



## REITs – Government Policy Perspective

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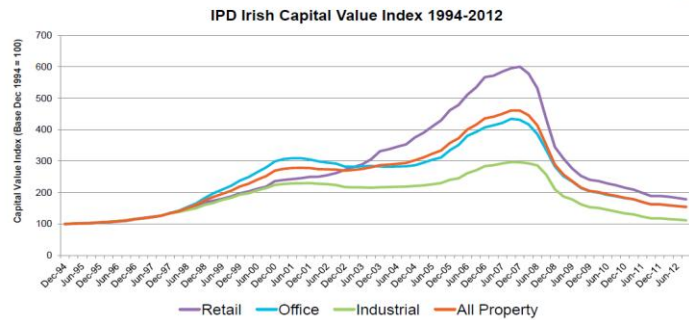


An Roinn Airgeadais  
Department of Finance



# The property market – where is it now?

## Market Cycle

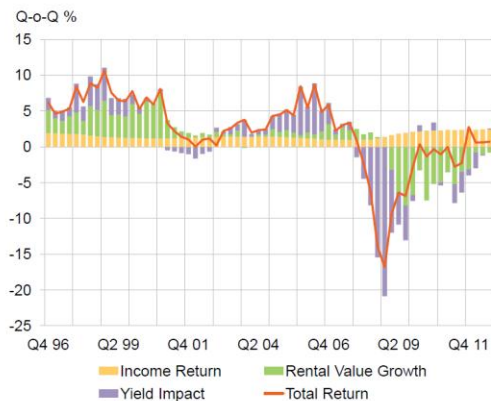


• Irish commercial property values have now declined 67% since the markets peak in Q3 2007

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## 2012 Trends to date: Stabilising effect



Yields have remained stable for the last 3 quarters, All Property Equivalent Yield now stands at 8.9%

Rental value growth negative for 15 quarters

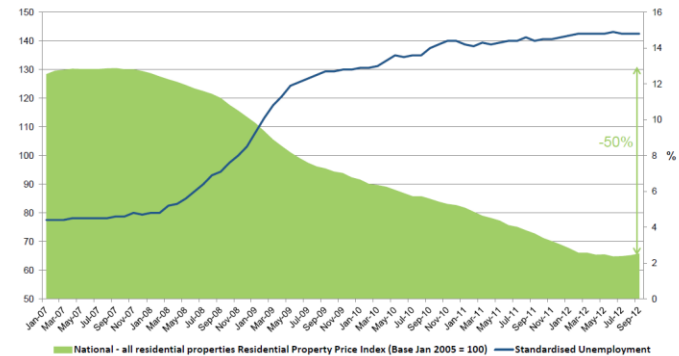
Strong Income return has negated negative rent and yield effects to keep total returns positive

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Source: IPD Ireland Quarterly Index

## House prices return to growth. Unemployment steady.

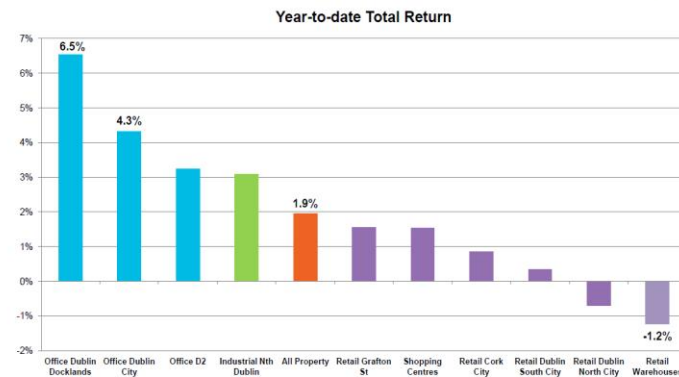


Source: Central Statistics Office (CSO)

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## Submarkets – Dublin Docklands beats City of London



Source: IPD Ireland Quarterly Index

City of London offices had a Total Return of 5.4% year-to-date

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Source: IPD Ireland Quarterly Index



# Property investment – some structural issues

## Access to Capital Finance:

- Need to unwind NAMA at best return to taxpayer
- Reduce dependence on bank financing
- Release bank loan capital from property into other business

