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RECENT DEVELOPMENTS IN REAL ESTATE INVESTMENT TRUSTS IN SPAIN

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ABSTRACT

Real estate investment trusts in Spain (SOCIMIs by their Spanish abbreviation) are instruments for investing in real estate assets which were regulated for the first time in Spain in 2009. They have grown rapidly in recent years to reach a relative size, approximated by their stock market capitalisation in terms of GDP, which is above the average for this type of companies in the euro area as a whole. In Spain this sector is highly concentrated, since a few, large vehicles exist alongside a sizeable group of small companies. SOCIMIs listed in regulated markets and those listed in alternative markets are notably different in terms of their size, balance sheet composition and ownership structure. The low exposure of Spanish SOCIMIs to the residential real estate segment, although it has risen in recent years, is worth noting, as is the high proportion of their capital owned by non-resident investors.

Keywords: real estate investment trusts in Spain (SOCIMIs), real estate investment trust (REIT), real estate investment, rental housing, real estate assets, house prices.

JEL classification: D52, D81, G23, R3, R31.

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Introduction

In recent years, Spanish real estate investment trusts (hereafter SOCIMIs) have grown notably in Spain. In particular, the number of registered SOCIMIs rose from 2 to 90 between 2013 and 2019, while their stock market capitalisation increased from €0.1 billion to €27 billion.

This article offers a brief summary of the history and regulation of this collective investment vehicle in Spain and describes the recent developments in and main characteristics of the sector, focusing in particular on the type of vehicles, the composition of their assets and liabilities, and their ownership structure.

History and regulation of SOCIMIs

SOCIMIs were regulated for the first time in Spain in 2009 (Law 11/2009 of 26 October 2009), with a very similar philosophy to that of the real estate investment trusts (REITs), which emerged in the United States in the 1960s and have undergone considerable international growth from then onwards. Given that the purpose of these collective investment instruments is direct or indirect ownership of rental real estate assets, their introduction in Spain had a two-fold objective:[1] invigorating the rental market and reviving collective investment in real estate, which had fallen continuously since the crisis began in 2008.[2] At that time, however, in an adverse macro-financial and real estate setting, SOCIMIs attracted very little interest. In fact, no vehicle of this type was set up between 2009 and 2012.

As a result of this initial failure, in 2012 there was an in-depth revision of the legal and fiscal regime of SOCIMIs which set out more flexible corporate legislation and more favourable taxation in order to increase their appeal to investors. Specifically,

1 Law 11/2009 of 26 October 2009 states as fundamental objectives: "to continue to boost the rental market in Spain, by raising professional standards, to make it easier for individuals to own real estate, to increase competition in Spanish securities markets and to invigorate the real estate market".

2 Before SOCIMIs came into existence, the real estate collective investment industry in Spain was limited to real estate investment funds and companies. In line with the performance of the real estate sector as a whole, these vehicles grew notably until 2007 but, with the crisis, they gradually lost investors and assets, which meant that they practically disappeared as investment instruments. In fact, at present only three real estate investment companies have survived, one of which is being wound up, and two investment funds, both of which are being wound up.

Table 1
REGIME OF SOCIMIs

	Law 11/2009 of 26 of October 2009	Law 16/2012 of 27 December 2012
Legal regime	Minimum share capital of €15 million	Minimum share capital of €5 million
	Borrowed funds not more than 70% of assets (a)	No limit on indebtedness
	Listing in regulated markets of the EU or the EEA	Listing in regulated or alternative markets of the EU, the EEA or any country with which there is an effective exchange of tax information
Investment requirements	Investment property (b) + equity holdings (c) minimum of 80% of assets (a)	Unchanged
	Lease income + dividend income (c) minimum of 80% of total income (d)	Unchanged
	Minimum three-year duration of property investments (e) (seven years if developed by SOCIMI)	Minimum three-year duration of property investments (e) (seven years if developed by SOCIMI)
	Minimum of three immovable properties	Minimum of one immovable property
Fiscal regime	Corporate income tax rate of 18% Exemption equivalent to 20% of housing rental income (if housing investment accounts for more than 50% of assets) (a)	Income not subject to corporate income tax (0%), but dividend payments to shareholders are taxed at 19%
Distribution of income	Rental and other similar income: minimum of 90%	Rental and other similar income: minimum of 80%
	Transfer of immovable property and equity holdings: minimum of 50%	Unchanged
	Dividends from equity holdings: 100%	Unchanged

SOURCES: Official State Gazette and Banco de España.

a The percentage is calculated based on the individual balance sheet or the consolidated balance sheet, where the SOCIMI controls a group, and in both cases book value may be replaced by market value.
b Urban immovable property for leasing, land for the development of immovable property (provided that development commences within the three years after the land was acquired).
c Of companies which meet the same investment and distribution of income requirements.
d Excluding income from the sale of immovable property and equity holdings assigned to the corporate purpose.
e The time during which the immovable property has been available for lease, limited to one year at most, will be included in the calculation.

following this revision (Law 16/2012 of 27 December 2012), the main aspects which regulate the activity of SOCIMIs are as follows (for more details, see Table 1):

— They are public limited companies which must be listed in regulated or alternative markets. A two-year time lag is permitted between when the instrument is created and when it is listed in a market.

