EPRA
EUROPEAN PUBLIC
REAL ESTATE ASSOCIATION

Vice-President Dombrovskis
Responsible for Financial Stability, Financial Services and
Capital Markets Union - European Commission
Berlaymont Building
Rue de la Loi 200
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Brussels, 16 December 2016

SUBJECT: Solvency II – calibration of infrastructure investment risk categories

Dear Vice-President Dombrovskis,

As partners of the Long Term Investment and Reindustrialization Intergroup of the European Parliament and as representatives of the European listed property companies, we at EPRA very much welcome the European Commission efforts to address regulatory impediments to the financing of long-term investment projects which are critical to the economic and social development of Europe. We share your views on the need to ensure that the availability of financing of such investment is not unduly or unintentionally hampered by prudential regulation.

Therefore, we commend the European Commission on its plans to reduce the Solvency II calibration of capital charges for insurance sector exposure to high quality corporate infrastructure investments following the EIOPA's advice on the calibration of infrastructure investment risk categories.

Both infrastructure and real estate are underpinning the economy

At the same time, we would like the Commission to note that the built environment in Europe which businesses and communities inhabit consists of infrastructure, as well as the buildings and dwellings this infrastructure is designed to support. The former and the latter are inherently linked and integral to one another. They are, in fact, inseparable and holistically absolutely fundamental to social and economic development. It is essential that infrastructure investment, as well as investment in the buildings and dwellings integral to them, is made professionally and with the public interest in mind. The recalibration of capital charges for infrastructure investment is a step in the right direction of achieving this result. It allows the most natural long-term investors in such corporates, insurance companies, to channel capital into these critical assets efficiently, including through the stock market. But it is not, in our view, all that is needed to maximize the policy objective behind this change.

Impact of Solvency II on long-term investment decisions of insurance companies

Institutional investors such as insurance companies invest in real estate as part of their long-term investment allocation. Regulatory requirements are one of the key determinants as regards their investment decisions. We are therefore concerned that the classification of the various methods of allocating capital to real estate as either direct, indirect and application of the 'look-through' under the Standard Model restrict the ability for insurance companies to allocate capital in real estate through the stock market.

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We would therefore view the unintended consequence of the existing prudential regulation in the fact that insurance sector investment into real estate overwhelmingly occurs directly, or through more opaque investment funds. This generally results in producing a higher concentration of assets and lower liquidity. Investments from the insurance sector into real estate are flowing. However, not through the more open, more transparent, more liquid and advantageous form of investment by way of shares of professionally managed property companies listed on stock exchanges. We believe that this would better service the public interest both in terms of creating a better result for the ultimate beneficiary of the investment, the policy holder, as well as the society at large by way of allowing capital to flow more efficiently into these long term critical investments in the built environment.

Both infrastructure and real estate can help address Europe's low interest rates challenge

As outlined above, it is our view that real estate investment made through the stock market is as much in the public interest as infrastructure investment made though the stock market. Such investments take place within professionally managed organisations with a high level of financial and governance transparency, offering investors in the shares of such companies more enhanced liquidity and opportunities for portfolio diversification.

The fact that thirteen governments in Europe have introduced REIT[1] regimes to further maximize returns through efficient tax pass-through also suggest that there is a public benefit to incentivize real estate investment through the stock market.

Considering the unprecedented low interest rates environment in Europe, we would like the Commission to take a note of the above highlighted benefits of investing in real estate through Europe's stock markets.

Thinking ahead: Review of Solvency II

As representatives of the listed property businesses in Europe and its stakeholders, and as active and responsible members of our community, we would kindly ask the European Commission to acknowledge the important role that real estate plays in the economy while considering listed real estate as an asset class where capital requirements could be reduced. We call on the European Commission to review the framework and guidance for Solvency II so as it does not unduly restrict the ability for insurance companies to gain an appropriate level of exposure to the listed real estate sector.

Sincerely yours,

Philip Charls, EPRA CEO

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About EPRA

EPRA is the voice of the European publicly traded real estate sector: it is a representative association for commercial property companies that are quoted on the public stock exchanges of Europe and other exchanges around the world. With more than 220 members, EPRA represents over €365bn of real estate assets and 93% of the market capitalization of the FTSE EPRA/NAREIT Europe Index.

EPRA's membership also includes the institutional investors such as pension funds and insurance companies that invest in or have an interest in investing in real estate indirectly via these listed property companies. Through the provision of better information to investors, improvement of the general operating environment, diffusion of best practices and the cohesion and strengthening of the industry, EPRA works to encourage greater investment in listed real estate companies in Europe with long-term and stable income producing assets.

[1] Real Estate Investment Trust