



THE INTERNATIONAL  
ISLAMIC FINANCE FORUM

Asia

*Islamic REITs*  
*The Latest Shari'a-Compliant*  
*Investment Opportunity*

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السوق  
الهابية  
الاسلامية  
الدولية



International  
Islamic  
Financial  
Market

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## *IIFM*

- The IIFM is an international infrastructure, non-profit organization, established through the collective efforts of five countries and one multilateral institution: Bahrain, Brunei, Indonesia, Malaysia, Sudan and Islamic Development Bank.
- *IIFM's Principal Objective is to establish, develop and promote the Islamic Capital and Money Market on the principles of Shari'ah*
- IIFM's role is that of a developer and catalyst of the Islamic financial market encompassing both the short-term money market and the long-term capital market

## *IIFM - Areas of Immediate Focus*

- Standardization of market related issues such as contracts and products
- Guidelines and Procedures on Islamic instruments
- International Islamic Trading and Liquidity management system covering aspects such as trading infrastructure, clearing and settlement
- Research and Development and Specialized events and forums to disseminate information and create awareness on Islamic Capital and Short Term Financial Market
- Development of templates for capital market segment of the Islamic Financial Services Industry

## Overview of REITs

- *REITs or REIT like vehicles operate in 29 Countries*
- *US REITs:*
  - 1960
  - Unpopular niche investment until 1992
  - Capitalization of US \$360 bn
  - Yields reaching 5.5% in 2005
- *French REITs (SIIC):*
  - 2003
  - Capitalization of US \$ 23.8 bn
  - Yields reaching 5% in 2005
- *Australian REITs:*
  - 1970's
  - Capitalization of US \$26 bn
  - Yields reaching 7.3 % in 2005

## REIT – Types, Risk & Return

- *Types of REITs:*
  - Equity REITs – own and operate income producing Real Estate
  - Mortgage REITs – lend money to Real Estate owners and operators
  - Hybrid REITs – own properties and give loans
- *REIT return/yield depends on the following types of assets:*
  - Core – Stable, low risk & low returns
  - Core Plus – Moderate Risk & Higher returns
  - Opportunistic – High Risk & High returns and Capital Gains

## Advantages of investing in REITs

- Taxes:
  - Tax benefits in taxable jurisdictions
  - Tax free jurisdictions can attract foreign investors
- REITs are a liquid asset that can be sold fairly quickly to raise cash or take advantage of other investment opportunities
- Using REITs, common investors with only a few thousand dollars available can diversify their holdings between various geographic areas and property specializations in listed Real Estate investments
- Low correlation to interest rates
- Better inflation hedge
- REITs have a lower correlation to equities than many other asset classes, providing portfolio stability for those with an active asset allocation strategy
- High cash dividends relative to the market

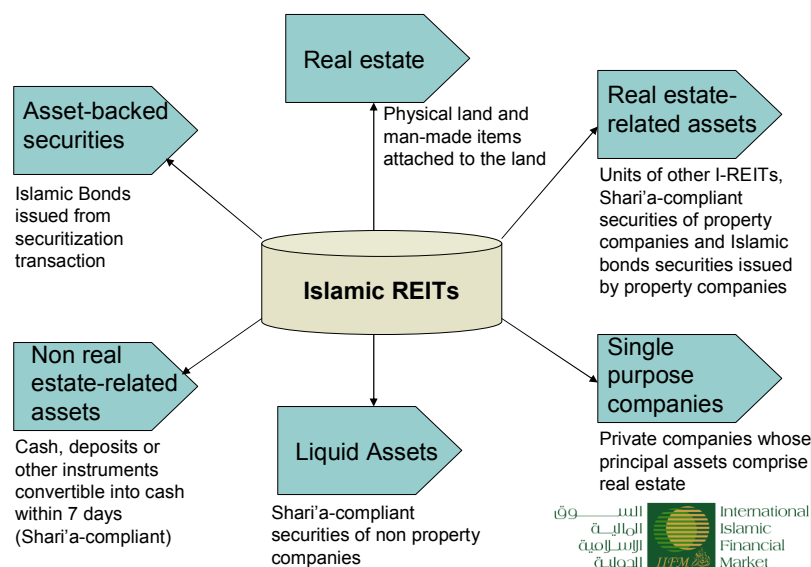
## Investing in Islamic REITs - Issues

- High distributions of annual profit and lower reinvestment leads to a slower growth rate
- Although the business tends to be a fairly stable one, REITs are not without risk. For example, their dividend payments are not guaranteed and the real estate market is prone to cyclical downturns
- The lack of a developed secondary market for Islamic instruments including REITs
- Shari'a restrictions might restrict investment universe
- Universal Islamic REITs guidance and regulatory framework

## Malaysian Islamic REITs

- Securities Commission- Malaysia, issued guidelines for I-REITs in November, 2005, facilitating the creation of a new asset class for investors
- The guidelines on I-REITs can be considered a supplement to the conventional guidelines
- It outlines the criteria according to which a certain real estate is considered permissible
- The Al-'Aqar KPJ REIT, launched by KPJ Healthcare Bhd, Malaysia, is the first Islamic REIT in the world
  - Approved May 2006
  - Initial Size: 205 million units

## Malaysian Shari'a-Permissible Investments for I-REITs



## Conclusion

- Islamic REIT has a potential to develop into a viable investment alternative, however, following major issues needs to be resolved:
  - Universally acceptable regulatory framework
  - Shari'a consensus on assets types
  - Cross border trading
  - Tax benefits and double tax treaties

# Thank You