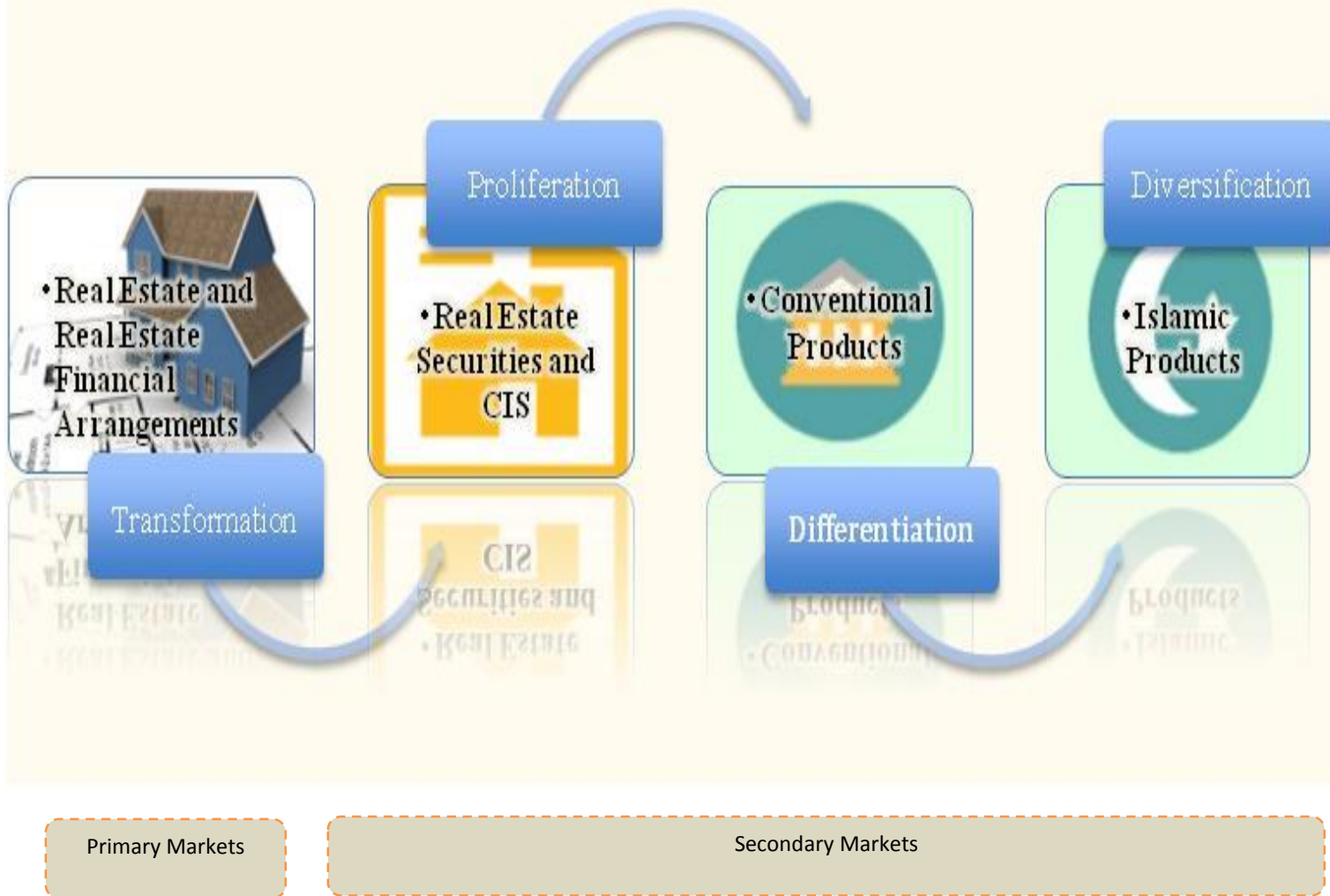




Assessment of COMCEC Real Estate Securities Markets and Regulatory Landscapes for Strengthening Capital Markets

