# International REIT-Markets

## Past and Future

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**Starting from the United States, REITs made their way all over the world. Till now, many countries have adopted REITs with an huge success. A closer look on the past and the future of the international REIT-markets**

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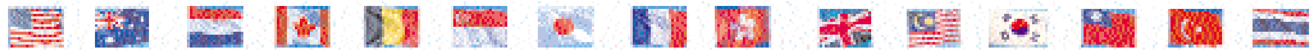
### REIT Legislation has existed since 1960

Following the Second World War, the demand for real estate funds in the United States increased dramatically. In 1960 President Eisenhower signed the real estate investment trust tax provision which reestablished the special tax considerations qualifying REITs as pass through entities (thus eliminating the double taxation). This law has remained relatively intact with minor improvements since its inception. The Tax Reform Act of 1986 allowed REITs to manage their properties directly, and in 1993 REIT investment barriers to pension funds were eliminated. Tax legislation included in the Revenue Reconciliation Act of 1993 made large-scale investments in equity real estate investment trusts (REITs) more desirable to institutional investors. With this is mind, the United States saw a glut of IPOs during the mid-nineties, expanding the market from 8 Billion USD in 1993 to 125 billion USD by the end of 1997. The Netherlands introduced the first REIT in Europe in 1970 and Australia launched its equivalent REIT structure, the Listed Property Trust (LPT) around the same time. It was not until the mid-nineties before the REIT club expanded further, when Canada and Belgium came on board. The first half of this decade has seen the major economic powers in Asia join the REIT club. In 2004 EPRA issued "The EPRA Global REIT Survey compared the established REIT regimes around the world. Figure 1 details the main features of existing REIT structures around the world, from the oldest to newest regime.

### Changing Investor Landscape

The past five years have seen many changes in investor sentiment and shareholder structure of the global market. Firstly, investors have shifted from a domestic or regional focus to a broader, globally diversified approach to real estate investment. An example of this heightened appetite for global real estate product is the phenomenal growth in the number of global real estate securities mutual funds. Over the past three years, over 50 new funds have entered the market, resulting in estimated

Figure : International REIT structures - from oldest (left) to newest (right)



| | US | Australia | Netherlands | Canada | Belgium | Singapore | Japan | France | Hong Kong | UK | Malaysia | Korea | Taiwan | Turkey | Thailand |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Management** | Internal or External | Internal or External | Internal | Internal | Internal or External | External | External | Internal or External | Internal or External | Internal or External | External | Internal or External | Internal or External | Internal or External | External |
| **INVESTMENT RESTRICTIONS** | | | | | | | | | | | | | | | |
| **Real Estate Investments** | 75%+ | >50% of the revenue from rent | 100% | 80%+ | 100% | 70%+ | 75%+ | Flexible | 100% | 75%+ | 50-75% | 70%+ | 75%+ | 50%+ | 75%+ |
| **Overseas Assets** | OK | OK | OK | OK | OK | OK | No official restrictions | OK | OK | OK | OK, but approvals required | OK | OK, but approvals required | OK | Restricted |
| **Development** | OK | OK | Minimal | OK | OK | 20% of total Assets | Restricted | OK | Prohibited | OK | Prohibited | OK (limit to 30% in equity) | Prohibited | OK | Prohibited |
| **Gearing Limit** | No restrictions | No restrictions | 60% of Property Assets | No restrictions | 50% of total Assets | 35% of total Assets | No restrictions | No restrictions | 45% of total Assets | Possible Limit | 35% | Limit to 200% of Equity | 35% | No restrictions | Prohibited |
| **Payout** | >90% of taxable Income (post depreciation) | 100% of taxable Income (post depreciation) | 100% of fiscal earnings | 85% of distributional cash (predepreciation) | 80% of taxable Income and net debt paydown | 100% of taxable Income (no depreciation) | >90% of taxable Income (post depreciation) | 85% of taxable income from rentals, 50% of capital gains | >90%of income after tax (no depreciation) | 95% of rental asset income (post allowable deductions) | No restrictions, but undistributed earnings are taxed at 25% | >90% of equity less capital and reserves | 100% of distributable income (post expenses and reserve) | No legislation to distribute income | >90% of profits |
| **Closed ended** | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Closed likely, unlisted possible | Yes | Yes | Closed ended mostly, open end needs governments approval | Yes | Yes |
| **Listed/Unlisted** | Both | Both | Both | Listed | Listed | Listed | Listed | Listed | Listed | Listed likely, unlisted possible | Both | Both | Both | Listed | Both |
| **Tax trasparency** | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | No | Yes | Yes | Yes | Yes | Yes | Yes |

Quelle: UBS

assets under management approaching 20 billion USD in addition, a large number of real estate investors who have historically invested either directly, or using unlisted private funds, have now entered the listed market. These shifts have placed increased demand on real estate securities throughout the world. In fact, it could be said at this point in time that there is a lack of listed products in market. We expect that REIT legislation will stimulate growth in the market and broaden the range of options to investors. It is worth pointing out that REIT legislation is familiar with a large number of investors, particularly those from the United States, Australia and the Netherlands. Australian and Dutch investors have historical expressed a healthy appetite for investing in real estate markets, way above the global average allocation to real estate of 6,5%.

## Summary

The global listed real estate market has experienced many changes in the last 20 years. The most influential of these changes has been the adoption of REIT legislation throughout the world. The transparency and characteristics of the structure have proved extremely attractive for both institutional and retail investors alike. The United States, Australia and the Netherlands pathed the way for the REIT structure in each of the three regions, however it was not until the turn of 2000 before the number of major economies to introduce REITs expanded. 2001-06 can be seen as the period that changed the face of the Asian market and it is envisaged that 2007-11 will see similar expansion in the European market. So will we see an all encompassing pan-European REIT structure in the next five years? Probably not, but once we see the majority of individual countries with a REIT structure in place, and these structures tend to look fairly similar across the region, the foundation may well be in place. The changes in investor appetite, both in terms of increasing allocations to the broad range of real estate products and in particular the REIT market, will provide the capital base on which the market depends for expansion. What is clear at this point is that Europe has a long way to go to catch up the established REIT markets in North America and the recent developments in the Asian markets. For Europe in particular, the next five years will prove an extremely exciting time for REITs and investors alike.