CP145 – CBI Consultation Paper on Irish Real Estate Funds

Introduction

In late November 2021, the Central Bank of Ireland ("CBI") issued a consultation paper (CP145) to industry with proposals to safeguard the resilience of the real estate fund sector to enable it to better absorb future adverse shocks. Irish authorised property funds are estimated to hold over 40% of invested Irish commercial real estate with assets valued at €23 Bln.

The CBI consultation proposes to:

- Introduce macroprudential limits on leverage/borrowing.
- Provide regulatory guidance to reduce the potential for liquidity mismatches in AIFMD compliant property funds.

Limits on Leverage/Borrowing

The proposals include the following:

- The introduction of a leverage limit – a 50% limit on the ratio of a real estate fund's total loans to its total assets.
- A three-year transition period for existing funds to become compliant with the leverage limit. For existing property funds exceeding the limit, they will be required to have a plan in place to show how they will reduce the level of borrowing over the transition period. New real estate funds need to ensure their operations and fund documentation are structured so as to comply with the leverage limit at authorisation stage.

The leverage limit would apply to QIAIF property funds, which are Irish-authorised and invest over 50% directly or indirectly in Irish property. It would not apply to Irish RIAIFs that invest in Irish real estate as they are already subject to a lower borrowing limit.

Liquidity Mismatch

AIFMD requires AIFMs to ensure that, for each AIF they manage, the investment strategy, the liquidity profile and the redemption policy are consistent.

However, the CBI has "*observed significant variation in the redemption terms of Irish property funds, which cannot be explained fully by differences in the liquidity of their assets*". The CBI believes that a liquidity mismatch is evident for a significant portion of Irish real estate funds and that additional regulatory guidance is required.

The CBI guidance proposes:

- A requirement for property funds to consider the liquidity profile of the assets in both normal and stressed market conditions when determining the redemption terms.
- A minimum period of 12 months between the date a shareholder submits a redemption request to the date they can expect to receive the redemption proceeds. Any property funds with a period shorter than 12 months will be required to justify it.
- No transition period for existing funds. Such funds would be expected to make any changes to their structure and fund documentation to take account of the guidance *"at the earliest possible opportunity"*.

This guidance applies to:

- QIAIF property funds, which are Irish-authorised and invest over 50% directly or indirectly in Irish property.

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- QIAIFs that are "open-ended with limited liquidity" – closed ended funds are not in scope as they do not offer redemption opportunities to shareholders.

Next Steps

The CBI has requested feedback on its proposals by no later than 18 February 2022 and has indicated that any submissions that suggest changes to the proposals should be supported, where possible, by evidence.

KB Associates' Services

KB Associates provides a range of services to investment funds including:

- The provision of UCITS management company/AIFM services.
- The provision of designated persons to perform UCITS business plan/AIFMD programme of activity functions.
- The provision of operational and compliance services to both UCITS and AIFMD compliant structures.

If you would like to discuss this note or KB Associates' services in general, please contact:

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