Burak Pirgaip

Project Coordinator



Sample Selection

- Sample covers 19 countries.
 - 70% of GDP_{OIC}
 - 65% of $Cons_{OIC}$
 - 60% of FDI_{OIC}
 - 60% of $Popn_{OIC}$
 - 40% of $GDP_{p_capita,OIC}$
 - 35% of # of members $_{OIC}$



Sample Selection

- Of these 19 countries:

- Income level

- 2 low
- 8 lower-middle
- 5 upper-middle
- 4 high

- Market level

- 7 emerging
- 5 frontier
- 7 non-classified

Respondents:
3 lower-middle, 4 upper-
middle, 2 high

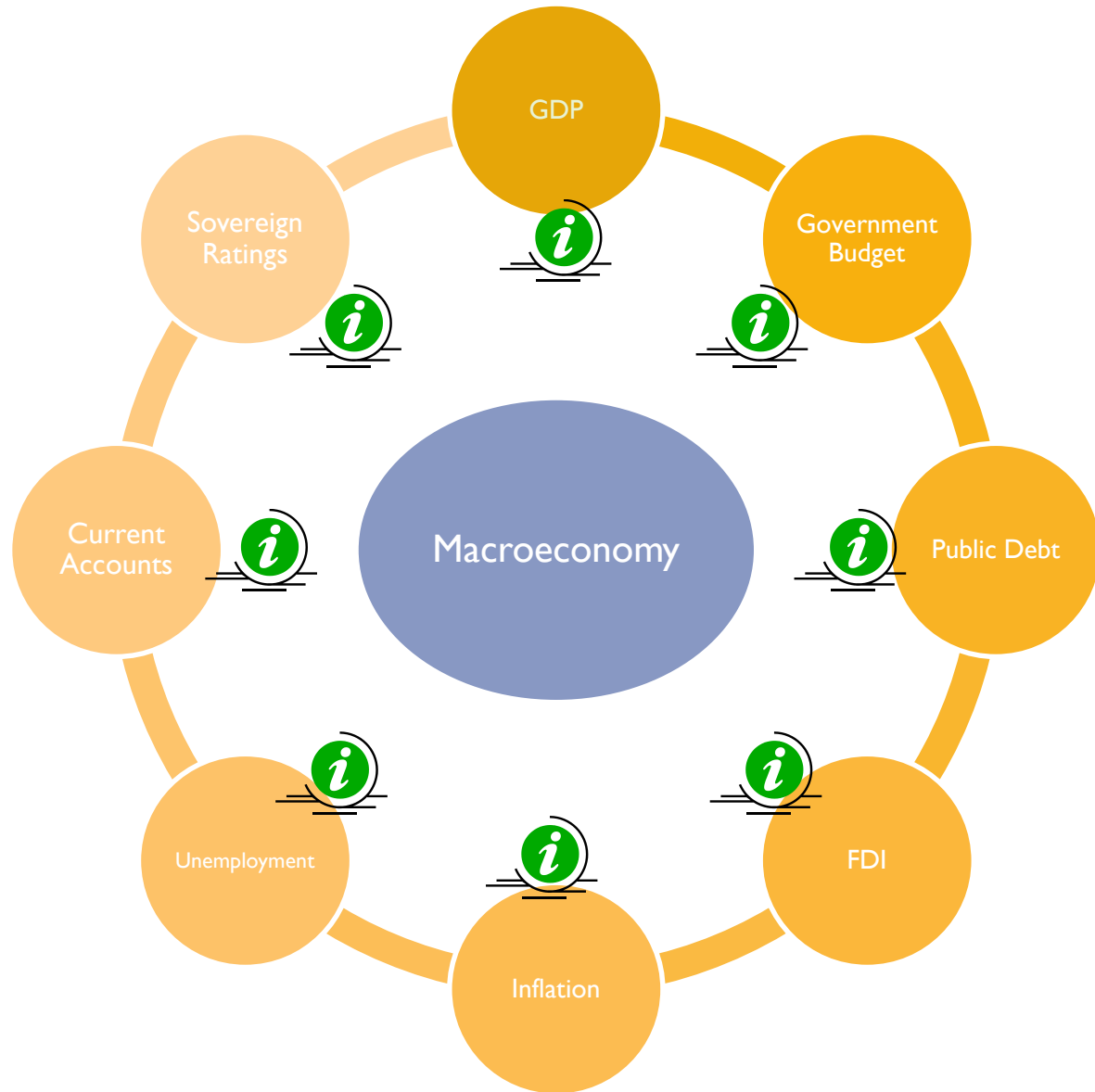


Respondents:
4 emerging, 2 frontier, 3
non-classified



Chapter I

● **CURRENT SITUATION IN THE
ECONOMY, FINANCIAL SECTOR AND
REAL ESTATE MARKETS**



GDP

- **The range of growth is too wide.**
 - GDP_{big10} is 170 times greater than $GDP_{small10}$
 - This is about 15 times for the sample.
 - $GDP_{p_capita, big10}$ is 600 times greater than $GDP_{p_capita, small10}$
 - This is about 5 times for the sample.
- **The potential of growth is very high.**
 - Construction sector is a catalyzer.
 - Infrastructure investments are promising.
 - Business climate is getting attractive.
 - Demographics leads to high urbanization.

Government Budget

- **Budgetary deficits are common.**
 - %GDP
 - Average_{OIC} is -4,08%; average_{sample} is -3,84%
 - Highest case is:
 - -14,23% in and out of the sample.
- **Governments are project-oriented.**
