

NCREIF
SUMMER WEBINAR SERIES

2025

WEBINAR WEDNESDAYS!



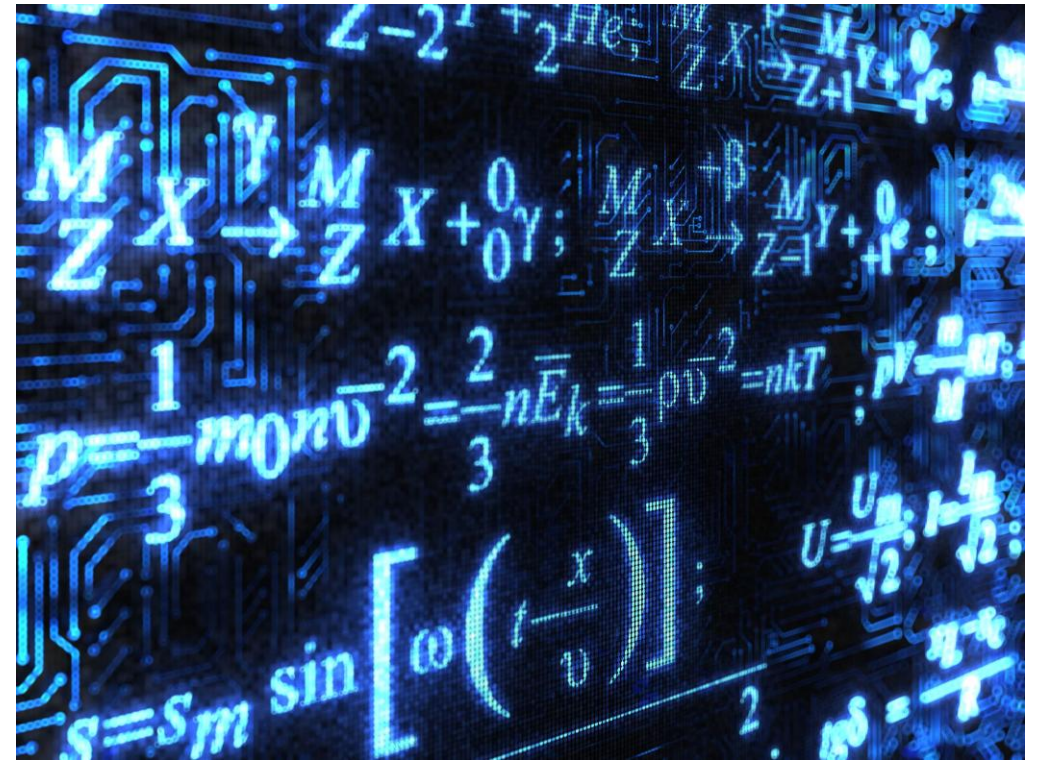
Performance Measurement Committee

August 6th, 2025



PMC Agenda

- Introductions
- Capitalized Interest
- SEC FAQs
- Committee Updates
- October Conference



Performance Measurement Committee Leadership 2025

Chairs



Rosellen Bounds
Managing Director
ACA Group



Samantha King
Executive Director
JP Morgan

Vice-Chairs



Kim Everaerts
Vice President
Walton Street



David DiPaolo
Senior Vice President
Clarion Partners

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Returns for Non-Core Properties

Impact of capitalized interest



Returns for Non-Core Properties

Impact of capitalized interest

Introduction/Background

- Capitalization of interest expense is an accounting concept and generally impacts non-operating assets. (e.g. development, renovation, expansion)
- When applied, interest is capitalized as part of real estate value rather than expensed.
- Capitalized interest is a component of leverage. Without leverage, capitalized interest would not occur as a capital expenditure.
- Capitalized interest in a fair value reporting model is effectively a reclass between interest expense and appreciation.

Returns for Non-Core Properties

Impact of capitalized interest

NCREIF Property-Level Index Formula - Capital Appreciation Return:

- Unleveraged formula designed for operating properties and computation of the NPI/Expanded NPI.
- Capitalized interest is not specifically addressed in manual and included in “Capital Improvements”.

