ASPIM NEWS

The newsletter of unlisted real estate investment funds

Number 2

April-June 2019

SUMMARY

News IN QUESTIONS

Socially responsible investment in real estate

4 questions for... Nicole Notat, Chairwoman of Vigeo Eiris and the SRI Label Committee

1 When we talk about responsible or sustainable investment, what do we mean?

When a company makes a responsible or sustainable investment it's always in the name of the fiduciary responsibility of the investor. This means that integrating extra-financial factors is not going to reduce the investments' yield, therefore, we are at the heart of the investor's responsibility. It's not a moral approach nor is it philanthropy. We are right there, at the heart of investors' activity.

The reason why this approach is developing is that companies themselves are getting round to committing to their own social and environmental responsibility. This depends on managers realising that it is necessary to pay attention to the impact of one's activity.

These social and environmental approaches are factors of brand attractiveness, of products and of services, and in the long run all that leads to renewed confidence in all of the parties concerned. In the end, this approach is a source of innovation and competitivity, it's not happening on the fringes of the company's activity and this is what interests investors, that such an approach should be an integral part of the firm's strategy.

> "Whether you look at it from the point of view of numbers, or climate change or social urgency, the real estate sector is particularly concerned regarding SRI."

2 How is the integration of these extra-financial elements translated into investment approaches?

It's translated by steps which are different from one investor to another but in all cases we are now seeing practices which are now totally identifiable.

For example, in France there is a very widespread practice of "best-in-class". By making use of a rating system for different companies, investors may decide that under a certain rating, some firms will be excluded from their investment portfolios.

There are also approaches which develop around the creation of themed funds. A fund will direct its investments towards an objective which is highly targeted in environmental or social matters. For example, renewable energy or the prevention of corruption.

A much talked about approach today is that of "Impact Investing", where the aim is to create a positive social or environmental impact. Investors want to know what the result will be, what the impact of their investment is, and so they demand tracking and reporting about this impact.

Moreover, we have to think about individual savers, and we know that increasingly they want their savings to have some kind of meaning. >>>

Info EN QUESTIONS

This was behind the drive to set up the SRI label with the government's backing so that funds could be labelled and savers would feel more confident.

3 How is the real estate sector involved in these kinds of approaches?

The real estate sector is of course concerned with all these approaches and I believe that more and more players in the sector are investing in this. The stakes are high when you are talking about buildings (renovation or construction).

You have to know that according to the World Economic Forum, the real estate sector, in the widest sense, represents about 40% of the world's primary energy consumption. This is a sector which is particularly concerned by everything surrounding CO_2. Of course, this is not the only issue. From a social point of view, Eurostat has also pointed out the question of accessibility to housing, which is one of the questions that concerns all the actors in this sector.

The UN has recently revised its sustainable development objectives which number 17 in total, and some of them concern the real estate sector. We can quote number 9, for example, which relates to the building of resistant infrastructures; objective 11, which aims at making cities inclusive, safe, resistant and sustainable, and number 13 which aims at taking urgent measures to fight climate change and its impacts.

Whether you look at this from the point of view of numbers, or climate change or social urgency, the real estate sector is particularly concerned which of course drives reflection and then action by the actors, in favour of these social and environmental issues.

4 What sort of perspectives might there be following a request by an SRI label in France where there are specific elements in the specifications for the real estate sector?

The Label Committee received a delegation from ASPIM which came to present their aims and the approach which accession to the label supports by integrating the specificities of the real estate sector. The Label Committee welcomed these propositions warmly and they will now go on and be presented to the Minister for the Economy and Finances, for it is he who, finally, carries the responsibility for the decision to modify the mission statement as well as to designate the future members of the Label Committee when it is reconfigured and which will be decided at the end of the year. ■

ASPIM *News*

3 new asset management companies join the ASPIM board

The ASPIM General Assembly was held on Tuesday 28 May 2019 and three new members were elected to the executive board:

