

# UK real estate insights

Issue 10 – October 2008

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## Introduction

Welcome to the latest issue of our UK real estate insights. The quarter to 30th September was a turbulent one, with a particularly dramatic final month. The instability has continued into October, and even today as this publication goes out it is not clear whether the rescue packages in the US and here in the UK will be sufficient to stem the crisis.

The mood of the real estate industry is difficult to describe. We are just starting the interviews for the 2009 edition of European Emerging Trends report.

The report, which we produce jointly with the Urban Land Institute, covers 27 markets in countries throughout Europe. It is based on surveys and interviews with nearly 500 of the industry's leading players and contains predictions for individual property sectors as well as markets, along with insights regarding real estate capital markets and the economy in general. The opening quote from an investor from the 2007 report was 'if 12 o'clock is the top of the cycle, we are at five or ten minutes to 12'. The opening quote last year was 'fear is back'. What will be the opening quote this year? Last week we held our annual European real estate client conference in Lisbon. This week we had a major presence at Exporeal in Munich. The sentiment at both events was one of trepidation and uncertainty. When some of the most experienced people in the industry describe the situation as scary, we should all be nervous.

For obvious reasons, much of the attention has focused on the state of the banking sector. Liquidity will not return to the real estate lending markets until



financial institutions recover confidence in each other. Because of this, in recent editions of this publication we have been following closely the findings of the CBI/PricewaterhouseCoopers quarterly financial services survey. The results in the quarter to 30th June reported in the last edition of UKREI were grim, and respondents were predicting that the quarter to 30th September would be the worst for the sector since the survey was

first launched in December 1989. In fact, events were more dramatic than anyone had predicted. The financial landscape changed significantly on the evening of 14th September when Lehman in the US filed for chapter 11 protection and partners from PricewaterhouseCoopers<sup>1</sup> were appointed the next morning as administrators of Lehman Brothers International (Europe). Subsequent events have seen AIG, Merrill Lynch,

<sup>1</sup> "PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom).

## Introduction



Wachovia, Washington Mutual, Dexia, Fortis, Bradford and Bingley, Hypo and the Icelandic financial sector more or less en masse disappear completely or limp on, reliant on state support. Even Morgan Stanley and Goldman Sachs have not been immune, and we have seen the disappearance of independent investment banking.

As several of the speakers and panelists at our conference last week commented,

we are now in uncharted territory. The events at Hypo and the knock-on effect that this is having on the rest of the German banks is particularly worrying. German open- and closed-ended funds were starting to buy again in the UK. Although they operate with relatively low levels of gearing, many do generally operate with some leverage. Paralysis in the German lending market will have an adverse effect on one of the few

remaining groups of buyers in the UK market.

The other worrying feature of the CBI/PricewaterhouseCoopers quarterly financial services survey for the quarter to 30th September is the consistency of the gloom. Although media attention understandably focuses on the major institutions crippled by lack of liquidity, it is apparent from the survey that business volumes and profitability have collapsed across the sector. [More detail is provided elsewhere in this edition.](#) Clearly, the events in the financial services sector have a much broader impact than just liquidity for real estate transactions. London is highly dependent on the financial services industry. The slump in profitability and business volumes is now feeding through into job losses. This will affect all property types. It is not just city office rents that will be hit. Fewer bankers with money to spend affects retail, residential, hospitality and leisure property.

Apart from the financial services sector news, the broader economic outlook has also worsened. UK economic growth ground to a halt in the second quarter of 2008, greatly increasing the chance of recession. Falling house prices and decelerating consumer demand give a

bleak outlook for the rest of 2008 and 2009. In the US, consumer spending was also flat, and may show a decline for the first time since 1991 when the figures to 30th September are released. The Eurozone is also teetering on the brink of recession. The UK economic outlook is covered in more detail in the [first article of this publication.](#)

The current situation, although fraught with uncertainty, also gives rise to significant opportunities. The administration of Lehman has generated a huge amount of interest in the media and in the industry. [An update on the latest position is included later in this issue.](#) Many of the other ongoing difficulties are also likely to result in assets and businesses coming onto the market.

The next quarter is likely to be a challenging one.

### [John Forbes](#)

Real Estate Industry Leader  
Europe, Middle-East and Africa  
PricewaterhouseCoopers LLP

## Economic update

As outlined in the introduction to this edition of UK real estate insights, the state of the UK economy has deteriorated significantly. The PwC Macro Consulting team issued its latest update on the UK economy on 6th September. The key findings are outlined in this article. There is a lot of uncertainty at the moment, not least regarding how the unfolding financial crisis will impact on the broader economy, but the risks to the economy are heavily weighted to the downside.

UK economic growth ground to a halt in the second quarter of 2008, greatly increasing the chance of recession. Falling house prices and decelerating consumer demand give a bleak outlook for the rest of 2008 and 2009.

### Key metrics

Indicator	2007	2008f	2009f
GDP growth	3.1%	1.0%	-0.2%
Inflation	2.3%	3.5%	3.0%
Base interest rate (EOP)	5.5%	◀▶*	▼
General outlook		Negative	Negative

Source: ONS, Bank of England; PricewaterhouseCoopers forecasts (f) \*Rate as of September 2008 was 5%

### Key trends

- The rate of GDP growth fell to 0% in Q2 2008, ending 63 previous quarters of consecutive growth.
- The housing market continues to suffer as credit tightening impacts upon demand.
- Inflation rose to 4.4% in July, a result of sterling depreciation and consistently high fuel and food prices.



# Economic update

Figure 1: Economic growth profile

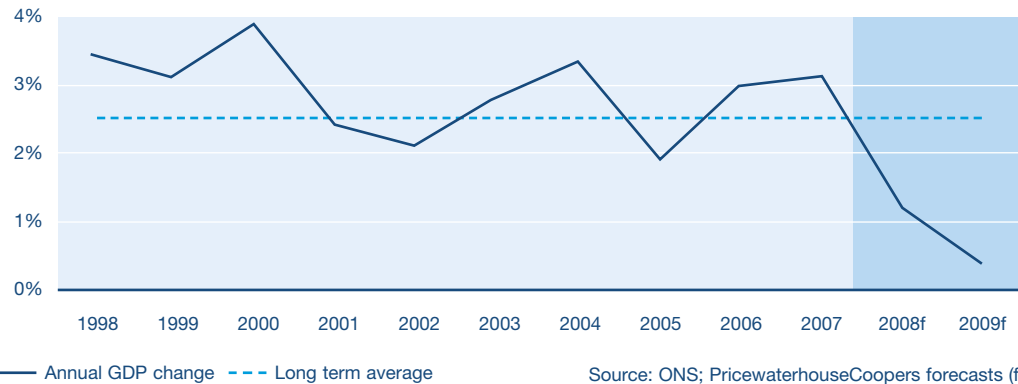
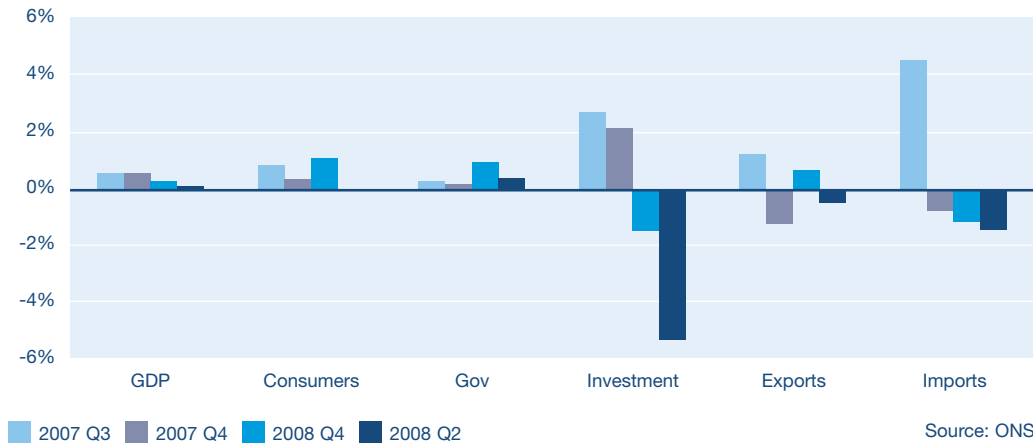


Figure 2: Quarter-on-quarter growth rates



## Growth flat in second quarter

GDP growth continued to decelerate in Q2 2008, with revised output growth figures now flat at 0% (see Chart 1). This ends the consecutive growth experienced in the UK since Q2 2003 and increases the likelihood of a recession. A large contraction in investment and a deceleration of consumer spending were the main drivers of the poor overall growth figures.

## Consumer spending decelerates

Official figures for retail sales growth in Q1 were above the post-1998 average, while Q2 figures showed only a minor slowdown. However, consumer spending remained constant in Q2, decelerating from growth of 1.1% in the previous quarter.

