



# REAL ESTATE INVESTMENT TRUSTS

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OPPORTUNITY TO EXPAND THE UNIVERSE OF ASSET BACKED INSTRUMENTS

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GLOBAL HEAD - ISLAMIC CAPITAL MARKETS  
ISLAMIC FINANCE (RAPIDLY DEVELOPING ECONOMIES)

24 OCTOBER 2011



THOMSON REUTERS

# CONCLUSION

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## DEMAND

- Islamic Commercial Banks
- Short Term Funds
- Fixed Yield and Protection of Capital
- Rating



## SUPPLY

- Conventional universe of Property Rental REITS
- Screened for Shari'a Compliant tenants and financials





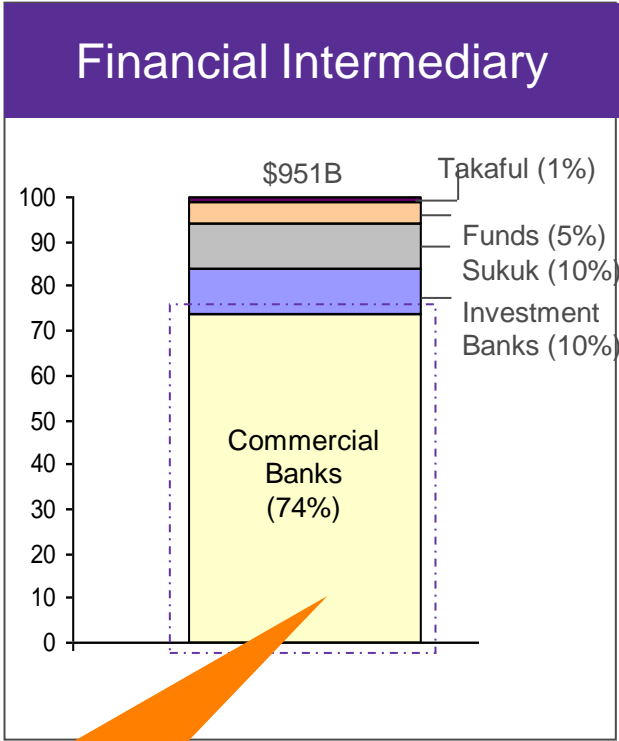
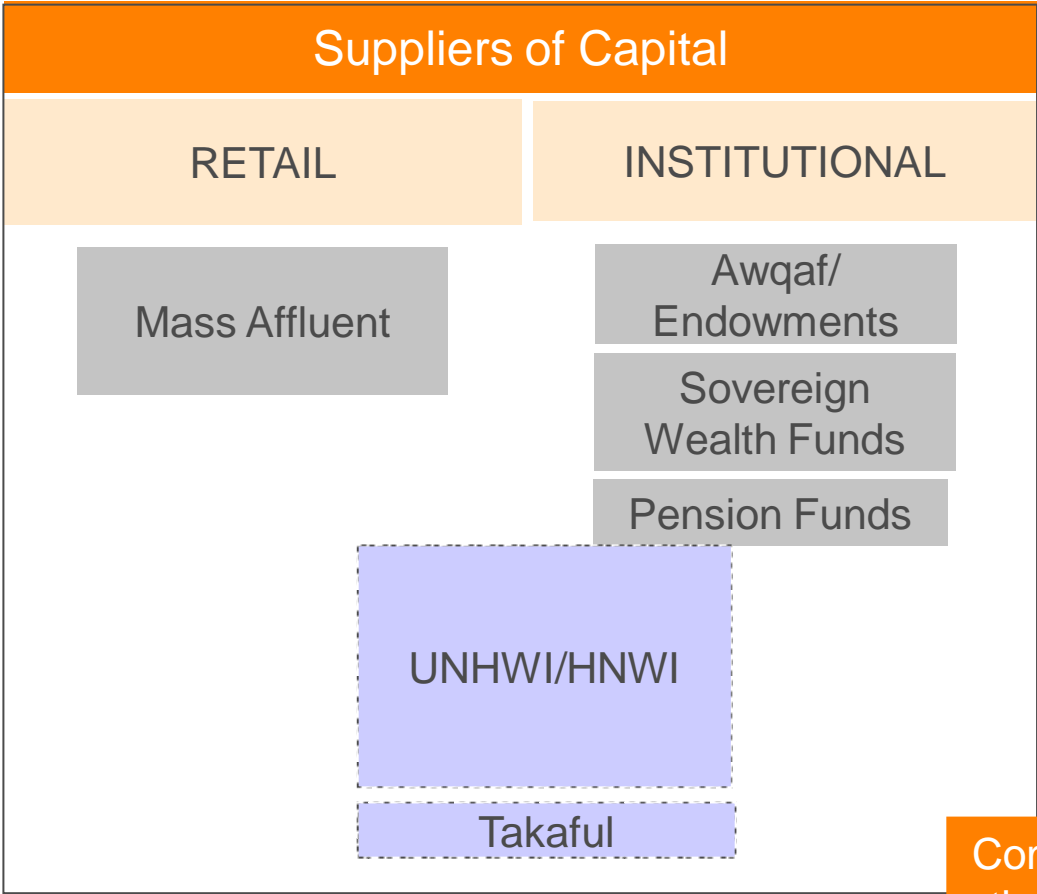
# DEMAND DRIVERS

