UK real estate insights

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Contents

2 Property tax planning for privately-owned businesses

4 Long-term incentive plans for REITs and REIT management companies

6 Property based finance – unlocking value in property

8 Beware the ghost of stamp duty past…

9 Jersey Property Unit Trusts – are you managing the risks?

11 Best practice reporting for non-listed real estate vehicles

12 European Real Estate client conference

Welcome to the second issue of *UK real estate insights*. The real estate industry appears to be in the middle of an exceptionally busy autumn. There has been no easing in the pace of transactional activity, particularly in the funds arena where real estate and infrastructure funds have been making significant acquisitions in the UK and elsewhere in Europe. There have been several new fund launches as well, of real estate and infrastructure funds.

In the UK, the impending introduction of REITs on 1 January 2007 continues to be a major focus of attention. Many quoted companies have already announced their intention to convert. The industry is now turning its attention to what will happen following the conversion to REIT status of major quoted real estate companies, and the competitive advantage that this brings. Will the new REITs use their tax exempt status to buy up other companies unable to convert? Will it create new opportunities to unlock property in operating businesses? What will companies that do not convert need to do to remain competitive? In this issue of *UK real estate insights* we discuss the importance of tax planning for privately held real estate businesses. The companies that are converting to REITs are busy preparing themselves for January. The focus is now moving beyond the immediate structural housekeeping to the way they will operate as businesses going forward, particularly the way in which REIT management is incentivised. The introduction of REITs, as well as the continuing vogue for Opco/Propco structures will also further focus attention on what property rich operating businesses do with their property holdings.

The autumn has also been very busy for PricewaterhouseCoopers (PwC). We continue to expand our real estate practice and have a number of new joiners to the firm in both Tax and Real Estate Advisory. I am delighted to welcome Amanda Clack, Anna Dunne, Amanda Rowland, Bas Kundu and Malcolm Collings to our Real Estate team. In October we won the Euromoney Real Estate industry award for best tax adviser. We were extremely pleased not only to have won the global award again, but also all four of the regional awards. In November, in Paris, we will be running our annual European Real Estate client conference. Together with the Urban Land Institute we will be looking at the latest findings from *Emerging Trends in Real Estate Europe*, and in various breakout sessions we will be looking at the latest developments in tax and regulation. Governance and reporting, in both the quoted and the funds sectors are also a key area. The work that we are doing with INREV in developing a straw man set of accounts for indirect vehicles is also covered further in this issue. Our November conference, like the industry, is becoming increasingly global and our European team will be joined by colleagues from Australia, the United States, Latin America and the Far East. We look forward to seeing you there.

John Forbes
PricewaterhouseCoopers Real Estate leader

PRICEWATERHOUSECOOPERS

Property tax planning for privately-owned businesses

Property has always been a fertile area for tax planning. Tax has traditionally (and for good reason) been on the agenda of any property company, and businesses in other sectors always have tax as one of the factors to be considered when they are undertaking a significant property transaction. Large property companies and major transactions in particular have been the focus of much creative tax planning over the years. The increasing importance to real estate markets of funds and cross border investment have added to both the complexity of transactions and the complexity of the tax treatment.

But is it only at the very large end of the market that such planning is viable? In recent years we have seen the introduction in the UK of anti-avoidance legislation targeted at specific tax planning arrangements, and in addition we have seen the introduction of the Tax Avoidance Disclosure (TAD) rules, which mean that many tax planning arrangements have to be notified in a very short timescale to HM Revenue & Customs (HMRC). These developments have no doubt increased the risk associated with creative tax planning, and in many people's minds the entry level has increased accordingly. Is it now only the most sizeable businesses which have the resources to undertake tax planning in the more complex environment in which we now operate, and to face an HMRC challenge which the TAD rules presumably make more likely?