## Lack of Risk Diversification

- Single asset exposure to risks of:
- falling values
  - occupancy voids
  - property damage

## Lack of Collective Investment

- Hindered by double layer of taxation:
  - Tax within company
  - Tax on shareholders
- Borrowing requirement to enter property market

## Rental Property Standards

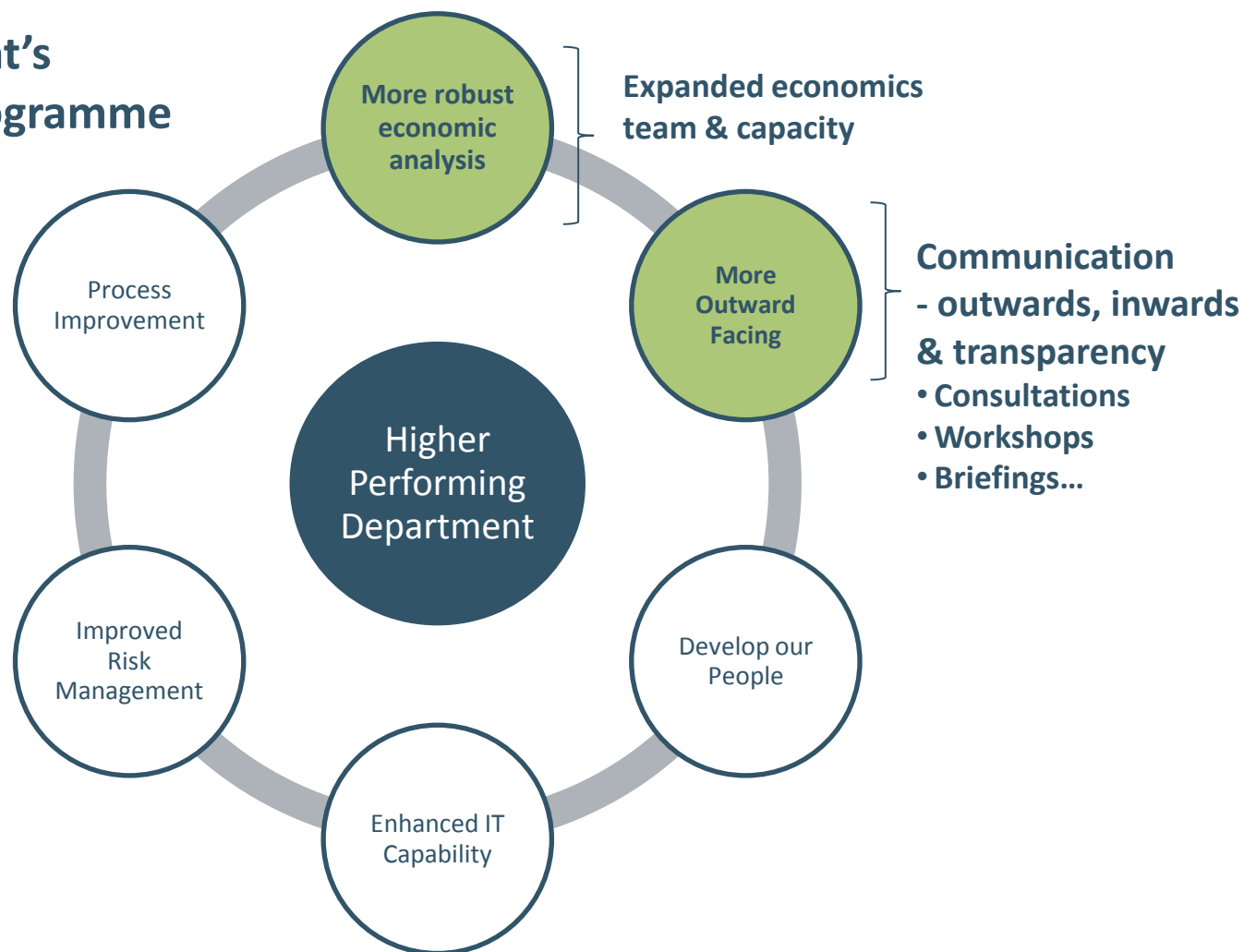
- No standardisation of rental accommodation, particularly in residential sector
- Landlords without the time or resources to adequately manage property.





