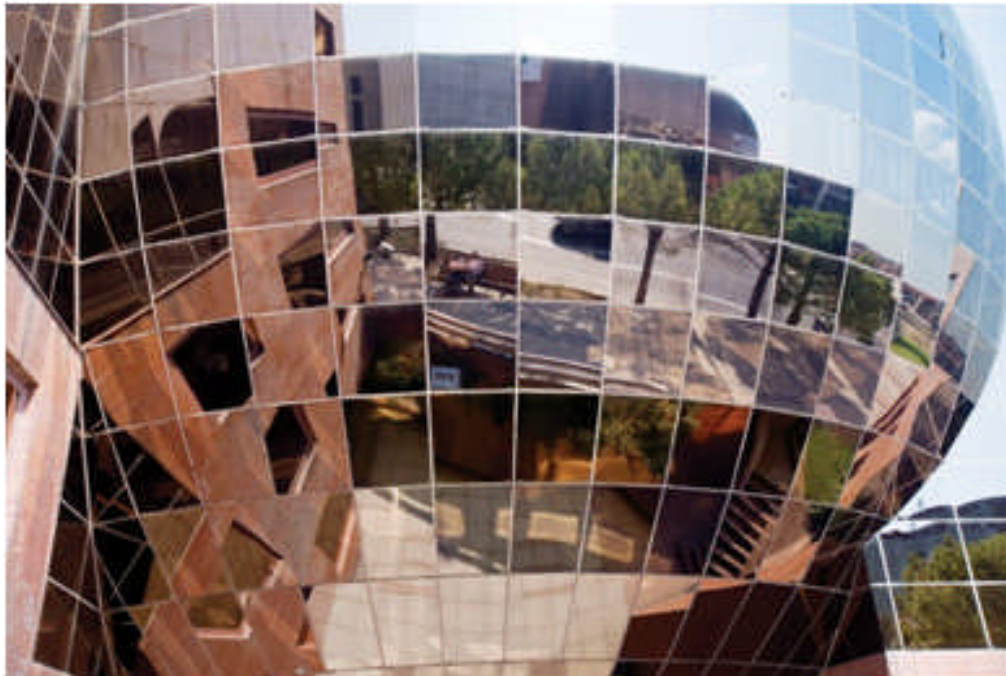


# IFC and PENCOTM

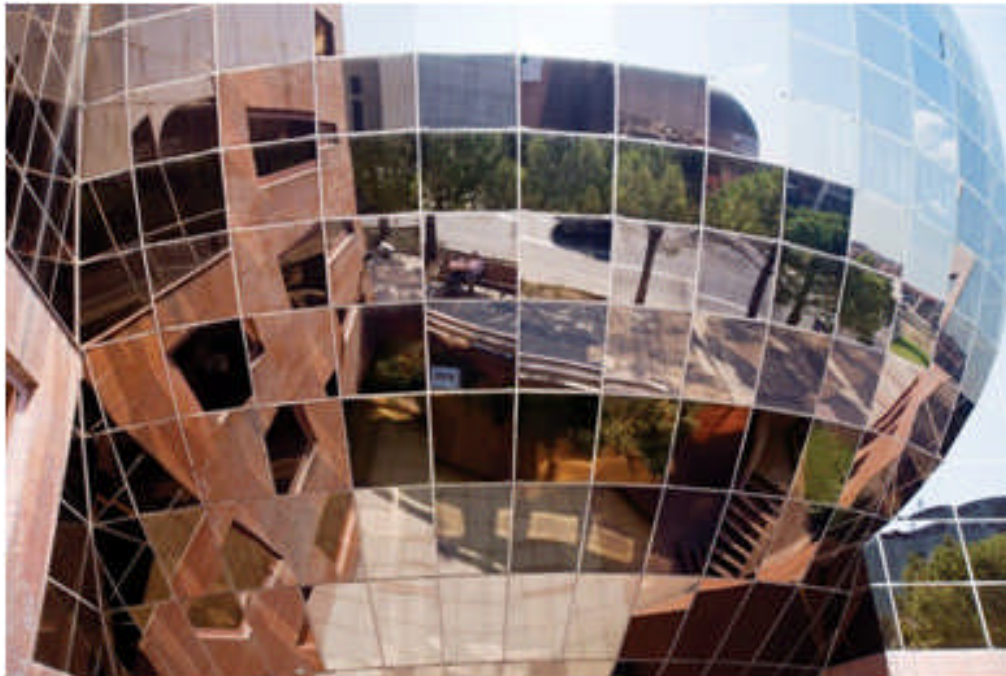
## Alternative Asset Classes for Pension Funds