There is undoubtedly some truth in this view. But it is not the end of the story. The real estate industry is becoming more complex. Privately-owned real estate businesses may be investing abroad or even acting as managers of funds or real estate co-investment vehicles. They may be acting as local operating partners for overseas investors or funds. They may be developing assets for sale to these overseas sources of capital. In such situations, tax considerations are an essential part of the business rather than an optional luxury. Even for those privately-owned real estate businesses continuing to operate a more traditional UK-focused business model, tax planning needs to be a key consideration. Is the imminent introduction of REITs an opportunity or a threat to your business? What do you need to do to take advantage of the opportunity, and how do you stay competitive in the face of the threat?

Even with the legislative measures to narrow the boundaries of acceptable tax planning, opportunities remain in a transactional environment such as real estate, where there may be tax efficient and tax inefficient ways of undertaking the same transaction. If the tax advantages are sufficiently large (which, given property values, may often be the case), then the entry level at which a particular planning arrangement is viable remains relatively modest; and where a structure is commercially driven but also produces tax benefits, the risk of HMRC challenge may be lower.

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Property tax planning for privately-owned businesses

For example, in some cases, it may be possible to structure a transaction such that profits from UK property development or trading are not subject to UK tax. Foreign ownership may be an obvious possibility, but in some cases this is even possible where the profits are received by persons resident in the UK. There are a variety of ways of partly or wholly mitigating tax, but a common thread running through most of them is the use of a structure based in an appropriate offshore jurisdiction which has a suitable double tax treaty with the UK. There is little or no tax exposure in the offshore territory, and in the right circumstances, the treaty protects the tax position in the UK. However, the effectiveness of this is highly dependent on the way in which the business is operated.

The kinds of property development which can use these structures range from buying some land and selling it on at a profit (perhaps after getting planning permission and/or assembling it with other parcels of land) at one extreme, to a full programme of construction and sale of individual units at the other extreme. If the level of activity is greater then the burden of administration will obviously be greater.

Structures of this kind typically did not have to be disclosed to the Revenue under the TAD regime prior to the changes to that system which were introduced this year. However, since 1 August 2006 many of these structures will be disclosable. The techniques used vary considerably and some of the planning of this kind is aggressive, so HMRC challenge can be expected. The effectiveness of the arrangement is highly dependent upon the commercial circumstances of the business. Careful implementation and attention to detail will strengthen the ability to resist HMRC challenge. The fact that the profits may be realised free of tax means that the advantage may be sufficiently large for the structure to be viable for private businesses. Such planning is not to everyone's taste – some of the more aggressive variants may be perceived as too fraught with risk, or incompatible with the commercial operation of the business. Whatever conclusion is reached, it is important that this is with an understanding of both the risk and the magnitude of the potential reward.

Other planning opportunities may be less aggressive. The introduction of REITs from 1 January 2007 has eliminated a layer of taxation for quoted companies that are able to convert to REIT status. The need to compete is focusing the attention of privately owned businesses on the need to consider other ways of achieving tax transparency. At the simplest level, limited partnerships may be attractive. Although stamp duty land tax (SDLT) now applies to the transfer of interests in a partnership owning real estate, it may, in the right circumstances, be an attractive option in cases where the disposal will be of the underlying asset. Similarly, despite the abolition of seeding relief, the offshore unit trust remains a suitable vehicle in many situations. The issues around offshore unit trusts are dealt with in more detail in another article in this issue. Other options also need to be considered: is a limited liability partnership (LLP), with the possibility of giving staff a greater interest in the outcome, viable? Or, indeed, some of the more exotic non-UK vehicles?

In implementing such structures, it is necessary to consider a number of key issues, including funding, contributions by the partners, apportioning income and capital profits and their effects on valuations, etc. In cases where tax transparency in the vehicle is achieved, growth in value for the individual owners should attract business asset taper relief if the property is used by a qualifying trading company. This could produce a 10% capital gains tax rate for the individuals on a disposal of their interest in the property. As indicated above, achieving a measure of tax-transparency in some ways produces for the private investor the same kind of result which REITs are intended to produce for the quoted property sector.

