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SCPI: A redemption request, even if in order, may be executed within an indefinite period of time

In order for a redemption request from an SCPI unitholder to be processed, the latter must first submit a request that is complete and in order to the investment management company. However, even if it is complete, if the investor has a direct holding, the request can only be executed if the secondary market for the units so permits, and may therefore not be immediate. The dossier that I am presenting this month recalls this.

Facts

Mr G told me that he owned units in an SCPI (real estate AIF portfolio management company).

Mr G. made a redemption request. His account manager at his bank told him that the funds would be paid to him within three weeks.

After several weeks of waiting, Mr G explained that he had contacted the investment management company directly, which had confirmed that his redemption request was complete and in order, and that it had been duly recorded in the redemption register, but that it could not be executed for at least six months on account of the current market conditions.



It was against this backdrop that Mr G approached me with a view to having this redemption request executed as quickly as possible, while stating that he did not dispute the fall in value of the units.

Investigation

I questioned the investment management company, which told me that at present the unit market was imbalanced, rendering it impossible to fulfil Mr G's request. However, the investment management company confirmed that Mr G's redemption order had indeed been recorded in the redemption register.

Given the large number of units pending before those held by Mr G, the investment management company informed me that it could neither guarantee that the repurchase would be executed at the next clearing nor commit to an execution date.

The investment management company also believed that this redemption request had been processed in accordance with the regulations and the SCPI's contractual documentation.

REMINDER

Owning units in an SCPI is a means of investing in real estate that differs from owning real estate directly. SCPI are unlisted firms in the form of collective investment undertakings whose purpose is to invest the savings collected from unitholders in acquiring and managing a real estate portfolio for rental purposes.

Retail investors should bear in mind that, like any financial investment, purchasing SCPI units entails risks, including no guaranteed returns and exposure to capital loss.

In addition, as SCPI units are not listed, they can only be sold on the secondary market operated by the investment management company or privately. SCPI units may therefore pose a liquidity risk for the seller if they are held 'directly' (as opposed to through a life insurance policy whereby the insurer guarantees liquidity, life insurance is a form of holding for which the AMF Ombudsman does not have jurisdiction).

Redemption by a unitholder is therefore conditional on the existence of a corresponding subscription request. If the liquidity of units is low, the number of subscription requests may not be sufficient to cover the number of redemption requests. A shareholder wishing to sell their units may therefore be subject to an indefinite exit period if there are insufficient buyers.



This liquidity risk must be mentioned in the Key Information Document (KID) and brought to the investor's attention before any SCPI units are subscribed.

Recommendation

I have carefully examined all the information in this dossier.

First of all, I reminded Mr G that even if his redemption request was complete, it could be executed with considerable delay.

As an SCPI is not a listed product it presents a liquidity risk and accepting an investor's redemption request depends on there being an investor wishing to subscribe in their place in the case of a variable-capital SCPI, as in this instance.

I also noted that the liquidity risk was clearly indicated in the documentation of the SCPI in question, and in particular in the Key Information Document (KID).

I further pointed out to Mr G that his redemption request was being made against the backdrop of a tense market since the beginning of 2023, caused by a combination of factors (in particular the pandemic, the rise in the price of energy and materials as a result of the conflict in Ukraine, inflation and rising interest rates, as well as the boom in remote working, which is affecting office SCPI).

As redemption requests currently exceed unit subscriptions, the investment management company is not in a position to fulfil redemption requests in the immediate future. Given this difference between supply and demand, the investment management company had lowered the unit redemption price for this SCPI at mid-year^[1], which was not contested by Mr G in this case.

In the light of this information, I informed Mr G that I believed that his redemption request had been processed in accordance with the SCPI's documentation and that the delay in executing his request was due to the illiquidity of the units. His request had been recorded in the redemptions register and was pending execution as this was a variable-capital SCPI, which is the most common form.

Lesson to be learned

In the case of an SCPI, a redemption request must be complete in order to be executed.



To this end, SCPI investment management companies must provide investors with a certain amount of information prior to subscription, and in particular "the procedure and conditions for the issue and redemption of units or shares"[\[2\]](#).

SCPI are also required to draw up a KID and an offering document approved by the AMF, which must include a list of the documents to be submitted in the event of a redemption request. These documents are provided to investors as part of the subscription process. In most cases, investors must, at the very least, send a redemption order, a copy of a valid identity document and their bank details.

However, while the submission of a redemption request that is complete and in order is a necessary condition to have units reimbursed, it is not sufficient for this reimbursement to take place quickly.

Indeed, even in the case of a duly made request recorded in the redemption register, as was the case here, the investment management company may not be able to fulfil redemption requests for several months.


Keywords

COLLECTIVE INVESTMENTS

[\[1 \]](#) In accordance with the AMF's recommendation that investment management companies also carry out real estate valuations at mid-year in order to adjust the price of SCPI units in line with changes in the real estate market.

[\[2 \]](#) See Article 421-34, I, of the AMF General Regulation and AMF Instruction DOC-2019-04, Chapter 3.1.3 and Annex 1 containing a template for the offering document of real estate investment companies.

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