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1. COVID-19

If one thing is clear from the flood of COVID-19 news, especially news about the economy, it’s that we don’t fully know what to think yet. This is especially true for real estate, which lags the larger economy in its response to change even in normal times. Yet COVID-19 rose to the top of The Counselors of Real Estate’s Top Ten list with the speed of a bullet. Two primary factors may drive the effect of this pandemic on real estate market demand. Will real estate demand be reduced by virtual offices and home entertainment? Or, will we insist on lower density wherever we go, requiring larger spaces and higher costs to accommodate the same functions?

2. Economic Renewal

The U.S. economy was heading toward a tipping point prior to the pandemic, and beyond that we find deep and persistent challenges facing the economy and the real estate industry. Significant segments of the economy will remain debilitated. Leisure and hospitality, retail, air travel, and construction can expect slow and partial rebounds into 2022. Once the first year of recovery is accomplished—with some jobs permanently lost—final demand for U.S. businesses, including real estate, will remain truncated. For the decade of the 2020s, the economy is constrained by long-run potential GDP growth that is a weak 1.5 – 1.6%.

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3. Capital Market Risk

The past several months have presented not only the real-time volatility of the capital markets, but also how quickly debt and equity capital liquidity can stop flowing when risk and returns are difficult to measure. One thing we have seen since the middle of March is that volatility has spiked which makes pricing debt more challenging. In the face of effectively zero interest rates, the risk premium spreads, valuation metrics and the underwriting assumptions become critical. Percentage of rent being paid in each sector is an important metric as is late debt service payments.

4. Public & Private Indebtedness

All real estate is local and the value of—and demand for—commercial real estate can be influenced by local indebtedness funded by local taxes. While fiscal and monetary intervention were necessary in the Great Recession of 2009, and in the current public health crisis, understanding the tentacles of that intervention is a Top Ten real estate issue. Public debt needs to be translated locally to understand the interconnections of air travel, ports, logistics infrastructure, and public transportation that influence commercial real estate demand, value, and investment activity.

5. Affordable Housing

In this era of political divisiveness, there are two things that most can agree on: 1) there is a tremendous need for affordable housing throughout America, and 2) there is a strong “Not in My Back Yard” or NIMBY agenda. According to the National Low-Income Housing Coalition, there is a shortage of more than 7.2 million affordable rental homes for extremely low-income renter households—those with incomes at or below the poverty level or 30% of their area median income. Moreover, the lack of affordable for-sale homes drives up rents and increases prices of multifamily investment properties.

6. Flow of People

The flow of people between and within countries has always been a critical driver of real estate and the economy. The world’s economies and people are facing unprecedented challenges to mobility. Immigration has ground to a halt. Reduced migration and behavioral changes will hurt demand for residential, hospitality, and retail real estate, particularly in communities that have relied on such demand. An early May Harris Poll showed that nearly 40% of urbanites are considering fleeing cities. Real estate implications will be determined by how long behavioral changes brought on by the virus last, the innovations in healthcare, living, and working that emerge, and world leadership.

7. Space Utilization

COVID-19 will have a lasting impact on the design and use of real estate space, with a level of transformation and rebuilding not seen since the end of WWII. COVID-19 has stressed the use, location, mechanical infrastructure, and interior configuration of commercial buildings. In as much as safety issues were at the forefront after 9-11, a new focus is being placed on the health of building occupants—from building entry and vertical transit to improvement of indoor air quality. Density and affordability of housing, job opportunities, social services and health care, and recreational activities will be even more key in urban planning, with revised expectations on capacity.

8. Technology & Workflow

There is an urgent call for technology to manage risk. The combination of migration back to the office, change in operating methods, and working remotely is accelerating the adoption of technology. Many technologies will go from “nice to have” to “mandatory.” These may include: tracking people in buildings; contactless doors and elevators; air and water quality monitoring; airflow and recirculation control; mandatory remote building services; and health screenings. Forced adoption of web meetings, safety standards, privacy and collaboration tools, and cybersecurity has brought the benefits of technology to even the most resistant users.

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The NCREIF PREA Reporting Standards (Reporting Standards) is an industry initiative co-sponsored by the National Council of Real Estate Investment Fiduciaries (NCREIF) and the Pension Real Estate Association (PREA) with a mission to establish, manage, and promote transparent and consistent reporting standards for the real estate industry to facilitate informed investment decision-making. The three main areas of reporting include Valuation, Performance, and Fair Value Accounting.

