Developing sustainable capital flows for financing real estate assets

Prepared for The Nigerian Stock Exchange REIT conference

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Capital

Presenter

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Executive: Equity Capital Markets, International Standard Advisory, London

- *16 years experience spanning areas including equity capital markets and real estate*
- *BA (Hons) History, Exeter University*
- *Member, Chartered Institute of Management Accountants*

Forms of capital available for real estate assets

Traditional financing

1 **Equity**
Developer contribution (land & cash)

Mezzanine financing 2
(Shareholder loan, Junior debt)

3 **Bank financing**
Revolving loan, Term loans

Capital Markets

Mortgage-backed securities 4

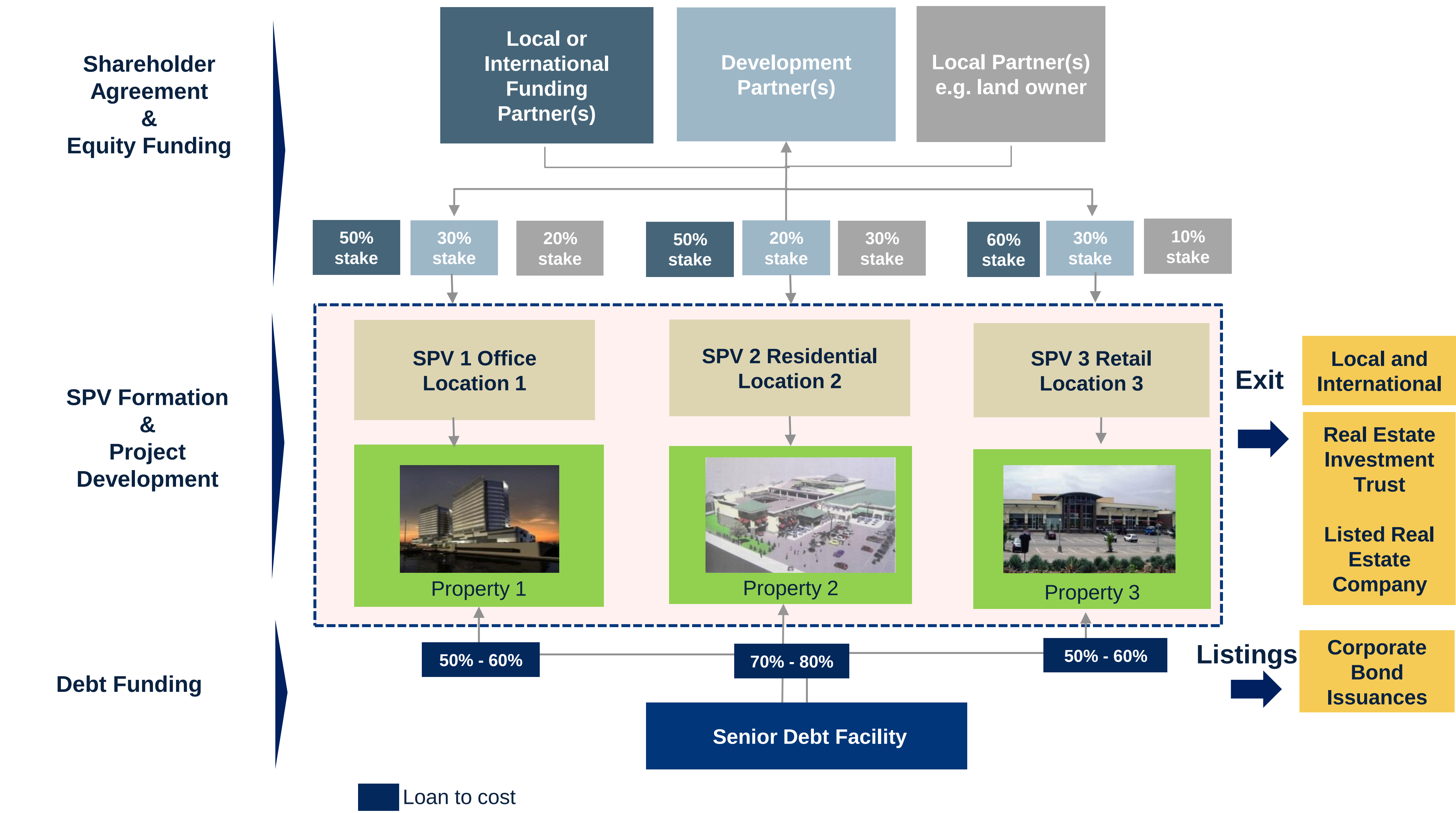
5 **Bonds**

Real Estate Investment Trust 6

7 **Listing of real estate companies**

Given the long-term nature of real estate assets, capital markets have been the key source of funding in developed markets

The Real Estate Funding Model and REIT Formation



Real estate investment schemes ("REIS") represent an innovative approach to fund real estate projects

In summary:

Definition	*A REIS is an entity which is primarily engaged in and invests in income generating real estate and or real estate related assets*
Classification	*REIS are considered as both an asset class and a security as they provide a practical, effective and efficient avenue for investing in real estate through the transfer of legal interests*
Assets	*They own real, tangible assets and tend to have long tenancy agreements implying stable, steady income streams*
Tax implication	*With supporting tax legislation, a REIS can serve as a tax-efficient "pass through" vehicle for investment in real estate*
Form	*REIS in Nigeria can be constituted as a company ("REICO") managed by an internal management committee or as a trust ("REIT") managed by external parties*
Types	*(1) Equity* *(2) Mortgage* *(3) Hybrid*

How REITs' work:

Sponsors

- *Provides a vehicle to exit/monetise existing assets*
- *Source external equity for future projects*
- *Acquisition currency*
- *Scalable vehicle*
- *Diversify funding sources*

Equity Investors

- *Investors want access to the Real Estate sector*
- *Diversified investment*
- *Yield play*
- *Proxy for Nigerian growth*
- *Well understood sector*
- *Scale*
- *Limited real estate investments*

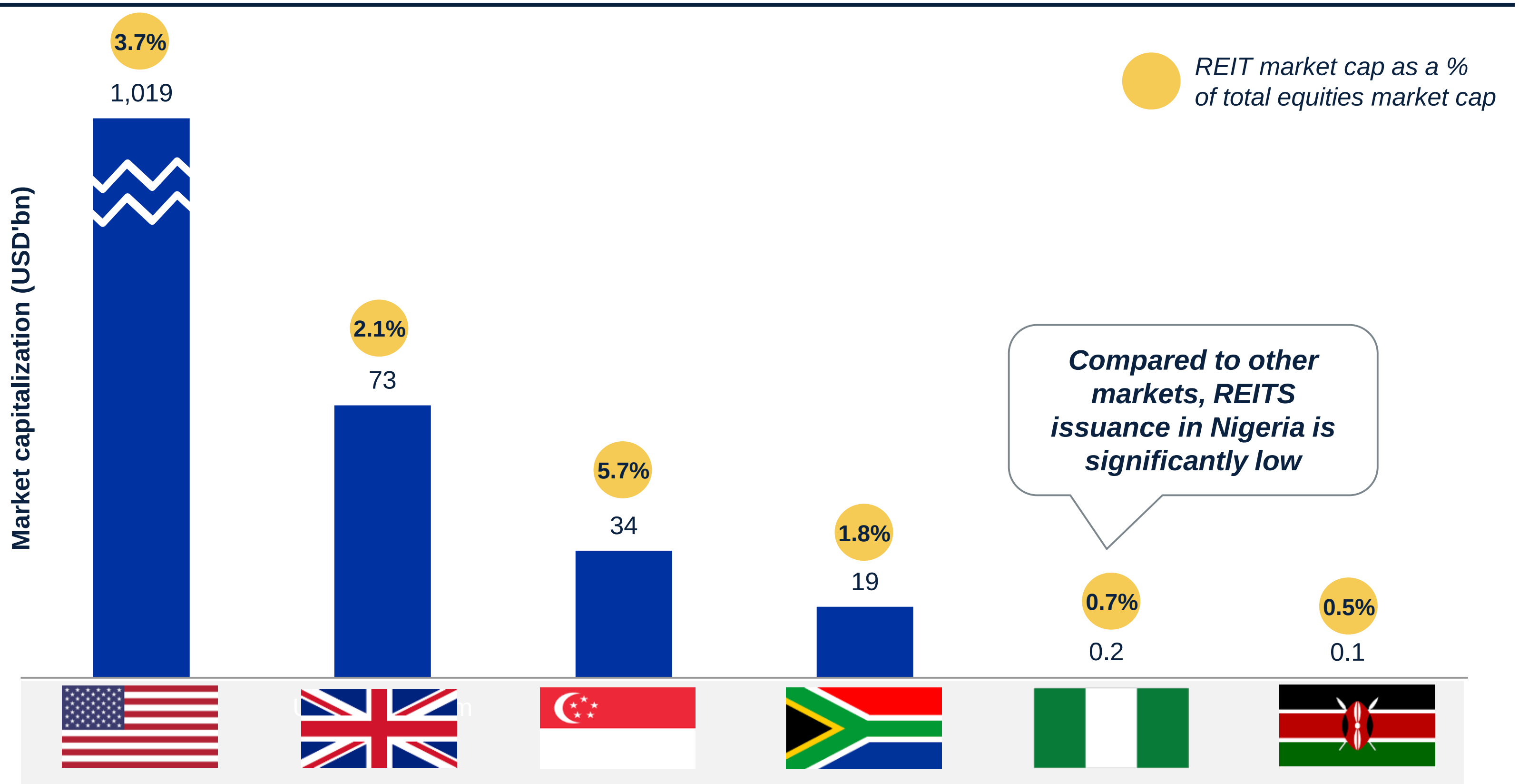
Nigeria has a developing REIT market, but issuance is little

