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New trends in listing REITs

By Fiona Le Poidevin, CEO, The International Stock Exchange Group

This article explores the growth of the REIT sector, especially in the UK and why a quarter of all UK REITs are listed on The International Stock Exchange (TISE).

On Thursday 23 June last year 17,410,742 people voted for the UK to leave the European Union.

The unexpected vote for Brexit immediately led to a loss of confidence in the UK real estate market and – although it was not the case of any listed with us on The International Stock Exchange (TISE) – led to some of even the largest open ended property funds having to protect themselves against a run of investor redemptions.

However, fast forward a couple of months and we began to see groups of international investors, including sovereign wealth funds, seeking to take advantage of new opportunities in the UK property market given the backdrop of revaluations and the exchange rate implications of a lower pound.

This has helped provide a further catalyst to the UK REIT regime. That is evidenced by the growth we have seen so that today, a quarter of all UK REITs are listed on TISE.

Why REITs?

Real Estate Investment Trusts (REITs) were first formed in the US in 1960 and now there are more than 35 countries worldwide that have REIT or REIT-like regimes in place. They are globally recognised tax efficient structures for investment in real estate.

> *"The UK regime has a number of conditions which a company needs to satisfy in order to become a REIT and retain that status. These include...being listed / traded on a recognised stock exchange."*

The UK REIT regime was launched on 1 January 2007, although there have been a series of changes in subsequent years. Amendments in the Finance Act 2012 and Finance Act 2013 have played a part in the number of UK REITs doubling in the last five years.

REITs may be attractive to investors for the following reasons:

- » Easier access to property investment compared to purchasing a property directly
- » Indirect investment into property through a readily tradeable investment asset, as compared to direct investment into property, which is illiquid
- » Diversity of investments across a range of property assets
- » Access to areas of the property sector that private investors cannot usually command
- » Regular and stable income stream
- » Lower transaction costs i.e. up to 0.5% stamp duty on shares compared to up to 5% stamp duty land tax on commercial property
- » Improved after-tax returns for shareholders as profits are generally only taxed at the shareholder level
- » Exemption from corporation tax on rental income and capital gains and a tax rebasing of the properties used for the rental business to market value on entry to the REIT regime

The UK regime has a number of conditions which a company needs to satisfy in order to become a REIT and retain that status. These include, among others, being tax resident in the UK only, not being an open ended investment company, not being a close company and being listed/traded on a 'recognised stock exchange.'

This latter condition requires that the REIT is admitted to trading on a recognised stock exchange and either: 'listed' on such an exchange; or 'traded' on such an exchange in every accounting period.

TISE is deemed a recognised stock exchange and listing venue by the UK tax authority, Her Majesty's Revenue & Customs (HMRC), under section 1005 of the Income Tax Act (2007).

Why TISE?

A quarter of all UK REITs are listed on TISE because we not only fulfil the requirements of being a recognised stock exchange and listing venue but we have a pragmatic admissions process which is also cost-effective.

"Our rules also specifically exempt REITs from the free-float rule"

TISE, which until March this year was known as the Channel Islands Securities Exchange (CISE), is home to nearly 400 investment securities, including open and closed ended property funds from names such as M&G and Stenham. In September last year our rules for investment vehicles were modernised to ensure that they were fit for purpose, not least explicitly catering for non-fund structures, such as REITs.

Our rules also specifically exempt REITs from the free-float rule requiring 25% of the issued share capital to be held in public hands. This is a similar approach to that of the UK REIT regime itself and it has proved particularly attractive for those REITs where there are a smaller number of institutional investors and especially, where they are likely to hold for the long term and therefore do not require significant levels of liquidity. Having said that, there has been a recent trend towards TISE also proving attractive to more widely held REITs and those who want the option to trade through our bespoke trading system.

While UK REITs must be tax resident in the UK, they can be incorporated in other jurisdictions. TISE-listed REITs include not just England & Wales companies but also those established in Luxembourg (particularly attractive for French investors) and the Channel Islands.

Using Guernsey or Jersey incorporated companies to avail of the UK REIT regime has some advantages compared to a UK equivalent. These include company law in Guernsey and Jersey enabling, for example, distributions to be made on a cash flow solvency basis and there being no stamp duty payable on the transfer of shares in a Guernsey or Jersey company.

Conclusion

TISE provides a cost-effective and convenient listing venue for UK REITs and we continue to see a flow of applications and enquiries which mirrors the wider trend of increased demand for investment into UK property – somewhat boosted by Brexit – and the advantages offered by having those facilitated by the UK REIT regime.

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