



# **Islamic Real Estate Finance and Middle East Opportunities**

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## Content of Presentation

- General introduction to Islamic Finance
- Application of Islamic Finance in Real Estate: Singapore's examples
  - Investment acquisition of office building at 11 Beach Road
  - Development Financing of Mixed-use Project at Bencoolen Street
- Application of Islamic Finance principles in Real Estate Investments
  - Sharia Property Funds and REITs
- Investment and Development Opportunities in Middle East

## Introduction to Islamic Finance

- A fast growing industry over the last 30 years with estimates at USD250 Billion and growing at 10-15% annually
- Not just an interest-free principle as practised in conventional banking and financial services - based on Sharia principles (Qur'an & Hadith)
- Allocating financial resources to productive use based on mutual agreement
- There must be certainty and no speculation
- Business activities utilising Islamic finance must not be involved in vices, non-Halal products such as pork and liquor, weapons, etc
- Sharia Board comprising of Sharia scholars to determine if a product is Sharia-compliant



## Application of Islamic Finance in Real Estate

- Increasing trend in using Islamic Finance for real estate activities as Middle East investors have strong interest in real estate investments
- Types of assets that are Sharia-compliant:
  - Residence/ Serviced apartment
  - Office
  - Industrial/ Business Park
  - Retail
- Hotels are not Sharia-compliant



## Application of Islamic Finance in Real Estate

- Need to further assess if tenancies are Sharia-compliant - exclude business activities listed in the last two slides
- Conventional banks and insurance companies are also not allowed
- Source of rental income from non-Sharia compliant activities must be less than 1/3 of total rental income to the asset
- Certain Middle East investors may request for lower tolerance of the non-Sharia compliant activities

## Investment into 11 Beach Road - S\$25M Musharakah Bond

- Purchase of an office building to replace about 20 waqf (trust) properties under MUIS which are dilapidated and in non-prime locations
- Redevelopment not feasible since rental income is not attractive
- Decision to sell these waqf properties on a 199-year Leasehold tenure
- Fatwa Committee chaired by Mufti allowed migration of low-yielding waqfs to higher-yielding waqfs
- Bought a 6-storey office building at 11 Beach Road for S\$31.5M (@ S\$919 per sq.ft.) through the single-purpose company which owns the building
- Refurbish the building at S\$2.5M to make it more upmarket given its prime location - increase rentable area and better facilities

