

Chapter 8

The French REIT Market: The SIIC Regime

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8.1 Introduction

The French REIT or SIIC (Société d'Investissement Immobilier Cotée) regime was introduced in France in 2003. At that time, France was the third country in Europe to follow the US REIT model, after the Netherlands (FBI in 1969) and Belgium (SOCAFI in 2003). Until then, most real estate investment vehicles were not listed. The regime has helped France's listed property sector to grow rapidly, and the number of listed property companies who have opted for the SIIC regime has increased fourfold, from 11 in 2003 to 48 between 2003 and 2008, before the current financial crisis. Since then, consolidation of the SIIC industry has taken place through mergers. The number of SIIC has fallen from 48 to 38.

For the real estate industry, the aim in 2002 was to provide the Paris financial sector with a vehicle to facilitate the financing of non-residential real estate. But the objective was also to respond to the competitive development – and pre-eminence in the French real estate market – of foreign real estate funds at the end of the 1990s. Some major opportunistic investment funds, mainly created and managed by US investment banks, were very active at that stage in the Paris region, becoming the main investors in the commercial real estate market (Federation des Societes Immobilières (FSIF 2007)).

The rapid growth of the sector in the 2000s has contributed positively to the performance of the Paris stock market. Figures from the IEIF (Institut de l'Épargne Immobilière et Foncière) show that the market capitalisation of the SIIC sector increased fivefold from €11.1 billion in 2003 to €53.9 billion at the end of December 2007. Today, with a market capitalisation of close to €48.2 billion at the end of December 2012, the capitalisation of the 38 SIIC exceeds that of real estate companies on the London Stock exchange (PwC 2012a, b). These vehicles represent the second largest property commercial portfolio owned by listed

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property companies in Europe after the UK. Today, SIIC represent 3.5 % of the total Paris Stock Exchange market capitalisation, compared with 1.21 % in 2003 when the regime was introduced. These capitalisation levels, considered as high in Europe, remain relatively low however when compared to those encountered in some Asian/Pacific countries such as Singapore, Japan or Australia (where listed property companies may represent 10–30 % of total stock exchange capitalisation) or even Hong-Kong (45 %).

SIICs are today the key actors in major urban development programs and large-scale project such as the renovation of La Defense business district, the urban renovation of Lyon and Marseille, or the Forum des Halles in Paris.

8.2 The SIIC Regime

The French SIIC regime, created in 2003 upon the initiative of the French federation of the listed real estate companies (“Fédération des Sociétés Immobilières et Foncières” – FSIF) allows listed property companies, under certain conditions, to elect for exemption from corporate income tax and capital gain income (Baker and McKenzie 2013). To qualify, SIICs are *inter alia* required to distribute each year their profit as dividend. At least 85 % of the current profit derived from property rental activities must be distributed before the end of the following fiscal year, and 50 % of any capital gains realised on sale of properties before the end of the second year.

The tax transparent regime is available to companies listed on a French regulated stock market, with a minimum share capital of €15 million and whose primary purpose is the acquisition or ownership of rental property. Companies fulfilling these two criteria and whose corporate purpose includes holding/controlling direct/indirect interests in rental property investment or development companies that are themselves tax-transparent or have opted themselves for SIIC status, are also eligible. Dividends received from subsidiaries that have elected to be taxed as SIIC must be redistributed in full before the end of the following year. The regime was also considered to be favourable since capital gains realised within a SIIC were taxed at a rate of 16.5 % (rather than 33.33 %) and at 19 % since SIIC5.

Since its introduction in 2003, the regime has been significantly improved, completed and extended by many tax amendments referred to as SIIC 2, SIIC 3, SIIC4 and (in 2008) SIIC 5. The amendments in the 2004, 2005, 2006 and 2008 Finance Acts include fiscal incentives for corporate property owners to sell their real estate assets to SIICs and certain other unlisted property funds. SIIC 3, introduced in December 2005, extended the regime to transactions concerning the sale of SPVs holding property or rights associated with property lease-financing (credit-bail).

