

FIBRA and FIRBI development in the Capital Markets

Bolsa de Valores de Lima

- The origin of the Real Estate Investment Funds (FIRBI in Spanish) and Real Estate Investment Trust (FIBRA in Spanish) is the Real Estate Investment Trust (REITs); a tax efficient real estate investment that generates income regularly through dividends.
- Recognized as a different asset class in comparison to other stocks and bonds, the equity – REITs are considered an important part of main global indexes.
- REITs exist in 38 countries, they are listed and traded in stock exchanges around the world.
- REITs mainly have real estate characteristics. They are primarily invested in industrial buildings, offices, commercial properties/hotels, houses, among others.
- REITs have to distribute most of their financial results, making them an attractive instrument for income investors by providing a relatively high dividend with liquidity and capital appreciation. In the USA and other countries, REITs are not taxed at corporate level.

1. Background

- In the USA, REITs are known as US REITs. Likewise, UK-REIT in the United Kingdom, J-REITs in Japan, G-REITs in Germany, SIIC in France, SOCIMI in Spain. They are denominated REITs in other countries like Ireland, Israel and Luxembourg. FIBRA in Mexico,
- Los REITs son conocidos como US REITs en EEUU, Fideicomiso de Inversión en Bienes Raíces o FIBRA en México, UK-REIT en Reino Unido, J-REITs en Japón, G-REITs en Alemania, SIIC en Francia, SOCIMI en España. Se denominan REITs en otros países como Irlanda, Israel, y Luxemburgo.

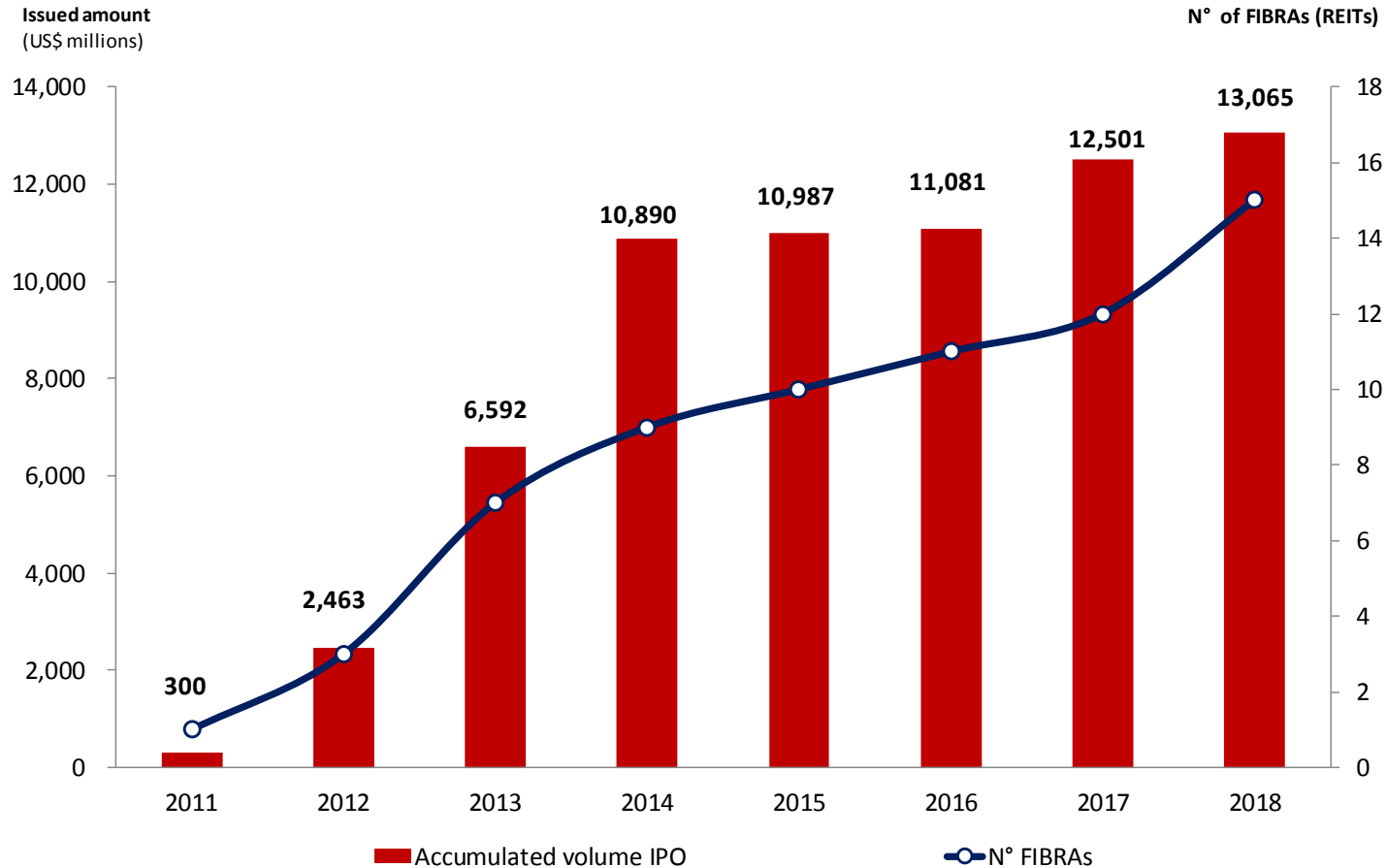
Country	Form
Australia	Trust
Belgium	SICAFI (real estate company)
Bulgary	Trust
Canada	Trust
China	Trust
Finland	Trust
France	SIIC (Sociedades de inversiones inmobiliarias)
Germany	Trust
Greece	REIC (real estate investment company)
Hong Kong	Trust
Ireland	Trust
Israel	Trust
Italy	SIIQ (listed real estate investment company)
Japan	Trust

