

NCREIF

Summer Conference
2022



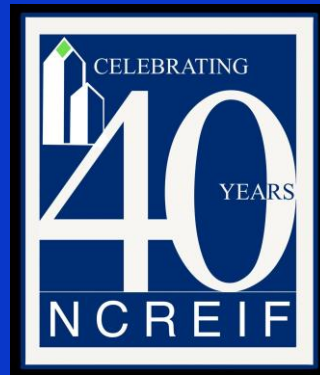
NCREIF Summer Conference 2022 Day 2 - Wednesday

July 13, 2022

Chicago

Performance Measurement
Committee

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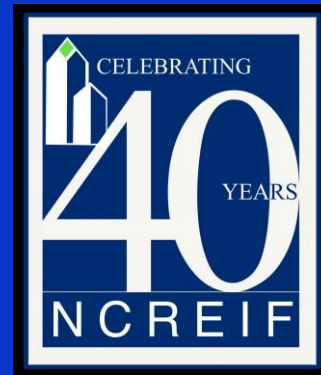


Chair Introductions/Backgrounds

- Gabe Glass, CBRE Investment Management
- Jesal Vora, BlackStone
- Rosellen Bounds, ACA Group

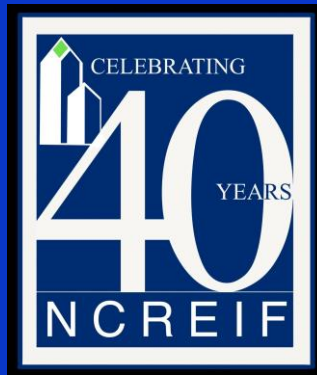
About Us

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NCREIF is a Not - For - Profit Premier Industry Association

- Membership is comprised of Real Estate Investment Managers, Industry Consultants and Service Providers, Investors and Academicians.
- Leading source of institutional real estate performance data and information.



About Us

Performance Measurement Committee – Mission Statement



To promote the consistent application of performance measurement methodologies and performance disclosure standards for the real estate asset class



To promote consistent analysis and evaluation of performance returns

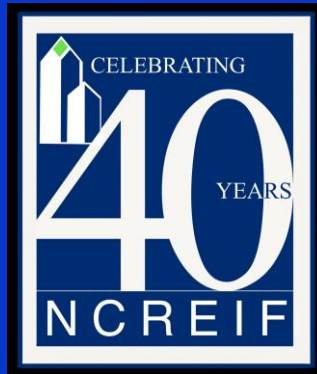


Review and interpret existing methodologies, guidelines and standards established for real estate asset class in comparison to other asset classes

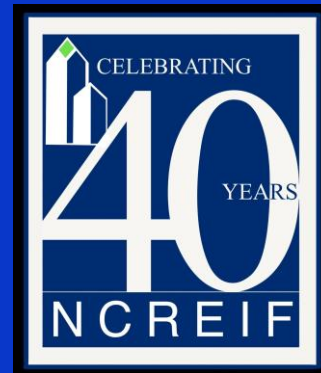


understanding evolving industry practices, mainly driven by consultant questionnaires & investor information disclosure requirements

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Ground Lease Impact NPI



Ground Lease Recap

Accounting

New requirement to record on balance sheet treatment of RoU asset and lease liability

The accounting treatment in accordance with the new leasing standard will change NAV on a quarterly basis

We are proposing an alternative accounting treatment for real estate funds to eliminate the impact to NAV each quarter

Valuation

There is a need to value the underlying RoU asset and lease liability

There are various valuation methods and approaches to consider as part of the analysis

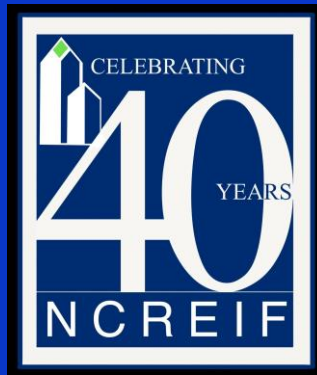
Performance

Certain ratios and performance return measurements could change based on the impact to financial statements

