Housing and Housing Finance: Sharia-Compliant long-term funds and role of Islamic-REITs

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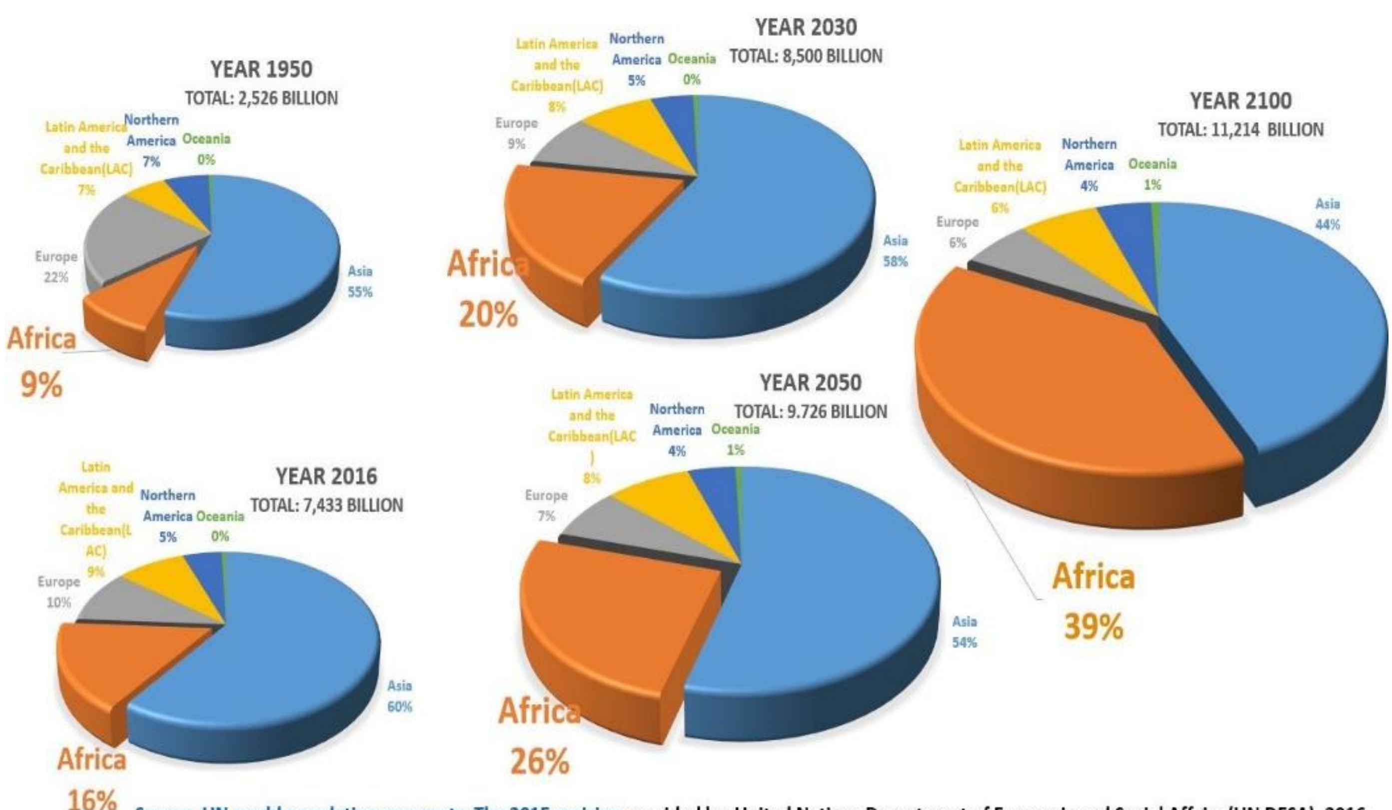
The world's biggest concern today is the burden of fast increasing population, as Malthusian Theory on population growth is visibly proving to be so true. With around 7.55 billion people presently living on face of the earth, the habitable land on the globe is already over populated and density is increasing in terms of Persons/Sq.KM. By year 2050 the world population is projects at 9.726 billion, with more than half ((54%) will be Asians or one out of two people on the planet earth.

Population estimates (1950–2016) and projected population (2017–2100) by world region, according to the medium fertility scenario



Source: UN world population prospects: The 2015 revision provided by United Nations Department of Economic and Social Affairs (UN DESA), 2016

This burden of population, among many other things, is greatly disturbing the people's basic right to live respectfully and in a decent habitat. Among the basic social needs i.e., food, clothing and shelter, need for a shelter is most critical among the three basic social needs. While a beggar would ask for food, and a very poor for clothes, a decent housing is the need for all segments of population, and becomes quite a challenge for economically weaker segments of the society. Providing the basic social needs, i.e., Food, Clothing and Shelter, is the primary responsibility of the State, more so for low-income segments of society and people at the bottom-of-the-pyramid (BoP). Providing a decent shelter and habitat is the role and responsibility of the people, the society and the state, and as we move down from top to bottom of pyramid, affordability decreases and so it increasingly becomes more a role of the State. The rate at which the world population is growing, the supply and availability of housing has no match with the unmet and growing demand.