## S\$25M Musharakah Bond Structure

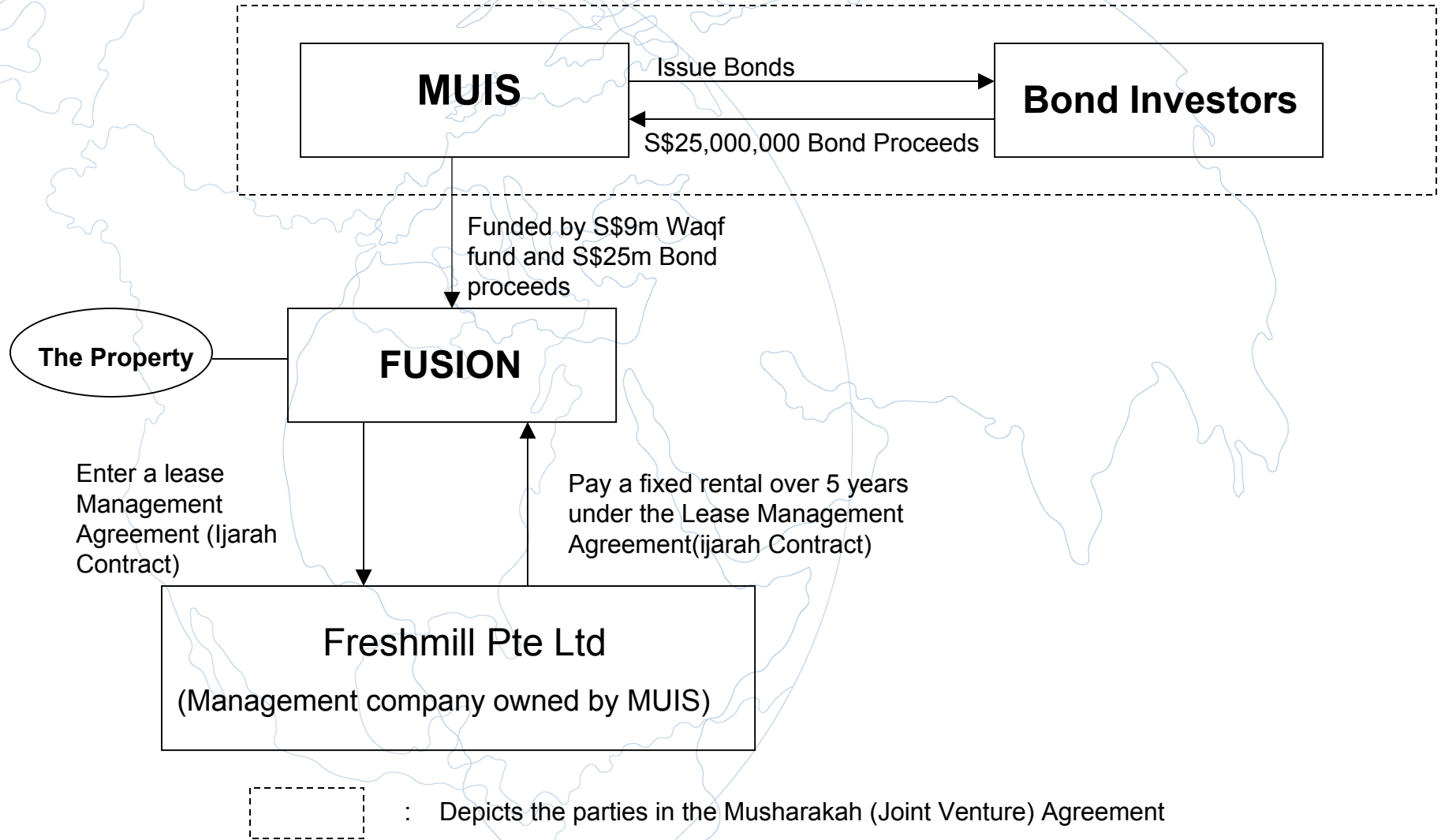
- The purchase of 11 Beach Road requires financing as the sale of the old waqfs is in progress
- Initially explored conventional instruments but finally decided on Islamic financing in the form of Musharakah Bond - the first Islamic bond in Singapore
- The Musharakah structure was decided since it conforms to Shariah principles and guidelines imposed by Monetary Authority of Singapore
- This funding structure comprises two principles - Musharakah (Partnership) and Ijarah (Leasing)
- The Islamic Council (MUIS) entered into a Musharakah Agreement with the Bond Investors to purchase 11 Beach Road and to share the profits and risks
- MUIS contributed S\$9M while the Bond Investors' share was S\$25M - capital contribution and profit-sharing ratio at 26.5% and 73.5% respectively

## **S\$25M Musharakah Bond Structure**

- This structure also involves an Ijarah Agreement between Fusion (company which owns the building) and Freshmill Pte. Ltd.
- Freshmill would manage the tenancies and in return, guarantees an annual Ijarah income of S\$1,190,000
- This Ijarah income is shared equitably between MUIS and the Bond Investors at S\$315,000 and S\$875,000 per annum respectively based on the agreed ratio of 26.5% and 73.5%
- This Musharakah Bond structure was a team effort involving MUIS, DTZ, UOB Asia Limited as Lead Manager, Allen & Gledhill as Legal Adviser and Prof. Dr. Daud Bakar from Malaysia as Shariah Advisor



# \$25M MUSHARAKAH BOND FOR 11 BEACH ROAD



## S\$25M Musharakah Bond Structure

- The principal terms of the Musharakah Bond as follows:
  - > Amount S\$25,000,000
  - > Tenure 5 years due in 2006
  - > Rate of Return 3.5%
  - > Ijarah Payment Frequency Semi-annual
  - > Denomination S\$250,000
  - > Bond Repayment Bullet
- The bonds were fully subscribed by institutional investors