— Their corporate purpose is the direct or indirect holding of rental real estate assets. In particular, at least 80% of the value of their assets must be invested in urban immovable property[3] for leasing, in land for the

3 For example, housing, retail premises, residences, hotels, parking spaces or offices. Certain immovable property with special characteristics for cadastral purposes (mainly large infrastructure and immovable property typically accessed through administrative concessions) and immovable property the use of which is transferred to third parties through agreements which meet the requirements to be deemed a financial lease are excluded from the regime of SOCIMIs, that is, they will not be included to calculate the 80%.

development of immovable property (provided that development commences within the three years after the land was acquired) or equity holdings in other SOCIMIs, in REITs or companies which, albeit not formed as SOCIMIs, have a similar activity and regime (the so-called sub-SOCIMIs).

— A minimum of: i) 80% of the lease income; ii) 100% of the dividends received from the equity holdings in other SOCIMIs, REITs and sub-SOCIMIs; and iii) 50% of the profit on the sale of real estate assets and of equity holdings in the above-mentioned companies must be distributed as dividends.

— A corporate income tax rate of 0% will be applied. Dividends distributed to shareholders who are individuals will be subject to personal income tax of 19%, while those distributed to legal entities will be subject to the corresponding rate of corporate income tax. Notwithstanding the foregoing, SOCIMIs will be subject to a special tax of 19% on account of the distribution of dividends to shareholders which own a holding of 5% or more and pay tax on the dividends earned at a rate of less than 10%.

Recent developments in real estate investment companies

As a result of the reform of SOCIMIs approved at end-2012, together with the gradual improvement in the macro-financial and real estate setting of the Spanish economy, the first SOCIMIs appeared at end-2013. Since then, these vehicles have experienced highly significant growth in terms of numbers, asset volume and stock market capitalisation. In particular, their numbers increased from two SOCIMIs in December 2013 to 90 SOCIMIs in December 2019.[4]

The volume of real estate assets controlled by these companies has also increased very sharply in recent years. For instance, drawing on available estimates, the value of these assets rose from €0.1 billion in 2013 to approximately €46 billion at end-2019.[5] The stock market capitalisation of SOCIMIs experienced similar growth and reached €27 billion[6] in 2019 (see Chart 1.1), the equivalent of 2% of GDP. This percentage is higher than that of similar companies in Germany and Italy, although it is lower than the levels of other countries with a longer tradition such as the United States, the

4 For the purposes of this article, only those SOCIMIs already listed in regulated or alternative markets are included. In particular, this article does not include those SOCIMIs, albeit formally incorporated as such but still not listed in trading markets (i.e. those SOCIMIs which availed themselves of the two-year transition period between the formation date of the vehicle and its listing in a trading market).

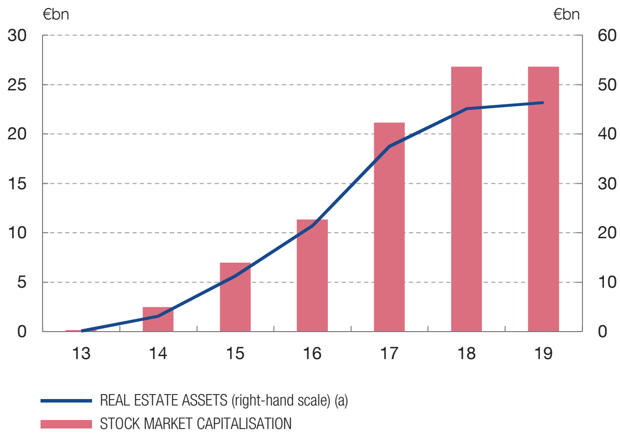
5 The value of the real estate assets is presented at market value and refers to the total of the consolidated group and, consequently, the indirect investment in immovable property through equity holdings in other real estate companies is included. The immovable property of SOCIMIs listed in alternative markets is valued when they are first listed and, therefore, any subsequent investments, divestments or appreciation are not taken into account.