The present population of the world is 7.55 billion, which is expected to be hovering around 10 by 2050. Worldwide, some 830 million people live in urban slums, and by 2020 it is estimated that the world's slum population will exceed 1 billion (i.e., one out of seven people on the globe). Slum dwellers grew from 777 million to 830 million during 2000-2010. It may, however, be mentioned here that, in the wake of the efforts to realize Millennium Development Goals (MDG) goals, 227 million people have so far moved out of slums, otherwise the global; slums population would have already crossed one billion.

The issue is all pervasive and has global dimension. Even advanced countries in the west like USA and many European countries are no exception. In 1950, New York City and Tokyo were the only two cities on earth with populations of more than 10 million; today there are more than 20 cities of that size. The world's urban population has been rising by an average of 65 million people a year over the last three decades, led by breakneck urbanization in China and India. The housing stock of expensive urban centers around the world has not expanded quickly enough to keep up with this surge in demand. Research from the McKinsey Global Institute has examined the scope of the housing affordability gap. California, for instance, added 544,000 households but only 467,000 net housing units from 2009 to 2014. Its cumulative housing shortfall has expanded to two million units. With home prices and rents hitting all-time highs, nearly half of the state's households struggle to afford housing in their local market. In New York City, MGI estimates that 1.5 million households cannot afford the cost of what we define as a decent apartment at market rates. This puts the city's total "affordability gap" at $18 billion a year, or 4 percent of the city's GDP. As London's economy has boomed over the past two decades, the city's annual home completions increased by just over 10 percent, falling far short of demand and driving home prices five times higher. (Source: McKinsey Global Institute Housing affordability: A supply-side tool kit for cities Oct 2017).

Low-income people face many housing challenges, with a lack of available financing and mortgages being among the most persistent. In fact, 3 billion people worldwide have little or no access to formal financial services. One area that shows great potential to solving these challenges is housing microfinance, which is defined as small, short-term, non-mortgage-backed loans offered in succession to support incremental building for low-income populations. But what has the experience been? Has housing microfinance provided returns to investors and social impact to clients? (Source: Promoting Access to Finance for Affordable

Housing Habitat Conference DC 2017).

There are basically four reasons for increase in housing backlog and the multiplication of problems relating to housing supply and finance:

Population Growth: The increase in population in geometric proportion (Malthusian Theory),

Urbanizarion and migration: The rapid migration of great numbers of populations from rural areas to urban areas to pursue various economic objectives, the phenomenon commonly known as "urbanization". Even the migrant population, legal or illegal, ony move to the major metropolitans.

Habitable or "Serviced Land": The widening mismatch between new housing needs and availability of habitable land also called "serviced land". Overall, the population growth and rapid urbanization are reasons why incremental housing supply in urban areas is substantially lower than the incremental housing demand.

Lack of Housing Finance and Long-term Funding Resources: There is an acute shortage of institutionalized housing finance institutions (HFIs). Housing being the most expensive and essential asset in one's life, and people need economic empowerment. At the same time these HFIs face major challenge of availability of long-term funds/liquidity. The issue of HFIs and sharia-compliant funding is acute in the Muslim world.

Population and Housing Challenges: Asia-Pacific Region

This region represents more than 1/4th of the world's population, and ½ of the poor on the planet. The Asia-Pacific region, including China, represents half of the world's total population. The region is faced with a massive housing shortage; India alone faces an urban housing shortage of 18 million, down from 27 million in early 1990s. Pakistan is stated to have an overall housing backlog of 11-12 million, with an urban housing backlog at 4 million. Nearly the entire urban shortage is in the low-income category. The region is still among the lowest in terms of the level of mortgage finance. The average Mortgage Debt to GDP Ratio is 3.3. A glimpse of the shelter availability in selected regions, as measured by persons per room density is: India/Pakistan 3.5, EU 1.1, USA 0.5 etc. Within a national or regional average there may be wide variations in density, with some areas having much higher density than the average. A visit to the slums would indeed substantiate this view.

Housing challenge in the OIC member countries:

The Muslim world represents 1 of 4 humans on the planet, with nearly the same share in number of countries with 56 countries as members of OIC, out of total 196 countries on the globe, yet the Muslim world represents 1 of 2 poor on the planet. On the housing front, the Muslim world is faced with an acute challenge of widening demand/supply gap and rising housing backlog. Housing appeared to be the main issue behind recent Social Unrest and Civil Uprising.