- AMPERE Gestion
- CORUM Asset management
- OREIMA

You can find the composition of the new ASPIM executive board, from 29 May 2019, on: **www.aspim.fr/en**

The Association has 95 members:

- **83 management companies**
- **12 affiliate members made up from professionals in ecosystem real estate**

4 new members in the 2nd quarter:

- **3 management companies authorised by the AMF in real estate management: CARYATID Asset Management, LIFENTO, OSAE Partners**
- **1 affiliate member: Regulation Partners**

Find the detailed list of ASPIM members on: www.aspim.fr/en

ASPIM *News*

ImmoData: ASPIM launches the first data collection in July 2019

In conformity with the new modes of data collection laid down jointly with the *Institut de l'épargne immobilière et foncière (IEIF),* ASPIM is collecting SCPI statistics directly from its members from July 2019 onwards. The statistics collected for the second quarter and for following quarters will now be made available to managers on the ASPIM statistics platform "ImmoData".

The Association has also asked different consultants, including SOPRA STERIA, to automatize the production of key indicators to the SCPI market. The developments that have been carried out are already available for most management companies.

Housing Fund Proposal

Over the past few months ASPIM has been engaged in a process searching for a proposition for a housing fund and this period is now drawing to a close. This proposal consists of a new financing solution by institutional investors in the rental needs that France is currently experiencing in the residential sector. This way, the vocation of the Housing Fund would be to build new housing and acquire older premises by planning for a significant minimum amount of renovation works regarding energy and societal needs.

The Housing Fund is particularly aimed at private individuals who are looking to prepare their retirement and would represent a kind of "institutionalisation" of households' savings, directing this towards rented accommodation. The intermediation due to the Fund would thus be a guarantee of professionalism in the management of the building and the lease which would be to the common advantage of the tenant and the investor. The latter would also benefit from the advantages that come with collective management (regulation by the AMF, delegation of real estate management, mutualisation of the risks, calibration of the investment and the divestment).

With no tax incentive upon entry, the Housing Fund would nevertheless help investors to a fiscal "boost" in order to counterbalance the low current yield.

Two new working groups

"Fiscal competitiveness of real estate vehicles"

Instigated by the FSIF, the *Fédération des sociétés immobilières et foncières,* a common working group relating to fiscal competitivity for real estate investment vehicles was launched on 14 May 2019.

The working group is tasked with thinking about specific proposals to ensure the fiscal competitivity of these vehicles in the face of equivalent structures elsewhere as well as preserving the attractivity of Paris's financial role particularly in the context of Brexit. If need be, these propositions could be worked into recommendations in the form of a "white paper".

Other reflections have been taking place on the following issues: real estate investment vehicles and fiscal conventions, structuring in France and abroad, restructurings, the application to SIICs and OPCIs of general fiscal arrangements, modernisation of the SIIC regime and the OPCI/SCPI regime, and technical adjustments.

"Private equity in real estate"

On 13 June, ASPIM launched a new working group dedicated to "Private equity in real estate". The aim of this group is to reflect on the specific issues of members who have other activities apart from management with a view to rental, and in particular of property traders and real estate developers.

Findings of the Gide enquiry into security tokens

A report has just been published on security tokens (financial tokens similar to traditional securities). It summarises the answers to a questionnaire which investment associations and financial market actors (AFG, AMAFI, ASPIM, FD2A, in partnership with Gide 255, PwC, ConsenSys and Woorton) drew up and disseminated to market professionals, asset managers and blockchains. The aim of the questionnaire was to better understand the interest that these financial actors have for this kind of digital assets and to evaluate their expectations in this area.

Read the report on: **www.aspim.fr**

Results of the European elections 2019*

Between 23 and 26 May 2019, the 28 member states of the European Union held parliamentary elections to elect 751 members to the new European Parliament 2019-2024. (There will only be 705 members after the UK leaves the EU).