Capital Appreciation Return: Measures the change in market value adjusted for any capital improvements or partial sales for the quarter.

$$\frac{(\text{Ending Market Value} - \text{Beginning Market Value}) + \text{Partial Sales} - \text{Capital Improvements}}{\text{Beginning Market Value} + 1/2 \text{ Capital Improvements} - 1/2 \text{ Partial Sales} - 1/3 \text{ Net Operating Income}}$$

Returns for Non-Core Properties

Impact of capitalized interest

- A substantial portion of “Capital Improvements” can include “Capitalized Interest” on Non-operating assets, development assets. They are typically reported in on of the following fields:
 - **CapExBuildingCapitalImprovement**
 - **CapExBuildingCapitalExpansion**
 - **CapExInitialAcquisitionCost**
 - **CapExOtherCapitalImprovement**
- Capitalized interest **SHOULD NOT** be included as CapEx in the unlevered NPI/Expanded NPI return. This is a component of leverage and if included in an unlevered formula, **REDUCES** the appreciation otherwise generated.
- **Note** that the existing NPI and Expanded NPI indices are operating indices. Operating properties generally do not have capitalized interest. There are potentially a small number of renovation/expansion properties which were already in the index, but these represent a small minority of assets. Exclusion of capitalized interest is likely to have very minimal or no impact to published indices.

Returns for Non-Core Properties

Impact of capitalized interest

- Using current NPI/Expanded NPI Property level Return formula, the current formula understates performance by 186bps.

Unlevered Property Return Adjusted for Capitalized Interest					
	3/31/2022	6/30/2022	9/30/2022	12/31/2022	1 Year
Total Return	0.00%	0.00%	0.00%	25.69%	25.69%
Income	-	-	-	-	-
Appreciation				1,712,821	1,712,821
Appreciation- Cap Int				133,333	133,333
Total	-	-	-	1,846,154	1,846,154
Beg MV	0	1,000,000	7,153,846	7,187,179	
Capex	500,000	3,076,923			
Denominator	500,000	4,076,923	7,153,846	7,187,179	

Unlevered Property Return Unadjusted					
	3/31/2022	6/30/2022	9/30/2022	12/31/2022	1 Year
Total Return	0.00%	0.00%	0.00%	23.83%	23.83%
Income	-	-	-	-	-
Appreciation				1,712,821	1,712,821
Total	-	-	-	1,712,821	1,712,821
Beg MV	0	1,000,000	7,153,846	7,187,179	
Capex/Sale/2	500,000	3,076,923			
Denominator	500,000	4,076,923	7,153,846	7,187,179	

Note- Sale is excluded from weighted flows for simplicity purposes. Normally sale price would receive a ½ weight in both scenarios.

Returns for Non-Core Properties

Impact of capitalized interest

IRR example for illustrative purposes

<u>Cash flow</u>	<u>Date</u>	<u>Levered</u>	<u>Debt Related</u>	<u>Unlevered</u>	
1/1/2022 Capital Call	1/1/2022	(1,200,000)		(1,200,000)	
4/1/2022 Capital Call	4/1/2022	(2,153,846)		(2,153,846)	
4/1/2022 Borrowing	4/1/2022		(4,000,000)	(4,000,000)	
7/1/2022 Interest Payment	7/1/2022	-	33,333	33,333	<--Shown as additional distributions
12/31/2022 Interest Payment	12/31/2022	-	100,000	100,000	<--Shown as additional distributions
12/31/2022 Sale/Repayment	12/31/2022		4,000,000	4,000,000	
12/31/2022 Distribute Proceeds	12/31/2022	5,066,667		5,066,667	
Net Cash Flow		1,712,821	133,333	1,846,154	
IRR		63.20%		32.77%	

Levered Profit	1,712,821
Total Debt Costs	133,333
Unlevered Profit	1,846,154

Returns for Non-Core Properties

Impact of capitalized interest

Conclusion and Recommended Changes

- Create a New Capitalized Interest Column to separate general Capex from Capitalized Interest.
- Capitalized Interest would be EXCLUDED from unlevered property returns but INCLUDED in levered property returns.
- Discuss impact to component returns. Should capitalized interest be reclassified income component for consistency with operating properties.
- Proposal would have minimal impact to existing NPI/Expanded NPI indices because they are operating indices.

