

REITs and how to invest in them

What are Real Estate Investment Trusts (REITs)?

Global definition

Although details vary between countries, REITs generally:

- Own and manage rental property with a view to **generating income** in the form of dividends for shareholders
- Benefit from favourable tax treatment, compared with other equities, notably "**tax-transparency**" whereby under normal circumstances REITs do not pay tax on income and capital gains
- Enable investors to participate and **benefit from indirect property investment** as if investing in property through direct ownership

In some jurisdictions, shareholders can mitigate their personal income and capital gains tax liabilities by investing through tax exempt products (such as ISAs and SIPPs in the UK).

UK REITs must:

- Be public limited companies listed on a recognised exchange such as the main London Stock Exchange (not AIM) and resident for tax purposes in the UK only
- Own real estate assets (these can be anywhere in the world but the choice may be limited because local tax laws penalise holding property in certain jurisdictions)
- Own assets for the purpose of generating income (this part of the business must account for at least 75% of the company's gross asset value)
- Own at least three commercial or residential properties (none of which can be owner occupied or worth more than 40% of the total assets held)
- Generate at least 75% of gross profits from tax-exempt property rental
- Distribute at least 90% of profits from rental business to shareholders
- Keep the tax exempt property rental business separate from any other taxable activities such as property management services

Benefits for investors

- Tax transparency
- Predictable income and potentially attractive returns over the longer term
- Low cost of entry to property investing, particularly in large scale commercial property
- Diversification through historically low correlation with other asset classes
- Easy to buy and sell as the investment comprises of shares listed on a stockmarket
- Strong corporate governance for companies listed on a recognised stock exchange such as the London Stock Exchange

How to invest in REITs

Direct – Buying REIT shares through a stockbroker, share trading company, online share trading platform or other authorised intermediary

REITs – Global perspective

- REITs make up about 70% of global property investment market (this is likely to rise to 90% over next five years)*
- Some 19 countries already have REITs and more are expected to follow
- The European market is set to grow significantly following the launch of REITs in the UK and Germany



* Source: European Public Real Estate Association

How to invest in REITs

Indirect – Through pooled investment schemes such as:

- Life and Pension funds (as listed companies REITs can feature in balanced equity portfolios)
- Unit trusts, OEICs and other investment trusts
- Property funds (except those that invest exclusively in bricks and mortar)
- Specific REIT Funds – currently there are no UK specific REIT funds (this is likely to change in the near future), however exposure to UK REITs is possible via investment in UK property security funds, Global REITs and European REITs funds
- There are no property based derivatives at present however it is expected that derivatives such as Contracts for Difference (CFDs) and Exchange Traded Funds (ETFs) will be created to track property indices

Tax treatment of the different ways of investing in REITs

	Direct equity	Unit Trusts	OEICs	Life Funds	Pension Funds	Offshore Funds
Tax treatment	22% withholding tax	No withholding tax but additional 20% to pay	No withholding tax but additional 20% to pay	Free of basic rate tax, higher rate tax payers pay difference	No withholding tax and no additional tax to pay	Withholding tax of 22% may be reclaimed
Available through Platforms/ Wraps?	Yes	Yes	Yes	Yes	Yes	Yes
Can be held in an ISA?	Yes	Yes	Yes	Very limited	No	No
Can be held in SIPP?	Yes	Yes	Yes	Yes	Yes	Yes

Further information

- The Investment Property Forum (IPF) "Understanding commercial property investment: A guide for financial advisers, 2007 edition" – available from either www.reita.org or www.ipf.org
- AIFA Viewpoint – An introduction for IFAs to Real Estate Investment Trusts – REITs available from www.reita.org or from AIFA (info@aifa.net)
- The London Stock Exchange "A new route up the property ladder." Available from www.londonstockexchange.com
- REITA www.reita.org

Important information

The value of investments and the income derived from them can go down as well as up, and you may not necessarily get back the amount you invested. Past performance of an investment is not necessarily a guide to its future performance. This fact sheet is based on Reita's understanding of current legislation and tax regime which are liable to change in the future. The value of tax benefits will depend on your personal circumstances.

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