

From RE OEFs to REITs in Spain

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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.

Countries with Listed REITs & REIT Like Structures

 U.S. 1960 REIT	 Netherlands 1969 FBI	 Australia 1971 A-REIT	 New Zealand 1971 LPT	 Canada 1994 REIT
 Belgium 1995 SICAFI	 Turkey 1999	 Greece 1999	 Japan 2000 J-REIT	 Korea 2001 K-REIT
 Singapore 2002 S-REIT	 Taiwan 2003 REIT	 France 2003 SIIC	 Hong Kong 2003 REIT	 South Africa 2003
 Thailand 2005 REIT	 Malaysia 2005 REIT	 Bulgaria 2005 SPIC	 Israel 2006 REIT	 United Kingdom 2007
 Germany 2007 G-REIT	 Italy 2008 REIT			

Countries Considering Listing REITs

 China	 Brazil	 Costa Rica	 Dubai
 Finland*	 India	 Mexico	 Philippines**
 Spain			

* Finland has implemented a residential REIT
 ** Philippines legislation is in place, but not yet implemented.

Source ING CRES

REITs

World market cap of REITs 1.088.000 \$Mn.

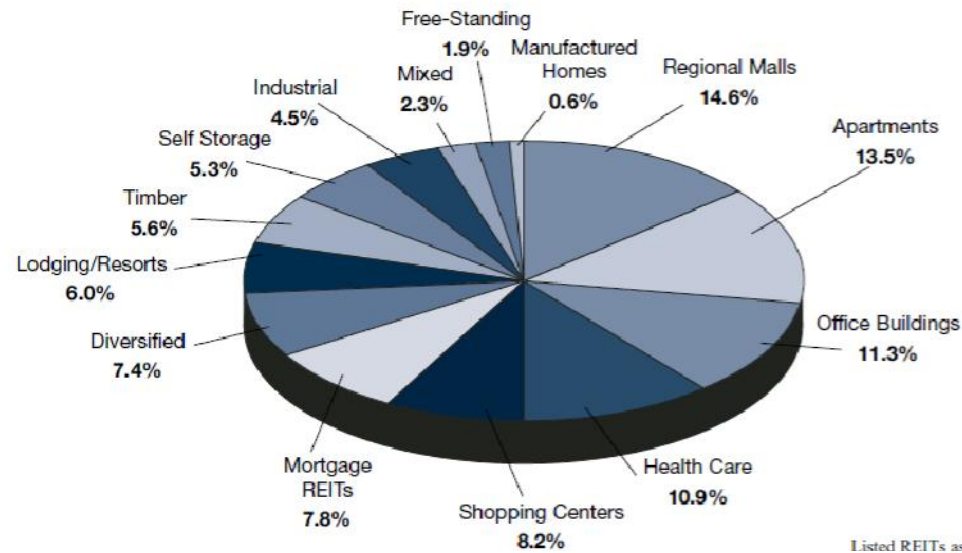
REIT Major Countries					
Country	REIT Listed Property Market \$Mn	Underlying Property \$Mn	%	Stock Market \$Mn	%
US	359.000	6.152.000	5,8%	12.380.000	2,9%
Japan	152.000	2.074.000	7,3%	3.647.000	4,2%
Germany	14.000	1.493.000	0,9%	1.283.000	1,1%
UK	56.000	1.460.000	3,8%	2.741.000	2,0%
France	58.000	1.164.000	5,0%	1.765.000	3,3%
Italy	6.000	944.000	0,6%	661.000	0,9%
Honk Kong	159.000	795.000	20,0%	4.718.000	3,4%
Canada	30.000	597.000	5,0%	1.408.000	2,1%
Australia	63.000	389.000	16,2%	1.058.000	6,0%
Singapore	39.000	144.000	27,1%	399.000	9,8%
Rest of the world	152.000	5.937.000	2,6%	10.735.000	1,4%
Global	1.088.000	21.149.000	5,1%	40.795.000	2,7%

