

MANAGEMENT SUMMARY

AIFMD & Real Estate

Lieske van Pelt

“Impact of the AIFM Directive on real estate fund managers and on the transparency of the real estate investment market”

Introducing the research question

Problem statement

The introduction of the Alternative Investment Fund Managers Directive (AIFMD) is a result of the recent financial crisis of 2008 and one of the first concrete measures of the European Union to tighten the supervision on the alternative fund industry, real estate funds included. After the fall of Lehman Brothers (September 2008), often described as being “too big to fail” the decision was made to increase supervision.

The AIFMD has been introduced in order to protect the investor and to increase transparency in the market. This should positively affect the real estate market. However, these intended objectives are doubted in literature.

AIFMD imposes substantial requirements regarding operations and management processes of the fund managers. This means that operations and processes will have to be changed and this likely affects the whole fund value chain with its actors. These changes required under AIFMD are associated with costs. Until so far, the cost impact is unclear as well as the attribution of these costs between the fund manager and the investors.

Furthermore, the directive is homogeneous, regulating heterogeneous types of funds. This one-size-fits-all approach is probably causing competitive disadvantages for some types of funds.

So,

- The impact of AIFMD on real estate fund managers is unclear.
- The intended objective: more transparency in the real estate investment market is doubted.

Hypotheses

According to the problem statement, the following hypotheses are formulated:

- AIFMD causes a significant impact on real estate fund managers
- AIFMD will contribute to the transparency of the real estate investment market

Main research question

To test the hypotheses, the following main research question is used:

“What is the impact of AIFMD on real estate fund managers and does the directive contribute to the transparency of the real estate investment market?”

The **objective** of this research is to give an insight in the AIFMD impact on real estate fund managers and to determine the transparency benefits for the real estate investment market.

Methodologies

A **literature study** is conducted in order to be able to write the theoretical framework. Due to the limited amount of available literature, also **expert interviews** are conducted. The theoretical framework is highly important to become adept in the subjects and topics related to AIFMD. The theoretical framework functions as context for the empirical part. When conducting the empirical part of the thesis, the findings are combined with the theoretical framework findings.

KNOW - WHY & WHAT

What is **AIFMD** implemented?

What is the **expected impact**?

What are the **expected transparency benefits**?

motive

In the empirical part of the research, three **case studies** are conducted on three real estate fund managers and their institutional investors.

Impact AIFMD for real estate fund managers – Survey

The direct- and indirect cost impacts for three real estate fund managers are measured in order to rule on the total cost impact. The direct costs data is quantitative, but the conclusions on this data are qualitative. The indirect cost impact is determined by comparing the organisation structure of the fund manager before and after the AIFMD implementation and is qualitative.

KNOW - WHAT

What is the **cost impact** of AIFMD for real estate fund managers?

direct and indirect costs

Effects on investors and the transparency of the real estate investment market - Interviews

The investors of the four funds will be asked in interviews for their opinion, experiences and expectations regarding AIFMD and to what extent they think this contributes to a more transparent real estate investment market.

KNOW - WHAT

What are the **effects** on and for investors?

Does AIFMD deliver what is expected?

