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U.S. Tax Seminar

Inbound Investment in U.S. Real Estate

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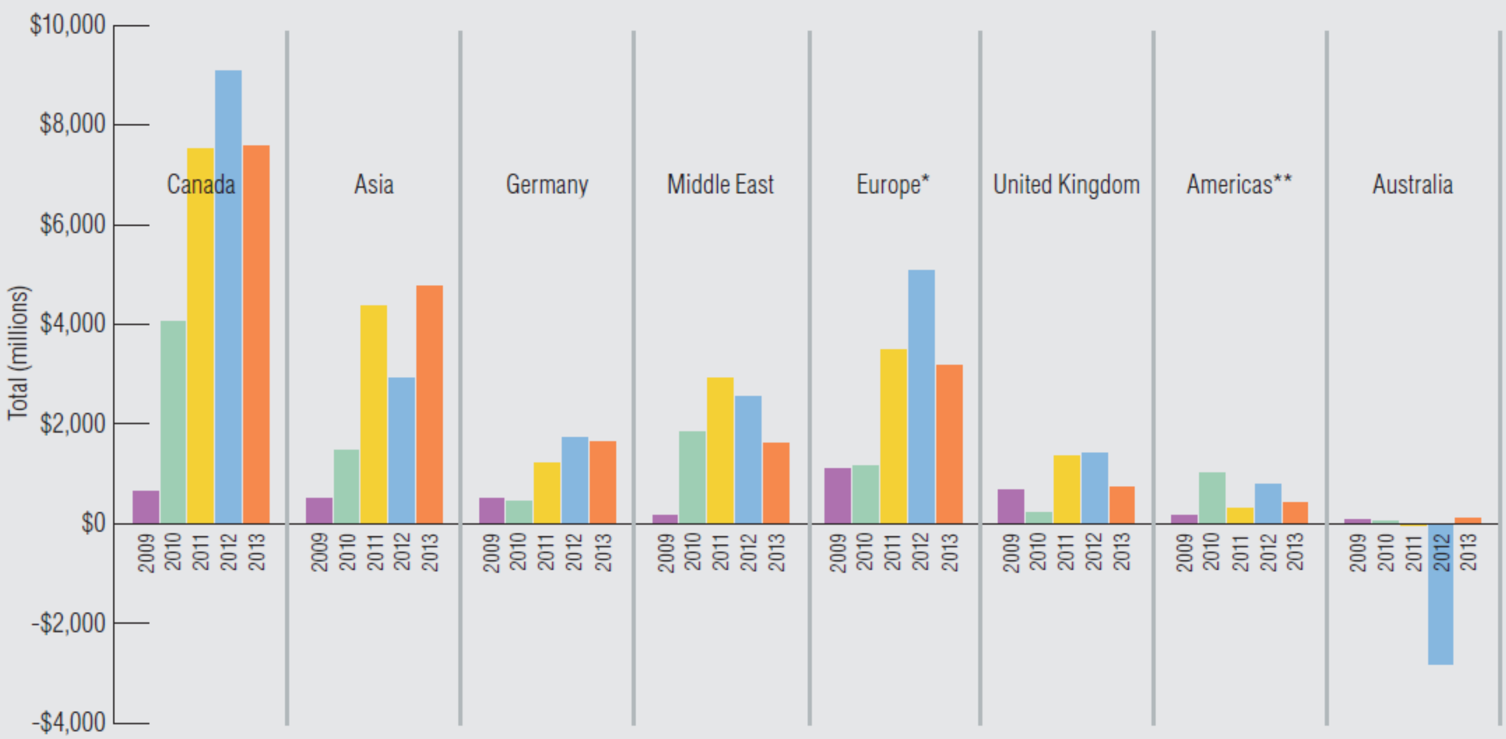
Agenda

1. Investments by Individuals
   - Direct Investment in Residential Property
   - Investment through Fund/ other Vehicle
2. Investments by Corporations
3. Investments by Institutional Investors
4. REITs

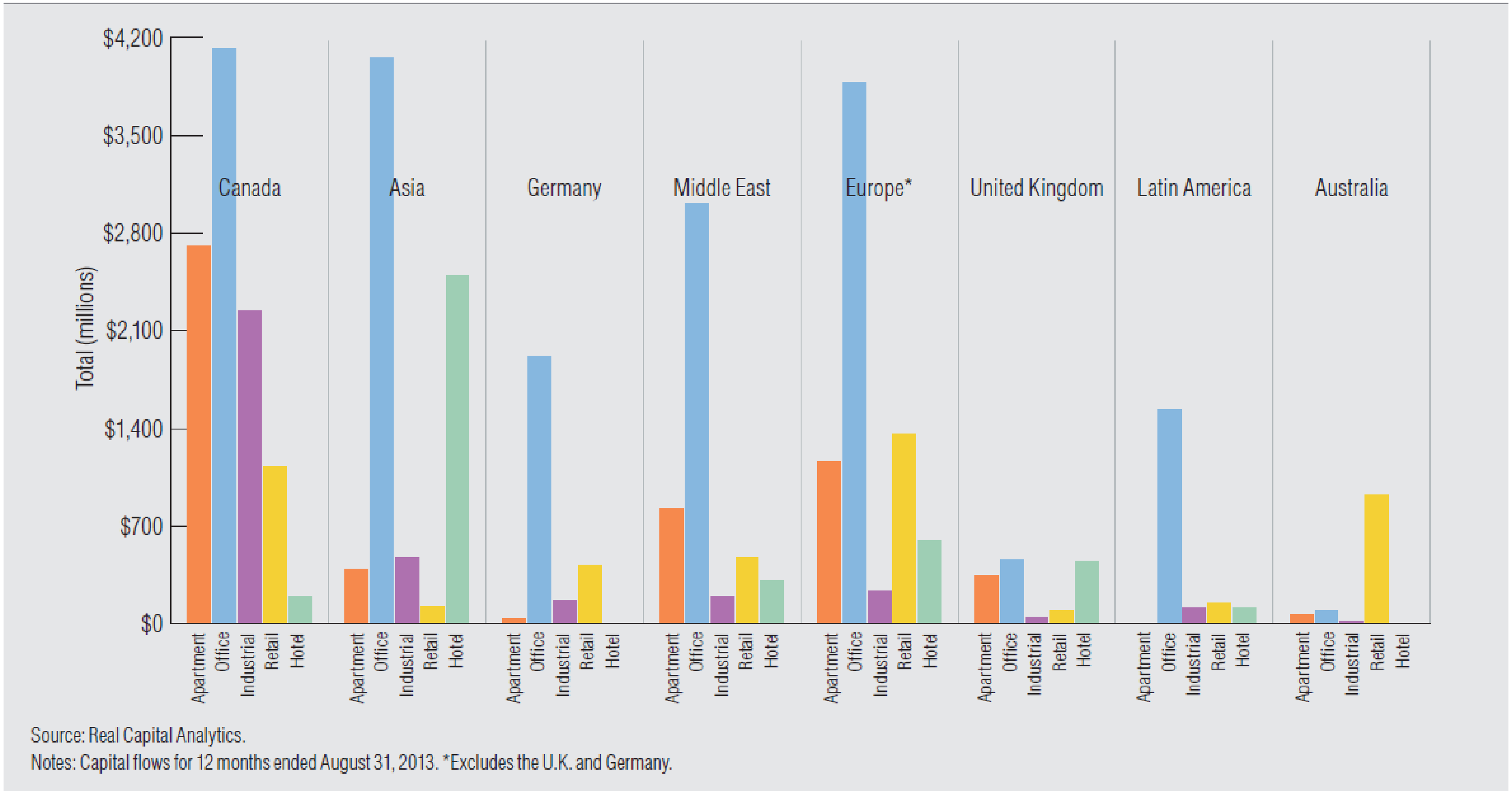
Foreign Net Real Estate Investments in the U.S., by Buyer Origin, 2009–2013



