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The Impact of Middle East Real Estate REITs Markets on China's REITs Market

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ABSTRACT
To deeply implement the "Belt and Road" initiative and China's financial opening-up strategy, this paper aims to understand the development trends of the international real estate and REITs markets in the Middle East. It focuses on the financial policy environment, real estate investment trends, the current status of the REITs market, and localization strategies of Chinese enterprises in the Middle East. By elaborating on the core characteristics and policy support of the Middle East REITs market, the paper proposes development strategies and suggestions based on the current status of China's REITs market. The aim is to provide references for Chinese enterprises to deepen cooperation in the Middle East and optimize their international layout.

KEYWORDS
Middle East Real Estate Investment Trusts(REITs); Chinese REITs; Securitization

1 Background and significance on middle east real estate investment trusts development

1.1 Development trend of the global REITs market

According to Bloomberg data, by the end of 2024, the global REITs market has exceeded $3.5 trillion, with an average annual compound growth rate of 9.2%. Among them, the market share of Asia has climbed from 8% in 2010 to 23% in 2024, making it one of the fastest-growing regions in the world. Relying on the capital advantages accumulated in the oil economy, the Middle East has accelerated its economic diversification strategy in recent years, and REITs, as an important tool to revitalise existing assets and attract international capital, have become the policy focus of various countries. For example, Saudi Arabia's Vision 2030 clearly proposes to increase the share of the non-oil economy to 50% (a historic breakthrough in 2023) and encourage foreign investment in real estate securitisation through the Regulatory Framework for REITs. The UAE's "50-year plan" proposes to promote the issuance of cross-border REITs with the Dubai International Financial Centre (DIFC) as a hub, with the goal of becoming an asset management centre in the Middle East.

1.2 The internationalization development needs of chinese enterprises:

Since the pilot program of China's REITs market was launched in 2020, after more than four years of exploration and development, it has gradually entered a new stage of standardized and normalized development. As of the end of 2024, the cumulative issuance scale has exceeded 150 billion yuan. However, the internationalization level is insufficient, and the underlying assets are still dominated by infrastructure.

As a key node of the "Belt and Road", the Middle East region provides Chinese enterprises with dual opportunities for asset securitization and green transformation. Its market scale, policy dividends, and strategic position provide a broad space and stage for the internationalization development of Chinese enterprises. Through market analysis, the policy environment, asset categories, and income characteristics of the Middle East REITs market are systematically sorted out. At the same time, through experience summary, the localization operation experience and challenges of Chinese enterprises in the Middle East are analyzed and refined. Finally, strategic suggestions are provided to research and analyze the internationalization strategy of China's REITs market and the path of cooperation and development with the Middle East.

2 The development status of real estate REITs in the middle east

Middle East REITs Market Analysis: Emerging Opportunities and Transformation Challenges.

2.1 Market size and asset structure : the growth rate is significant but the region is differentiated

The REITs market in the Middle East is in a stage of rapid development, and although it started late, it has shown significant growth trends and development potential due to the transformation of the energy economy and policy support. The REITs market in the Middle East is regionally differentiated: Saudi Arabia relies on policy-driven securitization of commercial real estate and industrial assets, the UAE focuses on logistics, warehousing and data centres, and Qatar focuses on energy infrastructure and cultural and tourism assets.Looking at the overall development of the region, the Gulf Cooperation Council (GCC) REITs market is expected to grow from $11.22 billion in 2025 to $16.68 billion in 2030 at a compound annual growth rate (CAGR) of 8.24%.

2.2 Policy support and tax incentives: key drivers of economic transformation

Middle Eastern countries are accelerating the development of REITs markets through policy innovation and tax incentives, attracting foreign investment with differentiated policies. Qatar, leveraging the Qatar Financial Center (QFC), offers a 10% corporate income tax rate, exemption from foreign wholly-owned capital gains tax, and allows foreign direct investment in energy infrastructure projects. As the largest market in the region, Saudi Arabia revised its REITs regulatory framework under the Saudi Vision 2030, raising the foreign ownership cap to 49% and implementing tax-free dividend policies. This aims to revitalize commercial and industrial assets through REITs, promoting economic diversification. The Saudi banking sector, benefiting from low-interest r ates and a $ 1 trillion capital expenditure plan, has seen loan growth exceed 15% for three consecutive years, becoming a crucial support for the REITs market. The United Arab Emirates introduced a "Green REITs Program," offering a 15% corporate income tax reduction for sustainable building projects certified by the Leadership in Energy and Environmental Design (LEED) and allowing 100% foreign ownership and zero corporate tax through free trade zone policies, attracting capital for green transformation.

