Regulatory response to Real Estate Funds in Kenya during COVID-19, & Cytonn Weekly #34/2021

Focus of the Week

The Coronavirus pandemic (COVID-19), which began as a health crisis, morphed into a global economic crisis as a result of containment measures put in place worldwide to curb the spread of the virus, which brought the global economy to a standstill. According to the IMF World Economic Outlook, the global GDP is estimated to have contracted by 4.4% in 2020, from a growth of 1.6% recorded in 2019. Kenya's economy was also not spared, with the GDP estimated to have contracted by 0.1% in 2020, from a growth of 5.4% recorded in 2019. As at December 2020, the Non-Performing Loans (NPL) ratio stood at 14.1%, an increase from the 12.7% recorded in 2019. This was mainly attributable to poor performance of businesses as a result of the COVID-19 pandemic in 2020 which affected their ability to service loans. The Nairobi All Share Index (NASI) also recorded a poor performance, declining by 8.6% in 2020 due to the decline in prices of large cap stocks such as Bamburi and Equity Group, which declined by 52.7% and 31.7%, respectively. The real estate sector was also adversely affected as evidenced by the poor performance of Fahari-I-REIT, the only listed REIT in Kenya, which closed the year at Kshs 5.6, 71.8% lower than its initial listing price of Kshs 20.0. The poor performance was attributable to a decline in revenue due to COVID-19's impact on commercial office and retail sectors, which is expected to continue suppressing rental income growth. The Kenyan government, the Central Bank of Kenya (CBK) and the Capital Markets Authority (CMA), took various measures to mitigate the negative effects of the pandemic on the economy and also to support financial markets. For this reason, we seek to build on a focus we did in 2020, on the Impact of COVID-19 on Real Estate Funds, and examine how regulators in Kenya supported real estate funds during the pandemic.

In this week's focus, we would like to discuss the regulatory response to Real Estate Funds due to COVID-19 in Kenya, where we shall discuss the following:

1. Investing in Real Estate,
2. Regulatory response to Real Estate funds in Kenya,
3. Case study,
4. Recommendation on how regulators can support Real Estate Funds in Kenya, and,
5. Conclusion

Section 1: Investing in Real Estate

Investing in real estate can either be done directly through the traditional method where an investor buys land or property, develops, then sells or rents out, or indirectly through real estate funds. To better understand real estate funds, one must first know what mutual funds are and how they work. A mutual fund is a collection of funds pooled together from individuals for the purpose of investing in underlying assets with the aim of getting returns in line with investors' overall objectives. The underlying assets vary from the most liquid ones such as bank deposits, government securities and equities to the less liquid funds like real estate funds and other commodity funds. For real estate funds, some of the ways they may invest include;

?. **Investing directly in development of commercial real estate properties -** This form of investing involves direct investment in commercial real estate properties across the various sectors ranging from residential, master plans, hospitality, etc.

i. **Investing in completed real estate assets -** This involves the purchase of properties across the various sectors with the aim of getting stable income as they gain in value. An example of such a fund is Fahari-I-REIT (Kenya),

ii. **Investing through sector specific Collective Investment Schemes (CIS) that specialize in Real Estate –** These are approved and regulated Collective Investment Schemes operated by a licensed fund manager that mostly comprise of a considerable allocation to a specific underlying asset class with investors being known as unit holders. Real Estate/Property Funds typically invest at least 80.0% of the assets under management in securities issued by real estate companies with the balance comprising of cash and cash equivalents. They may either be open-ended funds that allow redemptions daily, monthly, quarterly or even annually or closed-end funds that have a fixed term and do not allow redemptions, except in limited circumstances during their life. An example of a sector specific Collective Investment Schemes (CIS) that specializes in Real Estate is the Cytonn High Yield Fund (CHYF),

iii. **Investing through Real Estate Investment Trusts, (REITS)** - REITS, as covered in our Real Estate Investment Trusts in Kenya & Cytonn Weekly #11/2021, are regulated collective investment vehicles which invest in real estate. They directly hold real estate assets and therefore engage service providers like a Property Manager. They may either invest in Income Generating Real Estate (I-Reits) or Development Real Estate (D-REITs). The units of a REIT are typically listed or traded on an Over The Counter (OTC) platform and distributions to its investors are through capital gains and dividends. Some examples of REITs in Kenya are Fahari-I-REIT, Acorn D-Reit and Acorn I-Reit,