Nigeria's listed REITs in comparison to select countries

Vast majority of the REITS in Africa are listed in South Africa

The prospects for REITs in Nigeria is perceived to be strong…

…due to the high demand for and undersupply of real estate assets, and limited institutional investment exposure to the sector



	USA	United Kingdom	Singapore	South Africa	Nigeria	Kenya
Start Year	1971	2007	2002	2013*	2007	2015
REIT Type	Trust / Company	Company	Trust / Company	Trust / Company	Trust / Company	Trust
No. of REITS[1]	224	37	37	29	3	1
Average Returns (2016)	9%	3%	16%	15%	7%	9%
Equities market cap[1]	USD27.5tn	USD3.5tn	USD600bn	USD1.0tn	USD30bn	USD18bn

Sources: SA REIT Association; Nairobi Stock Exchange; FT Markets Data; SGX S-REIT 20 Index; EPRA; FTSE NAREIT US Real Estate Index, The NSE, Nairobi Stock Exchange, World Bank, JSE
Note: 1. As reconstituted
2. As at 2016 year end

Majority of real estate funds / companies in SSA are listed in South Africa

Vast majority of SSA property funds[1] listed in South Africa

Around 60 SSA property funds / companies are listed, the majority of which on the Johannesburg Stock Exchange

In 2002, property funds / companies made up less than 1% of the total JSE market cap. In 2017, the sector contributes c.5% of the All Share Index

The combination of healthy yields and strong distribution growth has led to an increase in investor appetite

Pan African REIT investment opportunities remain scarce

Nigeria
No. of listed RE companies: 4
Aggregate market cap: US$146m
UPDC, UACN Property, Union Homes, Skye Shelter Fund

Zambia
No. of listed RE companies: 1
Aggregate market cap: US$35m
Reiz Real Estate Investments Zambia PLC

Namibia
No. of listed RE companies: 1
Aggregate market cap: US$123m
Oryx Properties

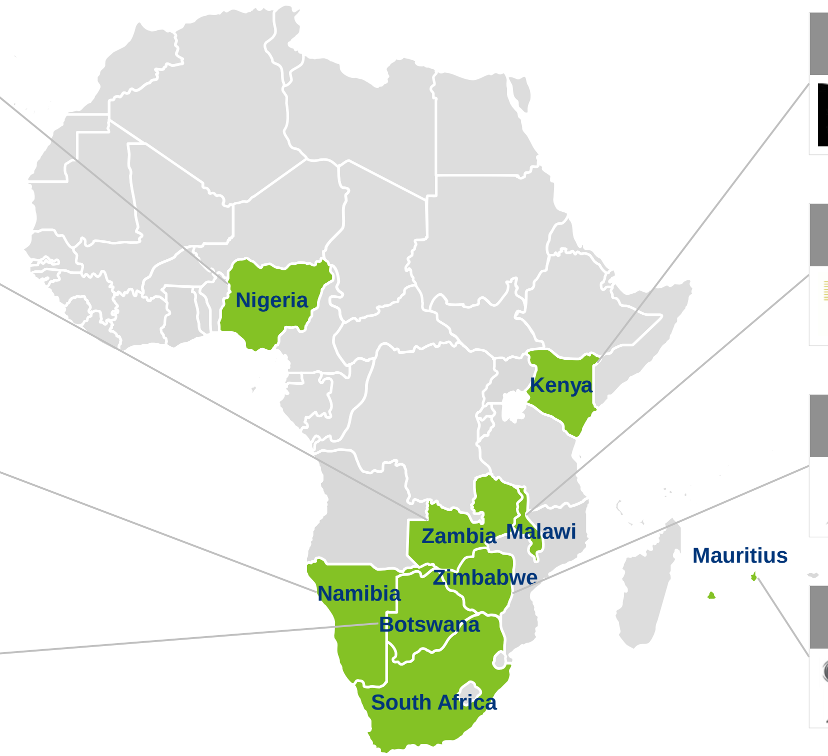
Botswana
No. of listed RE companies: 5
Aggregate market cap: US$521m
Turnstar, Letlole, New African Properties, RDC, Prime Time

Kenya
No. of listed RE companies: 1
Aggregate market cap: US$18m
Stanlib

Malawi
No. of listed RE companies: 1
Aggregate market cap: US$27m
MPICO

Zimbabwe
No. of listed RE companies: 1
Aggregate market cap: US$42m
Pearl Properties

Mauritius
No. of listed RE companies: 6
Aggregate market cap: US$2.7bn
Rockcastle, BlueLife Limited, Covifra Ltd, Constance La Gaiete, Atlantic Leaf, Caudan Development



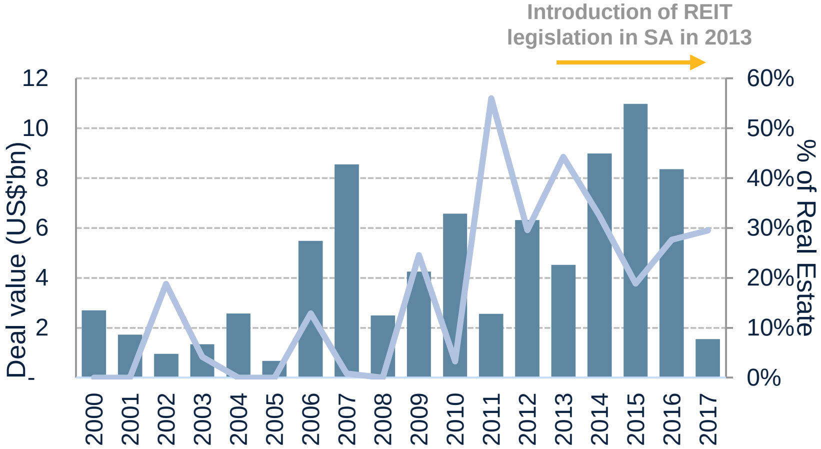
South Africa
No. of listed RE companies: 39
Aggregate market cap: US$31.6bn
Growthpoint Properties, Redefine Properties, Fortress, Resilient, Hyprop, Attacq, Vukile Property Fund, SA Corporate Real Estate Fund, Investec Property Fund Limited, Arrowhead Properties, Emira Property Fund, Octodec Investments Limited, Liberty two degrees, Rebosis Property Fund, Tradehold, Accelerate Property Fund, Spear REIT Limited, Delta Property Fund, Dipula Income Fund, Balwin Properties, Acsion, Equites, Texton Property Fund, Ascension, Indluplace, Hospitality Property Fund, Tower, Maradelta, Gemgrow Properties Ltd, Stor-age Self Storage, Safari Investments, Synergy Income Fund Limited, Ingenuity Property Investments Ltd, Fairvest, Oasis Crescent Property Fund, Newpark, Putprop, Orion, Freedom Property Fund