An IDB study on housing made in 2012 suggests housing needs of the Muslim World at 8 mn units/year, nearly all in Low-Income Segment. The regional breakdown is MENA 3.2 mn, Asia 2.7 mn; and, Africa/others 2.3 mn, Egypt 1.5 mn, Iraq 1.0 mn, Morocco 0.6 mn, Saudi Arabia 0.4 mn. Most of this housing backlog and short supply is in low-income segment of the population, so Muslim world is no exception. Population growth and urbanization are further compounding the existing huge backlog, whereas rising construction costs (land, construction, construction materials) are making housing unaffordable for the poor. Indonesia, over the years have developed and implemented a very comprehensive program of State Subsidized Pro-Poor Housing. Africa has a unique challenge of Low-Income housing, with challenges of Affordability, housing micro-finance, major Slums etc. In many African Countries, largely Muslim population is a candidate for Sharia-Compatible Housing Finance.

Housing, the Case of Pakistan:

Pakistan is currently facing an accumulated housing backlog of around 11-12 million housing units, out of which urban housing backlog is around 4 million units. Most of this housing shortage is in low-income segments of the population. Whereas year-on-year incremental housing need is presently estimated at 0.7 million units, whereas the supply is not even half of that, thus continuously adding to the existing housing backlog. In case the country decides to gradually make up for the urban backlog of 4 million units over a 20 years period, assuming that rural backlog will be met on its own, it will need to additionally build 0.4 million units/year just to make up for the backlog. Ensuring at the same time that current incremental demand of 0.7-0.8 million units is also met, Pakistan will need to ensure development of 1.1-1.2 million units/year. Considering an average loan size of Rs 2 million, and average loan tenors of 15 years (case of HBFC), it would need long term funding of Rs 2.2 to Rs 2.4 trillion/year (US$ 21-22 billion/year. That speaks on the volume of long term finding needs for housing finance. According to a study conducted for HBFC, while most of the housing backlog is in low-income segments of population, they are the one who prefer to go for housing finance only if it is sharia-compliant.

Sharia-Compliant housing finance:

Studies conducted on housing and housing finance in some Muslim countries, and in some where the author was a member of the team, revealed that on supply-side, while there is a massive housing backlog already existing and growing, the OIC member countries are faced with the a great challenge on housing-finance side as well. In Afghanistan, Pakistan, ME, Bangladesh etc, nearly all people in the low-income segment seeking housing finance would avail it only if it sharia-compliant. A few of the finance-side challenges are:

- Absence of or limited availability of specialized housing finance institutions (HFIs).
- Absence of housing finance product range to meet financing needs of a diversified clientele.
- Issue of financial inclusion. Absence of sharia-compliant is also an issue of financial inclusion
- Non-availability of sharia-compliant long-term funds.

The paper will focus on the issue on the scope of raising long term funding for housing finance through the instrument of Islamic-REITs.

While there is a large investable wealth in some of the Muslim countries which is mostly finding its way to the wealth management markets of the West, there are large amounts of savings in the rest of the Muslim world which may be diverted to sharia-complaint investment avenues. There is a dearth of sharia-compliant investment instruments seeking long term findings which may go to fund housing finance needs. Real estate and housing is the most expensive assets, and most essential as well on one's life. Taking the case of Pakistan, where current average loan size at HBFC is around Rs 2 million.

The two most prominent instruments for raising long term sharia-compliant funding are:

Mortgage Backed Sukuks (MBS Islamic-REITs (iREITs)

Mortgage Backed Sukuks (MBS): The MBS is parallel to the conventional Mortgage Bonds. While MBS is being used to some extent for raising long term funding by HFIs and Mortgage Refinance Institutions, its primary limitation is that it needs an existing mortgage portfolio to be securitized. The Cagamas of Malaysia has played a pioneering role as liquidity facility institution for raising market based, sharia-compliant long-term funds and providing those to primary lenders like commercial banks and HFIs. In Pakistan, HBFC, in 2007 had issued Pakistan's MBS and raised Rs One billion, with a medium-term tenor of 5 years. Existence of long-term yield curve and a vibrant secondary market is essential for issuing such long-term instruments, apart from fiscal and regulatory support which is essential to develop market for such instruments.

Islamic REITs (iREITs):

The REIT or Real Estate Investment Trust is "a company that owns or finances income-producing real estate as defined by www.REIT.com. Modeled after mutual funds, REITs provide investors of all types of regular income streams, diversification and long-term capital appreciation. REITs typically pay out all of their taxable income as dividends to shareholders. In turn, shareholders pay the income taxes on those dividends.

