

German economy oversleeps Corporate Finance effects and tax-savings of the German REIT- in 3-digit billion-amounts carelessly

The Munich based bank and real estate specialist Von Weichs in an interview with this newspaper

German large-scale enterprises with market-capitalization over 500 million € have in average real estate assets (net) in amount of ca. 25% of the balances in contrast to comparable companies in Western Europe with 11,2%. Alone 30 examined German big-companies on net-capital-influxes (after taxes) are possible targets in magnitude of approximately 80 Mrd. € to profit from the G-REITs as Corporate Finance instrument under consideration of IFRS. Conservative projections have disclosed that in the upper middle class (turnovers from 50 Mio. €s (p.a.) at least again the same magnitudes can be reached.

Together with Altium Capital, formerly Apax Corp. Fin., and the lawyer, auditors and tax specialists Braun Leberfinger Ludwig Weidinger (BLLW), all Munich, has v. Weichs therefore a such REITs developed that acquires above all business-necessary industry and health-real estates to the market-value (fair Value) and nevertheless arranges for the the seller long-term actually owner-similar rights at the business-necessary real estates contractually.

The advisor reminds that only with transfers to a Pre-REIT the tax-advantages of the Exit-Tax of 50% on the book-profit until 31.12.2009 can be perceived. In the examined cases the exit tax advantages are 7,5 bil. €. With an extension of the Exit-Tax is to be calculated because of the forthcoming elections in 2009 by no means. After the property-transfer, the Pre-REIT has four years of time up to the Listing and can therefore wait for the recuperation of the capital-markets in silence.

With the utilization the REIT as Corporate Finance Tools the industry gets an additional strategic important, fiscally interesting and interest-favorable access to the capital-market in difficult times, because the refunding of the REIT itself on the basis of its legally required high equity of 45% can be refinanced to the biggest part with mortgage deeds (Pfandbriefen). Furthermore, the concepts makes the in general illiquid business-necessary properties liquid and puts different users and regions into a liquid capital-market-product, for example Industry, health care, retail or mid caps. The tool normally increases the the rating of the selling company to investment grade or better, The corporate Finance REIT will have at least a NAV bigger one bil. € and therefore will be very interesting for institutional investors as a secure, long-term, steady growth oriented and yield-strong investment of high interest with top German industry addresses as long term users. Big German banks are supporting the concept..

Businesses that use the instrument, can reduce the tax interest-barrier and the discount on its own NAV due to the reduction of equity-binding of the less productive real estate and also can achieve a clear upgrading of the Ratings also under application of IFRS.

Von Weichs predicts as one of the essential effect of the capital-market-crisis, that all banks must apply Basel requirements in all sharpness in the future. From now the banks will apply these rules strictly to all and also the best customers and will cut generally credit exposures. That causes the necessity for the industries automatically to improve the self-financing and to look for cheap and strategic advantageous accesses to the capital-market independent from banks. The method-influx causes by the sale to the REIT normally a better rating, through it better credit-conditions and a reduction of the interest-expenses as well as an improvement of the balance-relations even by IFRS.

Von Weichs estimates for the professional transaction a time period of approximately 8-10 months. Since the Exit tax advantages will run off at 31.12.09 time becomes scare. Since some technical and tax related obstacles for the G-REIT are no more existent with the new tax law for 2009 the transaction into a REIT becomes more favourable.