5-6 March 2008



\*connectedthinking

# Real Estate Investment Trusts: An International Experience and a Nigerian Approach



# Agenda/Contents



- 1 Global Real Estate Capital Markets Update
- 2 REITs : What it is about
- 3 REITs and Double Taxation issues
- 4 A Nigerian Approach

# Part

Global Real Estate Capital Markets Update

# 1

# Global Real Estate Capital Markets Update

## Observations

- Global listed property markets have grown from 28 bn EUR (1985) to 1.2 trillion EUR (2007)
- 2007 YTD a busy year for real estate offerings in Europe (€6.8 Bn in issuance) and AsiaPac (Japan, Hong Kong, Australia)
- Strong growth over last four years ended 2006 as one of the best returning sectors
- Sentiment began to change in US and Europe early 2007 based on interest rate concerns
- Negative market reaction in Europe in last 20 mths began in two countries, which gradually impacted the rest of the sector: UK and Spain
- Credit crisis has reduced liquidity and increased volatility which has amplified the market reaction

# Global Real Estate Capital Markets Update

## Observations

- Asia better off: Boom in REITs markets
- Premium to NAV for European real estate companies turned to a discount
- 2007 correction was triggered by macro concerns and then general momentum due to property specific concerns
  - Sub-prime mortgage crisis, corporate credit crunch, fear of the unknown, hedge fund de-leveraging
- Key catalysts for rebound in broader market
  - Central bank interventions, better-than-expected earnings, short-covering, bottom-fishing
- Anticipated key catalysts for the property sector
  - Renewed confidence in UK property market, stabilisation/reduction in interest rates, reopening of debt markets for property

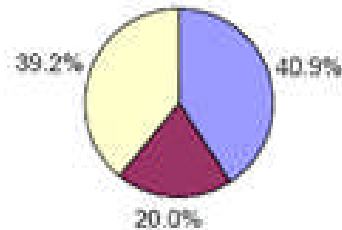
# Global Real Estate Capital Markets Update

## Outlook

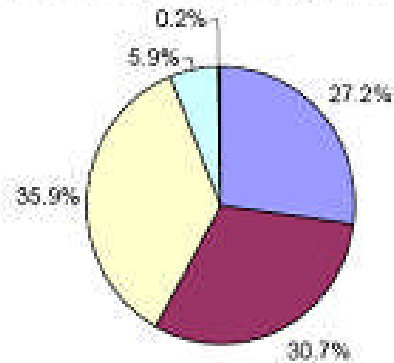
- In many countries sector may be seen as cheap now, time to invest
- Where the bottom has been reached
- Real Estate funds have been facing more redemptions
- Investors want to see solidity and credibility
  - Credible management with track record
  - Proven execution capability
  - Tangible secured project pipeline
  - Visible cash flow
  - Regular appraisal of portfolio by independent valuers
  - Investment focus by asset class or market is key
  - Long-term focus

# Global Real Estate Capital Markets Update

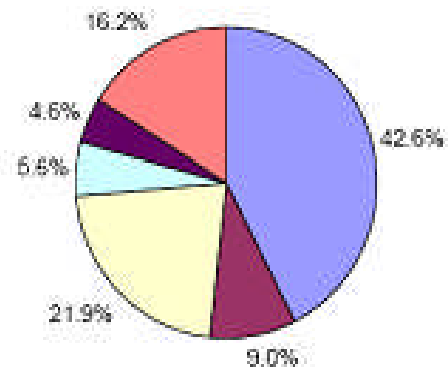
## Three Regions on the screen: Africa to come



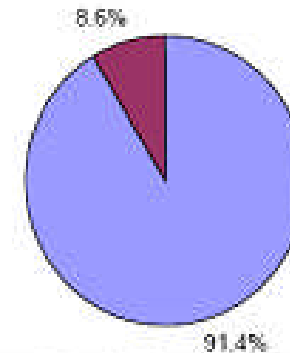
Asia - Country Breakdown by Market Cap



Europe - Country Breakdown by Market Cap



North America - Country Breakdown by Market Cap



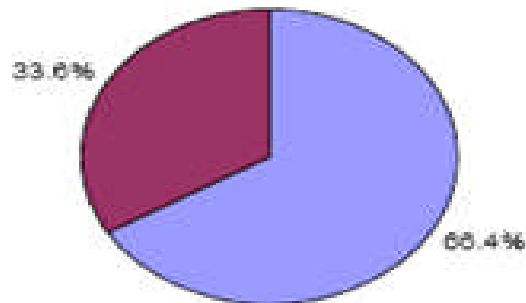
Source: EPRA Monthly Statistical Bulletin January 2008



