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Asia Pacific REITs: a comparative regulatory & tax study

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Acknowledgements

This report, one of APREA's white paper series, was commissioned in response to a number of our members feeling that more information was required about how REITs are regulated and taxed around the region, so that investors and other stakeholders can be more informed and to assist in APREA's investor outreach and education activities. It was also felt that it would be beneficial to get feedback from investors on how they see REITs in this respect, to assess how well regulation and taxation matters are aligned to what the market wants.

This report would not have been possible without the support of Perpetual and Ernst & Young. We are very grateful to Perpetual for its generous sponsorship of the research and to Ernst & Young for providing so much of the data on which the report is based.

We are also indebted to Chris Lawton, Tony Mulveney and Michael Ryland in particular for their help in putting the report together.

Each of the APREA research reports is overseen by a governance committee that is responsible for validating the need for the research and developing and finalising the project brief in consultation with the authors. The committee responsible for this project also had the additional task of overseeing the scope and undertaking of the industry survey which is a central aspect of the report. We are very grateful to the committee for its hard work in directing this project to a successful conclusion.

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About APREA

APREA is a non-profit industry association that represents and promotes the real estate asset class in the Asia Pacific region. It is the industry body for the suppliers and users of capital in the real estate sector. It embraces the four quadrants of real estate. APREA's mission is to:

- Represent and promote the Asia Pacific real estate asset class
- Encourage greater investment in the Asia Pacific real estate sector through the provision of better information to investors, improving the general operating environment, encouraging best practices and generally unifying and strengthening the industry
- Enhance regional and global networks for capital suppliers and users
- Represent the sector to governments and regulators to improve the commercial operating environment for members

Its membership comprises real estate companies, listed real estate trusts, unlisted property funds, investment managers, investment banks, property securities fund managers, institutional investors, real estate consultants, corporate advisors, stockbrokers, investment advisors and universities.

APREA membership is the gateway to a network of the industry's most influential decision makers and provides the opportunity to influence and participate in the development of the real estate markets in Asia.

APREA's achievements in education and information dissemination, and focus on improving the general real estate operating environment, have firmly entrenched it as the leading representative body for the industry in the region. In particular, its achievements in driving regulatory improvements within the listed real estate trust sector extend beyond existing markets and pave the way for the emergence of new markets in other Asian countries.

For additional information on APREA, please visit www.aprea.asia.

About Perpetual

Perpetual Corporate Trust is one of the leading providers of corporate trustee services to the financial services industry. Our extensive knowledge of financial markets, together with our trustee experience, ensures we are entrusted by some of the world's leading companies and financial institutions to provide administration and supervision services to protect investor interests in their funds.

In December 2013, we acquired The Trust Company expanding our service offering and geographical footprint. As a combined entity we now administer over A$548 billion in client funds (as at 31 December 2013), and are the only trustee able to provide corporate trustee services in both Australia and Singapore.

We share with The Trust Company a heritage that pre-dates Australia's federation, as well as a team of trusted and experienced advisers serving an international client base.

We service clients across multiple asset classes including property, infrastructure, equities and debt. Our clients range from large financial institutions, sovereign wealth funds, pension funds, and well-established fund managers, right through to small boutique and start-up investment managers.

Our experienced team in Australia and Singapore has completed many complex transactions across Asia through being able to tailor our services to suit the needs of each client. Our services include acting as trustee to Real Estate Investment Trusts (REITs) and Unit Trusts. Our local teams can assist fund managers from Australia, Singapore or around the globe to establish and launch their funds.

Perpetual Corporate Trust is part of Perpetual Limited an independent and diversified financial services group providing specialised investment management, personal wealth advisory and corporate fiduciary services.

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1 ABOUT THIS REPORT

In the Asian region real estate investment trusts (REITs) have grown significantly as a new and popular investment class. Since the launch of the first J-REIT on 10 September 2001, the market capitalisation of Asian REITs now exceeds US$140 billion. Including Australia, market capitalisation of Asia Pacific REITs is around US$170 billion.

However, from country to country REITs vary, sometimes considerably, in the way they are regulated, managed and taxed. This fact, and the nature of the differences, is often not well understood. What constitutes a REIT varies from region to region around the globe but there is an extra layer of complexity in Asia Pacific because of the regulatory and structural differences that exist within the region. REITs are also subject to different tax rules.

The need to better understand these differences is reinforced because of two initiatives aimed at increasing investor knowledge and confidence in the REIT product. Through its membership of the Real Estate Equity Securitisation (REESA) alliance, APREA has been involved in efforts to seek to identify the characteristics that are common to REITs globally. In addition, to effectively promote Asia Pacific REITs as an investment class, a more thorough understanding and explanation of the differences in structure and regulation is required.

As well, previous *The Trust Company Asia Pacific REIT Surveys* have indicated that investors and other participants in the industry can be more attracted to the REIT regimes of certain countries than others. Why are some REIT markets in Asia Pacific more attractive than others?

A contributing factor to attractiveness is undoubtedly tax. What do market participants, investors in particular, regard as an optimal tax regime for REITs? How do Asia Pacific REIT markets measure up to this?

Comparative tax and regulatory studies of global REITs exist (for example, the *EPRA Global REIT Survey*) and work has also been undertaken elsewhere on the "ideal REIT" (for example, in Europe *What Would An Ideal REIT Look Like* [EPRA]). Existing studies are extremely valuable as supporting resources in dealing with the particular issues in Asia Pacific identified above. However, there is need for a comprehensive study of the regulatory and taxation regimes governing the REITs found in the Asia Pacific markets.

Asia Pacific real estate would benefit from greater investment by global institutional investors in many respects, including the following:

- The encouragement of a continental market for real estate in Asia Pacific
- The promotion of efficiency and transparency of local real estate markets (e.g. corporate governance) through the involvement of strong powerful players
- The generation of new sources of funding for Asia Pacific REITs

This report was commissioned to address these issues. In addition to existing studies, the report is underpinned by an extensive survey of, and interviews with, market participants – investors, REIT managers and professional advisors amongst other industry groups. A number of the conclusions and observations in this report are drawn from the results of the report survey.

2
REGULATION & TAXATION OF REITs IN THE REGION

The emergence of REIT markets throughout Asia Pacific is a relatively recent phenomenon. With a few exceptions, REIT regimes have only developed in this part of the world over the last 15 years. Not surprisingly, therefore, there is some commonality in some key elements of the regulatory and tax frameworks that apply to REITs around the Asia Pacific region. That said, there are also some areas where some REIT markets have taken a different path.

An initial point to note is that while an analysis of REIT markets within Asia Pacific will reference their particular regulatory framework, for some markets there is not a specific REIT regime despite the fact that investment entities similar to the operation of REITs are already prevalent. In Australia and New Zealand for example, the operation of REITs falls within a broader unit trust framework with no REIT-specific parameters.

An overview of the key aspects of the tax and other regulatory requirements for the various REIT markets in Asia Pacific is outlined in Table 2 and a detailed outline of these requirements is included in the Appendix.

In some jurisdictions in the region REITs must be listed (for example, Hong Kong) but in others there is no such requirement and REITs can be listed or unlisted (for example, Australia). However, in general the regulatory frameworks governing REITs in Asia Pacific follow a common theme: REIT vehicles typically have a "pass through" tax profile (meaning the REIT income is taxed in the hands of its equity holders rather than in the entity itself) if they meet certain requirements, namely:

- They earn predominantly passive income
- They distribute the majority of their profits annually

There are, however, differences in how prescriptive these requirements are in each jurisdiction and the extent to which other obligations are imposed on REIT vehicles. Each of these can have implications for both the attractiveness and efficiency of the REIT model in a particular country. REITs now compete globally for capital, and therefore structural nuances that provide a competitive advantage to one market over another need to be carefully considered.

Using the overview outlined above and Table 2, there are some interesting observations that can be drawn.

(i) REIT listing requirement

While the REIT model developed in the US as a tax election to enable the direct benefits of property ownership to be preserved for investors in a securitised vehicle (both public and private), it is now synonymous with real estate investment vehicles in the public market. It is interesting that in a number of the Asia Pacific REIT models that have developed since the turn of the century, being a publicly listed vehicle is a requirement of REIT status. Even in markets such as Australia, where "pass through" property ownership vehicles exist in both the public and private markets, the term REIT is generally reserved for those vehicles in the listed space.

If one accepts that one of the benefits of the REIT model is that it provides an efficient means for an economy to attract capital to the built form, this raises a number of questions in relation to how to accurately assess the true impact of REITs in any particular economy. In those markets where the same ownership structure and tax treatment is available in the public and private markets, the overall benefit of REITs may be drastically underestimated by focusing purely on the listed REITS. Conversely, the limitation of REIT regimes to only the listed space may unnecessarily restrict the ability of an economy to attract capital to fund its urban development.

In markets where being a listed vehicle is a specific requirement, the liquidity provided by listed vehicles into a traditionally illiquid asset is undoubtedly a key consideration in terms of investor protection. Indeed many markets with private vehicles have seen investors trapped in illiquid off market vehicles when property markets have soured. But conversely the volatility of public markets has also been detrimental to investors in terms of implied value at times when underlying property fundamentals were relatively stable. Another consideration is the potential limitation on asset classes attractive to listed REITs where investors will in general require a much higher hurdle in terms of the institutional quality of their underlying portfolio and a greater near term need for income yield. This may skew capital away from less stabilised and urban fringe properties which are important parts of urban development in less mature economies.

Both public and private vehicles would appear to have a place in pooling capital to facilitate property ownership. Those markets which restrict REIT vehicles to the public arena should explore the potential benefits of private REITs as another source of capital.

(ii) Internal versus external management

One of the striking similarities of REIT frameworks in Asia Pacific that is at odds with other parts of the world is a stronger focus on an external management model. In the US, which developed the REIT model over 50 years ago, externally managed REITs were phased out in favour of internally managed vehicles (when permitted by changes to REIT laws) due to concerns over perceived conflicts of interest of the REIT manager. In Australia, which has the longest running REIT model in Asia Pacific, the evolution of the public REIT in the last 20 years has seen a substantial shift to internally managed (or stapled) vehicles. Interestingly, however, the private space in Australia is still dominated by external fund managers.

For the rest of Asia Pacific, the preference for an external management model is a combination of history and precedent at the time of their formation. The Japanese REIT regime was modelled on aspects of the early US model after consideration of the Australian market of the late 1990s which at that time was predominantly externally managed. Other markets such as Hong Kong and Singapore, which are both Commonwealth jurisdictions with a common law background, not only had both those markets as reference points but also, similar to Australia, had a trust law framework that meant externally managed investment vehicles were a known concept.

There is continuing debate as to the relative merits of internally or externally managed vehicles. While conflicts of interest and cost leakage are commonly cited as negatives of the external model, large fund management platforms can create economies of scale that enable continued enhancement of back office functions which can be lacking in some internally managed REITs. The geographic diversity of Asia Pacific might also be a contributing factor. Internally managed vehicles, particularly in "hub" economies such as Singapore and Hong Kong, may find it difficult to resource sufficient local expertise in a geographically diverse portfolio whereas a larger external fund manager may have the scale to support the local presence necessary to effectively manage such geographic diversity. This type of issue does not exist to the same extent in the US, where REITs have a predominantly domestic focus. In addition, given the development-driven nature of the Asian REIT market, the support provided by the sponsors (especially developers) can be significant. Strong sponsor backing, and the importance of sponsors in the supply of assets, has been one of the important drivers of the growth of Asian REIT markets in the past decade.

(iii) Distribution requirements

A need for the bulk of profits to be distributed annually is a universally common requirement of REIT models. While the level of distribution may vary between markets (and the consequences for non-distribution), the key objective is relatively consistent.

The major differences tend to be how prescriptive the distribution requirements are and to a lesser extent the flexibility as to the form those distributions can take. While highly prescriptive rules to ensure REITs do distribute earnings in order to preserve their tax status are understandable, the 2008 global financial crisis has highlighted that such rules that make it extremely difficult for REITs to preserve cash in a climate of deteriorating credit conditions can be problematic. REIT markets that provide some flexibility for capital management in extenuating circumstances are likely to provide a better platform for market participants to withstand severe market downturns.

(iv) Asset restrictions

As can be seen from the overview in Table 2, the restrictions on asset classes that REITs can invest in vary but follow relatively common themes. The overarching consistency is a limitation of REITs undertaking property development. The general premise of REIT vehicles is that they earn "passive" investment income rather than actively trade. This contributes to the general risk profile associated with REITs although in markets such as Australia, the use of stapled structures has enabled these listed vehicles to undertake more active operations than associated with more traditional REITs through a component of the vehicle that does not receive the requisite tax concessions.

While the lower risk profile is generally considered a positive for REIT markets, in less mature markets across Asia Pacific where capital is required to fund a substantial urbanisation shift, it can be questioned whether greater latitude in REIT operations (e.g. to permit a greater level of development to hold activities) would be a positive for a number of economies.

(v) Offshore asset ownership

With recent changes in Japan there are now no REIT regimes within Asia Pacific that do not permit offshore property ownership. For some markets such as Singapore and Hong Kong, which play broader economic roles as regional hubs, permitting offshore property ownership is a natural extension of that role. For others such as Australia, the fact that the REIT model is an extension of a broader investment vehicle structure meant it was not designed specifically with property investment objectives in mind.

While a number of REIT markets saw substantial offshore investment 10-15 years ago, it is questionable in the current environment, where REIT markets have emerged in a large number of countries, whether from an investor perspective a geographically diverse REIT (in the absence of compelling competitive advantage) is desirable. There are a number of examples over several decades of substantial value destruction through ownership of offshore real estate.

It also raises the question of the primary objective of establishing a domestic REIT regime. If it is to attract capital to fund local urban development then the allocation to offshore asset acquisitions is questionable. Despite that, REIT markets that provide that flexibility do allow their participants to achieve greater scale (and therefore potentially efficiency) and a level of diversity to take advantage of opportunities arising from differing global real estate cycles.

(vi) Foreign ownership of REITs

The level of restriction on foreign ownership of REITs varies and is an interesting question for regulators. On the one hand attracting foreign capital to help support urban development is a priority for a number of economies in Asia Pacific, but the REIT model, with a requirement for substantial profit distribution, can represent a substantial capital outflow (albeit withholding tax requirements in most countries enable a tax recapture from offshore investors).