transparency

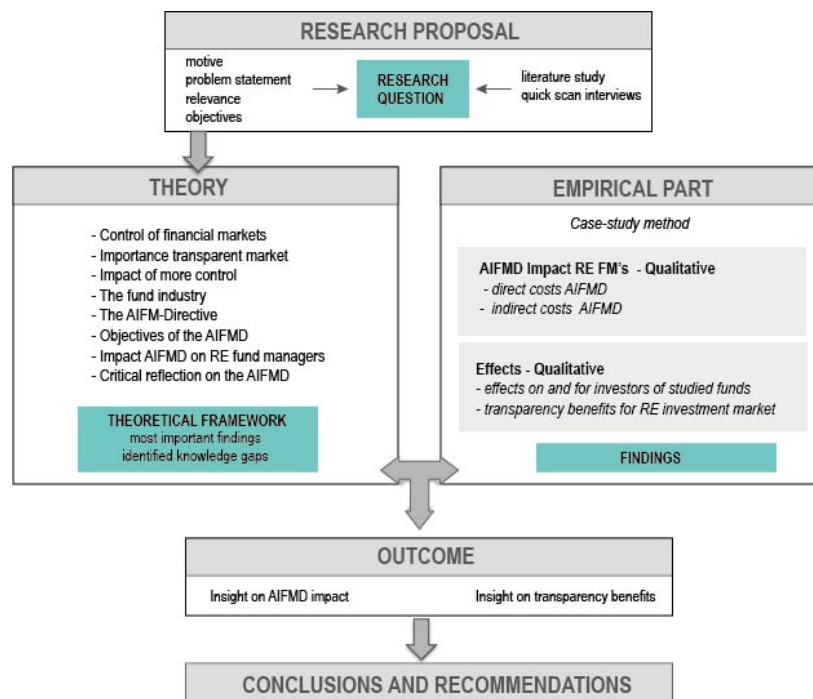


Figure 1: Research design

Theoretical framework – context for empirical research

The theoretical framework forms the context for the empirical part of the study and covers the following topics: supervision of the financial markets; the importance of a transparent market; the impact of more supervision on financial markets; objectives of AIFMD; AIFMD and its requirements and the impact on real estate fund managers. These contents of literature evoked the most important findings and identified knowledge gaps on which the empirical part of the study has focused on.

Findings and answer to the main research question

The empirical research findings and literature study enabled me to answer the main research question and to test the hypotheses.

“What is the impact of AIFMD on real estate fund managers and does the directive contribute to the transparency of the real estate investment market?”

Cost impact on real estate fund managers

My research has shown that the AIFMD impact on real estate fund managers differs according to the size of the fund manager, to the degree of control functions present before implementation and to the complexity of the fund.

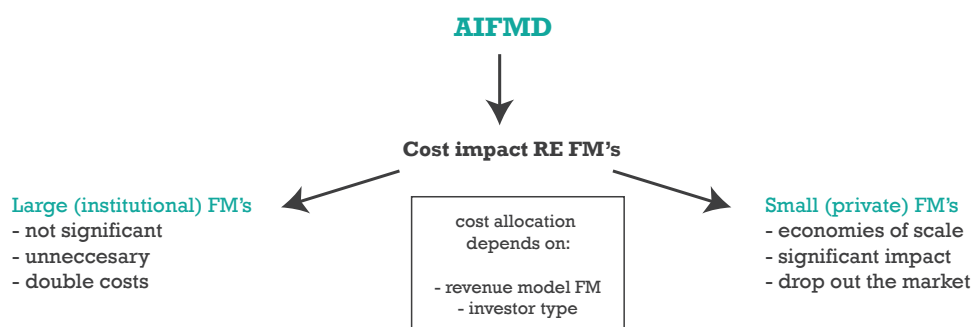


Figure 3: AIFMD cost impact on RE FM's

Four sub-conclusions can be drawn:

1. For large, institutional fund managers → no significant cost impact (3 bp.)
AIFMD causes unnecessary, double costs for institutional fund managers
2. Smaller, private fund managers → suffer significant cost impact (possibly unprofitable)
The private real estate investment market becomes much more expensive
3. Cost allocation mainly depends on revenue model FM
Whether the AIFM has a management fee or is in paid employment by the investors mainly determines the allocation of the costs

- Cost impact by FM's causes effects on real estate investment market
more expensive, less choice, more one-sided

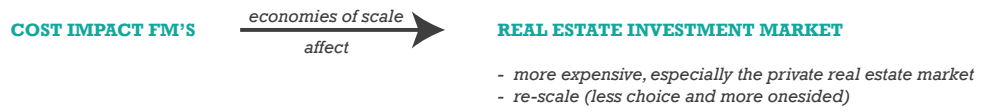


Figure 4: AIFMD cost impact FM's affects the real estate investment market

Transparency benefits for the real estate investment market

This report argues that **transparency benefits are expected for the real estate investment market** caused by the implementation of AIFMD. But it is too soon to determine the real value of these benefits. These benefits are different for different types of investors. The graph below gives an indication of the expected transparency benefits and summarizes these transparency benefits per investor type.

