EPRA
EUROPEAN PUBLIC
REAL ESTATE ASSOCIATION

EUROPEAN
POLICY
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 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 280 members (companies, investors and their suppliers), EPRA **represents over 690 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 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 emphasise the importance of real estate as an asset class for all types of investors. The listed sector 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.

The commercial property industry directly contributed EUR 452 billion to the European economy in 2019, representing approximately 3.1% of the total economy and comparable to the combined size of the European automotive industry and telecommunications sector. It employs 4.2 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 businesses[1].

European commercial property industry:

- Directly added EUR 452 billion to the European Union's economy, representing about 3.1% of the total economy;
- Provides jobs for 4.2 million people - more than in the banking sector and more than the combined size of the European automotive industry and telecommunications sector;
- Invests EUR 291 billion each year in building, refurbishment and development; with infrastructure and housing, this represents 63% 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.

Real Estate Investment Trusts (REITs) are a driving force within the real estate sector. 14 countries in Europe have already established a national REIT framework. 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 2020.

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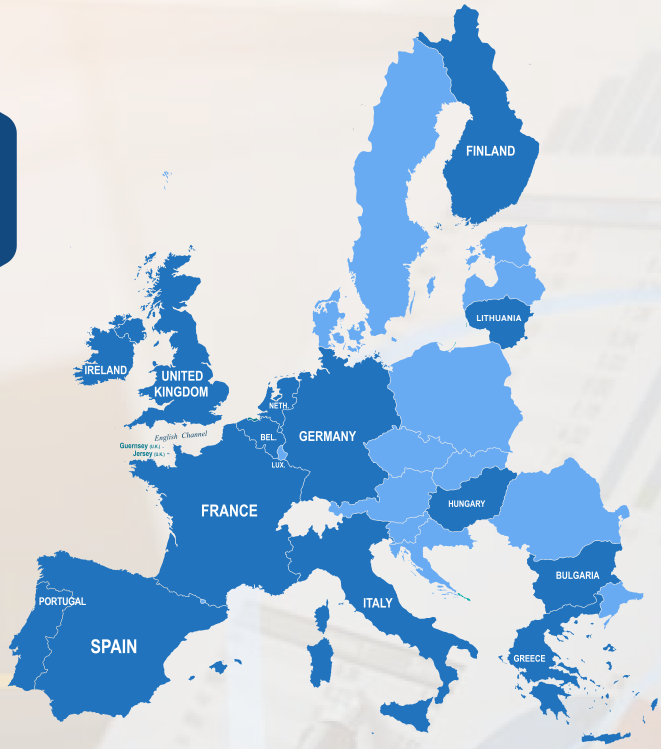
LEAFLET
2020



EUROPE - REIT REGIMES

REIT REGIMES | NO REIT REGIMES

LISTED REITs IN EUROPE

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 European countries**[1] 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 countries now **represent 78%** of the entire listed real estate market in the EU and 85% of the bloc's GDP[2]. Thus the question that arises next is how can the EU Capital Market Union further increase the benefits that the growth of listed REITs have brought to the EU?

[1]*Source: Please note that the United Kingdom is no longer a member of the European Union as of 01.01. 2021.*

[2]*Source: EPRA Total Markets Table – Q4 2019 as at December 2019.*

Five-fold increase
since 2008

Further potential compared with:
US REITs market cap is 5 times larger than the overall size of the European Listed REITs market

Real Estate 11th sector in GICS and ICB

EU REITs in numbers

63*
COMPANIES

VALUE OF THEIR ASSETS**
€312bn

TOTAL MARKET CAP**
€173bn

FREE FLOAT***
82.5%

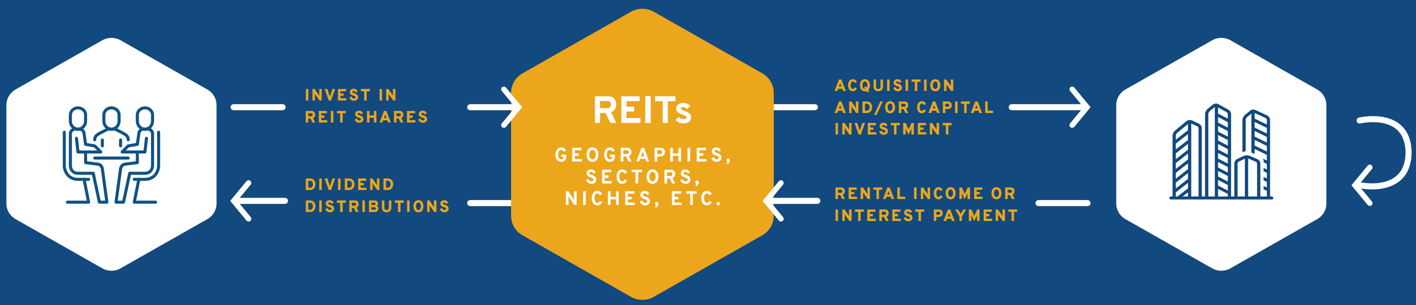
** EPRA developed and emerging Europe index constituents in the EU and the UK*
*** EPRA developed and emerging Europe index constituents in the EU and the UK at the end of 2019*
**** Free float represents the amount of shares available to investors on the market as of December 2019.*

