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Institutional and Regulatory Framework for the Establishment of Real Estate Investment Trusts (REITs): Evidence from the Tanzanian Property Market

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Abstract

This study provides an in-depth assessment of the regulatory and institutional framework governing the establishment and operation of Real Estate Investment Trusts (REITs) in Tanzania. Although REITs were formally introduced under the Capital Markets and Securities framework in 2011 as a mechanism to mobilize long-term capital for real estate development, the market has remained largely underdeveloped. The study employs a qualitative research design drawing on documentary analysis of legislation, regulations, and policy instruments, complemented by stakeholder consultations with regulators, fund managers, and institutional investors. The findings indicate that stringent minimum capital requirements, regulatory complexity, lack of a clear tax pass-through regime, and weak institutional coordination have constrained the development of REITs. A light policy-context update incorporating developments between 2019 and 2024 shows that, despite progress in capital market deepening and housing finance reforms, structural rigidities continue to limit the effectiveness of REITs. The study concludes that targeted regulatory reform, enhanced institutional coordination, and improved tax clarity are essential to unlock the potential of REITs as a sustainable real estate financing vehicle in Tanzania.

Keywords: Real Estate Investment Trusts; Regulatory framework; Institutional framework; Capital markets; Housing finance

1. Introduction

Real estate investment is widely recognized as a critical driver of economic growth through its strong linkages with construction activity, employment generation, urban development, and household wealth creation. In both developed and developing economies, the real estate sector plays a central role in supporting productive economic activity and improving living standards. However, in many developing countries, including Tanzania, access to long-term and affordable financing for real estate development remains a major constraint. Traditional sources of real estate finance in Tanzania have historically been dominated by commercial bank lending. While banks play an important role in financial intermediation, their capacity to provide long-term financing is often constrained by maturity mismatches, high interest rates, and strict collateral requirements. These constraints have limited the scale and pace of real estate development, particularly in the context of rapid urbanization and growing housing demand.

Real Estate Investment Trusts (REITs) have emerged globally as an alternative financing mechanism capable of mobilizing pooled investment into income-generating real estate assets. By allowing investors to acquire units or shares in professionally managed real estate portfolios, REITs provide liquidity, diversification, and stable income streams. International experience demonstrates that well-designed REIT regimes can contribute to capital market development, improved transparency in property markets, and enhanced access to finance for real estate development. Recognizing

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these potential benefits, Tanzania introduced REITs into its capital markets framework in 2011. Despite this regulatory recognition, the development of the REIT market has remained limited. This study assesses whether the existing regulatory and institutional framework adequately supports the establishment and growth of REITs in Tanzania and identifies key constraints and reform priorities.

2. Literature Review

2.1. Concept and Investment Characteristics of REITs

Real Estate Investment Trusts (REITs) have been widely examined in the literature as indirect real estate investment vehicles that allow investors to gain exposure to property assets without engaging in direct ownership. Scholars emphasize that REITs provide enhanced liquidity, professional asset management, and stable income streams, making them attractive to both retail and institutional investors. REITs are often regarded as relatively lower-risk investments compared to direct real estate holdings due to their diversified asset bases and regulatory oversight. In the South African context, Potelwa [1] notes that listed property funds and REITs represent an essential component of a diversified investment portfolio. The introduction of REIT structures has significantly reduced transaction costs and administrative complexities associated with real estate investment, thereby improving accessibility. A major advantage identified is diversification, as REIT portfolios typically consist of a mix of commercial, industrial, retail, and residential properties located across different regions.

2.2. Portfolio Diversification and Performance of Listed Property Markets

A substantial body of literature focuses on the diversification benefits and performance of listed property investments. De Klerk [2] argues that South African REITs, which evolved from the Johannesburg Stock Exchange (JSE) listed property sector, enable investors to achieve both risk and return diversification more efficiently than through direct property investment. Although listed property funds share similar structural characteristics, their operational strategies differ, allowing investors to customize exposure based on income stability and growth prospects. Empirical studies provide further evidence supporting the competitive performance of REITs. Nare et al. [3] find that South African REITs have delivered favorable long-term, risk-adjusted returns relative to other asset classes, reinforcing their role in mixed-asset portfolios. These findings align with broader international evidence suggesting that listed property investments enhance portfolio efficiency when combined with equities and fixed-income securities.

