REITs/REICs: An increasingly popular investment approach growing globally

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The REIT regime was initially introduced in the U.S. in 1960's with the U.S. market being the undisputable leader, boasting an impressive c. €1 trillion market cap.

While the U.S. remains the largest listed real estate market, the concept has become global, being driven by the appeal of the U.S. REIT approach to real estate investment. Today nearly 40 countries have REITs, including all G7 countries.

Source: NAREIT

Major REIC markets around the world

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Although c. 40 countries have adopted a REIC legislation only a smaller number of them has a REIC sector with substance actually developed.

North America	
USA (200)	€939 bn
Canada (47)	€47 bn
Total	€986 bn

Asia-Pacific	
Japan (61)	€98 bn
Australia (50)	€77 bn
Singapore (35)	€46 bn
Hong Kong (9)	€27 bn
Total	€248 bn

Europe	
UK (52)	€67 bn
France (29)	€52 bn
Netherlands(5)	€31 bn
Spain (59)	€23 bn
Belgium (17)	€13 bn
Total	€186 bn

Africa & Middle East	
South Africa (31)	€21 bn

Source: EPRA Global REIT Survey 2018

REICs – International Practice vs Greece – Key regulatory & tax features (1/2)

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	International Practice	Greece
AIFM (Alternative Investments Fund Managers) licensing	Applicable in EU jurisdictions. Certain countries, e.g. Belgium, have introduced alternative structures that can qualify as REICs and maintain tax transparency without having to comply with AIFM regulations.	AIFM licensing is obligatory
Listing requirement	Yes except USA, Australia, Netherlands, and Japan; Singapore and Canada not mandatory but necessary to maintain certain benefits	Yes
Investment framework	Main income must derive from real estate property rental business. Flexibility is provided for development of real estate property for own retention and exploitation and for ancillary services, complimentary to the rental business	At least 80% of the assets must be invested in real estate Development cost must not exceed 40% of the REIC's investment assets Ancillary, complementary services only allowed in JVs, n which a development component must be in place in order for a REIC to participate
Leverage (LTV) restriction	Depending on the jurisdiction: Yes in Hong Kong, Singapore, Belgium, Netherlands, South Africa, with the LTV ranging from 45% (HK, Singapore) to 65% (Belgium, South Africa) No in Japan, Australia, USA, Canada, UK, France, Spain but other restrictions may apply e.g. thin cap rule, interest coverage test, lender restriction,	Yes, overall leverage must not exceed 75% of REIC's total assets

REICs – International Practice vs Greece – Key regulatory & tax features (2/2)

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	International Practice	Greece
Min dividend distribution obligation	Yes in the vast majority for operative income (i.e. excl. capital gains from the sale of real estate). The % ranges from 75% in South Africa to 95% in France and 100% in the Netherlands For capital gains, a min distribution is not required, except in France (60%), Japan (90%) and Spain (50% in specific cases) In Canada and Australia, such minimum rules are not pre-described, however distribution is performed for tax purposes.	At least 50% of the annual net distributable profit Capital gains do not need to be distributed
Tax regime	Tax transparency for real estate investment related income; in jurisdictions where other activities are allowed, Corporate income tax is applied on income related to such activities	Special regime in place but not tax transparent: Investments and liquid assets taxed at 10%*(ECB rate + 1%) Floor: 0.75% p.a.
Withholding Tax (WHT) on dividends distributed at Investor level	WHT on dividends applies, rates vary, usually 15%. Double taxation treaties apply	N/A – Tax obligation of the shareholders is exhausted at the level of the REIC

Conclusion

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The Greek REIC regulatory framework is, more or less, aligned with international practice as far as investment activity is concerned, although improvements need to be effected in order to allow more flexibility in structuring real estate investments.

However, there is no alignment with the quintessential REIC feature which is tax transparency and this renders Greek REICs less attractive in a time when Greece is striving to attract FDI.