Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Macroprudential Policy for the Property Fund Sector – Consultation Paper 145

Feedback from McCann FitzGerald LLP

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 would endorse the response to this question provided by Irish Funds in its submission to the Central Bank.

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:
We would endorse the response to this question provided by Irish Funds in its submission to the Central Bank. In particular, we feel that there should be an exclusion for social housing and residential real estate.

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:
Again, we would endorse the response to this question provided by Irish Funds in its submission. In particular, we believe that if there is to be a leverage limit imposed for property funds, a higher leverage limit should be considered for closed-ended funds or open-ended

funds with limited liquidity which offer redemptions less frequently than annually and where redemptions are still at the discretion of the fund. The Central Bank mentions in the Consultation the impact of a combination of a high leverage limit with liquidity demands. If one of these elements is not present (which would be the case in relation to a closed-ended fund or an open-ended property fund which offers very limited liquidity), then it follows that a higher leverage limit ought to be acceptable for those closed-ended or very illiquid property funds.

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:
We would endorse the response to this question provided by Irish Funds in its submission. Our firm's experience, both in acting for borrower property funds and acting for secured lenders to property funds, is that 50% is significantly below the market standard.

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:
Again, we would endorse the response to this question provided by Irish Funds in its submission. We do not believe it is appropriate for existing property funds to be subjected to this limit or to be required to deleverage. The suggestion of a three year transition window to deleverage to below 50% ignores the commercial reality that most property funds in Ireland (a) are closed-ended and have already raised capital from investors, (b) invest in a concentrated pool of

assets and (c) have, at the outset, negotiated borrowing facilities from secured lenders at specific commercial terms. For the majority of these funds, it won't be possible to raise additional capital or vary the agreed commercial terms with the secured lender. Therefore, any proposal whereby existing property funds might have to deleverage to a prescribed borrowing limit will inevitably result in a fire sale of Irish property assets which is precisely one of the key concerns identified by the Central Bank in the Consultation. A transition period would not protect against this.

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:
We would endorse the response to this question provided by Irish Funds in its submission.

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:
Again, we would endorse the response to this question provided by Irish Funds in its submission.

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:
Again, we would endorse the response to this question provided by Irish Funds in its submission.

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:
No

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:
We would endorse the response to this question provided by Irish Funds in its submission.

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:
N/A

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:
N/A

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.

None

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