Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Macroprudential Policy for the Property Fund Sector – Consultation Paper 145

Feedback from BCP ASSET MANAGEMENT DAC

Do you agree with the proposal in Consultation Paper 145 to limit leverage and introduce additional Guidance around liquidity mismatches as a means to meet the Central Bank's objective of safeguarding resilience of the property fund sector to shocks in the Irish CRE market? If not, which measures, or combination of measures, do you think best meet the objective of safeguarding resilience of the property funds sector, so that it is better able to absorb – rather than amplify – shocks in the Irish CRE market?

Response:
We do not agree that the proposals will necessarily influence that way the Irish CRE market act in a stressed scenario and the impact of the proposals with have a number of unintended consequences.

Significant leverage levels, prevalent in the last crash in the past are not seen in current structures as the Banking Sector has significantly increased its controls and security measures protect itself and which at the same time contributes to ensuring that borrowers manage their lending appropriately. By influencing bank lending the Central Bank is ensuring leverage levels are set based on commercial reality and not absolute levels of leverage.

Introducing liquidity time frames will not necessarily safeguard the property market. If funds have pending redemptions and are required to place properties on the market, the property sector will be impacted irrespective of the time frame in the prospectus of the fund. Under existing rules, where a fund has liquidity challenges, it can choose to invoke existing liquidity tools to ensure a controlled sell down.

Introducing extended liquidity term will create significant marketing challenges when compared to other publically available property structures and is likely to have the unintended consequence of encouraging existing investors to exit funds. Could funds move abroad?

Do you agree that the definition of property funds – for the purposes of the proposed macroprudential measures – should include all AIFs that are domiciled in Ireland, authorised under

domestic legislation, and investing over 50 per cent directly or indirectly in Irish CRE, subject to the narrow class of exclusions noted in the consultation paper? If not, what do you see as a better alternative definition of property funds for the purposes of application of the proposed measures?

Response:
No comment on this proposal. If the rules do not apply to non-Irish funds then would funds not consider moving abroad making the proposals moot but gutting the insustry

Do you agree with the Central Bank's proposal to have a single leverage limit, irrespective of the type of property holdings? If not, how would you differentiate the limit with respect to property holding type, and what would be the practical implications of doing so (e.g. additional, more granular data collection)?

Response:
No comment on this proposal

Do you agree with the proposed calibration of the 50 per cent total loan to total asset ratio as the appropriate leverage limit for property funds? If not, what level of leverage limit would you see as appropriate for Irish property funds, taking into account the risks the sector is exposed to and the levels of leverage employed by property funds throughout Europe? Please explain why you have suggested this level and the evidence that would support that.

Response:
No comment on this proposal

Do you consider three years to be a sufficient amount of time to undertake any deleveraging in a gradual and orderly manner to meet the leverage limit as proposed, without the need to sell property assets over a short period of time? If not, what would an alternative transition timeframe be? Please explain why you have suggested this alternative length of time.

Response:
No comment on this proposal

Do you consider the proposed approach to adjusting the leverage limit in response either to large, unanticipated adverse price shocks and/or significant overheating to be appropriate? If not, what do you see as a better alternative approach to adjusting the leverage limit to reflect cyclical risk developments in the Irish CRE market?

Response:
No comment on this proposal

Do you agree with the use of Guidance on liquidity timeframes (with a focus on longer notification periods) to reduce liquidity mismatch in property funds? If not, how would you propose to reduce liquidity mismatch in property funds?

Response:
This Firm does not agree with the proposal to reduce the'liquidity mismatch' in property funds

We believe the liquidity mismatch, while theoretically existing, has not created difficulties for funds.

The Use of existing liquidity management tools have proven effective in the most recent crisis and there is no evidence in the market of any significant dissent from unit holders. The Firm's experience has been similar with only limited feedback on the use of liquidity controls. The Firm believes that it should be allowed to operate with those tools rather than have automatically enforced settlement periods.

The decision to propose the change does not appear to be arising from investor demand for change but on an assessment that the'liquidity mismatch' might disrupt the property market. The Central Bank's own analysis would indicate that 11.5bn of a total market of 23bn, is single investor funds. These funds are unlikely to be influenced by extended liquidity terms and are unlikely to be forced sellers, impacting the stability of the property sector.

In any event, QIAIF is the investment vehicle of choice for single investor funds for tax and other funding related reasons and their

decision making is not impacted by the redemption period chosen. If QIAIFs were not the vehicles of choice, these investors would use other structures to hold property and their influence on the resilience of the property sector would be the same as their choice of investment structure would not impact their sell/hold decision in relation to property

Do you agree that 12 months is an appropriate liquidity timeframe (notification period plus settlement period) for property funds, to ensure that a sufficient timeframe is available to meet unexpected redemptions without requiring forced sales, even under conditions of collective market stress? If not, how long of a liquidity timeframe period do you think would be sufficient to reduce liquidity mismatch, even under conditions of collective market stress?

Response:
We do not agree with the introduction of a 12month liquidity time frame.

The Central Bank's own analysis shows that Irish Property funds have low redemption frequency. Recent experience during the Covid crisis supports this as it did not result in significant redemptions from property funds. While there is a risk that a fund might need to invoke existing liquidity tools to ensure the orderly sale of assets there are significant warnings within documentation to highlight this risk and we believe that this should be sufficient for qualifying investors who by definition should understand the risks and will have read the warnings.

In addition, good fund governance would suggest that a fund should maintain a buffer for redemptions outside of which it should have the capacity to invoke exiting liquidity tools to meet substantial redemptions

Do you have any additional evidence on the time it takes to sell property assets in Ireland, both in normal market conditions and in times of stress?

Response:

In addition to the analysis provided in Consultation Paper 145, what potential unintended consequences do you see from the proposed measures, and how could these be mitigated?

Response:
There are two significant unintended consequences of the proposed liquidity timeframe.

Should the regulation be introduced, it is likely funds will be required to allow existing investors to exit the fund before the new regulations are applied. This is likely to have unintended consequences that investors, who otherwise might want to stay in the fund might leave as they do not wish to be locked in at this point. This represents significant threat to the fund as significant redemptions might force the fund to sell properties that it would otherwise have been in a position to hold onto. This could be mitigated by not subjecting existing funds to the extended liquidity timeframe.

The extended liquidity timeframe will significantly disadvantage the firm when marketing its property funds. Life office property funds which will be available to the Intermediary network, will not have any enforced settlement period, being allowed to deal daily. The life office funds will also not have any leverage and are permitted to have'swing pricing' at any point in their operating cycle.

Permitting retail investors into daily dealing property funds is more likely to result in reactionary redemptions and thereby forced selling of property when compared to professional investors in QIAIFs, who by the Central Banks's own analysis, tend to hold onto investments.

In addition, the introduction of these measures in Ireland will raise the possibility of regulatory arbitrage, with investors who wish to continue to use AQIAIFS, using non Irish QIAIFs to hold property

investments, with no benefit to the resilience of the Irish property market.

If there are any significant operational difficulties envisaged by AIFMs in complying with leverage limits imposed via Article 25, please provide brief details, including any possible solutions if appropriate.

Response:

If there are any significant operational difficulties envisaged by AIFMs in complying with the draft guidance (Annex 1 of CP 145), please provide brief details, including any possible solutions if appropriate.

Response:

Additional data in support of any of your responses to the previous questions.

Response:

If you have any further thoughts or considerations on the proposals outlined in Consultation Paper 145, please share them below.

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