

A new macroprudential policy framework for Irish property funds

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At the end of 2022, the Central Bank published its macroprudential policy framework for Irish property funds which includes leverage limits and regulatory guidance to avoid liquidity mismatch.

Alternative Investment Fund Managers of Alternative Investment Funds that are domiciled in Ireland will be in scope, provided they invest 50% or more of their assets directly or indirectly in Irish property, and are authorised under domestic legislation (**Irish Property Funds**).

The introduction of these measures highlights that Irish Property Funds have become key participants in the commercial real estate market – the Central Bank policy framework confirms that they held approximately €22.1bn of Irish property at mid-2022. The aim of the policy is to strengthen resilience in the property fund sector before adverse shocks occur.

Leverage limits

A 60% leverage limit on the ratio of a property funds' total debt to total assets has been introduced. This limit will be tested annually and will encompass all sources of debt (including shareholder loans, bank debt and non-bank lender funding).

Regulatory guidance

The Central Bank guidance requires Irish Property Funds to provide for a liquidity timeframe of at least 12 months. The reason for this is stated to be the illiquid nature of property assets and the outcome is that Irish Property Funds may need to extend their notice and/or settlement periods to better align with the liquidity profile of their assets.

Key points to note

- From 24 November 2022 the Central Bank will only authorise new property funds with leverage below the 60% limit.

- In certain circumstances, if a property fund invests at least 80% of its assets under management in social housing then the new leverage limit will not apply.
- Property funds undertaking development activity may use a different methodological framework for the purpose of calculating leverage.
- There will be a five year implementation period in respect of the leverage limit for existing funds.
- There will be an 18 month implementation period in respect of the regulatory guidance for existing funds.
- New funds authorised after 24 November 2022 will be expected to adhere to the new leverage limit and guidance immediately.

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