

# ISLAMIC EQUITIES

## What is Shariah-compliant Real Estate Investment Trusts (*i*-REITs)?

A Real Estate Investment Trust (also known as REIT), is a collective investment scheme in the real estate industry that combines features of both real estate and trust funds. *i*-REIT is another version of the investment scheme that differs from a conventional REIT by only involving investments in Shariah-compliant Real Estate Trusts.

## What is *i*-REIT?

In comparison to conventional REITs, the income of *i*-REITs:

- ▶ Must be derived from Shariah permissible activities; or
- ▶ In case of mixed activities, must adhere to the 20% benchmark as determined by the Shariah Advisory Council (SAC) of SC.

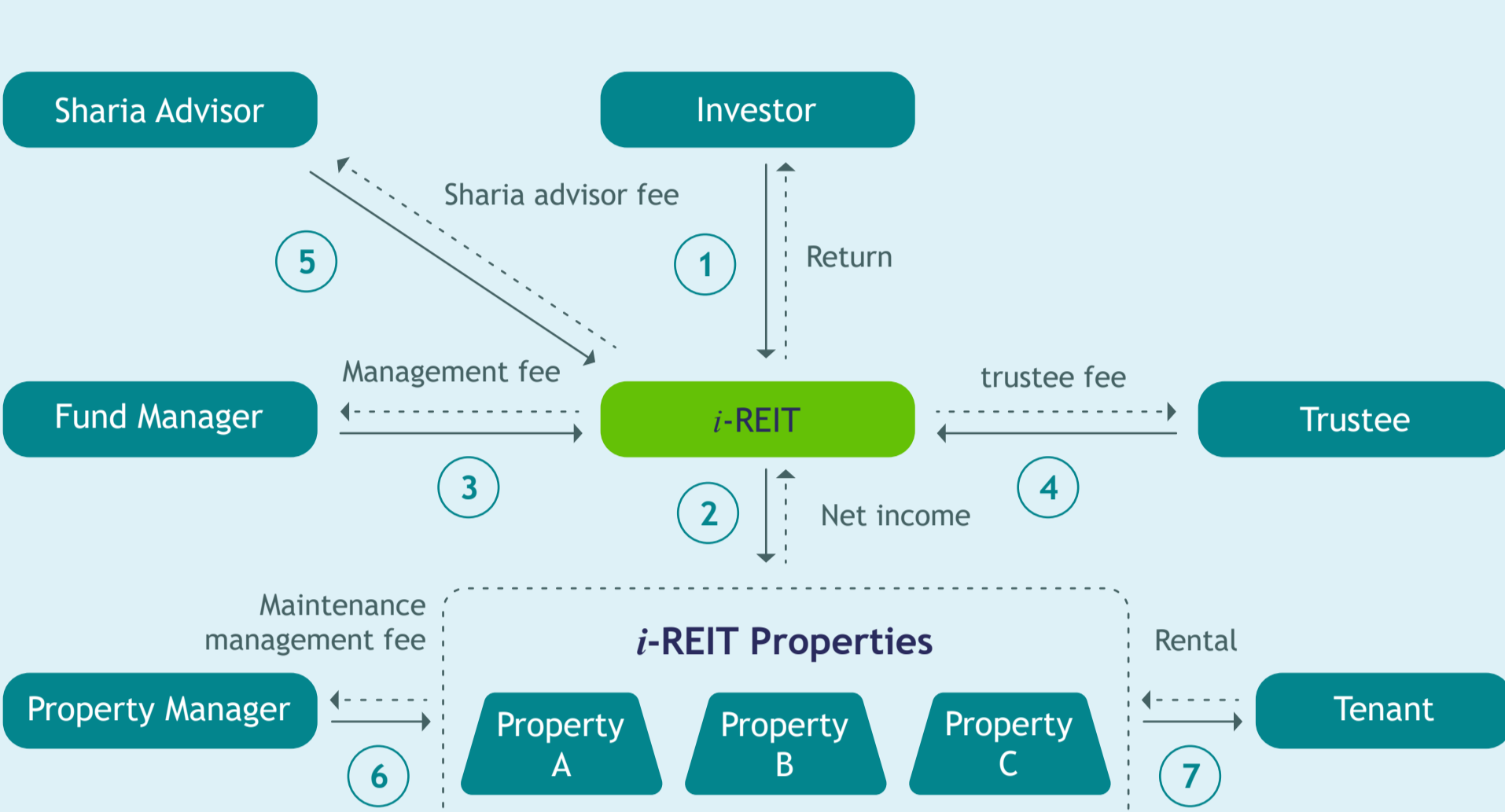
For *i*-REITs, with no exception, a Shariah committee or Shariah advisor must be appointed in order to advise the fund manager for compliance on Shariah matters.

