Jersey
For UK Real Estate Investment Trusts (UK REITs)

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The UK REIT continues to prove an attractive and tax-efficient option for investors looking to target UK-focused property assets.

The use of Jersey companies that qualify as a UK REIT has been gaining in popularity in recent years, combining the advantages of the UK REIT regime with the flexibility and expertise that Jersey offers. This trend is expected to receive a boost from recent refinements to the regime in the UK.

What is a UK REIT?

The UK launched its Real Estate Investment Trust regime in 2007, building on global recognition of the REIT "brand". Designed by the UK Government as a tax-efficient structure to encourage investment into the UK real estate sector, it has continued to evolve, with a number of developments in recent years aimed at increasing the attractiveness of the regime to a wider pool of investors.

Today, the UK REIT is an important and popular structure utilised by numerous leading real estate companies. Several high-profile acquisitions in recent years have involved a UK REIT structured as a Jersey company.

The principal attraction to the regime is that a UK REIT is not liable to pay corporation or capital gains tax (CGT) on the profits (including rental income) arising from its property investments. Distributions are taxed directly in the hands of investors. This tax treatment is subject to the UK REIT vehicle meeting certain qualifying conditions, which a Jersey company is able to do.

Structurally, a UK REIT is a listed closed-ended company which owns and manages the commercial and/or residential property on behalf of its shareholders. They provide investors with access to a platform for indirect property investment in order to generate secure and stable income stream over a long period of time, without some of the issues associated with open-ended property funds.

UK REITs (including Jersey companies operating under this regime) are expected to benefit further from favourable changes to the UK's capital gains tax regime made in April 2019, following a period of consultation and industry engagement by HMRC. In particular, UK REITs are now exempt from CGT on indirect disposals of land (namely sales of property-owning subsidiaries) as well as direct sales of real estate assets.

Why use Jersey for your UK REIT?

Here is a snapshot of some of the key advantages of selecting a Jersey company as a UK REIT vehicle:

- The companies law regime in Jersey is both flexible (notably the ease by which distributions can be made – a useful feature for UK REITs) and familiar (being similar to the equivalent UK law)
- Jersey is home to a wealth of UK real estate expertise, with globally recognised administrators, Big 4 accountancy firms and a range of world-class law firms
- Jersey offers an ideal regulatory environment with significant flexibility for the UK REIT, its investors and asset managers, including a range of light-touch fund regimes that offer EU and 'rest of world' market access without full AIFMD compliance costs
- Jersey's regulator, the Jersey Financial Services Commission, is robust yet pragmatic and renowned for being approachable, accessible and responsive
- The International Stock Exchange (TISE), with its presence in Jersey, is a flexible, quick and cost-effective alternative to a full London Stock Exchange listing. In fact, TISE is currently home to around a third of all UK REITs
- Jersey offers close geographic proximity and easy travel to London, allowing advisors and investors to do business face to face for seamless service

Qualifying conditions to becoming a UK REIT

Companies must meet certain requirements under UK tax rules to qualify as a UK REIT. These include:

Corporate structure: must be a company, but not necessarily registered or incorporated in the UK – so a Jersey company can be used

UK Tax Residency: must be solely tax-resident in the UK. Unlike other jurisdictions, a Jersey company can be solely resident abroad. This is usually achieved by the company being centrally managed and controlled in the UK

Listing requirement: the shares must be listed on the London Stock Exchange or other "recognised exchange". The International Stock Exchange, which recently exempted REITs from the 25% "free float" requirement, offers an attractive and cost-effective solution to this requirement

Closed-ended vehicle: must not be an open-ended investment company

Diversity of ownership: must not be a 'close' company (broadly, not under the control of five or fewer investors), but enhancements to the regime allow for small club deals by diversely-held institutional investors

Distributions: must distribute 90% of property income annually

Activity: at least 75% of property income should be derived from property rental activity

Single share class: must have only one class of ordinary share capital in issue

Diversity of assets: must own at least three single rental properties (these can be commercial or residential) and not involve a property representing more than 40% of the total value of the property rental business

Financing costs: must have a profit financing ratio where profits are at least 1.25 times the finance cost and must not be a party to a loan that carries excessive interest or interest dependent on the result of the company's business, or that provides for repayment of an excessive amount

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