ASPIM NEWS
The newsletter for unlisted real-estate funds
Issue 3
July-September 2019

EDITORIAL

"In addition to the economic aspects, our activity is also at the centre of major structural issues for the future, including the ecological transition, accessibility, pension funding, dependency risk, changes in lifestyles, work and consumption, etc."

On 9 October, ASPIM and EY presented the first socio-economic impact study of unlisted real-estate investment funds in France. This work is the result of demand from ASPIM members for a benchmark study presenting the economic dynamics of our sector, its issues and challenges for the future, in a context of profound changes in the economy, behaviours and regions.

The real-estate sector plays a vital role in economic development. It represents more than 10% of our country's wealth creation and 2.1 million jobs. Curiously, this contribution regularly needs to be emphasised and even reasserted.

Often overlooked, the activities of unlisted real-estate investment funds act as a driving force in this sector by providing a long-term partner to companies and regions, promoting growth, employment and economic attractiveness. For the first time, this study therefore measures and illustrates our funds' contribution to the economy.

In addition to the economic aspects, our activity is also at the centre of major structural issues for the future, including the ecological transition, accessibility, pension funding, dependency risk, changes in lifestyles, work and consumption, etc. This situation inspires our commitment and with each passing day we are seeing an ever stronger desire from the sector to collectively get to grips with these issues.

VÉRONIQUE DONNADIEU
ASPIM General Delegate

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FLASH *News*

On 8 October, ASPIM took part in:

2019 Af2i Prospective Club *on the theme of changes to real-estate market and long-term opportunities;*

CAIA France panel *on the theme of real-estate and infrastructure strategies*

FOCUS *News*

EY-ASPIM study of the socio-economic impact of unlisted real-estate investment funds in France

A round-up of the key figures.

1 Unlisted real-estate investment funds contribute to the creation of national wealth

The leading real-estate investment player in France, the sector is an active contributor to financing real-estate activity, which overall accounts for nearly 11% of national GDP.

In 2018, our industry invested nearly €3.3 bn in maintenance, construction (off-plan) and restructuring of a real-estate portfolio responding to the wide range of corporate tenants' needs.

€3.3bn
in investment
and maintenance expenditure in 2018, creating or supporting 43,000 jobs

59
million sq. m
held by real-estate funds through a wide range

1.5
million employees
provided in properties by real-estate investment funds in France

2 Real-estate funds are long-term partners of regions

53%
of all real-estate
located in regions

€1.8bn
in local tax contributions
paid in France in 2018

3 The sector's companies are at the heart of 6 social and environmental challenges

Socially responsible investment
The sector is responding with the creation of a "Real-estate SRI" label.

Retirement financing
The sector needs to improve promotion of the advantages of its savings products, given the retirement financing challenges in France.

Climate and energy transition
The sector has already taken up this challenge, with nearly 30% of assets already certified or labelled (HQE, BREAM, LEED).

Housing
The sector could play a more important role in the housing market by developing new investment channels.

Health, student residences and serviced residences
The sector could meet new community needs.

New uses
The sector would like to be able to develop its service offerings to meet new user needs.

4 Unlisted real-estate investment funds – among the leaders in Europe

French managers of unlisted real-estate investment funds recorded the second highest growth in managed assets on the main European markets. This growth was accompanied by an increasingly European focus among the assets held.

2ND
Europe real-estate
for unlisted real-estate, after Germany

2ND
highest
over the last three years among the **10** market leaders

10%
assets
located in Europe (outside France)

EUROPEAN *News*

PRIIPs: meeting with ESMA and response to the pre-consultation

At ASPIM's initiative, last July a delegation from the real-estate asset management sector met asset management teams from the European Securities and Markets Authority (ESMA). This meeting followed a letter sent by ASPIM to ESMA President Steven Maijoor on 14 May.

The meeting was used to present feedback from property management companies regarding application of the PRIIPs regulation to SCPIs as well as potential adjustments to take account of the specific nature of real-estate investment funds.