1. Tell us who NCREIF and PREA are and their reason for sponsoring the Reporting Standards.

These two organizations have a combined membership that covers a wide range of the private institutional real estate investment industry. NCREIF serves as the unbiased collector and disseminator of real estate performance information including a number of fund indexes, like the NCREIF Fund Index-Open-end Diversified Core Equity Index (NFI-ODCE), as well as the iconic NCREIF Property Index. PREA focuses on research, membership interaction, and information exchange. Currently, NCREIF has about 415 members and PREA has 730 members.

The Standards got its start back in the early 1990s when Blake Eagle, the founder of NCREIF, reached out to PREA’s leadership to discuss collaboration. He believed that your “product is only as good as your standards” and the Standards enhances the products offered. The result was a co-sponsorship of an initiative and the Reporting Standards was born.

2. Summarize the parties to, the purpose of, and content of the Reporting Standards.

The “roll up your sleeves” work is done by the Reporting Standards Council, 12 senior professional members who represent a cross-section of industry perspective, including Valuation specialists, Public Accounting firms, Investors (LPs), Investment Managers, and Fund Administrators, each of whom are members of one or both of the sponsors. The Council’s job is to address issues in the real estate industry where standardization and transparency will facilitate investment decision-making. Governance is handled by an 8-member Reporting Standards Board, split equally between the sponsors, who are jointly responsible for strategy, advocacy, and promotion. The stakeholders the Council and Board serve are the Council and Board members, each of whom are members of the Reporting Standards Council and Board.

The collaboration between the members of the Reporting Standards Council and Board ensures the success of the overall mandate: producing standards and guidance in reporting that are transparent, useful, and comparable for those making investment decisions.

The Reporting Standards materials are organized into two volumes and can be found at www.reportingstandards.info. Volume I contains all the required and recommended practices needed in order to make a claim of compliance with the Reporting Standards. Volume II contains all of the related guidance supporting the Reporting Standards including discipline-specific manuals on valuation, fair value accounting and performance measurement, as well as research and tools. Tools include easy to follow checklists for open-end funds, closed-end funds, and separately managed accounts (SMAs) that serve as a handy reference when self-assessing compliance.

Additionally, the Reporting Standards is collaborating with INREV (the European Association for Investors in Non-Listed Real Estate Vehicles) and ANREV (the Asian Association for Investors in Non-Listed Real Estate Vehicles) on a Global Standards Initiative. To date, this initiative has produced a Global Definitions Database (https://www.inrev.org/definitions/) which is a common glossary of terms that are beneficial to the real estate industry. I am also proud to report that the Global Standards Initiative published its first global standard, the Total Global Expense Ratio (TGER), a globally comparable and consistent measure of fees and expenses and disclosures which can be used within and across domiciles as well as within and across product types. TGER was incorporated into the Reporting Standards and the INREV Guidelines this past year.

3. Who are the beneficiaries of adopting and complying with the Standards?

The primary beneficiaries are Investors and Investment Managers.

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Investors benefit from transparent and consistent reporting coming from a wide array of their managers enabling comparability of results across funds. Investment Managers benefit from being able to produce a standard report for all of their investors rather than a myriad of bespoke, custom reports. Managers also benefit as increased comparability helps streamline due diligence during the capital raising process. Service providers, like valuers, consultants, fund administrators, software developers, and accountants, also benefit from the consistency and comparability of the information and resulting deliverables. The effort is truly industry-motivated and the industry has truly benefited.

An additional benefit of complying with the Standards came to light with the COVID-19 crisis as investors reached out to managers looking for a variety of data on funds and properties. Transparency embedded in the Standards made producing those data points a much easier process and gave investors the data they needed to assess the impact of the crisis on their investments. I am particularly proud that the Reporting Standards Council, in collaboration with the NCREIF Accounting Committee were able to produce a guide for disclosures of COVID-19 rent relief in record time. There are multiple ways that rent relief has been negotiated and these adjustments will impact valuations for the foreseeable future. This guide will serve as one means for investors to navigate through the performance impact of these changes on their portfolios.

4. Are there any challenges to implementing or complying?

Typically, compliance is not difficult if you are already active in the space. The Standards are a carefully thought out and well-documented road map with adoption and implementation in mind. Implementation can be undertaken by professionals and staff already in place and performing their respective duties. Compliance is a natural extension of working with all stakeholders and improving upon best practices. For example, in the Valuation area, the Standards require quarterly fair values determined through a valuation process detailed in the Standards. But a manager or sponsor operating in this space is likely already undertaking the steps to provide asset fair values to investors. So, it’s never really a rework, but rather enhancing current practices.