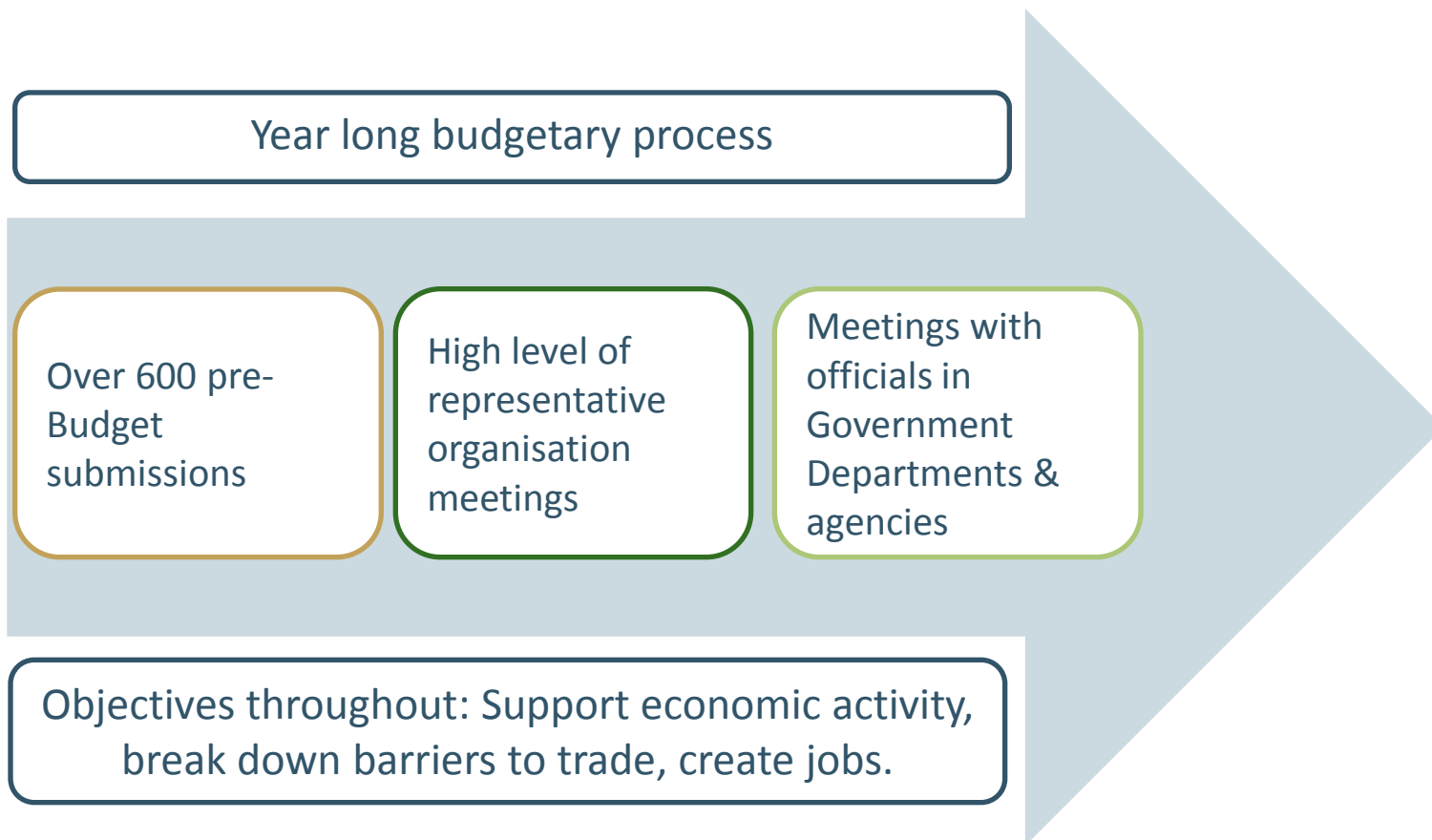
# How we address issues

## Department's Change Programme





## Consultation process: Budget 2013





## Tax policy process – how do we rate?

Oxford University Centre for Business Taxation (OUCB): comparative international study of the tax policy-making process across countries

