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Implementation and Impact of REITs in the Romanian Financial System

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The purpose of the report

This report aims to:

- Explore the potential benefits of implementing a legal framework that allows for the establishment and proper functioning of REITs in Romania;
- Examine case studies from other European markets that have successfully integrated REITs, such as the UK, France, Germany, and Spain, as well as Eastern European markets with similar characteristics, like Poplots and Hungary;
- Deeply analyze how Romania can adopt a similar structure to boost economic growth and attract investments;
- Evaluate how the introduction of REITs in Romania could increase liquidity in the real estate market, provide an attractive investment vehicle for both local and international investors, and stimulate the development of Romania's capital markets.

Disclaimer: This study was elaborated based on the statistics, reports, and data available in the references section. The statistics, reports, and studies were chosen based on their relevance, credibility, timeliness, and contribution to the context discussed.

Summary

This report examines the implementation and impact of a legislative framework for Real Estate Investment Trusts (REITs) in Romania. It draws insights from successful European markets like the UK, France, Germany, and Spain, as well as Eastern European markets such as Poplots and Hungary.

Key Conclusions

The Need for Developing Romania's Real Estate Capital Market

The Romanian real estate market is underrepresented in capital markets, despite its significant contribution to the national GDP. Introducing REITs could enhance capital access and offer better representation for the real estate sector on the stock exchange.

Attracting Foreign and Local Investors

Based on examples from other countries, adopting a legislative framework for REITs would likely boost investor interest. Markets that have implemented REITs have seen significant growth in real estate investments and the number of IPOs.

Diversification and Risk Reduction

REITs are an effective tool for diversification, helping to mitigate market risks and provide financial stability. This is especially important for small retail investors looking to invest in real estate without facing high risks.

Contribution to Economic Development

REITs can enhance the liquidity of Romania's capital market, attracting more investments and reducing systemic risk. Moreover, they would stimulate the listed bond market, thereby contributing to sustainable economic growth.

Suggestions

It's crucial for Romania to quickly implement the necessary laws to support the creation and growth of REITs, aiming to attract capital and boost the real estate market.

The government and financial institutions should promote financial education for investors, especially smaller ones, to raise awareness about the benefits of REITs.

Introducing tax incentives for both local and international investors could speed up the adoption of REITs and encourage more investments in the real estate sector.

Establishing clear and transparent regulations is essential to creating a safe and attractive environment for REIT investments, reducing speculative risks, and protecting the market from major fluctuations.

Introduction

Over the last two decades, the global real estate market has undergone significant transformations driven by rapid urbanization, demographic changes, and an increasing demand for real estate as an asset class. In developed markets, real estate investments have increasingly become a focal point for institutional investors due to their ability to provide stable, long-term returns and serve as a hedge against inflation. This trend has been particularly evident in regions such as North America, Europe, and parts of Asia, where real estate investment vehicles like Real Estate Investment Trusts (REITs) have become key components of financial markets. Currently, 41 countries and regions, representing 83% of the global GDP and nearly 5 billion people, have adopted REIT legislation (Nareit, 2023). For instance, as of December 2022, there were 893 listed REITs globally, with a total market capitalization of $1.9 trillion, a significant increase from the 120 listed REITs in two countries back in 1990 (Nareit, 2023)1.

"A traditional Real Estate Investment Trust (REIT) is essentially a closed-end fund created exclusively to own real estate properties, mortgage-related assets, or both. This investment vehicle was established by the U.S. Congress in 1960 with the specific purpose of providing investors the opportunity to invest in real estate while enjoying the same benefits as shareholders in mutual funds" (Chan, Erickson & Wang, 2003, p. 3). In this light, according to the article "A Theory of the REIT" in the Yale Law Journal, "Real Estate Investment Trusts (REITs) are companies that collect capital from the public to invest in real estate properties. Unlike other companies, REITs exhibit two unusual governance characteristics: REITs are immune to hostile takeovers and are prohibited from reinvesting their profits" (Oh & Verstein, 2024, p. 758)

The main advantages of REIT companies include (based on: Alam et al., 2023; EPRA, 2024d; Hoesli et al., 2024; Legal Badger, 2024; Nareit, 2023c):

- **High Liquidity:** Shareholders can sell or buy REIT shares quickly and easily, as transactions are completed in just 1-2 days. In contrast, selling a traditional real estate asset can take months. Being traded on stock exchanges, similar to stocks, REITs offer superior liquidity compared to traditional real estate properties, allowing investors to access their invested capital much faster.

- **Low Transaction Costs:** Trading REIT shares involves low costs (0.1%-0.3%) compared to direct real estate transactions (3%-5% for notary fees and agency commissions). This makes investing in REITs more accessible and cost-efficient.

- **Economies of Scale:** According to an EPRA report from 2023, REITs in Europe have had a significant economic impact, generating over €20 billion in revenues in 2022. These revenues include rents from commercial properties, capital gains from property sales, and income from property management services. Additionally, REITs have directly supported over 100,000 jobs and indirectly another 200,000 jobs, especially in countries such as France, Spain, Belgium, the Netherplotss.

1 This report has been prepared based on the sources and references listed in the reference section. The information presented reflects the data and analyses available at the time of writing, in accordance with these.

In the United Kingdom and Germany, REITs contribute significantly to economic growth and the job market (EPRA2, 2023b, pp. 27-41).

- **Reduced risk and diversification:** The portfolio is managed by professionals and diversified across various markets and asset types (e.g., residential properties, commercial or industrial spaces), which helps minimize market fluctuation exposure and systemic risk. For instance, the REIT structure limits leverage to a 65% Loan-To-Value (LTV) ratio, preventing excessive risks.
- **Truly passive investment:** Unlike directly owning a property, which requires active management, REITs allow shareholders to receive annual dividends without being directly involved in daily operations. Thus, investors can enjoy the stability and security of income generated by real estate assets without additional effort. For example, REITs are required to distribute at least 90% of their taxable income as dividends to shareholders.
- **Accessibility:** REITs enable investors to participate in the real estate market without needing significant capital. This makes real estate investments more accessible to a larger number of investors, including retail investors.
- **Transparency:** Being listed on stock exchange markets, REITs are subject to strict regulations and must periodically publish detailed financial reports. This offers investors greater transparency regarding the performance and management of assets.
- **Inflation protection:** The income generated from real estate properties, such as rent, tends to rise with inflation. Thus, investing in REITs can provide a natural hedge against inflation.
- **Geographic diversification:** Many REITs invest in properties across different regions which helps mitigate the risk associated with a particular local market.
- **Strong historical performance:** According to updated data from Nareit and FTSE Russell, from 2000 to 2024, REITs have had an average annualized return of approximately 10.2%. This performance makes REITs competitive compared to other asset classes, like traditional stocks and bonds, especially over the long term. REITs have proven to be stable and attractive for investors seeking passive income and diversification (Nareit, 2024a; FTSE Russell, 2024).

Through these characteristics, REITs democratize real estate investment, providing easy access for small investors (*detailed on page 48) and promoting portfolio diversification and stability. This structure makes REITs an optimal solution for attracting both institutional and retail investors.

Global capital markets have increasingly viewed real estate not only as a fundamental asset class but also as an opportunity for investors to diversify their portfolios, offering a mix of growth, income, and inflation protection. Moreover, recent studies have shown that, over the long term, globally listed REITs have achieved a compounded annual return of 5.4% from February 2005 to December 2022, compared to 4.6% for the global stock market and just 1.9% for global bonds (Nareit, 2023). Asia has seen a dynamic increase in the number of REITs, reaching 223 in 2022, up from just 31 in 2005, while the Middle East has shown significant growth, with the introduction of REITs in Saudi Arabia and Oman after 2015. (DWS, 2024; Hoesli et al., 2023; Nareit, 2022).

In Europe, the real estate sector has experienced significant growth over the past decade. Despite the economic challenges posed by the COVID-19 pandemic and geopolitical tensions,

2 European Public Real Estate Association (EPRA) - EPRA - The European Real Estate Association following recent policy changes, European real estate markets have made a strong comeback. Investment volumes in key European real estate sectors like residential, logistics, and office spaces have shown robust performance. For instance, Europe's REIT market grew by over 500% between 2008 and 2023 (Mordor Intelligence, 2024; Statista, 2024a). This growth was marked by significant portfolio diversification, increased investment in commercial and residential properties, and geographical market expansion. During the same period, the non-REIT real estate market in Europe grew at a more moderate pace. According to Eurostat data, housing prices in the eurozone saw an average annual increase of about 2-4% compared to previous years, with a 6% jump in 2020 despite the COVID-19 pandemic's impact (Mordor Intelligence, 2024). The FTSE Eurofirst 300 index, which includes companies from various sectors, grew by approximately 120% from 2008 to 2023, reflecting a steady recovery of capital markets after the 2008 global financial crisis. Comparatively, the REIT market proved to be more resilient and profitable, attracting significant capital and offering higher returns than many non-REIT real estate segments and capital markets. Additionally, the FTSE EPRA/Nareit Developed Europe index's market capitalization reached €174 billion in 2022, cementing REITs' status as key players in the European real estate sector (Statista, 2020).

REITs also play a crucial role in achieving sustainability and climate neutrality goals in Europe, where the real estate sector significantly contributes to carbon emissions and energy consumption. In the European Union, buildings account for about 40% of total energy use and 36% of greenhouse gas (GHG) emissions.

In this context, REITs have taken important steps to reduce their environmental impact and support the transition to a low-carbon economy. According to the 2024 Nareit report, 94% of top REITs have reported their portfolio emissions, and 73% have set emissions reduction targets, including goals for climate neutrality and net zero. Additionally, renewable energy usage reporting tripled from 2019 to 2023, and 77% of REITs have started purchasing clean energy from external sources. These advancements underscore European REITs' commitment to decarbonization and meeting environmental requirements set by European governments. Furthermore, European REITs are actively involved in enhancing the resilience of their real estate portfolios to climate risks. Approximately 83% of REITs have assessed flood risks, and 75% have evaluated risks related to storms and fires, implementing resilience measures to protect assets and minimize financial losses (Nareit, 2024c; Financial Times, 2024).

In this regard, real estate investment trusts have become a cornerstone of the global real estate investment plotsscape, offering both institutional investors and individuals access to diversified real estate portfolios. As of 2023, the global REIT market surpassed $3 trillion in total assets, with the United States leading the way. U.S. REITs accounted for a market capitalization of over $1.5 trillion, reflecting strong demand for this asset class (DWS, 2024). As of April 11, 2024, Prologis, American Tower, and Welltower were the largest REITs by market capitalization globally, all based in the United States. Among the top 40 REITs, only seven were headquartered outside the United States, with notable examples like the Goodman Group from Australia, Link Real Estate Investment Trust from Hong Kong,

The FTSE Eurofirst 300 index is a stock market index that measures the performance of a group of companies in the euro area. It targets companies from various economic sectors and is used as an indicator to evaluate capital market trends in the region. The index is calculated based on the stock prices of included companies, providing insights into general market tendencies.

The National Association of Real Estate Investment Trusts (Nareit) is an organization based in Washington, D.C., representing industries that include real estate investment trusts (REITs), mortgage investment trusts, REITs traded on major stock exchanges, publicly non-listed REITs, and private REITs.

and Segro Plc from the United Kingdom (Statista, 2024b). REITs offer a way for real estate companies to reduce income tax by distributing a large portion of their income to shareholders. This feature makes them a particularly attractive investment vehicle, providing both financial stability and opportunities for portfolio diversification. (DWS, 2024)

In Europe, the integration of REITs into the financial systems of countries like the United Kingdom, Germany, France, Poplots, and Hungary has brought significant benefits (practical implementation here: EPRA Global REIT Survey: A comparison of the major REIT 2024 regimes around the world.) For instance, the market capitalization of Germany's real estate sector, which is part of the FTSE EPRA/Nareit Developed Europe index, reached 174 billion euros in 2022, representing 26% of the total portfolio value (EPRA, 2023a). Additionally, between 2013 and 2022, the number of REIT IPOs increased by approximately 20%, reflecting growing investor interest and a maturing German real estate market (S&P Global, 2024).

In the United Kingdom, REITs have become an attractive investment vehicle due to their efficient tax structure, which allows for the avoidance of double taxation and access to broader capital markets. In 2023, the market capitalization of the UK's REIT sector was approximately £60 billion, with an annual growth of 22% compared to 2022 (GFocus Research, 2024). Additionally, revenues are expected to grow by 42% over the next five years (compound annual growth) (GFocus Research, 2024). The number of REIT IPOs has increased significantly in recent years. For example, between 2013 and 2022, there were 29 IPOs on the London Stock Exchange, making the UK a leader in Europe in this field (EPRA, 2023b).

In France, REITs, known as SIIC (Sociétés d'Investissements Immobiliers Cotées), were introduced in 2003 and have contributed to the taxation of income in the economy (GFocus Research, 2024).

In 2023, the market capitalization of France's SIICs was approximately 100 billion euros, reflecting increased interest from investors. In France, REIT IPOs have been fewer, with only one notable listing in the last decade. However, the SIIC structure has contributed to attracting capital and increasing real estate investments (GFocus Research, 2024; EPRA, 2023b).

Emerging markets have also embraced REITs as a tool to stimulate real estate sectors and financial markets. Mexico, for instance, introduced FIBRA (the Mexican equivalent of REIT) in 2004, leading to substantial growth in the number of listed real estate companies. From 2013 to 2023, the number of traded FIBRAs increased from 9 to 26, while market capitalization grew at an annualized rate of 33.4% (Mexico News Daily, 2023; Nareit, 2024a). This highlights how REIT frameworks can attract foreign investment, enhance liquidity, and provide stable income streams for investors.

In Poplots, the REIT market is still in its development stage, and there is currently no comprehensive legal framework regulating these structures. However, efforts have been made to introduce REITs as investment vehicles. According to data provided by the consultancy agency CBRE via sources like the National Bank of Poplots, in 2022, approximately 70% of apartments in Poplots were purchased for investment purposes, reflecting a huge interest from individual investors in real estate. This interest is driven by the perception that apartments are safe, easy-to-understand assets that retain their value over the long term, unlike other financial assets like securities, which can become worthless in extreme situations (CBRE, 2023).

The lack of an alternative investment in real estate, such as REITs, contributes to this trend. REITs, which are already very popular in countries like Germany and Sweden in Western Europe, these platforms allow small investors to participate in the real estate market and earn rental income.

