US REITs operating globally

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ACTL The Tax Aspects of Real Estate Investment Trusts

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November 14, 2015

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Unless stated otherwise, all information in this presentation is as of 30 June 2014.

Content

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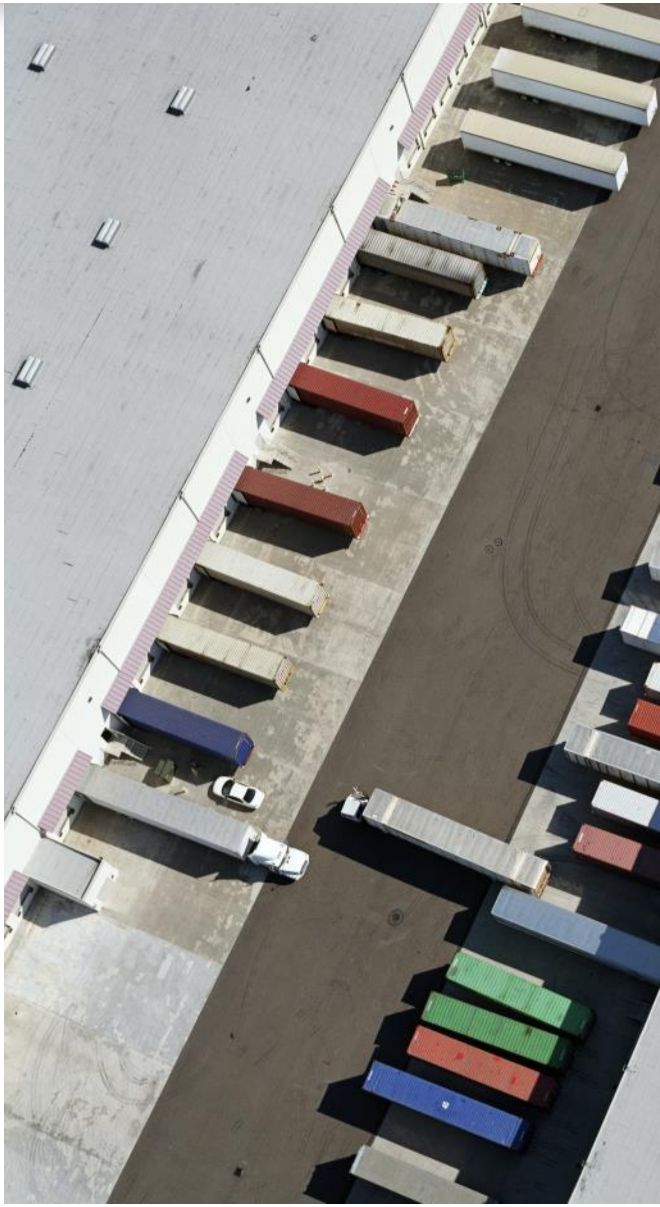
US REITs operating globally

- By estimate REITs own globally over € 1.3 trillion real estate debt and equity.
- First REIT system in the US to provide a tax-favored vehicle through which the average person could invest in a professionally managed portfolio of real property.
- REITs have become in 50 years the preferred access to:
  - high quality managed real estate;
  - liquidity to the real estate and investor market;
  - the flexibility to shape investment portfolio's constantly;
- Public listing of REITs added transparency in earnings, valuations and managers performance.
- Stock exchange-listed U.S. REITs constituted a more than $300 billion equity market with an average daily trading volume of about $4 billion.
- Majority of the US REIT sector invests in domestic US markets however it is expected that international expansion will continue to grow.