2.3. Regulatory and Legislative Frameworks for REITs

The role of regulation in shaping REIT market performance has been extensively documented in international literature. Chamberlain and Shahriari [4], in their study of Canadian REIT tax reforms, demonstrate that regulatory uncertainty can negatively affect REIT valuations in the short term. However, their findings also show that well-defined and predictable legislative frameworks contribute positively to long-term market stability and growth. Similarly, Armstrong and Glickich [5] critically assess proposed legislative reforms affecting REITs and argue that deficiencies in initial rule drafting can create uncertainty and market inefficiencies. These studies collectively highlight the importance of coherent, transparent, and stable regulatory environments in fostering investor confidence and supporting the sustainable development of REIT markets.

2.4. Development of the Real Estate Market and REIT Framework in Tanzania

The Tanzanian real estate market has experienced significant expansion over the past decade, driven by economic stability, urbanization, population growth, and rising demand for housing and commercial property. Tanzania has increasingly emerged as a preferred investment destination within East Africa for domestic and international investors. To stimulate real estate development and broader economic activity, the government has implemented several reforms, including the introduction of mortgage financing regulations, enactment of the Unit Titles Act (Condominium Law), and establishment of a legal framework for REITs. According to the Capital Markets and Securities Authority (CMSA) [6], REITs in Tanzania may be established as publicly or privately held entities, with public REITs listed on licensed stock exchanges. Globally, the REIT sector has expanded substantially, with market capitalization exceeding USD 1 trillion in the early 2010s and surpassing USD 2 trillion in recent years, reflecting growing investor interest in listed real estate vehicles [7].

2.5. REIT Regulation and Market Adoption in Tanzania

The regulatory framework governing REITs in Tanzania is set out under the CMS Collective Investment Schemes (Real Estate Investment Trusts) Rules of 2011, issued by the CMSA. These rules define eligibility requirements, governance structures, responsibilities of key market participants, listing procedures, and performance standards. The framework was designed to facilitate capital raising for real estate development while ensuring investor protection. Despite the availability of this legal and institutional infrastructure, adoption of REITs in Tanzania has been relatively limited. Participation by major property developers, pension funds, and institutional investors has remained modest, suggesting that regulatory readiness alone is insufficient to guarantee market development.

2.6. Role of REITs in Housing Finance: The Case of WHC-REIT

The African Union for Housing Finance (AUHF) [8] identifies the Watumishi Housing Company REIT (WHC-REIT) as the first fully operational REIT in Tanzania and East Africa, approved by the CMSA in 2015. With initial capital of approximately TZS 68 billion, WHC-REIT was projected to grow substantially within five years. Unlike conventional commercial real estate vehicles, WHC-REIT focuses on financing low- and middle-income housing, particularly for public servants, thereby addressing a critical housing deficit. The WHC Annual Report [9] highlights that REITs present a novel investment opportunity in Tanzania, enabling the general public to participate in the housing sector while contributing to national economic development. The report emphasizes collaboration with domestic and international stakeholders as a key factor in developing a sustainable REIT market.

Recent studies emphasize the potential of REITs to transform housing finance and deepen capital markets into emerging economies. Mwangi [10] and UN-Habitat [11] argue that REITs can reduce reliance on traditional bank lending, mobilize long-term capital, and improve access to housing finance. However, the literature also identifies persistent challenges, including limited investor awareness, underdeveloped secondary markets, and conservative investment cultures, which continue to constrain REIT market growth in countries such as Tanzania.

3. Material and methods

3.1. Research Approach and Design

This study adopts a qualitative research approach to examine the institutional framework governing Real Estate Investment Trusts (REITs) in Tanzania and to explore their prospects for growth within the existing regulatory and economic environment. Qualitative research is appropriate for studies that seek to understand meanings, perceptions, and institutional processes as experienced by individuals and organizations [12]. Given the exploratory nature of this research focused on regulatory structures, market readiness, and stakeholder perspectives, the qualitative approach enables in-depth investigation that would not be adequately captured through purely quantitative methods. The choice of a qualitative design is justified by the study's objective of gaining detailed insights into how REITs are structured, regulated, and perceived by key stakeholders. This approach allows flexibility in data collection and facilitates rich, contextual analysis of complex institutional arrangements surrounding REIT development in Tanzania.

