

The entrepreneurs' preferred jurisdiction allows the partial financing of real estate acquisition in the United Arab Emirates through local Islamic banks under advantageous conditions which Romanian citizens can also benefit from. Casiana Duşa, senior lawyer and specialist in Islamic business, will explain the optimal strategy for investment structuring and the conditions to obtain such financing



Recently, the interest of Romanian real estate investors in contracting financing from banks in the United Arab Emirates has grown significantly, many of them requesting specialized consulting to ensure that they make correct financial decisions, with minimal risks. In this sense, the most important roles are held by the professional broker who can identify the best credit offer and the specialist lawyer who can examine the contractual conditions that come with the credit facility, explains *Casiana Duşa*, senior lawyer specializing in business consultancy in Romania and the Middle East, in the article published today in the [*Islamic Law section of BizLawyer*](#).

Real estate buyers become eligible for certain types of resident visas, under conditions clearly established by law. More specifically, the Dubai Land Department allows property buyers who have paid at least AED 750,000 of the price to obtain an investor visa valid for 2 years. Investors who own a property worth AED 2,000,000 or more are also entitled to a 10-year gold visa.

In the context of the real estate frenzy which is still active in Dubai, the opportunity to obtain financing through the conventional banking system for purchase is an unparalleled incentive for foreign investors who can access loans of up to 50% of the value of the property for non-residents and up to 80% from the value of the property for residents, with a fixed/variable/combined interest rate of 2-5% in most cases (forbidden by Islam). Similar to the banking system in Romania, in most credit offers in Dubai the majority of the borrower's payments are directed to the payment of interest in the first years, with a smaller part directed to reducing the principal. As the end of the term approaches, this process is changed and a larger proportion of the principal is paid each month.

About the financing of real estate acquisition in the United Arab Emirates, but also about funding opportunities for businesses carried out here, in the analysis published below under the signature of **Casiana Duşa**.

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Preamble

According to the latest official records of the Dubai Land Department, more than 122,000 real estate transactions were completed in Dubai during 2022, representing an increase of approximately 44.7% compared to the previous year. Also, new real estate investments made in 2022 were worth over 264 billion dirhams, of which over 50% were represented by mortgage-based transactions. This is due to the favorable financing conditions guaranteed to foreigners, regardless of their location. Therefore, even Romanian investors not holding a resident visa in the United Arab Emirates can have access to financing opportunities for properties purchased locally, subject to certain conditions. Moreover, they can benefit from funding options both from conventional banking system, that is, through mortgage credit with interest, and from the traditional Islamic banking system, through various dedicated structures.

As regards the conventional mortgage, the borrower will have to pay an interest calculated on the raised amount, which is basically based on the demand and supply of money. On the other hand, as regards the financing compatible with Islamic laws, the banks will buy the property on behalf of the investor, then lease it to him by implementing the lease-to-buy mechanism, the rent charged being based on the demand and supply of a property. It is important to note that the risks related to the property belong to the investor in the situation of conventional financing, while in the case of Islamic mechanisms, the risk belongs to the banks that also own the underlying asset until the payment of installments is settled by the borrower, at which time the latter will take full ownership over.

Apart from real estate financing, Romanian entrepreneurs can have access to attractive funding opportunities for business carried out in the United Arab Emirates through the Islamic banking system or even for a Romanian business, through private Emirati investors or investment funds with an international portfolio.

Opportunities to finance the real estate acquisition in the United Arab Emirates through the conventional banking system

In the context of the real estate frenzy which is still active in Dubai, the opportunity to obtain financing through the conventional banking system for purchase is an unparalleled incentive for foreign investors who can access loans of up to 50% of the value of the property for non-residents and up to 80% from the value of the property for residents, with a fixed/variable/combined interest rate of 2-5% in most cases (forbidden by Islam). Similar to the banking system in Romania, in most credit offers in Dubai the majority of the borrower's payments are directed to the payment of interest in the first years, with a smaller part directed to reducing the principal. As the end of the term approaches, this process is changed and a larger proportion of the principal is paid each month.

Regarding the minimum income condition, most banks require it to be at least AED 15,000 net for employees and AED 25,000 net for freelancers/independent entrepreneurs.

