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Primary Market Technical Note

Real Estate Investment Trusts

The information in this note is designed to help issuers and practitioners interpret our UK Listing Rules, Prospectus Regulation Rules, Disclosure Guidance and Transparency Rules, and related legislation. The guidance notes provide answers to the most common queries we receive and represent FCA guidance as defined in section 139A FSMA

Rules

UKLR 514, UKLR 115, UKLR 32.2.4R

Common questions on UK REITs

Under which category of listing regime would a UK REIT apply to list its shares

Like any other property vehicle, the shares of a UK_-REIT may, depending on the company's business model, be eligible for the equity shares (commercial company) Premium (Commercial Companies) category set out in LR 6(UKLR 5), the Standard (Shares) category in LR 14 or the Premium (Closed Ended Investment Funds) closed-ended investment funds category (UKLR 11) set out in LR 15. The key is to determine whether the company is a risk-spreading investment vehicle or a more traditional property company that does not aim to spread investment risk and may, for example, carry a significant development risk. If it is a risk-spreading vehicle then it should apply for the

~~Premium (Closed Ended Investment Funds)~~ closed-ended investment funds category (UKLR 11) set out in LR 15. If not, it can choose between the ~~Premium (Commercial Companies)~~ and the ~~Standard (Shares) categories~~ list in the equity shares (commercial companies) category. Currently most UK REITs are classified as ~~Premium (Commercial Companies)~~ listed in the equity shares (commercial companies) category. Under which category of listing regime would a UK REIT apply to list its shares

If a property company converts to REIT status, do its obligations under the listing regime change? Will it have to re-list as an investment fund?

No – if an existing listed issuer adopts REIT status, its obligations under the UK Listing Rules will not automatically change. This is because a listed company is subject to the obligations contained in its particular listing category until it de-lists or the UKLA-FCA grants an application to transfer its listing. So, for example, an issuer listed under the ~~Premium (Commercial Company)~~ in the equity shares (commercial companies) category that obtains REIT status will remain subject to that in that category.

Where the move to REIT status is part of a substantial changes to the company's business model – such that, in its view, its existing listing obligations may no longer be appropriate after the reorganisation is complete – it may apply to the UKLA-FCA to have its listing transferred to a more appropriate listing category.

Does conversion need shareholder approval under the UK Listing Rules?

No – conversion to REIT status does not itself require a shareholder approval under the UK Listing Rules.

How can a listed REIT comply with the 10% substantial shareholder restriction in REIT legislation?

Most listed companies converting to REIT status change their articles to cope with the provisions in the REIT legislation on substantial shareholders (the 10% rule). This ensures the REIT does not suffer tax penalties. In so doing, listed companies should not impose restrictions on transfer and should treat shareholders equally. HM Revenue and Customs guidance on the REIT legislation offers ways for REITs with

substantial shareholders to comply. For example, substantial shareholders can sell on their right to receive dividends. Issuers seeking to change their articles to cope with the provisions in the REIT legislation should therefore be careful to ensure that the articles continue to comply with the transferability requirements in the UK Listing Rules ~~Listing Rule circulars seeking to amend articles may be vetted by the UKLA and we will be focused on the nature of any transfer restrictions an issuer may wish to impose.~~ In new applicant REIT prospectuses, articles that impose unacceptable restrictions on transfer or allow unequal treatment of shareholders will not be permitted.

How can a REIT comply with the close company provisions in REIT legislation?

As with the 10% rule, issuers must ensure that any power of sanction against a shareholder, who may cause a REIT to offend the legislative close company provisions, does not impose restrictions on transfer and respects the principle of equal treatment of all shareholders who are in the same position (UKLR 32.2.4R and UKLR 72.2.1R (Listing Principle 5)).