From RE OEFs to REITs in Spain

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BBVA
RE Open Ended Fund - Main Aspects

• A fund that owns Income producing Real Estate (mainly direct property)

• Changing Equity (open-ended fund)

• RE OEFs without juridical personality

• Management and control:
  - Asset Management Company which has fiduciary duty
  - Regulator (CNMV)

• Difference between RE OEFs and eg. Equity Funds is Liquidity
  Legally 10% assets must be liquid (In practice used to be around 15%).
  - In August 2007 (peak of sector) AUM were 9018 €Mn, 10 vehicles and 171000 participants
  - In December 2010 AUM were 6123€Mn ,8 vehicles and 76000 participants (now +-30000)

• Residential focus
  - More than 50% of AUM is residential RE
  - If more than 50% of RE AUM is residential RE (plus other minor conditions required)
    - Corporate tax 1%
    - Property transmission taxes (ITP&AJD) 95 % exemption in residential RE acquisitions
REITs – Main Aspects

1. A company that owns and in most cases operates income-producing RE

2. Compulsory 90% payout from REIT to shareholders and taxation at shareholder level of dividends.

3. Elimination of double taxation: corporate level and shareholder level –dividend tax-. Eliminate corporate level of taxation.

4. No relevant restrictions in investments in different property types to benefit from tax regimen.

5. Listed REITs are liquid and transparent vehicles, shares are listed in organised capital markets.
REITs

REITs were created in 1960 in US and since then they have increasingly become global.

Source ING CRES
**REITs**

World market cap of REITs $1,088,000 Mn.

### REIT Major Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>REIT Listed Property $Mn</th>
<th>Underlying Property $Mn</th>
<th>%</th>
<th>Stock Market $Mn</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>359,000</td>
<td>6,152,000</td>
<td>5.8%</td>
<td>12,380,000</td>
<td>2.9%</td>
</tr>
<tr>
<td>Japan</td>
<td>152,000</td>
<td>2,074,000</td>
<td>7.3%</td>
<td>3,647,000</td>
<td>4.2%</td>
</tr>
<tr>
<td>Germany</td>
<td>14,000</td>
<td>1,493,000</td>
<td>0.9%</td>
<td>1,283,000</td>
<td>1.1%</td>
</tr>
<tr>
<td>UK</td>
<td>56,000</td>
<td>1,460,000</td>
<td>3.8%</td>
<td>2,741,000</td>
<td>2.0%</td>
</tr>
<tr>
<td>France</td>
<td>58,000</td>
<td>1,164,000</td>
<td>5.0%</td>
<td>1,765,000</td>
<td>3.3%</td>
</tr>
<tr>
<td>Italy</td>
<td>6,000</td>
<td>944,000</td>
<td>0.6%</td>
<td>661,000</td>
<td>0.9%</td>
</tr>
<tr>
<td>Honk Kong</td>
<td>159,000</td>
<td>795,000</td>
<td>20.0%</td>
<td>4,718,000</td>
<td>3.4%</td>
</tr>
<tr>
<td>Canada</td>
<td>30,000</td>
<td>597,000</td>
<td>5.0%</td>
<td>1,408,000</td>
<td>2.1%</td>
</tr>
<tr>
<td>Australia</td>
<td>63,000</td>
<td>389,000</td>
<td>16.2%</td>
<td>1,058,000</td>
<td>6.0%</td>
</tr>
<tr>
<td>Singapore</td>
<td>39,000</td>
<td>144,000</td>
<td>27.1%</td>
<td>399,000</td>
<td>9.8%</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>152,000</td>
<td>5,937,000</td>
<td>2.6%</td>
<td>10,735,000</td>
<td>1.4%</td>
</tr>
<tr>
<td><strong>Global</strong></td>
<td><strong>1,088,000</strong></td>
<td><strong>21,149,000</strong></td>
<td><strong>5.1%</strong></td>
<td><strong>40,795,000</strong></td>
<td><strong>2.7%</strong></td>
</tr>
</tbody>
</table>

Source: EPRA - Sept 2010
REITs invest in a diversified way in all property types. Most REITs specialize in one property type only.
REITS 10 Year Average Yields

Source EPRA- sept10
FTSE NAREIT All Equity REITs Returns

Source: NAREIT (dec -2010)
Net Asset Value (Premium/Discount) of Global Real Estate Securities by Asset Class

Spanish REITs

- Recent regulation incorporates REITs as a way of RE investment in Spain. The regulation is a law 11/2009, of 26th of October, in which Sociedades Anónimas Cotizadas de Inversión en el Mercado Inmobiliario (SOCIMIs) are regulated.

- The main difference of the spanish REITs is at the tax level. The Spanish REITs have a reduced corporate tax of 19% and shareholder dividends are tax free (only for resident individual investors).

- For resident individual investors would not be many differences with REITs, but yes for other type of investors (institutional and International investors).
REITs. A possible solution to OEFs?

Yes, but with some clues

1. Only Juridical change → NO

2. Also need management job to be done:
   - Changes in business mix
   - Optimisation of capital structure

3. Government changes at the taxation level in the actual Spanish REIT Law. Making it more similar to international REITs tax regime will help in the opening to a wider universe of possible investors (Institutional and International Investors)

4. There is an opportunity for the financial sector to deleverage other assets in this way.
### American REITs multiples as a benchmark

<table>
<thead>
<tr>
<th>American REITs Multiples</th>
<th>Multiples Residential REITs</th>
<th>Multiples Offices REITs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt Ratio</td>
<td>42,7%</td>
<td>42,0%</td>
</tr>
<tr>
<td>Debt/EBitda</td>
<td>8,16</td>
<td>6,55</td>
</tr>
<tr>
<td>Pay out % FFO</td>
<td>69,2%</td>
<td>48,5%</td>
</tr>
<tr>
<td>Price / FFO</td>
<td>22,88</td>
<td>15,87</td>
</tr>
<tr>
<td>Interest Coverage</td>
<td>2,34</td>
<td>2,69</td>
</tr>
<tr>
<td>Dividend yield</td>
<td>3,3%</td>
<td>3,5%</td>
</tr>
<tr>
<td>Div. yield (after pers. tax)</td>
<td>2,6%</td>
<td>2,7%</td>
</tr>
</tbody>
</table>

Source: REITWATCH – NAREIT Jan 2011 Issue (data as of dec2010)
Note: FFO -free funds form operations-(NP+Amortisation and depreciation) / AFFO –Adjusted FFO- (FFO-capex) / Interest coverage (EBIT/financial service) / Debt ratio (debt/assets)
REITs. A possible solution to OEFs?

To whom may it be attractive

REITs are attractive for investors because they offer:
- High Liquidity
- Transparency
- Diversified portfolio
- Tax benefits
- Dividend yield
- Hedge against inflation
- Lower risk

REITs can help financial sector to deleverage from some RE assets in a more efficient way than a direct way (asset by asset)

REITs may help the government administration:
- Higher tax income (dividend taxes)
- Reduce the needs of recapitalisation of the financial sector