2.3 Performance and liquidity: high returns coexist with structural challenges

In terms of performance, Middle Eastern REITs are known for their high dividend yields (7.5%-9.0%), which significantly exceed the global average (5.2%), but they are also more volatile. Saudi REITs are notably affected by oil price fluctuations, with some products initially underperforming due to quality issues with underlying assets. In contrast, Emirati REITs have benefited from rent tax exemptions (such as in Dubai), making their returns more stable. Regarding liquidity, the average daily turnover rate in the Middle Eastern market is about 0.3%, lower than that of the Singapore market (0.5%), primarily due to low retail participation and an investor structure dominated by institutions. Sovereign wealth funds, international pension funds, and high-net-wor th individuals are the main participants, with Chinese capital's involvement in high-end Emirati REITs through SPV structures reaching 14%.

3 Middle east REITs market insights for the development of chinese REITs market

(1) Policy Framework and Institutional Innovation

Middle Eastern countries have deeply integrated their REITs markets with clear national strategies (such as Saudi Arabia's Vision 2030 and the UAE's "Digital Economy Strategy"), forming a policy-driven synergy effect. China can draw on their experience by formulating differentiated policies tailored to different regional endowments. For instance, it can pilot cross-border REITs listings in the Guangdong-Hong Kong-Macao Greater Bay Area and explore infrastructure asset securitization in the coordinated development of the Beijing-Tianjin-Hebei region. Additionally, it can guide capital flow to strategic sectors such as green energy and logistics warehousing through tax incentives (such as reducing corporate income tax for certain enterprises). Clarifying legal status and tax transparency mechanisms, Middle Eastern countries have revised their REITs regulatory frameworks (such as raising the foreign ownership cap to 49% in Saudi Arabia) and implemented tax exemption policies (such as reducing the corporate income tax by 15% for green REITs in the UAE). These measures provide certainty for market participants. China needs to accelerate the specialized legislation for REITs, clarify its independent legal status, and establish a tax transparency mechanism to address the issue of double taxation at the asset transaction and distribution stages, thereby reducing the tax burden on market participants.

(2) Asset Diversification and Industrial Synergy

Focusing on strategic emerging sectors, the Middle East REITs market has optimized its asset structure by deploying logistics and warehousing (Dubai), clean energy (Saudi Arabia), and cultural and tourism assets (Qatar). China can align with its "dual carb on" goals to promote the development of green REITs, with a focus on supporting photovoltaic power stations and energy storage facilities. At the same time, it can draw on the Pearl Qatari Island model to explore the integration of infrastructure and consu mption in asset securitization, such as bundling and issuing REITs that include affordable rental housing and commercial ancillary facilities. Technological empowerment enhances asset quality; the photovoltaic power station in the Red Sea New City of Saudi Arabia uses Huawei's intelligent storage technology and has received LEED Platinum certification, forming a technology-driven asset appreciation model. China can encourage the use of BIM technology and intelligent operation and maintenance systems in the underlying assets of REITs to improve asset operational efficiency and sustainability, attracting long-term capital allocation.

(3) Cross-border Capital Synergy and International Cooperation

Building a "dual circulation" capital ecosystem, the Dubai Logistics Park achieves cross-border asset securitization through a "Silk Road Fund + local capital" model. China can deepen cooperation with Middle Eastern sovereign wealth funds (such as the Abu Dhabi Investment Authority and Qatar Investment Authority) under the Belt and Road Initiative to establish a cross-border industrial mother fund, exploring a capital loop of "domestic assets - overseas issuance - global allocation." Optimizing investor str ucture and liquidity, the Middle Eastern market can be led by sovereign wealth funds and international pension funds to enhance market stability. China can introduce long-term funds such as social security funds and insurance funds, and draw on the experie nce of Singapore's REITs to develop derivatives markets to hedge risks and enhance product liquidity.

(4) Risk Management and Local Operations

In the Middle East, early REITs suffered from inconsistent quality of underlying assets, leading to some REITs performing weakly. China needs to establish strict asset entry standards to avoid REITs becoming mere "money-raising tools."

4 Risk analysis of asset securitization by chinese companies

The different nature of asset-backed securities(ABS)and infrastructure REITs exposes them to different risks.

Asset-Backed Securities

Asset-backed securities cover debt-based asset securitization products such as narrow-sense ABS,CMBS,and REITs-like products,which are characterized by the repayment of principal and interest.

4.1 Risk of occupancy/tenant fluctuation and rent fluctuation

Since the repayment of principal and interest of asset-backed securities mainly relies on the rental income of the underlying properties,if there is a significant fluctuation in occupancy rates due to tenants vacating and no new tenants being found in the short term during the term of the securities; or if there are force majeure events that lead to rent reductions to alleviate the pressure on tenants,these situations will affect the collection of underlying rents and,in turn, the repayment of principal and interest of the asset-backed securities.In extreme cases,if the current underlying cash flow is insufficient to cover the principal and interest due for the senior tranches of the asset-backed securities,it will trigger the shortfall payment commitment party to make up the shortfall.

