

### **What is a REIT?**

- Real Estate Investment Trusts (REITs) are investment schemes that own and most often actively manage income-producing real estate. Through such schemes, investors may own, operate or finance income-generating property across various categories of real estate. A REIT invests in physical real estate and distributes profits from rental income and/or capital gains to its unitholders (shareholders).
- The REIT model is structured like a traditional closed-end mutual fund, however, instead of stocks and bonds, a REIT investors owns real estate backed units that sell like any other units/listed security, enabling the holder of the units to invest directly in real estate.

### **What types of REIT are available in Pakistan?**

In Pakistan, the following types of REITs can be offered under the Real Estate Investment Trust Regulations, 2015 (the REIT Regulations):

- Rental REIT – a scheme that invests in residential or commercial properties for the purposes of generating rental income.
- Developmental REIT – a scheme that invests in construction or refurbishment of residential, commercial or industrial properties.
- Hybrid REIT – a scheme that may include a mixed portfolio of rental and development properties.

### **What are some advantages of REIT from business perspective?**

From perspective of businesses/land owners REITs offer numerous benefits in terms of fund raising for real estate projects through a regulated business model with enhanced transparency; availability of finance for development/ refurbishment of property; fund raising from public through IPO in addition to conventional financing alternatives; tax incentives\* etc.

*\* The REITs sector has been given tax incentives in relation to Capital Gains Tax on transfer of property to a REIT Scheme. Moreover, no tax is applicable on the income of the REIT Scheme if it distributes 90% of its income; and dividend received from the REIT Scheme is taxed at 25%.*

### **What are some advantages of REIT from investor perspective?**

From the investors' standpoint, REITs enable small investors to invest in real estate through a professionally managed entity; avail higher dividend distribution; and benefit from relatively safer investment as customer advances and property title resides in Trust. REITs enable broader investment portfolio and allow risk diversification; provide easy exit to real estate investors and enable daily pricing as REIT units are tradable on stock exchange.

### **What is the procedure/basic requirements for forming REIT?**

- Permission to form an Non-Banking Finance Company (NBFC) to undertake REIT Management Services has to be obtained under the Non-Banking Finance Companies Rules (Establishment and Regulations) Rules, 2003 (NBFC Rules).
- Once an NBFC is formed with said purpose, license must be obtained for undertaking REIT Management Services as a REIT Management Company (RMC).
- Grant of license as RMC enables launch of REIT Schemes. Approval for registration of REIT Scheme is sought from the Securities and Exchange Commission of Pakistan under the Real Estate Investment Trust Regulations, 2015.

- As per the REIT regulatory framework a REIT Scheme has to be in trust structure. The RMC has to appoint an independent trustee, who shall be registered with SECP as trustee of REIT Scheme under the REIT Regulations. The trustee of the REIT Scheme holds the property and oversees operations of a particular REIT Scheme. The RMC manages the scheme in accordance with the provisions of the trust deed and the offering document.
- RMC is required to have minimum paid-up capital of not less than Rs. 50 million prior to application for license and equity of Rs. 50 million before it can solicit funds from private investors or public.

### **Salient Features of Real Estate Investment Trust Regulations, 2015?**

- Two tier system; comprising RMC and a REIT scheme (RMC can launch multiple schemes);
- Trust Structure
- The paid-up capital requirement of REIT Management Companies is PKR 50 million
- Minimum fund size as per requirements of Pakistan Stock Exchange Ltd. Regulations
- RMC plus strategic investor must have minimum stake of 25% in a REIT Scheme
- Concept of private investor i.e. person offering minimum twenty (20) million rupees for investment. Cannot be more than 50 before listing.
- Mandatory listing after 3 years of financial close
- REIT Scheme allowed to issue right units
- Borrowing allowed up to 50% of the reported total assets of REIT Scheme
- Fit and Proper criteria for directors/sponsors/CEO
- RMC to appoint the following for the REIT Scheme:-
  - a. Trustee
  - b. Development advisor
  - c. Auditor
  - d. Valuer
  - e. Shariah advisor
  - f. Lawyer
  - g. Property Manager
  - h. REIT Accountant

### **What are Some Risks Associated with Investing in REIT?**

- Since REITS are linked to the underlying property asset, a decline in the value of the asset and/or its rental capacity will directly impact the REIT's Net Asset Value (NAV).
- In addition to interest rates, REIT's dividend yields may fluctuate based on local rental dynamics, occupancy, footfall and expense levels, a general downward shift in equity market sentiment due to macroeconomic or regulatory drivers, etc.
- Management quality of the RMC affects returns to the investors/unit holders

### **How do I apply for license as a REIT**

You may please see the procedure for incorporation of RMC and grant of license by clicking:  
<https://www.secp.gov.pk/licensing/nbfcs/reit-management-services/>

### **Can I domicile a REIT in an overseas jurisdiction?**

No. The RMC must be incorporated and licensed in Pakistan. Please click following link for further details: <https://www.secp.gov.pk/licensing/nbfcs/reit-management-services/>

**Are there restrictions as to the types or geographical locations of properties that a REIT can invest in?**

In terms of the REIT Regulations, 2015 the real estate for a REIT Scheme shall be within the territorial limits of Islamabad, Rawalpindi, Karachi, Lahore, Peshawar, Quetta, or any other city as may be approved by the Commission.

**Can a potential REIT applicant approach the SECP to discuss its licensing requirements before submitting a formal application?**

Yes. For any further information you may please contact the SECP via email at [reit.queries@secp.gov.pk](mailto:reit.queries@secp.gov.pk) or over phone at +92-51-9100430.