BANKING ON KNOWLEDGE

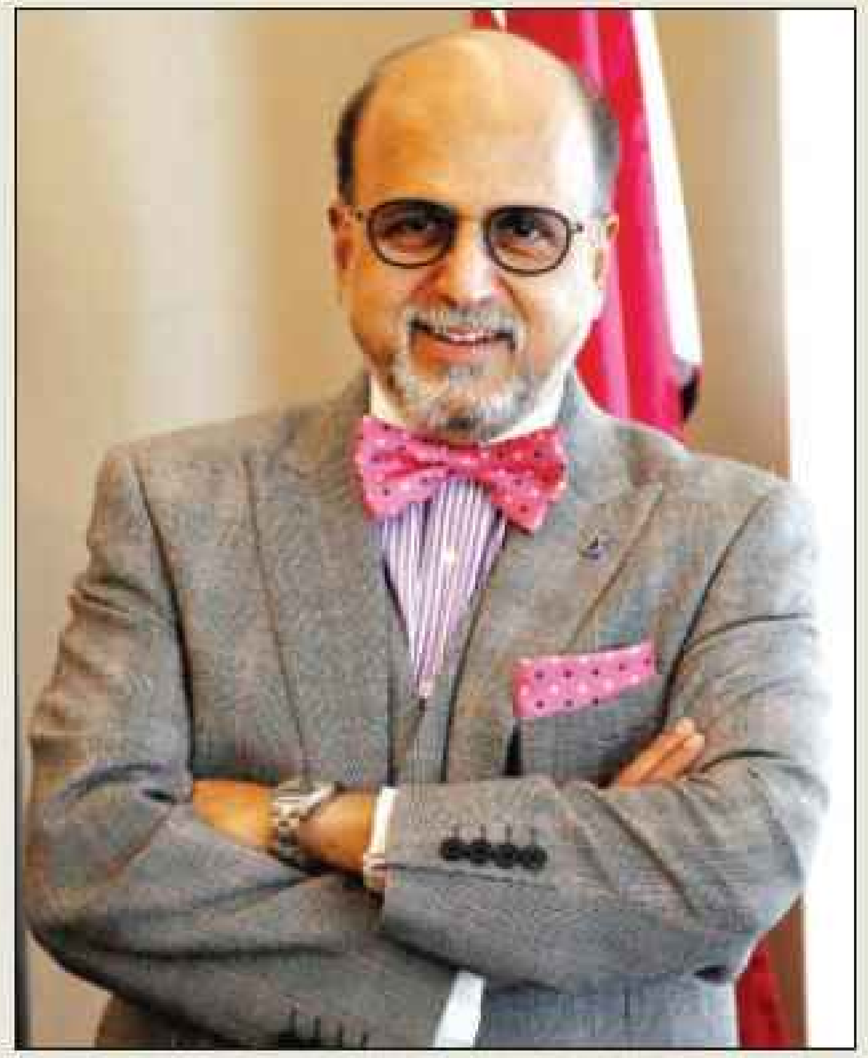
Real Estate Investment Trusts are expected to grow in the region

By Dr R Seetharaman

The US government's $1.9tn stimulus package, passed by Congress in March 2021, is fuelling a rapid economic recovery, which ultimately is expected to lead to a rebound in key sectors of the commercial real estate market and thereby to Real Estate Investment Trusts.

The UK Real Estate Investment Trust (REIT) regime, launched in 2007, had seen a number of developments in recent years increasing the attractiveness and accessibility of the regime to a wider pool of property investors and providers of capital.

India currently has three listed REITs that are traded on bourses — Embassy Office Parks, Mind space Business Parks and the recently listed Brookfield India Real Estate Trust. More REITs are expected to get listed on the Indian Stock market.



In the GCC region, we witness significant developments in Real Estate Investment Trusts (REITs). In January 2021, the Dubai Financial Market (DFM) began trading in Real Estate Investment Trusts (REITs) with the listing of Al Mal Capital's REIT.

The framework for listing and trading of REITs on DFM is the outcome of a wide-ranging co-operation between DFM, the Securities and Commodities Authority (SCA) and Dubai Land Department (DLD).

In the Saudi Arabian market, REIT instruments were introduced in 2016 and at present there are 17 of them.

Bahrain's first REIT was launched in November 2016.

In Oman, the Capital Market Authority issued regulations to list Real Estate Investment funds, in 2018.

In 2020, the Kuwait-listed KFH Capital REIT reflects Boursa Kuwait's ability to offer issuers an effective, credible and transparent platform for their investments.

In Qatar, the cabinet resolution No 28 of 2020 allowed Real Estate Investment Trusts that will specialise

in property investment in the various regions and this decision will provide an opportunity that was previously unavailable to middle and limited-income citizens, to invest in the real estate sector.

The REITs are expected to grow gradually as the real estate market in the region matures in terms of quality of and access to assets, financing, governance and regulations.

The REIT is a unit investment in a commercial real estate portfolio.

REITS own, and in most cases, operate income-producing property. It passes most of its earnings and capital gains onto shareholders. They are close-ended funds and are listed and traded on exchanges.

The benefits of REITs for the real estate owner includes the possibility to partially exit — large real estate buyers, release locked-in capital, raise capital to repay debt, recycle capital to fuel growth in other projects, receive similar cash flows, retain a liquid unit investment in real estate and achieve continuity, but with better corporate governance.

The benefits of REIT to investors include liquidity, where you can buy and sell them in stocks, transparency with regulated and audited financial statements, better performance due to attractive risk-adjusted returns, passive dividend income as they provide steady cash flow, diversification, smaller ticket size and low transaction costs.

The REIT structure is run by a fund manager, it is an independent entity providing custody services, the property management company services the physical assets, and an independent valuator provides regular valuations. A specific minimum percentage of the asset value is at all times invested in atleast 3 income-generating assets. A specific maximum percentage of asset value is invested in assets under development. The key issues faced by the REIT structure include pricing and valuation, exit norms, geographical limitation, personal liability, high leverage and transaction fees.

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