At the same time, ASPIM responded to the PRIIPs pre-consultation concerning performance scenarios and transaction costs.
The Level 2 revision consultation focused on performance scenarios, particularly relating to methodology and presentation of tables and costs.
In this regard, ESMA particularly emphasised that the scenarios as currently presented should be retained, but could be supplemented by a warning narrative.

European regulators are examining liquidity risk and data transparency in real estate

ESMA has published its stress test simulation framework, which will help regulatory authorities to assess the resilience of the investment fund sector to liquidity shocks and to identify potential risks to financial stability.

Read the guidelines at: **www.esma.europa.eu**

Furthermore, the European Systemic Risk Board (ESRB) has sent its 2019 recommendations to the European Commission, with the aim of filling data gaps in the real-estate sector.

The ESRB recommends creating a common database for real-estate data in the EU, based on around 20 key indicators. It also suggests changing the definitions of commercial real estate (CRE) and residential real estate (RRE): rented and social housing would be included in the new definition of commercial real estate (CRE).

These recommendations may lead to changes in the reporting obligations imposed on ASPIM members, depending on how the national authorities decide to apply them. In France, the competent authority is the *Haut Conseil de stabilité financière* (High Council for Financial Stability).

View the recommendations at: **www.esrb.europa.eu**

These recent publications highlight regulators' continued monitoring, particularly of central banks, regarding potential macro-prudential risks in the real-estate sector.

ASPIM *News*

The economic impact of regional real-estate investment: ASPIM in Marseille

With the same objective of raising awareness among elected officials and local leaders of the economic contribution made by unlisted real-estate funds in their regions, after Lyon and Lille, it was Marseille's turn to receive an ASPIM delegation on 20 September, which was met particularly by Laure-Agnès Caradec, deputy mayor responsible for urban planning and chair of the Greater Marseille urban planning agency.

The Aix-Marseille metropolis is the second biggest regional investment destination for the 31 portfolio management companies that are members of ASPIM, behind Lyon and equal to Lille, with more than 900,000 sq. m, equivalent to 75% of Euroméditerranée office space, more than €2bn in real-estate assets under management in the region and 30,000 jobs provided, representing 4% of the city's salaried jobs.

New trips are planned to Nantes and Bordeaux for the end of 2019 and early 2020.

Response from ASPIM to AMF consultations: ancillary activities and commercial documents

Definition of "ancillary activities"

In order to prepare for negotiations with the ESMA regarding a future Q&A covering ancillary activities – which could lead to a tighter definition of the concept – the AMF consulted ASPIM at the beginning of June on preparation of the questionnaire relating to their "other ancillary activities" alongside management of investment funds (notably management of real-estate mandates).

This questionnaire was sent by the regulator to the heads of around 30 real-estate management companies. Given the importance of defining this scope, ASPIM invited all its members to respond on a voluntary basis and to be as transparent and exhaustive as possible in their replies. ASPIM met with the AMF on 30 September 2019 to ensure that all ancillary real-estate activities are fully identified by the regulator and that management companies can continue to exercise them on a like-for-like basis and within a single structure.

Commercial documents

As part of the development of the procedure for reviewing promotional communications, at the end of May 2019 the AMF submitted a draft Q&A document to ASPIM in order to clarify its application.

This draft reveals a distortion in treatment between SCPIs and "general public" OPCIs, since the former will be subject to subsequent review (transmission of commercial documents to the AMF after their first use), whereas the latter will be subject to examination before being distributed to non-professional clients.

In its response, ASPIM particularly drew the regulator's attention to "general public" OPCIs. Considering that they are overwhelmingly subscribed in UC, and therefore by insurers who are professional investors, their commercial documentation should not only be subject to subsequent review in order to be consistent with the principles set out in the draft guide concerning documentation for professional investors.

ASPIM-AFTI working to modernise SCPI shares

Since February 2019, the "Modernisation of SCPI shares" working group has been reflecting on modernisation of the liability and shareholding structure of SCPIs in order to propose changes bringing them closer to the management of securities in undertakings for collective investment, while being careful to keep the specific characteristics of the SCPI model and in particular its taxation (registration in a securities account, attribution of an ISIN code, decimalisation, etc.).

