

Draft Rules Prepared for Real Estate Investment Trusts

Islamabad – December 30, 2005: The Securities and Exchange Commission of Pakistan (SECP) has prepared draft Rules for ‘Real Estate Investment Trusts’ (REITs). In recognition of international and regional financial market developments and in order to modernize Pakistan’s financial sector, the SECP has been working on the potential of introducing REITs in Pakistan as a new investment and saving vehicle. The formulation of the draft REITs regulatory framework is a significant milestone in this regard.

The draft REITs Rules have been developed by the SECP using international best practices and feedback from a task force constituted for REITs. The draft Rules have now been placed, along with a research paper on REITs prepared by KASB Securities Limited, on the website of the SECP (www.secp.gov.pk). The general public and financial sector professionals including bankers, mutual fund managers as well as relevant stakeholders, particularly real estate developers are invited to visit the website and offer their comments on the draft rules. These rules will shortly be sent to the Ministry of Finance for notification.

The SECP anticipates that REITs have the potential to become a valuable investment vehicle for the public at large, by routing savings through a collective investment scheme structure into the real estate market. The idea is to make real estate accessible as an investment avenue to the average household investor. REITs are envisaged to be closed-end trusts with tax treatment similar to that of mutual funds and modarabas in Pakistan in terms of tax exemptions. Retail investors would obtain the benefit of a diversified real estate portfolio under professional management with publicly traded shares on the stock exchanges. The investments of REITs shall be concentrated in income-generating properties and/ or property development activities, the returns of which shall be substantially transferred to the holders of REIT securities. It is expected that REITs will have a profound impact on the development of real estate market in Pakistan.

Apart from being another growth oriented investment vehicle, like mutual funds, REITs offer diversification to investors’ portfolio as their price trends do not necessarily move in correlation with the rest of the market. Further, as an asset class, real estate can be a useful investment in terms of providing long term capital gains and/ or recurring income to investors. Thus, REITs can help achieve the objectives of providing small savers an alternate avenue to place their savings at competitive rates and as a mechanism to boost the transparent performance of real estate markets in Pakistan. Furthermore, REITs will enhance financial sector diversification and will broaden the range of products being offered by the mutual fund industry.

The comments on draft REITs Rules may be sent to Mr. Salman Ali Shaikh, Commissioner (Specialized Companies Division) by letter or by e-mail:

Address : 11th Floor, NIC Building
Blue-Area, Jinnah Avenue
Islamabad

E-mail address : salman.shaikh@secp.gov.pk