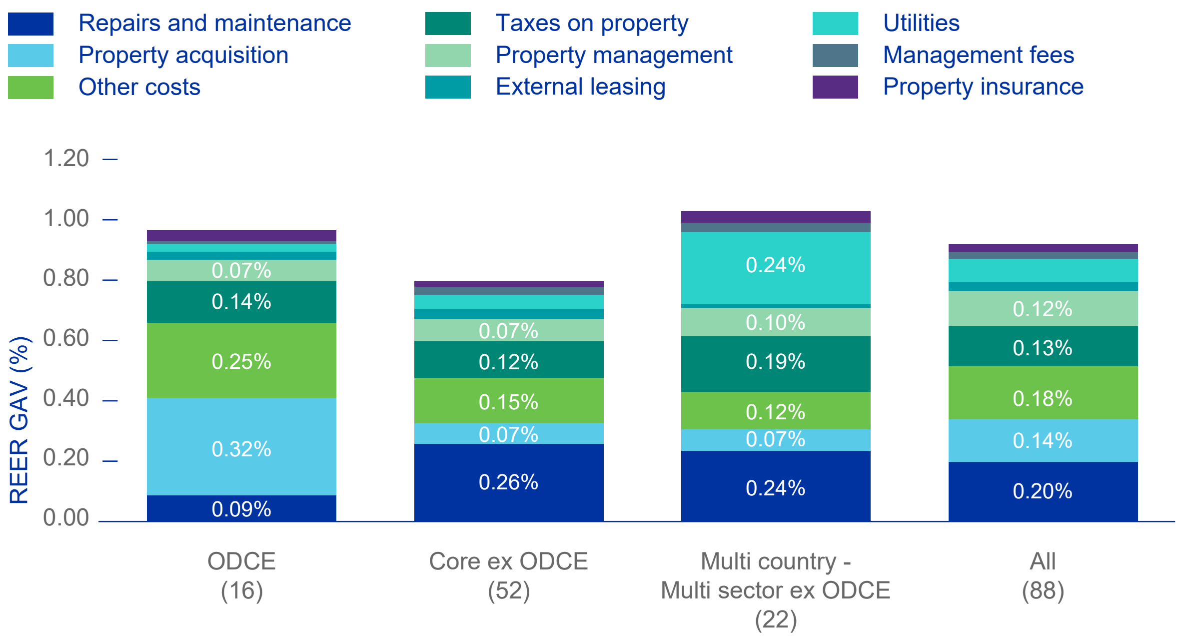
Property taxes are second largest real estate expense

The second largest cost for the ODCE funds is the taxes on property. These are very similar for both the ODCE and the core excluding ODCE funds categories. The repair and maintenance costs are the next largest cost for the ODCE funds. However, these costs are lower compared to the core excluding ODCE group, where they are the largest cost category.

The other remaining vehicle costs are 0.25% of the GAV for the ODCE. These are the costs that could not be included in the other cost categories or simply could not be provided on a more granular basis. The property management costs for ODCE funds are up by 2 bps from 2022 and account for up to 0.07% of the GAV, which is the same as for the core excluding ODCE funds.

All the other cost categories, namely management fees, external leasing costs, utilities costs and property insurance, all report separately less than 5 bps based on GAV for both the ODCE and the core excluding ODCE vehicles.

Figure 9: REER for ODCE Funds by detailed cost type (value-weighted)*



*The detailed data on the REER in the chart can be found in the supporting Excel supplement.

