



Islamic finance goes mainstream for UK property

Christopher Axford, partner and head of Islamic finance at Druces, discusses the legal background to the increasingly widespread use of Sharia-compliant financial arrangements for the UK property market.

Islamic property finance is becoming increasingly mainstream. City of London Law firm Druces specialises in Sharia compliant property finance. How do you ensure Sharia compliance and what services do you offer?

The market and demand for Sharia compliant structures has grown markedly in the last decade. Interestingly, demand for finance from Islamic finance institutions has grown from both the Muslim and non-Muslim community, and is not the sole preserve of Islamic banks. Mainstream financial institutions are increasingly putting together Sharia compliant services and products. In response to this demand, we formed a team in 2012, headed by one of our partners, Christopher Axford, who has had over 15 years of experience in this area.

When advising on Islamic finance one must constantly monitor that the principles of "Sharia compliance", in services, structures and finance

transactions, are being complied with. The Druces team will often advise and liaise with our clients' Sharia Supervisory Boards when required on those aspects to ensure compliance.

Druces provide a range of services and bespoke Islamic finance advice to both financial institutions and those taking advantage of the products they offer. Our Islamic finance team has particular experience in dealing with the following Sharia compliant structures: Cost Plus and Commodity Murabaha, Wakala, Ijarah, Mudaraba and Musharakah structures.

Islamic property finance work involves close liaison between our banking team and our property teams and the majority of property finance transactions are based on a Murabaha or Musharakah structure. Other areas of Druces also offer Sharia compliant structures, including dealing with Sharia compliant wills in our private client team.

Over the last few years there have been misunderstandings and a lack of communication with regards to Islamic finance and Sharia compliance. Please outline the differences in approach between a conventional financial institution and a Sharia compliant financial institution.

Islamic finance and the possibilities it offers have become more widely known in the last few years. Sharia compliant financial institutions have become more adept, as have their advisors, at leading the parties associated with the transaction through the processes involved in a Sharia compliant transaction.

It is important to note that most UK based transactions are governed by English law, whether dealing with a conventional institution or an Islamic finance institution.

Most of the security aspects involved in a conventional transaction are

very similar in an Islamic finance transaction. There are nuances to structuring a transaction such that it becomes compliant with Sharia principles but most obstacles can be overcome and Islamic finance has become a useful alternative to conventional finance in the market.

In terms of approach, most Islamic finance and conventional finance institutions will take a very similar approach in deal origination, how they approach reviewing the financial aspects of a transaction and from a risk and credit perspective. Terminology differs between the two, but many structures would look familiar to those used to dealing only in conventional finance, and terminology is always evolving in a fast growing area.

The deadline for Brexit is fast approaching. Financial institutions see Islamic finance as potentially bridging the investment gap. What legal advice is given to banks and other financial institutions in regard to Islamic finance transactions?

The UK is not alone in facing difficulty with its current political environment. However, the business, regulatory and legal environment remains stable within the UK and is still proving attractive to overseas investment.

Investment flows from the Far and Middle East looking for Sharia compliant structures have found a natural home in the UK financial market, which remains one of the most competitive and innovative in the world.

Druces have been advising financial institutions looking to develop products that are compliant for investor purposes, from a regulatory and Sharia compliant perspective, across our core areas of banking, real estate finance, investment and development. We advise both conventional and Islamic finance institutions, corporate counterparties, advisors and investors in dealing with transactions structured so as to be compliant with Sharia principles.

The UK property market is very attractive for investors from the Middle East. With Brexit on the horizon and with your expertise in Islamic real estate finance, what directives are you giving Middle Eastern clients looking at future investment in the UK property market?

Most commentary regards Brexit as one of the various problems that arise which businesses can face from time to time. There is no doubt that Brexit has presented opportunities for overseas investors, as a result of a weakened UK currency.

However, London's strength as a major global financial centre has taken generations to develop and while other countries will look to take advantage of the inevitable uncertainty surrounding some of the UK populations' preferred option to exit Europe, access to significant capital, resources and expertise will not disappear overnight, and more than likely not at all.

London has always adapted to opportunity, and while the situation with the way that Brexit has been handled is far from ideal, most studies show that London will not be too adversely impacted in the short term and, in the medium to long term, the opportunities that may be present could make the UK a more attractive home for international investment, and particularly in property investment from overseas investors.

Islamic finance has grown hugely in London already and the continued availability of expertise in the area combined with a well-respected legal and regulatory system, an independent judiciary, and access to a large market and capital pool should keep London at the forefront of developments.

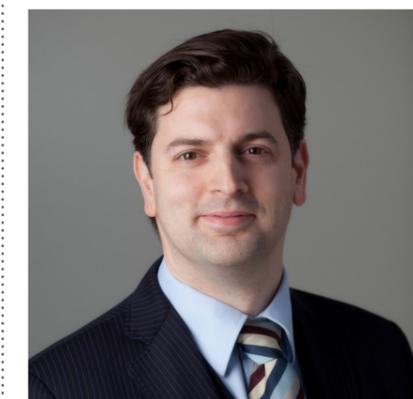
Druces are based in London with clients worldwide. In light of your recent merger with Ronaldsons, are there any future plans to open an office in the Gulf region?

Whilst we were founded in 1767, Druces is an ambitious City of London Law Firm with over 250 years' experience of advising public and privately-owned businesses, financial institutions and wealthy individuals across a range of industry sectors. The recent merger was part of our strategic aims to add strength and depth in our core areas of specialism.

A number of our lawyers act for clients in the Gulf region, and often travel to the Gulf on business, but we have always preferred to build relationships with and utilise local law firms for assistance where local law advice is required.

We believe this allows us to ensure that we obtain and utilise the best and most appropriate advice for our clients for the work required.

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Contact:

Christopher Axford,
partner and head of Islamic
finance at Druces LLP

Tel: +44 (0)20 7216 5557
Email: c.axford@druces.com
www.druces.com