3.2. Selection of Respondents

Respondents were selected using purposive sampling, targeting individuals and institutions with direct experience and expert knowledge of REITs in Tanzania. The objective was to obtain high-quality, relevant information from stakeholders actively involved in the establishment, regulation, or attempted development of REITs. The study focused on three key stakeholder groups: senior officers from the only operational REIT in Tanzania (WHC-REIT), officials from UTT-Asset Management and Investor Services (UTT-AMIS) who had previously explored REIT establishment, and senior representatives from the Capital Markets and Securities Authority (CMSA), the regulator responsible for REIT oversight.

Selection criteria included: Experience, defined as direct involvement in the establishment, regulation, or attempted implementation of a REIT, Organizational rank, with emphasis on senior officers due to their strategic involvement and decision-making authority. Knowledgeability, referring to demonstrated expertise and familiarity with REIT structures, regulations, and market dynamics. These criteria ensured that respondents possessed both practical experience and informed perspectives relevant to the research objectives.

3.3. Data Collection Methods

Both primary and secondary data were used to enhance data triangulation and strengthen the validity of the findings. Primary data were collected through semi-structured interviews and focus group discussions. Semi-structured interviews were selected because they allow consistency across interviews while providing flexibility to probe emerging themes and respondent-specific insights [13]. Interviews were conducted with senior officers from WHC-REIT and CMSA, who are regarded as subject-matter experts in REIT regulation and implementation. A focus group discussion was conducted with senior management and operational staff from UTT-AMIS, including executive and finance officers.

Focus group discussions are effective in eliciting shared experiences, attitudes, and interpretations, and are commonly used to triangulate findings obtained from individual interviews [14]. Secondary data consisted of published and unpublished materials related to REITs, including academic journal articles, policy documents, legislation, regulatory guidelines, industry reports, and dissertations. Documentary analysis was employed to supplement primary data and provide contextual understanding of REIT development locally and internationally. Although documentary review is sometimes underutilized, it is a recognized and valuable qualitative research method, particularly for institutional and policy analysis [15].

3.4. Data Analysis and Interpretation

Data collected through interviews, focus group discussions, and document review were analyzed using thematic analysis and content analysis. Thematic analysis was applied to identify, analyze, and interpret recurring patterns and themes within the qualitative data set. This method is well suited to exploratory research and offers flexibility in linking findings to existing theory and institutional frameworks [16]. Content analysis was used to systematically examine regulatory documents, policies, and legislative materials obtained from respondents and public sources. This technique enabled the study to draw valid and replicable inferences through structured coding and interpretation of textual data [17]. The combined use of thematic and content analysis ensured a comprehensive understanding of both stakeholder perceptions and formal institutional arrangements governing REITs in Tanzania.

4. Results and discussion

This section presents the key findings on the establishment and operating environment for Real Estate Investment Trusts (REITs) in Tanzania, with emphasis on the institutional framework, market incentives, and constraints affecting uptake. The findings are drawn from stakeholder interviews, focus group discussions, and documentary review, and are organized around the main themes that emerged from the data.

4.1. Slow Market Uptake Despite Regulatory Readiness

Respondents consistently indicated that the core REIT regulatory framework exists and is sufficiently detailed to guide formation, licensing, governance, and ongoing supervision. The Capital Markets and Securities (Collective Investment Schemes) (Real Estate Investment Trusts) Rules, 2011 provide the primary legal foundation for establishing REITs and specify key roles and procedural requirements [18]. However, uptake remains low, with stakeholders characterizing the Tanzanian REIT market as largely nascent and concentrated around a single early mover. Recent practitioner analysis similarly observes that, while the framework is established, practical market adoption and product depth remain limited, reflecting implementation frictions rather than total regulatory absence [19]. CMSA reporting confirms early approval and institutional participation in the pioneering REIT structure, but broader replication across sponsors has been slow [20].

