



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Reforming the Listed Property Investment Sector in South Africa

The National Treasury has today released for public comment a discussion paper on the reform of the regulatory environment for the listed property investment sector (including the introduction of Real Estate Investment Trust (REIT) as an investment vehicle), entitled "Reforming the Listed Property Investment Sector in South Africa". The deadline for comments is 31 January 2008.

Indirect investment in property can be achieved by investing in property investment vehicles. Different types of property investment vehicles exist but they all have similar objectives including: providing a simple, quick and safe way to invest in property, enhancing liquidity for the investor, providing a fairly predictable income stream to the investor with capital growth on his or her investment.

Internationally, a Real Estate Investment Trust (REIT) is the most well recognised listed property investment vehicle. The Ernst & Young, Global REIT Report 2006 estimates the rapidly growing market capitalisation of the global REIT industry at over US\$608 billion with most of the capital located in the United States (US).¹

REITs are currently not specifically catered for in the South African regulatory and tax environment. The two most common types of REIT-like property vehicles currently in existence in South Africa are Property Loan Stock (PLS) companies and Collective Investment Schemes in Property (CISPs).

National Treasury is reviewing the REIT structure for application in South Africa on two grounds. Firstly, and of paramount importance, is the optimisation of the regulatory framework to cater for the current fragmented property investment landscape which is only partly regulated. Optimising the regulatory framework also entails relaxing or redesigning some of the regulatory requirements that are too restrictive and not internationally competitive. Secondly, there is an inconsistent tax treatment of the two different types of property vehicles, mainly due to the difference in their legal forms and governing regulatory legislation.

¹ The US listed property market is worth in excess of US\$300 billion. Other strong markets include Canada, Singapore, France, Australia and the Netherlands.

The purpose of this discussion document is to highlight National Treasury policy objectives and considerations, and to invite comments from stakeholders on these policy matters. The document also outlines some broad design features and comments on these are also invited. It should be noted that the proposed regulatory amendments will be accommodated within the Collective Investment Schemes Control Act (No. 45 of 2002)(CISCA). The proposed REIT structure will therefore effectively be accommodated in terms of CISCA and supplementary governing rules. Although not the main purpose of this discussion document, other concerns identified by stakeholders (and not addressed in this document) in accommodating REITs under CISCA may also be highlighted as part of the commentary process. A new tax dispensation for REITs is proposed with a separate schedule to the Income Tax Act dealing only with REITS.

Comments on the proposed new tax dispensation are also invited.