

Fair Money Ltd
The Post House
Church Square
Taunton
TA1 1SA

Registered in England No. 5146066

Property Tax Team
HM Treasury
1 Horseguards Road
London
SW1A 2HQ

UKREIT@hm-treasury.gsi.gov.uk

Claire Gough
Financial and Insurance Team
HMRC
100 Parliament Street
London
SW1A 2BQ

karin.mchardy@hmrc.gsi.gov.uk



Dear Sirs,

UK Real Estate Investment Trusts
Submission on behalf of London Rebuilding Society

This submission is made on behalf of the London Rebuilding Society (www.londonrebuilding.com), a Community Development Finance Institution (CDFI) that has been accredited with Community Investment Tax Relief (CITR).

All correspondence relating to this response should be directed to:
Robin Keyte, Fair Money Ltd, The Post House, Church Square, Taunton, Somerset TA1 1SA;
telephone 01823 324432; e-mail robin@fairmoney.org.uk

Primary Concern

Our primary concern with regard to the draft legislation for UK REITs is that the regime will only be open to companies that are publicly listed on a Recognised Stock Exchange.

It is commonly recognised that since the right to buy policy was introduced for council tenants, social housing stock in the UK has decreased substantially. In an attempt to redress this balance, there has been a growing trend for 3rd sector providers (social enterprises) such as CDFIs and Housing Associations to meet localised housing needs with community based projects.

In addition London Rebuilding Society (LRS) wants to tackle the problems of housing disrepair in the owner occupied sector by seeking to create a secondary market in housing equity so as to raise investment for renewal, repairs and maintenance of owner occupied housing. Some 5 million homes are estimated to be unfit for human habitation/non-decent. Half of the poor live in owner occupation and many of these people are pensioner households with insufficient income to pay for home improvements and maintenance. Many of these households live in dangerous and unhealthy conditions and are also in fuel poverty Older people are soon to be the majority of homeowners. Property owned by pensioners has topped the £1 trillion mark after values rose by nearly £50bn in

2005, according to a retirement housing group Economic Lifestyle. How can capital locked up in these homes be released for reinvestment in decent – warm and dry, safe and secure homes?

Our concern is that REITS should be an opportunity for Housing Associations, Home Improvement Agencies and CDFIs to attract investment in the renewal and maintenance of non-decent homes and thereby support and improve the living conditions of the poor and vulnerable. We also feel that tax relief should have a double bottom line – a respectable return for private investors and a wider social and environmental return for the community. Investment in non-decent stock should: ease pressures on the housing supply, for demolition of unfit properties and new build by extending the useful life of existing housing; increase the comfort and independence of vulnerable households (contributing to the Government target to make 70% homes of vulnerable people decent by 2010) and also reduce pressures on health and social services arising from poor housing conditions.

Such projects cannot be sustainable if they are reliant upon charitable grants or government funding (i.e. Phoenix Fund), hence there is currently a need for CDFIs, Housing Associations and Home Improvement Agencies to identify mechanisms for raising social investment capital to support such projects.

UK REITs could indeed be one such mechanism.

However, the burden of costs associated with a public listing on a Recognised Stock Exchange would make this far too expensive to consider. This one requirement has a substantial and negative impact on CDFIs / Housing Associations / Home Improvement Agencies.

It is worth noting current Government Policy in relation to encouraging the growth of a 3rd sector / social economy where the aim is for social enterprise to be as natural a choice as private enterprise. Is it reasonable to set obstacles (such as a requirement for public listing) in the way of organisations that are new providers in the market place who aim to provide fair and equitable terms and also achieve Government Policy objectives?

It would appear that this is also inconsistent with the views of John Prescott MP. Referring to PN04 in the Pre-Budget Report Press Notices on the HM Treasury website, the Deputy Prime Minister, is quoted as saying:

“This ambitious package of measures aims to provide more homes for the next generation so that young families can afford a home of their own and people on lower incomes have access to decent social housing. But building more homes at more affordable prices must also mean building to high design and environmental standards, supported by the right infrastructure - transport, hospitals, schools, parks and leisure facilities. We are in the business of creating sustainable communities - not just bricks and mortar.”