These examples hopefully demonstrate that for private business there is still scope for imaginative property tax planning, and that this can be more or less aggressive in order to fit in with the requirements of the business involved. As with all tax planning, it is important that the initial creative design is followed by thorough preparation and careful implementation if the advantages are to be achieved.

Glyn Davies and Nick Hopkin are tax partners advising privately owned real estate businesses.

Long-term incentive plans for REITs and REIT management companies

As the date for the introduction of REITs draws closer and more of the UK's quoted companies announce conversion to REIT status, attention is moving beyond the immediate issues surrounding conversion to the ways in which REITs will operate in the future. A key element of this that was covered at the PwC UK Real Estate client conference in May is incentivisation of management and, as part of the conversion process to a REIT, boards need to carefully consider whether the long-term incentives plans in place for executives are appropriate. In this article Aidan Langley explores this further.

The conventional ways listed real estate companies motivate their senior executives typically relate to the growth in value of the company's shares, whether through options or an award of restricted or performance shares. Dividends are generally ignored. However, many REITs will be high yield investments, and investors will want executives to be motivated to increase the dividend yield as well as the capital value of the shares.

There are two main types of plan that REITs can use: conditional share award plans and deferred payment share purchase plans. However, both carry different tax consequences which should be investigated to ensure they meet objectives.

Conditional share award plan

Under a conditional share award plan, executives are awarded shares on a conditional basis. The conditions, which must be met in order for the shares to vest, are usually based around time and performance targets.

Dividends on the shares are not paid to the executive during the vesting period. Instead they are either invested in more shares or retained as cash. In either case they are paid to the executive at the end of the vesting period.

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Long-term incentive plans for REITs and REIT management companies

This structure involves no risk for the executive. However, there are tax considerations:

- If the executive owned the shares during the vesting period, they would be taxed on the dividends at 25%. However, this structure effectively converts them into employment income, taxable as 41% plus 12.8% employer NIC.
- Similarly, if the executive owned the shares, he or she would have paid tax at capital gains tax rates (potentially 10%) on any growth in value of the shares during the vesting period. Again, this structure converts the capital gains into employment income, which has a greater tax implication.

Deferred payment share purchase plan

Under a deferred payment share purchase plan structure, the executive purchases shares using finance provided by an employee benefit trust (EBT), but defers payment for them until the end of the vesting period.

If the executive leaves before the end of the vesting period, or if the performance conditions are not achieved, the executive is obliged to sell the shares back to the EBT for the lower of their original cost and current market value. This poses a risk if the share price falls during the vesting period.

If time and performance conditions are met, the executive is free to sell the shares at any time. At the same time as they sell the shares, the executive receives a bonus equal to the unpaid purchase price. The tax treatment of the dividends will be 25%, and also means that the capital growth of the shares is taxed at rates which could be as low as 10%.

