Structural Overview of the Real Estate Investment Industry

April 2022

pwc

In collaboration with

EPRA
EUROPEAN PUBLIC
REAL ESTATE ASSOCIATION

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 €690 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.**

**European companies only*

About PwC

PwC is a multinational professional services network of firms which helps organisations and individuals create the value they're looking for. We're a network of firms in 156 countries with more than 295,000 people who are committed to delivering quality in assurance, tax and advisory services.

PwC's real estate practice assists real estate investment advisers, real estate investment trusts, public and private real estate investors, corporations, and real estate management funds in developing real estate strategies; evaluating acquisitions and dispositions; and appraising and valuing real estate. Its global network of dedicated real estate professionals enables it to assemble for its clients the most qualified and appropriate team of specialists in the areas of capital markets, systems analysis and implementation, research, accounting and tax.

Foreword

Real estate plays a critical role in all aspects of our everyday lives. Yet the term 'real estate' is not a uniform concept within the European Union. It can mean different things to different people. This complexity can extend to investment opportunities in the real estate industry.

As real estate is a highly regulated industry operating under a framework of EU legislation, national parliamentary supervision and local financial markets regulators, it is important that policy-makers take account of all the various aspects of the sector. The more aware regulators are about the different aspects of the industry, the better the regulatory environment can be shaped in order to allow all segments of the property industry to thrive.

Real estate companies are the guardians of many of the highest quality assets in our cities. These assets range from office complexes, retail and residential property to warehouses, healthcare and retirement facilities and data centres.They serve businesses and society by actively developing, managing, maintaining and improving the built environment; where we all live, work, shop and relax.

Furthermore, they play a crucial part in providing retirement security to millions of people, by offering pension funds as well as other investors, stable and highly competitive assets to invest in. As societies struggle to provide for their rapidly greying populations during a time of record low interest rates and lacklustre investment returns, segments such as the listed real estate sector, have become increasingly important, as the demand for solid long-term income producing investments is stronger than ever.

These companies are also the pioneers of sustainability in the built environment. In the face of the global challenge presented by climate change, they have a responsibility towards local communities and must meet the demands of shareholders for the future proofing of investments.

This report aims to bring clarity to the complexity of the industry and sets out to elicit an understanding of the various actors in the property investment market, be that listed property companies, REITs, or funds, and to debunk some of the perceived complexities, in order to allow the industry to reach its full potential and build a stronger Europe.

“

Méka Brunel

CEO at Gecina, EPRA Chairwoman

Q. How important is it for the sector that policy-makers understand the nuances of real estate investment?

“The real estate industry is a constellation of interconnected professions forming a value chain at the service of local communities over the long-term.

At the heart of climate, social and technological changes, our industry will be a key partner for policy-makers for a fair transition trajectory.

A better understanding of the listed real estate sector for a better regulation will be fundamental to activate all the levers for a sustainable development of our territories.

The listed real estate sector is about transparency, methodology, processes bringing confidence to the investors about the reality of the numbers. It is also about men and women, professional operating people capable to act in all different levels, especially in ESG and sustainable and long-term contribution.”

Contents

1

An Introduction to Real Estate Investment

Chapter provides:

- An outline of various real estate asset market participants
- Differences between property development and property investment
- An overview of real estate activities and associated benefits

An Introduction to Real Estate Investment

In order to fully grasp the complexities of the real estate industry, it is firstly important to understand that investment in real estate falls into two distinct categories. The two main ways of investing in real estate assets include buying assets **directly** and/or buying assets **indirectly** via a listed or non-listed entity.

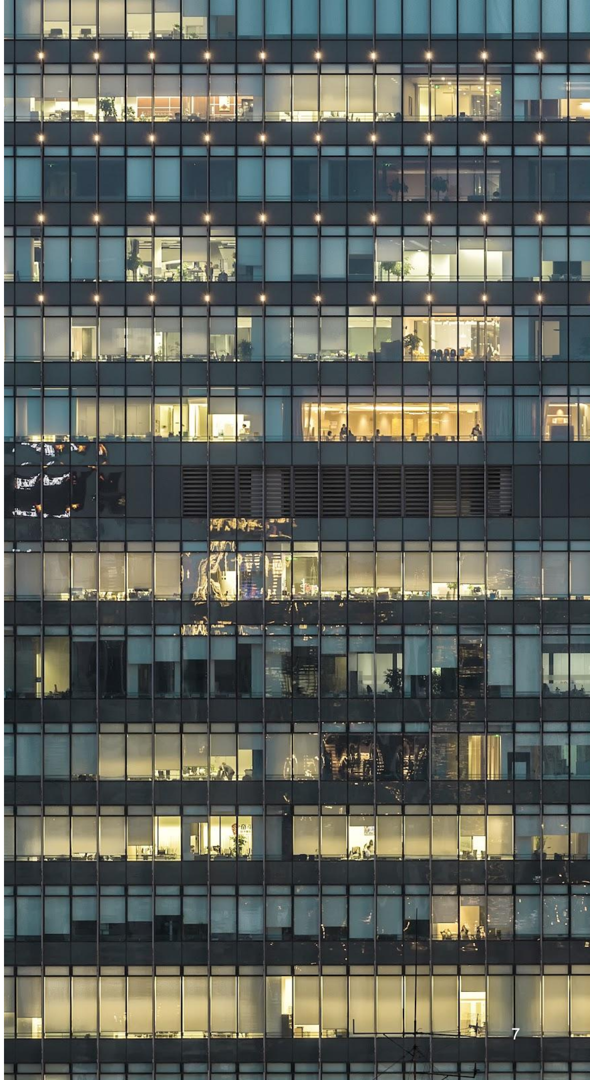
The real estate industry includes entities whose primary business comprises of the management and development of real estate as well as the generation of rental income and capital appreciation from real estate assets.

