



**BAHRAIN DOMICILED  
REAL ESTATE INVESTMENT  
TRUSTS  
(B-REITs)  
MODULE**



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MODULE	BRT: Bahrain Domiciled Real Estate Investment Trusts
CHAPTER	BRT-A: Introduction

## BRT-A.1 Purpose

### *Executive Summary*

BRT-A.1.1 This Module sets out the Central Bank of Bahrain's (CBB) requirements for Bahrain Domiciled Real Estate Investment Trusts (B-REITs).

### *Legal Basis*

**BRT-A.1.2** This Module contains the CBB's Directive (as amended from time to time) regarding Bahrain domiciled real estate investment trusts (B-REITs) and is issued under the powers available to the CBB under Article 38 of the Central Bank of Bahrain and Financial Institutions Law 2006 ('CBB Law').

BRT-A.1.3 For an explanation of the CBB's rule-making powers and different regulatory instruments, see Section UG-1.1.



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<b>CHAPTER</b>	<b>BRT-A: Introduction</b>

## **BRT-A.2 Module History**

### *Evolution of Module*

BRT-A.2.1 This Module was first issued in April 2007, as part of the initial release of the contents of Volume 6 (Capital Markets); it was given an effective date of 1 June 2007, with a one-year transition for existing CIUs.

BRT-A.2.2 The Module was subsequently revised in April 2012, by the addition of several sections catering for the role and responsibilities of relevant persons, the registration and authorisation requirements, corporate governance, and other relevant Chapters and has been reissued as Volume 7.

BRT-A.2.3 A list of recent changes made to this Module subsequent to the April 2012 revision is provided below:

Module Ref.	Change Date	Description of Changes
BRT-1.1.2 BRT-1.1.4 BRT-2.2.1	10/2017	Added Bahrain Domiciled retail CIU.
BRT-2.3.2	10/2017	Amended paragraph on leveraging requirement.
BRT-2.3.4	10/2017	Added paragraph on market making arrangements.
BRT-4.1.1AA	10/2017	Added paragraph on the requirement to appoint an external appraiser.
BRT-4.1.1A	10/2017	Added paragraph on valuation requirement.

BRT-A.2.4 Further guidance on the implementation and transition to Volume 7 (Collective Investment Undertakings) is given in Module ES (Executive Summary).



MODULE	BRT: Bahrain Domiciled Real Estate Investment Trusts
CHAPTER	BRT-B: Definition

## BRT-B.1 Definition

**BRT-B.1.1** Bahrain domiciled real estate investment trusts (**B-REITs**) are defined as collective investment undertakings the objectives of which are acquiring, holding, administering, managing and selling income generating local and foreign real estate properties, either directly or indirectly.

BRT-B.1.2 Indirect holding would be through holding of units or shares of another REIT.



MODULE	BRT: Bahrain Domiciled Real Estate Investment Trusts
CHAPTER	BRT-1: General Requirements

## BRT-1.1 General Requirements

### *Documents Constituting a B-REIT*

#### BRT-1.1.1

A B-REIT must be constituted as a Trust, established under the Financial Trust Law of Bahrain and in accordance with a Trust Deed or a Trust Instrument.

### *Authorisation/Registration Requirements*

#### BRT-1.1.2

A B-REIT may be established in the form of a Bahrain domiciled retail CIU or a Bahrain domiciled exempt CIU and must be authorised/registered by the CBB prior to being offered to eligible investors, in accordance with the requirements set out in applicable Sections of Module ARR.

### *Liquidation/De-Registration of B-REITs*

#### BRT-1.1.3

B-REITs intending to undergo liquidation/de-registration must comply with all the Rules outlined in Module LDR.

### *Regulatory Requirements*

#### BRT-1.1.4

B-REITs in the form of Bahrain domiciled retail CIUs or Bahrain domiciled exempt CIUs are subject to the Rules outlined in Module **BDR** for Bahrain Domiciled retail CIUs and Module BDX dealing with Bahrain domiciled exempt CIUs, in addition to the other requirements outlined in Volume 7 applicable to their CIU category. B-REITs are also subject to the specific requirements and restrictions outlined in this Module, which prevail if different from the requirements in Modules **BDR** or BDX.

#### BRT-1.1.5

The trustee/fund manager must appoint a qualified property manager(s) responsible for the management of the properties under the B-REIT and for raising regular reports to the trustee/fund manager on the performance of such property.