iv. **Investing in stocks of Real Estate Index Funds** - Real Estate Index funds provide exposure to real estate by investing in a basket of REITS in the market. The Satrix Property Index Fund (South Africa), which is managed by Sanlam Investments, is an example of an index fund that invests in REITS. Kenya does not have any Real Estate Index Fund since as at today we only have 1 listed REIT despite REIT legislation coming into effect in 2013. This is as compared to South Africa where REIT regulations were also enacted in 2013 and to date has at least 36 active REITs with a market capitalization of USD 13.4 bn,

v. **Investing in companies undertaking Real estate investments** – A real estate fund could also invest in companies whose major line of business is real estate, such as Home Africa,

vi. **Investing in real estate debt instruments or structured products** - A real estate fund could also invest in real estate through securities issued by real estate companies such as loan notes, which are real estate debt instruments which earn a fixed or variable interest. These notes may be publicly or privately issued by real estate companies looking to raise funds to fund their developments. An example of such is Cytonn Real Estate Note (CREN). Typically, each share or unit in the entity represents a 99.9% loan note to the Company, entitling the investors to interest with the balance being a nominal interest in equity entitling the investors to participate in shareholder/partner meetings, elect their representatives to a board and to have a say in certain matters. Key to note, Property Loan Stocks have been identified as one of the key reasons REITs took off so well in South Africa, as local investors already had exposure to indirect property investments. The introduction of REITs therefore just served to bring international investors on board. Local examples of Real Estate Notes and Structured Products are as summarized below:

	Name of Real Estate Fund	Type of Real Estate Fund
1.	Maiyan Holdings	Real Estate Loan Note
2.	Heri Homes Capital LLP	Real Estate Loan Note
3.	Cytonn Real Estate Notes (CREN) LLP	Real Estate Loan Note
4.	Two Rivers Development Limited	Real Estate Loan Note
5.	Cytonn High Yield Fund (CHYF)	Sector Specific CIS
6.	Britam Wealth Management Fund LLP	Structured Product

Source: Cytonn Research

Benefits of Investing in Real Estate Securities

As noted above, there are a number of options available for an investor looking to invest indirectly in real estate. Some of the benefits include:

?. **Diversification:** Capital raised by the fund is used to acquire multiple real estate assets in several geographic regions which helps spread the investment risk across a variety of properties with a number of units each,
i. **Inflation hedge:** Real estate securities have consistently generated returns above the inflation rate, ensuring investors are earning a “real return,”
ii. **Reduced volatility:** Real estate securities are not subject to market volatility due to their low correlation with traditional investments such as stocks and bonds,
iii. **Enhanced returns:** Real estate securities offer investors better returns than traditional investments such as bank deposits,
iv. **Professional management:** Real estate securities are managed by professional fund managers who scout for the most profitable investments and strategies, and,
v. **No landlord duties**: Owning property comes with asset and management responsibilities that many investors have no time for. Investing in a real estate fund provides benefit of owning property without direct responsibility of management.

Just like any other form of investment, Real Estate securities carry with them certain risks which include;

?. **Participation risk** - Lack of control as investors delegate the decision making roles to the manager of the fund and therefore they have limited control over where the fund invests,
i. **Illiquidity risk** - Although the assets are relatively liquid compared to brick and mortar investments, the underlying asset remains real estate. Consequently, there are times liquidity is not guaranteed, and,
ii. **Market risk –** Real estate sector is driven by forces of demand and supply and in moments of extreme market and economic uncertainty it becomes difficult to value real estate funds.

Effects of COVID-19 on Real Estate Funds

Real estate is generally considered by many investors to be a safe investment. However, these investments along with property prices typically rise and fall in correlation with economic growth and contraction. The novel COVID-19 pandemic brought about an unprecedented economic slowdown that scathed the real estate sector. Some of the negative effects of COVID-19 on the real estate sector include:

?. An increase in rent defaults due to the reduction of disposable income which led to uncertainty of real estate returns and stifled profitability,
i. Low occupancy rates especially for the commercial office sector due to 'work from home' arrangements which negatively affected revenue,
ii. Dipping in property prices which severely affected revenue and profitability,
iii. Huge investor withdrawals from funds as investors reassessed their investments due to the uncertain economic outlook. This saw real estate funds in the UK such as BlackRock and Schroders freeze their property funds worth £3.4 bn (Kshs 0.5 tn) and £2.4 bn (Kshs 0.4 tn) respectively,
iv. Disruption of supply chain networks which resulted in a slowdown of construction activities hence reducing revenues, and,
v. Illiquidity of funds which was attributable to substantial valuation losses, net investor outflows and low cash holdings as the funds invest in illiquid assets.