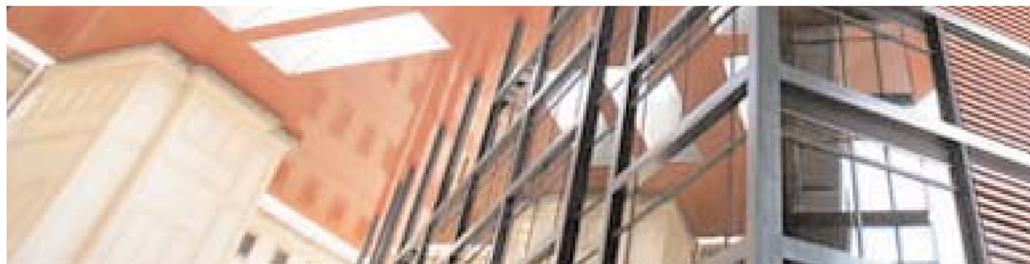
Incentivising REIT management companies

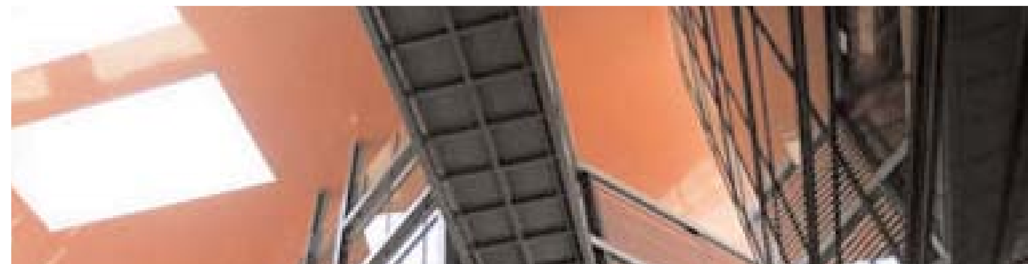
REIT management companies can also motivate employees using the structures already described. Management companies can fund an EBT to purchase shares in the REIT, then hold those shares for the benefit of the management company's executives as conditional share awards, or sell them to the executives through a deferred payment share purchase plan.

Another possibility would be for the management contract to be held by an LLP of which the partners are the REIT management company itself, and its executives. This would enable a carried interest structure, where the executives would share in the return above a hurdle rate.

This means the executives could receive part of their return as capital gains (potentially taxed at 10%) and part as partnership income.

Aidan Langley is a director advising on share schemes and executive compensation.





Property based finance – unlocking value in property

Opco/Propco structures have been grabbing the headlines in recent private equity transactions. Paul Davies and John Hardwick consider why.

Many companies have hidden value on their balance sheets through ownership of freehold property. While those properties may be treated as full value in the corporate accounts, re-structuring how those assets are held may provide additional benefits, particularly in the way lenders value them.

Splitting the group into an operating company (Opco) and a property company (Propco), alternatively known as Opco/Propco structuring, is a simple and effective way to create additional value.

Why an Opco/Propco?

Businesses are increasingly seeking to maximise their enterprise value, enabling them to utilise current low cost borrowing. Opco/Propco structuring enables a business to unlock significant shareholder value by generating surplus cash. However, for those companies looking to release cash into the business, it could be worth investigating. This is done by refinancing the operating and property sub-groups as separate security groups. The surplus funds can be used for a number of purposes, including:

- expansions – organic or acquisitive;
- refurbishments or funding capital expenditure requirements; and
- bid defence – releasing surplus cash to shareholders by way of a distribution or a share buy back, making a hostile takeover less attractive.

Opco/Propco structuring is often used by venture capital and private equity investors to assist with funding an acquisition, and the medium and long-term growth of the target group.

How it works

A typical property rich group is often valued on the basis of multiple of earnings, the multiple being determined by the industry sector. For example, if an existing group had EBITDA of £100m and an industry multiple of eight, the enterprise value of the group would be £800m.

Refinancing the group as separate operating and property investment security groups can allow the property sub-group to be valued on the underlying value in the property rather than on a multiple of earnings basis. From a lender's perspective this could greatly increase the debt capacity and potentially the enterprise value of the group overall.

Tax issues

There are many tax issues with reorganisations, such as capital gains tax (CGT) and stamp duty (SDLT), and potential tax costs have historically prevented many groups from undertaking Opco/Propco structuring.

Overview of some typical Opco/Propco structures

Typical industry groups who should consider this type of financing structure include healthcare, pubs, retail and leisure, as well as companies with:

- a diverse portfolio of property (in excess of £50m) with potential for alternative use;
- unsecured property – with a value exceeding the level of debt to be raised;
- imminent refinancing obligations; and
- low credit ratings on existing unsecured debt.

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Property based finance – unlocking value in property

Depending on the size of the debt relative to the property portfolio, the Opco should still be able to retain flexibility over the use of its property; a properly structured Opco/Propco should not hinder the day-to-day business.

Ultimately, the Opco-Propco could allow borrowers to benefit from the appetite for property assets in the financial markets while retaining operational use of the property assets.