## UNDERSTANDING WHAT ISLAMIC MARKETS NEED



# DEMAND DRIVERS

## FLOW OF FUNDS IN ISLAMIC FINANCE



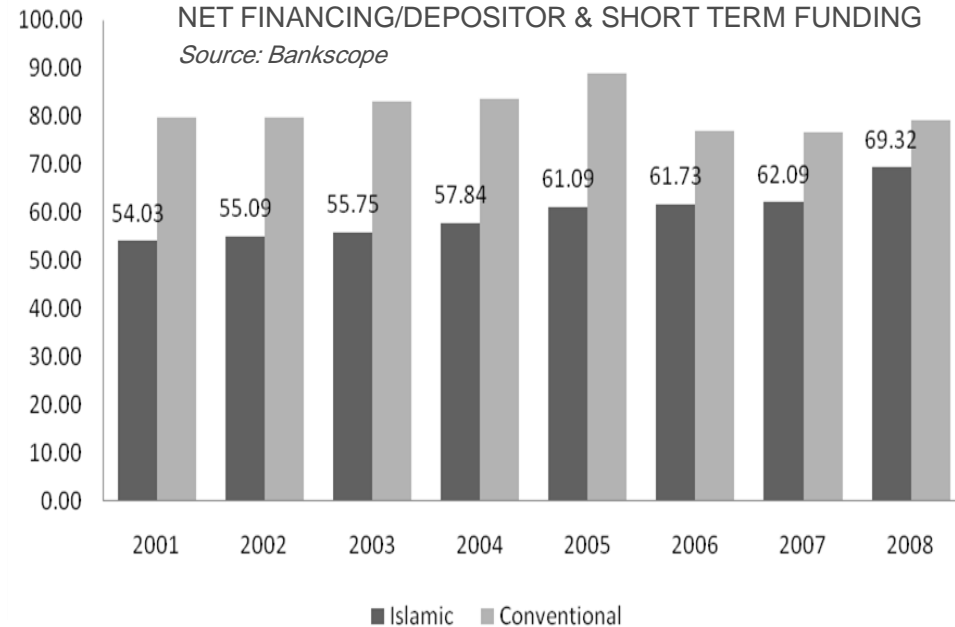
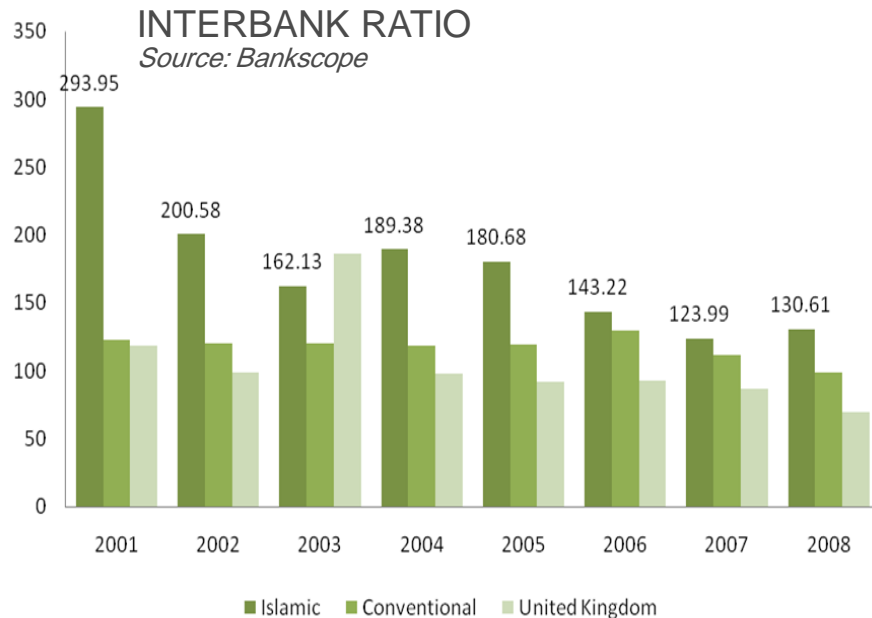
Commercial Banks hold the majority of Islamic finance assets

Source: E&Y, The Banker

# DEMAND DRIVERS

## LIQUIDITY POSITION OF ISLAMIC BANKS

Consistent liquidity surplus: Islamic banks have continued to demonstrate their excess liquidity before, during and after the global financial crisis, as investors seek a safe haven, while complying with Shari'a principles.