- Taxpayers and interested parties given **excellent contact** with the Department of Finance
- Department has strong commitment to maintaining a constructive **relationship with business community**.
- Ireland has high levels of public awareness of tax issues, and strong media interest.
- “Small country effect” allowing informal contact between business and government, allowing for positive informal interaction.
- Highlighted **Tax Strategy Group** as interesting and important innovation – could be adopted by other governments to provide coordinated departmental approach in tax policy development.



# Steps towards policy objectives

Reduced residential  
stamp duty – Budget  
2011

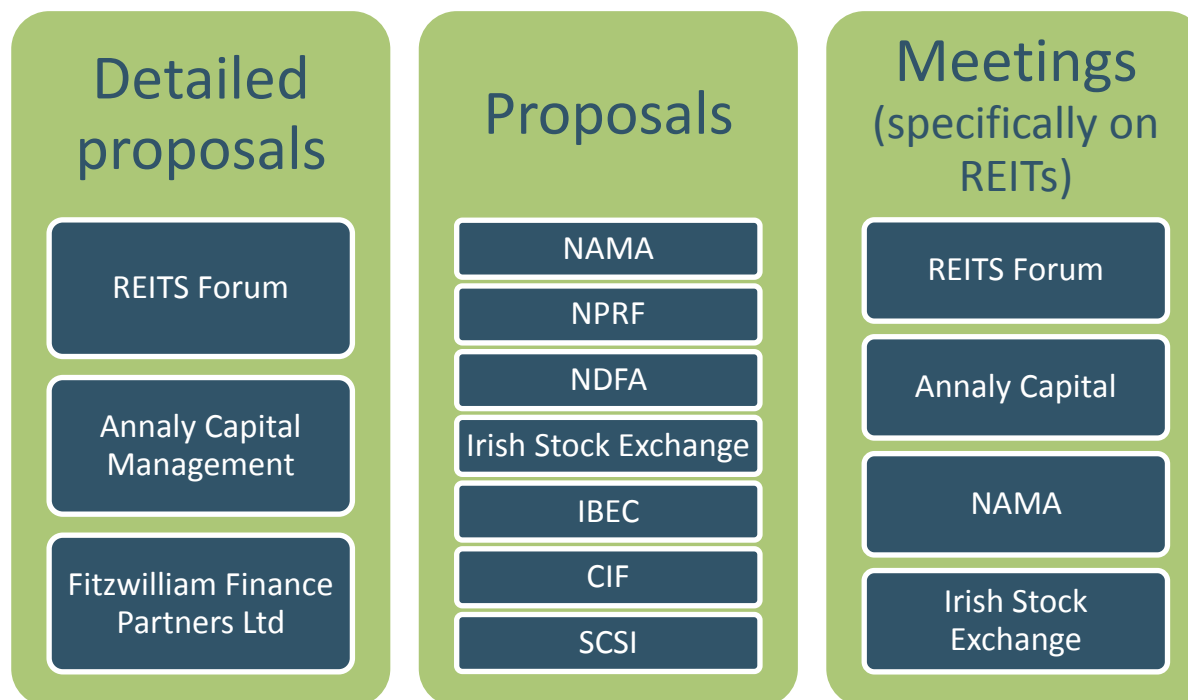
Reduced  
commercial  
stamp duty –  
Budget 2012  
(6% to 2%)

7 year CGT  
holiday –  
Budget 2012



## REITs – Extensive consultation process

- Initial consideration by Minister 2011 (commercial stamp duty reduced)
- Part of Tax Strategy Group paper in October 2012







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# Policy objectives for issues

## Access to Capital Finance:

- Globally recognised format to attract foreign capital
- Unwind NAMA
- Support financing of commercially sound property
- Reduce dependence on bank financing