Paul Davies is a Corporate Finance partner advising on real estate finance. John Hardwick is a real estate tax partner.

Internal OpCo/PropCo Structure

HoldCo
OpCo Debt
OpCo HoldCo
PropCo HoldCo
PropCo Debt
OpCo
Rent
PropCo
Ring Fenced Security Group
Freehold & long leasehold properties

“External” OpCo/PropCo Structure

HoldCo
3P
OpCo Debt
OpCo HoldCo
PropCo HoldCo
PropCo Debt
OpCo
Rent
PropCo
Freehold & long leasehold properties

Joint Venture OpCo/PropCo Structure

HoldCo
JV Partner
OpCo Debt
OpCo HoldCo
PropCo HoldCo
PropCo Debt
OpCo
Rent
PropCo
Ring Fenced Security Group
Freehold & long leasehold properties

Internal overview

- Allows more debt to be raised than via a securitisation
- More flexible than a securitisation
- Retains control of property asset
- Unlikely to allow lower interest than on a securitisation
- Does not impact on valuation of ‘Holdco’

External overview

- May unlock a major increase in equity value
- Can be applied to all properties, selected portfolios, or bolt-on acquisitions
- Allows more debt to be raised than via a securitisation
- More flexible than a securitisation
- Debt unlikely to be cheaper than on a securitisation
- Loss of control of a major business asset
- May make the Opco unattractive to private equity bidders as little debt capacity

Joint venture structure

- A joint venture partner with property and banking expertise takes a significant interest in Propco
- Vendor retains an equity interest, perhaps including certain veto rights over the portfolio
- Vendor could negotiate an option to repurchase the property in the future
- Can be applied to all properties, selected portfolios, or bolt-on acquisitions
- Joint venture structured to be off balance-sheet for accounts purposes
- May unlock a major increase in equity value
- Allows group to retain part of the future growth in value of the property
- Repurchase rights gives group more strategic options
- May make the Opco unattractive to private equity bidders as little debt capacity

Some typical Opco/Propco structures

Beware the ghost of stamp duty past…

The changes that came into force with the Royal Assent of Finance Act 2006 (19 July 2006) include amendments to the rules for partnerships and the removal of property unit trust seeding relief, and there is now an understandable search to find new stamp duty land tax (SDLT) options. However, in looking at potential future stamp tax choices, there is a danger that taxpayers might overlook the lingering effects of both the previous SDLT rules and the old stamp duty regime, which was replaced for the most part by SDLT in December 2003.

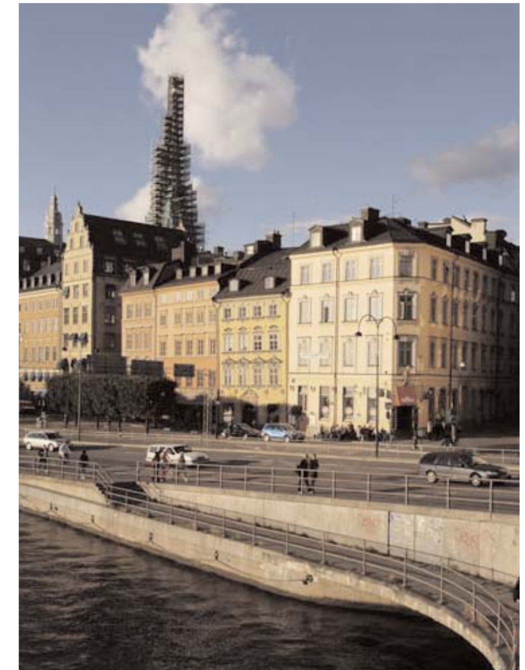
There are now a significant number of transactions involving properties which have previously been the subject of SDLT or stamp duty planning schemes, either in connection with a prior transaction or implemented strategically by the vendor with a view to sharing the stamp tax saving on a future sale.

