

PRESS RELEASE

Hungary

Coming Along for the REIT?

Following the lead of most developed economies, Hungary has now introduced Real Estate Investment Trusts (REITs) in an effort to revitalize the local real estate market.

REITs are income trusts that hold portfolios of offices, malls and big-box stores, hotels, apartments or seniors housing. REITs make regular cash distributions like other income trusts and, for over decade, they also rose steadily in price. REITs gained some added appeal when they were largely exempted from income trust taxes in many countries. Hungarian lawmakers are eager to breathe new life into the trading of commercial and residential properties. Creating an REIT would mean exemption from the payment of corporate tax (19 per cent) and local business tax (2 per cent), as well as a lower land purchase tax (down to 2 per cent). REITs should not be seen as a new legal corporate form, but instead rather as a new type of corporate status with a number of privileges attached. Only companies limited by shares can qualify as an REIT by registering with NAV, the National Tax and Customs Administration of Hungary. Applicants must meet the following requirements:

- Their equity must equal at least HUF 10 billion;
- Their business activity must be limited to the purchase, sale and rental of own properties and to real estate and property management;
- The percentage of their public float shall be at least 25 per cent;
- A part of the shares equalling the public float percentage shall be listed on the stock exchange;
- Credit institutions and insurance companies must not hold more than a 10 per cent share of the shares;
- 90 per cent of the entity's dividends must be disbursed.

Although the tax exemption may make REITs an attractive form of investment, the question still arises why they were not admitted earlier and how they may contribute to the revitalization of the real estate market. In other countries, REITs face challenges from both the slowing economy and the global financial crisis. Therefore, how they will perform in Hungary remains to be seen.

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