Country	Form
Korea	Trust
Malaysia	Trust
Mexico	Trust
Netherlands	FBI (fiscal investment institution)
New Zealand	LPV (listed property vehicles)
Pakistan	Trust
Romania	Trust
Singapore	Trust
South Africa	Trust
Spain	SOCIMI
Taiwan	Trust
Turkey	Real estate investment company
UK	Trust
United Arab Emirates	Trust
USA	Trust

Source: PwC - Compare and contrast Worldwide Real Estate Investment Trust (REIT) Regimes

1. Background

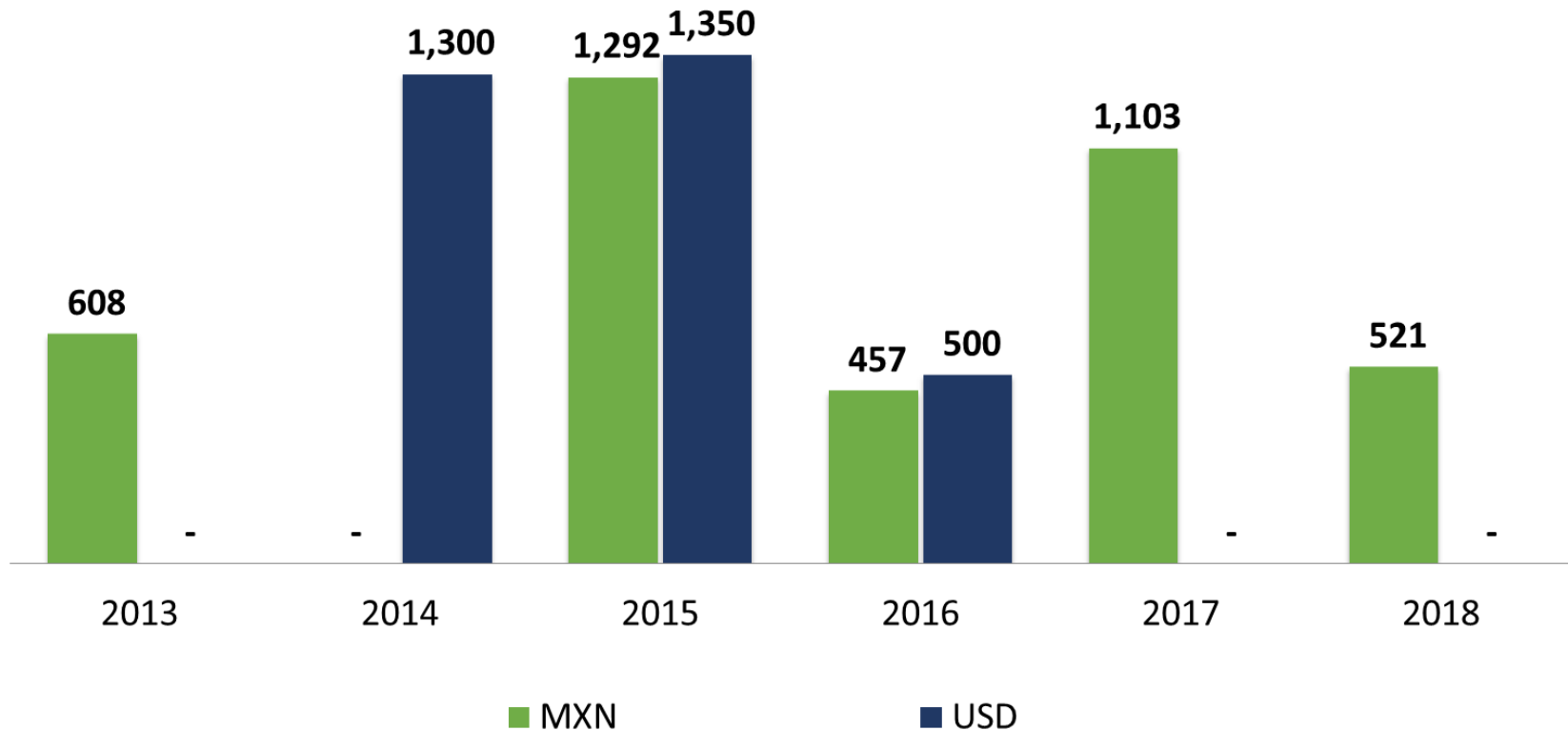
Mexico: IPO & N° of FIBRAS (Reits)



Source: BMV, Bloomberg

Elaborated by BVL

México: IPO Fixed Income (US\$ Millions)