 - Public spending is mainly driven by infrastructure investments.



Public Debt

- **Public debt burden is relatively high.**
 - %GDP
 - Average_{OIC} is 55,18%; average_{sample} is 52,63%
 - Highest case is:
 - 167,55% out of the sample,
 - 92,51% in the sample.
- **Debt service would weigh heavily on public accounts.**
 - Infrastructure projects are primarily financed by bank loans.



FDI

- **FDI is an integral component of GDP.**
 - %GDP
 - Average_{OIC} is 6,84%; average_{sample} is 2,98%
 - Highest case is:
 - 20,10% out of the sample.
 - 10,10% in the sample.
- **Strong commitment exists to attract FDI.**
 - There is a growing need of investment inflows from foreign investors.



Inflation

- **Some countries experience high inflation.**
 - Annual % change
 - Average_{OIC} is 7,03%; average_{sample} is 7,63%
 - Highest case is:
 - 51,08% in and out of the sample.
- **Consumption is alive and growing.**
 - Lower inflation environment would facilitate real estate investments.



Unemployment

- **Countries are characterized by high unemployment rates.**
 - % total labor force
 - Average_{OIC} is 7,43%; average_{sample} is 9,05%
 - Highest case is:
 - 30,18% in and out of the sample.
- **Investments do create employment.**
 - Real estate and construction sector investments would generate high level of direct employment.

