



Economic & Valuation Services

Real estate investment trusts—Taxable REIT subsidiary planning service



Transfer pricing can be important for real estate investment trusts (REITs), and organizations realize that effective transfer pricing planning can enhance the benefits of establishing taxable REIT subsidiaries while mitigating the risk of penalties for unqualified REIT income.

Our approach

The KPMG Economic & Valuation Services (EVS) practice brings together transfer pricing and valuation services within one integrated team to better serve your business needs.

We have an in-depth knowledge of transfer pricing regulations and fair value measurement concepts. Our EVS professionals understand how the requirements for tax reporting and financial reporting may differ.

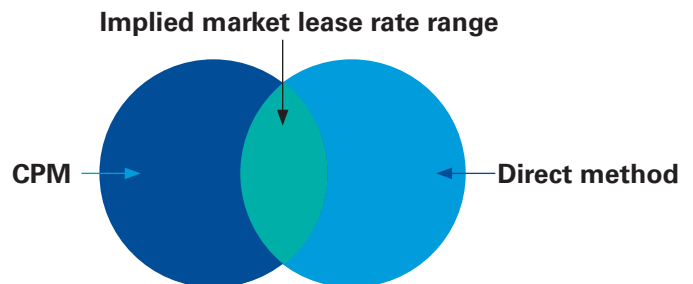
We look beyond the immediate compliance task to deliver value-added advice to help our clients mitigate risks and penalties and efficiently manage costs.

Common transfer pricing issues

Utilizing the experience of KPMG's combined transfer pricing/valuation engagement team offers a robust approach to establishing arm's-length pricing on various intercompany transactions that may occur between a REIT and taxable REIT subsidiary (TRS). For example, when a REIT needs to establish a lease payment that is consistent with the arm's-length standard to determine the taxable income for a TRS, KPMG uses an integrated approach.

The transfer pricing component of the KPMG team helps the TRS establish an observed market range of returns to the REIT by relying on approaches prescribed by federal transfer pricing regulations. The real estate valuation component of the KPMG engagement team helps establish and evaluate the "arm's-length" nature of the intercompany lease arrangement by deriving market rent estimates from publicly available

commercial real estate transactions and market participant investment return requirements. We then align the two approaches to help the REIT derive a range of "arm's-length" lease payments associated with a subject property.



Our integrated transfer pricing and valuation approach combines federal transfer pricing regulations with attributes unique to the commercial real estate industry. Our EVS practice professionals consider these synergies and have extensive experience in coordinating transfer pricing and valuation work streams. We also assist our clients with the operational aspects of transfer pricing to make recommendations regarding the client's implementation of its transfer pricing policies. It is important to note that transfer pricing applies to all of a REIT's intercompany transactions. The rules apply to intercompany services and financial transactions, in addition to intercompany leases.

The following table highlights common intercompany transactions that are subject to transfer pricing.

Tangible	General services	Financial services
— Lease of property, plant, and equipment	— Management services — Administrative services — Marketing/Selling services — Advisory services	— Loan origination — Loan servicing — Financial guarantees — Cost sharing

We have extensive industry experience in REIT transactions and have assisted our clients with establishing and evaluating the “arm’s-length” nature of lease payments associated with:

- Hotels and resorts
- Senior living facilities (e.g., assisted living, congregate care, memory care)
- Office spaces
- Ski resorts and amusement parks.

We have also assisted REITs with their intercompany service transactions, loans, and guarantees.

REIT knowledge and experience

KPMG has dedicated extensive resources to the REIT industry and is a leading service provider. Our REIT client base includes premier private and public entities, many of whom we have served since they first registered their securities in the public markets. We provide services specifically designed to help REIT management navigate the current environment, with dedicated transfer pricing and valuation services professionals offering in-depth real estate knowledge and experience to help you identify potential opportunities, assess value, and navigate tax laws and regulations in jurisdictions throughout the United States and abroad. In addition, we can stand behind you as a trusted audit, tax, and advisory services provider ready to assist you as needs arise—in considering equity offerings, addressing operational issues, applying fair value measurements, performing due diligence, assisting with risk management, and helping you determine that you have access to the right skill sets to address your specific needs. Our experience, depth, global reach with KPMG International’s network of member firms, and full range of relevant services can help you identify opportunities in today’s uncertain marketplace.

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