Source: BMV, Bloomberg

Elaborated by BVL

1. Background

Fibra	Ticker	Listing Year	Market Cap* (Billions of USD)	Dividend yield	Portfolio
Fibra Hotel	FIHO 12	2012	432	1.0%	81 hotels in operation (11,193 rooms)
Fibra INN	FINN 13	2013	264	7.7%	42 hotels in operation (7,115 rooms)
Fibra Terrafina	TERRA 13	2013	1,044	11.1%	260 industrial properties and 11 of territorial reserve
Fibra Shop	FSHOP 13	2013	216	12.8%	18 commercial properties
Fibra Danhos	DANHOS 13	2013	1,931	3.9%	8 commercial properties, 4 offices, 3 mixed projects
Fibra Prologis	FIBRAPL 14	2014	1,133	7.0%	78 industrial properties and 116 commercial offices
Fibra Macquaire	FIBRAMQ 12	2012	810	n.d.	274 industrial properties y 17 commercial offices
Fibra Monterrey	FMTY 14	2014	403	2.0%	25 industrial properties, 11 office y 6 commercial properties
Fibra HD	FIBRHD 15	2015	180	0.8%	11 commercial properties, 4 educational, 1 office and 6 industrial properties
Fibra Plus	FPLUS 16	2016	253	n.d.	5 commercial properties y 4 offices
Fibra Nova	FNOVA 17	2017	248	2.0%	45 industrial properties y 36 commercial offices
Fibra UP	FIBRAUP1 8	2018	63	n.d.	17 Buildings
Fibra Educa	EDUCA18	2018	487	0.6%	52 Properties
Fibra Storage	STORAGE	2018	15	n.d.	14 Real estate assets

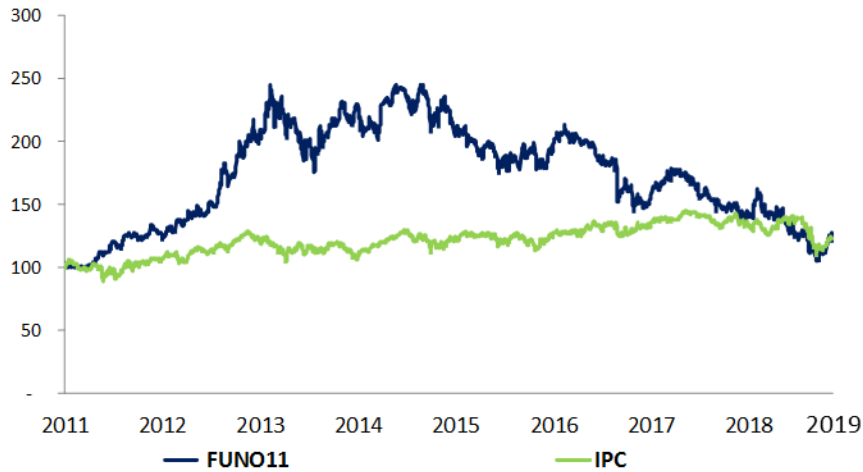
*As of 24/01/2019

Source: Bloomberg

Elaborated by BVL

1. Background

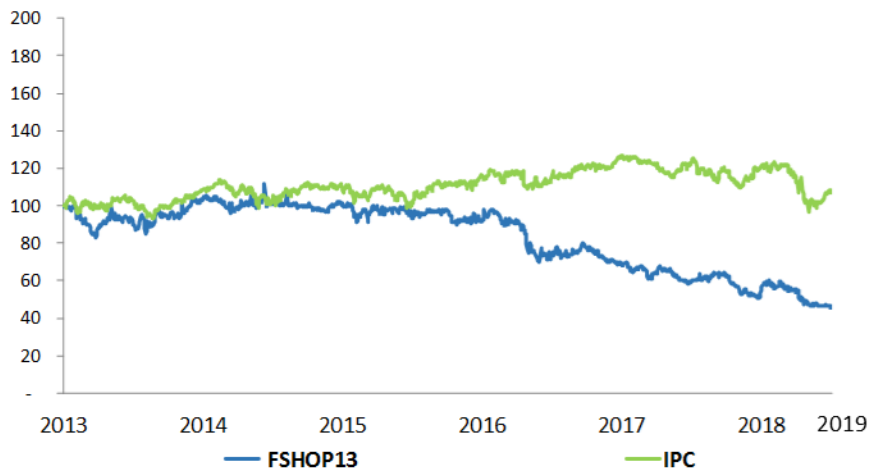
FIBRA UNO vs. IPC en índice (Mar-2011 = 100)



Fuente: Bloomberg

Elaboración: BVL

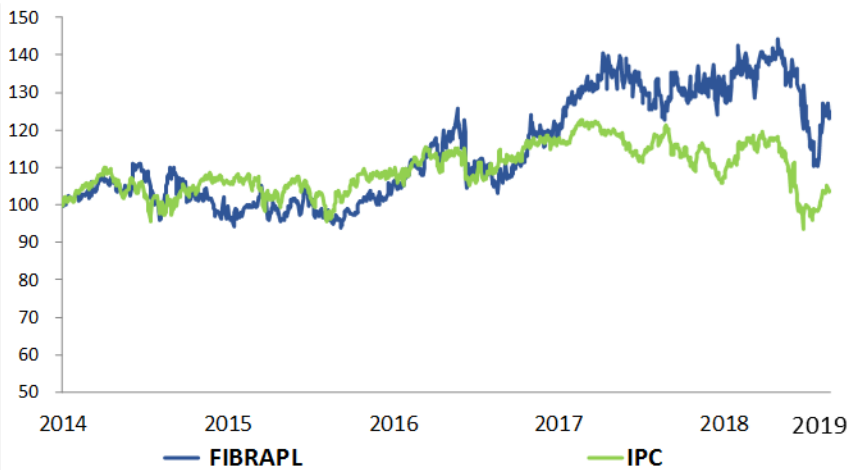
FIBRA SHOP vs. IPC en índice (Jul-2013 = 100)



