

# Real Estate Investment Trusts & Distribution Infrastructure

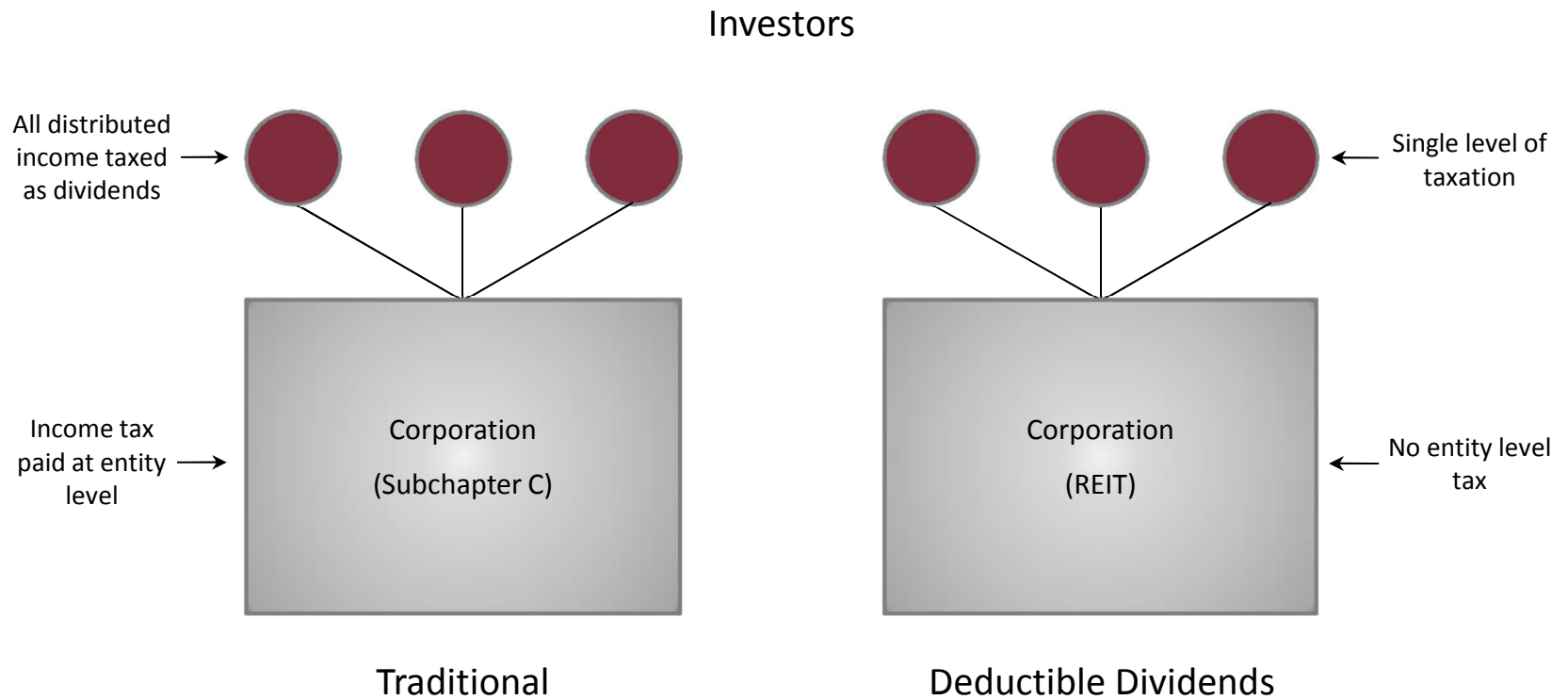
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# What is a REIT?

- A company that owns and leases real estate and that qualifies for and makes a special tax election
  - > The Internal Revenue Service has issued a private letter ruling holding that an electric transmission and distribution system—from the busbar through and including the meters—qualifies as real property (*see slide 5*)
- Designed like a mutual fund: to provide a vehicle for passive investors to acquire a portfolio of real estate
- A REIT is permitted to deduct dividends paid to its shareholders from its corporate taxable income
  - > Most REITs distribute 100% of income and therefore owe no income tax
  - > Taxes are paid by shareholders on the dividends received
  - > Most states, including California, honor this federal treatment

# Large Corporation Tax Structures



# ORIAS Requirements

- To maintain REIT status, various requirements must be met:
  - > **O**rganization & Capital Structure
    - Ownership must be represented by transferrable shares
    - Company may not be closely held
  - > **R**ent
    - REITs are designed to be passive
      - Rent must be fixed or based on a percentage of gross receipts (periodic escalators, CAPEX allowances, property tax pass-throughs, and triple-net leasing are permitted)
      - Limitations on services that can be provided to tenants
  - > **I**ncome
    - At least 75% of a REIT's gross income must be derived from real property
    - At least 95% of a REIT's gross income must generally be passive in nature
  - > **A**ssets
    - At least 75% of a REIT's assets must be related to real property or be passive in nature
  - > **D**istributions
    - A REIT must distribute at least 90% of its taxable income to shareholders annually in the form of dividends