Following the success of SIIC 3, SIIC 4 was introduced in an amendment to the Financial Bill for 2006. It includes several provisions which amended the SIIC regime with the aim of diversifying control of the capital of a SIIC, and thus

avoiding the creation of captive SIIC with a single controlling shareholder. SIIC 4 limits the direct or indirect participation of any single shareholder to 60 % of the company capital (to be completed before end 2008), and imposes a minimum free float of 15 % at the time of an IPO. This measure very clearly targets those SIICs created by institutional investors solely for fiscal reasons, as opposed to the economic goals originally promoted by the government and the FSIF (French listed property Federation). On a fiscal level, the new amendment seeks to guarantee effective payment of tax by all French or foreign shareholders in the capital of a SIIC. It thus targets those accumulating tax breaks on both sides of international borders. This includes, for example, Spanish investors benefiting from their reciprocal tax agreement with France, and funds located in Luxemburg or other tax shelters. Finally, a provision introduced by SIIC 4, encourages SIIC companies to invest in a new category of real estate assets: hotels, cafés, and restaurants.

SIIC 5, introduced by the Finance Bill for 2009, has led to major changes in the SIIC regime. It has postponed the entry into force of the 60 % shareholding threshold, increased the 16.5 % exit tax rate up to 19 %, modified rules applicable to exit from the SIIC regime, increased the 16.5 % exit tax rate up to 19 %, and extended the scope of the SIIC regime (Baker and McKenzie 2013).

These progressive SIIC reforms have encouraged corporate owners, notably those with property held on their balance sheet for a number of years and which would generate significant capital gains on resale, to re-cycle their real estate assets to SIIC under a favourable tax regime. In doing so these companies can avoid the normal corporate tax of 33 % on capital gains, by paying an ‘exit’ tax of 16.5 % before SIIC5, increase to 19 % since the new regime (gains are taxed at the reduced rate provided that the acquiring entity undertakes to keep the asset for at least 5 years), and distributing 50 % of any capital gain on property sales within 2 years. Such a change has facilitated property outsourcing by industrial and service companies and created significant opportunities for them to spin off real estate assets into SIIC.

Certain corporates have also set up their own SIIC – for example the French retailer Casino which created a captive SIIC (Mercialys) in 2005 to hold its retail property portfolio. Mercialys’s assets comprise a portfolio of well-located shopping centres, most of which are adjacent to hypermarkets and supermarkets owned by the Casino group. The assets represent a total of 147 locations throughout France, and a total around 547,000 square metres of gross lettable area.

Since 2003, the SIIC sector has expanded and diversified in successive waves (FSIF 2013). The first wave included 11 property companies which opted for the SIIC tax status as from fiscal 2003. These were principally the largest existing French listed companies such as Unibail or Klépierre. In 2004, seven new SIIC were created and in 2005, ten further property companies joined the regime, including a number set up by corporates (Mercialys or Foncière des Murs for example) via the SIIC 3 amendment. The wave of options and introductions accelerated in 2006 and 2007, with 16 and 14 new SIIC respectively. Since 2008, five more property companies have opted for the SIIC status. Due to the last

Table 8.1 Updated list of French listed property companies and their conversion to the SIIC regime

SIIC		Conversions to SIIC
<i>AFFINE R.E.</i>		2003
<i>FONCIERE DES REGIONS</i>		2003
<i>GECINA</i>		2003
<i>ICADE</i>		2003
<i>KLEPIERRE</i>		2003
<i>SILIC</i>		2003
<i>SOCIETE FONCIERE LYONNAISE</i>		2003
<i>UNIBAIL-RODAMCO SE</i>		2003
<i>ADC SIIC</i>		2004
<i>FONCIERE PARIS NORD</i>		2004
<i>SIIC DE PARIS</i>		2004
<i>TOUR EIFFEL</i>		2004
<i>ACANTHE DEVELOPPEMENT</i>		2005
<i>ALTAREA-COGEDIM</i>		2005
<i>FONCIERE DES MURS</i>		2005
<i>MERCIALYS</i>		2005
<i>ANF IMMOBILIER</i>		2006
<i>CEGEREAL</i>		2006
<i>EUROSIC</i>		2006
<i>FDL</i>		2006
<i>IMMOBILIERE DASSAULT</i>		2006
<i>KLEMURS (radiée en mars 2013)</i>		2006
<i>PAREF</i>		2006
<i>FONCIERE PARIS FRANCE</i>		2006
<i>ZUBLIN IMMOBILIERE FRANCE</i>		2006
<i>ARGAN</i>		2007
<i>BLEECKER</i>		2007
<i>FONCIERE ATLAND</i>		2007
<i>FONCIERE DES 6e et 7e ARR. DE PARIS</i>		2007
<i>FONCIERE INEA</i>		2007
<i>SCBSM</i>		2007
<i>SELECTIRENTE</i>		2007
<i>TERREIS</i>		2007
<i>FREY</i>		2008
<i>MRM</i>		2008
<i>CFI - Compagnie Foncière Internationale</i>		2009
<i>FONCIERE SEPRIC</i>		2009
<i>PATRIMOINE ET COMMERCE</i>		2011
Pan European SIICs		
<i>HAMMERSON</i>	UK	2004
<i>WERELDHAVE</i>	NL	2004
<i>CORIO</i>	NL	2005
<i>EUROCOMMERCIAL PROPERTIES</i>	NL	2005
<i>VASTNED RETAIL</i>	NL	2005
<i>WAREHOUSE DE PAUW</i>	BE	2005