Fuente: Bloomberg

Elaboración: BVL

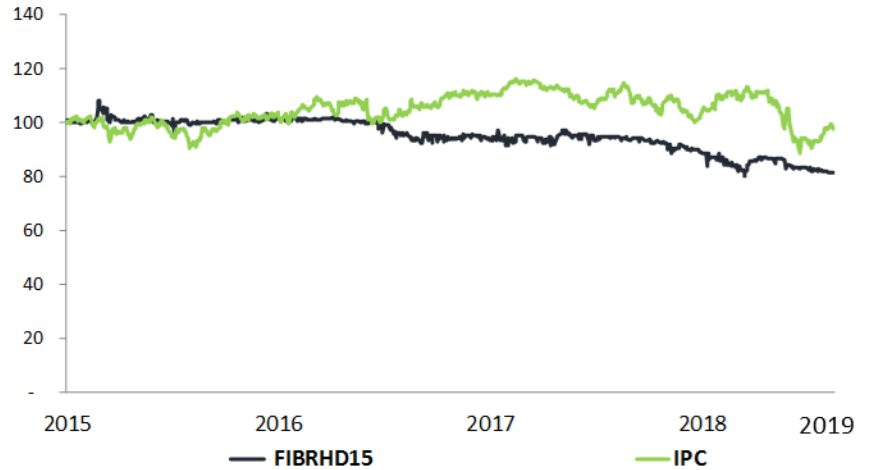
FIBRA Prologis vs. IPC en índice (Mar-2014 = 100)



Fuente: Bloomberg

Elaboración: BVL

FIBRA HD vs. IPC en índice (Jun-2015 = 100)



Fuente: Bloomberg

Elaboración: BVL

FIRBI / FIBRA

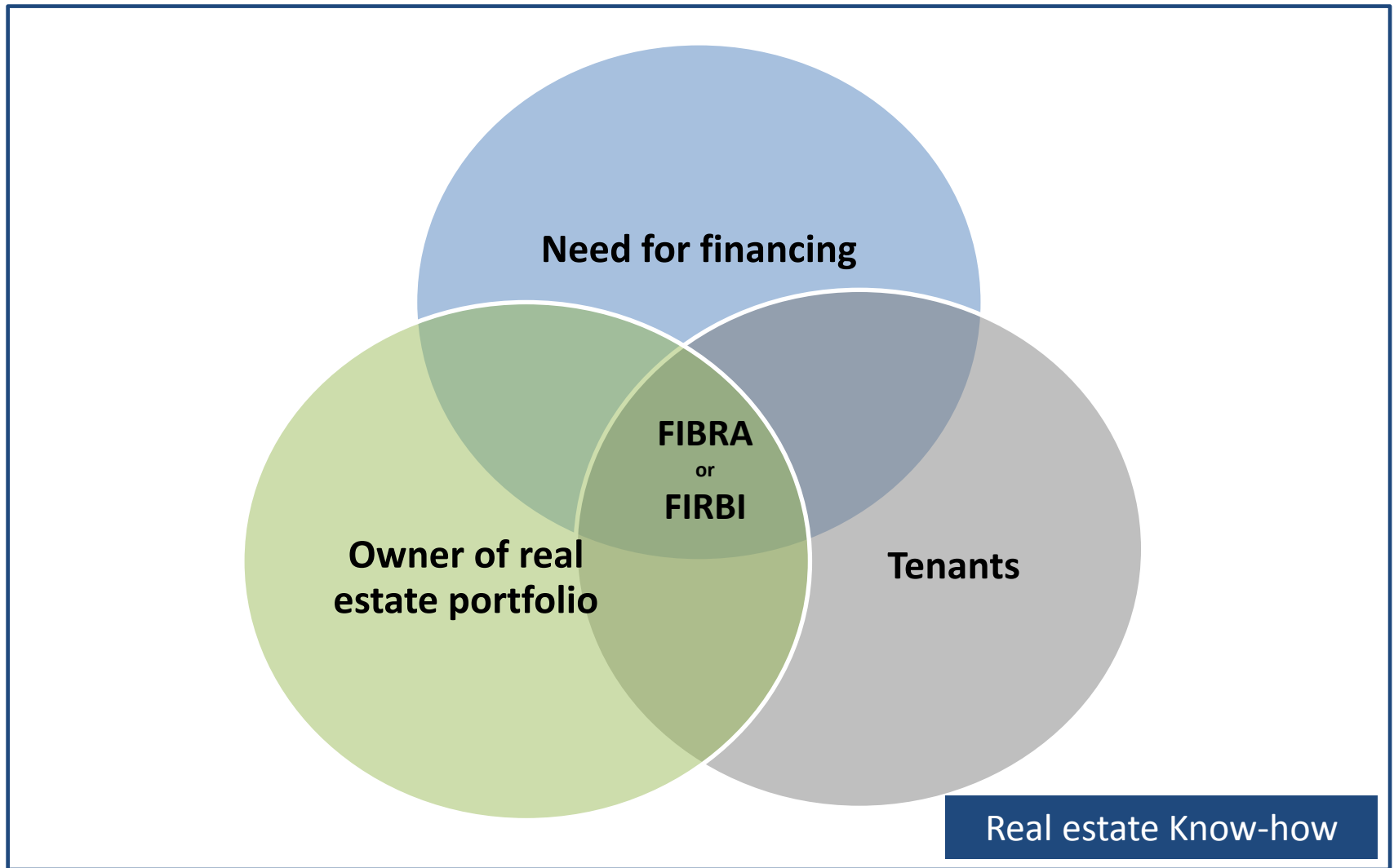
Are tax efficient real estate companies that offers regular income and potential capital appreciation

