

The Role of Management of Commercial Waqf Properties on their Corresponding Generated Revenues

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Abstract

This paper pursues two goals. At first, it uses an unrestricted error correction model (UECM) and the bounds testing approach proposed by Pesaran, Shin, and Smith (2001) to study the short- and long-run effects of bank credit on inflation in Iran, a country with some history of interest-free banking system. Secondly, we examine how institutional and cultural changes resulted from bank nationalization and the implementation of interest-free banking have affected price level movement in Iran. The approach we have used in this paper is capable of testing the existence of long run relations regardless of whether the underlying variables are stationary, integrated, or mutually cointegrated. The results indicate that there exists a long-run relationship between inflation and its main determinants, namely, bank credit, import price, real GNP, and black market exchange rate. However, bank credit has no short-run effect on price level movement in Iran. Furthermore, the paper shows that the nationalization of banks and the implementation of interest-free banking system in Iran have caused a structural change in the behavior of inflation.

Keyword: Inflation; Bank credit; Iran; Banks nationalization; Interest-free banking; UECM; Bound test.

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1- Introduction

In many schools, alternative forms of short and long run investment have been designed to be undertaken by the investors. Fewer provisions, however, are foreseen for private investments where the benefits of undertaken activities will be transferred to public. In Islam, many avenues for such socially desired investments are established. Waqf is one of the Islamic instruments instituted for transfer of private initiatives into the public use [3,4, 6, & 13].

The holy prophet himself, his dependents and also his companions introduced alternative models of endowment. The establishment of Masjid-ul-nabi and a platform beside it for the residence of poor companions from Ansar and Mohajerin has been considered the first incidence of Waqf in Islam [11; p.2]. However, the first reported case has been the one which was endowed by the prophet, after Mokhairej was killed in the Ohod battle, and his wealth, was inherited by the prophet according to his will [11; p.8].

Amir-ul-moemenean, Ali ibn Abitaleb established many agricultural fields irrigated by the wells in Medina and elsewhere. He then endowed all of them for the poor [1;p.74-93, 2;p.312]. Prophet's daughter has also endowed her seven gardens and appointed Imam Ali and her sons as the custodian of them [2; p.312]. Other family members of the messenger have also endowed very many properties [11; p.5, 1; p.74-93].

Following the prophet and his progeny, the companions also participated in this pious endeavor, to the extent that Jaber ibn Hayyan has been quoted to say that “ there were no companion who could afford to endow a property and did not do so” [7; p.249].

At later times, from Omieh to Othman reigns the number of Waqf properties increased so much that they had to be registered in a public organization[3 & 9; p.10]. The scope of Waqf activities was also extended to more than social protection purposes, such as establishment of schools, libraries and education financing [5;p.55]. According to Kabesee, during the Ottoman rule, the education and social services were provided by non governmental organizations using Waqf funds [5; p.59].

2- Waqf Classification

In Islamic Shariah, properties could be endowed for the benefit of (1) a specific group or family or (2) for the general public. The first category is called specific and the other the general purpose Waqf. Some endowed properties are also classified as "benefit endowment" if they generate income or "utilization endowment" if they do not, rather are used for a specified purpose like a mosque or a shrine. The second category is often endowed jointly with the former, the benefit of which will be used for the maintenance of the utilized endowment [12; p.52&58].

The benefit generating endowments are administered presently by a variety of organizations [10]. Those which are specified for the 8th Imam, Ali-ibn-Mousa-Arreda in Mashhad, or for Hazrat Fatemeh Maasumeh in Qum, are being administered independently from the government. Their custodians are appointed by the supreme leader of Islamic Revolution in Iran. There are other properties which have been endowed for the benefit of general public but with specified bodies to serve as custodians. This category, too, is run independently from the government; however, all public endowments have to be supervised by the government through the "Auqaf Organization" (AO) which has been solely established for this purpose. If an endowed property is not taken care of properly by the appointed administrator, or is left without one due to death or absence of the designated custodians, the Auqaf Organization (AO) will resume its operation. Naturally, those pious foundations which have been delegated to the government by the founders from the beginning will be administered directly by the said organization.

Recently, AO has developed a new form of administration for the properties which have been endowed for a specific mosque or shrine. A number of locally well-known individuals with good reputation are selected and entrusted the administration of the pious foundation, but they remain under the supervision of the AO.

To sum up, four forms of administration is being practiced for the management of endowed properties in Iran.