Other evidence suggests that the slowdown in consumer spending is more acute; surveys from the CBI and the BRC show contractions in spending over the first 2 quarters of 2008. Worsening economic conditions and rising inflation (which reached a 16-year high of 4.4% in July) suggest that consumer spending may remain sluggish over the coming quarters.

## Continued weakness in manufacturing

Overall manufacturing activity continued to fall in Q2. The Purchasing Managers Index remains below 50, the point which determines whether output is expanding or contracting (see Chart 2). Despite this, August saw a rise on July's nine and a half-year low, implying the sector is still contracting, but is doing so at a slower pace.

The Output Price Index recorded that manufacturing output price inflation hit a record high in August, due mainly to the rising input prices of energy, food, fuel and the increasing price of imported inputs, due to sterling depreciation.

## House prices fall and approvals decline

House price indices from the Nationwide and Halifax indicate that house prices continue to fall (see Chart 3). House prices in August were 10.5% lower than the previous year, according to Nationwide, bringing average prices in the UK down to the level they were at in May 2006. Mortgage approvals for new home purchases fell to the lowest level since records began in 1993.

# Economic update

Figure 3: Purchasing Managers' Index

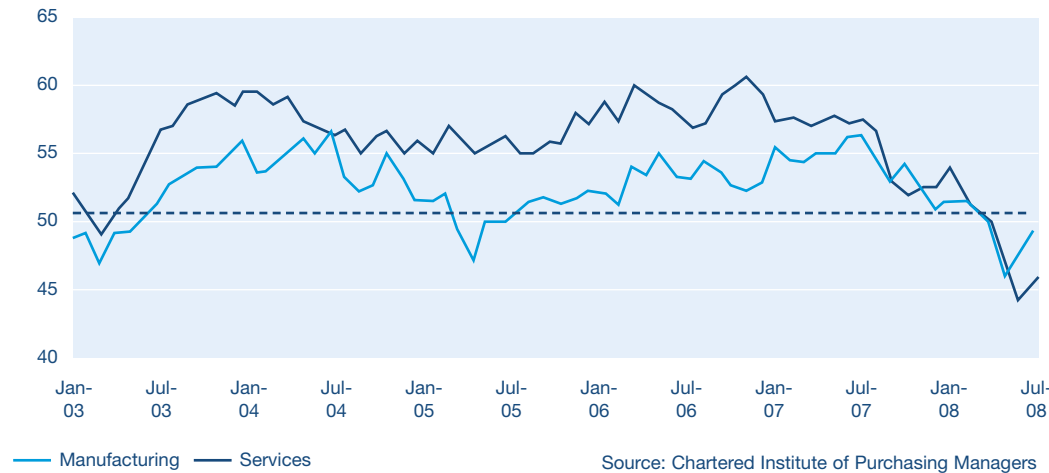
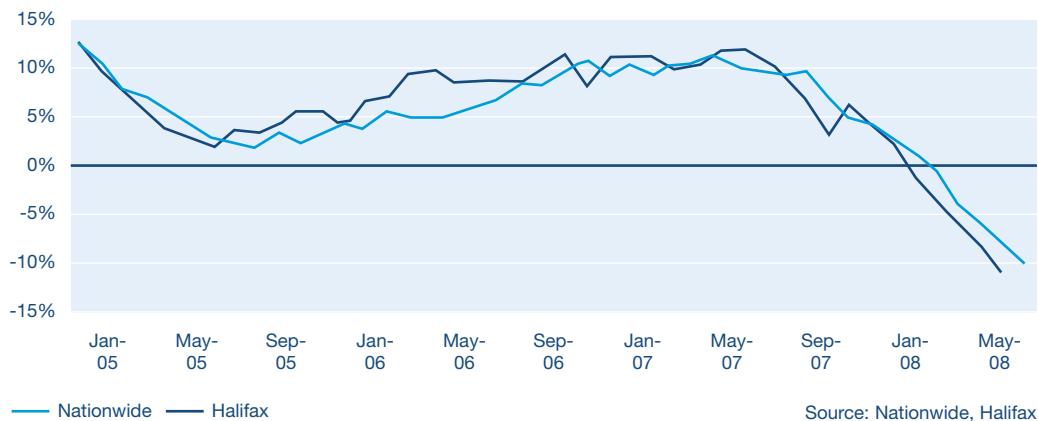


Figure 4: UK house prices



The Chancellor announced various measures including a stamp duty holiday for houses sold for less than £175,000 in September. It is hoped that this move will encourage first-time buyers to enter the market as well as increase the number of transactions at the bottom end of the market. However, commentators expect this policy to have little impact, if any, on prices.

## Sharp slowdown anticipated

The outlook for the UK economy has deteriorated rapidly, with the Bank of England forecasting a recession in its main scenario and the Chancellor warning of tough times ahead. Rising inflation will continue to restrict the Monetary Policy Committee's ability to cut interest rates, which will have an impact upon consumer spending, investment and the housing market. Therefore, we anticipate that growth will slow to 1.1% in 2008 and 0.3% in 2009, which implies a mild technical recession during late 2008 and early 2009.

For further information regarding macro-economic advice for the real estate industry, please contact [Yael Selfin](#), who is Head of Macro Consulting, Economics in our Market & Value Advisory practice.

## Spotlight: Weak performance of pound stokes inflationary pressures

The Chancellor's recent comments on the poor outlook for the UK triggered selling of Sterling. The currency experienced its worst month against the dollar in August since it was ejected from the European ERM in September 1992, falling over 8% against the dollar. It also reached its lowest level against the currencies of its major trading partners, as the trade-weighted sterling index dropped to a 12-year low.

While a weaker pound will reduce the price of UK exports, weak external demand means that there is likely to be little growth in exports. Furthermore, higher import prices will increase current inflationary pressures.

# Financial Services Industry Update

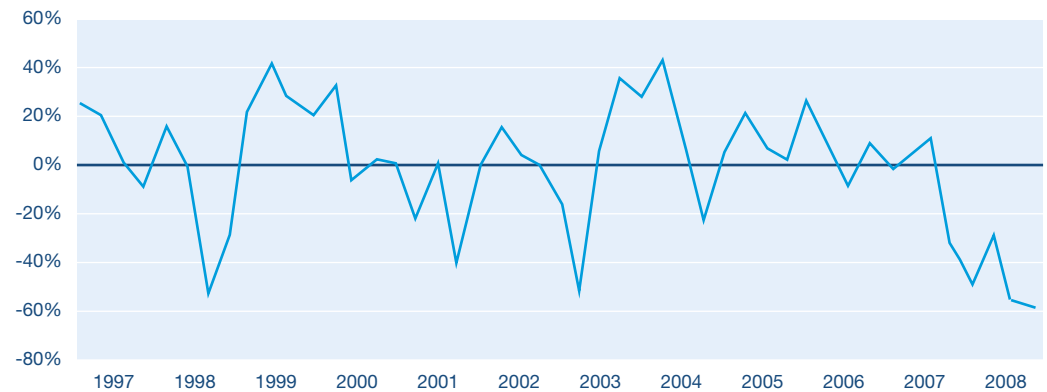
In view of the importance of the financial services industry for both as tenants and as a driver for the broader economy, we have been reporting the results of the quarterly Financial Services Survey that we produce with the CBI. The survey, which has been running since December 1989, is a quarterly survey of the health, perceptions and plans of the financial services industry. The latest survey, which covers the period to 30th September, makes grim reading.

Job losses are mounting as business activity and profitability plummet. Optimism has fallen further, and it is important to note that the interviews for this survey were conducted prior to the momentous events of the last three weeks.

The volume of business within financial services declined at its most rapid pace since the survey began. This also caused the trend in profitability to fall at a record pace, for the second successive quarter. Business volumes remained below normal to the greatest extent since December 1992. Asked how their business volumes had fared in the three months to early September, 10% of firms said they had risen, while 61% said they had dropped. The resulting balance of -51% was much worse than expected, and was the weakest result since the survey started in December 1989. Volumes are expected to fall again over the coming three months, but at a slower rate (-31%).

Profitability in the sector declined at a record rate, as a balance of 49% of firms reported a fall, and this rate is set to continue over the next three months.