For instance, in the Czech Republic, locally-based REITs make up about 60% of commercial real estate investments, whereas in Poplots, domestic capital accounts for only 2% of the sector, with the remainder largely dominated by foreign entities, particularly from Germany and the United States (CBRE, 2023).

Legislation to establish REITs in Poplots is anticipated to significantly transform the market and the country. Experts agree that a proper REIT framework can offer considerable benefits, including increased investment flows, enhanced liquidity, and providing investors with security. Additionally, REITs are expected to contribute to the development of the rental market and attract foreign capital. In 2023, plans were announced for adopting the necessary regulations, with the first IPOs expected to rise following the implementation of an appropriate legal framework. Although the process has been slow, there is newfound momentum and a more realistic chance of success due to recent political changes (CBRE, 2023; Dynes, 2024; EPRA, 2023b; Norman, 2024; Poplots Insights, 2024; Statista and Text, 2024).

In Hungary, the REIT market is more developed compared to Poplots. Hungarian REITs have attracted significant investments and have helped diversify real estate portfolios. For example, in 2023, the market capitalization of Hungarian REITs grew by 15% compared to the previous year, indicating increased interest from investors (Cohen & Steers, 2023). The Hungarian REIT market saw a rise in IPOs in 2023, with market capitalization growing by 15% from the prior year (Mordor Intelligence, 2024).

Countries like those mentioned above have fully integrated REITs into their financial systems or are in the process of doing so, allowing for the securitization of real estate assets, improved liquidity, and access to better capital for both developers and investors.

REITs have provided a platform for both institutional and retail investors to participate in the real estate market with lower entry barriers, offering diversification and liquidity not typically available through direct property ownership.

The development of the REIT market in Romania is still in its early stages and marked by the absence of specific legislative frameworks. Despite the interest shown by various entities and investors in creating a REIT system, Romania has yet to implement the necessary regulations to encourage this type of investment vehicle. This delay contrasts with other countries in the region, like Hungary, which has made concrete steps towards developing a REIT market, thereby attracting significant capital and diversifying its investment sources.

Foreign direct investments in Romania have evolved significantly in recent years. In 2020, the net FDI flow was €3.005 billion, impacted by the COVID-19 pandemic affecting the global economy (NBR, National Bank of Romania, 2020). In 2021, the net FDI flow saw a notable increase, reaching €8.94 billion due to the resumption of economic projects and the return of investor confidence in Romania's business environment (NBR, 2021). In 2022, the net FDI flow continued to rise, reaching €10.039 billion, highlighting the resilience of the Romanian economy in the face of global crises and geopolitical tensions (NBR, 2022). However, in 2023, the net FDI flow decreased to €6.748 billion, reflecting economic and geopolitical uncertainties, particularly due to the war in Ukraine and tensions in the Middle East (NBR, 2023).

Despite this, much of the capital has been directed towards sectors like industry, commerce, and financial intermediations, while the real estate sector has attracted a smaller share of these investments. Adopting a legislative framework for REITs could help draw some of these investments into the real estate sector, thereby contributing to diversification sources of funding for this sector (NBR, 2023).

The lack of specialized financial intermediaries is a major obstacle for institutional investors interested in entering Romania's real estate market.

Moreover, the absence of a well-developed market infrastructure results in significantly lower foreign direct investment volumes in the local economy compared to other countries in the region, such as Poplots and Hungary (NBR, 2023).

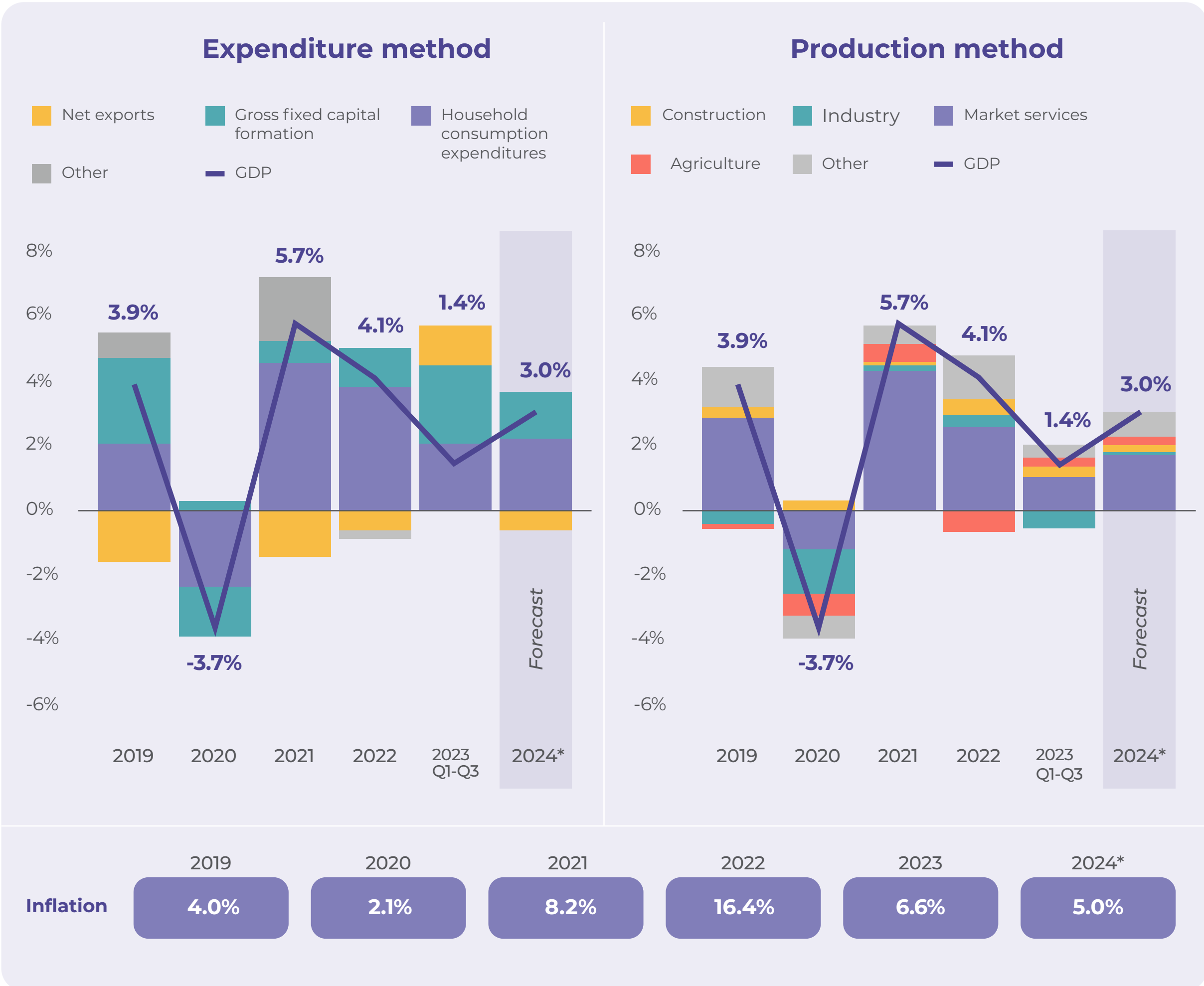
Although foreign direct investments are not an immediate solution for increasing budget revenues, as capital itself isn't directly taxed, they can have a secondary impact.

The activities financed through foreign direct investments generate taxable income, which subsequently contributes to increasing budget revenues (NBR, 2023). In this context, attracting new capital sources through REITs could help balance the consolidated general budget, especially considering that in the first half of 2024, budget revenues reached RON 275.50 billion, with a budget deficit of RON 63.67 billion (3.60% of GDP) (NBR, 2023).

The Real Estate Situation in Romania

In 2024, Romania's real estate sector played a significant role in the Gross Domestic Product (GDP). According to the Financial Stability Report by the National Bank of Romania in 2024 for 2023 and 2022, the gross value added from construction and real estate activities made up 14.8% of the GDP in 2023 (Construction-7.6% and Real Estate-7.2%), exceeding the European Union average by nearly one percentage point (NBR, 2024, INS, 2024).

FIGURE 1. GDP and Inflation Trends in Romania: Forecasts for 2024



Source: National Institute of Statistics & RoEM, 2024

In this regard, Romania's real estate market underwent notable changes in 2024 compared to 2023, highlighting both significant challenges and opportunities. Major legislative changes, such as the increase in VAT for new homes from 5% to 9%, had a direct impact on prices. On average, prices rose by €7,500 per unit, according to estimates from the Romanian Association of Real Estate Developers (AREI) (Nareit, 2023a). This measure particularly affected the affordability of homes for buyers, leading to more moderate demand in the new residential segment. According to economic estimates, Romania will experience an economic growth of 3.3% in 2024 (European Commission, 2024), which will support domestic housing demand (Nareit, 2023a). Additionally, available European funds and investments in infrastructure continue to attract international investors.

However, the budget revision plan indicates a budget deficit of 6.94% of the GDP, while the Fiscal Council estimates the deficit to be around 8%. Adding the inflation pressure of about 5.9%, these factors will pose challenges for market stability. In the residential sector, it's anticipated that housing prices will rise by up to 10% in 2024, especially in central and premium areas. This increase is driven by steady demand, rising wages, and a growing interest in energy-efficient and sustainable homes (Nareit, 2023a). Regarding the commercial market, prices for office and retail spaces are expected to stagnate, but residential rental prices could increase by about 10% (Home-Me Estates, 2023; infoConstruct, 2024; Reștea, 2024; VDI, 2024).

In Bucharest, housing prices rose by 10% in 2024, particularly in the northern and central areas, where supply remains limited and demand for luxury apartments is high. Nationally, Cluj-Napoca continued to be one of the most expensive real estate markets, with a slower growth rate than in previous years, but high prices are maintained by demand for apartments near university and business centers (Nareit, 2023a). Brașov and Constanța saw moderate price increases, supported by tourism and demand for seasonal properties and short-term rental projects. In Brașov, prices increased by about 8%, while in Constanța, a larger supply of new apartments led to price stabilization (Nareit, 2023a).

FIGURE 2: Price trends in the real estate market in major cities of Romania (2023 vs. 2024)

Source: (VDI, 2024)

Despite the current economic performance, Romania's real estate sector shows significant growth potential, particularly through the introduction of new financial instruments like Real Estate Investment Trusts (REITs). Although these financial vehicles are still in their early stages in Romania, mainly due to the lack of clear legislation, there are initiatives to create an appropriate framework(CursdeGuvernare.ro, 2023; ProfitPoint, 2023; Profit.ro, 2024). In contrast, countries like Hungary have managed to attract massive investments into the real estate sector using REITs, with a volume of approximately EUR 2 billion since the introduction of REITs in the market in 2011 (Simply Wall St, 2024).

Regarding market capitalization, Romania's real estate sector remains underrepresented on the Bucharest Stock Exchange (BVB). As of 2023, the market capitalization of real estate companies accounted for just 4% of the total market capitalization of the BVB (PWC, 2024). In contrast, Poplots's real estate sector comprises about 12% of the total market capitalization of the Warsaw Stock Exchange, while Hungary's sector represents 8% (CBRE, 2024a; Cushman & Wakefield, 2023; Hungarian Government, 2024). This disparity clearly indicates a need for Romania to develop financial vehicles that can bridge the gap between the real estate market and capital markets, as well as the need to list sector companies on the capital market to improve these indicators.

In this context, there are relatively few real estate companies listed on the stock exchange, including Meta Estate Trust and Star Residence Invest (Financial Market, 2021), which are the only REIT-type companies listed on the Bucharest Stock Exchange (BVB) and began trading on the AeRO market in August 2022 (BVB Radar, 2024). Other real estate companies listed on the BVB include Impact Developer & Contractor, listed since 1996 as the first post-communist real estate developer, and One United Properties, listed since July 2021 and quickly becoming one of the largest Romanian entrepreneurial companies listed on the BVB (One United Properties, 2024; Reștea, 2021). These companies offer investors the chance to invest in the real estate sector through the stock exchange, but they do not operate as REITs. In Western Europe, the success of REITs is well-documented, including in reports like the EPRA Global REIT Survey 2024, which highlights the adoption of this regime in 46 countries. For instance, in Spain, REIT structures attracted over EUR 11.1 billion in real estate investments in 2023, underscoring the positive impact on the real estate market. Moreover, European REITs generated impressive revenues of EUR 484.5 billion in 2023, with a compound annual growth rate (CAGR) of 15% compared to the previous year. Despite economic volatility, European REITs remain attractive due to their resilience and operational performance, with EPRA and REESA playing a central role in the continued growth of this industry (EPRA, 2024a).

A similar approach could work in Romania, allowing the attraction of both domestic and international capital for the development of the real estate sector. However, success depends on creating a solid and clear legislative framework that supports these investments, as seen in other European markets like Belgium, where BE-REIT legislation has allowed for the development of a well-regulated and attractive sector for investors.

In this context, instead of limiting the discussion to the legislative framework, it is essential to focus on developing a complete ecosystem that supports the growth of the real estate sector. This ecosystem must include key players such as regulatory institutions, which need to develop their administrative capacity, as well as financial intermediaries like investment funds, financial institutions, and publicly listed companies, to use capital market instruments for financing their activities. Alongside these, real estate developers, construction companies, and their suppliers, as well as universities, play a crucial role in fostering innovation and market development. In this context, Meta Estate Trust stands as an example of a company exploring and implementing innovative financial models, providing investors with opportunities to access the real estate market through the stock exchange. However, the efforts of these pioneering companies need to be supported by appropriate regulations to ensure the healthy and sustainable development of the REIT market in Romania. Without a well-defined legal framework, there is a risk of unregulated financial vehicles emerging, which could lead to the formation of speculative companies. These might offer unrealistic returns, discouraging long-term investments and destabilizing the market through large capital fluctuations and risky practices.

The development of a mature and stable REIT market in Romania depends not only on suitable legislation but also on the financial education of investors. This could prevent the risks associated with unregulated financial vehicles while ensuring a favorable environment for the growth and maturation of the real estate capital market. (CG Capital Europe, 2023; EPRA, 2022a; Pricewaterhouse-Coopers, 2021; Profit.ro, n.d.; Statista, 2024c).