REITs allow anyone to invest in portfolios of large-scale properties the same way they invest in other industries – through the purchase of stock. In the same way shareholders benefit by owning stocks in other corporations, the stockholders of a REIT earn a share of the income produced through real estate investment – without actually having to go out and buy or finance property."1

Real Estate (RE) covers both residential and commercial real estate. Today REITs cover a wide spectrum of real assets. The commercial real estate is an asset class that has traditionally been out of financial reach of an average investor. That calls for a financial entity, which can pool in resources from various investors, small and big, and then collectively invest in a pool of real estate to earn capital appreciation and possibly

[1] Source: www.REIT.com

make regular income stream to be able to pay dividends and returns to REIT Unit holders. REITs are a wonderful combination of two different types of returns – regular income and capital appreciation. The income is generated mainly through a periodic cash flow – for instance, rental income from a house/commercial property – while the capital appreciation comes by way of increase in value, as in the case of price appreciation of a stock or in the value of a real estate property owned by REIT. Listed REITs are publicly traded like common stocks on various exchanges. To make it competitive for investible funds in the capital markets/stock exchanges, a listed REIT, like Stocks, would also have the features of efficient entry/exit for the investors, while providing long term funds to the RE entities.

That is what REITs are – investment vehicles– that buy, sell and manage real estate assets on behalf of the investors, by providing intermediation vehicle for providers and users of funds in the RE market. What makes them particularly attractive for investors is that REITS enjoy special tax considerations for regularly distributing almost all of their profits (generally 90%) to shareholders/unit holders. REITs are to real estate what mutual funds are to equities and bonds. In practice now, listed REITs are also entering into portfolio of Mutual funds. REITs provide the benefit of easy liquidity, meaning that investors can buy and sell their units (if publicly traded) – something not possible with physical real estate. Even in case of non-listed REITs, the units can be exchanged over- the-counter (OTC) market. It is more like a mutual fund that invests in real estate, yet it differs from Mutual Funds on aspects of regulations. REITs provide efficient and convenient way to invest into real estate market, even in small lots for small investors, while providing diversification benefits with low liquidity risk. REITs portfolios are affiliated to key real estate assets of the economy, like apartments, self-storage centers, office buildings, hospitals and so on for Commercial REITs, and horizontal and vertical residential properties for Residential REITs.

The following example will explain function of REITs in simple terms2. Assuming that someone plans to buy a property in future (say a house), who presently has $100 in surplus for investment every month. In absence of REITs, the obvious investment alternative, to hedge savings against inflationary erosion of land and construction materials, would be equities, bonds and gold etc., or join some private savings plan. At some later stage, having accumulated reasonable funds as equity part of Loan-to-Value, one would liquidate those investments to buy the property. However such alternative investments other than RE may not truly hedge value of investment against inflationary erosion of price hike in real estate and construction materials. With REITs, one can directly invest smaller sums in the security over a pre-determined time period and then liquidate REITs Units when the time is ripe to buy a home. REITs, like mutual funds, allow investment in smaller amount of savings into real estate which otherwise would not have been possible. One may not have sufficient funds at a given point in time to buy a housing unit, but through investments in REITs units, he may have a notional ownership of a few square feet of area in a real estate unit. In simple words the REITs provide an investment vehicle for hedging small savings against the inflationary trends in real estate market.

[2] Source: Published by Newsroom March 31st, 2010 in Newsbytes

Advantages of REITS:

REITs provide Investors with the following advantages:

- 90% dividend payout by REITs qualify the entity for income tax exemption
- Avoidance of double taxation
- Professional management teams
- Liquid asset. Efficient Entry/Exit facilitates disinvestment in case of urgent needs.
- Diversification of holdings by relatively small investors
- REITs can tap the debt
- Portfolio diversification benefits
- High cash dividends can limit steep declines.
- Strong regulatory regime ensures that investment and utilization of investors' money is monitored under a defined regulatory framework by the specified regulatory agency.

Above All

An opportunity to small savers to hedge against real estate inflation i.e., since the small savers cannot afford to own house/apartment, they can at least notionally own a fraction of it, and gradually enhance their ownership with more savings going into REITs.

Broad categories of REITs:

Liability Side:

Equity REITs (ER): These REITs "own and operate" income-producing real estate entities (Development REITs and Rental REITs). 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 (Mortgage Back Sukuk). The interest on money directly lent to real-estate owners is part of their revenues.

Hybrid REITs (HR): These not only operate properties but also lend to real-estate owners and operators, thus combining the investment strategies of the above 2 types.

Asset Side:

~ Residential REITs
~ Commercial REITs
~ Hybrid REITs

Emergence of Islamic REITs (iREITs):

Islamic REITs are specialized asset classes, augmenting Islamic wealth management practices globally. This collective investment scheme has underlying exposures in the real estate sector which fits well with Sharia principles that emphasize real-sector and asset-based investments. Islamic REITs engage in acquisition and leasing of real estate (including tenancies and sub-tenancies), where the activities and operations are Sharia-compliant.