**Q1 – Optimism: Are you more, or less, optimistic than you were 3 months ago?**



Source: CBI/PricewaterhouseCoopers Financial Services Survey, September 2008

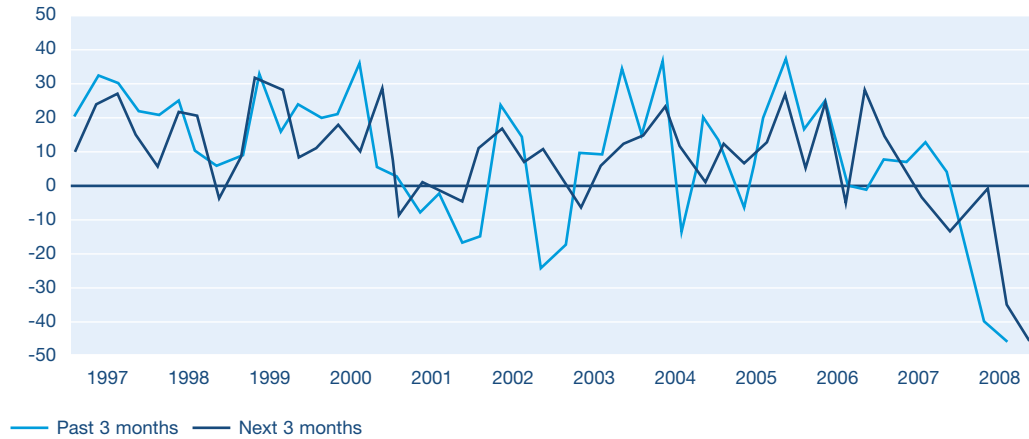
**Q3a – Volume of business: What is the trend in the volume of business?**



Source: CBI/PricewaterhouseCoopers Financial Services Survey, September 2008

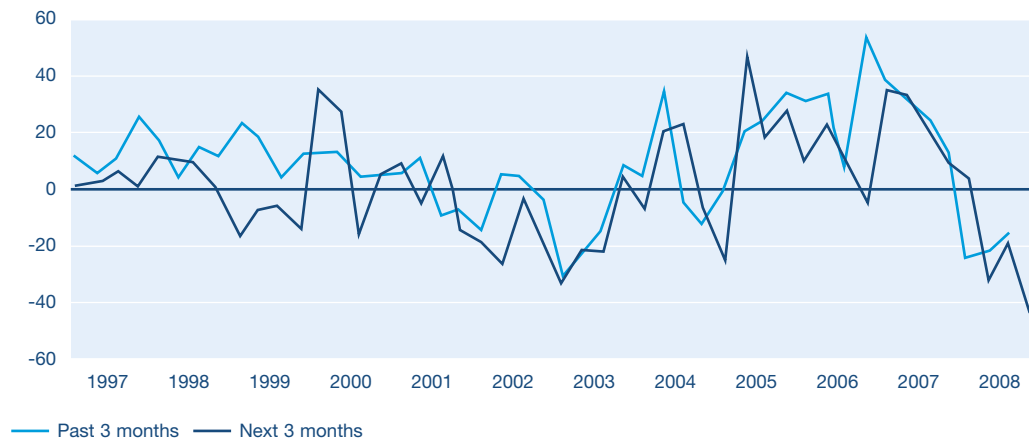
# Financial Services Industry Update

**Q5g – Profitability: What is the trend in overall profitability?**



Source: CBI/PricewaterhouseCoopers Financial Services Survey, September 2008

**Q6a – Employment: What is the trend in numbers employed?**



Source: CBI/PricewaterhouseCoopers Financial Services Survey, September 2008

The value of fee, commission and premium incomes fell over the last three months, as did income from net interest, investment or trading. All have been falling for a year and dropped more heavily than in June’s survey. Slightly more moderate falls are expected in the coming quarter.

Numbers employed in the sector fell, with a steeper fall expected over the three months ahead.

Supplementary questions about the credit crunch, which have now been asked for a fourth successive survey, showed that virtually all financial services firms (99%) expect it to be more than six months before ‘normal’ financial market conditions resume. Asked about the impacts of the credit crunch, firms said that reduced sales or revenue growth was the greatest concern across both the short and medium terms.

Of particular relevance for the real estate industry, 23% of respondents expect to reduce their expenditure on land and buildings over the next 12 months. This is particularly the case for banking (38% expecting to reduce expenditure) and life insurance (63% expecting to reduce expenditure). Fund management bucks the trend with 46% of respondents expecting to increase their expenditure on land and buildings over the next 12 months.

[To obtain a copy of the report click here.](#)

## Lehman Brothers – update

The joint administrators  
(the “Administrators”) of

Lehman Brothers Limited

Lehman Brothers Holdings PLC

LB UK RE Holdings Limited

Lehman Brothers International (Europe)

Storm Funding Limited

Mable Commercial Funding Limited

Lehman Brothers Europe Limited

Lehman Brothers UK Holdings Ltd

LB UK Financing Ltd

LB SF No. 1

(collectively “the group”) issued  
the following brief update  
concerning real estate assets.

The Administrators are continuing to review the assets of the group. These include direct asset investment and development properties, interests in joint ventures and loans. The assets are located in a number of European countries. The process of evaluating the assets is likely to continue for some time and disposals are generally not expected to be imminent. The Administrators are continuing to gather expressions of interest in these assets.

The sale process is now commencing in relation to certain non-performing and performing loan portfolios along with associated loan servicing platforms. A large number of potential acquirers have registered their interest in these assets. If you have already registered your interest you need not do so again. Potential acquirers will either have been contacted by the Administrators already or will be contacted in the coming few days.

For further details please contact:  
[enquiries.lehmanbrothers@uk.pwc.com](mailto:enquiries.lehmanbrothers@uk.pwc.com) ensuring that the subject field is entitled REAL ESTATE or contact your usual team at PricewaterhouseCoopers LLP.



## Stamp Taxes Update

The world of Stamp Taxes is changing at dizzying speed... The cat and mouse game between HMRC and tax advisers continues. As has now become traditional, the Finance Act 2008 contained yet another raft of anti-avoidance provisions, adding more complexity to the legislation. Even the area of Islamic financing – currently supported by the Government – suffered some setbacks as a result of the new measures.

In these uncertain times of ever-changing and often unclear legislation, taxpayers may expect the tax authorities to offer guidance in the form of publications and helpline services. Unfortunately, staff shortages at HMRC have meant that guidance is, in practice, very limited.

### The Finance Act 2008

Out of the many new measures contained in the last Finance Act, anti-avoidance provisions affecting transfers between group companies, Islamic financing and transfers of partnership interests are definitely worth a mention.

Under the group relief provisions, provided that specific requirements are met, a transfer of property between two companies of the same group is exempt from Stamp Duty Land Tax (SDLT). The relief can be clawed back (so that SDLT becomes payable on the previous intra-group transfer) if the purchasing company leaves the group within three years of the property transfer. This anti-avoidance measure was enacted to counter 'envelope schemes', whereby a property was transferred intra-group to a Special Purpose Vehicle (SPV), free of stamp taxes-prior to the sale of the SPV



(again free of stamp taxes). The legislation, however, provided a let-out when the group connection was severed as a result of the vendor leaving the group. Since the Finance Act 2008, the clawback will also be triggered by a change of control of the purchaser company (which can happen at any level above the purchaser company) – and which takes place after the vendor has left the group. This new measure has

been received with total dismay by tax practitioners, as it means that perfectly innocent transactions (such as the sale of a holding company or a change in the shareholding of any company in the chain above the purchaser company) can now trigger a liability to SDLT. Any due diligence on purchase of a group of companies will need to be extremely thorough, especially since directors of the purchaser company (or of any of its

## Stamp Taxes Update

parent companies) can be held personally liable.

The new group relief clawback provisions are likely to impact adversely on many Islamic financing transactions as many structures involve the intra-group grant of a lease (with the benefit of group relief), followed by a sale of the non-Islamic-compliant holder of the freehold and the subsequent investment of Shariah-compliant investors in the tenant. The UK tax aspects of Islamic Finance are dealt with in more detail in [another article](#) in this edition.

Islamic finance structures will also be adversely affected by changes to the alternative finance relief provisions, which have limited the scope of the exemption that applies to lease and lease-back transactions. This was quite a surprising move from HMRC, given that the abuse that the new measures are supposed to counter, was in practice, very limited.

The 2008 Budget announced a consultation on commercial sukuks. The Consultation Document was published on 26th June 2008. A sukuk is an Islamic financial certificate, equivalent to a bond, which complies with the

requirement of Shariah Islamic Law by enabling investors to acquire ownership of the underlying assets. This in turn is achieved by the transfer of land and buildings to the sukuk-issuing SPV, thereby triggering a charge to SDLT. A second charge is triggered when the assets are sold back to the originator. The Treasury are contemplating the possibility of exempting both transfers from SDLT.

Finally, this year's Finance Act introduced new rules in relation to transfers of interests in property investment partnerships.

In specific circumstances, these amendments reduce the charge to SDLT by providing that not all the land held by the partnership will be subject to SDLT.

A new election is also available. The election exempts from any SDLT any future transfers of partnership interests for no consideration. The election triggers a one-off charge in relation to land acquisitions by the partnership and is made on a property-by-property basis. The election will therefore be advantageous, mainly for partnerships with a high turnover of partners or with changing profit sharing ratios – as changes in the composition of the

partners or in the allocation of profits would usually trigger a charge to SDLT in the absence of the election. The election must be made within 12 months of acquisition of the relevant property by the partnership. The Finance Act contains transitional provisions allowing partnerships that acquired land before 23rd July 2008 to elect by 21st July 2009.

