

REAL ESTATE INFORMATION STANDARDS (REIS)

Last Revised on March 27, 2008



Revisions List

(Since 2003. 2003 was the last comprehensive rewrite of REIS)

March 27, 2008

Revised Chapter 3, Performance Measurement and Reporting Standards

March 16, 2007

Revised REIS Market Value Accounting Policy Manual
Notes Payable, Section 3.03.

November 15, 2006

Revised Chapter 1, Property Valuation Standards

October 13, 2006

Added Glossary as Appendix 2

July 14, 2006

Revised Chapter 2, Accounting
Revised REIS Market Value Accounting Policy Manual

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Preface

In 1993, the National Association of Real Estate Investment Managers (NAREIM), the National Council of Real Estate Investment Fiduciaries (NCREIF), and the Pension Real Estate Association (PREA) joined forces to identify existing information standards for the institutional real estate industry called the Real Estate Information Standards (REIS). REIS has evolved since then, including narrowing of the various practices in the areas of valuation, accounting, performance measurement and reporting.

Philosophy

The underlying principles guiding this standards-setting approach include disclosure of reliable information which is relevant to investor decision making processes and adequate description of policies and practices to facilitate analysis. We believe that such an approach will contribute to furthering the understanding of real estate as an asset class and its place in a broader capital markets universe.

Applicability

These standards govern tax-exempt institutional investment in real estate and apply to those who invest in or manage such investments in the United States.

Basis for Governance within REIS

Institutional equity real estate investments are part of a broader investment universe that includes both public and private equity and debt instruments. These markets tend to be governed by various regulatory, industry, or professional bodies with differing levels of standard-setting authority. While most authority is legislative, other standards observed in capital markets are often derived from professional affiliations and market custom. In many respects, this is the case with institutional equity real estate investment in the United States.

REIS incorporates by reference governance from other standard-setting bodies where applicable, to the institutional equity real estate investment management community. However, REIS provides alternative guidance in specific areas such as valuation, market value accounting and performance measurement where the aforementioned standards are silent or subject to interpolation.

The industry has worked diligently over the past twenty years to create standards in these areas or otherwise “narrow the practice” in order to provide a consistent information set to the institutional investment community. Primary components of such activities include:

- Encouraging disclosure of information relevant to investor decision processes.
- Describing the policies followed in computation of financial statement items, performance measurement calculation and presentation.

Each of the governing entities is constantly reviewing their promulgations and updating them as the need arises. NCREIF periodically updates these standards to incorporate relevant changes made by the American Institute of Certified Public Accountants (“AICPA”), the CFA Institute (formerly the Association for Investment Management and Research (“AIMR”)), Appraisal Standards Board of the Appraisal Foundation, Financial Accounting Standards Board (“FASB”), or other legislative and standard setting organizations.

Required vs. Recommended Practices

Concepts listed in these standards as *Required Practices* represent minimum standards and will, among other things, promote homogeneity of data within the NCREIF Property Index (“NPI”) and by and between investments and funds; and encourage consistency of presentation for use by investors, advisors and industry service providers.

Concepts that appear in *Recommended Practices* sections are periodically reviewed and discussed, and may be considered by the REIS Council and/or NCREIF’s Committees to become future REIS *Required Practices*. If a firm encounters a situation that is not addressed specifically by REIS (or is open to interpretation), additional disclosures, other than those required by REIS, may be appropriate. Firms are encouraged to present all information that is relevant for the reader to facilitate valid comparisons. This is a dynamic document, which has as its principal goal the facilitation of fair representation and full disclosure of real estate fund, investment and property performance. Therefore, any concepts that are not addressed or are not fully addressed or clearly presented should be brought to the attention of NCREIF Staff for dissemination to the REIS Council.

Additional Guidance

Sources of additional guidance and discussions of alternative approaches can be found by contacting the relevant professional organizations for related professional literature or visiting www.ncreif.org where supporting documentation such as manuals, workbooks and white papers are available.

Summary of Required and Recommended Practices

	Required	Recommended
Valuation	Written Valuation Policy	
	External Valuation: - Independent valuation at least every 36 months. - Appraisal performed in accordance with USPAP, the IVS or appropriate authoritative standard in the country where the property resides. - Report external valuation or explain variance wherefrom.	
	Internal Valuation: - Scope sufficient to demonstrate value was appropriately determined.	
Accounting	Market value basis of accounting in conformity with the NCREIF Market Value Accounting Policy Manual	Annual financial statement audits
	Quarterly and Annual financial statement reporting	
Performance Measurement	Define what discretion means to your firm.	
	Firms with any discretionary accounts must comply with GIPS and additional REIS.	
	Firms with no discretionary accounts must:	
	- Disclose that firm lacks investment discretion on all managed portfolios;	
	- At a minimum, follow GIPS and REIS valuation, calculation methodology, and disclosure requirements;	
	- Provide disclosures which must stipulate provisions that do not meet GIPS compliance and why.	

Chapter 1- Property Valuation Standards

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Chapter 1- Property Valuation Standards

Introduction

.01 The development of Property Valuation Standards resulted from investor requirements to carry assets at fair value and the need for useful information in support of transaction decision processes. Generally, the standards follow the Uniform Standards of Professional Appraisal Practice (“USPAP”) as set forth by the Appraisal Standards Board of the Appraisal Foundation with respect to process and documentation requirements.

Required Practices

.02 Required Practices:

1. A written Valuation Policy, including methods and procedures must be maintained and disclosed to clients and others, as appropriate. Required elements of a policy include:
 - a. Internal hierarchy of appropriate management levels responsible for the valuation process;
 - b. Process by which external appraisals are conducted;
 - c. Frequency of valuations;
 - d. External valuer and/or advisor selection process;
 - e. Role of USPAP in the valuation process;
 - f. Debt valuation procedures;
 - g. Minimum scope and documentation requirements for both external and internal valuations;
 - h. Value acceptance and/or dispute resolution procedures.
2. Direct real estate investment market values must be reported on a quarterly basis in accordance with accounting requirements in Chapter 2, Accounting. Quarterly valuations can be completed either internally or externally, and must be appropriately documented and approved in writing. This requirement supports quarterly production of the NCREIF Property Index, the industry’s current primary benchmark.
 - a. External Valuation Requirements
 - i. Each direct real estate investment must be valued by an independent, professionally designated property valuer or appraiser at least once every thirty-six months.
 - ii. External appraisals completed by independent third-party appraisers must be performed in accordance with USPAP for U.S. investments, the International Valuation Standards (“IVS”) as promulgated by the International Standards Committee, or the appropriate authoritative standard in the country in which the property resides.
 - iii. If a value different from the external appraised value is utilized, reasoning for the variance must be documented and disclosed.

- b. Internal Valuation Requirements
 - i. Scope should be sufficient to demonstrate that the value of each property has been appropriately determined.

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Chapter 2 - Market Value Accounting and Reporting Standards

Introduction

.01 The development of the Market Value Accounting and Reporting Standards resulted primarily from the realization that standardization of meaningful financial reporting was necessary in order to allow real estate to become more acceptable as an institutional investment asset class. Accounting standards promulgated by authoritative accounting bodies exist for various real estate entities, including public real estate investment trusts and other public and private real estate entities that utilize historical cost accounting. The reporting requirements and information expectations of the institutional real estate investment community required the development of a market value-based financial reporting model for which no accounting standards published by authoritative accounting bodies presently exist. Accordingly, the lack of adequate authoritative guidance applicable to market value accounting for institutional real estate investment vehicles necessitated the need for these standards to be published. The *REIS Market Value Accounting Policy Manual*, which can be found in Appendix 1, is an integral part of REIS.

Required and Recommended Practices

.02 Required practices:

1. The books and records are to be maintained on the market value basis of accounting in conformity with the *REIS Market Value Accounting Policy Manual*.
2. Annual financial statement reporting.
3. Quarterly financial statement reporting of financial statement information.

.03 Recommended practices:

1. Annual financial statement audits conducted in accordance with auditing standards generally accepted in the United States of America.

Authority within GAAP

.04 The fundamental premise for the market value-based accounting model is based on existing authoritative accounting standards, which require that certain investments held by tax-exempt investors, including defined benefit pension plans and endowments, be reported at fair value. For example, Financial Accounting Standard No. 35, *Accounting and Reporting by Defined Benefit Pension Plans*, which applies to corporate plans, requires that all plan investments be reported at fair value because that reporting provides the most relevant information about the resources of a plan and its

present and future ability to pay benefits when due. In addition, Government Accounting Standard No. 25 requires government sponsored pension plans to present investments at fair value in their financial statements. As a result, the more traditional historical cost basis of accounting used by other real estate companies, owners and operators is not appropriate, as it does not provide tax-exempt investors with the financial information they require to comply with authoritative accounting standards.

.05 Institutional real estate investment vehicles include open and closed-end commingled funds, pooled trusts and separate accounts, many of which have attributes similar to those of an “investment company”, as set forth in the AICPA Audit and Accounting Guide – *Audits of Investment Companies* (the “Investment Company Guide”). The accounting profession has used this authoritative guidance to support the use of a value-based accounting model for investment companies. At present, the applicability of the Guide to various types of investment vehicles is unclear. Additional authoritative guidance is currently planned for 2006, which is expected to help clarify the intended scope of the Investment Company Guide. Notwithstanding the clarification of the scope, the Investment Company Guide does not adequately address the accounting and reporting issues that exist for institutional real estate investment vehicles. The institutional real estate investment industry uses accounting practices, which while conceptually similar, may differ from those currently described in the Investment Company Guide. The AICPA has formed an additional task force to explore the accounting and reporting needs of real estate investment vehicles.

Position within the GAAP Hierarchy

.06 Accounting rules state that in the absence of authoritative guidance, prevalent accounting practices in an industry form the basis for generally accepted accounting principles (GAAP) in that industry. The lack of applicable authoritative accounting guidance has caused predominant market value accounting practices to constitute GAAP in the institutional real estate investment industry. Market Value Accounting and Reporting Standards themselves have no written authority within the GAAP hierarchy. Only to the extent that such standards represent prevalent accounting practices currently used in the industry, and to the extent that no authoritative accounting guidance applies, are such standards recognized in the GAAP hierarchy. The accounting and reporting practices used in market value reporting begin with historical cost accounting principles. The focus of the Market Value Accounting and Reporting Standards is on differences from historical cost reporting covered by authoritative accounting guidance. In certain instances the accounting for a particular item is described, even though it is consistent with historical cost reporting, to underscore the consistency when a difference may be perceived. Such specific guidance is provided within the REIS *Market Value Accounting Policy Manual*.

For specific reporting issues encountered by an individual investment vehicle, the applicable technical literature should be consulted to provide the most recent guidance for the appropriate accounting and disclosure in the financial statements.

