

DG FISMA
Submitted electronically

Brussels, 24 March 2025

SUBJECT:

Call for Evidence on the Review of the Securitisation Framework

Dear Sir/Madam,

The European Real Estate Association (EPRA) is the voice of Europe's listed real estate companies, their investors, and suppliers. With more than 290 members covering the entire spectrum of the listed real estate industry, EPRA represents over EUR 880 billion in real estate assets and 95% of the market capitalisation of the FTSE EPRA Nareit Europe Index.

EPRA's mission is to promote, develop, and represent the European public real estate sector. We achieve this by providing better information to investors and stakeholders, actively engaging in public and political debates, promoting best practices, and fostering cohesion and strength within the industry.

In this role, we welcome the opportunity to provide our feedback on the call for evidence regarding the review of the securitisation framework. EPRA previously participated in the targeted consultation last December, and we would like to reiterate key messages on how the current framework can be improved. As an active participant in the European capital markets, we recognize the importance of a well-functioning securitisation market in fostering economic growth, enhancing financial stability, and supporting the broader objectives of the Savings and Investments Union. Below, we outline our key perspectives and recommendations.

THE LISTED REAL ESTATE MARKET (LRE)

LRE is a significant market with around **EUR 3 trillion of market cap globally**. LRE companies are guardians of our cities' high-quality assets, covering all types of real estate, from offices to retail, as well as an increasing presence in healthcare, retirement facilities, life science facilities, and data centres. In Europe alone, European LRE companies own over 12,000 commercial assets. These diversified portfolios are spread across 9 different sectors in 20 different countries,¹ with **the EU LRE property portfolio currently amounting to an impressive EUR 620.8 billion**. They are also great contributors to GDP and society as they represent hundreds of thousands of jobs in our continent.

Given its scale, diversity, and economic contributions, LRE underscores the need for the key recommendations in this document to be considered in the review of the EU securitisation framework.

¹ See Annex I, which showcases a set of data on the LRE market.

KEY PERSPECTIVES AND RECOMMENDATIONS

Addressing barriers to securitisation issuance and investment

While past regulatory efforts have strengthened investor protection and market transparency, the EU securitisation market remains subdued compared to other global jurisdictions. The regulatory burden associated with issuance and investment remains a major impediment to market growth. Key areas that require attention include:

- **Regulatory complexity and costs:** The current framework imposes high compliance costs, particularly for due diligence and transparency requirements.

We acknowledge the importance of robust due diligence requirements but advocate for a principle-based, proportionate, and less prescriptive framework. This approach would allow the commercial real estate (CRE) debt securitisation market to develop flexible, industry-driven due diligence standards tailored to investors' needs while supporting the broader Savings and Investments Union's objectives.

- **Prudential capital treatment:** Excessive capital charges for securitisation exposures, particularly under Solvency II and CRR, deter institutional investors, such as insurers, from participating in the market.

A recalibration of capital requirements is necessary to reflect actual risk rather than overly conservative assumptions. The disproportionately punitive capital treatment of CRE debt securitisation under Solvency II has resulted in a marked disinterest from (re)insurers in investing in this asset class. This regulatory environment has effectively directed insurers toward alternative strategies.

From the perspective of LRE companies, this regulatory misalignment not only limits access to institutional capital but also diminishes the potential benefits of securitisation. If the regulatory framework under Solvency II and CRR were recalibrated to reflect the actual performance of these instruments and to ensure a more balanced treatment of securitised CRE debt, (re)insurers could be incentivised to increase their investment in this market. In this context, (re)insurers are likely to favour senior tranches of securitised CRE debt, which offer lower risk and predictable returns and are particularly attractive to (re)insurers looking for stable, long-term investments.

Without meaningful reforms to the regulatory framework, any discussion of (re)insurers' willingness to invest in securitised CRE debt is limited in scope.

Enhancing securitisation's role in SME and real estate financing

In the EU, most LRE companies qualify as small and medium-sized enterprises (SMEs). These companies play a major role in delivering professionally managed, high-quality, income-generating real estate assets that underpin Europe's essential buildings and contribute significantly to economic growth.