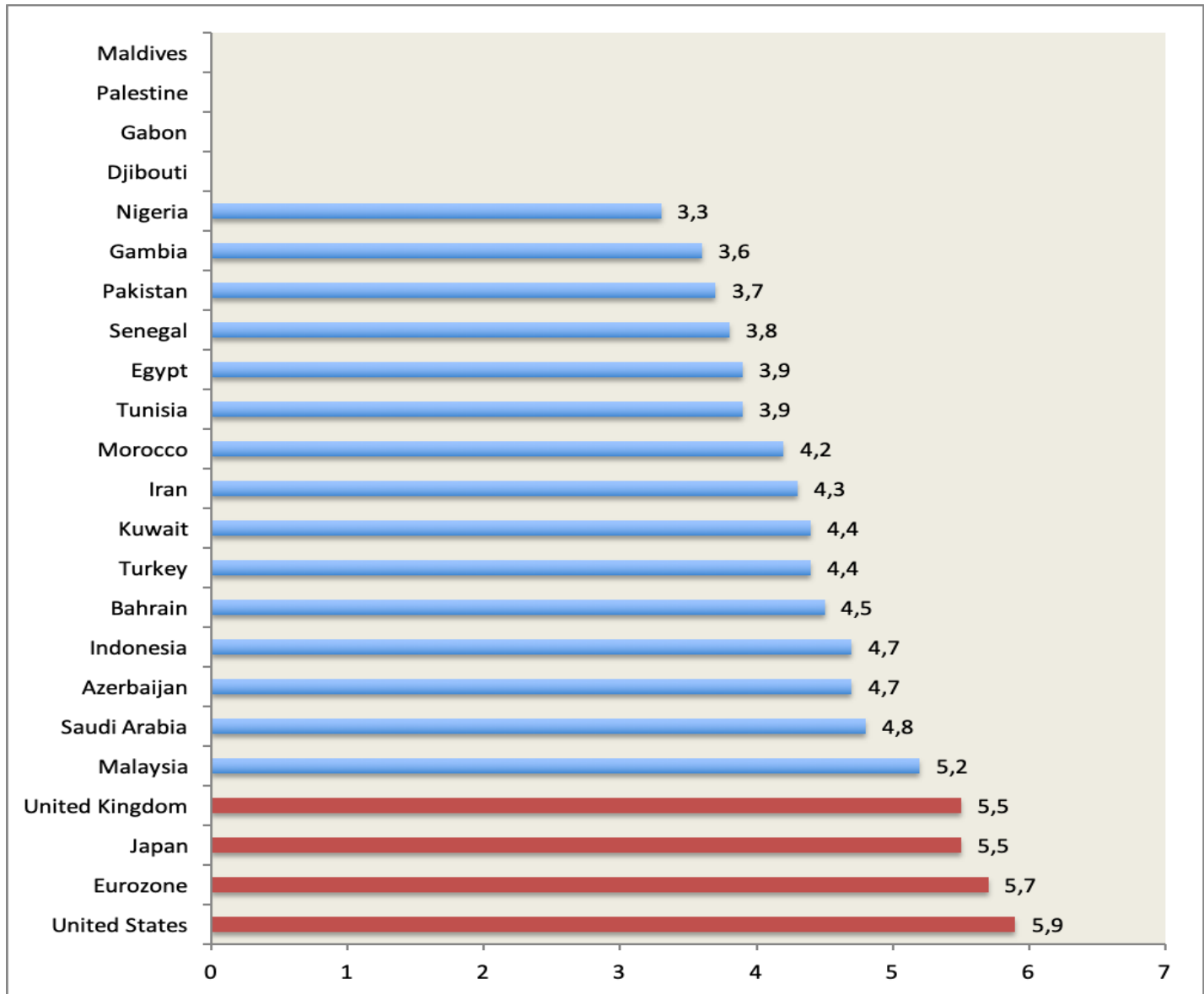


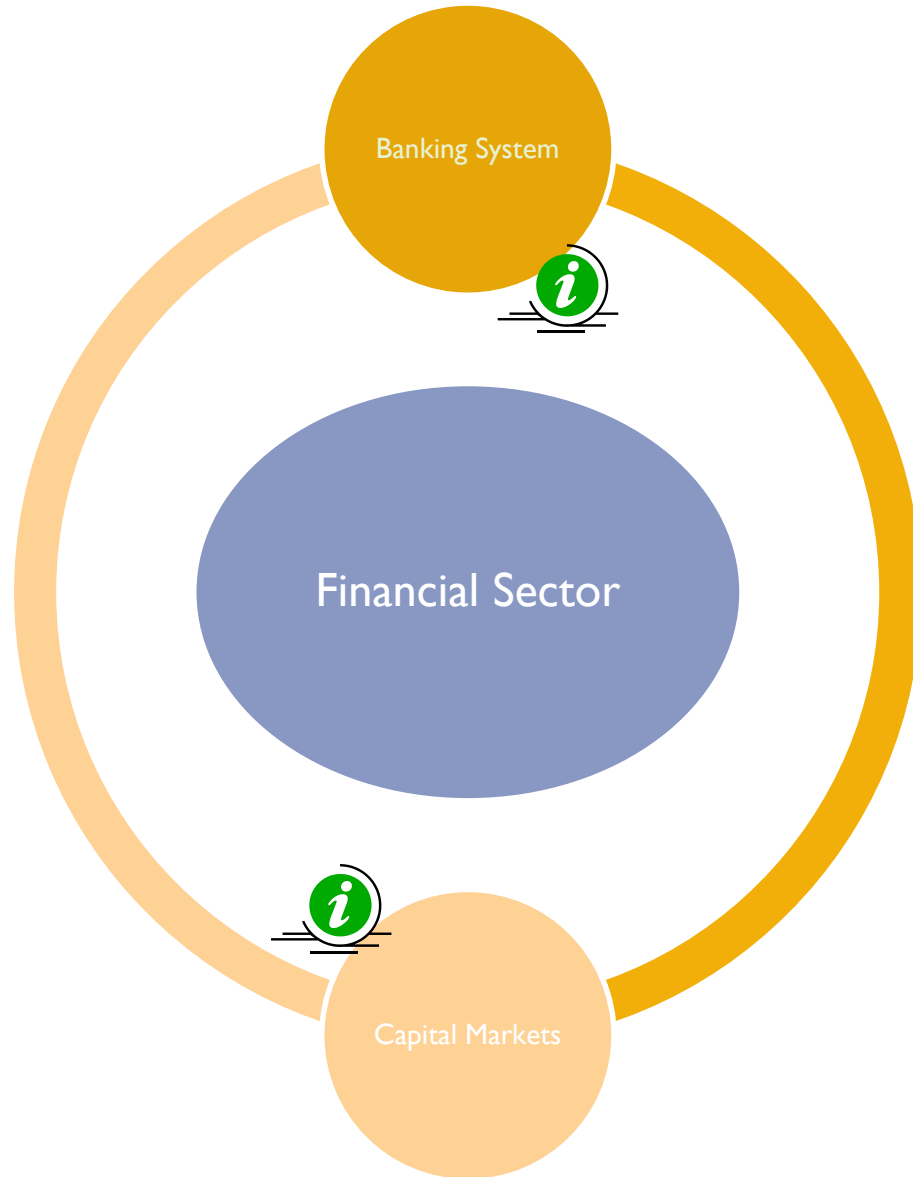
Current Accounts

- **Current accounts are generally in deficit.**
 - % GDP
 - Average_{OIC} is -4,99%; average_{sample} is -2,52%
 - Highest case is:
 - -23,20% out of the sample.
 - -22,00% in the sample.
 - 65% of the OIC members have twin deficits.
- **Investment projects improve external accounts.**
 - Though mainly trade-related, capital influx to investment projects would reduce external accounts deficits.

Sovereign Ratings

- **Ratings are generally clustered in the non-investment area.**
 - Investment grade economies
 - 8 in the OIC, 5 in the sample
 - Speculative grade economies
 - 27 in the OIC, 12 in the sample
 - Unrated economies
 - 22 in the OIC, 2 in the sample
- **Improving business climate decreases the cost of foreign capital.**
 - Government policies focus on significant legislative reforms for a progressive investment climate.





