

GUIDELINES ON DIRECT REAL ESTATE INVESTMENTS BY CLOSED PENSION FUND ADMINISTRATORS AND APPROVED EXISTING SCHEMES

1.0 INTRODUCTION

- 1.1 These Guidelines seek to standardize procedures to be adopted by Closed Pension Fund Administrators (CPFAs) and Pension Fund Administrators (for Approved Existing Schemes) that operate Defined Benefit Schemes and have or intend to have direct investments in real estate.
- 1.2 CPFAs and Approved Existing Schemes (AES) that operate Defined Contributory Schemes and currently have direct real estate investments may maintain such investments but, as from the effective date of these Guidelines, shall not make new direct real estate investments.
- 1.3 Direct investment in real estate involves the purchase of an already developed property or financing the development or construction of a property to generate income for the pension fund.

2.0 GENERAL REQUIREMENTS

- 2.1 Direct investment in real estate may be made only by CPFAs or AESs that operate Defined Benefit Schemes.
- 2.2 The parcel of land upon which any direct real estate investment is situated shall be fully owned by the CPFA/AES, either by outright purchase or a leasehold agreement.

- 2.3 Where a CPFA/AES is a Defined Benefit Scheme, it shall be fully funded based on the latest actuarial valuation report at the time of purchase or commencement of development of the property. Any actuarially determined deficit must be met within the 90days prescribed by the Pension Reform Act (PRA) 2004 or under a funding arrangement as may be approved by the Commission.
- 2.4 The CPFAs/AESs shall perfect the title of such properties, including seeking the necessary consents for consummating such real estate transactions.
- i. Where the property is to be developed, the title to the land must be perfected prior to commencement of construction.
 - ii. In the case of outright purchase of a developed property, the title deed must be perfected within 180 days of the purchase date.
 - iii. Where the title deeds are not perfected within the stipulated 180 days, the CPFA/AES shall provide to the Commission, evidence of payment of all necessary fees and other relevant documentation concerning the perfection of the title deed.
- 2.5 The value of the property at purchase or estimated cost to completion shall be such that the total exposure of the Fund would still be within the portfolio limit stated in the Internal Investment Guidelines/Policy of the CPFA/AES, approved by the Commission.

- 2.6 The value of the property shall be the fair value as stated in the professional Valuation Report prepared by a reputable Estate Valuing Company, registered with the Estate Surveyors and Valuers Registration Board of Nigeria (ESVARBON).
- 2.7 Where it is an already developed property to be purchased, the value of the property should be the most current valuation as at the time of going into the transaction. The CPFA/AES shall also make available to the Commission the following documents, amongst other documents, as may be requested during On-Site Examinations:
- i. Approval of the Board of Directors/Trustees to buy the property;
 - ii. Financial Viability Assessment Report;
 - iii. Value of the property based on professional valuation by three estate valuing firms registered with ESVARBON; and
 - iv. The proposed Offer Price of the Property.
- 2.8 Where the property is to be developed, the CPFA/AES shall ensure that the project is undertaken by reputable engineering companies/property developers with good track record. The following reports as well as other required reports shall also be made available to the Commission, as may be requested during On-Site Examinations:
- i.) Business Plan/Financial Viability Assessment Report.
 - ii.) Quantity Surveyor/Costs Report.

- iii.) Other relevant draft agreements with the major Contractors and Consultants as well as any required information concerning parties to the project.
- iv.) Half-yearly progress report on the development of the Project.

2.9 Where a real estate property is to be sold, the CPFA/AES shall obtain prior approval from the Commission. The Commission's approval or otherwise, shall be duly communicated not later than two weeks after receipt of request by the CPFA/AES, provided all relevant documentation required for the assessment had been submitted to the Commission. The request for approval by the CPFA/AES shall be accompanied with relevant documentation, which shall include, amongst others:

- i. Approval of the Board of Directors/Trustees to sell the property;
- ii. Value of the property based on professional valuation by three estate valuing firms registered with ESVARBON, which shall not be later than one year from transaction date; and
- iii. The proposed sales price of the property.

