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Berlin, 2016, June 24

**ZIA's comments on consultative document
on constraints on the use of internal model approaches**

Dear Sir and Madam,

ZIA, the German Property Federation (Zentraler Immobilien Ausschuss e.V.), represents German real estate business in its entirety, including real estate financing institutions, real estate funds and real estate fund managers as well as the listed sector of the industry. ZIA speaks on behalf of individual member firms and more than 20 member associations, thus representing 37,000 branch members.

Real estate is by nature not only a long-term asset but also highly capital intensive. Access to capital is one of the major issues of a sector that contributes significantly to the stability of national economies as well as welfare of our societies and the well-being of all individuals. For these reasons and given its impact on real estate lending we consider the consultative document as highly important. We are grateful for the opportunity to make some remarks.

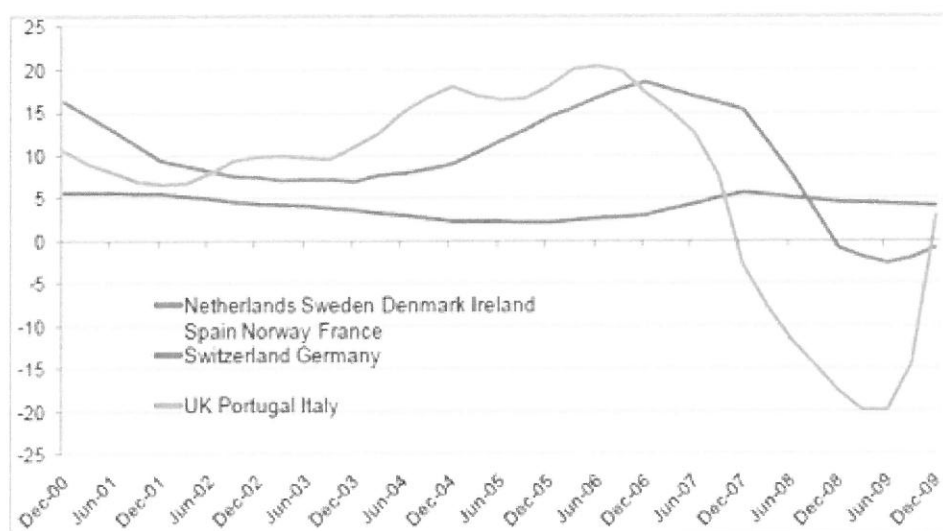
First of all we want to point out that we are supportive of the comments in regard of real estate lending of Deutsche Kreditwirtschaft and GdW for the residential sector. Especially the application of the standardised approach to large corporates and specialised lending are the most important points for the real estate sector because many investment projects in the commercial real estate debt are specialised lending. The proposal would lead to a significant increase in capital requirements also because of the earlier proposal on the review of the standardised approach to credit risk and the design of capital floors. From our point of view, there is no need to introduce the slotting or standard approach for that risk exposure.

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As suggested from Deutsche Kreditwirtschaft we strongly recommend circulating the full package for consultation once again prior to its adoption. The IRB approaches, the standardised approach to credit risk and capital floors are issues that cannot be seen separately from each other.

In addition to that the proposals would have negative implications, especially for those banks which have specialised in exposure classes in which the BCBS intends to remove the IRB approaches. Even if the capital requirements in these areas were to remain the same across all banks, particularly banks that have specialised in low-risk business would be adversely affected. This would be especially true for e.g. German Pfandbriefbanken with the highest proportion of commercial real estate mortgages in Germany because the IRB – approach of specialised lending is the most common approach in banks financing real estate development and has proven its worth.

Please have in mind the high stability of the German real estate market and the very low loss rate. Even during and after the financial crises the default rate of secured mortgages was so small that the current calibration must be regarded as sufficiently prudent. The development of the prices index for Germany shows a very low volatility.¹



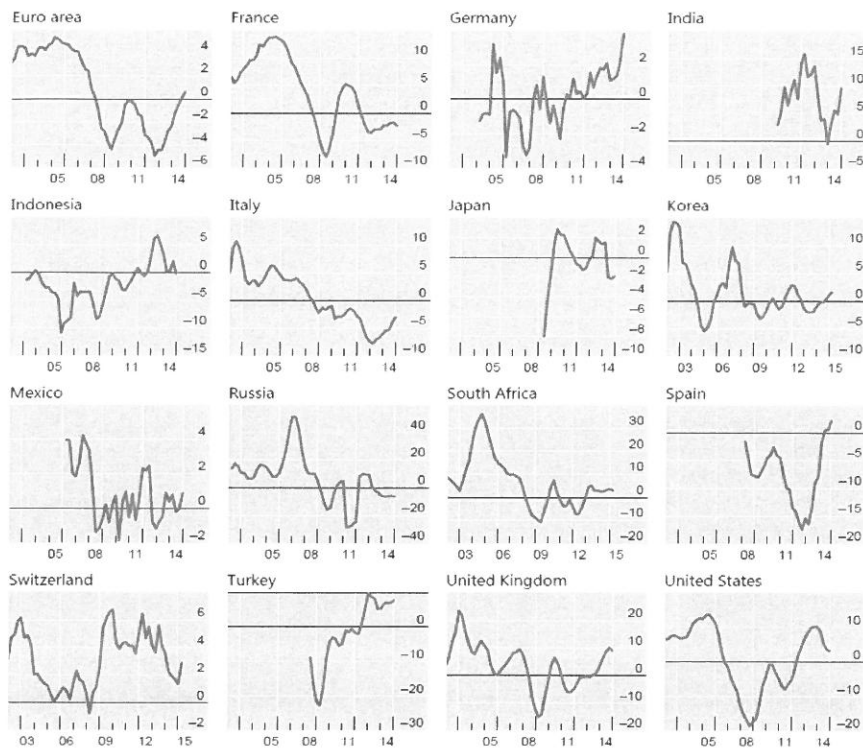
The graph shows the development of total returns (yields) of commercial real estate in Europe. Only in Switzerland and Germany no price bubble emerged and so a major correction, of the sort documented in the UK, Portugal, and Italy, was not required and did not happen. If differential responses of these magnitudes are observed even in the most extreme of economic circumstances, it would seem sensible to reflect these differences in the risk benchmarks that are deployed for determining capital requirements.

The banking department of the Bank for International Settlements itself published a survey showing the smaller volatility of house prices in Germany as compared to a number of other important national markets.² For instance the

¹ The IPD Solvency II Review, Informing a new regulatory framework for real estate.

² Bank for international Settlements, Residential property price developments – fourth quarter of 2014.

range of spotted negative and positive price developments in Germany compared to the United Kingdom is much tighter.



¹ Nominal residential property prices deflated by CPI.

The ongoing stability of the German real estate market gives no indications that justify higher risk weights for exposures secured by real estate. The so-called “hard test” that the Federal Financial Supervisory Authority (BaFin) performs to fulfill Article 125 paragraph 3 and 4 and Article 199 paragraph 3 of CRR (EU Regulation No. 575/2013), reveals that loss rates stemming from lending collateralised by residential property are substantially lower than the maximum allowed rates. The loss rate in 2014 of 0.05 % for residential real estate loans was even exactly the same for commercial real estate loans.

That’s why we are strongly opposed to these proposals, and in regard of the German real estate market and the financing of the properties we also do not see any necessity for tightening or placing extensive restrictions on the IRB approach.

We would be pleased if you could take these arguments into account in the ongoing process. If any further queries should arise, please do not hesitate to contact us.

With kind regards,

Dr. Stephan Rabe
Managing Director