Real Estate issuance environment in SA accelerated with the REIT legislation

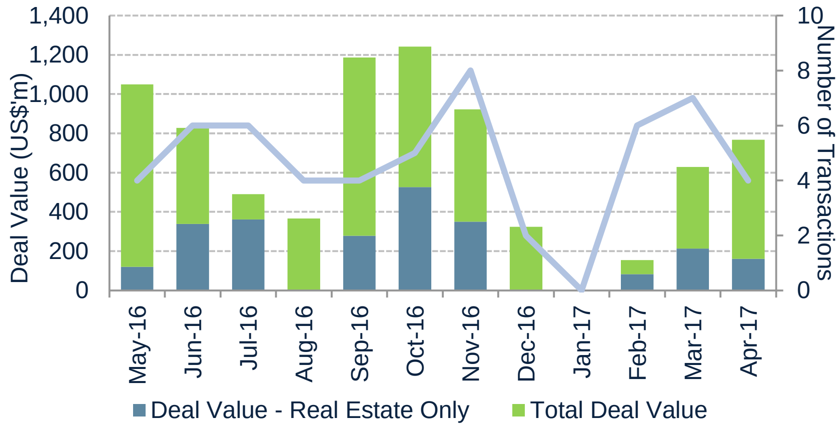
The Real Estate sector has been the most active in the SA market over the last twelve month

Since the introduction of the REIT legislation in 2013 the activity of the capital markets in the sector has increased dramatically

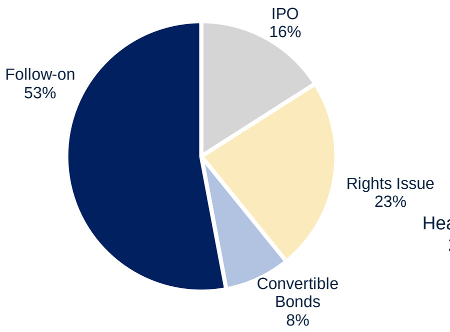
SA issuance volumes (2000 – 2017 YTD)



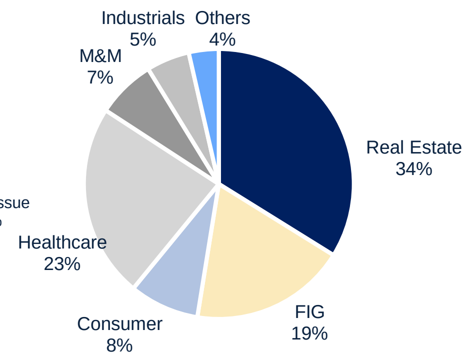
LTM SA ECM issuance volumes



LTM issuance split by product and sector



Product



Sector

Top 10 Real Estate deals since 2009

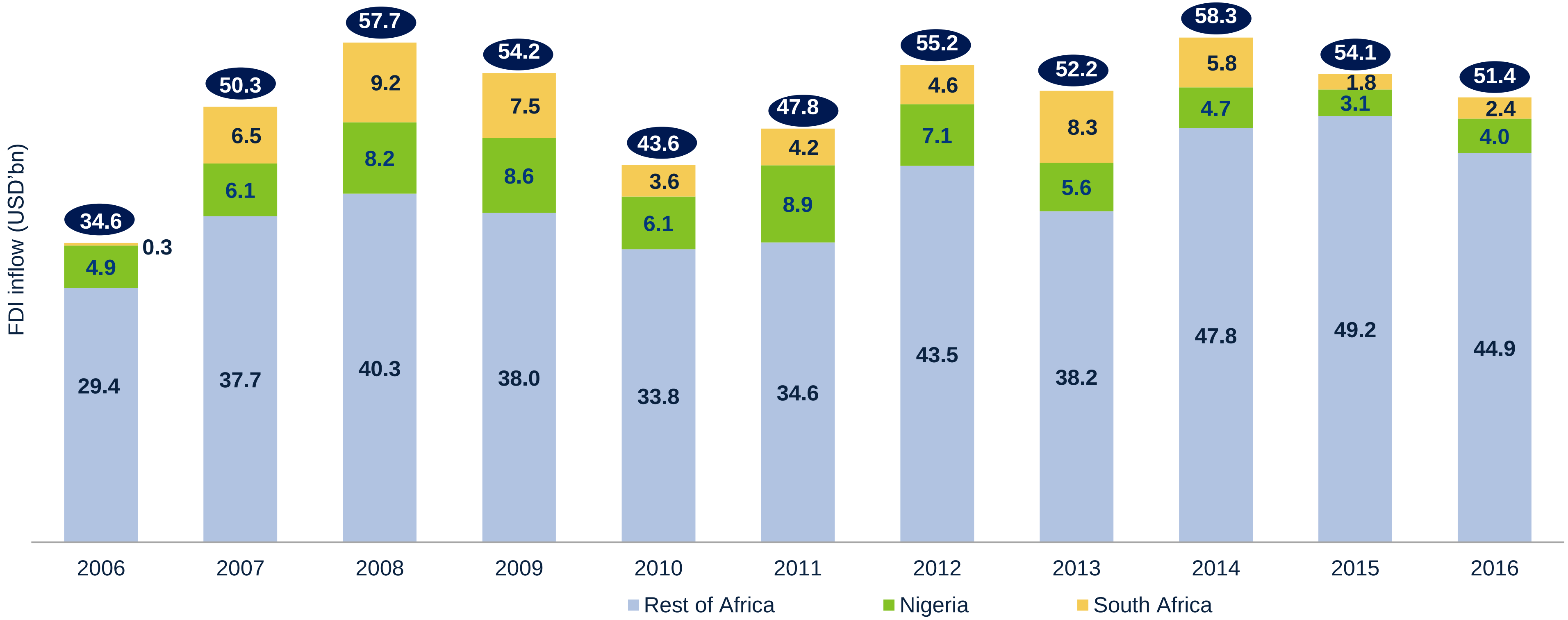
Pricing Date	Issuer[1]	Deal Type	Deal Value (US$m)
22-May-09	Liberty International	ABB	902.1
22-Apr-14	Intu Properties	Placement	643.4
20-Sep-12	Capital Shopping Centres	Conv. Bond	487.1
25-Oct-16	Intu Properties	Conv. Bond	458.2
27-Feb-13	Intu Properties	ABB	423.9
29-Nov-16	Liberty Two Degrees	IPO	271.9
13-Jul-11	Growthpoint Properties	ABB	268.9
22-May-13	Growthpoint Properties	ABB	265.2
01-Jun-16	Greenbay Properties	ABB	256.3
			4,580.4

Sources: Dealogic as at 22 May 2017
Note:
1. All except for Growthpoint Properties and Greenbay Properties have their primary listings in London

