

## The CREFC Europe strategic plan

### Defining the functional importance of a sustainable and diverse CRE finance industry and institutionalising the CRE debt asset class: why the health of our sector matters and what it has to offer

#### What we have to do

As the representative body for the commercial real estate (CRE) finance industry, CREFC Europe must help to create a more coherent, institutionalised sense of our industry and what it is for, and communicate it to a number of different groups. To do that, we need **collaboration** with members and other industry participants and industry organisations. Data, and generally **better information and transparency**, are also fundamental to this project.

We have the following strategic aims in particular.

- **Policymakers and regulators** should understand the functional importance and economic value of CRE finance markets (including secondary markets, distribution and liquidity) for the economy, as well as their significance for financial stability and systemic risk.
- **Investors** should be presented with a consistent, contextualised mapping of CRE debt as an asset class, and information to help them understand the different channel(s) through which they can gain exposure to it.
- We should have a higher profile and a clearer identity as a sector in the eyes of **borrowers**, with an open dialogue to foster better understanding between borrowers, lenders, and those selling and buying existing exposure to CRE debt.
- **People within our industry**, whether they are borrower-facing or investor-facing, should feel proud to be part of a single industry that performs a useful purpose serving borrowers and investors.
- We should welcome **students and other new entrants to our industry**, helping them to find contacts, training and information and to understand the context and structure of the industry.

#### Why we have to do it

**Policymakers and regulators:** We cannot expect reasonable, let alone sympathetic, treatment from regulators if we do not communicate to them why the CRE finance sector matters to the economy, and the implications for financial stability of how our industry is structured and regulated. We need to be able to explain that our sector channels a large proportion of the capital that the real estate industry needs to perform its enabling role supporting productivity and employment as well as more generally ensuring that the built environment is attractive and fit for purpose. We also need to make a clear case for both CMBS and debt funds as essential tools for dispersing some CRE exposure out of the banking system and making it available to non-originating investors.

We can help regulators do their job better, and gain their confidence, by constructively sharing the insight that our broad CRE debt market perspective and membership gives us.

**Investors:** As an emerging asset class, CRE debt is only slowly building a clear, data-based identity that can be projected consistently to attract more (and more well-informed) capital. Our industry may find it easier to attract more (and more sustainable) capital if those selling CMBS, debt funds or other forms of CRE debt exposure come together to place the sector on the investment map.

Industry bodies representing other asset classes (for example, listed real estate companies or unlisted real estate funds) make a consistent, collective case for their asset class, supported by data that scopes their sector and compares it to others. In recent years, EPRA and INREV have begun to collaborate in order to make the broader case for commercial real estate in the real economy in Europe. CRE debt has until now lacked a clear, distinct identity, and has not featured as part of that wider real estate story.

**Borrowers:** Historically, CREFC Europe and its membership have had limited interaction with the real estate industry and its representative bodies, mostly focusing on CMBS investors instead. The result is a borrower world that is, for the most part, unaware both of CREFC Europe and of the effect of secondary markets and liquidity on the quantum, terms and cost of the loans available. Better communication and understanding would be beneficial for everyone.

**People within our industry:** Our industry will be better able to perform its core function of connecting capital seeking CRE debt exposure with real estate businesses wishing to borrow if the origination and distribution parts of the industry are themselves better connected. A more holistic perspective might also give industry participants a greater sense of the purpose and value of their work.

**Students and other new entrants:** To improve the quality of our people and the credibility of our industry as a coherent asset class and specialist profession, we should welcome those with a specific interest in real estate finance into our industry, even if many lenders continue mostly to recruit entry-level generalists or seasoned professionals. At a minimum, there should be networking opportunities for students and others interested in our sector, and clearer signposting to help industry outsiders find their way into the sector. We can also play an important role in providing training and education.

#### **How we can do it**

Our Regulatory Committee is growing in importance, helping us react to regulatory developments affecting different parts of our industry, and ensuring we keep our members informed about how those developments affect them. No less importantly, it can help us become more proactive, building relationships with policymakers to help improve their understanding of, and attitude to, our industry.

In parallel, we are launching a number of work streams, all of which should, in one way or another, support the strategic goals outlined above. We have consulted and will continue to seek views from our members and the wider industry on what we should concentrate on, and we will be responsive and flexible. Energy and enthusiasm from members will always be key to what is prioritised.

We have formed, or are planning to create, working groups to focus on topics including the following:

- Describing the CRE debt asset class and the function, structure and composition of our industry, to support both collective engagement with regulators and individual engagement with investors
- Promoting the recovery of sustainable CMBS markets by tackling regulatory and market challenges, and building on CMBS 2.0 to help ensure that the market addresses, and is seen to address, the problems exposed by the crisis with pre-crisis CMBS
- Guiding the evolution of intercreditor documentation, not only in scenarios involving structural subordination but also where subordination is contractual, and providing information and guidance to market participants
- Encouraging the growth of the market in longer-tenor (and possibly fixed-rate) CRE loans in markets dominated by shorter-tenor bank lending

- Providing a forum for CRE loan syndicators and supporting the emergence of league tables for non-recourse CRE lending syndication
- Refreshing and updating existing CREFC Europe guidelines and best practice in areas like due diligence, hedging and tax
- Providing a forum for CRE debt investors (whether via the bond market, investment funds or otherwise) to discuss matters of common concern
- Developing standards for CRE loans so as to promote CRE debt market diversity and the strength and liquidity of secondary loan and bond markets
- Producing new guidelines and market standards to address specific areas where communication, understanding and practice among different market participants create unnecessary costs, complexity or conflict on transactions

In addition, we are collaborating with other industry associations nationally and internationally where that makes sense, using those relationships to promote our industry and asset class. For example:

- Through our participation in the European Real Estate Forum (organised by INREV and EPRA and bringing together more than 20 national and international industry associations), we are working to raise awareness at the European level about the importance of CRE debt in Europe, including through a specific research project with INREV and the German property federation, ZIA.
- We plan to work with INREV to promote the interests of CRE debt funds, helping regulators and investors better understand the role they play in the market and the opportunities they offer.
- Through the UK Property Industry Alliance, we hope to influence the future of the 2014 industry report *A Vision for Real Estate Finance in the UK* and its recommendations for improving the relationship between CRE finance markets and financial stability<sup>1</sup> (while also continuing to engage with international policymakers about aspects of that report that have broader relevance)
- In the UK, we are working more closely with the Association of Property Lenders, with whom we see a growing overlap in membership and objectives, for the benefit of our respective members and the industry as a whole
- We are supporting both the De Montfort University UK commercial property lending research and the German debt project of Regensburg University's International Real Estate Business School to promote information and understanding of CRE debt.

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<sup>1</sup> See [https://www.ipf.org.uk/home/vision\\_for\\_real\\_estate\\_finance/default.aspx](https://www.ipf.org.uk/home/vision_for_real_estate_finance/default.aspx). Among the recommendations are proposals for a comprehensive, mandatory (but still private and anonymous) UK CRE loan database to give lenders, regulators and others better data about the market; for the use of long-term value (rather than market value) in determining LTVs for risk management and capital purposes; and for active efforts to promote greater diversity in CRE debt supply.