In all cases, potential purchasers should consider including confirmation of the scope and nature of any relevant previous planning in their due diligence investigations. Only by doing so would it be possible for an informed decision to be taken as to the risks from previous ineffective planning (e.g. because the planning scheme was defective technically); the risk of being successfully challenged by HM Revenue & Customs, or the risk of being rendered ineffective by the proposed transaction (e.g. where an 'old' stamp duty planning scheme would be upset and a deferred stamp duty liability would be triggered).

Purchasers should be aware of the potential SDLT issues when a transaction involves property which is:

- being sold in a unit trust wrapper (typically an offshore property unit trust – we look at the considerations for managing the risks in a Jersey Property Unit Trusts on page 9);
- being sold in a corporate wrapper following previous intra-group transactions by the vendor to defeat the SDLT group relief claw-back rules;
- split into superior and inferior interests (e.g. the property is sold as a package: a low-value freehold or long leasehold reversionary interest is to be transferred separately to a high-value underlying leasehold interest);
- split title, that is the legal title to and beneficial interest in the property are held separately within the vendor's group.

Craig R Leslie leads our stamp taxes practice in the UK.



Jersey Property Unit Trusts – are you managing the risks?

Property unit trusts set up in Jersey are generally transparent for UK tax purposes, although this depends upon the exact terms of the trust instrument, and they can include both exempt and non-exempt investors. Jersey Property Unit Trusts (JPUTs) were relatively unknown prior to the introduction of seeding relief in the Finance Act 2003. This allowed real estate to be transferred into a JPUT without attracting stamp duty land tax (SDLT), and units in the JPUT can be transferred without SDLT. The technique was widely used prior to its withdrawal earlier this year and, although seeding relief has gone, subsequent transfers of units remain exempt from SDLT, and other transfer duties (as discussed on page 8), so a JPUT is still an attractive vehicle to hold UK property.

Amanda Rowland and Irfan Butt consider the risks and obligations in administering and managing JPUTs, as these place unfamiliar tax, and non-tax, obligations and responsibilities on the JPUT's administrators and trustees, along with a due diligence issues for those looking to acquire properties currently held in JPUTs.

UK distributor status of a JPUT

A fundamental issue often overlooked is the UK distributor status of the JPUT. As a collective investment scheme within the meaning of S235 FSMA 2000, a JPUT is an offshore fund for UK tax purposes. The UK tax treatment for investors depends on the status of the offshore fund, i.e. whether it is a distributor or a non-distributor fund.

Prior to the withdrawal of seeding relief the JPUT structure was often implemented as part of a vendor's pre-exit strategy. Any risk of appreciation in the value of the underlying trust property from the transfer date to the date of disposal of the units was negligible, as both transactions would have taken place more or less simultaneously. Therefore, there was no practical need to consider the UK offshore fund rules. However, this is a significant issue for ongoing JPUTs that own property, as any gain arising on the disposal of units by the unit holders may be taxed as income and not as a capital gain. In order for capital gains treatment to apply to any gain arising on the disposal of units by a UK resident unit holder, the administrators of the JPUT should have it certified as a distributor fund for UK tax purposes. This requires the submission of a certification request to HMRC.

Prior to certifying the distributor status of an offshore fund, HMRC normally requests additional information, including a UK equivalent profits computation. The certification process is fairly straightforward if the JPUT owns only UK property, as the UK equivalent profits should already have been calculated for the benefit of UK investors. However, it can be complex if a JPUT owns any other assets such as units in further JPUTs or shares in companies, or if the accounts are prepared under non-UK GAAP.

There are time limits for submitting a certification request. Also, in order for the distributor status to be maintained, a JPUT administrator needs to ensure the relevant certification requirements continue to be met in respect of all future accounting periods. Failure to meet the certification requirement in one period would lead to a JPUT being treated as a non-distributing fund for the entire ownership period of a unit holder.

