LAVECO

REAL ESTATE NEWS

1/2012

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Dear Reader,

We are pleased to present you with the first edition of the LAVECO Real Estate Newsletter. This is a proud moment for all of us who have contributed to and edited the pages. The launch of a new publication is always full of excitement, even if we have written thousands of articles for the columns of the LAVECO Newsletter. The success of any publication always depends on the interest shown by the readers.

We are confident that you will like the new Newsletter, and will look forward every 3 months to reading our articles, which will be, primarily, connected to the industry, selected from current news items and curiosities from the property world. It will, of course, be slightly different to the usual real estate publications. The main activity of LAVECO Ltd. since 1991 has been international company formation and the provision of the related services. Where we can offer you that little extra from time to time is by showing you how you can use the services we offer in the property world.

Obviously, this Newsletter is just the tip of the iceberg. Behind it are two decades of experience and several thousand satisfied clients. And among them are numerous real estate experts and the successful project companies we formed for them.

We are only too happy to share our experience and knowledge with you. Please feel free to contact us; we are not only interested in taking concrete orders, but are also happy to receive small comments and observations, as through these we can develop....together with you.

Wishing you every success,

Warmest regards

László Váradi
Managing Director
LAVECO Ltd.

Hong Kong Property Market Trends: A Bubble which you are not part of?

Hong Kong is, beyond doubt, one of the most cosmopolitan cities, with a very distinctive atmosphere, and a property market which has the experts very much divided. Real estate prices have increased by approximately 70 percent since the start of 2009. According to the Hong Kong Rating and Valuation Department, property prices in 2011 were up 20,6% from 2010.

Nevertheless, some say that the fundamentals of the property market are not as strong as people think. 108 814 properties changed hands in 2011, down 33% from 2010 (162 739) according to data compiled by one of the largest Hong Kong based real estate agencies, and this volume was the lowest since 2006.

The database of the Land Registry shows that home sales decreased 10,3% month on month to 4 301 in December 2011, which is the lowest since November 2008.

The Hong Kong real estate market may now be entering a correction phase, as many experts are predicting a 25% to 30% fall in property prices in 2012. In the past few years the record low interest rates and the large number of wealthy buyers – mostly from mainland China – pushed up the market prices, but for the time being, with the solution to the European debt crisis still unclear and a special stamp duty imposed by the HK government in 2010 on quick re-sales (short term property sale tax) the increasing trend is by no means certain.

The financial institutions have started to raise mortgage rates on new loans (based on the HK Interbank Offer Rate-HIBOR) but Hong Kong's interest rates have remained very low – almost zero - due to the quantitative easing in the USA as HK dollar is pegged with US dollar. The current very low interest rates are clearly neither sustainable nor supportable. Hong Kong's widely open economy means the city is exposed to the effects of the global crisis, and nobody knows when the interest rate is going to rise.

What everybody wants to know is when the peak in the property market will come. Maybe it won't come all the time that money is coming in to Hong Kong, and the interest rates stay low regardless of the origin of the amounts. The "cheap money" drives the investors into risky assets and pushes up real estate prices. Therefore, the real question regarding the property market seems to be when there will be an outflow of funds from Hong Kong, since in this case interest rates will rise irrespective of US interest rates.

Despite the relative indecision of the Hong Kong real estate market, the number of companies being formed in Hong Kong has continued to increase.

Hong Kong registry hits new record in 2011:

According to the Hong Kong Company Registry's statistics, the number of local companies newly registered with the Companies Registry in 2011 hit a record high of 148 329. The total number of live local companies registered stood at 956 392 at the end of 2011, an increase of 92 630 from the end of 2010. The number of companies incorporated in July reached a record of 24 957.

The first company was established in Hong Kong in 1865, and by 1994 there were still fewer than half a million companies. The millionth company was formed 5 years ago, and it has only taken 5 years to reach the current milestone.

Hong Kong's popularity can be put down to several factors. A significant number of the foreign companies investing in China do so by establishing a Chinese subsidiary through a parent company registered in Hong Kong. One of the reasons for this is that the bureaucratic Chinese company formation process is somewhat easier this way. The other main reason can be found in the beneficial terms of the agreement for the avoidance of double taxation which exists between Hong Kong and China, and which is definitely worth taking advantage of. China's significance in the world economy and the Asian region is now rock solid, and Hong Kong plays a very active part in this. In 2011, Hong Kong and China managed over half of the private equity in Asia, so it can be said that Hong Kong has become a centre of venture capital investment, mainly on the back of developments in China.

