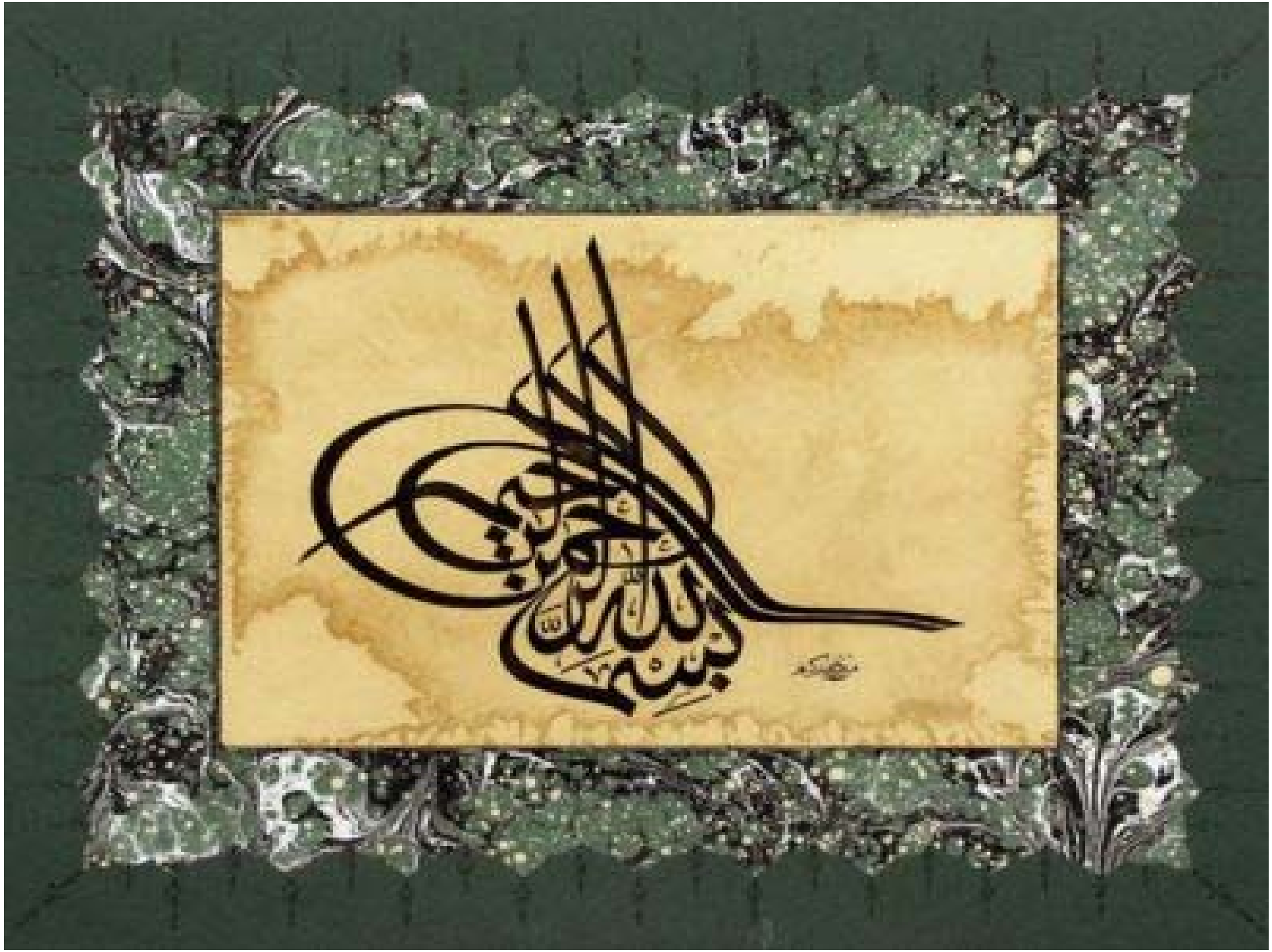


بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

الحمد لله





Presentation
to
Islamic Financial Markets Conference
&
Specialized Workshops

by

Zaigham Mahmood Rizvi
Chairman
& MD

H.B.F.C.

Islamic REITs/REIFs prospects in Asia

Session 4 - January 24, 2007 at Marriot Hotel, Karachi, PAKISTAN.



I-REIT: Is the name right?

- i-REIT Internet REIT
 - i-REIT India REIT
 - i-REIT Islamic REIT
- OR
- REIF Real Estate
Islamic Funds



Evolution

- A Real Estate Investment Trust or REIT (rēt, rhymes with *treat*) is a tax designation for a corporation investing in real estate that reduces or eliminates corporate income taxes.
- The REIT structure was designed to provide a similar structure for investment in real estate as mutual funds provide for investment in stocks.
- REITs originated in United States in 1960. They were created by US Congress to make investments in large-scale, income-generating real estate accessible to small investors. The Congress envisaged REITs as entities similar to public limited companies.



