

REAL ESTATE INVESTMENT TRUSTS (REITs)

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**REITs
Fundamentals 01**

REITs in Zimbabwe 02

REIT Set Up 03

Presentation Scope

**04 Listing
Requirements**

05 REIT Benefits

06 Risks



01

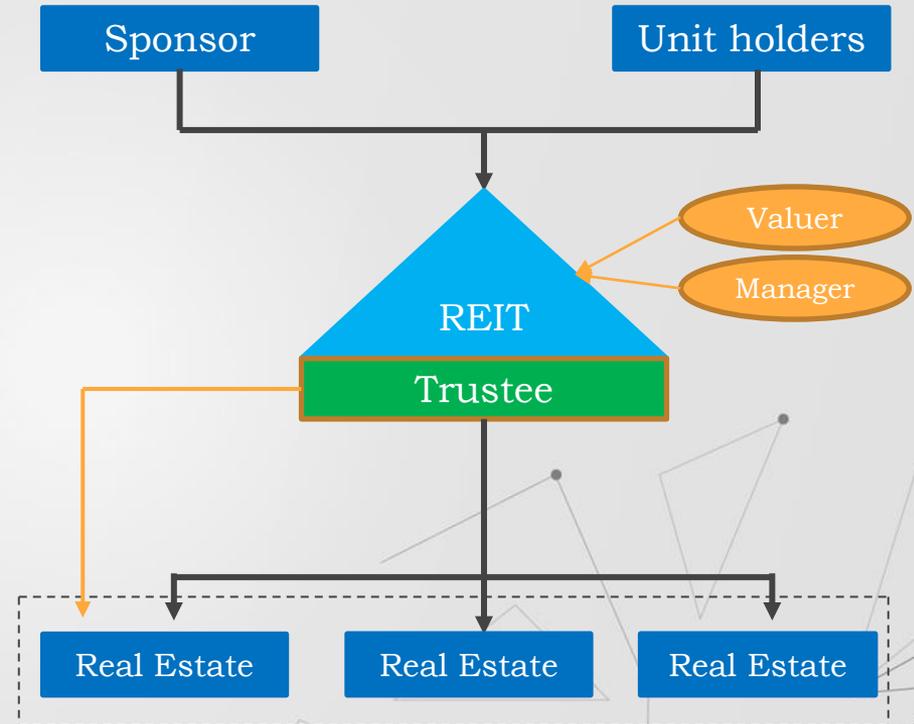
REITs

REITS 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.

WHAT ARE REITs?

- A REIT is a regulated investment vehicle that enables the issuer to pool investors' funds for the purpose of investing in real estate.
- In exchange, the investors receive units in the trust, and as beneficiaries of the trust, share in the profits or income from the real estate assets owned by the trust.
- REITs provide all types of investors (private individuals and institutions) the opportunity to invest in large scale, diversified portfolios of income producing real estate.



TYPES OF REITS

Company REIT

- Corporate structure
 - Share capital
 - Issues shares

Trust REIT

- Common law trust
 - Trust deed
 - Issues units

TYPICAL REIT THEMES

Income/Rental - REIT

- owns and manages income generating real estate for the benefit of its investors therefore providing both liquidity and a stable income stream;
- Distributions to investors are underpinned by commercial leases;
- income returns are generally predictable.

Development REIT

- is a development and construction real estate trust involved in the development or construction projects for housing, commercial and other real estate assets.

