



**EUROPEAN
ELECTIONS 2019
MANIFESTO**

Building Blocks for a Prosperous Future

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EPRA's Mission

For 20 years, the European Public Real Estate Association (EPRA) has been the **voice of Europe's listed real estate companies, investors and their suppliers.**

Listed real estate are companies quoted on an official national stock exchange that derive income **from the ownership, trading, and development of income producing real estate assets.** Listed real estate allows anyone, from retail investors to large institutional investors, to invest in the underlying assets of public quoted companies, the same way as investing in other industries through purchasing shares. With more than 270 members (companies, investors and their suppliers), EPRA **represents over 450 billion EUR of real estate assets (European companies only) and 94% of the market capitalisation of the FTSE EPRA Nareit Europe Index.**

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, enjoy and relax.

We – the listed real estate companies – are the **guardians of many of the highest quality assets** in Europe's cities, from office complexes and shopping centres to healthcare and retirement facilities. We are also pioneering transparency and sustainability in the built environment, by means of meeting our responsibilities towards local communities and the demands of shareholders to safeguard their investments in the face of the global challenge presented by climate change.

As societies struggle to provide for their rapidly greying populations during a time of record low interest rates and lacklustre investment returns, our sector plays a crucial part in providing retirement security to millions of people, by offering pension funds and insurers stable and highly competitive assets to invest in.

We at EPRA emphasize the importance of the listed real estate as an asset class for all types of investors. The listed sector is delivering and has an obvious and central place in any diversified portfolio and including listed property investments in the right range of assets has the capacity to generate greater returns.

Furthermore, the commercial property industry directly contributed EUR 385 billion to the European economy in 2017, representing approximately 2.8% of the total economy and comparable to the combined size of the European automotive industry and telecommunications sector. It employs 4 million people, which is not only more than the auto manufacturing industry and the telecommunications sectors combined, but also greater than banking. Investment, fund and portfolio management have disproportionately **high value-added activities, contributing 6.5 times more per worker than the overall European average value-added per worker.** Finally, the ability to lease (around 40% of all EU commercial property) rather than own premises offers flexibility to businesses, allowing companies and SMEs to channel more of their capital into growing their businesses¹.

European commercial property industry:

- Directly added EUR 385 billion to the European Union's economy*, representing about 2.8% of the total economy;
- Provides jobs for 4 million people - more than in the banking sector and more than the combined size of the European automotive industry and telecommunications sector;
- Invests EUR 257 billion each year in building, refurbishment and development; with infrastructure and housing, this represents 62% of all capital investment in the EU;
- Around 40% of all European commercial property is office space let to businesses, which frees up capital and enables them to lease new space as they grow.

Driving forces within Real Estate are Real Estate Investment Trusts (REITs). EPRA has a unique understanding of what makes a REIT regime successful and supports actively further introduction of REIT regimes in European countries.

¹ EPRA-INREV Study conducted by PwC, "Real Estate in the Real Economy", p.2, September 2018.



EPRA

EUROPEAN PUBLIC
REAL ESTATE ASSOCIATION

LEAFLET
2018

LISTED REITs IN THE EUROPEAN UNION

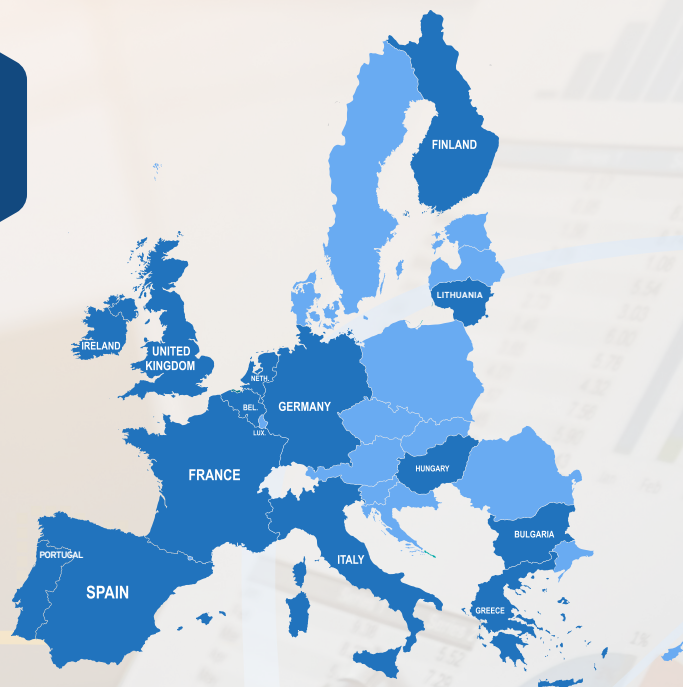
Listed Real Estate Investment Trusts (i.e. REITs) are publicly listed property investment companies that **own, operate, develop and manage** real estate assets for obtaining returns from rental income and capital appreciation. They represent a liquid, transparent and professionally managed asset class which allows for diversified exposure to real estate returns over the medium to long-term and high cash dividends. **Fourteen Member States** in the EU have already recognised a 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 EU Member States now **represent 81%** of the entire listed real estate Member States in the EU.¹ Thus the question that arises next is how can the creation of the EU Capital Markets Union further increase the benefits that the growth of listed REITs have brought to the EU?

