



# A profile analysis of potential investors in IREIT WAQF investment products

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## Abstract

The objective of this study is to provide a profile analysis of potential investors in iREIT as an instrument for waqf asset development. By adopting a survey questionnaire approach, a total of 365 respondents participated in the survey, which assessed information pertaining to the understanding of iREIT as an investment instrument, level of acceptance towards the idea of its introduction in the context of waqf, the medium of promotion and collection that they most prefer, the suitable price, and the unique features that they agreed to have in this hybrid iREIT. The results suggest that majority of the respondents are interested to participate as investors rather than donors, indicating that greater amount of funds can be tapped from the issuance of the iREITs waqf if these preferences of the investors are given priority. Findings of this study would assist in the formulation of an innovative investment structure based on iREIT waqf that is both practical and appealing to the widest pool of investors, and further contribute towards the development of the waqf sector.

**Keywords:** WAQF; IREITS; Investment; Profiling; Islamic Finance.

## 1. Introduction

Of late, waqf has taken a center-stage discussion among the general public and policymakers alike. Amid the tremendous attention and research interests, several innovative techniques have been explored and suggested in managing waqf projects, resulting in a potentially vibrant waqf sector, not just in Malaysia, but also globally. Investors favourable responses to innovative waqf financing techniques such as Sukuk Musyarakah for waqf mega project in Singapore and Sukuk Intifa' for waqf mega project in Saudi Arabia have provided strong motivations for further explorations of other means of Islamic capital market instruments that can be used to acquire the real estate with high net asset value for waqf purposes.

Real Estate Investment Trusts or more commonly known as REITs is an investment vehicle structured as a unit trust that invests in stable income-producing real properties and real property-related assets. The Securities Commission (SC) of Malaysia defines REIT as 'an investment vehicle that proposes to invest at least 50 percent of its total assets in real estate, whether through direct ownership or through a single purpose entity whose principal asset comprises of real assets (Securities Commission of Malaysia, 2005).

Given the increase in income and improved affluence of the Malaysian population, there seems to be an increasing demand for more diversified investment products that can capture for the different risk appetites of the investors. In the context of this study, we explore the potentials of introducing Islamic REITs (iREITs) to capture a dual objective of tapping funds for developing the waqf assets and capturing the funds from the widest pool of potential investors. By conducting a profile analysis of the potential

investors in the iREIT waqf, a well-structured and properly designed iREIT waqf product can be designed that are able to both practical and appealing to the investors.

In achieving its objective, this study conducts a survey on the public opinion towards iREIT as a waqf instrument and several important aspects related to the iREIT waqf as an investment product. In particular, the study explores the possibility of iREIT instrument as a compliment financing option for cash waqf. This study aims to contribute towards innovative investment structure based on iREIT waqf that is both practical and appealing to the widest potential investors. Through this innovative approach, the waqf iREIT would be able to capture all possible targets, investors and donors alike to ensure maximum participation in this investment vehicle.

## 2. Literature review

REIT as an investment instrument is known for its low risk nature, low volatility, moderate returns, and high liquidity for investors. These desirable characteristics of REIT make it appealing to the especially retail investors. It offers investors the opportunity to diversify and invest their portfolios in listed real estate securities that own and operate income generating from real estate such as residential, commercial, retail properties, plantation land, storage facilities warehouses, car parks and other, which otherwise are expensive if the retails investors were to invest directly. The owner of one REIT unit is actually buying a portion of a managed pool of real estate. This pool of real estate then generates income through renting, leasing and selling of property and distributes it directly to the REIT on a regular basis. In short, REIT may be deemed as an alternative to stock by investors. Nevertheless, the



risk borne is lower and has less fluctuation in terms of market price of the stock. REITs can generally be categorized into three types, namely equity REITs, mortgage REITs and hybrid REITs (Allen, Madura & Springer, 2000; Park, Mullineaux & Chew, 1990).

