

It's a S.I.N.N.

In recent weeks, the term "REIT" has been widely discussed in various contexts and pronunciations due to an announcement by the Ministry of Development and Technology about resuming work on incorporating this investment vehicle into the Polish legal system. Why all the fuss?

REITs, or real estate investment trusts, have been successfully operating in foreign legal systems for years. Although foreign REITs, which gather international investors, are already present in the Poland, the share of domestic capital in the Polish commercial property sector remains the lowest in the European Union. Therefore, the market, which has recently slowed down, welcomed the announcement about the return to the idea of implementing REITs into the Polish legal framework. Initial project details were presented to a select group by the Ministry and quickly spread across social media.

According to these reports, Polish REITs would operate as joint-stock companies under the name S.I.N.N. (which is Polish acronym for companies investing in property leasing). They would exclusively invest in properties located in Poland, such as offices, shopping centres, residential buildings, social care homes, and student dormitories. At this stage, whether this list would be exhaustive or merely illustrative of the types of commercial properties S.I.N.N. could invest in has yet to be confirmed. It is also unclear whether S.I.N.N. could independently undertake property investments or simply acquire existing properties. Public comments suggest that the focus would primarily be on existing and commercialised investments.

The Ministry's proposals also include a series of measures to enhance investor safety. S.I.N.N. would have a minimum share capital of 100 million Polish zlotys, with all shares being non-preferential and bearer shares, listed on the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie), and under the supervision of the Financial Supervision Authority (Komisja Nadzoru Finansowego). Most of S.I.N.N.'s balance sheet value should derive from the value of its properties (or shares in subsidiary companies owning these properties), and income should primarily come from their leasing.

Additionally, S.I.N.N. would be managed solely by experienced asset managers. Tax preferences for S.I.N.N., its shareholders, and its subsidiaries have also been announced. At the individual investor level, the proposal includes a tax exemption for dividends received from S.I.N.N., which would help avoid double taxation - a current issue with dividends paid by regular joint-stock companies. The proposal also includes reducing the corporate income tax rate to 10% for income earned from property leasing, however, without the possibility to deduct depreciation costs in the tax calculation. Furthermore, income tax for S.I.N.N. would be deferred until the day dividends are paid. Hence, S.I.N.N. would not need to pay advance corporate income tax throughout the year.

The primary goal of these regulations is to increase the participation of Polish capital in this market segment and to enhance its liquidity and stability. S.I.N.N. would invest based on the capital of small investors. Currently, the most common and considered safest investment form is purchasing one's own property to lease. This new alternative could relieve the residential real estate market by reducing transactions made for investment purposes rather than to meet housing needs. It would be possible to invest in S.I.N.N. shares with much less capital than required to purchase a property, thus lowering the entry barrier for individual investors and helping to reduce market concentration. Additionally, S.I.N.N. could invest not only in rental apartments but also in student dormitories and senior homes. S.I.N.N. could also be used to implement various types of public programs, be they government or municipal, in areas such as affordable housing. This could ultimately impact the structure of demand and supply in the residential real estate market.

However, this is not the first attempt to create Polish REITs. Several legislative attempts have already been made in this area, all of which have "died a natural death" for no apparent reason, despite generally favourable opinions from industry representatives. What will happen this time? We eagerly await the draft law and further legislative work, hoping that we will not once again come to chant "no matter when or where or who has one thing in common too, it's a S.I.N.N.", but on paper only.

Do you want to know more? Contact us!

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