### Dealings with HMRC

SDLT is a self-assessment tax and HMRC have nine months from the filing of a return to launch an enquiry. Recent experiences suggest that HMRC have no scruples in doing so, just before the expiry of the nine months time limit. Furthermore, HMRC can issue a discovery assessment within six years of the filing of the original return if it appears that not all relevant facts were known to HMRC at the time of the expiry of the nine months time limit. This continues to raise difficult practical issues.

How do you reach certainty? The format of the SDLT returns means that there is simply not enough space to fully set out the structure of any complex transaction. Should you add a covering letter with

more information? Perhaps, but this may still not be considered as enough to prevent a discovery assessment.

Should you then make use of the new Clearances Services, which 'aims to provide certainty to businesses operating in the UK'?<sup>1</sup> Although the concept is very appealing, the reality can unfortunately be disappointing. Response times can be rather lengthy and applications tend to be regarded suspiciously. It is also worth noting that a clearance will only apply to a particular transaction and cannot be relied upon for another transaction, even if the facts are identical. Indeed, HMRC have been known to give conflicting answers. Even more puzzling, HMRC, by their own admission, will not always get it right! 'In the vast majority of cases a clearance we give will be correct in law and therefore binding on HMRC'.<sup>1</sup>

These are indeed, uncertain times. With the economic downturn and the resulting loss of tax revenue for HMRC, one certainty remains, HMRC will continue to combat SDLT avoidance and, unfortunately, what it perceives as such...

[Craig Leslie](#) leads our Stamp Taxes team.

<sup>1</sup> Note: The above quotes are extracts from guidance published by HMRC entitled "Clearance Service for Businesses – how to get certainty on significant business tax issues."

## Funding affordable housing – New options for housing associations?

Housing associations play an increasingly important role in today's housing market. They are leading suppliers of affordable – both rented and shared ownership – homes, major partners in regeneration and estate renewal, and providers of a wide range of vital welfare services to the most vulnerable in our communities.



The drop in lending due to the credit squeeze and the sharp reduction in private new-build have increased the pressure on housing associations to maintain the flow of affordable homes in all areas of the country. Other reforms emanating from the Cave and Hills housing reviews – included new equity share products, more ‘tenant facing’ regulations, a new Homes & Communities Agency (HCA), and modernisation of the social housing subsidy system – are also making extra demands on the sector.

The funding of affordable housing is likely to be of increasing interest to the private sector. The Government has allocated £8.5bn to support affordable housing over the next three years and money will be available to support privately funded development. Partnering with housing associations is likely to be key in securing public sector land for development. As the regime moves from grant-to-equity based funding models, there is likely to be an emerging opportunity for investors.

More reforms to the social housing sector are expected in the forthcoming Housing Reform Green Paper, which is likely to focus on the housing benefit system and delivery of housing services. PricewaterhouseCoopers has produced a ‘Talking Point’ report that examines the funding considerations that follow from these policy changes and challenges. In particular, it considers the options for new and innovative ways to use housing association assets and financing capacity. Against a backdrop of macroeconomic uncertainty and tighter constraints on public spending and private lending, it also considers the feasibility and suitability of the delivery metrics for affordable housing (especially in regard to creation of mixed-income communities and estate regeneration).

To obtain a copy of the report, please email the [UK real estate insights team](#).

**Richard Parker** is the Head of PricewaterhouseCoopers’ Housing team. He advises both public and private sector clients across a diverse range of Government housing and regeneration programmes.

## Sustainability retrofitting

In this year's findings from the Carbon Disclosure Project,<sup>1</sup> which includes exclusive data from 1,550 of the world's major companies on greenhouse gas emissions and climate change-related strategies, global corporations have reported that regulatory uncertainty is delaying strategic investment decisions and that senior management are calling for greater visibility on climate change-related policy in order to better anticipate the impact of regulation. This is further supported by Yvo de Boer, United Nations Framework Convention on Climate Change (UNFCCC) Executive Secretary, who has stated that 'Business is crying out for clarity and for a level regulatory field while expressing concerns over competitiveness'<sup>2</sup>.

Many maintain that there is no evident business case for change to reduce businesses' environmental impact. Moral obligation and a commitment to acting and being seen as a socially responsible organisation may prompt action, but these generally rank below financial considerations.

This latter point is being addressed in the UK with the prospect of a price being more deliberately placed on carbon in the medium term, either through the introduction of the Carbon Reduction Commitment in 2010 or other specific regulation. This should at least encourage business to reconsider the cost of their environmental impact, not least to protect shareholder value and the inherent value of their image or brand.

Non-residential buildings are responsible for approximately 20% of the carbon emissions in the UK. However, despite the incremental tightening of building regulation on new builds, any meaningful attempts to reduce the sectors' carbon emissions must focus on existing buildings.

It is generally accepted that the bulk of the energy savings in the property sector can be achieved through improvements



<sup>1</sup> Carbon Disclosure Project, Global 500 report, PricewaterhouseCoopers, 22 September 2008.

<sup>2</sup> Climate Change, Part two: Policy, Financial Times, 16 September 2008.

## Sustainability retrofitting

to the energy efficiency of air-conditioning and lighting systems, plus improvements to insulation in existing buildings.<sup>3</sup> Therefore, focusing on these three areas forms the biggest opportunity to make significant inroads into the EU's target for reducing the emissions from the building sector by 10%, from 2005 levels, by 2020.

Given businesses' doubts about the regulatory landscape, it may not be so obvious that the UK tax system already provides comprehensive incentives to invest in improving the existing commercial building stock through the capital allowances regime. For example, where an occupier or landlord is looking to install or upgrade air conditioning systems or energy efficient lighting, the Enhanced Capital Allowance (ECA) system, the UK's current major policy tool to address climate change, can be used to help steer appropriate design.

ECAs provide 100% tax relief for expenditure incurred on both water- and energy-efficient plant and equipment in the year of expenditure, thus providing the purchaser with a significant cash-flow advantage. Furthermore, the recent addition of a payable credit scheme for

companies not making taxable profits should remove any lingering disincentive to specify the supported products and technologies.

Although the present ECA system has been criticised for being generally too pedantic and narrowly focused in its qualifying criteria, the potential benefits on offer for a retrofitting project should transcend these irritations. For example, previously, particularly in the case of an office retrofitting project, expenditure incurred on lighting may not have qualified at all for tax relief. This has now changed and, as of 1 April 2008, all lighting qualifies for tax relief as a minimum (10% tax relief on reducing balance basis) and, where specified appropriately, may now qualify for ECAs.

There is also scope to make more use of a new category of qualifying expenditure on improving thermal insulation to an existing building. This would typically include double glazing, draft exclusion and cavity-wall insulation. However, HMRC guidance suggests that potentially a wider range of expenditure will qualify, provided it is clear that thermal insulation is at least one of the reasons for the expenditure being

incurred. This, therefore, provides an opportunity to apply a more expansive interpretation to the generic understanding of thermal insulation, particularly in the case of the recladding of, say, an inefficient 1960's office block.

There is no doubt that, in the UK at least, steps are being taken to bolster the business case to incur expenditure on improving the energy efficiency of existing buildings. However, it must be stressed that to take advantage of the opportunities, it is necessary to fully consider the tax attributes of design alternatives at the outset of a retrofitting project, as a retrospective approach at project end is almost always a missed opportunity.

### Environmental protection – action required

The deadline for applications for the landfill tax exemption for waste from a contaminated site is fast approaching.

From 30 November 2008, no new applications will be accepted. However, those in possession of a valid certificate, and those who submit an application to

HMRC by 30 November 2008 and who are later issued a certificate, will have until 31 March 2012 to dispose of their waste to landfill and receive the benefit of the exemption. All waste disposed to landfill on or after 1 April 2012 will be liable to landfill tax at the appropriate rate.

The current standard rate is £32 per tonne, which is due to increase to £40 per tonne on or after 1 April 2009 ([www.hmrc.gov.uk/budget2008/bn82.pdf](http://www.hmrc.gov.uk/budget2008/bn82.pdf)) and this may well be an impetus for those holding brownfield redevelopment sites to address this issue with some urgency.

**Richard White** is a senior manager in our real estate team who advises on sustainability and the environment.

<sup>3</sup> Stina Soewarta, EU Energy Commission speaking at the ICSC Europe Conference, April 2008

## Dealing with distress – can there really be tax issues?

When it comes to dealing with a borrower in financial difficulty, time really can be ‘of the essence’. Do you make your move before other creditors to gain tactical control? Why not take advantage of weakness to buy back debt or recover the real estate assets? Should you appoint a receiver/administrator/liquidator that can sell the real estate or trade out the position over time, if that is likely to achieve a better end result?