Fundamentally, there is not much difference between conventional and Islamic REITs. In general, an Islamic REIT is a collective investment scheme in real estate in which the tenant(s) operates permissible activities according to Shariah (Securities Commission Guidelines on Islamic REITs, 2005). The objective, administration and structure of iREITs are very similar to conventional REITs (Osmadi, 2006). The key differences, however, are on how the incomes of iREITs are derived and how the fund is being managed. Based on that, tenants in a property acquired by iREITs must operate in businesses that comply with Shariah principles and the fund generated by iREITs must be managed in a Shariah-compliance manner. On a contrary, there is no such requirement imposed on the conventional REITs. In Malaysia, REITs fall within the purview of the Securities Commission; and also Bursa Malaysia Securities Berhad if it is listed on Bursa Malaysia. However, iREITs must comply with both guidelines pertaining to REITs issuance by Securities Commission, the Guidelines for Islamic REITs (November, 2005) and the General Guidelines on REITs (January, 2005). Additionally, iREITs must have Shariah committee or advisor to ensure its Shariah-compliance. For real estate investment to be Shariah compliant, attention and observance should be given to the following: Utilization of the real estate must be Shariah compliant, including tenancies and sub-tenancies, financing of the acquisition or development of the real estate should be Shariah compliant, Investment of cash/liquidity must be made in Shariah compliant instruments, Insurance scheme for protecting the real estate should also be in Shariah compliant.

In Malaysia, unlisted REITs which specially designed for native Malaysia (Bumiputera) are gaining attraction from the Bumiputera group. This type of REIT is better known as Amanah Hartanah Bumiputera (AHB), uses the Islamic Finance Contract of Ijarah in its structure. The latest unlisted REIT was issued by Permodalan Hartanah Bumiputera (PHB) and managed by Maybank Asset Management Sdn. Bhd. This latest development provides ideas for researchers to propose the similar type of unlisted REIT using waqf assets that are expected to provide huge revenue from rental in the long run. The study identifies the AHB features such as the minimum units that previously are 500 units (RM500) has now been reduced to RM100 per person while maximum amount increased to RM500,000 from RM400,000. By end-2016, the fund value has increased to RM3.5 billion which equivalent to 3.5 billion units, while in terms of real estate, the fund currently has 17 assets that helped to back the fund.

### 3. Methodology

This paper employs a quantitative method which is survey techniques. The survey used simple random sampling. The simple random sampling is an approach where the subjects are selected randomly from the population. The main rationale for randomly choosing the Muslim in Klang Valley is because they originally are residents from various states in Malaysia, with different range of age, level of incomes, and education. For this study, data were collected from Klang Valley residents (Selangor and Kuala Lumpur) through self-administered questionnaires which contained items of different formats. A total of 400 respondents participated in the survey, out of which 365 questionnaires, i.e. 91.25 percent were usable. The remaining 35 (8.75 percent) questionnaires were not fully completed and hence excluded from the analysis. The required information categories were related to demography as well as on respondents' perception towards REITs waqf. Most of the formats of the questionnaire included dichotomous answers such as "Yes" and "No" and self-assessment items measured by Likert scale, ranging from 1 – 5 (Strongly agree – strongly disagree).

Prior to the actual survey, a pilot study was conducted to test whether the survey instrument was valid and reliable enough to collect the relevant data as required for achieving the stated objectives. A pilot sample provided satisfactory results on the reliability of the survey instrument. Overall Cronbach's alpha, a coefficient used to measure internal consistency was above 0.8, while that based on standardized items was 0.79. These results indicated that the survey instrument was reliable. Demographic information of the respondents such as age, gender, education, type of employment and income levels were analysed using descriptive statistics-particularly percentages. The survey findings were presented in charts and tables. Charts illustrating the aggregated responses on the different variables were drawn comparatively to show the score of each variable in relation to the other. In some cases, tables were also used to summarise information, such as in the case of demographic information results.

### 4. Findings and discussions

The analysis and findings of the survey aimed at understanding the public behaviour and perception with respect to the investment and charity. These will be useful to structure and design the proposed iREIT waqf. In total, the survey captured 365 respondents, whose responses are presented through tables and charts. Table 1 below shows the demographic information about the respondents. The majority of respondents were female (70.7%) and generally in the age group of 20-29 years (54.5%). The study overwhelmingly targeted educated respondents holding tertiary qualifications. The combined percentage of respondents with qualifications ranging from Diploma to PhD is 93.4%. In addition, the majority of respondents were government employees (61.4%), followed by those in the private sector (31.5%). However, most of the respondents were in the lower income groups. At least 58.4% of respondents earn a monthly income less than RM 4,000 (i.e. fall between RM 1,500 – RM 3,999).

