EPRA
EUROPEAN PUBLIC REAL ESTATE ASSOCIATION

POSITION PAPER

January 2018

Proposal for a REGULATION
Pan-European Personal Pension Product (PEPP)

KEY HIGHLIGHTS

- EPRA welcomes the PEPP proposal, its objectives and content, especially the proposed 'prudent person principle'. We view it as a significant opportunity for Europe to help decrease the pensions gap.
- Real estate and infrastructure (i.e. real assets) have many similarities and synergies; and the PEPP providers should be equally encouraged to invest in real estate as they are in infrastructure projects and corporates.
- Knowing that listed real estate investments are strongly influenced by the underlying properties, they too constitute **'instruments with a long-term economic profile'**.

PUBLIC INTEREST IN REAL ESTATE INVESTMENT THROUGH STOCK MARKET

EPRA, the European Public Real Estate Association, is the voice of the publicly traded European real estate sector. With more than 240 members (companies, investors and their suppliers), EPRA represents over EUR 430 billion of real estate assets (European companies only) and 86% of the market capitalisation of the FTSE EPRA/NAREIT Europe Index.

Europe is facing a major challenge in ensuring adequate retirement income for its citizens in an environment of low growth and low interest rates. It's therefore crucial to face this challenge correctly. We at EPRA welcome the efforts to create a Pan-European Personal Pension Product (PEPP) in line with EIOPA's advice.

Firstly, we are pleased to see that the proposed PEPP framework allows PEPP providers to invest in shares of publicly traded companies. Investments in publicly traded property companies, including REITs, are well-suited to offer a safe and profitable (risk-adjusted) investment opportunity because of their daily market pricing, low cost, enhanced liquidity, as well as opportunities for portfolio diversification. They operate within a constitution that is transparent, accountable and well regulated. Therefore, it is important to design a PEPP which would offer such opportunities while promoting long-term investments.

Secondly, we refer to 'A Blueprint for Pensions: Saving enough, saving well, saving wisely' prepared by Insurance Europe in February 2017. This document clearly demonstrates that future adequacy depends not only on how much individuals save and how early they start saving, but also on their asset mix. **Investing in a wide 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**.

EPRA VIEWS

EPRA team is delighted to see that proposed investment rules that allow PEPP providers sufficient flexibility to decide on the most secure and efficient investment policy (i.e. the 'prudent person principle').

WHAT ARE THE BENEFITS OF LISTED REAL ESTATE SECTOR FOR INVESTORS?

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 while enabling them to receive high enough returns. Below, we'll be explaining why listed real estate should be identified as a 'must-have' asset class in a diversified default investment option.

ACCESSIBILITY FOR RETAIL INVESTORS

Around 40% of all commercial property is held as an investment by various types of investor – listed property companies, private property companies, non-listed funds and institutions. Only listed property companies, including REITs, are accessible to all types of investors.

TRANSPARENCY AND ACCOUNTABILITY

As part of the regulated stock markets, listed property companies provide high levels of disclosure and information. Such transparency fosters good decision-making, healthy corporate governance, investor confidence and trust as it enhances the accountability of the managers – the directors and employees of the listed property companies, to its investors (shareholders).

DIVERSIFICATION

Listed real estate represents a substantial proportion of the investment opportunity set and provides investors with significant diversification benefits due to its low correlation with other asset classes. The more diversified portfolio, the more you achieve either higher returns with the same risk or the same returns with the lower risks, which makes it very interesting for those investors, such as the future PEPP providers, who are looking to diversify portfolios with long-term savings goals.

STRONG RISK-ADJUSTED PERFORMANCE

When managed correctly, real estate can offer a stable source of income and capital appreciation to investors, outperforming inflation over the long-term, which is the case of listed property companies thanks to the transparency of the public markets. When compared to other asset classes, real estate appears to be able to provide higher income returns as well as capital returns. When compared to other real estate investment vehicles, listed real estate companies have demonstrated better performance as well. Companies in the FTSE EPRA/NAREIT Developed Europe Index have yielded a dividend on average of 3.50% over the past five years. The index has consistently demonstrated a strong long-term performance - the annualized 20-year total return for the Developed Europe Index stands at 8.37% (as at December 2017). Below we list a few examples of the asset allocation demonstrated by research to generate greater returns.

Case in Germany

Research in the German market also found that by blending a 30% global listed portfolio with a 70% allocation to Spezialfonds (the preferred real estate vehicle for German pension funds), the real estate allocation returns increased from 2.9% to 5.4% and the multi-asset portfolio generated a higher Sharpe Ratio.

Case in the United Kingdom

A 2014 research paper by Moss and Farrelly showed the benefits of the blended approach as it applied to UK defined contribution pension schemes (NEST - National Employment Saving Trust). NEST allocated 20% to real estate out of which 30% in global listed real estate (REITs) and 70% to UK non-listed funds. This approach was chosen to enable efficient diversification by sector and geography and delivered an annualized total return of 7.5%, outperforming portfolios with no real estate stocks by ca. 1%.

