

Real Estate Investment Traded Funds – REITs

What are Real Estate Investment Traded Funds (REITs)?

Real Estate Investment Traded Funds, or REITs, are financial instruments that allow all types of investors to obtain investment exposure to the Real Estate Market. This is achieved through collective ownership of constructed developed real estate qualified to generate periodic and rental income. REITs can invest locally, regionally and globally, where the total asset value outside the Kingdom shall not exceed 25% of the fund's total asset value. REITs consist of units, where each unit represents ownership in the underlying real estate. REITs are traded on the Exchange just like equities during trading hours. In addition, REITs are required to distribute at least 90% of the fund's net profits to the unit holders annually, as per the instructions issued by the Capital Market Authority (the CMA).

With regards to control and supervision, similar to other investment vehicles, REITs adhere to the rules and regulations issued by the CMA. REITs also abide by the high standards of transparency and disclosure that are already applied in the current equity market.

Characteristics of REITs

- **Conditional income:** If they are profitable, REITs are required to distribute a minimum of 90% of the funds net profits annually to its unit holders.
- **Additional investment opportunity and increased diversification.**
- **Easy to invest in as REITs are similar to equities.**
- **High transparency as REITs must disclose periodical financial statements similar to the other listed equities.**

Listing & offering Requirements

Fund Legal Type	Closed – ended fund
Number of Investors	Minimum 50 investors
Initial Offer	Minimum SAR 100 Million
Nominal Value per Unit	SAR 10 per unit
Assets Ownership	The assets must be registered under the name of third party (custodian) and owned by the unit holders
Distributions	At least 90% of the fund's net profits must be distributed annually to the unit holders
Leverage	The borrowing of the fund's must not exceed 50% of the total assets value of the fund
Investment	At least 75% of the fund's total assets value according to the last audited financial statements must be invested in constructed developed real estate qualified to generate periodic and rental income
Vacant Lands	The fund manager is prohibited from investing in vacant lands
Real Estate Development	The fund manager is allowed to invest up to a maximum of 25% of the fund's total assets value according to the last audited financial statements in real estate development whether on real estates owned by the fund manager or not, and to renovate or redevelop these properties
Real Estate Outside the Kingdom	The fund manager shall not invest more than 25% of the fund's total assets value according to the last audited financial statements in properties outside the Kingdom
Public Ownership	At least 30% of the total REIT units are owned by unit holders from the public

REITs FAQs

1. What are REITs?

Real Estate Investment Traded Funds, known as “REITs”, are real estate funds that are traded as units in the capital market.

REITs enable all types of investors to invest in income generating real estate assets which are developed and ready for use.

Moreover, REITs are required to distribute a portion of their net income to unit holders in cash at least once a year.

2. What is the difference between REITs and Real Estate Investment Funds (REIFs)?

- REITs are flexible to buy and sell, while REIFs are more complicated in terms of subscription and liquidation.
- REITs are highly transparent compared to REIFs.
- A REIT is obligated to distribute 90% of its net income annually, while a REIF is not obligated to distribute any percentage of its net income.

