What is a REIT?

A Real Estate Investment Trust ('REIT') is a company that owns or finances income-producing real estate. It is modelled on a mutual fund and allows an individual (or ownership structure) to invest in a portfolio of real estate assets in a similar manner to investing in other industries through the purchase of individual company stock.

The main advantage in investing into a REIT is that stockholders earn a share of the income produced real estate investment without having to buy, manage or finance property directly. The REIT regime came into effect in the UK in January 2007 with amendments in July 2012.

The Process

REITs must be primarily engaged in property investment in either UK Real estate or International Real Estate and must be listed on a recognised stock exchange. Rental business profits must represent at least 75% of the REITs total profits. A REIT must include at least three properties and second, no single property may represent more than 40% of the total value of the properties.

A REIT may be either internally or externally managed. If internal then the REIT's officers and employees manage the portfolio of assets owned by the REIT. If externally managed, the REIT would have no direct employees and a board run by non-executive directors. The executive duties would fall to a third party investment management company under an investment management agreement. The manager may further appoint an administrator to carry out the day to day administrative functions such as NAV calculations, accounting and statutory records.

REITs returns come in two parts, firstly dividends received and secondly Net Asset Value (NAV). If the value of the properties increase through market growth or development then the NAV will increase. If a REIT is popular, particularly due to the sector invested in, then the share price will increase and so be above the NAV. If the opposite happens the REIT share price will be seen at a discount. A REIT must distribute at least 90% of the income profits.

REIT Key Advantages

As opposed to owning shares in property companies where investors are effectively taxed twice on the profits of the Company (corporation tax on income and tax on capital gains and then investors taxed on their dividends), a REIT has special tax status in that they do not pay direct taxes on either the income or capital gains of the rental property business.

REITs are excluded from the non-resident CGT charge on the disposal of UK residential and commercial property (see below), a REIT provides overseas investors the opportunity to invest in UK property and remain tax neutral.

From 6 April 2019 both UK and non-UK residents will be taxed on gains on their disposals of interests in commercial property, including disposals of UK property-rich entities. This change marks an expansion to the scope of the current capital gains tax (CGT) rules which previously just affected UK residential property. Under the CGT changes, the position for non-UK resident investors changes and they will now generally be liable for CGT on disposals of fund interests (regardless of the type of UK real estate assets those funds possess), and non-UK investment funds may become subject to UK tax on any gains they realise at fund level on direct or indirect disposals of all UK property assets. As a result of these changes, a non-UK resident who invests in an offshore investment fund which, in turn, invests in any type of UK real estate, could potentially suffer UK tax charges at both fund level and at individual investor level. However, REITs will continue to enjoy exemption from tax at fund level, making them more attractive than their non-UK equivalents from a tax perspective as they will not suffer the tax charge highlighted at the disposal point. This is in contrast to investors in alternative vehicles, such as companies, who might suffer UK tax both at fund level and on disposals of their shares/units.

Dividends are treated as property income to the investor and are subject to a withholding tax at basic rate income tax, with exempt investors such as charities, companies and pension funds who can register to receive income gross.

As the REIT must be listed, investors can easily dispose of their shares providing greater liquidity.

REITs with properties on long-term leases can deliver secure attractive yields for investors.

Offshore Advantages

The stock exchange of the Channel Islands, The International Stock Exchange ('TISE') offers an alternative to the London Stock Exchange and satisfies listing requirements. It can offer a more cost efficient option and a significantly faster route to listing. To date a quarter of all REITs are listed on TISE.

Single institutional, club investment or joint venture REITs can be listed on the TISE as there is an exemption to the general rule requiring 25% of issued share capital to be held in public hands.

Although a REIT must be tax resident in the UK, it does not mean that it cannot be incorporated in another jurisdiction as long as it remains tax resident in the UK i.e. you can have a Guernsey incorporated REIT, managed and controlled from the UK.

Using a Guernsey incorporated REIT, would offer greater flexibility to investors as Guernsey Company law applies the same concept as English Company law but with enhanced flexibility. This flexibility includes a more streamlined return

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of capital to investors, greater flexibility in respect of payment of dividends and no prohibition on financial assistance.

There is no stamp duty on transfer of shares in Guernsey.

A Guernsey REIT may be structured using a Protected Cell Company, providing separate legal personality for each cell and therefore ring-fencing each cell's assets and liabilities.

The International Stock Exchange (TISE)

The TISE has competitive fees for listing, starting at £5,000 for an initial REIT application and from £2,000 per year for the annual listing fees.

TISE has a responsive approach, deliberately fostering strong relations with sponsors and listing agents whose Listing and Membership Committee (LMC) meet daily to consider applications. The committee will respond to initial applications within 3 working days and 2 working days for subsequent reviews.

TISE is internationally recognised by the International Organisation of Securities Commissions (IOSCO) and the World Federation of Exchanges both of whom have granted TISE affiliate member status. In addition to being recognised by UK HMRC for the purposes of UK REIT eligibility, HMRC recognition also applies for the purposes of long-term investment products for UK private individuals' self-invested personal pensions and individual savings accounts. TISE has also been accorded recognition from the German national financial services regulator, BaFin, enabling German mutual funds to invest in TISE listed securities and by the Australian Stock Exchange.

TISE has over 2,500 listed securities with a market value at over £300 billion.

Headquartered in Guernsey, the TISE has close links to the UK and Europe but without being part of the EU.

Listing Sponsor or Agent - All applications for admission to listing on TISE and for continuing eligibility purposes require the support of a listing sponsor or agent authorised to act as such by TISE's listing authority and Imperium works closely with a number of these agents.

Tax Advice/Fees

Full tax and structuring advice must be obtained for the establishment of a discretionary trust. Imperium work with a number of leading advisory firms to assist with this advice and drafting of the trust deed, as well as assisting with appointing auditors, lawyers and additional ancillary services.

The fees associated with setting up a Guernsey discretionary trust would vary depending on the complexity of the trust deed and size & nature of the proposed assets. Please note that third party tax and legal advice would be charged in addition to Imperium's fees.

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