

GROWTH OPPORTUNITIES FOR BARBADOS – EMERGING MARKETS AND PRODUCTS

A CASE FOR REAL ESTATE INVESTMENTS TRUSTS (REITS) IN BARBADOS

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Barbados has witnessed an expansion of its offerings with products ranging from our traditional (International Business Companies, Societies with Restrictive Liability, Captive Insurance, Trusts, International Banks) to the more recent additions (Private Trust Companies, Foundations). We continue to maintain our strong foothold in North America and we are seeing success with our timely entry into Latin America. So how do we keep the momentum going? What is the next bold move for Barbados? We prepare to welcome *Real Estate Investment Trusts* (REITs)! A REIT typically is a company/trust that manages a portfolio of real estate assets to earn profits for its shareholders/investors.

REITs have been in existence in the US, UK, Canada, Australia, Brazil, Singapore, Hong Kong, Mexico, Italy, Germany, Turkey and other countries for many years. The legal form and rules vary in each jurisdiction. REITs are widely acceptable investment vehicles for investments in property and mortgages, and the impetus for its introduction is usually depressed property markets. REITs generally receive special tax considerations and offers high yields, as well as, a liquid method of investing in real estate. REITs allow smaller investors to pool resources with other investors and invest in large scale commercial real estate. REITs can be established for a single development project for a limited number of years, or have a broad focus and invest in a variety of properties in various locations.

REITs generally fall into three categories: Equity REITs, Mortgage REITs, and Hybrid REITs. Equity REITs purchase, own and manage income generating properties such as office buildings, shopping malls, apartments, hotels, resorts. Equity REITs earn dividends from rental income, and capital gains from the sale of properties. In contrast, Mortgage REITs provide funding to real estate owners either directly as mortgages or loans, or indirectly through the acquisition of mortgage backed securities. In addition, Mortgage REITs manage their interest rate and credit risks through the use of derivatives and other hedging methods. Hybrid REITs generally use the investment strategies of both equity REITs and mortgage REITs, and therefore earn returns for its investors through a combination of rent and interest.

It is intended that Barbados REITs will be competently crafted with diversified portfolios that will be professionally managed to avoid overpriced undiversified single asset property investments. Barbados regulations will seek to prohibit over exposure to higher risk property development. While regulation cannot guarantee positive returns, specialist and professional management together with a conservative approach will prevent the erosion of investors' equity. Our banks which take control of properties as a result of

non-performing loans can use REITs as a medium to market and their deleveraging strategies.

The flexible REIT model proposed for Barbados will consider whether it should be formed as a corporation and/or a trust and/or a limited liability partnership. Consideration will also be given to Barbados REITs being publicly listed and/or private, capital requirements, ownership structure; whether corporate or individual, foreign or local, the minimum number of investors, whether there are any restrictions on the location of assets, distribution requirements, the tax treatment of the REIT itself and of the distribution in the hands of the investors in their jurisdiction.

Barbados recognizes that in today's property market and the foreseeable future, REITs are one of the trendiest and most potentially lucrative investment vehicles. REITs have the ability to make profits from real estate investments available to everyone, small and big investors alike, without any loss of revenue to taxing authorities. Apart from the domestic market, international investors in Barbados REITS can benefit from our growing network of double taxation treaties for tax relief. With our reputation for stability and effective regulations, Barbados is in an extremely superior position to capture REIT investors.