Liquidity excess flows directly into treasury funds pool, particularly after GFC.

# DEMAND DRIVERS

## FLOW OF FUNDS TO CAPITAL MARKETS

### Islamic Finance Assets – 822 bln

**822b**

'09 Top  
500  
Islamic  
Fin.  
Institution  
Assets

**290b**

'08 GCC  
Islamic  
Fin.  
Institutions  
Assets

### Fixed Income Assets – 131 bln

**200/  
131bln**  
July' 10  
total/outstand  
Sukuk issued

**62/31**  
July' 10 total/  
outstand int.  
Sukuk issued

### Money Market Transactions – 7 bln/day

**2bln**  
Saudi  
Arabia

**0.5bln**  
Bahrain

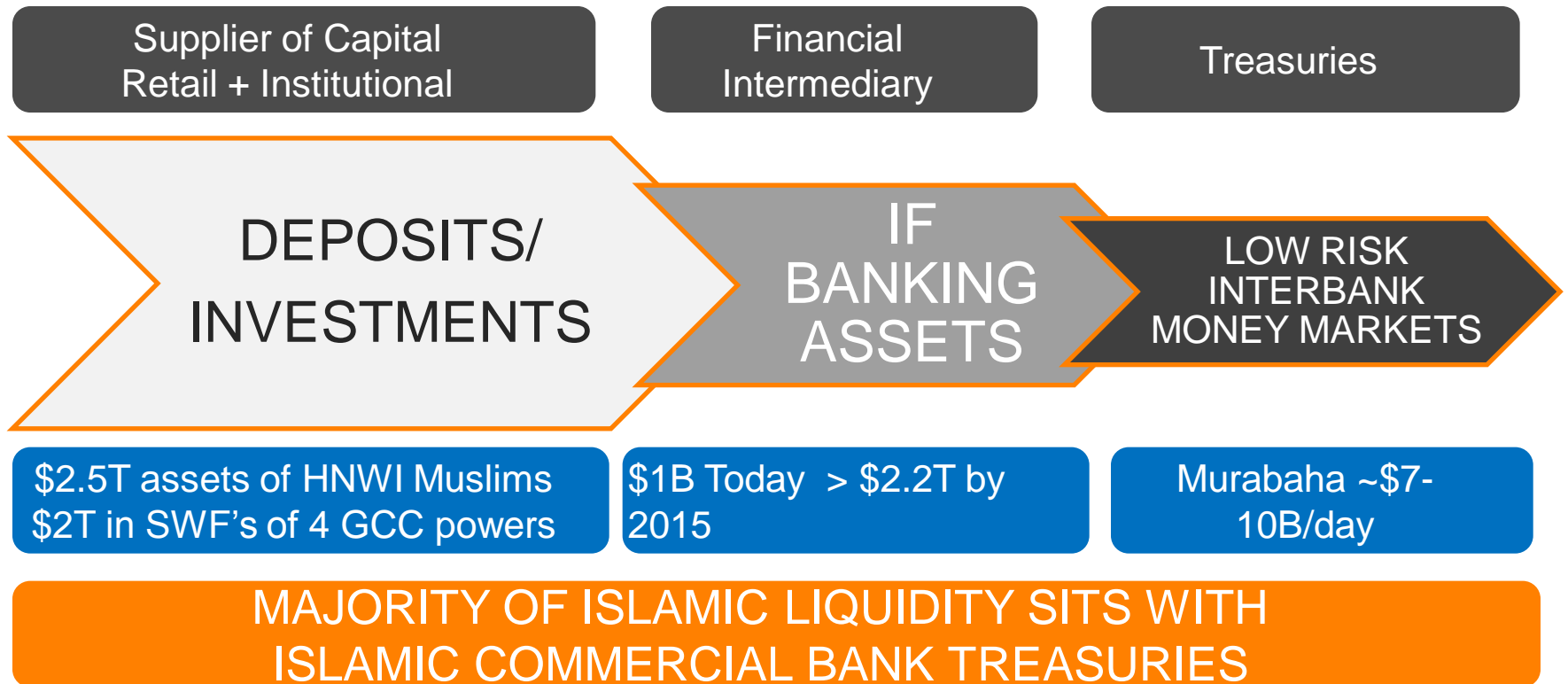
**4.5 bln**  
Rest of  