Given the central role played by depositories and central securities depositories in such cases, this project will now be conducted in full collaboration with AFTI. An ASPIM-AFTI specifications document will be developed in order to define the expectations of SCPI management companies and the role of account-keeping custodians.

ASPIM *News*

Work by ASPIM-Insurers

The ASPIM-Insurers working group has been relaunched as part of reflection on a definition/improvement of good practices in the production of information relating to real-estate investment funds aimed at distributors.

The working group focused on the following issues: valuation of SCPI units in UC contracts (proposal for a change in the reference value), reimbursement of securities, eligibility of SCIs in UC that have OPCIs in their assets, the possibility to reinvest dividends in the OPCI fund or to have units that allow capitalisation of interest.

Work relating to the DAC6 Directive

The DAC6 Directive, which will be transposed into national law by 23 October 2019 at the latest, requires intermediaries to disclose "potentially aggressive" cross-border tax planning schemes and subsequent exchange of information between States.

The working group, led by PwC Société d'Avocats, was tasked with sharing issues surrounding practical implementation of this directive within the real-estate industry, to define the various concepts in the real-estate sector as well as to identify some schemes liable to fall within its scope.

Update of the AMF anti-money laundering guidelines

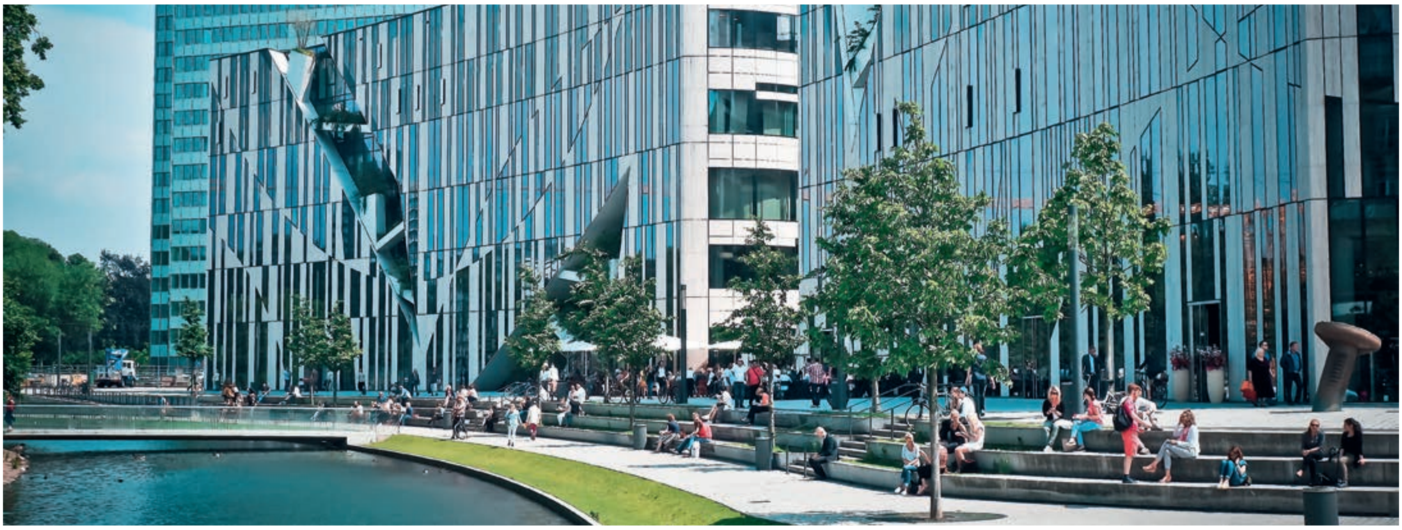
The AMF intends to use these guidelines to target leasing businesses, which now fall within the scope of the AML/CFT since the transposition of the fourth directive into French law.

In its discussions with the regulator, ASPIM emphasized the difficulties of linking the Monetary and Financial Code with the Hoguet and ALUR laws, which should not result in a doctrine imposing on the sector rules that are operationally inapplicable.

