CREFC Europe

Capital Markets Union Action Plan

Representations on Roadmap Ref. Ares(2020)3568180 – 07/07/2020

The Commercial Real Estate Finance Council Europe is the representative body for European commercial real estate (CRE) finance markets. We strongly support the CMU and agree with the statements in the Action Plan as to why it is important and what it should achieve. We would like to emphasise the role that CRE can play in:

(a) providing investment options (especially to those willing to sacrifice some liquidity for a higher yield in a persistently low interest rate environment), both for equity investors and for non-bank lenders and debt investors;

(b) providing essential capital for SMEs (in the sense that, if they can rent fit-for-purpose commercial premises, they can deploy scarce capital elsewhere rather than needing to buy or build their premises); and

(c) supporting the green transition (given the significant contribution made by CRE to carbon emissions and consequently the impact that green retrofit can have).

We would also like to emphasise that the shape and structure of CRE credit markets is important economically, in terms of financial stability, and for investment (in recovery and for the green transition).

- CRE faces multiple challenges that necessitate substantial investment over the coming years: structural changes (e.g. e-commerce) are compounded by Covid-19 and the need for green transition. Equity capital is expensive, and can go much further if it is paired with debt.

- It has been very disappointing to see European policymakers block the recovery of CRE debt securitisation (through the commercial mortgage-backed securities, or CMBS, market) – by excluding it from the STS framework and imposing penal capital charges under Solvency II. CMBS could offer insurers and other institutional investors a more transparent, comparable and liquid form of exposure to CRE debt than is otherwise available – but unreasonable policy decisions prevent its recovery to the sort of proportion of the CRE debt market that it might otherwise usefully occupy. This situation cannot be justified in policy terms and urgently requires review.

- More generally (and as mentioned above in relation to CRE), CRE debt can offer good risk-adjusted returns to investors. Investor protection should not prevent economic investment (by institutions or by retail investors). It should instead ensure that investors understand the characteristics of the CRE debt (including its relative illiquidity) and that there is both transparency and suitable alignment of interests between lenders / asset managers and investors. The position of a secured CRE debt investor is inherently less risky than that of the owner of the real estate, and the illiquidity premium available can make CRE debt an attractive investment.

- Restrictions at the national level on CRE lending continue to impede CMU, imposing regulatory and structuring costs on sources of credit that could diversify activity and risk away from Europe's banks.

- Banks can act as a catalyst for green retrofit of commercial buildings, aggregating information and spreading expertise, as well as finance, across a very fragmented industry in terms of ownership.

We have made numerous submissions to the Commission and the ESAs over the last few years elaborating on most of the above points, to very little effect. We will not reattach any of them here, but we are very happy to engage with officials on any of our representations. We would be delighted to help officials ensure that the CRE and CRE lending industries make the best possible contribution to CMU and to Europe's economic recovery and future.

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