6 At the end of 2020 Q1, the stock market capitalisation of SOCIMIs had fallen to €22.1 billion, against a backdrop of widespread stock market falls following the global spread of COVID-19.

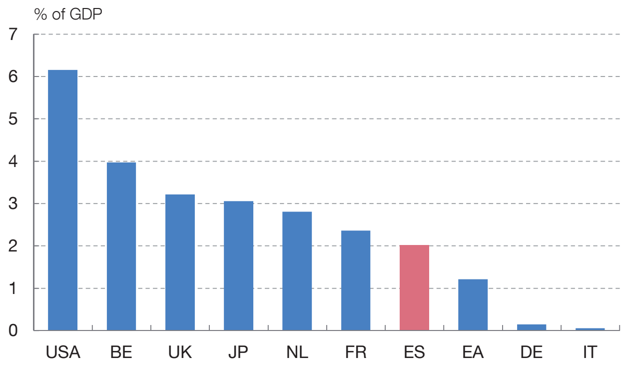
Chart 1
RECENT DEVELOPMENTS IN SOCIMIs

SOCIMIs have increased their real estate asset holdings very sharply in recent years. In particular, their volume of assets has surged from €100 million in 2013 to €46 billion in 2019. Similarly, their stock market capitalisation has climbed very significantly, expanding by €27 billion during the same period. Following these vigorous developments, the stock market capitalisation of Spanish SOCIMIs as a proportion of GDP was higher at end-2019 than that observed in Germany and Italy for similar instruments, although it was still below the levels of the United States, Belgium, the United Kingdom, Japan and the Netherlands, where REITs have a longer tradition as investment vehicles.

1 SOCIMIs IN SPAIN



2 STOCK MARKET CAPITALISATION AS AT 31 DECEMBER 2019



SOURCES: Armabex, BME, Banco de España Central Balance Sheet Data Office, Datastream and EPRA.

a Amounts at market value, including direct and indirect investment (through equity holdings in other companies). The immovable property of SOCIMIs listed in alternative markets is valued when they are first listed and, therefore, any subsequent investments, divestments or appreciation are not taken into account.

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United Kingdom and Japan, and, within the euro area, Belgium, the Netherlands and France (see Chart 1.2). In the case of the US market, REITs took 30 years to mature and it was not until the 1990s that they numbered 60. In that country, at end-2019, there were 179 investment vehicles whose stock market capitalisation amounted to €1.112 trillion and which owned around €1.786 trillion of real estate assets.[7]

Main features of Spanish SOCIMIs

Size and listing market

Chart 2.1 shows that the Spanish SOCIMI sector is deeply concentrated in a few large vehicles which exist alongside a sizeable group of small companies. In terms of stock market capitalisation, at end-2019, the five largest SOCIMIs accounted for

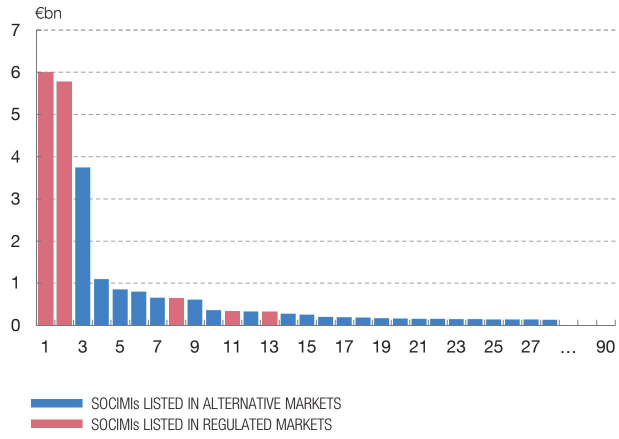
7 These figures refer to US equity REITs listed in any securities market (which have a similar form to Spanish SOCIMIs). There are other types of REITs in the United States, such as mortgage REITs, whose activity comprises acquiring mortgage loans and mortgage backed assets to obtain interest income. Other types include unlisted REITs and private REITs (the latter, in addition to not being listed, are not registered with the SEC, the US securities market regulator).

Chart 2

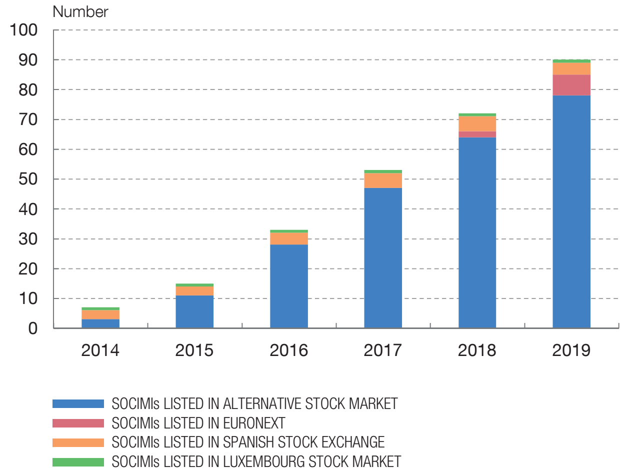
SIZE AND LISTING MARKET

The SOCIMI sector in Spain is very heterogeneous and deeply concentrated, with a few large vehicles and numerous small companies. SOCIMIs listed in regulated markets usually belong to the group of larger companies, whereas those listed in alternative markets are mostly from the group of small and medium-sized companies.

