



WHY REITS

**ANymORE TARUVINGA
HEAD - ZSE MARKETS**

PRESENTATION OUTLINE

- ABOUT ZSE
- WHAT IS A REIT?
- REITS IN ZIMBABWE
- REIT LISTING PROCESS
- WHY REITS?
- ZSE INCENTIVES

ABOUT ZSE

- The Zimbabwe Stock Exchange Limited is a licensed securities exchange with the vision of being the preferred securities exchange in Africa;
- In pursuit of this objective, ZSE intends to be the best in providing markets to raise capital, invest, manage risk and discover prices for businesses, Government and the public;
- Whilst the ZSE has been relatively successful in Equity and ETF markets, there is still scope to broaden the securities to be offered in these markets;
- One such opportunity is the addition of Real Estate Investment Trust units to the official list;

WHAT IS A REIT?

Background:

- REITs originated in the USA with the enactment of the Real Estate Investment Trust Act in 1960, which authorized a real estate **ownership structure with tax treatment similar to that of a trust**, a **tax-exempt pass-through** entity with **broad based ownership** that **distributes most of its earnings and capital gains** to investors;
- The REIT structure was initially designed to permit small and medium-sized investors access, albeit indirectly, to the commercial real estate asset class thereby providing a means to achieve the benefits associated with real estate investment for many investors for whom direct equity investment is beyond their means.

REITs in Sub-Saharan Africa



Ghana

No of REITs: 1

Republic REIT (Housing)



Nigeria

No of REITs: 4

IACN Prop Dev Plc (mixed); Union Homes (Housing); UPDC (Mixed); Skye Shelter Fund Plc (Housing)



Kenya

No of REITs: 2

Stanlib Fahari I-REIT (Commercial); Home Afrika Ltd. (Housing)



Tanzania

No of REITs: 1

Watumishi Housing Company (Housing)



Zambia

No of REITs: 1

Real Estate Investment Zambia Plc (Mixed)