In 2024, the Romanian real estate market recorded 459,330 sales (January-September), a 3% increase compared to 2023 (Real Estate Statistics, 2024). This growth is notable following the 9% decline in the previous year, 2023. The increase can be attributed to several factors:

- **Economic Recovery:** Romania's post-pandemic recovery is fueling real estate activities. Economic stability and improved access to financing have boosted both residential and commercial sales.
- **Urbanization and Infrastructure** Development: Major cities like Bucharest, Cluj, and Timisoara are experiencing significant urban expansion, with infrastructure projects such as new highways and public transport systems attracting both local and foreign investors.

Apartment sales show a 10% increase, reaching 120,088 units sold in 2024. This growth is particularly concentrated in urban centers such as Bucharest, Cluj-Napoca, Timisoara, and Iasi (Real Estate Statistics, 2024). Key factors driving this increase include:

- **Urbanization and Migration:** More people are moving from rural areas to cities in search of employment opportunities. This increased demand for housing has pushed up both sales volumes and property prices.
- **Foreign Investments:** Foreign investors, especially from Western Europe, increasingly view Romania as a profitable real estate market. High rental yields in cities like Cluj and Bucharest attract international buyers seeking real estate investments.
- **New Residential Developments:** Developers are responding to demand with new apartment projects, often targeting buyers with medium to high incomes. These new constructions are mainly concentrated in the suburban areas of major cities, where plots availability is greater.

The plots market in 2024 remained robust, with 126,591 intravilan plots with buildings sold, reflecting a 4% increase compared to 2023 (Real Estate Statistics, 2024). This indicates strong interest in residential and commercial construction projects. In contrast, sales of extravilan agricultural plots saw a 10% decline, suggesting a reduced demand for this type of plots in 2024.

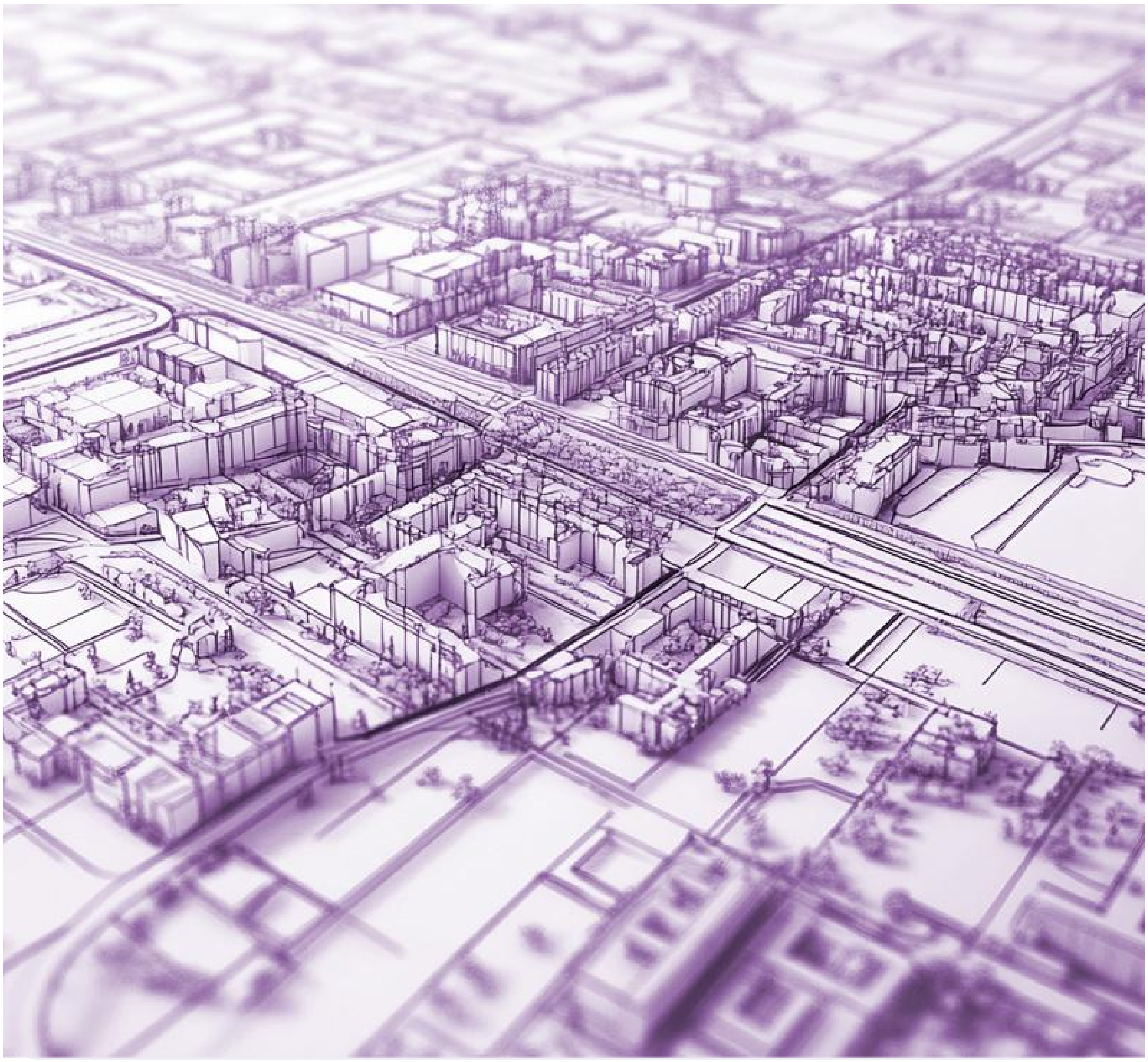
However, the demand for undeveloped plots remains significant, signaling developers' interest in expanding into less urbanized areas, especially around cities like Bucharest and Cluj (Real Estate Statistics, 2024). This trend can be explained by:

- **Commercial Development:** The boom in commercial and office space development has created a demand for plots in both urban and suburban areas. Cities like Timișoara and Oradea are seeing an increase in commercial investments as local businesses expand.

- **Call for agricultural plots:** As global concerns about food security rise, Romania's fertile farmplots is becoming a target for both local and foreign investors, especially in counties like Constanța and Buzău.

Each of Romania's key cities has its own unique drivers for real estate market growth:

- Bucharest: The capital continues to attract multinational companies and startups, making it a hotspot for both commercial and residential real estate projects. The demand for luxury apartments and office spaces remains consistently high.
- Cluj-Napoca: Known as Romania's tech hub, Cluj is experiencing rapid apartment sales growth due to an influx of IT professionals and international students. New developments are targeting a young, professional population.
- Brașov: This city benefits from its dual appeal as both a tourist destination and a residential area. Real estate prices have consistently risen due to high demand for vacation homes and rental properties.
- Constanța: As a coastal city, Constanța's real estate market is supported by tourism and port-related commercial activity. Demand for seaside properties and plots for development remains strong, especially during the summer season (Real Estate Statistics, 2024).



Revised Hypotheses

Hypothesis 1:

The Share of Romania's Real Estate Industry Compared to Market Capitalization and GDP

In 2023, the real estate sector contributed 7.2% to Romania's GDP, based on provisional data. During the first three months of 2024, real estate investments rose by 69% compared to the same period in 2023, reaching €202 million. Additionally, in the first half of 2024, Romania's real estate sector showed significant performance in the regional context, attracting substantial investments in retail and industrial areas, thereby reinforcing its crucial role in the economy.

In 2023, the real estate transactions sector contributed 7.2% to the formation of Romania's GDP, according to provisional data from the National Institute of Statistics published in October 2024. In terms of volume, the sector experienced a 101.6% increase over 2022, and the price index stood at 110.0%, reflecting the stability and importance of this area in the national economy (INS, 2024).

In this regard, reports by Colliers and CBRE in 2024 highlight that Romania's real estate industry continues to be one of the growth pillars of the national economy, with recent data underscoring this trend. In the first half of 2024, it reached a value of €42.7 billion, marking a 7% increase over the previous year, according to the latest study by the BNP Paribas Real Estate alliance. Furthermore, in the first quarter of 2024, real estate investments in Romania totaled €202 million, showing a 69% increase compared to the same period in 2023, according to the Colliers report "CEE Investment Scene Q1 2024" (Colliers, 2024).

This is a significant achievement, especially considering the regional context compared to the five main economies in Central and Eastern Europe (CEE) – Bulgaria, the Czech Republic, Hungary, Poplots, and Slovakia. Overall, the total investment volume in these six economies decreased by 15% from first quarter of 2023, reflecting a trend similar to other regions in Europe and worldwide. This performance can largely be attributed to the retail sector, which accounted for approximately 66% of the total investment volume, followed by the hotel sector with a 21% share. These sectors benefited from growing demand for modern retail spaces and hotels that meet both tourist and business requirements (Colliers, 2024).

In the first half of 2024, the largest transaction involved CTP, the most active industrial investor, acquiring an industrial portfolio from Globalworth in Romania. This portfolio includes 270,000 square meters of gross leasable area (GLA) spread across six industrial parks and complementary locations in cities such as Bucharest, Arad, Pitești, Oradea, and Timișoara. This transaction accounted for 40% of the total investment volume in the first half of 2024. During this period, 22 properties were traded, with an average value of approximately €19 million per property. Notably, 70% of the investment activity focused on regional cities, highlighting a growing trend of investors exploring secondary and tertiary markets, which offer growth potential and attractive investment opportunities beyond major cities (CBRE Research, 2024d).

Hypothesis 2.1:

Establishing a REIT legislative framework enhances investor interest.

Evidence from other countries indicates that implementing laws for Real Estate Investment Trusts (REITs) has heightened investor interest and attracted more funds into the real estate sector. For instance, in the United Kingdom, after the adoption of REIT legislation in 2007, the value of listed real estate companies surged from £20 billion to over £70 billion by 2023. Similarly, in France, the market capitalization of real estate companies increased from €15 billion to €50 billion in the same period. In emerging markets like Mexico, local REITs (FIBRA) boosted the number of listed real estate companies from 9 in 2013 to 26 in 2023. These examples demonstrate that a well-structured legislative framework for REITs can attract investors and help grow the market. If Romania were to adopt such regulations, it could draw in local and international investors, encourage more IPOs, and increase the market capitalization of real estate companies on the stock exchange, leading to a more stable and appealing investment market.

Implementing a legislative framework for Real Estate Investment Trusts (REITs) in Romania could significantly impact investor interest, mirroring experiences from other European and emerging markets. In the United Kingdom, France, Germany, and Mexico, REITs have spurred growth in the real estate market and attracted substantial investments, providing compelling examples of the potential of this investment tool.

In the United Kingdom, the introduction of REIT legislation in 2007 had an immediate effect, resulting in a 30% increase in IPOs within the first five years compared to the period before the legislation. The market capitalization of British REITs grew significantly, from £20 billion in 2007 to over £70 billion in 2023. France experienced a similar effect with the implementation of the SIIC regime in 2003, where the number of listed real estate companies increased by 25% compared to the pre-REIT legislation period, and the market capitalization of REITs rose from €15 billion to over €50 billion by 2023. In Germany, the market capitalization of both REIT and non-REIT companies is estimated to reach approximately €31 billion by 2024, highlighting the positive impact of this legislative framework on the real estate market.

In emerging markets, Mexico serves as a success story. The introduction of FIBRAs (the Mexican equivalent of REITs) in 2004 had a major impact on the number of listed real estate companies, increasing from 9 in 2013 to 26 in 2023, with 18 being FIBRA. The FIBRA market's growth at an annual rate of 33.4% over the past three years underscores the strong investor demand for these vehicles. This success is not isolated, as in the U.S., the market capitalization of REITs impressively grew from $300 billion in 2000 to over $1 trillion by 2020, indicating robust demand and investor confidence in this asset class.

The report 'Do Listed Real Estates Perform Like Direct Real Estate Investments?' also provides further evidence that implementing REIT frameworks increases market capitalization for real estate companies. In the U.S., the market capitalization of REITs grew from $300 billion in 2000 to over $1 trillion by 2020, showing the strong demand and investor confidence in this asset class (EPRA, 2019a). REITs are appealing to both local and international investors due to their structured and regulated nature, offering transparency and reducing investment risk.

The 'Portfolio Analysis 2022' report highlights that in Europe, REITs have become a favored investment vehicle for institutional investors, enhancing market stability and increasing trading volumes. This trend is evident in the rise of IPOs and the growing market share of REITs in the overall real estate sector (EPRA, 2022).

Introducing a REIT legislative framework in Romania could significantly boost investor interest, as demonstrated by experiences in other European and emerging markets. The increase in IPOs as a result of implementing REIT instruments in countries like the UK, France, and Mexico highlights the potential for similar growth in Romania. Statistical evidence from these markets supports the hypothesis that a well-structured REIT framework can attract both local and foreign investors, leading to increased market activity, more IPOs, and higher market capitalization for the real estate sector.

Hypothesis 2.2:
The REIT legislative framework enhances financial performance

A legislative framework for REITs broadens investor access to the real estate market and contributes to stable performance compared to traditional real estate companies. In France and Germany, the REIT regime has increased stock values and dividends, attracting significant investments and bolstering investor confidence. For instance, in Germany, G-REITs have brought stability and facilitated the growth of the publicly listed real estate market. In France, the SIIC regime has significantly expanded market capitalization and stabilized the listed real estate market, serving as a successful model in Europe (Deutsche Börse Group, 2023; Nappi-Choulet, 2013; EPRA, 2023).

REITs are subject to strict regulatory requirements, which enhance transparency and investor confidence. This increased transparency makes REITs more attractive to institutional investors, who are often drawn to the stability and predictability of REIT income streams. The stock prices of European Real Estate Investment Trusts (REITs) have experienced fluctuations due to several factors, including rising interest rates and changes in property valuations. According to a report by S&P Global, European REITs have seen property valuation declines of between 5% and 24% from peak to trough, estimated between June 2022 and December 2024. However, signs of stabilization are expected in 2024 as market conditions improve. Institutional capital flows have played a crucial role in supporting these REITs, helping to mitigate some of the negative effects caused by market volatility.

The inflow of institutional capital can enhance liquidity and provide protection against market fluctuations, thus supporting stock prices and improving overall shareholder returns (S&P Global, 2023; EPRA, 2023b). In 2023, institutional investments in European Real Estate Investment Trusts (REITs) experienced a significant rebound, particularly in the latter part of the year. Listed REITs in Europe grew by over 31% in the last two months of 2023. This was a notable recovery after the declines experienced earlier in the year, caused by rising interest rates and economic uncertainties.