¹Source: [EPRA Total Markets Table - Q3-2018](#)

Five-fold increase
since 2008

Further potential compared with:
US REITs free float market cap
is 5 times larger than the
overall size of the European
real estate market

**Real Estate 11th sector
in GICS and ICB**



EU - REIT REGIMES

REIT REGIMES

NO REIT REGIMES

EU REITs in numbers

71*



COMPANIES

VALUE OF THEIR ASSETS**

EUR 302.08bn

TOTAL MARKET CAP***

EUR 157.04bn

FREE FLOAT***

79.84%

* EPRA developed and emerging Europe index constituents in the EU

** EPRA developed and emerging Europe index constituents in the EU at the end of 2017

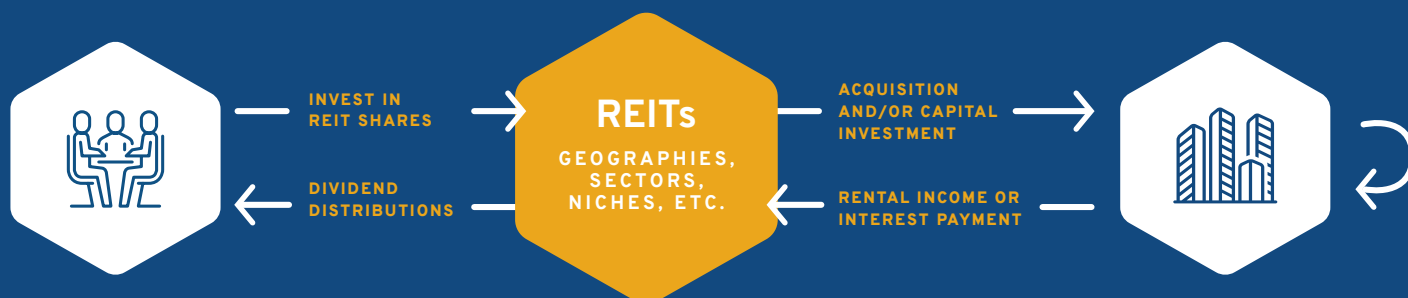
*** Free float represents the amount of shares available to investors on the market. As at September 2018.

The purpose and function of the REIT regimes

Listed REITs are tax transparent so investors effectively receive income (most of which must be distributed annually) **as if they were directly investing** in the property market, and tax is collected upon distribution to ensure a direct levy of tax on nearly all income. Hence, the objective of a successful REIT regime is to **create a level playing field** between investors into corporate vehicles (REITs) and those larger investors that have sufficient scale to invest directly (and who often rely heavily on debt to fund their real estate investments). This way national governments attract more **transformative capital for countries, regions and cities and contribute to their development**. Furthermore, they would help decrease the distortion towards debt financing in the capital intensive real estate market and help increase the stability of domestic real estate markets.

REITs operate like a real estate vehicle but more efficiently

HIGHER LIQUIDITY, LOWER TRANSACTION COSTS
AND HIGHER LONG-TERM RETURNS



The ideal listed REIT in the European Union would be:

- ✓ Listed on the EU/EEA Stock Exchange;
- ✓ Highly liquid (free float requirement of the Index);
- ✓ Owning and operating income producing property (i.e. long-term property investments);
- ✓ Strong performer in the long-term with high returns;
- ✓ Accessible to all investors;
- ✓ Professionally and internally managed;
- ✓ Obligated to distribute on average 90% of income as dividends to shareholders;
- ✓ Shareholders would pay income tax on those dividends (ensuring a direct levy of tax on nearly all income);
- ✓ With a corporate structure and a business strategy being outside the AIFMD scope;
- ✓ No restriction for foreign investors.