Evolution

- USA
 - Congress enacted REIT Law in 1960.
 - 180 listed companies.
 - \$400 Bn + Market Cap
- Canada
 - Mutual Fund Trusts (MFT) were established in 1994 in Canada.
 - In 2004, Canada had 24 publicly traded REITs with total Market Capitalization of around US\$ 12.8 Bn. Most these were typically more highly geared than similar vehicles in Australia & USA.
- There are approximately 200 publicly traded REITs in the U.S. today (January 2007), with assets totaling more than \$475 billion. The shares of these companies are traded on major stock exchanges, which sets them apart from traditional real estate. Other REITs may be publicly-registered but non-exchange traded or private companies. Approximately 800 REITs are not registered with the SEC and are not traded on a stock exchange.



Broad Categories of REITS

Liability side

- Equity REITs (ER): These own and operate income-producing real estate and their revenues come from the rent charged on their properties & Capital gains on sale.
- Mortgage REITs (MR): Deal in investment and ownership of property mortgages. These REITS loan money to owners of real estate, or invest in (purchase) existing mortgages or MBS. The interest on money directly lent to real-estate owners is part of their revenues.
- Hybrid REITs: These not only operate properties but also lend to real-estate owners and operators, thus combining the investment strategies of the above 2 types

Assets side

- Residential REITs
- Commercial REITs
- Hybrid REITs



Advantages of REITS

- REITs provide Investors with the following advantages :
 - o Avoidance of double taxation (no corporate income tax, allowing pass through of income to individuals).
 - o Professional management teams responsible for the day-to-day operations
 - o Unlike direct real estate, publicly traded REITs are a liquid asset.
 - o Relatively small investors are able to diversify their holdings between various geographic areas and property specializations.
 - o REITs can tap the debt and equity markets to raise funds when opportunities arise
 - o REITs have had low correlation to stocks and bonds providing portfolio diversification benefits
 - o High cash dividends can limit steep declines.
 - o Reduction in Discounts to NAV eliminating the tax overhang from share valuations
 - o **Above All**
An opportunity to law in low income people and small savers to hedge against real estate inflation. If you cannot afford to own a plot/house, at least you own a fraction of it.



Investors of REITs

- Real Estate Investment Trusts (**REITs**) are an efficient way for many investors to invest in commercial and residential real estate businesses. As an investment, REITs combine the best features of real estate and stocks. They give an investor a practical and effective means to include professionally-managed real estate in a diversified investment portfolio.
- The **REIT** industry began its fifth decade in 2000. Because of the industry's overall maturity and performance over the last four decades, **REITs** can be viewed as "all-weather" investments.
- Thousands of small investors/savers
- Institutional investors – pension funds, endorsement funds, insurance companies, Provident Funds & Mutual funds
- Global Investors



REIT Specifics depend on specific REIT Laws of each country

For a company to qualify as a REIT, it must meet the following criteria in US:

- To be a corporate entity registered as REIT under REITs laws
- Be Managed by a Board of Directors / Trustees
- Have shares that are fully transferable
- Have a minimum of 100 shareholders
- Pay annually at least 90 percent of its taxable income in the form of shareholder dividends
- Have no more than 50 percent of its shares held by five or fewer individuals during the last half of the taxable year
- At least 75% of total investment assets must be in real estate
- Derive at least 75 percent of its gross income from rents from real estate property or interest on mortgages on real property
- No more than 20% of its assets consist of stocks in taxable REIT subsidiaries



Types of Assets Attracting REITs Investment

- REITs invest in a variety of property types: shopping centers, apartments, warehouses, office buildings, hotels and others. Most REITs specialize in one property type only, such as shopping malls, self-storage facilities or factory outlet stores.
- Health care REITs specialize in health care facilities, including acute care, rehabilitation and psychiatric hospitals, medical office buildings, nursing homes and assisted living centers.
- Some REITs invest throughout the country or in certain other countries. Other specializes in one region only, or even a single metropolitan area.