Concerning France, we note:
- The turn-out was 50.12%, which was a rise compared to the 2014 vote (42.43%),
- The triumph of the Rassemblement national (23.33% of votes) ahead of the presidential majority (22.42%), the achievements of the ecologists (13.48%) and the significant drop for the Républicains (13.48%).

The 79 French seats in the European Parliament are distributed as follows:

- Prenez le pouvoir, list backed by Marine Le Pen: 23 seats,
- Renaissance, list backed by the République en marche: 23 seats,
- Europe Écologie: 13 seats,
- Union de la droite et du centre: 8 seats,
- La France insoumise: 6 seats,
- Envie d'Europe écologique et sociale: 6 seats.

A few key points

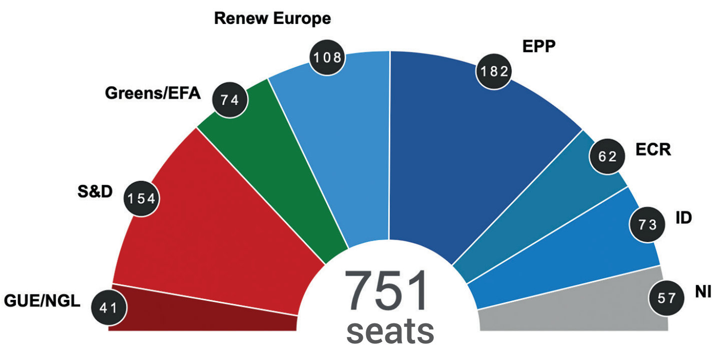
- Very good turn-out for all European voters with participation at around 50%, a rate not seen since 1994.
- The rout of two historic parties, the S&D and the PPE, who lost 31 and 34 seats respectively compared to 2014 thereby ending the absolute majority that this alliance enjoyed within the European chamber (54% of all seats in 2014 as opposed to 44.7% in 2019).
- This decline of "traditional" parties is not however the same picture across the 28 countries. While the socialist parties in Spain and Portugal obtained decent scores, the socialists in France only got 5 seats. Elsewhere, the right stayed in the leading position in Germany where the CDU/CSU alliance received 28.9% of the votes whereas in France the Républicains only scraped 13.48% of votes.
- On the European scale, a central coalition combing socialists, liberals and the PPE is quite likely. The ex-ADLE, renamed Renew Europe, obtained 108 seats, of which 23 came from the list backed by the République en marche party, and this is now in third position in Europe. Such an alliance will allow these parties to form a majority of about 59% which could be enlarged if the Greens join it. This would make a large pan-European coalition in the Strasbourg Parliament.
- The rise in strength of Eurosceptic parties. Although a coalition does not seem feasible because of very varying ideological and strategic positions, such parties as the ECR and the ID won 135 seats last May which means they have 18% of the representatives in the European Parliament.
- On the opposite end of the political spectrum the communists experienced a sharp drop while the Greens won 22 further seats. This green movement forward was particularly noticeable in Ireland, in the Netherlands, Germany and Belgium.
- Concerning the French representation, the low scores of the two traditional French parties will lead to a loss of influence within the two majority groups at European level (S&D and PPE) and this may translate into difficulties in obtaining key posts within the different authorities inside the European Parliament (group leaderships, reporters, presiding over commissions).

The democratic Italian MEP, and member of the S&D party, **David-Maria Sassoli,** was elected **President of the European Parliament** on 3 July 2019. He will serve for two and a half years, for half the parliamentary term, before handing over to a member of the centre-right PPE for the remainder of the term.

Find the 2019 European election results on:
election-results.eu

** The figures given here were correct on 3 July 2019.*

Results by political group in numbers of seats, on 3 July 2019



EUROPE *News*

ASPIM Letter to ESMA

On 14 May 2019, ASPIM sent a letter to Steven Maijoor, Chair of ESMA (European Securities and Markets Authority), the European Union's securities markets regulator, in order to draw his attention to the special characteristics of real estate investment funds, particularly in the framework of the revision of level 2 of PRIIPs regulation, for which a consultation exercise has been announced before the end of the year.

