

Analysis of Great Red Storage REIT's eligibility to become a UK REIT

[Dear Client,]

You asked us to provide an assessment of whether your proposed Great Red Storage REIT structure is eligible to become a UK REIT. We have completed the relevant analysis and, while it passes most of the applicable tests, unfortunately it fails Company Conditions: C, D.

This report outlines which REIT tests Great Red Storage REIT passed and which it failed, and then provides our recommendations for how it could be restructured to ensure eligibility.

As a summary of Great Red Storage REIT's performance against the key REIT tests:

- It satisfies Company Condition A because it is a UK company. It is incorporated in England (Incorporation Registration Number 3625198) and is not tax resident anywhere outside the UK.¹
- It satisfies Company Condition B because it is not an open-ended investment company under s. 236 Financial Services and Markets Act 2000.²
- **It currently fails Company Condition C.** This is because its ordinary shares are neither listed nor admitted to trading on a stock exchange recognised by HMRC,³ and only 60.14% of its shares are held by institutional investors which does not meet the statutory 70% threshold.⁴ Details of why Great Red Storage REIT does not have enough institutional investors are set out in Appendix A.
- **It currently fails Company Condition D.** Great Red Storage REIT is a close company because five or fewer of its statutory 'participators'⁵ have control over it.⁶ No exceptions apply, and as a result Great Red Storage REIT currently fails Company Condition D. Our analysis supporting these conclusions is set out in Appendix B.
- It satisfies Company Condition E because it has only one class of ordinary shares, and restricted preference shares that carry no voting rights and a right to dividends that is permitted.⁷
- It satisfies Company Condition F because none of its debts have any statutorily prohibited features. That is, none of the loans where Great Red Storage REIT is the debtor contain terms where:
 - a) the loan interest depends on the results of its business or the value of its assets;
 - b) the loan interest exceeds a reasonable commercial return on the principal lent;
 - c) the total repayment exceeds the principal lent or reasonable market rates.

Going forwards, Great Red Storage REIT will ensure any additional debt finance it secures is compatible with the requirements of Company Condition F.⁸

¹ UK Corporation Tax Act 2010, ss.528(1), 521(1); UK Corporation Tax Act 2009, s.14(1).

² UK Corporation Tax Act 2010, s.528(2); UK Financial Services and Markets Act 2000, s.236.

³ UK Corporation Tax Act 2010, ss.528(3)(a), 528A.

⁴ UK Corporation Tax Act 2010, s.528(3)(b).

⁵ UK Corporation Tax Act 2010, s.454.

⁶ UK Corporation Tax Act 2010, s.439(2).

⁷ UK Corporation Tax Act 2010, ss.528(6)-(7), 160, 1115, 1119.

⁸ UK Corporation Tax Act 2010, ss.528(8)-(9).

[Practitioner recommendations for restructuring the REIT candidate]

Yours Sincerely,

[Practitioner name]

Appendix A: Institutional investors

Only 60.14% of Great Red Storage REIT's ordinary share capital is held by institutional investors, which does not meet the statutory 70% threshold.⁹ Because Great Red Storage REIT's ordinary shares are also neither listed nor admitted to trading on a HMRC recognised share exchange, it fails Company Condition C and is not currently eligible to become a REIT.

The table below records who the institutional investors in Great Red Storage REIT are, why we have concluded they are inside a statutory category of institutional investor, and their total shareholding in Great Red Storage REIT. After these explanations, we outline our recommendations on how to make Great Red Storage REIT pass Company Condition C.