EPRA's Priorities

We are pleased to present you our three key priorities for 2019-2024 to build a strong, prosperous and sustainable Europe:



PRIORITY ONE

Delivering long-term investments in the European economy



PRIORITY TWO

Addressing global challenges such as climate change



PRIORITY THREE

Delivering growth opportunities for Europe and its Member States



PRIORITY ONE

Delivering long-term investments in the European Economy

Listed real estate companies have continuously yielded stable and strong long-term performance to investors, especially pension funds and insurers through reliable dividends, effectively contributing to the retirement of millions of people. However, due to the substantial Solvency Capital Requirements introduced by Solvency II and its implications for cross-border investment, allocating sufficient capital to public equities for long-term purposes remains a considerable challenge for investors today.

During the 2014-2019 mandate, the three European institutions worked extensively on a more neutral and investment-friendly tax system to attract new investments to the EU whilst also addressing tax distortions against equity financing. The coexistence of 28 tax systems in the EU – offering diverse tax exemptions and deductions – continues to make it difficult to calculate the tax base of companies operating cross-border, creating heavy compliance costs and administrative burdens detrimental to European competitiveness.

Finally, when launched in 2014, the **Juncker Plan** identified an investment gap of EUR 700 billion for the whole European Union, with the majority of capital coming from the private sector. The Commission will take stock of the progress in 2019 but the current outcome may still be far from the initial expectations. In order to unlock this capital, face new global challenges such as climate change and immigration, and build the cities of tomorrow, the European Union will have to encourage more stable and cross-border investments, with capital requirements aligned with long-term objectives.

Key facts:

- **The Solvency II rules** had a significant impact on the cost, design and availability of insurance products and on insurer's investment decisions, replacing 28 national regimes with a single-set of risk-based capital requirements and risk-management principles. However, a recent survey² led by Insurance Europe in June 2018 showed that for 58% of European insurers Solvency II has had a negative effect on those products, while for 48% Solvency II has led them to invest less than optimum amounts in equities, long-term bonds, private placements or unrated debt.
- The European market for personal pensions is fragmented and uneven, even bordering to non-existent, with offers concentrated in a few Member States. Facing a substantial savings gap for EU pensions with more than EUR 2 trillion per year³, the European Commission's proposal to create a transparent and competitive **pan-European market for personal pensions (PEPP)** continues to attract significant attention from citizens and investors alike.
- Tax systems which favour debt over equity financing discourage firms from building a strong equity base and tapping capital markets. The **Common Consolidated Corporate Tax Base (CCCTB)** discussions are a good step forward to address complex and opaque tax rules and double taxation, as long as they do not have unintended consequences and adverse impact on publicly-listed companies with capital-intensive business.

² Insurance Europe's survey was carried out in May 2018 and covered 87 insurers from 17 EU markets: <https://www.insuranceeurope.eu/survey-shows-solvency-ii-brings-benefits-deters-long-term-business>

³ European Commission data, PEPP Fact Sheet, 2017.

Our proposals for the next EU legislators:

- **Solvency II reviews:** Cease undue restrictions of opportunities for insurance companies to invest directly in public equities, including in listed real estate (which are part of long-term investment allocation portfolios), and proceed with the inclusion of a new 'Long-term equity investments' category along with a set of reasonable and achievable criteria for investors.
- **PEPP regulation:** 2019 is the year for the European Parliament, the Council and the European Commission to encourage a rapid and smooth regulation to facilitate cross-border investments.
- **C(C)CTB:** Ensure that any rules are clear, proportionate and, most significantly, voluntary as they can bring some unintended and adverse impact on the listed real estate industry, which has an important role to play in keeping domestic financial markets stable and balanced.



PRIORITY TWO

Addressing global challenges

Listed real estate companies have been frontrunners on climate change and sustainability for many years. In fact, they are a crucial pillar of local societies in terms of achieving social and sustainable goals, such as social infrastructure (hospitals, medical office buildings, senior living communities or nursing facilities and schools), well-being (healthy workplace cultures or healthy and green residential buildings) and community engagement (migrant integration and partnerships for unemployed or disabled people).