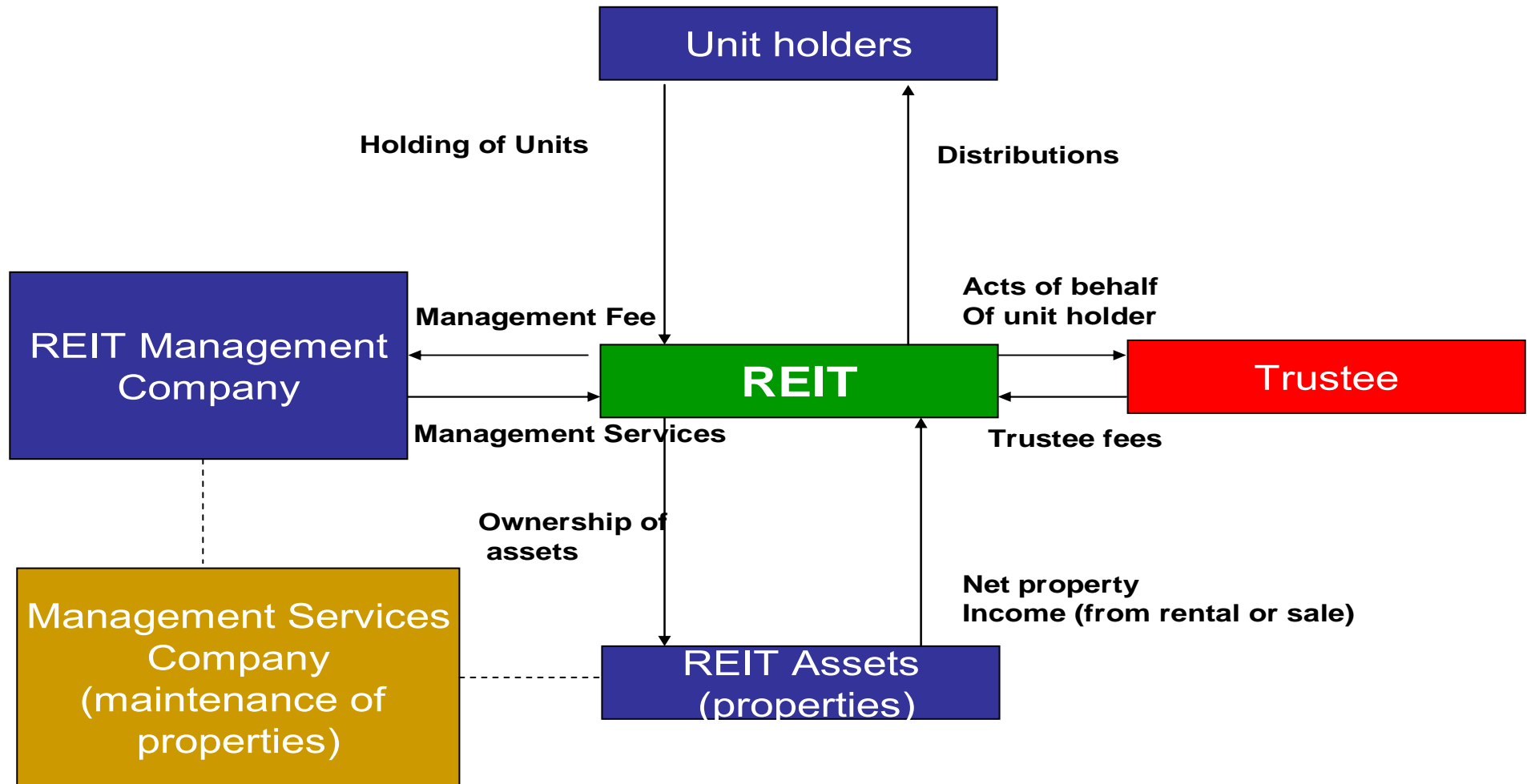


Differences between a REIT & Conventional Real-Estate Company

- REIT is a collective Investment scheme with a broad-based ownership
- Units of the REIT scheme listed and traded on the Stock-Exchange (therefore greater Corporate Governance and Liquidity for Investors)
- 90% income distributed to Unit-Holders
- Tax pass through Vehicle
- REITs enable undertaking of very large-scale construction projects.