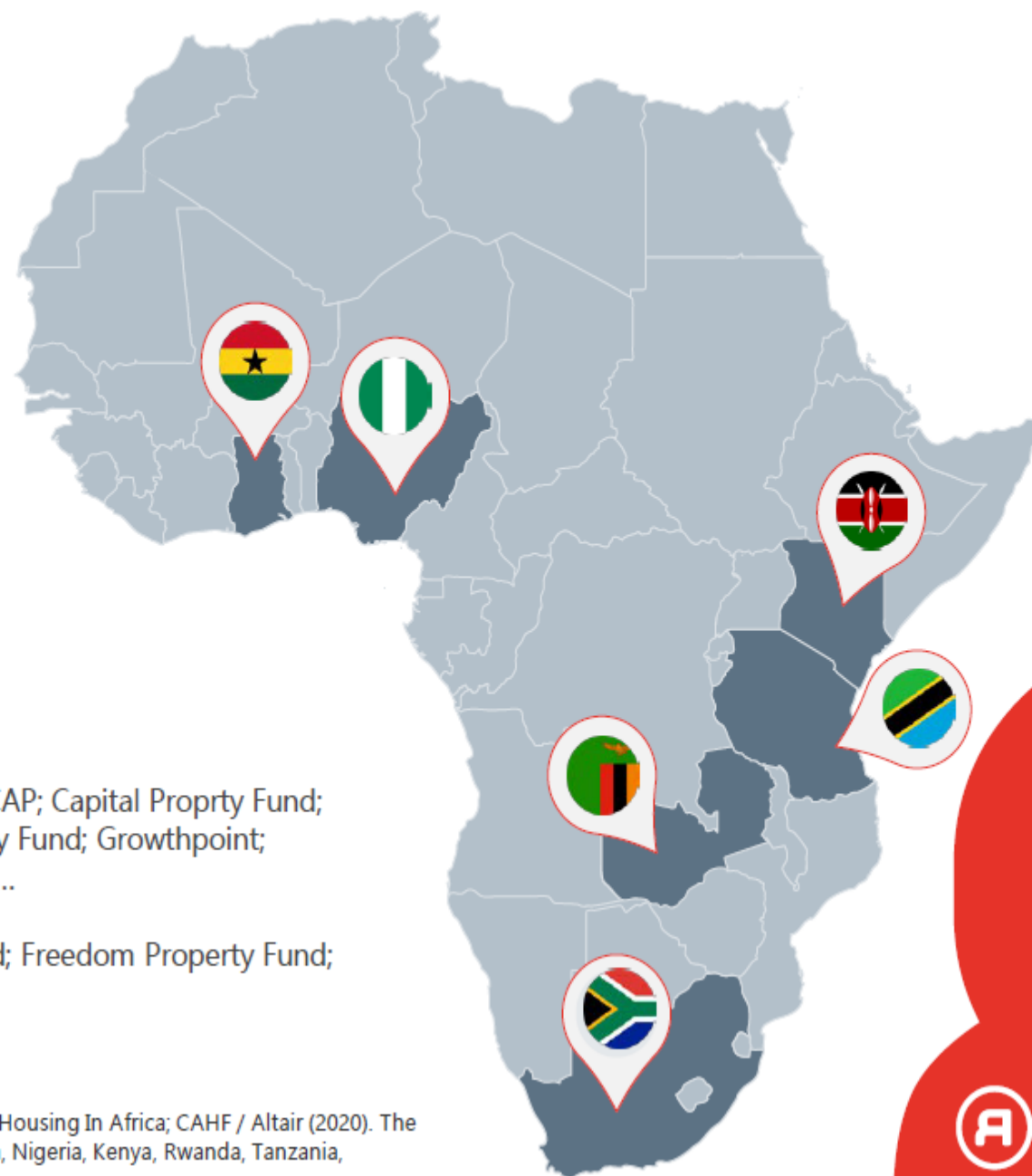
South Africa

No of REITs: 33

Prominent REITs: Arrowhead; ACUCAP; Capital Property Fund; Delta Property Fund; Emira Property Fund; Growthpoint; Hyprop; Octodec; Redefine, Vukile ...

Only Residential REITs: Indluplace

Partial Residential REITs: Arrowhead; Freedom Property Fund; Octodec; Premium; SA Corp;



