New opportunities for REITs following the Finance Act 2012

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The UK's Finance Act 2006, which came into effect in January 2007, was the piece of legislation that set out the rules for real estate investment trusts (REITs) in the UK. The new structures were designed to allow investors a way to access the risks and rewards of holding property assets without having to buy property directly. In return, UK-REITs are required to distribute at least 90% of their taxable income, for each accounting period, into the hands of investors, where the income is treated as property rental income rather than dividends. In this way, taxation of income from property is moved from the corporate level to the investor level.

REITs enable property companies to access equity markets and to give end-investors performance related to the underlying property assets, without any tax leakage. UK-REITs therefore provide investors with wider opportunities for accessing an important alternative asset class. This also provides the opportunity for UK property companies to take advantage of the globally-recognised REIT 'brand'.

The REIT regime, combined with the traditional strengths of London's capital markets, has created opportunities for the growth of the property investment sector. The legislation that came into effect in January 2007 led a number of larger listed property groups, including five FTSE 100 members, to convert to UK-REIT status as well as a number of start-up UK-REITs being created. Five years down the line and the Finance Act 2012 has been passed with changes to the UK REIT regime. Designed to remove barriers to and increase ease of investment in REITs, there are five main ways in which it has set out to do this:

1. Abolition of the 2% conversion charge to join the regime – removing these costs should encourage more investment vehicles to change to REIT status
2. REITS can now be AIM quoted, rather than having to be listed on the Main Market – this should help smaller property investment groups to take advantage of the regime
3. A REIT now has a three-year grace period before having to comply with close company rules (close company is a company under the control of five or fewer investors) – this has been brought in to encourage larger levels of investment into residential property and to encourage private and individual investors to transfer residential property portfolios into REIT vehicles
4. A REIT will not be considered to be a close company if certain institutional investors such as pension funds, insurance providers, authorised unit trusts and open ended investment companies are holding controlling interests – this is to encourage these groups to invest more widely in UK property
5. Treating cash as a 'good' asset when it comes to assessment for the balance of business test (where 75% of a REIT's total assets must be invested in real estate) – this should help newly launched REITs, particularly as it should enable the cash raised on listing to count as a 'good' asset

In effect, this has created a wider choice of routes to market, reduced the cost of becoming a REIT and also alleviated the regulatory hurdle for businesses considering converting to REIT-status.

A Main Market listing on London Stock Exchange or a similar foreign stock exchange recognised by HMRC, has been viewed by some as a significant barrier to entry for property businesses because of the cost and regulation involved in such a listing. The new government measures to allow REITs to be AIM quoted offer significant benefits for many property investment groups.

AIM is well suited to small and growing companies from all sectors that are looking to go public. It continues to be the world's most successful growth market for small and medium enterprises (SMEs), offering a platform for companies to raise capital within a tailored and balanced regulatory framework. AIM not only offers companies good opportunities for growth at admission but also access to a unique community of investors and analysts throughout their life as a public company. The benefits, obligations and implications of a public quotation are numerous, but are well understood by an unrivalled community of advisors, each with good experience of specific sectors and geographies. This can be invaluable for an investment team looking to navigate public markets post-restructure, and AIM's system of nominated advisors (Nomads) ensures experienced professionals are at hand to support a company at all times.

AIM is a long-term destination for life as a public company for many. However, it also critically acts for some as an important step in their individual evolution as a company, acting as a gateway to the Main Market.

At London Stock Exchange, we are already seeing evidence of the impact of the changes to the Finance Bill 2012 on the REIT regime. A number of existing quoted companies have committed to conversion to REIT-status at the appropriate time. There are also a number of new REITs looking to join both AIM and the Main Market during 2013 including REITs focused on social housing, student accommodation, retail and residential. Given the increasing interest from the property sector in the 'new' REIT structure, and the demand for income from investors, this will hopefully drive further activity on both AIM and the Main Market in 2013.