World



# FLOW OF CAPITAL IN ISLAMIC FINANCE

## SHORT TERM YIELD IS THE ORDER OF THE DAY

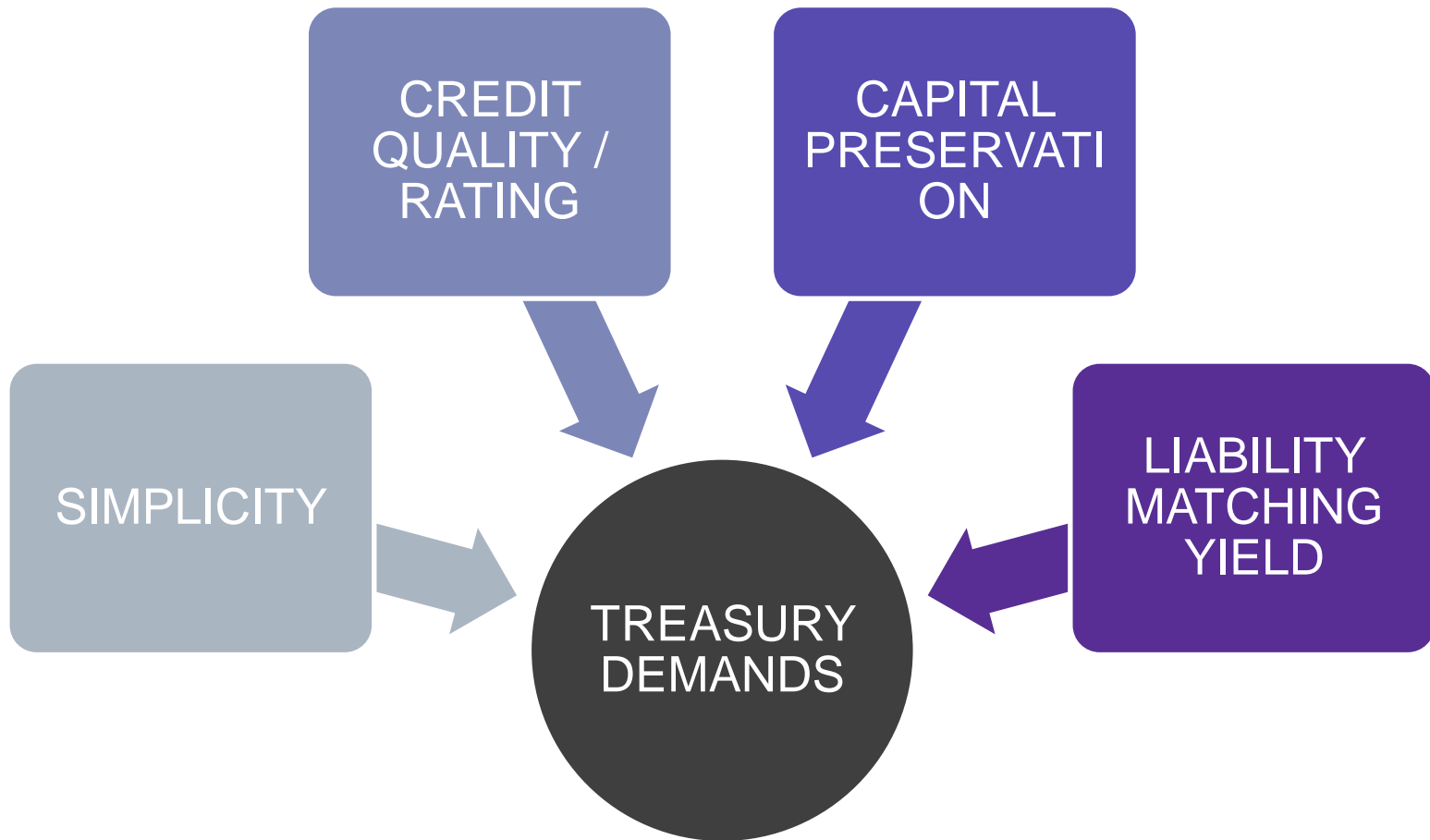
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# DEMAND DRIVERS

## WHAT DO ISLAMIC BANK TREASURIES NEED?

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# SUPPLY OPPORTUNITIES HOW REITS CAN BE UTILISED TO FACILITATE SUPPLY



# REAL ESTATE INVESTMENT TRUSTS (REITs)

## WHAT ARE REITS?

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### Real Estate Focus

- Investment vehicle that invests or proposes to invest 50% of its total assets into real estate assets.

