



Philippines Ushers in the REIT age

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On July 11th, the Philippines' Securities and Exchange Commission (SEC) approved an initial public offering (IPO) for Ayala Land, Inc.'s REIT subsidiary, AREIT, Inc., the first of its kind in the country and sets the pace for more REIT listings. This makes it the fourth Southeast Asian country to boast its own REIT market, after Thailand started to convert its property trusts into REITs in 2014 and the second in the region, after India, in as many years. With China on the cusp of launching its own REIT variant, 2020 could at last be remembered for the right reasons.

Ayala Land will offer up to 502.6 million shares in the new REIT, AREIT Inc, according to filings submitted to the SEC. Each share will be priced at a maximum of PHP30.05 pesos, raising up to PHP13.7 billion. The REIT is set to list on August 13 with an indicative yield of 5.4-6.3%. Primarily an office REIT, about 59% of its total GLA of 152,756 sqm is leased out to BPOs. Part of the proceeds will be used to acquire Teleperformance Cebu, a commercial asset, post listing.

The Philippines has offered a legal framework for listing REITs on the stock market since 2009 with the promulgation of Republic Act No. 9856 or The Real Estate Investment Trust (REIT) Act of 2009. But stringent regulatory requirements had discouraged any player from taking the plunge. The Philippine Department of Finance (DOF), Philippine Securities and Exchange Commission (SEC), the Bureau of Internal Revenue (BIR), and the Philippine Stock Exchange (PSE) amended the implementing rules and regulations of the REIT Act in January 2020 to clarify several outstanding issues. On January 20, 2020, the SEC issued Memorandum Circular No. 1, Series of 2020 or the Revised Implementing Rules and Regulations of the REIT Act of 2009 (Revised REIT IRR), which, among others, lowered the minimum public ownership requirement of a REIT, incorporated the reinvestment of proceeds policy, and added requirements for the qualifications of REIT fund managers and property managers. The SEC's Revised REIT IRR was followed by the BIR's issuance of Revenue Regulations No. 3-2020 on January 29, 2020 amending the implementing rules of the tax provisions of the REIT Act and the issuance by the PSE of the Amended Listing Rules for REITs on February 7, 2020. This easing of restrictions this year paved the way for Ayala to launch the country's maiden REIT¹:



¹ Revised REIT Code (2020): <http://www.sec.gov.ph/wp-content/uploads/2020/01/2020MCNo01-1.pdf>

Original (2010): <http://www.sec.gov.ph/wp-content/uploads/2015/08/IRR-REIT-2009-as-approved-on-May-13-2010.pdf>



1 Minimum Public Ownership (MPO) lowered

A significant requirement imposed under the old rules was for the REIT to maintain an MPO of 40% in the first two years from its initial listing, and 67% by the end of the third year, mandating a significant decrease in a sponsor's stake. Under the Revised Rules, the MPO has been adjusted to one-third of the REIT's outstanding capital stock. This puts it in line with most MPO regulations of about 20-30% in the region.

2 VAT waived on asset transfers

The revised rules also did away with the imposition of VAT, now at 12%, on the transfer of properties to the REIT. The earlier rule imposes a financial burden which discourages asset injections and creation of new REITs. Notably, REITs in Singapore are still exempt from such taxes, with the concession extended to 2025.

3 Escrow Requirement Scrapped

The Philippine REIT framework, which grants a 50% discount on stamp duties on the sale or transfer of real property to the REIT, were mandated to be held in escrow for two years before being released subject to the fulfilment of certain clauses. Scrapping this requirement puts funds back into the REIT, which otherwise would have to be tied up without productive use.

Reinvestment in the Philippines is now an indispensable requirement for any Sponsor or Promoter who contributes income-generating real estate to the REIT. The Sponsor or Promoter must reinvest the proceeds within one year from the date of receipt of the same. For this purpose, PSE Amended Listing Rules for REITs now requires REIT listing applicants to submit a Reinvestment Plan and thereafter, comply with the submission of periodic reinvestment reports. The submission of the Reinvestment Plan and proof of compliance with the same is likewise now a requirement to avail of the tax incentives of the BIR.

As shown on Appendix A, the revised REIT code is similar with most jurisdictions including an allowance to invest in overseas assets as well as the usual stipulated 75% assets to be held in real estate and a 90% payout ratio. Leverage has been set at 35% but increases up to 70% with a credit rating, a rule that was also in place for S-REITs before the last change.