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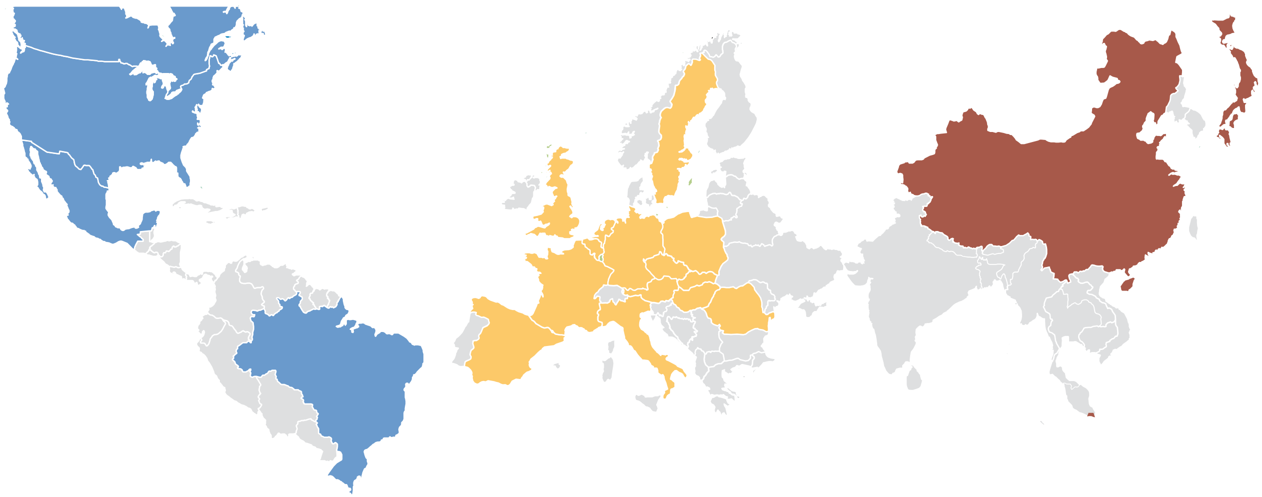
Prologis Worldwide

Leading Owner / Operator

- Public company in the US, listed on NYSE: PLD
- Regulated by US SEC and subject to NYSE rules and regulations
- US REIT- United States real estate investment trust with an Independent Board of Directors
- Exclusively focused on industrial real estate
- 53 million square metres (571 million square feet) / $52 bn / € 42 bn AUM
- Active in 21 countries on four continents
- Nearly 2,900 facilities
- More than 1,400 colleagues serve a diverse base of 4,700 customers

Strategic Capital

- €21 billion assets under Managements in 11 significant co-investment ventures
- 30-year proven track record
- 15-55% co-investment alongside partners



	Americas	Europe	Asia	Total
Total Portfolio[3] – Square Meters / Square Feet (millions)	35 / 376	14 / 154	4 / 41	53 / 571
Regional Employees	874	343	208	1,425
Co-Investment Ventures	5	4	2	11

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US REITs operating globally – Tax Framework

US REITs operating globally

- A REIT is a legal corporation, trust or association organized for the purpose of owning real estate or mortgage backed securities.
- REIT taxable income is domestically subject to one level of tax (paid at the shareholder level) to the extent REIT distributes taxable income to shareholders.
- Requirements for classification as a REIT include:
  - Have at least 100 shareholders
  - Meet asset and income qualification tests (passive long term RE investment)
  - Distribute 90% of its taxable income to its owners (during the year)
  - More than 50% of the value of the stock may not be owned by five for fewer individuals
  - Comply with certain statutory and other requirements
  - Be managed by one or more trustees or directors

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US REITs operating globally – Tax Framework

Shareholder

(Income) Tax levied at shareholder level

Credit for WHT maybe available

Country A

(Income) Tax levied at shareholder level

US Shareholders

Foreign shareholders dividends subject to WHT (30 - 35%)

Reduced Treaty rates (10% to 25% or

exempt if owning less than 5% in a public REIT

No WHT on distributions

Income distributed deductible for CIT

US
REIT

US

Country B

Dividend WHT can apply

Treaty rates may be applicable

Income subject to CIT

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US REITs operating globally – Tax Framework

- REIT taxable income is generally subject to one level of tax (paid at the shareholder level) to the extent REIT distributes taxable income to shareholders, however..
- Cross border international investment in most cases are picking up taxes in the source country (CIT, WHT, local taxes).
- A US REIT cannot use foreign tax credits, nor can it pass through foreign tax credits to shareholders.
- Non US income can therefore be subject to multiple taxation.
- Foreign taxes influence investment decisions similar to G&A