FIRBI: Real Estate Investment Fund

FIBRA: Real Estate Investment Trust

- Initial Public Offer - SMV (market regulator).
- 70% of the assets for acquisition and construction of real estate for rent or another onerous use.
- 4 year of permanence of the properties.
- 95% of distribution of distributable net profits (April each year).
- 10 unrelated investors in the IPO.
- Construction by third parties.

3. Attributes needed for becoming a FIBRA / FIRBI



4. Operating scheme of a FIBRA

FIBRA ≈ Trust
FIRBI ≈ Fund (SAFI)

3. The Firbi/Fibra places the certificates in the BVL

2. The Fibra/Firbi receives properties

1. Company provides properties

Lima Stock Exchange



FIBRA/FIRBI



Sponsor/Contributor



4. Certificate delivery

4.1 Institutional investor



4.2 Retail investor



Secondary trading

6. Fibra/Firbi maintains property ownership



5. Cash, from the IPO intended for the Fibra/Firbi

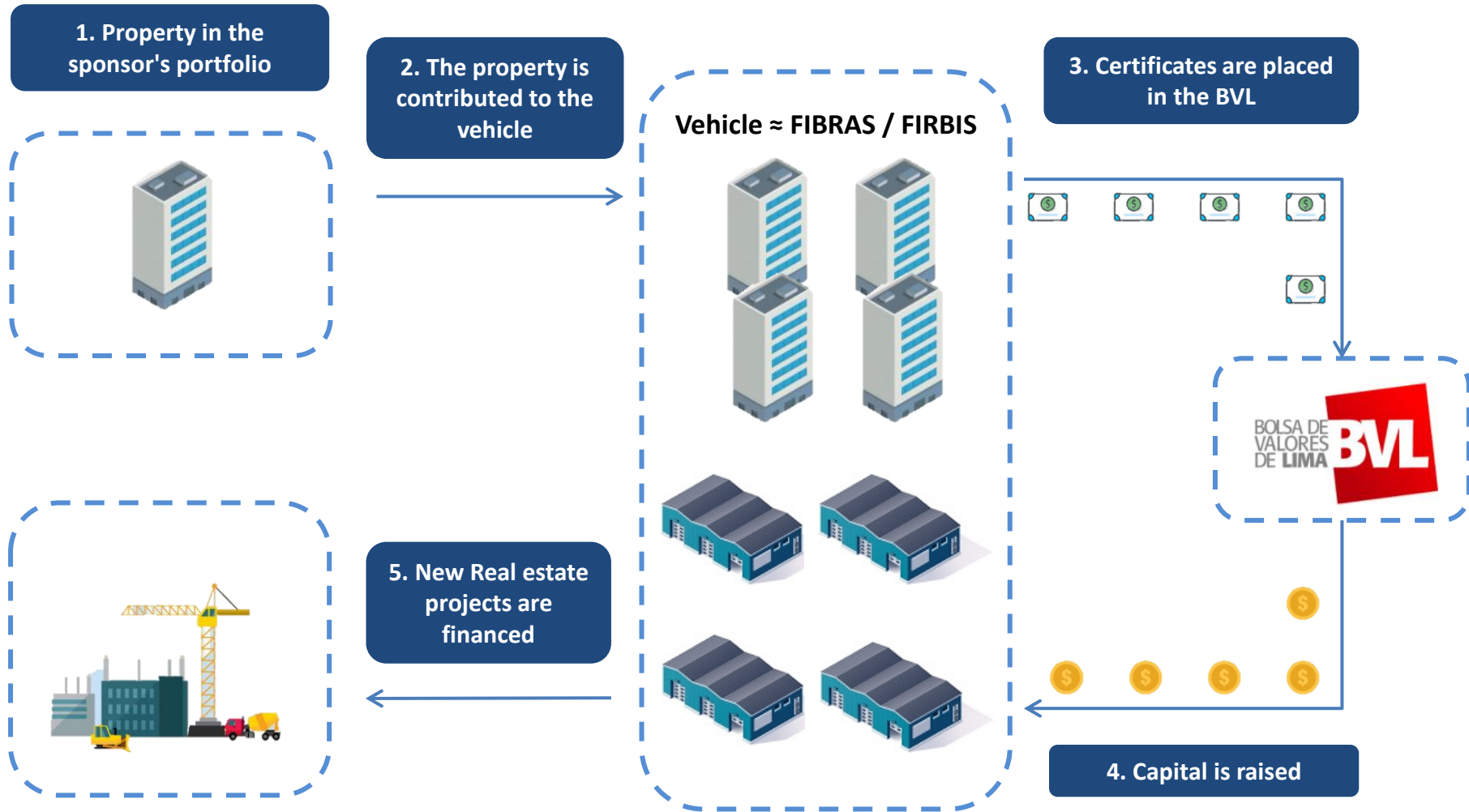


7. Contributor receives certificates (rights) and / or money

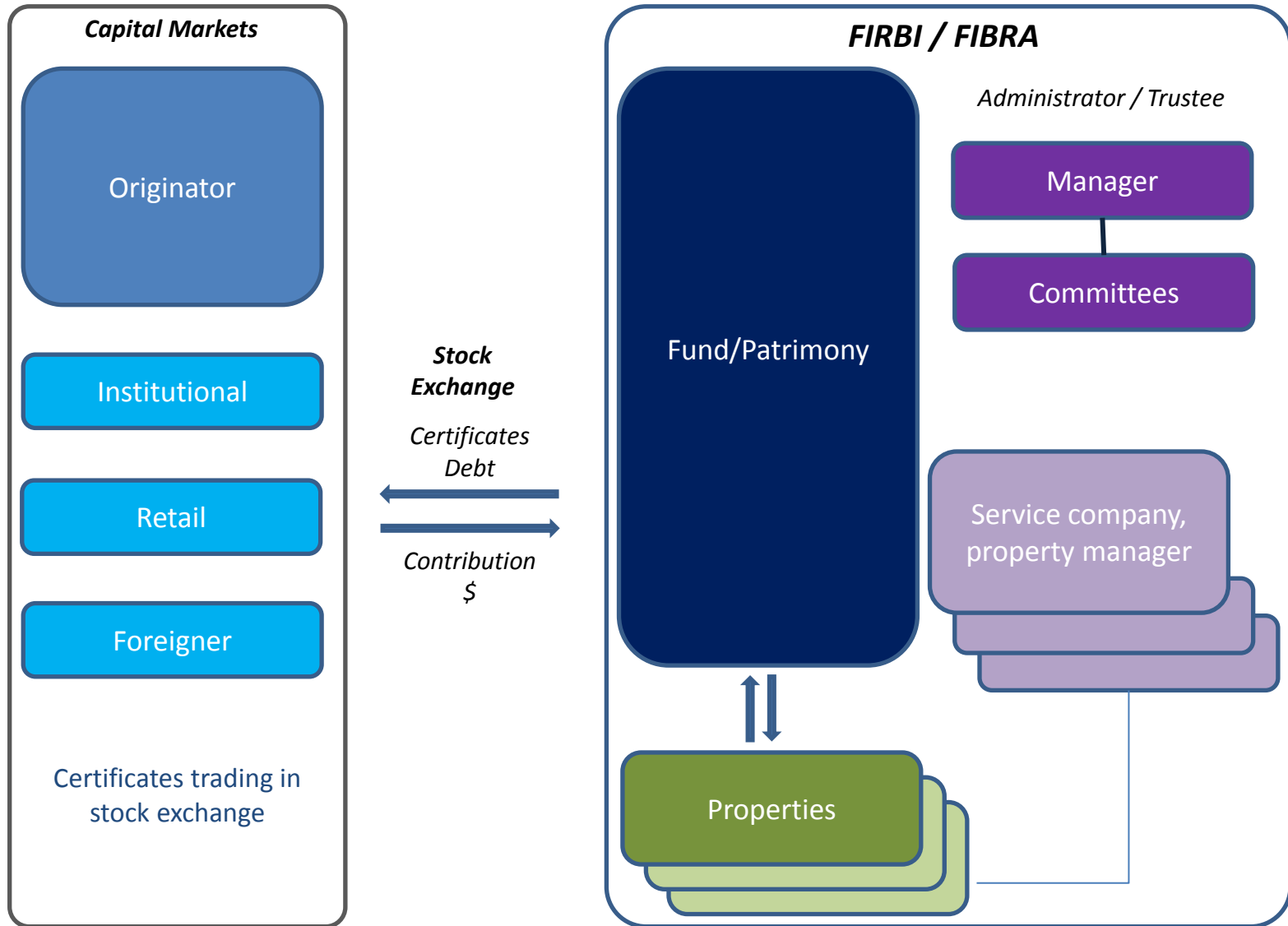


5. FIBRAS/FIRBIS: Mecanismo de levantamiento de capital

Contributing with portfolio generating projects



5. Functionality of listed FIRBI / FIBRA



Investors

- ✓ Diversification from traditional assets with high dividends.
- ✓ Diversification of real estate.
- ✓ Liquidity in the stock exchange (certificates, bonds).
- ✓ Liquidity with Market Maker.
- ✓ Income distribution.
- ✓ Good Corporate Governance.
- ✓ Additional returns from property appreciation.
- ✓ Hedge against inflation through rents.
- ✓ Access to new real estate business development.
- ✓ Transparency.
- ✓ Tax efficiency.
- ✓ Price formation.

Company

- ✓ Efficient allocation of resources for operation and management of real estate.
- ✓ Diversification of financing.
- ✓ Control of properties through internal or external managers.
- ✓ Corporate Governance.
- ✓ Liquidity of assets.
- ✓ Sequence opportunities, real estate business cycle.
- ✓ Income tax deferral.
- ✓ Local tax – alcabala deferral (FIRBI).
- ✓ Tax efficiency for legal entities.