3. What are the main characteristic of REITs?

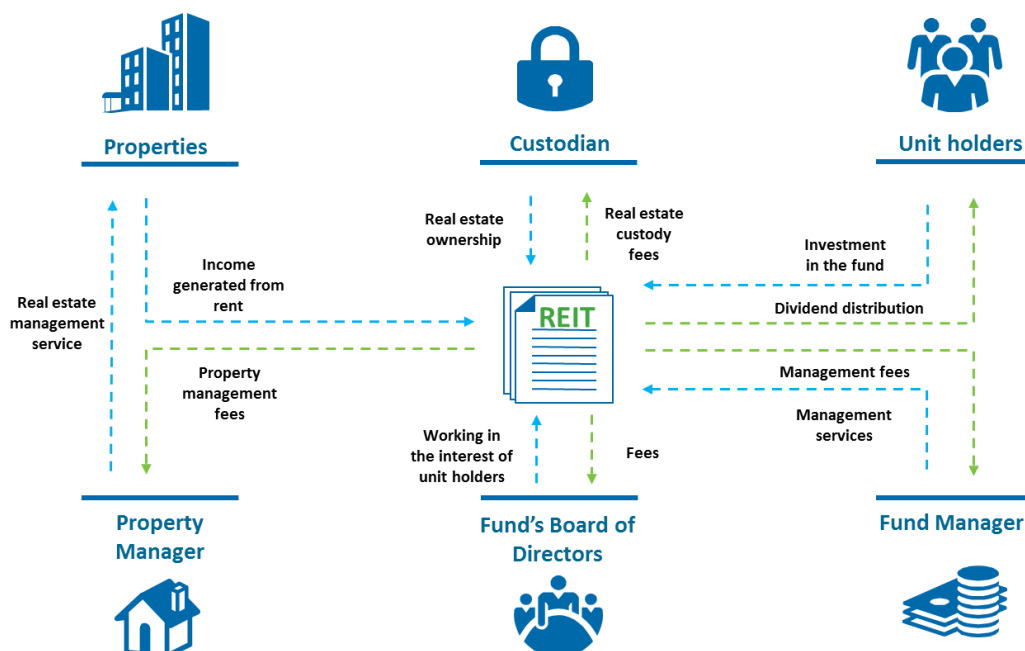
- Liquidity (flexibility): REITs are listed on stock exchanges and trade throughout the trading times and dates .
- Low initial cost for real estate investments.
- Regular distribution of cash dividends based on clear, specific, and governing rules and regulations.
- High transparency: REIT issuers must abide by stringent disclosure and continuous obligations requirements.

4. What types of assets can REITs own and manage?

REITs can own residential and commercial facilities ranging from small offices to big malls, warehouses, health facilities, hotels, and so on.

REITs can also invest locally, regionally, and globally in accordance with rules and regulations issued by the regulator (the Capital Market Authority). However, a REIT total value of the real estate assets outside the Kingdom of Saudi Arabia should not exceed 25%.

5. Who are REITs stakeholders?



- The fund manager should appoint a licensed custodian entitled to retain fund assets and any related documents in accordance to a written contract. A fund manager should also be independent, as it is not allowed for the designated custodian to be the fund manager or assistant manager of the fund.
- The designated custodian should separate all REIT's assets from any personal assets or other clients' assets. All records needed to support performances of contractual responsibilities should be maintained, and separately allocated by registering all securities and other assets of the investment fund under the name of the custodian of the same investment fund. REITs assets are registered under the name of a company affiliated to the custodian. Furthermore, REITs assets should be collectively owned by shareholders of this fund.
- A fund manager is obligated to assign a specialized real estate management company after obtaining all approvals from relevant government authorities. This is to manage real estates allocated for investment. This company should have necessary expertise in managing real estate, and should be responsible for executing property management activities including, but not limited to, property management, property maintenance, and leasing services and collection.

6. How can you invest in REITs?

As with equities, there are two ways to invest in REITs:

- Upon IPO, when Investment funds are listed by REITs fund managers (Primary Market).
- After listing fund units in the market, where investors are able to buy fund units just like equities (Secondary Market).

7. What are the risks of REITs?

For more information regarding REITs risks, please read the REIT prospectus and terms & conditions (T&Cs).

8. What is the difference between REITs and Equity?

Criteria	REITs	Equity
IPO	Yes: through units	Yes: through shares
Trading	Traded on the equity market during trading hours	Traded on the equity market during trading hours
Dividends	Through rents paid by tenants, and distributed by the fund manager annually	Through dividends which are decided to be paid to shareholders by the general assembly of the company
Profits	90% of net income is to be distributed	No obligation of profit distribution
Liquidity	Continuously traded during trading hours	Continuously traded during trading hours