Management and control

For UK CGT purposes, a JPUT is treated as a company. For non-resident investors, it is crucial that the company is not UK tax resident, which means the trustees must have broad knowledge of the UK residence requirements. The trustees must have due regard to the terms of the trust deed and any decision making process must be properly documented and supported by accurate minutes of the trustees meetings. An internal guidance manual covering their actions and dealings with third parties may assist the trustees in discharging their obligations without putting the JPUT's tax status at risk.

Closely controlled JPUTs

A close company is broadly defined as a company under the control of five or fewer shareholders, or any number of

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Jersey Property Unit Trusts – are you managing the risks?

directors who are also shareholders in that company. A company is not close if it is controlled by open companies and cannot be treated as close under the first test except by including one or more open companies. In view of the opaque nature of JPUTs for CGT purposes, many closely held JPUTs will be treated as close companies for UK capital gains tax purposes.

This is significant because Section 13 of the Taxation of Chargeable Gains Act requires shareholders to apportion capital gains of non UK resident close companies in their UK tax returns in certain circumstances. Failure to apportion capital gains would result in submitting incorrect UK tax returns with resulting penalties and interest on the late payment of tax.

The anti-avoidance rule is designed to prevent capital gains being accumulated offshore by closely held companies. The rule requires a UK resident company or individual to pay tax on gains apportioned from an offshore company where their direct or, in most cases, indirect interest in the non-UK company exceeds 10%, and the non-UK company would be close if it were UK tax resident.

As a matter of good practice, the trustees of a close JPUT should have reporting guidelines and procedures to ensure all disposals are reported on a timely basis to UK-resident unit holders, to enable them to prepare and submit accurate UK tax returns.

Capital allowances

This is a complex area of taxation. Depending on the type of trust, bare trust or not, transfer of a property into a JPUT may not be a disposal for capital allowances purposes. As such, a claim for capital allowances could be jeopardised.

The tax treatment for capital allowances purposes on the winding up of a JPUT is also a very complex area. Purchasers are only entitled to claim capital allowances if the transaction is treated as a disposal event or a succession for capital allowances purposes.

Further complexities arise if the purchaser of a JPUT unit makes an election to ensure that no balancing allowance or balancing charge arises in respect of plant and machinery contained within a building. The trustees should seek professional advice to ensure the eventual winding up of a JPUT is carried out tax efficiently, resulting in full capital allowances for the purchaser.

Non-resident landlord scheme

The trustees of a JPUT should generally register with HMRC under the non-resident landlord scheme. In the absence of this a UK tenant or agent would be obliged to deduct income tax at a rate of 22% from rental income paid to the trustee, with limited relief for expenses incurred. This could have severe cash flow disadvantages and, ultimately, the UK investors might require a cash distribution from the JPUT to meet their borrowing obligations.

Therefore, the administrator of a JPUT must consider its obligation to register under the scheme to ensure the UK source rental income is received gross. Registering under the scheme requires UK tax compliance in the form of an annual SA700 UK income tax return, although this may not be required where all unit holders are UK resident.

Tax vouchers

JPUT administrators are obliged to provide UK tax resident unit holders with the relevant information needed to enable them to prepare their UK tax returns and claim repayment of income tax from HMRC if applicable.

The information required on tax vouchers must be accurate and complete so there is no risk to the unit holders in disclosing their share of the income from JPUTs on their UK tax returns. The tax vouchers should be sent to unit holders on a timely basis to enable them to submit their tax returns by the due dates.

Summary

Although the demise of seeding relief limits SDLT planning using JPUTs, there are still issues to be considered by the administrators and trustees of JPUTs. These trusts continue to provide protection from a charge to SDLT, stamp duty and stamp duty reserve tax on the future sale or transfer of units by the unit holders.

The issues faced by the administrators and trustees of JPUTs are unique and, in particular, the application of the UK off-shore fund legislation could give rise to unwelcome tax consequences for UK resident investors. The administrators and trustees of JPUTs should seek appropriate professional help to meet their obligations and responsibilities under the trust deed and under UK tax rules to minimise the tax and non-tax risks associated with the management of JPUTs.