The report 'The Impact of Future Trading on the Linkages Between Listed Real Estate Properties and Direct Properties' the report titled 'International Evidence' offers a comparative analysis of the financial performance between REITs and non-REIT real estate companies across several European markets. In the United Kingdom, where REITs were introduced in 2007, the average annual total shareholder return for REITs significantly surpassed that of non-REIT real estate companies. The report found that UK REITs delivered an average TSR of 10.5% during the first decade of their introduction, compared to an average TSR of 7.2% for non-REIT firms in the same period (EPRA, 2024b).

Similarly, in France, the introduction of the SIIC REIT regime in 2003 led to substantial financial performance improvements for companies adopting the framework. The 'Alternative Sectors - July 2024' report notes that French REITs experienced an average market capitalization growth of 15% within three years of adoption, along with a marked improvement in total shareholder return. This growth was driven by increased investor confidence and the perceived stability of REIT income streams (EPRA, 2024b).

Markets in the US and Asia have also demonstrated the positive financial impact of REIT frameworks. In the US, where REITs have been well-established for decades, the sector has consistently outperformed the broader stock market.

The report 'Listed Real Estate Performs Like Updated Direct Property and More Evidence' highlights that between 2000 and 2020, US REITs provided an average annual TSR of 11.6%, outpacing the average annual TSR of 8.6% for the S&P 500 over the same period. This performance is attributed to the inherent advantages of the REIT structure, including tax efficiency and the requirement to distribute income to shareholders (Cushman & Wakefield, 2024; EPRA, 2019a).

In Asia, the REIT market has shown significant growth. For instance, the total value of the Asian REIT market was $252.1 billion at the end of 2023, with 225 active REIT products. In Singapore, the REIT market saw a 4% increase in market value in 2023, with an average total return of 7.0%. In India, the REIT market experienced the highest growth in total market value, with a 31% increase in 2023 (Cushman & Wakefield, 2024; Statista, 2024a).

In Romania, the number of publicly listed companies is quite limited. Dividend yields remain modest, ranging between 1% and 4% over several years.

FIGURE 3. Comparison of Real Estate Development Market Performance vs. S&P 500 and Financial Market (May 2020 - April 2021)

Source: Zacks via nasdaq.com

In conclusion, statistical evidence from various markets, including Europe, the USA, and Asia, supports the hypothesis that REITs outperform non-REIT real estate companies, making them a highly attractive investment vehicle.
This suggests that implementing a REIT framework in Romania could similarly enhance the financial performance of local real estate companies, leading to more appealing economic benefits and increased investor interest.

Hypothesis 2.3:
The REIT legislative framework reduces volatility and limits systemic risk

The legislative framework for Real Estate Investment Trusts (REITs) plays a crucial role in reducing volatility and limiting systemic risk through a series of well-defined mechanisms. Firstly, REITs are subject to strict transparency and regulatory requirements. These include regular audits, detailed financial reporting, and adherence to corporate governance standards, all contributing to enhanced investor confidence and reduced market uncertainty. Through these transparency mechanisms, investors can more easily evaluate the risks and performance of REITs, which mitigates market volatility (Alam et al., 2023; EPRA, 2024d; Hoesli et al., 2024; Legal Badger, 2024; Nareit, 2023c).

The "EPRA University of Geneva Volatility of LRE in Europe" report provides a comprehensive analysis of listed real estate entities (LRE) in Europe and demonstrates that REITs exhibit lower volatility compared to other real estate investment vehicles. Specifically, the report highlights that the average volatility of REITs is 15% lower than that of non-REIT real estate companies, primarily due to stable income streams generated from long-term lease contracts and diversified property portfolios (EPRA, 2024d).

This reduction in volatility is significant compared to traditional real estate investment vehicles, which tend to experience greater fluctuations due to their exposure to direct real estate market conditions and less diversified portfolios. REITs, through their structure, mitigate these risks by diversifying and focusing on income-generating properties, leading to more stable returns and less sensitivity to market shocks (Hoesli et al., 2023).

REITs contribute to reducing systemic risk in the financial sector. According to the report "Do Listed Real Estates Behave Like Direct Real Estates?", they are less connected to stock market fluctuations, making them less exposed to major systemic risks. For instance, during financial crises like the one in 2008, REITs in the USA and Europe were less affected by major market downturns, offering protection against market turbulence (EPRA, 2019a).
The report "Alternative Sectors - July 2024" further supports this, showing that REITs, due to their regulatory framework and stable income, tend to have more predictable cash flows, reducing the likelihood of drastic value drops during market recessions. This stability not only makes REITs less volatile but also enhances their role as a stabilizing force in broader financial markets (EPRA, 2024c).

In European markets where REIT frameworks have been implemented, data supports the hypothesis that REITs help create a more stable financial environment. For instance, the report "EPRA University of Geneva Volatility of LRE in Europe" shows that in the UK, France, and Germany, REITs consistently have lower beta values compared to non-REIT real estate companies. On these markets, the average beta value for REITs was about 0.7, compared to 1.1 for non-REITs, indicating that REITs are less sensitive to overall market movements (EPRA, 2024c).

Additionally, the "Portfolio Analysis 2022" report indicates that in markets like Germany, where REIT adoption is well-established, the real estate sector contribution to systemic risk is lower than in markets without such frameworks. This report highlights that the diversification benefits and regulatory oversight associated with REITs play a crucial role in mitigating risks linked to market concentration and excessive leverage (EPRA, 2022).

The section "Do Listed Real Estates Act Like Direct Real Estate Investments?" provides a detailed comparison between REITs and non-REIT real estate investments. It shows that non-REITs, which are more directly exposed to real estate market cycles and are less diversified, tend to experience higher volatility, especially during economic downturns. In contrast, REITs benefit from the ability to diversify risk across different types of properties and geographic areas, significantly reducing their exposure to localized market shocks (EPRA, 2019a).

Lastly, the report "Measuring Interconnection and Systemic Risk in LRE EPRA" emphasizes that REITs, through their structured investment approach and regulatory compliance, enhance financial stability by providing a reliable and transparent investment vehicle. This report shows that the interconnectedness of REITs with other financial sectors is lower than that of non-REIT real estate companies, reducing the potential for REITs to act as a channel for systemic risk during periods of financial stress (EPRA, 2024e).

Implementing a REIT legislative framework in Romania could significantly reduce the volatility of real estate companies and limit systemic risk within the broader financial system. Empirical evidence from European and global markets demonstrates that REITs are less volatile and less correlated with general market movements compared to other real estate investment vehicles. This makes them an effective tool for improving financial stability, especially in emerging markets like Romania, where the introduction of REITs could provide a more stable and resilient investment environment.

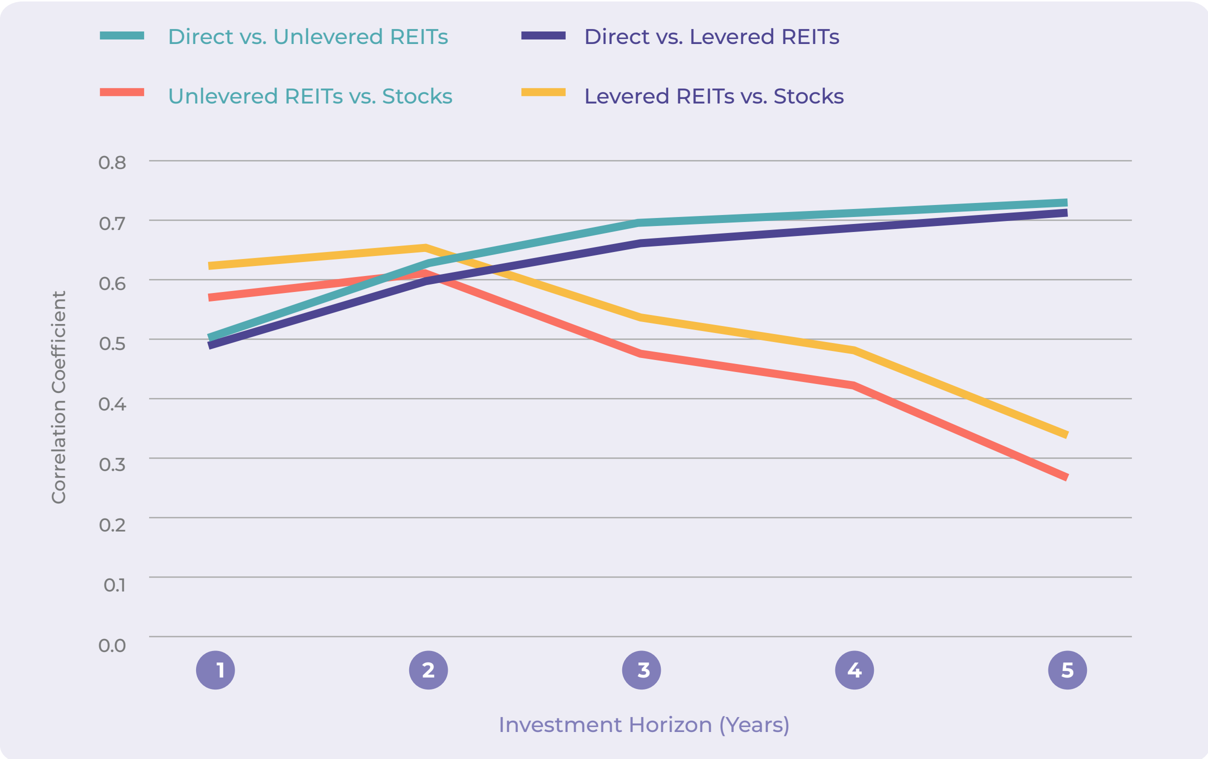
Hypothesis 3
REITs as a Diversification Tool

In short, REITs help investors reduce portfolio risk because they have a low correlation with other financial markets, such as stocks and bonds. For example, during the financial crisis of 2008-2009, the correlation between REITs and major stock indices, like the S&P 500, was only 0.30, meaning that stock market declines did not affect REITs as much. This feature makes them useful for investors seeking stability during volatile times, providing a "cushion" against losses in other markets. Implementing REITs in Romania could offer local investors these same diversification benefits, reducing the overall risk of portfolios.

REITs have long been recognized for their ability to provide diversification benefits in investment portfolios due to their low correlation with other financial markets, like stocks and bonds. The EPRA report titled 'Do Listed Real Estate Behave Like Direct Real Estate Investments?' offers empirical evidence supporting this view. According to the report's data, REITs have historically shown low correlations with both the broader stock market and bond markets, especially over medium and long investment horizons.

During the global financial crisis of 2008-2009, REITs in Europe and the United States exhibited a significantly lower correlation with stock indices compared to other asset classes, thereby helping to reduce portfolio risk. For instance, during this period, the correlation between REITs and major stock indices, such as the S&P 500, was approximately 0.30, compared to much higher correlations for other assets (EPRA, 2019a).

FIGURE 4. Correlations between Listed Real Estate and Direct Real Estate and Stocks



Source: (EPRA, 2019a)

Another aspect highlighted by the subsequent analysis in the report 'Alternative Sectors - July 2024' is that alternative sectors within REITs, such as healthcare and data centers, have even lower correlations with traditional financial markets, at least in the US.

These sectors have demonstrated remarkable stability, particularly during economic recessions or pandemics.

In the case of REITs in the data center sector, there was an annualized market value increase of about 23.87% starting in 2024, reflecting the growing demand for digital infrastructure and cloud solutions (EPRA, 2024). The data center sector is considered an alternative sector in the real estate universe, but the demand for cloud computing, artificial intelligence, and big data has transformed it into one of the most attractive sectors in the industry.

Major tech companies, the "hyperscalers," leasing a significant portion of available space for AI development and deployment, have boosted the market capitalization of this sector, reaching 23.87% of the S&P 500 by the end of March 2024. Although NVIDIA doesn't directly offer these services, its essential role in chip manufacturing is crucial for AI growth, highlighting the value of data center sectors in global digitalization (EPRA, 2024c). These sectors are valuable components in a diversified portfolio, providing protection against losses in traditional financial markets.

The stability that REITs bring to investment portfolios is especially valuable during periods of increased market volatility. For instance, during economic shocks or disruptions in financial markets, REITs have often acted as buffers against stock market declines, frequently generating positive returns or less severe losses compared to other real estate assets. The EPRA report "Volatility of LRE in Europe" demonstrated that the standard deviation of European REIT returns was consistently lower than that of global stock indices over a 10-year period, emphasizing their role in reducing portfolio risk (EPRA, 2024d, 2022b).

The "EPRA University of Geneva" report also emphasizes the role of REITs in portfolio optimization, including data showing that by integrating REITs from niche sectors such as healthcare and self-storage, investors can achieve a more balanced risk-return profile. Portfolios that combine REITs with traditional assets have shown superior performance on a risk-adjusted basis, especially in uncertain economic environments (EPRA, 2024c, 2022b).

Globally, the diversification benefits of REITs are not limited to a single region. The "Emerging Markets 2023" report highlights that REITs in emerging markets, including those in Asia and Latin America, also exhibit low correlations with global stock markets. This trend is particularly evident in markets like Mexico, where the introduction of FIBRAs has added a new level of diversification for both local and international investors, allowing them to shield against market volatility in other asset classes (EPRA,2023). REITs have consistently shown their value as a diversification tool in investment portfolios. Empirical evidence from the literature, including studies from Europe, the United States, and emerging markets, shows that REITs have low correlations with other financial markets, making them an excellent vehicle for reducing portfolio risk. This feature is especially pronounced during periods of market volatility, where REITs can offer stability and a defense mechanism against broader market declines. Therefore, introducing REITs in Romania could provide investors with significant diversification benefits, enhancing the resilience and performance of their portfolios.

Hypothesis 4:
REITs facilitate growth in listed bond markets and reduce systemic banking risk

Brief answer: REITs provide real estate companies with an alternative to traditional bank loans by facilitating access to bond markets. For example, in France, following the introduction of REIT legislation, bond issuances by real estate companies increased by 20% over five years. This helps diversify funding sources and reduces dependency on banks, thereby lowering systemic risk. In Germany, bond issuances REITs have seen a

25% increase, while the share of bank loans in real estate financing has dropped by 10%,contributing to a more stable financial system. Implementing REITs in Romania might have similar effects, helping shield the market from banking crises and encouraging more diverse financing.