Real estate investment includes a number of activities such as trading and development of real estate and investing in real estate as a long term investment for a stable yield. Investment in real estate is often carried out via investment in collective investment vehicles or property holding companies.

While real estate may typically be associated with residential, office, retail and industrial property, it also covers a much wider range of assets classes such as hospitality, leisure, education, and healthcare infrastructure.

Typically, such investments can be divided into two main categories, i.e. residential and commercial real estate. Residential real estate refers to properties used for residential purposes. Commercial real estate refers to properties used for commercial purposes and includes office, logistical, hospitality, primary healthcare and retail properties.

Both residential and commercial property generate rental income when rented out while simultaneously building equity as the asset appreciates in value. Typically, the public real estate sector predominantly invests in commercial assets although this also encompasses the leasing of very large scale long-term residential units.



Market Participants

When analysing the real estate industry from an economic perspective, two terms are particularly relevant - **property development** and **property investment**.

The term property development generally refers to the development of new buildings or the refurbishment or redevelopment of existing buildings. Whereas, property investment is a broader term which refers to the application of capital by a business for the purposes of acquiring and holding property for income generation and/or capital appreciation purposes.

Property development and property investment encompass various **market participants** such as property investment companies, property traders, property developers, property managers and construction companies, with these various participants carrying out a myriad of real estate activities. While each may have their own specific objectives, fundamentally they all contribute to the financing, development, management and/or maintenance of our built environment.

An understanding of the distinct market actors and an ability to appropriately classify them is important in understanding the industry and in driving policy in this area.

The NACE classification code is an EU-wide industry standard statistical classification system of economic activities (see Appendix 1). It is a useful tool in analysing and classifying real estate activities.

Property development

Property development can be undertaken directly by individuals or entities and can be outsourced to third parties within the construction industry. The term property development generally refers to **the development of new buildings or the refurbishment or redevelopment of existing buildings**. This can be done on a speculative basis or can be conditional on first agreeing rental contracts with future tenants.

Property development involves purchasing land and developing property from beginning to end or refurbishing purchased property with the **primary aim of leasing or selling the property once completed**. It comprises collaboration with various counterparties such as engineers, architects, surveyors, leasing agents, municipalities etc. This differs from the construction industry which focuses on the practical side of the process of physically developing the assets. Construction companies are generally contracted by property developers to construct the property and these companies typically do not participate in other areas of property development.

The business strategy associated with property development may vary. As the business involves numerous phases and risks until a property is developed and the building ready to use, it has a specific risk profile. For instance, some properties may be leased or rented to generate long-term profit, while others may be quickly sold post completion.

Property investment

The term **investment** is far broader and can refer to direct or indirect investment in property. Generally, investment in a real estate context refers to the **application of capital by a business for the purposes of acquiring and holding property for income generation and/or capital appreciation purposes.**

Property development and property investment may at times be part of the same business, however, this is not always the case. For example, unlike property investment, property development often involves selling the asset post completion. Moreover, property investment companies generate rental income, in contrast to property development companies which derive their income from the sale or the lease of the completed property.

Overview of Real Estate Activities

	Investment property companies	Developers / Home builders	Property traders	Property management companies	Construction companies
Description	Companies which acquire, develop and operate property	Individuals or companies who are involved in the development of land to build new buildings or the redevelopment/renovation of existing buildings	Entities which trade directly in property and shares in property companies	Companies which deal with the management of property on a fee or contract basis	Companies which are hired by asset owners (investment property companies or developers) to construct property
Underlying economic activities	• The generation of recurrent rental income (renting and operating of own property) is the core business of investment property companies. • The acquisition of property for a long term period • Developing property for own portfolio • Redevelopment projects which typically involve the acquisition of existing buildings to retrofit or renovate to rent out • Selling property after long-term use	• The development of building projects for residential and non-residential properties by bringing together financial, technical and construction expertise to bring projects to completion for sale • The purchase of new land to develop property • The renovation of existing property • Putting one property from its present use to another	• The acquisition and sale of property or shares in property companies over a short time frame	• Facilities management including coordinating and supervising property maintenance and the day to day building operation, technical services and energy management of properties • Lease management and occupier services	• The construction of a variety of buildings and infrastructure • The construction of complete residential or non-residential buildings, on own account for sale or on a fee or contract basis • Remodelling or renovating existing residential structures • Acting as service providers to the property owners
Key distinction	Long term recurrent income generation	To build or redevelop new buildings and sell once completed	To sell property soon after acquisition	Never physically own the property	Only engage in the construction part of the process, i.e. they make no investment decisions in the chain of real estate industry
NACE	M68	M68.1	M68.11	M68.31	M68.12

Benefits of Investing in Real Estate

Investing in real estate provides numerous benefits, including **capital appreciation, a hedge against inflation, portfolio stability, diversification and security.**

Capital Appreciation	Hedge against inflation	Stability	Diversification	Security
The value of a property portfolio can increase over time, ultimately providing a high earning potential. Active asset management aims to generate greater returns by, for example: analysing market trends and engaging with high quality tenants.	The rents charged can be increased to reflect inflation, enabling the property investment to hold its value and purchasing power despite an increase in prices in the economy.	Real estate often involves long-term leases and rents which allow for a guaranteed steady stream of income as well as reduced turnover costs.	Real estate companies often possess a large portfolio of investment properties, spread across different geographic markets, many property types and numerous tenants which reduce the risk associated with the investment.	The tangible value associated with property portfolios provides a stability to real estate investments and thus avoids the volatility associated with investments on the stock market.

