



Hybrid Istisna + Musharakah Model

Hypothetical Project: Model 4B

Condominium Development

Project Economics

- ✓ Total Project Cost: \$10,000,000
- ✓ Sale Price: \$14,000,000
- ✓ Gross Profit: \$4,000,000

Parties & Roles

Primary Investor (Financier / Mustasni & Musharakah Partner)

- ✓ Contributes \$9,000,000 (90% capital).
- ✓ Retains ownership risk during construction under Istisna.

Ryan Construction (Contractor / 10% Musharakah Partner)

- ✓ Contributes \$1,000,000 (10% capital).
- ✓ Executes construction under Istisna and shares in profits.

HalalVest Real Estate (Structurer / Compliance Advisor)

- ✓ Provides structuring, underwriting, escrow, and Shariah compliance supervision.
- ✓ Receives 10% of gross profit as service fee (ujrah).

Step 1: Istisna (Construction Phase)

- ✓ Primary Investor + Ryan Construction (Musharakah) fund the \$10M project.
- ✓ Ryan acts as contractor under Istisna with clear specs, cost, and delivery terms.
- ✓ Ownership risk remains with financiers (90:10 capital ratio) until delivery.
-- AAOIFI Standard 11 (Istisna), clause 2/1: ownership risk lies with financier until completion.

Step 2: Deduct HalalVest Fee

- ✓ 10% of gross profit (\$4M) = \$400,000 paid to HalalVest.
- ✓ Remaining distributable profit = \$3,600,000.
-- Mufti Taqi Usmani – Introduction to Islamic Finance: Service fees are permissible when not tied to guaranteed profit.



Step 3: Musharakah Profit Distribution

Primary Investor and Ryan Construction share the \$3,600,000 equally (50/50).

- ✓ Primary Investor: \$1,800,000
- ✓ Ryan Construction: \$1,800,000

-- AAOIFI Standard 12 (Musharakah), clause 4/2: Losses must follow capital ratio (90:10), but profit may follow any agreed ratio.

Step 4: Final Distribution

Primary Investor

- ✓ Capital: \$9,000,000
- ✓ Profit share: \$1,800,000
- ✓ Total = \$10,800,000

Ryan Construction

- ✓ Capital: \$1,000,000
- ✓ Profit share: \$1,800,000
- ✓ Total = \$2,800,000

HalalVest Real Estate

- ✓ Service fee: \$400,000

Compliance Highlights

- ✓ Istisna: Finances construction with clearly defined specs and cost.
- ✓ Musharakah: Equity partnership — profits split equally (50/50); losses by capital ratio (90/10).
- ✓ HalalVest Fee: 10% of gross profit as fixed service fee (ujrah), Shariah-compliant since not tied to riba or guaranteed return.
- ✓ Security Measures: Lien (rahn), escrow, and beneficial possession rights may be applied.

References

- ✓ AAOIFI Standard 11 (Istisna): 2/1, 4/3
- ✓ AAOIFI Standard 12 (Musharakah): 4/2
- ✓ AAOIFI Standard 5 (Guarantees): lien/rahn
- ✓ Mufti Taqi Usmani – Introduction to Islamic Finance

Result

With Halalvest's 10% gross profit fee, the Silent Investor and Ryan Construction split the remaining \$3.6M profit equally, ensuring the model remains Shari-ah-compliant, transparent, and fair to all parties.