



Funds and Indirect Real Estate
REITs



N A B A R R O
CLARITY MATTERS

Our extensive experience in the listed real estate sector for REITs includes, conversions, listings and major transactions.

REITS GROUP

We have a dedicated REITs group including specialists in Real Estate, Corporate Finance, Tax and Banking. Leading individuals include Chris Luck (Corporate Real Estate), Michael Cant (Tax) and Simon Rose (Tax).

Our team has been closely involved in the development of UK-REITs both at a company and sector level. We advise a number of leading names in the sector on UK-REIT issues and transactions. We have been involved in the listings and conversions of UK REITs as well as fund raisings and takeover activity.

Nabarro is an active participant in the British Property Federation, Investment Property Forum and the European Real Estate Association (EPRA).

Our REIT group works in close co-operation with other European law firms including August & Debouzy in France, GSK Stockmann + Kollegen in Germany and Nunziante Magrone in Italy. These firms have in depth real estate, finance and corporate practices.

OUR EXPERIENCE

Our experience involving UK-REITs involves many real estate and corporate transactions including:

Great Portland Estates – (i) its conversion to a UK-REIT; and (ii) various transactions including joint ventures for the development of 100 Bishopsgate, the acquisition of City Place and City House in the City of London and its innovative development and funding arrangement with Eurohypo relating to Marcol House and 23/24 Newman Street.

Hammerson and Standard Life (Brent Cross Owners) – restructuring of their joint ownership from the London Borough of Barnet and development arrangements for Brent Cross involving over 1.6 million sq m of development floor space.

Land Securities – (i) aspects of its conversion to a UK-REIT; (ii) transactions including its sale of its interest in the Bullring Shopping Centre, Birmingham for £210m; and (iii) joint ventures such as St. David's, Cardiff and the Walkie Talkie.

London & Stamford Property – (i) its acquisition of a 50% interest in Meadowhall Shopping Centre in Sheffield from British Land, in a deal worth £1.17bn; (ii) its £225m placing and open offer; and (iii) its subsequent admission to the Official List, REIT conversion and internalisation of management.

NewRiver Retail – advising Forum European Realty Income III LP on its CISX listed convertible unsecured loan note investment in NewRiver Retail, which also converted to become a REIT.

Primary Health Properties plc – (i) its conversion to a UK-REIT; and (ii) its £60m placing and open offer.

Rugby Estates Investment Trust plc – (i) its £50m flotation as a UK-REIT; (ii) its subsequent corporate acquisition programme; (iii) its successful defence of a hostile offer from Laxey Partners and (iv) its subsequent takeover by ING Real Estate Investment Trust.

SEGRO – (i) its conversion to a UK-REIT; and (ii) ongoing real estate transactions.

REITs at a glance

The REIT regime

- The REIT regime confers a tax status rather than the creation of a separate corporate vehicle.
- A REIT is exempt from UK tax on its property investment income and capital gains.
- As a public company a REIT will need to comply with relevant Company, Securities and Listing obligations.
- Tax base costs for properties are rebased on entry to the UK REIT regime.
- A 2% conversion charge is payable by the REIT on entry based on value of the investment properties.

Status and form

- The parent entity must be UK tax resident.
- A REIT must be listed on a recognised stock exchange (e.g. London Stock Exchange but not AIM)
- A REIT cannot be a close company (5 or fewer shareholders should not control more than 50%).
- A REIT can only have ordinary shares or non participating fixed rate preference shares and convertible preference shares.
- A REIT cannot have profit participating loans.
- A REIT can have subsidiaries and interests in joint ventures, unit trusts and limited partnerships. They have different REIT regime consequences depending on structure and size of holding.

Business

- A REIT must have 75% of its assets and profits in its property investment business. It can carry out other activities which are taxable.
- Development profits may not be tax exempt.

Financial

- A REIT must distribute 90% of net income from its property investment business after capital allowances.
- Restrictions apply on distributions to corporate shareholders entitled to receive dividends on 10% or more of the shares.
- Tax deductions for borrowings are restricted - the profit: financing costs ratio test requires income cover of 1.25.
- Withholding tax applies on dividends (20%) from a REITs property investment business subject to reliefs.
- A REIT must prepare REIT separate "financial statements" for HMRC.
- REIT status can be lost for breach of regime.

Further information

The above is a summary only. A more detailed briefing on REITs is available.

THE UK REITS

(at 31 December 2010)

- Big Yellow
- British Land
- Capital Shopping Centres Group
- Derwent London
- Glenstone Property Group
- Great Portland Estates
- Hammerson
- Hansteen
- Highcroft Investments
- Land Securities
- Local Shopping REIT
- London & Stamford
- McKay Securities
- Metric Property Investments
- Mucklow (A & J) Group
- NewRiver Retail
- Pineapple Corporation
- Primary Health Properties
- SEGRO
- Shaftesbury
- Town Centre Securities
- Warner Estate Holdings
- Workspace Group



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