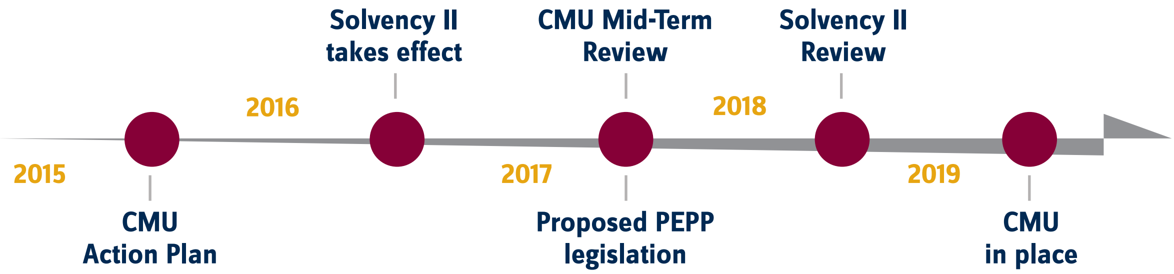
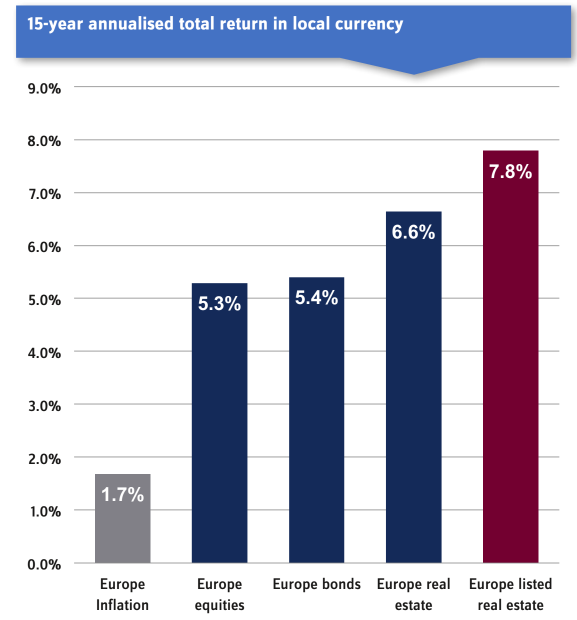
IS CAPITAL MARKETS UNION THE ANSWER TO EUROPE'S *PENSION CRISIS?*

Europe needs deeper capital markets to strengthen investment in the long term, including investment into publicly listed property companies. These would help increase broaden financing options in the EU, attract more foreign investment, facilitate cross-border investment and make the economy more resilient. That is why Jean-Claude Juncker, the President of European Commission, set out as one of its key priorities the need to build a true Capital Markets Union (CMU) for all Members of the European Union.

Some 15 initiatives have been completed by the Commission since the publication of the CMU Action Plan in September 2015. However, much more needs to be done to have a fully functioning, deep and integrated capital market by 2019. With that in mind, last month the Commission announced its intention to double its efforts after consulting on the CMU mid-term review with the key stakeholders. As part of this process, EPRA together with the Regulatory and Taxation Committee submitted its input reflecting the needs of the listed property sector and emphasising its importance as an asset class to investors. The Commission is expected to present its final CMU-Mid Term Review by July 2017.

There are many initiatives which have either been completed or are already in the pipeline to achieve the CMU's objectives. In this article we will focus on Europe's efforts to overcome its pension crisis and the role the listed sector can play.





Sources: EPRA, FTSE, JP Morgan. Data as of: March 31, 2017

Is europe on the track to overcome its pension crisis?

EPRA believes that we all need to work smarter to provide Europeans with an adequate income and decent living standards in retirement. This task is now particularly important as demographic and labour market changes have put pressure on national budgets and are challenging our national pension systems. It is therefore safe to say that the traditional employment-based pension systems are not prepared to overcome such challenges. This is why the listed real estate sector has become increasingly important over the last few years, as the demand for solid long-term income producing investments is stronger than ever.

The beginning of cross-border defined contribution pensions across the EU

One of the questions we should be asking ourselves is whether we can afford to continue funding defined benefit schemes the way we do. The European Insurance and Occupational Pensions Authority (EIOPA) estimated in 2015 that aggregate deficits of European Defined Benefit pension funds amount to EUR 1,200 billion under standard valuation basis. It is therefore clear that it is the time to work together to overhaul the traditional pension regulations, develop cross-border defined contribution pensions across the EU and overcome its market fragmentation. This should help unlock capital markets by providing a critical mass of investments at a pan-European level which can better support the long-term funding.

The potential of a pan-European Personal Pension Product

The Commission will soon propose a set of European rules to develop a true EU single market for personal pension products (PEPP). This new initiative is being developed by a close cooperation of public and private stakeholders. Various industry bodies from financial institutions, multinationals and trade unions to consumer protection groups strongly support the initiative.

What could an attractive PEPP look like? So far, all we know is that a PEPP might be introduced in a form of a second personal pension product regime, parallel to the national regimes. It should have standardised features considering the specific objective of a personal pension product to provide for future retirement income, alongside flexible elements taking into account national specificities. Individual savers will thus be able to make savings via personal pension accounts which are portable and can be moved from one provider or country to another. >

CMU MID-TERM REVIEW: EPRA'S VIEW

The European listed property sector needs:

- **a more neutral and investment-friendly tax system (the proposed Common Consolidated Corporate Tax Bases (CCCTB);**
- **more inward and intra-EU investments (Solvency II);**
- **a Europe which works smarter to fill the pensions gap (European Personal Pensions Products (PEPP));**
- **an improved withholding tax refund (WHT) procedure to boost cross-border investments.**

Read EPRA's response to the CMU mid-term review consultation

European Listed Real Estate has much more to offer

Liquidity

Efficient geographic and sector diversification

Quality of assets and quality of management

Governance, tranparency & oversight

Going concern status enables access to capital (Equity & Debt)

Cost effectiveness

Real active management

Contribution to the community

In fact, EIOPA advised the Commission to consider the following:

- Standardised information provision;
- Standardised limited investment choices, with one core "default" investment option, where the investment strategy considers the link between accumulation and decumulation;
- Regulated, flexible caps on costs and charges;
- Flexible biometric and financial guarantees.

The PEPP should also have a long-term perspective in its investment policy, similar to the long-term nature of listed real estate, to better reflect the long-term nature of retirement savings. But what else needs to be considered in order to deliver desired pension outcomes?

Europe needs to consider the benefits of listed real estate to deliver desired pension outcomes

The insurance sector's recent 'Blueprint for Pensions: Saving enough, saving well, saving wisely' explains that future adequacy of pension provision depends not only on how much individuals save and how early they start saving, but also on their asset mix. Investing in the right range of assets can be as important as saving enough because of the very different long-term returns and diversification that are offered by the different asset classes.

We fully agree that it is important to set investment objectives of PEPPs correctly, including its much-needed default investment option to protect European savers. At the same time, we need to think of how we can enable them to receive high enough returns. And that is how listed real estate can play an important role. Liquid investment assets with a strong dividend yield have the potential to help Europe overcome its pensions' challenge. This would not only be beneficial for all stakeholders, from institutional investors to individual savers in Europe, but could also increase the stability of the financial markets.