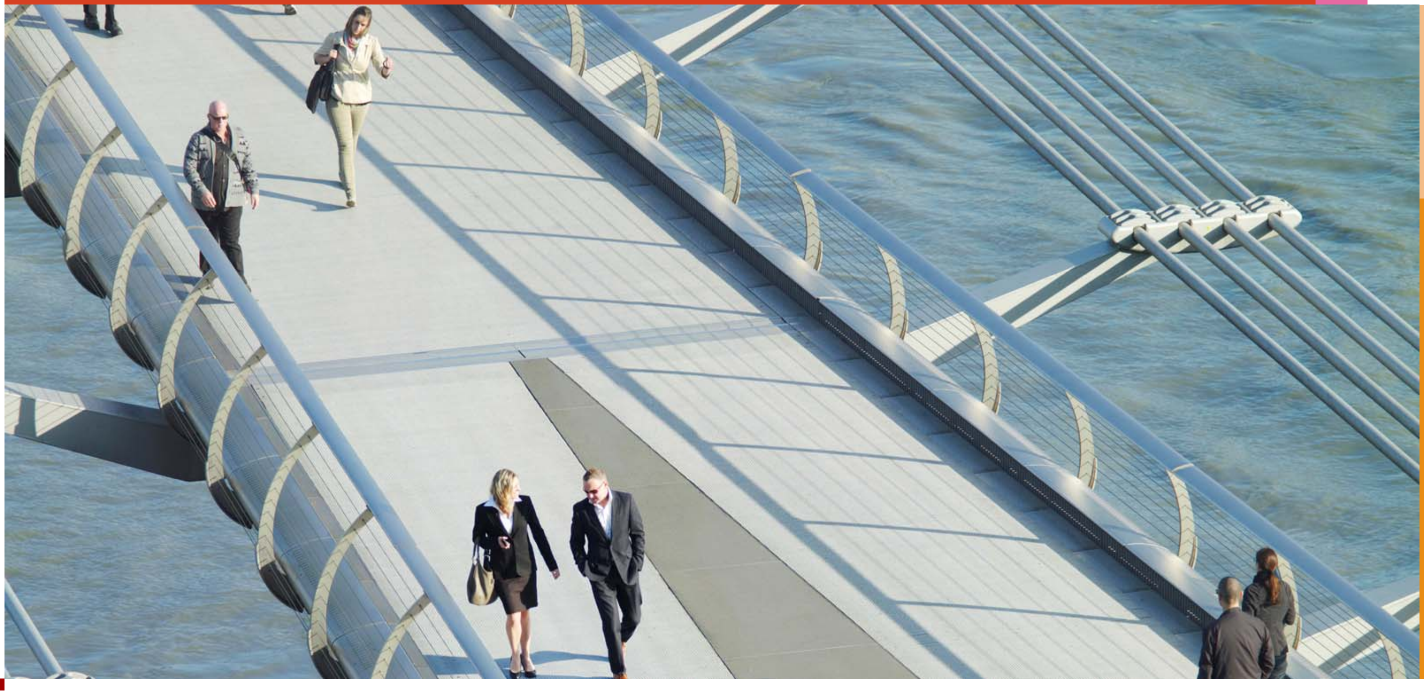
Real Estate Services

AsiaPacific investors
Investing in UK real estate

December 2013



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Agenda

- Selected market overview
- Introduction to structuring
- Indicative structures for non-UK resident investors
- UK tax rates overview
- Shareholder debt
- UK residential property valued at over £2m
- REITs
- Real estate-related debt

Selected market overview

- London as a “safe haven”, and transparent and liquid market.
- Transaction levels in the Central London office market stand at rolling annual total of £14.6bn (end of Q3), compared to £12.3bn at same point in 2012.
- Overseas buyers accounted for 66% of investment transactions in this market since the start of 2012 (which includes 20% from Asia; rising to 25% in Q3 2013).
- Asian demand expected to deepen and broaden.
- Pricing pressure, with City prime yields moving in from 5% to 4.75% in 2013.
- Overseas buyers also account for a significant proportion of high value residential purchases, noting initial marketing of prime schemes around Asia.

(Source: CBRE)

Introduction to structuring

- The UK tax framework for non-resident investors in commercial real estate is well established and relatively favourable, particularly as regards:
    - Stamp taxes on acquisition
    - Taxation of rental income and relevant deductions
    - Taxation of capital gains on exit
    - Use of debt financing
- Non-residents engaged in “trading” in real estate or involved in the residential sector can however be faced with additional complexity.
- Note, the UK government’s Autumn Statement is due to be announced on 5 December 2013 and should be monitored for any potential changes.