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- a) The first form is the independently run endowments; some of which are monitored by the Auqaf Organization, with selected custodians by the founder, and others belong to holy Imam Reda in Mashhad or his sister, Hazrat Maasoumeh in Qum. Their custodians are appointed by the leader.
- b) The second form is also independent from the government because the custodians are appointed according to the will of the founder. These endowments will be, however, monitored by the A O.
- c) The third form is the direct administration by the AO.
- d) Finally the fourth type is the delegated administration to the trustees.

3- Analysis of commercial endowed properties at Greater Tehran's BAZAR area

Each endowment may consist of several pieces, each of which is called Raqabah. For example when a mosque is built, a number of commercial stores may also be built to finance the operating cost of the mosque. Each of stores and the mosque is called a Raqabeh, except that stores are benefit Waqf and the mosque is utilization Waqf.

The total number and types of commercial items in Tehran BAZAR area are presented in table 1. As said before, these are supervised by Auqaf Organization. Being located in the Tehran central market area, all parts of every building have gained commercial occupancy status. This is why balconies, old cisterns (under ground water tanks) and basements are used for commercial purposes and generate rent and income.

**Table 1: Commercial parcels at Greater Tehran area under administration of
(1) AO & (2) appointed bodies by the founder, 2003**

Type	No of parcels "Raqabeh"		Total area M ²		Total* rent 1000 Rials		Rent per sq.met. 1000 Rials	
	1	2	1	2	1	2	1	2
Balcony	29		111		8200		73.9	
Upper chamber	8	65	154	154	2600	100200	16.9	10.5
Commercial hall	22	5	255	192	4900	1100	19.2	5.7
Bench	42	402	103	13245	15600	31300	151.4	23.6
Basement	37	119	107	9573	12000	271000	112.1	28.3
Workshop	9		918		12100		13.1	
Commercial building	17	8	9250	886	15200	6200	1.7	7
Commer. super & sub structure	4	3	4099	1549	14200	7500	3.5	4.8
Stores	1980	3427	5440 1	48058	48200 00	487900 0	88.6	101.5
Warehouses	215	56	509	783	15870 0	4500	311.8	5.7
Commercial land	26	100	2581	10490	25200 0	94700	97.6	9
Cistern	3	5	965		11400 0		118	
Caravanserai		7						
Drinking fountain	2			3547		1200		0.3
Court-yard	69			58444		97600		1.7

Source: Information department, AO, 1382 (2003).

* Every 1000 Rials equals almost US\$0.107.

Among all types of buildings and parcels, which are administered solely by the AO, commercial stores generate the highest annual rental

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income. Their area and large number contribute to such total rental income. Compared to inventories and chambers, which are very smaller in size and number, have lower rent per square meter. Commercial stores with appointed custodians also generate higher total and average rental income than other types of structures. Moreover, the rental income of stores with appointed custodians is higher than those under AO administration.

It is noticed from table 1 that commercial stores not only occupy a vast area compared to other structures, they also generate the highest rental income. Therefore, the discussion concerning the relationship between the form of administration and the rental yield of a commercial property will be concentrated on this usage now on.

Table 2: Rent of stores and form of administration, 2003.

Form of administration	Number of parcels	Mean rent per sq.meter (R1000)
Trustees	150	99.3
Appointed bodies	3427	101.5
Auqaf Organization	1830	34.7
Sum of Auq. & trustees	1980	88.6

Information department, Auqaf Organization, 1382

The data in table 2 is obtained from table 1. The total number of parcels under AO supervision, i.e., both direct administration of this organization and those transferred to the trustees are 1980 parcels with average rent of 88.6 thousand Rials per square meter of store area. If we divide the parcels according to their form of administration, there will be 150 parcels under trustees and 3427 ones under appointed custodian's management. The average rental income of stores with trustees, appointed, and Auqaf administration is 99.3, 101.5 and 34.7 thousand Rials, respectively. The result of a statistical F test shows the difference of average rental income among the three categories is significant. The income of the first two categories is almost 3 times of those run by AO.

In this latter organization, the employees direct and supervise the performance of other custodians. They have a fixed salary, not depending on their performance. They have to abide by a set of rules and regulation, and usually suffer from shortage of facilities. Each employee has to run and

monitor 400 parcels on the average. This should be compared with trustee's management where 5 to 7 selected active and trustworthy person run an endowment with very limited number of parcels. Moreover, they have full incentives to increase the productivity of the endowed property because it brings forth recognition for them and external benefit for the locality. It also leads to their reappointment. Therefore, unlike AO employees their incentives for increasing the return of endowed foundations are completely compatible with that of the founder.