Potential Applications/Uses

- More accurate unlevered comparisons of Core vs Non-Core
- More inclusive Attribution (including Pre-operating)
- Future Non-Core Indices

Polling Question # 1

1. Would you like to volunteer to join me in a task force to make some of the changes I'm suggesting?
 - a. Yes
 - b. No

Returns for Non-Core Properties

Impact of capitalized interest

Questions/Next Steps

- If you answered “yes” to the poll and would like to volunteer to help, please reach out to anyone on the Leadership Committee.

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SEC Marketing Rule FAQs

Performance Measurement Committee



Presented by the SEC Marketing Rule Task Force

Rosellen Bounds from ACA Group will provide an update regarding the SEC Marketing Rule Task Force

Points to make

- **Mission:** The SEC Marketing Rule Task Force was established to identify how NCREIF can support managers with guidance to support the implementation of the SEC Marketing Rule.
- **Areas to consider:** There are 6 main performance areas that are contemplated in the Rule
 - Required Performance periods i.e. 1, 5, 10 years (private fund not applicable)
 - Net of Fees – using actual or model, non-fee-paying portfolios
 - Related Performance – similar investment policies
 - Extracted Performance – subset of a single portfolio – e.g. deal level, security, and sector
 - Hypothetical Performance – target, model, back-tested, or projected
 - Portability – same mgr(s), similar strategy at the new firm, excluding of portfolios

New FAQs

- What's new?
- The SEC came out with 1st of two new FAQs on March 19, 2025, the first addressing;
 - If presenting gross performance of one investment or a group of investments, an adviser now may do so if they meet 4 criteria:
 1. Extracted performance must be clearly labelled as gross performance
 2. Extracted performance is accompanied by the total portfolio's gross and net performance that follows the Marketing Rule
 3. Total portfolio gross and net performance is presented with equal prominence and in a manner designed to allow comparison with the extracted performance
 4. Total portfolio gross and net performance is calculated over a period that includes the entire period over which the extract is calculated

New FAQs (cont'd)

- The SEC came out with the 2nd new FAQ as well on March 19, 2025, addressing;
 - If presenting portfolio or investment characteristics, an adviser may now do so on a gross basis only if they meet 4 criteria:
 1. The characteristic must be clearly labelled as gross performance without the deduction of fees & expenses
 2. The characteristic is accompanied by the total portfolio's gross and net performance that follows the Marketing Rule
 3. Total portfolio gross and net performance is presented with equal prominence and in a manner designed to allow comparison with the characteristic
 4. Total portfolio gross and net performance is calculated over a period that includes the entire period over which the characteristic is calculated

New FAQs

- What's does this mean?
 - The prior year the SEC came out with an FAQ on February 6, 2024, addressing presenting gross and net for the same time period and same methodology and the inclusion of returns with and without the use of fund level subscription facilities or disclosure describing the impact of the subscription facilities on the fund net performance
 - With the advent of now 3 FAQs this is allowing firms to rethink their approach in the areas of extracted performance and portfolio characteristics and changes to what was previously required. This is causing firms to take pause and make sure they are meeting this new guidance.
- Next steps- the task force has been meeting regularly and is focused on having guidance completed in time to share at the Fall Conference.