Section 2: Regulatory response to Real Estate Funds in Kenya

Kenya has few real estate funds compared to developed markets, with the only listed Real Estate fund being Fahari I-REIT, which is regulated by the Capital Market Authority (CMA). Some of the regulated but unlisted funds in Kenya include the Acorn I-REIT and the Cytonn High Yield Fund (CHYF). Like all other real estate funds globally, the funds were adversely affected by their high exposure to real estate and therefore, interventions by different stakeholders affecting real estate had a trickle-down effect on the real estate funds. We shall discuss the measures taken by different stakeholders to mitigate the adverse effects of COVID-19 that directly affected the real estate sector in Kenya:

1. **The Government of Kenya (GoK):** On 6th of April 2020, the Government of Kenya announced a number of tax incentives aimed at cushioning the individuals and business from the pandemic in order to support the economy. Some of the incentives affecting the real estate sector include:
   ?. The reduction of Corporation Tax from 30.0% to 25.0%. This reduced companies' tax liability hence boosting their profits, and,
   a. Reduction of the VAT from 16.0% to 14.0%, which was effective 1st April, 2020, with the aim of increasing the disposable income of individuals in order to increase consumer purchases and stimulate economic activity.

Both directives were reversed on 1st January 2021.

2. **The Central Bank of Kenya:** CBK adopted an accommodative stance to cushion business and households from the adverse effects of COVID-19. Some of the measures taken include:
   a. **Lowering of the Cash Reserve Ratio (CRR) -** The CBK lowered the CRR to 4.25% in March 2020 from 5.25% in January 2020, which served to increase liquidity in the economy,
   b. **Lowering of the Central Bank Rate (CBR) -** The Monetary Policy Committee (MPC) lowered the CBR rate for two consecutive sittings to 7.00% in April 2020 from 7.25% in March and 8.25% in January 2020, with the aim ensuring affordable credit to customers. This led to a decline in the average commercial lending rate to 12.0% in December 2020 from 12.2% in December 2019 and an 8.4% growth in private sector credit in December 2020 compared to a 7.1% growth recorded in December 2019. Private sector credit to Real Estate sector from banking institutions increased by 7.2% percentage points to 8.7% in December 2020 from 1.5% recorded in December 2019, and,
   c. **Providing guidelines for loan restructuring -** The CBK, through their Press Release on Emergency Measures to Mitigate the Adverse Economic Effects on Bank Borrowers from the Coronavirus Pandemic on 18th March, 2020, provided guidelines to banks for loan restructuring arrangements. This required Small and Medium-sized Enterprises (SMEs) and corporate

borrowers to contact their banks for assessment and restructuring of their loans based on their respective circumstances arising from the pandemic and the banks were to meet all the costs related to the extension and restructuring of loans. Restructured loans from the real estate sector ranked 2nd after trade, accounting for 20.5% of the restructured loans, indicating that the sector bore the brunt of the economic slowdown.

3. **The Capital Markets Authority (CMA):** CMA is the primary regulator of Real Estate Funds. In response to COVID-19, the regulator took the following measures, all of them administrative:
    a. **Allowing progression of some activities that required Annual General Meetings (AGMs) to be sanctioned –** CMA, along with the Central Depository and Settlement Corporation (CDSC) and the Nairobi Securities Exchange (NSE), allowed the progression of some of the activities that are usually sanctioned during Annual General Meetings (AGMs) for listed companies such as remuneration and dividend policy deliberations. Board decisions on these matters would however be required to be tabled at the AGMs, once convened, for ratification. This enabled real estate funds continue with businesses operations,
    b. **Virtual Annual General Meetings (AGMs)** – CMA allowed companies to hold virtual AGMs in light of the movement and convening restrictions imposed to curb the spread of COVID-19. This also enabled companies to resume their operations, and,
    c. **Relaxation of disclosure obligations** - The regulator relaxed disclosure obligations in relation to publication of financial statements in two newspapers of national circulation until 30th June 2020. This was a welcome move especially by companies which had challenges in publishing this information. Companies were given a leeway to publish disclosures on online platforms such as company websites and social media platforms. Real estate funds saved on publishing costs, boosting their liquidity position.