Conceptual Framework

.07 As indicated above, the basis for the market value financial reporting model was rooted in the requirement that institutional investors report their investments at fair value in accordance with authoritative accounting standards. The fair value of an asset represents the amount at which the asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced liquidation or sale. Accordingly, a primary condition of market value accounting is that asset and liability-carrying amounts, including unrealized gains and losses, would be realized by investors in an assumed transaction at the balance sheet date. The term *market value* is the equivalent of *fair value* as defined by the Financial Accounting Standards Board. Within the REIS Market Value Accounting and Reporting Standards these terms are used interchangeably.

In June 2004, the Financial Accounting Standards Board issued an Exposure Draft, which among other things, would revise the definition of fair value to be "...the price at which an asset or liability could be sold or exchanged in a current transaction between knowledgeable, unrelated willing parties". Since that time, the Financial Accounting Standards Board has continued deliberations and considered changes to this definition. If adopted as proposed, the recognition and measurement requirements of the statement would be effective for fiscal years beginning after December 15, 2006 (with disclosure requirements effective for fiscal years ending after December 15, 2006).

Net Asset Value

.08 All assets and liabilities are reported at market value, which is generally the amount at which the asset (or liability) could be sold (or settled) in a current transaction between willing parties.

Net Investment Income

.09 Net investment income is the measure of operating results under the market value financial reporting model. It is primarily intended to provide a measure of operating cash flow over time, exclusive of capitalized expenditures such as leasing commissions, tenant improvement costs and other replacement costs. Rental revenue is recognized when it is contractually billable to tenants. Expenses are generally recognized when the obligation is incurred. Certain expenses which may be based on the investment vehicle's unrealized change in net asset value, such as incentive management fees, are recognized currently as a component of the unrealized gain or loss, even if their future payment is contingent.

Differences from Other Bases of GAAP Reporting

.10 Many of the accounting and reporting practices described in the Market Value Accounting and Reporting Standards are consistent with generally accepted accounting principles used in the historical cost reporting environment. The Market Value Accounting and Reporting Standards are intended to support the

information expectations of the institutional real estate investment community, which requires a market value-based financial reporting model. The market value basis of accounting in conformity with accounting principles generally accepted in the United States of America is intended to provide for the valuation and reporting of assets and liabilities, and the related measurement of investment operating results. Net investment income is not intended to approximate net income determined under the historical cost of accounting model. Among other differences, net investment income under the market value financial reporting model does not include the effect of rent normalization under FASTB 85-3, *Accounting for Operating Leases with Scheduled Rent Increases*, cost-based depreciation or amortization of most capitalized expenditures, or impairment accounting provisions. These effects are accounted for as part of the periodic valuation of assets and liabilities and, accordingly, are reported as part of the change in unrealized gain or loss.

Chapter 3 - Performance Measurement and Reporting Standards

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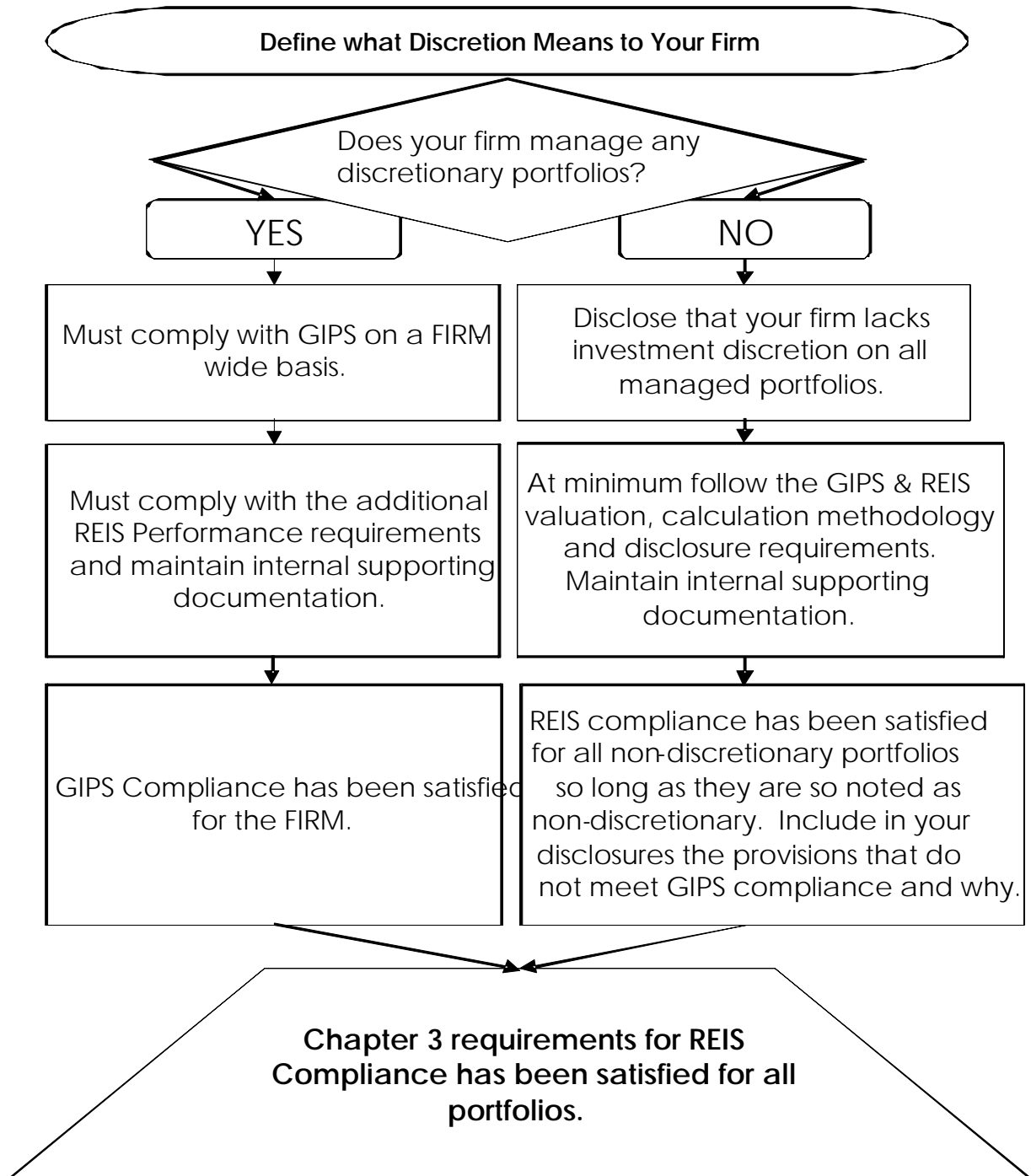
Chapter 3 - Performance Measurement and Reporting Standards

Introduction

- .01 The Performance Measurement and Reporting Standards and associated guidance are intended to promote and assist the practitioner with the fair representation and full disclosure of real estate investment and property performance that is readily comparable within the appropriate sector of the asset class. The fundamental principles underlying these standards are to be applied to all disclosures of performance measurement, including Investment and Composite.
- .02 The CFA Institute sponsors the Global Investment Performance Standards (GIPS). Within this Performance Measurement Chapter of REIS, GIPS is the foundational standard to which REIS conforms. The CFA Institute, like other standards setting organizations referenced within REIS, is continuously reviewing and updating its standards as the need arises. As GIPS is revised, REIS will be revised to incorporate the relevant changes.
- .03 GIPS applies to all “fee-paying, discretionary portfolios” and as such does not have provisions for the portion of a real estate investment manager’s assets under management that are non-discretionary, except for the provision that “Assets Under Management be reported at “fair value”. In fact, GIPS does not permit the inclusion of non-discretionary portfolios in a firm’s composites. A significant portion of the real estate investment assets under management by real estate investment managers in the United States today are non-discretionary. As such, and in order to broadly promote standardization and transparency within the US institutional real estate investment industry, the REIS Board has brought non-discretionary investments into the scope of this Performance Chapter of REIS.
- .04 Determining GIPS compliance is an individual firm responsibility. REIS starts with a presumption of GIPS compliance. Firms subject to GIPS must comply with GIPS and all of the additional provisions listed in this Chapter in order to claim REIS compliance. The only reason a real estate investment management firm would not be subject to GIPS is the lack of Discretion over the entire real estate investment portfolio they manage for clients. Firms that determine that GIPS does not apply to their firm must fully disclose why they are not subject to GIPS.
- .05 Investment firms managing non-discretionary investments that wish to claim REIS compliance need to follow the provisions of GIPS, as if they were subject to such provisions, and all of the additional REIS provisions listed in this Chapter. As the manager proceeds through the REIS compliance process they need to disclose in their non-discretionary performance presentation(s) which of the provisions of GIPS they are not in compliance with and concisely state the reason(s) for non-compliance. The non-discretionary performance presentation needs to be clearly titled as non-discretionary.

.06 A future version of this chapter will address REIS required and recommended practices for additional performance measures to be used in fund/account reports including property, investment and portfolio.

.07 The Compliance Decision Tree



Investment Performance Standards

.08 The Investment Performance standards that follow are grouped into five categories that reflect the basic elements involved in presenting performance information: Input Data; Calculation Methodology; Composite Construction; Disclosures; and Presentation and Reporting. This format is consistent with the provisions of GIPS and the relevant concepts within GIPS are referenced in parentheses, where appropriate and available.

.09 Listed below are the additional required and recommended practices a firm must follow in order to claim REIS compliance.

.10 Input Data – Data consistency is the foundation of full, fair, and comparable investment performance presentations.

Required Practice:

- a. Investment valuation updates must be completed at least quarterly, maintained internally for verifiability purposes, and available for verification for the period that compliance is claimed.

.11 Calculation Methodology - Achieving comparability of returns requires uniformity in calculation methodologies.

Required Practices:

- a. Quarterly time-weighted returns that adjust for cash flows must be used at a minimum. For returns greater than one period, all periodic total returns must be geometrically linked. Annualized returns must be computed for periods greater than one year. Actual valuations at the time of external cash flows are not practical for real estate investments and are therefore not required. (GIPS 2.A.2). (GIPS 2.A.6)
- b. Composites may include investments that have partial periods when there is more than one investment in the composite; however, when the composite contains only one investment the composite must not include any individual investment's partial period that occurs prior to the first full period of the investment/composite or after the last full period of the investment/composite. Unrealized appreciation/depreciation from a sale should be recognized in the period prior to the partial period in order not to alter actual performance. (GIPS 3.A.3)
- c. The definition of “period” must be explained and used consistently. For real estate investment composite performance calculation a quarterly period is the minimum period option. (GIPS 2.A.2)

Recommended Practices:

- d. Performance adjustments for external cash flows should be treated consistently. For significant cash flows (e.g. greater than 10% of portfolio beginning of period market value) that potentially distort performance, performance should be recalculated with a more appropriate methodology, such as XIRR, return on investment, or sub-period time weighting. Actual valuations at the time of external cash flows are not expected to be practical for real estate investments. The treatment of significant cash flows should be disclosed.
- e. If property level performance is provided, then the leveraged and unleveraged NCREIF property level calculations should both be used.

