Introducing SIR/GVV: the new Belgian REIT status

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Understanding the new B-REIT status

- As per 22 July 2014, the **A**lternative **I**nvestment **F**und **M**anager (AIFM) regime will be enforced in Belgium
- For legal reasons, SICAFIs will fall under this regime resulting in operational and financial consequences that are not justifiable given the REIT economic model
- The AIFMD was originally designed to regulate “shadow banking” and as such is not targeting operational companies
- As this regime does not reflect the business characteristics of Belgian REITs, the government introduced the new **SIR/GVV**[1] status which to a large extent contains technical rules similar to those applicable under current SICAFI regime, but recognizes these entities as corporates with a commercial purpose (as opposed to funds)
- The new regime creates a level playing field with other European REITs, maintaining the company’s attractiveness in an international context
- Each SICAFI has to assess its business model and opt for the AIF or the SIR/GVV status

(1) ***S****ociété* ***I****mmobilière* ***R****églementée /* ***G****ereglementeerde* ***V****astgoed****V****ennootschap*

B-REIT status is an ideal fit for listed operational real estate companies

	B-REIT (SIR/GVV regime)	**Future SICAFI** (AIF regime)
General	• A real estate company, actively managed and adding value to the real economy • Has a general commercial or industrial objective: it pursues a business strategy consisting of making buildings available to users, directly or indirectly	• An investment fund • Has no general commercial or industrial objective: the aim is to generate returns by acquiring, holding or selling investment assets
Business model	• Has a business strategy which is based on long term value creation; the strategy is flexible and adapted according to opportunities	• Has a defined investment policy • Operates under a financial model based on "pooled risks and returns"
Purpose	• Acts not only in the interest of shareholders: pursues a social interest taking into account the interest of different stakeholders such as its clients, employees and creditors	• Manages investments in the sole interest of its investors

Belgian REITs at the crossroads: SICAFI vs. B-REIT (1)

	Characteristics	Current SICAFI	B-REIT (SIR/GVV regime) **Requirements:** **- Licence by FSMA** **- Positive vote EGM**	Future SICAFI (AIF regime) **Requirements:** **- Licence by FSMA** **-Default option**
Business	– Governance standards[1]	✓	✓	✓
	– Portfolio diversification[2]	✓	✓	✓
	– Other RE assets[3]	REITs: control by SICAFI	≤ 20%, REITs: control by SICAFI	REITs: control by SICAFI
	– Free Float	≥ 30%	≥ 30%	≥ 30%
Organisation	– Internal control	✓	✓	✓
	– Risk policy and management	✓	✓	✓
	– Compliance officer	✓	✓	✓
	– Risk manager	✓	✓	✓
	– Internal auditor	✓ (subject to derogation)	✓ (subject to derogation)	✓ (subject to derogation)
Financial	– Leverage ratio (Debt/total assets)	≤ 65%	≤ 65%	≤ 65%
	– Dividend pay-out (% FFO)	≥ 80%	≥ 80%	≥ 80%

(1) Fit & proper rules; only natural persons as directors; effective managers and control functions; professional incompatibility regime; independent directors; independent auditing/appraisals; conflict of interest rules
(2) No single risk accounting for more than 20% of total portfolio
(3) Other real estate assets are for example shares in public SICAFIs and certain EU REITs or RE funds

