ASPIM NEWS
The newsletter for unlisted real-estate funds
Issue 4
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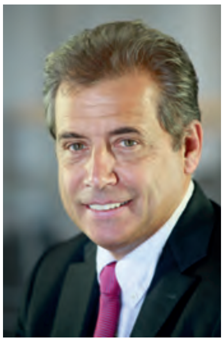
EDITORIAL



As we move into the holiday season and prepare for the new year, I have decided to use this latest edition of our newsletter to look back at the past year and look ahead to the next.

2019 is already shaping up to be a record year for inflows and investment, fuelled by an environment that has lent itself very well to our investment vehicles. While this growth is partly attributable to the macroeconomic context, much of it is also down to the drive and commitment of the professionals in our industry, who deserve a special mention.

We had already announced that we would be placing a broad focus on the French regions in 2019, supporting the interests of our industry by meeting local elected representatives to carry out the fundamental work necessary for everyone to have a proper understanding of the nature and impact of our activity. We have therefore travelled all over France this year to meet local officials and journalists. Wherever we went, starting in Lyon, then Lille and Marseille, we received an open and warm welcome. We will be in Nantes in January and will continue these meetings throughout 2020.

2019 also saw investors and public authorities increasingly call for the incorporation of stringent non-financial criteria in investment choices. We have been working tirelessly to finalise and promote a proposal for an SRI label specific to the non-listed real estate fund sector. We hope that it will soon be published by the powers-that-be.

2019 was also a year of conviction, with evidence that our activity makes a significant contribution to the creation of value and jobs in France. The study that we conducted with EY – relayed by *Les Échos* in particular – will help us showcase our work to the people we are in contact with.

Lastly, 2020 will have a very "European" flavour, with the upcoming talks on the capital markets union 2.0 plan, the reform of structuring legislation for our industry and considerable headway in the finalisation of the European action plan on sustainable finance, in particular, the taxonomy, on which will hinge the qualification as "sustainable" of a large number of economic activities, including those linked to the construction and real estate sectors. ASPIM will be active on this front also in order to take part in the discussions and defend the issues specific to our industry, at the crossroads of finance and real estate.

In 2020, we will continue to promote the contributions of our sector and be as determined as ever to serve the interests of our members.

I would like to take this opportunity to wish you a very happy Christmas and a prosperous New Year.

FRÉDÉRIC BÔL
Chairman of ASPIM

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FLASH *News*

12 December 2019

ASPIM Chairman, Frédéric Bôl, spoke at the **Salon de l'immobilier d'entreprise (SIMI)** *corporate real estate fair held in Paris'* Palais des Congrès, *on the theme "CSR and SRI strategies: market situation and returns". This conference was organised and hosted by the IEIF (independent real estate savings research institute) and the OID (observatory for sustainable real estate).*

Frédéric Bôl and Véronique Donnadieu took part in the **13th PwC conference on real estate collective investment schemes (OPCI) and real estate collective investment companies (SCPI),** *providing their views on the latest market news and SRI issues.*

ASPIM *News*

Taxation of office real estate: dampening the competitiveness of the Paris market

In mid-October, as part of the examination of the 2020 finance bill, the French National Assembly voted in favour of a surcharge on the tax rate applied to business districts in order to finance the 'Grand Paris' infrastructure programme. The Senate subsequently did away with the surcharge on 23 November. However, amid strong support from the government, it was unfortunately reintroduced after a series of negotiations.

The plan is to introduce "premium" zones in the most attractive municipalities and Paris districts, where a 20% surcharge will be applied to office properties. This affects four municipalities in Hauts-de-Seine (Boulogne-Billancourt, Courbevoie, Issy-les-Moulineaux and Levallois-Perret) and nine districts of Paris (I$^{\text{st}}$, II$^{\text{nd}}$, VII$^{\text{th}}$, VIII$^{\text{th}}$, IX$^{\text{th}}$, X$^{\text{th}}$, XV$^{\text{th}}$, XVI$^{\text{th}}$ and XVII$^{\text{th}}$).

ASPIM joined forces with the AFG (French asset management association) and the FSIF (French federation of listed property companies) to alert the public authorities and elected representatives to the risks that such a new increase will pose to corporate real estate and the competitiveness of the Paris market.