Source: EPRA - Sept 2010

REITs

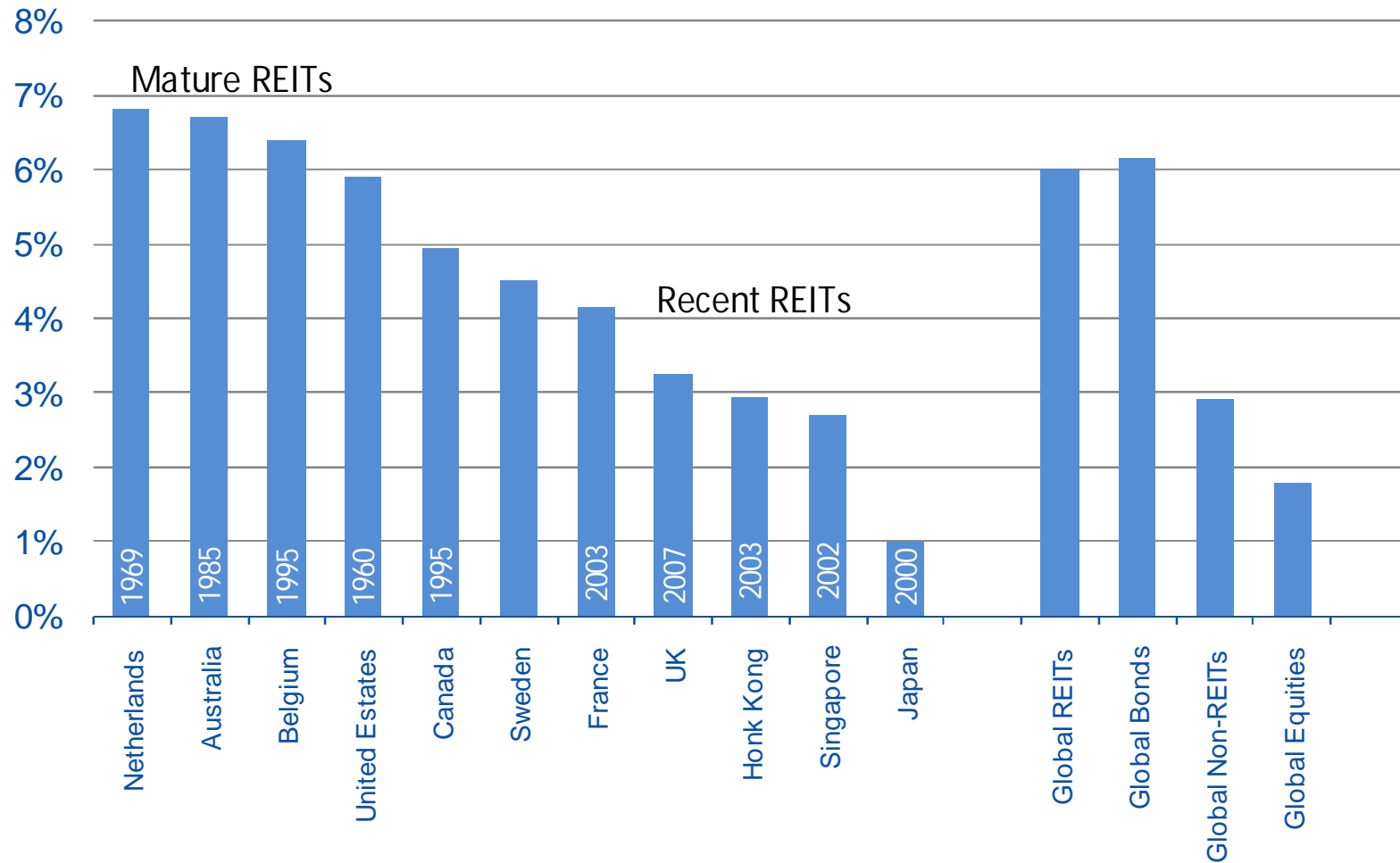
REITs invest in a diversified way in all property types. Most REITs specialize in one property type only.