FDI flows to Africa registered a 4% CAGR increase from 2006 to 2016

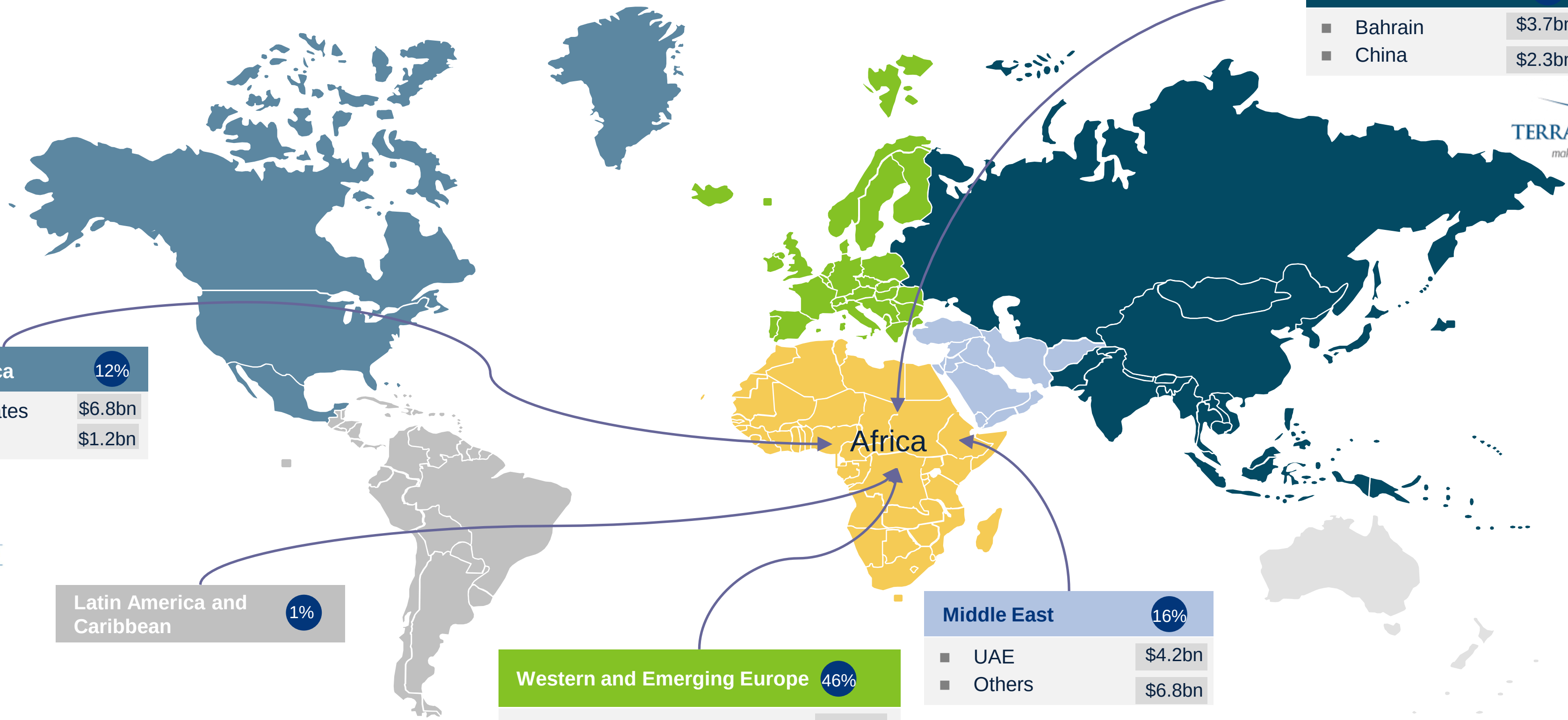
Commentary

- ***FDI inflow to Nigeria has declined since 2011 – attributable to weak global economy and political insecurity***
- ***Nevertheless, there is still foreign investor appetite for Nigeria – Nigeria's recent USD1bn Eurobond was 7.7x subscribed***
- ***Interest in the real estate sector remains robust, despite the macroeconomic headwinds***
- ***In the last 2 years, real estate investment vehicles have been launched to target investments in Nigeria e.g. Old Mutual and the Nigerian Sovereign Investment Authority's joint USD500m real estate fund; Momentum Africa USD250m Real Estate Fund (capital allocated to development projects in Nigeria and Ghana)***



Sources: UNCTAD FDI data, Knight Frank Africa Report (2017)

Sources of capital inflow to Africa



Asia 9%

- Bahrain $3.7bn
- China $2.3bn

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North America 12%

- United States $6.8bn
- Others $1.2bn

Blackstone

The Carlyle Group

Latin America and Caribbean 1%

Middle East 16%

- UAE $4.2bn
- Others $6.8bn

Western and Emerging Europe 46%

- Italy $7.4bn
- France $5.7bn
- United Kingdom $4.9bn
- Germany $2.6bn
- Finland $2.2bn
- Others $7.3bn

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Capital investment in Africa in 2015 (USD'bn)

Region's market share of total capital invested in Africa in 2015 (%)
– 16% moved within Africa

Sources: FDI Intelligence Report (2016)

Nigeria's fundamentals remain strong and supportive of the real estate sector despite macro headwinds

Nigeria still remains one of Africa's largest economies

- *Growing population of ~ 182 million with median age of 18 to drive volumes*
- *Growing middle class with adequate spending power*
- *The robust 7.7x oversubscription of the recent Nigeria USD1bn Eurobond indicates renewed foreign investor interest towards Nigeria*
- *The FGN has established a growth plan which maps out a path to recovery and sustained long term growth*
- *The Nigerian economy is expected to rebound to c.1% growth in 2017 as oil prices and production stabilize*

1

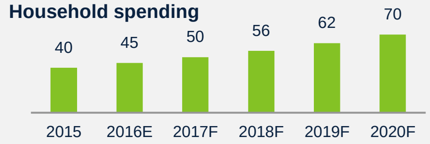
One of Africa's largest economies

NGN87.8trn
Nigeria's 2016 GDP

Economic recovery expected in 2017, following 2016 recession; c.1% growth expected in 2017

2

Household spending expected to grow by USD30bn from 2015 – 2020



3

Middle class households expected to grow from 4.1mn to 11.7mn by 2030

11
Cities with population over 1 million people

600%
Nigeria's middle class growth from 2000 to 2014

Rural : urban mix expected to shift from
52:48 in 2015 to 48:52 in 2021

4

77%
of population under 35 years

182mn
Nigeria's population

18 years
Median age in Nigeria

2.6%
Population growth to reach 212mn by 2021

1. Nigeria is the largest economy in Africa
2. Economic growth supported by high consumer spending pattern
3. Rapid urbanisation rate and a burgeoning middle class
4. Favorable demographics

Sources: EIU Research, BMI Research, Standard Bank Research, National Bureau of Statistic, McKinsey&Company

Core elements

Regulation and corporate governance

- Clarity on tax rules and ongoing updates/ enhanced tax pass through structures
- Role definition and registration of REIT market participants (e.g. real estate asset managers, valuers)
- Evolution of regulatory oversight function
  - Assessment of internal capabilities and level of outsourcing requirement
  - Strategic Partnerships with sector experts

Asset creation, consolidation and concentration

- The creation of investment grade assets into a REIT portfolio will be characterized by the following:
  - Income generating
  - Predictable and sustainable rental cash flows
  - Quality tenant pool
  - Quality of leases and lease agreements
  - Enhanced asset management
  - Property efficiency
  - Low / managed maintenance requirement

Valuation considerations and risk management

- Asset valuation is critical element for asset pooling, on-going asset monitoring and risk management of a REIT
- The adoption of international best practices for commercial real estate valuation will provide comfort for potential investors and ensure protection of their REIT investments

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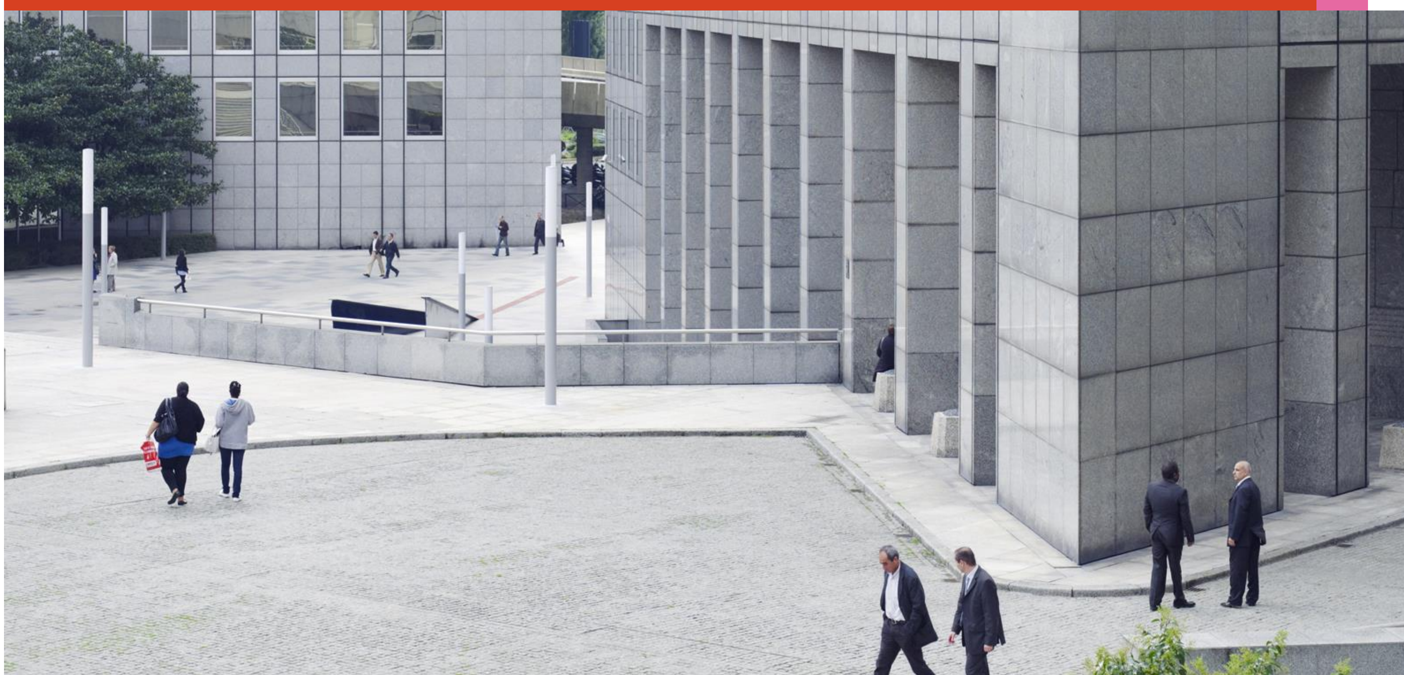
NSE REITs Conference