Chart 1 illustrates comparatively, the amount of money that respondents allocate for investment and charity per year. For lower allocations, ranging between RM100 to RM500, respondents give more to charity than investment, while for allocations above RM500 investment overtakes charity. On average, 55.1% of respondents prefer investment to charity, for annual allocations greater than RM 500. The important findings from the analysis are to know the ideal pricing and features for the iREIT waqf as this proposed iREIT have both element of charity and investment. Based on Chart 1, 81.1% of respondents allocated RM100 and more for charity. Meanwhile, 84.7% of respondent allocated RM100 and more per year for investment purposes. By targeting RM500 for minimum entry or at least the investors must subscribe 500 units per entry, it is not considered very hard to sell the unit at this price as the respondents behaviour shows that it is common for 42.2% of respondent to allocate RM 500 and above for charity and 55.1% of respondents allocate RM500 and above per year for investment.

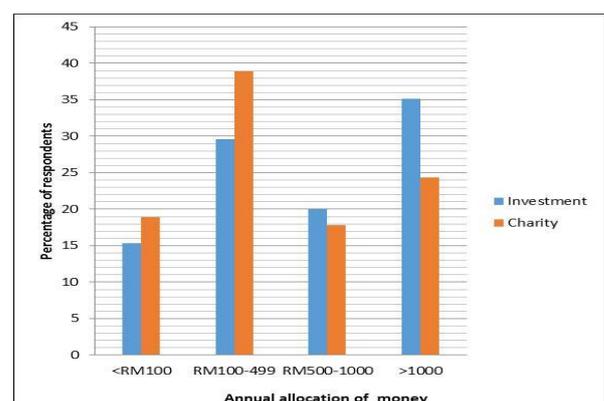
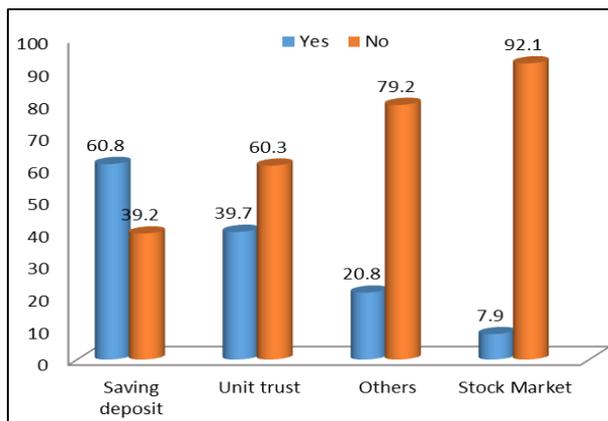


Fig. 1: Money Allocated for Investment and Charity.

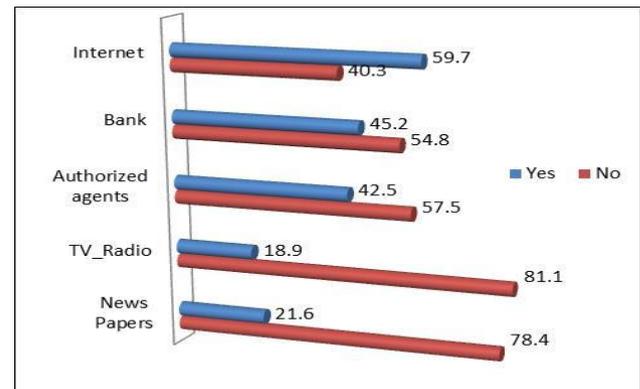
**Table 1:** Demographic Information of Respondents

Variable	Category	Frequency	Percentage
<b>Gender</b>	Male	107	29.3
	Female	258	70.7
<b>Age</b>	< 20	6	1.6
	20-29	199	54.5
	30-39	104	28.5
	40-49	42	11.5
	> 50	14	3.8
<b>Education</b>	Elementary	3	0.8
	Secondary	21	5.8
	Diploma	60	16.4
	Bachelor	200	54.8
	Masters	70	19.2
	PhD	11	3.0
<b>Employment</b>	Government Sector	224	61.4
	Private Sector	115	31.5
	Business owner	12	3.3
	Others	14	3.8
<b>Income level</b>	RM1,500 – RM1,999	77	21.1
	RM2,000 – RM3,999	136	37.3
	RM4,000 – RM5,999	77	21.1
	RM6,000 – RM7,999	42	11.5
	RM8,000 – RM9,999	13	3.6
	RM10,000 or more	20	5.5

**Fig. 2:** Type of Investment Currently Held by Respondents.

In terms of type of investment held, as shown in Chart 2, the majority of respondents are holding their investments in form of savings (60.8%), followed closely by unit trust investment (39.7%), while the least type of investment holdings is stock markets with only 7.9%. This investment behaviour is common among Malay community which represent Muslim in Malaysia that have less involvement in Stock market. This finding is useful for researchers as the proposed unlisted iREIT waqf have the features that do have the element of saving and not much different as unit trust as this investment also form a portfolio managed by fund managers. The portfolio however consists of many forms of real estate. Therefore, the proposed product is consistent with the type of investment held by respondents.