The conditions of encumbering the property with a mortgage in favor of the bank are established by each individual institution and not all accept to work with foreign buyers, considering that the risk assumed by the

creditor is greater in their case. That is why the limit of the debit to only 50% of the value of the property was established. However, this limitation comes with an advantage that cannot be neglected, namely the possibility of paying off the installments of the contracted credit with the amounts generated from the exploitation of the property through renting.

Moreover, real estate buyers become eligible for certain types of resident visas, under conditions clearly established by law. More specifically, the Dubai Land Department allows property buyers who have paid at least AED 750,000 of the price to obtain an investor visa valid for 2 years. Investors who own a property worth AED 2,000,000 or more are also entitled to a 10-year gold visa.

Recently, I found that the interest of Romanian real estate investors in contracting financing from banks in the United Arab Emirates has grown significantly, many of them requesting specialized consulting to ensure that they make correct financial decisions, with minimal risks. In this sense, the most important roles are held by the professional broker who can identify the best credit offer and the specialist lawyer who can examine the contractual conditions that come with the credit facility.

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Opportunities to finance real estate acquisition in the United Arab Emirates through the Islamic banking system

The most used real estate financing models, compatible with Islamic laws, are the following: **Ijarah**, **Murabaha** and **Musharakah Mutanaqisah** (*Diminishing Partnership*).

Ijarah is a variety of lease agreement that involves various payment plans, duration and specific rate of return, consisting of the bank leasing the property to the investor in exchange for rents, with the title being transferred at the end of the agreed term to the debtor (investor) whose role will change from tenant to owner with full disposal rights.

Murabaha allows investors to buy real estate adapted to their needs, through the bank that will first purchase the property that will later be bought back by the investor in exchange for a deferred payment consisting of a fixed amount. It is important to note that ownership of the building from the time of purchase until the time of full sale to the investor is in the name of the bank and it bears the entire risk as the owner of the building during that time.

Musharakah Mutanaqisah (*Diminishing Partnership*) is based on a partnership which is composed of three different types of contracts namely: Musharakah (partnership), Ijarah (leasing) and Bay' (sale). In the first phase, the investor will identify the property he will purchase in partnership with the bank. It will then lease the property to the investor who will gradually buy back shares of the asset held by the bank based on the pre-agreed repayment term, eventually transferring ownership in full to the investor.

Business financing opportunities in the United Arab Emirates and Romania

Given the huge influx of foreign investors into the UAE, especially Dubai, foreign investment legislation has been relaxed considerably in recent years, favoring a series of incentives to attract entrepreneurs from around the globe and thus strengthen one of the most big business hubs in the world. Expanding in the Middle East and starting a business in the region brings with it a series of challenges, of which attracting the necessary capital for investment either from own sources or through banking or non-banking financing is of decisive importance.

The eligibility of companies established in Dubai for each type of financing depends on several factors, including: company life (usually 2 years), turnover, assets and available collateral.

A newly established company, therefore without a history on the market, may have a difficult access to bank loans, however, it has as a valid option the contracting of venture capital financing from angel investors or from private investors interested in diversifying the portfolio, with the possibility of exit after a certain period. There are a multitude of such players in the Emirati market who are successfully working and developing projects launched by foreign investors.

Also, businesses developed on the territory of the United Arab Emirates can access traditional Islamic financing, which is based on the essential idea of partnership between the financier and the financed. Thus, the most used Islamic model of this kind is represented by Mudaraba, according to which the bank can invest in the client's company (either already existing or newly established), participating in the division of the profit under the conditions agreed by the parties and assuming the risk of possible losses .

Recently, we have noticed a growing interest of the Emiratis in projects developed in Romania, as evidenced by the major investments already placed by them. In this sense, I mention some public examples: the recently concluded partnership between Hidroelectrica (Romania) and Masdar (UAE) for the construction of offshore wind farms and floating solar parks in Romania, Al Dahra investments in the Big Island of Braila, the investment of the royal family of United Arab Emirates in building a new cargo terminal in the port of Constanța.

In this context, private companies in need of foreign financing can positively speculate on that interest, by preparing Shariah-compliant investment proposals with attractive benefits and returns packages. Thus, my initiative to implement Islamic business models in Romania and performing the compatibility analysis of local projects with Shariah, meet these opportunities, the primary goal being the creation of a solid pillar for Romanian-Emirati business relations.

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