## 11 BEACH ROAD



Before Refurbishment:  
a 6-storey office building



After Refurbishment:  
- more rentable area  
- new building facilities and M&E services

## **Bencoolen Street - S\$35M Musharakah Bond Structure**

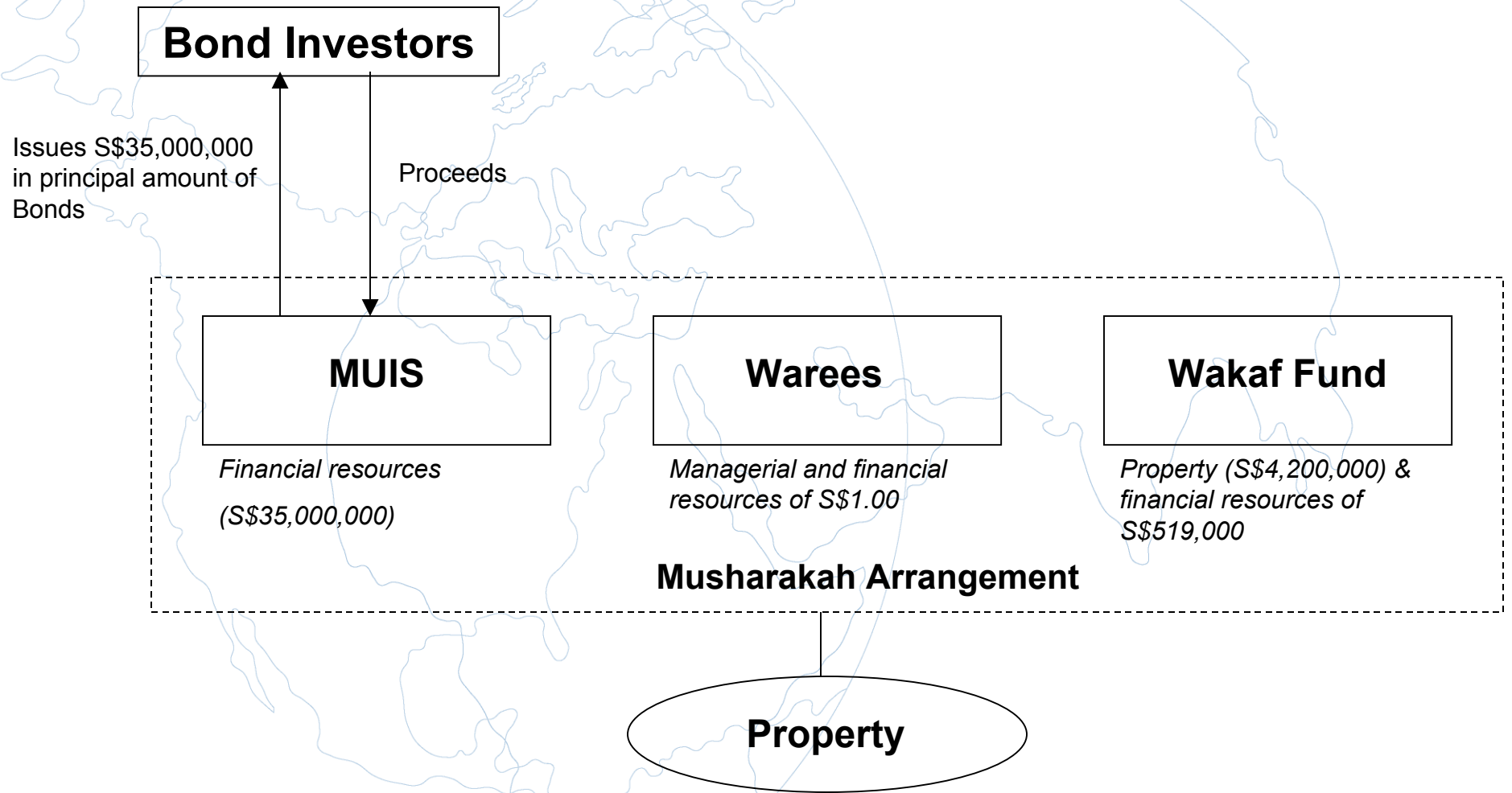
- Redevelopment of an old Mosque into a mixed-use complex comprising a modern Mosque, a 3-storey commercial building and a 12-storey apartment with 84 units served by full facilities
- There are three parties to this Musharakah Agreement - MUIS, the Wakaf Fund and Warees Investments Pte Ltd, a wholly-owned subsidiary of MUIS
- The share contribution of each party was determined by the corresponding completed value of the various components to this development
- DTZ valued the whole complex based on completed value at S\$71.06M:
  - a) Mosque and 3-storey commercial building to be owned by Wakaf Fund - S\$8.44M (11.9%);
  - b) 12-storey apartment to be owned by MUIS and managed by Warees - S\$62.62M (88.1%)