Banking System

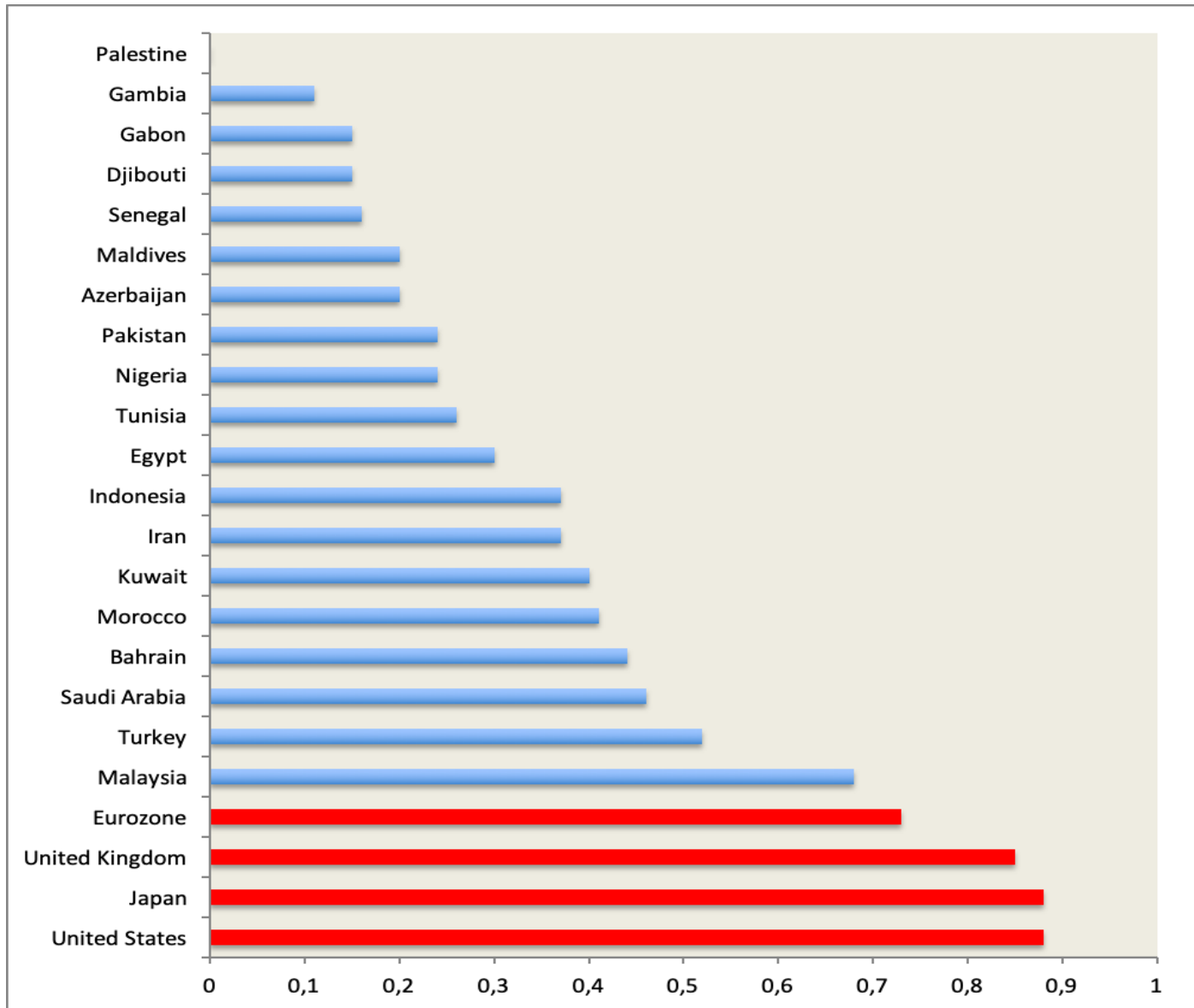
- **Financial sector is dominated by banks.**
 - Generally well-capitalized and healthy.
 - Bank concentration (%)
 - Average_{OIC} is 67,43%; average_{sample} is 64,89%
 - Bank assets to GDP (%)
 - Average_{OIC} is 51,00%; average_{sample} is 62,09%
 - Bank deposits to GDP (%)
 - Average_{OIC} is 53,64%; average_{sample} is 56,08%
 - Foreign bank involvement (%)
 - Average_{OIC} is 43,11%; average_{sample} is 36,79%
- **Investments are financed primarily by banks.**
 - Domestic credit to private sector (%)
 - Average_{OIC} is 39,41%; average_{sample} is 49,99%
 - Investment financed with equity (%)
 - Average_{OIC} is 4,64%; average_{sample} is 4,57%