Source: Real Capital Analytics.
Note: 2013 capital flows are year-to-date as of October 4, 2013. *Excludes the U.K. and Germany. **Excludes Canada.

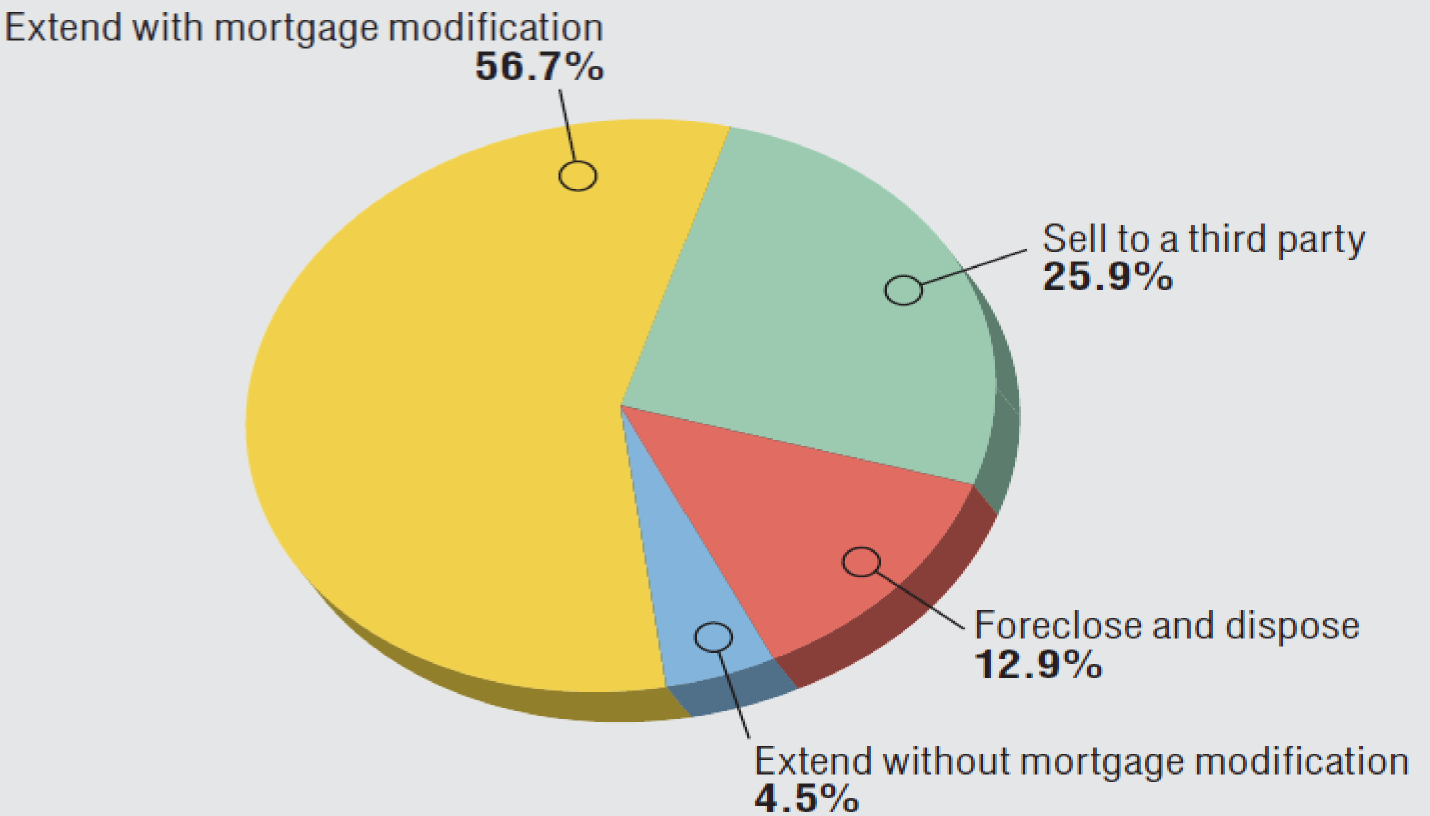
<u>Source</u>: *Emerging Trends in Real Estate 2014, PwC & Urban Land Institute, October 2013*

Foreign Real Estate Investments in the U.S., by Buyer Origin and Property Type



Source: *Emerging Trends in Real Estate 2014, PwC & Urban Land Institute, October 2013*

Maturing Loans: Preferred Strategy for Lenders



Source: *Emerging Trends in Real Estate 2014* survey.

Note: Based on U.S. respondents only.

Source: *Emerging Trends in Real Estate 2014, PwC & Urban Land Institute, October 2013*

Anecdotes

- In 2012 foreign investments in U.S. real estate constituted 9% of total real estate investments. In comparison, between January - August 2013, foreign investors acquired approximately $22.8 billion in U.S. real estate → 13% of all real estate transactions in the U.S. during that period!

