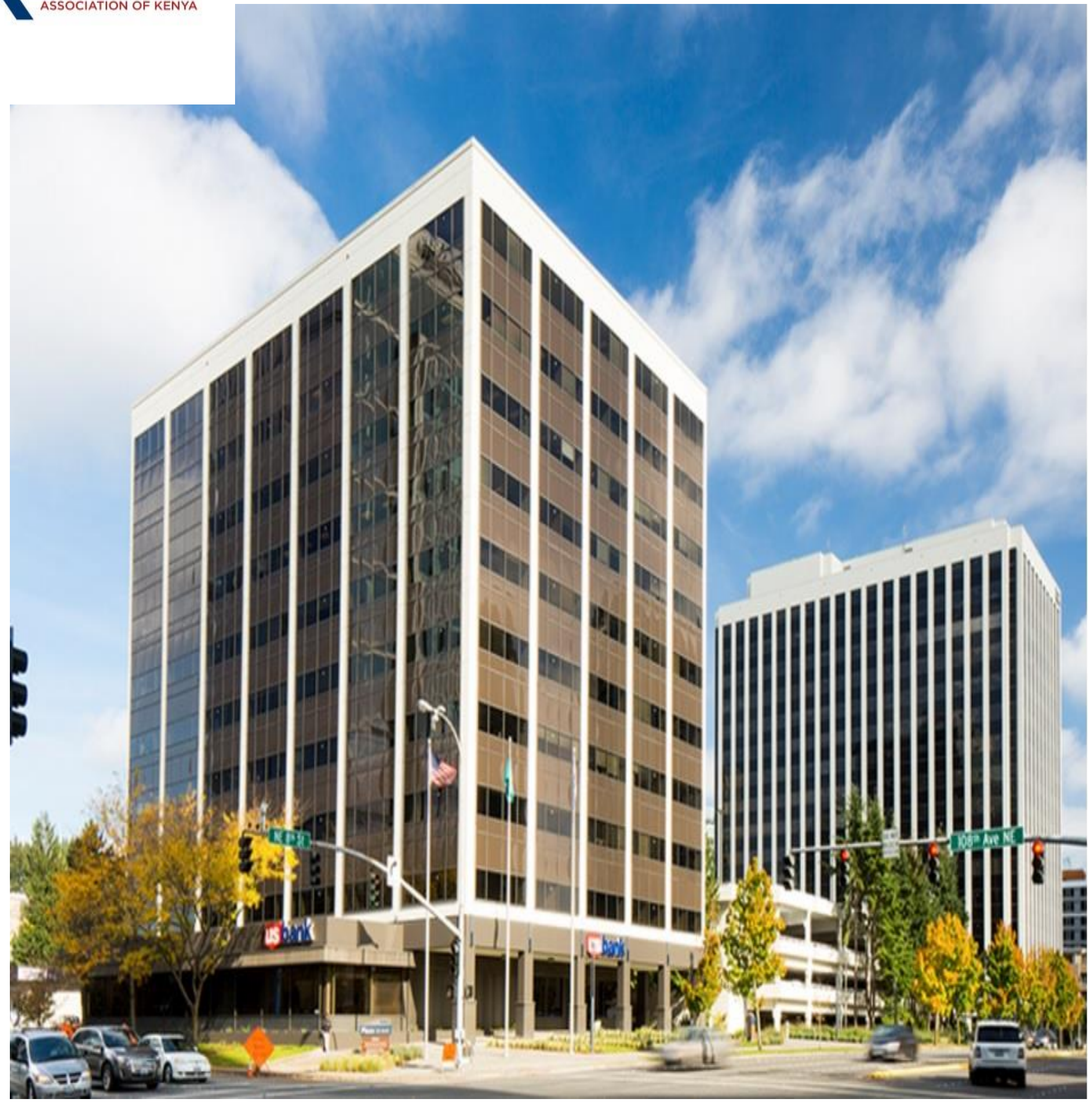
REITS ASSOCIATION OF KENYA



THE JOURNEY OF BRINGING REIT TO THE MARKET

THURSDAY 21st MAY 2019

History of REIT

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1880

Real estate trust investors were able to avoid double taxation because they were not taxed at a corporate level as long as the income was distributed to the beneficiaries

1930

Tax advantages were reversed by the Supreme Court decision requiring that all passive investment be taxed first at the corporate level and later taxed as part of the individual incomes

1936

Stock and bond investment companies which were also affected by the Supreme Court decision rapidly secured legislation which exempted regulated investment companies from federal taxation

1960

US congress signed the REIT tax provision which re-established the special tax consideration, qualifying REITs as pass through entities hence eliminating double taxation

