

Guidance on Expense Ratios

Effective from 1 April 2022

Background

It has been decided to bring AREF's Guidance on the Total Expense Ratio (TER) in line with the Total Global Expense Ratio (TGER¹) agreed by INREV, ANREV, NCREIF and PREA² that came into effect from 1st January 2021.

The objective of the Total Global Expense Ratio (TGER) is to facilitate comparison of fees and costs between real estate investment vehicles that operate across different regions of the globe.

Where the TGER is felt to provide insufficient disclosure, this guidance provides additional requirements for AREF Fund Members.

This has also been used as an opportunity to bring AREF terminology regarding the Property Expense Ratio (PER) and Real Estate Expense Ratio (REER) in line with INREV terminology.

Application

The guidance applies to all AREF Fund Members and publication of fee metrics is a requirement of AREF's Code of Practice.

Funds that are marketed to retail investors have specific rules set by regulation and should follow those rather than this guidance where this guidance conflicts with the regulation.

Total Expense Ratios Guidance for AREF Fund Members

AREF Fund Members should follow the TGER requirements. In addition, they should report the expense ratios as a proportion of both NAV and GAV. Also, where performance fees are applied, the expense ratio should be reported with and without the performance fees.

More information on reporting requirements can be found below in this guidance and on AREF's Expense Ratio Guidance [webpage](#).

¹ [Total Global Expense Ratio](#): a globally comparable measure of fees and costs for real estate investment vehicles, November 2019

² INREV is the European Association for Investors in Non-listed Real Estate Vehicles www.inrev.org

ANREV is the Asian Association for Investors in Non-listed Real Estate Vehicles. www.anrev.org

NCREIF is National Council of Real Estate Investment Fiduciaries in the US. www.ncreif.org

PREA is the Pension Real Estate Association in the US. www.prea.org

Changes from previous TER guidance

The most significant changes are set out below:

	AREF TER Guidance 2009	Total Global Expense Ratio	AREF Expense Ratio Guidance 2021
Reporting as a proportion of NAV or GAV.	The expense ratios should be reported as a proportion of Net Asset Value (NAV). Expense ratios may additionally be reported as a proportion of Gross Asset Value (GAV).	The expense ratios should be reported as a proportion of Gross Asset Value (GAV). Expense ratios may additionally be reported as a proportion of Net Asset Value (NAV).	To ensure consistency with both existing AREF practice and TGER, expense ratios should be reported as a proportion of both NAV and GAV.
Type of NAV and GAV	NAV and GAV should be accounting NAV and GAV	NAV and GAV should be the relevant reporting NAV and GAV of the fund.	NAV and GAV should be the relevant reporting NAV and GAV of the fund.
Performance Fees	Performance fees should be excluded from TER and should be reported separately.	Performance fees should be included in TER.	To ensure consistency with both existing AREF practice and TGER, TGER should be reported including and excluding performance fees.
Real Estate Expense Ratio (REER)	Uses the term Property Expense Ratio (PER) to describe the property level costs and Real Estate Expense Ratio (REER) to describe the total of TER and PER.	Uses the term Real Estate Expense Ratio (REER) to describe the property level costs.	Uses the term Real Estate Expense Ratio (REER) to describe the property level costs.
Transaction costs	Transaction fees paid to the manager are included in TER. Disclose transaction costs separately.	Transaction fees paid to the manager are included in TGER.	Transaction fees paid to the manager are included in TGER. Disclose transaction costs separately - Typically costs associated with the purchase and sale of property holdings, but may also include costs associated with the purchase and sale of interests in special purpose vehicles or other investments.

Other changes are covered in the Expense Ratio [Q&A](#) on AREF's website.

Example

	As a percentage of GAV	As a percentage of NAV	
Fund management fees	X	X	
Other fund level operating costs	X	X	
TGER before performance fees	X	X	To be disclosed
Performance fees ¹	X	X	To be disclosed
TGER after performance fees (A)	X	X	To be disclosed
Property management fees	X	X	
Other property level costs	X	X	
REER (B)	X	X	To be disclosed
Total (A + B)	X	X	To be disclosed
Costs associated with the purchase and sale of property holdings ²	X	X	
Costs associated with the purchase and sale of interests in special purpose vehicles.	X	X	
Transaction costs	X	X	To be disclosed

¹ Where a fund does not have performance fees, this should be “N/A”. Where a fund does have performance fees but none have accrued, this should be “0”

² Transaction fees paid to the manager are included in TGER.

Further guidance

Further guidance can be found on the AREF Expense Ratio Guidance [webpage](#) including

- Total Global Expense Ratio: a globally comparable measure of fees and costs for real estate investment vehicles, November 2019
- Expense Ratio Q&A