A well-functioning securitisation market could offer many benefits for LRE companies, which, in turn, would cascade positive effects across the economy, including other SMEs. Indeed, a well-capitalised and thriving CRE industry ensures that businesses and households have access to necessary spaces. This allows them to rent premises rather than bear the heavy upfront costs of purchasing or constructing properties. This is particularly crucial for SMEs and growing businesses, which often lack the financial flexibility for such investments.

To sustain these vital activities, LRE companies rely heavily on access to both equity and debt financing. As already highlighted, most LRE companies are SMEs, and while the largest LRE companies typically issue bonds to access financing, these SMEs predominantly rely on bank loans to meet their funding needs. This is particularly true in our economic bloc, where banks generate 80% of financing.

Attached to this consultation is a dataset illustrating that, excluding the largest LRE companies (those with a market cap exceeding 1 billion EUR), the remaining companies –primarily SMEs– still rely on bank loans for 30% of their financing.² This reliance underscores why a significant part of our sector would benefit from a revitalised securitisation market.

However, the Global Financial Crisis (GFC), coupled with regulatory changes stemming from Basel III, has led banks to significantly reduce their exposure to CRE lending. This has been particularly evident for secondary office spaces and other assets typically used by SMEs.

In this context, securitisation emerges as an underutilised yet promising avenue for diversifying funding sources within the CRE sector. For LRE companies, securitisation could serve as a key mechanism to recycle capital, enabling them to pursue large-scale property acquisitions and development projects while reducing their reliance on traditional bank loans. This, in turn, allows banks to redeploy the freed-up capital to extend additional loans, thereby supporting the broader real economy.

The high-quality, transparent, and professionally managed nature of LRE companies' assets positions them uniquely to contribute to an efficient securitisation market. Unfortunately, the post-GFC regulatory framework has imposed significant barriers on securitisation, rendering it an impracticable tool for CRE debt in the EU. As a result, issuance volumes remain low.

Addressing these regulatory constraints is essential to unlocking securitisation's potential as a channel for non-bank capital, enabling critical investments in CRE. A revitalised securitisation market would not only mitigate concentration risks in the banking system, enhance its resilience but also strengthen the European Savings and Investments Union by diversifying funding sources and bolstering financial stability.

We hope this consultation will address these barriers and serve as a catalyst for the development of a robust securitisation market. Such a market is essential to meeting the needs of the CRE sector and supporting the broader European economy.

Improving the STS framework

The current Simple, Transparent, and Standardised (STS) framework design has significant shortcomings concerning CRE debt securitisation. While there is potential for CRE debt securitisation to be structured effectively, making it valuable to have a regulatory framework that encourages well-structured transactions, the STS framework does not effectively support the CRE market.

The STS requirements effectively exclude all CRE debt securitisation from qualifying for the STS label and its associated benefits. As a result, the framework fails to promote the simplicity, transparency, and standardisation that would be suitable for this asset class. Instead, it categorizes all CRE debt securitisation as “non-STS,” subjecting it to higher capital charges and regulatory burdens.

Despite the various challenges affecting both CRE and securitisation markets in recent years, the STS label in its current form has hindered the growth of the EU CRE debt securitisation market. Without these restrictive criteria, we would likely have seen more activity in this space. In essence, rather than supporting market development, the STS framework has inadvertently constrained it.

The simplicity, transparency, and standardisation requirements designed for retail asset classes cannot be directly applied to the fundamentally different CRE debt securitisation market and be expected to yield the same results. Therefore, **we urge policymakers to revise the STS framework to better accommodate the characteristics of the CRE debt securitisation.**

² See Annex I, which showcases a set of data on the LRE market.

- **Single-loan securitisations:** Excluding single-loan securitisations from STS designation is particularly problematic for the CRE debt market.

Single-loan securitisations are a common structure in public commercial mortgage-backed securities (CMBS) issuances and do not compromise the simplicity principle that underpins the STS label. These transactions are typically backed by high-quality, income-generating assets held by LRE, making them robust and suitable for securitisation. Allowing single-loan securitisations to qualify under the STS framework would better align the regime with the realities of the CRE debt market.

- **Small loan pools and homogeneity requirement:** A non-workable condition for the LRE sector.

