

By email to:
Retail.disclosure@hmtreasury.gov.uk, and
DP22-06@FCA.org.UK

3 March 2023

Dear HM Treasury and FCA retail disclosure teams,

BPF representation on PRIIPs (Packages Retail Investment and Insurance Products):

- **HM Treasury consultation – PRIIPs and UK Retail Disclosure**
- **FCA consultation - Future disclosure framework**

The British Property Federation (BPF) represents the UK real estate sector, an industry that contributes more than £107bn to the economy and supports 2.3million jobs. We are invested in communities across the UK, revitalising our cities and shared spaces, re-imagining our town centres and creating vibrant new places designed for the way we live today.

We recognise the benefit to our sector - and to the wider economy - of ensuring that capital can flow from retail investors that want exposure to real estate investment assets – and to that end, we recognise the importance of ensuring that retail investors have access to relevant and comparable information to inform their investment decisions. We therefore welcome the concurrent consultations from HM Treasury and the FCA on this important issue.

The challenges and shortfalls of the existing PRIIPs disclosure regime have been well summarised within these two consultations from HM Treasury and the FCA. We recognise a number of these shortfalls and we support efforts to improve on these rules to ensure that investors have access to the most relevant and useful information –and also to ensure that the rules do not distort investment decisions or cause unfair competition. On that note, we wanted to draw your attention to how the PRIIPs rules give rise to an unhelpful distortion within the UK REIT (Real Estate Investment Trust) market.

What are REITs?

Real Estate Investment Trusts (“REITs”) are listed property companies that own, operate and manage real estate assets in order to generate returns from rental income and capital appreciation. They help communities grow, thrive, and revitalise and provide an investment opportunity that makes it possible for everyday citizens as well as large institutional investors to benefit from valuable real estate, dividend-based income and total returns.

Anyone, from retail investors to large institutional investors, can invest in publicly quoted REITs, in the same way as investing in listed companies from other industries - through purchasing shares. The shareholders of a REIT earn a share of the income produced, without actually having to go out and buy, manage or finance property. Most of the income that is generated by a REIT must be distributed to investors on a regular basis – the UK REIT regime requires that 90% on income is distributed to investors annually. On the basis of this regular distribution, the regime moves the point of tax from the REIT to the investor – which ensures that investors pay tax once, on dividends at their personal rate, rather than incurring double taxation at both the REIT level, and the personal level.

REITs play a crucial part in providing retirement security to millions of people, by offering long-time investors like pension funds and insurers stable and highly competitive assets to invest in. Fourteen European countries have already recognised a public benefit to incentivise real estate investment through public markets and have introduced REIT legislation in their jurisdiction. The REIT regime is a

global brand – the UK REIT regime has grown considerably since its introduction in 2007, and represents the biggest REIT market in Europe – with a number of REITs listed in the FTSE 100 and 250.

Why do the rules result in an arbitrary treatment of REITs?

The adoption of PRIIPS brings closed ended funds that are either classified as Alternative Investment Funds (AIFs) under the Alternative Investment Fund Management Directive (AIFMD) or a Packaged Retail Investment Product under PRIIPS into the cost disclosure regime for the first time for retail investment products across the EU.

Because some REITs in the UK are classed as AIFs in the UK while others are not (the distinction hinges on which chapter of the listing rules the REIT has based its listing on), this could end up distorting the UK REIT market. One of the main difference in 'AIF REITs' tends to be that their management function is outsourced. However, in practice, All REITs are property rental businesses and incur similar operating costs irrespective of the management arrangements.

What are the consequences of treating REITs differently?

Requiring only some AIF REITs to disclose costs will be misleading for investors. AIF and non- AIF REITs are fundamentally similar businesses with comparable underlying investments and objectives – whether or not they outsource their management function. By only requiring some REITs to disclose costs, the information available to investors would be thoroughly misleading – which would be counter to the fundamental objective of the PRIIPs rules.

Furthermore, this will result in an unlevel playing field for the UK REIT market – the associated product charges of AIF REITs will put them at a competitive disadvantage to other REITs (even though their business models and underlying investments are comparable). This could distort the market and potentially lead to a divestment in UK AIF REITs.

What is the solution?

REITs are all listed companies around which a robust governance and shareholder protection framework has developed over the years (e.g. the listing rules, the UK Corporate Governance Code, accounting standards etc.). It would in our view be disproportionate and unnecessary for a subset of these (i.e. AIF REITs) to be also subject to the retail disclosure rules found in the PRIIPs regulation.

Furthermore, both internally and externally managed REITs across Europe publish operating costs in annual audited accounts in a standardised format developed by the European REIT trade body, EPRA¹. These ratios provide better transparency and comparability for investors in REITs – hence further regulated disclosure for this sector seems unnecessary.

Please do not hesitate to get in touch for further information.

Yours sincerely

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¹ https://www.epra.com/media/EPRA_Cost_Ratios_2013_1373630636279.pdf