REITS IN POLAND.
A VIRTUAL REALITY OR A REAL VIRTUE?

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REITs IN A NUTSHELL

The Real Estate Investment Trust (REIT) formula has been known on the global financial markets since the 60s, when the first tax and legal framework was created in the US. Yet in Poland, despite being the most developed financial market across the CEE and the key capital destination for various property investors, this financial instrument is still at its infancy stage.

KEY FEATURES OF A REIT COMPANY INCLUDE:

- Usually listed on the stock exchange, but public non-listed and private also possible;
- Two main types: Equity REITs (generate income through the collection of rent on, and from sales of, the properties they own for the long-term equity) and mortgage REITs (invest in mortgages or mortgage securities tied to commercial and/or residential properties);
- Relatively low entry level allowing individuals to purchase shares;
- Owns and/or finances income-producing real estate;
- Low REIT fees and expenses compared to other asset management;
- Offer stable returns in mid- and long-term horizon at low leverage;
- High liquidity of shares;
- Offer diverse exposure to real estate assets, as depending on statute can invest in different real estate sectors;
- Pay out up 80-100% of their taxable income as dividends to shareholders;
- Shareholders pay income taxes on those dividends, often on preferred terms.

REITs IN NUMBER

<table>
<thead>
<tr>
<th>VALUE OF ASSETS IN THE US</th>
<th>AVERAGE LTV RATIO</th>
<th>AVERAGE ANNUAL CUMULATIVE RETURNS INCL. DIVIDENDS FROM REITs IN THE US*</th>
<th>PENSION FUNDS INVESTING IN REITs WORLDWIDE</th>
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<tbody>
<tr>
<td>~3 BILLION DOLLARS</td>
<td>40%</td>
<td>11.3%</td>
<td>75%</td>
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*Over the period of 1971-2015, FTSE NAREIT
Poland, as the key CEE property market, ticks all of the boxes to be successful in introducing and implementing the REITs formula, including:

Yet, there is only one thing missing, i.e. proper legislation in place, allowing for tax incentives (CIT exemption), which would make this instrument more attractive. As REITs pay out taxable dividends, the tax framework should be covered with CIT tax exemption, similarly to investment fund vehicles, which is also a common market practice in Western Europe and the US.

Despite the lack of tax regime favourable to REIT structures, companies such as Reino Partners manage companies, whose model is a REIT-type private equity vehicles. It already operates three REIT-type companies, which pay out a 5-6% dividend on capital invested.

More companies are expected to follow the trend and raise funds aiming to operate within the REIT organization structure. As announced in the Capital Building Programme announced by the Ministry of Development, there are plans to adjust the tax regime to REITs structures. Once it becomes favourable, REITs will become even more appealing as an investment instrument.

Polish REITs could become an attractive, alternative source of capital for commercial real estate projects in Poland. Currently, the vast majority of big-scale undertakings in this sector are dependant to a large extent on international investors often established as REITs abroad. Polish REITs could attract and consolidate Polish domestic capital and allow domestic individual investors to benefit from attractive, large-scale commercial real estate assets located in Poland.
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