Visual Illustration





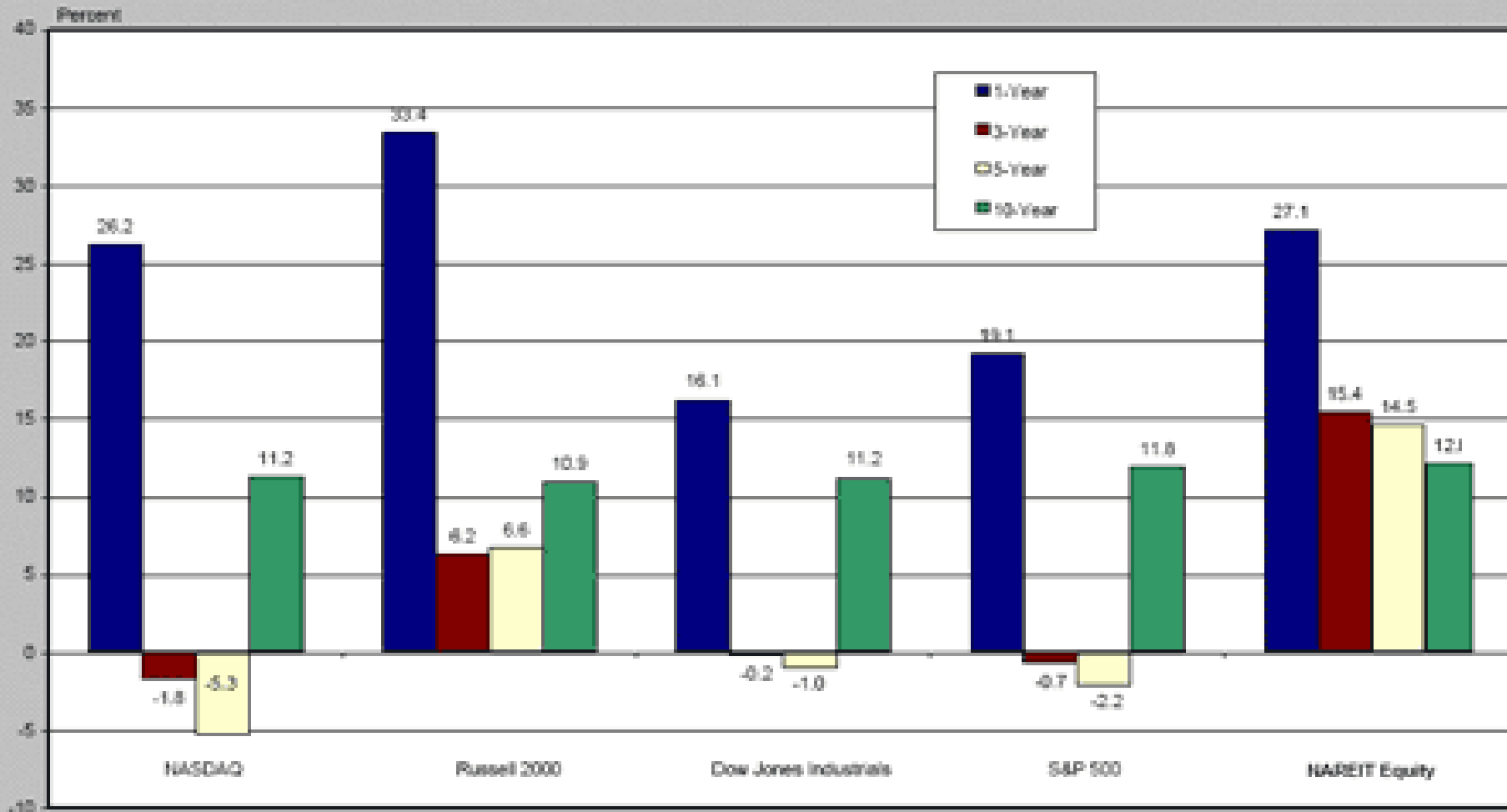
Global Success of REITS

- According to one estimate, global real estate securities market stood at \$ 733 billion as at December 2003
- Prior to 1990, REITS were operational in only 4 developed countries but today they are functional in over 17 countries, and the number is steadily increasing.
- REITS have outperformed in term of yield, most other major market benchmarks over three decades and with significantly less volatility.
- In 2001, Standard & Poor's recognized the evolution and growth of the REIT industry as a mainstream investment by adding REITs to its major indexes, including the S&P 500.



Comparison of Performance of US REIT Sector with the other main US equity market indices 1994-2004

Long-Term Performance of Listed U.S. Equity REITs vs. Other U.S. Benchmarks
(Compound total returns, periods ending June 30, 2004)



Source: National Association of Real Estate Investment Trusts®, Nasdaq Stock Market, Inc. and Ibbotson Associates.



REITs' success in Asia(I)

- According to UBS Warburg, the Asian region including Japan and Australia contain approximately US\$ 1.3Tn of investment grade property , nearly the same as that in US.
- In Asia REITs are functional in Japan, Hong Kong, Australia ,Singapore, Taiwan and Malaysia, Hong Kong, and coming up India & Pakistan.
- Australia is the second largest player of REITs, next to USA.
- In Australia 75% of Shopping Plazas are held by REITs. About 50 REITs (known as Listed Property Trusts LPT) in Australia are registered with the Australian Stock Exchange with a total market capitalization of around US\$60 Bn.



REITs' success in Asia(II)

- The Asian REIT market in terms of growth is dominated by Japan, which alone has 32 J-REITs with a market capitalization of \$29.5 Billion. By comparison it took the United States 34 years to reach \$ 30 billion in market capitalization.
- Although much progress has been made in Japan, HongKong, Singapore and South-Korea, considerable liquidity and transparency risks still exist.
- Singapore as of December 2004 had 4 listed REITs with a market capitalization of approximately US\$3Bn .Hong Kong on the other has 50 Property companies listed in the Stock Exchange with market capitalization reaching \$ 75 Bn . The 'Link' REIT launched by the Hong-Kong Housing Authority has attracted an astonishing amount of investor interest.
- Much greater risk exists in India and China due to high uncertainty in political and regulatory environment. It is further exacerbated by short commercial leases and volatile rental rates

Over the next 10 years, Asian REITS are expected to increase many times in size to nearly \$900 BN.