In simple terms the difference between an Islamic REIT and a conventional REIT is that Islamic REIT can only invest in properties in which the property tenants operate in businesses that comply with Sharia principles, including the guidelines on sharia-compliant permissible assets for iREIT. The iREIT fund like Mutual Fund itself must be structured and run in a manner that is consistent with Sharia as well. The Islamic version of a REIT has to follow certain principles and rules in accordance with Sharia Law. Non-permissible activities or businesses for REITs are financial services based on interest, gambling and gaming, manufacture or sale of non-halal products or related products, conventional insurance, entertainment activities that are non-permissible according to the Sharia, manufacture or sale of tobacco-based products or related products, stockbroking or share trading in securities which are Sharia non-compliant. However, a certain quota of non-permissible activities is sometimes tolerated, in case of shortage of permissible assets.

Two key elements, which differentiate between the Islamic funds including iREITs and the conventional funds, are:

- The extra layer added to Sharia-Compliant investments is the rules and regulations imposed by the Sharia Advisors/Sharia Board, and integrating these Sharia requirements into fund management activities.
- Added to that is the strict compliance of the Sharia requirements by the Sharia Auditors.
- Active role of the regulator in supervision and compliance.

An important requirement of iREITs is Sharia-Audit. In Islamic funds, there are several mechanisms in place for Sharia Audit:

In-house Sharia Audit setup, where a team of professionals, conversant in Sharia requirements and audit processes, review the institutions and the funds.

A number of outsourcing Sharia Audit companies operating globally, who may be assigned this task. In Islamic funds, there are several mechanisms in place for Sharia Audit.

Although the US signed legislation to create the US REIT industry in 1960, Malaysia became the pioneer with the introduction of Islamic REITs guidelines in 2005. Thus in the Muslim world, interest in REITs was triggered only in July 2006 by Malaysia with the innovative launch of the world's first iREIT, namely Al-Aqar KPJ REIT. Since then Sharia compliant asset management is having a positive growth. Table-1 shows that as of 2014, there were a total 16 REITs in Malaysia, and 3 of these were Islamic REITs (one iREIT got delisted in

2013). This table also shows the share of Islamic REITs in total REITs market in the country, showing the share of 3 iREITs as of 2014 at 42% out of the total 16 REITs in the industry3.

The evolution of REITs in Singapore, UAE and Bahrain followed Malaysia's lead and general guidelines while launching Sharia-compliant products. The prominent REITs in these countries are Sabana REIT and Emirates REIT of Dubai Islamic Bank, and Al Salam Bank Asian Islamic REITs of Bahrain etc.

There is a lack of the standardization in the screening methodology used by the Malaysian iREITs and Singapore iREITs, as the latter follows the Gulf Cooperation Council (GCC) guideline to capture the investors mainly from the Gulf countries. In term of tenants' selection, there is similarity between iREITs and the Socially Responsible Investment (SRI) or Ethical Investment. The gap between the investments can be bridged if the Islamic funds skewed the investment portfolio towards the social and ethical investment. Even though there is a limitation in the investment universe, iREITs provide better diversification option and show better performance compared to the equity market during the economic crisis. The introduction of the Sharia-compliant REITs index for Asia Pacific region allows the fund managers to benchmark the performance of the funds and the sector with other investment vehicles. This encourages investors to consider iREITs in broadening the horizon of the investment.

Table 1: Islamic Fund Management – Islamic REITs[5]

Islamic Real Estate Investment Trusts (REIT)	**Dec 2014**	**Dec 2013**	**Dec 2012**	**Dec 2011**
Number of Islamic REIT	3	4	3	3
Total industry	16	17	16	15
Market Capitalisation of Islamic REIT (RM billion)	15.04	14.14	3.47	2.9
Total industry	35.67	33.13	24.59	16.3
% to total industry	42.16%	42.68%	14.11%	17.8%

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Singapore's Sabana REIT became the world's first REIT adopting the standard of Sharia compliance which has been well accepted by investors of GCC5.

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3 Source: The Islamic Funds and Asset Management: The opportunities and challenges of Islamic REITs by Nor Nazihah Chuweni and Chris Eves, 2015

4 Securities Commission Malaysia Annual Report 2015. (Author's compilation from the report)

5 Source: The Islamic Funds and Asset Management: The opportunities and challenges of Islamic REITs by Nor Nazihah Chuweni and Chris Eves, 2015

REITs as option to fund Real Assets:

Fact remains that while large amounts of investible funds, seeking avenues for Islamic wealth management, largely originate from GCC markets, the real-estate markets of the OIC countries like Pakistan, Indonesia, Malaysia, Egypt, Morocco etc. provide massive opportunities for application of these funds. Therefore for an OIC country to attract these investible funds from GCC etc will have to develop vibrant financial markets equipped with efficient and disciplined fiscal and regulatory regimes.

