

NCREIF -REIS Council Prospectus

Standards Project Name: REIS Compliance & Verifiability
Date: October, 2005

I. Description and Purpose of Project -

NCREIF, PREA, and NAREIM conceived The Real Estate Information Standards (REIS). NCREIF and its expert committee structure (NCREIF Committees) have become responsible for maintaining and updating REIS with the approval and acceptance of PREA and NAREIM in a "Board" like capacity. This REIS structure and approvals mechanism is in the process of being updated. The history of how REIS arrived at its current state is important to understanding the need for this proposed update and is outlined below in Section II. In its current state REIS has yet to become the authoritative document its founding organizations intended. With the industry leading topics that are under consideration through the NCREIF Committees or in the public comment period for future inclusion in REIS, this lack of authoritativeness has become even more apparent. In fact, Consultant's RFP questions regarding investment managers' compliance with REIS have become illogical and unanswerable.

One of the major issues that need to be addressed to advance the practical usefulness of REIS is compliance and verifiability. Once REIS can be adhered to without ambiguity it will significantly increase its use in achieving comparability and transparency in real estate valuation, financial, and performance reporting. This would improve the ability for investors, consultants, and service providers to analyze and compare investments and portfolios making real estate more investable and more broadly acceptable to institutional asset allocations.

The purpose of this compliance and verifiability project is to make REIS a document that can be followed with ease by the experienced real estate practitioner. Compliance with REIS would be verifiable for institutional investor's and their service providers. Much sought after transparency and comparability of real estate investments and managers would be more achievable. In reviewing the REIS document for unambiguous compliance and verifiability none of the concepts currently within REIS would be changed. The concepts would simply be reviewed to determine that compliance is possible, what evidence of compliance is appropriate, and whether a 3rd party could verify compliance.

II. Background and Project Definition -

A. BACKGROUND:

REIS are the result of the dedicated efforts of NCREIF, PREA, and NAREIM. The leadership of these organizations developed the concept of publishing real estate standards that would increase the consistency with which investments are evaluated and reported. A Joint Task Force, consisting of Thomas Eastman of NAREIM, D. Wylie Greig of NCREIF, and Marshall Peck of PREA, was created to oversee the process.

Original Purpose

The original purpose of the REIS project was rooted in the perception of the real estate investment field relative to larger and more established institutional investment segments, such as equities and fixed income. These other investment segments are primarily public in

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nature, and have had many years of scrutiny and regulatory guidance. This scrutiny has served to increase the confidence of investors and investment analysts that information conveyed is accurate and consistent. Real estate, on the other hand, has been primarily a private market activity, with regulation and information exchange perceived as being less than complete. While some may challenge these perceptions, the fact is that if real estate is to become more broadly acceptable as an institutional investment vehicle, both in the private and public markets, increased standardization of information and disclosure is critical.

The Real Estate Information Standards initiative that the Joint Task Force conceptualized consisted of four phases: (1) Problem Definition, Work Program, and Request for Services; (2) Information Standardization; (3) Information Disclosure and Reporting Guidelines; and (4) Information Technology Standards.

The first phase was completed in 1993, and led to the selection of Deloitte & Touche LLP to complete the Information Standardization. A significant amount of industry comment, input and debate was solicited during the development of these standards. Even after adoption of this initial version of the Standards, ongoing review and modification was acknowledged as necessary to keep the Standards current and effective.

The following guiding principles were identified in the Reports:

- Information Standards shall be established to improve the service and information provided to existing and potential investors in the private real estate capital markets.
- Information Standards shall be established to guide information providers in the fair disclosure of real estate financial and investment performance, and the factors that contribute to performance. This includes the disclosure of financial accounting information and the appropriate usage of industry terminology. Attention shall be given to both information content and accompanying disclosures that may be necessary to qualify or clarify quantitative information.
- Information Standards shall be designed to enable information users to conduct a thorough and comparable analysis of real estate investments.
- Information Standards shall serve as a guide to investors and service firms on the amount and type of factual information that should be consistently collected, retained and made available for reprocessing, analysis, and distribution.

It is important to recognize that a reference to information elements and calculations in the report does not imply that disclosure of the information is recommended.

Among the misunderstandings that are possible in reviewing this document is the presumption that there is intent to be complete and thorough in defining everything an investor needs to make a decision, or an investment manager needs to maintain in its files, or everything an analyst needs to compare two investment opportunities. Such a task could be endless. The information and recommendations set forth are intended to provide the investor or analyst with a common baseline level of information to make informed decisions. It is not intended to set forth the information necessary to effectively operate or manage a property, portfolio, or fund. (For example, not all the legal compliance requirements that

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pertain to investors or managers have been addressed.) Again the intent was to continue to modify and maintain these Standards.

Original Information Standardization Methodology

The information standards, information elements, and definitions set forth in REIS were created through the completion of six tasks:

- review of previous and current industry initiatives relative to real estate information standardization;
- review of current accounting, performance measurement, valuation, asset management, and other informational reports and questionnaires, and current industry reporting practices;
- collection of opinions from institutional real estate industry participants with regard to areas of information inconsistency and other areas thought to need improvement;
- review of existing regulations, regulatory guidelines, and other pronouncements by the Securities and Exchange Commission, Financial Accounting Standards Board, and other regulatory bodies that influence the institutional real estate industry;
- reconciliation of the information gathered above; incorporation of predominant definitions, terms, and calculations; and development of lists of information elements that should reasonably be collected and maintained by information providers; and
- Review and feedback from industry associations and professionals.