Another factor which enhances managerial capacity of the trustees is their accessibility to a set of information about the real estate market and related conditions. Being aware of the real estate prices and rent movement, they can best use them in their lease contracts.

Next factor which is indirectly related to the management is the period of the contract. If it is not short, the custodian cannot adjust rapidly the contractual rent with the one that is determined in the market. On the other hand, the tenure holder wants the longest contract with lowest rate. Therefore, the bargaining capacity of the custodian has very important effect on the terms of the contract. Familiarity with market condition and freedom in choosing the type and terms of the contracts gives advantage to the trustees over the employees to make the best deal.

Appointed custodians by the initiator of an endowment enjoy from similar privileges that are available for the trustees. However, their position is more secured than that of trustees because they are appointed by the initiator and will be changed if their defaults or wrong deeds could be verified. Reselection of trustees depends on how well they perform and not on their short doing.

Another factor which seems to be important in rent determination of commercial properties is type of their property type. The total 1980 store parcels in table 1 consist of two categories, 1360 parcels are fully endowed and the rest of 620 parcels are partly so. That is, an 8 square meter store in this category may have a dual property right, 2 meter of it is endowed and the rest of 6 meter of it has private ownership.

Table 3: Form of administration and type of ownership, 2003

Property right	Total Number	Mean Annual rent 1000 R/sq.m
Complete endowment	1360	155
Joint Private & endowment	620	195

Information Department, Augaf Organization, 1382

Evidently, the rental contract of these latter properties should be approved by both the private owner and the AO. The findings in table 3 and that of a t test show the average rent of this partly endowed parcels is significantly higher than those which are completely so. This indicates that type of property right is an important determining factor in rent determination. Therefore the rules and regulations in addition to administration capability of custodians restrict the productivity of the endowed properties.

In the following section, the limitations that present laws and regulations impose on the rental income of commercial properties will be examined.

4-.Rent control and the key money phenomenon

There are a number of legal limitations that preclude the decision of property owners to increase the annual rent of the property when the market conditions provide this opportunity. The first impediment is the commercial and residential property taxes which is proportional either to the annual rent or the price of the property. To analyze the effect of this tax, consider the relationship between the stock price or the present value of a property, P, and its annual rent R; where i is the discount factor.

$$P = \frac{R}{i} \quad (1)$$

For simplicity, it is assumed that the flow of rent, R, is perpetual and equal over time.

Now assume a tax rate either proportional to the rent, t_1 , or the price of the property is imposed on the property.. The present value of the rent will be changed either according to equation 2 or 3:

$$P = \frac{R(1-t_1)}{i} \quad (2)$$

$$P = \frac{R}{i+t_2} \quad (3)$$

Equation 2 is, in fact, equivalent to
 $Pi = R - t_1R$

Dividing both sides by i , we obtain

$$PV_1 = \frac{R}{i} - \frac{t_1R}{i} \quad (4)$$

If we substitute P for $\frac{R}{i}$ from equation 1 we will get.

$$PV_1 = P - \frac{t_1R}{i}$$

This means that a tax levy of t_1 percent over the annual rental income of a property is equivalent to reducing its present value as much as $\frac{t_1R}{i}$ Rials.

If the tax rate will be proportional to the value of the property according to equation 3 then, we will have:

$$Pi + Pt_2 = R \quad \text{or} \quad Pi = R - Pt_2$$

Dividing both sides by i , we will have

$$PV_2 = \frac{R}{i} - \frac{Pt_2}{i} = P - \frac{Pt_2}{i}$$

That is, imposing an annual tax rate of t_2 percent on the value of the property is equivalent to reducing its present value by $\frac{Pt_2}{i}$ Rials.

Therefore, it is natural for the owner of a private or the custodian of an endowed property, if the tax rate would not differentiate between them, to avoid this tax by lowering the annual rent and asking instead for the equivalent present value of the reduced rent. By doing so, the owner, in fact, transfers to the tenant the tenure right of the property. Overtime, when the

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value of the property increases, it will be capitalized in the tenure right and not the ownership value of the property. As the result, neither the owner nor the tenant has the incentive to invest for the improvement of the property. The owner would not obtain the increase in return, since the rent has been set by the tenure contract and the renter does not own the property to be sure to enjoy the future return due to the improvement made.