.12 Composite Construction – A composite is one or a number of investments or portfolios that represent an investment objective or strategy. In compositing, whether discretionary or non-discretionary investments, it may be appropriate (due to strategy differences) to make one investment its own composite. The return in a composite is asset weighted. Composites prepared for non-discretionary portfolios must clearly be labeled as supplementary information and cannot be included in a GIPS compliant firm’s composite presentation.

Required Practices:

- a. If a firm discloses non-discretionary performance presentations for marketing purposes, then all non-discretionary portfolios need to be included in at least one composite.
- b. Any non-discretionary composites should be identified as supplementary non-discretionary investment performance information and returns for these assets presented separately from any discretionary composites.
Recommended Practice:
- c. For each composite, detailed attribute information should be maintained and made available upon request. The purpose of identifying composite attributes is to enhance the comparability of performance data. These attributes are key indicators of the risk return profile of the composite and will assist in identifying the investment strategy or style.

.13 Disclosures - Disclosures allow for elaboration on the data as well as the performance presentation and calculation methodology.

Required Practices:

- a. The basis of the firm's accounting must be disclosed.
- b. Each fee's category definition and amounts of all fees, including "carried interest" or "promote," must be disclosed.
- c. The methodology of all fees inclusion (i.e., capitalized or expensed, or billed separately outside of the fund), the effect on the performance calculations and

how these fees are recognized in the firm's accounting must be disclosed.

Recommended Practice:

- d. If investment level leverage materially affects the performance of the investment, then the firm should disclose either 1) the un-levered investment level return or 2) the weighted average percentage of leverage and weighted average interest rate of the investment level debt.

.14 Presentation and Reporting - This section intentionally left blank.

.15 Useful Websites - The following websites may provide additional useful information.

The CFA Institute: <http://www.cfainstitute.org/>

GIPS: <http://www.gipsstandards.org/standards>

Appendix 1

Real Estate Information Standards

Market Value Accounting Policy Manual

July 14, 2006

**Real Estate Information Standards
Market Value Accounting Policy Manual**

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Real Estate Information Standards Market Value Accounting Policy Manual

1. Market Value Accounting and Reporting Standards

Introduction

1.01 The development of the Market Value Accounting and Reporting Standards resulted primarily from the realization that standardization of meaningful financial reporting was necessary in order to allow real estate to become more acceptable as an institutional investment asset class. Accounting standards promulgated by authoritative accounting bodies exist for various real estate entities, including public real estate investment trusts and other public and private real estate entities that utilize historical cost accounting. The reporting requirements and information expectations of the institutional real estate investment community required the development of a market value-based financial reporting model for which no accounting standards published by authoritative accounting bodies presently exist. Accordingly, the lack of adequate authoritative guidance applicable to market value accounting for institutional real estate investment vehicles created the need for these standards. The REIS Market Value Accounting Policy Manual (the “Manual”) represents an integral part of the Real Estate Information Standards.

Certain terms as used herein are defined as follows:

- Financial Accounting Standards Board: FASB
- Statement of Financial Accounting Standards: SFAS
- Government Accounting Standards Board: GASB
- American Institute of Certified Public Accountants: AICPA
- US generally accepted accounting principles: GAAP

Required Practices

1.02 Required practices of the Market Value Accounting Standards include:

- Maintenance of books and records on the market value basis of accounting in conformity with the REIS Market Value Accounting Policy Manual.
- Annual financial statement reporting.
- Quarterly reporting of financial statement information.

Recommended Practices

1.03 Recommended practices include:

- Annual financial statement audits conducted in accordance with auditing standards generally accepted in the United States of America.

Authority within GAAP

1.04 The fundamental premise for the market value-based accounting model is based on existing authoritative accounting standards, which require that certain investments held by tax-exempt investors, including defined benefit pension plans and endowments, be reported at fair value. For example, Financial Accounting Standard No. 35, *Accounting and Reporting by Defined Benefit Pension Plans*, which applies to corporate plans, requires that all plan investments be reported at fair value because that reporting provides the most relevant information about the resources of a plan and its present and future ability to pay benefits when due. In addition, GASB Standard No. 25 requires government sponsored pension plans to present investments at fair value in their financial statements. As a result, the more traditional historical cost basis of accounting used by other real estate companies, owners and operators is not appropriate, as it does not provide tax-exempt investors with the financial information they require to comply with authoritative accounting standards.

1.05 Institutional real estate investment vehicles include open and closed-end commingled funds, pooled trusts and insurance company separate accounts, many of which have attributes similar to those of an “investment company”, as set forth in the AICPA Audit and Accounting Guide – *Audits of Investment Companies* (the “Investment Company Guide”). The accounting profession has used this authoritative guidance to support the use of a value-based accounting model for investment companies. At present, the applicability of the Investment Company Guide to various types of investment vehicles is unclear. Additional authoritative guidance is expected in 2006, which will help clarify the intended scope of the Investment Company Guide. Notwithstanding the clarification of the scope, the Investment Company Guide does not adequately address the accounting and reporting issues that exist for institutional real estate investment vehicles. The institutional real estate investment industry uses accounting practices, which, while conceptually similar, may differ from those described in the Investment Company Guide. The AICPA has formed an additional task force to explore the accounting and reporting needs of real estate investment vehicles.

Position within the GAAP Hierarchy

1.06 Accounting rules state that in the absence of authoritative guidance, prevalent accounting practices in an industry form the basis for generally accepted accounting principles (GAAP) in that industry. The lack of applicable authoritative accounting guidance has caused predominant market value accounting practices to constitute GAAP in the institutional real estate investment industry. Market Value Accounting and Reporting Standards themselves have no written authority within the GAAP hierarchy. Only to the extent that such standards represent prevalent accounting practices currently used in the industry, and to the extent that no authoritative accounting guidance applies, are such standards recognized in the GAAP hierarchy. The accounting and reporting practices used in market value reporting begin with historical cost accounting principles. The focus of the Market Value Accounting and Reporting Standards is on differences from historical cost reporting covered by authoritative accounting guidance. In certain

instances the accounting for a particular item is described, even though it is consistent with historical cost reporting, to underscore the consistency when a difference may be perceived.

For specific reporting issues encountered by an individual investment vehicle, the applicable technical accounting literature should be consulted to provide the most recent guidance for the appropriate accounting and disclosure in the financial statements.

Conceptual Framework

1.07 As indicated above, the basis for the market value financial reporting model was rooted in the requirement that institutional investors carry their investments at fair value in accordance with authoritative accounting standards. The fair value of an asset represents the amount at which the asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. Accordingly, a primary condition of market value accounting is that asset and liability carrying amounts, including unrealized gains and losses, would be realized by investors in an assumed transaction at the balance sheet date. The term *market value* is the equivalent of *fair value* as defined in SFAS No. 107. Within the Market Value Accounting and Reporting Information Standards these terms are used interchangeably.

In June 2004, the FASB issued an Exposure Draft, which, among other things, would revise the definition of fair value to be "...the price at which an asset or liability could be exchanged in a current transaction between knowledgeable, unrelated willing parties." Since that time, the FASB has continued its deliberations and considered changes to this definition. If adopted as proposed, the recognition and measurement requirements of the statement would be effective for fiscal years beginning after December 15, 2006 (with disclosure requirements effective for fiscal years ending after December 15, 2006).

Net Asset Value

1.08 All assets and liabilities are reported at market value, which is generally the amount at which the asset (or liability) could be sold (or settled) in a current transaction between willing parties.

Net Investment Income

1.09 Net investment income is the measure of operating results under the market value financial reporting model. It is primarily intended to provide a measure of operating cash flow over time, exclusive of capitalized expenditures such as leasing commissions, tenant improvement costs and other replacement costs. Rental revenue is recognized when it is contractually billable to tenants. Expenses are generally recognized when the obligation is incurred. Certain expenses which may be based on the investment vehicle's unrealized change in net asset value, including for example incentive management fees, are recognized currently as a component of the unrealized gain or loss, even if their future payment is contingent.

Differences from Other Bases of GAAP Reporting

1.10 Many of the accounting and reporting practices described in the Market Value Accounting and Reporting Standards are consistent with generally accepted accounting principles used in the historical cost reporting environment. The Market Value Accounting and Reporting Standards are intended to support the information expectations of the institutional real estate investment community, which requires a market value-based financial reporting model. The market value basis of accounting in conformity with accounting principles generally accepted in the United States of America is intended to provide for the valuation and reporting of assets and liabilities, and the related measurement of investment operating results, as discussed above. Net investment income is not intended to approximate net income determined under the historical cost of accounting model. Among other differences, net investment income under the market value financial reporting model does not include the effect of rent normalization under FASB Technical Bulletin No.85-3 *Accounting for Operating Leases with Scheduled Rent Increases*, cost-based depreciation or amortization of most capitalized expenditures, or impairment accounting provisions. These effects are accounted for as part of the periodic valuation of assets and liabilities and, accordingly, are reported as part of the change in unrealized gain or loss.

2. Real Estate Investments

2.01 Under the market value basis of accounting, real estate investments are carried on the balance sheet at their market value. Changes in market value from period to period are recognized as unrealized gains or losses until sale or disposition of the interest in the underlying real estate investment.

2.02 Real estate investments generally include one of the following three forms:

- *Controlling Equity Interests* – Either the direct 100% ownership of real estate assets or the ownership of a controlling equity interest in another entity which owns real estate assets. Within this Manual, these investments are referred to as investments in real estate assets.
- *Non-Controlling Equity Interests* – The ownership of a non-controlling equity interest in another entity which owns real estate assets. Within this Manual, these investments are referred to as investments in joint ventures.
- *Debt Interests* – The ownership of a mortgage loan or other note receivable secured by real estate assets owned by another party. These notes can be either participating or non-participating. Participating notes generally entitle the holder to contingent payments based on a property's operating results and/or a portion of the profit from an asset's sale in addition to payments of contractual principal and interest. Nonparticipating notes generally entitle a holder to payments of contractual principal and interest that do not increase based on the underlying operating results of a property. Within this Manual, these investments are referred to as investments in mortgage loans.

2.03 Regardless of the form of investment held, the underlying real estate assets include all investments in land, buildings, construction in progress, tenant improvements, tenant allowances, furniture, fixtures and equipment, leasing commissions, capitalized leasehold interests, capitalized interest, capitalized real estate taxes, and real estate to be disposed.