2

Real Estate Investment Options

Chapter provides:

- An overview of real estate investment options
- Characteristics of listed real estate
- Characteristics of non-listed real estate

Real Estate Investment Options

After gaining an understanding of the different real estate activities and market participants, we will focus now on **various methods of investing in property**. There are many ways in which investors can gain exposure to real estate which may occur **directly** or **indirectly**.

Direct investment refers to the direct acquisition of real estate assets. This typically includes ‘brick and mortar’ activities such as the acquisition and (re)development of bare land, completed property or property requiring refurbishment. The land or property may be held in the short, medium, or long-term and may be subject to leases at the time of acquisition or post-acquisition.

In comparison, **indirect investments** typically occur by acquisition via **listed** or **non-listed** property companies, non-listed property funds, property derivatives and collective investment vehicles.

This chapter provides an overview of indirect investment and explains key attributes of investment in listed versus non-listed real estate.

Indirect Real Estate Investment

Structures in the Listed Property Market

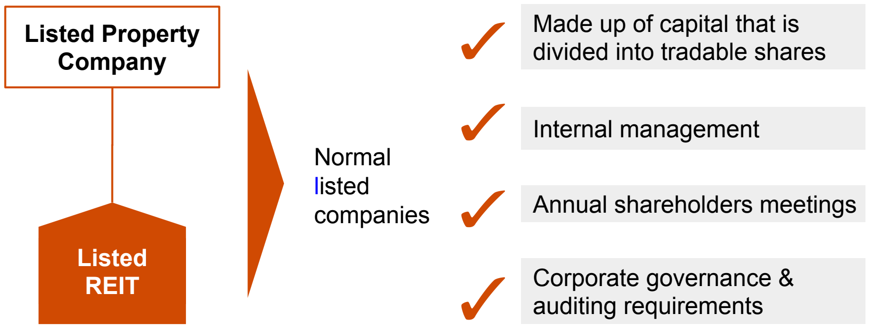
The listed property sector in the EU is characterised by two main players - **listed property companies** and **listed Real Estate Investment Trusts (REITs).**

Listed REITs are a subsection of listed property companies. They are property investment companies which are eligible for special tax status in exchange for meeting certain conditions such as pure investment in real estate assets, a restriction on debt financing and an obligation to distribute the majority of their profits on an annual basis.

From an operational and corporate governance perspective, both investment vehicles operate similarly and are considered normal operating companies. They are constituted with capital divided into tradable shares (or securities), and managed by a CEO, CFO, board and supervisory board. Typically, they are internally managed. They have annual shareholders meetings, corporate governance and apply auditing requirements under national corporate and commercial rules. **Their legal and operational structure is therefore like any other company which is listed and traded publicly on the major stock exchanges throughout the EU.**

Listed real estate companies raise capital on an as needed basis in public offerings. They can also optimise stock performance by way of other capital measures like share buybacks.

Listed property companies, including REITs, are important players in the European real estate market and are **significant drivers of economic development**. They are involved in numerous activities including buying, owning, leasing, managing, financing, (re)developing and selling investment properties. These business activities of owning and operating investment property portfolios require active management. Given their size, professionalism and access to varied sources of finance through the public markets, listed property companies deliver and manage capital intensive and long-term property developments and investments on a substantial scale.



Both operate similarly

Characteristics of Listed Real Estate

Indirect property investment via listed real estate ("LRE") has **numerous benefits** including diversification, liquidity, transparency, and more attainable access to real estate on a global basis **in comparison to direct property investment**.

LRE provides investors with an opportunity to invest in a wider portion of real estate asset classes, strategies and geographies via specific vehicles. In addition, the LRE sector contains a more expansive group of stakeholders compared to non-listed real estate vehicles.

LRE enables anyone, from large institutional investors to small private individual investors, the opportunity to invest in real estate assets in the same manner as investments in other industries - via the acquisition of shares.

Real estate investments via the listed market represent a cost-efficient and effective form of investing in property, reducing the onerous capital requirements and stamp duties or transfer taxes which may arise when investing in real estate assets directly.

Characteristics of Listed Real Estate

Caters for all types of real estate assets - offices, retail, residential, logistics healthcare etc.

Offers a level playing field in terms of investment as both small and large investors have access to invest in real estate.

Greater price transparency due to high governance standards and availability of sector specific performance benchmarking.

Increase stability of domestic real estate markets by providing liquidity.

There are numerous benefits to being a listed property company or a REIT[1]:

1 Transparency & Accountability

The transparent nature of the public stock markets fosters good decision-making, healthy corporate governance, investor confidence and trust. As part of the regulated stock markets, listed property companies provide high levels of disclosure of both financial and non-financial information. This transparency enhances accountability and enables scrutiny of the managers to its investors (shareholders). The sector is governed by a robust regulatory framework of EU legislation, national parliamentary supervision and local financial markets regulators. The regulations which apply to publicly quoted companies create the framework which governs listed property companies and make them subject to the highest governance standards in Europe. Analysts in the capital markets work with uniquely developed Key Performance Indicators ("KPI") and benchmarks.

It allows for greater pricing transparency and quicker information transfer than direct markets, e.g. JLL and LaSalle published the Global Real Estate Transparency Index 2020[2] which provides classification for real estate transparency across 99 markets.