USA REITs RETURNS

Date	US Treasury	Standard & Poors		Dow Jones	Russell 2000 Total Return Indexes			NASDAQ	FTSE NAREIT All REIT Index	
	10-Year Note ¹	S&P 500	Utilities ²	Industrials ³	2000	Growth	Value	Composite ³	Total	Price
	(percent)									
	Year End Levels									
31-Dec-02	3.82	1,261.18	1,830.33	8,341.63	1,543.73	1,285.51	2,536.39	1,335.51	1,572.61	94.98
31-Dec-03	4.26	1,622.94	2,305.89	10,453.92	2,273.20	1,909.54	3,703.82	2,003.37	2,177.53	122.85
31-Dec-04	4.22	1,799.55	2,865.76	10,783.01	2,689.86	2,182.73	4,527.75	2,175.44	2,839.70	150.94
30-Dec-05	4.42	1,887.93	3,348.12	10,717.50	2,812.35	2,273.38	4,740.89	2,205.32	3,075.06	154.73
29-Dec-06	4.71	2,186.13	NA	12,463.15	3,328.90	2,576.77	5,854.03	2,415.29	4,131.39	198.53



Average Annual REIT Dividend

Country	Yield (%) p.a.
USA	4.06% (Dec31st-2006)
South Korea	8.1 %
Thailand	6.8 %
North Asia	6.3 %
Singapore	5.4 %
Hong Kong	4.9 %
Taiwan	4.2%
Japan	4.2%

Source: Asia REITs Investment Boom



REITs in Asia

Country	Trust	Market Cap (billion of U.S.\$)	Yield % p.a.
JAPAN	20	19.93	3.5 - 4
SINGAPORE	6	5.767	4.1 – 5.1
MALAYSIA	1	0.09	7 - 8
KOREA	6	0.55	6 - 7
TAIWAN	1	0.188	3.8 – 4.5

Source : HGI,Nikko Citi Group,Bloomberg.Data as of July 2005.

**Potential
Growth of REITs in
Asian Countries**



REITs in Australia

- Listed Property Trust (LPT), were created in 1971.
- Australia is the trendsetter for one of the matured listed Real Estate Industries thus dominates in the World ;
- Due to stable association of listed property trust (LPTs) with its REIT not only the ownership is strong but a deep investor pool available, hence the market avenues to LPTs are vibrant;
- Nearly 10% of the Australian stock market capitalization is generated by its LPTs as compared with US where only 1% of the stock market is produced through LPTs;
- After meeting the REIT's requirements of its country, the horizon of Australian REITs has further been extended to the other countries of the World which is glaring of the fact how successful the Australian REITs are;
- These are over 800,000 investors in Australian LPT Sector of over 50 LPTs, with market capital of US\$50 Bn.



Australian Companies in the FTSE EPRA/NAREIT Global Real Estate Index

(Ranked by free float adjusted equity market cap in millions of U.S. dollars)

Company	Ticker Australian	Equity Market Cap	Free Float Range	Adjusted Market Cap
Westfield Group	WDC	\$22,962.70	100	\$22,962.70
General Property Trust	GPT	5,847.10	100	5,847.10
Stockland Property Group	SGP	5,633.80	100	5,633.80
Macquarie Goodman Property Trust	MGP	4,308.90	100	4,308.90
Centro Properties Group	CNP	3,263.80	100	3,263.80
DB RREEF Trust	DRT	2,872.00	100	2,872.00
CFS Gandel Retail Trust	GAN	2,630.00	75	1,972.50
Mirvac Group	MGR	2,468.90	100	2,468.90
Investa Property Group	IPG	2,254.60	100	2,254.60
Multiplex Group	MXG	1,932.20	75	1,449.10
Macquarie CountryWide Trust	MCW	1,666.30	100	1,666.30
Macquarie Office Trust	MOF	1,645.00	100	1,645.00
Commonwealth Property Office Fund	CPA	1,494.50	100	1,494.50
ING Industrial Fund	IIF	1,273.40	100	1,273.40
Australand Property Group	ALZ	1,074.20	50	537.1
ING Office Fund	IOF	1,008.60	100	1,008.60
Macquarie DDR Trust	MDT	766.9	100	766.9
Macquarie ProLogis Trust	MPR	692.1	100	692.1
Galileo Shopping America Trust	GSA	664.4	100	664.4
Valad Property Group	VPG	506.6	100	506.6
FKP Property Group	FKP	443.5	100	443.5
Bunnings Warehouse Property Trust	BWP	431.3	100	431.3



REITs in Australia – A-REITs

- The major chunk of the Australian REITs is generated through employer's contribution of 9% of wages to workers as a part of employer's superannuation retirement plan which alone constituted US\$ 500 billion;
- The Australian LPT represents 10% of the World listed property companies;
- There are 54 various type of LPTs functioning in Australia which deals-in Industries, Offices, Hotels/Leisure, retail etc ;



REITs in Australia

Salient features of the Australian LPT REITs

- **No borrowing limits;**
- **At trust level, the LPT is tax-free;**
- **Income Tax only on distribution at unit-holder level;**
- **Most properties are valued at least annually;**