With this and more to consider, there is little time to think about tax. After all, when it comes to losing money, do we really need tax advice on how to do it?

The problem is, without regard to the tax implications less may ultimately be recovered by the time the tax man has taken his percentage.

### LPA receivers

The current downturn has seen, in the resurgence of the Law Property Act (LPA), receivers. LPA receivers are often appointed by the lender where there is a fixed charge over a property. Once appointed, they have the power to act as agent of the borrower regarding that property, to recover the debt due to the lender. Since this may include the power to, for example, collect rents and sell the charged property, their actions will have tax consequences for a borrower company.

As an example, if the property is VAT- opted, the LPA receiver may issue VAT invoices on behalf of the borrower company and collect the VAT-inclusive rents. Having achieved that, the VAT must, of course, be handed over to HMRC and the LPA receiver has a liability to do so. But that may have to be without having regard to (input) VAT that the borrower company is entitled to offset. Coupled with the fact that the LPA receiver may well keep the balance of the cash to offset interest due/reduce the

loan, this puts additional cash-flow pressures on the borrower company.

Remember, a borrower company does not need to be making tax losses before an LPA receiver is appointed – the trigger event could be something like a fall in loan to value. So, if the borrower company is still in a corporation

taxpaying position, it will still have to pay corporation tax on the rents to which it is entitled, notwithstanding the fact that the LPA receiver has held on to all rental receipts.



## Dealing with distress – can there really be tax issues?

Should the LPA receiver have the opportunity to sell the property to recover the loan, this may result in a taxable capital gain or trading profit arising in the borrower company. Whether or not tax on this gain/profit is ever paid really depends on whether there are other tax losses available and on what happens next.

### Administrative receivers and administrators

The appointment of an administrative receiver (for charges made before 15 September 2003) or administrator (for charges after that date) under the Insolvency Act (IA) 1986 is frequently a preferred route for a lender. The IA receiver/administrator in effect takes control of the company's assets and begins to restructure operations to repay fixed and floating charges. Depending upon the date any floating charge was put in place, the sale of any real estate (if this has not already happened before administration starts) may create a tax liability that will reduce the net proceeds the administrator may obtain. This is so, as floating charges created after 15 September 2003 result in tax being treated as an expense of the administration. The administrator is

personally liable to settle this tax. So, while the fixed charge lender may keep what he is due of the cash from the disposal of the real estate, from the point of view of settling the floating charge, the Chancellor will have his share first.

Had the real estate been sold before the company went into administration (or if the floating charge was made before the change in law as above), any tax liability would only have to be settled out of funds available for unsecured creditors after the fixed and floating charge lenders had been paid.

Moving into administration will also have impact upon the use of tax losses. The appointment of an administrator of a subsidiary company does not mean the parent company has lost beneficial ownership of its assets (the shares in the subsidiary). Therefore, the subsidiary company would be entitled to receive the surrender of tax losses from the parent company to reduce any corporation tax liabilities. However, a more likely scenario – by the time the subsidiary is in administration – is that it is the subsidiary with the tax losses. The view of HMRC is that the subsidiary company, once in administration, can no longer surrender its tax losses to its parent as arrangements exist under

which another person (the administrator) could gain control of the subsidiary. This breaches one of the tax law conditions permitting the surrender of tax losses. At shareholder level, HMRC argues, the parent company can no longer secure that the subsidiary company's affairs are conducted in accordance with its wishes. HMRC's treatment in this area has in fact varied from case to case and may depend upon the local inspector, or indeed, the terms of the administration order.

The appointment of an administrator results in a new 'accounting period' (for tax purposes) commencing. This can also lead to a restriction in the offset of losses against other income or capital gains in the borrower company or the wider group. Furthermore, a disposal of all the real estate – if held as trading stock – may result on the trade ceasing to exist. In these circumstances, tax losses from trading cannot be offset against, say, subsequent capital gains on non-trading assets (say, the sale of the company's head office building) or interest income earned on the proceeds of sale that are placed on deposit as the administration carries on.

Tax losses might be preserved through the 'hiving down' of the trade (with the

tax losses) to a new subsidiary, followed by, at a later date, the sale of that subsidiary or the trade itself (complete with the real estate trading stock). A hive down might also seem appropriate for an investment property – albeit that any tax losses attributable to such a business would be left behind. However, a hive down of real estate followed by a sale of the subsidiary is likely to create a Stamp Duty Land Tax (SDLT) liability (see below) and, if the real estate is held as an investment, a charge to tax on any unrealised capital gain within the real estate value.

And unlike previous downturns, because of changes to tax law, the use of capital and other non-trade tax losses is now severely restricted, meaning an administrator may not be able to extract any value for these attributes.

### Not only that but also.....

The current downturn brings with it a new spectre: SDLT clawback. There have been an enormous number of alterations to this tax since its introduction in 2003. At up to 4% of the gross market value (including VAT) of the real estate, it can be a significant cost. Although normally a cost for a purchaser, SDLT can arise

## Dealing with distress – can there really be tax issues?

within a group where there have been previous movements of real estate between group companies for commercial reasons in the last three years – such as the forming of securitised vehicles – where SDLT has not been charged (because of ‘SDLT group relief’). If the company holding the real estate leaves the group within three years, the ‘group relief’ is withdrawn and that which should have been paid becomes payable. So a property hived down to a subsidiary – whether as part of a commercial arrangement within three years before administration or as part of that administration – is likely to attract a charge to SDLT when its owner leaves the group.

The Finance Act 2008 has not helped this situation. This Act has tightened the rules for intra-group transactions after 12 March 2008, such that almost any change in control of the real estate-owning company (within three years of an earlier group relief claim) can lead to a charge. No SDLT charge will be made if the change of control is the result of a loan creditor gaining control of the company in most circumstances. However, that relief does not extend to the situation where the borrower company (or a company further up the corporate group chain) is wound up.

### Moving on to liquidation

When a company goes into liquidation, many of the issues outlined above follow on, although there are subtle differences. On the commencement of the winding-up, beneficial ownership, its assets are lost and the group – from the point of view of being able to surrender or receive tax losses – is broken. However, although assets are vested in the liquidator, there are no disposals for capital gains purposes and the borrower company does not leave the capital gains group.

As with the entering into administration, a new accounting period begins, which can influence the offset of available losses, and corporation tax liabilities incurred are treated as an expense (and so must be settled) of the liquidation. Furthermore, the Crown may offset debts due by one Government department to the company, against debts due to another.

### Deals with debt

Not all financial distress situations need be dealt with using receivers, administrators or liquidators. A deal may be done between a lender and a

borrower company (or its parent). This might include an exchange of part of the debt for shares (or other control) over the borrower company or the borrower company (or another member of its group) acquiring the outstanding debt at a discount to face value.

Here too, the taxman looks for his percentage.

For instance, if an unconnected lender has advanced £100 to the borrower company and waives part of the amount due, accepting only £95 back, the borrower company has profited and bears tax on the £5, subject to offset of any tax losses. However, the legislation goes further than that.

Suppose an unconnected lender has already written off part of the debt due from the borrower company in its own books, in anticipation of the debt becoming bad. If, within a certain period of time, lender and the borrower company become ‘connected’, the borrower company will be taxed on the amount of the write-down. Being or becoming connected for these (tax) purposes involves a complex set of tests that are not always easy to follow. But a connection can be formed, not only by the acquisition of shares, but

also through rights under a loan agreement or as a result of commercial transactions elsewhere in either party’s group.

There are reliefs where parties are subject to insolvency arrangements but if the timing is not right, these may not apply.

If the above tells us anything, it is, do not rush in. Obtaining sufficient background information and modelling the different scenarios must be a starting point. A cool head, an attention to detail and timing are all needed in distress situations. The appointment of receivers, administrators or liquidators may mean the possibility of the death of the company. Without care it can bring the certainty of taxes.

[Victor Clarendon](#) is a director in our real estate tax team.

## Discount to NAV – is it just bad luck?

The phenomenon of listed property companies trading at a discount will not be new to anyone in the industry. This has been a regular feature of the market for as long as anyone can remember. The question, therefore, for an asset-backed industry is ‘Why?’. Does this mean that the share price is plain wrong (in which case the opportunities for arbitrage are huge) or is there more behind the headlines?

Balance-sheet data has limitations. As it is published some weeks after the end of the reporting period, it is not timely and therefore property valuations in particular reflect observed market data that is not current. Secondly, as measurement is dictated by accounting standards, it may not communicate the position of the business, the way management sees it. The real estate industry has gone some way to overcome the constraints of GAAP by highlighting non-GAAP measures such as ‘triple net’ assets and EPRA net asset measures in their reports. The former would suggest there would always be a difference between NAV and market value, although a rising market would be expected to lead to a surplus of share price to NAV. While this has been observed from time to time, it has not been anywhere as prevalent as would be implied, given the direction of the market over the last 10 years.