MODULE	BRT: Bahrain Domiciled Real Estate Investment Trusts
CHAPTER	BRT-2: Specific Requirements

## BRT-2.1 Restrictions on Investment Policy

**BRT-2.1.1** B-REITs established as Bahrain domiciled expert CIUs must be subject to the following restrictions on their investment policy:

- (a) Unless otherwise agreed with the CBB, the B-REIT must hold a minimum of 2 real estate properties, comprising of at least 80% of the B-REIT's NAV;
- (b) A maximum of 20% of the B-REIT's NAV may be invested in the development of existing owned property;
- (c) A maximum of 20% of the B-REIT's NAV may be invested in other REITs, subject to 10% investment per REIT; and
- (d) Other assets of the B-REIT must be held in cash and cash equivalents.

**BRT-2.1.2** B-REITs established as Bahrain domiciled exempt CIUs must invest in the following assets only:

- (a) Real estate properties;
- (b) Development of existing owned property;
- (c) Other REITs, subject to a maximum of 20% of the B-REIT NAV; and
- (d) Other assets of the B-REIT must be held in cash and cash equivalents.

**BRT-2.1.3** Immovable assets may either be held directly or indirectly. Immovable assets situated outside the Kingdom of Bahrain may also be held through foreign special purpose vehicles, which must be consolidated.

**BRT-2.1.4** B-REITs are not permitted to invest in undeveloped land and mortgages.



MODULE	BRT: Bahrain Domiciled Real Estate Investment Trusts
CHAPTER	BRT-2: Specific Requirements

## BRT-2.2 Listing Requirements and Prohibitions

**BRT-2.2.1** The units of a B-REIT established as a Bahrain domiciled retail CIU must be listed on a licensed exchange(s), within six months from the date of starting of operations, and in accordance with the provisions set in the offering document.

**BRT-2.2.2** For B-REITs established as Bahrain domiciled exempt CIUs, listing of the units of a B-REIT is optional.





MODULE	BRT: Bahrain Domiciled Real Estate Investment Trusts
CHAPTER	BRT-2: Specific Requirements

## BRT-2.3 Other Requirements

### *Minimum Size of a B-REIT*

**BRT-2.3.1** The minimum value of a B-REIT must be US\$ 20 million or its equivalent in another currency, at the initial closing.

### *Leveraging*

**BRT-2.3.2** A B-REIT established as a Bahrain domiciled retail CIU, must limit its leverage to a maximum of **50%** of its NAV for investment purposes.

### *Dividend Policy*

**BRT-2.3.3** A B-REIT must distribute annual dividends of not less than 90 % of its audited net realised income to its participants, within six months from the end of its financial year.

### *Market Making Arrangements*

**BRT-2.3.4** A B-REIT established as a Bahrain domiciled retail CIU, must appoint one or more market makers that are acceptable to the CBB, for a minimum period of one year effective from the launch date of the B-REIT.



MODULE	BRT: Bahrain Domiciled Real Estate Investment Trusts
CHAPTER	BRT-3: Reporting and Disclosure Requirements

## BRT-3.1 General Requirements

### *Jointly Controlled Entities*

#### BRT-3.1.1

If a B-REIT jointly controls and owns the property, the following information must be disclosed in the audited financial report:

- (a) Name (if applicable) and a brief physical description of the property;
- (b) Description of business activity;
- (c) Percentage ownership;
- (d) Accounting period (if different from the CIU);
- (e) Material restrictions on repayments;
- (f) Divided schedule (if applicable);
- (g) Details of debt and extent to which there is recourse to the organization;
- (h) Relationship with other partners (e.g. pre-emptive rights etc); and
- (i) Narrative on performance.

### *Financing and Debt Position*

#### BRT-3.1.2

B-REITs must include in their audited financial report:

- (a) An explanation of the net finance charge in their accounts;
- (b) An explanation of the market valuations of their hedging instruments and/or debt ;
- (c) Proportion of fixed versus floating debt;
- (d) Maturity profile of debt;
- (e) An analysis of the proportion of debt that is secured by specific assets versus unsecured assets; and
- (f) Details of the weighted average cost of debt.



MODULE	BRT: Bahrain Domiciled Real Estate Investment Trusts
CHAPTER	BRT-3: Reporting and Disclosure Requirements

## BRT-3.1 General Requirements (continued)

### *Historical Financial Results*

- BRT-3.1.3** If applicable, **B-REITs** must include in their audited financial report financial data on a consolidated basis for each of the past five years. At a minimum this historical data should include:
- (a) Gross revenues;
  - (b) Net profit (both absolute and per share);
  - (c) Net assets (both absolute and per share); and
  - (d) Gearing percentage (debt to total assets).