ASPIM has notably raised the question of how running costs in real estate are handled, and this today is the object of a detailed breakdown in the PRIIPs KID. This fact skewed the comparability between products and so created a distortion in the competition in relation to other investment funds that do not present these kinds of cost since they do not handle the underlying asset in which they are investing. Also, ASPIM has pleaded in favour of an adaptation to SCPIs of the calculation methods of Reduction In Yields (RIY), of Systemic Risk Indicator (SRI) and performance scenarios.

Read the letter on: **www.aspim.fr**

Moreover, in mail sent to the European Commission on 23 May 2019 the Joint Committee of ESAs (European Supervisory Authorities) confirmed the trend towards an approach towards transparency adapted to each kind of product rather than the uniform approach which prevails in Regulatory Technical Standards (RTS) at present.

On this basis, a project to revise RTSs on performance scenarios and other topics likely to include the presentation of costs will be submitted for consultation in the autumn by the ESAs, for application between now and the end of 2020.

EREF meeting in Brussels

The European Real Estate Forum (EREF) met in Brussels on 11 June 2019. This informal association is a group of different organisations, including ASPIM, which are present in the real estate investment sector in Europe.

In particular, this meeting was the chance to talk with Mr Sven Gentner, head of unit for Asset Management in the European Commission about the timetable and the priorities of the Commission. In that sense, ASPIM recalled the need for a more granular approach to regulations in order to better take into account sector specificities. ASPIM also underlined the difficulties in implementing certain obligations arising from PRIIPS regulations in the real estate funds sector.

On the topic of green finance, ASPIM also insisted on the advantages that the future real estate SRI label contains thanks to its ambitious approach that has been extended to include the social dimension and governance, and adapted to the real estate sector.

Solvency II: towards more flexibility in the core-capital ratio in real estate

The delegated act completing Solvency II (JOUE 2019/06/18) came into force on 8 July 2019. This revision aimed at adjusting and simplifying the standard formula required for solvency capital (22% instead of 25%). In particular, the EC wanted to respond to concerns surrounding the impact of Solvency II on long term investments. Under certain conditions these adjustments could have a favourable impact on the prudential handling of real estate investments. A general examination of the Solvency II directive is expected at the end of 2020.

Sustainable finance: publication of the TEG report (Technical Expert Group on sustainable finance) on the taxonomy

This report is an important step towards the definition of criteria which will identify whether an economic activity may be considered as sustainable or not.

The EC will use this report as a basis when it comes to proposing technical standards (delegated acts) once political negotiations on taxonomy are finished. The taxonomy will also be used as a base for the EU eco-label, although at this stage, the TEG is proposing that the taxonomy be voluntary with a field of application widened to include "traditional" activities known as "transition" activities and not just limited to those which have a positive impact on energy transition. This question will be one of the key points in the upcoming discussions at an institutional level.

From the real estate sector viewpoint, one of the priority sectors in this first phase of criteria definition is that of buildings.

REGULATORY AND FISCAL *News*

PACTE Law is adopted

On 11 April 2019, three amendments aiming at modernising the social purpose and the composition of the SCPI portfolio were tabled in the framework of the parliamentary bill for the "PACTE" law (Action Plan for the Growth and Transformation of Businesses): the possibility of owning on an ancillary basis furnishings associated with the management of a building, the express confirmation of the possibility for SCPIs to indirectly hold a real estate asset through the intermediary of an SCI of SCIs, as well as the possibility to hold buildings in an indirect way via capital companies and not just through partnerships.

These changes to the Financial and Monetary Code, which ASPIM has backed, should allow SCPIs to respond to the new needs of their funders (notably in terms of co-working) and to possess the legal instruments to roll out its assets abroad.

However, in ruling number 2019-781 DC of 16 May 2019, the Constitutional Council rejected the articles relating to SCPIs, saying that these provisions *"have no place in the referred law"*.

