

Jersey committed to growth of Islamic finance



OFFSHORE CENTERS

By *Manuela Belmontes*

Jersey continues to be committed to the growth of Islamic finance and one area in which it has gained popularity for Islamic compliant funding concerns is the inward investment into UK real estate.

While the popularity of Jersey vehicles for use in real estate structures goes back many years, the use of such vehicles by investors from the GCC in particular has grown from a niche area to one of Jersey's key sectors.

In addition to many law firms and administrators offering specialized Islamic finance teams, Jersey enjoys the support of local government and other relevant bodies.

For example, in 2019 (and as previously reported in IFN), Revenue Jersey (the Jersey tax authority) worked together with a number of professional firms to prepare a Statement of Practice (the Statement) in respect of profits arising under commodity Murabahah contracts used in Shariah compliant funding structures.

The Statement confirms that such profits from structures which met the criteria specified therein are tax-free in Jersey.

The Statement also provides that Revenue Jersey is willing to consider on a case-by-case basis (and thus possibly apply the same principles) to other Shariah compliant funding structures.

Another example of the Jersey government's commitment to the growth of Islamic finance is its issuance of specific guidance relating to the categorization of Shariah compliant lending for the purposes of Jersey's economic substance requirements, giving certainty to the industry.

In addition, Jersey Finance (the industry body involved in the promotion of the Jersey Finance sector) has had a presence in the UAE since 2011, and it has maintained an office in the Dubai International Financial Centre since 2018.

In the context of inward investment into UK real estate, Jersey vehicles have been used where a finance party is providing Shariah compliant funding and in transactions where Shariah compliant investors are investing into structures (often complex) where conventional debt is involved. Jersey offers a wide range of entity types and fund vehicles that can be utilized for such structures.

A notable recent UK real estate transaction which employed Jersey vehicles in its Shariah compliant structure is the joint venture between Apache Capital Partners, Harrison Street and Moda Living.

This joint venture was created to finance the construction of a 433-home build-to-rent neighborhood on the site of the former Strathclyde Police headquarters in central Glasgow. Shariah compliant structuring was required by one or more investors making equitable investments into the structure as the transaction also involved conventional financing provided by BentalGreenOak.

On-the-ground reports from Jersey practitioners suggest that the local industry is continuing to see interest from investors requiring Shariah compliance, but (in line with wider market trends) with a shift away from those sectors most affected by the COVID-19 pandemic (at least as they relate to new money deals). The aforementioned joint venture transaction is just one such example, with investors and lenders expanding their portfolio to include alternative asset classes such as build-to-rent, residential-for-rent, co-living and senior living investments. ⁽³⁾

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