## Lack of Risk Diversification:

- Allow for investment into a pool of properties
- Selected by professional asset managers
- Access to commercial and / or residential returns



## Lack of Collective Investment in Property

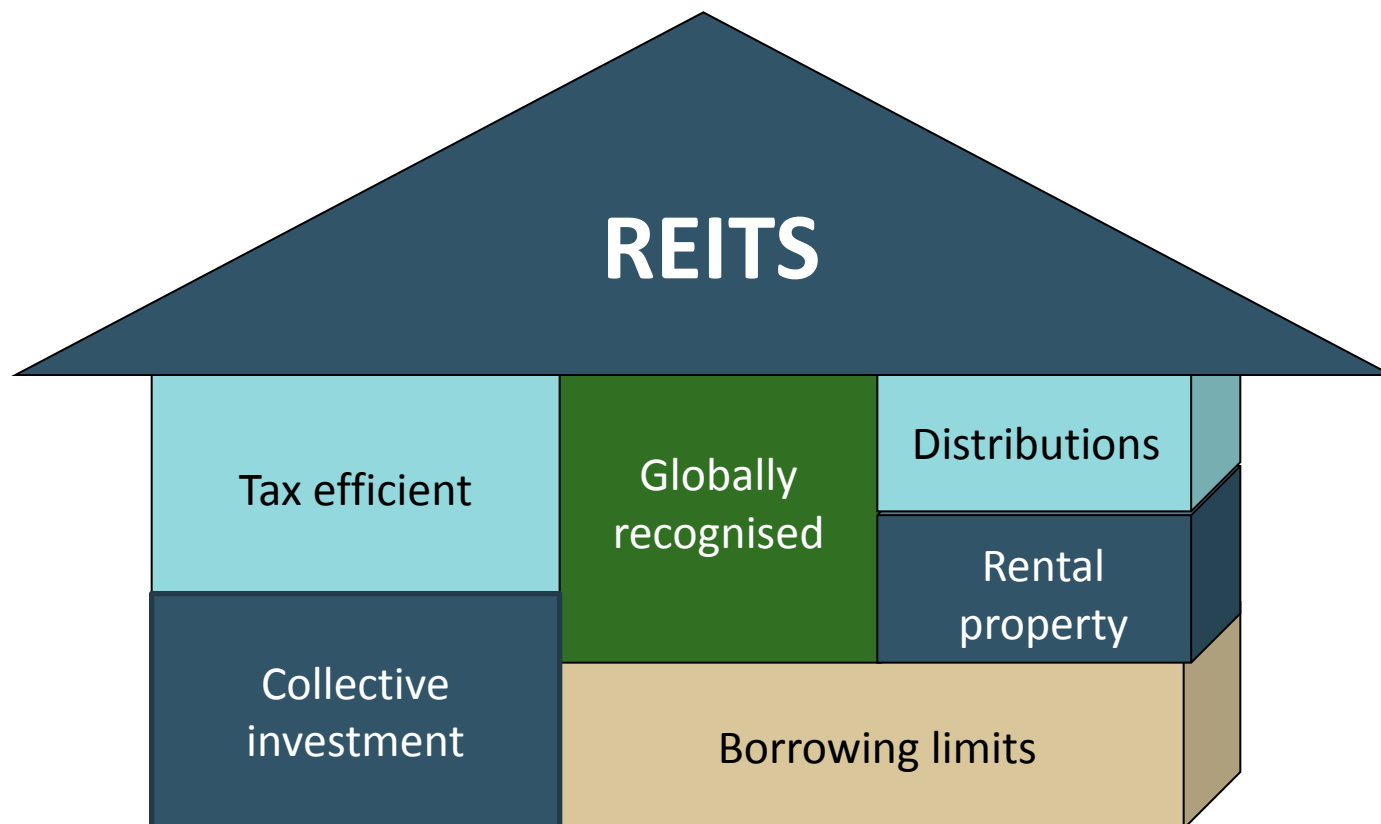
- Tax exemption removes double layer of taxation
- Taxable distributions preserve tax revenues
- Low entry cost for small investors not wishing to borrow