Another key factor when deciding where to establish a company is the tax system of the given country. Hong Kong is also very attractive from this point of view: profits gained from local activities are subject to tax at the rate of 16.5%, whereas profits derived from outside Hong Kong are exempted from taxation. The economy of Hong Kong is stable, and the city state's legislation is based on English law – communist China has made no attempt to alter the successful economic model established by the British, and which is still in force today.

Jurisdiction spotlight:

Hong Kong

Location:	Eastern Asia, bordering China and the South China Sea
Form of government:	Special administrative region of China
Population:	7 122 508 (July 2011)
Area:	1104 km^2
Capital:	Hong Kong
Currency:	Hong Kong dollar (I USD = 7,75 HKD, January 2012)
Official languages:	Chinese, English
Time zone:	GMT+8

1. Company legal form: Private Limited Company by shares
2. Method of incorporation: The corporate documents must be signed in paper form by the owners who wish to establish the company
3. Company name: Must end in Limited
4. Time required for incorporation: 5-6 weeks
5. Number of directors: Minimum 1 private individual
6. Number of shareholders: Minimum 1 private individual or company
7. Minimum capital: 1 HKD
8. Accounting/reporting requirements: Every HK company which has commenced business or trading is obliged to prepare accounts and have them audited by a registered accountant. The Inland Revenue Department requires every HK company to prepare its audited accounts when filing the tax return, but for small companies it is not compulsory to submit them to the IRD.
9. Type of shares: Registered
10. Annual tax and duties: 336 + 80 USD (fixed amount), plus 0% profit tax on profit made outside Hong Kong and 16,5% on profit arising from Hong Kong
11. Annual meeting: Required each calendar year. First meeting to be held within 18 months of incorporation
12. Disclosure of beneficiaries: Not required
13. Registered office: Local registered office is required by law
14. Registered secretary/agent: Resident secretary is required by law
15. Double tax treaties: Hong Kong has signed comprehensive agreements for the avoidance of double taxation with the following countries: Austria, Belgium, Brunei, the Czech Republic, France, Hungary, Indonesia, Ireland, Japan, Kuwait, Liechtenstein, Luxembourg, mainland China, Malta, the Netherlands, New Zealand, Portugal, Spain, Switzerland, Thailand, United Kingdom, Vietnam

United Arab Emirates property market: Is the only way up from now on?

The last decade saw phenomenal development in both the quantity and quality of the property market in the Emirates, and only the beginning of the recession in 2008 was able to slow it down. Following the recession, the market soon started to boom once more, with the excellent infrastructure, secure investment environment and general tax exemption making the Emirates, and Dubai and Abu Dhabi in particular, extremely attractive to long-term investors. As the payment of taxes is one of the most important – if not the most important – considerations when deciding on the profitability of an investment, the 0% tax rate widely applied in the Emirates means they have a significant head start among international competitors.

All seven Emirates (Abu Dhabi, Ajman, Dubai, Fujairah, Ras al-Khaimah, Sharjah, Umm al-Quwain) apply different laws in the field of real estate, making it difficult to navigate through the property legislation, but in general it can be said that UAE and GCC (Gulf Cooperation Council) citizens can freely own real estate in the UAE. In the case of foreigners, there is no conformity in the framework legislation, which also changes frequently, though in general it does try to encourage foreign investment. Each Emirate also has its own tax-free "free zone" with its own legislation, and companies formed in the free zones may be 100% foreign-owned and are free to own real estate within the zone.

According to the leading real estate consultants, international events in 2011 and 2012 are also having an effect on the UAE's property market. Thus, the problems in the Eurozone, the events

of the Arab Spring and the increased tension between Iran and the West may lead to uncertainty, which will be seen in the number of property sales. General opinion is that real estate prices in the UAE are almost as low as they will go, so large price drops are not expected, though a small decrease may still ensue, with prices expected to hit rock bottom by mid-2012. Changes in prices and increases in the number of sales are unlikely before 2013 (or 2016, if you listen to the pessimists), although in today's climate the fact that the investor is not going to lose on his investment makes the UAE an attractive and secure destination.