Regulatory, Tax and Role of Capital Market in Developing REITs in Nigeria and Sub-Sahara Africa



Taiwo Oyedele
PwC West Africa Tax Leader

May 2017

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Agenda

Overview of REITs

Structure and features of REITs in Nigeria

Tax, legal and other considerations

Closing thoughts

Overview of Real Estate Investment Trusts (“REITs”)

- The United States first introduced REIT legislation in *1960*.
- Over *35 jurisdictions* now have REIT or REIT-like regimes - *National Association of REITs*
- REITs are recognised as an effective structure to finance and manage real estate.
- REITs benefits include:
  - ✓ long-term rental income
  - ✓ better real estate quality
  - ✓ formal and regulated
  - ✓ capital formation
  - ✓ flexibility and low risk returns for investors
- REITs are a key feature of developed investment jurisdictions.

Global market capitalisation of REITs now stands at approximately USD 1.7trn from approximately USD 734bn in 2010

Two fastest growing REIT markets in the past 5 years are Australia and Japan

Source: SNL Financial, as of June 30, 2016

REITs in Africa

South Africa has the most advanced REIT market in Africa and the 8th largest market globally with over 30 listed REITs

Country	First REIT regulation	Number of registered REITs
Ghana	1994	1
Kenya	2013	1
Morocco	2015/2016	1
Nigeria	2007	3
South Africa	2013	30+
Tanzania	2014	1
Others – Namibia, Rwanda, Uganda		

With $26bn South Africa accounts for 98% of total Africa REIT market cap

Nigeria accounts for about 1% of total Africa REIT market cap with $289m

Nigeria has the potential to lead in the Africa REITs space

Source: Cap IQ, as of June 30, 2016

Nigeria's REITs regime

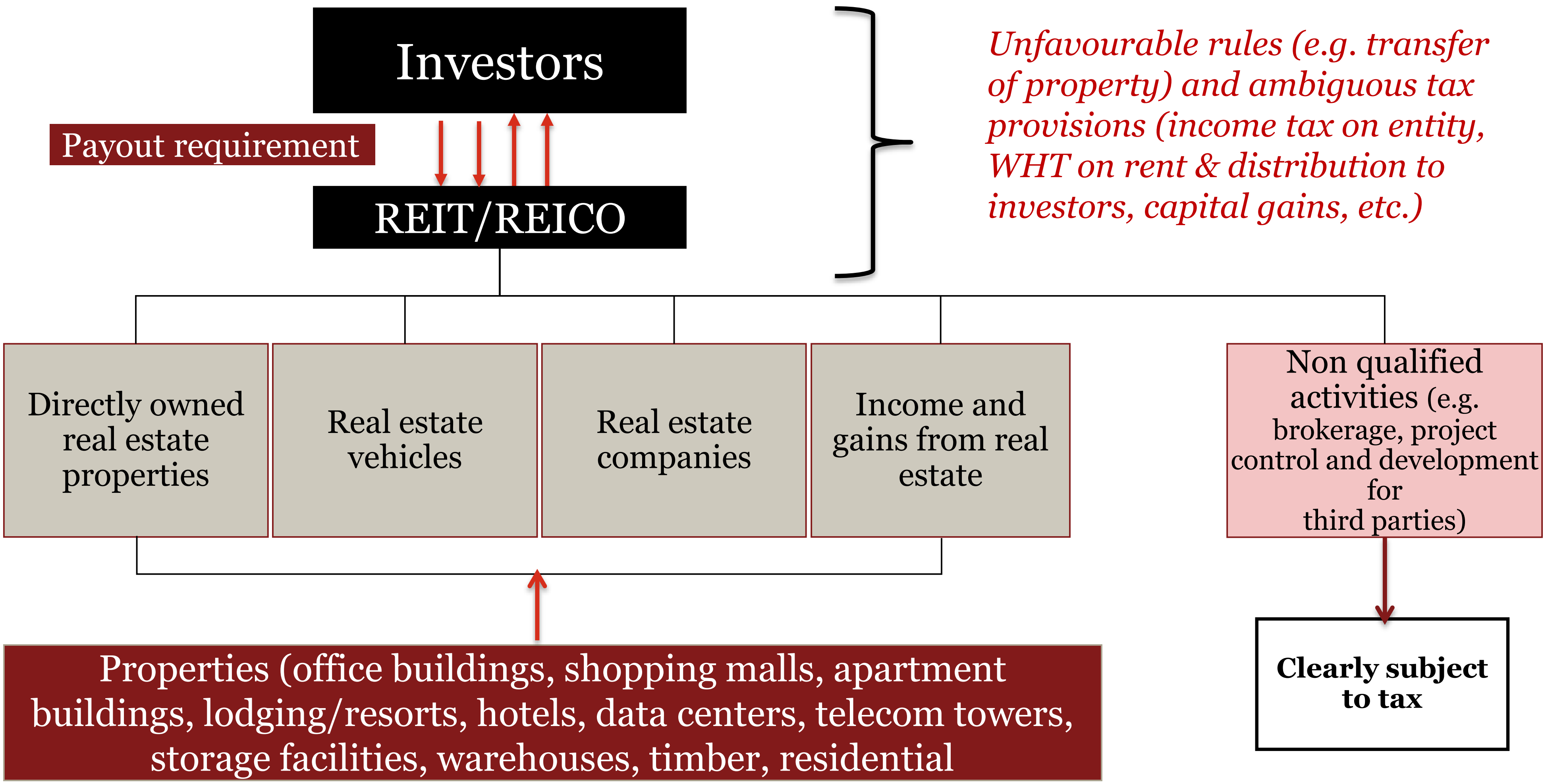
REITs in Nigeria are principally governed by SEC Rules. There are significant challenges with lack of appropriate legal framework and clear tax policy

- The Nigerian REIT market dates back to *2007* with the first REIT Regulation issued by SEC and the first REIT was listed on the NSE.
- 10 years later only a few more REITs have listed as noted below despite huge interest by local and international investors.

2007	2008	2012	2013	2017
Skye Shelter Fund established in July 2007 and completed its N2bn IPO on the NSE in Feb 2008	Union Homes REIT was established in August 2008 as a Unit Trust Scheme. IPO on the NSE in July 2010	Suntrust REIT launched but did not complete	UPDC REIT completed its N30bn IPO in July 2013	***Who? When? What next?***

Private equity investors are the main source of funds in the sectors in Nigeria – notably Actis, RMB, Westport, Africa Capital Alliance, Landmark and others.