5. Explain the role Appraisers might have.

Appraisers play a huge role in the real estate industry and accordingly play an equally large role with the Reporting Standards. In fact, the Standards of Professional Appraisal Practices (USPAP) is one of the three “Foundational Standards” of the Reporting Standards.

Fair value reported to investors on a periodic basis is driven by a valuation and appraisal process. Compliance with the Standards requires a Valuation Statement and Policy be adopted and reported to investors. Valuations can be performed either externally or internally depending on the type of investment and/or type of vehicle that owns the investment. The Standards provides guidance on how periodicity (how often a property or portfolio is revalued) and methodology (review and update or full on-site inspection) are established and on appraiser selection. The appraiser must demonstrate expertise in the type of valuation required and occasionally, the process may involve multiple firms. An example of involving multiple firms might be in the case when third party debt is valued by one firm and the asset is valued by another.

The Reporting Standards also provides for disclosures of difference in valuation opinion and/or dispute resolution between appraiser and investment manager. An arbitration process may be necessary to resolve disputes. It is important to note that management is ultimately responsible for the values reported to investors but these disclosures provide important transparency to the appraisal process.

6. In 2019 the Board announced a major update to RS for 2020. What changes resulted?

As a matter of course, minor changes and enhancements are made to the Reporting Standards on an annual basis as changes occur in the industry or with our Foundational Standards, which include Generally Accepted Accounting Principles in the United States (US GAAP) and the Global Investment Performance Standards (GIPS®), in addition to the aforementioned USPAP. We have successfully collaborated with these Foundational Standard setters and will continue to do so as they develop and refine their respective standards and guidance.

In addition to these ongoing updates, two factors drove the need for a 2020 update. First were the changes addressed in the GIPS 2020 update, including changes in valuation requirements. The old standards posed challenges to compliance for closed-end funds, particularly in the areas of annual requirements for external valuation and required reporting of time-weighted returns. The second factor was the need to incorporate TGER, discussed earlier, into the Reporting Standards.

7. What is the focus of the RS Council for this year? Next few years?

While the Reporting Standards has been adopted by most of the larger investment managers in the U.S. (99% of ODCE Funds comply), it always amazes me how many small and midsized firms are not familiar with the Standards, much less adopting it, as they struggle to develop best practices in investor reporting. During my term as Chair, our focus will be increasing awareness, advocacy, promotion, education, and compliance with the Standards. We hope to accomplish this in part by working and collaborating more extensively with organizations like The Counselors of Real Estate.

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The CRE Foundation is committed to funding game-changing projects that have a consequential connection to real estate—projects that will make a meaningful difference in your community and communities around the world.

Believing in and honoring that mission was the late Jared Shlaes, CRE Emeritus. The 1993 recipient of the prestigious James D. Landauer/John R. White Award passed away peacefully last year on Thanksgiving morning, surrounded by his family. He wished to leave a lasting legacy and, in his final weeks, talked about those wishes with his children Amity, Jane, and Noah Shlaes, CRE. The family announced in July it is donating $100,000 in Jared Shlaes' memory to The CRE Foundation.

“What he really liked were the people,” recalls Jane Shlaes. So much so Jared, invited to membership in 1967, brought his teenage children to national meetings, leaving them in the company of CRE family like Abe and Grace Barkan, Neil King, and Joe Farber.

The familial connection goes back even farther—Jared worked with his father, Harry L. Shlaes, one of the earliest CREs. Harry sought the designation to enhance his prestige as an expert witness in the then-new profession of real estate valuation.

The Shlaes children say their father’s legacy has three areas of focus: education—in memory of his contributions to both the University of Wisconsin and DePaul University (where he taught Finance 533 with his son Noah) and his involvement with real estate academics throughout his career; writing—to reflect his passion for the written word and his history as the founding and long-time editor of Real Estate Issues and author of “Real Estate Counseling in a Plain Brown Wrapper,” published in English and Polish; and international outreach—to reflect not only his belief that global expansion was key to the future of The Counselors, but also his delight in the progress the organization has made in building an impressive global presence.

Bill McCarthy, CRE, 2020 Second Vice Chair of The Counselors, leads the CRE organization’s Planned Giving Program. “This gift is transformative for The Counselors of Real Estate and The CRE Foundation. It speaks volumes to how one organization can impact one’s life and, in the case of the Shlaes family, three generations,” said Bill. “Noah and his sisters were extremely discerning through the planned giving process and reviewed all of the mechanisms in order to do it right. Their generous donation is momentum building for the foundation and inspiring for all of us.”