Section 3: Case Study - The United Kingdom (UK)

Introduction

According to the Financial Stability Report by the European Central Bank, most of the suspended Real Estate funds in Europe were domiciled in the UK. For this reasons, various regulators in the UK responded to the crisis in order to cushion citizens against the tough economic times. In our study, we particularly want to pin-point actions taken by the regulators to support real estate and real estate funds. We shall review the responses by three regulatory bodies; The Government of UK, The Bank of England (BoE), and, The Financial Conduct Authority (FCA). We shall then proceed to discuss the lessons for Kenya from the regulators' response.

Regulatory Response to support businesses impacted by Covid-19 in the UK

1. **The Government of UK:** The government of UK implemented a raft of measures to support businesses during the economic slowdown as a result of COVID-19. Some of the measures that directly affected the real estate industry include:
    a. **Provision of property tax holidays and Grants:** The Government of UK provided Financial Support For Businesses During Coronavirus (Covid-19) by committing £29.0 bn (Kshs 4.4 tn) to support businesses in form of property tax holidays, direct grants for small firms and firms in the most-affected sectors such as retail, hospitality and leisure businesses. In January 2021, the government announced a £4.6 bn (Kshs 0.7 tn) fresh financial support package for retail, hospitality, and leisure companies, which could claim up to £9,000.0 (Kshs 1.3 mn) each,
    b. **Temporary reductions of the VAT rate from 20.0% to 5.0% for the most affected industries:** Hospitality and accommodation are integral parts of the real estate sector. In the Revenue and Customs Brief (10) 2020 of July 2020, the government announced temporary reductions of the VAT rate for hospitality, accommodation and attractions to 5.0% from 20.0%. Later in September 2020, the Government extended the VAT reduction by a year to September

2021. This was aimed at boosting the sector's working capital which in turn boosted liquidity of the real estate sector and real estate funds,

c. **Provision for deferral of VAT:** On 26th March 2020, the government of UK made provisions for VAT Deferrals for businesses, further boosting liquidity. Businesses were however expected to pay their pending taxes in full by 31st March 2021, and,
d. **Job Retention schemes:** The UK also had a Job Retention Scheme, where the government supported eligible businesses by paying their employees.

2. **The Bank of England (BoE):** The Bank of England is UK's central bank and is tasked with ensuring the stability of the country's financial system. The BoE, like other regulators, responded to COVID-19 by taking measures to ensure financial soundness and mitigate against adverse COVID-19 effects. Some of the measures include:
   a. **Reducing the Bank Rate by 65 bps to 0.10%**: The BoE, through a Special Monetary Policy Committee held on 19th March 2020, reduced the Bank Rate by 15 bps to 0.10% from 0.25%. This was in addition to the 50 bps reduction on 10th March 2020 to 0.25% from 0.75% to facilitate affordable credit facilities,
   b. **Expanding the central bank's Bond Purchase Program**: The BoE expanded its holding of UK government bonds and non-financial corporate bonds by £450.0 bn (Kshs 67.7 tn) in three tranches announced in March, June, and November 2020, with the aim of boosting liquidity in markets,
   c. **Launching the joint HM Treasury-Bank of England Covid Corporate Financing Facility and three government loan guarantee schemes**: The BoE launched the joint HM Treasury-BoE Covid Corporate Financing Facility and three government loan guarantee schemes; the Coronavirus Business Interruption Scheme, the Coronavirus Large Business Interruption Scheme, and the Bounce Back Loan Scheme, which was replaced by the Recovery Loan Scheme from April 2021, all which provided a total of £352.0 bn (Kshs 52.9 tn) of liquidity and loan guarantees to businesses. This was in line with the government's agenda of providing support to businesses in the wake of COVID-19, and,
   d. **Reducing the UK countercyclical capital buffer (CCyB) rate to 0.0%**: The countercyclical capital buffer (CCyB) rate is a capital requirement applicable to banks and investments. In March 2020, as part of the BoE's Measures in Response to the Economic Shocks from Covid-19, the regulator reduced the UK countercyclical capital buffer (CCyB) rate to 0.0%. The rate had been at 1.0% and was expected to reach 2.0% by December 2020. It was the expectation of the Financial Policy Committee (FPC) that the rate would remain at 0.0% until at least Q4'2021. The decision by the regulator was to ensure that business and individuals can rely on their banks to provide the much needed credit. Real estate and real estate funds could therefore afford cheap credit to boost their liquidity position.