### *Portfolio Performance*

- BRT-3.1.4** **B-REITs** must disclose in their annual report, the following information on investment assets to the CIU participants:
- (a) Address of the asset;
  - (b) Acquisition date;
  - (c) Type of property including the respective proportion allocated to office/retail/residential/parking;
  - (d) Land area;
  - (e) Gross/lettable building space;
  - (f) Current valuation;
  - (g) Valuation cap rate;
  - (h) Average passing rent per square meter;
  - (i) Current level of leasing incentives for each asset;
  - (j) Annualized net rent based on current rent roll;
  - (k) Vacant space of a building and any large impending lease expiries;
  - (l) Operating profit (after property expenses);
  - (m) Internal rate of return since acquisition;
  - (n) Percentage of ownership (and commentary on control provisions);
  - (o) Form of ownership (e.g. freehold or leasehold ownership);
  - (p) Duration remaining on leasehold;
  - (q) Year of construction completion/major refurbishment; and
  - (r) Impending capital expenditure costs.



MODULE	BRT: Bahrain Domiciled Real Estate Investment Trusts
CHAPTER	BRT-4: Valuation of Assets

## BRT-4.1 General Requirements

**BRT-4.1.1AA** At least one external appraiser must be appointed to carry out the valuation of the B-REIT's assets.

**BRT-4.1.1** The valuation of investment properties held by B-REITs must be acceptable to the CBB and in accordance with the prevailing market value.

**BRT-4.1.1A** The CBB has the right to require a second opinion on the valuation of property assets or valuation report, given that the appointment of the second independent valuator is acceptable to the CBB.

**BRT-4.1.2** It is recommended that valuation report formats be prepared in line with internationally acceptable standards such as the standards required by the International Valuation Standards Committee (IVSC). A standard valuation format is provided in Appendix 1 of this Module and may be used as a guideline.

### *Investment Property – Appraiser Fee Basis*

**BRT-4.1.3** In order to ensure that the external appraiser is independent and objective, B-REITs must agree upon a fee basis that is independent of the outcome of the valuation process and appraised value.

**BRT-4.1.4** The valuation report must disclose the following:

- (a) The basis for appraiser fees (e.g. a fee based upon hours spent, as a result of appraised value or a fixed fee amount);
- (b) The amount of annual non-valuation fees that have been paid to the appraiser(s); and
- (c) Whether the fee for each appraiser accounts for more than 10% of that appraiser's turnover.

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### *Standard Valuation Report Format*

The following represents a sample of the recommended content for reporting on the valuation of a completed asset, which may be applied as deemed applicable:

- Executive summary and/or valuation certification:
  1. Introduction
  2. Instructions
  3. Qualifications and assumptions
  4. Date of inspection
  5. Basis of valuation (including definition of market value).
- Property details:
  1. Location details, including surrounding development
  2. Formal site identification
  3. Physical features e.g. size, configuration, frontage, topography
  4. Site services
  5. Area planning particulars
  6. Statutory assessment
  7. Environment considerations.
- Improvements :
  1. General description
  2. Gross lettable area and net lettable area
  3. Construction and finishes
  4. Services and amenities
  5. Age and condition, state of repair.

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### *Standard Valuation Report Format (continued)*

- Financial summary:
  1. Occupational/tenancy details
  2. Lease expiry analysis
  3. Leasing status (vacant tenancies, monthly tenancies, rental arrears etc.)
  4. Rental income and analysis
  5. Other income
  6. Outgoings
  7. Capital expenditure
  8. Net income summary
- Market overview:
  1. Economic overview
  2. Market sector overview
  3. Sales and rental analyses
- Valuation rationale:
  1. Valuation methodologies
  2. Valuation reconciliation
  3. Risk analysis.

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### *Standard Valuation Report Format (continued)*

#### *Disclosure of Information Contained within Property Valuation*

Valuation reports must not be misleading. The purpose and intended use of the valuation should be clearly reported, and full disclosure should be made of the basis for the valuation estimate, its applicability and its limitations.

#### *Frequency of valuations*

- (a) Valuations should be performed with sufficient regularity to as to be a valid estimate of value at the reporting date;
- (b) B-REITs should have the portfolio valued by an external valuer(s) at least once a year. The valuation should state the method of valuation followed;
- (c) B-REITs should be encouraged to undertake a half-yearly update in the form of a “short” form report detailing any key changes to the property;
- (d) Valuation companies should be asked to tender on the portfolio every two years. The previous valuation company should be prohibited from submitting a tender for a period of two year from the end of the contract; and
- (e) The valuer(s) undertaking the property valuation should have relevant experience of at least five years in valuing properties of a similar asset class within the country.