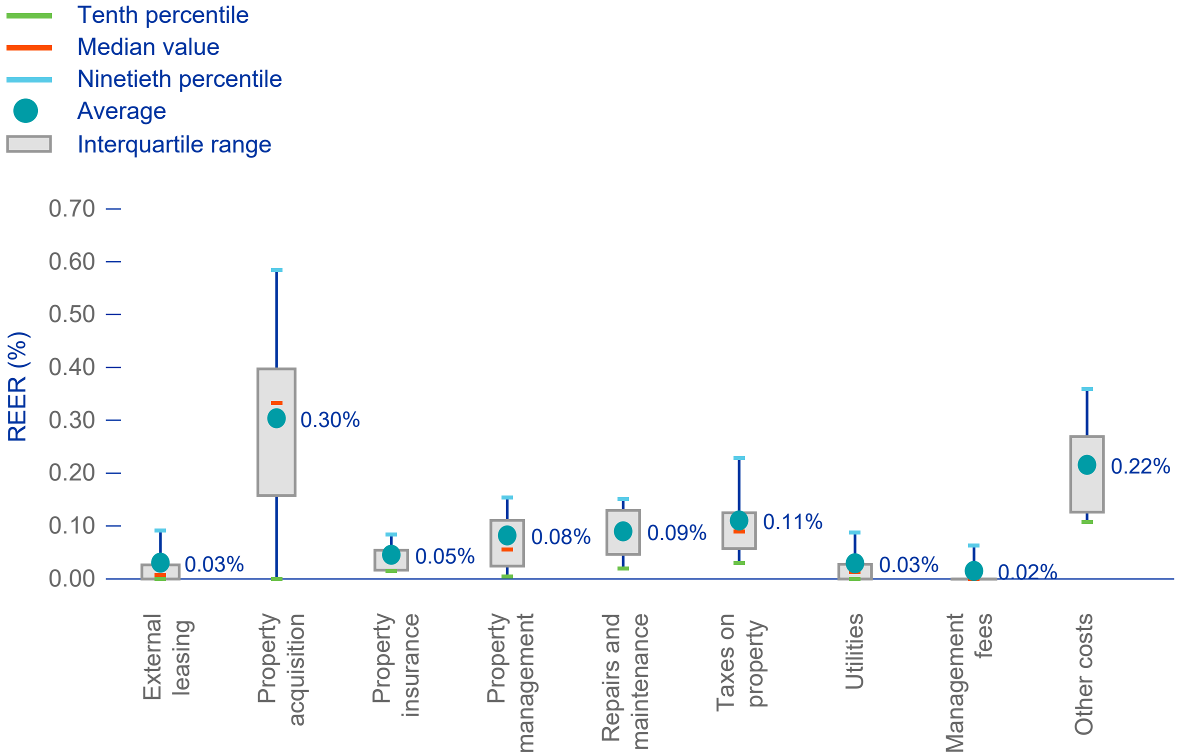
Property acquisition costs saw the largest dispersion

On an equally-weighted basis, the average REER for property acquisition was 0.30% on GAV in 2023. This was the highest average out of all the cost types for the ODCE funds in 2023. The largest dispersion, based on interquartile and interpercentile ranges of 24 bps and 58 bps respectively, was also reported for this cost type.

At 0.11% of GAV, taxes on property were the only other cost type that reported an average REER of more than 0.10% but showed relatively small interquartile and interpercentile ranges compared to the property acquisition costs. Average property insurance costs were 0.05% on GAV and reported a small dispersion range as well. The small ranges for the insurance costs and taxes on property might be related to their fixed costs nature.

External leasing and utilities and management fees had the lowest average REERs, both at 0.03% on GAV. Other costs had an average REER of 0.22% on GAV, with interquartile and interpercentile ranges of 14 bps and 25 bps, respectively.

Figure 10: Detailed real estate expenses (dispersion)



Background

Launched in 2007, the INREV Management Fees and Terms Study explores the fee and cost structures of European non-listed real estate funds, with a focus on Total Global Expense Ratios (TGERs) and Real Estate Expense Ratios (REERs). This is the second annual ODCE edition of the INREV Management Fees and Terms Study. In 2024, the first Global ODCE Management Fees Publication was launched. It is the first global comparison of the Total Global Expense Ratio (TGER) produced by the Global Alliance – a joint initiative established by ANREV, INREV and NCREIF to promote transparency and standardisation within the real estate market as it continues to evolve as a global industry in terms of capital movement and strategies.

The TGER and the REER form part of the standard measures included in the regular reporting of overall performance to investors in a vehicle.