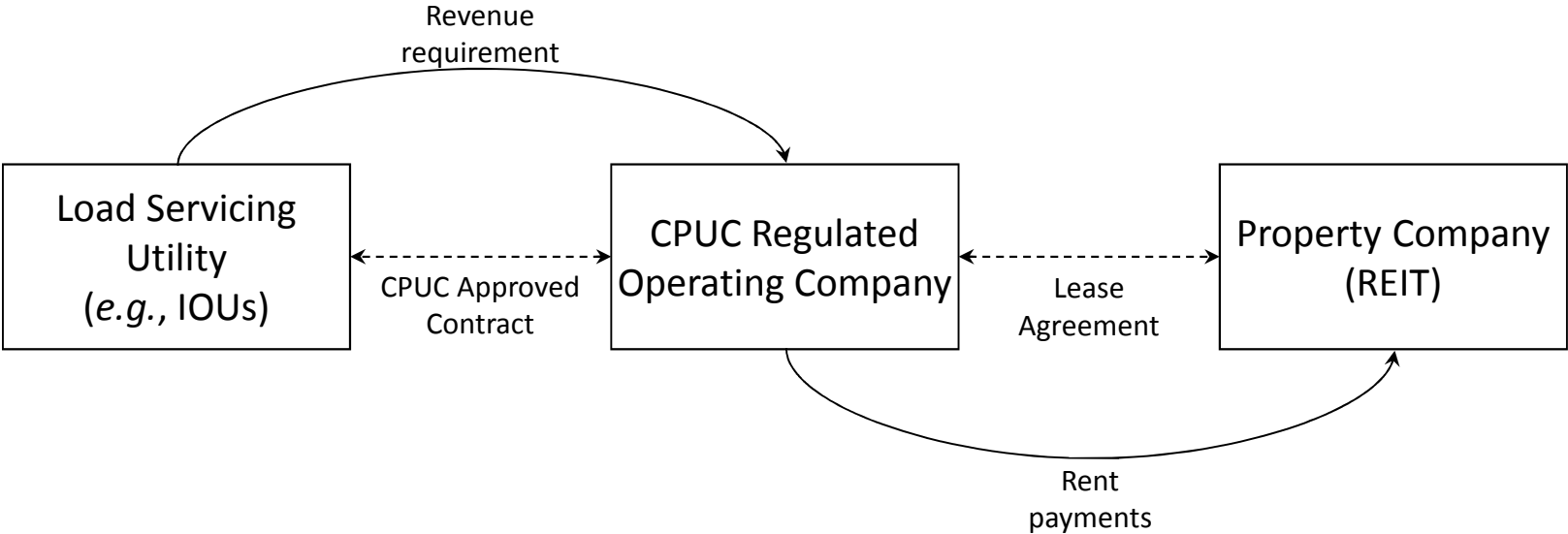
# Distribution Infrastructure

- IRS Private Letter Ruling 200725015 – Sharyland Utilities, L.P.
  - > “Wires only” public utility company based in Texas
  - > Ruling confirmed that for REIT purposes:
    - An electric transmission and distribution system—from the busbar through and including the meters—qualifies as real property and
    - Gross rents from the tenant-operator are qualifying income
- Similar distribution systems approved in IRS Private Letter Rulings 201005018 (liquid asphalt storage and distribution) and 200937006 (liquid natural gas distribution)

# Distribution Infrastructure

- Two primary REIT models in “wires only” infrastructure:
  - > REIT owns the distribution assets and other real property and leases them to an operator (*see slide 7*)
  - > REIT lends funds to operator, which are secured by a mortgage on the distribution assets and other real property
- Split Operating Company/Property Company structure is well tested
  - > Senior living facilities
  - > Travel centers and gas stations
  - > Railroads
  - > Movie theaters

# OpCo/PropCo Structure



# Non-Traditional Real Estate Vectors

Successes	Next Frontier
Transmission and Distribution Infrastructure/Liquid Storage and Delivery Systems	Alternative Energy Infrastructure/ Water Infrastructure
Wholesale Data Centers	← Colocation Centers
Cold Storage Warehousing/Prisons	Records Storage Facilities
Wireless Telecommunications Infrastructure/Media Billboards	Fiber Optic Networks/ Distributed Antenna Systems
Railroads	Toll Roads
Agriculture	Landfills
<i>Farmland</i>	
<i>Vineyards</i>	
<i>Timberland</i>	