

Structuring Options for Real Estate Investment and Implications for Liquidity

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Overview



- ◆ Direct investment
- ◆ Shares of REITs or Property Funds
- ◆ Shares in Funds of Property Funds
- ◆ Using ETFs or tracking Indices

Direct Private Real Estate



Benefits:

- ◆ Able to select assets at an individual level, allowing for choice and auditing of Shariah compliance

Risks:

- ◆ Idiosyncratic risk associated with individual assets
- ◆ May require the engagement with advisors

Through SPVs

- ◆ Holding Real Estate directly, through the use of Special Purpose Vehicles

Through a Private REIT

- ◆ REIT – Real Estate Investment Trust
- ◆ Private REITs are available in certain jurisdictions
- ◆ Provides tax benefits while allowing for limited number of Shareholders
- ◆ Liquidity?
 - ◆ Allows for slightly easier sale process
 - ◆ Shares in the entity can be sold

Shares of REITs or Property Funds

- ◆ (Public) REITs have a larger range of underlying investors
- ◆ REITs and property funds invest directly into real estate and pay dividends to investors from those property profits

Benefits:

- ◆ A range of REITs and Property Funds available, covering a gamut of strategies
- ◆ Improved diversification
- ◆ Tax efficient structures
- ◆ Provide investor protections around risk and accuracy of materials

Risks:

- ◆ Fewer Islamic REITs available
- ◆ Harder to verify Shariah compliance for non-Islamic REITs
- ◆ Leverage is often not Shariah compliant

Liquidity:

- ◆ Easy to dispose of shares, with a regular or daily trading market

Shares in Funds of Property Funds



- ◆ Funds of Property Funds invest into Property Funds and provide a return to their investors from dividends received from these funds

Benefits:

- ◆ Further improved diversification

Risks:

- ◆ More difficult to verify Shariah compliance due to larger underlying asset base

Liquidity:

- ◆ Easy to dispose of shares, with a regular or daily trading market

Using ETFs or tracking Indices

Tracking whole segments of the funds universe

- ◆ Holding Real Estate directly, through the use of Special Purpose Vehicles

Benefits:

- ◆ Further improved diversification

Risks:

- ◆ Nearly impossible to verify Shariah compliance due to larger underlying asset base in the conventional universe

Liquidity:

- ◆ Easy to dispose of shares, with a regular or daily trading market