

REITs in Kuwait

Ayman Salem

a.salem@tamimi.com

April 2015

Indeed, real estate investment currently constitutes a major element of the Kuwaiti economy. Given the importance of the real estate sector in Kuwait, it has become necessary to develop and systematise this sector of the Kuwait economy in order to enable average individuals and investors to participate in the real estate market and utilise skilled and professional institutions for the same. As such, Kuwait has now given the average investor the opportunity to invest through skilled and expert institutions by subscribing in a Real Estate Investment Fund (commonly known as "REITs") which effectively enables investors to share the income revenues of real estate amongst themselves without the need to actually buy commercial real estate.

The law that allowed for this change in the Kuwait market was the Capital Market Law No.7 of 2010 and its executive regulations (the "CMA Law"). The CMA Law only contemplates one type of REIT, which is the equity REIT ("Equity REIT"). The Equity REIT is a financial vehicle equivalent to any mutual fund regulated under the oversight of the Capital Market Authority of Kuwait ("CMA"). The Equity REIT enables its unit holders to collectively share in the REIT revenues arising out of the underlying real estate assets.

The real estate sector in Kuwait requires an expert institutional presence, such as banks, investment banks and those licensed companies under the oversight of the CMA (the "Licensed Companies"), so that the market can be assessed more precisely and driven in the right direction. Therefore, a REIT ideally represents the role of an institutional expert as it is capable of ascertaining the market position and investing in real estate on behalf of groups of individuals who lack expertise and experience in the real estate market.

One of the key characteristics of the Equity REIT under the CMA Law that makes it an advantageous financial vehicle in Kuwait is it enables non-Kuwaiti citizens to indirectly invest in the real estate sector in Kuwait, which is generally not possible. In particular, the CMA Law, its directives and Decree No.8 of 2012 do not impose any restrictions hindering non-Kuwaiti citizens from investing in REITs. The real estate market in Kuwait will most likely prosper as a result of the cash that will flow from both non-Kuwaiti citizens and Kuwaiti investors in REITs.

Licensed Companies, by establishing REITs, are in a position to assist average investors in navigating the real estate market in Kuwait and help to develop the local real estate market by making precise market studies and appraisals. This will attract investors who were previously directing their investments to amorphous real estate markets. Licensed Companies will get the advantage of both market share in a lucrative market and systemisation of the same. The CMA Law should help to bring the regulatory and orderly nature of the capital markets to the Kuwait commercial real estate market. Not only should REITs assist Licensed Companies to raise funds with tolerable leverage to enter the real estate market, but also give average investors a kind of liquidity not ordinarily available to them in the commercial real estate sector. The profitability of the real estate commercial market should transfer into the capital market and the stock exchange as well since the liquidity advantage existing in the capital markets portfolio will be realised by the real estate market, which is rapidly appreciating.

The significance of REITs for the Gulf financial market has expanded, particularly in those countries which lack diversification of resources. From a business standpoint, the REIT is considered to be liquid assets or

an investment that has a generally accepted value and a market where it can be sold easily with little or no discount. Although REITs relate to the real estate sector, a solid asset, they also have the advantage of the liquidity of stocks. In this regard, it is worth highlighting that when an investor buys a REIT, he is not just purchasing real estate, he is also buying a business.

In conclusion, it is likely that the REITs in the Kuwaiti jurisdiction will flourish during the next few years particularly under well established capital market regulations and with non-Kuwaiti citizens being able to subscribe in REITs and indirectly invest in the Kuwait real estate market. REITs in Kuwait should help to organise the real estate commercial market as well as helping to protect investors from the unpredictable values of real estate.