REITS IN ZIMBABWE

Income Tax Act

- Finance(No. 2), Act 2020 provides tax exemption provisions for REITs

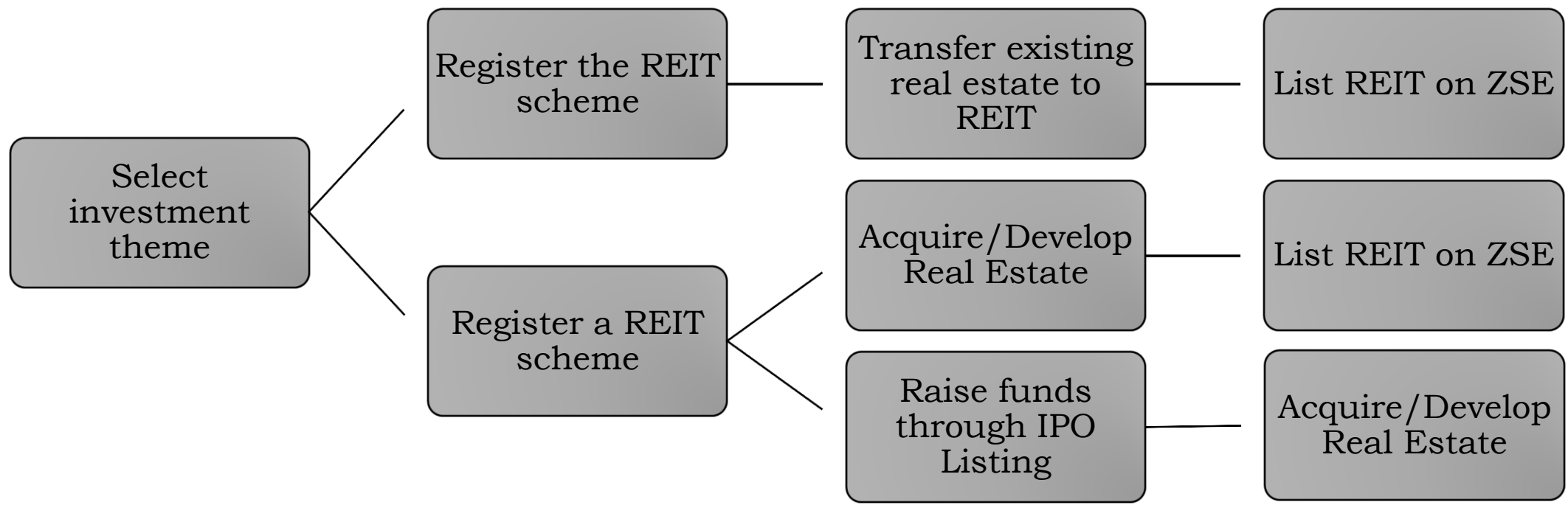
Collective Investment Scheme Act

- SI 172 of 1998 provides regulations on collective investment schemes
- SI 240 of 2019 amended SI 172 of 1998 by adding REITs to the permissible schemes