### Ownership

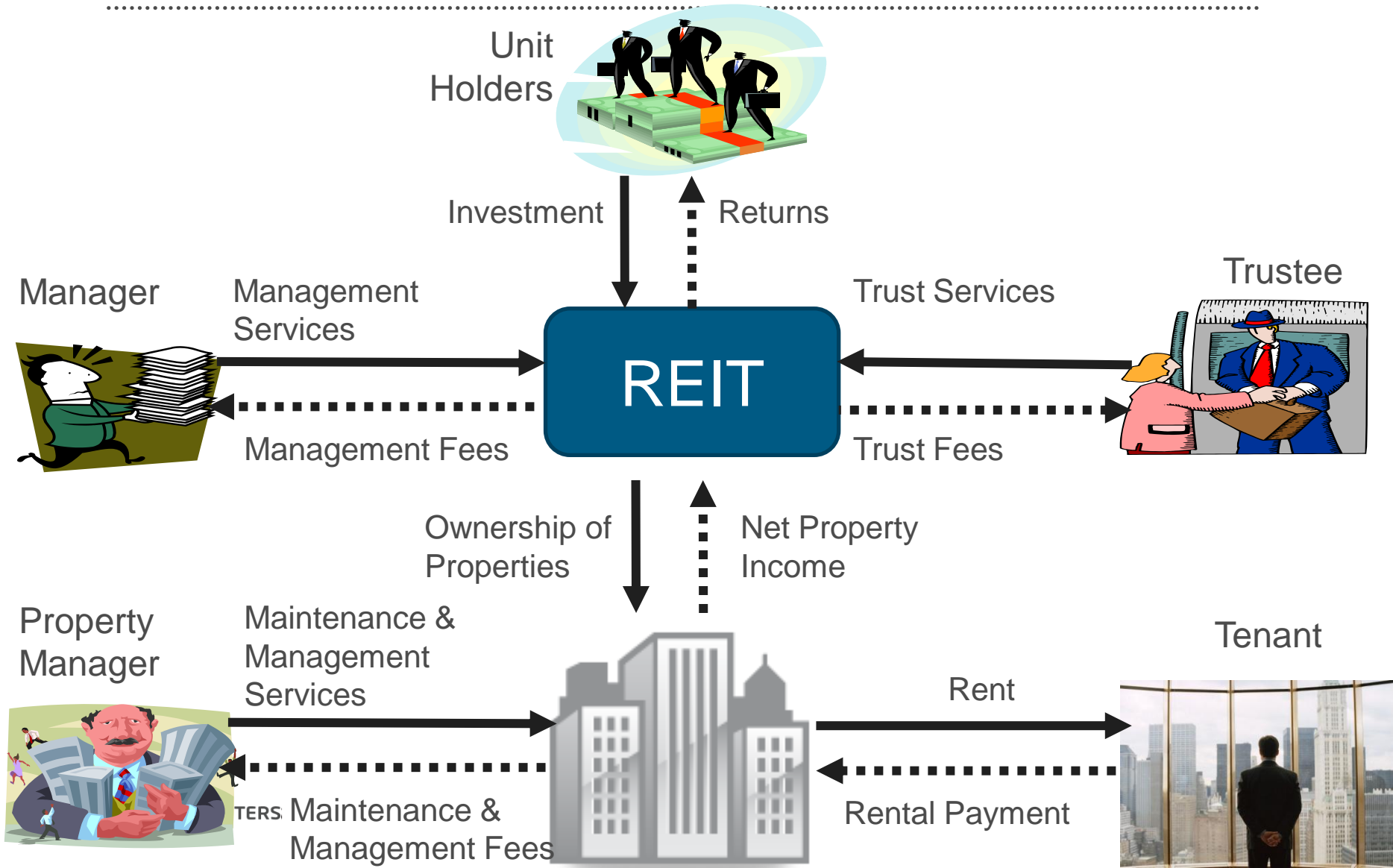
- May be by direct ownership of the assets or by way of equity in company that invests in such assets

### Business Model

- REIT business model driven almost entirely from investment property recurrent income.
- Low risk passive investment with high certainty of cash flows.
- To be tax free at REIT level, must distribute most of its income (some authorities require 90%) to its shareholders.



# REIT STRUCTURE AND STAKEHOLDERS



# TYPES OF REITS

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## Equity

- Primary Asset: Direct ownership of real estate
- Leasing
- Development
- Asset Management
- Rental Income

## Mortgage

- Primary Asset: Mortgage Assets
- Real Estate loans
- Construction financing
- Interest Income

## Hybrid

- Primary Asset: Mix of assets
- Own and operate real estate assets and provide mortgage financing