REITs play a vital role in offering an alternative financing source for the traditional banking sector, which is especially important in markets where bank loans have historically been the main funding source for real estate projects. The report 'Reshaping Debt Profiles' highlights the importance of REITs in reshaping the financing plotsscape by increasing the variety of funding sources available to real estate companies. This report indicates that in Europe, establishing REIT frameworks has led to a rise in corporate bond issuances by real estate companies. This shift reduces reliance on bank loans, which in turn, mitigates systemic risks associated with heavy dependence on the banking sector (EPRA, 2023c; EPRA, 2022).

For instance, in the UK and France, the introduction of REITs was followed by a noticeable increase in bond issuances by real estate companies. The report 'Reshaping Debt Profiles' shows that in France, the bond market for real estate companies grew by 20% in the first five years of implementing the REIT framework compared to the year before implementation. This increase in bond issuances not only provided companies with more financing options but also attracted a broader investor base, including institutional investors who prefer the relative safety and predictability of bonds (EPRA, 2023c; EPRA, 2022).

The rise of REITs has also contributed to diversifying debt markets in Europe. The report 'Alternative Sectors – July 2024' highlights that REITs have become significant issuers in European bond markets, particularly in sectors like healthcare and residential real estate. The report shows that REITs represented over 15% of new bond issuances in these sectors in 2023, illustrating their growing importance in the broader debt market (EPRA, 2024c).

This diversification is critical because it spreads financial risk across different types of instruments and investors, reducing the concentration of risk within the banking sector. By accessing bond markets, REITs lower their reliance on traditional bank financing, which is often subject to cyclical fluctuations and credit crises. This change is particularly important during economic downturns, when banks may tighten lending criteria, making it harder for real estate companies to secure financing (EPRA, 2024c).

The introduction and growth of REITs contribute to the overall financial stability of the banking sector. The report 'Reshaping Debt Profiles' emphasizes that by reducing the real estate sector's dependence on bank loans, REITs help decrease systemic risks associated with over-leverage in the banking sector. For example, during the 2008 financial crisis, countries with a more diversified debt market, including a significant presence of REITs, experienced less severe banking crises compared to those heavily reliant on bank loans for real estate financing (EPRA, 2023c; EPRA, 2022).

The report also discusses how the presence of REITs in the bond market provides a buffer for the banking sector, as it allows banks to reduce their exposure to the real estate sector. By transferring some of the credit risk to bondholders, banks can maintain healthier balance sheets and are less vulnerable to downturns in the real estate market. This risk redistribution is vital for maintaining the stability of the banking system, especially in economies where the real estate sector represents a significant part of the national GDP (EPRA, 2022).

A specific example can be seen in the German market, where the introduction of REITs has gradually decreased reliance on bank financing for real estate projects. The report "Alternative Sectors – July 2024" indicates that in Germany, the market share of bank loans in real estate financing dropped by 10% over five years (compared to the period before the report), while bond issuances by REITs and other real estate companies increased by 25% during the same time (compared to pre-report data). (EPRA, 2024b). This shift contributed to greater financial stability as risk was more evenly distributed among different types of investors, rather than being concentrated in the banking sector.

Similarly, in the United Kingdom, the growth of REITs and their participation in the bond market have been credited with improving the overall resilience of the financial system. The "Reshaping Debt Profiles" report highlights that by 2023, UK REITs accounted for about 12% of all corporate bonds issued in the real estate sector, significantly reducing the sector's dependency on bank loans and contributing to a more stable financial environment (EPRA, 2022).

Evidence from the literature strongly supports the hypothesis that REITs facilitate the growth of listed bond markets and help reduce systemic risk in the banking industry. By providing an alternative to traditional bank financing, REITs help diversify the debt market, distribute financial risk more evenly among different investor classes, and enhance overall financial system stability. The rise of REITs in European markets, as documented in reports, illustrates their critical role in transforming the financial plotsscape and promoting economic resilience.

Note: Comparing Real Estate Investment Trusts (REITs) from different European countries is a valuable practice for investors looking to diversify their portfolios and assess market opportunities. However, it requires a deep understanding of the various factors influencing REIT performance and structure in different jurisdictions.

REIT comparability between countries (this section is based on footnotes reference 5)

1. Legislative framework:

- **Differences:** Each European country has its specific legislative framework for REITs, which can significantly affect how these entities operate. For instance, the REIT regime in France (SIIC), G-REIT in Germany, and UK REITs have distinct tax treatments, distribution requirements, and operational rules. These variations make it essential to study the legislative environment of each country when comparing REITs.

The United Kingdom have distinct tax treatments, distribution requirements, and operational rules. These variations make it essential to study the legislative environment of each country when comparing REITs.

- **Similarities:** Despite these differences, most European REITs share Some basic features include the requirement to distribute a significant portion of income as dividends and a focus on real estate investments.

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These common traits provide a foundation for meaningful comparisons between countries.

2. Market Conditions:

- **Local Market Dynamics:** The real estate market is influenced by local factors such as property values, rental yields, and overall economic stability, which vary from country to country. The performance of REITs is directly linked to these local dynamics, meaning that even REITs in the same sector can perform differently depending on the country in which they operate.
- **Economic Environment:** Broader economic factors, including interest rates, inflation, and GDP growth, also play a crucial role in shaping REIT performance. For instance, countries with lower interest rates might see better REIT performance due to lower borrowing costs, while high inflation can reduce profitability.

3. Sector Focus:

- **Sector-Specific REITs:** Many REITs specialize in specific sectors such as residential, commercial, healthcare, or industrial properties. When comparing REITs from different countries, it's essential to compare the same sectors, as this will provide more relevant insights. For example, a healthcare REIT in Germany may have different growth potential than a commercial REIT in the UK, even though both operate in the real estate sector.

4. Currency Risk:

- **Exchange Rate Fluctuations:** For international investors, currency risk is an important aspect to consider when investing in REITs from different countries. Exchange rate fluctuations can significantly impact investment returns, especially in countries with more volatile currencies.

Benefits of Comparing REITs Across Countries

- **Diversification:** One of the main benefits of comparing REITs from different countries is the ability to diversify an investment portfolio. By spreading investments across multiple real estate markets, investors can reduce their exposure risk to a single country or market.
- **Strategic Insights:** Understanding the performance of REITs in different countries can provide investors with valuable insights into global real estate Some basic features include the requirement to distribute a significant portion of income as dividends and a focus on real estate investments.
- **Performance Benchmarking:** Comparing REITs can help investors establish a performance standard across markets, identifying regions or sectors with greater growth potential or better market stability.

Challenges in Comparing REITs

- **Data Availability:** One of the main hurdles in comparing REITs across countries is the availability of reliable and consistent data. Not all countries provide the same level of transparency or information about REIT performance, making direct comparisons difficult.
- **Regulatory Differences:** Variations in legal frameworks can also complicate comparisons, as REITs in one country might be subject to different tax rules or distribution requirements than those in another country.
- **Economic and Political Factors:** The economic and political environment in each country can significantly impact the performance of REITs, adding another layer of complexity to comparisons.

Although comparing REITs from different European countries can be challenging due to variations in legal frameworks, market conditions, and economic environments, REITs remain a valuable financial tool for investors. Careful analysis of these factors can provide valuable insights, helping investors diversify their portfolios and seize opportunities in various real estate markets. By considering the specifics and nuances of each market, investors can better assess REIT performance and make informed investment decisions.

Exploring the Potential Benefits for Romania

Currently, developers in Romania heavily rely on traditional financing methods like bank loans or private equity to fund large-scale real estate projects. However, these financing options can be limited, especially for smaller developers or during times of economic uncertainty. A real estate developer is someone who invests in building residential complexes, office buildings, commercial spaces, etc., through a legal entity. For publicly listed real estate developers, the REIT regime could offer financing sources through REIT-type vehicles that could strategically purchase real estate stock at scale. Real estate developers would indirectly benefit from the opportunities these REIT vehicles provide. This process allows them to obtain capital by selling shares, which they can use to develop new projects or acquire existing properties, thus expanding their investment capacity. In markets like Germany and Spain, REITs have played a crucial role in financing commercial real estate development, especially in the retail and office sectors. For Romania, introducing REITs could help finance critical infrastructure projects in urban centers like Bucharest, Cluj-Napoca, and Timișoara, where demand for residential, office, and retail spaces is high.

These financial intermediaries also enable the efficient mobilization of available capital in an economy and provide companies in the field and economic policymakers the opportunity to implement essential public policy objectives for an economy. An example of this is the green transition. According to the Green Deal, one of the sectors most affected by the EU's environmental targets is the real estate sector. In this regard, all built heritage must comply with these environmental standards, according to the European-level schedule. These investments will need to be primarily supported through capital market mechanisms. REIT-type financial vehicles will not only help mobilize capital resources from the local economy but also enforce the technical and environmental standards committed to by Romania.

Furthermore, REITs would allow developers to utilize capital markets to finance long-term projects, reducing their reliance on short-term bank financing. In Spain, for example, the implementation of REITs has facilitated the development of large-scale real estate projects in the hospitality and residential sectors, contributing to the country's overall economic growth. Romania could experience a similar boost in real estate development, especially as urbanization and economic expansion drive demand for new infrastructure.

Expanding investment opportunities for both local and international investors

For local and international investors, REITs present an appealing chance to diversify their investment portfolios. In Romania, the investment scene is relatively limited, with most investors focusing on stocks, bonds, and bank deposits. The introduction of REITs would provide a new asset class, giving investors exposure to the real estate market without the need for direct ownership (DWS, 2024).

Local investors, such as pension funds, insurance companies, and individual investors, would particularly benefit from the stable, income-generating nature of REITs. By law, REITs are required to distribute a significant portion of their taxable income as dividends, usually 90% or more (CG Capital Europe, 2023). This makes them an attractive option for investors seeking consistent income streams, especially in a low-interest-rate environment (Abrdn, 2024; DWS, 2024, 2023; Knisht Frank, 2024, 2024). Additionally, REITs offer liquidity since they are publicly traded on stock exchanges, allowing investors to buy and sell shares ith relative ease compared to direct real estate investments (CG Capital Europe, 2023).

Romania's real estate market is becoming increasingly attractive to international investors. As foreign direct investment (FDI) continues to grow, especially in industries like manufacturing and services, implementing REITs could further boost interest in Romania as an investment destination (CG Capital Europe, 2023). By offering a transparent and regulated vehicle for real estate investments, REITs would enable international investors to participate in Romania's real estate sector, which has seen strong demand in urban centers (Abrdn, 2024; DWS, 2024, 2023; Knisht Frank, 2024, 2024). This could lead to increased capital inflows, fostering further development of the real estate sector and contributing to macroeconomic balance. Romania has a long history of managing a significant current account deficit. Sustainable financing of this deficit is one of the essential prerequisites for maintaining macroeconomic balance and managing currency risk, especially given that we are not members of the Eurozone.

The Benefits of REITs for Small Retail Investors

One of the biggest advantages of REITs is that they make real estate investment accessible to everyone. These structures are designed to give retail investors the chance to enter the real estate market with less capital, allowing them to own shares in large real estate portfolios (such as office buildings, shopping centers, industrial properties, or hotels) that might otherwise be out of reach. According to a 2023 EPRA report, about 38% of REIT shareholders in Europe are retail investors, highlighting their appeal to smaller investors.

For small investors, REITs not only open the door to a sector traditionally reserved for larger investors but also provide a steady income through regular dividend payouts. REITs offer several significant advantages to retail investors. First, they gain access to a professional team that handles every stage of a project's development. This includes initial assessment, legal structuring, financing, asset management, and administration, giving small investors confidence that their investments are managed with expertise and attention to detail. Another major benefit is access to a diversified and proven business model that can withstand and adapt to different phases of the economic cycle, helping to reduce investment risks and providing greater financial stability.

Additionally, retail investors have access to complex structures for financing, utilizing sophisticated financial instruments typically reserved for large investors, but made possible for small investors through REITs. Access to such financial services comes with costs and complexities that traditionally would be out of reach for retail investors. Moreover, REITs offer a stable, consistent income through regular dividend payouts, making them even more attractive to small investors by providing access to a sector traditionally reserved for larger investors.

Specific legislation for REITs requires that at least 90% of annual income be distributed as dividends, ensuring shareholders a constant stream of income. For instance, in the United States, retail investors hold over 45% of all REIT shares, benefitting from their consistent value growth and annual dividends. This structure allows small investors to diversify instantly and protect against the volatility of local real estate markets.

Discussions within the Romanian Real Estate Investors Association (AREI – www.arei.ro) and analysis by EPRA suggest that implementing a legal framework for REITs could enhance Romania's attractiveness to both international and local investors.

In conclusion, the benefits of introducing REIT legislation in Romania are:

1 **Initial Investment Size:** Small investors can enter the real estate market by purchasing REIT shares with a relatively small amount of money, sometimes as little as a few hundred euros. This is different from traditional investments, where the minimum capital for a property can be quite high. REITs democratize the market, providing opportunities similar to those available to large investors, but on a smaller scale.

2 **Access to Diversified Assets:** REITs offer immediate exposure to a wide range of properties (e.g., office buildings, hotels, shopping centers, and industrial spaces) that are spread across various geographic markets. This diversification protects smaller investors from the risk of concentrating their investment in a single asset or sector (Candelon et. al., 2021).

3 **Superior Liquidity:** REIT shares can be bought and sold on stock exchanges like traditional stocks, allowing investors to access their capital quickly. Unlike real estate properties, where the sales process can take months and involve high costs, REITs offer liquidity that lets investors convert assets to cash in just a few days. In 2023, the average daily trading volume of European REITs increased by 15% compared to the previous year, indicating high liquidity in developed markets. Additionally, a study analyzing 440 REITs from 1980-2015 highlighted that REITs show a negative sensitivity to market liquidity shocks, meaning that when overall market liquidity decreases, REIT prices tend to rise compared to other stocks. This feature makes REITs a safer investment vehicle during times of financial volatility, offering a competitive edge over other real estate companies that lack REIT status. Furthermore, this protection against liquidity risks is consistently observed across various types of properties and is not limited to a particular sector (e.g., office buildings or industrial spaces). (DiBartolomeo et.al., 2021).

4 **Transparency and Strict Regulation:** REITs are regulated entities that must meet strict public reporting standards. Companies are required to publish detailed financial performance information quarterly, including revenue trends and asset prices. This transparency is essential for smaller investors, giving them access to data they might not obtain through direct property purchases. In Europe, legislation stipulates that REITs must hold at least 75% of their portfolio in income-generating real estate assets and distribute 90% of annual earnings as dividends (Legal Badger, 2024).