When securitisations involve multiple large CRE loans, the pool size tends to be small. Therefore, it makes it feasible for investors to conduct detailed due diligence on each loan. The homogeneity requirements, which were designed to ensure that investors perform thorough due diligence and assess underlying risks, **become less relevant in these cases**. For LRE companies, these small-pool transactions often involve diverse, high-value assets, which are more suitable for tailored reporting and transparency rather than rigid standardisation.

- **Unrealistic requirements for CRE loans:** Article 2 of the Commission Delegated Regulation (EU) 2019/1851 imposes factors that are too restrictive for large CRE loans.

Firstly, it states that loans must be secured on a single property, yet large CRE loans often involve portfolios of multiple properties. For LRE companies, these portfolios frequently include high-quality mixed-use developments, making this requirement overly restrictive.

Secondly, it limits securitisations to a single property type, such as office or retail, ignoring the reality that many LRE companies manage diversified portfolios spanning various asset types like healthcare facilities, data centres, or logistics, which are vital for economic growth and market stability by bringing diversification.

Third, it mandates that properties be located in one jurisdiction, contradicting the single market. For pan-European LRE companies, this requirement fragments the single market and reduces efficiency, particularly for smaller or less liquid Member States.

This narrow focus on homogeneity undermines securitisation quality by concentrating risk in a single sector or region, leaving transactions more vulnerable to specific downturns. It also discourages cross-border investment and stifles the development of a pan-European capital market that is crucial for financing large, diversified portfolios managed by LRE companies.

Well-structured securitised real estate debt (particularly senior tranches) can represent secure investment assets. Adjusting the regulatory framework to enable these instruments to qualify for STS treatment would be highly beneficial for the broader commercial real estate financing market for the reasons outlined above.

POLICY RECOMMENDATIONS

Our recommendations:

- Recalibrate capital requirements under Solvency II and CRR to better reflect actual risk, enabling greater institutional investor participation.
- Revise the STS framework to allow well-structured CRE debt securitisation to qualify for the STS label and its associated benefits.
- Ensure that securitisation frameworks reflect the long-term needs of the CRE sector rather than imposing retail-focused rules.
- Introduce a more proportionate, principle-based regulatory framework for due diligence and transparency to reduce costs while maintaining investor protection.

We are confident that this step could deliver substantial benefits to the real economy and support the broader objectives of the Savings and Investments Union. In the meantime, EPRA is readily available to provide any additional information you may need. You can reach us directly at publicaffairs@epra.com.

About EPRA

For 25 years, the European Public Real Estate Association (EPRA) has been the voice of Europe's listed real estate companies, investors, and their suppliers. EPRA achieves this through providing better information to investors and stakeholders, active involvement in the public and political debate, promotion of best practices, and the cohesion and strengthening of the industry. With more than 290 members (companies, investors, and their suppliers), EPRA represents over 880 billion EUR of real estate assets (European companies only) and 95% of the market capitalisation of the FTSE EPRA Nareit Europe Index. Find out more about our activities on www.epra.com.

EU Transparency Register no. 09307393718-06

Annex I – Set of data on the LRE market



European Listed Real Estate



European listed property companies own over 12,000 commercial assets. These diversified portfolios are spread across 9 different sectors in 20 different countries