4.2. Tax Treatment Uncertainty as a Primary Deterrent

A dominant theme across interviews was the perceived absence of clear and attractive tax incentives specifically tailored to REITs. Stakeholders argued that without predictable tax treatment particularly on distributions and entity-level taxation, the REIT vehicle becomes less competitive relative to alternative capital market instruments and conventional corporate structures. Respondents emphasized that this uncertainty weakens expected investor returns and reduces sponsor motivation to incur setup and compliance costs.

International comparisons presented by respondents were consistent with established REIT models where tax design is central to market formation. In the United States, REIT status is strongly linked to a dividend distribution requirement that supports pass-through style treatment; IRS guidance indicates that the dividends-paid deduction must meet or exceed 90% of taxable income (subject to statutory conditions) for qualification and related tax outcomes [21]. In South Africa, REIT tax treatment is similarly structured around a conduit principle, supported by the deductibility of "qualifying distributions" under section 25BB, which is intended to limit entity-level tax when distributions are made [22]. Respondents argued that clearer Tanzanian tax positioning aligned with the logic of REIT pass-through incentives would likely increase sponsor interest and investor participation.

4.3. Financing Substitution: Mortgages as a Lower-Friction Alternative

The findings indicate that high all-in costs of establishing and maintaining a REIT combined with tax uncertainty encourage developers and institutional investors to favor bank lending and mortgage finance for real estate project funding. Respondents noted that when lending markets offer relatively stable pricing (even at mid-teen nominal rates), financing through loans may be faster, administratively simpler, and more predictable than launching a public or regulated collective vehicle. Public monetary and banking statistics for Tanzania show sustained reliance on bank-based intermediation, and official reporting highlights ongoing movements in deposit and lending rates over time, shaping the relative attractiveness of debt finance versus capital market issuance [23].

Table 1 Interest rate of selected banks over the year 2020-2025

Interest rate	2020/21	2021/22	2022/23	2023/24	2024/25
Savings deposit rates	2.53	2.78	3.02	3.12	3.28
Overall time deposit rates	5.93	7.34	8.79	8.77	8.43
12-month deposit rate	7.46	9.66	11.48	11.47	10.57
Negotiated deposit rates	8.41	9.47	9.93	10.99	10.09
Overall lending rate	14.76	15.06	15.84	16.21	16.04
One year lending rate	14.39	14.32	14.28	14.31	14.42
Negotiated lending rate	13.62	13.86	14.00	13.25	12.41
Interest rate spread	5.92	4.67	2.80	2.84	3.85

4.4. Product Design Constraint: Limited Space for Development REITs

Stakeholders highlighted that current practice and supervisory posture appear more comfortable with income-focused REIT structures than higher-risk development REITs, particularly in a young market where investor protection is prioritized. Respondents from the market side argued that enabling development-oriented REITs (with appropriate safeguards) could improve capital formation for housing supply and large-scale projects. Regulators, however, were described as cautious, viewing construction-phase risk and cash flow uncertainty as potential threats to retail investors in early-stage market development. This tension suggests that future market deepening may require phased product expansion and risk-based disclosure standards rather than a one-size-fits-all approach.

4.5. Distributions, Investor Confidence, and Market Maturity

Participants reported that meaningful, stable distributions are not yet a consistent market feature, partly because the REIT sector remains small and the pipeline of mature, income-generating assets is limited. Internationally, distribution rules are central to the REIT value proposition: the U.S. model requires high distribution of taxable income to preserve REIT characteristics [21], while South Africa similarly relies on distribution-based deductibility mechanisms to sustain REIT tax outcomes [22]. Respondents emphasized that credible distribution capacity supported by stable rental income assets would strengthen investor confidence, improve secondary market interest, and enhance the appeal of REITs relative to direct property exposure.

4.6. Market Structure, Compliance Costs, and Information Gaps

Finally, the findings highlight structural barriers beyond law-on-the-books. Respondents described Tanzania’s property market as relatively decentralized and information-poor, creating price discovery challenges and increasing perceived valuation and liquidity risk for professionally managed property vehicles. In addition, stakeholders identified compliance and licensing costs as material particularly during application and ongoing supervision making REIT formation less attractive for some sponsors. CMSA-published fee schedules illustrate the range of application, admission, approval, and annual charges applicable to collective investment schemes and related market activities, reinforcing cost as a practical consideration in vehicle selection [25]. Respondents also emphasized low public awareness of REITs and collective investment products, suggesting that investor education and clearer market communication are prerequisites for scaling participation.