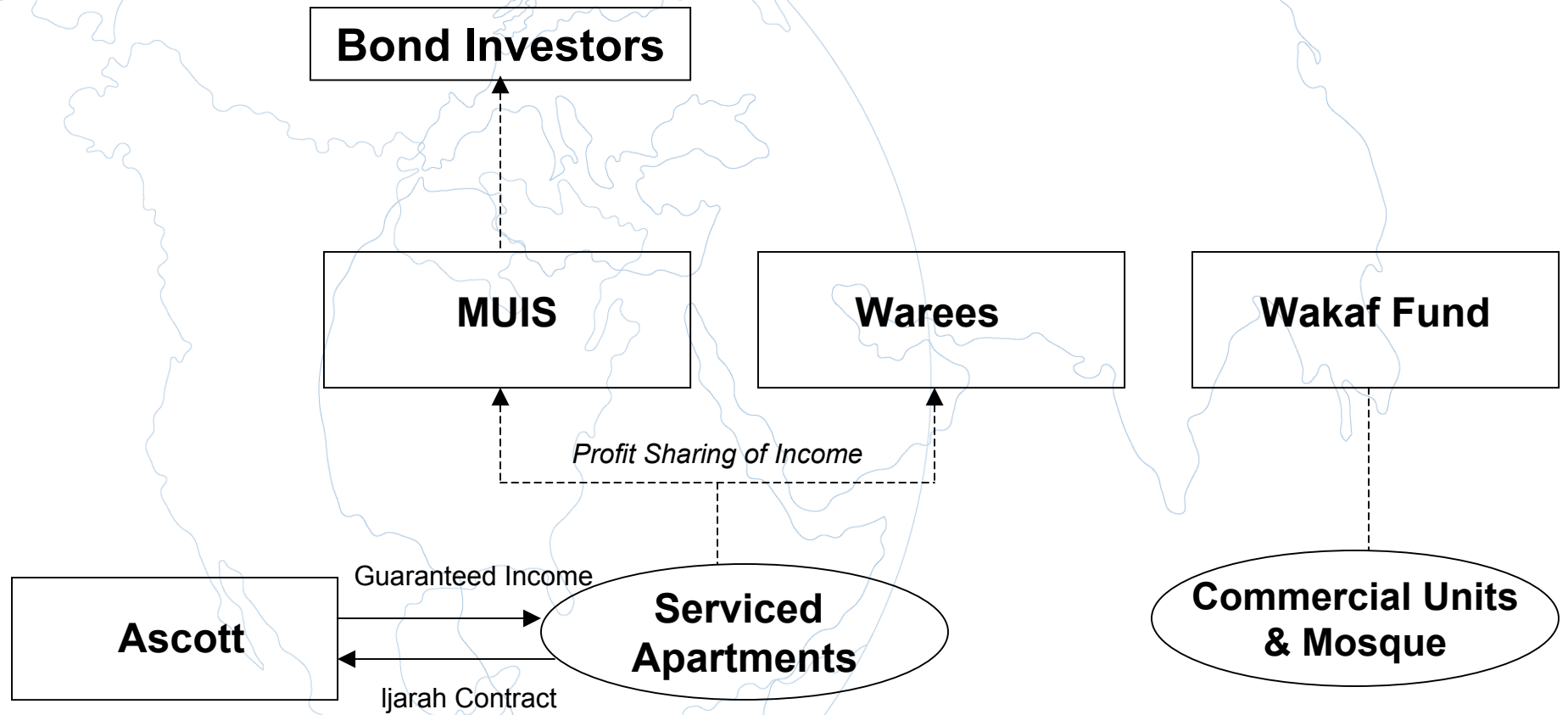
## Bencoolen Street - S\$35M Musharakah Bond Structure