(continued)

Table 8.1 (continued)

SIIC		Conversions to SIIC
MONTEA	BE	2007
SEGRO	UK	2007
COFINIMMO	BE	2008

Source: IEIF-FSIF (2013)

financial crisis of 2008, there has been a high concentration of SIIC's which has modified the SIIC panorama by reducing the total number of SIIC to 38 (Table 8.1).

The capitalisation and the free float of the 38 French SIIC at the end of 2012 are exhibited in Table 8.2. At this time the three largest SIIC exceeded €5 billion market capitalisation on the Paris Stock Exchange. These three French companies were also in the top five European REITS in 2012, with Unibail-Rodamco (€16.7Bn) taking pole position ahead of the British property company Land Securities (€7.4Bn) in terms of capitalisation.

8.3 Positive Effects of SIIC Regimes

Based on data collected by IEIF, the FSIF has recently drawn up an economic, fiscal and social assessment of the SIIC system. One key finding of this analysis has been to demonstrate the capacity of SIIC to raise new finance through the stock market. Over the period 2004–2007, SIICs raised some €3 billion in fresh equity capital. This represents an efficient source of funding, not only for their own development, but also for corporates in other sectors of the economy which have been able to unlock capital by recycling their real estate assets to the SIIC. The year 2007 was a very active year for the SIICs which raised some €4.8 billion in the stock market, ten times more than the €216 million raised in 2003 (Fig. 8.1). For the same year, close to €2.8 billion was raised from new stock market listings, and more than €1.1 billion was raised through other market operations, principally capital increases by existing companies (€1.138 billion). The capital raised represented over half of the total capital raised by all European REITs and equivalents, confirming France's position as one of Europe's most dynamic REIT markets.

Following the 2007–2009 recession, SIICs have regained their vitality with a strong activity on the bond market. In 2012, they raised some €767 million in the stock market and more than €6.1 billion through bond issues. The capital thus raised represented 43 % (IPOs excluded) of the total capital raised by all European REITs and equivalents.

The new funding thus raised has had a significant effect on the long-term investment capacity of the SIIC sector – despite an effective cap on borrowings (there is no statutory cap as in certain REIT regimes). From €1.54 billion in 2003, investments made by the SIIC have multiplied by almost tenfold to close to

Table 8.2 Capitalisation and free float of French SIICs at the end of 2012

SIIC	Floating capital € M (in %)	SIIC	Floating capital € M (in %)
UNIBAIL-RODAMCO SE	16,78300	ARGAN	16360
KLEPIERRE	5,98850	FONCIERE INEA	16030
GECINA	5,32535	KLEMURS	12720
FONCIERE DES REGIONS	3,66550	AFFINE R.E.	12260
ICADE	3,48045	PATRIMONIE & COMMERCE	12125
SOCIETE FONCIERE LYONNAISE	1,65215	IMMOBILIERE DASSAULT	10820
MERCIALYS	1,57835	FREY	10620
SILIC	1,46060	SELECTIRENTE	6645
ALTAREA-COGEDIM	1,27725	FONCIERE SEPRIC	6635
FONCIERE DEVELOPPEMENT LOGEMENTS	1,24615	ACANTHE DEVELOPPMENT	5340
FONCIERE DES MURS	1,10510	BLEECKER	5010
EUROSIC	729 5	SCBSM	4525
SIIC DE PARIS	58115	PAREF	4240
FONCIERE DES 6e ET 7e ARRONDISSEMENTS DE PARIS	45020	CFI-COMPAGNIE FORCIERE INTERNATIONALE	4025
ANF IMMOBILIER	42940	FONCIERE ATLAND	2920
TERREÏS	33840	ZUBLIN IMMOBILIERE FRANCE	2735
TOUR EIFFEL	27285	ADC SIIC	2045
CEGEREAL	26230	MRM	570
FONCIERE PARIS FRANCE	22610	FONCIERE PARIS NORD	100
		TOTAL 38 SIIC	48,195
Pan European SIICs	Floating capital € M (in %)	Pan European SIICs	Floating capital € M (in %)
HAMMERSON	4,29100	WERELDHAVE	1,04100
CORIO	3,30100	WAREHOUSE DE PAUW	71275
SEGRO	2,25400	VASTNED RETAIL	62395
COFINIMMO	1,47295	MONTEA	16045
EUROCOMMERCIAL PROPERTIES	1,23680		
		TOTAL	15,092