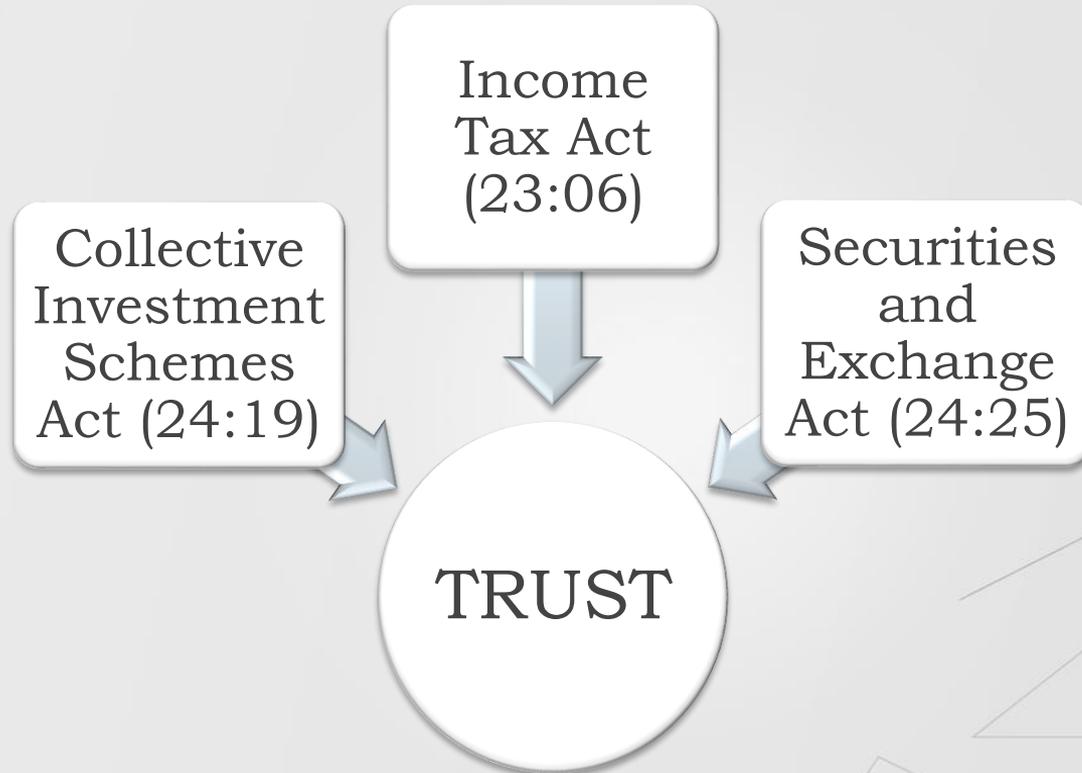
Mortgage REIT

- invest in mortgages, mortgage-backed securities, and related assets and generate revenue through interest income;
- Expose investors to credit risk

02

REITS IN ZIMBABWE

GOVERNING LAW AND LEGAL FORM



LEGAL FRAMEWORK

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
- The 2021 budget carried conditions that REITs have to be listed on a SECZ licensed exchange

FORMALITIES

In terms of the Finance (No. 2) Act, 2020 the conditions with regards to establishment of REITs are as follows:

- in the case of investors in the REIT other than a pension fund, income must accrue from real estate investment projects commenced on or after the date of commencement of the Finance (No. 2) Act, 2020); and;
- the REIT must receive a minimum of eighty *per centum* of its taxable income from real estate; and
- the REIT must distribute a minimum of eighty *per centum* of its taxable income in the form of shareholder dividends in each financial year of the REIT; and
- the REIT—
 - I. must have a minimum of 100 shareholders after the first year of the date when it qualifies in other respects to benefit from the exemption under this subparagraph; and
 - II. must not have more than fifty *per centum* of its shares held by five or fewer individuals during a taxable year: Provided that one or more pension funds may hold up to fifty *per centum* of the shares of REIT in any taxable year; and
- the REIT must be listed on a stock exchange registered in terms of the Securities Exchange Act [Chapter 24:25]

TAXATION

The Trust

- Exempt from income tax
- Capital gains tax apply on asset disposals (save for Pension Funds)

Investors

- Dividend withholding tax – 10%
- Capital gains withholding tax (1%) on disposal of units