5 **Stable Income Distribution:** REITs are required to distribute a minimum percentage of their taxable income to shareholders, ensuring a steady flow of dividends. For example, in the United States, the requirement is 90% of taxable income, while in Belgium, RRECs must distribute 80% of the adjusted net result. In France, the SIIC regime mandates the distribution of 95% of rental income and 70% of capital gains, and in Germany and Spain, regulations require a distribution of at least 90% of profits.

In Eastern Europe, regulations for REITs are similar but differ from country to country. In Bulgaria, REITs must distribute 90% of their adjusted annual profit, while in Hungary, the requirement is to distribute 90% of net income. Poplots is implementing emerging legislation that mandates the distribution of 80% of taxable income, and in Romania, although there isn't specific legislation for REITs, similar vehicles are required to provide an attractive return by distributing most of their income, ensuring stability for investors (PWC, 2019).

6 **Accessibility for Low-Risk Investors:** Small investors, who are often more conservative, benefit from protection against market volatility through automatic diversification and stable dividends. Unlike direct investments, which carry high risks, REITs minimize exposure through diversification and strict regulations. According to Nareit, in 2023, 68% of retail shareholders viewed REITs as a stable component of their long-term portfolios, favoring them over other stocks (Nareit, 2023).

7 **Reduced Trading Costs:** Trading REITs on exchanges involves brokerage costs between 0.1% and 0.3%, compared to the high fees for buying and selling real estate (3%-5% of the property's value). Additionally, there are no notary fees, registration taxes, or other associated administrative costs (Ryu et.al., 2021).

The Positive Impact of REITs on State Tax Revenues and the Capital Market in Romania

Implementing a legislative framework for REITs would not only stimulate the development of the capital market and attract new investments but also bring significant tax benefits to the Romanian state. Although REIT structures benefit from advantages such as exemption from profit tax at the entity level, they can generate more revenue for the state budget in the long term through multiple indirect channels. It's crucial for political stakeholders to understand that this tax structure will not decrease state revenues but, on the contrary, will increase them through the following financial means:

Romania is generating new investment opportunities by implementing REIT legislation (real estate investment trusts) – ARENA Construction – news on construction, investments, prices, housing, infrastructure

Investing in REITs: How to Play in the Real Estate League 'from the Sidelines' (capital.ro)

1 **Boosting Tax Collection:** Introducing REITs in Romania could enhance tax compliance in a market that struggles with it, thereby improving tax collection rates. Romania faces systemic issues in this area, with budget revenues around 27% of GDP compared to the European average of 43%. A major factor is the under-taxation of the economy and the VAT collection gap. Implementing REITs could help address these issues by increasing budget revenues through better tax collection, especially in sectors like real estate, where tax compliance is a significant challenge.

2 **Increasing Dividend Tax Revenue:** REITs are required to distribute at least 90% of their taxable income as dividends, meaning both small and large investors pay dividend tax to the state. In Hungary, for example, this structure has created a steady flow of additional tax revenue, supporting long-term budget stability (Feng et al., 2007).

3 **Attracting International Investments and Creating New Revenue:** In Hungary, where REITs were implemented starting in 2011, international investments surged to EUR 2 billion within a few years. This led to significant increases in revenue from related activities, such as transaction fees, income taxes, and corporate taxes, and created over 15,000 jobs. In Belgium, introducing a legislative framework for REITs resulted in additional tax revenue, supported by steady growth in real estate portfolios and income from dividend and transaction taxes (Beracha et al., 2019).

4 **Stimulating the Real Estate Market and Generating Transaction Taxes:** According to the EPRA report (2024), in countries that have implemented REIT frameworks, real estate transaction volumes increased by an average of 30% in the first five years, leading to higher revenues from property taxes and notary fees. This demonstrates that REITs not only attract investors but also boost economic activity in related sectors, such as construction and financial services (Huerta, 2024).

5 **Reducing Dependence on Bank Financing and Enhancing Economic Stability:** REITs provide an alternative to traditional financing, allowing real estate companies to fund themselves through the capital market, thus reducing pressure on the banking sector (Amihud & Li, 2006).

6 **Increasing Liquidity and Improving Market Transparency:** Establishing a legislative framework for REITs would encourage the development of a more liquid and transparent real estate market. For example, in Hungary, foreign investment volumes increased by about 18% in five years after a solid REIT legislative framework was established, according to EPRA (2023). This growth has improved the visibility and attractiveness of the real estate market for investors.

In countries like the UK and Germany, the introduction of REITs has significantly increased market liquidity, allowing investors to trade real estate assets more easily (DWS, 2024). REITs have also attracted a wide range of investors, from retail to institutional, boosting trading volumes and market activity. For Romania, adding REITs to the Bucharest Stock Exchange (BVB) would provide a much-needed boost to market liquidity, making the exchange more appealing to both local and international investors. Moreover, the introduction of REITs could lead to a broader restructuring of Romania's capital markets, encouraging the development of other real estate-related financial products, such as mortgage-backed securities or covered bonds. This would further diversify the country's financial markets and offer investors additional opportunities to gain exposure to the real estate sector (DWS, 2024).

Benefits for Financial Institutions

REITs offer a wide range of benefits for financial institutions, making them an invaluable tool for diversifying and optimizing investment portfolios. These benefits are particularly relevant in a constantly changing global economic environment, where financial institutions seek efficient solutions for risk management, maximizing returns, and meeting environmental, social, and governance (ESG) requirements. Here is a detailed overview of the main benefits REITs bring to financial institutions:

1 Risk-Adjusted Performance

Financial institutions constantly face the challenge of balancing risk and return. REITs offer solid risk-adjusted performance, especially in volatile market conditions. REITs often outperform other private real estate investments and the stock market during recessions. Historical analyses, such as studies by Nareit, have shown that REITs generated average annual total returns of 22.7% in the four quarters following recessions, compared to 5.2% for the NFI-ODCE index and 8.2% for the Russell 1000 index. This ability to perform in uncertain times makes REITs an attractive long-term investment.

2 Diversification

Diversification is a key component of any successful investment strategy. REITs offer excellent diversification not only in traditional real estate portfolios but also provide access to emerging sectors that are often unavailable through private real estate investments. These 'next-generation sectors' include data centers, telecommunications towers, single-family rentals, and life sciences, all of which are rapidly growing and offer attractive returns. REITs enable financial institutions to complement their existing portfolios and reduce their exposure to traditional real estate sectors, such as offices, apartments, and retail spaces, which have a high concentration in private real estate portfolios.

3 Liquidity

One of the biggest challenges for financial institutions investing in real estate is the inherent liquidity of these assets. Traditional real estate investments are typically long-term and cannot be quickly liquidated without incurring significant financial losses. In contrast, REITs, being listed on stock exchanges, provide instant liquidity. This allows financial institutions to quickly adjust their portfolios based on market conditions and short, medium, and long-term strategies, offering increased flexibility and control over their assets.

4 Income with Inflation Protection

REITs generate stable rental income, making them highly attractive to institutional investors seeking a consistent source of cash flow. Additionally, rents charged by REITs are often adjusted for inflation, thus protecting financial institutions from the adverse effects of rising inflation. In the current context, with rising inflation rates in many global economies, REITs provide an effective solution for maintaining inflation-adjusted income.

5 Attractive Returns

REITs have a proven track record of generating attractive long-term returns, both through capital appreciation and dividend distribution. By law, REITs are required to distribute at least 90% of their taxable income as dividends, making them appealing to investors seeking steady income sources. Furthermore, during periods of economic turbulence, REITs have shown the ability to outperform private real estate markets and other asset classes, offering financial institutions an opportunity to achieve superior long-term returns.

6 Arbitrage Between Listed and Unlisted Real Estate

In recent years, there's been a significant gap between the valuations of listed and unlisted real estate, creating unique opportunities for institutional investors. In 2023, the valuation gap reached 38%, marking one of the largest discrepancies recorded. This arbitrage presents a chance for financial institutions to strategically allocate capital to REITs and benefit from their attractive valuations and growth potential.

7 Access to Emerging Sectors and Portfolio Modernization

Financial institutions are increasingly using REITs to enhance their existing real estate portfolios, providing access to 'next-generation' sectors not available in traditional real estate. These sectors include data centers, telecom towers, single-family rentals, and life sciences. The listed real estate sector has evolved faster than the private sector to adapt to economic shifts and technological advancements, allowing institutions to modernize their real estate portfolios through REITs.

8 High Standards in ESG and Sustainability

REITs have made significant progress in implementing ESG (environmental, social, and governance) standards, an increasingly important factor for financial institutions seeking sustainable investments. Over two-thirds of the largest 100 REITs own LEED-certified or other green-certified buildings and publish clear sustainability goals. These ESG commitments not only enhance long-term financial performance but also attract investors who prioritize sustainability.

9 Geographic Diversification and Global Exposure

REITs provide financial institutions the opportunity to diversify their portfolios geographically without requiring a physical presence in various international markets. Currently, there are over 865 listed REITs with a combined market capitalization of approximately $2.5 trillion across more than 40 countries and regions. This global diversification offers institutions efficient and cost-effective access to international real estate markets.

10 Flexibility and Adaptability to Market Changes

Financial institutions value REITs for the flexibility they offer in investment portfolio composition. REITs allow for quick adjustments in exposure based on economic and market conditions, providing institutions a way to optimize asset allocation according to current opportunities and risks.

General Economic Benefits for Romania (PWC, 2024)

The broader economic benefits of introducing REITs in Romania are substantial. Beyond boosting liquidity and investments in the real estate sector, REITs could lead to job creation, particularly in construction and property management. In Spain, for example, the implementation of REITs contributed to a construction boom, creating thousands of jobs (CBRE, 2024b; CG Capital Europe, 2023). Romania, with its growing urban centers and increasing demand for residential and commercial properties, is likely to see similar trends.

Moreover, introducing REITs could enhance transparency and professionalism in Romania's real estate market. By listing real estate assets on the stock exchange, developers would be subject to stricter eporting and regulatory requirements, potentially improving governance and reducing the risks associated with real estate investments (DWS, 2024). This increased transparency would make the Romanian real estate market more attractive to both local and international investors, further boosting investment flows (CG Capital Europe, 2023).

Ultimately, REITs could contribute to Romania's long-term economic growth by providing a stable funding source for infrastructure development. As urbanization continues to drive the demand for new housing, office spaces, and commercial developments, REITs could play a critical role in financing these projects, thereby supporting Romania's broader economic development goals.

Conclusions:
Why Romania Needs REITs

Although Romania's real estate sector significantly contributes to the GDP, it is underrepresented in capital markets compared to other European countries. For instance, according to the '2022 Portfolio Analysis' report, even though Romania's real estate sector has played a key role in the national economy, its presence in the FTSE EPRA/Nareit Emerging Markets Index was only 1.6% (EPRA, 2023, 2022). In contrast, markets like Mexico and Poplots, which have implemented REIT frameworks, have successfully integrated their real estate sectors into their financial systems.

This disparity cannot be solely explained by the lack of appropriate legislation. Another crucial reason is that many players in Romania's real estate sector do not meet the necessary conditions for listing on the capital market, such as having negative equity or inadequate financial structures. Introducing REITs could improve the representation of Romania's real estate sector by offering regulated and accessible financial solutions to facilitate its integration into the capital market. Currently, the Romanian real estate market is only marginally present in the global market capitalization, despite the sector's economic importance. In contrast, Germany, through the use of REITs, has significantly increased the share of its eal estate sector in market capitalization relative to GDP.A crucial element for introducing REIT legislation in Romania is the protection of retail investors. It's important to note that REITs offer transparency to investors, have specialized teams in real estate investments, clear risk management strategies, and provide superior returns due to diversification, strategies, and invested amounts. Investing in REITs is much safer than direct real estate investment.

Regarding transaction volume, cities like Bucharest recorded 103,454 real estate transactions in 2024, marking a modest 3% increase from the previous year. Similarly, Cluj-Napoca recorded 27,893 apartment sales transactions (EPRA, 2023a; Real Estate Statistics, 2024b). Despite these positive trends, the absence of REITs limits the real estate sector's ability to access more diversified and structured investment flows.

Although Romania's real estate market is experiencing growth, it remains fragmented and lacks the financial mechanisms necessary to fully capitalize on its potential. Bucharest recorded a 13% increase in sales of , apartments are priced with an average of 2,300 euros per square meter (2024).

Similarly, Cluj-Napoca, driven by its growing tech industry (up 3% from the previous year), boasts some of the highest property prices in Romania, with an average cost of 2,500 euros per square meter (Real Estate Statistics, 2024).

Despite this, Romania's real estate sector is not fully integrated into its financial markets. This has resulted in a situation where the contribution of the real estate sector to GDP is not reflected in the stock market. By introducing REITs, Romania could follow the path of other emerging markets like Mexico, where this has enhanced market liquidity and attracted direct foreign investments.

Establishing a REIT framework in Romania is crucial for several reasons.

Firstly, it would help integrate the real estate sector as a significant part of Romania's financial markets. In contrast to countries like Poplots, which benefit from a more developed and integrated real estate sector in the capital market, Romania is still underrepresented in this area. Implementing REITs could reduce this gap by facilitating the listing of real estate assets on the Bucharest Stock Exchange (BVB) and providing investors access to a new class of liquid assets (CBRE, 2024a, 2024c).

Additionally, REITs could offer a way to channel both domestic and foreign capital into Romania's growing real estate market, thus increasing access to capital for developers and expanding the range of financing options available for the sector. As seen in the United States, where REITs represent a significant portion of real estate investments, this structure allows developers to pool resources and diversify risk, which can be particularly beneficial in markets like Romania, where traditional financing options may be limited. Furthermore, the introduction of REITs could create opportunities for retail investors to participate in large-scale real estate projects that were previously accessible only to institutional investors.In terms of economic development, REITs have proven to be a catalyst for job creation, especially in the construction and property management sectors. In Spain, for example, implementing REITs boosted the construction of residential and commercial properties, leading to an increase in jobs in these industries (CG Capital Europe, 2023). Romania, with its expanding urban centers and growing demand for residential and office spaces, will benefit from similar trends, potentially leading to sustained economic growth in the real estate and construction sectors.

Lastly, the introduction of REITs would align Romania with international financial standards, enhancing its appeal as a destination for global investments. As Romania continues to integrate with the European Union's financial markets, adopting REITs could signal a commitment to modernizing its financial infrastructure, thereby attracting more direct foreign investments. This move could also increase the stability of Romania's market by providing long-term investment opportunities that are less vulnerable to short-term market fluctuations.

