Our global Shariah compliant Real Estate Finance practice
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Contents

3 What is Shariah compliant Real Estate Finance?
8 How can CMS help you in the world of Shariah compliant Real Estate Finance?
9 What types of Shariah compliant Real Estate Finance transactions have CMS worked on?
11 Why choose us?
12 Who can you contact to help you?
13 CMS facts and figures
What is Shariah compliant Real Estate Finance?

Shariah compliant Real Estate Finance involves the application of the Shariah (the system of religious law which applies to Muslims) to modern Real Estate Finance.

The global Islamic Finance industry, which currently has over 700 active financial institutions participating in it across 61 countries, has grown exponentially over the past fifteen years and is expected to reach USD 2.6 trillion by the end of 2017.

It has evolved such that almost anything which can be offered on a conventional interest based basis can now also be offered on a Shariah compliant basis – and Real Estate Finance transactions are particularly suited to Shariah compliant structures.

Isn’t Shariah compliant Real Estate Finance only open to Muslims?

No. All types of Islamic Finance are open to all irrespective of belief.

In actual fact very few Shariah compliant transactions are motivated by religious sensibilities. Other motivations include:

- A desire to access more liquid funding sources and/or new investors
- The ability to combine Islamic and conventional products to make transactions more 'bankable'/attractive
- Diversification of financings and investments as part of prudent financial planning
- Commercial terms which may be more favourable than those available from conventional financiers
- Better pricing
- Flexibility in structuring
What are the key Shariah prohibitions applicable to Real Estate Finance transactions?

- **Maisir**: Speculation/gambling
  - Uncertainty – the key terms of a contract must be certain

- **Riba**: Often misunderstood to mean interest but actually any accretion of money

- **Gharar**: Uncertainty – the key terms of a contract must be certain

- **Unjust enrichment/unfair exploitation**: The parties to a contract must enter into it fairly
  - Certain products and services are not deemed to comply with the Shariah for example tobacco and weapons of war

- **Unethical purpose**: Certain products and services are not deemed to comply with the Shariah for example tobacco and weapons of war
What are the key Shariah compliant structures and products for Real Estate Finance transactions?

- **Murabaha**: The sale of an asset by a financier to a customer on a deferred payment basis.
- **Tawarruq**: A reverse Murabaha where the asset purchased by the customer is on-sold by the customer to a third party.
- **Sukuk**: The Islamic equivalent of a bond.
- **Musharaka**: A joint venture.
- **Mudaraba**: An arrangement whereby investors place funds with a manager who uses its/her expertise to invest the funds in Shariah compliant investments.
- **Ijara**: Leasing.
- **Istisna’a**: Procurement financing.
- **Ijara wa Iqtina**: Leasing with a promise to sell / purchase.
How is a Shariah compliant Real Estate Finance transaction different to a conventional Real Estate Finance transaction?

A Shariah compliant Real Estate Finance transaction and the documentation involved is broadly similar to a conventional Real Estate Finance transaction. The key differences are:

Ownership liabilities

In lease arrangements, the lessor (rather than the lessee) has the obligation to perform major maintenance and repairs, pay ownership taxes and maintain ownership insurances. A ‘service agency’ arrangement can be a solution.

Indemnification

Viewed by some Shariah scholars as being fault allocation rather than risk allocation.

Conditions precedent

Can be viewed as making the contract ‘uncertain’ (and therefore a conditional sale).

Total loss

Rent must cease to be payable on a total loss.

Default interest

‘Additional amounts’ to cover actual costs are permitted, but the remainder must be donated to charity.

Events of default

Must be limited to events directly within the lessee’s control.

It is also possible to combine a Shariah compliant financing structure with a conventional financing structure and this is increasingly being used in larger Real Estate Finance transactions.
The development of London landmarks the Shard, Battersea Power Station and the 2012 Olympics athletes’ village were all financed (at least in part) using Shariah compliant structures and products.
How can CMS help you in the world of Shariah compliant Real Estate Finance?

- We combine our knowledge of banking and finance principles with our experience of structuring Shariah compliant transactions to assist you in achieving your commercial objectives whilst remaining legally protected.
- Our global Islamic Finance practice can assist you to navigate the nuances of Shariah compliant Real Estate Finance whether you are an established market participant or a new entrant.
- We have offices in all the key markets for Islamic Finance including the Middle East, North Africa, Europe and Asia which means you will have on-the-ground support whenever you need it.
- If you are unsure how Shariah compliant Real Estate Finance transactions differ from their conventional counterparts, we can explain the key differences to you in a manner which is easy to understand.
- We have practical experience of guiding clients across the full range of Islamic products and services and are renowned for putting our clients’ needs first.
- Our geographic reach helps our clients wherever their activities take them.
What types of Shariah compliant Real Estate Finance transactions have CMS worked on?

Our global Islamic Finance practice has experience of acting on behalf of clients in all areas of Shariah compliant Real Estate Finance including bifurcated conventional and Islamic structures. Some recent examples of the types of work that members of our team have worked on are set out below.