# Global Real Estate Capital Markets Update

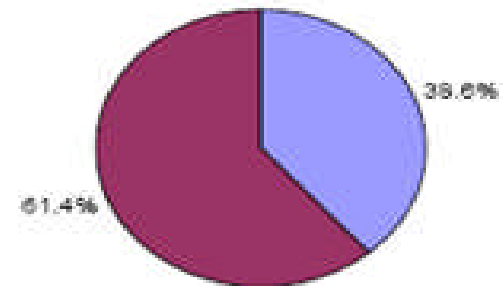
## Increased Coverage by REITs

Global Market Cap Breakdown REIT/Non-REIT

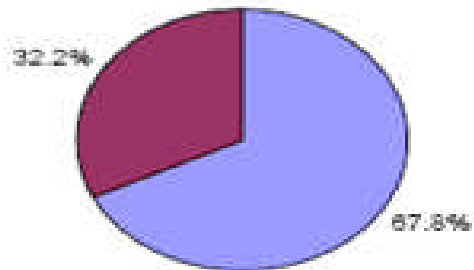


Global REITs Global Non-REITs

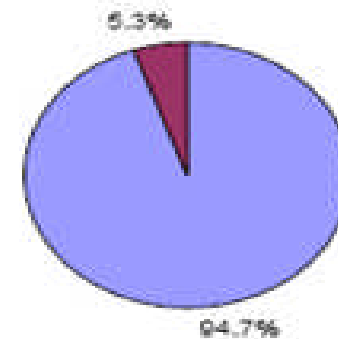
Asia Market Cap Breakdown REIT/Non-REIT



Asia REITs Asia Non-REITs



Europe REITs Europe Non-REITs



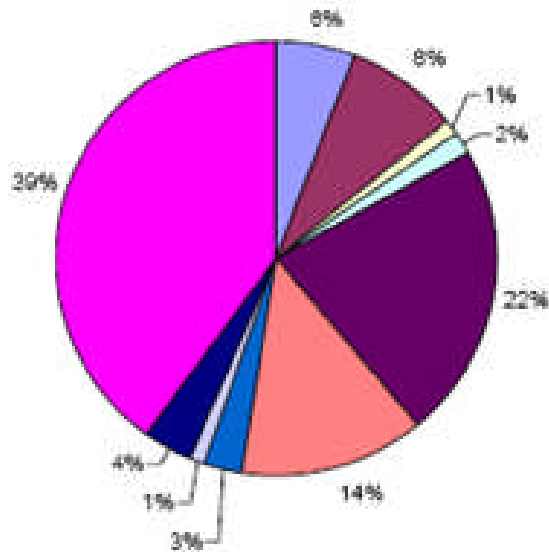
North America REITs North America Non-REITs

Source: EPRA Monthly Statistical Bulletin January 2008

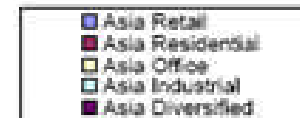
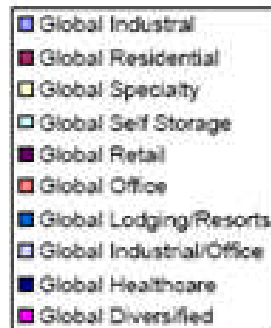
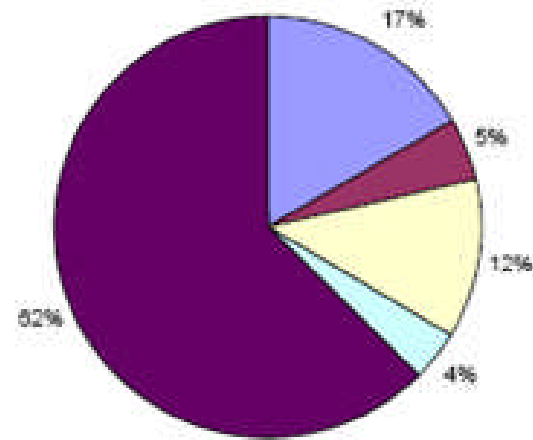
# Global Real Estate Capital Markets Update