Regulatory Response to support Real Estate Funds impacted by Covid-19 in UK

3. **The regulator proposed up to six months wait for property fund redemptions:** In an effort to address the Liquidity Mismatch of Authorized Open Ended Property Funds, the regulator proposed that investors give a notice of up to 180 days to cash out in cases where a Property Fund could not quickly sell its assets to meet client redemption requests. This was in order to avoid liquidity squeezes as investors headed for the exit against the backdrop of economic uncertainty. The FCA is still consulting on this in order to come up with an informed final decision,
   a. **The FCA gave guidance to investors on circumstances where it would be in their best interests to suspend some of their cash out orders**: In his Speech to Investment Association Members, Edwin Schooling, The director of Markets and Wholesale policy at FCA gave guidance to investors on circumstances where it would be wise to suspend some of their cash out orders, for instance, if executing orders could not be achieved without significantly depleting liquidity and without selling property at a substantial discount. The regulator aimed at protecting investors while maintaining fund managers' liquidity and ensuring operational

resilience,

b. **FCA supported fund suspensions:** The regulator, in its FCA Statement on Property Fund Suspensions, noted that the decision of managers of open-ended commercial real estate (CRE) funds to temporarily suspend dealing in situations where a fair and reasonable valuation of CRE funds could not be established and continued dealing would not in the best interests of fund investors. This boosted investors' confidence who were assured by the regulator that suspensions were in line with international best practice and were probably in their best interest. Consequently, funds such as ASI Global Real Estate, M+G Feeder of Property Portfolio suspended their funds, which was in line with much of the property market in the UK,
c. **The FCA suspended the 10.0% depreciation reporting rule:** The FCA, in its publication on Expectations Regarding Funds In Light of Coronavirus suspended the 10.0% depreciation rule. The MiFID Org regulation requires firms providing portfolio management services or holding retail client accounts that include leveraged investments to inform investors when the value of their portfolio or leveraged position falls by 10.0% or more compared with its value in their last periodic statement. The pandemic had triggered an increase in the 10.0% depreciation notifications due to the sharp decline in asset values, triggering fund managers to raise concerns with the authority on the impact of notifications on investors. The Regulator therefore suspended the rule in March 2020 and later in September gave a 6-month extension of the suspension. However, fund managers were still required to issue at least one notification within the current reporting period and inform clients of their decision not to further issue the notifications,
d. **Provided for delayed annual and half-yearly fund reports**: In April 2020, the regulator announced its temporary decision of Extending Deadlines to Publish Fund Reports and Accounts. The regulator temporarily accepted delayed annual and half-yearly requests after some firms expressed their inability to meet the deadline. The relief was to last till 30th September 2020, subject to a month's extension only when deemed necessary, and,
e. **Allowed virtual general meetings:** FCA acknowledged the operational challenges funds were facing and allowed the funds to conduct virtual general meetings, where a unit holder would be considered present if they participated or joined the virtual meeting.

Section 4: Lessons for Kenya and Recommendations

While the real estate sector and real estate funds were affected by the COVID 19 pandemic, it is our view that the Financial Conduct Authority (FCA), the regulatory body of financial and non-financial markets in the UK, made it their aim to not only protect investors, but also the market players. Therefore, it is our view that the regulatory body in Kenya, CMA, should have done more to aid real estate funds during COVID-19 to mitigate the magnitude of liquidity stress that the funds were experiencing as a result of the slowdown in the real estate sector. As it is, the pandemic is going to be with us for a considerable amount of time, hence it remains uncertain when the real estate sector will recover fully. We recommend that the regulator do the following in order to support the real estate sector;