Investments in Real Estate Assets

2.04 Real estate investments include investments in real estate assets by an investor, as well as holdings of controlling equity interests in separate legal entities, which invest in real estate assets. GAAP in a historical cost reporting environment generally requires an investor to initially determine whether the investee is a variable interest entity under FASB Interpretation No. 46R ("FIN 46R"). However, there are several investment vehicles that are not within the scope of FIN 46R, including registered investment companies, separate accounts of life insurance companies and employee benefit plans. In addition, the FASB has deferred the effective date of applying FIN 46R to non-registered investment companies until the AICPA finalizes its proposed Statement of Position relating to the scope of the Investment Company Guide as indicated in Section 1.05 above. As a result, it is believed that real estate investment vehicles reporting on a market value basis are not subject to FIN 46R, but rather will determine whether or not to consolidate an investee based on the determination of control, and follow relevant authoritative accounting literature (such as ARB No. 51 or AICPA Statement of Position 78-9).

REIS requires that the financial statements of controlled investees be consolidated with those of the investor. Existing consolidation guidance provided within authoritative accounting literature governs when an interest in a separate entity is considered to be controlling. While in general the ownership of a greater than 50% voting interest in an entity is considered to be an indication of control, many joint venture real estate investments contain complex governance arrangements that make assessments of control difficult. All factors must be considered in making a determination of whether consolidation of an investee is appropriate. For investments in entities that are not deemed to be controlling interests, the equity method of accounting should generally be followed.

2.05 Real estate assets either owned directly by an entity or reported through the consolidation of an investee are recorded on the balance sheet at their market value. If the investee is less than 100% owned, a corresponding credit to minority interest is recorded at market value for the non-controlling interest in the investment. The difference between market value and the adjusted cost basis of an investment is the unrealized gain or loss associated with the asset, and if applicable, the non-controlling interest. Changes in market value from period to period are reported as changes in unrealized gain or loss on the income statement, which is presented separately from net investment income. These gains or losses are realized upon the disposal of an investment; however, in order to record a realized gain, the sale is required to meet the criteria of SFAS No.66. Gains, which are deferred in accordance with SFAS No. 66, *Accounting for Sales of Real Estate*, continue to be reported as unrealized.

Determination of the Cost Basis of Real Estate Assets

2.06 The initial cost basis of a real estate asset includes all direct costs of acquiring the real estate asset. This includes acquisition fees paid to investment advisors associated with the closing of a new investment. For development properties, the cost basis of these assets should also include costs capitalized during the development period including interest, insurance and real estate taxes. Authoritative accounting literature, including SFAS 34, *Capitalization of Interest Cost*, and SFAS 67, *Accounting for Costs and Initial Rental Operations of Real Estate* provides guidance relating to the appropriate cost capitalization criteria.

Since real estate investments are recorded at market value each reporting period, none of the components (building, equipment, improvements, lease costs, in-place lease value, lease origination costs, etc.) are depreciated or amortized.

2.07 The initial cost basis of a real estate asset should be subsequently adjusted for additional capital costs such as tenant improvements, tenant allowances, tenant leasing commissions and tenant buyouts. These capital items are generally made to maximize cash flows and generate additional income, which, in turn, influence the market value of the real estate asset. Because the nature of these costs is such that they have benefits that extend beyond one year, the addition of these items to an asset's carrying value is considered appropriate.

2.08 This treatment extends to all generations of tenant related capital costs, even after the tenants to whom they relate have vacated a property. These types of property-related costs represent additional investments in the property which should be considered in any examination of the current market value of the asset against an investor's investment in it. In addition, this methodology requires the weighing of the cost of obtaining a new tenant against the expected change in the property's value.

2.09 Capitalized costs associated with a real estate asset are not amortized, as amortizing would just be offset by an increase in unrealized appreciation in the same or subsequent periods.

2.10 [Reserved for future use.]

Determination of Real Estate Market Value

2.11 The term market value as used in the REIS Accounting Standards is the equivalent of fair value as defined by authoritative accounting literature. It represents the amount at which the asset could be bought or sold in a current transaction between willing parties, i.e., other than in a forced or liquidation sale.

2.12 The market value of property that is expected to be held for investment should generally be valued in a manner consistent with the REIS Property Valuation Standards. The income approach is generally calculated by capitalizing a stabilized net operating

income or by discounting future cash flows. The discounted cash flow method of appraisal estimates future cash inflows and outflows, which include a residual sale cash flow generally at the end of an assumed holding period, usually ten years. Such amounts are discounted at an appropriate rate of return that a prudent buyer would currently require to purchase the real estate asset. (Please see the REIS Property Valuation Standards for more information.)

2.13 For those investments in real estate which are considered “assets to be disposed of” in accordance with SFAS No. 144, their carrying value should be market value reduced by estimated cost to sell. Disposition fees should be considered when determining estimated costs to sell. This accounting treatment is consistent with SFAS No. 144, which requires that assets to be disposed of be reported at “the lower of carrying value or fair value less cost to sell.”

2.14 The market value of a real estate asset should not include any effects of a related above or below market mortgage debt except when debt is assumed on acquisition. Upon assumption of debt the impact of above/below market value debt is assigned to the cost basis of the real estate asset. The real estate and the related mortgage are to be valued separately and are to be shown separately on the Statement of Assets and Liabilities.

2.15 SFAS No.144 also requires that the cost basis of “impaired” assets be written down to fair value. Under REIS, the impairment accounting guidance provided by SFAS 144 is not applicable to the cost basis of real estate assets in a market value basis presentation.

Revenues and Expenses

2.16 During the ownership of and investment in real estate assets, real estate revenues directly associated with the underlying property or properties may include the following: rental income as well as funds receivable for the recovery of real estate expenses, percentage rent and miscellaneous tenant charges. Real estate expenses may include utility costs, property management fees, real estate taxes, and normal maintenance expenses.

2.17 Real estate revenue should be recorded when it is contractually earned and billable. Rent concessions (such as free rent, stepped rent) should not be recorded as income until the rent payments are earned and billable as the appraisal process factors in the future rental income in the determination of the property's value. For the same reasons, an above or below market component of a lease contract in place at the date of acquisition, if allocated pursuant to SFAS No. 141, should not be amortized against or accreted into rental income. Accruing for free rent/stepped rent would in essence be accounting for the same item twice (i.e., once in the property's valuation and again in an accounts receivable/other asset account outside the property base).

2.18 Penalties or other lump sum payments received or receivable from tenants who choose to terminate their lease prior to the end of the lease term should be recorded as income when the following criteria have been met: the tenant loses his right to use the

space; the owner has no further obligation to provide services; and when payment is determined to be probable.

2.19 Real estate expenses should be recognized when incurred. Companies should consider authoritative accounting literature such as EITF Issue No. 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*, for recording of revenues and expenses gross or net.

2.20 SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, addresses the financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed. Among other things, SFAS 144 does not apply to intangible assets not being amortized or financial instruments, including investment in equity securities accounted for under the cost or equity method. Although SFAS 144 is silent with respect to investments accounted for at market value under either SFAS 35, GASB 25, separate accounts under SFAS 60, or in accordance with the Investment Company Guide, SFAS 144 does not amend any of the guidance provided in these references.

2.21 The objective of the statement of operations is to present the increase or decrease in the net assets resulting from the entity's investment activities by reporting investment income from interest, dividends, income from the ownership of real estate, and realized and unrealized gains/losses on investments. That format helps the user understand the contributions or each aspect of the investment activity to the company's overall results. As the objective of the statement of operations is to present results of investment activity, reporting in discontinued operations the results of operations of a real estate investment that has been disposed would be inconsistent with that objective. Therefore, the discontinued operations presentation of SFAS 144 is not applicable to real estate investment vehicles reporting at market value.

Investments in Mortgages and Other Loans

2.22 There are primarily two types of mortgage loan investments held by institutional real estate investors, non-participating and participating mortgage loans. A non-participating mortgage loan is an investment secured by a lien on real estate which generally entitles the lender to payments of contractual principal and interest that do not increase based on the underlying operating results of a property.

2.23 A participating mortgage is an investment also secured by a lien on real estate which generally consists of three parts: (1) "base interest" payments at contractually stated fixed or floating rates; (2) "contingent interest" payments where the lender is paid a percentage of property net operating income or cash flow after debt service; and (3) "additional contingent interest" which is in the form of lender participation in the appreciation in value of the underlying property.

2.24 Usually the loan terms of a participating mortgage are set somewhat more favorably than what a non-participating mortgage interest rate would be quoted on the

same property. Common terms historically include loan-to-value ratios of up to 90%, base interest rates which are lower than comparable non-participating mortgages, and sometimes the structure may allow for a deferral of interest between the basic interest coupon and some lower "pay rate," typically during lease-up. The deferral may be paid as and when the net operating income is sufficient to do so, or may be added to the loan balance and be payable in full only at maturity.

2.25 The contingent interest component of a participating mortgage often represents a right to some portion of the adjusted net cash flow of a property. Typically, certain expenses such as legal or other professional fees related to ownership rather than property matters, limited borrower overhead, and other similar expenses are not permitted as deductions from gross income for determining the amount in which the lender participates in contingent interest. Often a reserve for replacements, or for tenant improvements, leasing commissions and capital expenditures is set aside from net operating income before the lender participates in the remainder.

2.26 The additional contingent interest or equity conversion component often specifies a hurdle rate which the lender is entitled to reach from basic interest, contingent interest and additional contingent interest before the borrower participates in any proceeds from sale.

Accounting for Non-Participating Mortgage Loans

2.27 Non-participating mortgage loans should be carried on the balance sheet at their market value. The difference between market value and the adjusted cost basis of a mortgage loan is the unrealized gain or loss associated with the asset. Changes in market value from period to period are reported as changes in unrealized gain or loss on the income statement which is presented separately from net investment income. These gains or losses are realized upon the disposal of an investment. The ability to recognize a sale of a mortgage loan is governed by the guidance provided in SFAS No. 140.

2.28 The initial cost basis of a non-participating mortgage loan should include all direct costs of originating or obtaining the loan, consistent with the treatment of acquiring investments in real estate assets and SFAS 91. This includes acquisition fees paid to investment advisors associated with the closing of a new investment.

2.29 The carrying amounts of interest receivables currently due (generally one year or less) are generally considered to approximate market value. Therefore, for market value reporting, interest receivable and currently due may be reported at its undiscounted amount provided that the results of discounting the carrying amount would not be material and that receipt can reasonably be expected.

2.30 Interest income associated with any non-participating mortgage loan is reported in net investment income. Valuation adjustments are reported as unrealized gains and losses. The recognition of interest income should be based on the contractual terms of the loan unless the loan is considered impaired under authoritative accounting guidance

for loans. For impaired loans, the recommended method for interest recognition is the cash method, where payments of interest received are recorded as interest income provided that the amount does not exceed that which would have been earned based on the contractual terms of the loan. For mortgage loans with fixed and determinable rate changes, interest income should be accounted for based on when the change contractually occurs rather than using an effective interest or straight-line method as is typical under the historical cost accounting model. The effect of the contractual change is, instead, recognized in the adjustment to market value.