  (According to Real Capital Analytics)

- In recent years, foreign investors have played an increasing role in the residential market trend – particularly in Florida (e.g. investing in single-family homes, condos, multifamily apartments)

Recent Trends in U.S. Real Estate Investments

Recent Trends in U.S. Real Estate Investments

Acquisition of deep discount debt obligations backed by U.S. property

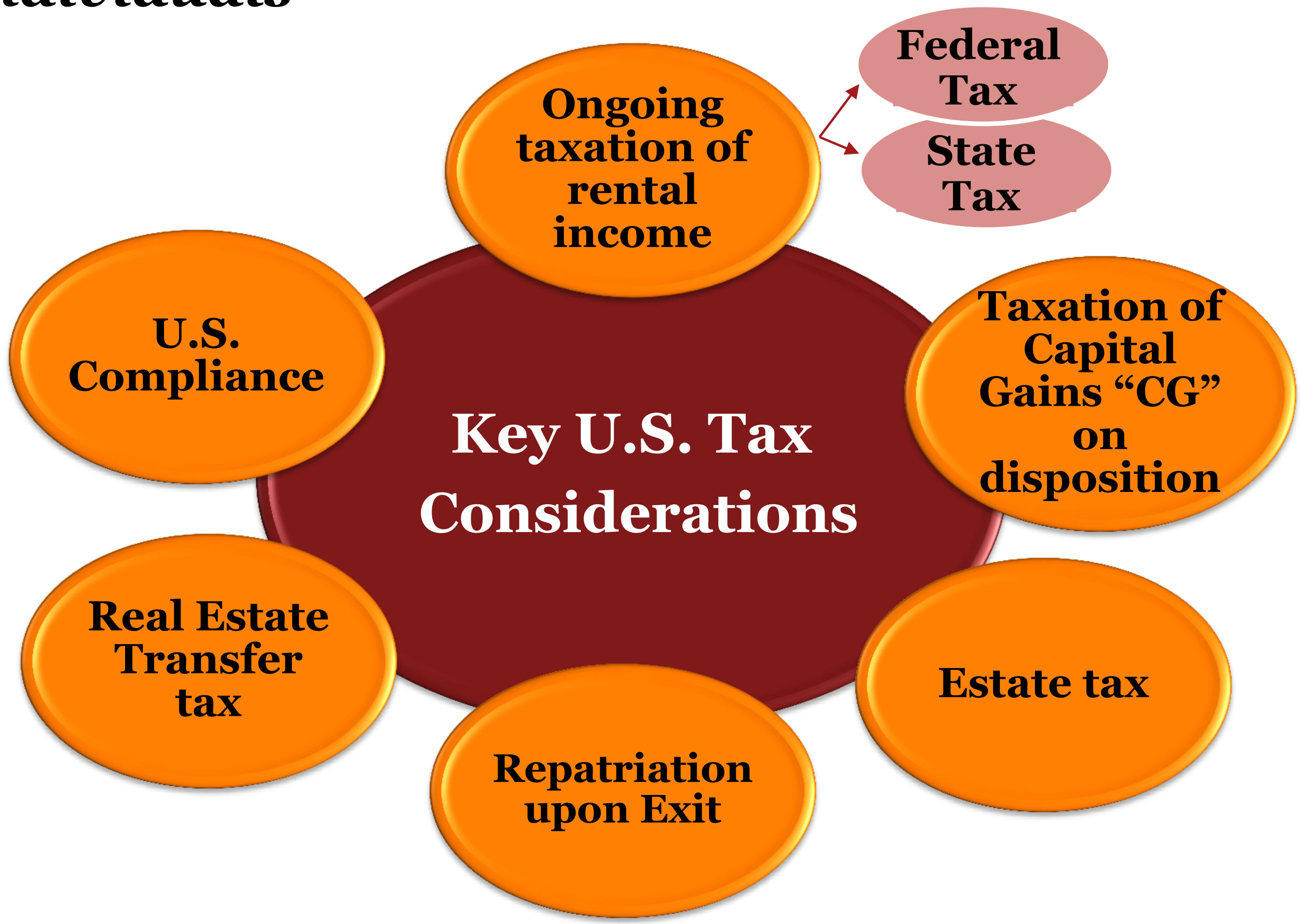
Significant increase of investments in U.S. property by alternative investment vehicles