After being successful in countries of eastern word such as Japan, Hong Kong, Singapore, Australia and Malaysia, the REITs are gaining popularity in GCC countries, and hopefully will move into markets of other OIC countries. Of late there has been a real estate boom in the Middle East but mostly in projects which are either Government funded or subsidized projects. In the emerging scenario of declining oil prices, resulting in declining state revenues, the Governments in Gulf Cooperation Council (GCC) countries are inclined to consider withdrawal or decrease in state subsidies and to reduce state funded initiatives, which includes housing sector as well. That is leading to market based funding mechanisms for RE projects which has caused Real Estate Investment Trust (REITs) to attract attention of wealth managers and financial planners. The REITs option to mobilize market based funding is facilitated by the fact that these can be easily structured as a sharia compliant investment and thus will attract more interest of Islamic Wealth Managers, mainly investors from GCC. Kuwait Financial Centre's (Markaz) real estate fund (Markaz Real Estate Fund or MREF) is one of the pioneers of a REIT-like investment fund in real estate market of GCC. The fund invests in properties directly which generates both rental income as well as capital gains. However, it cannot be classified as a REIT since it is not a "trust".

The potential for REITs is high in the GCC region. The REITs have a much bigger potential in Saudi financial markets as the Kingdom's real estate sector demand is driven by the shortage of residential units and growing population. REITs can benefit the large number of High Networth Individuals (HNIs) in GCC countries by offering them an asset class (the real asset) to diversify their portfolio, provide protection against inflation and offer a liquid, affordable investment in real estate with regular stream of cash-flow. REITs, as investment instrument, have lower risk than the regular real estate funds due to the non-existence of risk associated with the development phase, more so due to strict compliance of REIT regulatory regimes in place6.

The Islamic REIT (iREIT) is in early stages of development in most countries of GCC and holds significant potential for growth. The potential is driven by the strong real estate sector fundamentals such as demographic profile, expected implementation of mortgage law, and economic diversification. Above all, in view of the declining oil revenues leading to declining state funding, the growing demand for residential

[6] Source: "KFH Capital Investment Company: GCC is opening up to Real Estate" by Shoyeb Ali, Vice President of the Investment Research Department at KFH Capital Investment Company

real estate is expected to promote market based financing instruments like REITs. REITs acceptance as sharia complaint product and reliability on its stable returns also leads to its great potential in GCC.

Islamic REITs are one type of investment that capital market authorities in GCC can focus to develop regulations and popularize it with clues and studies from countries such as Malaysia and Singapore. With huge appetite for Islamic investment products within the GCC region, High Networth Individual (HNI) investors, as well as Government owned entities such as pension funds, investment funds and sovereign wealth funds might invest in REITs to diversify their portfolio. Once Islamic REITs are popularized and listed in GCC exchanges, institutional investors such as Takaful companies might also invest in iREITs. Despite economic crisis in the recent past, more so the aftershocks of subprime crisis of 2008, the positive growth and development of Islamic funds market is due to the key role of the Sharia framework and guidelines implemented to safeguard the interest of the investors.

REITs floated in GCC:

The Middle East and GCC have started to adapt the new concept of Islamic REITs during the last 10 years. However, the products have not developed as rapidly as in Southeast Asia and are still more or less handled as a regional collective investment scheme7.

The REITs floated for GCC market are:

- UAE: Emirate REIT floated by Dubai Islamic Bank, listed in UAE (2010)
- Bahrain: Inovest REIT (2009)
- Kuwait: Al Mehrab Tower REIT (2007)
- Arabian REIT, domiciled in Cayman, and floated by HSBC ME (2006)
- Bahrain: Sabana Industrial REIT, floated by Ala Salam Bank Bahrain and domiciled in Singapore was aimed at GCC investors
- Bahrain: Al Salam Asia REIT, launched by Ala Salam bank Bahrain (2014)
- Qatar: Regency REIT is the Qatar's first REIT.

REITs in Pakistan:

REIT Regulations were first introduced in Pakistan in 2008. Although the country saw two of its leading corporate houses establishing their REITs Management Companies (RMCs), the market did not give a positive response to these regulations, considering these to be too restrictive. In 2010 the Securities and Exchange Commission of Pakistan (SECP) relaxed its stringent regulatory requirements pertaining to REITs

[7] Source: "What are some Islamic REITs that international investors can invest in?" by Raj Patel 18 Sep 2015

which began to excite the market, however could not result in launch of REITs. There still remained substantial room for inclusiveness in the regulatory framework while reflecting that the aim of the regulator is to safeguard investors. Later in 2015, SECP promulgating revamped REIT Regulations which eventually led to the launch of the first ever Shariah compliant REIT of South Asia in June 2015 called the 'Dolmen City REIT'. Moreover, the SECP has also proposed to allow Asset Management Companies like Mutual Funds (AMCs) to manage REITs, since at present, AMCs were required to set up separate companies should they need to launch such funds under existing regulations. It is expected that with these anticipated changes in regulations, there will be a surge in activity related to Shariah compliant REITs in the country8.