Change required based on ASU 2016-02 (Topic 842)

CONSOLIDATED STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, XXCY AND XXPY (in thousands)

| | Before | After |
|---|-------------------|-------------------|
| Assets: | | |
| Real estate investments - at fair value: | | |
| Real estate investments and improvements (cost of \$116,000 and \$111,300, respectively) | \$ 139,650 | \$ 139,650 |
| Total real estate investments | 139,650 | 139,650 |
| Cash and cash equivalents | 80,635 | 80,635 |
| Accounts Receivable | 2,500 | 2,500 |
| Right of use assets - ground leases | | 20,000 |
| Total assets | 222,785 | 242,785 |
| Liabilities: | | |
| Mortgage loans and notes payable - at fair value | 77,220 | 77,220 |
| Lease liabilities - ground leases | | 20,000 |
| Other liabilities | 3,750 | 3,750 |
| Total liabilities | 80,970 | 100,970 |
| Net assets: | | |
| XYZ Real Estate Account net assets | 318,162 | 253,356 |
| Noncontrolling interests | 21,538 | 16,794 |
| Net assets | \$ 141,815 | \$ 141,815 |



Ground Lease Recap

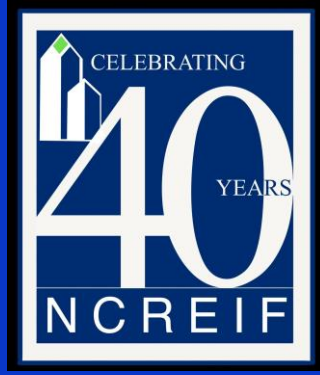
- Balance Sheet
 - Value the RoU asset and corresponding lease liability each reporting period
- Income Statement (Operating Leases)
 - Recognize rent expense based on contractual ground lease payments
 - No change from current presentation
 - Record an unrealized gain (loss) for both the RoU asset and lease liability that offset to zero
 - Unrealized gain on ROU asset - \$5
 - Unrealized loss on lease liability – (\$5)
- Presentation*
 - Option 1: show amounts gross on statement of operations
 - Option 2: given net impact is zero, do not report on statement of operations and include in footnote disclosure
- This accounting approach would be utilized for existing ground leases (likely classified as operating leases) and future ground leases (likely classified as financing leases)

*Ensure to discuss with your respective independent auditor

XYZ REAL ESTATE ACCOUNT

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, XXCY AND XXPY (in thousands)

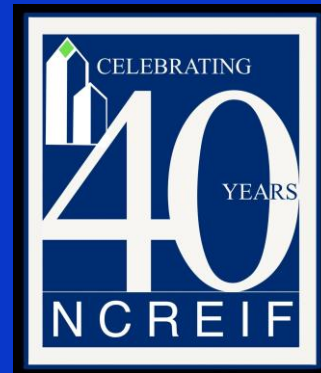
| | Before | After |
|---|------------------|------------------|
| Investment income: | | |
| Revenue from real estate investments | \$ 32,150 | \$ 32,150 |
| Equity in income of unconsolidated real estate joint ventures | 21,450 | 21,450 |
| Other income | 4,600 | 4,600 |
| Total investment income | 58,200 | 58,200 |
| Expenses: | | |
| Real estate expenses and taxes | 12,250 | 12,250 |
| Interest expense | 3,600 | 3,600 |
| Ground lease expense | 5,400 | 5,400 |
| Total expenses | 21,250 | 21,250 |
| Net investment income | 36,950 | 36,950 |
| Net realized and unrealized gain (loss): | | |
| Unrealized gain (loss) on real estate investments and improvements | 25,000 | 25,000 |
| Unrealized gain (loss) on unconsolidated real estate joint ventures | 12,250 | 12,250 |
| Unrealized loss on right of use assets | - | (5,000) |
| Unrealized (loss) gain on mortgage loans and notes payable | 7,500 | 7,500 |
| Unrealized gain on lease liabilities | - | 5,000 |
| Net realized and unrealized gain (loss) | 44,750 | 44,750 |
| Increase in net assets resulting from operations | 81,700 | 81,700 |
| Less: Portion attributable to noncontrolling interests | (4,754) | (4,754) |
| Increase in net assets resulting from operations attributable to XYZ Real Estate Account | \$ 76,946 | \$ 76,946 |