- Sovereign Wealth Funds ("SWF")
- Designated Real Estate funds

REITs

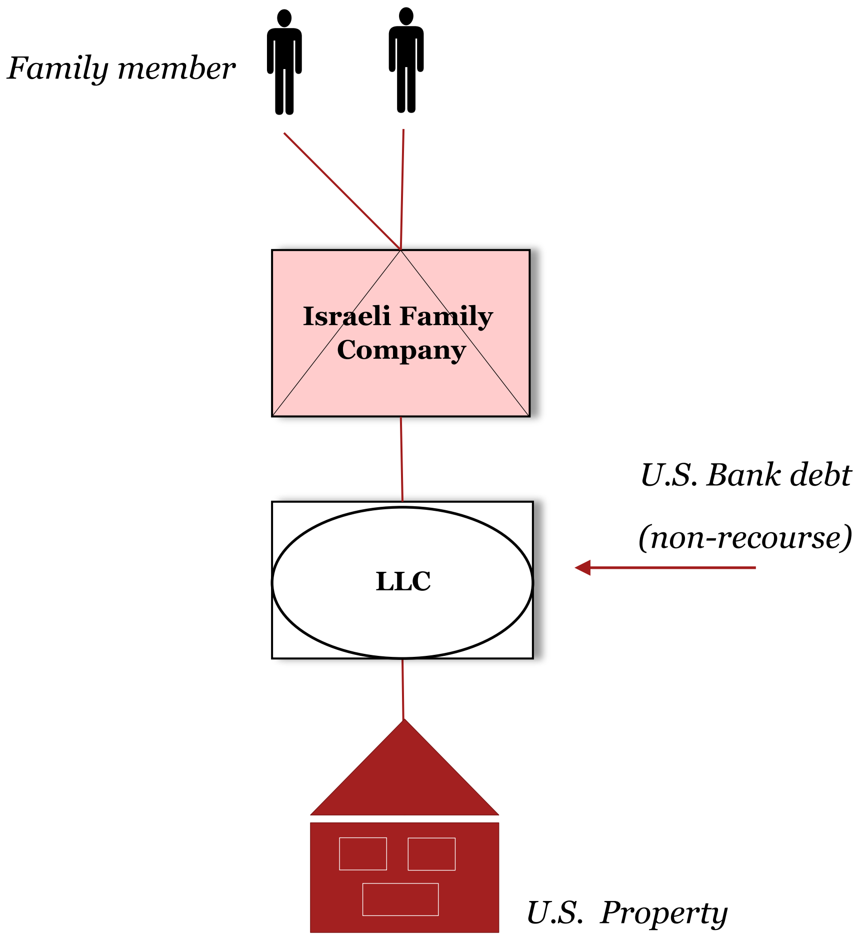
- Privately held REITs
- Public REITs

Investment in U.S. Real Estate Property - by Individuals



Individual Israeli Residents Investing in U.S. Residential Property

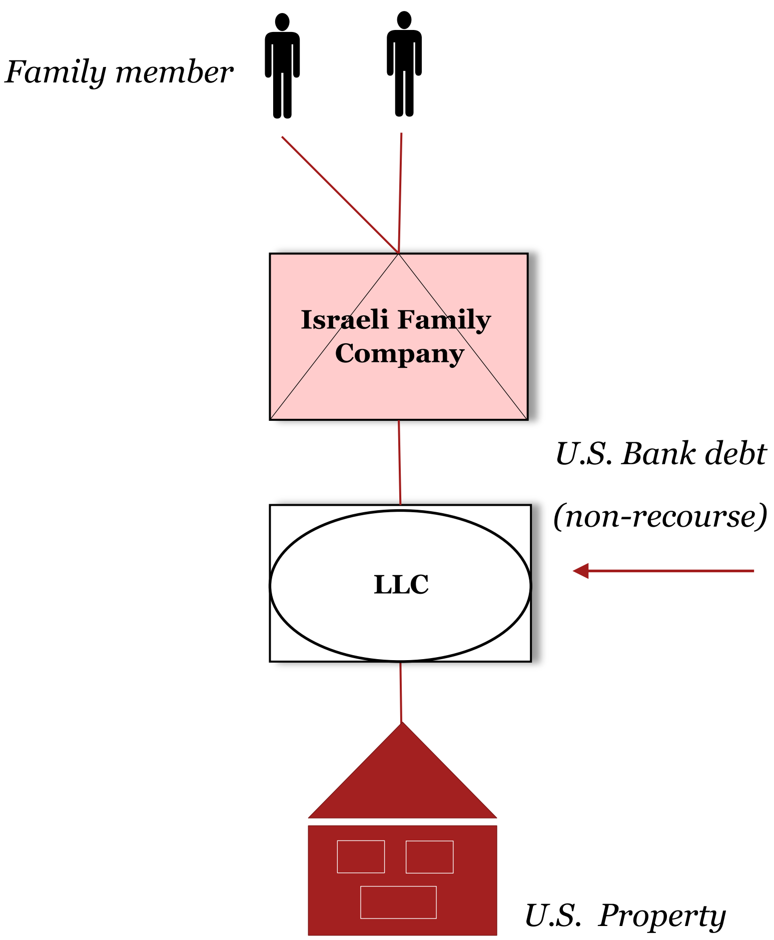
Common Investment Structures



Individual Israeli Residents Investing in U.S. Residential Property

<u>Key U.S. tax considerations</u>

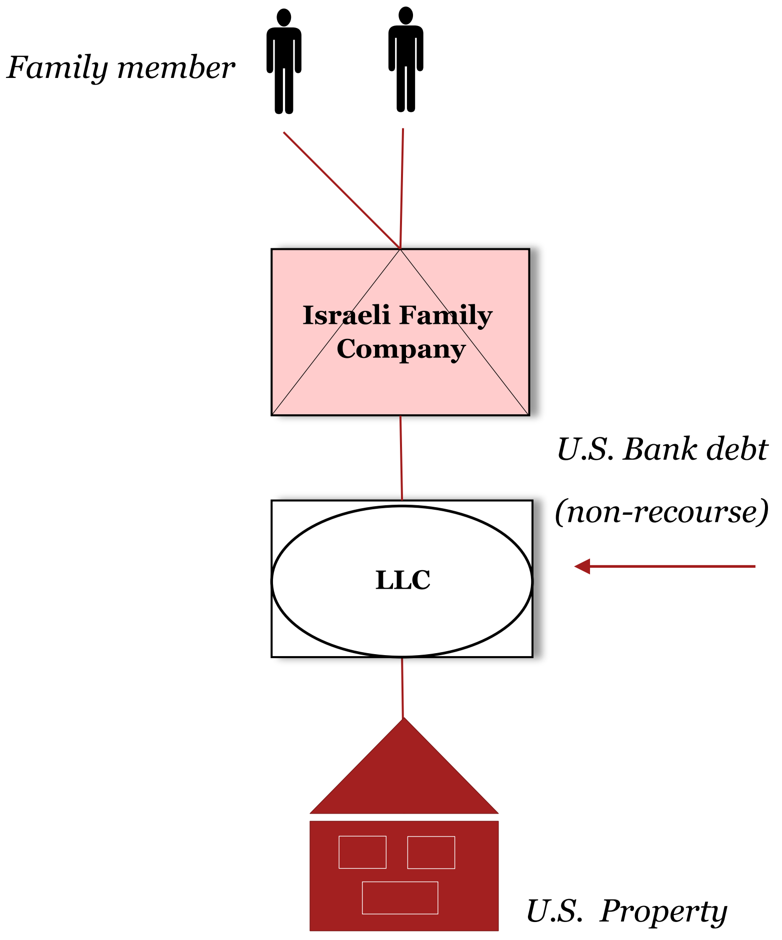
1. Rental income generally taxed at marginal tax rates on a net basis
2. State tax may / may not apply (e.g. Florida - no State tax, NY/CA – high State tax)
3. Long Term CG tax may apply if property held for >1 year. In most cases LTCG → up to 20% Federal + State if applicable
4. Foreign individuals required to file a U.S. tax return (1040NR)