2 Liquidity

Listed property companies provide liquidity to an otherwise illiquid market. Real estate is generally considered a costly and illiquid asset class where transactions can take a long time to complete and can involve high upfront costs and substantial legal due diligence requirements. The liquidity that the listed sector brings, allows investors to effectively manage their overall blended real estate exposures, which is of particular importance in stressed market conditions.

3 Stability

Listed real estate can deliver solid long-term returns to shareholders and offer a strong and stable source of income and capital appreciation to investors.

4 Diversification

Listed property companies and REITs also provide an attractive opportunity to investors to indirectly invest in the sector and to diversify their portfolios.

[1] EPRA Building a Stronger Europe Report, July 2018 / EPRA Cross Border Property Investments and European REITs Letter, March 2020
[2] JLL & LaSalle Global Real Estate Transparency Index, 2020

There are numerous **benefits** to being a listed property company or a REIT:

5 Accessibility for retail investors

Listed property companies democratise real estate. Only listed property companies, including REITs, are accessible to all types of investors under the same rules within the EU; from the largest institutional investors such as pension funds to individuals. From an investor's perspective, the crucial attribute of listed property companies and REITs is that, over a medium to long-term investment horizon, they provide an accessible form of exposure to real estate returns derived from steady dividend yields and share value appreciation by allowing them to invest in the underlying assets of public quoted companies, the same way as investing through purchasing shares. Ordinary people are therefore able to participate in the real estate market alongside larger investors, which might otherwise be inaccessible for them. Additionally, retail investors can get exposure to real estate without paying transfer taxes.

6 Access to finance & ability to scale up

Listed property companies or REITS have excellent access to capital, enabling economies of scale, large portfolios which provide significant diversification benefits, reliable income streams and enabling increased competition in the real estate market. The listed property market is also a means of attracting inward investment into a country which contributes to economic development.

7 ESG

The listed real estate sector is well positioned to drive the ESG agenda. Listed property companies can drive up standards and efficiencies in the broader property market by financing energy efficiency and by providing more sustainable choices to investors. The Sustainability Best Practices Recommendations (sBPR), developed by EPRA, provide investors with material, comparable and consistent ESG data. Ultimately, these indicators enable companies to make investment decisions which lead to a more sustainable real estate industry.

Typical Profile of Investors in Listed Real Estate

Investors who invest in listed real estate can be categorised into two main types - both large scale **institutional investors** and smaller sized **retail investors**.

Institutional investors

Invest for themselves or on behalf of large investors

- Institutional investors include, inter alia, pension funds, insurance companies, banks and sovereign wealth funds and investments are made on behalf of investors or shareholders.
- They seek to invest in listed real estate due to the quality and risk diversification of real estate assets, the ability to generate long-term capital appreciation and the transparency requirements of listed entities.
- Their core investments typically include offices, industrial spaces, retail units and residential assets.
- They can gain access to many real estate assets in an efficient manner at a minimum buy-in, at low cost and at relative speed.
- Institutional investors account for the largest source of capital within the real estate industry throughout Europe.
- Insurance companies are the largest institutional investors in Europe, holding approximately €10 tn in assets.[3]
- The low risk and stability of listed real estate provides retirement security for millions of citizens.

Retail investors

Invest for themselves

- Retail investors are individual investors or non-professional investors who operate on a smaller scale and invest for themselves rather than on behalf of other investors.
- They purchase and sell stocks in relatively small quantities and invest personal finance by going through another party such as brokerage firms, investment advisors or other financial professionals.
- Retail investors often invest in institutional products such as pension funds, insurance funds and REITs aiming to generate long-term returns in a real estate context.
- The regular steady dividend income provided make REITs an attractive investment for smaller investors seeking pure real estate exposure.
- Furthermore, retail investors are also provided with the opportunity to invest in a broad diversity of real estate assets without undertaking the burden of the numerous costs associated with directly owning property.

[3] EIOPA Insurance Statistics Balance, 2021

Non-Listed Companies, Funds & Collective Investment Vehicles

Real estate investment also occurs outside the LRE sector through **non-listed companies, funds and collective investment vehicles.**

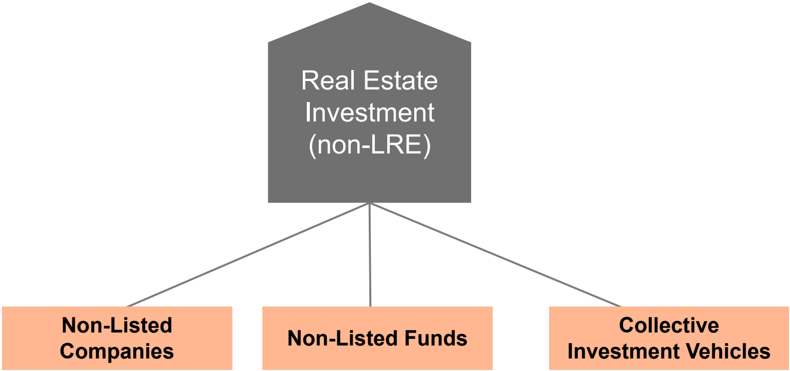
Across Europe, non-listed investment funds for professional, institutional or retail investors constitute the **biggest group of property owners.**

Funds permit investment in all types of real estate asset classes across numerous locations. The commercial property sector is particularly popular with non-listed funds representing **30%** of this particular industry.

The economic activity of renting property generally offers greater flexibility for businesses, particularly, those who are often unable to commit the capital, have the expertise and management time required of owner occupation.

