

# Funds of qualified investors in the Czech Republic: beneficial way of RE investment

A number of law changes requested over last few years regarding the regime of funds of qualified investors were finally enacted and became effective. These changes may give a positive stimulus to further development of the fund industry in the Czech Republic.

Funds of qualified investors (FQI) are special purpose vehicles for collective investment in real estate. The investors are motivated to use these investment vehicles mainly by significant tax benefits (reduced corporate income tax rate, real estate transfer tax exemptions, possible withholding tax exemption on dividends, etc.).

From 1 August 2009, certain regulatory rules were removed and more efficient implementation of target structure was allowed, in particular in case investors intend to transfer assets from an existing structure (e.g., RE development projects, existing assets) into a FQI.

Non-monetary (in-kind) contributions to a FQI are now allowed. In addition, merger between FQI and another unregulated collective investment vehicle (including foreign entities) is allowed provided that the FQI is the surviving entity. These restructuring possibilities which allow for a tax neutral transfer of assets into the FQI may make such vehicles attractive not just to real estate developers and investors but also, for instance, to manufacturers with a significant amount of real estate in their assets.

The establishment and administration of a FQI is substantially simplified if the fund is administered by a licensed investment company resulting in more cost efficiency. The original maximum life limitation of 10 years of the FQI in the form of a joint stock company (or closed end mutual fund) was also cancelled.

Disposal of shares in FQI will be much easier. The change of investors (shareholders) controlling the FQI, or having a so called qualified participation, will not be subject to Czech National Bank approval.

The legislation awaited changes will hopefully have the effect to kick-start the true development of a Real Estate fund industry in the Czech Republic. Given current changes in market conditions now is a very good time for real estate players to consider how use of an FQI can help with ongoing management of their Real Estate investment strategy.