Pakistan's first commercial REIT: Dolmen City REIT:

Leading the capital markets in South Asia as the only listed REIT, Dolmen City REIT 'DCR' had a fund size of $212.7949 Million which has grown in a year's time to $360.373 Million by June 2016, making it the biggest closed-end, Shariah compliant listed instrument in Pakistan. The REIT Scheme was launched in June 2015 with the objective of generating rental income from the real estate it owns. DCR was launched by Arif Habib Dolmen REIT Management Limited (as the RMC), which is jointly owned by the Arif Habib Group and the Dolmen Group. Arif Habib Group is amongst the biggest conglomerate in Pakistan holding interests in the securities & commodity brokerage, investment & financial advisory, investment management, fertilizer manufacturing, steel, real estate, energy and cement segments. While the Dolmen Group is one of Pakistan's leading real-estate companies and primarily engaged in development, construction and management of prime commercial real-estate. DCR's real estate is located at the scenic Marine Drive in Clifton, Karachi.

The REIT scheme comprises:

- The Harbour Front, a 19 storey Office Building with a built up area of approximately 270,273 square feet
- Dolmen City Mall, an international standard shopping mall with a built up area of approximately 1.29 million square feet

Investors in DCR take returns from real estate which were correlated with the growth of rental income, providing them hedge against inflation and which were not directly correlated to other regularly traded equity, debt or commodity instruments available to investors. DCR posted a dividend yield of 10.40% from first year of its operations ended in June 2016.

[8] **Sources:** http://www.mifc.com/index.php?ch=28&pg=72&ac=166&bb=uploadpdf
http://www.islamicfinancenews.com/newsletter-issue/islamic-asset-wealth-management-pakistan

[9] Currency conversion rate used: PKR 104.50/USD 1

Role of Islamic Financial Institutions (IFIs) in Islamic Wealth Management (IWM):

Presently, most IFIs are offering retail services; nevertheless their involvement in IWM is increasing. As the wealth of their clients grows, they are demanding access to private banking facilities. Globally, there are 993 IFIs operating in about 100 countries. In addition, OIC-member countries altogether represent 10 percent of the global GDP, are signaling wider investment opportunities.

Even though Europe led the initial driver of IWM via financial institutions such as BNP Paribas, UBS and Geneva-based Dar al Maal-al-Islami; other Shariah-based players have now joined the market especially in key Islamic finance jurisdictions such as the GCC and Malaysia. In the GCC, the banks are providing such services and include Dubai Islamic Bank (DIB) and the conventional commercial banks of Dubai. The DIB offers IWM services under its Al Dana Wealth Management. In Malaysia, Islamic banks offering such services include Maybank Islamic and Al-Rajhi Banking and Investment Corporation (Malaysia). The top 10 countries having IFIs engaged in IWM are Malaysia, Saudi Arabia, Iran, UAE, Kuwait, Qatar, Turkey, Indonesia, Bahrain and Bangladesh.10

Steps to improve scope of Islamic REITs in IWM:

The Islamic REITs in GCC can be improved by:

Establishing Standardized and Uniform REIT Guidelines	Currently there is no standard regulatory framework for Islamic REITs in Saudi Arabia. The introduction of the same would help to differentiate the properties which are non-permissible as per sharia law.
Allowing Foreign Participation in Investments	The capital market authority should permit the cross border trading of REITs as these could help to unlock additional avenues for investor's participation and could also aid in boosting liquidity.
Development of Secondary Market	The development of secondary market for REITs in GCC including the ease of listing procedures will help for easy trading of the instruments.

Summary: The article aims at exploring long-term funding (liquidity) needs for sharia-compliant housing finance and prospects and potential of Islamic-REITs (iREITs) in raising long term market based funding to support real estate projects in the Muslim world.