Europe has set the bar high on climate mitigation and efforts to unlock capital for the transition to a low-carbon economy. Just as the listed sector has been spearheading sustainability within the built environment, the EU should continue to lead the way and export its standard on **sustainable finance**. While **sustainability** has increasingly become a critical factor investors, institutions and society alike, this demand has yet to be better reflected in the financial statements of companies. Put simply, there is a demand for more detailed, consistent and sector-specific information to enable key stakeholders to make more informed decisions with regards to their investments, and financial and non-financial reporting need to get up to speed to match this reality.

The **UK exit of the European Union (Art 50)** is another a huge challenge for businesses and investors on global financial markets. Discussions should start as soon as possible on a future trade agreement to ensure financial services continue to flow smoothly.

Key facts:

- **Sustainable Finance:** The latest estimates places the annual investment gap of approximately EUR 177 billion between 2021 and 2030, totalling EUR 1.77 trillion, out of which 74%, representing the biggest gap by far, relates to investment in energy efficient buildings (EC estimates). In order to respond to this immense gap, the European Commission published last spring an action plan on financing sustainable growth, followed by a legislative proposal with a gradual development of an EU taxonomy for climate change mitigation activities. Green and social bonds have already emerged as a potential and promising alternative source of financing long-term value and sustainable real estate. If we look at the European market and consider the 107 companies included in the FTSE EPRA Nareit Developed Europe Real Estate Index as a sample of the potential real estate universe in Europe, 10.3% of these companies are currently issuing green bonds.
- **Corporate Social Responsibility:** With Regulation no 1606/2002, the EU has implemented a strong standard for corporate reporting, leading to more valuation at fair value, more liquidity and consistent application across Europe. Good investment performance indices are already part and parcel of the prevailing culture of disclosure and information within the listed property sector. As early as 2001, EPRA developed its own set of **Best Practices Recommendations (BPR)**, as a means of acknowledging the importance of reporting practices and the need for trust in the financial sector, as well as to further advance financial transparency of the sector for the benefit of investors.
- **Non-financial reporting:** Current rules (Directive 2014/95/EU), applying to large public-interest companies with more than 500 employees, are a first step of the policymakers' efforts to enhance the transparency of companies' environmental, social and governance (ESG) performance. Property companies disclose this information on a voluntary basis to remain competitive and to demonstrate that they are working intensively to transform their property portfolio into a more sustainable one. The **EPRA Sustainability Best Practices Recommendations Guidelines** draw on the Global Reporting Initiative's (GRI) Reporting Standards Construction & Real Estate Sector Disclosures (CRESD), identifying a set of ESG key performance indicators intended to help listed real estate companies meet growing expectations of investors as well as regulators.

Our proposals for the next EU legislators:

- **Sustainable Finance:** Pursuit of an inclusive approach for an evolutive and agile EU taxonomy based on a positive list. Direct investments in public equities from property companies which economic activities have been considered sustainable should also be included in the scope of the EU taxonomy proposal, next to financial products and green bonds.
- **Review of corporate reporting rules:** The 2019 fitness check should continue to target critical factors that foster accountability and transparency of listed companies. Consistency (such as digital or written report requirements and common understanding of the implementation of IFRS standards), clarity and cutting red-tape across the EU is key. We nevertheless still advise to have two sets of statements – one financial, one non-financial – for corporate reporting. Furthermore, the EU should continue to apply and promote the use of IFRS⁵ globally and should refrain from any future carve-in as it could create business uncertainty.
- **Non-financial reporting:** High international, and voluntary, standards are important, but there is 'no one size fits all' when talking about integrating sustainability factors. Financial markets drive companies' behaviour as there is an evolving demand for transparency and information on these matters. With regards to sustainability reporting, there are already numerous existing international frameworks which should be considered in the upcoming reflection.
- **Brexit:** Launch as soon as possible the negotiations for an agreement which will ensure continuous market access for financial services, equivalence for cross-border investments, regulatory alignment and preserving long-term commitments and rights acquired, as well as the skills base.

⁵ IFRS Standard has already been adopted in more than 100 countries but regrettably not yet in the US.



PRIORITY THREE

Boosting growth opportunities for Europe and its Member States

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 stable pension funds and highly competitive assets to invest in.

Investing in real estate through capital markets helps create stable and balanced domestic real estate markets. This is the conclusion drawn from **14 EU Member States** which have already introduced Real Estate Investment Trusts (REIT) regimes to maximise returns through an effective vehicle for tax purposes. The number of countries will continue to grow as more legislators recognise the benefits of these regimes.