Transparent withholding tax requirements on repatriation of earnings offshore would seem a more efficient way to deal with these issues rather than arbitrary limits on the level of foreign ownership in the vehicle. Again, there are numerous examples of domestic economies enjoying substantial long-term benefits from foreign investment into local real estate projects.

3

INDUSTRY SURVEY ON REIT STRUCTURES, REGULATION & TAXATION

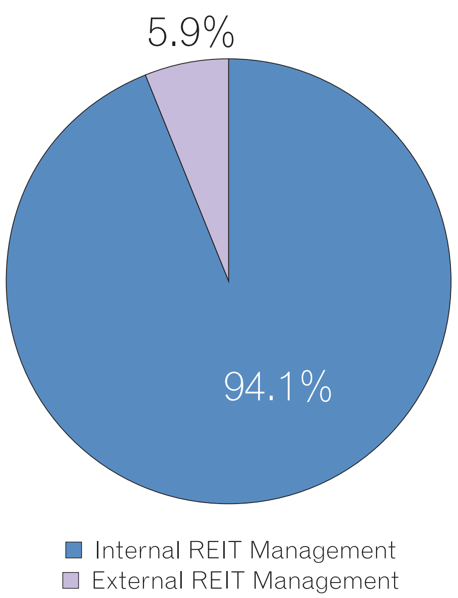
To provide perspective on the lens through which the leading global REIT investors view the structures in Asia Pacific, APREA gathered many of the region's foremost experts in regulation and taxation of REITs to develop a survey. This in-depth study of 39 questions spanned topics such as:

- REIT structure
- Nature of operations
- Capital management
- Investor reporting
- Alignment of interests
- Related party transactions
- Regulatory and taxation

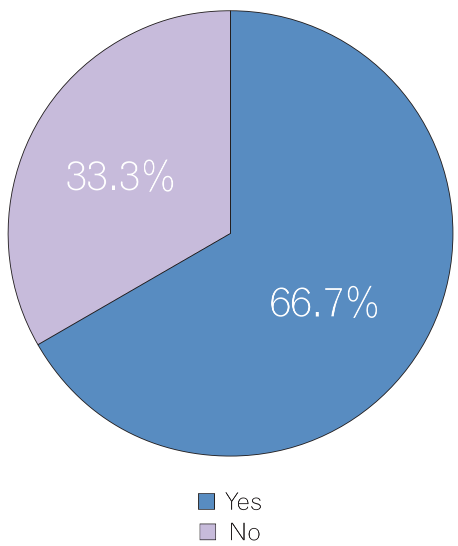
This survey was circulated to a universe of 195 senior institutional investors and fund managers who invest in real estate and in REITs. The survey respondents were selected based on their understanding of real estate and REIT markets globally and within Asia Pacific. Their responses are presented in Table 1.

Table 1: Survey response findings

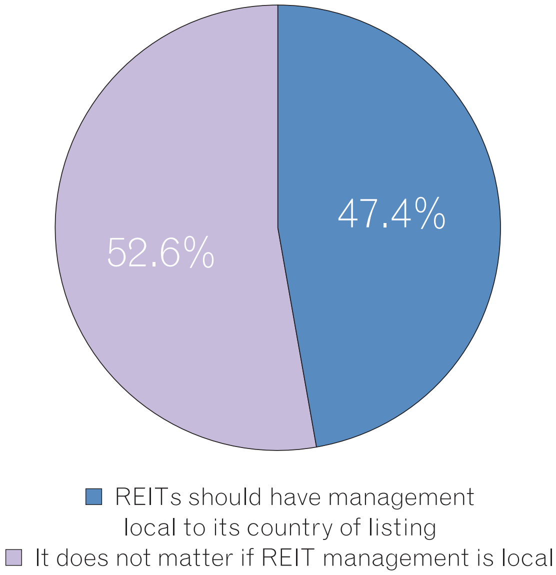
Please indicate if you have a preference for internal REIT management or external REIT management.



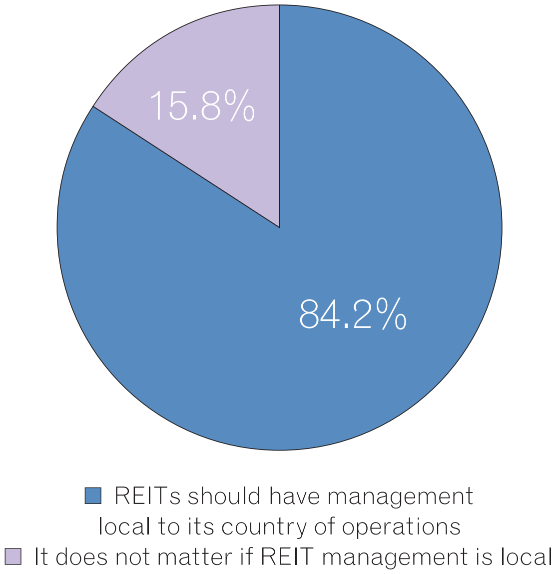
Please indicate if you think close-ended REITs should be allowed in Asia Pacific.



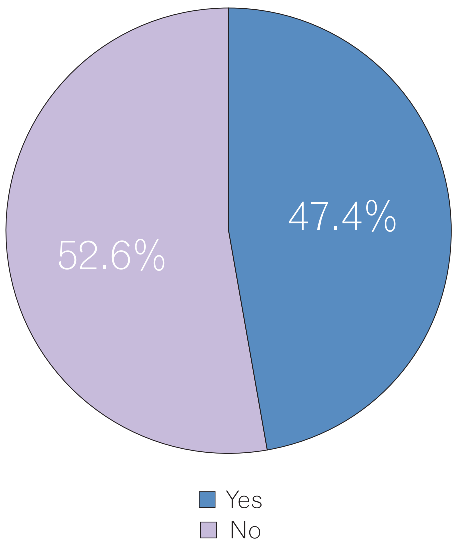
Please indicate if you prefer that a REIT should have management that is local to its country of listing.



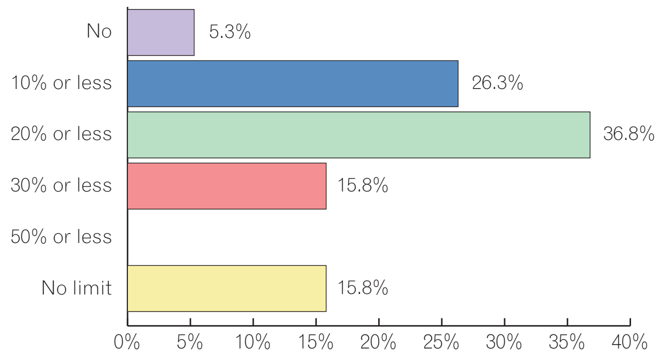
Please indicate if you prefer that a REIT should have management that is local to its country of operations.



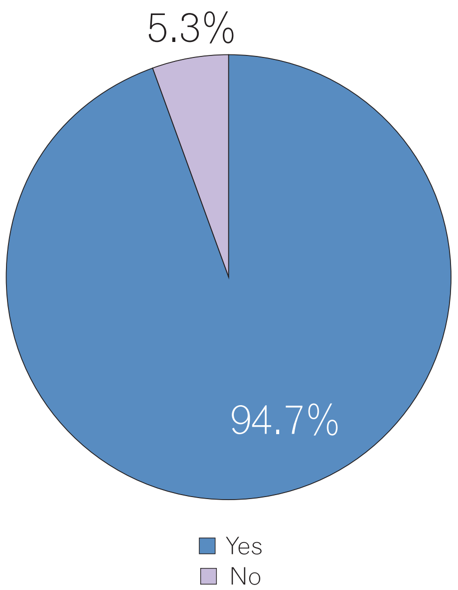
Would you subscribe to the idea of having a single standardised REIT model that is applied across jurisdictions?



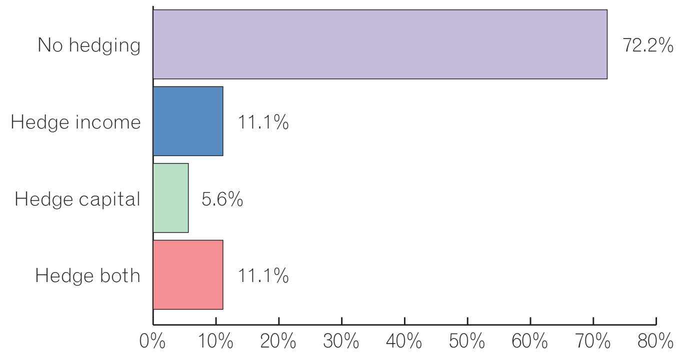
Do you think a REIT should be allowed to undertake development risk? If so, what is the maximum threshold (percentage of assets under management) you would be comfortable with?



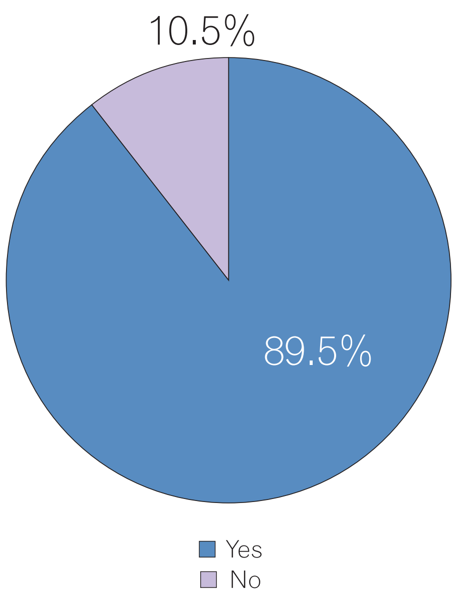
Do you think a REIT should be allowed to invest in assets in countries outside its country of listing?



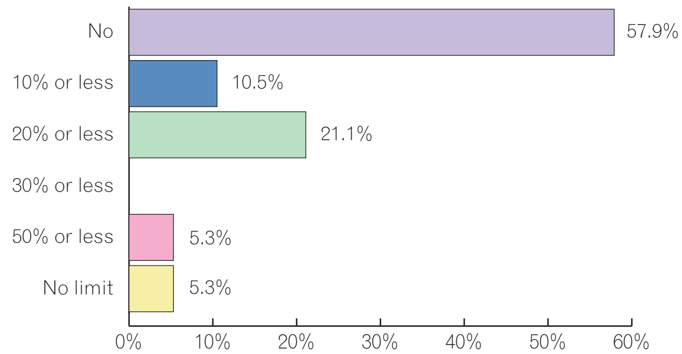
If a REIT invests in assets outside its country of listing should the REIT be required to hedge against that investment (income or capital or both)?



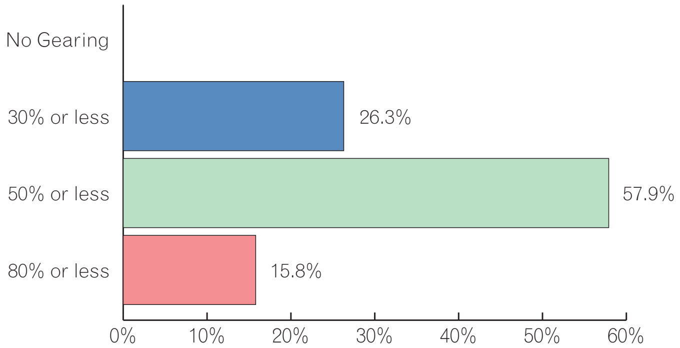
Do you think a REIT should be allowed to invest in more than one property sector?



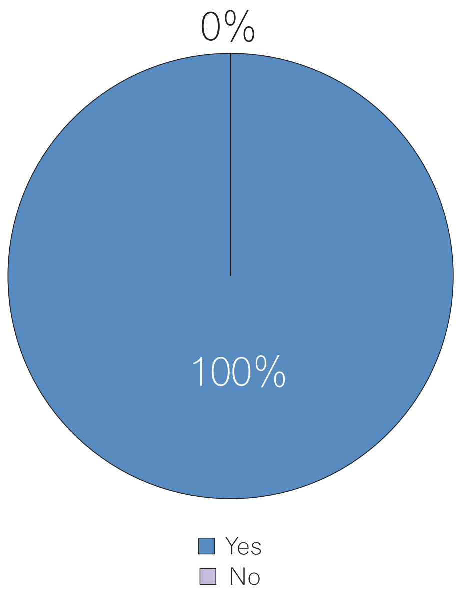
Do you think that a REIT should be allowed to invest in non-property assets or businesses (e.g. construction, hospital management)? If so, what do you believe is the maximum percentage of assets under management that could be so invested so that REIT status can be maintained?



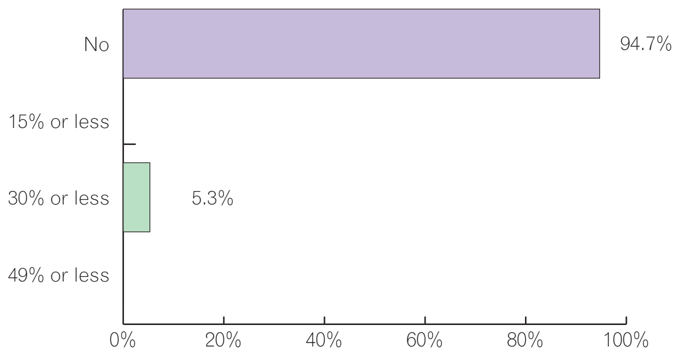
What is the maximum gearing (debt/gross assets) you think a REIT should be allowed to undertake?



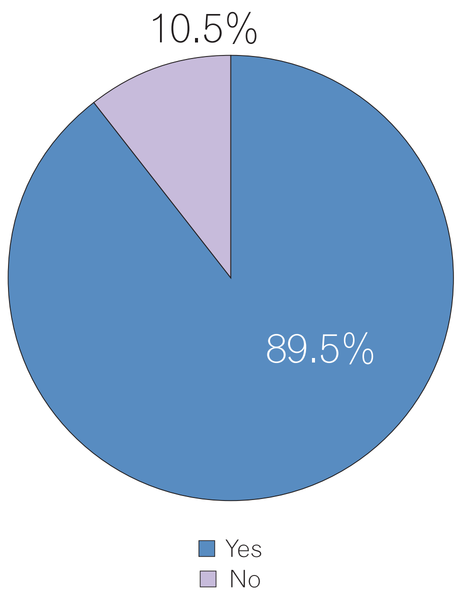
Do you think a REIT should be allowed to raise capital from sources outside its country of listing?