a. **Provide Leadership –** The regulator should be at forefront in providing leadership in such exceptional circumstances, given investors in turbulent times are most likely to trust a third party such as the regulator. Statements assuring the public that actions taken by issuers of real estate securities, if in line with international best practice, are in their best interests in the circumstances show a regulator in tune with the prevailing circumstances and ready to support the capital markets. It is key that the regulator is always concerned about the operational resilience of funds during exceptional circumstances such COVID-19, regardless of whether they are within their regulatory ambit or not,
b. **Engage in robust consultation:** The FCA, before coming up with regulations especially during the COVID-19 pandemic, consulted with stakeholders of interest such as investors and fund managers and other regulators such as the Bank of England through surveys, in order to come up

with regulations that are a holistic reflection of the market, especially on contemporary issues such as a notice period being a prerequisite for withdrawal of funds by investors. It is key to note that consultation on the functioning of open-ended real estate funds has been ongoing since 2019 to present. The FCA has been transparent in the process publishing feedback from the respondents and their responses. They have also actively solicited for alternative proposals from market intermediaries who are the people on the ground. Kenya already has a sufficient legal framework to support public participation in law and rule making anchored in the 2010 constitution and supported by the Statutory Instruments Act. Implementation however still remains a challenge, including in the capital markets sector. The regulator should engage the market participants to better understand their challenges and get their views on how particular legislative changes may adversely affect their businesses,

c. **Ensuring Accountability –** While the Constitution, the Statutory Instruments Act and the Fair Administrative Act set out how public bodies including regulatory bodies should exercise their rule-making powers and also how they issue their directives, express provisions in the Capital Markets Act give the role the regulator plays and the impact directives, rules and guidelines by the regulator may have on investor property rights mandating that the directives, rules and guidelines by the regulator should at all times be compatible with the regulator's duty to not adversely impact competition, be proportionate to the risk of consumer harm or market integrity objective identified and not create undue burden to the industry. A requirement to demonstrate this, on request, may ensure the regulator always exercises due care when exercising its powers. For example, in the UK, where the FCA issues a directive or proposes to amend regulation, it clearly sets out reasons for doing so and a compatibility statement showing it has considered these principles and how it has made sure they are taken into account in its decision making process,
d. **Clarity on communication:** The FCA consistently communicated their position on the appropriateness of actions by funds in light of the exceptional circumstances brought about by Covid 19 through various speeches and publications, promoting co-ordination between the regulator and the industry. The regulator should consider clarity in their communication and continuously engage investors to provide assurance in turbulent times. This ensures that market confidence is maintained as any matters that affect capital markets, whether in the private or public markets, affects the viability of the capital markets as a whole, and,
e. **Exercise Flexibility:** While we would commend the regulator for exercising flexibility during COVID-19 by for example allowing virtual general meetings, we note that the regulator also needed to be flexible in its policies in view of these extraordinary times and also consider measures to accommodate players across the entire capital markets framework. After all, the Capital Markets Act gives the regulator a mandate to assure and protect investors including those who choose to invest in private markets. Working together with industry players to resolve matters rather than alienating and publicly ostracizing industry players facing challenges may not particularly be in investor interest. Taking the example of the FCA, the regulatory body in the UK, they were flexible and agile in their response to the pandemic. In the wake of unprecedented times, the regulator was flexible enough to implement policies in line with fund managers' requests to ensure that firms were also shielded from the harsh economic times.

Section 5: Conclusion

Real estate funds and the real estate sector as a whole were adversely affected by COVID-19, but received minimal support from the regulator. In our view, regulators should not only play an oversight role in capital markets but also support industry players and provide a conducive environment for them to flourish. In Kenya, as at 2021, Fahari-I-REIT, the only listed real estate fund, has a market capitalization of USD 11.6 mn while South Africa's REITS have a total market capitalization of USD 13.4 bn. This shows that real estate funds' growth in Kenya remains muted compared to developed markets. Moreover, despite real estate funds and REITs being attractive investment ventures owing to their high returns and ability to beat inflation, their uptake in Kenya remains quite low. It is our view that going forward, the regulator should adopt proactive and accommodative regulations for the purpose of creating an enabling environment for real estate funds' success in order to inspire investor-confidence and stimulate growth. The real estate sector and real estate funds also go a long way to promoting economic growth and development through development of infrastructure and promotion of the Housing agenda, in addition to creating employment. With Kenya facing a housing shortage of 2 million units, 250,000 units need to be built annually, and the best way to provide funds to plug the deficit is through capital markets and real estate funds.