In addition, the Association considers that although real-estate management activities (maintenance, building operation, etc.) are excluded from the scope of AML/CFT vigilance measures, on the other hand leasing activities (i.e. introducing or searching for tenants) are subject to those measures.

Therefore, if those activities are carried out by a third party (e.g. broker, real-estate agent) which is itself subject to its own AML/CFT obligations, then the portfolio management company should remain outside the scope of the obligations.

Furthermore, on renewal of the lease, the portfolio management company also remains outside the scope of the measures, since it is then not a new contract resulting from a search for a tenant corresponding to a leasing activity, but the continuation of an existing contract.



REGULATORY AND TAX *News*

COLB publishes national anti-money laundering risk analysis

On 20 September 2019, the COLB (Anti-Money Laundering and Terrorist Financing Advisory Council) published its national risk analysis.

This document aims to identify threats at a national level and the resulting level of risk in relation to money laundering and terrorist financing. According to the report, the real-estate sector suffers from an intrinsic vulnerability, in view of real-estate acquisition and sale activities and real-estate leasing activities. However, the sector's residual vulnerability is low due to all the mitigation measures adopted by the public authorities.

In terms of the AML/CFT risk rating, the report concludes that:

- real-estate acquisition activities present a moderate risk of money laundering; and
- real-estate leasing activities have a low residual risk of money laundering.

The AMF, which as a COLB member helped to prepare this report, invites management companies to take it into account when developing or updating their own risk classification.

View the analysis at: **www.tresor.economie.gouv.fr**

Update to AMF General Regulation

The AMF's General Regulation has been updated following publication of the decree of 28 August 2019 in the *Journal officiel* of 10 September 2019.

This update particularly includes changes to:

- AML/CFT, following transposition of the fourth AML directive into the French Monetary and Financial Code (rules for organising internal control, content of internal control reports and terms for their transmission to the AMF); and

- professional certification, setting up new organisational rules (entry into force on 1 January 2020).

View the *Journal officiel* of 10 September at:
www.legifrance.gouv.fr

Publication of the tertiary decree

Decree no. 2019-771 of 23 July 2019 relating to obligations to reduce final energy consumption in buildings for tertiary use was published in the *Journal officiel* of 25 July 2019.

This decree, implementing Article 175 of law no. 2018-1021 of 23 November 2018 containing reforms to housing, urban planning and digital, specifying the conditions for implementing the obligations and in particular:

- conditions for determining consumption reduction targets;
- provisions applicable in the event of a change of activity or cessation of activity;
- procedure for establishing an IT platform for collecting and monitoring energy consumption, assessing and recording compliance with energy consumption reduction requirements, and publication or display of energy consumption monitoring.

Finally, it provides for administrative penalties in the event of non-compliance.

View the detailed decree at: **www.legifrance.gouv.fr**

News IN FIGURES

Key figures for the sector in the first half of 2019

The SCPIs and "general public" OPCIs confirmed their rebound with a very good second quarter. Commercial and residential real estate SCPIs (non-tax) raised €2.2bn in the second quarter, up 5% compared with the first quarter and 79% compared with the second quarter of 2018.
According to the figures collected by ASPIM on distribution networks, second quarter inflows were achieved almost equally from internal (52%) and external (48%) distribution networks.

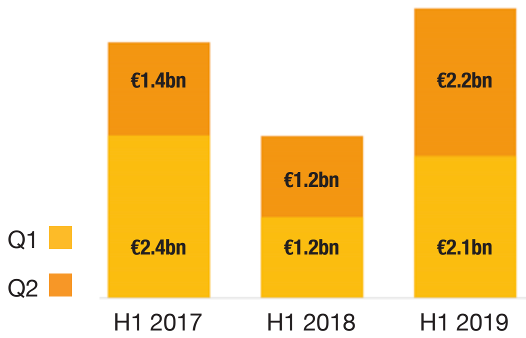
SCPIs have collected €4.3bn over the last six months, suggesting net inflows of more than €7bn for 2019 as a whole.