## Diversification and Specialism

Sector Breakdown - Global



Sector Breakdown - Asia

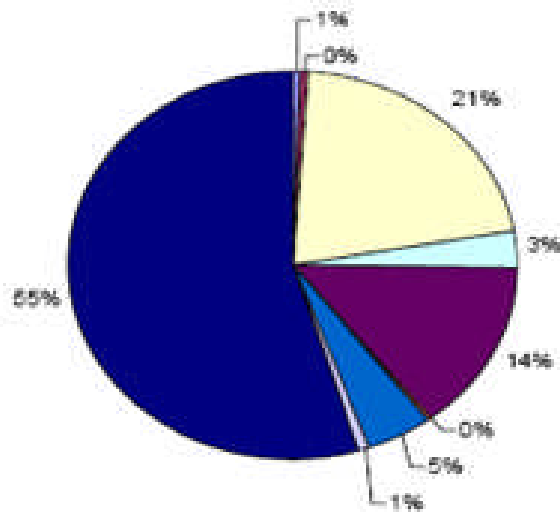


Source: EPRA Monthly Statistical Bulletin  
January 2008

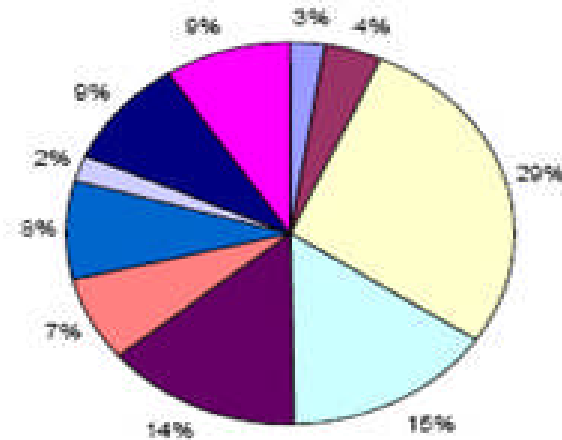
# Global Real Estate Capital Markets Update

