

2019 AUSTRALIAN IPO REVIEW: REIT IPOS - THE ANSWER FOR YOU?

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Australian real estate continues to attract substantial investment, both from domestic and offshore players, with the predominant structure for commercial property ownership being real estate investment trusts (both listed and unlisted). Recent experience demonstrates that REIT IPOs continue to be popular, with opportunities expanding outside of the more traditional real estate classes including - in a number of cases - as a means to realise the value inherent in corporate real estate portfolios. We are seeing a number of clients exploring these opportunities.

REIT OVERVIEW

Real Estate Investment Trusts (**REITs**) have been a feature of the Australian property landscape since the early 1970s. Listed REITs, commonly referred to as A-REITs represent a substantial sector of the Australian market (with more than 50 listed REITs representing a total market capitalisation of more than A\$181.17 billion). There is also a substantial unlisted REIT sector in Australia.

Typically REITs are structured as unit trusts comprising a separate trustee and trust estate. The majority of the larger REITs now also adopt stapled structures where two or more securities (typically units in a trust and shares in a company) are jointly quoted on the ASX under a single code and trade together, with each investor owning a corresponding proportion of each entity.

This can allow for flow through tax structuring for passive real estate assets in the trust, together with access to returns of an operating business in the company. Stapled structures have also facilitated so called “internalisation” of REIT management – whereby the management platform is owned within the listed structure.

The optimal approach in any particular case will depend on the nature and drivers for the REIT offer.

EXPANDING THE FIELD OF OPPORTUNITIES

More recently, we have seen an increasing number of REIT IPOs focussing on opportunities in areas outside of more traditional real estate classes.

These have included retirement living (Gateway), large format retail (Aventus), flexible workspaces (Victory), real estate management platforms (Primewest) and spin-out of corporate real estate (Viva, Convenience Retail and the recently announced proposed IPO of Caltex service stations).

In the corporate spin-out space, where we have been involved with a number of proposals, both listed and wholesale, the sale and leaseback structure can be an effective way of seeking to unlock value in a real estate portfolio and optimising balance sheet, while offering investors looking for yield an attractive return profile underpinned by a blue chip tenant.

KEY CONSIDERATIONS

Some of the key considerations to keep in mind when exploring a potential REIT IPO are:

STRATEGIC OBJECTIVES

Strategic objectives and value story should be clarified upfront as this will greatly influence the broader offer approach and features.

Drivers here will differ significantly depending on the nature of the issuer and proposed product. For example, professional real estate managers may be more focussed on accessing capital and liquidity for members and the features of the management structure and fee streams, whereas corporates seeking to realise the inherent value in their property portfolio (for example, through sale and leaseback) may be more focussed on the potential for capital release, balanced with continued operational access to assets and ongoing rental commitments.

REIT IPO AND ALTERNATIVE ROUTES

An area for early assessment will be whether an IPO is the preferred route as compared to possible alternatives – recognising that each will have its benefits and drawbacks. Potential alternatives to a REIT IPO might include an unlisted fund, club or joint venture or a direct real estate sale.

A REIT IPO can allow benefits such as access to broader capital pools and potential investor liquidity, but typically involve more detailed regulatory obligations and the offer process will be played out in the public arena. It can be possible to pursue alternatives in parallel.

MANAGING THE STRUCTURE AND LICENSING

A Listed REIT will need to be registered with ASIC as a managed investment scheme (attracting regulation under Chapter 5C of the *Corporations Act*), with the trustee holding an appropriate Australian Financial Services Licence to act as responsible entity. Various operational functions are typically delegated to experienced fund and property managers.

For professional managers, required licenses and capability may already be held within the business. Newer players or corporates looking to pursue a REIT IPO will need to consider the optimal approach to satisfying these requirements, which may include seeking to develop the requisite capacity and obtain licenses in-house (although this can be costly and time consuming) or potentially engaging a professional services provider or linking up with a professional manager.

RETAINING A STRATEGIC STAKE

The issuer will need to consider whether it wishes to retain a stake in the structure – this can, for example, help to demonstrate alignment with investors and may also offer a degree of defensive protection from potential future corporate action. Retaining interests through the structure may also impact the tax, stamp duty and accounting treatment for the issuer.

As part of this assessment, issuers should be mindful of potential listing rule impacts for particular deal features. For example, Listing Rule 10.1 requires securityholder approval for acquisitions and disposals of substantial assets to specified related entities (including a substantial holder (10%+) in the entity). This could be relevant to the workability of certain proposed rights – such as proposed future pre-emptive rights.

Where proposed deal features may be impacted by these issues, upfront consideration and early engagement with ASX will be important.

TAX AND STAMP DUTY

Stamp duty and taxation implications for the structure should be confirmed early on, with any leakage factored into transaction modelling. This is often particularly relevant in the pre-structuring stage of compiling the real estate portfolio into the proposed listing structure. In addition, for an IPO of a REIT that has landholdings in Victoria, stamp duty may be payable in respect of the IPO itself.

OTHER COMMERCIAL FEATURES

Depending on the nature of the offer, there may be a range of other commercial features to be considered. Examples might include potential pipeline / priority rights to be offered to the REIT on future opportunities or, in a sale and leaseback proposal, the applicable commercial lease terms (which are often “triple net”).

SUMMARY

Broadly, a REIT IPO offers investors exposure to underlying real estate assets through a listed securitised structure (typically a unit trust and often with a stapled company). REIT IPOs continue to be popular in the Australian market.

Recent experience has seen REIT IPOs expanding into a broader range of areas beyond more traditional real estate classes. For corporates holding a large real estate portfolio as part of their operating activities, REIT IPOs can offer an attractive route for seeking to unlock the inherent value in that portfolio and optimising their balance sheet.

There are a range of considerations to be taken into account in determining whether an IPO may be the preferred transaction structure and it may be possible to pursue alternatives in parallel.

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KEY CONTACTS

If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.



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