Individual Israeli Residents Investing in U.S. Residential Property

<u>Key U.S. tax considerations</u>

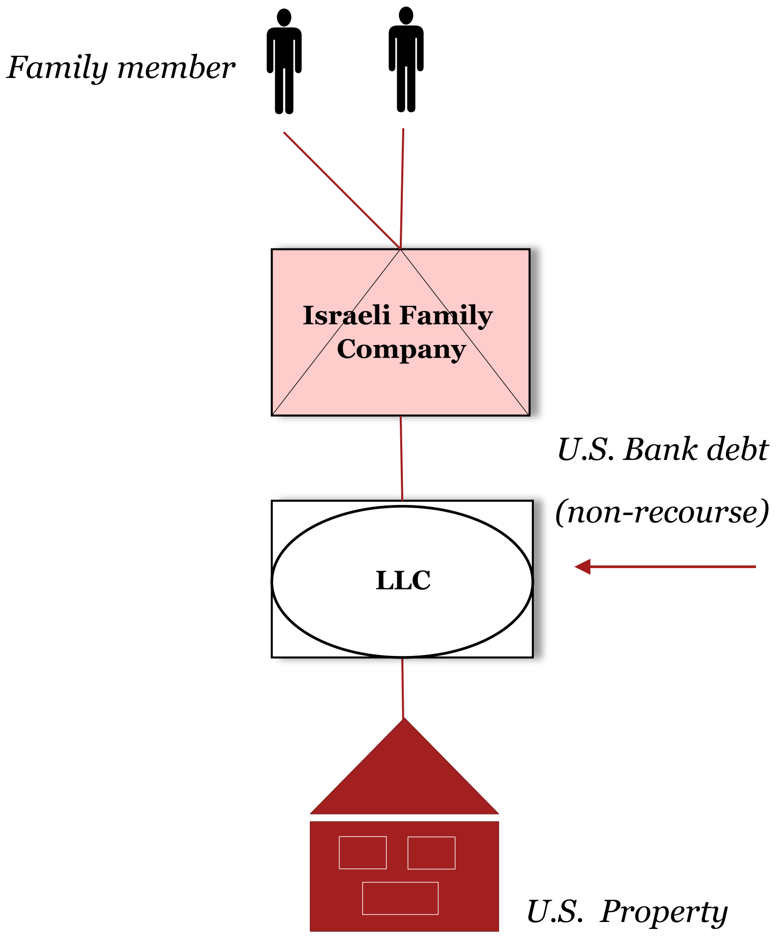
5. Estate Tax – potentially may not apply (since asset is foreign partnership interest)
   - Alternatives for prevention of Estate Tax:
     - Life insurance policy
     - Trust mechanism



Individual Israeli Residents Investing in U.S. Residential Property

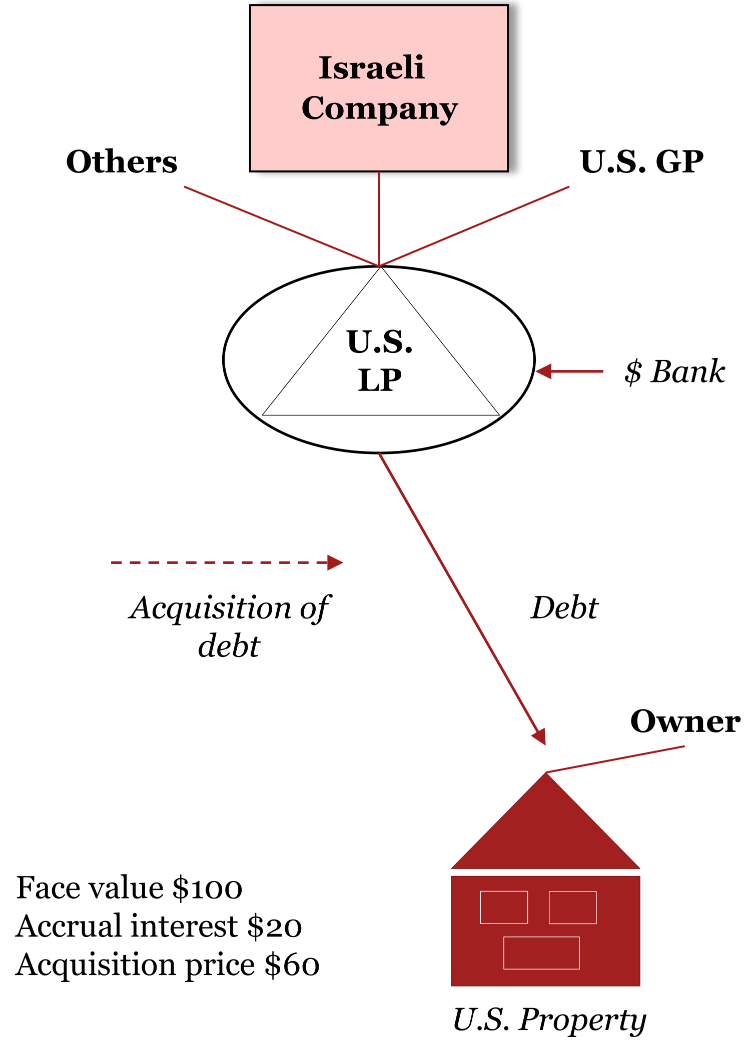
<u>Key Israeli tax considerations</u>

1. LLC requires election for pass-through treatment (for foreign tax credit purposes only)
2. Rental income - marginal tax rates (generally more attractive than 15%)
3. Foreign Tax Credit ("FTC") -generally available within limitations.