## Diversification and Specialism

Sector Breakdown - Europe



Sector Breakdown - North America



Source: EPRA Monthly Statistical Bulletin January 2008

# Global Real Estate Capital Markets Update

## Overview

### FTSE EPRA/NAREIT Global Real Estate Index - Index Performance

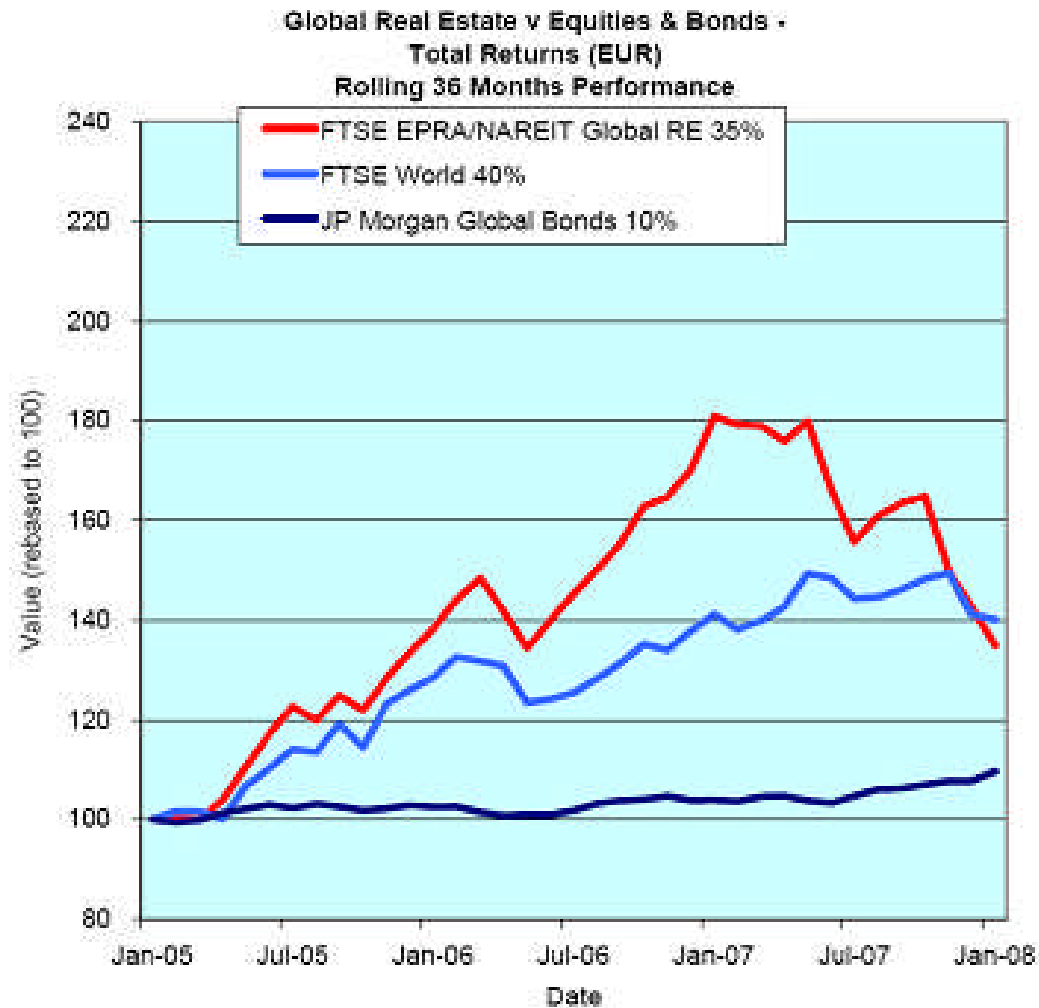
Index Description	Curr	Close Value Jan-08	Free Float Mkt Cap Ccy (m) Jan-08	Free Float Mkt Cap (%) Weight Jan-08	Div Yld (%) Jan-08	Total Rtn (%) - 5 Yrs	Total Rtn (%) - 3 Yrs	Total Rtn (%) - 1 Yr	Total Rtn (%) QTD	Total Rtn (%) Jan-08	Total Rtn (%) YTD	36 Mths Vity (%)
Global	EUR	2,249.15	512,338.40	100.00	3.96	16.03	10.51	-25.41	-5.46	-5.46	-5.46	14.67
Asia	EUR	1,974.23	209,388.17	40.87	3.20	20.24	15.66	-12.52	-10.50	-10.50	-10.50	15.52
Europe	EUR	2,633.64	102,325.94	19.97	3.64	18.27	7.97	-31.37	0.33	0.33	0.33	15.81
North America	EUR	2,463.32	200,624.29	39.16	4.91	12.17	7.31	-32.09	-2.59	-2.59	-2.59	17.85
Global Ex-Asia	EUR	2,475.43	302,950.23	59.13	4.48	13.79	7.52	-31.86	-1.63	-1.63	-1.63	16.11
Global Ex-Europe	EUR	2,132.93	410,012.46	80.03	4.03	15.53	11.19	-23.75	-6.80	-6.80	-6.80	15.38
Global Ex-North America	EUR	2,228.40	311,714.11	60.84	3.34	19.74	12.85	-19.94	-7.21	-7.21	-7.21	14.07
Global Ex-United States	EUR	2,246.23	328,980.73	64.21	3.48	19.54	12.68	-19.93	-7.18	-7.18	-7.18	13.95
Global ex Japan	EUR	1,283.79	447,971.12	87.44	2.83	-NA-	-NA-	-NA-	-5.89	-5.89	-5.89	-NA-
Global Dividend+	EUR	1,796.45	396,692.91	77.43	-NA-	-NA-	-NA-	-NA-	-NA-	-NA-	-NA-	-NA-
Global	USD	3,196.86	758,570.32	100.00	3.96	23.74	15.30	-15.01	-4.26	-4.26	-4.26	13.11
Asia	USD	2,745.20	310,020.98	40.87	3.20	28.23	20.68	-0.31	-9.36	-9.36	-9.36	15.27
Europe	USD	3,873.10	151,504.20	19.97	3.64	26.12	12.66	-21.80	1.60	1.60	1.60	14.69
North America	USD	3,481.26	297,045.14	39.16	4.91	19.62	11.96	-22.62	-1.36	-1.36	-1.36	15.74
Global Ex-Asia	USD	3,520.14	448,549.34	59.13	4.48	21.35	12.18	-22.36	-0.38	-0.38	-0.38	14.10
Global Ex-Europe	USD	3,042.13	607,056.13	80.03	4.03	23.20	16.02	-13.12	-5.61	-5.61	-5.61	13.85
Global Ex-North America	USD	3,189.74	461,525.18	60.84	3.34	27.70	17.75	-8.78	-6.03	-6.03	-6.03	13.42
Global Ex-United States	USD	3,318.06	487,030.21	64.21	3.48	27.59	17.74	-8.76	-6.00	-6.00	-6.00	13.26
Global ex Japan	USD	1,454.92	663,267.87	87.44	2.83	-NA-	-NA-	-NA-	-4.69	-4.69	-4.69	-NA-
Global ex Australia	USD	1,515.16	674,268.62	88.89	2.83	-NA-	-NA-	-NA-	-3.03	-3.03	-3.03	-NA-
Global Ex Australia Hedged	USD	1,500.98	674,268.62	88.89	2.83	-NA-	-NA-	-18.50	-3.79	-3.79	-3.79	-NA-
Global Dividend+	USD	2,197.03	587,345.15	77.43	-NA-	-NA-	-NA-	-12.64	-4.14	-4.14	-4.14	14.43

