Murabaha

Hypothetical Project: Model 2B

Warehouse Acquisition

Primary Investor (Financier / Seller)

- ☑ Provides $2.5M to acquire the warehouse in their own name, ensuring 100% legal ownership and assumption of market risk before resale.
- ☑ This fulfills the Murabaha requirement that the financier must first own and bear risk of the asset before selling.

AAOIFI Shariah Standard No. 8 (Murabaha), Article 3/1:
"The institution must own the asset before selling it and bear the risk of its possession."

Sheikh Taqi Usmani – An Introduction to Islamic Finance:
"A Murabaha transaction is only valid when the seller assumes ownership and the risk of the commodity prior to resale."

Active Partner (Buyer / Manager)

- ☑ Authorized to manage leasing and renovations during the 12-month period, with full permission from the Primary Investor.
- ☑ Enters into a Murabaha agreement to purchase the warehouse from the Primary Investor
  → Cost ($2.5M) + Markup ($350K) = $2.85M Total
- ☑ Payment Structure:
  → May be made as a lump sum at maturity (12 months), or
  → Through pre-agreed installments.
- ☑ Once the Murabaha contract is signed, the total price is fixed — it cannot fluctuate based on time or resale value.

AAOIFI Standard No. 8, Clause 5/3:
"It is not permissible to stipulate two prices in the contract of sale... the sale must be concluded on one definite price."

Mufti Muhammad Ayub – Understanding Islamic Finance:
"The price in Murabaha once fixed cannot be increased due to delay in payment. The deferred price is a debt owed by the client."

Security Agreement

- ☑ To protect the Active Partner's contractual rights, a security instrument may be placed on the property title, such as:
  - → A caveat
  - → Lien
  - → Land registry entry
  - → Restrictive covenant
- ☑ This ensures the Primary Investor cannot sell or transfer the property to any other party within the 12-month Murabaha period.
- ☑ These protections are recognized under both modern property law and Shariah as valid means of safeguarding contractual rights, as long as they do not lead to unjust enrichment.

AAOIFI Standard No. 8, Article 6/1:

"It is permissible for the institution to stipulate collateral or a guarantee to secure its rights in a Murabaha transaction."

HalalVest Real Estate (Underwriter & Compliance Advisor)

- ☑ Provides
  - → Underwriting – assessing the financial viability of the transaction.
  - → Processing – managing documentation and closing procedures.
  - → Compliance Oversight – ensuring adherence to Shariah rules.
  - → Structuring – designing the deal to align with Islamic finance standards.
- ☑ Compensation
  - → Receives a transparent, fixed service fee.
  - → Fee is not linked to profit, interest, or investment performance — preserving independence and compliance.

Mufti Muhammad Ayub – Understanding Islamic Finance:

"A service provider in Murabaha may charge actual service fees, provided they are not tied to profit or interest."

Why This Model Meets Shariah Compliance

- ☑ True Ownership: Primary Investor purchases the asset and bears risk before resale.
- ☑ Cost-Plus Transparency: Active Partner knows the original cost and fixed markup upfront.
- ☑ Fixed Sale Price: No riba — total price remains fixed regardless of payment timing.
- ☑ Deferred Payment Allowed: Lump sum or installments permitted, as long as total is fixed.
- ☑ Security Without Exploitation: Property protection mechanisms ensure fairness without creating interest-based penalties.
- ☑ Neutral Role of HalalVest: Compensation through service fees only, not tied to returns.