Smaller investors, especially those who are new to the real estate investment market, do not typically possess the quantum of capital and expertise required to invest directly and often overcome this obstacle by investing in property via non-listed companies, funds and collective investment vehicles.

There is no harmonised real estate investment fund structure in the EU and differences in tax regimes must be considered by real estate funds investing on a pan-European basis.



Biggest property owners in Europe

- ✓ Greater flexibility to businesses
- ✓ Attractive to smaller investors/investors new to real estate investment market
- ✓ Represent 30% of the commercial real estate investment industry [4]

[4] EPRA & INREV Real Estate in the Real Economy Report

Non-Listed Companies, Funds & Collective Investment Vehicles

Indirect investment in property outside the listed sector is predominantly undertaken by investing in the following entities:

- Private limited companies holding real estate or real estate holding companies;
- Closed ended investment vehicles that delegate investment decisions to a third party investment advisor/manager;
- Open ended investment vehicles that delegate investment decisions to a third party investment advisor/manager;
- Joint ventures between a number of parties including a private limited company, fund, etc.

In addition, indirect investment may occur via financial instruments, for example derivative instruments or mortgage backed securities. These investments provide the benefit of investing in the real estate industry without high transaction costs.

Indirect investors in real estate via a non-listed fund may be viewed as customers of a fund management company. Such investors do not have the ability to make or influence investment decisions on behalf of the fund.

In comparison, investors via property holding companies typically invest by purchasing shares of companies and, therefore, either directly or indirectly own such companies, which grants them the ability to participate in investment decisions.

Robert-Jan Foortse
Head of European Property Investments
APG Asset Management

Q. What is your focus when investing in real estate? Does your asset allocation include both listed and non-listed real estate?

"Real Estate is a key component of our wider investment portfolio. Driven by the global mega trends, like changing demographics, urbanization, and digitization we seek exposure to those assets and sectors that will benefit from these secular tailwinds.

We align ourselves with the best local operators to implement this strategy. We are agnostic whether the ultimate investment structure is listed or non-listed, as research has demonstrated that in the long term the performance of both categories is driven by the performance of the underlying real estate."

3

Real Estate Financing

Chapter provides:

- An overview of real estate financing options available to investors
- An introduction to sustainable finance

Real Estate Financing

Real estate investments are typically financed by a mixture of both debt and equity. The percentage split between different types of capital varies from property to property.

Debt vs Equity Financing

Debt financing includes the provision of loans by means of third party debt and shareholder debt, as well as the raising of funds through the issuance of debt instruments such as bonds.

Third party debt usually involves loans with a lien over the property and pledged shares of the property vehicle provided by a lender such as a bank or other institutional investor such as pension funds, whereas shareholder debt is sourced from the shareholders of a company and is a junior form of debt with no or limited collateral.

Mezzanine loans are a hybrid of debt and equity financing. They can be structured as either a type of debt or a preferred equity stake. Often a lender or shareholder will only provide a percentage of the total funds required for property development.

Mezzanine finance bridges the gap between the amount of equity and senior debt that is required and the amount that is available. Mezzanine loans are often secured by a subordinate loan and so attract a higher interest rate.

Listed equity is highly liquid and accessible for all types of investors. Equity financing refers to the process of raising capital through the sale of shares in an initial public offering or subsequent capital offerings. This can be a flexible capital source for the management of new market opportunities or to secure a large scale acquisition.

It is an arrangement between the real estate owner/investor and investors that contribute cash towards the purchase of the property in exchange for an equity share in the property. In return, the investors receive a share of income as well as a share of the profit upon the sale of the investment or from liquidation proceeds of the company. Unlike debt, it carries no repayment obligation.

Equity real estate **outside the listed sector** is an alternative asset class composed of professionally managed pooled investments in real estate markets. Typically, equity investments are funded through pension funds, sovereign funds, family offices or insurance corporations acting alone or in joint ventures.

Investing in **private equity** real estate involves the acquisition, financing, and ownership (either direct or indirect) of property via an investment fund or an entity which is set up solely for the purpose of owning the assets. Unlike REITs, private equity real estate investing requires substantial amounts of capital and may only be available to high-net-worth or accredited investors.

Sustainable and green financing is becoming increasingly important in the industry. In order to finance their investments, asset owners can leverage a number of sustainable financial instruments including green and social bonds and green mortgages.

Green and social bonds

Although an alternative source of financing, **green and social bonds** have become increasingly popular amongst real estate asset owners. The capital raised from these bonds is used to fund assets which have a specific environmental, sustainable and/or social purpose.

From an environmental perspective, this may include bonds which fund office buildings with an environmental and sustainable BREEAM (Building Research Establishment Environmental Assessment Method).

Equally, social bonds are often used to promote healthcare assets for vulnerable people in need of special care. Such is their popularity, that leading real estate companies have sought these bonds to finance their real estate investments.

As an example, in November 2020, Cofinimmo announced it had issued its first public benchmark sustainable bond valued at €500m. The proceeds from this issuance will be used to "(re)finance assets in accordance with the Cofinimmo Sustainable Finance Framework of May 2020".[5]

Green mortgages

Furthermore, other debt instruments, such as **green mortgages**, are often used to finance real estate projects.

These mortgages are specifically targeted at green buildings, with preferential terms attached to the mortgage in order to incentivise the buyer to meet certain environmental standards, for example, committing to improving a buildings environmental performance.

Moreover, in certain cases, banks will offer to cover the green certification costs of the building to which the green mortgage is linked.

