Seize the RIF opportunity!

Webinar

21 March 2024

AREF The Association of Real Estate Funds

BPF

INREV

IPF Investment Property Forum

AIMA

Real Estate Investors' Forum

THE INVESTMENT ASSOCIATION

Thanks for joining. This webinar will begin shortly

Welcome

Ed Protheroe
Strategy Consultant
AREF

(To ask a question - please use the Q&A panel to type your question to the Moderator)

Moderator Welcome

Julie Patterson
Independent Non-Executive Director

Speaker:

Melville Rodrigues
Head of Real Estate
Advisory, Apex Group

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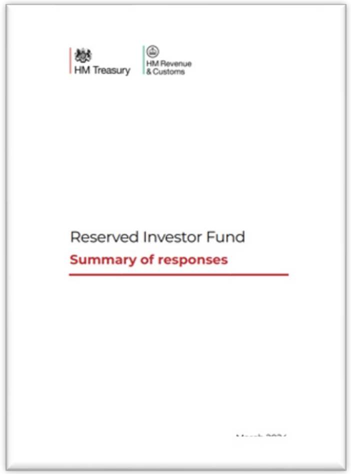
Seize the RIF opportunity!

- Melville Rodrigues
- 21 March 2024

Welcomed HM Treasury & HMRC Summary of Responses - March 2024

"The government is confident the RIF will be a fund vehicle which serves as a valuable addition to the UK's fund range. The policy design is intended to ensure that RIFs benefit from the simplicity and certainty which respondents have requested."



HM Treasury

HM Revenue & Customs

Reserved Investor Fund

Summary of responses

Industry/government: constructive engagement and win-win

RIF: unconstrained in terms of underlying investments & investment strategies: particularly attractive for holding UK real estate investments

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RIF Key Attractions: “efficiency, efficiency, efficiency”

- speed-to-market, with low fund structuring and establishment costs
- closed-ended or hybrid: flexible on investor exits like redemptions
- effectively tax transparent with tradable units incl. SDLT seeding relief
- operate: no need for authorisation from FCA nor registration at Companies House
- investors protected: AIFM & depositary

“…suggested that this new fund would fill a gap in the current UK funds range for an onshore lower-cost alternative to existing fund structures. Consequently, the government is committed ….to explore options for the introduction of such a fund.” HM Treasury & HMRC March 2024

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Current Gap in UK's funds offering

- Scenario: All UK located: underlying RE, managers and investors
- Fund preference: closed-ended/hybrid tax transparent with tradable units
- **Restricted choice**:
  - offshore; or
  - onshore, but must be open-ended

Consequences:

- **offshore**: investor protection, multiple legal, tax and regulatory regimes & operational costs
- **open-ended onshore**: regulatory operational costs & (albeit LTAF qualification) "liquidity mis-match“

Restricted choice inhibits SME managers

RIF plugs the gap

- Modelled on the authorised contractual scheme/ACS: unauthorised CS
- Pension funds/other professional investors & (£1m min. commitment) HNW investors
- UK AIFM & depositary
- RIF deed & notification to HMRC

Financial Services and Markets 2023, Section 64: RIF legislative implementation

> *"The government …will begin legislating for the RIF in the Spring 2024 Finance Bill.*
>
> *The detailed tax rules will be provided for by secondary legislation."* HM Treasury & HMRC March 2024

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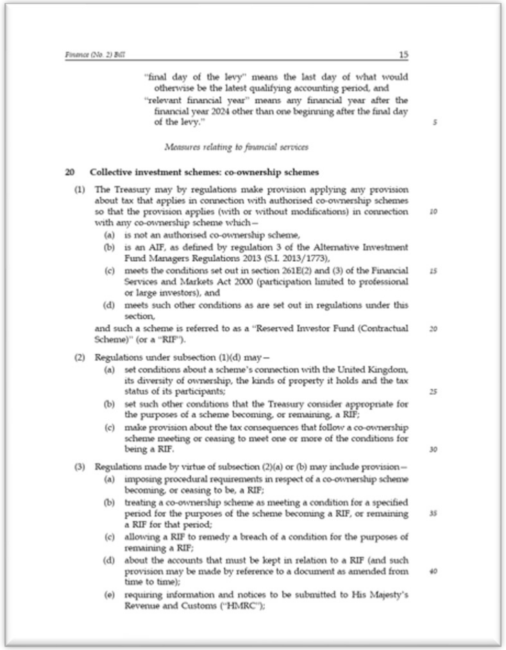
Tax includes 3 restricted RIFs “green lanes”

- UK property rich: 75% or more value from UK property
- Invests in no UK property
- All UK tax exempt Investors

Note additional RIF requirements:

"UK-based", "GDO" condition or a "non-close" test & HMRC notification

Robust, pragmatic and workable tax provisions



Finance (No. 2) Bill 15

“final day of the levy” means the last day of what would otherwise be the latest qualifying accounting period, and

“relevant financial year” means any financial year after the financial year 2024 other than one beginning after the final day of the levy.”