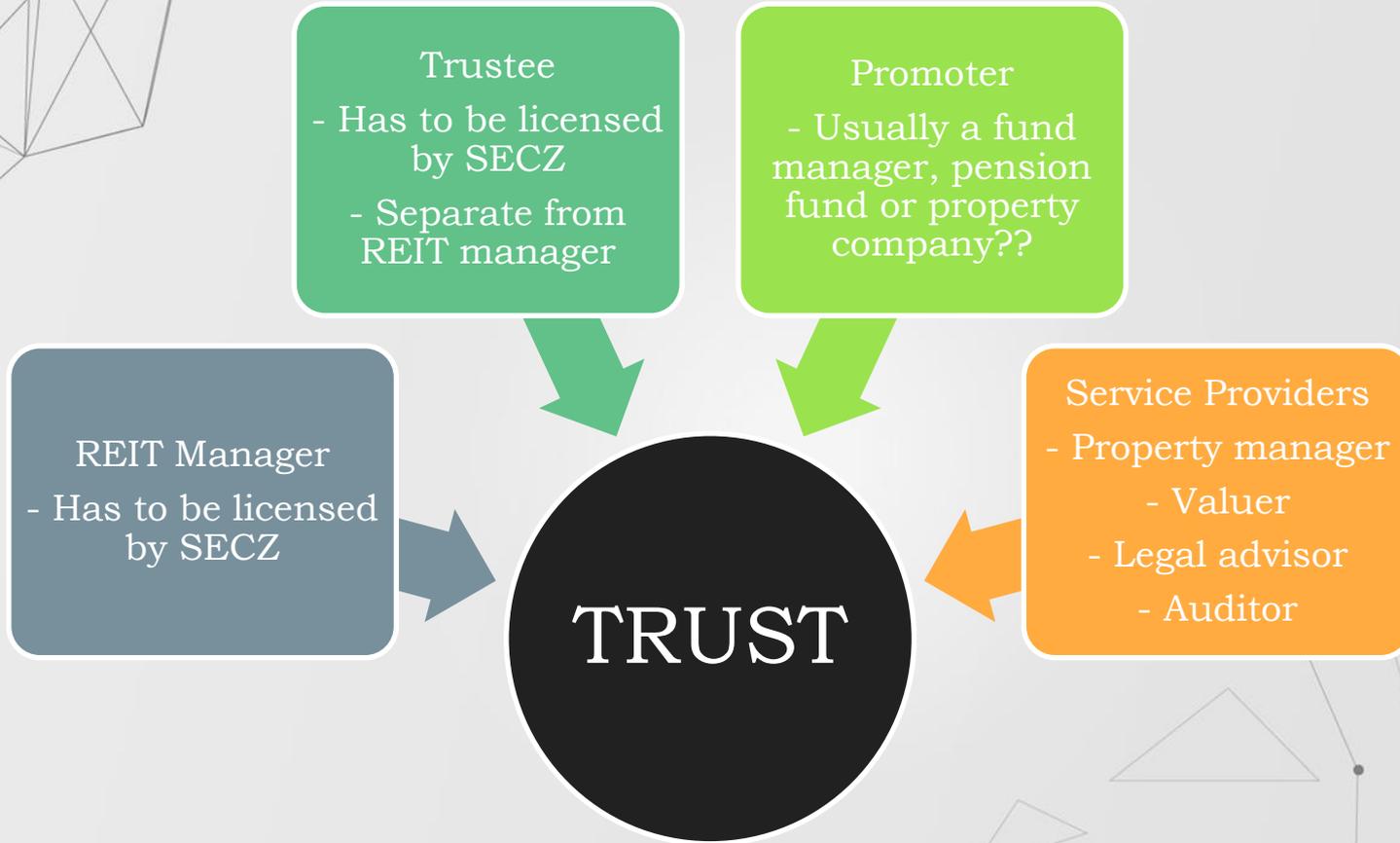
Exempt investors

- Exempt

03

REIT SET UP

PARTIES IN A REIT



REIT REGISTRATION

- Registration is done pursuant to the Collective Investment Schemes Act (24:19);
- Application for registration has to be made by the Trustee or Manager;
- Application has to be accompanied by:
 - a copy of the scheme's trust deed;
 - prospectus;
 - a certificate signed by a legal practitioner (a) certifying that the interest of every participant in the scheme shall consist of the ownership of one or more units (including fractions of units) each representing an undivided share in the property of the scheme; and (b) certifying that the trust deed of the scheme is in conformity with the requirements of the Act .