The full implementation of the REIT framework has occurred at a critical moment as global economies have been battered by the pandemic. By creating an additional source of funds for real estate players to tap on and channeling funds into domestic real estate/infrastructure projects, REITs are emerging to be an economic revival tool. With the Philippine government tailoring its economic recovery strategy around a multi-billion-dollar infrastructure program, PH-REITs are likely to be a significant beneficiary.

Appendix A

Comparison of REIT Regimes in Asia Pacific

Type	Market	Hong Kong	Singapore	Japan	Australia	Philippines
Legal Structure	Trust	Trust/Corporation/Stapled	Trust/Corporation	Trust/Corporation	Trust/Stapled	Corporation
Mandatory Listing	Yes	No but must be listed on the Singapore Exchange to be eligible for tax concessions	No	No	No	Yes
Dividend Policy	90% of net income after tax	90% of taxable income to qualify for tax transparency treatment	90% of accounting income or distributable profit	100% to qualify for tax pass through	90% of distributable income	
Foreign Acquisitions	Yes	Yes	Yes	Yes	Yes but capped at 40% of deposited property	
Real Estate Investment	At least 75% of GAV ² shall be invested in real estate that generates recurrent rental income at all times	At least 75% of deposited property should be invested in income-producing real estate	The ratio of real estate in the fund's managed assets is expected to be not less than 70%	No specific REIT laws as A-REITs are structured as a Managed Investment Scheme which imparts flow through concessions	At least 75% of the Deposited Property of REIT shall be invested in or consist of income generating real estate.	
Development Limit	10% of GAV	Generally restricted to 10% of deposited property in property developments and investments in uncompleted projects Additional allowance of up to 15% permitted only if: (a) the additional allowance is utilized solely for the redevelopment of an existing property that has been held by the REIT for at least three years and which the REIT will continue to hold for at least three years after the completion of the redevelopment; and (b) the REIT obtains the specific approval of unitholders at a general meeting for the redevelopment of the property	Not allowed	Not allowed, but development activities are permitted to be carried out by the stapled company	Up to 10% of deposited property provided the REIT (a) intends to hold in fee simple the developed property for at least three years; (b) the purchase agreement of the property is made subject to the completion of the building with proper cover for construction risks; (c) the development/ construction of real estate shall be carried out on terms which are best available for the REIT and which are no less favorable to the REIT than an arms-length transaction between independent parties; and (d) the prospects for the real estate upon completion can be reasonably expected to be favorable.	

² GAV: Gross Asset Value

	Financial Securities	Value of a H-REIT's holding of Relevant Investments (as defined in the REIT Code) issued by any single group of companies shall not exceed 5% of GAV and the combined value of a H-REIT's Relevant Investments, non-real estate assets and property development and related activities shall not exceed 25% of GAV	Not more than 5% of the REIT's deposited property may be invested in any one issuer's securities or any one manager's funds and at least 75% of the REIT's deposited property should be invested in income-producing real estate	≤5%	≤2%	Not more than 15% of investible funds may be invested in any one issuer's securities or any one managed fund, except with respect to Philippine government securities where the limit is 25%.
	Leverage	≤45% of total GAV	≤45% of deposited property	Unlimited but any borrowings must be from a qualified financial institution.	60% of adjusted Australian asset base	35% of the deposited property; up to 70% with credit rating
Tax Treatment - REIT	Profit	No pass through	Exempt if dividend policy is met	37%; deductible on certain conditions	Exempt if dividend policy is met	30% after deducting 90% dividend distribution
	Capital Gains	None	None	Treated the same as ordinary income.	None	None; proceeds can be reinvested into the Philippines within 1 year after receipt if not distributed
	Asset Transfer	Up to 8.5%	2-3%/GST exempt ³	3-4%	None	50% of DST/VAT exempt
	Corporate Tax	16.5%	Exempt if dividend policy is met	37%; deductible if certain requirements are met.	None	None
	Property Tax	15%	Exempt if dividend policy is met	0.6-1.6%	None	1-2%
Tax Treatment – Domestic Investor	Dividends	None	None	20.4%	None	10%; exempt for overseas Filipinos ⁴
	Capital Gains	None	None	20.3%	Up to 46.5%	0.6%
Tax Treatment – Foreign Investor	Dividends	None	None	15-20%	10%	Subject to tax treaties
	Capital Gains	None	None	None	None	0.6%

³ Concession extended to 2025

⁴ For seven years



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