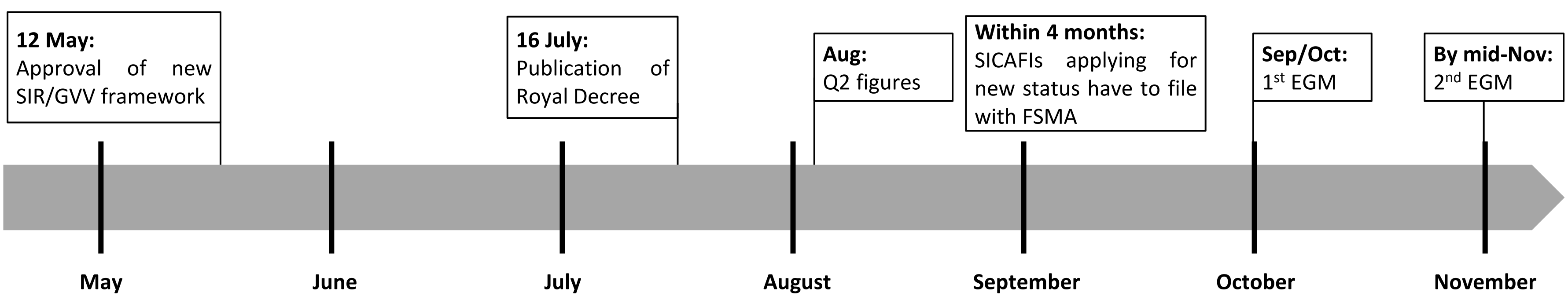
Belgian REITs at the crossroads: SICAFI vs. B-REIT (2)

	Characteristics	Current SICAFI	B-REIT (SIR/GVV regime)	Future SICAFI (AIF regime)
			Requirements: - Licence by FSMA - Positive vote EGM	**Requirements:** - Licence by FSMA -Default option
Tax	– Corporate income tax	0%	0%	0%
	– Withholding dividend tax:			
	for residents	0-25%	0-25%[5]	0-25%
	for non-residents	0%	0-25%[4]	0-25%[4] intended[6]
AIF regulation	**Depositary**	n.a.	n.a.	✓
	Larger administration (additional requirements)	n.a.	n.a.	
	– Liquidity management			✓
	– Risk management			✓
	– Reporting duties			✓[7]
	Additional supervision by the regulator	n.a.	n.a.	✓
	Additional remuneration rules	n.a.	n.a.	✓
	Qualification as financial institution	n.a.	n.a.	✓
	– Higher interest costs resulting from higher capital requirements for lenders			
	– Cash lock-up for collateral of derivatives			
	– Financial Transaction Tax			
	Risk of further shadow banking regulation	low	low	high

(4) Depending on application of international tax treaties and specific on a country by country basis (0-15% for residential B-REITs or residential SICAFI)
(5) For details, please refer to p. 10
(6) The suppression of the exemption of withholding tax on dividends paid by a SICAFI to non-resident shareholders has been announced in the SIR law. It has not yet been enacted
(7) Unless under the threshold of €100m

Working towards adoption of the new B-REIT status

- **SICAFIs are currently studying the new law. For a SICAFI deciding to apply for the new status, the planning would be as follows:**
- **Steps to new B-REIT framework**
  1. **Apply for status:** (i) File all relevant documents with FSMA (within 4 months of law entering into force); (ii) FSMA decides on granting the SIR/GVV license (within 3 months of filing of application)
  2. **Obtain EGM approval:** no later than 3 months after receiving the conditional approval for the license of the FSMA
  3. **First EGM:** 50% quorum required for the status change, 80% approval rate
  4. **Second EGM:** if quorum not met at the first EGM: 80% approval rate required regardless of the number of shares present or represented
- **Exit right**
  - Under specific conditions[1], shareholders who voted against adoption of SIR/GVV are entitled to sell their shares[2] with a max. of €100k per shareholder at a pre-defined price, which is the higher of
    - Last closing price prior to publication of EGM invites
    - Average closing price over 30 calendar days prior to EGM approving status change
  - Company may make the status change conditional on total number of shares exited being less than a pre-defined % of outstanding shares



(1) The conditions are: a) EGM and FSMA approve status change, b) shareholder continuously held the shares 30 calendar days prior to the first EGM until the EGM approving the status change, c) total selling amount per shareholder capped at €100k, d) total number of shares exited are less than a pre-defined % of outstanding shares, optional threshold to be specified by the company, e) share repurchase does not violate existing laws; (2) Refers only to those shares with which shareholder cast a negative vote