In most of property tenure systems, renters are protected by law and are given the privilege to use the property after the termination of their contract. This protection is the second impediment for the owner to adjust the property's rental income with that of market rate. Further, the law has recognized an occupancy right for the tenants of commercial stores. This right provides incentives to them to attract customers and increase the sales revenue of the store. However, what happens often is the fact that increase in revenue is due to urban investment in the form of new highways, parks, and shopping centers. In addition, increase in the population of a city or the prevailing general inflation rate will lead to increase of the value of real estates. All of such spillovers are capitalized in the development right or the "key money" of the commercial property and not in its ownership price. As the result, in the central market of Tehran the key money of the shops is more visible than their price or rent; because they are repeatedly transferred among different tenants but are seldom offered for sale. Thus, all the owners of commercial properties, whether they are private or endowed, miss the benefit from the capitalized value of the rent that increases over time due to increase in general demand for commercial properties.

This is the problem that most of endowed commercial properties are facing. The data concerning the rental income of the endowed commercial stores under the directorship of AO reveals the fact that it is much lower than the comparable private property that has not transferred the key money.

According to table 1 the total rent that AO could collect from commercial stores in 2003 is about 4.8 billion Rials. To obtain the market value of key money or the transferable occupancy right, 84 percent of them were surveyed. Their total area is 45765 square meter and that of their total rent is 4.6 billion Rials. The respective key money is estimated to be 3160 billion Rials. The ownership value of these properties, that is, the present value of the rent set by the lease contract between the owner and the renter is estimated by the market dealers to be between $\frac{1}{10}$ to $\frac{1}{6}$ of the key-money.

According to these estimated ratios, the ownership value of the reported properties is 316 and 526.7 and the total estimated value of 3476 and 3686.7 billion Rials, respectively. The latter is the sum of key money and ownership value.

According to another estimate by market experts, the ratio of annual rent of a privately owned commercial store to its total market value, or price is 7 percent. Therefore, the estimated potential rent of the reported properties should be between BRs 243.3 and 258. The collected rent by AO, that is BR 4.6, is at most 2 percent of the equivalent market rent of these properties. This shows how far is the revenue of the endowed properties which are administered by AO from their comparable stores in the market. The rental income of differently administered commercial properties, as presented in table 1, are higher than the ones run by AO, but are still considerably lower than their potential market value.

5- Conclusion

Waqf institution has played a very important economic role throughout the Islamic history in transferring the benefits of private investments into the public. Learning from the prophet, his progeny and companions, Muslim followers have invested in all economical fields and have donated the resultant flow of revenue to the public. At the beginning, Waqf expenditure was aimed for social protection of the poor. But, over time, thanks to increasing Waqf investments by pious Muslims, the expenditure included education, health, and research activities.

Being long during investments, they provide a perpetual flow of return, provided they will be maintained properly. Therefore, the custodians of endowed properties fulfill a very important function in keeping endowed assets productive.

Alternative administration organizations provide variable opportunities and incentives for the custodians to take care of endowed properties. Three organizational forms of administering commercial properties in Tehran central bazaar areas were examined in this paper. These are direct management by Auqaf Organization, administration by independent bodies, and entrusted administration by the AO to a number of trustees. The findings of the study show that commercial properties which are directed by AO generate less rental income from the other two categories. This is because

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each employee in AO is sometimes in charge of administering 160 endowed parcels and 450 more parcels for supervision. This obligation should be compared to that of administrators in the other two categories. Independent bodies are in charge of only one endowment, and the 5 to 7 member trustees take care of parcels which are endowed for a Mosque or a shrine. The founder of a pious foundation and his appointed custodians seem to have compatible incentives for keeping the property in a productive condition. The trustees seem to have the same motives due to external pecuniary and non pecuniary benefits. However, the employees of AO, being occupied by many administrative and supervisory obligations, gain little benefit from their increased effort to raise the revenue of the endowments which have under their direction.

In addition to the form of administration, a number of factors including (1) the prevailing property tax levy which is a function of property's value or rent, (2) recognition of the development right for the tenant of a commercial property, (3) provision of protection support for the tenant versus the owner, and (4) transaction costs have led altogether to lower the willingness to rent the property by the owner rather than transferring its use right to the tenant. These conditions have led to formation of key money problem which precludes either of the lord or the tenant to invest for the improvement of the property.

Many of the mentioned legal impediments for efficient use of the property have been removed over time. The AO is no more transferring the key money to the leaser, but rather tries to obtain the equivalent market rent of the property from him. This organization is also trying to shorten the term of the lease contracts to better adjust the rent fee with that determined by the market.

Along these undertakings, it seems highly recommendable for the AO to entrust further the administration of the properties that are still in its direct control. The performance of trustees of holy Mosques and shrines verify this recommendation.

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