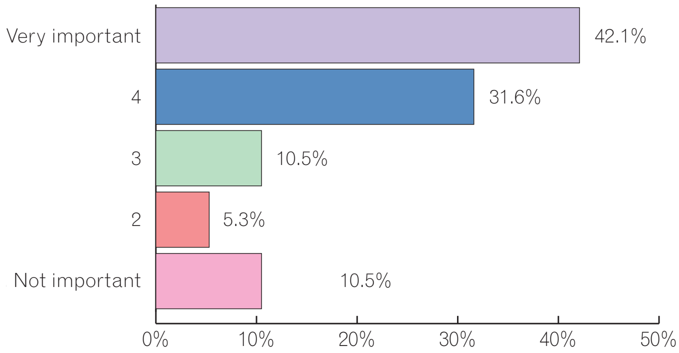
Do you think there should be a limit to foreign ownership of REITs and if so, what would this be?



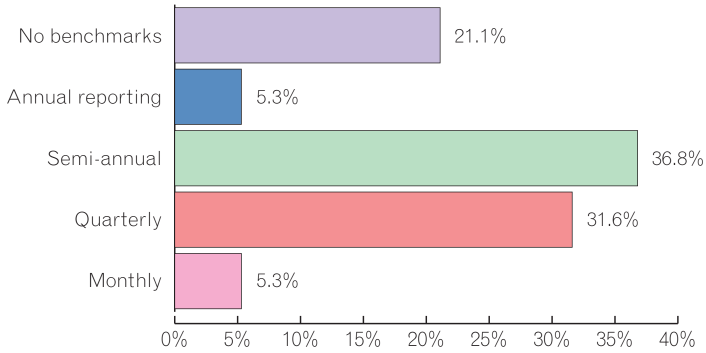
Should REITs have the same capital management tools as general operating companies (i.e., share buybacks, dividend repurchase schemes, bonus issues, convertibles, preferred capital, hybrid instruments, unsecured notes)?



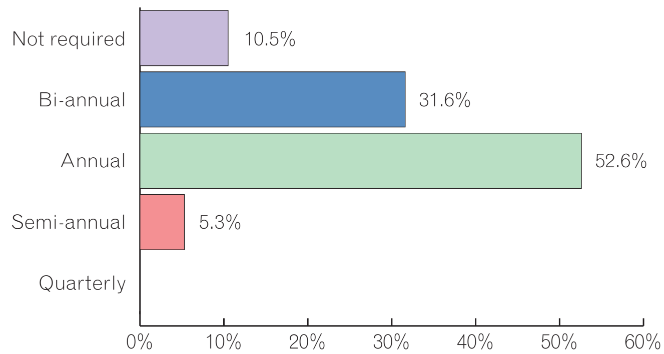
How important is standardisation of underlying earnings metrics (i.e., information reported, reporting timelines and cut-off dates) across the various Asian REIT jurisdictions?



Apart from market-sensitive information, how frequently should a REIT be required to provide updated information about its performance against benchmarks?



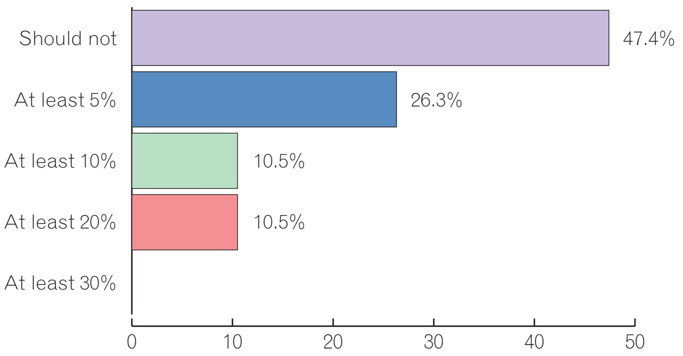
How frequently should a REIT be required to obtain an independent market valuation of its assets?



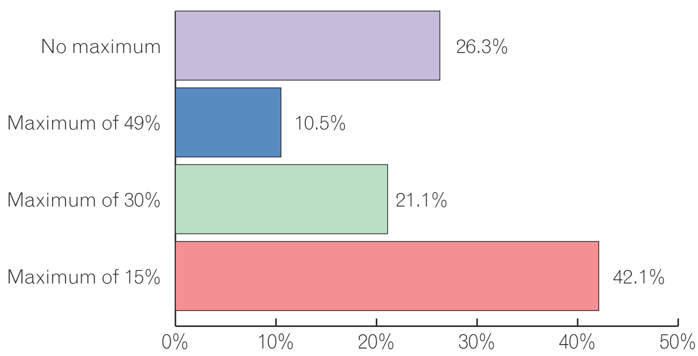
What recommendations would you have to structure management fees in such a way that management is aligned with the interests of minority holders?

- Tailored for the type of vehicle, jusrisdisction and assets
- Pegged to share price, EPS or DPU growth
- Linked to performance not AUM
- 5 year long term incentive plans paid in units or shares
- Internalise the manager. That is the most transparent way

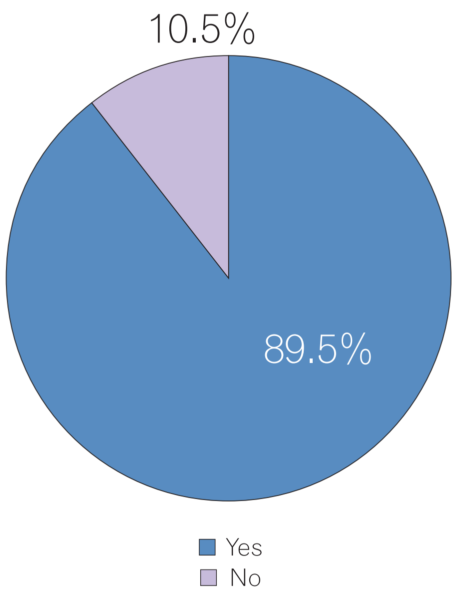
Should management have a minimum equity stake in the REIT and if so, what is the minimum threshold you would be comfortable with?



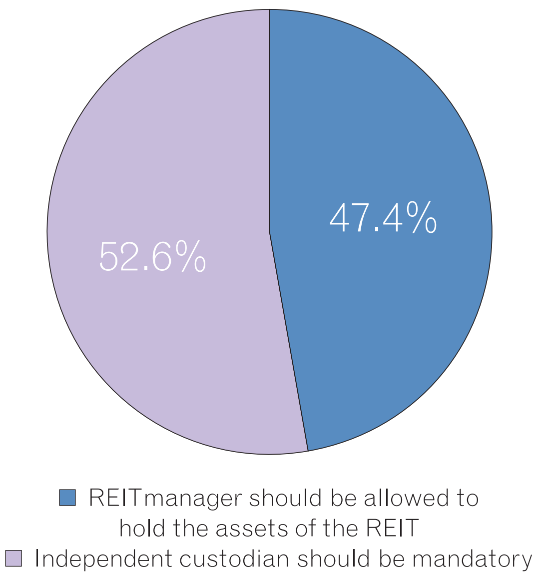
If the REIT Manager does have an equity stake in the REIT, what is the maximum threshold you would be comfortable with?



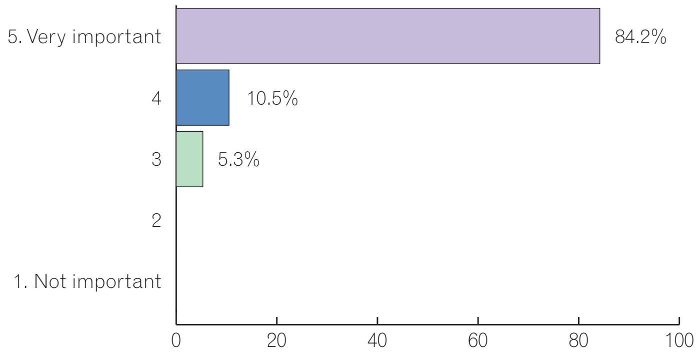
Would you take comfort out of management executives of an external manager having an equity stake in the externally managed REIT?



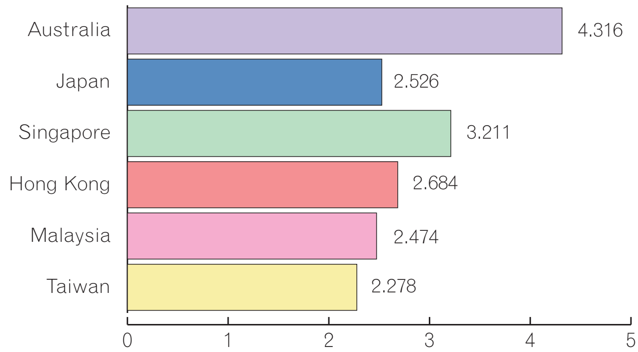
Should a REIT manager be allowed to hold the assets of the REIT, or should an independent custodian be mandatory?



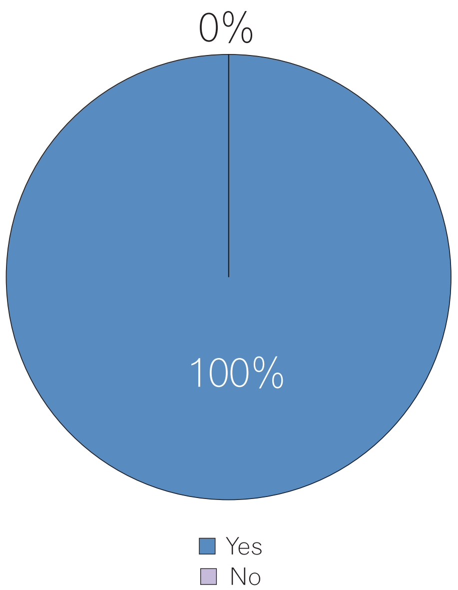
How important is regulation of related party transactions to REIT market confidence and integrity?



Which jurisdictions have the greatest level of REIT market confidence and integrity in this respect?



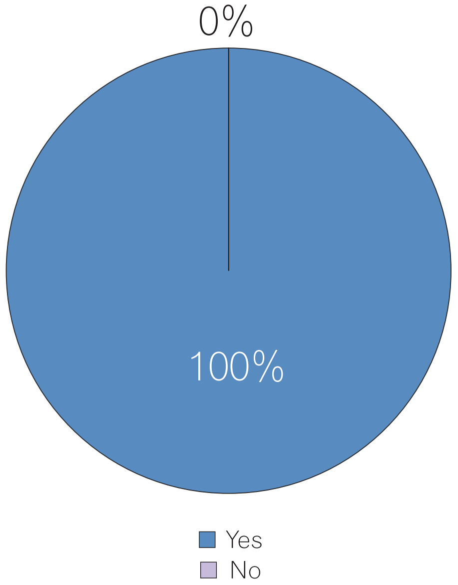
Should all related party transactions have arm's length pricing?



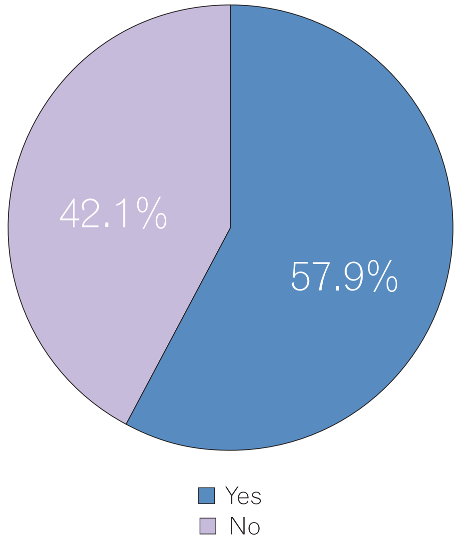
What do you think are the critical elements in achieving this level?

- Independent valuation and approval of minority shareholders
- Ensuring management is aligned with minority holders by means of shareholding
- Sponsor/manager cannot vote in a related party transaction
- Punitive measures in legislation for breach of confidence

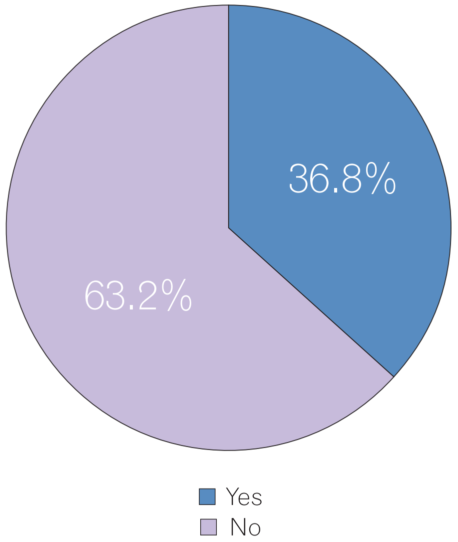
Should a REIT be a flow-through entity for tax purposes?



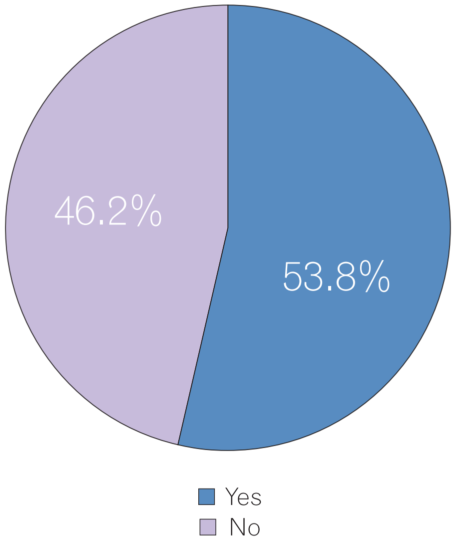
If a REIT is a flow-through entity and makes distributions to a tax resident, should the resident be taxed?