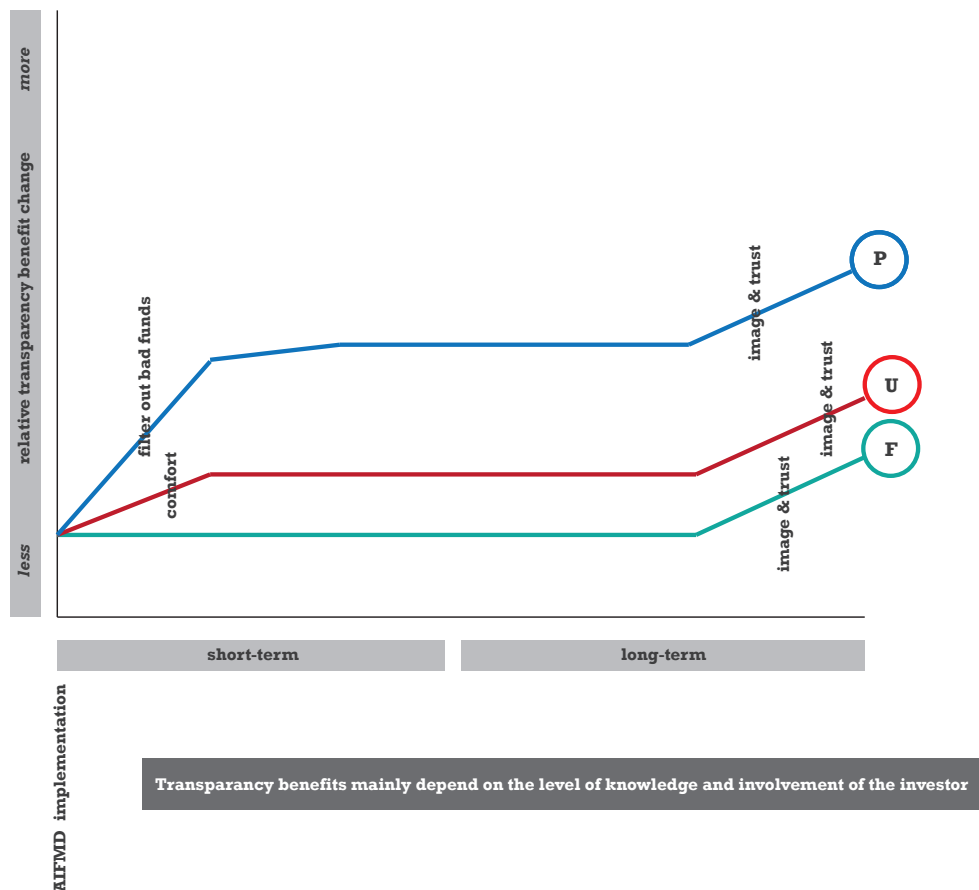


Figure 5: AIFMD transparency benefits

P = Private investors, U = Ultimate investors, F = Fiduciaries

Thee sub-conclusions can be drawn:

1. Short-term transparency benefits mainly expected for private investors
Bad performing funds out of the market (investors are better protected)
 2. Possible long-term benefits for the real estate market as a whole
Better image through less cases of fraud and a growing investor confidence
 3. Transparency benefits mainly depend on the level of knowledge, experiences and involvement of the investor
With less knowledge, experience and involvement as real estate investor, you will benefit more from AIFMD's transparency benefits
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Discussion – additional lessons

One-size-fits-all approach

Ideally, regulation should be tailor-made and adapted to organisations' characteristics (size, legal form, sector, risk profiles, etc.). When this is not the case, (disclosure) regulation can create unfair competition and regulatory capture. The smallest (younger) firms or some sectors or activities bear the costs more heavily.

AIFMD makes the real estate investment market much more expensive and therefore unattractive for smaller, more private fund managers. As result, a part will drop out the market and an entry barrier for start-ups may emerge. The market will rescale; investors have less - and more one-sided - choice. These investors will probably search for other investment categories.

Smaller, private fund managers (and start-ups) are generally more opportunistic and more prepared to take risks. The dropout of such parties is a threat for the social issues in the real estate market, since innovation is likely to be hampered. Another threat is the possible move of AIFMs to other jurisdictions not covered by AIFMD. This will decrease the investment activity in the EU. AIFMD then creates a competitive disadvantage for smaller real estate fund managers in the EU.

So, the disadvantages of the one-size-fits-all approach are:

- Institutional parties have unnecessary costs (indirectly pension holders pay)
- Small fund managers and private investors suffer more (unprofitable business)
 - Real estate investment market rescales
 - Possible flow of capital to other investment categories
 - Entry barrier start-ups, threat market dynamics
 - Innovation reduced, threat for social real estate issues
 - Funds search for non-EU domicile, threat EU fund industry

Transparency benefits for private sector with a question mark

AIFMD contributes to the transparency of the real estate investment market since it filters out the 'bad funds'. Especially for private investors this is a benefit, since they are more

protected for their ignorance. However, as the smaller, private fund managers cannot manage their funds under AIFMD and the private real estate investment market shrinks (other jurisdictions, other investment categories, entry barriers), this transparency benefit is far less effective.