It is important to remember that the corporate real estate sector is already one of the main contributors to the financing of the 'Grand Paris Express' public transport programme in the form of the existing tax on office properties and the special infrastructure levy (taxe spéciale d'équipement). In 2017, the office tax already accounted for more than two-thirds and the special levy almost a quarter of the tax revenue taken in by the public agency set up to coordinate the Grand Paris programme.

Bearing in mind that the office tax already rose by a further €100m last year, the sector will be required to pay another €60m on top of this, which will amount to a further hike in a tax that already accounts for up to 4% of the cost of occupying an office building.

Together with the AFG and the FSIF, we stressed that these relentless tax increases were damaging the competitiveness and undermining the development of new programmes that are key in putting the Grand Paris metropolis on the global map.

Second Mazars/ASPIM study on financial disclosures and the strategies for "retail" real estate AIFs

Mazars revealed the results of the second study into financial disclosures and the strategies of the management companies of "retail" real estate AIFs at a morning session held on 18 December.

For this second study, conducted once again in conjunction with ASPIM across a panel of around forty French and German real estate AIFMs, the Mazars teams analysed the answers provided to the questions below and the following data:

- Do the financial and non-financial disclosures of SCPIs and OPCIs provide clear and relevant information for all key indicators?
- Identification of best practices: financial and environmental performance, risk profiles, vacancy, real estate market, debt, liquidity, manager remuneration, areas of innovation, prospects, etc.
- What conclusions can be drawn from the observation of the practices of German AIFMs?
- How debt ratios and investment strategies have evolved since 2015.
- Analysis of the composition of the dividends paid by SCPIs.

Find out more at: **www.mazars.fr**

ASPIM *News*

Launch of the Commission on Socially Responsible Investment

In keeping with our own SRI commitments (ASPIM Charter to promote SRI and initiatives to establish a real estate SRI label) and those of the industry, we have set up a Commission on SRI.

Chaired by Thierry Laquitaine, SRI Director at AEW Ciloger, with support from PwC, the goal of the Commission is to guide our members in real estate SRI issues and to represent our industry by national and European authorities.

SCPI PRIIPs risk classes: IEIF study conducted on behalf of ASPIM and the AFG

The IEIF has just published the results of a study commissioned by ASPIM and the AFG into the level of SCPIs' PRIIPs risk classes. The purpose of the study was to take stock of the risk classes reported by the SCPIs' management companies two years after the PRIIPs Regulation came into force.

The study covered 2018 and was based on the risk classes reported at the end of the year. It covered 78 of the 90 SCPIs invested in corporate real estate (i.e. 93% of the total market capitalisation) and 25 of the 81 SCPIs invested in residential real estate (i.e. 44% of the total market capitalisation).

The study showed that, on average, SCPIs invested in residential real estate were in risk class 3 and that SCPIs invested in corporate real estate were in a slightly higher risk class which, bearing in mind that it seems more natural to take a closed-end approach into consideration from a market risk measurement standpoint, roughly corresponds to risk class 4.

Log into the ASPIM extranet portal to read the full IEIF study: **www.extranet.aspim.fr/en**

ReFinE: the research network on commercial real estate is unveiled at SIMI

As a steering committee member, ASPIM was present at the 'SIMI' corporate real estate trade fair on 12 December alongside the people from ReFinE (Real estate Finance and Economics network) for a conference presenting a certain number of research topics selected by the ReFinE network:

- "Real estate prices and divergence in Europe", presented by Thomas Grjebine (CEPII economist);
- "The dynamics of commercial real estate", presented by Camille Regnier (ERUDITE lecturer);
- "High-order moments in real estate, quantification of extreme risks" and "Spatial interactions between residential and commercial real estate prices", by Jérôme Coffinet (head of the statistical methodology department of the *Banque de France*).

Launched in January 2019 with the support of ASPIM in particular, this commercial real estate research network brings together, for the first time in France, industry players, public authorities and researchers in order to improve their understanding of corporate real estate through research.

Publication of the 2019 responsible real estate survey

The OID unveiled the results of the 2019 responsible real estate survey at this year's SIMI fair. Drawing on its expertise and the results of the first survey in 2018, the OID worked with ASPIM, the FFA (French insurers' federation), the FSIF and the IEIF to examine the environmental, social and governance (ESG) practices of players representing more than 70% of the market.

At a time when ESG criteria have become a key concern for real estate investors and managers, the OID has put together an assessment of best practices and of the maturity of the sector according to 18 ESG issues.