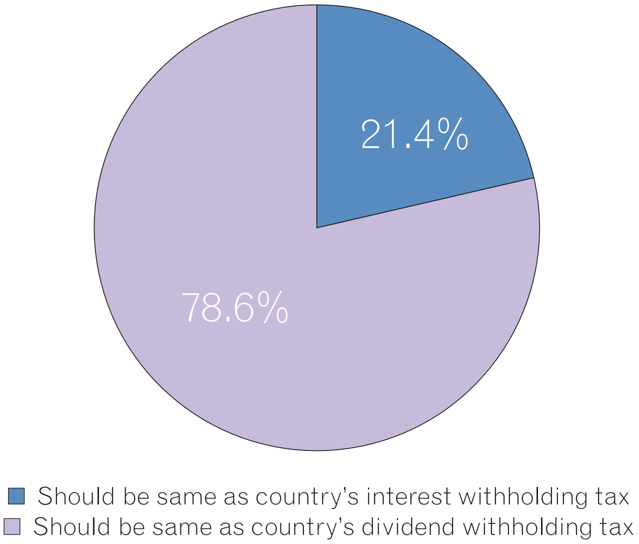
If a REIT is a flow-through entity for tax purposes and makes distributions to a tax non-resident, should the non-resident be taxed in the REIT's country of listing?



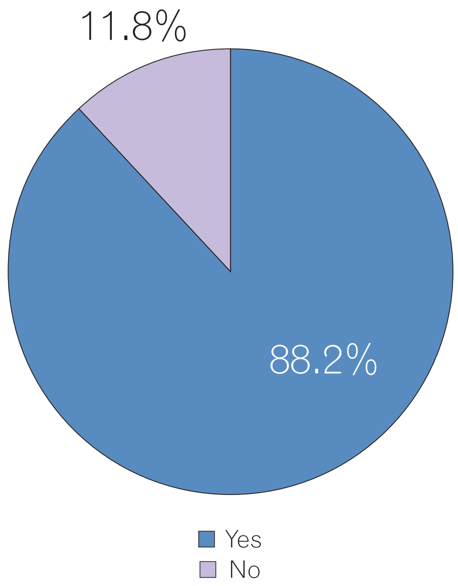
If yes, should such tax be a final withholding tax?



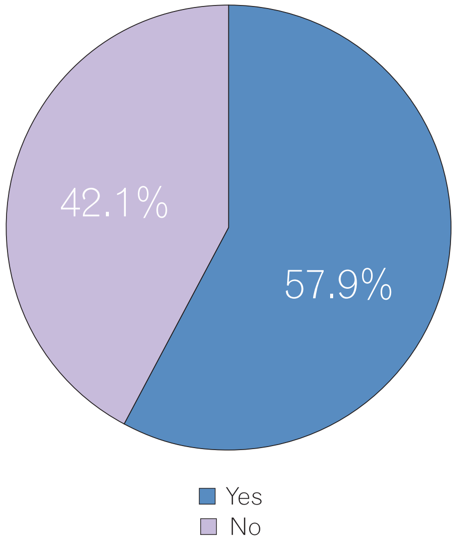
If so, what should the maximum withholding tax rate be? For example, should it be the same as or different to that country's interest or dividend withholding tax?



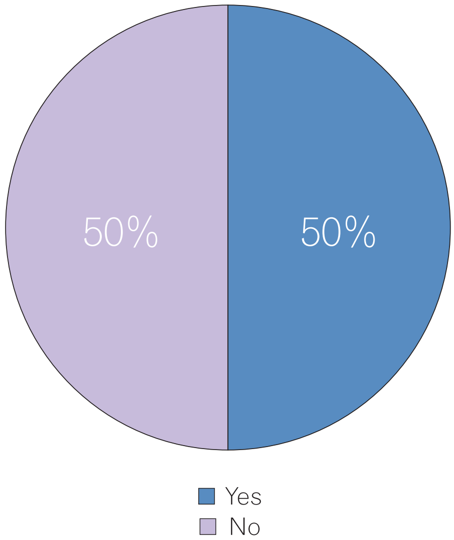
Should the REIT have conduit or pass-through treatment for foreign source income distributed to non-residents?



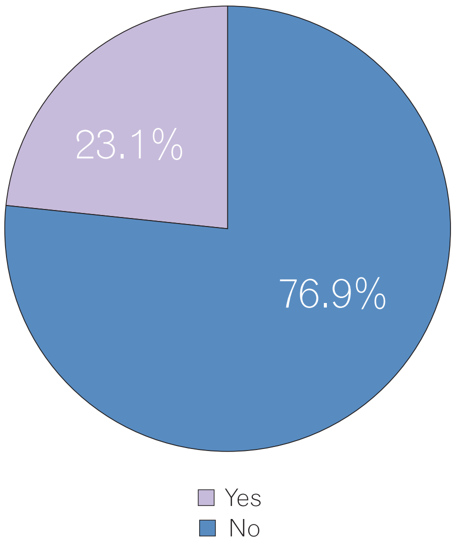
If a REIT is prima facie a flow-through entity for tax purposes, should a REIT be able to retain profits, i.e. not distribute all of its profits?



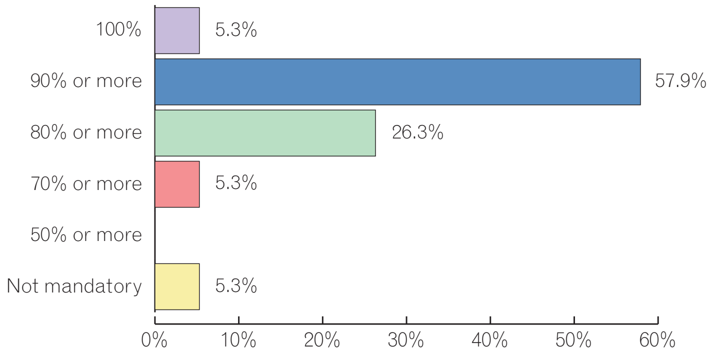
If so, should the undistributed profits for a given income year be subject to tax?



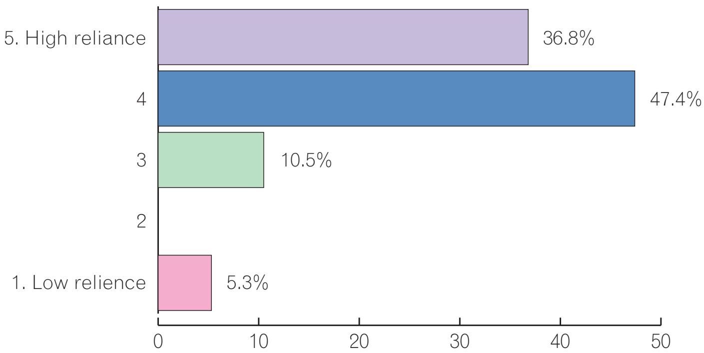
If so, should it be taxable at the corporate tax rate of the country in which the REIT is listed?



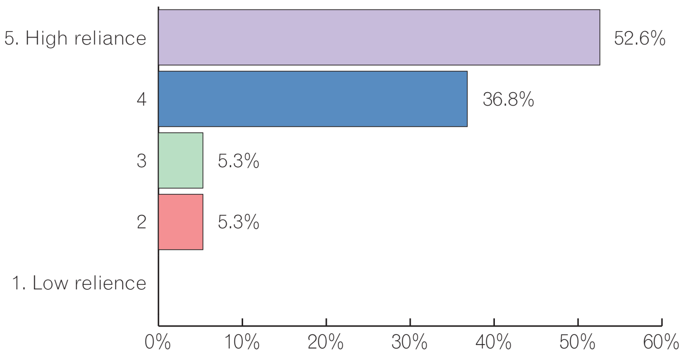
What level of mandatory dividend payout ratio do you think is appropriate for a REIT?



How much do you rely on regulatory certainty when deciding whether to invest into a REIT?



How much do you think **you ought to** be able to rely on regulatory certainty when deciding whether to invest into a REIT?



Could you outline any additional thoughts/ comments you have on REIT structures in Asia Pacific?

- Internal management should be allowed in most jurisdictions

4 GENERAL THEMES EMERGING FROM THE SURVEY

Having reviewed earlier some of the observations arising from how REIT frameworks have been structured throughout Asia Pacific, it is interesting to look at the preferences of REIT investors obtained through the survey compared to these current REIT structures to determine what REIT models are in sync with what the market is looking for and those that are not.

There are two key areas where Asia Pacific REITs would seem to be at odds with what global investors are looking for:

(i) Market preference for internal management

As noted earlier, Asia Pacific REIT frameworks still predominantly follow an external management model. It is clear from the survey results, however, that investors have a clear preference for internally managed vehicles.

As previously mentioned, conflict of interest concerns represent the major hurdle for externally managed REITs to overcome. Some investors point to the fact that managers are generally remunerated based on total asset value and so they are incentivised to continue to acquire assets perhaps at the expense of better return options for REIT investors. It has also been suggested that external management results in a cost leakage to the REIT compared to internally managed vehicles.

Both of these contentions are arguable. While traditional management fee structures have been based on asset values, there have been some attempts to produce greater alignment between external management and investors (e.g. through fees linked to market capitalisation). Similarly, there are examples where internalisation of some REITs has seen an increase in operating costs as vehicles exiting larger funds management platforms cannot replicate the economies of scale of back office functions produced by large fund managers.

Despite the relative merits of each model, it is clear that global investors, perhaps shaped by strongly held views in the US, see the external management model as a major inhibitor to capital allocations in the region. Asia Pacific countries will need to either explore amendments to current fee structures to create greater alignment or other avenues to assuage the conflict of interest concerns. Comprehensive benchmarking of operating costs between internal and external management models would also be a useful contribution to the debate.

It has also been suggested that other markets within the region should perhaps look to the Australian experience of evolving from a predominantly external to internal model to explore how to improve their attractiveness to global capital. But that should be done cautiously. The Australian experience also resulted in a noticeable shift of REITs along the risk curve (greater development, funds management and other less traditional REIT activities) which provided its own challenges during the 2008 global financial crisis where Australian REITs performed considerably worse than their more traditional regional counterparts in markets such as Singapore.

(ii) Appetite for development activity

While the increased risk profile of Australian REITs proved problematic as the implications of the 2008 global financial crisis played out, another interesting outcome from the survey is that investors have an appetite for more development activity within REIT vehicles. As noted earlier the regulatory framework in most markets restricts REITs from undertaking development activity. Investors, however, would appear to see this as a natural extension of existing REIT activities – presumably not with the objective to trade properties but to enable their capital to be used earlier in the development cycle in order to provide better capital growth potential rather than be merely seen as the end take-out party.

From an economic perspective, greater access to capital to fund development must also be a potential positive for those countries facing substantial capital requirements to meet a burgeoning urban population.

Regulators should therefore explore ways in which to enable REITs to participate in the development aspects of property investment, while balancing the overall risk profile of the REIT sector which underpins its appeal.

(iii) Other requirements

Overall, with the exception of the two areas noted above, the general parameters in place in most REIT markets in Asia Pacific would appear to be in line with market sentiment. Table 2 provides a high level overview of how REIT rules across the region compare to what investors see as most desirable, based on the survey.

Perhaps not surprisingly Singapore, which has been one of the success stories in terms of Asia Pacific REIT models, is one that is positively aligned to what investors are looking for. Conversely Japan, which has a number of restrictions, particularly as it relates to foreign capital flows, would seem out of step with global investor sentiment. Japan is a very mature economy that has the advantage of a sizeable domestic economic base from which to source capital and therefore it does not have the same imperative to attract foreign investment into real estate as some of the more emerging economies in the region. To enhance the success of their local REIT markets and hence the ability to attract capital to support future growth, other countries should consider some of the more flexible aspects of other markets in the region.

Table 2: Regional REIT rules compared to investor preference

		Australia (1) Stapled	Australia (1) Single	Hong Kong	Japan	Malaysia	New Zealand	Philippines	Singapore	South Korea	Taiwan	Thailand
1	There is a strong preference for internal management rather than external management of a REIT	P	NP (2)	NP (7)	NP	NP	NP	P	NP	P	NP	NP
2	There is a strong preference to allow REITs to undertake property development activity	P	PWR (3)	NP (8)	NP	NP	PWR	PWR	NP	P	P	PWR
3	There is a strong preference to allow REITs to invest in offshore markets	P	P	P (9)	P (13)	P (17)	P	P	P	P	P	P
4	There is a strong preference to allow REITs to invest in multiple property asset classes	P	P	P (10)	P	P (18)	P	P	P	P	P	P
5	The majority would prefer REITs not to invest in non-property assets	NR	LR	R	R	LR (19)	NR	LR	LR	LR	LR	R
6	There is a strong preference for gearing levels to be at 50% or lower	NGR	NGR	R (11)	NGR	R	NGR	R (22)	R (22)	LR	R	R
7	Majority view that offshore capital should be allowed to invest in a REIT and there should be no limit on foreign ownership of the REIT	PWR (4)	PWR (4)	NR	R (14)	LR (20)	NR	R (23)	NR	NR	NR	LR (25)
8	REITs should have ability to use same capital management tools as other entities (e.g. preference capital, bonus issues, buybacks etc.)	P	P	P	R (15)	P	P	P	P	P	P	P
9	Preference for the REIT manager to have a 30% or less stake in the REIT	NR	NR	NR	LR (16)	NR	NR	NR	NR	R	LR (24)	LR (16)
10	Preference for a minimum 90% distribution payout	FDR (5)	FDR (6)	MDR (12)	MDR	NMR (21)	MDR	MDR	MDR	MDR	MDR	MDR

Table 2 Key

- P = Permitted
- NR = No restriction
- NMR = No mandatory requirement
- NGR = No gearing restriction
- PWR = Permitted with restrictions
- LR = Limited restrictions
- MDR = Majority distribution requirement
- NP = Not permitted
- R = Restricted
- FDR = Flowthrough distribution requirement

(1) Australian REITs began as a single trust vehicle but the listed property funds now predominantly follow a "stapled" structure via which the vehicle comprises a tax flow through entity housing the activities permitted for such status which is "stapled" (i.e. via agreement they cannot be traded separately) to an interest in a taxable entity that carries on all non-complying activities. This provides the REIT with significant flexibility. Each aspect has been considered against the requirements applicable to both a single vehicle and a stapled vehicle.

(2) While theoretically available, tax and listing implications result in internal management being impractical.