ESTATE ASSOCIATION

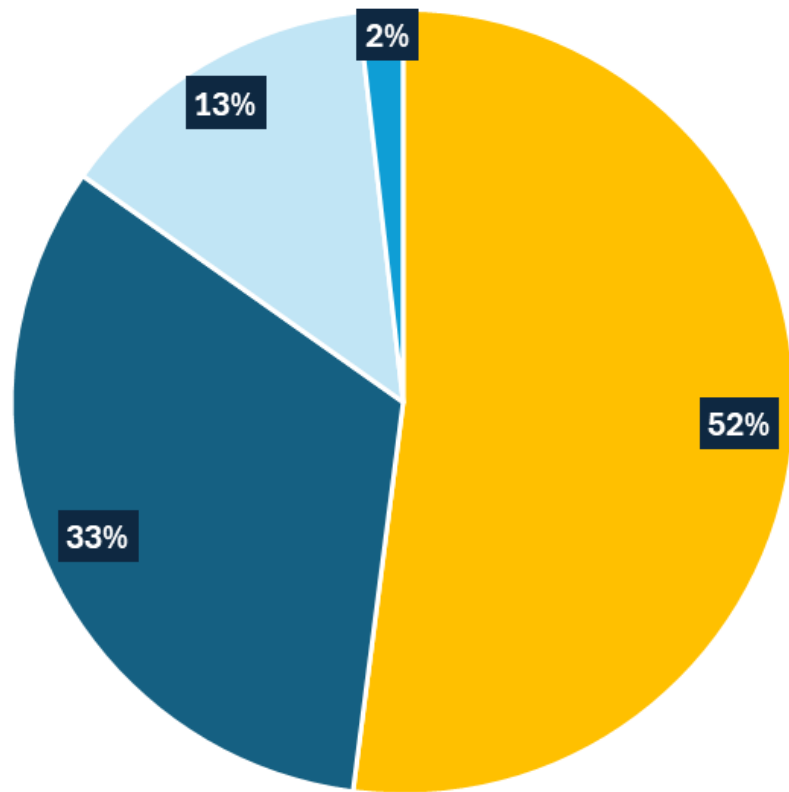


Pictures: URW, Segro, Merlyn Properties, Vonovia, Derwent London

LRE - Developed Europe

Size	Definition	Number of companies
Micro	Market Capitalization < EUR 250 million	229
Small	EUR 250 million < Market Capitalization < EUR 2 billion	144
Mid	EUR 2 billion < Market Capitalization < EUR 10 billion	59
Large	EUR 10 billion < Market Capitalization	8

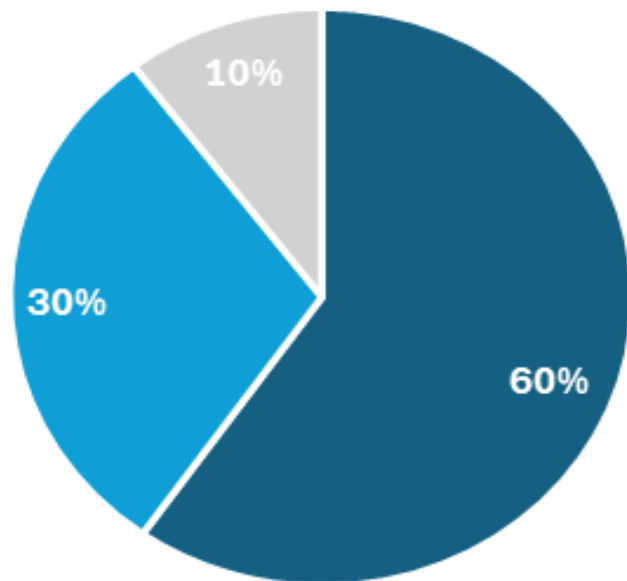
Distribution of Listed Real Estate companies by Size Number of Companies: Developed Europe



■ Micro ■ Small ■ Mid ■ Large

Debt Composition

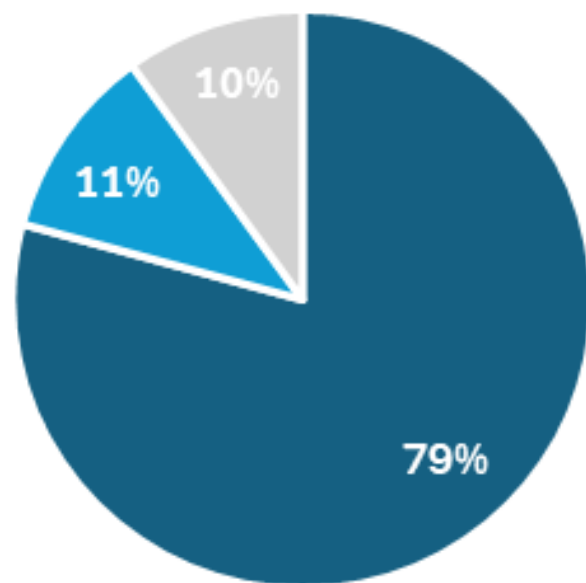
FEN Dev Europe Index Constituents (Excl. >1 bn Firms)



■ Bonds ■ Loans ■ Others

Debt Composition

FEN Dev Europe Index Constituents (All Firms)



■ Bonds ■ Loans ■ Others