In terms of performance, the amount of dividends paid in the second quarter reveals an annualised distribution rate of 4.36%*, in line with the 2018 dividend/price ratio (4.35%).

Inflows of residential tax SCPIs stood at €3.4 million in the second quarter (for a total of €3.6 million for the first half of the year). The bulk of this amount was due to the launch of three new SCPIs (one "Pinel" and two "land deficit") at the end of the half-year.

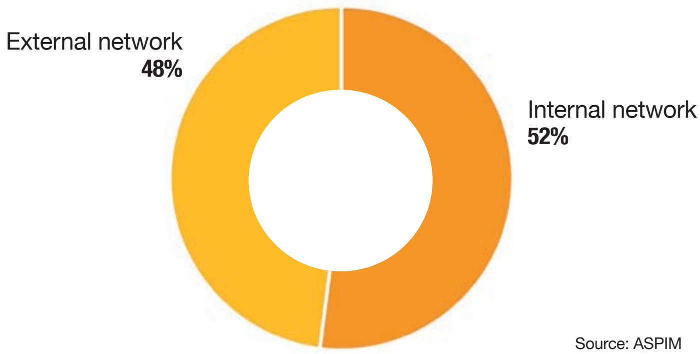
"General public" OPCIs raised €686 million in the second quarter, up 21% compared with the first quarter and 1.5% compared with the second quarter of 2018. "General public" OPCIs saw their annualised performance recover in 2019, from +0.8% at the end of 2018 to +2.6% by mid-August 2019.

Change to SCPI net inflows in Q1 and Q2 over three years (excluding taxes)



Source: ASPIM/IEIF

Origin of SCPI net inflows in Q2 2019



Source: ASPIM

* *Weighted rate on a representative sample at 80% of total capitalisation of IE SCPIs.*

EVENT *News*

Arrival of a new employee on a "versatile real-estate work-study placement"

Since 19 September, ASPIM has been pleased to welcome an employee on a work-study placement whose team now benefits from his technical and operational knowledge of the Association's real-estate activity.
A student in the first year of a real-estate law asters at the *École Supérieure de l'Immobilier,* Damien Delaporte will be working for two years during his studies under the responsibility of Cyril Karam.

News IN QUESTIONS

First socio-economic study of unlisted real-estate investment funds

Three questions for... Christophe Lasnier, Senior Manager Government & Real Estate at EY Consulting

1 On 9 October, the first socio-economic impact study of unlisted real-estate investment funds in France was unveiled. What is the objective of this study?

This study is the result of a meeting between teams from ASPIM and EY. As part of its development strategy, ASPIM wanted to conduct a study providing an external perspective on the economic weight and contribution its sector makes to the French economy.

The sector is relatively overlooked, and sometimes misunderstood by the general public, the media and elected officials. Yet it is a sector that plays an important role in the development of companies and regions and is at the heart of many contemporary economic, societal and environmental changes.

There was therefore a need to quantify, explain and document this contribution made by unlisted real-estate investment funds.

2 How did you design this first socio-economic study?

To conduct the study, we drew on large-scale data collection work and I would like to take this opportunity to thank the management companies and ASPIM members who agreed to open their doors and send us this precious and precise data, in some cases sensitive and very often complex to collect and compile.

Combined with multiple national and European sources, this data helped to build a rigorous quantitative study, guaranteeing the objectivity and thoroughness of the overview provided of real-estate funds. I would also like to thank the leaders and experts who gave us their time to share their impressions of the sector in all its diversity and complexity.

This study, presenting the socio-economic weight of unlisted real-estate investment funds in France, reveals their dynamics and growth prospects, as well as their role in the development of companies and regions.

3 One last word to conclude. What would you like to say to readers of the study?

I hope they enjoy reading it! And for those who are unfamiliar with the work carried out by unlisted real-estate investment funds, I especially hope that they enjoy discovering this exciting sector at the heart of so many contemporary economic, regional, societal and environmental challenges. ■

"This is a rigorous quantitative study, guaranteeing the objectivity and thoroughness of the overview provided of real-estate funds."

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