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 of that income to avoid a double taxation. 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 the 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 Europe 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 a long-term with high returns;
- Accessible to all investors;
- Professionally and internally managed;
- Obliged to distribute on average 90% of income as dividends to shareholders;
- Shareholders would pay income tax on those dividends (avoiding a double taxation of the same income);
- With a corporate structure and a business strategy being outside the AIFMD scope;
- No restriction for foreign investors.

EPRA is the voice of the publicly traded European real estate sector, which we achieve through the provision of better information to investors and stakeholders, promotion of best practices and the strengthening of our industry.

Find out more about our activities on www.epra.com

EPRA's Priorities

Our three key pillars to build a robust, prosperous and sustainable Europe:

PILLAR ONE

Delivering long-term investments to the European economy

PILLAR TWO

Addressing global challenges such as climate change

PILLAR THREE

Boosting growth opportunities for Europe and its Member States

PILLAR ONE

Delivering long-term investments to 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 capital requirements introduced by **Solvency II** and its implications for cross-border investment, allocating sufficient capital to public equities for long-term purposes has remained a considerable challenge for investors for many years. The introduction of the new 'long-term equity investment' category that adjusted the required capital requirements to a more adequate level was a significant step in the right direction.

During the last mandate, the 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 27 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.

In September 2020, the Commission adopted a new Capital Markets Union action plan. The aim of the **Capital Markets Union (CMU)** is to get investments and savings flowing across the EU so that it can benefit consumers, investors and companies, regardless of where they are located. The COVID-19 crisis is making it more urgent than ever to deliver on the CMU. Market-based financing is essential to sustain the recovery and the return to long-term growth and to finance the green and digital transitions of our economy. In addition, the CMU can contribute to a more inclusive and resilient society, notably by helping to meet the challenges posed by an ageing population. Lastly, integrated capital markets are crucial for the EU's global competitiveness and its autonomy.

Key facts:

- **The Solvency II rules** had significant impact on the cost, design and availability of insurance products and on insurer's investment decisions, replacing national regimes with a single-set of risk-based capital requirements and risk-management principles. However, as showed by a survey[2] led by Insurance Europe, for 58% of European insurers Solvency II has had a negative effect on those products, as well as led 48% of them to invest less than optimum amounts in equities, long-term bonds, private placements or unrated debt.
- Tax systems that 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.
- The **CMU action plan** announced the Commission's intention to propose a **retail investment strategy** for the first half-year of 2022 that should seek to ensure that retail investors can take full advantage of capital markets and that rules are coherent across legal instruments.

[2] Insurance Europe "Survey Shows Solvency II Brings Benefits but Deters Long-Term Business", 26 June 2018

Our proposals for EU legislators:

- **Solvency II review:** 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 relaxation of the new 'long-term equity investments' category.
- **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.
- **Retail investment strategy:** Consider listed real estate as one of the most appealing sectors for the considerations of retail investors. We all live, work and shop in real estate, but only listed real estate is accessible to all while producing stable returns.

PILLAR TWO

Addressing global challenges

Listed real estate companies have been frontrunners on tackling 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 green residential buildings) and community engagement (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 for 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.

Key facts:

- **Sustainable Finance:** The latest estimates place the annual investment gap of approximately EUR 275 billion of additional investment in building renovation is needed every year between 2021 and 2030, totalling EUR 2.75 trillion, out of which 74% relates to investment in energy efficient buildings (EC estimates). In order to respond to this immense gap, in October 2020 the Commission published in the 'Renovation wave for Europe' its European Green Deal which focuses on the gradual development of an EU taxonomy for six important environmental objectives, e.g. climate change mitigation and transition to a circular economy. Green and social bonds have already emerged as the potential and promising alternative source of financing long-term value and sustainable real estate. To facilitate its further boost, the Commission published a proposal for the European Green Bond Standard which is intended to be inclusive and voluntary to all corporate issuers and beyond.