2.31 The market value of a non-participating mortgage loan and any accrued non-current interest should be based on the discounted value of the total future expected net cash flows. The selection of an appropriate discount rate should reflect the relative risks involved and interest rates charged for similar receivables. The determination of market value must also take into consideration the underlying collateral, credit quality of the borrower and any related guarantees as well as the specific terms of the loan agreement. The market value of the note and any accrued non-current interest should not exceed the value of the underlying collateral and any related guarantees. Accrued non-current interest is typically added to the note balance whereas current interest receivable is separately disclosed.

2.32 Modification of mortgage terms should be accounted for through an adjustment of value.

Accounting for Participating Mortgage Loans

2.33 Because of the participation feature inherent in these loans, and the fact that the lender usually provides a significant portion, if not all, of the funds necessary to acquire, develop, or construct the property, accounting for participating mortgages should be determined based upon the guidance in the February 10, 1986 *AICPA Notice to Practitioners - ADC Arrangements*; and Emerging Issues Task Force (EITF) Issue No. 86-21, *Application of the AICPA Notice to Practitioners Regarding Acquisition, Development and Construction Arrangements to Acquisition of an Operating Property*. A participating mortgage may have the characteristics of either a loan, a non-controlling equity investment in a joint venture, or a controlling interest subject to consolidation for accounting purposes, depending on the facts and circumstances. For the latter two categories, the investment should be accounted for using the guidance provided in the discussion of joint ventures appearing in section 2.39 or of real estate in 2.04, respectively.

2.34 Participating mortgages not considered to be joint ventures or investments in real estate in accordance with the guidance outlined above, should also be carried on the balance sheet at their market value. The difference between market value and the adjusted cost basis of a mortgage loan is the unrealized gain or loss associated with the asset. Changes in market value from period to period are reported as changes in unrealized gain or loss on the income statement, which is presented separately from net investment income. These gains or losses are realized upon the disposal of an

investment. The ability to recognize a sale of a mortgage loan is governed by the guidance provided in SFAS No. 140.

2.35 The initial cost basis of a participating mortgage loan should include all direct costs of obtaining the loan, consistent with the treatment of acquiring direct investments in real estate. This includes acquisition fees paid to investment advisors associated with the closing of a new investment.

2.36 Interest income associated with any participating mortgage loan is reported in net investment income. Valuation adjustments are reported as unrealized gains and losses. The recognition of base interest income should be based on the contractual terms of the loan unless the loan is considered impaired under authoritative accounting guidance for loans. For impaired loans, the recommended method for interest recognition is the cash method where payments of interest received are recorded as interest income provided that the amount does not exceed that which would have been earned based on the contractual terms of the loan. For mortgage loans with fixed and determinable rate changes, interest income should be accounted for based on when the change contractually occurs rather than using an effective interest or straight-line method as typical under the historical cost accounting model. Contingent interest income from operating cash flows is also recorded by the lender as part of net investment income. Additional contingent interest received from disposal or refinancing of the underlying property is recorded as part of realized gains and losses.

2.37 The market value of a participating mortgage investment is equal to the discounted value of the total future cash flows expected from the investment. The value of the mortgage may not exceed the value of the underlying real estate plus any qualifying guarantees. The discount rate used in the valuation should reflect the risk/return characteristics of the participating investment structure. The valuation may be performed with different discount rates for the different sources of the anticipated cash flows; a “debt” rate may be associated with the nonparticipating cash flows and an “equity” rate may be associated with the participation cash flows. In all cases the economic substance of the transaction must be taken into account in determining the value of the investment.

2.38 Any modification of mortgage terms should be accounted for through an adjustment of value.

Investments in Joint Ventures

2.39 The joint venture is a relatively common form of ownership for institutional investors in real estate. The venture is usually a legally formed general partnership or limited liability company between the investor and a real estate developer/operator.

2.40 Real estate investments are often structured as joint venture ownership because of the ability to share risks and rewards among the participants. The institutional partner is typically responsible for most, if not all, of the cash to be invested in the project. Such investment may be in the form of equity capital, loans to the venture, or both. In

consideration for the cash investment which is disproportionate to its stipulated ownership interest, the institutional partner is generally entitled to a preferential distribution of cash flow equal to a preferred return on the capital invested and interest on loans, and to a priority return of its capital investment from a sale or refinancing. Amounts generated by the joint venture in excess of these preferences and priorities are distributed to the participants in accordance with their stipulated ownership interests.

2.41 Investors should consider existing authoritative guidance to determine whether an investment in a joint venture is controlling or not.

2.42 As noted previously, if an investor owns a controlling equity interest in a joint venture, the investor should consolidate the accounts of the joint venture as if the joint venture were a subsidiary. In such cases, the accounting discussed in the investments in real estate assets section should be followed.

2.43 For purposes of this section, it is also presumed that the joint venture does not meet the criteria for loan accounting set out in the February 10, 1986 *AICPA Notice to Practitioners - ADC Arrangements*. These criteria should be assessed prior to concluding on the accounting treatment for investments in joint ventures.

2.44 Finally, this section assumes that the cost method of accounting would not be applicable to most joint venture investments. The cost method is only applicable when the investment is a limited partnership interest that is so minor that the limited partner may have virtually no influence over partnership operating and financial policies. (The SEC has taken a position that “so minor” means not more than 3 %.)

Accounting for Joint Venture Investments

2.45 Investments in joint ventures should be carried on the balance sheet at their market value. The difference between market value and the adjusted cost basis of an investment in a joint venture is the unrealized gain or loss associated with the asset. As is discussed in greater detail below, changes in market value from period to period are reported as changes in unrealized gain or loss on the income statement which is presented separately from net investment income. These gains or losses are realized upon the disposal of an investment. However, in order to record a realized gain, the sale is required to meet the criteria of SFAS No.66. Gains which are deferred in accordance with SFAS No. 66 continue to be reported as unrealized.

2.46 The initial cost basis of an investment in a joint venture should include all direct costs of obtaining the investment, consistent with the treatment of acquiring direct investments in real estate. This includes acquisition fees paid to investment advisors associated with the closing of a new investment.

2.47 The initial cost basis of an investment in a joint venture is then subsequently adjusted to include the investor's share of joint venture income/loss recorded in accordance with the equity method, as well as capital contributions and distributions. To

the extent that the investor has advanced funds to the joint venture in the form of loans, all outstanding principal and non-current interest receivable should also be included in the cost basis. The aggregate investment should be presented on the balance sheet as a single caption, "Investment in Joint Venture".

2.48 Partners in joint ventures should record as investment income only their share of the venture's net investment income or loss, determined in accordance with generally accepted accounting principles on the market value basis of accounting (exclusive of items such as depreciation, amortization and free rent, as appropriate). AICPA Statement of Position (SOP) 78-9 suggests that stipulated allocation ratios should not be used if cash distributions and liquidating distributions are determined on some other basis (i.e., income should be allocated first on behalf of any preferred returns or interest, and then to the respective partners in proportion to their contractual ownership interests, etc.). Inter-company items, such as interest on loans by a partner to a venture, should be eliminated to the extent of the investor's economic interest in the venture, as if the investee were consolidated.

Determination of Joint Venture Market Value

2.49 The determination of the market value of an investment in a joint venture requires: 1) the appraisal of the underlying assets and liabilities of the joint venture; and 2) the performance of a hypothetical liquidation in accordance with the distribution provisions of the joint venture agreement. Total proceeds currently distributable to the institutional partner under this hypothetical liquidation represent the market value of the investment. Accounting for guarantees is addressed by FASB Interpretation 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*.

2.50 If a partner has made a "definitive decision to sell" a partial interest in a real estate joint venture, the market value of the partner's interest in the venture should consider the estimated costs that will be incurred to sell the interest. Similarly, if the joint venture has made a "definitive decision to sell," its real estate assets, the market value of the joint venture's assets and liabilities should take into account estimated costs of sale at the venture level.

Recommended Financial Statement Disclosures

Disclosures for Real Estate Assets

2.51 The following items should be disclosed in a financial statement presentation that includes investments in real estate assets:

- Basis of presentation for the reporting entity's financial statements.
- Policy for determining estimated market value of real estate investments (e.g., valuation methodology).
- Policy related to the capitalization of tenant improvements, tenant allowances,

leasing costs and commissions.

- A schedule of real estate investments, including the market value and cost of real estate assets by property, and including product type and geographic data.
- Disclosure of vulnerability due to certain concentrations. Statement of Position 94-6, "Disclosure of Certain Significant Risks and Uncertainties," requires disclosure of concentrations in the market or geographic area and concentrations in the volume of business transacted with a particular customer and concentrations in revenue from particular products and services, etc. Applicable examples might include concentrations by property type or geographic region or tenant concentration.
- Policy related to revenue recognition, including the treatment of minimum rents, tenant expense reimbursements, percentage and overage rents, free and stepped rent.
- Disclosure of future minimum rental income to be received under noncancelable operating leases for each of the following 5 years and thereafter.
- Disclosure of contingent rentals earned during the reporting periods (i.e., overage rents, reimbursable operating costs and real estate taxes, etc.).

Disclosures for Investments in Mortgage Loans

2.52 The financial statements of an entity that holds investments in either participating or non-participating mortgage loans should include disclosures that contain a description of the mortgage loan receivables held, which should include relevant details for each loan or class of loans related to the following:

- Participation feature, if a participating mortgage loan
- Rate of interest (stated rate and current pay rate, if different)
- Maturity date
- Repayment provisions
- Collateral held (including any cross-collateral provisions)
- Prepayment penalty provisions

Disclosures for Joint Venture Investments

2.53 The following items should be disclosed in a financial statement presentation that includes joint venture investments:

- Policy for the recording of estimated market value of joint venture investments (e.g., valuation methodology).
- Policy related to the recording of investments in real estate partnerships and ventures.
- Policy for the recording of income from the investment in real estate partnerships, corporations, joint ventures and trusts.
- The significance of joint venture investments should be considered in evaluating the extent of disclosures of the financial position and results of operations of an investee. If the investor has more than one investment, disclosures wholly or

partly on a combined basis may be appropriate. The following disclosures are generally applicable to the equity method of accounting for an investment:

- Name of each investee and the percentage of ownership, the market value and cost basis of the investment, the accounting policies of the investor with respect to the investments, and the difference, if any, between the amount at which an investment is carried and the amount of underlying equity in net assets and the accounting treatment of the difference.
 - Condensed summary financial data (assets, liabilities and results of operations) of the investees either individually or in groups, as appropriate, when the aggregate of such investments is material in relation to the financial position or results of operations of the investor. Disclosure of the basis of accounting presented for the financial data (e.g., market value or historical cost) is required. Also see section 3.08 for recommended disclosures relating to the debt underlying each investment.
- Additional funding commitments to the joint venture.
 - Guarantees of joint venture liabilities, if any.
 - Existence of buy/sell provisions, put provisions, etc. provided for in the venture agreement.