Typical structures of REITs in Nigeria



Standard features of REITs in Nigeria

REITs

Equity, Mortgage, Hybrid

Income sources

- Rent from real property
- Interest on mortgages financing real property
- Development and sale of properties
- Capital gains
- Other income

Features

- Own and/or finance income producing real estates
- Modelled after mutual funds
- May be un/incorporated
- Make it possible for any investor to invest in portfolios of large scale properties
- Provide investors regular income streams, diversification and capital appreciation

Legal Impediments and Unfavourable Tax Regime

The case for a sensible REITs regime in Nigeria

Economy

- Huge housing deficit
- Low contribution to GDP
- Government focus on housing
- Capital formation
- Revenue for government
- Formal vs Informal sector
- Impact of stock market affected by declining oil prices
- MPR and high interest rate for mortgage finance
- Ease of doing business
- Economic competitiveness
- Employment & better quality of life

Investors

- Diversification - especially over the long term
- Dividend - consistent income stream to investors
- Liquidity - stock exchange listed REIT shares can be easily bought and sold
- Performance - over most long term horizons, REITS returns outperform other sectors
- Transparency - operate under same rules as other listed entities + sound financial reporting
- Inflation hedging

Tax, Legal and Other Considerations

- Unfavorable tax regime with multiple layers of levies on property acquisition and transfer e.g. consent fee, stamp duty to both State and Federal on the same property etc.
- Cumbersome legal framework with respect to land ownership, property acquisition, property holding, property transfer and property right protection.
- Forceful collection of unlegislated charges (usually by miscreants) at every stage of property development.
- Legal restriction on property investment by major institutional investors (PFAs, Unit Trusts, Mutual Funds etc).
- Slow and time consuming judicial system on property issues.
- Create the right environment for a realistic mortgage interest rate regime.
- Establish an electronic property registry to provide access to up-to-date information on property and related matters.

Tax, Legal and Other Considerations

Key Issues	Set-up	Operation / Holding	Disposal / Exit
Legal, regulatory	Scope and coverage, Restrictions, Structuring, Registration	Min distribution, investment restrictions	Valuation rules, exit requirements
Tax	Tax incentives (Pioneer), commencement rules etc	Exempt investors and WHT, different rates and authorities, min tax, EDT	Exit taxes (CGT or exempt stock), rollover reliefs, VAT
Others	Prospectus, Governance, Ease of doing business	Technology, data, audit and reporting, ancillary services	Exchange control and repatriation of funds
Key messages	**Attractive and simple**	**Competitive and ease of operation**	**Consistent and predictable rules**

Overall, there is need for a REITs specific regime to ensure treatment as pass-through, ease of set-up, operation and disposal.

Closing thoughts and next steps

Some glimpse of hope: Recognition in the New National Tax Policy.

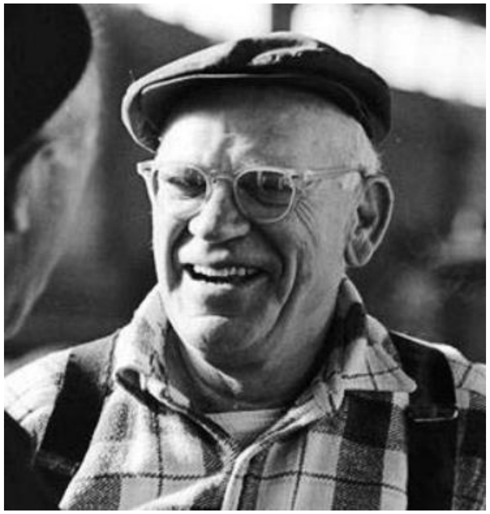
Urgent need for a Bill to address specific REIT issues.

Keep the REIT message to what it's really about.

Neutral tax & legal treatment. Focus on removing disincentives.

“It still holds true that man is most uniquely human when he turns obstacles into opportunities.”

Eric Hoffer (1902–1983), U.S. Philosopher



Thank you!

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Legal form of REITs

Nigeria

Two types – Company REITs and Trust REITs. And in form, there are three types - Equity REIT, Mortgage REIT and Hybrid REIT. Modelled after mutual funds.

South Africa

Two types – Company REITs and Trust REITs.

Australia

No specific REIT rules. REITs are governed by the 1998 Managed Investment Scheme rules which lay out regulatory requirements rather than specific tests that must be satisfied to qualify as a REIT. From an income tax perspective, most REITs are classified as Managed Investment Trusts. Tax outcome for MITs and their investors are currently under review.

U.S.A

US REIT may be formed as a corporation, trust or an association taxable as a corporation, including a limited partnership or limited liability company. REIT status is principally a creation of the tax law rather than commercial law.

Capital requirements for REITs

Nigeria

There are no capital requirements for a REIT (if listed, however, it must meet NSE requirements).

South Africa

A REIT must have at least ZAR 300m of gross assets as reflected in its financial statements. Furthermore, the REIT SA must have debt below 60% of its gross asset value.

Australia

There are no capital requirements for a REIT (if listed, however, it must meet ASX requirements). There are, however, capital requirements for the manager.

U.S.A

A REIT is not limited with respect to the amount of its borrowings although the deduction of interest to related persons is subject to the same earnings stripping and debt/equity considerations as other corporations.

Listing requirements for REITs

Nigeria

There are no listing requirements. REIT can be listed or unlisted. The NSE has certain requirements for listing but no additional requirements that must be met in order to achieve REIT status beyond those mandated by SEC.

South Africa

If a company wants to receive REIT status, it must be listed as a REIT on the JSE. The JSE has certain requirements for listing as well as additional requirements that must be met in order to achieve REIT status. These include, but are not limited to: (i) own property worth at least 300 South African Rand (ii) maintain its debt below 60% of its gross asset value (iii) earn 75% of its income from rental or from property owned or investment income from indirect property ownership (iv) have a committee in place to monitor risk (v) distribute at least 75% of its taxable earnings available for distribution to its investors each year (vi) not enter into derivative instruments that are not in the ordinary course of business.

Australia

There are no listing requirements. REIT can be listed or unlisted.

U.S.A

There is no requirement to be listed. Both public and private REITs can exist.

Restrictions on investors

Nigeria

There are no restrictions on investors.

South Africa

There are no restrictions on investors.

Australia

There are no investment restrictions on investors. However, in order to qualify as an MIT, a foreign individual must not hold a 10% or greater interest in the REIT (directly or indirectly).

U.S.A

A REIT must have at least 100 shareholders, but no minimum value for each shareholder is required. Generally, five or fewer individuals cannot own more than 50% of the value of the REIT's stock – applying broad attribution rules – during the last half of its taxable year. Certain entities are treated as individuals for this purpose. There is no restriction on ownership by foreign persons.

Asset/income/activity tests

Nigeria

Equity based – 70% in real estate or real estate related assets, a maximum of 10% in liquid assets, and 20% in other assets
Mortgage based – 70% in mortgage assets, a maximum of 10% in liquid assets, and 20% in other real estate assets
Hybrid based – at least 40% in real estate, at least 40% in mortgage assets, 20% in real estate related assets.
Cannot borrow beyond 25% of the shareholder’s fund.

South Africa

There are no specific investment restrictions for REITs, however, there are certain restrictions in terms of source of revenue: 75% of revenue should be from rental revenue. Rental income is defined in the Income Tax Act.

Australia

Public unit trusts investing in land must do so for the purpose, or primarily for the purpose, of deriving rental income. Public unit trusts that carry on a trading business such as developing land for sale, will not receive flow through treatment. Eligible investment business includes other passive, investment-type activities such as loans, portfolio share investment, derivatives, etc.

U.S.A

Annually, at least 75% of the REIT’s gross taxable income must be from real estate-related income such as rents from real property, interest on obligations secured by mortgages on real property, gain on sale of real property and mortgage loans, and dividends and gains from other US REITs.

Restriction on foreign assets

Nigeria

No investments outside of Nigeria.

South Africa

There are no special rules for the taxation of foreign REITs and they are treated like any other REIT. There are however some implications if a foreign REIT holds shares in a South African REIT and consideration for double tax treaties.

Australia

There are no restrictions on foreign assets.

U.S.A

There are no limitations on ownership of foreign assets, but the REIT must meet the income and asset test described above with special rules for currency gains.

Distribution requirements

Nigeria

It must pay dividends on at least 90-95% of taxable income.

South Africa

To benefit from the rules set out in the Income Tax Act, 75% of a REIT's taxable earnings must be distributed to its investors on an annual basis.

Australia

Undistributed income or gains may be taxed at the higher marginal tax rate (currently 49%). Full distribution of income and gains by REITs generally occurs.

U.S.A

The REIT must distribute at least 90% of its ordinary taxable income of each year. Distributions made after year-end may be applied to satisfy this requirement under certain circumstances.

Tax treatment at REIT level

Nigeria

Liable to Companies Income Tax (CIT) at the rate of 30%. However the very features of the REIT enable or activate pockets of tax exemptions such as that issued by the DMO in 2010 for various instruments including MBS and ABS. Capital allowance is claimable as they are 'in use' for the generation of the business profits. This enables further relief on the computed taxable profits for CIT purposes for a period of ten (10) years on each of the investment property.