- **EU Taxonomy:** As part of the 'EU Sustainable Finance Strategy', policymakers have been working on the EU Taxonomy to enable investors to reorient capital towards more sustainable technologies and businesses. EU Taxonomy is a classification of environmentally sustainable economic activities. Construction and real estate activities represent one of the many groups of economic activities, although the weight of the sector is higher as buildings are responsible for around 40% of energy consumption in Europe. To achieve the target of 55% cut in emissions of greenhouse gases by 2030 and to reach the climate neutrality by 2050, it is crucial to create attractive tools to investors focused on financing energy efficiency retrofits.

- **Corporate sustainability reporting:** Current rules, applying to public-interest companies with more than 500 employees, are a first step 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. The Commission acknowledges that sustainability information has financial implications and changes the title of the Directive in its review of the Non-Financial Reporting Directive (NFRD) to Corporate Sustainability Reporting Directive (CSRD).

Our proposals for EU legislators:

- **The EU Taxonomy:** 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 whose economic activities have been considered sustainable should be strengthened, in particular greening already existing buildings. Efforts of real estate investors towards renovations and refurbishment must be recognised the same way as those invested in new sustainable buildings.

- **Corporate sustainability reporting (NFRD review):** 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 on these matters. With regards to sustainability reporting, numerous already existing market-based standards, such as the EPRA sBPR, should be considered in the CSRD (previously NFRD) review.

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PILLAR 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 pension funds stable returns 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 countries in Europe** 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 a liquid, transparent, and tax-efficient environment** 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 listed REITs, they know what they own and they can analyse their track records anytime.

Furthermore, 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.

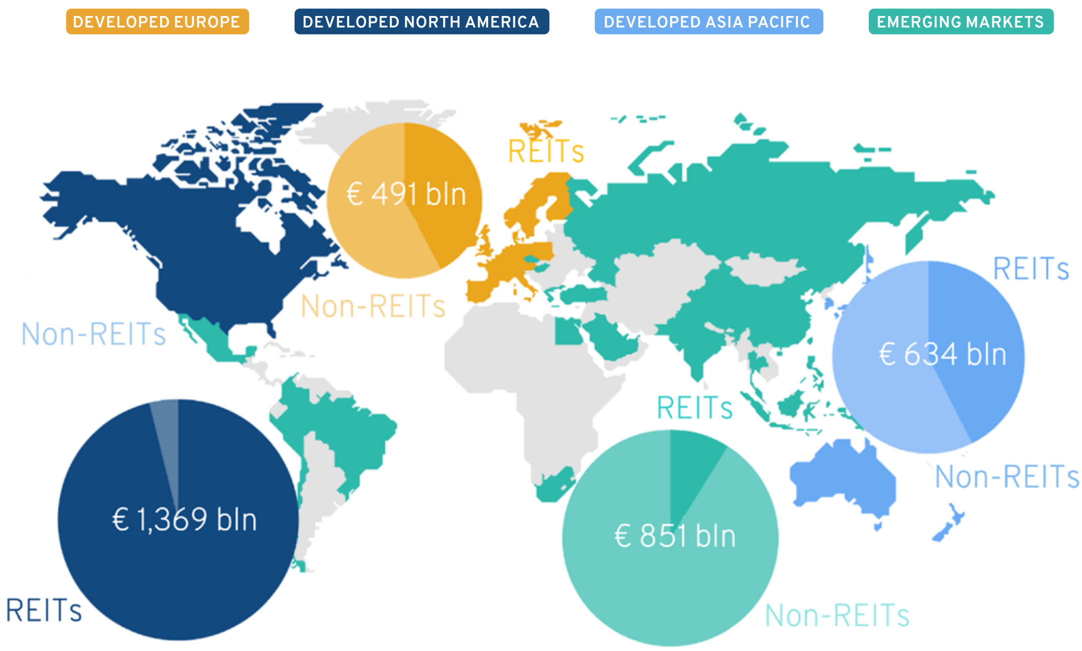
Key facts:

- The European listed property sector is still relatively small compared to other major developed global regions. Only 7.32% of its investible commercial real estate is held within the publicly quoted sector in Europe compared to 16.01% in North America and 17.26% 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 can vary from country to country and 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 REIT regimes limits their opportunities to scale up and continue on growing within the EU internal market.

Our proposals for EU legislators:

- **Facilitate the development of REIT regimes:** Encourage Member States to further develop, introduce or preserve their tax transparent regimes to facilitate real estate investments while building a strong, prosperous and sustainable Europe.
- **Mutual recognition of REITs:** Develop an EU-wide framework for mutual recognition of REIT regimes, as 14 countries in Europe have already recognised a public benefits of it. Launching of the mutual recognition will increase property investment through public markets.

Listed Real Estate (LRE) around the world



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