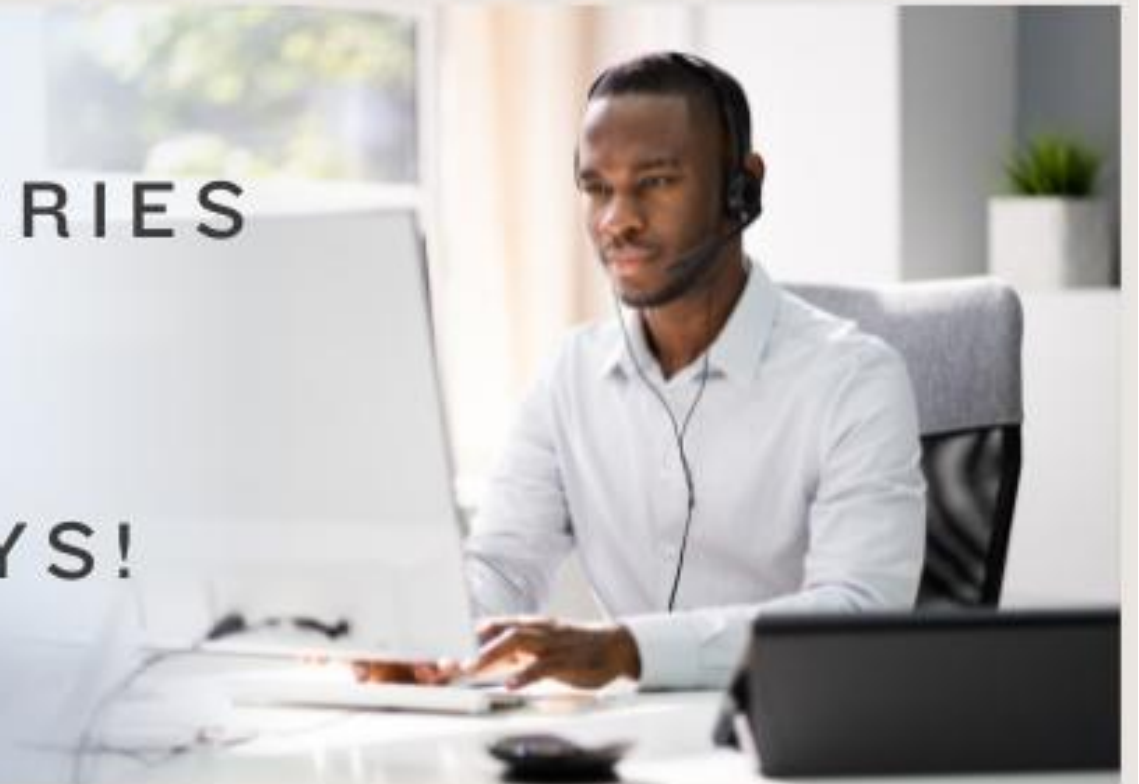
Polling Question # 2

2. Since the latest SEC FAQ was released on March 19, 2025, has your firm made adjustments to marketing?
 - a. Yes, we removed extracted deal net and/or we have removed net characteristics
 - b. Yes, we added net
 - c. No, we made no changes
 - d. No, we don't present extracted or characteristics in advertisements