The creation of UK REITs is intended to be one of the measures aiming to provide more people on lower incomes with access to decent social housing.

How many of the institutional property investors that you have been consulting with have given a clear commitment to focus on this area? How many of them already have a track record of working in this area?

We suspect the answer to this is none or very few indeed.

Our Solution

We propose that the draft legislation is amended so that the requirement for the REIT to be publicly listed on a Recognised Stock Exchange is removed if the firm operating the REIT has social or charitable objectives (i.e. is a 3rd sector provider).

This would allow CDFIs and Housing Associations to establish unquoted REITs for social housing projects.

Also, the fact that the REIT provider has such objectives and a board that is responsible for overseeing them, the risk that unscrupulous or inappropriate behaviour will occur (because the REIT is not listed) will be greatly reduced. Indeed, in the case of LRS they are already a regulated body thanks to their CITR accreditation.

Other Concerns

We have other concerns that are less fundamental but also need raising.

The draft legislation proposes that at least 75% of the REIT's total gross income must be from ring-fenced property letting activities and at least 75% of the REIT's gross value of assets must relate to property allocated to the ring-fenced property letting business.

Given that CDFIs and Housing Associations will be working on a much smaller scale, with smaller amounts of money, this may be difficult to achieve in practical terms. We would propose that this be relaxed to 25% just for unlisted REITs run by CDFIs or Housing Associations.

Also, the draft legislation proposes that no one investor can hold more than 10% of the fund. Again this may prove difficult for CDFIs and Housing Associations who might look to charities for a social investment to get the scheme off the ground, rather like seed capital if you will. We would therefore propose that this requirement be removed altogether. However, if you are concerned about its entire removal, we think a relaxation to a maximum allowable holding of say 50% might work for unlisted REITs run by CDFIs or Housing Associations.

Finally, we recommend that the Chancellor gives himself a reserve power to introduce further measures with respect to UK REITs legislation in relation to CDFIs, Housing Associations, Home Improvement Agencies and Community Land Trusts.

That concludes our submission on the draft legislation and for your information we have listed below a number of organisations that are in support of this submission. We would welcome the opportunity to engage with you further on this if you wished to.

If you have any queries, please do not hesitate to contact me on 01823 324432, or by e-mail on robin@fairmoney.org.uk

Yours faithfully,

Dr R W Keyte - Director
Fair Money Ltd

This submission is supported by:

Andrew Williamson OBE	Hastoe Housing Association
Charles Couzens	Somerset Trust for Sustainable Development South West Eco Homes
Andrew Shadrake	Wessex Reinvestment Trust
Naomi Kingsley	London Rebuilding Society
Nicola Pollock	Esme Fairbairn Foundation
Christian Thal-Jantzen	Ethical Investment Association

In addition, for your consideration, the CDFA has prepared the following note in relation to this submission.

Dear Sir/Madam,

This letter is in recognition of the role of London Rebuilding Society in exploring and extending the availability of financial services and investment in under-invested communities in the UK. LRS are one of the **cdfa**'s Charter members. The **cdfa** is the trade association for UK community development finance institutions – organizations that specialize in providing financial services and solutions to people and businesses that are either unable or unwilling to access all or some of the financial services they need from the formal financial services providers.

As such, any progress they can make in exploring new strategies for raising investment and harnessing tax incentives schemes such as REITS can benefit not just LRS but the broader CDFI sector.

Yours faithfully,

Sarah

Sarah McGeehan
Deputy Chief Executive
Community Development Finance Association
Room 101, Hatton Square Business Centre
16/16a Baldwin Gardens, London EC1N 7RJ
tel: 020 7430 0222 fax: 020 7430 2112
e-mail: s.mcgeehan@cdfa.org.uk web: www.cdfa.org.uk