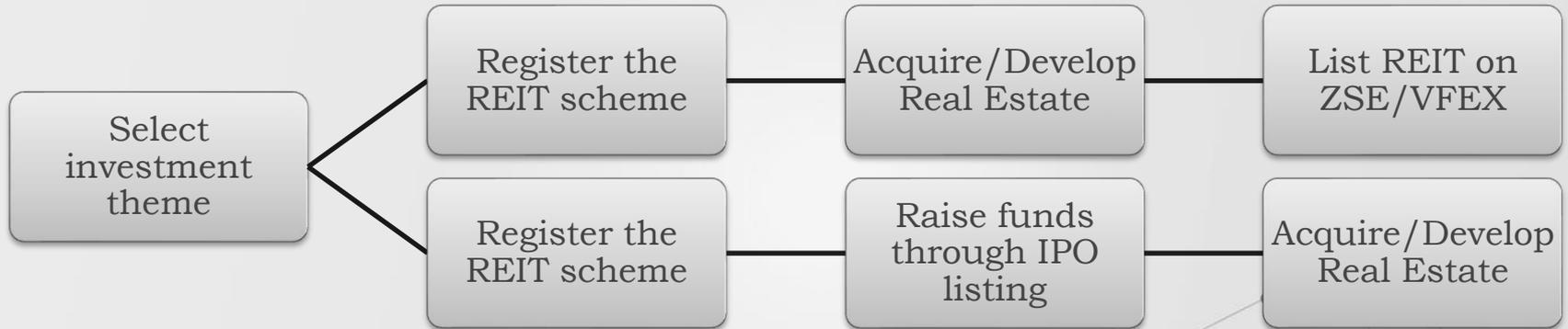
TRUST DEED

- The deed has to be executed by the scheme's manager and trustee or proposed manager and proposed trustee and must comply with Section 11 of the Collective Investment Schemes Act (24:19);
- The scheme trustee shall be responsible for ensuring that the provisions of the trust deed concerning the scheme's investment policies and investment restrictions are carried out.
- Items that must be covered in the trust deed are in the second schedule of SI 172 of 1998.

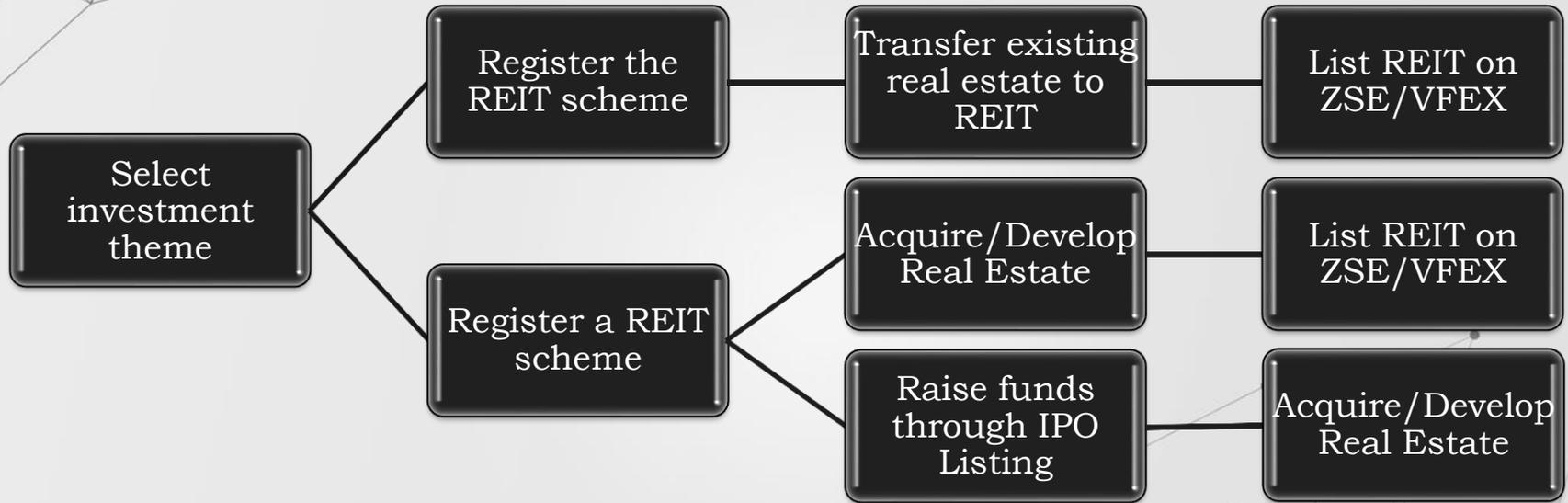
PROSPECTUS

- A prospectus will be required if the issuer is going to invite the public to subscribe to the issue; otherwise a prelisting statement should be prepared;
- Required contents of the prelisting statement/prospectus are specified in Part VII and Part XII of SI 134 of 2019;