REITs in Hong Kong

HK-REITs

- **Securities and Futures Commission of Hong Kong (SFC) promulgated REIT's rules in August, 2003;**
- **There is only one authorized REIT of HK\$ 23 Billion linked with the Housing Authority of Hong Kong for car parks and retail properties;**
- **Major part of REIT's income is generated from rentals;**
- **90% of annual net income after subscribing income tax is distributed to shareholders in dividends, and any related party transactions, subject to shareholder approval;**
- **With over 50 listed property companies in ASX, of market Cap A\$75 Bn.**



REITs in Japan J- REITs

- The Japan's revised Investment Trust Law was introduced in November, 2000;
- Up-till August, 2005, there were 21 REITs functioning at Japan with total assets worth amounting to US\$ 20 billion. Five more REITs are expected by 2006.
- All Japanese REITs are in the process of growth thus actively involved in purchasing the properties;
- Japanese REITs are treated as tax exempt entities if they pay dividends equal to at least 90% of their profit to investors;
- Yield advantage 2-4% above Japanese Govt Bonds.



Korea REITs K-REITs

- The Korean Legislation for REITS was promulgated in 2001;
- Although the REITs in Asia focuses upon the activities taken place in Japan, Singapore and even in Hong Kong yet the Korean REIT sector is viable for its own country;
- Minimum capital was Korean Won KRW 50 billion for both regular REITs and Credit REITs;
- As per revised REIT law (REICA), the minimum capital requirement is now KRW (Korean Currency) 25 billion. It allows 50% of investment-in-kind;
- Korean REITs are involved in the acquisition, management and sale of property, as well as renovation, real estate development(Up to 30% of equity) and property leasing;



Malaysia REITs M-REITs

- The Malaysian Exchange has three listed RE firms IN 1989-90.
- In 2005 Axis REIT launched its first REIT. Its property portfolio consist of five industrial/commercial and office buildings, valued at US\$ 79 million;



Malaysia REITs M-REITs

- For listed REITs, at least 75% of total assets must be invested in Real Estate;
- For un-listed REITs, at least 70% of assets invested must be in real-estate, single-purpose companies or real estate related assets.
- Malaysian REITs have a borrowing limit of 35% of the net asset value of the fund



Singapore (S-REITs)

- Introduced in 2002, the Singapore possesses the most progressive REIT markets in Asia;
- Singapore REITs have grown to 6 REITs with US\$ 5.6 billion market capitalization.
- However, the yield reduced significantly from 7.26 % to 4.7%% in just two years in June, 2005 with the premium to bonds narrowing from 498 basis points to 213 basis points



Singapore (S-REITs)

- The Regulator for Singapore REITs is the Monetary Authority of Singapore;
- CapitaLand Group is one of the largest listed property companies in Asia, with intentional operations in 28 countries and 90 cities with an equity market capitalization just under US\$ 4.5 billion;
- The private real estate fund plans to acquire and develop assets worth US\$ 500 million over next seven years;



Taiwan (T-REIT)

- The real state securitization Law (RESL) inactive in July 2003 permitted establishment of closed-end fund, although setting of open-end funds, still requires regularity approvals
- REITs have no maximum leverage limit.
- There is only one listed REIT launched in March-2005 with a size of 5.83 billion (Taiwanese dollars);



India Liberalizes REIT Laws

- Name of REITs law in India enacted are called Real Estate Mutual Fund (REMF)
- Under the new requirements for development, serviced plots for integrated townships have been reduced from 100 acres and 2,000 dwelling units to 25 acres. Also, a construction development project has a minimum built-up area of 50,000 square meters.
- In April, 2004 the Government of India lifted the embargo on venture capital funds investing in the real estate;
- As a result of this change, Indian and international funds are starting to invest in the property sector.
- The new FDI guidelines are expected to trigger a surge of foreign investment into the construction sector, perhaps as much as \$1.5 billion in the next year and at an increasing pace after that.
- This inflow of capital will help finance housing, office buildings, retail stores, research and development facilities, hotels, resorts, technology parks and other commercial real estate projects.



Surge of Investment in Indian Real Estate Sector

- Positive impact was witnessed soon after the liberalization.
- A New York based Tishman Speyer Properties L.P showed its interest in creating a joint venture with ICICI Venture Funds Management Company of India (ICICI Ventures), India's largest private equity firm ;
- Through this venture each company is supposed to contribute US\$ 300 million for eventual investment in residential, office and retail development in the largest cities of India;
- The Housing Development Finance Corporation Ltd. (HDFC), India's largest housing finance lender, is setting up HDFC Venture Capital Ltd., capitalized at \$111 million; and ICICI Ventures is launching a \$222 million fund. GE Commercial Finance Real Estate has already invested \$63 million in a fund launched by Singapore-based REIT Ascendas, which has been present in India for the past 10 years engaged in development and leasing of technology parks.
- The fund plans to acquire and develop assets worth \$500 million over the next seven years.



