

## **Real Estate Investment Trusts**

Just over a year after SIPPS bit the dust, we can now look forward to a brand-new tax-efficient way of investing in residential property and a brand-new acronym: REITS.

Real Estate Investment Trusts, which have successfully been established in the US, Australia and the Netherlands for a number of years, were finally launched in the UK on 1 January, 2007.

With REITS, you buy a share in a specially set-up property company rather than buying property direct. This means that you can buy a stake in residential or commercial property for as little as £5000, after which your investment will work in much the same way as any other stock or share, in that you the investor will be paid regular dividends.

Investment expert Richard Cotton, of Cluttons estate agents, explains how REITS will work in practice – and why the Government is backing them.

“Looking back, SIPPS – where you were going to be able to put residential property into your pension fund and benefit from huge tax breaks – were always too good to be true. But REITS are totally different. They have been tried and tested in other countries, and seem to work very well. They operate in much the same way as any other company except that they are exempt from corporation tax, and investors will only pay tax once, on their dividends.”

A major advantage for the Exchequer, adds Richard Cotton, is that REITS will stay on shore, and money invested will not go out of the country. “REITS are private-investor friendly and you won’t need big sums to invest. The two most positive aspects to REITS is that they will keep the businesses on shore, and also make property investment more attractive to the small investor. A serious drawback to conventional, or direct, investment in property is that you need a large capital sum to start with, and there are very high entry and exit costs. Here, the company buys, looks after and manages the properties.”

The key issue to REITS, and the aspect that makes them unique, is that the companies who operate them have to invest in rent-producing properties, whether these are residential or commercial. They must all be already income-producing to qualify as a REIT. “The companies operating REITS will be highly regulated, and I can’t see any drawbacks, ” says Richard Cotton. “Of course, the dividends paid to investors will depend on how the rental market, in both the residential and commercial sectors, performs in future. The private rented sector

is growing all the time, as ever more people see the financial advantages of renting, rather than owning property.”

Historically, says Richard Cotton, property values go up and although there have been instances of short-term losses, property is unlikely ever to lose all its value, making REITS a safer bet than many new investments.

The recent property boom has proved one thing – that the British love investing in property, one way or another. Property feels safe and secure, it won't go away or disappear in a dotcom type bubble.

Liam Bailey, investment expert at Knight Frank, says: “REITS are one of Gordon Brown's big things, and as he has put a lot of effort into these investments we were not expecting him to ditch them at the last minute, as with SIPPS, and thank goodness, he hasn't. REITS are now live and several companies are already operating them. These investments must be set up by specialist companies, and 98 per cent of the profits must come from rental income. The REIT company can retain 10% of the profits for improvements, but that's all, and everything else must be paid to the shareholders.”

Most property professionals believe that the introduction of REITS will put Buy To Let on a more professional basis. “Until now, there has been very little corporate interest in the private rented sector,” adds Liam Bailey. “But gradually, as property companies get involved, the days of the amateur landlord will be numbered and rented apartments will be properly and professionally managed.”

Kevin Fleury, of Conti Financial Services, is Canadian and has seen REITS operate at first hand. He believes they will prove to be a far better bet than SIPP would have been. “The problem with SIPP is that they would have had to be run by a fund manager, and this would have meant huge incremental fees that, in my view, would have wiped out the tax advantage. I'm glad SIPP have gone, and that REITS have arisen out of the rubble of the SIPP fiasco.”

What does the interested investor need to know about REITS? Jonathan Morley, investment adviser at AWD Chase de Vere, the largest IFA in Europe, says: “REITS will open up investment in both commercial and residential property for the small investor with £5000+ to invest. Although there is always some risk with any investment, REITS should provide a nice income from the start. Most IFAs should now have details of how REITS will work, and my advice is that interested investors should always go for property companies with a proven track record, as there will probably be people jumping on the bandwagon now that REITS are a reality.

"The big advantage of REITS is that, unlike direct investment in property, they are a flexible, liquid investment whereby you can sell your shares at any time. They have been massively popular in the US and Australia and I see no reason why they should not work in the UK as well. REITS are a kind of stock exchange for property and as such, a brand-new investment vehicle."