(3) Tax implications limit the viability of undertaking development activities in the single trust vehicle.

(4) Foreign investment above certain thresholds or by state owned enterprises is subject to government review in Australia. Except in exceptional circumstances, this is for monitoring purposes only.

(5) The taxable component of the staple has no distribution requirement. However, the flowthrough component will be required to meet the distribution requirements similar to a single vehicle.

(6) While not mandated, tax implications facilitate flowthrough distribution.

(7) While the Hong Kong REIT Code requires each REIT to be structured as a trust with (1) a trustee (which must be a licensed bank or a trust company that is a subsidiary of a licensed bank) and (2) a licensed management company, in each case acceptable to the SFC, The Link REIT has in substance internalised management through the trustee holding the equity in the licensed management company on trust for the investors (i.e. as well as holding the property assets via special purpose vehicles).

(8) Permitted to undertake refurbishments, retrofitting or renovations.

(9) The practice note that forms part of the HK-REIT Code at pp. 53ff (and relates to the management company's competence and systems for offshore investments) must be adhered to in this regard.

(10) If the name of the scheme indicates a particular type of real estate, the scheme is required to invest at least 70% of its non-cash assets in such type of real estate under 7.11 of the HK-REIT Code.

(11) Under 7.9 of the HK-REIT Code aggregate borrowings of the scheme shall not at any time exceed 45% of the total gross asset value of the scheme.

(12) Under 7.12 of the HK-REIT Code an amount of not less than 90% of the REIT's audited annual net income after tax is required be distributed to unit holders.

(13) Recent amendment. J-REITs were previously prohibited from investing offshore.

(14) More than 50% must be issued domestically.

(15) As a result of recent revision of Investment Trust Law, rights issues and buybacks are permitted.

(16) 50% restriction on single investor ownership (this applies to all investors; it is not specific to the REIT manager).

(17) For offshore assets, M-REIT investments are limited to foreign markets where the regulatory authority is a member of the International Organization of Securities Commissions (IOSCO).

(18) Not permitted to invest in vacant land

(19) At least 50% of a fund's total asset value must be invested in real estate and/or unlisted companies whose principal assets comprise real estate (i.e. single purpose companies).

(20) 70% foreign ownership restriction on REIT management company.

(21) The 90% distribution payout is not mandatory. However, the REIT will only be exempted from income tax where at least 90% of 'total income' (as defined for tax purposes) for the year is distributed. to the investors. Note that notwithstanding that the REIT may be tax-exempt, investors will be taxed on distributions by the REIT.

(22) General restriction to 35% with higher percentage allowable with rating.

(23) 40% foreign ownership cap.

(24) 50% restriction on ownership on any 5 investors unless independent professional investors.

(25) Foreign ownership rules applying to real property also apply to REIT units.

5

LINKAGES BETWEEN INVESTORS' PREFERENCE & MARKET SIZE & LIQUIDITY

The survey provides insight into investors' views on REIT structures and regulation across Asia Pacific.

Are there any connections or can any conclusions be drawn with respect to what investors prefer and the size, attractiveness and liquidity of the markets in the region? Many factors contribute to the size and how liquid and attractive a market is, not just those upon which the survey was based. However, it is clear that there is a linkage between some of the matters considered important by investors and the attractiveness and efficient functioning of certain markets.

Table 3 shows the market capitalisation of the largest REIT markets in Asia Pacific relative to the size of the underlying institutional grade real estate market, referencing a 2012 study by Pramerica, *A Bird's Eye View of Global Real Estate Markets*. As seen in Table 3, the most favoured of the largest regional REIT markets, Australia, Singapore and Hong Kong, also have the largest REIT markets relative to the size of their overall investable real estate markets. That is, REITs have taken off more and constitute a larger proportion of the local real estate universe in those jurisdictions. According to the survey, investors consider that there is the greatest level of REIT market confidence and integrity in Australia and Singapore, followed by Hong Kong. In contrast, while in absolute terms the J-REIT market is the second largest in the region, it is a fraction of the overall size of the domestic investable real estate market and investors have various concerns with the regulation of J-REITs.

Table 3: *REIT market capitalisation relative to the underlying institutional grade real estate market*

Country	REIT Market Capitalisation (US$bn)	Institutional Real Estate Size (US$bn)	REIT as % of Underlying Real Estate Market
Singapore	45.47	241	19%
Australia	85.15	656	13%
Hong Kong	23.80	211	11%
Malaysia	6.77	84	8%
New Zealand	2.92	73	4%
Japan	72.46	2,678	3%

Source: Bloomberg (31 December 2013), Pramerica (2012) "A Bird's Eye View of Global Real Estate Markets", APREA Research

Table 4 looks at liquidity (trading volume relative to free float market capitalisation) of the REIT markets.

Table 4: REIT market liquidity

Country	REIT Free Float Market Capitalisation (US$bn)	2013 Average Daily Volume (US$mn)	Volume as a % of FF Market Capitalisation
Australia	68.23	665.9	0.98%
Japan	64.32	470.6	0.73%
Singapore	26.84	179.2	0.67%
Hong Kong	16.31	80.9	0.50%
Malaysia	3.20	8.4	0.26%
New Zealand	2.55	5.5	0.21%

Source: Bloomberg, GPR, APREA Research

What is clear from this is that there is a major liquidity gap between the four major REIT markets in the region and the rest. The obvious point can be made that broader, deeper and more mature financial markets tend to go hand in hand with attraction to investors and higher liquidity levels, while the reverse can often be said for smaller and/or emerging markets. There are many reasons for this, beyond the scope of this report. There does not seem to be any clear linkage between liquidity and the regulatory and tax issues considered by investors to be important.

6

GLOBAL CAPITAL ALLOCATIONS TO REITs

The pool of global capital allocated to dedicated REIT investment is increasing exponentially. As shown in Table 5, listed real estate equity funds saw US$54 billion of capital inflows over the period 2008 to 2013, bringing the total amount allocated to listed real estate to US$150 billion as at 31 January 2014.

The quality and effectiveness of the regulation and taxation of REITs is a factor in investment decision making. As we have noted in the previous section, this may be a reason for the small size of the REIT market relative to the overall size of the investable real estate market in some economies (Japan in particular).

Countries that do not yet have REIT markets are currently missing out on a share of a growing pool of REIT-dedicated capital. What is clear from this report is that the share of this capital will also be influenced by the extent of confidence in and the integrity of the regulation of a REIT market. It will also be influenced by the approach to tax and tax efficiency, a reason why amongst the larger REIT markets in the region Hong Kong lags behind Australia and Singapore. We now turn to tax.

Table 5: Listed real estate and infrastructure historical fund flow analysis

Morningstar Flow and Asset data as of 31 January 2014
Blue indicates Passive Strategy

	2008	2009	2010	2011	2012	2013	2014 YTD	Total Net Assets
Real Estate Equity Fund Universe (156)	$7,649	$3,964	$6,028	$8,993	$15,941	$11,728	$725	$150,042
Real Estate Active Universe (122)	$2,219	$745	$2,793	$2,818	$4,891	$3,038	-$325	$83,374
Real Estate Passive Universe (34)	$5,430	$3,220	$3,234	$6,175	$11,050	$8,690	$1,050	$66,668

Source: Morningstar Direct as of January 31, 2014. Assets under management and net fund flows in US$ millions.
Total number of funds within each group fluctuates throughout each calendar year and the total number of Funds shown in each table represents the total amount on January 31, 2014.

7

TAXATION OF REITs: WHAT THE MARKET PREFERS – A BEST PRACTICE SET OF RULES

Any taxation policy applying to REITs should be consistent with the broader policy rationale underpinning the development of the REIT market. REITs enable individual investors to obtain access to a more liquid, diversified exposure to real estate than would otherwise occur if the investors were required to directly hold illiquid property assets. The REIT provides improved liquidity and diversification opportunities whilst still maintaining underlying exposure to real estate. The taxation of REITs should ideally then enable the investor to obtain a similar after tax result to what would occur had they invested directly in property.

The design of any set of taxation rules is always accompanied by complexity. Tax transparency of the REIT is consistent with aligning the after tax results of direct property investment with the results of REIT investment. A similar result is achieved if the REIT remains subject to tax but is eligible to claim a deduction for distributions to investors. Questions remain, however, in terms of the taxation of domestic investors as compared to foreign investors and the taxation rules that apply to income distributions compared to gains arising from disposal of the underlying property or disposal of the interest in the REIT. Policy decisions must be made concerning whether the responsibility to calculate and pay the tax remains with the investor or whether it is preferable to establish a withholding tax on distributions made by the REIT. That withholding tax could be a final tax which implies simplicity as no further tax reporting obligations are imposed on the investor; alternatively it could be a non-final tax that then allows the investor to incorporate any further deductions/losses arising from its personal situation.

We firstly set out below the key considerations in developing a best practice set of rules for the taxation of REITs. An analysis then follows of favoured tax elements based on the survey results.

Distribution requirements

A significant level of annual profit distribution is a common commercial requirement for REITs. From a tax perspective, the transparent nature of a REIT requires the income to be taxed annually in the hand of investors. There is no imperative, at least from a tax perspective, for there to be an actual distribution by the REIT provided the tax liability is appropriately captured. To the extent that a REIT is permitted to retain part of its annual profits then this residual should either continue to be taxed in the hands of the investors or be taxed within the REIT itself. In both cases there would be no need for a second round of taxation when actual distribution of the residual amount is paid to investors.

Nature of activities

Any restrictions on the asset classes that REITs can invest in should be determined according to non-tax principles. The tax transparency of the REIT should ensure that the investor is appropriately taxed on passive REIT income as well as active development, should they be permitted under the relevant REIT regime. REITs should also be entitled to undertake other property related activities although income from these activities should not automatically qualify for the REIT tax concession. Examples of how to tax such income can be found in various jurisdictions including Australia (through the use of stapled structures) and the US (with its concept of a taxable REIT subsidiary).

Offshore assets

Again, whether REITs should be permitted to invest in offshore property should not be influenced by tax considerations. If REITs are permitted to invest in offshore property then the income received should retain its foreign status when distributed by the REIT to its investors in order to eliminate any tax bias from the investment decision making process.

Other

Relevant tax rules should also be introduced to facilitate rollover for merger/acquisitions of the REIT vehicles themselves. The intention should be to ensure that capital markets activity is not inhibited by tax considerations.

The survey responses indicate a consistent preference towards the appropriate tax structure for a REIT at the conceptual level but there were mixed responses to more detailed questions. This serves to reinforce the complexity that arises when developing appropriate tax rules.

The importance of regulatory certainty is evidenced in the responses and clearly this must also apply to certainty around tax regulations. The presence of sovereign risk around tax rules will be a deterrent to attracting investment capital, particularly foreign capital.

Overall the responses confirm that REITs should be tax transparent and the tax rules should support both the raising of capital from offshore (through the tax treatment allocated to non- resident investors) and the encouragement of REITs to invest offshore (by providing conduit foreign sourced income treatment – that is, the foreign sourced income passes through the REIT out to foreign investors without being taxed in the REIT's country of domicile). The preferential tax treatment indicated for non-resident investors acknowledges the importance of attracting foreign capital.

There was a mixed response in the survey to the taxation of domestic REIT income. Over 40% of those who responded to the question considered no tax should be imposed on domestic REIT income. While such an approach would be extremely favourable to attracting additional capital into the real estate market, it is unlikely that any government would be favourably disposed to adopting such an approach (let alone being able to afford to adopt such an approach). Interestingly almost one third of respondents did not answer the question.

What is not clear from the responses is whether respondents were purely focusing on the tax to be imposed on income distributions or whether they were also contemplating whether distributions of capital gains should be taxed or not.

Where tax does apply to REIT distributions, respondents were broadly ambivalent as to whether or not it should be a final withholding tax. This perhaps points to the different approaches (i.e. final tax / non final tax) currently adopted in existing regimes within the region. If the tax was to be a final withholding tax there was a clear preference for the rate to be aligned with the country's dividend withholding tax rate. The responses emphasise the importance being placed on attracting foreign capital.

There was a clear preference for the vast majority of a REIT's income to be distributed annually but there was also recognition that there should be some ability to retain profits. Again, there is no particularly strong preference as to whether the undistributed profits should be taxed or not when retained in a REIT although, if tax was to apply, there was certainly a very strong bias towards the corporate tax rate. The question then to be asked is how such taxed profits should be treated in the hands of investors when subsequently distributed.

Notwithstanding the support for enabling a REIT to retain some profits, almost 60% of respondents preferred a mandatory dividend payout ratio of 60% or more – pointing to the historical role of REITs as a yield-based investment. Another question may be how the minimum distribution amounts should be calculated – by reference to accounting income, taxable income or some other standard?

8 CONCLUSION

This report highlights the different ways in which REITs are regulated and taxed in the Asia Pacific region. There are many similarities but also, particularly at the more granular level, significant differences. Based on an extensive survey of market participants it identifies important aspects of regulation and tax and discusses the participants' evaluation of how well these matters are addressed in the various jurisdictions.

The regulation of REITs in the major regional regimes of Australia, Japan, Singapore and Hong Kong differs in many significant respects, as identified in this report. However, at the more general level there is a view that in terms of management and investment choices REITs provide what investors want, with the exception of the option of internal management and an appetite for more development activity than is currently permitted (Australia excepted).

The survey also identifies many features of global REITs considered by investors to be important that are not necessarily present in Asian regimes, or not provided for sufficiently effectively. These include:

- The need for management that is local to a REIT's country of operations
- A strong preference for gearing of 50% or less
- The need for the same capital management tools as operating companies (the lack of this feature put significant strain on many REITs in Japan and Singapore during the 2008 global financial crisis)
- No limitation on foreign ownership of REITs
- A strong preference for semi-annual or quarterly reporting against benchmarks
- A strong preference for semi-annual or annual independent market valuation of assets
- The importance of effective regulation of related party transactions (Australia, followed by Singapore, are seen as being the jurisdictions having the greatest level of market confidence and integrity in this respect)
- The need for a REIT to be a flow-through entity for tax purposes (there was unanimity in this respect amongst survey respondents)

In addition, respondents rated very highly the overall need for regulatory certainty when deciding whether or not to invest in REITs in a particular jurisdiction.

