

## Proactive approach key to Jersey's property fund growth

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With regulated real estate entities accounting for more than GBP30bn of its GBP246bn fund industry at the end of last year, Jersey is unquestionably a leading jurisdiction for the domicile and servicing of global property funds. While tax incentives and pragmatic regulation have been important for its growth, it is the island's proactive and evolutionary approach that has kept its momentum strong.

When Jersey introduced its Unregulated Funds regime in February this year, it added another weapon to an already-strong arsenal. Under the regime, certain types of investment fund can be established under the island's funds legislation without regulatory approval or ongoing supervision.

'The speed with which funds can be brought to market is expected to be a particularly attractive prospect for hedge fund and private equity managers, but may also be attractive to certain property funds,' says Mike Watson, chief executive of HSBC Investments (International) and a member of the Jersey Funds Association committee. The new regime represents the latest in a toolbox of options Jersey has been steadily putting together for promoters of alternative investments since the introduction of the Expert Fund Guide in 2004.

Property unit trusts in Jersey became very popular as a result of changes in the UK legislation relating to stamp duty land tax. Most transactions involving the transfer of an interest in land situated in the UK attract a tax charge at a rate of up to 4 per cent of the value of the property. However, when stamp duty land tax was introduced, transfers of UK-situated land to and from partnerships were expressly excluded.

'Most of this growth is tax driven - the charging of stamp duty land tax in the UK and the ability of clients to seed investments into newly-formed unit trusts in Jersey brought about dramatic growth,' says John Roche, a partner with PricewaterhouseCoopers in the Channel Islands and a property funds expert. 'Later the Chancellor [of the Exchequer] closed that loophole, but an industry, albeit small in global terms, was born.'

The introduction at the beginning of last year of real estate investment trusts in the UK, which could have been perceived as a challenge to the burgeoning offshore property funds sector in Jersey, has not held up the island's development. After more than a year, industry players in Jersey do not view UK Reits as a dangerous threat to the use of Jersey property unit trusts.

The island is attracting more specialist private and institutional property fund work as the global popularity of real estate investment continues to grow. But just as crucial is the support for the sector from specialist service providers. Today Jersey offers a highly developed support infrastructure of administrators, accountants and lawyers with a deep understanding of real estate fund promoters' needs.

Clients are looking for a full service and Jersey is able to offer local expertise in all aspects of establishing, administering, financing and auditing a property structure. 'We have many of the world's leading finance houses with a substantial presence on the island and all the top accountancy practices have offices with well-trained staff,' Watson says. 'On the servicing side, we have a range of options, from large international service providers to smaller bespoke groups and our home-grown experts.'

Many law firms in Jersey have the capability to carry out the establishment of property funds, and the range of administrators has grown strongly, especially since the launch of Expert Funds four years ago. 'However, it is important to get the right organisation with the skills to deal with property funds,' Roche says. 'They are unique, unlike equity or bond funds, and are best done by people with

property experience.'

He adds that various fund administrators offer a number of service models, from full service to the provision of selected services. In these cases the accounting is typically outsourced, with regard to the Jersey Financial Services Commission's stipulation that 'mind and management' remain in the island.

Historically Jersey established its reputation for structures designed to hold UK property, and this remains the major source of fund assets. However, an increasing number of structures are now being established to invest in real estate assets throughout Europe and beyond. Today, the island is increasingly a jurisdiction for global real estate assets and global investors, with a depth of experience covering markets as diverse as Korea and Ukraine. It is also attracting a broader range of promoters. Although the UK still provides more than 50 per cent of property fund business in Jersey, a growing share is from promoters in countries such as Switzerland and the US.

Recent years have seen the launch of a growing number of specialist funds, in property and other areas, after the launch of Expert Funds gave Jersey the credentials to compete in the global alternative investments market. 'We are seeing a pattern of assets and investors in funds diversifying away from a UK base, and Jersey has been well positioned to deal with this given that we have long experience in dealing with the asset class,' Watson says. He believes this trend will continue, prompting the Jersey Funds Association to work closely with the regulator to ensure an appropriate level of regulation.

The growth of Jersey's fund industry has been driven by investors and promoters seeking for a jurisdiction offering stability and a good reputation, combined with suitable legal structures and local expertise. The island's international standing is vital, providing the foundation upon which the authorities have constructed a well-calibrated structure of regulation appropriate to the requirements of particular types of investment and investors, with the launch of Unregulated Funds the latest development.

'The introduction of the Expert Funds regime gave the fund industry a boost in which property has shared,' says Russell Turner, managing director of State Street Fund Services (Jersey). 'There is now a broad range of structures and regulatory categories, and Unregulated Funds offer greater flexibility again. This could also be of interest, because it adds an extra dimension. Now I think we have a complete product range from pure retail structures right up to very private schemes.'

Andrew Weaver, a partner with Appleby's corporate and commercial practice group in Jersey, believes that Unregulated Funds may be more popular among promoters of hedge funds and private equity vehicles than for property structures. 'I haven't seen any property fund promoters bite at the Unregulated Funds at this stage,' he says. 'Property, whether direct or indirect, is a core part of any investment portfolio, and generally speaking, investors are more likely to be attracted to a regulated fund structure.'

According to Roche, the flexibility of the regulatory environment is crucial. 'There is a structure available to suit almost any asset manager's needs, from companies to partnerships to unit trusts, depending on what they want and, more importantly, what works for their expected investor base,' he says.

Funds may be established in a variety of legal forms including unit trusts, companies and limited partnerships, and as either protected or incorporated cell companies. It's all about choice and expertise,' Watson says. 'There are a range of structures and levels of regulation appropriate to the specialist funds market - including real estate funds - which put Jersey in a strong position.'

The Jersey property unit trust remains the most popular option, but practitioners say there are an increasing number of companies and partnerships, and property fund promoters are also exploiting the flexibility of the protected cell company structure. 'Unit trusts remain the most popular, followed by company structures,' Turner says. 'We haven't seen limited partnerships specifically for the core structure, but in some cases subsidiary vehicles could be limited partnerships.'

The flexibility of Jersey's fund offering is becoming increasingly important as the geographical dispersion of fund assets grows wider and as Jersey vehicles are used to invest in a broader range of real estate types, including residential, retail, industrial and logistics property as well as the staple of office buildings.

The long history of property structures domiciled and administered in Jersey is an important attraction for promoters, but industry members are not resting on their laurels. Evolutionary steps such as the introduction of the Unregulated Funds regime demonstrate how Jersey is committed to catering to the future needs of the international funds community as the trend toward increasingly specialist funds continues.

'The Jersey jurisdiction is a constantly changing field with new markets and new property products being developed all the time,' Watson says. 'It is important for people in Jersey to maintain the knowledge, expertise and capacity to allow us to service these products, from having the right people to maintaining the right regulatory environment.'

Mindful of the growing competition, Roche says: 'It is important for the future that everyone involved - the industry and the authorities - continue to improve service levels and costs so that Jersey remains a competitive jurisdiction. It is also important to remain flexible on staffing, as property is a specialist sector and people with property skills are hard to come by on the administration and accounting side.'

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