NPI Impact

Should data submitted to NPI represent a freehold, 100% interest in the underlying property?

If yes, where should the Right of Use Asset and Right of Use Liability be mapped within the submission templates? Appreciation with the value of real estate?



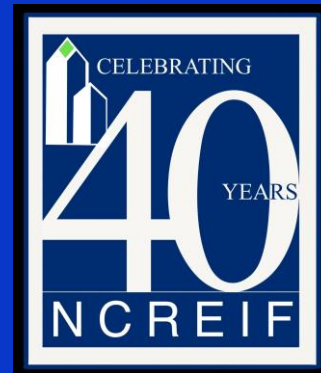
SEC Presentation – Performance

If presenting track records by property type (B above), how are firms calculating the property type subtotal net returns?

Since this could be crossing economic terms across funds, are firms removing the property type subtotals or are they using proxy fund terms to calculate hypothetical returns?

Reporting Standards Projects

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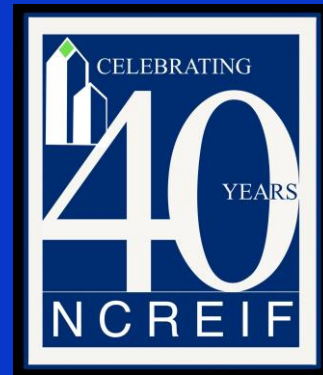


Reporting Standards for Debt Funds:

- Exposure draft is underway. Anticipate Council vote on the exposure draft at the August 11th with a 60 day public comment period
- Enhance Volumes 1 & 2 for standards relevant to debt funds on target for 12/31/22

PMC Projects

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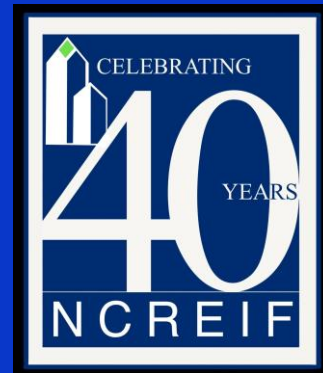


NCREIF Academy Glossary Calculations:

- We have closed out this effort with the updated calculations being utilized at the most recent NCREIF Academy

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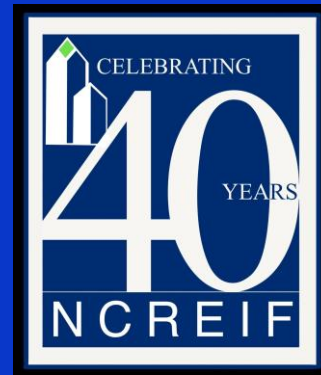


Attribution Working Group:

- The group is focused on identifying the most often requested and presented attribution in marketing, RFPs and DDQs
- The team is looking to reach out to consultants and investors to confirm a well rounded viewpoint for the process
- First deliverable is proposed to be a NCREIF Discussion Paper of how to utilize for investors and investment managers

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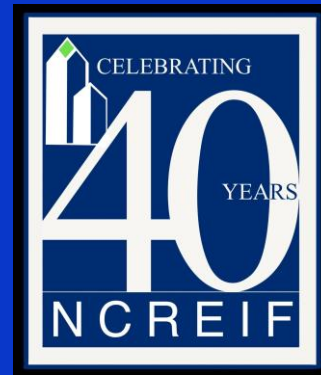


DDQ Interface project:

- The task force has re-engaged on this project and is completing the final consultant DDQ mapping of quantitative metrics.
- Summary of all common elements is being updated and elements noted that were not in original list are being reviewed for commonality.
- Discussion with ILPA regarding qualitative metrics is scheduled for 7/27/2022.
- Target completion date Q3 2023.