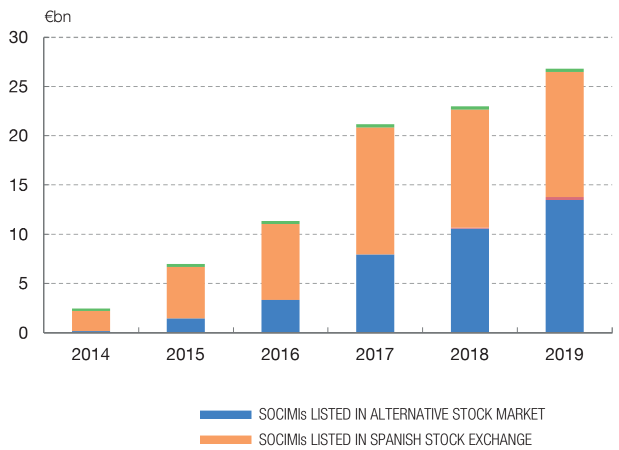
1 SIZE OF SOCIMIs BY STOCK MARKET CAPITALISATION. DECEMBER 2019



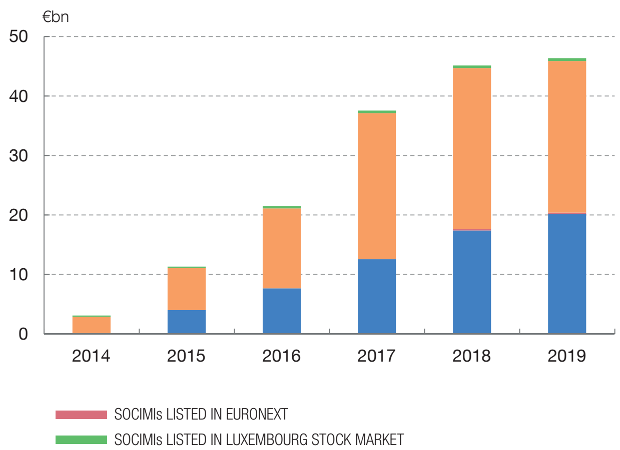
2 NUMBER OF LISTED SOCIMIs



3 STOCK MARKET CAPITALISATION



4 REAL ESTATE ASSETS (a)



SOURCES: Armabex, BME, Banco de España Central Balance Sheet Data Office and Datastream.

a Amounts at market value, including direct and indirect investment (through equity holdings in other companies). The immovable property of SOCIMIs listed in alternative markets is valued when they are first listed and, therefore, any subsequent investments, divestments or appreciation are not taken into account.

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65% of the total stock market value of these companies (and they also concentrated around 65% of the sector's real estate assets) and their average size was 32 times higher than that of the other 85 companies (€3.5 billion as opposed to €110 million).

Chart 2.2 also highlights that the main difference between these two such heterogeneous groups of companies is their type of listing market. In particular, SOCIMIs listed in regulated markets (four in Spain's continuous market, two of which in the IBEX 35, and one in Luxembourg) usually belong to the group of larger companies, whereas those listed in alternative markets (78 in the Alternative Stock Market and seven in Euronext) are mostly from the group of small and medium-sized companies. As can be seen in Chart 2.2, growth in the number of SOCIMIs in recent years has mainly been driven by new listings in alternative markets. However, five SOCIMIs listed in regulated markets have cornered approximately half of the sector's stock market capitalisation and real estate assets[8] (see Charts 2.3 and 2.4). The analysis presented below shows that listing in a regulated or an alternative market is not only highly informative about a SOCIMI's size but also about its structure and business strategy.

Composition of assets

The non-residential segment accounts for a notably high weight of SOCIMIs' balance sheets. For instance, at end-2019, 82% of the portfolio of Spanish SOCIMIs was invested in hotels, offices, retail premises, shopping centres and logistic centres. By contrast, these companies' investment in housing only represented 11.2% of their assets (€5.8 billion) and only accounted for 0.1% of the estimated housing stock owned by households[9] and around 1% of the main dwelling rented housing stock.