7. Model structure

	FIRBI	FIBRA
Legal form	Investment fund	Asset securitization trust
Rules	SMV Investment Funds Regulation	SMV securitization processes Regulation
IPO	Yes	Yes
Listing	Ideal	Ideal
Restrictions on investors	Property acquired or constructed on behalf of the fund for rent may only be disposed of after four (4) years after when they were acquired or construction completed.	Property acquired or constructed on behalf of the fund for rent may only be disposed of after four (4) years after when they were acquired or construction completed

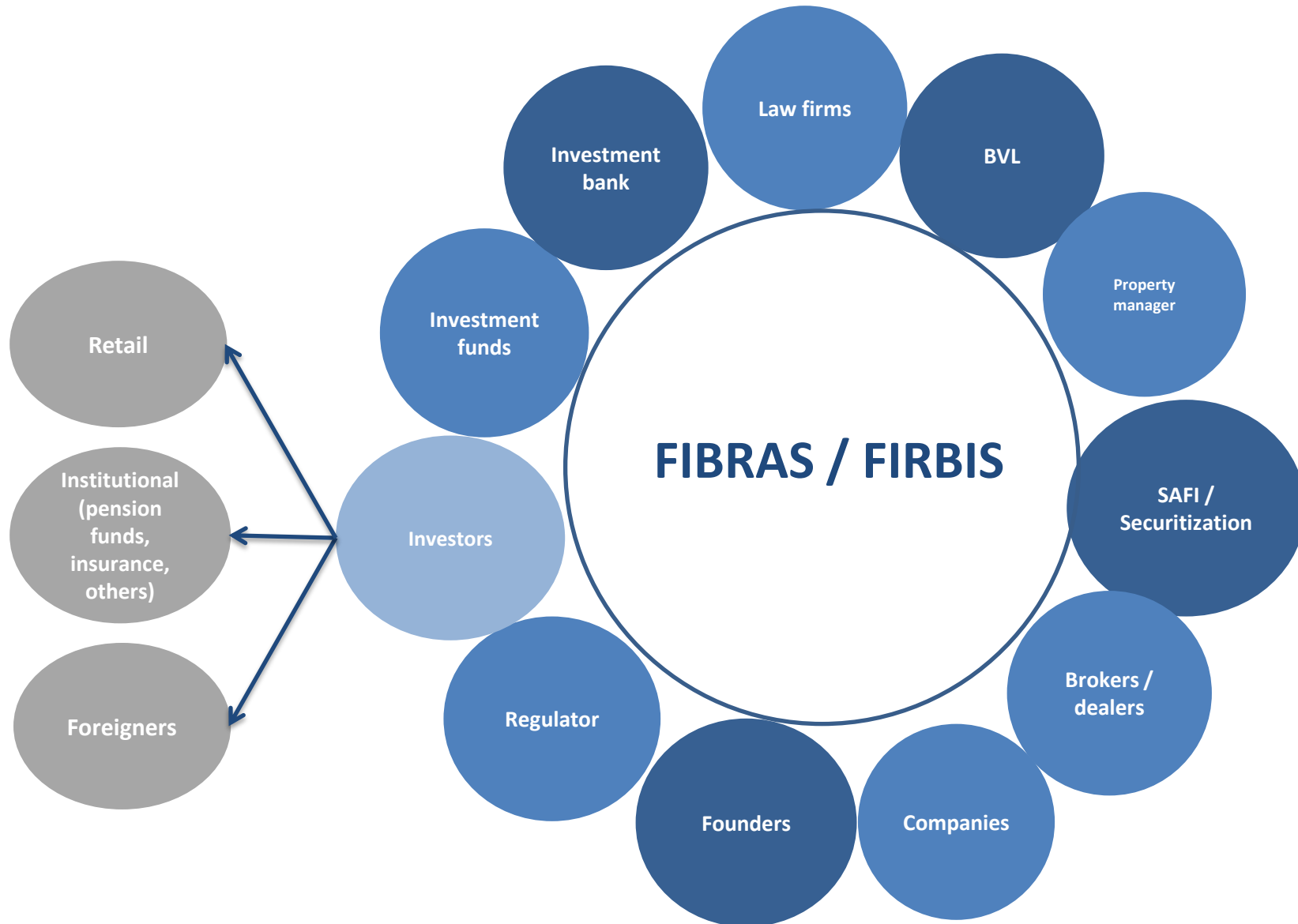
7. Model structure

	FIRBI	FIBRA
Minimum of investors	10 unrelated	10 unrelated
Qualified activities	Acquisition or construction of real estate for rent or other onerous use (at least 70% of patrimony invested on assets, rest in cash and others)	Acquisition or construction of real estate for rent or other onerous use (at least 70% of patrimony invested on assets, rest in cash and others)
Internal / External manager	Both	Both
Mandatory distribution	95% of distributable net profits	95% of distributable net profits
Time for distribution	At least annually	At least annually
Prohibition to build directly	Yes	Yes

7. Model structure: tax

	FIRBI	FIBRA
Conversion charges	Local tax deferral (alcabala)	Does not pay alcabala (local tax)
Tax transparency at REIT level	Income tax deferral of capital gain of founder's contribution	Income tax deferral of capital gain of founder's contribution (without return)
	Income tax attribution: retail investor 5% (28% before)	Income tax attribution: retail investor 5% (28% before)
Other restrictions	Contributor and related parties	Contributor and related parties
Capital gain tax exemption on exchange	Capital gain tax exemption with Market Presence	Capital gain tax exemption with Market Presence
Market Making facilities	Capital gain tax exemption with MMK	Capital gain tax exemption with MMK