South Africa

May deduct qualifying distribution for purposes of determining its taxable income for the year of assessment.

Australia

N/A

U.S.A

The REIT must be formed in one of the 50 states or DC. There is no residency requirement based upon place of management.

- A deduction is generally allowed for dividends paid to shareholders;
- Corporate level tax applies on any taxable income that is not distributed;
- An excise tax of 4% applies to the extent that the REIT fails to distribute at least 85% of its ordinary income and 95% of its net capital gain within the tax year.

Most states follow the federal treatment, however, some have enacted laws to restrict the ability to take the dividends paid deduction. States may also impose a variety of non-income taxes on REITs and their operations.

Withholding tax on distributions

Nigeria

Dividends of publicly traded REIT securities are exempt from withholding taxes (WHT) in the hands of the investors. Value Added Tax (VAT) and Capital Gains Tax (CGT) on sales of these units or securities are also not applicable. This exemption does not preclude the REIT from paying CIT at 30% of their taxable income.

South Africa

In accordance with South African domestic tax law, dividends paid to non-residents for tax purposes will be subject to a 15%withholding tax. This amount may be reduced by an applicable DTA. South African investors will be exempt from the 15% dividend tax.

Australia

Domestic – none.
Foreign: 30% or reduced amount of 15% if invest in a MIT via certain countries. A further reduction to 10% may apply in respect of certain newly constructed “green buildings.”
Treaty access: Yes, depending upon exact treaty wording. Limitations can arise if treaty requires beneficial ownership.
REIT distributions are not dividends and not covered under dividend articles.

U.S.A

Domestic shareholders are not generally subject to withholding. Generally, foreign shareholders are subject to 30% withholding on dividends but the withholding may be 35% for capital gain dividends and non capital gain distributions attributable to the gain from the disposition of a US real property interest. For foreigners, WHT may be 10%. Treaty rates may apply.

Tax treatment at the investor level

Nigeria

Dividends of publicly traded REIT securities are exempt from withholding taxes (WHT) in the hands of the investors. Value Added Tax (VAT) and Capital Gains Tax (CGT) on sales of these units or securities are also not applicable.

South Africa

No exemption from income tax for individuals (marginal rate applicable to the individual) and companies (28% tax). South African investors are exempt from a 15% withholding tax, whereas foreign investors are not. Institutional investors such as pension funds are exempt from tax and will therefore not be taxed on dividends received from a REIT.

Australia

Resident unitholders are liable to pay tax on full amount of their share of the taxable income. Distributions from the REIT retain their character and therefore the tax treatment of the various components may differ. Tax deferred amounts are generally attributable to returns of capital, building allowances, depreciation allowances and other tax timing differences. There are some capital gains tax exemptions. Non resident unitholders are subject to the Australian tax on their share of the REITs taxable income that is attributable to Australian sources. Foreign sourced income can flow through an Australian REIT to a non-resident tax free. Disposal of REIT units can have CGT implications for foreign investors owning 10% or more of the REIT units.

U.S.A

Domestic – distributions from a REIT, other than capital gain distributions are, to the extent of earnings and profit, taxable at the ordinary income to individuals up to 39.6% (although tax on dividends may be up to 20%) and are subject to an additional 3.8% medicare contribution tax. Corporations are generally subject to a tax of up to 35% on dividends from REITs and the dividends are not eligible for the dividends received deduction Foreigners have taxes applicable, but treaties may apply.

Transition to REIT/Tax privileges

Nigeria

None

South Africa

When a company ceases to be a REIT its year of assessment is deemed to end on that day and the first day of the next year of assessment commences on the following day. The company will then be liable for tax in terms of normal company tax and the REIT tax regime will no longer apply.

Australia

None.

U.S.A

A REIT election is made by filing its corporate income tax return. A regular corporation that elects REIT status is required to distribute its accumulated tax earnings and profits before the end of its first year as a REIT. Any net built-in gains in assets at the date of the election is subject to corporate level tax on gain recognized within the next 10yrs.

Critical Elements for a Successful REIT's Market

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Executive Director Stanbic IBTC Capital

at
The Nigerian Stock Exchange's REIT Conference

23 May 2017

Stanbic IBTC Capital Moving Forward™

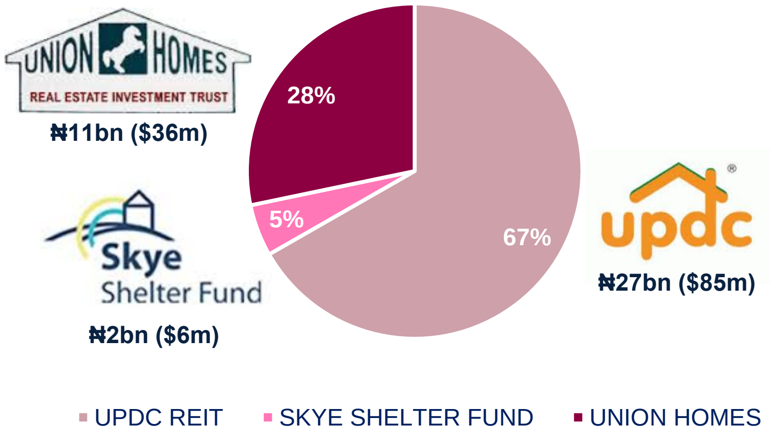
Contents

1 Introduction

Preamble

- Nigeria currently has three listed REITs on the NSE with a combined market capitalization of c.NGN40 billion (c.US$127m) *(as at May 2017)*
- The market is however still in its infancy and yet to attain its full growth potential, even though REIT rules were initially released by the SEC in 2007
- Globally, REITs have played a significant role in stimulating development of the primary real estate market and vice versa
- A successful REIT regime will provide a practical and effective conduit for pooling funds from a diverse range of investors into prime real estate assets
- In this presentation, we explore three intrinsic factors that represent the core elements for driving the development of a successful REIT market
- Continuous engagement and collaboration between regulatory stakeholders will help spur the needed reforms to position Nigeria as a regional hub for REIT listings over the medium to long term horizon

Nigeria REIT Market Capitalisation*



** Based on Bloomberg Research as at May 2017*

Key Regulatory Stakeholders:

2

Nigeria REIT Market – Where We Are

Regulatory issues to be addressed in activating the REIT market

1 Regulatory & Legislative Bottlenecks

SEC	*SEC Draft Rules Exposed (Q1 2016)
▪ Permitted leverage levels – 25% of shareholders' fund	▪ 40% GAV proposed
▪ Restrictions on foreign asset ownership	▪ 25% GAV proposed (within Africa)
▪ Clarity on income distribution guidelines	▪ 75% rental income proposed ▪ Minimum frequency - every 2 years
▪ Clarity on minimum valuation guidelines / standards	Ongoing Engagement
▪ Broadening of SEC approval process e.g. registration of Consultants (valuers etc)	Ongoing Engagement
▪ Separate treatment of REITs as a distinct asset class	Ongoing Engagement

FIRS	
▪ Limited scope for income tax pass through structures	▪ On-going engagements with FIRS to develop: – REIT circular to clarify current tax laws – REIT regulation to modify issues required for effective tax structures
▪ Clarity on excess dividend tax treatment	
▪ Ambiguity in regulation between PITA & CITA for Trust	
▪ Tax treatment ability at multiple SPV levels	

PENCOM
▪ Restrictions on direct real estate investments

** SEC Current Draft Amendments to REIT guidelines seeks to address some of these issues*

Market related issues to be addressed in activating the REIT market

1

Shallow asset pipeline

- Quality, diversity and maturity of the primary market – currently dominated by a small pool of players
- Establishment and stability of cash flow generation from underlying real estate assets
- Dearth of experienced property professionals
- Depth of appropriate experience to preserve and enhance asset and portfolio values
- Limited scope to create, rebalance, optimise assets in targeted portfolios

2

Limited market visibility and transparency

- Availability of sector market information and benchmarks to support investment decisions at both retail and institutional levels
- Visibility and transparency of financial reporting of performance metrics of underlying property assets- (proposed listings and existing assets)

