

EMBARGOED UNTIL: 24 January 2006, 11.00 a.m.

Investment Information

BVI presents proposals for open-ended real estate funds

Focus on liquidity management, valuation and transparency

Quality of open-ended real estate funds emphasised

Frankfurt am Main, 24 January 2006. The German investment management companies that comprise the German Investment and Asset Management Association (BVI) are united in emphasising the quality of open-ended real estate funds. Speaking at today's annual BVI press conference, Dr. Markus Rieß, spokesperson of the Board of Directors, stressed that open-ended real estate funds remain an excellent option for long-term investors wishing to benefit from the positive growth prospects of the property markets.

At the same time the BVI presented a set of proposals on the standards to be met by the EU Passport for open-ended real estate funds which has been under discussion for some time. The BVI voiced its support for this extension of the European investment directive on 15th November 2005 when it responded to the EU Commission's Green Paper. Reflecting current concerns, the BVI proposals are also aimed at further strengthening the product. They include changes to liquidity management, property valuation and product transparency. "These proposals deliver benefits for typical private investors without restricting daily availability," says Rieß.

Bundesverband Investment und Asset Management e.V.

Press and Media Department
Eschenheimer Anlage 28
60318 Frankfurt am Main
Postfach 10 04 37
60004 Frankfurt am Main
Germany
Tel.: +49 69 1540 900
Fax: +49 69 1540 9023 8
presse@bvi.de
www.bvi.de

The investment industry feels it is important to highlight the long-term nature of open-ended real estate funds. Hence the BVI's suggestion for a notification requirement with regard to any new investment of 1 million euros or above, combined with the introduction of a notice period of 12 months for new investments exceeding 1 million euros.

An industry-wide voluntary agreement to double the liquidity reserve for retail funds from 5% to 10% is intended to facilitate liquidity management by helping to accommodate higher capital outflows. Investment companies are also committing themselves to suspending unit sales in future when liquidity reaches 40% of assets. "The legal requirement to maintain liquidity of at least 5% and no more than 49% remains in place, but going forward we are committing ourselves to managing liquidity within these narrower limits," explains Rieß.

To allow greater flexibility, investment management companies should be permitted to invest more heavily in REITs or listed property companies in future, with an upper limit of at least 20%. In addition, investment companies should be given the opportunity to sell properties to another fund managed by the same company at market value. Rieß: "These proposals will enhance our ability to manage the liquidity reserves of open-ended real estate funds."

In the event that redemption of units is temporarily suspended despite these measures, the option of trading them on an exchange for an interim period is proposed. This would ensure that investors have the ability to sell their units on a daily basis.

For new investment only: Notification requirement for investments of 1 million euros or above

Liquidity management

Property valuation

With regard to property valuation, the BVI is confident that the current use of a committee of experts results in realistic valuations. Property sales completed in recent months confirm this view. The Association therefore regards public criticism around valuation as unjustified. Nonetheless, to highlight the objective nature of the existing method the BVI suggests that a neutral body, such as BaFin, be given the task of assigning experts to the individual investment management companies. In addition, the expert used to value a specific property should change every two years, and experts be prevented from working for the same investment management company for a continuous period of more than five years.

The Association also wants to see valuations take place more often. The current requirement to perform a valuation of each property at least once a year would be retained, but with the added obligation that the expert committee must review the result after six months. In the case of properties in other countries, the expert committee should commission a report from a recognised local appraiser and take note of the contents.

In future, the transaction costs associated with purchasing a property should be capitalised and written down over a period not exceeding 10 years.

Transparency

In addition to the measures adopted in 2005 to boost transparency, the market value of individual properties will be published in future. Retail property funds will also provide information on investor structure by size of holding. If the borrowings of a retail property fund exceed 40% of assets, the company will make a public announcement to this effect. Prospectuses are to include information on typical risks, based on appropriate criteria. Rieß: "This will make open-ended real estate funds the most transparent form of indirect property ownership."

The BVI also plans a standardised way of handling provisions for possible taxes on capital gains.

These proposals preserve the many advantages of this type of investment product, as summed up by Rieß: "For anyone interested in risk-diversified investment in commercial property such as offices and shopping centres, open-ended real estate funds will continue to offer a safe long-term return, investment in a tangible asset, balanced risk, partial exemption from tax, control mechanisms based on strict legal requirements and daily availability."

Experts see upside potential for German property market

The current market situations also augurs well for open-ended real estate funds – many experts agree that the German property market is on the road to recovery, and foreign investors are increasing their holdings in Germany. In fact real estate is in favour worldwide as the asset class experiencing the strongest growth.