8. Fibras and Firbis: Building an ecosystem



- **SMV Resolution N° 029-2014.** Contains initial characteristics of the instrument as fund.
- **Legislative Decree N° 1188** approved in August 2015. It contains tax incentive for FIRBIs: income tax deferral to the initial contribution of the property and alcabala (local tax) deferral to the FIRBI buying the property.
- **SMV Resolution N° 038-2016**, approved in November 2016. It contains characteristics of the investment vehicle as trust (FIBRA), and other considerations for FIRBIs.
- **Legislative Decree N° 1262 and Rulings**, approved in December 2016. It includes FIBRAS and FIRBIS certificates as instruments exempted of capital gain tax and it does not require to comply the test of less than 10% ownership to reach tax exemption, just to have Stock Market Presence.
- **Law N° 30532**, approved in December 2016. It grants income tax deferral to the initial contribution of the property for FIBRAS (trust) and income tax contribution of 5% for retail investors for FIBRAS and FIRBIs certificates.
- **SMV Resolution N° 016-2017-SMV/01**, approved in April 2017. It makes precisions regarding FIRBIs and FIBRAS rules, main precisions are: it introduces the concept of distributable net profit, is specifies periodicity of the distribution of 95% of profits, defines terms to comply with the 70% investment limit, and regulates some non-compliance issues.

SMV Resolution N° 016-2017-SMV/01 approved in April 2017 makes some improvements to the FIBRA and FIRBI rulings:

- **The concept of distributable net profits is used:** the calculation of distributable net profit for payment purposes will be determinate based on the income statement inflows and outflows.
- **Accuracy of timing of distribution of 95% of profits:** distributions can be annually, quarterly or on a monthly basis and must be made no later than April 30th of the year following in which that profit was generated.
- **Definition of term to comply with 70% equity investment limit of FIBRA/FIRBI:** up to twelve months after certificates IPO.
- **Definition of term and process of non-compliance with 70% equity investment limit to remain as a FIBRA/FIRBI:** in case of failure to comply two consecutive quarters, the securitization company or the management company must inform as a corporate event that the trust/fund ceased to have the status of de FIBRA/FIRBI. The status can be recovered with financial information in which compliance of 70% requirement is proven.
- **Non-compliance:** new rulings states that failure to comply with requirements such as: (i) distribute 95% of distributable net profit of the year at least once a year; (ii) do not transfer properties of the FIBRA or FIRBI before the 4th year; and (iii) IPO with 10 unrelated investors minimum, will lead the immediate and definitive loss of FIBRA or FIRBI status.

Before	Now
<p align="center">Regulation SBS-AFP</p>	<p align="center">Regulation “SBS-AFP (Res. SBS N° 2809-2018)”</p>
<ol style="list-style-type: none"> 1. FIBRA/FIRBI Equity assets eligible as alternative instruments 2. Investable only in fund II 3. Investment limits: <ul style="list-style-type: none"> • Fund II (Alternatives): up to 20% of the total fund value (≈US \$ 7.2 trillions) 4. SBS authorization is mandatory to invest in FIBRA/FIRBI categorized as alternative 5. The maximum investment limit in FIBRA/FIRBI is not specified 	<ol style="list-style-type: none"> 1. FIBRA/FIRBI asset class eligible as equity, if traded in a centralized negotiation mechanism 2. Investable in Fund II and III 3. Investment limits: <ul style="list-style-type: none"> • Fund II (equity) – up to 45% of the total fund value (≈ US\$ 16.1 trillions) • Fund III (equity) – up to 80% of the total fund value (≈ US\$ 5.7 trillions) <p><i>If it the category of FIBRA/FIRBI is lost, the investment limits of alternatives instruments are used</i></p> 1. SBS authorization is not required to invest in FIBRA/FIRBI 2. Investment limit up to 50% in the FIBRA/FIRBI

Before

Tax regulation - MEF

1. **Non-proportionality** in the sale of certificates for the **deferral of income tax** on real estate property
2. **Lack of clarity in depreciation** within the FIBRA / FIRBI
3. **Complexity in bonding requirements**, to access to tax benefits - retail investor 5%
4. **Uncertainty for other natural persons in case of non-compliance with the bonding requirements**
5. Withholding of 5% on net income for a natural person

Now

Tax regulation – “MEF (DL 1371)”

1. **Proportionality** in the sale of certificates for the **deferral of income tax** on real estate property
2. **Clarity in depreciation** within the FIBRA / FIRBI
3. **Simplification in linking requirements**, to access to tax benefits - retail investor 5%
4. **Non-compliance with the bonding requirements does not affect the other participants**
5. Withholding of 5% on gross income for a natural person

- ✓ Definition of vehicle to use (trust or fund).
- ✓ Minimum IPO size.
- ✓ Definition of minimum free float.
- ✓ Attractiveness of “contributed” assets by the founder.
- ✓ One or more founders.
- ✓ Nature of activities (diversification / specialization).
- ✓ Use of “fresh” funds: acquisitions, construction, among others.
- ✓ Role of local investors: equity institutional investors, fixed income institutional investors.
- ✓ Opportunity for private and retail banking: certificates, bonds, funds.
- ✓ Internal and external management.
- ✓ Administrative costs.
- ✓ Management, administration and rent contracts, and other roles.
- ✓ Management of conflicts of interest.
- ✓ Restrictions for foreigners (PFIC, investment limits).
- ✓ Impact of asset revaluation and market valuation.
- ✓ Price formation and market maker, and BVL liquidity.
- ✓ “Seed” and placement.
- ✓ Perú Hub.

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