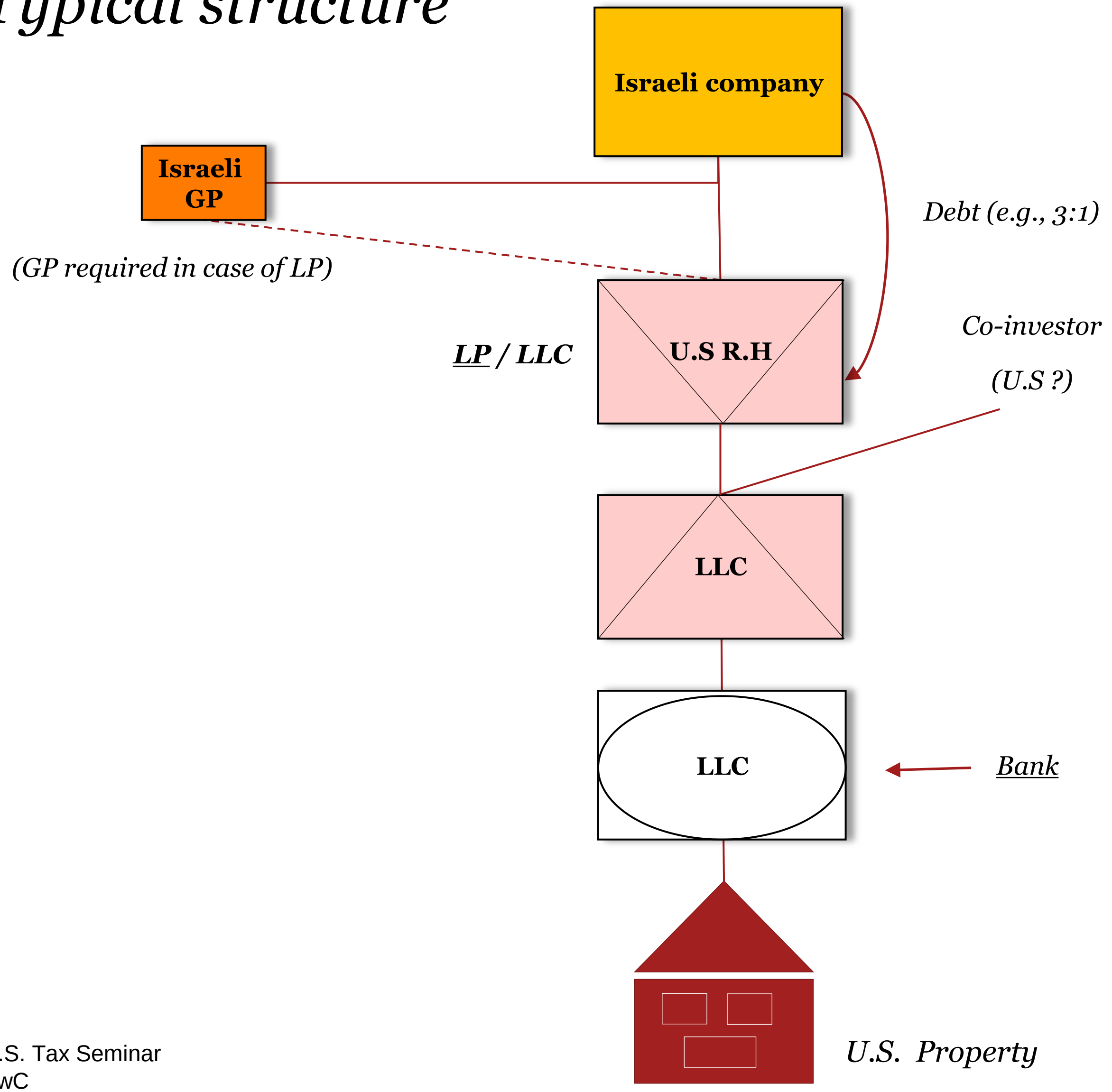


Acquisition of Discounted Debt Secured by Property

- Popular transactions in the wake of the 2008 financial crises:
- If properly structured – most tax-efficient investment in U.S. Real Estate since:
  - Discount component is generally not taxed to foreign investors under U.S. tax rules and U.S. sourcing rules
  - Interest component is generally not taxed to foreign investors assuming PIE applies
- Assumes "straight" debt (i.e., interest not contingent) and no "equity kickers"
- If property foreclosed then future appreciation taxable in U.S.



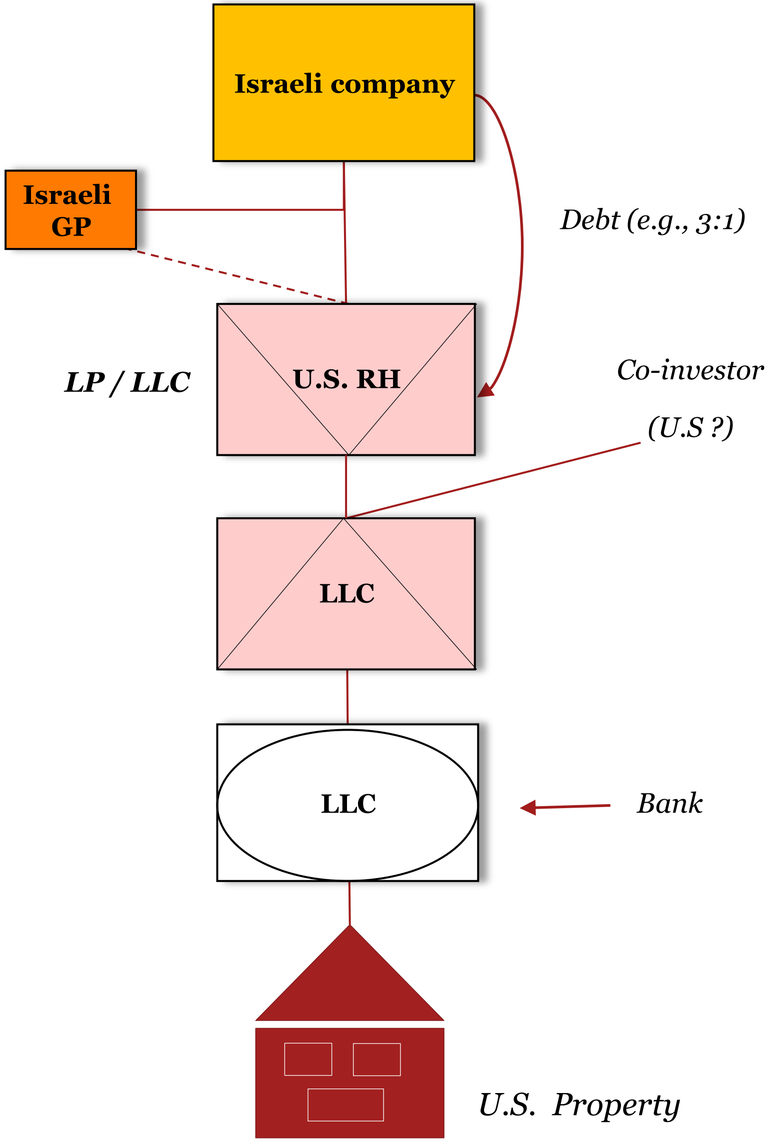
Investments by Corporations
Typical structure



Investments by Corporations

<u>Key U.S. tax considerations</u>

1. U.S. RH ("blocker") facilitates:
   - BPT blocker
   - Efficient repatriation through use of debt
   - Reduction of U.S. tax liability through interest expense
2. Increased pressure on Debt/ Equity analysis**!!!**
   - Debt should be carefully documented on day 1, including cash flow analysis, transfer pricing, detailed agreement, etc.