Conclusion

- As per 4 months after the entry into force of the SIR/GVV law, all Belgian SICAFIs which have not applied for a SIR/GVV with the FSMA will fall under the AIF regime resulting in additional organisational and administrative requirements
- The Belgian government has introduced the new SIR/GVV status which is to a large extent similar to the current SICAFI regime but recognizes these entities as corporates with a commercial purpose (as opposed to funds)
- The SIR/GVV has all the features of the current SICAFI regime without the costly AIF rules that do not reflect the business characteristics of the Belgian REITs
- The default option is the AIF regime, a shareholders' vote is needed to enter into the new B-REIT regime
- If you have any questions regarding this matter, please get in touch with our Investor Relations department

If shareholders vote in favour of adopting the new B-REIT status, a SICAFI will be transformed into a SIR/GVV and as such be well positioned to perform its operational activities efficiently while maintaining its attractiveness in an international context

Appendix

Dividend withholding tax overview

Belgian resident shareholders

- 25% per default
- 15% if residential SIR/GVV
- 0% for the dividends distributed by an institutional SIR/GVV to a public SIR/GVV, if, when dividends are distributed, the public SIR/GVV has held at least 10% of the share capital for an uninterrupted period of 12 months

Non-residents

- 25% per default
- 15% if residential SIR/GVV
- Reduced rates or exemptions are available under the numerous double tax treaties concluded by Belgium - To be examined on a case by case basis
- Non-resident pension funds for other countries: 0% in the United States and the United Kingdom, reduced rates available under Belgium's tax treaties[1]

- For details regarding a few selected countries, please refer to p. 11

(1) To be examined on a case by case basis. May depend on the tax status of the receiving fund.

Dividend withholding tax per country (selection)

Country	Withholding tax regime[1]
France	• 15% per default • 10% if the recipient is (i) a company, (ii) which has the exclusive ownership of at least 10% of the dividend distributing company's share capital since the beginning of the last, complete financial year of the company before the distribution
Germany	• 15%
Netherlands	• 15% per default • 5% if the recipient is (i) a "company" (i.e. an entity that is treated as a body corporate for tax purposes according to the laws of the State in which it is organized), (ii) which holds directly at least 10% of the dividend distributing company's share capital
Switzerland	• 15% per default • 10% if the recipient is (i) a "company" (i.e. an entity that is treated as a body corporate for tax purposes according to the laws of the State in which it is organized), (ii) which holds directly at least 25% of the dividend distributing company's share capital
US	• 15% per default • 5% if the recipient is (i) a "company" (i.e. an entity that is treated as a body corporate for tax purposes according to the laws of the State in which it is organized), (ii) which owns directly at least 10% of the voting stock of the company paying the dividends • 0% if the recipient is: – either a "US pension fund "[2] (provided that the dividends are not derived from the carrying on of a business by the pension fund or through an associated enterprise), or – a "company" that is a resident of the United States that has owned directly shares representing at least 10 % of the capital of the company paying the dividends for a 12-month period ending on the date the dividend is declared
UK	• 15% per default • 0% if the recipient is a "UK pension fund"[3]

(1) *General description. To be examined on a case by case basis. Exemption may depend on the tax status of the receiving entity.*
(2) *" US pension fund": any person established in The United States that is:*
i) operated principally: (a) to administer or provide pension or retirement benefits; or
(b) to earn income for the benefit of one or more arrangements described in (a); and
ii) is exempt from tax in the United States with respect to the activities described in clause i)
(3) *"UK Pension Fund" : any plan, scheme, fund, trust or other arrangement established in the United Kingdom :*
(i) to the extent that it is operated to administer or provide pension or retirement benefits or to earn income for the benefit of one or more such arrangements, and
(ii) provided that it is a pension scheme (other than a social security scheme) registered under Part 4 of the Finance Act 2004, including pension funds or pension schemes arranged through insurance companies and unit trusts where the unit holders are exclusively pension schemes.
The competent authorities may agree to include in the above, pension schemes of identical or substantially similar economic or legal nature.