3. Notes Payable

3.01 Real estate properties are often partially financed using long- or intermediate-term loans whereby the real estate is pledged as collateral for the loan. In many mortgage loan arrangements, the lender has no other recourse against the borrower; however, some arrangements provide for credit enhancements in the form of guarantees or additional pledges from the borrower. Real estate properties can also be financed through long- or intermediate-term loans whereby owners with high credit standing or prearranged lines of credit may be able to borrow on an unsecured basis or using a loan which is secured by collateral other than a real estate mortgage. Financing terms available in the marketplace for a given loan may vary over time, based on capital market factors, as well as changing business risks associated with the collateral and/or the entity.

3.02 [Reserved for future use.]

3.03 Notes payable are required to be carried at market value as described in paragraph 3.05. Accordingly, in order to be in compliance with REIS, SFAS 159, “The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement 115” must be elected for each note payable instrument held. The market value of notes payable should be reported separately from that of the related encumbered assets. Changes in market financing terms should not affect the valuation of collateral. Adjustments to the estimated market value of notes payable should be reported as unrealized gain (loss) in the statement of operations. Gains and losses realized upon

settlement of notes payable, net of transaction and prepayment costs, if any, should be reported as realized gain (loss) in the statement of operations.

3.04 For notes payable that are prohibited by US GAAP to be carried at market value, disclosures are required to be provided with quarterly and annual client financial reporting which disclose the market value of notes payable in accordance with paragraph 3.05. Such disclosures should include a description of the supplemental accounting policy for notes payable.

3.05 The market value of notes payable is based on the amount at which the liability could be settled or exchanged in a current transaction between knowledgeable, unrelated willing parties, exclusive of direct transaction costs. Direct transaction costs include only those costs, or that portion of such costs, that are unrelated to changes in effective interest rates since the date of origination of a loan.

3.06 Unrealized losses on notes payable should generally be recognized when interest rates decline below contractually fixed rates. Generally, unrealized gains on notes payable should only be recognized if the related gain would be realized in an assumed transaction with a third party on the balance sheet date

3.07 When management makes a decision to prepay or to exchange a loan associated with a specific investment, net asset value should be adjusted to reflect transaction costs, including the full cost of prepayment and yield maintenance costs.

Recommended Financial Statement Disclosure

3.08 The following items should be disclosed in a financial statement presentation that includes notes payable:

- The valuation methodology should be disclosed in the notes to the financial statements.
- Principal balance outstanding
- Rate of interest
- Maturity date
- Repayment provisions
- Collateral and cross-collateral arrangements
- Prepayment penalty provisions
- Guarantees on indebtedness
- Significant covenants
- Relevant distribution restrictions
- Convertibility features
- Defaults
- Aggregate annual payments of mortgage principal due for the following 5 years
- Principal balance of loan and related real estate market value where real estate value is below debt market value

- Methodology used for estimating market value

4. Derivative Financial Instruments

4.01 Real estate is often financed through variable rate mortgages. In an effort to nullify the effect of fluctuations in interest rates and maintain a neutral position with interest fluctuations, the borrower may purchase either interest swaps, collars, Treasury locks, floors or capping contracts. The contract does not have to be assigned to a specific property or loan but can also be established in connection with a portfolio of properties. These contracts also involve an up-front cost and generally are transferable to other parties.

4.02 All derivative financial instruments should be carried at market value with the change in market value being recorded as unrealized gain or loss. The approach used for estimating the market value of interest rate protection contracts should be consistent with the investment vehicle's approach for estimating the market value of notes payable. The contract should be carried as an asset or liability, as market value indicates, and should be adjusted to market value each reporting period. Any costs associated with obtaining the contracts should be capitalized. The interest element of such costs should be amortized as a component of interest cost, with the unamortized amounts included in the cost basis of the asset (liability) to be valued.

If the derivative is terminated the amount of the termination payment should be recorded as a realized loss.

Recommended Financial Statement Disclosure

4.03 The following items should be disclosed in a financial statement presentation that includes interest rate protection contracts:

- The valuation methodology should be disclosed in the notes to the financial statements.
- The notional amount of the contract.
- Contract period.
- Cash requirements of the payer and payee.
- The amount of accounting loss the enterprise would incur if any party to the financial instrument failed completely to perform according to the terms of the contract.
- If the financial instruments have significant concentrations of credit risk, disclosure of the activity, region or economic characteristic that identifies the concentration of credit risks.

5. Other Assets and Liabilities

5.01 There are a variety of other assets and liabilities that may result from real estate investment activities. Examples of other assets include prepaid expenses, supplies inventory, utility deposits, escrow deposits, equipment, etc. Examples of other liabilities

include accounts payable, accrued expenses such as accrued real estate taxes, insurance, repairs and maintenance, utilities and professional fees, and other liabilities such as security deposits, unearned rental income, and fees payable among others.

5.02 Other assets or liabilities that are short-term in nature (i.e., expected to be settled within one year of the date of the financial statements) may be reported on the balance sheet at their undiscounted values. This is due to the fact that because of the short-term nature of these items, their undiscounted balances are considered to approximate their market values.

5.03 Other assets or liabilities which are longer-term in nature (i.e., expected to be settled more than one year from the date of the financial statements) should generally be reported at their market value. If there is an active market with quoted market prices for other assets and liabilities held, this information should be used in determining market value. In the absence of quoted market prices, market values should be determined using discounted cash flow analysis as long as such values approximate the amount that would be received or paid in a current transaction. The amounts and timing of the cash inflows and outflows associated with other assets and liabilities must be estimated and discounted back to a present value. The discount rates used should reflect a current market rate commensurate with the risks of the specific asset, or the current market rates applicable to liabilities of similar duration or risk.

5.04 For those assets or liabilities that do not have future cash flows associated with them (e.g., equipment), the use of an estimated current net sales price or current settlement amount may be appropriate. Regardless of the methodology utilized, care must be exercised in evaluating other assets and liabilities to ensure that they have not already been included in the valuation of real estate investments.

5.05 Like real estate investments, changes in the market value of other assets and liabilities from period to period are reported on the income statement as unrealized gains and losses which are reported separately from net investment income. Unrealized gains and losses become realized when the underlying asset or liability is settled or resolved.

Receivables

5.06 Various operating transactions may result in a note or accounts receivable (other than mortgage loan receivables and related interest which are discussed separately). These notes receivable may be short-term or long-term in nature.

5.07 The undiscounted carrying value of short-term receivables (e.g., less than one year to maturity) generally approximates market value due to the relatively short period of time between the reporting date and the expected realization. The use of an undiscounted value is acceptable provided that the results of discounting would be immaterial. An allowance should be established based upon the amount of the receivable expected to be recoverable. Any such allowance is charged to net investment income; however, industry practice varies as to whether the allowance is charged against revenue or as an operating

expense. Any receivables that are considered in the valuation of the real estate asset should not be established as such amounts are already included in the valuation of the real estate asset.

5.08 The market value of longer-term receivables should be estimated by discounting the expected future cash flows expected to be received (including interest payments) using a current market rate of similar receivables commensurate with the risks of the specific receivables. Similar receivables are those that have comparable credit risk and maturities. An allowance should be established based upon the present value of the ultimate amount to be recovered. Consideration should be given to any underlying collateral.

Deferred Costs

5.09 An entity may incur certain costs that are related to its organization. Statement of Position 98-5, Start-up Costs, requires that organization costs and the costs of other start-up activities be expensed as incurred. Cost may also be incurred in connection with obtaining financing for the entity - either secured or unsecured. Historical cost accounting provides for these costs to be capitalized and amortized over the term of the loan.

5.10 Organization costs do not result in an asset having value outside of the entity, and therefore, they should be expensed as incurred.

5.11 The cost basis of amounts incurred in connection with obtaining financing (professional fees, commissions, points, interest rate buy-downs, etc) should be capitalized. The interest element of such costs should be amortized as a component of interest expense over the term of the related debt using the effective interest rate method. The valuation of financing costs is considered as part of the valuation of the related debt. Accordingly, unrealized gains and losses should be recognized based on the valuation approach used to estimate the market value of notes payable.

Other Liabilities

5.12 Other liabilities may include contingent consideration that is part of an investment at the time of the acquisition. Contingent consideration should be recognized and measured at fair value at the acquisition date and each reporting date, rather than recognized and measured as an adjustment to the purchase price in the subsequent periods in which the contingency is resolved.

Recommended Financial Statement Disclosures

5.13 The following items represent the recommended financial statement disclosures related to other assets and liabilities:

- Disclosure of the significant components of other asset and liability balances, if

- material, including accounts receivables and accrued expenses.
- For notes receivable, provide a description of the note, which should include relevant details for each loan or class of loans related to the following:
 - Rate of interest
 - Maturity date
 - Repayment provisions
 - Collateral held (including any cross-collateral provisions)
 - Prepayment penalty provisions
 - Policy related to the recording of organization costs and financing costs.

6. Other Revenues and Expenses

6.01 Revenues and expenses directly related to real estate investments held by investors are discussed within the individual sections related to investments in real estate assets, investments in mortgage loans and investments in joint ventures. Other revenues and expenses not directly related to real estate investments should generally be recognized in accordance with applicable authoritative accounting literature. Items whose treatment is unique to the market value basis of accounting, as well as items whose accounting may be consistent with a historical cost accounting model, but are of particular importance to real estate investors, are discussed below.

Real Estate Advisory Fees

6.02 Real estate advisory fees may include acquisition, asset management, disposition, financing and incentive fees. Property management fees are a normal operating expense of real estate assets, and are expensed in the property operations section of the Statement of Operations. Leasing fees and commissions are discussed in the real estate assets section.

6.03 Acquisition fees are considered as part of the acquisition cost of a property and, therefore, are included in the cost basis of the real estate asset as are other acquisition-related costs. They are included as part of the cost when comparing cost to value to determine realized or unrealized gain or loss.

6.04 Asset management fees should be generally expensed in the current period.

6.05 Disposition fees are typically paid when a property is sold and calculated as a percentage of the sales price. The fee generally compensates a real estate advisor for their services rendered in a property disposition, including sales marketing, negotiating, and closing. As this fee is not earned until the work is performed or substantially performed, the fee is generally recognized as a cost of sale in the period in which the property is sold.