To collect the opinions of the industry, more than 50 individuals and organizations were identified for face-to-face and telephone interviews. The interviewees represented retirement plan sponsors, investment managers and advisors, accounting firms, appraisal firms, consultants, academics, rating agencies, and Wall Street analysts. They were asked: to identify areas within the industry, as well as specific terms or calculations, that currently contain inconsistencies; to suggest their preferences of current alternatives and practices; and to identify current reports that they felt were the most complete.

Based on the information gathered, conclusions were developed as to the information that was deemed generally expected by issuers and users, and the predominant terminology usage, calculation methodologies, and definitions of data elements were then identified. Certain data elements in each list have been identified for further definition in the glossary in the Appendices.

Early drafts of the Standards were reviewed with the Joint Task Force, as well as with representatives of the Institutional Real Estate Clearinghouse and the National Association of Real Estate Investment Trusts (NAREIT). A draft of the Standards was a primary topic of a number of the technical committee meetings at the 1994 NCREIF Annual Meetings. Input from these sources was critical in the refinement of the Standards into this document.

One of the conclusions was a proposed annual cycle calendar for updating and maintaining REIS. As a result of these efforts the first version of REIS was published in 1995. Since 1995 REIS has been updated via the volunteer Committee structure at NCREIF and with informal sign off by the PREA and NARIEM Boards several times, but not annually.

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In the past two years NCREIF has created a more formal process for the formation of topics that will be considered as updates to REIS:

B. PROJECT DEFINITION:

The proposal set forth herein is for the formation of a REIS Compliance and Verifiability Task (the Task Force) for the sole purpose of completing this project. The Task Force will require one representative from the Valuation, Performance, and Accounting Committees to be available to address questions timely.

Second, the current version of REIS will be reviewed to determine that compliance with each standard in each section of REIS is possible, to determine what evidence of compliance is appropriate, and to determine whether a 3rd party could verify compliance. The result of the Task Force review with each Committees help would be to update REIS so that each section can be complied with unambiguously. The standards and disclosures would be clear and concise as to what information is to be reported, where, when, and how.

Further, the current template for REIS Council Prospectus that create new standards or disclosure requirements would be updated to delineate if the new standard is a requirement or a recommendation, and where, when and how the information should be reported and/or disclosed.

Finally, a Verification Checklist would be developed for independent third party verifiers to follow in signing off on a firm's REIS Compliance.

III Proposed Composition of Project Task Force

A Task Force has been assembled with senior representatives of the four NCREIF Committees and several current or past NCREIF Board members. All Task Force Members have had significant involvement in the development of, and the current issues facing REIS.

The Task Force:

- Task Force Chair: Scott Brown, Managing Partner Strategic Private Equity Analytics, Performance Committee Chair.
- Jeff Kiley, Partner Assurance and Business Advisory Services - PricewaterhouseCoopers, Current REIS Council Chair
- Jonathan Martin, Director of Financial Reporting AEW Capital Management, Member of the Accounting Committee
- Paula Ferkull, Past President of NCREIF
- Richard Wincott, Partner Real Estate Advisory Services – PricewaterhouseCoopers, NCREIF Board Member, and Member of the Valuation Committee.
- Neil Myer, Director of Research The Townsend Group, Member of the Research Committee and Chair of the Database Committee.
- Laura Huntington, President Institutional Property Consultants,
- John Baczewski, President Baczewski Associates, Inc.
- John Lundsten, Partner WhiteStar Advisors, LLC, Portfolio Management Committee
- Bruce Frank, Partner Ernst & Young LLP (PREA Rep)
- Carol Kuta, UBS, Accounting Committee Member

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- Peter Crosson, CIO Alaska Electrical Pension Fund
- Tom Mulvin, Investment Officer, Virginia Retirement System
- Deb Chambliss, Vice President AFL-CIO Building Investment Trust

IV Costs/Benefits of Implementation/Entities Impacted

The cost of not making REIS a compliant and verifiable document is to have the real estate industries valuation, financial, and performance reporting and disclosures stagnate in the past with ambiguity, and a general lack of transparency and comparability.

The benefits of making REIS compliant and verifiable are not easily measured, but are clearly massive for the real estate industry. Completing this major step toward self regulation, transparency and comparability, and acting with the highest degree of integrity on behalf of real estate investors should lead to greater trust. Further, it would put the organizations involved in the completion of such efforts in a leadership role for future industry initiative rather than non-real estate specific entities or regulatory bodies, which have historically overlooked or at most generically considered the real estate investment industry.

V. Projected Timetable for Project Completion

- October, 2005 - REIS Council approves Prospectus
- Nov. – Jan 05' - Task Force reviews REIS, creates initial questions list and draft Verification Checklist and seeks guidance and input from NCREIF Committees.
- Feb. – March '06 – REIS Committee updates created and distributed for comment via NCREIF Committee process. NCREIF cross-Committee review to identify issues and produce feedback at first meeting in 2006.
- April – May '06 - Task Force reviews feedback and creates final draft of compliance and verification findings, including the Verification checklist.
- June '06 - Distribute 2nd draft of findings and Verification Checklist to NCREIF Committees and to REIS Council before 2nd 2006 NCREIF Meeting. Goal of Submitting Final Draft to REIS Council for a vote at the 2nd 2006 NCREIF Meeting.
- July – Sept. '06 – Potentially solicit public comments from industry participants, associations, and interested parties. Utilize the NCREIF website as the comment collection area.
- October '06 – Create 3rd and Final Documents from public comments. Release statement of response to all public comments via the NCREIF website. Distribute for last REIS Council and NCREIF Committees input prior to 3rd 2006 NCREIF Meeting. At 3rd 2006 NCREIF Meeting submit Final Draft of Findings and Verification Checklist to REIS Board for final approval (which replaced the Joint Task Force (includes PREA and NARIEM)).
- Nov. – Dec '06 - Publish and distribute via the NCREIF website.