Indicative structures for non-UK resident investors

Typical offshore structures

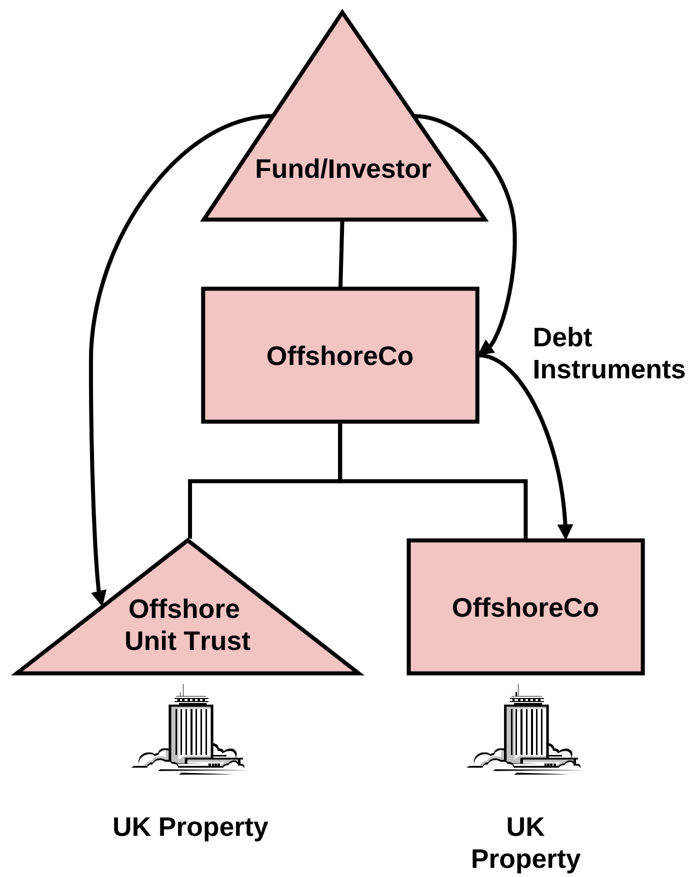
- 20% UK tax on rents, net of interest, other expenses and tax depreciation ("capital allowances")
- Nil UK tax on capital gains (asset or entity sale)
- No UK withholding taxes (on rents - subject to clearance; on shareholder interest - structured as non-UK source; or on dividends)
- Shareholder debt subject to transfer pricing rule (debt amount and interest rate)
- 4% stamp duty land tax ("SDLT") levied on purchaser of commercial real estate (or partnership interest), but currently no stamp taxes on offshore entity purchase (market acceptable)
- For sovereign immunity (where applicable) from UK tax on rents, would need to beneficially hold asset directly or through a partnership or offshore unit trust (no "blocking" corporate vehicles)
- Special considerations to structuring apply if "trading" not "investing"
- Vital that offshore entities not centrally managed & controlled in the UK

Compared to onshore structure

- Up to (currently) 23% tax on all profits (including rents, capital gains and trading profits), although staged reduction to 20% by 1 April 2015
- Withholding tax exemptions on shareholder interest potentially more difficult, and prescriptive thin cap and other anti-avoidance rules
- Stamp duty at 0.5% on UK incorporated company purchase

Notes:

- *More complex rules on certain residential property (see slide 8)*
- *Investors need to factor in any applicable "home country" tax rules*



UK tax rates overview (non-residential property)

Acquisition phase	
• Stamp duty land tax	• up to 4% of the (VAT-inclusive, if applicable) purchase price (0%/0.5% stamp on entity deals)
• VAT at asset acquisition	• 0%/20% (on purchase price; to extent VAT-opted unless TOGC)
Holding phase	
• Tax on income	• 20% (income tax) v up to 23% (corporation tax, although staged reduction to 20% by 1 April 2015)
• Withholding taxes (rent)	• nil (subject to advance clearance for non-residents)
• Withholding taxes (other)	• nil/20% on interest subject to sourcing rules/exemptions/treaties, nil on non-REIT UK dividends
• Thin-cap/TP restrictions	• arm's length test (amount of debt and rate of interest), debt cap rules for corporation tax only
• Property tax rates	• generally borne by tenants
• Use of losses	• indefinite loss carry-forward provided rental business continues
• Tax depreciation	• capital allowances regime (plant & machinery main rate 18%, special rate 8%)
• Value added tax	• 0%/20% (option to tax)
Exit phase	
• Tax rate on asset sale	• nil CGT for non-residents v up to 23% for residents (corporation tax, staged reduction to 20%)
Sovereign immunity (where applicable)	
	• the UK recognises the principle, practice is to obtain advance tax authority clearance