6.06 Disposition fees related to investments which are considered “assets to be disposed of” in accordance with SFAS 144 should be recognized as a reduction in the value of the asset during the period in which the criteria of SFAS 144 are met. Disposition fees which

are substantively incentive fees should be measured and recognized as incentive fees.

6.07 Incentive fee arrangements and calculations vary widely, but generally these fees are paid after a predetermined investment performance return has been attained. For example, these fees may be payable upon actual or constructive sale of a real estate investment or portfolio, or may be payable when cash flows from operating or capital distributions exceed some threshold.

6.08 Incentive fees should be recognized if they would be payable if all assets were sold and liabilities were settled at the balance sheet date. The calculation of the amount earned is specific to the related real estate advisory agreement, but generally the calculation should assume that the property or portfolio is liquidated at its market value as of the reporting date and cash proceeds are distributed to the investors. A liability should be established for the amount of the incentive fee, although not necessarily currently payable.

6.09 The related impact of recording a liability for an incentive fee should be either (1) reflected as a component of net investment income, if the fee resulted from operating results; or (2) reflected as a component of unrealized gain/loss, if the fee resulted from changes in value. Where incentive fees are based on both operating results and changes in value, the related impact should be allocated to the applicable components based on the substance of the incentive fee arrangements.

Realized and Unrealized Gains and Losses

6.10 The periodic valuation of real estate investments and other non-current assets and liabilities, including mortgage indebtedness, pursuant to the market value basis of accounting, results in changes in the reported value of investments and other assets owned, and liabilities owed. These changes are reported in the Statement of Operations as unrealized gains and losses. Gains and losses are realized upon the disposal of an investment or the settlement of liabilities; however, sales transactions must also meet the gain recognition criteria set forth in SFAS No. 66. Gains which are deferred in accordance with SFAS No. 66 continue to be reported as unrealized.

6.11 Realized gains and losses and the change in unrealized gains and losses are reported separately from net investment income in the Statement of Operations. Further, the portion of the change in unrealized gains and losses attributable to asset dispositions or the settlement of liabilities, (i.e., the realization of previously reported unrealized gains/losses), is separately reported or otherwise disclosed, as appropriate for each period presented in the financial statements.

6.12 The distinction between realized and unrealized recognition is not applied to items of Net Investment Income (i.e., revenue and expenses), even if such items are not currently receivable or payable. Recognition of revenue is a function of the earnings process, and expenses are recognized as incurred. Information related to changes in the balances of receivables and payables is included in the Statement of Cash Flows. To the

extent recognized revenue is considered uncollectible, the estimated allowance is charged to Net Investment Income.

6.13 A separately disclosed realized gain should be recognized on the extinguishment of debt when real estate is transferred to a lender in satisfaction of non-recourse debt. This gain may be recognized as an unrealized gain prior to reconveyance.

Recommended Financial Statement Disclosures

6.14 The following items should be disclosed in a financial statement presentation that includes advisory fees and/or other related party transactions:

- Disclose the contractual arrangements and the accounting policies for all advisory fees including acquisition, disposition and incentive fees.
- Typically such fees are earned by an affiliate of the reporting entity. Thus, the related party disclosure must be included in the notes to the financial statements.

6.15 Disclosure should also be provided of the facts and amounts surrounding any transaction with entities that are directly owned by the venture partners, sponsors, investment advisors, or other entities related by common ownership. Examples may include the following:

- Portfolio and asset management fees accrued and/or paid
- Leasing commissions, incentive or management fees accrued and/or paid
- Properties purchased or sold
- Receivables/payables with related parties

7. Illustrative Financial Statements

7.01 Illustrative financial statements are available on the NCREIF website. These financial statements are illustrative only and are intended to provide an illustrative format for annual financial statement reporting under the market value basis of accounting. The illustrative statements reflect common financial statement presentation and disclosure items typically used in the institutional real estate investment community. Disclosures included in the illustrative financial statements are not intended to be comprehensive and are not intended to establish preferences among alternative disclosures. For specific reporting issues encountered by an individual investment vehicle, the applicable technical accounting literature should be consulted to provide guidance for the appropriate presentation and disclosure in the financial statements.

REIS Glossary - October 13, 2006

General Terms

Proposed Glossary Term	Definition
ADC Arrangements	An ADC arrangement is an arrangement in which a bank (lender) provides financing for real estate acquisition, development, or construction purposes and has virtually the same risks and potential rewards as those of owners or joint venturers. There is often little risk in such arrangements to the borrower. The lender may advance all or substantially all the necessary funds to complete a project (including fees and interest), may have a share in the residual profits of the project (an equity "kicker"), and must look to the eventual sale or refinancing of the property for repayment of the advances. Such transactions are often structured in a manner that makes default unlikely because there is no requirement for the borrower to make payments while the project is in progress. ADC arrangements should be reported as loans, real estate ventures, or direct investments in real estate in accordance with guidance presented by the AICPA in a Notice to Practitioners issued in February 1986.
Additional Contingent Interest	Lender participation in the appreciation in value of the underlying property in a participating loan (REIS)
Appreciation	An increase or decrease in value of an asset. Appreciation may be attributable to improvement or deterioration in the financial performance of the asset or changes in the market value for the asset.
asset weighted	An averaging technique whereby numerical characteristics (such as interest rates or rents) of a group of assets are averaged in proportion to each asset's common characteristic (such as asset value or square feet).
Asset weighting methodology	Asset weighting of the portfolio returns within a composite using beginning-of-period weightings, beginning of period market values plus weighted cash flows, or by aggregating portfolio assets and cash flows to calculate performance as a single master portfolio.
Asset-weighted composites	An aggregation of individual portfolios representing a similar investment objective or strategy, weighted by the beginning-of-period market values of the constituent portfolios.
Association for Investment Managers (AIMR)	The former name of the CFA Institute. Members of AIMR approved the name change in May, 2004.
Base Interest	Contractually stated fixed or floating rates in a participating loan (REIS)
Capital Expenditures	Investment of cash or the creation of a liability to acquire an asset or an improvement to an asset that will have a life of more than one year, e.g., land, buildings, building additions, site improvements, machinery, equipment; as distinguished from cash outflows for repairs, which merely maintain assets in an efficient operating condition and are considered part of the current period's operations.
CFA Institute	A global membership organization that awards the CFA (Chartered Financial Analyst) designation. The Institute established and interprets the Global Investment Performance Standards (GIPS) and the AIMR Performance Presentation Standards (AIMR-PPS). [www.cfainstitute.org]
Closed-end commingled fund	A commingled fund with a stated maturity (termination) date, with few or no additional investors after the initial closing of the fund. Closed-end funds typically purchase a portfolio of properties to hold for the duration of the fund and, as sales occur, typically do not reinvest the sales proceeds.
Commingled funds	A term applied to all open-end and closed-end pooled investment vehicles. A commingled fund may be organized as a group trust, partnership, corporation, insurance company separate account, or other multiple ownership entity.
Composite	A composite is an aggregation of one or more portfolios into a single group that represents a particular investment objective or strategy.
Contingent Interest	A percentage of property net income or cash flow after debt service in a participating loan.(REIS)
Contractual Interest	The base or minimum interest rate paid exclusive of amounts payable as a result of the participation feature.
Contractual Principal	The nominal principal of a loan exclusive of amounts payable as a result of any participation feature.
Controlling Equity Interest	An ownership position that meets the requirements of control according to the governing accounting literature.
Costs of Sale	An estimate of the incremental direct costs to transact the sale of the property. These costs generally include brokerage commissions, closing costs and fees, and other necessary disposition expenses.
Debt Interest	The ownership of a mortgage note or other note receivable secured by real estate assets owned by another party (REIS p. 26).
Definitive Decision to Sell	The point in time when all of the criteria are met for an asset to be considered held for sale under SFAS 144. The criteria are as follows: a) Management, having the authority to approve the action, commits to a plan to sell the asset, b) The asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets, c) An active program to locate a buyer and other actions required to complete the plan to sell the asset have been initiated, d) The sale of the asset is probable, and transfer of the asset is expected to qualify for recognition as a completed sale, within one year, e) The asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value, and f) Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.
Emerging Issues Task Force (EITF)	The Emerging Issues Task Force (EITF) was formed in 1984 in response to the recommendations of the FASB's task force on timely financial reporting guidance and a FASB Invitation to Comment on those recommendations. The mission of the EITF is to assist the FASB in improving financial reporting through the timely identification, discussion, and resolution of financial accounting issues within the framework of existing authoritative literature.