3.0 **SAFETY AND CORPORATE GOVERNANCE**

The following minimum safety and corporate governance standards shall apply to the direct real estate investments:

- 3.1 The CPFA/AES shall not sell to, purchase from or engage in the development of any of its real estate property with a shareholder, an affiliate of a shareholder, director, trustee, employee or any related persons to the CPFA or AES, including the Pension Fund Custodian and its affiliates.
- 3.2 The CPFAs/AESs shall engage external/independent firms, duly registered under relevant authority and certified by their principal officers, to carry out due diligence on the ownership/title to the property, prior to investment. The report on the due diligence shall be certified by, at least, two Directors/Trustees of the CPFA/AES and forwarded to the Commission for review.
- 3.3 Where the property is to be developed, a Performance Bond, of not less than 10% of the total value of the project, shall be provided by the main contractor. In addition, all advance payments made by the CPFA/AES shall be covered by Advance Payment Guarantees issued by a licensed commercial or merchant bank, with a minimum credit rating of 'BBB'.
- 3.4 All real estate properties, whether fully developed or undergoing development, shall have comprehensive insurance cover provided by a reputable insurance company, throughout the period of ownership or development by the CPFA/AES.
- 3.5 The CPFA/AES shall make available to the Commission during On-site Examinations, all relevant documents and minutes of meetings used in arriving at the decision for direct investment in real estate.

4.0 FUNDING

- 4.1 The source of funding for the purchase or development of the property shall wholly be from the Pension Fund/Scheme.
- 4.2 Notwithstanding the provisions of section 4.1 above, a CPFA/AES may enter into a Joint Venture Agreement (JVA) with a Third Party to finance the development of a real estate property, subject to due approval of such JVA by the Commission.
- 4.3 The CPFA/AES shall not obtain any loan or credit facility to finance the purchase or development of the property, either partly or fully, in compliance with Section 76 (b) and (c) of PRA 2004.

5.0 VALUATION AND REPORTING

- 5.1 The professional valuation of a property shall only be undertaken by a reputable Estate Valuing Company, registered with the Estate Surveyors and Valuers Registration Board of Nigeria (ESVARBON).
- 5.2 The valuation of the property portfolio shall be undertaken at least once in every three years.
- 5.3 The value of the property stated in the valuation reports of the CPFA/AES shall be the fair value indicated in the latest professional valuation report

issued by a reputable Estate Valuing Company registered with ESVARBON.

- 5.4 Where a property is being developed, the CPFA/AES shall forward to the Commission, half-yearly status reports throughout the period of construction.
- 5.5 During the period of development of the property up to completion stage, the property shall be stated at cost value in the valuation report of the CPFA/AES. All incremental capital expenses incurred on the property during and after construction shall be capitalized.
- 5.6 On satisfactory completion of the property, the valuation/first carrying cost of the property shall be undertaken by an Estate Valuing Firm registered with the Estate Valuers Registration Board of Nigeria (ESVARBON).
- 5.7 Where there is a revaluation of the property, the professional valuation report shall indicate, amongst other relevant information:
- i. the current fair value of the property;
 - ii. effective date of revaluation;
 - iii. methods and significant assumptions used in estimating the fair value; and
 - iv. the extent to which the fair value was determined directly by reference to observable prices in an active market or recent

transactions on arms length terms or were estimated using other valuation methods.

6.0 INVESTMENT LIMIT

6.1 The value of direct real estate investment shall not exceed the asset allocation limit stipulated in the Internal Investment Guidelines of the CPFA/AES approved by the Commission as well as the sector limit stipulated in the Regulation on Investment of Pension Fund Assets.

7.0 REVIEWS

7.1 These Guidelines are subject to periodic review by the Commission.