ASPIM remains mobilised however, still with the backing of the Treasury, in order to find the appropriate legislative vehicle which could accommodate the proposal to modernise the SCPI.

MIF 2: ASPIM publishes Q&A on the presentation of SCPI ex-post costs and expenses

The entry into force of the MiFID 2 regulation on 3 January 2018 strengthens the obligations of financial products distributors (including real estate investment funds) and investment services, regarding mainly investment advice to investors, in terms of transparency when presenting costs and expenses linked to such products and services.

So management companies which market shares in SCPIs directly to their clients for whom they are providing an investment advice service are now obliged, after such operations, to supply their customers with a report, at least annually, detailing the costs and expenses known as "ex-post".

In order to help its members produce this account of ex-post costs, ASPIM, in a working group with AFG, published a technical advisory on 4 June in the form of a questionnaire. This shows an analysis regarding the presentation of ex-post costs and expenses for SCPIs and offers potential solutions as to the handling of these costs and expenses: on what basis should these costs and expenses be calculated? At what date should the costs and expenses statement be sent to the associate? By what means should the ex-post costs and expenses statement be sent? How should the ex-post costs and expenses statement be presented? With a statement grid as an appendix.

Find the Q&A on: **www.aspim.fr**

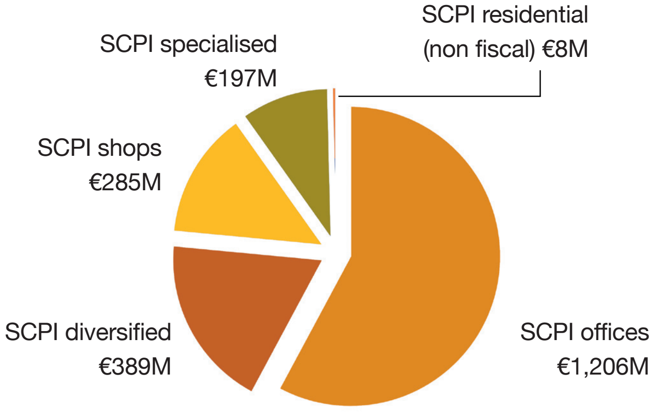
FIGURES *News*

Key figures for the 1st quarter 2019

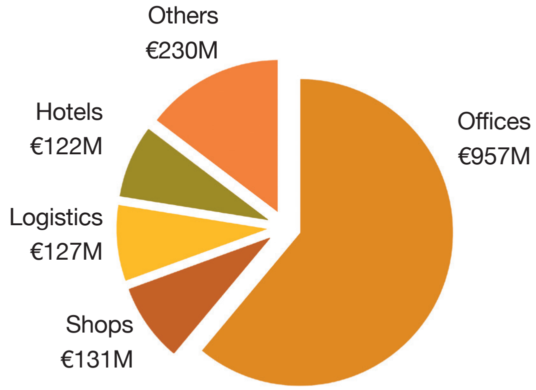
Income to non fiscal SCPIs and "retail" OPCIs made a great jump in the 1st quarter of 2019 to €2.6bn (+62%). This rise mainly concerned SCPIs (€2.1bn, ie +79%). The SCPI market has gone back to an income volume that had not been seen since the beginning of 2017. After a mediocre year of the stock exchange; the drop in interest rates seemed to have convinced investors of the desirability of investing in bricks and mortar. According to the Crédit Logement/CSA observatory, in May interest rates reached an historical all-time low at 1.29% on average (compared to a, earlier low at 1.33% in November 2016). The ever-receding prospect of a rise in interest rates has been one of the main drivers of the market in 2019.

Net investments in "retail" OPCIs reached €542M, a leap of 18% in relation to the first quarter in 2018. OPCI performance suffered from the strong instability of financial markets at the end of 2018 ut they bounced back in early 2019, going from +0.8% to +1.9% annualised performance between January and 15 May 2019. This rebound goes hand in hand with the stock market progress of listed real estate funds, one of the main components of the non real estate segment of OPCIs. The reestablishment of OPCIs performance might attract new investments through life insurance units of account in the second half of 2019.