Measures relating to financial services

20 Collective investment schemes: co-ownership schemes

(1) The Treasury may by regulations make provision applying any provision about tax that applies in connection with authorised co-ownership schemes so that the provision applies (with or without modifications) in connection with any co-ownership scheme which—

(a) is not an authorised co-ownership scheme,

(b) is an AIF, as defined by regulation 3 of the Alternative Investment Fund Managers Regulations 2013 (S.I. 2013/1773),

(c) meets the conditions set out in section 261E(2) and (3) of the Financial Services and Markets Act 2000 (participation limited to professional or large investors), and

(d) meets such other conditions as are set out in regulations under this section,

and such a scheme is referred to as a “Reserved Investor Fund (Contractual Scheme)” (or a “RIF”).

(2) Regulations under subsection (1)(d) may—

(a) set conditions about a scheme’s connection with the United Kingdom, its diversity of ownership, the kinds of property it holds and the tax status of its participants;

(b) set such other conditions that the Treasury consider appropriate for the purposes of a scheme becoming, or remaining, a RIF;

(c) make provision about the tax consequences that follow a co-ownership scheme meeting or ceasing to meet one or more of the conditions for being a RIF.

(3) Regulations made by virtue of subsection (2)(a) or (b) may include provision—

(a) imposing procedural requirements in respect of a co-ownership scheme becoming, or ceasing to be, a RIF;

(b) treating a co-ownership scheme as meeting a condition for a specified period for the purposes of the scheme becoming a RIF, or remaining a RIF for that period;

(c) allowing a RIF to remedy a breach of a condition for the purposes of remaining a RIF;

(d) about the accounts that must be kept in relation to a RIF (and such provision may be made by reference to a document as amended from time to time);

(e) requiring information and notices to be submitted to His Majesty’s Revenue and Customs (“HMRC”);

Spring 2024 Finance Bill, clause 20

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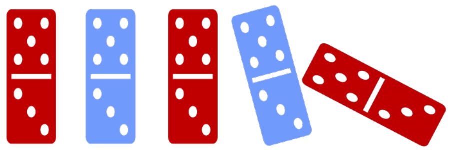
RIF game-changer

- **New launches**
- **Simplification dynamics**: for example, re-evaluation of current structures like:
  - UK LP master with EUUT feeder
  - UK LP master with offshore feeder e.g. JPUT/GPUT
- **Conversion potential** like EUUTs and CoACSs
- **LTAF launch pad scenario**: RIF to CoACS LTAF
- **International investment strategies**: RIF with QAHCs
- UK managers: challenge of EU Unshell
- Onshoring/domestication trend with fund & corporate services
- **Integrate sustainability & ESG factors** into fund structuring & operations. Thrive with the RIF.



Consider the RIF: "Is the RIF an option?" in a new competitive fund paradigm: 'horses for courses'

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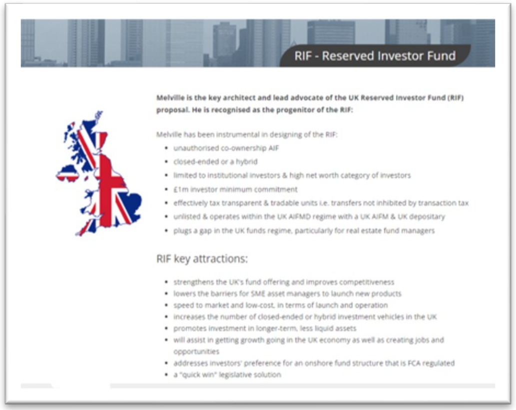
Seize RIF opportunity

- **Unleash our entrepreneurial potential.** For example, conduit for institutional capital:
  - regeneration of our town centres
  - social & affordable housing
  - accelerate net zero pathways
- Market expectation: RIFs can be launched in Q2 2024
- Regulatory and tax updates: https://melvillerodrigues.com/rif
- Model RIF deed available for feedback: plans for industry to become more familiar with the RIF
- Gratitude for, and humbled by, the tremendous industry & government support