Investments by Corporations

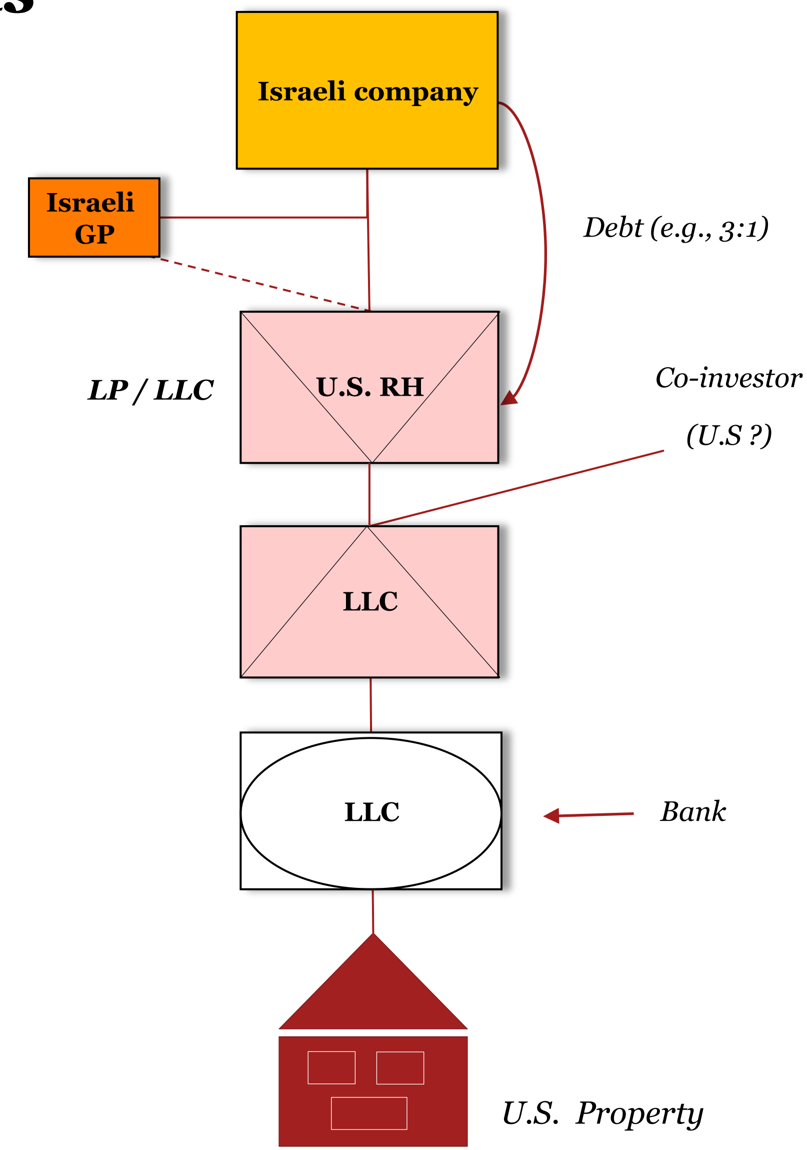
Key U.S. tax considerations

3. Repatriation of remaining earnings through liquidation of U.S. RH

   no withholding tax

4. Timing of interest deduction - critical

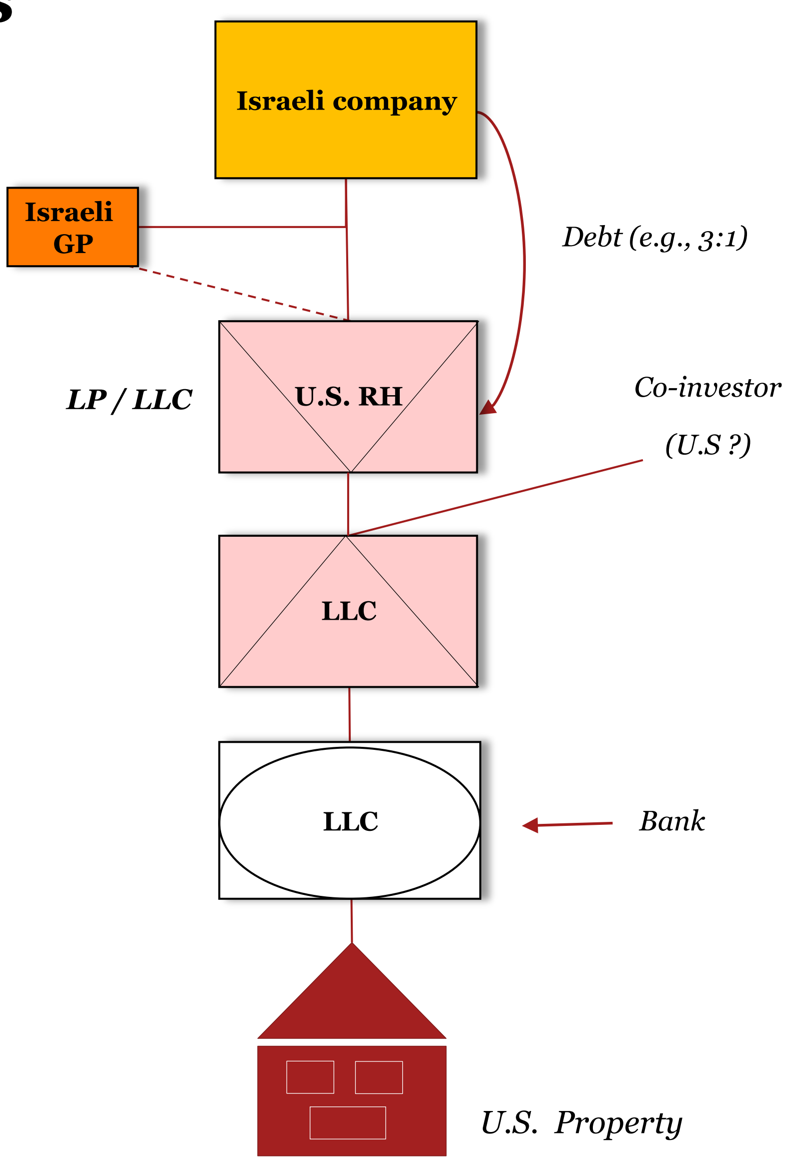
   - 163(j)
   - 267 (a)(3)