In terms of source of information, as shown in Chart 3, the internet is the most prominent source of information for prospective investors (59.7%), followed by the banks (45.2%) and authorized agents (42.5%). The traditional channels of communication, including Television, Radio and Newspapers performed poorest with respect to provision of investment information to our respondents.

**Fig. 3:** Source of Investment Information.

The result shows that the IT literacy in Malaysia is commendable. This will make the promotion of the product can be done in efficient manner and through cheaper channels such as through the internet as this is the channel that is commonly used by today's generation. In addition, the use of internet to promote and disseminate information on this product would enable information to be spread faster to the huge group of potential investors.

Key factor motivating respondents to invest in iREIT waqf are spread into few factors such as the risk level, the expected return/dividend, the sector of the investment, offer price, liquidity and accessibility. Dividends emerged both as the most vital factor and most important factor with respective scores of 43% and 39%. Hence it stands out as the key factor motivating respondents to invest. For being the next vital factor, dividends was closely followed by the risk level (41%) and then the sector of the investment (38%) while the other three factors namely; the accessibility, price and liquidity each scored below 30% on the key motivating criteria. More than half (59%) of the respondents have got the experience of giving waqf. This finding suggests that waqf is a known concept to most of the respondents, and most of them are supportive of the effort to develop waqf.

In terms of the medium to participate in waqf, most respondents would prefer to use internet banking to waqf their assets. Internet banking was ranked highest in the vital category (54%) while the Baitulmal counter was considered by a highest number of respondents under the important category (49%). These are followed by the mosque counter which was ranked vital by 40% respondents and important by 34% respondents respectively. Only 15% respondents would choose the waqf foundation counter as a vital medium, while 37% thought of it as being important.

When asked which waqf product that the respondents are familiar with, the results show that the majority of the respondents are familiar with real estate waqf and cash waqf. In particular, more than 80% of the respondents are familiar with real estate waqf, while around 76% are familiar with cash waqf. On the other hand, knowledge on share waqf and other types of waqf have remained very low. About 83% of the respondents stated that they are not familiar with share waqf and 91% are not familiar with other types of waqf. Therefore through this findings, the intending issuers of iREIT waqf should take more efforts to explain clearly on the features and mechanisms of the product before launching it as share waqf, in particular, is synonym to this instrument, but only 17% of respondents are familiar to this instrument.

When asked regarding investment in REITs, most of the respondents (42.7%) would prefer the investment option among the three unit holdings in the REITs shareholding system. Waqf REITs scored the lowest (21.1%). This result is consistent with the collection of cash waqf in State Islamic Religious Council that still consider as very small compared to the amount of investment. Basically the researchers proposed iREIT waqf that have 3 different options for unit holder. This means that the investors can be the donors/waqif by 100% waqf its iREIT or it can choose to be unit holder that will waqf portion of its dividend or it can be pure unit holder that buy this iREIT for investment purposes. However, indirectly by buying the iREIT the investors actually support the

process to acquire high net asset value real estate for waqf purposes. The results suggest that majority of the respondents (36.2% + 42.7%) are interested to participate as investors rather than donors/waqif, indicating that greater amount of funds can be tapped from the issuance of the iREITs waqf if the demand of the investors is given priority in the design of the product.

## 5. Conclusion

This study managed to capture several valuable information from the respondents with regards to the proposed iREIT waqf instrument. This is important as the study aims to contribute towards innovative investment structure that is based on iREIT waqf that is both practical and appealing to the widest potential pool of investors. By understand the common behaviour in performing charity and investment among the respondents the study can conclude the level of acceptance towards the idea of this iREIT waqf, the medium of promotion and collection that the potential investors most prefer, the suitable price, and the unique features that the potential investors agreed to have in this proposed iREIT. Our objective of obtaining information from the public on the use of iREITs as a medium of financing waqf assets development in Malaysia has been achieved, to a large extent. From this study therefore, we have a platform for taking guided action on a variety of issues relevant for the proper implementation of the proposed iREITs model for Waqf asset development in Malaysia.

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