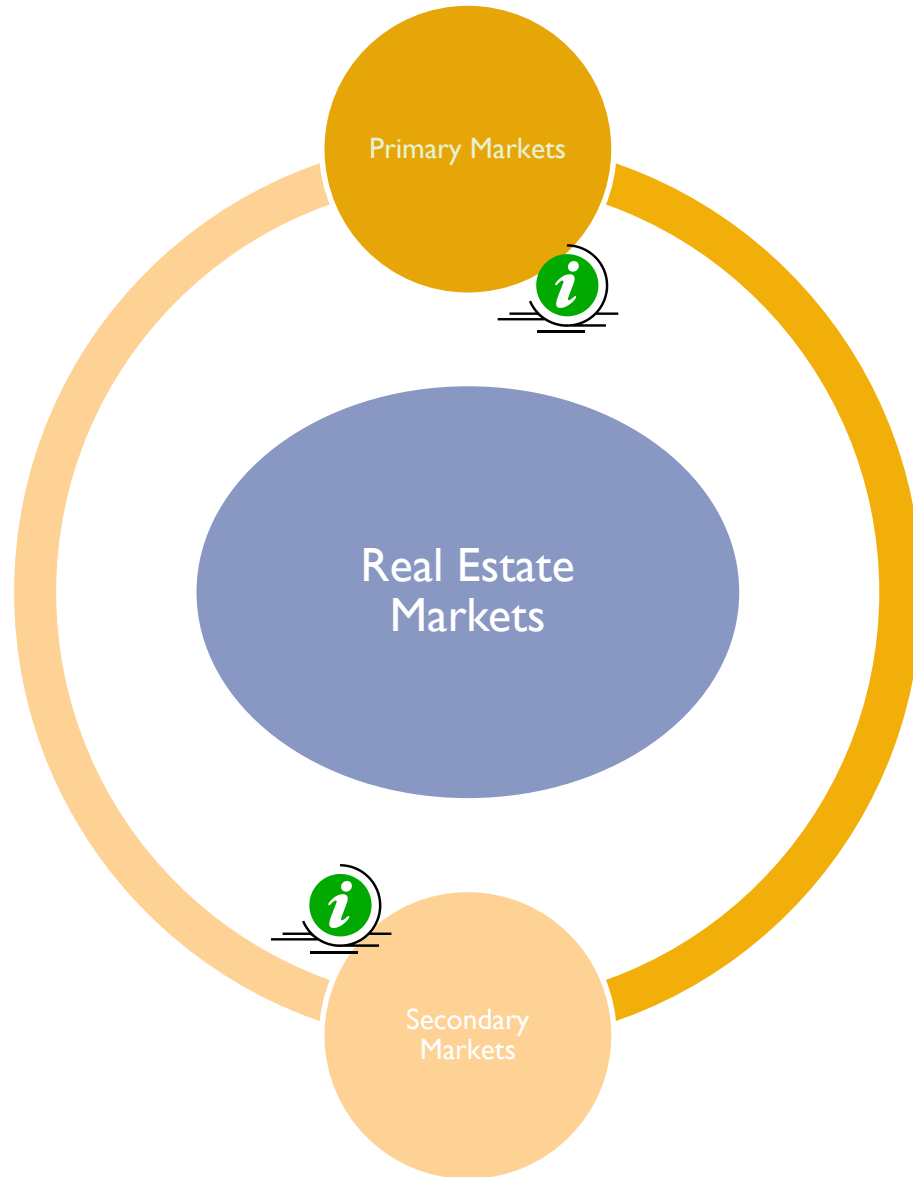
Banking System

- **Access to finance is somewhat limited.**
 - Getting credit ranking (out of 190 countries)
 - Average_{OIC} is 112; average_{sample} is 89
 - Ease of access to loans (out of 125 countries)
 - Average_{OIC} is 75; average_{sample} is 65
 - Firms identifying access to finance as a major constraint (%)
 - Average_{OIC} is 46,04%; average_{sample} is 14,25%
- **Dual banking system prevails in almost all countries.**
 - Total Islamic banking assets/GDP (%)
 - Average_{OIC} is 0,29%; average_{sample} is 0,38%
 - Total Shariah-compliant financing/GDP (%)
 - Average_{OIC} is 0,18%; average_{sample} is 0,25%
 - Conventional banks having Islamic banking windows
 - Total_{OIC} is 81; total_{sample} is 54