1991

The Kimco IPO introduced the new style REITs. REITs were converted to ‘self advised/self-managed’ status or went public as a ‘self advised/self-managed’ REIT

Today

REIT have spread around the world and in Africa, South Africa is a relatively young regime, but maturing fast, and now has 23 active REITs. There are 226 REITs in the US

REIT Market Maturity

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Nascent

- Bahrain
- Brazil
- Costa Rica
- Bulgaria
- Greece
- Hungary
- India
- Israel
- Kenya
- Pakistan
- Philippines
- Saudi Arabia
- Taiwan
- Thailand
- Vietnam

1

Emerging

- Finland
- Ireland
- Italy
- Malaysia
- Mexico
- South Africa
- South Korea
- Spain
- Turkey
- United Arab Emirates (UAE)

2

Established

- Australia
- Belgium
- Canada
- France
- Germany
- Hong Kong
- Japan
- Netherlands
- New Zealand
- Singapore
- United Kingdom

3

Mature

- United States

4

Source: [1] Global perspectives: 2016 REIT report, EYGM Limited, September 2016

Benefits of REIT as an Investment Asset Class

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Access to new capital	Consistent income	Diversification	Low cost exposure to real estate	Transparent investment vehicle
REITs provide a mechanism to raise long term capital to acquire income producing real estate projects where the opportunity arises	I-REITs are the dominant form of reits globally and I reits are required by law to pay out at least 80% of its taxable income to their unit holders in the form of dividends. Consequently, REITs tend to generate a stable and consistent income stream for investors. This takes on special significance for income oriented investors such as retirees	REITs, fixed income securities and equities have different long-term investment characteristics creating diversification when combined within a single portfolio. This diversification creates the opportunity for blended portfolio to earn higher returns while reducing the potential for negative or low returns	REITs offer access to the property market with professional investment management at a relatively low transaction and management cost. Professional, dedicated management team responsible for the day-to day operation of the business, provides the investor with expertise beyond his or her knowledge base	Investors are able to understand exactly what they are invested in, from the actual assets, costs and returns.

Benefits of REIT as an Investment Asset Class

Accessibility	Tax exemption	No Shareholder Liability	High Liquidity	REITs Deliver Income & Long-term Growth
An I-REIT can more easily be bought or sold. Investors do not have to deal with the complexity of selling a physical property. REITs allow an interested real estate investor to buy units (shares) and be a part owner of a real estate asset without having to deploy a lot of capital	A listed REIT also allows underlying owners of the real estate assets to enjoy corporate tax exemption, currently at 30% per annum	As is the case with equity investments in other publicly traded companies, shareholders have no personal liability for the debts of the REITs in which they invest	Liquidity advantage over direct investment in privately traded underlying real estate assets. This advantage of a listed REIT extends to the owners of real estate as well since they do not have to sell the entire asset if they are looking for a little liquidity	REITs offer strong long-term total returns. Excellent long-term performance and strong diversification attributes make REITs a natural component of a well balanced efficiently performing portfolio. REITs own tangible assets and often sign their tenants to long term lease contracts. Because of this REITs tend be some of the most stable companies on the market

REIT Investors

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- Developers (Sponsors)
- Pension Funds
- Hedge Funds
- Financial Institutions
- Unit trusts
- Insurance Companies
- High Net Worth Investors

REIT Asset Classes

- Commercial Offices
- Rental Housing
- Hotels
- Shopping Malls
- Logistics Parks
- Health Care
- Infrastructure
- Data Centre
- Diversified
- Specialty
- Self Storage
- Integrated Development

Key Requirements for a Successful REIT

- Scale
- Track record of dividend payment
- Management expertise
- Tax exemption
- Inflation Protection
- Low Leverage

Characteristics of a Successful REIT

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1. A good well managed REIT should trade at NAV

2. Most will carry out an element of development activity and acquisitions to grow their portfolio within specific asset classes

3. Don’t mix asset classes e.g. hotel/ offices as it makes valuations difficult and also complicated to analyse which analysts don’t like

4. Earnings Transparency. Most REIT operate along a straightforward and easily understandable business model

5. Predictable Revenue Stream REIT reliable income is derived from rents paid to the owners of commercial properties, or from interest payments from the financing of those properties

The Journey to a REIT

Start as relatively small private portfolios by developers of specific asset class e.g. hotel, commercial offices, logistic parks, malls, apartments etc.

5 - 10 years

Morph into unlisted property funds/ companies or are offered to public markets as restricted offers to sophisticated investors

- Build scale
- Build track record
- Churn assets to create quality

5 - 10 years

List on the exchange as property funds/ companies or as REITs at scale and with track record

Thankyou

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