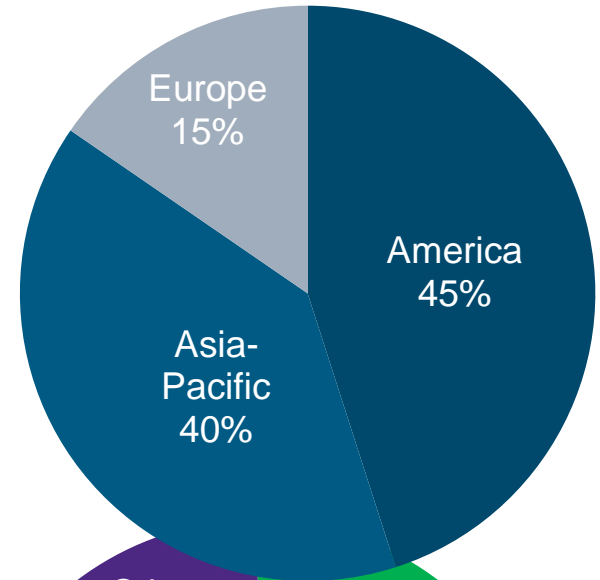
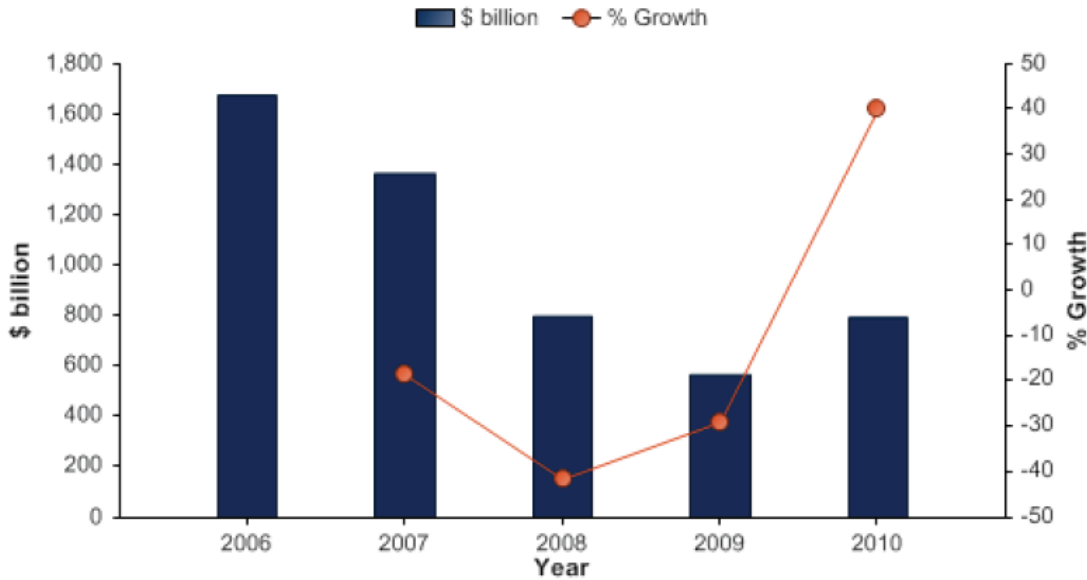
# SHARIA COMPLIANCE FOR EQUITY REITS

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- Non-permissible rental activities
  - Interest / Gambling / Gaming / Non-Halal Products and services or related services
- Rental from tenant who operates mixed activities
- Leverage (Percentage of Debt)
- Cash and Accounts Receivable
- Interest Income