Source: EPRA Monthly Statistical Bulletin January 2008

March 2008

# Global Real Estate Capital Markets Update

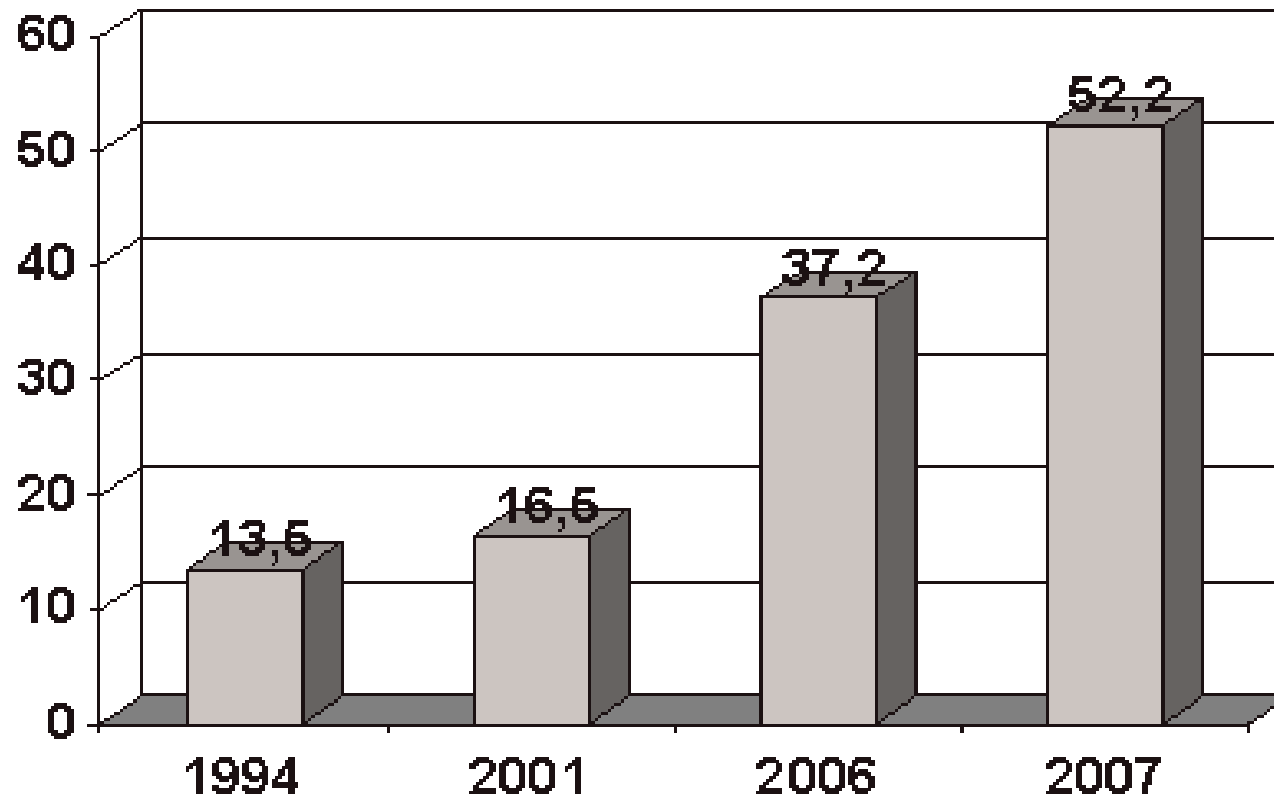
## Comparing with other assets



Source: EPRA Monthly Statistical Bulletin January 2008

# Global Real Estate Capital Markets Update

Emergence of French REITs (SIIC; Real Estate, in billion €)



