

Client Alert

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Legal Framework for REITs under Construction

In January 2011, the Ministry of Construction submitted an important proposal to the Government regarding Housing Development Strategies until 2020, with a vision to 2030. Among the topics addressed, including specific solutions proposed for stimulating housing development, was the completion of a legal framework to establish and operate Real Estate Investment Trusts ("REIT"s) to mobilize more capital for housing development beyond what the traditional commercial banking system can supply.

The proposal contemplates a legal framework for REITs that would contain regulatory and prudential requirements, but would allow for 100% portfolio investment and tax incentives. On the regulatory side, among other things, there would be safeguards including specific criteria for human resources, capital requirements and prudential ratios, risk management and a reporting regime.

The REIT proposal has been featured in numerous newspaper headlines, catching the most media attention of the several topics covered in the 94-page Housing Development Strategies proposal.

The proposal is now awaiting government approval. The next step will be setting a schedule for the relevant government agencies and legislators to begin the actual process of drafting the proposed new legal framework.

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