India REITs (I-REITs)

- FDI, in India was initially available only for four sectors i.e. hospitality, technology parks, integrated townships(or mixed-use development) , and special economic zones the horizon has been expanded to real estate sectors for developing integrated townships;
- Investors are required to develop a minimum of 100 contiguous acres with at least 2,000 dwelling units;
- By observing the tremendous avenues in real estate markets both in national/international context, the Indian Government announced a liberalized guidelines for allowing greater FDI in February,2005;



India REITs (I-REITs)

- By virtue of this for development, services plots for integrated townships have been reduced from 100 acre and 2,000 dwelling units to 25 acres. Also a construction development project with a minimum built-up area of 50,000 square meters;
- In April,2004 the Government of India lifted the embargo about venture capital funds investing in real estate;
- As a result of FDI guidelines surge of US\$ 1.5 billion forecasted in the next year and at an increasing pace afterward which will help facilitate for housing, office buildings, retail stores research and development facilities, hotels, resorts, technology parks and other commercial real estate projects ;



India REITs (I-REITs)

- Immediately after announcement of FDI the positive results became apparent and a New York based Tishman Speyer Properties L.P show its interest in creating a joint venture with ICICI Venture Funds Management Company of India (ICICI Ventures) the India's largest private equity firm;
- Through this venture each company supposed to contribute US\$ 300 million for eventual investment in residential, office and retail development in the largest cities of India;
- The HDFC is setting up HDFC venture capital Ltd., capitalized at US\$ 111 million and ICIC Ventures is launching a US\$ 222 million fund;
- GE Commercial Finance Real Estate has already invested US\$ 63 million in a fund launched by Singapore-based REIT Ascendas, which has been presented in India for the past 0 years engaged in development and leasing of technology parks.



Real Estate Boom in Middle-East

Cont..

- Middle-East is another region where REITs can look forward to a very promising future.
- Saudia-Arabia, the holiest of Islamic Countries has recently opened its stock-markets to foreigners while Dubai has recently introduced REITs Laws, Rules & Regulations.
- Dubai is for the first time offering the Right of Residential Ownership along with Right of Residence to Foreigners.
- The massive Oil-Prices Increase in the recent past has improved Balance of Payments Liquidity by approximately US\$300-500 Bn pa in the region
- These surpluses unlike in the past are now being recycled in the local/regional economy rather than US & EU



Real Estate Boom in Middle-East

- The oil-prices increase this time is likely to be relatively permanent than in earlier episodes 1973-74 or 1979-81
- Financial World is flattening & helping integration of Islamic Finance with global systems. Islamic governments are fully supporting this move towards Islamic Economics as Regulators, Central Bankers, Issuers&Asset Managers.
- Islamic Finance is growing at 15-20% pa compared to 4-6pa for Conventional finance in the ME Region
- Moves towards Financial&Economic integration in the ME region;GCC Monetary Union in 2010.
- Emphasis on Infrastructure Development: estimated value of Projects under development or planning exceeds US \$1Trillion.



REITs Associations

- **National Association of REITs (NARIET) - US based**
- **European Public Real Estate Association (EPRA) - Europe**
- **Association of Foreign Investors in Real estate (AFIRE) - Europe**
- **Asian Public Real Estate Association (APREA) - Asia**