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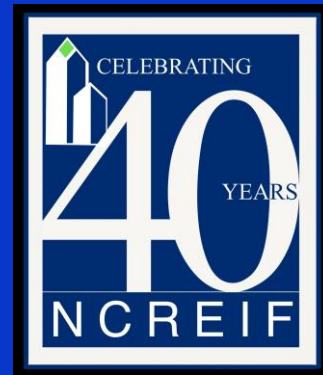


Enhancing comparability of TWR when benchmarking to NFI-ODCE:

- Draft guidance document is underway and will be distributed to task force for review and comment in July. Target publication is 12/31/2022.
- Task force prefers guidance to be included in the Performance and Risk Manual. Depending on timing, RS may issue separate guidance paper with PMC review in 2022 and include in manual in 2023.

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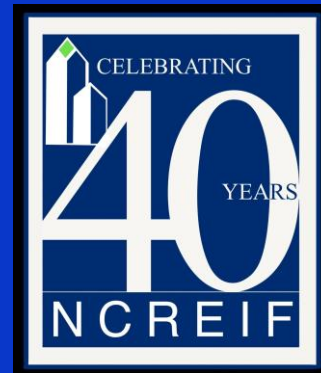


Global Definitions Database:

- Seven terms have been proposed and approved for inclusion in the GDD. Five new proposed terms are currently under review with six additional terms under consideration.

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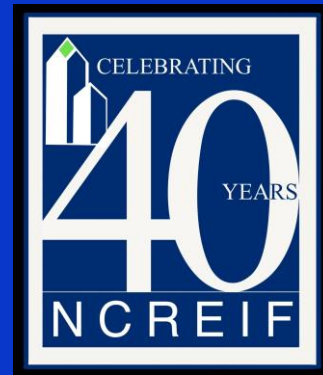


Global ESG Collaboration:

- ESG Think Tank agreed to continue and will meet at least twice per year – fall and winter after the NCREIF and PREA conferences. Ad hoc meetings as needed welcomed.
- ESG Task Force has rolled into the ESG Committee at NCREIF.
- New RS project with ESG committee forthcoming – mapping INREV KPIs to RS ESG KPIs and convergence on definitions where possible.
- 2022 Goal – Develop fund reporting best practices for ESG

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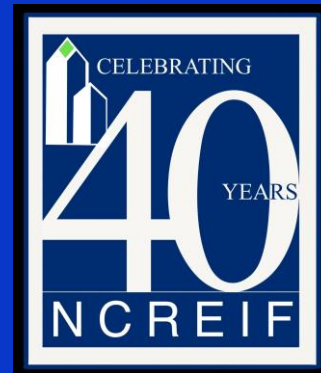


Continue to develop standards and best practices globally:

- Our global alliance with INREV and ANREV continues in order to oversee the continued development of global products.
- Asset level work will be considered for global convergence.
- Global AUM:
 - Draft Guidance document in progress
 - Next steps to be determined after NCREIF Conference

Reporting Standards Projects

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Upcoming projects 2022-2024:

Compliance Assessment:

- RS will begin the process to assess compliance with the Reporting Standards for all open-end equity funds (ODCE and non-ODCE) and closed-end funds.
- Assessment was previously completed in 2014 for all ODCE funds and compliance was in excess of 95%.
- Assessment will be of paramount importance to the building of advocacy, education and promotion programs going forward.



Thank You!

Volunteer Opportunities:

- New Vice Chair Volunteer

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