# POTENTIAL REIT UNIVERSE

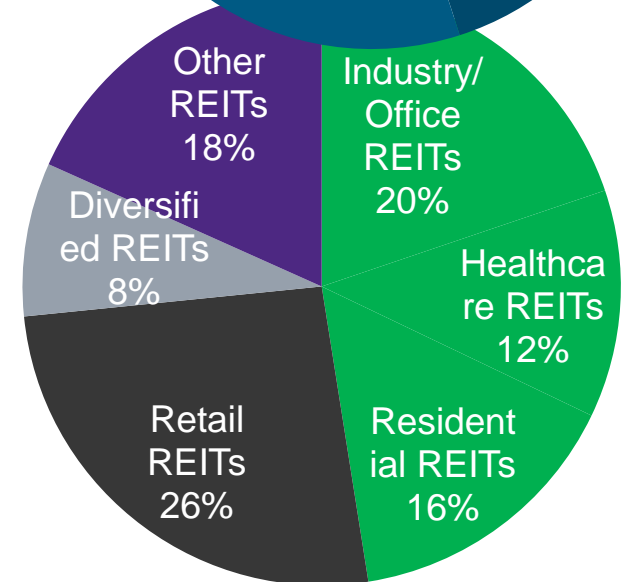


Global REIT Market **\$795 bln**

US Equity REITs **\$389 bln**

Turkish REIT **\$7.5 bln**

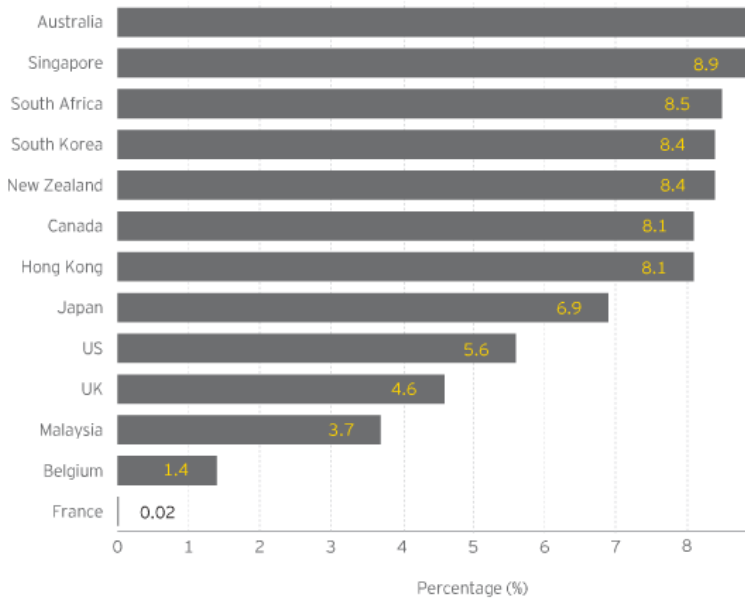
Malaysian REIT **\$795 mln**



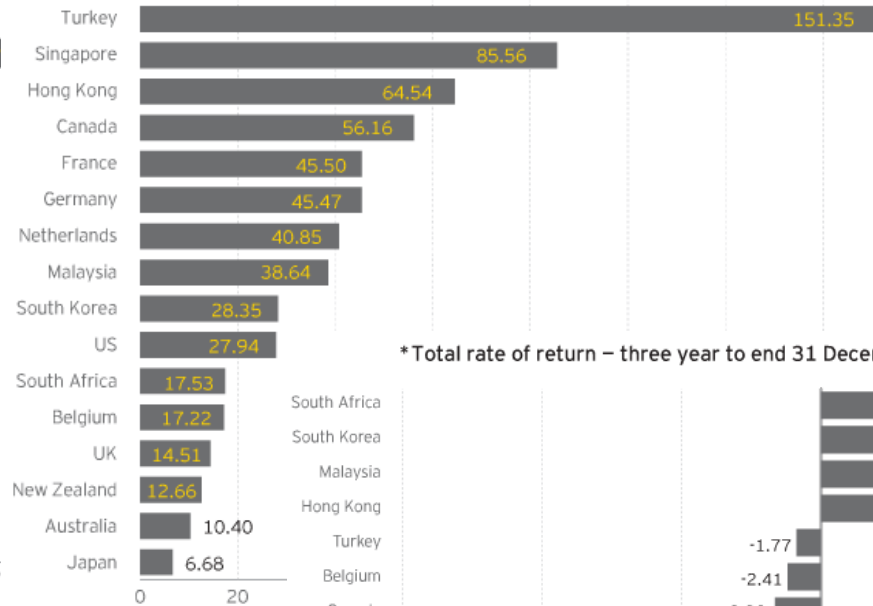
# REITS

## WHAT RETURNS HAVE THEY OFFERED?

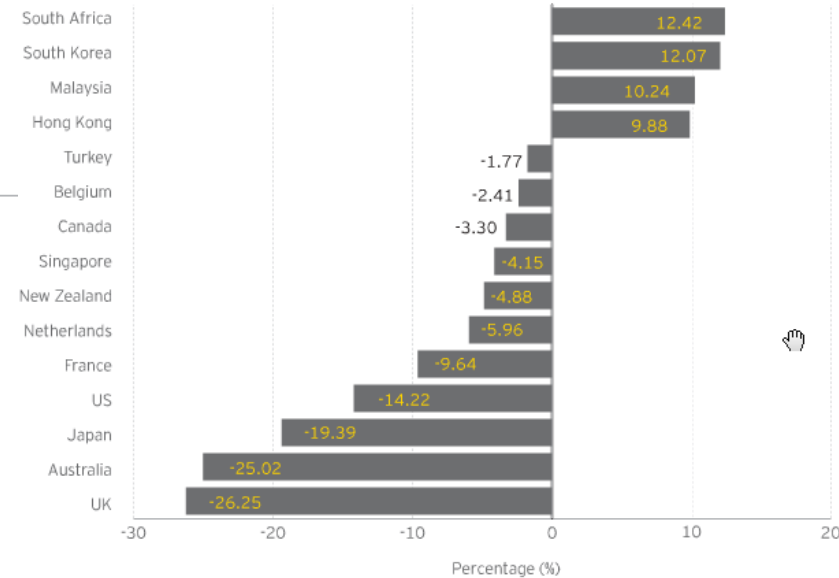
\*Weighted average dividend yield



Total rate of return – one year to end 31 December 2009



\*Total rate of return – three year to end 31 December 2009



\*Three-year data not available for Germany

# DEMAND MEETS SUPPLY

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## WHY ARE REITS GOOD FOR ISLAMIC BANKS?