## Rental Property Standards:

- Low entry cost
- Property investment without borrowings
- Access to commercial property returns

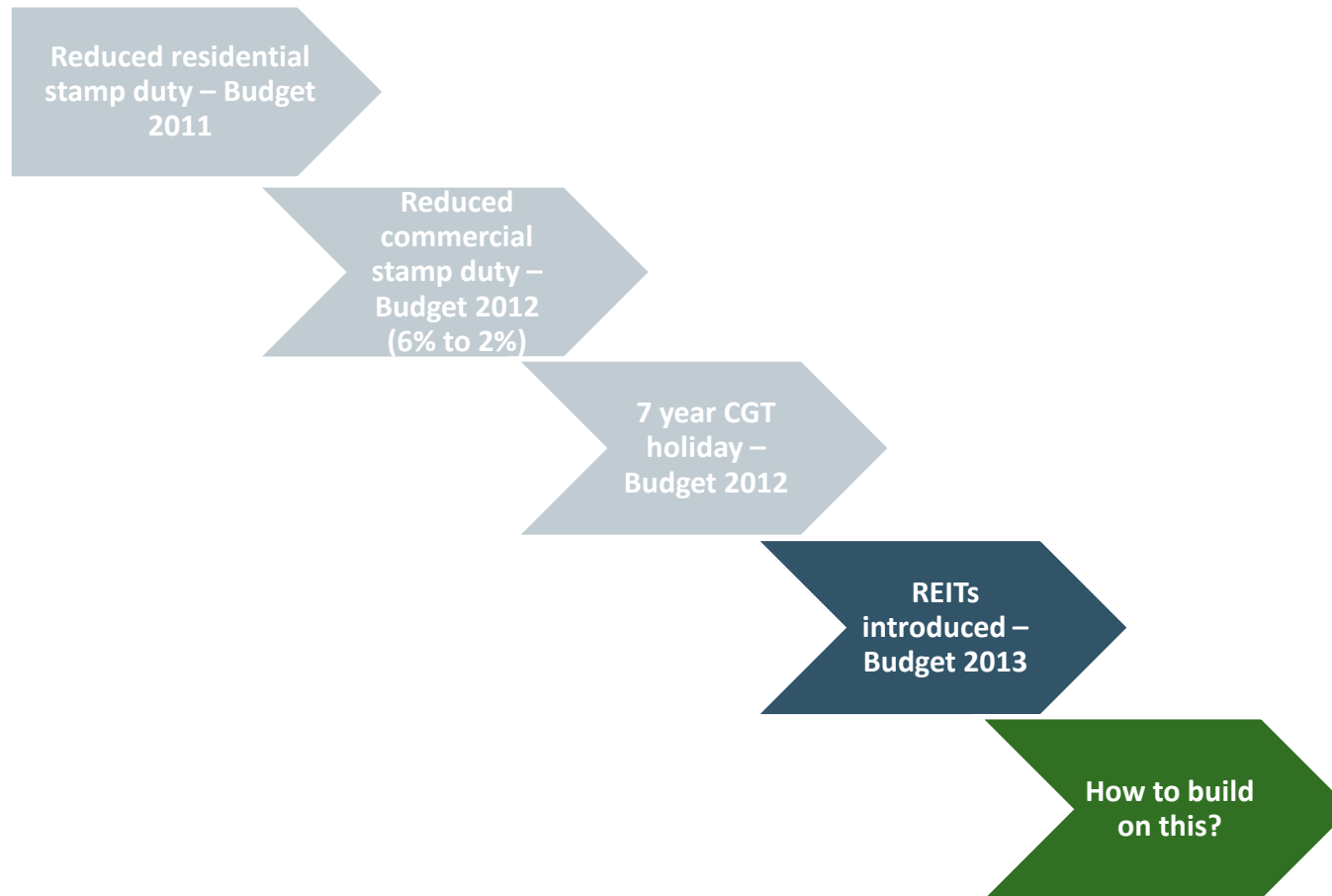


## REITs – what are they?





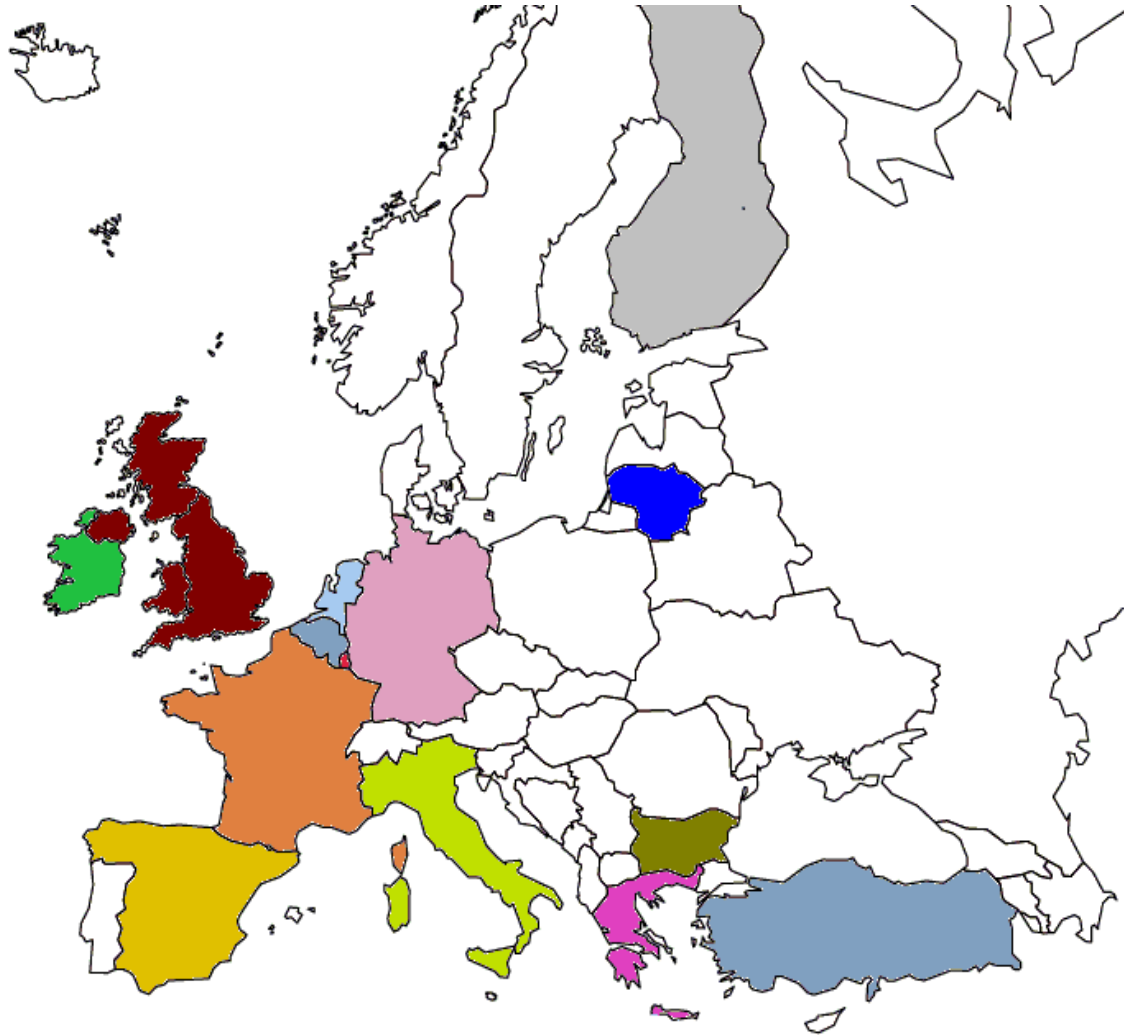
# Steps towards policy objectives - where are we now?





## REITs across Europe

- 35 countries worldwide
- 13 European countries
- Primarily domestic investment focus





## REITs – where to next?

Can we develop a tax-efficient cross-border property investment?

International Property Services Centre (IPSC)

Clearing House Group Study e.g. source tax issue