For example, in April 2021, Gecina, one of Europe's largest REITs, announced its decision to requalify all its outstanding issues as Green Bonds. This policy will cover all outstanding issues, currently valued at €5.6bn, as well as all future bonds. This decision will launch Gecina as one of the first companies in the world to have a fully green Eurobond financing program.[6]

[5] Cofinimmo Press Release on sustainable bond issue, 2020

[6] Gecina Press Release on Green Bonds, 2021

4

Overview of Real Estate Investment Trusts (REITs)

Chapter provides:

- An examination of the REIT regime
- The benefits of REIT regimes to society and investors

Real Estate Investment Trust ("REIT")

Across Europe and worldwide, a **popular entity type within the LRE sector is the REIT** which enhances the stability of the real estate market and represents an accessible form of real estate investment.

REITs are property investment companies which are subject to a set of **strict requirements**. The specific conditions to which they are subject vary on a country-by-country basis, but generally contain similarities across jurisdictions, such as an obligation to distribute the majority of their profits on an annual basis and a restriction on debt financing.

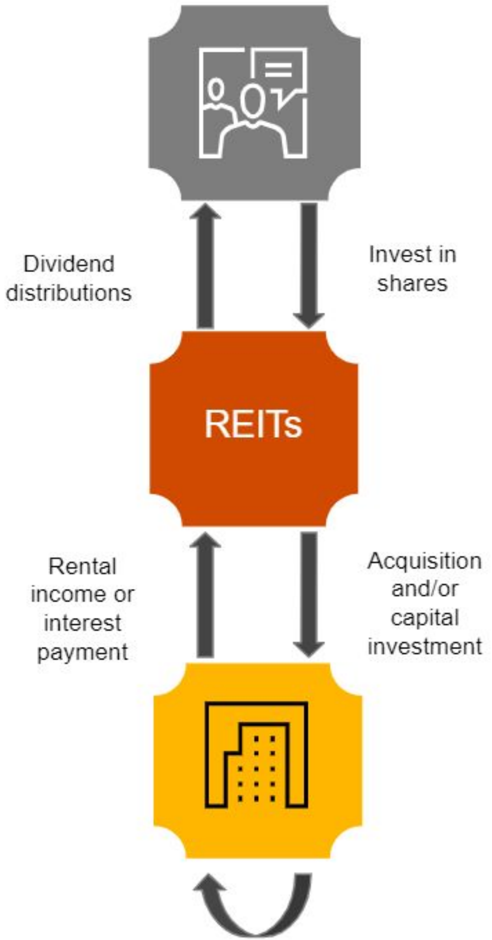
In return for meeting certain conditions, REITs generally avail of a **tax neutral treatment.** In order to **avoid double taxation**, the REIT's profits are not taxed at the corporate level, instead, all distributions made by the REIT are taxed at the investor level by way of income tax or withholding tax. This means that REIT investors are not at a tax disadvantage compared to those who invest in property directly, and it **enables smaller investors to participate in the property sector.**

Internationally recognised by the OECD in a cross border taxation context, REITs are a very well established and globally recognised investment model. In 2021, there were 195 European REITs recorded. **Globally, REITs are estimated to have a total value of close to €3 trillion**. While REITs are generally exempt from corporation tax, in accordance with the majority of REIT regimes worldwide, they are **required to distribute annually 80-90% of their income to investors.**[7]

The REIT regime responds to rapidly changing market conditions and in the current low interest rate environment have produced **attractive returns** for investors.

A successful REIT regime offers investors and corporate entities a **level playing field** in terms of investment in real estate assets, i.e. the minimum investment is the price of a single share in a REIT, thus providing investment opportunities for smaller investors.

In addition, successful REIT regimes assist in **increasing the stability** of domestic real estate markets as they provide liquidity to an otherwise illiquid market. Publicly traded REITs are subject to very high governance standards, thus providing **greater price transparency** and quicker information transfer than direct markets.



[7] EPRA Listed REITs leaflet, 2020

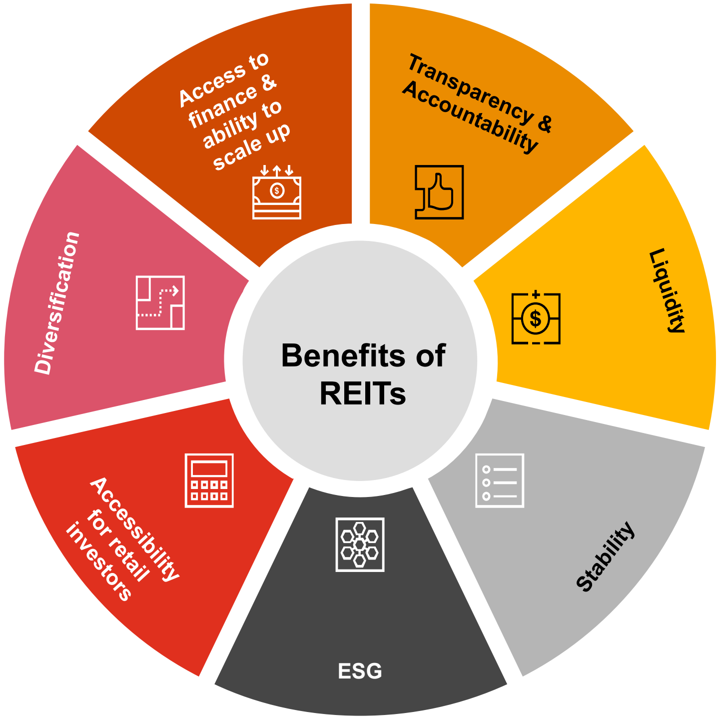
REIT Regimes in Europe

REITs have the ability to invest in **all real estate sectors**, both residential and commercial. They also **positively impact GDP and society** by employment creation throughout Europe.