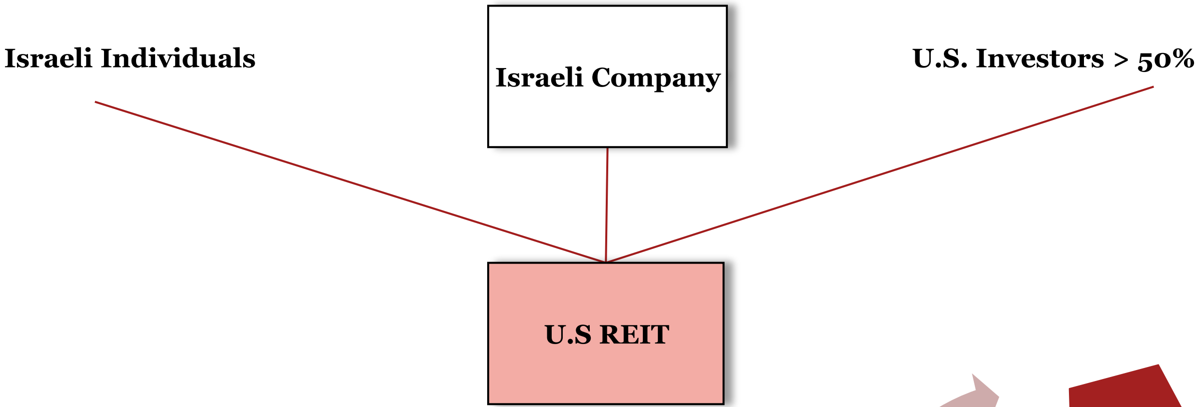
Investments by Corporations

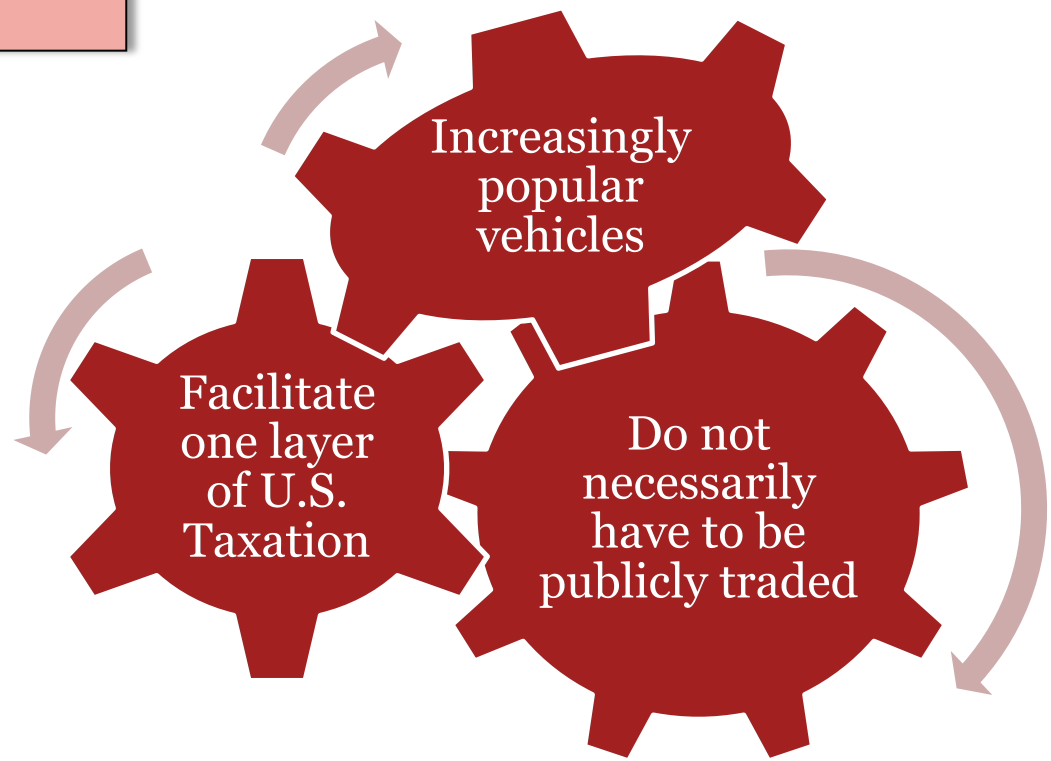
Key Israeli tax considerations

1. Potential mismatch in timing of interest taxation
2. Foreign Exchange (if the principal component is denominated in USD)
3. VAT
4. Reporting based on K-1?
5. FTC in view of "tiered" LLC



REITs


Israeli Individuals
Israeli Company
U.S. Investors > 50%
U.S REIT


Increasingly popular vehicles
Facilitate one layer of U.S. Taxation
Do not necessarily have to be publicly traded

REITs

Generally not taxed on earnings distributed to shareholders

REITs

WHT on dividends / CG

<u>CG dividends</u>

- 35% U.S. domestic WHT rate & State tax (if applicable)
- For foreign shareholders owning <5% → no domestic U.S. WHT under certain conditions (e.g., if publicly traded REIT)

<u>Ordinary income dividends</u>

- On portion of distribution not designated as CG
- U.S. domestic WHT rate
  - If individual owns <10% of REIT → WHT rate of 25% (under the U.S.-Israel Double Tax Treaty)
  - 30% U.S. domestic WHT in all other cases

REITs

Capital Gain on Sale of REIT stock

1. If REIT is DCR - no U.S. tax
2. If REIT is publicly traded and foreign shareholder holds <5% - no U.S. tax
3. All other cases, gain = ECI → taxed at marginal tax rate (on net basis)

Scope and Limitations

- The information contained in this presentation is for general guidance on matters of interest only. As such, it should not be used as a substitute for consultation with professional tax advisers.
- This document was not intended or written to be used, and it cannot be used, for the purpose of avoiding any U.S. federal, state or local tax penalties.

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Thank you!

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