- The capital contribution for each party is:
  - a) MUIS - S\$35,000,000 (88.1%);
  - b) Wakaf Fund - S\$4,719,000 (11.9%) comprising S\$4.2M for the existing land value and equity of S\$519,000;
  - c) Warees - contribute management resources and nominal cash of S\$1.00
- Warees, on behalf of MUIS, entered into an Ijarah Agreement with Ascott to manage the apartments for 10 years with a minimum guaranteed income of S\$1.3M for the first year and S\$1.8M from second to the tenth year, with additional profit-sharing
- This Ijarah income is to be paid out to the Bond Investors at S\$1,060,500 (@ 3.03%) per annum with the remaining amount to be distributed between MUIS and Warees on an agreed ratio of 70:30

# \$35M MUSHARAKAH BOND FOR BENCOOLEN STREET



# \$35M MUSHARAKAH BOND FOR BENCOOLEN STREET







## S\$35M Musharakah Bond Structure

- The principal terms of the Musharakah Bond as follows:
  - > Amount S\$35,000,000
  - > Tenure 5 years due in 2007
  - > Rate of Return 3.03%
  - > Ijarah Payment Frequency Semi-annual
  - > Denomination S\$250,000
  - > Bond Repayment Bullet
- The bonds were fully subscribed by institutional investors



## Bencoolen Street



Before Redevelopment:  
- an old Mosque



After Redevelopment:  
- modern Mosque with 3-storey commercial  
- a 12-storey apartment with 84 units

## New Initiatives in Waqf Rejuvenation and Islamic Financing

- Given the success of this model in Singapore, the strategy is to replicate this model to waqf land in other countries:
  - in Malaysia, starting with a prime waqf near KLCC
  - in China, have identified prime waqf and Muslim land in Shanghai (economic city), Beijing (capital city), Xi'an (historical city) and Nanjing
  - in UK & Europe, partnership with European Muslim Trust to develop Waqf land across UK & Europe through DTZ London
- Packaging the Waqf portfolio into an investment structure attractive to Muslim investors worldwide



## Promoting Middle East Investments into Asia

- Middle East investors are looking into Asia to complement existing investments in US & Europe - looking for products with good returns
- Trend in Property Investment for matured markets through indirect investment vehicles - Property Funds & REITs
- Trend among M.E. investors for Shariah-compliant funds
- Similar trend picking-up in Malaysia & Brunei

## Promoting Middle East Investments into Asia

- Feedback from ME investors that they are looking for a Pan-Asia Fund with net yield of 8% and double-digit IRR
- The fund structure can be conventional or Islamic or even a hybrid through fund of funds
- Creating investment product as response to M.E. investors => also appeal to local institutional investors
- Boost the property market through more investment activities
- Supports Singapore's initiative to promote Islamic Banking and Wealth Management

## Investment Opportunities in Middle-East

- Boom in construction activities across Middle-East due to demand within and outside the region - partly fuelled by high oil prices
- Exciting mega projects not just in Dubai but now found in other countries, such as Bahrain, Kuwait, Qatar, Saudi Arabia, Egypt, Jordan, Lebanon and even Libya
- Some of the Middle-East funds are not being invested back home due to the high returns and zero tax
- Looking for reputable partners and developers from Singapore to participate in some of these mega projects

## Conclusion

- Increasing trend in Islamic Finance beyond just the global Muslim population - more conventional banks and industry players are joining in
- In UK, formation of Islamic Bank of Britain as full retail bank - new initiative in Sharia home financing through Murabaha (mark-up sale) which granted waiver of double stamp duty by UK government
- Growing demand for Sharia Property Funds and REITs, especially into Asia
- Middle-East investors have keen interest into Singapore due to good investment reputation but lack good assets for investment as more funds and REITs are taking-up available assets
- Suggest government to open-up office buildings owned by statutory boards and GLCs to attract more foreign investments through property funds and REITs



# Till we meet again Thank You

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