Amongst the many other important findings from the survey, there is clearly a market wish for greater standardisation of underlying earnings metrics (for example, information reported, reporting timelines and cut-off dates) across the various Asian REIT jurisdictions. There is also a level of dissatisfaction with current management fee structures, with suggestions for achieving greater alignment with minority unitholders in this respect.

The pool of global capital allocated to dedicated REIT investment is increasing exponentially. Countries that do not have REIT markets, such as India and the Philippines, are obviously missing out on sharing in this capital but it can readily be concluded from the findings in this report that, with respect to current REIT markets, the quality and effectiveness of the regulation and taxation of REITs is a factor in investment decision making. This may be a reason for the small size of the REIT market relative to the overall size of the institutional real estate market in some economies (Japan in particular).

It is hoped that the conclusions of this report will encourage regulators in mature and nascent REIT markets alike to strive for "best practice" regulation and taxation of REITs, thereby encouraging greater market confidence and acceptance, and encouraging greater capital inflow into the regional economies.

9
APPENDIX

Asia Pacific REIT Regulations

Source: Ernst & Young, current as at 31 March 2014

Section 1: Organisational rules

Country	Regulations

Australia	• REITs in Australia are organised as listed or unlisted unit trusts. The listed REITs are known as A-REITs.
	• Broadly, the REIT is taxed as a "flow-through" vehicle (i.e., the net income of the trust is taxed in the hands of the unitholders and not at the level of the trust) provided the REIT undertakes only passive property holdings activities (see criteria at Section 2). Otherwise, the REIT is taxable as a domestic company (e.g., if engaged in property management, development or speculation).
	• It is common for the REIT to form part of a stapled security with a stapled company/trading trust with the REIT investing in passive property holdings and the stapled company/trading trust undertaking funds management, property management or development.
	• There is no minimum/maximum shareholder requirement.
	• The trust must be managed by a corporate trustee, responsible entity or fund manager.
	• New managed investment trust (MIT) rules were introduced from 1 July 2008 to provide for lower withholding tax rates on distribution to investors resident in countries with effective exchange-of-information treaties with Australia (EOI countries). Broadly, a MIT is an Australian unit trust that satisfies all the following conditions:
	  • The trustee is an Australian resident or the trust is managed and controlled in Australia
	  • The trust is a managed investment scheme and is operated or managed by an appropriate financial services licensee
	  • The trust is not a trading trust (i.e. only engages in predominantly passive property holding activities)
	  • A substantial proportion of investment management activities carried out in relation to the trust in respect of its assets are carried out in Australia
	• The units are "widely-held" and not "closely-held"
	• Following the Board of Taxation review, the MIT regime is undergoing reform. There is currently ongoing consultation between the Government and the industry with respect to the proposed rules which are expected to commence on 1 July 2014. The proposed rules are intended to simplify and provide more certainty with respect to the taxation of the income of the MIT rather than impact the criteria for being a MIT.

Hong Kong	• The REIT must be listed on the stock exchange of Hong Kong. • It must be structured in the form of a trust. • It must appoint a trustee that is functionally independent of the management company of the REIT and that acts in the best interest of unitholders. • It must appoint a management company acceptable to the Securities and Futures Commission (SFC). • It must appoint an independent property appraiser. • The valuation of REIT assets must be done on an annual basis. • If the name of the REIT indicates a particular type of real estate, it must invest at least 70% of its non-cash assets in that type of real estate. • Authorisation from the SFC must be obtained for funds seeking REIT status.

Japan	• REITs in Japan are known as Japanese real estate investment trusts (J-REITs).
	• J-REITs are generally formed as corporations rather than as trusts.
	• Registration based on Investment Trust Law is required.
	• One of the following must be met with regard to the investment certificates:
	  • The certificates must be publicly offered and the issuing amount must be at least JPY100 million at the time of the incorporation; or,
	  • The certificates must be owned by at least 50 investors at the end of the fiscal year; or,
	  • Qualified institutional investors must hold 100% of the J-REIT units at the end of the fiscal year.
	• The offer for investment in the units in the J-REIT must be made mainly (i.e., more than 50% of the total issue price on a cumulative basis) in the domestic market.
	• The J-REIT must have a fiscal period of one year or less.
	• The asset management function must be outsourced to an asset manager.
	• The custody function for assets owned by the J-REIT must be outsourced to a custodian company.
	• No investor may own more than 50% of the units.

Malaysia	• REITs are formed as a Malaysian registered trust. • The trust must be managed and administered by a management company approved by the Securities Commission (SC). The Trustee must also be approved by the SC. • There is a minimum fund size of RM100 million. • The REIT management company is subject to a maximum 70% (previously 49%) of foreign effective equity. • There is a requirement for at least minimum 30% of Bumiputera (indigenous investor) effective equity in the REIT management company and it is required to have minimum shareholder funds of RM1 million at all times. • Real estate held by the REIT must be managed by a qualified property manager. • A REIT can be either listed or unlisted. A listed REIT must comply with the relevant listing and share holding requirements stipulated in the current Listing Requirements issued by the Malaysian Stock Exchange. • It is a mandatory requirement for a REIT to hold an Annual General Meeting within four months from its financial year-end (effective from 28 December 2012).

New Zealand	• No specific REIT regime although flow-through treatment can be achieved under various regimes or structures noted below.
	• Unit trusts are sometimes used for investing in real property (or other investments), particularly (but not necessarily) where funding is sought from the public. There has been a trend in recent years for some listed unit trust REITs to convert to companies to simplify governance.
	• Discretionary trust may be used for private investments.
	• The trust deed regulates the trust or unit trust.
	• Overseas Investment Office consent may be required for overseas investors.
	• Entities that qualify may elect to be Portfolio Investment Entities (PIEs.) Features of PIEs:
	  • Effectively a flow-through regime, though specific rules for listed PIEs
	  • Broad passive investment categories
	  • Subject to eligible categories
	  • Subject to eligibility criteria
	  • Listed or unlisted unit trusts, group investment funds, superannuation funds or companies may apply
	• Limited Partnership (LPs) may also be used. Features include:
	  • There is flow-through of losses, income on non-taxable gains to the partners (with some restrictions) for unlisted LPs
	  • There must be at least one general partner and at least one limited partner
	  • The liability for the limited partners is limited to the investment in the partnership
	  • There are specific rules regarding NZ source for certain types of income derived from LPs registered in NZ or from other partnerships that have their centre of management in NZ or at least 50% of partners' interests in capital are held by NZ residents
	• Listed LPs and some foreign LPs are treated as companies, so there is no flow-through.

Philippines	• The REIT is organised as a stock corporation established in accordance with the Corporation Code of the Philippines and registered with the Securities and Exchange Commission (SEC). • The REIT must be a public company and to be considered as such, a REIT, must: (i) maintain its status as a listed company; and (ii) upon and after listing, have at least 1,000 public shareholders each owning at least 50 shares of any class of shares who in the aggregate own at least 1/3 of the outstanding capital stock of the REIT. • The shares of stock of the REIT must be registered with the SEC and listed in accordance with the rules of the Philippine Stock Exchange (PSE). • A REIT that owns land located in the Philippines must comply with foreign ownership limitations imposed under Philippine law - cap of 40% on foreign ownership. • A REIT shall have a minimum paid-up capital of Php300 million at the time of incorporation which can either be in cash and/or property. • At least 1/3, or at least two (2), whichever is higher, of the board of directors of a REIT shall be independent directors. • As a public company, the REIT shall have such organisation and governance structure that is consistent with the Revised Code of Corporate Governance and pertinent provisions of the Securities Regulation Code (SRC) and its implementing rules and regulations (IRR).
Singapore	• REITs are typically structured as unit trust. • The REIT manager of a listed REIT should be a corporation with a physical office in Singapore and have minimum shareholders' funds of SGD1 million. • A REIT trustee must be independent of the REIT manager. • REITS must comply with the listing rules (i.e., at least 25% of the units should be held by at least 500 public shareholders) to be listed on the Singapore Exchange.

South Korea	• The REIT needs to obtain approval ("Business Approval") from the Ministry of Transport and Maritime Affairs.
	• KRW0.5 billion is required as the minimum capital for obtaining a business license. After this official permission, REIT should increase its equity capital within six months up to the following:
	  • Self-managed REITs (REIC): KRW7 billion
	  • Paper-company Type REITs and CR-REITs (Corporate Restructuring REITs): KRW5 billion
	• At least 30% of share must be offered to the public within six months of obtaining Business Approval.
	• In-kind contribution is allowed only after obtaining Business Approval. Only real estate can be contributed in kind. Contributed real estate shall be assessed by two or more statutory appraisers.
	• No single shareholder (including its related parties) is permitted to own more than 30% of shares six months after obtaining Business Approval.

Taiwan	• In principle, REITs in Taiwan are organised as closed-end trust funds. However, with the approval of the competent authority, REITs can be formed as open-end trust funds. • REIT funds are considered as flow-through vehicles in terms of corporate income tax, i.e., the net income of the trust is taxed in the hands of the unitholders upon distribution and not at the level of the trust. • REIT funds approved by the competent authority under the Real Estate Securitisation Act are eligible for flow-though taxation treatment. • Except in certain circumstances, the beneficiary securities of REIT funds should be held by at least 50 unitholders for a minimum of 335 days within each fiscal year. Any five unitholders cannot own more than 50% of the total value of the REIT's beneficiary securities unless the unitholders are independent professional investors. If the REIT is a listed fund, regulations regarding minimum number of shareholders for listed securities may apply. • REIT funds must be managed by a trust enterprise, which is defined in the Trust Enterprise Act. In general, trust enterprises acting as trustees of REITs are banks. The trust enterprise should have been established for more than three years and rated above a certain level by a credit rating institution recognised by the competent authority.
Thailand	• REITs are not juristic entities, but formed as contractual trust among trust unitholders as a "beneficiary" of the trust. • REITs must be managed and administered by a management company approved and licensed by the Securities and Exchange Commission (SEC). The Trustee must also be approved by the SEC. • There is a minimum fund size of THB500 million. • Persons in the same group shall not hold more than 50% of the total trust units sold. • Foreign restriction in holding real properties is applicable for holding of REITs trust units. • A REIT must be listed.

Section 2: Income and asset rules

Country	Regulations
Australia	• In order to be eligible for "flow-through" taxation treatment, certain widely held REITs must not directly or indirectly carry on a "trading business" (i.e., a business that does not consist wholly of an eligible investment business). • In practice, this means that the trust must invest either directly in land (inside or outside Australia) primarily for the purpose of deriving rental income, or in real estate trusts or companies that themselves invest in land primarily to derive rental income. Investments in loans and derivatives are also permitted. • The Government has extended the definition of "land" to cover fixtures and moveable items associated with land. The Government has also introduced a "safe harbour" test to ensure "flow-through" treatment applies provided 75% or more of the trust's revenue represents rental income from land (except where rent is calculated by reference to the profits or receipts of an entity under an arrangement designed to result in the transfer of all, or substantially all, of what would otherwise be profits of the entity). • Furthermore, the REIT may derive not more than 2% of its gross revenue from things other than eligible investment business (except from the carrying on of a business that is not incidental and relevant to the eligible investment business). • From 1 July 2009, MITs may elect to have eligible assets treated on capital account. This should provide certainty with respect to the capital character of the "flow-through" income.
Hong Kong	• The REIT must invest primarily in real estate that generates recurring rental income. • It may invest in real estate located in Hong Kong or overseas. • It must not invest in vacant land or engage in property development activities, except refurbishments, retrofitting or renovations. • Investments in hotels, serviced apartments and recreation parks are allowed if held by special purpose vehicles. • It must not lend, assume, guarantee, endorse or otherwise become directly or contingently liable for any obligation or indebtedness of any person or use its assets to secure any obligations, liabilities or indebtedness without prior written consent of the trustee. • It must not acquire any asset that involves the assumption of any liability that is unlimited. • It must hold its real estate for a period of no less than two years unless otherwise approved by its unitholders.
Japan	• A J-REIT must not hold 50% or more of the equity in other companies.

Malaysia	• The REIT's income must be derived from qualifying investments[1].
	• At least 50% of a fund's total asset value must be invested in real estate and/or single-purpose companies[2] at all times.
	• A fund's investment in non-real estate-related assets and/or cash, deposits and money market instruments must not exceed 25% of a fund's total asset value.
	• A REIT should not acquire real estate at a price more than 110% of the value assessed in a valuation report (provided that the value has not been revised by the Securities Commission) nor dispose of real estate at a price lower than 90% of the value assessed in a valuation report.
	• Where the value of real estate to be disposed of exceeds 50% of the fund's total asset value, the disposal must be sanctioned by the unitholders by way of an ordinary resolution, except where the disposal is for the purpose of terminating/ winding up the fund.
	• The value of a fund's investments in securities issued by any single issuer must not exceed 5% of the fund's total asset value.
	• The value of a fund's investment in securities issued by any group of companies must not exceed 10% of the fund's total asset value.
	• The fund's investment in any class of securities must not exceed 10% of securities issued by any single issuer.
	• The fund's property may consist of placement of deposits provided that it is with a licensed institution.
	• The fund is not permitted to undertake any of the following activities:
	    • Extend loans or credit facilities
	    • Property development
	    • Acquire vacant land

New Zealand	• There is no special income tax treatment for trusts or unit trusts holding real estate interest. • The NZ income tax treatment of trusts other than unit trusts can be complex. • Unit trusts (whether or not units are offered to the public) are generally treated as companies for income tax purposes, subject to income tax at the corporate rate of 28% (for 2011-12 onwards). • Income tax exceptions for overseas venture capital investors do not apply where the underlying NZ investment involves owning or developing real property. • A REIT that is an unlisted PIE will attribute taxable income to investors and account for tax at an investor's elected rate of either: 28%, 17.5%, 10.5% or 0%. For individual investors on the 28%, 17.5% or 10.5% rates that have provided the correct tax rate to the PIE, that tax paid by the PIE on their behalf will be a final tax. Investors providing a 0% tax rate (or trusts providing a 17,5% or 10.5% rate) will be required to pay tax themselves on their attributed PIE income (a tax credit would be allowed for the tax paid by the PIE). • Specific restrictions exist for PIEs that lease land from an associated person. • There are no specific rules regarding types of assets held. However, for PIEs, investments must be passive (at least 90% passive income requirements). For equity and unit trust investments PIEs, certain portfolio restrictions apply. • The income and expenses of LPs will flow through to the partners on the basis of their partnership agreement. No streaming of income is allowed. • Any tax-deductible expenses allocated to a limited partner in an income year will be restricted to that partner's economic loss compared with its "partner's basis" amount for that year. Excess deductions may be carried forward. • From the 2011/12 income year there is no building depreciation tax deduction available for any taxpayer though fit-out remains depreciable.