Amanda Rowland is a tax partner in our real estate team. Irfan Butt is a manager in the team.

Best practice reporting for non-listed real estate vehicles

A vast amount of capital is currently being poured into non-listed real estate vehicles from investors such as pension funds and European corporate investors. These investors want, and need, to know how their investments are performing. While accounting frameworks such as International Financial Reporting Standards (IFRS) are mandatory for vehicles listed on a stock exchange, non-listed real estate vehicles have found it difficult to find comprehensive guidance on best practice reporting. Improving the consistency in accounting and presentation of information by these vehicles will aid transparency in reporting, maintain capital flows and continue to nurture the emerging secondary market.

The good news is that after a number of years of research and consultation a best practice framework will soon exist to help non-listed real estate vehicles compile their financial statements. The framework has been produced by members from the European Association for Investors in Non-listed Real Estate Vehicles (INREV), which represents over 200 leading institutions and other key market players in the European non-listed real estate vehicle sector. The framework has been produced following a wide consultation with managers and investors, and will be presented to members of INREV before the end of 2006.

The background to the framework

An initial best practice report was presented to the members of INREV in November 2004, before most listed companies implemented IFRS. Since then there has been a full round of IFRS reporting. This has allowed the reporting trends and best practices to be analysed, and the initial guidelines for the financial reporting of a non-listed real estate vehicle to be updated. The best practice guidelines have been based on IFRS and are intended to be used as a guide for selecting the presentation and disclosures that are most appropriate for particular structures and circumstances.

A draft of the revised framework was presented to members at INREV's reporting workshop in Amsterdam in May 2006 and their feedback has been included within the framework. There was significant debate around the amount of information investors would like to receive, and the amount it is feasible for managers to report on within deadlines.

The future

As IFRS and the real estate industry change, the framework will have to evolve. As different forms of financing develop – for example to ensure full compliance with Sharia law, the reporting framework will need to have the flexibility to accommodate this. The reporting framework is intended to provide best practice and the recommendations for reporting are not currently mandatory for the members of INREV, but, with further consultation the group would like to specify which elements are mandatory and which elements are best practice to include in financial statements.

Angela Crawford-Ingle, partner at PricewaterhouseCoopers and a member of the INREV reporting committee believes that ultimately it remains up to the individual real estate vehicle manager how they present and disclose the information they feel is most appropriate for their fund's structure and circumstances. However, the framework that will be launched later this year is a useful best practice guideline and a reference tool that provides assistance in selecting the detailed disclosures to meet the needs of investors. It is also a means of encouraging transparency within the annual report for the benefit of the investor and other users of the financial statements.

Sandra Dowling is a director in our real estate Assurance practice. More details can also be found at www.inrev.org

Reporting and transparency will be covered in more detail in a breakout session at the PwC European Real Estate client conference in Paris.

Events

European Real Estate client conference – Europe's place in a global real estate market 17 November 2006

Our eighth European Real Estate client conference will be held in Paris, France. If you wish to join us, please log on to our dedicated website and complete the registration form. For the full programme, details of the welcome dinner on 16 November, and all the administrative and logistical details, please email the UK real estate insights team.

The programme includes:

- An introduction from Henrik Steinbrecher, European Real Estate leader, PwC Sweden
- European economic update
  Dr Bill Robinson, director of business economics, PwC UK
- The future of real estate in a world dominated by information technology
  Miklos Sarvary, INSEAD
- Emerging Trends in Real Estate Europe – Panel
  Chair: Andrea Carpenter, managing director, Urban Land Institute
- There will also be breakout sessions on topics including:
  - Introduction to deal due diligence and structuring
  - Infrastructure
  - REITs worldwide
  - Governance and risk management reporting for real estate
  - Real estate transaction structuring and financing
  - Fund structuring
  - Reporting/transparency
  - Australian REIT tax structuring when investing into European real estate
  - Joint ventures, consortia and local operating partners
  - Sustainable growth for a real estate portfolio and organisation

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