SCPI net income: €2.085bn



SCPI acquisitions: €1.567bn

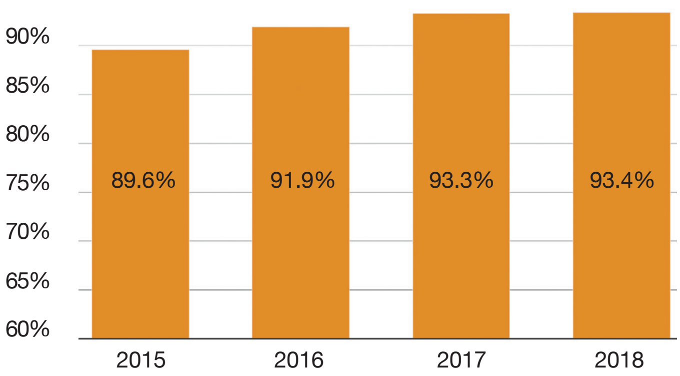


Source: ASPIM/IEIF

Focus: Financial occupancy of housing SCPIs in 2018

According to the first data available analysed by ASPIM, the financial occupancy of residential SCPIs was 93.4% at the end of 2018. This rate, which does not include assets which are being delivered or are in liquidation, remains higher than the rate for the financial occupancy of dwellings in mainland France. The INSEE declared this to be 91.7% on 1 January 2018.

Financial occupancy of residential SCPIs
(property assets delivered and functioning)



Source: ASPIM

EVENT *News*

Information meeting for the chairs of SCPI supervisory boards

On 14 May 2019, ASPIM organised an information meeting for the chairs of SCPI supervisory boards.

The aim of this meeting was to get a general overview of:

- The situation of the tertiary real estate sector and the real estate funds,
- The situation of SCPIs, with the latest regulatory provisions,
- The evolutions in the sector and in its professions.

ASPIM colloquium

After the General Assembly and the Board Meeting on 28 May, ASPIM invited its members, people in the profession and their partners to attend its annual colloquium at the *Maison de l'Amérique Latine* in Paris.

The theme of the 2019 colloquium was **"Innovation, contribution and responsibility: what perspectives for our sector?"**, and the guests of honour were the member of Parliament Cédric Roussel and Nicole Notat, chairwoman of Vigeo Eiris and the SRI Label Committee *(photos above)*.

M[r] Roussel, who was elected in Alpes-Maritimes (LREM party), had brought some amendments to the PACTE law which were to the advantage of SCPIs, as they aimed at modernising their legal framework and reinforcing their attractiveness. He spoke of his support for these changes which could be presented in future new legislation.

M[rs] Notat, who is a pioneer in socially responsible investment, gave a wide-ranging analysis of market expectations in terms of responsible investment.

ASPIM plays a part in the 1st Commercial Real Estate Convention in Lyon

CIEL Carrefour de l'Immobilier d'entreprise Lyon - Saint-Étienne - Roanne

The Lyon Métropole - Saint-Étienne - Roanne Chamber of Commerce inaugurated the 1st CIEL (*Carrefour de l'Immobilier d'Entreprise*/Commercial Real Estate Convention, Lyon), on 19 and 20 June 2019. This was a professional get together aimed at those in the commercial real estate sector in the area of Lyon Métropole, Saint-Étienne and Roanne.

As a partner in this first edition, when the show opened ASPIM took part in the round table where the theme was: commercial real estate as a tool in attracting investment to the region.

This was the occasion for the Association to present its members' activities in terms of investment in the region. Lyon Métropole, Saint-Étienne and Roanne are attracting more and more SCPI and OPCI managers

From left to right: Yves Chavent, Jean-Charles Foddis, […], Hervé Simon, Daniel While and Benoît de Fougeroux.

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