Securities and Exchange Act

- General notice 469 of 2020 declared securities issued by REITs as securities for the purposes of the SEC Act
- Finance (No. 2) Act of 2020 provides that REITs have to be listed on a SECZ licensed exchange

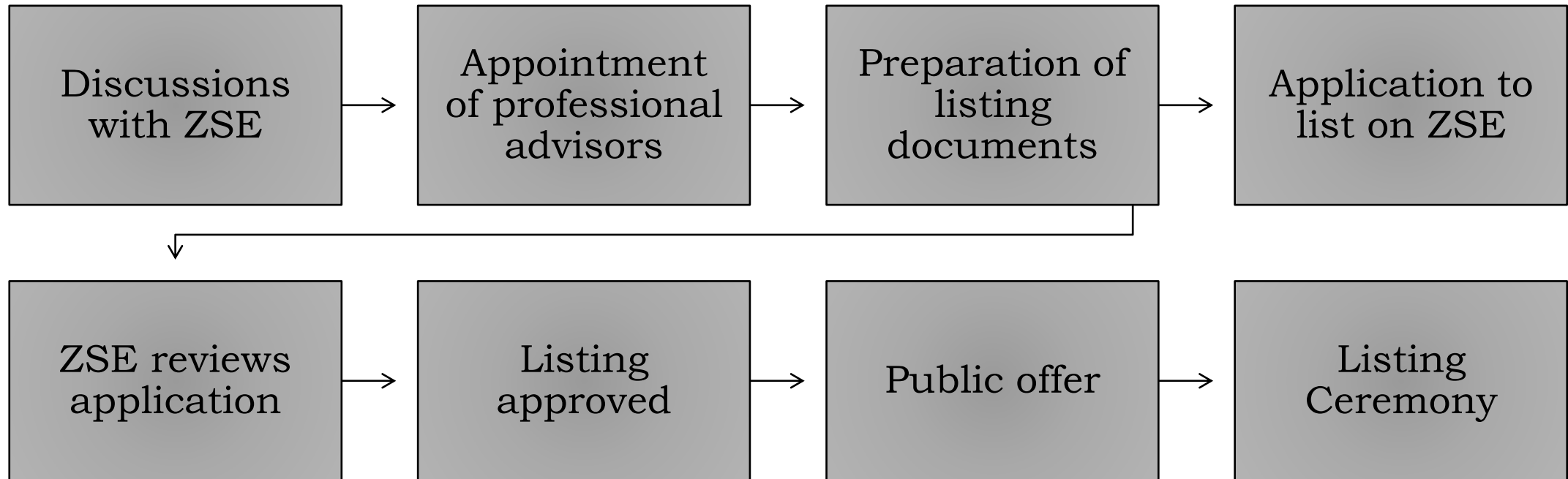
REIT INITIAL SET UP – PENSION FUNDS



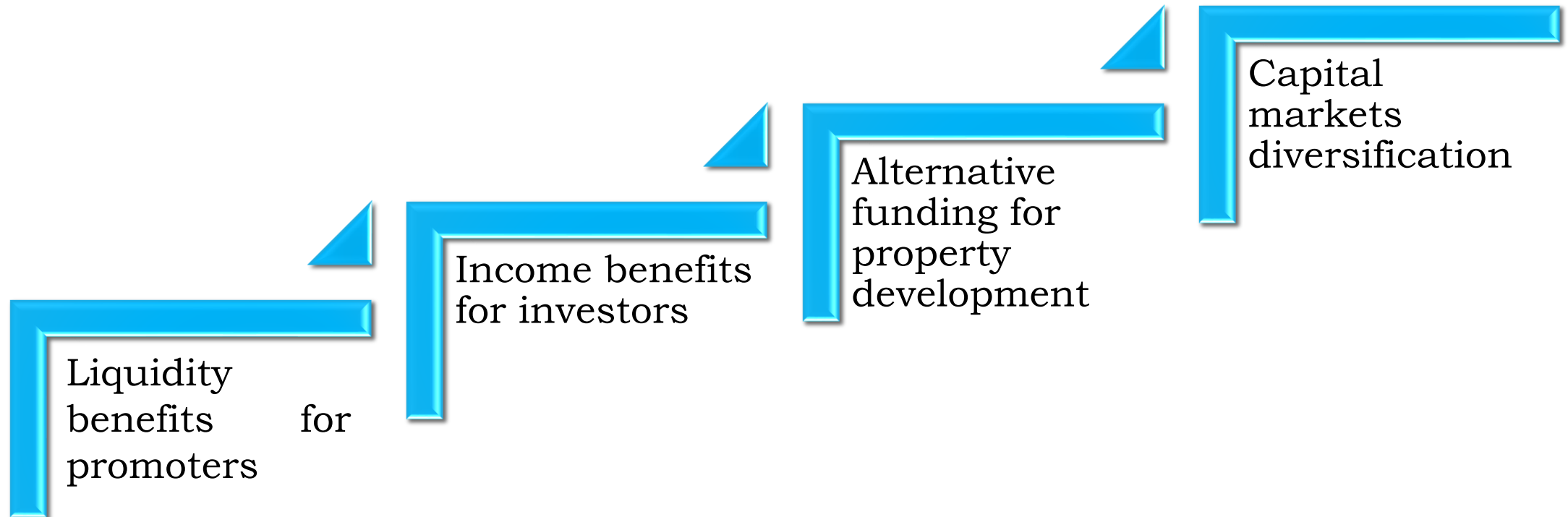
LISTINGS REQUIREMENTS

- A REIT Issuer must:
 - Comply with Sections 331 to 334 of SI 134 of 2019;
 - Be registered under CIS Act as a REIT scheme;
 - Comply with the provisions of the Finance Act No. 2 (2020).
 - Have at least 30% of the units held by the public, unless a private placement has been done prior to the IPO which results in the free float requirement of 20%;
 - Satisfactory profit period for the preceding 5 years where applicable;

REIT LISTING PROCESS



WHY REITS?



BENEFITS TO PENSION FUNDS

Tax efficient structure

- the exemption from income tax increases potential returns to investors

Access to new capital

- Tax savings attract new investors
- Listing the REIT on stock exchange allows Pension funds access to long term capital

Liquidity

- Increased liquidity for existing and new properties
- Secondary market trading on stock exchanges further enhances liquidity

LIQUIDITY EFFECTS



USD 6,500,000

Khalida Realty

An eight storey corner building located within the CBD of HARARE.

Harare City Centre, Harare CBD

Office

Set up a REIT on the Property and issue 6.5 million units worth USD 1 each ◻

Sell units

Potential buyers – Millionaires only

Potential buyers – almost every adult Zimbabwean

LIQUIDITY BENEFITS

- Listed units can be traded in the secondary market – the potential for capital gains and the higher dividend yield (tax benefits) will attract investors;
- The issuer can issue units in lieu of cash to beneficiaries;
- The issuer can raise additional capital through issuance of additional units either to existing holders or to new investors;
- Units can be used to pay for acquisition of new properties or other related entities.