Investor name	Institutional investor category	Total %
AfterCare LLP	AfterCare LLP is a limited partnership which is a collective investment scheme. ¹⁰ [Enter notes as appropriate]	9.0
Hospice on the Shore	Hospice on the Shore is a charity. ¹¹ [Its charities number is 1145022]	7.0
Herbert Brothers LLP	Herbert Brothers LLP is a limited partnership which is a collective investment scheme. ¹² [Enter notes as appropriate]	8.0
Heartworks	Heartworks is a charity. ¹³ [Heartworks' charity number is 0345567.]	7.0
GIC	GIC has sovereign immunity from direct UK taxes. ¹⁴ [Enter notes as appropriate]	16.34
King Unit Trust	King Unit Trust is the trustee/manager [delete as appropriate] of an FCA authorised unit trust. ¹⁵ [The FCA confirmed by a letter dated 03/04/2015 that the Fund was approved as a unit trust (their reference no DR34-04/15)]	12.8
Total		60.14

REIT investors diagram

This diagram represents all investors (institutional or otherwise) related to Great Red Storage REIT.

⁹ UK Corporation Tax Act 2010 s. 528(3)(b).

¹⁰ UK Corporation Tax Act 2010, s.528(4A)(c); UK Financial Services and Markets Act s.235.

¹¹ UK Corporation Tax Act 2010, s.528(4A)(f).

¹² UK Corporation Tax Act 2010, s.528(4A)(c); UK Financial Services and Markets Act s.235.

¹³ UK Corporation Tax Act 2010, s.528(4A)(f).

¹⁴ UK Corporation Tax Act 2010, s.528(4A)(h).

¹⁵ UK Corporation Tax Act 2010, s.528(3)(b).



Institutional investor diagrams

These diagrams represent each institutional investor's total ownership of Great Red Storage REIT's ordinary share capital.

AfterCare LLP

AfterCare LLP directly owns 9.00% of Great Red Storage REIT.

Hospice on the Shore

Hospice on the Shore directly owns 7.00% of Great Red Storage REIT.

Herbert Brothers LLP

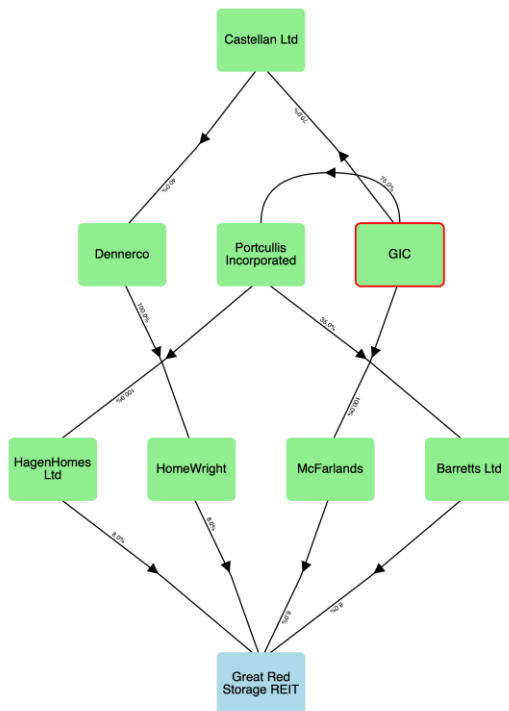
Herbert Brothers LLP directly owns 8.00% of Great Red Storage REIT.

Heartworks

Heartworks directly owns 7.00% of Great Red Storage REIT.

GIC

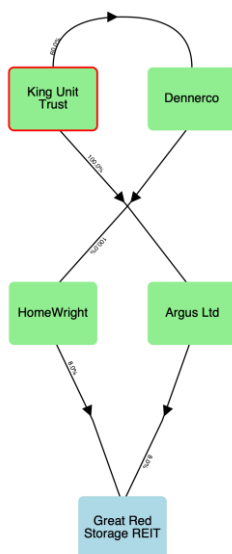
GIC owns 16.34% of Great Red Storage REIT through the four paths shown below.



Intermediaries	Path %
Portcullis Incorporated and HagenHomes Ltd	6.0
McFarlands	6.0
Castellán Ltd, Dennerco, and HomeWright	2.24
Portcullis Incorporated and Barretts Ltd	2.1

King Unit Trust

King Unit Trust owns 12.80% of Great Red Storage REIT through the two paths shown below.



