



Property Entities

What are Property Entities?

Property Entities are investment vehicles which allow investors to indirectly gain exposure to immovable property. Prior to the establishment of the FTSE/JSE sectors, the current Real Estate sector existed as three sub sectors which comprised of Property, Property Loan Stock or Variable Stock and Property Unit Trusts.

A Property Entity may be defined as an investment vehicle which invests exclusively, either directly or indirectly, in a portfolio of immovable properties and/or derives the majority of its income from property related sources such as rent income, income derived from the management of immovable property portfolios, developmental income and brokerage received on the purchase or sale of immovable property.

Types of Property Entities

Currently there are four types of Property Entities listed on the JSE, namely: Property Unit Trusts (PUTs), Property Holding and Development Companies, Real Estate Investment Trusts (REITs) and Property Loan Stock Companies (PLSs).

Property Entities are distinguishable from each other in the following aspects:

Legal Form

- » Property Loan Stock (PLSs) and Property Holding and Development Companies are subject to the Companies Act, JSE Listing Requirements and their own Articles of Association.
- » Property Unit Trusts (PUTs) are registered and regulated under the auspices of the Collective Investment Scheme Control Act.
- » Currently in South Africa there is no legislation governing Real Estate Investment Trusts (REITs). The current JSE listed REIT universe is comprised of dual listings.

Tax Treatment

- » Property Unit Trusts, Real Estate Investment Trusts and Property Loan Stock Companies are tax advantaged investment vehicles whilst Property Holding and Development Companies are not.

How to invest in Property Entities

Investing in Property Entities through a stockbroker requires:

- » Opening a trading account with a stockbroker.
- » All transactions will be subject to:
 - Brokerage fees
 - Settlement fees
 - Investor Protection Levies
 - Security Transfer Tax (STT)
 - Custodial or administrative fees (where applicable)
 - VAT (where applicable)
- » Opening a trading account will enable the investor to invest in any JSE listed product.

Benefits of investing in Property Entities

Diversification

Property Entities give investors the opportunity to invest in a diversified portfolio of expertly managed immovable property.

Conduit Principle

Property Unit Trusts and Real Estate Investment Trusts are exempt from paying tax on income distributed to investors. Property Loan Stock Companies issue Linked Units which comprise of a share and a debenture. Since the majority of the capital structure of Property Loan Stock Companies comprises of debentures and the interest earned on the debentures is distributed before tax, Property Loan Stock Companies are able to distribute the majority of their income to investors before tax. Property Unit Trusts, Real Estate Investment Trusts and Property Loan Stock Companies are therefore tax "Conduits".





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Regular Income Stream

Property Entities are generally considered Income Funds because they distribute the majority of their income to investors on a regular basis (i.e. most Property Entities distribute income on a quarterly basis).

Exposure to Immovable Property

Investors may gain exposure to immovable property with lower initial margins. In other words Property Entities give investors exposure to the benefits of owning immovable property (i.e. rent income and capital appreciation) without large capital outlays.

Liquidity

Property Entities are traded on the JSE and are more liquid than immovable property.

Well Regulated

Property Entities, notwithstanding the JSE Listing Authority, are subject to the REIT legislation particular to the country in which the company is incorporated, the Companies Act as well as their own Articles of Association or the Collective Investment Scheme Control Act.

Price Transparency

The price of a Property Entity security is determined by market forces and is transparent (i.e. is visible to the public).

Some things to consider

Fees

When purchasing the securities of a listed Property Entity through a stockbroker, investors are subject to brokerage as well as other fees. Investors should consider the fees involved when acquiring any investment before committing capital.

Tax

Upon the disposal of the securities of a listed Property Entity, Capital Gains Tax is applicable.

Risk

The price of the securities of listed Property Entities is determined by the forces of demand and supply. Thus investors are subject to market risk as well as other risk factors specific to immovable property.



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