Listed REITs Invest In All Property Types



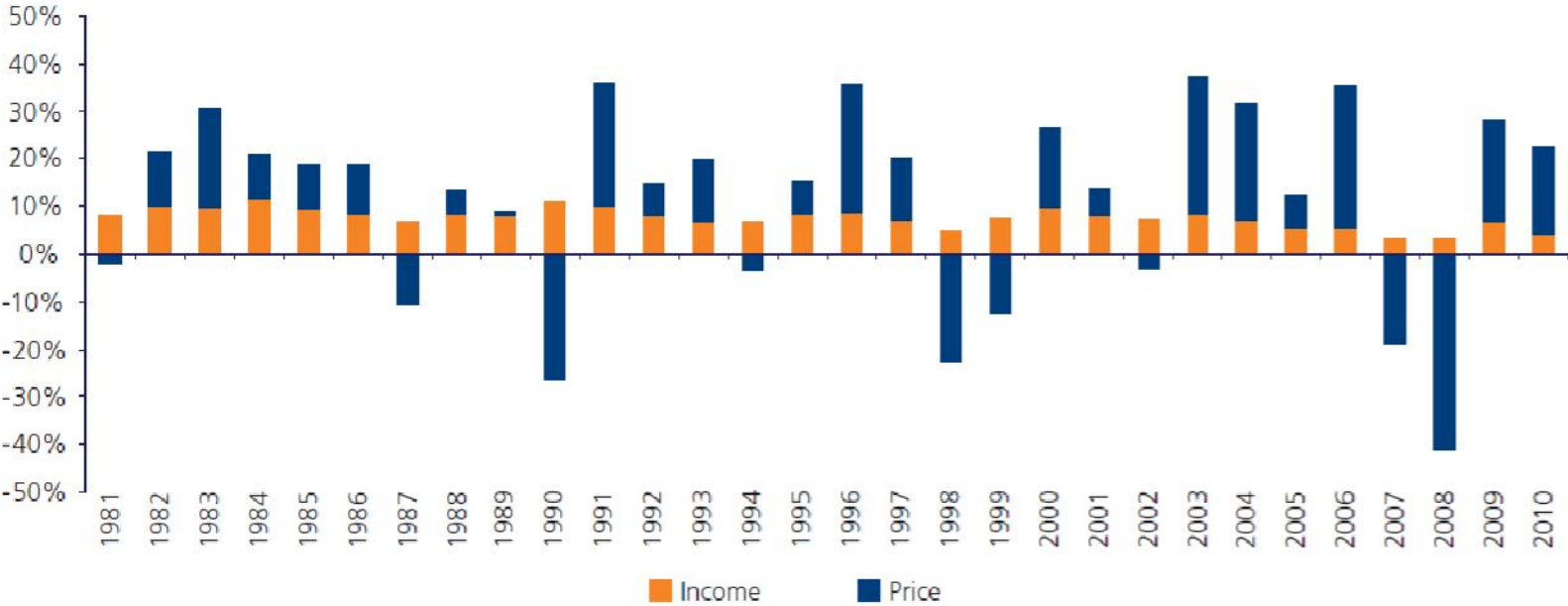
Listed REITs as of Feb. 1, 2011
Source: NAREIT®