5. Conclusion and Policy Implications

This study set out to examine the institutional, regulatory, and market environment underpinning the establishment and growth prospects of Real Estate Investment Trusts (REITs) in Tanzania. Drawing on qualitative evidence from key stakeholders and documentary analysis, the findings indicate that while a formal regulatory framework for REITs exists, the operating environment remains insufficiently conducive to sustained market development.

The analysis demonstrates that Tanzania has achieved regulatory readiness through the enactment of the Capital Markets and Securities (Collective Investment Schemes) (Real Estate Investment Trusts) Rules of 2011 [18]. However, market uptake has remained limited, with only one fully operational REIT, suggesting a disconnect between regulatory availability and practical market adoption. This gap is largely attributable to structural and policy-related constraints rather than the absence of legal provisions per se.

A central conclusion of the study is that tax regime uncertainty represents the most significant deterrent to REIT formation and investor participation. Consistent with international evidence, REIT markets that have achieved depth and stability such as those in the United States and South Africa are underpinned by tax systems that support pass-through income treatment and prioritize investor-level taxation over entity-level taxation [21,22]. In the absence of comparable clarity and incentives, Tanzanian REITs struggle to compete with alternative investment vehicles and conventional corporate structures. The study therefore concludes that the enactment of a dedicated, transparent, and investor-friendly tax framework for REITs is a necessary condition for market expansion and for unlocking long-term capital for the real estate sector.

Beyond taxation, the findings highlight that high compliance and entry costs, including licensing, approval, and ongoing regulatory fees, materially reduce the attractiveness of REITs relative to alternative financing channels. In practice, institutional investors and developers have increasingly substituted REIT financing with bank lending and mortgage finance, which despite relatively high nominal interest rates offers lower administrative friction and greater predictability [23]. This financing substitution effect undermines the intended role of REITs as capital market instruments designed to complement, rather than be crowded out by, bank-based intermediation.

The study further concludes that the exclusion of development REITs constrains the relevance of the REIT framework in a market characterized by housing shortages and ongoing construction demand. While regulatory caution is justified in protecting retail investors in an immature market, international experience suggests that development REITs can be accommodated through phased regulation, enhanced disclosure, and differentiated risk classification once baseline governance standards are met [19,21]. Without such flexibility, the REIT framework risks remaining limited to a narrow segment of income-generating assets, thereby restricting its developmental impact.

Structural inefficiencies in the broader property market also emerge as a binding constraint. The absence of a centralized property market regulator, standardized valuation benchmarks, and transparent price discovery mechanisms increases uncertainty for professional investors and collective investment vehicles. These conditions weaken investor confidence and amplify perceived risk, particularly for REITs that depend on predictable cash flows and asset valuations. Addressing these market failures through improved institutional coordination and oversight would therefore complement REIT-specific reforms and enhance overall sector efficiency.

Finally, the study underscores a pronounced information and awareness deficit surrounding collective investment schemes and REITs among both potential investors and the general public. International evidence suggests that sustained investor education, market communication, and sectoral diversification are critical to normalizing REITs as mainstream investment instruments [21,24]. In Tanzania, targeted education initiatives leveraging media, academic institutions, and industry practitioners would be instrumental in broadening investor participation and supporting long-term market depth.

In conclusion, while Tanzania has taken important initial steps toward establishing a REIT market, the sector's growth prospects depend on coordinated reforms across taxation, regulation, market structure, and investor education. If these constraints are addressed in a coherent and phased manner, REITs could play a meaningful role in mobilizing long-term capital, improving housing finance, and contributing to broader economic development. Absent such reforms, the REIT framework risks remaining underutilized, limiting its capacity to support the real estate sector and capital market development.

Compliance with ethical standards

Disclosure of conflict of interest

The authors declare that they have no competing interests, financial or personal, that could have influenced the results presented in this study.

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