1 *Qualifying investments are: real estate, single-purpose companies, real estate-related assets, non-real estate-related assets and cash, deposits and money market instruments.*

2 *Single-purpose companies mean unlisted companies whose principal assets comprise real estate.*

Philippines	• A REIT may only invest in:
	  • Real estate located in the Philippines, whether freehold or leasehold. At least 75% of the Deposited Property of the REIT shall be invested in, or consist of, income generating real estate. A REIT may invest in income generating real estate located outside of the Philippines but not to exceed 40% of its Deposited Property and only upon special authority from the SEC
	  • Real estate-related assets, wherever the issuers, assets, or securities are incorporated, located, issued, or traded
	  • Evidence of indebtedness of the Republic of the Philippines and other evidence of indebtedness or obligations, the servicing and repayment of which are fully guaranteed by the Republic of the Philippines, such as treasury bills, fixed rate treasury notes, retail treasury bonds, (denominated either in Philippine or in foreign currency) and foreign currency linked notes
	  • Bonds and other evidence of indebtedness issued by: (i) the government of any foreign country with which the Philippines maintains diplomatic relations, with a credit rating obtained from a reputable credit rating agency or a credit rating agency acceptable to the Commission that is at least two (2) notches higher than that of ROP bonds; and (ii) supranationals (or international organisations whose membership transcends national boundaries or interests, e.g. International Bank for Reconstruction and Development, Asian Development Bank)
	  • Corporate bonds of non-property privately owned domestic corporations duly registered with the Commission with a current credit rating of at least “A” by an accredited Philippine rating agency
	  • Corporate bonds of a foreign non-property corporation registered in another country provided that said bonds are duly registered with the SEC and the foreign country grants reciprocal rights to Filipinos
	  • Commercial papers duly registered with the SEC with a current investment grade credit rating based on the rating scale of an accredited Philippine rating agency at the time of investment
	  • Equities of a non-property company listed in a local or foreign stock exchange
	  • Cash and Cash Equivalent Items
	  • Collective investment schemes duly registered with the SEC or organised pursuant to the rules and regulations of the Bangko Sentral ng Pilipinas (BSP)
	  • Offshore mutual funds with ratings acceptable to the SEC
	  • Synthetic Investment Products, provided among others that Synthetic Investment Products shall not constitute more than 5% of the Investible Funds of the REIT, and the REIT shall avail of such Synthetic Investment Products solely for the purpose of hedging risk exposures of the existing investments of the REIT
	• As a general rule, the REIT shall not undertake property development activities whether on its own, in a joint venture with others, or by investing in unlisted property development companies, unless: (i) it intends to hold in fee simple the developed property for at least 3 years from the date of completion; (ii) the purchase agreement of the said property is made subject to the completion of the building with proper cover for construction risks; (iii) the development/construction of real estate shall be carried out on terms which are the best available for the REIT and which are no less favorable to the REIT than an arm’s length transaction between independent parties; and (iv) the prospects for the real estate upon completion can be reasonably expected to be favorable.
	• Unless otherwise disclosed, all real estate shall be free from all encumbrances at the time of acquisition, except for charges entered by financial institutions in relation to loan facilities extended for the construction or acquisition of the real estate.
	• All real estate acquired by the REIT shall be insured for their full replacement value, including loss of rental, where appropriate, with insurance companies approved by the Fund Manager.
	• Not more than 15% of the Investible Funds of the REIT may be invested in any one issuer’s securities or any one managed fund, except with respect to Philippine government securities where the limit is 25%.
	• A REIT may invest in local or foreign assets, subject to the terms of its Constitutive Documents and specific provisions of these Rules.
	• A full valuation of a REIT’s assets shall be conducted by an independent Property Valuer at least once a year.

Singapore	• The REIT’s income must be derived from qualifying investments. • The REITs must have at least 75% of its deposited property invested in income-producing real estate (inside or outside Singapore). Deposited property is property held in the REIT.

South Korea	• The REIT's income must be derived from qualifying investments. This covers: acquisition, management, improvement and disposal of real estate; real estate development; leasing of real estate for rent; sale and purchase of securities; deposits with financial institutions; and acquisition, management and disposal of rights to use real estate such as leases. • At least 70% of the REIT's assets must comprise real estate (including construction projects in progress) at the end of each quarter (commencing six months from obtaining Business Approval). • At least 80% of the REIT's assets much comprise real estate and real estate-related securities and cash at the end of each quarter (commencing six month from obtaining Business Approval).
Taiwan	• At least 75% of the net asset value of the REIT's fund must invest in real estate assets and other assets permitted to by the Real Estate Securitisation Act (e.g., cash and government debt securities).
Thailand	• Investment can be made in the following: (i) real property, whether leasehold or freehold, with total value of not less than THB500 million; or (ii) shares in a company established solely for the purpose of undertaking the same business as the REIT. The REIT must hold not less than 99% of the total amount of shares in such a company. • Overseas investment is permitted. • At least 75% of the value of trust units offered for sale, including the borrowings, must be in real property that is ready to generate income. Investment in developing projects shall not exceed 10% of the REIT's net asset value. • REITs can generate income only by leasing out real property. Rental payments received by REITs must be at a fixed rate with variable rental income not exceeding 50% of fixed rental income.

Section 3: Distribution rules

Country	Regulations
Australia	• There are no minimum distribution requirements. However, trust income to which no unitholder is presently entitled is taxed in the hands of the trustee or the responsible entity at the top marginal tax rate for individuals (i.e., 46.5%). • It is common for REITs to distribute all their taxable income. The distribution policy is generally embedded in the trust's constitution.
Hong Kong	• The REIT must distribute at least 90% of net income as dividends to unitholders annually. No withholding tax is imposed on dividend income in Hong Kong.
Japan	• More than 90% of the J-REIT's distributable income must be paid as dividends to satisfy the requirements for the dividend-paid deduction.
Malaysia	• Distribution of income should only be made from realised gains or realised income. • REITs will not be taxed on their income, provided that at least 90% of their 'total income' (as defined for tax purposes) for the year is distributed to the investors. • Otherwise, the REIT is subject to income tax on its total income at 25%. • Irrespective of whether a REIT is exempt from tax or not, taxable income distributed would be subject to tax in the hands of investors. • Where a REIT is subject to tax (i.e. distributes less than 90% of total income), the amount distributed is generally taxable in the hands of unitholders (at their respective prevailing tax rates), unless such distributions are made out of exempt income of the taxed REIT (e.g., certain untaxed capital gains). • Where the REIT has paid tax, the tax paid by the REIT would be available as a credit against the unit holders' tax. • Where a REIT distributes at least 90% of its income for a year and is exempt from tax, distributions to unitholders who are individuals (and also generally all other categories of unitholders other than companies and foreign institutional investors[3]) are subject to a final withholding tax of 10%. This rate is effective up to 31 December 2016. • Where a REIT distributes at least 90% of its income a year and is exempt from tax, distributions to foreign institutional investors are subject to a final withholding tax of 10%. This rate is effective up to 31 December 2016. • Where a REIT distributes at least 90% of its income for a year and is exempt from tax, distributions to non-resident companies are subject to a withholding tax of 25% for the year of assessment 2009 and thereafter. • Malaysian resident companies would simply include REIT distributions as taxable income in their tax returns, regardless of whether a REIT is subject to tax or not.
New Zealand	• Distributions from unit trusts are generally treated as dividends for income tax purposes in the same manner as dividends from companies. • In certain circumstances, amounts distributed as returns of unit capital or on buybacks of units may be excluded from treatment as dividends and thus be free of NZ income tax. • For trusts other than unit trusts, current year income that is paid, applied to or vested in beneficiaries within the income year plus the later of six months of the trust tax return filing date may be taxed only at the beneficiary level. Where trusts meet certain "qualifying trust" criteria (including being liable to full NZ income tax on all income flowing through the trust that is not treated as current year beneficiary income), no further NZ income tax or withholding tax will apply to subsequent distributions of retained earnings or capital gains. • Distributions from an unlisted PIE are not generally taxable. A PIE can distribute its tax depreciations shield and any non-taxable capital gains free of NZ tax. • For REITs (elected to be PIEs) listed on the New Zealand Stock Exchange, distributions will be taxable for some shareholders to the extent they have NZ imputation credits attached. • LPs must satisfy a solvency test (similar to companies) when making distributions.

3 *Foreign institutional investor means a foreign pension fund, collective investment schemes or such other person approved by the Minister.*

Philippines	• A REIT shall distribute annually at least 90% of its Distributable Income as dividends to its shareholders, not later than the last working day of the fifth month following the close of the fiscal year of the REIT, subject to the following: • The dividends shall be payable only from the unrestricted retained earnings of the REIT • The income distributable as dividend by the REIT shall be based on the audited financial statements for the recently completed fiscal year prior to the prescribed distribution • A REIT may declare either cash, property or stock dividends • Distributable Income excludes proceeds from the sale of REIT's assets that are re-invested by the REIT within one (1) year from the date of the sale. Gain from the said sale shall, however, form part of the Distributable Income • The income distributable by the REIT shall be adjusted by deducting unrealised or non-actual gains and losses • Non-actual expenses/losses that are allowed to be added back to distributable income shall be limited to the following items: (i) depreciation on revaluation increment (after tax); (ii) adjustment from any of the prescribed accounting standard which results in a loss; (iii) loss on fair value adjustment of investment property (after tax)
Singapore	• At least 90% of income in relation to Singapore assets must be distributed annually. • REIT taxable income not distributed is taxed at the prevailing corporate tax rate (currently 17%). • REITs are allowed to make taxable income distribution in the form of units in the REIT subject to meeting certain conditions.
South Korea	• There are three REIT structures in South Korea: Type-A REIT (i.e., Regular REIT), Type-B REIT, and Type-C REIT (i.e., CR-REIT, Corporate Restructuring REIT). • The Type-B and Type-C REITs receive a deemed dividend-paid deduction when they declare a dividend payout of 90% or more from their total disposable earnings. • A Type-A REIT is currently taxed at 24.2% (including 10% resident surtax) and does not have a dividend-paid deduction.
Taiwan	• All distributable profits should be distributed to the unit holders within the fiscal year. The trust interest in REITs should be distributed according to the prospectus of the REIT. • Before 1 January 2010, the distribution to both local and foreign unit holders is subject to a 6% withholding tax. • Starting from 1 January 2010, the distribution will be subject to a 10% withholding tax for the domestic unit holders and 15% for the foreign unit holders. • The trust interest of the REIT fund should be distributed at least once a year.
Thailand	• At least 90% of income in relation to Thai assets must be distributed annually. However, Thai Revenue Department has not issued tax laws and regulations governing tax treatment of cash distributions for REIT unit holders (including foreign investors).

Section 4: Gearing restrictions

Country	Regulations
Australia	• The thin capitalisation rules apply if the REIT: (i) is either foreign controlled (either five or fewer foreign entities own 50% or more of the REIT, or a single foreign entity owns at least 40% of issued units) or the REIT controls a foreign entity; or, (ii) controls a foreign entity or has a foreign permanent establishment. If the thin capitalisation rules apply, the REIT is broadly allowed to gear up to the safe harbour debt amount (i.e. 75% of its adjusted Australian asset base) or arm's length debt amount without loss of interest deductions. It is proposed that the safe harbour debt amount will be reduced to 60% of its adjusted Australian asset base for income years commencing on or after 1 July 2014.
Hong Kong	• The gearing ratio limit is 45% of the gross asset value of the REIT.
Japan	• All loans must be borrowed from qualified institutional investors. • Deduction of interest expense for companies with foreign related party (50% or more shareholding relationship) debt is subject to limitation. Since more than 50% of the units is not allowed to be owned by one largest unit holder for dividend payment deduction, REIT may not have any foreign related parties, in general.
Malaysia	• The basic rule is that the total borrowings may not exceed 50% of the total asset value of the fund at the time the borrowings are incurred unless otherwise approved by unit holders by way of an ordinary resolution. • May only borrow through licensed institutions (licensed under the Banking and Financial Institutions Act 1989 and Islamic Banking Act 1983 – which have been superseded by the Financial Services Act 2013 and Islamic Financial Services Act 2013, effective from 1 July 2013) or through issuance of debentures.
New Zealand	• There are generally no restrictions on debt, other than: • The need for arm's length terms where any related-party debt is provided • Possible thin capitalisation limitations for interest (and related foreign exchange) deductions if a single overseas person (together with associates) holds (directly or indirectly) or controls at least 50% of the NZ unit trust or it holds or control interests in "controlled foreign companies" • There is proposed expansion to the rules for discretionary trusts which have a non-resident settlor or a settlor subject to the thin capitalisation rules or a person subject to the thin capitalisation rules with the power to appoint the trustee • The requirement that trusts other than unit trusts be sufficiently connected to the derivation or possible derivation of taxable income
Philippines	• The total borrowings and deferred payments of a REIT should not exceed 35% of its Deposited Property; provided, however, that the total borrowings and deferred payments of a REIT that has a publicly disclosed investment grade credit rating by a duly accredited or internationally recognised rating agency may exceed 35% but not more than 70% of its Deposited Property. Provided, further, that in no case shall a fund manager borrow for the REIT from any of the funds under its management.
Singapore	• The REIT's maximum leverage is generally 35% of deposited property. Leverage may exceed 35% (but capped to 60%) provided the REIT discloses its credit rating from a major rating agency.
South Korea	• Long-term debt financing and insurance of corporate bonds are allowed for certain purposes (payback of existing loans, investment into real estate, etc.) after obtaining Business Approval. Such funding cannot exceed two times net equity without an extraordinary resolution of shareholders' meeting (allowing up to ten times net equity).
Taiwan	• The REIT's maximum leverage is generally 35% of total asset value. Leverage may exceed 35% (but capped to 50%) provided the REIT discloses its credit rating from a major rating agency.
Thailand	• The REIT's maximum leverage is generally 35% of net asset value. Leverage may exceed 35% borrowing limit subject to maximum of 60% gearing if the REIT obtains and discloses a credit rating.