The ever-increasing popularity of REITs demonstrates the growing demand **for liquid, transparent, and tax-efficient** for investing in real estate. During the last financial crisis, there were zero bankruptcies within the FTSE EPRA Nareit Developed Europe Index, a telling point for REITs strong and stable performance. When investors buy traded REITs, they know what they own and they can analyse their track records anytime.

Property is a **very capital-intensive business** and the private sector plays an essential role in delivering long-term capital investment and expertise to meet European Member States' real estate and infrastructure needs.

Key facts:

- The European listed property sector is relatively small compared to other major developed global regions. Only 5.94% of its investible commercial real estate is held within the publicly quoted sector in Europe compared to 12.26% in the North America and 19.35% in Asia-Pacific. This sub-optimal situation puts Europe **at a distinct disadvantage**, particularly at a time when long-term investment into real estate and infrastructure is critical for delivering economic growth.
- The mechanisms that ensure REITs are tax exempt vary from country to country and can include, for example, rules that allow the deduction of REIT dividends or distributions; tax exemption of only the part of the REIT's income distributed within a specific period; tax exemption of a REIT that meets certain conditions or rules that allocate income to investors rather than to the REIT itself. In addition, REITs are increasingly investing cross-border, including in jurisdictions that do not recognise a REIT status, resulting in full tax liability there.
- The lack of reciprocal recognition of pension funds and the issues with withholding tax (WHT) refund processes restrict them to make significant investments in real estate.

Our proposals for the next EU legislators:

- **Facilitate the development of REIT regimes:** Propose to the European Commission a set of recommendations for REIT regimes in order to facilitate REIT development within the Union and scale up the discussion at the OECD level to boost cross-border investments and opportunities.
- **Withholding Tax:** Launch the work for an EU Directive to facilitate the process by establishing quick and standardised WHT refund procedures.

Investment in 2017 in Dwellings and Other Buildings as % of Gross Fixed Capital Formation

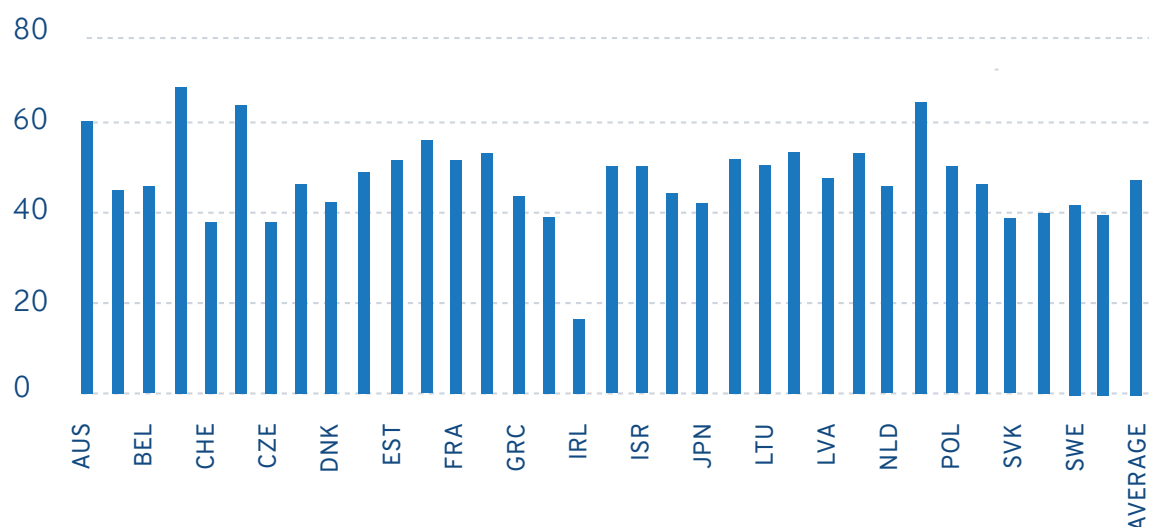


Figure 1: Investment in 2017 in Dwellings and Other Buildings as % of Gross Fixed Capital Formation
Source: OECD data, *Investment in 2017 in Dwellings and other Buildings as % of gross field Capital Formation, 2018*. The data shows that the annual investment in 'dwellings and buildings' is one of the largest components.



**WE ARE PART
OF THE SOLUTION.**

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