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## SEC Intends to Reduce Minimum Public Float on REITs

### Recent Developments

The Philippine Securities and Exchange Commission (“SEC”) has recently expressed its intent to amend the rules on Real Estate Investment Trusts (“REITs”) to lower the minimum public ownership (“MPO”) requirement to 33% from the previous 40%-67%. The announcement was made at a hearing of the Philippine House of Representatives Economic Affairs committee after the Bureau of Internal Revenue (“BIR”) clarified that an initial transfer of property to REITs may be exempted from Value Added Tax (“VAT”) under the recently enacted tax reform package or the TRAIN Law. According to the SEC, once there is a formal confirmation from the BIR on the VAT-exempt status of initial transfers of real properties to REITs, SEC will revise its previous circular that had raised the MPO requirement.

However, recently there was a push back from the Department of Finance (“DOF”). According to the DOF, it will not implement the REIT program until it obtains assurances that gains realised from such schemes will be reinvested in the Philippines.

### Implications for Business in the Philippines

Nine years since its enactment in 2009, the REIT Law (Republic Act No. 9856) has been met with a very cold reception on the part of investors due to two major roadblocks: (1) the MPO of 40%-67%; and (2) the imposition of VAT on initial transfers of properties to REITs. The MPO for REITs is much higher than the minimum 20% float for publicly listed companies. This prohibitive MPO requirement, coupled with the extra costs from VAT, effectively discouraged investors and consequently paralysed the launching of the REIT program in the Philippines.

However, under the recent amendments brought about by the TRAIN Law, an initial transfer of real property to REITs may be exempted from VAT. Thus one of the roadblocks to the success of the REIT industry is disintegrating.

The recent moves of the government dismantling the barriers to the REIT program have drawn positive feedback from stakeholders. The REIT law is now expected to entice local and foreign investors in the capital market. The Philippine Stock Exchange also hopes to see REITs listed in the exchange.

### Conclusion

With the VAT exemption of initial transfers of properties to REITs, the MPO requirement is expected to be lowered as early as first quarter next year. With these developments, REITs could be the future of the real estate industry in the Philippines.

If you have any questions or require any additional information, please contact [Felix Sy](#) or [Lorybeth Baldrias-Serrano](#) or the ZICO Law partner you usually deal with.

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