A common lament in the industry is ‘The market doesn’t understand what we are trying to do’ and herein lies a clue. One US analyst told us that the less you understand about a company the bigger the discount you apply. This isn’t just about explaining where the business is now – the top property companies now give excellent disclosure around their property portfolios, geographic spread,

tenant mix and rent role security – it is about where the business is going.

The analyst community has expressed a strong desire for information that will allow them to understand where the company is in its market and where it is heading. Moreover, there is evidence to suggest that any effort by management to piece together a balanced, comprehensive view of their performance will, over time, be rewarded through lower stock price volatility.

The challenge is thus, how to satisfy investors desire for information in a manner that is both cost-effective and that does not put the company at a commercial disadvantage. In our experience, although share prices will never match NAV, there are opportunities to improve the effectiveness of their communication with the capital market without giving away the game plan. Simple actions to identify ‘quick wins’ might include:

- Start by understanding the information priorities of investors.
- Learn from good reporting practice – not just from within the real estate sector, but from other industry groups.

- Test management’s readiness to report by examining the quality and reliability of the internal data that might form part of external communications.

Reducing the NAV discount is a challenge, but not impossible!

For further information about how presentation and disclosure can enhance the value of your reporting; including examples of best-practice, latest developments and industry surveys, please visit our corporate reporting website ([www.corporatereporting.com](http://www.corporatereporting.com)).

**Toby Skales** is a director in our real estate Assurance team.

## Granting parent company guarantees post- 1 October 2006

1 October 2008 saw the introduction of the new Companies Act 2006 financial assistance rules for private companies, which essentially mean that private companies are able to give financial assistance lawfully without the need to perform a 'whitewash' procedure, except where the related acquisition of shares is in a public company.

While this is a welcome simplification of company law, as company law principles require that a transaction with a shareholder should not result in an unlawful return of capital, directors still need to consider whether granting financial assistance gives rise to a reduction in net assets, and if it does, whether the reduction is covered by distributable profits, as otherwise the transaction may be unlawful. Such an asset calculation is normally based on accounting records, i.e. whether an accounting loss is recognised or not.

In acquisitions and refinancings, a common form of financial assistance is the granting of guarantees by subsidiaries over a parent company's external debt. While this clearly represents the giving of value by the subsidiary to the parent, under 'old' UK GAAP (FRS 4), no loss or liability is recorded. However, under 'new' UK GAAP (FRS 26) and IFRS (IAS 39), such upstream guarantees do need to be valued, and result in a loss being recorded in the subsidiary's financial statements.

It appears, therefore, that the lawfulness of a transaction can depend upon which GAAP is applied in subsidiaries – an outcome that is currently being considered by the City of London Law Society.

The risk for a subsidiary's directors therefore is that in this scenario, granting a guarantee over a parent company's debt may represent an unlawful return of capital, if the company has insufficient distributable profits to cover the value of the guarantee. The risk for the parent company's lender is that if deemed an unlawful return of capital, then the transaction may be considered void and the guarantee ineffective.

Accordingly, for both directors and lenders, it is essential that in those situations where the company applies

FRS 26 or IAS 39, the company needs to calculate both the value of the guarantee and the level of its distributable profits. These calculations can often be complex: in particular, valuations of upstream guarantees are tremendously difficult to calculate, especially in today's economic climate where credit risk has increased significantly.

Fortunately, many UK subsidiary companies do not apply FRS 26 or IAS 39. However, with a move towards IFRS in subsidiaries by 2011 being mooted by the ASB, this is an issue that is likely to become more widespread with time. Where FRS 26/IAS 39 do apply, given the complexities of the accounting involved, both directors and lenders should address this matter early in the transaction process, as experience indicates that there are no quick answers.

**Chris Jackson** leads our real estate transaction services team.



# Islamic finance – UK tax aspects

The previous edition of UK real estate insights included an article on general Shariah principles and typical financing techniques. This article looks at the UK taxation treatment of murabaha, diminishing musharaka and ijara arrangements.

The tax legislation contained in Finance Act 2005 does not make any reference to ‘Islamic finance’. Prior to the introduction of specific tax rules relating to ‘alternative finance arrangements’, the tax treatment of Shariah-compliant structures was governed by general taxation principles. Structuring of Shariah-compliant real estate transactions is challenging as all transactions must satisfy the strict Shariah investment principles, e.g. financing and activities undertaken by the tenants.

The specific direct tax rules entitled ‘alternative finance returns’ and ‘profit share returns’ are contained in Finance Act 2005. The tax rules only apply where certain conditions are satisfied and cover

murabaha (including commodity murabaha), diminishing musharaka, sukuk, mudaraba and agency-type profit share structures. The introduction of specific taxation rules do not necessarily mean that the older shariah-compliant structures cannot continue to be tax efficient as long as they comply with general taxation principles. It is quite possible shariah-compliant investors may continue to prefer the older shariah compliant structures for non-tax reasons, e.g. appointment of a lessee to act as agent under an ijara lease to comply with certain aspects of a shariah compliant ijara lease.

The mudaraba and agency type profit share structures may typically be used in the retail banking environment and are

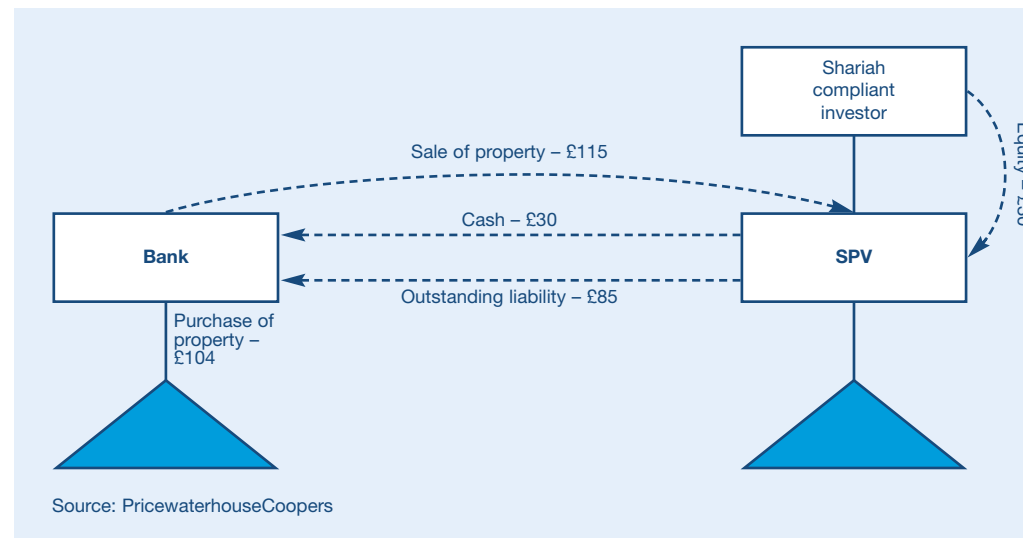
less likely to be used in the financing of real estate transactions; the application of tax rules relating to such structures is outside the scope of this article. As far as the taxation rules relating to sukuk structures are concerned, these will be considered in the next article to be published in the UK real estate insights magazine.

## Shariah compliant real estate acquisition structures

### Murabaha

The use of a murabaha structure is the simplest way of financing and acquiring real estate. The structure involves a bank (financial institution) acquiring the property and then selling it on to a shariah compliant investor on a cost plus basis.

To take an example, if a property was available for purchase at £100, as a first step, the shariah-compliant investor will set up a special purpose vehicle (‘SPV’) in a tax efficient jurisdiction and inject an appropriate amount of equity into the SPV. The bank buys the property at £100 and pays stamp duty land tax (‘SDLT’) and then sells the property to the SPV for £115 on the same day under a murabaha arrangement. Given that the



Source: PricewaterhouseCoopers

## Islamic finance – UK tax aspects

total cost of acquiring the property to the bank is £104 (£100 plus £4 SDLT), the profit margin under the murabaha arrangement over the financing period would be £11. On sale of the property to the SPV, the SPV would use the cash at its disposal of say £30 (equity injection) and would recognise a liability of £85 payable over the period of the murabaha arrangement.

The above financing transaction should fall within the 'alternative finance arrangements' contained in Section 47 Finance Act 2005 on the grounds that:

- Bank (one person) buys the assets and then sells it on to the SPV (the other person).
- The timing of the sale is immediate; however, in the above example the sale need not be immediate provided that the bank satisfies the definition of 'financial institution' and the property was bought by it for the purpose of entering into the murabaha arrangement
- The price paid by the SPV is greater than the amount paid by the bank
- Part of the sale price is deferred until a later date than the date of the sale of the property to the SPV
- The difference between the sale price and the purchase price equates in substance to the return on an investment of money at interest. The test is what actually occurs and not that of intention or design. Given that there is no alternative benchmark to ascertain returns, the mark-up figure in substance would have regard to the return on an investment of money at interest.
- The bank is a financial institution. The term is widely defined in Section 46 Finance Act 2005.

