

REAL ESTATE INFORMATION STANDARDS
AND
THE INSTITUTIONAL REAL ESTATE CLEARINGHOUSE

IN THE EARLY 1990's, 26 INSTITUTIONAL REAL ESTATE INVESTMENT MANAGERS AND TWO PLAN SPONSORS, LED BY PENSION CONSULTANTS FRANK RUSSELL COMPANY AND INSTITUTIONAL PROPERTY CONSULTANTS, FORMED, CAPITALIZED AND PLACED INTO OPERATION, A NON-PROFIT ENTITY KNOWN AS THE INSTITUTIONAL REAL ESTATE CLEARINGHOUSE (IREC)

IREC WAS SET UP TO OPERATE A SECONDARY MARKET EXCHANGE FOR TRADING PRIVATELY PLACED SHARES OF REAL ESTATE COMMINGLED FUNDS OWNED BY TAX EXEMPT PENSION FUNDS, PROFIT SHARING TRUSTS, FOUNDATIONS AND ENDOWMENTS. FOUNDING MEMBERS INCLUDED ALDRICH EASTMEN & WALTCH, AT&T INVESTMENT MANAGEMENT, PRUDENTIAL INSURANCE, LASALLE PARTNERS, AMB REALTY, HEITMAN, RREEF, EQUITABLE AND AETNA LIFE TO NAME A FEW.

THE IREC CONCEPT WAS PROMPTED BY THE REAL ESTATE LIQUIDITY CRUNCH OF THE EARLY 90's WHEN COMMERCIAL PROPERTY VALUES PLUMMETED. THE MARKET CRASH WAS BROUGHT ON BY EXCESSIVE OVERBUILDING, A PRODUCT OF THE SO CALLED SAVINGS & LOAN CRISIS. DURING THIS PERIOD THE NCREIF PROPERTY INDEX (NPI) LOST ABOUT 40% OF ITS CAPITAL VALUE

CAUGHT IN THIS DOWN DRAFT, THE FIRST WAVE OF US PENSION FUNDS TO INVEST IN COMMERCIAL REAL ESTATE.

DOMESTIC PENSION FUNDS BEGAN ALLOCATING CAPITAL TO US REAL ESTATE FOR THE FIRST TIME IN THE MID 1970'S. BY THE EARLY 1990's, SOME 500 PENSION FUNDS, MOSTLY LARGE MULTI-BILLION DOLLAR DEFINED BENEFIT PLANS, HAD INVESTED AN ESTIMATED \$120.0 BILLION IN THE ASSET CLASS. ABOUT HALF OF THIS CAPITAL WAS INVESTED IN MORE THAN 200 COMMINGLED REAL ESTATE FUNDS; EACH ORGANIZED SPECIFICALLY TO ALLOW TAX EXEMPT INSTITUTIONAL INVESTORS TO PARTICIPATE IN DIVERSIFIED PORTFOLIOS OF INCOME PRODUCING COMMERCIAL REAL ESTATE UNDER PROFESSIONAL MANAGEMENT.

THIS COMMINGLED FUND UNIVERSE INCLUDED BOTH OPEN AND CLOSED END FUNDS. EACH TYPE OF VEHICLE OFFERED UP CERTAIN ASSURANCES OF LIQUIDITY—OPEN-END FUNDS THROUGH QUARTERLY REDEMPTION RIGHTS; CLOSED END FUNDS BY ESTABLISHING TARGET DATES FOR WHEN ASSETS WOULD BE SOLD. HOLDING PERIODS WERE TYPICALLY SEVEN TO TEN YEARS.

WHEN THE MARKET STARTED HEADING SOUTH IN THE EARLY 90'S, A SUPER MAJORITY OF THE PENSION FUNDS WHO HAD INVESTED IN REAL ESTATE SOUGHT TO LIQUIDATE THEIR OPEN-END FUND POSITIONS THROUGH REDEMPTION RIGHTS, WHILE EXPECTING MANAGERS OF THOSE CLOSED-END FUNDS THAT HAD REACHED, OR WOULD SOON REACH, HOLDING PERIOD MATURITY DATES, TO LIQUIDATE PORTFOLIOS AT APPRAISED VALUES.

HOWEVER CAPITAL MARKET CONDITIONS WERE IN SUCH DISSARAY, THAT IT WAS IMPOSSIBLE TO EXECUTE LIQUIDATION STRATEGIES WITHOUT SELLING ASSETS AT HUGE DISCOUNTS, SOMETHING MANAGERS AND MANY INVESTORS WERE RELUCTANT TO DO.

