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GLOBAL NEWS EDITIONS

Europe's Property Investors Wary as Governments Start to Write New Financial Rules

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This hasn't been a good day for Europe's big-name real estate investors.

Like government around the world, European governments are battening down the hatches on budget deficits and financial industry overhauls -- and property investors are worried.

They could wind up paying higher taxes on investment income and face stricter regulation of investment funds, according to the Wall Street Journal.

As European governments take aim at budget deficits and financial-market overhauls, property investors may suffer collateral damage.

Over the past few weeks, governments from London to Lisbon have begun drafting austerity plans that involve cuts in civil-servant pay and pensions. In some cases, they may raise taxes.

Frozen Funds

Some German open-ended funds have frozen redemptions. Assets under management, in billions of euros

The aim of the measures, some of the toughest seen in Europe in decades, is to bring down public deficits that have swelled to nearly 15% of gross domestic product in some of the hardest-hit countries, the WSJ reports.

At the same time, after nearly two years of debate about the need to overhaul regulation of financial markets as a response to the financial crisis, European governments are beginning to take action.

In Germany, a draft of legislation that aims to protect investors in funds by

A second proposal called for requiring investors to keep their money in the fund for two years and to give two years' notice before making any withdrawal.

Walter Klug

The open-ended property funds, which had suffered mass withdrawals of cash from institutional investors at the height of the financial crisis, are interested in introducing holding limits for investors, the WSJ reports.

"But we are against the blanket discounting of portfolio assets," said Walter Klug, head of Morgan Stanley Real Estate.

The German fund industry is proposing legislation that would require individual investors to hold their shares in a fund for one year.

Under the proposal, institutional investors would be required to notify fund managers of any withdrawals with 12 months' notice.

"These measures will considerably improve liquidity management of open-ended real-estate funds," said Stefan Seib, director of the BVI federation of investment and asset management.

The BVI also is proposing requiring funds to have the property in their portfolios assessed by an independent valuation every six months instead of once a year as is now the case.

Individual investors typically look at open-ended funds as a conservative investment that is less volatile than investing in stocks, according to the WSJ.

Many investors opt for making monthly payments into a fund and incorporate the property funds into their retirement plans. In the first quarter, Germany's open-ended property funds posted €3.2 billion in net inflows.

European governments also are beginning to raise taxes, with possible consequences for property investors.

Portugal, which is struggling with a deficit projected at 7.3% of GDP this year, has frozen public-sector wages, postponed big-ticket building projects and imposed a "crisis tax."

James Moss

The new coalition government of the Conservatives and Liberal Democrats in the United Kingdom is planning to raise capital-gains taxes on non-business assets, a move that investors and property groups said would hit investors in buy-to-lease property.

The government hasn't elaborated on its plans, but according to analysts and media reports, the capital-gains tax could rise from 18% to nearly 40%, the U.K. income-tax rate.

"This will very likely spark a lot of selling quickly at dumping prices, as people choose to take a profit now rather than pay a heavy tax later," said James Moss, director at Curzon Investment Property in London.