For more details, visit **www.aspim.fr/en**

REGULATORY AND TAX *News*

2020 finance bill: new VAT rules for management fees and changes in the 'IFI'

VAT on management fees

In order to align French legislation with European law and case law, Article 9 of France's 2020 finance bill provides for the amendment of Article 261 C-1-f of the French tax code in order to extend the VAT exemption applied to the management of UCITS to the management of comparable collective investment vehicles, including real estate AIFs.
Accordingly, French real estate closed-end funds - SCPI's management companies can either elect to pay VAT, in which case the management fees for funds and the rental management fees, both automatically taxable, shall be subject to VAT, or elect not to pay VAT, in which case only the rental management fee shall remain automatically taxable.

It is important to note that, should the management company elect to pay the VAT, this may result in the taxation of fees on subscriptions for SCPI units, whereas the investment fees for SICAVs (as well as those for mutual funds) shall be exempt, regardless of the system that their management company has elected to apply.
This distortion of rules between SCPIs and SICAVs has been reported to the French tax administration. ASPIM will continue to make every effort to have a system similar to the one already in force for SICAVs applied to SCPIs.

Failure of replacement of the 'IFI' with a new 'wealth tax on unproductive assets'

The amendment tabled by senator Albéric de Montgolfier on behalf of the Senate finance committee, which sought to exclude rental real estate holdings and real estate investment companies from the property wealth tax base (IFI), was not passed on final reading. However, this amendment is evidence of a willingness to reopen the debate on the notion of unproductive real estate investment. ASPIM remains fully committed to this issue.

Update of the AMF's instruction on OPCIs (open-ended funds)

Instruction DOC-2011-23 of the *Autorité des Marchés Financiers* (French financial markets authority - AMF) applicable to OPCIs and professional OPCIs (French open-ended real estate funds) was updated on 26 November. The modifications relate in particular to the creation of an OPCI, changes to an OPCI during its lifetime (e.g. in relation to performance fees) and the procedures for disclosures to investors and the AMF (now only electronically or via the GECO database).

The instruction can be read at: **www.amf-france.org**

Publication of the energy-climate Act

On 9 November 2019, the French Act No. 2019-1147 on energy and the climate was published in the Official Journal of the French Republic implementing the new climate goals for the next fifty years. With two major goals, namely carbon neutrality by 2050 and a 40% reduction in fossil energy consumption between 2012 and 2030, the real estate industry has a key role to play in achieving these objectives, given that it alone is responsible for more than a third of greenhouse gas emissions.

As a result, the law introduces a mechanism to tackle poorly-insulated buildings by introducing mandatory audits from 2022. Under this mechanism, all owners of poorly-insulated properties will be required to take steps to improve the energy performance of their buildings and thereby renovate existing constructions in accordance with sustainable development criteria.

The energy-climate Act can be viewed at:
www.legifrance.gouv.fr

Executive order for the PACTE Act

On 15 November 2019, French decree No. 2019-1172 issued pursuant to the PACTE Act was published in the Official Journal of the French Republic in order to determine the list of funds available to professional investors that may be eligible for unit-linked products distributed through life insurance contracts and the conditions relating to the investor's circumstances.

REGULATORY AND TAX *News*

As expected, professional OPCIs will not be eligible for unit-linked life insurance policies, whereas private equity funds available to professional investors will become eligible [professional private equity funds (FPCI) and professional specialised investment funds (FPS)]. This means that funds using real estate dealing and property development strategies shall be eligible for UL life insurance contrats.

In the interests of protecting policyholders, the decree lays down the conditions under which they may invest in this type of UL product, notably in the form of a premium of at least €100,000, with a cap on the amount invested representing 50% of the policy's assets under management. Furthermore, certain written formalities must be completed in the subscription procedure, both by the investor – who must notify the insurer in writing that he/she/it is sufficiently experienced such that he/she/it is aware of the consequences of his/her/its investment decision and understands the risks that he/she/it will incur – and by the insurer – who must clearly inform its client of the risks associated with the selection of this type of UL product.

Lastly, the insurer must, prior to the selection by the investor of UL products, conduct an appropriate assessment of the investor's skills, experience and knowledge, in order to ensure that he/she/it is in a position to make investment decisions and understand the risks that he/she/it will incur by selecting this type of UL product, based notably on criteria relating to wealth, experience on the financial markets and/or professional experience.