Source: IEIF (2013)

€9 billion in 2006–2007. Data for 2010 indicated more than €5.65 billion of investments in acquisitions and construction/works and renovation.

The SIIC regime has contributed to a transformation in the property investment market in France (principally the commercial real estate market) which has

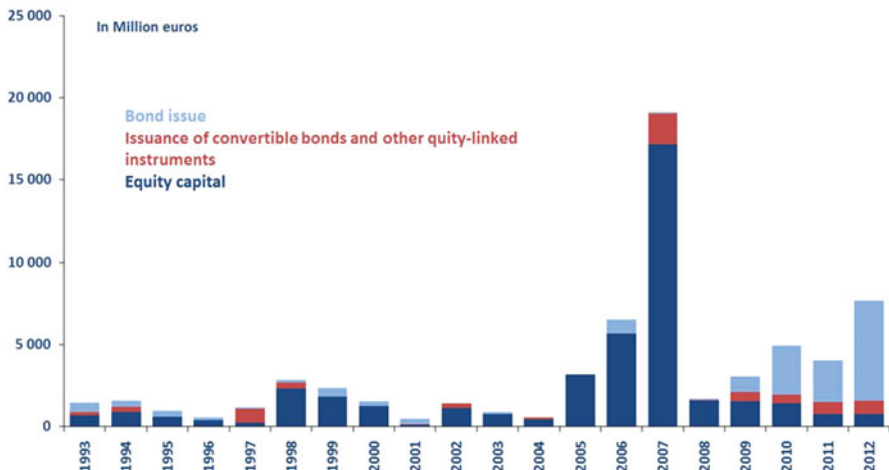


Fig. 8.1 Capital raised by property companies (in €million) (Source: IEIF 2013)

experienced a rise in the number of domestic property companies active in the market. SIIC companies were among the largest buyers before the financial crisis of 2007, accounting for 43 % of total investment in 2006, compared to 18 % in 2005 and significantly ahead of Private Investment Funds (32 %). Figures from CBRE show that the volume of investment by SIIC rose from €2.8 billion to nearly €10 billion in 2006 though this dropped back to €8 billion in 2007. Assets held by SIICs have significantly increased between 2003 and 2011 (+26.8 % per annum in m²), due to the increased number of companies opting for the SIIC regime and due to growth strategies implemented by the SIICs. The last data show that SIICs tend to invest mainly within the Paris region and large regional cities such as Lyon, Marseille and Lille. In 2012, the real estate stock held by SIICs represents over 33 million m², invested mainly in offices and shopping centres (for 70 % of the total surface area under investment and 77 % of the total value). According to the FSIF, SIICs are projected to invest €17 billion in new real estate projects over the 2012–2016 period in France, which should generate more than 88,700 full time workers per year in the construction/public works sector and 33,700 jobs in the retail industry.

The introduction of the SIIC statute has also had a significant impact on national and local tax revenues. Since 2003, the conversion or ‘exit’ tax payable by property companies on opting for SIIC status has generated an annual tax revenue flow of some €330 million, representing a total amount of more than €2.5 billion, to which can be added the tax generated on capital gains realised by corporate outsourcing of property assets towards the SIIC, and the stamp and transfer duties payable to local government on sales. According to the FSIF, the contribution made by SIICs to public finance revenues by way of their corporate tax payments and their shareholder’s income tax payment represented 61 % of the taxable base in France in 2013.



Fig. 8.2 Evolution of the performance of property companies in Europe (Source: Batsch et al. 2005)

The extra liquidity provided by the SIIC in the market, the switch to current value accounting under IFRS rules and the absence of any latent tax liability on capital gains have contributed significantly both to a more fluid property investment market, and also to a re-rating of the French listed property sector by stock exchange investors. Before the SIIC regime was introduced, property companies generally traded at a discount to Net Asset Value (NAV) which historically averaged around 20 %.

