

## Is sharia-compliant capital returning?



REAL ESTATE HAS FORMED A SIGNIFICANT PART OF the asset allocation for sharia-compliant capital primarily for investors from the Gulf Co-operation Council countries and south-east Asia. This has supported the growth of the sukuk, or Islamic bond, market as well as sharia-compliant real estate funds.

The global financial crisis has caused property values to fall, and has led to some notable defaults and stresses in the Islamic finance sector – among them sukuk issued by Nakheel, Investment Dar and Saad Group. Sharia scholars raised doubts about the repurchase obligations in sukuk structures, and the lack of liquidity across the world also halted the growth of sharia-compliant finance, albeit temporarily. Sukuk issuance fell from around \$35bn (£29bn) in 2007 to \$15bn (£9.7bn) in 2008.

But now that the global economy has started to improve, Islamic finance is growing again.

Although conventional finance is still difficult to secure, Islamic funds are being set up to fill the void. Fund managers are considering setting up sharia-compliant senior and mezzanine debt funds for western real estate markets, particularly the UK.

Demand for sukuk bonds is increasing again as witnessed by the recent \$450m (£292m) international issuance by Saudi Arabian developer Dar Al Arkan. Several sharia-compliant property funds have been established in Gulf Co-operation Council countries focusing on distressed or sector-specific opportunities.

Sharia-compliant capital from Malaysia continues to source properties in developed markets too. New Islamic REITs are planned that will be listed in Malaysia and invest overseas.

Sharia-compliant mezzanine financing has also been used to buy UK assets, as have other sharia-compliant sourced funds.

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