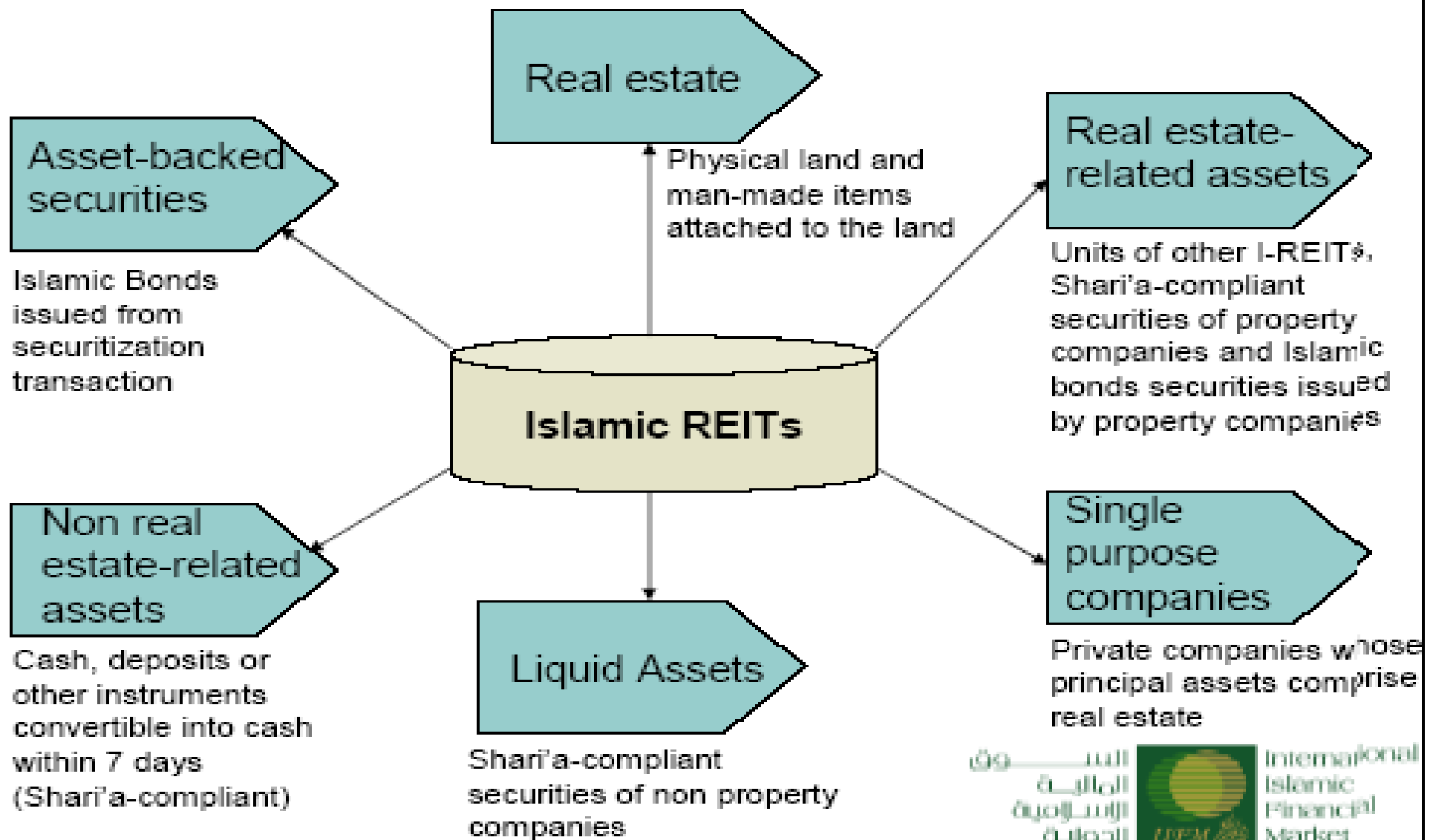


REITs Associations

- US & Europe have powerful organizations representing interests of Listed Real Estate sector in existence for a long time.
- APREA is fully endorsed by EPRA, NARIET, AFIRE and has been offered a great deal of support by The Monetary Authority of Singapore.
- APREA's impressive list of founding members include amongst others Hong Kong Land, West-field Group, SM Prime, Ayala Land Inc., ARA Asset Managers, Ascendas REIT, Macquarie Group, YTL Corporation Berhad, Henderson Global Investors, UBS Realty Incorporated.
- APREA work with its members towards:
 - ✓ Raising standards and awareness in the areas of accounting, reporting, valuation,
 - ✓ Lobbying with governments for enacting practical regulations, viable structures and tax harmonization
 - ✓ Provision and imparting of Education & Training



Islamic REITs in Malaysia-II





Investing in Islamic REITs - Issues (I)

- 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'ah restrictions might restrict investment universe
- Universal Islamic REITs guidance and regulatory Framework does not exist

(Contd..)



Investing in Islamic REITs - Issues (II)

- Islamic REIT has a potential to develop into 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



REITs Progress in Pakistan

- REIT-style structure existed in the form of Real Estate Modarabas e.g. Twin Towers Modaraba which was a Business Failure
- December 2004: First Draft of proposed REIT Laws prepared by Securities & Exchange Commission of Pakistan (SECP) and presented to the GOP
- September 2006: SECP presents the second draft of Proposed REIT Laws to the GOP
- A Task-Force created under the chairmanship of Dr.Salman Shah,PM's advisor on Finance to come up with an Investor Friendly REIT Model after considering the basic Legal, Regulatory and Fiscal issues.



REITs Progress in Pakistan

- GOP hopes to attract both Domestic and Foreign High Net-Worth Investors after REIT laws are finally promulgated.
- GOP is actually hopeful of \$3 billion FDI in Real-Estate
- SECP plans to introduce Build-Own- Transfer REITS initially, where REITS are dissolved once the project is completed and sold. SECP plans to introduce Rental REITS in the second phase of the plan once Build-Own- Transfer REITS are stabilized.



Proposed REITs By HBFC

(Rupees in Million)

HBFC to execute its projects based on REIT mode of finance.

Plots	Size (Sq Yard)	Market Value of Plot (Rs)	Construction Cost Est. (Rs)	Type
Mauve Area, Islamabad	1,556	40 - 50	250 - 300	Office Complex.
Model Town, Lahore.	10,000	75 - 100	750 - 1000	Residential
Hayatabad, Peshawar	9,000	50 - 75	250 - 300	Office / Residential
	Total	165 - 225	1,250 - 1600	

- **REITs** structure to be advised by the financial consultant based on various parameters.
 - it may be equity or leveraged REITs.
 - structure may be either Residential, Commercial or Hybrid.
 - NESPAK is working as technical consultant.
 - Government is keen to see floatation of **REITs** for growth of real estate industry.

Thank you

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