— Advising a major UK bank on Shariah compliant real estate acquisitions, refinancings and developments with an aggregate value exceeding GBP 1bn.

— Acting for a Middle Eastern private equity house on the acquisition of a portfolio of properties in the United States structured on a bifurcated basis with conventional debt and Shariah compliant equity.

— Advising the real estate subsidiary of a leading American insurance company on the USD 120m Shariah compliant financing of an office tower.

— Acting for two Turkish banks on the EUR 150m financing of a shopping mall in Turkey involving an Istisna’a and an Ijara-wa-Iktina.

— Advising a major French bank on the Shariah compliant acquisition of properties in Germany.

— Acting for a GCC financial institution in structuring non-Tawarruq tax efficient financings to be utilised for purchasing UK real estate.

— Advising a pan-European Shariah compliant real estate fund on implementing an Ijara for the acquisition of real estate in Germany.

— Advising a leading Saudi Arabian bank on a Shariah compliant real estate investment in Turkey.
Real Estate Finance transactions are well suited to Shariah compliant structures, particularly Ijara (lease), because they satisfy the Shariah requirement that the subject matter is a valuable, identifiable and quantifiable asset with utility. The taking of security (to guard against breach of contract) is approved and encouraged in Islam and as such financiers can be protected in a Shariah compliant financing.
Why choose us?

A defining feature of the exponential growth of Islamic Finance in the past 40 years has been its constant evolution both to meet market demand and also to compete with conventional banking and finance.

In order to leverage off the opportunities which Islamic Finance presents, it is imperative that clients appoint legal counsel who are not only able to advise them of what is legally possible but who understand their business and can offer them insights into the Islamic Finance market, and the Real Estate Finance market, which they may not otherwise have. CMS’ client centric approach combined with our deep knowledge of Islamic Finance and Real Estate Finance means we are uniquely placed to be able to offer such insights.

CMS’ Real Estate Finance team is made up of specialists in the commercial property sector, having leading expertise in a wide range of commercial and residential portfolios, ground rent investments, hotels, healthcare assets, theatres, logistics portfolios, shopping centres, house building, the private rental sector and supermarket developments.

As the largest firm in Europe and through our day-to-day cross-border transactional experience, we benefit from strong working relationships between all our offices. This is particularly important given the sophisticated real estate structures and the cross-border real estate portfolios involved in many of CMS’ transactions.

‘Your World First’

— Your world comes first. You are always our number one priority.
— We understand the details of your business and the environment you work in.
— We build on deep local roots, forming an international organisation.
— We work together in cross-border teams to give you the full picture.

Sector knowledge

— We were one of the first international firms to organise our business along sector group lines.
— Our eight sector groups provide you with integrated services combined with leading edge industry sector capability.
— We bring together individuals from all practice areas to focus on a particular sector, allowing us to pinpoint the commercial issues and risks on a transaction.

Above and beyond

— We go above and beyond for our clients and endeavour to ensure that their expectations are always exceeded.
— We speak on your behalf when new laws are made and act proactively to alert you to issues which your business may face in the future.
— We provide services that add real value, such as Law Now 2.0 – our market leading online knowledge portal that covers 75 areas of law.
Who can you contact to help you?

The global Islamic Finance practice at CMS is led by Shakeel Adli. Shakeel has over ten years of experience in Islamic Finance, is well versed in all Shariah compliant Real Estate Finance structures and products and can guide you through the nuances of Islamic Finance wherever you may be based.

We encourage you to get in touch with Shakeel (or your normal CMS contact if you prefer) to discover what we can do for you.

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I am passionate about Islamic Finance and advising clients on Shariah compliant Real Estate Finance transactions. No matter how small or large the matter, please do not hesitate to contact me should you need assistance.

CMS also has considerable experience of other Shariah compliant transactions and products including Corporate Lending, Asset Finance, Project Finance, Trade Finance, Product Development/General Advisory and Sukuk/Debt Capital Markets Instruments. For more information, please see our brochure entitled ‘Our global Islamic Finance practice’.
CMS facts and figures

31 new partners in 2016, taking the total to over 850

> 5,800 staff
> 3,200 lawyers
> 850 partners

Operating in 55 cities across 35 countries

Top rankings in 2015 M&A League Tables (by deal count)
#1 Europe (Bloomberg, Thomson Reuters)
#2 in Europe (Mergermarket)
#3 Global (Bloomberg up to USD 500m)

EUR 1.01bn turnover for 2015

19 practice and sector groups working across offices

Ranked 2nd most global law firm in the Am Law 2015 Global Top 100
CMS Legal Services EEIG (CMS EEIG) is a European Economic Interest Grouping that coordinates an organisation of independent law firms. CMS EEIG provides no client services. Such services are solely provided by CMS EEIG's member firms in their respective jurisdictions. CMS EEIG and each of its member firms are separate and legally distinct entities, and no such entity has any authority to bind any other. CMS EEIG and each member firm are liable only for their own acts or omissions and not those of each other. The brand name “CMS” and the term “firm” are used to refer to some or all of the member firms or their offices.