SOCIMIs' greater preference for the non-residential market is not exclusive to Spain. Thus, for example, residential REITs in more mature markets such as in the United States at end-2019 represented 15% of the total in terms of stock market capitalisation. This bias of real estate investment vehicles towards non-residential assets might also be in response to a less fragmented and more professional market than the residential market,[10] especially in countries like Spain, where the residential rental market has traditionally been less developed, given the high proportion of households which are homeowners in comparison with other countries. Nevertheless, this bias has decreased in recent years and there has been a gradual increase in the share of housing in these companies' total investment property against a backdrop of a robust increase in demand for rental housing.[11]

The composition of Spanish SOCIMIs' assets is also very different according to their listing market. For instance, at end-2019, all of the real estate assets of companies listed in regulated markets were concentrated in non-residential assets, mainly in offices (67%), whereas entities listed in alternative markets held €5.8 billion in residential property, that is, 29% of their total real estate assets (see Charts 3.1 and 3.2).

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8 This estimate must be treated with caution, since the fact that the immovable property of SOCIMIs listed in alternative markets is valued when they are first listed, probably means that their recent value has been underestimated.

9 The sector's other real estate assets include building plots used for residential, industrial and logistic purposes, and other assets, such as petrol stations, student residences and retirement homes.

10 Accordingly, the legal regime of non-residential lease agreements is more flexible and has fewer limitations than the regime applicable to residential rental agreements.

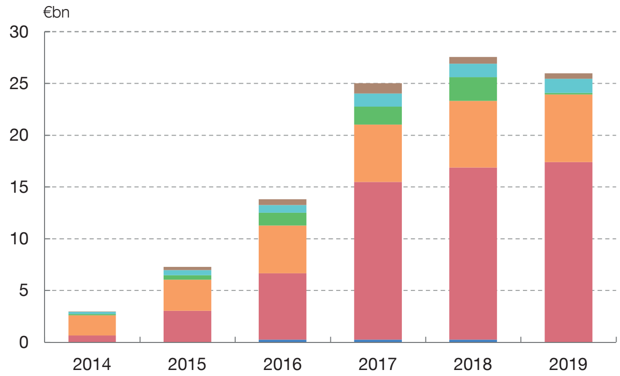
11 See López-Rodríguez, D. and M.ª Ll. Matea (2019). "Recent developments in the rental housing market in Spain", Analytical Articles, Economic Bulletin, 3/2019, Banco de España.

Chart 3

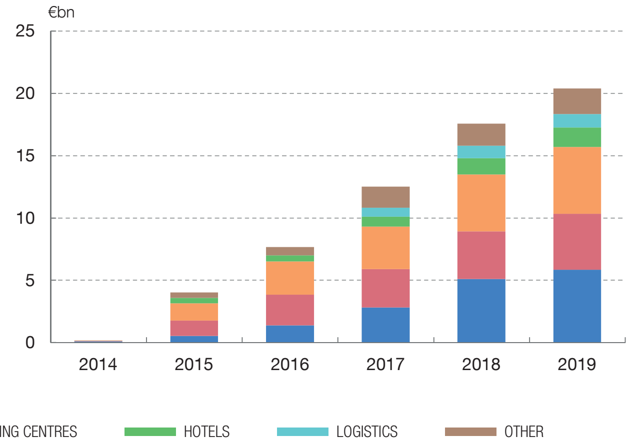
COMPOSITION OF ASSETS

The non-residential and, in particular, the office segments have a notably high weight. Differences are observed in the composition of assets according to SOCIMIs' listing market. All of the real estate assets of SOCIMIs listed in regulated markets are concentrated in non-residential assets, whereas around 29% of said assets of SOCIMIs listed in alternative markets are concentrated in housing.There are also differences in the form in which these two types of entities invest in real estate. Indirect investment accounts for almost half of the former's assets, whereas direct investment represents most of the latter's.

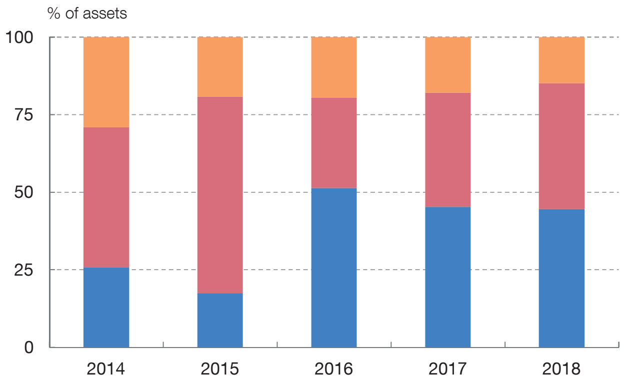
1 REAL ESTATE ASSETS. SOCIMIs LISTED IN REGULATED MARKETS (a)



