



REIT + Musharakah

Hypothetical Project: Model 5B

Retail REIT

Investors (Unit Holders): Pool capital collectively to invest in retail centers.

HalalVest Real Estate:

- ✓ Acquires undervalued retail properties.
- ✓ Oversees renovations, leasing, and oversight monthly report.
- ✓ Contributes 15–20% equity stake as co-partner.
- ✓ May contribute up to 50% of the total equity gap (as-is value vs. sales price) to secure assets below market, aligning interests with investors.
- ✓ Ensures Shariah supervision, annual auditing, and compliance monitoring.

Structure & Operations

Capital Pooling – Musharakah Basis

- ✓ Investors contribute capital into a collective ownership pool (Musharakah).
- ✓ Each investor receives REIT units, representing direct equity in retail centers.
- ✓ Profits are shared per agreement, while losses are borne according to ownership ratio.
- ✓ AAOIFI Shariah Standard No. 12 (Shirkah): Loss distribution must follow capital contribution, while profit may be allocated differently by mutual consent.
- ✓ Reference: Imam Malik (Al-Muwatta) and Imam Abu Hanifa emphasized that profit sharing is valid only when capital is at risk.

Asset Acquisition & Management

- ✓ The REIT acquires tangible retail assets that generate rental income.
- ✓ HalalVest supervises renovations, leasing, and strategic management.
- ✓ Assets are held for income and value appreciation, not speculative flipping, thus avoiding gharar.
- ✓ Reference: OIC Fiqh Academy (Resolution No. 63/1/7, Jeddah, 1992) — collective funds must be based on tangible assets and avoid speculative instruments.



HalalVest Equity Stake

- ✓ HalalVest co-invests alongside investors (15–20%) or fills equity gaps up to 50% when buying under market.
- ✓ This ensures risk-sharing and avoids the conflict of being only a manager without exposure.
- ✓ Reference: Sheikh Taqi Usmani (Introduction to Islamic Finance, pp. 108–110) — a managing partner may also contribute capital to align interests with investors, provided risks and profits are transparent.

Income & Dividend Distribution

- ✓ Net rental income is distributed as quarterly dividends to unitholders.
- ✓ Only halal income (e.g., rent from Shariah-compliant tenants) qualifies.
- ✓ Any rental income from non-compliant tenants (alcohol, gambling, riba-based banks) is purified — removed and donated to charity.
- ✓ Reference: AAOIFI Shariah Standard No. 21 (Financial Papers – Shares & Sukuk) — allows purification of incidental non-compliant income in investment funds.

Shariah Governance

- ✓ Independent annual Shariah audit verifies compliance with AAOIFI and classical fiqh.
- ✓ Oversight in line with AAOIFI Governance Standards (GSIFI 1–5) for Islamic financial institutions.
- ✓ Reference: OIC Fiqh Academy (Resolution, Jeddah 1988) — collective investment funds require continuous Shariah monitoring.

Compliance Summary

- ✓ Musharakah Basis: Collective equity ownership, real risk sharing.
- ✓ True Asset Backing: Retail centers provide tangible backing (avoiding gharar).
- ✓ HalalVest Participation: Co-investment aligns management with investors.
- ✓ Purification Mechanism: Haram income is cleansed.
- ✓ Liquidity: Units tradable when backed by majority tangible assets.
- ✓ Shariah Governance: Annual audits under AAOIFI standards.



Scholarly References

- ✓ AAOIFI Standard No. 12 (Shirkah): Collective ownership, loss by capital, profit by agreement.
- ✓ Sheikh Taqi Usmani – Introduction to Islamic Finance: Supports collective equity funds/REITs with true asset ownership.
- ✓ OIC Fiqh Academy Resolutions (1988 & 1992, Jeddah): Approval of Shariah-compliant collective funds with asset backing.
- ✓ Hadith: “Profit is determined by liability” (Tirmidhi, 1285) — applied here as investors and HalalVest bear genuine risk.

Conclusion

This Retail Shopping Center REIT model qualifies under Shariah compliance because it:

- ✓ Uses Musharakah as its foundation,
- ✓ Ensures HalalVest is a real equity partner (not a daily Manager),
- ✓ Backs units with tangible real estate,
- ✓ Distributes halal-only dividends with purification,
- ✓ Is monitored through independent Shariah governance.