Fair Value (FASB, GIPS, Appraisal Institute)	<p>The FASB has defined Fair Value as the amount at which that asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale. The appraisal profession further expands this definition as follows: The most probable price which a specified interest in real property is likely to bring under all of the following conditions:</p> <ul style="list-style-type: none"> ▪ Consummation of a sale occurs as of a specified date. ▪ An open and competitive market exists for the property interest appraised. ▪ The buyer and seller are each acting prudently and knowledgeably. ▪ The price is not affected by undue stimulus. ▪ The buyer and seller are typically motivated. ▪ Both parties are acting in what they consider their best interest. ▪ Marketing efforts were adequate and a reasonable time was allowed for exposure in the open market. ▪ Payment was made in cash in U.S. dollars or in terms of financial arrangements comparable thereto. ▪ The price represents the normal consideration for the property sold, unaffected by special or creative financing.
Financial Accounting Standards Board (FASB)	The Financial Accounting Standards Board (FASB) is the designated organization in the private sector for establishing standards of financial accounting and reporting. Those standards govern the preparation of financial reports. They are officially recognized as authoritative by the Securities and Exchange Commission and the American Institute of Certified Public Accountants. [www.fasb.org]
Free Rent	A period of time during the lease term when the tenant is excused from paying rent.
Geometrically linked	<p>A process by which sub-period returns are averaged to arrive at a period's rate of return. The linking formula is:</p> $(1 + S1) \times (1 + S2) \times \dots (1 + Sn) - 1,$ <p style="text-align: right;">S1 - is the first sub-period return ,</p> <p>S2 - is the second sub-period return , and</p> <p>Sn - is the last sub-period return.</p>
Global Investment Performance Standards (GIPS)	The GIPS standards, promulgated by the CFA institute, are ethical standards to be used by investment managers for creating performance presentations that ensure fair representation and full disclosure.
Governmental Accounting Standards Board (GASB)	The designated organization to establish and improve standards of state and local governmental accounting and financial reporting that will result in useful information for users of financial reports and guide and educate the public, including issuers, auditors, and users of those financial reports. [www.gasb.org]
Impairment Accounting	A requirement of historical cost accounting principles whereby a loss is recognized if the carrying amount of the long-lived asset is not recoverable from its undiscounted cash flows and exceeds its fair value. An impairment loss is calculated as the amount by which the carrying value exceeds its fair value. Financial Accounting Standards Board Statement No. 144, <i>Accounting for the Impairment or Disposal of Long-Lived Assets</i> , provides guidance on impairment accounting.
Incentive management fees	Generally, fees paid after a predetermined investment performance has been attained. For example, fees payable upon actual or constructive sale of a real estate investment or portfolio, or payable when cash flows from operating or cash distributions exceed some threshold.
Investee	A corporation, partnership, or other legal entity that issued voting stock, partnership interests, or similar interests held by an investor.
Investment	A discrete asset or group of assets held for income, appreciation or stability and tracked separately.
Investment Discretion	Level of Authority for investment decision making by the investment manager. Full Discretion – No external approvals required for any investment decisions. Modified Discretion – No external approvals in any investment decisions that are consistent with investment guidelines, external approval required to go “outside the box”. Asset Management Discretion – External approval required for transactional activity (generally acquisition, disposition and/or financing), but no external approval for asset management decisions. No Discretion – External approvals required for transactional activity as well as significant issues, such as annual plans, budgets, leasing decisions, and service contracts.
Investment level	Evident or applied only to the entire investment i. e., "Investment-level debt" and "investment-level leverage". By contrast, "property-level" applies to characteristics of individual properties within an investment.
Investment Strategy	The method used to select which investments to include in a portfolio and to decide when to buy and when to sell those assets.
Investment Vehicles	A selected means of making an investment such as pooled funds, separate accounts, etc.
IRR (Internal Rate of Return)	The rate of return on an investment with irregular cash flows. <i>In algebraic terms</i> , the rate (IRR) that solves the following equation: $[F1/(1+IRR)] + [F2/(1+IRR)^2] \dots + [Fx/(1+IRR)^x] + Fo = 0$ where: Fo is the original investment; and F1 through Fx-1 are the net Cash Distributions less Cash Contributions for each regular successive year up to the last year; and Fx is the Ending Net Asset Value less the Estimate of Current Cost to Sell Investments, plus Cash Distributions less Cash Contributions for the final year.
Market Value	Fair Value (see)
Maturity Date	The date when the Total Principal Balance comes due.
Modified-Dietz	The Modified Dietz formula is the standard for calculating time-weighted rates of return. The return or numerator is divided by the weighted average investment or denominator for the period. The denominator is the market value of the investment as of the beginning of the period, adjusted for actual day weighting of cash flows (increased by contributions and decreased by distributions) incurred during the period. By using a weighted average investment, there is no need to re-value the investment at every cash flow, therefore, the formula provides an approximation of an IRR for that period. The formula for estimating the time-weighted rate of return is:

	Modified Dietz = $\frac{EMV - BMV - CF}{BMV + \sum_{i=1} (CF_i \times W_i)}$
	$W_i = \frac{CD - D_i}{CD}$
	CD
	Where:
	EMV = Ending Market Value
	BMV = Beginning Market Value
	CF = Net Cash Flows
	W = Weighted
	CD = Total number of calendar days in the period
	D _i = Number of calendar days since the beginning of the period in which cash flow CF occurred
	If a cash flow occurs which is more than 10% of the investment value, the period should be subdivided and interim returns should be calculated for each sub-period and linked together to derive the full period's return.
National Association of Real Estate Investment Managers (NAREIM)	A professional organization committed to providing knowledge and insight into the real estate industry. Educational programs are designed for the needs of senior level managers responsible for real estate investment portfolios. [www.nareim.org]
National Council of Real Estate Investment Fiduciaries (NCREIF)	An association of institutional real estate professionals which include investment managers, plan sponsors, academicians, consultants and other service providers who share a common interest in the industry of pension fund real estate investment. NCREIF serves the institutional real estate community as an unbiased collector and disseminator of real estate performance information, most notably the NCREIF Property Index (NPI). [www.ncreif.org]
NCREIF Property Index (NPI)	A quarterly time series composite total rate of return measure of investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only.
Net Asset Value	The fair value of real estate and all other assets less total liabilities
Net Investment Income	The income or loss of a portfolio or entity resulting after deducting all expenses, including portfolio and asset management fees, but before realized and unrealized gains and losses on investments. Net investment income is the measure of operating results from a property or portfolio after all expenses have been deducted from all rental and other income. Capitalized expenditures such as leasing commissions, tenant improvement costs and other replacement costs are excluded. Rental revenue is recognized when it is contractually billable to tenants. Expenses are generally recognized when the obligation is incurred under the requirements of Financial Accounting Standard No. 5. Certain expenses which may be based on the investment vehicle's unrealized change in net asset value, such as incentive management fees, are excluded from net investment income and recognized as a component of the unrealized gain or loss, even if the future payment of the fees is contingent.
Non-Controlling Equity Interests (Minority Interest)	An ownership position that does not meet the requirements of control according to the governing accounting literature.
Open-end commingled fund	A commingled fund with no finite life, that allows periodic entry and exit of investors, and typically engages in ongoing investment purchase and sale activities.
Participating Mortgage loans	A loan secured by real property, with a stated base or minimum interest rate that also provides for the participation by the lender in annual net cash flow, gain on sale, or proceeds from refinancing the property
Pension Real Estate Association (PREA)	A nonprofit organization whose members are engaged in the investment of tax-exempt pension and endowment funds into real estate assets. PREA's mission is to serve its members engaged in institutional real estate investments through the sponsorship of objective forums for education, research initiatives, membership interaction and the exchange of information. [www.prea.org]
Percentage Rent	A percentage of the tenant's total annual sales paid as rent. Percentage rent is normally paid after a predetermined sales level has been achieved. The percentage factor is then applied to all sales over the preset level (breakpoint).
Pooled trusts	A multi-investor investment vehicle which is legally structured as a trust.
Prepayment Penalty	Fees paid by borrowers for the privilege of retiring a loan early. Such charge is provided for in the debt instrument and normally is expressed as a percentage of the loan, an additional interest charge, or a flat fee.
Rent normalization (FASTB 85-3)	Rental income of operating leases with schedule rent increases is recognized on a straight-line basis over the lease term (lease term start date is defined as the date the tenant has access to the space).
Replacement Costs	Expenditures that provides for the periodic restoration of building components that wear out more rapidly than the building itself and must be replaced during the building's economic life.
ROI (Return on Investment)	Financial benefits flowing from an investment, typically expressed as an annual percentage of the amount invested.
Separate Accounts	1. Any investment account managed for the benefit of one investor. 2. A segregated investment account set up by a life insurance company which, through subaccounts, invests in the underlying mutual funds offered through a variable annuity or variable life insurance contract. The Separate Account assets are maintained separately from the insurance company's general account so they cannot be used to pay claims associated with any other business of the insurance company. Separate Accounts are regulated by state insurance departments and may or may not be registered with the Securities and Exchange Commission.
SFAS	A FASB Statement of Financial Accounting Standard. See separate accounting section for specific SFAS's.

SOP	An AICPA Statement of Position. See separate accounting section for specific SOP's.
Stabilized Expenses	A projected expense that is subject to change, but has been adjusted to reflect an equivalent, stable annual expense. [Appraisal Institute]
Stabilized Income	Income at that point and time when abnormalities in supply and demand or any additional transitory conditions cease to exist and the existing conditions are those expected to continue over the economic life of the property; projected income that is subject to change, but has been adjusted to reflect an equivalent, stable annual income [Appraisal Institute]
Stabilized Net Income	The amount resulting from subtracting stabilized expenses from stabilized income. The definition also incorporates the concept of stabilized occupancy within this definition.
Stabilized Occupancy	Occupancy at that point and time when abnormalities in supply and demand or any additional transitory conditions cease to exist and the existing conditions are those expected to continue over the economic life of the property; the optimum range of long-term occupancy that an income-producing real estate project is expected to achieve under competent management after exposure for leasing in the open market for a reasonable period of time at terms and conditions comparable to competitive offerings. [Appraisal Institute]
Stepped Rent	Rents that are structured so they increase or decrease by agreed upon amounts at specific times during the life of the lease.
Time weighted returns (TWR)	A calculation that computes period-by-period returns on an investment and removes the effects of EXTERNAL CASH FLOWS, which are generally client-driven, and best reflects the FIRM's ability to manage assets according to a specified strategy or objective. ¹ A return calculated for each equal length period, usually on a quarterly basis for real estate. Returns are then linked to calculate a multi-period return. Each return, over the period, has an equal weighting, therefore, the timing of the return or the amount invested for a period, has no impact on the multi-period return.
Total Return	For a single period, the sum of the quarterly net income (loss) return and the realized or unrealized valuation adjustment (appreciation or depreciation) return. For longer periods, the geometrically-linked total returns for the individual periods within the longer period.
Valuation	1. The process of determining the worth of an asset or a fund. 2. The result of that process: the estimated worth or sales price of an asset or fund.

REIS Glossary	
Accounting Pronouncements	
Proposed Glossary Term	Definition
Accounting Literature Glossary Note:	All definitions below are excerpts from each respective Statement's "Summary" section. Please see the full body of each Statement at www.fasb.org for FASB related statements or www.aicpa.org for Statements of Position.
FASB Interpretation No. 46 (revised)	This interpretation, which replaces <i>FASB Interpretation No. 46, Consolidation of Variable Interest Entities</i> , clarifies the application of Accounting Research Bulletin No. 51, <i>Consolidated Financial Statements</i> , to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support.
SFAS No. 140	Financial Accounting Standards Board Statement No. 140, <i>Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities</i> , provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities.
SFAS No. 144	Financial Accounting Standards Board Statement No. 144, <i>Accounting for the Impairment or Disposal of Long-Lived Assets</i> , addresses financial accounting and reporting for the impairment or disposal of long-lived assets.
SFAS No. 66	Financial Accounting Standards Board Statement No. 66, <i>Accounting for Sales of Real Estate</i> , establishes accounting standards for recognizing profit or loss on sales of real estate.
SOP 78-9	<i>Statement of Position 78-9 Accounting for Investments in Real Estate Ventures</i> presents the Accounting Standards Division of the AICPA's recommendations on accounting for investments in real estate ventures (corporate joint ventures, general and limited partnerships, and undivided interests). The recommendations are primarily an application of the existing authoritative accounting literature to the specialized accounting problems related to such investments and are intended to narrow the range of alternative practices. SOP 78-9 is amended by FASB Staff Position SOP 78-9-1, Interaction of AICPA Statement of Position 78-9 and EITF Issue No. 04-5.
SOP 94-6	The disclosure requirements of <i>Statement of Position 94-6, Disclosure of Certain Significant Risks and Uncertainties</i> focus primarily on risks and uncertainties that could significantly affect the amounts reported in the financial statements in the near term

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SOP 94-6	The disclosure requirements of <i>Statement of Position 94-6, Disclosure of Certain Significant Risks and Uncertainties</i> focus primarily on risks and uncertainties that could significantly affect the amounts reported in the financial statements in the near term