Many SIIC saw both their NAV (at market value as estimated by an independent valuer) and share prices rise significantly between 2004 and 2006, coupled with an increase in trading turnover, and almost all property companies' shares were trading at a premium to breakup NAV until mid 2007. For example, the Tour Eiffel SIIC which opted for the SIIC regime in 2004 recorded a premium against its NAV of 17 % in 2005 and 63 % in 2006 respectively. The new trading conditions in the market since the effects of the 'sub-prime' financing crisis became apparent in August 2007 has had a significant effect in the sector – both on the value of the underlying assets, and on corporate valuations as risk-premia are reassessed.

A comparison of the performances of property companies in different European countries highlights the over-performance of the EPRA France index (Batsch et al. 2005) during this period. In November 2002, the French index showed an over performance of 15 % compared to all the other European indices (Fig. 8.2) reflecting speculation at that time regarding the adoption of a REIT statute.

The introduction of the SIIC regime continued to boost the performance of the French listed property sector. For the 2003–2012 period, the SIIC index out-performed the Paris Euronext SBF CAC all Tradable, with a performance of +233 % (compared to 17 % for the 1999–2002 period). In 2006, SIIC recorded on the Paris stock exchange historical performances for all property companies: +68.4 % for Icade, +67.9 % for Klépierre, +60.4 % for Unibail and +40.1 % for Foncière des Régions. For the 2006–2012 period, the SIIC index has seen a slump

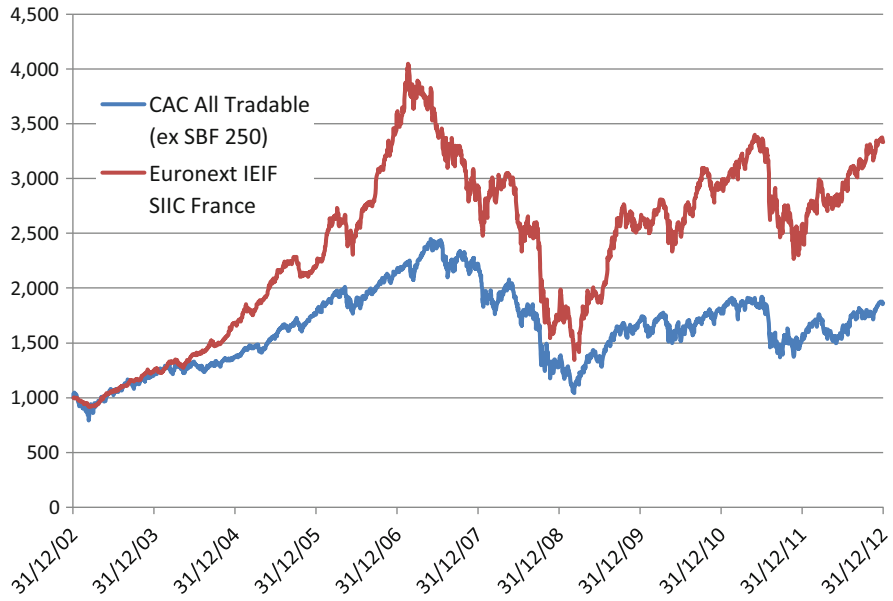


Fig. 8.3 Performance of the SIIC index (IEIF, January 2013)

in its performance due to the financial crisis but has experienced a lower decline than the Paris Euronext SBF CAC all Tradable (respectively minus 7 % against minus 14 %). In 2012, the index still out-performed (+29 %) the Paris Euronext SBF CAC all Tradable (+21 %) (Fig. 8.3).

8.4 Conclusions

By allowing listed property companies to opt to become tax-transparent, the SIICs represent France's version of the Real Estate Investment Trusts concept. The regime was enacted by the Finance Bill for 2003 and has been considered as a model for other European countries.

The regime has helped France's listed property sector to grow rapidly. At the end of 2012, 38 French property companies had opted for SIIC status. These vehicles represent a market capitalisation of around 48 billion euros, the second in size in Europe after the UK market. The regime has also had a leveraging effect on the stock market level, raising share prices and increasing trading. Since the 2008 financial crisis, the SIICs have slowed down their investments and are today faced to the increase of their debt, the drop in value of their net assets and the new environmental constraints of the Grenelle Environnement Forum with the greening of their assets.

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