- Diversification of credit
- Low risk
- Steady income generation
- Liquid (particularly those in developed markets)
- Asset backed

## CHALLENGES

- Real Estate concentration
- No guaranteed capital protection, but then nothing is RISK FREE

## POTENTIAL SOLUTIONS

- Require a third party market maker to sit in between and arbitrage the two sides with some risk absorption
- Create a rated SPV compiling the underlying assets and providing a diversified pool of risk in different buckets and geography
- Key is to find traditional PASSIVE rental REITs (not construction or development based)





## CASE STUDY

# ATAKULE REIT JSC, TURKEY

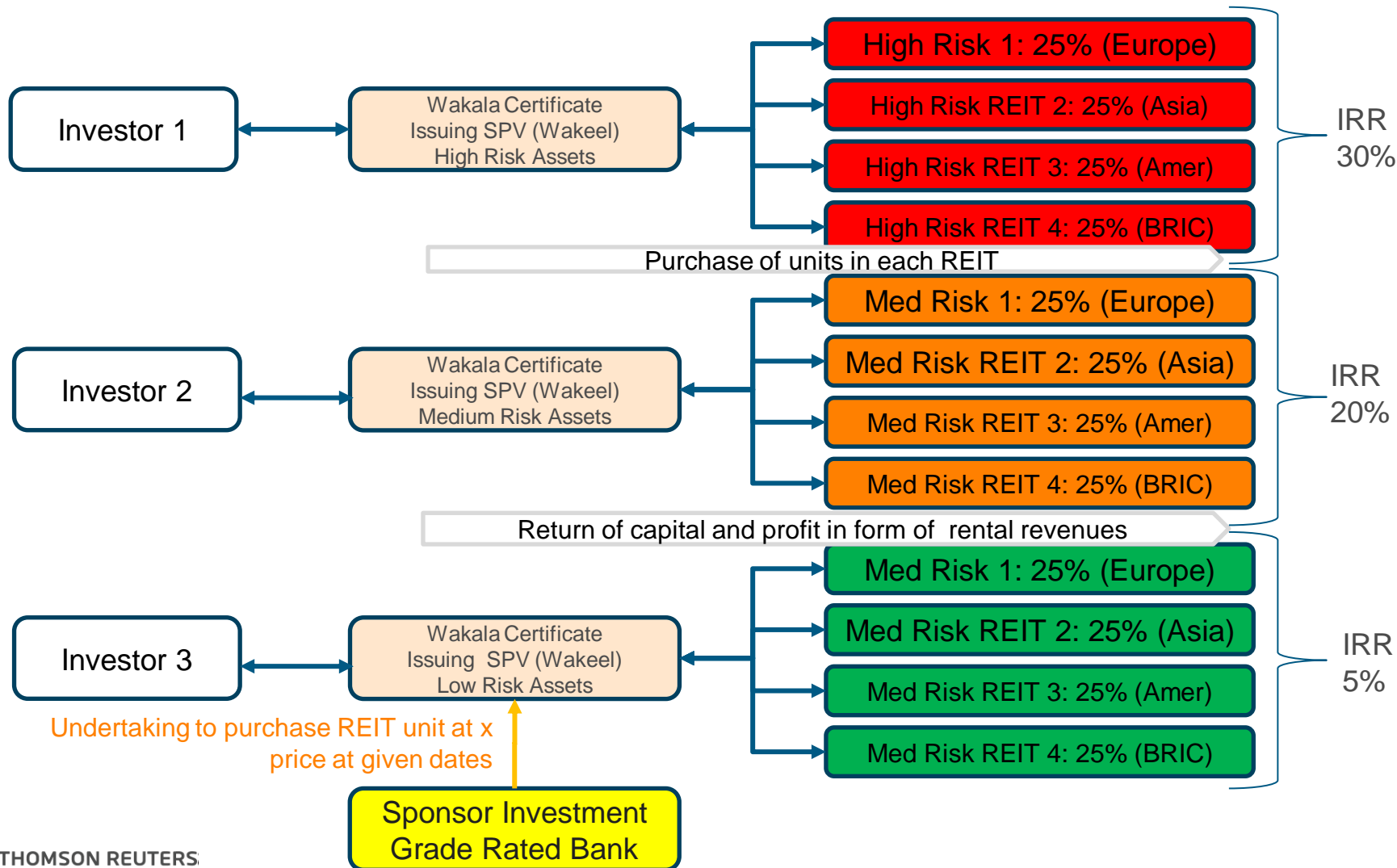
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- ✓ Shopping centers (32.83%)
- ✓ Business centers (16.70 %)
- ✓ Hotels (9.52%)
- ✓ Office buildings (0.73%)
- ✗ Capital market and monetary instruments (39.25%).



# OPPORTUNITY FOR FINANCIAL INSTITUTIONS

## REIT WAKALA INVESTMENT FUND



# WHAT'S NEEDED TO INVEST IN THIS MARKET?

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- Uniform standards of what is Shari'a compliant for REITS, identifying:
  - Types of permissible tenants (can be similar to activities screener)
  - Permissible percentage of tenants involved in non-compliant activities
  - Percentage of leverage, cash and interest income



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