The individual Emirates are actively trying to enhance the image of security and reliability. According to the latest information, Dubai is planning to issue regulations in January 2013 specifically for real estate developers, with the intention of increasing the transparency of the real estate market and making public the financial situation of the investors, thus increasing the security and reliability of the Emirates for investors and reducing the possibility of falls in local property prices.

Although oversupply in the property market is often cited as one of the reasons behind a fall in demand and prices, certain Emirates don't seem to see reducing the number of new building projects as the solution, but rather maintaining the individuality of the buildings. In 2011, 6 buildings over 200 m. tall were completed in Dubai, and 9 in Abu Dhabi. It appears that in the field of unique property and luxury hotels the UAE wants to continue its dominance into the future.

Jurisdiction spotlight:

United Arab Emirates - RAK

Location:	Ras Al Khaimah (RAK), one of the 7 emirates making up the United Arab Emirates, is situated on the Gulf side of the Arabian Peninsula.
Form of government:	Federal monarchy
Population:	5 975 593 (2010)
Area:	67 340 km^2
Capital:	Abu Dhabi
Currency:	United Arab Emirates Dirham, AED (1 USD-3.6 AED)
Official languages:	Arabic, English
Time zone:	GMT+4

1. Company legal form: International Business Company (IBC)
2. Method of Incorporation: The Memorandum and Articles of Association must be signed by the subscriber.
3. Company name: Limited, Corporation, Incorporated, Societe Anonime, Sociedad Anonima
4. Time required for incorporation: 2-3 weeks
5. Number of directors: Minimum 1 of any nationality, corporate directors are allowed.
6. Number of shareholders: Minimum 1 of any nationality, corporate shareholders are allowed.
7. Minimum capital: 10 000 AED
8. Accounting / reporting requirements: audited annual accounts are not required to be filed.
9. Type of shares: Registered
10. Annual tax and duties: 645 USD (fixed)
11. Annual meeting: must be held each calendar year. First meeting to be held within 18 months of incorporation.
12. Disclosure of beneficiaries: Not required
13. Registered office: Local registered office is required by law
14. Registered secretary & agent: Local registered agent is required by law
15. Double tax treaty: The UAE have signed agreements for the avoidance of double taxation with the following countries: Algeria, China, Jordan, Kuwait, Egypt, Finland, France, Malta, Pakistan, Poland, Germany, India, Indonesia, Italy, Malaysia, Mauritius, Romania, Seychelles, Singapore, South Korea, Sudan, Syria, Turkey, Yemen

Regulated Investment Company as a real estate investment trust in Hungary


BALÁZS SZOLNOKI DR.
LAWYER

In 2011, a new investment vehicle was introduced in Hungary: the Real Estate Investment Trust (REIT) is a company form which already exists in several Western European countries.

The **Regulated Investment Company (RIC, or SZIT in Hungarian)** combines the characteristics of investment companies and real estate funds, since the concept for this corporate form is to invest the funds collected from large institutional investors and small investors alike, principally in Hungarian residential or commercial real estate properties for their utilisation and development. A RIC is exempt from corporate income tax and local (municipality) tax and is subject to a lower rate of property acquisition tax provided that it meets all the statutory requirements. The RIC is a **public limited company by shares with an initial capital of at least HUF 10 Billion and engaged** – both in Hungary and abroad – solely in the following activities:

1. **lease and operation of own properties**
2. **purchase and sale of own properties**
3. **asset management**
4. **real estate management.**

Once it has been incorporated, the company has to be registered as a RIC by the Hungarian Tax authority. After the tax registration process, the authority audits compliance with the requirements relating to the foundation and operation of the RIC.

A RIC can maintain in its portfolio project companies and other assets indicated in the relevant Act, but **70% of the total balance sheet (consolidated, if applicable) of the company must be invested in a real estate portfolio and the value of a single property may not exceed 20% of the total balance sheet.**

The tax advantages may also be enjoyed by **project companies (Special Purpose Entities-SPEs**) which have their registered office in Hungary or abroad and are wholly owned by a RIC, and are engaged exclusively in the activities indicated above (involved in the real estate business only) and are not shareholders in other companies, so they could not hold any participations. RICs may not be shareholders in companies other than SPEs or other RICs and business entities engaged in the organisation of building construction projects as their main activity. Other assets held by a RIC may only include bank deposits, government securities, stock market shares and the participations described above.