4.2 Open period redemption risk

If the term of asset-backed securities is relatively long,such as CMBS or REITs-like products,and there is an open period set every 3 years with the right to adjust the interest rate,redemption right,and repurchase right.If during the open period, investors collectively demand redemption,the issuer will have to repurchase the entire remaining amount at once,that is, to complete the repayment of the remaining amount in one go,which will create significant pressure for concentrated repayment.Currently,CMBS issued in the market all adopt the method of rolling over old debts with new ones for early extension,which can achieve seamless continuation and issuance of new and old projects,without the need for the issuer to prepare repurchase funds.

4.3 Interest rate decline risk

After the listing and issuance of asset-backed securities,they may face the risk of declining financing interest rates due to expansionary monetary policy.If the financing interest rate after the decline is far lower than the issuance interest rate of the asset-backed securities,it will bring higher interest costs to the enterprise.For products with a longer term,such as CMBS and REITs-like products,there will be a regular interest rate adjustment right,generally with an adjustment right every 3 years,and at the same time,the redemption right is attached,which helps the enterprise to shorten the term of the securities and reduce financing costs.However,during periods of rapid interest rate decline,the adjustment period of once every 3 years will still put the enterprise in the dilemma of the interest rate of asset-backed securities being higher than the current financing interest rate.

5 Infrastructure REITs

Since infrastructure REITs are equity-based asset securitization projects, their ownership and management rights are 100% transferred to the project company, and they do not have clauses such as shortfall supplements or guarantees. This can achieve a more thorough risk isolation. Therefore, risks related to real estate management, such as changes in the commercial real estate market environment, risks of asset upgrades and renovations, and fluctuations in income, are transferred from the sponsor to the investors. The sponsor will not face the rental fluctuation risk, open redemption risk, and interest rate decline risk that may be associated with asset-backed securities.However, infrastructure REITs also have other potential risks, mainly related to the project's early stages and asset integration, as well as risks associated with the issuance of the fund.

5.1 Macroeconomic and policy risks

Changes in macroeconomic policies, such as interest rate adjustments and fiscal policy changes, can significantly impact the cash flow and profitability of infrastructure projects,thereby affecting the returns of REITs.Government price regulation of infrastructure projects may also influence the valuation and returns of REITs.

5.2 Market volatility risk

Infrastructure REITs have a high correlation with the stock market,especially during economic downturns or financial crises,when stock market fluctuations can significantly impact the performance of REITs.For example,during the 2008 financial crisis,the correlation between REITs and the stock market increased dramatically,with all types of REITs being affected by stock market volatility.The market price of REITs is influenced by the value of the underlying assets,which may fluctuate due to macroeconomic volatility and policy changes,thereby affecting investors'returns.

5.3 Liquidity risk

Infrastructure REITs generally have relatively low liquidity in the secondary market, especially during periods of significant market volatility,when investors may face difficulties in liquidating their investments.Some REITs products have long lock-up periods during which investors are unable to redeem their shares,further exacerbating liquidity risks.

5.4 Compliance and legal risks

Compliance risks are present throughout the operation of infrastructure REITs,particularly during the establishment phase of the project company, where complex approval procedures and property rights transfer issues significantly increase compliance risks.For example,in the Huhangyong Huihang Expressway REITs project,the property rights transfer between the private equity fund and the project company requires a complex state-owned asset approval process.Any missing or flawed procedures may severely impact the project's compliance.Incomplete laws and regulations may lead to uncertainties in the project's operation,increasing legal risks.

5.5 Credit risk

During the operation of infrastructure REITs,credit risk is primarily reflected in the project's inability to pay principal and interest on schedule,which is one of its core risks.The profitability of toll roads is affected by factors such as toll rates and traffic volume,and the uncertainty of these factors exposes the project to significant credit risk.Additionally,market and policy risks in PPP projects may also be transformed into credit risks,affecting investors' returns.

5.6 Operation and management risks

The operational performance of infrastructure projects is susceptible to the operational capabilities of external management institutions. Low operational efficiency may lead to insufficient returns, which are unable to cover operating costs and investment interest, thereby affecting overall returns. The moral hazard of managers and agency issues may also impact the operational efficiency and profit distribution of the project.

6 Summary and recommendations

The development of REITs markets in the Middle East provides China with a model for policy innovation, asset diversification, and cross-border cooperation. China needs to improve its legal framework, optimize asset structures, and deepen international coop eration, while aligning with its economic transformation needs, to explore a REITs development path with Chinese characteristics. The policy innovations, energy transition, and international cooperation in the Middle East REITs market offer valuable experi ences for the further development of China ' s REITs market. By building a coordinated tax system, deepening local layouts, and strengthening cultural integration, Chinese enterprises can seize opportunities in the Middle East ' s asset securitization wave, pr omoting high-quality development of the Belt and Road projects.

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