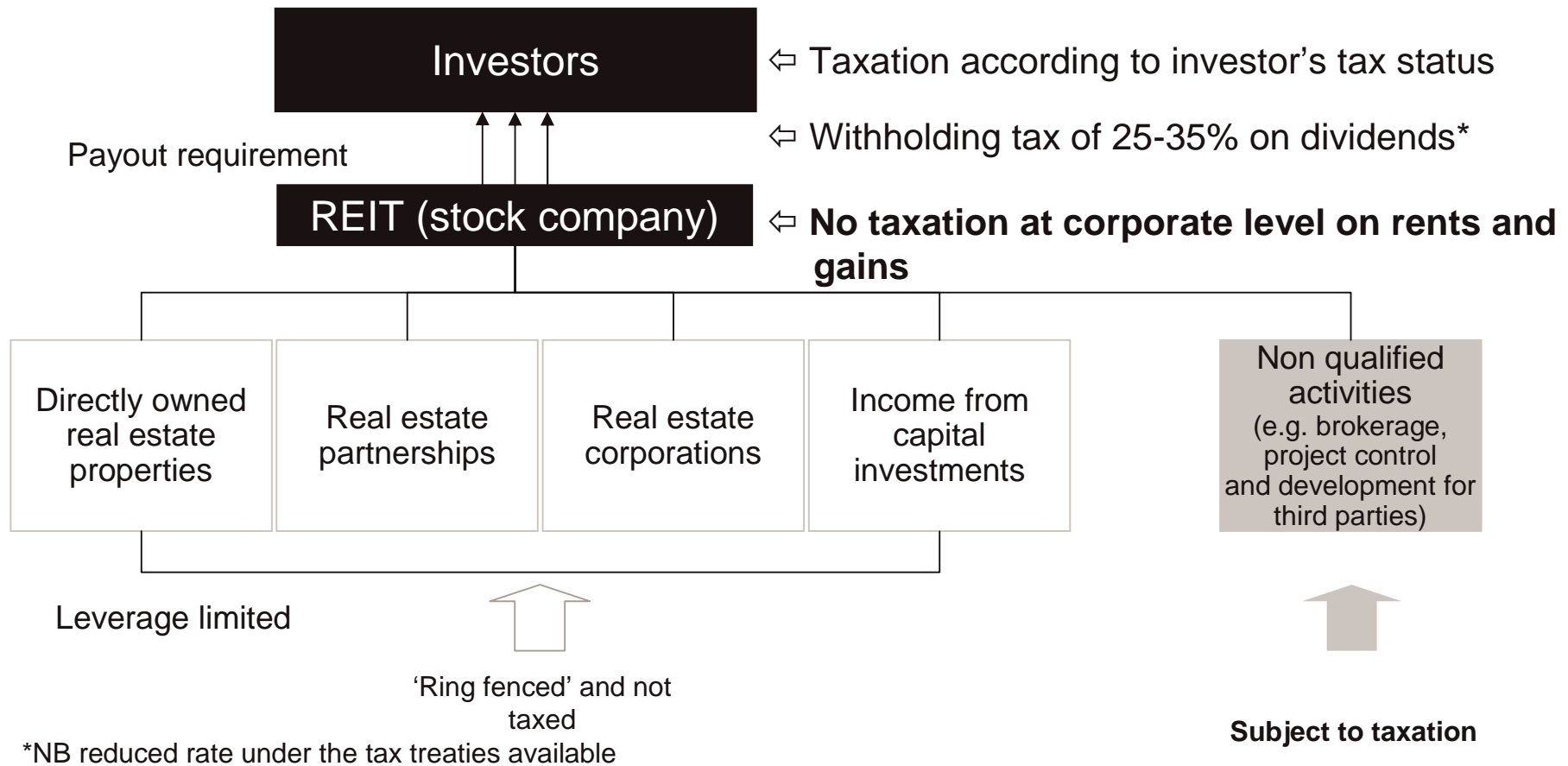
# Part

REITs : What it is about

# 2

# REITs : What it is about

## Standard Features of a REIT





# REITs : What it is about

## The good things

- REITs are easy to understand
- REITs have become a global asset class
- All benefits of long term rented real estate
- Return built on strong dividends (payout requirement) and capital growth
- Tax transparency
- Accepted by retail *and* institutional investors like pension funds
- Pension funds globally to increase indirect real estate allocation
- Index-Products and Funds of REITs to diversify easily
- Low correlation with other asset classes
- Stabilising portfolios / reduced volatility in a portfolio