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Committee Updates

Performance Measurement Committee



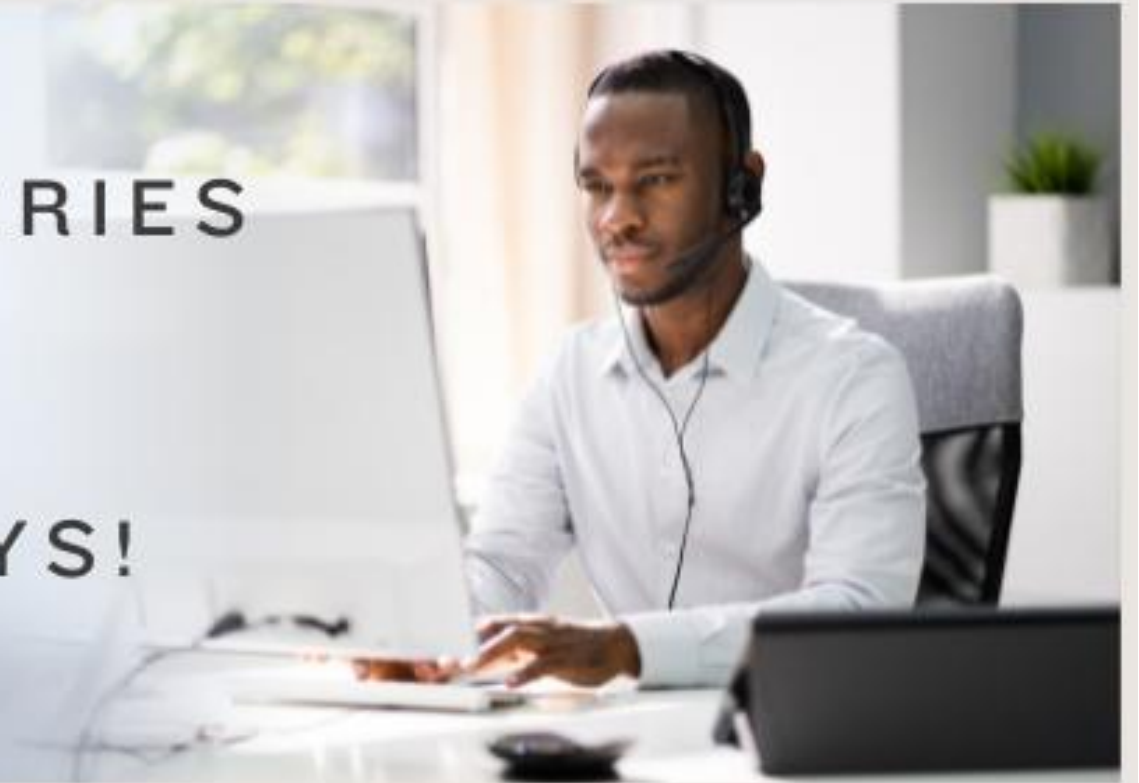
Task Forces

- Attribution Task Force
- Dividend Yield Task Force
- SEC Marketing Rule Task Force
- Negative Equity Task Force
- RS Performance Manual Review Task Force
- **Non-Core Properties Task Force (new)

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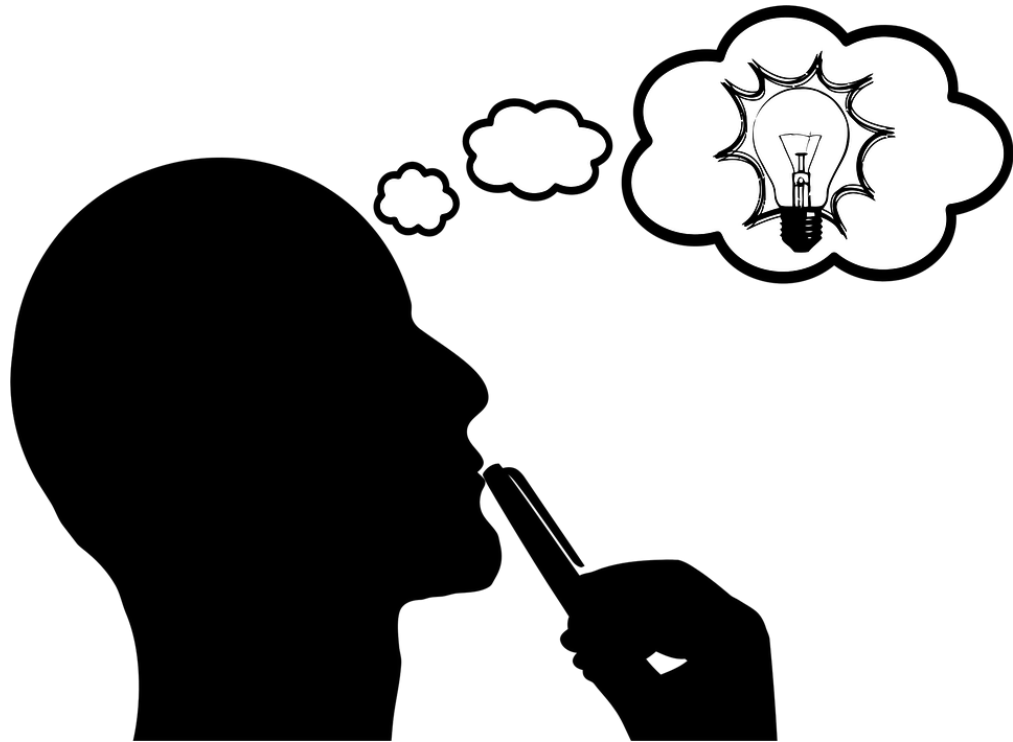
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October Conference
Performance Measurement Committee



Conference Topics



What are the topics your firm is most interested in discussing at NCREIF?

- Task Force Updates
- Deeper dive into application of latest SEC FAQ(s)
- NPI Data Fields
- Plans to capture additional KPIs for valuation

Polling Question # 3

3. Last Spring conference there was no conference theme, do you think a conference theme would help determine if you will be attending the NCREIF Fall 2025 Conference?
 - a. Yes
 - b. Yes, this ensures that my firm will approve attendance
 - c. No, the theme is not important

Volunteer & Questions

If you are interested in volunteering for any of these task forces, please reach out to anyone in the PMC leadership.

Rosellen Bounds, CIPM – Chair

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Thank you for
joining us today!