Details of the decree can be found at: **www.legifrance.gouv.fr**

AML-CFT: new AMF guidelines

On 29 November, the AMF published four new guidelines on combating money laundering and countering terrorist financing (AML-CFT). AMF position-recommendation DOC-2019-15 – guidelines relating to the AML-CFT risk approach – notably pertains to the due diligence that must be carried out in respect of the potential tenants of an acquired property.

The implementation of AML-CFT due diligence shall depend on whether or not the real estate fund management company calls on the services of a broker. In theory, this position is temporary and likely to be reviewed early next year in order to take into account the transposition into the French monetary and financial code *(Code monétaire et financier)* of the fifth EU anti-money laundering directive. In the meantime, ASPIM shall continue to press for a position more suited to the sector.

The position-recommendation documents can be found at: **www.amf-france.org**

Lagleize report: facilitating the return of institutional investors to the residential market

On 20 November 2019, French member of Parliament Jean-Luc Lagleize (LRM party) presented his report aimed at reducing the cost of land and increasing the supply of affordable housing.

In his report, he notably proposes measures to support institutional investment in the residential sector.
To begin with, the report encourages insurers to return to the real estate market, in particular by recommending that the Solvency II directive be revised in order to reduce the solvency capital requirement (SCR) for residential investments from 25% to 15% as an exceptional measure.
Additionally, in order to raise funds and increase the involvement of institutional players in the housing construction effort, while contributing to sustainable development goals, the report calls for the public authorities to revise the system that applies to listed and unlisted real estate investment vehicles (SIICs, SCPIs and OPCIs) and to introduce tax reductions to encourage energy renovation in rental housing.

The report can be found at: **www.assemblee-nationale.fr**

EUROPEAN News

Sustainable finance - Taxonomy: ASPIM Position

In a recent letter to the European Commission entitled "Supporting real estate funds' commitment to sustainable investment", ASPIM stresses that the Commission quite rightly pinpoints real estate as a key sector in mitigating the impact of climate change and decarbonising the economy and that, in this respect, real estate portfolio management companies, which own and manage real estate assets directly, have the potential for direct action.

As regards the taxonomy in particular, which seeks to classify "sustainable" economic activities, ASPIM wanted to express its view on the calibration of future technical measures ("level 2"), based on the Taxonomy Expert Group's report published earlier this year.

As an incentive to implement the taxonomy, ASPIM is in favour of thresholds that make it possible to incorporate transition activities, maintain technological neutrality and encourage energy-efficient buildings.
To this end, ASPIM made a number of observations and recommendations for "property acquisition" and "property construction" activities that are below the threshold proposed by the TEG.

Lastly, ASPIM stressed that, while it was in favour of the 15% threshold strategy, it must be applied with enough granularity, at the level of asset classes rather than commercial real estate portfolios, failing which there would be a risk of excluding certain categories of asset classes which, given their very nature, would "underperform" others. The selection should therefore be applied at the level of each asset category of an asset class.

EREF meeting in Brussels

The European Real Estate Forum held a meeting in Brussels on 2 December 2019. The EREF is an informal association that brings together various organisations, including ASPIM, involved in the European real estate investment industry.

Josefina Lindblom, policy officer at the European Commission's Directorate-General for Environment, gave a presentation on sustainable development regulations with an impact on real estate investment. She was followed by Swedish MEP Karin Karlsbro, who provided her views on the commercial real estate investment industry.

The meeting was also an opportunity for ASPIM to present a summary of the EY/ASPIM study into the social-economic impact of real estate investment funds, with a particular focus on European trends and figures.

Berlaymont Building: headquarters of the European Commission, Brussels.

News IN FIGURES

Inflows into SCPIs (close-ended funds) and OPCIs (open-ended funds) in Q3 2019

Against the backdrop of persistently-low interest rates, the pace of inflows into "retail" real estate investment funds remained high in the third quarter.