# REITs : What it is about

## Managing risks pays out

- Governance as good as for any listed company
- Reporting tailored to investors needs: Global market standards for performance (NAV, Funds from operations-FFO) and strategy derived from US-REIT Market
- Transparency: real estate investments allow for as much transparency as the investor can handle
- Risk management focus on
  - Assets
  - Leasing
  - Country risks
  - Financing (debt, hedging)
  - Maintaining REIT status

# Part

Reits and Double Taxation Issues

# 3

# REITs and Double Taxation Issues

## Coverage in Double Taxation Treaties

REITs are rarely specifically addressed in double tax treaties

- Issues may be
  - Uncertainty of treatment of a REIT's treaty entitlement
  - Double taxation
  - Tax credits
- US tax treaties typically provide for rules
- Distinction between portfolio investors/pension funds (reduced WHT) and substantial investors (Full WHT)
- There is common understanding that REITs should not suffer from lack of rules or interpretation issues

# REITs and Double Taxation Issues

## OECD activities

OECD public discussion draft paper on tax treaty issues related to REITs

Key conclusions:

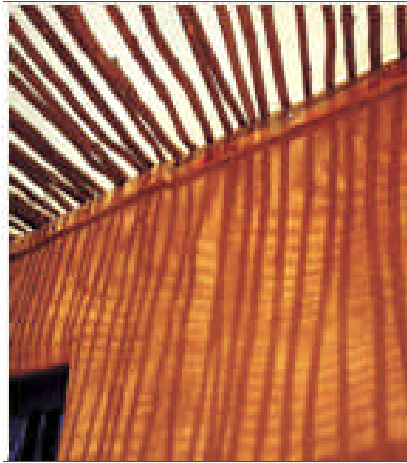
- Treaties should provide for a common framework
- OECD Model Treaty to be amended and commentary guidance
- Taxation rights with country where the property is situated remains
- REIT country levies withholding tax as a common feature
- WHT to be reduced substantially for portfolio investors <10%
- WHT maintained at higher level for substantial investors
- Avoiding double taxation by credit and refund method

# Part

A Nigerian Approach

# 4

# A Nigerian Approach



## Status of REITs in Nigeria

- REITs are underdeveloped in Nigeria
- The contribution of mortgages to Nigeria's GDP is less than 1 percent compared to countries like Malaysia which has over 20% and South Africa with over 18% contribution to national GDP
- Only 1 quoted REIT in Nigeria (UAC Property Development Company)
- Housing gap is estimated at over 10 million housing units

# A Nigerian Approach

## **Tax Obstacles**

- Unfavourable tax regime with likely double taxation impact
- Multiple layers of levies on property acquisition, property holding and property transfer e.g. consent fee, stamp duty to both State and Federal on the same property etc
- Lack of standard practice and uncertainty about the specific taxes and charges applicable to property.
- Forceful collection of unlegislated taxes (usually by miscreants) at every stage of property development.



# A Nigerian Approach

## **Other Obstacles**

- Cumbersome legal and other framework with respect to land ownership
- Absence of framework for property acquisition, property holding, property transfer and property right protection
- Tedious process of property title documentation, title perfection and enforcement
- Overly high mortgage finance and interest rates
- Legal restriction on property investment by major institutional investors (PFAs, Unit Trusts, Mutual Funds etc)
- Slow and time consuming judicial system, especially on property issues.

# A Nigerian Approach

## **Our Initial Recommendations**

- Enact a special legislation to confer special tax status on REITs
- Draft a new functional law on land and property related transactions, and/or review, amend and harmonise existing laws
- Create the right environment for a realistic mortgage interest rate regime
- Establish a modern and central computerized property registry to provide access to modern information on property and other related matters
- Sanitise the real property sector in order to attract both local and foreign investors, facilitate growth in real estate development, create employment and improve quality of life.

# A Nigerian Approach

## **Going Forward**

Do learn from other countries' experiences !

- Keep the regulatory framework simple and understandable
- Keep the tax system in line with international standards
- Solve tax and regulatory matters parallel
- Stimulate transfer of assets to a REIT
- Acceptable WHT
- Avoid too many cooks !
- Keep the REIT message to what it really is about

# Thank you for your attention !



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