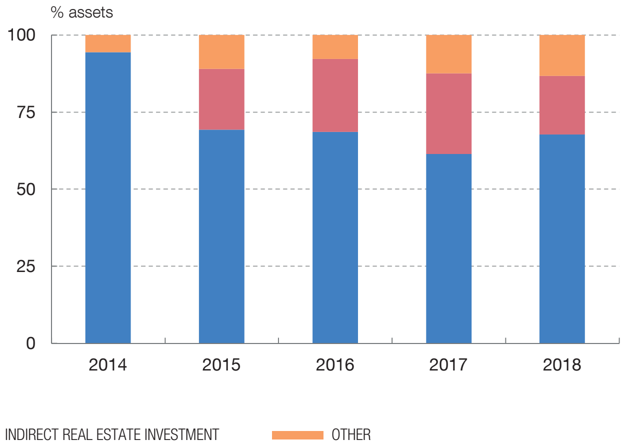
2 REAL ESTATE ASSETS. SOCIMIs LISTED IN ALTERNATIVE MARKETS (a) (b)



3 ASSET STRUCTURE. SOCIMIs LISTED IN REGULATED MARKETS (c)



4 ASSET STRUCTURE. SOCIMIs LISTED IN ALTERNATIVE MARKETS (c)



SOURCES: Armabex, Banco de España Central Balance Sheet Data Office and SOCIMIs' annual accounts.

a Amounts at market value, including direct and indirect investment (through equity holdings in other companies).
b Amounts valued at first listing and, consequently, subsequent investments, divestments or appreciation are not taken into account.
c Amounts carried at cost, net of depreciation/amortisation and impairment.

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There are also differences in the form in which these two types of entities invest in real estate. In particular, indirect investments (investments via holdings in other SOCIMIs, international REITs and real estate investment companies with similar purposes) have a significant weight at SOCIMIs listed in regulated markets (see Chart 3.3). Conversely, the immovable property portfolio of companies listed in alternative markets mainly comprises direct investments (see Chart 3.4). This investment policy is also reflected in the income statement, with the result that the percentage of income from dividends and financial investment is higher for SOCIMIs listed in regulated markets (approximately 31% in 2018 compared with almost 13% for companies listed in alternative markets).

Ownership structure

There are also significant differences in the ownership structure of SOCIMIs based on listing market. In particular, SOCIMIs listed in alternative markets have a very small proportion of free float[12] (an average of 6% of their stock market capitalisation during the period 2014-2018), and shareholders with qualifying holdings (that is, an ownership interest of 5% or more of the share capital) which are mainly linked to family groups (averaging 64% of the total) and, to a lesser degree, institutional investors such as investment and pension funds. By contrast, the proportion of free float of SOCIMIs listed in regulated markets stands at around 60% and there is a smaller presence of family groups (see Charts 4.1 and 4.2). The main shareholders with qualifying holdings of this latter group are investment and pension funds and, to a lesser extent, banks.

As can be seen in Charts 4.3 and 4.4, a highly significant proportion of SOCIMIs' shareholders are non-residents. If the free float is excluded, most of the share capital of the companies listed in regulated markets is held by non-residents (72% in 2018), whereas in the case of companies listed in alternative markets this percentage is lower (43%). According to the data taken from the Security Holdings Statistics by Sector (SHSS),[13] the bulk of non-resident shareholders are from non-euro area countries. On the most recent information available for 2019 Q4, these shareholders own around 50% of SOCIMIs' share capital.

The SHSS also provides shareholdings in these instruments by type of agent. According to these data, Spanish credit institutions' direct ownership of the share capital of SOCIMIs is very small. At the end of 2019, the percentage of share capital held by banks and collective investment undertakings resident in Spain was only 7.8% (around €2.1 billion). Spanish households own 21.9% of the shares of these vehicles, the equivalent of around €5.9 billion.