In the above example, the alternative finance return arising over the duration of the murabaha arrangement is £11, which is the difference between the price paid by the bank and the price paid for the same asset by the SPV. For UK tax purposes the periodic payments made under the murabaha arrangements would be treated as payments of interest and partial repayment of the outstanding principle as computed under Generally Accepted Accounting Practice (GAAP). This means that the SPV should obtain a tax deduction for the interest expense against its rental income chargeable to UK tax. Subject to arm's length considerations, the shariah-compliant

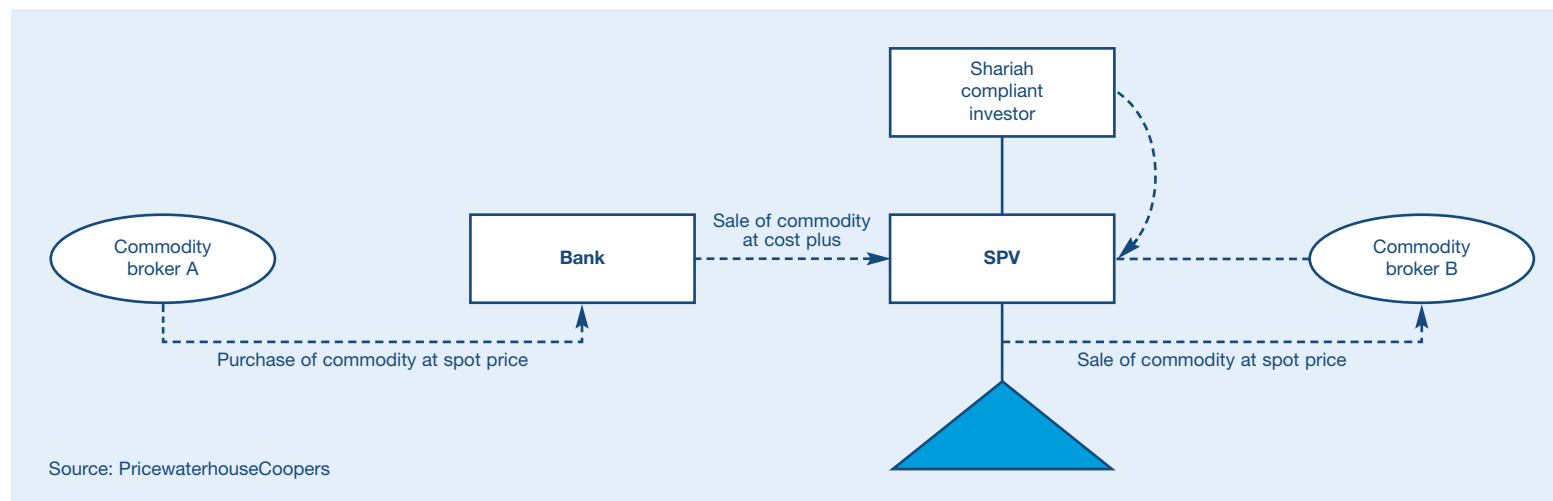
investor could of course partly inject the required funding into the SPV to maximise returns. Note that the shariah compliant investor would need to seek approval from the shariah board on the provision of the required funding in the form of interest-bearing loan and equity, as in our experience the views of shariah scholars may differ on internal debt funding.

Assuming that the shariah compliant investor is non-UK resident, it would make sense for the investor to set up the SPV in a tax efficient jurisdiction to ensure that its UK income tax exposure on the UK source rental income is limited to 20% on its net UK rental income. As a non-UK resident investor, subject to the 'transactions in land' anti-avoidance rules, a sale of the SPV shares by the investor or a sale of the property by the SPV should be exempt from a charge to UK capital gains.

The sale of the property by the bank to the SPV should not be subject to a charge to SDLT as the relevant relieving provisions contained in Section 73 Finance Act 2003 should prevent a double charge to SDLT on the sale of the property by the bank to the SPV.



## Islamic finance – UK tax aspects



### Commodity Murabaha

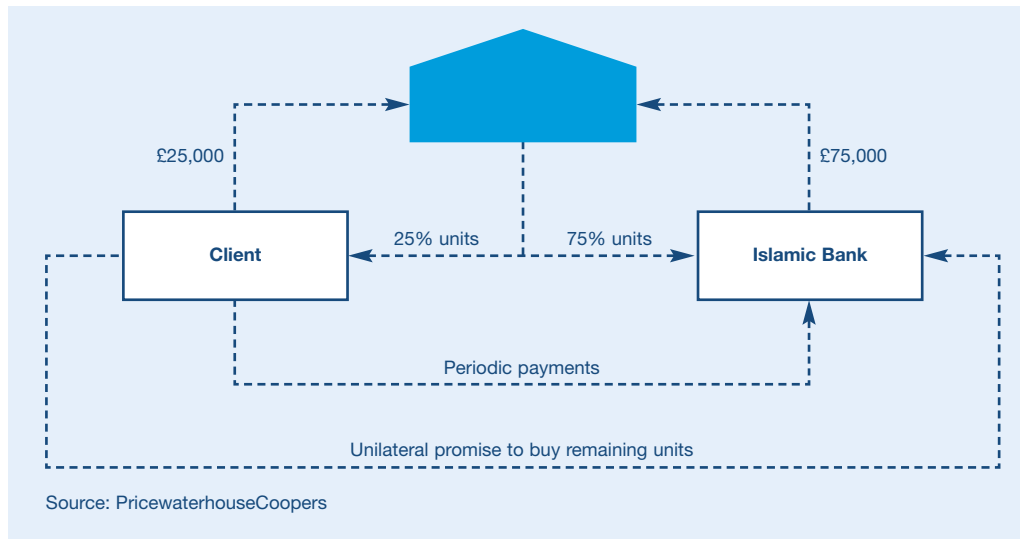
Under the current lending environment and falling property prices, a bank may not be prepared to purchase real estate and to have an exposure to a fall in the property price. As an alternative to a Murabaha, in practice, a shariah-compliant investor may instead use what is known as a 'commodity murabaha'. This form of financing is becoming very popular with Islamic as well as conventional banks on the basis that it is the customer rather than the bank which bears any risk in the event of a fall in the commodity price.

A diagrammatic description of a commodity murabaha structure is as shown above.

Under a commodity murabaha, a bank will buy a commodity (e.g. copper) at spot price from a trader and sell it on to its customer at a mark-up under a murabaha. The customer will take the delivery and sell the commodity to another trader at spot price. In practice, both transactions will typically take place on the same day, normally within minutes of each other, and the bank should not be exposed to any price risk.

For UK tax purposes, the difference between the spot price and the cost plus price is treated as interest provided that certain conditions in relation to the commodity murabaha arrangements as outlined in Section 47 Finance Act 2005 are met. Note that without the introduction of the 'alternative finance arrangements' legislation in Finance Act 2005, no relief would have been possible for the SPV to claim a tax deduction for the financing costs equivalent to the amount of mark up.

## Islamic finance – UK tax aspects



### Diminishing Musharaka

This type of property acquisition method has been typically used in the UK by shariah-compliant investors to acquire residential properties; however, this method can equally be used by shariah-compliant investors to acquire other forms of property.