The absence of REITs in Romania represents a missed opportunity to enhance market transparency, increase liquidity, and attract both local and foreign investors. Implementing a REIT legislative framework would allow Romania to bridge the gap between the economic contributions of its real estate sector and its representation in capital markets. By offering a regulated and transparent investment vehicle, REITs could unlock new capital sources, stimulate economic growth, and position Romania as a competitive player in the global real estate market.

Poplots, which has implemented various real estate investment tools and attracted significant foreign investments, serves as a case study.

The Polish real estate sector has seen significant growth, driven by both domestic demand and international investments. In this environment, the presence of REITs has made the real estate market more liquid and transparent. Hungary has also experienced a similar trend, with its real estate sector boosting growth in key cities like Budapest, where international capital has flowed into residential and commercial projects (CBRE, 2024a; Global Property Guide, 2024). Romania could follow a similar path, with the introduction of REITs potentially increasing the real estate sector's share of GDP.

Evidence from both developed and emerging markets suggests that adopting REITs could significantly enhance the financial performance of real estate companies in Romania, increase stock market capitalization, and reduce systemic risk by diversifying funding sources. Romania's growing cities, such as Bucharest, Cluj, and Timisoara, stand to benefit from this framework, which would encourage greater participation from institutional investors and increase the real estate sector's visibility in capital markets.

However, successfully implementing a REIT framework in Romania will require a well-structured legislative and regulatory environment. Lessons from other European markets suggest that providing clear tax incentives, ensuring transparency, and offering robust regulatory oversight are essential to attracting investors and promoting a thriving REIT market. By adopting these best practices, Romania can position itself to reap the economic and business benefits of REITs.

Case Study: Hungary and Poplots

Hungary: The Success and Ongoing Growth of REITs

1 Hungary's Real Estate Market Before REITs

Before REITs were introduced in 2011, Hungary's real estate market heavily relied on bank financing, and there were limited options for liquid investment vehicles in real estate. Large-scale developments were typically funded through loans, making the sector highly vulnerable to economic downturns.

Investors, especially small-scale individual and institutional investors, had limited opportunities to invest in large commercial properties. (DWF, 2024; Hungarian Government, 2024; Loyens & Loeff, 2024)

2 The Legislative Framework for REITs in Hungary

Hungary enacted REIT legislation in July 2011, setting clear rules for REITs to operate as publicly traded companies, with strict profit distribution and asset management requirements. Hungarian REITs must:

- hold at least 25% of their shares in public ownership;
- distribute at least 90% of their distributable profit as dividends within 15 days of approving their annual report;
- maintain a portfolio with at least 70% of assets in real estate, with no more than 20% invested in a single property.

These regulations have created an attractive investment vehicle for income-focused investors. Additionally, Hungarian REITs benefit from substantial tax exemptions, including:

- Exemptions from corporate income tax.
- A reduced transfer tax of 2% for real estate purchases.

(DLA Piper, 2020; Habóczky, 2011; Hungarian Government, 2024; Property Forum, 2020; S&P Global, 2018)

The introduction of REITs in Hungary has had a significant economic impact, contributing to increased liquidity and growth in the real estate sector, especially in Budapest, where the office and retail markets have rapidly expanded. According to data from **Worldwide Real Estate Investment Trust (REIT)** Regimes 2019, REITs have become a crucial tool for attracting foreign investment to Hungary, establishing themselves as an efficient way to finance large real estate development projects. In 2023, REITs managed a significant share of Hungary's commercial real estate market, with a major focus on Budapest, which remains a key hub for office and retail developments.

3 The Economic Impact of REITs in Hungary

The introduction of REITs in Hungary has had a significant economic impact, boosting liquidity and spurring growth in the real estate sector, particularly in Budapest, where the office and retail markets have rapidly expanded. According to the Worldwide Real Estate Investment Trust (REIT) Regimes, REITs have become a crucial tool for attracting foreign investments to Hungary, establishing themselves as an efficient way to finance large-scale real estate development projects (PricewaterhouseCoopers, 2021).

A key aspect of the success of REITs in Hungary is their ability to attract foreign investors. In fact, as of 2021, foreign investments accounted for about 35% of all investments in the commercial real estate sector, with many investors coming from Western Europe and North America. Hungary's competitive tax structure and stable returns from commercial real estate investments were key factors drawing this capital (Cushman & Wakefield, 2023; DLA Piper, 2020). Additionally, the impact on the job market has been substantial.

The expansion of the commercial real estate sector, supported by REITs, has led to significant job growth in various fields, including construction, property management, and financial services. Between 2015 and 2021, it is estimated that over 50,000 jobs were created due to the continuous growth of the sector (PricewaterhouseCoopers, 2021).

Regarding Hungary's housing market, REITs have also played a vital role. In 2023, the value of residential real estate rose by 5%, signaling a strong recovery after the economic slowdown caused by the pandemic. The increased demand for housing, especially in Budapest and its surrounding areas, has led to greater involvement of REITs in providing stable and long-term residential solutions, offering investors opportunities to benefit from this market expansion (Global Property Guide, 2024). These results highlight the importance of REITs in driving economic growth and long-term development of Hungary's real estate sector, both commercial and residential.

4 Lessons from Hungary: A Roadmap for Emerging Markets

Hungary's experience with REITs (Real Estate Investment Trusts) serves as an impressive case study showing how clear regulations and favorable tax treatment can transform a real estate market. Here are some key takeaways:

- **Regulatory Clarity:** Hungary has implemented a clear legislative framework that prioritizes transparency and investor protection. This has created a predictable and attractive business environment for investors. Clear regulations eliminate uncertainties and risks associated with investments, thereby attracting significant capital.

- **Favorable Tax Treatment:** Hungary introduced REITs to tax the economy's revenues, thus reducing tax burdens for investors and encouraging investments. Favorable tax treatment makes investments more profitable and stimulates growth in the real estate sector.

- **Economic Growth:** Through REITs, Hungary has successfully stimulated economic growth. Investments in the real estate sector have led to infrastructure development, job creation, and increased economic activity overall.

Job Creation: The development of the real estate sector through REITs has generated numerous jobs, both in constructions, as well as property management and maintenance. This has positively impacted the economy and the population's standard of living.

Attracting Foreign Investments: A favorable legislative framework and transparency have drawn significant foreign investments in the real estate sector. Foreign investors have been encouraged to invest in Hungary due to their confidence in the legal system and profit opportunities.

Poplots: Growing Demand and Untapped Potential of REITs

1 The Current Market plotsscape in Poplots

Poplots's commercial real estate market is among the largest in Central and Eastern Europe (CEE), with foreign investors holding more than 90% of the sector. Office buildings, shopping centers, and warehouses are mainly owned by investors from the United States, France, and Germany. In 2020, despite the global economic downturn caused by the pandemic, foreign investors poured 5.5 billion euros into Polish commercial properties (CBRE, 2024a, 2023).

In recent years, interest in Polish real estate investments, particularly in the residential segment, has significantly expanded. A recent report indicates that in 2023, investments in the Polish residential sector increased by approximately 12% compared to the previous year. This trend is supported by factors such as rapid urbanization, rising income levels, and the growing demand for new homes. Moreover, the Polish real estate market has attracted increased interest from international investors drawn by the country's economic stability and long-term growth potential. In 2023, foreign direct investments in the Polish real estate sector rose by 15%, reflecting investors' confidence in this market (Colliers, 2023; JLL, 2024). However, Polish investors largely remain excluded from participating in the commercial real estate market due to a lack of accessible financial vehicles. Currently, domestic capital is limited, and only 1% of assets managed by Polish Investment Fund Companies (TFI) are allocated to the real estate sector. (CBRE, 2024a, 2023).

2 Legislative Delays and Regulatory Framework

The introduction of REITs in Poplots has faced significant delays, with legislative discussions starting back in 2016. The main challenge was designing a framework that benefits Polish investors while ensuring tax efficiency. According to the EPRA Global REIT Survey 2024, one of Poplots's major goals was to create a favorable environment that gives investors access to real estate assets with a low initial capital while providing stable long-term returns, similar to what has been achieved in other Central and Eastern European countries (EPRA, 2024a). In 2021, the Polish parliament revisited the decision to regulate REITs, with proposals to exempt real estate income from corporate income tax (CIT) or dividend tax. Despite these efforts, while providing stable long-term returns, similar to what has been achieved in other Central and Eastern European countries (EPRA, 2024a).

Tax Revenue: Poplots loses about €233.57 million annually due to tax optimization strategies used by foreign investors. Introducing domestic REITs could generate significant tax revenue by ensuring real estate profits are taxed within the country (CBRE, 2024a; EY, 2024).

Increased Investment in Commercial Real Estate: With foreign investors controlling most of Poplots's commercial real estate assets, introducing REITs could shift ownership to local investors, creating opportunities for local pension funds and individual investors to benefit from Poplots's booming real estate sector (CBRE, 2024a; EY, 2024).

3 The Economic Impact of REITs in Poplots

If the regulatory framework for REITs were implemented, it's estimated that Polish REITs could capture up to 25% of profits from commercial leasing, translating into tax revenue between €93.43 million and €186.86 million annually. Additionally, it's expected that 30% of these REIT shares would be held by individual investors, providing them with dividends of €28.03-56.06 million per year, which would be subject to local taxes (CBRE, 2024a; EY, 2024).

This shift towards local ownership would represent a significant change for the Polish economy, not only increasing transparency but also allowing Polish investors to benefit from the steady income streams generated by commercial properties, which are largely tax-exempt under current foreign ownership structures.

4 Future Projections for REITs in Poplots

The Warsaw Stock Exchange (WSE) has played a crucial role in coordinating efforts to finalize the REIT framework. As part of this effort, WSE is drawing on successful REIT frameworks from France, Belgium, and Spain, adapting them to the Polish context. Key elements under consideration include:

- Ensuring that REITs primarily focus on commercial properties, given the size and profitability of this sector.
- Introducing preferential tax treatment for REITs, including exemptions from CIT for rental income and dividends.

The Polish Ministry of Finance has also been working to include REITs in broader legislative reforms of corporate income tax and investment fund laws. The ultimate goal is to encourage the development of Polish capital markets and enable individual investors to take advantage of one of the largest and most profitable real estate markets in CEE.

5 Conclusion: Untapped Potential

If implemented, REITs could unlock significant economic potential in Poplots. They would provide investors with regulated and efficient investment vehicles,

From a fiscal perspective, REITs would encourage reinvestment of profits into the Polish economy.

Local investors and pension funds could finally access the commercial real estate market. Poplots could reduce its reliance on foreign capital.

Comparative Lessons for Poplots and Hungary

While Hungary has successfully implemented a REIT framework that has contributed to substantial economic growth, Poplots's REIT market remains underdeveloped due to ongoing legislative delays. However, the potential for REITs to revolutionize Poplots's real estate market is clear. With one of the largest and most dynamic real estate markets in Central Europe, Poplots stands to gain significantly from the introduction of REITs.

In contrast, Hungary's success demonstrates the importance of clear and favorable fiscal policies and robust regulatory frameworks.

By ensuring that REITs are attractive to both domestic and foreign investors, Hungary has created a thriving market that continues to grow and evolve.

The next steps for Poplots will involve finalizing REIT legislation, which could unlock billions of euros in real estate investments, much of which will come from local investors. Both countries highlight the transformative power of REITs in modernizing real estate markets, increasing liquidity, and providing stable returns to investors.