TAX EFFECTS

Assumptions

24.72% corporate tax

10% withholding tax for listed REIT

15% withholding tax on unlisted property company

30% dividend rate for property company

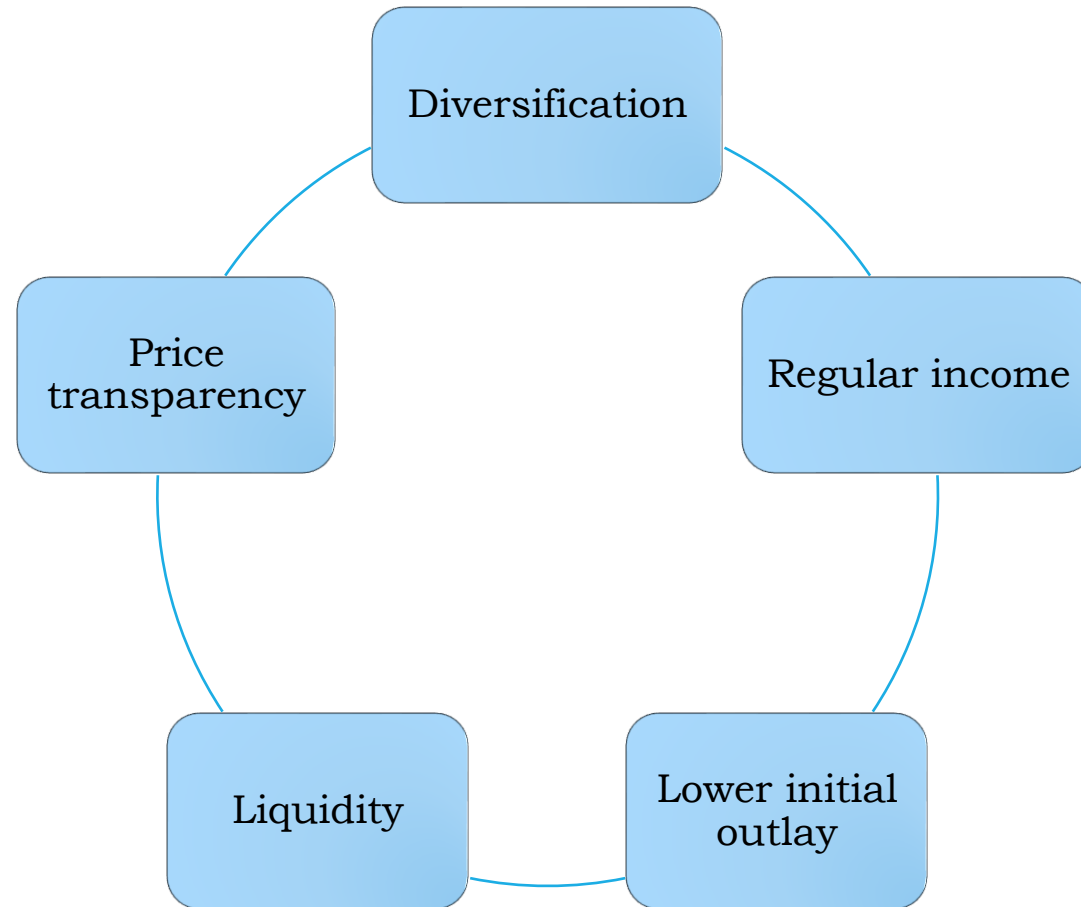
80% mandatory distribution for REIT

100,000 shareholders

100,000 unitholders

	Property Company	REIT	Difference
	ZWL	ZWL	
Gross rental	10,000,000	10,000,000	
Property expenses	(2,000,000)	(2,000,000)	
Admin expenses	(5,000,000)	(5,000,000)	
PBT	3,000,000	3,000,000	
Tax	(741,600)	0	
PAT	2,258,400	3,000,000	
Dividend	677,520	2,400,000	
Withholding tax	(101,628)	(240,000)	
Net Dividend	575,892	2,160,000	
Div/share	5.76	21.60	275%

BENEFITS TO INVESTORS



MARKET DEVELOPMENT

58 SECURITIES

55 Equities

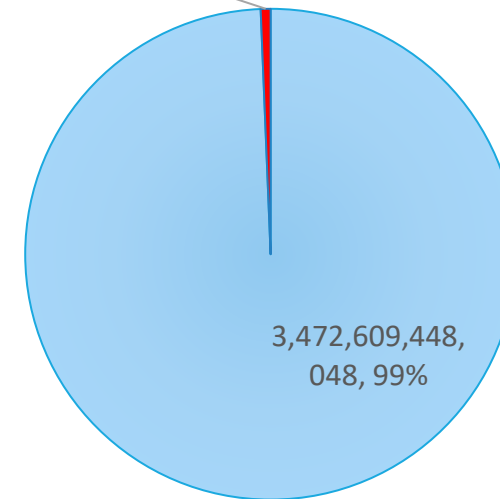
3 ETFs

2 Property Companies

- REITs will broaden the securities basket on the market
- The market is currently short on real estate businesses having lost 2 in the past two years due to delisting

22,643,483,467, 1%

Market Capitalization



Other Property Companies

ZSE INCENTIVES

To incentivize potential REIT issuers to list, ZSE is offering the following incentives:

- Waiver on initial listing fees for the first two REIT issuers; and
- Rebate of up to 30% on ZSE CSD levy for up to 3 years.

THE END