REITS 10 Year Average Yields



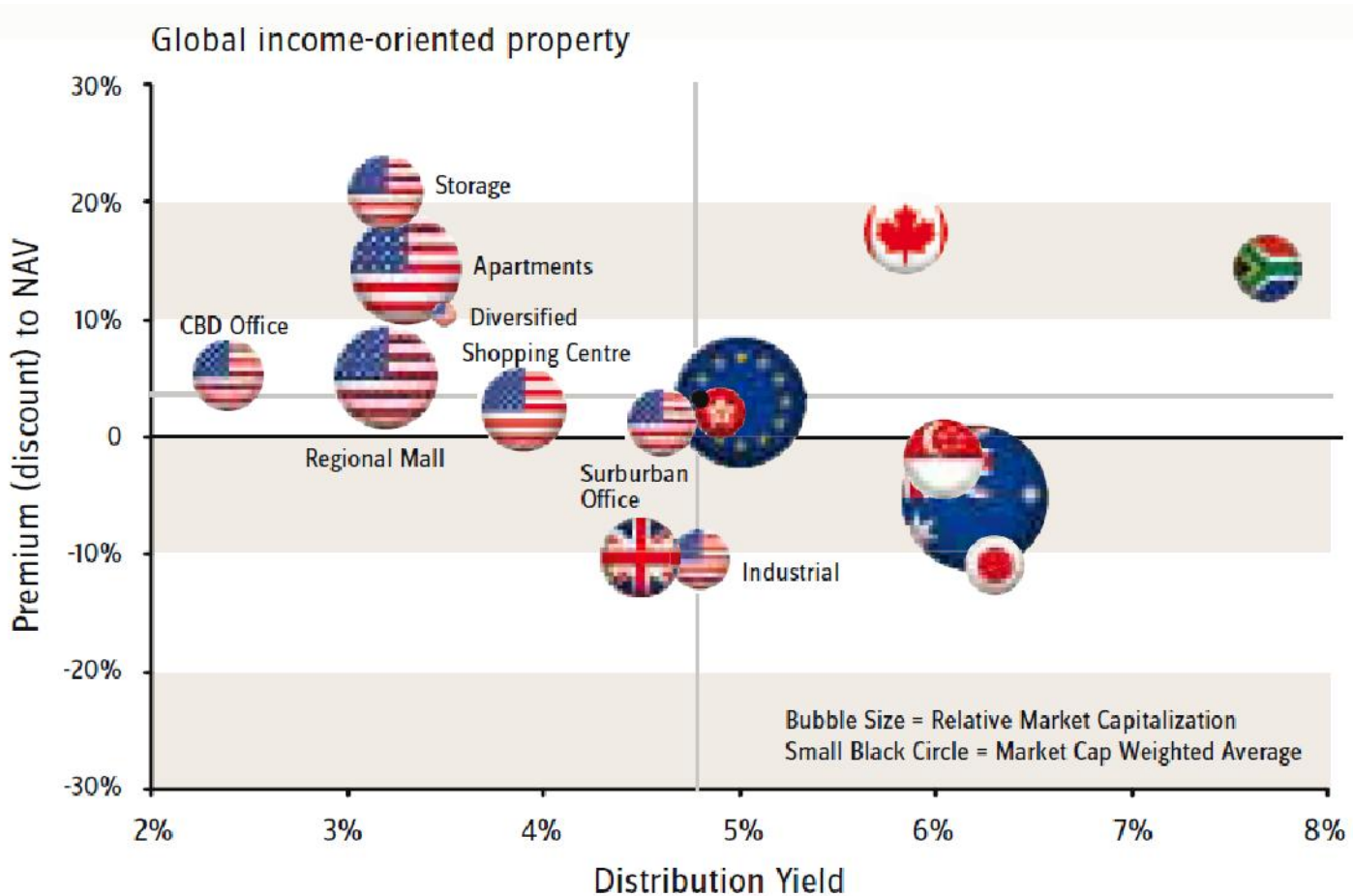
Source EPRA- sept10

FTSE NAREIT All Equity REITs Returns



Source: NAREIT (dec -2010)

Net Asset Value (Premium/Discount) of Global Real Estate Securities by Asset Class



Source: Bloomberg, Macquarie Research, October 2010. As of September 30, 2010.

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

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

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