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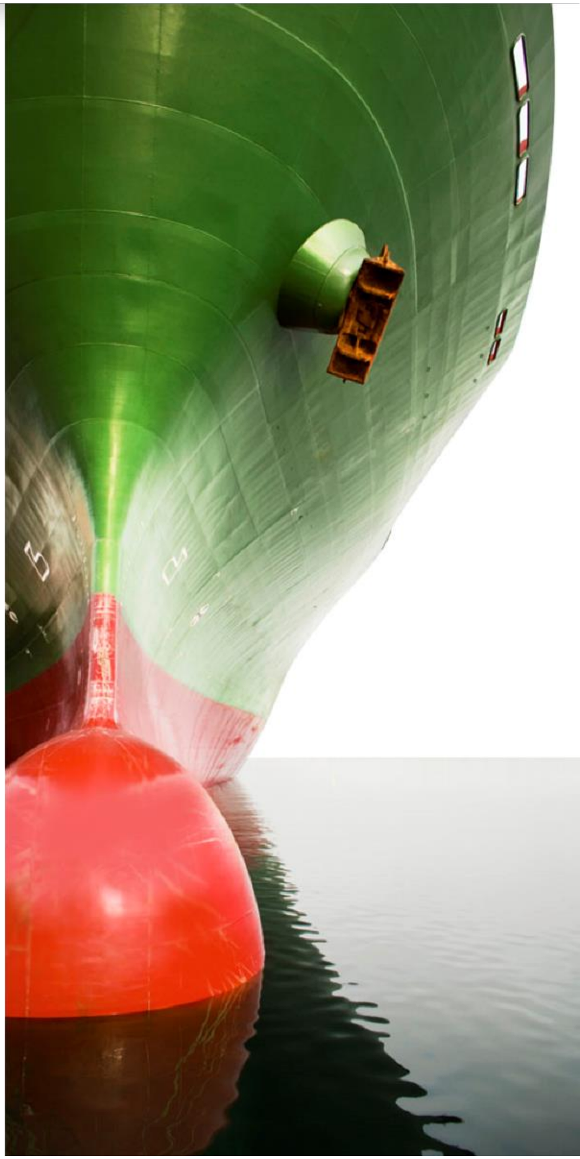
Connecting REIT regimes globally

Connecting REIT regimes globally

- Globalization of the investment market requires cross border investment to achieve a true diversified portfolio.
- Following the US over 30 countries have adopted a REIT or REIT like regime however all with their domestic requirements for:
  - Legal form,
  - Capital requirements,
  - Listing requirements,
  - Restriction on investors,
  - Asset, income and activity test
  - Regulatory rules
- REITs investing in another country are often not able to apply the foreign country REIT regime because of differentiation in criteria.
- REITs with a country specific investment strategy function well however cross border investments can bring the inefficiency of double taxation and additional G&A.



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Connecting REIT regimes globally – What if

- **Countries agree to treat REITs tax transparent**
  - the ultimate guarantee that tax is only levied at investor level
  - huge admin burden; investor would need to comply with compliance in relation to each country the REIT invests in;

- **Countries agree a fixed WHT on dividend from REITs**
  - by using an WHT tax at source level which approaches the average tax due when domestic and foreign invest directly a level playing field is created.
  - Double taxation may still occur although a low standard WHT could reduce the pain

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Connecting REIT regimes globally – What if

- **Mutual Recognition REIT regimes** – countries agree to treat a foreign REIT identical to a domestic REIT.
  - taxation only at level of investor
  - countries may fear to lose 'fare share' of taxation rights in case of foreign investors despite they may benefit from reverse investment

- **Mutual Recognition REIT regimes and Allocation of taxation** countries agree to treat a foreign REIT identical to a domestic REIT. The REIT ensures that if WHT is levied this is allocated to the source state of the income.
  - no double taxation
  - investor exemption and system of allocation to be agreed and question which country relation is relevant for investors claiming exemption or reduction on WHT on dividends

Connecting REIT regimes globally – What if

- **A new universal REIT is created** – European/OECD countries agree on a standard REIT regime that is respected in all countries. In addition, an allocation is agreed to provide each country with its 'fair share' of taxation.

instead of countries bilateral assessing comparability of REIT regimes a standard format is adopted multilateral

consensus by countries on best format and allocation tool may be hard to reach.

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Lunch