Guiding Principles for Future EU-UK Relations: the real estate investment perspective

March 2017

The decision of the United Kingdom to withdraw from the European Union raises many questions regarding the future relationship between the EU and the UK. It also poses many important challenges for the members of the undersigned real estate industry associations, many of which, regardless of where they are based, have activities or investments on both sides of the Channel.

The specific conditions of the UK's departure from the EU, the nature of the future relationship that is put in place and the timing and process for these negotiations are of profound importance to the European real estate investment industry. We are committed to ensuring that the hundreds of billions of euro that institutional investors from around the globe have invested into the European economy through real estate are not put at risk and, moreover, that the sector can continue to support the economy.

Key Principles for Real Estate Investment

A broad range of organisations and businesses active in the European real estate market have an interest in minimising the disruption of the UK decision, wherever they are located. They include long-term investors such as pension funds and insurance companies that provide capital, fund managers that invest that capital, bank and non-bank lenders that provide finance, professional service providers and ultimately all European businesses that rely on an effective real estate sector to provide the space they need to operate and grow. Real estate investment makes a significant enabling contribution to economic activity, growth and job creation and helps create vital, liveable towns and cities. We urge policymakers to respect the following principles as they pursue the negotiations for the UK's departure from the EU:

- ***Avoiding new barriers:*** Europe's real estate sector, as well as those investing in it through equity or debt, seek a future relationship between the UK and the EU that preserves the flow of skills, capital and investment between the two. We appreciate that political and other factors will play a role, but it is critically important that as few new barriers as possible are created as a result of the UK's exit from the EU.

- ***Maintaining market access*:** A legal framework that both provides access to EU markets for long-term investors, fund managers and lenders in the UK and that allows those based in an EU member state the same access to the UK market will be better for everyone. This framework should cover:
  - the **investment activities** of long-term investors such as pension funds and insurers;
  - the **supply of credit** by banks and non-bank lenders;
  - the **marketing activities** of fund managers as they raise funds;
  - their **managing activities**, including investing and realising investments in real estate; and
  - **recruitment and retention** of professionals and other workers by all parts of the industry.

- ***Protection of legitimate expectations and rights acquired:*** Because of the long-term commitments involved in real estate investment (whether in the form of equity or debt), the market relies on the existing legal framework and could be disrupted by prolonged uncertainty or sudden or dramatic changes. Frameworks such as those created by the Alternative Investment Fund Managers Directive (AIFMD) and the Market in Financial Instruments Directive (MIFID) are especially important in this context. Rights already granted to market participants must be protected so that fund managers can continue to manage and market, and investors can continue to invest their capital across the European economy. If the application of the principle of the free movement of capital is to be reduced for flows across the Channel, it is important that pre-existing rights, obligations and expectations are adequately protected. Grandfathering provisions and appropriate transition periods (perhaps including agreed minimum equivalence periods) are among the ways that the negative effects of the changed relationship can be mitigated.

- ***Maintaining the momentum on existing initiatives:*** While it is inevitable that significant resources and attention will now have to be devoted to the renegotiation of the UK's relationship with the EU, this must not be allowed to derail or delay policy initiatives designed to boost private investment and generate growth that are already envisaged. The case for a Capital Markets Union (CMU), removing barriers to cross-border and long-term investment (including to real estate through the public markets) and reviving securitisation markets (including for commercial real estate debt) remains strong. For the real estate investment industry, the CMU has always been both European and global. The imperative to tackle obstacles to cross-border investment and market access, and to facilitate the flow of capital within the EU and between the EU and the rest of the world remain unaffected by the UK referendum result.

- ***A transparent and open process:*** It is imperative that investors have the maximum possible clarity and certainty about the next steps. It is time for a clear roadmap to be agreed by the EU and the UK and communicated to stakeholders. This must include clarity regarding the scope of the negotiations and provide for appropriate stakeholder involvement.

- ***Securing the skills base:*** Professional services are at the heart of Europe's economy and our future growth in this sector is dependent on our ability to import and export — or passport — such services throughout the Europe. The mutual recognition of qualifications and the development of common technical standards have reduced the barriers to cross-border services provision. These common approaches have also meant that European businesses can support best-practice in environmental, financial and social standards. Maintaining access and developing talents are critical to ensure the growth and competitiveness of the sector.

<u>About the commercial real estate sector</u>

The undersigned associations are all active in diverse parts of Europe's commercial real estate (**CRE**) sector. To give some brief background information about our sector, the CRE industry directly contributed EUR 329 billion[1] to the European economy in 2015, representing about 2.5% of the total economy, which is nearly equal the size of the European automotive manufacturing industry and telecommunications sectors combined. The CRE sector also employs 3.7 million people, which, again, is not only more than the auto manufacturing industry and the telecommunications sectors combined, but is also greater than banking.

Beyond these figures, the CRE sector plays a vital role in every aspect of the European economy, society and environment. Businesses and society cannot function without the services of CRE, including the provision of offices, shops, logistics facilities and many other parts of the built environment. CRE straddles finance and the real economy, because CRE needs investment in the form of equity and debt to deliver and maintain the buildings our towns and cities need.

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1 *INREV/EPRA Real Estate in the Real Economy, 2016.*

INREV

EPRA

RICS

CREFC Europe

ICSC

alfi association of the luxembourg fund industry

AREF

ASPIM
ASSOCIATION FRANÇAISE DES SOCIÉTÉS DE PLACEMENT IMMOBILIER

ASSOIMMOBILIARE
Associazione dell'Industria Immobiliare

BPF

bsi
Bundesverband Sachwerte und Investmentvermögen

FASTIGHETSÄGARNA

IPF Investment Property Forum

IVBN

LUXREAL
Real Estate Association of Luxembourg a.s.b.l.

RAKLI
Space for Life

ZIA
German Property Federation