Composition of liabilities

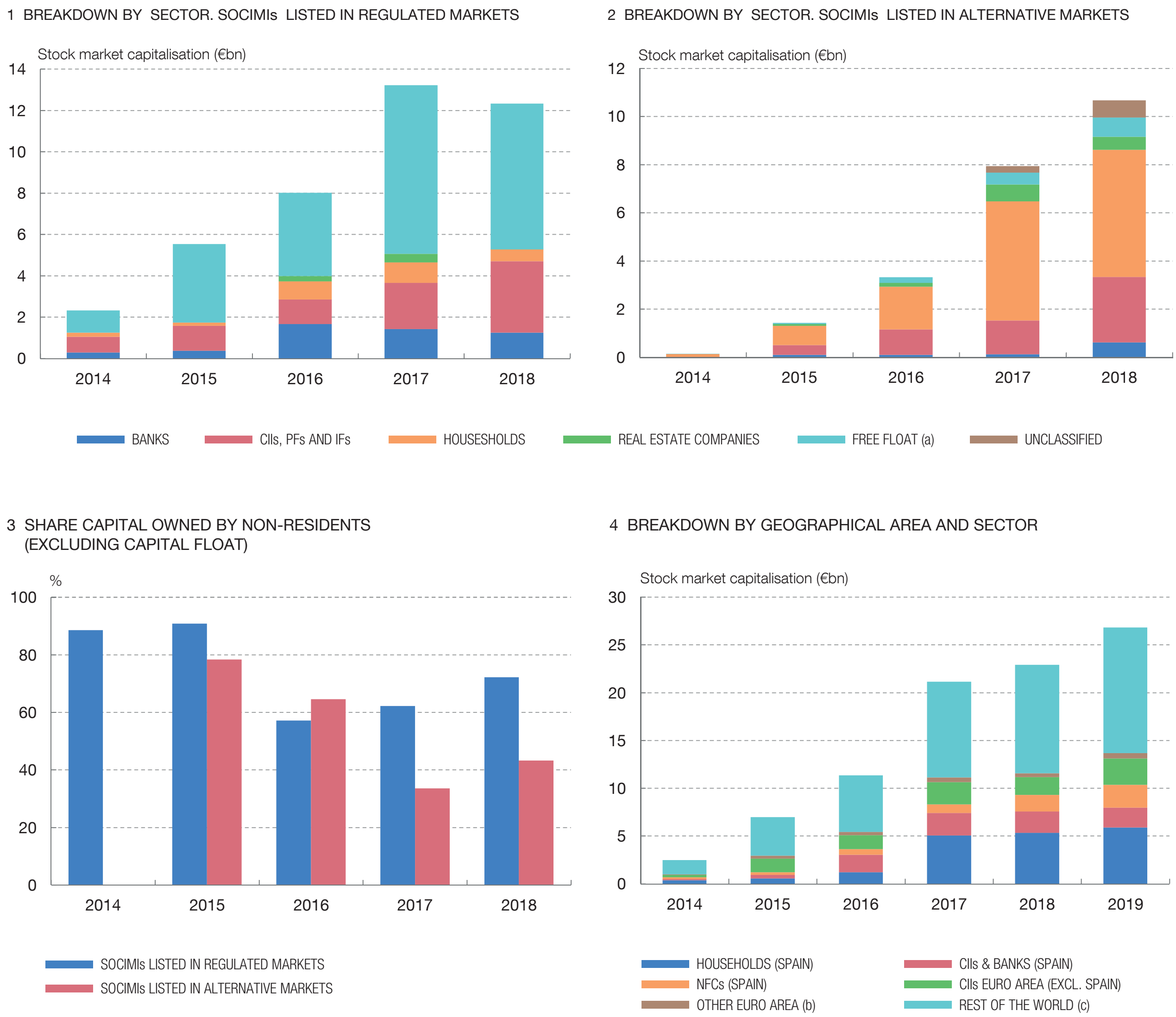
The debt of Spanish SOCIMIs has increased in recent years (see Charts 5.1 and 5.2) on account of new SOCIMIs, with a certain level of indebtedness, successively

12 The term free float refers to the percentage of a listed company's shares which is not held by the parent or controlling group and can therefore be traded frequently in the stock market.

13 The SHSS database has security-by-security information on shareholdings of euro area residents broken down by instrument type, issuing country and other classifications.

Chart 4
OWNERSHIP STRUCTURE

The free float of SOCIMIs listed in regulated markets usually stands at above 50% and the shareholders with qualifying holdings mostly belong to the financial institutions sector. The free float of SOCIMIs listed in alternative markets is very low and their controlling shareholders are mainly tied to family groups. International investors notably own a high percentage of the share capital of both types of SOCIMIs.



SOURCES: SOCIMIs' annual accounts and Securities Holdings Statistics by Sector.

a The free float is calculated as the portion of share capital held by shareholders which own a holding of less than 5%.
b Includes holdings of residents in Spain belonging to a sector other than those specified in the other headings (namely, insurance, pension funds and general government), as well as holdings of residents in the rest of the euro area other than CIIs (households, non-financial corporations, banks, insurance, pension funds and general government).
c Obtained by subtracting the SHSS data on holdings of residents in the euro area from SOCIMIs' total stock market capitalisation.