Capital Markets

- **Deepening capital markets is crucial.**
 - Stock market cap/GDP (%)
 - Average_{OIC} is 43,32%; average_{sample} is 41,47%
 - Stock market total value traded/GDP (%)
 - Average_{OIC} is 9,31%; average_{sample} is 12,27%
 - Stock market turnover ratio (%)
 - Average_{OIC} is 28,26%; average_{sample} is 36,93%
 - Mutual fund assets/GDP (%)
 - Average_{OIC} is 6,79%; average_{sample} is 7,26%
 - With pension funds: 9,52% and 10,66%, respectively.
- **Foreign ownership in companies is gaining traction.**
 - Prevalence of foreign ownership of companies (1=extremely rare; 7=highly prevalent)
 - Average_{OIC} : 4,098 (2015) and 4,169 (2017)
 - Average_{sample} : 4,119 (2015) and 4,181 (2017)





Primary Markets

- **Policies on affordable housing in order to increase home ownership and on infrastructural development in order to improve the business environment.**
 - Domestic and non-domestic demand is growing.
 - Mortgage loans are generally available.
 - Foreign investments may be subject to certain restrictions.
- **Real estate industry is key for development.**
 - Protection and registration of property may require high time and cost considerations.

Primary Markets

- **Real Estate Loans***
 - Residential: \$1,5 bn
 - Commercial: \$400 mn
 - Combined: \$659 mn
 - Infrastructure: \$415 mn

- **CIS ***
 - Investment funds: 700
 - Unit trust funds: 650
 - Wholesale funds: 307
 - REITs: 19
 - ETF: 40
 - Pension funds: 465
 - Investment companies: 50
 - Construction and project funds: 5

* Underestimated due to survey data unavailability.



Secondary Markets

- **Regulatory framework**

- In many countries, real estate securities are regulated.
 - Sukuk and REIT regulations are prominent.
 - Most securities have the notion of tradability.
 - They all may be structured as Shariah-compliant as well.
- In some countries, no regulations exist.
 - Underdeveloped primary markets
 - Inexperienced financial institutions
 - Legal issues concerning property ownership

- **Institutional framework**

- Efficient trading mechanisms and relevant authorities are in place.
- But, secondary markets have been underdeveloped
 - Insufficient liquidity.
 - High transaction costs
 - Inadequate post-trade facilities.

Secondary Markets

- **Securities***
 - Sukuks: \$20 bn
 - Real Estate Certificates: \$237 mn
 - MBS/ABS: \$300 mn
 - MCB/ACB: \$1,2 bn

- **CIS ***
 - CIS: \$210 bn
 - Real Estate CIS: \$610 mn

* Underestimated due to survey data unavailability.

Summary

- It is of great importance for the COMCEC member countries to attract foreign investment in their real estate markets.
 - Cross-border real estate investments account for a significant proportion of global real estate investment volume and contribute to a country's FDI.
 - These investments would lead to growth in most of the COMCEC member countries where FDI is highly concentrated in the real estate industry.

Summary

- The growing demand is the major common driver for real estate markets in COMCEC member countries against considerable diversities.
 - Favourable demographics (*such as young population, population growth, labour force expansion, wealth improvement etc.*) is accompanied with rapid urbanization and real estate investment be it industrial, commercial or residential in the COMCEC member countries.

Summary

- It would be a natural step for investors within or outside of the COMCEC member countries to begin deploying capital to real estate securities representing various real estate investment alternatives.
 - A broad range of investors has been considering real estate securities as an alternative asset class for the purpose of portfolio diversification.
 - Real estate securities are key to the secondary markets as they are offered as alternative investment products for investors who want to enjoy the ability to achieve steady cash flows through rental income, hedge against inflation and healthy yields with prospect of capital appreciation.



TO BE CONTINUED...