Section 5: Other considerations	
Country	**Regulations**

Australia	• Trust income taxed on a "flow-through" basis should retain its character in the hands of unit holders (as interest, rent, capital gains, etc.).
	• The trustee of a REIT must withhold tax in relation to the Australian source income distributed to foreign unit holders as follows:
	  • Final withholding tax on interest, dividends and royalties
	  • MIT:
	    • EOI country*: 15% final withholdings tax
	    • Non-EOI country: 30% final withholding tax
	    **Countries with effective exchange of information treaties with Australia.*
	  • Non-MIT:
	    • Non-final withholding tax: Foreign unit holder must file an Australian tax return and receive a credit for tax paid by the trustee. To the extent that the foreign unit holder has deductible expenses that relate to the units (e.g., interest), the unit holder may be able to obtain a refund of any overpayment of tax
	• Foreign unit holders are only taxed on distributions of capital gains (included in their share of the trust's taxable income) in respect of assets that are "taxable Australian property." Broadly, taxable Australian property includes real property (held directly or indirectly) that is situated in Australia.
	• Disposals of REIT units are only subject to Australian capital gains tax if the foreign unit holder owns 10% or more of the issued units of the REIT and at least 50% of the market value of the underlying assets of the REIT represent real property situated in Australia.
	• Gains from investment in other trusts held by the REIT are not taxable to a foreign unit holder provided at least 50% of the market value of the underlying capital gains tax (CGT) assets of that other trust (or a trust in which the underlying trust has an interest) are not "taxable Australian property".
	• Where the units in the REIT do not qualify for the CGT exemption, the shares in a company that are stapled to the units may nevertheless qualify for the CGT exemption on disposal (provided less that 50% of the market value of the underlying assets of the company are real property situated in Australia).
	• Broadly, cash distributions in excess of the taxable income of the REIT (e.g., attributable to tax depreciation), should not be subject to tax at either the trustee or beneficiary level – i.e., tax deferred amounts. However, the receipt of a tax-deferred amount by a unit holder will reduce the CGT cost base of the units held by the unit holder. Where the tax-deferred distributions exceed the cost base of the units, a taxable capital gain will generally arise.
	• Tax losses incurred by the REIT will be trapped in the trust (i.e. they do not "flow-through" to the unit holders).
	• Stamp duty (a state tax) may apply at rates of up to 6.75% on transfer of real estate or transfers of units in land-rich entities.

Hong Kong	• There is no preferential tax regime for REITs. However, loss of REIT status means units cannot be offered to the public.

Japan	• In general, dividends from J-REITs are subject to 20% withholding tax. For foreign investors, reduced rates may apply under tax treaties, if any. • In the case of listed J-REITs, generally, reduced withholding tax rates apply to dividends received by the foreign investor, i.e., 7% until 31 December 2013 and 15% thereafter, unless the foreign investor is an individual owning 3% or more of the total units. • A surtax is imposed on income tax (including withholding tax) on Japanese source income under the Special Reconstruction Income Tax Law. The surtax rate is fixed at 2.1% of the amount of income tax payable and is applicable for the period from January 1, 2013 to December 31, 2037. Consequently, the effective withholding tax on dividends paid to non-Japanese investors is 7.147% instead of 7% from January 1, 2013 to December 31, 2013, and 15.315% instead of 15% from January 1, 2014 to December 31, 2037. Similarly, the withholding tax is 20.42% instead of 20% in case of individual non-Japanese investors that own 3% or more of the total units as of the record date with respect to dividends from January 1, 2013 to December 31, 2037. • Capital gains from disposal of units in J-REITs: a J-REIT is generally treated as a Japanese real property holding corporation (JRPHC), where at least 50% of the total assets consists of real estate located in Japan. Foreign investors are generally subject to Japanese income tax on capital gains from disposal of units with the tax rate of 25.5% for corporations and 15% for individuals, However, if the foreign investor owns 5% or less of a listed J-REIT or 2% or less of an unlisted J-REIT, the capital gain is not subject to Japanese income tax. Exemption may also apply under certain tax treaties. • Currently, 10% of surtax under the Special Reconstruction Income Tax Law is imposed on corporate income tax. The tax rate for a non-Japanese corporate investor results in 28.05%, the tax rate is resumed to 25.5% for the years beginning on or after April 1, 2015. In the case of a non-Japanese investor that is a non-resident individual, separate taxation from other income at the rate of 15.315%, including the reconstruction surtax, from January 1, 2013 to December 31, 2037 is applied to the capital gains. • Violation of the Investment Trust Law can lead to the loss of tax benefit of dividend paid deduction, as well as J-REIT status.
Malaysia	• Foreigners can only hold up to 70% of the equity of the management company, and a minimum equity of 30% must be held by Bumiputera (indigenous) investors. • Stamp duty exemptions apply for instruments of transfer relating to properties disposed to REITs approved by the Securities Commission. • Chargeable gains derived from the disposal of real property to a REIT approved by the Securities Commission are exempt from real property gains tax. • Corporate tax: a tax deduction is allowed for start-up expenses incurred in the establishment of REIT – e.g., consultancy, legal and valuation fees.

New Zealand	• Non-resident withholding tax (NRWT) is deductible from dividends (including distributions from unit trusts) at 30%. This is currently limited by many double tax treaties, typically to 15%. New Zealand has and is currently negotiating with some double tax treaty countries to reduce NRWT on dividends to 5% for certain interests in companies of 10% or more, with no NRWT for certain listed interest in companies of 80% or greater. Where imputation (franking) or similar credits are attached to the dividend, the NRWT rate is 15%. NRWT may be at a zero rate if fully imputed (franked) non-cash dividends, such a certain bonus issues (if allowed by the terms of the trust deed), are made. • From 1 February 2010, NRWT on dividends is also at a zero rate if fully imputed (franked) cash distributions are paid to non-residents who hold at least 10% direct voting interests or who hold lesser interests but a double tax treaty reduces their NZ tax rate on the dividends below 15%. • Overseas investors need to consider their ability to claim foreign tax credits in "their home jurisdictions" for NRWT deducted, particularly where the NZ unit trust pays supplementary dividends under NZ's foreign investor tax credit (FITC) regime. • Investment in unit trust holding real property interests may be treated as real property interests under some of NZ's double tax treaties. • While capital gains are generally not taxable in NZ, gains on disposal of real property interests can be taxable in a number of situations specified in the income tax legislation. • Unit trusts treated as companies for income tax purposes are subject to income tax at the standard corporate rate of 28% (for 20011/ 2012 onwards) and, if solely NZ tax resident, are subject to the imputation (franking) regime whereby they can pass the benefit of income tax paid to unit holders by attaching imputation credits to distributions. For trusts other than unit trusts, trustees are subject to tax at 33% on income that is not paid, applied to, or vested in beneficiaries on a current year basis. The extent to which income from non-NZ sources is taxable in NZ generally depends on complex rules relating to the residence of settlers or deemed settlers of such trusts. • Failure by a PIE that is unit trust to satisfy the PIE requirements may result in loss of flow-through status and hence reversion to taxation as a company. • Non-resident investors in a PIE will have a 28% tax rate applied by the PIE to their share of taxable income (unless the PIE elects to be a foreign investment PIE, in which case tax will be paid based on the investment type). No NRWT applies to distributions from a PIE except to the extent they are distributions from listed PIEs with imputation (franking) credits attached. • For LPs and NZ sourced dividends, interest or royalties attributed to non-resident limited partners are subject to NRWT. Distribution of other income is not subject to NRWT. • When a partner leaves a LP, that partner will be required to account for tax on exit. However, certain thresholds and exclusions apply. • Goods and services tax (GST) treatment needs to be considered and managed.

Philippines	• The internal revenue taxes under the Tax Code apply to a REIT except that a REIT will not be subject to the minimum corporate income tax. • For income tax purposes, aside from the deductions normally allowed under the Tax Code, the REIT can deduct the dividends distributed by a REIT out of its distributable income as of the end of the taxable year as: (i) dividends to owners of the common shares; and (ii) dividends to owners of the preferred shares pursuant to their rights and limitations specified in the articles of incorporation of the REIT. • Income payments to a REIT shall be subject to a creditable withholding tax of 1%. • Any sale or transfer of real property to a REIT, including the sale or transfer of any and all security interest thereto shall be subject to 50% of the applicable documentary stamp tax (DST). All applicable registration and annotation fees relative or incidental thereto shall be 50% of the applicable registration and annotation fees. The incentives provided herein can be availed by an unlisted REIT provided it is listed with an Exchange within two years from the initial availment of the incentives. • The original issuance of Investor Securities shall be subject to DST under the Tax Code. Any sale, barter, exchange or other disposition of listed Investor Securities through the Exchange, including block sales or cross sales with prior approval from the Exchange, shall be subject to the stock transaction tax (STT). Any sale, barter, exchange or other disposition of listed Investor Securities through the Exchange, including cross or block sales with prior approval from the Exchange shall be exempt from the DST. Any initial public and secondary offering of investor securities shall be exempt from the IPO tax. • Cash or property dividends paid by a REIT shall be subject to a final tax of 10%, unless (i) the dividends are received by a non-resident alien individual or a non-resident foreign corporation entitled to claim a preferential withholding tax rate of less than 10% pursuant to an applicable tax treaty; or (ii) the dividends are received by a domestic corporation or resident foreign corporation. Overseas Filipino investors are exempt from the dividends tax for seven years from the date the tax regulations implementing the Act takes effect. • Gross sales of the REIT from any disposal of real property or gross receipts from the rental of such real property shall be subject to VAT. • A REIT shall not be considered as a dealer of securities and shall not be subject to VAT on its sale, exchange or transfer of securities forming part of its real estate-related assets. • In the event the REIT is delisted from the Exchange, whether voluntarily or involuntarily, the tax incentives granted under the law shall be revoked and withdrawn as of the date the delisting becomes final and executory. Any tax incentive that has been availed of by the REIT thereafter shall be refunded to the Government within 90 days from the date when the delisting becomes final and executory and the surcharge and penalty shall apply.
Singapore	• A unit trust REIT is granted tax transparency treatment in respect of specified income. • A 17% withholding tax applies on distributions to foreign non-individual investors. This is reduced to 10% for distributions made during the period from 18 February 2005 to 31 March 2015. • Regulatory requirements/guidelines apply to public REITs only (whether or not listed). • REITs cannot engage in property development activities, unless it intends to hold the developed property upon completion and total contract value of property development activities does not exceed 10% of its deposited property. • Stamp duty applies at approximately 3% for the acquisition of Singapore properties. Remission of stamp duty is granted for the transfer of property located in Singapore to a REIT listed or to be listed on the Singapore Stock Exchange if the transfer is executed during the period 18 February 2005 to 31 March 2015. • No stamp duty applies on the transfer of units. • Tax exemption is granted on foreign dividends, foreign interest and foreign trust distributions derived in respect of foreign assets, subject to certain conditions. This tax exemption will expire on 31 March 2015.
South Korea	• For all REIT structures, there is a 22% withholding tax on foreign distributions. Reduced rates may apply under tax treaties. • REIT structures are taxed as a company and not treated as a flow-through entity. Taxation is based on the progressive corporate tax rates (inclusive of the resident surtax) of 12.1% for taxable income up to KRW200 million and 24.2% taxable income exceeding that amount. • Any deviation from the REIT's obligations according to applicable law results in regulatory action (i.e., penalty, withdrawal of licence, etc.).

Taiwan	• A REIT fund is considered a pass-through entity. Income tax is not levied at the trust level but at the unitholder level when the trust income is distributed to the unit holders.
	• Although a trust is considered a pass-through entity, the trust income does not retain its original character when distributed by the REIT. All income generated from trust property is characterised as "interest Income" when distributed to unitholders regardless of its original characterisation. For example, rental income earned by the trust property is characterised as interest income when such income is distributed to the unitholders.
	• Before 31 December 2009, the interest income distributed by the trustee is subject to a 6% withholding tax. The 6% withholding tax is the final tax for the unitholders. That is, the unitholders do not have to report such interest income in their personal or corporate income tax returns, and the unit holders are not allowed to credit the 6% withholding against their personal income tax or corporate income tax payables.
	• From 1 January 2010:
	  • For domestic corporate unitholders, the distribution will be subject to a 10% withholding tax. The unitholders are required to include the distribution into their annual income tax returns with the 10% tax previously withheld being deductible from corporate income tax payables
	  • For domestic individual unitholder, the distribution is subject to a 10% income tax (final tax)
	  • For foreign unitholder (corporate or individual), the distribution is subject to a 15% withholding tax (final tax)
	• Income generated by the trust property may be withheld at source on behalf of the trustee. Such withholding tax paid by the trustee can be passed on to the unitholders upon distribution of trust income in most circumstances from 1 January 2010.
	• Disposals of Taiwan REIT units by foreign unitholders are exempt from Taiwan income tax. However, if the foreign unitholder has a permanent establishment (i.e., a business agent or fixed place of business) in Taiwan, the exempt income will be added back to the 25% (20% from 2010) regular income tax base to calculate the 10% alternative minimum tax (AMT). No AMT arises if the amount of regular income tax equals or exceeds the amount of AMT.
	• Tax losses incurred by the Taiwan REIT will be trapped in the trust.

Thailand	• A unit trust REIT is treated as pass-through entity for tax purposes. Income tax is not levied at the trust level but at the unitholder level when the trust income is distributed to the unitholders. However, the Thai Revenue Department has not issued tax laws and regulations governing tax treatment of cash distributions for REIT unit holders. • Note: The Capital Market Supervisory Board under Thailand's Securities and Exchange Commission (SEC) has issued regulations governing the issuance and offering of Real Estate Investment Trust (REIT) units in Thailand (the "REIT Regulations"). The REIT Regulations will take effect on 1 January 2013 and enable property developers to employ a new fundraising vehicle while providing public investors with an alternative investment product. REITs are expected to supplant the current real estate fund-raising vehicle, Property Funds for Public Offering (PFPO).

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