

Islamic Finance *forum*

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A number of conventional REITs have either mortgage-based or hybrid strategies in which they invest in mortgage-backed loans or acquire existing mortgages within their portfolio, or buy mortgage securities – all representing no-go areas for Islamic finance due to interest and debt-trading.

Equity REITs are likely to be a safer option (notwithstanding debt to asset screening issues for real estate companies). In the relatively recent run, and especially over the last six months, the effects of the subprime crisis are unlikely to have encouraged the progress of Shariah compliant REITs.

Moreover, REITs typically not only own the real estate in their portfolio but they also manage it; this may be viewed by some entrepreneurs as an unwanted headache or risk (vis-à-vis lack of management expertise or appetite), as opposed to investing in simple equities. A major benefit of REITs is the diversification of risk they offer, and understanding this better should improve prospects for Shariah compliant REITs even further. It is expected that equity REITs will catch on over the next few years, with a number of potential ventures in the offing.