“This is a treasured gift from the Shlaes family,” said Jonathan Avery, CRE, Chair of The CRE Foundation. “Jared thought highly of the organization, and his family’s generosity will advance the theory and practice of counseling for generations. He was a real testament to the profession and a role model for planned giving.”

The CRE Consulting Corps is Proud to Be Working With the U.S. Navy

In August, the CRE Consulting Corps team began work onsite at the U.S. Naval Air Station (NAS) Oceana in Virginia Beach, VA. The team’s work includes reviewing NAS Oceana’s property assets; evaluating strengths, opportunities, weaknesses, and challenges; and exploring alternative leasehold structures, enhanced use lease authority, and public-private partnership models.

If you know of a government, municipal, or not-for-profit organization that could benefit from real estate counseling, contact Samantha DeKoven (sdekoven@cre.org) or call 312.329.8431 for more information on the CRE Consulting Corps.

PHOTO | (Left to Right) Jerry Turner, CRE, Kirk King, CRE, William Norton, CRE, and Reid Wilson, CRE, onsite at U.S. Naval Air Station Oceana. Not pictured: H. E. “Skip” Preble, CRE.
9. Infrastructure

Infrastructure has a major impact on land and the built environment, and is crucial in sustaining life and commerce. The American Society of Civil Engineers rates U.S. infrastructure at a D+. It is estimated that there will be a global underinvestment of $15 trillion in infrastructure by 2040. If needs remain unmet, real estate values and development will be impacted as underserved areas become less livable. Retailers across the globe rely on a complex logistics infrastructure as online sales grow. Long-term demand for “last-mile” warehousing and distribution will depend on the degree to which online shopping remains a lasting behavioral change.

10. ESG

Environmental, Social and Governance (ESG) has become a critical component of real estate investment. While COVID-19 has underscored the importance of ESG issues, this new “norm” is a result of trends already underway. Those include dramatically changing acceptance of the risks of climate change, innovative measurement and tracking of ESG performance, new ESG investment alternatives, growing influence of millennial investors, and major recognition of corporate ESG initiatives. The role of resilience and control of operating costs is more important than ever as investors and operators navigate the blow of near-term rental revenue losses.

Currently, the Reporting Standards is a U.S. based set of standards. However, as the industry becomes more global so too must the Standards. The Reporting Standards Council and Board are collaborating with INREV and ANREV on a Global Standards Initiative and we expect to continue to do so. Perhaps in the future there will be a single set of global reporting standards. I have no idea as to when that may happen. In the meantime, our plan is to continue to explore ways to converge our respective standards and where we cannot, provide paths to build bridges between the two. That alone will be a tremendous benefit to global investors and managers alike. Our global work to date evidences that approach.

If you are interested in learning more about the Reporting Standards or want to get involved, contact Marybeth Kronenwetter at marybeth@reportingstandards.info.

Many CREs are already active in our sponsoring organizations committees (NCREIF and PREA) and also on the Reporting Standards Board and Council. We view this as a win-win for all involved. In addition, a growing requirement in the market is the ability to provide investor-specific reporting. Many investment managers, large and small, struggle with this, so we will begin work to develop investor-specific reporting standards. Investor-specific reporting standards will focus on reporting considerations with respect to an investor’s stake in a fund. A before-and-after fee investor statement, as well as investor-level performance returns, may be two examples of investor-specific reporting encompassed in this effort. Finally, we anticipate doing a deeper dive into the development of best-practices reporting of asset/investment specific information. More and more investors are drilling into the drivers of the performance of their portfolios. This is frequently an investment-specific analysis of returns, cash flows, valuations, and other key metrics. We think it is important to establish best practices in this area as well. In summary, we expect to keep very busy. We are always looking for volunteers.


I’ll answer that question with a question: Is Real Estate just a North American industry? Of course not. The old saying is that the three most important things in real estate are location, location, and location! And that is still true. But investment capital allocated to real estate does not have any borders. Investors will chase risk-adjusted returns wherever they can find them and a geographically diverse portfolio makes as much or more sense as sector diversity in a portfolio.
Providing creative real estate solutions to nonprofits and municipalities for over 20 years. Visit CRE.org/Consulting-Corps or call 312.329.8431 for more information.

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