Across Europe, by the end of 2021, **fourteen countries have already introduced REIT legislation** [8], recognising the **public benefits** to incentivise real estate investment. In some jurisdictions where REIT legislation does not exist, as well as in jurisdictions where REIT regimes are in place but are overly restrictive, a certain quantity of European LRE companies adopt a non-REIT status.

In exceptional cases, funds may qualify for REIT status in certain jurisdictions, however, the vast majority of REITs worldwide are operational companies.

There are many similarities between the legal and operational structure of both REITs and non-REIT listed entities. They both operate as property investment companies.The key distinction between them is the attractive single layer tax regime afforded by REITs, which include additional compliance obligations for such entities.



[8] EPRA Listed REITs leaflet, 2020

REIT Regimes - facts and figures [9]

199 Current number of European REITs

$2.5 trillion Total value of Global REITs

Ability to invest in all real estate

14 European countries with REIT legislation

REIT Tax Treatment

While REITs are similar to listed property companies, they must meet certain conditions in order to be recognised as a REIT. Although these conditions vary in detail from country to country, they share a unified concept where REITs **are required to almost exclusively invest in real estate assets and to regularly distribute a large proportion (between 80% to 90%) of their property income to shareholders.** As listed REITs typically do not pay corporate income tax, investors benefit from the fact that there is only one layer of tax - as is the case with a direct property investment.

[9] State of Play, January 2022

Global REIT presence

932

REITs Worldwide

$2,499.09 bn

Europe

199

REITs in Europe

$238.80 bn

North America

232

REITs in North America

$1,773.78 bn

Source: EPRA Global Real Estate Total Market Table
Data as at Q4 2021

Françoise Roels
Cofinimmo Chief Corporate Affairs Officer & Secretary General
EPRA Regulatory and Taxation Committee Chair

Q. What are the benefits of having REIT status for your company?

“Cofinimmo adopted the Belgian REIT status regime as soon as it was introduced in Belgium, in 1996. The reasons why Cofinimmo opted for this status more than 25 years ago - and is still very much attached to it today - are obvious. First of all, the REIT status offers Cofinimmo the opportunity to reach both retail and institutional investors.

In this way, final beneficiaries can take real estate exposure on asset types they could not access to directly and they also enjoy a yearly cash income stream. Even so important, through its regulated status in Belgium and following an industry approach under the umbrella of EPRA, the Belgian REIT stands for a kind of a quality label allowing the company to build/enhance trust in the relationship with its stakeholders. Cofinimmo and the Belgian REIT sector maintain a continuous constructive dialogue with the regulator to ensure that the regime remains aligned with market expectations.”

Benefits to society & the market of REIT regimes

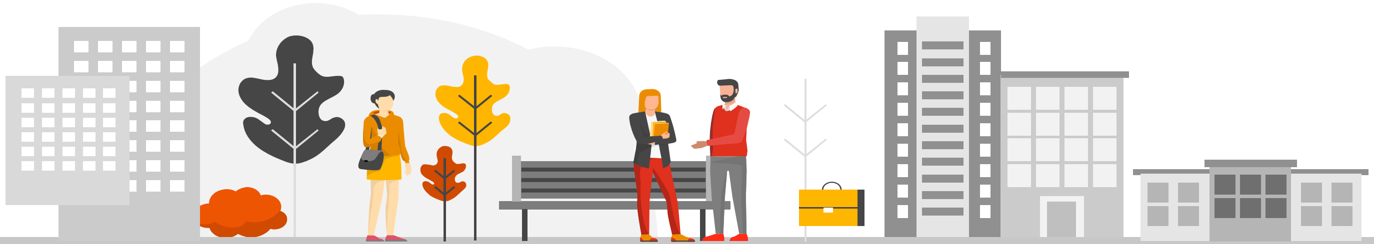
REITs provide multiple benefits to their respective jurisdictions including:

- ✓ Source of stable non-bank financing to the market;
- ✓ Source of strong employment and reliable tax generator;
- ✓ Highest quality management skills and market expertise;
- ✓ Allows for the democratisation of real estate investment as individual investors can participate alongside larger investors;
- ✓ The high profile of a REIT makes the country more attractive to international capital;
- ✓ Improve the tenancy situation as REITs are designed for long-term property investment.

Benefits for investors of a REIT

REITs are attractive investment options as they offer additional benefits such as:

- ✓ **Single Taxation Layer** - Property investments are normally subject to a double taxation i.e. taxation on the profits of the property company and taxation on the dividends received by the investors. In contrast, REITs avoid this double taxation;
- ✓ **Distribution of Dividends** - REITs are subject to strict requirements to distribute annually 80-90% of their income to investors. As such, investors are guaranteed to receive a regular steady stream of dividend income;
- ✓ **Stricter regulatory requirements** - REITs are subject to additional regulatory requirements, which can vary on a country by country basis. These requirements are regularly monitored which ensures stability of the underlying investment.



5

Real Estate Fund Management

Chapter provides:

- An overview of the real estate fund management function
- An overview of guidelines on AIFMD

Real Estate Fund Management

While the general administrative and compliance considerations across all areas of fund management are similar, real estate investment fund management is unique in terms of the **core characteristics** and specific features it possesses. In the EU, **real estate fund management is subject to regulation under the AIFMD, hence an EU wide harmonisation** of applicable regulation is in place.

