

To: Mairead McGuinness, Commissioner for Financial Services, Financial Stability and Capital Markets Union
CC: Nathalie De Basaldua, Deputy Head of Cabinet

Rue de la Loi / Wetstraat 200
1049 Brussels

BY E-MAIL

Brussels, 7th June 2021

EU CAPITAL MARKETS, CROSS-BORDER INVESTMENTS AND EUROPEAN REITS

Dear Commissioner McGuinness,

We have listened with a lot of interest to your speech given recently at the ‘European Financial Integration and Stability – annual joint EC and ECB conference 2021’. We appreciate your comments to bring more retail investors to capital markets, enable further long-term investment in Europe and to not shy away from long-term obstacles like the tax burden in cross-border investments.

The European Public Real Estate Association (EPRA) commends the aspirations of the European Commission to create more integrated capital markets. We are convinced that a fully functioning Capital Markets Union (CMU) will increase regional cohesion by ensuring equal access to investments and funding opportunities for both citizens and businesses across the EU.

As we have shared our views with the High-Level Forum on the Capital Markets Union before, we want to bring to your attention the current situation of **cross-border property investments within the European Union internal market**. More specifically, we would like to talk to you about listed European Real Estate Investment Trusts (REITs), as we are convinced that facilitating the growth of the EU’s listed REITs market would contribute profoundly to the targets mentioned hereafter.

BRING MORE RETAIL INVESTORS TO CAPITAL MARKETS

REITs provide an important source of accessible investment opportunities for European citizens as they democratise real estate ownership for retail investors alongside larger investors. In the 1960’s, the REIT concept was developed in the USA as a means of encouraging collective retail savings in a secure and transparent manner into the real estate markets with benefits for the economy as a whole. Today, an estimated 145 million Americans own REITs through their retirement savings and other investment funds¹.

In Europe, EPRA is delighted with the speed at which the REIT concept continues to increase. **14 European countries have already recognised the public benefit to incentivise real estate investment through public markets and have introduced REIT legislation** to maximise returns through an effective tax pass-through. These 14 countries now represent 78% of the entire listed real estate market in the EU and 85% of the bloc’s GDP².

¹ More at <https://www.reit.com/what-reit/reit-basics#> or at <https://www.reit.com/data-research/data/reits-numbers>

² More in the [EPRA Leaflet 2020: Listed REITs in Europe](#)

FURTHER LONG-TERM INVESTMENT IN EUROPE

REITs have continuously yielded stable and strong long-term performance not just to retail investors but also to pension funds and insurers through reliable dividends, effectively contributing to the retirement of millions of people. Studies (e.g. [MSCI Research - Listed and private real estate - Putting the pieces back together](#)) show that when the holding period of an investment in listed property companies and REITs increases, the returns investors receive are similar to the returns on the direct real estate market. In other words, investment in the shares of listed property companies provides real estate returns over a medium to long-term time horizon.

REMOVE TAX OBSTACLES IN CROSS-BORDER INVESTMENTS

The introduction of REIT legislation by national governments has been seen as an opportunity to attract new sources of capital into the local real estate market in the more open, transparent, liquid and advantageous form of investment by property investment companies listed on stock exchanges. The main feature of this concept is the tax-exempt status of the REIT as regards its earnings from its rental activities (the flow-through principle) and full taxation of those earnings, when distributed by the REIT as a dividend, in the hands of the shareholders.

Whilst the principle of tax flow-through is easy to understand and generally simple to operate by a REIT in property situated in its own jurisdiction, cross-border investment in and by REITs gives rise to certain difficulties. The position is particularly complicated in the context of cross border investment within the European Union.

Thus the question arises to what extent the 27 European Member States could benefit from a mutually recognised framework for REITs and how the Capital Markets Union could further increase the benefits that the growth of listed REITs have brought to the EU?

From the comparison with other global regions, it is evident that there exist barriers for listed real estate (LRE) in Europe to growing and scaling up at a competitive speed. The total value of LRE in developed European markets represents just 6,9% of commercial real estate (CRE), while in North America and developed Asia Pacific regions have a share of 14,4% and 18,6% in total CRE, respectively (as at December 2019). If the growth of cross-border property investment in the EU is to be supported, it is necessary to take into account the direct tax aspects of cross-border investment, in order to provide the necessary level of certainty for cross-border investment decisions to be made.

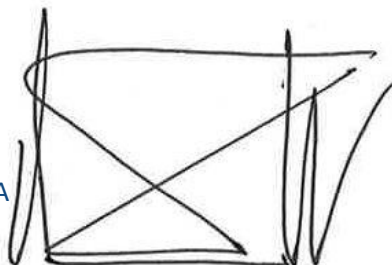
We would like to elaborate in a discussion with you on why there is a strong need to act at a European level. Given the long-term nature of investment in the property sector and its importance to the European economy as a whole, it is important to ensure that the effectiveness in the cross-border context of national REIT regimes is clear, stable and mutually agreed between the Member States.

We therefore propose **to develop recommendations which should address a mutual recognition of REIT regimes in Europe as part of your work programme, building and deepening a more integrated Capital Markets Union.**

We would welcome a dialogue with you personally on this subject and remain available to discuss this further at your convenience at publicaffairs@epra.com.

Sincerely yours,

Dominique Moerenhout, CEO of EPRA



About EPRA

EPRA, the European Public Real Estate Association, is the voice of the publicly traded European real estate sector. With more than 280 members, covering the whole spectrum of the listed real estate industry (companies, investors and their suppliers), EPRA represents over EUR 670 billion of real estate assets* and 94% 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 through the provision of 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. Find out more about our activities on www.epra.com.

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