Intermediaries	Path %
Argus Ltd	8.0
Dennerco and HomeWright	4.8

Appendix B: Close company

Great Red Storage REIT is a close company because it is under the control of five or fewer of its statutory participators.¹⁶ Five participators control 55.00% of the shares in Great Red Storage REIT and this exceeds the 50% required for a controlling majority.¹⁷ Even were this not the case, five participators still would be entitled, were the rights of loan creditors to be disregarded, to 59.2% of Great Red Storage REIT's assets in the event of it being wound up¹⁸. No exceptions apply, and as a result Great Red Storage REIT currently fails company condition D.

Control tests

The table below records who the participators in Great Red Storage REIT are, whether they are able to receive or transfer rights in Great Red Storage REIT from or to other participators, and what their final shareholdings are once such attributions are made with the objective of maximising the shareholding among the fewest participators possible.¹⁹ It also indicates whether the participators fit inside the statutory definitions of director²⁰ or loan creditor.²¹

Participator name	Attribution of control rights	Final shareholding (%)
Hospice on the Shore	No attributions	7.0
Barretts Ltd	No attributions	8.0
HagenHomes Ltd	No attributions	8.0
McFarlands	No attributions	6.0
HomeWright	No attributions	8.0
Argus Ltd	No attributions	8.0
Heartworks	No attributions	7.0
Tom Watkins*	6.00% received from Mandy Kingley	23.0
Mandy Kingley*	6.00% transferred to Tom Watkins	0.0
Barclays^	No attributions	0.0
The Ursine Group^	No attributions	0.0
HSBC^	No attributions	0.0

* *these entities are directors of Great Red Storage REIT.*

^ *these entities are loan creditors of Great Red Storage REIT.*

Therefore the 5 participators with the greatest shareholdings make up 55.0% of the total shares. The total shareholdings held by directors who are also participators is 23.0%.

Assets tests

The table below records who the participators in Great Red Storage REIT are, whether they are able to receive or transfer rights to assets in Great Red Storage REIT from or to other participators, and

¹⁶ UK Corporation Tax Act 2010, s.454.

¹⁷ UK Corporation Tax Act 2010, s.439(2).

¹⁸ UK Corporation Tax Act 2010, s.439(3)(b).

¹⁹ UK Corporation Tax Act 2010 s. 452.

²⁰ UK Corporation Tax Act 2010 s. 451(6).

²¹ UK Corporation Tax Act 2010 s. 453.

what their final entitlements to assets are once attributions are made with the objective of maximising the shareholding among the fewest of these participators possible.²² This analysis has been completed relying on the definition of participators directed to be used by the statute,²³ which is wider than the definition adopted for the control tests discussed above.

Great Red Storage REIT holds 2000.0 million pounds worth of assets in total.

Participator name	Attribution of asset rights	Assets held (mp)	Assets held (%)
Hospice on the Shore	No attributions	140.0	7.0
Obduras Partners	No attributions	0.0	0.0
Solomon LPP	No attributions	0.0	0.0
GIC	No attributions	0.0	0.0
King Unit Trust	No attributions	0.0	0.0
Caspar Renson	No attributions	0.0	0.0
Heartworks	No attributions	140.0	7.0
Tom Watkins	6.00% received from Mandy Kingley	460.0	23.0
Mandy Kingley	6.00% transferred to Tom Watkins	0.0	0.0
The Ursine Group [^]	No attributions	0.0	0.0

** these entities are directors (using a definition amended from the control test above) of Great Red Storage REIT.*

[^] these entities are loan creditors of Great Red Storage REIT.

Therefore the 5 participators with the greatest rights to assets represent 37.0% of Great Red Storage REIT's total assets (59.2% if disregarding the rights of loan creditors). The total rights to assets held by directors who are also participators represent 0.0% of Great Red Storage REIT's assets (0.0% if disregarding the rights of loan creditors).

²² UK Corporation Tax Act 2010 s. 451(6).

²³ UK Corporation Tax Act 2010 s. 441.