Under a diminishing musharaka arrangement, an investor and a bank enters into a partnership whereby an investor contributes a certain proportion of funds to the partnership (typically a form of required deposit) and the bank then injects the remaining balance. The funds are then used to acquire the property jointly by the investor and the bank. The investor has exclusive right to occupy or otherwise use the asset and is

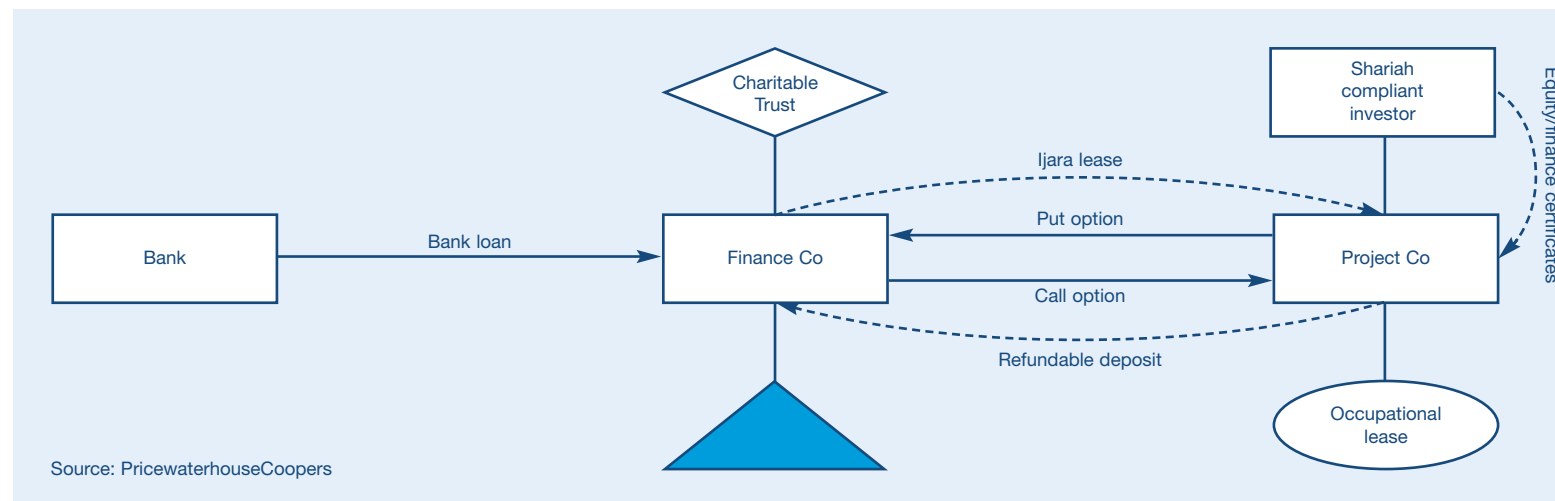
exclusively entitled to any income, profit or gain arising from that asset.

The investor makes periodic payments to the bank and increases its beneficial interest in the property over the terms of the musharaka arrangement. The total payment exceeding over the amount initially contributed to the musharaka arrangement is treated as interest for tax purposes.

The Finance Act 2003 provides reliving provisions to ensure that any increase in the underlying property interest by an investor during the terms of a diminishing musharaka arrangement is not subject to an SDLT charge. Note that the SDLT rules are complex and their application would need to be considered on a case-by-case basis.



## Islamic finance – UK tax aspects



### Simple Ijara Lease

Under a simple ijara lease structure, conventional finance is typically obtained through a parallel structure. The parallel structure comprises a charitable trust and a finance company ('FinanceCo'). The shariah-compliant investor sets up a special purpose vehicle ('ProjectCo') and injects its share of the required funding in the form of equity and financing certificate representing shareholder loans.

A simple diagrammatic description of a simple ijara lease structure is shown above.

ProjectCo makes a refundable deposit to FinanceCo, which in turn borrows from a conventional bank and acquires real estate. Following acquisition, FinanceCo grants an ijara lease to ProjectCo in return for rental payments, which typically equates to interest and amortisation payable under the bank facility by FinanceCo. ProjectCo receives rental income, the underlying occupational lease and any balance left after settlement of its obligations under the ijara lease; other expenses and taxes are then paid to the shariah-compliant

investor representing a return on its investment. FinanceCo and ProjectCo also enter into put and call options to ensure that any appreciation in the value of real estate economically accrues to ProjectCo.

The tax treatment of this structure is governed by general taxation principles and the interest element included within the ijara lease payments should be tax-deductible against the UK source rental income. The SDLT and VAT tax treatment is complex and will need to be considered carefully on a case-by-case basis. In addition, certain variations to the structure may be required where substantial capital allowances are in point.

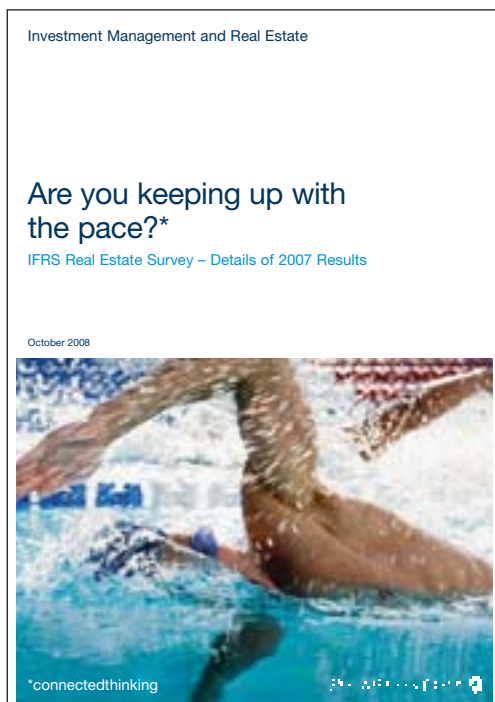
### Conclusion

The introduction of the taxation rules in Finance Act 2005 has broadened the structuring alternatives available to shariah compliant investors for investments in real estate. The tax rules permit the use of less complex alternative acquisition structures such as murabaha, commodity murabaha and diminishing musharaka as opposed to the most complex acquisition structures involving the use of ijara lease arrangement. The introduction of the specific tax rules is a welcome development for shariah compliant investors as this would also have a knock on effect on the maintenance costs of such structures.

**Irfan Butt** is a senior manager in tax, specialising in real estate funds. He is also an Islamic Finance Practitioner, having undertaken the Islamic Finance Qualification offered by Securities and Investment Institute (UK) in collaboration with Ecole Supérieur des Affaires, Beirut, Lebanon.

**Sulay Sinha** has also recently joined the team as a senior manager. Prior to moving to the UK eighteen months ago, he worked for a major financial holding company in the Middle-East.

## IFRS Real Estate Survey – Details of 2007 Results



### Global real estate IFRS survey 2008

The IFRS Real Estate Survey for 2007 results have been released this week. The survey is completed by PricewaterhouseCoopers on 50 IFRS financial statements with the following criteria:

1. a significant part of the entity's business is in real estate;
2. the 2007 financial statements were reporting under IFRS;
3. the entity is listed on a stock exchange; and
4. the financial statements have been audited.

While this is a global survey, there is a focus on Europe, the financial statements reviewed this year being from a more diverse geographic spread than in 2006.

One of the key drivers on the introduction of IFRS was to achieve transparency and comparability for listed companies. Whilst the report notes that there has been improvement during 2007, there are indications that there is still some way to go. One industry body that issued Best Practice Policy Recommendations is EPRA (the European Public Real Estate Association), which actively encourages adherence with these policies. However, only one entity in the survey indicated its financial statements were fully compliant with this guidance.

Highlights of the survey results are:

- 46 out of the 50 entities surveyed measured investment properties at fair value
- 2 out of the 50 present revenue on a net basis in the income statement
- 15 entities presented proceeds on disposal of real estate assets as revenue and the carrying value as part of cost of sales in the income statement
- Real estate acquisitions were accounted for as both asset deals and business combinations, depending on the nature of the transaction
- IFRS7 disclosures on market price risks were limited
- 13 entities NNNAV or EPRA NAV

It would appear that achieving consistent accounting policies together with transparent reporting remains a goal rather than a reality.

For the full details of the survey and its results, download the publication: [Are you keeping up with pace? IFRS Real Estate Survey.](#)

To obtain a copy, [please visit our website](#) or [contact our real estate team.](#)

[Sandra Dowling](#) is a partner and leads our real estate assurance practice. [Erica Conway](#) is a director in the PricewaterhouseCoopers mid-tier assurance practice specialising in real estate companies.

## Events

### PricewaterhouseCoopers European Real Estate conference

Our annual European Real Estate conference took place in Lisbon on 3rd October.

If you wish to receive a copy of the slides, please contact the [PricewaterhouseCoopers real estate team](#).



### Save the date

#### PricewaterhouseCoopers Asia Pacific Real Estate Conference

Raffles City Convention  
Centre Singapore

4-5 December 2008

For further details, please contact the [PricewaterhouseCoopers real estate team](#).



### Opportunities for the property occupying company – 14 October 2008

This seminar concentrates on how occupiers of business property can optimise the value of their real estate and minimise the associated tax liabilities, and is recommended for executives of companies that have significant property interests. Companies can generate significant benefits by having a well-considered commercial and tax strategy for the property they occupy.

Although the seminar is not aimed at our real estate industry clients, they might find it of general interest.

To find out more, and to register for this event, [please visit our event website](#).



The member firms of the PricewaterhouseCoopers network provide industry-focused assurance, tax and advisory services to build public trust and enhance value for its clients and their stakeholders. More than 146,000 people in 150 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

This report is produced by experts in their particular field at PricewaterhouseCoopers, to review important issues affecting the financial services industry. It has been prepared for general guidance on matters of interest only, and is not intended to provide specific advice on any matter, nor is it intended to be comprehensive. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers firms do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it. If specific advice is required, or if you wish to receive further information on any matters referred to in this paper, please speak with your usual contact at PricewaterhouseCoopers or those listed in this publication.

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