Shareholder debt for non-resident investors

- Typically a key feature of structure, although can be dependent on home country taxation rules.
- Under transfer pricing rules, for interest to be deductible against rental income, the amount of debt and rate of interest needs to respect an arm's length standard.
- Documentary evidence needs to be prepared and retained to support the arm's length standard and tax filing position taken.
- The test is not just what "could" be borrowed, but also what "would" be borrowed, and market evidence needs to be applied to the specific metrics of the particular transaction contemplated.
- Advance rulings can be obtained from HMRC.
- Connected party guarantees on third party debt can also bring such debt within the transfer pricing rules.
- Subject to all the relevant circumstances, interest will generally not be UK source and so will not be subject to UK interest WHT (see also slide 11).

UK residential property valued at over £2m

- Recent introduction of an annual charge (the "Annual Tax on Enveloped Dwellings", or "ATED") on residential properties valued at over £2 million owned by certain non-natural persons (broadly companies, partnerships including companies and collective investment schemes). Currently the annual charge ranges from £15k to £140k. Various exemptions including, importantly, where the property is let to a third party on a commercial basis or is held for a property development or trading business.

- Furthermore, recent extension of capital gains tax (at 28%) to the disposal of property that has been subject to ATED (so effectively the same exemptions apply).

- Compared to the 4% maximum rate for non-residential property, SDLT applies at 5% on residential transactions over £1m, and at 7% on such transactions in excess of £2m. Furthermore, a 15% (rather than 7%) rate applies on acquisitions over £2m made by entities of the type subject to ATED (and broadly with the same exemptions as ATED).

UK Real Estate Investment Trusts ("REITs") - 1

- The biggest listed UK real companies are REITs eg Land Securities, British Land, Hammerson. Currently, in approximate numbers, 30 REITs with a value of £30bn.
- Exemption from UK corporation tax on qualifying rental income and on gains on disposal of UK investment properties (subject to minimum distribution and other detailed requirements).
- Dividend payments consist of two components: a Property Income Distribution ("PID") from REIT qualifying activities and a dividend distribution from the non-qualifying activities ("non-PID").
- Apart from payments to certain classes of UK investor, PIDs are paid net of 20% WHT, non-PIDs are not subject to WHT.
- Some non-residents may be able to claim treaty refunds of WHT, generally at best down to 15% (although, for example, PRC is 10%), and sovereign immune investors may get full refunds.

UK Real Estate Investment Trusts (“REITs”) - 2

- Recent relaxations in the rules means that REITs are no longer merely of interest in the large corporate sector, but have also been seen as vehicles for major joint venture transactions undertaken by institutional investors.
- Nevertheless the complexity of listing and tax rules for REITs implies that for now at least this wider use is likely to be confined to specific transaction and investor circumstances.
- For more comprehensive details, refer to the separate hand-out “Key features of a UK REIT”.

Real estate related debt

- Some banks have withdrawn from lending on commercial real estate.
- Alternative finance providers, including debt funds and broader real estate opportunistic funds.
- 20% WHT on UK source yearly interest, subject to certain exemptions and treaty relief.
- No WHT on non-UK source interest, or on quoted Eurobonds.
- Treaty relief requires care over “beneficial ownership.

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Neal is a director in the London office of PwC. He specialises in advising European, Asian, global and single country real estate funds, joint ventures and separate accounts on structuring and transactional matters. Neal also advises sovereign wealth and other large investors as they become more prominent in the sector, especially in relation to investing from AsiaPacific into the UK market.

Neal joined PwC 15 years ago after spending 20 years with the UK Inland Revenue, the last 5 of which were spent working on the affairs of major UK financial institutions. Neal's client portfolio includes a range of important private equity real estate managers. He has also been involved in a number of significant UK property transactions for AsiaPacific investors.

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Richard specialises in structuring multi-jurisdictional investment platforms as well as direct and indirect real estate acquisitions in the UK and across Europe. Richard's areas of expertise include matters relating to financing, acquisition, hold, exit, cash repatriation, and investment and development.

Richard has a focus on Asia-Pacific inbound investors, including segregated accounts and joint ventures, and has advised on major property transactions for Asia-Pacific investors. Richard's client base includes high profile multinationals, private equity funds, institutions, pension funds and sovereign wealth funds.

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Thank you!