3

Asset Valuation

- Quality of valuation methodologies and practices
- Breath and depth of experience of valuation professionals
- Timing and frequency of valuations for reporting purposes
- Established/stabilized property data to standardize valuation outcomes
- Ability to manage vendor yield expectations

4

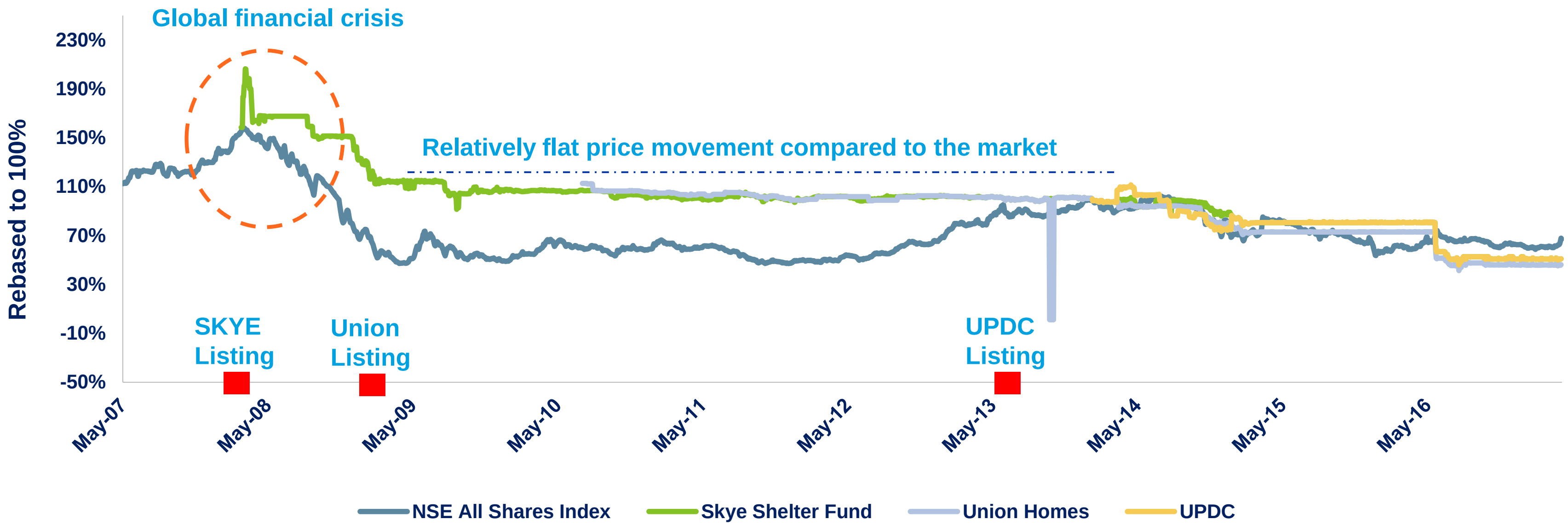
Low investor confidence

- Alignment of end-products, asset features, operating and technical principles with established benchmarks
- Level of investor familiarisation with the REIT asset class
- Transparency and reliability of valuation methologies and market data to inform investment decisions
- Rate of evolution of key assets in the real estate sector

Assessment of the trading performance of Nigeria's three existing REITS (over the last 10 years)

The Nigeria REIT market has been characterized by minute price movements over the last 10 years

The market also witnessed low annual trading volumes of <0.2% over the period



Key Financial Metrics

Financial metrics	UPDC REIT	SKYE SHELTER FUND	UNION HOMES
NSE Listing	2013	2008	2009
Market capitalization (NGN'm)	26,683	2,000	11,306
Net Asset Value (NGN'm)	31,243 *(*2016)*	2,246 *(*2012)*	13,352 *(*2012)*
Starting Share price (NGN)	10	100	52
Current Share price (NGN)	10	100	45
Trading Liquidity (LTM)	*0.17%*	*0.04%*	*<0.01%*
Trading liquidity comparables (2016) – NSE (5%); Singapore REIT (>200%); South Africa REIT (53%)			

Sources: Bloomberg Research (as at May 2017); Company Financials
** Reporting Date*

Global Comparables

The prospects for REITs in Nigeria is perceived to be strong, due to the high demand for and undersupply of real estate assets, and limited institutional investment exposure to the sector

[1] However, certain other pockets of tax exemptions exist e.g. WHT exemptions, Capital Gains Tax on sales of REIT securities

	USA	United Kingdom	Singapore	South Africa	Kenya	Nigeria
Start Year	1971	2007	2002	2013	2015	2007
REIT Type	Trust / Company	Company	Trust / Company	Trust / Company	Trust	Trust / Company
No. of REITS	224	37	37	29	1	3
Market Capitalisation (US$'bn)	US$1,000bn	US$73bn	US$34bn	US$19bn	<US$0.1bn	<US$0.2bn
Average Returns (2016)	9%	3%	16%	15%	9%	7%
Leverage Requirements	No legal restrictions	1.25x Interest Cover	<45% GAV	<60% GAV	I-REIT: <35% D-REIT: <60%	Trust: <[20%] GAV Company: <[40%] GAV
Trading Liquidity %	>150%	90%	>200%	53%	<0.5%	<0.1%
Tax Regime	Corporate Tax exemption on distributions					[1] No Corporate Tax Exemption

Sources: SA REIT Association; Nairobi Stock Exchange; FT Markets Data; SGX S-REIT 20 Index; EPRA; FTSE NAREIT US Real Estate Index

3

Core Elements for a Successful REIT

Core Elements for a Successful REIT

Core Elements

Regulation & Corporate Governance Standards

Asset Creation, Consolidation and Concentration

Valuation & Risk Management Framework

Core Elements for a Successful REIT

Regulation & Corporate Governance Standards

A well regulated market such that there is specialized focus lends support to the governance of the REIT asset class.

- Generic and specific regulatory rules and guidelines governing REITs – Alignment with Best Practice
  - **Specific focus on both FIRS and SEC guidelines given specialized nature of the REIT asset class**
    - Clarity on tax rules and ongoing updates/ enhanced tax pass through structures
    - Role definition and registration of REIT market participants (e.g. real estate asset managers, valuers)
  - **Evolvement of regulatory oversight function:**
    - Assessment of internal capabilities and level of outsourcing requirement
    - Strategic Partnerships with sector experts
- Corporate governance standards- Define, Clarify and Set standards
  - **How do we ensure governance attracts investment flows?**
    - Corporate structures (Trust vs. Company)
    - Management capabilities (Internal vs External)
    - Concentration limits / Diversification requirements
    - Asset valuation
    - Transparent financial reporting
    - Development to income generating investment ratios
    - Listing structure / oversight
    - Robust risk management practices
    - Investor engagement

Asset Creation, Consolidation and Concentration Considerations

- The creation of investment grade assets into a REIT portfolio will be characterized by the following:
  - Income generating
  - Predictable and sustainable rental cash flows
  - Quality tenant pool
  - Quality of leases and lease agreements
  - Enhanced asset management
  - Property efficiency
  - Low / managed maintenance requirement
- The consolidation of the pool of assets into a well balanced and diversified REIT portfolio will be based on attributes including:
  - Sector focus / specialisation
  - Income type
  - Stage of asset
  - Age of asset
  - Geography
- Appropriate implementation of the above fundamentals in respect to REIT strategy will ensure:
  - A robust risk management framework resistant to market shocks
  - Preservation of capital and profitability enhancement

Valuation Considerations & Risk Management Framework

- Asset valuation is critical element for asset pooling, on-going asset monitoring and risk management of a REIT
- The adoption international best practices for commercial real estate valuation will provide comfort for potential investors and ensure protection of their REIT investments
- Key valuation and risk considerations for addressing existing issues in the market include:
  - Standardised and globally accepted valuation methodologies
  - Transparent asset valuation practices / basis of valuation
  - Appropriate disclosure (at reporting level) of property information and performance metrics e.g. material tenants, occupancy level, rental income
  - Frequency of valuation
  - Building local competence and resources

4 Conclusion

Thank You- Next Steps

- Finalise and implement SEC’s draft amendments for the REIT market
- Continue collarborative engagements with FIRS to revise existing tax guidelines for REITs
- Explore potential of Pension Fund capital flows in stimulating the REIT market
- Initiate discussions with the PENCOM to address existing guidelines for Pension Funds

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