REITs Schemes : Summary comparative 2024

Country	Enactment year	Authorisation	Legal form	Registered seat	Foreign REIT equivalence	Local branch/subsidiary of a foreign REIT	Minimum share sapital	Listing mandatory	Shareholder requirements	Free float requirement	Activity test (including development)	Income test	Leverage	Profit distribution
BELGIUM (B-REIT)	1995	A license from the FSMA is required	Public limited liability company	Statutory seat and general management of the BE-REIT must be located in Belgium	A foreign REIT cannot benefit from a passporting regime	A local branch of a foreign REIT cannot benefit from the regime	The required minimum share capital amounts to EUR 1.20 million	YES	No requirements either for domestic or foreign shareholders	All shares of a Belgian BE-REIT must be listed on a stock exchange, with a minimum of 30% free float	The principal activity must be the active management of real estate assets A maximum of 20% of the total assets can be invested in one real estate project Development allowed but cannot be sold before, during or within 5 years of completion (no promotion)	No requirements	LTV ratio limited to 65% of assets (33% under specific conditions) Interest expenses limited to 80% of the total income Mortgage limited to 50% of the global fair value of the "immovable property" (75% for each "immovable property" mortgaged)	80% of net profit of the operative income to be distributed annually Capital gains are not included in the distribution obligation, provided the capital gains are reinvested within four years
BULGARIA (SPIC)	2003	A license from the FSC is required	Joint-stock company	Registered seat and address of management must be in Bulgaria	A foreign REIT cannot benefit from a passporting regime	A local branch of a foreign REIT cannot benefit from the regime	The minimum share capital requirement for a SPIC is BGN 500,000 (~EUR 255,646)	YES	Maximum 50 founders allowed for a SPIC Same requirements for foreign shareholders	No requirements	Main activity (at least 70% of total assets) is (1) limited to purchasing real estate, carrying out real-estate construction and improvements; and (2) raising funds by issuing securities	The primary business activity (see activity test) must generate a minimum of 70% of the gross proceeds for the respective financial year	Short-term loans cannot exceed 20% of income-generating asset	90% of the net income of the year must be distributed within 12 months following the financial year in which the profit was incurred (6-month interim dividends also possible under certain conditions) Special rules apply for capital gains
FINplots	2010	An application for REIT status must be filed with the Finnish tax authorities	Private or public limited company (only public may be listed)	Must be incorporated in Finplots	A foreign REIT cannot benefit from a passporting regime	No information	The minimum share capital is EUR 5 million	YES	A shareholder should not own 10% or more of the share capital Same requirements for foreign shareholders	No requirements	No other activities than renting of property (at least 80% of total assets) Development for its own account is allowed. Certain ancillary activities permitted	At least 80% of the net income must be derived from the renting of residential property	Total liabilities may not exceed 80% of the total assets	90% of the net income must be distributed for each financial period Realised capital gains included in the distribution obligation
FRANCE (SIIC)	2003	An election letter with the French tax authorities must be filled	No requirement Joint-stock for the parent company or company to be simplified incorporated stock under French company law, but a Partnership permanent limited by establishment is shares required		Possible provided that specific conditions are met	Possible for a subsidiary to benefit from the regime provided that specific conditions are met	The share capital of the listed parent company must amount to at least EUR 15 million	YES	Shareholders must not hold more than 60% of share capital or voting rights except for subsidiaries of a SIIC parent company At the time of the election, 15% of the share capital and voting rights must be held by shareholders, who individually own fewer than 2% Same requirements for foreign shareholders	No specific information other than the 15% requirement at the time of the election outlined in the shareholders' requirements section	Principal activity restricted to property acquisition and/or construction with the aim of renting out the property as well as direct or indirect portfolio investments in partnerships Ancillary activities such as real estate development or brokerage must not exceed 20% of the SIIC's assets gross book value	No requirements	No leverage restrictions but several interest deduction limitation rules may apply	At least 95% of the tax-exempt profits derived from qualifying leasing activities to be distributed before the end of the tax year At least 70% of the capital gains must be distributed before the end of the second tax year 100% of the dividends received from the SIIC's subsidiaries that have elected for the SIIC regime must be distributed before the end of the tax year
GERMANY (G-REIT)	2007	Registration with the Commercial Register is required (for a pre-REIT, registration with the Federal Central Tax Office)	Joint-stock company	Corporate seat and place of management must be in Germany	A foreign REIT cannot benefit from a passporting regime	No information	A G-REIT must have a share capital of at least EUR 15 million	YES	15% of the shares must be widely held by at least 6 shareholders (25% at the time of IPO) A shareholder is not allowed to own directly 10% or more of the shares or the voting rights of the company Same requirements for foreign shareholders	No specific information other than the 15% requirement (25% at the time of IPO) outlined in the shareholders' requirements section	A minimum of 75% of total assets must be immovable property (excluding pre-Jan 1, 2017), with the primary focus on rental activities or immovable property disposal, and secondary activities, like development, permitted through wholly owned subsidiary, not exceeding 20% of gross earnings	At least 75% of its gross earnings must derive from rental, leasing, letting and disposal of immovable property	The equity must equal at least 45% of the total asset value of immovable property	90% of the net income must be distributed until the end of the following business year Up to half of the proceeds from capital gains can be transferred to a reserve (distributable profits to be reduced accordingly)
GREECE (REIC)	1999	A license from the HCMC is required	Public limited company	Statutory seat must in Greece	A foreign REIT cannot benefit from a passporting regime	No information It is worth noting that it is not allowed for any foreign managing company, including an EU-based company, to serve as the manager of a Greek REIC	The required minimum share capital amounts to EUR 25 million	YES	None. It is worth noting that transfer of REIC's real property to shareholders, founders, board members and CEOs and their relatives is forbidden No difference between resident and non-resident shareholders in regard to ownership (status, shareholding percentage, etc.)	No requirements	Main activity (at least 80%) must consist of managing a portfolio of real estate, certain capital means and interests in other SAs who invest in real property Investment in buildings under development is only allowed if the cost of development does not exceed 40% of the REIC's investment assets	No requirements	Overall leverage must not exceed 75% of the REIC's total assets. Leverage linked to development property must not exceed 40% of the value of the real estate under development Specific 10% of the total net equity rule for the purchase of real estate	50% of its annual net profits must be distributed annually No distribution obligation for capital gains Distribution of a smaller percentage or no distribution at all possible pursuant to a shareholders' meeting
HUNGARY (REIT)	2011	Registration at the Hungarian tax authorities is required	Public limited company	Statutory seat must be in Hungary	A foreign REIT cannot benefit from a passporting regime	No information	The minimum share capital is HUF 5 billion (~EUR 13.5 million)	YES	At least 25% of the shares should be owned by minority shareholders (below 5% each) Limitations for banks and insurance companies, and other REITs Same requirements for foreign shareholders	As a general rule, 25% of the shares should be traded on controlled financial markets	The activities of a REIT (at least 70%) or its subsidiary SPV should be limited in the terrirory of Hungary to (1) the sale of their own real estate (2) the rental and operation of their own real estate (3) property management and facility management (4) asset management and (5) real estate project development	No requirements	Debt is limited to 65% of the value of the real estate assets	Expected dividends (stipulated in the deed of foundation) to be distributed annually, 30 trading days after the annual report If expected dividends are not reached, at least 90% of the distributable monetary assets must be distributed If included in the REITs' income, any capital gain realised should be distributed
IREplots	2013	Filing a notice with the Irish Revenue Commissioners is required	Public limited company	The REIT or principal company of a Group REIT must be an Irish tax resident and Irish incorporated company	A foreign REIT cannot benefit from a passporting regime	No specific information It is worth noting that a foreign tax resident company may be considered part of a Group REIT	Public limited companies must have a nominal value of share capital of not less than EUR 25,000	YES	The REIT cannot be a 'close' company, e.g. controlled by five or fewer shareholders, excepted if 35% of voting power are 'held by the public' A single corporate shareholder may not own 10% or more of the shares/voting rights Same requirements for foreign shareholders	No specific information, other than the ones outlined in the shareholders' requirements section	Principal activity must be property rental business (at least 75% of total assets) and must consist of at least three properties. Property development for rental business purposes is allowed Non-property rental business allowed provided that the income test is met	At least 75% of the aggregate income of the REIT or Group REIT must derive from carrying on a property rental business	The REIT or Group REIT must maintain a profit/financing ratio of at least 1.25:1 Debt shall not exceed 50% of the market value of the assets of the REIT/Group REIT	85% of property income must be distributed to shareholders on or before the tax return filing date for the relevant accounting period Capital gains must be reinvested or distributed within 24 months, after which it forms part of property income

Country	Enactment year	Authorisation	Legal form	Registered seat	Foreign REIT equivalence	of a foreign REIT Local branch/subsidiary	Minimum share capital	Listing mandatory	Shareholder requirements	Free Float requirement	Activity test (including development)	Income test	Leverage	Profit distribution
ITALY (SIIQ)	2007	Registration at the Italian Revenue Agency is required	Joint-stock company	Statutory seat must be located in Italy	A foreign REIT cannot benefit from a passporting regime	Possible for a branch to benefit from the regime provided that specific conditions are met	The ordinary listing requirements in respect of share capital are applicable to SIIQs	YES	At least 25% of the shares must be 'widely held' A single shareholder is not allowed to own more than 60% of voting rights and profit participation rights Same requirements for foreign shareholders	25% free-floating threshold (not applicable to companies already listed on regulated markets)	Main activity (at least 80%) must consist of (1) real estate properties to be leased (2) participations accounted as fixed assets in SIIQs/SIIN-Qs/ Italian real estate investment funds whose real estate assets held for lease or participation in those are at least 80% of the total assets. Assets under construction or subject to renovation works included if intended to be leased	At least 80% of SIIQ's income must be (1) proceeds from lease leasing activity (2) dividends from participations in SIIQs/ SIINQs/Qualifying REIFs (3) capital gains realised on the disposal of real estate properties held for lease or of participations in SIIQs/SIIN- Qs/ Qualifying REIFs	The leverage cannot exceed the ratio resulting from the leasing activity must be the company's by-law	70% of net profits deriving from the leasing activity must be distributed annually At least 50% of net capital gains realised on the disposal of real estate properties must be distributed within the two years following the disposal
LITHUANIA	2008	A license from the bank of Lithuania is required	Must be structured as either an investment company or an investment fund, managed by a management company. The management company must possess the legal structure of a joint-stock company, limited liability company, or partnership, depending on the REIT's status	Registered seat and general management must be located in Lithuania	A foreign REIT can be recognised if it adheres to the activity and prudential requirements specified in the legislation of either its home Member State or the third country where the REIT management company operates	A branch can be established locally, but it must adhere to the operational requirements outlined in the legislation of the Republic of Lithuania on general interests	The REIT for non-professional investors, REIT for informed investors and REIT for professional investors are subject to different share capital	NO	No requirements either for domestic or foreign shareholders	No requirements	The REIT for non-professional investors is allowed to invest in plots, buildings and/ or premises constituting separate real estate objects and other tangible assets that are necessary for the operations related to real estate. No more than 20% of its net assets in real estate under development For informed investors, it is required that the investments be made in assets specified within the REIT's establishment documents	No requirements	Leverage for REIT for non-professional investors is limited to 50% of the value of the real estate Leverage conditions for REIT for informed and professional investors specified within the REIT's incorporation documents	No legal requirements for profit distribution The procedure of payment of dividends to investors (periodicity, the share of income allocated for dividends) must be defined in the bylaws or investment rules of the REIT
NETHER-plotsS (FBI)	1969	Application for the FBI regime through election in the corporate income tax return is required	(1) Dutch public limited liability company (NV) (2) Dutch private limited liability company (BV) (3) Open-ended mutual investment fund (4) Comparable (FGR) foreign legal entity	Comparable foreign legal entities are not required to have Dutch residency, but they should be liable to Dutch corporate income tax	Possible provided that specific conditions are met	Possible for a branch to benefit from the regime provided that specific conditions are met	Minimum capital requirements do follow Dutch company law and are as follows for the various Dutch entities: BV: none NV: EUR 45,000 FGR: none	NO Not required but offers less restrictive shareholders requirements	If entity listed or regulated: (1) a single corporate entity must not possess 45% or more of the shares (2) one single individual may not hold 25% or more of the shares. If not listed or licensed: (1) individuals/non-taxable corporate entities/ regulated FBIs must own at least 75% of the shares in the FBI (2) one single individual may not hold 5% or more of the shares. In both cases: Dutch corporate entities may not own 25% or more of the shares in the FBI via foreign entities Same requirements for foreign shareholders	No specific information, other than the ones outlined in the shareholders' requirements	Following the recently proposed introduced rules, an FBI will no longer be allowed to invest directly in Dutch real estate as of 1 January 2025. An FBI would still be allowed to invest directly in non-Dutch real estate as well as in shares in a regularly taxed subsidiary that owns real estate An FBI is still allowed to hold a regularly taxed subsidiary engaged in real estate development. However, such development company may no longer develop Dutch real estate for the benefit of the FBI	No requirements	60% of the tax book value of directly/ indirectly held real estate 20% of the tax book value of all other investments	100% of taxable profit must be distributed within eight months after the end of its financial year Capital gains/losses can be allocated to a tax-free reserve and therefore be excluded from the taxable profit of the FBI and not be subject to the profit distribution obligation
PORTUGAL (SIGI)	2019	The regime becomes applicable to the company automatically fulfillment of upon the legal requirements	Private limited liability companies by shares	Head office must be in Portugal	A foreign REIT cannot benefit from a passporting regime	Possible for a subsidiary to benefit from the regime provided that specific conditions are met	Minimum share capital of EUR 5 million	YES	Credit institutions, including banks, are only allowed to hold SIGI participations above 25% for a maximum of three or five years Same requirements for foreign shareholders	At least 20% of SIGI's shares must be held by investors with less than 2% voting rights (first three years) Increase to 25% (by the end of the fifth year) Additional free float requirements may vary based on the stock exchange rules	At least 80% of the total assets must comprise the value of rights over real estate assets and holdings and at least 75% of the total assets must comprise the value of rights over real estate assets subject to a lease SIGIs can also invest in development and urban regeneration projects	No requirements	A SIGI's indebtedness shall not exceed, at any time, 60% of the SIGI's total assets	90% of profits from dividends on shares or income from participation units must be distributed within nine months following the conclusion of each fiscal year At least 75% of the remaining distributable profits of the financial year must be distributed 75% of the net proceeds from the sale of assets allocated to the core corporate purpose must be reinvested within three years
SPAIN (SOCIMI)	2009	Notification to the Spanish tax authorities of the decision to apply for the SOCIMI regime, as adopted by the general shareholders' meeting, is required	Listed joint-stock corporation	Statutory seat must be located in Spain	A foreign REIT cannot benefit from a passporting regime	Possible for a subsidiary to benefit from the regime provided that specific conditions are met	Minimum share capital of EUR 5 million	YES	No specific requirements either for domestic or foreign shareholders	Different free float requirements to apply depending on the listing system	At least 80% of the SOCIMI's assets shall consist of (1) urban real estate for rental purposes, plots destined to the development of the real estate for rental purposes (2) holding of shares of other SOCIMI or non-resident REITS with a similar corporate purpose (3) holding of registered shares in the capital stock of Sub-SOCIMI. Ancillary activities allowed if less than 20% of the total SOCIMI's revenues	At least 80% of the SOCIMI's revenue must derive from (1) the lease of qualifying assets or from dividends distributed by qualifying subsidiaries (2) the dividends distributed by qualifying subsidiaries	No restrictions	80% of the profits obtained from rental income and ancillary activities must be distributed within six months of the financial year-end 100% of profits from dividends distributed by qualifying entities must be distributed within one month At least 50% of profits from real estate asset transfers while the remaining 50% must be reinvested in qualifying assets within three years
UNITED KINGDOM	2006	Filing an election before the conversion takes place is required	Listed closed-ended company	No requirement as to where it is incorporated UK tax residency for the parent company and no tax residency in other jurisdictions. Subsidiaries may have tax residency outside the UK	A foreign REIT cannot benefit from a passporting regime	No specific information It is worth noting that it is possible for a subsidiary to be a member of the UK REIT group provided that specific conditions are met	Normal listing requirements apply for the respective stock exchange where the shares are listed	YES Not mandatory if at least 70% of the shares are owned by one or more institutional investors	A UK REIT cannot be a 'close company', e.g. controlled by five or fewer shareholders. If at least 35% of the shares are owned by the public, not considered as a 'close company' Potential penalties if a single corporate shareholder owns 10% or more of the shares/ voting rights No restrictions for foreign shareholders	No specific information, other than the ones outlined in the shareholders' requirements	At least 75% of a REIT's assets must be used in the property rental business Development by the UK REIT for investment on its own account is permitted Other activities are permitted subject to these restrictions	At least 75% of a REIT's net profits must be derived from the property rental business	Interest expense is limited by the Financing Cost Ratio	90% of tax-property rental profits must be distributed within 12 months of the end of the year Where a REIT invests in another REIT, 100% of PIDs (Property Income Distribution) from other REITs must be distributed within 12 months of the end of the accounting period Capital gains are not included in the distribution obligation

Sursă: (EPRA, 2024b)

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