

## NCREIF'S NEW FUND INDEX ANNOUNCED!

NCREIF is extremely pleased to announce the selection of Russell Real Estate Advisors as the winning bidder in response to a NCREIF RFP sent out last March seeking a qualified service provider to develop exclusively, on behalf of NCREIF, a real estate commingled fund database. Russell has a long history of compiling fund level information and tracking and measuring fund performance, going all the way back to the very early days when pension funds first began allocating capital to real estate. Russell maintains one of the largest real estate fund databases in the industry.

NCREIF long ago established itself as the primary provider of property level information for privately held commercial real estate. NCREIF already produces a series of reports on private real estate performance and makes its database available to members and subscribers for analytical purposes. NCREIF's expanded mission is to broaden the coverage of institutional investment in private commercial real estate equity and in the process be more responsive to industry demands for enhanced indexing and benchmarking. This means going beyond NCREIF's traditional role of compiling property level information on non-leveraged core assets from which performance indexes are constructed.

NCREIF has long coveted assembling, owning and then managing, on a going forward basis, a database of real estate commingled fund performance statistics and other relevant portfolio level information. The ultimate goal is to have a database rich enough and robust enough to allow for sorting by a wide range of measures – property type, location, fund structure, manager type, investment style, vintage year, market capitalization, leverage, cash-flows, etc. There have been, at one time or another, including funds currently in operation, in excess of 400 collective investment funds of various types and strategies set up specifically for pension investment in real estate. NCREIF wants to capture as much of this information on both a historical and current basis as possible.

Earlier this year, NCREIF made the decision that the

most efficient and cost effective way to build a fund level database would be to hire, on a turn-key basis, a qualified third party information vendor to do the actual assemblage work. When completed, the information provider would deliver to NCREIF a fund level database in accordance with a set of specifications and standards established by NCREIF and agreed to by the provider.

NCREIF sent RFPs to nine organizations, all well known to NCREIF to have had both a history and years of experience in collecting, compiling and using information on real estate collective investment funds. Four responses representing five of the nine candidates were received. All responses exceeded the minimum information criteria and other specifications spelled out in the RFP.

### WHY A FUND LEVEL DATABASE?

First, having a fund level database will significantly increase the coverage of institutional investor dollars allocated to private real estate - a major goal of NCREIF and part of our data expansion initiative. For the first time, the pension real estate community at large can expect to have two private market databases that offer up future prospects of multiple private market indexes and custom benchmarks. It is estimated that the NCREIF Property Index currently covers between 70% to 75% of pension investment in U.S. commercial property. Developing a comprehensive fund level database should increase the range of coverage to well above 90%.

Secondly, fund level returns capture all the investment styles managers have employed since the inception of institutional investment in real estate. The various strategies include all-cash, leverage, development, redevelopment, distressed asset purchases and sales, asset repositionings, etc. These strategies are known today by such commonly used descriptors as “core,” “core-plus,” “value-added” and “opportunistic.” A fund database offers up the prospects of manager peer grouping by “style” and comparison of returns by “style.” Also incorporated into fund

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level performance numbers are returns earned from non-core assets, such as assisted living, parking garages, self-storage, healthcare, hotels and motels and entity financings. A fund level database should be able to provide researchers and analysts with far more insights as to the impact of non-core type properties on overall real estate performance.

Third, a fund level index would represent a time series of real estate returns dating as far back as the late 1960s, when pension funds first began investing in this asset class. Return data from the first generation of commingled funds precedes the NPI by ten years. Plan sponsors, particularly those that employ real estate as a strategic asset class, would welcome having as much historical return data at their fingertips as there is available in the marketplace. Academics also relish accessing as much data as the market can make available. More data, more research, more transparency – which should lead to more capital flows, more efficiency and more liquidity.

Once this database is up and running, NCREIF members and subscribers will be able to engage in meaningful fund level analysis. For example, analysis could range from comparing the risk and return characteristics of core fund strategies to those of value added. Comparisons could also be made on how open-end funds and closed-end funds stack up over comparable time periods. Data users will be able to analyze the returns on one set of funds with, say, concentrations in office properties to a second set of funds emphasizing retail properties and then be able to do so over comparable time periods or by specific locations. A comprehensive fund level database offers up a myriad of research possibilities. NCREIF expects academic and industry researchers to make extensive use of the database in addition to plan sponsors, fund managers and consultants.

There is also growing sentiment within the pension real estate community for NCREIF to become “Data Central” - i.e., a single repository where all institutional investor private market real estate information is collected, processed

and validated and where this information can be made readily available to all who want to use it. In other words, a “one-stop data shop.”

NCREIF’s responsibility has been up until now that of property level data steward. At the same time, the organization’s ongoing mandate is to continually seek to improve the quantity, quality, consistency and timeliness of the information industry participants require to make better and more informed investment decisions. As a result, this role requires NCREIF to be able to respond fairly, responsibly and comprehensively to meeting expanded industry investment information and performance measurement needs when such demand is clearly in evidence. In a perfect world, whenever an investor or the investor’s agent seeks an answer to a question about private real estate performance or is in need of a specific data set, the ideal response would be to point the inquirer in the direction of NCREIF and advise him or her that “NCREIF is the place where all of your information needs reside.”

Going forward, the industry will be able to rely on NCREIF as its primary fund level data provider as it now relies on NCREIF for property level information and performance indices.