IREC WAS ESTABLISHED TO OPERATE AS A CENTRALIZED PRIVATE REAL ESTATE SECURITIES MARKET EXCHANGE, ONE WHERE A MUCH LARGER UNIVERSE OF TAX-EXEMPT INVESTORS—UPWARDS OF 37,000 PENSIONS AND ENDOWMENTS WITH ASSETS IN EXCESS OF \$ 5.0 MILLION—COULD OBTAIN DETAILED, HIGH QUALITY AND STANDARDIZED INFORMATION ON EACH OF THE MORE THAN 200 PLUS COMMINGLED FUNDS INVESTED IN REAL ESTATE, AND THEN DECIDE WHETHER THEY WANTED TO BUY INTO THIS \$60.0 BILLION PRIVATE REAL ESTATE SECURITIZED MARKET OR NOT.

THE OVERALL OBJECTIVE OF IREC—TO INCREASE THE SIZE OF THE POTENTIAL INVESTOR POOL FROM THE THEN CURRENT 500 INVESTORS, MANY WANTING TO SELL THEIR SHARES, TO A MUCH LARGER NUMBER, BY MAKING IT EASY FOR THOSE 37,000 POTENTIAL INVESTORS TO COME IN AND TAKE A LOOK—AND DO SO AT VIRTUALLY NO COST.

HAVING READILY AVAILABLE FUND LEVEL INFORMATION IN A STANDARDIZED FORMAT WAS KEY TO THE IREC MISISION. THIS INFORMATION ALLOWED PROSPECTIVE BUYERS AND SELLERS TO BE ABLE TO ENGAGE IN INDEPENDENT COMPARABLE ANALYSES AND PRICE DISCOVERY.

IREC UTILIZED TECHNOLOGY OF THAT ERA TO PROMOTE THE SECONDARY MARKET. COMMINGLED FUND INFORMATION WAS MADE EASILY AVAILBLE AND ACCESSIBLE VIA AN ELECTRONIC CONTOLLED NETWORK (QUALIFIED INSTITUTIONAL INVESTORS ONLY) SET UP AND MANAGED BY BLOOMBERG. THE TRADING FUNCTION WAS UNDER THE AUSPICES OF CANTOR FITZGERALD—AT THAT TIME THE WORLD'S LARGEST SCREEN BROKER. CANTOR PROVIDED AN AUCTION MARKET CAPABILTY THROUGH A SEPARATE ELECTRONIC NETWORK THAT FEATURED BID/ASK PRICING BULLETIN BOARDS.

IT WASN'T LONG AFTER IREC 'S PLANS WERE ANNOUNCED THAT THE INDUSTRY'S THREE TRADE ASSOCIATIONS-NCREIF, NAREIM AND PREA-FORMED A JOINT TASK FORCE TO BEGIN WORKING ON ESTABLISHING A SET OF INFORMATION STANDARDS FOR REPORTING AND DISCLOSING INDIVIDUAL FUND LEVEL OPERATING AND INVESTMENT PERFORMANCE. NCRIF WAS SELECTED AS THE INDUSTRY GROUP BEST SUITED TO LEAD THIS EFFORT-GIVEN THAT IT WAS ALREADY IN THE INFORMATION STANDARDS BUSINESS AS DATA COLLECTOR AND PUBLISHER OF THE NCREIF PROPERTY INDEX.

THE EFFORT TO CREATE A SECONDARY MARKET FOR THE TRADING OF COMMINGLED FUND SHARES CAUSED THE INDUSTRY—FOR THE FIRST TIME—TO REALIZE THE CRITICAL NEED AND IMPORTANCE TO ADDRESS INFORMATION STANDARDIZATION. WHILE IREC EVENTUALLY CLOSED AS THE RESULT OF CAPITAL RAISED VIA NEW FUNDS SET UP TO INVEST IN THE SECONDARY MARKET ALONG WITH THE OVERALL REAL ESTATE MARKET HAVING RECOVERED MUCH FASTER THAN EXPECTED, IREC'S LEGACY IS THAT OF BEING THE PRIMARY CATALYST IN MOVING INFORMATION STANDARDIZATION TO A MUCH HIGHER LEVEL OF INDUSTRY VISIBILITY AND PRIORITY THAN HAD PREVIOUSLY BEEN THE CASE.

WHEN THE CLEARINGHOUSE OPENED FOR BUSINESS IN 1996, THE FOLLOWING QUOTE IS TAKEN FROM OF AN EDITORIAL PIECE PUBLISHED IN THE 1996 SPRING EDITION OF THE PREA QUARTERLY:

REIS and the Clearinghouse by Blake Eagle, May 2009

“ONE OF THE MOST SIGNIFICANT INDUSTRY BENEFITS THAT HAS RESULTED FROM THE CLEARINGHOUSE EFFORT IS THE DEVELOPMENT OF INFORMATION STANDARDS. THROUGH THE JOINT EFFORTS OF PREA, NCREIF AND NAREIM THE INITIAL STANDARDS WERE PUBLISHED IN THE SUMMER OF 1995, AND THERE HAS BEEN INCREASING INDUSTRY ACCEPTANCE IN THE USE OF THESE STANDARDS BY BOTH PLAN SPONSORS AND THEIR MANAGERS SINCE THAT TIME”