The Israeli Real Estate Market and REITs Regulations

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FIABCI YOUNG MEMBERS MEETING

Milan, Italy, 7-8 September 2007

Agenda

- Purposes of the “REIT Law”
- Principal provisions of the “REIT Law”
- Israeli REIT market after REIT Law Enforcement
- Reasons stagnation of REIT market in Israel
- Solutions: Amendments to the “REIT Law”
- Conclusion

Purposes behind “REIT law” enforcement

The “REIT law” came into force in January 2006.

- Stimulate the Israeli Real Estate (RE) market
- Allow investors to vary their investments portfolio, to spread risks and to participate in large RE projects involving profit yielding RE with reduced costs.
- Create new financing sources for the RE market thereby reducing the credit to be granted to this sector.
- Get families and “small investors” investing into REIT companies, allowing a better distribution of capitals in the market.

Principal Provisions of the “REIT law”

- Incorporated in Israel
- Business must be controlled & managed from Israel
- Shares must be listed & marketable on the Tel Aviv Stock Exchange within 12 months after incorporation
- Since the incorporation, the company has no other assets, activities, income, expenses, or undertakings, than those relevant to its activity as REIT
- At least 75% of the assets must be profit yielding RE
- At least 200 million NIS (around 33.3 million euros) must be invested in profit yielding RE, at least 75% of it must be invested in Israel
- At least 90% of income must be distributed to shareholders by April 30, after year ends.
- Shareholders are taxed at their full rates on such distributions **instead** of the REIT company.
- Reduced tax (0.5%) paid by REIT on acquisition of RE assets from companies against shares.
- Tax exemption on shareholders income for Israeli provident funds.
- Tax exemption on shareholders income for foreign retirement funds from a country that has a tax treaty with Israel.
- The ownership of 50% or more of the REIT company will not be held by less than 5 shareholders.
- Total amount of loans taken by REIT company will not be equivalent to more than 60% of the total of profit yielding RE assets.

The Israeli REITs market since “REIT law” Enforcement has begun

- Stagnation of the market
- Major Real Estate players do not establish REIT

Main reasons for market's stagnation - Consider the following REIT Law provisions:

- No tax exemption on gains from transfer of assets from existing RE companies to their new REIT.
- The limitation to ownership concentration: The ownership of **50%** or more of the REIT company will not be held by less than 5 shareholders.

Solutions: Amending the “REIT Law”

- Tax exemption on transfer of assets from RE companies to REIT companies.
- During first 5 years of REIT company ,the ownership of **70%** or more of the REIT company will not be held by less than 5 shareholders.

Consequences of the proposed amendments

- Movements in the market.
- New REITS to open in the next months.
- Criticism of the amendments: less transparency in the market following a bigger concentration of ownership was allowed.

Conclusions

- The “REIT Law” allows from January 2006 the creation of REIT companies in Israel.
- Due to some restrictive provisions of the law, the Israeli REIT market did not flourish yet.
- New amendments to REIT Law will probably change the situation.
- At least 4 new REIT companies should be launched in the next months.