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Provision of real estate services in asset management: the AMF publishes the outcomes of its themed inspections

The Autorité des Marchés Financiers issued today a review summary of short SPOT inspections (“Supervision des Pratiques Opérationnelle et Thématique”) of arrangements and conditions for the provision of real estate management services within investment management companies. This theme featured among its supervision priorities for 2019.

For this new series of SPOT inspections, the AMF selected six investment management companies with a variety of profiles, whether in terms of the types of funds managed (real estate collective investment undertakings - OPCI, real estate investment companies - SCPI), the types of assets held, their clients or the amount of assets under management.

For each investment management company, the regulator focused on the 2016-2019 period and on the following items:

- Organisation with regard to asset management and property management (internal resources allocated, any outsourcing, etc.), including relevant related procedures;
- Process and procedures for the selection of real estate management service providers and related pricing arrangements;
- Information of investors concerning these services (organisation, fees calculation, fee rates charged to the fund, etc.);

- Management of conflicts of interest;
- Control framework.

Main observations

The review exercise shows that property asset management services (strategy for major works, rental strategy, etc.) and property rental management services (rent invoicing and collection, expenses paid by tenants, etc.) are generally performed in-house. However, technical management of the property assets, including maintenance or management and follow-up of repairs, for example, is generally carried out by third-party service providers (including intra-group companies).

The inspections identified some good practices which are presented in the review summary, in particular pertaining to the selection of real estate service providers (records of the responses received to tender processes and of the rationale for the choice of service providers). The companies in the sample group have also set up a conflict of interest management framework governing the selection of service providers and second-level controls relating to the selection of service providers, fees and conflict of interest management.

The AMF does note, however, that improvements must be made to the frameworks in place within the investment management companies that were audited:

- Most of the companies in the sample group do not have sufficiently accurate and operational procedures covering the processes relating to property asset, rental and technical management. In a significant number of cases, these procedures do not cover, for example, the conditions of asset disposal, the processes for following up rent invoicing and lease management, the procedures for monitoring overdue rents or for managing expenses paid by the tenant;
- The audit trail for the selection process is insufficient in most cases, thereby making the conflict of interest management system poorly operational. Similarly, ex-post reviews of the services performed are insufficiently formalised and traced;
- Permanent and periodic controls (concerning the selection of service providers, fees and conflict of interest management) are often insufficiently traceable;
- The information for unitholders concerning real estate management services is not very detailed or non-existent, while information on fees also offers little detail. It therefore appears difficult to make comparisons between funds. Although these levels of detail are

not required by the regulations, they do constitute good practices identified by the inspections.

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