

# STRUCTURING OF SHARIA COMPLIANT ISLAMIC REITs

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## Global Interest in REITs

- U.S. / European Experience
- The Japanese Phenomenon
- GCC/ Far Eastern/ Asian Interest

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## ISLAMIC REITs STRUCTURE

- Collective Investment Vehicles – Trust funds
- Pooled capital from investors for buying, managing and selling real estate property
- New investment opportunities with reasonable returns and investment expected

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## ISLAMIC REITs STRUCTURE... continued

- Expected returns from rental income plus capital appreciation resulting from the holding of real estate assets over the investment period – dividends and capital gains
- Investments in residential or commercial building, retail or industrial sites; shares in publicly listed property companies, unlisted Islamic securities of property companies.

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## SHARIA COMPLIANCE CRITERIA FOR REITs

- Islamicity of underlying assets and activities.
- Categorization, classification, and reconciliation of permissible and non-permissible commercial activities
- General prohibition of hotels and resorts
- General prohibition of financial services based on riba'

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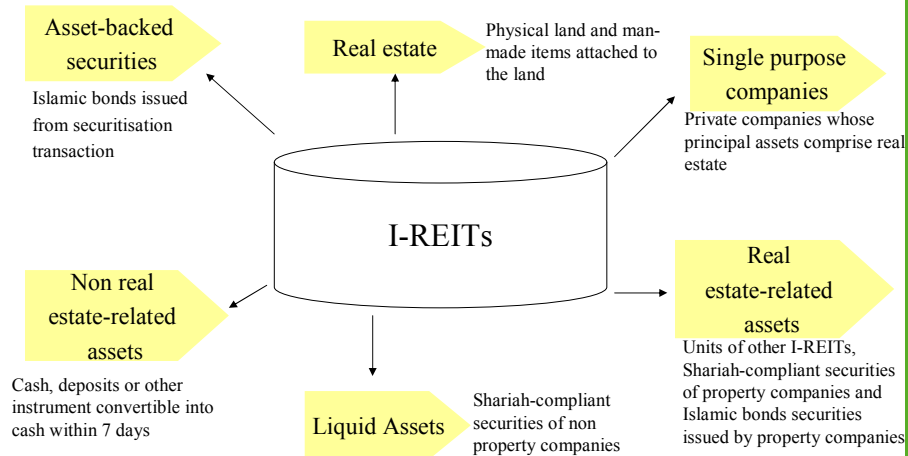
## SHARIA COMPLIANCE CRITERIA FOR REITs ...continued

- Prohibition against conventional insurance.
- The deployment of Takaful schemes for insuring of real estates.
- General prohibition against alcohol, tobacco, firearms, gaming, or gambling activities.
- Prohibitions against non-compliant securities trading or stock broking.

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## SHARIAH-PERMISSIBLE INVESTMENTS FOR I-REITS



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## CORE SHARIA GUIDELINES

- Underlying Contracts
- WAKALAH as a Preferred Contract
- Ijara as a Preferred Contract
- The TRUSTEE Role
- Management Fee Structure

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## THE MALAYSIAN CASE STUDY

- The world's first I-REIT, AL-AQAR Damansara Specialist Hospital KPJ, IPO RM 180 million – AM Merchant Bank as managing underwriter, adviser, and sole placement agent
- AL-HADHARA Plantation Boustead Holdings Bhd I-REIT
- Documentation precedents

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## THE MALAYSIAN CASE STUDY ... continued

- Potential beyond the hospital & plantation properties – warehouses, logistic centers, parking facilities, housing units
- Limited market considerations
- Regulatory & tax factors
- Tax on dividends as a limiting factor even without the capital gains tax
- Regional competitive profile - Singapore

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## Mechanism of *Ijara*

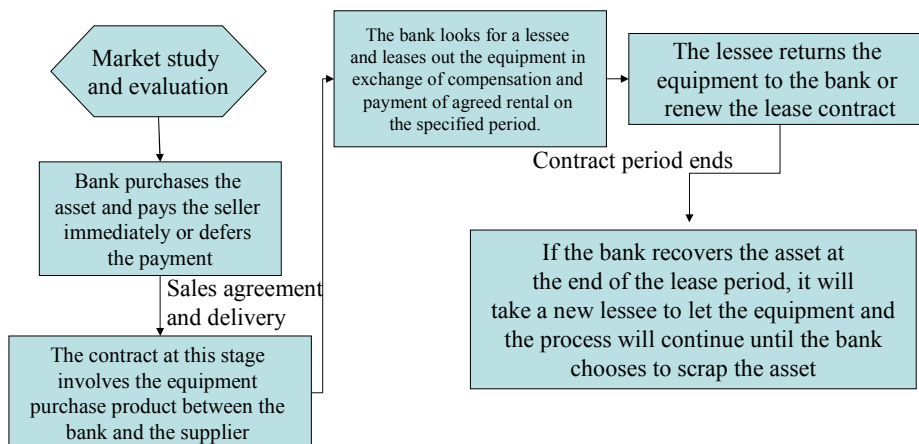
- Operating Lease
- *Ijara Muntahiah Bittamlik* (Lease Ending with Ownership)
- Sale and Leaseback

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## Mechanism of *Ijara* - Operating Lease

- Islamic bank maintains a number of various assets (high degree marketability assets) to respond to the needs of different customers.



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