RIF - Reserved Investor Fund

Melville is the key architect and lead advocate of the UK Reserved Investor Fund (RIF) proposal. He is recognised as the progenitor of the RIF:

Melville has been instrumental in designing of the RIF:

- unauthorised co-ownership AIF
- closed-ended or a hybrid
- limited to institutional investors & high net worth category of investors
- £1m investor minimum commitment
- effectively tax transparent & tradable units i.e. transfers not inhibited by transaction tax
- unlisted & operates within the UK AIFMD regime with a UK AIFM & UK depositary
- plugs a gap in the UK funds regime, particularly for real estate fund managers

RIF key attractions:

- strengthens the UK's fund offering and improves competitiveness
- lowers the barriers for SME asset managers to launch new products
- speed to market and low-cost, in terms of launch and operation
- increases the number of closed-ended or hybrid investment vehicles in the UK
- promotes investment in longer-term, less liquid assets
- will assist in getting growth going in the UK economy as well as creating jobs and opportunities
- addresses investors' preference for an onshore fund structure that is FCA regulated
- a "quick win" legislative solution

Contact details

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Speaker

Tim Jones
Director, Deals Tax - Real Estate
PwC

RIFs - Finance (No. 2) Bill 2023-24 provisions

Power to make regulations to apply tax treatment of a CoACs (with or without modifications) to any any co-ownership scheme (within section 235A of FSMA):

- which is not authorised contractual co-ownership scheme
- is an Alternative Investment Fund as defined by regulation 3 of the Alternative Investment Fund Managers Regulations 2013 (S.I. 2013/1773),
- meets the conditions set out in section 261E(2) and (3) of the Financial Services and Markets Act 2000 (participation limited to professional or large investors),
- meets such other conditions as are set out in regulations under this section,

As yet, no timeline for implementation has been announced.

The 3 types of UK co-ownership contractual schemes per the condoc and the response

- Co-ownership Authorised Contractual Scheme (“CoACS”)
- Co-ownership Unauthorised Contractual Scheme (“CoUCS”)
- Reserved Investor Fund which meets
    - a genuine diversity of ownership (“GDO”) condition or “non-close test” (to be modelled on the existing tests as they apply to the NRCG Fund Exemption Regime); and
    - one of the following requirements (a **Restricted RIF** per the condoc):
        - “UK property rich”, or
        - Restricted to investors who are exempt from tax on gains (other than by reason of non-residence) similar to an Exempt Unauthorised Unit Trust (“EUUT”), or
        - Does not directly invest in UK property or in UK property rich companies (with one exception - similar to para 7B Sch 5AAA TCGA 1992)

NB the government does not intend to proceed with the Unrestricted RIF at this time.

RIFs - Summary of UK tax treatment

- Income - transparent (but the operator can calculate CAs cf a CoACS)
- Capital gains:
  - RIF is not a person for capital gains purposes
  - Units are treated as a chargeable asset (UK tax resident investors)/shares (for NRCG)
  - Reverts to transparent status if conditions breached (subject to mitigations)
- SDLT - The RIF is treated as a company (but not for group relief purposes), with limited seeding relief
- Stamp Duty/SDRT - the RIF is transparent on first principles, with certain exemptions
- VAT - Supplies made will be subject to the usual VAT rules

RIFs - Areas to be covered in more detail in the regulations/further consultation

- Provisions relating to entry into the RIF regime, dealing with breaches, and temporary and permanent exit from the regime
- ‘SPV RIF’ holding a single property held by a ‘Master RIF’
- Interaction with the UK REIT regime (eg RIFs owning UK REITs and UK REITs owning RIFs)
- Interaction with the NRCG Fund Exemption regime (eg RIFs owning UK companies owning UK property)
- ‘Conversion’ of existing vehicles (eg CoACS and EUUTs)
- Availability of qualifying institutional investor substantial shareholder exemption (tracing through RIFs limited to RIFs wholly owned by exempt investors)
- Ability to be an umbrella fund and provisions in relation to certain insurance companies

Practical applications of the RIF and comparison with existing structures

- Onshore equivalent to a JPUT/CCF fund (e.g. subject to a fund exemption election)
- REIT v RIF (likely to depend on who the investors are and whether properties are acquired directly)
- Alternative to CoACS for UK registered pension schemes/insurance companies
- Alternative to EUUT

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