Fund managers operating within the real estate asset sector must carefully consider the various elements at play when determining a preferable investment strategy. The typical investment strategy of a real estate fund manager focuses on return on investment, future cash flow and capital appreciation produced by the generation of rental income and gains arising on property disposals.

The manager needs to define an investment strategy as well as other parameters, like the fund's intended lifetime, volume of the fund's capital, minimum capital, number of investors etc. This usually is presented in a comprehensive prospectus to investors in return for a subscription. Funds are therefore very individually designed.

Common real estate asset classes include multi-family residential, office, retail, hospitality and industrial assets. Often, real estate fund managers will specialise in a particular type of real estate class when concluding on an investment strategy. While certain areas, such as industrial real estate, have gained significant traction in recent years, certain real estate fund managers may opt to divert their focus to niche areas, such as nursing homes and student accommodation which are becoming increasingly popular.

A key consideration for fund managers when devising a real estate investment plan is resolving whether the investment will be funded by debt, equity or a mixture of both. The manager in which the real estate investment financing is structured often differentiates certain funds from their counterparts.

A key difference in the fund management of a REIT and a non-listed vehicle is that a **REIT is typically internally managed** and **non-listed vehicles are externally managed.**

Unique in terms of core characteristics & specific features

Real Estate Fund Management

RE Fund manager

must consider various elements:

- Return on investment
- Future cash flow
- Capital appreciation from rental income & gains from property disposals
- Decide on particular type of real estate class to invest in
- Type of funding (by debt, equity or mixed)

Preferable investment strategy

ESMA Guidelines on AIFMD

The European Securities and Markets Authority ("**ESMA**") published guidelines and key concepts with respect to the European Parliament's Alternative Investment Fund Managers Directive ("**AIFMD**") which are **relevant for real estate fund managers**. The main objective of the guidelines is to ensure that the conditions and key concepts contained within the definition of an Alternative Investment Fund ("**AIF**"), as detailed in Article 4(1)(a) of the AIFMD are adhered to by all AIFs and Alternative Investment Fund Managers ("**AIFMs**"). Whereas funds can be structured for numerous purposes and asset classes, EU regulation aims at transparency, a common framework and investor protection. The European Commission currently reviews the rules.

The guidelines provide that an entity should not be deemed to be an AIF unless all the criteria included in the definition by the AIFMD are satisfied. **Public real estate is excluded from the scope of the AIFMD.**

The principal elements contained within the definition of an AIF[10] are:

- 'collective investment undertaking',
- 'raising capital',
- 'number of investors'
- 'defined investment policy'.

To the extent an entity satisfies the characteristics outlined under each of these elements, in accordance with ESMA's guidelines, it should be deemed to be an AIF for the purposes of the Directive. In contrast to listed and other private companies, the fund management rules for real estate investments, including the fund's investment policy, are **legally binding.** This restriction is secured by the mandatory engagement of custodians safeguarding the assets, auditors auditing the accounts and valuers valuing the assets upon acquisition, disposition and throughout the fund's ownership.

[10] ESMA Guidelines on key concepts of AIFMD, August 2013

“

Dominique Moreonheut
EPRA

Q. Why listed real estate should be part of a portfolio?

“Listed real estate, direct and private real estate funds are different but complementary ways to get access to property investments. Listed real estate offers the tangible aspect of investing in the underlying brick and mortar, but with the benefits of higher liquidity, diversification, long-term attractive and inflation-protected returns and dividend yields, in line with the highest ESG and transparency standards.

The nature of listed property companies also facilitates the democratisation of the real estate market, which is often deemed inaccessible, by providing individuals access to investment opportunities alongside larger institutional investors.”

Conclusion

It is clear that the real estate industry provides many benefits to society and plays an imperative role in our built environment and in enabling economic growth. In a world where there is a housing shortage, where ESG is at the forefront of investors minds, now more than ever, the complex real estate environment needs to be correctly understood so that all property segments are given the opportunity to grow and build a better Europe for all.

While there are numerous benefits to being a listed property company or a REIT, real estate investment also occurs through non-listed companies, funds and collective investment vehicles. With various financing means and the increasing importance of sustainable and green financing, the landscape is undoubtedly complex.

It is therefore imperative that policy-makers fully grasp the diverse world of real estate investments in order to safeguard and improve the regulatory environment so that the sector can continue to grow and serve society. Having clarity as to how different market participants function is a critical step in ensuring that the right result for better regulation is achieved.

Appendix 1

NACE Classification

Given Real Estate activities can differ in many forms, reference is often made to the NACE classification when analysing real estate activities. The **statistical classification of economic activities in the EU,** otherwise known as NACE, provides a foundation for the purposes of gathering and presenting a large variety of data and statistics in all economic fields, based on the business activity.

While the NACE code was first implemented for statistical purposes, it has become a reference point to the recently adopted EU Taxonomy and is a useful guide for analysing business activities.

NACE codes for real estate activity are as follows:

M68 - Real estate activities

1 **M68.1** - Real estate activities with own property; development of building projects

1 **M68.11** - Buying and selling of own real estate

1 **M68.12** - Development of building projects

2 **M68.2** - Rental and operating of own or leased real estate

2 **M68.20 -** Rental and operating of own or leased real estate

3 **M68.3** - Real estate activities on a fee or contract basis

3 **M68.31** - Intermediation service activities for real estate activities

3 **M68.32** - Other real estate activities on a fee or contract basis