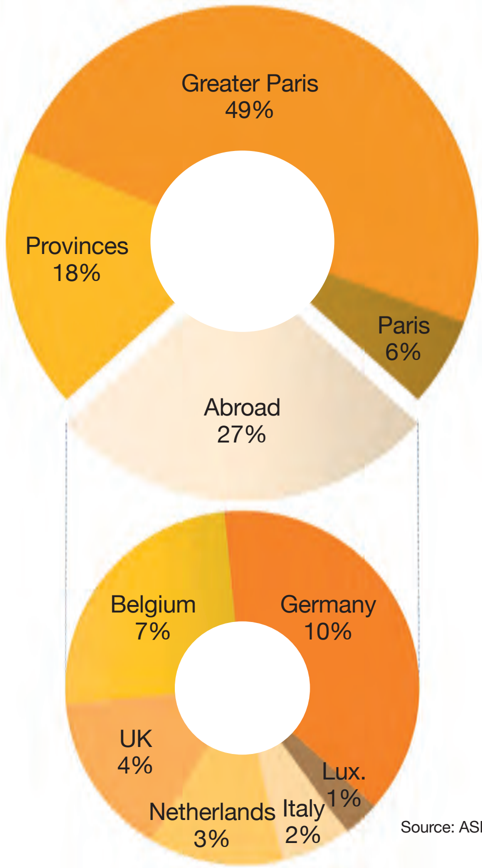
Net inflows into both vehicles amounted to €2.5bn in the third quarter, marking a 63% year-on-year increase in volume.

On a year-to-date basis, cumulative net inflows into "retail" SCPIs and OPCI stood at around €8bn at 30 September 2019, i.e. a year-on-year jump of 58%.

In terms of acquisitions, SCPIs invested €2bn in the third quarter. Foreign ownership of acquisitions dropped to 27% from 34% in the second quarter. Germany still tops the list of destinations in the rest of Europe, ahead of Belgium and the UK.

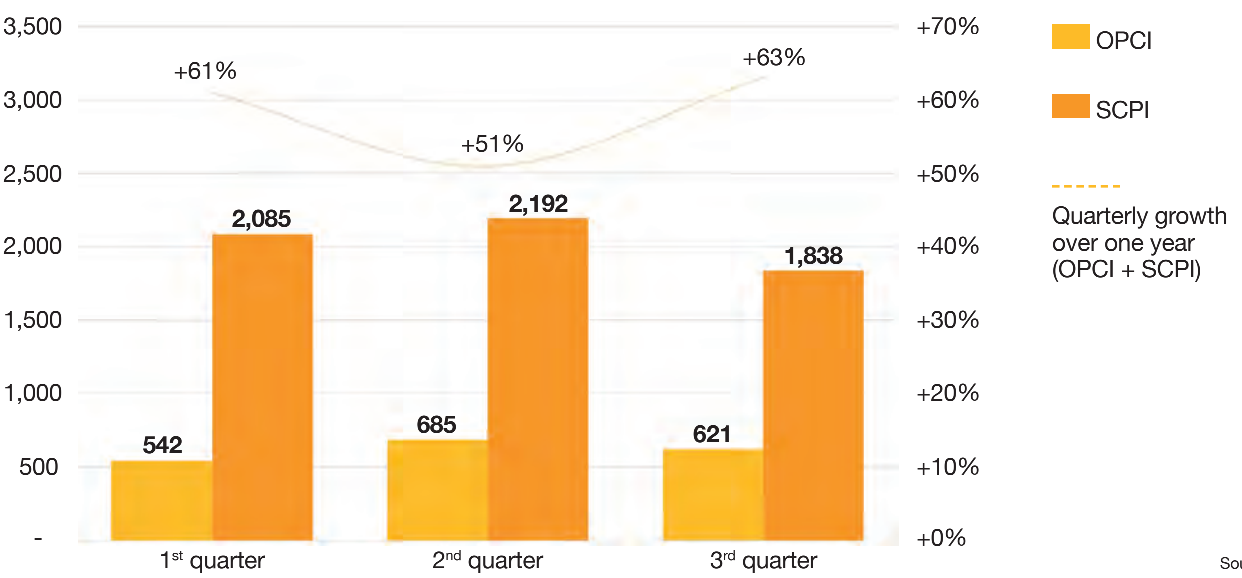
In terms of performance, at 30 September, the EDHEC IEIF corporate real estate index pointed to a total gain of 6.3% in the space of a year (of which 1.8% from the revaluation of unit prices) for corporate real estate SCPIs, while the monthly IEIF retail OPCI index pointed to a gain of 3.4% in the space of a year.

Acquisitions by corporate real estate SCPIs in Q3 2019



Source: ASPIM/IEIF

Quarterly inflows into "retail" SCPI/OPCIs in 2019 *(in millions of euro and %)*



Source: ASPIM/IEIF

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