

## **Current Practices in Benchmarking Real Estate Investment Performance**

### **Invitation to Tender – December 2017**

#### **Background**

Benchmarks in investment management provide the basis on which performance is monitored and judged. Assessing performance against market-based benchmarks is common, but there are alternative approaches. For real estate, difficulties in developing and using market-based benchmarks arise from the nature of real estate investment markets, which inhibit development of high frequency, price-based benchmarks and make it difficult for investors to hold representative portfolios. As a result, a significant proportion of investors appear to use longer-term absolute return or bond-related objectives. This raises questions around the choice, use and role of benchmarks in real estate investment practice.

#### **The Brief**

The IPF wishes to commission a study to investigate the range and application of benchmarks within private real estate as an asset class. The research should examine the following questions regarding the selection and composition of benchmark in the context of UK market practice:

- What are the drivers for the choice of different benchmark types, such as market-based, liability based, real return or absolute return benchmarks? (30-35%)
- How common is it to specify dual or multiple benchmarks for a real estate portfolio? What are the motivations for this and what problems does this create? (10%)
- How have market benchmarks changed through time with regard to the types of assets (sector, location, quality) and types of investors being monitored? (10%)
- Have changes to the composition of market benchmarks kept pace with changes in the nature of the underlying private real estate market? (10%)
- What are the implications of changes in benchmark composition for performance measurement and asset selection by institutional investors? (20-30%)

#### **Approach**

The methodology is at the discretion of the research team, though this will be an important consideration in the process applied by the IPF in selecting a successful proposal. The analysis may be conducted via interviews or focus groups as alternative methods to survey and may benefit from some basic (non-econometric) data analysis, for example estimates of how important different types of benchmark are in practice, expressed as percentages of assets under management, using absolute return / real return / market-based measures, etc.

### **Output**

The findings are to be presented in a format that is accessible to general real estate investment practitioners and that clearly conveys the practical implications of the research findings.

Outputs will comprise a detailed report (including an executive summary of no more than two pages), as well as a non-technical summary report, drawing out key implications and their relevance for the industry. In terms of relative importance, the report should be broadly weighted in accordance with the percentages noted for each of the main section described previously.

Accompanying IPF-sponsored events may also be considered to promote the publications.

### **Research Monitoring**

A Project Steering Group (PSG) under the chairmanship of Andrew Angeli, CBRE Global Investors, will be appointed by IPF to oversee the research, the membership of which will include IPF Research Director, Pam Craddock, and other parties knowledgeable in the subject area. The PSG will meet with the appointed party periodically throughout the term of the project to act as a monitoring group but also to provide constructive support to the appointee. The PSG will also be responsible for approving the final report prior to publication.

### **Project Duration**

No estimate has been made as to the time that may be required to execute the brief. However, the results, incorporated into a final report, should be available for publication no later than end June.

### **Appointment Process**

Proposals should be submitted to the IPF Research Director, Pam Craddock ([pcraddock@ipf.org.uk](mailto:pcraddock@ipf.org.uk)) by close of business, **Monday 29 January 2018** in a format consistent with the IPF Research Submissions Guidelines, available via the [IPF website](#).

The IPF reserves the right not to proceed with any proposal, as well as to appoint a research contractor without conducting interviews.

It is intended that an appointment will be made within two to three weeks of the deadline for submissions, depending upon the number of proposals received.

### **Cost**

At this stage a cost ceiling has not been set, as this will be dependent upon the perceived value for money of proposals received. Please contact IPF Research Director, Pam Craddock, to discuss your research fee proposal.