WHAT ARE THE BENEFITS OF LISTED REAL ESTATE SECTOR FOR SOCIETY?

STABLE AND BALANCED REAL ESTATE MARKETS

The listed property sector reduces 'information-based contagion' (a key contributor towards systemic risk) by reducing the likelihood of opaque market bubbles and subsequent market shocks. Investing in real estate through capital markets can therefore help to create stable and balanced (efficient) domestic real estate markets. The more efficient property markets, the better the quality, price and supply of the property which house the families, students or businesses across the European Union.

MARKET GROWTH ACROSS EUROPE

The student housing, for instance, has been growing across Europe. Some €9.5bn worth of student housing deals were recorded in Europe last year, including €3.5bn in the UK, €809m in Germany, €581.6m in the Netherlands and €394.7m in France, according to the data from the Real Capital Analytics. This represents a significant increase since 2014, and provides European students with a better and more affordable accommodation.

EPRA SUGGESTIONS

Article	Proposal for a PEPP Regulation	EPRA's suggestion for amendment
Recital 35	In the context of deepening the CMU, the understanding of what constitutes instruments with a long-term economic profile is broad. Such instruments are non-transferable securities and therefore do not have access to the liquidity of secondary markets. They often require fixed term commitments which restrict their marketability and should be understood to include participation and debt instruments in, and loans provided to, non-listed undertakings. Non-listed undertakings include infrastructure projects, unlisted companies seeking growth, real estate or other assets that could be suitable for long term investment purposes. Low carbon and climate resilient infrastructure projects are often non-listed assets and rely on long term credits for project financing. Considering the long-term nature of their liabilities, PEPP providers are encouraged to allocate a sufficient part of their asset portfolio to sustainable investments in the real economy with long-term economic benefits, in particular to infrastructure projects and corporates.	In the context of deepening the CMU, the understanding of what constitutes instruments with a long-term economic profile is broad. Such instruments are often non-transferable securities which ~~and therefore~~ do not have access to the liquidity of secondary markets. They often require fixed term commitments which restrict their marketability and should be understood to include participation and debt instruments in, and loans provided to, non-listed undertakings. Non-listed undertakings include infrastructure projects, unlisted companies seeking growth, real estate or other assets that could be suitable for long term investment purposes. Listed undertakings include listed infrastructure and listed real estate, such as Real Estate Investment Trusts (REITs). Low carbon and climate resilient infrastructure projects are often non-listed assets and rely on long term credits for project financing. Considering the long-term nature of their liabilities, PEPP providers are encouraged to allocate a sufficient part of their asset portfolio to sustainable investments in the real economy with long-term economic benefits, in particular to real estate, infrastructure projects and corporates.
Article 26(3)	The Commission shall be empowered to adopt delegated acts in accordance with Article 62 **to further specify** how PEPP providers or distributors referred to in Article 19(c) of this Regulation are to comply with the principles set out in this Article when carrying out PEPP distribution activities, including with regard to the information to be obtained when assessing the appropriateness of PEPPs for their customers and **the criteria to assess non-complex PEPP-related contracts** for the purposes of point (ii) of paragraph 2(a) of this Article. Those delegated acts shall take into account: (a) the nature of the services offered or provided to the PEPP saver or potential PEPP saver, having regard to the type, object, size and frequency of the transactions; and (b) the nature of the products being offered or considered, including different types of financial instruments.	The Commission shall be empowered to adopt delegated acts in accordance with Article 62 **to further specify** how PEPP providers or distributors referred to in Article 19(c) of this Regulation are to comply with the principles set out in this Article when carrying out PEPP distribution activities, including with regard to the information to be obtained when assessing the appropriateness of PEPPs for their customers and **the criteria to assess non-complex PEPP-related contracts** for the purposes of point (ii) of paragraph 2(a) of this Article. Those delegated acts shall take into account: (a) the nature of the services offered or provided to the PEPP saver or potential PEPP saver, having regard to the type, object, size and frequency of the transactions;~~ and~~ (b) the nature of the products being offered or considered, including different types of financial instruments; and~~.~~ (c) long term benefits of sustainable investments in the real economy, such as real estate and infrastructure, made by PEPP providers.

About EPRA

Real estate plays a critical role in all aspects of our everyday lives. Property companies serve businesses and the society by actively developing, managing, maintaining and improving the built environment; where we all live, work, shop and relax. They also play a crucial part in providing retirement security to millions of people, by offering pension funds stable and highly competitive assets to invest in.

EPRA, the European Public Real Estate Association, is the voice of the publicly traded European real estate sector. With more than 250 members, covering the whole spectrum of the listed real estate industry (companies, investors and their suppliers), EPRA represents over EUR 430 billion of real estate assets* and 86% 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, improvement of the general operating environment, promotion of best practices and the cohesion and strengthening of the industry. Find out more about our activities on www.epra.com.

**European companies only*