Policy recommendations for the next EU Mandate

- Complexity: In the past five years, regulatory burdens have more than doubled
- Sustainability: SFDR and the EU Taxonomy do not support transition strategies
- Data: Policy makers need high quality consistent data on real estate investment
- Proportionality: Regulatory requirements imposed on our industry need to be proportional

Contributing to a strong, vibrant and sustainable European economy and society

INREV, the European Association for Investors in Non-Listed Real Estate Vehicles[1], welcomes the newly elected and appointed officials in the European institutions and looks forward to constructive collaboration during the upcoming mandate.

While INREV contributed to the development of a set of policy recommendations with other associations in the European real estate investment industry, there are a number of issues specifically relevant for private (non-listed) institutional real estate investment vehicles, including equity and debt funds, joint ventures, club deals and separate accounts. Non-listed institutional real estate vehicles represent the largest single part of real estate investment in Europe, accounting for some €2.7 trillion in assets across Europe. This investment makes a critically important contribution to a strong, vibrant and sustainable European economy and society.

We are keenly aware of the role that well-conceived and crafted policy and regulation can play in shaping and monitoring financial sector activity; however, we are equally aware that mis-conceived and poorly crafted policy and regulation can do much harm. It can at least significantly limit the potential contribution our sector can make. We would therefore like to offer recommendations focused on four specific points: complexity, sustainability, data and proportionality.

[1] INREV (www.inrev.org) provides guidance, research and information related to the development and harmonisation of professional standards, reporting guidelines and corporate governance within the non-listed property funds industry across Europe, including the UK. We have approximately 500 members, comprised of institutional investors from around the globe including pension funds, insurance companies and sovereign wealth funds, as well as investment banks, fund managers, fund of funds managers and advisors representing all facets of investing into non-listed real estate vehicles in the UK and the rest of Europe. Our investment manager members manage hundreds of non-listed real estate investment funds, as well as joint ventures, club deals and separate accounts for institutional investors.

Snapshot Tax and Regulations

Complexity

EU regulations are frequently far too complex and are becoming even more so at an alarming rate. It is not possible in today's European regulatory environment to navigate without well-staffed and funded compliance offices and swarms of experts, which has significantly increased staffing requirements and compliance costs. Our members estimate that in the past five years, the regulatory burden has more than doubled as more complex regulatory requirements, alongside more reporting obligations, audits and certifications, have dramatically increased. Nevertheless, despite best efforts, the risk of inadvertently violating regulations or at least the risk of reputational damage if suspected of violating such requirements is ever present.

We recommend that European policy makers take a critical look at the complexity of current regulations with a view to simplifying them wherever possible. In addition, no new regulations should be adopted without weighing the real burden they impose on affected sectors and a conscious effort made to reduce that burden to a minimum. Such a commitment is necessary for keeping Europe and the European financial sector competitive in the global marketplace.

Sustainability

Buildings account for approximately 39% of all greenhouse gas emissions, which points clearly to the conclusion that the single biggest contribution the institutional real estate investment industry can make is to finance the retrofitting of existing building stock from brown to green. Unfortunately, both SFDR and the EU Taxonomy do not support brown-to-green transition strategies. It is difficult for real estate transition strategies to disclose under Article 9 of SFDR, which has arguably significantly limited the capital allocated to such carbon reduction strategies.

Our members have a strong desire to invest in both environmentally and socially sustainable real estate strategies while complying with all applicable regulations. However, the absence of sector-specific guidance creates uncertainty and increases the risk of inadvertent greenwashing. Quick progress in this area could be achieved, for example, by referencing sustainability metrics developed by a number of real estate investment industry associations for both environmental and social sustainability in EU regulation.

We remain committed to promoting responsible and sustainable investment in the European non-listed real estate market. We believe that clear regulations, education and collaboration are needed to enable our industry to navigate the path towards genuine sustainability while reducing the risk of unintentional greenwashing.

Data

As the association representing institutional investors globally in non-listed real estate markets in Europe, we urge European authorities to take measures to ensure European institutions and Member States have high-quality, consistent data necessary to make informed analysis and recommendations concerning our industry. The non-listed real estate industry is a critical financial sector and a major asset class for pension funds and insurers seeking to generate returns necessary to meet their commitments to pensioners and policy holders.

We support the calls of the European Commission for more robust commercial real estate statistics. The Commission's recent proposals in this area can address some unfortunate past policy missteps and strike a positive balance between enhanced data availability and manageable reporting burdens. Such improvements will ultimately benefit the entire European investment fund sector and contribute to monitoring financial stability and systemic risk necessary for fiscal, monetary and macro-prudential policymaking, as well as for research and policy recommendations on real estate investment funds.

Proportionality

The final key policy recommendation is to keep regulatory requirements imposed on our industry proportional to the concerns they are designed to address. While, for example, it is important that purchases of buildings should not be used as a means of money laundering or the proceeds of institutional real estate investment not be used to finance terrorism or evade sanctions, it is disproportionately burdensome to require owners and managers of commercial real estate asset portfolios to perform screening and checks on every tenant in those assets.

INREV supports efforts to place a clear focus on whether the burden of regulatory obligations is proportionate to the benefits realistically expected to be achieved. Introducing thresholds before the KYC tenant screening obligation applies could alone result in a significant reduction in compliance burdens and result in commensurate compliance cost savings.

Conclusion

INREV is committed to working constructively with European policy makers and remains available to discuss any aspect of this or subsequent recommendations in further detail. Please feel free to contact Jeff Rupp, INREV Director of Public Affairs (Jeff.Rupp@inrev.org) at your convenience.

In addition, our members, including industry experts and members of our Public Affairs and Tax Committees are always willing to assist by sharing their knowledge of and expertise on institutional real estate investment fund and other non-listed vehicle regulation and taxation.

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