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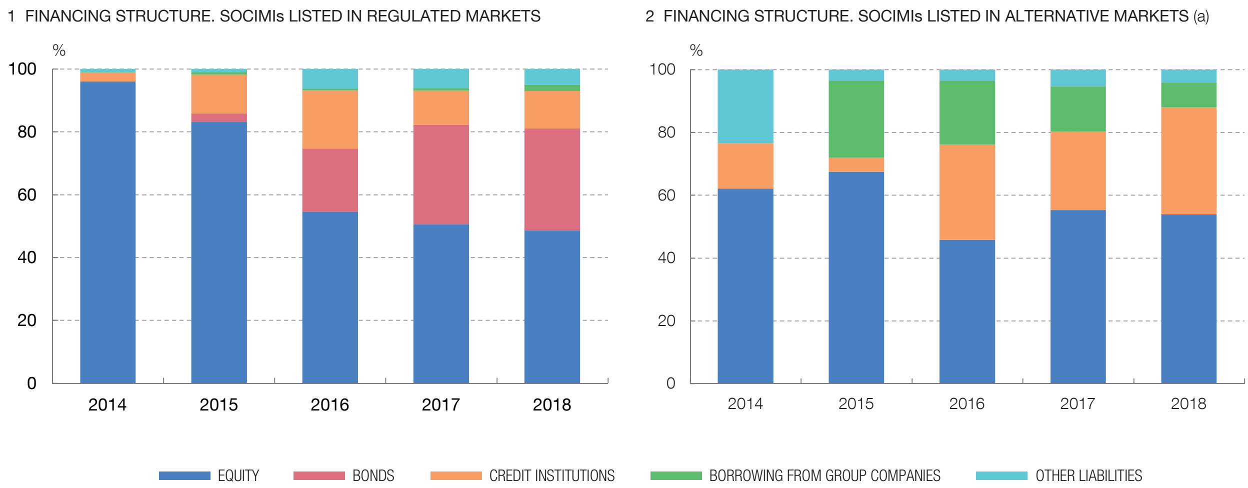
entering the markets and the increase in borrowed funds of the companies which are already listed. Borrowing increased by 44 percentage points (pp) from end-2014 to represent 49% of assets at end-2018. This process has been particularly sharp for SOCIMIs listed in regulated markets. Most notably their financing via bonds has gradually increased from 3% of assets at end-2015 to 32% in 2018. These companies

Chart 5
COMPOSITION OF LIABILITIES

In recent years, SOCIMIs have resorted increasingly to borrowed funds. This process has been particularly evident for SOCIMIs listed in regulated markets in which the gradual increase in financing through bonds is notable. SOCIMIs listed in alternative markets mainly raised funds through bank loans and, to a lesser degree, through borrowing from group companies.



SOURCE: Banco de España Central Balance Sheet Data Office.

a From 2015 one SOCIMI, which performed a highly atypical operation, was excluded from the analysis.

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were also financed, albeit to a lesser degree, through bank loans (12%). SOCIMIs listed in alternative markets obtained external financing mainly from banks (34.1% of their total debt at end-2018) and, to a lesser extent, by borrowing from Group companies (8%). It is normally more difficult for these relatively small SOCIMIs, without the visibility provided by listing in regulated markets, to place bonds in securities markets than for larger SOCIMIs.

Concluding remarks

Although the investments of SOCIMIs to date have centred on the commercial segment, the weight of the residential business, especially in large metropolitan areas, has increased in recent years. If these developments take hold, they could prompt a rise in the supply of rental housing in the next few years. This could contribute to tempering the growth dynamics of prices observed recently in this market which have been linked to a strong surge in demand.

The development of SOCIMIs has contributed to broadening the supply of investment instruments available to savers. In particular, these vehicles have certain advantages for retail investors compared with direct investment in immovable property in terms of risk diversification (due to the possibility of investing in portfolios with different real estate assets), professional management and scalability.

Lastly, on the information available, the risks to financial stability associated with the activity of SOCIMIs would be small, in principle. Indeed, the direct exposure of Spanish banks (through equity holdings and lending) to SOCIMIs is low, both in terms of absolute value and its weight in banks' balance sheets.[14] The structure of these vehicles is, in principle, sounder when faced with possible stock market and real estate crises as compared with real estate investment funds and companies since SOCIMIs do not have to reimburse unit-holders when they demand their contributions. Consequently, this reduces the risk of bouts of fire sales of illiquid asset portfolios in periods of crisis which usually amplify the effects of falls in real estate prices.

18.8.2020.

14 Nevertheless, it is difficult to assess the importance of the various channels through which negative shocks affecting SOCIMIs could be indirectly passed onto the banking sector.