[10] Source: September 16, 2016, http://pakobserver.net/global-islamic-finance-to-touch-6-5tr-by-2020, by Amanullah Khan

In its first part the paper discusses the issue of existing housing backlog, year-on-year incremental housing needs, the challenge of massive urbanization which makes this issue more critical in major metropolitans on a global perspective, regional housing scenario in Asia-Pacific and OIC member countries and then the case of Pakistan. The housing backlog and deficit housing supply in almost all these countries is largely in low-income segments pf population. While nearly all housing backlog and demand-supply gap is in low-income segments of population, it is observed that clients from low-income segments would prefer to go for sharia-compliant financing. Thus provision of sharia-compliant housing finance is an issue of financial inclusion as well, even if conventional housing finance may be available there. Since housing is an expensive asset, it needs larger amounts of funding sources and that too of longer tenors. To serve that market, there is a need for housing finance institutions dealing is Islamic finance, diversified range of sharia-compliant products and long term sharia-compliant market based funding resources i.e., long-term liquidity. The two main instruments to raise such long term sharia-compliant funds are Mortgage Backed Sukuks (MBS), and Islamic-REITs (iREITs). The Islamic Wealth Management (IWM) market of the Gulf (GCC Countries) has surplus investible funds seeking sharia-compliant avenues, the real-estate and housing markets of GCC and OIC provide potential markets for those funds.

The paper then explores application of iREITs in Islamic Wealth Management (IWM). The GCC states as well as High Networth Individuals (HNI) of GCC origin have been mostly parking their investments outside GCC, to European and American Financial Markets. The fact remains that the investible funds from the Muslim World, more so from GCC markets, would prefer faith-based investment options i.e., Sharia Compliant financing instruments. The declining oil revenues are also forcing the financial managers of the GCC countries to explore options to raise market based sharia-complaint long term funds, and iREITs offer the best fit to the issue. The paper discusses the concept of REITs in general and Islamic REITs (iREITs) in particular. It also mentions the emergence of iREITs in Malaysia and Singapore and its potential to attract investable funds from GCC States and HNW individuals. The paper provides an overview of Islamic Wealth Management, the role of Islamic Financial Institutions and much needed space for financial instruments like iREITs. It concludes that iREITs are best suited to development of real assets in GCC, for a desired shift from state-funding to market based funding.

A REIT, or Real Estate Investment Trust, is a company that owns or finances income-producing real estate. REITs allow investment in portfolios of large-scale properties the same way as in other industries – through the purchase of stock REITs have a host of differential advantages over conventional investment avenues.

The REITs have their origin in USA in 1960 and since then have assumed a very significant role for funding Real Assets in USA and Europe, and later became an important part of Far-Eastern financial markets like Hong Kong, Korea, Singapore, Australia and Malaysia. The iREITs emerged on global scene from the financial markets of Singapore and Malaysia.

Islamic REITs are specialized asset classes, augmenting Islamic wealth management practices globally. The iREITs engage in acquisition and leasing of real estate (including tenancies and sub-tenancies), where the activities and operations are Shariah compliant. In Muslim world, the interest in REITs and iREITs was triggered in Malaysia about 10 years back when Malaysia became the pioneer in the development of Islamic REITs, with the introduction of Islamic REITs guidelines in 2005. In July 2006 with the innovative launch of the world's first iREIT, Al-Aqar KPJ REIT, Malaysia maintained its pioneering role. The evolution of REITs in Singapore, UAE and Bahrain followed Malaysia's lead and general guidelines while launching Sharia-compliant products.

The civil uprising in the recent past in ME, among others issues, the need for decent and affordable housing drew attention of the GCC Governments. In emerging reality of declining oil prices, resulting in declining state revenues, the Governments in GCC countries are inclined to consider withdrawal or decrease in state subsidies and reduce state funded initiatives. That is also leading to market based funding mechanisms for RE projects. This has caused Real Estate Investment Trust (REITs) to attract attention of wealth managers and financial planners in GCC. The potential for REITs is high in the GCC region, especially in Saudi Arabia, as the Kingdom's real estate sector demand is driven by the shortage of residential units and growing population. REITs can benefit the large number of High Net-worth Individuals (HNIs) in GCC countries by offering them an asset class (the real asset) to diversify their portfolio, provide protection against inflation and offer a liquid, affordable investment in real estate with regular stream of cash-flow. The iREITs, as investment instrument, have lower risk than the regular real estate funds due to the non-existence of risk associated with the development phase, more so due to strict compliance of iREIT regulatory regimes in place.

Once Islamic REITs are popularized and listed in GCC exchanges, institutional investors such as Takaful companies might also invest in iREITs. Despite economic crisis in the recent past, more so the aftershocks of 2008 financial crises, the positive growth and development of Islamic funds market is attributed to the key role of the Sharia framework and guidelines which safeguard the interest of the investors. The market for Sharia-Compliant financial products and services has seen a significant rise over the years, particularly in the area of real-estate backed instruments like iREITs.

In conclusion, iREITs offer a real attraction to huge investible funds available under Islamic Wealth Management, which are presentably parked/invested in financial markets of Europe and USA, once the GCC markets develop efficient and investor friendly regulatory regimes.

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