The figure below summarized the most important conclusions of this thesis research.

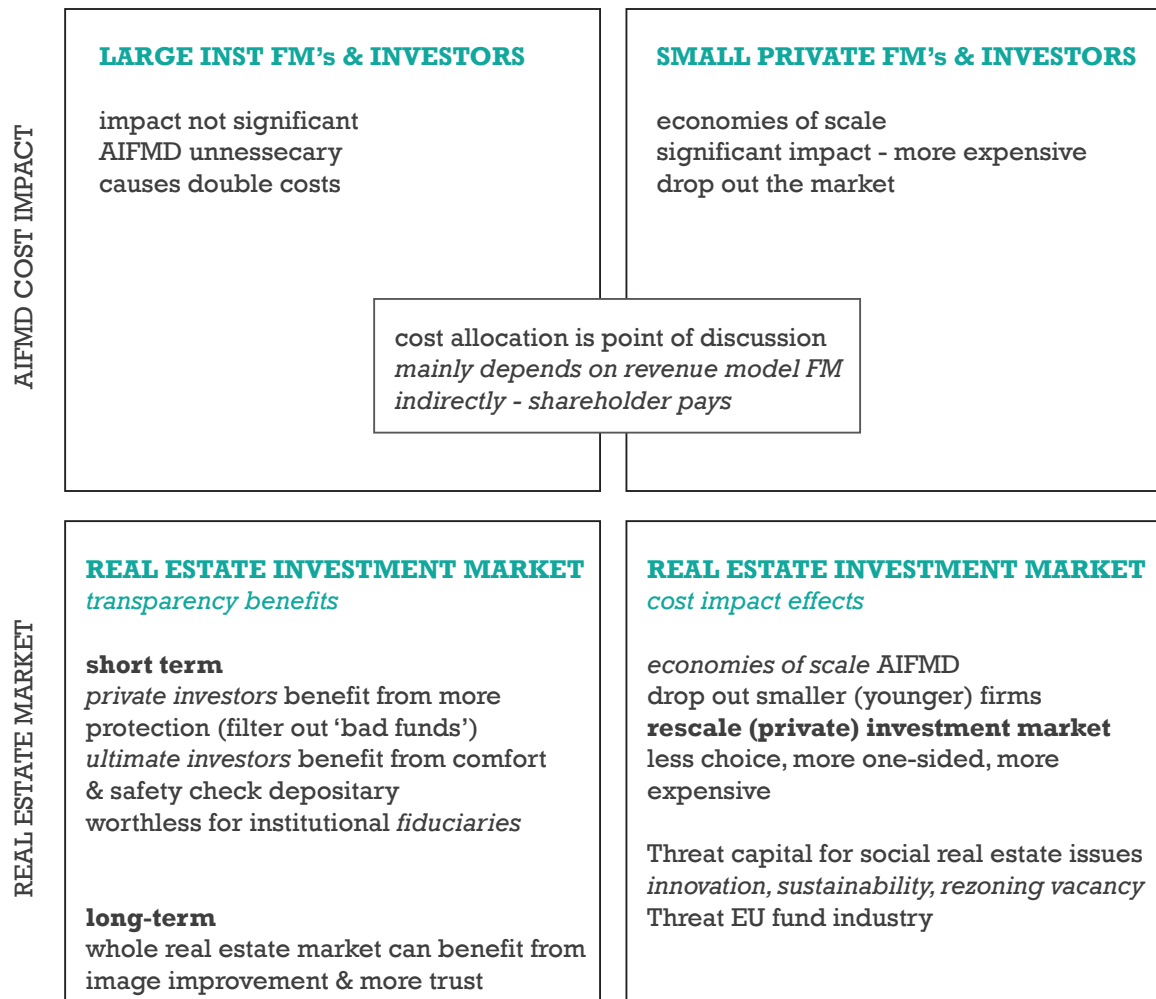


Figure 6: General conclusions

Recommendations for further research

In further research I recommend to focus more on private real estate fund managers and investors, since AIFMD has more impact on this segment. More studies on the effects of AIFMD for the real estate investment market in a later stage also seem to be relevant.