Below is the list of activities that are deemed Shariah non-permissible

- ▶ Financial services based on Riba (interest);
- ▶ Gambling/gaming;
- ▶ Manufacturing or sale of non-halal products or related products;
- ▶ Conventional insurance;
- ▶ Entertainment activities that are non-permissible according to the Shariah;
- ▶ Manufacturing or sale of tobacco-based products or related products;
- ▶ Stockbroking or share trading in Shariah non-compliant securities; and
- ▶ Hotels and resorts.

In Malaysia, both REITs and *i*-REITs receive similar tax treatment on stamp duty, real property gains tax as well as corporate tax. The regulatory framework is also similar for both with the exception that *i*-REITs must comply with the Shariah requirements.

## General Structure of an *i*-REIT Process:



- 1 Investors invest in *i*-REIT through holding of units
- 2 *i*-REIT acquires real estates as its pool of assets
- 3 Managers manage and administer *i*-REITs
- 4 Trustee acts as the custodian of the fund
- 5 Shariah committee advises on matters pertaining to Shariah
- 6 Property manager provides maintenance and management services of the real estates
- 7 Tenants rent the real estates

## Returns and Risks on *i*-REIT

With lucrative returns, distribution from rental income and capital appreciation, *i*-REIT is a rewarding investment that offers:

01

### Variable Portfolio of Assets

Investors are able to diversify their investment portfolio by participating in a range of real estate and real estate-related assets.

02

### High dividend returns to unitholders

In order to qualify for tax transparency status, an *i*-REIT must distribute 90% or more of its total income to unitholders.

03

### Stable returns

An *i*-REIT is able to generate stable and sustainable income through rental income and capital appreciation that can be used to pay the regular dividends.

04

### Affordability

*i*-REIT enables investors to invest in the real estate market with a minimal capital outlay as compared to the outright purchase of real estate.

05

### Inflation hedge

The value of real estate usually increases in tandem with inflation rate.

## Factors of RISKS associated with *i*-REIT that an investor should also be aware and cautious about:

### Return in investment of *i*-REIT is not guaranteed

All investments' performance is subject to overall market performance. In this case, an *i*-REIT's performance is related to the property market performance. If the unit price of an *i*-REIT falls, it is likely that the underlying properties have dropped in value, impacting the total returns on the *i*-REIT.

### Unexpected control over investment

Any decision made by the property management company is beyond the control of investors. Decisions made by the property management such as whether to buy or sell the property and how it is managed are all factors affecting the performance of the investment.

### Market demand and supply

*i*-REITs are directly subject to market supply and demand. Hence, economic stability, market confidence and interest rate fluctuations may affect an *i*-REIT's price.

## How to invest in *i*-REIT?

Investors may publicly facilitate the purchase and sale of *i*-REITs in the major stock exchange directly through stockbrokers. At Bursa Malaysia, there are four (4) *i*-REITs listed:

- Al-'Aqar Healthcare REIT
- Axis REIT
- KLCC REIT\*
- Al-Salam REIT

\*Note: Stapled securities comprising of the units in the KLCC REIT and the shares of KLCC Property Holdings Berhad

## DISCLAIMER

The development of this product abides by Shariah laws and principles. It is overseen by the Shariah Advisory Council of Securities Commission that conducts Shariah-compliant audits and reviews from time to time. All investment must conform to the investment guidelines issued by Bank Negara Malaysia and the Securities Commission.

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