RICs are **exempt from corporate tax and local (municipally) tax**, but despite the tax exemption, the corporate tax base has to be assessed and other tax obligations have to be settled.

RICs **may apply a preferential 2% transfer duty rate** on the acquisition of ownership or right of a pecuniary value in real properties and the acquisition of a capital share in a business entity that owns domestic real estate property.

To meet the requirements of preferential taxation, a number of conditions have to be fulfilled:

In order to prevent these companies from coming under the control of one major investor, a maximum of 10% of all the stocks issued by the RIC can be owned by credit institutions or insurance companies, and a maximum of 10% of all the voting rights can be exercised by them.

The owners of the shares of a RIC can realize their profits in the form of dividend or capital gains, since the relevant Act declares that at least 90% of the profit (100% in the case of SPEs) of the RIC has to be paid to the shareholders as dividends within 15 days of the approval of the financial statements. In accordance with the above, the income of the RICs originating from real estate transactions is

exempt from corporate tax and local tax, although the shareholders do have to pay capital gains tax and, in the case of private individuals, dividend tax.

At least 25% of the shares must be held by small investors (shareholders), and the ordinary shares – at least in the amount of the small parcel ownership - must be introduced to the regular stock market. A RIC may have mortgages of up to 65% of the aggregate value of the real estate portfolio (or 70% in the case of SPEs).

The real estate portfolio must be appraised at least quarterly, and any differences between the book and market values must be recorded for accounting purposes. The appraisal must be carried out by an independent professional. To summarise the above, the aim of the RIC is to transform Hungary into the centre of financial services of the Central European region. Depending on the applicable tax treaties, the RIC could be used as a vehicle of international tax planning, since the structure is able to minimise the tax liability on the income from real properties located in Hungary or abroad.

Did you know...

...that according to the World Records Academy, the **Palace of Parliament (also known as People's Palace) in Bucharest, Romania** (Palatul Parlamentului in Romanian) is **the most expensive administrative building**, the **largest civilian administrative building for civilian use**, and **the heaviest building** in the world?

The Palace of Parliament (named initially as Casa Republicii or House of the Republic) was built between 1984 and 1989 as the residence of the socialist leader Nicolae Ceaucescu. The building was constructed by Aedificia Carpati using materials of Romanian origin.

Here are just a few interesting facts about the building:

- It measures 270m by 240m, is 86m high and goes down 92m below ground level.
- The total floor space is 340 000/m^2 and the height of the ceilings is 20m.
- The construction involved 1 000 000 m^3 of marble, 900 000 m^3 of wood (over 95% domestic), 3 500 tonnes of crystal (480 chandeliers, 1 409 ceiling lights and mirrors), 700 000 tonnes of steel and bronze (for the doors and windows), and 200 000 m^2 of woollen carpets.

If you visit the Palace in Bucharest, we will be happy to see you in our Romanian office at 59 Buzesti Str, A5 Block, 1st Scale, 1st Floor, 62nd Flat, 1st District, Bucharest, Romania!

LAVECO at MIPIM




LAVECO staff took part in MIPIM, the international real estate exhibition held in Cannes, France from March 6th to 9th, for the fourth time. Numerous interested parties came to visit us at stand R32.37 in the Riviera Hall. There were also many familiar faces from previous years who came back to see us. It is always a pleasure to welcome back old acquaintances, and to chat about the current situation or discuss business solutions in which we both share an interest.

In addition to strict business meetings, there was also time for some light-

hearted entertainment. The various confectionery, Hungarian Tokay wines and goose liver available to visitors to our stand were particularly popular. The main prize in the raffles on March 6th and 7th was a bottle of vintage 1972 6-butt Tokay Aszu wine. The winners were presented with the noble bottles by László Váradi, managing director of LAVECO Ltd.

All of us who attended the exhibition agreed that this year's event was richer in content and more successful than events of earlier years. The truth is, we are already waiting for the next MIPIM event, where we can continue our business discussions.

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