REIT INITIAL SET UP – PRIVATE ENTITY



REIT INITIAL SET UP – PENSION FUND



04

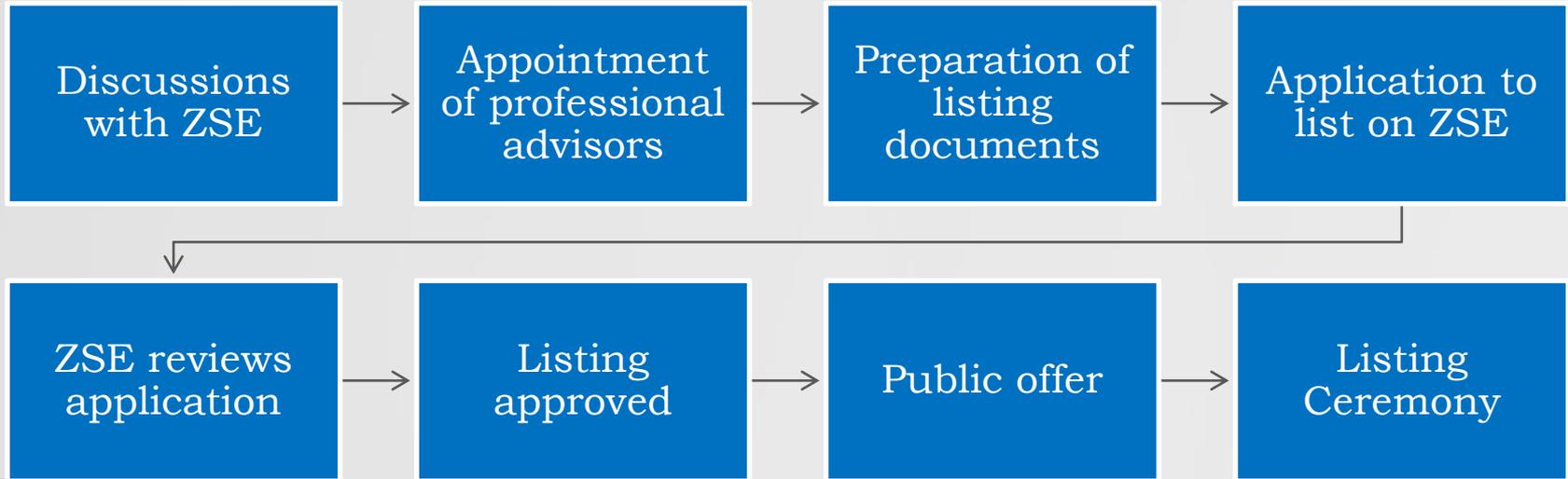
LISTINGS

REQUIREMENTS

REIT LISTING REQUIREMENTS

- A REIT issuer must:
 - Be registered under the CIS Act as a REIT scheme;
 - Have gross assets of at least USD1 million;
 - 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 3 years where applicable;

REIT LISTING PROCESS



05

REIT BENEFITS

TO INVESTORS

- **Diversification** - REITs give investors indirect exposure to a wide variety of expertly managed properties;
- **Regular Income Stream** – Income REITs are supported by lease agreements which provide for regular dividends;
- **Lower initial outlay** – prices for REIT securities are much lower compared prices for the outright purchase of real estate;
- **Taxes** - REITs will be exempt from income tax and REIT security holders will only pay the 1% CGWT on disposal of their securities and the 10% withholding tax on dividend earned;
- **Liquidity** - REITs will be traded on the ZSE, a more liquid market compared to that of physical properties;
- **Regulated investment** – REITs are subject to the Income Tax Act, the CIS Act and the SEC Act in addition to being listed on a regulated exchange;
- **Price Transparency** – the price of REIT securities is determined by market forces (demand and supply) and is visible to the public.

TO ISSUERS/PROMOTER

- **A tax efficient structure** – the exemption from income tax will be a major attraction to potential investors and that increases investment funds channeled towards REITs –
- **Access to new investors/capital** – which makes financing developments easier;
- **Sharing of risks** - by bringing other investors on board;
- **Liquidity** – for pension funds and other institutions, this increases liquidity in their property holdings.

06

REIT RISKS

RISKS

Investors

- Market risk – capital losses
- Low yields
- Credit risk (mortgage based REITs)
- Liquidity risk – (development REITs)

Issuers

- Market risk – valuations
- Limited leverage
- Land and lease issues – tenure certainty
- Regulatory risk
- Liquidity risk – in underlying portfolio

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